Lesson 1: Introduction

What Is a Market Cycle?

- The natural and reoccurring sequence of upward and downward movement in market prices over time.
- They offer traders opportunities to enter and exit trades
- Cycles are named after their duration. **Ex:** 20-day cycle, 80-day cycle, etc.
- Each has four phases:
    - Accumulation – also called cycle lows, when the cycle is bottoming down
    - Uptrend – or a "rally," when upward movement dominates until …
    - Distribution – cycles begin to peak and roll over
    - Downtrend – or a "correction" of downward movement until a new accumulation phase begins
- Cycles are measured from accumulation (low) to accumulation (low).
    - **Cycle duration:** The space between these two lows is the cycle's duration.
    - This means you should have two lows — one at the beginning and one at the end — in every cycle.
- A cycle high will be in between these two lows.
    - **Cycle amplitude:** How much price has moved from its first low to its peak

The Seven Principles of the Cycles Model

1. Principle of Summation states that …

- No single cycle operates in isolation.
- Multiple cycles combine to produce a more complex and detailed market picture.
- The observed market is the sum of the movements of multiple individual cycles.

This is the reason real price action does not look like an ideal cycle model. And ideal cycle only accounts for one cycle. But price action includes multiple cycles operating at once.

Things to note

- You can get pretty close to real price action by looking at 2-3 cycles.

- You will likely have to adjust the time frame of your chart based on the cycles you are analyzing.

    - **Ex:** If you are looking at a multi-year cycle, you are most likely going to use a monthly chart, as there will be too much noise in a daily or weekly chart.

2. Principle of Harmonicity states that ...

- All market cycles are harmonically related — i.e., the cycle durations are not random. Rather, they are related to each other by a whole number.

    - **Ex:** The 20-day, 40-day, and 80-day cycles — which are present in most markets — are related to one another by a factor of 2.

    - This means each cycle can be broken down into smaller components, usually by dividing in half.

    - On the flip side, doubling or tripling a cycle period will often reveal another cycle. (But not always — in crypto, there is a 20-day cycle and an 80-day cycle, but no 40-day cycle.)

- This relationship is not fixed.

    - This is the messy reality. Not all cycles will divide into its smaller components evenly.

    - **Ex:** Half of a 160-day cycle is an 80-day cycle. But it is possible to have more than two 80-day cycles within a larger 160-day cycle.

3. Principle of Synchronicity states that ...

- Cycles of neighboring lengths will line up at their bottoms whenever possible. That is, they will have lows that occur simultaneously whenever possible.

    - The low of a larger cycle will coincide with the cycle lows of all smaller cycles.

      Note: This relationship does not work in reverse. A smaller cycle low will *not* necessarily coincide with the low of all larger cycles.

4. Principle of Proportionality states that ...

- A cycle's influence on market movement is directly proportional to its length.
    - Larger cycles dictate the primary trend and move the markets.
    - Smaller cycles refine the picture and add layers of detail.

This is why, even in a long-term uptrend, you will still see prices move up and down as smaller cycles fill in details of trading within that long-term.

- Keeping awareness of a larger cycle, even if you're day trading or trading on a smaller cycle pattern, is important because that larger cycle will have more impact on price and can distort your smaller cycle if topping or bottoming.

5. Principle of Variation states that …

- The exact duration and amplitude of a cycle can vary.
    - This is how, as I explained in the Principal of Harmonicity, the number of cycles that make up a larger cycle can vary.
    - Individual news items may cause large distortions in a single cycle. **Ex:** The COVID-19 outbreak impacted markets worldwide and distorted cycles in multiple markets.
- The position of a cycle peak relative to its two lows may also vary.
    - Typically, we look for a cycle high to be made halfway through the expected duration of a cycle. But this is not always the reality.
    - Market volatility is a key factor in determining the amplitude of a market cycle.
- In short, anything that can vary, will.
    - Typically, cycles can vary by up to 50%. If you're charting a variation larger than that, chances are there is a cycle distortion.
- Variations are mean reverting and over time will average out.
    - A period of larger-than-average durations will give way to a period of shorter-than-average durations.

This is the most important principle to understand.

6 & 7. The Principle of Nominality and the Principle of Commonality

According to Hurst, these are two separate principles. But I view them, and teach them, as the same.

The Nominal Cycle Model is ...

- A standard set of cycle durations that are present across all markets. These are marked in years, months, weeks, calendar days and trading days.

  Note: Calendar days include weekends and holidays; Trading days do not. When applying filters — which will be in Lesson 2 — you'll want to use trading days for most markets other than crypto.

  Since crypto markets don't close, you can use calendar days.

Key Aspects:

- There can be variations in cycle duration across markets.

- You don't have to adjust the filter durations or FLD durations to the actual cycle frequencies. You can apply the nominal model directly.

The Principle of Commonality states that ...

- There is a list of standard, or "nominal," cycles that exist across all markets, though their exact durations can shift. These include the ...

  - 20-day cycle
  - 40-day cycle
  - 80-day cycle
  - 160-day cycle
  - 320-day cycles

- A specific cycle duration present in one market will likely be found in another. However, not every cycle will hold the same importance across different markets.

- Cycles can be "out of phase," or not line up nicely, across asset classes.

- Price action within an asset class is closely related. However, price action across asset classes are not necessarily related.

- Commonality is often referred to as "correlation" and is common in assets of the same kind.

This is how we can use the same tools to track cycles across markets.