VC PRICE MOMENTUM INDICATOR

AUTOMATIC TRADING SYSTEMS

Trading Guidelines for the Variable Changing Price Momentum Indicator

The Variable Changing Price Momentum Indicator (VC PMI) currently runs on five futures contracts:

- E-mini S&P 500
- Gold
- Silver
- Soybeans
- Crude oil

The day trading program is used with 15-minute charts, but it can also be applied to other time frames for weekly, monthly and annual data.

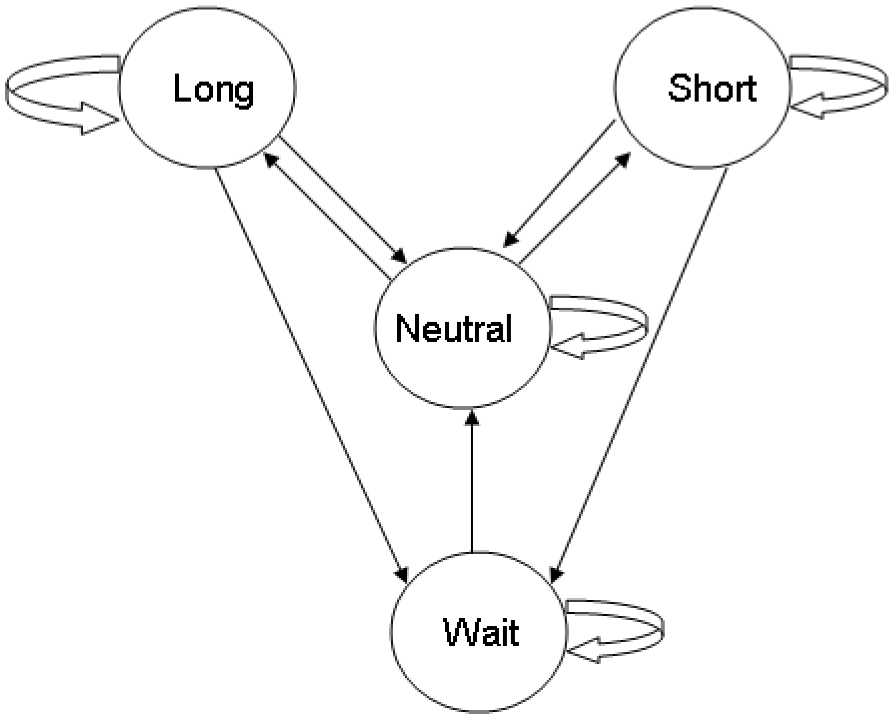
In each case the basic algorithm is the same. VC PMI calculates a mean or average price for the time frame, such as for the day, week, month or year. Then the VC PMI uses standard deviations to calculate two extreme levels below the mean, called Buy 1 and Buy 2, and two extreme levels above the mean, called Sell 1 and Sell 2. These five levels form the structure of the VC PMI. The structure is always based around the mean and changes as time passes. For example, the daily mean changes each day, the weekly each week, the monthly each month and the yearly each year.

The levels are the result of supply or demand levels from the previous trading period (day, week, month or year). These levels are also called pivot points and are specific, which allows you to use them to guide your trading.

The program at any given time will be in one of four states:

- Wait
- Neutral
- Long
- Short

At the end of a trading session, the program transitions between states. The states and possible transitions are illustrated below:



SUGGESTED STOPS METHODOLOGY:

Most traders use straight stops for risk management. Stops can be identified by large-volume traders and taken out prematurely. Therefore, we recommend only using Stop-Close Only (SCO), Market-on-Close (MOC) and hard-dollar stop orders to eliminate such whipsawing. Such stops can be applied to the daily, weekly and monthly strategies.

ADDITIONAL CONSIDERATIONS

First fundamental rule: If you are day trading after the opening, wait first 30 minutes to 1 hour. If the price action trades above or below the VC code, the price action will tend to remain above or below the VC Code for the rest of the session. Although this rule bids us to wait out the opening range and thereby avoid much of the wildness and whipsawing, overlooking the next fundamental rule of the VC Code could be disastrous.

Second fundamental rule: Trading after market opens or later trades at extremes S1, S2 or B1,B2 would exhibit a high tendency to trade back toward the VC Code (Mean). Therefore, the general rule is to avoid buying the high (supply) or selling the low (demand), which becomes increasingly more stringent as the price moves further away from the code.

Our algorithm identifies the highest probability trades when the price reaches the extreme of the mean above or below, or when the VC Code level identifies the price to be at the highest probable point to execute a trade.

Third fundamental rule: If the market closes below the B2 or above the S2, it signifies that the trend is beginning to change and the price pattern may be shifting to the next price fractal, inverting resistance to support and vice versa.