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Measuring Energy

All but unknown, Danton ShockWave Analysis offers traders a targeting tool
By Desmond Macrae

Futures traders, indeed all traders, have two basic problems: When to put on a trade by either buying or selling contracts; and when to take them off. Danton Shock Wave Analysis purports to solve both of these problems.

Developed in the mid-1990s by Danton Long, a professional futures trader with a decade of trading experience, this method is based on a combination of pattern recognition and support and resistance zones.

“When I first started out, I spent every day looking at five minute and one minute bar charts,” Long recalls. Before long, it became clear to him that almost every bar was a kind of shock, but that reversal points had very specific patterns that appeared in any market and in any timeframe.

Market energy

Long reckoned that the price bars were measures of market energy, and that this energy was most evident at reversal points. Measuring this energy could give traders zones towards which markets might rise or fall before they ran out of energy and meet resistance.

In 1996, Long wrote a paper that partially describes Danton Shock Wave Analysis. Long’s method identifies primary and secondary shocks by their patterns. It then calculates three zones beyond which price trends are unlikely to go because they have run out of energy. “It is basically a targeting system,” Long says.

Every bar is a shock, but bars at reversal points are more important because they can indicate what is going to happen in the future. “By looking at just four or five price bars, you can tell where the market is,” he continues. “Thus, traders can get a general consensus of how far the market is probably going to go.”

Reading price bars this way could be complicated, but Danton Shock Wave Analysis simplifies things by identifying just three patterns that spot turning points and resistance zones regardless of time frames.

Like many traders, Long believes that markets are fractal. This term, coined in 1975 by Benoit Mandelbrot, the father of fractal geometry, describes shapes that are “self-similar,” that is, shapes look the same at different magnifications.

Price patterns on bar charts seem to be fractal because the same patterns that appear in one-minute price bar charts also appear in one hour, one day, one week or one month price bar charts.

Long's method is equally useful for short-term trading or long-term investing. "I do some math off the three key reversal patterns," Long says, "and from there, I have an idea of where the market may go in the future."

Key reversal patterns that reveal weakness in price momentum appear when markets will turn. "Traders can use these weaknesses for low-risk entries for trades," Long says. What may be more important is that this method differentiates between primary shocks that indicate a trend's main direction, and secondary shocks that run counter to the main trend. While primary and secondary shock patterns are the same, traders can separate them by where they occur on a chart. Secondary shock projections can be used to support primary target levels. "Once you have identified them, you have a real high degree of certainty about which where a market is going," Long says.

Desmond Macrae is a New York-based writer, specializing in banking, finance and investments.

With ShockWave, you can quickly and easily identify where price is likely to move following a market reversal; allowing you to stay focused on your analysis. You can instantly highlight price levels where you should take profit, initiate new positions, close open positions, scalp around, spread against and enter options positions.

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