Delta Threshold Method ™
Trading Using High-Probability
Structure Analysis

Predicting Market Direction Using
High-Probability
Structure Analysis

Delta Threshold Method ™

Trading Using High-Probability Structure Analysis

Table of Contents

ABOUT THE AUTHOR

Kevin LaRocca has been involved with trading and market analysis for over 40 years. Kevin entered the business in 1981 as a futures broker and CTA with a large commodity firm trading on behalf of individuals and commercial clients. Kevin's been featured in Barron's, Wall Street Letter, Stocks & Commodities, Futures Magazines, and Investor's Business Daily.
In June 1989, after eight years of intensive research, he founded the Day Trading Institute; a company devoted to educating new and veteran traders with innovative short-term trading techniques, money management, seminars, and one-on-one personal training.

Futures Truth Magazine ranked Kevin's "Balance Point System" as among the Top 10 Systems and in the Top 2 Systems for trading the S&P 500!

Kevin gained international recognition when he published, for the first time, his breakthrough market theory, **"The Holographic Market"**. This innovative approach provides a blueprint for all future price swings, for both major and minor tops and bottoms as far into the future as one wishes to go.
In 2019, after 38 years of trading and approaching retirement, Kevin decided, for the last time, to reveal his most powerful trading discoveries. These discoveries will finally prove that future price movement is highly predictable.

Delta Threshold Method ™

Trading Using High-Probability
Structure Analysis

INTRODUCTION

If you are a day trader or aspiring trader, and the stock market is your thing, then this book is for you. It doesn't matter if you trade individual stocks, mutual funds, equity or index options, stock index futures, or index-based shares on the American Stock Exchange (AMEX) such as the S&P Spiders or the Dow Diamonds, the information in this manual will greatly increase your odds in favor of making successful trades. Regardless of your trading experience, the Delta Threshold Method is guaranteed to forever change the way you view market behavior.

The Delta Threshold Method is based on what I like to call "Universal Behavioral Patterns," because they can predict, with high accuracy, price direction in virtually all freely traded markets. When I first discovered these patterns back in 1988, I began back testing them on hundreds of intraday charts ranging from commodities to stocks to bonds, the Dow, and the various indices. I spent a fair amount of money on intraday tick data dating back to 1960 to confirm the patterns' reliability and predictability. Remarkably, now 35 years after they were discovered, these patterns continue to perform just as well as they did 62 years ago!

My hope for everyone who reads and studies this book will gain a better understanding of the intraday price swings of the market. Once you fully grasp the beauty of the Delta Patterns, it will forever change the way you look at price charts. But, before we go into the Delta Patterns and their specific probabilities, let's see some proof that price behavior in the markets is not only predictable but well within the laws of probability.

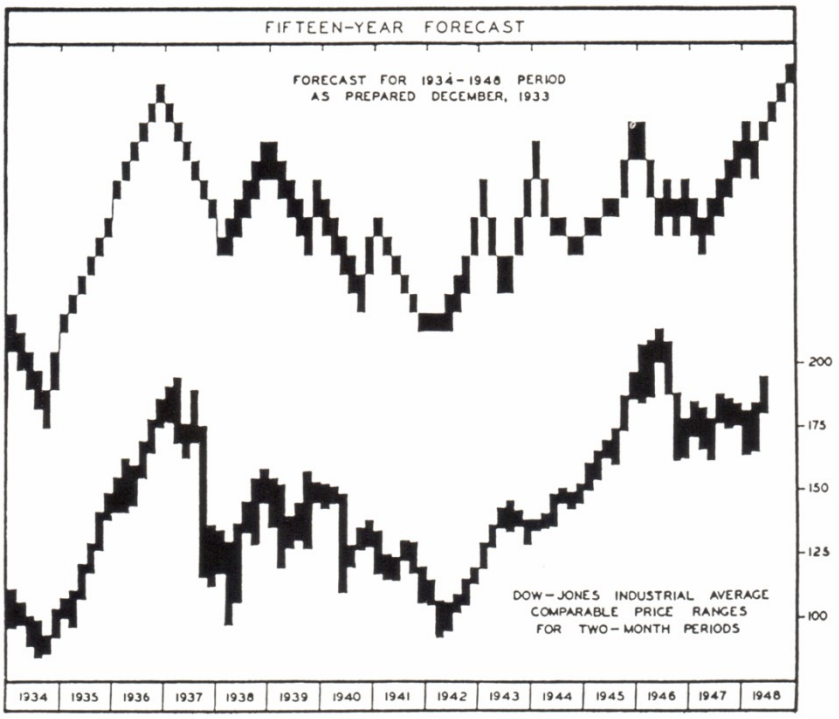
Delta Threshold Method ™

Trading Using High-Probability

Structure Analysis

PRICE AND BEHAVIOR ARE HIGHLY PREDICTABLE

What modern science is beginning to recognize is mass psychological behavior can be seen as a structurally repetitive pattern reflecting the natural laws of progression; however, very few traders know that with any given length of time, the markets can exhibit behaviors that cannot be considered random or independent of a previously occurring event. In 1933, George Marechal became the first person to demonstrate an apparent pattern or order to stock market price fluctuation. George, seeking to prove his theory using mathematics and probability analysis, published a chart forecasting the performance of the Dow Jones Industrial Average (DJIA) from 1934-1948. The chart below is Marechal's original forecast compared with the actual DJIA covering the same period.



Marechal's now-famous chart accurately predicted the DJIA for a very specific period, and to this day, no university or government economist has been able to produce a similar chart predicting the DJIA movement for any substantial time period.

In October 1993, the Economist magazine published a survey on the mathematics of the markets. This insightful survey noted that Wall Street was becoming populated with physical scientists and engineers, people who spend their professional careers quantifying elements and events to predict future events and understand the natural order of the Universe. Many people disputed the idea of being able to accurately predict market behavior or any behavior. Doubts notwithstanding, nearly 80 years ago, Marechal proved market movements can be predicted with startling accuracy!

When Sir Issac Newton first postulated his then-new ideas regarding the physical (natural) laws of our universe, most people initially resisted his assertions. When considering the two kinds of change in the Universe, flowing change and random chance, we are indebted to Newton's invention of Calculus. Calculus enables us to identify, in advance, the conditions that flowing change will likely produce in the future. His discovery of the natural law can also be applied to the changes in price movements in any freely traded market *if* one knows how to look at it.

Similarly, Copernicus and Galileo also met with great skepticism when they employed the principles, we now take for granted today. Understandably, some ideas which challenge existing beliefs can be difficult to accept. Simplifying the physical universe into mathematical equations and repetitive patterns has become a part of everyday life yet describing this behavioral universe in these terms is still a concept many find hard to grasp or lend credence to. Most people

seem to believe human behavior is a matter of spontaneity and free choice. Thus, not predictable. However, while spontaneity and free choice do exist, they do so within a patterned and ordered framework that is defined by certain laws. Also, under certain events, human behavior can be predicted with a high degree of accuracy.

As traders, the search for predictable and repetitive patterns of market behavior is or should be our life-long quest. With today's fast and powerful computers, we can find and quantify these behavioral patterns. When it comes to the markets, price is the only true, or holistic, representation of the masses of traders and how they are presently perceiving the direction prices will go. These price swings, over time, take on repetitive patterns just like everything else in the Universe if we know how to observe them. These behavioral patterns are simply the human reactions to the combinations of current fundamental and technical events relating to that specific market and physical, yet unseen forces.

By knowing how to observe and understand these repetitive Behavioral patterns, we as traders can begin to paint an accurate and highly predictable picture of the market's perceived direction.

PROBABILITIES WITH THE DELTA METHOD

The beauty of the Delta Patterns is how predictable they are. As mentioned earlier, my method reflects 51 years of observable patterns as they repeat themselves with a very high degree of probability. As you will see in the next chapter, the more an event occurs, the higher the guarantee of an expected outcome.

Delta Threshold Method ™

Trading Using High-Probability Structure Analysis

The mathematical theory of probability deals with patterns occurring in random events. For the theory of probability, the nature of randomness is essential. According to the 18th-century French mathematician Marquis de Laplace, randomness is a perceived phenomenon explained by human ignorance. Later, and in contrast, 20th-century mathematics brought the realization that chaos may emerge as the result of deterministic processes (there is order in chaos.) Any event in the markets (price movement) may have a perceived random outcome if the result from the event cannot be predicted with absolute certainty. But there are certain repeatable events that happen in all freely traded markets that are predictable and assigned a measure of certainty which is called a *probability* (of that event.)

The Delta Patterns are such an event. Thousands of accumulated days of intraday price movement, observed over hundreds of different markets, prove the predictive value of the patterns as being favorable based on probability theory.

This is why the Delta Patterns are so remarkable. Let's look at my observed sample size to date to get a better understanding of what I mean.

- **I observed these patterns occurring over 62 years of price data.**
- **There are roughly 250 trading days a year.**
- **Take a modest 3,000 listed stocks.**

So, the equation looks like this:
62(yrs) x 250(days) x 3000(stocks) = 46,500,000(events)

46 million events to date and the patterns are still producing as expected! The predictive ability of the Delta Patterns are unquestionable.

Delta Threshold Method ™

Trading Using High-Probability

Structure Analysis

THE LAW OF LARGE NUMBERS

Finally, I want to touch on the Law of Large Numbers (LLN). This is important to remember not every trading day in the markets will conform to the probabilities. Profitable trading is all about consistency, managing, and trading enough time to let the odds work in your favor. Even if I guaranteed you that 95 trades over the next 100 would all be profitable, could you stand for the first 5 trades to all be losers? Most trades can't. So, this is why it's very important not to expect every day to go as predicted, but over time, the odds will play in your favor. In probability theory, the LLN is a theory describing the result of performing the same experiment a large number of times. According to LLN, the average of the results obtained from a large number of trials should be close to the expected value and will tend to become closer as more trials are performed.

According to this law, if a large number of coins are flipped, their average value, heads, or tails (sometimes called the sample mean) is likely to be close to 50/50, with the accuracy increasing as more coins are flipped.

Though the proportion of heads (and tails) approaches 50/50, almost surely the absolute (nominal) difference in the number of heads and tails will become large as the number of flips becomes large. That is, the probability that the absolute difference will be small as the number of flips becomes large. Also, almost as surely the ratio of the absolute difference to the number of flips will approach zero. Intuitively, the expected absolute difference grows at a slower rate than the number of flips as the number of flips grows.

The LLN is important because it "guarantees" stable long-term results for repeatable events. For example, while a casino may lose money in a

single spin of the roulette wheel, its earnings will tend towards a predictable percentage over a large number of spins. Any winning streak by a player will eventually be overcome by the parameters of the game. It is important to remember the LLN only applies (as the name indicates) when a large number of observations are considered.

So what is the highest probability we can obtain with repeatable market events or any behavioral pattern? Since no event is 100% predictable over a large period of time, the best you can expect will be between 70% - 75%. The other 25-30% is what we call market noise or unseen events caused by news, weather, etc.

DAY TRADING ADVANTAGES

The Delta Threshold patterns are designed for short-term traders, so please keep that in mind. Although the patterns can have a predictive outcome, it's important not to rely ONLY on the patterns when placing a trade. Also, the patterns mentioned in this book are only for stock or stock indices and do not include any of the universal patterns (work in all the different markets) that I teach in my training packages, or during my live morning show on YouTube:
(https://www.youtube.com/c/InnovativeTradingStrategies/streams)

Here's a partial list of what I believe are the advantages of being a short-term or day trading trader:

- **Freedom from the 8 to 5 corporate world!**
- **Set your working hours!**
- **Freedom to come and go as you please!**
- **You're 100% cash at the beginning and end of every day!**

- **You'll have twice as much buying power!**
- **No overnight exposure!**
- **Work from the comfort of your own home!**

So, you see, there are many benefits to being a day trader and most traders that do this for a living are short term-term traders. As a successful day trader, you not only have the opportunity to make money, but can set your hours, work full or part-time, and trade anywhere in the world as long as you have a fast internet connection. The ability to use your trading knowledge, and translate that into profits, is very rewarding.

Anyone can become a day trader, but not everyone makes money at it. Education, discipline, and hard work are the keys to being a successful trader. No one should go into day trading with the mindset of assuming they can make money without putting in the time to master their trading skills. Successful day trading is all about experience and having the right tools that consistently puts the odds in your favor. These, combined with the appropriate equipment, up-to-date real-time charts, accurate analysis, and the high probability of the Delta Patterns, will greatly enhance your odds of success.

Delta Threshold Method ™

Trading Using High-Probability
Structure Analysis

Trading With the Delta Threshold Method

The Delta Threshold method is based on several patterns shown to repeat themselves over a broad range of stocks and stock indices with very high probabilities.

When we apply these patterns to our trading, it's important to remember that probabilities may favor a certain outcome, but we can never know all there is to know. We cannot foresee unpredictable events such as assassinations, lawsuits, deaths, natural disasters, etc. But, since markets are driven largely by human behavior, we can think about the predictability of a market in the same way we might consider the predictability of any type of human behavior. If we have a solid understanding of a person or a particular group, then generalizations can be made and, as a result, we can often predict mass behavior in a general sense. We might not be able to predict the exact words a person will say but rather, the general concept of what he or she will express. In this same way, we can make general predictions or forecasts about the overall behavior of the market, while recognizing that, since people have free will and can act in unpredictable ways, the market itself will behave unpredictably from time to time.

THE DELTA THRESHOLD PATTERNS

There is no stand-alone magic pattern, oscillator, or indicator that will bring you success in the markets. There are many tools to help improve your trading, but only the Delta Patterns allow you to add the element of high probability to the timing and direction of your trades. The Delta Patterns are powerful tools and the reliability and consistency of their performance have no equal. If you incorporate these Delta Patterns into your method of trading, you will greatly improve your accuracy and increase your chances of making money in the markets.

Delta Threshold Method ™

Trading Using High-Probability
Structure Analysis

HIGH/LOW PATTERN (HLP)

We call our first pattern, the High/Low pattern. When the Dow opens in the morning, it sets off a frenzy of trading activity as buyers and sellers fight it out to establish some sort of direction for the day. Seasoned traders know that it's best to stay out of the market during these first few minutes or hours, often called "Amateur Hour." This is the time the trading professionals will try to over-inflate the price and add layers of volatility to take advantage of the unprepared. In the early days, this period lasted the first hour, during which time the Market Makers and Specialists handled the market orders placed by traders. However, with the introduction of computers, this process cut the time of "Amateur Hour" to as little as 30 minutes (depending on the individual stock).

While it is possible to make money during this time frame, new traders are encouraged to shy away during this unpredictable period. What does happen though, and is the basis of the Delta HLP, is very important for the rest of the day's activity and direction. What statistics have shown us, is that the great majority of the time, one end of the daily price range of any market will occur within the first 30 to 90 minutes of trading! What this means, is that as early as 30 minutes after the opening bell, the high or low price for the day will usually be in place. As we move forward every half hour, the probability of this occurring goes up tremendously. So, for instance, as prices make new highs or lows after the first 30 minutes, the probability of the market turning and going in the opposite direction decreases. As table 1 and chart 1 below illustrate, there is a relationship between each 30-minute bar (the Dow and stock indices have 13 total 30-minute bars that make up a full trading day) following the market's opening and the corresponding percentage of time the high or low price for the trading day will be in place.

Don't underestimate the power of these probabilities. The HLP is the basis for these patterns and our road map to the daily direction of the various markets. This will become clearer after seeing all the chart examples at the end of this book.

Delta Threshold Method ™

Trading Using High-Probability
Structure Analysis

Delta HLP

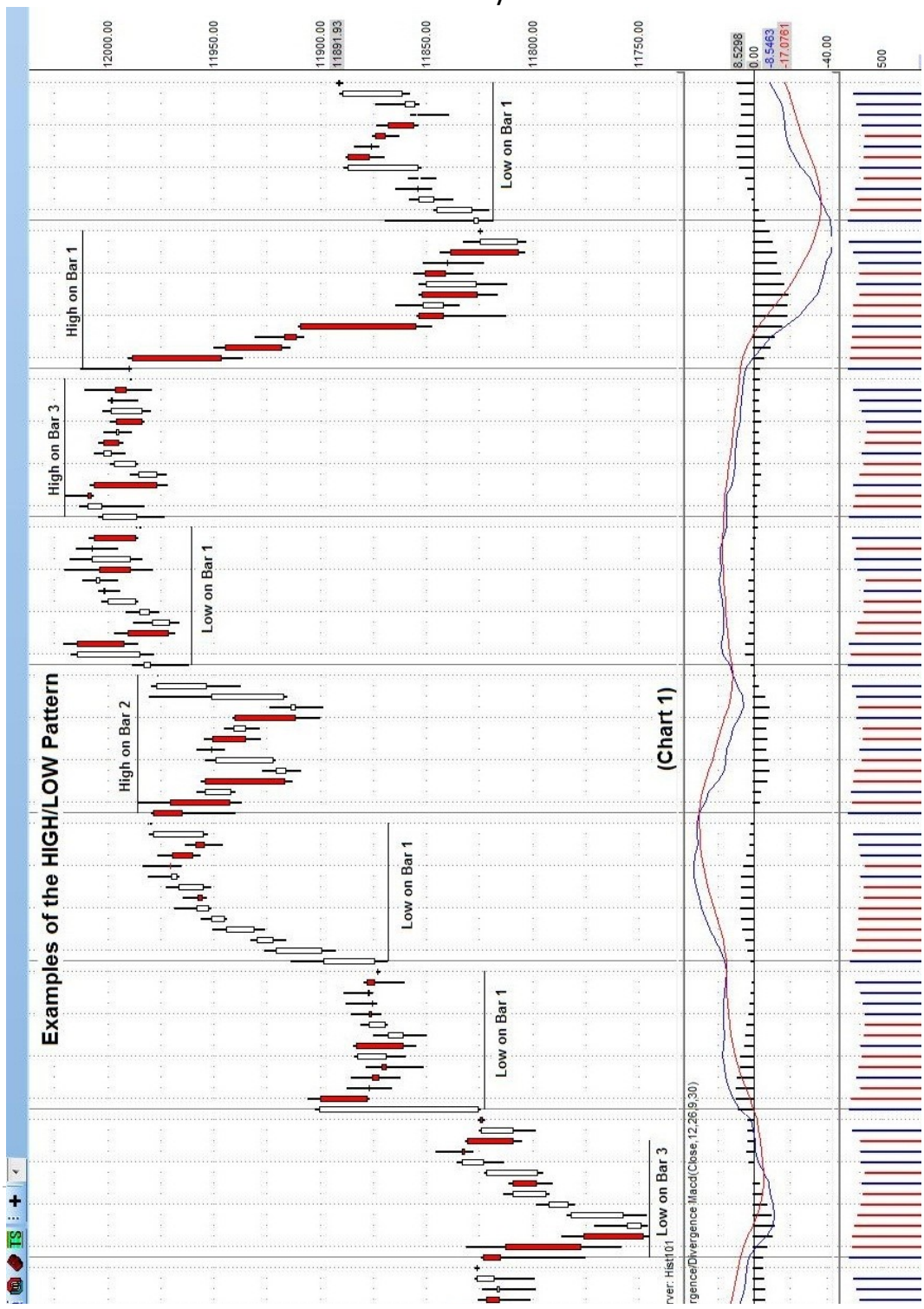
(percentage of time the high/low is in place)

30-min Bar #		High/Low Percentages
9:30am to 10:00am	(1)	75%
10:00am to 10:30am	(2)	90%
10:30am to 11:00am	(3)	93%
11:00am to 11:30am	(4)	96%
11:30am to 12:00pm	(5)	97%
12:00pm to 12:30pm	(6)	97%
12:30pm to 1:00pm	(7)	98%
1:00pm to 1:30pm	(8)	98%
1:30pm to 2:00pm	(9)	98%
2:00pm to 2:30pm	(10)	98%
2:30pm to 3:00pm	(11)	99%
3:00pm to 3:30pm	(12)	99%

Table 1

Delta Threshold Method ™

Trading Using High-Probability Structure Analysis



NEW HIGH/LOW PROBABILITIES (NHLP)

As mentioned previously, HLP provides the road map for the market's daily direction. So, now let's look at the probabilities of further new Highs and Lows.

In table 2, we see bars 2 thru 12. Remember, these are 30-minute bars with a total of 13 for each trading day. The percentages were derived over hundreds of stocks and then averaged out. What the table displays are when a specific bar creates a new high or new low for the trading day, the probability of a further new high or low in the same direction will occur. For example, if bar 2 created a new high for the day, there is an 80% chance at some time before the day ends, it will make another new high. The lows are just the opposite (see table 2 and chart 2).

Delta Threshold Method ™

Trading Using High-Probability

Structure Analysis

Delta NHLP

(% of the time for a new high/low after bar #)

30 min Bar #	High/Low %
10:00am to 10:30am (2)	80%
10:30am to 11:00am (3)	86%
11:00am to 11:30am (4)	78%
11:30am to 12:00pm (5)	76%
12:00pm to 12:30pm (6)	91%
12:30pm to 1:00pm (7)	84%
1:00pm to 1:30pm (8)	69%
1:30pm to 2:00pm (9)	81%
2:00pm to 2:30pm (10)	57%
2:30pm to 3:00pm (11)	69%
3:00pm to 3:30pm (12)	67%

Table 2

Delta Threshold Method ™
Trading Using High-Probability
Structure Analysis

Putting it all together

Once you have a complete understanding of the power of these two powerful patterns, you will gain a tremendous advantage over other traders. Before trying to trade with these patterns, please take some time to study the charts in Appendix A. It's important you understand the patterns and see the beauty of how the patterns play out on a daily basis.

Please keep in mind these patterns are "tools" to help enhance your timing on your trades and should not be used as a standalone trading method.

The following 30-minute charts are included as real-world representations of actual securities and the manner in which their prices and values followed a largely predictable model. The patterns previously described in this manual, should be visible to you as re-occurring and, more importantly, exploitable.

To learn more, please go to our website at:
innovativetradingstrategies.com

APPENDIX A

30-Minute Charts

Examples of the Patterns for Several Stocks


12250.00
12200.00
12150.00
12100.00
12050.00
12041.52
12000.00
11950.00
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
40.00
14.7672
0.00
-13.1328
-27.9000
-40.00
Volume
815
500


12400.00
12350.00
12300.00
12250.00
12200.00
12150.00
12100.00
12058.02
12050.00
12000.00
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
0.00
-12.7994
-28.0258
-40.00
Volume
1000


12300.00
12288.17
12250.00
12200.00
12150.00
12100.00
12050.00
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
20.00
9.6167
2.2507
Volume
500


High on Bar 3
High on Bar 1
Low on Bar 1
Low on Bar 1
12100.00
12092.15
12050.00
12000.00
11950.00
11900.00
11850.00
11800.00
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
40.00
11.6057
2.0311
-40.00
Volume
500


12100.00
12092.15
12050.00
12000.00
11950.00
11900.00
11850.00
11800.00
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
40.00
11.6057
2.0311
-40.00
Volume
500


12000.00
11977.19
11950.00
11900.00
11850.00
11800.00
11750.00
11700.00
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
20.00
11.8172
-0.4489
Volume
500


11755.44
11750.00
11700.00
11650.00
11600.00
11550.00
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
24.6103
-1.7290
-20.00
Volume
500


11400.00
11372.63
11300.00
11200.00
11100.00
11000.00
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
40.00
-5.0500
-40.00
Volume
769
500


11250.00
11200.00
11188.12
11150.00
11100.00
11050.00
11000.00
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
26.7487
19.0641
7.6846
0.00
-40.00
Volume
788
500


11400.00
11372.63
11300.00
11200.00
11100.00
11000.00
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
40.00
-5.0500
-40.00
Volume
769
500


11250.00
11200.00
11188.12
11150.00
11100.00
11050.00
11000.00
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
26.7487
19.0641
7.6846
0.00
-40.00
Volume
788
500


11450.00
11400.00
11350.00
11300.00
11250.00
11200.00
11192.43
11150.00
11100.00
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
40.00
0.4934
-33.4520
Volume
820
500

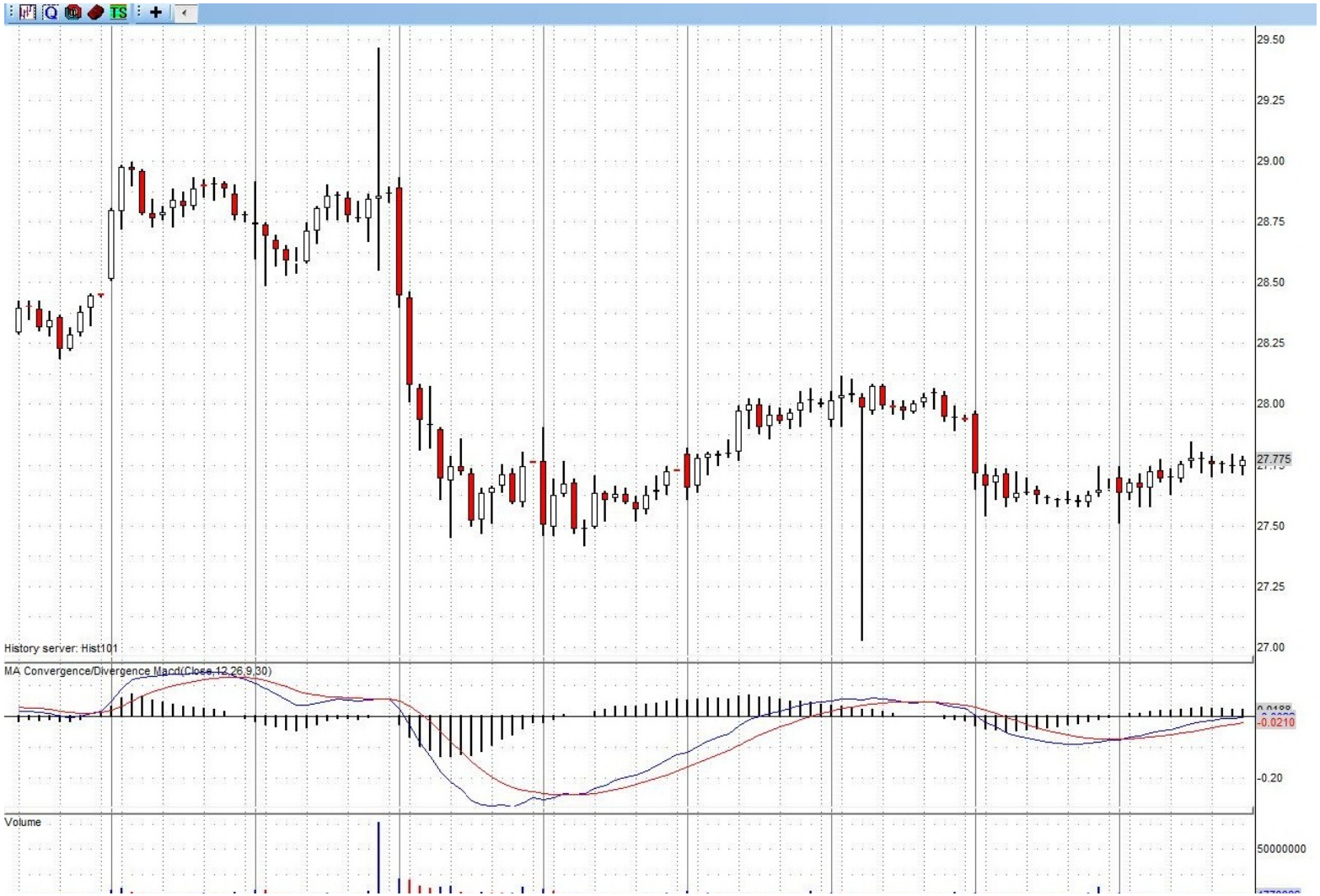

11200.00
11146.57
11100.00
11050.00
11000.00
10950.00
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
25.00
15.7954
-4.3530
-25.00
Volume
500


11010.11
11000.00
10950.00
10900.00
10850.00
10800.00
10750.00
10700.00
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
25.00
13.4523
-3.4303
-25.00
Volume
500

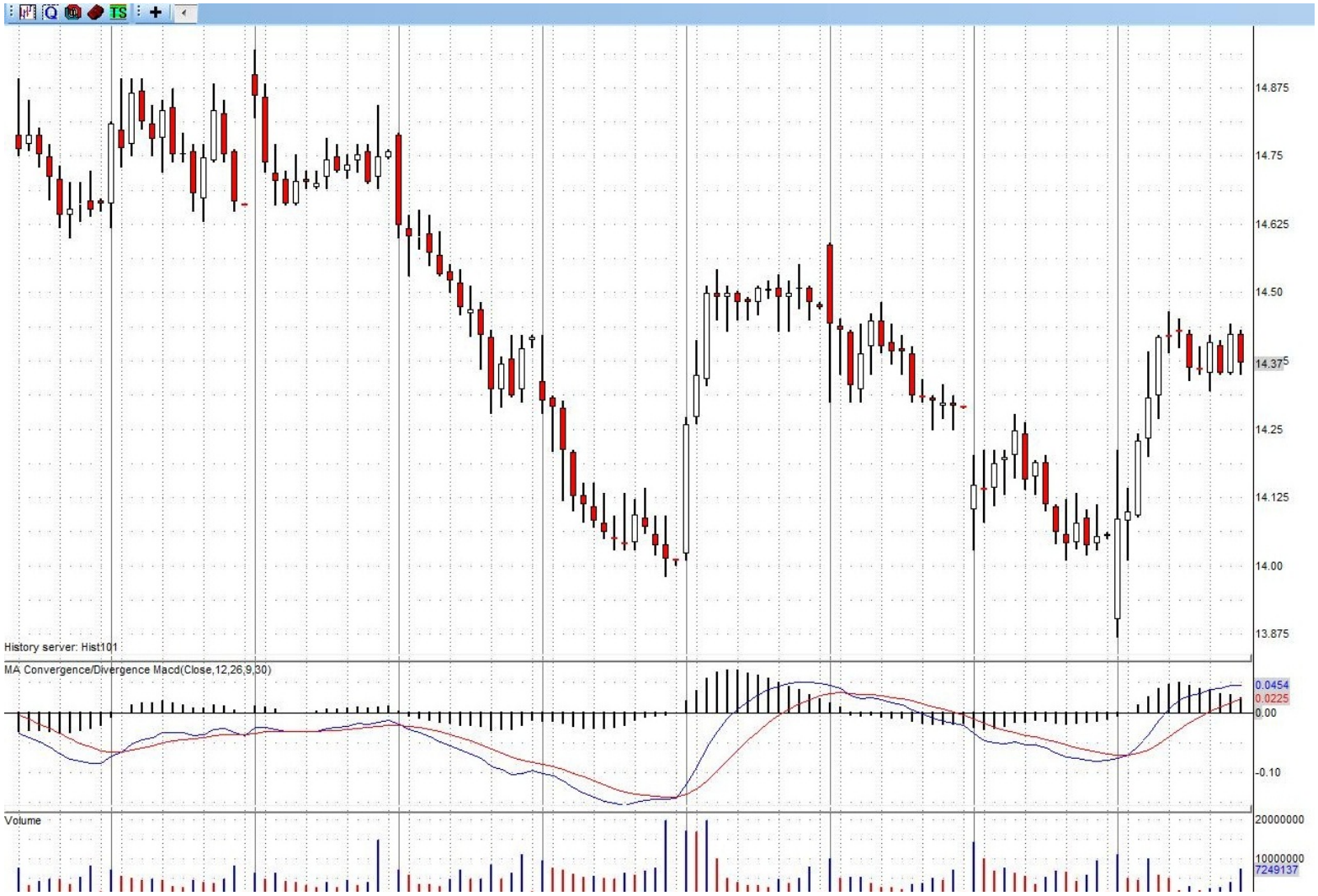

26.50
26.375
26.25
26.125
26.00
25.875
25.75
25.68
25.625
25.50
25.375
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
0.0316
0.0125
0.00
-0.0191
-0.10
Volume
15000000
10000000
5000000

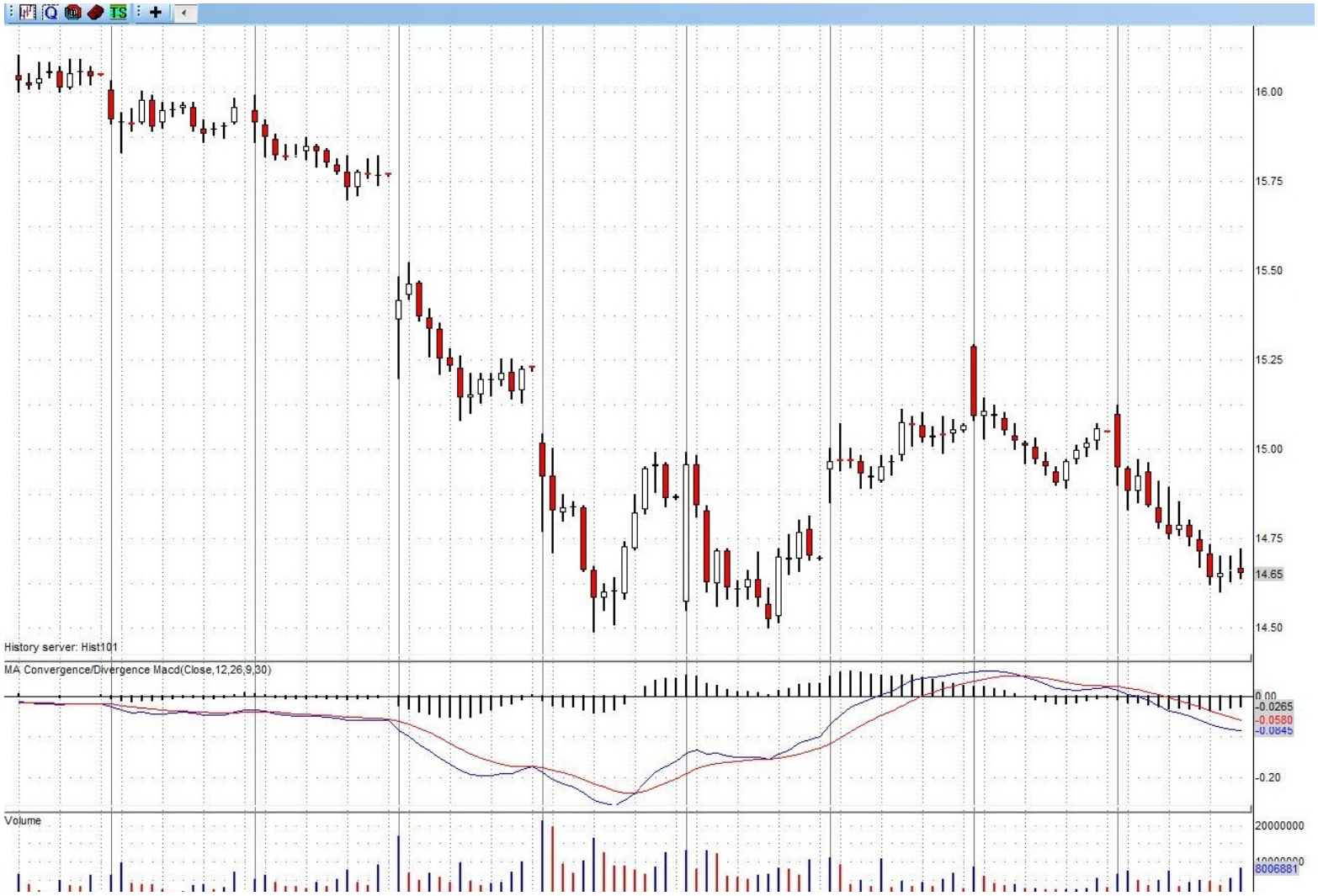

27.375
27.25
27.125
27.00
26.875
26.75
26.625
26.50
26.375
26.25
26.17
26.125
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
0.00
-0.0322
-0.0854
-0.1175
Volume
10000000
8871521
5000000

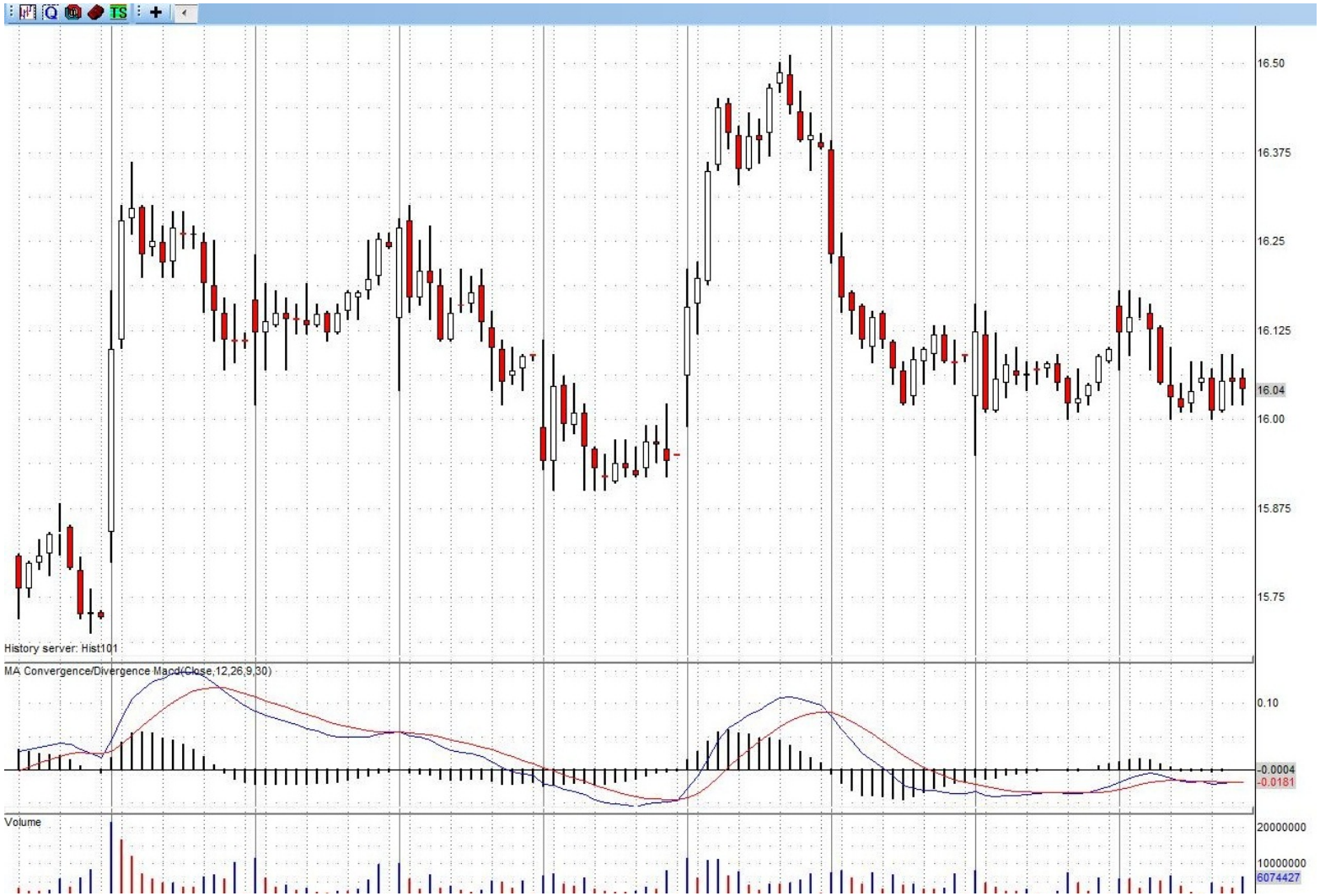

28.25
28.00
27.75
27.50
27.25
27.01
26.75
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
0.0309
0.00
-0.0482
-0.0791
-0.20
Volume
15000000
10000000
5380440

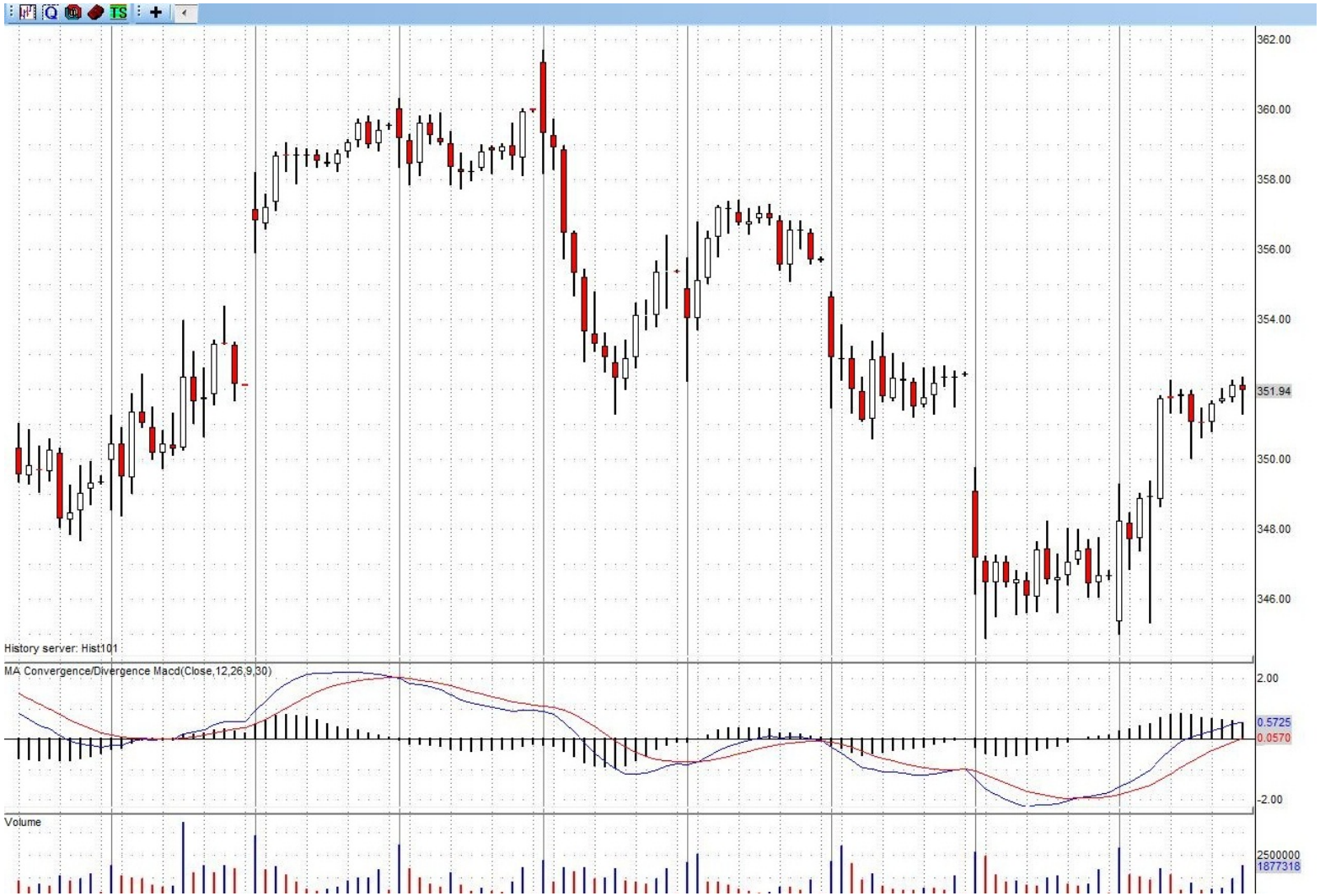

29.50
29.25
29.00
28.75
28.50
28.25
28.00
27.775
27.50
27.25
27.00
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
-0.0210
-0.20
Volume
50000000

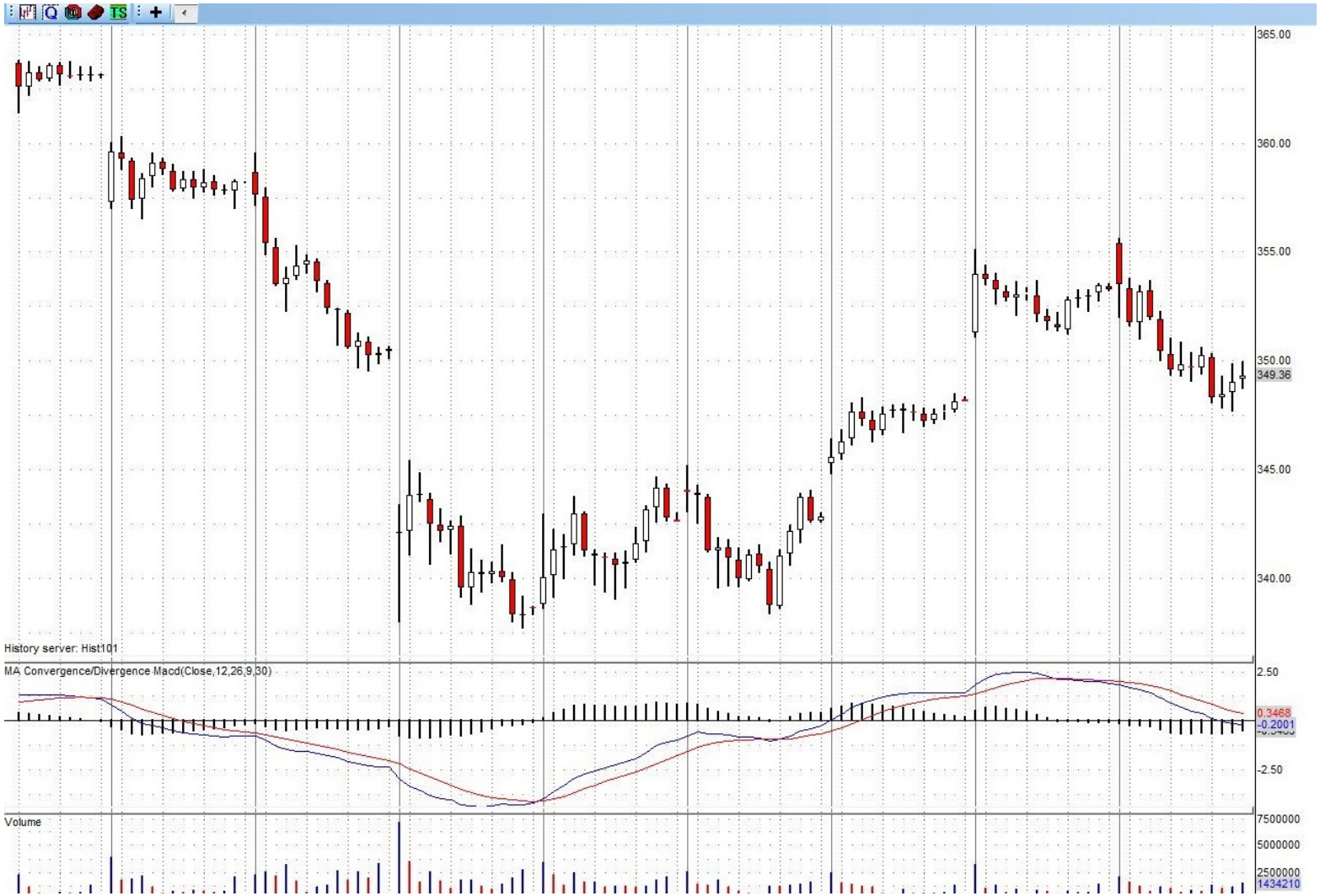

28.75
28.625
28.50
28.45
28.375
28.25
28.125
28.00
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
0.10
0.0108
Volume
10000000
4792456


14.875
14.75
14.625
14.50
14.375
14.25
14.125
14.00
13.875
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
0.0454
0.0225
0.00
-0.10
Volume
20000000
10000000
7249137

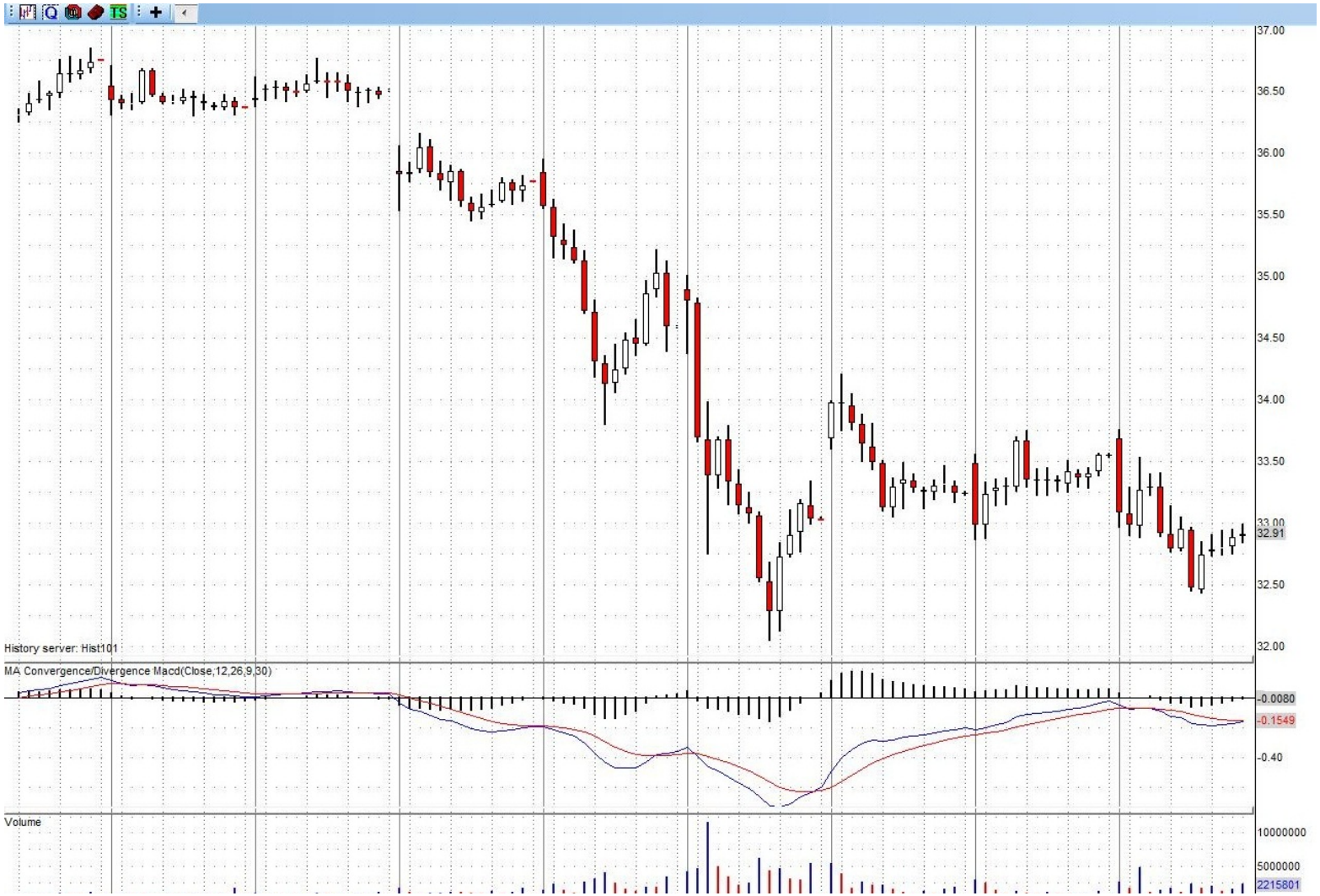

16.00
15.75
15.50
15.25
15.00
14.75
14.65
14.50
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
0.00
-0.0265
-0.0580
-0.0845
-0.20
Volume
20000000
8006881

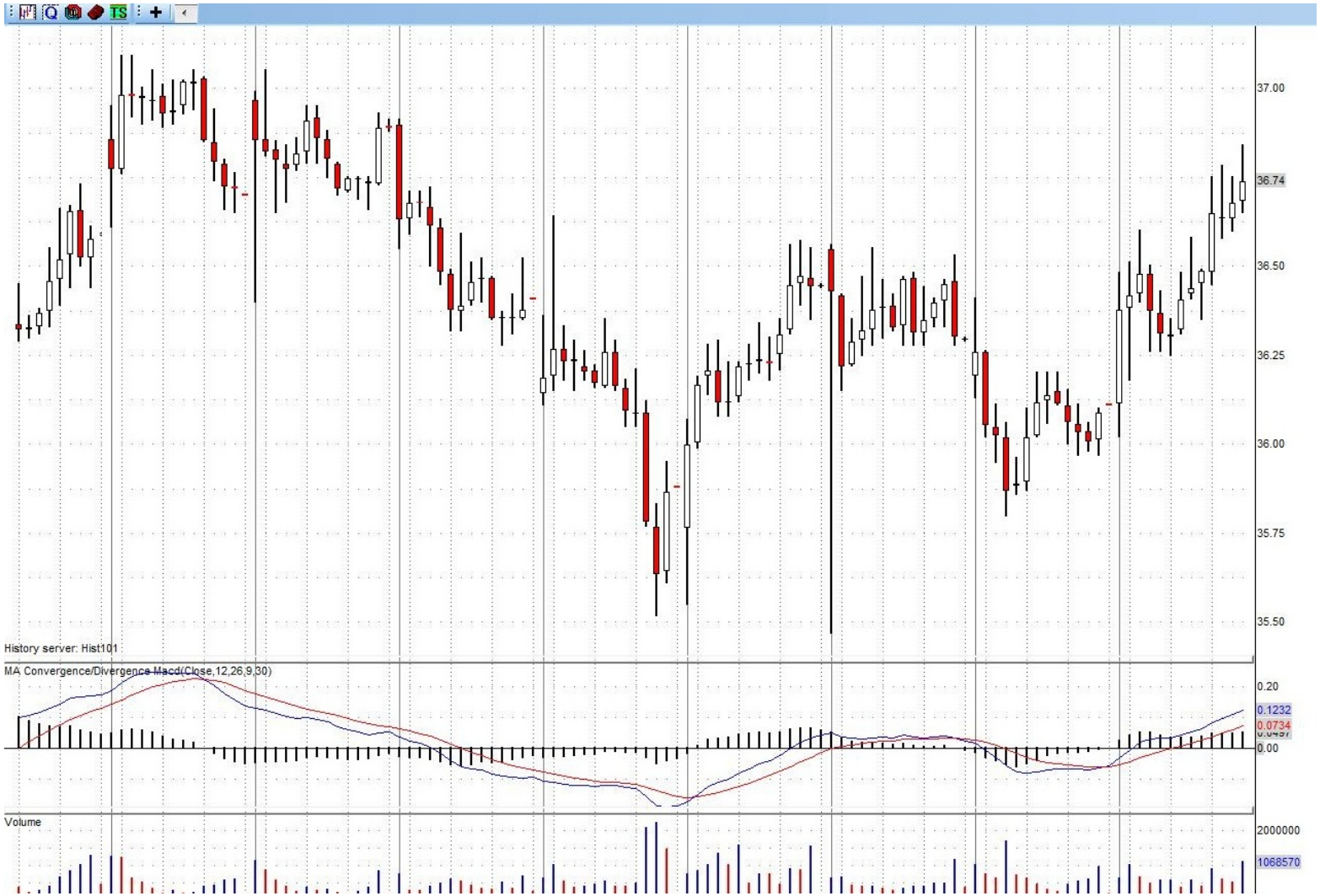

16.50
16.375
16.25
16.125
16.04
16.00
15.875
15.75
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
0.10
-0.0004
-0.0181
Volume
20000000
10000000
6074427

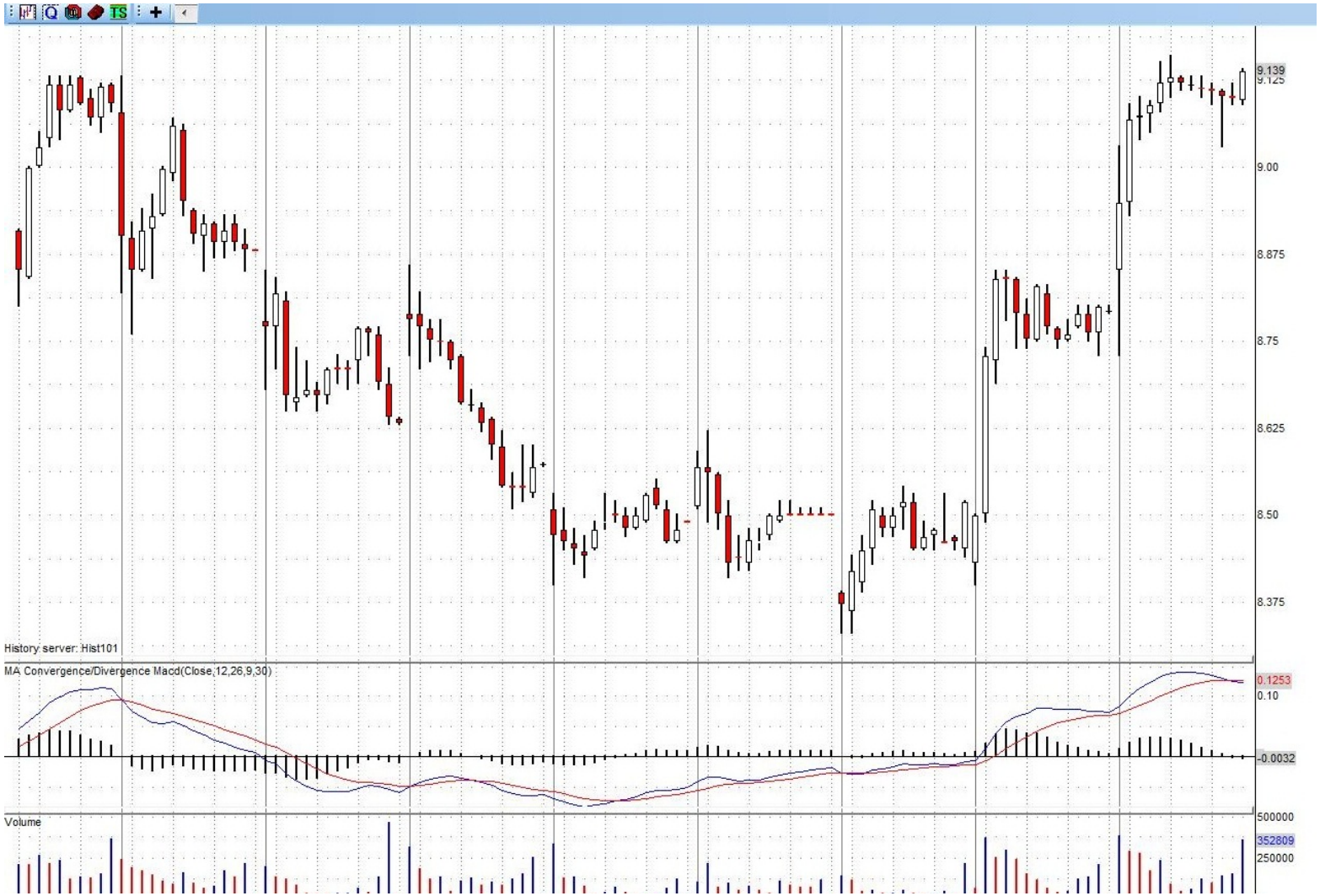

362.00
360.00
358.00
356.00
354.00
351.94
350.00
348.00
346.00
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
2.00
0.5725
0.0570
-2.00
Volume
2500000
1877318

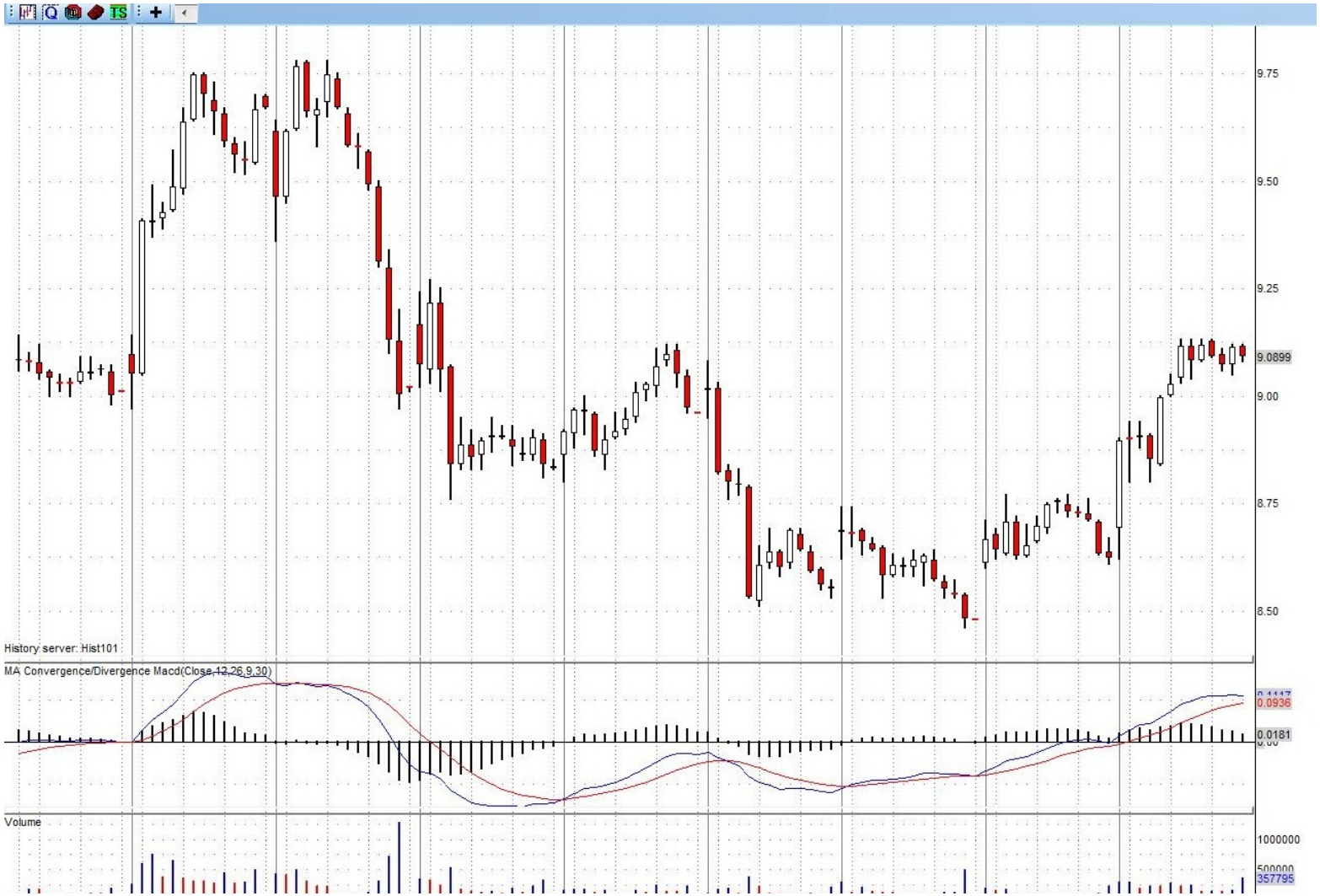

365.00
360.00
355.00
350.00
349.36
345.00
340.00
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
2.50
0.3468
-0.2001
-2.50
Volume
7500000
5000000
2500000
1434210


33.25
33.00
32.75
32.50
32.25
32.00
31.8899
31.75
31.50
31.25
31.00
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
0.0771
0.0081
-0.0690
-0.20
Volume
5000000
1422801


37.00
36.50
36.00
35.50
35.00
34.50
34.00
33.50
33.00
32.91
32.50
32.00
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
-0.0080
-0.1549
-0.40
Volume
10000000
5000000
2215801

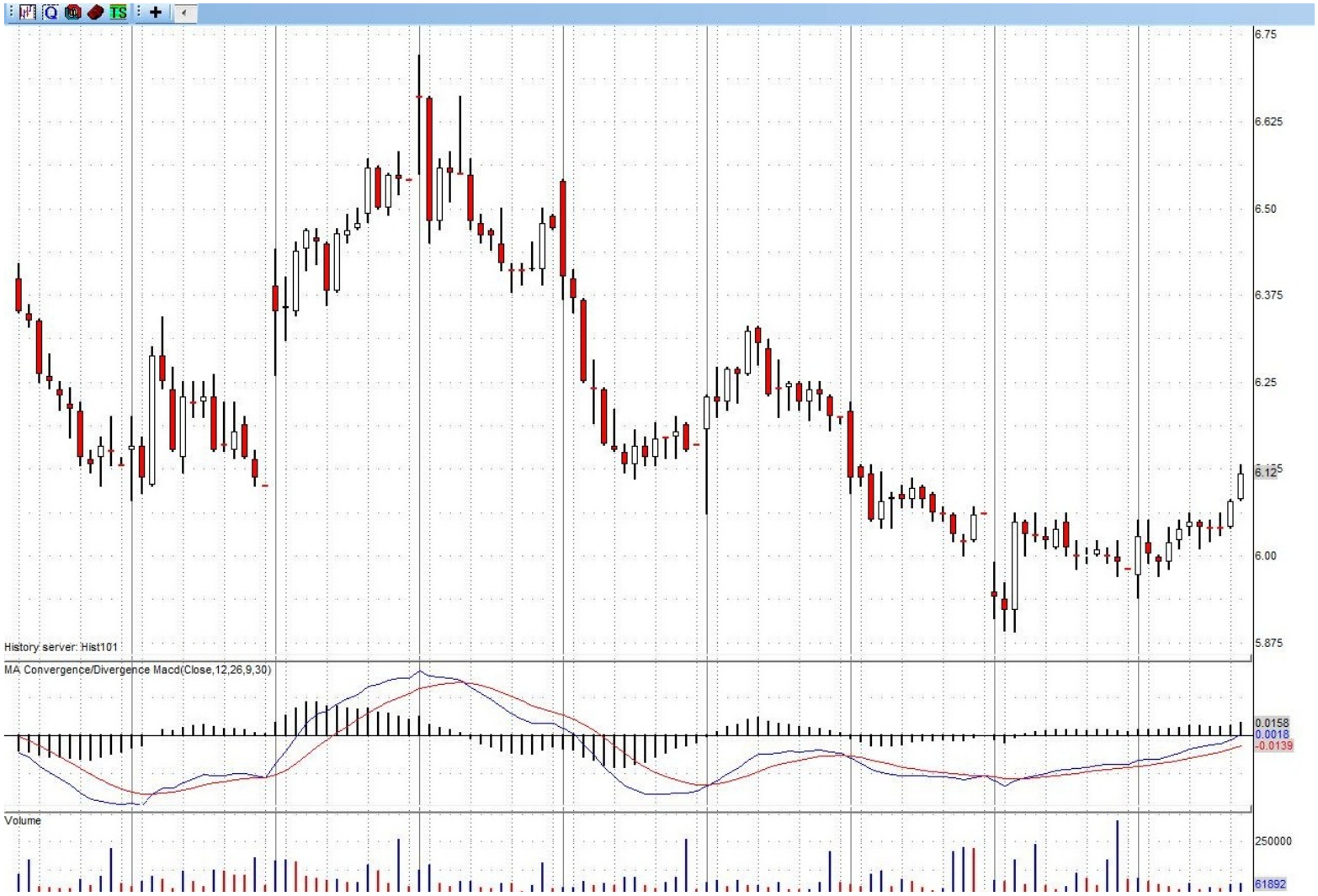

37.00
36.74
36.50
36.25
36.00
35.75
35.50
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
0.20
0.1232
0.0734
0.00
Volume
2000000
1068570


9.139
9.00
8.875
8.75
8.625
8.50
8.375
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
0.1253
0.10
-0.0032
Volume
500000
352809
250000

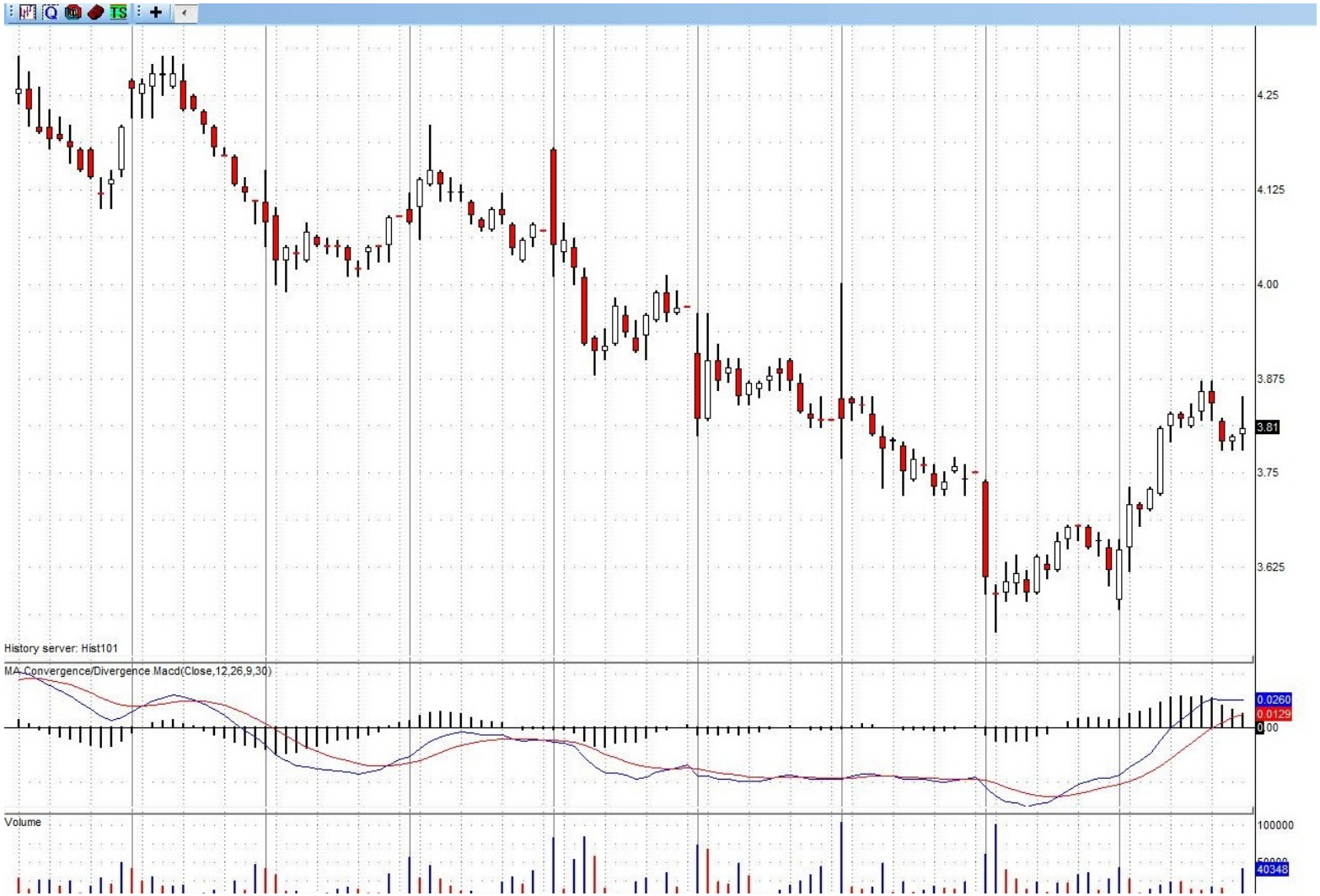

9.75
9.50
9.25
9.0899
9.00
8.75
8.50
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
0.0936
0.0181
Volume
1000000
500000
357795


9.375
9.25
9.125
9.00
8.875
8.75
8.625
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
0.20
0.10
0.0002
-0.10
Volume
500000
181602


9.08
9.00
8.875
8.75
8.625
8.50
8.375
8.25
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
0.1403
0.1094
0.0309
0.00
Volume
1000000
688864
500000


6.75
6.625
6.50
6.375
6.25
6.125
6.00
5.875
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
0.0158
0.0018
-0.0139
Volume
250000
61892


13.25
13.00
12.75
12.50
12.25
12.00
11.75
11.56
11.50
11.25
11.00
History server: Hist101
MA Convergence/Divergence Macd(Close,12,26,9,30)
0.0593
0.00
-0.0528
-0.1121
-0.20
Volume
500000
355909
250000


4.25
4.125
4.00
3.875
3.81
3.75
3.625
History server: Hist101
MA-Convergence/Divergence Macd(Close,12,26,9,30)
0.0260
0.0129
0.00
Volume
100000
40348