Bollinger Bands: A Reprise
John Bollinger, CFA, CMT

One of the joys of having developed an analytical technique is seeing what other people do with it. Over the years Bollinger Bands have become many things to many people and I am constantly surprised and delighted by their imagination and creativity. The following points illustrate a bit of the diversity:

- Bollinger Bands are being used on many instruments and in many markets including stocks, stock-market indices, options, commodities, financial futures, currencies and mutual funds.
- Likewise, Bollinger Bands are being used in every possible time frame with data frequency ranging from long to short – years, quarters, months, weeks, days, hours, minutes, ticks, etc.
- Bollinger Bands are used to detect the beginning and end of trends, to pick out reversals, to diagnose continuation patterns, to identify overbought/oversold levels and to place stops.
- Bollinger Band usage is not limited to prices. Bands on indicators have received a lot of attention and I have even seen them used on equity curves for trading system selection.
- Bollinger Bands are used visually and/or numerically in approaches that range from the highly rigorous to the completely intuitive.

One of the most interesting of the newer uses of Bollinger Bands is in the clarification of chart patterns. For example, a head and shoulders pattern has a typical Bollinger Band signature.

Indeed one might well say there are as many uses for Bollinger Bands as there are users, for it seems that no two users use them in the same manner. How can all this be? How can one relatively simple technique span so many markets, time frames and techniques?

One answer is that Bollinger Bands are a tool, not a trading system, a tool that can be used in many ways. Another answer is that the bands are highly adaptive as it is volatility that drives the width of the bands. This means they can be deployed successfully in many different environments. Also, it may be that interest in volatility is growing and using the bands is an easy way to include volatility in the trading process. There are probably many other reasons for the success of BBs, but of course they could just be a fad; after all, the markets have been known to go to excess upon occasion.

So, what are Bollinger Bands? They are curves plotted in and around the price structure. The base of the bands is a moving average, which we refer to as the middle band. Even though the middle band may not be plotted, it is always there by inference. The upper band is spread above that moving average by a measure of volatility known as standard deviation. The lower band is the middle band less the same measure of volatility.

These defaults for Bollinger Bands were derived from studies of the US stock market using daily data. The default length for the moving average and the volatility calculation is 20 periods. The default for the bandwidth is two standard deviations.

Our main uses of Bollinger Bands are pattern recognition, reversal identification and trend analysis. Since we are primarily intermediate-term US stock market investors, in our shop the Bollinger Bands we use most often are 20-period, two standard deviation bands on daily or weekly data. Occasionally we use Bollinger Bands on hourly charts for trade execution, or on monthly charts to gain a long-term perspective.

It is interesting and rewarding to see the panoply Bollinger Bands have become, however it is wise not to forget the basics. Bollinger Bands were created to answer a question “Are prices high or low on a relative basis?” By definition prices are high at the upper band and low at the lower band. Armed with this information one can compare price action to the action of indicators to arrive at rigorous trading decisions. For example, if prices are high and an indicator confirms, you have a confirmed high. On the other hand, if prices are high and that indicator fails to confirm, you have an unconfirmed high. That is where Bollinger Bands started and it is still one of the most powerful uses after all these years. Continued on page 3
From the Editor

Hopefully many of you noticed the new format of the MTA newsletter designed to bring a wider variety of topics to our membership. This month we bring you the same format with some new topics:

Back-to-Basics – This section brings you some commentary and insight into the widely quoted technical indicator know as the “Bollinger Bands.” Our own John Bollinger outlines some of the basic rules on how to interpret the technique that he developed.

Real World – The MTA is truly a global organization. In this section, I asked Helene Meisler some questions regarding her take on our fine discipline and how she employs it in her career path.

It’s All About You – This month, we bring you what two CMT candidates are doing to prepare for their upcoming Level 2 & 3 exams.

Close to Home – This month we travel to the Atlanta chapter of the MTA to see what they are doing.

The Talking Heads – We are fortunate enough this month to have an update from three different committees; Accreditation, Academic Liaison and Library.

Please let me know what you think of the new format and any ideas that you may have regarding topics or anything else by e-mailing to: editor@mta.org

Tony Dwyer, Editor

“Cutting Edge” Gann Presentation Now Available on VHS

Following the Atlanta Annual Seminar our newsletter reported, “one presentation was a multimedia marvel that demonstrated what lies at the edges of research in the discipline of technical analysis.” The presentation was delivered by Connie Brown on the decoding of W.D. Gann’s Square of Nine Wheel. She introduced 3-dimensional harmonic bar charts that define time and price objectives, and used Fibonacci retracements in a unique manner to account for market expansion/contraction cycles. Visit her Website at www.aeroinvest.com to preview more of the content. Seminar Chairman Sam Hale described the two hours as “cutting edge.” Due to the complex technical barriers to record all the dynamic animation, the original presentation could not be made available until today.

The completed VHS tape has been donated by Connie to the MTA and she has donated all proceeds to help rebuild our Library. It contains all the content of the original presentation. To order a copy, a form is available on the MTA Website: www.mta.org.

2002 Calendar of Events

February 11 New York
NY Monthly meeting. Speaker: TBA. Meetings will be held at Baruch College in New York City. Details in Monthly Meeting Notice or on the MTA Web site.

February 15 New York
Deadline for materials for next newsletter. Send all contributions to Tony Dwyer, Editor at editor@mta.org

February 19 New York
SIRE meeting at the Princeton Club. Annual panel discussion and banquet. Usually the third Tuesday of each month. Contact MTA office for further information.

February 20 Chicago
Contact Ross Leinweber 312/377-5400 x380 for information. Meetings are held on the 3rd Wednesday.

February 28 Atlanta
Monthly meeting. Contact Fred Meissner at 404/875-3733 or fmeissner@mta.org. Meetings are usually held on the last Thursday of each month.

May 16-19 Jupiter, FL

October 9-13 London
IFTA Conference, London. IFTA Board & Liaisons Meetings (and DITA exams) - October 9th.

FYI

Donald Cassidy, a Senior Analyst at Lipper, wrote a book that has just been released titled Trading on Volume. It's an excellent review of the entire subject of volume. Most interesting is that the book is dedicated to the MTA and the American Association of Individual Investors, and Mr. Cassidy especially thanks Shelley Lebeck for her assistance in allowing him to use the books the MTA had in its unique library. Shelley, thanks and congratulations! George Schade

TECHNICALLY SPEAKING

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Library Hours
Due to the September 11 tragedy at the World Trade Center, the MTA library has been lost, but is currently being rebuilt.

Change of Address
Send all changes of address, phone, fax and e-mail (either home or office) to the MTA office at the above fax number or by e-mail.

www.mta.org

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The following are 15 basic rules for Bollinger Bands from the McGraw Hill book “Bollinger on Bollinger Bands.”

1. Bollinger Bands provide a relative definition of high and low. That relative definition can be used to compare price action and indicator action to arrive at rigorous buy and sell decisions.

2. Appropriate indicators can be derived from momentum, volume, sentiment, open interest, inter-market data, etc.

3. Volatility and trend already have been deployed in the construction of Bollinger Bands, so their use for confirmation of price action is not recommended.

4. The indicators used for confirmation should not be directly related to one another. Two indicators from the same category do not increase confirmation. Avoid colinearity.

5. Bollinger Bands can be used to clarify pure price patterns such as M-type tops and W-type bottoms, momentum shifts, etc.

6. Price can, and does, walk up the upper Bollinger Band and down the lower Bollinger Band.

7. Closes outside the Bollinger Bands can be continuation signals, not reversal signals—as is demonstrated by the use of Bollinger Bands in some very successful volatility-breakout systems.

8. The default parameters of 20 periods for the moving average and standard deviation calculations, and two standard deviations for the bandwidth are just that, defaults. The actual parameters needed for any given market/task may be different.

9. The average deployed should not be the best one for crossover signals. Rather, it should be descriptive of the intermediate-term trend.

10. If the average is lengthened the number of standard deviations needs to be increased simultaneously; from 2 at 20 periods, to 2.1 at 50 periods. Likewise, if the average is shortened the number of standard deviations should be reduced; from 2 at 20 periods, to 1.9 at 10 periods.

11. Bollinger Bands are based upon a simple moving average. This is because a simple moving average is used in the standard deviation calculation and we wish to be logically consistent.

12. Be careful about making statistical assumptions based on the use of the standard deviation calculation in the construction of the bands. The sample size in most deployments of Bollinger Bands is too small for statistical significance and the distributions involved are rarely normal.

13. Indicators can be normalized with %b, eliminating fixed thresholds in the process.

14. Finally, tags of the bands are just that, tags not signals. A tag of the upper Bollinger Band is NOT in-and-of-itself a sell signal. A tag of the lower Bollinger Band is NOT in-and-of-itself a buy signal.

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Conversation with Helene Meisler
Tony Dwyer

TD How did you become a technician and what drew you to it?

HM OK, a bit of honesty. In 1982 I went to work on Wall Street because they were the only ones hiring! A couple of years later, Justin Mamis came to work at my firm (Cowen and Co.). We hit it off and I began taking a keen interest in his work. He would talk about his work with technical analysis and I would listen. Eventually, I found myself drawn more toward technical analysis than fundamental analysis. Shortly thereafter, I began working closely with Justin and focusing solely on technical analysis. Technical analysis seemed to make sense to me, and I looked forward to posting charts by hand at the end of the trading day.

TD What types of time frames do you believe are most important in using technical analysis?

HM Everyone has their own style, using different indicators. Analysts have different opinions on whether a short- or long-term time frame works best. In my work, I find that a one- to three-month time frame is the most beneficial to focus on. The indicators I use will generally point to signs that can define a trend in the market that lasts about that long. In addition, I post my stock charts by hand on a daily basis. Often I can look at the chart and pencil in how the pattern might develop and after you’ve drawn in the pattern, it will typically be in the same 3-month time frame.

TD Based on different time frames what tools are most helpful for you?

HM I use the ten-day moving averages of many different indicators, such as the advance/decline line and the new highs and new lows. This gives me a general feel for the market over the next one to two weeks. Then I use the 30-day moving averages of many of the same indicators, giving me an idea of the next 6-8 weeks in the market. I often rely on how the stock charts that I post appear to be acting within the context of the underlying market conditions.

TD Do you have any rules that you “live by”?

HM None. I don’t believe in rules or signals. The market will most likely never make it that easy for anyone. I am often asked which indicator I put the most weight into. My answer is always the same – at different times there will be certain indicators that should be given more weight than others. For example, from April 1998 through mid 2001 the advance/decline line on the NYSE was in a major bear market. If I had only gone with this breadth indicator, then I would have missed the billions of swings the market had in those three years.

For that reason I use generalities. I watch the market and indicators for tendencies and if several indicators say the same thing, then I feel I have an edge. I wish it were easy to say, “this says sell,” “this says buy,” but I don’t believe these signals are reliable.

TD Where does psychology figure in?

HM I also believe that market psychology plays a big part in determining the direction of the market over the short to intermediate term. Just look at the way folks these days, time and again, fall in love with technology stocks, no matter how often they have been burned. People will tell you that because these are the ‘real’ growth stocks. To that I would counter that if these folks were around in the 80s then they would know that the ‘real’ growth stocks were Proctor and Gamble, Coke and Merck and tech stocks were trading vehicles! Eventually there will be a new group of growth stocks that everyone wants and needs to own, but we will have to go through an extended period of time where these tech stocks are just market performers.

Phil Morris might have made new highs in 2001, but its day of being a major growth stock ended way back in 1993 when they announced their first shortfall in earnings per share. I suspect years from now stocks such as Cisco will be viewed the same way we view Philip Morris today.

TD Thanks Helene.

Helene Meisler, based in Shanghai, writes a technical analysis column on the U.S. equity markets and updates her charts daily on TheStreet.com. Meisler trained at several Wall Street firms, including Goldman Sachs and SG Cowen, and has worked with the equity trading department at Cargill.

Tony Dwyer, Technically Speaking editor, email: editor@mta.org

WANTED Reviewer for the Monthly NY Meetings

Mike Carr is stepping down from his unofficial title of Monthly Meeting Reviewer. He has held this post for the past four years and has done an excellent job, always writing exactly one full page – not an easy task. Plus, using the correct punctuation and grammar – a real joy. Thank you, Mike.

Now, we need someone else to fill his shoes. The monthly meetings are videotaped and Mike says it usually requires 5-8 hours to watch the tape, do any research, write the summary and edit it before submission.

Mike said, “I have definitely learned a lot through my experience and would highly encourage any CMT candidate to take this on. Honestly, without the chance to learn from the videos, I don’t think I would have passed all three tests.”

Interested candidates contact: editor@mta.org or to contact Mike Carr: carrm@hotmail.com

Why Can’t I Have It Now?
Why? Because on September 11 the MTA office was totally destroyed and we are working very hard to recover, as well as move forward with the day-to-day needs of the members/affiliates. The MTA was extremely fortunate to have a place to go on September 12, but the backup tape Shelley had in her purse was only a small portion of what was needed to get the MTA back on its feet.

So, when you need something, first try to see if the information you need is either on the MTA Website or in your directory. And, if you do need something from the MTA office, please try to use a bit of restraint with your request.

The 2002 MTA Directory is going to be delayed this year as we try to recover data and get updates from our membership. If needed, we may have to ask you for your information again. If so, please reply with understanding.

Thank you.

All MTA Journals Available on One CD

A CD of all 56 issues of the MTA Journal are now available. It is indexed in several ways: by issue, subject, author, etc. and very easy and fun to use. It is a wonderful tool for anyone writing a CMT paper or for those of you who would love to read all those Journals which have been collecting dust these past 23 years. And, when you buy the CD, you can donate all your old copies to the new MTA Library.

The cost of this CD is only $95 for all members and affiliates. An order form is available to download on the MTA website: www.mta.org.
Along the Winding Road to the CMT Designation

Scott B. Evans

With the next round of examinations for the CMT designation looming in April, prospective candidates are diligently studying, yearning for that coveted designation that announces membership into the elite of the noble fraternity of market technicians. For those who have not yet started along the road less traveled or for those who have begun the journey and are wandering in the wilderness we look to a few of your brethren who are at different stages along the journey.

In a prior newsletter we interviewed a CMT Level 1 candidate, here we interviewed candidates for CMT Level 2 and CMT Level 3.

Level 2 – Matt Bell

Matt is an MTA affiliate from Indianapolis, Indiana and a graduate of Manchester College. He has worked at both Merrill Lynch and Charles Schwab and has roughly three years of industry experience. Matt’s passion lies with WD Gann theory, Richard Wyckoff methods and John Murphy’s intermarket analysis. Matt is preparing to take the Level 2 this spring.

Have you started studying for the Level 2, and what are you focusing on (or planning to focus on)?

I have been studying outside the required readings for much of the last year. I have enjoyed focusing on WD Gann and Richard Wyckoff books. While these readings are very insightful and possibly applicable for the Level 2, I have reverted back to the required readings. Within the required readings, I am focusing on more advanced analytical techniques highlighted in Pring’s work to deliver technical proficiency.

How useful is the information that the MTA provides, and is there anything more that the MTA could do to help in your preparation?

The suggested readings and chapters are a great guidepost toward success in excelling in the MTA exams. Having a passion to actively progress with the technical knowledge gleaned from the exam in my opinion is a crucial first step. My favorite additional resources the MTA supplies to enhance learning are the MTA library and the MTA e-mail list.

Level 3 – James Boyce

James is also an affiliate from Indianapolis and has worked with both Morgan Stanley Dean Witter and Charles Schwab. James has roughly three years of industry experience and plans on taking the Level 3 this spring.

Why did you decide to begin the process to become CMT certified?

I began the process to become CMT certified because of my passion for technical analysis. I had been reading books on the subject, but believed that having a process with deadlines would encourage me to keep on learning.

What section of the Level 2 did you find most challenging or surprising?

The most challenging part of the exam was putting all my thoughts on paper in a way that would be clear and concise to the reader.

Was there anything in particular that you found most helpful to you in studying for the Level 2, and what advice would you give to someone who is planning on taking the Level 2 this spring?

After reading certain chapters, I would close the book and write down everything that I knew on that particular area of technical analysis. This helped me gather my thoughts and it showed me how much I did or did not know on that subject.

Have you started studying for the Level 3, and what are you focusing on (or planning to focus on)?

Yes, I have been studying for Level 3. I plan on reviewing everything from last year and focusing on intermarket analysis.

What are you using (or planning to use) as a guide to help in your studies, and how useful is the information that the MTA provides? Is there anything more that the MTA could do to help in your preparation?

I plan on using the guide that the MTA sends out to the CMT candidates. It is a good outline to show which topics may be covered. A few of my colleagues have said they would like to see additional sample questions so that they could be better prepared. I agree that it would be useful for Level 1, but difficult to implement for Levels 2 and 3 because the questions are much broader and in essay form.

Gentlemen, thank you for your time.

We want to hear from you! If you are studying for the various levels or have even finished all three, let us know how your experience was. Please send you responses to me. Please provide a little information about your background, and hopefully your answers will help those who are looking for direction along the long and winding road to the CMT designation.

Scott B. Evans, Schwab Capital Markets L.P., Market Analysts Group, Phone: 212/804-3646, Fax: 201/963-8342

Atlanta Chapter Focus

It is no coincidence that Atlanta, GA is called the gateway to the South. According to Fred Meissner, president of the local chapter and regions chair for the MTA, every Fortune 500 company has its regional headquarters based in or around the greater metro Atlanta area. With such a strong corporate presence, it makes perfect sense for Atlanta to consider itself the hub for technical analysis in the southern region.

The Atlanta chapter of the MTA is a well-organized focal point for technical analysis in the South. In 1999, it hosted the MTA’s 25th Anniversary annual seminar. The chapter consists of 25 members who meet on the last Thursday of every month at the SunTrust Robinson Humphrey headquarters. Meetings are open to everyone. We generally divide into computer user groups, which give the meetings a technology focus – using technology to help with analysis.

Keeping with the principles of the MTA, we place a major emphasis on education. John Brooks is the head of the MTA Educational Foundation. He is an Atlanta area member and an original MTA founder. John, along with Fred and other Atlanta chapter members, were instrumental in starting a graduate level MTA Educational Foundation technical analysis class at Georgia Tech. They are now focusing their efforts on Mercer College. The course is a recognized accredited university course designed to last a full semester.

In addition to helping expand technical analysis in the South, Fred is the region’s chair for the MTA. Recently, he spent time in Texas and Denver, helping to organize their MTA chapters. He also talked with local universities about incorporating technical analysis in their curriculums.

The Atlanta chapter is looking to attract new members and affiliates. If you are interested in attending a meeting, becoming more involved, or even starting your own chapter, contact Fred Meissner at 404/875-FRED (3733) or e-mail: Fmeissner@mta.org

Members on the Move

Ken Tower (CMT), Bill Livesey, Ted Todd, and Seth Wolff have changed hats within Charles Schwab and Co. They have moved the institutional technical research group from UST Securities Corp. to CyberTrader, Inc. They will continue to service institutional investors from their new location as well as assisting the Schwab’s Active Traders. Their address, phone numbers, and e-mail addresses are unchanged (for now).
Update from the Accreditation Committee

The Accreditation Committee implemented several initiatives this year. These initiatives are intended to enhance the quality and rigor of the Chartered Market Technician program.

First, several new textbooks were added to broaden the scope of the curriculum. These include: Trading Systems and Methods written by Perry J. Kaufman; Investment Psychology Explained written by Martin J. Pring; Technical Analysis For The Trading Professional written by Constance M. Brown.

Second, several CMTs have taken on the challenge of writing a significant number of new multiple choice questions for the CMT Level 1 exam. This effort reflects not only the new textbooks added to the program, but also the desire to expand and refresh our library of questions to support the CMT program and the teaching of technical analysis at universities. Moreover, our database of questions must be increased if we are to offer the CMT Level 1 exam more than once each year. Preliminary discussions and fact gathering have begun in this regard; however, a considerable amount of additional work is required.

Finally, once the CMT Level 2 and Level 3 exams are written, steps will be implemented to build a database of CMT Level 2 multiple choice questions in an effort to accommodate the growth in the CMT program. As mentioned in prior articles, the program has experienced a significant increase in the number of candidates over the past two years. While this is a positive development for our profession and heightens visibility of technical analysis, it does challenge our resources, particularly in the area of grading essay questions.

As mentioned earlier, work has begun in the area of offering the CMT Level 1 exam more than once a year. Although we are in the very early stages of this process, Ken Tower and his committee are in communication with several organizations about the development and delivery of a computerized exam that could be offered multiple times during the year. We are excited about this initiative and will keep you apprised of further developments.

We need additional volunteers to assist in curriculum development, question writing, exam grading and the review of CMT Level 3 research papers. If you are a Chartered Market Technician willing to assist in our efforts, please contact Les Williams, chairperson of the Accreditation Committee.

FROM THE LIBRARY COMMITTEE

As everyone knows, our entire library was destroyed on September 11, 2001 in the terrible terrorist attack on the World Trade Center. Though many of the books that were lost may never be replaced, we are determined to rebuild the library to be the outstanding source of literature on technical analysis. In that light, we have been befriended in many ways, both in contributions of books and money by our members, as well as support from the general fund. One gift, however, stands out.

One outside source has responded to our needs with the highest level of generosity and kindness. John Wiley & Sons, book publisher, is donating virtually every book in their technical analysis catalog. To date, approximately 130 books have arrived at the MTA office. Words cannot express our thanks to John Wiley & Sons for this act of generosity. We would like to thank all of the staff of John Wiley & Sons, and their Executive Director, Pamela van Giessen.

For those who would like to write notes of thanks may address them to:
Ms. Pamela van Giessen, Executive Editor, John Wiley & Sons, Inc., 605 Third Avenue, New York, NY 10158-0012, Phone: 212/850-6000, Fax: 212/850-6088.

This exciting effort was inconceivable ten years ago. Academic institutions are now developing serious interest in the study of technical analysis. As the academic world discards old financial models, it will look to new ones to replace them. The MTA stands ready to assist with instruction as well as theory.

If you have contacts in the academic world that might be interested in teaching a course on technical analysis, please contact Charlie. We also encourage MTA members to give guest lectures at local colleges and universities. This will spark interest in technical analysis as well as provide you an opportunity to discuss the markets with enthusiastic students.

From the Library Committee

As everyone knows, our entire library was destroyed on September 11, 2001 in the terrible terrorist attack on the World Trade Center. Though many of the books that were lost may never be replaced, we are determined to rebuild the library to be the outstanding source of literature on technical analysis. In that light, we have been befriended in many ways, both in contributions of books and money by our members, as well as support from the general fund. One gift, however, stands out.

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For those who would like to write notes of thanks may address them to:
Ms. Pamela van Giessen, Executive Editor, John Wiley & Sons, Inc., 605 Third Avenue, New York, NY 10158-0012, Phone: 212/850-6000, Fax: 212/850-6088.

Meet the Masters

Keynote Speaker: Alan R. Shaw, CMT, Salomon Smith Barney
John J. Murphy, CMT, MurphyMorris, Inc.
Linda Bradford Raschke, CTA, LBRGroup, Inc.
Henry O. Pruden, Ph.D., Golden Gate University
Kenneth G. Tower, CMT, CyberTrader, Inc.

Meet the Masters

Now On The Web

Market Technicians Association 27th Annual Seminar

UPDATE TECHNICAL ANALYSIS by The Masters

Listen to what the best minds in our profession have to say about these difficult and uncertain times.

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Book Review
Saleh Nasser, CMT

Stochastic Fantastic, Market Magic with Stochastics and Timing
by Mark Silber and Jake Bernstein

Stochastic Fantastic, Market Magic with Stochastics and Timing was published in 1991, yet I still consider it a valuable book to read for beginners and professionals. The book is easy to read, and the ideas are easy to digest. The authors have created a sound technique, which is (despite its simplicity) interesting and useful.

The book begins with an explanation of characteristics of bull and bear markets. However, I believe a more poignant discussion can be found in Edwards & Magee’s book, Technical Analysis of Stock Trends. After explaining how bull and bear markets emerge, the authors discuss some of the traditional reversal patterns like the H&S formation, broadening formations and so on.

In my opinion, the book becomes interesting in Chapter Three with the discussion of the stochastic indicator and its primary use as an overbought/oversold indicator. As Bernstein says, “we began with what we felt was one of the most reliable timing indicators and we redefined its application by combining it with four specific price signals which we feel improve the accuracy of the stochastics.”

The book outlines four price formations that must occur before taking any action: Inside Day Reversal, Day Price Divergence, V Tops and Bottoms. These formations are named IAS (Immediate Action Signals)

The trading technique is simply stated:

First: Wait when the %K is both over 75% and greater than %D, then watch for a crossover where the %K registers a lower reading than %D.

Second: Check the high made for the move (on the price chart) to determine if any of the four IAS signals are present. An IAS signal is only valid if present within no more than 5 days from the actual high.

Third: If both of the previous conditions are met, determine the lowest price made on the day of the %K-%D crossover and go short a tick under the low of that day. Stop loss will be placed above the extreme high of the move prior to the stochastic crossover. Obviously the same technique can be applied on the buy side from overbought levels. Taking profits is also simply stated: If you are short and %K rises above %D at the end of a completed bar, place a sell stop one tick below the lowest price of that bar (where the signal occurred). The book offers examples of this technique on daily charts, intraday and even weekly and monthly charts.

Stochastic Fantastic can be used by combining longer term with shorter term charts. For example, looking at the weekly chart to determine the long-term outlook and using the daily chart for an entry signal in the same direction.

This technique can be used as a confirmation of a cycle bottom or as a confirmation of seasonal charts. For example, wait for the bottom of the cycle and enter by the technique explained above. “Because seasonal moves are not 100% reliable, timing can help filter out those cases, which will be contrary to the usual seasonal tendencies.” The authors use their stochastic fanatic technique as a confirmation of an important seasonal rise or cycle bottom.

The book brings to light an important phenomenon, most of the price surges happen when the stochastic oscillator is in an overbought situation and vice versa. An overbought situation does not mean that the price will decline, on the contrary, it might lead to more upward surges. This aspect made them create the stochastic pop technique, which was later modified by Dave Steckler (an active affiliate of the MTA). The trading methodology of the stochastic pop is very simple:

When the %K or %D rise above 75% on a closing basis, go long and keep your long position until the two lines reverse their relationship. When the %K or %D fall below 25% on a closing basis, sell short and close when the two lines reverse their relationship.

Saleh Nasser, CMT is a member of the MTA and works for Commercial International Brokerage Company (CIBC Egypt) as a Chief Technical Analyst. CIBC is the number one brokerage house in Egypt.

Attention: CMT Candidates

Shelley Lebeck

CMT Exams (Level 1, 2 and 3) will be held on Friday April 26, 2002. Registration deadline for all levels: Registration form and fees must be received by the MTA office NO LATER THAN Friday, March 15, 2002.

CMT Level 2 and 3 Candidates

Your updated study information and registration forms were (finally) sent in the postal mail on Friday, December 14. Please be on the lookout for this information, and check to be sure you received the appropriate level (Level 2 or 3 as you need).

CMT Level 1 Candidates

For those who will be taking CMT 1 exam again in April 2002, a special registration form and updated study information was sent in the postal mail to you on Friday, December 14. For new CMT 1 candidates, the CMT brochure with registration form is on the MTA website — www.mta.org — in pdf format.

CMT Books

The MTA library is still being rebuilt, but we have purchased several copies of the CMT Level 1, 2 and 3 books required for study. Any member or affiliate in the US and Canada may borrow these books, although it is only a short-term loan (3-4 weeks).

Contact the MTA office: shelley@mta.org if you wish to borrow any of the books listed on the CMT reading lists.

Shelley Lebeck can be reached at the MTA office: shelley@mta.org

2002 Charles H. Dow Award

Creative market technicians are invited to submit their best papers of 2001 for the eighth annual Charles H. Dow Award for excellence in technical analysis. Editors and publishers of technical analysis are invited to nominate for the Award an outstanding work of technical analysis published in 2001. The Charles H. Dow Award, sponsored by Market Technicians Association, Inc. (MTA), Barron’s, and Dow Jones Newswires will be given to the work that breaks new ground or makes innovative use of established techniques in the spirit of pioneering market technician, Charles H. Dow. The Charles H. Dow Award is presented annually at the Market Technician Association’s Annual Seminar. The winning author will receive a personal Award, will be recognized and have the paper published in Barron’s, and be invited to discuss the paper at the Annual Seminar or at a monthly meeting of the MTA. The publication or a summary may be published in the MTA Journal, the MTA newsletter and/or the MTA website. Dow Jones Newswires will make copies of the paper available for distribution to the public through various media. A perpetual plaque including the author’s name with those of previous recipients of the Charles H. Dow Award will reside at the MTA office in New Jersey. At the discretion of the judges, the authors of runner-up papers will receive personal awards. No cash award will be given to any award winner or runner up.

The guidelines are available on the MTA Website or in the last issue of Technically Speaking.