An Interview with Larry Williams

Dan Fitzpatrick

Last month, I had the opportunity to chat with commodities trader Larry Williams. Larry is the originator of several technical analysis tools, including Williams %R, a widely used range indicator that is a variation on stochastics. We talked about his views on trading, technical analysis, and his approach to money management. I found him to be quite candid and open in his responses, and very unconventional in his methods (that is, relative to a pure market technician). Much of his approach is based on original ideas and methodology, although admittedly imperfect. I would describe him as a pure student of the market, with no particular allegiance to any discipline other than what makes money.

I hope that this interview serves as a starting point for interested MTA members and affiliates to expand on some of Larry’s theories and approaches. While this interview fleshes out some novel approaches to technical analysis, it leaves much room for more work and study. Simply put, there are no magic formulas in this article, no pretty charts, and certainly no hint of a Holy Grail. I welcome any and all feedback on the ideas expressed in this interview.

Q. Let’s start with the MTA. After all your work on technical analysis, why aren’t you a member of the MTA?

I’m not a believer in technical analysis because it really doesn’t work very well. Why would you want to brand yourself as a technician? Essentially, the technical books are a regurgitation of the past. They focus on price action, and price action represents where the market has been, but doesn’t tell much about where the market is going. Technical analysis does have value for short-term trading, and I use it for that. But prices don’t drive the markets, conditions drive the markets. So it’s more advantageous to look at conditions, rather than the math of the markets.

Q. What conditions do you look at?

I look at the overall stock market, interest rates, hog & bellies, production reports, weather, cycles, what the commercials are doing, what the funds are doing, and the Federal Reserve Board. These are things that cause markets to move. I’d rather focus on causation; not results. Price action is a result of a cause. Price does not create a price movement. “Causes” create price movement. So I want to be “causal” and look at the conditions that cause these things to happen. Then I’ll bring in the technical stuff.

Q. So after you have a handle on the underlying conditions, then you look at support, resistance, trend, and other technical indicators?

I never saw much use for support and resistance. I look at trend because trend is ultimately the basis of all profits. If I know anything about the markets, I know that you can have focus on conditions, technicals, and fundamentals; but trend is the basis from which we profit. So you must be in alignment with the trend. But that’s so basic, and there is no need to make it more complicated by getting all wrapped up in trend analysis. I want to be in phase with it. If the conditions are right for a bull market, I don’t have to buy it until I know that I see a trend change. You can measure that trend fundamentally, technically, or whatever. But I just need to see the trend.

Q. Sounds like you’re as much a fundamentalist as you are a technician.

Yeah, I think so. Fundamentals are my starting position, as opposed to starting as a technician. I want to start with the conditions, and then dabble in this alchemy of technical analysis.

Q. You originated the Williams %R indicator. I use Wilder’s Relative Strength Index (RSI) quite a bit. Lately I’ve seen that %R, on a 28-period setting, tends to forewarn of trend changes just as well or even better than RSI, but doesn’t give as many false signals at a faster setting.

Well, %R can have problems at times. But it’s the largest followed technical indicator in the world. Here’s why. When they started trading stocks in China about 11 years ago, they chose %R as the index that accompanies every stock in the newspaper every day. So every stock has Williams %R readings in China, and there are more traders in China than there are in America. So %R has the largest following in the world – just because it’s so widely followed in China. I didn’t realize that until I visited China last year. I went to a book signing there, and there were 450 people. In the US, I’m lucky to get 3 people at a book signing, and that only happens if I bring my two kids.

It’s a good indicator, but you have to put it in phase with the trend, with conditions. It’s an indicator that really came from stochastics. Ralph Dyson, not George Lane, developed Stochastics. George worked for Dyson. But then Allen C. Davis created something he called ACD, which was similar to %R. In 1966, I was dabbling with it – looking at percent of range, and that’s where it came from. It has been valid over all these years, but you need to put it in phase with the trend.

Q. How do you feel it’s working in this choppy market?

Very well. It works better because you know you’re in a sideways and getting both ends of the range. In an up market, you’re only buying the lows. You know you’re not going to sell the highs because the trend is up. So you only get to work one side. But in a flat market, you get more tradeable signals.

Q. How does volume come into the equation?

When I was a kid I looked at volume. In 1970, I spent a year doing nothing but research volume. At the end of the time period, I knew nothing. I could not prove anything. Either I wasn’t smart enough, or I didn’t know enough. But my conclusion was, especially in commodities—and to a certain extent in stocks—volume is misleading. For example, let’s say bellies are up limit. No volume. That’s most bullish thing that can happen, but only two contracts trade. So that would register no volume for the day. Or you could have a stock that’s down 1/8th or 1/4 point for the day on HUGE volume because one fund swaps with another fund. So that’s not really volume. It’s not real buying or selling pressure. In commodities—especially in the gold market—there is a lot of arbitration, a lot of tactical maneuvers being done, one crop versus another crop. That’s not real buying and selling as we think of it in standard economic terms. So I

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**Editor’s Notes**

I want to thank Ralph Acampora and Tony Dwyer for having the trust and confidence in me to appoint me as the new editor of *Technically Speaking*. I will do my best not to let you down! I am a market analyst and trader for Capstone Investments, a broker dealer serving the hedge fund community. I have the opportunity to interact with many talented money managers and I can tell you this: They all use technical analysis to varying degrees. The MTA should be seen as the “last word” in the field of technical analysis, and *Technically Speaking* is our mouthpiece. Let’s turn up the volume!

To all members and affiliates of the MTA, I need your help to fulfill my “vision” for *Technically Speaking*.

First, I envision each edition as a source of new ideas for the field of technical analysis. For example, this edition contains an interview I did recently had with Larry Williams, who firmly claims that he is NOT a technical analyst. Nevertheless, many of the ideas expressed in the interview are, in fact, technical tools. So I care less about form, and more about function. If you have a particular methodology that works, let’s chat about it in this forum. I hope that the articles in each newsletter will generate feedback and comments that can be posted in the following month’s newsletter. Let’s make the MTA interactive.

Second, I see this newsletter as a source of news from various parts around the globe. If something is happening in your area – whether it’s an upcoming seminar or event, job opening, study group or organization, etc. – let’s post it in the newsletter. Remember, it is a newsletter, so let me know about it.

Finally, I need some assistant editors to help me coordinate the contents for future newsletters, including reporting on regional events, soliciting articles and interviews from market technicians in your area, writing book reviews, and just about anything else you can think of that will make *Technically Speaking* the excellent publication that it should be. If you’ve got a burning desire to be more than a bench warmer, contact me and let’s get you out on the playing field.

Please give me your feedback and ideas. The MTA is a community of market technicians throughout the world, and *Technically Speaking* is the conduit for ideas. Let’s keep the ideas flowing.

Dan Fitzpatrick
*Technically Speaking Editor*

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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 being rebuilt.

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**President’s Letter**

This is the first opportunity I have had to comment on the MTA Annual Seminar held in Jupiter, Florida this past May. To begin, I want to publicly thank everyone who contributed so much of their time and effort to making this event one of the most memorable seminars in years. I want to also single out Herb Labbie, this year’s MTA Seminar Chairperson, for insisting upon the theme; “Updated Technical Analysis by the Masters.” His line up of great speakers was a stroke of marketing genius; everyone enjoyed the presentations and oh, by the way, the hotel/location was also a big hit with our attendees.

Now that I am entering my second term in office, I want to congratulate everyone who was intimately involved in the creation of the new MTA web site. By now, all of our members and affiliates have received post cards from the MTA encouraging them to “Register Now” in order to receive your password for the revised website, update your personal data on record and pay your MTA dues online. This new procedure will immediately free up Shelley Lebeck’s time; she will now be able to dedicate more of her efforts on helping each of the various committee chairpersons. This is one of the many benefits of modernizing the MTA. And there are many more benefits to come for all of us, as a result.

By the time you read this, we will already have had a special two part meeting in New York City with a professional educational testing company and a management expert. We are investigating the possibility of outsourcing a portion(s) of the administration of the CMT examinations. Maybe, like the Series 7 exams, we will be able to computerize the actual testing process. At the second meeting a prominent Wall Street management expert will offer us his insights into reshaping the MTA for the future – his observations and comments will help us to better market ourselves and the subject of technical analysis; we need to run the MTA as a business rather than simply volunteer organization.

Ralph J. Acampora, CMT
*MTA President*

P.S. Welcome to our new *Technically Speaking* editor, Dan Fitzpatrick
have substituted the range—true range—in lieu of volume. Large volume should create large range. So if bellies are up limit, even though it’s just one tick on the chart, I’ve used the true range (from yesterday’s low to today’s high) to pick up the activity. I know that, even though there might have been only 2 contracts traded, there was large activity in the market. So I like the word “activity” versus “volume.” Price range shows a change in character the quickest, not volume.

Q. So when you’re assessing a change in the character or volatility of a commodity, you just look at yesterday?

Well, yesterday, or maybe the last three days. But you don’t have to go back 80 days. You just want to see that an impulse is coming into the market.

Q. How about with stocks?

Same thing. Stocks are probably more volatile than hogs, coffee and even oats today. Stocks can go down 20% in a day. Let’s say the market gaps up or down. Taking into consideration the full range (yesterday’s low/high vs. today’s high/low), you’re picking up the activity with the range. You may gap on light volume, but it’s still a 20% decline of the stock. Again, volume would be misleading. So I really like to measure on the range of the day, and the subset of that in terms of your interest of technical analysis.

In 1965, I was working with some guys in Monterey, California. We came to the conclusion that the change from the opening today to the close today is the big deal in the market. And that’s still very true today. It isn’t so much the difference between where the Market closed yesterday versus where it closed today. Rather, once the market opened, what happened? It’s not so much that the Market closed down huge today. Maybe the Market opened down big, and only moved 2 ticks the whole day. It’s the movement from the OPENING that matters to the short-term trader. That’s the important information that’s by-and-large neglected by the public.

Q. What about the adage that the public opens the market and the professionals close the market?

The public opens the market based on the news they hear between yesterday’s close and today’s open. Then the professionals come in and move from the opening to the close. So the change from the opening to the close is what matters. I actually constructed an index that measures the opening to the close change. I call that Professional Accumulation. I published that in my first book in 1969. It does a good job of detecting what the professionals are doing. It’s along the line of On Balance Volume, which Joe Granville popularized. Back around 1947, OBV was started by Woods and Vignoli. There was a great book written about it, and then Joe [Granville] made it a real popular thing, but it was still using volume. And it did not reference opening prices. Then Dave Bostian started looking at open and close relationships; and close versus the midpoint relationships. And then I worked with the opening to close; I eliminated volume and used range instead. So that’s the evolution of what’s happened in that branch of accumulation/distribution.

Q. So you’re using your Professional Accumulation indicator to differentiate between public and professional buying and selling?

Yes. But using price range rather than volume. It uses two lines — a red line for what the public is doing, and a green line for what professionals are doing. When the public is doing more buying than the professionals, price invariably comes down. When the professionals are doing more buying, the market goes up. So you want to be a buyer when the professionals get control of the market and it rallies.

Q. Is it too simplistic to use it as a crossover method?

Yes. I look at it for divergences. For example, when the stock starts making higher highs, and the public decides they really want to be buyers, the red line (public) is making new highs, but the green line (professionals) is NOT making new highs. That’s a great sell signal. Or when the stock makes new lows but the professional buying starts to exceed the public, then I want to be a buyer there. So I’m looking for these divergences.

Q. Let’s shift gears. Is this Market difficult for even a short-term trader like you?

(Laughing). It is absolute proof that God exists. If anybody ever wanted to be an atheist they should trade the markets because randomness alone couldn’t make such a difficult game. It’s got to be Godly inspired to screw up men’s minds as much as it does. Mere random events could not make this so hard.

Q. Well, that’s exactly why I love it so much.

Sure. It is certainly the greatest intellectual challenge there is. I’ve met a lot of mathematicians who think they can beat the market. But in my view, they can’t. The markets have so much randomness in them; and math cannot control or tell us much about random activities. While math can be helpful, it can’t beat the market. That’s the lesson of Long Term Capital Management. Most people think the best book on the stock market is Reminiscences of a Stock Market Operator. But the best book I’ve ever read is The Zurich Axioms, by Max Gunter. There is no better book. It talks about the “chartist’s illusion,” and how we use charts to predict things.

When Bruce Babcock had the Commodity Trader’s Consumer Reports, the number 1, 2 and 3 commodity letters were never the real technician letters. Not the Elliott guys or cycle guys. They were the trend followers — the newsletters with different systems for following the trend were the most popular letters.

Q. You said that you really don’t place much credence in “time” cycles. When I was working with John Bollinger, if I learned one thing from him, it was that volatility was cyclical, but the cyclical was not tied to time cycles.

When I was learning this stuff in the 60’s, I got involved with something called the Foundation for the Study of Cycles. They were chasing cycles, and it was like trying to pin the tail on a moving donkey while you’re wearing a blindfold. You look at 18-day cycles, 30-day cycles, etc. They’re there, but they phase in and out all the time. On a chart, time is on the horizontal axis. But we make money on the vertical axis (price). We don’t make money in terms of time. So that is where John is really on. You must have this price expansion. It’s like we see this explosion in the market, and the trend continues in the direction of that thrust. Then you get an equal or opposite thrust in the other direction, and the trend continues that way until you get another thrust. It’s these price explosions that seem to cause the trend.

Q. John Bollinger has done a lot of work on “Bollinger Band squeezes,” which essentially forecast an increase in volatility. One little known aspect of Bollinger Bands is that, after an explosion in volatility where the bands move away from each other on a dramatic increase in volatility, the band that is moving in the opposite direction of price is a very accurate indicator of when the volatility expansion is over. When that opposite band hooks back toward the price, that’s the first signal that the move is over. It doesn’t necessarily signal an impending reversal, but it does indicate that the volatility expansion is at an end.

Yes. Those are the waves that maybe Elliott was messing around with — large volatility followed by small volatility, followed by large volatility, etc.

Q. Well, Elliott’s work never made a lot of sense to me because every new price movement seems to prompt this revisionist tendency to go back and alter the wave count. I just never figured out a way to make money on that.

Monday morning quarterbacking. (Laughing) I can figure out the past without Elliott.

Q. I interpret price action on charts in a framework of “market psychology.” For example, I see a triangle pattern with higher lows as an indication that buyers are becoming increasingly anxious. At some point, there isn’t enough stock available at their preferred buying levels, but their desire for the stock overcomes patience.
That’s when the breakout occurs. Does that view agree with your approach to the market?

Yes. The market is very emotionally driven. Large ranges attract people. For example, let’s say that Safeway runs an ad for artichokes, 5 for a dollar. Everyone runs in and buys the inexpensive artichokes, and they buy a bunch of other high priced stuff while they’re there. Volatility expansions attract the public – because of the big momentum. Everybody gets in, but everybody can’t be right. So you go from that cyclical point. The way I attempt to measure that is through sentiment readings. My sentiment indicator measures the number of advisory firms that are bullish or bearish on a stock or commodity. It’s a great contrarian indicator because advisory services are trend-oriented. If they write a letter that advises buying something in a downtrend, nobody will buy it because it’s not moving up.

But I like to find a stock or commodity that’s in a downtrend, and if the advisors get bullish on it, then I’ll write calls on that because I know it’s not going up.

Q. Wait, it’s in a downtrend, and advisors become bullish on it, then you’ll sell calls? So you’re assuming that, if advisors are bullish on a stock, but it’s not moving higher, then lots of public money has already been committed but they’re shooting blanks. Not even public participation can change the downtrend?

Exactly. Let’s look at Enron. At one point, 86% of the advisors were bullish, but it wasn’t going up. At another point, 81% were bullish, but the stock is still in a downtrend. You can write calls or sell short, depending on your strategy. But I really look at sentiment as a fundamental consideration – where there are no more buyers. You said it so well, there are no bullets left in the gun. Everybody’s already been told to buy. Tom DeMark made this point: Markets don’t top because sellers come in. They stop because there are no buyers.

Q. Have you developed any scan criteria for trade setups?

Not really. For commodities, I look at what the commercials and the large traders are doing. The commercials are always right; the large traders are just wrong as rain. They have a horrible record. So I want to know what the big money is doing, how seasonal influences are impacting the market, what value is looking like.

Regarding “value,” here’s how it works. To my knowledge, what people have looked at in terms of value is low price. If beans are lower now than they were 10 years ago, then they must be a buy! That’s basically “value.” What I do is look at the spread between, say, beans and gold. Because there seems to be a relationship between natural resource commodities and the price of gold. When I was a kid, an ounce of gold would buy a man’s suit. Today, an ounce of gold will still buy a man’s suit. Gold is $300+ an ounce now, but it still buys just one suit. So things are “relative” to gold. I use a “Valuation Index” that looks at the spread between gold and a natural resource commodity. And it’s really uncanny how a market can get overvalued relative to gold. It may even be in a downtrend, but relative to gold, it’s overvalued and it drops even further. So there would be combination of a fundamental concept with a technical application.

Currencies in particular relate to gold. That relationship is very important.

Q. Do you think gold is topped out?

The commercials are heavy sellers right now. The commercials are usually right. Let’s look at cocoa, along with the Valuation Index. Even though cocoa has been trending down for the past year, it’s still the most overvalued relative to gold that it’s been. An oscillator won’t show that. It can’t.

Q. When the Valuation Index oscillates back and forth, do you look at divergences for indications of future price action?

I just use the Valuation Index as a fundamental setup. For example, I might see a market that doesn’t look like it’s oversold. But relative to gold, it’s way undervalued relative to gold. So I detect the oversold condition that way. Oscillators don’t do that. So that’s the way I look at the market. But my methods have a lot of errors in them. They’re terribly imperfect. But I want to look at those fundamental relationships as opposed to an oscillator or price.

Q. Speaking of imperfect. Let’s talk about money management techniques and stop losses.

As a short-term trader, my length of the S&P is about 2 days. I buy or sell, place a dollar (price) stop, and try to get out with some type of an exit rule. I gave up on thinking that these markets have critical support and resistance points. And it really doesn’t matter because I’m not protecting a piece of paper with a chart on it. I’m protecting the equity in my account. So I can’t lose too much in any one trade. I’d rather have a dollar stop so I know how much I’ll lose. There’s no guessing to it. And I don’t second-guess myself. I’m protecting dollars in my account.

Q. But you still need discipline about picking your entry points.

Yes. I enter if something tells me to enter, but I place my stop at the same time. Some times I’ll get stopped out. But the most important thing is that I always use stops on every single trade. They’re automatically there, and they’re based on a dollar amount. Because you can’t let that large loss get away from you. People call it “draw down,” “percentage of accuracy,” all I know is that it’s the largest losing trade that kills you.

In 1987, I won the Robbin’s World Cup by taking $10,000 to $2.2 million in 10 months; then I had one large losing trade and it brought the account back down to $700,000. We didn’t have a clue of “largest losing trade”—that wasn’t in our formula. Then I traded the $700,00 back to $1.1 million back to the crash of 1987 and then stopped trading because the contest was over. But what we learned was that it’s the largest losing trade that causes the draw down. That’s why this is so hard! All you have to do is mess up one time. One large loss is all it takes and you’re out of the business. And I have seen people do that with retirement money. They just “believe” and they hang on to it. They buy some stock at $100/share, and they still hold it at $6/ share and they’re waiting for it to come back. And it’s just not gonna happen. And it was just one decision that caused that huge loss. You might have 99% accuracy – just a perfect record. But it is that one trade that kills you.

It all begins with money management. The keys to the kingdom in this business are not technical analysis, not fundamental analysis, not inside information. It is just nothing other than money management. I get a lot of phone calls from people who are losing money. They’re all overtrading. They have so many contracts on; so many markets they’re following. Or they have too much money at risk. They are way overexposed. Everybody that’s blown up did it because they over-margined themselves. I’ve done it. It took me a long time to figure it out. Whenever you want to plunge, you’re going to be wrong. Whenever you think, “I’ve GOT it,” that’s when you’re going to be wrong.

Q. I’ve seen so many picture-perfect setups that didn’t work out. It took me a while to learn that, if the picture is that clear, I’m probably not the only one – or the first one – to see it.

And a lot of the setups might work out. But here’s the “William’s Rule of Mathematics”: Given a scenario where it’s 90% favorable to you, as a market trader, to win on the next trade – maybe it’s because it’s a pattern or something else – the odds are actually just 50% in your favor. You’re only going to win half the time. I know that flies in the face of traditional math; but that’s the way it happens in the real world.

Q. John Bollinger recently gave a lecture that included Chandelier Stops, a trailing stop methodology where the exit stop is placed at a multiple of average true ranges from the highest high or highest close since the entry of the trade. He mentioned that Van K. Tharp had run a study that demonstrated the power of Chandelier Stops as a money management technique. If I recall correctly, Tharp concluded that even random entries would result in consistent profits if Chan-
Book Review

Ken Whitmore, MBA Student at Rutgers

**FOOLED BY RANDOMNESS**
by Nassim Nicholas Taleb

Taleb writes in a confounding style, but if one can get beyond that, *Fooled by Randomness* is an enlightening read. His circular references and hints of what is to come in following chapters made me want to skip ahead to see to what he was referring (i.e. the black swan). Additionally, I found his need to make frequent obscure references to historical figures and his disdain for MBAs to be arrogant. Taleb believes in (and delights in) the fact that most traders ignore the inherent randomness of events in the markets. He cites various examples of traders, like Carlos, the emerging market debt trader or John, the high yield trader, who thought they were infallible but in the end were undone by randomness.

Taleb’s trading philosophy is centered on the philosophy of “skewed bets.” These are rare events that do not tend to occur frequently but pay off huge when they do occur. He invests in these trades because he believes that these events are not fairly valued. He asserts that “frequencies” do not matter and claims that the stock market crash of 1987 made him as a trader. He counts himself as a “crisis hunter”; a trader that loses small amounts of money frequently but makes large sums of money infrequently.

Monte Carlo simulators are used to generate numerous random sample paths and the results of the simulations can help to determine the likelihood of real life events occurring. Taleb claims to be able to use the Monte Carlo simulators to emulate any probabilistic event that may occur. Taleb can manufacture situations that rely on pure, unadulterated luck. Skill is not an issue in these constructed scenarios.

Taleb brings up the “problem of stationarity” which questions the knowledge derived through statistics. If past history is used as the basis for predicting the future, and market variables are continually changing (which they do), then what good is basing expected results on obsolete data? This is a very intriguing point. If the environment and the very rules of the markets have changed, how can one use past events to predict future events?

Taleb has immense scorn for mass media journalism, such as CNBC television and the *Wall Street Journal*. He claims that he has not watched television with the volume up in ten years and that this has helped him to eliminate market “noise” that is the undoing of many a trader. I agree with him on this point. The popular analyst of the day may have an undue effect on the market and the analysis done to substantiate the point of view may not be credible enough to have such an effect. This should present a profit opportunity for the astute trader.

He views George Soros and Victor Niedermohr as traders who “get it.” Taleb feels that one of the reasons Soros is great is because he does not marry his trades and is willing to change his mind on a trading decision in an instant. Nor does Soros “marry” his traders. Taleb quotes Soros as telling his traders that half of them would probably not be in his employ at the end of the year.

I found his discussion on nonlinearities to be interesting. Specifically, the nonlinear effect resulting from a very small additional input causing a disproportionate effect. He used the example of building a tower of sand. Once it reaches a certain height, one more single grain of sand placed on the top will cause the entire structure to collapse. Taleb believes there are two possibilities when raising cash for a fund. Either one “succeeds wildly and attracts all the cash” or else one does not receive a cent.

Survivorship bias is another substantial topic of this book. Such a bias can be seen when one uses the wrong distribution to derive a rank. Taleb used the example of a successful New York lawyer living on Park Avenue whose wife felt like her husband was a failure in comparison to their neighbors. If they moved to a middle class neighborhood in the suburbs, her viewpoint would no doubt be different. Those who have “failed,” i.e. not made it to a co-op on Park Ave. do not show up in the statistical sample at all.

Taleb also discounts the process of “data snooping.” He defines this as fitting the rule on the data. He insists that a random series will always present some discernible pattern. If one tries long enough, no doubt one will find a rule that worked on past data. It seems that this is his way of bashing trading systems that use “black boxes” to generate trading signals. Taleb does not seem to believe that it is possible to trade on past events and the likelihood of them repeating themselves. I do not think he is a proponent of technical analysis.

Taleb is only concerned with market moves that exceed their usual daily percentage move. He considers anything less than that to be random noise. Additionally, a two per cent move is not twice as significant as a move of one per cent. It is more like four times as significant. I did appreciate the fact that Taleb admits, “I consider myself as prone to foolishness as anyone I know.” Taleb claims that what makes him different from so many other traders is the fact that he readily acknowledges it. He has known a few traders in my short career guilty of this. Some of them are no longer trading.

I found this book to be an insightful read despite my criticisms. I just don’t think I’d enjoy having dinner with Mr. Taleb.
MTA member Michael McDonald has recently published a book called Predict Market Swings Through Technical Analysis. A copy will soon be in the MTA library.

How do professionals on Wall Street earn a living each year by predicting stock prices when efficient market theory claims that stock prices are essentially random and unpredictable? The answer is simple – by using techniques that allow for a stock market that can at times become predictable.

In Predict Market Swings with Technical Analysis, Wall Street financial consultant and market analyst Michael McDonald shows you how to navigate the turbulent ups and downs of the market and come out with significant profits. This comprehensive trading guide will teach you how to trade the swings of the market by gaining a clear and accurate picture of it.

Predict Market Swings with Technical Analysis contains:
- A trading model that is more accurate than the efficient market model and is closer to the ideas most traders have of the market
- Proven indicators – such as contrary opinion – that will allow you to find the beginning and end of major swings
- New discoveries in chaos theory that help explain the fractal nature of stock price charts
- Four investing paradoxes that will help you make smarter investment decisions
- A broad outline of the possible pattern the market will make during its projected sideways run and a presentation of McDonald’s studies on strategies for sideways markets in anticipation of this period

With an innovative approach to trading the stock market, Predict Market Swings with Technical Analysis gives you the knowledge, insight, and confidence to predict market swings and trade for maximum profits. ts

**Book Review**

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**PREDICT MARKET SWINGS THROUGH TECHNICAL ANALYSIS**
by Michael McDonald

Like many of our fellow members of the Market Technicians Association who have written, you can immediately get a feel for the integrity and soul of the author. Leigh’s book is no different. I have never met Leigh Stevens but in reading his book I not only understood the basic topics of technical analysis he is presenting but also a little insight as to how this technician and others have used the discipline.

The author has spent as much time as a columnist as a practicing technician. That experience comes through in this book. The book is well organized as you would expect from a professional writer. In each chapter topic there is an introduction to the material, the presentation and then a summary.

As with most books on general technical analysis that have been written, this book explains the necessary information for a beginning technician. What is a price pattern, what is a moving average, and yes there was really a Charles Dow. His detailing may not be enough raw meat for the stay-up-all night night addict calculating wave counts to the 1985 CME butter contract but his detail is sufficient for almost everyone else.

The author writes in an easy read diary-like manner. He puts a face on different technical techniques and some of the more proficient users of those said techniques. His real life experiences with traders like Mark Weinstein or anecdotes about Jessie Livermore are used not, that I felt, for acceptance but true admiration. He uses those stories to present his feelings towards technical analysis and give real life examples of our craft.

The book goes into some detail and history of the Dow Theory. At first I thought there was an overweighing of this topic but remembering that this is a tutorial it made sense.

The Dow Theory contains so much of the foundation in our thinking and communicating on technical analysis. Clarity and accuracy of terminology are paramount to understand before we started drawing Xs and Os like Vince Lombardi during halftime of a title game. As a skilled writer the author understands the need to understand the proper use of our language. Remembering the audience I liked this section.

The author uses several chapters to explain chart patterns. He goes through the first steps of explaining what a basic price bar is and moves to point and figure and scaling of a chart. There is a summary of candlestick charting where the author bows gratefully to Steve Nison’s work in popularizing the technique.

As the chapters continue to move along so does the instructions and history of developing a chart analysis. He does a nice job in condensing this vast subject with enough material for most readers.

The book moves along logically to the description of indicators and their developers. Most of the indicators that are used today and calculated by the popular software and Bloomberg machines are present in some detail or another here. Leigh is very observant to give the developer of the technique due credit.

I am not sure if technicians like Gerald Appel (MACD), Wells Wilder (RSI), or Joe Granville (OBV) are on Leigh’s royalty list but, it’s nice to see that appropriate credit is given to the folks that developed the indicator, something so often overlooked by authors and the media. The only technicians I know that have had the foresight to escape that trap were John Bollinger and Dick Arms, also mentioned in this chapter.

Touching on the esoteric approaches of Gann and Elliott Wave, the book again gives a “little taste of sugar” while providing references for more in-depth material and practitioners like Robert Pretchter.

The author indulges himself in the final chapter by taking the reader through a journey of real life trading examples, using subjects from the previous chapters. I do not believe the reader will be mesmerized into thinking that the techniques are full-proof. There are enough warnings that what the indicator suggests may not occur. A lesson that would make the cost of this book irrelevant compared to that lesson that we have all had to learn sometime.

**Essential Technical Analysis, Tools and Techniques to Spot Market Trends**
by Leigh Stevens

The book can be purchased for $28 from Amazon.com or from the author’s website www.essentialtechnicalanalysis.com. I don’t know what it would cost in Euroland but unless your hedged, it might even cost a little less than when it was originally published. ts

**Pat Cifaldi, CMT, 847/548-8118, mcifaldi@mindspring.com**
New Technical Analysis
Focus at Barron’s

Hope everyone is keeping cool this summer. Here at Barron’s we are moving right along covering what others may steer clear of – informing our readers of important market trends and continuing to look forward. But we are not the only ones looking ahead!

The members of the MTA also watch the markets and chart trends. In an effort to work together again and provide our readers with the best of market diagnosticians, Barron’s offers: the Market Technicians Forum.

This special advertising section will appear in August (when all are going “back to business” and preparing for 4Q) and November (when the investing public is looking for guideposts for the year). Barron’s is offering (house ads and special distributions of the August and November issues looking ahead!

I am hoping that we can develop an on-going relationship where all win: Barron’s benefits from your help in endorsing these sections (on the website; in regular mailings) and the MTA benefits from Barron’s participation in promoting (house ads and special distributions of the paper) and printing the MTA Charles H. Dow Award in our pages.

The goal is to schedule 4 bannered sections:

- February: Market Technicians Forum
- May: Charles H. Dow Award & Special Advertising Section
- August: Market Technicians Forum
- November: Market Technicians Forum

A 10% discount will be offered to those advertisers who commit to the August and November sections and appeared in the May section.

A pdf page of ad sizes and rates is available on the MTA website: www.mta.org. For more information, contact Ellen McTighe, Barron’s, 212/597-5913, ellen.mctighe@dowjones.com

A Milestone for Technical Analysis
Bob Prechter, CMT

Merrill Lynch’s latest decision – if it actually comes to pass – will prove to be a historic milestone for technical analysis, perhaps the most important ever. Here is how Bloomberg made the announcement:

“Merrill Lynch & Co. became the first Wall Street firm to say it’s paying analysts based on the accuracy of their forecasts. Merrill said investment bankers won’t influence how researchers are paid. Instead, compensation will be evaluated based on the accuracy of their recommendations. The new compensation plan will be effective immediately.”

The myth of the value of corporate earnings estimates will henceforth die a deserved death. Stock trends lead earnings, usually by a larger time than earnings estimators can see ahead. All the other nonsense used to justify stock recommendations from brokerage firms will disappear as well. Why? Because the only way that most analysts will be able to maintain a good track record and generate income will be to use technical analysis. There will still be a place for fundamental analysts who can scout out new companies, but predicting the trends of most stocks – institutionally owned stocks in particular – will require knowing something about how stocks, groups and sectors behave.

An advantage will accrue to those analysts who also successfully derive an overall market opinion. Fundamental analysis is no good for any of these tasks. This is not to say that all technicians will earn salaries and bonuses in such employment, because only the best will succeed. However, we may rest assured that the purveyors of windy discussions of past and expected corporate activity will be scattered to the wind. The only way that such commentary will survive is if technical analysts feel they are necessary to reach the minds of customers, who tend to believe in that stuff.

If you want to be among the new analytical elite, contact your favorite firm and stake your claim now. Bob Prechter, CMT, Elliott Wave International, rprechter@elliottwave.com

The ‘New’ MTA Website
Tom MacMahon & Shelley Lebeck

Well, after months of hard work, it’s here — the all-new Market Technicians Association website at www.mta.org. If you haven’t already visited the ‘new’ site, please do so soon. All current members and affiliates need to register on the site so you will be ‘linked’ into the website database from the old one. Then you can begin to enjoy the many benefits of the new site, one of which is your own personal home page where information is available only to members and affiliates.

Once you are registered (go first to member/affiliate login button) you will receive a username and password which you should print out and keep handy. However, you needn’t worry about remembering the strange password that is randomly assigned to you. As long as you log in at the same computer on which you registered, you will automatically go to your own personal home page. You will only need to use your username and password when you are trying to log in from a computer different from the one on which you originally registered.

At your personal home page, you can catch up on the latest MTA member and affiliate news, as well as:

- pay your dues and other charges online
- look at a host of past newsletters
- order our CD of all past MTA Journals
- watch archived presentations from New York meetings (eventually this will expand to regional meetings as well)
- look up items in the Body of Knowledge section
- apply for internship activities
- learn about the Chartered Market Technician (CMT) Program
- get in direct touch with members of the Board
- find out more about the various MTA committees
- find out more about regional meetings across the country
- and, contact us here in Woodbridge.

Personal home page content will evolve and improve as time goes by. Suggestions for content are welcome at tom@mta.org. These first few weeks of the website transition [which took place around July 1] are being spent on the administrative side of the website, making sure all members and affiliates get registered into the site, update their personal contact information and pay annual dues.

All of these benefits and much more will be yours to enjoy once you are registered, so don’t wait, JUST DO IT!
The postcard was yellow, hard to miss. But just in case you didn’t see it or receive it, follow the instructions now and register yourself on the revised website TODAY!!

As of this writing, about 1/3 of the current MTA members and affiliates have registered on the website, and many more will do so before this newsletter reaches everyone. We need ALL current members and affiliates to be registered in the website database so that we can properly use the information in the future. For example:

1. selecting which people choose to receive mailings via postal mail vs. e-mail announcements; 2. e-mailing regional groups about meetings or CMT candidates about registration; 3. having a complete online directory, etc.

Announcements from MTA to members and affiliates will be posted on the personal home pages, so registering on the site is the only way to keep up to date.

For those of you who HAVE registered, or will shortly, you will notice at the top of your personal home page LOGIN EXPIRES: (DATE). When we made the transition, everyone was given until July 31, 2002 to register on the website. As your dues are paid, this date will change to July 31, 2003.

Then you will see DUES PAID THRU: (DATE). Everyone started out with dues paid through June 30, 2002. In past years, annual dues notices were mailed out around July 1. This year we are not sending a mass mailing but asking people to pay dues online through the website. (Non-computer people and people who prefer using a check do have options, not to worry.) As your dues are paid, this date automatically changes to June 30, 2003.

MTA Annual Dues

MTA Annual Dues payment time ($200 US) is here again, for the period July 1, 2002 through June 30, 2003. DEADLINE: July 31, 2002.

In years gone by, MTA has mailed out dues notices around July 1. This year we are NOT mailing anything out – most members and affiliates will pay dues online. By paying online, you can then generate a receipt immediately, as well as get another copy any time you need it. Also by paying dues online, you automatically must “sign off” on the REQUIRED professional conduct statement, which means you do not have to send it back unless you answer YES to one of the questions.

For those who will not be paying dues online for whatever reason (i.e. no computer, hate computers, prefer to use check), we can still mail you a dues notice and conduct statement, and later a receipt. Please contact the MTA office (shelley@mta.org) if this is the case. Deadline for dues payments is July 31 for everyone, regardless of how you choose to pay.

This July/August issue of the newsletter will be the last one you receive (postal or e-mail) if dues aren’t paid, so don’t let that happen — PAY DUES NOW!!!

Address Corrections Requested

WHEN YOU REGISTER on the MTA website for the first time, please check your personal record and make sure everything is current [View Personal Record, then Update Personal Record].

We have noticed a large number of people registered on the website with a different e-mail than the one we had on file – this means that the MTA was not notified of the change. One of the features and one of the many reasons for putting this new website database into place is to give members and affiliates the ability but also the responsibility to make sure ALL contact information is up to date, rather than contacting the MTA office to make the changes. This applies to office and/or home addresses as well as phones, faxes and e-mails.

Regardless of which address you use for the directory search or for postal mailings, it is very much appreciated if you update ANY changes to your record so that when MTA admin looks at the record we know everything is as current as possible. Thank you.

Update of the MTA Library

Ever since the total loss of the MTA Library in the World Trade Center disaster, Library Chairman Dan Chesler and others have been doggedly searching high and low for replacement books, as well as new titles. Dan has contacted dozens of publishers and technical analysts asking for whatever help they could provide us in our hour of need. The response has been incredible.

To date over 800 books have been donated by many generous patrons as well as publishers. However this number represents about 60% of our original library, so much remains to be done before we are back to our pre-Sept. 11 position. Despite the yeoman efforts of Dan and his associates, the job is not yet finished. Please get in touch with Dan Chesler at chesler@bellsouth.net to let him know what contributions you can make to completing our new MTA Library at Woodbridge, NJ. Dan has a list of books that have not yet been replaced and can share those titles with you.

The library is one of our main summer projects, so we plan to have the entire new listing online by the autumn with online borrowing privileges – updates will be posted on the MTA website (www.mta.org).

Along with the new additions, let’s not forget the over 3,000 volumes of books and bound papers in the Foundation for the Study of Cycles Library. This library, combined with the MTA library, will become probably the largest technical/cycles collection in the world. Long term, there are plans of Foundation for the Study of Cycles papers and other materials to catalog and make available to members and affiliates.

If by chance you happen to still have books (or audiotapes) that were taken out from the old
Many Thanks to these People Who Generously Donated Replacement Books to Help Rebuild the MTA Library

Andrew Clark  
Art Merrill  
Bruce Kamich  
Carl Bassetti  
Cay Lee  
Charles Bassetti  
Chris Carolan  
Dan Chesler  
Don Jones  
Doug Ramsey  
Duke Jones  
Ed Dobson  
Fred Schutzman  
Garry Rissman  
Gene Steele  
Greg Nie  
Harold Colantuono  
Harry Laubscher  
Harry McCue  
Henry Weingarten  
Jerry Passman  
Jim Bohan  
Jim C. Otar  
Joe DiNapoli  
John Bollinger  
Julie Dahlquist  
Karen M. Guerra  
Kim Doran  
Lance Stonestycypher  
Leigh Stevens  
Lynn Slater  
Phil Erlanger  
Martin Pring  
Matt Pastsi  
Merrie Wise  
Michael Burke  
Michael Moody  
Newton Zinder  
Peter Brandt  
Price Headley  
Ralph Acampora  
Bill Doane  
Roger Bennett  
Russell Sadler  
S. Gelardi  
Sandy Goddard  
Sandy Thomas  
Scott Carney  
Seth Alpert  
Sheri Ritchie  
Steve Leuthold  
Tim Hayes  
Toni Turner  
Phil Roth  
CRC Press LLC

Fitzroy Dearborn Publishing  
Prentice Hall  
Borders Groups, Inc.  
Lambert-Gann Publishing  
Coast Investment  
Elliot Wave International  
Fraser Management Services  
Harcourt Inc.  
Bloomberg  
M. Gordon Publishing  
Invisa Capital Management  
John Wiley & Sons  
Windsor Books  
California Princeton F.S  
McGraw-Hill Companies  
Traders Press  
Harper Collins Publishing  
Caldwell Letter Services  
Random House Inc.  
Eagle Investment Associates and Robert Tam – who donated many hours in Woodbridge to help catalog books.

Apologies to anyone we may have omitted.

Volunteers Desperately Needed!!!

The Woodbridge library is still in serious need of volunteers from the New York/New Jersey area who can volunteer on premises during weekday business hours, as much time as you are able to give. We need help to collate the extensive library collection from the Foundation for the Study of Cycles. Please call Tom MacMahon at 732/596-9399 x203 or e-mail tom@mta.org

Attention CMT 2 and 3 Candidates

CMT Level 2 and 3 exam grades were (finally) sent out in the postal mail on Wednesday July 17, so watch your mailbox. Results will be given only via postal mail at this time (no fax, phone or e-mail results). Eventually your CMT pass/fail information will be part of your personal home page of the MTA website.

Pass/Fail statistics for April 2002 exams:
Passing grade for Level 1, 2, 3 was set at 70%
Percentage passing Level 1: 70%
Percentage passing Level 2: 65%
Percentage passing Level 3: 60%

From Acorns Do Mighty Oaks Grow!

The ‘new’ MTA website, including the entire video archives, owes a tremendous debt of gratitude to Phil Erlanger, and we have been remiss in saying so. As President in 2000-2001, Phil envisioned the genesis of the entire system. He also conceived of the myriad possibilities that technology would produce and felt that the future of the MTA was contingent on setting up and developing our own technical infrastructure.

We at the MTA want to thank Phil for his vision and dogged persistence.

Speaking of Major Thank You’s...

Another unsung hero among the MTA is Bernadette Murphy, who had the overwhelming task of hosting and coordinating CMT Level 2 and Level 3 exam grading a few weekends ago. Many people came from the NYC area or flew in from all over the country and gave up their weekends. A huge thank you to EVERYBODY who graded exams.

But Bernadette went way above and way beyond the call to duty for the MTA – we cannot begin to say enough thanks for these efforts.

P.S. Bernadette says NO MORE!!!!