What The Market Knows

Technical analysis can provide an early-warning system for stock-market fiascos

By Michael Kahn

Security analysts who focus on financial fundamentals failed to flag the major stock-market fiascos, such as Enron and WorldCom, until it was too late. Could technical analysis have provided a better early warning? The answer seems to be yes. Rather than relying on something outside the market to forecast stock prices, relying on the market itself has proven to be a sound method. By looking at where the market is and how it got there using charts, technical analysts are really measuring changes in supply and demand. When more individuals and institutions are aggressively buying – demand – then prices go up. When more of them are aggressively selling – supply – then prices go down. Simple economics.

Over time, the price changes created by buying and selling behavior create patterns on the charts. Each pattern is usually followed by a certain high-probability response in the market. This is not to say that charts can predict the future. Rather, they lay the foundation for the bottom-line decision to buy, sell or hold, which is really all that counts.

If we accept that price charts have successfully guided their followers to profits during this bear market, then we must ask the question, “When would the charts alert us to problems with any given stock?” In other words, would technical analysis have told us to get out of stocks like Enron and WorldCom? The answer is “yes.” Maybe not at their peaks but certainly before they imploded, and that is no trivial accomplishment. Technical analysts did not know what was coming down the pike, but they knew enough not to own the stock.

Signals from Enron

For Enron, the charts showed a large topping pattern in place months before the stock slid into oblivion. Starting in early 2000, the stock fixed a support level near 64 and bounced off it several times during that year. It fell below it in March 2001 to signal that something important had changed for the stock, and when it failed to break back above that level in May, even the most steadfast doubters had a clear technical signal to get out. No, this method did not capture gains at the 90 level, but at a minimum it put us on the right side of the trade from then on.

If a one-year pattern seems too short-term for some, Enron gave another excellent signal that the trend was down in September 2001 when it broke another support level at 36. Just as before, it rallied back to test that breakdown but failed, and from there, the rest of the story is well known. These are the simplest techniques used to make the buy, sell or hold decision. There were other technical factors, such as the break of a 13-year trendline at the same time, to confirm the analysis. Analysts were reaffirming their buy ratings while prices were deteriorating. But the market was right, as usual.

WorldCom was a different case, as much of its stock-price decay was reflected in the fundamentals. The telecom sector was overbuilt and prospects were dim, so we can use the charts to paint a different picture.

When the stock stabilized in the 12-15 range during most of 2001, it might have been tempting to say that it was building a base. But the pattern it formed was one that usually has a bearish response. In this case, rallies ended at lower prices while selloffs maintained their low levels. In other words, sellers got more aggressive earlier during swings higher, while buyers did not step up until prices fell all the way back to earlier lows.

Before any scandals hit the news, the pattern was broken to the downside to shout that a base had not formed. It was almost as if the market said, “Do not buy this stock.” It didn’t say why, but it made the decision to buy, sell or hold quite clear.

Are these isolated cases, or do they use 20/20 hindsight to fit the charts that had already happened? Neither. Examples like these, while not as newsworthy, can be found throughout the market. If you are looking for stocks that may collapse, I suggest looking in those sectors that are in the most vicious bear markets.

For example, the drug sector broke a differ-

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From the Editor’s Desk

Well, this newsletter would seem to have something for everybody. Michael Kahn wrote an excellent article detailing the merits of technical analysis as a viable method of garnering early warning signals for major market moves. Several Members and CMTs provided their current methods of analyzing the market, along with long-term outlooks for the foreseeable future. Frankly, I was struck by the variety of methods currently being used by MTA Members. From astrology to Elliott Wave to fundamental analysis, everyone seems to have their own unique method of analysis. As this newsletter goes to print, I continue to receive more input from the various analysts I polled, and I intend to publish more on this topic in next month’s newsletter. If you wish to contribute, please contact me at editor@mta.org.

I also received a letter from an affiliate who feels that this newsletter tends to be a bit too much of a “cheerleader” for his tastes. He suggests that such a focus on technical analysis, while at the same time pointing out the deficiencies of fundamental analysis, may tend to alienate the large number of fundamental analysts who are just now finding the MTA. I welcome such missives. After all, this is the forum for Members and Affiliates to share their views, and diverging opinions make interesting reading. My response is duly noted on page 12.

Bruno DiGiorgi writes a scintillating piece on the 2002 Annual MTA Seminar—an event that will be sure to attend in 2003—hope to see all of you there! The IFTA Annual Conference will be held on October 10-12th in London. A diverse list of presenters makes this a “can’t miss” event.

Thanks to Shelley Lebeck for an excellent follow-up article to her story after the tragic events of September 11th last year. The list goes on and on. Bottom line: Read this newsletter cover-to-cover, and you’ll stay connected to the MTA.

Until next month!

Dan Fitzpatrick
Technically Speaking Editor

President’s Letter

Last month I briefly touched upon two topics that the MTA Board was about to take under advisement; one of them was the administration of the CMT program and the second was an introspective view of the entire MTA governance process. We have since hired Ken Preston, a professional management consultant, who successfully advised and redirected the New York Society of Security Analysts in the mid 1990s. He came highly recommended and is now in the process of gathering information from all corners of the MTA. It is much too early for me to convey any of Ken’s findings, but suffice it to say that he has shared some of his initial thoughts with me.

To begin, he understands that we want our organization to become more “business-like” and to do this he suggests that we revisit our original “mission,” as all else flows from this. He is very impressed with the enthusiasm he finds at all levels of the MTA but states that we must address three important areas:

- The number of committees.
- The length of service of officers, directors and committee heads.
- And marketing the MTA; we must emphasize benefits; perhaps we should offer health insurance, etc.

Ken’s analysis will not be completed until late October at which time I will present his findings to everyone.

The second item discussed in my last letter was the Board’s desire to out-source some of the administrative responsibilities attached to our CMT program. So far we met with one educational testing firm. We all agreed that we will hire an outside service that will help us:

- Create more questions for CMT Levels 1 and 2 examinations.
- Provide proctors and various testing locations. Last year we had candidates in 36 separate locations around the world.
- Supervise and machine grade these examinations.

As you can see, we are building upon the new computer platform that the MTA created this year. It is from this that we will restructure and refocus our energies for the future. We could not have done any of this without the support and advise from all of our dedicated members and friends. And for this I personally thank you on behalf of everyone in the MTA.

Sincerely,
Ralph J. Acampora, CMT
MTA President

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Library Hours
Due to the September 11, 2001 tragedy at the World Trade Center, the MTA library has been lost, but is being rebuilt.

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2002 Annual MTA Seminar Overview
Bruno DiGiorgi

Burdened by the constraints of my schedule, I was unable to attend most of the festivities taking place at this year’s MTA Seminar. But it should surprise no one that I have, of course, still volunteered to write about it. Cognizant of my responsibility to honest journalism, and yet unyielding in my views that a lack of facts should never be an obstacle to a good story, it is my intention to tell you about the seminar in as honest a fashion as I can make up.

The Golf Outing: Like buccaneers laying siege to an unsuspecting hamlet, the MTA dudes pillaged another public course this year. In their wake, this happy band of lawn pirates left furrowed fairways, gouged greens and divots deep enough to lose a collie in. Well, it might not have happened that way exactly, but whether it did or not, like each year before, stories of that day’s adventures, near-misses, and clear-misses entertained dinning companions and associates for the rest of the weekend. Phil Erlanger does a great job of organizing the event; so, if you’re new to the organization or have a shy personality, make plans to come a day early next time and join the golf outing. It’s a great way to meet people. On the other hand, if you’ve been around the MTA for a while and have an obnoxious personality, then maybe it’s not such a good idea to be alone in a secluded pasture with 3 guys carrying clubs.

The Awards: John Murphy, CMT is an author, teacher, technical analyst and heck of a nice guy. His books, Technical Analysis of the Financial Markets and Intermarket Technical Analysis, have long been required reading for anyone serious about this business. The MTA has benefited greatly by its association with John and was pleased to honor him with the 2002 MTA Annual Award for Outstanding Contribution to the Field of Technical Analysis.

Each year, the Charles H. Dow Award, sponsored by the MTA, Dow Jones and Barron’s is presented to the winner who submits the best original paper on technical analysis. This year’s winner was Paul Desmond, President of Lowry’s Reports and MTA past president. Paul’s paper, Identifying Bear Market Bottoms and New Bull Markets highlights the use of a unique identifier to isolate moments of peak investor panic that can be used to identify bottoms. Congratulations, gentlemen.

The Presentations: Whether you were a strategist or trader, beginner or seasoned practitioner, whether you trade equities, bonds or futures, there was something for you this year. Over the course of the few short days, attendees heard presentations on Cycles, Candlesticks, Volatility, Relative Strength, Fibonacci’s, Intra-Market Analysis, and Oscillators, to name only a few. We at the MTA know the presenters; we’ve read their books, incorporated their techniques, learned from their analysis, and have found ourselves to be better technicians for the experience. Through these seminars, we are fortunate also to have the opportunity to spend time with these individuals and broaden our understanding even further. To many, this is the best reason to attend the seminars—to gather with one’s peers for insightful discussions about challenging ideas.

The Beach Party: Several weeks before the seminar, an invitation arrived on my desk for an informal gathering to take place at the beach pavilion near the hotel. It promised to be more fun than I could be allowed to describe in print. Well, OK, it didn’t actually use those words, but the suggested party attire certainly seemed to point in that direction. Specifically, I’m talking about thongs. Yes, thongs. I had to read it twice, but right there, in my Oreo Cookie sandwich, the invitation specifically suggested that the wearing of thongs and sandals would be considered appropriate for this little shin-dig. Thongs? The song Girl From Ipanema suddenly began playing in my head. Heavens, I wasn’t sure I wanted people to know that much! If that was the suggested attire, what was the theme: Market Technicians in Search of the Perfect Double Bottom?

Certain that I had missed a word or two, I carefully reread the invitations...ah yes...right there, the part I missed: rubber thongs. Rubber!! Great Caesar’s Ghost!! I had no idea where I might find a cloth thong in my size, so I could only imagine the sorts of establishments I’d have to visit to find one made of rubber. However, as a former Board Member, I recognized my obligation to support the MTA in any way possible. So, dutifully, reluctantly, with a paper bag over my head and using an assumed name, I went forth to purchase the necessary garment.

The night of the beach party arrived. My rubber thong firmly in place, yet hidden beneath Dockers, I walked gingerly down the beach. Fearful with each step that I might be the one making that awful squeaking noise, I was, nonetheless, confident that in the event of lightning, parts of me would be completely insulated.

The pavilion, a rustic wood-frame hut surrounded by sand and ocean, was appropriately festooned with island knick-knacks. Lei-bearing organizers welcomed each guest, as a band played limbo music on steel drums. It was like Gilligan’s Island, only with better food and even less chance of rescue. But that was OK, for no one wanted to be rescued from this evening. The beach party was, indeed, great fun and a chance to make new and lasting friends. Make plans to be at the next seminar; and make a point of coming to the special functions, too. I know I’ll be there—but more comfortably dressed. Perhaps I’ll try those rubber flip-flops everyone else seemed to be wearing.

If you missed the seminar, photos are available on line at www.mta.org/photos

The MTA owes a debt of gratitude to Herb Labbie, seminar chair, and all the volunteers who gave their time to make the seminar a success. No one could have done it better, Herb. They picked the right guy when they picked you!

Bruno DiGiorgi, 561/799-1889, bdigiorgi@lowrysreports.com is Placement Committee Chair

CMT Level 1 Prep Class Now Available in New York City

The FT New York Institute of Finance is offering a new class starting this fall which will prepare CMT candidates for the Level 1 Exam (April 2003). This new course is being taught by MTA President Ralph Acampora, CMT of Prudential Securities.

The course begins on Monday, October 28th and runs for 12 Monday evenings from 5:30pm–8:00 pm. The location will be the Flatotel on 52nd Street between 6th and 7th. Contact the FT New York Institute of Finance at 212/641-6616 or log on their website at www.ftkinstitute.com/US/MTA/CMT for complete details.

There is also a one-day course being offered on technical analysis on Tuesday, October 29th. This course will be held at the same location – the Flatotel. Contact the above phone/website for complete details.

And, if you are planning to be at the IFTA Conference, Ralph is also giving the same class in London on Monday, October 7th.
Connie Brown, CMT (Aerodynamic Investments)

The analytic methods most helpful have a cumulative effect for me to paint a 3-D market sense. As an example, I use Gann Analysis to determine a time period with start date and end date when a market will have a strong directional bias as the foundation. If it is to be a countertrend move, the price grid created from all internal pivots applying Fibonacci and Gann should show confluence price zones between these non-correlated methods. Zones with a wide spread between targets suggest a fast and extended market move. In contrast, a market about to face numerous walls of congestion will yield a choppy move. Permission to enter a trade comes from confluence of diverging momentum indicators in more than one time frame. I favor indicators and chart setups that display signals in 1:4 time ratios to help filter low probability signals. I always have an Elliott Wave interpretation, but I favor wave interpretations only after completing Gann work and momentum. Therefore, I often have a different view than analysts who just use Elliott pattern recognition alone.

I am very aware of global cash-flows and use charts to clarify the Global picture. As an example, while the dollar was strong in the 90s, Japanese investors could borrow for next to nothing and invest in the USA for a gain by simply depositing funds in a bank. But they could experience triple leverage benefits from a rising stock market with a strengthening dollar. In my view, when the Nasdaq imploded the Dow Jones Industrial Average (DJIA) continued to hold up relatively well because overseas investors moved into dividend strategies within the DJIA large caps. The strategy falls apart horrifically when the dollar weakens as the triple leverage comes apart fast on borrowed capital. So the DJIA started a freefall in conjunction with the dollar decline. The dollar decline was the trigger, not all the fundamental hoopla about accounting irregularities. We have suspected the books have been “cooked” for years. The longer-term market pivots in the dollar and DJIA where clearly in the charts. For this reason I track major currencies, rates and indices to track the cash-flow implications.

In this market my indicators and market geometry have worked well; the difficulty has been with the indicators between my ears! I had to force myself into a media blackout environment so I could regain my inner balance to read technicals and act on them without fear of the unknown hitting me over the head. Once I isolated myself from the media my fund experienced a rapid equity curve growth spurt. According to MarHedge we are in the top 5% for our fund category at this time. Now if I can just keep my head screwed on straight and listen to what the indicators are saying it should be a good year.

Your last question asks for my outlook for one-year and out. OK, Gann... don’t fail me now. The market Indices are in risk for another slam early to mid 4th quarter 2002 for a seven week period. It is not necessary for the S&P to make a new low. The new market leader will be software as the indices rally from January into August 2003. During this time the dollar Index will attempt a rebound. After August 2003, bonds will be in a third wave decline and the dollar could begin a move towards the 1995 low. Equities will be slammed again. So in summary, up in the DJIA to maybe 9100, down to 7350, up into August 2003 towards 11,000 and then back down again to at least 8800, but 6800 is not outrageous. But as I’m a woman... I know I can change my mind...yes? (Editor’s Note: Yes, Connie, you can. But hopefully, you won’t have to!)

Arch Crawford, Crawford Perspectives

Arch Crawford publisher of Crawford Perspectives, combines the study of planetary movements and technical analysis for market timing. He maintains 28 technical market indicators, many of which are proprietary. He says that “my astromonic work, as powerful as it is, is still developing, and it is necessary to keep two fingers on the pulse of the market through technical analysis.” Essentially, Arch focuses on astromonic cycles and harmonic planetary events (e.g., new and full moons, solar and lunar eclipses, interplanetary alignments, etc.) to detect significant market turning points. He feels that the current tape action is the worst he has ever seen, and is looking for much lower levels in the major averages. He is maintaining a maximum short position.

Walter Deemer, Walter Deemer’s Market Strategies and Insights

I use two primary methods of technical analysis: Anticipatory analysis (things that turn bullish or bearish before a top or bottom) and exception analysis (looking at a lot of indicators and seeing which ones are deviating from normal readings). Why do I use these methods? Anticipatory analysis can be deadly in a strongly trending market like the May-July decline, but I work with institutional money managers who manage huge sums of money, and they just about have to buy into weakness and sell into strength. It’s thus the world I’m forced to live in.

A lot of previously-reliable indicators turned much too bullish much too soon during the May-July decline, and the “Kid-with-a-ruler” method of market analysis worked best during that time. (As Richard Russell said at the very first MTA Seminar, quoting Dostoevsky: “Be simple – and rediscover the world.”)

I use no fundamental and economic analysis. The stock market is a leading economic indicator, so economic data tell you nothing as far as the stock market is concerned (although the stock market can tell you a LOT about the economy). As a person who grew up reading Ham Bolton’s monthly Bank Credit Analyst, though, monetary factors play an important role.

I think the market is making a four-year cycle low. The next one, due in 2006, may or may not be higher or lower than this one (depending on the sector) – but most of the money to be made during the next four years will probably be made during the 9-12 months following a test of the July 23rd low.

Richard Dickson, Scott & Stringfellow, Inc.

My primary method of technical analysis: I am strictly an equities guy and I use a combination of price/volume activity (primarily Wyckoff methodology, but I apply price patterns when they appear compelling), momentum, trend, sentiment and volatility. I use momentum and relative strength extensively in my sector/group analysis.

Regarding my use of indicators, I don’t use anything especially exciting. I’ve been using the same indicators for years. For momentum, I use a variety of price, breadth and volume based oscillators over different time frames; for trend, the usual moving average crossovers plus a variation on MACD and Wilder’s ADX/DMI. For sentiment, I use an equity put/call ratio, plus the VIX/VXN for the very short term. I also use the various sentiment surveys, insider trading, percent groups above/below short and intermediate term moving averages, mutual fund cash levels, block trading ratios, absolute breadth, negative
volume and probably a few others I can’t think of at the moment. But I’ve found that it’s the combination of indicators, looking for confirmation between the various factors such as price/volume, momentum, sentiment and trend, which provide the best forecasts.

As for fundamental and economic analysis, I use both as background for my decision-making. However, neither plays a direct role in either stock picking or market forecasting. News on both can have a short term effect on the market but rarely produce significant, durable changes in trend. Working for a retail brokerage, I do pay attention to fundamentals since most brokers sell stocks on fundamentals and not technicals. For traders, though, it’s strictly technicals.

Tony Dwyer, Kirlin Holdings, Inc.

I am another one of those weird birds that likes to combine fundamental and technical analysis. I use the fundamental framework as the backdrop and then use technical analysis for trigger points and stop-loss points. I think the mistake that I have made in the past is to focus on any one technical indicator or style. It is very important in this environment to become adaptable to what is working. I try to wait for extremes in indicators rather than acting on any when they hit my radar screen.

As for specific technical indicators, in any market environment I think the key is to remain adaptable and teachable. Over the last two years, I have stepped up my calls to those technicians that have been around a lot longer than me in order to get a perspective of what really has worked in past bear markets. What typically works in major bear markets is not trying to call the bottom; but rather, let the market guide you as to when a new trend has started. I have stopped using short-term indicators for anything other than sale points and instead wait for the longer-term views to suggest a counter trend move may be at hand. I like to use some proprietary indicators such as the percentage of stocks in the OEX and NDX that are overbought and oversold on a daily or weekly basis. Frankly, I also look at all the traditional indicators such as Stochastic, RSI, MACD. In addition, this is a very emotionally charged environment where sentiment indicators are very useful.

Mark Eidem, CMT, Merrill Lynch

I use a non-correlated combination of technical analysis indicators in both “Strategic” and “Tactical” modes. Analysis in the “Strategic” mode is geared towards allocating capital (i.e., what to buy or what to sell). It is based upon intermediate-term trends of six months to a year. Analysis in the “Tactical” mode is geared towards entry points and stop placement or exit points and trailing stop placement and is based upon shorter-term trends.

In the “Strategic” mode I use classic Intermarket Analysis. This is primarily to identify which of the four components (Dollar Index, CRB Index, Interest Rates or S&P 500) is dominating the others or if any of the four is acting out of character. This leads me to ask why and to question the implications.

I also look at option implied volatility for the broad market using the VIX index as a primary sentiment indicator and Investors Intelligence as a secondary sentiment read. I prefer the VIX as a sentiment indicator to Investors Intelligence because it is based upon what traders are DOING, versus what they SAY they are doing.

For chart study in the “Strategic” mode, I have a three-window screen setup utilizing various indicators as different types of tools, in much the same manner as a pilot cross-checks his instruments of different types. In the top window are weekly candlestick charts with Bollinger Bands, 10-, 20- and 40-week simple moving averages. In the middle window is a momentum indicator, 14-period Wilder’s RSI (More on RSI settings below). In the bottom window is the Accumulation/Distribution line, which is a volume-based indicator developed by Marc Chaikin.

I have modified the standard Wilder’s RSI overbought (70) and oversold (30) horizontal lines to reflect bullish and bearish zones taught by Connie Brown in her book, “Technical Analysis for the Trading Professional.” Connie discovered that the RSI would remain in the 40 to 85 range during bullish trends and stay in the 20 to 65 range during bearish trends. Accordingly, I have reset the horizontal lines to 40, which is the low end of the bullish zone, and 65 marking the upper end of the bearish zone. These settings enable the RSI to provide an additional confirmation of trend.

This three-window chart setup provides raw price movement, candlestick patterns, a volatility indicator in Bollinger Bands, trend information from simple moving averages, a volume-based indicator and a momentum indicator modified to provide trend information as well. In addition, divergences between price and volume and/or momentum are easy and quick to spot.

In the “Tactical” mode, I will look at option implied volatility (IV) for the individual stock using techniques I learned from Larry McMillan. Simply stated: Expressed as a percentile, what is the current level of IV as compared to its range for the past year?

For chart study in the “Tactical” mode I use the same setup and the same indicators, with the exception of using daily charts rather than weekly charts. In “Tactical” mode I am looking for logical entry points and stop placements, in addition to divergences between price, volume and/or momentum.

The only real role that fundamental analysis plays in my decision-making is a quick check of the company’s balance sheet looking for overall debt levels, the current, quick and acid test ratios for liquidity, and a short review of the cash flow statement looking for positive free cash flow.

My outlook for the coming year is twofold. In the best-case scenario, the S&P 500 builds a base over the next three to six months between 775 to 750 on the low end and 950 to 1000 on the high end. This base could then support a bull leg that could exceed the 1175 triple top level from Dec. 2001, Jan. 2002 and Mar. 2002. I don’t believe a slight violation of the July lows would be significant, but a substantial break to below 700 would invalidate this outcome. Another bear market rally straight back to the 200 day moving average, currently at 1075, would also invalidate this thesis.

In the worst case scenario, the S&P 500 breaks to new lows accompanied by a breakdown in the CRB Index to new lows and 10-Year Treasury yields breaking to new lows. In that case, the financial markets would be making a very dire forecast for the global economy.

Every single day I strive to learn something new. In the coming year, I am working upon improving my math skills, especially probability and statistics. In addition, I want to continue to improve upon my trading judgment, money management, stop placement and exit strategy skills.

Donald Lingerfelt, Lingerfelt Technical Advisors

Over the last few years, I have been using technical analysis in a much more basic way. First I find a set of stocks that comply with basic bullish qualities, that is I look for stocks that show low debt, low PE’s (less than 25), increasing profits, high relative strength (at least 80), and in a sector that is in the top 10% relative strength in the market. Then from this set, I look for those stocks that are trending well and have broken resistance and preferably coming out of a flag (congestion area) on good volume. I have been reading charts now for almost 20 years, so I can “see” what most of the studies should be doing (such as the MACD, MA crossover, Stochastics, etc.), without actually doing them most of the time. From these I choose those I feel have the most likelihood of continuing the trend and invest in those. I also use various models to generate buy/sell signals for the indexes. Some of these I have developed through the years using Excel and Metastock and others are from books I have read (notably Zweig, Freeburg, and Bouchet). Selection is primary and then locating the entry and exit signals with technical analysis is by far the most efficient method for trading the market. The best studies I use are the O’Neil relative strength analysis and trend lines with volume.

I do believe in using economic analysis to determine what the market will be doing over the next year or so. Fundamental analysis is virtually a waste of time except for the initial stock selection phase using the above criteria (RS, ba-

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sic valuation). The market will tell you the fundamentals through the price and volume action, and one can never know all the pertinent data anyway. Technical analysis can analyze far more stocks in far less time than a fundamental analysis can with greater accuracy.

My opinion of the next years to two years is now bullish. I don’t think we will see the next recession until after then. I am seeing an expansion in the capital goods markets for at least a year and the general expansion should hit in a few months and continuing for a while. After that, obviously the next recession, but exactly when that will occur is anyone’s guess at this point. One thing is for sure: it can’t be predicted for a long time yet. But I think that we are out of the worst of this one. I follow the Austrian School of economic theory, which says that it is the interference by the central bank that causes the business cycle by lowering interest rates below the “natural” rate established by the market. This causes a boom, and business malinvests in projects that ultimately are not what consumers desire. Eventually this will become evident and these businesses will fail, causing a recession. One of the best books I’ve read on this subject is “America’s Great Depression” by Murray Rothbard. Larry Katz, CMT

Since I began studying the stock market in 1983, I was fascinated by the mathematical relationships and the geometry of the price patterns. The first book on technical analysis I discovered was “Technical Analysis of Stocks and Commodities” by Edwards and Magee. Soon thereafter, I learned that this book is considered the bible of technical analysis. In mid-1984 I was introduced to the works of both Robert Prechter and Peter Eliades. Their market calls were nothing short of phenomenal and Mr. Prechter’s work with the Elliott Wave principle and Fibonacci relationships were of keen interest to me. I was particularly fascinated with the Fibonacci relationships and the logic behind the Wave Principle. This was the beginning of my foundation in Elliott Wave. I have always relied totally on charts, and completely ignore both economic news and especially fundamental research. In 1986, while still a broker I began to work directly with Elliott wave keeping my hourly charts. In my career as a stock broker I was fortunate to be able to follow the works of such notable technicians as Bob Farrell, Phil Roth, Newton Zinder, Walter Murphy and Jeff Weiss to name just a few. Their work helped me to continue to learn as I progressed. Without them, as well as Bob Prechter and Peter Eliades, I am not sure if I would have or could have stayed the course.

Elliott Wave analysis is an integral part of my daily analysis of the markets; but over the years I have found that, like all other disciplines, Elliott Wave is only one tool in a technician’s arsenal. We not only use Elliott wave but do a lot of work with both momentum and sentiment. In fact, momentum and sentiment play a more important roll in determining our short, medium and long-term market views than Elliott. In my work I have found Elliott to be more helpful on a medium and long-term basis rather than over the short-term.

Our market views are based totally on the technical indicators we follow. We use zero fundamental analysis in our market timing. It is my opinion that the market moves on investors’ perceptions of future fundamental developments – but the key is “future.” We do not know what they are seeing but the charts and the indicators know they are seeing something. It is not important to know why – rather, it is important to know and at what risk. We do not use automated timing systems or any complicated market models. We do have a technical barometer that has been very good on a medium and long-term basis. We also use a 12-component sentiment composite. However, these are but two more tools in our kit of indicators. To quote my friend Steve Shobin, “The market is our friend and what we need to do is find out what our friend is saying at any given time.” As with all forms of market analysis, there are plenty of times we are wrong. It is how we handle those times that separates a good analyst from an average one. Remember, it is OK to be wrong, but not OK to stay wrong.

We have remained bearish on the long-term outlook for stocks since early March of 2000. We believe that 2002 will be a transition year from bear to bull market on a cyclical basis. One study we have done goes back to 1930-1932 that shows that the averages have never made a price low commensurate with a momentum low when the averages have declined by 15% or more. This would also coincide nicely with the expected low of the four-year cycle, which ideally should bottom in the third or early in the fourth quarter (Editor’s Note: The previous comment was made in February, 2002. As such, I leave it to the reader’s judgment as to whether the recent low in the major averages fulfills Larry’s outlook). Our expectation following that move would be for a strong rally in the DJIA and the S&P back to the early 2000 highs in a pattern similar to what we saw in the later 1960s early 1970s.

Charles Kirkpatrick, CMT, Kirkpatrick & Co.

I look at the market first. The time spans or horizons range from daily to yearly. In this analysis, I look at sentiment measures, Elliott to some extent, breadth momentum, and several proprietary measures of momentum. The conventional stochastic, MACD, RSI are useful but I find they are largely redundant.

For investment, I use the stock selection method described in my Dow Award paper two years ago. It still works well (for example, the value list is up slightly on the year). In it are several fundamental factors – earnings growth and price-to-sales – that I have found useful for screening winning stocks. Finally, however, I find relative price strength (Levy calculation) is absolutely necessary.

As for my outlook on the market, it seems to me that the long speculative bubble is over. Historically, until interest rates begin to rise on a long-term basis, suggesting the return to long-term capital expansion, the stock market has been in trouble (as has the economy, real estate, etc.). This suggests that the current decline is not currently over and will not be until the entire bubble from the early 1980s has been corrected. While this long-term correction has occurred in some stocks, it has not yet occurred in the entire market. It will before the next major secular buying point is reached. When this will occur is anyone’s guess, but historically the doldrums last for many years. Normally, the entire correction wipes out 80-90% of the rise in stock prices and real estate prices. I worry that my stock selection methods, which were largely tested during the long market rise, will not work in the long secular decline we are in presently. Thus, most of my assets are in high quality, fixed income securities.

Alan Shaw, CMT, Salomon Smith Barney

My primary method of technical analysis is looking at a lot of things – market indicators, group or sector trends, and individual stock profiles. Intermarket relationships are important. When working with groups, assessing relative strength/weakness between the groups is also important.

Regarding what is working for me in the current market? The most important thing is being open minded and assessing the trends one day at a time.

Regarding my use of fundamental and economic analysis in the decision-making process? None...none...none.

We have recognized the structural bear market and we believe that with intermittent rallies the bear will culminate over the next 2 to 3 years...which will more than likely be followed by many years of repair. Market timing will again prevail with an even greater need for technical disciplines as the window is no longer “long term” but more intermediate term in nature.

If you have something to share on this subject, please let me know. I see no reason why Technically Speaking cannot be a regular forum for sharing current market views and technical approaches to investment/trading analysis. You can reach me at editor@mta.org

Dan Fitzpatrick, 949/291-3151 is Technically Speaking Editor
Dear MTA Member/Affiliate,

As you know, the 2002 IFTA Conference will be held in London, England, 10-12 October at the Langham Hilton. On behalf of the Society of Technical Analysts, I would like to say that we are looking forward to seeing you here.

The strong list of speakers can be seen on the website, and we also have social events to help you network with other technicians from around the world.

Apart from that, in this Golden Jubilee year the city of London is decked out in its finest to welcome you. Till October!

Anne Whitby, STA Vice Chairman, MTA Member

Conference Fees

Full Registration for IFTA Colleagues (MTA Members/Affiliates) is £850 and includes:

• Attendance at all Conference Sessions
• Conference Literature
• Entrance to the Exhibition
• Lunches (Thursday, Friday, Saturday)
• Coffee/Tea Breaks (Thursday, Friday, Saturday)
• Conference Dinner (Thursday evening)
• Farewell Party (Saturday evening)

Accompanying Persons (Spouses) is £165 and includes:

• Entrance to the Exhibition
• Conference Dinner (Thursday evening)
• Farewell Party (Saturday evening)

Payment may be made in the following ways:

• Credit Card: Visa, MasterCard, American Express or Switch
• Cheque or bankers draft drawn on a UK bank account, payable to: Concorde Services/STA.

Hotel Costs (Per Night/Per Room)

• Langham Hilton Hotel* £218
• Radisson SAS Portman Square £155
• London Euston Travel Inn Capital £74.95

* Conference venue

Accompanying Person Tours

Three tours have been organised for Accompanying Persons during the Conference. Additional charges apply for all these tours.

Two Ways to Register

1. Fill out the Registration Form on the next two pages and forward to Concorde Services Ltd by fax +44 (0) 208 743 1010 or by mail to 42 Canham Road, London W3 7SR, UK
2. Register online at www.sta-uk.org/ifta_2002.htm

DITA EXAMS

DITA 1 and 2 Examinations will be held on Wed., 9 October at South Bank University. For full examination details, please visit the Society of Technical Analysts Ltd website… www.sta-uk.org.
International Federation of Technical Analysts
Annual Conference • 10–12 October 2002

REGISTRATION FORM/PROFORMA INVOICE

Please complete one form per delegate or register online at www.sta-uk.org/ifta_2002.htm

A confirmation letter and invoice will be issued to delegates once registration has been processed.

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Company

Address (this address will appear in the List of Participants)

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Telephone

Fax

Email

REGISTRATION FEES

FULL REGISTRATION

IFTA Colleagues

£850.00 (12)

PLEASE NOTE: MTA Members and Affiliates are IFTA Colleagues

£..........................

Non-IFTA Colleagues

£900.00 (16)

£..........................

DAY REGISTRATION

Day Registration

£300.00 (20)

£..........................

Day of attendance

Thursday, 10 October (24)

Friday, 11 October (26)

Saturday, 12 October (28)

ACCOMPANYING PERSONS

Registration Fee

£165.00 (30)

# of Tickets: .......

£..........................

Name of Accompanying Person/s:

1.

2.

Registration Fees Sub-Total £..........................

SOCIAL EVENTS

Please Note: Tickets will only be issued if your attendance is advised below.

Thursday, 10 October 2002 – Conference Dinner

Registered Delegate Attending

☑ Yes (40) ☑ No

# of Tickets: .......

(included in Registration Fee)

Accompanying Person/s Attending

☑ Yes (42) ☑ No

# of Tickets: .......

(included in Registration Fee)

Additional Tickets Required

☑ Yes (44) ☑ No

# of Tickets: ....... @ £70.00 per ticket

£..........................

Saturday, 12 October 2002 – Farewell Party

Registered Delegate Attending

☑ Yes (50) ☑ No

# of Tickets: .......

(included in Registration Fee)

Accompanying Person/s Attending

☑ Yes (52) ☑ No

# of Tickets: .......

(included in Registration Fee)

Additional Tickets Required

☑ Yes (54) ☑ No

# of Tickets: ....... @ £100.00 per ticket

£..........................

Social Events Sub-Total £..........................

TOURS

Tour 1 – West End to East End

£50.00 (60)

# of Tickets: .......

£..........................

Tour 2 – Hampton Court Palace

£60.00 (62)

# of Tickets: .......

£..........................

Tour 3 – Morning Tour

£25.00 (64)

# of Tickets: .......

£..........................

Tours Sub-Total £..........................

(please complete side two)
Delegate’s Name:

**DIETARY REQUIREMENTS**

A minimum of five days notice prior to the commencement of the conference is required to ensure availability of special dietary meals. Should the ordering of special dietary meals attract an additional charge, the conference organisers reserve the right to pass on this charge to the delegate.

My special dietary requirements are…

- ☐ Vegetarian (70)
- ☐ Other – please provide details (72) _______________________________________________________________________

**ACCOMMODATION**

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*Rates Quoted include 17.5% VAT

**ACCOMMODATION Sub-Total** £…………………

**PAYMENT**

- ☐ I enclose a cheque made payable to: Concorde Services Ltd/STA
- ☐ I authorise you to debit my VISA/Mastercard/Amex/Switch card

Bank Charge is paying by bankers draft or cheque not drawn on UK account. (If cheques are not drawn on a UK bank account please include an additional £15.00 for bank charges) (008)

£…………………

**TOTAL AMOUNT DUE** £…………………

Card Number: ☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐

Expiry Date: ☐ ☐ / ☐ ☐

Switch Issue Number: ☐ ☐ Start Date for Switch Cards: ☐ ☐ / ☐ ☐ ☐

Name and address of credit card holder if different from that of the delegate registering:

Name of Cardholder

Address of Cardholder (if different from the delegate)

Cardholder Signature Date

Payment of the registration fees and hotel accommodation MUST be made in full prior to the conference. If the payment has not been received by the commencement of the conference, a credit card guarantee will be required to enable conference participation.

Please forward your completed registration form to Concorde Services Ltd by fax +44 (0) 208 743 1010 or by mail – 42 Canham Road, London W3 7SR, UK (please complete other side)
It was nearly a year ago that I sat down to write my personal story about the day of the World Trade Center tragedy on September 11. My memory of that day is still quite clear now, but it would have been difficult to forget even if I tried. It seems to me that every single day since then has been a reference to 9/11 in the newspaper, on TV and radio or from someone I was speaking to. However, more than likely I will still remember it even when I’m 80 years old. The story itself, of my being in the World Trade Center when the first plane hit, and leaving the building, was published in the October Technically Speaking, so I won’t repeat it now. Now an entire year has gone by and I find that so incredibly hard to believe – someone please tell me how time goes by so quickly?

People ask how I am doing: I’m pretty sure I’m fine – it helps to be a very rational grounded person when you go through a crisis. But I have a lingering thought about whether I’ve ever really dealt with it. Certainly for the first few weeks and months after it happened, and we were trying to rebuild the MTA office, my heart wasn’t in starting over again. I think I can now empathize with people who go through floods, tornadoes and hurricanes. It’s a major loss, a life style change thrust upon you as opposed to choosing a change. One of the many changes is that I became a [reverse] commuter, working in New Jersey, which opens up a whole new world of adventures. But I miss my NYSSA buddies pop-ping into my office every day (we were with NYSSA in the World Trade Center for 7 years).

We have been so busy at the MTA office in Woodbridge during the last year that we just had to keep moving and keep working. Many people have stated that work became less important and even though I may have felt that way, my sense of loyalty to the MTA rose above my attitude of wanting to just quit and not go through the effort of rebuilding. The first few months were mostly dedicated to getting the office set up again, then after the first of the year the CMT program and seminar got into full swing. It was quite frankly a huge relief to me when the CMT exams were done and the MTA seminar was over this year.

Another thing many people said this year was that they realized how important family is. My siblings (two brothers and a sister) and I are very close and have been since we’ve been adults (a long time now!). Their support during this last year, and especially the support of my fiancé Tom, did indeed help tremendously. In January 2002 I took a three-week trip to Vietnam with my sister and that was a really good change of pace. But I am still making occasional threats to quit the MTA and go work at Best Friends Animal Sanctuary in Utah!

So that’s my follow-up story in a nutshell. My thanks to all of you for your kind thoughts and prayers during that time and over the past year.

9/11 plus 12
Shelley Lebeck

9/11 plus 12
Shelley Lebeck

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What the Market Knows, continued from page 1

cient type of bearish pattern in April of this year, and the resultant decline was grisly. It should come as no surprise that accounting and other problems surfaced last month at Bristol-Myers Squibb and Merck.

The utilities sector collapsed at the same time, and last month we saw scandals with Duke Energy and an escalation of the problems of natural-gas stocks Williams and Dynegy.

Look at the trend of J.P. Morgan Chase, which had been down since March 2000, and it is no wonder that bad news surfaced there. Meanwhile, sectors in multyear bull markets, such as home building and health-maintenance organizations, did not spawn accounting scandals. This does not preclude them from happening, but the market seems to know when they are more likely.

To be fair, Martha Stewart Living Omnimedia would not have been a suspect before the news of its chief’s alleged wrongdoing surfaced. Actions of one person don’t show up in the market, but when prices gapped down on June 7 to break a nine-month trendline, the chart certainly told us that this was probably not a good stock to keep in our portfolios. Again, the point is not to find scandals. The point is to make the buy, sell or hold decision, and on June 7, the sell signal was flashed.

The market really does know a lot more than the analysts who follow it, and it has greater visibility than the companies that are traded within. And as cruel as it seems sometimes, it is usually kind enough to tell us to get out of the way before small losses become catastrophic losses. The charts are simply the earpieces we use to listen to that message.

Michael Kahn writes the Getting Technical column for Barron’s Online. His free newsletter, Quick Takes, is available at http:// /michaelkahn.tripod.com

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THIS IS YOUR LAST ISSUE
of Technically Speaking if you haven't paid your annual dues ($200) for 2002-2003.

Those members/affiliates not paid by Friday, September 13 will be cancelled. It would be helpful for us to know if you are NOT renewing but if we don’t hear from you by then, we will have to presume that you aren’t.

Thank You

A big thank you to Connie Brown of Aerodynamic Investments Inc. Connie made a video based on her presentation at the MTA Seminar in Atlanta, and presented copies to the MTA to sell, with the entire proceeds going towards rebuilding the MTA library. To date we have sold 45 copies, which is $4,500 for the library. Thank you, Connie!

For more information on the videotape, see MTA website, main page.

CMTs: The MTA Educational Committee Needs You!

One of the projects of the MTA, in conjunction with IFTA, is the production of the Body of Knowledge. Fred Meissner, chair of the Body of Knowledge committee, with a small group of volunteers, including yours truly, has done much of the gut work. There is more to be done, and Fred and I encourage all MTA members and affiliates to look at the Body of Knowledge website and contribute to it.

Listing and defining all the relevant terms is Step One in the project. Step 2, the Educational Committee’s responsibility, is putting the MTA’s seal of approval on the results. This means “approving” the results, and arbiting, if necessary, disagreements that may arise on definitions. We need a panel of experts to sign off on the final product. Probably no one member would feel comfortable judging all aspects of technical analysis. Indeed, most of us probably feel confident in only a few areas of the subject. Hence, the Educational Committee needs much help. We need someone to oversee the whole project, someone to put subcommittees together to over the various technical subjects, someone to organize meetings and conference calls, someone to get into the minutiae of the definitions. This will not be one person; it needs to be many people, many people with a variety of skills.

Volunteers should contact the MTA office. Shelley Lebeck will help coordinate the efforts. If you have any questions about the work, you can email me at proth@millertiabak.com, or call me at 212/370-0040, ext. 656.

Philip J. Roth, CMT, Educational Chair

Volunteers should contact the MTA office. Shelley Lebeck will help coordinate the efforts. If you have any questions about the work, you can email me at proth@millertiabak.com, or call me at 212/370-0040, ext. 656.
The inspiration for writing this commentary has been the conventional, textbook oriented, analysis of the financial markets by many market participants and communicated through all media. However, first I want to make an observation about the MTA and its flagship newsletter that I began reading on becoming an affiliate member two years ago. It seemed to me that the MTA was itself not comfortable with its leadership role in the field of technical analysis. A case in point is the repeated derogatory references to fundamental analysis, whenever the market’s movement towards the expected outcome vindicates a part of technical analysis theory. Such negative references conjure an image of secondary stature to fundamental analysis in investment decision-making. It appears that every small victory in market analysis is met with the enthusiasm of a high school cheerleading squad and cherished as an integral part of survival. I don’t think MTA members want to see that. We belong to the MTA on our own volition. We are well attuned to the relevance of technical analysis in the field of investment management. Otherwise it would be improbable for a rational person to extensively employ it as a primary input in his/her investment decision-making process. In fact, Alan Shaw, one of MTA’s more visible and reputable members has even suggested that to be a good technical analyst, one has to be an even better fundamentalist. Therefore, we don’t need to be continually convinced of the beneficial rewards of technical analysis vis-à-vis fundamental analysis.

Lately, many fundamental analysts are beginning to increasingly look at technical analysis as an added tool in their arsenal for investment decision-making. As a candidate for the CMT designation and having successfully completed the Level 2 examination in April of 2002, I consider myself one of them, even though I have been using technical analysis since 1992. More importantly, the same fundamental analysts are a growing constituency of participants in the CMT program vigorously promoted by the MTA. As such, it does not help to promote the cause of the MTA by alienating potential candidates/members in the continued education of technical analysis. Hence, I propose that the newsletter carry more stories about the successful implementation of technical analysis and investment strategies rather than highlighting the deficiencies of fundamental analysis. Having spoken my mind, I will now redirect my thought process to the main idea that resulted in this penmanship.

All financial analysis is conducted for the sole purpose of identifying value. While ascertain-
Response from the Editor

Dear Mr. Trivedi,

First of all, I sincerely thank you for your input. It is essential that all MTA members and affiliates have a voice in this organization, and Technically Speaking is the most appropriate forum for your type of feedback. I encourage other members and affiliates to submit feedback and opinions for publication in this newsletter. Each of us has a vested interest in the success and integrity of the MTA, and such qualities can only exist in an organization if they are found in each of its members and affiliates.

I write the following response to your letter, not on behalf of the MTA, but as an MTA member. I invite others to provide feedback to Mr. Trivedi’s letter, and to this response. Again, this newsletter is designed to be interactive.

Your eight points in your letter that I will address:

1. Repeated derogatory references to fundamental analysis by this newsletter. I have been a reader of Technically Speaking for the past couple of years and must admit that I have not noticed these repeated derogatory references to fundamental analysis. But I have seen distinctions made between the disciplines of fundamental and technical analysis. For example, in the December 2000 and January 2001 newsletters, Ferris Lien wrote an excellent two-part piece on “Theme Trading” – specifically discussing price-value convergence. In that article, he noted that: (1) Fundamentalists look at the intrinsic value of a company, while technicians look at the extrinsic price (i.e., price of that same company’s stock on the open market); (2) Many fundamentalists “fail to realize the distinction between extrinsic price and intrinsic value”; and (3) “‘F’ew fundamental investors realize that it is extrinsic prices that they are trading, not intrinsic values.... Intrinsic values cannot be traded; [they] can only be appreciated.”

While such comments about fundamental analysis may offend you, I find them to be simply...accurate! But Mr. Lien then proposed a methodology that incorporates both fundamental and technical analysis, calling it a “price-value convergence/divergence.” This may be the answer to your “call for a push to new frontiers” by the MTA. And for those new to the MTA, the newsletter archives can be found on the website, and go back as far as January 1998.

2. Criticisms of fundamental analysis alienate those fundamental analysts who are finding the MTA. I admire any fundamental analyst for exploring the field of technical analysis because an understanding of price action can only augment fundamental analysis. But there is a difference between highlighting the differences between the two disciplines and making derogatory comments. The fact is that there is a big difference between fundamental and technical analysis – and that difference means everything. Technical analysis polls the marketplace on a continual basis. Fundamental analysis ignores the opinions of the Market, and instead ignores the crowd. But since profits are made from price action – and price action is what technical analysis is all about – then technical analysis is the best method of analysis that I have found. If my comments are yet another instance of cheerleading for technical analysis, I plead guilty as charged. Also, I am not aware of one market technician who feels that technical analysis is of “secondary stature” to fundamental analysis, but I am certainly not in a position to speak on behalf of all technical analysts.

3. Technically Speaking should carry more stories related to strategies. This is one of the things that we’re trying to do, but it takes time. The last issue presented an interview with Larry Williams where he detailed several methodologies that he uses – none of which have been presented in this newsletter before. Technically Speaking has long been a popular forum for indicators and methodologies. Dick Arms recently wrote an article on the Arms Index. Further, the MTA Journal is specifically devoted to that endeavor; so there is always the risk of this newsletter becoming “MTA Journal Lite.”

Several members have asked for just the opposite direction. They would like the newsletter to be devoted to the members, not technical analysis. What’s going on in the Mid-west region? Who is speaking where? Who is appearing on TV or in print? Has there been a new book on technical analysis published; and if so, is it worth reading? Who just changed jobs? Who needs a job? Who is hiring? Etc. Regarding the proper direction for this newsletter, there are more forks in that road than there are in my silverware drawer – and technical methodology is just one of them. But your suggestion is a good one, and I expressly request that any Member or Affiliate with something to share on technical analysis contact me about publishing your methodology or strategy in this newsletter!

4. Fundamentalists and technicians have different methods of determining “fair price” – sometimes fundamentalists are correct, and sometimes technicians are correct. It would be impossible for me to disagree more strongly with your apparent assertion that there are times when a fundamental approach would derive greater reward than a technical approach. As noted in the first paragraph, the market deals in one extrinsic prices, not
trinisc value – always! Therefore, the Holy Grail of “fair price” is sitting right in front of us. The current price of a security IS fair value...for this moment in time. The skilled technician uses volume– and price–based indicators to determine what the probable future direction of stock price will be. The skilled fundamentalist focuses on determining whether the intrinsic value of the company will change. But the fact remains that extrinsic price, not intrinsic value, is what is traded in today’s market. So I cannot envision a single situation where a skilled fundamentalist would ferret out a money–making opportunity that would escape a skilled technical analyst. But I can think of numerous situations where the reverse would be true (the most obvious case in point is the most recent bubble of 1999–2000). Any fundamentalist worth his salt would have been shorting the entire market until he ran out of money because it was so obscenely overvalued by fundamental standards. While that view was ultimately vindicated, I am reminded of a famous quote by John Maynard Keynes, “The market can stay irrational longer than you can remain solvent.” Yet most technicians I know interpret this bubble as the “Mother of all Money Making Opportunities.” No skilled fundamentalist would have touched the Red Hot stocks of the Internet Bubble. But that was where the money was to be made, and most market technicians were all over that one. Yes, the Bubble ended badly; but again, the skilled technician would have seen the signs in time to lighten up: (1) The double top in March, 2000, where the second top was lower than the first on both an absolute price basis, and relative to Bollinger Bands; (2) Trading volume was lighter at this second top, revealing a decrease in buying pressure; and (3) Relative Strength Index peaked fully two months earlier in January. The list goes on and on. But fundamentalists who were finally vindicated by the bursting bubble were likely cheering from the sidelines because of the tremendous power of this irrational crowd during the frenzy. Shorting that bubble prior to the second top was akin to running with the bulls in Pamplona, Spain – right towards the front of the herd.

Any fundamentalist who waited until the second top in March to short the market would have a killing – but would likely have used technical analysis to arrive at the decision to take action. Simply put, technical analysis works! It works in both Bull and Bear markets. Sometimes it works better than others, and its usefulness is always limited by the skill of the practitioner, but it works. And it works for one reason – because it focuses solely on extrinsic price, and that’s the trading vehicle of the market. If I ever consider buying a publicly traded company, I’ll focus almost entirely on the intrinsic value of the company using fundamental analysis. The stock price will be a secondary issue. But until that happy day, I’ll stick unapologetically to my little squiggly lines and candlesticks.

5. Analysts in the media spout conventional wisdom. Most of these analysts that I see on television seem to fall into two camps: (1) Fundamental analysts; and (2) Economists. Sadly, I rarely see market technicians given much time by the mainstream financial media. And it should be no surprise that much of what is uttered on television is quite obvious to market professionals – that’s what separates the pros from the amateurs. The media’s targeted demographics are the retail investors – those same individuals who’s 401(k)’s became 101(k)’s listening to the financial cheerleaders. But that is the nature of the beast, and we’re stuck with it. Frankly, I’d love to see technical analysis get more media attention for the reasons described herein – it works. But I have yet to see a technical analyst (credible or otherwise) appear on television and provide generic analysis that appears to be coming from the employer. Yes, they usually focus on the types of indicators so common among technicians – advance/decline, relative strength, 52–week highs/lows, etc. But that is the stuff that technical analysis is made of, and to ignore it for the sake of being “different” or “non–generic” is foolhardy.

Frankly, I wish I were in a position to appear in the television media on a frequent basis because I am passionate about this discipline. Again – IT WORKS! I encourage those technicians who appear in the financial news media to continue doing so as often as possible. As for me, I write weekly columns for TheStreet.com/RealMoney, and these columns focus solely on technical analysis. I work extremely hard on each article because my credibility, and the credibility of the MTA, is at stake with each article. If an article isn’t up to snuff, it reflects poorly on the entire field of technical analysis. At the bottom of each article is a brief reference to the MTA, and I hope that more market participants are finding the MTA through my articles. I also urge other technicians to reference the MTA in your publications. Let’s get the word out.

6. Technical analysis has gone mainstream. If technical analysis has indeed gone mainstream, then I for one am happy because, again, it works. But to suggest that going mainstream has somehow compromised the efficacy of technical analysis is to assume that all market participants act at the same time on the same information. That’s not the nature of the market, nor will it ever be.

7. “Buy and Hold” is a risk–seeking strategy. I agree with your opinion about the high–risk nature of “buy–and–hold,” but I think you’re railing against windmills. Most market technicians are drawn to the field because of the very risks you mention. I don’t know of any competent technicians who buy and hold in the face of a trend change. Enough said on that point! Your objection to “buy and hold” should more properly be voiced in a different forum – perhaps a journal devoted to the fundamental analysts who have not yet found the MTA. Encourage them to broaden their horizons by joining the MTA.

8. History Repeats Itself; Blending Fundamental and Technical Analysis. While a significant portion of technical analysis is based on the notion that history repeats itself, I think the more accurate characterization is that people repeat past mistakes. And as Martin J. Pring states in his book “Investment Psychology Explained” (part of the CMT Level II curriculum), people may repeat past mistakes, but they rarely make the same mistake twice in a row. This is a fundamental tenet of advanced technical analysis. As a market technician matures, there is a tendency to go beyond the rigid chart patterns highlighted in various textbooks. Instead, intermarket relationships, sector and group rotation, volume–based indicators, other methods of analysis are used for that ever–elusive “edge.” But technical analysis is an inexact science – it is part science and part art. It is subjective to a certain degree, and that subjectivity is what makes it so fascinating.

I agree with your suggestion that a methodology blending fundamental and technical analysis may have merit. As a Chartered Financial Analyst who is well along his way to becoming a Chartered Market Technician, you may indeed be just the individual who can effectively blend these two disciplines and I encourage you to do so. I am certain that any contribution you can make to the field of technical analysis will be welcomed by all MTA members and affiliates. Frankly, one of the reasons I joined this organization a couple of years ago was because I wanted to be on the cutting edge of technical analysis. I believe I made a wise decision, and encourage you to vindicate my decision by making your own contribution to the MTA.

I think I speak for all MTA members and affiliates when I extend a heartfelt and sincere “welcome” to you and all fundamental analysts who are new to the MTA. But there is, and always will be, a certain degree of “cheerleading” in this newsletter because we are rightly proud of our profession.

Dan Fitzpatrick
Editor, Technically Speaking
Did You Receive a Green Postcard??

You have not yet registered on the MTA website!! You have not yet paid your MTA annual dues!!!

DEADLINE: Monday, August 19, 2002

Please go to the one-time registration page: www.mta.org/newmta/

1. REGISTER and receive your username and password for the revised website so you can have access to your personal home page, from there go to Payments and

2. PAY MTA annual dues (7/1/02-6/30/03) of $200.00 with credit card online (totally secure) or print invoice if sending a check. There is no separate mailing being done for second dues notices, THIS IS IT!!!!

The MTA website will become our communications gateway, so it is vital that ALL MTA members and affiliates (yes that is you, communications gateway, so it is vital that ALL MTA members and affiliates) register on the site as well as keep contact information up to date. See latest MTA newsletter (July/August) for more details.

In the future, after this initial registration process, you will go directly to: www.mta.org, then to member & affiliate login to reach your personal home page. Check your page often for news and updates.

If you do not register onto the MTA website (or let us know if you don’t have a computer) by Monday, August 19, and if MTA Annual Dues are not paid by Monday, August 19, your MTA status will be cancelled. Please don’t let that happen, an exciting year is ahead for the MTA and its membership!!

Deadline extended to September 13.

2002 Calendar of Events

September 9  New York
MTA monthly meeting at Baruch College.
4:30 pm Speaker: Victor Niederhoffer, Manchester Investments

October 10-12  London
IFTA annual conference. For complete information and registration forms, log on to www.sta-uk.org/ifta2002.htm or www.ifta.org

October 19  Woodbridge
Summit meeting for MTA committee chairs

Management Committee Changes

- John Brooks, CMT has recently joined Lowry’s Reports, Inc. in N. Palm Beach, FL, as Vice President, Senior Analyst. He can be reached at 561/799-1889, fax 561/799-3036, e-mail: jcbrooks@lowryreports.com
- Dan Fitzpatrick has new contact information: 5561-D Adobe Falls Road, San Diego, CA 92120, 610/501-5044, his e-mail remains editor@mta.org
- Larry Katz has a new phone number: 818/889-0485
- Charles Kirkpatrick, CMT has moved to Colorado. His new number is 970/884-0821, his e-mail remains kirkco@capecod.net
- Jordan Kotick, CMT, has recently joined JPMorgan Chase, 270 Park Avenue, 6th floor, New York, NY 10017, 212/834-4255, jordan.kotick@jpmorgan.com

A Benefit of Membership

Discount Magazine Subscription Program

Returns... Actually it was never gone, but it's been well over a year since we told members and affiliates about the discounted subscription to Technical Analysis of Stock and Commodities (TASC) magazine. The MTA rate for members and affiliates is $32.50 per year, for a maximum subscription term of 5 years duration. This rate represents about a 35% discount from the standard TASC rates.

There are some restrictions: The MTA rate applies to new subscriptions only. If you are already a TASC subscriber you will not be allowed to cancel your current subscription and sign up at the discounted MTA rate. Also, after your subscription expires, the renewal rate will not be at the MTA discounted rate, but rather at the normal TASC rates at that time. Unfortunately at this time the offer applies to domestic (US) subscriptions only.

Please send via postal mail to the MTA office:
1. A check or money order, payable to Technical Analysis, Inc., for the correct amount ($32.50 per year times the number of years; i.e. $32.50 for 1 year, $65.00 for 2 years, etc.) No credit cards being accepted at this time.
2. A separate piece of paper indicating your full name, mailing address where you wish to receive magazine, telephone number, and indicating the number of years (minimum 1 year, maximum 5 years) you wish to subscribe for.

This information and your check will be forwarded to TASC for processing your order.

The New MTA Library

Tom MacMahon

In many ways, the MTA was very fortunate to have recovered so quickly after the events of September 11th. Thankfully no staff were hurt and the essentials of the administrative support services were back up and running well within a few weeks of the disaster. However there were tremendous losses incurred by the Association and among these were the almost total destruction of the old MTA Library. It is estimated that the Library contained over 1,000 volumes, some of which were irreplaceable. Before September 11th members and affiliates could visit the MTA website and see what was available to them from a collection that had taken years to build. The loss seemed insurmountable and only a determined volunteer effort by a lot of generous people could rescue the Library. After almost a year, we are proud to say that those efforts have been expended and the New MTA Library will soon become available to members and affiliates in good standing.

The process actually began before September 11th when Phil Erlanger, then President of the MTA began negotiations to acquire the entire collection of the Foundation for the Study of Cycles. The Foundation had become defunct and was looking for someone to take over and preserve their Library, which contained significant material on all types of natural and man-made cycles. Since cycles research was an integral part of Technical Analysis work, Phil rightly saw an opportunity to add to the already comprehensive MTA collection of market and financial materials. Some of the material in the Foundation’s collection date back over 100 years. Included are seminal works by the Foundations original founder, Edward R. Dewey plus many other financial and stock market contributors. The major stipulation put upon the MTA by the Foundation was that their Library must be housed in an adequate location and not locked away somewhere in a storage room. Since the WTC office could not hold such a large Library, the MTA then acquired the Woodbridge facility and thereby met and exceeded the Foundation’s demand. Hindsight alone has demonstrated how fortunate a decision it was to move the Foundation collection out to Woodbridge with its improved space and amenities. Woodbridge has now become our new office as well as the new research and education center for the MTA!

The old Library housed in the WTC suffered a complete destruction and were it not for the tireless efforts of Dan Chesler and the generosity...
of many members and affiliates, the loss would have become permanent. But in the typical fashion of on-going commitment to the Association, Dan and others began the long and difficult process of rebuilding the MTA Library back to its former status. The efforts have been constant and determined and the results have exceeded even the most optimistic expectations. Although many volumes will never be replaced, a significant portion of the old Library has been restored and an entire new set of updated books and materials have been added.

The number speak for themselves, to date we have received 800 donations along with 44 books returned from people who had borrowed volumes out of the old library before September 11th. The Library for the Foundation for the Study of Cycles has added 2,807 books and documents to our combined resources! In total, 3,647 books and other documents will soon be made available for loan. Without doubt this makes our New MTA Library the largest of its kind in the world. Donations continue to arrive and we hope to once again offer the best Technical Analysis research library possible.

We have just completed the preliminary inventory of all our books thanks to a tremendous amount of volunteer work from Robert Tam. We will soon listing the New MTA/Foundation combined assets on the Website so members and affiliates can look over what we now have. We are also working with Len MacDonell to incorporate a new Library circulation system on the New MTA Website. It will take a great deal of time to fully catalogue this huge collection with complete descriptions of each volume, so please exercise patience. If you need to know more about any particular book, please feel free to e-mail Maria Wittek in Woodbridge, maria@mta.org.

We will also be working hard with Len MacDonell to incorporate a new Library circulation system on the New MTA Website. It will take a great deal of time to fully catalogue this huge collection with complete descriptions of each volume, so please exercise patience. If you need to know more about any particular book, please feel free to e-mail Maria Wittek in Woodbridge, maria@mta.org. Once again you will be able to select and order books from the fabulously expanded New MTA/ Foundation Woodbridge Library. As was the case in the past, some rare volumes cannot leave the premises and separate arrangements will have to be made for people wishing to study them. However, the Woodbridge Resource center is open to any member and affiliate in good standing who wishes to visit and use the documents for research and study. Eventually we hope to have the entire collection scanned and available online to members and affiliates in good standing. The future for the MTA Library had never looked brighter. Thanks to people like Phil Erlanger, Dan Chesler, Robert Tam and many others, we have truly risen from the ashes, stronger, better and vastly expanded!

For further information, please call Tom MacMahon at 732-596-9399 x203

MTA Website Update!
Shelley Lebeck

TO e-mail or NOT to e-mail??? As one of features of the ‘new’ MTA website, members and affiliates have the choice of whether to receive mailings [such as this newsletter] in the postal mail or to be notified by e-mail that the newsletter is posted on the website. You make this choice within your personal home page – View Personal Record, Update Personal Record – at the bottom.

For this issue of the newsletter, we had only a few people who had updated their records and marked e-mail receipt, and we think that a very large number of you might prefer to have it that way.

If you haven’t yet chosen your preferred method of receiving this MTA newsletter and other communications, please go to the website and do that. Thank you very much.

Website Registration Status: As of this writing towards the end of August, we can report that almost 1300 of the 1800 members and affiliates were registered on the website. If you are one of the 500 who has NOT registered, we urge you to do so now: www.mta.org/newmta/

For the revised website to be effective going forward, ALL members and affiliates should be represented in the database. We know there are a few of you who do not have or deal with computers and we won’t leave you out, you will continue to get the newsletter in the postal mail.

But for the remainder of you, PLEASE register on the website NOW!!

Website Registration E-mail: We will add a feature in the future so members and affiliates can change their contact e-mail. The one used for website registration and MTA communications. For the time being, PLEASE PLEASE PLEASE be sure to remember to let the MTA office know (admin@mta.org) if your contact e-mail has changed.

Membership Travel Schedule: On the personal home pages, you’ll find a Travel Schedule on the right hand side. Members and affiliates who are traveling to any of the regions, please add your dates to the schedule if you would like to be contacted about a possible presentation to a regional chapter.

Address Information: We ask again that you be sure all of your personal contact information is updated in the website database. This is also done through View Personal Record, Update Personal Record. All information, regardless of whether you want e-mail communication, should be as up to date as possible.

MTA Directory Online: Don’t forget about the MTA Directory Search feature of the new website. From your personal home page, go to Search Directory. At this time, the default search is by last name only but we will add searches for city, company etc.

Website Username and Password: A word about the username and password you were assigned. The password is randomly generated by the server and we are not taking password requests. Once you’ve entered your username and password into the login section, you really shouldn’t have to put in again, unless you change computers or have a power failure or something unusual. In that case, if you lose or forget your username and password, you can get it again by going to the website, member & affiliate login, and on that page is the place to request they be resent. You do not need to contact the MTA office for this information.

Remember that the revised website is a work in progress. If you have suggestions or comments, we would really like to hear from you so we can make the website as user-friendly and informative as possible. Contact Tom MacMahon: tomi@mta.org or 732/596-9399 x203

Complimentary Admission for MTA Members/Affiliates

Investment Expo Show
September 28-29, 2002
NY Sheraton & Towers
811 7th Ave. @ 53rd St., NYC

Investment Expo is the largest financial strategies tradeshow and seminar in the Northeast with 100 exhibits and 50 seminars. Registration is at 8:30 am on 9/28 and 10:00 am on 9/29.

Keynote Saturday: September 28 @ 10:00 am CNN FN co-anchors: Pat Kiernan and Ali Velshi discuss current market trends. Keynote Sunday: September 29 @ 11:00 am BusinessWeek Money Talks co-anchor: Jill Bennett

Seminars are 1:00-5:30 pm on Saturday and 1:00-5:00 pm on Sunday. Topics will include: 401(k), Where’s The Recovery?, Financial Tools For Students, 529 College Savings Plans, 2003 Market Outlook, The Individual Investor and the Crisis of Trust, Technical Analysis, Corporate Responsibility and more.

For more information visit: www.investmentexpo.com Please call 888/874-9200 or e-mail: margien@investmentexpo.com for your tickets.