“Mr. Johnson” – Fidelity’s Edward Crosby Johnson 2d

George A. Schade, Jr., CMT

“Mr. Johnson” is a name associated with Fidelity Investments and the mutual fund industry, an industry that he called “a business of ideas.” Prior to entering the field he enjoyed so much success in, he attended Harvard College and then Harvard Law. Upon graduation, he practiced law with a leading Boston firm for 14 years.

He was first attracted to the market after reading in the Saturday Evening Post a serialized version of Edwin Lefèvre’s Reminiscences, written when Lefèvre was a regular contributor to that publication. In 1939, Mr. Johnson left the law firm and became an officer of a small mutual fund operation in Boston (not Fidelity).

In 1943, he was elected President and Director of the Fidelity Fund. At that time, Fidelity was a small mutual fund that had been formed in Boston in 1930. As Mr. Johnson recalled, “The fellow who was running Fidelity couldn’t support his family on it, so I took it over.” Total assets were $3 million.

Three years later, he founded Fidelity Management & Research Company to act as investment advisor to the Fidelity Fund. By then there were 14 mutual funds with $13 million under management. FMR had three employees. Today Fidelity is the largest mutual fund company in the world with over 350 Fidelity mutual funds, and more than $988 billion under management (as of Dec 31, 2003). The company also offers discount brokerage services, retirement services, estate planning, wealth management, securities execution and clearance, and life insurance among its expanded product line.

In 1958, Mr. Johnson began thinking of executive succession long before he retired. It came down to a choice between Tsai and Ned Johnson to lead Fidelity. Mr. Johnson chose his son, a decision that Mr. Johnson accepted. Tsai left Fidelity in 1965 and in the subsequent years, he became the epitome of the high octane managers or “gunslingers” of the Go-Go Years (made famous by Adam Smith in The Money Game).

Fidelity grew rapidly under Mr. Johnson. Assets under management reached $500 million in 1960 and doubled within three years. Adam Smith described Johnson’s visionary leadership in that 1967 book, The Money Game:

“Mister Johnson runs a group of funds called Fidelity, and Fidelity has been the Green Bay Packers of the fund league for some time now. The Packers do not win every year, but they are the team to beat. A number of fund managers know describe their jobs very simply, all in nearly the same way. ‘My job,’ they say, ‘is to beat Fidelity.’”

After 33 years in the mutual fund industry, Mr. Johnson retired in 1972, naming his son Ned as President. Mr. Johnson became a Director and retired from active management.

Mr. Johnson is fondly remembered by Bill Doane, a longstanding MTA member who spent 20 years of his distinguished career at Fidelity, as a “a people person” who would shake hands for a full minute and always wanted to know about your family.

Johnson was attracted to “creative” and “deep, innovative thinkers.” He was a close friend of Humphrey Neill, Garfield A. Drew (who worked at 50 Congress Street, across the street from Fidelity’s offices at 35 Congress) and A. Hamilton Bolton. He often met with these friends for lunch at Fidelity and at the Economic Club of Boston.

His efforts were instrumental in getting others to carry on Neill’s and Drew’s market letter services. Johnson was a faithful attendee at Jim Fraser’s Contrary Opinion Forum, where he particularly enjoyed Bolton’s company.

Not many writings are available to describe the investment philosophy of Mr. Johnson, but three descriptive words can be derived from the little that is available – practical, unorthodox, and artistic.

Practical

The secrets to investment success seem obvious when expressed with the wisdom of Mr. Johnson:

- “Cut your losses and cut them fast; do not listen to reason or emotion, just say good-bye.”
- “We approach the problem of investment first and foremost from a money-making point of view. We are not interested in fancy ideas and theories; we are interested in things that work.”

After Adam Smith interviewed Mr. Johnson, he formulated his First Irregular Rule: “If you don’t know who you are, this is an expensive place to find out.”

Unorthodox

- “Actually, operation in securities is not mainly a matter of reasoning at all. The talented operators I know don’t really reason things out (although they often pretend to). They just do it instinctively by experience.”
- What is it the good managers have? It’s a kind of locked-in concentration, an intuition, a feeling, nothing that can be schooled. The first thing you have to know is yourself.”

His son, Ned, noted, “He believed that being too secure led to trouble. From the firm’s earliest years, he encouraged us to oppose orthodox thinking.”

Artistic

- While the debate rages even today on whether or not technical analysis is a science or art, Mr. Johnson answered the question rather well many years ago, “I have been absorbed and immersed since 1924, and I know this is no science. It is an art. Now we have computers and all sorts of statistics, but the market is still the same and understanding the market is still no easier. It is personal intuition, sensing patterns of behavior. There is always something unknown, undiscerned.”
- “These technical things are nothing but tools - nothing but the violin. They are no good without the player.”

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From the Editor’s Desk

We all know the story of how the MTA was incorporated in 1973, but began holding meetings as early as 1971. There were 18 charter members who found that they were doing the same thing for a living (practicing technical analysis), and felt there should be an organization similar to the one that existed for the fundamental analysts already. At first the MTA was a New York group, but it quickly became apparent that there were technical analysts all over the country and MTA turned into a national organization before very long. Today total membership exceeds 2500 members and affiliates. While most of these Members and Affiliates are located in the U.S., 37 other countries are represented.

With growth has come change. The MTA now offers its members an incredible array of services, and an internationally recognized professional certification designation in the CMT program. But one thing has not changed; the MTA exists to exchange information among its members and this newsletter continues that tradition. CMT candidates should benefit from Robert Colby’s article on Dow Theory. Traders will find ideas on Ways to automate Dow Theory in that article. George Schade continues his biographical series, and we have another article on Trading psychology along with other features and important information about MTA business.

One thing missing from this newsletter is your feedback. We’d like to make improvements based upon what you think about we print, and what you’d like to see in the future. Please send your articles, ideas for articles, or feedback about what you like or don’t like to Kevin Depew or me. Cordially, Mike Carr, CMT

2004 CMT Exams Registration Now Open!!

CMT exams, all 3 levels, will be given next on Saturday, May 22, 2004. Registration for all 3 levels of the exam is open NOW – registration deadline is Friday, April 2.

CMT exams, all 3 levels, will now be given twice a year going forward. Next date after May is Saturday, November 20, 2004.

To register for the May exams, please log in to your personal home page of the MTA website, click on CMT program from the left hand menu and you will find appropriate message of whether you need to take CMT Levels 1, 2 or 3. Register for the exam by picking a site, optional study groups, then paying with credit card online.

Just remember, you are not automatically registered for the next exam. Also keep in mind that CMT exam fees do not carry over to the next exam and are not refundable once you have registered.

From the President

To MTA Members and Affiliates:

We are fast approaching the May seminar which will be held on Marco Island from May 13 to 16. This promises to be a great seminar, with several innovative features, including several tracks so that more items of interest can be covered. It will also be a great opportunity for some fun in the sun with old friends, and I look forward to seeing all of you there.

On another note, Brad Herndon, John Kirby, Shelley Lebeck, and I recently met with representatives from the Educational Testing Service. The subject – improving the Body of Knowledge and the CMT program. During the IFTA seminar in Washington, DC, several people, including some senior members and past Presidents, indicated they would help to insure that this program is strengthened. I believe I can speak for all in the MTA when I say we want the CMT to be the premier credential for Technical Analysis in the world!

I would like to take this opportunity to thank all of our volunteers.

Without you all, this organization would not be what we are today.

See you in May!

Best regards,
Fred Meissner, CMT
President

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BoK Study Underway
Friday, March 12, 2004 was a red letter day for the MTA. Fred Meissner, Brad Herndon, Shelley Lebeck and I spent most of the day at the first administrative planning meeting for this very important study. Last fall the Board commissioned a body of knowledge study to ensure that the CMT examination continues to meet the highest quality testing standards.

Scheduled between March and October 2004, to make the information available for our May 2005 exams, the study will consist of several phases including: individual and group meetings with CMTs; an internationally disseminated web based survey to verify important tasks and knowledge needed for competent professional performance; review and revision of current test specifications based on the results of the study; collection of information to guide future professional development initiatives and educational opportunities for our membership, and to provide employers information with regard to the competency and capabilities of CMT charterholders.

The MTA test vendor, The Chauncey Group International, has been commissioned to conduct the study. Their effort is being led by Linda Montgomery, Ph.D. who has spent the last 20 years conducting similar studies for a large number of credentialing organizations including a current one being conducted for the organization of 38,000 Certified Financial Planners.

The Accreditation Committee and the Body of Knowledge Committee will serve as the central coordinators of the work. Participants are being recruited from those members and affiliates who indicated on our every member survey that they were interested in these areas. Additional volunteers will be needed – let us know you are interested and we will sign you up.

Cordially,

John R. Kirby

MTA Calendar of Events
March 30: Denver Chapter Meeting
Reorganization Meeting, Contact: Lyle Dokken, klyledokken@yahoo.com

April 10
Technically Speaking submissions due to market.strategist@bresnan.net

April 12: New York Chapter Meeting
Adrienne Laris Toghraie, TradingOnTarget.com, Overcoming Sabotage. Contact: Cassandra Townes, admin@mta.org

April 17: Atlanta Chapter Meeting
Larry McMillan, renowned options trader will discuss the keys to successful options trading in the stock market. Contact: Tim Snavelly, tim_snavelly@rhco.com

April 21: Chicago Chapter Meeting
Speaker Presentation: John Jonelis, System Design and a comparison of various technical indicators. Contact: Ross Leinweber, rleinweber@lakeshoretrading.com

May 13-16: MTA 28th Annual Seminar
For complete information and Registration Form: www.mta.org/seminar2004

Newsletter Submissions
Changing jobs? Have an idea for a story? An anecdote to share? Advice for other MTA members and affiliates? We’d love to read them!

Remember the MTA newsletter is for you! Help us make Technically Speaking an indispensable part of your membership in the MTA. Please send submissions and ideas to editor@mta.org

Technical Analysis Garners a Following
Barron’s Online has reported that the twice weekly “Getting Technical” column, penned by the MTA’s own Michael Kahn, was its most popular column based on page views, topping even Barron’s institution Alan Abelson for the first time. In February, it also claimed the number one spot in unique viewers.

Mr. Johnson, continued from page 1

“Unusual results in securities, as I say, have to be looked for in the basically artistic camp, which is relatively small in number as are all artistic groups.”

Fidelity has always been known for its use of technical analysis. According to Doane, Fidelity’s Chart Room was a special place, and visitors thought it was a great honor to be invited into the inner sanctum. Even today, the tradition continues. Fergus Shiel, a leading Fidelity manager, said about technical analysis: “Technical analysis is not the voodoo some people would have you believe. A chart is meant to be a visual representation of what the market’s thinking, and you disregard it at your own peril. It’s often an indication of the public’s assessment of a company.

Mr. Johnson was the recipient of the third MTA Annual Award recognizing his lifetime of accomplishment in 1976. He died in 1984, at the age of 86. Today his son and granddaughter manage the company. If the value of Mr. Johnson’s legacy were measured only in dollars it would be great, the combined personal net worth of his daughter and granddaughter exceeds $14 billion. But his legacy includes much more than that. His talents are responsible for improving the lives and retirements of many of the more than 18 million investors in his funds.

This article is based upon research done by George A. Schade, Jr., CMT. He can be reached at ajlschade@adelphia.com

HELP WANTED
Trendfund.com seeks experienced stock and option Trader with proven, verifiable track record as successful day or swing trader. Position will be responsible for trading in a chat room environment while educating members on a wide range of trading techniques to ensure that traders gain the broadest views of the financial markets while minimizing risk and maximizing profits.

This job is ideal for people that presently trade from home and are interested in taking their trading career to the next level as well as for people that traded in the past and are looking to get back into the market. Resumes can be sent to carol@trendfund.com
A trader experiences many things during the course of his career. An event in a trader’s life may be positive or negative, but it can throw him off of the course of following his trading rules if early care to plan is not taken. How an individual handles getting ‘back in the saddle’ after such experiences can determine whether or not he or she will continue to be in the trading profession or become defeated. Examples would be:

1. A System that is No Longer Effective in the Present Markets.

Do you have a pre-determined level established to know when you should re-evaluate your system or change it completely? The average life expectancy of most good mechanical systems is about two years. It is important to take time to have a periodic review three or four times a year to adjust your system to the changing markets. It is likely that you will not have to develop a totally new trading system if you modify your trading approach to adapt to the changing markets. With periodic reviews, you will be able to return to trading refreshed and confident with your new and improved system.

2. Drawdowns

How much drawdown can you handle before you completely blow up your account or create negative emotional anchors that bring about more losses? Ask yourself if the drawdown that you are experiencing is the result of your system failing to work or you failing to work the system. If your system is not working, re-evaluate your business plan. If you are not working the system, get some coaching. Acknowledge the temporary setback that is in alignment with your rules and take the next trade as if there was no drawdown. If you are trigger shy when taking the next trade, perhaps you need a day off to re-acquaint yourself with your business plan. Take time to test your system and re-establish confidence in it. To get back in the saddle, motivate yourself with a book, tape, film or seminar.

3. Personal Problems

Are you able to pull back from trading when things are not going well in your environment? If personal issues are draining your energy, you will not be able to maintain the top performance state necessary to make good choices. Time off from trading will save you from the hardship of the losses and the resulting negative emotional anchors for continued losses. I know the argument is that you cannot afford to take time off from trading, but can you afford more losses? Seek help during difficult times to assist you in making better choices. Monitor the markets for a day or so to get back into the flow before you start trading with real money.

4. Major Changes

All major changes, even happy ones, take away focus and energy. During these times, it is better to back off from trading or take less risk. Major life changes like relocating, a new family addition, recent death in the family or divorce will scatter your focus making you more likely to make bad choices.

5. Overconfidence

Set a psychological checkpoint for when you are making an extraordinary amount of money to prevent giving it back because you feel invincible. Your system or method has the ability to grant large drawdowns as well as extraordinary profits. Have a reality check anchor like a “caution sign” to bring out when you feel overconfident.

You will continue to be a consistently good trader who remains in his saddle if you remember to contingency plan for the pitfalls of other traders.
Looking Back and Looking Forward: Dow Theory

Robert W. Colby, CMT

Part 1: Looking Back

The Dow Theory is a major cornerstone of technical analysis. It is one of the oldest and best-known methods used to determine the major trends of stock prices. It was derived from the writings of Charles H. Dow from 1900 to 1902 published in the daily newspaper he founded, The Wall Street Journal. Dow’s Theory was further refined by analysts and writers S. A. Nelson, William P. Hamilton, and Robert Rhea in the first few decades of the 20th century.

We assume that readers are familiar with the seven basic principles of Dow’s Theory, which are available in full at http://www.robertwcolby.com/dowtheory.html. In brief summary, these are:

1) two Dow-Jones Averages, Industrial and Transportation, discount everything;
2) there are three trends—Primary Tides are big price moves that last for many months up to several years, Secondary Reactions last for many weeks and correct part of the Primary Tide movement, and Ripples last for days and are of no concern here;
3) the up Tide of the full cycle unfolds in three Bull phases, moving from the depths of Skepticism, to the big markup of Growing Recognition, up to churning Enthusiasm at the top;
4) the down Tide of the full cycle unfolds in three Bear phases, moving down from the top in Disbelief, hard down panic of Shock and Fear, and ending in Disgust and distress selling at the bottom;
5) the two Averages must confirm each other;
6) only end-of-day, closing prices are considered;
7) the Primary Tide remains in effect until a reversal has been signaled by both Averages.

Further Helpful Elaboration on the Dow Theory

The whole point of this time-honored theory is the identification of major movements of the stock market. Such major moves take quite some time to unfold, and prices change by a considerable amount. Although not specified by the Dow Theory, the Primary Tide usually lasts a year to several years. Bull Markets typically run toward the longer length, while Bear Markets are shorter in duration but more violent in the velocity of downward price movement.

Victor Sperandeo has quantified Dow Theory definitions. (See Sperandeo, Victor, “Trader Vic—Methods of a Street Master”, John Wiley & Sons, New York, 1991.) He found that 75% of Primary Tide Bear Markets declined from 20.4% to 47.1% in price. Also, 75% of Bear Markets lasted between 0.8 and 2.8 years. Bull Markets lasted much longer: 67% lasted between 1.8 and 4.1 years.

The Secondary Wave is a reaction or correction in the opposite direction to the Primary Tide. This intermediate-term Secondary Wave typically lasts from three to 13 weeks. It typically retraces one-third, one-half, or two-thirds of the preceding Primary Tide swing. Sperandeo found that 65% last from three weeks to three months, and 98% last from two weeks to eight months. Further, Sperandeo found that 61% retrace between 30% and 70% of the previous Primary Swing in price.

The Minor Ripple typically lasts only one day to three weeks. It is ignored as insignificant noise by the Dow Theory. Sperandeo found that 98.7% last less than two weeks.

A Line is a narrow sideways price range, extending ten calendar days or longer, the longer in time the more significant. The usual guideline to define a narrow range is approximately 5%, although William Hamilton classified a price range in excess of 11% from February to June 1929 as a Line. The Averages usually break out of a Line in the same direction as the Primary Tide. These breakouts are quite reliable. Although a Line can mark a reversal to a new direction opposite to the established Primary Tide, such reversal signals are much less reliable.

No matter how large a move in just one Average, it would not be sufficient to indicate a change in the Primary Tide unless the other Average confirmed. Non-confirmations (divergences where one Average exceeds a preceding Secondary Wave reaction price extreme on a closing price basis but the other Average fails to confirm) function only as warnings to be alert for the possibility of an actual signal ahead.

It is not necessary that both Averages confirm on the same day or even the same month, though some authorities believe the closer the better and become more wary as the days pass without confirmation. In the absence of joint confirmation by both Averages, there is no signal of major trend change—in fact, there is non-confirmation.

As a final important detail, the most minimal unit of price measure for the Averages (down to a penny, that is, 0.01, with no rounding off) strictly counts, when comparing the current closing price of each Average to its previous Secondary Wave extreme close.

The six phases of the full bull through bear cycle (seven basic principles #3 and #4: Skepticism, Growing Recognition, Enthusiasm, Disbelief, Shock and Fear, and Disgust) are no secret. They have been written about by Dow and his successors for more than a century. These phases repeat endlessly, over and over again. Still, the public never learns. It is all too easy, it is merely human nature, to get caught up in the mass mood of the moment, lose all perspective and run with the emotions of the crowd. If you do not learn how to recognize the technical indications, and if you are not disciplined, the easiest thing in the world to do is to allow yourself to be pulled along by the mass mood, the “group think”. But that is the way to be wrong at the critical turning points, to buy at tops and sell at bottoms, and to consistently underperform the market. To make money and outperform the market, we need to do the opposite. The Dow Theory tells us how.

Indicator Strategy Example for the Dow Theory

The venerable Dow Theory after a century has stood the test of time. Our tests of the Dow Theory against the actual historical data covering the past 101 years from January 1900 to February 2001 confirms the importance of this major contribution to technical analysis. We attempted to minimize subjectivity and judgment, and we added no other forms of analysis. We checked and rechecked our signals against available published sources. Based on trend confirming closing prices only for the Dow-Jones Industrial Average and the Dow-Jones Transportation Average, using only the Seven Basic Principles of Dow’s Theory, we found very positive results for both long and short signals.

At Arthur A. Merrill’s suggestion (on page 84 of his “Behavior of Prices on Wall Street”, Second Edition, The Analysis Press, Chappaqua, NY, 1984), we multiplied by 0.7339 all closing prices for the old 12-stock Dow-Jones Industrial Average series prior to December 12, 1914, in order to make it comparable with the new 20-stock Industrial Average introduced at that time. (Previous compilers of Dow Theory signals failed to make this adjustment, throwing off their tabulations of hypothetical profits.)

Starting with $100 and reinvesting profits, total net profits, long and short, for this Dow Theory strategy would have been $864,494.25, assuming a fully-invested strategy, reinvestment of profits, no transactions costs and no taxes. This would have been 3920.98% greater than buy-and-hold. More than three out of four signals, 75.41% of the 41 signals, would have produced winning trades. Trading was inactive with only one trade every 605.5 days on average. Even short selling, which is included in this strategy, would have been profitable. A complete list of the 63 signals can be found at http://www.robertwcolby.com/dowtheory.html.

Criticisms of Dow’s Theory

Despite its impressive record, Dow’s Theory has been subjected to its share of criticism. Because it merely identifies and follows major trends, it does not anticipate or forecast turning points, and it is always a bit late after the turning points. But given the difficulties of forecasting, this might actually be an advantage. The most significant criticism is that possible imprecision and subjective judgment in the interpretation of a Secondary Reaction could produce confusion as to the pre-
cise timing of Dow Theory signals. More precise specific definitions and trading rules can overcome this criticism.

The strengths of Dow’s Theory far outweigh any weaknesses. Dow’s Theory has survived the test of time over the past turbulent century of unprecedented events, which included two world wars, a world-wide economic depression, and mind boggling triumphs of science and technology unimaginable in Charles H. Dow’s day. Consider too that Dow created from scratch a predictive stock market barometer over a period of just a few years, with only a small quantity of primitive data and with no computer. If Charles H. Dow and his successors, S. A. Nelson, William P. Hamilton, and Robert Rhea, were alive today, they might extend their pioneering work with the help of vastly more data and power to analyze that data than they ever could have imagined.

Properly governed by sensible discipline to insure valid procedures and logic, the computer can handle complex data far more efficiently than our unaided mental capabilities ever could. It can quickly find patterns in reams of confusing data, patterns that the human eye could never see and the human mind could never grasp. Since it has no emotions, and it does not care if our pet hypothesis is accepted or rejected, the computer does not see signals that are not really there, and it does not ignore signals that are really there. We cannot match the computer’s ability to be coldly calculating. It can help us to precisely define decision rules, with which we can then actually execute precisely defined actions. We must always remember, however, that because the computer lacks judgment and common sense, we must impose on it reasonable limitations, lest it spew forth more misleading noise than we already have to deal with.

**New Dow Theory Hypotheses for Computer-Assisted Testing**

**Hypothesis One:** We can use objective and precise analysis to identify a signal. Since distinguishing between Primary Tides, Secondary Reactions, and Minor Ripples is the biggest problem human analysts have with Dow’s Theory, let us program our computer to define these movements by the criterion of maximization of profits.

At its most basic level, excluding any qualifications or subtleties, Dow’s Theory requires an advance that rises above a previous high for a buy signal and a decline that falls below a previous low for a sell signal, for both averages. This simplest possible definition is similar to what has been called a Price Channel Trading Range Breakout Rule. (This is also known by futures traders as Richard D. Donchian’s n-period trading rule and one of Richard Dennis’s Turtle trading rules.) It is one of the oldest and simplest trend following models: we buy when the daily closing price moves up to a new n-period high; then we sell long and sell short when the daily closing price moves down to a new n-period low. This is a precisely definable model that leaves no room for doubt or fuzzy thinking. We can work with such a model.

With a little imaginative database manipulation and much persistence, we were able to analyze the daily closing prices of both the Dow-Jones Industrial and Transportation Averages simultaneously in a single test, rather than just one at a time, like we had to do in the good old days. Specifically, we created an artificial file in Microsoft Excel, where we copied the Transportation Average’s closing price (multiplied by 100 to avoid handling decimals) into the field (column) normally reserved for the Industrial Average’s daily Volume, then we copied this file into a data file management software program, DownLoader for Windows, by Equis International. With this prepared data and MetaStock(r) for Windows software, also from Equis, we are able to search up to 32,000 different period lengths applied to the closing prices of the Dow-Jones Industrial Average (INDU) and a separate period length applied to the closing prices of the Dow-Jones Transportation Average (TRAN). With four possible actions and two price Averages to test, there are eight indicators (4 x 2 = 8) to test for each model. We can vary the number of specific period length values (more generally known as parameter sets) for each indicator. As Louis B. Mendelson (Designing and Testing Trading Systems: How to Avoid Costly Mistakes, Mendelsohn Enterprises, www.profittaker.com) has pointed out, as we allow an arithmetic increase in the number of parameter sets (period lengths), the number of models tested increases geometrically. For example, if we allow three period lengths for our eight indicators, we test three to the eighth power = 3 X 3 X 3 X 3 X 3 X 3 X 3 = 6561 models. But if we attempt to add just one more period length to our test, we jump up to 4 to the 8th power or 65,536 models. Adding just that one extra period length overwhelms our present software resources, which limits us to 32,000 models in a single test. Although our computing power is great compared to the past, it is still limited for testing complex models.

Fortunately, we are not forced to limit ourselves to very coarse testing with only three broad parameters. As an alternative, we can break our testing into two halves, longs only and shorts only, testing each separately. This cuts the number of indicators in each test in half, from 8 to 4. With only four indicators, we can test thirteen period lengths in one pass, since thirteen to the fourth power is 28,561 models. After we develop the combined model, indicator by indicator, because this strategy did not approach the traditional Dow Theory’s results, we keep trying.

**Hypothesis Two:** Period lengths should be allowed to vary according to the long or short nature of the signal. The statistical tabulations published by Robert Rhea in the 1930’s and Victor Sperandeo in 1991 show that Bull Markets and Bear Markets have been much different in extent and duration. Therefore, look-back period lengths for buy and sell signals should not be the same. Furthermore, the requirements for each of the four possible market actions (buy long, sell long, sell short, and cover short) need not necessarily be the same. Therefore, we will allow these parameters to vary.

**Hypothesis Three:** Period lengths for each Average should be allowed to vary independently. Since the historical behaviors of the Dow-Jones Industrial and Transportation Averages obviously differ, with the two Averages even trending in opposite directions occasionally, let us allow different parameters for each Average.

Combining the three hypotheses, we completely cover all trading possibilities. We allow two separate period lengths for each of the four possible market actions (buy long, sell long, sell short, and cover short), one period length applied to the closing prices of the Dow-Jones Industrial Average (INDU) and a separate period length applied to the closing prices of the Dow-Jones Transportation Average (TRAN). With four possible actions and two price Averages to test, there are eight indicators (4 X 2 = 8) to test for each model. We can vary the number of specific period length values (more generally known as parameter sets) for each indicator. As Louis B. Mendelson (Designing and Testing Trading Systems: How to Avoid Costly Mistakes, Mendelsohn Enterprises, www.profittaker.com) has pointed out, as we allow an arithmetic increase in the number of parameter sets (period lengths), the number of models tested increases geometrically. For example, if we allow three period lengths for our eight indicators, we test three to the eighth power = 3 X 3 X 3 X 3 X 3 X 3 X 3 = 6561 models. But if we attempt to add just one more period length to our test, we jump up to 4 to the 8th power or 65,536 models. Adding just that one extra period length overwhelms our present software resources, which limits us to 32,000 models in a single test. Although our computing power is great compared to the past, it is still limited for testing complex models.

April 10, 2004

**Technically Speaking**

submissions due to

market.strategist@bresnan.net
uncovered:

- Enter Long (Buy) when INDU rises to a new 9-trading day high and TRAN rises to a new 39-trading day high.
- Close Long (Sell) when INDU falls to a new 22-trading day low and TRAN falls to a new 166-trading day low.
- Enter Short (Sell Short) when INDU falls to a new 22-trading day low and TRAN falls to a new 166-trading day low.
- Close Short (Cover) when INDU rises to a new 36-trading day high and TRAN rises to a new 32-trading day high.

The results are enlightening. The asymmetry of these rules means that we do not always have a position. Note that we buy on a very sensitive, short-term price confirmation, only a new nine-day high for the INDU confirmed by a 39-day new high for TRAN. Thus, it is relatively easy to get a buy signal. In contrast, note that it is relatively hard to get sell and sell short signals: we have wait for the INDU to fall to a new 22-day low confirmed by the TRAN falling to a new 166-day low. Thus, this non-thinking model has correctly recognized the long-term bullish bias of a stock market that spends more time going up than down and has bigger rallies than declines.

Looking at the entire period from the beginning of January 2, 1900 to February 16, 2001, the above decision rules do a consistent job of precisely defining the buy and sell signals. There is absolutely no doubt as to what the signals are and when and at what price level the signals occur. If we could have executed this strategy over the past 101 years, we would have beaten the buy-and-hold strategy by a staggering 5637.10%. Total net profit would have been $1,233,454.40. This more than doubled the profit would have been $1,233,454.40. This more than doubled the passive buy-and-hold strategy. For traders with a range of 100-days or less would have outperformed the profitable indicator over all time frames and, particularly hard to get sell and sell short signals: we have wait for the INDU to fall to a new 22-day low confirmed by the TRAN falling to a new 166-day low. Thus, this non-thinking model has correctly recognized the long-term bullish bias of a stock market that spends more time going up than down and has bigger rallies than declines.

Did you know...

- The MTA Web Site includes streaming video archives of past New York monthly educational meetings. Go to the video archive link at http://www.mta.org/membership/video to see presentations given since August 2003.

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CMT Registration Now Open, see page 2 for details!

2004 CMT Exams – all 3 levels – will be given twice in 2004

Exam Date: Saturday, May 22
Registration deadline is Friday, April 2

Exam Date: Saturday, November 20
For the first of these “Chart of the Month” features for the MTA newsletter, I’ve chosen the gold market. As technicians, we know that human behavior repeats, although it rarely repeats exactly. Charts are the history of that behavior in markets, and can provide yardsticks against which we can measure current market behavior.

The smaller chart (inset lower right) shows every London PM fixing since June 30, 1979. It is a history of gold’s two-decade bear market. I have arbitrarily identified five rallies within that bear market. They are shaded gray and numbered. Their particulars are described in the table.

The gray line shows the 1985-7 bear market rally (\(\text{on the inset chart}\)) with the 2/25/85 low aligned with the 4/2/01 low on the current chart (black line). They both share the same price scale. If the 2001-4 rally has ended, it was remarkably similar to that of 1985-7, as the larger chart demonstrates. Looking at the table, it would have been a “median” bear market rally. Two of the five rallies lasted longer and two rallies had greater gains. That makes the January 13, 2004 high at 425.50 a crucial level. If the gold market exceeds that high, this rally will have lasted longer than any rally since this bear market began 24 years ago. Using the yardstick of history, a new high would strongly suggest that the bear market is finally over. The fact that the rally appears to have ended at the “median” level and duration suggests that it was yet another bear rally, and a mediocre one, at that.

- John Carder, CMT
Favorite Technical Analysis Website Search

At the MTA Seminar in May, a workshop will be given on favorite websites for TA – from free to costly. We are asking all MTA Members and Affiliates to submit up to three (3) of their favorites to webpicks@mta.org by May 1.

Results from the workshop will be published in the June issue of Technically Speaking.

CMT Workshop to be Held at Seminar in Marco Island

CMT candidates for all three levels will be able to quiz key members of the MTA Accreditation Committee and take one more step forward in their preparation for the CMT exams. One of the key events at the 2004 MTA seminar in Marco Island, Florida will be the DITA Level 1 and CMT Levels 1, 2 & 3 Workshops.

These interactive workshops will feature Brad Herndon, Les Williams, Connie Brown, Barry Sine and Mark Cremone. All bona fide professionals and contributors to the development of the CMT Program, they will answer any and all questions from CMT candidates - or those thinking about joining the CMT Program.

The session will last 2-1/2 hours and will allow plenty of time for attendees to have their uncertainties about the CMT settled. As well, most of the committee will be available throughout the 3 days of the seminar for further discussions.

We encourage CMT candidates – present or future – to make a date for Marco Island to polish off any refinements to their exam preparations. This is a terrific opportunity - do not miss it!

Invite your Favorite Vendor to Marco Island

We are calling upon our members and affiliates to help us make the 2004 Marco Island seminar a great success. Every year we try to have a solid roster of vendors exhibit their wares in the tradeshow part of the seminar. This year we would like to improve our chances at getting products and services which attendees would find interesting and valuable. Therefore we are asking everyone who reads this article to help us by answering the following questions:

1. Name 3 or more suppliers or companies with which you, as a technical analyst have done business in the last year and/or -
2. Name 3 or more suppliers or companies you would like to see as exhibitors at our annual seminar and/or -
3. Name 3 or more suppliers or companies from which you would like us to negotiate discount and/or -
4. Name 3 or more suppliers or companies which you feel would provide terrific value to the practice of technical analysis.

We will take your suggestions and tally the counts against each vendor name. Our exhibition sales team will then approach these people and indicate we have membership interest in their product or service. This can help us entice them to come to Marco Island and show their wares. As well they may also offer their service or product at a discount to MTA membership and we would certainly add that vendor to the numerous others on our website benefits page.

We thank you in advance for your help in making Marco Island the best event ever!

Please send your responses to tom@mta.org

Market Technicians Association, Inc.
28th Annual Seminar
May 13-16, 2004
Hilton Marco Island

Managing Market Risk in the 21st Century

N 25° 55.18” – W 81° 43.60”
Marco Island, Florida, USA

Seminar Rates
The seminar rate covers the daytime seminar schedule for Friday and Saturday. It also gives access to the exhibit room and covers the coffee breaks for attendees. The seminar rate does not include hotel room, breakfast or dinner functions as explained below.

- $525 MTA Member & Affiliate
- $580 IFTA Colleague
- $680 Non-MTA/Non-IFTA

Room / Dining Package
The rates below include hotel room plus tax for 3 nights (Thursday, Friday and Saturday), 3 breakfasts (Friday, Saturday and Sunday), plus receptions and dinners for Thursday, Friday and Saturday nights.

- $750 Single (Room/meals for 1 seminar attendee)
- $995 Double (Room/meals for 1 seminar attendee and 1 spouse/guest not attending daytime meetings.)
- $650 Share* (Room/meals for 2 seminar attendees sharing room)

*Dining Package Only (Alternate Plan)
Because the banquet functions are an integral part of the interaction among attendees, we have made available the Dining Package (no room), which includes Friday, Saturday, Sunday breakfasts and receptions/dinners (plus hotel tax + gratuities for these banquet functions and an MTA administrative charge.) You cannot attend any of these functions, even to observe, if you do not sign up for the Dining Package.

- $395 Dining Package only - NO HOTEL ROOM
## 2004 MTA Seminar Schedule - Final as of March 15

### Thursday, May 13
- **7:30** Golfer’s Breakfast (on own)
- **9:00** MTA Third Annual Golf Tournament  
  *Reserved tee times at Lely Flamingo Island Club, Naples*
- **12:00** Seminar Registration Opens
- **3:00** Hotel Registration
- **6:00** Reception/Dinner at poolside
- **8:00** Dessert/Greetings/Introductions  
  - Fred Meissner, CMT, MTA President  
  - David Clemens, CMT, Seminar Chair  
  - Presentation of the Charles H. Dow Award  
  - Keynote Speaker  
  - John Bollinger, CFA, CMT, President, Bollinger Capital Management, Inc.

### Friday, May 14
- **7:00** Breakfast
- **8:00** Session 1  
  - Tract 1: CMT Level 1, 2, 3 and DITA I Question & Answer  
    - MTA Accreditation Committee  
  - Tract 2: Effective Interviewing and Navigating Salary Negotiations Through Annual Reviews  
    - Peter Goodman, Dir. of Business Dev., Boxwood Technology  
  - Tract 3: Understanding the Sharpe Ratio and How to Create High-Sharpe-Ratio Investments  
    - Bob Fulks, Trader, self-employed
  - **9:15** Session 2  
    - Tract 1: CMT Level 1, 2, 3 and DITA I Question & Answer - continued  
      - MTA Accreditation Committee  
    - Tract 2: Writing for the Media: How to Make Your Point so Your Audience Can Really Understand  
      - Michael Kahn, columnist for Barron’s and Barron’s Online and editor of Quick Takes Pro Newsletter  
    - Tract 3: History and Origins of Technical Analysis  
      - A PhD candidate at MIT will present fascinating highlights of the first year of a five-year project research into how and why technical analysis works
  - **10:30** Break
  - **10:45** Session 3  
    - Tract 1: The Pick of the Crop - TA Favorite Websites  
      - Come see and discuss some of the favorite technical analysis websites on the internet as chosen by MTA members and affiliates and IFTA colleagues  
    - Tract 2: Effective Interviewing and Navigating Salary Negotiations Through Annual Reviews  
      - Peter Goodman, Dir. of Business Dev., Boxwood Technology  
    - Tract 3: Using the Financial Data Calculator  
      - Bob Busby and Bill Rafter of Mathematical Investment Decisions, Inc. will show how to use this research software given free to all MTA Members and Affiliates
  - **12:00** Lunch (on own)
  - **1:30** Point & Figure: More Than Just Xs & Os  
    - Tom Dorsey, President, Dorsey, Wright & Associates
  - **2:45** Presentation by the author of the winning Dow Paper  
    - 2004 Charles H. Dow Award winner

### Saturday, May 15
- **7:00** Breakfast
- **8:00** Commodities: A View from the Pits  
  - Jeanette Young, CFP, CMT, President of JASchwarz LLC and author of The Option Queen Letter
  - **9:15** “Scenario Planning” Approach to Optimal Money Management  
    - Ralph Vince, Vice President-Development, Select-Right Configuration Systems
  - **10:30** Break
  - **10:45** Using Volatility Conditions to Determine Choice of Market Strategies  
    - Linda Raschke, President, LBR Capital
  - **12:00** Lunch
  - **1:30** Making Money Using Technical Analysis  
    - Peter Mauthe, President, Spectrum Financial, Inc.
  - **2:45** MTA Educational Foundation Update  
    - Technical Analysis Goes to College - Review of the MTAEF Course  
      - Mike Epstein, Visiting Scholar, MIT/Sloan Laboratory for Financial Engineering  
      - Dedication of the Alphier Memorial Library (a special section of the MTA Library)  
        - John Bollinger, CFA, CMT, President, Bollinger Capital Management, Inc.
  - **3:15** Break
  - **3:30** Panel: Pairs Trading, the Hottest Area in Alternative Investments Being Utilized for Short-Term Trading  
    - John Greeley, Moderator  
      - Steve Slavin, Butler Wick Institutional Sales and Co-Founder, PairTrader.com  
      - Ron Schelling, Founder and Forex Trader, 2Hedge.com  
      - Douglas Ehrman, CEO and co-founder, PairsTrading.com
  - **6:00** Cocktail Reception
  - **7:00** Farewell Dinner  
    - MTA Annual Award Presentation  
    - Closing Remarks  
      - Ralph Acampora, CMT, Managing Director, Director of Technical Research, Prudential Equity Group, LLC

### Sunday, May 16
- **7:30** Breakfast
- **9:00** MTA Annual Meeting
- **12:00** Hotel checkout
2004 REGISTRATION FORM

MTA 28th Annual Seminar • May 13-16, 2004

Please print or type:

Name

Name (as you wish it on your badge)

Firm

Address

City

State/Country Zip/Postal Code

Daytime Phone Daytime Fax

Daytime E-mail Alternate E-mail

Spouse/Guest’s Full Name

Are you a first-time attendee? [ ] Yes [ ] No

Seminar Rate Per Person (Check only one)
(Covers daytime seminar schedule – see explanation page 4)
[ ] $525 MTA Member & Affiliate
[ ] $580 IFTA Colleague
[ ] $680 Non-MTA/Non-IFTA

Room/Dining Package (Check only one) +
(See Room/Dining package explanation page 4)
[ ] $750 Single (1 seminar attendee)
[ ] $995 Double (1 attendee, 1 non-seminar guest)
[ ] $650 Share (per person, 2 seminar attendees)
[ ] $395 Dining Package only (no hotel room)

Total = Seminar Rate + Room/Dining Package $________

Optional Golf Tournament (Thursday)
[ ] $90 Golf Tournament fees
[ ] Yes, I need a room for Wednesday night and will pay hotel upon checkout for the extra night

Total with golf fees added $________

Credit Card Number Expiration Date

Name on Card U.S.$ Amount

Signature

Please submit this completed form and payment (made either by check or money order payable to Market Technicians Association in U.S.$ on a U.S. bank) and mail to 74 Main Street, 3rd Floor, Woodbridge, NJ 07095 or by credit card: American Express, MasterCard or VISA OR

Questions about the seminar are answered by e-mailing seminar@mta.org

Pre-Register for Friday Morning Sessions

8:00 Session 1
[ ] Tract 1: CMT Level 1, 2, 3 & DITA I Questions & Answers
[ ] Tract 2: Effective Interviewing and Salary Negotiations
[ ] Tract 3: Understanding the Sharpe Ratio

9:15 Session 2
[ ] Tract 1: CMT Level 1, 2, 3 & DITA IQ & A - continued
[ ] Tract 2: Writing for the Media
[ ] Tract 3: History and Origins of Technical Analysis

10:45 Session 3
[ ] Tract 1: Favorite Websites for Technical Analysts
[ ] Tract 2: Effective Interviewing and Salary Negotiations
[ ] Tract 3: Using the Financial Data Calculator

Deadlines
[ ] Hotel room registration closes Friday, April 9; room availability cannot be guaranteed after April 9.
[ ] After Friday, April 9 please contact MTA office on room availability.
[ ] Seminar registration closes Friday, April 30.