Reeions Spotlight
Denver, Colorado Chapter - July 16th, 2005

Combining Economic and Technical Analysis
Presented by MTA Member Tom McClellan

Submitted by Michael Carr, CMT

At the Denver MTA Chapter meeting on July 16th, Tom McClellan presented unique insights into the markets combined with practical applications of those insights. He left the audience with tools to forecast the health of the economy, and the ability to profit from the big picture.

Economists can learn a great deal from technical analysts. Traders don’t get to trade very long if they don’t test their hypothesis because they will suffer agonizing real world loss of trading capital if they’re wrong. Economists don’t usually have enough data to test their hypothesis, and when proven wrong can simply modify their theories. Identifying practical applications of economic theory can benefit both academics seeking to explain behaviors and traders who can enjoy more immediate rewards through increased equity in their trading accounts.

Tom began his presentation by demonstrating the reliability of the 40-year cycle in stock markets, real estate bubbles, gold rushes and economic wars (Table 1).

Offering a practical application of this insight, Tom demonstrated a simple approach to investing in gold. Investors only need to know two things to know if a market will go higher; a) how much excess money is available, and b) how interested other investors are in allocating that excess money into a particular market. In the gold market, investors tend to buy when more traditional investment options are less desirable. When real short-term interest rates are negative, gold should be the investment of choice (Figure 1).

Turning his attention to a shorter time frame, Tom addressed the well known 4-year cycle. Many analysts follow this cycle in the stock market. A refinement to this cycle that Tom finds useful is to begin the year on November 1, recognizing that the election winner is often discounted by the market in the days leading up to the election. The general conclusion is the same - the first two years of a President’s term are generally flat, the third year usually shows the largest gains, and the fourth year is also typically an up year. In his work, Tom has found that this same cycle is present in long-term interest rates, as shown for 10-Year Treasury yields in Figure 2.

Table 1: 40-year Cycles

<table>
<thead>
<tr>
<th>Real Estate Bubbles</th>
<th>Gold Rushes</th>
<th>Economic Wars</th>
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<tr>
<td>1788</td>
<td>Jamestown</td>
<td>1776-1783 Revolutionary War</td>
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<td>Settling Appalachia</td>
<td>1608</td>
<td>1812-1815 War of 1812</td>
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<td>1825</td>
<td>English coins</td>
<td>1861-1865 Civil War</td>
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<td>NYC after the Erie Canal</td>
<td>1661</td>
<td>1914-1918 WWI</td>
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<td>1889</td>
<td>Brazil gold</td>
<td>1941-1945 WWII</td>
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<td>Oklahoma Land Rush</td>
<td>Mexico silver</td>
<td>1980s Cold War Climax</td>
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<tr>
<td>1925</td>
<td>NC &amp; GA</td>
<td>TBD</td>
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<td>Florida Swamp Land</td>
<td>Sutter’s Mill</td>
<td>1930s Mini-US rush</td>
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<td>1925</td>
<td>1848</td>
<td>2020s</td>
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<td>Levittown (suburbia)</td>
<td>1897</td>
<td>2010s TBD</td>
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<td>1950/60s</td>
<td>Klondike</td>
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<td>2005</td>
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<td>TBD</td>
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Figure 1: Gold and Real Interest Rates

Figure 2: 10-year Interest Rates and the 4-year Cycle

Technical analysts are familiar with the concept of intermarket analysis as popularized by John Murphy, CMT, and other commentators. In this

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**From the Editor’s Desk**

I’d like to begin by introducing myself as the new Editor of Technically Speaking. I replace Mike Carr, who is stepping down to make a little more time for himself and his family. I know I have a tough act to follow but, fortunately for me, Mike will continue to contribute to Technically Speaking not only as an Associate Editor, but also as a mentor to me as I assume this new role.

Speaking of Associate Editors, we need more of them! If you are looking for a way to get more actively involved in your MTA and like to write, this is a great way to do it. I have been an MTA Member for close to 20 years, and I have to say that THE single best benefit of MTA Membership, at least for me, has been the opportunity to network with other members. Through networking with our Membership, I have been able to find everything from obscure data that no one else had, to a new job. But you can’t network with anyone unless you put yourself out there and let others know who you are. Becoming an Associate Editor is a great way to do just that! Each Associate Editor will be listed as such in every issue of TS, and will also have their picture and bio appear with each published article they contribute.

We especially need Associate Editors on a Regional level. If you regularly attend any of the MTA’s Regional monthly meetings and would like to cover the meetings for Technically Speaking, please contact me ASAP at editor@mta.org. I will then send you a digital camera, complete with all the accessories and software, so you can also provide us with some photos of your meeting. Again, this is not only a great way to let the rest of the MTA know what your particular region is doing, but an opportunity to let the rest of the Membership get to know you!

Now, let’s move on to the Newsletter itself. On the cover of this month’s issue we present our first Regions Spotlight, which covers MTA’s Denver Chapter. Inside, you will find information on a variety of MTA-related topics including new improvements in our CMT testing process, plus information on our new and improved technology platform called Net-Forum. We also present Part 1 of a three-part article on Swing Trading by money manager and author Dave Landry.

I hope you enjoy it.

John Kosar, CMT

**From the President’s Desk**

The MTA Snags Greenspan!

Among the various MTA endeavours, the annual review of Committee chairs and appointments is a mainstay. I want to thank many of those who have volunteered their time and welcome those who are now volunteering their time. To begin with, we thank Tim Snavely for his efforts in Regions and introduce Steve Poser who is now going to head this committee. I think having Steve in this position, given his position on the Board, will help facilitate increased communication between the Board and the Regions. John Kosar has stepped into the chair as newsletter editor, on top of his VP duties, and his ongoing efforts towards the betterment of the MTA are much appreciated. John Bollinger is chairing our Awards committee while Barry Sine, on top of his Board commitments, is going to continue to Chair the seminars committee. There are still a few more chairs to shuffle and I will keep everyone in the loop as that gets sorted out.

The MTA continues to push forward with new initiatives. John Kirby has been working extremely hard and has presented us with a great deal on computerized testing. Aside from our recent success from the SROs, I believe this is one of the best things to happen to the CMT in many years. Please read John’s column for further details. We are not finished, we have other initiatives in different stages of development and will be discussing them with everyone over the next few months. As I said a few months back, the wind is at our back.

Finally, I wanted to thank Neil Genda for his work chairing the Ethics Committee. This was a particularly busy area this year. The MTA now has Greenspan who is going to take over Ethics. We welcome Cary Greenspan, especially since I have always wanted to ask The Maestro why you cannot recognize a bubble until after it is over.

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For the fall CMT exams the MTA has moved to a computer-based testing system. For several years we have been wanting to do it. Our Members have demanded it. The MTA has promised to do it. Now, we are finally able to deliver on our promise.

Here are the details. When MTA contracted with the Chauncey division of Educational Testing Service (ETS) several years ago to administer the CMT exams, they were pencil and paper based. We wanted our tests to be computer-based, but we were told by Chauncey that because of our size and our worldwide distribution, (35% of CMT exams are given outside the US) it would be too expensive for us to do this.

However, Chauncey was acquired by Thompson Prometric, new opportunities began to open up. We put out a request for proposals, and Pearson Vu and Thomson Prometric responded. The bidding was very competitive. Both companies are world class in the computer-based testing business, and they both are vendors to the NASD for their exams. At the end of the day, Thomson Prometric got the nod because they fit best with our scheduling and transition requirements.

What this means to the MTA is our CMT test-takers will now have 347 sites worldwide to choose from instead of just 37. This will make it much easier and more convenient to get to our test-taking facilities. In addition, there will now be a 2-5 day window for the exams instead of just 1 day. That means better accommodation for religious obligations, and more convenience for test takers. They can now schedule their appointment throughout the day instead of just at 8 AM. Another benefit is that results for Levels 1 and 2 will be available immediately at the end of the exam, and Level 3 will be available in just 90 days.

Is there any downside to this change? Of course there is. We are right in the middle of registration right now. We had to suspend registration for 30 days while Thomson Prometric reconfigured their system to accommodate us. For those people who have already registered, Thomson Prometric will contact you to make a new appointment time and location most convenient for you. Level 3 exams will now be administered via computer as well (you will be supplied with a packet of paper charts). If you are an old guy like me and you hunt and peck, you will need to make a special effort to make your answers concise. If you absolutely cannot type, and feel you must delay until you can type better, please contact me. We will do our best to accommodate you.

Should we have waited another six months to make this transition at a more leisurely pace? Your Accreditation Committee and your Board burned a lot of midnight oil on that question. Finally, Barry Sine put the question on the CMT forum and the response was clear: Don’t wait. Go now. So that is what we are doing.

If you have taken other exams from NASD, you probably already have experience with a Thomson Prometric test site. Also, be assured the exams will be pre-tested by members of the Accreditation Committee before you get them and, because they are on computer, each test will be different.

Please thank Brad Herndon, Les Williams and Barry Sine of your Accreditation Committee and your Board for taking this bold step to make a further improvement in the professionalism of the CMT.

Live registration will reopen August 25th. In the meantime, please visit the MTA website and pick out your test site from the 347 listed.

Thank you.

Sincerely,

[Signature]
John R. Kirby
Executive Director

Regions Spotlight continued from page 1

Tom is a graduate of the U.S. Military Academy at West Point where he studied aerospace engineering, and he served as an Army helicopter pilot for 11 years. He began his own study of market technical analysis while still in the Army, and discovered ways to expand the use of his parents’ indicators to forecast future market turning points. Tom views the movements of prices in the financial market through the eyes of an engineer, which allows him to focus on what the data really say rather than interpreting events according to the same “conventional wisdom” used by other analysts. In 1993, he left the Army to join his father in pursuing a new career doing this type of analysis. Tom and Sherman spent the next 2 years refining their analysis techniques and laying the groundwork to provide regular, insightful analysis to the public.

In April 1995 they launched their newsletter, The McClellan Market Report, an 8 page report covering the stock, bond, and gold markets, which is published twice a month. They utilize the unique indicators they have developed to present their view of the market’s structure as well as their forecasts for future trend direction and the timing of turning points. A Daily Edition was added in February 1998 to give subscribers daily updates on their indicators and also provide market position indications for stocks, bonds, XAU and gold. Their subscribers range from individual investors to professional fund managers. Tom serves as editor of both publications, and runs the newsletter business from its location in Lakewood, WA.
Net Forum: Our New Technology Platform From Avectra

During the past 25 years the MTA has evolved from a small club of New York-based technical analysts to a national association of market technicians responsible for establishing the professional standard for our profession. We’ve come a long way.

With growth comes the need for a stronger infrastructure. Since the MTA is in many ways an internet-based association, one of our biggest infrastructure-related needs has been in the technology area. Years ago, we started off with a very basic technology platform -- that was all we needed at the time. As we grew, we kept adding “modules” to this platform until, ten years later, it resembled a one-room cabin that had 20 additions built onto it at various times, jutting out in all different directions. This presented a variety of problems for us, not the least of which was training someone to run it, and the financial expense involved in having to build another “room addition” each time we wanted to add another function.

At some point you have to start over with a new infrastructure that has the foundation, plumbing, etc. to facilitate the accommodations of the new home. The consensus of the Technology Committee, of which I was a member, was that the longer we waited to make the transition to a new computer platform, the worse off the organization would be. Some members had suggested that the MTA solve the problem by simply putting an attractive front end software program on top of our existing platform, but our problem was never a lack of good looks. Our problem was a lack of functionality.

What we needed was a platform that would meet the reporting requirements required by the SROs, and the statistical data to necessary to properly market the organization to the financial community. We needed a platform that would allow the MTA to maintain and cross-reference every piece of data on every member to allow us to acquire an intimate knowledge of ourselves. We decided on a technology platform from Avectra called Net-Forum. This is what the new system will do:

1. **Membership History** with regard to employment, education, event attendance, product purchases, level of certification, age, location, will be cross-referenced and sortable with a “date select” on every item and on each individual field.

2. **Committee Management**– We will maintain complete records of committee activity, management, membership and communication with each committee.

3. **E-marketing** – The organization will have the capability to track its marketing efforts in a sophisticated way, all the way back through the database to the individual characteristics of each member. Right now, it appears that our limited efforts with Google are getting much better results than our newspaper advertising. But with only very basic measures, it is impossible to see specific results of our efforts. While Google is returning far more hits to our website, we cannot tell the quality of those referrals without proper follow-through. This new platform will allow us to do that.

4. **Event Management** – Integrated event management that directly interfaces with the member database that will allow us to tailor event promotion based on analysis of attendee demographics. This will help us to make MTA events more relevant to the membership.

5. **Accounting** – In order to properly control the financial aspects of the organization, and to insure proper reporting to the membership, the database will incorporate a general ledger that will cross-foot to the bookkeeping system and the bank account. We do not currently have this capability.

6. **Award Management** – As a volunteer organization, the MTA must learn how to better solicit and promote participation by the membership in volunteer work. The association community has shown that this is best done not through pay, not through financial incentives, but through recognition and awards. Intensive management of a greatly expanded award system can provide this incentive that will fully engage the membership and encourage greater volunteer participation in the association.

7. **Job Bank Inventory** – One of the most important activities of the MTA is to provide more and better jobs for its members. A program has been started with some success with an outside vendor, but the cost to advertisers is quite high. If this could be managed internally, it would allow the MTA to provide this service at a very low cost to advertisers, and would allow the MTA to become the best place for employers to find market technicians.

8. **Advertising Management** – The current system does allow for some very basic measures of advertising effectiveness. However, it is not tied into the database, it makes no independent inquiry or qualification of information requests, and needs serious upgrading.

9. **Exhibit Management** – Seminar exhibitors should be a serious source of revenue for the organization. Management of this important revenue source is now haphazard. This new platform will help the MTA to better manage and utilize this resource.

10. **General Ledger and Accounts Payable** These will be integrated with the database and the vendor list for proper control.

11. **Continued Software Development** – In order to keep the application up-to-date, MTA administration will have access to development tools that will allow them to directly enhance the application. This capability does not currently exist.

12. **On-Line Member Directory** that is able to be sorted not only by location, but also by employer, education, age, interests, level of certification and committee membership is necessary to generate cross-interest among the membership.

13. **On-Line Event Registration** that is simple and comprehensive and ties directly back to the database would facilitate greater attendance plus give the MTA the ability to manage a larger number of events for the organization.

14. **Press Release Management** through the maintenance of an up-to-date press list within the computer platform itself will leverage the effectiveness of the MTA’s public information effort. This does not currently exist.

15. **The ability to easily and effectively integrate third party programs** within our platform would leverage our productivity. Vendors of third party programs are very reluctant to provide the customization that is necessary to integrate their program with “one-off” custom software. This reluctance is very much reduced when you are dealing with a large vendor like Avectra.

16. **An Advanced Query Tool** that allows administration to query the database on every field, from every angle at multiple levels, is extremely important for reporting, marketing and understanding changes in trends in the membership. This is currently not available.

17. **Baseline Reports and Activity Logs** on a daily, weekly and monthly basis are necessary for effective control. These do not currently exist.

18. **Partner Programs** with outside software vendors who can provide communication tools, survey tools, and member voting tools that are much more effective and much less expensive than the on-the-fly, custom written tools we depend on now. This will enhance the MTA staff’s productivity.

19. **E-Commerce** – Currently the MTA e-commerce solution allows for only one item to be purchased at a time, does not allow for separate freight or tax billing and is very cumbersome. Alternatives utilizing a fully developed shopping cart have been suggested but could not be integrated because of the lack of capability of plug-n-pay, our current processor. The current process uses three steps that include plug-n-pay, Nabanco - our merchant bank, and the Bank of New York. Integrated solutions do exist with Bank of America, Wells Fargo Bank and Harris Bank in Chicago. However, integration of proper e-commerce tools, which are extremely important for the future of the MTA, will take further effort either through custom
program or a packaged product.

20. **Granular Security** – Finally, the level of security that is provided to the admin side of the MTA database, given the lack of auditing procedures installed in that database, are grossly inadequate. The ability of anyone with simple user name and password to access all fields within the database is very dangerous. This must be changed as soon as possible. The new platform will provide the MTA with a much higher, more flexible level of security.

The items mentioned above are just of the features that we believe will help carry your MTA forward into the next generation. The decision to move to the Avectra platform that was recommended by the Technology Committee and approved by your Board is being implemented right now. We expect that it will be fully operational this fall. The best news to some of us is that this new platform is a win-win -- not only will it take us forward with much more functionality and flexibility, but it will do so at a lesser cost than the management of our current platform.

For the Technology Committee,
John Kosar.

### MTA Welcomes... Marisa Chodkiewicz

Hello, I am the newest member to this wonderful MTA staff, and I will be the accounting manager. Over the years, I have been employed in the financial services industry in areas ranging from limited partnerships, due diligence, budgets and analysis with Prudential-Bache (yes Bache!) to Merrill Lynch. I was most recently employed by a HBA manufacturer for 8 years as an assistant to the controller. I have an MBA in Finance with a BS in Marketing. I have been teaching English as a Second Language and Math to adults in a county vocational adult high school. I am a jack of all trades, master of none!

I look forward to working with all of you and feel very fortunate to be part of such an auspicious association. Thanks for having me!

### 2005 Women's Market Forecast Panel

The Market Technicians Association will be hosting a Women's Market Forecast Panel to be held from 4:30-6:00 PM on Monday, September 12, 2005. This event will be held at the American Management Association (AMA) at 1601 Broadway, New York NY. Admission is free for all MTA, IFTA, FWA, NYSSA and 100 Women in Hedge Funds members. For all non-members, the cost of admission will be $25. This event will include a panel of prominent and respected market technicians including Louise Yamada, CMT, Gail M. Dudack, CMT, Katie E. Townshend, CMT, and Jeannet Schwarz Young, CMT, CFP. They will share their views on where the market is now and where they believe it is headed in the future.

Louise Yamada was Managing Director and Head of Technical Research for Smith Barney. A perennial in the Institutional Investor poll, she was the top-ranked technician in 2001, 2002, 2003, and 2004. Today, Louise and her colleague, Ron Daino (and members of their team), are in the process of establishing an Independent Research entity, “Louise Yamada Technical Research Advisors, LLC,” to again provide the same quality technical research.

Gail Dudack is the Managing Director of Research and the Chief Investment Strategist for SunGard Institutional Brokerage Inc. (SIBI), a division of SunGard Data Systems, an S&P 500 member company. Gail creates and oversees a variety of products for institutional clients, focusing on the risk/reward for the securities markets, analysis of domestic and cross-border money flows, and the relative performance of sector, stock, and styles selections. Louise is a Chartered Market Technician and a member of the Market Technicians Association, the Financial Women’s Association, and the New York Society of Security Analysts. She joined Smith Barney in 1980 after receiving a B.A. from Vassar College and an M.S. from Bank Street College of Education.

Katie Townshend joined MKM Partners in August 2004 as Chief Market Technician. Prior to joining MKM, Ms. Townshend worked as a trader for New York-based hedge fund Ulysses Management, and was a publishing analyst for Morgan Stanley’s technical strategy group. From 1997 to 2001, she resided in San Francisco, where she worked as a technical analyst for Wit Sound View. Ms. Townshend brings money-making perspective to trading oriented research, going beyond textbook technical analysis. She received the CMT (Chartered Market Technician) designation in October 2001, and has eight years of experience in technical research. Ms. Townshend has appeared on Bloomberg TV, and is quoted frequently by Dow Jones newswires and CNN Money. She holds a B.S. in Finance from the University of Richmond.

Jeannet Schwarz Young earned her Bachelor’s and Master’s Degrees at Adelphi University. As a member of the New York Board of Tarde, she is an active member of the floor, options settlement, membership and member benefits committee. She is a holder of 10 NASD Licenses. Her experience runs the gamut from floor executions, hedging, even extending to the back office (having run a self-clearing firm). Her Market Letter, The Option Queen Letter, is published, from time to time, in Barron’s Magazine and her article “Managing Risk With Options” was a front page feature in The CRB Trader. Another featured article appeared in Stocks And Commodities Magazine entitled, The Company Channel Index Revisited. She also wrote “Lessons From The Trading Floor: Strategies Anyone Can Use” published in the June 2005 issue of SFO Magazine. She has received a top ten winner award in the National Investment Challenge Pro Option’s division for two years, and has even placed top three in the world.

RSVP is required and you can do so by contacting Cassandra Townes at Cassandra@mta.org or call (732) 596-9399.

### MTA 2006 Mid-Winter Retreat

The Market Technicians Association announces its Second Annual Mid-Winter Retreat to be held on January 20th and 21st, 2006, at the Four Points Sheraton in Miami Beach, Florida. This seminar follows in the tradition of the MTA’s highly successful first Mid-Winter Retreat in San Diego of January 2005. The format of the seminar allows experienced technicians to discuss cutting edge issues and their own methodologies. Sessions will cover the equity, fixed income, currency and commodity markets. Each session will explore technical analysis from a different perspective, including trading, research, and portfolio management. Our session moderators represent various institutions in the USA, France, Switzerland and other countries. Our keynote speakers are two of the leading technicians in the world – Linda Raschke and Ned Davis.

Each of the 18 sessions is to be conducted as an open discussion, round table forum. We have chosen 18 diverse, highly-experienced moderators to ensure a lively discussion and debate, but the quality of the sessions depends on you. So bring your new ideas, and be prepared to share them with other attendees. Whether you are a new technician wanting to learn new ideas or a grizzled veteran of the markets wanting to share your thoughts with others, this seminar offers something for you.

In addition to the exposure to new technical ideas, perhaps the best part of the seminar is the location – right on the ocean in Miami Beach. Our sessions allow plenty of time for dips in the ocean between meetings, and on Friday night we will all gather for a beach front barbeque with open bar. Miami Beach January temperatures average in the 70s, with occasional highs in the 80s. The seminar ends on Saturday afternoon, at which time attendees will break off into groups on their own to explore the exotic nightlife of Florida’s most exciting city. The low rate we have negotiated with the hotel allows attendees to arrive two days early and/or to stay two days after the seminar ends.

So make a long weekend of it and improve your knowledge base at the same time.

Dave Landry

To those new to swing trading, this 3-part introduction contains a brief explanation of my approach to the markets. It is not intended to be a complete methodology. Rather, it’s a base upon which on which one can build.

Swing Trading Defined

Swing trading is simply short-term trading. Positions are held, on average, for 2 to 7 days. Under ideal conditions, positions can be held much longer, creating the occasional “home run”. My style of swing trading is momentum based. This means that I first seek to identify a trend and then look for a place to enter. Although I do have some transitional patterns (early trend), I do not attempt to pick tops or bottoms.

Trading Pullbacks

I believe “The Trend Is Your Friend” is the truest market adage. And, the best way to enter trends is on pullbacks. Therefore, momentum pullbacks and variations thereof are my favorite patterns. They consist of a market in a strong trend (a) that has begun to correct (b). An entry is triggered when the trend begins to resume (c) and a protective stop is placed below the low of the setup (d). As the trend continues, partial profits should be taken (e) and the stop on the remaining shares should be trailed higher (f).

Let’s break it down:

Identifying Trend

The great thing about stocks that are trending is that they leave clues behind. I have dubbed these clues “Trend Qualifiers”. They include base breakouts, gaps, laps, wide range bars, strong closes, new highs, and how much a stock moves over a given period of time on a percentage or point basis. The behavior of moving averages can also be used to help determine trend.

Let’s look at an example of trend qualifiers.

1. The Nasdaq Biotech Ishares (IBB) gaps to new 1-month highs out of a low-level base. Notice the move is on a wide range bar and the stock closes well (in the top of its range).

2. The stock gains over 20% in 16-days as the trend gains strength.

3. Notice that this strength began with a wide range bar higher that closed strongly.

4. Also notice that the stock is hitting new multi-month highs during this period.

5. The stock has an orderly pullback.

6. The trend resumes.

7. The stock has an extreme wide range bar higher. Although this is a sign of strength, at this point, you have to begin to question if the move has exhausted itself. This is normally a good time to take some profits and tighten your stop on your remaining shares.

8. The stock gaps to 1-year plus highs.

9. The stock reverses and closes poorly. At this point, you have to begin to question if the trend has ended and a new trend in the opposite direction is emerging.

Now let’s look at the same chart with the moving averages. My favorite moving averages are a 10-period simple and a 20 and 30-day exponential. These are explained further in my book Dave Landry On Swing Trading in Chapter 7, Bow Ties.

1. The moving averages are sloping downward.

2. The moving averages come together and turn up. This action forms a “Bow Tie” (see Chapter 7).

3. Notice that there is “daylight” between the stock’s lows and the moving averages (i.e. the lows are greater than the moving average). This is a sign of strength as the stock gains momentum.
4. Notice that the slope of the moving averages is positive (up).
5. Also notice that the moving averages are in “proper order”—the faster moving averages (shorter periods) are above the slower moving averages (longer periods).

The Trend Should Be Obvious
I’m amazed at how many try to make a trend exist where there is none. The trend should be obvious. Quite simply, if the right side of the chart is higher than the left, then it’s in an uptrend. Conversely, if the right side of the chart is lower than the left, then it’s in a downtrend. Said another way, if you can’t draw a big arrow pointing in the direction of the trend, then it’s probably not a trend.

The Correction
The correction (i.e. pullback) can be defined in terms of width (number of days since the new high was made) and depth (how far the stock pulls back). In general, the width should be 2-7 bars. More than that and it’s possible that the stock is losing momentum. As far as depth, too deep and it’s possible that the trend has ended and a new trend (i.e. reversal) is emerging. Conversely, if it’s too shallow it’s possible that the stock has corrected enough. Therefore, “depth” can be arbitrary. And, it can vary greatly depending on the price and volatility of the stock. Higher priced and more volatile stocks can have deeper corrections before their trend resumes. Whereas the same move in a lower priced or less volatile stock would be viewed as a trend reversal.

Entries
By placing your entry above the market for longs, you will only get filled if the stock begins to move in the intended direction. Of course there’s no guarantee that it will continue to move in your favor but at least you won’t get filled if a rally never materializes.

As a general statement, for longs, entries should be around 10 cents above the prior day’s high. This allows some wiggle room should the stock barely get past the prior day’s high (a possible target for market makers) before reversing.

Keep in mind that where you enter will also depend upon market conditions. In very good conditions, you might actually look to enter early if it appears that the trend is resuming (i.e. an intra-day rally or reversal). Conversely, in poorer conditions, you might look to enter the stock at higher level. Further, you might even want to let it trigger and wait to see if it continues to follow through before entering (i.e. a second entry).

Good luck with your trading,
Dave Landry

Dave Landry is director of research at TradingMarkets.com A Commodity Trading Advisor (CTA), Mr. Landry is principal of Sentive Trading, a money management firm, and a principal of Harvest Capital Management. Mr. Landry is the author of two books, Dave Landry’s 10 Best Swing Trader Patterns And Strategies and Dave Landry On Swing Trading.

He has authored a number of trading systems, including the 2/20 EMA Breakout System and the Volatility Explosion Method, and his articles have been published in Technical Analysis of Stocks and Commodities magazine. His research has been referenced in several books such as Connors On Advanced Trading Strategies and Beginners Guide to Computerized Trading.

Mr. Landry holds a Bachelor of Science degree in computer science from the University of Southwestern Louisiana and a Masters in Business Administration degree from the University of Southern Mississippi.
MTA Regional Chapter Contact Information

If you are visiting any of these chapter areas over the next several months and might be willing to make a presentation to the local group, please contact the regional chapter chair as noted to work something out. Some are long-standing chapters, some are trying to get started, but ALL of them are in need of speakers now and then.

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