In Memory of James M. Hurst

By Peter Eliades

J. (James) M. Hurst was born in Salina, Kansas on September 2nd, 1924 and died in his sleep on August 18th, 2005 in Roseville, California, just weeks short of his 81st birthday. It is safe to presume that virtually everyone who has pursued a serious study of cycles in the stock market over the past 30 years or so was in some way inspired to do so by Hurst’s 1970 classic, “The Profit Magic of Stock Transaction Timing.” That was certainly true in my case. After graduating from college and law school and passing the bar exam in Massachusetts, I decided to pursue a musical career, motivated by my lifelong love affair with music.

I moved to Hollywood, California in pursuit of that career. There is a lyric from a Jimmy Webb song called “Evie” that says, “Sometimes a single moment changes all the ones that follow...” Almost surely that “single moment” in my life was when I spotted Hurst’s book on the coffee table of a friend in San Clemente, California. That occurred in the very early 1970s and that book was the germination of an obsession with stock market cycles that has lasted to the current day. Within just a few years of discovering that book, and after several hundreds of obsessive hours of cycle research, in 1975 I began publication of my newsletter, Peter Eliades’ Stockmarket Cycles.

Hurst published his book in 1970 through Prentice-Hall. Edward Dobson, the owner of Traders Press, in Greenville, South Carolina, sells books and courses relating to the analysis and trading of the stock and commodity markets. Although Hurst became a mysterious and elusive personality over the past 30 years or longer, Ed wanted to revive all the teachings and courses developed by Hurst and, with the help of Larry Pesavento, traced the whereabouts of Hurst to a California location.

Ed had several telephone conversations with Hurst over the past six or seven years. One of the stories Hurst related to him will strike a chord with all of us in the field of technical analysis. It seems that shortly after Hurst’s book was first published in 1970, he and his publisher, Prentice-Hall, were pursued by a representative of the SEC. That representative apparently threatened some type of legal action against publication of a book the SEC felt was fraudulent and deceptive. It was their position that everyone knew that no mathematical formulas or technical systems could predict the stock market. Hurst felt that, despite the early success of his book within the investment community, Prentice-Hall was intimidated by the SEC ratings and gave the book no further publicity.

We do know that Hurst was married three times and was the father of four children, three girls and one boy. As it turns out, he was also a mysterious and elusive figure in their lives. Perhaps, as more is learned about his life from those who knew him over the past 30 years, we will be able to pass on more information.

Ed Dobson emphasized that Hurst was a soft-spoken and articulate gentleman in their phone conversations, the last of which occurred about a year ago. His last few years were spent in an assisted living community, and it appears now that he suffered from at least mild dementia over the past year or two.

What we do know is that Hurst was educated at Kansas State, Brown, and Washington Universities, and majored in physics. He developed an interest in electronics and the theory of communications, which would later contribute to his understanding of stock market cycles. His career in cycle analysis was preceded by a 25 year career in aerospace engineering. It was that profession which provided experience in electronic system design, computerized techniques for extracting information from time series in connection with underwater communications, and numerous aspects of space and missile systems analysis. Aerospace engineering bred his appreciation for the power and capabilities of numerical analysis and large-scale digital computers, all of which ultimately led him to his research of cycles in the stock market. His numerical and spectral analysis of the stock market, upon which the results of his book were based, were researched for nine years before the publication of his 1970 book, and there is enough material included in the appendix of his book to permit those so inclined to repeat and carry forward the research on which his book was based. I would also encourage those of you with an inclination towards the research of cycles in the markets to inquire about the complete Hurst research material made available by Traders Press.

J.M. Hurst has surely earned a place in the pantheon of legendary stock market geniuses. His influence on my professional life was immeasurable. Although much of his life over the past 30 years is shrouded in mystery, there is nothing mysterious about the legacy he has left all of us in the field of technical analysis. May his memory be eternal!

Peter Eliades, one of the financial world’s foremost authorities on cycle analysis, is the editor of Stock Market Cycles and a long-time member of the MTA. He has been ranked as a top market timer throughout his career and regularly appears in the financial media. He also was the co-winner of the MTA Charles Dow Award for excellence and creativity in technical analysis in 2001.
From the Editor’s Desk

Although September is seasonally a weak month for the stock market, it looks like a pretty strong one for the MTA and Technically Speaking. On the cover, long-time MTA Member and cycles expert Peter Eliades pays tribute to James M. Hurst, who passed away on August 18th at the age of 81. Mr. Hurst is one of the founding fathers of technical analysis. His classic book, “The Profit Magic of Stock Transaction Timing”, was the reason Peter chose technical analysis as his life’s work.

Inside, there are some terrific educational articles by Dave Landry on swing trading (Part 2 in a 3-Part series), by Larry Connors on up days in a row versus down days in a row in the stock market, and on inflation-adjusted stock market trends by Dr. Brett Steenbarger.

In addition, our Executive Director John Kirby gives us a progress report in the MTA’s transition to our new technology platform, Net Forum by Avectra. Early this year, fellow MTA Board Member Duke Jones and I were personally involved in the process of evaluating our then-current platform, and deciding whether the Association needed to make a change. Although change is always difficult and this situation was no exception, Duke and I determined that it was imperative for the MTA to move to a platform that could accommodate its recent growth, and handle the additional growth expected in the years ahead. Duke and I believe this platform will be the gift that keeps on giving to the MTA in the years to come, and would like to thank John Kirby and his staff for all their hard work during this transition period.

Please take a look at the line-up of speakers and agenda for the 18th Annual IFTA Conference in Vancouver in early November, hosted by the Canadian Society of Technical Analysts (CSTA), and the MTA’s 2005 Mid-Winter Retreat in mid-January in Miami Beach. Two great locations, and two great opportunities to learn from and network with other technicians. Check them out.

Finally, Technically Speaking would like to welcome four new Contributing Editors; Matt Blackman, Mohan Turaga, Jeannette Young, CMT and Garry Rissman. We look forward to reading articles and reviews by these MTA Members in future issues. The MTA still needs more Associate Editors. If you are interested in getting involved with Technically Speaking, by writing an article, covering a regional meeting, whatever, please contact me at editor@mta.org. All Contributing Editors will be sent a digital camera with all the accessories so we can include more photos in futures issues. We all know technicians like pictures!

Hope everyone enjoys this issue. Respectfully,

John Kosar, CMT, Editor

From the President’s Desk

The Men Behind the Curtain

It will come to no surprise to anyone that I am bullish on the CMT. I am bullish on the growing global interest we are receiving, especially from Europe and India. I am bullish on our SRO success and psych metrically valid uniqueness and I am very bullish on where the CMT is heading over the next 5-10 years. However, too often, as is the case with many organizations, the key players who more than volunteer their time and energy get lost in the shuffle. That is not going to happen with this administration and I therefore wanted to take this opportunity to highlight the tremendous work that has been done over the years on the CMT by so many, but specifically Les Williams, Phil Roth, Barry Sine, Jim Balchunas and Mark Cremonie. I have mentioned David Krell, Ralph Acampora and John Kirby, without whom, we would not have had this SRO success. Without these other fellows, we would not have been able to even begin the process.

Finally, if this was a crown, Mr. CMT would be awarded to Brad Herndon. His ongoing drive, organization and leadership has been tireless and ongoing year after year after year. Without Brad, we simply would not be where we are today and he, alongside everyone else, is deserving of our thanks and appreciation.

Summer is done, now we can all debate whether seasonal and September/October really matter to stocks after all. I will be most curious to see the views of the forecasting panel we have lined up on September 12th. I know there has been some debate about this event but I think the panel is a fantastic idea and look forward to hearing the views of these four top strategists.

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From the Executive Director’s Desk

Training Training Training

Have you ever had dental surgery? Ever had it for three days? As I write this column your staff at the MTA, Marisa, Marie, Cassandra, Jeanne, and Tim are all going through three days of intensive hands on training on our new technology platform called Net Forum from Avectra.

Andria McQueen, our account manager from Avectra has been doing a fantastic job. We continue to be very pleased with the decision the Technology Committee made to choose this new system. But, as you can imagine, all other work must slow down during the training, and your staff is making a tremendous effort to keep all the other wheels in motion at the same time.

As an aside, we learned yesterday that CFAI has chosen Avectra as the technology platform they will use for their new designation that will be introduced next March. Thanks to our Technology Committee, once again, the MTA leads the way with this next generation of technology.

Next Monday, a second round of data conversion will be done and then, we will be running parallel until the end of October when we will have a third and final round and the old system will be switched off. During this time your staff will be doing everything twice. Marie and Cassandra are responsible for the internal website, the CMT program and the Library. Jeanne and Tim are responsible for the external website, the seminars, advertising, and products. Marisa is responsible for the finance administration and accounting. Although time consuming, this is the best way to change over and your understanding is appreciated.

At the same time as our technology changeover, we have now completed our change over to computerized testing for the fall CMT exams. All future CMT exams will now be fully computerized. Thomson Prometric has really come through for us. Scott Brinn, Doug Porta, and Thomas Boyle have been jumping through all the hoops to get the job done and Clem Taeuber of Wellspring Technology, who was in bed with a severe case of limes disease came out of his sickbed to meet our deadline.

All of these folks are going the extra mile for the MTA. Thanks to all of them for their efforts.

Regions Update

by John Kosar, CMT

The Board has recently voted in some new guidelines for Regions. The purpose of these new guidelines is to better clarify the relationship between the Regions and the MTA Board. They are listed below.

Region guidelines
1. For all fees collected by chapters, checks will be made out to the MTA and sent to the MTA office. A separate sub account in our accounting system will identify chapter payments.
2. A roster of meetings will be kept and transmitted to the MTA office. Attendees will be requested to provide name, address, Employer, e-mail address and member status (or guest) will be included.
3. All mailing lists and e-mail lists are to be maintained by the MTA office, and all mailings will be done by the MTA office.
4. All chapters are reminded that personal use of chapter mailing lists is strictly prohibited. The only websites to be maintained are those of the national MTA. A chapter may have a special section on the website to announce its meetings and a special forum to discuss chapter business.
5. Chapter meetings are intended for members and affiliates, not the general public. The majority of attendees at chapter meetings must be MTA Members or Affiliates. Free guest privileges are to be strictly limited.
6. Chapters may not collect separate dues and maintain separate member lists.

Write for TradingMarkets.com

We are looking for a CMT or CMT candidates who could write a column for TradingMarkets. The content would focus on current technical patterns in the markets, stocks, sectors, futures or options. Compensation is received in the form of wide exposure and an opportunity to build and promote your business. Hedge fund managers, professional traders and other influential Wall Street professionals would potentially read your column. TradingMarkets receives traffic through an alliance with one of the world’s largest Internet search engines.

Interested parties please contact Ashton Dorkins with an example of your work. ashtond@tradingmarkets.com
Don’t Miss the International Technical Analysis Event of the Year!

Digging for Gold Vancouver – November 3, 4 & 5, 2005
By Matt Blackman

The Canadian Society of Technical Analysts (CSTA) is hosting the 18th Annual IFTA Conference this year in beautiful Vancouver, British Columbia, Canada. Entitled Digging for Gold Vancouver 2005, it will be held at the world-class Pan Pacific Hotel and Convention Centre on the waterfront November 3 - 5, 2005. The main theme of the three-day event is New Strategies for Profiting in Volatile Markets.

Digging for Gold Vancouver 2005 will feature two events. The first is the three-day conference for professional traders, analysts and brokers. There is also a one-day event entitled Trade Like the Pros for the retail trader and investor on Saturday, November 5th. Register early and save. There is a discount for MTA members and affiliates.

For more information or if you have any questions, please go to http://askthemarketexperts.com/

Here is a summary of some of our exciting speakers and their presentations. For a list of the many exciting networking, extracurricular and partner events, please see below.

Daniel J. Zanger
Professional Stock Trader
www.chartpattern.com

Dan holds the unofficial world stock trading record by turning $10,775 into more than $18 million in 18 months and parlaying this into an amazing $42 million in two years. As well as trading in the trenches war stories, Dan will be discussing techniques for identifying market-leading stocks to make big money trading and to get advanced warning of changes in overall market direction. He has been featured in such publications as Fortune, Forbes, Technical Analysis of Stocks & Commodities, Active Trader, Traders Mag and Traders World. He was recently featured on CNBC for his inclusion in articles by Trader Monthly magazine about the 40 top trades of all-time as well as inclusion in the list of the world’s top 100 traders. Dan writes a nightly newsletter called The Zanger Report for www.chartpattern.com. Dan will be giving the keynote address to both the professional members and Trade Like the Pros retail trader session on November 5th.

Timothy Hayes, CMT
Chief Investment Strategist at Ned Davis Research

Tim will be discussing his new Global Balanced Portfolio Management Strategy including how he uses a unique array of market breadth indicators to assess overall market strength to stay on the right side of the market. Tim currently heads up the firm’s global and U.S. asset allocation services and among his many duties and accomplishments, he serves as Research Council coordinator and oversees NDR’s quarterly Investment Strategy. Weekly, Tim writes the Stock Market Focus, which features top-down stock market perspective, quantitatively based analysis, asset allocation recommendations, and more. Tim is featured regularly on CNBC, and his market commentary is often quoted in The Wall Street Journal, Barron’s, Investor’s Business Daily, New York Times, Financial Times, and others.

Website – www.ndr.com

Vlad Korzinin
CEO, Highlight Investments Inc., MarketVolume.com

Vlad will be discussing his company’s recently-patented approach to volume analysis (called modulated volume) and how they use it to anticipate changes in direction for a wide array of indexes and ETFs. His modulated volume analysis removes normal volatility that makes traditional volume analysis extremely challenging if not impossible, transforming it into a highly usable and reliable tool. His ideas on resistive and supportive volume turn traditional volume analysis techniques upside-down and will give you a whole new and powerful approach to using volume as a trading and investing tool. Vlad holds a Masters Degree in Radio Engineering from the University of St. Petersburg.


Keith Raphael
President of Crosscurrents Investment Advisory

Keith’s presentation is entitled Advanced Technical Analysis to Maximize Forex Returns for the Trading Professional. He has more than twenty-five years experience trading currencies. Among his many responsibilities, Keith served as principal of the Taylor-Raphael Group (1978-86), he traded ECU arbitrage for Bank Brussels Lambert in New York and served as Vice-President and Chief Technical Market Analyst for Chase Manhattan Bank. In 1993 the Euromoney Survey of the 400 top corporations, investment banks and funds in the U.S. and Europe named Keith as the Number One Technical Market Analyst and Charting Service. Keith has been a frequent guest on CNBC.

Website – www.crosscurrentsonline.com/

Tomasz Janeczko, M.Sc., Ph.D.
Founder of Amibroker.com

A highly sought after speaker in Europe, Tomasz will be discussing his unique computerized approach to high-frequency data to provide powerful trading signals. Founder of Amibroker.com and author of the company’s flagship technical analysis program, he has also been a private trader since 1993. Prior to founding Amibroker.com, he held senior developer positions in a few software companies. Mr. Janeczko holds a Ph.D. and MS. in electronics and computer engineering from the Wroclaw University of Technology.

Website – www.amibroker.com

Plus these international market and trading experts:

• Larry Berman, CMT, CFA – Chief Technical Strategist CIBC World Markets
• Stewart Taylor – Senior VP, Eton Vance Management
• Frank Teixeira, CFA – Senior VP, Director Technical Analysis, Wellington Mgmt.
• Leon Tuey, MA – Leon Tuey Inc. Advisor to institutional/portfolio managers
• Jeffrey Hochman, BA – Portfolio Strategist, Fidelity Investments
• Bob Hoye – Chief Investment Strategist, Institutional Advisors
• Eugene Peroni – Jr. Senior Managing Director, Claymore Advisors
• And more…

www.mta.org
Trade Like the Pros
Saturday November 5, 2005

In conjunction with the three-day professional member’s conference, there will be a one-day event for retail traders and investors that will feature the following speakers.

Dan Zanger
Keynote Speaker
Topic: A Whole New Approach to Patterns & Volume To Find Market Leaders
(See description above).

Stan Ehrlich
Topic: My Favorite Commodity Reversal & Continuation Techniques
Stan started in the futures industry in 1971 as a runner on the Chicago Futures Exchanges. In 1978 he invented the Ehrlich Cycle Finder™ and in 1997 the Ehrlich Cycle Forecaster™ for TradeStation. He has brokered for some of the most famous market analysts in the world, including famed Elliott Wave practitioner Robert Prechter. He has been regularly quoted in financial papers, magazines, financial books, and has appeared on television, including CNBC. Stan has lectured at about 80 technical analysis seminars and conferences worldwide since 1975 for such companies as Reuters, Dow Jones Telerate, Futures Magazine and TradeStation. Stan is the president of Solid Gold Financial Services, Inc. commodity futures commission merchant, commodity pool operator and commodity trading adviser in San Francisco. He writes the nightly Ehrlich Report for http://www.chartpattern.com.
Website-http://www.stanehrlich.com

Martin Pring
Topic: Powerful Methods for Measuring Market Psychology
Martin J. Pring entered the financial markets in 1969 and has grown to become a leader in the global investment community. In 1981, he founded the International Institute for Economic Research, and began providing research for financial institutions and individual investors around the world. Since 1984, he has published a monthly market review offering a long-term synopsis of the world’s major financial markets. He is the author of several books including, Introduction to Technical Analysis, Martin Pring on Market Momentum, and the number one guide of its kind, Technical Analysis Explained, now in its third edition. Martin is also chairman of Pring Turner Capital Group.
Website - http://www.pring.com

Jeanette Schwarz Young, CFP, CMT
Topic: Life in the Pits – A Day in the Life of a Floor Trader
Jeanette is a member of the New York Futures Exchange and the NYBOT, the membership committee and options settlement committee. She is a holder of 10 NASD Licenses. Her experience runs the gamut from floor executions, hedging, extending to the back office (having run a self-clearing firm). She received a top ten-winner award in the National Investment Challenge Pro Option’s division for 2 years and has even placed top 3 in the world. She has had articles published in Barron’s Magazine, The CRB Trader and Stocks & Commodities Magazine. She has also appeared on FOX NEWS, CNN-FN, Bloomberg and CNBC broadcasts and can be seen daily on ForexTV.com.
Website – www.jaschwarz.com

Other programs and events:
- Trip to Whistler Mountain, site of the 2010 Winter Olympics
- Whistler wine & cheese and port & cigar night
- Gold Rush Gala Dinner, entertainment & casino night
- Meet & network with international professional traders & analysts
- Exciting partner activities in Canada’s Pacific playground

Have a question for one of the speakers or about the event? Go to http://askthemarketexperts.com/
For fast registration, please go to http://www.csta.org/events/conferences/ifta2005.html or simply visit http://www.csta.org

We’d like to thank the following sponsors for their support of this event.

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Matt Blackman is a technical trader, author, reviewer, keynote speaker and regular contributor to a number of trading publications including Stocks & Commodities, Working Money, Active Trader, Trader Monthly, SFO mag and Traders Mag Europe as well as investment/trading websites in North America and Europe. He writes a weekly and monthly market letter: Matt is a Market Technicians Association (MTA) affiliate, a Canadian Society of Technical Analysts member and is enrolled in the Chartered Market Technicians (CMT) program. He is also a consultant to Market Technologies, LLC. He can be reached at matt@tradesystemguru.com

A Long-Term Look at the Market
Brett Steenbarger, Ph.D

Below we have a long-term chart of the Dow Jones Industrial Average from January, 1950 through early August, 2005. Note that the Dow has been adjusted for the Consumer Price Index (CPI) to reflect the impact of inflation on stock prices. Although the nominal Dow moved from approximately 200 to over 10,000 during that time (a fifty-fold gain), the inflation-adjusted change has been from about 8.5 to 54--a bit over a six-fold appreciation. Even without dividends factored into this chart, which would certainly enhance the total return of the Dow, we can observe a long-term pattern of stock market appreciation. We can also observe, from 1966 to 1982, a considerable period of negative returns in the market. This sixteen-year period is similar to the period of negative returns in the market from 1929 through 1949. Despite the bull market of the past 2-3 years, we remain well below the inflation-adjusted Dow peak of January, 2000. Such periods of negative return (which currently exceed five years for the Dow) have not typified the secular periods of long-term market appreciation since 1950 (i.e., we did not see five-year periods of negative return from 1950-1966 or from 1982 to 2000). The only time since 1950 we have seen five-year periods of negative return has been during the inflation-adjusted secular drought between 1966 and 1982.

This, I believe, is the critical call that long-term investors need to make in today’s market: Have we entered a period of prolonged market under performance on an inflation-adjusted basis (and a possible pattern of lower highs and lower lows on a long-term basis), or will we likely resume the long-term appreciation that has characterized the American stock market?

Here are a few findings that highlight the importance of the issue:

The current three-year (150 week) rate of change on the inflation-adjusted Dow is about 40%. From 1950 to 2003 (N = 2652), the market has been up by more than that amount on 761

continued on page 8

Dave Landry

Placement of the initial protective stop is as much of an art as it is a science. Too close and you will almost surely guarantee yourself a loss as the “noise” of the market will stop you out. Placing it further away will increase your chances of a winning trade should the trend resume, but obviously increases your risk if it doesn’t.

When trading pullbacks, the low of the pullback is the obvious place for a protective stop. However, because this is common knowledge, it becomes a target for market makers. Therefore, I like to use a somewhat looser stop (especially if the low of the pullback is fairly close), taking into consideration the volatility and price of the stock (higher priced/more volatile stocks require a looser stop).

The following table is a general guideline for where initial protective stops could be placed (from the entry) based on the price of the stock. This should help to keep you from being stopped out prematurely. Keep in mind that tighter stops can be used on less volatile stocks. Conversely, more volatile stocks will require looser stops.

<table>
<thead>
<tr>
<th>Stock Price</th>
<th>Protective Stop (amount risked)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10-$15</td>
<td>$1</td>
</tr>
<tr>
<td>$15-$20</td>
<td>$1-$1.50</td>
</tr>
<tr>
<td>$20-$30</td>
<td>$1.50-$2.00</td>
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<td>$50-$70</td>
<td>$2.50</td>
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<tr>
<td>$70-$100</td>
<td>$3.00</td>
</tr>
<tr>
<td>$100</td>
<td>$3-$4</td>
</tr>
</tbody>
</table>

Money Management

Initial Profit Taking

On most swing trades, the profits will be small and have the potential to quickly erode. Therefore, as soon as your profits are equal to or greater than your initial risk, you should lock in half of your profits and move your protective stop on your remaining shares to break even (near your original entry).

Locking in half of your profits and moving your stop to break even when your profits are greater than or equal to your initial risk, will help to generate income for your account. This income will help to pay for the inevitable small losses associated with swing trading. Further, barring overnight gaps, this gives you, at worst, a break even trade and a chance at a home run on the remaining position. Larry Connors, in Connors On Advanced Trading, has dubbed this simple, yet effective, form of money management 2-for-1 Money Management.

Keep in mind that this is just a basic money management system. You can (and should) build from here. Also, conditions will help dictate where profits should be taken. For instance, in strongly trending markets where the sector and stock are also in gear, you might look to let profits ride a bit on the first loaf after the profit target is hit (e.g. trail a stop intra-day on the first half). Conversely, in choppy markets, you might look to take profits more quickly and move you protective stop to break even.

Trailing Stops

Stops can be trailed higher on a point or pattern basis. For pattern based trailing stops, one could place their stop beneath support levels or beneath recent lows. For instance, placing a stop below a two-to-three bar low can often catch the majority of a strongly trending market.

My goal with every swing trade is to have it turn into a longer-term play. Therefore, if I am fortunate enough to capture a short-term move in a stock and have already taken partial profits, I will trail a somewhat looser stop on the remaining shares. Ideally, this will allow the stock enough room to have and orderly correction (or form a base) and then resume its uptrend. Each time a stock the stock does this, I then tighten to the level of the last base/correction.

Good luck with your trading,

Dave Landry

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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 Trading Patterns And Strategies and Dave Landry On Swing Trading.
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 barbecue 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 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.

Up Days in a Row vs. Down Days in a Row

Larry Connors

What does the market do after it rises or falls consecutive days in a row? Common wisdom states that a market that rallies a few days in a row is strong and a market that drops a few days in a row is weak.

A summary of our findings is as follows:

Returns Increased Following Consecutive Days of Market Declines;
Returns Decreased Following Consecutive Days of Market Gains

1. After the SPX has risen 2 days in a row (and 3 days in a row), the market has under performed the benchmark over the next 2 days and over the next week. When the SPX declined 2 days in a row (and 3 days in a row), the market has proceeded to outperform the benchmark over the next 2 days and the next week.

Consecutive Days of Declining Markets Far Outperformed Consecutive Days of Rising Markets

2. When comparing 2 days up in a row to 2 days down in a row, the difference in the returns is significant. After the SPX has dropped 2 days in a row, it has risen on average .48% after one week. When it has rallied 2 days in a row, it has risen only .07% over the next week. The edge in 3 days in a row is even more significant. After the SPX has dropped 3 days in a row the market has risen on average .84% over the next week. When it has risen 3 days in a row, the average gains were just .04% over the following week.

Nasdaq Mirrored S&P Results When Looking at Multiple Days Higher and Multiple Days Lower

3. When we look at the NDX we see basically the same trend. Both 2 and 3 up days in a row under performs 2 and 3 down days in a row.

Consecutive Days of Market Gains in a Downtrend Led to Negative Returns

4. Another interesting finding is how the SPX and the NDX lost money after one week when rising 2 and 3 days in a row in a down trending market (under 200-day moving average). This information is especially useful for traders who look to short the market when it’s in a decline.

There is obviously an abundance of information that can be gleaned from these results and we encourage you to spend time with the numbers. The results we found were further confirmed when we studied the period from 1974-1988 and ran the same tests. Looking back at a total of 30 years on this one aspect of price behavior provided us with the same conclusions as looking at the test for 15 years.

Summary and Conclusion

Our test results show there has been an edge on the long side when the market has declined multiple days in a row instead of rising multiple days in a row. The notion that short-term market strength follows through with more strength again appears to be wrong. In fact, the results show fairly conclusively that short-term weakness is followed by short-term strength and short-term strength is followed by short-term under-performance. This again leads to the conclusion that, should these results continue to hold true in the future, waiting for a market to decline multiple days in a row is better than buying into strength.

Note: All tests were run on the cash market and were not actual trades. Also, commissions and slippage were not factored in. The initial testing period used was 1988-2003.

This article is an excerpt from How Markets Really Work, A Quantitative Guide to Stock Market Behavior by Larry Connors, Conor Sen & Connors Research Group.

Laurence Connors is Chairman and Chief Executive Officer of TradingMarkets.com, Inc., a financial markets information company he founded in 1998. Mr. Connors has over 20 years experience dealing in the financial markets industry. He started his career in 1982 at Merrill Lynch. Before starting his information companies, he was a Vice President with Donaldson, Lufkin, Jenrette.

Mr. Connors has also authored top-selling books on market strategies and volatility trading, including How Markets Really Work, Street Smarts (with Linda Raschke), Investments Of A Hedge Fund Manager, Connors On Advanced Trading Strategies and Trading Connors VIX Reversals.
1982 was characterized by high inflation rates, while the period from 1966 to 1982 saw a strong bond market and long-term interest rates. One clue in this puzzle might be that stocks in 2000 saw a secular high (as in 1966), predicated on your assessment as to whether or not we recently reached a secular low in interest rates.

I don’t pretend to have a crystal ball amidst this uncertainty, and I recognize the dangers of retrospective market analysis. I can tell you, however, that I am old enough to remember the prolonged Vietnam conflict, the subsequent oil price shocks, and the resulting budget deficits—all contributors to the secular bear phase from 1966-1982. When I hear of the prospect of continued planning for conflict in Iraq and witness the current oil price shocks, both of which promise drags on the budget—and then I see a five-year negative return on the inflation-adjusted Dow (something that didn’t occur either from 1950-1966 or 1982-2000)—I begin to prioritize the return of my capital alongside the return on my capital.

Is there a silver lining to be found in any of this? Yes: if you bought the market from 1950-2003 when the inflation-adjusted Dow was down by more than 4% on a 150-week basis (N = 408), your annual return rose from 7.22% during the remainder of the occasions (N = 2244; 1449 up, 795 down) to 13.48% (348 up, 60 down). Such superior returns after weakness also held during the bear period from 1966 through 1982: When the inflation-adjusted market was down by 7% or more over 150 weeks (N = 293), the next 50 weeks returned an average of 13.82% (259 up, 34 down) vs. 2.30% for the sample overall (N = 1028; 585 up, 443 down). Buying multi-year strength has made investors money only during secular bull times, but buying multi-year weakness has consistently rewarded investors willing to take risks.

Brett Steenbarger
By Tim Licitra

This past week the MTA has created a new advertising campaign. We will be promoting the transition to Thomson Prometric for the computerization of the CMT Exam. Our ads can be seen in Barron’s, Investor’s Business Daily, and Stocks and Commodities. There is also a circulation of postcards being mailed with similar information about the CMT Exam. To go along with the print advertisements, we have also created ads that can be viewed on Google and Yahoo!.
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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