Where We Stand

Jordan Kotick, CMT, MTA President

Fellow Members and the International Technical Community,

By now, everyone should be aware that we are no longer part of IFTA, an organization that was launched to serve as a framework for the global technical analysis community. People on both sides of the ongoing controversies between the two organizations have various opinions but I thought it was incumbent upon me to let everyone know what steps have been taken and where we currently stand.

There are now two technical organizations with members around the world. There are now two technical certification programs with test-takers around the world. I do not think this is a good thing for our profession which, while having made great strides over the last few years, is still not where it needs to be when compared to the fundamental community. We are fractured, we are competing with each other. In this situation, we will all lose.

The MTA has made ongoing efforts to work things out with IFTA. But thus far, our calls have been unanswered. Instead of delving into the “He Said/She Said” quandary, I wanted to simply reprint an e-mail exchange I recently had with IFTA. This is not done to point a finger at IFTA— it is simply to say that we are operating on two different wave lengths. Please read the dialogue and judge for yourself.

The e-mail exchange began with a neutral third party suggesting that the MTA and IFTA should sit down and talk face to face, an idea that I heartily supported (and still do). In fact, I suggested we meet with you to “talk it all through and work it out” that is most unfortunate that your choice is still refuses to sit down and talk. We still want to meet, we still want to work things out and we will still even go so far as to pay the fare continued on page 3
From the Editor’s Desk
“November Issue of Technically Speaking”

I believe these past several years have been the most dynamic and important ones in the history of the MTA. During this time, the MTA grew up. We went from an obscure social club primarily for New-York–based technicians, to a professional regulatory organization (PRO) with an industry-accepted professional certification program, computerized testing and a new state-of-the-art computer platform to service its Membership. But, with growth and success often comes change – you just can’t get around it.

One of these changes has been our relationship with IFTA, the International Federation of Technical Analysts that our own Ralph Acampora founded many years ago. On the cover, MTA President Jordan Kotick explains our current relationship with IFTA and how we arrived there, and also shares some of the dialogue that he has had with IFTA President Bill Sharp to try to resolve our current conflict. Being on the MTA Board myself, I realize we have already sent out a very detailed account of this issue. But, because we feel it is so important for us to make every effort to accurately inform the Membership on the details of this issue, we would rather provide a little too much information than not enough.

Inside, Contributing Editor Mike Carr, covers the July 16th meeting of the Denver Chapter, which featured a presentation by Andy Ratkai on Insider Trading. Also inside, Contributing Editors Jeanette Young and Garry Rissman provide detailed coverage of the October meeting of the New York City Chapter, which featured a presentation by Christopher Cady on Market Profile. Market profile is a relatively obscure charting technique that is very popular with floor traders. This issue also features a “how-to” article by professional trader Austin Passemonte, who uses mathematically-derived pivot point numbers to determine market trend and trading opportunities.

Finally, just a quick reminder to make your reservations for the MTA’s 2006 Winter Retreat to be held on January 20th and 21st at the Four Points Sheraton in Miami Beach. Each session will explore technical analysis from a different perspective, including trading, research and portfolio management. It looks to be a great event, not to mention just being in Miami in January is a great event in itself.

Hope you enjoy this issue.

John Kosar, CMT
Editor

From the President’s Desk
“Surprising Feedback”

Based on our recent letters, based on my note in this newsletter, the IFTA issues are well defined. It is interesting though... after the letters were sent from the Board to the MTA membership, I immediately received a flurry of emails with feedback and opinions. What surprised me was that there was not a single negative or critical email. Aside from those that remained neutral, every single other email was very positive about our behaviour and approach with IFTA, the steps we have taken and what the MTA’s role as a leader in the global technical community both now and going forward. This is very heartening to see and hear and I thank you for the very positive comments.

As always, another month seems to bring another piece of good news about the MTA. In fact, I think the last month has been one of the most important in recent MTA history. We now have fully computerized testing around the world. This is a substantial accomplishment. Of course, the first round of computerized testing was not without a hiccup or two and I thank the test-takers, our Executive Director John Kirby and our top notch staff in Woodbridge for their patience and success in working through the issues. But the MTA is now the only global computerized testing program out there for technical analysis. This is a great accomplishment for us and can only better the understanding and more importantly, the exposure of technical analysis around the financial world.

We are also now live with our new networking and computer platform. This is not only the best, most efficient platform the MTA has ever had; it is also the cutting edge platform in our business. Again, the Woodbridge staff has been working double and triple shifts to get this in gear and to them we extend our great thanks and appreciation.

It is a wonderful thing, as President, to be able to speak monthly on all the new and positive things happening in our organization. As for IFTA, our door is open always, and somewhere down the road, soon I hope, we can sit down and “put it all on the table.”

Keeping the faith anyway.

John Kotick, CMT
From the Executive Director's Desk

“NEW CMT testing”

The weekend before October 30, 2005 was another big one for your MTA. It was the first day of our first world-wide computerized testing for the CMT. Approximately 600 members and affiliates took the exams at 347 sites around the world. Although Thomson cautioned us that we should expect a decrease in the number of test takers the first time around, and although we did experience some capacity limitations in a few sites, we did not experience any hesitation on the part of test takers. The demand for the CMT is strong and growing. In a few cases level 3 presented challenges that did not agree with the name registered with the MTA. In those cases, where possible, MTA staff vouched for their identity.

In Florida the hurricane raised havoc with some sites. In almost all cases Thomson was able to reschedule candidates at other sites or at other times.

In a few cases level 3 presented challenges with the availability of the chart book. Each one of those cases was handled individually by Thomson.

During every exam through the years, there are always a few sites where there are problems of a late start or a misinformed proctor. However, with 10 times as many sites this time, I am pleased to say that we had much less than 10 times the problems.

On a personal note, we all know that exams are high stress events. However, as I was manning the phones this week to take candidates calls, I was very impressed at the professional manner and good temperament of every candidate who called.

John R. Kirby
Executive Director

COMING SOON!

On line CMT prep-courses for the spring exams.
Webcast by CMT veterans 8-10 1 1/2 hour classes plus your own private forum.
Classes will start in mid-January Seating will be limited Watch the website and your email for details

Where We Stand
continued from page 1

if needed in order to get people together. But, as you can see, we are the only ones at the table. We will keep the seat warm in case IFTA has a change of heart.

I believe that years down the road, there will likely be only one accreditation program and likely only one organization with international membership. Until then, we have a mini-civil war on our hands and while we waste our time with this, the rest of the financial research community continues to gain traction at our expense.

I have heard people on both sides say that maybe we can work it out in a few years time, when whomever (Sharpe, Kotick etc) are no longer in charge. I disagree. By that time, new paths will have been forged, half truths will have become ossified and competitiveness will have driven us further apart. The time to stop the bleeding is now. But again, while the olive branch continues to be extended by the MTA, so far, no one is reaching back.

Where to now? Until IFTA agrees to meet, we should remember one thing…we all know that the stock market is really a market of stocks. By the same token, the Market Technicians Association is really an Association of market technicians. We must continue to strengthen and build our association. If our recent success with the NYSE, the NASD, the SEC, Thomson Prometric and the NYSSA are any indications, than the state of our Association is stronger than ever.

And we move forward.

Best Regards,

Jordan

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. Visit our website at www.mta.org/seminars.
Profits and Pitfalls of Insider Trading Analysis

Michael Carr, CMT

On July 16th, Andy Ratkai provided the audience at the Denver MTA Chapter meeting with specific guidelines they could use to benefit from the activities of corporate insiders. Like any good instructor, Andy began with simple definitions to establish a common knowledge base for meeting participants:

- Operating officers are insiders with day-to-day knowledge of sales and product trends. Their actions usually offer the most reliable indication of insider activity.
- Directors represent “Big Picture” insiders with varying degrees of knowledge. It is best to confirm their activities with an analysis of the actions of operating officers.
- Large shareholders are those that control at least 10% of a company’s stock. These insiders are often savvy individuals with insight into the company and proven track records of successful investment.
- Hedge funds may file as insiders because of their size and trading style. However, since they are mostly driven by short-term performance, their activity is not nearly as reliable as the other insiders.
- Founding family members often have large stakes in the company. These insiders may buy or sell based upon emotional decisions or due to tax planning considerations. As with directors, it is best to confirm their activities with an analysis of the actions of operating officers.

Insiders may acquire stock by buying on the open market or through exercising options and then holding the stock. Open market buys are the most meaningful insider action since by doing so, the insider is placing their own capital at risk because they believe the stock will go higher. Holding stock acquired through the exercise of options is a slightly less meaningful action because this action may be driven by a belief that the stock will go higher, or there may be a tax advantage for the insider to hold the stock. In general, Andy felt that insider sales were not as meaningful as buys. There is only one reason anyone buys a stock - they believe it will go higher. However, sales may mean that an insider is seeking to “get out while the getting is good,” or the seller may be motivated by cash flow needs, estate planning or some other non-opinion based reasoning.

Andy stressed to the audience that it is very important to evaluate the size of a purchase or sale as a percentage of the insider’s holdings. As an example, he explained that if a CEO owns 100,000 shares and buys or sells 1,000, this is not a very meaningful transaction. However, if he increased or decreased his holdings by 100%, then a very meaningful signal has been provided in the market.

Insider trade analysis is best used as part of a comprehensive investment selection methodology. The strongest insider buying signals are seen when a company has been through bad times and the consensus view on Wall Street is that the company’s outlook is poor. At these points, a company’s fundamental valuation should be near historic lows, and technically the stock should demonstrate signs that a major downtrend has ceased. Conversely, sells are most meaningful when everyone loves the stock, fundamental valuations are high and the stock has been in a major uptrend. A drawback to insider trading signals is that they tend to be early - often 6-12 months elapse from the signal to the price change. The cycle of insider trading analysis can be summed up in figure 1.

Andy cited three sources of insider data. “Value Line Investment Survey” presents the information clearly, but with a significant delay of 2-3 months and at a steep price. He feels that “Vicker’s Weekly Insider” does the best job of providing timely and useful data at an affordable price. Vicker’s also calculates an insider’s index for each company, which can be used to quickly isolate stocks of interest. Finally, Yahoo! Finance provides free data, but it requires the user to do additional research to assess the raw data.

Andy advises investors to have realistic expectations for this investment style. Insider trading requires patience. It is for long term investors only, due to the lags between action by insider and the action of the stock.

Turning from insider trading analysis to more general topics, Andy has found in his work with individual investors that the acceptance of technical indicators has been growing since the market top in 2000. He thinks the individual is searching for new tools after learning that relying on fundamental recommendations disseminated by brokerage houses can, and certainly did, lead them astray. Recently, he has noticed a small minority of individuals are still seeking the action of day trading, while the vast majority of individual investors want someone to tell them exactly what to do. This majority wants to understand the method behind the decision making process, but is most comfortable leaving the buying and selling to a professional.

In his classes, Andy is a strong proponent of Point and Figure charting and he teaches the use of this method to his students. But he thinks that only 5-10% of students master and apply this methodology. He attributes this to the fact that most individual investors are impatient, and that an approach such as this requires too much discipline.

Lately his work has focused on behavioral finance. His initial conclusions include finding that investors hire advisors to transfer blame for investment failure. He also finds that the public isn’t necessarily familiar with the concepts of support and resistance, but they do anchor personal pain to certain price levels, and these levels translate to the chart patterns that technicians study. Andy thinks that behavioral finance can help him study charts more effectively, with this example of support and resistance serving as a simple illustration of that concept.

André Ratkai, CFA, is President and Chief Investment officer of Denver-based Praxis Advisory Group, Inc., an independent investment advisor providing portfolio management and asset allocation services for stock, bond, and mutual fund investors. Mr. Ratkai provides the investment management and research and is the primary client contact for all accounts. Prior to publicly offering Praxis Advisory Group’s services in 1992, Mr. Ratkai served for four years as portfolio manager for Alpine Capital Management Corp., a Denver-based registered investment advisor. He was a member of Alpine’s investment team that was responsible for more than $100 million of managed stock, bond, and mutual fund accounts. Earlier professional positions included managing a team that was responsible for more than $100 million of managed stock, bond, and mutual fund accounts.

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MTA NY Monthly Meeting
Garry Rissman

Editor’s Note: Contributing Editors Jeanette Young and Garry Rissman covered the October 3rd meeting of the New York City Chapter of the MTA for Technically Speaking. The featured presentation, by Christopher Cady, was entitled Voyage through Market Profile and the Associated Studies of Cap Flow.

Jeanette, Regional Chairperson for the NYC Chapter, begins with an overview of the presentation. Garry then follows up with a recounting of the presentation, including his comments and a post-presentation interview with Christopher Cady. The included charts are a little difficult to read, because they are a scan of the actual hard-copy charts Mr. Cady used in the presentation, along with his hand-written annotations.

Overview by Jeanette Young, CMT, CFP
October 12, 2005

Last week the New York chapter of the Market Technicians Association had a wonderful meeting at the New York Board of Trade. The subject of the meeting was Market Profile. We were lucky to have Christopher Cady as an instructor in the charting method. We viewed live quotes from the CQG (Commodity Quote Graphics) system illustrating the usage of Market Profile.

Jeanette Young, CMT, CFP

For all those not familiar with Market Profile, charting is done by plotting price activity within half-hour brackets of time. This method was originally crafted for the futures markets which define these brackets with a bell or buzzer every half hour. At the end of that half hour, trading cards must be turned in and posted to aid in matching trades. Market Profile defines these brackets by using letters; A for the opening, B for the first half hour, C for the second half hour and so on through the end of the trading day. Thus, all prices traded in the “B” bracket will be plotted on the chart. Next, all prices traded in the C bracket will be plotted on the chart. These plots produce what appears to be a bell-shaped curve turned on its side. The widest points of the bell-shaped curve generally represent market equilibrium. The ends, or tails, of the curve represent areas where the market is not stable, and a place where the market doesn’t want to be.

After these plots are compiled, the system calculates the volume at the assigned brackets. From this information, the capital flow system is developed. Market Profile tries to identify periods of accumulation period and distribution. Periods of consolidation or sustained trading at a particular level, which appears as a group of horizontal plots on the chart, typically precede directional price moves. Directional price moves appear as vertical plots on the chart. The work is fascinating.

The Presentation by Garry Rissman

Introduction by NYC Region Chair, Jeanette S. Young: It is my pleasure to introduce you to a person I mightily respect. Chris Cady is a seasoned trader with two and a half decades of experience in the financial markets. He is well-regarded on the exchange floor as a superb hedger, as a superb trader, and as a general good guy. He is an expert in market profile. He does not speak in tongues; he speaks very clearly and in English. For those of you who have seen this kind of presentation and didn’t get it; this one you are definitely going to get. This method of charting was developed by Pete Steidlmayer; evolved into something called Capital Flow which Chris is going to be so kind as to show us. Chris has been personally trained by Pete Steidlmayer in both market profile and cap flow. See www.steidlmayer.com for more detailed information. It is with extreme pleasure and delight that I introduce you to Chris Cady.

Chris Cady: Thank you Jeanette; thank you all for coming. Just one quick thing that we should be aware of is that there is no answer per se. Everything has flaws. We need to concentrate on what potentially works, and what will work for you rather than what is the flaw. Pete Steidlmayer started in 1991 developing capital flow, I guess he worked on market profile in the 60’s, 70’s and 80’s for the Board of Trade in Chicago.

Capital flow basically was an answer to the funds getting more money than the ring (the trading pit). In the old days, when the ring had more money than the funds, they talk about situations where the collective of the ring could take out any size order. But now, when the orders come into the ring, the brokers say “what’s here?” -- we just sit here and say “you tell us.” .As a ring, we have no power relative to the money funds that come in.

He developed cap flow; it started in 1991, it’s an ongoing process. There have been 1,350 different versions of it and no manual. There is a manual now. It just came out. The cost of the software is between $3,500 and $5,000 per person or institution depending on the level of support that you want, so it’s not that prohibitive. It’s pretty easy to understand. It’s fun to talk about and fun to learn about.

To get you up and running let’s start off with a little bit about Market Profile. The advantages of market profile, basically in this case, are that you can see where the market has spent the most amount of time. On a straight bar chart you would not know that the S&P cash had a hard time at the highs today. It opened on the highs and went straight down. We were talking about the theory that if the market is too high; too many people are going to act and quickly move it away from that price. If the market is too low, too many people are going to want to buy. If you participate and get a high, and the market is not coming off, you have to really ask yourself if this is the definition of a high. Is this the definition of a low? Along the same lines, the market is looking for certainty.

For example, in today’s S&P 30 minute cash chart I know it was the low because four hours have gone by; and it was the low. Our challenge occurs in real time. How do we know that it is the low? How do we know it is the high? When you have these situations, the market is at an extreme and moving away from there quickly, and then you can act with certainty that it may be the low. You can put on a low risk trade if the market doesn’t come back or spend any time there. On the flip side, whatever you are leaning against, real time, whatever indicator, if it’s not moving away from there quickly, be really careful.

Many technicians are looking to sell papers; or get their name in the paper; or get on CNBC with predictions of doom; certain astrology based predictions. I would rather give you a down to earth, quick mathematical exercise. In 1994 the market had a 50-point handle edge. It was really dead; super dead -- it was the worst trading year ever. The S&P 500 broke out in 1994 from the middle of the range at 460 as the breakout point is always the middle of the range, which was from 440 to 480. Please see monthly S&P 500 chart July 1990 to Jan 1995. It went straight up to, I believe, 1565 in 2000. October 2002, 31 months later, it had sold off 785 points, a 50% retracement, see monthly S&P500 chart 1993 to 2005. When it broke out — middle of the range — 460 S&P, the market left single prints in here. It still has this huge gap period area right here and never got back to it.

Do a simple A equals C where A is the 785 point retracement from March 2000 until October 2002. C would equal the future 31 months by retracing 785 points from 1245 — the recent high — back to S&P 460. 31 months would give you the month of May before the election of 2008. Nice time for a bottom if you are a bear. I think it is just cocktail chat. I don’t know if it will happen; but if it starts to go down, I wouldn’t be a buyer.

Note from Contributing Editor: In my humble opinion it makes sense that the first 785 point retracement of 50% from March 2000 continued on page 7
How To Use Pivot Points

Austin Passamonte

Pivot points, floor levels, support/resistance values. Various labels for the same tools: a calculated formula for what should be “fair value” in a market to follow. Before the days of palm pilots, cell phones and the general wireless world, floor traders and market makers relied on hand-scribbled price points of where buyers / sellers should cluster their stops. The information age has arrived, but these valuable price points still retain their power over market action hence.

Pivot Point General Guidelines

Of utmost importance to know, daily pivot point values tend to be touched or traded thru roughly 75% of the time. In other words, seven out of every ten sessions for any liquid market will see the daily pivot point come into play at some point during live trading. I know this to be true, because fellow traders and I have done the math, counted daily touches of stock index E-mini markets per month since March 2003. Anyone interested can readily do the same research we already have.

To know that a certain spot on most any chart will be touched more often than not can be a powerful tool. Unfortunately, unless one knows what to do with that information it is worthless at best or harmful at worst. Believe me, more traders LOSE money with this knowledge than actually make money. Some of the worst trading sessions touch their pivot points several times (sideways chop) while some of the best trading sessions miss touching the daily pivot at all (gap & go trend sessions). Knowing the propensity for a daily pivot point to be tapped more often than not does help when seeking potential entry and sometimes exit targets.

In general, a market trading above its pivot point value is acting bullish while a market trading below its pivot point is bearish. That’s the most general rule for using these price measures, and holds true more often than not. The fact is, the same trend filter applies to all charts and trading time frames, intraday charts, or even daily and weekly charts.

Pivot point values are not exclusive to day trading at all. I use them in swing trades and even position trades for long-term stock holds in IRA accounts. Depending on our time horizon, the applicable pivot value works there, too.

Using daily charts for swing trades in any liquid market would mean we want to keep track of the weekly and the monthly pivot points. That much is easy. Once a week, we calculate the previous week’s price values for a weekly pivot point. At the beginning of each month, we calculate the previous month’s price action for monthly pivot points. It’s as simple as that!

Calculations

In the case of index futures, “cash-session” pivot and S/R levels were calculated from price action taking place from 9:30am-4:15pm ET for pit trading sessions. All markets seem to perform best using cash session or pit-traded hours for pivot point values, but anyone who prefers using “all sessions” data can do so.

Pivot Calculations

Derived From High (H), Low (L), Close (C) of previous day:

\[ \text{Pivot point} = P = \frac{(H + L + C)}{3} \]

Usage

Pivot points can be used as an entry trigger and trend filter accordingly. An individual stock trending above its weekly pivot point is bullish. Overnight news that drops said stock down to its pivot point at the open may be offering a high-odds long trade entry near that mark. Periodic pullbacks into the pivot point, along with extended oscillators, moving average values, historical trend lines or similar complimentary tools can be very effective trend following trade setups.

By the same token, a commodity market that has trended above its monthly pivot for a year now breaks down and trades below that mark warns all who listen that a trend change appears to be at hand. Significant trend changes can & do first show themselves when price action swaps bias around its respective pivot point values.

In this example, the S&P 500 futures gave a confirmed sell signal (by the methods I use) right at daily pivot resistance. Short near 1236 soon gave a secondary sell signal on the mark again before dropping down to session lows below 1228.

Notice what happened on the late-day short squeeze back to that pivot? Sell orders were parked right there, waiting to slam buyers in the face. This was another valid sell signal, which worked for +6 pts into the close.

Taking just those two trade signals alone (there were others) could have offered +14 pts or +$700 per each E-mini contract traded.

Better than that, the Russell gave the same exact sell signal and promptly dropped +$900 per E-mini contract to session lows. A late-day buying spree was quickly reversed once today’s pivot point was touched.

Two trades, +$1,500 per E-mini contract—not a bad return.

Summation

Pivot point values play a role in most sessions and market’s collective action. Using them correctly as the tools/filters that they are can add significant profit dollars to your trading account. Simple, time tested, and likely to work exactly the same tomorrow as they did today.


Austin Passamonte is a full-time professional trader who specializes in E-mini stock index futures, equity options and commodity markets. Mr. Passamonte’s trading approach uses proprietary chart patterns found on an intraday basis. Austin trades privately in the Finger Lakes region of New York and writes a daily column for www.TradingMarkets.com
**Profits and Pitfalls of Insider Trading Analysis**

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include: due diligence officer and research director for the Denver affiliate of Professional Brokerage Services, a New York broker/dealer; and financial analyst, and due diligence officer for Integrated Resources Equity Corp., a financial services firm based in New York City.

The Chartered Financial Analyst (CFA) designation was awarded to Mr. Ratkai in 1990 and he is a member and former officer of the Denver Society of Security Analysts (now CFA Society of Denver). The creator of InvestAcademy, he is an adjunct professor of finance at the University of Denver, teaching technical analysis and other courses and has been teaching investment classes since 1994. Mr. Ratkai holds a bachelor’s degree in economics from the University of Washington in Seattle.

**MTA NY Monthly Meeting**

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To March 2003 should be a lower percentage number than the future theorized second 785 point retracement of 62%. That is because the move up from 1994 to 2000 was stronger than the move up from October 2002 to October 2005. Please note the following quote from John Murphy’s “Technical Analysis of the Financial Markets”, page 336: “In a strong trend, a minimum retracement is usually around 38%. In a weaker trend, the maximum percentage retracement is usually 62%.”

Chris Cady continued: This market profile chart (not shown here in this article) is from 1982 forward, where we broke out of in 1994. You see in this area where we don’t have any real trading, from 450 to the 500 area in the S&P. I don’t know what gets it there. There are so many forces aligned with making the markets higher. I am not advocating short positions; I am just saying, be careful.

The basic premise behind the cap flow software — demonstrated here on a bar chart — is that markets move from a period of balance, in this case where moving averages come together, to imbalance or trending; back to how moving averages come together. However it is not a crossover system. You are just basically looking to define balance and imbalance. The basic idea is that markets can move from vertical to horizontal and back to vertical. That theory came in the 90’s when they went to “just-in-time” inventory.

If you know that the market is balanced, you are ready for a vertical move. So your strategy will be, “I am going to sell the breakdown”. Or, “I am going to buy the breakout”. That is a huge mind shift. If you are standing in the ring everyday, you are looking at your screen thinking, I don’t know, what is it going to do today? If you have the idea that the market is balanced; and it is ready to go vertical; you know that you can sell weakness, right? As the market moves and has its vertical move; and you see that the moving averages; when you get the moving averages spread apart, see how the market tries to get balanced; as they come close together, it is ready to go vertical. It is just beginning to break out to the upside and reverse that on this corn chart, not shown here in the article. The premise is that if you have an idea when you look at your screen, whether you are going to buy strength, or sell strength, and they are 180 degree opposite. If you have the idea that today is going to be the day where I am going to buy strength, or I am going to sell weakness, or I am going to buy weakness — that mental mind shift gives you a blueprint how you are going to behave that day.

Basically the way that we came up with our formula was that if time is open ended, and price is here. The range in A is greater than the range in B; with an equivalent amount of time — whatever it is — that would equal balance. That is a mathematical formula for determining balance. It is just a pendant. The first half of the pendant is bigger than the range in the second half. It looks like the ice cream cone turned sideways. You can mathematically program that so your system can kick it out in whatever you are watching. As individuals we only have the ability to look at so much. But if you can get the computer to do that for you, then you can scan around the world and find situations you are looking for.

**Excerpts from a follow up telephone conversation on Oct. 13th, 2005:**

Chris Cady: That is just a distinction you need to make — at what level is inventory acquired at? Remember, at my lecture, we were talking about not if you bought at the right price, but did you buy enough?

**Contributing Editor:** That’s true. His (Pete Steidlmayer) whole thing about the bell curve was with the bars on the side indicating volume by price.

Chris Cady: Based on the concept that time is a measurement of convenience, he figured out a way to graph things without using time. He stands in stark contrast to candlesticks. You could ask the question, where do you start time in these 24-hour markets? That is the problem with the candlestick charts. You have to start time somewhere.

**Contributing Editor:** Don’t you have to start at the open?

Chris Cady: What is the open in a 24-hour market like the Euro currency? It begs the question how do you segment data? That is a question that these bar charts and all these candlestick people can’t answer. Just because the clock changes; the Euro currency doesn’t care if it’s midnight in New York; because it’s 6 AM in London; and 9 AM somewhere else, etc. Market profile was an answer to that. From the profile it morphed into the concept that vertical leads to horizontal which leads to vertical. From that it led to the synthesis of trend following systems. It was a multiple entry, single exit system. So I buy something at 1, buy something at 2, buy something at 3, buy something at 4, etc., and sell it all at 10. That is what works now — because the day traders’ models didn’t work. It doesn’t work to buy it at 1 and sell it 2; buy it at 3 and sell it at 4; buy it 4 and sell it at 5; etc. Do you understand the difference?

**Contributing Editor:** Yes, that is the traditional way people have made money in commodities, adding to their positions in a trend. That makes a lot more sense than day trading.

**Chris Cady:** The profile led to vertical which led to horizontal which led to synthesizing trend following systems; from that led the art of building tolerance into the system; and looking for imbalances. Price alone will not stop a vertical move.

**Contributing Editor:** That’s true; that is what we saw in 1999 stock market. We had a lot of people shorting the market even though the market was going up simply because they said the prices were too high. You have to first wait until you see signs of a top before shorting.

**Chris Cady:** The sign of a top is when the rate of allocation starts to slow.

**Contributing Editor:** How do you tell when it is slowing with Steidlmayer’s system? I am looking at a 10-year monthly chart of the DOW. The top two horizontal bar charts are very, tiny on the left side with altogether 15 horizontal bar charts. Is that a sign of it slowing down?

**Chris Cady:** The price behavior of any asset class is its best marketing tool for more money to be allocated to it, if looking for an up move. The price behavior of stocks right now is not advertising money to be allocated to it.

**Contributing Editor:** Should I look at a six-month, three-month, one-month chart, etc.?

**Chris Cady:** Anything, anything is all right. The important question is how to measure time between allocations as in the beginning people are allocating money very quickly. That is why you have a very quick movement without any retracement. So now we are trying to calculate the rate of allocation. As the rate of allocation slows, the potential to be over-allocated increases. A position in a market that can’t attract money usually has to be liquidated.

**Steidlmayer Software, Inc. produces Capital Flow Software, a tool that lets stock and commodities traders perform unique analyses based on the Market Profile® database. It represents the culmination of many years of market study, practical trading, and empirical observation, and is based on an original approach to the markets, to market data, and to market analysis. Capital Flow has been developed by a trader and focuses on the practical and immediate challenges that traders face on a daily basis.**
### 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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