Looking Back, and Offering Wisdom to Those Looking Ahead with Sam Hale, CMT
Michael Carr, CMT

The MTA is changing and we are seeing more young members just starting out. Ideally, this will be the first of many interviews with more experienced members who have seen bull, bear and sideways markets.

Sam Hale, CMT retired two years ago from A. G. Edwards as Senior Technical Analyst - Futures and Options Divisions. He has agreed to share some of his experiences. Following a successful, although brief, career in broadcasting in Atlanta, Chicago and New York, Sam shifted from the markets being his avocation into his full time career in 1966. He was with predecessor firms of Morgan Stanley, Dean Witter for seven years before forming his own NASD research boutique.

If you're eyeballing the MTA Sil- ver Anniversary Seminar. That Seminar included remarks by eight MTA Annual Award winners and the never-to-be-forgotten laser show presented by Walt Deemer.

When you started your professional career in the markets, the Dow had just touched 1,000 for the first time. It would be 18 years before it finally broke that resistance level for good. Did you employ market timing techniques during this time period? If so, what tools worked well? If not, what was the key to your success in this tough market?

I actually became interested in the market in 1960. I was doing the morning show at WJJD (www.reelradio.com/sh/index.html) from studios at 230 N. Michigan Avenue in Chicago. Every day I would walk past the Merrill-Lynch showcase office a few buildings up the street where all the tickeregister quotation boards were clicking and clacking. I had often read the “Dow Jones” numbers in newscasts but did not even know what those numbers represented.

I stopped in the ML office one morning and was handed a book, “How to Buy Stocks” by Louis Engel. I was “hooked.”

There weren't the thousands of market-related books back then. I soon had soaked up all I could get my hands on as if I were a sponge. I soon discovered “The Wyckoff Course” offered by Bob Evans out in Park Ridge and purchased the two leather-bound volumes with the foldover locked flap. Back then, long before other publishers bought SMI, Mr. Evans circulated taped “lessons” weekly. To this day, I rely on some of the principles I learned from the writings of Mr. Wyckoff.

My air shifts were generally only three hours and production recordings would require no more than one to two hours. So, there was plenty of time to sit in the visitor’s galleries that were available in most brokerage offices back then and “read the tape.” After making eight times in the market what I made in broadcasting in 1965, I decided to test for a brokerage company job.

Enough background. Now to your question. The backbone of my analyses was the Wyckoff P&F methodology. When based upon accurate data, correctly plotted, and a couple of simple “rules” followed with complete discipline, it has stood the test of time. The problem most would encounter with these graphs is the lack of quality data as there is no such thing as “tape reading” today.

I was surprised to learn that most commercial providers of P&F graphs interpolate the changes from the daily open, high, low and close data; not from the tick by tick data. Of course, the consolidated tape has become like the old commodity tickers that show representative prices, not every transaction. The entire data stream is not readable by the human eye – it’s a blur. Only with computers capable of capturing all these data points can one be confident that their graphs are accurate. Then, there is the problem of “corrections.” My computers scan the tape from the end of the session to pick up all the deletions, insertions and corrections.

In my opinion, those who ridicule the P&F approach are either not doing it correctly, or use inaccurate data. Or, maybe they are too lazy to do the work! Even if I had no other indicators, I could operate successfully in the markets with P&F. Ask Bob Farrell, Alan Shaw or John Greeley what they think about this method.

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NYSE UPDATE

Ralph Acampora put together a task force including Shelley Moen and Dave Nicoski from Piper Jaffrey, Rick Bensignor from Morgan Stanley, Jeff DeGraaf from Lehman Brothers, and David Krell, who together with Stuart Kaswell of Dechart (a securities law firm) are putting together that definition along with examples of technical research reports. These volunteers are burning the midnight oil on your behalf. We will keep you posted of the progress.

The paragraph above is the last paragraph from last month’s NYSE UPDATE. We are pleased to advise that the definition was done, the questions were answered, and a letter was sent to the NYSE and the NASD. Below is an excerpt of that letter. If you would like the full text, please let us know and we will send it along.

Dear Mr. Van Weezel and Mr. Shaikun:

The Market Technicians Association ("MTA" or the "Association") has retained Dechert LLP to assist the Association with its effort to seek SRO recognition of technical analysis and the MTA’s testing program. As you know, MTA has assembled a Task Force, which Ralph Acampora chairs, to work with the SROs on this project. Previous correspondence from, and discussions with, the Task Force have explained the validity of technical analysis and the value of its analyst testing program. We believe that it would be fully consistent with the self-regulatory responsibilities of the New York Stock Exchange ("NYSE") and National Association of Securities Dealers, Inc., ("NASD") for them to recognize technical analysis as a unique and valid approach to securities analysis.

We have received a memo from Ms. Tina Freilicher and Mr. Joe McDonald dated July 23, 2004, with a number of questions concerning technical analysts. First, you have asked us to provide a definition of "technical research report." The Association’s Task Force has developed the following definition:

"a "technical research report" means a specialized research report based upon the study of Market data and statistics, including trading volumes, price movements and measurements of investor psychology, that identifies and projects price trends and patterns and assesses market risks with respect to the price of a security. Technical research reports, unlike fundamental research reports, do not involve the study of a company’s financial statement, business risks and the effects of economic conditions to estimate the value of a company."

Based on this definition, we believe that it would be appropriate for the SROs to amend their testing requirements to provide that a person who both: (i) prepares technical research reports; and (ii) has passed the Levels I and II of the Chartered Market Technician Program, to be exempt from the Series 86 examination. We have taken the liberty of preparing a draft amendment to NASD Rule 1050 that would encompass this approach, and include it as Attachment 1.

Second, the memorandum has a number of questions regarding the MTA’s testing program. We have reproduced the question posed in that memo and have included our answers below. Linda Montgomery, PhD; Jay Breyer, PhD; and Corinne Reslier of the Chauncey division of Educational Testing Service ("Chauncey"), Brad Herndon of the MTA Accreditation Committee, and the MTA professional staff have provided these responses....

MTA sincerely appreciates the opportunity to work with the SROs on this important project. We would be pleased to meet with you to discuss our responses and to address any additional concerns that you may have. Please direct future communications regarding this project to the undersigned.

Sincerely,

Stuart J. Kaswell
Partner

The letter was sent out on August 20, 2004. We will keep you posted on the result.

Cordially,

John R. Kirby
Executive Director
From the Editor’s Desk

“If I have seen further it is by standing on the shoulders of Giants.”  - Isaac Newton (1675)

In this issue of Technically Speaking, readers will be given the opportunity to stand on the shoulders of Sam Hale, an undisputed giant in the field of technical analysis. Sam enjoyed a long and successful career, and is now enjoying a retirement that we all hope will be as long as his career was. Sam personifies the best of the MTA – a skilled technician, a market historian extraordinaire and a true gentleman.

Also in this issue, we profile long-time MTA member Jeff Weiss, another giant of the industry. It has often been said that success leaves clues, and it is our intent to show the varied paths to success available to MTA affiliates. By studying the clues in the profiles and interviews we offer, mistakes can be avoided and profits may be easier to find.

The Newsletter Committee hopes to include interviews and profiles every month. This is in direct response to reader feedback. But, in order to do so, I must once again use this space to solicit your help. If you are willing to be featured in an upcoming issue, please send me a note at market.strategist@wyobhi.com so that we can schedule a time and format. These articles can be completed through emails or telephone calls, depending upon your preferences and schedule.

Cordially,
Mike Carr, CMT
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Sam Hale - continued from page 1

You maintained P&F charts by hand. Can you comment on why you prefer this technique to merely looking at a software-generated chart?

I do have programs that generate these graphs but, you’re right, it also prints out a listing of the daily changes that I plot by hand. It keeps my attention focused and “close” to the market. Perhaps it is just psychological, but the habit persists. I know a few other successful money managers who do a select number of bar charts (and P&F) by hand.

You’ve known many market technicians over the years. In the program for the MTA 25th Anniversary Seminar you cite James Alphier as, “the most thoroughly knowledgeable person I have ever met.” Many of our newer members know nothing about Jim except that his extensive research collection was recently donated to the MTA (Technically Speaking, June 2004). Can you tell us a little about the person and technician that Jim Alphier was?

Wow! You’ve done your homework on me. Actually, the comment about Jim was prefaced with … “In market history and lore”; he was the most thoroughly knowledgeable person I have ever met. That is true. There are others right up there with him, with whom I’ve become more acquainted in recent years, including Bill Doane and Walter Deemer.

Jim Alphier’s “passion” was the study of the markets. When we worked together (over 25 years ago), Jim had already accumulated a half-dozen filing cabinets filled with correspondence, data, research reports, etc. He contributed the chapter on technical analysis to the original issue of the classic, “The Commodity Futures Game,” for which he received minimal credit. Years ago, Bob Prechter told me that Jim’s paragraphs on the Elliott Wave were the most clearly written piece on EW by another that he had ever read.

Jim was doing all his “sentiment” indicators by hand when he arrived. Only after we entered a cross-confidentiality agreement did he permit me to do him the favor of programming those indicators on my old PDI 8-I mini-computer. To this day, I have honored that confidentiality and have never personally used or divulged his formulae. I was disappointed to learn from John Bollinger that these were not among the items contained in the treasure chests contributed to the MTA Educational Foundation. I plan to seek an opinion from an intellectual property attorney to see if it would be proper for me to leave them to the MTAEF upon my death. However, they may be of little, or no, current value in today’s market. I don’t recall their composition and shall not even look at them. I do recall they had intriguing titles.

In your work as an analyst, what analysis framework did you employ?

I am a “pure” technician. Long ago I realized that I did not have the talent for synthesizing fundamental data into my work and comments. This actually was a handicap in writing for brokers as they (and their clients) expect to have a “reason” for the observed effect, or forecast. Such things as John Carder’s fantastic “Earnings/S&P 500” graph of the 1973-1974 period; Paul Montgomery/Ned Davis’ magazine covers; or Walt Deemer’s McDonald’s earnings growth/stock price pieces are enough to convince me that I must stay focused on the methods that work for me. Fortunately, over time, my performance record overcame the need to comment on the fundamentals. Don’t get me wrong, I am not criticizing those who are capable of economic commentators, I admire that talent. I just know that it is beyond me. My motto has always been, “I don’t care what they’re saying, I just care what they’re doing”!

What were your favorite indicators? Did you rely on the same indicators throughout your career? If not, did you stop using indicators because the indicator lost effectiveness?

In a project with GA Tech, I was the first “individual” allowed by the Communications Department of the NYSE to connect a mini-computer to their ticker in 1968. One of the indicators I constructed from those data was the best measure of supply/demand that I could ever imagine — the average volume per trade on price advances vis a vis declines.

In researching for the 1995 MTA Journal paper on the ticker tape, I spoke with Don Worden and asked why he no longer used tick data in the studies for which he had become famous. He said because, “It doesn’t work anymore.” At that time, I reasoned that perhaps the change for its “not working” for him was that he might be accepting all the trades from the consolidated tape as if they were chronologically sequential. They are not.

Trades in NYSE stocks from the regional exchanges and NASDAQ may be reported to the tape as much as 90 seconds behind the actual trade and still be within the rules. Therefore, I looked only at the NYSE prints. (The high-speed tape contains an electronic flag indicating the origin of the print.) However, now with “program trading” having increased to represent half, or more, of the total volume, I question the validity of my readings as program trades are arbitrage/hedge transactions that do not represent “pure” demand and supply.

Do the same analytical techniques apply to tick data as to daily or longer-term charts?

I assume you are referring to classical charting techniques and the simple answer would be yes. If a 15-minute bar chart of QQQ were not labeled, what would you tell us a little about the person and techniques that Jim Alphier was?
think there is a different psychology required to succeed in publishing analysis and trading? Or, do you simply apply the same personal discipline to master diverse tasks?

In my humble opinion, there are at least three distinct qualities required for an individual to be successful in the markets. Here, I am referring to a discretionary, not systems, trader. It is imperative that the operator understands these and honestly evaluates their own skills. Analysis, strategy and execution are the areas to be mastered. Some creditable analysts are not successful traders. Some may actually also be a good strategist, yet not be successful in the long term trading. Few, in my opinion, have all these skills. Therefore, one must recognize where they are weak and secure input from one talented in that area. So, first you must know yourself. Importantly, this means knowing your risk tolerances and the time frame in which you are most comfortable operating.

Do you have any advice for those starting out in the analyst profession today?

If you don’t have a “passion” for market analysis, discover where your passion is and go there. If you have the passion, nothing will keep you from reading, listening and then, proving it for yourself. There are many that could be classified as “charlatans” who have done a tremendous dis-service to the craft by marketing their “discoveries” as the Holy Grail. No one has “the” answer. You must learn what works for you and then simply have the discipline to always play your game.

If you can, hook-up (intern) with an achiever in the market. I am so very proud of the interns I engaged from Emory and GA Tech over a number of years. They had little or no introduction to technical analysis before coming with me and several will tell you it changed their lives. One is a Goldman Sachs-SLK Specialist on the NYSE floor; one a quantitative analyst with an international hedge fund, another an analyst with a boutique whose service is used by the elite at a base cost of $75K per year. These guys (and gals) were not successful because of me. I selected winners to begin with. Super bright, eager to learn and the discipline to expend the time and energy required - I simply recognized their ability and pointed them toward their “passion.”

Thanks, Sam, for your time and insights. TS

Technically Speaking Asks the Technicians

In the September and October 2002 issues of Technically Speaking, editor Dan Fitzpatrick asked leading technicians 4 questions and published their replies. We’re bringing that feature back for a few issues and the responses are interesting and educational.

Tim Snively, CMT
Technical Market Analyst
SunTrust Robinson Humphrey

1. What is your primary method of technical analysis?

I am a sell-side technical market analyst at a regional investment bank and brokerage, so my work focuses on stocks. I analyze the S&P 500 Index, NASDAQ Composite, and the futures markets (equities, bonds, and commodities) for a top-down view of the attraction of the equities market using basic technicals like trend and momentum. I also review internal market characteristics including the Arms Index, the 10-, 20-, and 40-day A-D net change, and average 10-day up/down volume on both the NYSE and NASDAQ to generate overbought, oversold, and trend indications. This part of my analysis looks at current data relative to all data points since 1972 to understand what constitutes legitimate extremes.

Then, for stock ideas, I start by analyzing equities using the S&P GICS sub-industries. These facilitate a “groupwork” approach, and enable an analyst or investor to boil the market down into 114 meaningful groups of stocks with similar fundamental businesses. The stocks themselves typically share similar technical price chart attributes within the sub-industries, and they can be charted. This price data is analyzed using price trend, relative price trend (relative strength vs. an index, not RSI), price momentum, relative price momentum, and chart pattern analysis to determine attractive and unattractive sub-industries of stocks within the marketplace.

From there, it is easier to find buy/sell stock ideas by reviewing individual equities within noteworthy sub-industries using the stock’s own technical characteristics such as price trend, relative price trend, price momentum (fast stochastic and MACD), and volume.

Outside of my sub-industry framework, I do a lot of work using Exchange-Traded Funds (ETFs) to identify the best trending sectors and groups, and also the best positioned market-cap segments. I also review sentiment data, the VIX, and other indicators to try to identify conditional market elements that might indicate changing trends. Lastly, intermarket analysis is a key component of equity market analysis - now more than ever - that should not be overlooked and has been, and will be, critical.

2. What specific technical indicators are working in this market?

a. Intermarket analysis has been totally key. At
an Atlanta MTA Chapter meeting not long ago, we agreed that the dollar’s strong negative correlation to the S&P 500 Index was a great indicator in 2003 and early 2004. Now, it is clear to all investors that crude oil is front and center among equity market and economic concerns.

b. Relative price of the NASDAQ Composite and, especially, the semiconductor group (SOX Index or the SMH) has also been very important for analyzing and understanding stock market dynamics and I expect this will continue to be helpful.

c. Over the next year or so, turns in the T-note futures and energy prices will likely continue to be key factors in understanding the stock market’s potential.

Price action seldom occurs in a vacuum, and it really helps to know the big picture.

3. How much of a role does fundamental and economic analysis play in your decision-making process?

I find it very useful to know what the fundamental analysts are saying because it helps you understand the sentiment surrounding a market or a specific equity. In addition, institutional money managers are highly event-driven and they are always looking for “catalysts,” and the sell-side analysts are constantly looking for catalysts and feeding these to the fund managers. Once you understand that money managers are usually investing based on a perceived future event or catalyst, it isn’t hard to understand why “buy on rumor, sell on news” works so often for traders.

Knowing what the fundamental analysts are broadcasting in terms of expectations is the key to understanding how funds are positioned and the probable outcomes.

As far as economic analysis goes, I think investors have to be very careful to not confuse economic expectations with market expectations. For one thing, the economists are notoriously inaccurate in their expectations regarding the economy and their views can be quite misleading. For another thing, the market moves well in advances of economic developments. I think the most useful segment of economic analysis is Fed policy. Understanding the Fed’s priorities in terms of price stability and economic growth, and especially the issues surrounding inflation and deflation, are increasingly important as financial markets appear to be undertaking major structural shifts.

4. What is your outlook for the stock market over the next year, and the next five years?

And here I thought we were just playing T-ball...My guess is that the equities market makes a low in early September and rallies into the first or second quarter of next year with as much as a 20% gain in the NASDAQ Composite. Then the wheels come off by summer 2005, and the indices test their 2002 lows with terrible performance among equities. Over the next five years, commodity-related equities should outperform significantly, but these stocks are quite vulnerable to the economic cycle and it will be choppy for these equities too, as they can make 40-50% moves in either direction based on perceptions surrounding the economy.

In the end, the important thing to remember is that nobody really knows for sure – not even the experts. Everybody is making their best guess. That’s why technical analysis is such a great framework – because it enables investors to use a price-based risk management tool that lets gainers run and cuts losses short.

Ron Davis, CMT
Managing Partner, Golum Investors, Inc.

1. What is your primary method of technical analysis?

a. I use random walk bands, one variety of which I wrote up for the MTA Journal; These lag the market in direction but provide mobile support and resistance estimators and so estimators of “how far is too far – trend likely to have changed.”

b. I use a variation on RSI which tends to filter out short moves. In addition, I have defined two different varieties of O/Sold and O/Bot on this indicator (Ron’s RSI). It also has a “don’t short/don’t long” indicator built into it.

c. I use a price/volume oscillator;

d. I use a price/open interest oscillator.

The bulk of weight is focused on (a) and (b) above. You might note that I am a swing trader more than a buy & hold sort. To the extent that I have long term opinions, they are fundamentally based.

2. What specific technical indicators are working in this market?

All my indicators are working just fine. A probable short swing signal hit on June 28th, which worked out well. As I write, my critters think the down swing is likely done, or nearly done, for a few weeks. This is the point at which I bring my stops close for shorts, but think it a bit too soon to be long.

All my estimates are for a few weeks at a time.

3. How much of a role does fundamental and economic analysis play in your decision-making process?

Fundamental analysis has an impact on the long view, but not the trading view. It has an impact on asset allocation, but, in my view, it is imprudent to have all one’s eggs in the stock market basket.

4. What is your outlook for the stock market over the next year, and the next five years?

Outlook for the next year: fiddle around until we get sufficiently close to elections – maybe even past them, given the presumptive Al Quaida threat against our election process – then rally into Jan 15th. For the 5 years after that, the three scenarios (bull market, bear market, sideways) seem weighted about: bull 10%; bear 35%-40%; sideways 50%-55%. I am essentially expecting a replay of the market of the 1970s with whatever differences reality brings to the table. A major bull market will be a major surprise.

But, then, that is why we watch our indicators and permit the market to dictate what truth is, is it not?

Todd W. Jones
Options Trader on the floor of the CBOE
Wellington Capital Markets LLC

1. What is your primary method of technical analysis?

I just try and keep it very simple. Mostly I look at charts as objectively as possible, basic pattern stuff with trendlines and moving averages (10-20-50-200). I have begun to use some DeMark but I’m still in the early stages of this analysis. I like to watch the intermarket relationships as well, especially lately with oil whipping everything around. I also watch for Fib retracement. Nothing fancy, again I just keep it as simple as possible. I look at candlesticks and point and figure also. I trade indexes around volatility and then use TA to hedge the position.

2. What specific technical indicators are working in this market?

Again I like to use the favorites. I use Stochastics, RSI, MACD, and momentum. I have found that using these and watching for divergences and simple pattern setups works best. Also a new indicator that I have been following is Mr. Williams’ “blast-off” indicator, and I like that one. Since this has been more of a non-trending indicator, I rely on Stochastics probably the most.

3. How much of a role does fundamental and economic analysis play in your decision-making process?

That is a tough one. I definitely watch the economic numbers news for ideas. But it becomes more of a feel analysis than based on hard evidence. Same with fundamentals, if I am trading a company and have been watching their earnings and listening to their guidance I sometimes can get a feel for what I think their earnings will do in any given quarter but not with any hard evidence.

4. What is your outlook for the stock market over the next year, and the next five years?

Well, that is another tough one. I am definitely bullish looking out 1 year. I think this non-trending market has been in a typical flag continuation pattern since March of this year and will resolve itself to the upside. This has been very healthy for the market (S&P 500 and NYSE Comp) to digest the gains from the lows in 2002. Also interesting to note that this sideways move with a slightly negative tone has been from what I believe are a couple resistance points:

1. The S&P hit resistance at 1163, almost exactly its 50% fib retracement (1166) from the high of 1557 in 2000 to the low of 775 in 2002.

2. The S&P is running into resistance from its 200-week moving average. The Nasdaq is also hitting resistance at its 200-week moving average.
But this is now the time for the market (if it is going to) to show its strength if in fact it has any. Last week’s move higher seemed to begin this process of discounting higher oil prices (week ending August 20th). If oil moves lower in the next week or two (which I believe it will) this would initially give the market back its footing. I would look for the market first to regain its 50 and 200-day moving averages and then breach these other levels that I speak of—the 200 week and fib numbers.

Five years is a big who knows…but I will guess. I think America will win this war on terror. We will begin to act like an Empire. In other words we will regain rule over the world. I believe people hate us because we are the only empire that tries to act like we are not an empire. Yes, we believe in freedom and democracy but with a more realist attitude…such as we need oil, the world needs oil so we must solve these disputes in the Middle East…but because the nations will not do it themselves. In fact, they have demonstrated an inability to solve the problems for hundreds (thousands?) of years.

What does this have to do with TA? Nothing and everything, I believe. TA is the perceptions of people, the “psychology of the market”. This is what will begin to bring foreign investment back into our market and with them BIG volume. $S

Interns

The Internship Committee assists in providing opportunities for MTA affiliates to be mentored by and work alongside full MTA members. Any affiliate can apply and their information is used to find a suitable match between themselves and a member. Members who can effectively employ an intern for a few days to a few months can also apply. For more information, contact Mark Eidem, CMT at 415/296-7831 or alaskatrader78@yahoo.com

Regional Chapters Newsletter Submissions

If you attend a meeting of a regional chapter, Technically Speaking offers the perfect opportunity to hone your writing skills and share information from the meeting with other MTA members and affiliates. A summary of a speaker presentation can be any length and can include graphics or charts. A short listing of chapter activity activities would also be useful to others. Please send your input to market.strategist@wyowbi.com

IFTA Conference 2004

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Member Profile

Jeffrey S. Weiss, CMT

We at Technically Speaking hope that this will be the first in a series of articles profiling successful members of the investment community. These articles will include a brief overview of a member’s career, analytical framework and investment outlook.

Career

Jeff Weiss is a Chartered Market Technician and Chief Technical Analyst at Jesup & Lamont. He has been actively involved in the investment business since his teenage years, and earned his B.A. degree in Economics at Rutgers University. Jeff first worked with the investment advisory firm of Indicator Digest in Palisades Park N.J., where he served as securities analyst and market journalist for four of the firm’s stock market publications. In 1982 he joined E. F. Hutton and Company as a full-fledged technical analyst, initially serving alongside the legendary technical analyst Newton Zinder. He moved to Shearson Lehman Hutton when E. F. Hutton merged with that firm in 1988, and then on to Lehman Brothers. He moved to PaineWebber in April of 1993 as their Chief Technical Analyst, and remained in that position following the merger which formed UBS/PaineWebber. Jeff assumed the Chief Technical Analyst role at Jesup & Lamont in September of 2003.

As Chief Technician at Lehman Brothers (formerly Shearson Lehman Brothers), Jeff also ran the company’s institutional effort - addressing the firm’s sales force weekly, writing for the Weekly Portfolio Perspective, and aggressively and successfully building a broad institutional and retail following.

While at PaineWebber, Jeff serviced their national retail sales force, with whom he enjoyed a top-notch relationship. He also authored several technical market publications, fielded voluminous market inquiries, and conducted two live daily national market broadcasts. He was regularly invited to share his highly motivational insights at divisional sales meetings, branch manager meetings, regional and national conferences and community functions, and spoke with international clients to analyze both global and domestic market trends. Jeff also served on PaineWebber’s prestigious Focus List Stock Selection Committee, and was selected to serve on PaineWebber’s Risk Management Committee.

Jespus & Lamont, (a firm with a history dating back to 1877), offers Jeff the opportunity to work directly with his retail and institutional client base, as well as helping to advise the firm’s brokers and institutional clientele. This offers Jeff the opportunity to utilize his technical research skills to deliver more personalized service. Jeff also represents the firm in media circles including CNBC and Bloomberg, and regularly shares his market insights at broker meetings and via conference calls.

Jeff has been a member of the Market Technicians Association since 1984 and earned his CMT designation as a member of the first graduating class in 1989. Jeff is also a member of the New York Society of Securities Analysts (NYSSA). He has been a featured guest on Wall Street Week with Louis Rukeyser, and appears as a guest analyst on CNBC’s Morning Call and Wake-Up Call broadcasts. Jeff has appeared on the CNN broadcast Business Morning, Lou Dobbs’ Moneyline show, and WABC’s Talk Radio. He has also been quoted in the print media. In addition, Jeff has addressed business and economic classes at Rutgers University, Cornell University Graduate Business School, and New York University Business School, as well as the Market Technicians Associations in both New York City and Ireland. He has lectured at the New York Institute of Finance to both local and international audiences, and has been a featured equity markets speaker on both the Market Technician’s Association’s outlook panel and Bloomberg’s 2003 Thursday Night Technicals series.

Analytical Framework

Like most successful people,Jeff discovered his passion early in life. His awareness of the stock market began in the sixth grade when his math teacher gave him (and the other pupils in the class) a hypothetical $50,000 to invest. Pursuing opportunities, buying, selling, winning and losing, Jeff’s awareness turned into interest and fascination and he began to read and study seriously about the market. At age 13 he committed some birthday money to the market parlaying his funds into a 100% gain within a year in shares of Mattel Toy and purchasing a 3-speed bicycle with part of the proceeds for transportation to the local brokerage office. Heady with his beginner’s luck, Jeff has been a student of the market ever since.

While at E.F. Hutton, he refined his investment discipline into what he calls the Technical Analysis Risk Management Approach (TARMA), which evolved from his own personal trading experiences and observations including the devastating 1973-74 bear market. When buying a stock, it is best to know what can happen if you’re wrong. Jeff uses technical analysis to define key support and supply areas and gauge a stock (or market’s) overall health. Through this discipline, he seeks to implement Bernard Baruch’s definition of successful speculation as seeing the future and acting before it occurs.

TARMA relies on classical technical analysis to determine whether or not one should be involved with a stock. Relating life’s lessons to the markets, Jeff points out that, just as good people come from good families, good stocks often come from good groups. Jeff refers to this as the family
represents a breakeven level for those who bought into the peak of the rallies that occurred in the late-2001 through early-2002 period.

Jeff thinks the NYSE Composite Index is an underutilized analytical tool. He notes that this index has not yet broken its May trough as other popular indices have, and has some respectable investment support in the 6200 region. He thinks the strength in this broad based index relative to the DJIA and S&P 500 Index is a positive indicator for the market. He also notes that the Dow Jones Transportation Average has successfully tested its 30-week moving average on several recent occasions.

Closing Advice

Jeff recommends reading everything you can about the markets, but to remember that the stock and the company are NOT one in the same at the same point in time. And never forget that the only guarantees in this business are hard work and losses. The key is to try and control the latter so that a financial cut does not turn into a hemorrhage. As he likes to point out, “This is NOT a business to learn by trial and error, because by the time you become smart you can also be broke!” In particular, he encourages everyone with a market interest to read “Reminiscences of a Stock Operator” by Edwin LeFevre and for technical analysis insights “How Charts Can Help You in the Stock Market” by William Jiler. He encourages technicians to take a course in technical analysis, such as the one offered by the New York Institute of Finance. And he thinks it is important to ask questions at every opportunity.

He also tells beginning technicians to print hundreds of charts and mark them up - including support and resistance levels, gaps, trend lines, and technical patterns. He does to stock charts what John Madden does on television screens to football plays. Marking up the chart and doing much of his technical work by hand gives him a better feel for the market than looking solely at a computer screen with the same information. He has always maintained his daily and weekly market statistics by hand, although he does transcribe them on to an excel spread sheet. He feels technical analysis is more of an art than a science, and that worry is a real plus in this business. Jeff is a firm believer in the technical research discipline, and will continue to emphasize its benefit to all.

Current Views

Jeff’s analysis indicates that a bull market began in July, 2002. One indicator he likes to follow is daily upside and downside breadth and volume as a percent of total NYSE issues traded and total Big-Board volume. During July 2002, the 25-day moving average of downside volume as a percentage of total volume reached 65% - the most oversold level he can remember. By the time the market averages recorded price bottoms in the first quarter of 2003, breadth and volume divergences had been building for months, resulting in the strong performance seen over the next 12 months. Additionally, Jeff notes that the 2003 low in the broad-based NYSE Composite Index in the 4420 region marked a nearly picture-perfect 50% retracement of its 1990 low of 1715 to its all-time high of 7164 in 2000 - another ingredient in the bullish technical mix.

At this time (late-August 2004), Jeff thinks the market is consolidating gains below long-term resistance of 1160-1180 on the S&P 500 Index. This level contained rallies in December ’01, January’ 02, March ’02 and the first quarter of 2004. It now represents a breakeven level for those who bought into the peak of the rallies that occurred in the late-2001 through early-2002 period.

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On top of all that, CSI offers a short course (on fundamentals) to help the novice trader. Needless to say, there are clearly specified rules for trading plus a buying “allowance” with which to make trades. You can see how well you have done in “portfolio at a glance” at the end of each trading period. The streamed Market data is delayed 20 minutes to avoid cash-and-carry arbitrage opportunities. We shortly hope to have MTA members, Fred Schutzman, Connie Brown and Ken Tower review this tool for appropriateness to our membership needs.
make this revenue neutral, he would lower the corporate tax rate from 35% to 33.25%.

In his presentation, Dr. Furman repeatedly emphasized the similarity of the Bush and Kerry plans, Kerry supports most of the Bush tax cuts and both want to increase military spending by more than the rate of inflation over the next decade. (Ironically, this reinforces Nader’s claim that both candidates are so similar, that voters wanting a change in direction should vote for him.) After the presentation, Dr. Furman told me that he realized that most of the audience members were probably not going to support Kerry, but that his goal was to reduce their apprehension at the prospect of a Kerry victory.

Next up was Dr. Clarida, representing the Bush campaign. He started by complimenting Senator Kerry’s wisdom in selecting Dr. Furman as his advisor and it was clear that the two economic advisors respected each other. Dr. Clarida was asked by the moderator whether the Bush administration believes that deficits matter. He started by putting the current deficit situation in context. Even without the Bush tax cuts, the U.S. government would still be in deficit. He noted that there had been a synchronized global recession sweeping the U.S., Europe and Japan. He also went on to point out that it is important to put the size of the deficit in perspective. As a ratio of government debt to GDP, he noted that our debt is still less than in the 1970s, 1980s and early 1990s.

Dr. Clarida added that our debt is only 2.5% of GDP. He went on to point out that the Bush tax cuts, such as accelerated depreciation for businesses, are due to expire at the end of 2004. He also noted that economic growth is already starting to shrink the deficit. Finally, he noted that both Senator Kerry and President Bush propose halving the deficit by 2008 (again underscoring Nader’s contention about the similarity of the candidates).

In a follow-up question, the moderator noted that June economic reports suggest that the economy is slowing. His question was, given the current government deficit, what the Bush administration would do in the event of another recession. Dr. Clarida noted the strength of the economy in terms of GDP growth over the past four quarters, but did not respond directly to the question.

The next speaker was Tom Gallagher who was asked what advice he would give if he were the advisor to a presidential candidate. He began his response with some historical information. Citing the experience of 1976 and 1992 when a Democratic challenger ousted a Republican incumbent, he noted that the prospect of a Kerry win would likely be a negative for the markets whereas the fact of a Kerry win would be a positive. In other words, if the polls showed Kerry taking a significant lead in the fall, markets would likely decline, only to rally after the election. He also noted that the likelihood of the Republicans maintaining control of the Congress would diminish any concerns investors might have over a Kerry win. Finally, he noted that the two candidates divergent views on dividend and capital gains taxes increases the stakes for the markets in this year’s election.

Mr. Gallagher also cited the two election “futures” markets now in operation, the Iowa Electronic Markets and Tradesports.com. He noted the strong correlation between the performance of the S&P 500 and the prospects of President Bush’s reelection. In his view, these markets are more useful than polls since the participants have money at stake. He noted that, according to a recent article in the Journal of Economic Perspectives, a century ago the market for betting on presidential elections was larger than the equity and fixed income markets are today.

Ken McCarthy spoke about the candidates’ stances on entrepreneurship and job creation. He noted that while new businesses are an important part of the economy, there is little data on this area.

Finally, Ralph Acampora began by joking that, since the markets are a leading indicator, as a market technician, he should have spoken first. He reminded the audience that a year ago at this session, the consensus was that we were looking for a recovery in the equity markets and in fact, 2003 was a “spectacular” year. For the last seven months, however, the Dow and S&P have been in an 8% trading range while the SOX is down 20-25%. He called this “a normal digestive period” after such a strong rally. Last year, many stocks doubled in price and the best performers were the small and mid-caps. Now, rotation is occurring. This year’s performance is normal, as markets are often flat in election years. If Kerry were to take a significant lead, he expected the markets to decline. After the election and into 2005, he expected a rally, regardless of who wins the election. He noted that all presidents are greeted with a honeymoon rally at the start of a term with Nixon getting the shortest rally and the “original” President Bush getting the longest rally at about 1 1/2 years. The new leading sectors are now energy, telecoms and industrials, replacing the prior leaders which were technology and financials. He noted that he termed a rotation to quality names such as Honeywell, GE, Burlington Northern and Lockheed Martin.

In the Q&A session, questioners asked for more specifics on Kerry’s tax policy. One questioner noted that in the late 1990s equity was too expensive and debt was too cheap and that the new lower dividend tax rate has had the effective of incentivizing managements to take on a more ratio-
nal capital structure. Kerry’s economic advisor opined that the Senator’s tax proposals would be likely to have a beneficial effect on corporate finance decisions adding that Senator Kerry is open to tax reform that eliminates double taxation of corporate earnings as long as it is revenue neutral.

Another questioner pointed out that both of the candidates’ advisors had spoken about the federal budget deficit, but not about the current account deficit. Kerry’s advisor noted that reducing the budget deficit will be an important first step to resolving the current account deficit. He also noted that the largest bilateral deficit is with China, and this is largely due to a misalignment of the Chinese currency. The Bush advisor noted that the current account deficit reflects savings and investment decisions in the global economy. In the first quarter, the Bank of Japan financed about 80% of the U.S. current account deficit. He further noted that, as long as the U.S. economy is growing faster than the rest of the world, the U.S. current account deficit will likely continue. The IMF estimates that Europe will only experience 2.0% GDP growth in 2004 and 2.5% in 2005 versus 5.0% for the U.S. in 2004 and 3-4% in 2005. After noting this he finished with the question, “where do you want to put your money?”

The final question was regarding outsourcing. Dr. Furman, Kerry’s advisor’s response, began by noting his PhD. thesis advisor at Columbia was Dr. Greg Mankiw, chairman of President Bush’s Council of Economic Advisors who had gained fame for stating that outsourcing was good for the economy. Dr. Furman made three points regarding a likely Kerry administration response to outsourcing:

1. Kerry realizes that we cannot stop all outsourcing
2. Jobs should not be outsourced primarily for tax reasons and Senator Kerry is proposing changes to the tax laws that would remove the tax incentives for American companies to reinvest foreign earnings abroad rather than at home.
3. Stricter enforcement of existing trade laws would also reduce outsourcing. He noted the Bush administration’s recent success in having China repeal tariffs on foreign semiconductors by lodging a complaint with the WTO.

Dr. Furman also noted that Senator Kerry also supports Bush’s plan to grow defense spending faster than inflation for the rest of the decade. However, Kerry wants to cut back funding on missile defense, and use the funds to create an additional 40,000 troop division in the army and to double the number of special forces troops.

In closing comments Ken McCarthy noted that the economy is in reasonable shape and poised for continued growth. He described our ability to create new businesses and industries as a critical issue for the economy.

Dr. Clarida, Bush’s advisor, ended by stating that he believed that when the economic history of the 2001-2004 period is written ten or twenty years from now, the economic decisions made during the Bush administration will prove to be correct. He also noted the recent WTO trade agreement in Geneva on farm subsidies as a further positive step.

Tom Gallagher noted that who is in the White House determines which market sectors to invest in, but not so much the overall market direction. Market performance under Democratic and Republican presidents has been about equal. This year, however, the market has a huge stake in how the candidates will handle geopolitical risk.

Dr. Furman (Kerry’s advisor) closed by repeating some Kerry campaign talking points. He noted that while the Bush campaign likes to paint Senator Kerry as pessimistic, saying that the current economy is the best we can do is far more pessimistic (at no time did Bush’s advisor actually state this). He cited jobs, wages, and family incomes and expenses, as the key economic issues for Senator Kerry. He underscored that Senator Kerry understands that a politician cannot talk about jobs while bashing the companies that create jobs. He said that Senator Kerry wants to create an environment where businesses can grow. He cited Kerry’s plan to open foreign economies to American trade, reform the corporate tax code, and increase funding for small businesses.

Lastly, Ralph Acampora provided a wrap-up. During this panel, Ralph was uncharacteristically quiet as Senator Kerry’s representative fielded most of the questions. In his wrap-up, he advised investors to look inside the S&P 500. The two sectors with the highest weighting, financials and techs, are under the most pressure, driving down the S&P 500. Currently, like in the late 1970s and early 1980s, the money is going into energy and industrials. Breadth is improving. He also cited Dow Theory and how it used the industrial and transport averages as its key market indicators. According to Ralph, the “transports are on fire” with strong performances by railroads, truckers and Fedex. In other words, things are not nearly as bad as the broader indexes suggest. He also called this the “decade of commodities”, driven largely by China. He noted that China will likely spend heavily on commodities like cement in upgrading its infrastructure to prepare for the 2008 Beijing Olympics. Lastly, he noted that whereas Yahoo! was his favorite stock a year ago, his favorite stock now is Honeywell. TS

Barry Sine, CFA, CMT can be reached at bsine@nyc.rr.com

Members of the Move

Hank Pruden, Ph.D. is on sabatical in Paris for the next year starting August 2004. He can still be contacted at his Golden Gate University e-mail: hpruden@ggu.edu

MTA Board Member, Michael Kahn, has moved from Long Island to Wellington, FL. His contact information remains: cell: 516/647-7466, e-mail: michaelkahn@lycos.com

MTA Calendar of Events 2004-2005

September 10
Technically Speaking submissions due to market.strategyist@wyowbi.com

September 13: New York Chapter Meeting
Contact: Cassandra Townes, admin@mta.org

September 14: Boston Chapter Meeting
Contact: Chuck Dukas, chuck@trendadvisor.com

September 14: Minneapolis Chapter Meeting
Contact: Pat McGrath, 612/671-9809, tradinp@hotmail.com

September 15: Chicago Chapter Meeting
Contact: Ross Leinweber, rleinweber@lakeshoretrading.com

September 18: Austin
Contact: Sean Mackie, 512/517-6506, sean_mackie@amat.com

October 4: New York Chapter Meeting
Contact: Cassandra Townes, admin@mta.org

October 20: Chicago Chapter Meeting
Contact: Ross Leinweber, rleinweber@lakeshoretrading.com

November 4-6: IFTA Annual Conference
Are You Ready for the Next Bull Market? Intercontinental Castellana Hotel, Madrid, Spain. For complete details, log on to the IFTA website: ifta.org/events/next.html or the AEAT at www.aetonline.com/eventos.html

2005

January 21-22: Mid-Winter Retreat

The MTA is introducing an annual mid-year Retreat at the Sheraton San Diego Hotel & Marina, San Diego, CA. Complete details will be available in mid-September.

May 19-22: MTA Annual Seminar

Hotel Pennsylvania, New York City. Complete details will be available by the first of the year.

For the latest information on chapter meeting times and locations, log into www.mta.org/membership/meetings/

MTA Board Minutes

Minutes from MTA Board of Directors meetings are available from your personal home page of the website, click on Meeting Minutes from left hand menu.
MTA Regional Chapters Need Your Help

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.

- **Atlanta**
  - Chair: Tim Snavely
  - Contact: 404/926-5473; tim_snavely@rhco.com
- **Austin**
  - Chair: Sean Mackie
  - Contact: 512/517-6506; sean_mackie@amat.com
- **Baltimore**
  - Chair: Bernard Kavanaugh
  - Contact: 410/454-4078; bkavanaugh@leggmason.com
- **Boston**
  - Chair: Chuck Dukas
  - Contact: 508/366-6102; chuck@trendadvisor.com
- **Chicago**
  - Chair: Ross Leinweber
  - Contact: 847/849-8236; reinweber@lakeshoretrading.com
- **Cincinnati**
  - Chair: Ron Brandt
  - Contact: 513/622-5421; traderon@aol.com
- **DC/Northern Virginia**
  - Chair: Cary Greenspan
  - Contact: 703/442-9225; greenspan@aol.com
- **Denver**
  - Chair: Lyle Dokken
  - Contact: 970/226-4707; kyledokken@yahoo.com
- **Houston**
  - Chair: Randi Shea
  - Contact: randi@prismtrading.com
- **Las Vegas**
  - Chair: Dennis Costarakis
  - Contact: 702/733-9030; dennis.costarakis@agedwards.com
- **Minneapolis**
  - Chair: Pat McGrath
  - Contact: 612/671-9809; tradinpat@hotmail.com (under construction)
- **New York City**
  - Chair: Jeannette Young
  - Contact: optnqueen@aol.com
- **Portland, Oregon**
  - Chair: Leonard H. Smith (Under Construction)
  - Contact: lensmith@teleport.com
- **San Antonio**
  - Chair: Duke Jones
  - Contact: 210/213-7813; duke.jones@sectorrotationfund.com
- **San Diego**
  - Chair: Julia Bussie
  - Contact: 858/350-8101; jebussie@aol.com
- **Virginia/SE**
  - Chair: Dave Clemens
  - Contact: 757/229-6111; DRClemens@LeggMason.com

If you have any questions about the regional chapters, please contact the Regions Chairperson, Tim Snavely, 404/926-5473; tim_snavely@rhco.com

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MTA 2004-2006 Board of Directors and Committee Chairs

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**Committee Chairs**

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**Body of Knowledge**
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- Philip Roth, CMT
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**Ethics & Standards**
- Neal Genda, CMT
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**Foundation**
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**IFTA Liaison**
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**Internship**
- Mark Eidem, CMT
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  - Mike Carr, CMT
  - Contact: 307/632-3027; editor@mta.org
- Placement
  - Jeanette Young
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**Programs (NY)**
- Regions
  - Timothy Snively, CMT
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**Rules**
- Charles Comer, CMT
  - Contact: 817/571-8332, fax 817/571-5889; capitalmgt@hotmail.com

**Seminar**
- David Clemens, CMT
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