Philip B. Erlanger, CMT (Phil Erlanger Research Co. Inc.)
“Market Seasonality Analysis Techniques”

By Brett Villaume, CMT

The MTA was very privileged to have Philip Erlanger, CMT as a presenter at January’s Mid-Winter Retreat. Brett Villaume, CMT, the MTA’s Atlanta Chapter Chair, was able to provide us with a synopsis of that presentation.

Philip Erlanger, two-time past President of the MTA and renowned short-interest profiteer, revealed the details of his most recent work, “Trading Seasonality,” in a presentation given during the Mid-Winter Retreat. In his research, Phil emphasizes two mainstays of technical analysis with which I wholeheartedly agree: prices are indicative of underlying influences which cannot be fully known and that a quantitative approach should be used to verify how effective an indicator works as a forecasting tool. In case you missed the presentation, here’s a recap.

As an introduction, Phil stressed the idea that the presence of a strong seasonal pattern is only a “setup” condition - it is a necessary condition, but not sufficient evidence to go ahead and execute a trade. He also requires a “trigger,” or an additional signal that indicates price is about to go in the direction indicated by the setup, before entering a position. Lastly, he says some kind of monitoring ability needs to be in place in order to recognize when to exit a trade.

Next, Phil proposed to answer the question, “what is seasonality?” Seasonality is simply the tendency towards repeatability as a financial instrument moves in relation to influencing factors. As discussed above, these influences may be known or unknown - detecting the seasonal cycle does not require knowing what all the inputs are. Examples of influences include the time of year, interest rates, inflation, energy prices, etc. Time frames can differ as well, ranging from multi-year cycles to hourly. For the presentation, Phil analyzed the time of the year to see whether reliable cycles could be derived and then applied to exogenous data.

As an example of the process by which he derives seasonal cycles, Phil used historical daily prices of Amgen Inc. (AMGN) since 1991, or 15 years of data. He overlaid each year’s price pattern onto one 12-month chart, with the end result “looking like spaghetti.” Taking the composite of these 1-year price lines creates a composite cycle for the 15-year period. He then noted that the number of years of data that can be used is really a subjective decision, and in fact an optimization process is the best approach to finding the most useful seasonal cycle. More on optimization below.

Unfortunately, taking the composite of the years doesn’t do anything to suggest the strength of the cycle, or how reliable it is. Phil introduced the concept of Pearson’s R (i.e., R-squared, the coefficient of determination) as a statistical measure of correlation between two variables. Pearson’s R ranges from +1.0 to -1.0, with perfectly correlated variables approaching +1, a level of zero suggesting no correlation exists, and a -1 meaning an inverse relationship is in play. He then took the 15 years of AMGN data and split it into two halves, created the composite cycle from each of the halves, and then measured their “Cycle R,” or the level of the Pearson’s R when the two data sets are compared. A high Cycle R indicates that the cycle in the first set of data is very similar to the second set’s cycle, and hence a seasonal pattern may exist.

Phil warned that optimizing the number of years of data to find highest Cycle R’s could lead to problems. A data set that incorporates too few years could be “localized,” meaning the predicted seasonal cycle only applies for a short while and may be less representative of longer-term patterns. Moreover, curve-fitting to a specific data set usually leads to ineffective results when applied “out of sample,” or in other words, in the real trading world.

As it turns out, AMGN has its highest Cycle R when 9 years of data are used, turning out a very high correlation coefficient of +0.75. Once a seasonal cycle is known to exists, Phil measures the cycle for periods, or “zones,” where the cycle was strongest. He looks within the cycle for periods of 14 days or longer that experienced the strongest seasonality, then highlights them on chart of the seasonal cycle. He gives an example of Walt Disney Co. (DIS), where within the one-year seasonal cycle, 7 high-strength zones were identified: 4 up and 3 down. The cumulative returns on a hypothetical trading system during 2005 that bought DIS during strong zones up and sold short during strong zones down yielded a 36.5% cumulative return! Indeed, 6 of the 7 zones ending up as winning trades. Keep in mind that the cycle and the zones were known at the end of 2004, and it was up to Disney to either follow the seasonal cycle or not. Pretty remarkable that it followed the cycle so well given that the pattern of seasonality was known so far in advance.

In addition to zones of seasonally strong performance, Phil showed how he measures the consistency of the seasonal pattern. By taking any given day during the year and counting up the number of years in the sample that the seasonal pattern repeated, he developed what

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**From the Executive’s Desk**

The primary objective of any successful Association is to ensure its membership receives value. The MTA is off to an excellent start in 2007 to providing that value. Over the course of the last month, the MTA has provided free seminars to its membership on the following topics:

- The value of the CMT designation in today’s market and the CMT accreditation process (both through a webinar led by Chris Ruspi, CFP, CMT and webcast NY Chapter meeting by David Keller, CMT).
- The MTA code of ethics by former MTA President Charles Comer, CMT
- Technology Tutorial – How to maximize this ongoing method of media transmission

In addition, through a combination of collaborative agreements with trade publishers, additional MTA purchases and ongoing donations from Members, we have considerably added to the depth and current nature of our library material. See some of the new additions in this publication or check in the library section of our MTA.org website.

And, of course, we continue to provide local chapter meetings (with an increasing number on our website, our annual Journal and our monthly Newsletters. In this publication you will see information from 3 MTA Presidents - Current President Phil Roth, CMT, Former President Ralph Acampora, CMT, and Former President Phil Erlanger, CMT.

Finally, we are in the process of planning for the May Annual Education Seminar, which will take place on May 18-19th in NYC. We are planning an Education Track and Advanced Lecture Track, a market forecast panel, etc. with some of the industry’s most notable speakers. Be on the lookout for information regarding this seminar and please join us. I am confident it will be a worthwhile event for all who attend.

Sincerely,

Tom Silveri
MTA Executive Director

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**Thoughts On Volunteering**

By Michael Kahn, MTA Director

I had the honor of moderating a “walkabout” table at the recent MTA Mid-Winter Retreat in Miami Beach with the topic of “The MTA.” For those who do not know, the walkabout is a takeoff of the Australian journey of discovery. At the seminar, attendees are guided from table to table to not only discuss various topics in technical analysis but to quickly meet dozens of colleagues in short order. Think of it as the MTA’s version of speed dating.

One fact dawned on me as we pondered the things we liked about the MTA and the things we could do better. It was my own personal journey from Seminar Sponsor to Member to the Board of Directors. Along the way, I joined a few committees, ran the newsletter for four years and was part of numerous planning and management meetings.

I was part of the marketing team that designed and purchased the MTA’s first tradeshow booth and exhibited at the Futures Expo in Chicago several years ago. I have been a judge for the Charles H. Dow Award representing Barron’s and the MTA at various times. I have been on the Awards Committee. That’s a lot of “I” but it is really a lot of volunteering for the MTA.

I have also had the privilege of knowing just about every person of fame in our profession - at least the ones that were active in the late 1990s and beyond. Go ahead, name someone. They know me, too and not because of whom I am. It is because of how I have participated in the organization. There is no doubt in my mind that I can contact the giants at any time to ask a question or solicit help with any MTA issues. And while not a giant myself, I plan to pay that forward to any Member or Affiliate.

Past President Fred Meissner, CMT, after years of dedication to the MTA, has decided to put himself back into service yet again by becoming “Volunteer Czar.” He will be encouraging Members and Affiliates to get involved and streamlining the process for both them and the areas of the organization that need their help. I urge everyone to contact him before he contacts you at fred@mta.org to tell him that you want to do something. Join a committee. Take a survey. Comment on the library, the office, things you like and do not like.

My own term on the Board of Directors will end in June but my involvement will not. I credit the MTA for many of the good things that have happened to me professionally – maybe not for a job but certainly for networking and knowledge.

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“What’s Hot”
The MTA Library Announces...

The MTA Library would like to announce that the following books have been added to our Library. Go to our website at www.mta.org and visit our Library to check out your copy today.

- “Quantitative Trading Strategies” by Lars Kestner
- “Exchange Traded Funds” by Todd Lofton
- “Options Made Easy” by Guy Cohen

The MTA would also like to thank those that have recently donated books to our library.

- Robert R. Prechter, Jr., CMT
- Stephen Bigalow

Thoughts On Volunteering
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My message is to get involved and not to wait to do it. If you think you are too new or too unimportant in the profession, which you are not, then what better way to boost your profile and your skills than by working directly with the veterans of the MTA?

Serve on a committee. Visit the new office in New York. Attend a seminar. And if you are really passionate, serve on the Board of Directors. The old timers want your ideas and your energy even if you are still a newbie to the business.

Do something. Get involved. You never know where it might lead.

CMT Institute
Registration Is Open!

The following are testimonials from those that have recently taken the CMT Institute

“After taking the CMT Level 1 prep course, I felt that it greatly helped me pass Level 1. Both Jeff and Chris were very effective in presenting the related materials and were very knowledgeable in answering participants questions. In addition to the live online training session, being able to go back and view previous classes on my own schedule was very convenient and proved to be very valuable.”
- Anthony Zmuda,
Knight Capital Group

“Thanks to you, in the same week, I passed the CMT level 2 and series 87. On November 22, 2006, NASD granted my exemption from the series 86 and I am now working as a full time technical analyst. Your support through the CMT prep class played a critical role in my success.”
- Jeremy Berkovits,
National Securities Corporation

To register, or for more information, please visit our website at www.mta.org, or you can contact Tim Licitra at tim@mta.org.

EXAM DATES

CMT Levels 1, 2, and 3: April 26, 2007 to May 5, 2007

Registration for Levels 1 and 2 ends March 30, 2007
with registration for Level 3 ending April 20, 2007
Meet the MTA Staff

Marie Penza joined the MTA as a Bookkeeper and Administrative Assistant in November of 2003. She is now the Administrative Coordinator for the CMT Program and Membership Services. Marie assists candidates with the payment and scheduling of their exams and most importantly, helping them when they encounter problems when taking the CMT exam. Duties also include maintenance of the candidate’s records, posting their grades and monitoring their CMT Program deadlines. She also assists Brad Herndon, our Board Member, with the graders, arranging their accommodations and the delivery and retrieval of the exams. Once the exams have been graded she is the one who reviews the CMT 3 Exams for accuracy of points awarded and prepares the statistic spreadsheet. Besides assisting Brad Herndon with the CMT exams, Marie also assists in the coordinating of the CMT 3 Papers.

Membership duties include the maintenance of member records, monthly e-mailing and postal mailing of dues renewal notices and adjustment of records once the Member status has been awarded to an Affiliate. She assists the Executive Director, Tom Silveri with reaching out to the membership-including those who have left the organization. Marie is the one you usually speak to on phone when you are having a problem with the payment of your dues.

Other duties include coordinating the Dow Awards with George Schade and the coordinating of the Annual and Service Awards; informs chapter heads when new affiliates from their region join the MTA, and a variety of administrative and member centric duties.

Marie comes to us from the Staten Island Symphony where for five years she was the Office Manager and only staff person. She dealt with the musicians, unions and guest artists; managed the office and created the lay-outs for the programs, fliers, and brochures. She was able to see the culmination of her efforts at the rehearsals and concerts of the Symphony.

Marie is a parent of two girls, Kristine 23 and Michelle 20. Marie enjoys visits to museums, concerts, taking historical trips, cooking classes and reading. Most of all she enjoys spending time with her five year old granddaughter.

The Buenos Aires Stock Exchange Presents...

The Buenos Aires Stock Exchange presents Daniel Bruno, CMT. He will be giving a series of lectures covering CMT 1 material as well as the application of Technical Analysis to Argentine debt and equities markets. The lectures will be every Wednesday at 11:00 AM during the months of March and April at the Buenos Aires Stock Exchange, the event sponsor. These lectures are FREE to all attendees.

For more information please contact...

Daniel Bruno, CMT
Honorianus@aol.com
How They Do It

(Part II)

By Matthew Caruso, CMT

Recently, a member suggested that we feature interviews with successful technical analysis practitioners on how they apply technical analysis to make money in the real world. MTA member Matt Caruso, CMT interviewed MTA President Phil Roth, CMT, and we published Part I of that interview in the February issue of Technically Speaking. Below is the remainder of that interview.

Matt Caruso: You have been in the business for along time. What do you feel you offer in particular as an analyst to your clients that other analysts, technical or fundamental, do not offer?

Phil Roth: Well I guess my forte is that I follow many indicators; I follow more than one hundred and fifty, I counted them one time. I don’t have a mechanistic system, and I don’t have a favorite indicator, not from a long term stand point. In every cycle there are some indicators that work better than others. What I try to bring the table is a broad knowledge of many different things, many tend and momentum, sentiment, supply/demand, and intermarket analysis and make a judgment of what is important now for the markets. That’s the key in this cycle, and what we have to look for a change in this cycle. That’s what I think I bring to the table. But we have many different types of customers and I do many different things. I don’t know how everybody works, but certain customers are only interested in my market opinion and not even because of why. In other words, there are people that say “hey Phil Roth he’s right a lot, I want to know what he thinks.” So we have that kind of customer. Then we customers that say “I know Phil follows XYZ indicator, I want to know what he says it about it now!” And I can offer that kind of opinion. Then there are people that will say “Well I don’t really care about the market I have to be fully invested all the time, but Phil has really good trading ideas, so let’s find out what he likes long and short.” So market opinion, group opinion, stock opinion, indicator opinion, I do all of those things and different things appeal to different people. That’s what I’m bringing to the table; a broad list of helpful information.

M.C.: So basically being able to stay humble over the years has allowed you to stay in the game by letting you be objective and focused.

P.R.: I think so.

M.C.: Now that you are working with the institutional side, what is the biggest difference you have seen between your institutional and retail work?

P.R.: In general the retail customer is interested in making money, and not why. In other words if you suggest a stock to them and it goes and they make money, they’ll be happy. On the institutional side, they are more interested in why. The biggest difference on the institutional side is that you need to be prepared to give a more detailed explanation of why you are suggesting something. That is in a general sense. There many types of institutional customers and so that certainly changes. We do a lot of hedge fund business at Miller Tabak, and we also do traditional institutional firms such as mutual funds, money management firms, bank trust departments and that kind of things. But in general I would say the biggest difference between retail business and institutional business is that you have to be more astute with the rational on the institutional side. Because the money managers are going to make their own judgment and they just want evidence to support it or deny it. The public on the other hand is more driven by whether they made money or not on your last suggestion. That’s what I think the biggest difference is.

M.C.: Over the years you said you saw many people blowup because of big egos. Was there a time where you made a bad investment or market call, and how did you learn from it.

P.R.: Well I made a lot of mistakes. Here’s one example. This was a long time ago and I can’t remember who I was working for. During a big bear market we got bullish as a department during a recovery during the bear market. That recovery was temporary, and the market went down again, and we didn’t get bearish again. So I was giving bad investment advice, and it was a hard box to get out of that box because the boss was bullish. But, I knew I had to survive and protect my reputation so I focused on trading and doing some short selling with some hedge funds and we made some money. I guess the message there is that no matter what your long term view is, the short term can be different from that. So you always need two opinions, they might be the same or the might be different but you have to have them. You can have a bullish long term view and a bearish short term view or vice versa. I always want to appear to be a little right, not all wrong. So I am not about to make some grandioso rigid long term call and let that overwhelm everything I do, that’s a disaster. At this time of the year people make their market call for the year, what 2007 is going to be like? I don’t do that because to me what difference does it make where the market is going to be in December of 2007. Most of my customers are going to be buying and selling stocks a hundred times over the course of that time period. I always have a very general view of what the year might look like, but I think emphasizing where you are going to be at the end of ’07 is a silly game, and the odds of getting that right are pretty small. If you do it and you get it terribly wrong, you can still do a lot of good for people by giving them the right kind of advice for making money during the course of that year. To summarize what I said, I want to appear to be helpful all the time and not terribly wrong ever.

M.C.: Also Mr. Roth, Ralph Acampora has often said that this is the golden time for technical analysis. Do you agree with that? Do you see an increased demand for our services and or analysis?

P.R.: Well it’s kind of interesting. In one sense that is very true, I’ve never seen more interest in technical analysis. On the other hand, what Ralph and I do, those jobs have shrunk dramatically. So the number of jobs for a sell side technician on Wall Street has just been going down, down, and down. In fact, Ralph was at Prudential and they let him go because they did away with research. I was at Morgan Stanley and they said they had too
How They Do It
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many analysts. In one sense, the number of jobs has contracted. On the other hand, the interest in technical analysis is vastly more than it has ever been because I think money managers, people who actually run money, and traders realize they need to make money. So the jobs for technical analysts are few but the interest in technical analysis by people who are managing money and trading is huge. In addition to that would be the aftermath of the Sarbanes-Oxley legislation when sell side analysts were mandated to pass tests, the Market Technicians Association went through great pains and great expense to get its CMT program accepted as a substitute for the CFA program as far as getting an exemption to the Series 86 test code. So that was very important. We’re starting to teach technical analysis on the college level, I’ve been teaching at Fordham for five years in the graduate course. It’s wonderful. Some of my students are now in the business and that’s very exciting. So I think there is much more interest, and the reason for that is that the world is discovering that you need it to make money. Fundamental analysis, I’m not going to say it’s good or bad and I would never tell someone it doesn’t work. But what I would say is to make money and ignoring technical analysis would be really silly. Because no matter what your fundamental opinion is on a stock, you have to make a judgment on whether that is already discounted in the marketplace, or is the market saying you’re totally wrong about that conclusion. Technical analysis is sort of the conscience of the money manager.

M.C.: Has there been anyone who has influenced you over the years? If so, how did he or she influence you?

P.R.: Well I guess the first job I had was at Merrill Lynch, I worked there eleven years where I worked for Bob Farrell and he was probably the most respected technician of the era. He taught me about indicators and he did a very thorough job of following indicators. So I would say he was a very important person. Secondly, another boss I had later who was actually a fundamental analyst and fundamental strategist taught me that it doesn’t always work and showed me that you have to be flexible. He was a very good stock picker and he was basically a fundamental picker, but he knew when to recommend them and when not to. And that is obviously technical, that’s a market feeling. He pretty much showed me that the fundamentals are important, but so are the technicals. So those were people that were very important.

M.C.: Do you have a certain routine you follow everyday and night or a certain way you look over your charts?

P.R.: Yes. I actually keep many hand drawn indicator charts that I’ve been keeping for forty years, I keep dozens of them. So what I do in the morning is I update the data in my excel files and once it’s updated I look at it all and then I finish writing my comment which I usually have started to write the day before. When that comment is out, I get it out between 6:30 and 7:30 in the morning, then I actually update my charts. I have charts on the walls and charts in binders and I find that actually doing that, plotting the chart by hand, is very important to me because it makes me look at them. It’s one thing to run a chart on your computer and something vastly different to actually plot them yourself. I find it very important for me to do that.

M.C.: I don’t think there are too many people still doing that today.

P.R.: I’m sure there isn’t. I used to keep a hourly chart of one of the market indexes when I had some assistance. One I wasn’t there somebody could do it because obviously when I’m out I can’t. That’s one of the only things I don’t do anymore, of course with the data delivery systems that you have today it not necessary to do that. But as I said, I keep many daily charts and I have many of them on the walls and I get comfort out of looking at them. You have to had lived with as many as I have to understand what that means.

M.C.: Do you have any advice for technicians entering the business?

P.R.: Well to get into the business is virtually impossible to do it like I did because there are so few jobs on the sell side. I think that for people who want to use technical analysis there are many more jobs in trading and that’s where they should be looking. If someone is interested in being an analyst, well there are many more jobs on the fundamental side than the technical side. So, I would advise somebody to get a CFA and to get a CMT and get a job as an analyst anyway you can via fundamental analyst, and then use your technical expertise to aid your performance. So that would be my advice.

M.C.: Do you have any final comments on how you apply technical analysis in your work everyday?

P.R.: Well what I do here is I put out a daily comment, I put out a lengthy comment on Mondays and Tuesdays which is more of a longer term view of things, and I put out a shorter comment Wednesday, Thursdays, and Fridays which I do early in the morning or late at night. What I do during the day is watch the market as closely as I can and pass along any insights I get on the trading to our trading desks so that they have some reason to call an account. I might see a stock acting well, or a group acting well, or an indicator showing something unusual. So I send emails to the desk anywhere from five to ten times a day just to give them ammunition to call a client.

Matthew Caruso, CMT is an independent trader and an analyst for AnalyzingMarkets.com.

THE CMT ACCREDITATION PROCESS...

Recently, we conducted a procedural review on the accreditation process in an effort to streamline our method for granting the CMT that test-takers have worked so diligently to obtain. We found the following “best practices” that ensures prompt accreditation review:

1. It is never too early to start a dialogue with your selected sponsors. If you wait until after you have passed all three levels of the CMT Exam, you will then have to deal with the sponsorship process. If you correspond effectively with the sponsor throughout the test-taking process, the approval process becomes smoother.

2. Many get “stuck” because they know of only one or two sponsors and don’t have time to “line-up” the remaining sponsors. You have available information of the sponsorship process on-line at mta.org (Log into the website and you will find the links associated with the Sponsorship Process on the right). In addition, if you need support with the process, please call Cassandra Townes at 646-652-3300, and she can point you to the right connection. Don’t wait - just call.

3. Sometimes the applicant has distributed his sponsorship papers only to find out after the fact that one of the sponsors has lost the documentation or not responded quickly to the request. At any time in the process, you can call Cassandra at 646-652-3300 and she can inform you of the status of your application. In fact, she can help you contact that sponsor on your behalf to inquire as to the status of the documentation.

In summary, don’t wait. Call us and we can help you. You spent the time to study and pass a rigorous test-taking process, and we wish to grant that accreditation for your use as soon as possible.

Advertising

If you are interested in advertising in the MTA’s monthly newsletter or journal, you can find a listing of our advertising rates on our website.

Please e-mail Tim Licitra at: Tim@mta.org if you wish to submit an advertisement or have any questions.
Part I: Ralph Acampora, CMT

By Molly McLaughlin Schilling

Ralph J. Acampora, CMT, Managing Director and Director of Technical Research, Knight Equity Markets, L.P.

Ralph J. Acampora is Knight’s Director of Technical Research. He joined Knight in 2005 after 15 years as Prudential Equity Group’s Director of Technical Analysis. Mr. Acampora is one of Wall Street’s most respected technical analysts and has been consistently ranked by Institutional Investor for more than 10 years. Prior to his employment at Prudential, Mr. Acampora worked from 1980 to 1990 at Kidder Peabody & Co. Before that, he was with Smith Barney, Harris, Upham & Co. from 1969 to 1980. His financial career began with Distributor’s Group, a mutual fund complex owned by US Life. He received his formal education at Iona College in New Rochelle, New York and St. Joseph’s Seminary in Yonkers, New York. He is the author of the book “The Fourth Mega Market: Now Through 2011” published by Hyperion in 2000.

Recently, Ralph sat down with Molly Schilling to discuss the past, present and future of technical analysis.

Molly Schilling [MS]: Ralph, nice to meet you and to visit you at Knight Trading here in New Jersey. This is an extraordinary facility -- The architecture is breathtaking. We are standing on an interior balcony that looks out over an open four story space -- the atmosphere is serene and stealth in spite of all the activity -- I can see millions of blinking lights on the double monitors -- hundreds of traders sitting comfortably in their Aeron chairs -- clean and orderly rows of trading desks. The feeling of all the light in this minimalist architecture is restful and satisfying. Everywhere I look, my eyes get drawn out into trees and the deep blue of the sky -- Huge windows everywhere.

Ralph Acampora [RA]: Knight has been in business about 15 years. They’ve always been here in Jersey City – an easy and fast commute from Wall Street on the Path Train – but they recently built and moved into these fabulous headquarters – it’s been about two years -- I started with Knight at that time.

MS: I feel like I’ve been catapulted into the middle of the 21st century.

RA: This is the direction of the industry is moving in – and this is the model...You’re looking at a virtual stock exchange – virtual. This trading floor is our headquarters, but activity is being generated from various Knight trading floors throughout the country -- and they all talk to each other electronically

MS: Why do you have alternate floors around the country?

RA: Because they’re closer to the clients -- in Chicago, in Atlanta... Some people like “boots on the ground” -- they want to talk to the sales people and the traders. No matter how sophisticated we get, electronically, it’s still a people-to-people business.

MS: What kind of clients do you have?

RA: Everybody – the largest portfolio managers, hedge funds...Knight is like the “Intel Inside” -- we are a service organization in the industry. We do trading for a lot of firms. We do a lot of trading for eTrade and Ameritrade. You do a trade and it might go through this floor and you don’t even know it. If you had an account with eTrade it might go through us.

MS: I know you have a long history with MTA, and you have championed credentialing the CMT -- we will come back to this important history in II of this interview -- but for now, can you tell me how you came to work at Knight Trading, and about the research department that you have developed here.

RA: When I first got here my boss said to me -- I want you to build me a research department -- tell me what it’s going to look like and how much it will cost. The first task was to identify clients. He said – I have all traders. I said – that’s much it will cost. The first task was to identify clients. He said – that’s interesting, mine are mostly portfolio managers and strategists. These are two different animals. He said – put them together -- and that’s what we did. We designed a Technical Analysis Research
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Department, and we produce various letters and reports to clients for Knight.

MS: What is the difference in the nature of fundamental research vs. technical research reporting?

RA: When a fundamental analyst covers an industry they have a starting date and they write, however long, maybe until he or she retires, they have to have an opening commentary about the sectors and groups that they’re talking about, that’s mandatory. And they have to have a closing report saying — this is our last recommendation to these guys. When we were getting organized, my lawyers had a problem with the word "coverage". Technicians don’t start or stop, they cover everything all the time. So the NASD struggled with how to use the word coverage? Answer – our research products are broken down and expressed differently -- because we technicians are very sensitive to time -- timing of execution of trades, purchase and sales, but also writing a product that deals with different appetites.

For example, when I write my piece once a week it’s called a long-term investment letter. Now, all those technicians know when we're doing something long-term I’m going to be looking at weekly and monthly bar charts. So most of the bar charts in my publication are weekly or monthly. And when I define long-term for Knight we define it as an opinion that has a shelf-life of at least 12 to 18 months, that’s long-term. So they know everything that I write in my report has a finality to it. In other words, if I recommend a purchase and sales, but also writing a product that deals with different appetites.

The second letter that we put out, Peter Martin writes it, it’s called – Current Market Perspectives – that’s a daily market letter, it comes out several times a week. Now, for him, his time parameter is several weeks to a couple of months. So whenever he makes a recommendation there they know this is only good for a couple of months. Most of the graphs he has in his letter are daily bar charts, or whatever, because he’s dealing with the shorter term.

We have a third letter, actually it comes out but it’s not really a letter, it’s an e-mail process it’s called – Trading Insights – Phil Peremy does this. Now, Phil is using hourly charts because his recommendations are for traders. They’re good for a couple of hours to maybe a day, or two, or three at the most. So compliance knows that his recommendations only last a few hours or a few days. They know that Peter’s last a few weeks to a few months. They know I last for at least 12 months. So we have gotten around the requirements that the NASD said about coverage, our products, because they’re time sensitive.

This is a model that I think future technical departments are going to have to use, and it’s good. Now when Knight has a meeting with a big client, the “Knight team” includes the Technical Analyst, the Portfolio Manager and the Trader – and ultimately what links all these functionaries together is my product – Technical Analysis.

MS: We’re now walking down these beautiful marble steps, glass everywhere, this is an unbelievably beautiful building. We’re going to see your wing – the Technical Analysis wing which is your own department?

RA: Yes...and the space is designed in quads.

MS: Big screen on the wall.

RA: Yes -- four of them, together. And we have four quads, so altogether, it’s 16 screens.

This one is dedicated to the S&P 500 -- it rotates to give minute by minute, daily and monthly data. This is the S&P400 and that’s the S&P600. Soon we will be getting similar data for commodities and currencies. The whole room is alive, and it is designed to be constantly flipping. I remember years back -- in the old days -- when I had to rely on paper charts -- wall to wall paper in chart rooms -- now it’s all electronic. And I sit here and I watch. We have just created a first – the first research department that is based solely on technical analysis and not fundamental analysis. This is an industry “first”.

MS: Your research seems to center around equities. Are their other technical products?

RA: Technicians look at supply and demand, and as long as there’s a free and orderly market of any sort, I can plot and analyze it. Knight recently “bolted on” an electronic platform of currencies. Knight purchased a company called Hot Spot. Hot Spot trades spots on currencies.

I envision our technical department growing because at some point so I will need a technical analyst dedicated to a daily and a weekly market letter on currencies.

Knight recently expanded into fixed income. Can technical analysis service that appetite? The answer is, of course. I wouldn’t be surprised if I wake up one soon day to find they have added a platform for commodities -- it’s a natural fit. They are also considering international stocks -- European, Canadian, Chinese.

MS: So it looks like there is an ever brightening future for technical analysts, especially those with the CMT credential?

RA: We have seen ourselves through some dark times but, hold onto your hat, because if our department is successful -- and it will be successful -- other firms like this will have to copy it -- they’ll have to. They’re going to have to be competitive with us.

MS: Now we are in your office – and I’m seeing all these big sheets of paper tacked up on your wall – with lists and agendas on them, what is this about?

RA: These are the outlines for the five classes that I teach here at Knight. They are one-hour classes. This class is about the history of technical analysis...this one is about theory...this is basic introduction. And I have to tell you, the interest is phenomenal. I think this firm, alone, is going to deliver maybe 25 to 50 CMTs very soon...they’re almost ready to go.

MS: You must love teaching.

RA: I will always teach. The new electronic world is opening up another world – the world of technical analysis.

MS: Less than a year ago, Mr. John Thain, CEO of the New York Stock Exchange, said he would never let his floor men go and now he’s letting his floor men go. Essentially, the specialists will be replaced by people who will be looking, constantly, at electronic screens. So what you’re suggesting is that if they’re looking at screens, it’s inevitable they’ll be looking at technicals.

RA: Today, traders are constantly involved in visuals and all the data that it produces – order flow, market momentum, and so on.

MS: It’s all electronic feed.

RA: We’re way ahead of the New York Stock Exchange already, we’re already electronic, and they’re catching up to us. He is just now incorporating his acquisition of Archipelago – this is Archipelago right here, same thing. One computer is the same as another computer.

MS: So a year from now if you go down to the Stock Exchange it’s going to look more like people sitting at computers, rather than the traditional -

RA: Not even that, I think most of them will be upstays, or off the floor somewhere.

MS: They won’t even have a Stock Exchange then?

RA: I don’t know what they’ll have. I think they’ll have a very nice museum.

This is the nature of change. It’s going through the same thing that we must have gone through in this country when we went from the horse and buggy to cars. You can make the best buggy whip in the world and the cheapest one, but guess what - we don’t need them. So that’s what’s happening. This is the demise of the old way. This is the new way; this is a virtual marketplace to everything – I’m so excited.

MS: What do you think about the international mergers that are starting among the stock exchanges?

RA: That’s electronic. And speed of execution is becoming very important.

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In Depth
Part: Ralph Acampora, CMT
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MS: And what about the various data feeds that are available?
RA: It’s available all over the place. The problem is getting the word out that they need to use this stuff...that there is a need for us to become legitimate analysts, thank you, MTA, that we got this thing accepted by the SEC. That changes the complexion of everything.

MS: So what you’re saying is that is more important now to be rooted, grounded and have certification.
RA: Absolutely.

MS: To be a professional and be respected, that’s what you’re really saying.
RA: You were just downstairs in the first technical research department ever created in our history, I believe that’s a fact. Now, hopefully that spawns many others.

MS: What do you do with situations in the marketplace that have to do with manipulation of information - - leaks to the press, things that skew those technicals -- either driving the stock up or down?
RA: You can’t do anything -- they’re aberrations. Wars, death, pestilence and plagues happen any time.

MS: I’m talking more about not just natural disasters, but I’m talking about when people deliberately leak and skew. Have you run into that?
RA: That’s been going on for a hundred years.

MS: It’s been going on, but can it skew the technical read?
RA: Let’s put it this way, I think you can distort the market short term, but no one can sustain it. You can screw it up a little bit and I think hedge funds are creating more volatility, but they cannot create a bull or a bear market. I defy anybody to tell me otherwise. Can we see aberrations? Sure, we’ve got to live with that.

MS: I guess what I’m asking you is in terms of how the Street perceives technical analysis and the possibilities of it, does it get talked about that – this also can deliver people the potential to really manipulate it and make scads of money – which I’ve just seen article after article about in The Wall Street Journal, but nobody ever connects the dots and says – guess what?, Goldman really had something to do that oil thing.
RA: You’re talking about things that no one has any control of -- technicians don’t create things -- we can only see them.

MS: You write on a recommendation that is long term...a 12 month recommendation... so maybe this wouldn’t apply so much to your vision, your analysis.
RA: What about Philip, he does the hour by hour stuff, he’s right in with these guys. There’s a lot of noise.

MS: So, you just go with the flow when there’s a lot of noise?
RA: I’ve been doing it for 40 years and I’ve made a lot of mistakes and I’ve made a lot of good calls, and I have to live with it. But I don’t make those very short term calls, that’s not what I do.

MS: That’s what I’m saying.
RA: I don’t make them.

MS: Is that important in the way that the MTA is presenting technical analysis at all?
RA: No, the MTA doesn’t present it, the MTA represents it. You don’t present it and say, here’s what technical analysis is. I think the biggest misperception of technicians is that it’s only for traders. That’s a misperception. Can you look at the market long term with technical analysis? Absolutely. Can you look at it micro/mini? Absolutely. That micro/mini world has a lot of noise in it. I have noise but it’s different noise. So we live with it, that’s why you have risk levels, that’s why you protect yourself. That’s what technical analysis is about.

MS: Back to a little more personal information. We know you get up at 5:15 and you turn on the financial news network on TV, and then what time do you get to work?
RA: I’m usually here around seven, a few minutes before.

MS: Are other folks here at seven?
RA: Everybody starts at seven. We go live with an internal broadcast to the sales force at 7:30, usually Monday mornings, but sometimes other mornings as well. We try to give them an overview of the market, a horizon, and we update it regularly.

MS: And then how long are you here?
RA: Six/seven o’clock.

MS: So you’re really here a long day.
RA: Yes.
MS: Do you drink coffee?
RA: No.
MS: You never have?
RA: No, I drink water.
MS: What do you read on a regular basis?
RA: Obviously we read the things that we have to read, Barron’s, and The Journal and all that good stuff. I don’t read my competitor’s stuff. I do that for one reason, not that they’re not good articles, but because I don’t want someone’s opinion maybe to affect my opinion. If I’m in doubt about something I’ll maybe kind of look and see what they’re saying, but I really read my fellow technicians’ work to find out if there’s a new indicator of something. And that’s where the MTA is so helpful to me. I just want to find a new wrinkle.

My personal reading, I just finished a book called, Showdown, it was about China and the United States. I think if anyone likes military history I think they should read it. I’m reading now a new book called, The J Curve, Rise and Fall of Civilization.

MS: So, to conclude, if you could create a chart that represented the vitality and relevance of Technical Analysis over its lifespan, the last one hundred years or so, it would show a lot of volatility until the last 20 years, at which point it started to form a bottom and a base, and at this point, you can see that it is ready to really break out?
RA: Absolutely right. We are in a major up trend. Now, we’re in the right place at the right time. We’ve got to take advantage of this to service the community. We really want to do the right thing, that’s got to pay back to the MTA in the form of good exposure, new friends in the industry, new members in the MTA, new CMTs -- and it will just continue to feed on itself.

MS: Thanks, Ralph... this has been a wonderful experience and we look forward to continuing this conversation next month.

Molly Schilling is an independent trader and freelance writer.

Submitting an Article
If you are interested in submitting an article in the MTA’s monthly newsletter, please e-mail the editor Michael Carr, CMT at: editor@mta.org

If you have any questions about Technically Speaking please contact Tim Licitra at: tim@mta.org
Equity Portfolio Manager:

Serious managers will utilize this course to analyze leading Wall Street valuation models and investment strategies for equities using fundamental, behavioral/technical and quant approaches, and then study how these are modified by the best performing equity portfolio managers to produce risk-adjusted excess returns. Also reviewed are: accounting and cash flow tricks that are sidestepped by professional investors, but punish many investors; various trading strategies, incorporating algorithms, hyper-trading, dark pools, and derivatives; new reporting requirements for regulatory considerations, consultants and clients as well as fund marketing techniques; and career advice to get the big bonus checks. An interactive investment workshop reinforces these skills when participants get to select stocks, choose a performance measurement method and then determine a marketing style and vehicle to create an investment approach producing excess returns. Case studies examining the investment approaches of leading versus average performing portfolio managers are also included. This intensive course goes beyond basics into the sophisticated and subtle strategies that can help achieve: “Top Quartile Manager”

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