The Metals Maze

By Mukul Pal

Mukul Pal is the Chief Executive at Orpheus Capitals.

Intermarket relationships between metals can not only give cues about the economic cycle but also lead the start of a global equity bear market.

Gold did not take much time to move from 800 dollars in Dec 2007 to move up to 1000 dollars. Now it is holding steady at 930. While Gold (Fig 1) and Silver (Fig 2) might be hanging tight, metals as a group are scattered on the price performance scale.

For example few would like to talk about Zinc, which has crashed 50% since Nov 2006. It was then a few emerging stocks from India like Hindustan Zinc (Fig 3) started topping despite a positive Sensex (Indian Benchmark). The love has turned into hate. And all the merger talks between Zinifex and Umicore could not prevent Zinifex from crashing 61% from recent highs. Euphoria about mergers, despite a 33% success rate (since 1985) is unsustainable.

Even Uranium (Fig 4) fell 50% from its peak. There are of course many reasons why metals or markets fall or why things happen. But most reasons, like news always are late and cannot be used to time a market. The reasons which worked for Zinc were linked to fractals of mass psychology and intermarket analysis. One could have made a case then, between equity (example Hindustan Zinc) and its underlying metal and how one could tell us about the other. Intermarket analysis works now too, if we go a step further and look at the relationships between metals themselves. The relationship between a stock and its underlying commodity can be extended to the relationship between various metals like Gold, Silver, Zinc, Copper and Uranium.

Silver has not outperformed Gold since 1985. When the Gold-Silver (Fig 5) sentiment indicator, sometimes called the prosperity index, is falling, it shows gold underperforming and indicates economic prosperity. A rising ratio suggests crisis or global equity secular bear markets.
On the Campus

This month, instead of A Letter from the Executive Director and from the Editor, we have decided to provide you with an update from the MTA Educational Foundation. This new column is one we are looking to run frequently in upcoming issues of Technically Speaking.

The MTA Educational Foundation at Howard University

Fred Meissner, Charlie Kirkpatrick, and I, Phil Roth, all lectured at Howard University this spring. Prof. William Barbee, in the business school at Howard University, has been conducting a course in technical analysis for a number of years. The MTAEF has been assisting him with guest speakers. I have been giving a lecture in sentiment and supply/demand indicators for four years. I spoke this year on April 22, using a PowerPoint presentation that the MTAEF developed. I have made presentations at many colleges and universities, including, among others Tulane, Cornell, Georgia Tech, Baruch, and the University of Texas, and have been conducting my own course in the Graduate School of Business at Fordham University in New York for six years. I am always impressed by the caliber of students and their interest in the markets and technical analysis. Prof. Barbee helps generate the interest by asking questions about the indicators and the sources of the data.

Fred Meissner:
A couple of week’s ago, I had the pleasure of teaching at Howard University. I have been teaching a class at this school for several years, and really enjoy Dr. Barbee and the students. The class is scheduled for the end of the day and I almost always run over time because the interest level of the students is so high.

I usually teach the Intermarket analysis module of the course, but as always we had a fairly wide ranging discussion – Dr. Barbee’s students are almost always well prepared and are interested both in the material as well as the markets themselves. Because they are well versed in the fundamentals they keep me on my toes!!

It is tremendously rewarding to teach a class in Technical Analysis. When I started in the business back in 1983 there were no such classes, and unless one was lucky enough to find the right books, or find a mentor, knowledge was almost impossible to come by. One of the reasons that I became involved in the MTA way back when was to help others learn and to spread the word. Readers may recall that my first big job with the association was as Regions Chair. It still excites me to see chapters I helped to form going strong, and now providing teachers for the MTA course.

All CMT’s, and older, experienced members, should consider volunteering as a teacher. It is a great way to give back to the community, and to spread the knowledge that has been so rewarding to all of us.

Charlie Kirkpatrick:
Professor William C. ‘Kip’ Barbee has taught technical analysis for many years as a full credit course in the Howard University School of Business. Kip is known for several research papers on relative earnings, value, and price strength and has been published frequently in academic journals. Howard University is the premier African-American university and is located in Washington DC.

As part of the MTA Educational Foundation effort to help universities in teaching technical analysis, I had the privilege of lecturing to Professor Barbee’s class this spring on the subject of price patterns. Approximately 30 students attended the class, the full number enrolled. The students were asking numerous questions and showed extreme interest in how to use patterns to profit. Indeed, the enthusiasm was so high, I didn’t get to finish the talk but ran out of time. Professor Barbee was thrilled, as was I, to see such excitement over technical analysis.

MTA Job Board

Please note, over the last few weeks, there have been several new job postings in the MTA Job Bank.

In addition, we have provided you with various links to outside websites that may be listing a job opening that is of interest to you.

If you are interested in posting a job opening please contact Tim Licitra at tim@mta.org or at 646-652-3300.

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.
The Metals Maze  
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The last two periods when Gold outperformed Silver were in 1987-1991 and 1999-2003. Both of these periods coincided with the only time we witnessed the last two global bear markets. Gold has not started outperforming Silver yet and is still at parity of about 25 years. So there is no negative signal here. This means that all references to great depression and pictures of pensive Ben Bernanke on the Newsweek cover alluding to a global crisis and failure of American Leadership might all be premature. According to metals, this was no big collapse. We need another few months to see what works, the news and emotional chaos or the Gold -Silver ratio.

Next we look at the Copper-Silver (Fig 6) ratio. Copper has been outperforming Silver since Jan 2002. Why should Copper outperform Silver? Copper is more about discretionary consumption and Silver is precious and limited in its industrial usage. This is probably the reason why Copper leads Silver consumption at the start of a business cycle. The ratio made a low a few months ahead of the equity bear market low worldwide in 2002. The ratio has stagnated over the last two years but is still above parity. Copper prices also are in a large consolidation and seem to have a primary (more than 9 months) upside left. This means more outperformance for Copper compared to Silver. This too does not give us a bearish cue for equity markets now.

Analyzing Uranium, we find this strategic metal has also outperformed Gold. Compared to the geopolitical crisis and the dollar crisis that is crippling the world economy, it’s the energy crisis which Uranium suggests is more serious. This metal leadership beginning Feb 2005 happened exactly at the time when Oil (Fig. 7) broke above the 40 dollar barrier. We have also illustrated the Uranium - Oil (Fig 8) intermarket ratio. The outperformance of Uranium compared to Oil also suggested that Oil was set to rise much above dollar 40. Strange reason some might say, a metal telling us more about global economy than the best economists in the world.

Zinc has come full circle compared to Gold (Fig 9). It outperformed Gold from Sep 2005 and this year started underperforming Gold. Why? Zinc is linked with auto and auto is in a rut. The commodity drop might be owing to this auto connection. Zinc is also ancillary to the metal industry. A drawdown in metal prices might also have some added influence. From a fractal perspective, both Gold and Silver are completing their primary fifth circle legs with a final pending leg up. Final leg ups are tricky and can be truncated. So we will not be micro timing it. After these respective final legs, both precious metals should see a sizeable retracement.

In conclusion, we are indeed at key junctures for Gold and Silver and global markets. But in any case, it’s not the metals that are insane, but we the humans. In his book, ‘The Power of Gold’, Peter Bernstein starts with a story of a man on a voyage with his entire wealth in a large bag of gold coins. A terrible storm and a call to abandon the ship prompted the man to jump overboard strapped to his bag of gold. He promptly sank to the bottom of the sea. And so the narrator asks, “Now, as he was sinking, had he the gold? Or had the gold him?”

Mukul is an MBA and member of MTA since 2006. He has worked for the Bombay Stock Exchange and many leading brokerage houses and banks in India and abroad in senior research positions before starting on his own in 2005. In his current profile, he leads a team of research analysts covering global assets and emerging markets to generate institutional research. Orpheus Capitals research is published internationally on Reuters and Thompson platforms. The Global Alternative Research Company is located in Romania. Their coverage includes emerging markets like India and Eastern Europe. The company also covers Metals, Forex, Agro and Energy.

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
Arms Index

The Arms Index is named after Richard Arms. It is a market-balance index that measures the volume in advancing issues relative to volume in declining issues. 1.00 is mathematically neutral, though the long term average is more like 0.85 due to the long-term positive stock-market bias. 2.00 means there is twice as much volume in declining issues on average as there is in advancing issues and 0.5 means there is twice as much volume in advancing issues on average as there is in declining issues. The formula is: Arms = (advances / declines) / (up volume / down volume). The most important versions are for the NYSE and NASDAQ.

Open Arms Index

A version of the Arms Index computed using averages of the components to correct for a mathematical problem encountered in averaging raw Arms Index values. This is thought in some quarters to be a superior market-timing tool.

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Must Be Present To Win? Assessing the Fallacy of “Staying Invested Or Risk Missing The Move”

By Ed Easterling of Crestmont Research

Editor’s note: Market technicians are often confronted with the statement that all of the market’s returns accrue in a very short time and therefore trying to time the market will lead to missing those best days and those big gains. This short study, although dated, demonstrates that the market also endures most of its losses in similarly short timeframes. Market timing can help avoid these days.

The traditional advice of Wall Street has been that “since you can’t time the market” investors should remain invested in stocks at all times to avoid the risk of missing the opportunity for returns. One statistic often cited is that most of the market’s return occurs on a few days and, if an investor is not invested on those days, the investor will under perform the market.

This statistical fallacy relates to the selective use of the extreme numbers in a diverse series. There are approximately 250 trading days each year. In both bull markets and bear markets over the past century, the “up” days represent between 45% and 55% of the days (2002 and 2003 were on each end of the range), nearly half of all trading days. As a result, most of the days offset each other. So regardless of the total return for the year, a small number of the most extreme days will total up to equal the net return for the year—whether positive or negative.

Although the fallacy of “Staying Invested” is technically true, so are the following statements from the same data:

1. A few days will represent all of the losses in down years; get out of the market on those days to avoid down years.

2. In all years, the 2 or 3 best days will produce total returns of over 10%; therefore, learn to time the market.

Participants in our website have raised numerous times the appearance that the market’s gains are limited to a small number of days. It has raised questions about the value of trying to time the market. Although it is technically true that a few days provide the full year’s return, it is a bit misleading and seems to be a biased use of statistics. Since almost half of the days or weeks are positive (and thus half or so are negative), the majority offset each other. The result is that a few good days or few bad days ‘make’ the year. Of course, this completely ignores the fact that certain periods have favorable financial potential (secular bull markets) and certain periods have unfavorable financial potential (secular bear markets). The same logic that encourages investors to stay in the market seeking gains also subject them to the adversity of down markets.

Must Be Present To Win? Assessing the Fallacy of “Staying Invested Or Risk Missing The Move”

STOP and Make Money: How to Profit in the Stock Market Using Volume and Stop Orders by Richard Arms

Reviewed by Michael Carr, CMT

Dick Arms has rewritten Edwards and Magee chart patterns and the basic principles of market analysis to include volume in this short book. It is a truly groundbreaking work which builds upon the previous writings of this pioneer of technical analysis. Arms makes the argument that price describes what the market is doing, while volume explains why the market is doing what it is doing. It is his opinion that visualizing volume allows the trader to see the conviction behind the price action – when prices are going up on heavy volume, demand is overwhelming supply; similarly supply swamps prices are going down on heavy volume. By visualizing volume, the trader can see the strength of conviction that is driving the price action. We welcome any additional information or photographs you wish to provide about the award winner to help us preserve their accomplishments for future generations.

The idea of visually representing volume led Arms to create the Equivolume charting technique. Details on this method were first presented in his 1999 book, Profits In Volume: Equivolume Charting. For those wanting an introduction to this charting method, an ebook called Trading with Equivolume, may be downloaded at no cost from http://www.arminside.com/pdf/index.asp. The ebook includes an example of the technique reproduced as Figure 1.

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box represents the daily range, just as it does on a traditional bar chart. Arms offers an explanation for some of the boxes:

a. A heavy-volume reversal day. This looked like the culmination of the decline. Heavy volume and wide spreads are typical of the final washout of a drop.

b. A light-volume rally off the low. The lack of volume makes it far from convincing.

c. Here we are seeing a rally with better volume. It suggests that the low was tested, and the rally might carry further.

d. Notice the very light volume on this pull back. Now it looks like volume is coming in on the upside and drying up on the downside. That is a very bullish sign.

e. On the next day, volume explodes to the upside, penetrating the resistance we saw at “b” and saying the stock is headed higher.

f. After a big advance over the prior two weeks, volume remains heavy, but the range contracts. Perhaps the stock is encountering resistance after such a sudden rise.

g. This is ominous: heavy volume to the downside and a wide trading range. If we inserted a trend line along the bottoms of the rise, this drop would penetrate it. But the narrowness of the top suggests it’s not likely to go lower until some attempt to rally is made.

h. The stock rallies, but the move lacks volume. It looks like a lighter-volume test of the heavy-volume top at “f.”

i. The decline resumes on heavier volume, and support is penetrated decisively.

j. The decline continues.

Each box provides insight into the supply and demand for the stock. This is summarized in Figure 2.

The most important Equivolume signal, in Arms’ opinion, is associated with the Power Box. Days that lead to this formation are wide ranging days with heavy volume. At the end of a trend, they are usually associated with reversals.

In Stop and Make Money, Arms provides a complete methodology for assessing the market and making trading decisions based upon these concepts. The book explains many standard technical tools and adds detail on how to incorporate volume into them. While moving averages are offered as an example, the same idea can be applied by the technician to RSI or stochastics.

The book also offers an explanation on the use of Ease of Movement, another indicator developed by Arms to incorporate volume with price movement. Trading tactics are explored, and as the title implies, stop orders are the preferred means of entering and exiting trades. While stops are widely employed as an exit strategy, many technicians fail to consider their usefulness in entering a trade. With a stop buy order to enter a long position, Arms explains, you are following the familiar adage that the market is always right. Your buy is executed at a slightly higher price, after market action confirms your analysis.

Arms includes detailed explanations that would allow the novice trader to immediately implement the tools in his book. He also presents insights that offer the experienced trader a wealth of ideas that could be implemented immediately or serve as the beginning point for detailed research. The book represents a valuable addition to the body of knowledge, as one would expect from such a distinguished practitioner of technical analysis.

Richard Arms, a financial consultant to institutional investors and a private portfolio manager, is a noted expert in the field of technical and market analysis. Arms has created key technical tools for understanding market price movement, which are listed daily in the Wall Street Journal and included in a variety of market analysis software programs. His Equivolume charting system is now part of the most popular stock and futures software, and his Arms Index—also known as the Short-Term Trading Index or TRIN—has become one of the most important technical tools on Wall Street. Arms received the prestigious Market Technicians Award in 1995.
Los Angeles MTA Chapter Meeting 4-22-08

Summarized by Kristin Hetzer, CMT

The LA MTA Chapter met at Il Morro Restaurant in West LA for its spring quarterly meeting. Frank A. Barbera Jr., CMT was the featured Guest Speaker for the evening. Mr. Barbera is the Senior Vice President marketing and Administration for the Wright Fund Management, LLC and Advisor to the Sierra Core Retirement Fund. A stock market veteran of 22 years, Mr. Barbera has a long career in both media and investment markets. From 1989 to 1997, Mr. Barbera worked for both CNBC and KWHY TV as an on-air market analyst providing analysis of the capital markets and the global economy on live television each market day. Following a career in television and media, Mr. Barbera went to work for the Kavanaugh Fund LLC, a subsidiary of Bel-Air Capital Management in Los Angeles as Co-Portfolio Manager, after calling the major top in the NASDAQ (above 5000) and Internet Stocks to the week. Between 2000 to 2002, Mr. Barbera helped the Kavanaugh Fund record gains in excess of 30% per year by shorting technology stocks during the great NASDAQ technology stock bust. Subsequently, Mr. Barbera moved over to join Caruso Affiliated Holdings, one of the country’s fastest growing real estate development firms, led by a father and son pair of billionaires, Rick and Henry Caruso. For the next 8 years, Mr. Barbera managed the flagship Caruso USA Fund LLC working as Senior Portfolio Manager to the Caruso Family, where his accounts have never had a down year and have generated consistent double-digit returns, ranking him among the top money managers in the United States.

John Bollinger, CMT, CFA, started off the evening with a nice introduction of Frank Barbera. John Bollinger during the years John reported the evening with a nice introduction of Frank Barbera. Frank had worked as an Assistant to John Bollinger during the years’ John reported on FNN Market News Channel. Frank began his presentation discussing the current US economy and the important of comparing the current state of the US economy and financial markets is very great at this time. He stated, following the 9-11 event, “zero money down” became the popular way to buy goods. It began with consumer discretionary items, autos and eventually, home purchases.

Mr. Barbera discussed at length the rising prices of gas, food and jet fuel. The rising Producer Price Index as well and the Consumer Price Index exemplifies the alarming, rising trend of inflation for goods and services. It is more difficult for households to make their budget in this rising cost environment. Real wages are negative.

Mr. Barbera states, “the housing bust is not isolated”. Hedge Funds are leveraged 20:1. This problem is similar to Japan’s banking system of the 1990’s. It has taken Japan 14 years to correct their excesses and get their problems behind them.

Inflation will act like a tax on income. Frank predicts US discretionary spending will continue to decline, wages will stagnate and lower spending by consumers will result in lower profits for US companies. Given the state of the US economy and the major credit problems of the US banking system will result in the Federal Reserve keeping rates at low levels for some time. This will further devalue the dollar and potentially lead to a currency crisis. Spain, Italy and France have weak balance sheets and are now announcing lay-offs by companies: BMW, Porsche, L’Oreal to name a few. Germany has savings and will pursue a tighter monetary policy to maintain inflation. We may see some countries abandon the Euro as their currency.

In summary, Mr. Barbera felt the risks are many and major bull markets will continue in Commodities including precious metals, energy and agricultural commodities. U.S. export companies will continue to benefit from the low US. dollar. Long term interest rates have been held “artificially” low which has dramatically increased the risk for fixed income investors. The risk of the financial markets is very great at this time. He concluded, “He hoped his assessment was too pessimistic”. Frank’s talk combined technical analysis and economics. John Bollinger commented, “Frank’s work was contrarian, a non-intuitive presentation that was quite thought provoking.” Thank you Frank for a very interesting perspective on the current state of the US economy and financial markets.

Kristin Hetzer is Principal and Chief Investment Officer of Royal Palms Capital LLC. Prior to founding Royal Palms Capital in 2005, she worked for major Wall Street firms such as 1st Vice President - Investments for 22 years. Kristin is a Chartered Market Technician (CMT), Certified Investment Management Analyst (CIMA) and Certified Financial Planner (CFP). She provides portfolio management services to a diversified group of investors; wealthy individuals, trusts and qualified ERISA retirement plans. Kristin is Chairperson of the Los Angeles MTA Chapter. She resides with her family of two children and husband in San Pedro, California.

Would You Like to be Called Professor?

It’s hard to believe that MTA members have been involved on college campuses for the past 30 years. For perhaps 15-20 years we have been guest lecturers filling in at courses on investing with a one to three hour presentations on technical analysis. More recently we have a number of for-credit courses on the undergraduate and graduate levels in colleges in several states around the country. Also interest is quietly growing overseas in select executive MBA programs. As professors “discover” our tools and test them to their own standards and publish their results, we have gained credibility.

Many schools have built “trading rooms” or “interactive labs” to prepare their students for the world of finance and global trading and investing. These rooms with their banks of Reuters and Bloomberg terminals have increased our audience. Students who have grown up in the past 20-25 years have been exposed to one of the greatest bull markets ever and the field of finance has flourished. Courses on technical analysis make good use of these facilities and students are eagerly signing up when their eyes are opened to our techniques.

What’s the hitch? ECONOMICS

We have a rising demand curve from students and a stagnant supply curve of teachers. More professors are bringing technical analysis into the classroom and our list of guest lecturers and adjunct professors has not kept pace. To raise our stature on campus and get our positive message on including technical analysis into the investment decision making process WE NEED MORE LECTURERS!

What are the pre-requisites? Good knowledge of technical analysis, and of course being a CMT holder is a plus. A desire to give back and influence young minds. The ability to explain and illustrate our tools in a clear manner to college students.

Up to the task? Or just want to know more? Please contact Bruce Kamich or Charles Kirkpatrick, or email Tim Licitra at tim@mta.org. Their contact information can be found in the MTA Directory.
David Krell, CMT
Chairman;
International Securities Exchange Holdings, Inc.

By Molly Schilling

David Krell is the founder and Chairman of International Securities Exchange Holdings, Inc. (ISE) located at 60 Broad Street in lower Manhattan. We met in his expansive corner-window office overlooking the Hudson and East Rivers with a direct view both of the Statue of Liberty and the World Trade Center landmark. David has served in many capacities for the Market Technicians Association and along the way has been innovative in developing new business in new markets. He gives us the benefit of his wisdom and insight.

Molly Schilling (MS): Are you still involved with the MTA?

David Krell (DK): I’m an MTA member, and I try to help as often as I can, in any way that I can. I’ve been a Director on the Board, I’ve been President, and have served as head of a number of committees for many years. I have a natural love for the organization and try to offer anything I can do to help.

MS: What drew you into Technical Analysis?

DK: Did it take me a while to get involved? No. I started in Wall Street in 1971 as a fundamental analyst. And there was a fellow working in the company that I worked for, who was then part of what the MTA was just starting in the early 70s, and he was one of the formative members of the MTA. And he got me involved in technical analysis, and then with the MTA, and that’s when I left fundamental analysis and became much more involved in technical analysis, because typically the fundamental analyst thinks about a company and rather than the stock.

MS: And so that just made sense to you back then…

DK: That’s right. This company, ISE, has been public for 2½ years. I’ve been in meetings with fundamental analysts who cover this industry and cover this company, and it seems to me that they could use some technical analysis to help them. It would serve their purpose very well.

MS: Tell me about your company.

DK: The ISE is an exchange started in May of 2000, as the first fully electronic options exchange in the United States, with a much different market structure. And within a relatively short period of time, within three years, we became one of the most successful markets. In 2005, we became the largest stock options exchange in the world.

MS: Quite a development.

DK: We were also one of the first security exchanges to go public, and now the stock is traded on the US market. Our volumes have exploded since last summer. To give you an example, the November 2007 monthly average of the volume and options market for ISE was about 70 percent higher than it was in November of 2006. We’ve had record volumes since August.

MS: Do you think the volatility will more or less continue?

DK: That’s a function of how quickly these other, more fundamental issues are resolved. As long as there’s uncertainty, whether it’s income security, or equity security, and that uncertainty was the original reason why options were created and produced back in the early 70s to control risk and now to increase your exposure at certain times.

MS: Do you have a trading platform for your clients?

DK: Yes. We decided to harness the computer and in 2000 it was a question of whether the computer was feasible as opposed to a trading floor. So we at the ISE don’t have a trading floor per se. All of our activity is done on a computer, so if you want to buy a contract on Microsoft, you send an order over through your broker the same way you would have done ten years ago and that broker sends the order out electronically to us and we execute it, and send it back electronically. We’ve found it’s just much more efficient. It’s faster, it’s lower cost – there are lots of benefits. We were the catalyst for change in our industry.

MS: Were you inclined toward the market when you were a young boy?

DK: Yes, I was interested in the markets. My father was an investor, and when I was in high school, I had a summer job and saved $500 and invested it in a mutual fund because he thought that would really be helpful to me. That was in the late 1960s and I learned a great deal from that experience. I still have the stock certificates. After college, I got an MBA in Finance.

MS: And what do you do when you’re not focused on your work? How do you manage life and work and is it a difficult balance?

DK: Well, I don’t think it’s difficult, work has to be fun. I look forward to going to work and making a contribution, making a difference and helping investors manage their money in a more efficient way. And managing a company. We started ISE ten years ago, in 1997, with 2 people, and now we have about 240 people employed here and we’re the largest exchange. So that gives me a sense of satisfaction as well.

MS: Was it scary when you started?

DK: Very, very scary.

MS: What was it like that first year?

DK: Well, there were just two of us to start, and until late 1998, for more than a year, there were only four of us working on this project. Then in November of ‘98, we announced the project. That’s because we needed to hire other people. Nobody knew what we were doing and we wanted to keep it quiet during the planning stage when we were beginning to specify the system requirements coding of the system, which was all electronic and writing the new rules as a new exchange. So, there was a lot of work involved in starting a new exchange.

One of the things we discovered early on was that the SEC had not registered a new exchange in 27 years. So we had to be very creative. We had to hire the right people. We already knew a lot of people in the business, and they believed in us. We launched in May 2000, not an ideal time. Up until then, everyone had been very concerned about Y2K. We had a hard time in 1999 getting anyone’s attention. It felt like “By the way, here we are. We’re a new exchange. Could you please connect us to your system?” The last thing they wanted was somebody else calling on them. So that was a difficult period.

And the stock market really topped out in early 2000, March 2000. The winds weren’t really in our sails. We were competing against four bitterly entrenched, very large exchanges that had been in existence for decades. To them, we were the newcomer, with a whole new and different approach to market structure – an automated exchange, electronic. There was a lot of resistance to this change, which is one of the things that I find fascinating about Wall Street. How much resistance there is to change. Very few people want to change anything.

MS: That’s interesting.

DK: They’re very confident in what they do, successful in how they do it, and any time you make a change you’re taking a risk. So, most brokerage firms don’t want the risk of changing their trading or their trading systems. We had to convince people through example, and through providing a better solution for them, that they should change. They didn’t meet us with open arms.

So to answer your specific question, the first year was really a very rough one. I always say everybody views ISE as a great success. Everybody reads ISE as an overnight success. And I say it’s an overnight success that took three years.

MS: A big long overnight…

DK: That’s even better.

MS: What was it that you really felt that consolidated your vision?

DK: When you’re starting a new business, you have to believe in what you’re doing. You have to be very passionate about it and you can’t believe everything that you hear from others who

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David Krell, CMT
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don’t want to change their businesses, who feel endangered. You have to compartmentalize their resistance. You have to believe that what you’re doing is good.

Every time we would sit around the table, I would always ask the following questions: “What’s good for the American investor? Is this change a good thing? Or is that new functionality a good thing? Is it going to be faster? Is it going to be less costly?” Those are the questions, because at the end, that’s how you differentiate your business.

People buy their newspaper in the same place. They don’t change their behavior. They buy their coffee every morning from the same vendor, typically. It’s a behavioral issue. And so unless you can convince them with overwhelming evidence that you have a much better cup of coffee, or a better way of doing it, they’re not going to change. And that’s what we had to do.

MS: So was your working model more nuanced than just “going electronic”?

DK: When I speak to technology people, their assessment usually is “Well, you succeeded because you were electronic,” and my answer to that is, “it’s only partially a factor. We succeeded because we had good ideas. Moving through an electronic system made it possible to deliver all the other goods.

For example, we created a different market structure than the other exchanges. I won’t go into detail about that, it’s complicated. We brought in new liquidity providers that made deep and liquid markets. We automated the whole process to make it cheaper for the online brokers, because they were giving their customers much lower commission rates and they were concerned about not having too many intermediaries in the trading process. And they’re expensive. So we eliminated a lot of those steps for them, and made it cheaper and faster for them, and more accurate. There were lots of things we did, and electronic trading was just the vehicle that delivered those goods.

MS: You were involved in getting the CMT recognized as equivalent to a CFA for a Series 86 exemption by the regulators.

DK: I worked closely with Ralph Acampora and a number of other people within the MTA to have the CMT recognized, just as the CFA designation is recognized, as a qualified standard. I had worked with exchanges and with the SEC in developing my business, and I was able to help as we worked for more than a year with the New York Stock Exchange and their regulatory division, and the NASD and its specialists and examinations to vet the CMT exam as a valid criteria, benchmark, for technical analysts to use.

MS: As a CEO, what keeps you up at night?

DK: One of the things that keeps me up at night is the systems’ integrity, and not just ours, but those around us. When I walk in the street and see construction workers digging, my blood pressure always goes up when I see a street feeder dug up, or somebody with a jack hammer who could cut into one of our cables. But, at the same time, that’s why we have multiple data centers. We have multiple service providers for networks, for communications coming in. We were operational all through 9/11. We operated through that catastrophe.

We have our own generators, and power supply. As an exchange, you have to have all those critical support systems to make sure that your downtime is measured in seconds, and not in minutes or hours.

MS: What was it like when 9/11 happened?

DK: I was sitting right here, watching CNBC. First of all, I heard it, and the building shook a little bit. My first reaction was, “Oh, one of those little airplanes made a wrong turn.” Then when they said it was much bigger, I had to start thinking about how we were going to open the market. We have a system, a hotline, connecting all the exchanges, and we immediately got on the hotline, asking them

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**FUSION ANALYSIS**
This is a professional approach that blends fundamental, technical, behavioral and quant strategies. The approach attempts to exploit profitable opportunities in market investing by both investors and traders. Whilst the course focuses on US equities, other asset classes, such as, fixed income, commodities, FX, real estate, and GCC stocks will also be analyzed. Given the plethora of strategies, the workshop will help create focused approaches to meet specific investment objectives. Fusion Analysis can create: **“The better approach to investing”**

**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”**

**INVESTMENT FUND SELECTION**
This is a must attend course for all professionals involved in the selection and management of third-party investment managers. Investment Fund Selection offers an insiders perspective into the various challenges in determining the most appropriate fund structure, managerial style and fund value-added performance of third-party investment managers in order to achieve individual investment objectives. Portfolio theory considerations and statistical issues are discussed with behavioral considerations.

Reviewing different fund structures, such as mutual funds, private equity and hedge funds, participants explore regulatory, audit, established and recent portfolio performance measures and, learn about subtle tricks that some funds can use to “dress up” performance records and charge unwarranted fees.

An optional and practical one-day investment fund selection workshop will also include various fund case studies and exercises to reinforce the definitive selection techniques learnt. Participants get to perform an investment fund selection role-play in order to evaluate and screen funds for specific investment criteria and answer the question: **“Is my fund manager giving me my money’s worth?”**

**TECHNICAL ANALYSIS CMT 1**
A must attend 4-day course for investment professionals wishing to prepare for the CMT Level I professional qualification in Technical Analysis from the Market Technicians Association (MTA). Using real-life charts, participants learn traditional technical tools of charting and many specialized topics. Whilst the course focuses on US equities, other markets including GCC stocks and real estate will also be explored. An optional 1-day session entirely dedicated to exploring trading opportunities for US and GCC equities, FX, commodities and bonds using technical analysis. Prior workshops correctly called the rise of the US market and the decline of the Saudi market by blending technical indicators. This course should help answer the question: **“Buy or Sell and When”**

**INTRODUCTION TO STEALTH TRADING USING FUSION, ALGORITHMS, AND DERIVATIVES FOR PROFESSIONALS-**
Today, portfolio managers increasingly must use stealth trading in order to disguise their intentions and thus benefit from best execution. The old ways of staring at a Bloomberg to get bid/ask quotes and transacting an order is gradually being supplemented by more sophisticated strategies, such as, algorithmic models to meet various investment goals. The objective of this course is to give the student an introduction to various trading strategies that can achieve best execution. This course should help achieve: **“Best Execution.”**

**ADVANCED CAPITAL MARKETS ANALYSIS**
Spot, forwards, futures, swaps, options, and statistical issues are discussed in dynamic capital market strategies. This course was first introduced as a course to a top Ivy Business School. Solving the course problems and cases has brought angst to MBA and CFA candidates. Still, the topics are the food for advanced hedge fund techniques.

Instructor John Palicka CFA CMT is a top-ranked portfolio manager of Global Emerging Growth Capital (WWW.GLGEVG.COM) with over 25 years experience of managing $ billions. He has doubled client money, on average, every four years since 1980*. His high course ratings from major investment firms reflect clear interpretations and practical applications of complex topics; knowledge applied to examples and cases found in the current worldwide and GCC marketplace; his experience with specific situations actually encountered in his career and consulting contracts that parallel the learning topics. John has an MBA from Columbia University and also teaches these courses for leading training institutions, including The New York Institute of Finance (WWW.NYIF.COM).

To find out more about these courses in GCC locations, please call Esam Hassanyeh + 9714 391 0234 or visit his website: www.enhance.ae

* Past performance is no guarantee of future results.
how we’re going to open the markets, because that’s our first responsibility.

But when the second plane hit, we knew it was much bigger. We have a business continuity plan that we put into place at the very beginning. We have a whole data center backing up this facility in New Jersey. We sent a whole group right away over there. And then, just before 10:00, the buildings started falling down. You see how close that building is over there (pointing across the street)? You could not see that building. It was a fog.

We got down to the lobby level, the whole building, we stayed together. We grouped by where people lived. New Jersey people, Long Island people, the Connecticut people, the Westchester people, and we slowly directed them out, with a group leader, and everybody got home, thank god.

And I stayed. My partner was actually across the street, and I stayed there that whole time, because I knew that if I were to leave, I might not be able to come back. My wife was also here. The next morning we came back here. The street was full of snow, the ash was about three or four inches high. My wife and I were together, and I put her in our command center, and I put her headphones on her, and I said, “Just answer the phones,” because I had to talk with the other exchanges and plan with the SEC about reopening the markets.

So I was on those hotlines and she was answering the phones, because we had members all over the country who were calling in. They wanted to know where things stood. My wife is a first grade teacher, but she did real well here that day.

MS: It must have been an astonishing event.

DK: Oh it was terrible. I mean, that first week of being here, I never left, except for one day when the National Guard and the police forced us, when they were afraid that one of the buildings would collapse, so they forced us out. But I came back the next day. There were only soldiers on the street. On every corner, there were half a dozen soldiers with machine guns, and – scary. But when you operate a business that you have responsibility for, you have to be there.

MS: David, it’s been a pleasure to meet you and to visit with you in this wonderful office.

DK: Thanks, Molly.

Molly Schilling is an independent trader and freelance writer. Molly has been a member of the MTA since 2005.

New MTA Chapter: Columbus, Ohio

By Craig Fullen, CMT

The Columbus, Ohio Chapter of the MTA has been established for professional traders, technical analysts and other investment professionals who currently use or are interested in technical analysis. We also intend to reach out to those involved in quantitative analysis and behavioral finance, including faculty members at the local universities. Our main objective will be to provide networking and professional development opportunities for our members while increasing the visibility of technical analysis and those who use it in the Central Ohio area.

Until about 2 years ago, there wasn’t a single CMT in Columbus. Now there are five, and three of these people work for state pension funds (Jason Tincher, Timothy Swingle and Timothy Steitz, all of whom have expressed an interest in the Chapter). Therefore, we finally have some people who are visible in the investment community and who can serve as building blocks for establishing the credibility of technical analysis in Columbus.

As I’ve always maintained, having knowledge of technical analysis isn’t enough to make it in the investment business. Market technicians must add value to the investment process and that only comes through managing risk, increasing performance or a combination of both. My hope is that the Chapter will foster and encourage the development of each member’s technical skills in such a manner that enables him or her to demonstrate such value on a regular basis, in turn, will increase the respect and interest in market technicians in our investment community.

Initially, our goal is to meet 3 or 4 times a year with exciting topics, speakers and venues. Our initial kick-off meeting is scheduled for the Fall to allow us time to gather the names of prospective members, contact those members and strategize. As interest grows, we will likely meet more frequently and possibly interact with other chapters through webcasts.

Craig Fullen is the President and Founder of Formika Investment Strategies, Inc., a Registered Investment Adviser. In addition, Craig is the President of The Fallen Law Group Co., LPA, a law firm which concentrates in the areas of corporate/business law and contract preparation, review and negotiation. Prior to forming Formika and The Fallen Law Group, Craig served as Assistant General Counsel for Crane Plastics Company, a Columbus, Ohio-based plastics manufacturing firm, from 1999-2002 where he managed the legal affairs of variety of companies affiliated with Crane Plastics Company, including the handling of a number of acquisitions and divestitures. Craig was a senior associate with the Columbus, Ohio law firm, Porter, Wright, Morris & Arthur LLP (Porter Wright), from 1992-1999 where he practiced corporate/business law. At Porter Wright, Craig advised public and privately-held companies with respect to mergers and acquisitions, contractual issues, business entity selection and formation, private-placement equity offerings, and various business-related transactions.

Technically Speaking

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“What’s Hot”

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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.

- “New Trading Dimensions: How to Profit from Chaos in Stocks, Bonds, and Commodities” by Bill Williams

- “A Complete Guide to Technical Trading Tactics: Combining the Power of Pivot Points, Candlesticks, and Other Top Indicators to Trade Futures” by John Person

As we continue to add to the library, if you have any recommendations for us, please email Cassandra Townes at cassandra@mta.org
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