MTA at the Las Vegas Trader’s Expo

By Michael Carr, CMT

At the November Trader’s Expo in Las Vegas, the Market Technicians Association hosted a panel discussion on the current market environment. The event was very well received, with a standing room only crowd of about 150 attending in person and another 80 viewing the live webcast. It was among the best attended events at the three-day seminar.

Ken Tower, CMT, was the first presenter. He began by making a simple point. “This should be a banner year for investors using technical tools. Volatility has been tremendous and it has been a strongly trending market. Yet too many have their heads hung low. Why? How did we miss so much opportunity?”

While this question clearly applied to the individual investors who attended the Trader’s Expo, the large losses incurred by hedge funds and institutions shows that it is just as applicable to many professional investors.

Tower thought the answer could be found in two simple, but overlooked points. First, volatility disrupts stops. With the increased level of volatility experienced by the markets this year, stop rules that limited losses and protected profits in the bull market of 1982-2000 don’t work anymore. We are seeing larger intraday swings taking out long positions and prices rebounding by the end of the day. Old rules need to be revised to account for these turbulent times.

Second, investors fail to properly focus on the trend. Tower pointed out that the S&P 500 has been below its 200-day simple moving average every day this year. That is a powerful, and easy to understand, trend indicator. The trend is clearly down. This means, in his opinion, that rallies should be sold and short positions should be entered into to maximize gains. This insight defines the value of technical analysis, helping traders manage risk with simple rules.

In another lesson suitable for individuals and professionals alike, Tower cautioned against trying to pick the bottom in this bear market. “Picking the top or bottom gives your bragging rights and is emotionally rewarding, but happens far too irregularly to be worth pursuing,” he said. Continuing with true market wisdom, he added, “Generally, those who tell you how they picked the top or bottom are not good traders / investors.”

Next, Ken Winans, CMT, presented his thoughts on the current market environment and added a well-grounded historical perspective. He began with a question for the audience, “It’s Different this Time?” which was thought provoking to many attendees who were ignoring history in their personal trading and looking for a rebound after each punishing sell-off in the market.

Placing this year’s decline in perspective, Winans discussed other “Financial Hurricanes” and highlighted the fact that the Dow Jones Industrial Average has declined at least 28% in a single year 14 times since 1900. This means that we have seen severe declines, on average, one out of every eight years. The worst single year decline occurred in 1931, when the Dow lost 53%. This year, 2008, was on track to be only the 4th worst in the last 108 years.

In his next slide, Winans took away the hope of many individual investors that diversification would save them and demonstrated the wisdom of the trader’s adage that in a crash, all correlations go to 1.0. On average, during these financial hurricanes, stocks suffer losses of almost 30%. Residential real estate declined by 4%, on average. Corporate bonds lose about 7% of their value and commodities fall by about 8%.

By studying history, Winans was able to find some commonalities among the largest market declines. “The combination of over leverage and illiquidity burst bubbles in all investments,” he said, “Many Wall Street innovations went awry.” And showing that we need to learn from history in this current crisis, he added, “Investments responded negatively to failed government actions & over-regulation.”

continued on page 4
Letter from the Nominating Committee

At this point, we have filled all nominating committee positions for the upcoming Board selection process. I am pleased to announce that our nominating committee this year has the diversity of MTA representation that truly covers the general membership of the MTA.

There are two At-large Board positions that are up for consideration this year. These positions are for a 3-year term which commences July 1, 2009.

Over the next two (2) months, we are encouraging any Member, Honorary Member or Emeritus Member in good standing to submit your name for consideration by the nominating committee, along with a description of the Board position you are seeking. The nominating committee will then seek out your completion of a tailored questionnaire as part of its review process. In addition, if you do not wish to serve but have suggestions on who might be willing/able to do so, we would encourage you to write us on that as well. Our committee will investigate these suggestions as well.

By February 28th, the nominating committee is responsible for vetting all responses and to create a “slate” of new At-large Directors for consideration by the membership at the MTA Annual Meeting, preliminarily scheduled for May 2009.

As an alternative, Members may submit nominees directly by petition to the Secretary of the MTA. Nomination of a candidate for Director may be made in writing by a petition with at least ten percent (10%) of the Members, Honorary Members, and/or Emeritus Members in good standing with the Association. This will require about 80 names. Petitions for nomination, containing the original signature of each petitioner, together with the nominee’s written consent, shall be presented to the Secretary no later than March 30, 2009. E-mail signatures are acceptable provided they originate from the Member’s e-mail as listed in the official member directory and are subject to verification by the Secretary.

This is arguably the most important task of our Association as it will define our leadership into the future. I urge you to participate. Your input is important to us. Please write to me at nominations@mta.org with any questions/comments and, of course, suggestions!

Best Regards,

Philip Roth, CMT
Nominating Committee Chair

Letter from the Editor

The content in this month’s newsletter is similar to what you’ve come to expect from us. We present very brief summaries of technical perspectives offered by expert technicians Ken Tower, Ken Winans, and Jeff Lay at a recent Trader’s Expo. A link to a video of the entire panel discussion is available on your member homepage. Other articles include a couple book reviews and the Nominating Committee and Dow Award Committee have also provided important information.

This issue of Technically Speaking represents the end of an era, and the beginning of a new one. It is the last one which will be delivered as a hard copy. Beginning in January 2009, we will be using electronic delivery to serve you better.

Initially we will be delivering the same information in a different format. Once a month, we will email a newsletter similar to the other electronic newsletters many of you now receive. Links to each article will take you to the full text, and there will be an option to print anything you’d like to study in more detail.

As soon as we can, we will add more timely updates. Interim emails will deliver short-term analysis. We will also be able to expand the quantity of material we deliver, including more reviews of books, software, and the latest products supporting technical analysts.

We are excited about the changes that will come over the next few months. The quality of Technically Speaking will increase, and the value to you, the members, will be enhanced.

Please feel free to offer any feedback to us as we craft your new newsletter. Email me at editor@mta.org with any ideas, requests, or articles you’d like to have published.

Sincerely,

Mike Carr, CMT
Editor

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
The Financial Management Association (FMA) at Florida International University was privileged to have Barry Sine present at our October 15th meeting. His presentation was on technical analysis, an area with mixed emotions, to say the least. Attendees of the meeting ranged from freshman to faculty and everyone in between. Barry gave a 45-minute presentation, which covered the history of technical analysis, key terms, trends, and patterns. He wrapped up his presentation by analyzing securities that some of the students had selected. The full presentation including the slide show is available at the FMA website at www.fiufma.org/investments.

How did the attendees react to such a topic? Amazed! When speaking with some of the members after the presentation to discover their feelings, the Executive Board of the FMA was stunned by the overall excitement and enjoyment the members experienced. We were told by several members that, “this was the best presentation so far.” The FMA has had five presentations so far this semester, ranging from employers providing jobs and internships, to dress for success and interview preparations: however none impressed the members more than Barry and technical analysis.

In attendance were representatives of the recently formed FIU Student Managed Investment Fund (SMIF); they were intrigued and delighted to learn another form of analysis to apply when selecting stocks for the fund. They relished in Barry’s understanding and ability to educate them on a topic, which he is clearly passionate about. Evidence of the amount of information the investment fund members were able to absorb was delivered at the SMIF meeting held on Friday. Each analyst incorporated technical analysis into his or her stock selection process.

Perhaps the greatest interest came from those without any background information on stocks or finance. These students were enthralled with the possibilities when evaluating the chart of a security. Members seemed opened to technical analysis, they all tried to absorb as much as they could. Everyone in attendance enjoyed the presentation and they are now thirsty for more.

FIU would like to thank Bruce Kamich with the Market Technicians Association Educational Foundation for helping us put this session together. The members have already requested to have this presentation again next semester. The greatest benefit FIU has received is that we have created a pool of interested students and professionals to sign up for a professional class on technical analysis.
Jeff Lay, CMT demonstrated the importance of active investment management to the audience. Lay focused on the risks of the stock market and other investments. While buy and hold has worked in the past, it has come with considerable drawdowns. An active approach should allow investors to suffer less and profit more than those selecting passive index funds.

Lay concluded his talk with some actionable intelligence about the markets. He showed a slide with a market sector rotation model. This allows him to gauge where we are economically and which stocks should lead the way higher in the market. His work indicates that as of late November, we are in a recession and he expects financials to lead the market and the economy higher. At that time, utilities were the leading sector – meaning they were losing less than the overall market. Until financial stocks demonstrate leadership, Lay concludes, we are in a bear market and investors should be concerned about preservation of capital.

The panel concluded with all three members taking questions from the audience. One conclusion which can be drawn from this successful event is that the public’s interest in technical analysis is high. They are realizing that the standard financial advice which so well in the past is breaking down, and many are seeking the advice of professionals that can help them.
The Value of the Charles H. Dow Award

By Buff Dormeier, CMT

The Market Technician’s Association established the Charles H. Dow Award to encourage technically based research and strengthen the credibility of technical research. The Charles H. Dow Award has become the most significant and prestigious recognition in the field of technical analysis.

The Award is named after Charles H. Dow, the modern era pioneer of technical analysis, and the creator of the Dow Jones Industrial Average. According to the MTA’s mission of educating the investment community, the participant’s works are judged under stringent criteria by a judging panel consisting of some of the industry’s most respected practitioners.

Prior recipients of the Award include an outstanding group of researchers and authors who have creatively broken new ground while demonstrating the richness and depth of technical research. The Award provides an incentive to share that which may be determined to be this year’s most noteworthy contribution to the field of technical analysis. A $4000 cash prize will be given to the winner, but if this is your motivation for entering you’re missing the major point. What you contribute to technical analysis may not be nearly as important as whom you become from your contributions. Building credibility in technical analysis is the goal of the Award and the winner of the Charles H. Dow Award has an opportunity to receive lots of it. This is an opportunity to be elevated to an elite status of analysts and researchers.

Who should consider entering? Good ideas are hard to come by and even more so the people who can develop and execute them. The Charles H. Dow Award is a worldwide competition. The opportunity to win is freely open to all who follow the competition’s guidelines. The ideas and concepts introduced by the competition’s champions shall build upon the rich reputation of technical analysis.

Consider entering this year’s Charles H. Dow Award competition. I remember being nearly forced to write my dissertation paper for the CMT program. Like the exploration of new research, I even enjoy writing but I hated the idea of writing a research paper. I would have certainly opted out had it been an option at the time. But it was not.

However, writing a research paper did something which few of us willfully desire - it challenged me. But this challenge is what I needed to grow professionally. Thanks to the hard work and writings of others in the field, I understood and could apply technical analysis effectively. However, the research forced me to think outside the proverbial box and come up with my own theories. In order to prove the merits of my ideas, these theories needed to be critically evaluated using the scientific method and proved through the empirical evidence. Through this experience, I not only grew in knowledge and understanding, but in the confidence in my own thoroughly tested research. From this exercise, I grew as a technician stretching the concepts and applications of my ideas. I was honored to receive the 2007 Charles H. Dow Award.

As believers in technical analysis, we understand that most practical, reasonable, and profitable ideas cannot work if not explored and later employed. If you don’t start exploring you most certainly won’t arrive. You have nothing to gain by your absence, a world to grasp by your participation.

Buff Dormeier, CMT
First Vice President Investments
PIM Portfolio Manager
Wachovia Securities, LLC

2009 Charles H. Dow Award Competition

By George A. Schade, Jr., CMT

The competition for the 2009 Charles H. Dow Award is open. The Award for excellence and creativity in technical analysis has been presented since 1994, and today is the most significant writing competition in the field. The recipients of the Award are among the most notable market technicians. The success of the Award has resulted in an enhanced cash prize.

The winning author will receive a cash prize of $4,000.00 and will be invited to present their paper at an MTA seminar or chapter meeting. The paper or a summary may be published in the MTA’s Journal of Technical Analysis, Technically Speaking newsletter, and posted to mta.org. At the discretion of the judging panel, the authors of runner-up papers will receive certificates.

The last day to submit papers is February 6, 2009, and the winner will be selected on or before May 8, 2009. The 2009 guidelines (below) and copies of all winning papers are posted on mta.org under Activities. Submit inquiries to DowAward@mta.org.

Institutional Research:

Technicals + Fundamentals+

Seasonality = Profits

1800 + Institutional Quality Stocks
350+ ADR’s
Long and Short Idea Generation
All Sectors and Market Caps
Custom Portfolio Screening
Daily Research & Commentary

Email or call us at 603-742-7100 for a Free Trial

Campbell@ecapitalmarkets.com

Our clients include the largest market-moving money managers in the world.

Free 30-day research trial

“I guarantee you’ll discover new ideas using our research. Give us the opportunity to earn your trust. You won’t be disappointed.” –Todd Campbell,

President & Founder
Campbell@ebcapitalmarkets.com
603.742.7100
aol im: ebcapitalcampy
www.ebcapitalmarkets.com

December 2008
Well known with the MTA, Kirkpatrick is becoming a prolific author. This is his second book. The first, *Technical Analysis: The Complete Resource for Financial Market Technicians*, was co-authored with Julie Dahlquist, and is now a part of the MTA reading list.

This book shares some similarities with his first. Kirkpatrick exhaustively details his subject, ensuring the reader fully grasps each point before moving on to the next. The logic underlying each principle is also fully explained.

*Beat the Market* also reflects Kirkpatrick’s candid personality. Everything needed to emulate this technique is included in the book – all formula, all rules. In that respect, the book is similar to the 2001 Dow Award winning paper submitted by Kirkpatrick.

Kirkpatrick spoke at the MTA Symposium after he was recognized with the MTA Annual Service Award. At that time, he presented some of the research which is included in this book. He demonstrated that his stock selection technique is a complete methodology that could be implemented by any investor. In the book, he adds risk management strategies that can be adapted by any portfolio manager to improve performance.

As he has explained in the past, Kirkpatrick had managed stocks since the early 1980s using a technique that combined RS with strong earnings growth. He was looking at methods to reduce risk when he read James O'Shaughnessy’s book, *What Works on Wall Street*. Combining that work with his own, Kirkpatrick came up with a simple screen to identify stocks with the potential for future gains, which is summarized in Table 1. This technique was explained in that Dow Award paper. The complete paper can be downloaded from the MTA web site.

Kirkpatrick’s Stock Selection Criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>S&amp;P 500</th>
<th>Kirkpatrick’s Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999 Relative Strength &gt; 90</td>
<td>19.1%</td>
<td>59.8%</td>
</tr>
<tr>
<td>2000 Relative PS Growth &gt; 90</td>
<td>-9.8%</td>
<td>48.5%</td>
</tr>
<tr>
<td>2001 Relative PS Ratio &lt; 30</td>
<td>-12.1%</td>
<td>33.9%</td>
</tr>
<tr>
<td>2002 Relative PS Ratio &lt; 30</td>
<td>-24.6%</td>
<td>-18.3%</td>
</tr>
<tr>
<td>2003 Relative PS Ratio &lt; 30</td>
<td>25.2%</td>
<td>58.9%</td>
</tr>
<tr>
<td>2004 Relative EPS Growth &gt; 90</td>
<td>10.6%</td>
<td>27.1%</td>
</tr>
<tr>
<td>2005 Relative PS Ratio &lt; 30</td>
<td>3.0%</td>
<td>20.1%</td>
</tr>
<tr>
<td>2006 Relative PS Ratio &lt; 30</td>
<td>13.6%</td>
<td>25.4%</td>
</tr>
<tr>
<td>2007 Relative PS Ratio &lt; 30</td>
<td>4.2%</td>
<td>25.3%</td>
</tr>
</tbody>
</table>

Table 1: Stocks meeting all of these tests are bought.

Kirkpatrick immediately implemented this strategy and to prove its effectiveness, its results were reported in real-time rather than being obtained through backtesting. These results are shown, as he reported them, in Table 2.

One problem that value investors confront is the reality that a cheap stock can get cheaper. Sometimes the market assigns a stock low fundamental ratios because it is in a declining industry with faint prospects for growth in the future. At other times, a stock has a low valuation because it is in a cyclical industry and is simply experiencing a regular downturn in business, with earnings expected to pick up as the business cycle turns. The screen developed by Kirkpatrick is able to differentiate between the low valuations that the stock market would assign to both a company plunging into bankruptcy and a company with improving business prospects. Only a company with solid future prospects will usually exhibit high relative strength measured over a six-month period. By adding RS to the investment selection process, the value trap of buying a stock headed for new lows is avoided.

Relative strength investors also face stock selection problems. One difficulty they encounter is that the market can become irrational and prices will rise solely because of investor’s emotions. The winners in this type of market environment will be identified by high RS rankings. In the days of the Internet bubble, this problem affected a large number of stocks which soared to stratospheric levels of price and valuation before declining as quickly as they rose. Table 2 demonstrates that Kirkpatrick’s model easily sidestepped the problems of that time and performed extremely well as the Internet bubble unwound.

This performance is due to the fact that the fundamental filters he used identified bubble stocks and rejected them from the portfolio. Many of those high-flying stocks had no earnings at all, which means they failed the EPS growth screen. But some would see earning growth from one cent per share to three or four cents per share, demonstrating a high percentage growth, and placing them at the top of the EPS growth rankings. This highlights the importance of the Relative PS Ratio filter. Requiring that the stocks have strong fundamentals with a low PS Ratio, high fliers likely to suffer severe declines are eliminated as potential buys.

Stocks with low Relative PS Ratios represent companies with actual revenues, and are more likely to have well defined business strategies than startup companies taking advantage of easily obtained venture capital which would allow them to develop a profitable operating company assuming their business model works. Including this ratio in the stock selection process was largely responsible for the great returns achieved in 1999 and 2000 as the Internet bubble popped and inflicted a great deal of harm on the portfolio of the average investor.

The sell rules for this strategy rely only on the EPS growth rate and the RS ranking. Whenever these factors decline below a cutoff level, the stock is sold. The specific criteria Kirkpatrick defined in his work are to sell when RS falls below 30 or the EPS ratio falls below 50. Whenever either of these events occurs, the market is telling you that something has changed for the worse in the company and the stock is unlikely to recover any time soon. By setting these cutoff levels at 30, Kirkpatrick is trying to ensure that he will hold the winning stocks long enough to enjoy large gains without being shaken out during normal market reactions.

Table 2: These results were reported on a weekly basis and could have been duplicated by an individual investor.

The returns shown are astounding, and the method is simple. Usually there are only fifteen to twenty stocks that meet the investment criteria and are held in the portfolio at any given time. In order to appear on the buy list, a stock must meet all of the criteria listed.

- Relative Strength > 90: Kirkpatrick defines RS using the Price to Moving Average Ratio method first described by Robert Levy in a 1967 *Journal of Finance* article, “Relative strength as a criterion for investment selection.” He divides the weekly closing price by a twenty-six week moving average of the price. This calculation is completed for all stocks in his database, and the results are then sorted into percentiles. To pass this test, the stock must show a RS rank that is at the ninetieth percentile or higher.
- Relative EPS Growth > 90: The percentage change in earnings per share is calculated for each stock, and these are then sorted into percentiles. Only stocks with earnings per share growth in the top ten percent are considered to be potential buys.
- Relative PS Ratio < 30: In this step, Kirkpatrick calculates the PS Ratio of each stock in his investment universe and then rank orders the ratios into percentiles. He is looking to buy only those stocks which have a PS Ratio in the bottom thirty percent.
- Market Cap > $500 million & Price > $5 per share: These filters prevent speculative penny stocks from being bought and ensures that any stock in the portfolio is an investment that institutional investors would be able to hold.

Performance of Stock Selection Lists as Reported by Kirkpatrick’s Market Strategist

Table 2: These results were reported on a weekly basis and could have been duplicated by an individual investor.

The returns shown are astounding, and the method is simple. Usually there are only fifteen to twenty stocks that meet the investment criteria and are held in the portfolio at any given time. In order to appear on the buy list, a stock must meet all of the criteria listed.

- Relative Strength > 90: Kirkpatrick defines RS using the Price to Moving Average Ratio method first described by Robert Levy in a 1967 *Journal of Finance* article, “Relative strength as a criterion for investment selection.” He divides the weekly closing price by a twenty-six week moving average of the price. This calculation is completed for all stocks in his database, and the results are then sorted into percentiles. To pass this test, the stock must show a RS rank that is at the ninetieth percentile or higher.
- Relative EPS Growth > 90: The percentage change in earnings per share is calculated for each stock, and these are then sorted into percentiles. Only stocks with earnings per share growth in the top ten percent are considered to be potential buys.
- Relative PS Ratio < 30: In this step, Kirkpatrick calculates the PS Ratio of each stock in his investment universe and then rank orders the ratios into percentiles. He is looking to buy only those stocks which have a PS Ratio in the bottom thirty percent.
- Market Cap > $500 million & Price > $5 per share: These filters prevent speculative penny stocks from being bought and ensures that any stock in the portfolio is an investment that institutional investors would be able to hold.

One problem that value investors confront is the reality that a cheap stock can get cheaper. Sometimes the market assigns a stock low fundamental ratios because it is in a declining industry with faint prospects for growth in the future. At other times, a stock has a low valuation because it is in a cyclical industry and is simply experiencing a regular downturn in business, with earnings expected to pick up as the business cycle turns. The screen developed by Kirkpatrick is able to differentiate between the low valuations that the stock market would assign to both a company plunging into bankruptcy and a company with improving business prospects. Only a company with solid future prospects will usually exhibit high relative strength measured over a six-month period. By adding RS to the investment selection process, the value trap of buying a stock headed for new lows is avoided.

Relative strength investors also face stock selection problems. One difficulty they encounter is that the market can become irrational and prices will rise solely because of investor’s emotions. The winners in this type of market environment will be identified by high RS rankings. In the days of the Internet bubble, this problem affected a large number of stocks which soared to stratospheric levels of price and valuation before declining as quickly as they rose. Table 2 demonstrates that Kirkpatrick’s model easily sidestepped the problems of that time and performed extremely well as the Internet bubble unwound.

This performance is due to the fact that the fundamental filters he used identified bubble stocks and rejected them from the portfolio. Many of those high-flying stocks had no earnings at all, which means they failed the EPS growth screen. But some would see earning growth from one cent per share to three or four cents per share, demonstrating a high percentage growth, and placing them at the top of the EPS growth rankings. This highlights the importance of the Relative PS Ratio filter. Requiring that the stocks have strong fundamentals with a low PS Ratio, high fliers likely to suffer severe declines are eliminated as potential buys.

Stocks with low Relative PS Ratios represent companies with actual revenues, and are more likely to have well defined business strategies than startup companies taking advantage of easily obtained venture capital which would allow them to develop a profitable operating company assuming their business model works. Including this ratio in the stock selection process was largely responsible for the great returns achieved in 1999 and 2000 as the Internet bubble popped and inflicted a great deal of harm on the portfolio of the average investor.

The sell rules for this strategy rely only on the EPS growth rate and the RS ranking. Whenever these factors decline below a cutoff level, the stock is sold. The specific criteria Kirkpatrick defined in his work are to sell when RS falls below 30 or the EPS ratio falls below 50. Whenever either of these events occurs, the market is telling you that something has changed for the worse in the company and the stock is unlikely to recover any time soon. By setting these cutoff levels at 30, Kirkpatrick is trying to ensure that he will hold the winning stocks long enough to enjoy large gains without being shaken out during normal market reactions.

continued on page 7
Beyond Greed and Fear

By Michael Carr, CMT

The book Beyond Greed and Fear: Understanding Behavioral Finance and the Psychology of Investing by Hersh Shefrin was recently added to the CMT program reading list. The book provides a solid overview of the heuristics that form the core of this field and addresses the impact of psychology on the investment decision making process on the individual, professional, and institutional investors.

In discussing technical analysis, Shefrin recounts how Ralph Acampora made an amazingly accurate market call in 1998 and was blamed by many for single-handedly causing a market crash in August of that year.

During that time, Ralph was the widely respected and followed technician for Prudential Securities. Ralph recalls that he had been travelling on a camera safari that July, and when he got back, CNBC anchor Ron Insana called to schedule a short interview. On August 3, 1998, Ralph told the audience that he was starting to see signs of deterioration in the bull market. He was concerned about breadth indicators, long a favorite gauge of sentiment and the health of a market move in his analysis.

That night, while completing an in-depth review of the market, Ralph became deeply concerned and told his boss that he might need to make a major market call, in his words, the next day “he may have to shoot the bull, his best friend.”

With futures up the next morning, Ralph delayed making his call. But within an hour of the opening, he knew it was time to tell his clients that his position had changed. Negative breadth had convinced him, and Ralph noticed the traders were “big game hunting…shooting market leaders like Gillette and Proctor and Gamble.”

At 11 Eastern time, Ralph placed a call to the brokers throughout the Prudential system that stocks were in a cyclical bear market. This was based solely on his technical work, in particular breadth and sentiment. A few hours later, he returned to CNBC and shared his forecast with the audience.

That day, the Dow dropped 299.43 points, a very significant move at that time.

Later that month, Ralph told Newsweek, “We’ve had “stealth” corrections for the last three and a half years, but that was mostly small and midsize stocks. Now I want to drop the word “stealth.” This particular decline is starting to eat into the blue chips. We’re hitting lots of new lows every day. I’m saying, “Ooh, this is nasty.””

In a conversation a few months ago, Ralph recalled August 4, 1998 as the worst day of his life. He needed a bodyguard for a time as people blamed him for the decline.

At that time, he had told an interviewer, “I feel like Monica Lewinsky. People don’t like the message. They’re saying, “You caused a 300-point decline.” But it’s really amazing how closely the public watches this. It’s become a national pastime. It’s due partly to the exposure on TV, the media. It’s because people have to worry about their finances. They seek information and they’re more sophisticated.”

In hindsight, Ralph had simply noted that the market was discounting problems with Russian bonds and hedge fund Long Term Capital Management. The market was discounting the future bad news, and technical analysis, in the hands of an expert, was working well.

David L. Upshaw, CFA, CMT, Friend and Gentleman

By Bradley Herndon, CFA, CMT

I recently learned during a telephone conversation with Les Williams, CMT that one of our longtime, mutual friends, David L. Upshaw, CFA, CMT, passed away on November 8, 2008. Les and I had the wonderful privilege of knowing David for many years as he was a great friend who defined the word “gentleman.”

I first met David in Charlotte, VA in 1993 during my first year of grading CFA exams. We quickly developed a friendship that evolved around both the CFA and CMT exams. He was a very strong advocate and ambassador for the MTA and technical analysis, and was actively involved during the formative years of the MTA. David was a past MTA president, was actively involved in the MTA Journal, and participated in writing CMT exams. We spent many hours together and on the phone discussing the CMT curriculum and exams, as well as the technical condition of the markets. David loved to chat about the markets and stocks. I am very grateful for the time that I shared with David, including an occasional dinner at Angelos.

David was a remarkable man with many professional accomplishments during his distinguished career. But what mattered most to him were his wife, Barbara, and his family. He always talked about them. And, he truly enjoyed his many MTA friendships which he spoke of frequently. Finally, David always thought of others. As an example, in lieu of flowers for his funeral, friends were asked to contribute to either his church’s foundation or the church’s Haiti Fund. David was always a kind and giving person, and I will certainly miss his smile, humor and friendship.
Business Models that Work: 
Toni Hansen

By Michael Carr, CMT

This is the first in what we hope will be a series of articles on business models that successful technicians employ.

At the recent Trader’s Expo in Las Vegas, Toni Hansen gave a presentation entitled “A Complete Guide to Momentum Position Trading and Investing with Toni Hansen.” Although she was speaking at 8 AM on a Saturday morning in Vegas, she drew a large and enthusiastic crowd and the majority of attendees were familiar with her work.

Toni is a self-trained market technician who has been actively trading the markets for about twelve years. Like many successful technicians, she came to the field from a seemingly unrelated endeavor. While studying archeology, she noticed that stock charts tended to have patterns and treated the charts as a logic problem to solve – similar to the approach she would apply to an archeological puzzle. So, by day she studied ancient artifacts and at night, she studied stock charts.

Driven by intellectual curiosity, Toni studied charts to identify patterns that could be exploited for profits. She did not seek the opinions of others in the markets or read the books on technical analysis available at that time. One could argue that she was duplicating the work of Richard Schabacker, who is widely considered to be the father of technical analysis. She could have easily read Schabacker’s 1932 classic Technical Analysis and Stock Market Profits: A Course in Forecasting, or Edwards and Magee’s Technical Analysis of Stock Trends, first published in 1948. But by doing the work herself, she internalized the markets and gained a deeper understanding than books would have provided.

This approach to studying the markets gave her a unique feel for price action, and she is able to translate that knowledge into an easy-to-understand investment philosophy ideally suited to teaching. The charts revealed five significant building blocks to Toni which form the essential elements of her investing.

1. Pace/Momentum is a visual measurement of the strength of a trend move in a security as compared to the average movement of that security over the past as well as the most recent move on a given time frame.
2. Volume she considers to be instrumental in representing the level of emotional commitment of market participants.
3. Support & Resistance levels offer potential trade entry points.
4. Trend Development is based upon her observation of bull and bear markets unfold. While the idea has similarities to Elliott Wave, she has never read the classic works in this area and is therefore able to apply the principles without rigid adherence to rules that confound so many would-be Elliotticians.
5. Correction Periods are timeframes that offer her ideal entry or exit opportunities.

These building blocks are combined into a set of rules, and Toni scans hundreds of charts to identify potential long and short setups. Each trading candidate is then evaluated on a detailed basis, listing the pros and cons she sees from the chart, and based upon the preponderance of the evidence, Toni chooses her trades.

Treating the markets as a logic puzzle, Toni spends a great deal of time analyzing charts. She found it useful, and still does find it useful, to write her thoughts out. In doing this, she created a web site with trading candidates which served first and foremost as her own research tool. Friends found it useful and told others about it. Eventually, a training company learned of her work through word-of-mouth from their current clients. The company checked out her website, liked what they saw, and asked Toni to be a regular contributor to their site. This contact allowed her to “stumble” into training.

First and foremost, Toni is a trader. She studies the markets and makes her living from them. Risk management is a critical factor in her trading success. And as a self-employed trader, she recognized her income was solely dependent upon her physical ability to trade. Trading equities, futures, and forex is a physically demanding task and requires the ability to be in front of a computer for extended hours. Training represented an opportunity to steady her income while freeing up some time for other life goals.

Toni doesn’t market herself with promises of quick riches in the market or offers to share the Holy Grail for a small fee. She actually doesn’t really market anything. She provides education and useful market commentary for free, and if investors are interested in learning more, they can buy a book she contributed to, obtain a course, or attend a webinar. Most importantly, training takes very little time since it is all a byproduct of her personal trading.

While speaking in Las Vegas, Toni displayed all the attributes that successful traders and presenters shared:

• Humility is expected of successful traders who must be willing to cut losses before they become catastrophic. Toni acknowledges that the market is always right and no matter how good she believes her research to be, she is ready to accept that she is wrong if the market tells her it is. But humility is also important in public speaking about investing strategies. The audience feels closer to a speaker they can relate to and a genuine humbleness is apparent to attendees. Good speakers leave the audience feeling appreciated.

• Knowledge about the markets is an obvious prerequisite of success. The best speakers, which include Toni, use their limited time to impart a great deal of knowledge to the audience and give them tools they can implement immediately.

Superior communications skills are required to convey that knowledge in a meaningful fashion. By teaching herself about market behavior, Toni may have an advantage over the well-read analyst. She can fully describe a chart in terms of a trade because she personally discovered each element of the trade setup. Her talk does not quote from classic texts or reference mathematical concepts that the audience would be unable to relate to. She communicates as if she was sharing coffee with her grandmother, and with an ability to make the complex understandable, she ensures that her grandmother would understand the trade.

• Patience is a virtue, and a necessity when on stage. Audience questions may be redundant, overly simplistic, or indicate complete confusion. Good speakers accept the questions as feedback and never give a hint of frustration. In fact, they often adapt their talk to relieve any confusion the audience may have.

• Passion for what you do is a common element of success in any aspect of life. It can’t be faked. The audience knows whether or not you believe in what you are doing, and a lack of passion will doom any marketing effort.

For those seeking to learn from Toni’s business model, the first place to start is studying the market. This doesn’t mean simply learning the formula for MACD and other indicators. It means understanding the concepts that underlie price movement. Another important principle is simplicity. Do a few things, and do them extraordinarily well. Finally, act on your knowledge. Create something that people will benefit from.
Investment Courses For Professionals

A sample of a growing list of fundamental and technical courses is shown below. The courses are associated with global destinations and dates, both for open and private client formats in 2008-9. They are produced by various knowledge vendors throughout the world (some listed below). Specific details can be provided by contacting them, or John Palicka (palicka@pipeline.com).

- Taught by John Palicka CFA CMT -

**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.GLGEGC.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 GGC locations, please call Esam Hassanyeh + 9714 391 0234 or visit his website: www.enhance.ae

* Past performance is no guarantee of future results.
2008/09 MTA Board of Directors

PRESIDENT
Larry M. Berman, CTA, CFA, CMT
647-268-3831
larry.berman@etfcm.com

VICE PRESIDENT
David C. Keller, CMT
617-563-0202
david.keller@fmr.com

TREASURER
Craig Fullen, CMT
614-656-4084
craig@formikinvestments.com

SECRETARY
J. Timothy Snavely, CFA, CMT
404-926-5473
jtsnavely@comcast.net

DIRECTOR
Andrew Bekoff
856-866-1759
abekoff@comcast.net

DIRECTOR
C. MacNeil Curry, CFA, CMT
212-412-5391
macneil.curry@barclayscapital.com

DIRECTOR
Doaa Elwy Fahmy, CMT
+ 0020101888792
dofahmy@hotmail.com

DIRECTOR
Cary Greenspan, CMT
301-347-3203
cary.greenspan@pnc.com

DIRECTOR
Kristin Hetzer, CMT,CIMA,CFP
310-265-5939
khetzer@royalpalmscapital.com

DIRECTOR
Jeffery E. Lay, CMT
513-608-0681
jeff.lay@fuse.net

DIRECTOR
Sherman McClellan
323-663-0938
slmclellan@earthlink.net

DIRECTOR: PAST PRESIDENT
Philip J. Roth, CMT
212-370-0040 x656
proth@millertabak.com