Letter from the Editor

Judging from your feedback, the launch of new electronic newsletter last month was very successful. The feedback you provided was mostly positive, with only a few members missing the old paper version. I must admit that I miss it as well, but am seeing the advantages outweigh that loss.

The timely articles we can now publish help us keep in touch with you and deliver more content. We had expected to initiate that feature in February, but the success of our newsletter allowed us to move that schedule forward by a month. The charts also look a lot better and we will continue working on that to ensure we deliver the highest quality possible.

We still want your input – let us know what you like and suggest blogs or sites we can feature. Email us at editor@mta.org. We would like to showcase the work of our members, so tell us what you're doing and let us write something about you.

Sincerely,

Mike Carr, CMT

Profiting from the "Short Squeeze"

By Brian Shannon

This article is adapted from one that was previously published in September 2006 at http://alphatrends.blogspot.com/2006/09/short-squeeze-article.html and is being republished with the permission of the author. It presents a unique insight into using short interest to generate a trading system.

Three of the key factors that influence people’s decisions when trading stock are fundamental analysis, technical analysis and the psychological aspect. Fundamental analysis is mainly concerned with why a stock may move; it measures sales figures, PE ratios, cash flow, dividends, etc. Short-term traders may find the fundamental information interesting, but on a stand-alone basis, trading on fundamental analysis rarely equates to profitable trades. In fact, following fundamental analysis is often an obstacle when trading because traders tend to form an opinion of what the stock “should do” and many times that opinion gets in the way of objectively analyzing what the stock actually does. Think of how many times have you may have bought a “good company” but it turned out to be a bad stock. Technical analysis, on the other hand, attempts to determine when a stock may move and how long that move may last. I have never met anyone who has consistently made money trading that does not utilize some form of technical analysis. Technical
analysis allows the trader to objectively look at price action to determine what is a good or bad trade, without any understanding of what the company may do or what the fundamentals may be.

The final, and probably hardest factor to measure, is psychology. Understanding the psychology of stock movements is often measured through technical indicators and attempts to answer the question who? Who would be a buyer and who would be a seller under certain circumstances? Big money can be made in a stock's movement when there is a favorable combination of the three factors listed above to uncover profitable upside opportunities.

In this article, we will study a specific technical indicator, short interest, in an attempt to uncover situations where a “short squeeze” may develop in a stock. We will then review a stock that has the characteristics of what may offer good upside potential based on these three factors.

Short selling is a strategy that attempts to capitalize on a decline in share value by selling stock at a high level and later repurchasing the security at a lower price. The short seller benefits by selling high and buying lower. It should be noted now that once a stock has been sold short, those sellers represent future demand because they must buy the stock back at some future date. Of course, as with any strategy that is a straight directional bet, there are risks involved. The biggest risk to a short seller is that instead of share price dropping, the stock price rises. We will see later that a rising share price in a stock that is heavily shorted can often lead to dramatic upward movement as losses mount in the accounts of those who are short and they attempt to minimize their losses by buying the stock back. The motivation to buy back the stock by the short seller is often the fear of unlimited losses. When you buy a stock at $20/ share, the most you can lose is your entire investment, $20.00/ share. When you sell a stock short at $20, the potential for losses, in theory, is unlimited. The stock may rise to 40, which would result in a 100% loss of capital, but what prevents that stock from rising to 50, 60, or even 100? It is the fear of such an advance that can make for explosive upside in a heavily shorted stock. The phenomenon of a rapidly rising stock with a large short interest is known as a “short squeeze,” and we will now explore the dynamics of how a short squeeze develops.

Before we continue, let us first cover some terminology. Short interest is defined as the total number of shares of a stock that have been sold short and not yet covered. When a person sells a stock short, exchange rules mandate that the order must be identified as a short sale, with statistics on the total number of shares sold short kept by the exchange and released to the public once per month. Short interest for Nasdaq stocks is tallied up by the exchange on the 15th of each month, and that information is disseminated to the public eight business days later. For example, if the short interest is 1,500,000 shares as of August 15th, that information is released to the public on August 27th. Any changes to this number are released one-month later.

The Short Interest Ratio (S.I.R.) is the number of shares sold short (short interest) divided by the average daily volume for the previous month for the particular stock. This number is interpreted as the number of days it would take to cover (buy back) the shares sold short based on the average daily volume. The higher the ratio, the longer it would take to buy back borrowed shares. This often leads to upward momentum for the stock if the sellers became motivated to buy back their short positions. If the stock had a short position of 1,500,000 shares and an average daily volume of 500,000, the S.I.R. would be 3.0, meaning it would take 3 full days of average daily volume for the short sellers to cover their bearish bet. If the stock had average daily volume of just 250,000 shares, the S.I.R. would then be 6.0, meaning it would take 6 days of buying to cover their position. From a contrarian standpoint, a higher S.I.R is desirable because it means it is more difficult to cover the position and the resulting buy is the potential to create significant short term trading profits.

Now that we have a basic understanding of short interest and the short interest ratio, we will now learn how to identify stocks that could be vulnerable to a short squeeze. A Short Squeeze develops when those who sold short the stock, expecting it to decline in price, change their minds about the trade (often because of rising prices) and attempt to cover their position before the market advances and losses accumulate. Short squeezes often occur because of a news event that changes investors' perception as to the worth of a particular company. A short squeeze can also be created by long holders of the stock attempting to push the price higher, in an attempt to tap into the emotional buying that a trapped short seller can provide. Obviously, if you are short a stock that is advancing, there is a point where it becomes fearful to continue
holding a position. With that said, in order to eliminate the mounting losses and the emotional trauma of holding a big loser, the once pessimistic seller will become a panicky buyer. It is this buying that makes the stock advance at a rapid pace.

There are numerous sources for finding information about the number of shares that are short for any individual stock and the corresponding ratio to average daily volume. The professional money manager (usually a hedge fund) who establishes a large short position is typically very disciplined about taking losses and their discipline can often work in our favor. When the stock starts rising, the fund manager will often act quickly to cover their shorts, often they become aggressive buyers in their attempt to minimize losses, this buying can benefit long positions by sending the stock rapidly higher.

Using the S.I.R., typically any number above 5.0 days to cover is considered a high number. This shows the short sellers may have a difficult time covering their positions without moving the stock higher. This information is a good starting point for finding potential short squeeze candidates because it gives us the answer of who would buy the stock. By recognizing the large short position, we can understand the potential urgency buyers may have in a stock, which could be a key psychological development behind a buying frenzy in the stock.

The S.I.R. serves as a starting point for finding short squeeze candidates. In order to whittle the list down further, the stocks charts should be studied to see if there is any technical indication that it might be the proper time for a low risk entry into the stock. Any stock in a downtrend can be immediately eliminated because short sellers are more confident in a position that is moving in their favor. Eliminating situations that are not high probability candidates frees our time to focus on the strong stocks where the short sellers may be in trouble. In order to make this a quick process, I like to look at where the stock is trading in relation to its 50-day moving average (50 DMA). If the stock is below the declining 50 DMA, I will eliminate it from the list and then focus on the stocks that are trading above the rising 50 DMA. A stock that is above a rising 50 DMA is in an uptrend and should be studied further on different timeframes to find where there may be the potential for resistance to halt the upward progress of the stock. If a stock is at a new high, it indicates to me the only source of supply will come from profit takers, rather than people selling to get even on a position they may have been holding in their portfolios at a loss. A stock trading at a new high also indicates it is unlikely that the short sellers are in a profitable position and that may make them more motivated to cover their short position. A chart of ODSY shows the stock trading above the rising 50 DMA, this upward momentum is further confirmed by the fact that as of this writing, May 6th, the stock is trading at all time high. After I find a stock with a large short position that is losing money in a stock at new highs I want to know the approximate price that the short position was initiated. By understanding how much the short sellers are losing I can monitor the stock for signs they may becoming urgent in their buying.

In order to find the information on where the short position was initiated we can look deeper into the short interest. By analyzing changes in the S.I.R. over time, we can get a feel for where sellers may have initiated short positions.

For Odyssey Healthcare (ODSY), from September 15, 2002 when the stock was trading near $19 to April 15, 2003, the short position grew by 5.2 million shares. All of these shares were sold short below $26, meaning the potential for a squeeze was high because the short sellers were in a losing position and they have to buy back stock to prevent those losses from growing. This puts the short sellers in a very uncomfortable position because they are damned if they don’t do anything and damned if they buy back shares because this will add to the upward momentum they were trying to avoid in the first place, this makes conditions ripe for a short squeeze.
Figure 1: From September 15, 2002 to April 15, 2003, 5.2 million shares of ODSY were sold short. By looking at this information on a chart, we can see that when the stock broke out to new all-time highs in early May, all of those shares sold short were in a losing position, leaving them vulnerable to a short squeeze.

In the second half of 2003, ODSY broke through the short squeeze price and rose 50% in only five months (Figure 2) before eventually falling. The short sellers were eventually right, but the pain was too much for many to bear and this chart provides a perfect example of the potential profits from a short squeeze.

Figure 2: A monthly chart of ODSY.

It is important to know that a large short interest ratio by itself is not a reason for buying a stock in anticipation of a short squeeze. As with any other indicator, the short interest ratio should not be used on a stand-alone basis. The informed trader will find an edge when there is a preponderance of indicators leading to a price advance. Short sellers who take large positions are typically sophisticated speculators who have done extensive research on their targeted company and are often right. Many times those who sell short have the right idea fundamentally (examples include names such as Qualcomm, Rambus, Iomega, Presstek, Amazon.com and Krispy Kreme), but their timing could be off. The correct time to sell a stock short is when it is either in, or entering, a downtrend. When a short position is initiated in a stock that is trending higher, there is real potential for big trouble for the shorts. As the stock continues higher in an
uptrend, it often becomes tempting to sell short because “it is up too much” or “the P/E is too high”; however, avoiding that temptation and going long is usually the right thing to do until the stock rolls over and shows weakness. Essentially, the potential short squeeze candidate is a security in an uptrend that has attracted a large short interest and has strong fundamentals.

The final, and probably least important, factor to cover in deciding how strong a candidate may be for a short squeeze is the fundamentals of the company. Although poor fundamentals would not preclude a stock from being a potential short squeeze target, a company with strong fundamentals would add to the source of demand that would move prices higher. When looking at fundamentals on a momentum play, it is important not to look too deep. I usually look at the company’s news headlines for sales and earnings information, new product developments and analyst ratings changes. In the case of OSDY, a glance at the headlines shows news reported on May 5, 2003 that reads as follows “Odyssey Healthcare Reports First Quarter 2003 Results; Revenue Increases 50%, Net Income Increases 79%, Company Increases Guidance”. Just reading this headline tells me the company is growing their business by selling more (revenue increase), they are more profitable than they were last year (net income up 79%) and business remains strong (increases guidance). On the day this fundamental news was reported, the stock advanced $.56 on heavy volume, clearly the reaction from Wall Street was a positive one. This news gets me thinking “this is why people will buy this stock”.

When reviewing fundamentals, traders should be more interested in why others would buy or sell. It is important not to make a decision about the company, but only what others may think about the stock. There are many people who buy and sell stocks based on what the prospects for the company are and we cannot ignore them in making our decisions because of their large impact they can have on price.

In summary, short sellers are usually very savvy speculators; however, like any group of market participants, they aren’t always right. When shorts are wrong about the direction of a stock, the move higher can be dramatic, leading to some excellent short-term profits for traders who see a short squeeze situation developing. Like any indicator, short interest should not be used on a stand-alone basis, but it should become part of a traders’ arsenal. Since technical analysis is largely about measuring supply and demand, short sellers can become an excellent source of demand for a stock at higher prices when the stock is in an uptrend.

_Brian Shannon is a trader, speaker, and educator. Involved full time in the markets since 1991, he has worked as a broker, owned a day trading firm, managed a hedge fund, and ran a proprietary trading desk while simultaneously being the most profitable trader of that prop firm. As Head of Research and Training for MarketWise, Brian taught thousands of traders world-wide._

_Brian's work has been published or written about in Technical Analysis of Stocks & Commodities, Barron's, Active Trader, Stock Futures and Options Magazine, and hundreds of online sites. He is best known for his daily technical analysis videos on www.alphatrends.net._

A Trader's Work Ethic

By Adrienne Toghraie

You have been in training all your life to condition yourself to a work ethic that you are now applying to trading. The question is: Is it working for you? By that I mean, are you effective in producing a profit that is in alignment with your system or methodology? If the answer is no, read on. While there can be at least a 100 different ways that you self-sabotage your efforts, trading too many hours or too few hours will definitely be one of them.

Is there a doctor in the house?

Brian was a top student all through school and went on to become a doctor. He prided himself on being the
one who would work the longest hours and eventually was running a highly successful practice. Ten years into his business, Dr. Brian, who always appeared to his patients to be full of life, was suffering from exhaustion. When he was forced to cut back to an eight hour day, he discovered trading. Gradually, he extended his trading hours to his normal sixteen hours a day. Brian needed to learn that the same work ethic in becoming a successful doctor did not apply to becoming a successful trader.

**How much time is optimal for trading?**

The optimal time for trading is the time you are experiencing a high level of what I call vital-energy. This is when you are the most focused, "in the zone," and less likely to sabotage your efforts. Trading requires a performance state of mind in order to be consistent, disciplined, and confident enough to ward-off feelings of possible loss.

**Recipe for trading time work ethic:**

1. Create as much high vital-energy time by making the best choices for your physical, emotional, mental and spiritual self.

2. Monitor your level of energy on a scale of 1-10 with 10 being your highest energy before the start of your trading day and after taking each trade.

3. If your energy is low for the day, then pull back on your risk or do not trade.

4. If your high-energy time is only 2 hours in the morning take a break and do some physical and relaxation exercises, eat a light portion of protein. Then get back in the game until your energy begins to drop.

5. If you cannot recover your energy in the afternoon or you can only muster up two hours of high-energy time, only trade two hours.

**What is the point of earning profits in trading only to give them back?**

If you want to have the right work ethic for trading, let go of your preconceived notions of what has worked for you in the past. If the amount of time you spend trading is not working for you now, you need to re-assess your work/time-strategy. Stick to your highest energy time in the day and more likely you will find that you will earn higher profits. Just like Brian, who has chosen to work a 2-hour trading day and 6-hours to practicing medicine, you may well find that less is more.

This article was originally published in *A Lesson A Day For Traders*, an ebook by Adrienne Toghraine and Antonia Weeks, and is reprinted here with their permission.

Since 1994, Adrienne Toghraine and Antonia Weeks have worked together on nine Trading on Target books, and one fiction book, *Shaman*, which will be out in 2008 as well as hundreds of articles. Antonia has been an indispensable part of Adrienne’s development as a writer, as well as the main editor in most of her writings.

As a trader’s coach, Adrienne has worked with many of the most successful traders in the industry. At the same time, she has turned some seriously struggling traders into success stories that are an inspiration to even the most jaded traders. She has been a speaker for most of the major trading conferences around the world and has been featured in the press, and on radio and television as one of the leaders in her field.

Antonia, whose experience includes being a stockbroker and partner in a commodity’s trading system development firm as well as a keynote speaker, has been an award-winning freelance writer, editor, and consultant for over two decades

For more information, please visit their website, [http://www.tradingontarget.com/](http://www.tradingontarget.com/)

**Technical Analysis Using Multiple Time Frames by Brian Shannon**
Many books on technical analysis rehash the same ideas that have been presented for more than seventy years. Shannon does something different. He presents a comprehensive explanation of market psychology and uses this as the basis to understand the reasons behind market action. From that starting point, he presents a complete methodology to profit from this knowledge.

He acknowledges the importance of traditional technical patterns, but presents them within the context of investor psychology. In this respect, he is updating Edwards and Magee’s classical explanations of chart patterns. A simple four stage paradigm of market action serves as the starting point to understanding how emotions drive the market.

Trading tactics and risk management make up the bulk of the book. As the title suggests, the importance of viewing the market from different time frames is emphasized and amply illustrated.

Besides presenting the basics of technical analysis within a usable framework, Shannon offers valuable original insights into trading.

Volume Weighted Average Price (VWAP) is among the most widely used institutional trading benchmarks. It is calculated by adding up the dollars traded for every transaction (price multiplied by number of shares traded) and then dividing by the total shares traded for the day.

\[
VWAP = \frac{\sum \text{Number of Shares Bought} \times \text{SharePrice}}{\text{Total Shares Bought}}
\]

It is used to evaluate a trader’s performance. If the price of a buy trade is lower than the VWAP, then it is considered to be a good trade. The VWAP is used by large traders to evaluate performance, but rarely considered as a valuable piece of information by market analysts. Shannon suggests that this is an area that individual traders should study and find ways to profit from. He provides an example of how to apply the concept on an intraday basis.

He also presents some valuable information on short interest. More on that idea can be found in an article elsewhere in this publication.

Overall, Shannon has authored a readable and valuable book. The novice technician can benefit from his step-by-step approach while the more experienced technician will gain insights from his perspectives that should allow for testing some new trading strategies.


**More on Binary Options: Bungees**

*By Mike Carr, CMT*

Last month’s article on binary options prompted several inquiries on the subject. This month, we present more specific information. These contracts are available at HedgeStreet.com, similar products may be available on other exchanges.

HedgeStreet Bungees (limited risk futures) enable traders to potentially profit from rising or falling prices
while limiting risk exposure to extreme price changes in volatile markets. These cash-settled contracts offer traders a variable payout structure while limiting the value of each contract at the upper and lower ends of each Bungee's range if the value of the underlying moves above the cap or below the floor. A trader's potential loss will not exceed the amount invested, and the potential gain is limited by the contract's cap (for buyers) or floor (for sellers).

Like a traditional futures contract, Bungee contracts are bought if the trader expects the price to rise, or sold if it's expected to fall. Traders gain or lose depending on how much the underlying price goes up or down. Bungees have total contract values of between $100 and $500, depending on the contract's range and tick value. Likewise, the gain or loss per tick varies depending on the contract, but ranges from $.01 to $1.00.

There are several unique Bungee contract features:

- Small contract values ranging from $100 to $500
- Short-term contract durations of 1 week
- Well defined risk and reward payout structure

The cash requirement is the maximum that can be lost if the underlying ends at or below the floor (lower level) for buyers, or at or above the cap (upper level) for sellers. For a buyer, it is the contract price (calculated as the number of ticks above the floor, multiplied by the tick value). For a seller, it is the total contract value minus the contract price.

Final payout is based on the expiration value of the underlying asset relative to the Bungee's range. If the underlying asset expires at or below the floor, the payout for the buyer is $0 and the payout for the seller is the contract's maximum value. If the underlying asset expires at or above the cap, the payout for the buyer is the contract's maximum value and the payout for the seller is $0. If the underlying asset expires between the floor and the cap, the buyer receives $X per tick above the floor, up to the expiration value and the seller receives $X per tick below the cap, down to the expiration value.

As an example, we can consider a contract on the Euro/US Dollar exchange rate. This would be quoted as 3PM EUR/USD 1.3900 to 1.4100 (W) Bungee. This means that it expires at 3 PM at the end of the week. The total contract value is $200.

Assume you are bullish on the spot EUR/USD, and it is currently trading at 1.3982. You decide to be a buyer. You enter the following order, which is slightly below the market:

Buy 1 3PM EUR/USD 1.3900 to 1.4100 (W) Bungee at 1.3962

As a buyer, the price you pay to purchase the contract is the number of ticks above the Bungee's floor, multiplied by the tick value for the asset. Since each underlying EUR/USD tick movement of 0.0001 is equivalent to $1, your cost to initiate this trade (the "contract price") will be $62 (plus an exchange fee), calculated as follows:

1.3962 (initial price) - 1.3900 (floor) = 0.0062 (62 ticks) * $1 tick value = $62

Assuming your order is executed, you are long at 1.3962. The person on the other side of the trade, the seller at 1.3962, had a cost of $138 (plus an exchange fee), calculated as follows:

$200 (contract value) - $62 (buyer's contract price) = $138

Alternatively, the seller's cost can also be calculated as the number of ticks below the Bungee's cap, multiplied by the tick value for the asset:

1.4100 (cap) - 1.3962 (initial price) = 0.0138 (138 ticks) * $1 tick value = $138

There are several possible scenarios at the time of contract expiration:

1. The market moves against the buyer's long position and the EUR/USD expires below 1.3900. The buyer can only lose the initial cost, which is the maximum risk, of $62 (plus exchange fees).
2. The buyer holds the Bungee to expiration as the market is rising, and the contract has an expiration value of 1.4025 for the 3PM EUR/USD. The buyer's payout is $125 (less exchange fees), calculated as follows:

\[ 1.4025 \text{ (expiration value)} - 1.3900 \text{ (floor)} = 0.0125 \text{ (125 ticks)} \times 1 \text{ tick value} = 125 \]

This $125 payout reflects a return of the buyer's original cost of $62 plus a profit of $63.

3. The buyer holds the Bungee to expiration as the market rises strongly, and the contract has an expiration value of 1.4140 for the 3PM EUR/USD. Since the expiration value exceeds the cap, the buyer's payout is the contract's maximum value, or $200 (less exchange fees), calculated as follows:

\[ 1.4100 \text{ (cap)} - 1.3900 \text{ (floor)} = 0.0200 \text{ (200 ticks)} \times 1 \text{ tick value} = 200 \]

This $200 payout reflects a return of the buyer's original cost of $62 plus a profit of $138.

When the expiration value is above the cap, the buyer's payout is limited to the contract's maximum value (in this case, $200).

4. The Bungee is trading at 1.4001 with 2 days until the contract expires. The buyer has a change of market view and decides to get out of the position prior to expiration. If the long position is liquidated at 1.4001, the net profit would be $39 (less exchange fees), calculated as follows:

\[ 1.4001 \text{ (liquidation price)} - 1.3962 \text{ (initial price)} = 0.0039 \text{ (39 ticks)} \times 1 \text{ tick value} = 39 \]

These contracts may not offer hedge fund-style paydays, but they do offer the ability to offset risk in smaller accounts.

This article is adapted from material available online at http://www.hedgestreet.com/howto/bungees-trading/
This site provides information about and updates on the Gurk Oscillator or (G.O.), which is a short-term market overbought/oversold trading indicator.

"It can help you trade the market or help you to better time your portfolio entry and exit points. New signals will register anywhere from a few days to a couple weeks apart. In general when the G.O. gets overbought it is a better time to be selling; and when the G.O. gets oversold, it is a better time to be buying. I have further refined the buy or sell signals, by indicating a "turn date" for when the oscillator is expected to change trend direction. Either moving from overbought towards oversold or vice versa. Just like the tide changing from high tide to low tide or low to high, the G.O. gives an indication of when that change is going to occur. It does not always exactly nail which wave washes up the beach the furthest before the tide goes out; however, it generally does give a good signal of when the tide is going to change. And sometimes it does nail it. As with any indicator, it is never 100% accurate, and you should take your own steps to protect or stop out in case it gives a bad signal or moves further than your threshold.

Usually the G.O. ranges from around -40 or -50 to +40 or +50; however, it can reach levels higher or lower and the extreme readings do not always indicate a stronger signal. In fact, sometimes it could be just the opposite. I have found that the +/-20 level tends to be significant. If the oscillator travels lower than -20; and then I can project that a "turn date" is coming for the G.O. to turn and go up, it is generally a good time to buy. Conversely, when the oscillator is above +20, and I can project a turn date coming for the G.O. to turn and go lower, it is a better time to sell. I will announce these signals when I see them, by stating buy or sell. After the turn date, I generally state if the model has you holding. Sometimes it is very unclear until additional days of trading data are factored in to proclaim the turn date. I will generally post this in the adjoining commentary, as the signal may be unable to identify until after the fact. Typically the signals go from buy to sell or sell to buy, and it is best to hold your position until the signal reverses from one to the other. Since this is not always the case, I will often go to neutral, when the signals are not clear. As I stated above, it does not always predict which wave washes up the beach the furthest, so sometimes it is better to trade out when you see a good level. Very short term traders can try to catch each wave with the knowledge of which way the tide is moving, but I am not trying to catch every wave with the G.O. In addition, sometimes I can see a turn date coming before the G.O. gets above or below the significant level of +/-20. I will go to neutral in this case. You can think of these instances in comparison to a storm blowing by off coast. At these times the tide stays elevated without going to a normal lower tide level, before it goes higher again. In a normal market, the signals will travel evenly back and forth from buy to sell just like the tide from low to high. Often, outside factors are the cause of two same signals in a row, and extra caution is warranted.

Whether you are using the oscillator to trade the market. or help you enter or exit portfolio positions, it is meant to be used as a tool to give you help in your own decision process. It is calculated for the broad market in general, not individual stocks. I use various market internals such as volume, advances and other data in the calculation. Personally, I trade the S&P 500, but people use it to help them trade bonds and other vehicles. As stated it is merely a tool to aid you, use it at your own risk.”

Musings of a Trader (http://musingsofatrader.blogspot.com/)

Isam Laroui, CMT, has been trading stocks professionally since 1996, first at a couple of Wall Street proprietary trading firms, then independently starting in 2004. After years of using rudimentary technical analysis in his trading, he set out to get his CMT designation, which he earned in 2006.

In a recent post, Isam discussed contrary opinion:

“Contrarian Investing: Pitfalls and Misconceptions
The old quip "Just because you're paranoid doesn't mean they're not out to get you", to which I'll add: "and even less that they won't get you" nicely illustrates a very common misconception when it comes to contrarian investing. In its simplified version, the misconception goes something like this: if a majority of people think something bad is going to happen then it won't happen.

On the face of it, this sounds ludicrous, doesn't it? And yet that is essentially what many market strategists have been saying for the past month in one form or another. They point out that an overwhelming majority of economists, various pundits, and now even our President-elect have been warning us that 2009 will be a disastrous year with rapidly rising unemployment, rapidly falling economic activity and more generally alarming statistics all around. This, the would-be contrarians contend, is proof enough that all the bad news have been discounted and that investors should position themselves, against the majority, for a better-than-expected 2009.

The problem with this line of reasoning is that its underlying assumption, essentially the folk version of Contrarian Theory, that most people are wrong most of the time is just plain wrong. Martin Pring, in his excellent Investment Psychology Explained, reminds us that the Theory of Contrary Opinion says that "the crowd (i.e. the majority of investors or traders) is actually correct most of the time; it is at turning points that they get things wrong". As any behavioral economist will tell you, accurately gauging the majority opinion is extremely difficult to start with. And even if one could correctly (and not only anecdotally) assess what the majority opinion actually was, "this knowledge [would] still result in frustration, because the crowd frequently moves to an extreme well ahead of an important market turning point". As John Schultz wrote in a 1997 Barron's article: "The guiding light of investment contrarianism is not that the majority view - the conventional, or received wisdom - is always wrong. Rather, it's that majority opinion tends to solidify into a dogma while its basic premises begin to lose their original validity and so become progressively more mispriced in the marketplace". In other words and to paraphrase Keynes, the crowd can stay irrational much longer than a trader can stay solvent.

The fact that so many people are making the contrarian argument that 2009 will be better than expected compounded with the fact that many things that are widely expected to go right could go very wrong, the most important of which, in my opinion, being the stimulus package (remember how it was supposed to be signed on Inauguration Day, then before February and now before March) lead me to be very wary of the contrarian bullish case. I don't doubt that the market could mount a few technical counter-trend rallies throughout the year but the idea of a sustained bullish move seems a little extravagant.

After being so wrong for so long, the majority opinion may unfortunately get this one right: 2009 may indeed be a very bad year."

We would like to continue highlighting other valuable resources for traders. If you have a blog that would benefit members, please send us a note at editor@mta.org so that we can feature it.

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The Myth of Buy and Hold
by Kim Husebye, CFA, CMT
The above chart of the S&P 500 clearly illustrates the weakness of a buy-and-hold investment strategy. Investors who have taken this approach have made little or no progress over the last ten years. When the annual hidden fees in mutual funds are deducted, the results are lower still. As a matter of fact, since mutual funds were first introduced, the majority has never managed to match or exceed the results of the corresponding index.

In 2008 the average stock mutual fund lost as much as 50%, virtually eliminating all the gains since 2002. In order just to break-even, the needed gain going forward is 100%, or a doubling. Doubling one’s money in the stock market is not that common, particularly when employing a buy-and-hold strategy. The following table shows the danger of allowing your capital to erode.

<table>
<thead>
<tr>
<th>Amount of Loss</th>
<th>Percent Gain Required to Recover the Loss</th>
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<tbody>
<tr>
<td>10%</td>
<td>11%</td>
</tr>
<tr>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>30%</td>
<td>43%</td>
</tr>
<tr>
<td>40%</td>
<td>67%</td>
</tr>
<tr>
<td>50%</td>
<td>100%</td>
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</table>
Active portfolio management seems to be a much more sensible approach, particularly in today's volatile economic climate. A portfolio manager who is equally skilled in technical as well as fundamental analysis should be able to protect your capital in bear markets and build profits in bull markets.

This article was originally published at http://www.kimhusebye.com/reports/featurestory.html and is reprinted with permission of the author.

Kim Husebye, CFA, CMT, is licensed as an Investment Advisor and Portfolio Manager in the province of Ontario, and has more than twenty years' experience in brokerage and investment management. Kim graduated from the University of Toronto with a Bachelor of Science and double majors in Commerce and Applied Mathematics. In 1994 he earned the Chartered Financial Analyst designation (CFA), and in 2006 he earned the Chartered Market Technician designation (CMT). In 2006 Kim attended Investor’s Business Daily Masters Program in Los Angeles, which was taught by Bill O’Neil and six of his top portfolio managers. In 2007 he successfully passed the associated exam.

Building a Better CMT Program

by Brad Herndon CFA, CMT
Accreditation Committee Chair

Much work has been completed since the MTA Board of Directors embraced an exciting vision for the CMT program in September 2008. It was during the September strategic planning committee that the board established the new CMT Director position, and authorized the creation of the CMT Test Development and CMT Advisory Committees.

Jeanette Young, CMT Director, and the CMT Test Development Committee were hard at work during the past 6 weeks writing many new questions for the CMT exams. The members of the CMT Test Committee are Mark Cremonie, Ken Tower, Stephen Suttmiel, Jeremy Berkovits, Jim Wagenhofer, Julia Bussie, Greg Bender, Nora McAuley, Gitin and William Geisdorf. Their primary objective is to ensure that the CMT exams have a fresh supply of new, high quality questions to complement the current exam questions. To date, the team has written many questions for the CMT Test data bank and has also created a new CMT 3 practice examination as a study guide.

The CMT Advisory Committee officially began its work with the following members agreeing to serve: Julie Dahlquist, Robert Colby, Charlie Kirkpatrick, Hank Pruden, Saleh Nasser and Tim Snavely. The dedicated work of these individuals will ensure that the CMT curriculum is up-to-date on new developments and research pertaining to technical analysis. Additionally, committee members will assume responsibility for recommending changes to the CMT reading assignments to provide the very best coverage of the CMT Body of Knowledge.

We are very pleased with the progress over the past six weeks and excited about building a better CMT program for the future.
MTA Announcements

MTA Board of Director Nominations
For the fiscal year commencing July 1, 2009, two (2) At-large Board positions are up for consideration for a 3-year term. Over the next month, we are encouraging any Member, Honorary Member or Emeritus Member in good standing to submit your name for consideration to nominations@mta.org. 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.

CMT Exam Registration - Sign Up Now!
The Spring 2009 testing window will be April 23rd - May 2nd. It is our experience that those who wait until the end of registration to sign up, encounter difficulty securing their desired time, date and location, as this is available on a first come first serve basis. Sign up today to ensure your preferred time, date and location! Contact Marie Penza, 646-652-3300, for information on the CMT Program and/or to schedule your exam. For detailed instructions on how you can register online, please click here.

CMT Institute (CMTi) - Registration is Open!
It takes a lot of time and dedication to prepare for the CMT Exam. Sign up today to ensure ample preparation time, and gain instant access to valuable archived CMTi classes. For more information on the CMTi prep course, please visit the CMT Institute page on mta.org.

CMT Article
Recently, Mike Carr, CMT published an article in SFO Magazine about the MTA's CMT Program, his journey towards receiving the designation, and the value one gains from completing this process. If you haven't already read it, or wish to pass this along to other interested parties, we encourage you to do so. To view this article, please click here.

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<td>Today's Job Market for the Market Analyst - Panel Discussion</td>
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<td>11/21/08</td>
<td>MTA Market Forecast Panel Discussion - LV Traders Expo</td>
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<td>12/16/08</td>
<td>A Technician's View in these Volatile Markets - Alan Shaw</td>
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<td>01/15/09</td>
<td>From the Pro's: Four Technical Analysis views of 2009</td>
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<td>02/17/09</td>
<td>Marrying Option Strategy with Technical Analysis to Maximize Profits - AJ Monte, CMT</td>
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<td>02/23/09</td>
<td>Market Forecast Panel - NY Traders Expo</td>
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<td>(Note: The link to register for the webcast will be available shortly)</td>
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*REGISTRATION OPEN*

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<td>Maximize the Probability of Being Profitable at Some</td>
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<td>Sentiment</td>
<td>Phil Roth, CMT</td>
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<td>04/16/09</td>
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<td>05/05/09</td>
<td>Dow Theory</td>
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Check out the Webcast Archives to watch the archived webinars.

Visit the Upcoming Events page on mta.org to find out more details on the events listed above.