Letter from the Editor

Welcome to the first electronic issue of Technically Speaking. We think we have selected some articles to demonstrate the advantages of switching publishing formats.

You'll notice that we have highlighted some blogs that provide current technical commentary or research. We hope you'll find this useful, and we hope you'll contribute by identifying blogs worth highlighting to other members.

We also have a long and detailed article from Martin Pring. Confined to a print format, we would have been forced to edit this article because of space limitations. Freed from that, we are able to present a new indicator to our membership, exactly as the author wants it to be presented.

The new format allows us to rapidly publish 'interim' newsletters. Over the next few weeks, we will have a short, time-sensitive analysis that would not be possible in the print format. We are going from a publication schedule which required six weeks of lead time to one where we could publish something the day we receive it.

That creates opportunities to consider the MTA as your first stop when distributing market calls. We will also be featuring more reviews. In coming issues, we hope to provide more information about books, software and other products that TA professionals will find useful.

Please let us know what you think. Send your comments, article ideas, or articles to editor@mta.org.

Sincerely,

Mike Carr, CMT

Letter from the Executive Director
Dear MTA Members and Affiliates,

I am pleased to present to you the **NEW Technically Speaking e-Newsletter**. It has been the MTA’s goal to become more technology proficient in order to better serve you, the membership. With this new electronic format, we now have less limitations in regards to the number of submissions, length of articles, quality of images, etc. We urge you to submit any feedback and articles that you may have to our editor, Mike Carr, CMT, at editor@mta.org.

In addition, if we receive articles that need to be posted in a more timely fashion, we will also be creating a page on the mta.org website where we will showcase these works. It will be a section that is available for the public to see, however only the MTA membership will be able to have their work showcased here. We also hope to create other new sections for product reviews and interviews. These topics will be discussed and introduced in the near future.

Again, we welcome your feedback, and hope you enjoy this **NEW** electronic version of the **Technically Speaking Newsletter**.

Sincerely,

Tom Silveri

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**The Special K, a New Indicator**

*By Martin Pring*

Recently I started a new Arabic book specifically designed for Middle Eastern markets in conjunction with my friend and partner, Assad Hamzeh, President of the Jordanian Technical Society (JTAS). As so often happens in such projects I discovered a new indicator, which I have called the “Special K”. This article is by way of introduction.

**The KST, the Forerunner of the Special K**

Before we examine this indicator itself, I would like to review some of the principles underlying KST concept since this is the foundation on which the Special K is built. The acronym KST is a recognition of the fact that there is no holy grail because you know it’s not a Sure Thing. It is constructed from a summed rate of change, a concept that I was first introduced to by my late friend Ian Notley, who along with Sedge Coppock of Trendex pioneered this approach in technical analysis.

The KST is a smoothed momentum series that tracks the short (3-6-weeks), intermediate (6-weeks -9-months) and long-term (9-months – 2-years). In effect each KST tries to replicate one of the three trends displayed in Figure 1. Since I first introduced it in the mid 1990’s the KST concept has been expanded to embrace intraday time spans. However, the more random nature of the data makes it less useful than its application to daily, weekly and monthly charts.
The KST was based on the idea that price at any one time is the function of many different time cycles. For example, a 10-day ROC merely monitors cycles close to the 10-day parameter and ignores all others. An analysis of this time frame in isolation means that you are limited to a partially opened window of what is really going on. It seemed to me that combining several rate of change time spans into one indicator achieves two objectives. First, it could include several widely different time parameters and therefore reflect more cycles. I settled on four, in the spirit of simplicity, though that could obviously be extended ad infinitum. The second objective was to create an indicator that would also reflect the large price swings of the particular trend (short, intermediate or long) that was being monitored. These large wave forms would be emphasized because the longest of the four time frames would be given the greatest weight. The result was an indicator that was far from perfect, but did seem to reverse direction reasonably close to the final turning point yet retained the big swing characteristics of the underlying trend.

Chart 1, for instance, shows the recent gold price action along with the intermediate KST. The moving average for the KST is a 10-week EMA and that for the price is a 65-week EMA. The light shaded areas show when the KST is above its EMA and vice versa. The ellipses in the summers of 2005 and 2006 show whipsaw signals. Not all securities respond to the KST as accurately as this of course and that’s why one should never use one indicator in isolation but build a picture based on a consensus of proven tools.

Figure 1: The Market Cycle Model originally developed by Ian Notley.
Chart 1: Gold with an intermediate-term KST.

The Special K
The Special K combines each of the trends in Figure 1 into a single indicator. In effect it attempts to replicate the path of the (dashed) short-term trend. If a momentum indicator were calculated for this series it would appear as a horizontal trading range, like all oscillators such as a stochastic, MACD or short-term KST. However, if all three KSTs are summed, a series not unlike the short-term trend in Figure 1 is the result. This means that you can immediately gain perspective as to whether a short-term signal is being triggered when the prevailing trend is in its infancy, half way through or when it is overextended. An example for the NYSE Composite is shown in Chart 2.

Chart 2: The NYSE Composite with Special K and a long-term KST.
The Special K comes in two formats and has two great advantages. The first format appears in Chart 2, which features weekly data for the special K and long-term KST, an indicator designed to reflect the thick line in Figure 1. The formula for the Special K is shown in Table 1.

**Special K Formula for Weekly Charts**

*ROC Time Span EMA of ROC Weight Total*

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**Special K Formula for Daily Charts**

*ROC Time Span SMA of ROC Weight Total*

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KST

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**Table 1: Special K Calculation Parameters**

As you can see all of the smoothings are achieved with an EMA. The smoothing of the Special K itself, the dashed line, is a 26-week simple moving average of a 52-day simple moving average. This format gives us great perspective concerning the direction and maturity of the primary trend. The thick solid arrows at B and C are pointing up the fact that in many situations the final high in the Special K and that of the price itself often develop in tandem. Since the indicator’s construction assumes a four year rhythm this does not happen when the cycle is truncated or extended. In the case of extensions negative divergences are set up. This can be seen from the two solid upward and downward pointing arrows following the peak at A. The three arrows joining the Special K to the long-term KST show that the former either coincides or leads the latter. Major signals are generated when the Special K violates a trendline and this is confirmed with a trendline break in the price. Four major signals were generated in the last 12-years or so, with the only failure being limited to the 1998 sell signal. Occasionally the Special K lends itself to the formation of price patterns. We see this in 2000-2001 and 2004-2008.

Chart 3 features the highly cyclic CRB Composite. The arrows joining the Index to the Special K show that time after time the two series reverse pretty closely to each other. Naturally it’s an easy matter to look back and identify these turning points with the benefit of hindsight. Unfortunately there are no methods for consistently deciding when the Special K has turned for the final time in the cycle. Obviously though, if the
indicator moves beyond its overbought or oversold zones the odds are much higher. Occasionally it’s possible to construct trendlines or observe a reversal in the peak trough progression of higher highs and lows etc. That’s where the second format for the Special K comes in.

Chart 3: CRB Index with Special K and long-term KST

This one compares the special K to a daily KST and uses a different formula. This time the smoothings are achieved with simple moving averages (SMA) and the “signal” line is a 100-day SMA smoothed by another 100-day SMA. The time spans are basically the same as those in the weekly formula. Each week is simulated as five days, so holidays are ignored. Chart 4 features the Saudi General Index and is taken from our Arabic book on technical analysis. The ultimate peak and trough for the Index were also flagged by this approach at arrows A and B. The indicator, for the most part is too jagged to permit consistently reliable MA crossovers.

Chart 4: Saudi General Index with Super K in middle and short-term KST

The daily short-term KST is interpreted as any horizontal oscillator, whereas the Special K is more of a
primary trend swing indicator as it usually experiences rising peaks and troughs during a primary bull market and falling ones in a bear trend. As a result the Special K is normally plotted with 3 or more years of data. If we also plot the regular KST underneath two benefits are derived. First, the gyrations in the KST can be used to help identify short-term reversals in the Special K. For example, if the KST is overbought and reversing as in July 2006 and March 2007 in Chart 4, it is more likely to result in an imminent reversal in the trajectory of the Special K. In this case the oversold buy signal in November 2006 was a contra-trend one and there was no real reversal in the Special K. When the KST reverses to the upside and there is no Special K response the chances are that the bearish intermediate and long-term forces are dominating. Under such circumstances the Special K is most likely going to register a new low, thereby confirming that the main trend remains bearish.

There is a second, the way in which the short-term movements can really help in deciding whether a specific short-term KST buy or sell signal is going to work or not. In Chart 5 we see several small horizontal lines. These have been placed at the point where the Special K violates a previous low or surpasses a previous high. In other words, the indicator is confirming that the peak/trough progression is extending. In most situations this is a signal that the prevailing up or downtrend will continue. In many cases this downside break develops close to the turning point in the KST itself. The March 2006 signal was an exception to this rule. This happens because the longer-term time spans included in the construction of the Special K are already pushing down hard in a bear or pulling up with strength in a bull market. The net result is a strong signal that a new leg in the primary trend is likely. That type of evidence is not usually evident when the KST is studied in isolation.

Chart 5: Saudi General Index with signals annotated

There are a lot of advantages to using the Special K. It’s certainly not a perfect indicator, especially when the four year cycle is truncated or extended. However, in a lot of instances it does offer useful signals of primary trend reversals. Equally important, it provides long-term perspective for short-term entry and exit points. Perhaps its most useful contribution lies in the area of relative strength and sector rotation where extended cycles are far less prevalent, but that’s the subject for another article. Incidentally, both Special K formats can be plotted free of charge for any US or international symbol carried by Yahoo at my web site, Pring.com.
The Heretics of Finance: Conversations with the Leading Practitioners of Technical Analysis by Andrew W. Lo and Jasmina Hasanhodzic

Reviewed by Mike Carr, CMT

The interview format has been popular in trading books since Jack Schwager published Market Wizards: Interviews with Top Traders in 1989. While that book was informative and useful, many authors who have attempted to replicate the success of Schwager have missed the mark. The Heretics of Finance builds on the model pioneered in Market Wizards and is every bit as compelling as that classic. In the end, Lo and Hasanhodzic deliver an entertaining book that teaches practitioners at any level something about technical analysis.

The publisher (Bloomberg Press) writes, “Technical analysis continues to grow in popularity, attracting a devoted following among traders and investors, despite long-held skepticism among academics and practitioners. To find out why technical analysis draws such loyal fans, distinguished MIT finance professor Andrew Lo and research colleague Jasmina Hasanhodzic interviewed the experts who have defined the field.”

Readers of Technically Speaking are already aware of the utility of the technical analysis as well as the arguments of skeptics. This book presents the views of thirteen gurus such as Ralph Acampora, Laszlo Birinyi, and John Murphy and allows them to provide their unedited thoughts on such topics as the role of creativity, emotion, and intuition in their work. The interviews also offer insights into the specific technical strategies and applications that contributed to their success.

The first half of the book follows the standard interview format and focuses on the uniqueness of each technician’s career. The questions provide an opportunity to learn how and why they learned technical analysis and how each believes their style of technical analysis is unique.

The second half concentrates on technical analysis and addresses questions such as these:

- Did the lack of validation by academics ever cause you to doubt technical analysis?
- Can technical analysis be applied to other disciplines?
- How do you prove the validity of the method?
- What is the role of luck in technical analysis?
- Are there laws that underlie market action?
- What traits characterize a highly successful trader?
- How do you test patterns before you start using them with real money?

This is the section that makes this book unique. The answers are provided by subject, giving the reader an opportunity to see what diverse opinions on each question and synthesize the words of these experts into usable information.

Interviewees include Ralph J. Acampora, CMT; Laszlo Birinyi; Walter Deemer; Paul Desmond; Gail Dudack, CMT; Robert J. Farrell; Ian McAvity; John Murphy, CMT; Robert Prechter, CMT; Linda Raschke; Alan R. Shaw, CMT; Anthony Tabell, CMT; and Stan Weinstein.

Andrew W. Lo is the Harris & Harris Group Professor of Finance at the MIT Sloan School of Management and the director of MIT’s Laboratory for Financial Engineering. His previous books include The Econometrics of Financial Markets, A Non-Random Walk Down Wall Street, and Hedge Funds: An Analytic Perspective. He is also the founder and chief scientific officer of AlphaSimplex Group, LLC, a quantitative investment management company based in Cambridge, Massachusetts.

Jasmina Hasanhodzic is a research scientist at AlphaSimplex Group, LLC, where she develops quantitative investment strategies and benchmarks, including the CS 130/30 Index. She received her PhD from MIT’s Department of Electrical Engineering and Computer Science, where she proposed new methods for
automating technical analysis and replicating hedge fund betas. Her work has appeared in the *Journal Of Investment Management* and *Institutional Investor's Alpha* magazine. A summa cum laude graduate of Yale College, Hasanodzic is a recipient of a number of awards for academic excellence and a member of several honor societies, such as Sigma Xi, the Scientific Research Society.

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**Binary Options Offer New Trading Tools**

*By Mike Carr, CMT*

While Warren Buffett suffers losses related to derivatives, or “weapons of mass destruction” as he referred to them several years ago, new products are becoming available to individual traders. And the limited risk makes them an ideal vehicle to consider for hedging, while the decreased supply of credit makes it harder for individuals to get badly hurt in the derivatives markets.

A binary option is similar to a bet on a football game, or for the gamblers out there it is very similar to an ‘over/under’ bet. Traders are taking positions on a ‘yes or no’ question that will be answered at a certain time. The payoff is determined in advance and is an ‘all or nothing’ proposition.

As an example, a trader can buy a binary cash-or-nothing call option on ABC stock with a strike price of 100 and a binary payoff of $100. If, at the future maturity date, the stock is trading at or above 100, the trader is paid $100. If the stock is trading below 100, then the trader loses the entire investment.

While similar in some ways to a traditional call option, binary options have several distinct differences. They are European-style options, meaning they can only be exercised at expiration. And, the payout is precisely known in advance, making them perfect for hedging.

Binary option contracts have long traded in the over-the-counter (OTC) markets. This involves trading without an exchange, where a contract is sold directly by the issuer to the buyer. Without a liquid market for trading, they were generally considered “exotic” instruments, and available only to large institutional traders.

Recently, these options have become available to the individual trader. HedgeStreet (http://www.hedgestreet.com/) is the first wholly internet-based, fully regulated market designed for those looking to trade near-term, liquid, cash-or-nothing binary options on equity indices (Germany 30, FTSE 100), commodities (crude oil, gold, silver) and currencies (EUR, GBP, CAD, CHF, YEN).

More recently, the American Stock Exchange (Amex) launched exchange-traded European cash-or-nothing binary options. Amex offers binary options on some ETFs and a few highly liquid equities such as Citigroup and Google. Amex calls binary options “Fixed Return Options”; calls are named “Finish High” and puts are named “Finish Low.”

The Chicago Board Options Exchange (CBOE) also offers binary options. CBOE offers binary call options on the S&P 500 and the CBOE Volatility Index (VIX). They do not offer any puts.

By moving from the OTC market and offering standardized binary options, a source of continuous quotations and liquidity is now available.

HedgeStreet offers the most variety to traders. Their contracts offer a fixed payout out of $0 or $100. As an example, the exchange may offer a contract on the price of February crude oil futures expiring at 2:30 PM on January 4. This is not the date that February crude expires, but January 4th represents the day the option expires. This hypothetical contract would have a strike price of 45.50.

If crude is trading above 45.50 at 2:30 on January 4th, a buyer of this contract would receive $100. The buyer receives nothing if the price is below that level. For those with a bearish outlook on crude, they could sell the contract and profit from a price decline.

HedgeStreet and other providers of binary options offer opportunities for trading profits or risk management on a wide variety of time frames. Their short-term nature makes them an ideal candidate to profit from news events, such as Fed meetings, without the margin requirements of more traditional futures contracts.
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 gain 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, commodities, 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 past rise of the US market, collapse of real estate, 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 the mathematical challenges of creating algos and, utilizing 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 to a top by 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.GLGE.GC.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).

*Past performance is no guarantee of future results.

Blogs of Note

By Mike Carr, CMT

With our new electronic format, it is easier for Technically Speaking to highlight valuable resources available to traders on the internet. Blogs often express nothing more than opinions, but some contain detailed research or valuable summaries of news and views from around the investment community.

Mebane Faber, CMT, maintains a blog called World Beta - Engineering Targeted Returns and Risk at http://worldbeta.blogspot.com/. This is a site well worth reading as he presents original research that can be often be used as presented, or serve as the starting point for your own research. A recent post was about the well-known January Effect in the stock market:

**Screes for the January Effect in Small Caps**

Here is a follow up to the article I wrote on the January Effect in small caps. It found the effect especially pronounced following a terrible year in stocks. The bottom quartile of stocks returned roughly 18% in the January following the worst 10 years for the S&P since 1927 with no down years.

The easiest method to take advantage of this effect is to go long a microcap ETF (IWC, PZI),
or for the more risk averse, go long a microcap ETF and short a large cap ETF (VTI, SPY).

Other research shops (Ned Davis being one) have found that the effect is even more pronounced for small caps that are down the most from their highs, and that the returns begin about now (mid-December).

Investors looking for more juice and risk could screen for a list of microcaps down the most this year, and go long outright or with a hedge. The charts of the stocks are nasty, most trade for around $1, and many have terrible fundamentals and are probably going out of business. What’s not to like? I have not done any research on these tickers so buyer beware.

Here are a few screens below. If an users have a screen they want me to run leave a comment and I’ll add it:

In the Russell 3000
Market Cap <$150 million and > $30 million
Ranked by how far they are down:

SSCC
CROX
SIL
CAR
SPSN
IDT
SRZ
BGP
MCGC
ANO

In the Russell 3000
Market Cap <$150 million and > $30 million
Down at least 80% from the 52-week high
Ranked by how many insider buy there have been in past 6 months:

AMPL
CMLS
PRS
ETM
GBE
CHTP
SIRF
RAME
SNIC
TRMA

Jeremy J.A. du Plessis CMT, publishes Investment Postcards from Cape Town at http://www.investmentpostcards.com/. This site includes a variety of research and serves as a “Best of the Web” summary for investment analysts.

A recent post, “Words from the (investment) wise for the week that was (Dec 15 – 21, 2008)” began:

“Americans have always been able to handle austerity and even adversity. Prosperity [greed!] is what is doing us in,” said James Reston, former New York Times journalist and Pulitzer Prize winner.

Another chapter in dealing with the current credit and economic adversity was written on Tuesday when the US Federal Reserve announced a no-holds-barred set of measures in a
determined attempt to fix the broken credit machine, revive economic activity and stem the deflationary tide.

The Federal Open Market Committee’s (FOMC) policy statement noted: “The Fed will employ all available tools to promote the resumption of sustainable economic growth ... In particular, the Committee anticipates that weak economic conditions are likely to warrant exceptionally low levels of the Fed funds rate for some time.”

Although the FOMC slashed the Fed funds rate to a target range of 0 to 0.25% – the lowest the central bank’s key rate has been on record – the Fed was actually simply aligning its target rate with the effective rate, thereby pushing the US into an era of ZIRP – a zero-interest-rate policy like that used by Japan for six years in its own fight against deflation.

The Fed’s communiqué also said: “The focus of the Committee’s policy going forward will be to support the functioning of financial markets and stimulate the economy through open market operations and other measures that sustain the size of the Federal Reserve’s balance sheet at a high level.” The statement discussed specific actions that would move the Fed further towards a quantitative easing approach to monetary policy.

President-elect Barack Obama told reporters the fact that the Fed had no more room to cut rates underscored the case for a big fiscal stimulus. “We are running out of the traditional ammunition that’s used in a recession, which is to lower interest rates,” he said according to the Financial Times. Word circulated that Obama may ask Congress next year to approve a stimulus plan of about $850 million.

Investors’ concerns about the outlook for the global economy deepened on the back of the Fed’s announcement, as seen from government bond yields plunging to record lows and a sharp sell-off in oil prices (despite the announcement of the largest supply cut in Opec’s history). Furthermore, the dollar also tumbled on worries about the US’s public debt expansion and the potential inflationary implications of the “printing press”, although a relief rally did take place on Friday. (Also see my post “Greenback slumped on the canvas”).

As far as stock markets are concerned, investors have again been shrugging off bad news – a pattern seen since the poor manufacturing and payrolls data of more than two weeks ago. “The newspapers may be giving us a parade of bad news, but the stock market is beginning to march to a different drummer,” said venerable newsletter writer Richard Russell (Dow Theory Letters). This is evidenced from the MSCI World Index (+2.4%), S&P 500 Index (+0.9%) and the MSCI Emerging Markets Index (+5.5%) all improving for a second week running.

The scamster Bernard Madoff’s Ponzi scheme also lied for a place in the history books, causing more billions to evaporate to money heaven – yet another example of how greed clouded the minds of people during the halcyon days. (Click here to track the fallout from the fraud.)

Bill King (The King Report), never one to mince his words, commented as follows: “Madoff allegedly engaged in a scheme that is similar to what the US government has been perpetrating for years – giving people benefits now and promising future benefits, even though the benefits are mathematically impossible to pay, by using new cash flows from taxpayers.”

On the bailout front, the White House gave Detroit their Christmas wish, announcing that General Motors (GM) and Chrysler will receive $13.4 billion in emergency government loans in exchange for substantially restructuring their businesses, according to Bloomberg. “Another $4 billion will be available to GM in February provided Congress releases the second half of the $700 billion TARP fund originally set up to bail out financial institutions.”

Some cheer has also been seen in the credit markets, with the TED spread (i.e. three-month dollar LIBOR less three-month Treasury Bills) declining by 43 basis points to 1.48% – the lowest level since the Lehman bankruptcy in September. Although this measure is moving in the right direction, credit spreads need to narrow further to indicate that confidence is returning
and liquidity is starting to move freely again.

The cost of buying credit insurance for US and European companies also eased as shown by the narrower spreads for both the CDX (North America, investment grade) index (down from 263 to 213) and the Markit iTraxx Europe Index (down from 214 to 191). High-yield credit indices also improved.

There is also some encouragement from the weekly average rates for US 30-year fixed mortgages having declined to 4.94% from 6.30% at the beginning of November, according to Zillow.com.

This weekly post includes a summary of what’s new in the investment community along with links to many of the full reports and is must reading for many traders every weekend.

We would like to highlight 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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**Helping the MTAEF**

*By Mike Carr, CMT*

The Market Technicians Association Educational Foundation (MTAEF) was formed as a nonprofit corporation in 1993. Its purpose is to encourage academia and university students to study technical analysis, leading to its broader acceptance in the industry.

Most of today’s investment portfolio managers received their MBA in the period when technical analysis was held in disdain by professors who adhered to the efficient market theories. The principal reason that many professionals believe in efficient markets is that their finance education included nothing but those theories.

The Educational Foundation hopes to reverse this strict emphasis on the old and dying investment theories by educating academics and persuading them to accept and teach technical theory. Already, courses in behavioral finance have become popular, and while behavioral finance has met considerable resistance from the founders of efficient market theories, the tide is beginning to change in favor of the reality we all know. If academics can accept that human behavior is the source for most the technical indicators, then, hopefully, we can persuade these new believers to teach both behavioral finance and technical analysis in investment classes.

Already, the Foundation knows of at least 40 universities that teach technical analysis in some form, either as a credit course or a section of an investment course. However, the MTAEF needs to increase the visibility of technical analysis as an academic discipline and could use your help in doing so.

"Technical Analysis" is a popular internet search topic. Unfortunately, there are more than 36,000,000 hits associated with this term. Not all of that information is useful. One way to increase the likelihood of academic researchers finding reputable sources of information is to create more links to the Foundation and to the MTA. To do so, we’d like to ask your help.

Many MTA members have web sites, and these sites commonly contain an “About Us” page. At the end of that page, consider mentioning your support of both organizations. A short paragraph could demonstrate your commitment to professional standards and might help increase the rankings of the MTA, the MTAEF, and your firm. This note could be as simple as:

Members of our firm are also members of the Market Technicians Association (www.mta.org) and we support the high standards of professionalism and ethics demonstrated by the MTA. This commitment includes supporting the Market Technicians Association Educational Foundation (www.mtaeducationalfoundation.org/) and their efforts to have technical analysis included in the curriculum of major business schools.
MTA Announcements

MTA FINANCIAL POSITION

The MTA is pleased to announce a successful audit for the fiscal year ending June 30, 2008.

The MTA recorded:

- Total Revenues of $1,545,817
- Operating Excess of $150,647
- Net Assets of $1,257,067 the majority of which is cash and certificates of deposit

These results were reviewed by our auditors, McGladrey + Pullen whom have satisfactorily issued our Financial Report. In addition the auditors have provided a Report to the Audit Committee of the MTA in relation to various internal control matters. We are pleased to say that for the fiscal year ending June 30, 2008 there were no audit adjustments and no recommendations for internal control improvement.

A complete review of these reports and related footnotes can be obtained on-line at www.mta.org on the Strategic Imperatives Section or you can contact diana@mta.org or 646-652-3300 and she will provide you with an electronic version of the report.

MTA Call for 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 two (2) months, 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. Our Committee will investigate these suggestions as well.