Letter from the Editor

In this issue of Technically Speaking, we provide a great deal of information on market breadth. An interview with well known technician Dick Arms provides insight into the work and current thinking of an industry legend.

Several articles detail a small part of the work of Dr. Humphrey Lloyd, unknown to the majority of technicians. Although trained as a pathologist, he has written widely on technical analysis and has developed unique and useful indicators.

In learning about Dr. Lloyd’s work, I personally was struck by the similarity to the life of a technician who came to the field late in life but produced more than many others who spend their whole lives researching market action – Arthur A. Merrill, CMT.

Both enjoyed great success in their original profession. Both brought the skills they employed in that profession to the markets. Both men were prolific authors, sharing their knowledge with all who wished to learn. But the most defining characteristic of both is that they can best be described as “gentlemen.”

This is an adjective that few aspire to in the current environment. Wall Street is more associated with greed than anything else today. But there are still gentlemen and gentlewomen in our field, and I strongly urge the young technicians to reach out to them and learn about technical analysis, and life, from these examples of the life well lived.

Sincerely,

Mike Carr, CMT

A Nontraditional Technician

By Mike Carr, CMT

It seems that technical analysis is a great second career for many successful people. Arthur Merrill is a well known example of someone who spent a lifetime succeeding as an engineer and finding possibly even greater success in his second career as a market technician. Dr. Humphrey Lloyd presents a similar story, with success in two professions and valuable contributions to the field of technical analysis.
Born and raised in the United Kingdom, Dr. Lloyd studied medicine there before he immigrated to the United States in 1958. He worked as a pathologist in Beverly MA from 1960 until he retired in 1997. For almost this entire time, he studied and traded the markets. In Dr. Lloyd's own words:

I became attracted to the problems associated with investing in the stock market in the early 60s, as I identified that many similarities existed between the mental act of making a diagnosis as a pathologist, and that of making a decision to invest in a particular stock or mutual fund. In pathology, one has to be correct close to 100% of the time if one wishes to avoid malpractice litigation. It is this need for certainty that is the undoing of the performance results of many physicians including me when they tackle the stock market.

Since my results were distinctly mediocre, I decided to learn everything I could about the whole process of investing to see if I could achieve any degree of mastery. I had embarked upon an adventure which has captured and help my interest ever since. I have been a student of the market for 45 years and have immersed myself in its voluminous literature.

Elsewhere in this issue, we present a summary of some of Dr. Lloyd's market wisdom. In those two paragraphs we see the critical elements that led to his success in the markets. A passion for the markets, a strong desire to succeed, and a humility to acknowledge mistakes led to an enviable career for any market technician, let alone one who enters the field on a part-time basis.

The voluminous literature of technical analysis is richer because of Dr. Lloyd. He has written books on market systems, options strategies, trading S&P futures and options, and managing your IRA. These books are:

- Spread Trading in Listed Options (Windsor Books, 1975)
- High-Profit/Low-Risk Options Strategies (Windsor Books, 1984)
- The RSL Market Timing System (Windsor books, 1991)
- Taking Your IRA to the Next Level (Traders Press, 2007)

Dr. Lloyd’s work is noteworthy for his meticulous attention to detail. This may be related to the fact that he created winning market systems before the widespread availability of software programs made backtesting a painless process. He developed ideas visually, crafted formulas on pencil and pencil, and then manually verified that they worked. Looking back at this accomplishment, one wonders if most modern-day technicians would have the discipline and drive to undertake such a study.

Among his most significant accomplishments is the development of the Moving Balance Indicator (MBI). This indicator is designed to identify extreme overbought or oversold market conditions. It incorporates three breadth measures:

1. The A/D Component: 10-day moving average of advancing issues divided by the 10-day moving average of declining issues. This figure is multiplied by ten.
2. The Advancing Volume Component: 10-day moving average of the percentage of advancing volume is of the sum of advancing and declining volume. This is multiplied by three.
3. The TRIN Component: A value derived from the 10-day moving average of the TRIN. The values are shown in the table below.

<table>
<thead>
<tr>
<th>MBI TRIN</th>
<th>Assigned Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.6</td>
<td>12.5</td>
</tr>
<tr>
<td>0.7</td>
<td>12.0</td>
</tr>
<tr>
<td>0.8</td>
<td>11.5</td>
</tr>
<tr>
<td>0.9</td>
<td>11.0</td>
</tr>
<tr>
<td>1.0</td>
<td>10.5</td>
</tr>
<tr>
<td>1.1</td>
<td>10.0</td>
</tr>
<tr>
<td>1.2</td>
<td>9.5</td>
</tr>
<tr>
<td>1.3</td>
<td>9.0</td>
</tr>
</tbody>
</table>
MBI is the sum of the three components multiplied by 1.5.

This powerful indicator incorporates various measures of breadth to confirm the market action. It is considered to be an invaluable tool by those who use it.

Charts showing examples of this indicator can be found in the article, "MetaStock code for the MBI."

Matthew N. Xiarhos, CFP, Founder & Chief Investment Officer of Absolute Return Portfolio Management LLC, is a proponent of this indicator. He recently wrote:

As far as analysis of the indicator goes, the simplest explanation is that you would use it like any other OB/OS indicator; particularly those like the McClellan Oscillator. Let's take an idealized bottoming to topping process and how the indicator "might" act.

1. The extreme low value of the MBI will occur, usually, before the actual bottom
2. This creates the possibility for a bullish/positive divergence in the indicator as prices either re-test recent lows or even move to lower lows.
3. As the market bottoms it usually is accompanied by a large move upward in the indicator. This shouldn't be viewed as a negative in a bull market but indicates strong underlying internal market strength.
   a. In a bear market such a surge in the indicator should be viewed with caution as such bear market rallies are shorter-lived and most OB/OS indicators will spend little time in the OB region during a bear market
4. Here's where things get tricky...as the market rally continues the MBI will begin losing momentum as the rally thins out and volume dries up.
5. This starts to create some bearish/negative divergences.
   a. I have used a THREE STRIKES rule which mean to ignore the first two divergences. This presumes you are in a strong bull market.
b. Usually by a THIRD divergence the market has lost all momentum and has been retesting a recent top.

c. At this point, I am usually looking from confirmation from either a longer-term computation of the MBI and/or indications of excessive bullish sentiment.

I realize this is quite a short summary but there is no way to easily cover every situation. I have found that simplifying one's system to the fewest possible indicators is paramount. Too many indicators will ultimately lead to analysis paralysis.

After 20+ years of trading I am down to simple breadth indicators and sentiment. That's it. The only thing that alters my use of my indicators if how the broad averages are positioned relative to their long-term 50 week/200 day moving averages. If we are in a bear market, as now, I assume that rallies will be short lived, sentiment won't become nearly so elevated and my breadth indicators will barely get to OB, if at all, and these are times to lighten positions and/or short. I don't look too hard to pick a bottom using divergences as there are many false positives. Sentiment will remain very bearish even after rallies.

In a bull market, it's the symmetric opposite; expect excursions into OS areas to be very short-lived if reached at all, bearish divergences have much less meaning unless they recur and sentiment will remain at elevated levels even during corrections.

Dr. Lloyd brings a diverse education and a lifetime of experience to his analysis. One of his recent pieces summarizes his approach to the markets. Writing in late-February 2009, he said:

In Canto X of Dante Alighieri's Inferno we meet an unforgettable character, Farinata degli Uberti. He is described by Dante as looking "as if he entertained great scorn of Hell." Come avesse lo inferno in gran dispitto.

We are presently sitting at the entrance to the next circle of Hell. The weekly chart of SPY, which I am using as a substitute for $SPX, demonstrates rather conclusively that when the action camps out on the lower Bollinger Band, the next movement, when the averages are moving down, is very likely to continue to the downside, (note down arrows).

Unfortunately the market cares not one whit about being held in scorn and will endeavor to inflict maximum pain on those who have not learnt to listen to its message.

In Canto X of Dante Alighieri's Inferno we meet an unforgettable character, Farinata degli Uberti. He is described by Dante as looking "as if he entertained great scorn of Hell." Come avesse lo inferno in gran dispitto.

We are presently sitting at the entrance to the next circle of Hell. The weekly chart of SPY, which I am using as a substitute for $SPX, demonstrates rather conclusively that when the action camps out on the lower Bollinger Band, the next movement, when the averages are moving down, is very likely to continue to the downside, (note down arrows).

Unfortunately the market cares not one whit about being held in scorn and will endeavor to inflict maximum pain on those who have not learnt to listen to its message.

In June 1984 I remember going to a standing room only presentation given by a now discredited market guru, who made a very cogent observation. There was a piano on stage with him. He sat down, talking as he played.

"All you have to do is determine from listening to the music and its rhythms where the next notes are going." It was at this meeting that I heard him say that he felt he would never again make a serious mistake in the market. This was just before the great bull market move which began at the end of the following month. The guru started yelling "sell" to all who would listen. A good friend of mine was a broker at Merrill Lynch at the time, and on advice from our guru's market letter, persuaded many of his clients to go short. He had to find another occupation.

There is a time and a place for everything, but going short at that time was certainly not the preferred action. Further I do not believe that going long now is either. A strictly defensive posture hedging one's bets until the market has definitely turned would seem to be the best way to handle our present situation. We are certainly due for some sort of relief rally but notice that the next time the Squeeze
fires it will probably be to the short side.

This type of analysis demonstrates the insight that a well-trained mind can bring to the markets. By the quality and quantity of his work, Dr. Lloyd sets the standard for technicians.

MBI in MetaStock

Developed by Matthew N. Xiarhos, CFP, Founder & Chief Investment Officer of Absolute Return Portfolio Management LLC, and reprinted with permission. Matthew may be reached at MattX@ARPortfolios.com or 800-477-1296 x103. His web site is www.ARPortfolios.com.

Matthew did modify the formulation slightly, “Because of the ever-increasing volumes the original formulas needed to be changed. I tried to stay true to the idea and Humphrey never mentioned any fault with my approach so I assume he agreed. These revisions should allow the indicator to be used over a long period of time without the artifact of higher volumes interfering with interpretation or comparison with periods from long in the past."

5 Day Computation of MBI:
The following are screenshots of MetaStock's formula builder...

TRIN Component:

Advance/Decline Component:
Advancing Volume Component:

The 5 Period MBI is a summation of each of the three above components as below:
This is the 10 Day MBI formulation:

TRIN Component:
Advance/Decline Component:

MBI TRIN Properties

Name: MBI TRIN
Display In QuickList
Formula: \[ \log((\text{Mov}(1/((O/H)/(I/C)),10,E)) \times 4) \]

MBI A/D Properties

Name: MBI A/D
Display In QuickList
Formula: \[ \log((\text{Mov}(O,10,E) \div \text{Mov}(O+H,10,E)) \times 8) \]

Advancing Volume Component:
10 Period MBI Formula:

\[
\text{Log} (\frac{\text{Mov}((\text{O}/(\text{H+C}))}{10\cdot \text{E}*8})
\]

Where:

- **Log** = Logarithm
- **Mov** = moving average
- **O**pen = Advancing Issues
- **H**igh = Declining Issues
- **L**ow = Advancing Volume
- **C**lose = Declining Volume
- **E** = Exponential Moving Average (important with shorter averaging durations due to "dropped day" phenomena.)
- 5 preceding the **E** refers to a FIVE day average. Substitute the desired smoothing period in all indicator components.
- **Fml** = a call to retrieve the value of another custom formula
You will note some constants at the end of the component formulas as well as the MBI as well. These were developed heuristically to create relatively equal weights of the components. Over time they need to be adjusted and I should mentioned that I have not reviewed these in a couple years now...

TradeStation Code for the Moving Balance Indicator

By Mike Gutmann

This code is presented as a general guide for programming and may not be 100% correct.

inputs:
AdvIssues( Close of data1 ),
DecIssues ( Close of data2 ),
AdvVol ( Close of data3 ),
DecVol ( Close of data4 ),
MBILength ( 10 ),
MBIOB ( 70 ),
MBIOS ( 45 )
;

vars:
AD ( 0 ), AD1 ( 0 ), AD2 ( 0 ), AD3 ( 0 ),
ADV ( 0 ), ADV1 ( 0 ), ADV2 ( 0 ), ADV3 ( 0 ),
TRINX ( 0 ), TRINX1 ( 0 ), TRINX2 ( 0 ), TRINX3 ( 0 ),
MBI ( 0 )
;

spacent1 (0); spacent2 (0); spacent3 (0); spacent4 (0);

AD1 = Average ( AdvIssues, MBILength );
AD2 = Average ( DecIssues, MBILength );
AD3 = ( AD1 / AD2 ) * 10 ;
AD = Round ( AD3, 1 );

ADV1 = ( AdvVol / ( AdvVol + DecVol ) ) * 100;
ADV2 = Average ( ADV1, MBILength );
ADV3 = ADV2 / 3;
ADV = Round ( ADV3, 1 );

TRINX1 = ArmsIndex ( AdvIssues, AdvVol, DecIssues, DecVol );
TRINX2 = Average ( TRINX1, MBILength );
TRINX3 = Round ( TRINX2, 1 );
TRINX = 10.5 + ( ( 1.0 – TRINX3 ) * 5 );

MBI = Round ( (AD + ADV + TRINX ) * 1.5, 0);

spacent1 = 2; spacent2 = 2; spacent3 = 2; spacent4 = 3;
if AD<10 then spacent1 = spacent1+1; if ADV<10 then spacent2 = spacent2+1; if TRINX<10 and TRINX>=0 then
spacent3 = spacent3+1; if MBI<100 then spacent4 = spacent4+1;
print (ELDateToString (date), Spaces (spacent1), AD:0:1, Spaces (spacent2), ADV:0:1, Spaces (spacent3), TRINX:3:1, Spaces (spacent4), MBI:0:0);

Plot 1 (MBI, "MBI");
Stock Trading 101: Dr. Humphrey Lloyd's Timeless Trading Tips

The RSL Market Timing Method summarized two decades of Dr. Lloyd's research into the markets when it was published in 1991. In addition to providing specific trading methods, the book contains general observations that he found to be helpful in his own trading, and that will benefit day traders, long-term investors, and anyone involved in the markets. This general philosophy was then presented in Stock Traders Almanac. These ideas should be read slowly, and although they appear to be short, they might require a great deal of time to think about.

- Winning takes determination, courage, thought, patience, honesty, and a sense of detachment from the results.
- You have to accept that you cannot win on every roll.
- Never trade against the trend in anticipation of a trend change.
- Try to find out as early as possible what works for you as an individual and stick with it.
- Be prepared to buy new highs and sell new lows.
- Never override your indicators.
- Don't be in a rush to sell a strong up move and never sell it short unless the trend has clearly turned.
- There is no point in keeping indicators unless you use them.
- Let your indicators make your decisions; keep your own thoughts and especially your ego out of the decision making process.
- Nothing in the market ever happens exactly the same way twice.
- It is impossible to derive a mechanical system that works in all markets.
- Don't jump from system to system, as that runs the danger of you leaving a system just before it reaches a successful period.
- A good trader accepts that he doesn't know where the market is going. He follows his system and takes all the signals.
- The market is unforgiving.
- The satisfaction that trading provides is trading exactly by the book. The book can be your book or somebody else's. Your own, of course, is to be preferred.
- It is not the market that is the real opponent; it is oneself.
- The market is one of the greatest games going. And be sure it is a game, the score being kept in dollars. Never take a loss personally.
- Don't trade if you feel emotionally upset.
- When in doubt, get out. Learn to get out quickly. Do not be afraid to re-enter quickly if the market warrants doing so.
- Always back off from a mistake.
- There are no good or bad trades, only those that win or lose.
- You have to get over the fear of losing money.
- Make sure you have enough trading capital. Being undercapitalized is an invitation for the market to do you in.
- Don't try to recoup a loss by increasing the size of your bet.
- It is difficult to re-enter a strong market after a premature exit, but it has to be done.
- If the market fails to move as expected within three days of initiating a position, prepare to exit. (While the time frame could be adapted by individual traders, the principle is important to follow.)

It is often said that experience is the best teacher, and those who have had the chance to learn from experience often add that experience is also the most expensive teacher. Thinking about the ideas presented above can allow today's traders to learn from decades of experience (at no cost).
Another way to learn from experience is to read the great books in any field. After studying the markets for more than 36 years, Dr. Lloyd has been able to identify what he considers to be the five most important books, from the many he has read. In the order that he read them, they are:

1. The Secret of selecting Stocks for Immediate and Substantial Gains by Larry Williams
2. Winning Market Systems by Gerald Appel
3. The Profit Magic of Stock Transaction Timing by John Hurst
5. Japanese Candlestick Charting Techniques by Steve Nison

Letter to the Editor

The November issue of Technically Speaking included an article called “The Importance of Mid-Term Year Lows” by Paul Shread, CMT. Bob Pierce offered the following insight related to that cycle:

I find the 4-year pattern to be the strongest indicator of all the ones I use. I treat it as positive for 30 months and negative for 18, rather than a basic 24:24 interpretation. I don't know if it would be as strong handled another way. At any rate, the key here is that like any continuing pattern, it is sometimes early or late. So far, it has never skipped a cycle but that also is possible.

What caught my eye a year or so ago was that we missed the scheduled low in 2006 and didn't get one in 2007. I have seen it early or late by a year, which is why I mention this. I went back to check the history and observed the same failure in 1930, albeit in the opposite direction. The low, as mentioned, was in 1932, just as the current low appears to have been reached in 2008. Both cases were two years late (or early!). [I need to say that I did not conclude we would have a low in 2008. At that point it was merely an item of curiosity.]

Generally, when the pattern is early or late by a year, it corrects on the next cycle. That may not be the case for a two year situation. It is impossible to generalize from one occurrence, but the next low after 1932 was not until 1938, six years later. I have been concerned that a bull market following 2008 could end early in late 2009 or early 2010 to get the pattern back in gear. However, an equally valid conclusion, the opposite of Paul's, I think, is that we could be in for a 3-5 year bull market, with the next important low in 2014. Of course, I have no idea if the bull market will compare to 1932-36, but wouldn't that be something!?

Bob Peirce

Robert Peirce is a principal and co-founder of Cookson, Peirce & Co. Inc.

Buy & Hold Investing 'R.I.P.'

Provided by Winans International and reprinted with their permission

Every bull market produces its fair share of investment myths and financial fads.

During the "Roaring" 1920's, buying equities with high levels of margin debt was the norm among everyday investors. In the mega bull market from 1982 - 2000, it was the notion of buying and holding index funds at all times that became the cornerstone strategy for many institutional and small investors alike.

There is one problem: both strategies led investors off a financial cliff! Winans International completed a study that compared three different investment strategies using S&P 500 Index funds from December 1987 through 2008. Two different scenarios were analyzed. One where all capital was invested at once (i.e., beginning lump sum investment),
and the other was building up a portfolio gradually by investing $500 per month through dollar cost averaging.

As the table shows, the buy and hold strategy dramatically under performed portfolios where exposure to the stock market was adjusted with time-tested technical indicators such as the 200-day moving average or the January Barometer.

**Passive vs. Active Indexing Strategies 1988-2008:**

<table>
<thead>
<tr>
<th>Year</th>
<th>Buy &amp; Hold</th>
<th>Buy &amp; Sell 20 Day Moving Average</th>
<th>January Buy &amp; Sell Barometer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BLS DCA</td>
<td>BLS DCA</td>
<td>BLS DCA</td>
</tr>
<tr>
<td>1988</td>
<td>10% 3%</td>
<td>3% 1%</td>
<td>10% 3%</td>
</tr>
<tr>
<td>1990</td>
<td>23% 5%</td>
<td>7% (3%)</td>
<td>33% 12%</td>
</tr>
<tr>
<td>1992</td>
<td>58% 26%</td>
<td>27% 12%</td>
<td>63% 29%</td>
</tr>
<tr>
<td>1994</td>
<td>60% 22%</td>
<td>24% 6%</td>
<td>65% 24%</td>
</tr>
<tr>
<td>1996</td>
<td>146% 79%</td>
<td>95% 60%</td>
<td>152% 87%</td>
</tr>
<tr>
<td>1998</td>
<td>274% 159%</td>
<td>167% 105%</td>
<td>282% 149%</td>
</tr>
<tr>
<td>2000</td>
<td>263% 142%</td>
<td>197% 105%</td>
<td>328% 173%</td>
</tr>
<tr>
<td>2002</td>
<td>130% 49%</td>
<td>189% 90%</td>
<td>249% 113%</td>
</tr>
<tr>
<td>2004</td>
<td>201% 94%</td>
<td>245% 128%</td>
<td>266% 110%</td>
</tr>
<tr>
<td>2006</td>
<td>227% 111%</td>
<td>269% 143%</td>
<td>287% 123%</td>
</tr>
<tr>
<td>2008</td>
<td>92% 25%</td>
<td>263% 140%</td>
<td>256% 106%</td>
</tr>
</tbody>
</table>

Annualized Returns %

<table>
<thead>
<tr>
<th>BLS</th>
<th>DCA</th>
</tr>
</thead>
<tbody>
<tr>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td>13%</td>
<td>7%</td>
</tr>
<tr>
<td>12%</td>
<td>5%</td>
</tr>
</tbody>
</table>

*Cumulative % Returns with a Beginning Lump Sum (BLS) or Dollar Costs Averaging (DCA) in S&P 500 Index funds.

While buying and holding S&P 500 Index funds worked very well during the great bull market run of the 1990's, they quickly gave up their gains during the two significant stock market declines that followed. In other words, these passively managed index portfolios went through a 21-year roller coaster ride.

The buy and hold strategy for this period produced terrible returns. Not only did it underperform the simple, yet effective strategies of the 200-day moving average and the January Barometer, but it also underperformed buying and holding 90-day T-bills (annualized results of 4% and 1% versus 5%).

It was a different story for portfolios that switched current portfolio holdings and new contributions from equities to 90-day T-bills during the 10 times when the S&P 500 Index traded below its 200-day moving average for at least a month, or the five separate occasions when the index posted negative results in January. The portfolios that used these time-tested tools (which are widely available through major publications and free websites) posted solid annualized returns during market advances and protected portfolios during bear markets.

"Since 1850, the U.S. equity markets have posted negative returns 28% of the time. This historical fact means that a successful investment strategy must incorporate a policy for reducing investment risks during bear markets," says Ken Winans, author of *Investment Atlas*.

Throughout history, Wall Street has invented investment products that go off track when bull markets end, and it is fair to say that the idea of 100% invested, 100% of the time will end up in the ash heap of flawed financial logic. In sporting events and military operations, overall victory only comes from executing a good offense AND an effective defense. The same is true of investing.

An Interview with…Dick Arms

by Yevgen Avramych

Richard Arms, a pioneer in the field of technical analysis, recently gave me the pleasure of speaking with him about his own past and the state of the markets today.

Arms has been watching the markets for quite some time now. He began his career about 50 years ago as a clerk in a brokerage firm. Over time, through knowledge, hard work, and an ability to communicate with investors, he became one of the most famous market technicians in the world.

In the early stages of his career Arms struggled to predict market activity with the tools at his disposal. In his experience, none of them seemed to work and the logic many of them didn’t make any sense to him. This led him to study technical analysis, as he identified a need to rationalize market activity and facilitate the understanding of what price movements were really implying.

After completing courses in the Wyckoff School of Technical Analysis, he realized the importance of technicals and, of volume in particular. He began developing his own tools which many of us use today, such as the ARMS Index and Equivolume Charting. Volume has been at the center of all analysis that Arms conducts. He himself often says, “Price tells us what is happening; volume tells us how it is happening.”

Perhaps the most well know tool he invented is the ARMS Index, which he first wrote about in 1967. This indicator tracks the ratio of advancing and declining stocks to the ratio of up and down volume. The value of this ratio of ratios offers great insight into the market action over a given time period. If the ratio is equal to 1.0, this indicates that the market is in a standoff in the never ending battle between bulls and bears. Values above 1.0 indicate that declining stocks are receiving a greater portion of the overall volume. Conversely if the ratio is below 1.0, this indicates that advancing stocks are receiving the bigger share of the volume. When the index reaches extreme values on the upside or on the downside, it is usually indicative of a market top or bottom.

Another widely used technique which can be credited to Arms is the Equivolume chart. This type of chart is a variation of the bar char, with the width of each bar dependent on the volume that accompanies it. The size of each box on the Equivolume chart provides an indication of supply and demand by putting an increased visual emphasis on those time periods where price action was accompanied by heavy volume.

Volume is always at the forefront of all analysis that Arms conducts and it has been his goal to bring volume to the forefront of technical analysis. He believes that volume and price are inseparable and should always be looked at in tandem.

The analytical methods that Arms developed help him to rationalize the action in today’s difficult markets and develop actionable conclusions amidst all the chaos. He called the market top in 2000 with the help of his tools which suggested, at the time, that the market was overextended on the upside and a reversal was imminent.

Turning to current markets, Arms thinks that recent activity in the stock market is following a long-term cycle and should not be surprising to anyone. The most recent downturn should have been obvious chart watchers in 2007, following the formation of a head-and-shoulders top. To Arms, the entire period from 2000 to 2009 looks very similar to that of 1966 to 1982, which was a cycle lasting approximately 16 years. For the bulls, it seems that we are only nine years through this 16-year cycle. Arms expects the market to remain volatile and range bound for another seven years. He strongly believes in the existence of a 16-year cycle which alternates between long consolidation patterns and long moves upward in the stock market.

When it comes to calling tops and bottoms, Arms considers himself to be a contrarian. When people are most pessimistic it usually implies a bottom and when the market is filled with widespread optimism it implies a top. Recent activity suggests to him that we might have made a major bottom. In October 2008, the market became extremely oversold and all the indicators were “screaming” that a bounce is in store. We indeed did see the market turn back up only to fall lower in November. However the decline in November was not as violent and did not occur on heavy volume as the one that preceded it several weeks earlier. This action suggests that the selling pressure is declining and the sellers are running out of steam. After rising in December the market did decline again in January but did so with very little conviction, in Arms’ eyes. All this leads him to believe that the market is at or very near a
turning point.

Currently Arms writes a column for TheStreet.com and provides market commentary and analysis to institutions. It is easy to see why so many people pay so much attention to him when he makes a call on the market. He has a long and successful track record calling market tops and bottoms over his career. Richard Arms is truly a visionary who made his imprint on the study of technical analysis and his work will undoubtedly be studied in the future.

Yevgen Avramych works in the investment services area of Prudential Financial in New Jersey. He is a 2008 graduate of Seton Hall University, with a degree in Finance and minor in Economics. Yevgen has passed the level 1 exam of the CMT program.

Short Term Trading Strategies That Work
by Larry Connors and Cesar Alvarez

Reviewed by Mike Carr, CMT

Larry Connors and the firm he founded, TradingMarkets.com, are known for exhaustive research. In Short Term Trading Strategies That Work, Connors and Alvarez exceed the high standards they are known for and document specific trading ideas with enough detail to allow individuals to implement them immediately.

However, TradingMarkets.com is dedicated to education and this book also adheres to that principle. The testing in the book shows the possible rewards, but appears to deliberately ignore the risk side of the trading equation. Since risk management is central to trading success, individuals will need to validate the extraordinary test results presented and in that way, they will actually have personal ownership of the strategies.

The book presents sixteen specific strategies. Detailed testing shows that it's better to buy stocks in uptrends rather than those in downtrends and the rules for defining trends are completely disclosed. A chapter is dedicated to an indicator that the authors say may be the Holy Grail of indicators for short-term traders – the 2-period RSI. When the daily 2-period RSI falls below 2, stocks show a strong tendency to rebound over the next week. An overbought level of 98 is usually followed by a tradable decline.

The book contains tradable ideas that prudent traders would want to test. The clearly defined rules make the programming task trivial for experienced traders. Novices will be able to follow the detailed logic and learn programming skills in addition to developing an understanding of the basics of strategy developments.

Larry Connors, CEO and founder of TradingMarkets.com, has over 26 years of experience working in the financial markets industry. He started his career in 1982 at Merrill Lynch and later moved on to become a Vice President with Donaldson, Lufkin, Jenrette. In addition to his role as CEO of The Connors Group, Mr. Connors serves as a Managing Partner of Connors Capital, a private investment and financial markets research firm. Mr. Connors has authored top-selling books on market strategies and volatility trading, including How Markets Really Work, Street Smarts (with Linda Raschke), and Investment Secrets of a Hedge Fund Manager.

Cesar Alvarez is Director of Research for Connors Research LLC. Previously Mr. Alvarez was a senior designer of Excel, helping Microsoft further create and build-out Excel. For the past 8 years Cesar has been a professional market researcher. He has been at the forefront of stock market research, having developed a number of successful trading systems now used by numerous investors and fund managers in the United States and internationally.
The Source of Grumbling from Industry IT Departments

by Clare White, CMT; Optionetics.com

If you've heard an increased level of distress coming from your IT Department, there's a good chance it stems from the Options Symbology Initiative (OSI). While the transition to penny increments was a challenge, this initiative creates a new format for option symbols and a new structure for transmitting quotes and data for a variety of Options Clearing Corporation (OCC) products. These include equity and exchange-traded fund (ETF) options.

Sure equity data vendors have challenges, but a substantial number of listed equities and ETFs have options. And those options can include four to six months of expirations with a strike price list (puts & calls) that grows as volatility swings create demand at varying prices. Add the existence of dollar strikes for ETFs and the storage impact for an additional field or two for reporting becomes pretty significant.

Since many of the parties involved with the OSI process have been down this road before, I'm pretty confident the final result users see will be pretty smooth. We'll have to get used to a revised symbol format, but I imagine that will be relatively easy since we're trained to adapt to new software on a regular basis.

One big plus to the new approach to option symbols is the way it clearly identifies adjusted options which can otherwise create a stealth risk issue in client accounts. I reserved other detail on the OSI in favor of the industry brochure, which can be found at:


For more information, check out the initiative home page at:

http://www.theocc.com/initiatives/symbology/default.jsp

Teaching Technical Analysis in an Academic Setting

by Matt Caruso, CMT

Having served as director of the Montreal chapter of the Canadian Society of Technical Analysts (CSTA) for two years, as well as vice president for several months, discussing technical analysis with others is nothing new to me. However, when Dr. Sandra Betton, Associate Professor and Chair of the Finance Faculty at Concordia University's John Molson School of Business, contacted me in June of last year about the possibility of having a CSTA member teach a class entitled, "Building a Profitable Trading System," I knew I would be embarking on something very new. The possibility of having TA taught in an undergraduate course in the finance program was an opportunity that I couldn't let my profession miss out on. Given that putting a new course together would be a substantial amount of work, I enlisted the aid of a good friend and former CSTA director, Riccardo Romeo, CFA, and CMT level 3 candidate, to teach the class with me.

As I'm sure many other MTA members would have done, Riccardo and I immediately changed the class to, "Building a profitable trading system using technical analysis." We decided that the focus had to be on teaching the basic concepts of TA, the main tools students would apply to build a trading system for the class project. It was the first academic course at Concordia and likely any other Montreal area university that would teach the concepts of TA as an integral part of a finance course. Once we made that decision, it required us to completely reformat the class. We realized we had the daunting task of having to build lectures for essentially all concepts covered in CMT 1. This would have required an enormous amount of time since we needed the class to be ready for the fall semester which was only two months away. That is when I discovered that the MTA had the foresight to develop a foundation which would help TA teachers like us. The MTA Educational Foundation provided us with lecture notes which included PowerPoint slides, as well as sample exams.

They Foundation provided great help throughout the entire process. Bruce Kamich was able to offer his advice and
support every step of the way. Phil Roth and Barbara Gomperts were also very helpful in getting us started. I cannot stress enough how helpful the MTAEF was in getting this class built.

By the end of the first class, Riccardo and I knew the students had a very strong interest in what we were teaching. First, as some students have told us, they were very happy to be learning from two practitioners who were active in the field. With Riccardo working as an investment advisor and I as a proprietary equity trader, we were able to explain how markets and market participants interacted and how TA played a major role in our daily activities and to those involved.

The markets also played a role in attracting interest from the students. With the credit crisis in full swing, it was much easier to explain that, contrary to what they had learned in every other course they had taken, markets were not always efficient. They were, in the real world, sometimes irrational. It just so happened that the lecture covering irrational behavior and problems with the efficient market hypothesis occurred during the eight day period when Goldman Sachs traded from $142 to $74 and then back to $128. I think that clearly helped students see that markets don't always operate as they should. Riccardo & I were able to offer real-time examples of what was going on and how the market action could be interpreted from a TA perspective.

To me, one of the great aspects of the TA community is the attitude of practitioners. In my role as CSTA director, I see TA practitioners continually donating their time to speak to our chapter. I knew when it came to ask some practitioners to donate some time to our class the response would be the same. I was not disappointed. CSTA founder Ron Meisels, CIBC World Markets Technical Analyst, and CSTA Treasurer, Sid Mohktari, CMT, as well as CSTA director and Phincorp Capital Markets Technical Analyst, Marius Alexe, CMT, all donated their time without hesitation. In fact, they came in person to class to teach about their respective specialties and explain how TA played a crucial part in their daily work.

As the class progressed, I was excited to receive some of the term projects which required students to build a trading system based on what they learned. The project was not simply to test a simple technical criterion. The majority of the project marks were allocated towards creating a hypothesis on how markets behave and then selecting technical tools to try and capture that behavior. Students then proceeded to test their system and interpret the results. We were both very impressed to see projects which ranged from students who designed a system to capture the movements of the business cycle, to students who used intermarket correlations between the US Dollar and oil stocks in conjunction with trend following tools to day-trade the energy sector.

In the end, the response was much better than I ever imagined. Several students are going on to write the level 1 CMT. In addition, one student was hired as a trader, with several others thinking of applying for similar positions. One student summed up their experience this way:

“I hope that Concordia University makes this class a core (required) finance course because I believe that this course is essential to any finance student even if they are not planning to become technical analysts. This course is very practical and the project helps students to understand the material at a deeper level. I now look at the stock market from a new perspective. This course offered me new and useful tools for analyzing the market movements. I have no doubt that I will use what I have learned on regular basis throughout my career.”

The class will be offered again. Riccardo and I were also invited to be guest lecturers for the TA section for the CFA/MBA program offered by the school.

The old stigma of TA is slowly disappearing. As a trader who makes my living by applying TA and who was introduced to the world of trading through books, I'm glad to help give back to the community which made it all possible. In the end my thanks goes out to the MTA, CSTA and all those who have helped educate others in and advance the study of TA.

MTA Announcements

MTA Educational Web Series - Sign Up Now
The MTA is pleased to announce the next presentations of the FREE MTA Web Series.
● Friday, March 6th, 12:00 PM EST, Ned Davis and Tim Hayes, CMT will present "Tape Indicators And Global Market Volatility." Click here to register for this webcast.

● Wednesday, March 11th, 4:30 PM EST, Stephen Bigalow will present "The 12 Major Candlestick Signals, Providing Valuable Insights Into Price Trends." Click here to register for this webcast.

● Tuesday, March 24th, 4:30 PM EST, Ralph Vince will present "Maximize the Probability of Being Profitable at Some Prescribed Future Point in Time." Click here to register for this webcast.

View the Educational Web Series table below for a complete listing of webcasts that have already been scheduled into June!

Register for a Webinar or Live Event

- ARCHIVED -

11/18/08  Today's Job Market for the Market Analyst - Panel Discussion  Archived

11/21/08  MTA Market Forecast Panel Discussion - LV Traders Expo  Archived

12/16/08  A Technician’s View in these Volatile Markets - Alan Shaw  Archived

01/15/09  From the Pro’s: Four Technical Analysis views of 2009  Archived

01/27/09  One and Two Bar Price Patterns - Martin Pring  Archived

02/04/09  All About Losses - Adrienne Toghraie  Archived

02/17/09  Marrying Option Strategy with Technical Analysis to Maximize Profits - AJ Monte, CMT  Archived

02/23/09  Market Forecast Panel - NY Traders Expo  Coming Soon

02/26/09  Using Median Lines & Pitchforks for High-Probability Trading - Timothy Morge  Archived

- REGISTRATION OPEN -

03/06/09  Tape Indicators And Global Market Volatility - Ned Davis and Tim Hayes, CMT  Register Now

03/11/09  The 12 Major Candlestick Signals, Providing Valuable Insights Into Price Trends - Stephen Bigalow  Register Now

03/24/09  Maximize the Probability of Being Profitable at Some Prescribed Future Point in Time - Ralph Vince  Register Now

- COMING SOON -

04/08/09  Sentiment -- An Updated View - Phil Roth, CMT  Coming Soon

04/16/09  Commodities and the Use of Options in Volatile Markets - Jeanette Young, CMT  Coming Soon

04/30/09  A Currency Adjusted Review of the S&P 500 - Jeremy Berkovits, CMT and Gregory Bender, CMT  Coming Soon

05/05/09  Dow Theory - Ralph Acampora, CMT  Coming Soon

05/20/09  Wyckoff in TA: Discretionary Method Combining Checklists and Schematics - Henry Pruden, PhD  Coming Soon

05/29/09  Topic To be announced - Stan Harley  Coming Soon

06/09/09  Applying Technical Strategies to ETFs: A Global Overview - Dan Draper, CFA, CMT  Coming Soon

06/18/09  Elliott Wave in Today's Market - Walter Murphy  Coming Soon

Check out the Webcast Archives to watch the archived webinars.
CMT Exam Registration - Sign Up Now!

*Desired dates, times and locations are filling up for the Spring 2009 testing window, which is 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!

*Classes start in less than one month, register now!* 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 preparation course, please visit the [CMT Institute](#) page on mta.org.