Letter from the Editor

In Technically Speaking we try to bring you money making ideas and news that impacts the field of technical analysis each month. This month, both are combined into the most difficult article I have ever had to write.

Mike Epstein passed away in April. To those who knew him, his death is an enormous loss since Mike’s outsized personality always left you feeling optimistic after discussing the markets or life with the philosopher-trader. In the brief article we include in this newsletter, we attempt to provide a picture of his life.

We also attempt to offer a glimpse into the wisdom he shared from his lifetime of experience. Mike knew how to trade, and he traded for a living and for enjoyment. Whenever he spoke, there was an opportunity to learn.

Older traders and analysts offer that opportunity. And the MTA facilitates those meetings. It is an incredible organization from that respect – no where else do I see experienced members, some of whom are highly seasoned citizens, so willing to share their knowledge.

For those on the fence, go to the May Symposium in New York. Approach a more experienced member and introduce yourself. Odds are that it’ll be a winning trade – you’ll learn a great deal and enjoy the experience.

Personally, my results from meeting older traders is better than my results from trading. Never a loser in the former, and several years of enjoyable conversations with Mike Epstein that I will always value.

While we try to summarize Mike’s impact in this month’s e-newsletter, it can never replace an hour of his time. Take advantage of one the most important MTA benefits and reach out to our more experienced members.

I hope to meet many of you at the Symposium, and I hope I have a difficult time breaking through the throng of younger members discussing markets and life with our wealth of knowledge.

Sincerely,
Mike Carr, CMT

Remembering Mike Epstein

By Mike Carr, CMT

On April 22, 2009, Mike Epstein passed away. He was known by many as a great trader and everyone who met him thought of him as a great person. Mike symbolized all that the trading community should be.

He started simply, and throughout a life well-lived, he never forgot that he was just a kid from Brooklyn. Hard work landed him a spot at Wesleyan University
where he completed a B.A. in Economics in June 1953. From there, he entered the US Navy. Starting in the enlisted ranks, Mike rose to the rank of Lieutenant before he left the service in 1958.

While in the Navy, Mike was a deep sea diver (wearing the old bell diving suit), a salvage officer, and Commanding Officer (acting) USS Grasp ARS-24. While no one knows exactly what all Mike did in the Navy, several friends told a similar story:

During the Korean War, he was asked to take "the worst assignment in the Navy", and told, if he lived, he'd get his choice of postings in six months. He accepted the assignment. Once a week, he would go, via submarine to North Korea, and take a squad in for reconnaissance. In six months, he never lost anyone. He was a SEAL before they were called SEALS. When the admiral who'd given him the assignment called him in, he thought he'd done something wrong. It turned out that the six months was up. He picked harbor master of Honolulu for the posting. He loved to dive, and did underwater demolition.

The Mike we all knew later in life seems very capable of having completed a mission such as this. He was a fighter – in the pits of an exchange where he loved to be; behind a trading desk of a firm; or anywhere he found himself, Mike was bound to succeed. To many it seems he knew nothing but success in life, but there may have been a few rough patches in Mike's life.

Many may not know that Mike was a single father before the term was invented. He managed to trade on the floor of the New York Stock Exchange while raising kids on his own. The fact that Mike would be able to do that comes as a surprise to no one. But there is a happy ending - his marriage to Erika could be turned into a movie, a love story involving the gruff trader by day with a heart of gold. Many remember her calls to him during a meeting to remind him to take his pills. It was a love story, and something you wouldn't expect to see if you judged Mike only from the surface.

Mike left the Navy in 1958 to pursue education, and used his GI Bill benefits to attend Harvard Business School. The next year he began a career on Wall Street, and would spend the next 51 years doing what he loved – trading and analyzing the markets.

When Mike started in the business, he began working with Wertheim & Co, an NYSE member firm. The firm had "inherited" a factoring business in Mobile, Alabama. Apparently the factoring business couldn't repay what they'd borrowed. Mike's boss asked if he knew anything about factoring. He said "No, but my parents' next door neighbor wrote the book on it." His boss told him to buy the book and go straighten out the business. We will never know if there really was such a book, for Mike could easily have known that he didn't need to know anything about factoring to fix the problems. He was confident, and smart.

In 1962, he joined Bear Stearns as an equity trader. It seems to have been here where another great anecdote occurred:

During the Cuban missile crisis, warships were parked off the coast of Cuba and the Soviet Union and the US have nuclear weapons pointed at each other in the highest possible state of alert. The market is falling and Mike Epstein is at the center of the action as a trader on the floor of the NYSE. Mike turns to his boss and asks what he should do. His boss tells him "hit the ask and buy 'em." Mike politely questions the sanity of his boss because he realizes the world may be coming to end in a nuclear holocaust. His boss tells him to keep buying, "if they don't nuke us the market will bounce and if they do you won't have to worry about paying for them!"

Anyone who ever spoke with Mike for more than two minutes can imagine the sparkle in his eye as he shared stories like that. Even on the phone, you could hear the happiness in his voice, and you couldn’t help but feel better after a short discussion where he told one or two of the million or so stories that he had.

His Wall Street career continued with time spent at Salomon Brothers, where he established the equity block trading department; serving as a hedge fund general partner at Scruggs & Co Hedge Fund; becoming general partner and head trader at Cowen & Co; and an independent member and floor trader at the New York Stock Exchange and the American Stock Exchange. There was little that Mike didn’t do. He had, at one time or another, membership on almost every major US exchange:

1. NYSE
2. Commodities Exchange of NYC (COMEX)
3. NASDAQ: National Options Committee
4. American Stock Exchange
5. Midwest Stock Exchange
6. Chicago Board of Trade
7. Chicago Board Options Exchange (CBOE)

He seemed to have enjoyed trading on the floor the most. Here he could hear and feel the market. Mike often spoke of listening to the noise of the pits, and it was possible to spot turning points when the noise reached its peak. He was a great desk trader, but he missed the noise that came with being at the center of the action.

Trading was also where Mike seemed to be the most comfortable. He was willing to accept being wrong, and found that he actually needed to be wrong to maximize profits. Too few young traders seem to realize it is best to learn from OPM – other people’s mistakes. Listening to Mike, you could easily learn that it was okay to make small mistakes. Although we can’t confirm the exact percentage, Mike was most profitable when he was right about 40 percent of the time. Any more than that, and he was being too cautious to make the most money possible. Much less than that and he was just making too many mistakes.

Mike concluded his trading career as a wholesale market maker, Vice President, and Director, Quantitative Trading at NDB (Sherwood), formally retiring in 2002. Retirement marked the beginning of the next phase of his life. Almost immediately, at the invitation by MIT Professor Andrew W. Lo, a distinguished academic with deep interest in financial markets, Mike started at the MIT Lab for Financial Engineering as a Visiting Scholar and then a Research Affiliate, “pretty good for a C student from Harvard,” as he described the position. Here he found a great satisfaction in leading weekly seminars, teaching technical analysis to curious undergraduate and graduate students, building on his longstanding role of introducing the subject of technical analysis in academia. Mike was personally responsible for much of the acceptance of TA we see today.

He loved MIT students for their curiosity, energy, and eagerness to learn about markets and trading from a weathered Wall Street veteran, not just in the classrooms. He sent a number of them to internships at smaller trading outfits and started a few on a successful trading career. He inspired a graduate student to interview top technicians for the book The Heretics of Finance: Conversations with Leading Practitioners of Technical Analysis co-authored by Jasmina Hasanhodzic with Andrew Lo, in which they give full credit to Mike. The book’s dedication says, “To Mike Epstein, a tireless and eloquent champion of technical analysis, who gave this project life and supported us every step of the way.”

He also traded his entire life. His last trades were made within hours of his passing, probably in the “yum-yums,” his name for the mini-sized Dow futures which traded for $5 a point under the symbol YM. These futures were introduced several years ago, and the old trader was always looking for action.

Until the end, Mike was active in a number of professional associations. He joined the MTA in 1973, as the first member who was not a pure analyst. This broke the rules of the new organization, and probably ranks among the best decisions ever made in the organization’s history. While Mike was a trader, he was also a student of the markets and an analyst at heart. He often spoke of the role the trader has in price discovery, the process that links trading to technical analysis.

He served as President of the MTA and was always active in the organization. Mike was also very active in the MTA Educational Foundation. He served as a Founding Director, a former President, and was the Treasurer at the time of his passing. The Society of Quantitative Analysts also benefitted from Mike’s knowledge and leadership.

One of Mike’s favorite songs was by Maria Muldaur, “Dem Dat Know” from *Louisiana Love Call*. The chorus is known to many who spoke with him:

And that just goes to show you it's true, what my Momma done said to me:
She said "Dem dat know, know that they know.
And them that don’t know, they don’t know they don’t know."

Mike knew what he knew and shared that knowledge freely. We are all fortunate to have known him, or have known of him. And few will ever forget their favorite Epstein-isms. Like Yogi Berra, Mike had a way with words. He could make the complex simple, and he could point out absurdity with humor.

Over the years, he doubtlessly said many brilliant and witty things. Over those same years, many other sayings have been attributed to him. We can’t prove he actually made some of these statements, but we do know that he coulda...

1. Ours is not to say what should be, but to analyze and exploit what is.
2. All the profit is in the outliers!
3. Nothing more bullish than a failed bearish signal.
4. The four most expensive words in the English language are “It’s different this time.”
Letter from David Keller, CMT, MTA Regions Chair

I wanted to give the membership a brief update on some exciting developments on the chapter front. As many of you know, the local chapter meeting can be one of the most important benefits of MTA membership. You have the opportunity to connect with other like-minded professionals in your area. You are able to hear some of the top experts in technical analysis discussing their approaches to a tumultuous market environment. You get to hear about some of the newest methods being developed, as well as review the tried-and-true best practices of technicians from around the country and around the world.

A number of MTA members have taken on new leadership roles in their local chapters, and many others have reached out regarding starting a new chapter in their area. I’d like to congratulate Brandon Wendell on his new role as Chair of the San Diego Chapter, and extend a warm thanks to Tom McClellan for putting in the time and effort to build a new chapter in the Seattle area. We have heard from members in Arizona, Michigan, Minnesota, South Carolina, and Hawaii, all looking into the possibility of getting a local chapter started.

Some of our most successful chapters were created simply because a local member decided they wanted to get things going. Also, remember that all successful chapters have one thing in common: dedicated members who are able to help the Chapter Chair to spread the word and build out the group. So even if you feel you don’t have the experience or the time to run a chapter, you can serve a vital role in making the chapter a success.

I’m excited about what I’m seeing from MTA activities across the U.S., as well as the interest we’re seeing from international members, including those in India, China, Brazil, and the Middle East. When you’re ready to have a conversation on how we can energize a local chapter in your area, please e-mail me (david.keller@fmr.com). I’m happy to talk through what’s involved, share the best ideas other chapters have used to build out their groups, and help you lay out a plan to success for the MTA in your region.

Warm regards,

David Keller, CMT
MTA Vice President

Dow Theory Unplugged: Charles Dow’s Original Editorials and Their Relevance Today, Contributors: Richard Russell, Charles Carlson and Paul Shread

Reviewed by Mike Carr, CMT

The tenets of Dow Theory are well known to all market technicians:

1. The averages must confirm each other.
2. The averages discount everything.
3. The market has three trends.
4. Major trends have three phases.
5. Volume must confirm the trend.

6. A trend is assumed to be in effect until it gives definite signals that it has reversed.

The theory is known mostly from the sixteen Charles Dow columns published by S. A. Nelson in his 1902 book, *The ABC of Stock Speculation*. In *Dow Theory Unplugged*, 220 of Dow’s original columns are presented, organized around the six tenets identified above. The opportunity to read Dow’s contemporaneous thoughts offers insight into the Theory, and the market itself at the turn as the twentieth century dawned. The book also includes charts of the indexes from the timeframe when Dow was writing which allows analysts to see what Dow saw and develop a feel for applying the Theory.

Charles Carlson contributes the introduction to the book and addresses the criticisms of Dow Theory and provides an overview of the academic studies which demonstrate that the Theory works. Covering the longest time span, Ned Davis Research found that following the Theory would have led to average annual gains of 8.9 percent a year from 1900 through March 2008. A buy-and-hold strategy would have resulted in gains of 5.4 percent per year.

Richard Russell writes on the history of the Dow Theory. He takes readers along the well known path from Dow to William P. Hamilton to Robert Rhea. He also provides background on E. George Schaefer who inspired some of Russell’s own work.

Dow’s editorials are organized into section related to each major tenet. Readers are given a coherent roadmap to think like Dow. Paul Shread, CMT, offers a short introduction to each section. He concisely summarizes the principle and highlights other important aspects related to the application of that tenet.

For those seeking to apply Dow Theory, this book is invaluable. Nowhere else can you read all of Dow’s writings and obtain insights about the interpretation of the Theory from experts in the field. For those seeking an authoritative text on the beginnings of technical analysis, this book presents the writings which formed the cornerstone of the modern field of technical analysis. All serious students of the market need to take advantage of this work to see how Dow thought, and learn about the markets from someone whose ideas have remained profitable for more than 100 years.

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**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*

*Read More..*

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**Interview with Brad Herndon, CFA, CMT**

**by Yevgen Avramych**

This month I had the pleasure of speaking with Brad Herndon about his path towards becoming a CMT and some of his opinions on the financial markets and future careers in technical analysis. Brad started his career as a portfolio manager in a regional bank. At the time he used the fundamental approach towards securities analysis. He went on to obtain a CFA as did many of his fellow co-workers, and later on in his career he became a director of stock research while managing a number of fundamental analysts.

Brad’s introduction to technical analysis came from colleague Mark Cremonie, CFA, CMT. The intrigues of Technical Analysis led Brad to an MTA seminar in Chicago where he met Ralph Acampora, CMT. After the seminar Brad was convinced that technical analysis was a very powerful and useful tool which could potentially allow him to make more money and be better equipped at managing his investment risks. As Brad appropriately pointed out, “technical analysis allows you to analyze a large amount of data very quickly and across many different investment classes.” Since enhancing his use and understanding of technical
analysis through the CMT program and actual experience, Brad now employs both fundamental and technical analysis in his decision making process, using both studies to complement each other and in turn he has seen much better returns on his investment decisions.

Technical analysis was very useful in helping Brad anticipate a potential market topping process which occurred from 2007-2009. Although he spotted the risk, he did not think that the decline was going to be as violent as it has been. Brad acknowledges that in 2007 the market was nearing the end of a cycle and many securities and consumer stocks seemed overextended and due for a pullback while many financial securities were already showing signs of breaking down. At the same time other factors such as credit overflows, extensive leveraging, record high oil prices and the housing bubble were suggesting that it was time to reduce equity exposure and market risk.

Brad’s analysis of the markets in mid-March concludes that much price damage has been done since 2007. Investors should not expect a V shaped recovery because there has been a lot of overhead resistance created by the current declines, and instead we should look for a consolidation at the lows which will in turn pave the way for a slow and gradual recovery. On the other hand there is a lot of money sitting on the sidelines in low yielding money market accounts just waiting for a reason to find its way back into the market given the right circumstances and from a contrarian standpoint this is a bullish sign.

As far as career opportunities for up and coming technical analysts, Brad believes that this downturn will force companies to re-evaluate what works and what doesn’t. Fundamental analysts did not do very well in this downturn; many people will realize this and turn towards technical analysis as an additional investment tool. Small investment firms will create the best opportunities as many of the big investment firms such as Lehman Brothers, Merrill Lynch and Bear Stearns have been absorbed by larger institutions and have thus been forced to reduce their workforce substantially. However, he thinks, the best place to start the pursuit of a career in technical analysis remains the MTA. The MTA gives its members and affiliates a unique opportunity to network with existing professionals and further develop their knowledge in technical analysis by enrolling in and completing the CMT program.

Over the years, the acceptance and utilization of technical analysis has been on the rise thanks in part to an expanding role of education at the university level. There are now more classes being offered in technical analysis across the country and with a growing foothold in academia it is developing a name for itself. Although it might be difficult to fathom that the job outlook for any profession in finance and investments is a positive one right now, technical analysis has benefited from the shortcomings of fundamental analysis and has capitalized on what has been a terrible two years in the market. So despite all the gloom on Wall Street there are real opportunities being created right now for those who are serious about pursuing careers in technical analysis, and the best place to start is the MTA.

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.

Blogs of Note

by Jason Goepfert

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.

Jason Goepfert, President and CEO of Sundial Capital Research maintains a blog at http://sentimentrader.blogspot.com/. Jason has been trading stocks, stock and index options, index futures, currencies and commodities for over 10 years. He holds several securities licenses (Registered Representative, General Securities Principal and Options Principal) and has most recently managed the operations of a large hedge fund and top-10 online brokerage (Gomez rankings).

Jason founded sentimentTrader in 1998, and began a web presence in 2001. Currently, the site has subscribers in all 50 states and more than 40 foreign countries. Jason is also a contributing writer to Minyanville.com.

The posts are original, well researched, and deeply detailed:

Bullishness Breaks Its Downtrend

4/15/2009 12:24:00 PM Posted by Jason Goepfert
Labels: indicators, sentiment
There are many ways to measure "sentiment" and it's what we spend most of our time on here and on the site. It's a never-ending challenge.
One of the most widely-accepted measures is the sentiment survey of newsletter writers from Investor's Intelligence. The latest reading that came out today is interesting, as it's showing one of the highest amounts of net bullishness since the bear market began.

Not only that, but the Bull Ratio (Bulls / (Bulls + Bears)) has broken out of a down-trending channel of pessimism. This is happening while the stock market (the S&P 500) is still well within its own down-trending channel.

Is this too much of a positive outlook from a traditionally contrary indicator, that is not justified by stock prices (because the S&P clearly has not broken its own downtrend)? Applying technical analysis like this to sentiment indicators can be tricky, but there are a handful of other times in the past 30 years that we've seen a similar "breakout" in bullish sentiment.

We'll go over them in the morning comment on the site tomorrow, but here's an example of the last occurrence in 2003. We'll see if the other occurrences had similar reactions following the breakout.

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.
Dow Theory Update

Each stock market rally or decline leads to the inevitable question of whether or not a Dow Theory signal is generated. This theory is among the earliest technical analysis techniques and has withstood the test of time. While Dow Theory is well defined, its interpretation is actually highly subjective. Many practitioners will disagree on the precise timing of signals.


In mid-April, Colby wrote, “The Dow Theory reconfirmed a Primary Tide Bear Market on 3/9/09, when both the Dow-Jones Industrial Average and the Dow-Jones Transportation Average closed below their previous lowest closing prices of 2004-2009. These two Averages originally signaled a Primary Tide Bear Market on 11/21/07, when both closed below their closing price lows of August, 2007.”

Interested readers can follow changes to the Dow Theory at his website, www.robertwcolby.com. He provides a large amount of information useful for real-time trading decisions at this site. Colby is also a frequent contributor to TradingPlanet.com.

MTA Announcements

CMT Exam Test Takers

To all of the registrants sitting for the CMT Exam during the 2009 Spring Test Administration, the MTA Staff would like to wish you all the best of luck!

We would also like to remind you that as a “best practice”, as you continue through the CMT Program, please commence early the Membership and Sponsor process. Once the application process is completed and the sponsors identified, they can work as mentors to you through the overall process of CMT certification and, once the examination process is completed, we can move quickly to ensuring the designation is granted. If you have any questions on these two processes, please click here or call Cassandra Townes at 646-652-3300. She would be pleased to help you.

MTA May Symposium - Emerging CMT and Market Forecast Panels Announced!
The MTA is pleased to inform you that the panelists for both the Emerging CMT Panel and Market Forecast Panel have been announced! In addition, new and updated presentation topics/titles have been added to the agenda. To view these additions to the Symposium agenda, please click here.

We also thought you would like to see some pictures from previous MTA Seminars. Included on the Symposium page at mta.org is a slideshow from some of our more recent events, to go along with the previously posted 2000 “25th Anniversary” Seminar, the 1980 Seminar and the 1978 Seminar. To view these slideshows, please click here.

The MTA would also like to thank the following sponsors for their contributions towards the May Symposium: Bloomberg, TradeStation, ProShares, eSignal and TraderPlanet.

MTA Educational Web Series - Sign Up Now!
Registration is now open for the following upcoming presentations of the FREE MTA Educational Web Series.

- Tuesday, May 5th, 4:30 PM EST, Ralph Acampora, CMT will present "Dow Theory." Click here to register for this webcast.
- Wednesday, May 20th, Henry Pruden, PhD will present "Wyckoff in TA: Discretionary Method Combining Checklists and Schematics." Click here to register for this webcast.

The MTA is pleased to announce the addition of Dennis Gartman (08/03/09) and John Kosar, CMT (08/11/09) to our ever growing roster of presenters! Topic information to follow shortly.