Letter from the Editor

While September is traditionally a time to think about going back to school, on Wall Street it seems more like the time of year to head back to work. Volume is usually lower than average in the summer months as traders focus on vacations more than they do on getting the best bid. As our members gear up to face the challenges of returning to work, we offer up some opinions on recent books that can help them refocus and sharpen their skills.

One trend I noticed in my summer’s reading list was the emphasis on volatility. The markets have certainly been volatile recently and several insightful authors have offered tips on how to profit from that volatility. We also have a research piece by Ed Easterling of Crestmont Research which shows how prices respond after experiencing volatility.

As always, we hope you find this issue of Technically Speaking to be useful as well as interesting. Please let us know what you like, and what you’d like to see. Send me an email at editor@mta.org.

Sincerely,

Mike Carr, CMT

The Seven Rules of Wall Street by Sam Stovall

Reviewed by Mike Carr, CMT

Stovall examines seven well-known pieces of Wall Street wisdom:

1. Let your winners ride, but cut your losses short
2. As goes January, so goes the year
3. Sell in May and then go away
4. There’s no free lunch on Wall Street
5. There’s always a bull market someplace
6. Don’t get mad – get even
7. Don’t fight the Fed

He quantifies each rule and backtests the underlying idea. Not every idea is intuitively quantifiable. For example, rule number 6 – “Don’t get mad – get even” – looks at the advantages of cap-weighted indexes compared to equally-weighted indexes. Since cap-weighted indexes will favor large cap stocks over small caps, they are actually likely to underperform. This is logical to anyone familiar with the fact that small cap stocks outperform over the long-term. Stovall backs this up with data and then offers a strategy to take advantage of this rule.

This book provides detailed test results to support the wisdom of each rule. For example, the well-known January barometer has been extensively reported on in a variety of books, articles, and web sites. Stovall’s results for this indicator are in line with those of other sources. An up January is a bullish sign for the next eleven months 85% of the time. A down January tends to be followed by below average gains over the rest of the year.

At this point, Stovall breaks with the traditional analysis. He applies a relative strength strategy to this well known rule and presents ideas to increase the risk-adjusted returns for investors. This approach is repeated for each of the seven rules – a standard backtest followed by innovative approaches to boost returns.

For the individual investor, this book offers step-by-step instructions on how to pursue market beating returns. For the professional, this book
demonstrates the logic and process that should be at the core of the backtesting process. Stovall lays out exactly how he develops an idea, offering a unique insight into the mind of a prolific investment professional. For years, Stovall has been writing well-researched pieces designed for the individual and professional. The Seven Rules of Wall Street provides the professional with a glimpse into how ideas are generated, tested, and presented so that they are understandable and easily implemented. Those new to the business will gain a great deal from studying this small book and thinking about how they can apply a similar process to their own work. Grizzled veterans will enjoy seeing the new twist he places on several old ideas.

Sam Stovall was recently interviewed in the MTA Podcast Series on August 25th regarding his current market views and will be featured as part of the MTA Educational Web Series on October 14th in a webcast titled "Seven Rules of Wall Street."

As chief investment strategist, Sam Stovall serves as analyst, publisher and communicator of S&P’s outlooks for the economy, market, sectors and stocks. He is a member of the S&P Investment Policy Committee, where he focuses on market history and valuations, as well as sector and industry recommendations. Sam is also the author of The Standard and Poor’s Guide to Sector Investing and "Stovall’s Sector Watch," a page on businessweek.com, which focuses on market/sector history, as well as sector/industry momentum.

Sam joined Standard & Poor's (S&P) in April 1989. Prior to S&P, he served as Editor in Chief at Argus Research, an independent investment research firm in New York City. He received an M.B.A. in Finance from New York University and a B.A. in History/Education from Muhlenberg College in Allentown, PA. He is also a certified Financial Planner.

Volatility In Perspective

By Ed Easterling

This article was originally published by Crestmont Research and is reproduced with permission.

Who or what is rocking the boat? Market volatility has surged over the past two years; investors have had to hold on and try to figure out what this means. Is the current level of volatility “normal” or is it extreme? The purpose of this presentation is to graphically put volatility into historical perspective. It will be updated every quarter or so until volatility again falls to levels of investor disinterest…which could be a while if history is a guide for what can be expected.

The first look at volatility uses the common measure of standard deviation. For this analysis, the monthly percentage changes in the S&P 500 Index are used and then the result is annualized to reflect a measure of the amount of variability in the market. This measure is often used by financial market professionals as an indication or measure of risk in models that assess risk versus return. It’s not important for this discussion to go into detail about the statistic—it is only necessary to appreciate that it is the most common measure of volatility and to recognize that a higher value means higher volatility.

Figure 1. S&P 500 Index Volatility: Rolling Volatility (1950 to Present)
Let’s look at almost six decades of volatility…to put volatility into perspective. To present a view of volatility and its change over time, Figure 1 presents the twelve-month rolling standard deviation for the S&P 500 Index. The concept of rolling periods just means that the value that is used for each month is the ‘standard deviation’ for the most recent twelve months. So as the market goes through periods of higher and lower volatility, the measure reflects those changes.

As you can see in Figure 1, volatility tends to average near 15% (the average that many models and academics use for stock market volatility). Yet one of the most interesting aspects of the history of volatility is that it tends to move around a lot. Although most periods generally fall within a band of 10% to 20% volatility, there have been periods when volatility was unusually high and periods when it was unusually low…and often extreme periods in one direction are followed by oppositely extreme periods. The time between the light grey vertical bars on the graph represent three-year periods. So some of the extreme periods can last for a while, yet few last a long time.

For most of the mid-2000s, volatility had been unusually low—and by late 2006 and early 2007, volatility fell into the lowest three percent of all periods since 1950. No wonder that investors and market spectators had become complacent to market volatility…or maybe complacency about risk led to the low volatility. Nonetheless, the waters of the market were unusually calm. So almost any increase in volatility is now startling and anxiety-producing. This longer-term measure (which is a little slow to react since it requires twelve months of information) has recently increased to more than 25%—fairly high by historical standards, yet not without precedent. It’s now a lot higher than its low of 5.5% in January 2007. If history is again a guide, we should be down out of the clouds within a year or so.

For a better reflection of near-term changes and trends in volatility, we can look at two other measures: the frequency of days each month that close up or down by more than 1% and the intra-day range expressed as a percentage. The first of these measures reflects the “six o’clock news summary” of daily volatility—since significant moves in the market often make the news—and the second reflects the “rollercoaster” that many professionals experience. For example, there are days when the market opens higher or lower and stays there—so measuring 1% days reflects the magnitude of daily changes. Therefore, with only a week or month of trading days, we can quickly see emerging changes in the overall level of volatility.

On other days, when the market professionals get home with that worn-out look, the market may have swung wildly yet closed with little change from the previous day. So to capture that aspect of volatility, we can measure the difference between the high and low and present it as a percentage of the previous closing price. A higher percentage reflects higher volatility.

First, let’s look at the frequency of days each month that the market closed up or down by 1% or more. At times in the past, there may have been one day or none per month, while at other times, the market moved by one percent virtually every other day. Keep in mind that most months average about 21 trading days.

As reflected in Figure 2, the historical average going back almost six decades reflects approximately four “1% days” per month…thus about one per week. Just a couple years ago, it was common for it to be less than half of the average. Yet, as recently as 2002, there were times when “1% days” occurred more often than every other day. In June 2007, the tremors started and awakened the market. The past year or so, although somewhat erratic, has been enough to drive the measure in the graph—the six-month moving average—well into above-average territory. Like the previous graph, if history is a guide, we may be headed back toward average over the next year or two.

Figure 2. S&P 500 Index Volatility: 1% Days (1950 to Present)
Next, let’s look at the other shorter-term measure of volatility trends and changes: the average daily range. This one could be called the “rollercoaster factor” since it measures the trough-to-peak each day as a percent of the market index. For example, if the S&P 500 Index starts at 1015 and falls to 1000 before ending at 1014, the daily range was 15 points (i.e. 1015 minus 1000) or 1.5% (i.e. 15 divided by 1000). The intraday information that is needed for this measure is available from 1962, providing over four decades of data. The average daily swing over more than forty years has been approximately 1.4%. At today’s levels, that’s about 13 points for the S&P 500 Index and the equivalent for the Dow Jones Industrial Average would be almost 120 points.

Figure 3 reflects that the average daily range has recently increased significantly over the past two years, from an extended period of less than half the historical average to the current level that is clearly above average. As our most quickly reacting measure of volatility, the Average Daily Range is already beginning to show progress back toward the median.

Figure 3. S&P 500 Index Volatility: Daily Range (1962 to Present)

In Figure 4, as an update to the information originally presented on page 48 of Unexpected Returns and discussed in the book, the table reflects the propensity for the stock market to perform well in lower volatility periods and perform poorly in higher volatility periods. The principles of valuation and volatility that are explored in Unexpected Returns are the key drivers of stock market returns and performance over multi-year periods. As a result, the current environment of higher volatility certainly suggests that defensive and/or hedged strategies are appropriate, while remaining positioned to participate in any recovery that could coincide with declining volatility.

Figure 4. S&P 500 Index Volatility: Relationship To Market Returns
CONCLUSION

This is not the first time in the past four years that volatility in the stock market has suddenly increased. Most of the previous periods were short and quickly resolved. Yet this time does appear to have more fundamental factors driving the disruption. There are several ways to measure volatility, some with longer-term, bigger-picture perspective. Others provide a shorter-term, more current view of conditions. All measures currently reflect an increase in volatility and the more responsive measures are just beginning to reflect a moderation in volatility.

Volatility over the past couple of years has been dramatic, yet not without precedent. An historical perspective of volatility reflects that higher volatility periods are normal and can extend for quarters or years. Many investors had anchored on the previous extreme low volatility years as a normal condition and are surprised by the recent conditions. A true understanding of history provides a more rational perspective and can help investors take action to protect their portfolios should the current conditions persist…while being positioned to participate in improved market conditions as volatility abates.

Volatility-Based Technical Analysis by Kirk Northington

Reviewed by Mike Carr, CMT

Many novice technicians blindly trade signals generated by their favorite indicator. Eventually, they blow up their account unless they are fortunate enough to meet a more experienced technician who teaches them the valuable lesson that we actually trade price, not our indicators. After reading Northington’s original work, I realized that more than price, technicians pursue and profit from volatility. In this book, he offers insights into the importance of volatility to traders.

While profits and losses are measured by the entry and exit price, volatility measures the move that led to the trading opportunities. It is actually volatility which leads to profits, and without volatility, trading isn’t possible for the majority of traders. Flash trading, perhaps soon to be outlawed by regulators, doesn’t require volatility but does require lightning fast computer connections and physical proximity to exchange data. Likewise very short-term arbitrage trading doesn’t require price volatility as much as it needs technology and deep capital pools to generate profits. However, traditional trading, usually based upon technical analysis, does rely on volatility in prices to deliver profitable opportunities.

Northington has written for the advanced trader, but with sufficient desire, this book is perfect for the novice trader as well. The novice would simply need to refer a more general reference on technical analysis, such as Kirkpatrick and Dahlquist’s Technical Analysis, to understand some basic concepts. But it would be well worth the effort.

Volatility-Based Technical Analysis walks traders through the entire process of developing an indicator and designing a trading system based upon that indicator. Some moderately advanced mathematical techniques are used, but the author adequately explains the underlying technique before applying it. In the end, all questions are answered.

There are at least a dozen unique indicators presented in the book. Some are brand new, others variants of well-known technical tools being used in a new way. As an example of the latter, Wilder’s Average True Range is reworked to become TTI ATR Extreme (ATREx), which serves as a building block in a trading system but also offers a degree of usefulness as an indicator on its own. (The author includes the prefix TTI in all original indicators that he presents. This acronym stands for Trading the Invisible. More detail can be found at the book’s companion web site, www.tradingtheinvisible.com.)
The TTI ATREx normalizes the traditional ATR with respect to the close. It seeks to identify extreme overbought/oversold conditions. To do so, it should have higher absolute values when the closing price is significantly above or below the mean closing price and when the ATR is at a relatively high value. The formula is given as:

\[
\left( \frac{C - \text{Mov}(C,40,E)}{C} \right) \times 100 \times \frac{\text{ATR}(14)}{C} \times 100
\]

This calculation is multiplying the closing price’s distance from its 40-day exponential moving average by the normalized ATR. Visually, it is shown in Figure 1.

The ATREx can be further refined to develop entry and exit signals for a trade. The idea is to let volatility define overbought and oversold extremes in price. Most technicians rely on momentum for these types of signals and these indicators are known to have high failure rates, especially at market turning points. Northington presents an idea worth researching to reduce the bad trades generated with traditional tools.

While the book is written in an easy to understand style, Northington realizes that not every trader is a programmer. For that reason, he includes the MetaStock® and TradeStation® code for the original, volatility-based indicators that he presents in the book. With these examples in hand, any trader can apply the concepts which are explained in rich detail. Northington’s goal seems to be to teach the reader how to build indicators based upon unique market insights; test the indicators on a stand-alone basis; and incorporate meaningful indicators into trading methods that suit a trader’s personality. In doing so, he also provides a ready-to-go trading system that can be applied with days of beginning the book.

For those interested, Kirk will be featured as part of the MTA’s Educational Web Series on December 9th, 2009 in a webcast titled “Volatility Based Support and Resistance.”

Kirk Northington is the owner of Northington Trading, LLC, and the creator of MetaSwing, a MetaStock Add-On and TradeStation-compatible system. He trades his own money, and uses the technical analysis methods presented in this book exclusively. He is an associate member of the Market Technicians Association, through which he is participating in the Chartered Market Technician (CMT) Program. Kirk has a B.S. degree from Nicholls State University, in Thibodaux, Louisiana. He has extensive experience in control system engineering, software engineering, and project management. Kirk, his wife Faith, and his two sons live in Charlotte, North Carolina.

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..
Trend Following (Updated Edition): Learn to Make Millions in Up or Down Markets by Michael Covel

Reviewed by Ajay Jani

“Cut Your Losses Short; Let your profits run on.”
- Widely attributed to David Ricardo

While many are familiar with David Ricardo’s contribution to economics through his “Theory of Competitive Advantage.” fewer are aware that he was also a large speculator in shares and British consuls (perpetual bonds) during the early 19th century, and as a result amassed a significant fortune in the process. His description on how to succeed in of speculation is easily distilled down to two words: “Trend Following.”

In his latest revision to the book of the same name, author Michael Covel reintroduces the reader to a trading methodology that has stood the test of time, and recently produced some of the big winners of the 2008 market debacle. He does so in a tone that often betrays bewilderment that the mainstream media for the most part have failed to pick-up on the storyline. Specifically, that the markets are not random and they can be beaten. Covel then introduces us to the characters in this story that have been on the winning side of all the major market debacles of the past 30 years. Many have often used the hyperbole of monkeys picking stocks. After one year, those that beat the market are invited to a second round of stock picking, after which the survivors pass to the third round etc, etc. This analogy is often used to describe the successful trend following trader. The implication: nothing more than blind luck was involved.

However, what if many of the “monkeys” in the game all went to the same school? Or what if they happened to all be from the same zoo? Maybe they even had the same trainer and diet. At some point, the rational observer might begin to question the belief in luck and perhaps begin to suspect that there may in fact be skill involved. It is here that Trend Following is of particular use to the unbiased reader. For in this book, Covel describes not only the strategies used by traders to beat the market, but also the common philosophy that underpins their decision making process. In many cases, generations of traders can be traced back to several pioneer speculators who made their fortunes during the 1960s.

Some of the legends profiled in the book: Bill Dunn, who compounded his gains at a rate of 24% a year for 28 years, or a return of over 412 times your money; John W. Henry, who used some of his winnings to buy the Boston Red Sox; Ed Seykota, who averaged 60% from 1990-2000; and Salem Abraham, who generates Texas sized returns to accompany his Texas location. There are just some of the eye-popping results turned in by the stars profiled in Trend Following.

Covel’s book is entertaining and yet at the same time educational, a volume that is valuable on many levels. It can be viewed a simply a story of market foibles, and how a group of like minded traders from different backgrounds used a common strategy to beat the markets. It can also be used as an educational tool, providing the philosophy behind the strategies used by these market beaters. Experienced traders can learn new techniques and follow the career of those who pioneered them. Amateurs are offered a glimpse of what might be if they are willing to take calculated risks. New to the book is groundbreaking research showing that trend following, long associated with futures market traders, is well suited to the task of managing an equity portfolio.

Most importantly it is a running commentary on how the individual who seizes initiative can take control of his or her financial future rather than remain subject to the whims of others. This alone is worth the price of admission.

Trading Regime Analysis: The Probability of Volatility by Murray Gunn

Reviewed by Mike Carr, CMT

The first chapter of Gunn’s Trading Regime Analysis is titled “There is NO Holy Grail.” This summarizes the trading philosophy he details in this book. While trade selection and entry and exit techniques can be automated to a great extent, ultimately he realizes no single tool will work in all market conditions. For this reason, he explains a dozen standard technical tools in Part II of the book. Some CMT candidates would benefit from a practical review of the basic tools of technical analysis. In this section, they can find clear explanations of many fundamental concepts illustrated with examples suitable for professionals.

A key insight of the author is that tools often fail when they are being applied in the wrong trading regime. The term trading regime is used to define whether the market is in a trending or range-trading mode. Volatility is used to assess the regime, and knowing whether or not the market is trending can help a trader improve profitability. Unfortunately, determining the market mode is more difficult than simply relying on the value of a single indicator such as ADX, like many technicians try to do.

One of the most valuable contributions this book makes to the field of technical analysis is the introduction of two new indicators – the Trend-Following Performance Indicator (TFPI) and the Trading Regime Indicator (TRI). The TFPI uses the trading
system's own equity curve as an input to determine whether or not the strategy is in sync with the market or not. This tool also helps the trader to understand, to some degree, how likely the trend is to reverse.

The TRI assesses the strength of volatility when compared to a measure of the trend of volatility. This indicator is similar to the Bollinger Band Width indicator. In the author's words, the TRI "...provides a logical and consistent basis for evaluating the volatility conditions of a market and can give the analyst both an idea of the current trading regime and, when that regime is at extreme points, a potential turn into a different trading regime."

Gunn continually makes a very important point throughout his book. Trading is a challenging task and no single technique works all the time. The successful technician needs a variety of tools, and perhaps more importantly, a set of tools to help identify which tools are likely to work in the near-term. That's not meant to be confusing. This is perhaps the first work that describes technical analysis in terms like Keynes' beauty contest analogy of the stock market.

In his classic 1936 work "General Theory of Employment Interest and Money," famed economist John Maynard Keynes explained how a beauty contest can be used to explain price changes in the stock market. Keynes wrote about a newspaper contest where competitors are asked to choose the six most beautiful women from a group of photos.

Most people will simply pick the six that they think are the most beautiful. More sophisticated strategies involve trying to figure out which women most people will think are the most beautiful. This recognizes the fact that the winner will be selected by correctly identifying the judge's choices and not based upon anyone's particular conception of beauty. In Keynes' words,

"It is not a case of choosing those [faces] that, to the best of one's judgment, are really the prettiest, nor even those that average opinion genuinely thinks the prettiest. We have reached the third degree where we devote our intelligences to anticipating what average opinion expects the average opinion to be. And there are some, I believe, who practice the fourth, fifth and higher degrees."

Keynes reasoned that the stock market worked in a similar manner. Some people determine values for their stock picks based upon their own opinions while others base their investment decisions on what they think everyone else is thinking about the underlying value of the stock. Gunn extends this way of thinking to technical analysis.

Most technicians think of the market in terms of their strategies. Gunn may be suggesting that your strategy isn't as important as action of the market. In this way, he is challenging traders to think about what other traders are doing and base their trading decisions on what is happening in the markets rather than on what they want to happen. He also offers a technique to assess what the markets are actually saying when compared to a trader's strategy with the introduction of the TFPI. This offers a method that could help traders to take their own biases out of the decision.

Although there are discretionary elements in Gunn's approach, and he clearly believes success in the markets requires some exercise of discretion, he offers an approach that can be fully systemized. Trading Regime Analysis is a valuable addition to the body of knowledge of technical analysis.

Murray Gunn is a currency investment manager with over twenty years experience in the international capital markets, managing portfolio risk across all asset classes within some of the world's largest fund management organizations. He holds an MA (Hons) in Economics and is an MSTA (Member of The Society of Technical Analysts).

BACK TO TOP | PRINT ONLY THIS ARTICLE

An Interview with Craig Fullen, CMT

by Yevgen Avramych

This month I had the pleasure of speaking with Craig Fullen, CMT about his career path, trading techniques, the CMT program, and the state of the financial markets as well as the job market in these difficult economic times.

Craig obtained an undergraduate degree in accounting and then went on to receive a law degree from Rutgers University. Following law school, he worked as a corporate lawyer for a large law firm and mainly focused on mergers & acquisitions and also worked on SEC securities-related filings, including some IPOs. IPO filings are naturally affected by market conditions and because the IPO filing process takes a substantial amount of time, having an idea of where the market would be in two or three months can be very useful. Craig began to develop interest in the financial markets when he began to notice that companies would often try to rush IPOs in favorable market conditions and delay them in unfavorable conditions. While practicing law, Craig began to invest on the side just as online investing was catching on and tried to use fundamentals as his investing strategy, but he quickly realized that fundamental analysis did not give him an edge and thus he began to look for answers elsewhere.

During his search, Craig stumbled upon John Murphy's book, "The Visual Investor." TA seemed to make sense to Craig and so he began to broaden his study of TA and would begin to use it in his personal investing while at the same time continuing to practice law. His passion for the financial markets eventually led Craig to open his own investment advisory firm which he operated exclusively for about four years, primarily acting as a technical market analyst for a larger firm while also managing some client portfolios directly.

Then an opportunity presented itself to Craig which he could not turn down -- one of his colleagues at his old law firm became an executive with a public company and asked Craig to handle some of the company's legal needs. So Craig formed his own law firm and began reviewing and negotiating a significant portion of the company's general business, information technology and e-commerce contracts. Currently Craig is still practicing law but he decided to shut down his investment firm due to compliance and administrative hassles of being a one-man shop and recently...
joined Advanced Asset Management Advisors, a Registered Investment Adviser, where he continues to apply technical analysis to help make informed trading decisions.

Although Craig has a broad knowledge of TA he likes to use a few techniques in particular more than others. Craig considers himself a macro analyst; he does not generally look at particular stocks but instead prefers to look at the major markets (stocks, bonds, commodities, etc.) as a whole. One of the strategies Craig uses is to scan through different chart frequencies, in particular the monthly, weekly, and daily charts. The monthly and weekly charts are used to develop a sense of direction or trend for the general market while daily charts are used for the purpose of finding a good entry point in the direction which would agree with the longer weekly and monthly charts.

Craig will also use intraday charts to help pinpoint entry points. Other indicators that Craig devotes a lot of attention to involve investor sentiment. Sentiment, from Craig’s perspective, encompass a variety of things, for example, option trading activity, investor/trader surveys, volatility data, and the market’s reaction to economic news. Craig likes to observe whether or not the market is diverging from the general news flow or if it’s going along with what economic evidence would suggest, and he also tries to note any “market abnormalities” for clues as to what might happen next. In addition, Craig observes Elliott Waves when the market is more volatile, and utilizes some of the more common market indicators such as MACD and RSI as well as other oscillators, and market breath statistics, although he uses some of these indicators in unique ways by changing parameters, manipulating the data, and developing his own guidelines for interpretation.

Over the past year, Craig has been trying to better understand how his brain processes all of the market information in order to make decisions. He has come to believe that each person must figure out what external factors are helping or hindering his or her ability to accurately analyze the financial markets. For Craig, he has determined that the challenges of having a law practice, two young children and a wife with a demanding job of her own can disrupt his focus on the markets unless he consciously prepares his analysis “in advance” (outside of market hours), reduces clutter in both his professional and personal life, and keeps himself in peak physical condition. All of this is sometimes easier said than done but he knows that doing each of these things is essential to success.

Craig also believes that after a person has observed the markets and many indicators over a number of years that the unconscious part of the person’s brain often “knows” intuitively which way the market is going to move – it’s just a question of being able to tap into that. Accordingly, Craig has been working on monitoring how he feels when he’s watching the markets during the day or when he puts on a trade to help give him additional clues. He has noted that he tends to be very relaxed after putting on his best trades and he doesn’t feel the need to watch the trade as closely because it’s as if his body knows it’s going to be a winner. On the other hand, he has noticed that when he puts on a trade that ends up being a loser, he tends to be very anxious and has a need to watch the trade like a hawk. Coincidentally, Craig’s wife recently bought him Malcolm Gladwell’s book, “Blink: The Power of Thinking Without Thinking,” which helped Craig better understand this concept and has encouraged him to continue to work on developing intuitive analysis skills.

When asked about his prognosis for the stock market Craig has a somewhat pessimistic view. Although Craig does not like to make long-term predictions, he expects that the market will likely reverse within the next two to three months. Amongst one of the reasons for this perspective is that Craig subscribes to Robert Prechter’s Elliott Wave theory view that we are about to begin another corrective wave down and continue the bigger downtrend that started at the end of 2007. In order to make money in such a market, Craig believes that investors will have to realize (if they haven’t already) that some of the conventional wisdom and widely-accepted assumptions about the stock market are wrong and adjust to what the market is giving them by playing both sides of the market and/or adjusting their time frames for holding positions.

Getting to where he is now hasn’t been easy for Craig and he believes that his career path is still evolving. Craig noted that being a portfolio manager – actually putting money in the markets and determining appropriate portfolio allocations – is much more involved than simply doing the analysis and making a market call, and technicians need to understand the distinction. Making a career out of TA is very difficult especially considering that TA isn’t as mainstream in the investment community as is fundamental analysis, and Craig believes that technical analysis may be even less accepted in the Columbus, Ohio area where he lives.

Thankfully Craig had some advice for those who are looking to get started. One thing businesses always look for when hiring a person is added value. Added value can be anything from a proven track record that outperforms the market to an established client base. A little “volunteering” can also go a long way as Craig actually consulted for another firm and sent them analysis for free until they decided to bring him on board. Important to not overlook is participation in the MTA and the CMT program. Through the MTA Craig has been able to establish strong contacts with some of the best in the business, share ideas and learn new techniques. Obtaining the CMT also will help because it will provide the necessary base of knowledge for anyone who is looking to practice TA professionally. As with all professions, it is important to go further and develop your own techniques in order to really develop that edge over everyone else and that is what every market technician should strive to do.

Yevgen Avramych works in the investment services area of Prudential Financial in New Jersey. He is a 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.

Intermarket Trading Strategies by Markos Katsanos

Reviewed by Mike Carr, CMT

The study of intermarket technical analysis was pioneered by John Murphy, CMT. His 1991 book, Intermarket Technical Analysis: Trading Strategies for the Global Stock, Bond, Commodity, and Currency Markets, was the first to identify tradable relationships between these markets. His work included a number of charts which demonstrated the leading and lagging relationships.

Six years later, Murray Ruggiero published Cybernetic Trading Strategies and moved beyond Murphy’s visual approach.
to intermarket relationships. Ruggiero presented trading systems that profitably exploited the connections between markets. He detailed rules that allowed traders to seek relationships between other markets, and moved the field of study towards the twenty-first century.

Finally, after twelve years, Katsanos revisits the idea of intermarket technical analysis and builds on the work of his predecessors. This work is largely based on the ideas of correlation and linear regression. The concepts are thoroughly explained in a comprehensible manner. They are then applied on a variety of markets. Neural networks are also explained with the same degree of clarity, and after reading this section, even the most ardent technophobe will understand the principles behind this technology.

Katsanos applies his ideas to a variety of markets over varying timeframes. In the end, the reader understands the strategies presented and will be able to follow the examples and apply the strategies in other markets. Interestingly, a structured and reproducible approach to trading divergences is presented.

One chapter is devoted to a summary of many of the system ideas presented. Fourteen different strategies are shown as applied to the gold market and the results are analyzed in a disciplined manner. This chapter alone is worth the price of the book. All too often, beginning system developers fail to understand what the important test statistics are.

The MetaStock® code for each idea is provided in an appendix. The procedure to create the neural network system using Ward’s NeuroShell Day Trader Professional is provided in another appendix. A final appendix presents the MetaStock Exploration for rectangle patterns, which is useful for any trader. Many traders use other software, and with a little effort will be able to translate these examples into the language they use (except for the neural net which requires specialized software).

Markos Katsanos is an expert in technical analysis and trading systems and inventor of two new technical indicators. In showing the relationship of volume to price movement, his Finite Volume Element (FVE) and Volume Flow (VFI) Indicators have become popular tools used by traders and the code was incorporated in almost all Technical Analysis and trading software.

Originally an engineer, he holds a Masters degree in Structural Engineering from the University of Strathclyde and a Bachelors honors degree in Civil Engineering. He is also a member of the Technical Securities Analysts Association of San Francisco (TSAASF). He has traded stocks and commodities since 1987, starting with fundamental analysis and with his engineering training he quickly gravitated to technical analysis of the market.

With more than two decades of experience in computerized analysis of stocks and futures, he has spent years refining his methods to come up with some of the most profitable strategies for choosing trades. He specializes in mechanical systems and has constructed dozens of systems for his clients and his own use.

Markos Katsanos has contributed several articles to Technical Analysis of Stocks & Commodities and other financial publications. He is currently in the process of setting up his own financial consulting company and can be reached at markos.katsanos@gmail.com.

A Fundraising Reception in celebration of the Opening of the MTAEF/MTA Library at Baruch College

All are cordially invited to attend a Fundraising Reception in celebration of the opening of the MTAEF/MTA Library at Baruch College on Tuesday, November 17, 2009, 5:00 PM - 9:00 PM, at the Newman Library at Baruch College (25th and Lexington, New York).

At this event you can...

- Tour the new MTAEF/MTA Library facilities
- Enjoy cocktails and hors d’oeuvres with old friends
- Meet our distinguished guest speakers
  - Robert Barbera, Ph.D.
    Executive Vice President & Chief Economist at ITG, Investment Technology Group
  - John Mendelson
    Senior Vice President, Market Analysis at Potomac Research Group
  - Jason Trennert
    Managing Partner & Chief Investment Strategist at Strategas Research Partners
  - Louise Yamada, CMT
    Managing Director of LYA
Edward Yardeni, Ph.D.
President of Yardeni Research, Inc

- Support the MTA Educational Foundation’s continued effort to introduce technical analysis to colleges and universities

Participate in the fundraising auction “Take a Technical Analyst to Lunch or Dinner” on eBay from October 12-21, 2009. Details available at www.mtaef.org and www.mta.org. Results will be announced at the reception.

Tickets are $200/person and reservations are required. Please RSVP by November 6th, space is limited, and business attire is required.

The MTAEF/MTA Library then …

After the MTAEF/MTA library was destroyed in the World Trade Center on September 11, 2001, publishers and the membership came to the rescue to restock the library, making it even better than the original. However, due to a lack of proper library facilities, the new library soon became too large, unmanageable, and in danger of being harmed again. What to do? The MTAEF set out to find a place for this collection of books, journals, research papers and charts where it could be properly catalogued and accessible to the membership. After a long search, The Newman Library at Baruch College offered a custody agreement. Under this agreement, the MTAEF/MTA would retain ownership of the material, and Baruch would house, catalogue, and handle the loaning of the publications, as well as store them in a climate-controlled setting under the safekeeping of professional librarians.

… and now at Baruch College

The MTAEF/MTA agreed to this arrangement. By joining forces with Baruch College, the library will continue to grow over time with donations from technical analysts and newly published works. Members and friends of the MTA will see the benefit (tax deduction) in supporting the growth of the library in its new home. This new setting will ensure that professionals will properly manage their long-treasured collections. More importantly, the new location will preserve rare and valuable technical works in a special section that will restrict access to the library only.

MTA members will be able to borrow their library’s books as they have in the past; Baruch students will be able to use these books in the library only; and Baruch faculty and other college professors with reciprocal library privileges will be able to use these books for their own research.

In addition, the MTAEF will be promoting the use of the library to the Baruch students, Baruch faculty, and other schools interested in technical analysis. Beginning in the spring of 2010, the MTAEF will sponsor research papers. The MTAEF/MTA Library has had a long journey from September 11 to Baruch College’s Newman Library – please join us on November 17 in celebrating this important event.

Proceeds to benefit the MTA Educational Foundation.

MTA Announcements

MTA Goes to Mumbai, India - Technically Speaking 2009

The MTA recently visited Mumbai and held its first international seminar, Technically Speaking 2009. On Saturday, August 22, 2009, in conjunction with UTVi, the MTA held a FREE seminar for all MTA members at the Taj President Hotel, in Mumbai. This seminar focused on the current state of global Technical Analysis (TA) and discussed the upcoming establishment of a local TA Indian Association. This event featured Ralph Acampora, CMT and Philip Roth, CMT live in Mumbai, with webcasts from Mark Galaisiewski, Jordan Kotick, CMT, Jeffery Lay, CMT, Phil Erlanger, CMT and others from the local Indian market. To view a slideshow of pictures from this event, please click here. Recordings of the presentations will be made available shortly.

MTA Educational Web Series

Registration is now open for the following upcoming presentations of the FREE MTA Educational Web Series.

- **Sign Up Now** - Wednesday, September 9th, Jeff Kennedy will present "Using the Wave Principle as a Trading Methodology." [Register for this webcast](#).
- **Sign Up Now** - Thursday, September 17th, Mike Hurley, CMT will present "Market Internals." [Register for this webcast](#).
- **Sign Up Now** - On September 23, 2009, Stanley Dash will present "Moving Averages: Don't Take an Old Friend for Granted" at 12:00PM EST. [Click here](#) to register for this webcast.

*New Addition to the Schedule* - The MTA is pleased to announce the addition of Kirk Northington, owner of Northington Trading, LLC, and the creator of MetaSwing, a MetaStock Add-On and TradeStation-compatible system, to the Educational Web Series. More information on Kirk’s webcast will be available shortly.

Technical X-change
Interaction/communication between members on the Technical X-change forums continues to increase. These forums provide members with a platform to share technical analysis ideas, and interact with one another on a professional level.

**MTA/MTAEF Official Library Opening at Baruch College - Save the Date!**

Join the MTA and MTAEF on Tuesday, November 17th, 2009, for a Gala Fundraiser to celebrate the opening of the MTA/MTAEF Library at Baruch College (25th St. and Lexington Ave. in NYC). For more information on this event, please click here.