Letter from the Editor

Technical analysis is a varied discipline, including such diverse forms of analysis as chart patterns, Elliott Wave, and relative strength. If this month’s newsletter has a theme, it could be described as “whatever works.”

Larry Williams is a world renowned trader and first class researcher. He recently made a presentation to the Los Angeles chapter of the MTA. Those who have been fortunate enough to take in one of his many presentations always get a variety of ideas. Larry seems to look at any idea, adopting those that can lead to profits. He doesn’t appear to be interested in being right or being pigeon holed as an expert on any one topic. Everything he presents is simply designed to make money in the markets.

We also have a summary of an archived video presentation that demonstrates ways to combine technical and fundamental data into a single trading opinion. Dennis Gartman explained his strategies more than a year ago. One advantage of using the archives for education and strategies is that you can look at how effective the ideas have been since they were presented. Gartman’s is yet another example of the timeless ideas available to traders and analysts in the MTA’s video archives.

Finally, as I read the publications of the CFA Institute, I am struck by the number of articles that build on ideas rooted in technical analysis. This issue discusses one of those articles. Please consider sharing ways that you combine other disciplines with technical analysis. You can email them to editor@mta.org. We’d like to print your techniques in a future issue of Technically Speaking.

Sincerely,

Mike Carr, CMT
EDITORS NOTE: In previous issues of the Technically Speaking e-Newsletter, we've reviewed various technical analysis books, products, and software. This article is a review of a free online service available to the investment community. In addition, PlacingTraders.com is collaborating with the Market Technicians Association to help provide materials and information for the Career Development Center for the use of you, our membership.

In a recent blog post, Vicki Meddows-Smith, wrote, “The old adage of ‘It’s not what you know but who’ has been given new life, but the challenge that remains for the business world is how best to embrace the power of the on-line community.” On her web site, www.placingtraders.com, she offers traders and job seekers a possible way to address that challenge and a chance to benefit from technology.

Placing Traders is an online community. The primary purpose is hard to define as the site is one of the few that does several things well.

Job seekers will immediately notice actual positions being advertised on the home page. Trading is now a global process as the world adapted to markets that never sleep. The job hunt, too, can be a global process. On a recent Sunday morning, the home page highlighted positions that were available in London, New York, and Sydney, Australia. The jobs page featured 37 positions that were added in the past week. From entry-level to six figure positions, the site is worth looking at for anyone exploring a career change.

For some technicians, the challenge is to create a body of work that hiring authorities can see. Placing Traders offers a solution to that problem with the chance to post your blog. Getting hired in this industry is competitive, and regular, professional blog updates can help. Why here instead of your own site? Remember all those job announcements? Undoubtedly employers are looking here to find qualified candidates, and some offers may even be extended based upon the quality of the work posted.

Other site features include a news feed and an events calendar. The global focus is found in every page on the site. Networking opportunities are available for anyone, no matter what part of the world they live in. The community feature can help maintain optimism in those inevitable bad times all traders face, with an audience that truly understands the markets.

Chart of the Month: Stocks for the really long-term

by Mark Cremonie and Ron Griess

While it’s easy to get caught up in the day-to-day movements of the stock market, a long-term view can help provide perspective. The declines of the 2008-2009 bear market were significant, but they were not unprecedented. Ron Griess of The Chart Store prepared a series of charts depicting previous bear markets. Additional charts showing details of each secular decline can be found at http://www.thechartstore.com/html/10-10%20S&P%20Secular%20Cycles.pdf. There, readers will find inflation-adjusted monthly charts of the bear markets, and time projections for how long this secular bear market could last, based on history.
The proprietor of The Chart Store is Ronald L. Griess. Ron is an investment professional with over 40 years of experience in portfolio management, investment and economic research and sales. A Nebraska native and University of Nebraska graduate, Ron began his career in 1969 and has always been fascinated with the "big picture." He has found charts to be very beneficial in the research and decision-making process. His love of collecting data and drawing charts has resulted in The Chart Store web site. The library of charts he has assembled is one of the largest to be found anywhere.

Mark W. Cremonie is a content contributor to The Chart Store. Mark is an investment professional with 30 years of experience in portfolio management, fundamental analysis and technical analysis. A native Hoosier, Mark received his MBA from Indiana University in 1980. He also holds the Chartered Financial Analyst and Chartered Market Technician designations. He has always focused first on the macro environment and then drilled down through sectors and industries, finding inter-market relationships.

For more information, please go to www.thechartstore.com.

Ten Things Everyone Should Know About the VIX
by Bill Luby

Editor’s note: We wanted to take an opportunity to present some information on trading vehicles that allow traders to enter positions designed to capitalize on volatility. This article was originally posted at http://vixandmore.blogspot.com/2008/04/ten-things-everyone-should-know-about.html and is reprinted here with permission of the author.

I have had quite a few requests to present some introductory material on the VIX, so with that in mind I offer up the following in question and answer format:

Q: **What is the VIX?**
A: In brief, the VIX is the ticker symbol for the volatility index that the Chicago Board Options Exchange (CBOE) created to calculate the implied volatility of options on the S&P 500 index (SPX) for the next 30 calendar days. The formal name of the VIX is the CBOE Volatility Index.

Q: **How is the VIX calculated?**
A: The CBOE utilizes a wide variety of strike prices for SPX puts and calls to calculate the VIX. In order to arrive at a 30 day implied volatility value, the calculation blends options expiring on two different dates, with the result being an interpolated implied volatility number. For the
record, the CBOE does not use the Black-Scholes option pricing model. Details of the VIX calculations are available from the CBOE in their VIX white paper.

Q: Why should I care about the VIX?
A: There are several reasons to pay attention to the VIX. Most investors who monitor the VIX do so because it provides important information about investor sentiment that can be helpful in evaluating potential market turning points. A smaller group of investors use VIX options and VIX futures to hedge their portfolios; other investors use those same options and futures as well as VIX exchange traded notes (primarily VXX) to speculate on the future direction of the market.

Q: What is the history of the VIX?
A: The VIX was originally launched in 1993, with a slightly different calculation than the one that is currently employed. The ‘original VIX’ (which is still tracked under the ticker VXO) differs from the current VIX in two main respects: it is based on the S&P 100 (OEX) instead of the S&P 500; and it targets at the money options instead of the broad range of strikes utilized by the VIX. The current VIX was reformulated on September 22, 2003, at which time the original VIX was assigned the VXO ticker. VIX futures began trading on March 26, 2004; VIX options followed on February 24, 2006; and two VIX exchange traded notes (VXX and VXZ) were added to the mix on January 30, 2009.

Q: Why is the VIX sometimes called the “fear index”?
A: The CBOE has actively encouraged the use of the VIX as a tool for measuring investor fear in their marketing of the VIX and VIX-related products. As the CBOE puts it, “since volatility often signifies financial turmoil, [the] VIX is often referred to as the ‘investor fear gauge’”. The media has been quick to latch onto the headline value of the VIX as a fear indicator and has helped to reinforce the relationship between the VIX and investor fear.

Q: How does the VIX differ from other measures of volatility?
A: The VIX is the most widely known of a number of volatility indices. The CBOE alone recognizes nine volatility indices, the most popular of which are the VIX, the VXO, the VXX (for the NASDAQ-100 index), and the RVX (for the Russell 2000 small cap index). In addition to volatility indices for US equities, there are volatility indices for foreign equities (VDAX, VSTOXX, VSMI, VX1, MVX, VAEX, VBEL, VCAC, etc.) as well as lesser known volatility indices for other asset classes such as oil, gold and currencies.

Q: What are normal, high and low readings for the VIX?
A: This question is more complicated than it sounds, because some people focus on absolute VIX numbers and some people focus on relative VIX numbers. On an absolute basis, looking at a VIX as reformulated in 2003, but using data reverse engineered going back to 1990, the mean is a little bit over 20, the high is just below 90 and the low is just below 10. Just for fun, using the VXO (original VIX formulation), it is possible to calculate that the VXO peaked at about 172 on Black Monday, October 19, 1987.

Q: Can I trade the VIX?
A: At this time it is not possible to trade the cash or spot VIX directly. The only way to take a position on the VIX is through the use of VIX options and futures or on two VIX ETNs that are based on VIX futures: VXX, which targets VIX futures with 1 month to maturity; and VXZ, which targets 5 months to maturity. An inverse VIX futures ETN, XXV, was launched on 7/19/10. This product targets VIX futures with 1 month to maturity. As of May 2010, options have been available on the VXX and VXZ ETNs.

Q: How can the VIX be used as a hedge?
A: The VIX is appropriate as a hedging tool because it has a strong negative correlation to the SPX – and is generally about four times more volatile. For this reason, portfolio managers often find that buying of out of the money calls on the VIX to be a relatively inexpensive way to hedge long portfolio positions. Similar hedges can be constructed using VIX futures or the VIX ETNs.

Q: How do investors use the VIX to time the market?
A: This is a subject for a much larger space, but in general, the VIX tends to trend in the very short-term, mean-revert over the short to intermediate term, and move in cycles over a long-term time frame. The devil, of course, is in the details.

The Evolving VIX ETN Landscape

As of today, only four VIX exchange-traded products (ETNs and EFTs) are available for trading. All of these have been Barclays products and three of the four carry the iPath brand name. In descending order of volume, the VIX-based ETNs currently being traded are:

- iPath S&P 500 VIX Short-Term Futures ETN (VXX)
- iPath S&P 500 VIX Mid-Term Futures ETN (VXZ)
- iPath Inverse S&P 500 VIX Short-Term Futures ETN (XXV)
- Barclays ETN+ S&P VECTOR ETN (VQT)

Five other companies (ProShares, Direxion, Citigroup, Jefferies and Bank of America) have VIX-based ETNs and EFTs (in the case of ProShares) in registration or have made announcements about forthcoming products, but I am unaware of any target launch dates. In order to simplify matters a little, henceforth I will start to refer to these products as exchange-traded products or ETPs.

In order to attempt to simplify and catalog the growing universe of available and announced VIX-based ETPs, I have assembled the chart below. The chart uses the y-axis to plot the leverage used (all are standard +1x ETPs, with the exception of the +2x CVOL and the sole inverse product, the -1x XXV) and the x-axis to plot the target maturity. VX 1 mo. is short for VIX futures with a constant maturity of one month, etc.

I have identified each ETP by its ticker (I do not yet have tickers for the Direxion or Bank of America products) and have coded these with a one or two letter suffix to identify the issuer (P for ProShares, D for Direxion, C for Citigroup, J for Jefferies and BA for Bank of America.) ETPs that are currently traded are in bold blue; ETPs that have not yet been launched are in red font.

The final piece of information involves grouping the ETPs into five clusters which represent the five approaches currently being used for VIX-
based ETPs. For all intents and purposes, the ETPs in each cluster are (or appear to be, at this juncture) equivalent in construction and should behave in a similar manner. Group #1 for instance, has been the dominant theme in the volatility ETP space to date. The focus here is on VIX futures with a constant maturity of 30 days. VXX was the first to market, but competitive offerings from Jefferies and ProShares are on the way. Group #2 uses a similar approach, but with a 5-month target maturity. Group #3 is the inverse of Group #1.

Group #4 represents what I consider to be a second generation of products, with a dynamic allocation of 2.5% to 40% (see Barclays VEQTOR ETN Begins Trading for details), which is why the group is shown here as having less than +1x leverage.

The newest VIX ETP approach comes from Citigroup, where their CVOL product not only targets a new portion of the VIX futures term structure (3-4 months), but adds a +2x leverage component and also includes a "variable weighted short position in the S&P 500 Total Return Index" as well.

Things continue to get more and more interesting in the VIX ETP space. I look forward to the launch of some of these newer products and to seeing how they perform.

It should go without saying that as the VIX ETP landscape continues to evolve, I will do my best to attempt to map it in a meaningful manner.

The Evolving VIX ETN Landscape

* This article was originally published at http://vixandmore.blogspot.com/2010/11/evolving-vix-etn-landscape.html

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It should go without saying that as the VIX ETP landscape continues to evolve, I will do my best to attempt to map it in a meaningful manner.
Bill is a private investor whose research and trading interests focus on volatility, market sentiment, technical analysis, and ETFs. His work has been quoted in the Wall Street Journal, Financial Times, Barron’s and other publications. A contributor to Barron’s and Minyanville, Bill also authors the VIX and More blog and an investment newsletter from just north of San Francisco. He has been trading options since 1998.

His first book, Trading with the VIX, is scheduled to be published by John Wiley & Sons in 2010.

Prior to becoming a full-time investor, Bill was a business strategy consultant for two decades and advised clients across a broad range of industries on issues such as strategy formulation, strategy implementation, and metrics. When not trading or blogging, he can often be found running, hiking, and kayaking in Northern California. Bill has a BA from Stanford University and an MBA from Carnegie-Mellon University.

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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. 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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**Los Angeles MTA Chapter Meeting November 15, 2010**

An event summary by Kristin Hetzer, CMT

Our last chapter meeting of the year was held at the Long Beach Grand Event Center Monday evening. It was a grand event, too. Larry Williams, a widely recognized futures trader for 48 years, was our guest speaker. It was very exciting to hear him speak about the markets and to learn of some of his personal experiences. The audience was very interested in his trading strategies and reasons for the consistent success after so many years. I think some were surprised by the background and wide-ranging interests of Mr. Williams.

Larry’s website, www.ireallytrade.com, offers a large amount of free content to those interested in his comments on the market. The commentary is timely and the research is unique and useful. The week before his presentation, he commented on the 413-day cycle for metals which posted a high where cycle observers expected it to.
He started the evening by showing actual trading results from 2010. The statements showed that the current balance was up approximately 1 million dollars for the year. He had the audience's attention. He has found over several decades of trading that trend, momentum and sentiment are the best indicators. His primary indicators are:

- Accumulation/distribution
- Ultimate oscillator. This tool was first described by Larry in a 1985 Technical Analysis of Stocks and Commodities magazine. The indicator combines price action from three different time frames into a single oscillator, which ranges from 0 to 100. Typical values of 7, 14, and 28-periods are used. The calculation is included in most software packages.
- Commitment of Traders (COT) indices
- Several of his proprietary indicators including the synthetic VIX and a valuation index.

Larry follows everything he can that is related to the markets, and he personally monitors over 100 newsletters. He likes to know what the "smart" money is doing and he gains insight into this by following the COT reports, which he compares to what the "dumb" money is doing (which he complies from the newsletter sentiment).

He explained his formula for his version of the VIX or what he calls the synthetic VIX using 22 days, which is the average number of trading days per month. He has found that using his synthetic VIX on commodities has been successful, and it's an easy indicator to follow for trading commodities.

Another useful futures indicator is open interest. He observed that when open interest is high the market is most likely to decline. This may simply occur because when everyone is interested in the trade, the move is likely to be almost over.

Larry began his trading career in 1964. At that time, there were two indicators. He is the developer of the Williams % R introduced in 1965. Today he states, "There are too many indicators, now over 1000."

While many of those are duplicative of each other, often just recalculating price action, he has continued to develop indicators that look beyond simple price action. One of those is a method to tell whether a commodity is over or under valued. He believes fundamentals drive price and technicals tell when to get in and out. Noting that gold is a store house of value, he mentioned that the Federal Reserve noted in 1969 that gold was barbaric, only idiots would buy it. Listening to the Federal Reserve at that time would have been a mistake. He uses a ratio of the price of gold to any other particular commodity to determine the valuation of the commodity relative to gold. Gold is the center point and this comparison has worked well for his trading success over the years. For example, compare silver to gold, or the euro to gold, to determine a valuation reference. Another valuation technique he mentioned is to compare the S&P 500 to bonds for under or over valued relationships.

Larry considers himself a conditional trader. Sentiment, trend, momentum, smart money, seasonals, cyclical and short term price patterns are all taken into account. After nearly five decades of trading, he believes that systems are not reliable. Markets change and are always changing. What worked previously, doesn't always work now. He mentioned his friend, Steve Cohen, a tremendously successful hedge fund trader. Steve Cohen is not a mechanical trader. Mechanical trades lock you into decisions that don't recognize that markets evolve.

Experts recognize that changes occur in other endeavors. Often recognizing the change comes after pain. An accomplished runner, Larry has run in 76 marathons despite two knee surgeries. Initially, he was taught to run using the heel forward. With advances in studying the action of running, it is now understood to be best to run with a motion that goes from the front of the foot to the back, and that dramatically reduces the strain on the knees. He also mentioned Charles Darwin's work - survival doesn't go to the smartest; it goes to who adapts the quickest. When he started trading, Pork Bellies were the most popular futures trade. It's different now and markets continually change. We also no longer trade T-Bills.

Another of Larry's friends, Joe Grandville did extensive work with On Balance Volume, one of the earliest applications of accumulation/distribution analysis. He finds it useful to look at price action relative to accumulation. If you see a low in price without a low in accumulation, you have a positive divergence. Another indicator he consults is what he calls, POIV or Price, Open Interest and Volume.

Larry Williams is a generous person, generous with his time and sharing of the knowledge he has accumulated over so many decades. You may find his articles and formula in past publications listed on his website. The most significant profits, he noted, are often from small positions that capture a big more. You have to stay in the trade to make big money.

Reading is a requirement to stay knowledgeable about the markets and market history. His favorite book is Zurich Axioms by Max Gunther. His second favorite book is his planner which each one of his trades, the reasoning for the trade, the entry, exits, profit and loss. His thoughtful methodology, consistency and mental abilities explain his tremendous success spanning almost a half a century. Larry Williams is truly an extraordinary trader and person!

Kristin Hetzer CMT, is the Chapter Chair of the Los Angeles Chapter and a currently serving on the MTA Board of Directors. She began her career in the investment business as an Account Executive with Merrill Lynch & Co. in 1982. She is a Chartered Market Technician, Certified Investment Management Analyst and Certified Financial Planner. Ms. Hetzer provides portfolio management services to a diversified group of investors. Her clients include individual investors, trusts, corporations and qualified ERISA retirement plans.

Ms. Hetzer has worked for major Wall Street firms for over 22 years. She is an active member of the Market Technician Association and Chair of the Los Angeles MTA Chapter. She is also a member of the Financial Planning Association. In 2005, she formed Royal Palms Capital LLC, an independent Investment Advisory firm.
Fundamentals and Technicals: Stealing from Both Schools

Dennis Gartman made a presentation as part of the MTA Educational Web Series on August 3, 2009. The archive of this presentation is available in the On Demand Video Archives.

This presentation was made at a time when markets were very volatile. It includes Gartman’s analysis of the markets at that time.

He began with a chart of gold. The chart is clearly indicative of a bull market. Intermarket relationships indicate that rising gold prices will lead to a lower dollar. Politically, a center-left government such as was in place at that time, will devalue the currency. These factors contribute to the trend, which was clearly up at that time. He is not a perma-bull in this, or any other market.

At the time, the price of gold was just below $1,000 an ounce. This price point presented resistance at the time. This reminded Gartman of a great battle, and trading in his opinion is like a war where the bulls and bears do fight against each other until one breaks through the line. In August 2009, he expected the bullish forces to lead gold through $1,000 an ounce, and when that happened he thought the price would potentially rise further. He finds that price targets tend to invite criticism when they are slightly off, and he thinks it is better to decide which side to fight on rather than seeking headlines with exact targets.

When looking at a chart, simplicity beats complexity in Gartman’s opinion. He relies on trends and finds that arcane methods of analysis do not necessarily lead to greater profits. If prices are going higher as you look from the left to the right, that’s an uptrend, and he noted that even a 4-year old could spot the trend at that level.

Gartman begins his analysis with a long-term chart. When looking at oil, this helps him spot what was perhaps short-covering in the all time top in crude oil. Shorts at that time, in the summer of 2008, included airlines. When the positions of these commercials and large speculative hedge funds were finally covered, the chart shows there were no further buyers.

Fundamentally, the brief spike to higher prices brought new production on line as previously unprofitable reserves now became profitable. New drilling technology also improved supply, and the technology was also deployable because of the higher prices.

In the markets, crude oil had usually been backwardated, where the spot price is above the price in the futures market. This is a bullish condition, in Gartman’s opinion. This discouraged the storage of crude oil. As prices declined, the backwardation disappeared and the market went into contango. A contango market is consistent with reduced demand, and the futures prices are higher than the spot price.

Information such as backwardation or contango is often ignored by technicians, who concentrate solely on price action. However, looking at these data points and seeking to understand what they mean in the market can help technicians trade. It lends a macro, long-term view of what the trend should be. Of course, in the end, price is the most important market indicator, but fundamentals do provide valuable insights.

With oil, prices are closely tied to global economic activity. As the pace of economic growth increases, the price of crude tends to rise. China and India will be increasing their consumption as they continue to grow. These economies are also large users of coal, which Gartman mentioned as undervalued. The ETF which tracks coal mining stocks was a solid performer since his talk, and those who researched his comment stood to profit from that trade.

Grain markets were also covered. These commodities, such as wheat, have a strong seasonal tendency tied to the production cycle. He was bullish on wheat for the long-term. Global demand is rising for wheat. The price formed a muli-year base and he was expecting a sizable move over the next two years – his price target has since been reached, but it is obvious from watching this presentation that Gartman’s market views continuously evolve, so the fact that his objective was met is certainly not a reason to turn bearish on wheat. A fundamental factor supporting his bullish opinion on grains is that the soybean meal market is backwardated across its entire term structure and demand is strong.

Stocks at that time were only a few months away from their bottom, which had followed a drop of more than 50%. The damage to household wealth that the bear market left will cause real changes in market psychology. He thought that individuals would be inclined to be sellers of stocks, and this view was at least partly correct as shown by the outflow from equity mutual funds seen since his presentation. He also felt that baby boomers would be buyers of debt, and again fixed income fund flows supported this opinion.

Another fundamental factor he highlighted was that growing the monetary base can lead to large stock market gains. Longer-term, he thinks that trend may reverse, as money comes out of stocks and goes to bonds, or capital investments in the economy.

In August 2009, Gartman expressed concerns about potential fundamental problems with the dollar. Foreign investors may become bearish on what is the world’s reserve currency. He thinks that the dollar will remain the world’s reserve currency as long the US maintains its military dominance. That does not mean the dollar will move higher – it will become a smaller holding in central bank reserves, but still the largest holding.

The trend for the dollar has been down for several years, and it is reasonable to expect that to continue until significant fiscal and economic policy changes occur. He is bullish on the economies, and the currencies, of Canada and Australia which can grow as the demand for natural resources increases. With respect to Canada, he expected the Canadian dollar to trade towards parity with the US dollar, another forecast which has been proven correct.

Industry success depends on being the winning side of the trade, and he is willing to change his market opinions as the trends and facts
Dennis Gartman has been involved with the markets since the 1970s. Mr. Gartman has been publishing his daily commentary, The Gartman Letter, since 1987. Over the years, he has also conducted numerous presentations and courses on issues relating to the capital markets and derivatives for various brokerage firms, central banks, and U.S. government entities. In recent years, Mr. Gartman has been a frequent guest on leading financial television and radio networks.

Fundamentals are Technicals
by Mike Carr, CMT

Sometimes without even realizing it, fundamental analysts seem to use technical analysis. A recent example is in the current issue of CFA Magazine, a publication of the CFA Institute. “Why Valuation Must Continue to Evolve” by Yves Courtois, CFA, points out that valuation changes over time. The article can be found at http://www.cfapubs.org/doi/pdf/10.2469/cfm.v21.n6.2.

He discusses accounting issues related to mark-to-market mandates and some of the problems associated with the accounting standards. He identifies the problem concisely and insightfully as “mark-to-market valuations follow the cyclical nature of the business cycle, leading valuations from peaks to troughs and vice versa.”

To prove his point, he presents a chart of the relative strength of various sector ETFs compared to the S&P 500, shown here as Figure 1. The conclusion, “…market values of economically sensitive sectors, which typically outperform the broader market in times of economic expansion and underperform during recessions, may significantly deviate from long-term fundamental values near peaks and bottoms.” It’s interesting that has turned to a tried and tested tool of technicians to prove a point related to accounting and fundamental analysis.

Later in the article, Courtois notes, “Because markets are only semi-efficient at best, behavioral factors have an important role in the determination of value. Thus, fundamental valuation approaches would greatly benefit from the inclusion of behavioral factors.”

Without using the language of technical analysis, his point is supportive of the field of study. Behavioral finance is certainly useful to understand concepts such as herding behavior, something which is blamed for contagions. Technicians measure the degree of contagion behavior with market breadth, and they look at herding as trends. For many years, technicians have been on what is now considered the cutting edge of economic and finance research.

All too often, investors and technicians look at fundamental analysis and technical analysis as different and almost mutually exclusive investment styles. John Bollinger, CFA, CMT, has written about “rational analysis” where the best of both disciplines are applied in the pursuit of profits. Clay Allen, CFA, has commented that “fundamentals tell you what to buy, technicals tell you when to buy.”

Technical analysis undoubtedly adds value to investment process. Combining it with fundamentals and behavioral finance can provide a
comprehensive theory for why it should work, improving employment prospects for those pursuing a career, possibly improving profits for those managing money, and helping generate acceptance of technical ideas among those providing research services.

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**Blogs of Note**

Many MTA members regularly make their work available to the general public. EM Trend Advisors, maintained by G. Edward Gruber, CMT, is one of those sites. Ed offers clear analysis designed to help traders see the big picture.

**November 16, 2010: The Final Few Weeks**

http://emtrendadvisors.com/blog/november-16-2010-the-final-few-weeks

When the red Starbucks cups hit the shelves, people start thinking Christmas. Granted, it’s not chestnuts roasting on an open fire or jingle bells but it certainly sends a message to start gearing up for Christmas. That also means gearing up for the always-important shopping season.

The moniker of Black Friday (which traditionally belongs to the day after Thanksgiving) was recently morphed and overlaid onto the entire month. If that is the case, Black Friday may draw far less activity in stores. Another potential side effect of a “Black November” instead of Black Friday is that retailers will run deeper discounts for longer periods of time. That is great news for shoppers but not so much for the seasonal earnings picture of retailers.

We’ll see how that plays out but it’s difficult to imagine a robust shopping season given the unemployment and underemployment data.

Market action as of late has produced more volatility. In response to the mid-term elections and the Fed’s much-anticipated QE2 ($600 Billion promise), the S&P 500 rallied 3.68% from session low on November 3 to session high on November 5. The session high on November 5 was 1227.04; a new 2010 and recovery high. That peak was up 84.03% from the 2009 bear market low (March 6). Interestingly, 1228.74 is a 61.8% upside retracement of the October 2007-March 2009 decline. We suggested the importance of the 1228 area in a November 2 blog post titled, “Here We Go…. ”.

In April 2010, the index reached 1219.80; the peak of a ten-week, 16.78% rally and the beginning of a nine-week, 17.12% decline. So, which trend driver is stronger…profit-taking from the 1220-1228 area or more bullish bets on the Fed?

QE2 (and all things Fed) has been a primary catalyst for the recent leg up in the market. The November 3 session low was S&P 500 1183.56. Yesterday’s close was the lowest close since November 3.

IF the year-end window dressers are coming to work early this year like the Starbucks red cups, 1183.56 may attract at least an attempt at support. Given the pre-market indications this morning, there may be a test if that level during today’s session.

How investors respond to a test of the 1183 area will be an important indicator as to the likely direction for the remainder of 2010.

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**November 10, 2010: Lame Duck Congress and the Home Stretch**

http://emtrendadvisors.com/blog/november-10-2010-lame-duck-congress-and-the-home-stretch

The mid-term elections, while bringing an historic shift of power in our federal government, came out pretty how what Wall Street expected. Funny thing about the market. The excitement about an event usually comes way before the actual event happens. Then, investors assess the actual event to see how close expectations were to reality.

The day after the mid-terms, Ben Bernanke and friends finished a two-day FOMC (Federal Open Market Committee or Fed) meeting and rolled out a $600 Billion plan for more quantitative easing (QE2). Investors liked that because it assured markets around the world of our government’s resolve to “print” as much money as it takes to support, backstop, guarantee, stimulate, attract (pick a verb) buying or at the very least…discourage broad market selling.

Afterall, those who have fought the Fed since late 2008 (sold stocks), despite a few short-term wins, have been utterly squashed as every period of weakness from any point in the past two years has proven to be a buying opportunity.

So is it the right thing….now…to simply close your eyes and pull the “buy” lever? With approximately seven weeks left in a surprisingly strong 2010, the path of least resistance certainly seems to be to the upside for the broad market.

But…

Momentum is a tricky thing to evaluate. Look at names like GOOG, AAPL, CMG, PCLN, and NFLX. There are many other examples but these stocks illustrate optimism gone wild. Analyst estimates are now chasing the stock price to justify ever-higher levels. Consider that from
the October-November 2008 lows to the October-November 2010 highs the stocks above have rallied as follows: GOOG +155%, AAPL +306%, CMG +530%, PCLN +848%, and NFLX +932%. During that same period of time, NAZ 100 rallied 116% and the S&P 500 rallied 84% (S&P 500’s low came in March 2009). Isn’t it strange how a two-year, 84% rally does not sound like all that much?

Accounts who have sold and/or shorted any of the above names have been obliterated. So now sellers are terrified and all news is good news…..for now.

As we have quoted many times, Alan Shaw, a technical analyst with Smith Barney “back in the day”, defined bull cycles as having three distinct phases: disbelief, belief, and greed. Per Shaw, bear cycles also come in three phases: disbelief, belief, and fear.

For the five names above and for an increasingly large portion of the market, we believe the bull cycle is firmly in the greed phase and the baton may be getting passed to a bear’s disbelief phase.

About G. Edward Gruber, CMT

In his fourteen years of trading experience, Mr. Gruber worked for two separate asset managers each with $50 billion under management. He also worked for another manager whose small cap assets grew from $700 million to $7 billion during his time there. One of the most formative periods in his professional experience was the downtrend from 2000 to 2003 and the subsequent uptrend from 2003. Those drastically different trends can not be entirely explained by fundamentals alone. When the overall market was bottoming in 2002-2003, many, many stocks were accused of having “deteriorating fundamentals” and these stocks were widely thrown away for dead. This mentality was most prevalent very close to major upside reversal price points. That begs a question. Do fundamentals change that rapidly or are there other forces at work that help determine asset prices?

A key component of our service is the disciplined focus on Technical developments in stocks and indexes. Our focus on the Technical side of the market essentially filters out what it is said and zeroes in on what is being done. Do trading volume and price direction confirm each other? If a stock is rallying on relatively weak volume, that is a huge red flag that buyers are tiring. “The market” is nothing more than a large group of people who are all interested in the same thing…capital appreciation. When these people collectively respond to a news item by buying or selling a stock or index, many clues are offered as to the level of conviction among market participants. We are available before, during, and after the trading day to technically evaluate a stock or index. Do you want a different perspective on stocks or index analysis? For more information, please contact support@emtrendadvisors.com.

Announcements

MTA Board of Directors Nominations

For the fiscal year commencing July 1, 2011, three (3) At-Large Board positions are up for consideration for a 3-year term. Over the next two months, we are encouraging any Member, Honorary Member or Emeritus Member in good standing to submit your name for consideration to nominations@mta.org. The nominating committee will then seek out your completion of a tailored questionnaire as part of its review process. In addition, if you do not wish to serve but have suggestions on who might be willing/able to do so, we would encourage you to write us on that as well. Nominations may also be made by petition signed by not fewer than ten (10) percent of the Members, Honorary Members and/or Emeritus Members in good standing. Affiliates and Student Affiliates are not eligible to submit nominations. Any such petitions must be filed with the Secretary not less than thirty (30) days before the Annual Membership Meeting. For complete details on the Nominating Process, please visit section C5.04 of the MTA Constitution.

MTA 2011 Annual Symposium at the New York Stock Exchange (NYSE) – Early Registration Now Open!

The MTA is pleased to announce that early registration is now open for the 2011 MTA Symposium! Registration opened last week and we have seen an unprecedented amount of sign ups. Register early to secure your place at what will truly be the most memorable in MTA Symposium history. The discounted early registration rate of $295 represents a savings of $130 (30%) off the regular registration rate! This offer is made available to MTA membership only; sign up now to take advantage of this outstanding benefit. Click here to register online now!

The MTA Breaks Through the 1,000 Active CMT Benchmark!

The Market Technicians Association, Inc. is pleased to announce that there are now over 1,000 active CMT charterholders! The MTA continues to see significant growth, not only in overall membership, but in the number of individuals signing up to sit for the exam and in total number of active CMTs.

View a video message from MTA President David Keller, CMT by clicking here.

To continue reading this press release, please click here.
MTA/CSTA Toronto Annual Conference – Registration Is Closing Soon!

The MTA has been working with the Canadian Society of Technical Analysts (CSTA) on a two day, co-branded event for our memberships to be held in Toronto, Canada on December 6th and 7th, 2010. This event will feature a full lineup of presentations, panel discussions, and networking opportunities. To date, the following is a list of confirmed speakers:

- Jake Bernstein (Network Press, Inc.)
- Ernie Chen (EXP Capital Management LLC)
- Jeff Cheah, CMT (Thomson Reuters)
- Jose Cid (Leandro & Stormer Trader School and Technical Analysis Academy)
- Ryan Detrick, CMT (Schaeffer's Investment Research)
- Phil Erlanger, CMT (Phil Erlanger Research)
- Ted Hearne (Trader and Consultant)
- Stan Heller (VectorVest)
- Veronique Lashinski, CMT (Newedge USA, LLC)
- Ian McAvity (Deliberations on World Markets)
- Gregory Morris (Stadion Money Management, Inc.)

Click here to register and to view the dedicated website created for this event.

New Additions to the On Demand Video Archives - 2005 Archives Added!

In an ongoing effort to expand our technical analysis video library, we have recently made 10 new videos available in the On Demand Video Archives. These videos, originally recorded in 2005, allow you view various presentations from both chapter meetings and the 2005 Educational Seminar. To view these videos, as well as others, please visit the On Demand Video Archives.

Recent Additions to the MTA Technical Analysis Library

The MTA recently added the following books to our Technical Analysis Library:

- "Bailout Nation" by Barry Ritholtz
- "Short Selling: Strategies, Risks, and Rewards" by Frank J. Fabozzi
- "Increasing Alpha with Options" by Scott H. Fullman, CMT
- "Market Psych: How to Manage Fear and Build Your Investor Identity" by Richard L. Peterson and Frank F. Murtha

If you are interested in borrowing one of these books, please contact Cassandra Townes. To peruse the rest of our collection, visit the MTA Library on our website.

Charles H. Dow Award - Submit Your Work

Want to gain the recognition from your peers and the entire technical analysis community? The Charles H. Dow Award is for excellence and creativity in technical analysis. The papers honored with the Award have represented the richness and depth of technical analysis. The Charles H. Dow Award currently carries a prize of $5,000.00 and is the most significant competition for recognition in the field of technical analysis. The last day to submit papers is Tuesday, February 1, 2011. Submissions postmarked on that day will be accepted. Please consult the Charles H. Dow Award 2011 Guidelines for Submission online at the MTA web site to ensure that submissions meet all guidelines. For further information on the Charles H. Dow Award, please contact the committee by e-mail at Dow Award@mta.org.