February 2011 Edition

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Letter from the Editor

Technical analysis has a rich, and little studied, history. MTA members are doubtlessly aware of this and understand that their membership helps them unlock a great deal of the available history. Thousands of books fill the shelves of the MTA library, some of them are the original works in their field of study. This is one of the most popular benefits of membership.

As technology changed, the historical archive of any field has expanded to include videos as well. Taking advantage of the leading edge of technology, the MTA has captured the thinking of some of the leading technicians in the world and provides videos of these presentations.

In recent issues of Technically Speaking, we have been featuring video presentations that are available in the archives section of the member’s section of the MTA web site. We believe there is great value in reviewing these and find that the true principles of technical analysis are timeless. Spending an hour looking at the current thinking of technicians from the time of a market bottom or top shows not only how they thought then, but with the advantage of hindsight you also know if it worked. That allows you to adapt that thinking to the market, learning from both what worked and what didn’t work.

We’ve long recognized that these resources help us to become better technicians. Recently, the MTA Board of Directors adopted a voluntary Continuing Education program that formally recognizes the role of the library and the video archives. You can now earn CE credits for reading the classic works in our field and studying the video presentations of some of the best minds in our industry. Most members will easily meet the goals of this program without making any changes in their professional development program.

There are many benefits of MTA membership, and the chance to learn so much about technical analysis from a variety of tools is only one of them. As always, we hope you consider this newsletter to be another valuable benefit of membership.

Sincerely,

Mike Carr, CMT
Introduction

While intensifying our efforts to bring value-added content to MTA members and affiliates through the Career Development Center site, we received feedback from members and affiliates inquiring as to where opportunities lie for practitioners of technical analysis in today’s competitive job market. When we put this question before the Career Development Committee, the answer was a relatively swift and unanimous “everywhere.” The Career Development Committee began its work by attempting to meet the query of technical analysts with answers that offer practical guidance. We began to brainstorm how to explain what opportunities existed, and where an experienced or budding technician might find satisfactory work. In our discussions it became clear that there is a wide array of opportunity, perhaps wider than many members and affiliates believe. In an environment where opportunity no longer appears quite as deep as it once was, we believe it will be worthwhile for affiliates to have some help in broadening their perspective. To that end we gathered the following descriptions of roles in financial services for which MTA members and affiliates may be particularly well-suited.

Buy-side Employment Opportunities

When we consider the roles open to TA practitioners, many of the most obvious reside on the buy-side: at firms that are paid to manage money for others through instruments such as mutual funds or separate accounts. These roles include market strategists, analysts, and portfolio managers, each of whom can apply technical analysis methods to the securities they follow in the equity, bond, currency, or commodities markets.

A market strategist at a buy-side firm will typically look at the macro picture, and will use technical indicators to determine which segments of the market appear to offer the most compelling opportunities. These roles are typically very senior and only found at larger firms which have the resources needed to support larger research teams. Not surprisingly, there are fewer such firms and fewer such positions available than just a few short years ago. Buy-side analysts, on the other hand, can be found at firms ranging from a few million dollars under management to those responsible for trillions.

Organizations that may offer market strategist, analyst, or portfolio manager roles include:

- Traditional buy-side firms
- Hedge funds
- Commodity Trading Advisors (CTAs)
- Institutions (pension funds, endowments, foundations)
- Registered Investment Advisors (RIAs)
- Family offices

Most analysts at smaller firms (those with under a billion dollars under management) will typically be generalists: they will cover securities across a broad range of areas. Analysts at larger firms will typically focus on a specific area: a sector or industry within the equity markets, or a particular segment of the fixed income market (such as municipal, high yield, agency, or Treasury bonds). Regardless of the scope of their coverage, buy-side analysts share a common objective: to provide timely, thoughtful, actionable security recommendations to the portfolio managers with whom they collaborate. Buy side portfolio managers rely on the work of their firms’ analysts, as well as their own research, in order to make decisions as to when to buy and sell specific securities within the portfolios they oversee.

Although roles at traditional buy-side firms may be the first to come to mind when considering a career in technical analysis, opportunities abound at other types of firms. Institutions — by which we mean pension funds, endowments, and foundations — have turned their attention towards alternative investments in the wake of the financial crisis of 2008-2009, attracted either by the promise of equity-like returns with bond-like risk or by the diversification benefits these instruments can provide by virtue of their low correlations to more traditional asset classes. The term “alternative investments” typically refers to those asset classes that do not fit neatly into either the equity or the bond allocation of a portfolio. Examples would include hard assets such as real estate or commodities; speculative, less liquid investments such as private equity or venture capital; and hedge funds, which often have the ability to short and/or use derivatives within the equity and/or fixed income markets. Although there are notable exceptions, alternative investment firms typically tend to be smaller and more entrepreneurial than traditional firms.

The roles at hedge funds are analogous to the roles at more traditional buy-side firms; typically, analysts and portfolio managers work side-by-side to determine exactly which securities should be included in a given fund and how much exposure each of those securities should have. Unlike traditional funds, however, portfolio managers at hedge funds have the ability to short and to use leverage or derivatives, which add new dimensions to the investing picture. While a manager of a long-only traditional portfolio may notice a confluence of technical sell signals regarding a security not currently in the fund, he or she will not be able to act on these signals due to the fund’s long-only restriction. A hedge fund manager, on the other hand, might be able to use either shorting or option strategies to take advantage of these signals. For this reason, the risk management tools available to technicians can be particularly valuable in this segment of the financial world. Members and affiliates seeking employment in this area would do well to become as conversant as possible with the methods for reducing risk in a portfolio. Having a thorough understanding of how option pricing works or how futures contracts move from backwardation to contango could be a differentiator amongst candidates well versed in various forms of analysis alone.

Like hedge fund managers and analysts, commodity trading advisors (CTAs) also require particularly strict risk controls, as shorting is a
significant part of the overall picture in both areas. CTAs manage portfolios made up strictly of futures contracts; for this reason, their portfolios are often referred to as managed futures strategies. In general, the pace of trading tends to be higher at these firms. While some long-only firms and hedge funds may hold positions for months or even years, CTAs tend to have much higher portfolio turnover, both because of the ever-shifting dynamics within commodities markets and because of the need to continually replace expired futures contracts.

Managed futures accounts – and commodity or real-asset strategies in general – have enjoyed increased popularity in recent years due to their low correlation with the equity and bond markets, as well as their perceived benefits as inflation hedges. Roles involving TA at these firms would include manager and analyst positions, much like other buy side money management firms.

MTA members and affiliates who are interested in portfolio manager or analyst roles may want to seek opportunities not only at buy-side firms, but also among those firms’ institutional clients: pension plans, endowments, and foundations. These organizations often employ financial professionals to assist in the internal management of assets, as well as to evaluate managers and help determine an appropriate asset allocation to meet the institution’s needs. Roles at these organizations range from lower-level Analyst jobs to more senior Chief Investment Officer (CIO) or plan sponsor positions. The amount of security-level analysis these positions entail will vary broadly depending on asset base and strategy of the institution. Standard & Poor’s Money Market Directory and Pensions & Investments magazine, both of which are available at many business libraries, represent excellent sources of information on this segment of the industry.

Registered investment advisors, or RIAs, represent another area of the buy side that offers rich opportunities for technical analysts, particularly those with an entrepreneurial spirit. RIAs often deal with high net worth clients – those with assets in excess of $1 million – and develop strategies to help meet those clients’ income and capital gains objectives. These strategies typically feature mutual funds, separately managed accounts (SMAs), and/or ETFs, though some may also feature individual securities chosen by the advisor. Many RIAs rely heavily on technical analysis to help them structure their clients’ asset allocations advantageously. RIAs can either operate independently, or they can be affiliated with a larger broker/dealer (or “wirehouse”) which provides centralized research and support.

Like RIAs, family offices offer financial advice and services to wealthy clientele. In the past these firms often managed the assets of a single family, though recent years have witnessed a proliferation of firms offering their services to multiple families (called “MFOs” or “multi-family offices”). Although their mandate is similar to that of RIAs, the accounts managed by family offices tend to be larger, and their time horizon tends to be significantly longer. For these reasons, family offices tend to be more willing to enter into more sophisticated, less liquid asset classes such as private equity, real estate, or hedge funds. Roles at family offices will vary from one organization to the next, but they typically will employ managers and analysts who can employ technical analysis to identify potentially advantageous opportunities for their firms’ clients at the security and/or asset class level.

Sell-side Employment

Having covered some of the key buy side roles available to practitioners of technical analysis, let us now turn our attention to the sell side. Sell side firms, as their name implies, are firms that sell securities and make recommendations to brokerage firms’ customers. These firms typically have two methods of making money: either through the commissions they charge customers for security transactions, or by participating in financial markets themselves. Both areas offer potential career opportunities for skilled practitioners of technical analysis.

On the commissions-driven side of the business, sell-side firms typically offer research to the buy side as a means of generating more demand for their trading services. Sell side firms therefore typically have deep, often highly specialized teams of analysts who regularly prepare and present research reports on their areas of expertise. Several of the larger firms employ dedicated teams which are focused exclusively on technical analysis of the market as a whole; the reports these analysts produce are disseminated to the buy side on a regular basis to spark ideas and offer context for trading decisions. These are not the only sell-side positions for practitioners of TA, however: analysts focusing on any particular segment of the market can benefit from the insights that technical analysis can confer, and can weave these inputs into their day-to-day analysis to great advantage.

Sell side firms that trade for their own benefit, rather than for commission dollars, typically do so through a proprietary desk, often colloquially referred to as a “prop desk.” Traders on these teams often make significant bets on the direction of markets, and are often at liberty to invest across a broad spectrum of instruments and asset classes. While these roles are among the most TA-intensive in the industry, they are relatively limited in number: not all sell side firms have prop desks, and regulatory pressure in recent years has led some firms to exit this side of the business. For these reasons, as well as the skill level these roles demand, competition for these positions tends to be particularly fierce in today’s environment.

Non-traditional Employment for Technicians

During the California gold rush, some of the most successful people sold prospecting pans instead of panning for gold. When looking at career options, technicians should also consider how their skills might make them valuable in related professions. Many MTA members profitably apply their skills in fields that require an understanding of the markets but may not involve making a buy or sell recommendation. Some members have found more success as entrepreneurs by seeking out a variety of ways to combine technical analysis with other passions in a way that suits their temperament and income needs.

We in the Career Development Committee encourage members to have realistic expectations about what the market needs, what it will pay and how many others will be seeking to do the same thing. Members should understand that publishing a book, creating a well-visited educational website or producing a newsletter to attract loyal subscribers is not something easily accomplished. It is even less likely to expect success pursuing a tenure-track job in academia. But none of these endeavors are impossible to achieve, and all of them begin with a winding path that may have its starting point with an opportunity that is surprisingly more available than members may suspect. By broadening their focus to include nontraditional roles, technicians may find more employment opportunities relevant to their desired field of endeavor.

Technicians who are passionate and able to write can find many opportunities to get published online. In fact, any competent technician with excellent writing ability can find a wide array of possibilities for getting their work in front of a large number of readers. There is a catch: you don’t get paid by these readily available outlets. But what you do get is the beginning of a building reputation—an asset which can be parlayed profitably along your path to building a paying following. If that might be you, think about the kind of audience who you should target.
and begin to build a portfolio that could be shown to different publications. As many materials available through the Career Development Center emphasize, customizing your approach to each outlet will be far likelier to yield you results than sending one article to a thousand different outlets.

Regional magazines often appreciate knowledgeable financial columns that aren’t focused on pushing a service or a product. When approaching a magazine, position yourself as a writer first and a financial professional second and discuss how your articles would broaden the appeal of the magazine to potential subscribers and advertisers. Magazines will be sensitive to providing content relevant to their readers and advertisers, maintaining their brand and -- this cannot be overstated -- meeting print deadlines.

Launching newsletters—or their online counterparts—with paid subscribers is challenging because investors have their own opinions and few are willing to pay for other’s opinions. Newsletter authors use a variety of different ways to promote themselves and their services. Overwhelmingly, the most successful authors have earned enormous credibility in the marketplace. If you would like to market your own newsletter, begin to look for speaking engagements that would allow you to start building that critical following. Market your newsletter to your speaking audience and your speaking engagements to your readers to build a loyal base of subscribers and speaking venues.

The field of technical analysis is rapidly evolving. Writers with innovative ideas who already have discipline and patience might consider sharing those ideas through writing a book. Before doing so, do careful research to see what might fill a niche and be salable. Much has already been written on TA, but there remains a lot of fertile ground to be covered. If you have published online and demonstrated an ability to attract a readership, it might also be much easier to attract a publisher’s attention to consider your project.

Many MTA members teach TA at an undergraduate and graduate level. The material may be taught within a traditional investing course or as a course on its own. Generally, interested members will find it easier to locate adjunct or instructor positions. Community education programs, local junior colleges and trade schools are increasingly looking for financial services education. Once again these venues don’t pay a lot (sometimes not any) but they do allow you to begin somewhere, and in a way that can help you refine your craft as you build experience and reputation along the way towards your ultimate goal. Once you attain a teaching opportunity that is worthwhile, it may require a significant amount of work preparing to lead a course with pay that is only a supplement to current earnings rather than a complete source on its own. Should you develop a teaching opportunity, a valuable resource might be the MTA Educational Foundation (www.mtaef.org), whose goal is to promote TA within the academic community.

If you enjoy teaching and feel confident you can attract listeners, you can also offer seminars to a paying audience. However, the cost of marketing and holding such events is not insignificant. If you have sufficient reputation from other means, you might be able to partner with others with whom you can jointly benefit by providing informational events. Technicians who are invigorated by public speaking may find this option to be particularly appealing.

In this area, there is also a starting point that doesn’t pay anything but reputation, but which can lead to additional opportunities. You might consider being an investment coach. Some people without any designation are paid quite well to be investment or trading coaches. Simply hanging out your shingle and putting up a website may not be a terribly successful method to get started here. But coaching people around you for free will help you develop a methodology. If you find that you can actually help them improve their investing, they can become testimonials for you. It may take time, but if you have an aptitude for this kind of work, starting small and building a loyal clientele can be a profitable use of your technical analysis skills. Additionally, there are companies who hire investment and trading coaches. The pay for this work is lower than what an entrepreneur makes once successful in this area, but more than a person who is just starting out.

Fortunately, newsletter publishing (whether print or online), coaching, small and large group instruction, is something that can be done part time. Those who care to start up in this area don’t have to quit their day jobs—regardless of what field they are working in—to build up a reputation of expertise in teaching or publishing.

In addition to working either as a more traditionally defined analyst or in the education arena, there is another area that your skill may readily be applied: software development, sales and support. Technicians are insatiable consumers of information, and there is a significant demand from software vendors and data providers for people who can knowledgeably discuss how their products can benefit potential buyers and subscribers. If they are successful, software salespeople can earn very attractive incomes.

Some platforms allow add-on products. If you have programming experience and are capable of rigorously-testing new ideas, then you might consider developing and marketing add-ons to existing platforms, or eventually a whole product. If you prefer the stability of W-2 income and are not of a sales mindset, there are occasionally customer service and internal consulting opportunities within various software firms. Such positions generally do not pay as highly as most analyst jobs, but they could easily prove to be gateways to much better opportunities.

Lastly, you should be certain to use your technical knowledge to your advantage no matter where you go looking for work. CMT charterholders should not pass up opportunities to mention the discipline, commitment, and intellectual rigor required to pass the CMT exams. The study of technical analysis imposes a fairly unique and disciplined way of seeing the world. Few philosophy majors would offer the sage advice “manage the downside and the upside will take care of itself,” but most potential employers appreciate employees who think carefully about potential business risks. The world of technical analysis may seem like so much mumbo-jumbo to those not acquainted with the field; however, they can’t help but respect a person who can discuss the discipline in a way that helps them make sense of chart data. Doing so is an impressive feat no matter who you are talking with. If you can describe a good technical analysis in a clear, concise way, it may have the effect that solving a Rubik’s cube accomplished for Will Smith’s character in the movie “The Pursuit of Happiness.” That is to say, it can get you noticed and help you separate yourself from other candidates.

We have other valuable traits. Technicians usually possess an ability and temperamental inclination to carefully and quickly sort through many different pieces of information, decide what has value and most importantly, take a position and stand by the results. That is an ability prized by potential employers. If relevant to the job at hand, you may want to show how TA indicates you are a visual learner.

Conclusion
We at the MTA Career Development Committee hope this very brief introduction to career options for technicians proves valuable. Many MTA members and affiliates combine traditional and nontraditional roles to stay occupied and engaged in the field. Keep in mind employers also value personal and professional skills that no professional designation can provide. When you pursue a career path, do diligent research and stay as targeted as possible towards the goal you choose.

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...

FUSION ANALYSIS

This is a professional approach that blends fundamental, technical, behavioral and quant strategies. The approach attempts to exploit profitable opportunities in market investing by both investors and traders. Whilst the course focuses on US equities, other asset classes, such as, fixed income, commodities, FX, real estate, and GCC stocks will also be analyzed. Given the plethora of strategies, the workshop will help create focused approaches to meet specific investment objectives. Fusion Analysis can create: “The better approach to investing”

EQUITY PORTFOLIO MANAGER

Serious managers will utilize this course to analyze leading Wall Street valuation models and investment strategies for equities using fundamental, behavioral/technical and quant approaches, and then study how these are modified by the best performing equity portfolio managers to produce risk-adjusted excess returns. Also reviewed are: accounting and cash flow tricks that are sidestepped by professional investors, but punish many investors; various trading strategies, incorporating algorithms, hyper-trading, dark pools, and derivatives; new reporting requirements for regulatory considerations, consultants and clients as well as fund marketing techniques; and career advice to get the big bonus checks. An interactive investment workshop reinforces these skills when participants get to select stocks, choose a performance measurement method and then determine a marketing style and vehicle to create an investment approach producing excess returns. Case studies examining the investment approaches of leading versus average performing portfolio managers are also included. This intensive course goes beyond basics into the sophisticated and subtle strategies that can help achieve: “Top Quartile Manager”

INVESTMENT FUND SELECTION

This is a must attend course for all professionals involved in the selection and management of third-party investment managers. Investment Fund Selection offers an insiders perspective into the various challenges in determining the most appropriate fund structure, managerial style and fund value-added performance of third-party investment managers in order to achieve individual investment objectives. Portfolio theory considerations and statistical issues are discussed with behavioral considerations. Reviewing different fund structures, such as mutual funds, private equity and hedge funds, participants explore regulatory, audit, established and recent portfolio performance measures and, learn about subtle tricks that some funds can use to “dress up” performance records and charge unwarranted fees.

An optional and practical one-day investment fund selection workshop will also include various fund case studies and exercises to reinforce the definitive selection techniques learnt. Participants get to perform an investment fund selection role-play in order to evaluate and screen funds for specific investment criteria and answer the question: “Is my fund manager giving me my money’s worth?”

TECHNICAL ANALYSIS CMT 1

A must attend 4-day course for investment professionals wishing to gain the CMT Level I professional qualification in Technical Analysis from the Market Technicians Association (MTA). Using real-life charts, participants learn traditional technical tools of charting and many specialized topics. Whilst the course focuses on US equities, other markets including GCC stocks, commodities, and real estate will also be explored. An optional 1-day session entirely dedicated to exploring trading opportunities for US and GCC equities, FX, commodities and bonds using technical analysis. Prior workshops correctly called turns in the US market, collapse of real estate, and the decline of the Saudi market by blending technical indicators. This course should help answer the question: “Buy or Sell and When”

INTRODUCTION TO STEALTH TRADING USING FUSION, ALGORITHMS, AND DERIVATIVES FOR PROFESSIONALS-

Today, portfolio managers increasingly must use stealth trading in order to disguise their intentions and thus benefit from best execution. The old ways of staring at a Bloomberg to get bid/ask quotes and transacting an order is gradually being supplemented by more sophisticated strategies, such as, algorithmic models to meet various investment goals. The objective of this course is to give the student an introduction to
the mathematical challenges of creating algos and, utilizing various trading strategies that can achieve best execution. This course should help achieve: “Best Execution.”

ADVANCED CAPITAL MARKETS ANALYSIS
Spot, forwards, futures, swaps, options, and statistical issues are discussed in dynamic capital market strategies. This course was first introduced to a top Ivy Business School. Solving the course problems and cases has brought angst to MBA and CFA candidates. Still, the topics are the food for advanced hedge fund techniques.

STRATEGIC GOLD INVESTING
Gold has been one of the very few assets to have created wealth in the past several years. Gold offers investment opportunities for investors, traders, and financial engineers. Erroneously, some feel that one must only speculate on rising or falling gold prices to make money. In fact, there are strategies other than pure directional ones that may also offer investment opportunities. Preconceived notions on gold may soon be giving in to today’s global economic challenges. This course is for believers and non-believers in gold. Gold offers hedges against both inflation and fear. Portfolio strategies can also benefit from owning gold. Bull and bear traders can profit by using unique strategies to capitalize from gold’s fluctuations. These strategies include the use of complex technical analysis, behavioral, economic, and algo models. Financial engineers may also be interested in replicating or enhancing traditional investment strategies with gold. This course should help answer: “Is gold the future global currency or the future paperweight”.

GLOBAL SMALL CAP INVESTING
Global small cap stocks offer investors the ability to participate in the world’s future big winners. Certain trends have made this exciting area more attractive. These trends include more common product standards and consumer expectations, as well as freer capital and financial information flows. It is more likely that innovations will be produced globally rather than in traditional countries. Despite the attractive nature of this investment universe, it holds many traps and challenges for the stock analyst and portfolio manager. Therefore, the typical global small-cap manager has not produced an alpha. This course also explores alternatives in venture, emerging, frontier, BRIC, and financially engineered companies. This course covers fundamental, technical, behavioral and quant approaches to investing in global small-cap stocks. Global small-cap investing will help answer: “Now why didn’t I invest in that company?”

PORTABLE WEALTH INVESTING
Portable Wealth (PW) management offers investment opportunities for wealthy investors and their advisors. PW can generate attractive risk-adjusted excess returns to traditional and alternative investments. PW helps offset weaknesses in MPT portfolio optimizations. It also provides the opportunity to quickly transport wealth in relatively good liquid form across country borders. PW has stood the test of time. Every century has had serious political, environmental, and financial imbroglios that have favored PW investing. While gold comes to mind in terms of PW, other more important PW investments have grown in value over time. Adding to the challenge of PW investing is the growing uncertainty of forecasting the changing nature of political regimes that can rather quickly expropriate wealth outright, or cause its devaluation by stealth methods. Recent experience with natural disasters, cyber security, wealth targeting, the 2008 financial meltdown, and fear of Black Swan economic scenarios have also contributed to PW investing. PW will be analyzed in terms of portfolio theory, behavioral finance, technical analysis and strategic specific investments. This course is offered to select students and includes a pre-course quiz. “With PW, live well anywhere.”

Instructor John Palicka CFA CMT is a top-ranked portfolio manager of Global Emerging Growth Capital (WWW.GLGEGC.COM) with over 30 years experience of managing $ billions. He has doubled client money, on average, every 4 1/2 years since 1980*. His high course ratings from major investment firms reflect clear interpretations and practical applications of complex topics; knowledge applied to examples and cases found in the current worldwide and GCC marketplace; his experience with specific situations actually encountered in his career and consulting contracts that parallel the learning topics. John has an MBA from Columbia University and also teaches these courses for leading training institutions, including The New York Institute of Finance (WWW.NYIF.COM).

* Past performance is no guarantee of future results.
costs and dates, schedules, marketing details, etc. Within weeks we had exchanged numerous emails with MTA staffers Tim, Courtney, and Shane. They not only supported the idea and assisted us in further planning, but were also very enthused about the initiative; soon we were all ready for the Jan 15 event.

Besides the hard work, we had fun organizing the event. I had a lot of support from my organization, UNIQA Insurance Hungary, which also sponsored the event. We organized the conference in our new office building; A distinctive feature of the building is its LED facade, allowing for colorful images and messages to be displayed. With some 80,000 pixels, the building boasts Europe’s largest LED facade.

We tried to structure the presentations in a way that it would be of interest for people with fundamental economic background too, as it was the first MTA technical analysis event in the region. We received 60 registrations and almost the same amount of attendees from all over Central and Eastern Europe. The whole region was well represented. The day started with Ralph Acampora who sent us an opening speech video, which made a grand opening to the event. It made the attendees very enthusiastic when they saw the great strides the MTA has made in just three decades and how with a presence in seventy five countries, the MTA was truly a global association.

Rona Schehrer (Schehrer Portfolio Management, Switzerland) gave a speech titled “The Cost of Money.” She explained the interest rate outlook with yield curves and long-term global bond price structures. She extended her theme by explaining how interest rates could affect other important global assets like the dollar, gold and US equity indices. She made her forecasts and concluded with an intermarket case on CRB vs. Bonds and how to address risk elements in investing today.

This was followed by Mukul Pal (Orpheus Capitals, Romania) on “The Performance Cycles.” Mukul explained the commonality between markets, nature, and society visible through clustering and the Pareto principle. Then he illustrated how time was clustered and created the performance cycle. He showcased the Rieki performance cycle for global assets and how to use it for investing and portfolio management.

Fadi Ismail (HSBC Private Bank, Switzerland) had an interactive session. He introduced behavioral finance giving comprehensive examples from his personal experience and from the available literature on the subject. He explained the top behavioral biases like confirmation, overconfidence, anchoring, conservatism, loss aversion and very beautifully summarized an approach to overcome the respective biases.

Bill Meridian (Cycles Research, Austria) illustrated long-term cycles on interest rate, the dollar, and commodities. He explained the larger inflationary view and also the outlook for 2011 based on his cycles studies. Bill expects a positive 2011 and sees money flowing out of emerging markets to US stocks. He is also looking at a commodity correction followed by moderate gains by years end. Bill’s presentation was full of historical evidences and facts.

The afternoon continued with panel discussions including all of the speakers, which brought a great deal of discussion about the current unresolved economic issues involving the attendees. It was a great success.

We wrapped up the day with a dinner event, where the discussions continued late into the night. The event was a great success, as confirmed by both speakers and participants, and we made great progress on bringing the organization forward. There is a great deal of interest among the attendees to invite Ralph Acampora for a full day seminar on technical analysis.

We are planning another event in 2011 and are looking for volunteers to make MTA shine in the region. Please contact Laszlo at laszlo.kovacs@uniqa.hu or Mukul at mukul@orpheus.asia for more information.

A VIEW OF THE UNIQA BUILDING ON THE DAY OF THE KICK OFF MEETING
How would you describe your job?

I’m a senior pro equity trader for National Bank Financial (NBF). My task is relatively simply; trade day in and day out to maximize gains month over month while limiting risk. My focus is on U.S and Canadian stocks and I am free to employ any trading strategy I feel will be best. This allows for a great deal of flexibility. I am paid based on a percentage of profits and it is important that I am comfortable with the approach I am using.

What led you to look at the particular markets you specialize in as opposed to another tradable?

The easy answer is that at NBF I cannot trade other markets apart from North American equities. However, I have traded futures and commodities extensively on a personal basis. I do prefer equities, however for a number of reasons. Firstly, equities are very liquid and actively traded. When charting is major part of your trading background, as in my case, liquidity and active trading are essential – especially when you have a time horizon of minutes to weeks.

I also feel there is a greater wealth of information available to equity traders. All stocks are exchange listed and there are strict reporting requirements. Fundamental and technical information can be achieved easily and are very accurate.

Many people do not list simplicity high in their levels of priority. I believe that the 2007-09 bear market clearly demonstrated that complex and exotic products are not a golden path to profits. When trouble arises and liquidity becomes a concern, the more complex and exotic the
product, the more difficult to exit a losing position. Equities are simple. For someone in my position without a room packed of analysts at my disposal, the ability to make quick and clear decisions is crucial.

**Do you look at any fundamental or economic inputs to develop your opinions?**
I believe that technical analysis is absolutely essential to trading. It allows you to time entries and exits to maximizes profits and minimize losses. However, I feel that technicians can sometimes become carried away with what the charts can accomplish. Charts cannot drive a market higher or lower for a prolonged period of time. Fundamentals and institutional buying is what dominates the market place. Take a look at any stock chart and overlay earnings per share (EPS). There is some lag (markets are forward looking), but clearly earnings are what drive stocks higher. To be more accurate earnings growth drives a stock higher. Wal-Mart’s EPS is a multiple of what it was is the 80s and 90s, but the stock hasn’t budged for 10 years. However, when EPS growth was enormous (and a fraction of today’s EPS) in the 80s/90s, the stock was a rocket.

When capital is limited (as it typically is), you want to focus your money where you have the opportunity to produce the highest return with the lowest possible risk. Charts cannot determine what equity will produce that optimal reward/risk ratio - only fundamentals can.

Economic conditions are also important in my analysis but to a lesser extent. Economic conditions will typically decide whether we will receive a bull or bear market and to what extent. However, it is important not as a trader or investor, but as a business person to understand basic economic principles and what impacts they will have – we are investing within the economic system. Despite political rhetoric, the free market system is an unrivalled success story. A free market system allocates capital and allows for growth more efficiently than any government or group of people ever could. Also, innovation is what allows for growth to take place. Any economic policy that deters the free market or innovation will in the long run lead to a lower standard of living and at times negative growth. Small government, an enforced legal system and low taxes are bullish for stocks in the long run. Any dramatic shifts in these factors can dramatically affect stocks.

**What technique do you rely on the most? Can you describe this tool?**
The techniques I use most are simple. Stocks need a proper base to advance in price significantly. Volume allows investors to see when buyers are more aggressive than sellers. A combination of bases, volume breakouts/breakdowns and channels are my essential tools.

**What advice would you have for someone starting in the business today?**
Read many books about the market. However, not all books will point you in the right direction. Always look for market evidence to back up any ideas put forth by someone and let facts guide you. Many fallacies such as the efficient market theory and some technical theories can cost you a lot of money. Don’t take someone by their word alone; make them prove to you what they promise.

Matthew Caruso, CMT is a senior pro equity trader for National Bank financial as well as president of the Canadian Society of Technical analysts. He is past adjunct professor and co-creator of Canada’s first fully accredited technical analysis course at Concordia University located in Montreal.

These questions and answers have been compiled by Amber Hestla, an independent market researcher. If you’d like to participate in a future interview, please contact her at hestlairesearch@gmail.com.
higher confidence leads to a willingness to apply bigger growth estimates, higher PE ratios, and longer forecast horizons. In the end, this is what causes trends to reach "irrational" levels, which can be fully explained by this slightly modified definition of the EMH.

The class seemed to freely embrace this idea, and it allowed for a more open discussion about price trends, and how they are driven by how strongly investors in aggregate feel about company fundamentals. The greater the excitement, the more investors want to buy (demand) and the less they want to sell (supply). In keeping with Economics 101, I argued that prices will trend higher until the forces of supply and demand come back into balance.

After discussing trend structure, and the various tools one can use to measure trend, we also had a lot of fun going over the magazine cover sentiment indicator. We went from The Death of Equities in 1979 to Holding on For Dear Life at the March 2009 lows. Finally, to demonstrate underperformance in the 1990s, despite very strong and persistent fundamental trends. I leveraged this opportunity to show how, using what I referred to as fusion analysis, one could have used inflections in the trend of the company’s stock price to signal when investors were starting to feel differently about the otherwise unchanging fundamental trends. These concepts seemed to resonate very well with the students and professors.

Prior to the class, I was given a tour of the renowned trading floor at Bentley. In a prior email exchange, Professor Pandit described it as follows: “Bentley has an awesome trading room with about 60 terminals and 40 Factset licenses and several Bloomberg and other data services.” What impressed me most was how the trading room was full of students at 8:30 at night, following the global markets, and applying what they learn in a very realistic setting.

Overall, the response from the students and professors was very positive, as reflected by the very engaging Q&A session that followed the lecture, as well as the number of students and Professors that approached me after the session. Professor Pandit and I agreed that in the future, students would very much appreciate a more advanced class on technical analysis.

David J. Lundgren, Jr., CFA, is a Senior Vice President and Director of Equities & Research for Hancock Horizon Funds. He formulates equity investment policy and strategy as well as analyzes and researches quantitative equity strategies for Hancock Horizon Investments. He also manages the Value, Growth, and Burkenroad Funds for the Hancock Horizon Family of Funds. Lundgren was portfolio manager for individually managed client portfolios and an equity analyst for the proprietary funds of a large New Orleans bank before joining Hancock Bank in 1998. Ranked by Barron’s in 2006 as one of America’s Top 100 Mutual Funds Managers, he has more than 19 years of investment experience. Lundgren holds a BS in finance and an MBA from the University of New Orleans.

**ADX Indicators**

*Summarized by Mike Carr, CMT*

On October 27, 2010, Chuck LeBeau, made a presentation called “A Study of ADX Indicators” as part of the MTA Educational Webcast series. It is available in the on demand video archives section of the MTA web site.

ADX was one of several indicators introduced in the book “New Concepts in Technical Trading Systems” written in 1978 by J. Welles Wilder. LeBeau feels it was one that didn’t achieve general acceptance quickly because it isn’t an intuitive indicator. Most indicators move in the same direction as the price trend. As prices rise, an indicator like stochastics will generally be moving higher, or a declining value of RSI is usually associated with falling prices. ADX is different.

LeBeau uses the direction of ADX to help identify the trendiness of the trend. A rising indicator indicates a trending market, and shows the trend is strengthening. Declining values of ADX indicate that the trend is weakening. The level of the ADX is not important to him, and this differs somewhat from the rules offered by Wilder in his book. LeBeau uses ADX to help determine the best tool to use at a particular time in the market. For example, overbought/oversold indicators generally don’t work well when ADX is rising.

The Average Directional Index (ADX) is designed to evaluate the strength of a current trend. It is an oscillator and is confined between the values of 0 and 100. Most web sites describe rules that use values to define the trending nature of the market. Its simplest interpretation is that low readings, usually considered to below 25, indicate a weak trend and high readings, generally above 40, indicate a strong trend. ADX does not rate the direction of the trend as bullish or bearish. Readings above 40 can indicate a strong uptrend or a strong downtrend, according to Wilder and most educational materials on the indicator. The slope of the indicator is important to LeBeau, and his experience indicates the value doesn’t matter.

ADX is one of the more complex indicators to calculate. Its components include +DI and –DI which capture directional movement. It is a multi-step process which LeBeau explains very well in his presentation. He points out that you need a lot of data to accurately calculate ADX. Wilder used a default value of 14 for ADX, which requires 14 bars of +DI and 14 days of –DI so it actually takes 30-35 days to calculate a 14-day ADX.

Understanding an indicator helps traders better utilize the indicator. LeBeau explains that the direction of ADX arises from an imbalance in directional movement. He offers a simple graphic to help explain this point:
Many traders fail because they don’t really know what the indicator is telling them. This presentation offers an excellent example of understanding an indicator, and using that knowledge to develop trading strategies.

A simple strategy that LeBeau shows in his presentation is to combine +DI and –DI with ADX to buy and sell. When ADX is rising, regardless of its absolute value, a buy signal can be taken when +DI crosses above –DI. Short entry signals would be the opposite, with –DI falling below +DI while ADX is rising.

Precision is important to LeBeau. A rising ADX is defined as a move in ADX of at least 0.25 points. Wilder used whole numbers in his calculations, and LeBeau stressed the importance of using three digits in your calculation and rounding back to two digits. He is a systems trader and feels everything needs to be precisely defined and tested to be used in his trading.

Being a systems trader, LeBeau stressed the importance of indicator robustness. By this he means that the indicator should be reliable across a broad range of variables. ADX is robust in his opinion, working well with values from 7 to 28. This increases his confidence in the indicator, and mentioned that he finds CCI to be an example of indicator that is not very robust. Traders can experiment with both to see exactly what he means by the term “robust” and learn how to test for that characteristic in their favorite indicators.

No indicator is ever perfect, and he offers several examples of failed signals in his presentation. He noted that many presentations include only the ‘well-selected example’ and he wants his audience to understand that no indicator is ever perfect. It’s important to understand that, and it’s important to know what you will do when the signal fails.

LeBeau offered many practical tips on how to apply ADX. One was to rank markets based upon the value of ADX. That simple tool would let you see which markets have the strongest trends and could be valuable to momentum traders. Entry strategies can also be derived from ADX – a rapidly rising ADX is probably best entered with a market order, while markets experiencing a slower rise in ADX could probably be entered at better prices with limit orders since the market isn’t as likely to run away from you.

He also offered several complete trading strategies. All are easily coded into the software you use, and could be tested on the markets you trade within an hour of watching the video. The clarity and completeness of his explanations is further proof that LeBeau is an expert in trading and the ADX, in particular.

Many successful careers have been built by gaining mastery of a single tool. Chuck LeBeau is an expert in many aspects of the markets, but in this presentation he demonstrated the depth of knowledge required to become an expert in an indicator. He presents a valuable example in how to study an indicator and how to apply an increased level of understanding to the markets.

Charles “Chuck” LeBeau began trading his first commodity system in 1963 and has been an active systematic trader in stocks and futures for more than forty years. He is the co-author of Computer Analysis of the Futures Market (McGraw-Hill, 1991) which is considered to be a classic work in technical analysis that is now available in seven languages. Additional information can be found at www.traderclub.com.

An article related to his presentation, Direction is the Key to Using ADX Correctly, can be found at here.
Rate of Change: A Neglected Indicator
by Amber Hestla and Mike Carr, CMT

We often hear about crazy questions that come up in job interviews, like “If you could be a pie, what kind of pie would you be and why?” Tweaking that question a little bit, if Rodney Dangerfield could be any technical analysis indicator he wanted to be, he’d have to pick the price Rate of Change (ROC) because it just doesn’t get any respect.

Often ignored, ROC is the most basic momentum indicator possible. It’s the basis of many widely-used oscillators including RSI, stochastics, and MACD. Yet it is not commonly cited in articles about technical analysis, maybe because of simplicity. It might be easier to sell anything with Fibonacci ratios in it, but complex tools seem to work for very few traders. Simple tools are dressed up and modified, and the ROC is hidden in several popular indicators.

ROC is usually calculated as a ratio. To find the ratio, we can simply divide the current price of a tradable by some earlier price. More commonly, the price change in the period being studied is divided by the starting price. The indicator is as flexible as any other indicator and any time period can be used for the earlier price. Either calculation method can easily be expressed as a percentage. We’ll use the latter calculation method to illustrate the formula:

$$\text{ROC} = 100 \times \frac{(P - P.1)}{P.1}$$

Where ROC is the Rate of Change
P is the current price
P.1 is the price from some earlier period

The formula itself is similar to the calculation for a variety of other indicators. Stochastics and MACD take the difference between prices over time frames, after doing some form of mathematical manipulation to the prices. RSI uses a ratio of up moves to down moves, segmenting the price action to refine the measure of momentum. The different indicators are shown in Chart 1.

Chart 1 provides similar visual information. Each has its own advantages and disadvantages, and the discretionary trader could use any to obtain a trade signal. That highlights one of the disadvantages of indicators – they seem to work well sometimes, but the signals actually involve some degree of subjective judgment. Even traditional overbought/oversold levels like 80/20 for stochastics, 70/30 for RSI, and the zero line for MACD are somewhat arbitrary.

In his 1978 book, New Concepts in Technical Trading Systems, Welles Wilder advocated using a range of technical tools on indicators such as RSI. To some degree, this can help make subjective tools more objective. In particular, moving averages and Bollinger Bands can be applied to indicators to increase their usefulness. We’ll use ROC because it is the closest indicator to price, involving only the closing price in its calculation.

One problem that some technicians have with ROC is that it is not bounded. This means there is no way to know when it’s too high or too low. Both stochastics and RSI are limited to values between 0 and 100, considered an advantage by some. However, one person’s treasure is another’s trash – and we can see in Chart 1 that limiting the range of stochastics leads to extended excursions in overbought and oversold territory, which means the indicator offers little information much of the time. The extensive smoothing of RSI limits its volatility, again limiting to some degree the amount of information offered by the indicator.
Adding Bollinger Bands to ROC can help spot extremes in an unbounded indicator. Bollinger Bands rely on relative levels rather than absolute levels and therefore adapt to evolving markets. The construction of the bands is well known and involves adding and subtracting two standard deviations from the moving average of the data series. In Chart 2, we put Bollinger Bands on ROC.

With Bollinger Bands, the absolute level of the indicator becomes irrelevant. When ROC falls below the Bollinger Band, it is more than 2 standard deviations below the recent normal level. That may represent a good buying opportunity, since it would be expected to happen only 2.5% of the time if ROC is normally distributed. In reality, no market variable follows a strict normal distribution and extremes (Black Swans to use a popular term) will occur more often than expected. Many tops and bottoms will also occur without a signal being given by the ROC.

Combining a moving average with ROC provides a trend following insight (the moving average is a trend following indicator) on a momentum indicator. If momentum is trending higher, prices are most likely moving higher. Chart 3 is the same as Chart 2, but removes the Bollinger Bands allowing us to focus on the moving average and making it easier to see crossover signals.

Daily charts are prone to whipsaws, and smaller timeframes show more trades. Either idea works on weekly charts, and can be applied to any market. Looking at old indicators in new ways can help traders find profits in ever-changing markets. Using simple indicators can offer timely signals, while smoothing data in more complex indicators can lead to more reliable signals. Traders need to understand their objectives, and look at the markets after defining their personal objectives.
Announcements

MTA 2011 Annual Symposium at the New York Stock Exchange (NYSE) – Register Today!

The 2011 Annual Symposium will take place on May 11th, 2011 through May 13th, 2011 at the New York Stock Exchange. This event will feature two full days of presentations as well as two networking cocktail receptions: one at the Museum of American Finance and the other on the floor of the New York Stock Exchange!

The following speakers have been confirmed for the event:

- Tom DeMark (Chief Executive Officer, Market Studies, LLC)
- Julius de Kempenaer (Director, Taler Investment Consulting)
- Larry Leibowitz (Chief Operating Officer, New York Stock Exchange)
- David Linton (Chief Executive Officer, Updata PLC)
- Steve Poser (Managing Director, New York Stock Exchange)
- More to follow!

The member discounted registration rate is $425. You may register by calling Courtney Musarra at 646-652-3300 or by clicking here.

The 2011 Annual Symposium qualifies for 15 MTA Continuing Education (CE) credits.

MTA Northeast Regional Seminar - Registration is Open

The MTA Northeast Regional Seminar will be held on March 10, 2011 in the Boston, MA downtown financial district at Bingham McCutchen, LLP. Registration is FREE for this regional seminar, which will feature a full day of presentations on "Utilizing Technical Analysis to Generate Alpha."

The following speakers have been confirmed for the event:

Featured Speakers:
- Ned Davis (Ned Davis Research)
- Jeff deGraaf, CMT, CFA, (ISI Group)
- Frank Teixeira, CMT, CFA, (Wellington Management Company)

Featured Panelists:
- Rick Bensignor (Dahlman Rose & Company, LLC)
- Philip Roth, CMT, (Miller Tabak + Co.)
- Larry Berman, CFA, CMT, CTA, (ETF Capital Management)
- Mark Dibble (Fidelity Investments)

To register, please contact Courtney Musarra, at courtney@mta.org, or click here to register online.

The Northeast Regional Seminar qualifies for 10 MTA Continuing Education (CE) credits.

MTA Code of Ethics - Updated Video Presentation Now Available

Michael Carr, CMT recently recorded a short webcast presentation discussing the MTA Code of Ethics. In this presentation, he provides examples of what constitutes a violation of the Code of Ethics as well as what does not. This short webcast is an update to the original Code of Ethics presentation by Charles Comer at a 2008 New York Region Meeting.

To view this presentation, click here.

This Code of Ethics presentation is worth 3 MTA Continuing Education (CE) credits.

Spring 2011 CMT Exam Administration - Sign Up Today

Registration for the Spring 2011 CMT Administration is open for all three levels! Sign up today to ensure your preferred time, date, and location. Contact Marie Penza, 646-652-3300, for information on the CMT Program or if you are having trouble scheduling your exam with our outside test center administrator, Prometric. For detailed instructions on how you can register online, please click here.

CMT Institute (CMTi) - Registration is Now Open for All Levels
Registration is now open for all levels of the CMT Institute (CMTi)! The CMTi is an online preparation course available for all three levels of the CMT Exam to MTA Members and Affiliates only. It is a self paced study program with live review sessions and includes access to CMTi Faculty and private discussion groups.

Classes will meet once a week and run for four consecutive weeks. All classes are recorded and are posted to the discussion groups. The CMTi is not meant as a replacement for your recommended reading, but rather as a supplement to it. You are expected to have read (or be in the process of reading) all recommended reading materials prior to the first CMTi class.

To learn more about the Spring 2011 Administration of the CMT Institute, including class dates and registration information, click here!