Letter from the Editor

As we start a new year, many people take the time to reflect on where they are, and where they have been. Considering the state of our discipline at this time, we can note that technical analysis is widely accepted and well covered in the investment community. Bloomberg terminals dominate the professional landscape and offer news and analysis, but also charts and thousands of variations of charting. For those without access to these terminals, some type of charting software is the dominant application on their desktop.

It is very likely that most MTA members and affiliates can’t even remember a time when technical analysis wasn’t widely accepted. More than a decade ago, day trading became popular, and these strategies more often than not involved technical tools. But only a decade before that, in the mid-1980s, technical analysis was limited to a small part of the investment community and FNN, the predecessor to CNBC, devoted only a small part of their programming to the subject.

In many ways, we are experiencing the same lack of acceptance in the academic community. While many professors scoff at the tools we use profitably, in some ways it is just a debate rooted in semantics. Technicians focus on practical solutions, and academics focus on statistically valid proofs. The objective is the same but the language is different.

In time, technical analysis will break down the barriers faced in academia, just as it gained acceptance among professionals and individual investors. The MTA is leading the way in this push, expanding membership among professionals and students, and taking steps to ensure that the CMT remains the gold standard level of professional certification.

Hopefully, this newsletter meets your needs and helps further the goals of the MTA. With the introduction of the continuing education program, professionals can earn credits by contributing to the newsletter. Aspiring professionals, including those still in college, can distinguish themselves in the highly competitive job market by adding writing credits to their resumes.

We look forward to serving you in the year ahead,

Sincerely,

Mike Carr, CMT
Correction: Los Angeles MTA Chapter Meeting November 15, 2010

In last month’s issue of Technically Speaking, we incorrectly spelled the name of legendary market technician Joe Granville.

We regret the error.

Q&A: Technically Speaking Interviews Jeffrey Weiss, CMT

by Amber Hestla

Editor’s Note: Jeff has enjoyed a long and successful career. Readers can benefit as much from reading his biography, which is below the interview, as they can from reading Jeff’s thoughtful answers. He demonstrates that success requires a passion for the markets, a disciplined approach to strategy, and the willingness to endure the ever-shifting face of Wall Street. Jeff has worked with some of the largest firms in the industry, and has also helped smaller firms with his brand of motivational technical analysis.

How would you describe your job?

I’m a technical analyst, a discipline I was motivated to pursue after having been introduced to a broker from Herzfeld & Stern in 1974 while I was living through the big bad bear market of 1973-74. I’ve been analyzing charts and drawing lines day and night, six days a week ever since. I still post my numbers by hand, one sheet for my daily work and on another for my weekly work. I look at a wide array of indices, names and sectors, and am primarily institutionally oriented.

What led you to look at the particular markets you specialize in instead of another tradable?

I look at all markets, not any one in particular, but my emphasis is on the U.S. market. It’s how I started 36 years ago. Not much has changed in terms of the actual analysis part of what I do; I favor trend line analysis (both internal and external) and pattern recognition, adding in moving averages for good measure and watching for reversal patterns. Typically, a name I view will be looked at from approximately half a dozen or more different technical angles. I also keep a moving average momentum indicator of NYSE breadth and volume.

Do you look at any fundamental or economic inputs to develop your opinions?

Yes, I’m aware of certain cycles and sentiment figures and, as one needs do these days, try and be well read in the arena of world events. After all, conversations do occur outside the bounds of our discipline.

In the end, however, when it comes to the stock market it’s the charts that count most. One last note: I’m far more interested in what the market has to say about itself through its underlying technical action than with what others are opining. That’s why market structure always precedes market sentiment, in my view. I guess you can say that, in the stock market as in life, actions speak louder than words. I favor trend line analysis (both internal and external) and pattern recognition, adding in moving averages for good measure and watching for reversal patterns. Typically, a name I view will be looked at from approximately half a dozen or more different technical angles. I also keep a moving average momentum indicator of NYSE breadth and volume.

Can you share any longer term market opinions?

Number one, anything can change, and in the forecasting business they do faster than most. Having said that, and while subject to change I believe that we have been in a bull market for many, many months now. I’m still not a fan of the “cyclical bull market within in a secular bear market” camp, as the S&P 500’s weekly close solidly above the 960-980 region in the summer of last year hurt that case. The Russell 2000 Index appears to be a market index leader, having recorded a weekly close above key overhead supply in the low-to-mid 750’s area in December. Also, note that the top of the NASDAQ’s early January, 2008 “downside gap” region was 2592-2593 – the same area it reached upon “filling in” that gap area on November 9th of this year. Then, after bettering that level, guess where the Index retreated to at its December 8th intra-day low? That’s right, 2592-2593. The market has also benefitted technically from the “positive outside weeks” in the S&P 500 Index and DJIA in the week ending December 3rd.

What advice would you have for someone starting in the business today?

The advice I’d give anyone starting out on the stock market path is to read Reminiscences of a Stock Operator - a classic that needs to be read several times. The lessons learned are far greater proportion than the time taken to read this classic. For those interested in technical analysis, in addition to reading some basic books on chart patterns and basic analytical technical tools and their composition and use, I would print out loads of different charts spanning daily to monthly time frames, both line and bar charts of both stocks and indices, and ask the folks interested in a position in our department to mark them up. It’s like the first Karate Kid movies where the aspiring students would be asked to use the same strokes in doing simple chores – which appeared boringly repetitive but which gave them the basics to become tops in their field. I’d suggest doing the same with graphs – first dozens, then hundreds, and eventually thousands until your hand can’t draw any more. Learn how to take losses gracefully. Have a well thought out risk management technique and consult with some respected and successful market veterans to get their input. We’re in a rare business, where one can be correct nine out of ten times and still go broke. Lastly, and
Jeff Weiss is a Chartered Market Technician and Chief Technical Analyst at Tejas Securities Group, Inc. Jeff’s awareness of the stock market began in the sixth grade when his math teacher gave each student a hypothetical $50,000 to invest. Pursuing opportunities, buying and selling, winning and losing, Jeff’s interest turned into fascination. At age 13 he committed some birthday money to the market - parlaying his funds into a 100% gain within a year in shares of Mattel Toy, and purchasing a 3-speed bicycle with part of the proceeds for transportation to the local brokerage offices. Heady with his beginner’s luck, he’s been a student and prognosticator of the market for the four decades since, further refining his motivational technical analysis risk management approach in today’s volatile market climate.

After earning his B.A. degree in Economics at Rutgers University, Jeff joined the investment advisory firm of Indicator Digest in Palisades Park, New Jersey, where he served as securities analyst and market journalist. In 1982 he joined E.F. Hutton and Company as a full-fledged technical analyst working for the legendary Newton Zinder, moving to Shearson Lehman Hutton with the merger in 1988. Jeff subsequently served as Chief Technical Analyst at Lehman Brothers before joining PaineWebber in April of 1993 in that same capacity. Following the merger which formed UBS/PaineWebber, Jeff became Chief Technical Analyst there before joining The Key Group, Inc. in the spring of 2001. He assumed the Chief Technical Analyst role at Jesup & Lamont in September of 2003. In November, 2010 Jeff joined Tejas Securities Group, helping expand their income expertise to a broad range of technical analysis products and services geared towards institutional investors.

Jeff has been a member of the Market Technicians Association since 1984, from which he earned his Chartered Market Technician (CMT) designation in 1989. He’s been a featured guest on Wall Street Week with Louis Rukeyser, and is a guest analyst on CNBC’s Squawk Box morning show with Joe Kernen and Talking Numbers segment with Maria Bartiromo. Jeff has also been a guest on Fox Business News and Bloomberg’s Technically Speaking broadcasts, and quoted in a variety of print media. He’s also a guest analyst on Ron Insana’s radio show, The Insana Quotient. Jeff has addressed finance classes at Rutgers University, Cornell University Graduate Business School, and New York University Business School as well as Market Technicians Association chapters both here and abroad. He’s also taught technical analysis classes to both local and international audiences at the New York Institute of Finance, and has been an equity markets speaker for the Market Technician’s Association.

Aside from the stock market Jeff greatly enjoys motivational public speaking, coaching sports, speaking at schools to kids of all ages about the stock market and, of course, being with his family. His wife is a cooking instructor and food writer specializing in southern French cuisine.

*** This is not Research. The material and commentary contained herein represents a sales perspective only. Nothing in this material is or should be construed as Research. ***

These questions and answers have been compiled by Amber Hestla, an independent market researcher.

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**Volume Price Confirmation Indicator**

*Summarized by Mike Carr, CMT*

On August 31, 2005, Buff Dormeier, CMT, made a presentation to the Chicago Chapter of the MTA. It is available in the on demand video archives section of the MTA web site.

Buff has written about extensively about this idea, and his work on *Price & Volume, Digging Deeper* was recognized with the Dow Award in 2007, [http://www.mta.org/eweb/docs/2007DowAward.pdf](http://www.mta.org/eweb/docs/2007DowAward.pdf). In that paper, he wrote, “When securities change hands on a securities auction market, the volume of shares bought always matches the volume sold on executed orders. When the price rises, the upward movement reflects demand exceeds supply or that buyers are in control. Likewise, when the price falls it implies supply exceeds demand or that sellers are in control. Over time, these trends of supply and demand form accumulation and distribution patterns. What if there was a way to look deep inside price and volume trends to determine if current prices were supported by volume. This is the objective of the Volume Price Confirmation Indicator (VPCI), a methodology that measures the intrinsic relationship between price and volume.” This video presentation is an excellent supplement to the paper. In addition, the VPCI is available in many software packages, making it easy for technicians to implement and test the concepts.

Volume should be used, Buff notes in the beginning of his talk, because it increases what he calls the “Four R’s” which means that it is Responsive (provides earlier signals); Reliable (or at least helps generate more reliable trading signals); Reduces Risk (as part of a comprehensive investment strategy); and enhances Returns.

Generally, increasing responsiveness tends to decrease reliability. In other words, quicker signals tend to result in more losing trades. Buff demonstrates in his testing that volume helps to overcome this problem.
Price is defined as an agreement to disagree in Buff’s mind. As a buyer, he feels price is too low, but needs to find someone who is bearish in order to execute a trade. Volume is synonymous with the force of the convictions that investors hold, and volume tends to lead price. Technicians have long noted that volume typically leads and confirms price action, and divergences between price and volume often presage changes in the trend of the price. VPCI is built on these basic technical concepts.

In the 1990s, Buff developed volume-weighted moving averages, first presenting the concept in his CMT paper. The formula for this indicator is:

\[
\text{volume-weighted average} = \sum \left( \text{closing price} \left( I \right) \times \left[ \text{volume} \left( I \right) / \text{total range} \right] \right) \text{ where } I = \text{given day’s action}
\]

The VWMA tends to be more responsive to price trends. This is logical based upon the idea that volume measures the conviction of trader’s beliefs.

Calculating the VPCI is slightly more complex. From his paper, “The VPCI involves three calculations:
1) volume-price confirmation/ contradiction (VPC+/-),
2) volume-price ratio (VPR), and
3) volume multiplier (VM).

The VPC is calculated by subtracting a long-term SMA from the same time frame’s VWMA. In essence, this calculation is the otherwise unseen nexus between price and price proportionally weighted to volume. This difference, when positive, is the VPC+ (volume-price confirmation) and, when negative, the VPC- (volume price contradiction).

The next step is to calculate the volume price ratio (VPR). VPR accentuates the VPC+/- relative to the short-term price-volume relationship. The VPR is calculated by dividing the short-term VWMA by the short-term SMA.

The third and final step is to calculate the volume multiplier (VM). The VM’s objective is to overweight the VPCI when volume is increasing and underweight the VPCI when volume is decreasing. This is done by dividing the short-term average volume by the long-term average volume.

Finally, the VPC+/- is multiplied by the VPR which is multiplied by the VM. The interpretation of VPCI requires considering the recent price trend and the recent levels of the indicator itself. In general terms, if price and VPCI are both rising, it would be bullish.

Related to interpretation of the indicator, in a recent email note, Buff updated his work and noted, “…that I had a change in my opinion regarding some of the VPCI indications since then. At the time, I believed a falling trend and falling VPCI was bearish, it is in fact a bullish indication. I also may have stated a falling trend and a rising VPCI was bullish, however it is a bearish indication. Everything else should be OK.”

Additional signals can come from VPCI crossing its own moving average, and even the indicator itself crossing above and below zero can offer useful signals to traders. The indicator can be used over any timeframe with varying inputs.

As in the Dow Award winning paper, Buff fully discloses how to calculate VPCI and demonstrates how it can be used. The test results are impressive and do demonstrate that the VCPI can increase trade reliability. He also wisely notes that this is a tool that can help improve your performance but it is not the Holy Grail.

Buff Dormeier is first vice president of investments and personal investment management (PIM), portfolio manager with Wells Fargo Advisors. Armed with proprietary indicators and investment programs, Dormeier Wealth Management, a group of Wells Fargo Advisors, dynamically advises affluent and institutional clientele on strategies to meet or exceed their specific investment objectives in what are often uncertain market conditions. He is a celebrated source of investment knowledge. Mr. Dormeier received the 2007 Charles Dow Award, which recognizes research papers breaking new ground or which make innovative use of established techniques in the field of technical analysis. The Charles H. Dow Award is considered one of the most important recognitions in the field of technical analysis. His work with market indicators and trading system design has been published and referenced in Barron’s, Stock’s & Commodities, and Active Trader magazines, and the IFTA and MTA Journals. Mr. Dormeier is also a featured speaker at national and international conferences.
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@ppeline.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?”

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.

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Q&A: Technically Speaking Interviews Alex Spiroglou, CFTe, MSTA by Amber Hestla

Editor’s Note: Investing is obviously a consuming focus of Alex Spiroglou’s life. He has excelled and readers can gain a sense of how he developed a simple concept, intermarket analysis, into a complete methodology. That is a common theme among investment professionals – specialization and expertise. At the end of the interview, he provides excellent advice for the aspiring analyst.

How would you describe your job?
I am an investment manager for Odin Capital Management, a UK based, FSA regulated global macro-investment management firm. I trade across futures across all asset classes trading on a semi-systematic trading model. The strategies focus on exploiting short term intraday price dislocations, and also some medium-term strategic positions (2-4 weeks), based on fundamental macro themes. Additionally to my trading book, I also designed the “Hedge Fund Trader Incubation Program” (the firm’s “turtle trader” project that trains aspiring junior traders), including the Training Course.

What led you to look at the particular markets you specialize in as opposed to another tradable?
I choose to focus on US & European Fixed Income, Equity Indices, FX, and most liquid commodity contracts, because I approach the markets from an intermarket perspective. I have to monitor all markets, even if I don’t trade some very often. If you don’t trade more than one market you are limiting yourself as you are only playing with a couple of pieces of the entire puzzle. When you trade different markets, everything starts coming together and you see how markets move in relation to each other. Experience in one market enhances your understanding of others.

Do you look at any fundamental or economic inputs to develop your opinions?
Firstly, I should say that I would have a better chance of being a fundamental preacher than a fundamental trader. I know that at the end of the day it is the fundamentals that drive the market but the technical approach works better for me.

That said, I should stress that although I did (and still do) like the technical approach, there was a time that it did not provide answers to the questions I was asking regarding the defining properties that help shape and determine price behavior. For example, whenever –say the bond market- broke a resistance level, my main concerns were “What were the main reasons it exhibited such strength and are there any future implications with reference to other markets?”

Single market technical analysis did not provide answers to such questions. Therefore, I came to the conclusion that an exclusively technical focus was incomplete and by obsessing about price, I might be sacrificing deeper insight into the root causes of price behavior. In effect reliance on “price based” indications alone, limited my understanding of what drives the markets.

I decided that my main objective should be (and still is) to seek a way to view price based confirmation of the apparent shifts in the fundamentals. As a result, rather than simply pursuing a “technical trend”, I begun to pursue “liquidity” by monitoring global capital flows.
Therefore over time, my “trading peripheral vision” expanded and I steadily migrated from both principles (TA and FA) to intermarket analysis to provide me with a helpful causative dimension to my trading treatment.

Additionally, I have been doing work on another important source of “fundamental” data, the commitment of traders report, which was introduced to me by Larry Williams.

What technique do you rely on the most? Can you describe this tool?
I have created a semi-systematic trading methodology (TradeGuard) that includes many layers of macro setups and price filters. These provide the long term directional bias for my trades. As I hone into a lower time frame, my work becomes more and more technical. But I try to keep the background as fundamental as possible. That includes intermarket analysis, commitment of traders data, sentiment reports etc. Thereafter I use momentum-adjusted pattern recognition for my entry techniques. One of the breakthroughs for my methodology, was to adjust entries according to momentum and shift away from “a signal is a as signal”. Entry techniques for breakouts are completely different to entry techniques for pullbacks.

On top of that, I try to keep looking for new setups. As a matter of principle the market is an ever-evolving creature that requires you to be versatile and adaptable. Many of the fundamental factors – once thought as pivotal – may turn out to be of transitory significance. You cannot say “If I do this, then this will happen”. You have to bring your own discipline into an ever-changing, ever – dynamic market where in effect the only thing constant is change...

Consequently, continuous research and exploration into the causes of market action remains an imperative and is the central, most important (and time consuming) part of my trading day. Not every single thing that I come up works, but I learn exactly as much from the relationships that don't work as I do from the ones that are profitable. Over time, I keep adding the ideas that have worked, similar to “quality assurance processes” in manufacturing.

What advice would you have for someone starting in the business today?
First, be properly capitalized. The exact amount depends on how much income you need to support your lifestyle. I’d say you need a minimum of $30,000, but obviously, the more the better. If at all possible, have another source of income. It’s a lot easier to trade when you’re not worried about paying your bills.

- Find a mentor/trading coach, if possible. That’s something I wish I had done. A good mentor will shorten your learning curve immensely.
- Read everything you can get your hands on. But don’t just focus on entries and exits. The most important things to learn about are position sizing, expectancy, and psychology. You can have the best system in the world, but if you don’t have a handle on those things, you’ll likely go bust.
- Write out a business and a trading plan.
- Finally, I’d recommend keeping a detailed trading journal. Again, this is something that I wish I’d done from day 1. I never kept a journal until I started daytrading last year. It’s been incredibly useful in helping me to trade better.

Alex Spiroglou is quasi-systematic, cross asset (global macro) proprietary trader. Alex has been researching and developing cross asset (intermarket) trading strategies. He has created an extensive database of cross asset relationships and proprietary Cross Market Indicators (CMI's), that aim at locating directional clues or identifying the relative attractiveness of a “Target market” through the study of linkages and activity between allied symptomatic markets. The identification of such bilateral information transmission channels can involve relationships that operate on a contemporaneous or sequential basis (leading/lagging markets). Cross asset models are then used as inputs to a Decision Support System of quasimechanical trading model (TradeGuard). His research work can be tabulated as follows:

Trading & Research Areas Notes

- Trend Analytics: Trend-Identification and Classification algorithm
- Global Macro Approach: Research in Commitment of Traders (CoT) flows
- Global Macro Approach: Research in Cross Asset Strategies / correlations
- Sentiment Analysis: Research in flows, trader surveys, volatility, breadth, etc
- Technical Analysis/Setups: Momentum, Accumulation/Distribution, Technical Levels
- Pattern Recognition: Volatility adjusted daily bar patterns, as entry tool

Before joining Odin, Alex spent two years at Futex Proprietary group, trading futures across all asset classes. Strategies were low frequency, medium term strategic (2-4 weeks). Main market focus was across all asset classes, on core European and US Fixed Income, Equity Indices, FX (7 different cross-rates), and Commodities. During his tenure at the firm he was offered a partnership and a directorship for the Futex Investment & Trading Academy (FITA), where he would author the trader training modules.

Previously he was researching and developing cross asset (intermarket) trading strategies for the Ulysses Global Macro Hedge Fund (listed ISE). Before that, he was at the “Derivatives Sales and Trading” desk of Energon Capital Finance, where he was doing advisory derivatives
portfolio management and heading the Northern Greece Desk. Additionally, he continued working on developing proprietary cross asset (global macro) relationships and strategies. Alex started his career in Contalexis Financial Services (CFS) in 1999 (one of the top 5 broker/dealers in Greece at that time) at the "Equity Sales and Trading" desk, while proceeding to the "Derivatives Sales and Trading" desk in 2001. He later headed the Northern Greece Derivatives Desk.

Alex is also the founder of "Trader Training & Development Ltd" that seeks to train aspiring professional traders and incubate future hedge fund managers.

He holds a BSc in Banking and International Finance from Cass Business School in London (1996). He holds the "Certified Financial Technician – CFTe" designation by the International Federation of Technical Analysts (IFTA), the "Diploma of Technical Analysis – DipTA (ATAA)" administered by the Australian Technical Analysts Association (ATAA), has a full member designation of the Society of Technical Analysts in the UK (MSTA), the Investment Management Certificate (IMC) administered by the UK Society of Investment Professionals, "Market Maker / Trader" license administered by the Athens derivatives Exchange, the "Investment Consultant" license administered by the Hellenic Capital Markets Commission, etc.

Alex entered the Greek Army as a private and was then selected to serve as an Officer. He was trained in 2 Military Academies for Officers for 7 months (Centre of War Material Training & General Army Staff). During his service, he commanded a platoon of 30 through various crisis simulation exercises. Ultimately, he was promoted and discharged with rank of Second Lieutenant (the highest rank a non-career officer can achieve).

Alex was also a columnist for "TRADER Monthly" magazine. His work has also appeared in "Technical Analyst" and "Traders’" magazines.

These questions and answers have been compiled by Amber Hestla, an independent market researcher.

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**Head and Shoulders through the Ages**

*by Mike Carr, CMT and Amber Hestla*

The Head and Shoulders (H&S) pattern is a mainstay of technical analysis. Chart patterns, from candlesticks to those catalogued by Edwards and Magee in Technical Analysis of Stock Trends were the first tools developed in the discipline. Technical analysis is built upon the idea that supply and demand determine price, and the chart action reflects the changes in these two factors over time. Edwards and Magee explained how the pattern forms on the chart, and described the market psychology that caused the price movements.

StockCharts.com offers a comprehensive guide to the basics by clicking here. While this is well-known material to all CMTs, and probably all those who recently passed the first level of the CMT exam, it is often well worth the time to consider the basics occasionally. Baseball players go to spring training to brush up on skills they learned in Little League games decades earlier. Technicians can do the same by occasionally rereading a chapter of Edwards and Magee or one of the other classics. One of the examples they present is shown below, followed by a portion of the explanation.

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1. Prior Trend: It is important to establish the existence of a prior uptrend for this to be a reversal pattern. Without a prior uptrend to reverse, there cannot be a Head and Shoulders reversal pattern (or any reversal pattern for that matter).
2. Left Shoulder: While in an uptrend, the left shoulder forms a peak that marks the high point of the current trend. After making this peak,
a decline ensues to complete the formation of the shoulder (1). The low of the decline usually remains above the trend line, keeping the uptrend intact.

3. Head: From the low of the left shoulder, an advance begins that exceeds the previous high and marks the top of the head. After peaking, the low of the subsequent decline marks the second point of the neckline (2). The low of the decline usually breaks the uptrend line, putting the uptrend in jeopardy.

4. Right Shoulder: The advance from the low of the head forms the right shoulder. This peak is lower than the head (a lower high) and usually in line with the high of the left shoulder. While symmetry is preferred, sometimes the shoulders can be out of whack. The decline from the peak of the right shoulder should break the neckline.

5. Neckline: The neckline forms by connecting low points 1 and 2. Low point 1 marks the end of the left shoulder and the beginning of the head. Low point 2 marks the end of the head and the beginning of the right shoulder. Depending on the relationship between the two low points, the neckline can slope up, slope down or be horizontal. The slope of the neckline will affect the pattern’s degree of bearishness: a downward slope is more bearish than an upward slope. Sometimes more than one low point can be used to form the neckline.

6. Volume: As the Head and Shoulders pattern unfolds, volume plays an important role in confirmation. Volume can be measured as an indicator (OBV, Chaikin Money Flow) or simply by analyzing volume levels. Ideally, but not always, volume during the advance of the left shoulder should be higher than during the advance of the head. This decrease in volume and the new high of the head, together, serve as a warning sign. The next warning sign comes when volume increases on the decline from the peak of the head. Final confirmation comes when volume further increases during the decline of the right shoulder.

7. Neckline Break: The head and shoulders pattern is not complete and the uptrend is not reversed until neckline support is broken. Ideally, this should also occur in a convincing manner, with an expansion in volume.

In real life, it can be difficult to spot the formation while it is setting up. Computers have done much to change the nature of trading, most prominently with the introduction of algorithmic trading and high frequency trading. But the lowly head and shoulders has also been automated and tested, and the results are revealing.

In August 1995, FRB of New York Staff Report No. 4 was published by Carol L. Osler, now with Brandeis University - International Business School, and P. H. Kevin Chang, now at Credit Suisse First Boston - London Headquarters. Head and Shoulders: Not Just a Flaky Pattern is available for download at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=993938#. The abstract reads:

This paper evaluates rigorously the predictive power of the head-and-shoulders pattern as applied to daily exchange rates. Though such visual, nonlinear chart patterns are applied frequently by technical analysts, our paper is one of the first to evaluate the predictive power of such patterns. We apply a trading rule based on the head-and-shoulders pattern to daily exchange rates of major currencies versus the dollar during the floating rate period (from March 1973 to June 1994). We identify head-and-shoulders patterns using an objective, computer-implemented algorithm based on criteria in published technical analysis manuals. The resulting profits, replicable in real-time, are then compared with the distribution of profits for 10,000 simulated series generated with the bootstrap technique under the null hypothesis of a random walk.

The researchers found that using the pattern to trade a basket of six currencies, “profits would have been both statistically and economically significant.” That phrase illustrates a difference between technicians and academics – in TA terms, we would say that a H&S pattern could be used to make money.

MIT professor Andrew Lo has illustrated the communications gap between the two groups with a description of chart patterns. In his terms, a chart pattern can be thought of as “the magnitudes and decay pattern of the first twelve autocorrelations and the statistical significance of the Box-Pierce Q-statistic suggest the presence of a high-frequency predictable component in stock returns.” Most of us will just have to accept that he is correct.

Technician Thomas Bulkowski has quantified and tested hundreds of chart patterns. His results are not academic, they are practical and understandable by any technician. He finds that the H&S pattern is among the most reliable, and can be seen at http://thepatternsite.com/hst.html.

While the pattern is grounded in the psychology explained by Edwards and Magee, recent work in behavioral finance can also help explain why an H&S would be expected to lead to a price decline. The existence of the pattern may be rooted in the investor’s aversion to ambiguity, anchoring-and-adjustments may explain how the price action unfolds.

The head and shoulders, like so many technical patterns has withstood the test of time. Computer testing has validated the profitability of the pattern and the latest economic theories seem to explain the psychology observed by traders in the 1930s and even earlier. Like technical analysis, chart reading has evolved over time, but the changes have only improved the discipline.

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Announcements

MTA Launches Members-Only Social Network

The MTA is pleased to announce the launch of our members-only social network. As a member of the MTA, you automatically receive access to this community portal at no additional cost. We encourage you to use this new member benefit as an additional networking tool to link you with other technicians who share similar interest and may be in your area. To get started,
visit the MTA website, login, and select ‘Access MyMTA’ at the top of the screen. If you have any questions or comments, please direct them to Shane Skwarek at shane@mta.org

CMT Registration – Now Open!

Registration for the Spring 2011 CMT Administration is now 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 and/or if you are having trouble scheduling your exam with Prometric. For detailed instructions on how you can register online, please click here.

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

We continue to see unprecedented amounts of early registration sign-ups. Register early to secure your place at what will truly be the most memorable in MTA Symposium history. In addition to some of the world’s most recognized presenters, this two day event also includes two networking cocktail receptions; one on the floor of the New York Stock Exchange and the other at the Museum of American Finance. To view the locations of our networking cocktail receptions and more, click here.

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. The ‘early’ registration opportunity will close in January 2011. Click here to register online now!

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

MTA Launches New Channel on Reuters Insider

The MTA recently partnered with Thomson Reuters in a collaborative effort to produce fresh, educational technical analysis content for their new Reuters Insider platform. Reuters Insider carries exclusive multimedia programming from Reuters and network partners including live, uninterrupted coverage of breaking news, interviews with key newsmakers, in-depth analysis and insightful commentary on important market issues.

The MTA’s dedicated channel can be found by searching “Market Technicians Association” in the Reuters Insider module or by browsing through their channel guide. Our recently added shows include:

- “The History of the Market Technicians Association”
- “Technical Tools: Stochastics” with Fred Meissner, CMT
- “Technical Tools: Indexed Relative Strength” with Scott Richter, CFA, CMT

To access Reuters Insider, visit http://insider.reuters.com. Please note that you may have to create a free account with Thomson Reuters to access the Reuters Insider.

Career Development Center (CDC) - Additional Job Search Functionality

The MTA has a new collaborative partnership with PlacingTraders.com. PlacingTraders.com is a global communication, information and employment network for the financial markets community with a focus on people, their careers and the organizations where they work. Creating a profile/account on PlacingTraders.com is FREE for everyone.

As part of this collaborative partnership, the MTA Career Development Center (CDC) now features an supplemental industry job search board that can be accessed directly from the CDC page on the MTA website. This supplemental search functionality links directly into Placing Traders’ database of job listings. To access this page, click here now.

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.

For complete details on the Nominating Process, please visit section C5.04 of the MTA Constitution.

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.