June 2011 Edition

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Letter from the Editor

Every May, the MTA holds its Annual Symposium and technicians converge in New York to see old friends, meet new ones, and learn about the markets. This year was the largest gathering in history, with 350 members and affiliates from around the world gathering at the New York Stock Exchange (NYSE).

The venue offered an interesting perspective on technical analysis. One of the fundamental principles of technical analysis is that history repeats itself. Without thinking, the NYSE seems to be a symbol of change, at least in the modern era. Electronic algorithms and high frequency trading have reshaped the investment landscape, and the Exchange has been on the leading edge of technology to adapt to penny spreads and an ever-evolving market structure.

On breaks, the Symposium attendees had a chance to wander the hallowed halls of finance sitting at the corner of Wall and Broad. Some history is displayed in those halls, a collection of pictures and memorabilia. In some ways, the Symposium was what it must feel like for a baseball fan to wander through the Hall of Fame at Cooperstown while getting to talk to the players who will have their plaques in the future.

Wandering those halls on a break, I read a letter to the Exchange written by Thomas Edison on August 24, 1882. He asked for permission to run a line from the exchange for his own data service, promising to transmit quicker and more reliable data.

That letter seemed to sum up technical analysis. Investors never change; they always want an edge in the markets. History is a lot like a series of repetitive themes that play out in different ways each time. The NYSE displays proof that investors wanted faster and cleaner data for at least the past 130 years. Odds are, that will still be an issue in the twenty-second century.

History also repeats within the MTA. Every May, there is an Annual Symposium that benefits members with unique opportunities and market
perspectives. It's only June, but many are already looking forward to next May.

In this issue of Technically Speaking, we present brief summaries of a few of the presentations. We'll offer more details on other presentations in the next issue. Videos of the presentation will soon be available in the MTA archives, and every presentation is worth watching, or re-watching for those fortunate enough to have been there.

Sincerely,

Mike Carr, CMT

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**Technical Analysis for Global Real Estate Investing**

*Presented by Ken Winans, CMT and Dr. Bryan Taylor at the 2011 Annual Symposium*

**Summarized by Mike Carr, CMT**

Ken Winans, CMT, opened the 2011 Annual Symposium with a talk on the state of the real estate markets. Technical analysis can be applied to any freely traded market, and real estate fits that definition. Ken has pioneered this idea and developed a unique price index, the Winans International Real Estate Index (WIREI) which offers history that goes back to 1830. It is obvious when confronted with long-term data that real estate has a history of volatility and prices actually do move both up and down.

Real estate actually offers much of the same data that a stock or futures market does. Price data is available through a variety of indexes. Just as with the stock market, it is important to understand how the index is calculated. There is also an inevitable delay with reporting real estate data and each available index clearly explains its calculation method and reporting lag time.

Although lagged, real estate also offers a wealth of supply data. Inventories of homes for sale are provided from several sources. This data can also be analyzed using technical tools. Combined with sentiment data found in frequently updated surveys, analysts can get a fairly complete picture of the residential real estate market with a little effort.

Currently, the WIREI reflects prices that are in a bear market. Prices fell to a new low this year after several months of consolidation near the level of the October 2010 low. Recently, the Index for new homes was about 25% below its all-time peak which was recorded in March 2007. Ken noted that this is the deepest price decline in US new home prices since the 33% decline from December 1939 to December 1945. That decline was driven by the significant social and economic upheaval of World War II. The more recent decline is also occurring in a period of a changing economy, and Ken believes that a sustained US economic recovery needs to be accompanied by a rebound in housing values, so he is watching the market closely.

He has applied quantitative testing to the real estate data. Moving averages work well to spot the underlying trend in prices. Supply data is also very useful in his experience. Past real estate bear markets ended when new housing inventory was below 5 months, and the median length of time to sell a new house declined to 4 months. Current levels of both indicators are significantly above that. Noting this, Ken concluded that it could take another year to dry up excess inventory. He will follow the data to spot a turning point, rather than chasing hopes that a bottom is in.

Ken's data on the US market was followed by Dr. Bryan Taylor who provided several examples of real estate price trends in foreign markets. Bryan is the Chief Economist at Global Financial Data. He showed that Canada's real estate market is actually near an all-time high. From 1982, that market enjoyed a rather slow-paced total return of 120% which compared a more than 200% gain seen in the US market over that same time span.

Japan offers an example of a more volatile market. After a tremendous run-up, prices peaked in 1989 along with that country's stock market. The chart of real estate looks much like the chart of the Nikkei, with both showing the problems of a slow-growing economy.

Technical analysis has long been confined to traditional equity and futures markets. While these include vast areas for analysis, the technician can consider applying standard analytical techniques to any market. In this presentation, Ken and Bryan demonstrated that real estate charts can easily be analyzed just like any stock market chart would be. Their principles can be extended even beyond markets and into other data sets. In fact, in a later presentation at the Symposium, Tom DeMark demonstrated how indicators such as the DeMark Sequential could be applied to economic data series.

For more information about Ken Winans and his work, please go to [http://www.winansintl.com/index.html](http://www.winansintl.com/index.html)

More details on Dr. Bryan Taylor and Global Financial Data are at [https://www.globalfinancialdata.com/index.html](https://www.globalfinancialdata.com/index.html)
To view this presentation from the 2011 Annual Symposium, follow this link: http://go.mta.org/11swt

Introduction to Gann Squares  
Presented by Mathew Verdouw at the 2011 Annual Symposium

Summarized by Mike Carr, CMT

W. D. Gann was a legendary Wall Street trader in the early 1900s. He was a student of the markets and came up with a number of innovative trading strategies. Gann’s legendary status is largely believed to have accelerated after an interview with him was published in the October 1909 issue of Ticker and Investment Digest. Market historians probably already know that the interviewer was Richard D. Wyckoff, another legendary trader.

Wyckoff commented in the article that “It appears to be a fact Mr. W. D. Gann has developed an entirely new idea as to the principles governing stock market movements. He bases his operations upon certain natural laws which, though existing since the world began, have only in recent years been subjected to the will of man and added to the list of so-called modern discoveries.”

One of Gann’s many original ideas was the Gann Square. This is based on his belief that time and prices are related. Mathew pointed out that the Gann Fan is the starting point to understanding Gann’s works. An example of the Gann Fan is shown in Figure 1.

![A GANN FAN ON THE S&P 500; CHART COURTESY OF MARKET ANALYST.](image)

In the 1x1 line, each unit of price corresponds to 1 unit of time. The 2x1 line shows the price path if the index advances 2 price units for each time unit and the 1x2 line would reflect gains of 1 price unit for each 2 time units.

Mathew considers the Gann Square to be the most exciting of Gann’s discoveries. It highlights the geometric nature of markets by squaring price and time. The Square is an orderly overlay projected from a key price level, and skilled analysts can use the technique to create a market forecast that offers both time and price projections.
Multiple Squares can be drawn on the chart, and clusters of key points can help the trader spot potential market turns. This is shown in Figure 3, where additional Squares have been added using the same rules to offer insight into the expected course of market action a year from the July 2010 low. Gann techniques allow traders to project forward in time.

In his presentation, Mathew emphasized that the whole point of Gann’s work is to experiment. Squares can be drawn from tops and bottoms, and based on time periods of 90, or other mathematical concepts like Pi. Several years ago, Symposium speaker Michael Jenkins demonstrated how using the Tan(30) could be helpful to traders.

Given the large number of options on how to draw squares, it is important to undertake an exhaustive study of the market and draw a number of different squares. Dates when the squares overlap, or form clusters, are important.

The presentation filled in many of the details that can’t be included in a brief summary. Mathew concluded by noting that to trade with Gann,
you need to keep an open mind and use these techniques along with more traditional tools of technical analysis. Clusters of Gann Squares coinciding with overbought or oversold extremes are likely to be more meaningful than an isolated cluster that occurs within an extended trading range. Gann’s philosophy can be characterized as a never ending search for the order that underlies the chaos of the markets. Gann seemed to enjoy the thrill of the hunt, and Mathew encouraged the attendees to adopt that approach to their analysis.

More information can be found at EducatedAnalyst.com, or http://www.market-analyst.com

**Mathew Verdouw is Managing Director and Founder of Market Analyst.**

*To view this presentation from the 2011 Annual Symposium, follow this link*: http://vimeo.com/24147018

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**MTA Educational Foundation (MTAEF) Presentation at the Annual Symposium**

*by Phil Roth, CMT*

Bruce Kamich, CMT and I were heartened by the attendance at our presentation about the Educational Foundation at the MTA Annual Symposium. We had a standing-room-only crowd in a Board room of the NYSE and “standing-room-only” is an understatement; the crowd of nearly 60 people barely fit in the room. In attendance were MTA members from New York, from around the US, from London, and even from Iceland. We had advertised our session to be an information meeting about the MTAEF and its educational efforts and needs, so the number of potential volunteers was impressive. Bruce Kamich, President of the MTAEF and Adjunct Professor of technical analysis at Baruch College, conducted the session. Among the other attendees were MTAEF board members Larry Laterza, who teaches TA at Rutgers in New Jersey, Julie Dahlquist, CMT who teaches at the University of Texas in San Antonio, Texas, and myself, an Adjunct Professor at the Graduate School of Business at Fordham University in New York.
Bruce "lectured" the audience, white board and all, about the structure and history of the Foundation, whose roots go back to 1993, its current activities, and future goals. The MTAEF is structured as a 501(c)(3) charitable foundation and as such, donations to it are tax-deductible. The MTAEF’s raison d’etre is to promote the teaching of technical analysis on the college campus. To fulfill that goal, over the years the MTAEF has developed a full course in technical analysis, complete with 12 lectures, and associated lecture notes and PowerPoint charts, homework assignments, and tests. The Kirkpatrick-Dahlquist text, Technical Analysis, Second Edition, forms the foundation of course readings. The Foundation has also made a one or two lecture summary course to be used to introduce the subject at new schools or as part of other financial courses when a full course may not be practical. All the lectures have been filmed to supplement courses and are available when live presentations cannot be made.

Bruce explained to the attendees how to prospect schools and how to turn a resume into a CV, more appropriate for approaching colleges and universities. The MTAEF board knows that many MTA members have not taught before, so Bruce gave pointers on how to run a class. The Foundation can support prospecting by offering to supply and fund guest lecturers. The MTAEF website, www.mtaef.org, has more complete information on many of the topics discussed in the session and a list of Board members and advisors to the Foundation.

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**RRG – A New Tool for Visualizing Relative Strength in Global Markets**

*Presented by Julius de Kempenaer at the 2011 Annual Symposium*

**Summarized by Mike Carr, CMT**

Julius began his presentation by highlighting the reality that investing is a process of making choices. The first choice an investor would seem to face is whether to invest or not, however some institutions and funds don’t face this decision. They may have a mandate to be 100% invested in equities at all times. In these cases, they must make the choice to buy and hold the best securities available to them. This is the heart of the investing process, and given a mandate to stay fully invested, the manager will pursue relative returns rather than absolute gains.

Charts help investors decide what to buy or sell, and add to the number of choices investors face. This tool, used by technicians around the world, offers a way to analyze a single security, but charts don’t provide any context or help deciding which security is better. Relative strength is the tool that Julius believes is best suited to help investors decide what the best security to buy is.

The number of choices an investor faces is dizzying. Julius calculates that there are thousands of different portfolio options available to investors looking to allocate a portfolio among sectors. Relative strength makes these choices manageable. One simple way to apply relative strength is to plot a ratio of the stock’s performance compared to an index that measures the performance of the broad market. The absolute
value of relative strength is not as important as the general trend of the relative strength line.

Julius uses this simple idea, and he also normalizes relative strength to make it comparable across different securities and markets. He’s also found that it can be useful to measure relative strength over different time frames and chart the differences with a MACD-style calculation.

In his work, Julius has noticed that relative strength moves through the quadrants of a simple grid. His idea is shown below:

This tool allows investors to visualize sector rotation. He finds that stocks rotate through these sectors as shown in this Bloomberg screen shot:
In his experience the upper right quadrant where momentum and relative strength are both strong is the investment sweet spot.

Julius concluded his presentation by commenting that his research is ongoing. He is focusing on applying these tools at the portfolio level. As an example, he is looking at a method to help him chose the ten best securities from a list of fifty equities. While this strategy typically outperforms the benchmark index, it does with large drawdowns, and he is looking at ways to reduce those losses. He is also looking at using relative strength and the RRG tool to help with the asset allocation decision, applying relative strength at the asset class level (for example stocks, cash, and bonds).

Despite his groundbreaking innovation of Relative Rotation Graphs, Julius is confident that he can find ways to improve the choices he makes in the investing process.

Julius de Kempenaer completed his studies in economics at the Royal Military Academy in Breda. After several postings in officer ranks in the Dutch royal air force, he moved to the financial sector in 1990, initially as a portfolio manager for Equity & Law Life Assurance (now AXA). However, most of his experience in technical and quantitative analysis was gained at the Robeco Group, Rabobank International, and most recently at Kempen & Co. He is best known for his weekly column in the Saturday edition of the leading Dutch financial newspaper “Het Financieele Dagblad,” which he wrote for six years. Recently his Relative Rotation Graphs have been launched as a function on the Bloomberg terminal. Within Taler Asset Management Ltd., Julius is engaged in the development and maintenance of quantitative models used in the management of Taler funds and investment Consulting Services. He serves as a director on the board of IFTA, the International Federation if Technical Analysts.

To view this presentation from the 2011 Annual Symposium, follow this link: http://go.mta.org/11sjdk

Why You Should Care About Market Structure
Technically Speaking eNewsletter - June 2011

Presented by Lawrence Leibowitz and Steven Poser at the 2011 Annual Symposium.

Summarized by Mike Carr, CMT

Lawrence began this presentation by pointing out that market structure impacts all traders and investors. Direct impacts come from the fact that markets are more fragmented than ever before. There are dozens of venues where trades can be executed, including exchanges, direct access networks, and dark pools. In the very distant past, all trades in listed stocks went through centrally located market makers, but the current environment is much more diverse. Now, there are 13 exchanges, more than 30 automated trading systems, and about 200 broker-dealer desks where trades can be executed.

That diversity in where trades can be executed does have advantages for the trader. Lawrence identified several key drivers of changes to market structure. Technology has led to market fragmentation, as orders can now be routed simultaneously across different platforms and the central market maker function is no longer the only way to trade. Regulations imposed by the government and the exchanges themselves acting as self regulatory organizations ensure that orders are routed fairly. Competition among the different trade venues has led to smaller spreads, in the most liquid stocks spreads may be less than a penny.

These changes have led to new market participants. High frequency trading (HFT) didn’t exist several years ago but now accounts for a significant amount of trading volume every day, estimated to be about 60-70% of activity. Technology has been the key driver allowing these firms to find their niche. Low cost computers, costing only $5-10,000, allow for the execution of the HFT algorithms. The New York Stock Exchange is at the leading edge of technology, and Lawrence joked that their goal is to develop a system that will fill your orders before you even send them in. Current technology limits execution speed to nanoseconds. A significant amount of HFT is related to traditional market-making activity, Lawrence estimated that about half of their trading was related to this.

Execution is also changing due to globalization. But, regulations differ around the world. In the US, Lawrence said the regulators are trying to increase competition and there are no restrictions on dark pools or internalization of orders by broker-dealers or others. Canada only permits internalization if there is a price improvement offered to the trader. European regulators have limits on dark pools and order internalization based upon the size of the order.

Steve Poser followed Lawrence with some comments directed at technicians. He noted that several academic studies have shown that HFT has a net positive impact for traders. Spreads are narrower and liquidity is generally deeper. Dark pools offer even deeper liquidity for large trades. But there has been a general decrease in the average trade size over the past few years, and now stands at about 300 shares per trade, down from an average of 900 shares per trade as recently as 2002.

HFT, Steve continued, is highly correlated with market volatility, and it tends to be most pronounced in high volatility stocks. Internalization and dark pool activity seems to be concentrated in less volatile stocks. Technicians can model volatility against volume to gain insight into this relationship.

Increased volume and trading activity also has an impact on many indicators. Breadth and tick data will obviously be impacted, and tick data may actually present an overwhelming amount of data given the smaller average trade size. Volume data may not be directly comparable to historic data given the dramatic changes in execution and market activity.

Breadth data can also be impacted by the number if exchange traded products now listed on the exchanges. An operating company only calculation can help with this challenge. Steve also noted that high volatility days will have a large impact on 52-week highs and lows. May 6, 2010 was a great example of a large number of stocks and ETFs hitting new lows, even though they traded at that level for only a few minutes. That was an event driven more by market structure than price trends or the underlying fundamentals of a company.

Market structure has evolved rapidly recently, but market structure has always been changing. It will continue to change in the future, and technicians need to follow these changes closely. Indicators may not retain their historic usefulness in the current market, given the increased volume that occurs for new reasons. Rapid price arbitrage and market making functions are now shown on the tape just like trades driven by the emotions of hope and grade that classical chart patterns are based upon. The impact of all this is unknown.

The future holds still more changes, and perhaps more data. The NYSE is looking at the feasibility of sub-penny quotes. While the possibility is under discussion, there are technology considerations that need to be addressed. There are already one billion quotes a day in the system, and sub-penny quotes would increase that number. Communications and data processing capabilities would need to be expanded to accommodate that, and that would drive even more changes to volume and breadth data.

Lawrence Leibowitz is the Chief Operating Officer of NYSE Euronext. Steven Poser is Managing Director, Strategic Analysis and Market Data at NYSE Euronext.

To view this presentation from the 2011 Annual Symposium, follow this link: http://go.mta.org/11slp
Interview with Kirk Northington

by Amber Hestla

How would you describe your job?

I create advanced analytical tools and methods for technical analysis charting platforms. My methods and tools are primarily based on volatility arithmetic. I build on traditional forms of technical analysis with volatility-based algorithms. These take such forms as volatility-based support and resistance, trend strength, momentum, relative strength, etc. I try to make analysis software which on the surface uses traditionally accepted methodology, but beneath is unconventional.

I also focus on two important aspects of analysis. The first is to increase the objective and decrease the subjective. I like to give tools the ability to deliver absolute readings whenever possible.

Second I develop within a framework of quantitative testing. When I’m done with a particular indicator component, I want to have statistically valid back test data and a performance profile. This gives any user an understanding of the tool’s tendencies, as well as its logical contribution to any combined algorithmic strategy.

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

My methods are typically dependent on scanning market wide for specific inefficiencies. Therefore I’m not really market oriented. Users of my software trade stocks, currencies, futures and options. I tend to stick with stocks, and commodities via ETF’s; all for simplicity. I won’t trade a particular method unless I’ve tested it thoroughly, with an in sample and out of sample performance profile.

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

I avoid earnings release events for stocks. Beyond that I scan for a trade candidate’s recent news events. I’m searching for a general void of news data. Without potentially game changing information in play I can better rely on the trade outcome to be determined by current technical measurements. Fundamental data just gets in the way.

Can you share any longer term market options?

Actually I can’t because it’s not a core strength of mine. I focus mostly on individual instruments as opposed to broader markets. With that said however, I feel that there is a lot of room for improving the specificity and quantitative nature of intermarket analysis. I’d love to be a contributor to that going forward.

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

Be unconventional. Don’t rule anything out as impossible. If it’s technologically possible to measure and analyze then someone’s probably making money that way; it might as well be you. Be quantitative and statistically natured. You can’t improve what you can’t measure. If your measurement methodology is not statistically sound then you are just using a complex way of avoiding self honesty.

Thoroughly learn as many forms of technical analysis as possible because the thought processes behind them are invaluable. Conversely avoid dependence on technical analysis tools and methods which are in the public domain. Develop your own. You’ll end up with something that you know works, and a trade that you can execute better than most others.


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 hestlaresearch@gmail.com.
Technical analysis is often associated with short-term trading. Long-term charts can offer a different perspective.

Few take the time to look at a fifty-year chart of the Dow Jones Industrial Average, which we can see below. You can download a free version of this chart at http://www.srcstockcharts.com/free-dow-jones-charts/. There are several observations that can be made from this chart.

![FIFTY YEARS OF THE DOW, DATA FROM SECURITIES RESEARCH COMPANY](image)

Stocks have been largely range-bound since 1999. This marks the twelfth year of a sideways market. This is similar to what investors experienced from 1966 to 1982. After the long bull market that ended in 2000, many forgot that sideways markets are not uneventful. In many ways, the volatility of these two periods has been more challenging than the bull market shown in the middle of the chart.

Earnings matter, even though technicians often ignore fundamental data. The green line on the chart shows earnings for the stocks in the index over the past fifty years. Earnings have shown a great deal of volatility, as have stocks. Stock market returns have closely mirrored earnings growth, over the long-term. In the past fifty years, stocks delivered an average annual total return of 6.7% a year while earnings grew by an average of 7.1% a year. Over 25 years, stocks averaged gains of 9.2% while earnings averaged 9.3%. Technicians can most likely develop timing models based on these ideas.

Stocks do seem to lead the stock market, looking at the grey bars in the chart which show the times when we were in recession. Stocks tended to be declining as we entered the recession. In each case, stocks bottomed before the end of the end of the recession. Unfortunately, stocks also put in a lot of important tops and bottoms when we weren’t in a recession. This illustrates the problem of the well-selected example and we need to avoid relying on small sample sizes when we do research. The number of recessions is too small to lead to reliable results, but the chart does show that we can draw a relationship between the two data series.

Historical events are also noted on the chart, which show that the market reacts almost randomly to news. The longer term trend seems to have more importance to investors than the news of the day. It is interesting to note the volatility of the market as it responded to the beginning of the S&L bailout and TARP, but it doesn’t seem to be a tradable interesting.

The 48-month average is also on the chart, and this helps illustrate the value of technical analysis. While you would certainly miss every top and bottom and suffered some whipsaw trades, the moving average would have kept you on the right side of the long-term trend.

Fifty-year charts may not be the ideal trading tool, especially in the era of nanosecond executions. But they do show that the principles of technical analysis can be applied in any time frame and offer a starting point for an analysis in shorter time frames. History does repeat...
itself, although not precisely. Studying history, especially on a stock chart, offers entertainment and potential profits to market technicians.

This article originally appeared at http://www.srcstockcharts.com/blog/ and is republished with the permission of SRC.

MTA Announcements

MTA Membership Dues Renewal

Approximately 25% of our membership has dues expiring in the months of June and July. It is important that you renew in a timely fashion to ensure there is no disruption in overall MTA services. To renew, simply log into MyMTA and in the middle of that page you will find a section under “Membership Information” called “My Membership.” There you will find a link to renew your member dues. If you would prefer, you can call the MTA Headquarters at 646-652-3300 and renew over the telephone with any of the MTA Staff members.

MTA.org Launches New Home Page

The MTA launched a new home page design. This new design was created to better highlight some of the more important information that we feel our visitors would like to see when they first arrive at MTA.org. New features include:

- A dedicated section for recent MTA news, Knowledge Base updates, and upcoming events
- A brief insight into the history of the MTA
- A more extensive breakdown of our most valued membership services
- Our definition of technical analysis

To see these changes live, visit MTA.org!

On Demand Video Archives - 1999 Video Presentations Now Available

The MTA recently made available several new archived presentations in the On Demand Video Archives. These three new archives are from various events held throughout the 1999 calendar year. These archives include presentations from:

- Ken Safian
- Arch Crawford
- Michael McCarthy

To view any of these videos, visit the MTA On Demand Video Archives.

MyMTA Profile Enhancements - Link to Your Social Media Profiles

After numerous requests from you, the membership, the MTA has implemented a new feature into your MyMTA member profile that allows you to link to and share your social media profiles from other social networks! Whether you have your own personal blog, a LinkedIn profile, Facebook page, or a Twitter account, you now have the ability to share them with your MTA...
peers.
To begin adding your social network profiles:

- Login in to MTA.org and click the MyMTA icon
- Select the My Profile button in the navigation bar, once logged in to MyMTA
- Select the social network you'd like to link to and add your information

Please note: While all social network names may appear when you are viewing your own profile, only those with a green check mark next to them will appear to the rest of the membership. If you do not wish to link to any other social network, you are not obligated to.

If you have any questions regarding your MyMTA member profile, please contact Shane Skwarek.