March 2011 Edition

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Letter from the Editor

This month, we are simply highlighting the success of technical analysis. The MTA remains at the forefront of the field and its general acceptance throughout the investment community. In this issue, the success of another regional seminar is detailed. These one-day seminars play host to over 200 attendees and will undoubtedly continue to be well-attended wherever they are held.

We also feature an article highlighting the technical analysis of noted analysts Jeremy Grantham and David Rosenberg. While Grantham may not admit to being a technician, his work is easily recognized to members of the MTA as technical analysis. Rosenberg has a large audience and frequently offers technical analysis, helping to increase the acceptance of technical analysis among institutional investors.

It seems obvious now that the widespread acceptance of technical analysis in the investment community took a giant step forward when the CMT exam process was introduced. Two articles detail parts of that process: Lance McDonald describes studying and Brad Herndon describes grading.

Academia frequently looks at technical concepts and uses different terms to describe well-known concepts. As one example, academic papers about momentum are easily recognized as relative strength strategies by practitioners of technical analysis. An article by George Rahal bridges the divide between behavioral finance (in academic terms) and technical analysis.

Please let us know what you’d like to see in future issues of Technically Speaking.

Sincerely,
Mike Carr, CMT

A Successful MTA Regional Seminar
On January 29th, 175 individuals gathered at the Hilton Charlotte Center City to attend the MTA's Southeast Regional Seminar.

The morning started with a live webcast presentation from Keynote Speaker, Ralph Acampora, CMT, who unfortunately was unable to make the trip. In his webcast he shared with us some timeless lessons as well as his bullish outlook for the coming year. We were then treated to a panel kicked off by Joseph Mertes, whose presentation on Auction Market Theory generated many questions and audience interaction. Joe also demonstrated the use of market profile charting, instead of traditional bar/candlestick charting, which drew interest for its unique depiction of price data. Following Joe was Cody Tafel, CMT, who described the major asset classes and provided his outlook for each one. Following Cody’s discussion of the risks and rewards underlying each macro theme, Chuck Dukas finished the panel discussion when he presented his approach to using RSI. He shared a strategy he uses in which he buys when a 5-day RSI is below 30 at a time when the 21-day RSI is above 50. The benefit here, he described, is to take advantage of the short-term weakness that arrives in even the strongest intermediate-term trends. He also provided examples of short trades doing the inverse, but the point is to improve trade location and take advantage of the underlying tailwind.

Following the morning’s panel discussion, Brian Shannon went through the life stages of a trend inspired by Stan Weinstein’s popular stage analysis. In addition to describing the natural progression from accumulation, to markup, to distribution, and to markdown, Brian shared his techniques for using multiple time frames in not only identifying the trend but stalking the ideal time for entry and exit.

After Brian’s presentation the attendees enjoyed their lunch and an energetic presentation from Keynote Speaker, Tom Dorsey, who shared his road from an economics student, to a broker, to a technician, and finally to a globally respected analyst and fund manager. His emphasis on the use of relative strength included references to his well-known work in Point and Figure charting, but the real message was the ability of technology to scan and sort stocks across the globe in search of the best performers. His slides showed sector rotation to be the most powerful driver of portfolio returns.

Once Tom concluded his presentation, and after a short break, Corey Rosenbloom, CMT discussed the detail needed to identify market divergences. From breadth, to volume, to rate of change, his explanation of how unbound oscillators can complement trend work brought a new and great perspective. Even more important, Corey shared examples which showed how one can be a trend follower and use divergence analysis for improved exits. Stanley Dash followed with an exercise in how one can use the quality of a system to more effectively choose appropriate position sizing. It’s obvious we want larger bets on our winners, but by adding filters we can make that a reality.

To kick off our afternoon panel discussion, Craig Johnson, CMT, CFA went through the screening techniques used by his research group at Piper Jaffray to determine stocks and sectors being treated best by the market. Using both his CMT and CFA backgrounds, he made a great case for combining both fundamental and technical research. Following Craig on the panel was 2010 Charles Dow Award winner Wayne Whaley, who reviewed his winning paper, and then brought the audience up to speed on improvements he has made since publishing Planes, Trains, and Automobiles. He gave compelling evidence for a continued bullish outlook by explaining the significance of breadth thrusts experienced on multiple occasions throughout 2010. Richard Hastings completed the panel with a deep discussion demonstrating global money flows and the impact of trade relations. His presentation revealed a heavy reliance on the Japanese Yen as the driver of all currency flow.

Rounding out the Southeast Regional Seminar was Mebane Faber, CMT, who shared his ideas on portfolio management, including the popular paper he wrote in 2006 showing the dramatic reduction in portfolio risk by simply honoring long-term trendlines. Combining respect for trend with a diversification across global asset classes gives portfolio managers a true solution in minimizing draw-down, while still seeking equity-like returns. Mebane also shared his research on piggybacking leading managers by using their holdings as a robust screening tool in stock selection.

As seen by the number of speakers and the depths of topics discussed, we covered a lot of material in nine hours. While the afternoon session became a little rushed, we managed to make it to the Hilton lobby for drinks and a great round of networking afterwards. Judging from the number of folks that participated in the networking/cocktail reception, the day was a hit from beginning to end, with old relationships renewed, and new ones started. The Charlotte Chapter thanks the MTA for playing host to such wonderful event!

*Editor's Note:* These presentations for the Southeast Regional Seminar can be found at the [MTA On Demand Video Archives](http://www.mta.org/eweb/docs/newsinvest/11-march/) and in the [MTA Knowledge Base](http://www.mta.org/eweb/docs/newsinvest/11-march/).
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”.

mta.org/eweb/docs/.../11-march/
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.

Cognitive-Behavioral Analysis of Financial Markets
by George Rahal

In this article, I explore investor psychology and investment themes within a framework borrowed from the branch of psychology known as cognitive-behavioral theory. Studies have found cognitive-behavioral therapy to be one of the most effective forms of therapy. Its concepts and tools are extremely powerful and I believe that they are just as applicable for investing.

In the context of financial markets, cognition refers to the mental representation and attitude towards information, fundamental or otherwise. (The “mental representation of and attitude towards” information can be abbreviated to the “perception of” information.) Stated simply, cognition deals with how an investor interprets new information, namely, whether it is fundamentally positive or negative, and the investor’s attitude towards it, namely, whether the market has overvalued, undervalued, or fully valued its significance. Over/under/fully valued is equivalent to being over/under/fully discounted. These perceptions translate to three possible behaviors, choosing to buy, sell, or hold. A change in price has the unique quality of being a consequence of behavior, a stimulus of behavior, and information. Investors learn buying and selling behavior through these various inputs.

These principles and dynamics can be summarized by the following definition:

- Cognitive-behavioral analysis – asset prices are governed by learned investor behavior, and the mental representation of and attitude towards information

Compare this with the traditional postulates of financial markets:

- Fundamental analysis – asset prices reflect the present value of future cash flows discounted by a required rate of return
- Technical analysis – prices reflect the balance of investor supply and demand for a given asset

There is certainly overlap among these types of analysis. One of them need not prove to be “right” at the expense of the others; rather, they...
are supplementary approaches to the study of a complex subject. An advantage to multiple approaches is that each provides alternative focuses, interpretations, and at times, novel insights.

Bubbles are a classic example of a market phenomenon that can be concisely explained by the principles of cognitive-behavioral analysis. New era thinking and investor exuberance (cognition), and rising prices (behavior and information) all participate in a self-reinforcing cycle. That explanation satisfies the conditions of the theory. Note that irrationality, in this framework, is not an element of bubbles. (If anything, astute investors who correctly identify a bubble can be categorized as irrational if they chose to short sell such a market.) The new era thinking, even if fundamentally unsound, is in essence a rationalization of price behavior. This is an important point because a bubble does not burst when investors turn from “irrational to rational,” it bursts when their perception changes.

Recall that the “mental representation and attitude towards” information can be abbreviated to the “perception of” information. A popularly shared and enduring perception, like new era thinking, is an investment theme. In recent history, an economic news release falling below expectations has often propelled markets higher because it has signified an extension of the loose monetary policy that is fueling the bull market, a dominant investment theme. In this case, the disappointing unemployment release is mentally represented as fundamentally positive; the attitude towards it is that the market has not fully discounted the extension of quantitative easing; the end result is a bidding up of prices. In analyzing such information, fundamentals are too ambiguous and too focused on a longer time frame. Technicians do recognize the relationship between news releases and price action, but they fail to give due prevalence to the investment theme.

If in market phases as different as the dot.com bubble and a bull market driven by monetary policy investors are operating by the same cognitive-behavioral principles, then one can induce that investor psychology is a prevalent force throughout all market cycles! As technicians have always stated, human behavior is an essential element of financial markets.

Now that I have broadly defined cognitive-behavioral analysis, I want to provide an application that aptly falls under its conceptual framework.

Paradigm Shifts

A paradigm shift, also referred to as a gestalt shift, is a sudden, revolutionary change in a dominant perception. Both of these interchangeable terms are also taken from psychology. Paradigm comes from Greek for “pattern”, and gestalt is a German word meaning “shape” or “form.” Studies in gestalt psychology were precursors of cognitive theory. A commonly used analogy for a paradigm shift is that of the perception of a three-dimensional drawing:

In the rectangular prism above, rectangle ABCD can appear to be anterior if one’s vision focuses on it; however, a focus on rectangle EFGH can suddenly shift the viewer’s perception, making it anterior and rectangle ABCD posterior.

In financial markets, the sudden, revolutionary change in a dominant perception can result in a change in a price trend. The cousin of this concept is the catalyst. The catalyst, however, is a fundamental event, and may or may not result in a new trend. The difference subtly captured by cognitive-behavioral analysis is that the trend reversal is primarily a psychological event caused by a change (shift) in investor perception (paradigm).

In Inside the House of Money, a series of interviews with global macro investors, an anonymous currency trader elaborates on the subject:

**What signals a great macro trade?**

I’m looking for signs of a gestalt shift in the markets, where all of a sudden, the market’s view on something instantly changes…

A gestalt shift usually comes after volatility gets pumped up because everyone is out there buying insurance. When people are buying options to protect positions, it means they have an underlying position they’re nervous about.

The big trades in macro are when the market is going to re-price a view or shift to a whole different concept. I spend a lot of time looking at where market sentiment is in hopes of finding the next shift.

Bernard Baruch also makes note of a paradigm shift, referring to it as a break in the “continuity of thought,” in his autobiographical, Baruch: My Own Story, published in 1957.

A bull market, for example, will be sweeping along and then something will happen—trivial or important—and first one man will sell and then others will sell and the continuity of thought toward higher prices is broken.
"Continuity of thought"—what a wonderful expression that is.

Baruch continues, proving an example:

The first time I heard [the expression] was while I was operating in steel stock which J.P. Morgan was trying to accumulate. The general market was on the rise. Then, while these operations were going on, the stock of Rock Island broke. At the time I happened to be with Middleton Burrill, who remarked, "That collapse is going to break the continuity of bullish thought." I had never heard the expression before, but I saw at once that Burrill was right and even though Steel was being supported by the Morgans, I sold and took my profits.

Arguably, a paradigm shift abruptly ended the bear market of 2007-2009. This shift was: the financial system will not utterly collapse. On March 10th, 2009, the day after the closing low of the bear market, Citigroup CEO Vikram Pandit delivered a letter to employees stating that he expected the bank to have its first profitable quarter since 2007. This release caused the paradigm shift. The S&P 500 closed 6.4% higher that day and ended up 10.7% for the week.

The 2009-present bull market commenced three months after the Central Bank first established a target federal funds rate of between 0 and .25%. This policy has been a major fundamental driver for the bull market. Note, however, that the Fed action did not serve as a catalyst! Prior to March 2009, investors took advantage of rallies caused by loosening monetary policy and related programs to unload on stocks. It was the comment by Citi’s CEO that restored investor confidence. The day of the announcement, I remember my father ominously stating, "Investor psychology has changed."

The first leg of the bull market, spanning from March to May of 2009 can be framed by four events related to the financial system. In fact, the major and minor inflection points of the first leg occurred on these four news releases. Below is a chart in which the events are marked.

These pivot points were clear signs that the health of the financial system and quantitative easing was an investment theme dominating market activity.

Cognitive-behavioral analysis implicitly suggests that investors place a thorough research focus on identifying investment themes, which can greatly influence market behavior over an intermediate term. Moreover, the early detection of a paradigm shift can prove valuable. One way to identify themes is to detect which material events or news releases frame market pivot points, as in the example above.

Given the current predominance of Federal Reserve policy over populous thought, a paradigm shift in this theme would probably be significant, to say the least. The chart below is from Google Trends. The y-axis in the upper chart represents the search volume on Google, worldwide, for the keywords "quantitative easing." The lower chart is of news reference volume. (Please ignore the flags with letters; they represent specific news articles not shown in the figure below.) One can see the degree to which this term has become prevalent.
Conclusion

Cognitive-behavioral analysis is a conceptual framework intended to improve the understanding and predictability of financial markets. This method considers investor perception and behavior paramount in determining price trends. Paradigm shifts, discussed in this article, is one applied concept, but the richness of the field of psychology, established through decades of research, provides various other applications (a topic for future articles).

Just as behavioral finance, which has also inherited conclusive studies and principles from psychology, is now a mature subset of finance, a theory such as cognitive-behavioral analysis can broaden the current theories of finance that are professionally and academically regarded. Such broadening can loosen the strongholds of fundamental analysis, the efficient market hypothesis, and modern portfolio theory in the investment community.

George Rahal has been writing about financial markets for several years. He began his career in Lazard Capital Markets’ equity research department. He has since been involved in technical research and trading, which he applies in his current role at Landor Capital Management. He earned his B.A. in Literature from NYU, where he also studied psychology. Mr. Rahal is a CMT Level II candidate, and has passed all three CFA exams.

The CMT exam process requires passion and stamina, but I have found that it is not too different from real life. Just this week there was a debate among our floor traders about whether to hedge a portfolio or not. The head portfolio manager walked over to my desk and said, “Should we hedge or not? You have 10 minutes.” I had better have a solid opinion quickly because in 10 minutes somebody will be happy with me and somebody will be upset with me. No time to pull out Kirkpatrick, Murphy, Pring, etc. You either know it or you don’t. The happy ending to this story is that with my recommendation I gave risk-reward numbers along with profit targets and stop loss levels. Everyone quickly became comfortable with the defined risk and reward.

You must study for the CMT exam expecting challenging questions in a tight timeframe and you must know major concepts cold just like the real world. Here is how I approached the exams.

Start with the end in mind. My goal was to not only pass the CMT exams, but also improve as a technical analyst. Use this time to not only gain a professional credential, but fill your toolbox with as much gear as possible.

Code of Ethics - Start each “study session” with the Code of Ethics. I would alternate between the full Code of Ethics and an abbreviated cheat sheet that I would know verbatim. You know you will be tested on this for all three levels so there is no reason not to get all points.

How can I make money with this information? Every single chapter I read I ran through a mental filter of how I can use this information to make money or limit risk for my firm and myself. This is how I determined what was more important and what was less important. I’m sure I missed a few questions on Candlestick names, but I have never made money on a trade by knowing how to spell or pronounce “Tasuki”. (Just my view that may not be shared by the CMT Exam Committee.)

Practice, Practice, Practice – It is not enough for me to read a concept or memorize a formula. I need to interact with topic and I do this in a variety of ways.

∗ If it is an indicator that I want to learn, I literally build the formula in Excel so I know all inputs and unique dynamics. Then back test with historic data. Did it perform the way I expected? What if I play with the inputs and/or rules? What is the appropriate use for this tool? Trending/Non Trending markets?

∗ If I am trying to get my arms around Intermarket Analysis, for example, I build the same charts from the book with current data and see how those concepts have performed since 2004 when Murphy’s book was published. I would recommend using a charting
tool where you can save your charts with your own notes and page number references to the book you are reading. This makes review much easier as well.

- Start writing technical analysis and distribute to somebody for accountability. When I first started many years ago, I would send analysis out to family and friends every week. Today I publish technical analysis on a $3 billion portfolio. It is the same process regardless of your distribution list, and it is a constant exercise in humility. This will accelerate the learning curve greatly. Have an opinion on 10 Year Treasuries, S&P 500, CRB Index, Oil, Gold, Silver and US Dollar at a minimum.

- Make sure it is YOUR analysis, not somebody else’s. It is fine to read other technical views, but don’t assume they are always right and don’t let your analysis be biased. My firm pays me for MY views. If there is no original thought or value added, they would be better off just subscribing to a service. In time you will find that your views will be correct as frequently as the analysts you had been putting on a pedestal.

**Sponsors** – It is not too early to start looking for sponsors. My approach was to find sponsors that were experts in areas I was passionate about. My sponsors were very supportive and great sounding boards. “How do you handle this scenario at your firm? How do you communicate technical ideas to a fundamental audience?” I still maintain these valuable relationships today.

**Network** – I was fortunate to come across a study partner that I met in CMT Institute class. I would find his strong areas and leverage as much as possible by asking many questions. “What did you think of this chapter in Murphy? Is this Intermarket Relationship still holding up today? How do you think we could be tested on this information?” Online study groups and the CMTi chat can serve this function as well.

**Confidence** – By the time I had done all of these things I had put myself in a position to be confident when the exam date arrived. Perhaps I was lying to myself a little, but I gave myself a pep talk that went something like this:

> "For the past six months I have poured myself into every chapter of required reading and read additional books to flesh out some areas further. I have been through CMTi archives and live classes. 80% of those that make it through CMTi classes go on to pass the exam. I have been writing technical analysis in real time for years. My sponsors have been reading my analysis and they say I am ready. Technical analysis has become a way of life for me. There is nothing on this exam that I am not ready for. BRING IT!"

Good Luck!

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**Grading the CMT Exams**

by Brad Herndon, CFA, CMT

Recently, Level 3 exams were graded in a standard hotel conference room near New York City. We’ve all spent too many hours in those rooms and know all the mind numbing details - plain walls with a dry erase board mounted at the front of the room; inexpensive light fixtures that they call chandeliers; tables with chips on the edges from being stored roughly over the years; chairs that don’t look very comfortable, and actually aren’t very comfortable.

The only thing notable about the room was the seriousness of the graders. As the candidate’s answer sheets were handed out early in the morning, the joking among old friends and new volunteers came to a halt. For hours, about two dozen CMTs would be silently reading, the only sound being the turning of pages and the occasional discussion in an effort to ensure fairness to the candidate.

Fairness dominated the process. No identifying material is located on the answer sheets, so the graders remain completely unbiased. Before digging into the hundreds of answer sheets that lay before them, I watched the graders thoughtfully discuss potential answers, reviewing the answer key and asking questions to ensure they understood the question and what to look for in the answer.

Graders put aside their own market biases as well. Markets exist because buyers expect prices to go higher and sellers think better opportunities exist elsewhere. Two analysts can look at the same chart and reach opposing conclusions but that doesn’t matter in the grading process. If the answer is based on sound principles, credit is awarded, even though the grader may wish he or she could take the...
Interview with Trevor Neil
by Amber Hestla

How would you describe your job?

I am a fund manager and use my long market experience to offer market timing skills courses for institutional clients. I have a prestigious list of institutional clients from all over the world. I manage a small £14 million fund. This is a closed fund and includes my own money. This started in July 2010 and has done well so far, ahead of its benchmark. I have managed hedge funds twice previously in my career.

I enjoy the training side of my work very much. Most of my seminars are in-house for dealers, fund managers, prop traders or analysts within banks, hedge funds and other institutions. I also run a few open seminars but these are aimed at an institutional audience. The seminars are popular and successful with desk managers and HR departments and allow me to travel extensively. Last year I worked in companies in China, Singapore, Australia, several in Eastern Europe and the UAE. Already this year, I have run seminars for firms in Nigeria, Slovakia and Ukraine; Lots of work in London too, of course. The seminars are always small (10 or less) and highly personalized. We also run consultancy and mentoring services for selected clients. Finally, I am an Associate Editor of The Technical Analyst Magazine.

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

I started trading soft commodities on the floor of exchange in London. When the LIFFE market opened in London, many of us commodities traders switched to financial futures. Since then I have traded forex, equities, and derivatives over the last 30 years. But there is always something new and exciting in this business. I have recently been working extensively with those who trade Power (electricity). This is very interesting and the market is developing fast in Europe. It is different (it is almost impossible to store) and so it is valuable but disappears. When it rains you get more than you need. It is hard to control supply. Very different to other commodities. But it charts well and there is something new and exciting in this business. I have recently been working extensively with those who trade Power (electricity). This is very interesting and the market is developing fast in Europe. It is different (it is almost impossible to store) and so it is valuable but disappears. When it rains you get more than you need. It is hard to control supply. Very different to other commodities. But it charts well and there is a growing number of prop traders involved in the markets.

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

Fundamentals have no part in my trading decision. If my horizon were longer they would. I have to know when results, GDP, non-farm payroll, etc., are due but they do not affect my trading decisions.

What technique do you rely on the most? Can you describe this tool?

In my trading work I specialize in many advanced trading techniques. But my favorite is the work of Tom DeMark. I find his work stunning in...
its precision. I love the way he thinks. When I was at Bloomberg, I had the privilege to get to know him and appreciate his work. He was the reason I left. I wanted to get back into the markets and with a colleague formed a hedge fund to trade using DeMark techniques. I was that convinced and it is still my favorite. I have done well by using his work. I owe him a lot.

Editor's Note: Tom DeMark can be seen as a keynote speaker at the MTA 2011 Annual Symposium.

Can you share any longer-term market opinions?

I always think technical analysts should not make long term predictions and I always decline requests from TV to forecast the stock market for the year and so forth. Every day is a new piece of data and I can be bullish now but can change my mind if something in the chart changes. But I think I see the stock markets rising, the Euro rising, the Ten Year Notes falling. In all cases, as long as the patterns of rising tops and rising bottoms (or lower tops and lower bottoms) remains intact. When will the patterns be broken? I don’t know.

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

It is a lot harder now than it was when I started. My first job was at Merrill Lynch in 1975. In those days they were so hungry for people, they would take anyone. Within three months of joining I was on the floor. It is not like that now. It is a lot harder. But candidates can differentiate themselves by passing the CMT exam. This says something about you. Anyone can say they know technical analysis but not everyone can pass that exam. It is a valuable qualification and tells people you are competent in technical analysis.

Trevor Neil is one of Europe’s leading technical analysis experts and has been a trader for over 30 years and a daily user of technical analysis. He was the head of technical analysis at Bloomberg LP for four years where he was responsible for training and technical analysis software development on the Bloomberg terminal. He was a board member of The Society of Technical Analysts in London for over ten years. He managed a successful futures quoted fund for Union CAL Limited and was a registered CTA in the US. He has appeared on CNBC, Bloomberg television and has written articles published by leading financial journals.

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.

Intermarket Analysis with John Murphy, CMT

by Mike Carr, CMT

John Murphy, CMT made a presentation to the New York chapter on June 14, 2004. It is available on the interactive On Demand Video Archives.

Murphy's 1990 book, Intermarket Analysis, was one of the most important books in the field of technical analysis. The book was updated and a second edition was published in 2004. In this presentation, he updates his original work, in a unique way for a technician. He didn’t use any charts, choosing to focus on the concepts of intermarket analysis which at that time he felt could have an impact on the future of technical analysis.

Since the original publication of the book, he noted that markets had changed. Deflation concerns dominated the markets in 1997-1998. The link between bonds and stocks is a cornerstone of intermarket analysis, and their positive correlation had been prominently discussed in the original edition. Deflation threats have continued to impact stocks over the past six and a half years and the comments Murphy makes in this presentation still have value.

During deflations, gold stocks and bonds have historically done well. This insight from Murphy is contrary to the expectations of many but is backed by his research. Oil is also prominently featured in his talk, and the link between oil prices and interest rates (a positive correlation) is based upon his research. The sue of oil as an economic indicator was relatively new at the time of this presentation, and widely accepted as a basic truth among economists now.

The basic principles of intermarket analysis were not obvious when Murphy wrote his book. Now it is accepted that all markets in the world are linked. There are generally four markets – stocks, bonds, commodities and currencies. The ripple effects that go through all the markets are now widely traded, and it is difficult for young technicians to envision a time when there was any debate on this issue.

Murphy uses charts, and noted that he looks at a large number of charts of all markets. Standard economic analysis also supports his work, as he explains. He also uses correlation analysis to define the current state of the intermarket relationships. These relationships vary with the inflation/deflation trends, and he needs to understand the current relationships.

He summarized the now well-known relationships, studied by a generation of CMTs:

- Commodities and the dollar are inversely related. This is in part due to the fact commodities are priced in dollars.
- There is a high negative relationship between the price of gold and the dollar.
- Bond prices and commodities move in opposite directions. Inflation is simply just an increase in prices and this relationship recognizes that basic economic fact.
recognizes that basic economic fact. Bonds and stocks traditionally move in the same direction. At turning points in the economy, bonds tend to turn before stocks do. However, the lead time varies from economic cycle to economic cycle.

- During a deflation, stocks and bonds tend to move in opposite directions.
- Commodities have a strong impact on emerging markets. Many of these economies are dependent upon commodity exports and they tend to move in the same direction.

Sector rotation is also covered in this presentation. Commodities and basic material stocks tend to move together. This is reflective of cyclical trends in the economy. Interest rate sensitive stocks like financials tend to show a correlation with bonds. Financials tend to roll over first as markets top, in anticipation of the higher interest rates that are sure to follow the economic expansion. REITs and housing stocks are also impacted by interest rates. Murphy demonstrated that the economic relationships that define intermarket relationships can be used to help create stock market sector rotation strategies.

His presentation offers the logic that underlies the relationships and offers practical ideas for implementing the ideas. There are no absolute rules in technical analysis, but the general principles explained by Murphy are a cornerstone of technical analysis. This video offers an excellent review of intermarket relationships for CMT candidates, and for those looking to study the classics of technical analysis.

Murphy concluded his comments with some prophetic comments. Over the coming years, he expected market timing and sector analysis to become more important. He also thought ETFs, which numbered about 130 at the time of his talk, would become more popular. It is interesting to note that his market insights and industry knowledge are both on display in this archived video.

John J. Murphy is widely recognized as one of the masters in the field of technical analysis. His book, *Technical Analysis of the Financial Markets*, is widely considered to be one of the standards in the field. He regularly publishes his observations of the market for subscribers on StockCharts.com.

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**Technical Analysis Does Get Respect**

*by Mike Carr, CMT*

Jeremy Grantham is a well-regarded stock market analysts and portfolio manager. His quarterly letters are read by many investment professionals, and are available at [http://www.gmo.com/America](http://www.gmo.com/America) (free registration is required to access the newsletters). Grantham was also a keynote speaker at the 2010 CFA Institute Annual Seminar, and a value investor.

His firm, GMO, manages over $100 billion, using fundamental analysis. But in his most current newsletter, published in January 2011, Grantham offers insights into the Presidential Cycle and illustrates the idea of bubbles using numerous charts and standard deviation bands. The chart is similar to the excellent and well known work produced by Ned Davis Research, a leader in technical analysis.

Grantham also features dozens of charts of bubbles in his newsletter and describes the psychology behind the large price moves. He comments that the aftermath of a price bubble can be hazardous to even the best selected Graham and Dodd portfolios. While referring to the cornerstone of fundamental analysis, Grantham prominently features technical analysis.

He is not alone. David Rosenberg, chief economist and strategist at Canada's Gluskin Sheff asset management group, and formerly chief economist at Merrill Lynch, frequently uses technical analysis in his daily research reports. (Again, free registration is required to access his reports at [http://www.gluskinsheff.com/](http://www.gluskinsheff.com/))

In Late-November, he offered several insights on gold that referenced concepts well understood by technical analysts. He wrote,

> Look, when Gold shows up on the front page of the New York Times, you know that a lot of the news is in the price.

We remain big fans of the yellow metal and still see potential for $3,000 an ounce in coming years, as its hedging properties against the integrity of the global financial system are hardly going to subside.

But the reality is that it has made...an asymptotic move in recent weeks, speculative fervor is evident in the Commitment of Traders report, and Gold is now a front page story.

At that time, Rosenberg considered gold a buy, seemingly on the technicals, nothing that it "can correct all the way down to $1,213.52 an ounce (the 200-day moving average) without violating any long-term trendline." Those are two facts derived solely from charts, not fundamentals.

At the end of February, Rosenberg started his Economic Commentary with a technical summary of the state of the markets:

> The equity market has become near-term oversold and we do have month-end technical considerations, so it is not surprising to see stock markets recovering today. After all, the just-released AAII poll showed a huge 9.9 point slide in bullish sentiment to 36.6%, which is actually below the long-run norm of 39%; and the bear share rose 10.6 points to 36.1% so all it took was a few days of decline to throw a scare into a whole lot of folks.

Later in that piece, he wrote that there are six significant drivers of the stock market. First is fundamentals in his view, followed by fund
flows, technicals, valuations, the Fed's balance sheet, and corporate earnings surprises (a recent addition to his analytical framework). Some technicians would note that fund flows are a technical indicator and Tom McClellan has demonstrated in his blog (available on the MTA website) that the Fed balance sheet can be analyzed as a technical tool.

There are many other examples of well-respected fundamental analysts and economists who apply technical analysis as a part of their work. In the current investment environment, risk management is a central feature of success, and few would argue that technical analysis offers a number of techniques that help manage risk.

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**MTA Announcements**

**Spring 2011 CMT Exam Administration - Sign Up Now**

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](#).

**2011 Annual Symposium - Space is Limited, Register Today**

The 2011 Annual Symposium 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.

The tentative agenda for the 2011 Annual Symposium is now available online!

The first day of the Symposium includes presentations by Ken Winans, CMT, Dr. Bryan Taylor, David Linton, the Technician's Technicians Panel Discussion, and the Market Forecast Panel. The second day of the Symposium includes presentations by Lawrence Leibowitz, Steven Poser, Julius de Kempenaer, and Tom DeMark.

- To view the entire agenda, please [click here](#).
- To register online for the 2011 Annual Symposium, [click here](#).
- Discuss the Annual Symposium on MyMTA

The 2011 Annual Symposium qualifies for 15 MTA CE credits.

**MTA Annual Meeting**

The MTA Board of Directors has established May 13th as the date for its Annual Meeting. The meeting will commence at 4:00 PM. The Secretary of the Board will put out an agenda and any proxy material for voting at this meeting shortly. If you have any questions regarding this upcoming Annual Meeting, please feel free to contact Marie Penza at [marie@mta.org](mailto:marie@mta.org) or 646-652-3300.

**Knowledge Base Updates - Recent Additions & New Blog Postings**

The following recent blogs posting are now available in the Knowledge Base:

- **Silver: Support/Resistance Range** by Kirk Northington on February 20, 2011
- **Nasdaq A-D Line** by Tom McClellan on February 18, 2011

The following resources have been added to the Knowledge Base:

- **Secular Intercourse: Long-Term Trends & Their Ramifications** (Webcast); Resource ID: 10.2.06
- **Swing 5 – Relative Strength Index Strategy** (Article); Resource ID: 8.12.15
- **Equity Market Monthly Seasonality – Part 2** (Article); Resource ID: 6.5.07
- **Equity Market Monthly Seasonality – Part 1** (Article); Resource ID: 6.5.06
- **Rank Stocks Based on Fundamental Score** (Article); Resource ID: 1.1.21
- **Increasing Positive Correlation and Momentum** (Article); Resource ID: 10.1.1.13
- **NDX100/S&P500 Relative Strength Strategy** (Article); Resource ID: 10.1.1.12
- **RSI Volatility Spread** (Article); Resource ID: 8.12.14
- **RSI Unleashed - Building on Forgotten Characteristics Part 1** (Article); Resource ID: 8.12.13
- **Testing the CBOE Volatility Index (VIX)** (Article); Resource ID: 10.1.4.15
- **2 Rivers Strategy** (Article); Resource ID: 10.1.4.17
The MTA would like to thank TradeStation for supplying a large collection of educational articles for the Knowledge Base during the month of February. To browse our free repository of technical analysis information, visit http://knowledgebase.mta.org.

MTA Northeast Regional Seminar - Registration Closes Today, March 4th, 2011!

The MTA Northeast Regional Seminar will be held on March 10, 2011 in the Boston, MA downtown financial district offices of 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." To view the event agenda, please click here.

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

The Northeast Regional Seminar qualifies for 10 MTA CE credits.

CMT Institute (CMTi) - Registration is Open for All Levels

Registration is 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. 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.

Learn more about the Spring 2011 Administration of the CMT Institute or ask your peers what they thought, on MyMTA.

MTA Library - New Additions

The MTA recently added the following books to our library:

- "The Blank Swan: The End of Probability" by Elie Ayache
- "High Probability Trading: Take the Steps to Become a Successful Trader" by Marcel Link
- "Investing in Resources: How to Profit from the Outsized Potential and Avoid the Risks" by Adrian Day
- "The Traders Book of Volume: The Definitive Guide to Volume Trading" by Mark Leibovit - The MTA would like to thank Mark Leibovit for personally donating this book to our Library.

For more information on the MTA Library or a complete listing of all available lists, click here. If you have any additional questions, please do not hesitate to contact Cassandra Townes at 646-652-3300.

Educational Web Series - Upcoming Webcasts

On Wednesday, March 9th, 2011, Anne-Marie Baiynd will be presenting Stack Ranking Signals – Where, When, and How to Trade Across Time Frames at 12 PM EST as part of the MTA Educational Web Series. To register for this event, visit the Events Section of our Shopping Cart.

Registration is also open for the following upcoming webcasts:

- March 23rd, 2011 - Topic to be Announced featuring Chip Anderson
- March 30th, 2011 - Harnessing Explosive Turns Using Gann featuring Jeff Greenblatt

To register for any of these free webcasts, visit the Events Section of our Shopping Cart. To see a complete listing of all currently scheduled Educational Web Series webcasts, click here.

Participation in any live Educational Web Series webcast qualifies as 1 MTA CE credit.