LETTER FROM THE EDITOR

We are starting the New Year for the newsletter by offering you a variety of topics. Hopefully we are reflecting the wide variety of work members of the MTA are doing in the real world.

Celebrating the New Year involves a number of traditions and applying technical analysis is also rooted in a number of traditional tools, many of which are updated and applied in unique ways. We feature the work of Eric Leake and John Kosar, CMT, showing how they are applying traditional tools to create valuable forecasts. Jeb Handwerger applies these types of tools to a market that isn’t widely followed, rare earth metals, but is in the news quite frequently. Ken Safian has long been applying traditional tools in an untraditional way to economic data in addition to following the stock markets with a technical-based approach. We also highlight a new book from Christopher Grafton, CMT, which explains a traditional tool, cycles, in a new way.

Please let us know what you are doing and allow us to share your application of the tools of technical analysis to the readers of Technically Speaking by sending an email to editor@mta.org.

Sincerely,

Michael Carr

Mike Carr, CMT
OH TREND...WHERE FOR ART THOU?
BY ERIC LEAKE

In the past six months markets have had more ups and downs than a Shakespearean drama. Looking at the cumulative points traded on the S&P 500 regardless of advancing or declining days since June 1, the S&P has traveled a total of 2,383 points through December 20, 2011. That is more than double the value of the index! The entire value of the S&P 500 has experienced 200% turnover in just the last 6 months. And what do we have to show for it? A loss of -7.1% for the S&P since June 1.

A Flat 200 Day Average for U.S. Equities

The lack of a discernible trend can be seen in the 200 day moving average. The 200 day average is widely accepted as a good indication of longer term market trends, and is illustrated in the chart of the S&P 500 below. Notice the clear rising and falling slope, regardless of Bull or Bear market.

A Clear Downtrend in International markets

While U.S. investors have been whipsawed violently up and down over the last 6 months, the trend in International markets has been nothing short of a waterfall. Our Global Long/Short equity strategy turned bearish on Non-U.S. equity indexes in early July, and continues to be negative today.

Since June 1, international equities have suffered in some cases three times the losses as the S&P. And it’s not just Europe. Broad declines in Asia and Latin America have underscored global equity declines. Below are some examples of country and regional ETF performance since June 1 through December 20, 2011:
Opportunity Around the Corner

Investor indecision is running high with headlines creating euphoria and fear on a daily basis. The lack of trend, 200% turnover in the S&P and flat 200 day average are stark illustrations of just how confused markets have been. History has shown that periods of high volatility and whip saw markets are precursors of macro trend changes, and are often the birth pains of new more persistent trends. And for good reason. Long periods of sideways volatility creates pent up frustration for investors. Once a trend emerges, the inevitable “missing the boat” mentality takes over and investors rush into the new direction giving fuel and momentum to the new emerging trend.

U.S. markets are coiled right under the 200 day moving average once again, and look spring loaded for a large move. Whether down on more negative news from European banks or up on positive U.S. economic data, we see significant opportunities for Global Long/Short equity strategies over the next several quarters.

Eric Leake is a founding partner and Chief Investment Officer of Anchor Capital Management in Aliso Viejo, California. Mr. Leake is co-portfolio manager to the Pyxis Alternative Income and Alpha Trend Strategies Funds, as well as a private hedge fund. He is an active member of the MTA, AAPTA, and NAAIM. More details can be found at http://anchor-capital.com/
RALLY IN RARE EARTH STOCKS LONG PAST DUE
BY JEB HANDWERGER

It is important to highlight what must be said in this sector so essential to the economic survival of the United States and The West. We will not belabor our reader’s knowledge of the importance to our industrial survival especially of the critical rare earths. It is agreed that these elements are the very lifeblood of national growth as a modern nation.

It is well known that as our corporate society evolves, these elements are vital for countries to stay competitive with the Chinese who are actually making constructive advances in this area. Just think of the benefits that could accrue to the Japanese Auto Industry if they didn’t have to go hat in hand to their Chinese neighbors who are exploiting the rare earth issue asking for more a la Oliver Twist.

Not only do the Chinese have a twenty year lead on what was essentially our native domestic wealth, but they are issuing declarations that they will be importing these elements for their own industrial base. Adding chutzpah to injury they are inviting foreign entities to set up factories in China! This is a Catch-22, in that along with the Chinese seduction will come all of the intellectual property from the West.

Beware of Mandarins bearing attractive gifts. To paraphrase a line from Shakespeare, “The trouble is not in our stars, but in ourselves.” It is high time that we discover new stratagems. Let’s not leave everything in the hands of China. A national stockpile might be a good start. However, the heart of the issue is that it is not enough to just mine and concentrate the rare earths, then send it to China for separation, so they can sell it back to us.

We must establish a supply chain between mining and manufacturing so the rare earth oxides can be converted to magnets, batteries and phosphors to compete. We have been waiting patiently for industrial end users to partner with our rare earth mining stocks. The latest news on rare earths this time out of South Africa reveals that big money is putting their faith in rare earths, going full speed ahead.

Example: South African Rare Earth miner Frontier Rare Earths (FRO.TO) announces a definitive strategic partnership with a consortium of Korean companies such as Samsung, Hyundai, Daewoo and others. Frontier is up close to 24% on the announcement despite being in a downtrend for 2011. What does this mean to our readers? Essentially, rare earths are far from moribund despite being temporarily down. A rebound in rare earths IS LONG PAST DUE!

Many of the rare earths are decisively advancing in a tidal wave of green. Specifically our heavy rare earth assets such as Tasman and Ucore appear to be crossing the 50 day moving average to the upside, on increasing volume.
Technically this indicates that the early October selling may have been an exhaustion bottom forming move and the trend may indeed be reversing off that low in a “v” shaped reversal. While it is perhaps early to call this bottom, hopefully this is the emergence of a positive pattern. Oversold conditions appear to be similar to the summer of 2010, where we saw a very powerful reversal, leading to geometric gains in this sector. In fact, many of our rare earth selections have successfully tested those 2010 lows which have held firm.

This could be start of the next phase in the ongoing development of the rare earth sector.

Tasman Metals (TAS:NYSE) has just made a significant development. They are now trading on the NYSE-Amex, which will elevate their exposure to U.S. retail investors. This is significant as they are planning to publish their Preliminary Economic Assessment in early 2012. Norra Karr is a very important project for Europe. The mineral resource at Norra Kärr is the only NI 43-101 compliant REE resource in mainland Europe.

Last month, I visited Hazen Labs to review the metallurgical analysis done on Ucore’s (UCU.V) Bokan Mountain ore. The recovery percentages from Hazen through the separation and leaching are extremely encouraging. Remember recoveries from Phase 1 were done on the whole ore and did not include any physical concentrating. A process flow sheet should be delivered by the end of the year.

In addition to the successful leaching, Ucore has released news that they can double the head grade using x ray technology to pre-separate the waste rock from the ore. It appears that the use of this innovative sorting technology will significantly increase the head grade and decrease the separation costs downstream. With this development Ucore has one of the highest head grades of heavy rare earths in the world, which could significantly reduce metallurgical processing costs. During the second phase of metallurgical work, Hazen will further refine the leaching method and will now take into account the physical pre-concentration techniques. Significant catalysts are expected as Phase 2 metallurgical work is underway and a process flow sheet should be published by the end of the year. A
preliminary economic assessment should be published by the end of the first quarter of 2012. This should demonstrate to investors that Ucore’s Bokan Mountain can be a viable, economic and only U.S. domestic source of the critical elements dysprosium and terbium.

Ucore is making rapid strides catching up and hurdling over competition as they progress towards their preliminary economic assessment after receiving remarkable metallurgical results. Ucore has geopolitical support in Alaska and a favorable location having deep water access in southeast Alaska.

On this next move in rare earths we expect Ucore to gain market share and outperform their rivals. Be assured that we will keep an eagle’s eye on these developments versus some of its overvalued peers and hope that government and industry take the appropriate steps in the renaissance of the rare earths in the United States. “The day is short, but the task is great.”

Jeb Handwerger is an expert in the precious metals, nuclear and rare earth sector. Jeb utilizes both fundamental and technical analysis, especially the study of price volume action to understand the long term macroeconomic trends in the natural resource market. Jeb studied engineering and mathematics and received his undergraduate degree from University of Buffalo and a Masters Degree at Nova Southeastern University. More information can be found at http://goldstocktrades.wordpress.com/
LETTER FROM THE SYMPOSIUM CHAIR
BY JEFFERY E. LAY, CMT

On behalf of the Board of Directors of the Market Technicians Association, it is my high privilege to invite you to our 2012 Annual Symposium – Technical Analysis Applied: Quantitative Investing in a Qualitative World.

This year, we concentrate our interests on the strategy and execution side of our profession. With a diverse roster of industry experts, we’ll discuss challenging technical opportunities market participants encounter daily – and how to exploit them. The conversation will concentrate on quantitative, unemotional techniques suitable for navigating today’s complex financial system, always with an eye toward risk control.

The event will be held at a truly marquise location – Pier Sixty, New York’s largest venue with breathtaking water views. With 20,000 square feet of conference space, we’ve found an ideal location suitable for our exclusive use. This year, attendees will enjoy ample working space, complete with wireless high-speed Internet access for accessing their personal workstations. Moreover, a distinctly separate and seated dining area is partnered with a dedicated and expansive sponsorship area suitable for engaging our partners and their technologies.

Our social event for the 2012 Annual Symposium will be held waterside at Pier Sixty itself. Its expansive views along the Hudson River stretch for miles, and the open-air atmosphere truly makes for a remarkable environment. Combined with thoughtful breaks during the Symposium itself, the cocktail hour serves as the seminal networking moment every year. Connections made during these sessions often prove to last a lifetime, and are sure to add value on an ongoing basis.

Once again, I would like to thank our dedicated Sponsor for their ongoing partnership with the Market Technicians Association. Events like this simply would not be possible, and their ongoing commitment to our organization’s mission has benefitted attendees year in and year out in unimaginable ways. Please join me in thanking each of them personally during this year’s event.

As I always remark, please do not hesitate to contact me directly – personally or professionally – with any questions you may have about the Symposium, our profession or the financial markets in general. One of the joys of serving as your Symposium Chair is the depth and breadth of connections I make year in and year out, and I look forward to engaging each of you one-on-one.

Sincerely yours,
Jeffery E. Lay, CMT
Symposium Chair

Find Out More About the 2012 Annual Symposium
INTERVIEW WITH CLARE WHITE, CMT
BY AMBER HESTLA

How would you describe your job?
I provide technical analysis and option strategy assessments to my customer’s clients at Optionetics. It includes both print and various electronic formats via articles, videos and webinars. My focus markets for trading include the US equities and options markets; however, I do assess other markets as part of my analysis.

What led you to look at the particular markets you specialize in instead of another tradable?
I started trading equities and options, but was more partial to the limited risk and hedging aspects of the latter. I had the opportunity to specialize in options while working at a large brokerage on the retail side, then capital markets side of the business. By the time I left that firm, ETFs were picking up substantial steam and I no longer felt the need to diversify into the futures markets.

Do you look at any fundamental or economic inputs to develop your opinions?
I believe what may qualify as fundamental analysis in my work is pretty minimal. I track economic cycles that I believe exert influence on the markets, but I think market structure issues impact my preferred timeframe for trading a bit more. Things such as volatility, types of market participants (including HFTs) and Fed actions tend to be on my radar more.

Can you share any longer term market opinions?
After a bad 2010 I prefer to keep it shorter-term and simple on the trading side, so for my own analysis I focus on weekly and daily charts with basic trend, momentum and volume tools. In terms of how I approach the longer-term, in a couple of weeks I’ll complete a scenario analysis with 50% of the outcome assigned to average secular bear returns for the upside and downside, then consider wave counts along with other historic measures for the remaining 50%. The 2010 analysis had a minus 5.35% return for SPY, but the approach generally favors typical years rather than big moves either way.

Since secular bears can have some ugly down years, I do look at the work of Tim Wood who specializes in Dow Theory & cycles. He does a really nice job of quantifying cycles across all timeframes so it allows me to focus on my preferred timeframe while keeping an eye on what it may mean for the longer-term.

What advice would you have for someone starting in the business today?
I absolutely believe everyone must trade to their style, whether they are in a retail environment, institutional setting or on their own. Understand that money management and risk management come first then find the path that’s right for you by learning what’s out there and then specializing. I genuinely believe going through the CMT process will help new professionals accomplish that.
Clare White, CMT, provides educational content for technical and options analysis of the US equities markets for Optionetics, Inc. Clare has twelve years experience in the financial services industry which began at The Charles Schwab Corporation. Clare is a CMT and former Chair of the MTA’S Rocky Mountain Regional Chapter. She currently serves on the Board of Directors for the MTAEF. Clare graduated from the State University of New York, University at Buffalo, with a B.A. degree in Mathematics.

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.
SAFIAN INVESTMENT RESEARCH:
INVESTMENT STRATEGY REPORT FOR
INSTITUTIONAL INVESTORS
BY KEN SAFIAN

Editor’s Note: Ken Safian has been providing detailed analysis of the markets and the economy for decades and his work provides an example of the application of the principles of technical analysis to economic data. This is a brief extract of a recent report that highlights this type of research and some background on the firm.

Flow of Funds - 3rd Quarter 2011

Since 2008 we have been referring to this economic period as a "new era", yet investors and analysts do not seem to be revising their thinking and models sufficiently to reflect this situation. Undoubtedly, most have adjusted their way of viewing interest rate conditions due to Federal Reserve actions, but their measures of valuation, economic conditions and patterns of the consumer have not changed that much in the majority of cases. Certainly, the hedge fund industry has changed because of the difficulties and illegalities in this sector, but there is a long way to go before the authorities establish new regulations. Economic conditions in the world also have changed greatly. First, the major problems were in the U S in late 2008 when the economy imploded and the Federal Reserve opened up the financial system for the "sick" financial institutions and those others that may have caught the decease. After the rebound and sharp advance in 2009 and 2010, resulting in more bullish opinions, other difficulties started to develop. It seems everything, or most everything, the government did was short term in nature and the long term was unable to be dealt with. As these new problems arose, the "occupy" movement was developed, yet the program has really not focused on anything specific. While it provided an avenue to express frustration, it really did not change that much. Bearish attitudes are relatively high, but they are not high enough to conclude that the public is fed up and wants a change. In our opinion, the authorities are very fortunate that our population has been patient.

Certainly, the extensions of tax cuts and other assistance have kept the public more patient, but it surprises us that more demonstrations against the government have not risen. One reason for this may be that economic pain is not deep enough or it is focused in areas and not widespread. Similarly, there does not appear to be sufficient bearish attitudes given the degree of difficulties that seem to prevail in our nation. Possibly, most people believe the problems are abroad and mostly in Europe and not in the U S. It could be that since the Congress is so split and the public hears the different opinions by those on the left and right, there is not a necessity to make a lot of noise, demonstrate to a greater degree, and organize the movement.

Page 1 of our graphic section reflects the action of the public and its thinking. The decline of debt usage reflects a change in action and a corrective period, but the fact that unemployment rates differ within the country suggests more focused pain in certain states and areas than in
others. Similarly, the cause of the problems now seem to be abroad more than it is here in the U.S. Given this introduction, we can now highlight some of the individual series presented in the graphic section. We suggest readers go over these graphs with text for important insights. The differences between the financial and nonfinancial sectors of our system vividly demonstrate some of the correction that has already occurred. Readers should focus on pages 31 and 32 which show the strength in the nonfinancial sector of corporate America. There is a large financial surplus in these corporations and financial ratios illustrate the record short term liquidity. It appears to us, however, that this will be a prolonged correction for our economy which may or may not result in a recession.

**Conclusion and Highlights from Graphic Section**

The first chart clearly illustrates the change in the use of credit in our system. The growth in credit has not contracted to this degree since the Flow of Funds data have been produced in its current form in 1952. However, GDP growth has been positive on a quarter to quarter basis due to the strength in other sectors than the financial sector.

The next chart illustrates the much smaller growth in nonfinancial federal government debt outstanding as a percentage of GDP in the private nonfinancial sector. Furthermore, please notice the much lower percentage of private nonfinancial debt outstanding as a percentage of total debt outstanding from a peak of about 62% in the mid 1970s to 46% most recently (charts 3 and 4).

In the fourth chart, shows financial debt outstanding rose dramatically faster than nonfinancial debt until 2007, which was one of the first signals that a slowdown in the economy was coming. Page 6 shows the relative slowdown in some forms of private debt in late 2003.

<Editor’s Note: Due to space limitations, we have excerpted only a portion of the report and the analysis found on pages 7 through 30 of the original report has not been reproduced.>

The last two charts present nonfinancial corporate data that have been very helpful in the past. One shows the surplus or financing gap between capital expenditures and cash flow. This series is quite favorable since it shows a large surplus. The final charts shown presents the favorable liquidity for nonfinancial corporations. This would suggest why high quality corporate bonds have a relatively low yield.
Total credit market debt outstanding as a percentage of GDP is much higher than the private nonfinancial segments since there is little production in financial products. Therefore, the growth in the financial sector is not totally reflected in GDP. However, when such a large spread develops between the financial and nonfinancial sectors, the government, investors, and bankers must be more cautious and adjust policies and regulations. This was not sufficiently done and the financial sector went to great excess and affected the total system. This was clearly reflected between the results of our Total Composite Forecasting Index and the Real CFI which excludes the financial segment.
Nonfinancial federal government debt rose sharply during the crisis period in 2008 and 2009. Such debt is still rising at double digit annual rates of gain due to Federal Reserve Policies. Prior to the recession period that debt was being relatively contained and then the bank crisis hit. As can be seen, total nonfinancial debt as a percentage of GDP rose sharply in 2008 - 2009. This debt as a percentage of all debt outstanding rose to a lesser degree, but the potential growth in the budget deficit suggests greater gains.

Private nonfinancial debt outstanding, which excludes government debt, was about $25 trillion at the beginning of 2008 and has been flat since its peak of $25 trillion in the third quarter of 2008. Private nonfinancial debt rose faster in the 1970s when inflation pressures were greater. Private nonfinancial debt to total debt outstanding fell from the early 1980s to date. Despite that lower growth, this debt as a percentage of GDP still rose from 100% of GDP in the mid 1970s to the mid 1980s to about 175% before the 2008-2009 recession. It should be appreciated that the growth in our system was mostly in the financial sector due to the leveraging of assets by businesses and individuals. Therefore, the growth in debt was centered in financial assets (see next page). The disparity within the stock market clearly illustrates better relative performance in nonfinancial stocks.
Why didn't our nation's leaders and the Federal Reserve emphasize the fact that financial debt was rising two times faster than nonfinancial debt in 2004? Thank you, Chairman Greenspan. This debt outstanding was down about 15% from a year ago in the fourth quarter, but it needs to be corrected due to the continued excesses in the financial sector. Please notice how this sector of financial debt has corrected more than government debt.
Nonfinancial debt as a percentage of total debt outstanding was flat recently, but fell from 62% in the mid 1970s to 46% recently. The financial and government debt outstanding was where the excess developed. Unfortunately, the Federal Reserve and other regulators did not attempt to slow this increased use of leverage, but corporate managements did not go to such excess in the nonfinancial segment. Just imagine if housing debt was contained.

As can be seen by this graph (as well as the earlier charts), growth in the GSEs as measured by this debt to GDP was substantial. This debt rose to almost 60% from 5% in 1979. This debt has slowed since 2004 and reflects correction in this segment.
These series have suggested stock market and economic peaks and troughs in the past. Please notice how current production cash flow for U.S. nonfinancial corporations declined sharply from early 2006 to early 2008. Capital expenditures at the same time continued to rise and turned down in 2008. This resulted in a large financing gap that required financing. The sharp drop in capital outlays in the recession along with the rebound in cash flow then resulted in a financing surplus. This, of course, provided the funds for increased capital expenditures which has occurred in most recent quarters. A large financing surplus now prevails. Investors should be aware, however, of the recession in corporate profits due to the Bureau of Economic Analysis revision of the profits which adjusted the earlier depreciation changes. We have discussed this situation in our earlier corporate profit studies. Overall, it seems that nonfinancial corporations are generally being conservative and, therefore, downside risk seems relatively small.

As the economy deteriorated and then became more complex in financial sectors even though business conditions improved, nonfinancial corporations reduced the ratio of short term debt. As can be seen liquid assets to short term liabilities rose to levels in the early to mid 1950s. This reflected more conservative attitudes by nonfinancial corporate managers. In our judgment, this was the primary reason why some stock prices were able to reach new all time highs and more merger and acquisitions occurred. Generally this is a favorable factor and offsets some of the negative conditions in financial corporations.

Safian Investment Research, Inc., (SIR) and its predecessor firm, Smilen and Safian, Inc. have been providing institutional clients with uniquely creative and innovative investment research for almost half a century. It all began in 1961 with the publication of “The Dual Market Principle,” a monograph which divided the market into two distinct sector averages each consisting of either “growth” or “cyclical” equities, and which showed that a bull and bear market could exist simultaneously. The study was the introduction of modern “sector analysis,” which is now widely accepted. The recent environment has produced greater government influence on economic conditions. As a result, sector analysis has become an increasingly vital investment research tool. SIR believes that great transition is occurring in the world and that a new era is developing which requires a different approach to industry and economic analysis. SIR is confident that it has the experience and the record to produce the new thinking to provide such analysis.
Over the years, the firm has refined and expanded its studies and has developed many original economic series and approaches for both stock market and economic forecasting purposes. For example, in 1984 it introduced the Composite Forecasting Index (CFI), which successfully forecast each of the past three recessions of 1990-90, 2000-2001, and 2008. Those were the only recessions which were forecast. There were no false predictions.

Based on its research SIR produced a Recommended Equity Portfolio for Institutions Investors, starting in 1972, which significantly outperformed both the Dow Jones and the S&P 500 averages. SIR had managed money for many years and stopped managing money and issuing its recommended portfolio in August 2008. Clients’ assets are currently being managed by a former employee of Safian Investment Research.

Ken Safian, the president of SIR, is a graduate of the Wharton School at the University of Pennsylvania. He started his career at Dreyfus & Co. where the legendary Jack Dreyfus served as his early mentor. Ken has served as a director of the NY Society of Security Analysts, as a member of the National Association of Business Economists and is currently on the Executive Committee of Edward Jones and Co. He was a major shareholder and investment policy director for Regent Investor Services, which managed $3 billion and was sold in the early 1990s to Alliance Capital.
GLOBAL EMERGING GROWTH CAPITAL

**Investment Courses For Professionals**

A sample of a growing list of fundamental and technical courses is shown below. The courses are associated with global destinations and dates, both for open and private client formats. They are produced by various knowledge vendors throughout the world. Details can be provided by contacting NYIF.COM, or John Palicka (palicka@pipeline.com).

*Taught by John Palicka CFA CMT*

**FUSION ANALYSIS**-
This is a professional approach that blends fundamental, technical, behavioral and quant strategies.

**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.

**INVESTMENT FUND SELECTION**-
This is a must attend course for all professionals involved in the selection and management of third-party investment managers.

**TECHNICAL ANALYSIS CMT 1**-
A must attend course for investment professionals wishing to gain the CMT Level I professional qualification in Technical Analysis from the Market Technicians Association (MTA).

**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.

**ADVANCED CAPITAL MARKETS ANALYSIS**
Spot, forwards, futures, swaps, options, and statistical issues are discussed in dynamic capital market strategies.

**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.

**GLOBAL SMALL CAP INVESTING**
Global small cap stocks offer investors the ability to participate in the world’s future big winners.

**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.

*Instructor John Palicka CFA CMT is a top-ranked portfolio manager of Global Emerging Growth Capital ([WWW.GLGEGC.COM](http://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](http://WWW.NYIF.COM)).

*Past performance is no guarantee of future results.*
Hurst’s cycle work is one of the pillars of technical analysis, but has been largely inaccessible and unknown to many traders. J. M. Hurst was a rocket scientist, an aerospace engineer in the 1960s.

He applied his math and engineering skills to the stock market and offered a glimpse into his work with a short book called “The Profit Magic of Stock Transaction Timing” (1970, Traders Press). Hurst also produced a detailed course that he published in the early 1970s and then Hurst seemed to disappear.

The ten volumes that made up the original Cycles Trading and Training Course was located by Traders Press and is now available for traders looking at an effective way to apply cycle analysis to their work.

Christopher Grafton has delivered a comprehensive summary of Hurst’s work and expanded on the analysis techniques. He also brings Hurst’s work into the twenty first century and provides an appendix with the complete code for applying Hurst cycle analysis using Updata or TradeStation.

In the first chapter of Mastering Hurst Cycle Analysis, Grafton ensures that the concepts of cycles are well defined. He explains Hurst’s Principles of Cyclicality:

- **Harmonicity**: cycles typically tend to be related to one another by multiples of two, although in certain cases by a multiple of three.
- **Synchronicity**: cycle lows tend to converge: in other words the trough of a long cycle will coincide with the trough of all shorter component cycles. Although, apart from commodities, this is not the case for cycle peaks, which tend to be more dispersed.
- **Nominality**: there is one more or less uniform set of cycles from very long to very short.
- **Variation**: deviation from the norm is to be expected: cycle periods and amplitudes vary over time.
- **Commonality**: these principles are applicable to cycles in all markets across the entire price history.

Grafton makes a very important point, that, “It is worth remembering here that although Hurst used the word “principle” he did not mean “physical law”, like the law of gravity or the law of thermodynamics, but rather “strong tendency”. Cycles can be swamped or summed, for example, and Grafton makes these points with rich examples.

Each of Hurst’s Principles is also expanded upon with examples and diagrams that ensure anyone can grasp the important ideas that will be applied to the markets later. Cycles are a topic that normally requires a
comprehension of math, but Grafton’s writing and illustrations make the topic understandable even to those with no advanced math background. By applying the code that is required to implement the ideas, it is even possible to trade based upon these ideas without needing any understanding of cycles except the ability to read a chart.

After a great deal of study, Hurst developed the nominal model which highlighted the most important cycles in the market.

<table>
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<th>Calendar Days</th>
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<td>80 (56D)</td>
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Table 1.3: Simplified Nominal Model showing calendar days and trading days

Examples of the cycles at work in the Dow Jones Industrial Average and the Japanese Topix Index are included:

Many traders want to believe that cycles can unlock the ultimate key to understanding and forecasting the markets. Grafton cautions readers of the limitations and hints at the amount of work this technique requires to implement successfully at the end of the first chapter, “Hurst analysis is a system of tools: we do not just blindly rely on individual signals, but combine empirically derived techniques with sound underlying logic to build up evidence to forecast future cyclic action.”

In subsequent chapters, he details the tools needed to create forecasts based on Hurst Cycle Analysis. Each tool is fully explained and a number of examples are provided on charts. Two of the most important tools are valid
trend lines and displaced cycles which Hurst called the Future Line of Demarcation.

Valid trend lines are more objective than conventional trend lines because they follow specific rules. Different analysts will be able to find different trend lines on a chart using the traditional approach since trend lines are actually one of the more subjective techniques of technical analysis. Hurst defined specific rules for drawing trend lines based on cycles, and this makes it possible to spot more significant trends in the market and have an objective method to know which trend line breaks are important.

Grafton points out that the displaced cycle is one of the most original ideas in the Hurst tool kit and may be among the most useful indicators devised by Hurst. He explains the concept:

This is a line drawn in future time that precisely tracks a particular cycle, demarcating an imaginary forward boundary. In other words it is a duplicate cycle displaced to the right of the original. The interaction of the price cycle and the displaced cycle provides us with valuable insight not only into the base cycle, but also into the overall cyclic condition of the market.

Again, examples and code are provided to make the ideas understandable and easily implemented.

Those ideas, understandable and easily implemented, define Grafton’s work. The reader will be able to trade on Hurst’s groundbreaking work, which Grafton shows has stood the test time. In other sections of the book, Grafton shows how Hurst cycle analysis can be confirmed with other market techniques, specifically RSI and Elliott Wave. He notes that “RSI is a true and representative measure of momentum and Elliott addresses market rhythm and structure. An understanding of both will help take your cycle analysis to the next level.”

This book takes cycle analysis into the modern trading day, updating Hurst’s classic work from the 1960s and 1970s with technology available today. Grafton has done a commendable job both in preserving market history and providing a useful guide for traders.

Christopher Grafton, CMT, has worked on Japanese equity sales desks at various investment banks in London and Tokyo. He was also an analyst and a trader at a small cap value hedge fund based in London. He is working to complete the Master of Financial Technical Analysis (MFTA) designation. His current project is running a market analysis service which is due to launch in January 2012 at [www.vectisma.com](http://www.vectisma.com). He also recently built a grey box trading system for a major US hedge fund.
US FINANCIAL UPDATE FOR DEC. 2011
BY JOHN KOSAR, CMT
SUMMARIZED BY MIKE CARR, CMT

A webcast presentation was conducted by John Kosar, CMT on December 14th, 2011 as part of the MTA’s Educational Web Series. This webcast can be access by visiting: http://go.mta.org/194

John makes precise and often accurate market forecasts. He began his presentation by reminding the audience about a forecast he had made during an MTA presentation on August 3. At that time, John noted, “July breakdowns in European equities led this week’s breakdown in the US, which targets another 8% decline in the US broad market before its larger May decline (with some assistance from the US economy) may be completed. Although extremes in some near term breadth statistics suggest the potential for a minor rebound first, perhaps over the next week or so, relative underperformance by the PHLX Semiconductor Index and a bearish nonconfirmation according to Dow Theory (among other indicators) suggest that the May decline in the US stock market is only around half completed, and could extend into September according to 53 years of seasonality data.”

The S&P 500 actually declined by another 13% to 1102 between the time of his presentation and August 9th (one week later), and then established a slightly lower low at 1075 on October 4th before beginning a 20% advance into the 1293 October 27th high.

As he spoke in December, John was bullish. He summarized his forecast as:

Major overhead resistance is being tested in most major US indexes except for the Dow Industrials, which have already broken their equivalent resistance level. Considering the mostly positive near term (monthly) and intermediate term (quarterly) market environment, which includes inter-market relationships (crude oil, interest rates), investor sentiment, market volatility, relative performance (Small Cap, Blue Chips), seasonality, and market breadth, we view this recent breakout through resistance in the Dow as a leading indication of an upcoming, similar breakout by the rest of the market. One potential pothole to watch out for, however, would be a continuation of recent widening in corporate bond spreads and swap spreads, which could temporarily derail the current US stock market advance from the October lows.

Specifically, John pointed out that the S&P 500 and Dow Jones Transportation Average are at critical levels and testing resistance.
The NASDAQ 100 and Dow Jones Industrial Average are already breaking through resistance. Supporting the gains are higher oil prices and rising interest rates, both factors John identified as potentially bullish for US stocks. He also cited the VIX as pointing towards higher stock prices. The VIX has been hovering above 30 for months, indicating a period of sustained fear by investors, just like it did during May and June 2010 which led to the July 2010 to 9 May 2011 advance. To him, this suggests that fear is getting played out, and is intermediate term bullish.

Looking at specific groups, he expects financials and industrials to outperform and consumer staples and utilities to lag. John is also known for his bond market forecasts and here he believes that “favorable conditions for benchmark US interest rates to rise into Q1-Q2 2012. A rise above 2.41% would indicate that a bottom is in place in the US 10-Year Treasury Note.”

An important factor to watch is credit spreads, which John feels must narrow from recent extremes to facilitate a stock market advance.

John Kosar, CMT, is the Director of Research at Asbury Research LLC. John, a 30 year veteran of the US financial markets, spent the first half of his career on the trading floors of the Chicago futures exchanges. John is frequently quoted in the media and regularly appears on financial television. He was awarded the CMT designation in 1999, is a former Vice President of the Market Technicians Association (MTA) and served on its Board of Directors between 2002 and 2006. To read his Logic-Over-Emotion Investing blog, please visit http://asburyresearch.com/category/blog/
Recently, the MTA Educational Foundation presented the basics of technical analysis to an audience at Adelphi University. This is the oldest institution of higher education for liberal arts and sciences on Long Island, and the University serves more than 5,000 undergraduate students and over 2,900 graduate students in a variety of programs. The MTAEF presentation was held at the Garden City, New York campus. The presentation was made by Ralph Acampora, CMT, Bruce Kamich, CMT, and Jeanette Young, CMT, CFP, MS.

The three gave a very elementary introduction to technical analysis showing the group how the same information can be interpreted in many ways. Ralph did a wonderful job explaining and speaking about Dow Theory and Bruce did a terrific job opening the audiences mind to Japanese Candlestick Analysis. I used a power point to demonstrate how information can be translated to charts. Line charts, point and figure, candlestick, bar, and market profile charts were illustrated. We explained some basic information about technical analysis. I think we actually stimulated some of that grey matter in heads of many of the students. The student’s advisor, Professor Michael J. Driscoll, was also in attendance.

We spoke briefly about the value of technical analysis dispelling some of the voodoo magic the public has attributed to our craft. We illustrated how the market is creating the chart, not the people drawing that chart. It is simple, we explained, and showed that looking at charts and the price action of a security or issues is just as important to the investor as an electrocardiogram is to a cardiologist. We illustrated the value of a chart in timing entries and the exits for investors. In the end, we showed the group the value of looking at supply and demand in analysis and I am sure, we have created interest in our discipline.

Jeanette Schwarz Young, CFP, CMT, MS – Author of the Option Queen Letter and the OPTIONS – is the Director of the CMT Program for the MTA and A current AAPTA board member. Jeanette has been a Wall Street professional since 1981 where she began her professional career with Thomson McKinnon Securities. She is a member of ICE, COMEX, and NYSE-LIFFE. She is also a member of the Adelphi University Presidents Counsel. See Complete Bio on MyMTA...

Ralph Acampora, CMT is a pioneer in the development of market analytics and has a global reputation as a market historian and a technical analyst, providing unique insights on market timing and related investment strategy issues. Ralph Acampora was previously the New York Institute of Finance’s Director of Technical Analysis Studies. Ralph Acampora has taught at the institute for 37 years. See complete bio on MyMTA...
Bruce Kamich, CMT is with a major Wall Street firm as a Vice President, Technical Analyst. Previously, he was a financial journalist at Reuters covering the cocoa, coffee, and specialty coffee markets and coverage of other soft commodities as needed. He is the author of How Technical Analysis Works, selected by Barron’s as one of their top investment books for 2003 and by The Stock Trader’s Almanac for 2004. See complete bio on MyMTA…”

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