Technically Speaking
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[Graph and data analysis]
LETTER FROM THE EDITOR

This issue starts with a small preview of the upcoming Annual Symposium. Michael Covel will be the keynote speaker and we are presenting a small sampling of his philosophy. Covel is an expert on trend following and is able to explain the strategy along with its rich history. His writings are a valuable source of information for traders and his talk will certainly be valuable for traders and those interested in market psychology and history.

Also in this issue, Scott Hathaway offers another insightful article with another technique that he has developed. Last month he presented pentagonal analysis with detailed examples and a complete explanation of how you could apply the ideas to any chart. Scott recently explained his investing philosophy to me. He believes that “the mechanism behind the market is the collective unconscious of the trading community is a whole entity existing in our universe conforming to mathematical properties like everything else. Geometry of price and time helps to reveal these underlying fundamentals of this collective energy.” We are just beginning to see what is in Scott’s fertile mind, but his work seems to be in the tradition of Gann and Elliott.

Market historians will also enjoy the article by George Schade who details the origin of the Schultz AT indicator. As always, we hope you’ll tell us what you think about Technically Speaking by sending an email to editor@mta.org

Sincerely,

Michael Carr
Michael Covel has studied trend following and written extensively on exactly how this trading strategy works. His research may be the most comprehensive look at what trend following is and the most detailed history of how well it works.

Trend following trading reacts to the markets. Trend followers make no effort to forecast or predict markets or price levels. Trend trading is a disciplined approach to entering and exiting markets with precise rules that define a risk management. Covel believes that it is a system that money management can be easily incorporated into trend following systems and long-term success can be achieved by almost any trader willing to strictly follow a sound trend following system.

Success comes from following the rules of the strategy and giving the discipline to ignore the emotions that make it difficult to execute any trading strategy. Trend followers try to capture the major part of a market trend, whether it is up or down, for profit.

Covel calls trend following “the only strategy that you could trade on a desert island.” All you need is closing prices and you can ignore the opinions that fill CNBC, the major newspapers and thousands of web sites where analysts are calling for the next top or bottom.

Based on his research, Covel found that trend following works for a variety of reasons:

- It delivers profits in bull and bear markets. It simply follows trends to the end. No matter how ridiculous the reasons behind a new trend may sound as it first appears and no matter how insanely extended the trend gets at the end, trend followers are simply following the price rather than trying to explain it.
- Avoids the pain of buy and hold, incorrect analyst forecasts, and emotional reactions to news. Buy and sell decisions that are based on trend following don’t allow for discretion, guess work, emotion, hunches or hot tips.
- No need for market predictions. With trend following you just take advantage of the trends which always exist in the markets. Trends are always coming and always going. But no one can predict a market trend and no one knows when they will start or stop - you can only react to one. Trend followers never anticipate the beginning or end of a trend. They only act when the trend changes and there is no need to understand the underlying cause of why a market is trending. Covel has pointed out that, “You don’t need to understand electricity to use it.”
- Trend following at its best aims to compound absolute returns. It doesn't shoot for average.
- Risk management is a top priority of the trend following trader. Stop losses and proper leverage usage are standard practice. Trend following also has low to negative correlations with most other investment opportunities.

- Trend following takes advantage of market psychology. Because the rules of the strategy are well defined in advance, common behavioral finance biases are avoided.

- Trend following provides a scientific approach to trading. It is not based on beliefs or subjective patterns that have different meanings to different traders. Trend following uses rigid rules that have been shown to work over time. It is a process that relies not on the frequency of correctness but is instead designed to maximize the magnitude of correctness.

Another advantage of trend following can be applied to a variety of markets which offers diversification. No specialized knowledge of the markets is required to apply a trend following strategy. The ability to trade without specialized knowledge is one of the advantages of technical analysis identified by John Murphy in “Technical Analysis of the Futures Markets.” Trend followers need only price data, in fact all they need is closing prices to implement the strategy.

Using only price data, trend following is a pure application of technical analysis. Permabear Jim Rogers is widely cited as the source of what some consider a devastating indictment of technical analysis. Rogers ran The Quantum Fund with George Soros in the 1970s and was unarguably successful. More recently, Rogers has been able to spend years riding
around the world on his motorcycle and writing “Investment Biker.” Rogers was interviewed by Jack Schwager, author of the “Market Wizards” series and when asked about technical analysis, Rogers responded, “I’ve never met a rich technician. Excluding, of course, technicians who sell their services and make a lot of money.”

Covel seems to have anticipated that argument and provides a Hall of Fame listing of rich trend followers. His list includes:

- Bruce Kovner is worth more than $4.5 billion.
- John W. Henry is worth $840 million and own the Boston Red Sox.
- Bill Dunn made $80 million in 2008.
- Michael Marcus turned an initial $30,000 into $80 million.
- David Harding is now worth more than $690 million.
- Ed Seykota turned $5,000 into $15 million over 12 years.
- Kenneth Tropin made $120 million in 2008.
- Larry Hite has made millions upon millions over 30 years.
- Louis Bacon is worth $1.5 billion.
- Paul Tudor Jones is worth $3.3 billion.

Those success stories don’t prove that trend following works, but are evidence it can work. Additional details are available on his website.

Michael Covel will be the Keynote speaker at the 2012 Annual Symposium on April 19th. For more information on the 2012 Annual Symposium, or to register, visit http://symposium.mta.org
This month, I had the opportunity to ask Sam Hale about his life in the markets. Sam came to the markets after a very successful career in radio, which is documented at Reel Radio, a repository of classic radio, http://go.mta.org/258. His thoughts on the markets are below. It is interesting to note that Sam has enjoyed success in three fields – radio, the markets, and now helping others who have been victimized in the markets (you’ll see what I mean at the end).

Sam’s thoughts: I developed an interest in the stock market as a hobby when I was deep in my first career, which was broadcasting. The interest became more intense as I mastered the few books and instruction courses available in 1960. I even took by correspondence the courses from the New York Institute of Finance.

In 1985, when my earnings from the market were multiples of my radio salary, I began having thoughts about a career switch. I interviewed with the NYSE firm with which I was trading at the time. After interviews with all the partners of the firm, I was informed that, before a final decision was made, they asked the candidate to be screened by their consulting psychologist, Dr. Sydney Janus. I sat for three days of testing – aptitude as well as psychological.

Then, an appointment was made to visit with Dr. Janus. As I entered his office, prominent in my view was a rocking chair. Inwardly I was concerned that he was going to observe whether I was rocking as I answered his questions! All those anxieties quickly vanished as he greeted me with, "you’re going to be an outstanding success and I want to follow your career". So, I was hired and, at that time, a six-month training program was required by the NYSE before one could qualify for registration. During those six months I visited the major fund companies in Boston, New York and Delaware and had several visits to the floor.

As I was on the air only three hour per day I had ample time during the waning days of my broadcast career to watch the ticker. From the Richard Wyckoff material, I had become a master of his method of "point and figure" charting. After a couple of years of building success, with the cooperation of one of the firm’s partners who happened to be good friends with the Director of Communication of the NYSE, I received permission to connect the ticker feed into a PDP 8-I computer system.

I engaged Tech doctoral students to do the machine language code to "read" the ticker and build files of transactions. From these data, I constructed measures of the average volume per price advance, vis a vis, decline. To me this was the absolute best measure of supply/demand in the market. The results were exceptional until the origin of the consolidated tape in which all markets were required to enter 90% of their transactions within 90 seconds. Well, there then was no way to know that these trades were, in fact, made sequentially with all the other markets. So, I began to file only NYSE trades and continued to do OK until the volume in NYSE listed stocks as a percentage of the total activity dropped significantly.
In 1973, based upon the success of my "Transactional Data Analysis" I opened my own NASD "research boutique". Then, in 1976 I became a member of the CBOE and traded on the floor as an IBM market maker. I was a "fish out of water" and though I did "OK", I determined I could do as well, or better, off the floor. In the interim, I had been consulting a member firm and was recruited to become an employee.

I retired in 2002 as Senior Technical Analyst for the Futures and Options Division of A. G. Edwards & Sons, Inc. Prior to retirement, my daily market comments to 7,000+ brokers were on the S&P, T-bond and soybean futures because, when I began that relationship, those were the most actively traded futures markets.

Then, I was again a full time private trader. In March 2006, I suffered "sudden cardiac death" and was miraculously resuscitated three times. This was a life changer and, since, I've devoted much of my time ministering to widows and others who have suffered losses as a result of mismanagement, unauthorized discretion and, or, failure to supervise. This ministry began after I received a phone call from the newly widowed friend of mine. I had only met her at the memorial service, though I had known him from my days in broadcasting. She asked if I would look at her accounts to see if she should "be in those stocks". I sensed right away there had been serious abuse and began an effort to right that wrong. It required a period of 10 months, but, in the end, without the assistance of an outside attorney (who would have taken 30% of the settlement proceeds - if there were any) I was able to get her a cash deposit back to her account of $300,000. This was the beginning and I've now been approached, and helped, 11 widows. Only one knows any of the others. I consider this a clear revelation of my "calling" and give thanks for every breath I take.

**Note from Amber Hestla:** Sam concluded our email exchange by noting, “I've re-read your questions and realize this hasn't answered them succinctly. I recommend Walt Deemer's new book, *Deemer on Technical Analysis* and I share his long term view that we are within a protracted corrective period from the highs of 2008.”

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.

Interested in advertising in Technically Speaking? Contact Tyler Wood at tyler@mta.org for more details!
BACK TO THE DRAWING BOARD: PARABOLIC CURVES & THE DOW
BY SCOTT HATHAWAY

As the Dow keeps climbing higher (although not yet outside of the external circle of the pentagon from last month’s article), I am pondering the possibilities of a new all-time high, as well as large chart patterns such as a double top or a 5 wave expanding pattern. This naturally stirs the desire to establish large-scale frameworks of effective support and resistance of the major tops and bottoms that extend into the future.

Therefore, I would like to present some of my large-scale parabolic curves and structures along with upcoming dates and prices for possible major reversals: a ‘parabolic perspective’, so to speak. And here’s the kicker:

*It all comes from the low of August 1982.*

(Concerning parabolic theory and my techniques, I will describe these as we go along. First, I want you to see these curves in action.)

The first chart shows S/R for all major reversals since and including 2000. The resistance curve (red) provides both tops: 1) the 2000 top is a little underneath (by 160.15 points) and the ensuing plunge takes a while to start. 2) The all-time high in Oct ‘07 is almost exactly on the curve (missed by 20.04 points) and disaster immediately follows, hence, this curve is truly the ‘touch of death’. The blue curve 1x3 offers clear support for the bottom area of Oct ‘02 to Mar ‘03, and a loose but workable floor for the Mar ‘09 bottom is given by the 1x4 curve (if it were drawn perfectly as a curve, it would be a little closer to the low). In addition, various S/R is offered throughout the ’80’s as well, including the bottom of the crash of ’87.

Since the high of Jan 2000 is right at the intersection of the resistance curve and the support curve 1x2, the subsequent intersection with curve 1x3 is the next candidate for a major top of 15,400 in Sep/Oct of this year. Although this seems very impractical, there is a comparable blow-off leading to the all-time high of Oct 2007. Rather unlikely, yet alluring....

But regardless of price hitting this point or not, this intersection functions as a vital reminder of the massive 60 month (5 year) cycle shown by the green arrows (60 in degrees is also a hexagonal angle, but more about that later).

Also worth noting is that the great market crash of 2008 occurred right after the Dow lost the debate with curve 1x3, which then provided impenetrable resistance for August and September of 2008. If price actually did hit the target shown at this very same line, then an enormous crash could be expected, and especially if contact is made with the resistance curve.
Finally, looking longer-term, the 1x4 support curve and the resistance curve continue on as a large enveloping channel of sorts. Perhaps more major reversals are on the way inside this long contracting shape, bouncing to and fro? Leaving this shape would certainly signal an end to this enormous sideways market, and signal another strong trend, up or down.

But enough with analysis for now. Here’s the parabolic theory (an exponential relationship) and my basis for generation (Relative Charting).

A simple parabolic curve occurs when either time (x) is squared to price (y), or price is squared to time. This wording can be a little tricky, so let me clarify that I do not mean ‘squaring’ in the Gann methodology (a highly effective technique), but literally squaring the actual number. It is an exponential function.

Using monthly charts for examples, the equation x squared = y means that we square a time amount to get a price amount. If we go forward 2 months from the low of Aug ’82 to Oct ’82, the matching price point for the curve would be 2 squared ($4 using $1/M) above the low; if 12 months forward, then 12 squared ($144) above, etc. This yields an ascending curve which increases in slope as it goes along, such as the blue support curves.

Conversely, if we use y squared = x, then we square a price amount to get time. Now, an increase of $2 from the low in price yields 4 months forward from the low; if $12 above, then 144 months forward, etc. This gives an ascending curve which decreases in slope as it moves along, such as the red resistance curve.

**Question:** What else can be used other than a $1/M relationship?

Well, using $1 or point/period (or any other ideal derivation) is literally a parabolic expression of Gann angles. These curves work great (as do the angles), but for the purposes of this article, I am sticking to my Relative Charting approach, which uses specific price data (please refer to my article in last month’s newsletter for details). Through these parabolic curves, price and time are seen as unified through an exponential relationship. And the price/time point that generates the relationship presented here is the low of 769.98, in August 1982, which marked the beginning of a new era of bull market.

Let’s start with the red resistance curve. (You may want to refer to the next chart to visually absorb the formulas.) This is an ascending decreasing curve which squares price to get time. Here, we are squaring each specific unit of price (derived from the low price of 769.98) with 1 unit of time (1 month). The curve’s time/price coordinates (x,y) is as follows:

**Time:** x = Square Numbers Series in Months = 1M, 4M, 9M.....

**Price:** y = Low Price + (Low Price x1, x2, x3.....) = 769.98 + (769.98 x1, x2, x3.....) = 1539.96, 2309.94, 3079.92

**Parabolic Curve Coordinates (xy):** (1M, 1539.96), (2M, 2309.94), (3M, 3079.92).....
To clear up something that confused me at first, although this curve comes from the concept of \( y^2 = x \), it is actually \( x \) that features squared numbers. It is because we are squaring price (\( y \)) to get time (\( x \)) that the time units are in a squared relationship.

Now please refer to the second chart. 1) Stacked levels of the low price from the low are vertically climbing on the left. 2) A time cycle of the square number series in months expands to the right, numbered by their roots (for functionality). The curve consecutively connects each price level with its respective time point. For example, the curve unites price level 17 (\( y \)) with time point 17 (\( x \)), which is 17 squared months or 289M from the Aug ’82 low, therefore: \( y^2 = x \), or \( (17)(17) = 289 \).

This curve can be thought of as a tapering of a 769.98/month angle (line) by the square number series. The ever-expanding squares pull forward more and more as time passes, causing the curve’s ascent to lessen gradually, and eventually reach the market highs. Therefore, the 2 major market tops are directly and harmonically related to the low of Aug ’82 through its own price and through the square numbers series in months

And even further, BOTH tops are EXACTLY 13 MONTHS into their respective square time zones!? The Jan ’00 top is 13M after 196M (14sq) at 209M from the low, and the all-time high is 13M after 289M (17sq) at 302M from the low.

Future +13M points for possible reversals are Oct ’13 @ 15,758.10, Jan ’17 @ 16,528.08, and Jun ’20 @ 17,298.06.

And now, it is time for the support curves. These are ascending increasing curves which square time to get price. Please refer to the next chart for another visual guide through the formulas. (Needless to say, these blue curves are drawn by hand, and getting them to be a perfect curve is not easy when there is a lot of room between intersections, and with a deadline to meet!?)

However, there is a twist. Although the same price amount is used for levels (now multiplied by the square number series), we are treating the square root of the low as 1 unit of time to match with price. Here’s why: 1) Using 1 month is impractical; the curve would be almost vertical and therefore useless. 2) If we completely reverse the method and use the amount of the low (as per using 769.98 for price earlier), we would have a 769.98M cycle, also completely useless. (Well, it does round up nicely by 2/100 of a point to 770…. hey, there’s 7&11 again). So, instead, I opt for the next best thing: the
square root of the low as a cycle, which is 27.7485M, rounded up to 27.75M.

**Parabolic Curve ‘1’ (1x1)**

**Time:** \( x = \text{Square Root of Low Price as a Monthly Cycle} = \text{Square Root of 769.98} = 27.7485 \text{ Rounded to 27.75} = 27.75 \text{M Cycle} \)

**Price:** \( y = \text{Low Price} + (\text{Low Price} \times \text{Square Number Series}) = 769.98 + (769.98 \times 1, 4, 9, \ldots) = 1539.96, 3849.90, 7699.80\ldots \)

**Parabolic Curve Coordinates \((x,y)\):** \((+27.75\text{M}, 1539.96), (+27.75\text{M}, 3849.90), (+27.75\text{M}, 7699.80)\ldots\)

For the additional curves of 1x2, 1x3, 1x4 etc., simply multiply the amount of time by the second number. (I am labeling these curves as if they were Gann angles which usually express price first, then time \((y,x)\). Therefore, curve 1x2 consecutively connects each price level with every SECOND cycle point; the 1x3 curve consecutively connects each price level with every THIRD cycle point etc.

so, there you have it. An inside look at how all these curves were made. And again, *all from one point in price!* It’s like we just tapped into the genetic code of the market through one number in time...

Moving on, there are two bits of additional analysis that this structure can add, by way of (can you guess, readers from last month?) pentagonal analysis! Yes, let’s ‘cross the streams’. It bothers me a tad that the all-time high has escaped the dynamic and effective support curves, unlike its predecessor in 2000 (acting as a resistance curve at that point). But the next chart offers a solution, with a fringe benefit or two.

**Technique:** The 1x2 support curve (used here due to its history of S/R) is repeated along a harmonic cycle using a 360 degree fractional (geometric shape) division: In this case, a 72M cycle. (72 degrees is a crucial pentagonal angle, as it perfectly divides a circle by 5, and it is the compliment (adds to 180) of 108 degrees, the actual internal pentagon angle. The additional cycle points are also important numbers, especially 144 (12sq) and 360.)
The first repeated curve from 72M clips the all-time high perfectly (we’re on track), and directs our attention to a potential future top at the next intersection with the resistance curve, on Jan-Feb 2015 around 16,000 (4sq x 1000). This is a proportionate locale for the completion of a 4th wave (D) of a large expanding pattern. The downside (pun sadly intended) is that the next wave E would be utterly disastrous. A simple trend line from the major lows gives the rough area of Sep-Oct 2017 around 5500 as it meets a support curve from 288M (4/5 of 360). This locale is proportionate with the overall scheme as well. Oddly, Oct 2017 is exactly 180M from the 2002 low (180 degrees is ½ of 360), as well as being a member of the previously mentioned massive and effective 60 month (5 year) cycle.

Turning away from the Dow for just a moment, let’s present a Dollar Index Monthly chart that shows this same 360 division and curve repetition technique:

This descending decreasing ½ curve (1x2) (the upside-down version of the ascending decreasing resistance curve) offers some general support (downward resistance?), and a nice bottom at point 9 (81M) at 71.52.

The large consolidation is conforming well to this curve’s repetition at both 60 and 72 months from the high: 72 degrees is pentagonal as previously mentioned, while 60 degrees is hexagonal (the compliment to 120 degrees, the internal hexagonal angle). In addition, splitting these points in half gives 36 and 30 months respectively, and a section from each curve from these ½ points is drawn to help identify respective support: A top at 60 with its bottom at 30, a top at 72 only to not quite reach 36. Perhaps the next move down?

Currently, a new lower high at the intersection of 72 and a 1/3 curve (1x3) spells danger for the dollar. As long as the unusual inverse relationship between the dollar and the Dow continues, this dollar resistance with an impending downtrend supports higher stock prices. Conversely, if the dollar breaks outs from this ceiling, then the Dow’s previously mentioned blow-off target from the first chart is certainly null and void.

And hey, wait a minute (back to the Dow parabolic curves)... if I used the square root of the low of 769.98 (27.75 rounded) for a time cycle, then why am I not using it for price levels too?? Wouldn’t that make sense?

So, last but not least, here’s a look at the Dow’s mountainous terrain through another harmonic parabolic structure, similar to the previous support lines except that 27.7485 is used instead of 769.98 for price levels.
It’s nice to finally visualize and harmonically pair the 2 major bottoms of ’02 and ’09, as well as the 2000 top with current price (H&S anyone?), all the while showing that the all-time high is in a class all its own… And once again, all this from just one price in time!

The first chart shows the end result, with matching colored harmonic fractional divisions of the main curves. The second chart shows the grid and set-up (curves are labeled decimally).

The top is beautifully identified by curve 2, or 2x1, which goes up 2 levels per cycle point (which when using square numbers as a multiple for levels, is going up more than twice the original distance). The bottoms are both at quarters, as opposed to their respective highs at thirds (going away from the all-time high), both at 2/3. Since the all-time high is at neither fractional harmonic, it declares its harmonic independence at a full integer expression of 2.

Due to these specific harmonic relationships, different pictures come to mind, represented in the following two charts:

1) Harmonic ascending channels. Here, current price is clearly in an ascending channel between fractional curves, trying to maintain an ambitious break above the previous high. This seems familiar….

Check price activity around the 2000 top. Same deal. After hitting initial resistance (‘R’) at the 2/3 curve, the Dow found support at the ½ curve, then tried again. It failed, and when back below the ½ curve after topping in January, and it never fully recovered until eventual support at the ¾ curve. This scenario looms over current price if a break of resistance is not achieved. Although there is a lot more room in this channel than its predecessor. This channel also suggests a gradual ascent to any major new highs.
2) A slight alteration to the expanding pattern is the Double-top pattern as suggested in the next chart. (If price gave way now, an H&S pattern could be detected, but with a hunchback of sorts, and any measured move below the down-slanted neckline would be below zero). For indeed, if current price movement is harmonic with the 2000 top and not the all-time high as harmonically displayed, then a new all-time high coming anytime soon is not indicated here. (Interesting to note that if you trace price forwards and backwards simultaneously from the all-time high, the movements are mirror-images of each other harmonically, although not quite proportionally.)

Sep 2015 becomes an interesting candidate for support from the major low of Mar '09 with the 1x1 curve. That would provide the Dow with quite a roundabout journey: from mid-90's support and then the eventual all-time high both from curve 2, then back down to curve 1 for matched support from the beginning.

In conclusion, it would appear that parabolic curves can indeed tap into the very nature of price, by revealing harmonic structures that not only offer major reversals, but also predictive applications as well. The method presented (there are more…) offers fixed curves that can be calculated to infinity, offering many chances for analysis and forecasting, as well as incorporating techniques from various approaches such as Gann, Relative Charting, trigonometry, and traditional techniques such as trend lines, chart patterns and support and resistance.

And of course, gold is for dessert again. Here’s a parabolic resistance curve from the major low of 253 on August 1999, and then repeated forward AND backward with the notorious 33 degrees from last month’s article (see, 33 wasn’t just derived from the 33 months of the initial vector, was it…?). Tops at D, E, G, I & J. Bottoms at F, H and...hmm, maybe down to curve 4, and its 5 points of contact?
No instructions for this one, since you now have what you need to duplicate it. Back to the drawing board with ‘ya!

But first, a pit-stop to your calculator: if you multiply the low of 253 by this infamous 33, then divide by 5 (pentagon!), then add back to the low of 253 for a resistance level, you get... **Goodnight!**

Scott Hathaway has been developing new charting methods for several years, including an alternative geometric environment ‘Relative Charting’, unusual applications of square numbers and prime numbers for time and price, as well as several fan systems. His new website hathawayanalysis.com features some of his work. Scott is currently a CMT candidate.
Wow, the monthly chart is about to speak. A bullish monthly candle finally came to complete the H&S pattern that we pointed to previously. Bullish signals on the RSI and K%D showing the market’s strength and its ability to do more and more. The 7,000 level was the gate to the 8,000 level then the 9,650 level. You are advised to Buy Dips with a firm stop below 6,800.

Dubai Major Index

BOTTOM LINE: (Last Price: 1,608 Pt.)
It seems that the UAE stock market will be a profitable place to allocate some of your savings in it. We were bullish on it after taking out the 1,400 level, but now we’re “extremely” bullish after taking a two-years falling channel. As long as the index keeps this channel intact, expect more than 22% additional up-side.

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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*

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Instructor [John Palicka CFA CMT](mailto:palicka@pipeline.com) is a top-ranked portfolio manager of Global Emerging Growth Capital ([WWW.GLGE GC.COM](http://WWW.GLGE GC.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.*
2011 CUSTOMER SERVICE SURVEY RESULTS SUMMARY
BY TYLER WOOD, MTA MARKETING DIRECTOR

Thank you for your feedback and comments on the 2011 Annual Member Survey. This Survey was distributed to the entire MTA membership. We would like to thank those of you that took the time to provide us with feedback that will help the MTA to improve our offerings and better serve you, the membership. This year’s Survey included six major sections:

1. Demographic Data
2. Member Services
3. Future Directions
4. Advocacy
5. CMT Program Improvement
6. Volunteering with the MTA

There were a few key points that impact the overall direction of the MTA that we would like to highlight. The three (3) graphs below represent important demographic trends about the memberships’ level of education, professional occupation and country of residence.
Career Development

A significant finding of the 2011 survey was that the membership values the Career Development Center (CDC) and the tools provided within. Over 39% of respondents indicated that it provided good value currently. It was ranked #2 (along with the Educational Web Series and Knowledge Base) as the most important benefit considered when joining the MTA.

However, “Job related information in the CDC” was indicated as the most important area for improvement in member services as the membership is always interested in being informed of opportunities within the industry. Comments indicate that members are in search of jobs and would like to see a broader international range of job postings from the MTA. We will be reaching out to other associations and companies about finding ways to increase the content that is provided in the CDC so that its importance and utility stays relevant to the membership.
Continued Improvements

The use of the MTA Library and MyMTA (members’ only social network) were listed as the two member services that were utilized least by members. This information, as it pertains to the library, is expected. As the MTA continues to grow in non-US markets, and with the developments of new technology, the use of the library will continue to decrease. The MTA is actively pursuing new ways that we can leverage technology to provide these materials to you.

The MyMTA also rated lower in the member services hierarchy. This is not unexpected by the MTA, and is attributed to its newness, roll out strategy, and integration process with the other member services. To continue to improve upon this service, the MTA has created a Social Media Committee, chaired by Vince Regan, CMT, and we will be actively working to utilize social media to improve our offering. From those that actively participate within the MyMTA, we have received positive feedback which helps to reaffirm our commitment to the members’ only social network.
**Advocacy**

The importance of branding and external promotion of technical analysis cannot be understated. While 73% of members do not want direct contact of their employers by the MTA, they do wish to see a greater push of the MTA and CMT designation in the public arena. One respondent said:

*The CMT designation should be heavily marketed to major firms that lack TA departments. A high priority should be placed on the advocacy and development of the CMT program to compete better with other professional designations within the financial industry—the exam process can be wider in scope and more challenging, while remaining extremely fair.*

This feedback suggests multiple channels of advocacy effort in both outbound marketing/brand recognition as well as further work in the regulatory environment.

**Practical Instruction**

Lastly, the comments indicate that members are looking for practical Technical Analysis instruction. That is, members want to see how Technical Analysis can be used to make better decisions in their professional life. This relates directly to the advocacy initiative since showing the validity of charts to other professionals in the industry will improve the general acceptance and application of Technical Analysis.

In conclusion, this survey effort was successful in bringing the voice of our members to the center of the MTA’s operations. The headquarters staff takes initiative to address individual concerns and to follow-up with potential volunteers. If you have any questions about the overall survey data or see a specific area of concern that you would like to address, please contact Tyler Wood directly at tyler@mta.org
MTA HIRES DIRECTOR, CMT STUDIES

The Market Technicians Association, Inc., the leading global organization for technical analysis professionals and the governing body for the Chartered Market Technician (CMT) designation, has hired Robert Johnson, Ph.D., CFA, CAIA, in a consulting capacity as Director, CMT Studies. This position has been created to enhance the professionalism of the CMT Program. Dr. Johnson will direct the development and integration of CMT study materials, including the development of Learning Outcome Statements and eventually a customized curriculum for our candidates.

“The CMT has seen significant growth in recent years, and this lends to the credibility of technical analysis,” said David Keller, CMT, President of the MTA. “The MTA has worked hard to establish the CMT as the leading global designation for technical analysis. The hiring of this position clearly confirms the commitment of the MTA Board of Directors to elevate the learning experience of CMT candidates.”

“Robert Johnson brings to the MTA, and the CMT Program, a comprehensive knowledge of the financial markets and the past experience needed to help bring the CMT designation to new heights,” said Brad Herndon, CFA, CMT, Chair of the CMT Board of Governors. “We are excited for the improvements and positive changes that we can pass along to our candidates and membership in the coming months.”

“I am excited to join the MTA in this capacity,” said Robert Johnson. “Through my work on the CMT Program, I look forward to being able to deliver pedagogically-sound curriculum materials designed for the distance learning candidates, while maintaining and enhancing the high rigor of the CMT Program.”

The MTA will be conducting an interview with Robert Johnson, Ph.D., CFA to be included in a future issue of Technically Speaking. Robert can be reached by e-mail at bob@mta.org.

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RANSQUAWK OFFERS NEW DISCOUNT OFFER TO ALL MTA MEMBERS

The MTA is pleased to announce that RANsquawk is now offering a one month free trial for all MTA members! RANsquawk provides real-time audio financial news and analysis to over 20,000 global listeners.

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A complete list of all discounts available to MTA members can be found by visiting http://go.mta.org/248
SCHULTZ AT - THE MISNAMED INDICATOR
BY GEORGE SCHADE JR., CMT

Tracing an indicator’s origin is an exciting hunt. Gregory Morris and Robert Colby have written about the “Schultz AT” measure of market breadth.

Morris asked who Schultz was but did not get a complete answer, while Colby suggested that AT had been named after John W. Schulz (no “t” in the surname).¹

AT’s formula is simple, namely, the total number of advancing issues is divided by the number of total issues traded. The unaccumulated ratios are charted daily or smoothed preferably with a short term moving average.

Neither Harry D. Schultz nor John W. Schulz originated the AT indicator, but both popularized it. Harold M. Gartley created AT and wrote about it in 1935.

I. John W. Schulz

John W. Schulz was an early member of the Market Technicians Association (“MTA”). In 1979, he received the MTA Annual Award. According to Ralph Acampora, Schulz was a primary drafter of the charter MTA Constitution. In 1972, Schulz wrote the MTA’s Principles and Policies document associated with the constitution. The Market Technician Association Journal (now the Journal of Technical Analysis) reprinted an article in 1979 written by Schulz concerning the Kondratieff Wave.² The article shows a photo of Schulz.

Between 1959 and 1976, Schulz worked for at least three Wall Street firms. At the last firm, as Managing Director of Brean Murray, Foster Securities, Inc., he wrote a market letter entitled The Technical Review. From October 1, 1959, to March 15, 1976, he wrote a column for Forbes magazine. The column was initially entitled Technical Perspective and later Technician’s Perspective. Schulz was part of the highly regarded group of writers at Forbes that included Heinz H. Biel, Lucien O. Hooper, and Sidney B. Lurie.

In 1962, Schulz wrote The Intelligent Chartist which is available in the MTA Library.³ In the book’s last section, Schulz described the data he analyzed to measure market movements. He considered the number of daily advances, declines, and unchanged - the issues traded - to be “perhaps the most enlightening of the” daily market numbers.⁴

He wrote:

“In my opinion, the daily number of issues advancing is more useful by far. This part of the market is shown ... as a percentage of all issues traded for the day. I make no further adjustment to this (or any other) figure [such as moving averages]; but the raw data seem preferable to me; despite the wide variations over brief periods, the trend of the variations themselves becomes quite clearly apparent.

A similar line could be plotted for the percentage of issues declining. But this, too, would add to the clutter; and
anyway, the issues-down factor is more or less implicit in its opposite, - the issues-up line.”

Schulz called the percentage of daily advances to issues traded the “issues-up line.” Because the “issues-up line alone can serve as an early indicator of changes in trend direction,” he compared it to the Dow Jones Industrial Average to detect divergences. For this purposes, he advised using the issues-up line together with volume and the cumulative advance-decline line.

Schulz used AT, but he was not its originator. He conceded that “[t]here is nothing especially original about my approach to this material; and the data themselves have long been recognized as useful and significant and are in the toolkit of most careful technicians.”

II. Harry D. Schultz

For over 45, Harry D. Schultz produced the “International Harry Schultz Letter.” Reportedly, he published the last issue in December 2010. He frequently wrote on financial panics and crashes. An interview held on July 11, 2010, is enlightening.

In 1962, Schultz wrote Bear Market Investing Strategies (available in the MTA Library) in which he described the “percent of advances index” indicator as follows (the 17th indicator on his list of 18):

“Percent of advances index. Divide the daily advances by the issues traded. This is another way of approaching the overbought–oversold problem. A 10-day moving average is probably best. In charting it, you’ll discover how to interpret it, for the extremes become obvious cues. When it falls below 40%, it’s a signal of weakness ahead.”

The “percent of advances index” is the same as the “Schultz AT” indicator. Most likely this description is the basis for naming the indicator after Harry D. Schultz. Interestingly, John Schulz and Harry Schultz published about AT the same year - 1962. Unlike Schulz, Schultz smoothed AT with a 10-day moving average.

In Bear Market Investing Strategies, Schultz wrote about the stock market volume work of Harold M. Gartley, “a great technician in the 1930s.” Gartley closes this wonderful story because he originated AT.

III. Harold M. Gartley (1899-1972)

In 1966, Schultz edited what has become a primary source for historical research, namely, A Treasury of Wall Street Wisdom. The book contains the chapter on volume found in Gartley’s classic book Profits in the Stock Market.

Schultz’s knowledge of Gartley’s work is significant because Gartley created a market breadth indicator that was the ratio of daily advances divided by the number of total issues traded, the same indicator that John Schulz and Harry Schultz described almost 30 years later.
Gartley received a degree in Commercial Science and a Master's Degree in Business Administration from New York University. Beginning in 1912, he worked in Wall Street as a stockbroker, adviser, analyst, instructor, and financial public relations counsel. By 1932, he was an adjunct lecturer at the Columbia Business School when Benjamin Graham taught there.

Gartley began studying breadth of the market in 1931. A year later, in a Barron's article, Gartley included a chart that showed daily advances and declines. The article did not describe or show the ratio of advances and total issues traded.

AT appeared in chapter 15 of Gartley's *Profits in the Stock Market* published in 1935. Chapter 15, entitled “Breadth-of-the-Market,” headlined: “Although this subject has been studied by many market students, with the exception of the author’s work, we know of no published material.” It is possible that the market breadth work of Leonard P. Ayres and James F. Hughes was either not fully known to Gartley or as comprehensive as he may have desired.

Gartley wrote that the “reason we study the general statistics of the market is to obtain what the old time trader called ‘a better feel of the market’.” He believed in analyzing breadth of the market numbers because:

> "the value of this type of study cannot be overemphasized as a timing device providing considerable aid to the technical student. It is believed that no single branch of stock market trend research will yield greater results. This contention is based on the belief that the growth and deterioration of bullish and bearish market sentiment is clearly reflected in the general market statistics, providing that adequate analysis is made."

The market-derived statistics are the same used today, namely:

1. Number of issues traded,
2. Number of advances,
3. Number of declines,
4. Number of prices unchanged,
5. Number of new highs,
6. Number of new lows,
7. Total volume,
8. Ratio of trading in the 15 most active stocks to total volume.

Gartley's market letter as well as other financial publications provided the data. The *Wall Street Journal* was reporting New York Stock Exchange advances, declines, and unchanged by February 19, 1932, and so was Barron's by May 1, 1933.
Gartley emphasized that “these statistics must be considerably refined, in order to be of any practical value.” Even “[a]fter a year or two, it was found that considerable refinement was necessary, and even after several years of experience no arrangement of the data has been found which reliably reflects each successive intermediate turning point.”

Refinement led to AT. According to Gartley:

“Experience with the raw data ... soon showed that it had to be somewhat refined if it was to be useful. So the idea was conceived to reduce all the data to some uniform basis, and, instead of using just the number of advances and declines, a ratio was prepared wherein the percentage of the advances and the declines, as compared to the total issues traded each day, was computed.”

In chapter 15 of *Profits in the Stock Market*, Gartley showed the results of using a 7-day moving average of the ratios of daily advances and declines compared to the number of total issues traded. He found that when the 7-day moving average of the ratio of advances to total issues traded exceeds 60%, it is time to consider selling stocks, and when the 7-day moving average of the ratio of declines to total issues traded rises above 60%, it is time to buy stocks especially if a decline has been in progress for some time. Gartley found these indicators useful to determine intermediate trend reversals, but they also developed some rather consistent minor trend signals.

A nominal distinction is that Gartley used a 7-day moving average while Harry Schultz suggested a 10-day moving average.

In 1981, the *Market Technicians Association Journal* reprinted an article that Gartley wrote in August 1937, which essentially was chapter 15 of *Profits in the Stock Market*. The article is entitled *Breadth of the Market Trends*.

Gartley’s AT is shown in Chart 1 below as it appeared in the Journal’s article. Line 1 shows the number of unchanged in June and July, 1932. Line 1A shows the ratio of unchanged divided by total issues traded in August through November, 1932. Line 2 shows the number of advances in June and July, 1932. Line 2A shows the ratio of advances divided by total issues traded in August through November, 1932. Lines 3 and 3A show the Standard Statistics Daily 90-Stock Index for comparison purposes. Lines 4 and 4A show the same for daily declines in the same time periods.

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Chart 1. The First Showing of Advances/Total Issues Traded.

Chart 2 in Gartley’s article shows the 7-day moving average of both advances and declines compared to total issues traded between June, 1932, and April 1937. Chart 2 is not shown here because its reproduction is not as clear as that of Chart 1.

IV. Conclusion

Harold M. Gartley originated the Advances/Total Issues Traded as well as the Declines/Total Issues Traded indicators. John Schulz and Harry Shultz popularized AT but cannot be credited with its invention.

Morris’ inquiry is answered. Harold M. Gartley originated Advances/Total Issues Traded as Harry Shultz and John Schulz used it fifty years ago.

George A. Schade, Jr., CMT is a market historian whose work has been featured in numerous publications. He can be reached at aljschade@aol.com.

Endnotes


iii Schulz, John W., The Intelligent Chartist, 1962, (WRSM Financial Service Corp.,
New York, NY).

iv Id. 256.

v Id. 257-58.

vi Id. 264.

vii id. 256.


x Schultz, Harry D., 2002, Bear Market Investing Strategies (John Wiley & Sons, Ltd., West Sussex, UK), 68-69. Published in 1962, the book has been updated. This article cites the 2002 edition.

xi Schulz, 1972, 65.


xiv Gartley, Harold M., Analyzing the Stock Market: The Significance of Volume in Trading, Nov. 7, 1932, Barron’s, The National Financial Weekly, 20-22. The article was part of a 12-article series which was the precursor to Profits in the Stock Market.

xv Gartley, 1935, 319.

xvi Id.


xx Id. 320

xxi Id. 320-21. An observation based on his book is that Gartley favored using ratios over raw data because relative trends are clearer with ratio analysis.


xxii Id. 70.