Technically Speaking

THERE IS ONLY 2 WEEKS LEFT TO REGISTER FOR THE OCTOBER 2012 CMT EXAM!
LETTER FROM THE EDITOR

Scott Hathaway leads off this month’s issue with another example of how he uses geometry to identify market patterns. Scott has contributed to several issues of *Technically Speaking* and readers seem to be interested in his work. As always, Scott delivers enough detail to reproduce his techniques.

Content in the rest of the issue reflects Scott’s philosophy of innovation and detail. We are getting an updated view of the metals market from Jordan Roy-Byrne, CMT. Jordan frequently publishes his forecasts and his thought process can be seen in reading his commentaries. We then reprint a couple of MTA Blog posts. This may be an overlooked member benefit but blogs found on MyMTA are often excellent research pieces. Scott frequently posts updates there and his latest insights in gold can be found there.

Educational webcasts are also a benefit of MTA membership and two recent presentations are summarized. John Kosar, CMT, and Larry Connors are two very creative, data-driven technicians. Although different in many ways, their work shares an attention to history and detail that is of value to any technician.

Please let us know what you think about *Technically Speaking*. You can email us at editor@mta.org.

Michael Carr
It never ceases to amaze me how price movement is so intricately related to itself. Here, I would like to present one of my own geometric approaches (Relative Charting) in a step-by-step procedure which outlines the S&P 500’s rather steadfast up trend since the major low of 666.79 on the week of Mar 2, 2009, as well as ties together the last 18 years. These perspectives will be offered from the previous large uptrend from the major low of 768.63 on the week of Oct 7, 2002 to the all-time high of 1576.09 on the week of Oct 8, 2007. (Notice the 60 month cycle which repeats this October.)

**STEP 1: Calculate the Vector Ratio**

Every trend can be mathematically quantified by its exact low and high. In this case, the market moved 807.46 points (from 768.63 to 1576.09) over a period of 261 weeks. This is an average movement of 3.0937 (rounded) points per week, arrived at by simply dividing the points gained by the time elapsed. This is represented on the chart as a straight line from the low to the high, or ‘vector’. (For great vector work, check out Michael Jenkins’ *Secret Science of the Stock Market.*)

Before we get to the second chart (hey, no peeking!), first imagine lifting this line and placing it directly starting on the next major lower low. Hmmm...

**Step 2: Apply the Vector to the Next Major Lower Low**

Here, the newly placed vector gives great support to the major pullback of this large uptrend. What this says conceptually is that this up trend is *stronger* than the average force of the previous up trend.
Although one could get that visually from a casual observation, this procedure quantifies this comparison (3.0937/W), and even offers functional support.

Certainly, a sustained break of this support would indicate an end to this up trend, with either a down trend or a sideways market of similar magnitude to follow. But this now seems close enough to a basic and very obvious trend line drawn from both lows, which certainly most analysts are aware of. What’s the big deal?

Well, *WHY* did the market bottom twice in this relationship, and exactly at this placement? In other words, was this vector placement there already, like a ‘pre-existing trend line’ of sorts? Are these two lows just ‘following orders’ in a larger scheme related to the previous up trend? And more importantly, *if so, what else can be gleaned from such a possibility to derive additional support, or even resistance for future price action?*

To find out, we gotta get geometric…

**Step 3: Set the Chart Scale to the Vector at 45°**

(for additional details, please see Appendix concerning the chart scale)

By setting the geometric perspective to this up trend, we can now ‘see’ all price movement from this trend’s perspective of 3.0937/W, set at 45°. This is the basis of Relative Charting (refer to my February and April ‘Back to the Drawing Board’ articles in this newsletter). This is opposed to the traditional Gann environment of using an ideal quantity per time, such as 1 point/W, 50 cents/TD, $1/M etc.

Note: Using a trend’s vector as the geometric basis just offers a different perspective, relative to price itself. I find that it complements, rather than competes with the traditional geometric method.
Thanks to mathematical procedures for accuracy, as you will see, the vertical scale does not have to be perfectly accurate with this vector seen exactly at 45° for our purposes today. But for now, if you do not have a geometric locking feature on your charting program, then draw the height and width of the vector (forming a square) and adjust your chart vertically until all sides match closely enough. If greater visual accuracy is desired, you can place a right-angle tool on the screen, and use the 45° side as a guide for the vector.

Now that the scaling ratio is defined, we can begin to turn the vector into a circle, which is a great place to start digging for geometric relationships.

4. Find Circular Dimensions by Multiplying the Vector Height and Width by the Square Root of 2

A circle drawn from the vector (the high is the center) will represent the vector length in all directions, most importantly straight up, down and sideways, as in north, south, east and west. These ‘cardinal cross’ points (as well as NW, NE, SE & SW or ‘ordinal cross’ points) are great for extended geometry, and really come in handy. Here I calculate just the south and west points by simply multiplying the vector dimensions of 807.46 points (height) and 261 weeks (width) by the square root of 2, or 1.4142 (rounded). This multiplier gives the new dimensions as 1141.92 points down from the high to a lower price of 434.17, and 369.11W back from the high to Sep 11,1999 (both figures are rounded). The chart view must be zoomed out a bit to fit in all to follow:
I also included the east side of 369.11W after the high which gives Nov 3, 2014: an election Tuesday!?! The circle top price (north) would be 2718.01, which is 1141.92 added to the high of 1576.09 (not shown for clarity). And now, we use these points to draw a perfect circle.

5. Draw a Vector Circle from the High Center Using Extreme Points

If your charting program offers a scaling ratio feature in the circle tool, by all means use it. If not, draw a circle from the vector high using the expanded height and width points. If your program does not have a circle tool, strongly consider getting a new one that does!

As stated earlier, this circle truly represents the vector length in all directions emanating from the vector high, and therefore truly represents the actual up trend in all directions from the high, as seen by the uptrend itself. However, if drawn in a 1 point/W environment (Gann), the trend would be represented in all directions as seen through the perspective of 1 point/W, and therefore different points on the chart would be given by the resulting circle, offering different geometric possibilities. Apples and oranges, and both are good for you!

The retrospective support offered by this circle clearly shows we are on track, just as the vector placed on the Mar ’09 low indicated as well. Unfortunately, price is not close enough to this circle to really offer anything at the moment, so let’s put emphasis on the S and E ‘points’ and go back to the vector.

6. Connect the South and East Points (‘Pre-Existing Trend line’)

Here’s the answer we’ve been looking for: The vector, when placed perfectly on the south point (which connects perfectly to the east point) provides support for both important lows. Hence:

Both lows are revealed to be geometrically in-line with the previous up trend’s average (vector), when placed on its extreme lower vertical
expression (south point), but only when seen from its own perspective (vector set at 45° - Relative Charting).

OK, so we got something regarding previous lows. What about something more useful like resistance or defining the current small up trend?

**7. Connect the Vector Low with the East Point**

By connecting the vector low with the east point, resistance for the uptrend is revealed. In addition, the east point is a focal point, drawing the market towards it in a defined large bearish wedge shape. If the S&P can successfully break out of this shape, then a prolonged bull market is indicated at least to the vector high of 1576.09. If a breakout of this level occurs, then the east point would become a potent location for a major pullback low.

Doesn’t the resulting small up trend of current price movement have a slight arc to it? Let’s nab that, and see what it brings.

**8. Add Internal Circle by Dividing by Root 2**

Yes, the return of the square root of 2. By dividing the circle by 1.4142 (or better yet, think of it as multiplying by .7071, a crucial retracement level revealed in circular geometry) the circle is automatically ‘shrunk’ to fit the vector square (thin blue circle). This means that the resulting circle’s radius is the vector’s width/height.
Current price is quite familiar with this resulting circle:

The S&P’s recent up trend is climbing perfectly up this circle, and is just underneath resistance: This intersection is a perfect harmonic location for either a push-through or a reversal! In addition, the circle naturally ‘ends’ at the next vector cycle point of 261 weeks (60 month anniversary) on the week of Oct 8, 2012.

In conclusion, almost every important aspect of the S&P 500’s large up trend since Mar ’09 is accounted for, simply by viewing it from the previous up trend’s relative geometric perspective. Currently, the market is at a crossroads of rising circular support meeting ascending angled resistance.

Current price can either reverse back down, staying in a clearly defined ascending wedge, or break out into an extended bull market.

And now for dessert, a grand finale of sorts, since the circle low of 434.17 is just a shave under the 1994 correction low of 435.86 on the week of Apr 4...

And hey, didn’t the 1990’s top out proportionately with the current large up trend (or vice versa), as seen through the trend in the middle, with lots of geometric harmony along the way?

9. Perfect Balance – Tops, Bottoms and Trends In-Between

I’ll let you peruse this one by yourself. Enjoy!

APPENDIX

The very basis of geometric charting is the exact chosen relationship between price and time, also known as a scaling ratio. (Market Analyst software uses the term ‘geometric lock’ – excellent term!). By linking a
particular amount of price (vertical distance) with a particular amount of time (horizontal distance), the chart is now aligned by a specific ratio that reveals certain relationships (S/R, shapes, geometric angles etc.) that are either very difficult if not impossible to determine otherwise. It is not necessary to do this on graph paper (where each square perfectly represents the scaling ratio), although I certainly recommend doing at least one chart this way, which can greatly aid your abilities.

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.
NEW CYCLICAL BULL UNDERWAY IN GOLD STOCKS
BY JORDAN ROY-BYRNE, CMT

Editor’s note: We have previously featured Jordan Roy-Byrne’s opinions on the precious metals markets in this newsletter. With the recent breakout in gold, we wanted to offer an update of his opinions. This article was previously published on August 27 at http://go.mta.org/581

Three weeks ago we wrote that the short-term outlook in precious metals was bullish. Quoting our conclusion: “The bottom line is this sector is very close to a breakout which would likely confirm the May bottom. The price action has started to improve and the sector has not been deterred by the aforementioned bad news which, in normal conditions would have caused a selloff. In the meantime, the public has been bearish the entire year and the dumb money has started to exit the market. It is this combination of factors that lead us to a firm bullish posture over the rest of the summer.” In terms of weekly closing prices, GDX and SIL closed last week at a four month high, while GDXJ closed last week at a three month high. Silver closed at a four month high while Gold closed at a five month high. From that it would seem that these markets are overbought.

However, a quick study of the long-term charts, sentiment and valuations confirms that we are in an absolute sweet spot. Markets have bottomed, a new cyclical bull has begun and there is substantial room to move over the coming months and year.

We begin with a chart of the bull market in the HUI and we highlight the cyclical bear markets. The 2011-2012 bear lasted about as long as the 2004-2005 bear but was a bit deeper (42% versus 36%). The fact that this bear corrected the recovery from the 2008 crash could be why various valuation and sentiment indicators are at such compelling levels (as annotated in the chart).

Next we chart our proprietary Silver index, which is comprised of 10 “growth oriented producers.” (The ETF SIL only has a few years of history). This index corrected 60% in 2004, 90% in 2007-2008 and 50% from 2011-2012. The current bear market was the almost the longest (short of the 2007-2008 bear) but the smallest with only a 50% correction. Yes, to say only 50% is ironic but in looking at the chart one can see that the correction
appears to be quite routine. This chart has potential to be a cup and handle pattern which could have massive bullish implications for the next few ears.

How does this bull market compare to the past? The Barron’s Gold Mining Index (BGMI) had two tiny cyclical bears and two large cyclical bears. The circles show consolidations within cyclical bulls which lasted more than three years.

Visually we can understand why the sector is beginning a new cyclical bull market. Yet let’s take a look at some simple sentiment and valuation data. Below we show info (% SentimenTrader) which shows the Rydex Precious Metals Fund. At the recent bottom, the assets were the lowest they’ve been since 2008. In fact, going back 10 years, it was the second lowest point (with 2008 being first). Also note that the precious metals assets (as a percentage of all Rydex funds) were at a minimum of a six year low.
Next, we’ve shown this before but it’s worth showing again. We calculated that the PE ratio of the HUI Gold Bugs Index at the May low was 12x earnings. This chart from the Erste Group displays the year by year PE of the HUI. If Gold moves higher then earnings should increase. Combine that with rising valuations and that explains the potential for substantial gains.

The confirmation of the bottom is obvious. Now what? Well, the question is if the sector will continue to zoom higher similar to 2005 and 2009 or if it will consolidate for months (similar to 1972 and 1977) before making a parabolic advance in less than two years. In any event, that is just semantics and for the hyper traders out there. In either scenario we are early in a new cyclical bull and there is tremendous opportunity to be had.

Jordan Roy-Byrne, CMT, is the editor of The Daily Gold Premium, a service began in July 2009. The model portfolio gained 57.0% in the last six months of 2009 and gained 86.5% in 2010. As of June 6, 2011 the portfolio was up 10.5% year to date while GDXJ (junior gold stocks) was down 9.5%. His work has been featured in CNBC, Barrons, Financial Times Alphaville, BusinessInsider, 321gold, Gold-Eagle, FinancialSense, GoldSeek, Kitco and Yahoo Finance. Additional details can be found at [http://thedailygold.com/](http://thedailygold.com/).
MTA BLOGS

Editor’s note: MTA members can maintain blogs under the MyMTA section of the MTA web site. The length and detail provided in the blogs varies but offer valuable information. Two short blog posts are shown below, offering an example of the high quality work found under the blog section of MyMTA.

Discretionaries Outperform Staples: Is The Risky Trade Returning?
by Robert Palmerton Jr., CMT

Staples and other conservative, higher-yielding stocks have outperformed the broader market since May. The chart below shows the S&P500 as the horizontal black line, with Staples (orange) and discretionaries (purple) either outperforming or underperforming the S&P500 (depending on whether the orange or purple line is above or below the black S&P500 line).

Discretionaries peaked in April and have underperformed vs. Staples until recently. Staples peaked in mid-July. In mid-August, we have seen discretionaries bounce above their moving average as staples did the opposite, possibly hearkening a revisit to the risk-on trade. Our take is that the run-up in conservative risk-averse stocks has gone a bit too far. Better values can be found in more cyclical stocks, while dividend-paying stocks have become rather frothy. Not only is this an indication of reallocation into the riskier sector, but it represents potentially more fuel for the continuation of the uptrend.

Robert Palmerton Jr., CMT, is the founder of Baseline Analytics TrendFlex, a market trend-following system incorporating high-probability trend change signals. Robert is a Registered Investment Advisor and co-founder and advisor to The Absolute Return, LLC, which manages a family of absolute return portfolios. Bob’s market analysis focuses on sector timing research, market sentiment and volatility studies, trend-following and breakout trading opportunities. Robert has been using a blend of technical and fundamental analysis for the past 15 years. Mr. Palmerton received an MBA in Finance from the University of Michigan, and a BA in Economics and Statistics, summa cum laude, from Fordham University. Mr. Palmerton holds a Series 65 license, and is a member of the Detroit Metastock User’s Group and The Detroit Chapter of the MTA.
Early warning signals for the fall
by Keith Richards, CMT

The recent rally is looking very long in the tooth. Factors such as:

- Overbought momentum indicators (see RSI, Stochastics on chart above).
- Sentiment readings are becoming overbought (Rydex beta ratio shows a big flow into high beta funds and out of lower beta funds, put/call ratios are toying with high levels, “smart money/dumb money” studies show odd lot and speculators are moving into the market, etc).
- The first level resistance on the S&P 500 at just over 1422 is being tested
- Dow transports were, at least up until very recently, diverging (underperforming) the industrials—see chart below
- Low volume means low conviction to the current rally
- An uninspiring recent earnings season
- Seasonality for markets is weak in September and early October, plus electoral patterns for weakness from September to November in an election year

It is my opinion that the current rally, which I did play, is based on the possibility of Federal Reserve monetary stimulation. Based on past patterns, stimulus programs by the Fed have not been implemented in September, so the market may be in for some disappointment if participants are counting on a Fed-based rally. The last stimulus programs were introduced in November 2008 (QE1), November 2010 (QE2), and October 2011 (Operation Twist). This is one more reason why I believe the current rally won’t last –
markets are betting on stimulus happening sooner than it might actually occur.

Could the market continue heading higher? Of course. Sentiment and momentum studies are usually leading indicators, and can become much more overbought before a correction occurs.

How to hedge your risk

The obvious way to hedge risk out of an equity portfolio is to reduce your equity exposure. You can do this by selling your most vulnerable positions (technically weaker) and raising cash. The other way to reduce risk is to hedge it out with a “neutralizing” strategy. This can involve buying an element of an inverse ETF’s for the portfolio, shorting, or buying securities that might actually benefit from a market decline (treasury bonds, etc).

Keith Richards, CMT, is a Portfolio Manager in his current practice, ValueTrend Wealth Management, where he manages over $100 million and runs a discretionary investment service for high net worth clients.

His articles appear regularly in Investors Digest, The Moneyletter, The Globe and Mail, and The Toronto Star newspapers. Keith’s appearances on BNN Television have inspired producers to acknowledge him as “one of [our] most accurate Technical Analysts.” Keith’s first book, SmartBounce: 3 Action Steps to Portfolio Recovery, is available in bookstores and directly through his blog page www.smartbounce.ca. His newest book, Sideways: Using the Power of Technical Analysis to Profit in Uncertain Times was released in 2011.
US FINANCIAL UPDATE FOR SEPT. 2012

A Summary of a presentation made by John Kosar, CMT

This is a summary of a webcast presentation by John Kosar, CMT on August 22nd, 2012 as part of the MTA's Educational Web Series. The complete presentation can be found at http://go.mta.org/578.

John Kosar is a well-known technical analyst and is particularly well-known for providing specific and actionable trading ideas. John uses a variety of data and has developed unique insights into the data. In this presentation, he shared some of his tools.

John began by noting that the US stock market has managed to grind higher during the past month (to mid-August) despite an ever-growing list of technical headwinds including extremes in investor sentiment, volatility, put vs. call volume, and market breadth.

Most analysts look at AAII surveys or Investors Intelligence data to gain an insight into sentiment. Investor sentiment analysis shows how John uses data many other analysts fail to consider. Smaller, actively managed RIAs have reached a most bullish extreme on the S&P 500 that has historically led near term US broad market declines.

However, more intermediate term oriented futures traders are still moving away from June least bullish extremes, suggesting the June advance is only halfway completed.
John supplemented the sentiment survey with market data. The VIX moved as low as 13.30 in the week before John’s presentation, its lowest level since 2007. Since 2010, previous similar extremes in the VIX have occurred either at or near the end of near to intermediate term market advances.

Options data rounded out the data John provided on sentiment. The CBOE Put/Call Ratio is at a multi-year low, indicating historically excessive speculation in calls that has previously coincided with or led near term market peaks.
Market breadth offers a similar picture pointing to a short-term bearishness but intermediate term bullishness. Near term market breadth in the NYSE Composite is hovering at previous frothy extremes that have historically coincided with or led monthly US stock market peaks.

It is important to notice that John used the 40-day moving average in this analysis rather then the more commonly used 50-day average. Signals are few with his technique, but timely. Meanwhile, he noted, intermediate term breadth in the NDX is nowhere near similar frothy extremes, suggesting that the June advance has room to continue on a quarterly basis.
John noted that “Although market corrections can sometimes be postponed they can never be completely avoided. Thus, the major US indexes’ current position just below major resistance levels with September seasonality looming suggests that near term downside risk from here currently exceeds upside potential, at least without a 4% to 7% correction in the bellwether S&P 500 first. Bigger picture, however, more intermediate term investor sentiment and market breadth data, narrowing corporate bond spreads, and expected upcoming relative outperformance by market leading Small Cap and Technology stocks suggest that this upcoming corrective decline is likely to provide a better buying opportunity later in Q3, one that eventually leads to a retest of the S&P 500’s 2007 highs, perhaps by early 2013.

Turning to sectors, John said, “Our expectations for 1-2 quarters of upcoming relative outperformance by Energy, Materials, Industrials and Technology amid coincident relative underperformance by defensive Consumer Staples and Health Care generally corroborate our intermediate term bullish outlook on the US stock market into 2013 by suggesting upcoming US economic expansion.”

With sector analysis, John provided another sample of the unique insights John brings to technical analysis. He looks at the assets invested in Rydex Sector funds to spot investor enthusiasm for different sectors.
From this data, he concluded that currently underinvested sectors are: 1) Technology, 2) Industrials, 3) Energy, 4) Financials and 5) Materials. Overinvested sectors are: 1) Consumer Staples, 2) Utilities and 3) Health Care. This is based on the historical relationships between the Rydex Sector funds.

At just 5% and 1% of the “sector pie”, Technology and Industrials are currently the most underinvested sectors. At 16% and 7% of the pie, Staples and Utilities are the most overinvested.

Turning to interest rates, John noted that, “Although long term US interest rates are amid favorable conditions to retrace some of their recent gains, which could be triggered by a temporary flight to safety back into US Treasuries amid a US stock market correction, our more intermediate term outlook suggests an upcoming rise to at least 2.13% in the yield of the US 10-Year Treasury Note by early 2013.

CBOE 10-Year Treasury Note Index (TNX, 10-Year Note proxy) is likely to pull back from 18.67 (1.87% yield) now before an eventual rise to at least 19.20 (1.92%).
Ishares 20+ Year Treasury Bond Fund (price version of TNX) likely to bounce off of 120.41 major support first before eventually declining into 118.00.

John offered a chart which identified the next 4 overhead obstacles in US 10-Year Treasury Yields. He added, “Now that 1.72% has been broken, the next upside target is 2.13%. 10-Year Yields finished the day on Aug 21st at 1.80%.

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 where he had the opportunity to learn how the financial markets work from the inside out. John is frequently quoted in the media and regularly appears on financial television. He was awarded the Chartered Market Technician (CMT) designation in 1999, is a former Vice President of the MTA and served on its Board of Directors between 2002 & 2006.
How would you describe your job?

I currently own a software consulting firm but still find time to trade. I became interested in the markets while working at Microsoft in the late nineties and have stayed involved with them in one form or another. I have traded full-time in the past and have built software for Wall Street firms in the market making and proprietary trading arenas.

What led you to look at the markets you currently trade instead of another tradable?

I have traded options and futures, but as of late, mostly ETFs and in particular the SPYDERs. I love its stability, liquidity and low cost. I do not use any fundamentals, except in avoiding the markets during announcements and important reports. Due to a busy schedule, I don’t trade much on a discretionary basis anymore, but instead through automated systems. I think getting an automated trading/testing platform, where one can try out ideas on fictional money is the way to go. What sounds logical in one’s head, often doesn’t translate into profits in reality. Back testing and running a simulated account in live markets are absolutely essential and I wish I had come to that conclusion much earlier in my own trading.

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

If one would rather go the discretionary route, then observing the markets on a real-time basis and paper trading until profitable is the only way to get into this. It is very hard to make money trading, and so easy to lose it.

Manuel Amunategui, CMT, has worked on Wall Street in the options industry for over six years. He now lives in Portland, Oregon and can be reached at amunategui@gmail.com

These questions and answers have been compiled by Amber Hestla-Barnhart, an independent market researcher. If you’d like to participate in a future interview, please contact her at amzhondacbr@yahoo.com.
**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.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).

*Past performance is no guarantee of future results.*
A QUANTIFIED AND SYSTEMATIC WAY TO TRADE LEVERAGED ETFS
A SUMMARY OF A PRESENTATION BY LARRY CONNORS

This is a summary of a webcast presentation by Larry Connors on August 8, 2012 as part of the MTA's Educational Web Series. The complete presentation can be found at http://go.mta.org/579.

Larry Connors is an expert in developing trading strategies and is the author of a number of books and papers that detail his research. He focuses on what works in the markets rather than theories about how markets should work and delivers complete systems that any trader can apply. This presentation offered insight into some of his latest work.

Larry began by noting, “Of the many investment instruments we have run studies on, Leveraged ETFs tend to have amongst the historically highest directional predictability. The reasons for this are likely due to the fact that most Leveraged ETFs are made up of equity baskets.

Equity baskets tend to move from overbought and oversold on a short-term basis. The fact that Leveraged ETFs by their nature are “leveraged” allows for these small back and forth movements to be amplified. This is especially true when the leveraged ETF basket is stretched too far (meaning it’s oversold to extremely oversold). In order to properly take advantage of this behavior, there are two key elements that need to be in place.

1. The Leveraged ETF has to be oversold.

The more oversold it is, the greater the historical returns have been.

2. The second is you want to exit the Leveraged ETF position as quickly as possible once it has reversed higher.

There are a number of ways to do this and a number of them are covered in the presentation.

Larry summed it up simply as “Combining oversold conditions with a rapid exit is the key to trading Leveraged ETFs.”

How To Identify When A Leveraged ETF is Oversold

There are many ways people identify when a Leveraged ETF is oversold. Unfortunately, most of those ways are “guesses” using non-quantified approaches with little, or no statistical evidence that there are edges in place.

Larry uses a “structured statistical approach” in Leveraged ETF Trading. This means that there are exact rules in place which are logical and have many years of statistical backing. This is the way the best hedge funds and trading firms are making their trading decisions today and Connors believes that traders will want to do the same.
One of the best ways to identify an oversold Leveraged ETF is to use the 2-period RSI. It's simple, it's efficient and the test results show that it continues to work.

There are different 2-period RSI levels you can use to trigger buy signals. They range from a 2-period RSI reading of as high as 15 to as low as a 2-period RSI reading of 1. There are advantages and disadvantages to higher or lower values of RSI. The higher the RSI level, the less oversold the position, but more positions will be filled. The lower the RSI level, the more oversold the position, but fewer positions will be filled.

Larry explained “This is where you have the opportunity to customize the knowledge from this presentation.

More aggressive traders will likely use the higher RSI levels. More patient, conservative traders will wait until the levels reach extremes before entering. Traders should customize this based on their own goals and trading style.

**How To Enter a Leveraged ETF Position**

Larry believes that one of the better ways to enter a position is in full; meaning going to a full 100% position as soon as the ETF closes at the RSI level you’ve identified as being the level you decide to trade. The key from here is to then buy the ETF on a further intra-day pullback the day following the extreme reading. What you are doing is identifying an oversold Leveraged ETF with the 2-period RSI, and then waiting for it to become even more oversold intra-day. After describing the general idea behind buying, he offered a set of precise trading rules:

1. The Universe is 2x Leveraged ETFs (no inverses).
2. The 2-period RSI is below X (X=15) today on the close.
3. Tomorrow buy Y% (Y = 2%-5%) below today’s closing price.
4. Exit when the ETF closes above its 3-period Simple Moving Average.

Some test results showed that this strategy works well:

<table>
<thead>
<tr>
<th></th>
<th># Trades</th>
<th>Avg % Profit/loss</th>
<th>Avg Bar Held</th>
<th>% of Winners</th>
<th>Worst Trade % P/L</th>
<th>Best Trade % P/L</th>
<th>RSI Entry Setup</th>
<th>Entry Limit %</th>
<th>Exit Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>86</td>
<td>3.70%</td>
<td>3.3</td>
<td>74.4%</td>
<td>-24.68%</td>
<td>32.29%</td>
<td>5</td>
<td>5</td>
<td>C &gt; MA3</td>
<td></td>
</tr>
<tr>
<td>112</td>
<td>3.44%</td>
<td>3.2</td>
<td>76.8%</td>
<td>-25.59%</td>
<td>32.29%</td>
<td>5</td>
<td>4</td>
<td>C &gt; MA3</td>
<td></td>
</tr>
<tr>
<td>209</td>
<td>3.09%</td>
<td>3.3</td>
<td>70.7%</td>
<td>-31.65%</td>
<td>29.42%</td>
<td>15</td>
<td>5</td>
<td>C &gt; MA3</td>
<td></td>
</tr>
<tr>
<td>141</td>
<td>2.80%</td>
<td>3.2</td>
<td>75.2%</td>
<td>-28.36%</td>
<td>32.29%</td>
<td>5</td>
<td>3</td>
<td>C &gt; MA3</td>
<td></td>
</tr>
<tr>
<td>285</td>
<td>2.73%</td>
<td>3.3</td>
<td>72.6%</td>
<td>-32.36%</td>
<td>29.42%</td>
<td>16</td>
<td>4</td>
<td>C &gt; MA3</td>
<td></td>
</tr>
<tr>
<td>176</td>
<td>2.43%</td>
<td>3.1</td>
<td>75.5%</td>
<td>-28.77%</td>
<td>32.29%</td>
<td>5</td>
<td>2</td>
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<td></td>
</tr>
<tr>
<td>366</td>
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<td>68.0%</td>
<td>-33.06%</td>
<td>29.42%</td>
<td>15</td>
<td>3</td>
<td>C &gt; MA3</td>
<td></td>
</tr>
<tr>
<td>209</td>
<td>1.95%</td>
<td>3.0</td>
<td>72.7%</td>
<td>-28.77%</td>
<td>32.29%</td>
<td>5</td>
<td>1</td>
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<tr>
<td>446</td>
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<td>3.3</td>
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<td>29.42%</td>
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<tr>
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<td>68.6%</td>
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<td>29.42%</td>
<td>15</td>
<td>1</td>
<td>C &gt; MA3</td>
<td></td>
</tr>
</tbody>
</table>

**Top 10 Simulated Trading Results**

*Universe: 2x Equity-Long Only *  *Exit Timing: Current Close*
Exiting Your Leveraged ETF Position

As many professionals have stated over the years, it’s even more important to know when to exit a position than it is to enter. Guessing where to exit (and most traders do guess) is not the proper way to trade. Having precise exits is a key part to successfully trading Leveraged ETFs and in the presentation, Connors looked at several specific exit strategies and provided their test results:

- **Exit on the first up close.** This is an interesting exit which gets out of a position very quickly. You simply exit the position the first day the Leveraged ETF closes higher than the previous day.

- **Exit when the Leveraged ETF closes above its 3-day simple moving average.** This exit triggers when the Leveraged ETF closes above its 3-period simple moving average. It’s one of the better exits for all short-term trading.

- **Exit when the Leveraged ETF closes above its 5-day simple moving average.** This exit triggers when the Leveraged ETF closes above its 5-period simple moving average. It’s also one of the better exits for all short-term trading.

- **Exit when the Leveraged ETF closes above its 2-period RSI reading of 50.** This exit triggers when the Leveraged ETF closes above its 2-period RSI reading above 50. It’s one of my favorite exits to trade Leveraged ETFs with because it does a good job of balancing, allowing for a move to occur while at the same time often getting out very quickly (the less time you’re in a position the better because this lessens the overnight risk).

Test results demonstrated the effectiveness of these trading strategies:

Connors Research offers tools that can be help traders implement these strategies. They also offer a number of well-researched books which always deliver specific rules that are grounded in logic and detailed test data. For more information, please go to connorsresearch.com or tradingmarkets.com.

Laurence Connors is Chairman of The Connors Group (TCG), and the principal executive officer of Connors Research LLC. TCG is a financial markets information company that
publishes daily commentary and insight concerning the financial markets and has twice received an award by the Entrex Private Company Index for being one of the 10 fastest growing private companies. He has over 30 years of experience working in the financial markets industry. He started his career in 1982 at Merrill Lynch as an Investment Advisor, and later moved on to become a Vice President with Donaldson, Lufkin, Jenrette (DLJ), where he worked with the Investment Services Group from October 1990 to March 1994. Mr. Connors is widely regarded as one of the leading educators in the financial markets industry. Mr. Connors has also been a featured speaker at a number of major investment conferences over the past two decades.
MTAEF AWARDS SECOND CMT SCHOLARSHIP TO TANNER MOORE

The MTA Educational Foundation (MTAEF) awarded its second CMT Scholarship in late August to Tanner Moore, a senior at the University of Arkansas. Tanner is in the honors program at the Sam M. Walton College of Business at U of A. In the past year he had an internship at a foreign exchange brokerage firm and was involved as an aerospace analyst with the student-run Rebsamen Trust. After graduation in May 2012 Tanner plans to begin a career path in investment banking.

The MTAEF has had a long and successful relationship with the Walton College of Business and the Garrison Financial Institute, which is organized within the Sam M. Walton College of Business to advance financial education and knowledge through practice. Together with these organizations, the MTAEF is able to support the teaching of technical analysis on campus. The Foundation addresses a select group of students who come to New York each fall to network with U of A alumni in the financial industry. Research associates Sergio Santamaria and Vensti Stamenov are both CMTs and embrace the Foundation's curriculum for the teaching of technical analysis.

More information on the MTAEF can be found on its new website at www.mtaef.org.