LETTER FROM THE EDITOR

In February, the MTA is recognizing Women in Finance and will be featuring webcasts by experts in technical analysis who also happen to be women. We have tried to recognize the contributions some women have made to technical analysis in this issue of Technically Speaking.

The MTA has a long history of recognizing the role of women in finance including Bernadette Murphy, CMT, who served as the fifth president of the organization in 1977. We also briefly highlight the work of another past President, Gail Dudack, CMT, in this month’s newsletter along with brief articles about the work of Louise Yamada, CMT and Jeanette Schwarz Young, CFP, CMT.

While celebrating the fortieth anniversary of the MTA, it is interesting to note that the MTA has always focused on “attract(ing) and retain(ing) a membership of professionals devoting their efforts to using and expanding the field of technical analysis and sharing their body of knowledge with their fellow members.” Those words in found in the MTA constitution and history shows that women just happen to have been among the leading contributors to the body of knowledge over the years.

We would appreciate receiving any comments you have on the newsletter, which can be emailed to editor@mta.org.

Sincerely,

Michael Carr

February 2013

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APPLYING STANDARD TOOLS IN UNIQUE WAYS: LOUISE YAMADA, CMT

Louise Yamada, CMT, is Managing Director of Louise Yamada Technical Research Advisors (LYA), the firm she founded in 2005 after a 25-year career at Smith Barney (Citigroup) where she had been Managing Director and Head of Technical Research. In order to have a long career, it is important to offer valuable market insights and Louise continues to do that. She was recently in the headlines for her analysis of the bond market and her opinion that emerging markets are set up to outperform U.S. equities in the next few years.

Jeff Macke of Yahoo! Finance Breakout introduced Louise as a “national treasure” in their interview which can be seen at http://go.mta.org/3347. Summaries of that interview focused on comments Louise made about emerging markets and bonds.

These opinions are based on long-term trends:

- “Emerging markets have for this little period of time started to turn up at their eleven year uptrend. We’ve had about two years of underperformance for the emerging markets during which the U.S. outperformed... now it looks like (emerging markets) are trying again to outperform.”
- “We may be getting some early evidence that there’s a bottoming process in rates, which means a topping process in price.”

We are now in the thirty-third year of the bull market in bonds and it seems certain that bonds will eventually enter a bear market that will last for decades. The last generational shift from lower to higher rates occurred in 1946.

In addition to commenting on the state of the current markets, Louise has provided a framework for analysis that could be followed by anyone. Many readers of Technically Speaking will be familiar with the long-term and innovative nature of Louise’s work. Her book, Market Magic: Riding the Greatest Bull Market of the Century (John Wiley & Sons, 1998) walks readers through a process that applies standard tools of technical analysis in unique ways, often using relative strength analysis and charts that contain data spanning several decades. An example of this technique is shown below:
The Capital/Consumer (C/C) ratio is shown at the bottom of that chart. As explained in Market Magic, the C/C ratio is calculated with the S&P Capital Goods and Consumer Group indexes. It can be used to quickly determine which group is leading the market. When the ratio line is rising, it shows Capital Goods outperforming and Consumer Goods are leading the market when the C/C ratio is falling. Louise noted that leadership cycles tend to last 4-7 years and one of the most important insights she offers is that shifts in leadership, which can take one to years to unfold, have been accompanied by market declines in the past.

With innovative tools, Louise has been able to build a track record of successful market calls. While at Smith Barney, Louise alerted readers to:

- The developing structural bear market in the equity markets, and the technology bubble and dot.com collapse in 1999 and 2000.
- The liftoff in gold in 2001-02 at the beginning of a new structural bull market.
- The emergence of small- and mid-cap stocks as market leaders in 2002.
- The emerging structural energy bull in 2004.

Since starting her own firm, she has made several additional major forecasts including the onset of the relative strength decline of the financial sector, which she started pointing out in March 2007 and the oncoming decline of the U.S. dollar in 2006.

Given her track record, it will be interesting to watch emerging markets and bonds in the next few years. These are not short-term calls but could deliver significant gains for long-term investors in time.

Louise Yamada, CMT, is Managing Director of Louise Yamada Technical Research Advisors (LYA). Previously Louise was Managing Director and Head of Technical Research for Smith Barney (Citigroup). Louise has been a perennial leader in the Institutional Investor poll, and was the top-ranked market technician in 2001, 2002, 2003 and 2004 prior to her departure from Citigroup.

At Smith Barney, Louise authored a weekly flagship report called "Market Interpretations." In addition to being a member of the MTA, Louise is a member of the American Association of Professional Technical Analysts and the Financial Women's Association. Louise appeared as a special guest on "Louis Rukeyser's Wall Street" and appears frequently on Bloomberg TV and Radio, CNBC and BNN TV as well as in print and online media. Louise received a B.A. from Vassar College and an M.S. from Bank Street College of Education.

More information can be found at http://www.lyadvisors.com/index.htm.
EXPLAINING COMPLEX IDEAS IN SIMPLE TERMS: GAIL DUDACK, CMT

Gail Dudack, CMT, now the Managing Director of Dudack Research Group a division of Wellington Shields & Co. LLC., is an analyst who has enjoyed a long and successful career by delivering clear forecasts and research. Gail is also a past President of the MTA and has a number of other honors on her resume which serve as recognition of her ability to concisely present detailed analysis of the complex problems that she encounters in the markets and in business.

Her career also shows that markets evolve and successful analysts adapt to those changes. In *The Heretics of Finance* by Andrew W. Lo and Jasmina Hasanhodzic (Bloomberg Press 2009), Gail noted that she discovered technical analysis working on Wall Street at a summer job while in college. Inspired by that job, she selected two topics related to technical analysis for her senior thesis – short interest and odd lots. While these were once useful indicators, the markets have changed. Odd lots no longer show what the average individual trader is doing because of dramatic changes that have occurred in how buy and sell orders are placed. Short interest is still useful but must interpreted in light of market changes that include options on individual securities that can be used in place of short positions and futures that allow for short positions on the market as a whole.

She seems to have always understood the importance of change to market analysis. Later in the interview with Lo and Hasanhodzic, Gail noted that “As the trading environment changes, tools or indicators change as well. I have never found a book that explains this concept to anybody.”

There are several other important quotes from that interview that help explain the success she has found in her career:

- “I would call my style eclectic. I will look at absolutely anything that moves if I think it will be helpful to me...I’m a strategist. I work with technicals, fundamentals, and economics.”
- “I’m paid for my ability to discuss the market and be different, creative, innovative, and correct.”

Many analysts are reluctant to make clear forecasts, perhaps because doing so would subject them to accountability later when the call be reviewed with the benefit of hindsight. Gail’s views tend to be more direct. On March 18, 2009, less than two weeks after the stock market had bottomed, she wrote, “We see evidence that the March lows yet may prove to be a “successful” retest of the 2008 lows... Most importantly, the financial sector is leading the rally.” This insight allowed investors to enjoy large gains if they acted on it.

On her website, [http://go.mta.org/3346](http://go.mta.org/3346), there is an example of a research piece from September 2009 called “Is 20% a Ceiling?” This analysis looked at the market move that had occurred in the previous six months and answered the question what was likely to come next. The opening sentences framed the issue and provided the answer, “Will a move of roughly 20% or more above an index’s 200-day moving average (MA) be a
temporary ceiling for the market? Historically this has been true, with only two exceptions.” A detailed analysis followed and a complete set of data was provided so that the quality of the work could be evaluated.

Working with the benefit of hindsight, the chart below shows what happened after the research was published. The 20% ceiling did, once again, turn out to be the beginning of a trading range.

New technical analysts should consider reviewing examples of Gail’s research at her website, http://dudackresearchgroup.com/. This could help novices understand what well-developed analysis looks like and serve as a model for their own work. More experienced analysts will also find valuable ideas at that site with actionable insights that they may be able to apply to their own work.

Gail M. Dudack, CMT, is Managing Director of Dudack Research Group a division of Wellington Shields & Co. LLC. Prior to joining Wellington, Ms. Dudack was the founding partner of Dudack Research Group LLC; Director of Research and Chief Investment Strategist for SunGard Institutional Brokerage; and the Chief US Investment Strategist for UBS AG and its predecessor S.G. Warburg PLC. Ms. Dudack began her Wall Street career at the Pershing division of Donaldson, Lufkin & Jenrette Inc. (now Credit Suisse Group AG). She has been a frequent guest on CNBC, PBS’s “Nightly Business Report”, Bloomberg TV and a popular speaker at many business forums and societies.

She is a past President of the MTA, a founding member of the International Federation of Technical Analysts (IFTA), Chair Emeritus of the Securities Industry and Financial Markets Association's (SIFMA) Securities Industry Institute, a past arbitrator for the NASD, a past member of the Department of Labor’s Business Research Advisory Council (BRAC) for consumer and producer price indices and is a member of the Women’s Forum Inc. where she currently serves on the Finance Committee. She received an MTA award for best price analysis and market forecasting in 1997, a Special Achievement Award from Skidmore College in June 2001, is featured in the books Bull! A History of the Boom, 1982-1999 by Maggie Mahar (Harper Business 2003) and The Heretics of Finance. She earned the CMT designation in 1990.
DETAILED OPERATIONAL KNOWLEDGE CAN LEAD TO SUCCESS: JEANETTE SCHWARZ YOUNG, CFP, CMT

The successful career of Jeanette Schwarz Young, CFP, CMT, demonstrates the importance of understanding how markets work. She understands the theory of technical analysis and can demonstrate how to apply that theory to charts. She combines this knowledge with a detailed understanding of how markets actually work and is an expert on options markets. This expertise allows her to not only apply the tools of technical analysis but also to understand firsthand the impact changes in supply and demand are having on prices. Her skills have been developed over years of trading options on and off the exchange floor.

Detailed market knowledge can help technical analysts understand why some indicators work better than others. This knowledge can also help when building strategies to implement insights based on price charts. It is a combination of skills that many analysts never develop and success can be obtained without understanding how markets work but it might be more difficult. To truly succeed in trading, some level of understanding how buying and selling in market is done will normally be required. Expert knowledge in market operations could create new opportunities for an analyst as Jeanette has showed in her writings.

Jeanette demonstrated her understanding of technical analysis and options in a 2007 book, *The Options Doctor: Options Strategies for Every Kind of Market* (Wiley). This book begins with an overview of technical analysis and perhaps foreshadows the work she would undertake a year after the book came out. *The Options Doctor* includes clear explanations and trading examples that would be valuable to anyone considering taking the CMT exam. In 2008, Jeanette became the CMT Program Director and has continued explaining the basic and advanced concepts of technical analysis to CMT candidates.

*The Options Doctor*, a valuable resource for CMT candidates, is also useful to anyone with an interest in technical analysis. Jeanette’s overview covers the basics and that section ends with an introduction to the bond, currency and commodities markets.

Explaining markets can be a difficult task but Jeanette is up to that task and manages to deliver the information that is needed for trading. Additional knowledge might be useful but Jeanette’s introductions can serve as the outline of a study guide for those wanting to dig deeper.

The section on options demonstrates how knowledge about markets can be applied to strategy. Options are a specialized market with their own language. Among the most challenging ideas an options trader must deal with is the Greeks, values that are calculated to describe the characteristics of an option. The details are important, but few have ever written a concise explanation like Jeanette has:

> If your delta is positive, you would benefit from a rise in the price of the underlying. If your delta is negative, a decline is on your wish
list. Positive theta benefits from the erosion of time, because you have sold a wasting asset. If you bought the option, then theta is your enemy and you hope that your options will achieve its goal plus the cost of buying that option by the time the option expires. If you have positive vega, you want volatility to increase; if your vega is negative, you want the underlying to go nowhere. For those who have positive gamma, you want the market to move; for a negative gamma player, you pray for a stagnant market.

There is much more to the Greeks and to options but this simple explanation shows the value of Jeanette’s writing. By understanding the Greeks, strategies can be developed to profit from what a technician’s chart forecasts. Options offer the ability to trade time and volatility in addition to price. These concepts are valuable to traders and create new opportunities that only an understanding of market structure and products like options allows one to pursue.

The book also highlights some of Jeanette’s favorite trading tools. One of these is the Commodity Channel Index (CCI) with a five-period moving average. A quick glance at the chart of crude oil futures shown below shows that this technique could have value to many traders.

Technical analysis is a diverse field and one the few common denominators among successful technical analysts is that they all work hard and develop detailed knowledge of specialized tools. Some technicians focus on a single indicator and learn all they can about that trading tool. Other analysts select a more broad-based strategy to study, Elliott Wave for example. Still others understand market structure and apply technical analysis to what they learn in that study. Jeanette Young is one of the few who have detailed their success with that approach, a path that new technicians might choose to study. New markets in ETFs, as one example, might create an opportunity to duplicate this type of effort.

Jeanette Young, CFP, CMT is the CMT Program Director, a position she has held since 2008. As the CMT Program Director, Jeanette is responsible for the development of all three levels of the CMT Exam. Jeanette manages a
regular CMT Newsletter for candidates and maintains the test preparation materials. She works with the CMT Board of Governors to improve the overall exam process.

Jeanette began her career in the brokerage business in 1981 with Thomson McKinnon Securities where under the guidance of Jack Solomon, she honed her skills as a technical analyst. She holds ten NASD licenses. Her experience includes trading floor executions, hedging, and back office operations (having run a self-clearing firm). She earned Bachelor’s and Master’s Degrees at Adelphi University. Examples of her work and recent market opinions can be found at http://blog.optnqueen.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 1 professional qualification in Technical Analysis from the Market Technicians Association (MTA).

INTRODUCTION TO STEALTH TRADING USING FUSION, ALGORITHMS, AND DERIVATIVES FOR PROFESSIONALS-

Today, portfolio managers increasingly must use stealth trading in order to disguise their intentions and thus benefit from best execution.

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

STRATEGIC GOLD INVESTING
Gold has been one of the very few assets to have created wealth in the past several years. Gold offers investment opportunities for investors, traders, and financial engineers.

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

PORTABLE WEALTH INVESTING
Portable Wealth (PW) management offers investment opportunities for wealthy investors and their advisors. PW can generate attractive risk-adjusted excess returns to traditional and alternative investments.

Instructor John Palicka CFA CMT is a top-ranked portfolio manager of Global Emerging Growth Capital (WWW.GLGEGC.COM) 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.
INTERVIEW WITH LASZLO KOVACS, CMT
BY AMBER HESTLA-BARNHART

How would you describe your job?

I am an asset manager and also deal with financial risk management in the insurance industry.

What led you to look at the particular markets you specialize in?

I have been managing assets for a multinational insurance company operating in Central and Eastern Europe for more than a decade and prior to that I also managed pension fund and investment fund assets focusing on the same markets. These balanced portfolios made me focus on fixed income, equities and forex markets and those are the markets that I still follow.

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

Having fundamental opinions is always crucial for several reasons. But what I would emphasize the most is that fundamentals drive the sales stories, the leading articles in financial dailies, as well as the retail sales forces, thus fundamentals become the utmost concern of the end clients. Not knowing the latest fundamental inputs is just suicidal from the interpretation point of view.

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

Develop multiple skills; focus on multiple methods and multiple markets. Watch how cycles interact in the markets and focus on patience.

What is the most interesting piece of work you’ve seen in technical analysis recently?

Intermarket analysis and the interpretation of how cycles interact. We recently had an MTA Central and Eastern Europe Chapter conference in Budapest, and Martin Pring introduced me to his latest investment fund launched in December 2012. The fund’s strategy is built on his intermarket analysis method. I think this will become an ultimate long-term savings tool, which will definitely put technical analysis on the map of various investors all over the world.

What research area do you think offers the greatest potential in technical analysis at this time?

Becoming a risk manager after more than fifteen years of asset management, I realized that technical analysis is one of the most perfect financial risk managing tool in various ways. In the current risk-averse market environment, managing financial risk is one of the most desirable goals and I see technical analysis as an answer fulfilling this demand. Forecasts, analytical tools and indicators of technical analysis can all be reframed to lead the developments in risk management which is a new look to all of the existing methods and techniques.
Laszlo Kovacs, CMT, is the head of Asset Management and Risk Management at UNIQA Hungary, a position he has held since 2012. Prior to that, Laszlo was a Regional Asset Manager at UNIQA Group’s Central and Eastern Europe (CEE) divisions in Vienna, Austria. He was responsible for asset management and implementation of global standards in administration and reporting for UNIQA’s CEE Insurance divisions. From 2003 to 2008, he was a member of the Board of Directors, UNIQA Asset Management in Budapest, an UNIQA arm managing insurance and pension funds. His responsibilities included product research and development of life insurance savings, unit linked funds and mutual funds. Laszlo also participated in group-wide M&A activities on the Hungarian financial market. From 1997 to 2003, he was the Chief Investment Officer of UNIQA Hungary. In this role, Laszlo founded the green field asset management operations for UNIQA’s Hungarian operations. Prior to working at UNIQA, Laszlo was a Team Leader at Bausparkasse Schwaebisch Hall, from 1995 to 1997, in Germany.

These questions and answers have been compiled by Amber Hestla-Barnhart, a writer specializing in option for profitabletrading.com. If you’d like to participate in a future interview, please contact her at amzhondacbr@yahoo.com.
GEORGE LINDSAY’S “AN AID TO TIMING” ANNOTATED EDITION
BY ED CARLSON, CMT; REVIEWD BY MIKE CARR, CMT

In 2011, Ed published George Lindsay and the Art of Technical Analysis, bringing the work of a forgotten technician to the attention of a new audience. Lindsay used counts to precisely identify market tops and bottoms in advance.

For those who are unfamiliar with Lindsay’s work, the general concept behind his approach to the markets is summarized by Joe Granville, who quotes Lindsay in the introduction this book:

How is it that such very long-term counts prove accurate to the very day, or close to it? As we all know to our sorrow, the market is made up of a succession of advances and declines of widely varying duration. No two of them seem to be of exactly the same length. My theory is that, unequal as they are, they always come out even in the end. Such seems to be the nature of price movements.

Counts are the also the basis of the work of R. N. Elliott and some of the work of W. D. Gann. Those two market technicians wrote books that detailed their theories and in the case of Gann a magazine article demonstrated his forecasting skills in real-time. Lindsay did not write a book explaining his techniques, leaving only a collection of newsletters and a few recorded interviews. Ed recounted one of those interviews in his first book:

During an appearance on Louis Rukeyser’s television program Wall Street Week on October 16, 1981, when Lindsay was asked, ‘When do we get out of this bear market and into that bull market?’ he replied, ‘The end of the bear market - the earliest I can count it is about August 26, 1982. I think 750 to 770 is more like the range of the final low.’

The actual intraday low of the bear market was reached on August 9, 1982, within three weeks of the day Lindsay had forecast almost a year earlier. The closing low was 776.92, less than seven points from Lindsay’s target.

In his earlier book, Ed explained the three peaks and a domed house pattern, the tri-day method, and the Lindsay timing model with various techniques to determine market turning points in advance using counts based on long-term cycles. That book concluded with a single case study covering the market as Lindsay saw it in the 1960’s.

This book begins with a reproduction of Lindsay’s original paper “An Aid to Timing” which many readers will admit appears to be useful but is difficult to read and understand due to a dense writing style. Ed has added annotations to the paper that make the ideas comprehensible for even the casual reader.

Techniques that are detailed in the first three chapters of the book, the annotated version of Lindsay’s paper, include:
- The basics of identifying a middle section on a chart in both bull and bear markets.

- Definitions of the important points within the middle section, turning points and measuring points.

- Concepts of the long-cycle and the basic and multiple cycles that make up each long cycle.

- Explanations of how to count to a limited number of, but very specific, highs and lows in the long cycle.

In addition to a dense writing style, one could also criticize Lindsay for not including enough charts in his writing. Ed overcomes this criticism as well and uses numerous charts to illustrate each concept covered in the writing. The charts that Lindsay did include were very instructive but Ed has added information which highlights the point the chart is intended to make. In addition to showing Lindsay’s original chart, Ed often adds an idealized version of the pattern below the chart to help readers fully understand the pattern. An example of this is shown below.

In later examples, Ed maintains the high standard of visual clarity established by Lindsay and presents clear charts that make the ideas easier to understand.
This book includes annotated charts covering stock market history from 1896 to 1973. The final chapter is a detailed case study that walks the reader through how all of the theories could be applied in real-time. That case study uses the 1950’s because that is the point where Lindsay left off in his paper.

Lindsay may one day occupy a space in technical analysis like Elliott does thanks to the efforts of Ed Carlson. It requires a great deal of effort to unearth a long-lost technique and present the strategy as the original author intended. Although in other writings Ed applies Lindsay’s techniques to the current stock market and adds several of his own indictors to refine his market timing calls, in George Lindsay’s “An Aid to Timing” Annotated Edition, Ed limits his role to that of a tour guide explaining the charts as Lindsay would have. This allows readers to interpret Lindsay’s work without any bias and make their own judgment of how the techniques work.

For those wondering what might be next, Ed may have offered some foreshadowing in the introduction:

As one moves through the Lindsay corpus, he is guaranteed a number of “ah-ha” moments when the proverbial light-bulb comes on. That understanding even transcends the markets as Lindsay showed in his 1969 book The Other History (Vantage Press, 1969, out of print). But that is beyond the scope of this book.

Both Elliott and Gann wrote books explaining history from their perspective. Serious students of their methods study those texts for insights into how their market theories were developed. It is interesting to note that Lindsay left behind a similar book that might help explain why he viewed the markets with such precision and accuracy. Even if we never get to read The Other History, readers of An Aid to Timing will learn a new market timing technique that is just as applicable to today’s markets as it was to the markets of Lindsay’s time.

Ed Carlson, CMT, is the author of the books An Aid to Timing and George Lindsay and the Art of Technical Analysis. He is an independent trader and consultant based in Seattle, Washington. Ed manages the website Seattle Technical Advisors.com, where he publishes daily and weekly commentary. He lectures across the U.S, and Canada on the methods of Lindsay. He spent twenty years as a stockbroker and holds an M.B.A. from Wichita State University. Additional information can be found at http://seattletechnicaladvisors.com/home.html.
A TECHNICAL GUIDE FOR DOMESTIC ETF PORTFOLIOS
BY JONATHAN BECK

Editor’s Note: This is a weekly report developed by Jonathan Beck using a classical technical approach to investing. This approach is intended to uncover trends, patterns, relative strength leaders, and other potential profitable trades by revealing the leading and lagging equity sectors. It is reprinted as an example of a comprehensive way to develop technical research that can be used to manage equity portfolios using Exchange Traded Funds. It was originally published on January 28, 2013 and is reprinted with permission.

BIG CALLS ARE NOT MADE EVERY DAY, BUT WHEN THEY ARE, WE WILL MAKE A BIG DEAL OF THEM.

In this report the goal of our sector allocation will be to tactically outperform the S&P 500 on a relative basis. We will adjust our portfolio weightings by maneuvering into leading sectors and shying away from the losers, at least from a technical perspective assuming a 1-3 month timeframe. My objective is to uncover the intermediate and long-term technical drivers while at the same time providing you the tactical guidance required to navigate ever-changing market conditions.

JANUARY 28, 2013 HIGHLIGHTS
Technology Select Sector SPDR Fund (XLK) – The ability to land a bottom in Nov. 2008 was an early sign of technical leadership. The Mar. 2009 positive outside month pattern confirmed this. However, deteriorating relative strength coupled with a potential head and shoulders top pattern warrants a more defensive stance in our view. Initial resistance remains near **30-30.50**, while initial support corresponds to the bottom of the 1/2/13 upside gap (**28.97**).

Financial Select Sector SPDR Fund (XLF) – The Oct. 2011 low (**10.95**) may have marked a pivotal low for XLF as this may prove to be the head formation of an extensive head and shoulders bottom. The Oct. 2011 positive outside month also is a technical indication of concerted accumulation. With that said, an extreme overbought conditions exists as XLF approaches a key level of supply. Strong relative strength suggests pullbacks should be buying opportunities.

Health Care Select Sector SPDR Fund (XLV) – We are encouraged by two technical breakouts: 1) a large head and shoulders bottom pattern in Mar. 2012, and 2) the Jan. 2013 ascending triangle pattern. This substantiates a call for higher prices, but from a relative point of view we are still watching a rare fan formation. A breakout of the third fan line could indicate a more aggressive stance. In the meantime, we maintain a neutral stance.

Consumer Discretionary Select Sector SPDR Fund (XLY) – XLY continues to take off as it traded to new highs last week. However, it is now trading at extreme overbought levels, so risk management comes into play. We have adjusted supports accordingly. Trader support is now **50**, near the bottom of the 1/24/13 upside gap. The Jan. 2013 breakout, the 1/2/13 upside gap and the 30/50-day moving averages near **47.50-48.50** becomes secondary support.
Energy Select Sector SPDR Fund (XLE) – We may not be choosing the most desirable entry level for XLE as the Sep. 2012 high (77.35) is likely to act as resistance and an overbought condition is also suggesting a pullback. However, what might be a technical breakout out of the 2008/2011 symmetrical triangle patterns and what was a relative strength breakout from the Sep. 2012 downtrend line is our reasoning for adding some exposure at this time.

Consumer Staples Select Sector SPDR Fund (XLP) – XLP appears to be breaking through resistance near 36.45-36.60 or the Oct/Dec. 2012 highs. Although approaching overbought readings, this suggests that XLP will test 39-40 or the top of the 2009 uptrend channel. It remains the uninspiring relative strength readings that keep us underweight. We are also wondering if the the Oct. 2012 negative outside month pattern warns of a maturing rally.

Industrial Select Sector SPDR Fund (XLI) – A relative strength turnaround in Sep. 2012, coupled with technical breakouts of the 2007/2011 symmetrical triangles, and the Nov. 2012 positive outside month pattern drive our allocation. However, an overbought condition exists and XLI is approaching its 2007 peak (41.99). A pullback should not be surprising. Initial support moves up slightly to 38-38.50 or the 1/2/13 upside gap and the Jan. 2013 breakout level.

Materials Select Sector SPDR Fund (XLB) – The Dec. 2012 relative strength breakout from a 7-month trading range was followed by a price breakout in Jan. 2013. Although this targets a move closer to 43, there should be initial resistance psychologically near 40 and then the Apr. 2011 high (41.28). To the downside, the 1/2/13 upside gap, the Jan. 2013 breakout level, and the 30/50-day and 10-week moving averages near 37.59-38 represents initial support.
Utilities Select Sector SPDR Fund (XLU) – From a relative strength perspective, XLU is now testing multi-year lows. The ability to maintain this support coupled with the ability to clear resistance near 36.25 or the Nov. 2012 breakdown level and the 150-day moving average may coincide with some near-term outperformance. Failure to push through resistance sets into motion a trading range with initial support near 35 or the bottom of the 1/2/13 upside gap.

iShares US Telecom Index (IYZ) – From a longer-term perspective, note the steady underperformance dating back to the 2007. Since 2011 it appears that a potentially significant ascending triangle drives our intermediate-term outlook. The top of the pattern resides near the May 2011 (25.89) and the Sep. 2012 (26.25) highs. The bottom of this pattern is rising near 22-22.50. We have tightened up trader supply to 25, near the Oct. 2012 breakdown and the Jan. 2013 high.

Jonathan Beck brings over 10 years of buy/sell-side equity research experience to the table at J. Beck investments. He has previously spent more than half of his career working exclusively as a technical analyst on one of the most well respected technical analysis teams on Wall Street. At UBS’ Wealth Management Research Division he was advising Financial Advisors, High Net Worth Clients, Private Clients, as well as institutional accounts across all asset classes. He is now taking his skills directly to The Street to provide timely technical research for traders, brokers, and investors with cutting edge products that include A Technical Guide for Domestic ETF Portfolios, A Technical Guide for Global Equity ETFs, and A Technical Guide for Energy Traders. For more information, please visit www.jbeckinvestments.com.

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THE THIRD: A KEY TO TOPS AND BOTTOMS IN THE DOW
BY SCOTT HATHAWAY

INTRODUCTION AND FOUNDATION

“3 shall be the number thou shall count, and the number of the counting shall be three…”

The Monty Python reference notwithstanding, the number 3 generates much curiosity for me in the markets. Usually this involves linking 3 with its inversion (1/x) of ‘1/3’; dividing 90° into thirds providing the ever useful 30° and 60°; dividing a price range into thirds of 33.3% and 66.6%; or linking reversals with any combination of 3 and these facets of thirds.

(Author’s note: Short on time? Please by all means skip the nitty-gritty and jump to the last few charts for patterns and projected resistance levels.)

Editor’s note: the conclusion is bullish.

But lately I have found a new ‘mathematical toy’, 1/3 of 10 (the basis of our counting system), or ‘3 to infinity’:

\[
\frac{10}{3} = 3.3333333333333333333333333333333\ldots
\]

\[
\frac{100}{3} = 33.3333333333333333333333333333333\ldots
\]

...as in 33.33...°, whose tangent is 0.6577.

APPLICATION OF ‘THE THIRD’

Back to the markets, I turn to the Dow Jones Industrial Average going all the way back to the top of the crash of 1929 with a price of 386.10, in an effort to understand the next two major highs of Jan 1973 at 1067.2 and Oct 2007 at 14,198.10 using one of my new fractional friends:¹

\[
386.10 \times 33.33\ldots = 12,870 + 1067.20 \text{ ('73 high) = 13,937.20}
\]

This yearly log chart shows the result along with ‘33’ year stretches at work from the century’s two major lows:
First off, regarding the initial product of 12,870, the Dow reversed at exactly 6 points (double 3) points higher at 12,876 in May 2011 for the largest correction yet in the overall uptrend since 2009, but even more interesting is that 13,937.20 gives functional resistance for the all-time highest monthly close of 13,930.01.

Even more prevalent is a 33 year trend effect (I assume that this phenomenon is established way before this writing, but certainly is topical here). Although the market did not top in 1965 (33 years from the 1932 low), it did:

1) Make a high close for 1965 of 969.26 which offered resistance to future yearly closes until the high of 1973.
2) Mark the beginning of a 17 year sideways market, ending in Aug 1982, which, from 1965’s close (the last recorded monthly price in December) is actually 16 years and 8 months away, which is exactly:

$$33.33\ldots \text{years} / 2 \approx 16.66\ldots = 16 \text{ years and 8 months!}$$

$$17 \text{ years} = 33\frac{1}{3} \text{ years} / 2 + 1/3 \text{ year}$$

(Granted I am combining 33.33... year concept with a 33 year run, and again, I am most likely NOT the first person to find this!)²

3) Perfectly topped in 2007, 33 years and 3 months (‘33.33’ of sorts) after the low of 1974.

Will 13,937.20 hold up as general resistance for the current market as well, signified by a refusal to close above it on a monthly basis, or has the Dow somehow indicated that it has greener pastures in sight, as in a new all-time high?³

(Author’s Note: Of course, the very fact that the top on October 11, 2007 was just 2 days off of the exact 700 year anniversary of the infamous disastrous date of October 13, 1307 A.D. (the market was closed on Oct 13th 2007, a Saturday), when the King of France and the Pope had the Grandmaster and 139 knights of the Knights Templar arrested and later executed.⁴ This group is a major source of ‘Illuminated’ fraternities fond of ‘33’) is just a coincidence, right? Remember that year 1307 for later.)

We now turn towards the sequential pattern that has identified major reversal areas since 1987.

MORE ADDING OF ONE PRICE TO ANOTHER

First off, I expand the foundation for combining points (as done in the first chart), and then establish the striking accuracy and importance of the rather easy-to-miss low of Jan 1991 of 2448.20:
In the first example, the major low of 570.01 gets a zero to boot by multiplying by 10 and then is added to the powerful impulse point of August 1982 at 769.98, providing an alarmingly close hit to the major bounce point of 6469.95 back in March 2009: off by only .13, just 13/100 of a point. (Shades of 1307.)

The second chart displays similar accuracy by giving an almost exact hit for the all-time high when the seemingly inconspicuous pullback of 2448.20 in January 1991 is added to the previously distinguished top of 11,750.28 of January 2000, giving resistance at 14,198.48. Again, accuracy of less than ½ a point is given at 38/100 of a point.

**GOING IN SEQUENCE**

Now, to put it all together!

The next chart (tops are lettered in red, bottoms with blue) tackles not only the mid-late 1990’s bull run, but BOTH major corrections of the last decade without leaving the comfort of ‘the third’:

1. The uptrend from B (Blue) to B (red) encounters resistance from that previously mentioned pullback of 2448.20 (A blue) multiplied by $3^{1/3}$ then added to the low of Mar 1994 at 3520.80 (B blue), giving 11,681.47 for the 11,750.28 top (B red).

2. The following downtrend is called by using the ratio .6577, which as shown in the introduction is the tangent of 33.33°. (The tangent ratio is the
relationship between the height and width of any angle.) The major low at C (blue) is almost exactly at 1.6577 times the former high of 2746.70 (red A) when placed from B (red). In fact, it is only .44 of 1 point off, which equals .33 x 1.33.

3. Note that .6577 of A (red) below offers initial support to the temporary sideways market, but not exact support.

4. The last great downtrend is almost exactly .6577 (tan 33.33...) of B (red, at 11,750.28) from C (red, at 14,198.10). In fact, it IS .1307 OFF!! (Remember 1307?)

   \[
   14,198.10 - (11,750.28 \times \tan 33.33) = 6,469.8193 \text{ (rounded)} - 6,469.95 \text{ (Mar 2009 low)} = -0.1307
   \]

For Dan Brown fans: The Dow made its all-time high only 2 days off of the 700 year anniversary of the most infamous date of Oct 13, 1307 A.D. (infamous for those groups who understand and use 33), and then crashed exactly .1307 of 1 point away from the exact amount of the previous all-time high combined with the tangent of 33.33. Truth is indeed stranger than fiction.

Now for the up trends, and an idea of what may potentially come to pass.

1. Adding the low of the 1994 sideways market (3520.80) to the major low of October 2002 of 7197.49 (C blue) gives great resistance of 10,718.29 for the first top formed at 10,753.63, just 35.34 off (close to 33.33). But notice the market does not drop like after the 2007 top.

2. Instead, it drifts choppily, only to break through (small green arrow) and return for quick support (it dropped under by 34.97, even closer to 33.33).

3. Then topped just under the next perfect multiple (2x) at 14,239.09.

4. The current uptrend just triumphantly pushed through the perfect addition of the previous low (C blue) at 13,667.44 (read: 13, ‘667’ (2/3) and .44). This is huge (if it holds)!
Apparently, this dynamic of current price with this sequential level is NOT a repeat of the previous uptrend’s encounter with the first multiple level and is very good for the bulls.

But what are the next possible resistance levels to look out for? Let’s expand on this application of the previous low’s 7197.49 added to the March 2009 bottom:

These levels include not only the ambitious x2 level of 20,864.93 (matching the previous uptrend topping dynamic), but also include ‘1/3’ levels of $1^{1/3}$ at 16,066.60 (similar to the mid-90’s uptrend’s x3.33), and tan 33.3 at 18,401.30 (harmonically matching both 2000’s downtrends).

In addition, the $1^{1/3}$ level amount of 9596.65 (7197.49 x 1.33, then added to the low of 6469.95) is in itself a support level (blue arrow).

It is interesting to note that a simple line connecting both highs and extending forward intersects level 1.33 exactly in October of this year, the 6th anniversary of the all-time high. (And 6 is double 3.) And since the Dow did NOT top last October (the major 5 year or 60 month cycle point), it seems indeed to be heading north for a while.

Ultimately, since the Dow does not seem to be halted by this matching level, it would follow that a major top would need to be at a matching harmonic level, as evidenced by the previous trends. At such an occurrence, support levels can be generated in similar fashion.

**CONCLUSION**

The Dow’s major moves since at least the mid-1990’s demonstrate that particular sequential prices of lows and highs are hidden in these moves, either as whole amounts or incorporating the ‘third’ as a fraction or a tangent. This phenomenon, if continued, gives objective targets for a future top and eventual bottom.

**ENDNOTES**

1. Interesting to note that 1929 top’s price of 386.10 is composed perfectly of squares, which is certainly a doorway for another technique entirely:

   $386 = 19^2 + 5^2$

   $.10 = 3^2 + 1^2$
2. Most likely this is coming from a subconsciously buried reading from a Michael Jenkins book. Anyone even remotely interested in my articles would do well to check out his profound writings.

3. As of this writing (January 30), the Dow’s recent high is 13,969.99 which is 7,500.04 above the uptrend’s start of 6,469.95. If a top does form here, it would seem fitting (for at least a sizable correction) for a run of 7,500 (as in .75 x10,000) points, since .75 is the inversion of 1.33.


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 website hathawayanalysis.com features some of his work. Scott is currently a CMT candidate.
CONNORS RSI: UPDATES AN OLD INDICATOR
WITH MODERN TOOLS
BY MIKE CARR, CMT

Technical analysis is a mixture of old and new tools. Dow Theory was
developed more than one hundred years ago at a time when even handheld
calculators were unavailable. Actually many of the most popular charting
techniques were developed before calculators, as were relatively simple
indicators like moving averages.

The history of the McClellan Oscillator, a story told by Sherman McClellan
and brought online by his son Tom McClellan, illustrates the techniques
applied to developing indicators before the 1980's. Sherman offered some
insights into how breakthroughs in technical analysis were made in a 2004
MTA Annual Symposium presentation. He was inspired by P.N. Hauurlan who
first used exponential moving averages (EMAs) for tracking the stock market
in the 1960's. EMAs were new at that time and would be used to calculate
the McClellan Oscillator. From Tom's web site:

“As a Christmas gift in 1968, (Sherman's wife) Marian gave me some
chart paper and the promise of some time to work on market
timing...What became the McClellan Oscillator was created by the
summer of 1969. One day that summer, Gene invited anyone who
had a new indicator to contact him. I was the only one, and he
arranged for me to present the Oscillator and Summation Index on
the Charting the Market show. Gene Morgan gave the indicators
their name of McClellan Oscillator. He helped us get advance-
decline data back to 1962 from books he had in his library and
others that he had access to. All that data was calculated by hand by
Marian and then hand posted to charts by me for our book Patterns
For Profit that described the calculation and use of the McClellan
Oscillator and Summation Index.

The complete presentation can be read by anyone with an interest in the
history of technical analysis at http://go.mta.org/3355. Some of the key
points, to me, are:

- Manual collection of data was required.
- Manual calculations had to be made, and often recompleted.
- Charting was done by hand.

It seems safe to assume that Sherman McClellan did not foresee how easy it
would be to obtain data, complete complex calculations and prepare charts
fifty years after he worked with his wife at their kitchen table after dinner.
Yet despite the advances in data availability and easy to use technical
analysis software, few analysts have published breakthrough work in the
last few years. Tom McClellan is one exception to that statement and has
published new insights building on the indicator that his parents developed
along with unique work of his own.

Larry Connors is another technical analyst who has taken advantage of
modern technologies to build on the classic tools of technical analysis. Larry
has spent a great deal of time researching RSI and his latest research
demonstrates the potential to update and possibly improve all technical indicators.

The Relative Strength Index (RSI) is one of the most widely used indicators in the world. It was first introduced to traders in 1978 by J. Welles Wilder when the calculation and use of the indicator was thoroughly detailed in Wilder’s book, *New Concepts in Technical Trading Systems*. The book includes figures which show how to set up columns on paper to calculate RSI and numerous examples of RSI on charts. Wilder explained that RSI could be used as an oscillator to find overbought and oversold extremes, analyzed with chart patterns or as a tool for spotting tops and bottoms when divergences form. Of course, none of the uses of RSI were tested at the time because testing capabilities were not as readily available as they are now.

Even without providing proof that it worked, RSI was widely adopted and studied. Several other technical analysts showed that range rules can be applied to the indicator for a better perspective on when RSI is at an extreme. Others believe that divergences should be interpreted as a sign of market consolidation rather than a reversal. Until very recently, work with the indicator has been largely supported by examples (usually well-selected examples) and anecdotes rather than detailed, back tested proof.

Larry Connors has been providing insights into how to use RSI for several years and has always provided back tested results to support those insights. Many technicians will be familiar with his work on RSI(2) which showed that using a 2-period RSI could be very profitable. Wilder’s original calculation uses 14 periods.

While RSI(2) is valuable on its own, Connors continued working with RSI. The fact that RSI measures only price momentum could be considered a weakness, one that Connors realized could be easily remedied. The resulting fix is ConnorsRSI, a composite indicator with three components:

1. **Price Momentum**, measured with the traditional RSI calculation. For ConnorsRSI, a 3-period RSI is the default parameter.
2. **Duration of Up/Down Trend**. Research showed that the longer the duration of an up or down streak, the more the stock price is likely to bounce when it reverts to the mean. This factor is captured by what Connors defined as RSI(Streak,2), a calculation of how long a streak measured by RSI(2) lasts. This factor, like RSI, is bounded by 0 and 100. The longer an up - streak continues, the closer the value will be to 100. Conversely, the longer that a down - streak continues, the closer the RSI(Streak,2) value will be to 0.
3. **Relative Magnitude of Price Change** looks at the size of today’s price change in relation to previous price changes and using a Percent Rank (percentile) calculation. The Percent Rank value quantifies the percentage of values in the look-back period that are less than the current value. The default value is the previous 100 returns, or about 5 months of price history. Large positive returns will have a Percent Rank closer to 100. Large negative returns will have a Percent Rank closer to 0.
The formula is combines all three factors:

\[
\text{ConnorsRSI}(3,2,100) = \left[ \frac{\text{RSI(Close,3)} + \text{RSI(Streak,2)} + \text{PercentRank}(100)}{3} \right]
\]

An example of the indicator is shown in the chart below.

As always, Connors provides test results. At TradingMarkets.com, the results show that stocks with a ConnorsRSI value below 5 experienced an average price increase of 2.28% over the next five trading days. When ConnorsRSI moves above 95, stocks averaged a 1.42% price decrease over the following five days.

The concepts of duration and relative magnitude of price moves could be applied to other indicators for those considering building on Connors’ work. The concept of refining old tools using all of the technology available today can also be applied to other indicators for those wishing to expand the body of knowledge of technical analysis.

ConnorsRSI is explained in a book, *Introduction to ConnorsRSI*, that can be downloaded from [http://go.mta.org/3371](http://go.mta.org/3371).

Trade Station, AmiBroker or thinkorswim.com users can download the code to add ConnorsRSI to their software. The free download is available at [http://go.mta.org/3372](http://go.mta.org/3372).
AUTHOR GUIDELINES

The Market Technicians Association serves a global community and the organization’s publications strive for articles that can be easily understood by readers around the world. To meet that objective, all submissions to Technically Speaking should be in English and minimize the use of vernacular phrases and references. This is necessary to improve the readability for international members who may not understand phrases commonly used in one region but unknown in most of the world.

In Technically Speaking, we want to publish articles that use simple language whenever possible. Specific terms associated with financial analysis in general and technical analysis specifically should be defined unless they are found in the MTA’s Body of Knowledge. The editors may have to make changes to any work that is published for clarity and consistency.

Please send any material you would to have considered for publication before the 20th of the month. We will work to include anything received by that date in the next issue.

2013 BOARD OF DIRECTORS NOMINATIONS

For the fiscal year commencing July 1, 2013, two (2) At-large Director positions are up for consideration for a 3-year term. Members, Honorary Members and Emeritus Members in good standing are invited to submit recommendations for consideration to nominations@mta.org no later than March 20th, 2013. Individuals may nominate themselves or others. If you have any questions, please feel free to contact Tim Licitra at tim@mta.org.