LETTER FROM THE EDITOR

We focus on the practical in this month’s newsletter. From trading psychology to trading tools and trading strategies, we have tried to provide you with new ideas that you can apply in the slow summer market. Of course, the slow summer market is probably a myth but we all need to find time to explore ideas and tools that might help us become better at what we do.

Trading seems to be the point where theory meets practice in technical analysis. Hopefully you will find the techniques and tools we highlight to be useful.

Although trading is often associated with short-term analysis, many traders analyze long-term data. In the long-term, stocks can move up or down just as they do in the short-term. SRC Stock Charts offer a long-term perspective on markets and we conclude this issue with a chart of Japan’s Nikkei 225 stock index. The Nikkei ended May with a one-week loss of 15% but is up about 50% in the last year. Short-term volatility can mask the relentless down trend that defines that market. Over the past 25 years, the Nikkei has lost an average of 2.8% a year.

Please email us with suggestions for other long-term charts to highlight the ups and downs of trading for a living. We can be reached at editor@mta.org.

Michael Carr
HOW WILL THE NEXT FEW YEARS BE CHARACTERIZED?

INFLATION, DEFLATION, OR BOTH?

FEATURING ROBERT PRECHTER, CMT, PRESIDENT OF ELLIOTT WAVE INTERNATIONAL & MARTIN PRING, CHAIRMAN OF PRING TURNER CAPITAL

MODERATED BY RON WILLIAM, CMT, MSTA, FOUNDER & PRINCIPAL STRATEGIST OF RW MARKET ADVISORY

During the annual symposium of the Market Technicians Association, April 2013, two of the world’s most renowned veteran market technicians, Robert Prechter, CMT, President of Elliott Wave International and Martin Pring, Chairman of Pring Turner Capital, shared their key insights during a moderated panel discussion with Ron William, CMT, MSTA, Founder & Principal Market Strategist of RW Market Advisory, on one of today’s most widely debated questions about Inflation & Deflation pressures and how both risk scenarios would impact your investment decisions and portfolio returns. Please select link to review the full online video.

Ron William: What is the best strategy to help preserve capital given your stances on either of the inflationary or deflationary pressures ahead?

Martin Pring: Our firm (Pring Turner Capital) has just come out with a new ETF (The AdvisorShares Pring Turner Business Cycle ETF) (DBIZ) and I think that would be the place to go. In the past, obviously, being long commodities has been a good place to be or commodity resource-based stocks or basic industry stocks have also been good places to overcome inflationary trends. So I see no reason why they wouldn’t still be a good idea.

Robert Prechter: I think it’s extremely hard to preserve capital. With the abandonment of real money in the monetary system, it’s become nearly impossible to be a quiet little saver, because wherever you put your money other people are going to get their hands on it. Or it’s possibly going to disappear overnight. So it’s one of the hardest tasks in the world. That’s why one of the things that I have been recommending in the past few years is actual cash. I mean cash stored away in a nice safe place or in multiple safe places. I think it’s going to become very handy.

Gold is the only real money. I believe Bit coins will become real money eventually, but it’s gold at the moment. However, gold is extremely
overpriced and overvalued in my view, and I don’t think it’s a good buy at this time. Of course, I didn’t see it going this high in the first place. Still, I think we will have another buying opportunity for gold later on, when everything bottoms.

Preserving capital is kind of tough. You might decide to have cash in different currencies such as the Swiss franc. But the world’s always changing and we are always keeping our eyes open for where the dangers can be. As we saw in Cyprus, even if someone had a million Euros in cash stashed away, suddenly they couldn’t transport it out of the country.

In some of the countries that I mentioned earlier such as Norway, France and Sweden, they are talking about making it illegal to spend more than a thousand Euros in one transaction. So there are so many ways that your prudence can be thwarted. It’s a very difficult environment to preserve capital.

**RW:** Switching to the currency world, there is a growing debate on how either inflationary or deflationary pressures are likely to effect on the US dollar. What is your current view on the US dollar and how do you see that trend playing out?

**MP:** Well as I highlighted in my presentation, on monthly charts, the US dollar looks very strong here. I did an exercise last month looking at the long-term momentum of all the principal cross rates including the Euro, the Japanese yen, the Canadian dollar, the Australian dollar and the British pound and they all favoured the US dollar on a long-term basis. So it seems to me that the proof is the US dollar is likely to move up, not as I said before, because it’s a great currency, but because all the others are so much worse.

**RP:** I agree with Martin on this and the way that he put it in his speech is exactly right. When we look at the dollar index we are not looking at the purchasing power of the dollar, we are only looking at the dollar’s performance related to other currencies. So my opinion about the question is, which currency is likely to be deflating in the largest way? That’s the one that is likely to go up more, because as debt starts to dissolve and disappear, the remaining dollars and euros will be more valuable. That’s why cash is always worth something in a deflationary situation.

Despite this factor, my shop has been bullish on the dollar for quite some time, mostly because of the very aggressive number of vocal bets against it, all the people have been saying the US dollar is likely to crash, or it's going to zero, thanks to the US Federal Reserve. We felt that was an impossible psychology for a continuing falling dollar. We don’t think the bull market is over yet; it still has a long way to go.

**RW:** One of the interesting points in both of your presentations was the similar perspectives on long-term US Government yields, suggesting an
exhaustion and potential (upside) reversal, in terms of both the cyclical and secular trend. Can I ask the both of you about the potential psychological drivers behind that within either an inflationary or deflationary cycle?

MP: The history of rates is that they are tied to two things; one is the amount of commodity or CPI inflation that takes place which is about the closest correlation that you can come to on any particular relationship with bond yields. Then of course, the other one becomes the credit default risk and if that becomes pretty high, then that will send rates up, too. But that tends to be more of a temporary thing, rather than a [long-term] trend driver. But still, even those temporary moves as we saw in the 1930s, or more specifically, between the years of 1929-1931 can be pretty violent. So those are two of the key determinants of yield on a long-term basis.

RP: I think that yields will go up if we have inflation, surely and I believe they will go up if we have severe deflation for the reasons that I went over. In fact, when Greece went through its period of austerity, rates soared into double digits. That’s the type of risk you have within a deflationary environment. It sucks buying power from all the other places like a black hole.

One thing to keep in mind is that the Federal government currently pays out about 6% of its budget just to cover interest. So if Treasury rates start to go up, it would be a really bad sign for the budget.

RW: The next question, on the current US stock market outlook, is probably one that I received the most number of requests [from leading institutional representatives and many MTA symposium delegates]. The US stock market has recently posted new all-time highs, driven by relatively strong breadth and a historically strong four-year cyclical recovery. How sustainable is the current bull-trend and what parallels may exist from prior secular bear trends, notably the 1973 peak, which many industry analysts are highlighting as a potential road map template.

MP: I don’t know because my work does not forecast magnitude or duration of trends, unless I have a price pattern or something similar that would just give me an objective. All I can do is follow the direction of the indicators and right now my longer-term indicators, the ones that measure the primary trend, the majority of them are suggesting that prices are going to go higher and the trend is up. One of the really strong characteristics of a typical bull market in stocks is usually when short-term interest rates start to move up and as we know the Fed had kept rates down to zero and so we don’t have a sign of a top at this point.

So I can’t tell how far it’s going or when it’s going to get there, all I can say is that right now all my indicators are bullish and therefore I am bullish, notwithstanding a short-term correction, obviously. But until that stuff starts to turn, I’ve got to stay bullish. I’ve learnt the lesson the hard way, that if I tell the markets what to do, then I am usually wrong and end up with blood on my face.

RP: Well I should have learnt more lessons the hard way, but I can tell you flat out that I am as bearish as I can possibly be in studying 200 years, well 300 years really when you throw in Britain, of stock price movements. I think this is one of the most amazing junctures that I have ever seen. Now I
felt the same way in 2000 and the same way in 2007. In fact, I couldn’t believe we had a second chance, much less this third one. In the decline of 2009, how many people said “Oh if I could just get to breakeven, I would get out of the market”. Well okay, now they are more than breaking, but are they getting out of the market?

We just had a record purchase in January of inflows into mutual funds and the last time it was that high was during September-October of 2007. So for the third time we have had peak indications within the stock mania. I think we are setting up for the first time, a reversal in all three markets: stocks, commodities and bonds together. So I think that we have a triple whammy coming up. I certainly would not want to own anything. I think it’s pretty safe to be short, personally. But I have been wrong plenty of times, so please don’t do what I tell you to do.

RW: What about the psychology in prior secular bear markets? What key lessons are important and are there any parallels that we should be aware of for now and the eventual endgame of a secular bear market?

MP: Well having said that I am bullish on the primary trend, of course, my work suggests that we are still in a secular bear market for inflation-adjusted stocks. We are still about 20% from the peak in the S&P 500, so we could still see a 20% rise and still remain with a secular bear market or trading range.

The things that I’m looking for to suggest that I am seeing an end to the secular movement, or a downward movement in real-adjusted rates in stocks, would be things like the S&P/Case-Shiller price earnings ratio which typically registers to a number of 6 times at the end of a bear market, yields on the S&P 500 are usually 6-7%, they are currently 2-3% and currently the Shiller ratio is about 23 times.

Moreover, the Tobin Q ratio which measures the replacement value of stocks typically peaks at a secular peak at $1.15 or something like that and ends the secular bear at around $.30. Last I saw about three or four months ago it was about $.80. So I would be looking for a lot of these fundamental indicators, which I really regard as sentiment indicators, to be moving to those extremes.

RP: I agree 100% with that. We have not seen a classic bear market low since 1982, which is the last time those figures were in bear market bottom territory. We also saw them in 1974, 1942 and 1949, which were all great buying opportunities.

We have seen nothing like them. There have been no corrections really worthy of a major bear market low. We had a nice panic in 2008-2009, but it was from really high levels, and some of the indicators that I showed you never even corrected from the high of extreme optimism and extreme complacency. But it’s coming up. You know, markets go up and they go down and the world is never going to be a place where we are always optimistic or always pessimistic.
When Frost and I wrote our book way back in 1978, we said there is a big bull market coming and it’s going to lead to what we called grand super cycle top, and I think the fact that we have had these multiple manias is a reflection of that model working. For example, in 2000 we had the all-time high in the NASDAQ, you know that’s the only index that rose a hundred times, just like margin debt did. In 2006, 2007 and 2008 we had three manias packed in together. We had the peak in real estate in 2006, we had stocks in 2007 and commodities in 2008, packed together very closely.

This time gold made an all-time new high along with stocks. Now stocks have continued for another year, but I still think that this is a lagging sort of exhaustion move, with new highs peaking last year and I think that’s the beginning of the end, the beginning of the turn downward. But we will see. We have seen things stretch farther than normal, twice already. As I have said several times, maybe hedge funds will go from thirty times leverage to a hundred and fifty times leverage. Who knows?

RW: A question in line with the title “Inflation, Deflation or Both?” What are each of your views on the potential fusion (or duality) between inflation and deflation? Part of this will be down to timing (i.e. long-term structural deflation, interrupted by short periods of cyclical inflation or vice versa).

MP: We have the cycles that alternate between inflation and deflation. In fact, inflation breeds its own deflation, because if you have a huge run up in commodity prices for example, that means oil and food prices go up and that sucks out purchasing power and also pushes up interest rates, causing the economy to correct. So I believe that it’s a transitional continuation of the two. The only thing different is the degree that happens in each cycle.

RP: I’m pretty much in agreement. I think that we started to see a change to deflationary psychology between 2000 and 2006 on a very long-term basis. It takes time for these things to develop. People talk about austerity. You know the Federal government is even scaling back its budget by a small amount. They are arguing about it and that’s something new. The psychology is slowly seeping to another side of the ledger.

On a short-term basis, yes, it is cyclical. Between 2006 and 2008 we had deflation, and since 2009 we’ve had a reflationary trend and that’s the one that I think has lost its upside momentum. It hasn’t quite rolled over in the US, but has already rolled over in Europe. Now that the cyclical is joining the secular its looks like a very interesting time in the years ahead.

RW: On a final note, I would like to ask Robert Prechter if he could kindly share a few words of insight on the study of Socionomics and its focus on causality ahead of your up and coming annual conference.

RP: [“Socionomics is the study of social action that expresses social mood. Social mood arises endogenously from unconscious herding impulses inherited through evolution, and is patterned according to the Wave Principle”). The following week we have our third annual Social Mood Conference in Atlanta, Georgia.
It’s a great gathering of minds, really brilliant people, from academia to the professions. It is one long day with 12 different speakers. We discuss social mood and the effect of social mood on markets, culture and the society. So come join us if you can. Look it up on the web for more information at www.socionomics.net (Read more: Socionomics Explained and follow on Twitter: @Socionomics).

Investing in the Second Lost Decade
by Martin J. Pring, Joe D. Turner & Tom J. Kopas
Part One & Part Two Video Series
that accompany the book.

Conquer the Crash: You Can Survive and Prosper in a Deflationary Depression by Robert R. Prechter, Jr.
The world’s few deflationists: www.deflation.com

Financial and Socionomic Theory, new DVD:
“Robert Prechter at Oxford, Cambridge and Trinity”; read about it at www.socionomics.net

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THE MENTAL EDGE IN TRADING
BY JASON WILLIAMS, MD; REVIEWED BY KEITH NEWCOMB, CMT, CFP WITH MIKE CARR, CMT

Editor’s note: Dr. Jason Williams was one of the speakers at the recent MTA Annual Symposium. His presentation was based on the research detailed in his book which is reviewed below. To view Dr. Williams’ presentation, please visit http://symposium.mta.org

Dr. Jason Williams presented findings from his research into the trader’s mind at the MTA Symposium April 4th and 5th, 2013. In his book, The Mental Edge In Trading (McGraw-Hill, 2012), he leads readers on a deep dive exploring his findings, a recommended personality test of choice, and explains how to interpret the results to improve trading enjoyment and performance.

This book is completely different from other studies and texts examining trader personality in three important ways. First, many of the previous studies have been written for academics by academics, offering limited use for practitioners. Second, previous studies often included self-selecting traders with varying degrees of success and failure, or a mix of bank prop and flow traders, analyzed as a composite group. Third, although Dr. Williams does provide revealing trader profiles and interviews, this book is very different from widely-read straight trader interview books because of the integration of detailed personality test insights.

Facets of personality can be measured with various tests. In his work, Dr. Williams used the most detailed test available while most other studies have relied on data from less comprehensive tests.

Perhaps the most important difference between this work and previous studies is that Dr. Williams focuses on the individual personality traits of top traders. Larry Williams, a successful trader himself with fifty years of experience (and Dr. Williams’ father), provided the names of traders he knew had a history of success and longevity. The author believes his father’s hand-picked sample makes his results more meaningful than those of more general studies done by others.

The first section of the book is a primer on the mind. It covers the big five personality traits (neuroticism, extraversion, openness, agreeableness, and conscientiousness). There are six dimensions of each trait, for a total of 30 personality facets. Each of the traits is dimensional and roughly follows a normal distribution.

Personality traits are enduring. That means each doesn’t change significantly with time. They are also pervasive, meaning each trait shows a consistent pattern across many situations. These traits are almost always fully developed by the time an individual is in their early 20’s. Even though we evolve, our traits usually don’t change significantly after that time, says Dr. Williams.
After providing a tutorial on personality, Dr. Williams delves into case studies of several well-known traders. Each has adapted his or her trading appropriately to his or her personality traits. Most of the traders said doing the formal personality evaluation helped them understand why it is they enjoy success with — or are challenged by — certain styles of trading (for example, systematic vs. discretionary or freestyle). As one example, a trader with a low score in conscientiousness might be more comfortable and successful being a discretionary trader since they may have difficulty following the disciplined routine required for systems trading.

Dr. Williams stated the top traders he profiled, with the exception of one, scored about average on the "big five" personality traits measured by the personality inventory. The 30 facets (six dimensions for each trait) held more nuance. Because the group scored average, individuals were either high or low in the different traits. Dr. Williams showed that trading success is possible no matter what type of personality a trader has, provided they find a style that fits their personality.

Dr. Williams writes in a language anyone can understand, and presents just enough background information to point the lay reader in the right direction, while dwelling much more on the pragmatic, human interest angle about the role of self-discovery of one’s personality traits and the importance of focusing on compatible trading methods. The book's subtitle (Adapt Your Personality Traits and Control Your Emotions to Make Smarter Investments) and much of the first section of book frames the issue as one of gaining control and changing one’s traits, but really the book is about the importance of adapting one's work to leverage personality strengths and overcome or reduce the impact of unhelpful or detrimental traits.

Keith Newcomb, CMT, CFP®, is a portfolio manager responsible for stewardship of publicly traded equity, fixed income, commodity, and real estate mandates on behalf of clients of Full Life Financial LLC, the registered investment adviser firm he founded in 2002. He blends top-down global macro and bottom-up security selection to align the firm’s investment strategy and portfolio construction with client mandates which are generally global, unconstrained "go-anywhere" investment policies.

He serves as 2012-2013 Chairman of the Advocacy Committee of the Market Technicians Association. He also sits on the Board of Directors of FPA-PAC, Inc., the only political action committee focused on issues of the financial planning profession; and is a member of the Government Relations and Public Policy Advisory Council of the national Financial Planning Association, a 23,000 member professional organization. In 2009, he served as Chairman of the FPA National Government Relations Committee. His investment and personal finance insights are frequently quoted by widely read publications such as Barron’s, Bloomberg BusinessWeek, Financial Times, The Wall Street Journal, Investor’s Business Daily, The Bond Buyer, Money Magazine, Kiplinger's, SmartMoney, Reader’s Digest, and other trade and consumer publications.
A TECHNICAL GUIDE TO THE ISHARES DOW JONES U.S. ENERGY
BY JONATHAN BECK

This report takes a closer look at the U.S. Energy sector, via the iShares Dow Jones U.S. Energy ETF (Ticker: IYE).

In recent days, IYE has quietly broken out of an ascending triangle pattern two and a half years in the making. From a portfolio perspective there have also be some developments worth noting. For example, the longer-term relative strength chart (vs. the S&P 500) appears to have found support at an historically significant level and the near-term relative strength chart substantiates that a bottom is in place. As a result, it appears that IYE is becoming a technical leadership sector ETF and investors/traders should look to take advantage of such a rotation.

In addition to a brief technical analysis of this sector ETF as a whole, this report goes one step further as it delves into the technical outlook for its top 10 holdings or 63% of the entire fund.

ENERGY – RIDE THE WAVE

As the US stock market entered into its 5th year of this bull market in March 2013, it is now trading at record highs and has climbed some 1000 points or 150% from its March 2009 low of 666.79. It should be crystal clear that the easy money has been made. As I’ve mentioned in previous research, the stock market can still go higher, but it is likely that it is in the 8th/9th inning of a 9-inning ball game. This means that equity markets might begin to diverge and sector rotation is going to be crucial in alpha generation and detecting a market top. It appears that the Energy sector is going to be the next wave to catch because a sector rotation into Energy (IYE) may be in the early stages.

The chart below may prove to be the key to alpha generation in the weeks/months ahead.

Over the last four and a half years, there have been a number of times in which IYE shifted from an outperformer to an underperformer versus the S&P 500. The orange arrows represent periods that IYE reached some kind of peak in outperformance and was followed by either sharp and rapid declines in relative strength or other prolonged and more painful periods of underperformance. On the other hand, it is quite striking how IYE managed to find support almost exactly at the bottom of the trading range on four distinct times, leading to sustainable periods of outperformance. The question now is whether or not history will repeat as IYE has found support again in April 2013.
A Technical breakout confirms an important low has been generated

Arguably, the longer-term relative strength chart above is quite compelling on its own merits. However, this near-term chart adds valuable supportive technical evidence that IYE has begun a sustainable period of outperformance. In other words, the breakout from the February 2013 downtrend line solidifies the April 2013 bottom and suggests that the outperformance may still be in its early stages. From a sector rotation point of view, look towards the Energy sector as a way to achieve alpha in your portfolios.

Higher prices also seem to be in the cards

The iShares U.S. Energy ETF has recently broken out of a large two and a half year symmetrical triangle pattern. This coupled with the relative strength breakout (shown above) suggests that IYE has become a technical leadership sector ETF within U.S. equities. The technical breakout now opens the door for a move up towards the 2008 peak of 52.67. In fact, the target derived from this breakout is closer to 60. In order to protect profits and manage risk, initial support should correspond to breakout level near 45.60. Secondary support corresponds to the April 2013 low (41.96).
So what exactly makes up the iShares U.S. Energy ETF?

Analyzing sectors and sector ETFs is just part of the top-down investment process. As such, the rest of this report will spend some time giving a technical analysis of the top 10 holdings in the iShares U.S. Energy ETF in order to help sort through what consists of 63% of this ETF. The purpose of this exercise is to complete this investment process down to the individual security on an absolute and relative (vs. IYE for the remainder of this report) basis.

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<th>COMPANY NAME</th>
<th>TICKER SYMBOL</th>
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**EXXON MOBIL CORP**

It appears that XOM has broken out of a 6-7 month descending triangle pattern earlier this month. Although this points to higher prices, it is important to keep in mind that formidable overhead supply remains in the 93-96 range, which corresponds to the 2007/2008/2012 highs. Initial support resides near 89-90 or the 50/150-day and 10/30-week moving averages and the top of the descending triangle pattern. Relatively speaking, XOM is pushing up against its November 2012 downtrend line. A breakout is needed to become a leading Energy stock.
There are a number of technical indicators suggesting that Chevron is poised for higher prices. For instance, the rising 10/30-week moving averages and the potential October 2011 uptrend channel breakout are signs that the trend remains favorable. There was also a positive outside month pattern that formed in April 2013, which is an indication that CVX is being accumulated. Price fluctuations will occur, but the intermediate-term outlook is favorable at this juncture, which means that pullbacks will be buying opportunities. From a relative strength perspective, the near-term chart needs work, but this weekly chart still sports an uptrend.

Schlumberger still trades within the confines of a large ascending triangle pattern. The top of the pattern sits near 81-82, while the bottom of the pattern is currently rising closer to 65. From an intermediate-term perspective these will be the levels to watch as a breakout or breakdown is likely to drive the next sustainable directional call. Relative to other Energy stocks within this ETF, SLB has yet to show sustainable strength.
Chart 6: SCHLUMBERGER LTD (Ticker: SLB; 5.84% of IYE)

The ability to hold onto the 2009 uptrend line in April 2013 led to a rally that has now broken out of its 2011 ascending triangle pattern. Although this projects a technical target near 80, COP will still have resistance at its 2008 high of 73.15. To the downside, initial support looks to be near 61-62 or the January/March 2013 highs, the April 2013 breakout level and the 50-day/10-week moving averages. Relative to IYE, trading has been somewhat choppy over the last few years, but the recent bounce (orange circle) helped boost IYE’s performance relative to the S&P 500.

Chart 7: CONOCOPILLIPS (Ticker: COP; 4.44% of IYE)

A potential head and shoulders bottom pattern looks to be forming. A move through neckline resistance near 94 confirms a technical breakout and opens the door for a move towards the March 2012 high (106.68). The breakout through the February 2012 relative strength downtrend line is also signaling that of the stocks within IYE, Occidental Petroleum is emerging as a leader. Could this relative strength breakout be a prelude to a price breakout? Initial support resides near the March 2013 high (84.70) and the 10-week moving average (85.20).
ANADARKO PETROLEUM CORP

Positive outside week patterns in 6/8/12 and 6/29/12 were signs that a significant technical bottom had been made and a sustainable rally had begun. Since then, APC continues to trades within a steady uptrend channel. The top and bottom of this channel are currently near 95 and 80, which will act as important levels to monitor. From a relative strength perspective, APC still trades above its February 2013 uptrend line. Although a violation of this support warns of a changing trend, it will likely take a move below its April/May 2013 lows to confirm a change of leadership.

HALLIBURTON CO

In July 2012 not only did Halliburton make an important price low, but the relative strength chart also shows that it became a key player in this U.S. Energy ETF. This technical leadership remains despite a longer-term price chart in need of improvement. Initial support resides near 40-41. On the upside, initial resistance is closer to 50-51, which consists of round number psychology as well as the April - June 2011 highs. On another note, it might be worth bearing in mind that a 5/24/13 outside week is forming. It will take the closing price of the week to determine its bearish or bullish meaning.
The 5/17/13 positive outside week and the 2012 uptrend suggest that this rally can sustain further. However, the relative strength chart is showing signs of fatigue. From an absolute perspective the inability to maintain the 2012 uptrend line near 60 would warn of a change in trend, but it still takes a move below the April 2013 low (56.13) to confirm a lower low and lower high on the weekly chart. On the other hand, a surge above the March 2013 high (70.52) would reassert the dominant up trend.

**EOG RESOURCES INC**

The 5/7/13 upside gap (126.73) and the 50-day moving average (126.46) should act as initial support. The ability to hold onto this support could set into motion some kind of trading range between support mentioned and 138-140 on the upside. A violation of support weakens the technical outlook and opens the door for a move towards the April 2013 low (112.05). On the other hand, a breakout above 138-140 could trigger a rally towards the 2008 high (144.99) or even towards the top of the 2011 uptrend channel closer to 150. From a relative strength perspective, EOG trades in the middle of its 2011 uptrend channel.
Technical breakouts on both the price and relative strength charts suggest that the long-term underperformance for Apache may be coming to an end. The question now becomes whether this marks the beginning of a long-term outperformance cycle within IYE. It still may be too early to call as the converging 10/30-week moving averages are alluding to a battle occurring between the bulls and the bears. A confirmed “golden cross” (the 10-week moving average moves above the 30-week moving average and both begin to trend higher) along with ability to stay above both relative and absolute breakouts points to a bullish trend reversal. On the other hand, the 5/24/13 downside gap is a sign of selling pressure. Should the 10-week moving average fail to cross above the 30-week moving average this would reinforce the existing technical “death cross” and give the bears the upper hand.

Source of all charts: Source: MetaStock XENITH and J. Beck Investments

Jonathan Beck is the founder of J. Beck Investments, an independent provider of technical research for Exchange Traded Funds. Additional examples of Jonathan Beck’s research can be found at the firm’s web site or on LinkedIn.
THE SMART MONEY
BY ERIC LEAKE

While equities have made new record highs this month High Yield Bonds have declined, a classic warning sign that has often led to multi-month declines. Does it matter when High Yield Bonds are not invited to the stock market party? We decided to quantify these divergences over the past several years.

Here is what we found.

There are a number of structural reasons why we call movements in the High Yield Bond asset class the “Smart Money”. A key reason is liquidity. High Yield Bonds are much less liquid than stocks. Bonds are still traded over the counter, dealer to dealer based on a wide variety of inputs such as inventory, credit risk and yield spreads. For these and other reasons High Yield Bonds tend to be much more of an institutional asset class, with few individual investors in the marketplace. Stocks on the other hand can be purchased by just about anyone, anytime, at any size on an iPhone through a discount broker. Another reason is the sensitivity of High Yield bonds to the economy. High Yield Corporate Bonds are issued by companies with lower credit ratings which makes them more sensitive to fluctuations in the broad economy, and more correlated to trends in equities than higher quality corporate and municipal bonds.

Time to Pay Attention

This month stocks are diverging from High Yield. With just two trading days to go in the month of May, the S&P 500 Index has advanced +3.5% while High Yield Bonds have declined -1.4% a spread of nearly 5%. Over the past five years negative divergences of this size have led to stock market declines in the preceding three months, without exception.

<table>
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<tr>
<th>Month</th>
<th>S&amp;P 500</th>
<th>High Yield</th>
<th>Spread</th>
<th>Max Loss Next</th>
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</tr>
<tr>
<td>5/29/2013</td>
<td>3.50%</td>
<td>-1.50%</td>
<td>-5.00%</td>
<td>?</td>
</tr>
</tbody>
</table>

Elevated Risk

Many of these warnings have come right at major market tops as in 2007, 2008 and 2010. Stocks have enjoyed a strong first half of the year. While there is always the argument that this time will this time be different, the Smart Money is clearly warning that it’s time for risk management.
This was originally posted at Anchor Capital and is reprinted here with permission.

Eric Leake is a Founding Partner and Chief Investment Officer to Anchor Capital where he has served as Chief Investment Officer and portfolio manager for Anchor’s separate accounts since 1996. Eric is a member of the Market Technicians Association (MTA), American Association of Professional Technical Analysts (AAPTA), National Association of Active Investment Managers (NAAIM), and former advisory board member to Rydex Financial Services, LLC. Eric attended Azusa Pacific University majoring in communication.
SCREENING FOR TRADING IDEAS

BY MIKE CARR, CMT

Many traders use screens to generate trading ideas. A screen will generally be designed to scan a list of stocks, identifying the ones that meet certain criteria. For example, a screen might identify all stocks with an RSI below 30 as potential buys. Without access to specialized trading software or proprietary screening software, the capability of screens that are widely available on the internet are usually limited to simple criteria like an oversold RSI.

Long-term value investors can generally find tools that allow them to identify stocks with low price-to-earnings (P/E) ratios or high dividend yields. Some sites, like FinViz.com, offer fundamental screens along with longer-term technical tools like the 50-day and 200-day moving averages. This site also screens for stocks completing chart patterns. Technicians may argue about whether or not the stocks identified by the screens actually meet the requirements of the pattern definition but it is an interesting capability. Even if the chart is not a precise head and shoulders, it is likely to be forming a top of some kind.

Short-term traders rarely look at fundamentals, preferring indicators that measure momentum or volatility. Web sites with these tools are more difficult to find.

TradingMarkets.com recently released a screening tool that is designed specifically for short-term traders. Larry Connors has popularized the 2-day RSI as an indicator designed to find overbought and oversold stocks expected to rebound almost immediately. Screening for trading candidates with RSI (2) and other indicators that TradingMarkets has developed over the years can be easily done.

TradingMarkets Live Screener

[Image of the TradingMarkets Live Screener interface]

Price, volume and other filters can help narrow the list of trading candidates. It is also possible to screen only for stocks, ETFs or leveraged ETFs. For example, on a recent day there were five leveraged ETFs with an RSI (2) less than 5. These could be buy candidates for aggressive traders with a holding period of a week or less.

In addition to offering trading ideas, this screener provides a wealth of information that traders can use to assess the likely rewards and risks of the trade. Standard risk and return measures can be charted and reviewed. Monthly returns are also provided for each stock and ETF in the screener. A unique feature may be the ability to chart return distributions. The chart below shows the distribution of 1-day returns for Ultrashort S&P 500
Proshares (SDS), a leveraged short ETF. Other time periods, such as 5-days or 1-year, can also be plotted. The return is plotted on the y-axis and the frequency of that return is plotted along the x-axis. The timeframe to be plotted can also be varied to show the distribution of returns of periods from a few months to more than ten years.

This chart shows that on most days SDS closes almost unchanged. On average, the ETF lost 0.06% a day since January 2001, making it unsuitable as a long-term holding. SDS also seems to be a poor choice for insurance against tail risk in the stock market since it has relatively few large gains. This is valuable information and is not readily available anywhere else. It could help traders understand whether or not the performance of leveraged and inverse ETFs matches their expectations.

There are a number of features in the screener that help select trades and reveal valuable insights into performance. Long-term traders may not look

at the short-term technical indicators but may find value in studying the distribution of returns.

TradingMarkets has agreed to give MTA members a one-month free trial of the screener. To activate your trial, go to http://go.mta.org/3523.

Screening for Options Trades

Screens could be even more useful for options traders although there are few services that meet the needs of successful traders.

Options traders can easily become overwhelmed when searching for trading opportunities. With multiple contracts available on thousands of stocks, there are hundreds of thousands of options to consider. Actually, according to MTR Investors Group, there were more than 226,000 options contracts trading at the end of May. Without access to screening tools, options traders face an uphill battle in finding the best trades.

Options Strategist and Optionetics are among the best known screening platforms and both sites also offer in-depth education resources on options.

All screeners provide a way to define criteria to limit the search, such as the example shown below.
Options traders will generally have unique needs so they will need access to varied filters. In addition to screening based on characteristics of the option, some traders will also want to include criteria for the underlying stock, especially if they are selling options to generate income. In that case, they might want to limit their search to dividend-paying stocks to maintain their income if they are required to own the stock.

As an example of how useful screens can be for options trading, a search for:

- Stocks with a dividend yield of at least 2% and a P/E ratio between 5 and 30
- Stocks priced between $5 and $90 a share (to screen out stocks which require a large amount of margin)
- Put options expiring within 60 days and open interest of at least 400 contracts (an old trader once explained to me that you should only trade a market that is at least 40 times larger than your intended trade so an open interest of 400 allows for trading 10 contracts)
- A delta less than 15% and a return on investment of at least 0.5%.

This screen identified 99 different options contracts that meet those criteria. Minimum options prices and basic technical criteria for the underlying stock can also be added to the screening process. Once the initial list is obtained, MTR allows for simple sorting based on any of the criteria, allowing traders to find the highest or lowest priced option or highest delta, for example.

**Conclusion**

Screening has been a valuable tool for many traders. New web sites are delivering professional quality trading tools to individual traders at reasonable costs. For many traders, especially individuals or small firms, these sites could actually eliminate the need for other data services if a trader chooses to specialize with a technical approach to trading ETFs, stocks or options.
Investment Courses For Professionals

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

**Taught by John Palicka CFA CMT**

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

**EQUITY PORTFOLIO MANAGER**
Serious managers will utilize this course to analyze leading Wall Street valuation models and investment strategies for equities using fundamental, behavioral/technical and quant approaches, and then study how these are modified by the best performing equity portfolio managers to produce risk-adjusted excess returns.

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

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

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

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

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

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

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

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

Instructor John Palicka CFA CMT is a top-ranked portfolio manager of Global Emerging Growth Capital (WWW.GLGEGC.COM) 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.
GEORGE LINDSAY'S AN AID TO TIMING
BY ED CARLSON, CMT; REVIEWED BY MIKE CARR, CMT

Ed Carlson has produced a video to explain a tool developed by George Lindsay and almost lost in the history of technical analysis. For those unfamiliar with Lindsay’s work, it is important to note that Lindsay predicted market turning points months to years in advance. In this way, it is more similar to the work of Elliott than to a trend follower. While the techniques of both Elliott and Lindsay offer a degree of precision in the hands of a skilled analyst, Lindsay seems to be more objective. Broad market patterns need to be identified and smaller wave counts are not needed. This distinction should allow traders and analysts to enjoy more consistent results with Lindsay.

As Louis Rukeyser told Lindsay during an appearance on Wall Street Week, “Your predictions are so specific and so long range, I think the remarkable thing is not that you’re sometimes wrong but that you’re ever right. I think it is absolutely incredible.”

The video begins with a short quote from Lindsay:

"The first original idea I ever had on the stock market remains the best. In 1950 I published a copyrighted pamphlet "An Aid to Timing" which introduced the concept of the "Middle Section". In all the years since then, I have mentioned the principle only once in my advisory letter. Counts from the Middle Section are my prize way of calculating time in the market."

Technical analysts can always debate whether or not a trading tool is useful and that is true of the Middle Section. There is no debate about the fact that Lindsay’s research may be valuable but his writing is difficult to understand. Ed has spent the past few years studying Lindsay and making his writing accessible. In this video, he explains the Middle Section in a way that allows other analysts to understand why Lindsay thought this tool was so valuable.

Lindsay noted that bull markets endure corrections. This correction, he noted, often occurs in the Middle Section of the bull, which is defined as a series of two reactions in the market that interrupt the uptrend and is essentially an extended trading range that occurs during a bull market. Once the Middle Section is completed, the Dow Jones Industrial Average must go on to higher highs before a larger correction occurs. Lindsay always worked with the Dow in his analysis although he wrote that the logic could be applied to other data series. For some reason, Lindsay cautioned against analyzing broader indexes like the S&P 500.

As its name implies, the Middle Section can be used to identify the expected midpoint of the bull market. Since the Middle Section can be identified in real time, analysts who recognize the formation of this pattern should be able to project, in advance, the time when the bull market will end.

As with technique that offers value in the markets, the Middle Section will require time and effort to understand. Ed has previously published An Aid to Timing as a book and this DVD builds on that work. Both works stand alone and either provides enough information to understand how to apply
the technique to the markets but each has a different way of presenting the information.

The complete rules are shown in the video and allow traders to forecast tops years in advance. An example of how Lindsay’s work can be applied, recounted by Ed in An Aid to Timing, is seen in the 1950 Middle Section.

Lindsay demonstrated that the Middle Section can be identified in every major bull market from 1789 to the 1950s. Lindsay also called the bottom of the bear market in 1982. He passed away before witnessing the end of that long cycle in 2000. Ed is continuing his work while sharing it with a new generation of technical analysts.

A large amount of research into these techniques is still needed. The question of how effective the Middle Section and other Lindsay tools would work in international markets has not been answered although it is likely that the timing would be just as accurate in any global market. Ed has completed the first steps towards that research by making the tools available. He has also offered a potential edge to traders willing to study charts to identify the Middle Section in any market.

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 MBA from Wichita State University. Additional information can be found at SeattleTechnicalAdvisors.com.
ETF TRADING WITH BOLLINGER BANDS®
BY CONNORS RESEARCH, LLC.; LAURENCE CONNORS, CESAR ALVAREZ, AND MATT RADTKE

Introduction to Bollinger Bands®

Bollinger Bands®, created by legendary money manager and researcher John Bollinger, are one of the most popular trading indicators in use today. Nearly all commercial charting applications include the ability to plot Bollinger Bands®, which allow traders to quickly assess how overbought or oversold a security is.

While there has been an abundance of information published on how to trade with Bollinger Bands®, the majority is discretionary in nature rather than quantitative. Thus, the trader is left to interpret what the security’s price is doing relative to its Bands, and more importantly, what it is likely to do next.

In contrast, the ETF Trading with Bollinger Bands® Strategy is a precise, quantified approach to Bollinger Bands® trading. It allows a trader to identify the entry and exit signals that have produced the best results over the past 7+ years. We will also show how different levels of intraday pullbacks can increase the edges for this strategy. All of this will be accompanied by historical return data that allows you to select the rule variations that best complement your current trading plan.

What Are Bollinger Bands®?

Bollinger Bands® are a measure of volatility. When volatility is low, the bands contract around the security price. The bands expand as volatility rises. Furthermore, a security whose price is approaching the lower band is considered oversold, while a security whose price is near the upper band is considered overbought. So how are these bands calculated?

The Bollinger Bands® calculation begins with a simple moving average of the security price. In our research and throughout this article, we use the daily closing price for this calculation. We have found that a 5-period moving average, or MA(5), is an excellent basis for the Bollinger Bands® trading strategy.

Next, we determine the standard deviation of the price over the same number of periods used for the moving average, which in our case is five. We can refer to this value as SD(5).

Finally, the Bollinger Bands® are calculated by adding (for the upper band) or subtracting (for the lower band) some multiple of SD(5) to the MA(5) value. Our Bollinger Bands® trading strategies always use a multiple of one. In summary, that gives us:

\[ \text{Upper Band} = \text{MA(5)} + \text{SD(5)} \]
Lower Band = MA(5) – SD(5)

The %b Calculation

%b is an indicator derived from Bollinger Bands®. The %b value quantifies a security's price relative to the upper and lower Bollinger Bands®. In our opinion, backed by statistical results, the %b component of Bollinger Bands® allows you to better pinpoint proper entry and exit triggers.

%b = \frac{(Price - Lower Band)}{(Upper Band - Lower Band)}

Note the following qualities of %b:

- %b equals 1 when price is at the upper band
- %b equals 0 when price is at the lower band
- %b is greater than 1 when price is above the upper band
- %b is less than 0 when price is below the lower band
- %b is greater than 0.50 when price is above MA(5), i.e. the middle band
- %b is less than 0.50 when price is below MA(5)

Ideally, when buying a security we want the %b reading to be below 0.3 for multiple days in a row. The lower the %b reading and the more days in a row below that reading, the more oversold the security is and the greater the edges have been. This is the key to trading with Bollinger Bands®, and by applying a few additional filters we can build strategies with high average gains per trade and high success rates over the past 7+ years.

Entry & Exit Rules

The key to success when using the Bollinger Bands® strategy to trade ETF’s is to diligently follow a set of well-defined, quantifiable rules. Let’s begin with the rules that are used to define a Setup condition:

1. The closing price of the ETF must be above its 200-day simple moving average.
2. The ETF’s average daily volume over the past 21 days (one trading month) must be at least 125,000 shares per day, and the lowest daily volume over the past 21 days must be at least 50,000 shares.
3. The %b value of the ETF must be under X (where X=-0.2, -0.1, 0, 0.1, 0.2, or 0.3) for Y days in a row (where Y = 2, 3, or 4).

Rule 1 signifies that the ETF is in a longer-term uptrend. Our research has consistently shown that when an ETF’s price is greater than its MA(200), the price is more likely to rise on any given day than when the price is below the MA(200).

Rule 2 assures that the ETF is sufficiently liquid to enter and exit trades quickly at favorable fill prices.

Rule 3 identifies the oversold condition, or pullback. An ETF that closes with a %b value of 0.3 or less for multiple days in a row is a good short-term pullback. The lower the %b value, the more oversold the ETF is and the greater its returns have been over the next one to two weeks.
Once the Setup conditions have been satisfied, we wait for a further intraday pullback to occur on the next trading day, as defined by Rule 4:

4. If Rules 1-3 are met today, buy the ETF tomorrow using a limit order $Z\%$ below today’s closing price (where $Z=1\%, 2\%, \text{or} 3\%$).

Of course, it’s not enough to have good entry rules. We make money when we complete the trade, so it’s important to have quantified exit rules in place. We typically test a variety of exit rules, but for this article we will present just the one that has historically produced the largest gains. Rule 5 states:

5. Sell the ETF at the close when the $%b$ value is greater than 1.0.

Now let’s see how a typical trade looks on a chart. We’ll use a strategy variation that requires $%b$ to be less than 0.1 for three days (i.e. $X = 0.1$ and $Y = 3$ for Rule 3), and an intraday limit $(Z)$ of 2% for Rule 4.

Figure 1: Trade Example

The price chart above is for the Guggenheim China Small Cap ETF, ticker symbol HAO. The gray vertical bar highlights the data for Thursday, April 4, 2013. The green lines are the upper and lower Bollinger Bands®, and the aqua blue line is the 5-day moving average (the midpoint of the Bollinger Bands®).

Let’s verify that all of our rules have been satisfied.

The bright blue line in the upper pane of the chart above shows the 200-day moving average. We can see that the closing price of $22.85$ on April 4th is well above the MA(200) value of $21.68$, and thus Rule 1 is satisfied.
Rule 2 quantifies our liquidity requirement. Although the chart above does not show a full 21 days of history, there were no days with a volume below 50,000 shares during the past month. In addition, we can see that the 21-day average daily volume is over 325,000 shares, which exceeds our criteria of 125,000 shares.

Note that the %b values for the three days prior to April 4th, (April 1st, 2nd and 3rd) are all below zero, i.e. the closing price is below the lower Bollinger Band®. Therefore, an oversold condition exists on April 3rd (as defined by Rule 3), and we can set a limit order for the next trading day, which is April 4th. As per Rule 4, the limit price is 2% below the Setup day’s closing price of $22.80, which is $22.34. However, the lowest price on April 4th is $22.66, so our limit order does not get filled that day.

On April 4th, the oversold condition still exists, because %b was less than zero for April 2nd and 3rd, and almost exactly 0 on April 4th. Again we use Rule 4 to set a limit order for the next day, this time 2% below the April 4th closing price of $22.85, which is $22.39. On April 5th, the price of HAO opens below our limit price, so our order gets filled at the open price of $22.23.

Rule 5 requires %b to be greater than 1.0, which is the same as saying that the price closes above the upper Bollinger Band®. We can see that on April 9th, the price of HAO closes above the upper green line, which means that %b is greater than our target of 1.0. Thus, an exit is triggered and we sell our shares at the close on April 9th for a price near the closing price $22.92. This gives us a tidy 3.1% profit before commissions and brokerage fees.

Test Results

We can never know for sure how a trading strategy will perform in the future. However, for a fully quantified strategy such as the Bollinger Bands® strategy described in this Article, we can at least evaluate how the strategy has performed in the past. This process is known as “back testing”.

To execute a back test, we first select a group of securities (sometimes called a watchlist) that we want to test our strategy on. In this case, the watchlist is comprised of equity-based ETFs. No leveraged, inverse, commodity or bond-based ETFs are included. Next we choose a timeframe over which to test. The longer the timeframe, the more significant and informative the back testing results will be. The back tests for the Bollinger Bands® strategy start in January 2006, because prior to 2006 there were very few ETFs available to trade. Since then, the number of ETFs has grown steadily every year. The back tests end on April 30th, 2013, the latest date for which we have data as of this writing. Finally, we apply our entry and exit rules to each ETF for the entire test period, recording data for each trade that would have been entered, and aggregating all trade data across a specific strategy variation.

After we’ve generated all that data, there are a few key statistics that we can look at. First is the Average % Profit/Loss, also known as the Average Gain per Trade. Some traders refer to this as the “edge”. The Average % P/L is the sum of all the gains (expressed as a percentage) and all the losses (also as a percentage) divided by the total number of trades. Consider the following ten trades:
The Average % P/L would be calculated as:

Average % P/L = (1.7% + 2.1% - 4.0% + 0.6% - 1.2% + 3.8% + 1.9% -0.4% + 3.7% + 2.6%) / 10

Average % P/L = 1.08%

For short-term trades lasting three to ten trading days, most traders look for an Average % P/L of 0.5% to 2.5% across all trades. All other things being equal, the larger the Average % P/L, the more your account will grow over time.

Another important statistic is the Winning Percentage. This is simply the number of profitable trades divided by the total number of trades. In the table above, 7 of the 10 trades were profitable, i.e. had positive returns. For this example, the Winning Percentage is 7 / 10 = 70%.

Why do we care about Winning Percentage, as long as we have a sufficiently high Average % P/L? Because higher Winning Percentages generally lead to less volatile portfolio growth. Losing trades have a way of “clumping up”, and when they do that, the value of your portfolio decreases. Those decreases, in turn, can make you lose sleep or even consider abandoning your trading altogether. If there are fewer losers, i.e. a higher Winning Percentage, then losses are less likely to clump, and your portfolio value is more likely to grow smoothly upward rather than experiencing violent up and down swings.

Let’s turn our attention to the test results for the different variations of the Bollinger Bands® strategy. In all cases, we have filtered out any variations that generated less than 100 trades, as such infrequent signals make it difficult to draw any conclusions from the results. First, we’ll look at the 20 variations that produced the highest Average Gain.

**Top 20 Variations Based on Avg % Profit/Loss**

<table>
<thead>
<tr>
<th># Trades</th>
<th>Avg % Profit/Loss</th>
<th>Avg Days Held</th>
<th>Win Rate</th>
<th>%b Cut-Off</th>
<th>Days Under</th>
<th>Entry % Limit</th>
<th>Exit Method</th>
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</thead>
<tbody>
<tr>
<td>172</td>
<td>4.28%</td>
<td>5.13</td>
<td>87.79%</td>
<td>-0.1</td>
<td>3</td>
<td>3%</td>
<td>%b &gt; 1.0</td>
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<tr>
<td>103</td>
<td>3.74%</td>
<td>4.55</td>
<td>92.23%</td>
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<td>2%</td>
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<td>0.0</td>
<td>3</td>
<td>3%</td>
<td>%b &gt; 1.0</td>
</tr>
</tbody>
</table>
Below is an explanation of each column.

# Trades is the number of times this variation triggered from January 1, 2006 – April 30, 2013.

Average % Profit/Loss is the average gain for all trades (including the losing trades). The top 20 variations have shown average gains from 1.47% per trade to 4.28% (a very respectable number for ETFs, which are not known for big price moves).

Average Days Held is the number of days on average the trade was held. In all cases it’s less than six trading days.

Win Rate is the percentage of signals which closed out at a profit. We see lots of values in the 70’s, as well as a few in the 80’s and 90’s.

%b Cut-Off is the %b Level required for entering the trade. The test results predominantly show that the lower the %b level, the more oversold the ETF is and the higher the historical returns have been.

Days Under is the number of days under the %b cut-off level. We tested two days under, three days under and 4 days under the %b cut-off level. As you can see, the more days the ETF is under its cut-off level, the more oversold the ETF is and the higher the average gains per trade have been.

Entry % Limit is the intraday pullback used to trigger an entry. For example, a value of 3% means that we enter the trade on a 3% limit order the day after the oversold condition occurs.

Exit Method shows the rule that was used to exit the trade.

We can see that the strategy variations with the strictest setup and entry criteria (those that require a %b value below 0 for multiple days and use larger limit percentages) have historically produced the highest Average % P/L. However, such strict entry criteria mean that we enter relatively few
trades. If we relax the criteria slightly by allowing higher %b values or requiring fewer days, then we get more trades but typically at a lower average gain per trade.

Next let’s sort the test results to show the variations with the highest Win Rate.

**Top 20 Variations Based on Win Rate**

<table>
<thead>
<tr>
<th># Trades</th>
<th>Avg % Trades Profit/Loss</th>
<th>Avg Days Held</th>
<th>Win Rate</th>
<th>%b Cut-Off</th>
<th>Days Under</th>
<th>Entry % Under</th>
<th>%b</th>
<th>Exit Method</th>
</tr>
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<tbody>
<tr>
<td>103</td>
<td>3.74%</td>
<td>4.55</td>
<td>92.23%</td>
<td>-0.2</td>
<td>3</td>
<td>2%</td>
<td>%b &gt; 1.0</td>
<td></td>
</tr>
<tr>
<td>172</td>
<td>4.28%</td>
<td>5.13</td>
<td>87.79%</td>
<td>-0.1</td>
<td>3</td>
<td>3%</td>
<td>%b &gt; 1.0</td>
<td></td>
</tr>
<tr>
<td>166</td>
<td>2.41%</td>
<td>4.82</td>
<td>87.35%</td>
<td>-0.2</td>
<td>3</td>
<td>1%</td>
<td>%b &gt; 1.0*</td>
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</tr>
<tr>
<td>402</td>
<td>2.88%</td>
<td>5.11</td>
<td>84.58%</td>
<td>-0.1</td>
<td>3</td>
<td>2%</td>
<td>%b &gt; 1.0</td>
<td></td>
</tr>
<tr>
<td>345</td>
<td>3.01%</td>
<td>5.40</td>
<td>82.32%</td>
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<td>3</td>
<td>3%</td>
<td>%b &gt; 1.0</td>
<td></td>
</tr>
<tr>
<td>257</td>
<td>2.43%</td>
<td>5.82</td>
<td>78.99%</td>
<td>-0.2</td>
<td>2</td>
<td>3%</td>
<td>%b &gt; 1.0</td>
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<tr>
<td>116</td>
<td>2.36%</td>
<td>5.22</td>
<td>78.45%</td>
<td>0.0</td>
<td>4</td>
<td>3%</td>
<td>%b &gt; 1.0</td>
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</tr>
<tr>
<td>562</td>
<td>2.09%</td>
<td>5.82</td>
<td>77.94%</td>
<td>-0.1</td>
<td>2</td>
<td>3%</td>
<td>%b &gt; 1.0</td>
<td></td>
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<tr>
<td>552</td>
<td>2.25%</td>
<td>5.59</td>
<td>77.54%</td>
<td>0.1</td>
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<td>3%</td>
<td>%b &gt; 1.0</td>
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<tr>
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<td>1.51%</td>
<td>5.41</td>
<td>77.20%</td>
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<td>77.11%</td>
<td>0.2</td>
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<td>3%</td>
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<tr>
<td>854</td>
<td>1.90%</td>
<td>5.73</td>
<td>77.05%</td>
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<td>3</td>
<td>3%</td>
<td>%b &gt; 1.0</td>
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<tr>
<td>478</td>
<td>1.44%</td>
<td>5.93</td>
<td>76.78%</td>
<td>-0.2</td>
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<td>%b &gt; 1.0</td>
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<td>5.89</td>
<td>76.17%</td>
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<td>3%</td>
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<tr>
<td>562</td>
<td>1.67%</td>
<td>5.56</td>
<td>75.80%</td>
<td>0.3</td>
<td>4</td>
<td>3%</td>
<td>%b &gt; 1.0</td>
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<tr>
<td>1008</td>
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<td>5.87</td>
<td>74.90%</td>
<td>-0.1</td>
<td>2</td>
<td>2%</td>
<td>%b &gt; 1.0</td>
<td></td>
</tr>
<tr>
<td>953</td>
<td>1.59%</td>
<td>5.96</td>
<td>74.82%</td>
<td>0.1</td>
<td>2</td>
<td>3%</td>
<td>%b &gt; 1.0</td>
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</tr>
<tr>
<td>734</td>
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<td>5.65</td>
<td>74.80%</td>
<td>0.0</td>
<td>3</td>
<td>2%</td>
<td>%b &gt; 1.0</td>
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<tr>
<td>1241</td>
<td>1.47%</td>
<td>5.93</td>
<td>74.70%</td>
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<td>2</td>
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<td>%b &gt; 1.0</td>
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<tr>
<td>1099</td>
<td>1.50%</td>
<td>5.98</td>
<td>74.43%</td>
<td>0.2</td>
<td>2</td>
<td>3%</td>
<td>%b &gt; 1.0</td>
<td></td>
</tr>
</tbody>
</table>

Note the high Win Rate values, ranging from 74% to over 92%. Few quantified trading strategies can boast this kind of success rate. Also notice that there is a great deal of overlap between this table and the previous one, which tells us that the strategy variations that have historically produced the biggest gains are also the ones that are profitable the most often.

**Conclusion**

As you have seen throughout this Article, Bollinger Bands® and especially the %b component of the Bollinger Bands® have had large quantified edges when you apply them in a systematic manner. Perhaps even more importantly, trading ETFs with Bollinger Bands® has historically been extremely accurate, with success rates typically over 70% and in many cases over 80%.

There are dozens of potential variations for you to use, each with its own unique combination of the depth of the %b level (X), the number of days...
below that level (Y), and the size of the limit (Z). Look at the entire scope and then identify the variation or variations that fit best for your trading style.

Slippage and commission were not used in the testing. Factor them into your trading (the entries are at limit prices so slippage is not an issue) and make sure you are trading at the lowest possible costs. Most firms are now allowing traders to trade for under 1 cent a share, so shop your business, especially if you are an active trader. The online brokerage firms want your business.

As you have seen here with the ETF Trading with Bollinger Bands® Strategy, there are large edges in ETFs which sell-off and then sell-off further intraday. These trades are often accompanied by fear and uncertainty and this is when large edges appear. Seek out these trades because as you have seen, they’ve been lucrative for many years.

Editor’s note: We hope you enjoyed this article. If you have any questions about this strategy please feel free to email us at info@connorsresearch.com.

If you are interested in how to apply %b to stock trading, please go to www.tradingmarkets.com and click on the Books tab or call 888-484-8220 extension 3.
INTERVIEW WITH CHRISTOPHER GURKOVIC, CMT
BY AMBER HESTLA-BARNHART

How would you describe your job?

I would describe the job as an opportunity to promote technical research and educate investors about the many ways in which talented people are successfully using our craft. When studying the markets I think it is important to keep an eye out for research that you could possibly learn from. It is my opinion that a Technician should constantly be expanding and tweaking their tool box of indicators. The market of stocks is constantly changing and evolving every day, and a good technician should adapt with it. There are many highly intelligent people out there that are constantly studying the markets, and something can be learned from everyone one of them.

What led you to this opportunity?

I found that there were a few unique problems facing technical analysis. First, there were many great authors spread out all over, without a good aggregator site for these ideas and research. Second, I noticed a few talented people without a good outlet to provide their ideas. The few existing solutions were not geared toward technical research. Lastly, I realized the power in numbers was not being efficiently used to educate investors of the many methods, ideas and perspectives used in technical research.

How do you solve these problems that you found?

FindingTechnicals solves each of these problems by bringing technical research together in one place. It forms a community to educate, inform and make it easy for those seeking the best form of analysis to find everything they need. A user can access all of their research on a single, easy to use platform, while learning of talented authors and concepts that they may not have known about. It further provides a platform and incubator for the next generation of talent to get noticed and create a following. These authors using the open platform called the YouBlog section can then transition to the next column called Websites & Blogs if they choose to start their own website. This section, along with the subscription based Premium Authors are put together in a format with links to their sites. The platform provides a community for the users to interact and share ideas while learning who their peers are reading and following. A Top 8 (fib#) articles of the day is user driven, through a ratings and number of reads system. The first four are number driven while the second four by stars.

Will there be room for fundamental or economic inputs?

Sure, many fundamentalists and economists alike use technicals to either compliment their work or project data inputs. Further a lot of interesting research is being done with economic data and correlation to markets using technicals. Many analysts are doing this, they just don't have a place to publish this to a broad audience; and that's what we're doing. We welcome those authors to the platform.
What advice would you have for someone starting in the business today?

I see a lot of young talent and potential, but it's not enough to have good ideas. You need to have a platform for ideas and that's what we are building.

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

There are so many that I needed to build a home for quality research. However, I was very impressed with the recent panel discussion at the MTA Symposium featuring Martin Pring & Bob Prechter.

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

I believe the greatest potential lies in cross category research. A lot of research is specialized into a specific concentration and many authors use that very well. While many of them may use additional indicators to confirm or reject their primary study, not enough statistical work is being done to examine the probability of combined indicators or even researchers. Bringing together both research and researcher in one place will make that easier.

Is there anything else you would like to add?

Since the idea behind FindingTechnicals is to promulgate technical analysis, I would like to note that we intend to kick back a portion of profits to the MTA Educational Foundation. The work of the foundation brings new researchers and talent into the field, and that is something we like to see.

I would also like to invite publishers and readers as well as anyone who would like to publish, to visit the site, FindingTechnicals.com. Here anyone can promote their own website or use the platform to start their own blog.

If all goes well with the final stages of programming, the site will open June 9th. A grander opening will follow in July. If we have not opened by that date please contact info@findingtechnicals.com to gain private access before the opening.

Disclaimer: This interview with Chris was made before he turned over active management of FindingTechnicals LLC to Carl Mabry and CMT candidate Lee Meier due to compliance issues. Chris remains an investor in the company.

Christopher Gurkovic, CMT, is an internal Market Strategist at ICAP/First Brokers Securities and earned an MBA from the Fox School of Business and Management at Temple University.

These questions and answers are 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 Amber at amzhondacbr@yahoo.com.
MTAEF ANNOUNCES FALL 2013 FUNDRAISER
ON NOV. 14TH – SAVE THE DATE

The MTA Educational Foundation is pleased to announce that a date has set for our Annual Fall Fundraiser! Join the MTAEF on Thursday, November 14th, 2013 at the Newman Library at Baruch College in New York City for an evening of cocktails and an exciting panel discussion, including a current market outlook. This year, we’re proud to feature the following speakers:

- Robert Ax [See Full Bio]
- Andrew McKnight [See Full Bio]
- Jerry Parker [See Full Bio]
- Russell Rhoades [See Full Bio]
- Mike Santoli [See Full Bio]

Registration will open soon! Visit MTAEF.org for more details.