LETTER FROM THE EDITOR

Like every other field of study, technical analysis has a history that is important to study. The history of technical analysis includes research related to charts and indicators. This history also includes the stories of the people who advanced the field. This month we look at one of those individuals in detail.

Joe Granville rose to fame as a technical analyst in the 1960’s and 1970’s. In the future, it might not be possible for any other analyst to achieve his level of popularity. Markets are larger now and the time when one individual’s forecasts can move markets has likely passed. But Joe lived when that was possible and he did move the market on several occasions.

In addition to the past, articles in this issue of Technically Speaking also cover the present state of technical analysis with several pieces of applied analysis.

You can always email us at editor@mta.org to share your perspectives on the past, present and future of technical analysis.

Michael Carr
JOSEPH GRANVILLE: “WE’RE SCIENTISTS”
BY WILLIAM VOELKER

Editor’s note: Bill Voelker was a long-time friend of Joe Granville and prepared this to honor his friend several years ago. It is reprinted here with permission.

Science’s job is to reduce all mysteries to trivialities.
– Niels Bohr

There was no successful mathematical treatment to physics before the 16th century, nor to chemistry and biology before the 18th century. This, the 20th century, has seen similar stirrings applying the science of mathematics to the successful treatment of economic and financial problems and concepts. No one has done more in this area than Joseph Ensign Granville, born in 1923 in Yonkers, NY.

He’s been compared to Elmer Gantry and called the P. T. Barnum of the 20th century. To listen to him is to listen to an original. For instance, “A good day in the markets is one on which you made money, but the major brokerage houses rarely, if ever, issue a sell signal.”

Joseph Granville got his start in the business when he was hired to write the daily market letter for E. F. Hutton back in October 1957. “I was launched the same day as Sputnik,” as he puts it. After six years, he left Hutton (in August 1963) to hang out his own shingle, starting The Granville Letter. That letter is now in its 35th year of continuous publication. (Editor’s note: the newsletter was ultimately published for fifty consecutive years.) You can count the independent market newsletters which have survived that long on one hand. His is a six-page letter and Joe has written 1,500+ issues (i.e., 9,000+ pages) from four addresses in four states. The letter is currently published in Kansas City, Missouri. Probably accounting for the fact that the letter has lasted so long is that Joe never hedges. He’s been wrong on the market from time to time, everyone has been, but remember, even Ted Williams didn’t get on base over half the times he came up to bat, And, you’re only as good as your last call, and Joe’s been 100% correct on this market for the last 3,000 Dow Industrials points.

Granville’s pioneering market books cut a swath through technical analysis and probably did more to influence budding dyed in the wool financial market technicians than any author. Back in the 1950’s and 60’s, technical analysis was new and controversial – and Granville the maverick brought it to the forefronts of peoples’ minds. Whether one agreed with him or not, what he said was never “forgettable.” He did a one-hour prime time show on CBS-TV with Mike Wallace publicizing his first market book, A Strategy of Daily Stock Market Timing for Maximum Profit. The book appeared in the late-1960 and became an overnight best-seller. By the 1970’s, it was approaching its 20th printing and had excited many into a career in technical analysis. That was followed by Granville’s New Key to Stock Market profits in 1963. This book introduced the theory behind his breakthrough discover: On-Balance Volume (OBV).
Always adding to his contributions to technical analysis, A New Strategy of Daily Stock Market Rimming for Maximum Profit was published in 1976 (which proved itself by its effectiveness for the small investor). His autobiography The Book of Granville came out in 1985 and also in 1985: The Warning. That was followed by The Stock Market teacher in 1988, and Granville’s Last Stand in 1995. He’s written so many books, in fact, that it’s hard to keep track. A market analyst recently told me that Joe’s book on bingo is still the authoritative work in that area. (And Joe told me he wrote that as a “diversion.”) Plus, Joe told me that he had seven books published (one on poetry) before he even wrote his first one on the stock market.

His father was a banker, but it was through his mother’s astrology magazines that he became interested in time cycles. When Joe was 16 his mother, a believer in extrasensory perception, sent him to world-famous psychic Edgar Case for a life reading. What that reading told is not known. A prodigy, with high IQ and swift perceptions, his family sent him to the Todd School for the Gifted in Woodstock, Illinois. Orson Welles studied there, and later while he appeared on Broadway, Joe told me Orson would come back every so often to with the Todd School play. As a young man, Joe published a newsletter on stamp collecting. He was a concert-level pianist and his accomplishments are too many to name.

Joe has always lived life to the fullest.

William Voelker is a retired architecture professor. He taught at the University of Illinois at Urbana-Champaign College of Fine and Applied Arts School of Architecture from 1978 until his retirement several years ago.
JOSEPH GRANVILLE: A LIFE WELL-LIVED
BY MIKE CARR, CMT

In his obituary, The New York Times noted, “when the stock market prognosticator Joseph E. Granville talked, his subscribers listened. “

In the early 1980’s, Joe Granville reached a level of success that few market forecasters reach. His forecasts seemed to move markets and his track record was the subject of an academic study. In the Spring 1982 issue of the Journal of Portfolio Management, the lead article was called “Can Joe Granville Time the Market?” and the article began with a simple one-word answer “Yes.” A study by Jerome Baesel, George Shows and Edward Thorp provided a detailed analysis that demonstrated Granville’s predictions beat buy and hold over the test period (1978 - 1981). Their results showed that Granville’s track record was not due to chance, with significance better than the 0.01 level.

While some may view an academic study focused on their work to be a measure of success, in addition to being a market technician, Joe Granville was an entertainer. His success in this field was also significant and Joe was featured in People magazine in 1981.

Few stock market analysts have been featured in People magazine. Few who knew him would be surprised to learn that Joe Granville was the subject of an article in that magazine in 1981. “When Joe Granville Speaks, Small Wonder That the Market Yo-Yos and Tickers Fibrillate” described how Joe moved markets:

Early this year that service flashed a bit of advice that is now part of Wall Street legend. Late on Jan. 6, just three days after Granville’s newsletter had urged aggressive buying because the market was headed "straight up," his hot line offered contradictory counsel. Thirty staffers at Granville’s headquarters in the Daytona Beach suburb of Holly Hill worked until 3 a.m. to deliver a brief, urgent message: This is a Granville Early Warning. Sell everything. Market top has been reached. Go short on stocks having sharpest advances since April. Click.

A selling stampede triggered by the warning hit the stock market as soon as it opened a few hours later. By day's end the Dow Jones average of 30 blue-chip industrial stocks had plunged from a four-year peak of 1,004 to 980. Nearly 93 million shares were traded, making Jan. 7 the busiest day in the Big Board's 188-year history.

Granville’s pleasure at what he had wrought only increased as the Dow continued its decline over the next five weeks. "I'm paid to put you in at the bottom and take you out at the top," he told audiences smugly. "I have no ego when it comes to the market. When it says 'Move,' I get down on my knees and say 'Yes, master.' " Why the January about-face? The bullish newsletter, he explains, was based on data that were overtaken by events. "I will never make a serious mistake in the stock market again," he boasts.

In fact, Granville has called, to the day, three of the four major market turns since 1979.
Joe’s success would continue after he was profiled in *People*. In 1981, Joe’s forecasts could move the stock market. After he advised subscribers of *The Granville Market Letter* to “sell everything and go short,” the Dow Jones Industrial Average fell 2.4%. Over the next fifteen months, the Dow fell more than 20% and Joe’s subscribers were able to profit.

In 1989, Joe seemed to have done everything right and his newsletter picks would have allowed subscribers to enjoy a gain of 1,200% according to a recent article in *The Wall Street Journal*.

*The Granville Market Letter* was published for fifty years and longevity alone is one measure of success in the newsletter industry. In fact, Joe worked on the latest edition of the newsletter in the hours before his death. After the market close on September 6, 2013, Joe discussed what would be included in the next issue with his wife, Karen. He passed away the next day at the age of 90.

By some measures, the newsletter was still extraordinarily successful in the last few years. According to *Timer Digest*, the *Granville Market Letter* ranked in the top 10 for the five years ended in 2012 and was ranked Number 1 for 2011.

Before starting his newsletter, Joe worked E.F. Hutton, writing its daily market letter. According to longtime friend Jerry Blythe, Joe left E.F. Hutton because he wanted to have the ability to make strong sell recommendations. Brokerage houses were usually bullish at that time and Hutton would not allow Joe to give sell recommendations on stocks that were on the firm’s recommended list. He felt he could serve investors better by making unbiased recommendations and his newsletter always followed that standard. Because he could move markets, Joe was unable to trade in stocks and was forced to pursue less aggressive investment strategies. This demonstrated his high ethical standards.

He was also multi-talented. Joe did have an admirable track record in the market. According to Mark Hulbert, investors could have earned 8.5% a year since 1980 if they had used an index fund to trade each of Joe’s major market call.

His major market calls were made with a collection of indicators that included on balance volume (OBV), an indicator that Joe popularized in his work.
WHO IS JOSEPH GRANVILLE?

BY THE GRANVILLE LETTER WEBSITE

For the past 24 years Joseph Granville has been living with his wife Karen in Kansas City Missouri. He is best known as a stock market Technical Analyst. Now almost 85, his latest book How to Read the Stock Market explains and applies his entire theory of On-Balance Volume.

Granville was born on August 20, 1923 in Yonkers, New York. His early education and training was music, improvising at the piano at 3. Finished his high school training on a music scholarship at the Todd School For Boys in Woodstock, Illinois, a school made famous by the recent graduation there of Orson Wells. Following a school bus tour to Monterrey and Saltillo in Mexico, he was inspired to write his first book, A SCHOOL BOY’S FAITH which was published by Fleming Revell, New York and London, in 1941. It not only was a travelogue in poetry, but also his philosophy of life.


EVERYBODY'S GUIDE TO STAMP INVESTMENT was published in 1952.

Joe was hired by E.F. Hutton in October 1957 to write their daily stock market letter. He quit Hutton in August 1963 to start the Granville Market Letter which is now in its 55th year of continuous publication. In addition to this, Granville also writes a daily stock market commentary.

Granville is best known for his stock market books:

- Granville's New Key To Stock Market Profits in 1963
- The Warning in 1985
- The Book of Granville in 1985
- After the Crash in 1987
- The Stock Market Teacher in 1988
- Granville's Last Stand in 1995
- How to Read the Stock Market in 2004

His fame rapidly grew following hundreds of seminars starting in 1978. Aside from all that, he wants to be best known for his major contributions to technical analysis and what he has taught to his followers all over the world.
P&F TRAPS: RULES THAT DEFINE WEAKENED BULLS & BEARS
BY PRASHANT SHAH, CMT, CFTE

We often use the words “bull trap” and “bear trap” in conventional pattern analysis. We usually mean pattern failures or false breakouts by that but it is difficult to precisely define the terms. The objectivity of Point & Figure patterns helps us in defining this set up.

Pattern Explanation:

Point and Figure Traps are four-column patterns that are clearly defined. Examples of the Bull Trap and Bear Trap P&F patterns are shown in Figure 1. In simple terms, the Bull Trap pattern occurs when a Double Bottom sell signal is generated immediately after a Double Top buy. The Bear Trap is a pattern where a Double Top buy signal is generated immediately after a Double Bottom sell occurs.

A Double Top buy signal is generated when the current column of X’s rises above the top of previous column of X’s. A Double Bottom sell signal is generated when the current column of O’s breaks below the previous column of O’s.

The Bull Trap is a bearish reversal pattern while the Bear Trap is a bullish reversal pattern. The Trap is signaled when a prior signal is immediately reversed and is a four-column pattern. Six-column patterns are a variation of these Trap patterns and should be treated quite differently.

Examples of Pattern Occurrence:

Figures 2 and 3 provide examples of P&F Traps on charts of daily closing prices of the Hang Seng index and USD/JPY currency pair respectively. A 1% box value is used for each chart. It is difficult to define Traps this clearly with any other charting method. P&F Trap pattern inform us immediately that the breakout has failed.
The Logic Behind the Pattern and Their Combination with Price-Time Charts:

It is important to understand the formation in price-time charts when Trap pattern have occurred on the P&F chart. The width of the bar pattern is not time-dependent and depends on the chosen box value in P&F chart.

Figure 4 is a 3-box reversal P&F chart of the Nasdaq Composite Index plotted with a 0.25% box value. Bear Trap patterns occurred in the chart during December 2012, February 2013 and April 2013. Set-ups on candlestick charts during the same period are also shown. The Trap can be observed on Price-Time chart also but it is difficult to precisely define the rules like we have for P&F charts. Removing time from the chart compresses the pattern and provides information about price traps. The trend lines shown on these P&F charts are 45-degree internal lines.
It is also interesting to notice that Bear Traps during up trends form mini-bottoms and Bull Traps in downtrends forms mini-tops, hence 45-degree trend lines and vertical counts can be easily applied to these breakouts. This can help traders identify price targets.

The P&F chart plotted in Figure 5 is based on High-Low data for the Nifty, a benchmark index for Indian stocks. The box value is 10 points. Knowledge of Traps on P&F charts while trading even short-term candlestick patterns can provide very useful information. These chart comparisons can help one in understanding the logic of the formation of Traps in P&F charts.

**Trading Traps:**

There are two types of Traps. Narrow Traps and Wide traps. Traps in the direction of trend are to be traded with the stop placed at the level when the pattern is negated. Stop at such levels present an acceptable amount of risk. But wide traps cannot be traded with this exit mechanism.

Pattern A in Figure 6 of the USD/INR currency pair is the narrow kind of trap and Pattern B is a wide trap.

There can be two ways to deal with wide traps. First is to define an exit at the next column of X’s in the case of bull traps or the next column of O’s in case of bear traps. This will ensure 3-box stops while taking a trade. But my experience is not very encouraging with this exit strategy. An alternative approach that I prefer is to follow the next Double Bottom sell signal after the Bull Trap and the next Double Top buy signal after a Bear Trap. These are the setups that can offer an entry with limited risk and should be traded.
Traps found at significant support or resistance levels confirm the balance of demand or supply and add to the confidence of a signal. They provide excellent set-ups for trading.

**Importance of Filters:**

Traps are most effective if traded with the trend. If larger degree trend is up, the formation of a Bear Trap is very important information. Filtering the P&F formation with a trend assessment will increase the probability of success and more importantly provides the logical setup for taking the trade.

Traps can be filtered with other tools in Point and Figure charts such as moving averages, envelopes, Bollinger Bands, etc. One important feature of P&F is the 45-degree trend lines due to its fixed aspect ratio. These trend lines can also be used as filters.

Figure 7 shows Bear Traps in uptrend with a 0.25% box value P&F chart of the S&P 500 and Figure 8 shows Bull Traps in a down trend with a 0.25% box value P&F chart of the Nikkei 225. Both are plotted along with 45-degree trend lines and vertical counts derived from the Traps.
Bear Traps in up trending markets and Bull Traps in down trending markets can be traded as a pullback system. A Bull Trap in an extended trend is a sign of a potential top in prices and a breach of a recent 45-degree internal line after the Bull Trap should be a worrisome sign for bulls.

Traps on ‘close only’ charts should be preferred for trading. Intraday volatility can generate frequent Traps in High low charts.

Trend assessment techniques on price–time charts can also be used in combination with P&F Traps. P&F analysis can complement all sorts of analysis and could prove to be an important weapon in a trader’s arsenal. All of the P&F charts I have used here are standard daily 3-box reversal P&F charts but they are more useful when the Trap signal is understood.

Prashant Shah, CMT, CFTe has been practicing market analysis for nine years. He started his career as a sales executive in a financial organization and is working as an Associate Vice President in the same firm now in Pune, India. Prashant has traded various markets in varying time frames over the years. His firm belief in price analysis led him to pursue in-depth research on methods of analyzing Point and Figure charts. He is also a regular columnist, active trainer and speaker about the markets. He can be reached at Prashant.shah26@gmail.com
THE 1545 TRADING SYSTEM
BY ANTHONY TRONGONE, PHD, CFP, CTA

Although the market has been on a tear, the performance of the SPYDRs (SPY), in the 15 minutes prior to the ringing of the closing bell (15:45 to 16:00 ET), has not been profitable.

Below are the performance results of four different trading sessions when trading the SPY in the 418 trading days from January 2, 2012 until August 30, 2013

<table>
<thead>
<tr>
<th>418 trading days</th>
<th>summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>09:00 – 15:00</td>
<td>$28.11</td>
</tr>
<tr>
<td>15:00 – 15:30</td>
<td>$0.61</td>
</tr>
<tr>
<td>15:30 – 15:45</td>
<td>$6.93</td>
</tr>
<tr>
<td>15:45 – 16:00</td>
<td>-$12.31</td>
</tr>
</tbody>
</table>

Despite an impressive gain of $28.11 in the 9:00 to 15:00 session, our storyline focuses on the $12.31 summary loss in the 15 minutes prior to the ringing of the closing bell (15:45 to 16:00 session). Certainly such a performance discrepancy is striking, but the question is, how can we best profit from this loss?

This study addresses the reasons for this downward trending pattern. And, more importantly, it demonstrates how you can turn a profit when trading in the final 15 minutes of the regular trading session.

Figure 1: This is a running summary of SPY when trading from 15:45 to 16:00. It reveals a steady downward pattern peppered with instances of fleeting success.

TRADING VARIABLES

This study incorporates the following predictor variables:

- 09:00 to 15:00 price change
- 09:00 to 15:00 trading volume
- 15:30 to 15:45 price change

RESPONSE VARIABLE: trading SPY from 15:45 - 16:00 hours.

(The 15:45 system requires entering into a position at 15:45 and automatically offsetting this position at the closing bell).

9:00 to 15:00 PRICE CHANGE

We begin by investigating the performance of the 9:00 to 15:00 price change on our response variable. More specifically, we want to know the
performance impact of this six-hour daily session on trading SPY from 15:45 to 16:00.

<table>
<thead>
<tr>
<th>condition</th>
<th>n</th>
<th>15:45 – 16:00</th>
</tr>
</thead>
<tbody>
<tr>
<td>09:00 – 15:00 &gt; 0</td>
<td>240</td>
<td>-$4.27</td>
</tr>
<tr>
<td>09:00 – 15:00 &lt; 0</td>
<td>177</td>
<td>-$7.91</td>
</tr>
</tbody>
</table>

Figure 2: The results of trading SPY from 15:45 – 16:00, after a positive (> 0) or negative (< 0) 09:00 – 15:00 session.

In either case, the 15:45 to 16:00 session brought negative results; however, after a declining 09:00 to 15:00 session, it was far less profitable.

NOTE: August 29, 2012 had a $0.00 price change producing a 14 cent loss.

Given these results, we could say there was more downside pressure when the earlier session was negative, but does a more extensive loss produce more of a shorting opportunity?

<table>
<thead>
<tr>
<th>09:00 to 15:00 session</th>
<th>n</th>
<th>15:45 – 16:00</th>
</tr>
</thead>
<tbody>
<tr>
<td>a loss &lt;$0.00 to -$0.499</td>
<td>97</td>
<td>-$2.33</td>
</tr>
<tr>
<td>a loss &lt;-$0.50 to -$0.999</td>
<td>45</td>
<td>$0.16</td>
</tr>
<tr>
<td>a loss of &lt;= -$1.00</td>
<td>35</td>
<td>-$5.42</td>
</tr>
</tbody>
</table>

Figure 3: This demonstrates the results of trading (15:45 – 16:00) when the loss of the earlier session (09:00 to 15:00) is broken down into three losing categories.

Smaller declines in the 09:00 to 15:00 session had a slight impact on trading in the final 15 minutes of the regular trading session; however, after a loss in excess of a dollar, SPY had a loss of $5.42 in 35 trades. When you dig deeper into your numbers, you will often unearth more information about the trading day. In this case, 68.52% of the overall loss came after SPY took a triple digit hit in the earlier session.

Trading volume is another factor to consider. In these 360 minutes, ATV was 85.41 million shares. When there was excessive trading volume (over 120 million shares), SPY had a losing record (14 -26-1). Of course, a dramatic increase in activity is often the result of a negative session. When this condition was present, trading from 9:00 to 15:00 did produce a summary loss of $13.64 in 41 trades. And, this negativity carried over into the final 15 minutes of the trading day producing a summary loss in these 41 trades.
Figure 4: When trading volume in the 9:00 to 15:00 session is over 120 million shares, the 15:45 to 16:00 session resulted in a summary loss of $4.08 in 41 trades. The downward blue lines show the frequency and the intensity of these 41 declines.

What about the earlier 15 minutes of trading. How does this influence our response variable? When separating the 15:30 to 15:45 session into two categories (advancing versus declining price moves), we can improve the accuracy of our decision-making process. For instance, when the earlier 15 minutes had rising prices (15:30 to 15:45 > 0), SPY responded by taking a $4.02 loss; however, falling prices (15:00 to 15:30 < 0) had more of a negative impact.

<table>
<thead>
<tr>
<th>condition</th>
<th>n</th>
<th>15:45 – 16:00</th>
</tr>
</thead>
<tbody>
<tr>
<td>15:30 – 15:45 &gt; 0</td>
<td>228</td>
<td>-$4.02</td>
</tr>
<tr>
<td>15:30 – 15:45 &lt; 0</td>
<td>179</td>
<td>-$8.40</td>
</tr>
<tr>
<td>15:30 to 15:45 = 0</td>
<td>11</td>
<td>$0.11</td>
</tr>
</tbody>
</table>

Figure 5: Despite rising or falling 15:30 to 15:45 prices, SPY was unable to record a profit.

Since a loss in the earlier 15 minutes was likely to carry over into the final 15 minutes of the regular trading session, it deserves additional attention. More specifically, would a stronger loss in the 15:30 – 15:45 session produce a more extensive loss in the 15:45 to 16:00 session? Below is a scatter chart showing the results of the trading session after the earlier session experiences a loss in excess of $0.20 in the 15:30 to 15:45 setting.

Given this negative condition, the loss continued into the final 15 minutes of trading, producing a summary loss of $6.25 in 94 trades, which represents three-quarters of the summary loss ($6.25 / $8.40). A more interesting statistic, however, was the contrast in the performance of those sessions with advances over $0.60 (n = 0) in comparison to declines below $0.60 (n = 5).

Although there are more variables to assess, this study concludes with a look at the effect of a double decline (a loss in the 9:00 – 15:00 session as well as a loss in the 15:30 – 15:45 session) on the final 15 minutes of the regular trading day. With a loss of $6.76 in 79 trades, this supplied the investor, who was willing to take a short position from 15:45 to 16:00 a handsome return.
CONCLUSION:

Trading has never been a game of absolutes, but by continuously putting the percentages on your side, you will stay ahead of the pack. Of course, even a long-term pattern is likely to turn against you at some point; therefore, you should always monitor the performance and the precision of your trading systems. In this case, shorting this down trending pattern of 418 trading days, but making the necessary adjustments if this system begins to recover. For more information on how to trade with the percentages as well as monitor the performance of your trading systems read my most recent book, Trade with the Odds: Constructing Market-Beating Trading Systems (John Wiley + Bloomberg Press).

Dr. Anthony Trongone has been a Master Educator for eSignal since 2006. With 23 articles, he is a regular contributor to Technical Analysis of Stocks & Commodities. His new book provides many of his trading systems.
GLOBAL EMERGING GROWTH CAPITAL

Investment Courses For Professionals

A sample of a growing list of fundamental and technical courses is shown below.

The courses are associated with global destinations and dates, both for open and private client formats. They are produced by various knowledge vendors throughout the world. Details can be provided by contacting NYIF.COM, or John Palicka (palicka@pipeline.com).

Taught by John Palicka CFA CMT

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

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

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

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

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

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

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

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

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

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

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

How would you describe your job?

I currently work as an equity sales trader for Instinet, LLC, a Nomura Company. My primary responsibilities include providing high touch and electronic trading services to buy side clients - both hedge funds and large asset managers.

Specifically, when working orders for high touch clients, there are a number of factors to consider. Traditionally, a sales trader should know how liquid a stock is, how wide the bid-ask spread typically is, if any news is out in the name and if the stock is tracking its group, as well as the overall market. The buy side has many brokers who do this for them. Thus, to distinguish myself, I use technical analysis to provide a deeper understanding of market action. Given the fact that various time frames often tell divergent stories, I use intra-day, daily and weekly charts to gain perspective. For example, if a stock is up +3% one morning, many traders may not want to chase it. However, if the daily chart depicts a breakout from a long-term base or through a key moving average with supportive secondary indicators and above average volume, then being overly patient could prove damaging over the course of the trade.

In addition to sales trading, I also write an equity market commentary, which I disseminate to my client base before the start of trading each day. I spend time after the close and then in the hours before the opening the next day looking through charts and forming a technical opinion. I use a top-down approach, looking at the general market indices first and then drilling down to sectors, groups and finally individual stocks.

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

Before coming to Instinet, I worked at Smith Barney (1997 - 2000). It was my first job upon graduating from Siena College with a degree in English. While there, I had the privilege of working for Alan Shaw, who had spent 40+ years at Smith Barney. Louise Yamada, who runs her own research shop now, was also part of Smith Barney's technical group back then.

By working there when I did, I witnessed one of the largest and longest bull markets in history and learned a lot along the way. One of Alan's key technical tenets - identifying and riding the dominant trend no matter how long and ostensibly untenable it was - seemed to play out on a daily basis during that ever expanding bubble.

From there, in February, 2000, I joined Instinet and began working with the Chief Market Technician, John Schlitz. We sat on the trading desk where I began to understand how important the market's shorter term gyrations were, as well. That insight combined with traditional daily and weekly chart analysis, helped give me a well rounded understanding of charting. After three years, I started covering accounts from the sales trading side, which I am still doing today.
Do you look at any fundamental or economic inputs to develop your opinions?

Even though I rely on price action to be my primary research guide, I am keenly aware that company specific information and events often create dislocations within the market place. I keep this in mind when forming a technical opinion, as commenting without the knowledge of a stock’s earnings date, current corporate action or valuation, etc. just creates unnecessary risk.

In my opinion, economic data = systematic risk, thus, the entire market is bound to it. If a stock misses its earnings estimate and/or guides lower, the reaction will be negative the majority of the time. But it is never an open and shut case with the economy; weak data doesn't always mean lower stock prices - especially in the recent QE-induced, zero percent interest rate environments.

The bottom line is that I don't deem any piece of information meaningless, as this would underestimate the market and what it believes to be important.

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

As is pretty clear from my work history, my early relationships with successful people had a large influence in shaping my career. I therefore feel that finding trustworthy mentors is paramount to success. Sometimes this is a matter of luck, but mostly, it is about working hard to network with people. Social media makes it much easier to make contacts these days, but it is only the first step. Getting out there is also important.

When starting out on Wall Street, it is rare that you begin and finish at the same place and in the same role. I think one should look at his/her first few years as training ground and try to develop as many skills as possible. I tried to do this at Smith Barney, and it helped me prepare for the next step.

I firmly believe in educating oneself across various subjects, as well, which led me to take both the CMT and CFA exams. As all charter holders know, going through the process for either of these is a grueling one and lasts a few years. But committing to either exam (and/or higher education) can really help a young professional decide which avenue of the business he/she ultimately wants to pursue.

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

The most useful information for me is the type that puts the market in the proper perspective. For example, since the November 2012 market bottom and the historical rally thereafter, many stocks and indices have reached levels that seemed otherwise unattainable. Along the way, there have been varying opinions about its viability. Some traders have cited extremely overbought indicators as a reason to be bearish; others have referenced past bull markets that ultimately ended badly (2000, 2007, etc.). The economy and geopolitical environment may have also been grounds enough to remain reticent.
I agree that these (and others) are all essential aspects to consider, but worrying too much about what the market "should be doing" can remove the focus from the price action itself. Indeed, when indices become frothy, this is often challenging, which is when history becomes a useful guide. Two sources that I rely upon for this are Bespoke Investment Group and Sentimentrader. Both services provide timely comparisons to the market's past, which can really help one stay grounded when outside forces suggest otherwise.

**What research area do you think offers the greatest potential in technical analysis at this time (something like an indicator, charting technique or trading tool)?**

I really don't think that one indicator or new technique will dominate technical analysis more than it has in the past. Fads come and go - one indicator may help in one year, yet not the next. So, I think we all have to be careful and willing to change as the markets do.

The use of technicals should not be looked at as a choice vs. utilizing fundamental or quantitative research, as various strategies have proven successful over the years. I do think that technical analysis can be more widely accepted as an aid to the overall investment process, though. From traders helping their clients identify key points during a trading session to a financial advisor determining what percentage of a client's portfolio to expose to equities, analyzing charts can help generate alpha and mitigate risk.

Frank Cappelleri, CFA, CMT is an equity sales trader for Instinet, LLC, a Nomura Company. He has over 16 years Wall Street experience, beginning in 1997, where he worked with Smith Barney's perennially top ranked technical analysis team. In 2000, Frank joined Instinet. In his current role, he trades for, and provides technical market commentary to, Instinet's institutional client base. He holds the Chartered Financial Analyst (CFA) and Chartered Market Technician (CMT) designations and received a B.A. in English from Siena College. Frank has been quoted by Bloomberg and Reuters and was a speaker at the 2012 National Investor Relations (NIRI) Conference.

*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*
PHASES AND CYCLES: THE MARKETS COULD HAVE SOME WEAKNESS BEFORE THE BULL LAUNCHES ITS NEXT MAJOR ADVANCE
BY RON MEISELS

Editor’s note: This report was originally published by Phases & Cycles on September 30, 2013 and is reprinted here with permission.

This bull market continues to throw a few curve balls at both investors and forecasters. In recent Market Comments we suggested that the current 105-day calendar cycle, which started in late June, was likely to have a negative bias and might even threaten to take out the June lows. We viewed this scenario as a positive one for the longer term health of the bull market, which periodically needs refreshing through a more extended corrective process.

The S&P 500 duly rose from its late June low on the back of the new 105-day cycle. The July advance was followed by a weak August that coincided with the maturation of some shorter-term cycles. Soon thereafter, one of our recent “Ron’s Briefs” mentioned the prospect that, contrary to the popular belief, September would be a more positive month than August. As we now know, this is exactly what happened.

The 70-day cycle’s next due date is October 4th and the 105-day cycle is due on October 11th. These cycles are expected to put the markets under some pressure toward these dates. The S&P 500 is building up a short-term overbought condition as a result of its recent strength, and a pullback through to the cycle due dates is possible. Should this occur, the pullback should take the S&P 500 closer to its rising 200-day Moving Average. This type of healthy correction of 8-10% is what this old bull market really needs at this point. At the same time the markets could just do a sideways correction – a pause in time with little price damage. The NASDAQ, has already broken out to the upside. Others, such as the Toronto market (which we look at in more detail on page 2) are poised near important breakout points. Most of these markets are short-term overbought and may mark time or decline over the next few weeks. But the underlying pressure still appears to be bullish.

The 105-day cycle has been a reliable guidepost for this bull market recently. We continue to expect that the markets will show some weakness into the next due date of October 11, completing a necessary correction. But as we have said before, the long-term technical outlook for this bull market remains positive, and any October weakness will be a buying opportunity. There is at least one more significant up leg left in this bull before it calls it quits, and whether it starts sooner or later, investors should continue to expect upside surprises.

Is the Toronto market on the verge of a major breakout?

The S&P/TSX Composite Index is once again near a crucial level. The Toronto market has spent nearly two years moving sideways in a broad trading range, bounded by ±$12,900 on the upside and about $11,500 on the downside. We have not seen such extended sideways action in the S&P/TSX Composite Index since 1994-95, nearly twenty years ago! And on that
occasion the market eventually broke out above its trading range and rose ±175% during the next five years.

**Could the Toronto market stage a repeat of this breakout?**

The 2011-13 trading range has seen several extended advances and declines, with the Index fluctuating on either side of its 200-day Moving Average. But there are three encouraging signs for the future. First, the 200-day Moving Average is rising and will continue to do so as lower values are removed from its calculation.

Second, there is a clear upward bias in the trading range, with the pattern resembling an “ascending triangle.” While this is no guarantee that an eventual breakout will be on the upside, the June 2013 low of 11,759 (following a 3-month decline) now appears to be a pivotal point that exhausted selling pressure. And ascending triangles have a good probability of being resolved on the upside. London’s FTSE broke out of a similar formation at the start of 2013.

Third, in its recent move to the top of the trading range, the Toronto market is not seriously overbought. The relatively light volume that accompanied the August-September advance is a further sign that selling pressure is not significant. If more buyers participate, prices could move up strongly.

Nearly three-quarters of the S&P/TSX Composite Index is weighted with stocks in the Financials, Energy and Materials sectors. The Financials are performing well, some of the big banks recently staged major breakouts and others are on the verge of doing so. The Financials have a good history of leading rallies. The Energy sector is stirring. Many stocks have extended bases and some have already broken out. The Materials are the poorest performers, with many stocks struggling either to arrest declines or establish bases. While the Golds have a history of driving the Toronto market higher in the late stages of a bull market, the recent technical damage probably means that they will be followers rather than leaders.

**As always, Toronto will be influenced by New York’s action. If the S&P 500 starts a new advance in the fourth quarter, and if Toronto is within shouting distance of the upper end of its trading range, then this might be the formula for a convincing breakout. A sustained move above the 12,900 to 13,000 zone will be the signal that the Toronto market is finally ready to move significantly higher.**
Since its November 2012 low the S&P 500 has tracked steadily higher, with pullbacks contained at or slightly below the rising 50-day Moving Average. The most recent decline from the early August peak was halted around 1,625 and there remains substantial short-term support in the 1,625 to 1,650 zone. The S&P 500 rose above its 50-day Moving Average to reach a high of ±1,730. The Index is moderately overbought at present, which may slow down any move to exceed this level in the weeks ahead. Look for any downward move in the 50-day Moving Average to signal that a correction is underway.

If the S&P 500 does, as we expect, have a correction during early October, a likely stopping point would be near the 200-day Moving Average (currently about 1,600).

The Toronto market rose 1,205 points from its June low to its mid-September high. This impressive performance now deserves to pause and the S&P/TSX Composite Index can afford the luxury of a pullback. The 12,600 to 12,700 zone contains both the 50-day and 200-day Moving Averages, and this area should offer near-term support. Ideally the 12,400 level, a recent low point, should not be broken.

The most important level to watch (aside from the low mentioned before) is a breakout above 13,000, which would indicate a significant move towards 14,000 and maybe beyond.

The Dow Industrials and the Dow Transports continue to move higher together, which means that the primary trend, according to Dow Theory, remains up. The 14,500 to 14,600 zone is an important near-term support for the Dow Industrials, as this zone arrested the August decline.
In addition, a one-third retracement of the November-September advance targets about 14,630, very near the support offered by the rising 200-day Moving Average. A 50% retracement of the November 2012/September 2013 rise suggests 14,000, but this is not likely.

The FTSE disappointed in September by not making an immediate move back towards its May high of 6,875. Instead, the London market pulled back to its now rising 50-day Moving Average and found support there. The 6,300 to 6,400 area remains a significant support zone. The FTSE has shown on two previous occasions since late last year that its overall bullish posture can tolerate a decline back to slightly below its 200-day Moving Average, so if the market does pull back in October, a move towards 6,400 cannot be ruled out.

Some further backing and filling in the low 6,000s may be necessary before the London market takes a sustained run at its May 2013 high.

Ron Meisels, Founder and President of Phases & Cycles Inc., specializes in the independent research of Canadian and U.S. securities. Institutions ranked him among the top three technical analysts for six consecutive years (Brendan Wood Survey). He has been publishing the technically oriented Phases & Cycles reports since 1970. He was Vice President and Manager of Technical Research of Nesbitt Thomson Inc. (now BMO Nesbitt Burns) from 1982 to 1990 and founded Phases & Cycles Inc. in 1990. Mr. Meisels is a co-writer of a weekly column in the Globe and Mail (“What the charts say”); he is a frequent guest on Business News Network (BNN) and is frequently quoted in major financial media such as Barron’s, The Globe & Mail, The National Post, Les Affaires, Bloomberg, Canadian Press, etc. Mr. Meisels is also Founder and first President of the Canadian Society of Technical Analysts (CSTA), and founding Secretary and past Director of the International Federation of Technical Analysts (IFTA). He has received numerous awards during his career.

To learn more, please visit www.phases-cycles.com.
In our most recent report (June 27, 2013 - $14.91) we confirmed that Goodyear Tire & Rubber had a breakout from a large triangle formation (dotted lines) and that it had started a new major up-leg. The stock quickly followed with a sharp rise to $23.24 (A) for a 56% appreciation since our report. This produced an extremely over-bought condition. Therefore, a pullback toward ±$19 would be quite normal as the next entry level. Only a decline below $17-18 would be negative. Technical indicators including the rising 40-week Moving Average (40wMA) and the MACD (lower panel) confirm the bullish status.

Point & Figure measurements provide targets of $26 and $29 (16% and 29% appreciation potentials from current levels), however Goodyear will very likely have a correction first. The large trading range (dashed lines) and triangle formation (dotted lines) support higher targets.
ETHICS CORNER: HOW DO YOU DEFINE AN ADEQUATE AMOUNT OF TIME?
BY MIKE CARR, CMT

After last month’s article on ethics, we received a question that shows how difficult it can be to apply ethics on the job:

I have an ethics question that has bothered me for years. It is in regards to giving clients/subscribers time to acts on a BUY/SELL signal. My subscribers always know what level they will get a BUY/SELL signal at. Let’s randomly pick a stock, ABT Abbott Laboratories, and let’s assume it is on a BUY signal. Let assume that I own it as well. If I publish a newsletter that says to SELL ABT, I would need to wait several days before selling my position. BUT, what if the subscribers always know what the stop loss is? Meaning, my newsletter says, “SELL ABT on a close below $33 per share.” If price goes below the cited level, would I still need to wait the 2 days after price breaches that level to act on the SELL signal myself even if the subscribers know of the level days/weeks in advance?

The same is true of an index. If I give a BUY/SELL signal for the stock market, am I still expected to wait 2 days to act on that?

It seems the spirit of the ethics rules are to keep transparency and keep people from front running orders on thinly traded stocks and such. CMT ethics, however, has hurt my trading. Once I started publishing some of my models I had to stop trading them myself, because I couldn’t get in and out when I wanted to. A friend of mine owns a futures brokerage firm and has wanted to partner with me, but when I tell him of the code of ethics he knows it will hurts sales and here is why. If I would send out a trade idea, discuss it with a client and they always want to know if I own it myself. If I own it, they will want to own it too. If I am not willing to put my own money at risk, they will not either. So I am struggling with how to handle it practically and still be true to the code of ethics.

This question demonstrates that ethics need to be considered when developing policies for any type of investment analysis position.

This is a problem but it should not be insurmountable. In the MTA Code of Ethics, Standard Number 7 addresses the requirement:

When a Member or Affiliate recommends that a security ought to be bought, sold or held, adequate opportunity to act on such a recommendation shall be given to the Member’s or Affiliate’s clients, employer, and the employer’s clients before acting on behalf of either the Member’s or Affiliate’s own account or the accounts of immediate family members.

Your timeline of waiting two days is certainly too long. The standard says to allow adequate time. If you are mailing a hard copy recommendation once a month, waiting two days before acting probably makes sense. If it is an email alert, two hours might be more reasonable and could be considered
adequate. If it’s a short-term trading service using Twitter or something like that, two minutes might be reasonable. Know your clients and understand that the definition of “adequate time” is based on their timeline.

The same rule applies to stops - enter the order after clients have to time to act. That means it can sit in the market ahead of time and you’ll get the same fill as a client but they have adequate time to act after the instruction is sent. You have no obligation to wait for hours after the market declines and the order triggers.

For those who manage money, if they have money invested with their firm, that money should be treated by the firm as a normal account. Signals Trade allocations would be defined by fiduciary rules and internal policies. A CMT should not be advantaged or disadvantaged by their ethics.

For the futures firm, it might be possible to set up an account with someone else doing the trading. That person would receive signals along with all other clients. They would take all signals when given for all accounts and allocate trades according to the firm’s standard practice. That approach complies with the Standard.

Ethics are not situational – there is never a situation when a CMT or member of the MTA should have an advantage when they make a recommendation. The application of the Standard should consider the specifics of the situation. A recommendation mailed to clients will require a longer amount of time to ensure that clients have had adequate time to act. Recommendations sent over Twitter would require significantly less time to ensure that clients have adequate time to act. There is no right answer that will fit all situations but with careful thought, all members should be able to find an answer to this problem.
This month, several European stock markets are highlighted. *All charts are courtesy of Trade Navigator.*
Germany DAX Index monthly

$DAX: Dax Index (Monthly bars)

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CMT EXAM FEES FOR VETERANS ELIGIBLE FOR REIMBURSEMENT!

The Market Technicians Association, Inc., the leading organization for Technical Analysis professionals and the governing body for the Chartered Market Technician (CMT) designation, is pleased to announce that the US Division of Veterans’ Affairs will now reimburse CMT exam testing fees for veterans and all eligible persons.

The Post-9/11 GI Bill provides veterans with reimbursement for specifically approved licensing and certification tests. The Bill does not place any limitations on the number of tests an individual may take, or the number of attempts a person may make for the same exam. The VA will fund exams even if someone is unsuccessful in passing.

Reimbursement has been approved by New York State, with nation-wide approval following over the next 6 months. For additional information on the Post-9/11 GI Bill and to learn how to submit a claim for reimbursement following your examination, please visit www.gibill.com.

Registration for the CMT exams is now open to all registrants. The Level I & II exams will be offered worldwide October 17-19, 2013. The Level III exam will be offered on October 18, 2013 only. Whether you are progressing to the next Level or need to retake your last exam, we encourage you to schedule your next exam as soon as possible. Early registration will ensure your preferred time and location.

REGISTER FOR THE MTAEF’S 2013 ANNUAL FALL FUNDRAISER & RESERVE YOUR SEAT!

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:

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- MIKE SANTOLI
  SEE FULL BIO

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

Submissions should not use text boxes or advanced text formatting, as they make it more difficult for our staff to implement into our newsletter layout.

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.