LETTER FROM THE EDITOR

Traders around the world are reacting to what they think the Federal Reserve might do in the coming months. Fed officials have repeatedly tried to calm the markets by explaining they have no firm plans for managing the end of their latest Quantitative Easing initiative. For some reason, traders seem to be nervous about assurances. No one really seems to know what will happen next.

In this month’s newsletter, we have the insights of technicians from around the world. We are able to feature assessments of markets in the U.S., Canada, and the Philippines. We also have several charts showing the recent activity in India.

Hopefully in the future we can provide analysis of markets in other countries. There are now MTA Members in 85 countries. We have no way of knowing where the next global hot spot will be but we can be fairly certain an MTA member will be providing analysis on that market. If you prepare reports on some of the less widely covered markets, or on the more popular markets, please consider them sharing them with the MTA through Technically Speaking. You can email us at editor@mta.org.

Michael Carr
MEAN REVERSION INDEXING
BY MUKUL PAL, CMT

Editor’s note: This paper was originally published at http://ssrn.com/abstract=2050301 and is reprinted here with the permission of the author.

Abstract: In their 1985 paper Does the stock market overreact? DeBondt and Thaler explained the idea of mean reversion. They illustrated how mean reversion leads to the “Loser’s portfolio” outperforming the “Winner’s portfolio” over a 3-year period. Based on mean reversion, this paper asserts a new stock selection and trend determining approach. DeBondt and Thaler use an innovative approach to convert price performance data into non-price ranking data, which is positively tested for mean reversion and stationarity.

Introduction: Findings of reversion in stock prices towards some fundamental values remained in the literature for a decade. Using overreaction, DeBondt and Thaler (1985) showcased that a stock which performed poorly over a 3-5 year period subsequently tended to outperform securities that performed well relative to the average, during that same period. This implies that, on average, stocks which are ‘losers’ in terms of returns subsequently become ‘winners’ and vice versa.

Researchers have been interested in the long-run time-series properties of equity prices. Particular attention has been given to whether stock price fluctuations can be characterized as random walk (unit root) or mean reverting (trend stationary). If stock prices follow a mean reverting process, then there exists a tendency for the price level to return to its trend path over time. If losing stocks become winners, they exhibit the property of mean reversion. Fama and French (1988) also reported mean reversion in the U.S. equity market using long-horizon regressions, and Poterba and Summers (1988) documented evidence of mean reversion using the variance ratio test.

Instead of focusing on the worst 3-year losers, I tested the worst 81 Week losers (around 18-month) losers. My aim was to see whether mean reversion results can be simulated to a smaller (half) period. A reduced holding period would make the idea more investable and also allow for the creation of a mean reversion indicator that could be used for forecasting stock selection.

Methodology: Tests of the random walk hypothesis were done by both Dickey and Fuller (1979, 1981) and Philips and Perron (1988). Respectively, their augmented Dickey –Fuller (ADF) test and Philips-Perone (PP) tests are not strong enough to test stationarity (mean reversion) because they fail to detect slow-speed mean reversion in small samples. We must realize that the failure to reject the null hypothesis may not be interpreted as decisive evidence against mean reversion. Because of this inherent problem, researchers have advocated pooling data (testing various time series simultaneously) and testing the hypothesis in a panel framework to add validating to the testing method.
More recently, Choudhuri and Wu (2002) showed the presence of mean reversion in emerging markets using panel based tests. Following this best-practice, we have applied the panel based tests on outliers from our performance ranking data in the study below.

**The Data:** In the following study, data was compiled into various groups of 1000 assets (Pure Global Equity, Pure US Equity, Composite of equities, commodities and fixed income, etc.) These groups were indexed, dollar denominated and ranked on a scale of 0.1% to 100% based on their performances over the preceding 18 months. The ranking data was taken from a weekly time series of 1000 assets.

Table 1 - Price Weekly Asset 1 Price Weekly Asset 2....Price Weekly Asset 1000

Table 2 - Weekly % Asset 1, Weekly % Asset 2, Weekly % Asset 3...Weekly % Asset 1000

Table 3 - Week 1 - Rank % Asset 1, Rank % Asset 2, Rank % Asset 3...Rank % Asset 1000

After Table 3 ranking percentile are recorded for week 1, the same process is used to record ranking data for week 2, week 3 ...week n.

In the database prices are tracked from 2005 to 2011. The worst performers, negative outliers are chosen based on the 81 week performance (around 1.5 years) i.e. rankings < 20%. We tested this list of assets for change in ranking percentile. Positive change in ranking percentile suggests an outperformance and vice versa. The respective assets are tracked through 2011. All assets which reached the 50% rankings limit are tabulated. The assets that changed in rankings from below 20% to above 50% exhibit mean reversion (earlier losers to current winners). Finally, a test is made on 20 asset outliers which moved from a percentage ranking below 20% to above the 50% limit during the 2008 – 2011 period.

First we used an ADF test to check the stationarity in the rankings and then applied the panel test on 20 assets using the following regressions:

$$\Delta Y_t^i = \mu^i + (\lambda^2-1)Y_{t-1}^i + \sum_j^k \Phi^i_j \Delta Y_{t-j} + \epsilon_i^i$$ (1)
Where $Y_t^i$ stands for ranking time series for $i = 1, 2, ..., 20$ and $t$ from 2008 to 2011.

Equation (1) tests for the null hypothesis of a random walk against a mean stationary alternative. $k$ extra regressors, are added to eliminate possible nuisance-parameter dependencies in the asymptotic distributions of the test statistics caused by serial correlation in the error terms. For a given sample, if the estimate of $\lambda^i$ is not significantly different from unity, then the null hypothesis of a random walk cannot be rejected. On the other hand, if one finds that $\lambda^i < 1$, then the alternative hypothesis of mean reversion is supported. The PP tests work in a similar way except that the extra regressors are not included in the regressions, but the serial correlation of the residuals is corrected via a non-parametric approach.

Conclusion: Not reject, ADF tests fail to reject the nonstationarity in the time series. Because of less power to reject of ADF test, we used the panel based test mentioned below. In a panel test based on Seemingly Unrelated Regression (SUR), we also use the correlation among the residuals of assets. Correlations are as follows:

```
| Method | Estimate | Std. Error | t value | Pr(>|t|) | Lag(k) |
|--------|----------|------------|---------|---------|--------|
| SUR    | 0.98     | 0.05289e-06| -1.05654| 0.06786 | 3      |
| OLS    | 0.99     | 0.00229774 | 1.12816 | 0.15875 | 3      |

*SUR – Seemingly Unrelated Regression.
```
Hence, we can reject the nonstationarity hypothesis at p value 0.09076 with the SUR method.

In the next table, outlier performance in the last 5-6 years is shown. We can see that 44% to 25% of the negative outliers in the test period exhibited a tendency towards mean reversion.

<table>
<thead>
<tr>
<th>Start Year (Ending Month)</th>
<th>End Year (Ending Month)</th>
<th>&lt;20%</th>
<th>&gt;50%</th>
<th>Reversion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005(Jan)</td>
<td>2011(Dec)</td>
<td>196</td>
<td>74</td>
<td>38%</td>
</tr>
<tr>
<td>2005(June)</td>
<td>2011(Dec)</td>
<td>180</td>
<td>58</td>
<td>32%</td>
</tr>
<tr>
<td>2006(Jan)</td>
<td>2011(Dec)</td>
<td>199</td>
<td>50</td>
<td>25%</td>
</tr>
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<tr>
<th>Start Year (Ending Month)</th>
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<td>44%</td>
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<td>2005(June)</td>
<td>2011(Dec)</td>
<td>180</td>
<td>70</td>
<td>38%</td>
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<tr>
<td>2006(Jan)</td>
<td>2011(Dec)</td>
<td>199</td>
<td>72</td>
<td>36%</td>
</tr>
</tbody>
</table>

* <20% means rankings less than 20% >50% means rankings greater than 50%

**Development of Mean Reversion Indicator (MRI) - 81 Week Ranking Percentile**

MRI is a range bound indicator (0.1 to 100) that suggests positive or negative mean reversion. Below are examples using several S&P global indices with the MRI. The left-hand scale is the price of the respective index while the right-hand scale plots the ranking percentile of the MRI. A rising indicator, especially from below 20%, suggests negative outliers that are moving towards positive mean reversion indicating absolute positive returns. The losers change character and outperform.

On the other hand the cases of falling MRI suggest underperformance and ongoing negative mean reversion tendency.
Mean Reversion Indicator - Indexing

The MRI is designed to find reversals connected with negative outliers and vice versa. There are three main advantages of MRI:

1) MRI trades on filtered outliers from a group of 1000 assets
2) MRI is smooth and less prone to whipsaws.
3) Unlike price-based oscillators MRI is not prone to a lag, as it is created from group rankings not an individual price series.

MRI is used without any price exit. The aim is to illustrate that even without price exits, MRI can be used as a passive indexing idea.

Entry Signal

- Take the worst 20% ranked assets in the Group
- When MRI 81 week > 3-period average of MRI 81 week indicator
- BUY (allocate positions in accordance with position size policy)

Exit Signals

- When MRI 81 week < 3-period average of MRI 81 week indicator
- SELL

Allocation

- Allocate equally among the filtered assets.
- If an asset signals SELL carry cash in the portfolio.
- If a new asset BUY signal is given, allocate available cash.
- Repeat the process.

Examples

Two indices are created from S&P500 and FTSE 100 components. For comparison both indices have been rebased to 1000 from January 2006.
Conclusion

Mean Reversion can also be seen in non-price ranking data. This data transformation enables the use of performance ranking data of a group of assets as an asset filter, as a trend identification tool and as an Indexing idea. The MRI Index composed of the worst losers (MRI negative outliers) of S&P500 components and UK 100 outperformed the respective indices.

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Mukul is a Chartered Market Technician and MBA Finance. He has more than a decade of Capital Market experience dealing with derivatives and global assets. He has worked for Bombay Stock Exchange, multinational Banks and brokerage houses in leading research positions before starting Orpheus in 2005. He has actively researched on ‘Time’ and has written seminal papers on the mathematical hierarchy of time. He is in the top 10,000 authors on Social Science Research Network (SSRN). Mukul has presented at various platforms for the Bombay Stock Exchange, Prague Stock Exchange, Bucharest Stock Exchange, Canadian Society of Technical Analysts, Saxo Bank, Thomson Reuters etc..
INTERVIEW WITH BRETT VILLAUME, CMT
BY AMBER HESTLA-BARNHART

How would you describe your job?

I’m a sell-side research analyst with a boutique broker/dealer called FIG Partners, which specializes in bank stocks. I have been with the company for nine years now and work out of the firm’s satellite office in San Francisco. My job entails covering publicly-traded companies on the West Coast, which includes estimating future earnings, or EPS estimates, and coming up with price targets and formal stock recommendations. It’s a very typical sell-side fundamental analyst job, although FIG Partners prides itself on its grass roots approach and generally more high touch service due to its smaller size.

I am also considered to be FIG’s Technical Analyst, providing daily market commentary to the sales team and our institutional clientele and advising them on stock ideas from a technical perspective. I speak on the morning sales call every day about what’s going on with the broad market indices, the three to four important bank sector indices, interest rates and other factors that might affect changes in bank stock prices. Just providing a general overview of what’s going on with trends and volume has been hugely valuable to the firm and clients typically seem very eager to hear my technical perspective on things.

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

Prior to working at FIG, I was a research analyst and trader at Neovest, a boutique brokerage and software trading platform founded by Mark Scott. At Neovest, the focus was on Technical Analysis first and foremost, with fundamentals coming second as a backdrop. Although I currently specialize in the Bank Sector, incorporating a mixed technical and fundamental approach (i.e., “fusion analysis”), my roots are really in stock screening and looking at hundreds of charts on a daily basis. Having a thorough knowledge of the core tenants of T.A. has benefited me immensely in my largely fundamental role at FIG Partners.

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

Well, the answer is yes, obviously, working at a fundamental analysis shop. But, we also do a lot of charting of both industry fundamental data and also U.S. economic data. The same goals are in place typically, trying to identify trends in the data and recognize when they might be changing. The deeper you go into fusion analysis – using both fundamental and technical inputs – the more you realize there is a pretty fine line between what constitutes fundamental versus technical.

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

It still blows me away how ignorant most Wall Street folks are about Technical Analysis. I run into institutional money managers all the time who literally have no clue about what it means to be a technician. That right there should be a slap in the face to anyone looking to start a career in
financial analysis today. What a grand opportunity we all still have to expand this field, but especially the newcomers. My advice would be to get the CMT designation and get involved with the local MTA chapter, at a minimum. You should try to get a “lay of the land” when it comes to what’s out there in the body of knowledge among technicians. I’m convinced that Wall Street is still in the very early stages of accepting Technical Analysis and what it can do. This is still a niche business and you should take advantage of that.

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

Definitely the work of Scott Hathaway, whose studies in geometric and harmonic measurements of the Market was featured in the August Technically Speaking. He’s constantly trying new avenues, but in really creative ways. Sure, his work might be unpopular with the suit and tie crowd, but so was the work of Bob Prechter and look at how successful he’s been. I am excited that Scott will be one of the guest speakers at the IFTA 2013 Annual Conference taking place in San Francisco this October 9-11.

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 think the majority of work in Technical Analysis so far was done out of necessity as a means of picking individual stocks. Think of the stereotypical phone call to a broker who is asked, “What do you think of Apple here?” If he gets asked that 100 times a day about 100 different stocks, you can immediately see the value that technical analysis would provide. I think there are plenty of technical tools available to do that now. The real work left to do is in Sector Analysis. I see 90% of technicians still jumping right into talking about the all the squiggly indicator lines on a daily stock chart without addressing the sector’s performance at all. What’s unfortunate is that the sector is probably contributing the majority of influence to the stock’s performance. Julius de Kempenaer’s RRG is a huge leap forward in this regard, I think, but other ways of gauging sector performance are likely out there waiting to be invented.

Brett Villaume, CMT, CAIA, is both a Research Analyst for FIG’s West Coast operations and serves as the firm’s Technical Market Analyst. He has over 12 years’ experience as a professional "technician" and has covered both Western and Southeastern companies since joining FIG in 2004. Brett believes strongly in the value of a combined fundamental and technical approach to market and stock analysis. His technical analysis work emphasizes relative strength and inter-market relationships. Brett holds the Chartered Market Technician (CMT) and the Chartered Alternative Investment Analyst (CAIA) designations. He received a B.S. in Economics from The University of Idaho.

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.
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THE SUN CONTINUES TO SHINE ON THE MARKETS
BY RON MEISELS

Editor’s note: This report was originally published by Phases & Cycles on August 27, 2013 and is reprinted here with permission.

If there is one thing that the 2009-13 bull market has taught us over and over again, it is to not underestimate its persistence and refusal to buckle to bearish forces.

Recent action for the S&P 500 could be summarized as follows: after a modest four-week correction to 1560 in late-June (an approximate 1/3 correction of the November-May rally), the Index moved to an all-time high and is now into the second down-leg but already becoming over-sold. This is exemplified by: 1) the recent –75% reading on the Advance-Decline oscillator, 2) the minus six (bullish) reading on the Net Day (or Meisels) Index, 3) the dearth of New Highs (a mere 11 on August 15th), and 4) the almost over-sold status of the Slow Stochastic.

In all probability, the sell-off culminated last Friday as it was the maturation of both the 21-day and the 70-day cycles.

Does this suggest a move to new all-time highs? Not necessarily. It is more likely that the market will spend the next two 21-day cycles (the fourth and fifth within the current 105-day cycle) and the current 70-day cycle (with maturity dates of October 11th and 4th respectively) in a mostly narrow trading range between 1600 and 1700. It may also mean that the popular current wisdom about a major September-October decline may not materialize.

What are the contrary indicators to the above scenario? Market sentiment (bulls vs. bears), as measured by the Investors Intelligence weekly survey of investment advisors, decline a bit, but remains surprisingly positive (39.2% vs. 23.7%), despite the recent sell-off; and although the percentage of stocks above their respective 10-week Moving Average, at 30.8%, is better than it a week ago (48.6), it is still not sufficiently negative. In addition, the 200-day Moving Average (200wMA), which always acts as a magnet to the Averages, is significantly below current readings and may pull the S&P down towards 1570.

Toronto has a much better technical standing. Its Advance-Decline Index reached an extremely negative reading on August 7th and, as of last Friday, it has already reversed to a positive reading. The Index retested its 200dMA on the same day and bounced away from it. Bank stocks are either on the verge of major breakouts, or have already done so. A major breakout above S&P/TSX 12,800-12,900 will signal the beginning of a major move for Toronto.

A new buying opportunity in this bull market should appear in October.

No matter the short or intermediate moves, the long-term outlook for this bull market is still positive, as the current long-term cycle is not likely to mature until 2014.
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. He has a truly distinguished track record in anticipating stock market moves, as illustrated by his famous “10,000 in 2000” prediction in January 1995 (based on his discovery of the 40-year cycle) when the DJIA was at 3800 (cited in An audacious call in 1995 looks golden now, Report on Business, March 30, 1999). He first presented this research at the 1995 IFTA Seminar in San Francisco and subsequently in New York, Boston, Chicago, Toronto, London, Berlin, Cairo and Barcelona.

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); the first Canadian recipient of the A. J. Frost Award for outstanding contribution to the development of Technical Analysis; recipient of an Honorary Lifetime Membership in the Canadian Society of Technical Analysts “For recognition
of special services to the Society”; and developer of the “Meisels Index”, an overbought/oversold indicator based on daily closings featured on the Metastock system.

To learn more, please visit www.phases-cycles.com.
ETHICS CORNER: “YOU CAN WIN 90% OF THE TIME WITH THIS MARKET TIMING TOOL”  
BY MIKE CARR, CMT

I recently saw a marketing pitch from a nonmember of the MTA which offered to reveal how to win 95% of the time with a special technique that would be revealed to me as soon as my credit card could be processed. There was no information about which markets I would be a big winner in and the typical holding period were not defined. Several sample charts were shown with dark lines that appeared to be some type of indicators that had an amazing ability to closely track the historical market action. Overall, it was not an impressive piece of advertising to me but I always assume that this type of marketing must work. If the marketing was ineffective, the marketers would probably not continue sending so many ads.

While this email failed to impress me, this piece of marketing is worth thinking about for several reasons.

Members of the MTA realize how difficult it would be to win on 95% of their trades and many would delete the email without reading it. However, this headline demonstrates that human nature never seems to change and unchanging behavioral patterns are one of the general reasons that technical analysis works. Somebody, somewhere believes they can win 95% of their trades and they believe someone else is willing to share the secret to success for a small fee. This is an example of greed (wanting the secret). In addition to helping marketers sell trading systems, greed can help push market prices to extremes.

Charts capture the emotions of traders and technicians depend on emotional responses to be constant over time. Offering an indicator that is reliable 95% of the time appeals to a certain type of trader and those traders exist in any market environment.

Many global stock markets have been in bull markets since 2009 but investors still remember the pain of the bear market and they are anxious to avoid that pain in the future. They would prefer to avoid experiencing losses of more than 50% again but they also want to avoid missing out on potential gains as long as this bull market continues. A high reliability indicator would allow them to have the best of both worlds.

Does this indicator work? The marketer claims it does and claims to have offered this tool since September 2012. No other details are provided.

Rather than considering how useful the indicator is, a better question might be “is this ethical?”

This email pitch was sent by a nonmember and therefore is not covered by the Code of Ethics. An MTA member or affiliate would be covered by the Code and there could be a number of ethical problems with advertising in this manner.

If the indicator works as advertised, there would be no problem. However, there needs to be proof that supports the claim. That is required by Standard #2 in the COE:
Members and Affiliates shall not publish or make statements which they know or have reason to believe are inaccurate or misleading.

Standard #2 presents another challenge for the marketer. The Standard also says:

Members and Affiliates shall avoid leading others to believe that their technically-derived views of future security price behavior reflect foreknowledge rather than estimates and projections subject to reexamination and, as events may dictate, to change.

This requirement is in direct conflict with statements from the email that say:

WHAT IF...YOU REALLY (NO BS!)... REALLY! ...KNEW the FUTURE PRICE of ANY ASSET...with 95% accuracy in direction and magnitude of move? Days, weeks, or even MONTHS in advance?

Those words are not likely to meet SEC and FINRA compliance requirements. That is not generally a problem for marketers who make claims like this since compliance is not their priority.

This indicator would seem to be all anyone needs to profit in the markets, but the marketer wants to be sure readers understand this tool is superior to anything else in the marketplace:

Would you still need (and for some unknown reason...desperately cling to)...your technical indicators, trend lines, moving averages, all that other "stuff"?

We could argue that second paragraph disparages the work of others and would be a violation of Standard #4 but we would have a clear cased that the marketing piece is in violation of the requirements of Standard #3 in the COE:

Members and Affiliates shall not publish or make statements concerning the technical position of a security, a market or any of its components or aspects unless such statements are reasonable and consistent in light of the available evidence and of the accumulated knowledge in the field of financial technical analysis. New methods of technical analysis and modifications of existing concepts and techniques shall be fully documented as to procedure and rationale. Proprietary methods shall not be infringed, but this standard shall be a guide in the creation of proprietary products.

In this case, the marketer admitted to having less than one year of data to support the claim. Given the reality of market cycles, it is unreasonable to expect that the future will be exactly like the past year. This marketing example failed to explain that a one year test is not sufficient evidence that any technique works in the markets.

This particular example involved a nonmember which raises the final point we should consider.
MTA members are held to a higher standard and that means they should be more valuable to employers and clients. Ethics are a part of professionalism; in fact ethics are a requirement for a field of study to be considered a profession. Every field has a certain number of ethically-challenged participants. Being a part of the MTA or other professional organizations demonstrates integrity and a commitment to professionalism. Strong ethics is only way MTA members stand out in the crowded field of technical analysis.
MEMBER PROFILE: DR. JULIE DAHLQUIST, PH.D., CMT
BY AMBER HESTLA-BARNHART

Julie Dahlquist is first and foremost a teacher. She may not try to be teaching all the time but she taught me a great deal in a short time. Great teachers have the ability to make complex ideas easy to understand. Julie demonstrated this skill when she explained the relationship between economics and technical analysis.

My B.B.A. and Ph.D. are both in economics. I am often asked how an economist can become a technical analyst. However, I do not see economics and technical analysis at odds with each other. That supply and demand determine price is at the heart of economics. To me, technical analysis is nothing more than looking at the relationship between supply and demand.

That sounds simple enough but she has actually incorporated the two disciplines in a way that seems to be unique. In an easy to understand paper, Julie has applied techniques from economics to the markets. For example, cross-sectional analysis is a technique commonly applied in academic papers. These studies collect all available data for a population at a particular time, divide the population into smaller groups like deciles or quintiles and then measures changes over a defined time period in each group. Cross-sectional studies have been used to show that price-to-earnings (P/E) ratios and other fundamental values provide useful information.

In “Analyzing Gaps for Profitable Trading Strategies,” the 2011 Charles H. Dow Award winning paper Julie co-wrote with her husband, Dr. Richard Bauer, Julie modified the cross-sectional technique to study gaps. They measured the size of gaps, sorted the gaps into quintiles based on size and then determined how the size of the gap impacted future performance. The paper is available on the MTA web site. Julie and Richard have continued researching gaps and published a book on the subject, Technical Analysis of Gaps: Identifying Profitable Gaps for Trading, in 2012. This is the second book on technical analysis she has written with Richard. Their first book, Technical Markets Indicators: Analysis & Performance, was published in 1998.

Julie has also co-written a textbook on technical analysis, Technical Analysis: The Complete Resource for Financial Market Technicians, with Charles D. Kirkpatrick II, CMT. This book combines Julie’s academic experience with the practical experience both authors bring to the subject. This book is used in the CMT program and in college classes on technical analysis.

Writing a book for college students, along with a study guide and additional material for professors, is a task that Julie is well-prepared for. When I asked how she would describe her job, she highlighted her teaching:

Throughout my career, I have primarily been an academic. Much of my teaching and research focuses on bridging the gap between
academia and practitioners. As an academic, no two days are ever the same. In addition to teaching traditional college students, I have the opportunity to be involved in a number of executive and continuing education programs. My research focuses more on a broad understanding of how to apply technical analysis techniques rather than on making current market recommendations. I have written several books, and I write a bi-monthly article for Active Trader.

In addition to combining economics and technical analysis in her writing, Julie also combines the two fields in her analysis:

I tend to pay more attention to broad economic data than fundamental or accounting data for individual companies. Generally, I look to see whether the charts and the economic data are in agreement. When the charts and the economic data seem to be at odds with each other, I will back off; either I am misinterpreting the economic data or my interpretation is correct, but the market doesn’t realize it yet. I can’t determine which it is, and even if it is that my interpretation is valid and the market doesn’t realize it yet, I don’t know when the market will adjust.

From a personal perspective, I found her path to success to be very interesting. Julie graduated summa cum laude from University of Louisiana at Monroe with a B.B.A. in economics. She continued her studies in economics, receiving her Ph.D. from Texas A&M University. She received her M.A. in Theology from St. Mary’s University. Julie holds the Chartered Market Technician (CMT) designation. Her interest in the markets came later in life, but there may have been some subtle influences from her childhood impacting her future:

I didn’t grow up in a household in which economics or the financial markets were discussed; my mom still asks why I watch that channel on TV that has the little numbers going across the bottom of the screen. My dad was an environmental scientist, but I must have inherited my interest in the markets and technical analysis from him. Cleaning out his desk at work after he died, we found pages of stock charts he had plotted daily up to the day he had died (that was back before the general public had access to computer-generated charts).

Her schedule now plays a large impact on her market activity:

I tend to focus on the equities market. Spending so much time in the classroom, I do not have the luxury of monitoring the markets all day, every trading day. I tend to have pockets of time in which I can closely follow market activity, and I find it is easier to jump in and out of the equities market during those periods than some other markets.

I always ask everyone I meet in the field what advice they would have for someone starting out in technical analysis today. Julie’s answer was to focus
Technically Speaking

September 2013

On the markets rather than technology and to develop usable analysis instead of long reports that have no practical value:

Today, we have the advantage of having lots of data and high-speed computer processing. We can analyze markets more quickly and more thoroughly than ever before. But, it comes with a downside. You must be careful not to get too carried away with everything that can technologically be done. I have seen a 100-page report on a stock, written with a lot of fancy statistical lingo and complicated indicators that the author didn’t really understand. The same, or maybe even a better conclusion, could have been reached with a one-page report. It is much better to use a simple indicator that you understand than a complicated indicator that you don’t fully understand. And, using twenty-five indicators is not necessarily better than using five indicators. I suggest that people keep things as simple as possible and not get up with the newest, fastest, fanciest, etc. Also, I think it is important to develop and maintain a “feel” for the market. Using too much technology can interfere with developing that feel.

She recommends reading her co-author’s work as an example of how to apply that advice:

Charlie Kirkpatrick’s book Kirkpatrick’s Investment and Trading Strategies: Tools and Techniques for Profitable Trend Following just came out in August. Charlie’s knowledge of the financial markets and technical analysis is incredible, and he has so generously shared this knowledge, mentoring so many in the MTA over the years. This book provides another excellent way to learn from Charlie. He shares the indicators and methodology he has used for successful trading, but more importantly he shares the process by which he has developed his trading system. Reading this book is as close to getting inside the mind of a great trader as is possible.

The future of technical analysis looks bright to Julie and she sees a path to more widespread acceptance of technical analysis in the academic community:

Great access to data, faster computing speeds, and more sophisticated statistical techniques are allowing for systematic testing of many of the classic techniques and indicators. I think that there is great merit in some of the “rules of thumb” developed over the years by traders. I think technology is developing such that we will be able to show statistical validity to what these traders knew from gut instinct. Also, I think these technological advances will allow us to fine-tune many of the traditional indicators.

With twenty-five years of teaching experience, Dr. Julie Dahlquist, Ph.D., CMT, has taught a diverse group of learners in a variety of settings. She specializes in developing unique learning opportunities and training materials. Her broad-based experience includes serving as a consultant to book publishers creating innovative teaching materials, developing and coordinating international learning programs, providing customized, in-house corporate training, and teaching executive MBA students, as well as
teaching traditional undergraduate and graduate courses. While on the faculty at St. Mary’s University she was honored with the Douglass Award for Innovative Teaching. Currently, she is on the faculty at University of Texas at San Antonio, where she was awarded the UTSA College of Business Dean’s Award for Teaching.

In addition to books on technical analysis, Julie has written the study guide to accompany Fundamentals of Corporate Finance (by Berk, DeMarzo, and Harford) and Money, the Financial System, and the Economy (by Glenn Hubbard). She is a frequent presenter at national and international conferences and has published articles in a number of publications including Financial Analysts Journal, Journal of Technical Analysis, Active Trader, Working Money, Managerial Finance, Financial Practices and Education and the Journal of Financial Education. Her work has been recognized with the 2011 Charles H. Dow Award for excellence and creativity in technical analysis and the 2012 Mike Epstein Award for long-term sponsorship of technical analysis in academia. She is the editor of the Journal of Technical Analysis and serves on the board of the Market Technicians Association Educational Foundation.

Amber Hestla-Barnhart is an investment strategist specializing in options at Profitabletrading.com. Her work has been featured in financial publications in the U.S. and Great Britain, including Technical Analysis of Stocks and Commodities, SFO, Shares Magazine, and Technically Speaking.
THE TECHNICAL TAKE
BY ROBERT DOMBROWER, CMT

Editor’s note: This is an extract of an internal, weekly macro technical research report written solely to address the concerns of the Quantitative Strategies Group (QSG) at ICC Capital Management Company. The topics and layout are designed specifically for the needs of QSG in terms of content and formatting. This report was prepared on August 23, 2013 and opinions expressed in this report may have changed since then. It is reprinted here with permission of the author because it shows a consistent approach to intermarket analysis that many readers may find useful.

Report Summary

- Gold (GLD) / 20 Year Treasury Bond Price (TLT) relative strength remains bullish on the short term, consolidative on the intermediate term and bearish on the long term which is indicative of low inflationary pressure.

- Commodity (CCI) / S&P 500 (SPX) relative strength remains bearish on all time frames.

- The 10 Year Treasury Yield (USGG10YR) weekly candlestick chart remains bullish on all time frames.

- The Crude Oil (CL2) daily candlestick analysis (8/23/13) shows the bullish break of a short term descending right triangle (aqua) and the subsequent stall back into the pattern with support at the 50 day sma. The next area of horizontal resistance remains at 110.50 along with the 120 longer term pattern measuring objective (ascending right triangle). The Crude Oil (CL2) 1 X 3 Box Point and Figure (8/23/13) chart shows the bullish trend consolidating after the bullish thrust from the triangle pattern. 113 remains the upside vertical measuring objective taken from the pattern break / establishment “X” column of the new bull trend.

- The GOLDS weekly candlestick (8/23/13) shows the latest bullish move through a short term falling resistance line as ADX rolls over from an extreme overbought level at +50. Short term resistance remains at 1400 (psychological round number). Too early to call a bottom. The GOLDS (20) X 3 Box P&F (8/23/13) chart shows a recent double top buy signal and bullish test of an internal falling resistance line of the current bear trend. This signal calls for no addition to any short positioning, rather it calls for profit taking of short positions. Long positions should be avoided at this juncture.

Asset Class Watch – Gold VS Bond Price as Inflation Indicator
The Gold (GLD) / 20 Year Treasury Bond Price (TLT) relative strength chart is shown above with moving average, pattern, trend line and momentum analysis to track the inflationary pressure during the current upward move in the price of gold. Pring Research dubs this relationship “The Ultimate Inflation / Deflation Relationship Indicator.”

Much has been made of the most recent price action in Gold as it has vaulted off of long term lows during the past few weeks as equity markets have consolidated. When viewed in the context of its relative action versus bonds, the move is well projected above as a strong bullish stab towards the falling resistance line drawn from pivot high in the third quarter of 2013 and following. We will be watching this relationship for any sign of a bullish trend reversal if it breaks this line, however for now the move remains within the context of the long term down trend and hence decreasing inflationary pressure. Conclusion: Gold (GLD) / 20 Year Treasury Bond Price (TLT) relative strength remains bullish on the short term, consolidative on the intermediate term and bearish on the long term which is indicative of low inflationary pressure.

Asset Class Watch –
Commodities (CCI) / S&P 500– Pivotal Support and Oversold

The Commodity (CCI) / S&P 500 (SPX) relative strength chart is illustrated above to track the expansive commodity asset class VS. equities for more insight into the intermarket relationship of the two within the business cycle.

We have been tracking this relationship closely as the 2009 to 2012 head and shoulders top reversal completed in early 2013 and the current bear move continues into the present. The Fibonacci retracement shows the current bullish bounce off of the 61.8% retracement level with a commensurate oversold RSI reading – two signals that could be fueling the latest rally -- however the trace action, which resides below all three moving averages (50, 100, 200 period) that are bearishly crossed and negatively sloped, carry
the strongest weight in the ongoing bearish assessment: Conclusion: Commodity (CCI) / S&P 500 (SPX) relative strength remains bearish on all time frames.

Asset Class Watch –

10 Year Treasury Yield Reaches Bullish Measuring Objective

- The 10 Year Treasury Yield (USGG10YR) weekly candlestick chart is illustrated above to track bond yields and hence commensurate asset allocation pressures as well as business cycle information.
- The longer term action on weekly candlesticks show the fulfillment of the bullish head and shoulders bottom reversal measuring objective as yield hits the 2.9% level. This event comes after the bullish move above the long term falling resistance and the 200 week moving average while the 50 week has bullishly crossed over the 100. RSI has indicated bullish range rules in effect with the latest two pivot highs at the overbought line and ADX is poised to post a higher high fro previous pivots with a reading in the mid 30’s. This bullish action is yet another confirmation of further pressure in allocation away from Bonds into other risk assets and provides additional confirmation of stage 4 asset class behavior (beginning of expansion). Conclusion: The 10 Year Treasury Yield (USGG10YR) weekly candlestick chart remains bullish on all time frames.

Commodity Watch – Crude (CL2) Action Stalls Back Into Triangle

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along with the 120 longer term pattern measuring objective (ascending right triangle).

- The Crude Oil (CL2) 1 X 3 Box Point and Figure (8/23/13) chart shows the bullish trend consolidating after the bullish thrust from the triangle pattern. 113 remains the upside vertical measuring objective taken from the pattern break / establishment “X” column of the new bull trend.

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Robert Dombrower, CMT, is a Senior Vice President and Equity Portfolio Manager at ICC Capital Management ($3B AUM) in Orlando, Florida. He manages four equity products (Core Value, Large Growth, International ADR, Sector Rotation) as part of a four member quantitative team, managing over one billion on behalf of the Union, Public, Corporate, and HNW arenas. In addition Robert team sub-advises the Quaker Funds Capital Opportunities Mutual Fund (QUKTX in Fall 2012) which is a tactical quantitative multi-strategy combining all four strategic equity styles in a dynamic, risk controlled construct.

Robert also spearheads the technical research effort through the creation and implementation of quantitative technical overlays, qualitative, top down and bottom up technical research, and intermarket analysis and forecasting. Prior to joining ICC, Robert was a quantitative Large Cap portfolio manager and manager of operations at Paradigm Asset Management in New York and began his financial career at Independence Investment Associates (John Hancock) in Boston, as a quantitative portfolio management associate. He holds a BA (hon) in English Literature and Music from Binghamton University, and an MM in Music, Summa Cum Laude (Opera Performance, Theory) from Boston University.
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.
Elliott Wave is often thought of as a comprehensive market philosophy. It can be applied as a self-contained analytical tool but Gorman and Kennedy demonstrate that Elliott Wave can be combined with other indicators to potentially increase returns and decrease risk. The use of additional indicators is rarely seen with Elliott Wave analysis but this book demonstrates how to add momentum or an overbought/oversold indicators.

In *Visual Guide to Elliott Wave Trading*, Gorman and Kennedy explain how to apply Elliott Wave and more importantly how to trade Elliott Wave.

One of the advantages of Elliott Wave is that it provides a way to forecast market turning points. Analysis often begins with a study of the past market action to determine which wave is unfolding now. That information is useful to traders but no tool is ever 100% accurate. A simple idea, adding MACD or RSI to the chart, can increase the usefulness of an Elliott Wave forecast.

After reading the book, this point will seem obvious. We should expect a market to be oversold as a corrective wave nears an end in a bull market. Impulsive waves should be overbought as they approach their price targets. This idea adds a degree of confidence to the analysis. Analyzing charts with indicators and Elliott Wave could help identify the best trading opportunities. This technique allows traders to avoid low probability trading opportunities and apply their limited capital to stocks with the greatest likelihood of breaking out or breaking down.

This book also explains how to trade Elliott Wave. Elliot Wave is often applied to major stock market indexes. It can also be applied to commodities or individual stocks and there are examples of that in this book.

*Visual Guide to Elliott Wave Trading* includes all of the basic information new traders will need to understand Elliott Wave. It also provides new ideas and innovative strategies that more experienced traders can immediately apply.

Jeffrey Kennedy is Chief Commodity Analyst at Elliott Wave International (EWI), and editor of the Monthly Futures Junctures publication. A recognized expert in Elliott wave analysis and trading with more than 20 years of experience, Kennedy has taught thousands of people how to improve their trading with the Elliott Wave Principle. He teaches online learning courses and conducts in-person seminars at Elliott Wave International, and is also an adjunct professor of technical analysis at Georgia Tech’s Quantitative and Computational Finance program.
Wayne Gorman is Senior Tutorial Instructor at Elliott Wave International. With more than 30 years of experience as a risk manager and trader, he began his career at Citibank managing money market and derivative portfolios, and then went on to forex trading and various treasury management roles in London and New York. Wayne has been using the Wave Principle since 1986. He has worked exclusively with Elliott Wave International since 2002.
WHAT SETS YOU APART?
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Q&A WITH WAYNE GORMAN

Editor’s note: After reading the book, I wanted to know more about how to trade Elliott Wave. Wayne kindly answered several questions and his answers may help others trying to incorporate Elliott Wave into their trading process.

Your book stressed risk management. Would you say Elliott Wave is a risk management framework?

No, not in the sense of measuring and evaluating “Value at Risk,” which is a statistical concept. Elliott wave is a forecasting model that can be used to create a trading framework.

You also provide examples from various markets demonstrating EW. Do you think EW works in all markets, even when government or central banks exert pressure on prices like they do with QE?

One can apply Elliott wave to any trading market that’s free and liquid. The underlying premise is that crowd behavior results in price movements that are patterned after the Wave Principle. Governments and central banks are just as much part of the “crowd” as traders.

Another unique aspect of your book is the combination of EW with other indicators. How would you prioritize the different tools? Should waves or indicators be analyzed first?

The Elliott wave pattern supersedes other indicators.

Do you have a favorite EW pattern to trade?

Third and fifth waves of impulse waves and C waves of flats and zigzags offer the best opportunities, especially when they’re preceded by zigzags, triangles or diagonals.

What do you think of the markets right now?

Starting from the 2000 high, the DJIA is tracing out an expanded flat labeled a-b-c. Wave a ended at the 2009 low, wave b has just ended or is about to end soon, and wave c should experience a major decline back to the 2009 low and possibly lower. This could also be counted as a double three combination, w-x-y, but the end result would be similar.
AN OVERVIEW OF MARKET ACTION IN THE PHILIPPINES
BY RON ACOBA, CMT

Philippines Stock Exchange PSEi Index Outlook

Editor’s note: This analysis was prepared on August 28, 2013.

The PSEi fell as low as 5,562 in today’s trading following last night’s sell-off of emerging market shares in the U.S. Fortunately, the PCOMP managed to surface above its support at its June low to close the session at 5,738. Bargain hunting in anticipation of a better-than-expected Philippine GDP report allowed the index to recover part of its losses and as a result formed what appears to be a bullish hammer candlestick pattern. With prices at support and an oversold condition, the index may stage a rally in the very near term. A bounce off its present support may send it back to 5,900 or even to 6,100. Note, however, that any rally may still be temporary as this may mark the last rally of the wave C of a wave 4 correction. Following this rally, another round of selling may occur, pushing the index to a new yearly low (around 5,100 to 5,500). Having said that, I believe any quick trading buys must be closed once the index itself meets a resistance level.

USD/PHP Target: Php47.00

One of the major threats in the local equity market is the likely depreciation of the Philippine peso against the US dollar. As you can see from the chart below, the USD/PHP pair has already broken out from what appears to be a rounding bottom pattern with resistance at Php44.00. If it manages to stay above Php44.00 then it might go straight to its target at around Php47.00. A fall back below Php44.00, on the other hand, may send it down to Php43.00. Note that a further decline in the US dollar to Philippine peso exchange rate may be bad for the local stock market as this could prompt further selling from the foreign funds.

Ron Albert Acoba, CMT, is Chief Investment Strategist for Trading Edge Consultancy. Prior to that, he was an equity dealer for Credit Suisse Philippines and an equity fund manager for BPI Asset Management & Trust Group. Blogs with updates to the market action can be found at www.tradingedgeconsultancy.com.
CHART OF THE MONTH

This month, several charts are shown to allow for a more detail look at India. A number of news stories have pointed out that rapid changes in the exchange rate of the Indian Rupee could lead to economic problems for the nation. The Rupee is at an all-time high against the U.S. dollar.

As the Rupee fell, prices have increased and the one-year ROC in the Consumer Price Index has been over 10% for some time.

Stock prices have been falling. The monthly chart shows that India’s benchmark SENSEX index has stalled near all-time highs.

From the weekly chart, a possible price target of 16,800 on the SENSEX can be found from the triple top pattern. The SENSEX is near 18,550 now.
Charts show that the Indian economy may struggle for some time and stocks could fall another 9% before finding support.

All charts from the Federal Reserve and Trade Navigator.
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:

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

You may register online at MTAEF.org!

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.