LETTER FROM THE EDITOR

Many readers already know that Fred Dickson, CMT, passed away at the end of October. In this issue, we look at an example of his work. It is an amazing example of clarity and focus and provides an example of how to turn ideas into actions. Fred dedicated much of his life to helping others turn ideas into actions.

As with most great individuals, outstanding professional accomplishments are just one small part of their life. Gail Dudack, CMT, notes, “Fred was probably the smartest and most gentle person I have known. And while he had a great reputation on Wall Street and CNBC, his true passion was counseling people who needed help and he did this for decades as deacon of his church. He was always there if you needed him. But his greatest passion was his harem: wife Linda, daughters Kathy and Barbara.”

Fred also played a significant role in turning the ideas of technical analysis into a respected profession. It is impossible to overstate the impact Fred had on the MTA. He became a member in September 1978 and served as president from 1983 to 1984. Fred earned his CMT designation in April 1991.

Ralph Acampora, CMT, credits Fred with kick starting the CMT program. Ralph noted that Fred personally wrote the first 300 questions for the exam. Ralph also recalled that there was a period of time when the MTA Library was homeless and Fred stepped in to keep the library functioning. Along with his wife, Linda, Fred moved the books to his garage and made them available to members while the MTA looked for a new home.

In all likelihood, Fred would prefer that we take inspiration from his life rather than isolated memories. Even if you never had the opportunity to meet Fred, consider Gail Dudack’s comments as a summary of his personality and consider Ralph’s recollections as a summary of his commitment to his profession. We can all find inspiration in his life and acting on those inspirations would be the legacy Fred would desire and deserves.

Sincerely,

Michael Carr
The Law of Supply and Demand is universally recognized in both academia and the business world as the foundation, the starting point of all economic analysis. The Law of Supply and Demand states that when demand for a freely traded commodity exceeds the supply of that commodity, its price will rise. And, if the supply of that commodity exceeds the demand for it, the commodity's price will fall. Notice the lack of equivocation. No mights or coulds or shoulds, just will. It’s the Law. And, since common stocks are a freely traded commodity, their price movements are dictated by the Law of Supply and Demand – the starting point of common stock analysis (and, therefore, stock market analysis). As such, it is difficult to imagine why it is not at the core of every investor’s portfolio strategy.

Since 1938, Lowry Research Corporation has measured the factual, unbiased forces of Supply and Demand at work on the New York Stock Exchange. Our database of those measurements now extends back 87 years – from mid-1925 to present. Recently, we have expanded our analysis to encompass 24 major stock exchanges around the world. In essence, we measure the daily movements of money into and out of the stock markets. These movements reveal changes in investor psychology over time, moving through repetitive cycles of hope, fear and greed – which are the direct result of the purchases and sales of billions of shares of stock by millions of investors. Since the actions of individual investors are usually heavily influenced by group psychology and economic cycles, security prices generally move in relatively well-defined trends, commonly known as Bull markets and Bear markets. Gradual changes in both buying enthusiasm and in the desire to sell provide a series of progressive warning signs – signs that can help investors anticipate important trend changes, shifting to a more aggressive strategy near the start of Bull markets, and shifting to a more defensive strategy near the start of Bear markets –markedly enhancing their longer term portfolio performance.

Most investors will concede that the most difficult part of managing a portfolio of stocks is identifying the formation of a major market top before it is too late. This is undoubtedly due to the universal enthusiasm for stocks, and generally positive economic news that usually dominates investor psychology at such times. But, the warning signs are nevertheless present for those willing and able to see them.

The period leading up to a major market top share a number of similarities with the Autumn season as it transitions into Winter. That is, in Autumn the leaves begin to fall from the trees in a very gradual process – nearly imperceptible – one at a time, until the trees are eventually bare at the onset of Winter. It is no different near major market tops. Individual stocks begin to roll over into their own Bear markets, one at a time, usually beginning with the less noticeable small-cap and mid-cap stocks. An important consideration in this gradual process of erosion is that small-cap stocks generally make up about 40% to 50% of the stocks traded on most major global equity markets, while mid-caps typically make up about 30% to
Big-caps generally account for only about 10% to 15% of common stocks traded on most of the large world markets. In the emerging equity markets, the percentage of small-cap stocks is even more dominant. Thus, as a mature Bull market rallies through a series of higher highs in the big-cap price indexes (such as the DJIA and S&P 500), investors must be able to see that a growing majority of stocks may already be in downtrends. Otherwise, at the final high in the big-cap indexes, a relatively small number of heavily weighted big-cap stocks can deceive investors into believing that the broad market is still in a healthy uptrend.

The most important warning signs commonly found near Bull market tops involve evidence of increasingly extreme selectivity. Just as there are a wide variety of ways to recognize the changing conditions from Autumn to Winter, there are a number of ways to observe the gradual process of a Bull market devolving into a Bear market, all of them involving the Lowry measurements of Supply and Demand. A detailed review of each of these indicators could easily occupy a lengthy dissertation. Instead, this paper offers an overview of the importance of these measurements in terms of avoiding the ravages of recurrent Bear markets throughout the 87-year history of the Lowry Analysis:

**New 52-Week Highs:** Usually, the first warning sign that a Bull market is losing some of its upward momentum occurs when the percentage of stocks rising to New 52-Week Highs begins to contract. This warning typically occurs as much as six to twelve months in advance of the final highs in the big-cap indexes. It is not so much a sign of trend weakness as it is a sign of fading strength – somewhat like an athlete who discovers she cannot jump as high, or run as fast, as she could in her youth. The contraction in New Highs serves as a gentle reminder that all Bull markets eventually come to an end. It also shows that fewer stocks are participating in the Bull market, prompting investors to begin reviewing their portfolios more closely, looking for holdings that have stopped making new highs. If a stock again fails to make a New 52-week High during subsequent market rallies, its lack of strength may indicate it is time to cull that stock and reinvest the proceeds in a stronger stock that is consistently rising to new highs. Later, as the percentage of stocks rising to New 52-week Highs continues to contract (reflecting an increasingly selective market advance), the strategy should shift to selling laggards one at a time, and building cash reserves rather than reinvesting in a weakening trend.

On a broader basis, each time the big-cap indexes
rise to new Bull market highs, it is important to keep track of the percentage of individual stocks also rising to new Bull market highs. Our original 2006 study titled An Exploration of the Nature of Bull Market Tops (updated to include the 2007 Bull market peak) examined every Bull market top since 1929 and found that, on the final top day of the Dow Jones Industrial Average, less than 11% of common stocks listed for trading on the New York Stock Exchange were also making new highs. In the 1929 case, when the DJIA made its final high on Sept. 3rd, the percentage of NYSE-listed stocks at new highs was just 2.3% -- extreme selectivity.

As a corollary to monitoring new highs, the Lowry Analysis also tracks the percentage of stocks that are already down from their highs by 20% or more on the same day that the Dow Jones Industrial Average is making its final Bull market high. A decline of 20% or more is generally viewed as signifying a Bear market. As the table below shows, if an investor had the unique ability to sell her portfolio on the exact final top day of the DJIA, she would discover that a substantial portion of her portfolio had already suffered significant losses. Just as the leaves in Autumn fall from the trees one at a time, stocks drop out of Bull markets in the same slow, gradual manner.

<table>
<thead>
<tr>
<th>BULL MKT TOP DAY</th>
<th>% STOCKS @ NEW HIGHS</th>
<th>% AT OR &lt; 2% OF NEW HIGHS</th>
<th>% OFF 20% OR MORE</th>
<th>% OFF 30% OR MORE</th>
</tr>
</thead>
<tbody>
<tr>
<td>09/03/1929</td>
<td>2.30%</td>
<td>15.62%</td>
<td>31.84%</td>
<td>18.77%</td>
</tr>
<tr>
<td>03/10/1937</td>
<td>6.05%</td>
<td>21.34%</td>
<td>5.94%</td>
<td>1.06%</td>
</tr>
<tr>
<td>05/29/1946</td>
<td>8.59%</td>
<td>30.44%</td>
<td>6.30%</td>
<td>0.86%</td>
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<tr>
<td>04/06/1956</td>
<td>5.32%</td>
<td>23.36%</td>
<td>1.92%</td>
<td>0.42%</td>
</tr>
<tr>
<td>01/05/1960</td>
<td>1.60%</td>
<td>5.83%</td>
<td>23.25%</td>
<td>7.67%</td>
</tr>
<tr>
<td>12/13/1961</td>
<td>3.56%</td>
<td>11.83%</td>
<td>25.29%</td>
<td>11.60%</td>
</tr>
<tr>
<td>02/09/1966</td>
<td>9.66%</td>
<td>19.04%</td>
<td>9.52%</td>
<td>2.68%</td>
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<tr>
<td>12/03/1968</td>
<td>9.43%</td>
<td>20.12%</td>
<td>9.51%</td>
<td>2.36%</td>
</tr>
<tr>
<td>01/11/1973</td>
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<td>11.62%</td>
<td>34.22%</td>
<td>20.51%</td>
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<tr>
<td>09/21/1976</td>
<td>10.97%</td>
<td>22.88%</td>
<td>21.65%</td>
<td>10.09%</td>
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<tr>
<td>04/27/1981</td>
<td>7.09%</td>
<td>15.18%</td>
<td>28.01%</td>
<td>9.39%</td>
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<tr>
<td>08/25/1987</td>
<td>6.23%</td>
<td>15.23%</td>
<td>17.97%</td>
<td>7.44%</td>
</tr>
<tr>
<td>07/16/1990</td>
<td>5.55%</td>
<td>18.11%</td>
<td>37.31%</td>
<td>22.74%</td>
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<tr>
<td>01/14/2000</td>
<td>3.54%</td>
<td>6.31%</td>
<td>55.33%</td>
<td>32.45%</td>
</tr>
<tr>
<td>10/09/2007</td>
<td>10.77%</td>
<td>11.03%</td>
<td>26.51%</td>
<td>16.51%</td>
</tr>
<tr>
<td>AVERAGE</td>
<td>6.38%</td>
<td>16.54%</td>
<td>22.26%</td>
<td>10.97%</td>
</tr>
</tbody>
</table>
Advance-Decline Lines: The gradual process of individual stocks dropping out of the aging Bull market – like the leaves on a tree as Winter approaches – can be monitored each day through Lowry’s various Advance-Decline Lines. Usually, the gradual reduction in the number of stocks advancing versus declining on days of rally first appears in our small-cap Advance-Decline Line. Investors often turn away from small-cap stocks first, as they are often viewed as “one-trick ponies” with less financial strength, and generally more vulnerable to protracted market declines. The weakening of the small-cap Advance-Decline Line indicates that fewer small-cap stocks are still participating in the remaining Bull market, thus encouraging investors to reduce exposure to small-caps on a stock by stock basis.

Progressive weakness soon begins to spread – either simultaneously or a short time later – to the mid-cap stocks, as reflected in persistent weakness in our Advance-Decline Line for the mid-cap components. Soon after (usually about four to six months before the final Bull market high in the big-cap indexes), the spreading weakness can be observed in a steady downturn in our Operating-Companies-Only (OCO) Advance-Decline Line, despite new highs in the big-cap indexes. At this point, new highs in the major big-cap price indexes are not unlike a sand castle with its foundations gradually washing away, leaving the turrets progressively more vulnerable. It should be emphasized that the weakness in the various segmented Advance-Decline Lines does not ever call for a single all-encompassing sell-signal, but simply encourages investors to reduce risk exposure on a case-by-case basis, as more and more individual stocks demonstrate they are rolling over into their own Bear markets.
Market Index Divergences: During the early stages of a Bull market, virtually all equity indexes tend to rise together, albeit at somewhat different rates. During the latter stages of a Bull market, some price indexes stop rising and begin to turn down as the remaining Bull market becomes increasingly selective. Since most investor publications and websites tend to primarily display charts of the popular big-cap indexes, it could be relatively easy for an investor to completely miss these important warning signs of major trend weakness. One of the earliest studies of the importance of price index divergences was the still highly regarded Dow Theory that addressed divergences between the Dow Jones Industrial Average and the Dow Jones Transportation Average near major market tops. Today, that original concept should be expanded to contrast the uptrends in the big-cap DJIA and S&P 500 Index to downtrends in a variety of sector or segment price indexes – such as the S&P 100, 400 and 600 Indexes, the Lowry Unweighted S&P 500 Components Index, the NYSE Composite, the Russell 2000 Index, or the Value Line Composite Index – during aging Bull markets. Each time another of the less popular price indexes fails to confirm the continued strength in the big-cap indexes, the warning signs become increasingly important. And, as the market advance becomes more selective, investors’ portfolios should become more selective. In this way, when the final highs of the Bull market are registered, investors should be still holding only a small number of the strongest stocks.
Percentage of Stocks Above their 30-Week Moving Averages: Another helpful way to be alerted to the increasing selectivity typical of old Bull markets is to regularly observe the percentage of NYSE-listed stocks above their 30-week moving averages each time the DJIA and S&P 500 Index rise to new Bull market highs. During healthy Bull markets, new highs in the popular price indexes should be accompanied by 75% to as much as 90% of stocks above their 30-week moving averages. At the final Bull market highs for the DJIA and S&P 500 Index, the number of stocks still in uptrend patterns has typically been dropping steadily to 60% or less. Remember, there is strength in numbers. The importance of the warning signs given off by any one indicator is multiplied when similar warning signs emerge in a variety of indicators, each of which measures the forces of Supply and Demand from a slightly different angle.

Buying Power vs. Selling Pressure: The Lowry Analysis has become particularly well known over the past 75 years for its composite measurements of Supply (the Selling Pressure Index) and Demand (the Buying Power Index). During the early stages of a healthy Bull market, Buying Power typically rises sharply, reflecting expanding investor buying enthusiasm. At the same time, Selling Pressure usually drops steadily, showing that the supply of stocks being offered for sale is shrinking. However, during the latter stages of an old and increasingly fragile Bull market, Buying Power commonly weakens as buyers become more cautious, while Selling Pressure rises steadily as initial profit-taking evolves into consistent distribution. A major reassessment of equity strategy is generally called for whenever the internal condition of the stock market deteriorates enough to cause Selling Pressure to rise to the dominant position above Buying Power, which represents the critical point when Supply exceeds Demand.
There are many experienced investors who will argue strongly that there are no effective warning signs of major market tops. To those investors, Bear markets just suddenly emerge without warning (somewhat like a sudden plague), and must simply be endured by investors until, hopefully, a new Bull market eventually makes up their losses. The reason so many scholars and professional money managers were unable to see the warning signs reviewed in these pages is simply because their attention has been focused exclusively on corporate earnings, and other macro-economic factors, rather than on the observance of the Law of Supply and Demand applied to the flows of money into and out of common stocks – the foundation, the starting point of all economic analysis and all stock market analysis. Investors have faced exceptional challenges since the 2000 and 2007 market tops. A growing number of investors have widened their horizons to include key measurements of Supply and Demand. The Lowry Analysis of Supply and Demand is complementary to all other forms of equity analysis and provides a vital system of checks and balances to enhance portfolio performance throughout both Bull markets and Bear markets. The Lowry Analysis starts with the examination of the primary market trends of 24 markets and 3 regions, and then extends to the ten major economic Sectors and 68 Industry Groups in each region, and 14,000 individual stocks and Exchange Traded Funds (ETFs) – all available 24/7 around the world.
The charts included in this paper have purposefully been taken from a variety of the 24 equity markets included in the Lowry Global interactive website as well as the Lowry onDemand domestic interactive website covering the NYSE and NASDAQ markets. Our goal is to demonstrate through the history of our various measurements of money flow, that the Law of Supply and Demand is truly universal, bridging languages, cultures, and currencies, and helping investors to become truly Global.

An UPDATE to: THE WARNING SIGNS OF MAJOR MARKET TOPS (August 15. 2014)

The original study, above, was first released to our Lowry Research subscribers on August 16, 2013. During 2014, we have begun to see, in the U.S. markets, as well as in many of the European markets, a number of the early warning signs that typically emerge during the months prior to a major market top. For the purposes of this update, we will focus on the NYSE and NASDAQ markets.

As we pointed out in the 2013 version of this paper, one of the earliest initial warning signs of major market tops is a contraction in the number of stocks rising to New 52-week Highs. That is, as the major benchmark price index makes a series of new highs, the percentage of stocks also rising to new highs becomes progressively smaller. This warning sign typically emerges during the last six to twelve months of an old bull market, but has persisted even longer in particularly extended bull markets. In the present case, the largest percentage of U.S. stocks rising to new 52-week highs occurred in May, 2013.
Since that time, as the above charts show, each new high in the S&P 500 Index has been accompanied by a smaller and smaller number of stocks listed on the NYSE Exchange, as well as on the NASDAQ, rising to new 52-week highs. The important point here is, history shows that persistent, multi-month periods of a shrinking number of stocks making new 52-week highs can only be found during the final stages of old bull markets. Thus, as the original study noted, the persistent… “contraction in new highs serves as a gentle reminder that all Bull markets eventually come to an end”.

As a Bull market continues to age, the number of stocks simply participating in the Bull market (but not necessarily making new highs) begins to weaken.

The chart below shows two Advance-Decline Lines – simple but essential cumulative measurements of the number of stocks rising versus falling each day. During the healthy stages of a Bull market, the number of stocks being accumulated expands along with the major price indexes. But, as stocks progressively rise to the point that they are viewed as over-valued, buying interest fades, and those stocks eventually drop out of the Bull market.

At the top of the chart is the S&P 500 Index. The vertical red line to the right shows the most recent new Bull market high for this benchmark index, on July 24, 2014. In the center of the chart is Lowry's unique Operating-Companies-Only (OCO) Advance-Decline Line. This indicator excludes all closed-end bond funds, preferred stocks, and ADRs from the roster of NYSE-listed stocks, leaving a “clean” list of domestic common stocks. The third indicator shown below is the NASDAQ Advance-Decline Line, which is dominated by small-cap stocks.
The winner of the 2002 Charles H. Dow Award, Paul Desmond, is President of Lowry Research. He joined the firm in 1964 as Director of Research and advanced to the Presidency in 1972. Over the past 45+ years he has earned the distinction of being regarded as the Dean of Supply/Demand analysis. Paul has been a distinguished member of the Market Technicians Association, serving as its President from 1997-1999. He was honored as the winner of the very prestigious Charles H. Dow Award in 2002, based on his long recognized expertise on the study of 90% market moves, which is only one of the unique elements to the analysis at Lowry’s. Paul was honored in 2009 as the Technical Analyst of the Year by the Technical Analyst Magazine of London. Paul is also a co-founder of the American Association of Professional Technical Analysts (AAPTA).

Paul’s 2002 paper, Identifying Bear Market Bottoms and New Bull Markets, focused on spotting buying points. In a recent paper that is republished below, he turns his attention to applying the Law of Supply and Demand to find potentially important selling points.
Fred Dickson, CMT, Senior Vice President, Chief Investment Strategist, passed away on October 31, 2014, after a brief illness.

Fred worked as an investment analyst for more than 40 years. In his most recent position, he was named Chief Investment Strategist for the various Davidson Companies in October 2009. Prior to that appointment, Fred served as D.A. Davidson’s Director of Private Client Research and Chief Market Strategist between August 2001 and September 2009. Fred served earlier as D.A. Davidson’s Director of Research between 1993 and 1997.

In his capacity as the firm’s Chief Investment Strategist, Fred provided daily, weekly and monthly commentary on the various financial markets and was a frequent speaker at client events, community public service clubs, and trade association meetings throughout the west. Fred served on the D.A. Davidson Board of Directors between 2004 and 2007. He was a frequent guest commentator on the CNBC and Bloomberg television networks and was often quoted by The Wall Street Journal, Dow Jones, CNN Market Watch, Reuters, and the regional media commenting on current economic and financial market events.

Fred was honored with the firm’s 2006 Ian B. Davidson Award for Cultural Excellence recognizing his efforts setting a firm-wide standard of professional excellence consistent with the firm’s core set of business values and in May 2010 for career-long leadership contributions to DA Davidson client service, product marketing and national brand recognition.

Fred’s Wall Street career began in 1973 at Goldman Sachs where he worked for nine years as a Technical Market analyst and Equity Investment Strategist with their top rated investment strategy team. In 1982, Fred joined ShareInVest, a money-management organization as its first Chief Investment Officer and portfolio manager for its Tyche Hedge Fund. Between 1987 and 1993, Fred served as a Senior Investment Officer for Management Asset Corporation in Westport, CT, and TDA Capital Management, an investment management organization he co-founded. Between 1997 and 2001, Fred served as Director of Research for Branch Cabell and subsequently, as Chief Market Strategist for Tucker Anthony Sutro after Tucker Anthony Sutro acquired Branch Cabell in 2000.

Fred was a Chartered Market Technician, a member of the New York Society of Security Analysts, the CFA Society, and was a member, past President and a past long-time Board Member of the Market Technicians Association. Fred served as a sixteen-year member and past multi-year Chairman of the Securities Industry Association (SIFMA) Research Directors’ Roundtable. Fred was a faculty member at the New York Institute of Finance between 1979 and 1993 and served as an adjunct Assistant Professor of Finance at the University of Richmond. He graduated from Penn State University (B.S.) and earned an MBA from the University at Buffalo (SUNY). Fred was named as a Trustee of the prestigious Wharton-Securities Industry Institute advanced professional management development program in 2010. Fred lived for many years in Tigard, OR with his wife Linda. He had recently moved to Timonium, MD, to be closer to family in anticipation of retirement.
For many years, Fred wrote a weekly market comment. The last one he prepared is below.

The stock market bounced back last week with its biggest weekly rally for the S&P 500 and the NASDAQ Composite in roughly two years. The story was third quarter earnings reports from a long list of companies delivering much better than expected revenue and earnings. The DJIA lagged behind due to reporting laggards IBM Corporation (IBM), Amazon.com (AMZN), McDonalds (MCD), and Coca-Cola (KO). Earnings news overshadowed tragic news from Canada including apparently lone-wolf terrorist killings of military and police personal. Ebola remained in the headlines, but last week was largely ignored by traders. Economic data from Europe remained disappointing, suggesting European problems remain with their governments unable to come to reasonable banking and fiscal initiatives to keep many of the nations from sliding into their third recession during the last six years. Data from China was slightly more encouraging. Perhaps the biggest catalyst last week came from FOMC Governor James Bullard suggesting that the FOMC would take its time evaluating domestic and global economic data before coming together to recommend the first short-term Fed rate hike since 2007. Bullard’s remarks provided what commentators called the “Bullard Bounce” that gave the stock market a nice lift in addition to solid earnings results.

Each of the ten market sectors rallied last week with Healthcare (+6.72%), Technology (+4.71%), and Consumer Services (+4.35%) leading the charge; Telecom (+0.91%) was the only sector that failed to gain at least two percent last week. Last week’s market rally was broad and deep. NYSE advancing issues outnumber declining issues 2,135 to 572. The number of NYSE issues hitting a new 52-week high rose to 214 and the number of NYSE 52-week lows dropped to 101. The yield on the 10-year Treasury note was flat last week, closing at 2.27%. The dollar slid, closing at $85.71 versus a global basket of currencies. The euro fell slightly versus the dollar, closing at $1.248. West Texas Intermediate crude oil fell last week, closing at $81.30/barrel, as the price of oil remains volatile. London gold rose last week and closed at $1,231.00/ounce.

The numbers for third quarter earnings reporting season continue to improve and provide the backbone of resistance the stock market lacked two week ago. According to FactSet Data Systems, with 40 percent of the S&P 500 reporting results, 70 percent delivered a positive earnings surprise with operating earnings up 7.2 percent versus a year ago on a 5 percent increase in revenue. Technology and Healthcare have delivered solid revenue gains, thus
supporting the rebound in stock prices in those sectors. Investors continue to discriminate between companies that appear to be firing on all cylinders and those that are sputtering, with Amazon.com (AMZM) and IBM (IBM) coming to mind. This week, approximately 100 S&P 500 reporting companies deliver results. The extension of the current rally depends greatly on an extension of good earnings news, such as received last week.

**Last week’s flow of economic data did not encourage or discourage equity or bond investors.** September housing data was OK, showing no big gains or losses versus the prior month in new or existing home sales. A surprise to us is that the data was not better given the big decline in interest rates seen over the last month that should translate into another terrific window for potential new and existing home buyers. Gasoline prices continue to decline at the pump, giving consumer spending power a nice boost. It appears that slowing global demand for crude, increasing global supply, and signs of a price war among global oil producers stand behind the recent decline in crude prices. Inflation remains tame with just a 0.1 percent increase in the CPI reported for September. Consumer prices are up just 1.7 percent versus a year ago.

**Investors will focus this week on the two-day FOMC meeting in Washington.** The Fed most likely will disclose the end of its QE3 bond buy program this month. The Fed’s assessment of the domestic and global economic landscape will provide an important update on potential Fed action to lift rates during 2014. In addition, investors will receive normal month-end economic indicators including third quarter GDP, Personal Income and Personal Spending, Weekly Initial Jobless Claims, the Case-Shiller Home Price indices, Chicago PMI, and Consumer Sentiment.

**We expect the unusual market volatility to extend, banking on good economic and earnings data to keep the current equity market rally intact.** Dark clouds linger including Ebola news, Islamic State advances in Syria and Iraq, isolated terrorist threats, and a growing threat of deflation (seen by falling bond yields and falling crude prices) that suggest ultra-caution for making new equity investments in the coming weeks. Fortunately, the long-term technical trend remains positive and intact, in our view, and the sudden improvement in the short-term trend should encourage cautious new short-term equity purchases. Typically, companies accelerate share-buyback plans in November and December which may give the stock market another boost. Keep the seat belts tightened, we expect the stock market to move higher during November, but also expect another bumpy ride during the month.

**Summary of Important Current/Longer Range Market Indicators:**

- **Cyclical Economic/Market Position:** Late-middle stage of a multi-year expansion; fundamentals now must drive growth
- **Long-Term Market Trend:** Up (10 of 13 directional long-term market factors remain positive); “Don’t fight the Fed”
- **Market Trend Factor Watch List:** Narrowing market breadth; P/E at the prior cyclical high, Ukraine, Middle East
- **Fundamental (Growth) Outlook:** Positive; projected 3Q 2014 EPS growth at 8.5% Y/Y for the S&P 500, +7% in 2014
- **Valuation (P/E relative to interest rates):** Equities are approaching the boundary of “fully-valued” zone at 16.6x estimated 2014 S&P 500 EPS
**Federal Reserve Monetary Policy:** Still highly accommodative; favorable for domestic economic growth and equity prices; tapering of QE3 bond buys now scaled back to $15 billion/month. QE3 expected to end on 10/31/2014

**Interest Rate Yield Curve:** Normal, sharp-upward slope; points to improving economy; positive long-term for stocks

**Inflation:** Very tame - PPI (+1.8% Y/Y); CPI (+1.7% Y/Y); PCE (+1.6% Y/Y); inflation remains below the Fed’s target level

**Geopolitical Factors:** ISIS, Ukraine political situation, Iran nuclear program, Syria, November U.S. Elections

**Trade-Weighted Dollar:** Trending higher, reflecting money flows to the dollar from more troubled regions of the world

**Near-Term Technical Market Trend:** Up, but may be extended near-term

**Investor Sentiment:** VIX volatility has moderated–did not approach the most recent big peak level seen in August 2011

**Next Major Market Problems/Risk:** Ebola scare; China economy slowdown; Fed tapering, ISIS, Ukraine

**December 2014 Targets:**

- DJIA (17,300)
- S&P 500 (2,010)
- 10-year Treasury yield (2.90%)

**DA Davidson’s Long-Term Investment Cycle Clock Perspective:**

- Equities – Late Middle Stage of Economic/Expansion (11AM on the Clock)
- Bond Market in a risk position (2PM on the Clock)
- Emerging Markets still falling (4PM on the Clock)
- Gold bottoming (5PM on the clock)
All 13 of these “warning” indicators appeared 12 to 24 months ahead of the top of the last eight economic and stock market cycles.

2. Inflation pressures continue to significantly increase - No (Holding steady around 2 percent)
3. M2 monetary growth beginning to noticeably slow down - No (Steady 7% Y/Y acceleration)
4. Index of Leading Indicators approach zero year-over-year growth - No (Nice 6% Y/Y acceleration)
5. Corporate profit margins are declining on rising costs - No (Holding at record levels)
6. Y/Y Earnings Increases for the S&P 500 are decelerating - No (Up sharply during 2Q 2014 vs 2Q 2013)
7. Market breadth rapidly narrows, negative price divergences become more visible - Seeing early signs
8. Long-term interest rates are rising and at multi-year highs - Currently not a problem
9. Equity market valuation (P/E ratio) at “extended” or multi-year highs - Not a problem, but watch in 2015/2016
10. Industry/sector stock market bubbles become widespread - Recent correction has reduced this risk
11. Emerging global economies begin to noticeably slow/currency problems - Yes, but could improve in 2014
13. Geopolitical problems – Yes, Islamic State and Russian incursion into Ukraine remain significant risks

Fred H. Dickson, CMT, Senior Vice President, Chief Investment Strategist, D.A. Davidson Co.
When we think about insider trading, we usually picture company executives buying out of the money calls on their company stock right before a takeover announcement. That is just one way to define insider trading according to the Securities and Exchange Commission (SEC) and the courts. Legally, this is known as the “classical theory” of insider trading and only company insiders can be guilty of this action.

Technical analysts don’t usually work in offices specializing in mergers and acquisitions. Many technicians prepare reports without referring to fundamental data or talking to a company’s executives. In this way, technical analysts might feel that they couldn’t be involved with insider trading.

However, there is a more expansive definition of insider trading called the “misappropriation theory” that applies to investors and traders who are not company insiders. According to a paper in the American Criminal Law Review¹, this theory was affirmed through a Supreme Court Ruling:

In *United States v. O’Hagan*, the Supreme Court resolved a conflict among the circuits by adopting the misappropriation theory, under which a party trading on wrongfully obtained non-public information is liable solely for "misappropriating" that information. Although Chief Justice Burger had previously set forth a version of the misappropriation theory in his *Chiarella* dissent, the *O’Hagan* Court adopted a version more akin to the Second Circuit's reasoning in *United States v. Newman*.

In *O’Hagan*, the Supreme Court found that the misappropriation theory falls within the provisions of Rule 10b-5, which requires (i) a deceptive device; (ii) breach of a fiduciary duty; (iii) use of material, non-public information in connection with the purchase or sale of a security; and (iv) willfulness on the part of the defendant.

The misappropriation theory can be applied to a technical analyst.

As an example, it is possible a technical analyst can hear about a takeover from a junior associate at a law firm preparing the documents. After hearing this, the technician looks at the chart of the company and finds the stock is oversold on a monthly chart and trading near the upper limit of a multi-year trading range. If the price breaks through support, the stock would be a buy.

Issuing a buy recommendation on the stock could be considered a deceptive practice under the misappropriation theory since the technician would not have looked at the chart if they hadn’t received the tip.

As another example, a technical analyst might hear from an entry-level manager in a publicly traded company that the company is going to beat earnings expectations. The chart supports a buy recommendation but again, because the technician is aware of important information related to the company, the recommendation could be considered insider trading under the misappropriation theory.

It’s also important for technical analysts to remember that there are two ways insider trading violations can be investigated. There is a criminal process where the standard of proof is “guilt beyond a reasonable doubt” and a civil process that uses a lower standard of proof known as a “preponderance of the evidence.” Many technical analysts will be familiar with the preponderance of the evidence standard because that is one approach that can be used to develop an opinion about the markets. Martin Pring and others have written about this idea which allows analysts to have a strong opinion even when there is contradictory evidence.

Of course an accusation of insider trading can fail to meet even the lower preponderance of the evidence standard and after an investigation, an analyst could be cleared of wrongdoing. The investigative process does protect the innocent but that process carries a cost in dollar terms that can be substantial. There is also the unfortunate reality that investigations often begin as front page news but receive little attention when they are closed due to a lack of evidence. That reality means there is a cost to an analyst’s reputation whenever they are a part of an investigation.

Because of the high costs associated with an investigation, many analysts rely on ethics rather than the letter of the law to determine what they should do. Following this standard, if their actions would provide even the appearance of impropriety, many analysts will avoid that action.

For many technical analysts, this might be a new way of looking at the subject of insider trading. But this theory actually recognizes the changing role of the technical analyst on Wall Street. When the SEC accepted the CMT exam as proof of competency for the Series 86 exam, they acknowledged the role of the professional technical analyst. As a market professional, technicians have to meet the highest standards of ethics and comply with all laws associated with market integrity. In this role, technicians can be exposed to inside information and need to be aware of the consequences of failing to maintain the confidentiality of that information.

For more on recent insider trading cases, consider reading Matt Levine at Bloomberg View. He frequently writes about interesting insider trading cases and other enforcement actions. He also presents an understandable summary of the facts the SEC’s theory of the case depends on.
U.S. equity markets have performed best from October to May over the past 30 years, an S&P 500 seasonality chart shows.

The chart above was created with Bloomberg's SEAG<GO> function. It shows the average percent return of the S&P 500 beginning in October for the last 30 years. On average, the index rises about 8.5 percent.

Adding to the bullish outlook is the fact that the best six months coincide a favorable election cycle. Chad Gassaway, CMT has calculated the return of the S&P 500 during the last 16 midterm election years. He found that the market went up during the fourth quarter 14 out of 16 times.

Paul Ciana, CMT, is an equity and technical analysis specialist at Bloomberg LP in New York. He can be contacted at PCiana@Bloomberg.net
Members, Affiliates and Friends…

The MTA Awards Committee is pleased to announce that as of November 1st we will be officially accepting nominations for the 2015 Honorees. We welcome you to submit your recommendations for recipients in all four award categories.

Each year the MTA Awards Committee has the honor of presenting several awards to dedicated professionals who make lasting contributions to technical analysis through the Annual Awards Program. Recipients of the awards are celebrated at the Annual MTA Gala Dinner where they are honored by long-time colleagues and friends in front of hundreds of their peers. It is our unique opportunity to celebrate the growth and innovation of technical analysis within the broader financial community.

*The Annual Award recognizes a career that expands the realm of technical analysis and makes a lasting impact on the larger technical analysis community.*

*The Service Award recognizes volunteers and staff that drive the advancement of technical analysis and is given to a true champion that works to expand the local and global presence of the MTA.*

*The Recognition Award honors professionals that advocate for and bring technical analysis to the forefront of the industry. The award is open to individuals in varied positions that include regulatory roles, media outlets, software developers, and academia.*

*The Memorial Award posthumously honors technicians that remain a legacy in technical analysis.*

We invite you to honor individuals that have inspired your work in technical analysis by placing a nomination on their behalf. You can nominate individuals by visiting the Annual Awards webpage and clicking on the individual awards. Nominations will close on December 1st, 2014.

We look forward to celebrating with you at the 2015 MTA Annual Symposium Beyond the Benchmark: Applications for Active Asset Management and Gala Dinner.

Ross Leinweber, CMT
MTA Awards Committee Chair
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The Puget Sound Chapter had the pleasure of hosting Heather Greshan and John Antal at a meeting on October 9, 2014. They gave a captivating presentation on the Investor Business Daily's stock selection approach utilizing the CANSLIM approach and illustrated how fundamental and technical analysis combined can be effectively used to time entry and exit points for individual stock selection.

Their approach uses fundamentals to search for the strongest stocks in the strongest groups through the IBD's relative strength ranking. The relative strength ranking is usually at the 90 level. In addition, the stocks must meet earnings and revenues criteria, such as EPS above 90. This technique aims to enhance a trader’s probability.

Particularly interesting was the use of classic chart patterns combined with volume analysis. This simple but effective approach favors the investor while allowing for assessment of risk/reward. A position is entered once a stock has proven itself and made new highs.

Patterns such as cup and handles, flags, pullbacks to a support line are used for timing the entry.

Another approach discussed was buying on the first or second breakouts from basing patterns. Later base set-ups, for instance the third and fourth, are avoided since they can occur too late into the trend which reduces the chance of success.

The presentation would not have been complete without a concrete definition of the CANSLIM approach:

- **C** - Current quarterly earnings per share that has increased sharply from the same quarters' earnings reported in the prior year. (Beware of items in financial statements that can cause earnings distortions.)

- **A** - Annual earnings increases over the last five years.

- **N** - New products, management, and other new events. N can also mean the company's stock has reached new highs.

- **S** - Small supply and large demand for a stock creates excess demand and an environment in which stock prices can potentially soar. Companies that acquire their own stock will reduce market supply and can indicate their expectation of future profitability. Look for low debt-equity ratios.

- **L** - Choose leaders over laggard stocks within the same industry. Use the relative strength index as a guide.

- **I** – Pick stocks that have institutional sponsorship by a few institutions with recent above average performance. Be cautious of stocks that are over owned by institutions.
M - Determining market direction by reviewing market averages daily

The exit strategies discussed were: moving averages, trendline breaks, and profit targets of a specific range.

Several professionals that attended the event used the IBD method in their trading, including an attendee that used the IBD method to win a trading contest. Gatis Roze, who writes 'The Traders Journal', for stockcharts.com, is also an IBD method user. In his newsletter, Gatis mentions that the "foundation of my Tensile Trading methodology is very much rooted in CANSLIM, but, over 25 years, it has evolved in a number of significant ways."

Leslie Jouflas began trading in 1996 and left a 17-year airline career in 2000 to pursue a full-time trading career. I have studied many trading methodologies, including Elliott Wave, options strategies, momentum trading, classical technical analysis, and Fibonacci ratios and patterns. After trading stocks and options on stocks, I now trade futures and commodities with an emphasis on the S&P 500 e-mini market. Leslie is a member of the Market Technicians Association and has co-authored two books, Trade What You See – How to Profit from Pattern Recognition (Wiley & Sons, 2007), published in English, German Italian, Chinese and Japanese, and Essentials of Trading: It's Not WHAT You Think, It's HOW You Think (Traders Press, 2006), and has many published articles for such publications as Trader's Journal, Active Trader, and Technical Analysis of Stocks & Commodities. In addition she teaches live workshops and webinars providing ongoing education for traders. Leslie has been an invited speaker at many of the Trader's Expo's and has done several interviews with the Money Show. Leslie founded the www.tradingliveonline.com website which is an educational website teaching traders to become confident, consistent and proficient using specific pattern recognition.

On September 2, 2014, the Board of Directors of the Market Technicians Association suspended the MTA membership of Juan Carlos Parets, including the right to use the Chartered Market Technician designation, for a period of 18 months. The suspension results from a determination that Mr. Parets violated Ethical Standard 1 of the MTA’s Code of Ethics, which requires all members to maintain at all times the highest standards of professional integrity. Mr. Parets' failed to disclose in his Personal Conduct Statement that he had been barred by FINRA from association with any FINRA member in any capacity for 18 months and had been ordered to pay $30,000 in restitution to customers. The MTA suspension was imposed for failing to disclose this action and two previous customer complaints in 2011 and 2012.
GT Advanced Technology recently filed for bankruptcy. Pundits claimed that the filing came as a total surprise to just about everyone. Could one, using technical analysis, have known that GTAT was going bankrupt, or at least have been prepared for a precipitous drop? To the former, no; to the latter, yes.

Technical analysis can help predict future price behavior, but doesn’t generate reasons for this behavior.

Nevertheless, GTAT was in a clear bearish trend with targets below $6.00 confluent.

The daily chart alone shows multiple bearish factors. The gap marked "1" is an exhaustion gap, indicating that the uptrend may be ending. The gap wasn’t filled on a closing basis before $18.90, marked "2" with a horizontal dashed line, representing the 76.4% retracement for the move down from $20.54 high, a standard level in the Bloomberg retracement annotation tool.

- At point 3, following $18.90 is bearish breakaway gap, signaling the possibility of a serious downtrend.
- At point 4, we see a downwardly accelerating volatility expansion bar.
- At point 5 there is a large down measuring gap, projecting to about $9.70. [The math: Top of formation to top of gap = $18.90 - $14.70 = $4.20. Bottom of gap to target = $13.88 - $4.20 = $9.68].
- At point 6, I’ve highlighted a bearish head and shoulder pattern that had projected to $14.50. Prices fell through this level with the gap noted at “5”.
- Point 7 was an up day that occurred once $9.70 was hit. A small bounce is commonly seen from major support. Here “7,” the up day, was followed by a star, forming a bearish Harami line and star.

The blue dotted line trailing above prices is the first level from Kase’s DevStop study. This is one standard deviation over the average double True Range, and statistically signifies calls for most purely random moves to hold. Notice that this tool would have kept traders on the right side of the major trend in GTAT.

We again see the value of using technical analysis not only to succeed by being on the right side of the market, but most importantly to survive by avoiding unpleasant surprises.

Cynthia Kase is the President and Founder of Kase & Co. To learn more about Kase’s services on Bloomberg, or to take a trial, please visit KASE<GO>.

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How would you describe your job?

I'm a portfolio manager and investment analyst at a boutique wealth management firm here in Atlanta. I manage or co-manage around a dozen asset allocation models for both retail and institutional clients. My job is to form opinions on all areas of the market and choose the best investment vehicles or managers to allocate to. I use both ETFs and actively managed mutual funds and utilize technical and fundamental analysis. I also work directly with our clients to keep them abreast of what we're doing though meetings and market/portfolio commentaries.

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

My grandfather introduced me to the capital markets when I was young, and I knew that I would work in them some day. But it was while studying for the CFA designation that I knew I wanted a position that allowed me to work directly in the markets while still maintaining direct contact with clients. I currently specialize in asset allocation work but have a general passion for the capital markets and factors that drive them.

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

Yes, I like to look at the overall health of the global economy and individual countries when forming my opinions. Specifically, I look to see what the market's reaction is to data such as GDP figures, ISM/PMI data or housing numbers once they're released. This gives me a feel for investor sentiment at that time.

Over the last few years, it has felt as if any news was good news, as the markets have traded higher on just about all data released. This is most likely attributed to the extremely loose monetary policy seen here and abroad. With that being said, lately I've felt that investors have been slightly more skeptical of the notion that all news is good news for the markets, and it appears as if investors are starting to once again put more emphasis on the actual data being released when making their investing decisions. Only time will tell, but I hope the markets get back to some sort of normalcy where Quantitative Easing decisions by the Fed aren't the only market driver.

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

Network with as many people in the business as you can. This will give you a good feel for what type of jobs are out there and let people know that you are eager to find the right one for you. It's amazing how many different positions exist within the "finance" sector.

Also, I would recommend obtaining one of the many designations available such as the CMT or CFA. Doing so shows potential employers that you are dedicated, smart and serious about getting ahead.
Lastly, attend functions hosted by the MTA, CFA or the alumni association for your school. These are great places to meet people with similar interests and backgrounds to yours and may lead to a job opportunity.

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

My firm works with Asbury Research which is run by John Kosar, CMT. He does a lot of work with ETF flow data and its effect on market direction. Specifically, I've really enjoyed his work on flows in and out of the sector ETFs within the S&P 500.

Beyond John's great work, I have to mention the solid research done by the Leuthold Group. Doug Ramsey, CFA, CMT and his team's Major Trend Index has been spot on over the last few years and is really impressive. They publish a monthly piece called the "Green Book" which is worth reading if you can get a copy.

**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'd have to say that I'm most impressed with the work I've seen related to ETF flow data. ETFs have become such a large part of the marketplace and can provide a lot of great insight into what the retail and institutional investor is thinking. Additionally, I think they are a great way to gain exposure to areas of the market that most individuals previously couldn't access, such as forex or commodities. Lastly, they allow the average investor to be more tactical and easily put intermarket analysis to work within their portfolios.

Matt Bailey, CFA is the head portfolio manager at Wealth & Pension Services Group. His responsibilities include investment due diligence, portfolio construction, asset allocation and educating the firm’s advisors and clients through regular investment and market commentary. As a CFA® charterholder, Matt has extensive knowledge of portfolio management, securities analysis and a strong understanding of the financial markets. Additionally, Matt has a strong passion for technical analysis and its application to investing and portfolio management. He is currently a level 3 exam candidate of the Chartered Market Technician® (CMT) program.

Prior to joining Wealth & Pension Services Group, he spent three and a half years at Fidelity Investments working with clients to develop investment strategies focused on diversification through asset allocation. Matt holds a Bachelor’s Degree in Business Administration with an emphasis in Finance from the University of Georgia’s Terry College of Business and holds the CFA® designation. He is also a member of the Atlanta Society of Finance and Investment Professionals (formerly CFA Society of Atlanta), CFA Institute and Market Technicians Association - Atlanta Chapter.
Overview

This two-part article will provide evidence of the stock market attempting to successfully break above resistance in a fashion that has only occurred three times previously in the Dow’s history. In addition, the S&P 500 is simultaneously breaking major resistance from a large expanding parabolic channel stemming from 1982.

In Part One, a yearly log chart of the Dow demonstrates 2014’s attempt at a potential breakout indicating a continued massive bull market. In addition, I offer evidence that unless November signals a false breakout by closing below monthly geometric resistance, the markets will embark on the continued large rally, and offer two some price/time targets in the short-term for the Dow.

Part Two (next month) will offer long-term targets for the Dow, and both short and long-term targets for the S&P. In the case of the Dow, I will offer sequential analysis that indicates every successive major top from each respective breakout, utilizing the same methods as in Part One. In the event that November’s prices close back below resistance, downward targets will be provided.

The Big Picture

At the end of October, the markets established the close of 17,390.52 for the month of October, which I have been eagerly awaiting. One look at a yearly log chart of the Dow since 1900 can indicate the ramifications of an extended short-term rally throughout the rest of the year, maintaining a yearly close above the resistance of 17,155.85:
Sometimes simple is best. Ascending resistance lines are drawn over 4 sets of 2 consecutive higher yearly highs, labeled A-D. The three previous incidents of similar price activity over the last century somewhat resemble the current large expanding pattern (D) closely enough for comparison.

Note that at points A and B, the market stayed above the TL on the following year of the breakout, producing smaller percentage multiples as compared to the breakout at point C, where the market pulled back below the TL before closing back above. This produced a ‘slingshot effect’ resulting in the largest Bull market in history (in points gain, and also from the TL break). Therefore, the relative extent of a continued move can be extrapolated by next year’s activity as related to points A and B, or as to point C, assuming the market closes above 17,155.85 for the year.

If the market cannot close above resistance for the year, then it breaks a pattern established over many years, since every time the market made contact with the TL’s, it closed above all three times. This would indicate that unless 2015 could do the job, a major bear market would ensue.

However, there are still two more months left to test this major line. Naturally a closer look at the 14-year expanding pattern is in order, to see if the market has enough staying power.

A Closer Look: The Dow

In this next chart, I utilize pentagonal analysis which I featured in my first article in this newsletter back in February 2012.

The major low of 7200 (rounded from 7197.49) is all-telling here, by providing the groundwork for a very fruitful geometric environment (this will be expanded upon in Part Two), especially when applying my Vector Concentric Circles tool:
By forming concentric circles and \( \frac{1}{2} \) circles from this downtrend vector set at \( 72^\circ \) (hypotenuse of the blue triangle), both successive major reversals are accurately given (B and C), along with the previous uptrend’s interim high on February 2004 at A. These three reversals occur upon first contact with a circle (after the vector downtrend in the case for A). Note that the reversal at point A gives a sideways market, however it is distinct in that the market reached it from outside the circle.

The market just broke that forming pattern by closing above/outside Circle 2.

To put this recent breakout in perspective, an analysis of breakouts at the second point of contact with a circle at points B\(_1\) and C\(_1\) is in order. The market displayed identical strong behavior (albeit in opposite directions) with the crash from the financial crisis of 2008 at B\(_1\) (and at almost exact price level as point A) and the almost vertical climb of the rally starting on January 2013 at C\(_1\). Therefore, the current breakout of concentric circle 2 is unique from its predecessors at A and B, and more akin to points B\(_1\) & C\(_1\) which both produced strong moves in their respective trend’s direction. This implies a strong move upward, and a possible end to the expanding correction.

Naturally, a November drop back inside the circle could be disastrous, and I might have to cancel Christmas…!? But to where would the market go to short-term?

The next chart expands on this geometric set-up by adding 72° channels\(^2\), and considering that the 2007 high is exactly on 1/3 (or 30°, which is also 3/9), I offer the successive fractional harmonic angle of 4/9 (or 40°), along with the ever important half angle of 45° (1x1):
The channel indicates two points of intersection with angles and the next target circle: September/October 2015 at 20,200 and February 2016 at 19,500. Both are realistic, as the market has been constantly climbing up this channel for 4 years.

Naturally the same kind of analysis and expectations from the previous chart will apply to encountering this circle.

A Closer Look: The S&P 500

The next chart reveals that this market is also indicating a continued Bull market, by closing above upper resistance from a massive parabolic curve from the low of 102.00 back in August of 1982:

This parabolic structure demonstrates the power of the number. The low of Aug 1982 is 102.00. The simple parabolic expression (Curve 1) goes up in price 102 points per squared number series in months (multiplied by the square root of the low of 102, which gives 10.0995M). Additional curves are formed by multiplying the price (x2, x3, x 1/3 etc...). Fractions are given for additional highs and lows (curves removed for clarity).

The market closed above in August, back slightly below in September, and now finally back above strongly with a large support shadow to boot. Perhaps the market is finished with this parabolic channel for good? November will tell.

Note that the first observable pullback is at exactly 1/3 of Curve 1, which when inverted gives Curve 3. The market went haywire in the mid-late 1990's upon breaking out of Curve 1 heading straight for Curve 3, and then finally giving way when failing to close above for the second time in August/September 2000: Perfect inversion for Alpha and Omega.

(Incidentally, I showed this chart 1.5 years ago to several top MTA analysts at the 2013 Symposium, just weeks before the market closed above the previous all-time high of 1576.09. I mentioned that the market would go to the 3rd Curve at just under 2000. Well, lucky to say that this contraption worked, and using the month of November 2004 (marked ‘center’, which closed above the central regression Curve 2, and continued above), it hit Curve 3 in July, only 1 month off the
expected month of June. In 1995, price broke above Curve 1 entering this channel exactly 116 months before the ‘center’, thus projecting 116 months forward).

In fact, this curve structure reveals much more than tops and bottoms:

*It reveals that the entire market action since entering above Curve 1 is in a perfect inverse retrograde motion, starting on November 2004 (the ‘center’)!*

![Graph showing inverse retrograde motion](image)

Simply put both index fingers on the center, and move away from each other, following the letters. Each move is the exact same, from the perspective of the curve structure. Although the pattern inside Curves 1 and 3 seems to be over, this may still serve, as the market may continue above Curve 3 in an inverse-retrograde fashion of price preceding point G, and going all the way back to August 1982. This possibility will be explored in Part Two.

**Conclusion**

The analysis given of the Dow (long and short-term) and the S&P 500 indicate a continued Bull market, both short-term and long-term, unless this month’s close is back below resistance, signaling a potential major reversal and subsequent failure to maintain the previous century’s pattern.

**Footnotes:**

1) I establish a geometric environment using the first large downtrend from the January 2000 top of 11,750.28 to the low of October 2002 of 7197.49. Since this low is just a hair under 7200 (which can represent ‘72’ in such a high price range), I align the chart’s geometric ratio (price/time) to the preceding downtrend at 72° utilizing the following formula:

\[
\text{VR} / \tan(\text{desired angle}) = \text{geometric ratio}, \text{ or } 45^\circ
\]
2) These channels can also be drawn without geometric angles, but simply reversing the trend vector of 137.9633/M to point forwards and up (retrograde), and applying in like kind.

Scott Hathaway has been developing new methods and techniques in technical analysis for over 5 years, including novel uses of square numbers, prime numbers, mutually exchanging price, time and geometric degrees/ trigonomic functions, and ‘Relative Charting’, a proprietary geometric methodology. He is developing a tool module for Market Analyst charting software which will feature many of his ideas. His newsletters will resume after a brief sabbatical abroad. More of his work can be seen at hathawayanalysis.com. He is a Chartered Market Technician candidate with the Market Technicians Association.
Crude oil futures have recently broken to multi-year lows as the weekly chart below shows.

The monthly chart provides a longer-term perspective and shows that oil is testing support levels that have held for nearly five years.