LETTER FROM THE EDITOR

This month we are including a number of charts. As technicians, it is a relatively simple matter to generate charts. The challenge is to create meaningful charts. We think the authors of the charts in this month’s newsletter accomplished that. Each of the charts presented in this issue can be studied to develop new insights into the markets.

Many members enjoy obtaining information on career opportunities. We try to include that information in the newsletter when we can and will be including more information in the next few months about the QGLDX Trading Strategy Contest. This contest has a rigid, quantified process that allows money managers to demonstrate their skill and to obtain a one-year exclusive contract to trade at least $1 million in assets.

We also have a news release from a company that has created a platform designed to help financial services firms launch new technology applications. The cost and time dedicated to software development can be daunting to professionals focused on the financial markets. New innovations in technology are creating new opportunities for professionals to expand their product offerings.

If you are aware of similar opportunities, please let us know by sending an email to editor@mta.org.

Sincerely,

Michael Carr
The Relative Strength Index, or RSI, is among the most popular indicators selected on Bloomberg and is commonly used as an oscillator to time overbought and oversold markets. It can also be used as an indicator of future market weakness. You may be thinking of divergence analysis, rather this article will discuss a different and unique application of the indicator as it relates to the continuous positive momentum in the S&P500.

Before turning to the rules for interpreting RSI as a trend forecasting tool it is important to remember that indicators don’t have to provide information all of the time to be useful. Infrequent but highly reliable signals could be more valuable than frequent signals with a low rate of success. This analysis of RSI provides infrequent signals that have had a great deal of importance in the past.

RSI is called “relative” because it compares the relative momentum of up moves to down moves over the calculation period. By default a 14-period calculation is used although 3, 5, 9 and 21 are also popular parameters for RSI.

In *New Frontiers in Technical Analysis*, I explained how RSI could be used to gain insight into the relationship between the strength of up and down periods:

> The indicator is scaled onto an axis that has a low of 0 and a high of 100. Usually by default, horizontal lines are drawn at 70 and 30 to signify momentum in the upward and downward direction, or what is commonly referred to as overbought or oversold respectively. It is also important to point out that an RSI level of 50 signifies equal performance of up-periods versus down-periods.

While RSI is not generally used to define the direction of the trend, we propose it could in the following way. Extended periods of time when the RSI is above 50 would be defined as up trends. A down trend would be marked by periods of time when the RSI is below 50. Using RSI in this way, especially as a definition of up trends, provides some important information about current market behavior.

After RSI has been above 50 for an extended period of time, the market can be considered overbought no matter what the exact level of the indicator is. After a market becomes overbought, we expect a period of underperformance. In this case, after RSI moves back below 50, we would expect a period of time when prices decline or at least trend sideways.
I recently looked at the behavior of the market after RSI indicates an up trend has ended. This study included looking at the ten longest trends in S&P500 history when the 14 week RSI remained above 50. Subsequent stock market returns show that prices have a tendency to trade sideways or down for 4-12 months in a choppy and trendless path after the RSI streak is broken.

This study is especially important to consider now that the RSI of the S&P 500 has remained above 50 for more than 90 consecutive weeks, the third longest streak on record. As noted earlier, this technique will provide infrequent signals. The chart below shows the rarity of this event.

The next chart shows the history of market action after the previous extended up trends. One of the signals occurred near the 1929 top. To smooth the impact of this period on the history, median returns are included on the chart. Median values show the midpoint and can provide more useful information than an average when the data is widely dispersed.
When the 14 week RSI finally breaks below 50, average returns from that point are generally negative for up to four months. Note these figures do not include the percent decline from the prior peak. The signal confirms a prior overbought reading and suggests trouble ahead.

- In four of the nine cases, returns were negative over the next three months. In seven of the nine cases, the three-month return was less than 2%.
- In three of the nine cases, returns were negative over the next six months. In five of the nine cases, the six-month return was less than 2%.
- In five of the nine cases, the twelve-month return was less than 10%.

The next chart shows the price history of the S&P 500 after the longest streak. RSI was above 50 for 102 consecutive weeks in the mid-1950’s.

The signals are not 100% accurate. No credible market timing tool is. The period ending in July 1996 yielded a slight decline. The trend quickly resumed for 35 weeks with RSI whipsawing around 50 in April 1997 and then again for 68 weeks. The 1990’s secular bull market defies many measures, including this one.

In conclusion, this technique is not an exact forecast for the future but watching the weekly RSI could offer an important signal that a bull market has ended. This technique could also be applied to other indexes, international stock markets or individual stocks.
Paul Ciana’s global role at Bloomberg LP has him involved with many areas of the firm. He works across multiple asset classes with institutional clients on the buy and sell side to develop strategies based on technical, fundamental and quantitative measures. More specifically, he focuses on global macro, proprietary trading, equities, commodities and interest rates. He works with Product Development to identify, prioritize and develop new analytics for the Bloomberg Professional service. This includes global market breadth analytics, custom charting/data visualization solutions, strategy validation tools, alert intelligence and mobile charting.

Paul is actively involved with defining and executing the firms marketing strategy through events and research. He founded the Bloomberg EDGE conference series in July 2010 and with the support of his counterparts they have successfully taken the event to cities around the world. In 2011, Paul published New Frontiers in Technical Analysis, discussing many advanced strategies on the Bloomberg Professional Service. He also founded and contributes to the Bloomberg BRIEF Technical Strategy report.

Paul achieved an MBA from Fordham University in 2014 and his Chartered Market Technician (CMT) designation in 2008. He can be reached at pciana@bloomberg.net or through twitter, @paulciana.
REFLECTING ON THE 2014 DOW AWARD

BY CHARLES V. BILELLO, CMT & MICHAEL A. GAYED, CFA

Though only a few months have passed, it feels a like a lifetime ago when the Market Technicians Association honored us with the 2014 Charles H. Dow Award for our paper titled “An Intermarket Approach to Beta Rotation.” One of our goals in writing the paper was to further bridge the gap between technical analysis and institutional money management. Without question the MTA and Dow Award have been instrumental in achieving this goal.

In the paper, we revealed a Beta Rotation Strategy (BRS) that uses the relative strength of Utilities to the market as an indicator to rotate into either the lower beta Utilities sector or the higher beta broad market. The behavior of the Utilities sector is one component of our ATAC rotation strategies used to manage our own mutual funds and separate accounts. We documented how a Beta Rotation Strategy would have achieved consistent outperformance on an absolute and risk-adjusted basis since 1926, bringing in various outside academic research on momentum, seasonality, and intermarket behavior. Importantly, we also illustrate that when the strategy points to a rotation into the defensive Utilities, it can serve as a warning sign of increased volatility and extreme market movement in the short-term.

Winning the Dow Award has been an incredible experience for us personally and professionally. The paper has been among the most downloaded on the Social Science Research Network (www.SSRN.com) and has been written about on various sites including Barron’s, Marketwatch, and Pensions & Investments. In our various writings on Marketwatch, Minyanville, theStreet, and in guest pieces for Marc Faber, we’ve been able to talk about markets through the lens of our research in a way that few in the academic community have the potential to do. One of the particularly nice aspects of the Award is that our credibility within the community has increased beyond simply being analysts and portfolio managers in the media who comment on asset class behavior. Rather, the Dow Award has elevated the level and quality of discussion when it comes to interpreting the message of the market.

We have also had the privilege of presenting our research findings across the country at various MTA and CFA Chapters, as well as to large groups of financial advisors. The reception has been extremely positive and we have enjoyed meeting investors who share an interest in intermarket analysis and investing. As we continue to travel the country to present our findings, increase our credibility, enhance our reputation, and network, we are excited for what the future holds for Pension Partners, the Market Technicians Association, and our peers. We look forward to meeting more of you in the months to come as we continue to present our research beyond Twitter and LinkedIn, interacting in person with thoughtful colleagues and as we help to grow the body of evidence that counters the efficient market hypothesis.

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SEPTEMBER 2014
Now Accepting Submissions for the 2015 Charles H. Dow Award

The Charles H. Dow Award highlights outstanding research in technical analysis. The Award embodies excellence and creativity in the field of technical analysis. Winning papers have created successful trading systems, insights into theories of how markets function and have represented the richness and depth of technical analysis.

Of the 21 authors/co-authors winners, eight have gone on to publish books based on their submissions to the Charles H. Dow Award. Winners have presented at multiple MTA events and were mentioned in various media outlets including: Barron’s, Bloomberg News, CNBC, CNN Money, Investing Daily, Minyanville, The Street, Thomson Reuters, and The Wall Street Journal.

The recipients of the 2014 Charles H. Dow Award were Charles V. Bilello, CMT and Michael A. Gayed, CFA for their submission, An Intermarket Approach to Beta Rotation: The Strategy, Signal, and Power of Utilities. “We were honored to receive the Dow Award by the Market Technicians Association and to join an esteemed group of past award winners” said Charles.

The competition is open to all practitioners and academics. The submission will be judged based on its ability to enhance the understanding of market action, the concepts of technical analysis, and thorough research. For the 2015 cycle we are accepting previously published non-commercial work. For additional information on the Standards of Judgment view the Guidelines for Submissions.

The winning submission is distributed to our vast membership spanning 85 countries and approximately 4500 members. The Award carries a prize of $5,000 and is presented at the MTA Gala Awards Dinner held in New York City in March. For more information on the Charles H. Dow Award, please contact Ajay G. Jani, CMT at DowAward@mta.org.

Final Submission Deadline: January 5, 2015

*Outline Submission Deadline: November 1, 2014

*Submitting an outline is optional. The outline process will help clarify and organize the candidate’s thoughts while providing the foundation for longer research. The candidate will receive commentary on the topic, its suitability, and the approach the candidate is taking.
Editor’s note: This was originally published by Thompson Reuters and is reprinted here with permission. Knowing which indicators are widely used can help traders understand why prices react in certain ways.

Technically inclined traders gauge markets with either trend tools or various analyses. They are looking for insight on the strength or weakness of the ongoing trend and on possible beginning of a new trend. This letter focuses on the most popular technical analyses. These analyses should be used in conjunction with trend tools, such as trend line and various Fibonacci ration analyses.

The seven most popular analyses are:

1. Moving averages
2. Bollinger Bands
3. Stochastics
4. Moving Averages Convergence Divergence (MACD)
5. Relative Strength Index (RSI)
6. Ichimoku Kinko Hyo
7. Rate of Change

MOVING AVERAGES

The chart above shows euro/sterling (EURGBP=) with four exponential moving averages drawn on it: 21-day (light blue), 55-day (green), 100-day (dark blue), and 200-day (red). Traders use various numbers of averages. I think three or four averages are ideal because such a number allows traders to look at short term, medium term, long term, and very long term horizons.

Please notice that the 21-day the exponential moving average acted as a strong declining resistance between March 27 and July 31, 2014. The next exponential moving average, the 55-day one, was only touched in the past six days. The 21-
day is the most responsive to the decline if the FX cross, while the 200-day the exponential moving average is the least responsive.

Moving averages have several benefits besides showing a smoothed version of the price behavior. In a trending markets, with a loose definition of trend, moving averages, especially the short-term ones, are flexible support and resistance lines. In up moves they should occur below the string of rising prices, acting as support; while in down moves, moving averages should act as resistance lines, thus plotted above the prices.

Consequently, the intersection between the underlying market and the moving average should trigger signals to buy when the price breaks above the average and sell signals when the price drops below the moving average.

In strong rallies, prices run away above the moving average and vice versa. When the distance between the two series exceeds the normal for a specific RIC, then we conclude that the market is divergent; it is either overbought (on the upside), or oversold (on the downside). Make sure to gauge what "normal" means for specific markets. The underlying market and its moving average tend to convergence. To do so, the market might either go the opposite way or consolidate while the average catches up.

**BOLLINGER BANDS**

In this chart you can see different phases of Bollinger Bands on gold XAU=. Expanded bands denote rising volatility, as marked by red arrows, and converging Bollinger Bands, orange arrows, show declining volatility. This characteristic works particularly well to options traders who want to buy and sell volatility. When the gold price penetrates the lower band is suggests oversold conditions, such as in late March and May; meanwhile, price moves against the upper band, such as in
early March and mid-June, signal overbought market conditions. Neither condition suggests an immediate reversal of positions. Since non-options traders cannot monetize volatility, they should use the bands in conjunction with oscillators.

**STOCHASTICS**

The stochastic oscillator is a study which reacts quickly to market changes. It is plotted on a closed scale of 0 to 100. This means it works well in normal markets, but cannot perform well in strong trends. In strong up trends, the stochastics lines will struggle at overbought levels, 90-100, and in strong downtrends, they will flip around just above 0. As the market approaches the end of an uptrend, the daily closings tend to approach the daily highs. Conversely, as the market approaches the end of a downtrend, the closings tend to draw near the daily lows.

Stochastics consist of two lines called %K (the fast line) and %D (the slow line). Classic parameters for this study are 9 and 3. More common parameters are 5 and 3. A cross of %K below %D suggests a decline, while a cross of %K above %D signals a move up. The figure above shows Fast Stochastics (the original oscillator) plotted on the 10-year US Treasury yield. Notice the bullish crossovers marked with blue arrows and the bearish crossovers with yellow arrows.

**MOVING AVERAGES CONVERGENCE DIVERGENCE (MACD)**

The Moving Averages Convergence Divergence (MACD) is a momentum oscillator. Unlike stochastics, it is plotted on an open scale around the zero line which allows it to fully follow up trends and down trends. The MACD consists of two lines. The first is the difference between two exponential moving averages on 12-day and 26-day; the second is a 9-day EMA of this average spread and acts as a trigger line. Since it consists of the exponential moving averages, the MACD is less responsive to
market fluctuations than stochastics.

The chart above shows the MACD plotted on oil futures. I marked the bullish crossovers with blue arrows and the bearish crossovers with yellow arrows. Notice that the MACD peaked and bottomed at the same time with the underlying market, which means that they are in sync and that the oscillators confirms the momentum of oil.

**RELATIVE STRENGTH INDEX (RSI)**

The Relative Strength Index (RSI) measures the relative changes between the higher and lower closing prices, seeking to show overbought and oversold conditions of the market. Just like stochastics, the RSI is plotted on a closed scale of 0 to 100, thus making it less useful in strong trends. However, the RSI is less responsive and it stretches less than stochastics.

Generally, a peak above the 70% line followed by a top just below it suggests a decline. The opposite is true for a bottom below 30% and a low just around the 30% level. In the chart above, you can see a composite instrument, BRIC FX, a combination of the currencies for Brazil, Russia, India and China (=BRICFX=BRL+=RUB+=INR+=CNH=)

This simple string generated an easy to see candlestick chart. I added the RSI. The RSI formed a top above the 70% line followed by a peak just below this level in July and August. Subsequently, the on-the-fly composite instrument BRIC FX declined.
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Craig Johnson, CMT, CFA – Piper Jaffray

“Every step of my career: starting my blog, becoming a professor, publishing my book, can all be traced back to the MTA and the CMT Program.”

Hima Reddy, CMT – Johns Hopkins University

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ICHIMOKU KINKO HYO

The Ichimoku Kinko-Hyo, (or the Cloud), provides a complex set of support and resistance levels, which uniquely extends well past the current date. Moreover, the Ichimoku offers additional information about the sustainability of the current directional move along with signals from the direction and intersection of some of its lines.

This study gauges midpoints of historical highs and lows at different lengths of time and different time periods to identify support and resistance levels, yielding entry and exit points. The Ichimoku Kinko-Hyo consists of five lines:

- Trend line (Kijun)
- Signal line (Tenkan)
- Lagging line (Chiku)
- Two Leading lines (Senkou Span A and Span B)

A combination of the two leading lines creates the cloud. Ichimoku is built on three key time periods for its input parameters – 9, 26 and 52. The trend line suggests the direction of the market. The intersections between the faster signal line and the trend line add value to the users’ analysis. A crossover above the trend line gives a buy signal and a crossover below it provides a sell signal. The lagging line is simply the current close plotted twenty-six periods behind. If both the lagging line and the current market are rising, it confirms the strength of the market, and vice versa.

Finally, the two leading lines create a Cloud-like formation and this is an area of support or resistance. The market must break above the Cloud to give a buy signal or below the Cloud to give a sell signal. The Cloud offers support and resistance in the future, thus helping traders gauge profit-taking or stop-loss orders.

RATE OF CHANGE

The Rate of Change (ROC) is a momentum study which is actually derived from the momentum oscillator. It measures the percentage change between the last or most recent closing and the price "n" periods in the past. In the chart above, the ROC provides trading signals via divergence and crossovers with the zero lines. The S&P500 (.SPX) made higher highs between May and August; however, the Rate of Change made lower lows. This behavior suggested a decline of the Index. Indeed, the S&P 500 made an aggressive, but short-lived, corrective
decline in late July and early August. Moreover, the ROC’s declines below the zero lines suggest sales, and moves above it signal buying opportunities.

CONCLUSION

I recommend using two different oscillators for each chart in order to capture different phases of the market. For instance, stochastics are very responsive to market fluctuations, so it tends to be essential for quick moves, which might be the start of bigger moves. The Moving Averages Convergence Divergence (MACD), however, is less responsive to quick price shifts, but work well in trending markets. Thus, a combination of stochastics and MACD should cover most market phases.

Cornelius Luca, Global Chief Technical Analyst and product manager for Eikon Charting. Cornelius has been a technical analysis aficionado and an FX trader for over 20 years. He is a speaker at various events including classes at the New York University (NYU) and the New York Institute of Finance (NYIF). Cornelius has authored many articles and four books on technical analysis and FX: Trading in the Global Currencies Markets (3rd edition, Prentice Hall); Technical Analysis Applications (McGraw Hill); Technical Analysis in the Global Currency Markets (Prentice Hall); and Introduction to Technical Analysis (Euromoney Institute).
One month ago the markets looked weak and the bulls duly retreated in what we forecasted to be “an overdue and probably modest correction” in the first week of August. We said in our last Market Comment that the 1,900 area for the S&P 500 would prove to be a battleground for the bulls and bears and that proved to be the case. The major market indices spent most of the rest of August moving back up towards previous highs and, except for the DJI, making new bull market highs.

Given the technical weakness that emerged during mid-summer, the August pull back was surprisingly short and shallow. The S&P 500 showed “trading support” in the 3-5% range, similar to the ones that have occurred over the past 18 months. It now appears that the “cycle cluster” of the short-term 105-day cycle and the long-term 39 week cycle matured a couple of weeks early, coinciding with the August 8 low of the S&P 500 at 1,905. The markets are now in a new “up phase” for these cycles, and this upward pressure looks to have prevented – or delayed – any longer corrective phase by the markets.

The markets did reach an oversold condition in early August that had not been seen since the lows of February 2014. But the bears once again demonstrated their lack of follow-through strength. They cannot drive the S&P 500 much below its 50-day moving average and the 200-day moving average remains an elusive target for the bears. The bulls, we can conclude, have survived yet another bear assault. But as we detail below, as Labour Day approaches the technical indicators are giving decidedly mixed signals.

The August rally and the position of important cycles leaves the bull market poised to burst into more “new high” territory. But the markets are stretched at the moment, slightly overbought and in need of a volume boost and new leadership.

The autumn season could be a case of “up, up and away” but September and October are months that have a track record of higher volatility.

Selective buying of sectors and individual stocks that have completed pullbacks and have a history of out-performance in late bull markets is our preferred investment strategy. With a historically volatile period approaching, stops appropriate to risk tolerance should be in place.

The major technical indicators that we follow are increasingly mixed. In favor of the bulls: Price patterns of the major market indices remain in “higher high, higher low” mode, prices are above long-term moving averages and major trend lines for the bull market remain intact. The NYSE daily advance/decline is positive. The Dow Industrials and Transports continue to move higher in tandem. The London FTSE is still acting positively. The Investors Intelligence weekly survey
of investment advisers shows that bullish sentiment has been tempered as the summer progressed and the percentage of stock above their respective 10-week moving averages reached a respectable low on August 5th and reversed.

But there are clouds emerging in the technical picture. The S&P 500’s August rally occurred on declining volume. The number of NYSE stocks making new 52-week highs continues to track lower even as the market moves higher. Internal momentum is diverging negatively in comparison to readings at the late-July highs. And firmly on the fence are the S&P 500’s price oscillators. The shorter-term one is showing signs of peaking, while the longer-term oscillator is pointing downward and has not yet reversed.

In sum, price action remains bullish and the mix of supporting technical indicators can give optimism to both bulls and bears. Post-Labour Day we see the markets following one of 3 paths:

1. The markets take the path of least resistance and continue to move up, perhaps even accelerating the trend as the new 105-day and 39-week cycles take hold.

2. The current rally ends very soon – making a “double top” in some major market indices – and the S&P 500 moves down to an “investing support” level (see our recent “Ron’s Briefs”) near its 200-day moving average (about 1,875).

3. A more pronounced correction occurs that lasts into October. Such an 8-10% correction could take the S&P 500 down towards the trend line that can be drawn from the start of Leg 3 in late 2011 (currently just below 1,800).

If “the trend remains our friend” then scenario 1 is very likely. But the unusual length of Leg 3 of this bull and the deterioration of some technical indicators increases the prospects that the markets will follow either path 2 or 3.

This is, however, still a bull market worthy of investment. But it must be done cautiously and selectively. This is not the time for all-out exuberance.

Ron Meisels is Founder and President of Phases & Cycles Inc. with over 40 years of stock market experience. He specializes in the independent research of Canadian and U.S. securities. Institutions ranked him among the top three analysts for six consecutive years (Brendan Wood Survey). 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 Dow was at 3800. He first presented this research at the 1995 IFTA Seminar in San Francisco and subsequently in Boston, Chicago, Toronto, London, Berlin, Cairo and Barcelona. He is the Founder, first President and Honorary Lifetime Member of the Canadian Society of Technical Analysts (CSTA); founding Secretary and past Director of the International Federation of Technical Analysts (IFTA); first Canadian recipient of the A. J. Frost Award; and developer of the “Meisels Index”, an overbought/oversold indicator based on daily closings. It is featured on the Metastock system.
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How would you describe your job?

Currently, I am a fee-only, ETF-only, financial advisor with Morgan Stanley Wealth Management. I try to simplify the investment management process using my ETF-only models and give my clients active portfolio management at a lower cost than one would find from many other advisors.

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

My concentration of study within the technical analysis field, especially while working at Lowry Research, was Supply & Demand. My top-down, mostly quantitative approach relies heavily on market breadth analysis, and to really analyze breadth, you need a large universe of "things" to properly create and/or use an indicator. Naturally, that drew me to equities, since there are so many different broad universes to choose from (domestic market indexes, sector indexes, and international market indexes). My current project, which has been largely successful thus far, is to apply my quantitative methodology to passive equity ETFs.

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

The short answer would be no. The long answer is that individuals, no matter their financial knowledge, understand what supply and demand are. For instance, I recently wrote a newsletter addressing my clients' concerns about the Federal Reserve creating "artificial demand" for stocks and that the market will slump as soon as that market tailwind is gone. My response, "If you have a tool that can measure demand, then you will be able to see it wane before the inevitable market slump comes, so it is not a matter to lose sleep over."

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

Network. Network across the globe and find every individual who has ever drawn a line on a chart, and befriend them and learn from them. I am astounded how fraternal the members and affiliates of the MTA are. From my experience, and reflecting on my multiple mentors, a fellow technician will, if he/she respects you as a person and analyst, gladly help build you as a professional, and maybe even help you with your career.

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

One piece keeps sticking in my head. It’s on third page of Lowry Research’s white paper, “The Warning Signs of Major Market Tops.” If you thought breadth deterioration near market tops is mild, think again. The table below, which is from that paper, shows that, on average, a number of stocks are already more than 20% below their highs by the time the stock market tops.
What research area do you think offers the greatest potential in technical analysis at this time?

I cannot tout a single form of analysis as offering the best potential. They can all work. The truth is, no matter what methodology you use, you will only succeed if you have self-discipline. If I see obvious signs of investor capitulation with my indicators (which typically means a buying opportunity), but don’t act because some news event spooks me, I’m failing. When I speak to individuals, and they ask me how to time the market, I tell them to read books and ask for advice from others, but one other thing. Take some discretionary money, apply your knowledge the best you can, and try to succeed. If you lose half, and the market destroyed your ego, but you learned from your mistakes and are able to get up and try again, you succeeded and will be successful in the industry. I did this during college, twice, until I finally understood what I had to do to be a successful market technician.

Christopher Diodato, CMT, started studying markets at the age of 17 intending to pay for college by investing in the stock market, but never thought of a career in finance. Sure enough, he graduated from Penn State University four years later with a degree in finance and the testing requirements of the CMT completed by 2012. He previously owned a subscription service, TradersBase GP, and worked as an analyst for Lowry Research. Outside of work, Chris is a classical singer, guitar player, and is passionate about health and wellness.
In the August 21 issue of *Bloomberg Brief Technical Strategies*, a simple technique for programming relative highs and lows was explained. Relative highs and lows can help individual traders identify stocks or ETFs with unusual strength or price action that is diverging from the broader trend. This is a form of relative strength analysis and in effect provides a way to highlight relative strength on charts without the need to calculate a more complex version of the indicator.

In *Programming Signals to Identify 52-Week Relative Highs and Lows*, Eoghan Leahy, CMT, MSTA, wrote:

Relative strength analysis is popular among equity market participants as a way to identify the outperformance or underperformance of a stock relative to its benchmark index. If the share price of Apple is up 2 percent on a day when the S&P 500 is up 1 percent, then the relative outperformance of Apple is 1 percent. This comparison of performance versus a benchmark helps identify stock-specific alpha, less market beta. Equity market participants, such as portfolio managers who are tasked with outperforming a benchmark, use relative strength techniques to identify outperformers that will help them generate alpha.

Below is the CS.Lite code that is specific to Bloomberg but can be generalized for any software platform. This code will create relative strength ratios using just two data series – a major market index, the S&P 500 in this example and an individual stock or ETF. Leahy explains “the S&P 500 is created as a variable which will be used as the denominator of the ratios. The study will then divide whatever security it is applied to by the S&P 500. Next, the 52-week moving maximums and minimums are applied to the ratio with a one period offset. If the current ratio high is above the 52-week relative high as of last week, a signal is generated. A signal is also generated if a new 52-week relative low is made.”
The calculation is then applied to Apple (AAPL) and is shown below.

Relative strength calculations often require software to compare the price changes in one stock to the changes of all other stocks in the index or data set. Programming relative strength can be a difficult task. This indicator can provide a limited view of relative strength and offer a potential edge for traders.

Bloomberg users can request the study to be shared by contacting the author of this article directly.

Eoghan Leahy, CMT, MSTA, is a currency and technical analysis specialist at Bloomberg LP in London. He can be contacted at ELeahy6@Bloomberg.net.
Over the past 4 years I have been analyst providing trading ideas to institutional and retail clients. Over that time, I've come to realize my call sheet and their ledger would not always agree. Rather than debating my performance, let’s hit the nail on the head and tackle the main problem:

Why does a trader who trades based on the calls of an analyst have a huge variation in his profit figure (if there is a profit) when compared to the ‘paper’ profit figure shown in the analyst’s call sheet?

To understand the answer to this problem, we need to first understand the roles of each of these market participants.

A trader is anyone who tries to buy low and sell higher or takes short positions by selling high and buying to cover after a price decline. A trader’s holding perspective can be anything from a few minutes to a couple of weeks. Just to be clear, let us define the three most important objectives of a Trader.

1. To make money
2. To make money
3. To make money

Now we will review the role of an Analyst:

1. The term ‘analyst’ includes people using any of the three types of research i.e. fundamental, technical or derivative though here we are mostly concerned in this article with the perspective of a technical analyst.

2. A technical analyst, especially those from a retail brokerage, might be required to send a minimum number of trading calls on a daily basis.

3. The focus for retail clients might be more on intraday, BTST (buy today, sell tomorrow) or STBT (sell today, buy tomorrow) calls, while the focus shifts from intraday to swing or positional calls when one serves institutional clients.

4. Prepare daily, weekly and monthly reports and share views about markets and stocks with the clients of the firm. The main focus of the analyst could be to create visibility for the firm.

The different roles each plays might be the root cause of the problem. Let’s look at that idea in detail.

1. Different Objectives
An analyst’s job is to make market calls whereas a trader's objective is to make money.

2. **Limited Capital**

A trader has a finite source of capital within which he has to manage trades and so there is a limit to the number of trades which he can take whereas an analyst is not bounded by that limit. Therefore, many times it happens that a trader isn’t able to execute all the trades an analyst recommends. Apart from that limit, traders also become selective while trading and only trade stocks they like, skipping many the analyst has recommended.

3. **Different Weightings**

An analyst normally gives equal weights to each of his calls while calculating the percentage gains or losses while a trader might not give equal weight to all of his positions. For example, an analyst’s call sheet might simply have a list of stocks to be bought or sold, the current market price, a target price and stop loss levels. Analysts might juts track a percentage gain or loss after closing the position. On the other hand, a trader’s sheet will include the quantity traded along with the price at which it is bought or sold. The quantity bought or sold will have a large impact on the overall gains of the portfolio -- two different traders trading on the same market call from an analyst will have different performance results based on the quantity traded and the overall size of their portfolio.

For example, a 5% loss for a trader on a position of 2 lakh (200,000 rupees) and a portfolio size of 5 lakh (500,000 rupees) would result in a loss of Rs.10,000 on a single trade and will reduce the portfolio by 2%. That same loss of 5% on a position of 2 lakh (200,000 rupees) in a portfolio size of 3 lakh (300,000 rupees) would again result in a loss of Rs.10,000 on the trade but now reduces the portfolio by 3.33%.

Therefore, in spite of following the same analyst’s calls, two traders can have different end results based on the permutation and combination of their trade size and portfolio size.

4. **Different Psychological Traits**

An analyst and a trader require completely different psychological traits. For example, market analysis in itself is neither profitable nor unprofitable so it does not have any of the associated emotions but trading in itself is either profitable or unprofitable (i.e. making a trade will either make or lose capital) and therefore will always be associated with emotions of fear and greed. After initiating a call an analyst is virtually free and just has to wait for either the target or the stop loss while the trader has to bear the anxiety which goes on when he is in the trade. During the trade, he may experience several cycles of fear, hope, greed, doubt and other emotions an analyst doesn’t have to confront.

5. **Different Performance Measurement Metrics**

*Analysts are paid for being right. Traders are paid for managing risk well.*
A trader's performance is measured based on the returns he generates on the capital allocated while an analyst's performance is measured by the number and accuracy of the calls he has generated. An analyst will be judged negatively by poor market calls. Even technical analysts become heavily vested in the "rightness" of their opinions and sometimes fail to accept that their view has gone wrong while a trader can and does go wrong but cannot afford to remain wrong for long. When he's wrong, a trader closes the trade and moves onto the next opportunity, hopefully with only a little harm done. Being wrong is a fundamental part of trading. Analysts can continue to keep the call open believing it will be proven correct in time.

6. Transaction Costs

   a. Brokerage & other fees

   An analyst may not calculate brokerage costs but traders cannot ignore this factor.

   b. Impact Cost / Slippage

   In certain illiquid markets the bid and ask spread is large and actual entry or exit will cost the trader more than the analyst has considered in his call sheet. The price on the call sheet is often the last trade price rather than the price a trader will pay or receive.

7. Partial Profit Booking

Partially booking profits is a wonderful tool in the hands of a trader but can be used incorrectly and even as a marketing gimmick by many analysts. I have seen some of my peers book 50% or more of the profits as soon as the stock has moved by 3-4% when their actual target was a gain of 7-8%. By the time the stock has moved by 7-8%, they might have already closed out 85-90% of their original positions but later claim that their calls yielded the full profit. I do believe that booking partial profits at regular intervals is healthy and should be done but the way some analysts use it is like splitting hairs and practically not possible. For example, a person who is trading in the futures segment trading in 2 lots can book partial profits only once whereas an analyst could recommend partial profit booking in a trade 5 or 6 times.

The different objectives and tactics of traders and analysts can explain why they see different results while watching the same market action unfold.

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The Market Technicians Association Educational Foundation (MTAEF) was established in 1993 as a non-profit organization to create and fund educational programs in the field of Technical Analysis. Over the years, the MTAEF has been able to carefully develop a comprehensive Technical Analysis curriculum that is being taught in colleges and universities around the country!

**AS A UNIVERSITY**
Gain access to a complete 12-lecture Technical Analysis course including all charts, exhibits, exams, and a comprehensive glossary of terms used in Technical Analysis. Surround yourself with a support team of financial professionals and set yourself apart from other finance programs!

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Gain an important competitive edge before graduating college by exposing yourself to some of the industry’s top financial technicians and gain opportunities to earn scholarships for the coveted Chartered Market Technician (CMT) Exams through the MTA.

Learn more about how you can get involved at mtaef.org
Assuming the leadership role 2012, I quickly realized that we were working with a relatively small member base in Hong Kong. From the very beginning I have been focusing on two main initiatives

1. grow the community
2. provide deep connections

Looking back at our activities these past two years, I can see several things that influenced our current success. We organized a series of seminars, each attracted more than 100 attendees. Spread out over the two years, we invited a stellar line-up of speakers, such as Larry Williams, David Keller, and John Logan. These seminars were great opportunities to bring in non-members, attract positive attention to our discipline and collaborate with other local societies.

This August, I called together the first of many smaller format meetings. Participants came in with various backgrounds - Director of Barclays Private Bank, Fixed Income Portfolio Manager from HSBC, Technical Analyst from Fidelity, Senior Trader from Allianz, private traders, etc. Every attendee got a chance to introduce him/her-self to the group, share their technical knowledge, and comment on other people’s analysis. I shared a chart of the Hang Seng Index with an interesting Gann pattern and two other attendees presented a wave volume chart, and discussed their Elliott counts. The event was very well received because it provided a chance for knowledge sharing and a collegial exchange of ideas.

Though Hong Kong is a developed economy, the MTA chapter here is a young one. I thank all local members and MTA headquarter for their continuous support. One warmhearted member even wrote me this.
For me personally, the CMT is the most useful and practical study program for investment professionals among the existing programs.

The CMT Program turns quite a number of the classic forms of analysis upside-down. It is critically important that we look at things out of box. That's the value CMT education delivers.

- Will W. Wang, CMT, CFA, CAIA
  Director of Barclays Private Bank Advisory

I believe there is tremendous opportunity to grow the MTA membership and CMT Program throughout the APAC region and specifically in Hong Kong. For those who don’t know, Hong Kong is a former British colony, and now a special administrative region of China. Acting as an off-shore hub for the world’s second largest economy and serving as the best place for foreign direct investment into China, Hong Kong plays an integral role in the world’s financial market. Together with on-shore China markets, HK & China equity market capitalization weighs 13% of the global total and its market turnover counts for a quarter of the world’s.

Mr. Zaiqing 'Jackson' Zhu, CFA, CMT, ACCA, FRM is a Desktop Developer at Bloomberg in Hong Kong. A self-taught programmer, Jackson builds and delivers VBA solutions to the Bloomberg community for research and trading purposes. Jackson was formerly a Bloomberg Technical Analysis Specialist for 4 years. He spoke at international conferences and various seminars. Jackson has 8 years active experiences in trading stocks, futures and options across HK, US and China markets. He passed CFA, CMT, ACCA and FRM, all in first attempt, and he is a CFA charter holder and CMT. He can be reached at jackson.zhu.mta@gmail.com.
ETNA, a trading platform provider traditionally catering to broker-dealers, announced today that it is partnering with FinTech startups as well as established financial services firms looking to launch new software. Having noticed an up-tick in development costs over recent years as consumer expectations grow, ETNA’s goal is to lower the buy-in for new and established FinTech firms looking to create new technologies. Their platform has already facilitated the successful launch of FinTech startups Tradier and ETRE Financial, and is now being offered to a broader market.

“We encourage entrepreneurs to create new technology products and services without the need to take out a second mortgage or sell a kidney” commented Roman Zhukov, CEO at ETNA. “Many of the components that go into FinTech are very similar. There is no need to reinvent the wheel and spend millions of dollars when someone has already done it and is willing to share the rewards.”

ETNA’s FinTech Partner Program offers a plug and play system comprised of:

- HTML5 web frontend;
- iOS and Android native mobile trading terminals with advanced charts and real time streaming quotes;
- Cloud middle and back office.
"As the FinTech industry becomes more saturated, companies that produce quality products with speed and agility will win the race," said Roman Zrazhevskiy, Senior Vice President of Product Strategy at ETNA. "FinTech companies will change their strategy as capital procurement becomes more competitive. Investors are looking to get more for less, building new tech from scratch is pricey and becoming a thing of the past."

ETNA has been creative in structuring partnerships by offering revenue sharing or equity models on a case-by-case basis. Along with providing technology, ETNA advises their partners to maximize marketing initiatives and effectively leverage its code to build unique value propositions.

About ETNA: Founded in 2002, ETNA is the creator of ETNA Trader, one of a few technologically advanced broker neutral trading platforms available for white-labeling. Having developed technology for both well established companies like SAXO Bank, SogoTrade, and Blaze Portfolio Systems, ETNA has also recently facilitated the launch of FinTech startups ETRE and Tradier. For more information, contact Roman Zrazhevskiy, SVP, Product Strategy at marketing@etnasoft.com or (646) 374-0965.
The following Ichimoku Cloud charts of major market indexes are provided by Thomson Reuters Eikon.

Dow Jones Industrial Average Daily

Dow Jones Industrial Average Weekly

Russell 2000 Index Daily
Russell 2000 Index Weekly

For more information about Eikon, contact Cornelius Luca at cornelius.luca@thomsonreuters.com.
The weekly charts below of the Dow Jones Industrial have all been provided by Bloomberg LP.

November 2012 to Present

APPENDIX: CHARTS OF RSI STREAKS IN BULL MARKETS
October 1992 to March 1994

November 1963 to June 1965
September 1944 to July 1946

July 1942 to October 1943
June 1928 to October 1929