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Recently the MTA annual award recipients were announced.

- Annual Award: Louise Yamada, CMT
- Memorial Award: Paul Macrae Montgomery
- Service Award: Ron Meisels
- Charles H. Dow Award: Charlie Bilello, CMT & Michael A. Gayed, CFA

Each of the award winners will be recognized at the Annual Symposium and will be featured in Technically Speaking. This month we provide some brief information on several of the winners and look back at the previous Charles H. Dow Award that Charlie and Michael won. This is their second Dow Award-winning paper and they now join Charlie Kirkpatrick, Jr., CMT, as the only two-time winners.

There are a number of submissions for the Dow Award every year and winning in any year is an accomplishment. Charlie and Michael spend a great deal of time researching new ideas and their efforts can be seen in their papers. I would not be surprised if they are hard at work on new ideas and I would expect them to prepare more papers in the future. They may even win a third Award but I am confident that won’t be an easy task. Papers submitted for the Award always include a variety of unique insights into technical analysis.

Next year’s Dow Award deadline is at the end of the year but that date is rapidly approaching. If you have an idea, now might be the time to start drafting a paper so you have a chance at winning.

We’ll learn more about this year’s winning paper at the Symposium next month. Charlie Kirkpatrick will also be a speaker at the Symposium sharing his recent work with attendees. I know I say it every year but this year’s line-up of speakers is the best yet and I hope to have the chance to meet many of you at the events.

Sincerely,

Michael Carr
Louise Yamada, CMT, is Managing Director of Louise Yamada Technical Research Advisors (LYA), the firm she founded in 2005 after a 25-year career at Smith Barney (Citigroup) where she had been Managing Director and Head of Technical Research. In order to have a long career, it is important to offer valuable market insights and Louise continues to do that.

Louise has developed a framework for analysis that could be followed by anyone. Many readers of Technically Speaking will be familiar with the long-term and innovative nature of Louise’s work. Her book, Market Magic: Riding the Greatest Bull Market of the Century (John Wiley & Sons, 1998) walks readers through a process that applies standard tools of technical analysis in unique ways, often using relative strength analysis and charts that contain data spanning several decades. An example of this technique is shown below:

The Capital/Consumer (C/C) ratio is shown at the bottom of that chart. As explained in Market Magic, the C/C ratio is calculated with the S&P Capital Goods and Consumer Group indexes. It can be used to quickly determine which group is leading the market. When the ratio line is rising, it shows Capital Goods outperforming and Consumer Goods are leading the market when the C/C ratio is falling. Louise noted that leadership cycles tend to last 4-7 years and one of the most
important insights she offers is that shifts in leadership, which can take one to years to unfold, have been accompanied by market declines in the past.

With innovative tools, Louise has been able to build a track record of successful market calls. While at Smith Barney, Louise alerted readers to:

- The developing structural bear market in the equity markets, and the technology bubble and dot.com collapse in 1999 and 2000.
- The liftoff in gold in 2001-02 at the beginning of a new structural bull market.
- The emergence of small- and mid-cap stocks as market leaders in 2002.
- The emerging structural energy bull in 2004.

Since starting her own firm, she has made several additional major forecasts including the onset of the relative strength decline of the financial sector, which she started pointing out in March 2007 and the oncoming decline of the U.S. dollar in 2006.

During her career, Louise appeared as a special guest on "Louis Rukeyser's Wall Street" and appears frequently on Bloomberg TV and Radio, CNBC and BNN TV as well as in print and online media. Louise received a B.A. from Vassar College and an M.S. from Bank Street College of Education. More information can be found at http://www.lyadvisors.com/index.htm.
Paul was a nationally-renowned forecaster of stock and bond markets who chose to stay put in his home town of Newport News, a serious student of statistics whose sense of the ridiculous led to his lighthearted discovery of the women's hemlines indicator of stock prices. Paul passed away in October 2014 at the age of 72. Details of Paul’s life beyond his financial work can be found in his obituary.

In the August 2007 issue of this magazine, Bernie Schaeffer noted “Paul Macrae Montgomery is an analyst and money manager who for many years has published a weekly newsletter called Universal Economics, first under the auspices of Legg Mason and then independently. Paul is certainly an accomplished technician but that would be far too restrictive a description of his work. The best way I can describe him is as a student of behavior – whether it be the behavior of the markets or the behavior of we fallible humans who create the ebb and flow of the markets. His pioneering work, for example, on the contrarian significance of magazine covers for stocks and the financial markets made a huge impression on me over the years. He also does a lot of great work with cycles – an area that’s entirely outside my own toolbox.”

In the November 2013 issue of Technically Speaking, Thomas Vician, CMT, delved into the magazine cover indicator. Tom noted there were important subtleties to consider in evaluating this indicator. He noted it was important to consider magazine types, magazine cover content, and the noise problem.

The most coincident covers tend to come from broad, national news/commentary magazines because they rarely touch upon economics and mirror hot trending topics to draw the widest viewership. Time and Newsweek fit this category. Both appeal to a vast common audience and channel the current public zeitgeist in their cover stories. With emotional financial covers, these magazines show the current trend’s obvious, conventional "wisdom-ness." It’s the final “Aha!” moment for the market’s current direction. These magazines rarely have financial covers, and the signals tend to be more robust when they occur.

Professional industry magazine covers like Barron's or The Economist are second tier. They carry less weight because they appeal to a vastly smaller audience. This tends to lessen the societal abreactive, pervasive qualities needed to manifest at major turns. Moreover, their covers appear much more frequently. This can dilute signal intensity and increase noise. When these covers do coincide, the increased frequency generally speaks to a shorter time constant for the signal. Time and Newsweek rarely have covers – one, maybe two per year. The financial...
trend must have tremendous momentum to displace anything else vying for the coveted front page given the public's general distaste for economics. Conversely Barron's has between four and eight cover calls per year with the typically histrionic cartoon bull and bear slugging it out “Spy vs. Spy” style. Barron’s, like The Economist, sells to industry professionals and highly focused retail investors – not the broad masses.

There are two parts to the cover: graphics and wording. Idealized, the cover graphics must be very emotional and histrionic in the direction of the trend. For up-trends, it must show greed, gloat, glowing satisfaction, and/or euphoria with present financial times. There is nothing to fear. Relax - it’s obvious you can. Look at how well everyone is doing. For downtrends, the cover must show fear, dread, panic and/or doom. Look up. Notice the sky is twelve inches from your head and closing. Aggressive doomsday prepping is not a mild, higher functioning form of DSM-5 paranoid schizophrenia, but rather a great, timely strategy.

The wording has important characteristics. Generally, the bigger the font, the better they show highly charged emotional content. Second, the cover comment must be broad, declarative and “standing its ground” in the direction of an established trend. A stylized and real example with a Newsweek cover is shown nearby.

This Newsweek cover graphic is jingoistic and bullish using declarative large font that takes a stand “America’s BACK!” It comes after a clear uptrend begins to round and stall. This cover preceded the 2010 Flash Crash and a subsequent peak to trough decline of nearly 19% in the SP 500 future. This was a nice signal to avoid all the mayhem surrounding this high frequency trading debacle.

Conversely, logical covers fail to coincide with turning points because they show little emotion and make meek, if any, declarations. By definition, financial markets are most sure of themselves at extremes, either up or down. Here is an example:
The picture is clearly bearish and emotional with the swirling vortex of financial firms falling into the abyss. However, the meek “What next?” fails miserably to mirror the doom of the picture. It fails the declarative, stand your ground statement requirement. What next? A freight train's worth of panicked selling slamming bids - *that's what’s next.

This is where many get confused with magazine covers. The above cover appears bearish and it is - but only partially. Covers need congruity between the picture and the wording. Words must show conviction - to take that stand and stick that neck out preferably all the way. In this case after such a huge decline, the wording shows a clear lack of certainty stating “What’s next?” It is the tell that this cover is premature. People are most sure at tops and bottoms – good times will never end euphoria or the sky is falling doomsday prepping. When magazine covers mirror this fully and completely, there are higher odds that trend change is afoot from extremely skewed sentiment.

Lastly, the above cover is from the Economist – a professional industry magazine. While The Economist and Barron’s covers do coincide with important turns, their noise ratio is higher.

Here is another example from September 2012 Time Magazine:
This cover has bullish graphics but suffers a “logical statement” problem as well. It’s explaining versus evoking a “Let them eat cake” moment for the New York financial juggernauts. Where’s the gloat in wordage? There is none. Moreover, the cover is a call specifically on Wall Street versus the general economy.

Here are bearish covers from both Barron’s and the Economist that coincided with a bottom:

The Barron’s cover arrived first. It was clearly bearish in graphic, message, but a second tier publication. Then an immediate second cover from The Economist arrived. While it does have small font, it was clearly declarative with “BE AFRAID” and the swirling vortex of a black hole graphic at the eye catching center of the page. It took an emotional stand and stuck its neck out. The combination of both covers individually meeting the emotional requirements created a two-is-better-than-one confirmation. Note the length of the uptrend afterwards from these second tier magazines.
To recap: The cover image’s graphics must be emotionally evocative in the direction of the trend. Statement wording must show declarative conviction with the trend. It must stand its ground and stick its neck out. At tops it must show greed, gloat, satisfaction, or euphoria. At bottoms it must show fear, dread, panic and/or doom. Ideally, the wording is in large, pronounced font which aligns with the declaration itself and the cover "sticking its neck out." Logical statements or explanations fail the emotional, declarative components. They are a head-fake.

Tom concluded, “Magazine covers can act as coincident, convergent indicators at market turns of various time constants. The crowd is leaning heavily one way, and magazine covers capture that financial zeitgeist. Sometimes covers coincide with the outright reversal of price trend into a sustained move the other way – a V-top or bottom. At other moments covers coincide with volatile trading ranges that a trader might enjoy reducing risk in his book to avoid mirroring volatile, trendless action of the market. Sometimes covers just fail to work – not all are created equal and indicators are imperfect. Lastly, there may be a delay and lag to the signal. But they do work, and there is a framework for them. In another installment, I will discuss trend following, whipsaw and risk management tactics surrounding the appearance of dramatic magazine covers. For now, I hope this piece gives the reader an initial framework around a more profitable use of magazine covers at market turns.

In late-February, Tom provided an update on the current state of magazine covers:

This week Barron's and the Economist have covers out.

...neither of these covers make a declarative bearish statement. The Economist is wishy-washy. Barron's has a rough seas cover but their small print wording is bullish and complacent.

There is no "the sky is falling" in either of these.

So while we have two covers from financial rag-mags, they fail stand your ground bearishness of covers which tend to coincide with major market turns.
Bloomberg View columnist Barry Ritholtz commented on Paul’s work after his passing, “I was fortunate to have had several conversations with Paul over the years. He was humble and soft spoken but he took delight in puncturing the bad theories that pass for analysis on Wall Street.

Long before behavioral economics became popular, Montgomery argued that standard economic theories “overlooked the human factor in markets.”

Ritholtz concluded with what might be Paul’s quirkiest indicator:

Here is Paul's famous Hemline Indicator of the Stock Market:

![Image of the Hemline Index of Stock Prices graph]

He will be missed.

For those wondering what the hemline indicator tells us about 2016, fashion blog TheImpression.com provides pictures from the Milan fashion week top ten designer shows. The results are decidedly mixed with five example of low hemlines and five examples of higher hemlines.
Top 5 Occupations of CMT charterholders
(The remaining 26% of charterholders are distributed into over a dozen different job types each representing less than 5% of all CMT charterholders)

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Percentage</th>
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<tr>
<td>Portfolio Manager</td>
<td>25%</td>
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<tr>
<td>Registered Investment Advisor</td>
<td>15%</td>
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<tr>
<td>Analyst</td>
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<tr>
<td>Trader</td>
<td>13%</td>
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<tr>
<td>Strategist</td>
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FEBRUARY WAS A CAUTIOUSLY OPTIMISTIC MONTH FOR THE BULLS; BUT THERE IS MORE WORK TO DO TO COMPLETE THE CORRECTIVE PHASE

After a negative start to the year, the month of February clarified two things. First, bearish forces are not going to have an easy time in defeating the 7-year bull market. The S&P 500 was able once again to defend the key 1,800 – 1,850 support zone and then launch a good rally.

Second, the status of the markets at the 1,810 low on February 11th suggests that the February low was an important event.

The bears suggest that the November to February action is the first leg down in a bear market. Therefore, the 8% rally off the February low is just a minor counter-trend move that will be soon followed by another down leg taking the markets to new lows.

Our view is more positive. As we have stated before, in the absence of a sustained break below 1,800 a case can be made that the S&P 500 is still in a lengthy Leg 4 correction in its ongoing bull market. The February low, which made a successful “double-bottom” with the January low, reinforces this view. What we saw on February 11 was a New York market that was stronger internally than the previous low on January 20. At the February low internal momentum was better, the percentage of NYSE stocks above their respective 50-day and 200-day Moving Averages was higher, and the number of stocks making new 52-week lows was smaller. Added to these positive divergences – often the foundation for market up-moves – is the sentiment picture which was decidedly negative (which, as a contrary indicator, is bullish). Investment adviser bullishness (as measured by Investors Intelligence) was at an unusually low 24.7% in early February, lower than last September, and the AAII bullish percentages were also very low.

And there’s more. The cyclical picture is turning positive. The 39-week cycle matured in early February as the market was bottoming and the shorter 70-day cycle is now turning up.

While February 11 was clearly important, the direction of the next major market move is yet to be confirmed. The parameters are 1,800 on the downside (near recent lows) and 2,120 on the upside. Until either of these levels is broken conclusively, the S&P 500 is best viewed as continuing its large corrective trading range.
Currently New York is slightly overbought after its recent rally and could encounter short-term weakness. The S&P 500, Dow Industrials, NASDAQ, NYSE Composite and Russell 2000 have either reached or are approaching well-defined overhead resistance zones so further progress may slow down.

As we expected, Toronto has spent more time base-building in the 12,000s. The S&P/TSX Composite Index is now at a point where any further rally into the 13,000s will break the 10-month down trend and turn the 50-day Moving Average up for the first time since last June. Golds, often out-performers in late-bull markets, have contributed strongly but are over-extended and in need of a pull back. Toronto’s ability to break its down trend is probably dependent on whether the Banks and other sectors can put together a strong rally.

In sum, the corrective process continues with the bulls claiming the latest small victory. The 1,800 – 1,850 area remains the key support. More trading range action is likely.

The correction has already seen some sector rotation and the emergence of buying opportunities in some previously out-of-favor sectors such as Golds. New leaders are emerging in other Sectors as well. Please look for our stock reports for ideas.

In early February we expected that the S&P 500 would trade within the 1,800 to 1,975 range and that action might be choppy and horizontal. The mid-February low and subsequent rally have been within this range.

Late last week the S&P 500 exceeded its 50-day Moving Average for the first time in two months. The recent advance from the 1,810 low has re-traced over 50% of the decline from the peak of 2,116 in early November. The easy part of the rally is now over – there is overhead resistance in the high 1,900s and low 2,000s. The declining 200-day Moving Average at about 2,025.
If the S&P 500 can maintain itself in the 1,950 to 2,025 area then the 50-day Moving Average will turn upwards and then near-term support may be found in the 1,930 -1,950 area. Below that the 1,800 area is major support.

A period of consolidation is likely to follow the recent rally. Bearish forces can be expected to launch another test of the bull’s strength especially if the rally extends and approaches the 200-day Moving Average. The bull market remains intact above the 1,800 level.

The S&P/TSX Composite Index has just repeated a pattern that appeared in the August-October period last year: from a significant low the Index rose, pulled back and then moved higher to a position above the declining 50-day Moving Average but still within the 10-month down trend.

Toronto is now at a crucial point. The recent rally from the January low at 11,531 places the S&P/TSX Composite Index right at trend line resistance at 13,000. A sustained move above 13,000 would be very positive with the next target being the resistance offered by the declining 200-day Moving Average at about 13,650. Support is offered by the 50-day Moving Average at 12,600 and the recent low at 12,000.

Toronto has moved to the top of its 11,200 to 13,000 trading range but is not overbought. If new leadership emerges, e.g., the Banks and New York stay positive, then there is a good chance that the major down trend can be broken. But a confirmed reversal of the down trend does require a move above the 200-day Moving Average, and further basing may be needed before this is possible.
We previously identified 15,500 as an important support zone for the Dow Industrials. In mid-February this zone stopped the sell-off, reinforcing its importance. Encouragingly, the Dow Transports refused to make a new low in February.

From a positive internal momentum divergence in mid-February, the Dow Industrials rallied 1,300 points by the end of last week, slightly exceeding the declining 50-day Moving Average. Overhead resistance can be seen in the 17,100 – 17,300 area, and the declining 200-day Moving Average is in the middle of this zone.

Further trading range activity between support at 15,500 and resistance in the low-17,000s can be expected. The Dow Industrials will turn bullish if it exceeds 18,000. Only a sustained move into the 14,000s, especially if accompanied by a new low in the Dow Transports, would be negative.

A month ago we identified a “declining wedge” pattern in the FTSE’s sustained down trend. In February the FTSE moved to the lower trend line of this pattern, briefly made a new low and then rallied 10% to near the upper trend line.
The FTSE is currently above its 50-day Moving Average, which will turn up shortly if the Index is able to stay above 6,000. The down trend line is at 6,150, the 200-day Moving Average is just above 6,300 and there is further resistance above 6,400 – all these levels pose upside obstacles.

A sustained move above the down trend line at 6,150 is a required first step before we can talk of a reversal in the FTSE. Any sustained move below 5,500 would be very bearish.

Ron Meisels is Founder and President of Phases & Cycles Inc. with over 50 years of stock market experience. He specializes in the independent research of Canadian and U.S. securities and market using Behavior Analysis. Institutions ranked him among the top three analysts for six consecutive years (Brendan Wood Survey). He is a frequent guest on the Business News Network (BNN) and is frequently quoted in major financial media such as Barron’s, The Globe & Mail, The National Post, Les Affaires, Bloomberg, Canadian Press, etc. 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. To learn more, please visit Phases-Cycles.com.
FOUR TRENDING INDICATORS TO REPLACE THE MOVING AVERAGE

BY CORY MITCHELL, CMT

Editor’s note: This article was originally posted at VantagePointTrading.com. It offers a useful review for CMT candidates as they prepare for their next exam.

Here are four trending indicators you can use to isolate the trend when trading. They include ATR Stops, MA Envelopes, Turtle Channels and TTM Trend. Moving averages are a popular trending indicator, but I don’t find them useful and don’t use them. I prefer the indicators discussed below. In my opinion they are better, and you’ll occasionally see these indicators on the charts I publish...although I typically trade off price action alone (no indicators). “Better” is subjective in this case. As with everything in trading, it’s how we use a tool, and not necessarily the tool itself.

Ultimately each trader must decide which tools they will use, formulate a trading plan and then stick to that plan. If you are still deciding which tools you want to use though, these indicators may help you spot the trend a bit better. These trending indicators highlight the trend or current momentum, but are not necessarily used to generate trade signals.

ATR Stop

The ATR Stop is an indicator that places a line below the price when the price is rising (uptrend), and places a line above the price when the price is falling (downtrend). These are typically colored blue and red respectively. Only one color/line appears at a time, indicating the most recent trend direction.

How far the line is above or below the price is based on the Average True Range (ATR). Think of ATR as how much an asset moves on average per price bar. For a full description of ATR see StockCharts.com.

The EURUSD hourly chart in Figure 1 has an ATR Stop indicator on it. There are two inputs for the ATR Stop indicator; one is the Period, and the second is the Coefficient. The Period is how many price bars are used to compute the ATR. As a basic guide, if you’re longer-term trading use a longer period. For shorter-term trading use a shorter period so the ATR adapts more quickly to changing market conditions. The Coefficient is the number of ATRs above or below the price the indicator will appear.

Figure 1 shows an ATR Stop indicator using 160 Periods and a 6 Coefficient. An ATR indicator is also shown at the bottom of the chart for reference. The ATR reading is currently 17. That means the price is moving about 17 pips per hour (price bar), when averaged over the last 160 hours. A coefficient of 6 means the ATR Stop indicator will appear at 6 x 17 pips =
102 pips above or below the price. It won’t stay that distance though. Like a regular trailing stop loss, when the price moves higher, for example, the line will be 6 x ATR behind the highest point. The ATR line will only move up during an uptrend, not down, so eventually the price will drop through the line signaling a reversal.

When the ATR Stop is below the price (blue), favor long positions. When the ATR Stop is above the price (red), favor short positions.

For comparison, a 160 period moving average has also been added to the chart (so both indicators are analyzing the same data).

Figure 1. EURUSD with ATR Stop (160, 6) and Moving Average (160).

During this time period the ATR Stop did a good job of picking out the trends. The indicator signaled an uptrend (blue) during the choppy period in middle of the chart, while the moving average provided little insight. The indicator also kept the trader on the right side of the market during the rally and the ensuing decline.

The ATR Stop isn’t great for entry and exit signals. If a big move occurs, it can provide big gains, but like the moving average it can produce whipsaw trades which erode capital.

If you want to use it for trade signals, isolate a longer-term trend using the indicator on a longer time frame. Then switch to a smaller time frame and the indicator may point out short-term turning points to get you into the longer-term trend. On the smaller time frame you’ll need to reduce the ATR Stop inputs for more timely signals. This is just an idea; the method has not been precisely defined nor tested.
Moving Average Envelopes

MA Envelopes are a moving average plus a “buffer” on each side which highlight the price area a trend may move in. The envelopes are a specific percentage away from the moving average, this is called the Deviation. Therefore, your primary inputs for the MA Envelopes are Period (the period of the moving average) and Deviation (how far the upper and lower bands are from moving average, as percentage).

Figure 2 (below) shows an hourly EURUSD chart. For this one a 120 Period moving average is applied (middle magenta line). The upper red line and lower blue line are Envelopes which form a band around the moving average. The Deviation is 0.75%.

Envelopes are useful, but require a few guidelines:

- When the price is rising, pullbacks should stay above the lower blue line. If they don’t, the uptrend could be in trouble.
- When the price is rising, the pushes higher should reach the upper red band. If they don’t, the uptrend could be in trouble.
- When the price is falling, rallies should stay below the upper red line. If they don’t, the downtrend could in trouble.
- When the price is falling, sell offs should reach the lower blue band. If they don’t, the downtrend could be in trouble.
- When the price is hitting both the upper and lower band consecutively the price action is very choppy, likely trendless and possibly ranging (or you need to increase the deviation of the indicator).
- A pause near the middle band (moving average) helps confirm the recent signal. For example, if the trend was up, but has just broken below the lower band, that signals weakness. When the price bounces, if it stalls near the middle band it’s probably a good short—not only can it not make it to the top band, it can barely make it to the middle band.

Lots of guidelines; here’s some ideas on how to use them.

If the trend is up but the price falls through the lower blue band, that signals a possible trend reversal. Look for shorts, and the trend is highly likely down if the price is unable to make it to the upper band before falling again.

If the trend is down, but price rallies above the upper red band, that signals a possible trend reversal. Look for longs, and the trend is highly likely up if the price is unable to make it to the lower band before rallying again.

In figure 2 the guidelines are used to isolate areas where we favor longs or shorts. The simple rules did a good job of keeping us long when the trend was up, short when the trend shifted down, and even provided good data when the price
action was choppy toward the middle of the chart. The arrows mark relevant data points where the price action and envelopes provide us with information about which direction to trade...the arrows are not necessarily entry or exit signals.

Figure 2. EURUSD Hourly Chart with Moving Average Envelopes (120 Period, 0.75% Deviation).

Well that looks wonderful. There are a few issues though. For every time frame you trade, and likely every asset you trade, you will need to set an appropriate Period and Deviation in order for the envelopes to be of use.

If you are day trading, the Deviation may be 0.03% or 0.07% (for the chart above it was 0.75%). With day trading you will also want to reduce the Period—likely to 30 or lower (chart above is 120). Assets that are more or less volatile will require a different Deviation setting. Basically, this indicator is not one size fits all. You need to set the indicator so it aligns with the volatility of the trends you are seeing, and provides good signals. Even with that, the deviation may need adjusting in the future if the asset becomes more volatile or sedate.

I have not found this a problem. It takes only a couple seconds to put the indicator on the chart and find a setting that works well for that asset and time frame.

You can also try Bollinger Bands or a Keltner Channel.

Turtle Channels

Turtle Channels are based on the method made famous by Richard Dennis in the Turtle Trader experiment of the 1980’s. For more on the Turtle Traders, and the method they used, download the eBook on the Free Trading eBooks page.

Turtle Channels look very similar to the ATR Stop discussed above. They will provide similar information much of the time, but they aren’t the same.
Turtle Channels have a trading strategy built into them. They provide trade signals, as well as stop loss levels. I leave that up to you if you choose to use the indicator as a trade signal. I use different settings and view the indicator more as a trend confirmation indicator, not a trade signal provider.

More information on the Turtle Trading Strategy, as well as the ability to download the Turtle Channel indicator for MetaTrader 4, is here: https://www.mql5.com/en/code/10727.

Here’s the MetaTrader 5 version: https://www.mql5.com/en/market/product/1804 along with details of the Turtle strategy. Both descriptions are worth reading to understand a bit more about the strategy and the indicator.

Figure 3 shows a Turtle Channel indicator with a 95 Trade Period (the primary input for the red and blue lines) on a EURUSD 1-hour chart. 95 periods shows the overall trend, not trade signals. If using the indicator for trade signals, a Trade Period of about 20 is used.

The small dotted lines are “Stop Loss” lines. While the red and blue lines indicate the overall trend, the Stop Loss line indicates when a pullback against the trend may be starting. For example, when the trend is down—price under red line—the price should also be under the dotted line when in a trade. When the price moves above the dotted line a pullback against the downtrend may be starting.

Figure 3. EURUSD 1-Hour Chart with Turtle Channels (95 Trade Period).

TTM Trend

Different chart types filter out noise, time or apply strategies within the price bars to help isolate the trend. Renko charts for example filter small price movements and aren’t concerned with time. Heikin Ashi charts show price bars that are averaged and colored. Since the bars are averaged, small deviations against the trend don’t show up. By filtering out
some information the trend becomes clearer, but some data is lost while using Renko or Heikin Ashi charts. I like the trend defined, but I also like to see all the price data available from a price bar (open, close, high and low of each price bar). Enter TTM Trend.

TTM Trend allows you to see the open, high, low and close of each price bar, but each price is colored—either red or blue—depending on if that price bar closes above or the below the average price of the last five price bars. If the price is higher than the average, the bar is blue. If the price is lower than the average the bar is red.

Figure 4 is a 4-hour chart of the EURUSD. If you use the other indicators to help isolate the dominant trend, then the transition from blue to red, or red to blue could aid in confirming trade signals...or even generating them. The color coding may also help you stay in a trending move until there is some evidence of a reversal (color change).

In hindsight the indicator looks wonderful (sometimes) but it also provides a lot of false signals. This is a short-term indicator based on the last 5 price bars. It doesn’t tell you the overall trend; that’s what the indicators above are for.

What TTM Trend shows is current momentum. So if the trend is up, but pulling back, hold off on buying while the bars are red. Wait till they turn blue. This is basically the approach discussed in How to Day Trade Stocks and How to Day Trade Forex where we are trading with the trend, waiting for a pullback and then entering when the price begins to move in the trending direction again.
There are a couple issues with the indicator. One is the false signals, but if you are trading with the trend and waiting for good entry points the TTM Trend is still a good visual aid.

Another issue is that the color of the bar will change while the bar is forming (or have no color until it completes, depending on your settings). That means you need to wait for the bar to complete before you can act on the information the indicator provides. A lot can happen in one price bar, so traders still need to be on their toes and not totally relying on the indicator. By the time you get a signal to get in or out—when the bar completes and the color is confirmed—it may be too late.

**Final Word on Moving Average Alternatives**

Indicators must be calibrated to the market and time frame you trade on. This is not an endorsement for these indicators or settings; test them out using your own personalized setting to see if they help you.

I am not a big fan of the moving average in its typical form. I like these trending indicators better. You may as well, or you may not. Trading is still tough business. It’s how we use the tools that matter, not necessarily the tools themselves. It’s still up to us to stay in good trades and get out of bad ones. We still need a trading plan and the discipline to execute it. We need to control our risk with stop loss orders and control our position size.

The settings for each indicator should be based on how you want to trade...do you want to catch bigger moves? Or trade smaller gyrations? Set the indicator up so it works for what you want to do.

Cory Mitchell began trading in 2005. He has a degree in business, the Chartered Market Technician (CMT) designation and is a member of the Market Technicians Association and the Canadian Society of Technical Analysts. He has been heard on radio interviews across the US, and is (or was) a regular contributor to Stock & Commodities magazine, Investopedia, DailyFX, Forbes Digital, Chart Advisor, ForexPros, The Nest, eHow Finance, Yahoo! Finance, International Business Times, Oil and Gas Investments Bulletin as well as many other financial resources.

Having traded extensively in stocks, forex, ETFs, futures, options and CFDs, Cory has worked for and with Fortune 500 companies managing and implementing trade strategies. Currently, Cory is an independent proprietary trader focusing on the futures and forex market. His day is divided between trading and writing about the financial markets. His trading methodologies and insights are available on the Market Blog.
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ARE THE MARKETS UP A CREEK?

BY JOSHUA SILVERMAN

Editor’s note: this was originally posted at the Global Financial Data blog. It provides a historical perspective of the current market action.

This year started weak. So weak in fact that the first ten trading days of January were the worst in US history. The television is rife with talking heads exuberant over who they can point the finger at. “Oil,” one shouted. “Tech,” said another. A third bemoaned turbulence on the other side of the pond in European banks staring down a dry well of capital. Lastly, on February 10, 2016, Janet Yellen, the Chairman of the Board of Governors of the Federal Reserve Bank, faces tough questions from the White House on Capitol Hill, discussing the condition of the economy and interest rate hikes.

Countries all over the world feel the crunch. Venezuela, with oil declines, is near bankruptcy. Brazil is buried under a staggering amount of debt. Japan has never recaptured the magic of their 1989 highs, suffering through a perpetual twenty plus year bear market. It looks like China, the so called Sleeping Giant, fell into a coma with the Shanghai Composite dropping 50% in the last 7 months.

Top analysts on Wall Street dare to whisper the word recession. Yet there’s no denying it. The secret is out (and has been out since January). The S&P 500 has declined 15% as of this writing. Market technicians frantically adjust their support levels as the markets breach lower.

But are they correct?
Since the inception of the United States, we’ve had twenty-five instances of bear markets (a 20% decline), the first in 1829 and the most recent in 2009. Since we’re on a downtrend, of which most everyone agrees, the question is how far will we drop? If you include all twenty-five of America’s bear markets, you’ll find that the average bear market is 41%.

The first global crisis was in 1857. The market disastrously went into a free-fall, culminating in a 65% drop. Like today’s theories, economic historians still deliberate as to the cause of the crash. Was it the failure of the seemingly too big to fail Ohio Life Insurance and Trust Company from faulty loans? It could have been Europe’s declining reliance on American grain exports. The railroad industry nearly collapsed. Perhaps the panic was the result of the United States’ increasing demand of foreign imports with our own exportation severely lacking, culminating in a trade imbalance. Finally, banks raised interest rates in 1857 in an effort to keep gold reserves in check.

Out of 100,000 people unemployed from the crash, on November 5, 1857, 4,000 marched on Tompkins Square shouting for the government to create an economic stimulus package for public works projects that would put the people back to work. The very next day, 5,000 protestors appeared on Wall Street, crying for the banks to free up credit again so businesses could get loans and hire employees. Sound familiar?

Speculation over the causes of the Panic of 1857 reminds me of the French journalist Jean-Baptiste Alphonse Karr who said, “plus ça change, plus c’est la même chose.” (“The more things change, the more they stay the same.”)

The question should be, are we repeating the crash of 1857? Upon a cursory glance, one would say no. But look closer and you’ll find the requisite forces are all in place.
1. We have a commodity inflicting damage on the global economy. The oil of today was the grain of 1857.
2. An entire industry is caving in upon itself. The technology sector reminiscent of the railroads of the mid-1800s.
3. The banking industry, like the 1857 Ohio Life Insurance and Trust Company, both in Europe and the US, are tanking. Some are even talking about bankruptcy, mergers, buy-outs, and bailouts. After all, didn’t we learn that there is such a thing as too big to fail?
4. Like 1857, interest rates are the talk of the town. Why else has Janet Yellen been on the Hill for two days straight now?

American markets dropped a staggering 65% in 1857. Will we go down that far? I’m not sure anyone really knows. It’s called speculation for a reason. However, if history is any indication, if we hit a bear market (1707 from a May, 2015 high of 2134), chances are we’ll plummet further, down to a nightmarish 41%.

Hold on to your butts, sports fans. We’re in for a bumpy ride.

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Editor’s note: this article was originally published at StockCharts.com on February 24, 2016. Market conditions may have changed since then and the information below is not intended to be investment advice. It is reprinted here as an example of a comprehensive market analysis combining chart patterns, indicators and intermarket principles.

This article details the domino effect from the Energy Sector collapse as it rolled to other industries and sectors. As the problem continues on in time, it also continues to dramatically impair more industry groups and sectors. I think this series of charts serves to illustrate how tenuous the current market position is. I used ETF’s to show how the investor in actual trades might have been affected. The red line shows the highest week on the chart. The charts are in chronological order as the industry groups made their final highs. All charts have the same dates from beginning to end, so you can see the progression as industries top. A quick scroll down shows the tops rolling to the right.

Starting with the Solar group (TAN), it actually made the final high a few months before the price of oil topped. While the solar group tested the previous highs in 2015, TAN topped before the price of oil did in February 2014. Even if the high price in April 2105 is used, there has been little upside for investors.
The Wind energy industry defined by the ETF (FAN) actually marked a top before the oil price did as well. We could say it didn't have the wind at its back.

Next, the good ol' price of oil decided its best days were behind it in June 2014. Depicted using USO ETF.
Natural Gas didn't have any more energy left in it either. It rolled over almost right after oil.

Continuing on, the entire XLE Energy Sector topped out.
At this point, no one knew the impact that was coming, but the train was leaving the station. To no surprise, the oil and gas producers marked the high on the same week as the price of oil did. In June 2014, XOP started down the road of lower highs and lower lows. It was downhill all the way with a brief rally to the high during April 2015.

As you can see, all the energy groups let go very close to each other. The oil services ETF (OIH) responded the next week. They drilled a hole they have not gotten out of yet.
June 2014 was busy with lots of highs being put in, but nobody realized how things were setting up.

The Steel industry was breaking out to new highs in July 2014. The steel industry group (SLX) rolled over almost immediately in July 2014.

![Graph of steel industry performance]

Steel needs Metallurgical Coal for firing the smelters. Coal had been collapsing along with other raw material stocks since 2011. KOL actually topped in March 2011. KOL surged to 9-month highs in August 2014. After that, this really went down in flames. As we know, the coal industry stocks are moving into bankruptcy protection for the most part.

![Graph of KOL performance]
I think the important part of the chain of events to this point is the understanding that it still is a sector-wide annihilation rather than one piece of the Energy Sector. Who would have thought that the next industry to get crushed would be the Transports (IYT)? Yes, the media would have everyone believing that the transports (rail, trucking, airlines) would be the industry to benefit from lower fuel prices. Heads up, that is not what this chart says. The transports fell off the rails within 5 months of oil topping.

Continuing down the dominoes, the Nuclear ETF (NLR) made its final high within 2014 as well. At the time, that industry was supposed to soar because of all the new plants in China. 15 months later, it is only 20% lower but still lower. On another note, seeing the SCTR at 87% suggests a look at this on the Commodities Countdown Webinar. You can click here to go to the webinar archives and search by chronological order. StockCharts Webinar Archive.
Some of the main US Sector ETF's started to roll over as the calendar moved into 2015. Utilities can be considered energy creators as well sometimes. Lots of the utility companies are power producers creating and distributing hydroelectric power or other methods. Utilities (XLU) topped early in 2015. We can see this ETF is starting to test the previous highs right now in February 2016. The SCTR is presently up at 98.6 as defensive sectors lead the market right now.

XLB is an odd beast from a 'Materials' Sector view. Because it is dominated in the US by Dow (DOW) and Dupont (DD), it has a heavy weighting towards industrial chemicals rather than raw 'materials'. The oilpatch uses a lot of chemicals, as their pipelines need coatings for example, and downhole solutions use a lot of chemical technology for oilfield applications in different reservoirs. XLB rolled over in February 2015.
Sure enough, the oil patch orders going into the Industrial Sector started to slow down. The transports are part of the Industrial Sector. As the steel industry slowed, the rails hauling coal, iron ore, and oil slowed. Even CEO's who remained in denial finally admitted in 2016 that freight volumes were declining long after their company stock was moving south. Investors knew, even if the CEO didn't.

Interestingly enough, the retail industry group was doing well coming off a strong 2014 Christmas. Retail usually rallies into March and pulls back towards July. In 2015, the retailers were fading for the rest of the year. Macy's rolled over a little later into July 2015 and never saw a rising tide again. Underneath, a combination of slower sales in the weaker retailers would drag down the industry. Home Depot and Amazon were doing well, but Walmart was falling. The market didn't wait for the quarterly results. Everyone was shocked by the weak Christmas 2015 but the transports (shippers like Maersk - November 10, 2015) were complaining about weak volumes by then.
In May, the $SPX made its final high for the year. With a wide group of sectors unable to keep pushing higher as energy slowed the trend, the $SPX topped in May 2015.

The semiconductors (SMH) would start to slow as well. This was probably just a recognition that risk was coming out of the markets as the $SPX made its final high. The Semiconductors sold off aggressively dropping 25% in a few months. The Semiconductors are considering an early warning industry. When Semi’s are slow, the market might have bigger problems. In this case, the semi’s were making their final highs a week after the $SPX topped.
At this point, XLE, XLU, XLB, XLI have made their highs. Remarkably, the $SPX topped even before the financials. The Financial Sector makes up a significant portion of the $SPX.

The Broker/Dealers (IAI) are also considered a leading group. Interestingly enough, they broke down as one of the first industry groups in the Financials Sector.
Next, the Financials Sector rolled over. Obviously, some of the other industry groups within the financials were starting to break down before the banks, but clearly, investors were losing faith in the XLF leadership position even as the Fed said higher rates would be coming.

Because of dividends, the $SPX tracking ETF, (SPY) actually made its top in July rather than in May when the $SPX actually topped, as the brokers started to retreat.
At this point, only the Technology, Healthcare and Consumer Staples Sectors were still standing. The Biotechs and the FANG stocks had been holding the $SPX up while the number of stocks above long-term averages (200 DMA) had fallen away.

Now the leaders were about to see their owners sell into any rally. This was the final top in July 2015. From the days after the Options Expiration day in July, the market sold off heavily. The leaders were losing their influence. Notice that the biotechs put in a new low in February 2016. This leadership group has fallen 40% without any 'correlation' to the energy industry.

Next, the cat and mouse game around the rise in interest rates would take its toll on the banks. The KBE marked a top in July as well.
The Fed continued to say it was data dependent. The pressure on the interest rate rise by the Fed moved to September when nothing happened at the end of July.

The Healthcare Sector was always considered a defensive sector in the past. Hospitals, extended care facilities, drugs and other medical industries were stable for the last 40 years as people continued to get sick and this was not a cyclical group. With the stunning technology gains coming from the Biotechs, the Healthcare Sector has become a growth sector. It is probably no surprise that it was one of the last growth sectors to roll over as the defensive 'health care' component started to rise while the high-momentum Biotech industry group fell, all within the sector. But when Biotechs topped in July 2015, so did the Healthcare Sector.
Homebuilders were having a great year. Everything was still going right for them. The XHB made its final high a week before the summer selloff and the August 24th Monday morning plunge of a 1000 Dow points.
Continuing through the sectors, only Technology, Consumer Discretionary, and Consumer Staples were still making higher highs after the Summer swoon.

After the stock market tested the August lows on September 29th, a rally ensued. It was a ripping rally that froze anybody short. It moved so fast it gave them little chance for a profitable exit. But as the bear market was taking hold, the swings were getting wilder and more aggressive every day. This increase in volatility shows up in bear markets.

The Regional Banks had held up better than the Systemically Important Banks. The media focus was that it was only a few small banks who would be impaired by the oil industry pullback as it continued into its second year.

Interestingly, the Consumer Discretionary Sector (sometimes called the Consumer Cyclicals Sector) topped out at the end of that screaming October rally. Leaders like Disney, Nike, Amazon suddenly lost their momentum-based investors in the fourth quarter. Disney topped as the new Star Wars movie release date approached. Even the biggest grossing movie of all time could not propel the stock higher.
The final gauntlet had been thrown down. The FANG stocks were all the rage. Facebook, Amazon, Netflix and Google. Could they continue to hold up in the face of declining breadth? Almost every other sector was below the 200 DMA but the Internet Index and the Technology Sector had yet to top out.

The Internet Index made its final high in late November 2015. When it let go, it lost more than 20% into early February. The correlation to the oil business is obviously low, but the fact that the other sectors were slowly succumbing to the pressure of the continued decline in oil was becoming real.
The Technology Sector, the XLK, holds the massive companies like Google, Apple, and Microsoft to name a few. The XLK would succumb to the slowing global growth on the back of the global drop in demand that had struck every other sector. Now it was starting to influence the Information Management and Technology investments according to some of the CEO’s.

The ETF representing Cybersecurity, which doesn’t have a long enough timeline to be shown here, continues to move lower, even though the cyber threat is increasing every year.

Insurance, which is part of the Financial Sector, rolled over late in November 2015.
Not everything is going down. Some things rise when the going gets tough. The Consumer Staples (XLP) Sector is one of those sectors that investors turn to when cash flow is an important metric and the actual growth of the business is not. If fund managers can hold their capital and get some dividend payments, the investors are happy to wait while the storm ripples through the rest of the economy.

I posted the Utilities (XLU) chart earlier on, but now that the threats of interest rate increases are largely put off for the foreseeable future, this sector has come into favor for the same reason as Consumer Staples. Stable cash flows in a low growth or recessionary economic backdrop.

As well, investors move towards Bonds. The use of ETF's has made it easier for investors to participate in bond funds, but that does not mean there will be liquidity when the world wants to rush back to equities and sell these bond related ETF's. Here is the 7-10-year treasury ETF (IEF).
Gold has recently surged to new highs, but I think it confuses the story, so I'll leave it out for this edition.

The purpose of this article is to describe how each sector has been affected, creating the global slowdown of the entire world. There are a significant number of countries that rely on the trade created by the energy industry worldwide. Even countries that might not create energy have supplied industrial goods to the rest of the world and the lack of orders is creating a demand slowdown. The fact that we don't have any signs of higher lows, as we near the 20-month mark, is the next battlefield. The Energy Sector decimation, as well as the industrial slowdown, has gone on so long. It is the length as well as the size, which is creating this problem. Unlike 2009, where it was a 9-month dip for the Energy Sector, the duration of this event is the problem. The number of companies with loan ratios that are blowing up continues to accelerate as the companies have not had any free cash flow for over a year in many cases.

While many have the belief that it is no big deal and the consumers will reap additional billions a year in gasoline savings, the charts speak differently in my view. The fact that the transportation companies talk about dropping levels of container freight is not bullish. Apple noticed demand weakness in China. How big does a demand slowdown have to be on a scale of a $700 Billion company? While the optimist would suggest it has nothing to do with global slowing as it is not in the energy space, global demand broadly is being impaired. China is feeling the effects of their internal conditions, but the global slowdown is weighing on the country in a big way.

Jamie Dimon of JP Morgan mentioned on February 23, 2016, that the ripple effect from energy was larger than first thought and the stock sold off 4%. While JP Morgan will survive, many suppliers will not.

Mexico has 30% of their government revenue from oil. Mexico is just one example of how global government debt is being piled on after weathering the financial crisis of 2008.

In conclusion, the longer we wait to see the final lows in oil, the deeper the potential for more debt contagion and a more significant global recession becomes. We'll need to see some major action to fight off the effects of this storm globally.

Natural Gas is 50% below marginal production and oil is about 50% below marginal production. That puts increased pressure on the renewable energy industries as well as nuclear, coal, and hydroelectric. As long as the Energy Sector is still plummeting, the end of this problem is not in sight. Keep in mind that the Materials Sector is also being devastated currently, and many of those companies have lost 80% of their value. That is a 5-year problem in March 2016 that everyone conveniently dismisses. The debt issues there are also blooming.

Hopefully, the charts have allowed a small viewpoint at how each industry was affected and why this problem does not appear to be ending. We have not even started on the debt implosion created by this slide. The last time (1982) this happened globally, we did not have the derivatives systems and credit default swap insurance systems we have today.
The question in my mind is about how the less resilient economies handle the crisis and what the spillover is with all of these third party linkages.

It is my opinion that we are still early in the bear market cycle and the long-term charts suggest that.

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The Charles H. Dow Award is presented annually for outstanding research in technical analysis. As the 2014 winners, Michael Gayed, CFA, and Charles Bilello, J.D., CPA, CMT, demonstrated, research can be put to practical use. They have used the analysis presented in their paper to manage mutual funds and separately managed accounts and have now created an index to track the results of their analysis.

In their 2014 Charles H. Dow Award winning paper "An Intermarket Approach to Beta Rotation," they outlined an indicator that switches in and out of the S&P 500 based on the recent price action of the utilities index. The chart below demonstrates that this idea could be used to time the market and also demonstrates Gayed and Bilello’s idea continues to work in the current market environment.