

Technically Speaking

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The Monthly Newsletter of the Market Technicians Association, Inc. For Over 30 Years

Calendar Spreads vs. Price -- Is There A Relationship?

By Cynthia A. Kase, CMT

Many traders assume that calendar spreads show a relationship to prices. Are these assumptions correct? If so, how well do the spreads track prices, and is the relationship helpful?

To find out, four spreads for the NYMEX light sweet crude oil and natural gas futures contracts were evaluated: First-to-second nearby contract months, second-to-third, first-to-sixth, and first-to-13th. The first-to-13th spread compares like calendar months, such as January to January, eliminating seasonal issues. These spreads were evaluated for crude oil futures prices from January 1986 and natural gas futures from April 1990 to February 2008.

Two major categories relating to the spreads were calculated. These were an evaluation of the spreads versus price direction and price rate of change (bias), and an evaluation of the rate of change of the spreads versus price direction and bias.

Evaluation of Spreads

The spreads were evaluated on an absolute dollar basis as well as percent of price, where the dollar amount of the spread was divided by the average of the two underlying prices upon which it was based. The odds of the market going up, and the bias, were evaluated over a series of 10-day periods which were either concurrent dates or offset; that is, the spread over the 10 days up to and including the current day versus the bias over the following 10 days.

Several calculations were made for each date: The dollar value of the spread, the spread in terms of percent of price, price direction 10 days back or forward, and the change in price in terms of dollars and percent back or forward were calculated.

To clarify a fine point, the percent of price was based on an average of the two prices in the spread. The actual change in price was based on the first nearby contract. As an example, if the first-to-13th spread was being evaluated, and the actual prices were \$6.00 and \$4.00, for an average of \$5.00, the spread is \$2.00 or 40% of the price.

The redacted light sweet crude oil futures first-to-13th table (Figure 1) shows typical results for an "offset" evaluation. Column 1 is the percentile ranking for column 2, the spread in dollars. Column 3 is the percent that prices went up, and column 4 is the rate of change. So, for example, at the fifth percentile the spread was (\$3.73). That bin, or percentile range,

contains spreads ranging from greater than (\$5.69) to equal to (\$3.73). Prices went up 54% of the time, but the bias was negative \$0.03. This means that the amount that prices went down 46% of the time outweighed the amount the prices went up 54% of the time by \$0.03. Columns 5 through 7 provide similar values as a percent of price.

The next step was an analysis of the coefficients of determination, commonly known as R-squared, or R², also informally called "regression analysis" or "correlations." It also measured whether the F-statistic – also called the f-stat – which is a measure of statistical significance, was significant for each R².

A significant f-stat indicates that there is a statistically significant relationship between

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Figure 1 - Crude Oil 1st to 13th Nearby Spread versus Next 10-Day Percent Up and Rate of Change

1	2	3	4	5	6	7
Percentile	Spread \$	% Up	Bias \$	Spread %	% Up	Bias %
2.5	(5.69)	57	0.45	(15.6)	67	3.22
5	(3.73)	54	(0.03)	(12.6)	51	0.31
10	(2.39)	62	0.81	(9.2)	53	0.95
15	(1.70)	50	0.11	(6.3)	44	(0.38)
20	(1.08)	49	0.18	(4.1)	56	2.19
25	(0.55)	52	0.11	(2.5)	56	0.56
30	(0.21)	53	(0.08)	(1.0)	55	0.48
35	0.03	45	(0.03)	0.2	42	(0.07)
40	0.32	55	0.12	1.7	55	0.97
45	0.60	57	0.12	3.1	57	1.02
50	0.84	56	0.05	4.2	61	1.10
55	1.08	57	0.05	5.2	57	0.59
60	1.40	55	0.15	6.2	53	0.40
65	1.89	52	0.19	7.6	54	0.61
70	2.48	57	0.43	9.6	56	0.19
75	3.01	61	0.46	11.5	53	0.84
80	3.70	54	0.37	13.7	60	1.66
85	4.43	56	0.25	15.7	59	0.87
90	5.19	48	(0.14)	18.8	43	(0.90)
95	6.39	47	0.02	23.2	49	(0.16)
97.5	7.76	54	0.14	27.4	48	(0.34)
100	13.39	34	(2.23)	39.7	32	(6.09)

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MTA Job Board!

Members are encouraged to search job openings posted by outside organizations and companies. You also have access to various links that allow you to view other industry job boards. If you have any questions or are interested in posting a job opening please contact Tim Licitra.

Technically Speaking

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Letter from the Executive Director



Tom Silveri

Greetings to all,

September of this year got off to a very active start for the MTA staff with the Long Range Planning Committee (LRPC) meeting on September 13th. This meeting, Chaired by David Keller, Vice-President of the MTA and Larry Berman, President was a full day discussion of where the MTA has come over the last few years and, more importantly, where it is going in the future. Twenty-three MTA members including Board members, several Chapter Chairs, Committee Chairs, etc. actively participated in the discussions. I am pleased to report that many decisions regarding the MTA's future were made at this meeting and all will create additional and better services for our members as we move forward. For a complete synopsis of the meeting, see the article on page 3 of this Newsletter.

In addition to the above, we are in the final phases of registration for the upcoming Fall CMT examination. I am pleased to report that participation is at record highs and overall interest in the designation remains most brisk. Sign-up as soon as possible to ensure you get the examination test location and time that you want. Also, do remember that there have been some changes in the recommended readings for this examination (all levels) so you should make sure you study ALL the readings.

On November 18th, the MTA's NY Chapter will be hosting a panel discussion entitled "Today's Job Market for the Market Analysts". This panel will discuss the current job market, what the marketplace is looking for, how to structure yourself for success in this tight market, what to do and what not to do, and some tips from analysts that have recently gone through this very process. This program features Sarah Burley (Spencer Stuart), David Keller (Fidelity Investments) and Ken Tower (Quantitative Analysis Service, Inc.). Free for all attendees, this event will take place in New York City at the Bloomberg building, and will replace the November NY Chapter meeting. For more information and registration details, please visit the mta.org website.

Sincerely,

Tom Silveri
Executive Director

Letter from the Editor



Mike Carr, CMT

This issue of Technically Speaking presents information from some of the giants in the field of technical analysis.

On the cover, we feature an in depth study from Cynthia Kase on the feasibility of spread trading. Her conclusions are precise and implementable, and the statistical support she provides makes them reliable. This is an example of the type of work being done more often in our field, and her contribution raises the bar for testing ideas.

A summary of John Bollinger's career is inspirational, and demonstrates that this is a field of change. We need to study the past, but constantly develop new tools based upon changing markets and changing technologies. John is at the cutting edge of implementing technical analysis techniques with fuzzy logic and other advanced ideas. It is well worth the time to take a look at bollingerbands.com or any one of the eight web sites he maintains.

Andrew Cardwell is a lesser known name in our field, but has shown one way to succeed – completely study a single indicator and learn everything about it. He is the acknowledged expert on the Relative Strength Index (RSI), and was the first to identify Range Rules that help traders know whether a market is bullish or bearish. Andrew has developed other techniques with RSI that deserve your attention, and that have helped many other traders profit in volatile markets. His bearish call in stocks for the past year, based solely upon RSI, has been dead on, and is just one the several market forecasts he's been able to gain from recently.

We also have an update on the Long Range Planning Conference that the MTA recently conducted. Our organization is growing rapidly, without losing sight of the fact that the most important thing is to focus on the members. We are well served by the leadership, and they have well thought out plans to increase the value of the CMT program and the MTA.

Sincerely,

Mike Carr, CMT
Editor

The Long Range Planning Committee (LRPC) meeting; Our Road Map to Continued Success

On September 13th, 2008, members of the Long Range Planning Committee (LRPC) and the MTA Board of Directors got together in Westchester, New York for a full day meeting to discuss several key initiatives of the MTA today and for the future. The meeting was chaired by David Keller, MTA VP and head of the LRPC and Larry Berman, MTA President.



The meeting started with a discussion of the “State of the MTA” led by Tom Silveri, Executive Director. The LRPC participants discussed, amongst other matters the current membership demographics, new members, new CMT’s, reduced renewal “turnover” statistics and the overall financial condition of the MTA. It was generally concluded that we have made some good progress in most strategic and process categories overall the last 1+ years. This background discussion was good for all participants as it allowed for a generally consistent grounding of the facts around discussions that had to be made during the course of the day.

Next, the LRPC participants heard from Brad Herndon, MTA Accreditation Chair, on the CMT program and the Educational processes provided by the MTA (web-casts, CMTi course, etc.). Brad explained that while we have had much growth in CMT designation holders and overall interest in the examination, both in US and Non-US markets which of course is exciting regarding the future prospects for the MTA, however, these volume increases and examination complexities have created a considerable strain on our volunteer core whom we ask for assistance. This CMT team not only is stretched with handling current examination issues but Brad expressed concern that this lack

of resource will impact our future visions for the examination.

The LRPC participants were very supportive of the need to provide additional manpower resources to this “gold-standard” area for the MTA and as a result, recommended 2 immediate investments;

- The hire of the full-time CMT Program Director to assist the Accreditation Chair, the ED and the Board on the current and future development of the CMT examination and
- The establishment of a 9 member CMT test development committee comprised of part-time paid consultants who will assist the CMT Program Director and Accreditation Chair on the many examination tasks such as question writing, new recommended readings, Subject Matter Expert (SME) reviews on ‘cut’ scores, CMT 3 grading, mentoring, etc.

Those recommendation proposed by the LRPC participants were subsequently approved at the Board level and a formal selection process is underway for these positions by the MTA.

After the discussion around the CMT program, Tom Silveri and Tim Licitra, Marketing Director, presented to the committee on the MTA’s external marketing initiatives. Tim focused on the MTA’s current marketing objectives, the demographics of our target market, the processes we use to market, and the publications that we currently advertise in. Tim also explained the current trends in the MTA membership, its new member growth, and the increasing number of participants in the CMT program. Tom Silveri then presented on the financial aspect of the MTA’s marketing plan. He explained the current budget expenditure and proposed our increased marketing expenditure. After an active and productive discussion amongst the committee, it was decided that the MTA will;

- Work on expanding its marketing “reach” and search for additional publications to advertise in that accomplish that objective.
- Continue to work with our brand consultant on the design and formatting of all of our marketing materials.
- Create marketing materials/ information for the chapters to have available at their meetings
- Have more “new member” events to increase the networking and help to guide

them as they begin the CMT program.

Recommendations for these marketing initiatives will be presented at an upcoming Board of Directors meeting, and we will carry out the decisions accordingly.

Finally, the LRPC discussed our growth objectives and our various collaborations with related industry organizations. After discussions, the LRPC recommitted to the following vision:

- We will continue to actively seek processes to expand technical analysis information globally in support of our members and affiliates, as well as prospective members. Integral to that expansion will be the promulgation of our CMT designation.
- We will continue to reach our proactively to partners globally with the intent to collaborating in methodologies and processes to provide more, and better, current technical analysis to all.

Over the course of the next few months, the MTA will notify its membership about the actions it has taken to accomplish these tasks. We are confident that these continued efforts will help to shape the MTA to constantly move forward in services on behalf of its members!

“What’s Hot”

The MTA Library Announces...

The MTA would like to announce that the following books have been added to the MTA Library.

- *“Beat the Market: Invest By Knowing What Stocks to Buy and What Stocks to Sell”* by **Charles D. Kirkpatrick II, CMT**
- *“Beyond Greed and Fear”* by **Hersh Shefrin**

The MTA would like to thank Charles Kirkpatrick, CMT and Dodge Dorland, CMT for their recent donations to the MTA Library.

As we continue to add to the library, if you have any recommendations for us, please email Cassandra Townes at cassandra@mta.org

John Palicka, CFA, CMT, who teaches finance and technical analysis will rerun his full page ad with updated course information next month.

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variables. If the f-stat is too low, then the findings may be unreliable. In addition to the R2 and f-stat, in cases where the f-stat was high enough, a best fit curve in the form of $y = mx + b$ was calculated.

The first iteration involved setting up rank and percentile tables as shown in Figure 1. The small number of data points did not yield statistically significant results. Therefore, a second iteration was performed with the bins broken into 100, one-percentile increments.

Even with 100 bins, some results still lacked significance. Bad f-stats can result from not enough data, ex-treme outliers, or just poor correlation. The first possibility was ruled out by many significant observations. Thus, two additional runs were performed that removed the outliers. These runs slightly improved the f-stat for some observations but lowered others and so outliers were ruled out as a reason for low f-stats and attributed to poor correlations.

Spread Findings

The first-to-second month and second-to-third month spread relationships were erratic, poorly correlated, and had many bad f-stats, even with the outliers thrown out. Thus these findings are considered uncorrelated. Sea-sonality and resultant irregular rollover gaps may be why the correlations are inconsistent. Calendar based studies (January versus February, March versus April) as opposed to positional studies (first nearby versus second nearby) may yield better results, but such an analysis is outside the scope of this article.

The first-to-sixth nearby and first-to-13th studies were all statistically significant and consistent between the concurrent and offset analyses, dollar and percent results and natural gas and crude oil. The first-to-sixth nearby spreads are always two seasons apart and change gradually, and the first-to-13th spreads are a full yearly cycle apart.

In Figure 1, the relationships between the spread and direction or with bias, looks poor. The R2s are about 0.07 for the percent up, and 0.20 for bias. The low R2 values confirm the very weak correlations and mean current spreads aren't useful in predicting future direction or price.

Even though spread prices may not be predictive, the question still remains as to whether spreads track concurrent prices. So rather than looking at spreads relative to future prices, the current spread correlations were compared with past market direction and past bias. Here the answer is different.

Figure 2 is the same as the previous table, except that it's for concurrent data. A review shows much better correlations, especially in the bias columns.

The R2s increase to 0.43 and 0.60 for the percent up, on a dollar and percent basis, and to 0.43 and 0.65 for bias. So spread versus percent up and bias correlate and the relationships for the

percent based values are at least close to the 0.70 R2 that some recommend for a minimum.

Figure 3 summarizes the R2 for the offset dates, all low, and the concurrent dates, much higher, with the re-sults for the natural gas futures first-to-13th nearby contracts above 0.70, at 0.79. So, while the data is corre-lated, it's inadequate for trading.

Evaluation of the Rate of Change

The next portion of the study evaluated the rate of change of the spreads against the same two criteria of market direction and bias. The rate of change was always evaluated either for the concurrent 10-day periods or the offset 10-day periods. The data was then evaluated similarly to the spreads, as discussed relative to Figure 3.

Note that the rate of change was evaluated relative to percent of price, as the spreads were. While the study originally attempted to look at the rate of change relative to the spread dollar value, since the spread can be zero or close to zero, the rate of change can be pushed towards infinity.

Rate of Change Findings

For the rate of change study, the offset and future correlations were all poor, and five of the

32 observations -- shown in red on Figure 4 -- weren't statistically significant. However, all of the concurrent results were sta-tistically significant, and many were above 0.70. The R2 for the percent based correlations were consistently better than the dollar based, and the first-to-second and second-to-third nearby spread results were consis-tently worse than the first-to-sixth and first-to-13th.

With good correlations it's possible to fit a straight line having the form $y = mx + b$ to the data. The cutoff point for a good R2 is usually 0.80 or 0.85, but that's arbitrary. Traders might want to use 0.70 for estimating percent up, since that's just for market direction, while 0.80 or 0.85 might be more prudent for bias, since that's predicting the rate of bias. So, using best-fit curves for any data set that has less than a 0.70 or 0.80 would be considered a bad idea by most industry guidelines.

If the R2 is high enough and a trader is experienced in predicting spreads, but not price, he can make a rea-sonable estimate on price by using the rate of change to estimate the bias, or vice versa.

Figure 2--Crude Oil 1st to 13th Nearby Spread versus Last 10-Day Percent Up and Rate of Change

1	2	3	4	5	6	7
Percentile	Spread \$	% Up	Bias \$	Spread %	% Up	Bias %
2.5	(5.69)	33	(1.40)	(15.61)	24	(4.57)
5	(3.73)	52	0.05	(12.61)	28	(3.39)
10	(2.39)	47	0.48	(9.15)	34	(1.95)
15	(1.70)	34	(0.37)	(6.33)	54	0.30
20	(1.08)	52	0.04	(4.12)	45	(0.27)
25	(0.55)	35	(0.29)	(2.53)	45	(0.17)
30	(0.21)	43	(0.19)	(1.03)	49	(0.60)
35	0.03	48	(0.08)	0.17	49	0.04
40	0.32	43	(0.18)	1.74	44	(0.21)
45	0.60	49	(0.05)	3.07	43	(0.72)
50	0.84	50	(0.00)	4.16	47	0.19
55	1.08	58	0.12	5.22	52	0.52
60	1.40	67	0.19	6.21	64	1.14
65	1.89	63	0.08	7.65	70	2.22
70	2.48	53	(0.18)	9.56	60	1.13
75	3.01	50	(0.13)	11.46	60	1.04
80	3.70	53	(0.06)	13.68	56	0.98
85	4.43	52	(0.19)	15.73	60	1.07
90	5.19	65	0.55	18.79	63	1.63
95	6.39	76	1.28	23.21	65	2.33
97.5	7.76	79	1.87	27.39	72	3.72
100	13.39	84	2.34	39.70	80	5.97

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Figure 3 -- R2 Results for Spread versus Percent Up and Bias Analysis
(CL is the symbol for the NYMEX crude oil futures contract, NG for natural gas futures)

Offset Dates				Concurrent Date Range		
PercUp						
R ² Dollar	1 to 6	1 to 13		R ² Dollar	1 to 6	1 to 13
NG	0.10	0.09		NG	0.24	0.39
CL	0.08	0.07		CL	0.42	0.43
R ² Percent	1 to 6	1 to 13		R ² Percent	1 to 6	1 to 13
NG	0.19	0.10		NG	0.46	0.64
CL	0.09	0.06		CL	0.58	0.60
Bias						
R ² Dollar	1 to 6	1 to 13		R ² Dollar	1 to 6	1 to 13
NG	0.33	0.29		NG	0.38	0.67
CL	0.17	0.19		CL	0.42	0.43
R ² Percent	1 to 6	1 to 13		R ² Percent	1 to 6	1 to 13
NG	0.39	0.21		NG	0.55	0.79
CL	0.29	0.21		CL	0.62	0.65

Figure 4 -- R2 Results for Rate of Change of Spread versus Percent Up and Bias Analysis
(CL=NYMEX light sweet crude oil futures; NG=NYMEX natural gas futures)

Offset Dates					Concurrent Date Range				
PercUp									
R ² Dollar	1 to 2	2 to 3	1 to 6	1 to 13	R ² Dollar	1 to 2	2 to 3	1 to 6	1 to 13
NG	0.02	0.01	0.05	0.06	NG	0.20	0.09	0.32	0.37
CL	0.01	0.001	0.02	0.01	CL	0.30	0.29	0.70	0.65
R ² Percent	1 to 2	2 to 3	1 to 6	1 to 13	R ² Percent	1 to 2	2 to 3	1 to 6	1 to 13
NG	0.14	0.01	0.15	0.24	NG	0.67	0.46	0.70	0.75
CL	0.07	0.00	0.06	0.02	CL	0.77	0.78	0.83	0.80
Bias									
R ² Dollar	1 to 2	2 to 3	1 to 6	1 to 13	R ² Dollar	1 to 2	2 to 3	1 to 6	1 to 13
NG	0.20	0.20	0.00	0.00	NG	0.52	0.30	0.81	0.85
CL	0.27	0.04	0.09	0.03	CL	0.80	0.72	0.97	0.97
R ² Percent	1 to 2	2 to 3	1 to 6	1 to 13	R ² Percent	1 to 2	2 to 3	1 to 6	1 to 13
NG	0.17	0.02	0.12	0.11	NG	0.80	0.73	0.94	0.98
CL	0.13	0.00	0.14	0.09	CL	0.92	0.96	0.99	0.99

Focusing on the concurrent date data best-fit curves yield the line formulas shown on Figure 5. Note that the percent up formulas must be bound by 0 and 100 even if values generated by the formulas at the extreme yield values fall outside these boundaries. Also the "percent" formulas are actually fractions, so for percent, multiply by 100.

A trader should not use correlations less than his cutoff, say 0.70 for the percent up and 0.85 for the bias. Keep in mind that the best-fit curves are an approximation and only provide an expected estimate.

Figure 6 shows some actual versus estimated data for NG first to 13th, using "min(max(8.555 * x + 0.493,0),1)" for the percent up and "2.211 * x + 0.002 for bias". The table shows for nearly 18 years of natural gas data, there have been no instances where the spread dropped by more than 6% and the market went up. The upper end of the data is less reliable, but the odds for the top third of the observations average 94% actual versus 84% estimated.

A best-fit curve relative to actual data for natural gas first-to-13th spread rate of change versus price bias in terms of percent of price is represented by Figure 7. The reason that the data is not a straight line is due to the fact that the rates of change are taken from the percentile bins and thus, while the percentiles are even, the rates of change associated with them are not.

Here are two examples of how the information above might be used. Let's say the natural gas, first and 13th nearby contracts are trading at \$9.00 and \$10.00. A trader is familiar with forecasting discrete prices, and calls the first nearby up by \$0.70 or 7.4% of underlying (0.7/9.5). The spread, then, can be estimated by transposing the formula from $y = 2.211 * x + 0.002$ to $x = (y / 2.211) - 0.002$, remembering that these formulas are based on fractions, not percents. With this formula, the estimated rate of change is 3.15%, or \$0.30, increasing the spread from \$1.00 to \$1.30, which, with the first nearby at \$9.70, gives the 13th at \$1.30 over, or \$11.00. So if the trader is right about the first nearby, reasonable estimates of both the spread and the value of the 13th nearby can be made.

Now, let's look at a crude oil example, using the first-to-second month spread, which is \$0.50 over the current average price of \$100. The spread is estimated to fall \$1.00, to \$0.50 under, for a drop of 1%. If using the formula $y = 4.966 * x + 0.003$, then a drop in price of \$4.70 is called for. So, on average, the first nearby contract is estimated to fall to \$95.8 (\$100.50 - \$4.70), and the second nearby would then be \$95.80 + \$0.50, or \$96.30, and the odds of a decline taking place is $1 - (29.003 * -0.01 + 0.518)$, or 77%.

Suggestions for Further Study

Some further refinements might be made to

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Figure 5 -- Summary of R2 and Formulas for Rate-of-Change Analysis

Percent Up				
R² Dollar	1 to 2	2 to 3	1 to 6	1 to 13
NG	0.20	0.09	0.32	0.37
	$0.235 * x + 0.508$	$0.309 * x + 0.482$	$0.370 * x + 0.504$	$0.496 * x + 0.502$
CL	0.30	0.29	0.70	0.65
	$0.321 * x + 0.423$	$0.665 * x + 0.342$	$0.298 * x + 0.521$	$0.235 * x + 0.519$
R² Percent	1 to 2	2 to 3	1 to 6	1 to 13
NG	0.67	0.46	0.70	0.75
	$7.063 * x + 0.514$	$9.500 * x + 0.515$	$6.744 * x + 0.502$	$8.555 * x + 0.493$
CL	0.77	0.78	0.83	0.80
	$29.003 * x + 0.518$	$65.060 * x + 0.516$	$20.610 * x + 0.515$	$16.003 * x + 0.513$
Bias				
R² Dollar	1 to 2	2 to 3	1 to 6	1 to 13
NG	0.52	0.30	0.81	0.85
	$0.501 * x + 0.000$	$0.396 * x + 0.006$	$0.749 * x + (0.014)$	$0.928 * x + (0.015)$
CL	0.80	0.72	0.97	0.97
	$1.735 * x + 0.058$	$3.322 * x + 0.038$	$1.664 * x + 0.054$	$1.326 * x + 0.042$
R² Percent	1 to 2	2 to 3	1 to 6	1 to 13
NG	0.80	0.73	0.94	0.98
	$2.053 * x + 0.008$	$2.432 * x + 0.008$	$1.811 * x + 0.004$	$2.211 * x + 0.002$
CL	0.92	0.96	0.99	0.99
	$4.966 * x + 0.003$	$9.892 * x + 0.003$	$3.368 * x + 0.002$	$2.575 * x + 0.001$

Figure 6 -- NG 1st to 13th Rate of Change Actual versus Estimated Percent Up and Bias

		Actual	Estimated	Actual	Estimated
Percentile	ROC	% UP	% UP	Bias	Bias
1	(0.126)	0	0	(0.25)	(0.28)
6	(0.061)	0	0	(0.13)	(0.13)
10	(0.047)	0	9	(0.12)	(0.10)
20	(0.027)	11	26	(0.05)	(0.06)
30	(0.017)	11	35	(0.04)	0.00
40	(0.008)	37	42	(0.01)	0.00
50	(0.000)	58	49	0.01	0.00
60	0.009	75	57	0.02	0.02
70	0.018	95	65	0.06	0.04
80	0.032	93	77	0.07	0.07
90	0.054	98	96	0.13	0.12
95	0.077	91	100	0.16	0.17
100	0.297	87	100	0.29	0.66

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On July 24th, 2008 we said:
“We recommend taking exposure off and letting the market prove itself from this level. We continue to believe a long-term actionable low is more likely late in Q3 or early Q4.”

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Calendar Spreads vs. Price --Is There A Relationship

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Figure 7

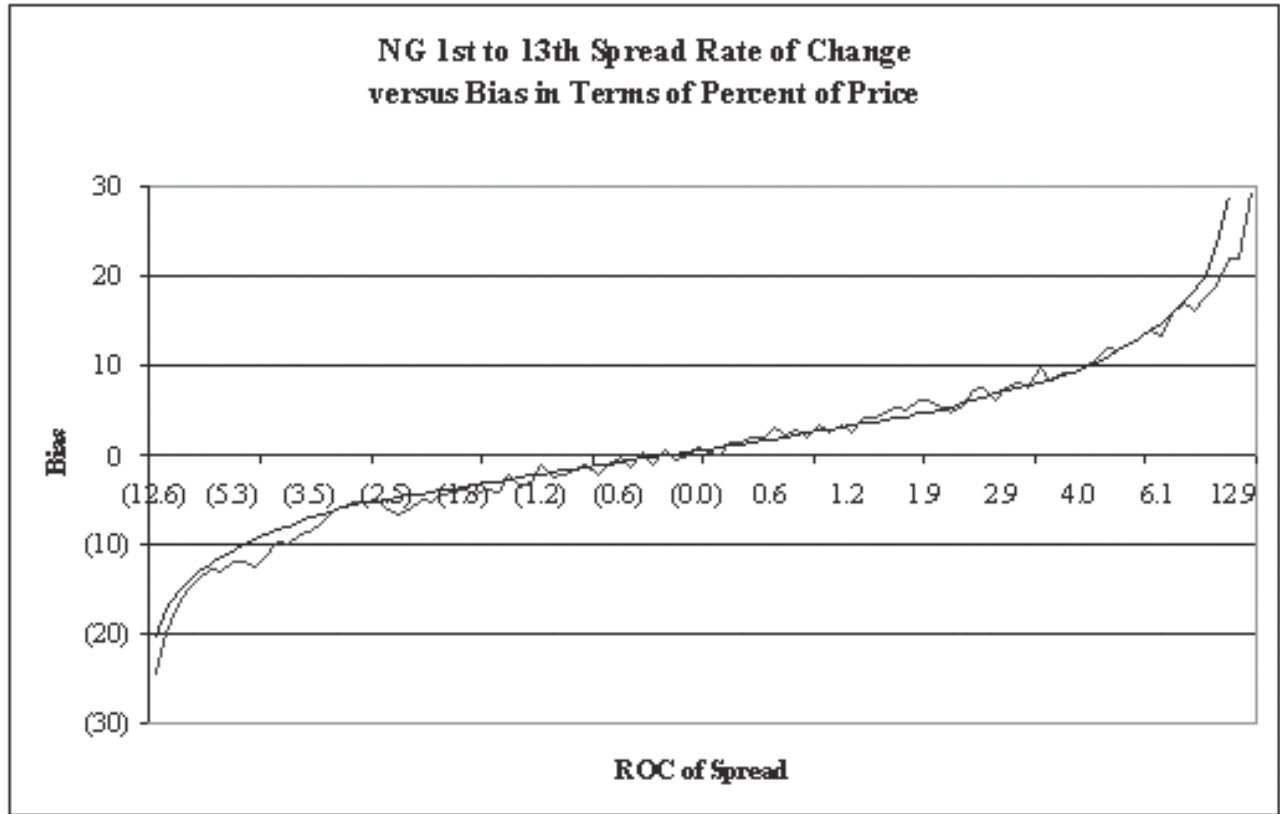
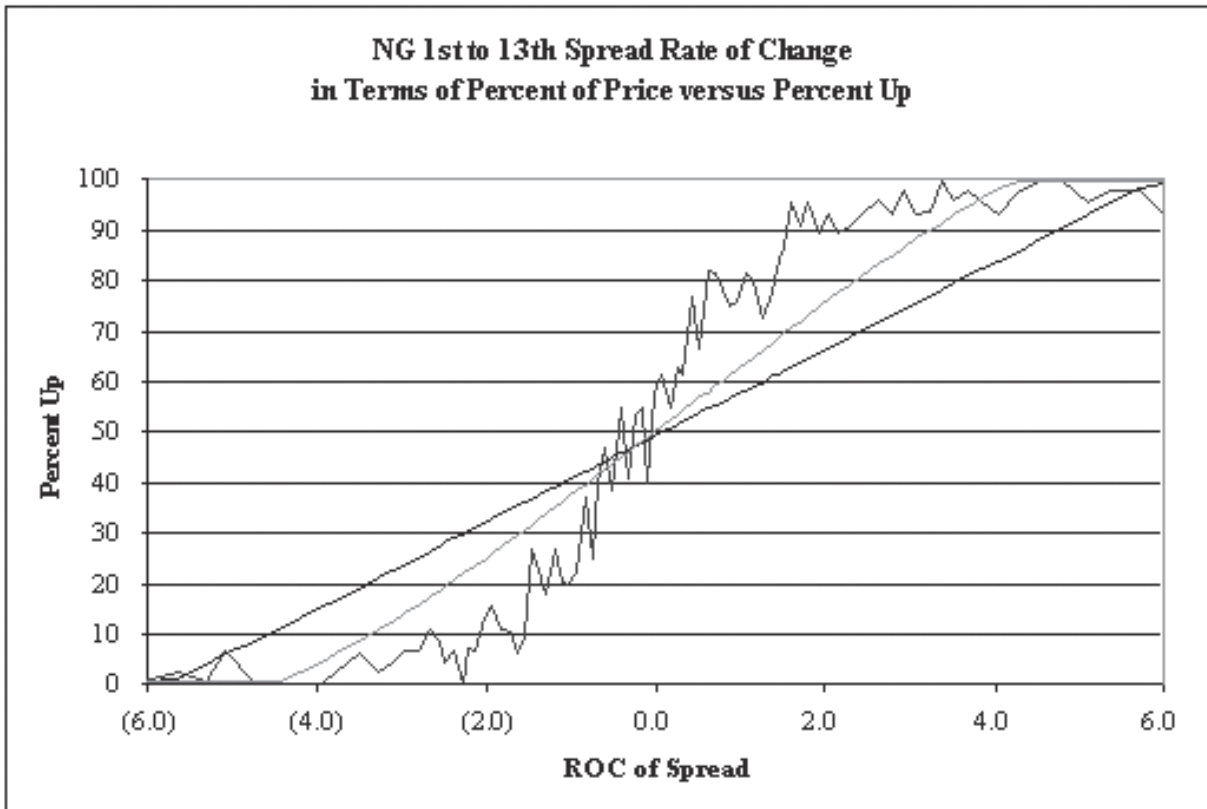


Figure 8



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Calendar Spreads vs. Price --Is There A Relationship

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see whether correlations can be improved. For example, rather than dividing by the average price to get the percent of price, the price of only the first nearby contract might be used. Also the study, as mentioned earlier, evaluated the data over 10-day periods. Different periods, for example, from three days, to maybe 20 days or more might be examined to see how the correlations hold up. Also as mentioned earlier discrete calendar month pairs might be studied.

In addition, different best fit formulas, other than straight lines might be tested, especially for the percent up. For example, the natural gas first to 13th percent up R2 was 0.75. Figure 8 shows the actual data in dark blue, and the linear fit in black. As can be seen, the data forms a slanted S shape relative to the linear fit. Thus, other methods such as a cubic fit which has the form $y = m1*x^3 + m2*x^2 + m3*x + b$ could be examined for all the relationships. When tested on the data below, the formula $y = -764.91*x^3 + 4.81x^2 + 12.9*x + 0.50$ gave a closer fit to the data as shown with the red line, and yields an R2 of 0.88 versus the linear 0.75. So an analysis of all the relationships on this basis may be justified.

In conclusion, neither spreads nor rate of change of spreads are predictive of future price activity. However, both spreads and the rate of change of the spreads correlate with market direction and the rate of change of price. While spreads don't correlate well enough to be a useful tool in making predictions, the rate of change of the spreads do correlate well enough with rate of change of price, that if one variable can be predicted, the other may be estimated.



Cynthia Kase, president of Kase and Co., Inc., is considered one of

the premier technical analysts and forecasters in the energy markets. Educated as an engineer, she worked as a refined products and crude oil trader and risk manager for Chevron Corp., Chemical Bank, and the Saudi Oil Minis-try's consulting arm, Petronal, before launching Kase and Co. The firm primarily focuses on pro-viding trading and hedging strategies, software and solutions to the energy market, but also offers trading software on a wide range of trading platforms. Ms. Kase is a Chartered Market Technician, winner of the Market Technician Association's "Best of the Best" Award (1997) and is the first American to be awarded the prestigious Masters of Fi-nancial Technical Analysis diploma by the International Federation of Technical Analysts. She can be reached at kase@kaseco.com or (505) 237-1600.

A Case Study in Success: John Bollinger

By Ajay Jani



On July 16th, I had the opportunity to meet with John Bollinger, CMT, CFA. I spoke with him via telephone again on August 5th. How someone who suffered from severe stage fright became one of the most recognizable faces in the media representing technical analysis is just one piece of a fascinating story.

Bollinger grew up in New York, and after high school he spent some time at the School of Visual Arts. He eventually moved to California to pursue a career as a cinematographer in the motion picture industry. He became interested in finance and began subscribing to newsletters and researching fundamentals to help drive his investments. Replicating the experience of many other traders, he failed at making money using fundamentals, and in response took up technical analysis.

Bitten by the investment bug, Bollinger left cinematography and landed an apprentice position with trader Charles Speth, an event that he terms "key" to his career. While working for Charles, Bollinger maintained "Point and Figure" charts by hand in real time for a diverse group of assets including equities, bonds, gold, and currencies. After a year's apprenticeship, Bollinger went out on his own to trade. He was provided a desk by a brokerage firm where he did his transactions. Bollinger initially focused on the options market, which was still in its infancy. Bollinger happened to own a computer, which at the time was still a rarity. Using his self-taught computer skills and knowledge gained from his apprenticeship, Bollinger set out to develop a more systematic approach to the market.

Bollinger's most recognizable contribution to the field of technical analysis is the development of volatility bands, now commonly referred to as "Bollinger Bands." As Bollinger moved to a technically based approach to trading, he experimented a lot with using trading bands to find low risk ideas. One problem he saw with traditional trading bands was that they did not adapt to the market, and that they left open the window for traders to tinker with them. Thus, using traditional

percentage bands would allow the emotion of the trader to seep into the analysis, a surefire method for disaster. Says Bollinger, "when you allow emotion to dictate your approach, you no longer see the market. You see what your emotions want you to see in the market." Using his computer to run analyses, Bollinger stumbled upon the fact that "volatility was dynamic!" Betas were not stationary, and so he hit up on the idea of using the market's changing volatility to modify the width of trading bands in a consistent and non-emotional fashion.

During this period when Bollinger was trading for himself, he was approached with an offer to be the in-house technician at the fledgling network FNN. Initially, Bollinger demurred. However, when FNN signed radio commentator Ed Hart to a contract, Bollinger changed his mind. He felt that if "FNN was good enough for someone of Hart's caliber, then it was good enough for me." Bollinger thoroughly enjoyed his time at FNN. He got to meet some of the top research analysts and traders while at FNN. He also gained access one of the first computerized technical analysis platforms, MERLIN, as well as FNN's own technical analysis platform created by Dr. Earl Brian "MERLIN" was not the code word for a market forecasting application but rather an abbreviation for the software's originator, Merrill Lynch.

Bollinger had agreed that he would do research and analytics for FNN, but he specifically stated that there would be no on-air appearances. He had a tremendous fear of public speaking. "It's the thing people fear most" says Bollinger. However, shortly after he began consulting for FNN, there was a strike and he was forced to go on the air as a replacement. He was terrified at first, but gradually overcame his fears and became a regular on-air commentator for FNN.

This event in many ways sums up the life philosophy of Bollinger: "Go with the flow and enjoy the show." Not one to over analyze situations, Bollinger's best advice to those seeking to get into the investment business or to start their own firm is to "just do it". He believes that many are overcome with paralysis by analysis and that people should "just make the most out of opportunities and to have a good time while doing it." Bollinger believes that his period at FNN coincided with a "golden era" in broadcast market information. At the time, the networks were more focused on markets and traders as opposed to news and entertainment. Bollinger believes the quality of broadcast market information has "gone downhill" and is no longer as useful to the individual investor.

In 1991, when FNN was acquired by CNBC, Bollinger was offered the position of in-house technician for the combined network if he were willing to relocate to New Jersey. Bollinger declined, and thus began a new chapter in his life. He opened Bollinger Capital Management, which initially catered to individual investors.

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A Case Study in Success: John Bollinger

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More recently, he has also been building up a suite of websites (BollingerBands.com, BollingerOnBollingerBands.com, EquityTrader.com, GroupPower.com, PatternPower.com, MarketTechnician.com, and BBForex.com) to help bring useful information, education, and analytics to the individual investor.

Bollinger credits industry greats such as Art Merrill, Norman Fosback, Richard Wyckoff and Sedge Coppock as inspirations whose work he greatly admired and tried to build upon. Bollinger is an avid historian of the craft of technical analysis and feels the current generation of investors under appreciates the body of work created during the “golden age” of technical analysis. Bollinger says that while the computer has been a boon to his business and to the industry in general, it “has created distance between the analyst and the indicator.”

Bollinger also spoke of the need to thoroughly understand the behavior of any system or indicator, and how it responds under different market conditions. Said Bollinger, “If the market delivers an event that you know your indicator will not handle well, don’t take the signal.” It seems so simple and yet many traders get into trouble by ignoring this very advice.

Digital filters are one area where Bollinger has been doing a lot of research recently. The most commonly used digital filter in technical analysis is the moving average, but Bollinger’s view that there are times when more sophisticated digital filters will produce a better result for the analyst.

When I asked Bollinger where he thought new entrants to the field should focus their efforts, he quickly responded that “they should read the old books!” He felt there was a tremendous amount of information that could be gleaned from these sources to help build a strong foundation in Technical Analysis. In fact, Bollinger recently donated half of his book collection to the MTA library to help members get access to old and out of print volumes on technical analysis.

However, Bollinger was equally emphatic of the need for people to try and do different things and be creative. He noted that most of the progress in an industry is achieved by the “non-believers” who simply do what they want to instead of following the hallowed traditions. He acknowledged that it’s not an easy balance to achieve, but one that was worth striving for.

When asked what troubles him the most about current industry practices, Bollinger stated that it was the propagation of the belief that “if people just show up and ‘follow the rules’ that they will succeed as if the market owes them something.” “The market doesn’t owe anything to anyone, and people forget that this is a business like any other business. It requires hard work, discipline and skill.” Bollinger feels that promotions that suggest otherwise are just not reasonable. Bollinger also believes that “every market crisis you go through

builds up experience and knowledge. After you’ve been through a few iterations of the LTMC crisis, or 9/11 or 1987, you learn things that cannot be learned in a book or by looking at historical charts.” Bollinger’s view is that while reading history gives you “abstract knowledge”, there is nothing like going through the experience in real time to create an indelible lesson.

One lesson that Bollinger is currently drawing upon is the contrary opinion thesis as described by Humphrey B. Neil. Neil suggested that in order to use contrary opinion, the following 3 conditions must exist. 1) There must be a widely held opinion 2) One must wait for that opinion to be wrong and 3) There must be a catalyst to signal the change.

Bollinger believes that the U.S. currency is showing signs of bottoming at a time when market psychology is still firmly negative on the “collapsing dollar.” Bollinger notes that the dollar stopped going down in March, and is in the process of building a base and testing upside resistance. Foreign corporations are beginning to make cash bids for large U.S. corporations (Roche bid for Genentech and Inbev bid for Anheuser-Busch are two notable examples) and these events could be viewed as the catalysts to turn the flow of funds and psychology in favor of the USD. As a result of seeing market action that is in direct contrast to market positioning and psychology, Bollinger has reduced his overseas exposure “considerably” and thinks that U.S. markets have a good probability of outperforming going forward.

Bollinger strongly believes that psychology plays a roll in investment success, but also believes that “no one is born with the psychology for this business.” However, Bollinger says he is “underwhelmed by the trading psychology industry.” Bollinger believes that success is simply a matter of applying a proven (and well-tested) strategy in a disciplined and consistent manner. He states that the most important thing is to “see opportunities and seize them.” Sometimes opportunities are made and sometimes they are found” but in the end, you have to take action. States Bollinger: “that’s how I’ve done everything in my entire life.”

Ajay Jani has been in the investment business since 1989, and is currently Managing Partner of Single A Capital, LLC, a hedge fund investing in Emerging Markets. He is an MTA affiliate and has completed levels I & II of the CMT.

John Bollinger has recently created MarketTechnician.com and several other web sites which provide valuable market timing tools that should prove to be valuable to the professional community. These sites provide long historical records of different signals along with obscure indicators such as those developed by James Alpher. A 30-day free trial is well worth the time.

Analytical Toolbox: Trade Psychology—Andrew Cardwell

By Clare White, CMT

This article was originally published at Optionetics.com and is being reprinted here with permission.

As a follow-up to last week’s article discussing Andrew Cardwell’s experience with the Relative Strength Index [RSI] and how he came to be a leading authority on this technical tool (see Analytical Toolbox: Speaking with Andrew Cardwell from 7/18/08, available at Optionetics.com), a natural next step is this week’s discussion on the psychology of trading. Mr. Cardwell has traded different futures markets for thirty years and has definitely developed some insights into the importance of trading with a plan and the challenges the markets present traders. His longevity in leveraged markets suggests he’s learned a thing or two along the way.

Andrew Cardwell, President of Cardwell Financial Group, Inc., began his trading career in 1978 as a broker with McCormick Commodities. In 1981, Andrew left the brokerage business to devote his time to the study of technical analysis and to develop a trading program and model around the Relative Strength Index. Today, he provides consultation and commentary for his RSI Course students and his Cardwell Private Client Group.

Andrew has taught his proprietary RSI Basic and RSI EDGE Courses to individual traders, brokers, money managers and technical analysts from around the globe. Over 70% of his course students have been referrals and he has course students in 27 countries. As a very respected and sought-after lecturer, he has presented at some of most prestigious worldwide financial conferences. From 1990 to 1993, he provided weekly market commentary for the Financial News Network and has also appeared on CNBC, providing opinions based on his RSI experience. His articles have been published in Futures magazine and by Knight-Ridder News Service. He was featured in the Commodity Traders Consumer Reports “Trader Profile” series where Bruce Babcock referred to him as “the world’s leading authority on the RSI”. Andrew Cardwell can be reached at cardwellRSI@hotmail.com.

Success in Trading

Q: What do you believe is needed to be successful trading any financial markets?

AC: When I started lecturing and teaching my courses, I said there were three things critical for success: 1) A methodology that works consistently and had proven itself to be reliable in uptrends and downtrends (good probability). The reliability should extend to all types of markets, using all

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Analytical Toolbox:

Trade Psychology - Andrew Cardwell

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different time frames, 2) Patience to wait for the signals and 3) Discipline to stay within the trading program and the rules you defined for it, but more importantly, the discipline for controlling yourself and your emotions.

While it's easy to teach someone chart patterns and a methodology the two hardest things to learn are patience and discipline. Having a good methodology (trade plan) gives you the opportunity to focus more time on discipline. Trading is like golf, 20% mechanical and 80% mental (same swing, different clubs).

The difference between a trader and an investor is that a trader buys and sells with the goal of making profits. An investor is someone who takes a position and when it goes against him holds on long enough to where he becomes an investor. They do this instead of using a stop loss and moving on like a trader. Take for example those who bought GM at \$45, bought some more at 40 and at 30, and now that it's way down are asking, "What should I do?"

You have to have a plan, just like a football team. If you walk onto that field without a plan, you're doomed. You also have to be willing to change your plan, to adjust. Adjusting can sometimes mean admitting you're wrong and most people don't want to do that because they take it as a personal slap in the face. You were wrong and you lost money. Professional baseball players win batting titles batting 0.350 which means they're only getting 35 hits at 100 times at bat. They're only right or in tune 35% of the time. You can do that in trading as well, if you maintain your discipline and are willing to admit when you're wrong.

People trade mostly on hope or fear; they buy something hoping it will go up and when it goes against them they experience fear. People take profits quickly for fear of losing it. They hope it will go up higher so they can make more money, but in the first correction they're out.

After 30 years I've seen just about almost everything that could take place. People have told me that I seem to have ice water in my veins. I don't equate the markets with money—it's a line moving up or down. When the markets drop I say, "don't be in such a hurry to buy" and when it starts running I say "don't be in such a hurry to sell". I tell people, "It's not the quantity of the decisions that make you money, it's the quality." Quantity means you're putting money at risk all the time. A lot of traders when they have a good position start thinking about how they will spend the profits before they have even off-set the trade.

Q: How have you been able to minimize emotions in regards to profits and losses?

AC: I always look at it as points; I don't look at it as dollars. I think about moving from Point A to Point B. If it goes above Point B, then I look to the next point. So I set targets along the way and

bring my stop up to protect profits. This way I let the market show me what it wants to do. The market presents opportunities all day long, you just have to be sharp enough to know which ones are good markets and which ones are head fakes.

Mark Douglas in *The Disciplined Trader* wrote, "Money is not a by-product of what you know, but what you act on what you know." You may know what a buy signal looks like, but you decide not to buy it because your friend tells you his broker says it's not a good time (it's like too many chefs in the kitchen).

Nobody knows what the market will do; traders work in probabilities. But when people start thinking about money it's where they can get very confused. A position can move 3 or 4 points in their favor and they're already thinking about how they'll spend the money. They may act aggressively thinking they can take profits and get back in on a pullback, but the pullback never happens. The markets take off without them. We can minimize risk, but more importantly we need to minimize emotion.

Trading is a very humbling way of making a living. You're either right or you're wrong, the bottom line is: did you make money or lose money. It's not until you learn the difference between "just trading" and making money that you start to really make money—there's a big difference. I've had people tell me they play my course CD, "Trading versus Making \$" once a week so keep their head on straight.

In 1987 when I had first gotten out in the public I was working as a consultant for a friend of mine who was working for a broker. In July and August of that year I was suggesting that people get out of the stock market because conditions didn't look good and I felt we could have a real hard downturn. The president of the company ran me out, saying I was too negative.

Well a few months later we had the crash and the brokers working there lost about half of their client base. When I went back in to meet my friend for lunch the president of the company looked at me and said, "Well I hate to admit it, but you were right." I said it's not a question of right, it's a question of looking at markets and reading them for what they are, not what you want them to be.

Q: How does technical analysis help minimize emotions/decision-making?

AC: People have come out recently talking about being in a bear market, but I don't have to lose 20% of my capital to know a market is bearish. We've been there technically since May and really before that when you look at trading volume or the financials (XLF). Just watching how the economy was slowing down provided information, but you will still hear people say, "we're going to skirt the recession" or, "we're not really technically in a recession". We've been in a recession since last summer and the housing market's been in a recession since before that. (Note: Apply the Range Rule principles using the daily chart for XLY, XLF and GM—see article on 7/10/08 on Cardwell's

Techniques with the RSI.)

When I was in school as an economics major I had a little debate with my professor about having to wait for two consecutive quarters of negative growth to classify the economy as a recession. Well, two quarters is six months and that's roughly last summer. At that point you did not have economic data signaling trouble ahead because it was still positive growth ... GDP was still up 1%. The classic economist has to wait until the data confirms the slow down. That's why a lot of people are trading with uncertainty. Economists say, "It could be this or it could be that, but we have to wait for more data".

I see important data everyday based on where the market closes. That tells me what's going on. When using technical analysis if you start seeing a low that breaks the previous low from 3 days ago, 5 days ago, then 7 days ago, those lower lows are telling you something. Next when you notice week after week it's failing to make new highs, at that point at least it's time to tighten up your stops.

I focus on closing prices. If you want to see the importance of that price, draw a line on close—it's like drawing a one day moving average and can be used as an indicator by itself. Just draw a line and think of it as a one-period moving average. You can more easily see a lower low or higher bottoms and higher highs. I call it a Line on Close [LOC].

One of the charts I use in my basic course has a bar chart on top and a line connecting the closes [LOC] below it. If you look at the bar chart there's a lot of activity and a lot of noise. If you look at the LOC it's usually very smooth and will give you objective information about direction. The market can swing during the day, but it's the close that hits traders in the pocketbook. And why is this information so important? The closing price will show whether your entry point is showing a profit or loss.

I really respect and admire the people who can use the 1-minute, 3-minute or 5-minute charts, but I don't ever want to be tied to a computer myself. While my work and analysis is applicable to all time frames, I prefer to take positions based on longer-term charts (hour and daily). Even if news hits the market during the trading session that sways it one way or the other for a little while, but at the end of the day most of the news is reflected in that closing price. The bigger position traders are making decisions on a closing basis – they're not sitting in front of their computer putting in small orders while watching 5-minute charts. They're scaling in and their scaling out of their positions.

Big position traders go in, place stops and when the position starts a favorable move they add to it. They raise the stop to help minimize their risk. Risk can never be eliminated, but it can be identified and managed, and used to protect profits. When something starts moving it goes from risking money in a trade to managing profits of a trade. This is where the LOC provides better information about the trend and the trader has a much better sense of

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R.N. Elliott - The Years Before the Discovery

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where he is in reference to the close.

By the end of the day sometimes people say, "I've had enough" and get out before the close; they don't even want to see that close because they've been fighting with it enough. By watching the closing price—whether it's on a weekly chart, daily chart or an hourly chart—you can learn patience. You can remain more objective using closing prices and can then start using highs and lows when monitoring the trend.

I don't say a market has bottomed, I say "It looks like the market is bottoming because it's holding a certain level." Then I'll look at short-term charts to see if it's building a base. I'm a technician, but I also know the economic side. I understand that what you see technically is more information than what you'll get from fundamentals.

The technicals provide a sounder base for decision-making because you can look at statistics and probabilities too. Most people look at risk versus reward, but they look at reward first. They think "if it goes up from here I'll make this much." They're not willing to identify the risk right away or they'll use a money management stop of \$500. I say identify where you're wrong first and the profits will take care of themselves. So I look at the risk first... I think, "I'm wrong if it does this." That way again I'm letting the market show me what it wants to do.

In lectures I've asked crowds how many would take a reward-to-risk of 2:1, 3:1, or 4:1. Then I discuss the probability of the outcome. Do you want to take a 3:1 trade that has a 50% chance of happening? Most people will. I consider probability first and then determine risk and rewards. When I go to play golf, if there's a 50% chance of rain I'm not going. If there's a 10 or 15% chance of rain, then I'm going to the golf course. People need to look at their trading the same way. If I risk \$1 to make \$3 and these patterns and statistics tend to be right 65% of the time, the trade is worth considering.

Q: What about system trading?

AC: When you're trading a black box system if something goes wrong you may not understand why. I encounter people who tell me they bought a software system that includes a bunch of algorithms. When I ask them what's in it, they can't tell me how it's calculated or what it means. All they say is that it hasn't taken more than 4 or 5 losses in a row. At that point I have to ask them why they don't use something where they know the inputs so they know when a market is behaving normally or abnormally.

Systems are what you take to Vegas, trading plans are what you take to the markets. If you learn the technical side of the market first, understanding an indicator backward and forward, you can then learn the personality of the market. At that point you know when it's behaving normally or abnormally. That was something I picked up from

and discussed at length with George Lane—the importance of learning a market's personality (yes, different markets do have different personalities).

Q: What challenges do you feel people face in today's equity markets?

AC: Markets don't change, individuals do.

People start trading on the bended knee with hope and prayers saying, "I have to do something; the market has been down so long. This is a new low, maybe we're going to have a reversal and it's going to go up." Then you do get a reversal and it's only profit-taking, short covering rally and everybody gets all excited that the bottom is in. Or if they see a bullish divergence, they think the end is there. But in my course I explain bullish divergences come in downtrends. People take profits in bullish divergences, that is, the ones who understand trend. The market may rally, but new targets should probably be set to the downside.

People forget that bear market means downtrend and there's no rule that it has to stop and reverse after a decline of just 20%. A lot of traders think the market is always in an uptrend unless it's in a correction. It always comes back, until it doesn't. I tell them "There are such things as down trends". The technical approach is so much better than reading headlines, or listening to people on business channels because the media by nature is bullish. They're going to have more analysts that are bullish than those that are honest. I say honest rather than bearish. That's because everybody likes an uptrend. But when you look at RSI or simply price closes and moving averages, you see for yourself what's happening.

When looking at the situation back in 1987, I thought the stock market had trouble written all over it. But even after the initial decline in August and September, people kept asking me what to buy. The first order of business is to protect what you have. If that means taking a trade off, that means taking a trade off, even if you don't opt to take the reverse position. At least adjust things so if a position is not making money, at least you're losing not it.

I don't really care what I'm trading; I let the technicals and the market show me what to trade. I don't have favorites. If the market is in an uptrend I want to be long and if it's in a downtrend I want to be short and if it's in a gray area, I don't want to be in it at all. Either stay on the sidelines or move to a different market.

Honestly, I never know where the market is going. I have an opinion based on probability, risk, pattern recognition and everything in terms of trend and trade models. It's not until the market starts moving and confirms the move that I feel comfortable. I do not try to pick bottoms; I try to get in close to the bottom, but I don't try to pick it. A lot of people have been trying to pick a bottom for the last 6-8 weeks. As you start to get more confirmation and increased confidence, you can manage a position that is still working in your favor.

Once in a position you have to manage it based on the way it is moving. If it continues to build profits, raise your stop. That way you're minimizing your risk while also protecting your profits. But if the position is not moving or if it seems to be stalling out then tighten your stops more quickly. Once again, you're allowing the market show you what it wants to do. You're not making as many decisions because as I have tried to point out, it's not the quantity of the decisions that make money, it's the quality. Quantity means you're putting money at risk. Quality means you're determining and investing in good trades or positions, and for the most part you are in tune with the discernible underlying trend.

Q: What do you like best about trading?

AC: The fascination and challenge that the markets present. Every market is different everyday and seems to move sometimes without reason. The technical structure will help you determine the reason, but it may not show up or be known until later. But it's also about the ability to determine (and control) your own destiny and have the freedom and lifestyle everyone dreams of achieving.

Q: Will you ever completely walk away from the markets?

AC: I doubt I ever will completely walk away. I just love the markets, the challenges and enjoy working with, and helping, my students achieve their dreams and goals.

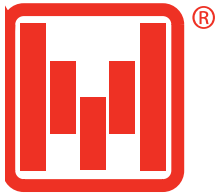
CW: Thank you again for getting together with these great insights for traders.

AC: Thank you for allowing me to share my insights and help people.

The Perfect Way to End this Article

A couple of weeks ago Mr. Cardwell told me about his initial contact with Welles Wilder. While visiting family in North Carolina Andrew Cardwell had the opportunity to meet with Welles Wilder and although he was not feeling 100% on that day, the two were able to get together to discuss each other's work. As the story goes, Mr. Cardwell expressed to Mr. Wilder that he really liked what he did with the RSI. Mr. Wilder returned the compliment letting Mr. Cardwell know that he really liked what he had done with the RSI.

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