

IFTA UPDATE

2013 volume 20 issue 1

IN THIS ISSUE

- 1 President's Report to Colleagues
- 3 Calendar At-A-Glance
- 6 Congratulations New CFTes!
- 6 Save the Dates!
- 7 Education Lounge
 - 7 Statistical Evaluation of Classic Chart Pattern, Part 1
 - 9 The Three Rules of Protection
 - 10 Wyckoff History Lessons
 - 11 Philanthropy and the Art of Technical Analysis
 - 13 The Action Sequence Method
- 17 Member News
- 18 IFTA Member Societies
- 19 IFTA 2013 Annual Conference Sponsorship Opportunities

Next issue June 2013

Submission Deadlines

Education articles: May 15—
send submissions to newsletter@ifta.org

All other content: June 1—
send submissions to admin@ifta.org

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a newsletter for the colleagues of the International Federation of Technical Analysts

President's Report to Colleagues

Dear IFTA Colleagues,

I hope that all of you had a very good start in 2013, and I wish you all a very successful year. So far, 2013 has been a good year. The stock markets are showing good performances and the trends are still up despite a bit of bond market corrections, the slow down of the Asian economy, the political challenge ahead in Europe, and the US fiscal cliff. Although we all don't know how these events will influence the markets, we should place confidence in our discipline. As long as the trends are not broken, it is best not to listen to the news, but stick to your charts.

IFTA Annual Conference 2013

And, whatever the rest of the year will bring, "The Trend Is Up In San Francisco", at least in October. Our 26th Annual IFTA Conference will be hosted in San Francisco, from 9-11 October 2013 by the Technical Securities Analysts Association of San Francisco (TSAASF). IFTA's Annual Conference is the leading event for

Technical Analysts, Traders, Fund Managers, Asset Allocators and Investors from all continents. It provides a unique opportunity to reach the decision and opinion makers in your market. It is a good way to meet some old friends or make some new ones. The topic of the conference will be "Evolution to Mastery: Technical Analysis, Systems, and Execution". Our Conference Director, Roman Bogomazov, and his team will put together a demanding program with high quality speakers, cutting edge topics and some leisure events to relax and meet friends. San Francisco hosted an IFTA conference in 1995. Those who attended still rave about this event, and 18 years later, the trend is still up.

Happy Birthday MTA!

Although no longer a member of IFTA, I would like to take the opportunity to congratulate one of our founding societies, Market Technicians Association (MTA), by wishing them a Happy Birthday! MTA will

IFTA UPDATE is a publication of the International Federation of Technical Analysts, Inc. (www.ifta.org), a not-for-profit professional organization incorporated in 1986.

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celebrate their 40th anniversary on April, 4-5th 2013 at the MTA Symposium in New York. In the name of IFTA, I wish MTA, its President, David Keller, and our past IFTA President and Founder Ralph Acampora all the best.

New Certified Financial Technician (CFTe) Syllabus 2014

During the last three years, IFTA has developed a new syllabus for its exam series. As announced on the website, this syllabus will be used for the exams from May 1, 2014 onwards. The original grace period of 18 months will give everybody enough time to adopt and to become acquainted with it. The changes within the syllabus are not dramatic ones. We added some topics to an already successful program since they evolved in our discipline over time, but have not been included in our exams yet. The most prominent changes to the new Syllabus are the inclusion of quantitative techniques, trading systems and behavioral

[continued on page 15]

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Calendar At-A-Glance

| Date | Topic | Host | Speaker | Location | Time | Contact |
|---------|--|--|---------|---|---|--|
| Monthly | Presentations from local and international speaker on a comprehensive range of topics (sharemarket, CFDs, options, futures, foreign exchange (forex trading), methodologies, money management, psychology, etc. | STANZ | Varies | Epsom Community Centre 200-206 Gillies Ave. Auckland, NZ | Varies | www.stanz.co.nz/ |
| | Chapter leaders and their volunteer members serve as ambassadors for the CSTA and plan social and educational events for the area. Events include presentations by Industry Professionals, Technical Analysis experts and peer learning gatherings. Chapters also play a vital role in their community by connecting individuals and promoting Technical Analysis. | CSTA (Chapters: Montreal; Ottawa; Durham; Toronto; Oakville; Kitchener, Waterloo, Guelph, Cambridge & Area; Calgary, Vancouver, Victoria, Winnipeg | Varies | Varies throughout Canada | Varies | www.csta.org |
| | Meetings are held monthly in 9 cities across Australia. All monthly meetings are free to members. Visitors are welcome to attend. Bookings are not required. Visitors fee is \$30. | ATAA | Varies | Varies throughout Australia | Varies | www.ataa.com.au/meetings |
| | Monthly meetings are held in London. | STA | Varies | British Bankers Association Pinners Hall 105 - 108 Old Broad Street London, UK | Varies | www.sta-uk.org/events-meetings.html |
| March | 15 | Master of Financial Technical Analysis (MFTA) Session 2 (2012) paper submission deadline | IFTA | NA | NA | admin@ifta.org |
| | 16 | Board Meeting | STAN | TBA | 11:00 | admin@stanigeria.org |
| | 21 | TerraSeeds Fores TFlow: How Market Sentiment can be a Valuable Price-Action Indicator | TASS | Soh Tiong Hum, Managing Director of TerraSeeds Market Technician Pte Ltd | SCCCI exhibition room, (near City Hall MRT) | 19:00-21:00 www.tass.org.sg/ |
| | 21 | Academic Background and Actual Trends on Financial Markets | SAMT | Alberto Vivanti and Mario Guffanti | Milan - Centrobanca - Corso Europa, 16 - Sala Colonne | 08:15-20:30 www.samt-org.ch/events.php |
| | 27 | Evolution of a Master Trader Webinar | TSAASF | Adrienne Toghraie, A Trader's Success Coach | Webinar | 17:00-19:00 PDT www.tsaasf.org/ |
| | 30 | Monthly Digest | STAN | TBA | PROT Training Hall, 77B Mobolaji Bank Anthony Way, Ikeja Lagos | 10:00 stanigeria@gmail.com |
| April | 13 | 2 nd Annual Conference | STAN | David FURCAJG, IFTA Membership Director, Olufemi Awoyemi, CEO, Proshare Nig. Ltd, Victor Hugo, President, TASSA | Lagos Oriental Hotel, Victoria Island, Lagos | 10:00 www.stansummit.com |
| | 13 | Integrating Signals from the Credit Market into Equity Trading Strategies | TSAASF | Dave Klein, Partner and Co-Founder of Capital Context LLC | Golden Gate University 536 Mission St, San Francisco, CA USA | 10:00-11:30 PDT www.tsaasf.org/ |
| | 13-14 | Gann Forecasting (subject to the number of participants meeting the minimum requirement of the class. (class size 10-12) | TASS | Phil Anderson, author of The Secret Life of Real Estate and Banking, is Managing Director of Economic Indicator Services (EIS), | | 09:00-17:00 www.tass.org.sg/ |
| | 20 | CFTe Training | STAN | TBA | 7 th Floor, St. Peters House, Ajele Street, Lagos Island | 08:00 stanigeria@gmail.com |
| | 24 | Certified Financial Technician (CFTe) Level II Examination | IFTA | NA | Varies | Varies admin@ifta.org www.ifta.org |
| | 27 | Monthly Digest | STAN | TBA | PROT Training Hall, 77B Mobolaji Bank Anthony Way, Ikeja Lagos | |

Calendar At-A-Glance continued

| Date | Topic | Host | Speaker | Location | Time | Contact |
|-----------|-------|---|---------------|----------|---|--|
| May | 2 | Master of Financial Technical Analysis (MFTA) Session 1 application, outline and fees deadline | IFTA | NA | NA | admin@ifta.org |
| | 4 | CFTe Training/Monthly Meeting | STAN | TBA | 7 th Floor, St. Peters House, Ajele Street, Lagos Island | stanigeria@gmail.com |
| | 11 | CFTe Training | STAN | TBA | 7 th Floor, St. Peters House, Ajele Street, Lagos Island | stanigeria@gmail.com |
| | 15 | IFTA Update submission deadline for educational articles (mid-June release) | IFTA | NA | Varies | newsletter@ifta.org Attn: Aurélia Gerber, |
| | 18 | Monthly Meeting/CFTe | STAN | TBA | 7 th Floor, St. Peters House, Ajele Street, Lagos Island | stanigeria@gmail.com |
| | 25 | CFTe Training | STAN | TBA | 7 th Floor, St. Peters House, Ajele Street, Lagos Island | stanigeria@gmail.com |
| | 31 | IFTA Journal Call for Paper submission deadline | IFTA | NA | NA | journal@ifta.org |
| June | 1 | IFTA Update submission deadline for news content (mid-June release) | IFTA | NA | Varies | admin@ifta.org |
| | 8 | CFTe Training | STAN | TBA | 7 th Floor, St. Peters House, Ajele Street, Lagos Island | stanigeria@gmail.com |
| | 15 | Monthly Meeting | STAN | TBA | PROT Training Hall, 77B Mobolaji Bank Anthony Way, Ikeja Lagos | stanigeria@gmail.com |
| July | 31 | Master of Financial Technical Analysis (MFTA) Alternative Path, Session 2 application deadline. | IFTA | NA | NA | www.ifta.org |
| August | 15 | IFTA Update submission deadline for educational articles (mid-September release) | IFTA | NA | Varies | newsletter@ifta.org Attn: Aurélia Gerber |
| | 31 | IFTA Journal applicants notification of acceptance/rejection | IFTA | NA | NA | journal@ifta.org |
| September | 1 | IFTA Update submission deadline for news content (mid-September release) | IFTA | NA | Varies | admin@ifta.org |
| October | 2 | Master of Financial Technical Analysis (MFTA) Session 2 application, outline and fees deadline | IFTA | NA | NA | admin@ifta.org |
| | 8 | IFTA Board of Director's Meeting | IFTA | Varies | InterContinental Mark Hopkins Hotel San Francisco, CA USA | admin@ifta.org |
| | 8 | IFTA Annual General Meeting (Members Only) | IFTA | Varies | InterContinental Mark Hopkins Hotel San Francisco, CA USA | |
| | 9-11 | IFTA 26 th Annual Conference | IFTA & TSAASF | TBA | InterContinental Mark Hopkins Hotel San Francisco, CA USA | admin@ifta.org www.ifta.org |
| | 15 | Master of Financial Technical Analysis (MFTA) Session 1 (2013) paper submission deadline | IFTA | NA | NA | admin@ifta.org |
| November | 15 | IFTA Update submission deadline for educational articles (mid-December release) | IFTA | NA | Varies | newsletter@ifta.org Attn: Aurélia Gerber |
| December | 1 | IFTA Update submission deadline for news content (mid-December release) | IFTA | NA | Varies | admin@ifta.org |
| | 15-31 | IFTA Journal web publication | IFTA | NA | NA | www.ifta.org/publications/journal/ |

26th Annual IFTA Conference

October 9-11, 2013

InterContinental Mark Hopkins Hotel

San Francisco, CA USA



EVOLUTION TO MASTERY

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Congratulations New CFTes!



- | | | |
|---------------------------------------|--|--------------------------------|
| Mohamed Mahmoud Maaty AbdelAziz, ESTA | Yoshikazu Hayakawa, NTAA | Daisuke Nishiyama, NTAA |
| Waleed Ahmed AbdelGaied, ESTA | Hiroto Hirai, NTAA | Satoshi Noda, NTAA |
| Mohamed Fawzy AbdelHameed, ESTA | Mohamed Hussein Ibrahim, ESTA | Koki Nozawa, NTAA |
| Mohamed AbdelHakeem AbdelSamea, ESTA | Takuya Ishihara, NTAA | Maresuke Okamoto, NTAA |
| Fowzy Khalid Alkoblan, ATAA | Masaru Iwase, NTAA | Masahiko Okano, NTAA |
| AbdulRahman Abdul Motalaa Atwa, ESTA | Michael Wayne Jones, ATAA | Hisanori Okuhara, NTAA |
| Ayman AbdelHamid Amin Ayoub, ESTA | Philip Kalthöfer, VTAD | Robin Luc Oppenheim, STA |
| Fabien Benchetrit, AFATE | Mei Kanetomo, NTAA | Sven Paulsen, VTAD |
| Hani Benyahya | Matthew Kaye, ATAA | Markus Pfirmann, VTAD |
| Stephen Body, ATAA | Fiona Kennedy, ATAA | Tetsuya Sano, NTAA |
| Richard A. Butler, ATAA | Masao Kinoshita, NTAA | Daniel Schütz, VTAD |
| Marc Chandler, ATAA | Leo Lai, ATAA | Mourad Hassan Zaki Selim, ESTA |
| William Donnan, ATAA | Rick Andrew Lester, ATAA | Hitomi Sugino, NTAA |
| May Motaz El-Tabaa, ESTA | Michelangelo Lopez | Noriyoshi Sunami, NTAA |
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| Hiroyoshi Fujii, NTAA | Akira Matsui, NTAA | Hani Ezzat Tawfek, ESTA |
| Bo Gao, ATAA | Yasuaki Mayumi, NTAA | Andreas Thalassinis, STA |
| Steven Geoghegan, STA | David Hirz Garas Megalla, ESTA | Grzegorz Tywoniuk, ATAA |
| Ehab Girgis Saleh Mousa, ESTA | Curtis John Miller, ATAA | Antonios Varvatsos |
| Tomas Gustavsson, STA | Penelope Jane Miller, ATAA | Luke Peter Vaughan, ATAA |
| Rania Yacoub Habib, ESTA | Hirofumi Mimura, NTAA | Yoshihiro Wakamatsu, NTAA |
| Tamer Yacoub Habib, ESTA | Sumio Miura, NTAA | Jun Watanabe, NTAA |
| Takuya Hamawaki, NTAA | Haitham AbdelSameea Mohamed, ESTA | Karl John Willisroft, ATAA |
| Robert Andrew Hartwin, ATAA | Mohamed Ali Shahin Mohamed, ESTA | Kazuhiro Yonemitsu, NTAA |
| Tarek Ahmed Hassan, ESTA | Fumio Moriyama, NTAA | Michael Zammit, ATAA |
| | Kevin Murphy, ATAA | |

Save the Dates!

Certified Financial Technician (CFTe)—Level I

| | |
|------|--------------------|
| Date | Offered Year-round |
|------|--------------------|

See our website for further instructions
www.ifta.org/certifications/registration/

Download Syllabus and Study Guide:
ifta.org/public/files/publication-downloads/2013-CFTel_Syllabus.pdf

Certified Financial Technician (CFTe)—Level II

| CFTe Level II | Session 1 | Session 2 |
|-----------------------|---------------------|----------------|
| Date | 24 April 2013 | 9 October 2013 |
| Registration deadline | 8 March 2013 Closed | 16 August 2013 |

Register at www.ifta.org/register/cfte2.php

Download Syllabus and Study Guide at:
ifta.org/public/files/publication-downloads/2013-CFTelI_Syllabus.pdf

For more information on the CFTe program,
 visit <http://www.ifta.org/certifications>

Master of Financial Technical Analysis (MFTA)

| MFTA Alternative Path | Session 1 | Session 2 |
|--|---------------------------------------|----------------|
| Pre-Application deadline | 28 February 2013 Closed | 31 July 2013 |
| Application/outline deadline (if approved) | 2 May 2013 | 2 October 2013 |
| Paper submission deadline | 15 October 2013 | 15 March 2014 |

(Session 1) Register at www.ifta.org/register/mfta_alt_session1.php

(Session 2) Register at www.ifta.org/register/mfta_alt_session2.php

| MFTA Regular Path | Session 1 | Session 2 |
|------------------------------|-----------------|----------------|
| Application/outline deadline | 2 May 2013 | 2 October 2013 |
| Paper submission deadline | 15 October 2013 | 15 March 2014 |

(Session 1) Register at www.ifta.org/register/mfta_session1.php

(Session 2) Register at www.ifta.org/register/mfta_session2.php

For more information about the MFTA program, visit
www.ifta.org/certifications/master-of-financial-technical-analysis-mfta-program/

Education Lounge

Statistical Evaluation of Classic Chart Pattern, Part 1

by Gregor Bauer, Ph.D. (VTAD—Germany)

Do classical chart patterns (e.g. triangles, head-shoulder) really show the expected performance? Do stock prices, when forming rising triangles as consolidation in an uptrend, really break out upwards—so to confirm the trend—or do they more often act as reversal pattern? And, what about the performance after the breakout?

The former US software engineer and today's professional trader Thomas N. Bulkowski has conducted, to date, the most comprehensive statistical evaluation of classic chart patterns. This article is comprised of three of his books and focuses on some of the key facts, which every trader must know when trading classic chart patterns.

Evaluation of Classic Chart Patterns

Methodology:

In his book: *Trading Classic Chart Patterns*, Wiley & Sons, 2002, Bulkowski measured

the performance of stocks from the *S&P 500 Index* after the breakout of specific chart pattern.

The breakout-price is defined as the highest price of a pattern or the breakage of a trendline.

The performance is measured from the breakout price to the "ultimate high", which is defined as the highest peak before price declines at least 20%. For more detailed information about the methodology, visit www.thepatternsite.com.

These are the findings:

Best breakout rates:

A rising triangle breaks out upward about 70% of the time, and, that is the surprise, regardless of trend direction leading to the pattern. That means, even if the trend leading to the pattern is downward, in 70% of the time the price

breaks out upward, thus resulting in a reversal pattern.

In the case of a falling triangle, about 55 % of the time the price breaks out downward, and for a symmetrical triangle in about 50% (again, price can be any direction leading to the chart pattern).

Rectangles should be in theory trend confirming pattern, and they are: Rectangle in uptrend: 68% up breakout (that means trend following after the consolidation); Rectangle in downtrend: 56% down breakout, again trend following. But vice versa, in 44% of the time rectangles in a downtrend act as reversal pattern.



Head and shoulder top and bottom pattern are supposed to be reversal pattern, and that's what they do: Head and shoulder top: 93% down breakout; Head and shoulder bottom: 95% up breakout, both very significantly reversing a trend.

Can Trading Chart Pattern Generate Alpha?

The most important question for trader and portfolio managers is: When applying chart pattern, by buying those stocks which break out of a pattern, is that a valid method to generate excess return compared to the S&P 500? If no, this kind of pattern-based stock picking would be useless.

Table 1 gives the answer, which is, clearly yes, you can generate alpha.

The table shows the findings in detail.

Listed are the average performance results of the single stocks of the S&P 500 after the breakout of various patterns.

The Comparison:

Example: the average breakout performance, e.g. from a falling triangle (up breakout, a few thousand examples had been investigated) for single stocks is about 42% rise in price. The performance of the S&P 500 has been measured over the same period of time, thus resulting in an average rise of only 3% -6%!

This shows the minor influence of the overall market (beta) and the real performance of the pattern (alpha).

Other Interesting Data are the Failure Rates:

Failure rates are defined as the maximum

percentage rise after the breakout. Example: falling triangle, 5% / 10% failure rate: only 3% / 9% of all breakouts result in a price rise less than 5% / 10%.

Table 2 now shows the best performing pattern with a down breakout. Here the average performance of the S&P 500 is given with every pattern, to show, that even when the overall market climate is bullish at a time, downward breakouts from a pattern can be traded successfully against the market direction. So, looking, for example, at the head-shoulder-top, even though the overall market rose on average, the downward breakout from that pattern could be traded successfully.

Conclusion:

Trading classic charts pattern still works and traders can generate excess return over

the market index by applying this strategy for stock picking. But we also have to be aware of the fact that due to the worldwide increase in volatility, throwbacks and pullbacks will increase as well as failure rates, thus resulting in the necessity for even stricter money- and risk-management.

In Part 2 of this article, to be published in the next issue of the *IFTA Update*, I will present a study about how failure rates did change during the last decade. †

Thomas N. Bulkowski, *Trading Classic Chart Pattern*, Wiley, 2002

Table 1: Best performing pattern, up breakout

| Pattern | Average Rise | Failure rate: Rise less than 5% | Failure Rate: Rise less than 10% |
|-----------------------|--------------|---------------------------------|----------------------------------|
| Falling Triangle | 42% | 3% | 9% |
| Double bottom | 27 - 37% | 4% | 18% |
| Rectangle | 37% | 10% | 19% |
| Sym. Triangle | 35% | 5% | 15% |
| Broadening Top/Bottom | 34% | 8% | 19% |
| Head-Shoulder-Bottom | 34% | 3% | 9% |
| Rising Triangle | 34% | 6% | 17% |

Source: Thomas N. Bulkowski, *Trading Classic Chart Pattern*, Wiley, 2002

Table 2: Best performing pattern, down breakout

| Pattern | Average drop | Perform. S&P 500 | Failure rate: Drop less than 5% | Failure Rate: Drop less than 10% |
|-------------------------|--------------|------------------|---------------------------------|----------------------------------|
| Head-Shoulder-Top | 42% | +3% | 6% | 18% |
| Sym. Triangle | 20% | - 2% | 5% | 24% |
| Rising Triangle | 19% | 0% | 6% | 24% |
| Double-Top | 15 - 18% | +1% | 13% | 32% |
| Falling Triangle | 18% | - 1% | 7% | 27% |
| Broadening Top / Bottom | 17% | - 2% | 13% | 33% |

Source: Thomas N. Bulkowski, *Trading Classic Chart Pattern*, Wiley, 2002

The Three Rules of Protection

by Egyptian Society of Technical Analysts (ESTA)

In the last IFTA newsletter, we discussed the importance of discipline. The next two characteristics are of paramount importance for any trader or investor who wishes to survive in the markets.

Patience

A stock is witnessing a bottoming formation, you make your analysis perfectly and buy the stock in anticipation of a major breakout that will lead to a sharp rise in the future. You wait for a few weeks, the stock still trades in its consolidation range, but you feel bored and sell to join another more volatile stock. Ultimately, the stock witnesses its major breakout and rises sharply, only after you sold. Patience is a virtue. Sometimes your interpretation is very good, your expectations are right, but the lack of patience ruins your trade. As we know, the more the stock consolidates, and the less volatility it witnesses, the sharper the next move, either to the upside or to the downside. This is why, sometimes, we make a good analysis but the stock stays more time in its consolidation before ultimately breaking out in our expected direction.

Patience is a very important element for successful trading and investing. Patience is good when your technical opinion on the stock did not change. However, if the

overall picture changes and your interpretation changes, you will have to get out, take your loss and look for another opportunity. Patience is only useful when your interpretation and your analysis did not change.

Obviously, we cannot buy and hold a stock during a downtrend and say that patience is a virtue. As mentioned, it is important to have patience when we are expecting a certain move that did not come yet.

Humbleness

Being humble is very important, especially when your performance gets better and your predictions reach a high degree of accuracy. The more knowledge you acquire, the more money you make, the more professional you become, the more you have to be modest. The stock market does not know that you are a professional gentleman. If it moves against your expectations, it will do so, even if you are the best trader in the world. People who became known, who were called Gurus, who had the best timely calls, but who believed in themselves were all wiped out of the market. Always know that the market is stronger than you. It does not matter how much money you have made, it will all evaporate if you believe too strongly in yourself and disregarded

market movements. Overconfidence is a lethal weapon.

It is important to consider losses as a part of the cost that you have to take. Losses are a must, don't try to avoid them, they will come. All that you can do is to control them. Controlling your losses is the key for success. If you lose your modesty, you will lose the interest to control your risk, because you will not bear to lose anything. This is the beginning of the end.

One of the danger signs that might face you occurs when people around you, and in the marketplace, talk about you and about your good performance. They are ready to listen to you and blindly follow you. You are now in the danger zone, the red zone, because uncontrollably your modesty begins to diminish. If you leave yourself to the fake feeling of this extreme success (Note: the word extreme success, does it remind you of extreme bullishness and extreme bearishness that appear at major peaks and major bottoms?), you will begin acting in an irrational way, you will become arrogant, talking nonsense. People will still follow you, but in the end, your integrity will be lost as well as your ego. Be very cautious when you feel that your success begin to reach an extreme. Slow down,

take a break, think deeply, and win your modesty again.

Gurus, those who are blindly followed by the crowd, destroy themselves. They die poor and with zero ego. It is nice to be successful, to have good performance, but being modest, and knowing that the market is smarter than you, you will be able to protect yourself from the unknown future.

During the 1999-2000 boom of the market in the USA, there were a few strategists who had very good calls. Some of them were strategists who worked in very big companies. They kept on giving great calls, and were widely followed by the crowd. The fake sense of unlimited success disturbed their views during the major peak of 2000. They were extremely bullish. The lower highs in the American markets were not obvious to them. The Market was already sliding in a slope of hope, and these great economists kept on their bullish views until they lost a lot of their credibility.

In his book, *Jesse Livermore, World's Greatest Stock Trader*, Richard Smitten mentions in the start of the book "In 1923, seven men who had made it to the top of the financial success pyramid met together at the Edgewater Hotel in Chicago.

Collectively, they controlled more wealth than the entire United States Treasury, and for years the media had held them up as examples of success.

Who were they? They were: Charles Schwab, president of the world's largest steel company; Arthur Cutten, the greatest wheat speculator of his day; Richard Whitney, president of the New York Stock Exchange; Albert Fall, a member of the President's Cabinet; Jesse Livermore, the greatest bear on Wall Street; Leon Fraser, president of the International Bank of Settlement; and Ivan Kruegger, the head of world's largest monopoly. What happened to them? Schwab and Cutten both died broke; Whitney spent years of his life in Sing Sing penitentiary; Fall also spent years in prison, but was released so he could die at home; and the others Livermore, Fraser, and Kruegger committed suicide". †

Richard Smitten *Jesse Livermore, World's Greatest Stock Trader*, 2001

Donald McCullough, *Waking from the American Dream*, 1988

Wyckoff History Lessons

by Professor Hank Pruden Ph.D. (TSAASF—USA), Ageno School of Business, Golden Gate University San Francisco

Richard Wyckoff became a celebrity name on Wall Street during the early decades of the twentieth century; an epoch many observers believe was truly a golden age for tape readers, chartists, and speculators. Wyckoff earned a fortune from his *Magazine of Wall Street*, along with other publications and advisory services. The accuracy and power of his analysis and predictions gained him a titan-like status in the eyes of his 200,000 subscribers—an incredibly large following even by today's standards. After retiring from his advisory services in 1928 due to failing health, Wyckoff felt compelled to make the insights he had gathered during his 40 years of experiences on Wall Street available to the serious public who were willing to study and learn. Around 1930 Wyckoff announced that he wanted to reveal the truth about what it took to gain or lose on Wall Street. He knew that industry reports, earnings, and the like were not the secrets to success many believed them to be; instead, he wished to offer a set of principles and procedures, "the real rules of the game." These rules became known as the Wyckoff method of technical analysis and stock speculation.

Wyckoff, The Man

Wyckoff started as a stockbroker's runner at the age of 15, became a brokerage firm auditor a few years later, and at age

25 opened his own brokerage firm. The method he developed of technical analysis and speculation emerged from the keen powers of observation and communication skills of an unusually gifted man who spent a long and varied career on Wall Street during the golden era when much of the basis of technical analysis was first formulated. From his autobiography, *Wall Street Ventures and Adventures Through Forty Years*, we get a glimpse of Wyckoff's involvement on Wall Street, and we gather an appreciation of his powers of observation as he collected the "real rules of the game." The following sample is something he wrote about inside information, circa 1901:

"In those days I used to go to great lengths to find out what important people were doing. Not having many good connections, but making the most of those I had, I could have surprised certain large operators by producing memoranda of what they had done in the market during the day. For example Charles M. Schwab was a tremendous buyer of Pennsylvania Railroad stock through a house on one of the lower floors of the Empire Building. I used to get a daily report of the number of shares he bought on balance and my clients were long on Pennsylvania. I watched Schwab buy it up to the 160s and then suddenly stop. I've never

known whether this was a stock market move on behalf of Mr. Carnegie or whether Mr. Schwab was employed by other interests to do the buying and see whether control could thus be obtained".

From his many observations of the behind-the-scenes manipulations by the large operators, Wyckoff discovered time and again on the tape and from the charts that the best indicator of the future price of a security was the relationship between supply and demand. In 1910 under the pen name of "Rollo Tape" he wrote *Studies in Tape Reading* (Fraser, 1995; Cosimo, 2005). In this now classic book about how to read the market and how to conduct speculative operations, Wyckoff covered such basics as stop orders, volume indications, dull markets and their opportunities, and numerous other market techniques that would one day be incorporated into his Wyckoff method, which first appeared around 1931. Wyckoff placed prime importance on the analyst's ability to judge the relative power of buying and selling waves and thus divine the intent of the dominant forces behind a market move. †

Richard D. Wyckoff, *Wall Street Ventures and Adventures Through Forty Years* (New York: Greenwood press, 1968; first published

Richard D. Wyckoff, *Studies in Tape Reading* (Fraser, 1995, Cosino, 2005)

Philanthropy and the Art of Technical Analysis

by Mario Kfoury, Executive Committee Member (LSTA—Lebanon)



"It was dark outside, as I gazed into the vast starry sky, the mist of my hot chocolate drawing forms in the night, a shooting star passed far above... was it a fast traveling soul or an extinguished one, liberated from the bondage of earthly life? Drawn into my thoughts and contemplating life's existential questions about the relative purpose and finiteness of life in face of this infinite universe, I wondered! Was it all predetermined, planned or random? Is there such a thing as a free will or are we unconsciously guided? Are we responsible or irresponsible for our thoughts, words and deeds? Does universal social justice exist and prevail beyond partial subjective human one? So many questions that

have driven the human quest, sometimes to great achievements and realizations, sometimes to self-exhaustion, disillusionment, misery, atrocities, self-consumption and self-destruction.

I remember when I was a child, life was much simpler. We were kind of in heaven before the fall from grace, all we had to do was eat, sleep and play, now we eat, sleep and pray. Pray for our creator to forgive our sins, to preserve our soul, to make us happy, healthy and rich. But what makes something good or bad and does the Dude upstairs really interfere in human affairs? Does He or She have managers and directors to run the daily chores of life or does everything run on automatic pilot, some kind of a divine algorithm? It was kind of a mono-chat with the Tenant of the blue tent, a conversation I had in that café in the middle of that night. The tape was playing the latest prices on Bloomberg, the presenters of the program entertaining and distracting their audiences, finding excuses and explanations for latest prices movements. The quotes on my portable computer flickering green and red, I was waiting for predetermined price levels to enter my trades and I was smiling, because of all the bullish bearish rubbish on TV, technical analysis was able to protect me from.

I've always been like this, a rebel that wouldn't settle for things less than would steal my heart away. Motorcycles did it, flying and aviation, beautiful women inside and out, sincere people, pragmatic not sterile philosophy and technical analysis. If anything, the stock market teaches us about ourselves, the famous Delphic oracle. Lessons in modesty, temperance, humility and the interconnectedness of things, either you'd be an investor, speculator or trader, technical analysis showing us the middle way within the cycle of Life, exposing it when it is sane or insane, strong and healthy or weak and ailing. The beauty of it all is, that for the orderly and wise it applies in all spheres of life all around us if we are



willing to look beyond the apparent bustle and noise of things. It is the manifestation and representation of the state of human affairs, the heartbeat of this world.

Oil prices had been rising for quite some time now, shooting up to levels unseen in the past, into uncharted territory, reflecting the turmoil and unrest from the middle east, a region plagued by too many myths, history, conflicts and claims of exclusivity in God, land and religion. An irrational volatility pattern in human behavior only measured by some invisible Bollinger band... But whenever this kind of conduct departs from common sense and logic, taking a steeper trendline and direction, and after many trials and errors, hopes and regrets, after it has caused all the havoc and pain, misery and suffering, after it has gone from one extreme to another reflected in the readings of the most accurate of oscillators, sooner or later it eventually finds its way back to reason, some moving average, the 45 degrees Gann angle. Events in life have always been like that, best embodied in the beautiful lyrics of the song *Windmills of Your Mind*, written by Alan and Marilyn Bergman, "like a circle in a spiral, like a wheel within a wheel. Never ending or beginning, on an ever-spinning reel", an indiscernible Elliott Wave somehow,



somewhere always at play, in action... This will be the state of the world as long as we encourage the culture of being slaves to our own material or spiritual disproportional greed and fears, desires and expectations, Karmic law playing the regulating universal calculator, the cosmic balance sheet, some kind of a divine algorithm in it all.

We are always tempted by instant gratification instead of a delayed one, but whenever we seek the first instead of the second, sooner or later we will pay a price. It goes the same when we look for our own personal interest at the expenses of others. Whatever goes around comes around. Many great minds, philosophers and so-called-prophets and messengers felt it, saw it and talked about it in different ways. Corollaries are many, the oldest and most remarkable one, was expressed

in the Golden Rule "Treat others the way you would like to be treated", Buddha's compassion and Hinduism Namaste "the divine particle in me salutes the divine particle in you" or reducing one's ego in the presence of another, Socrates ethics and eternal quest for justice, Jesus love and forgiveness, Rousseau and the need for a social convention, Emanuel Kant's imperative "treating others as an end not a mean", Newton's third law of motion, Lavoisier's law of conservation in chemistry and last but not least Murphy's law. All inspired and upheld by the rule of Karma, an undeniable truth, an inevitable unbendable cosmic law that together with the love of giving, was the foundation of life. From Ancient Greek comes the word philos, which means friend and anthropos for human, philanthropy, love of humans, love of others, like humanism. Our ancient Greek friends also distinguished 4 types of love; Eros, Storge, Philia and Agape. Eros for romance, Storge for

affection, Philia for friendship and Agape for unconditional love. While the apparent form of philanthropy can look the same, the motivation might be different; tax reduction, acknowledgment from others, wanting to show off as benefactors and then there is compassion, the realization that everything is one, having a conscience and oneness are one. We are all concerned by everything on this planet. Irrelevant of our word and acts, intention is what counts and what life holds us accountable for. Even though many words and deeds seem nice and altruistic at first glance, they can be motivated by the first two incentives. In the long run, we are what we think and do. In the short run, we are what we intend. Intention and will guide our future and destiny. Regardless of the words we utter and the acts we do, what counts is the motivation behind, is it self-interest or disinterest for us, and interest for others? No thought, intention or deed goes unaccountable, not in

the organized and conspicuous religious sense, but in universal law which is that of compassion, everything is one, we are all interconnected, correlated. Give back to life your dues the way you pay back your taxman responsibly. TA is rather a discipline in life, an art, not an exact-science. It is not only about making money, it is a way of living and perceiving the middle way. Sometimes in life we know without knowing and deep down inside each and every one of us lurks the realization that everything is One and that we reap what we sow. Some people called it conscience. Philosophers have mused about it for mental gymnastics. Religions have exploited it for mass control and manipulation. Few people have adopted it as higher values and principles in their lives. Life as living, giving and sharing is life in accordance of karmic law and the school of life.

As I was emerging from my thoughts and meditation, a memory from school days flashed back at me. I remember a citation from one great French philosopher, Voltaire "The world intrigues me and I cannot think that this clock is ticking and has no clock-maker" and I thought, God exists, but not the way they tell us about... †

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The Action Sequence Method

by Professor Hank Pruden Ph.D. (TSAASF—USA), Ageno School of Business, Golden Gate University San Francisco

For over a quarter of a century, I have taught technical analysis to traders and analysts at the university level. I am proud to have won multiple “best teacher” and “best scholar” awards based on my ability to teach motivated beginners in finance and to challenge experienced professional investors and traders. The feedback from investment professionals during that time brought about continuous improvements in the application of behavioral finance and technical analysis principles and procedures. I found my greatest educational challenge to be helping people progress from the definition level of instruction to the application of theory.

Over the years, I have used my own experiences, coupled with secondary research, to develop an innovative, workable educational system, the Action Sequence method, for building the skills and knowledge of intermediate learners of technical analysis. While the Action Sequence may be very roughly thought of as paper trading, the method includes extensive feedback and replays the original sequence, incorporating lessons learned from the previous experience. The replay portion of the model is critical; in this way, the student-trader is being trained to react appropriately to future market circumstances.

Analytical Framework

The Action Sequence in technical market analysis is a modification of the case study method of instruction. At the Harvard School of Business, students actively learn from experience using the case method. There are several strong parallels between the Action Sequence and the case method:

- Analysis of practical problems drawn from real-life situations. Students putting themselves in the positions of managers. A decision-making orientation.
- Learning by doing or an experiential approach.
- Developing the student’s understanding, judgment, and communication leading to effective action.
- Building dependable self-reliance within the student.

In addition, the Action Sequence emphasizes the application of time-tested Wyckoff principles of market behavior to concrete case histories of market action. The student gains knowledge as well as skill and judgment through the practical application of the substantive material of the Wyckoff method of stock market analysis. Perhaps the essential value of this dynamic education technique lies in its ability to excite interest in the trader-analyst. The trader will become an active participant in the

educational process instead of remaining a passive recipient. Often, our participation in education that is exciting, challenging, and relevant disturbs our sense of adequacy and causes us to seek self-improvement. If the educational experience provides opportunity for the trader to encounter groping, self-discovery, and the uncovering of blind spots, real change in behavior can result where it counts—back on the trading desk.

An exercise with an action sheet and feedback follows; I encourage you to practice trading using the Action Sequence method.

Action Sheet and Feedback Exercise

In this exercise, you will conduct a technical analysis of the daily vertical line chart of a stock and enter or exit trading positions. The period covered is December of the first year until November of the next year. During this period, you will find intermediate swings for covering and going long near the bottoms and selling out and making short sales near the peaks. Use protective stops on all trades. Pyramiding with a trend is sometimes advisable.

Use all appropriate Wyckoff principles and techniques at your command. This is an “open book” exercise; as you go through the Action Sequence, feel free to consult

other sections of The Three Skills or any notes you’ve taken.

With this exercise, you will find an “Action Form,” accompanied by a chart with a slice of the year’s data. You are to reconstruct the chart price and volume in your own hand on tracing paper, then interpret the present position and probable future trend of the stock, gauging the relationships between supply and demand. Next, judge the underlying motive of the Composite Man and take definite action: buying, selling, or remaining neutral.

Following each action sheet, you will find a “Feedback” section. Feedback is composed of two parts. The first part consists of the feedback from the market itself. This “what really happened” type of feedback is the most powerful feedback of all. The second part of feedback is the commentary from some person skilled in interpreting the Wyckoff method, the Life Cycle Model of Crowd Behavior, and The Ten Tasks of Top Trading. In the case of the stock chart sequence used in this exercise, I will play the role of the commentator offering expert opinion.

You can replay the previous action if you are not in sync with the market. Following

the feedback and replay, go on to the next action sheet in the series and so on until the sequence is complete. At the conclusion of the Action Sequence series, take note of which Wyckoff principles were particularly useful to you so they will be in your arsenal the next time you are given an opportunity to trade.

In the future, when you are on your own, I encourage you to apply the same sort of logic contained in this Action Sequence exercise to your own trading. You will discover this approach especially helpful during instances when you are back-testing or paper-trading a stock, commodity, future, or any other instrument you wish to add to your inventory. In addition, the logic and procedures demonstrated in this exercise can assist you greatly in conducting the debriefing and periodic review tasks of the Ten Tasks of Top Trading.

Since the Action Sequence is wrapped up with a learn-by-doing educational philosophy, it is imperative that you become fully engaged in the exercise by carefully and completely filling out each and every one of the components you see on the Action Sequence form. Please do not just skip over some items or skip writing down your thoughts. Doing the thinking and the writing helps immeasurably in building skills and forming the correct habits for a judgmental method. Studying the feedback from the market and from the

commentaries is essential to building your skills, your knowledge, and your judgment.

Action Sequence 1 Interpreting supply and demand: Using Figure 9.5, complete this action sequence in its entirety before moving on to the next action sequence; do not look ahead!

1. Redraw the chart on transparency paper in your own hand so as to get a feel for the price and volume action. (Verbalize to yourself, in Wyckoff terms and principles, your observations.)
2. Interpret the relationship between supply and demand. What is the present position and probable future trend of the market?
3. What is the motive of the Composite Operator?
4. Select one of the following. Fill in the blanks.
 - e. Buy or go long at _____ with a stop at _____
 - f. Sell or go short at _____ with a stop at _____
 - g. Close out an existing position at _____
 - h. Move the stop on an existing position to _____
 - i. Do nothing; await further developments.
5. Which of the Ten Tasks of Top Trading would you want to adopt to gain the proper mental state for the implementation of the type of task you believe is involved

in this action sequence? (For example, stalking.) is the proper task for the mental state management needed in this action sequence?

Feedback on Action Sequence 1: The market itself gives the essential feedback lesson. If you look ahead to the chart for action sequence 2 (Figure 9.6), you will see that from point 1 to point 2, the market rose sharply on expanding volume. This was a bullish action. Moreover, price traced out a pattern of higher lows and higher highs within the trend channel connecting points 1 and 2. That, too, was bullish action. But this feedback and commentary have the benefit of 20/20 hindsight.

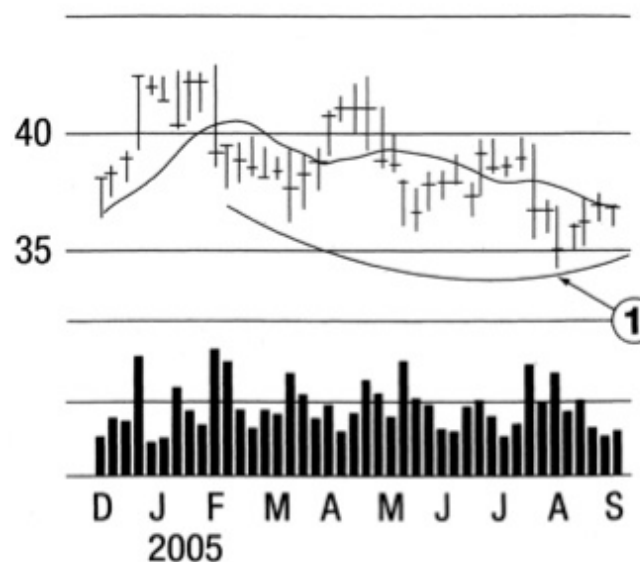
The foresight analysis called for in action sequence 1 was not so easily done. Yet, by carefully examining the price and volume from December 2004 to August 2005, the trader-analyst could discern clues that the downward to sideways price action was probably accumulation and not distribution. The large volume entering the market at the market low points of March and May June 2005 also points to accumulation.

Those turning points showed that the Composite Man and the forces of demand were willing to absorb the offerings that were pressed upon the market.

Point 1 was used by the Composite Man to test the market's readiness to advance. It shows a penetration below prior support that the Composite Man created in an effort to attract a following of public sellers. The comparatively heavy volume during the last weeks of July and the first week of August 2005 revealed a substantial effort and following by the bears. But the continuation of this bearish decline failed to materialize and in fact was reversed by the rally in late August.

Everything now depended on the power of the next decline. The very shallow downside price

Figure 9.5: Action Sequence 1

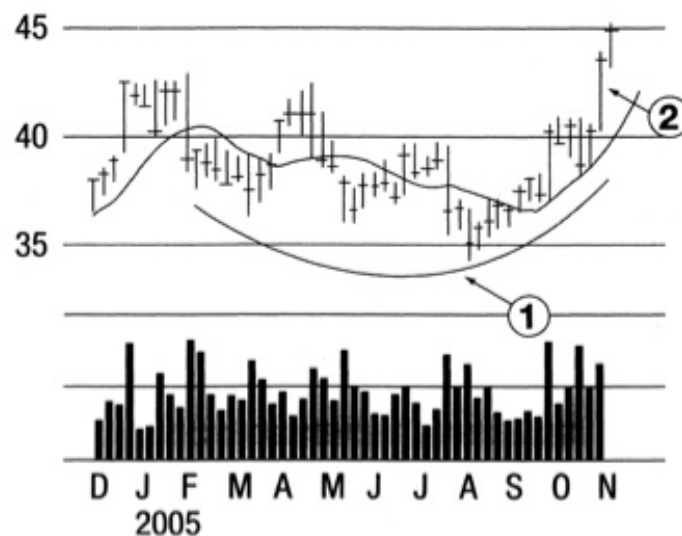


action into mid-September coupled with a diminishment in volume indicated that the bears were exhausted and/or losing control and that the bulls were gaining the upper hand. The Wyckoff principle of a spring appeared to be at work, with an action below support levels in the trading range, and then its successful test on smaller price spread and lower volume. A trader could have elected to buy his first one-third of his capital position in the vicinity of the price lows of mid-September 2005.

A protective sell stop-order must be entered by the trader a few points below the price low at point 1.

A trader would have needed to exercise patience throughout the weeks of January to August 2005 as the market groomed itself in a trading range for either a markup or a downtrend. Then, as the market sprang upward from the low at point 1, the trader would have been wise to go through the mental tasks of building a low-risk idea, stalking the trade, and then taking action. †

Figure 9.5: Action Sequence 2



President's Report
[continued from page 1]

finance. The most important change is that there will now only be one syllabus for two exams. The difference between the exams is the way they are conducted (multiple-choice versus essay). We are sure that these changes will give the CFTe program a modern design, and therefore, value to its holders.

I wish you all the best in your analysis and trading. I am looking forward to seeing you in San Francisco in October. †

Best regards,

Rolf Wetzer

Rolf Wetzer, Ph.D.
IFTA President

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Member News



Ron William (SAMT), Martin J. Pring

SAMT (Switzerland) Taking Technical Analysis to a Higher Level

On June 8th-9th, the Geneva Chapter of SAMT will present a two-day immersion course on advanced technical analysis and preparation for the IFTA Certified Financial Technicians (CFTe) Level II examination. This course is designed for professionals with market experience who are familiar with the essentials of technical analysis and also for those who would like to use more advanced technical analysis on a regular basis.

This “immersion” course is worth about 15 hours of focused classroom training

(maximum of 10 students) and will help prepare candidates ahead of the August registration and October examination.

For more details and to register, contact Ron William at ronwilliamPR@gmail.com or go to <http://www.samt-org.ch/pdf/SAMT%20Geneva%20CFTe%20Prep%20course.June.pdf>

Martin J. Pring Interview

Mr. Pring was a guest speaker at the SAMT Geneva Chapter October 2012 Meeting “Investing in the Second Lost Decade”. Mr. Ron William, Vice President of the Geneva Chapter of SAMT, had the opportunity to interview Mr. Pring in January.

[Click here](#) to read the full interview. †



STA (United Kingdom)

The UK STA continues to conduct monthly meetings with prominent speakers. In January, the panel discussion featured Sunil Goel of Continuous Change Charts, Peter Goodburn of WaveTrack International and Steve Lucas of 3cAnalysis. They each showed their favourite charts for 2013 and a lively debate was had.

In February, Ron William of RW Advisory gave an informative talk on his methodology and candlestick analysis. On March 12th, Mathew Verdouw of Market Analyst International gave a presentation on Market Profile and on April 9th, Tony Plummer will be presenting about his new book on Gann (please note that this April meeting is open to STA members only).

The STA is always on the look out for new and interesting speakers. If you feel you have a subject or topic worth presenting on and you are visiting London please contact Murray Gunn, murraygunn@waveprincipleletters.com. †

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* Developing

IFTA Update Schedule

IFTA Update is the quarterly electronic newsletter of the International Federation of Technical Analysts, reaching more than 6,950+ IFTA colleagues worldwide. The *Update* is an efficient and cost-effective way to communicate with IFTA's member societies and colleagues.

PUBLICATION SCHEDULE

June Issue..... Education articles: May 15—send submissions to newsletter@ifta.org
 All other content: June 1—send submissions to admin@ifta.org

September Issue..... Education articles: August 15..... All other content: September 1

December Issue..... Education articles: November 15..... All other content: December 1

March Issue..... Education articles: February 15..... All other content: March 1

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26th Annual IFTA Conference
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Sponsorship Opportunities

The Golden Gate Bridge is the spectacular symbol for the 26th Annual IFTA Conference. The Golden Gate opens up, reaches out and welcomes Financial Practitioners from around the globe to beautiful San Francisco. "The City by the Bay" warmly embraces the traditional and the innovative. A mere thirty miles from Silicon Valley, it represents the spirit of high tech innovation while having a rich tradition rooted in the Gold Rush Days of the 19th century. To the north are the magnificent wineries of the Napa Valley.

This backdrop is the setting for the Annual IFTA Conference for 2013. EVOLUTION TO MASTERY: Technical Analysis, Systems and Execution is the theme that will draw practitioners and professionals from all corners of the world. With ever greater connectivity of financial markets

around the globe the techniques, methods and skills in Technical Market Analysis are ever more important. The 32 IFTA affiliated societies in 31 countries are devoted to the EVOLUTION TO MASTERY of their membership.

In that tradition IFTA and the local Technical Security Analysts Association of San Francisco has assembled a stellar portfolio of presenters with the purpose of further elevating the skills of the attendee toward the goal of Mastery. Emphasis of the conference is on the development of mastery skills of technical systems and execution.

The level of Conference presentations will be geared toward professionally employed Technical Analysts, Financial Sector Senior Managers, Fund Managers, Asset Allocators, Financial Planners and also highly

experienced private financial market traders / investors.

The magnificent and historic InterContinental Mark Hopkins Hotel will be the San Francisco home for this unique conference. Located atop Nob Hill attendees will enjoy the breathtaking views of San Francisco and surroundings during the glorious fall season of the year. Conference events are planned to emphasize this spectacular Northern California autumn season.

Sponsors will enjoy a unique opportunity to have exposure to, and network with cutting edge professionals from across the globe. In addition sponsors will be associated with a conference theme that elevates the importance of world-class methods, tools and technologies essential to the Mastery Path.

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Conference Publicity

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Sponsorship Application Form



Complete NOW for maximum pre-conference exposure

Return application to: Nancy Copen, Exhibits Manager
Email: ncopen@mgtmsol.com, Fax to: +1 (301) 990-9771

You may send this information in a regular email or alternatively fax or scan and email this form.



Sponsorship Levels

(indicate selection)

- Platinum**.....USD **\$15,000**
- Gold**.....USD **\$10,000**
- Silver**.....USD **\$7,500**
- Bronze**.....USD **\$2,500**
- General Event Sponsorships**
 - Hotel Key Cards.....USD **\$2,000**
 - Refreshment Breaks.....USD **\$2,500**
 - Opening Reception.....USD **\$3,000**
 - Lunches.....USD **\$5,000 ea**
 - IFTA Gala Dinner.....USD **\$10,000**

Saturday's social event inquire with
Conference Director: rbogomazov@ggu.edu

Contact Information

_____ name

_____ firm

_____ address

_____ city

_____ state

_____ country

_____ postal code/zip code

_____ telephone

_____ fax

_____ e-mail

Method of Payment

Check – Make payable to IFTA (US Dollars)

Credit Card Visa MasterCard American Express

_____ name

_____ credit card number

_____ expiration date security code

_____ signature



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