

IFTA UPDATE

2014 Volume 21 Issue 1

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Next issue: June 2014

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,

There are many ways to find out what is going on within the IFTA community. One is through this very newsletter. Societies can use it as a platform to inform about their local events, and since last year, each issue also contains educational articles written by volunteers. Therefore, it also serves as a platform for colleagues who want to publish their material. Starting this year, the newsletter is now translated into Chinese and distributed in China and Hong Kong. This will increase the potential number of readers to approximately 10,000.

We are also present on social media (for example, on LinkedIn). Currently, this group has about 1,050 members. The topics discussed might include specific events that are organized by the societies, charting, specific technical tools, or our CFTe program.

Another way to find out what is happening is to look at the websites of the

different societies. A good starting point is www.ifta.org under 'contact us', where you will find the websites of all our member societies and developing societies. I would like to highlight some of their activities:

In early March, TASSA in South Africa hosted an event with Victor Pershikov, MFTA, who spoke on how to apply "internal patterns of Fibonacci retracements", which also was the topic of his MFTA paper.

TSAA-SF in San Francisco held a presentation with John Lewis, who presented some of the methodologies that he has developed to manage discretionary portfolios.

LSTA in Lebanon will hold a two-day conference on May 6. LSTA will host a presentation by Evan Wilson of the Socionomics Institute on Elliott Wave principles.

STANZ in New Zealand had Tim Rea as a speaker. He talked about his World Cup trading experience.

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SAMT in Switzerland has published the new edition of its [journal](#) on its website.

ATAA will hold its annual three-day conference in Melbourne in May. ATAA has invited 12 highly respected Australian and international professionals.

Our own IFTA conference in 2014 will be in London and hosted by STA. For those who would like to register or are looking for more information, please visit the [conference website](#). So far, registration for the conference is high, and STA is offering the earliest early-bird rate that I have ever seen for an IFTA conference.

On our own website, we also provide information about upcoming events. If you want to subscribe to IFTA community news, we will let you know about the CFTe exam program, our IFTA conference, and upcoming webinars. If you would like to be a sponsor of certain IFTA-related events, or if you want to advertise with IFTA, our

President's Report (continued)

website is also the easiest way to get in contact with us.

Last but not least, I want to thank all of you who took the time to send in material and news from your societies. It is part of IFTA's purpose to share ideas and information with other colleagues. Thank you very much for your efforts.

I hope to see you all in London at our conference! †

Best regards,



Rolf Wetzer, Ph.D.
IFTA President

Congratulations New CFTes!

Mohamed Ahmed Ismail Abdel-Rhman (ESTA)

Ibrahim Hossny Anwar Abdullah (ESTA)

Abdelrahmn Abdelmonim Aborgilah (ESTA)

Mohamed Shaker Ahmed Ahmed (ESTA)

Aous Hameed Alhayany (ESTA)

Andreas Binder (VTAD)

Nizar Chaibi (STA)

Zhanglong Cheng (NTAA)

Ahmed Dahbani (STA)

Ashraf Abdel-Fattah El-Abgy (ESTA)

Ahmed Said Hafez El-Bagourey (ESTA)

Ahmed Osman El-Geziry (ESTA)

Khaled Sohail El-Zaben (ESTA)

Azza Ebrahim Mohammed Elhoufy (ESTA)

Shaimaa Abd ElMageed (ESTA)

Mohamed Saber Abd Elmaksoud Abd Elrahman (ESTA)

Haytham Mohamed Amin Fayed (ESTA)

Toshihiko Fujimori (NTAA)

Kazuya Fukamachi (NTAA)

Tomoatsu Fukudo (NTAA)

Ahmed Abd El-aziz Mahmoud Ghareeb (ESTA)

Georgios Hadjinicodemou (STA)

Mohamed Ahmed Osman Haridi (ESTA)

Sameh Talaat Hassan (ESTA)

Abd Elrahman Mohamed Raslan Hegazy (ESTA)

Yasuyuki Hieda (NTAA)

Shinya Hisada (NTAA)

Ahmed Saad Hussein (ESTA)

El Sayed Ahmed Ibrahim (ESTA)

Takashi Imai (NTAA)

Go Ishihara (NTAA)

Hiroaki Ito (NTAA)

Daisuke Iwama (NTAA)

Mahmoud Jaber (STA)

Nobuyuki Kakii (NTAA)

Andrew Kinsella (STA)

Takuya Kitabayashi (NTAA)

Fumihiko Kono (NTAA)

Stefan Küster (VTAD)

Christian Alexander Lawrence (STA)

Tarek Fekry Mostafa Mahmoud (ESTA)

Osama Fawzy Kamel El Mashad (ESTA)

Tracy McNally (ATAA)

Shohei Miyamoto (NTAA)

Tomoyuki Mizukuchi (NTAA)

Tamer Ahmed Mounir Mohamed (ESTA)

Ossama Naguib (ESTA)

Ryotaro Nakao (NTAA)

Tetsushi Namba (NTAA)

Shinobu Namikawa (NTAA)

Miyoko Nishimura (NTAA)

Tomohiro Ono (NTAA)

Olivier Quinty (AFATE)

Philipp Andre Rätz (VTAD)

Javier Romero Escolar

Yoshihiro Sasada (NTAA)

Mo'men Kamal Sayed (ESTA)

Michael Erich Schneeberger (SAMT)

Uwe Schubert (VTAD)

Mohamed Adel Saad Kenawy Shewail (ESTA)

Yasuo Shibata (NTAA)

Georgios Spanos (STA)

Jorge Luces Trillo (STA)

Hajime Wakayama (NTAA)

Seiji Yamamoto (NTAA)

Hidetoki Yokoi (NTAA)

Ryuta Zaima (NTAA)



IFTA Certified Financial Technician

Important Changes to the CFTe Program

Syllabus and Study Guides

CFTe Level I (offered all year long) and CFTe Level II (offered biannually in April and October) candidates should study the current Syllabus and Study Guide for [CFTe Level I](#) and [CFTe Level II](#) for any exam taken through 30 September 2014, and the [new Syllabus and Study Guide](#) for any exam taken on or after 1 October 2014.

Languages

Effective on 1 October 2014, the CFTe I will only be available in English, German, and Arabic. The CFTe II will be offered in English, German, Arabic, Italian, French, and Spanish through 8 October 2014. After this date, the exam will only be available in English, German, and Arabic.

Why Certify?

Obtaining the CFTe or MFTA designation(s) demonstrates that you have achieved the highest level of expertise in the field of technical analysis. Join an elite group who have already recognized the importance of these certification(s) in elevating their professional standing by becoming certified by the International Federation of Technical Analysts.

IFTA2014



Unravelling the DNA of the Market

The Society of Technical Analysts would like to invite you to IFTA 2014 in London

- London is an accessible, convenient and efficient travel destination for North America and Asia as well as Europe.
- London is a cosmopolitan, vibrant and bustling city. Having hosted the Olympics in 2012, the celebratory atmosphere is set to last!
- The title of the conference “Unravelling the DNA of the market” will allow us to explore some of the underlying causes of market behaviour.

Headline speakers

Marcus du Sautoy, OBE

Alexander Elder

Conference Secretariat

IFTA2014@contendam.com

Visit the website now to register your interest

conference.ifta.org/2014

27TH Annual Conference

9–11 October 2014

The Waldorf Hilton Hotel, London

SAVE
THE DATE



Congratulations New MFTAs!

Andrew J.D. Long (CSTA) Andreas Thalassinos (STA)
 Alex Charles Neale (STA) Samuel Kristanto Utomo (AATI)
 David Leo Price (STA) Fergal A. Walsh

Andrew J.D. Long, MFTA (CSTA)
MFTA Research Paper Title:
Identification of High Probability Target Zones (HPTZ)



Andrew J.D. Long, MFTA, is a professional technical analyst and trader. The founder and publisher of TRIGGER\$.ca, an economic and technical analysis publication for active traders and investors, he and his venture partner, Gordon T. Long.com, regularly publish market and economic forecasts with uncanny accuracy.

Andrew has a variety of experience, including working for a private fund researching and developing proprietary technical analysis methods. Researching and trying to understand the markets has been a life-long pursuit and journey—starting in early high school with P/E ratios and balance sheets, to the present day, as he continues to research and develop advanced technical analysis methods.

In his publication, global economic and

fundamental analysis is integrated with advanced technical analysis, offering unique and often correct market perspectives. The purely technical method discussed in his MFTA paper is practiced daily with published forecasts, tracking the progress of the system, which continues to achieve 80–90% accuracy.

Alex Neale, MFTA
MFTA Research Paper Title: *Use of Social Media Mentions in Technical Analysis (see right for details)*

David Price, CFTe, MFTA (STA)
MFTA Research Paper Title: *Enhancing Portfolio Returns and Reducing Risk by Utilizing the Relative Strength Index as a Market Trend Identifier*



David Price, CFTe, MFTA, has over a decade of experience working for financial firms, including Goldman Sachs, Brevan Howard, and JPMorgan, across equity, global macro, FOREX, quantitative, and systematic investment strategies.

continued on page 5

This paper is presented for the best Master of Financial Technician (MFTA) research paper written each year.

2013 John Brooks Memorial Award Winner

Alex Neale, MFTA

MFTA Research Paper Title: *Use of Social Media Mentions in Technical Analysis*

Alex Neale, MSTA, CMT, MFTA, is a professional market technician and works at Cantor Capital, the CFD department of Cantor Fitzgerald Europe. Alex started his career as a graduate in 1998 at GNI on the desk, which launched the CFD product to the retail market. After a period as a junior CFD broker, Alex quickly moved full time into writing technical-based research recommendations and general market commentary for active equity CFD

traders. Since 2012, Alex has worked at Cantor Fitzgerald Europe, continuing his role of providing market commentary and technical analysis for the high net-worth equity CFD traders. The purpose of his MFTA research paper was to investigate the increasing trend of using social media data in trading, focusing on whether data from social media can add value in equity selection when combined with traditional technical analysis methods.

In Memory of John Brooks

John Brooks was a highly respected technical securities analyst who worked at a number of prominent Wall Street firms, including Edwards & Hanley, Robinson Humphrey, and Lowry Research, where he served as senior vice president and senior analyst.

During his long and distinguished career, John was the co-founder and past-president of the Market Technicians Association (MTA) and was one of the first recipients of the Chartered Market Technician (CMT) designation in the United States. In 1985, he co-founded the International Federation of Technical Analysts (IFTA) and served as chairman from 1996 to 1998. As the long-time chairman of the Market Technicians Association Educational Foundation, John was instrumental in establishing accredited college-level courses in technical securities analysis in many universities.

John was also a co-founder of the American Association of Professional Technical Analysts (AAPTA) and served on its board of

directors. John authored the highly regarded book *Mastering Technical Analysis*, published by McGraw-Hill in 2005. His many awards include the prestigious Market Technicians Association Award for Outstanding Contribution to the Field of Technical Analysts, and the Technical Securities Analysts Association of San Francisco's Lifetime Award for Outstanding Achievement in Technical Analysis. In recognition of his support of technical securities analysis throughout the world, John was also named a Fellow of the British Society of Technical Analysts (STA).

Past winners of the award:

2012: Yoshinobu Sakai, CFTe, MFTA
 2011: Stephan A. Belsler, CFTe, MFTA
 2010: Mohamed Elaasar, MFTA
 2009: Pavlos Theodoulos Ioannou, MFTA, CFTe
 2008: Francesco Caruso, MFTA

Congratulations New MFTAs (continued)

David has produced technical analysis research of equity, fixed income, FX, and commodity markets for discretionary portfolio managers. He is a Certified Financial Technician (CFTe), a Master in Financial Technical Analysis (MFTA), and a member of the Society of Technical Analysts (MSTA). He holds an M.Sc. in financial management.

In his research paper, David presented an alternative use of the Relative Strength Index, highlighting that it can also be used to identify market trends. Utilizing the indicator in this way, his systematic investment strategy outperformed three of the largest stock indices, producing substantially improved capital appreciation while reducing both risk of capital loss and volatility of returns. As someone who is passionate about investment and technical analysis, he is eager to research and identify new technical alpha-generating and risk-reducing investment strategies.

Andreas Thalassinos, BSc, MSc, MSTa, CFTe, MFTA (STA)**MFTA Research Paper Title:**

Anatomy of a living trend: Swing charts, High Points and Low Points, Peaks and Troughs and how their underlying structure may define their forecasting strength



Andreas Thalassinos, B.Sc., M.Sc., MSTa, CFTe, MFTA, is a highly respected lecturer in the education of traders, investors, and FOREX

professionals. His passion for trading led him to study the markets from a mathematical and mechanical point of view. He is a dynamic advocate of algorithmic trading and has developed hundreds of automated systems, indicators, and trading tools. His trading products are being used today all over the world by traders, investors, FOREX brokers, and investment firms.

Andreas founded FxWizards (www.fxwizards.com), an educational company specialized in FOREX trading, with the goal of providing the real truth of FOREX trading through high-level education to beginners and professionals alike. He emphasizes that capital preservation is imperative for traders to survive in the financial markets, and he guides traders on employing swing trading and locking profits based on his research findings and results.

Andreas is currently traveling around the globe giving seminars as a guest speaker at FOREX conferences.

Samuel Kristanto Utomo, CFTe, MFTA (AATI)

MFTA Research Paper Title: *Refining Wilder's ADX: Adjustment to the Price Actions by Utilizing Closing Prices*



Samuel Kristanto Utomo, CFTe, MFTA, is the co-founder and director of a limited partnership in Indonesia called Quantic Alpha, which applies

statistical arbitrage strategy in currency markets. As a technician, Samuel has a keen interest in developing a better way to identify the trend of financial time series. He found that it is possible to enhance the accuracy of trend measurement of an ADX indicator by changing the main input of ADX with closing prices. Furthermore, he provided evidence that better trading results could be accomplished using the modified ADX indicator instead of the original one.

Fergal A. Walsh, CFTe, MFTA

MFTA Research Paper Title: *The Alternative Head and Shoulders: A New Perspective on a Pre-Eminent Pattern*

Fergal Walsh has been a part-time trader in financial markets since 2010 and is currently completing a bachelor of arts degree in economics and politics at University College Dublin. Subsequently, he hopes to further his experience in financial markets and continue developing trading strategies based on technical analysis. †

Calendar At-A-Glance

Date	Topic	Host	Speaker	Location	Time	Contact
Monthly	Presentations from local and international speaker on a comprehensive range of topics (e.g., sharemarket, CFDs, options, futures, FOREX trading, methodologies, money management, psychology).	STANZ (New Zealand)	Various	Epsom Community Centre 200-206 Gillies Ave. Auckland, NZ	Various	www.stanz.co.nz/
Monthly	Meetings are held monthly in nine cities across Australia. All monthly meetings are free to members. Visitors are welcome to attend. Bookings are not required. Visitors fee is \$30.	ATAA	Various	Various	Various	www.ataa.com.au/meetings
Monthly	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 and 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	Various	Various	Various	www.csta.org
March	29 Conference Committee Meeting	TASN	TBA	77B Mobolaji Bank AnthonyWay, Behind Ikeja Plaza Ikeja, Lagos, Nigeria	10:00	admin@tasnigeria.org
April	3 STA Diploma II Exam Preparation Session	STA	Luise Kliem Chief Examiner	London School of Economics	14.00- 17.00	info@sta-uk.org
	8 Monthly Meeting	STA	Oliver Woolf, Bloomberg	British Bankers Association, Pinners Hall 105-108 Old Broad Street, London EC2N 1EX		info@sta-uk.org
	13 STA Diploma II Exam	STA	N/A	London School of Economics	13.00- 17.00	info@sta-uk.org
	16 Certified Financial Technician (CFTe) Level II Examination	IFTA	NA	Various	Various	admin@ifta.org ; www.ifta.org
	19 Monthly Meeting	TASN	TBA	77B Mobolaji Bank AnthonyWay, Behind Ikeja Plaza Ikeja, Lagos, Nigeria	10.00	admin@tasnigeria.org
	26 Committee Meeting	TASN	TBA	77B Mobolaji Bank AnthonyWay, Behind Ikeja Plaza Ikeja, Lagos, Nigeria	11.00	admin@tasnigeria.org
May	1 Master of Financial Technical Analysis (MFTA) Session 1 application, outline and fees deadline	IFTA	NA	NA	NA	admin@ifta.org
	6 Socionomics	TSAASF	Euan Wilson, The Socionomics Institute	Bloomberg, Pier 3 San Francisco, CA USA	15:00- 16:30 (PT)	www.tsaasf.org
	10 Introductory Technical Analysis Course for New Members	TASN	Membership Committee	77B Mobolaji Bank AnthonyWay, Behind Ikeja Plaza Ikeja, Lagos Nigeria	10.00	admin@tasnigeria.org
	13 Monthly Meeting	STA	Steve Griffiths, MTPredictor	British Bankers Association, Pinners Hall 105-108 Old Broad Street, London EC2N 1EX	18.00- 20.00	info@sta-uk.org
	15 IFTA Update submission deadline for educational articles (mid-June release)	IFTA	NA	NA	Various	newsletter@ifta.org Attn: Aurélia Gerber, Journal Director
	24 Monthly Meeting	TASN	TBA	77B Mobolaji Bank AnthonyWay, Behind Ikeja Plaza Ikeja, Lagos, Nigeria	10.00	admin@tasnigeria.org
	31 IFTA Journal Call for Papers submission deadline	IFTA	NA	NA	NA	journal@ifta.org
June	1 IFTA Update submission deadline for news content (mid-June release)	IFTA	NA	NA	Various	admin@ifta.org
	10 Monthly Meeting	STA	TBA	British Bankers Association, Pinners Hall 105-108 Old Broad Street, London EC2N 1EX	18.00- 20.00	info@sta-uk.org

Calendar At-A-Glance (continued)

June <i>continued</i>	14	CFTe Introductory Class	TASN	TBA	77B Mobolaji Bank AnthonyWay, Behind Ikeja Plaza Ikeja, Lagos, Nigeria	10.00	admin@tasnigeria.org
	21	Market Analysis Training	TASN	TBA	77B Mobolaji Bank AnthonyWay, Behind Ikeja Plaza Ikeja, Lagos, Nigeria	10.00	admin@tasnigeria.org
	21	Committee Meeting	TASN	TBA	77B Mobolaji Bank AnthonyWay, Behind Ikeja Plaza Ikeja, Lagos, Nigeria	10.00	admin@tasnigeria.org
July	2	STA Diploma I Exam	STA	N/A	Queen Mary University London	18.00- 20.00	info@sta-uk.org
	15	Summer Party	STA	TBA	British Bankers Association, Pinners Hall 105-108 Old Broad Street, London EC2N 1EX	18.00- 20.00	info@sta-uk.org
	31	Master of Financial Technical Analysis (MFTA) Alternative Path, Session 2 application deadline.	IFTA	NA	NA	NA	www.ifta.org
August	5	Board Meeting	TASN	TBA	TBA	10.00	admin@tasnigeria.org
	15	<i>IFTA Update</i> submission deadline for educational articles (mid-September release)	IFTA	NA	NA	Various	newsletter@ifta.org Attn: Aurélia Gerber, Journal Director
	15	IFTA <i>Journal</i> applicants notification of acceptance/rejection	IFTA	NA	NA	NA	journal@ifta.org
Date		Topic	Host	Speaker	Location	Time	Contact
September	1	<i>IFTA Update</i> submission deadline for news content (mid- September release)	IFTA	NA	NA	Various	admin@ifta.org
	9	Monthly Meeting	STA	TBA	British Bankers Association, Pinners Hall 105-108 Old Broad Street, London EC2N 1EX	18.00- 20.00	info@sta-uk.org
October	2	Master of Financial Technical Analysis (MFTA) Session 2 application, outline and fees deadline	IFTA	NA	NA	NA	admin@ifta.org
	8	Certified Financial Technician (CFTe) Level II Examination	IFTA	NA	Various	Various	admin@ifta.org ; www.ifta.org
	8	IFTA Board of Director's Meeting	IFTA	Various	The Waldorf Hilton Hotel, London	TBA	admin@ifta.org
	8	IFTA Annual General Meeting (Members Only)	IFTA	Various	The Waldorf Hilton Hotel, London	TBA	admin@ifta.org
	8	STA Diploma II Exam	STA	N/A	TBA	13.00- 17.00	info@sta-uk.org
	9-11	IFTA 27 th Annual Conference: <i>Unravelling the DNA of the Market</i>	IFTA & STA	TBA	The Waldorf Hilton Hotel, London	Various	admin@ifta.org ; www.ifta.org
	14	Monthly Meeting	STA	TBA	British Bankers Association, Pinners Hall 105-108 Old Broad Street, London EC2N 1EX	18.00- 20.00	info@sta-uk.org
	15	Master of Financial Technical Analysis (MFTA) Session 1 paper submission deadline	IFTA	NA	NA	NA	admin@ifta.org
November	11	Monthly Meeting	STA	TBA	British Bankers Association, Pinners Hall 105-108 Old Broad Street, London EC2N 1EX	18.00- 20.00	info@sta-uk.org
	15	<i>IFTA Update</i> submission deadline for educational articles (mid-December release)	IFTA	NA	NA	Various	newsletter@ifta.org Attn: Aurélia Gerber, Journal Director
December	1	<i>IFTA Update</i> submission deadline for news content (mid-December release)	IFTA	NA	NA	Various	admin@ifta.org
	9	Christmas Party	STA	TBA	British Bankers Association, Pinners Hall 105-108 Old Broad Street, London EC2N 1EX	18.00- 20.00	info@sta-uk.org
	31	IFTA <i>Journal</i> Web publication	IFTA	NA	NA	NA	www.ifta.org/publications/journal/

Member News

STA (UK)

Preparations for the 2014 IFTA Conference are underway, with a resoundingly positive response in bookings to date, and much interest in the sponsorship opportunities available. Headline speakers Marcus du Sautoy, OBE, John Murphy, Dr. Alexander Elder, and Tony Plummer will be helping us unravel the DNA of the markets. To receive updates and information on early booking, please visit <http://conference.ifta.org/2014>.

In February, the STA joined forces with the Market Technicians Association and Thomson Reuters to host a seminar in London titled "Fusion Analysis". The event was very well attended with 300 delegates registered. Speakers included Ralph Acampora, Craig Johnson, Cornelius Luca, David Keller, Jeff Hochman, Charles Morris, Deborah Owen, and Trevor Neil.

Education continues to be at the core of STA activities. More than 40 students are enrolled in the Diploma II Course, which started in January. The Home Study Course (HSC) CD-ROM continues to be a valuable learning tool for those unable to attend the weekly lectures at the London School of Economics. More than 60 are expected to take the Diploma I examination in London and overseas on 5 March, and another exam

date is planned for 2 July. The next STA Diploma II exam will be held on 13 April.

For more information on STA courses, the HSC, or the Diploma I and II exams, whether in London or overseas, please email the STA office at info@sta-uk.org or visit our website www.sta-uk.org.

SAMT (Switzerland)

SAMT opened 2014 by hosting its exclusive annual guest speaker, Ian McAvity, author of [Deliberations on World Markets](#). The event was hosted in Zurich and Geneva for the first time in many years. In Geneva, SAMT partnered with industry colleagues from the [Swiss Association of Financial Advisors \(GSCGI\)](#), which helped attract a rich diversity of leading market professionals.

In March, Ron William, vice president and head of the Geneva Chapter of SAMT, organised a European Technical Analysis Roadshow with IFTA neighboring colleagues, Robert Haddad, president of AFATE in France, and Gregor Bauer, president of VTAD in Germany.

This uniquely collaborative IFTA event featured exclusive guest speaker Martin

Pring of Pring Turner Capital, who presented latest perspectives on his recently published book, "[Investing in the Second Lost Decade](#)". Watch Mr. Pring's [interview](#) with a local Swiss media network.

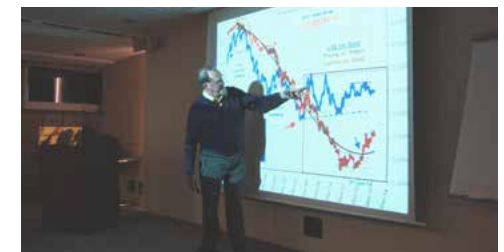
SAMT is continuing to work hard to further develop its educational training support for local CFTe diploma candidates. The [SAMT CFTe Immersion weekend course](#), which includes over 16 hours of intense training, was launched over a year ago by joint instructors Ron William and Bruno Estier. 100% of their students have successfully passed their CFTe exams. Another course was successfully held just recently on 22 and 23 March. Candidates interested in registering for the next scheduled SAMT CFTe Immersion course should contact ronwilliamPR@gmail.com.



Ian McAvity, SAMT Geneva



SAMT Geneva Dinner with Martin Pring



Ian McAvity, SAMT Geneva



SAMT Zurich members with Martin Pring



Martin Pring and Ron William, SAMT



Martin Pring and Bruno Estier, SAMT Geneva



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The Swiss Association of Market Technicians— Dr. Henry Pruden Interview



Ron William, Vice President and Head of the Geneva Chapter of SAMT, hosted an interview in November 2013 with Dr. Henry Pruden, professor of business at the Ageno School of Business, Golden Gate University, San Francisco, CA, USA, and Executive Director of the Institute of Technical Market Analysis (ITMA)



Hank Pruden is a professor in the Ageno School of Business at Golden Gate University in San Francisco, California, where he has been teaching for 37 years. Hank is more than an academic theoretician. He has actively traded his own account for the past 40 years. His personal involvement in the market ensures that what he teaches is practical for the trader, and NOT just abstract academic theory.

Hank is the executive director of the Institute of Technical Market Analysis (ITMA). At Golden Gate University, he

developed the accredited courses in technical market analysis in 1976. Since then, the curriculum has expanded to include advanced topics in technical analysis and trading—in particular, the Wyckoff Method. In his courses, Hank emphasizes the psychology of trading in conjunction with the use of technical analysis methods. He has published extensively in both areas.



Hank has mentored individual and institutional traders in the field of technical analysis for many years. Dr. Pruden is presently on the Board of Directors of the Technical Securities Analysts Association of San Francisco and is past president of that association. Hank was also on the Board of Directors of the Market Technicians Association (MTA). Hank has served as vice chair of IFTA (International Federation of Technical Analysts); IFTA educates and certifies analysts worldwide. For 11 years Hank was the editor of the Market Technicians Association Journal,

the premier publication of technical analysts. From 1982 to 1993 he was a member of the Board of Trustees of Golden Gate University.

Ron William: *The International Federation of Technical Analysts (IFTA) recognized you as the recipient for its 2013 Lifetime Achievement Award. How did you feel about being nominated for your outstanding lifelong contribution to the development of technical analysis? Please select link to review the IFTA honorary video of Dr. Henry Pruden's lifetime achievements.*

Henry Pruden: It's very gratifying to receive the reward in front of my many appreciative colleagues, who attended the IFTA 2013 conference in San Francisco. I'm particularly grateful to Bruce and Ellen Fraser for all the consideration and care that went into creating the video highlighting my preparation for TA and my achievements over the past 35 plus years.

That award is also the result of the contributions from so many of my colleagues in the technical market analysis profession from around the globe.

RW: *What triggered your learning curve onto the path of technical analysis?*

HP: The bear market of 1974 drew my attention to the importance of market timing. I was at the University of Texas at Austin at that time. My colleagues in the Department of Finance believed in the fundamentals and individual stock selection and holding for the long term. Their belief in the "economic man" operating in the stock market clashed with my belief in and use of the behavioral and psychological consumer decision-maker that I used in my teaching and research in marketing. That triggered a search that soon brought me in contact with technical analysis through a broker in Dallas, Texas. I was especially drawn to the visual and analytical aspects of charts.

RW: *Could you share more detail on your professional experience as a photo interpreter at the U.S. Air Force and how it may have aided the study of your technical analysis interests?*

HP: Sure, I'll be glad to. I was officially trained and served as a photo interpreter with the U.S. Air Force during the Cold War. Most of my work was classified as "secret" and thus, I'll need to leave out the interesting details. But, in general, I would study aerial photographs to gain an understanding of tendencies or trends

in aircraft placement and movement. Just as with stock market charts, I would study details on a photo to discern signs of tell-tale activity. Hence, when I was introduced to charts and to technical analysis, I felt immediately at home.

RW: What key lessons did you learn from the bear market of 1974?

HP: The key lesson I learned from my losses during the bear market of 1974 was that market timing is essential for long-term wealth-building and capital preservation. As a result, I learned about the Dow Theory. I also started following trendline charts and studying William L. Jiler's book, *How Charts Can Help You in the Stock Market* (1962). In addition, I learned a great deal from the book by Harvey Krow, *Stock Market Behavior: The Technical Approach to Understanding Wall Street* (New York: Random House, 1969).

RW: How did you develop and further your learning of technical analysis?

HP: Like most other individual trader/technicians of that era, I was largely self-taught, with the market subjecting me to the "school of hard knocks." No formal courses of instruction were available, but I did gain many useful techniques from the market advisory letters that I followed. Of particular value was The Bank Credit Analyst that had Martin Pring as its chief technician. The BCA was also my first exposure to the Elliott Wave Principle.

In addition, I studied *Winning Market Systems* by Gerald Appel, which later became the basic textbook at Golden Gate University.

Big forward strides in my TA learning came about through my formulating and then teaching a collegiate level course in technical market analysis. I was trading full time for my own account in a private office near my home in Marin County near San Francisco while teaching part time at Golden Gate University. That teaching and learning effort was aided and abetted by my colleagues in the Technical Securities Analysts Association of San Francisco. Then, eventually, I took a correspondence course on the Wyckoff Method that was offered by the Stock Market Institute. Additionally, I gained exposure to Robert Farrell at Merrill Lynch, and ultimately, I joined and became involved in the Market Technicians Association of New York.

RW: The San Francisco Technical Analysts Association of San Francisco (TSAASF) is one of the oldest technical analysis societies in the United States. What was the main purpose for establishing a professional body of technical analysis many years ago, during the 1970s? On the East Coast of the United States, where the MTA was incorporated in 1973, several veteran market technicians have talked about the need to create a professional community for the sell-side securities community in Wall Street. What was the story behind establishing the TSAASF?

HP: The TSAASF was founded in 1970 by a group of inspired brokers, technical analysts, and money managers who felt they could enhance the quality of their own chart and indicator work through interacting and sharing with like-minded colleagues. From the beginning, the TSAASF was dedicated to education. Soon thereafter, it became incorporated as a not-for-profit corporation under the laws of the state of California. Happily, their tradition of monthly meetings in San Francisco continues.

A curious coincidence: both the MTA and the TSAASF were officially founded in 1970, but independently. However, the TSAASF was founded several months before the MTA. Those dates set the stage for an interesting incident when the time came for the founding of the International Federation of Technical Analysts. The net result was that the United States, at the very founding of IFTA, was the only nation granted the privilege of having two technical analysis societies.

A further picturesque story about the growth of TA education during the past four decades is masterfully told by Bruce (and Ellen) Fraser in the video that was presented during October 2013 at the IFTA Conference in San Francisco. That video was part of my IFTA Lifetime Achievement Award and is available for your viewing.

RW: What is your perspective about the idea behind "Fusion Analysis," in terms

of combining the best of both worlds, technical and fundamental analysis?

HP: "fusion: 1. an act or instance of fusing or melting; 2. a fused mass; 3. The blending of different things into one; 4. a coalition" (Oxford English Dictionary)

Fusing technical analysis with fundamentals is a mistake. To paraphrase the salty technician Joseph E. Granville, "You don't want to mix high octane technical analysis with water, which is fundamental analysis." Technical analysis is forward-looking. For example, the S&P 500 index is a key component in the "Index of Leading Economic Indicators." That index is looking out six months or more into the future. On the other hand, fundamental analysis focuses on company- and industry-specific economic and financial data, which are mostly recent history. It becomes the news followed by the mass of public. Thus, TA and fundamentals are not two elements that should be blended together. TA is forward-looking; TA is discounting tomorrow's news.

"I was officially trained and served as a photo interpreter in the U.S. air force during the Cold War. ...I would study aerial photographs to gain an understanding of tendencies or trends in aircraft placement and movement. Just as with stock market charts, I would study details on a photo to discern signs of tell-tale activity."

RW: What is the best way to strike a healthy balance of “Fusion Analysis” between technical and fundamental disciplines?

HP: The best way to strike a healthy balance between technical and fundamental disciplines is through a two-step filtering. This is already a common practice on Wall Street. First, a list of acceptable industry groups or common stocks that meet certain fundamental criteria or standards is generated. Then, a second step or filter would subject the charts of these same groups and companies to technical analysis. As a result, some stocks would be “technically” good or “okay to buy.” As the Street has wisely said, “There is a good time to buy a mediocre company and a bad time to buy a good company.”

The best from both fundamentals and technicals can be obtained by maintaining the integrity of each discipline. That can probably be best accomplished by establishing a separate department devoted to technical market analysis.

Moreover, a technical analysis astute person on a trading desk can become a portfolio manager’s most valuable ally. Such a partnership would be another example of the two-step filtering system at work.

RW: How much value does the Wyckoff methodology provide in the discipline of technical analysis? How could this benefit

many of our readers, members of technical analysis societies, and colleagues within the financial industry around the world?

HP: The Wyckoff Method is a straightforward bar chart and figure chart analysis of markets that understand that the most reliable pathway to profitable decision-making is through a study of the action of the market itself. The Wyckoff Method is a guide to high-reward/low-risk trading opportunities over a cycle of accumulating markup, distribution, and markdown. The method emphasizes price and volume behavior and it has stood the test of time. It seeks to interpret from the tape and/or from charts the intentions of the smart money, who were characterized by Wyckoff as the “Composite Man” or the “Composite Operator.”

The Composite Man is on the other side of the trade from the crowd of less informed and less skilled investors. Wyckoff also complements his grasp of the techniques of market behavior (thus technical analysis) with a respect for the emotional and mental discipline.

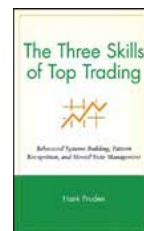
Three basic laws, nine tests, and four schematics are used by Wyckoff analysts to ascertain the current position and probable future direction of a market. Most basic are the law of supply and demand, the law of effort vs. result, and the law of cause and effect. The first two laws rely upon the bar chart, while the law of cause and effect is dependent on the

figure chart. Then there are checklists of nine buying tests and nine selling tests, plus a host of basic principles dealing with support and resistance, trendlines, overbought and oversold conditions, absorption of floating supply, and an assortment of helpful analogies to help the trader or investor cope with market action, money management, and mental discipline.

I was attracted to the Wyckoff Method after having read Edwin Lefevre’s delightful and insightful book, *The Reminiscences of a Stock Operator*. Wyckoff codified the best practices of stock operators of the early 20th Century. Most all of those same operators informed Lefevre.

Later, Thom Hartle, the editor of *The Technical Analysis of Stocks and Commodities* magazine, did a masterful job of interviewing me for an article in which he clearly showed the Wyckoff Method. More recently, the magazine captured the essence of the Wyckoff Method in another interview article, “Why Pattern Recognition is Important.”

RW: What is the key premise of your trading book, *The Three Skills of Top Trading*?



HP: The key premise is that to compete successfully in the securities markets, the investor-trader must become a Complete Trader. A Complete Trader learns and

practices the three mutually reinforcing elements of behavioral systems building, pattern recognition, and mental/emotional discipline. The Wyckoff Method plays a central role in this scheme. It is buttressed by concepts and practices that include the modeling of crowd behavior and the accessing by the trader of the appropriate mental state for getting in, staying with, and getting out of a trade.

The mastery of all three aspects of the *Three Skills of Top Trading* makes the Complete Trader.



Hank (center), then IFTA vice chair, Americas, in São Paulo in April 2003, with Martin Pring (left) and then SAMT President Bruno Estier (right). The trio went to São Paulo to vet the Brazil technical analyst society for inclusion into IFTA.

RW: How would you describe the evolution of technical analysis over the last few decades in your career? Has the advancement from paper charts to computers improved the way we analyze the markets?

HP: There has occurred a revolution within and for the field of technical analysis. One, it has gained acceptability amongst many academics, most notably Dr. Andrew Lo at the Massachusetts Institute of Technology. Two, the computer has helped resuscitate

charting and TA through widespread ease of usage and availability plus the capacity to build and test systems. Three, behavioral finance concepts and procedures have helped legitimize TA by providing it with an underlying theoretical rationale. Computers have made market data easier to obtain and easier to analyze, but computers can't do it all. Human judgment is still the key component.

RW: What words of advice would you give to the next generation of technicians and financial professionals?

HP: My advice to the next generation of technicians and financial professionals: get educated and get credentialed. Higher education for TA has matured into such quality programs as the Graduate Certificate

in Technical Market Analysis at Golden Gate University, which is now available online around the globe. Professional certifications like the CFTe and MFTA have become necessary tickets for job placement, advancement, and profitable performance.

"I appreciate the stimulation and learning that come with thinking, teaching, and travelling. Thinking is expressed through postulating ideas about the market, verifying those ideas through market action, and then writing about my findings in practitioner publications like the SAMT Journal."

Also remember that "Right Brainers" may rule the future. Hence, keep up the nitty gritty practice in the market to get and hold an almost intuitive feel for its actions.

RW: On a personal note, tell us a little about a day in the life of Henry Pruden. What are your passions and inspiration in life?

HP: On a personal note, I appreciate the stimulation and learning that come with thinking, teaching, and travelling. Thinking is expressed through postulating ideas about the market, verifying those ideas through market action, and then writing about my findings in practitioner publications like the SAMT Journal. Teaching allows me to preach what I practice while at the same time keeping me in contact with the younger generation. Travelling out of town to such places as Paris, Geneva, Milan, London, and Zürich brings one into contact with the people who are making things happen in the world. On many of those trips and for my writing and teaching, I like to include my best friend and my love for practically 50 years, my dear wife, Sarah Pruden.



Sarah Pruden (Dr. Pruden's Wife)

For additional information about Henry (Hank) O. Pruden, Ph.D., go to www.hankpruden.com. <https://www.facebook.com/HankPruden>



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Education Lounge

How to Confirm Elliott Wave Counts With the Fibonacci Strange Attractor Model

By Julien Camberlin, CFTe, MFTA, CEWA Level 1, member of SAMT

Abstract

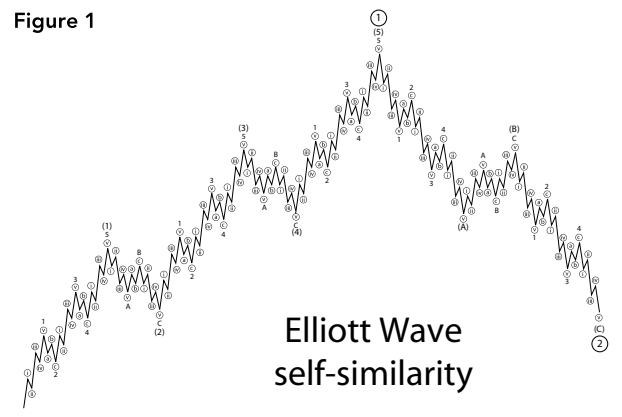
Chaos Theory and fractals have developed over the last 40 years but with little practical use for technical analysis. The purpose of this paper is to introduce a new concept about Fibonacci ratios—the Fibonacci Strange Attractor Model—based on Chaos Theory and fractals. This model will fit the repartition of ratios between Elliott Waves from historical charts. It will help to revise Elliott Fibonacci guidelines and Fibonacci ratios to propose a complete tool to confirm Elliott Wave counts.

Literature review

1. Elliott Waves

In 1934, R.N. Elliott discovered that financial markets organize in waves that are self-similar patterns (see Figure 1), respecting

Figure 1



certain rules and guidelines. This was the first idea of fractals in the financial markets. In 1946, he discussed for the first time the Fibonacci relations in financial markets. Elliott noted that the Fibonacci ratios appear quite often in the relation between waves

of a same degree, though he never set up clear rules for using the Fibonacci relations.

2. Multiple wave relationship

In *Elliott Wave Principle*, Prechter and Frost presented a very smart system of multiple wave confirmation called “multiple wave relationships”.¹ This system proposes that, as all levels of waves are developing at the same time, the ends of waves of different

levels could then be forecast with concentrations of Fibonacci ratios. They recognized that “If a complete method of ratio analysis could be successfully resolved into basic tenets, forecasting with the Elliott wave principle would become more scientific”.²

3. Chaos Theory

Markets are chaotic, meaning that they are non-random, but also non-linear systems.

There is no unanimous definition for chaos systems, but among the different points defining it are:

- Sensibility to initial conditions: This is



the butterfly effect, meaning that a small change in initial conditions can completely change the results after some time. The model will progressively deviate.

- Memory effect: Past movements influence future movements, which is not the case in random systems.
- Strange attractors: In most chaotic systems, complex attractors called strange attractors are found. Strange attractors are attractors with more complicated structures and are considered the limit of the system.
- Fractal: Chaotic systems organize most of the time in *fractal* sets. B. Mandelbrot gave the name fractal to the mathematical sets that have self-similar patterns: they look the same whether from near or from far (see Figure 1). The Fibonacci ratio is in fact the basis of the concept of self-similarity: it is the perfect growth ratio.

Methodology

1. Set of data

Six markets have been chosen: two currencies, two indices, and two commodities. Elliott Wave counts have been done on daily and weekly charts following Elliott Wave rules and guidelines described in *Elliott Wave Principle* (e.g., channeling, alternation).

Table 1 shows the different information about the sets of data of historical ratios:

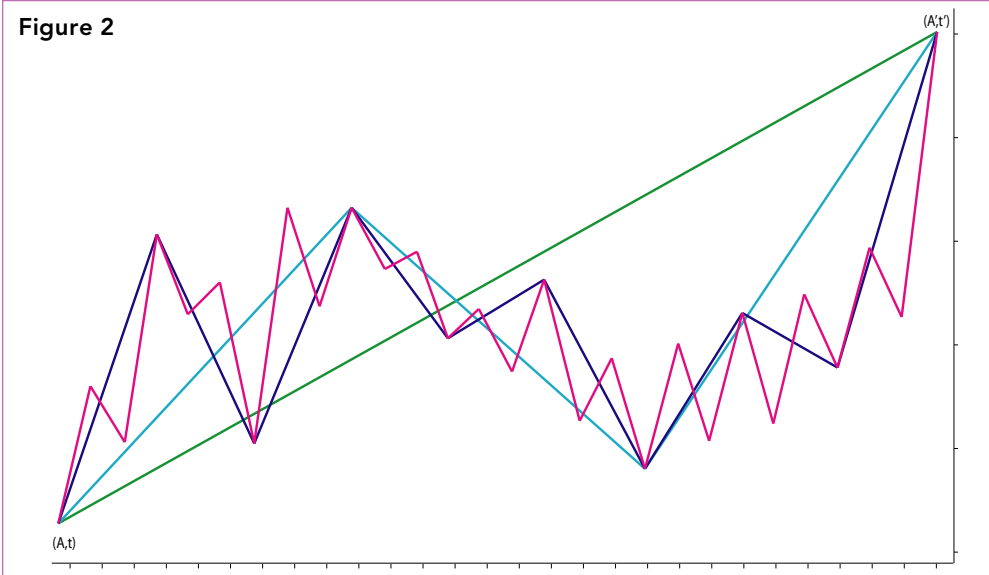
Ratio calculation

Fibonacci guidelines compare the ratio of adjacent or alternate waves to Fibonacci ratios. Price ratios are calculated on arithmetic scale, not logarithmic or percentage, which means that the calculation will be done this way:

$$\text{Ratio} = \text{absolute value of } \frac{(\text{end of 2}^{\text{nd}} \text{ wave} - \text{start of 2}^{\text{nd}} \text{ wave})}{(\text{end of 1}^{\text{st}} \text{ wave} - \text{start of 1}^{\text{st}} \text{ wave})}$$

2. Fractals

To draw a fractal financial chart as Mandelbrot explains it,³ a start point and an end point are needed (see Figure 2). In fact, if end point (A',t') is not known, it is not possible to draw the fractal. This means that in financial markets, the end point must also exist. This point is the



strange attractor. In a chaotic system, the strange attractor is the set where the system is in equilibrium.

A financial market is in equilibrium when buyers and sellers are in equilibrium. This is at the end of a wave (top or bottom), when price changes direction, and this is where we can find the strange attractor. Each wave at every degree has its own strange attractor. Every degree of Elliott Wave develops at the same time (e.g., Minuette, Minute, Minor); waves develop moving to their final strange attractor. When the attractor is hit, the wave is completely developed, the equilibrium between buyers and sellers is done, and the price can change direction. This means that the price is not stopped by Fibonacci ratios but rather vibrates in the direction of it.

Table 1

Market	Start date	End date	Pivot points	Corrective 3 waves	Triangle	Impulse X3	Impulse X1	Impulse X5	Leading/Ending Diagonal
S&P500	24-Mar-00	18-Feb-11	121	26	1	12	2	0	1
DJIA	22-Oct-57	2-Feb-66	76	55	4	17	1	1	1
USDJPY	19-Apr-95	1-Feb-12	211	11	0	10	0	5	1
EURUSD	26-Oct-00	15-Jul-08	70	10	0	6	0	2	1
Gold	21-Sep-99	22-Aug-11	90	18	3	7	1	1	2
Cocoa	12-Dec-00	4-Mar-11	100	15	0	8	3	0	0
Total			668	135	8	60	7	9	6

3. Fibonacci Strange Attractor Model (called later FSAM)

To calculate the model, the following arithmetic operations from the Fibonacci ratios suite are done: addition, subtraction, division, multiplication, exponent, square root, inverse, and opposite. This calculation has not been represented on a chart without limit, but a maximum of three combinations have been set. Figure 3 illustrates the results. Instead of a random repartition, a fractal repartition of the ratios appears. As stated earlier, strange attractors are fractals. This model is the spectrum of the strange

attractor that is in force in financial markets.

The model has two kinds of ratios: ratios that are the Fibonacci suite in blue (... , .382, 0.618, 1, 1.618, 2.618,...), which we call Fibonacci ratios, and clusters of ratios in red that are between the Fibonacci suite, which are formed by echoes of the Fibonacci ratio (.447, .472, .486, .5, .514, .528, .553, .724, .764, .786 ...) and will be called derived Fibonacci ratios. The Fibonacci ratios have much higher importance than the derived Fibonacci ratios. Ratio .50 is actually not a precise

Fibonacci ratio but a cluster from .447 to .553. Concerning the question about the ratios .724, .764, or .786, it is also a cluster of different ratios between .724 and .809 and the inverse is between 1.236 and 1.382. This means that for practical use, we will allow more uncertainty for 50% or 76.4% retracement than for 61.8% or 38.2% retracement.

We can summarize the results as: .236, .382, .447, .472 to .528, .553, .618, .724, .764 to .809, .854, 1.000, 1.171, 1.236 to 1.309, 1.382, 1.618, 2.00 to 2.058, 2.236 and 2.618.

4. Validation of the model

Different analyses have been performed to validate the model. One of these analyses compares the FSAM to the statistics of the wave ratios, as illustrated in Figure 4. There appears to be a strong correlation between the two curves.

5. Synthesis of the guidelines

With the confirmation of the model and the revised guidelines, the Fibonacci tools can now be constructed (Figure 5). The proposed Fibonacci tools are in line with actual guidelines proposed in *Elliott Wave Principle*⁴ but are more accurate.

Figure 3

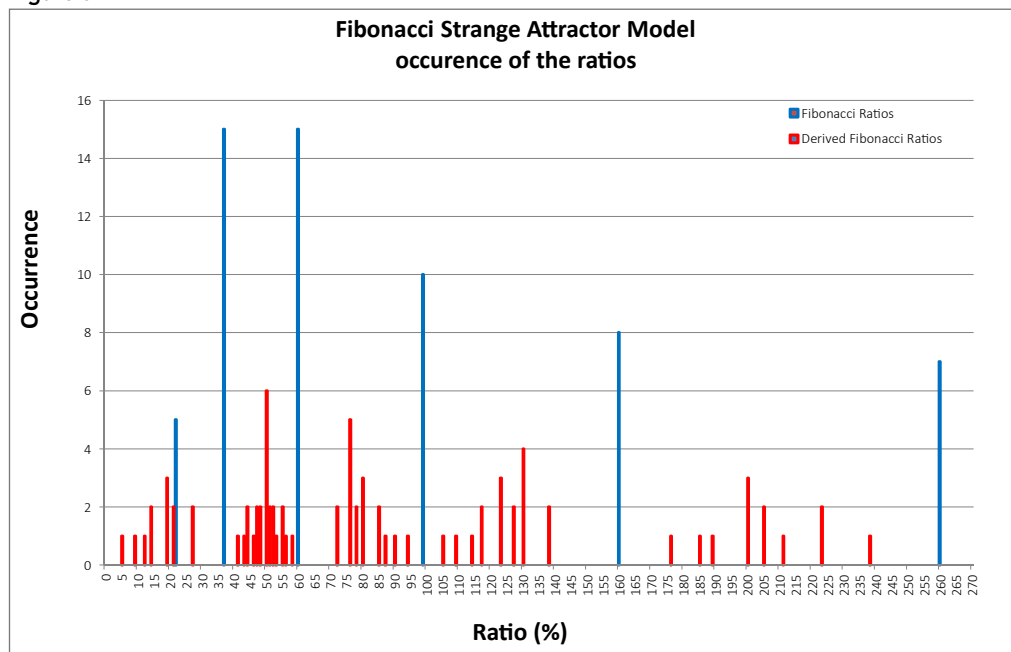
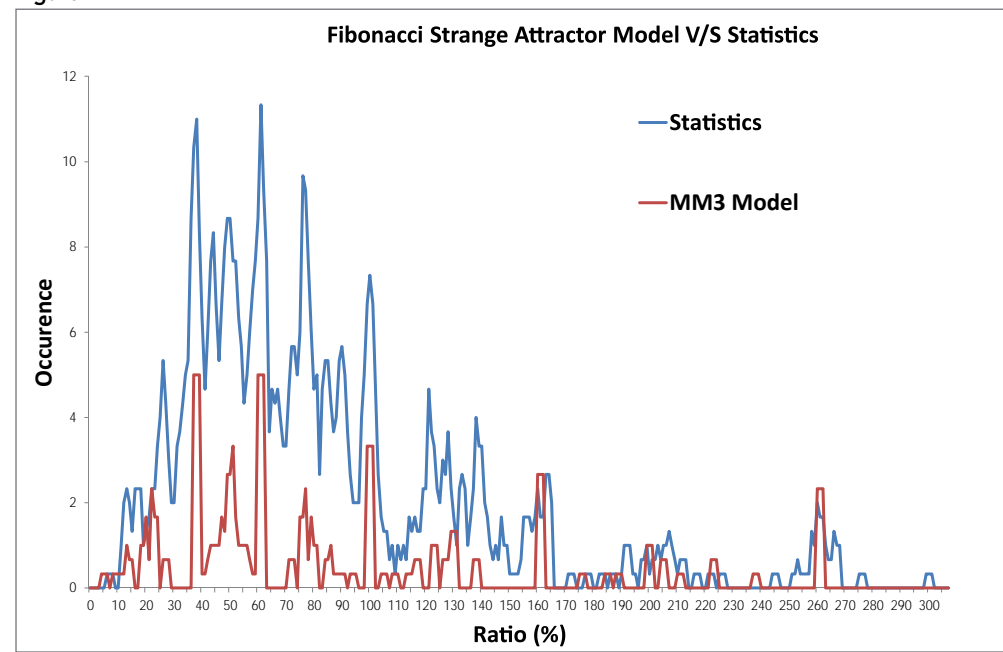


Figure 4



Conclusion

With our new concept of the *Fibonacci Strange Attractor Model*, we have revisited the existing guidelines to statistically confirm it, revise it, or conclude that it is used infrequently. With these revised guidelines, we have built our Fibonacci tools, which are of great use for validating Elliott Wave counts. We have clearly presented on how to use Fibonacci ratios with Elliott Waves, confirm existing counts, and forecast price targets, as well as giving limits to Fibonacci ratios due to fractal repartition.

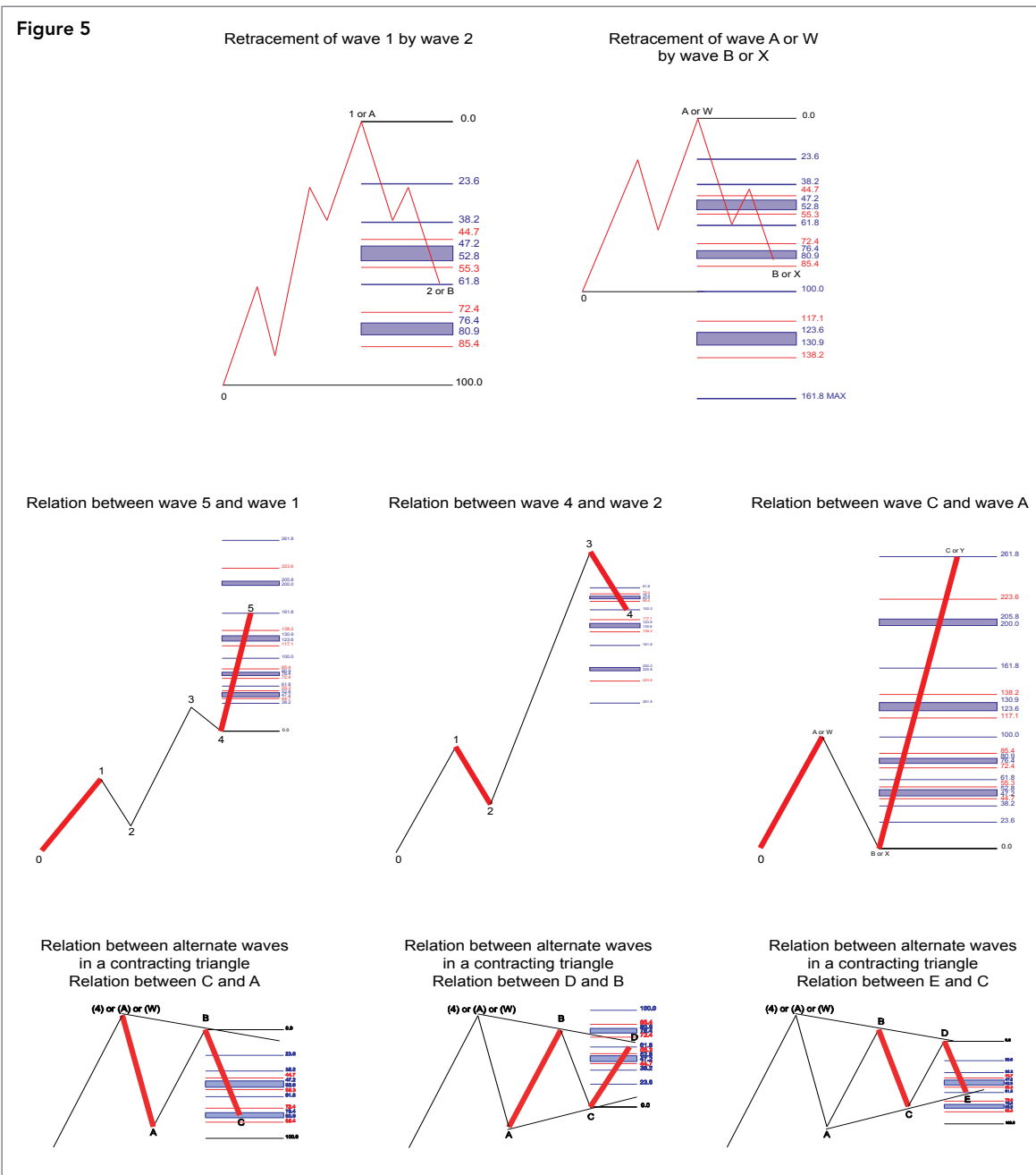
It could be very useful to study the ratios between Elliott Waves over time, given that price and time in markets are related. This could be interesting, particularly for confirming waves when price ratios still allow different ways to count waves. †

About the Author

As an Elliott Wave specialist, Julien Camberlin has developed new ideas about how markets behave according to Elliott Waves, Chaos Theory, and fractals. His studies explain that prices are not stopped by Fibonacci ratios but rather are attracted by them and vibrate in their direction, according to the fractal model. This allows for a better understanding of Elliott Wave formation, enhancing its use for better performance. Julien Camberlin is now looking for new professional challenges.

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Leveraged Trading With Calculated Risk Management Based on the Point and Figure Method Considering Volatility

By Claudia Jankewitz, CFTe (VTAD)

Very often, the point and figure method is thought to be too slow and inert for more dynamic trading. Whereas some want to trade faster, I prefer to trade more efficiently. Therefore, I use leverage in my trading. My point and figure analysis starts with the underlying assets by taking the volatility into account and then calculating the risk on the leveraged instrument.

Hardly anyone believes that one can be a successful trader with point and figure end-of-day data while using leverage. Critics claim either the entry or the exit signal will come too late by using this method. To prove the critics wrong, I will introduce you to my way of working with the point and figure method with leverage.

It all comes down to the box size

It is already proven that standard point and figure works well. Usually, the standard charting technique for the box size is the chartcraft scale, named after Chartcraft Inc. who popularized the system in the 1940s. The standard scale changes the size of boxes with increasing price. As such, the increase is albeit in a staggered way. To avoid this, one can simply use a

certain percentage for the box size. The key question here is: Which percentage is the right one?

The "right" box size

Using a percentage scale equates to a logarithmic chart in the classic technical analysis using a bar or candlestick chart.

As you know, the point and figure method ignores passage of time. Some traders still like to treat a point and figure chart with a kind of "time indicator" by using different percentages to display different time spans—like 2% for long-term investing and 0,5% for short term.

But still, using just any percentage would not take the volatility or the momentum of a stock into account. You might still be in for a roller coaster ride with a highly volatile stock, getting in and out too fast without making any profit at the end of the day (or year).

Since I am a trader using leverage, I still had to look for another way to "twist" the box size for a proper way of construing a reliable trading system while using the best of two worlds: employing the simple

and effective signals of point and figure and using leverage with managed risk. Additionally, since I am an analytical and practical person, I prefer to have a simple, systematic approach to my trading.

Therefore, there had to be a way of displaying a more dynamic stock in a different but comparable manner than a less volatile stock. I wanted to have a systematic way of scanning any underlying assets, picking the derivate, and determining the stop loss. Then, you place the order and off you go, enjoying life while the markets do their work.

Taking volatility into account

One has to adapt the box size for the different volatilities of the charted securities. There are many ways to calculate volatility, but usually you can get this information straight from good charting software.

Because volatility is a measure of the variation of price of a financial instrument over a period of time, one has to assign a certain time span upon which the volatility has to be measured. For instance, you track the annual volatility using 252 trading days.

With an annual volatility, you get a good "feeling" for the average movement of the

underlying assets. This setting is quite useful for position trading for 3 or 4 days or even a few weeks. For a shorter time span, reduce the number of trading days for the volatility tracking accordingly.

Once you know the volatility of the underlying assets, you can use the following chart:

Vola	Box Size %
<= 8	0,5
</=16	1
</=24	2
</=32	3
</=48	4
</=64	5
>64	6

Explanation:

Any volatility up to 8, use 0,5% box size. Volatility greater than 8 up to 16, use 1%.

For example:

The underlying assets have a volatility of 20, then use 2% box size. As such, you can sort your watch list according to the volatility and concentrate afterwards on the point and figure signals. Focus on strong signals when using leverage (e.g., the bullish triangle, a triple top after a broad congestion area). Even though a point and figure chart is always either bullish or bearish, but never neutral, I want to note for the sake of completeness that you should trade only buy signals above a hausse-support-line and a sell signals below a resistance line. Therefore, no guessing is required, but plain, simple signals give us the green light for the trade.

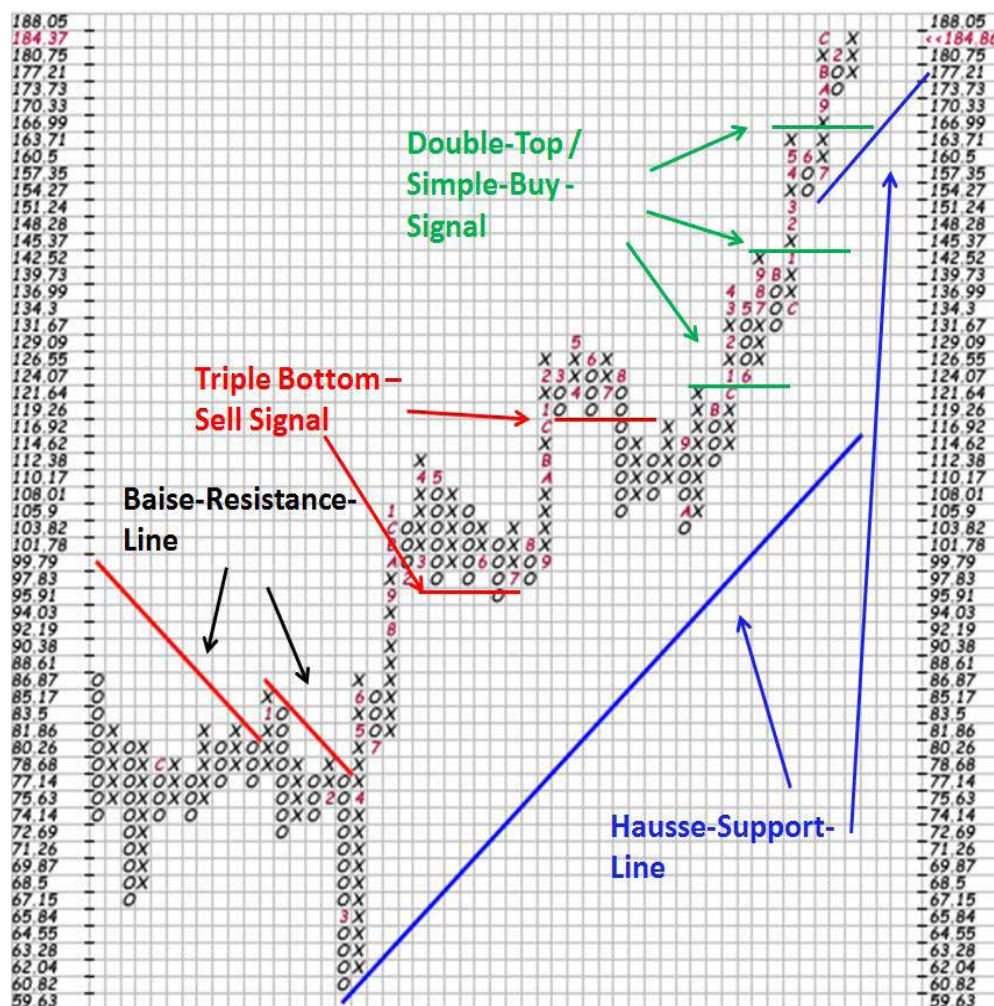
Simple rules and simple signals

Whereas with "simple" I do not necessarily mean the simple buy and sell signal that occurs on a double-top or double bottom. I appreciate the "no-fuzz"-method of point and figure. The straightforward rule for drawing a trendline at a 45-degree rise starting below a low or fall starting above a high allows no room for individual likings. The buy and sell signals are easy for capturing chart patterns, the stop loss is easy to define, and the calculation for the price objective is simply put. That's it.

Price objectives

As you know, there are two methods for determining the probable distance of a move, often referred to as the price

P&F Chart S&P 500, 2% log scale, 3box reversal



objective or "price target": the horizontal count and the vertical count. Always remember that the move can be contained by the trendlines.

Although the method for the horizontal count is clearly stated, it still leaves room for interpretation regarding the width of the base. Therefore, I use the vertical count only.

Vertical price objective = Value of the Low + (Number of Xs x Reversal x Box size) (bullish)

Vertical price objective = Value of the High - (Number of Os x Reversal x Box size) (bearish)

If you use a log scale, you have to calculate the vertical price objective as follows:

Vertical price objective = Value of the Low x (1 + Box size / 100) ^ (Number of Xs x Reversal) (bullish)

Vertical price objective = Value of the High x (1 - Box size / 100) ^ (Number of Os x Reversal) (bearish)

Please consider these price objectives as rough guides only. These targets are rarely hit exactly, but if you get more than one trading candidate, you want to pick the most promising one by calculating the profit-loss ratio. For this, you need the profit target as well as the stop loss value.

Using stop loss

When trading using leverage the question is always: Shall we use the underlying assets for the risk management or the financial instrument, like the option or knockout certificate? My answer is: Both in their own way.

The underlying stop loss

Analyzing the underlying assets for the profit and stop loss will give me the profit-loss ratio. Once I have reasonable room to move and a considerable loss-risk, I am willing to take the trade.

In general, you place the stop at the level where the reversal or the double top/bottom would actually occur.

This stop can be used as your knockout level, for example.

The leverage stop loss

Sometimes the stop loss is a bit too far, especially if you trade using leverage. This level could bear a risk too big to take.

Therefore, I use the following strategy:

Once I find my stock to trade and determine my stop loss, I choose the knockout certificate. The stop loss level represents the knockout level. This is my first “cushion” for money management.

Once I choose the certificate, I will analyze it in a new point and figure chart according to its volatility. Most of the time the volatility of these instruments is very high, so I use a bigger box size, like 5% or even 6 %.

Defining the risk

Now you can determine the risk explicitly: Either you use the usual stop loss in the point and figure chart or you use a certain

number reversal, like three boxes or less. You can place this stop order in your order book.

If your charting software does not display the leverage instrument, specify for yourself a certain percentage you are willing to lose in case your trade goes against you. As such, you can subtract that amount from your leverage premium.

Trailing stop

Certainly, you can use trailing stops with the point and figure method. Simply check your chart on and off and adjust the stop loss accordingly. This is easy to do, especially when you use a certain amount of reversal. Count the boxes and place the new stop order, or put a direct trailing stop loss in your account.

Conclusion

With this method, you avoid the problem of noise or whipsawing in a double feature: first by using point and figure and tracing only significant price movements, and second by sorting the underlying assets according to their volatility.

Via clear and effective buy and sell signals, you find your trading candidate. With precise price objectives and stop loss levels you can define your profit and loss chances as well as your knockout level in case you choose to trade knockout-certificates.

By analyzing the leverage instrument again according to its volatility with point and figure, you get a clear picture for your stop loss on your instrument. †

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About the Author



Claudia Jankewitz is a Certified Financial Technical Analyst (CFTe) and a member of the VTAD. She has her own company—Claudia Jankewitz Finance. For

more than 15 years she has been active in the stock market. She lived and worked in Malaysia for more than 10 years and has been back in Germany now for 7 years.

Her special fields are the point and figure method and leveraged trading, such as options and knockout certificates. She is the author of two trading newsletters for leveraged trading. For more information see www.claudia-jankewitz.de and www.optionentrader.info.



P&F Chart S&P 500, 2% log scale, 3box reversal, example of buy signal, stop loss and support

Education Lounge

The Wisdom and Strength of the IKH

By Mario Kfoury, CFTe, Lebanese Society of Technical Analysts

Before we start delving into the subject of the Ichimoku Kinko Hyu, we ought to put it in the right historical context, describing how it came into creation and the wisdom, astuteness, and farsightedness of its designer. Like the cardiologist or seismologist, the technical analyst studies and analyzes the financial charts, trying to detect subtle movements that have predictive values. Some cycle analysts studied the beats of the heart and compared them to the different cycles and waves in nature and financial markets.¹

There are three types of technical analysis: classical, mathematical, and cyclical. It would be realistic to classify the IKH belonging to the last two—calculated with mathematical formulas based on cyclical theory.

Although the recorded history of technical analysis seems short, people like Pythagoras, Leonardo Pisano, and Leonardo Da Vinci, among others, discovered formulas and proportions in nature and used them in mathematics, sciences, arts, and various disciplines. In 1585 public quotes, over 300 items were traded in the streets and coffee shops of Amsterdam, and in 1608, in one of the greatest and earliest exchanges—the

Amsterdam Exchange—the “Beurs” was born. It became most famous later on for the “Tulip Bulb Mania” of 1636–1637. In the 18th century, a Japanese rice commodity trader named Munehisa Homma (1724–1803) started recording the price of rice according to what we know as candlesticks (the first recent recorded history of technical analysis rules), and prices in the West were being recorded under the point and figure chart formats. It wasn’t until 1884, when Charles Dow founded the Dow Theory and introduced the first ever stock market index, that modern technical analysis was born. In 1939, Mr. Goichi Hosoda, a Japanese economy journalist, started running tests and calculations over a period of more than 20 years with the help of a number of his assistants, to come up with a trading system in 1968 that he called the Ichimoku Kinko Hyu, meaning *equilibrium chart at a glance*. The application offers multiple tests, mainly through three indicators, and thus gives three different signals on one chart. However, it yields much more information for the skilled and seasoned analyst.

Moving averages have been used in statistics, rocket science, and artillery since the beginning of the 19th century, but their application to the stock market came later,

between 1930 and 1960, when many types of moving averages were calculated from simple, exponential, triangular, weighted, and adaptive to displaced... The latest is one of the most important aspects of the IKH for cycle isolation as well as for its role reversal as support and resistance, as it is—along with the MA crossovers and the “4-week” rule promoted by Richard Donchian across the Pacific—approximately around the same time and era of the basic founding principles. Similarities also exist between the Kumo cloud and the famous MACD introduced by Gerald Apple in the 1970s, and are yet more proof of the ingenuity and wisdom of the IKH’s inventor at that time, in addition to many other features and advantages never presented or applied before, all in one system!

Since the IKH was initially built and tested using daily charts, it shows us the price today in relation to 26 periods (days) in the past (4 weeks) with the Chikou Span, as well as 26 periods (days) into the future (4 weeks) with the Kumo. What these 26 past and future periods are initially telling us on the daily chart, is that the price today is higher, lower, or equal to the price 26 periods ago and in relation to the future, according to the 4-weeks rule Mr. Donchian promoted



at the same time in his commodity futures trading system. Additionally, the cloud is offering us trend definition and support and resistance in the present (Tenkan Sen and Kijun Sen) and the future (The Kumo) according to the role reversal qualities (support becomes resistance and vice versa) of the moving averages by projecting the Senkou Spans A and B into the future. A volatility measure is also offered relative to the cloud thickness or narrowness, and in my humble opinion, an interactive sort of MACD integrated in the cloud with all the MACD features (MACD line, signal line, middle line, histogram and crossover rules, convergence/divergence not so clear because of the displacement of the cloud relative to the price) will be clarified in my ensuing explanation. All the moving average calculations in the IKH are based on the 50% retracement of their chosen periods (Highest High + Lowest Low/2); therefore, the Tenkan Sen (9) and Kijun Sen (26) are acting like dynamic interactive weekly and monthly 50% retracements on the daily chart, but of much higher value because the Tenkan Sen and Kijun Sen are calculated on weekly (9 periods) and monthly (26 periods) bodies of data. This equates to it being a moving average applied on weekly and monthly candles, but on the daily chart,

¹ J.M.Hurst “Profit Magic of Stock Transaction Timing” (1973); Tony Plummer “Law of Vibration” (2013).

The Wisdom and Strength of the IKH (continued)

providing more relevant and reliable support and resistance than normally designed moving averages. The Senkou Span B, and especially its 26-period projection forward, is laying for us a 2-month, 50% retracement ahead, acting like an MACD middle line in a dynamic interactive way relative to the price and the Senkou Span A, which is an average of the averages (same principle as the MACD line). The calculations of the Senkou Span A and MACD lines are similar in principle, as they both are averages of the moving averages—one calculated by addition and dividing by 2, and the other by subtraction. Their ensuing result is pretty close (17.5 for the Senkou Span A = Tenken Sen + Kijun Sen/2 and 14 for the MACD = 26 EMA – 12 EMA). Moreover, the cloud thickness acts like an MACD histogram and is indicative of volatility, while its twist is similar to a crossing of the histogram above or below the middle line. The overall advantage of the IKH, in general, and its Kumo, in particular, are all the aforementioned features plus their direct application over the price, making the IKH a highly integrated, interactive, dynamic sort of MACD with all the signals relative to Gerald Apple's application, moving average rules, 50% retracements of different periods, and Richard Donchian's 4-week rule, plus two additional features:—trend definition and future support and resistance.

Until you gain a better understanding of the founding principles of the system, the IKH lends itself quite easily for use at all levels; in its most basic interpretation, one first starts defining the trend in his chosen

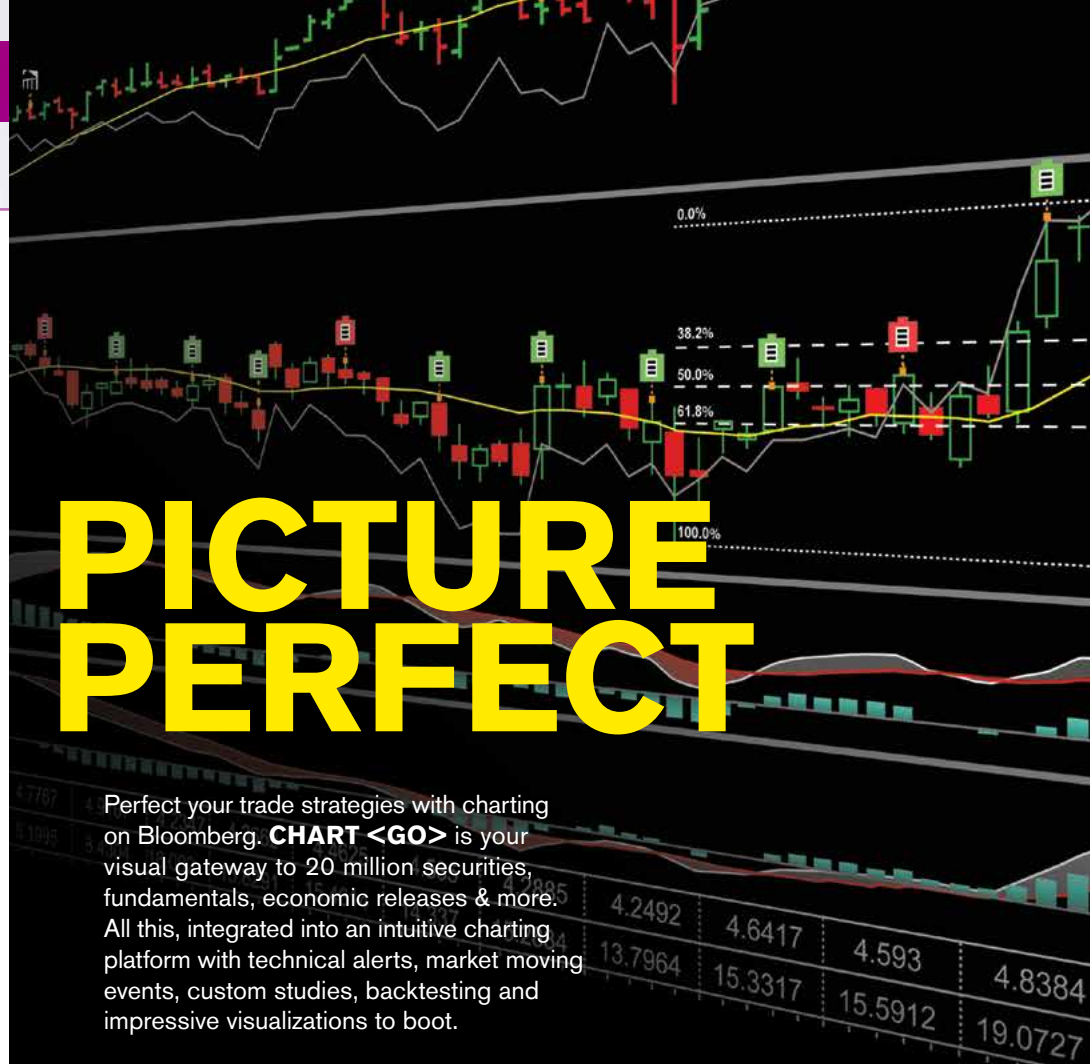
timeframe (above, below, or within the cloud). Subsequently, any confirmation signal from the upward crossover of the moving average and the Chikou Span when the price is above the cloud is a good buy signal, while if the price is below the cloud, it is a weak signal. Any short signal, such as downward crossover of the moving average and the Chikou Span when the price is below the cloud is a good short signal; if the price is above the cloud, it is considered a weak signal. Finally, any long or short signals when the price is within the cloud are deemed neutral.

Like many aspects of the Japanese culture, the IKH bears a lot of wisdom and strength in its conception, and one stands in awe and admiration, after so many years, to that Japanese man's vision and forethought. While wishing you all safe and happy trading, we can never do enough by reminding you of the market's hazards and vagaries, and that to be a successful trader, two main qualities are of necessity: humility and an immeasurable thirst for learning. †

Namaste

About the Author

Born in Beirut, Lebanon, Mario G. Kfoury, CFTe, holds credentials in technical analysis, physical education, martial arts instruction, and real estate; he is also a multi-engine IFR pilot. Self-taught in the streets of Beirut, Brussels, and New York, he synthesizes his view and experience in life through different cultural and disciplinary prisms that lead, in his opinion, to a peaceful and humanitarian way of life.



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Stop and Risk Management in Daily Trading

By Konrad Kleinfeld, CFTe

A trader as risk manager

In today's markets, a successful trader is also an excellent risk manager. This includes having a combination of money management skills as well as technical analysis expertise. In this educational article, we will revisit basic risk management tools and then focus on stop orders to protect a trading position.

Evolution of the risk management profession

Risk management techniques as a management function in financial institutions and capital market front offices has grown steadily in size and importance over the last 30 years. Over the last 15 years, in particular, global financial markets have shown that advanced risk management skills and tools are not only a can but a must. Overall, financial markets have taught us that risk management, especially toward the higher moments of a return distribution ("tail risk events"), is a necessity and requires tight monitoring and the use of intelligent stop orders.

Facing different sources of risk

First, we have to admit that there is no perfect and absolutely satisfactory rule.

However, stops can be an important way to manage positions and limit losses—keeping in mind that an investor still faces the risk of slippage (i.e., the difference between the expected price of a trade and the price at which the trade actually gets executed). Overall, in today's markets, numerous risks are associated with trading, such as market risk, credit and counterparty risk, liquidity risk, and operational risk.

Market risk is the most obvious, as it arises from movements in prices of an underlying asset in financial markets. We will focus on this later and introduce trading stops based on technical analysis.

Credit risk refers to the risk that an issuer of a debt instrument will default, but it also can include critical issues such as counterparty risk (i.e., the risk that a counterparty with whom a trader has dealt will cease trading, making recovery of funds owed very difficult). Credit risk might also include force majeure risk (natural and unavoidable catastrophes) but also sovereign risk and marginal risk.

Liquidity risk mainly comes from two sources: 1) a trader running into an illiquid

trading positioning, meaning that he has to sell a position due to margin calls or other financial commitments, and 2) due to decreasing market volumes traded or a decreasing number of counterparties, the liquidity for an asset to trade becomes too thin to allow fair and efficient trading.

Lastly, **operational risk** includes all risks associated with nonfinancial matters, such as fraud, trading or settlement system failure, other accidents, and ethics.

Digging deeper into the different subsets of risk associated with being a trader is beyond the aim of this article, however, but will be part of future periodicals.

Money management as starting point

Money management stops are usually associated with cutting a position's size, or even the entire position given a particular level of P&L drawdown, such as 2% of trader's equity with a single trade. There are also fundamental approaches, such as Value at Risk (V@R), variance-covariance models, maximum draw-down, or even matching a risk management tool on a particular moment of return distribution.

Knowing an asset's return distribution moments (i.e., mean, variance, skew, and kurtosis) is therefore key, as it enables a trader and risk manager to match the used risk management tools with the required asset's risks, not only on an individual basis, but also in overall portfolio context.

Order and stop loss management

Order and stop order management within the money management discipline is often associated with three relevant steps:

1. Determining your own maximum acceptable loss.
2. Setting a stop loss order at a psychologically relevant support level.
3. Adjusting this level from time to time

What sounds obvious can be a real issue in daily application. Depending on its purpose, today's trader can choose between different types of stopping out their market position. Techniques might include preventive stops, trailing stops, and so-called emergency stops.

Types and purpose of a stop order

Preventive or protective stop means that if the market goes against a trader's forecast, one is quickly cutting losses (given a

specific individual loss sensitivity) to prevent cutting too quickly or too early. Preventive or protective stops are often set and defined in a trader's log before entering a position and are effectively placed in the order book after entering the underlying position.

Alternatively, a trader can use **trailing or progressive stops** (in absolute or relative terms to current asset price) to protect trading profits. Trailing or progressive stops are placed and adjusted when the market is moving in the trader's direction. Typically, a trader is using an absolute or percentage band around the current price of an underlying asset to set the stops. There are also ways to use Welles Wilder's Parabolic SAR (stop-and-reversal) to optimize trading exit points (i.e., closing out and even setting a short position when a particular price level is reached). Trading or progressive stops are frequently used in momentum markets and can be continually adjusted for an underlying asset's volatility (such as via Bollinger Bands). The very charming pro argument for those kind of stops is that they adjust from time to time and therefore, best match the everchanging behaviour of markets per se. This is particularly true when using volatility (second moment of return distribution) within the Average True Range (ATR) indicator and multiplying a period's asset volatility by a set factor to determine stop levels.

In some literature, you can also read about so-called emergency stops, which might set

a particular stop at a fixed level (in terms of trader psychology, this might be the entry level plus transaction costs), so there is no need to wait until the protective stop is hit, but a position is closed or reversed when this emergency stop is hit. This is particularly true in sharp turnaround markets, where the market is quickly forming a reversal and a trader does not want to wait until the preventive or trailing stop is reached. Given the high trading volumes in a sharp market fall, this could help to avoid slippage, especially around psychologically important price levels (e.g., stops set around numbers). As you can see, this emergency stop is not a mechanical method at all but rather follows a trader's own discretion.

Conclusion

Trading in today's markets requires each trader to not only work on his or her trading skills but also to be a good risk manager, keeping up to date with the latest risk and money management tools and adapting those tools to markets' everchanging moments of a return distribution. Given each trader's individual level of risk and loss aversion, you can use different ways to place stop orders and keep track of your own level of trading aggressiveness and profitability targets. †

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About the Author

Konrad Kleinfeld, CFTe member of VTAD (Vereinigung Technischer Analysten Deutschlands e.V.), is a vice president at a global investment bank. He also holds an MBA from Cass Business School in London and is a CFTe charterholder. He is a regular speaker at VTAD's annual technical analysis conference and a part-time lecturer in economics at the Frankfurt School of Finance and Management.

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CALL—Wyckoff for Smart Money Timing

By Hank Pruden, Ph.D., Golden Gate University and the TSAASF

CALL is a case study applying the principles of technical analysis found in the Richard D. Wyckoff Method. See Figure 1 for a bar chart of CALL and Figure 2 for a point and figure chart of CALL.

In Figure 1, the technical analyst can identify a base of accumulation taking place during 2013 and 2014 as the stock moved sideways between a line of support near \$11 to \$12 and resistance around \$16 to \$18. During that period, the public investors and traders were fearful and depressed. But, on the other side of the trade, the “Smart Money” or Wyckoff’s “Composite Man” was buying on balance. For example, the “Smart Money” would sell 10,000 shares when the stock in CALL neared \$16 to \$18, only to turn around and buy 20,000 shares around the \$12 level. Through repetition of similar procedures, the Smart Money/Composite Man would accumulate an inventory of stock all through the base of accumulation.

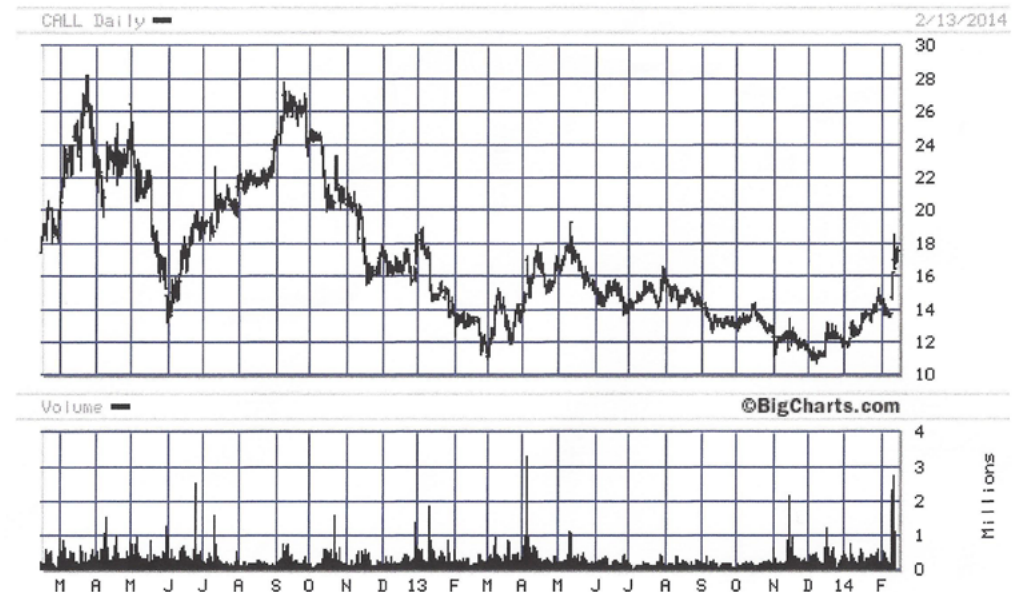
Then, from December 2013 through January 2014, we could observe an accumulation gradient of successive rising bottoms in price, which meant that supply was losing power and demand was gaining

control. At this stage, the attention of the Composite Man would turn to wrapping up his campaign of accumulation of CALL stock. He did so by engineering one final price drop on much lesser volume in February 2014. That maneuver took the stock price down to \$13.50 for a “Last Point of Support” by the Composite Man. Supply was exhausted.

What happened next signaled a radical change in the character of the trading in CALL stock. The stock was on the cusp of leaving the accumulation trading range and entering the more upward vertical price range or the markup phase. That change was signaled by the upward break-away price gap over \$14, which was immediately followed by widening price spread and expanding volume. That price/volume structure constituted a “sign of strength” and launching of the markup phase in CALL stock. Hence, purchases of CALL could have been made from \$14 to \$18.

A Wyckoff-oriented trader-technician would have consulted the point and figure chart covering the same phase of accumulation. On Figure 2 of CALL the trader-technician should identify the “Last Point of

Figure 1



Company Data

Company Name:	magicJack VocalTec Ltd.
Dow Jones Industry:	Telecommunications Equipment
Exchange:	NASDAQ
Shares Outstanding:	18,718,000
Market Cap:	324.20M
Short interest:	5,918,995 (31.62%)
52-Week EPS:	2.46
52-Week High:	19.28 on Thursday, May 09, 2013

Support” at \$13.50. Then, by counting the extent of the base on the figure chart, the analyst would flag upside projections and evaluate the reward-to-risk ratio involved if he/she were to enter a long-side position in CALL. In Figure 2, at the \$13.50 level, each box was valued at \$.50, and there were at least three boxes in each column, giving a value of \$1.50 per column. There were 15 columns on the line that encompassed the \$13.50 level in CALL. Multiplying the value of \$1.50 per column times 15 columns rendered a base of accumulation equal to \$22.50. Adding that sum to the low of \$11.00 in Figure 2 and to the line marked by the LPS as \$13.50 rendered upside price projections for CALL ranging from \$33.50 to \$36.00.

Purchases could have been anywhere between \$14 and \$18. Even if the purchase had been made at \$18, with a protection stop-loss order entered at \$13, the potential reward (\$34 less \$18 = \$16) would have exceeded the risk (\$18 less \$13 = \$5) by an acceptable 3-1 ratio.

In conclusion, the technical conditions in CALL made it a good long-side trade according to the principles of the Wyckoff Method.

The reader is advised to monitor the performance of CALL to ascertain what actually happens. And, for further details about the Wyckoff method employed in this case study, the reader is encouraged

to consult my article “The Wyckoff Matrix: Coordinating Bar Charts with Figure Charts,” IFTA Journal 2013. †

Charts: Bar chart courtesy of BigCharts.com; Point and figure chart courtesy of StockCharts.com.

Note: Dr. Henry Pruden is the winner of the 2013 IFTA Lifetime Achievement Award, which honors the career achievements of a technical analysis practitioner who has made extraordinary contributions

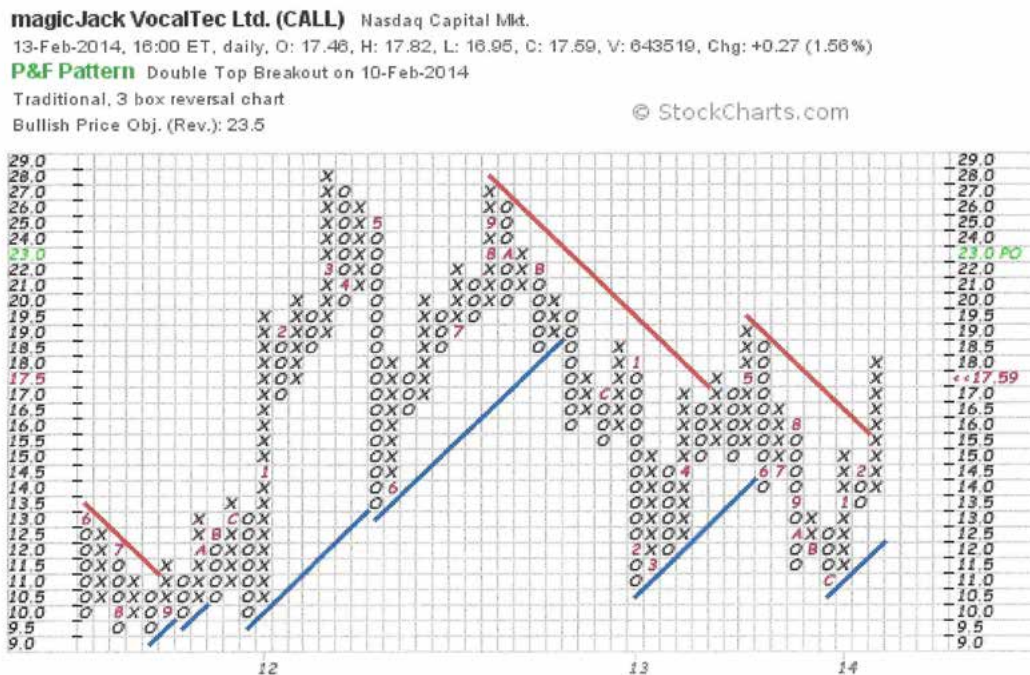
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About the Author

Dr. Hank Pruden is a professor in the School of Business at Golden Gate

University in San Francisco, where he has been teaching for 37 years. Dr. Pruden is more than a theoretician; he has actively traded his own account for the past 20 years. His personal involvement in the market ensures that what he teaches is practical for the trader and NOT just abstract academic theory. Dr. Pruden is the executive director of the Institute of Technical Market Analysis (ITMA). At Golden Gate University, he developed the accredited courses in technical market analysis in 1976. Since then, the curriculum has expanded to include advanced topics in technical analysis and trading. In his courses, Dr. Pruden emphasizes the psychology of trading as well as the use of technical analysis methods. He has published extensively in both areas. He has mentored individual and institutional traders in the field of technical analysis for many years. He presently serves on the board of directors and is past president of the Technical Securities Analysts Association of San Francisco. Dr. Pruden was also on the board of directors of the Market Technicians Association (MTA). He has served as vice chair, IFTA (International Federation of Technical Analysts); IFTA educates and certifies analysts worldwide. For 11 years, Dr. Pruden was the editor of The Market Technicians Association Journal, the premier publication of technical analysts. From 1982 to 1993 he was a member of the board of trustees of Golden Gate University.

Figure 2



Education Lounge

Market Breadth Indicator—Arms Index

by Alexander Sedlacek, CFTe (VTAD – Munich, Germany)

As technical analysts, we treat two types of core information. Depending on the monitored timeframe, we analyze the price (open, high, low, close) and volume with the help of visual, mathematical, and statistical methods. In addition, the stock exchanges supply us with extended information, which provides insight into the market and its structure (e.g., the number of increasing and falling shares of one stock index or an entire stock exchange and how high its volume was; how many shares developed a 52-week high or low) These data are processed mathematically with the help of market breadth indicators in order to obtain information detached from prices.

Richard Arms, well-known for his volume-based indicators, explained the connection between price and volume using the example of a car and its horsepower. He stated: “We wouldn’t think of buying a car without some idea of its power. Why then would we buy into a stock market without an indication as to whether it had the horsepower to make some money.”¹ He introduced the composite market breadth indicator or Arms Index—also known as

TRIN or Short-Term Trading Index, as it was called when it was first covered in a 1967 article in Barron’s. He developed the index originally to sport intraday changes of the trend, and for a long time the index was used only in that context.² Meanwhile, it is also used for intermediate and long-term decisions and applied to other markets to forecast their direction.

The calculation and reasoning

The calculation of the Arms Index is based on two ratios. The first one considers the number of advancing stocks divided by the number of declining stocks. The second ratio calculates the traded volume of advanced shares divided by the volume of declining stocks. Although the index is calculated using data from all NYSE stock, it can be refined to include only S&P or only Dow stocks.³ The fewer shares are included for the calculation, the more one single share with a high trade volume can influence the effectiveness and significance of the Arms Index.

Formula

(advances/declines) / (up volume/down volume)

² The ARMS INDEX (TRIN) – Richard W. Arms; p. 2

³ The Technical Analyst June 2008 – The Arms Index

¹ The ARMS INDEX (TRIN) – Richard W. Arms; p. 1



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Market Breadth Indicator – Arms Index (continued)

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A value under 1 is considered bullish and shows that a higher volume of advancing shares has been traded. A value over 1 is bearish and indicates that the volume of the declining shares traded was higher. This means that the index value is moving opposite to the market, with an inversion possible but not yet established. Because of the way the index is calculated, the value can theoretically range from 0 to infinite, whereas it usually oscillates around 1. In the field, the index is used as a contrary indicator⁴ in order to identify extreme sell and buy situations in the market. Accordingly, the right time to buy is when many others are selling and vice versa. Depending on how the Arms Index is applied and on the particular market phase, the extremes vary. Usually, high values are recorded on sharp down days and low values on strong up days. Considering all end-of-day data since 2000, 111 days showed a value over 2.65 and 210 days showed a value under 0.5. In addition, bullish and bearish divergences from the market position can be identified; however, timing should not be based on these figures only.

The three uses of the Arms Index

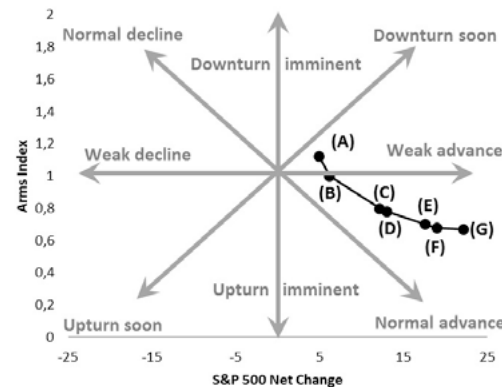
I. Intraday

The index was originally developed to help in understanding the intraday gyrations

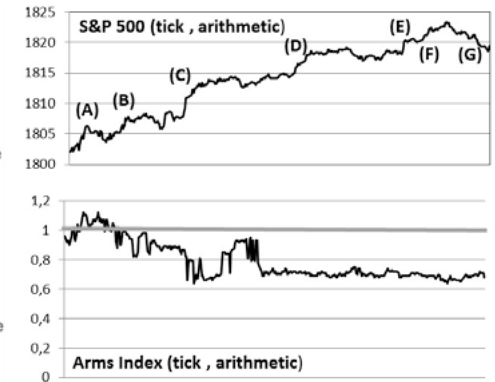
of the market.⁵ Before stock exchanges, the Arms Index was monitored via quote machines or television. In his book *The Arms Index (TRIN): An Introduction to the Volume Analysis of Stock and Bond Markets*, Richard Arms introduced a method rarely used nowadays, but one that was implemented back then without the technical tools available today. Every day, new charts were set up and the values added. They consisted of the Arms Index (intraday) and the net change of the stock market to the opening price. The data points did not correspond to a fixed time period (e.g., 15 minutes) but were set in a discretionary way based on the market movements.

Chart 1 on the left-hand side shows the aforementioned method based on 02/11/14 in relation to the S&P 500. Point (A) represents the beginning after the start of the trading. The S&P was positive and the Arms Index showed a slight bearish divergence with a value of 1.15. Points (B) and (F) were added at breakouts of intraday highs. Point (G) represents the end of the day. Analysis confirms an existing uptrend during the day. The chart on the right-hand side shows the intraday chart of the S&P 500 with the corresponding breakouts. The ongoing Arms Index as used today in intraday monitoring is displayed at the bottom.

Chart 1



Datasource: Bloomberg; own diagram



II. Short and medium term

For short-term positions with holding periods of one day up to a few days, the Arms Index uses end-of-day data. For overbought situations, (sell) values of under 0.5 to 0.65 are common, while they are usually greater than 2 to 2.65 for oversold situations (buy). They can only be seen as guiding values. During the final stages of a bear market, as in 2008/2009, the index can reach even higher values, resulting in false signals.

Therefore, it is important to be aware of the current overall market phase. Chart 2 shows the stable upward trend of the S&P 500 (A) since January 2013 in connection with the Arms Index (B). At an oversold level of greater than 2.65, four lows were identified correctly and at a value greater than 2, all six lows were identified correctly. In terms of time, signals often come one or two days early.

The simple 10-day moving average (MA) shown in Chart 2 (C) is traditionally used, but shorter, longer, and different kinds of moving averages (e.g., exponential moving averages) are used as well. It is important to point out that the longer the period of the moving average, the closer the oversold/overbought level should be toward the value 1. As an example, these are the reference values according to Richard Arms:⁶

	Overbought (sell)	Oversold (buy)
Short-term MA (4-10 days)	<0.75	>1.25
Medium-term MA (21 days)	<0.85	>1.10
Long-term MA (55 days)	<0.90	>1.05

⁴ Technical Analysis of the Financial Markets – John Murphy; p. 444

⁵ The Arms Index (TRIN) – Richard W. Arms; p. 11

⁶ The Technical Analyst June 2008 – The Arms Index

III. Long-term

Moving averages are also used for long-term analysis, but with a timeframe of over 40 days. Another possibility is the combination of two different moving averages (e.g., 21-day and 55-day moving average), as shown in Chart 3. The 51-day MA is the baseline, and the 21-day MA serves as the trigger line. If the faster moving average

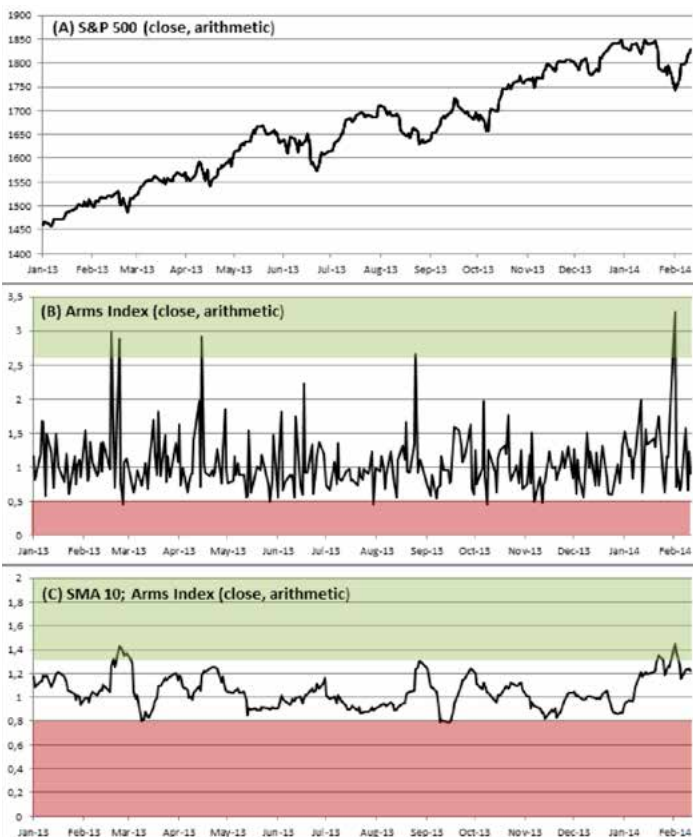
is above the slower moving average, the investor should be out of the market, or vice versa. This method can also be used as a filter technique to trade short-term setups.

Conclusion

The price indicates what happens in a situation, whereas the volume shows the strength behind the various market

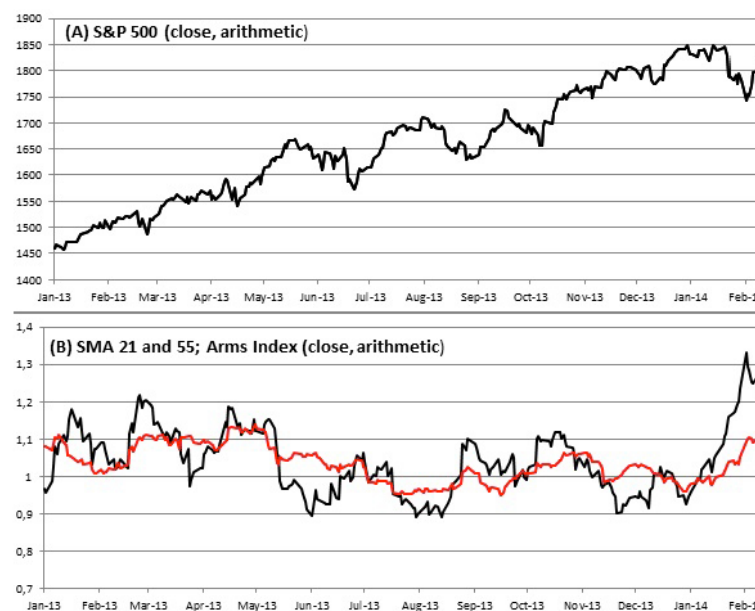
movements. The Arms Index puts the strength in relation to increasing or decreasing shares. Its various applications turn it into a helpful tool for traders and investors. The Arms Index is a good indicator; however, the index itself will not move the market in the direction desired. It is therefore recommended to use additional methods of technical analysis and to consider the index as a confirmation of a bullish or bearish market.

Chart 2



Datasource: Bloomberg; own diagram

Chart 3



Datasource: Bloomberg; own diagram

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