MARKET TECHNICIAN

August 2003
Issue No. 47

The Journal of the STA
www.sta-uk.org

As a result of administrative changes last year, the Southbank University decided that it could no longer continue working with the STA on our technical analysis courses. So we have now just completed our first year of running these courses without any outside help and, thanks to the efforts of John Cameron and the rest of the education committee, it has proved to be an extremely successful exercise. The courses are held at the LSE and 35 people attended the foundation and 30 went on to take the full diploma course. 55 candidates sat the exam in April.

Technical Analysis is often thought an easy option until it comes to the actual practice. The education committee found that many students signing on for the Diploma Course were struggling and there were frequent requests from students for an introductory course. Accordingly, a six week Foundation Course is now held annually before the Diploma Course. This year it will run from the last week in October to the first week in December from 6:00 to 9:00 p.m on one evening each week. It is ideal for those who need a general outline of basic principles, cycles, Elliott and Gann theory and it is a firm foundation for undertaking the Diploma Course.

As many members will know, the MTA's library was housed in the World Trade Center and it was destroyed in the tragic events of 9/11. As part of a fund-raising operation to rebuild its library, the MTA has released a VHS video on 'Decoding W.D. Gann's square of nine wheel by C Brown.' The video seminar consists of a multimedia presentation on the relationship between Gann, Fibonacci and music, to name just a few topics. A preview of the content is available via www.aeroinvest.com and an order form can be found on the MTA website www.mta.org. All funds are donated to the MTA library fund. (Note the tape may be in NTSC format which only some UK video recorders play).

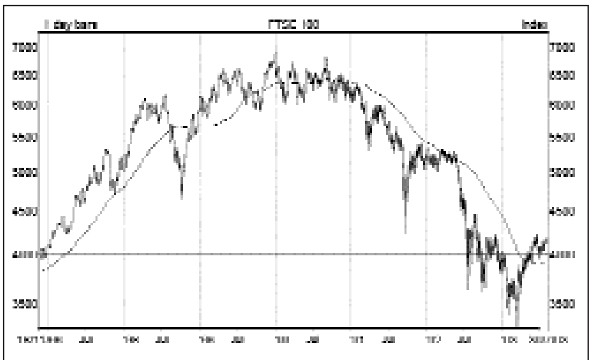
One of the most frequent questions that our administrative office is asked is what is the date of the next meeting? As a general rule meetings are held on the second Wednesday of the month but they are sometimes changed in order to accommodate a speaker coming from overseas who needs to tie his talk in with other presentations that he is giving. The dates for next year have now been firmed up with the Institute of Marine Engineers and are as follows:

January 14th 2004	July 7th 2004
February 11th 2004	September 8th 2004
March 10th 2004	October 13th 2004
April 14th 2004	November 10th 2004
May 12th 2004	December 8th 2004
June 9th 2003	

One final date for your diary, the next IFTA conference is going to be held in Washington DC on November 6-9 2003.

COPY DEADLINE FOR THE NEXT ISSUE
30th August 2003

PUBLICATION OF THE NEXT ISSUE
October 2003



Source: ShareScope www.sharescope.co.uk

HAS THE MARKET BOTTOMED?

After a three year bear market, we thought it would be interesting to take a poll of members' views as to whether or not the market bottomed out in March of this year.

To register your view, please send an e-mail to:
Katie Abberton: STA@pxltd.demon.co.uk
Subject: Market poll. Just give a yes or no answer together with your name.

FOR YOUR DIARY

10th September 'How the market revolves around supply and demand'
Speaker: Tom Williams, Director, Genie Software Ltd

8th October Monthly Meeting

12th November Annual General Meeting
Speaker: Fred Stafford, IDS

3rd December Christmas Party

N.B. The monthly meetings will take place at the Institute of Marine Engineering, Science and Technology, 80 Coleman Street, London EC2 at 6.00 p.m.

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The Barbican library contains our collection. Michael buys new books for it where appropriate. Any suggestions for new books should be made to him.

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STA JOURNAL
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Please keep the articles coming in – the success of the Journal depends on its authors, and we would like to thank all those who have supported us with their high standard of work. The aim is to make the Journal a valuable showcase for members' research – as well as to inform and entertain readers.

The Society is not responsible for any material published in The Market Technician and publication of any material or expression of opinions does not necessarily imply that the Society agrees with them. The Society is not authorised to conduct investment business and does not provide investment advice or recommendations.

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Bytes and Pieces

David Watts

Enhanced Portfolio testing with Metastock 8

Metastock 8 has been released and allows systems to be tested across a portfolio of stocks. Also included is a Power Pivot system for the Dow Jones Industrial Index, the full Power Pivot system is also available for purchase. www.equis.com

User Reports Metastock

Metastock users have reported problems with the use of the various Equis additional studies. The tell tale sign is a message "Data Array too Small". In order for many of these studies to work effectively they need a minimum amount of data loaded to run the arrays. When using the explorer try changing the number of records loaded to 500 or 1000 and re-run your exploration. The same no doubt relates to displaying studies on a chart and the default number of records can be changed under the "Chart-Format" options. (Source Paritech)

A Worldwide Bargain

Worldwide equity data for a one-off fee is available from Databull. The program allows the download of historic and daily updates for most worldwide exchanges. Formats include ASCII and Metastock, which should suit most programs. This data is derived from secondary sources such as Yahoo, which should be accurate enough for most exchanges, and is complied from a script list. See www.databull.com for a demo.

Just can't make a decision?

Stock-Trade-Pro is a newly released software program, from a professional independent programmer. It uses a decision tree approach to the selection of stocks on the basis of pattern matching with a simple risk grading to guide you into and out of any trade. For only $80 it offers an expert system rarely available at this price. Worth investigating, see www.stocktradepro.com

MT Predictor Real Time Released

MT Predictor has released a new Real Time version with a link to Esignal for the real time data. The new version now has a real -time scanning capability, which will enable those otherwise missed, real- time trades to be found and identified. Consideration is being given to interfacing MT Predictor to the Quote.com Internet data feed as a further development. For details see www.MTPredictor.com

Search and Destroy

Trojans, Spy-Wear and numerous nasty bugs can be picked up while surfing the Internet. "SpyBot Search and Destroy" is an effective remedy for the cost of a small donation. The program locates and destroys all those nasty Trojans and Spy-Wear programs so loved by numerous web sites for tracking your interest in their products. Simple and effective to use, its one of the best of its type. See http://spybot.eon.net.au/

ANY QUERIES

For any queries about joining the Society, attending one of the STA courses on technical analysis or taking the diploma examination, please contact:

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Software Review

David Watts

MT Predictor

Market prediction is a specialist art that few ever achieve with consistency. So it was interesting to review a new market entrant – "MT Predictor", the new time and price program from Stephen Griffiths. Stephen, a trader of long standing, is one of the few who "walk their talk" and trade for a living, using a time and price based methodology. So coming from a successful UK trader, my expectations for this program were high, and beyond that provided by the standard TA toolkit.

MT predictor is a PC based application that runs within Windows and I had no problems at all in installing then running this program under Windows 2000. The program's format is pretty much the standard for a Windows programs today, with drop down menus, mouse control and then some specific icons to guide you to the unique tools.

The real meat of this program is its ability to carry out Stephen's unique time and price analysis. This obviously owes a great deal to Elliott wave analysis, but here Elliott is made into a tradable science. Effectively the program will provide you with objective Elliott Wave counts – but only when the program is able to objectively detect them. If there is not a tradable Elliott set-up, it simply states no wave count has been found. Then there is the tradable set-up, via price and time zone targets that alert you to potential entry points. It is pretty obvious that the price and time analysis is Stephen's own research, fully implemented and integrated into this program. It is in this analysis that this program excels, consisting of tradable wave type set-ups such as ABC waves and type 1 and 2 wave points. Technicians looking for inspiration every morning could well supplement his or her analysis with these time and price targets.

The ongoing user group discussions provide an education for the technician or trader, with Stephen's and other users highlighting potential tradable set ups. The ongoing support, together with the newsletters, provides the user with the backup needed to get the most out of this program. This was encouraging, and it was then apparent that this was not just another box for the software shelf.

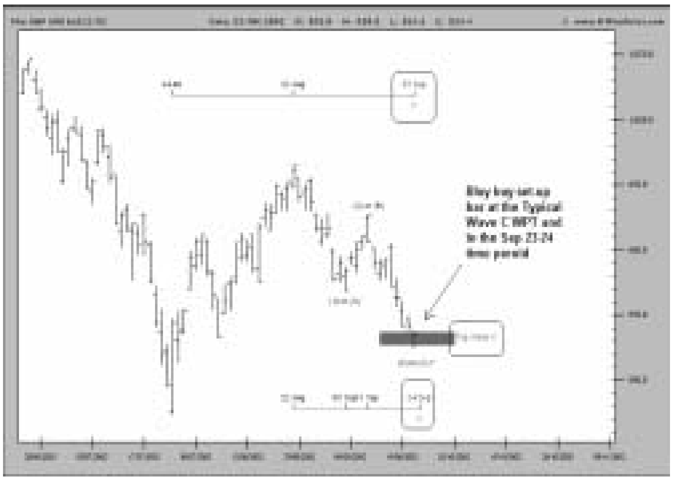
So this program is more than just another time and price program, as a package it's a technical trader support system. That said, it is pretty obvious that this type of trading must suit your style and is not for everyone. Also these specific set-ups do not occur every day and hence present limited opportunities for trading just one market in one time frame. But then again MT Predictor with its built in trade scanner excels at a portfolio approach, scanning multiple markets or securities for potential trades. Hence every morning the user can be presented with potential trade set-ups for further analysis.

The time and price analysis tools include retracements and time projections as well as a host of others, which are performed via the menu and icon tools. Here the waves are confirmed with automatic target zones defined on the screen. The charts appeared clear and uncluttered with the potential trade analysis clearly defined.

MT Predictor offers the user more than just straightforward analysis; it is a proprietary-trading tool giving tradable set-ups. If you want a defined objective trading methodology with ongoing support of the vendor, this is about as good as it gets. Provided Stephen's style of trading can augment or support your own, or you wish to learn a great deal more about time and price analysis, it is worth investing some time with this program. MT Predictor is offered on a 30-day trial and can be downloaded via the web-site with a password entrance for users. This full functional program allows you to become familiar with the tools and the trading style. Did MT predictor meet my high expectations? Yes – indeed with the ongoing user group providing so many potentially winning trades. Further developments in the future promise a virtual real-time version, with far more potential trades defined on real-time charts.

Overall I found MT Predictor to be the "best in its class" for overall value, as you could easily end up paying double, for this type of analysis and ongoing support elsewhere. What really impresses, is to see a vendor offering personal support for his TA software product, without the expensive ongoing monthly subscription. MT Predictor costs $1,495 and should appeal to all in the industry, for further details see the MT Predictor web site: ...http://www.mtpredictor.com

The chart below shows a typical S&P set-up.



Book Review

Harriman House, 2002, £39 (ISBN 1 897 597193)

Marc Rivalland on Swing Trading

This is a fascinating book that you should read. It is a personal account, but at the same time a text, and the unusual style could alienate you. In fact, this is what gives the book character and takes it further than being a treatise. Humour and intellect illuminate the subject matter.

Particularly interesting is the section on modifying swing charts which are clearly illustrated and examined in detail. You may have to work quite hard to get through parts of this section but there is huge benefit in so doing as there is no shirking the reality of false or difficult signals.

A large part of the book is devoted to Point and Figure charts. It starts with sources for those unfamiliar with the subject and develops into a concise review and evaluation. It is followed by a section on tactics and another on integrating point and figure with swing charts. Again, the treatment on difficult and false signals is clear and forthright.

Throughout there are hints about money management, some of which are tantalising because they could be more explicit. As mentioned above, the book is personal and so often money management is part of a trader's development. More on this aspect would have been welcome.

John Cameron FSTA
(Harriman House offer discounts on books to members and associates)

Identifying Bear Market Bottoms and New Bull Markets

By Paul F. Desmond

Ask one hundred investors whether this is a bull market or a bear market, and you are likely to find their opinions split evenly down the middle. But, this uncertainty is nothing new. As long as stock exchanges have existed, analysts and investors have always placed heavy emphasis on the difficult task of identifying the primary trend of the stock market. Everyone's ideal market strategy is, at least in theory, to avoid the ravages of each bear market, and then to move aggressively into stocks after each important market bottom. To further maximize the benefits of a new bull market, time is of the essence. An investor should buy as close to the final low as possible. This is the 'sweet spot' for investors – the first few months of a new bull market in which so many stocks rise so dramatically. But, theory and reality, especially in the stock market, are often entirely different matters. To bring this theoretical investment strategy to reality, an investor would need a time-tested method of identifying major market bottoms – as opposed to minor market bottoms – and would have to apply this method quickly, to capture as much of the bull market as possible. Traditional methods of spotting major turning points in the market often leave a great deal to be desired. The financial news typically remains negative for months after a new bull market has begun. The economic indicators offer little help since, historically, the economy does not begin to improve until about six to nine months after the stock market has already turned up from its low. Even some widely accepted technical indicators, such as 200-day moving averages or long-term trendlines, can sometimes take several months to identify a major turning point in the market. To spot an important market bottom, almost as it is happening, requires a close examination of the forces of supply and demand – the buying and selling that takes place during the decline to the market low, as well as during the subsequent reversal point.

Important market bottoms are preceded by, and result from, important market declines. And, important market declines are, for the most part, a study in the extremes of human emotion. The intensity of their emotions can be statistically measured through their purchases and sales. To clarify, as prices initially begin to weaken, investor psychology slowly shifts from complacency to concern, resulting in increased selling and an acceleration of the decline. As prices drop more quickly, and the news becomes more negative, the psychology shifts from concern to fear. Sooner or later, fear turns to panic, driving prices sharply lower, as investors strive to get out of the market at any price. It is this panic stage that drives prices down to extreme discounts – often well below book values – that is needed to set the stage for the next bull market. Thus, if an investor had a method for identifying and measuring panic selling, at least half the job of spotting major market bottoms would be at hand.

Over the years, a number of market analysts have attempted to define panic selling (often referred to as a selling climax, or capitulation) in terms of extreme activity, such as unusually active volume, a massive number of declining stocks, or a large number of new lows. But, those definitions do not stand up under critical examination, because panic selling must be measured in terms of intensity, rather than just activity. To formulate our definition of panic selling, we reviewed the daily history of both the price changes and the volume of trading for every stock traded on the New York Stock Exchange over a period of 69 years, from 1933 to present. We broke the volume of trading down into two parts – Upside (buyers) Volume and Downside (sellers) Volume. We also compiled the full and fractional dollars of price change for all NYSE-listed stocks that advanced each day (Points Gained), as well as the full and fractional dollars of price change for all NYSE-listed stocks that declined each day (Points Lost). These four daily totals – Upside Volume and Points Gained, Downside Volume and Points Lost – represent the basic components of Demand and Supply, and have been an integral part of the Lowry Analysis since 1938. (Note: an industrious statistician can compile these totals from the NYSE stock tables in each day's Wall Street Journal.)

In reviewing these numbers, we found that almost all periods of significant market decline in the past 69 years have contained at least one, and usually more than one, day of panic selling in which Downside Volume equaled 90.0% or more of the total of Upside Volume plus Downside Volume, and Points Lost equaled 90.0% or more of the total of Points Gained plus Points Lost. For example, April 3, 2001 qualified as a valid 90% Downside Day. To clarify, the following table was shown in Lowry's Daily Market Trend Analysis Report of April 4, 2001:

DAILY	UPSIDE	DOWNSIDE	POINTS	POINTS		
TOTALS	VOLUME	VOLUME	GAINED	LOST	+VOL%	+POINTS%
March 30	964,227,570	508,158,900	1,116	296	65.5	79.0
April 02	383,754,900	1,004,545,180	298	933	27.6	24.2
April 03	146,576,520	1,439,436,850	148	1,447	9.2	9.3

On April 3rd, Downside Volume equaled 90.8% of the sum of Upside plus Downside Volume:
1,439,436,850 / (146,576,520 + 1,439,436,850) x 100 = 90.8%
AND, Points Lost equaled 90.7% of the sum of Points Gained plus Points Lost:
1447 / 148 + 1447) x 100 = 90.7%

The historical record shows that 90% Downside Days do not usually occur as a single incident on the bottom day of an important market decline, but typically occur on a number of occasions throughout a major decline, often spread apart by as much as thirty trading days. For example, there were seven such days during the 1962 decline, six during 1970, fourteen during the 1973-74 bear market, two before the bottom in 1987, seven throughout the 1990 decline, and three before the lows of 1998. These 90% Downside Days are a key part of an eventual market bottom, since they show that prices are being deeply discounted, perhaps far beyond rational valuations, and that the desire to sell is being exhausted.

But, there is a second key ingredient to every major market bottom. It is essential to recognize that days of panic selling cannot, by themselves, produce a market reversal, any more than simply lowering the sale price on a house will suddenly produce an enthusiastic buyer. As the Law of Supply and Demand would emphasize, it takes strong Demand, not just a reduction in Supply, to cause prices to rise substantially. It does not matter how much prices are discounted; if investors are not attracted to buy, even at deeply depressed levels, sellers will eventually be forced to discount prices further still, until Demand is eventually rejuvenated. Thus, our 69-year record shows that declines containing two or more 90% Downside Days usually persist, on a trend basis, until investors eventually come rushing back in to snap up what they perceive to be the bargains of the decade and, in the process, produce a 90% Upside Day (in which Points Gained equal 90.0% or more of the sum of Points Gained plus Points Lost, and on which Upside Volume equals 90.0% or more of the sum of Upside plus Downside Volume). These two events – panic selling (one or more 90% Downside Days) and panic buying (a 90% Upside Day, or on rare occasions, two back-to-back 80% Upside Days) – produce very powerful probabilities that a major trend reversal has begun, and that the market's Sweet Spot is ready to be savoured.

Not all of these combination patterns – 90% Down and 90% Up – have occurred at major market bottoms. But, by observing the occurrence of 90% Days, investors have (1) been able to avoid buying too soon in a rapidly declining market, and (2) been able to identify many major turning points in their very early stages – usually far faster than with other forms of fundamental or technical trend analysis. Before reviewing the historical record, a number of general observations regarding 90% Days might help to clarify some of the finer appraisal points associated with this very valuable reversal indicator:

1. A single, isolated 90% Downside Day does not, by itself, have any long term trend implications, since they often occur at the end of short term corrections. But, because they show that investors are in a mood to panic, even an isolated 90% Downside Day should be viewed as an important warning that more could follow.

2. It usually takes time, and significantly lower prices, for investor psychology to reach the panic stage. Therefore, a 90% Downside Day that occurs quickly after a market high is most commonly associated with a short term market correction, although there are some notable exceptions in the record. This is also true for a single 90% Downside Day (not part of a series) that is triggered by a surprise news announcement.

3. Market declines containing two or more 90% Downside Days often generate a series of additional 90% Downside Days, often spread apart by as much as 30 trading days. Therefore, it should not be assumed that an investor can successfully ride out such a decline without taking defensive measures.

4. Impressive, big-volume "snap-back" rallies lasting from two to seven days commonly follow quickly after 90% Downside Days, and can be very advantageous for nimble traders. But, as a general rule, longer-term investors should not be in a hurry to buy back into a market containing multiple 90% Downside Days, and should probably view snap-back rallies as opportunities to move to a more defensive position.

5. On occasion, back-to-back 80% Upside Days (such as August 1 and August 2, 1996) have occurred instead of a single 90% Upside Day to signal the completion of the major reversal pattern. Back-to-back 80% Upside Days are relatively rare except for these reversals from a major market low.

6. In approximately half the cases in the past 69 years, the 90% Upside Day, or the back-to-back 80% Upside Days, which signaled a major market reversal, occurred within five trading days or less of the market low. There are, however, a few notable exceptions, such as January 2, 1975 or August 2, 1996. As a general rule, the longer it takes for buyers to enthusiastically rush in after the market low, the more investors should look for other confirmatory evidence of a market reversal.

7. Investors should be wary of upside days on which only one component (Upside Volume or Points Gained) reaches the 90.0% or more level, while the other component falls short of the 90% level. Such rallies are often short-lived.

8. Back-to-back 90% Upside Days (such as May 31 and June 1, 1988) are a relatively rare development, and have usually been registered near the beginning of important intermediate and longer term trend rallies.

A detailed Appendix is attached, showing each 90% Day (or back-to-back 80% Upside Days) over the past 40 years, since January 1, 1960. But, several examples may make it easier to visualize the concepts presented here. The charts to follow show the Dow Jones Industrial Average in the months before and after a number of major market bottoms. An oscillator of the intensity of each day's trading, in terms of both Price and Volume, is also shown on each chart (for simplicity's sake, the Price and Volume percentages have been combined into a single indicator). The 90% Days, both Downside and Upside, are highlighted with an arrow. The back-to-back 80% Upside Days are highlighted with a dot.

Chart 1

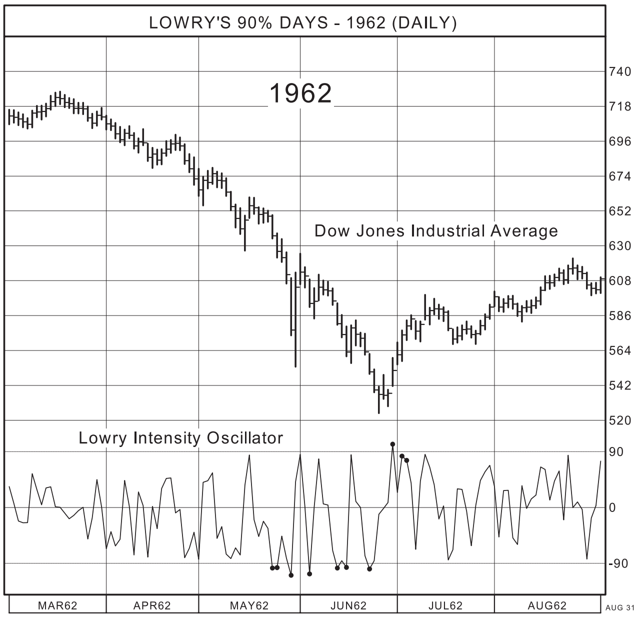
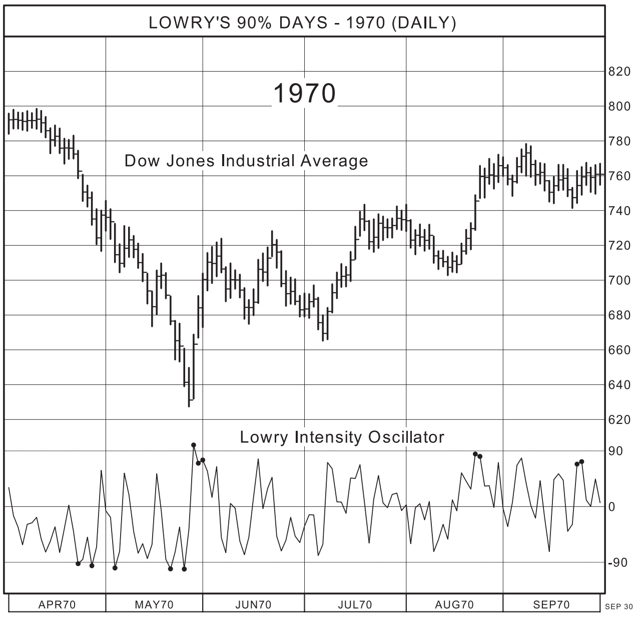


Chart 1 shows that during 1962, seven 90% Downside Days were recorded during May and June, the last one occurring two days before the final low. The 90% Upside Day was recorded on June 28, just three days after the low in the Dow Jones Industrial Average.

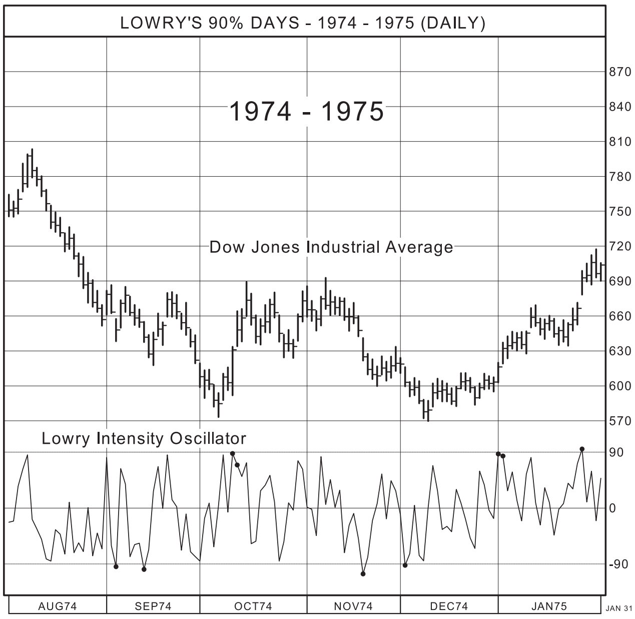
Chart 2 shows that five 90% Downside Days were recorded during the final months of the 1969-1970 bear market, the last one occurring one day before the low. The 90% Upside Day occurred on May 27, one day after the market low.

Chart 2



Looking at Chart 3 it can be seen that the final months of the 1973-1974 bear market contained four 90% Downside Days (a total of 14 occurred throughout 1973 and 1974), the last occurring on December 2, four days before the final low in the Dow Jones Industrial Average. Back to back 80% Upside Days occurred on December 31, 1994 and January 2, 1995 – an unusually long sixteen days after the 1974 market low. Another 90% Upside Day, a superfluous confirmation of the new bull market, occurred on January 27, 1975, thirty-three days after the bottom day.

Chart 3



Three 90% Downside Days were recorded during the final months of the 1980 decline as shown in Chart 4. The 90% Upside Day occurred on March 28, one day after the market low. Another superfluous 90% Upside Day occurred on April 22, after a successful test of the lows.

Chart 4

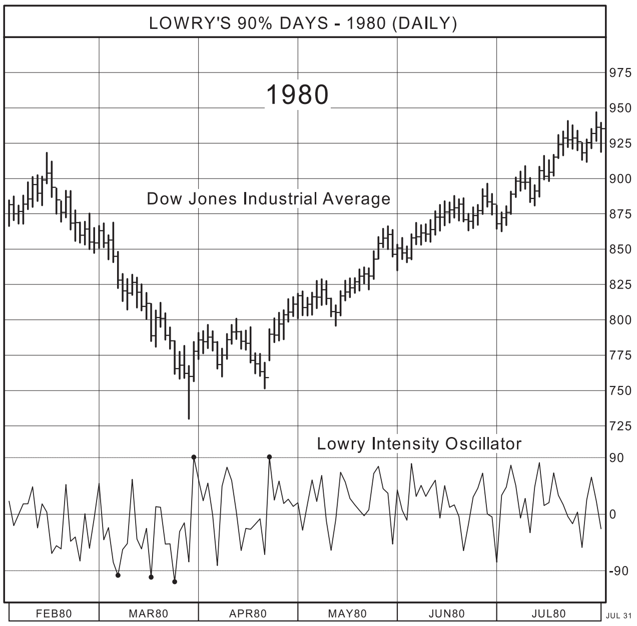
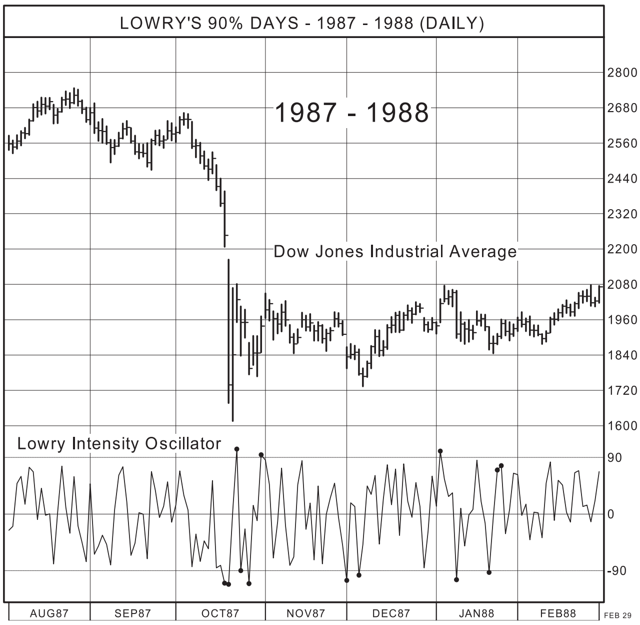


Chart 5 shows that in 1987, 90% Downside Days occurred on October 16 and on "Black Monday", October 19. The 90% Upside Day occurred two days later, on October 21. Then, like aftershocks following a major earthquake, two more 90% Downside Days occurred on the first successful test of the lows in late October, followed by a 90% Upside Day on October 29. The aftershocks continued in December and January, each followed by an equivalent 90% Upside reversal.

Chart 5

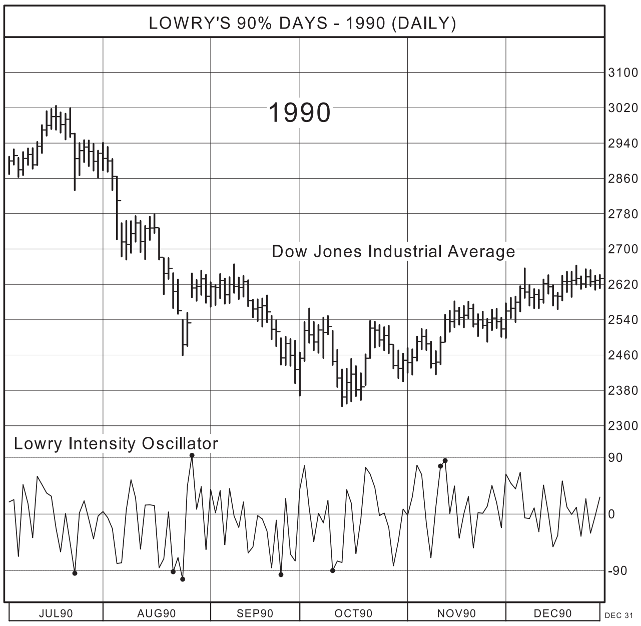


Three 90% Downside Days were recorded during July and August 1990 (Chart 6). As a demonstration that the record is not perfect, a 90% Upside Day was recorded on August 27. The Dow Jones Industrial Average moved sideways for two weeks before dropping to new lows.

Two more 90% Downside Days were recorded during September and October before back-to-back 80% Upside Days were recorded on Friday, November 9 and Monday, November 12 – twenty days after the market low.

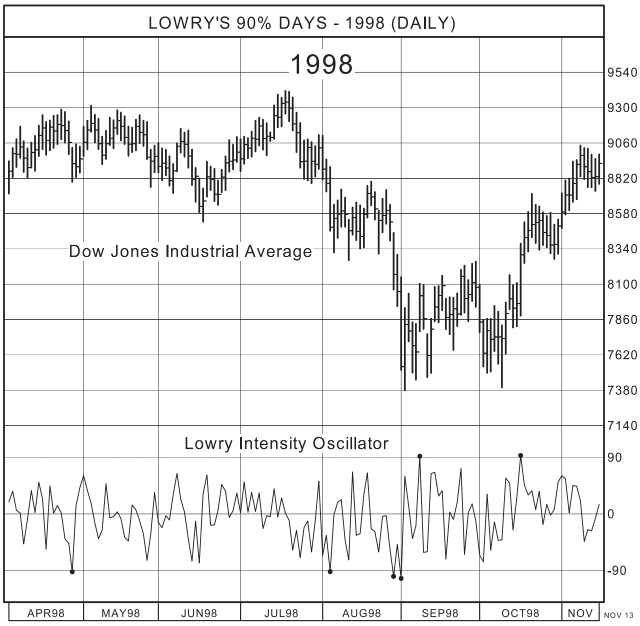
During 1998, three 90% Downside Days were registered during August

Chart 6



(Chart 7). The 90% Upside Day occurred just five trading days after the market low, on September 8. Another, superfluous 90% Upside Day was registered on October 15, five days after a successful test of the September lows.

Chart 7



This review of 90% Days would not be complete without bringing the record up-to-date. And, the recent history may hold a particularly important message for investors: There was only one 90% Downside Day recorded during 1999 or 2000. However, the sharp drop in the Dow Jones Industrial Average during the early months of 2001 generated two 90% Downside Days, on March 12 and April 3. But, during the ensuing rally, investor buying enthusiasm was not dynamic enough to generate a 90% Upside Day, leaving the impression that the final lows had not been seen. After just six weeks of rally to the May, 2001 rally peak, the market began to weaken again, eventually plunging to a three-year low in the midst of the September, 2001 tragedy. But, as strange as it may seem, the selling during that decline never reached the panic proportions found near almost all major market bottoms in the past 69 years. Not even a single 90% Downside Day was recorded from May through September. Thus, the probabilities drawn from past experience suggested that stock prices had not been discounted enough to attract a broad sustained buying interest. In short, the final market bottom had not been seen in September 2001. And, the highly selective rally that ensued from the September 2001 low through early January 2002 was, once again, not strong enough to produce a 90% Upside Day, thus adding to the evidence that the final low for the Dow Jones Industrial Average has not yet been reached, and that a period of investor panic, generating a series of 90% Downside Days, may still be ahead.

It is important to recognize that the pattern of 90% Days is not a new, untried, backrecord discovery. The original research was conducted by the Lowry staff twenty-seven years ago, in early 1975. The findings were first reported to the investment community in 1982 at a Market Technicians Association Conference. Since that time, the history of 90% Days has been recorded day by day, and has proven repeatedly to be a very valuable tool in identifying the extremes of human psychology that occur near major market bottoms. Obviously, no prudent investment program should be based solely on a single indicator. Other measurements of price, volume, breadth, and momentum are needed to monitor the strength of buying versus selling on a continuous daily basis. But, we believe the 90% indicator, as outlined above, will be an enduring, important part of stock market analysis, since it, like the other facets of the Lowry Analysis, is derived directly from the Law of Supply and Demand – the foundation of all macro-economic analysis.

Update

This article was first published in Barron's Magazine in May, 2002, after receiving the Charles H. Dow Award for 2002. But, the article was not meant to be topical. It was actually written as a report card on a study that had begun almost thirty years earlier. And, hopefully, the study will be continued by Technical Analysts for decades into the future.

More than a year has passed since the article was written. Since it ended in the midst of a bear market, with the last entry in the data tables (below) on April 3, 2001, the continuing plot needs to be revealed. An updated data table is provided at the end of the Appendix, but a brief summary of recent events may be helpful:

It is interesting to note that during the decline to the July, 2002 low, there were no 90% Downside Days to suggest that investors had panicked. Accordingly, the probabilities suggested that the bear market was still in force.

A 90% Downside Day was recorded on September 3, 2002, but no further signs of panic were recorded as the market declined to its October, 2002 low. The lack of panic selling near the low, and the lack of a 90% Upside Day soon after the low, suggested once again that it was too soon for anything other than a trading rally.

As the bear market resumed in early January, 2003, a day of intense selling was recorded on January 27th, 2003. Our end-of-day calculations (described in the article) showed that Points Lost equaled 91.0% of the sum of Points Gained plus Points Lost, but Downside Volume equaled 89.6% of the sum of Upside plus Downside Volume, thus falling nominally short of an "official" 90% Downside Day. But, certainly this day of intense selling could not be totally discounted because of a difference of four-tenths of one percent. We told our subscribers at the time that there was an easy way to determine the significance of the January 27th panic: If that day of intense selling marked the start of a series of 90% Downside Days, then, based on past experience, the next 90% Downside Day should be registered within approximately thirty trading days. Twenty nine trading days later, on March 10, 2003, an undisputed 90% Downside Day was recorded. Of equal importance, a 90% Upside Day occurred on March 17, 2003, just four trading days after the low, fulfilling the requirements of a major trend reversal. Ideally, more 90% Down Days should have been registered during the January to March decline, but few market bottoms are ideal. Whether our March 17th buy-signal marked the start of a new bull market or a substantial rally within a secular bear market will only be revealed in time. But, the current rally has already qualified as far more significant than any of the bear market rallies of the past three years, and an excellent profit opportunity for investors.

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APPENDIX

90 DN	90 UP	DJIA	COMMENTS
03-03-60		612.05	Isolated. 3 days before short term low.
	07-29-60	616.73	Isolated. Start of 3 week rally.
09-19-60		586.76	
10-24-60		571.93	1 day before the 1960 low.
	11-10-60	612.01	11 days after the 1960 low.
04-24-61		672.66	Isolated. Bottom day of short term correction.
05-22-62		636.34	
05-23-62		626.52	
05-28-62		576.93	
06-04-62		593.68	
06-12-62		580.94	
06-14-62		563.00	
06-21-62		550.49	2 days before the 1962 low.
	06-28-62	551.35	3 days after the 1962 low.
09-21-62		591.78	Cuban Missile Crisis.
09-24-62		582.91	
10-19-62		573.29	3 days before the October low.
	10-29-62	579.35	3 days after the October low.
	11-12-62	624.41	Superfluous confirmation.
12-10-62		645.08	Near bottom of short term correction.
	01-03-63	657.42	Important rally followed.
11-22-63		711.49	Kennedy Assassination
	11-26-63	743.52	Johnson Inauguration
	11-29-63	750.52	Successive 90% upside day. Confirmation.
06-14-65		868.71	
06-24-65		857.76	
06-28-65		840.59	1 day before the 1965 low.
	06-30-65	868.03	1 day after the 1965 low.
05-05-66	899.77		
	05-18-66	878.50	
07-25-66		852.83	
08-01-66		835.18	
08-26-66		780.56	
08-29-66		767.03	
	09-12-66	790.59	Premature.
09-21-66		793.59	
10-03-66		757.96	4 days before the 1966 low.
	10-12-66	778.17	2 days after the 1966 low.
05-31-67		852.46	Mid-East War.
06-05-67		847.77	Bottom day of war decline.
	06-06-67	862.71	1 day after the bottom.
02-08-68		850.32	
03-14-68		830.91	6 days before the 1968 low.
	04-08-68	884.42	11 days after the 1968 low.
07-28-69		806.23	Isolated. 2 month rally followed.
	03-25-70	790.13	Isolated. Blow-off top.
04-22-70		762.61	
04-27-70		735.15	
05-04-70		714.56	
05-20-70		676.55	
05-25-70		641.36	1 day before the 1970 low.
	05-27-70	663.20	1 day after the 1970 low.
	11-30-70	794.09	Isolated. Important rally followed.
05-17-71		921.30	
06-18-71		889.16	
08-03-71		850.03	
	08-16-71	888.95	Nixon Price Controls.
	11-26-71	816.59	No prior 90% Down Day.
	11-29-71	829.73	Back-to-back 90% Upside Days.
05-09-72		925.12	Isolated. Short term low.
05-14-73		909.69	Isolated.
11-19-73		862.66	
11-26-73		824.95	
12-12-73		810.73	
	01-03-74	880.69	Bad signal. (See next series)
01-09-74		834.79	
03-28-74		854.35	

90 DN	90 UP	DJIA	COMMENTS
04-23-74		846.06	
05-17-74		818.84	
07-08-74		770.57	
09-04-74		647.92	
09-12-74		641.74	
11-18-74		624.92	
12-02-74		603.02	
	01-02-75	632.04	Back-to-back 80% Upside Days on 12/31/74 & 1/2/75
	01-27-75	692.66	33 days after 1974 low. Start of bull market.
02-25-75		719.18	Isolated. Short term low.
03-24-75		743.43	Isolated. Short term low.
08-20-75		793.26	
	08-28-75	829.47	Within 2% of October 1975 low.
	09-19-75	829.79	
	10-03-75	813.21	1 day after the 1975 low.
12-02-75		843.20	
12-03-75		825.49	
	01-05-76	877.83	Important rally followed.
05-24-76		971.53	Isolated. 3 days before short term low.
07-27-77		888.43	
10-12-77		823.98	
	11-10-77	832.55	Premature. Blow-off top.
12-06-77		806.91	
	04-14-78	795.13	Back to back 80% Upside days on 4/13 & 4/14. Start of 1978 rally.
	08-02-78	883.49	Isolated. Near blow-off top.
10-16-78		875.17	
10-17-78		866.34	
10-20-78		838.10	
10-26-78		821.12	
10-27-78		806.05	1 day before the bottom.
	11-01-78	827.79	1 day after the bottom.
12-18-78		787.51	Test of November 1978 low.
	01-03-79	817.39	Confirmed 11/1/78 signal.
02-27-79		807.00	Isolated. Short term low.
	03-08-79	844.85	Back to back 80% Upside days
on 3/7 & 3/8.			
05-07-79		833.42	Isolated.
10-09-79		857.59	
10-19-79		814.68	
	11-26-79	828.75	2 month rally followed.
03-06-80		828.07	
03-17-80		788.65	
03-24-80		765.44	3 days before the 1980 low.
	03-28-80	777.65	1 day after the 1980 low.
	04-22-80	789.85	Superfluous confirmation.
09-26-80		940.10	
09-29-80		921.93	
	11-12-80	964.93	Back to back 80% Upside Days on 11/11 & 11/12. Blow-off top.
12-08-80		933.70	
01-07-81		980.89	
02-02-81		932.25	
05-04-81		979.11	
08-24-81		900.11	
09-25-81		824.01	
01-11-82		850.46	
	01-28-82	864.25	Premature.
02-08-82		833.43	
	03-22-82	819.54	2 month rally followed.
	08-17-82	831.24	No prior 90% Down Days.
	08-20-82	869.29	9 days after the 1982 low.
	10-06-82	944.26	Superfluous confirmation.
10-25-82		995.13	Isolated. One day from short term low.
	11-03-82	1065.49	Prelude to 1983 rally.
01-24-83		1030.17	Isolated. Bottom day of short term correction.
	07-20-83	1227.86	Isolated. Blow-off top.
	08-02-84	1166.08	No prior 90% Down Days. 5 days after 1984 low.
	08-03-84	1202.08	Back-to-back 90% Upside Days.

90 DN	90 UP	DJIA	COMMENTS
	12-18-84	1211.57	Isolated. Start of major uptrend.
06-09-86		1840.15	
07-07-86		1839.00	
09-11-86		1792.89	
11-18-86		1817.21	
	01-02-87	1927.31	Late. Start of 1987 rally.
	01-05-87	1971.32	Back-to-back 90% Upside Days.
10-16-87		2246.74	
10-19-87		1738.41	"Black Monday"
	10-21-87	2027.85	2 days after 1987 low.
10-22-87		1950.43	
10-26-87		1793.93	First test of 1987 low.
	10-29-87	1938.33	
11-30-87		1833.55	
12-03-87		1776.53	Second test of 1987 low.
	01-04-88	2015.25	
01-08-88		1911.31	
01-20-88		1879.14	
	01-25-88	1946.45	Back to back 80% Upside days on 1/22 & 1/23. One day after 1988 low.
04-14-88		2005.64	
05-11-88		1965.85	
	05-31-88	2031.12	
	06-01-88	2064.01	Back-to-back 90% Upside Days.
	06-08-88	2102.95	Superfluous confirmation.
08-10-88		2034.14	Isolated. Near short term low.
	09-02-88	2054.59	Important rally followed.
10-13-89		2569.26	
01-12-90		2689.21	
01-22-90		2600.45	
	05-11-90	2801.58	Unusually late. Start of 2 month rally.
07-23-90		2904.70	
08-21-90		2603.96	
08-23-90		2483.42	
	08-27-90	2611.63	Premature.
09-24-90		2452.97	
10-09-90		2445.54	
	11-12-90	2540.35	Back to back 80% Upside days on 11/11 &11/12
	02-11-91	2902.23	Superfluous confirmation.
08-19-91		2898.03	Russian coup attempt.
	08-21-91	3001.79	
11-15-91		2943.20	
11-19-91		2931.57	Near short term low.
02-16-93		3309.49	Isolated. Short term low.
02-04-94		3871.42	
03-29-94		3699.02	
	04-05-94	3675.41	One day after 1994 low.
03-08-96		5470.45	Isolated. Short term low.
07-05-96		5588.14	
07-15-96		5349.51	
	08-02-96	5679.83	Back to back 80% Upside days on 8/1 & 8/2. Important rally followed
04-11-97		6391.69	Isolated. Short term low.
10-27-97		7161.15	Bottom day of 3 month
decline.			
01-09-98		7580.42	Isolated. Short term low.
04-27-98		8917.64	
08-04-98		8487.31	
08-27-98		8165.99	
08-31-98		7539.07	
	09-08-98	8020.78	5 days after the 1998 low in DJIA
	10-15-98	8299.36	5 days after the Oct. test of the lows.
	03-16-00	10630.60	Isolated.
04-14-00		10305.77	
03-12-01		10208.25	
04-03-01		9485.71	

A Reformation for Technical Analysis

By Beverley Antrobus

After more than half a century trading the financial and commodity markets, I have developed a number of theses. I believe there is a very different paradigm of economic and market development to the 'steady state' concept of economic growth espoused by Elliott and optimistic technical analysts. Lord Overstone, a nineteenth century banker, said that the economic sequence was "Quiescence, Improvement, Confidence, Prosperity, Excitement, Overtrading, Convulsion, Pressure, Stagnation, ending again in Quiescence". This implies that the market sequence is always a bull phenomenon.

My thesis is that the profit (with no pyramiding) made in such a long term move cannot be increased by active trading. Such activity sharply increases risk because profit or loss is virtually random at the short term level. If long and short mini-signals are taken in such a bull market the shorts are fighting against a much more important trend, so why should they be net profitable? Such short term trading can be successful but only very rarely and in those 5% or 10% crucial periods of a particular market's life when it is in a big bull, or in an early ex-bull market phase. But that is an art requiring superlative skill and balance. Dr. Johnson's acid comment "like a dog walking on his hind legs, it is not done well but you are surprised to find it done at all" seems appropriate. Later I will show how account equity is "cut to pieces" in the top area, between up and down.

Technical analysis was sold a lemon in the middle of the last century: computer testing of historic data is showing it to be a bitter fruit indeed. That "lemon" is the concept or belief that all price patterns in markets are similar, irrespective of price and time scale (vertical and horizontal, respectively) or the nature of the market – stock, commodity, index future, bond or currency.

Elliott, Mandelbrot and the early Gann, perhaps because they were all Americans and so optimists, believed in steady capitalist growth (3 up, 2 down, etc.) and that all smaller chart patterns would be fractal versions of bigger patterns, so can be profitably traded. Fractals for markets are a myth. W.D. Gann learned this lesson. In his 1942 book (after 40 years of experience) he wrote: "I have gone through the mills. I have had every ticker in my office for years. I have thought I could not get along without them, and lost plenty of money by having them in the office and getting it wrong because the ticker showed some minor trend and threw me off the main trend which I had figured. I made a greater success when I took all of the tickers out of my office and have not had a ticker in my office for the past ten years."

Cause of long market cycles

Economic growth occurs in very long cycles of capital over-investment, such as the one that has recently ended. This cycle is the 8-13 year Juglar Cycle. I have witnessed Juglar Cycle peaks in 1951, 1964, 1973, 1978-1981 (gold peak), 1989 and 2000. This last Juglar peak is the only one that failed to end with a general commodity boom (with the exception of the oil price). The Krondatieff Cycle is the cause. It is very negative until 2005 for commodities. Is it also negative for less purely "commodity" industries? Markets were in flame-out mode before the September 11th disaster. Over-investment in telecom bandwidth, steel-making plants, auto assembly plants, aeroplanes, fancy restaurants and luxury beach resorts was chronic. Is that the "sound economy" as trumpeted by political leaders? What (young) economists (who have never lived through a real recession) do not seem to realise is that a significant part of total demand in the later years of a Juglar cycle (over 2% on average in the USA) is the making of the above excess production capacity. Once the excess is exposed, how can corporations be persuaded to continue the error?

Growth periods may even pass a particular nation by for decades or generations, e.g. France under the Third Republic. Globalisation may have resulted in no country now being by-passed in the growth table, or it may have created unforeseen problems such as the September 11th disaster. Maybe this is what will propel Tobin's (US stock price to book value) ratio from its recent extreme high to the lows of 1940 and 1974. Maybe in technical analysis the only thing that really matters is this century-long oscillation: high 1905, low 1920, high 1929, low 1940, high 1958, low 1974, high 2000, low….?

Who to follow?

'Everyone' in technical analysis knows the names and methods of self-publicising failures. Jesse Livermore went bankrupt and blew his brains out. Gann and Elliott left only modest estates. Mandelbrot, the inventor of scientific fractals (which I do not believe exist in markets) could not make a profit in his futures trading. Nobody in technical analysis seems to know the names and methods of the real winners: Darvas, Baruch and President Kennedy's father. One thing the winners had in common was a very long perspective, plus a desire to take very long vacations, well away from markets. And they were never "salary men".

The mentor for modern technical analysis should be the secretive Alfred Winslow Jones who invented the long and short hedge fund and died extremely wealthy. He had a remarkable career. He graduated from Harvard and then spent ten years seeing the world as a purser on liners. Next he earned a doctorate in sociology at Columbia but, bored by academia, he became The US Consul in Berlin during the Nazi era. Bored again, he became a war reporter covering the Spanish civil war. Next he became an associate editor at Fortune magazine. Armed with this experience, in 1948 he started the first long/short hedge fund. He only took his percentage of profit out when it was "closed", and this had to run the office and pay for all research. His existence and success were revealed by Fortune twenty years later, in 1968, which caused a flurry of imitators.

Why does nobody in technical analysis want to follow Alfred Jones? Unlike Gann, Elliott and innumerable other technical analysts, his methods do not promise *immediate profits* from the current little move. Why this concentration on the short term? Blame the fractal error of believing patterns to be "self similar".

Another technical analysis 'doctrinal error' is a belief that all charts can be interpreted all of the time: then technical analysis may become a separate, and paid, profession – instead of a truly powerful adjunct to what investors like the crabby Banker Overstones do in the real economy.

Only two technical market judgements may ever be made. One, when an Overstone bull market is declared to be in existence with the right level of testosterone. ("Testosterone" is a private indicator of quality of strength.) Two, when it is declared to be dead.

The 'buy' signal is surprisingly easy to find. Crude oil at $13 and rising had the highest "testosterone" level seen in such a major market in years. (At $39 a barrel in 2003 the 'testosterone' level was much lower.) The general stock market can also 'ring a bell' when it begins an Overstone move. Twice during the first Gulf War (1990-1991) the NYSE surged ahead with record volume and ups vs. downs of 11:1 and 9:1. I took note of this pattern of 8:1 or higher, accompanied by frenzied volume, which only occurs on the NYSE a few times in a decade. It is the sure sign of a new, or a refreshed, Overstone bull market.

The IFTA Conference was held in Montebello, Quebec between these two events. Almost everyone was bearish. In the final bull/bear vote I positioned myself as the most bullish. But now with a half lost in most markets and the central banks pouring out liquidity, a powerful rally could occur. Nevertheless, the highs should stand for 10 to 20 years, as they did after 1961 and 1966.

The death certificate of a great bull market is always a little harder to write than its birth certificate. Failure to get up and go and make new energetic highs is enough for me. Thereafter, dead is dead: no Gann retracement levels, no Fibonacci support levels, no 'cheap', nothing! Simply go on vacation until the next great bull market comes along. And remember, almost all corporations eventually die.

Oscillation rules – with the square root laws

In active markets price oscillates in many different (and superimposed) swing sizes and time periods. One can computer filter a price stream by either swing range size, or by time bar size. If one tests on TradeStation a fixed rules trend – following a trading system which, when run with a large bar or swing parameter, finds a single big bull move – then dividing the bar size or swing filter by 10 with a mouse click will increase the number of trades reported, on average, to 100 (!) not to 10 – it is 10 squared. The result is always an awful shock! The net total of profit is always less than the single profit seen in the big bull move. The ratios that show with what risk these profits were made always show a severe decline. People believe there "must be" a coherent ordered structure to the smaller swings, similar to that in the single big bull move – an error.

When the trend-finding parameter is divided by 10 there will be (approximately) 50 bull swings or patterns and 50 bear swings or patterns, each of which is (on average) the square root of 100=one tenth of the big bull swing. The little bull swings have to share the big bull and so will on average advance slightly more than 2% of the big bull swing, while the 50 bear swings will average a decline slightly smaller.

My search goes back to 1971, when a bookmaker's licence was acquired to start spread betting in LME copper. I needed to know the trend risk that had to be hedged. Eleven thousand punched cards of different copper prices for six months were sent to Professor Granger at Nottingham University. This was the first such trade-by-trade database ever made on a commodity. It was filtered into swings between £1 and £50. The answer from Granger was, "No trend", but later his assistant told me that there was a little trend, at swings of £3 and £30. Granger went on to write learned books saying that the markets were essentially random, but sometimes they oscillated inside reflecting barriers. I wasted thirty years looking for that small amount of trend. The answer is a subtle combination of both views. Market price moves to find a new barrier at every level of oscillation.

Once a powerful big bull move is found, for the short term, the probability assumption must be that it is still bullish until proved otherwise. So the long term trader stays long. But the short term trader is presented with the much higher probability that every small price movement against him is from a reflecting barrier. He does not know. And he cannot know because there is no magic formula that can help him to find where new reflecting barriers will appear, for any size of oscillation. That also includes the big bull move. Gann, Elliott and Fibonacci analysis promise to give these price levels *in advance*. From experience I reject that possibility – totally.

The speaker at the STA meeting in May 2000 offered that sort of analysis for Nasdaq stocks. All the support levels mentioned are broken. The psychology of the acceptors of such words is always the same. It is hard to rat and run away. I will accept that on the way up little systems might get ahead of the big system. But account equity is always "chopped to pieces" once the peak big bull price is passed. It is essential to learn that individual stocks, like parrots, die. And prices, like mobs, can be completely insane.

No 'efficient' market

Here is another 'doctrinal error'. We in technical analysis have assimilated something from our great enemy, the efficient market theorists, who have to believe that a price must relate to a real value, however ridiculously high that price is, because the market is 'efficient'. When 'is' becomes 'was', when the absolutely highest ridiculous price in the bull market has been traded, analysis referencing back to that peak price is equally ridiculous. This phase is "The right hand side of the hill". The big system has not yet given the final sell signal. Small swings are now far greater than 10% of the whole bull move. They tend to be up to 20%, as recently seen in the markets. Catastrophe results for short term traders. It is also a rough period for long term traders. The only advice at such times is to go away on a term's sabbatical vacation.

A trading strategy

To trade the big bull moves start with at least 7% for the initial margin in futures; much more in a stock. Better still, buy a put with a strike 4 percent below your long entry price. The frequency and the size of the short term oscillation also determines the price of option premium, as calculated by the standard computer models that premium sellers use. Actually, they use market close to close and call that 'volatility'. I prefer the word and concept 'oscillation' because it implies the rapid high to low action which is touching off foolish stop – loss orders that traders love to use.

The risk of these stops being taken out is greater than the cost of premium because these models price to the end of the option's time period, use closing data and ignore intraday extremes in between… which take out the stops. With these relative probabilities and costs it is possible to use options alone for trading the big move. But it is preferable not to use options only. The active side should be market positions. Premium is used as a passive defence. Never buy a call and then 'hope'. That route develops the wrong attitude. Also, a call at first only moves 0.50 to 1.0 (delta) of any movement. On the way up, sharp advances make profit in the long open position at a 1 to 1 ratio. Use all of this open profit to buy puts at strikes below the current price that is trading. On sharp price reactions – which the probabilities say will almost certainly occur, to shake people out via their silly stops – buy when these puts become 'at the market'. At such times you will sometimes find that you are the main bidder in a fast market selling climax.

Note that both buyers and sellers of put or call premiums can have a net profit in any type of major market move (bull, bear, or sideways) in a situation which, from an accounting analysis, is always zero sum. Where does this joint net profit come from? From oscillation! And where does oscillation come from? From whatever caused the Overstone bull market to be born. This is usually new technology and/or a government and central bank policy lurch. The Overstone bull market is fed by new bank credit money, and by the savings of the middle class. Most of this money is eventually irretrievably lost – from the canal and railway manias to the recent TMT mania. That loss is irrelevant. Consumer capitalism advances. Actually, the only proven other long term gainer is the owner (or taxer!) of development land!

If a long term bull market speculator operates in the manner suggested, he and his option-selling counterparty are buying dips and selling on new highs. What they are doing is taking small draw downs of energy from the main Overstone event (the same way the tides slowly absorb the energy in the moon's orbit of the earth). The laws of physics are involved. The angular momentum of the short term oscillations and the main event tend to be similar in my 'testosterone' measurement.

For years on end there may be no great bull markets. Then, like buses, three or four come along together. In a person's business lifetime many will appear, each able to expand that person's money net worth a few times, or even a hundredfold. This profit should be put to work writing naked double options on dead bulls – and buying land.

Unfortunately, most people never experience such a boost to their liquid net worth. The wait at the 'bus stop' can be very lonely and cold. Across the road is the warm, full, noisy instant gratification tavern. Most people go there… and are lost.

Update: This article was written in February of this year and the rally referred to is now occuring.

MEDIA APPEAL?

The STA is continually approached by media organisations who are looking for technical analysts to speak.

If you wish to be added to the database of those willing to be contacted, then please email Katie Abberton at sta@pxltd.demon.co.uk giving your name, experience and areas of expertise in which you would be willing to speak.

Mapping the Markets

This is a summary of a talk given to the Society on 9th July, 2003

By Robin Griffiths, FSTA.

There is a difference between tactics and strategy. They should not be confused. The strategic view is that the bear market bottomed last October in the US and this March in European markets.

The tactical view is that the first surge has hit resistance and become overbought. A pull-back consolidation phase is to follow.

The big picture

The new up cycle is in place. It started on time as predicted by Shumpeter's model. Whether it is called a new bull, or a rally in a bear market depends on the long term or secular trends, of which there are three basic types. If all are positive, a new bull follows, if all are negative then there is a 'dead cat bounce'. There is a third category that is in between. This process divides the world on the charts into the good, the bad, and the ugly.

The growth region

Driven by strong demographics, technology and cheap valuations, there is a new bull market in China, the Pacific region ex Japan, India, and Latin America. New all-time highs are expected. The road map patterns in secular up-trend are correct. Commodity markets will also follow this scenario. The only thing that has to be superimposed manually is SARS.

The US and the rest

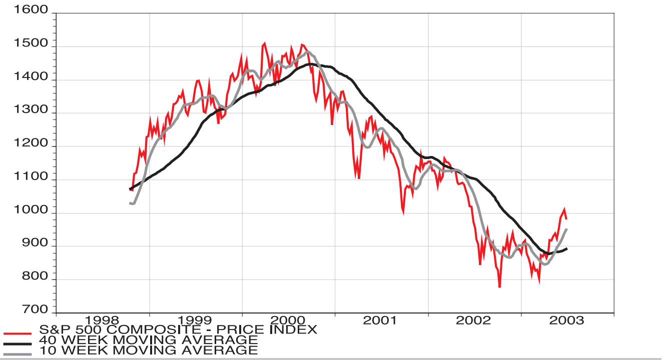
Strong demographics and technology, but a downtrend in equity ratings leads to a bull move lasting until early 2005 for the S&P index. It is the run up to a presidential election plus a honeymoon period before the next reality attack. A retrace of at least a half of the bear, and probably more, is signalled. In Europe and Japan, however, the negative demographics give a secular downtrend. There will be two upsurges, the first of which is almost over; the second should go through to late May next year.

United States

Earlier this summer the US experienced a tropical heat wave and it was too hot not to cool down. The surges in bull markets are like that too. The heat in late June was too hot to handle.The rate of rise was excessive, and a large overbought condition developed, just as resistance levels were hit. A consolidation phase was due. By contrast the down-trend in the dollar was too fast and a rally was due. Both trends became too hot and cooled from around 18-23 June.

The rate of rise in equities since March accelerated very rapidly. Money was coming out of deposit accounts and money market funds and went roughly equally into bond and equity funds. The surge ran too far and too fast. It hit a summer high. The expected shape on our road map is now of a fall, then a rally, followed by the rest of the fall. We had calculated the top of the surge to be near 23 June; we were out by a few days, and we now expect the next low to be in the latter part of October. Within the overall move we expect the rally to stop in late August and the final drop to start in early September, just after Labour day. During this process, the indices should not drop below the 200-day lines, which are themselves rising. Many investors would love the market to fall in this period, just so they can buy well. Unfortunately, the god of the market operates on the basis that he never gives a sucker an even break. The downside risk is therefore not great.

S&P 500: long term



Source: Thomson Financial Datastream

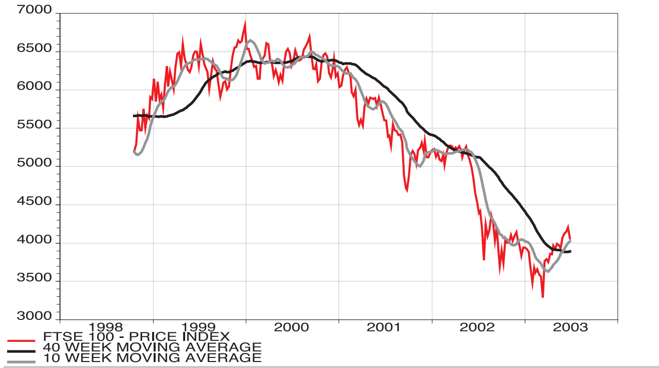
From October onwards, there will be another rise. This should go through to May next year. In some markets that high will be the top, but not for the US. The run-up to the Presidential election will be in full spate and should continue through November and be followed by a honeymoon period into 2005 for whoever wins. As is well-known, there is a reality attack in the first year of office for any new president, or even a re-elected incumbent. The Nasdaq should continue to show relative strength through to the year end, but then top out and it looks as if this will be between 1800-2000.

United Kingdom

The UK is in step with the rest of Europe, and on the same road map, which is one of a secular downtrend. The expected pattern is for two big up surges, separated by one major set-back or consolidation phase. The average duration of the entire pattern is 14 months. It started in March this year and will end in May next year.

The first surge was from the low of 3277 in March. It hit resistance and ran out of momentum on 18 June at 4200 and the pattern of rising lows failed on 23 June. It is just possible that an extra surge to 4500 could occur soon, but if it does, it will take only five trading days to do it. The only resistance levels over 4000 are 4200 and 4500. The pull back that will give rise to the next buying chance should occur in late October. During this pull-back the FTSE should hold above 4000 level. It may then rise to late August followed by a failure of confidence to reach a low in October. There will be some theme rotation during this time and we think that the oil and mining sectors may be the beneficiaries of this in August. As the year-end approaches the market should be trading up again to a final top in May 2004, which might be in the region of 5000. By the end of that year, it will be falling back again. The black sheep of any family is a poor relation. The relative performance for this market is likely to be disappointing.

FTSE 100: long term



Source: Thomson Financial Datastream

Europe ex UK

A prime up-trend has been signalled in the European stock markets by a new golden cross signal. This has been confirmed by an equivalent one for relative strength. After a major surge, markets usually fall back to test the trend line. The surge is bound to hit a level of old resistance and be overbrought or move too far ahead of the sustainable trend to continue without a pause. These moves often fit well with the market's known seasonal deviations. Summer and the silly season have now set in.

The chart shape to expect is that of a bull in secular downtrend. This pattern has two major surges separated by a consolidation. The average duration of the entire move is 14 months. As the process started on 12 March, it is destined to finish by late May next year. The first move has probably just ended. The next surge is due from late October. Meanwhile the correction phase should have the shape of a fall, then a rally, followed by the rest of the fall. The initial set back will be minor, and the rally may make slightly greater highs than have just been achieved. Any tendency to panic, or suffer severe loss of confidence will occur from late August onwards. For many school-goers early September includes catching a cold. Normal life resumes in October.

Not all markets in the region perform together. Some lead and others lag. At the bottom, the first golden crosses were made in the UK, Spain, Italy and Sweden; the laggers – Germany and France – then had a strong surge. Positive crosses are now in place in all markets. We expect stocks like SAP, that move similarly to Nasdaq, to carry on with leadership to the end of this year. After that, those with a lower rating and higher dividend yield may do better. Oil and mining issues may pick up from August onwards.

Pacific ex Japan

There are now golden cross buy signals in place for all markets in this region. The prime trend is upwards and the pattern that of a secular up-trend.

The China Enterprises index has had a ballistic move and is overbought. Some form of consolidation pattern should now follow. This applies to other markets to a lesser degree. Strong demographics drive sustainable growth at a rapid pace and form low valuations. The entire region benefits from this and will rise together following China's lead.

The up-trend in this region will run for many years, during which it will endure several periods when it appears to be over. One such was triggered by SARS. This too will not die easily. For now markets have assumed it has been beaten, and they have surged accordingly. It is probable, however, that in the cooler months the epidemic will return. Historically these viruses have behaved in this way. We must be prepared for a second wave disrupting stock prices.

The long term picture is still super-strong and shows the secular up-trend that means the present cycle will rise until early 2006. In addition, our preference for Thailand and Malaysia seems to have been justified. Our only problem is tactics. There will probably be some consolidation now. Those indices that are the most overbrought, as measured by the deviation above the moving averages, will have the largest pull-backs. In trying to capture this move we do not wish to get out of the markets as the strategic view is still so strong. Most likely a pull-back will give a new buying chance.

Some markets are only just coming to life. Australia has given a buy signal, and will benefit again when the commodity stocks turn up in August. India also looks as though it is going to have a significant up move. A wedge of falling highs, but rising lows has now been resolved positively.

Bonds

At least for the moment, the Treasuries have made a top reversal pattern. It may only be a tactical top and leaves the strategic view unchanged, but it is there for now.

The Fed has said that it is prepared to use unconventional means to stimulate the economy or, at any rate, prevent it from contracting. It has used a conventional method to manipulate expectations in the market place, something it has a lot of experience of doing. On our view of the world economy it seems clear that rates will go lower and stay down longer than most people living have experienced. The Fed has admitted that, although it does not think the risk is huge, it is slightly greater. It is therefore deflation rather than the alternative that needs to be addressed.

In our work, the world breaks into those areas where the demographic position is superstrong, such as China, India and Latin America. Here growth rates will be powerful and a buy and hold policy for equities should prove successful. There is no need for monetary and fiscal stimulus. In the mature parts of the world, where demographics are negative, growth will remain modest and stimulus will be essential. The US, of course, is between these two extremes, although closer to the developed region, but without the negative birth rate. It is clear that the baby boomers may need a bit more help with their mortgages. Some of them are still feeling aggressive and have started trading in equities again but, for the majority, there is nothing more important than home. There is still a tendency for rates to go lower but not yet. There is a top in place for bonds just now.

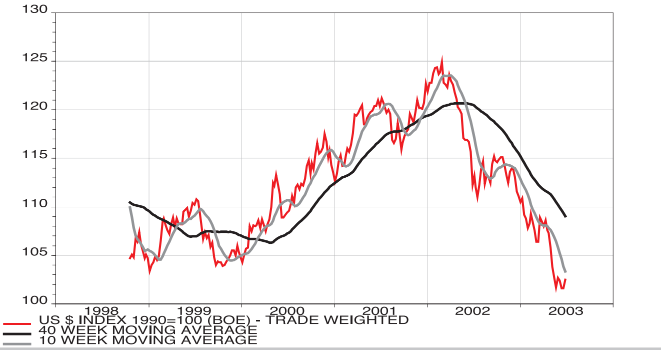
Currencies

A prime down-trend in the dollar does not progress in a straight line, but by a ratchet process. A rally phase is now under way. In the forex markets, they always seems to come a point where a currency seems an obvious one-way, no brain bet. Even though the apparently obvious view is correct in the long term, it becomes a losing trade in the short term. This is another example of the difference between tactics and strategy.

The Japanese are determined to prevent the yen from becoming too strong. They have succeeded again in holding the USD:JPY115 level, despite substantial foreign buying of the Japanese stock market. We still expect the trading range of JPY115-125 to hold. If it does for much longer, the idea that there is a head and shoulders predicting JPY98 will become invalid. It is still debatable, but we think this has already been signalled. A break-out from this sort of trading range is usually significant and, in the long run, we think the break will run up through JPY125. We have an inherent bias to being short yen.

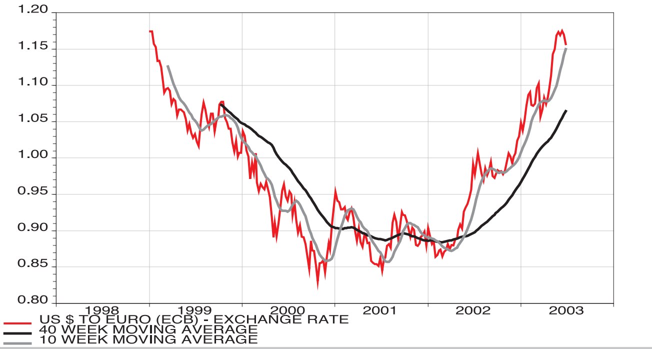
The euro has been in a correction phase and might get down to USD1.13. So far USD1.18 has been the top of the trading range. We have noticed a tendency for the range to widen and, if this happens now, the next swing could find USD1.18 as the mid point, and USD1.20 as the top. On normal form, this consolidation should last another six weeks.

US dollar: trade weighted



Source: Thomson Financial Datastream

US dollar/euro



Source: Thomson Financial Datastream

Commodities

The oil and mining stocks have been the weakest commodities this year. Many are actually rising in price, but are not showing any relative strength. It looks as though there will be theme rotation into them again from about August onwards.

The three macro reasons for liking commodities are as strong as ever. We are in the post-bubble period for financial assets. This leads to a return to real assets for some time. The dollar-down policy drives prices higher and the long-term growth of the Chinese economy must drive commodity prices upwards. However, just now we have a dollar rally, and a probable cooling of the Chinese economy, hence there is a tactical move in the other direction, which should be complete by August.

The chart shape for platinum is similar to that for gold, but inherently stronger. We do not think there is such a big downside. In the long term, it is the only metal that works a fuel cell, and it remains genuinely rare. Its price will probably move up well ahead of fuel cell demand.

Robin Griffiths is a technical analyst with HSBC