

The Swiss Association of Market Technicians

Ron William, *Vice President & 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 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, Americas IFTA (International Federation of Technical Analysts): IFTA educates and certifies analysts worldwide. For eleven 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 their 2013 Lifetime Achievement Award. How did you feel about being nominated for your lifelong outstanding 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: 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 of the consideration and care that went into the creation of 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 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 US 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 in the US 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 home.

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

HP: The key lesson I learned from my losses caused during the bear market of 1974 was that market timing was 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 of the 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 I 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 USA 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 in San Francisco, CA at the IFTA Conference. That video was part of my IFTA Lifetime Achievement Award and [it 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 upon 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 US 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 upon 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, Stocks and Commodities captured the essence of the Wyckoff Method in another interview article, “Why Pattern Recognition is Important.”

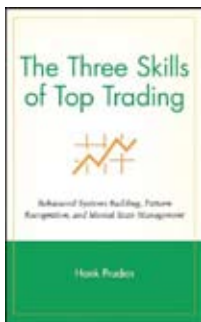
RW: What is the key premise of your trading book “The Three Skills of Top Trading”?

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

“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.”



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



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.

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 certification like the CFTe and MFTA have become necessary tickets for job placement, advancement, and profitable performance. 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 fifty years, my dear wife, Sarah Pruden.

"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."

To view the IFTA honorary video of Dr. Henry Pruden's lifetime achievements, click on screen image below.



For additional information about Henry (Hank) O. Pruden, Ph.D., go to www.hankpruden.com

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