THE SWISS TECHNICAL ANALYSIS JOURNAL

SAMT

Herbst
Autunno
Automne
Autumn
2014

The Swiss Association of Market Technicians

GENÈVE • LUGANO • ZÜRICH

Why are Financial Professionals all over the world switching to Market Analyst?

The world of finance can be ruthless. To stay ahead, a financial professional needs to have the right strategy, discipline and tools that support and grow with them.

At Market Analyst we see the importance of staying true to the techniques of the past, all the while embracing the revelations of the future. Market Analyst blends together cutting edge innovations including 3D charts, RRG™ & Volatility Based Support & Resistance, while also being the premier product for anyone interested in more traditional and esoteric studies.

Financial Professionals all around the world who just want one powerful product that "does it all", are finding that Market Analyst is the solution they were looking for.

Market Analyst exists to give you the edge

No matter who you are and what you do, Market Analyst will give you access to tools and features that will improve your work-flow, and give you a real edge in all that you do. Speak to our trained staff now to discover all that Market Analyst can do for you. With offices all over the world, there is always someone ready to help.

US: +1 800 557 2702 UK: 0800 680 0428 CH: 0800 564 888 mav7.com/samt

THE SWISS TECHNICAL ANALYSIS JOURNAL

VOLUME TWO, ISSUE 2

AUTUMN 2014

CONTENTS

SAMT JOURNAL SUBMISSION GUIDELINES and Advertising Rates 3

FROM THE PRESIDENT'S DESK
Daniel Stillhart 4

LUGANO FUND FORUM & SAMT: A PARTNERSHIP FOR EDUCATION IN TECHNICAL ANALYSIS AND MORE...
Mario Valentino Guffanti, CFTe 6

THE EUROPEAN ECONOMIC CRISIS: CAUSES, EFFECTS, POLICIES AND PROSPECTS
Dominick Salvatore, Ph.D. 7

BOOK REVIEW
Mario Valentino Guffanti, CFTe 10

SOCIAL MOOD IMPELS FEELINGS OF CERTAINTY & UNCERTAINTY
Alan Hall 12

USING THE DOUBLE-HELIX STRUCTURE OF DNA TO INTEGRATE THE WYCKOFF METHOD WITH THE ELLIOTT WAVE PRINCIPLE
Henry O. (Hank) Pruden, PhD 18

A BOTTOM-UP APPROACH BY SECTORS TO SET MARKET EXPOSURE
Alberto Vivanti 24

BULLISH TARGETS FOR THE S&P500 AFTER THE FALL 2014 CORRECTION
Bruno Estier, MSTA, CFTe, MFTA 28

THE SWISS ASSOCIATION OF MARKET TECHNICIANS
CFTe Immersion Preparatory Course 30
Education 31
Lugano Fund Forum 32
IFTA 33
Board of Directors 34
Membership 35
Partner Societies 36

THE SWISS TECHNICAL ANALYSIS JOURNAL

The Swiss Technical Analysis Journal is a quarterly publication established by The Swiss Association of Market Technicians (SAMT). It is compiled by a committee of SAMT colleagues. The Swiss Technical Analysis Journal is essential reading for academics, students and practition

ical analysis in all arenas. It is an excellent reference source for anyone interested in technical analysis, containing a wealth of resource material.

Credibility And Recognition

The Swiss Technical Analysis Journal has original contributions from its members covering developments in technical analysis in global markets. The Journal's aim is to reach leading practitioners and students of technical analysis throughout the world.

The Swiss Technical Analysis Journal is a professional resource. Its online publication on the SAMT website will make its work available as a future resource to the community of technical analysts.

Topics

SAMT is seeking papers that cover developments impacting, either directly or indirectly, on the field of technical analysis; they may be drawn from such areas as:

- Basic market analysis techniques
- Indicators—sentiment, volume analysis, momentum, etc.
- Global and intra-global technical analysis
- Styles of technical analysis
- Data
- The changing role of technical analysis in the investment community.

We would especially like to see contributions that draw from areas not previously examined, and/or topics tangential to technical analysis.

The list is just a guide and should in no way be considered restrictive. We wish to make the Journal open to new and innovative ideas from all areas of technical analysis and those that connect with it.

Submitting Contributions

Submission of contributions to mario@guffanti.net

Language

Contributions must be submitted in English with British grammar required.

Writing Style

Papers should be written in a thesis style.

References

All texts referred to in the paper must be appropriately referenced with a bibliography and endnotes (footnotes will not be accepted.)

Responsibility for the accuracy of references and quotations is the author's. We expect the authors to check thoroughly before submission.

All references are to be included as endnotes. No separate list of references or bibliography should be provided.

Figures, Charts and Tables

Illustrations and charts must be referred to by Figure Number and source (when applicable). Tables must be referred to by Table Number and source.

Length of Contribution

Papers should be approximately 1,200 to 3,000 words, with supporting graphs and charts.

Format

We ask for submission in MS Word or other text format. PDF format will not be accepted. Charts and graphs may be in gif or jpeg, but we ask that authors also keep a tif format in case it is required.

Material deadline for the Spring 2015 issue

28 February 2015

Advertising

The Swiss Technical Analysis Journal is published three times a year and is published in A4 size, in pdf format only. SAMT will accept advertisements in this publication if the advertising does not interfere with its objectives.

The appearance of advertising in SAMT publications is neither a guarantee nor an endorsement by SAMT.

Advertising Policy

Advertising is subject to approval by SAMT. All advertisements must be non-discriminatory and comply with all applicable laws and regulations. SAMT reserves the right to decline, withdraw and/or copy edit at their discretion. Every care is taken to avoid mistakes, but responsibility cannot be accepted for clerical error.

Advertising Rates

	Rate	Size
Inside covers	750 CHF	21.0 x 29.7 cm
Full page	500 CHF	19.3 x 26.9 cm
1/2 page	350 CHF	19.3 x 13.4 cm

Payment

Pre-payment by wire transfer is required for all ads. Bank details will be provided upon request.

Willkommen
Benvenuto
Bienvenue
Welcome

From the President's Desk

Dear SAMT members & industry colleagues,

We are proud that our SAMT Journal has successfully completed its second year. A special thanks to our SAMT Journal team: Ron William, Mario Valentino Guffanti and Barbara Gomperts.

In this issue we are very fortunate to have an article by Italian-born professor Dominck Salvatore, Ph.D. of Fordham University in New York City, USA. Professor Salvatore was a featured speaker at the Lugano Fund Forum, 24-25 November 2014. We have been privileged to have the opportunity to print his new paper on The European Economic Crisis: Causes, Effects, Policies and Prospects. The article is on page 6.

We welcome Alan Hall as a new contributor. Alan is a colleague of Wayne Gorman and Jeffrey Kennedy, authors of The Book Visual Guide To Elliott Wave Trading that is the subject of Mario's book review. The book review begins on page 10 and Alan's article on page 12.

Congratulations to Alberto Vivant and Mario V. Guffanti, VPs SAMT Italian chapter, for their participation in the Lugano Fund Forum where they moderated a panel on the online trading market in Switzerland with three industry professionals. See photos on page 32.

And, also congratulations to our colleagues at the STA for organizing a highly successful IFTA conference in London. The annual event, themed around "Unraveling the DNA of the Market", attracted hundreds of market professionals from around the world. A collage of memorable photos from the event are featured on page 33.

SAMT continues to offer educational support for the CFTe professional designation, which is the gold standard diploma of technical analysis, recognized around the world.

Photograph Inside back cover, vineyards around Chur, taken by Alberto Vivanti, SAMT Italian Chapter Vice President

If you are interested in taking your learning to the next level, then we recommend registering for our upcoming weekend CFTe immersion course which is scheduled for 14-15th of March 2015 for the April exam - see page 30. Complete details and registration link - http://samtjournal.uberflip.com/i/394255. (Everyone who has taken the class, has passed the exam!)

Best wishes,

Daniel

Daniel Stillhart,
President of the Swiss Association of Market Technicians (SAMT)

LUGANO FUND FORUM & SAMT:

A PARTNERSHIP FOR EDUCATION IN TECHNICAL ANALYSIS AND MORE...

Mario Valentino Guffanti, CFTe

INTRODUCTION

The fourth edition of the Lugano Fund Forum will take place on 24-25 November 2014.

This prominent event, focused on Asset Management, Investment Tools (covered warrants, certificates, ETF, structured bonds, unit linked, etc.), and Fundamental Analysis, is held in Italian-speaking Switzerland, the Canton Ticino, at the Palazzo dei Congressi of Lugano. This venue hosts a number of conferences, prominent speakers and an exhibition area. The special guest of 2013 was Nouriel Roubini, this year will be Jean-Claude Trichet, former President of the ECB, chairman of the Group of Thirty (Washington) and honorary governor of Banque de France, along with the extraordinary participation by Dr. Dominick Salvatore.

Jean-Claude Trichet, former President of the European Central Bank, chairman of the Group of Thirty (Washington) and honorary governor of Banque de France.

Dr. Salvatore is Distinguished Professor of Economics and Director of the Ph.D. Program in Economics at Fordham University in New York City, consultant to the United Nations, the World Bank, the International Monetary Fund, the Economic Policy Institute and author of the world's leading textbook on international economics. His Theory and Problems of Microeconomics has been translated into 18 languages, with more than 800,000 copies sold. In all, he has published 54 volumes.

Last year, SAMT participated as a partner at the Lugano Fund Forum producing an article for the Forum's catalogue.

SAMT will assure its partnership also in this 2014 edition, with a presentation on: Online Trading in Switzerland.

Our representative members, Mario Valentino Guffanti and Alberto Vivanti will interact with Vittorio Cornaro (Executive Vice President at CornèrTrader), Carlo Alberto De Casa (Senior Analyst at ActivTrades) and Fouad Bajali (CEO at IG Bank).

The goal of the presentation is to provide the users a range of information, both theory and practice, about the various trading platforms, in order to convince them they can get more from trading than they believe.

Mario Valentino Guffanti will explain some best practices used by successful traders, by introducing four arguments validated by the academic world and top trading educational expertise. Alberto Vivanti will moderate the discussion with the participants, so that they can explain, on each argument, which features their platforms can provide.

SAMT PRESENTATION

The presentation will take place on 25 November starting at 16:15 at the Auditorium (Conference Room A).

Here is the link to download the whole program:

http://luganofundforum.ch/en/?page_id=1323

The Lugano Fund Forum is organized by Lantern Research, managed by its CEO Riccardo Esposito. Lantern Research is an international network that aims to support its members' activities, not only to increase their visibility in the international financial community, but also to share the knowledge within the network. For this reason we are happy with our common partnership, and to publish an exclusive article written by Dr. Salvatore for our readers and members.

THE EUROPEAN ECONOMIC CRISIS: CAUSES, EFFECTS, POLICIES AND PROSPECTS

Dominick Salvatore, Ph.D.

1. Introduction

In 2008-2009 the United States and other advanced countries faced the most serious financial crisis and recession since the Great Depression of 1929. Growth resumed in 2010, but the recovery has been slow. In this paper, I will begin by briefly reviewing the causes and effects of the global financial crisis and the policies adopted to overcome the crisis. Then, I will examine the continuing crisis in the countries of the Eurozone periphery and discuss when and how that crisis would end. Finally, I will analyze "the other" problem or challenge facing the European Union and Europe as a whole, namely its anemic growth rate and persistently very high unemployment rate.

2. Causes and Effects of the "Great Recession"

The most recent global financial crisis started in the U.S. housing sector in 2007 as a result of banks giving huge amounts of (sub-prime) loans or mortgages to individuals and families that could not afford them. When many individuals and families defaulted on their loans, U.S. banks fell into a deep crisis, which then spread to the entire financial sector in 2008 and, from there, to the U.S. real sector and the rest of the world economy. The result was the "great recession".

Contagion spread from the United States across the Atlantic because many European banks had committed even greater excesses than U.S. banks and some European nations faced an even greater housing bubble than the United States (*Salvatore, 2010*). Deep recession in all advanced countries then greatly reduced their imports and foreign direct investments to emerging markets, thereby spreading the crisis to the rest of the world. Most emerging market economies (such as Russia, Mexico and Turkey) fell into a deep recession, while China and India faced a sharp slow-down in their record-breaking growth.

At the depth of the recession in 2009, real GDP fell by 2.8 percent in the United States, 4.4 percent in the Euro Area, 5.2 percent in the United Kingdom, and 5.5 percent in Japan, and 2.7 percent in Canada, among the largest advanced nations. The recovery was so slow in most large advanced nations that it took until 2014 (2011 for the United States and not yet in Italy and Spain) to return to their pre-crisis level of real GDP. In the largest emerging markets, growth fell by 7.8 percent in Russia, 4.8 percent in Turkey, and 4.7 in Mexico, while China and India faced only a growth slowdown.

The United States and other advanced nations responded to the Great Recession by rescuing banks and other financial institutions from bankruptcy, slashing interest rates, introducing huge economic stimulus packages, and undertaking huge injections of liquidity (quantitative easing or QE). These efforts, however, only succeeded in preventing the economic recession from being deeper than otherwise and the subsequent recovery to be even slower than it would have otherwise have been. Slow growth and high unemployment remains the most serious economic problems facing most advanced nations in 2014.

3. The Crisis in the Eurozone

The immediate cause of the Eurozone crisis was the unsustainable budget deficits and government debts in the weaker periphery member states or GIPSIs (Greece, Ireland, Portugal, Spain and Italy) since the introduction of the Euro in 1999. At the depth of the crisis (recession) in 2009, the budget deficit as a percentage of GDP was 15.6 in Greece, 13.8 in Ireland, 10.8 in Spain, 9.9 in Portugal and 4.4 in Italy. The government debt as a percentage of GDP in 2009 (2013 in parentheses) reached 129.9 (173.8) in Greece, 116.4 (132.5) in Italy, 83.7 (128.8) in Portugal, 64.4 (122.8) in Ireland, and 54.0 (93.9) in Spain.

The creation of the euro encouraged and made possible increasing budget deficits and government debts by the GIPSIs because financial markets believed that, with the euro as the common currency, the holding of a GIPSI government bond was no more risky than holding a German government bond. This dramatically lowered borrowing rates on GIPSIs government bonds, thus encouraging these countries to borrow even more. When Lehaman Brothers failed in October 2008, however, financial markets realized that holding a GIPSI government bond was much more risky that holding a German government bonds. This led to a sharp increase in the borrowing rate on GIPSIs bonds, making their budget deficits and governments debts no longer sustainable.

Excessive government borrowing and debt, however, was not the fundamental cause of the crisis, which was instead the significant loss in international competitiveness of the GIPSI since the creation of the euro. Indeed, the large government deficit and debt of the GIPSI since the creation of the euro only postponed the serious loss in their international competitiveness from becoming evident. In other words, the loss of the GIPSI's international competitiveness (the ability to export and competing with imports) was overcome or made up by excessive budget deficits and government debt, which prevented aggregate domestic demand, employment

and growth from falling and thus plunging these countries into recession. without the excessive borrowing and debts, the crisis in the GIPSI would have arrived sooner than in 2008 (when the global financial crisis started).

Evidence of the major loss of inter-national competitiveness of the GIPSI is provided by the sharp increase in unit-labor costs in the GIPSI vis-à-vis Germany during the past decade. From 2000 to 2012, unit labor costs rose by more than 30 percent in the GIPSI as compared with less than 10 percent in Germany. It is this loss of international competitiveness that is the fundamental cause in the Eurozone (GIPSI) crisis. Even if the excessive government borrowing and debt by miracle vanished, the Eurozone (GIPSI) crisis would have occurred.

When the crisis came, there was not much that the GIPSIs could do to overcome the crisis except very painful internal devaluation (i.e., reducing wages and other costs and expenses, and restructuring their economies). The GIPSI could not provide more fiscal stimulus to overcome the crisis because they had already over-borrowed. They could not devalue their currency (to stimulate their exports and replace some imports with domestic production) because they all had adopted the euro. The GIPSI also could not conduct a more expansionary monetary policy because that is determined by the European Central Bank (ECB) for the Eurozone as a whole. In fact, the ECB pursued a most aggressive expansionary monetary policy with nominal interest rate practically zero, which meant that even with a low rate of inflation, the real rate was negative. Furthermore, the ECB lent huge sums to Eurozone banks, and announced that it was going also to pursue non-traditional expansionary monetary policy in the form of quantitative easing or QE and "do it takes" to save the euro.

To be noted is the difference with situation if some states of the United States faced recession *asymmetrically* from the rest of the nation. Just like the GIPSIs, the US states in recession could not conduct an independent monetary policy, devalue the currency or pursue expansionary fiscal policy (because most of them are required by law to balance their budget each year). But they would not need to rely on painful internal devaluation (such as lowering wages) as in the case of the GIPSI because there is a great deal of labor mobility in the United States (about three times higher than Europe), so that many of workers who lost their jobs could simply move to other parts of the nation not in recession. The U.S. states in recession would also receive a great deal of fiscal redistribution from the rest of the nation because (for example) unemployment insurance benefits are not be paid by the States but by the Federal government.

In the Eurozone, none of these are the case, and so the GIPSIs in recession must rely on painful internal devaluation and restructuring of their economies in order to regain the international competitiveness that they lost during the past decade. The pain and difficulty of doing this is a major cause of the anti-euro feelings and demonstrations in the GIPSIs and results of the election in the European Union in May 2014. With rates of unemployment in excess of 25 percent of the entire labor force and youth unemployment in excess of 50 percent in Greece and Spain in 2013 it surprising that these countries have not faced even greater turmoil and political instability.

The problem of dealing with asymmetric shocks in the Eurozone results from its "half-way house nature" or of being built only on monetary integration (the common currency and monetary policy of the ECB) without also fiscal integration. It is also due to the fact that the Eurozone is not an optimal currency area because of inadequate internal mobility of resources (especially labor) and of not being a fully integrated economy like the United States of America. Thus, the Eurozone crisis was a "crisis waiting to happen" and clearly anticipated even before the creation of the euro (*Salvatore, 1997*). Indeed, the Eurozone crisis will end only when the GIPSI have restructured their economies and fully recovered their loss international competitiveness since the creation of the euro, achieve fiscal integration, and become a complete economic union like the United States.

4. Anemic Europe – The "Other" European Crisis

Besides the Eurozone crisis involving the GIPSIs, the Eurozone and Europe as a whole face another serious problem, which is its anemic growth. Between 1990 and 2000, the average yearly growth of real GDP was 3.2 percent in the United States but 2.only percent in the Eurozone. This was based on the slower growth of the labor force and total factor productivity, which in turn were based on a slower rate of innovations in Europe than in United States. This led to a growing gap in per capita incomes and standards of living of Europe as a whole vis-à-vis the United States over the past decade.

Europe was very aware of this problem at the end of the 1990s and so it launched the Lisbon Strategy or Agenda in 2000 with the specific aim of making Europe "the most competitive and the most knowledge-based economy in the world by 2010". By 2010, however, Europe's growth gap with respect to the United States remained. To be sure both economies (indeed most of the world) grew much more slowly than in the previous decade because of the global financial crisis, but Europe's growth gap with the United States remained and even increased over the decade.

During the decade 2000-2010, the average yearly growth of real GDP was 1.8 percent in the United States, but 1.3 percent in the Eurozone of 17 members and 1.5 percent in the European Union of 27 members (*Klein and Salvatore, 2013*). OECD data indicate that from 2000 to 2013, growth was 1.9 percent in the United States and 1.2 percent in the Eurozone. The U.S. Conference Board "Total Economy Database" (January 2014) show that from 1997 to 2006, growth was 3.3 percent in the United States, 2.3 percent in the Eurozone and 2.6 for EU-27. Comparable data for 2007 to 2012 were 1.0 percent, 0.3 percent and 0.4 percent.

The growth of labor productivity from 1997 to 2006 was 2.2 percent in the United States, 1.4 percent in the Eurozone and 2.0 for EU-27. Comparable data for 2007 to 2012 were 1.2

percent, 0.6 percent and 0.7 percent, respectively. For total factor productivity (the increase in output over and above the increase in labor and capital), comparable figures for 1997 to 2006 were 0.8, 0,4 and 0.6; for 2007 to 2012 they were 0.1, -0.4 and -0.5. All of these data clearly show that over the past decade, the Eurozone and Europe as a whole continued to lose ground in relation to the United States in terms of growth of real GDP, labor productivity and total factor productivity Most of the reason for this loss on international competitiveness has been attributed to overregulation and over-taxation, which discourages innovations and reduces efficiency (*Salvatore, 1998, 2004, 2007*).

Faced with anemic growth and loss of international competitiveness (in relation to its growth in decades prior to the last one and in relation to the United States during the last decade), in 2012 Europe announced "Europe 2020 – A seven-point program with nearly €80 billion in funding for making Europe the best place in the world to innovate and increase industry's share of GDP from the current 15 percent to 20 from 2014 to 2020." Specifically, Europe 2020 involves:

1. Completing the Single Market (Particularly for Digital Business, Telecoms and Services)
2. Making Public Innovation Funding Bold, Experimental and Open to All
3. Building 21st Century Infrastructures (Including Superfast Broadband and Smart Grids)
4. Educating a Technology- Savvy Workforce
5. Embracing Social Innovation
6. Making Innovation Open for EU Citizens and World
7. Reforming European Institutions to Better Support Innovation

5. Conclusion

Recovery from the deep global financial crisis and Great Recession has been slow in advanced countries, especially in Europe, with the weak countries of the periphery of the Eurozone (GIPSI) still in a deep crisis (primarily due to their loss of international competitiveness since the creation of the euro). But Europe (and the European Union as a whole) also faces the serious crisis of anemic growth. The Lisbon Strategy or Agenda introduced in 2000 that intended to overcome the European growth problem was not successful, and so Europe launched Europe 2020 in 2012 to stimulate innovations and growth in the rest of this decade. Will Europe 2020 succeed in the face of the generally declining growth expected for the world as a whole during the rest of this decade (*Salvatore, 2014*)?

Fordham University, New York , November 17, 2014

References

- Klein, Lawrence and Dominick Salvatore (2013), "From G-7 to G-20," *Journal of Policy Modeling*, May/June 2013, pp. 416-424.
- Salvatore, Dominick (1997), "The Unresolved Problem with the EMS and EMU," *American Economic Review,* May, pp. 224-226.
- Salvatore, Dominick (1998) "Europe's Structural and Competitiveness Problems and the Euro," *The World Economy*, March, pp. 189-205.
- Salvatore, Dominick (2004), "Changes in the Relative International Competitiveness of the EuropeanUnion during the Past Two Decades," *Global Economic Review*, Fall, pp. 1-25.
- Salvatore, Dominick (2007), "The U.S. Challenge of European Firms: Globalization, Architecture, Admiration, and Perceived Innovativeness," Inaugural Issue, *European Journal of International Management*, January, pp. 69-80.
- Salvatore, Dominick (2010), "The Causes and Effects of the Global Financial Crisis," *Journal of Politics and Society*, April 2010, pp. 7-16.
- Salvatore, Dominick (2014), Editor, Rapid Growth or Stagnation for the U.S. and the World Economy? Special Issue of the *Journal of Policy Modeling*, No. 3 (July/August).

Dominick Salvatore is Distinguished Professor of Economics and the Director of the Ph.D. Program in Economics at Fordham University in New York City. He is Honorary Professor at the Shanghai Finance University, Hunan University, and University of Pretoria; Visiting Professor at various universities, including University of Rome, American University in Cairo, University of Pretoria, Peking University, University of Trieste, and University of Vienna. Dr. Salvatore is a Fellow of the New York Academy of Sciences and past Chairman of its Economics Section. He is also the past president of the North American Economic and Finance Association (NAEFA) and the International Trade and Finance Association (ITFA). He is a Consultant to the United Nations, the World Bank, the International Monetary Fund, the Economic Policy Institute, and several multinational corporations and global banks. He is the co-editor of the Journal of Policy Modeling and past co-editor of Open Economies Review and The American Economist, as well as past Editor of the Handbook Series in Economics, Greenwood Press. He has given more than 500 lectures around the world, was awarded the Achievement Award by the City University of New York in 1997, the Order of the Knights of Malta, and was nominated for the 2010 National Medal of Science awarded by the President of the United States. Website: www.fordham.edu/economics/salvatore

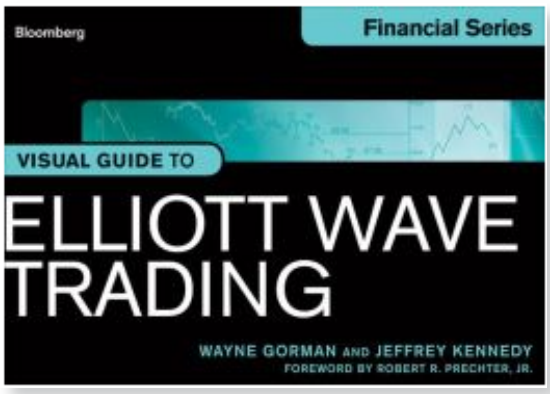
Title:	Visual Guide to Elliott Wave Trading
Author:	Wayne Gorman and Jeffrey Kennedy
Publisher and date:	Wiley-Bloomberg Financial Series – Dec 2013

BOOK REVIEW: WAVES, THOUGHTS AND TRADES

Mario Valentino Guffanti, CFTe

"Jeff Kennedy and our education specialist Wayne Gorman have just finished a book for the Wiley Bloomberg Financial Series called the "Visual Guide to Elliott Wave Trading." They discuss in detail how they go about entering, exiting and managing risk in trades prompted by Elliott wave analysis. Most of them are trades they actually made. They also discuss their errors and how to avoid them. Those interested in this topic should go there."

This was the reply that Robert Prechter, President of Elliott Wave International, gave to my colleague Ron William when during his last interview he asked Robert which was the best method of using risk management in the application of (the) Elliott wave model.



So it was a new book and an interesting topic that drove me to write a review of a complex subject that makes things simple. This book is written for readers that have a basic knowledge about the topic and the authors have included a good appendix with some essential elements to refresh the learning of the persons that still know Elliott wave theory. For beginners, they suggest the Frost and Prechter book available on the Elliott Wave International website along with other free resources.

Moreover the book has plenty of key points call outs, links to video web tutorials, and tests at the end of every chapter.

The authors are two veterans that teach Elliott wave theory and have also an expertise in trading for a living. I tried to interview the two authors, but unfortunately they didn't have time in their schedules right now to accommodate it, so this time we have to be satisfied with only the review of the book.

The first part of the book includes an interesting and detailed description of the skills and resources to make good trades applying Elliott wave theory. The focus in the whole book is not only on Elliott Wave Principles, but on the skills needed to become a successful trader.

The first chapter, written by J. Kennedy, starts to explain why a successful trader and a talented analyst must have two different skill sets, pointing out the subjectivity of the way of trading and the need for guidelines and others basic elements to have good trades.

Following is a description of how wave theory improves trading, comparing it with technical studies and introducing the basic principles that are to be used. Other main topics are included, such as which wave is best to trade and which guidelines to use for trading specific Elliott wave patterns. The end of this first chapter deals about psychology of trading and risk management: this last part contains some basic principles that can fit trading also made with others techniques. Not too many concepts, but good tips and rules that come not only from the theory, but also from the distilled skills of two experienced traders.

The second part of the book contains four chapters of examples of real trading with different Elliott wave patterns: zigzags, flats, triangles and ending diagonals.

Every trade is described in three essential steps:

- first step is dedicated to the analysis of the price chart and Elliott wave pattern recognition.
- second step is the formulation of the trading plan.
- third step is a very good description of how the trade is managed. I think that this final step distinguishes this book from other trading books.

We don't have a simple chart with entry, stop loss and exit points, but a sequence of charts, also in multi-frame period analysis, with the price curves deploying their story time by time. In this sequence, generally lacking in the reports, the reader can follow the authors in their thought process during every single move of the price during the time of the trade. We can understand why the author has arrived to recognize some patterns and why he has managed some exit points or stop losses in a dynamic way.

In this third step, among the various trading examples, the authors add a lot of practical concepts as the three phases of risk management (using stop loss to lessen risk, to eliminate risk and to protect open profits), some Elliott guidelines and tips to set the stops, how to react to news that can influence the trader's psychology during a trade, how to handle more complicated patterns as a combination, how to manage the time during the trade and how to manage dual trade plans.

Moreover, a lot of theory is converted into practice: we can see the practical use of Fibonacci techniques, how having alternate wave counts did not affect formulating a profitable strategy, how to use aggressive or conservative techniques, and the management and the influence of the psychology during the trades.

The third part of the book contains four chapters. The first is full of trading examples where the Elliott wave theory is integrated with the use of tools of technical analysis as RSI, MACD and Japanese Candlestick patterns. Then we have two chapters with trading examples of Elliott wave analysis combined with option strategies: in one chapter we have an example of a basic options strategy compared to a straight futures trade, explaining the reasons and the use of one strategy instead of the other. In the following chapter there are more advanced option trades that allow success, even in scenarios that points in opposite direction.

The authors dedicate the last chapter to "parting thoughts", where they speak about what it takes to become a consistently successful trader, the style of trading, some suggested readings, etc.

In conclusion, if you use Elliott wave for trading, or if you like the Elliott wave theory, this book is a must that represents the missing link between the theoretical part and the trading part, through a step-by-step visual and mental process that can enhance your knowledge.

To purchase a copy of the book, go to www.elliottwave.com/wave/SAMT1410

Mario Valentino Guffanti, CFTe (Certified Financial Technician) is a financial advisor and researcher. Vice President of the Swiss Italian Chapter of the Swiss Association of Market Technicians (SAMT) and Committee Member of its technical journal. Among his interests, financial coaching through NLP techniques (neuro-linguistic programming); teacher in technical analysis, of which he is author of several articles, and conference speaker. He can be reached at: mario.guffanti@samt-org.ch

SOCIAL MOOD IMPELS FEELINGS OF CERTAINTY & UNCERTAINTY

Alan Hall

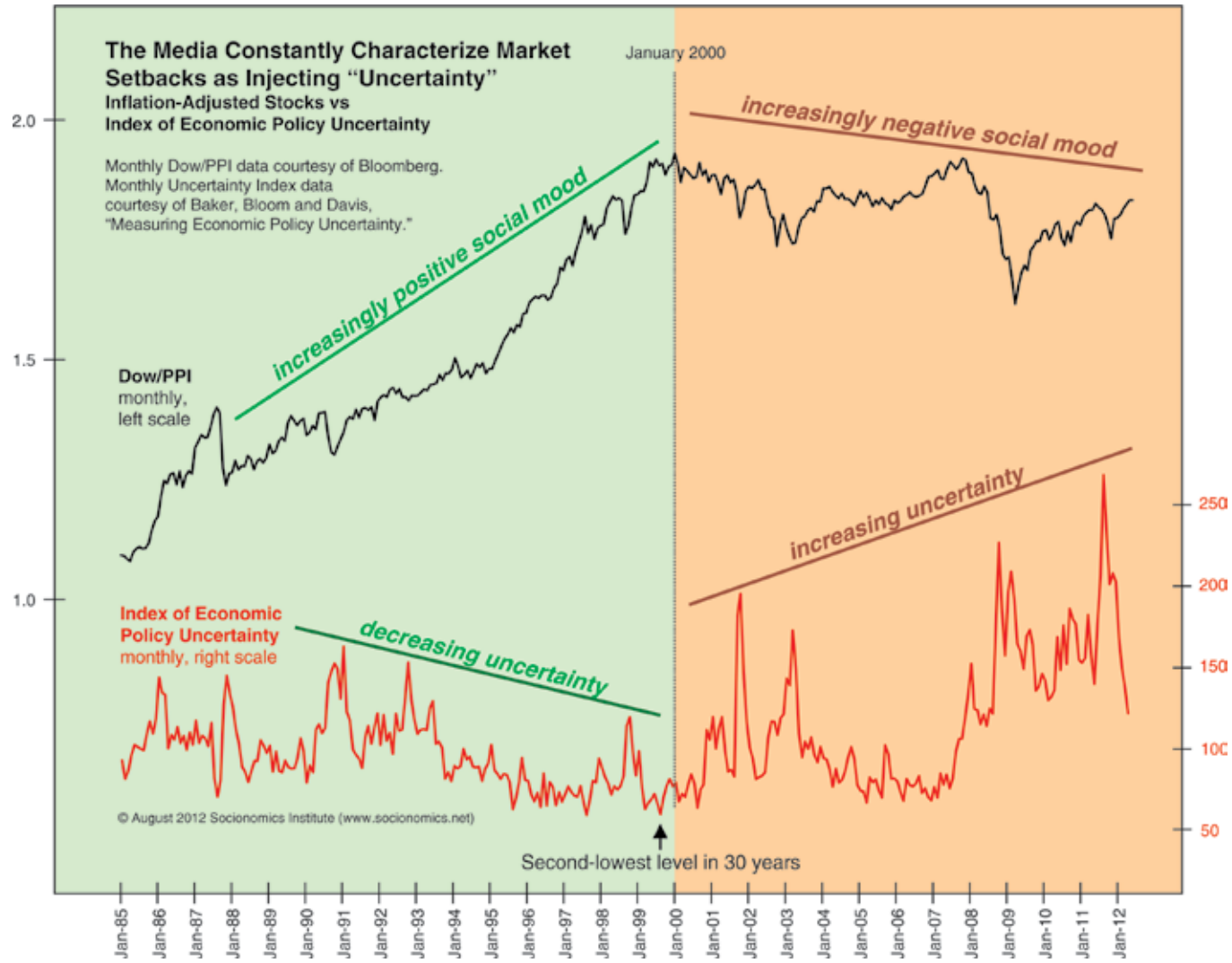
Today, your boss could hand you a raise—or a pink slip. Tomorrow, you might narrowly avoid a car crash—or get T-boned.

The future is equally uncertain at all times—in both bull and bear markets. Yet many investors and the media perceive the world to be far more uncertain during negative mood phases. Consider this excerpt from Chapter 18 of *The Wave Principle of Human Social Behavior* (1999):

> [People] equate uptrends with predictability and downtrends with unpredictability. The Harper's Weekly quote from 1857 includes the phrase, "never has the future seemed so incalculable as at this time." Translation: "The market has been falling for several years." The media constantly characterize market setbacks as injecting "uncertainty" into a picture of the future that presumably was previously as clear as crystal. I am not exaggerating when I say that this foible is timeless.[1]

The distinction is more than academic. It illustrates that humans use events to justify their collective mood. The reason? Social mood itself is unconscious—and therefore, by definition, unperceived. Yet it produces powerful feelings. One of those feelings is uncertainty. When we observe widespread expressions of certainty or uncertainty, we can use them as indicators of public mood—and plan accordingly.

Figure 1



Quantifying Uncertainty

Over the years, researchers have developed hard evidence that allows us to link changes in the volume of expressions of uncertainty with bull and bear markets. Let's begin by looking at several uncertainty indexes.

1. Measuring Economic Policy Uncertainty

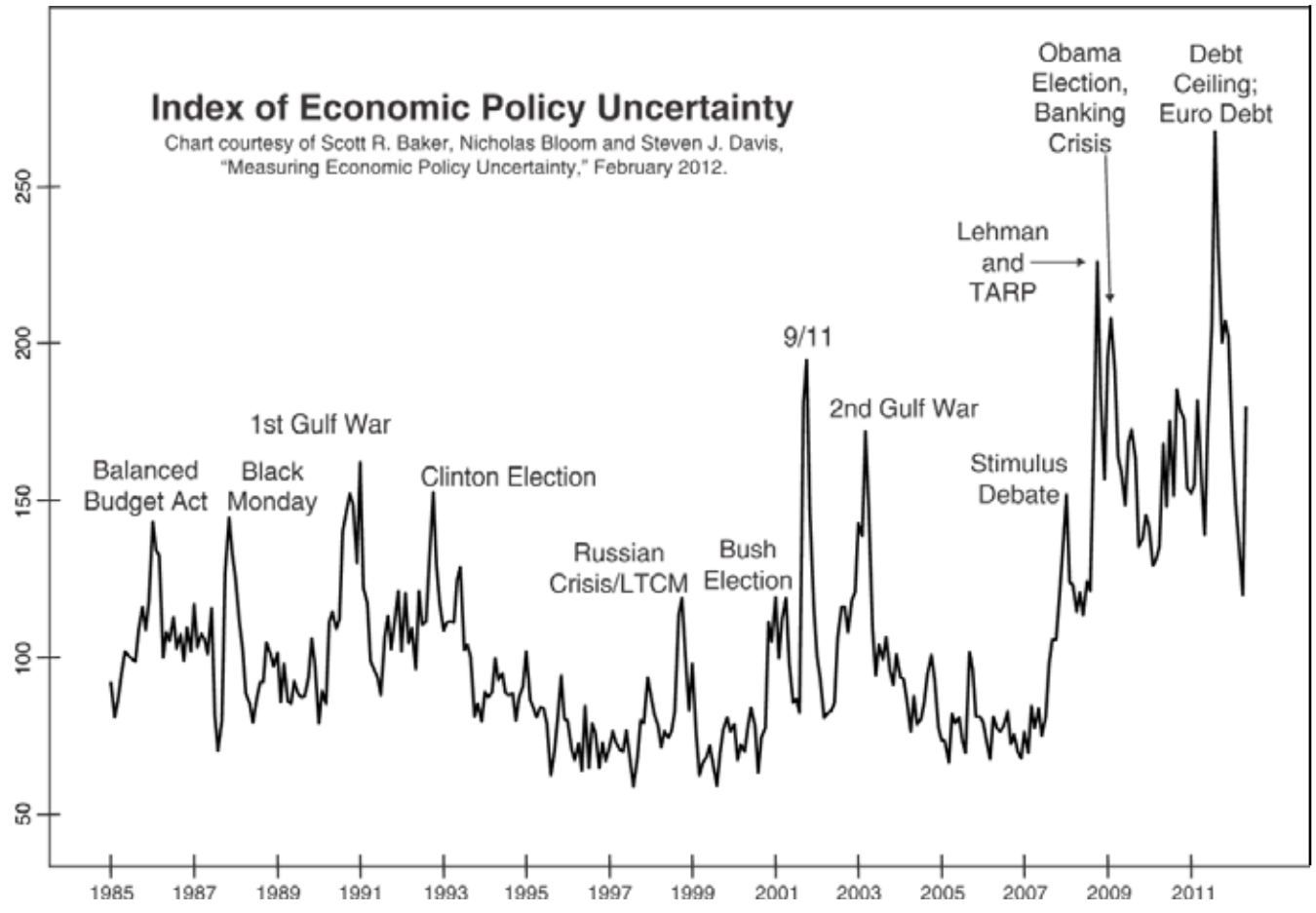
Economists Scott R. Baker, Nicholas Bloom and Steven J. Davis developed their Index of Economic Policy Uncertainty in their February 2012 paper, "Measuring Economic Policy Uncertainty."[2] The authors used three measures to construct their index: (1) newspaper coverage of economic policy, (2) the number of federal tax code provisions set to expire, and (3) what they refer to as "disagreement among economic forecasters."

Figure 1 plots the monthly Inflation-Adjusted Dow (the Dow Jones Industrial Average divided by the Producer Price Index) against the authors' index. The Dow/PPI reveals the true extent of the 13-year bear market that has been largely disguised by repricing stocks in depreciating dollars. This index has also reflected fear and uncertainty in the past, as its largest declines prior to 2000-2012 occurred in the bear markets of 1929-1932 and 1966-1980.

Note that social mood creates a major division on this chart at the Dow/PPI peak in January 2000. Now observe that just a few months prior, the uncertainty index reached its second-lowest level in nearly three decades. Note also that most of the significant peaks in the uncertainty data correspond to significant lows in the Dow/PPI. And finally, note that the overall negative social mood trend since 1999 has accompanied increasing expressions of uncertainty.

Figure 2 shows the authors' Index of Economic Policy Uncertainty as published in their paper. The authors labeled each significant peak in their index with an accompanying event and wrote, "The index spikes near consequential presidential

Figure 2



elections and after major events such as the Gulf wars and the 9/11 attack." At first glimpse, one might think these events—most of which are "negative" in nature—caused the spikes in uncertainty. But socionomics asks this critical question: *"What generated the negative events?"*

To answer that question, **Figure 3** plots the nominal Dow against the same Index of Economic Policy Uncertainty. We shaded significant positive-mood trends (rising stock prices) blue and negative-mood trends (falling stock prices) brown. As you can see, uncertainty *increases during negative social mood trends*.

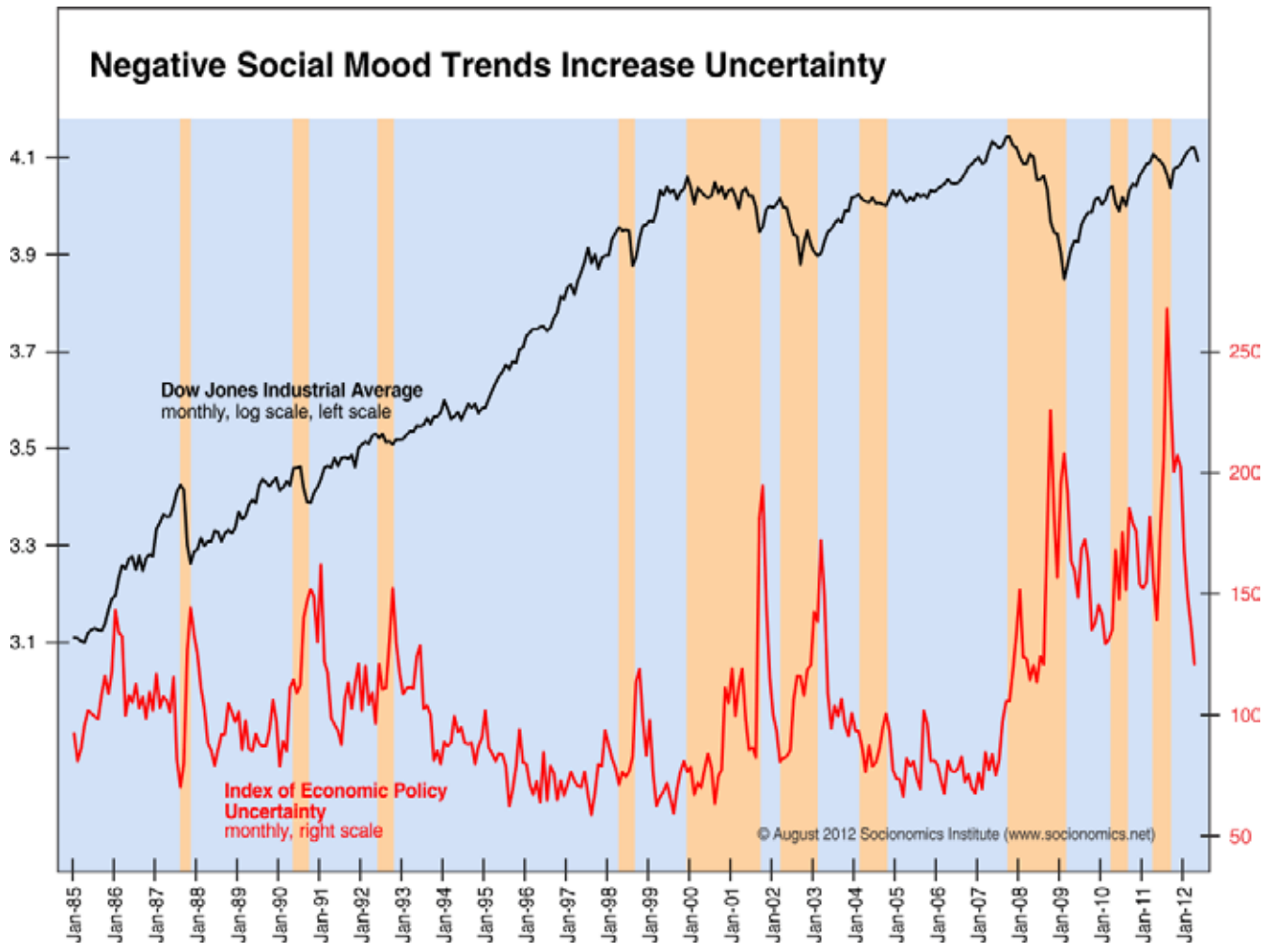
But here's the shocker: In every major uncertainty spike except 1986, multi-month downturns in the Dow and upturns in uncertainty *preceded* the events listed in **Figure 2**. Given this chronology, it appears that negative social mood motivated *both* the scary events *and* the uncertainty.

A final observation: Baker, Bloom and Davis rightly connect uncertainty and fear. One of their charts (not shown) illustrates the strong resemblance between an uncertainty index and the VIX, a measurement of S&P 500 volatility that traders commonly call the "Fear Index."

2. "Uncertain Times, Uncertain Measures"

Figure 4 plots a longer-term view of the Dow at the top and two more uncertainty indexes at the bottom. The uncertainty indexes are from a 2009 paper, "Uncertain Times, Uncertain Measures," by Michelle Alexopoulos and Jon Cohen.[3] The vertical red bars show the authors' monthly New York Times uncertainty index, which represents the total number of articles appearing each month in the newspaper that "contain references to uncertainty and the economy."

Figure 3



Again we shaded positive mood trends blue and negative mood trends brown. And, as with the Baker et al. example, positive mood trends tend to produce increasingly lower levels of uncertainty, while negative mood trends tend to produce increasingly higher levels of uncertainty.

The other index in the grid—the vertical green lines—represents "major uncertainty shocks" as identified by Bloom's "0/1 uncertainty indicator," a measure he derives from S&P 500 volatility. Note that 15 of the 17 "shocks" occurred during negative mood trends and usually near their ends.

If Elliott Wave International's outlook for a major stock market decline is correct, all of these uncertainty indexes are due for multiple years of uptrend.

Causality: Mood-Driven Economy

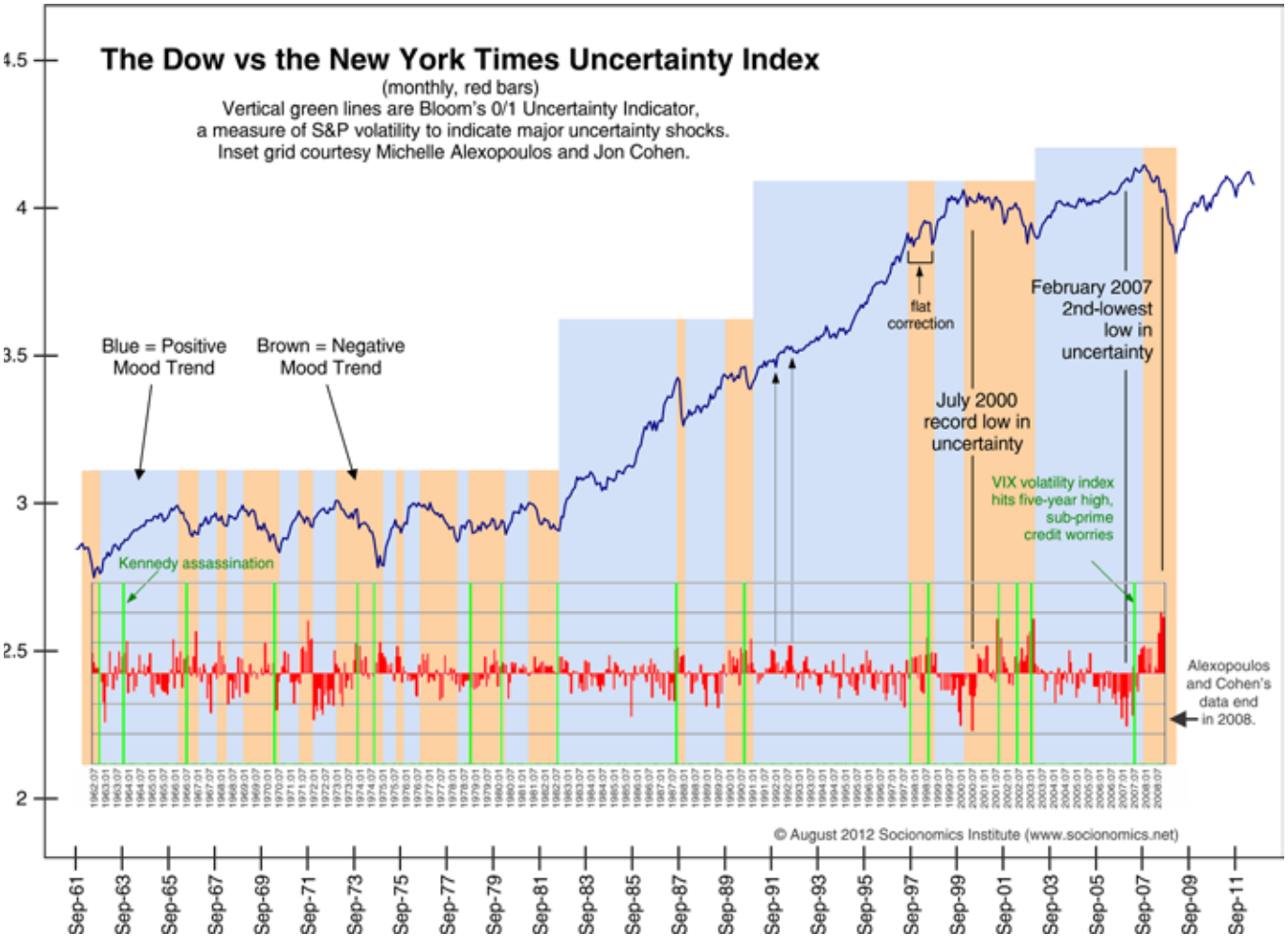
Baker, Bloom and Davis wrote, "Many measures of uncertainty rise in recessions and fall in recoveries, suggesting that uncertainty could play an important role in driving business cycles." They found strong evidence that uncertainty *precedes* economic decline:

> VAR estimates show that an increase in policy uncertainty equal to the actual change between 2006 and 2011 foreshadows large and persistent declines in aggregate outcomes, with peak declines of 3.2% in real GDP, 16% in private investment and 2.3 million in aggregate employment.

Alexopoulos and Cohen, the authors of the second paper, also found that uncertainty precedes economic decline:

> Within the year *following* a positive uncertainty shock, industrial production, and employment fall, as does our measure of business investment and consumption. …

Figure 4



> Changes in the level of uncertainty—especially the type that affects both Main Street and Wall Street—are, in short, a key contributor to business cycles. (Emphasis added.)

And concerning causality, they wrote,

> Some may worry about the direction of causality and thus question the usefulness of our index. That is, do newspaper articles raise the level of uncertainty among the general population or do they merely reflect the temper of the times? We would argue that, for our purposes, the answer to this question is irrelevant. The newspaper index is nothing more than a representation of the degree of uncertainty felt by households, firms, consumers, and producers. While it may be interesting to know if the media is both the messenger and creator of the message, this knowledge has no effect on the quality of our index.

3. Drudge Uncertainty Indicator

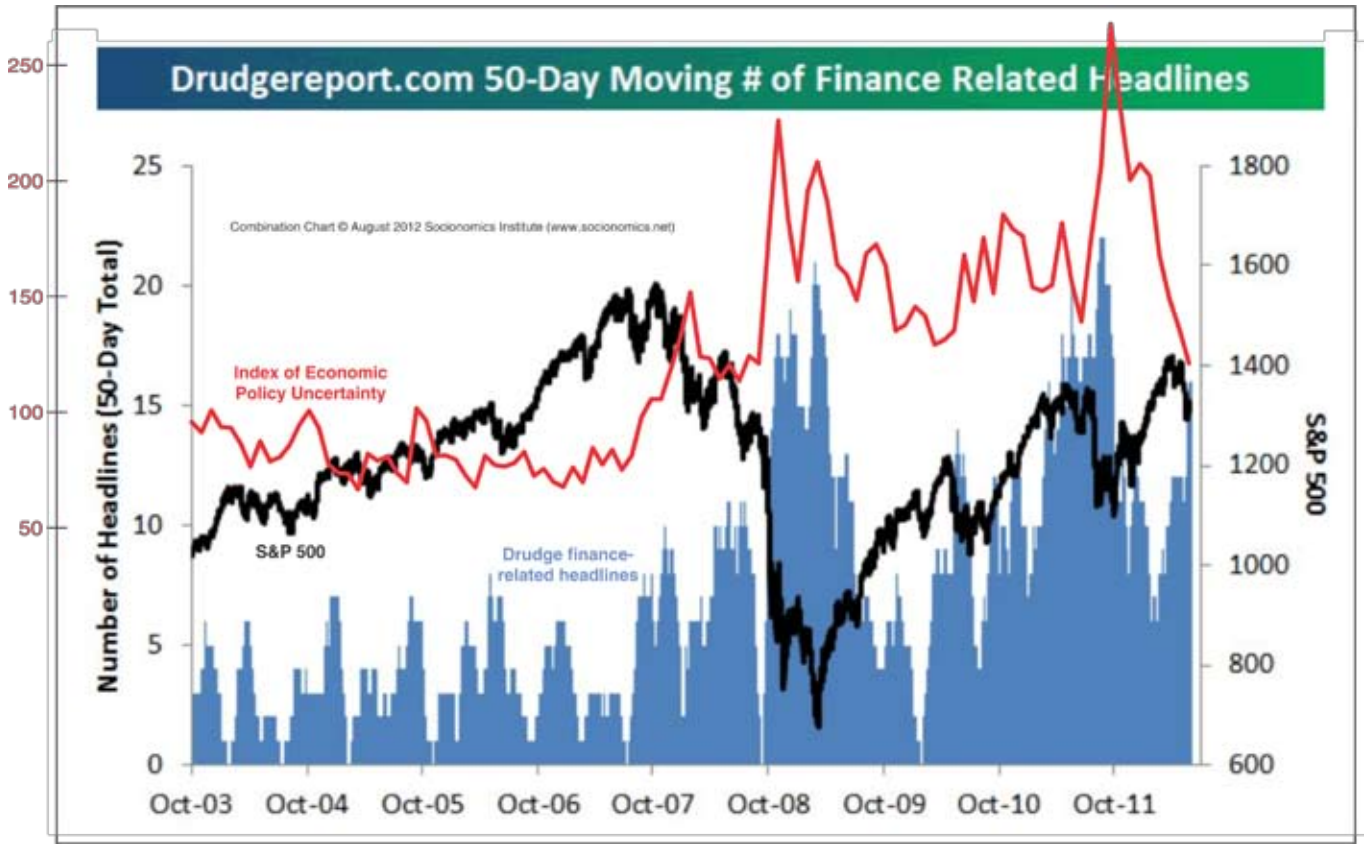
The blue columns in **Figure 5** illustrate yet another kind of "uncertainty" index. This image is courtesy of Bespoke Investment Group, which used Drudge Report's archives to tally and plot every finance-related Drudge headline going back to 2003.[4] The blue columns depict "the number of days in which there was a finance related headline on Drudge over a rolling 50-day period… ." We added the red line, which plots the Index of Economic Policy Uncertainty shown in Figure 1. As you can see, Drudge's finance headlines trend similarly.

According to Bespoke,

> The Drudge Report is not a financial news site, so whenever a financial news story grabs the Drudge headline, it means that the story has crossed over from just a financial news story to a mainstream news story. … [which] means that those that don't follow the market on a regular basis are suddenly following the market. This practically always occurs when the market (or economy, etc.) is going down and not up.[4]

Euan Wilson and Matt Lampert describe an intriguing dynamic in their study, Bad Mood is Good News: Negative Social Mood Translates Into Positive Ratings for Cable News Networks, in the November 2011 issue of *The Socionomist* (click here to read). Wilson and Lampert wrote,

Figure 5



> [Watching] the news is a more compelling activity in bear markets. … [As people] become less certain about the world, they look for more information in an attempt to understand what's going on. They show their feelings of uncertainty in the markets during these periods, too, by bidding prices lower.[5]

As negative social mood amps up fear and uncertainty, people are impelled to seek social opinion in hopes that others know what to do. The media simply cater to this desire by providing more financial opinions. When the fear subsides, the headlines subside too.

Fluctuations in the net valuation of the stock market, feelings of uncertainty and the number of Drudge's financial headlines all result from unconscious herding. When social mood changes, the stock market moves in a different direction. Lagging social expressions of mood follow. At any given time, uncertainty indexes reflect aspects of the social mood trend that show up simultaneously in the stock market. And eventually, that social mood trend shows up in the economy, as well. The commonly held view is that negative events cause the future to be less certain. Our view is that the trend toward negtative social mood both causes the events and impels people to view their future as uncertain.

Endnotes

1. Prechter, R. (1999). *The Wave Principle of Human Social Behavior* (p. 343). Gainesville, Georgia: New Classics Library.
2. Economic Policy Uncertainty (2012). Retrieved from http://policyuncertainty.com
3. Alexopoulos, M., & Cohen, J. (2009). Uncertain times, uncertain measures. Retrieved from http://www.economics.utoronto.ca/index.php/index/research/workingPaperDetails/352
4. The Drudge headline indicator (2012, May 31). Bespoke Investment Group. Retrieved from http://www.bespokeinvest.com/thinkbig/2012/5/31/the-drudge-headline-indicator.html
5. Wilson, E., & Lampert, M. (2011, November). Bad mood is good news: Negative social mood translates into positive ratings for cable news networks. *The Socionomist*. Retrieved from http://www.socionomics.net/wordpress/wp-content/uploads/2012/02/1111SOC_Complete-Issue.pdf

Alan Hall is a senior researcher for the Socionomics Institute. Hall has traveled widely, and has authored numerous socionomic studies including in-depth looks at Russia and Vladimir Putin, the European housing bubble and crisis, commodity prices and environmentalism, stock prices and epidemics, and authoritarianism. On April 5, 2014, Alan Hall spoke at the 2014 Social Mood Conference. Join Hall, Werner De Bondt, director of the Richard H. Driehaus Center for Behavioral Finance at DePaul University, Robert Prechter, and some of the brightest financial, academic and entrepreneurial minds in the world to see how today's leading social mood researchers are tearing down old assumptions and building new standards for social mood research. Learn more at: www.socialmoodconference.com/pr.

USING THE DOUBLE-HELIX STRUCTURE OF DNA

TO INTEGRATE THE WYCKOFF METHOD WITH THE ELLIOTT WAVE PRINCIPLE

Henry O. (Hank) Pruden, Ph.D.

So DNA, which is in itself a kind of metaphor, is one more, and perhaps the ultimate, way to consider how markets possess a kind of life of their own. This is useful in encouraging the analyst to identify ever more basic structural components, how they interact, and ultimately to predict outcomes…

Robert Miltner,
Scientist, Chemist and Entrepreneur,
Larkspur, California

PREFACE

- DNA was first isolated by the Swiss physician Friedrich Miescher in 1869.
- In 1953, James Watson and Francis Crick suggested what is now accepted as the first correct double helix model of DNA structure.
- A Metaphor is a figure of speech that describes a subject by asserting that it is, on some point of comparison, the same as another otherwise unrelated object. (Wikipedia)

The following series of visuals were inspired by the theme of the IFTA 2014 Conference in London: "Unraveling the DNA of the Market." I found the topic particularly appealing because for years in both active trading for my own account or in teaching classes at Golden Gate University, I had found synergy in combining the Wyckoff Method with the Elliott Wave Principle. The two approaches working together created something that was greater than the sum of their two respective parts.

I believe that Wyckoff and Elliott represent "ever more" basic structural components of the market. I further believe that the double-helix framework of DNA is a very useful metaphor for combining Wyckoff and Elliott for better, more profitable market timing decisions.

Figure #1: The Double Helix Framework

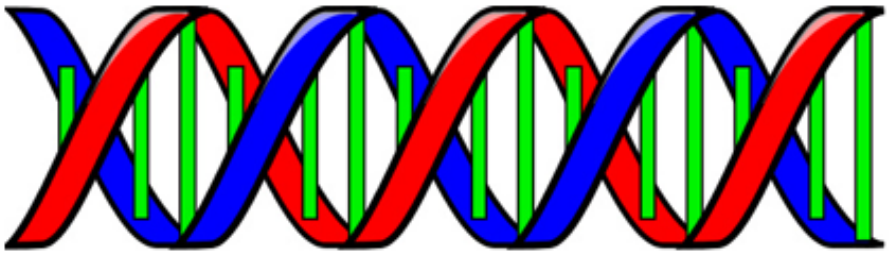


Figure #1 is an abstract of the double helix structure of DNA. This shall be used metaphorically as the market structure that combines or binds together the analytical components of the Wyckoff Method of Market Analysis with the Elliott Wave Principle of Market Analysis.

Figure #2: The Wyckoff Method Strand

Figure #2, The Wyckoff Method Strand, is defined in Table #1: Distinctive Characteristics of the Wyckoff Method.

Table #1: Distinctive Characteristics of the Wyckoff Method

- Wyckoff is a straight-forward price and volume method for analyzing the present technical position and probable future trend of price behavior in stocks, bonds and commodities. The method is a collection of the best practices and concrete experiences of the old time pool operators observed and recorded by Mr. Richard D. Wyckoff. Mr. Wyckoff gave primary emphasis to price and volume behavior reflected on the ticker tape and shown on charts. Mass behavior (the public) was generally on the other side of the trades from the "smart money" operators. Mr. Wyckoff condensed the "smart money" into a construct he named the Composite Man.
- The Wyckoff Method is a judgmental approach to interpreting the behavior of the market. Mr. Wyckoff and his associates condensed the patterns of market behavior they observed into three laws, nine tests and several schematics, plus additional principles and procedures.
- It was a bottom up approach based upon the best practices of actual traders and not a top down set of hypotheses deduced from a grand theory.

Figure #3: Schematic of the Wyckoff Wave

Figure #3 is a schematic of the Wyckoff Cycle. It is a drawing of the price action depicting the Key Wyckoff Stages of Accumulation, Markup, Distribution, and Markdown.

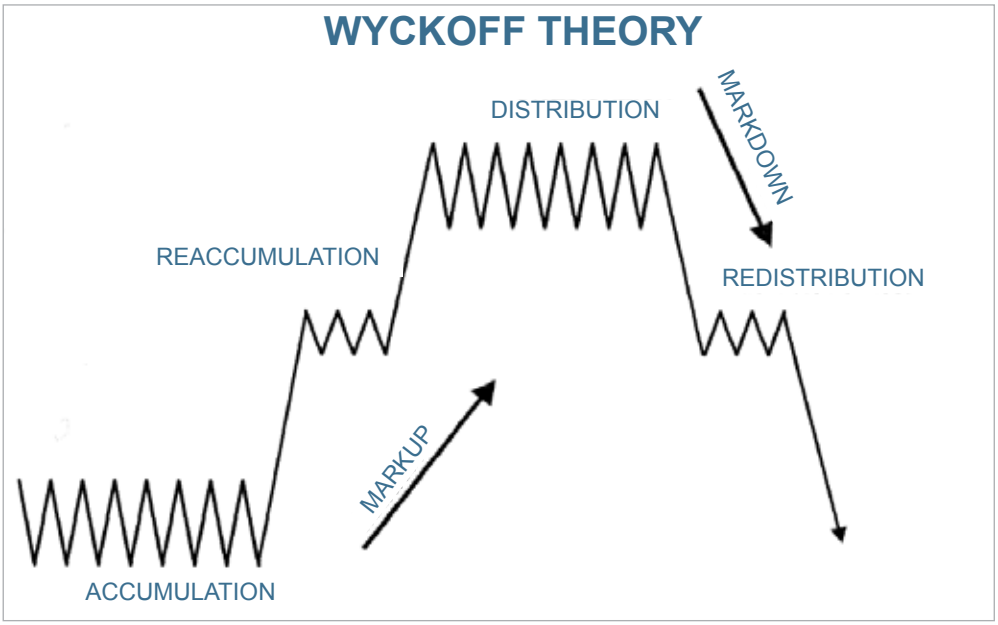


Figure #4A: Illustration of Wyckoff Applied

Figure #4 is an idealized illustration of the Wyckoff Method applied to the stock market behavior using the vertical or bar chart.

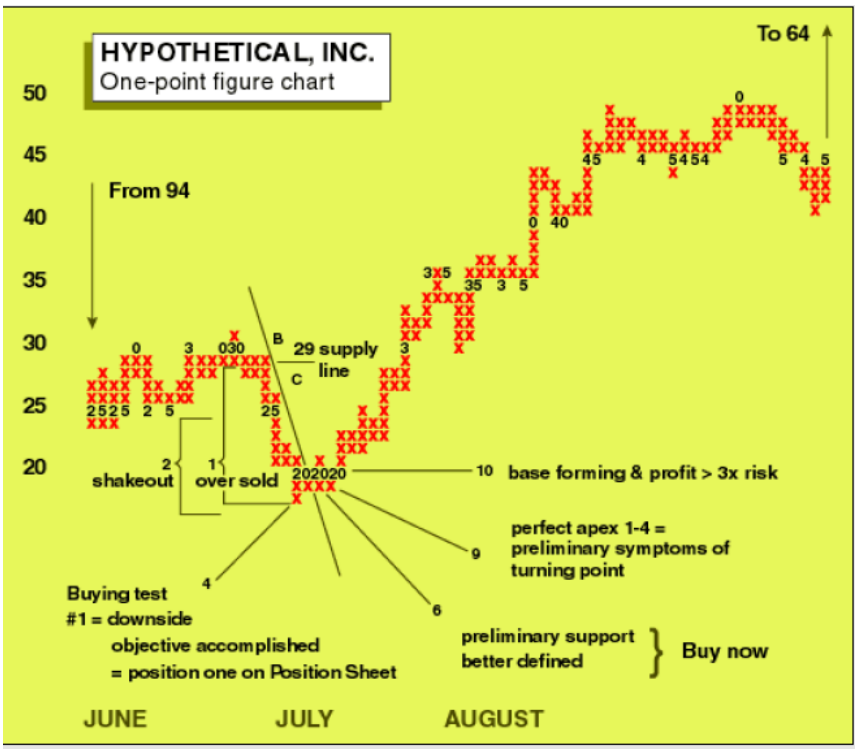
Source: September 1998, Technical Analysis of Stocks & Commodities magazine, P. 77

SIDEBAR FIGURE 3: HYPOTHETICAL, INC. The Wyckoff method applies step-by-step procedures fo decision making for the vertical bar chart of a hypothetical stock.

Figure #4B: Illustration of Wyckoff Applied

Figure #4 continues the idealized illustration of Wyckoff applied using a figure or point and figure chart.

Source: September 1998, Technical Analysis of Stocks & Commodities magazine, P. 77



SIDEBAR FIGURE 4: HYPOTHETICAL, INC. Buying and selling tests are applied to the one-point figure chart.

Figure #5: The Elliott Wave Principle Strand

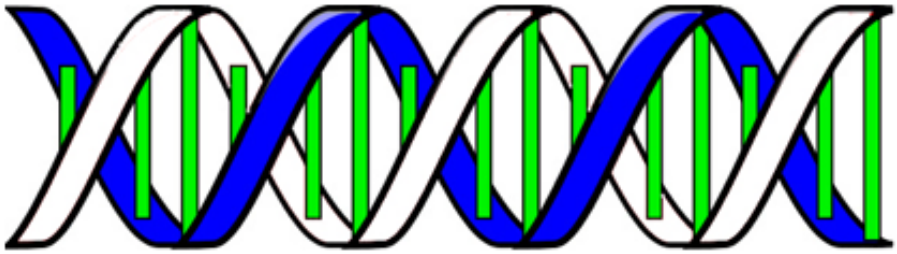


Figure #5, The Elliott Wave Principle Strand, is defined in Table #2: Distinctive Characteristics of the Elliott Wave Particle.

Table #2: Distinctive Characteristics of the Elliott Wave Principle

Source: Wikipedia, the free encyclopedia

Elliott Wave Principle

The Elliott Wave Principle is a form of technical analysis that some traders use to analyze financial market cycles and forecast market trends by identifying extremes in investor psychology, highs and lows in prices, and other collective factors. Ralph Nelson Elliott (1871–1948), a professional accountant, discovered the underlying social principles and developed the analytical tools in the 1930s. He proposed that market prices unfold in specific patterns, which practitioners today call Elliott waves, or simply waves. Elliott published his theory of market behavior in the book The Wave Principle in 1938, summarized it in a series of articles in Financial World magazine in 1939, and covered it most comprehensively in his final major work, Nature's Laws: The Secret of the Universe in 1946. Elliott stated that "because man is subject to rhythmical procedure, calculations having to do with his activities can be projected far into the future with a justification and certainty heretofore unattainable."

Figure #6: Schematics of the Elliott Wave Principle

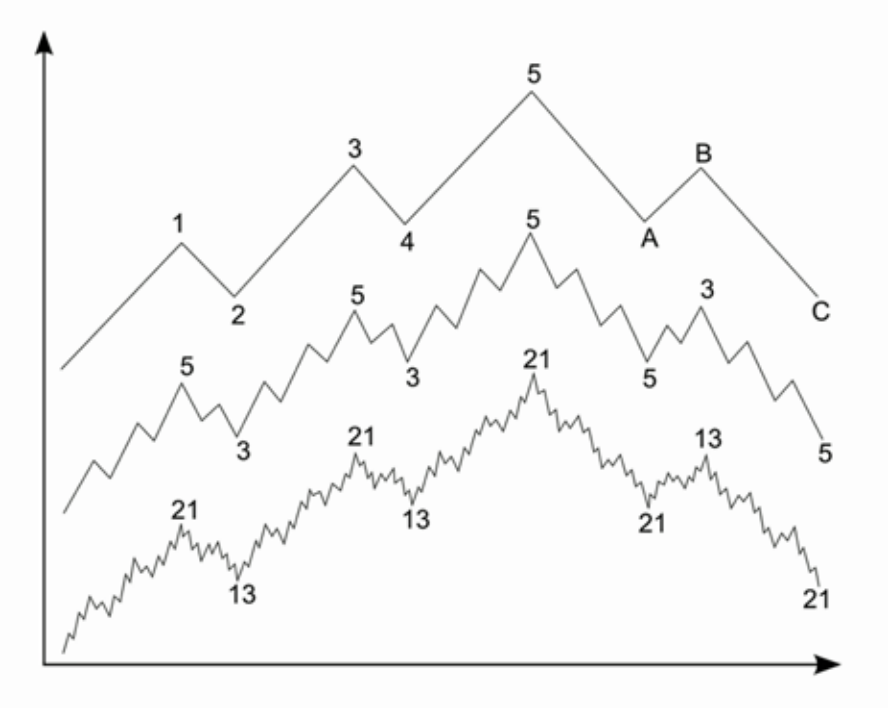


Figure #6 is an assembly of Elliott Wave Principle cycles in three different degrees of refinement, thus wave 1 in the first level, top schematic that is the first of five waves found in a bull market. Wave 1 in turn is composed by another five smaller wave bull movement, illustrated immediately below it. The third level schematic is in turn sub divisible into 21 sub waves that reflect the five wave bull movement of the immediate higher degree.

Table #3: Wyckoff and Elliott: Partners in Command

- PARTNERS IN COMMAND (New York, The Penguin Press, 2007) was written by Mark Perry to review the remarkable relationship forged between U.S. Army Generals George Marshall and Dwight Eisenhower. That partnership in command helped lead the Allied Forces to victory during WW II. In this acclaimed book, "Perry shows that Marshall and Eisenhower were remarkably close colleagues who brilliantly combined strengths and offset each other's weaknesses in their strategic planning, on the battlefields, and in their mutual struggle to overcome bungling, political sniping and careerism of both British and American Commanders that infected nearly every battle and campaign"[I]. Marshall and Eisenhower were titans in war and peace.
- In a loosely parallel fashion, the teachings of Richard D. Wyckoff and Ralph N. Elliott can be brought closer together to benefit the analyst-trader. Wyckoff and Elliott can combine strengths and offset each other's weaknesses. As David Penn had written in the *Technical Analysis of Stock and Commodities* magazine [2], both Wyckoff and Elliott were titans of Technical Market Analysis. Then in a more recent TSAA REVIEW article [3], I wrote about the ways Wyckoff and Elliott were sufficiently independent, yet complementary. They are powers. When used together; Wyckoff plus Elliott generate synergy or the famous 2+2=5 formula.

Table #3: Wyckoff and Elliott: Partners in Command - Illustrated

A TRADE IN THE DJIA ILLUSTATES THE POWER OF WYCKOFF plus ELLIOTT

- Please see Chart 1 for a Wyckoff Analysis and Chart 2 for an Elliott Wave Analysis of the June 12, 2008 DJIA. The analyses of these charts presume that the reader has a reasonable familiarity with the rudiments of both the Wyckoff Method and the Elliott Wave Principle to follow the interpretations in Figures 7 and 8.

Figure #7: Wyckoff Analysis: Chart 1

Figure #7 is the one-minute bar chart of the DJIA showed a classic Wyckoff sign of weakness breakdown and a pullback rally to a last-point of supply set-up around 12:45-1:OOP.M. at DJIA 12,225 on June 12, 2008. A put or a short ETF position could have been entered. The DJIA then systematically and steadily worked its way downward until about 3:10 P.M. That steady decline ended with a vertical plunge to the level of prior support at 12,074. That plunge appeared climactic and also created an oversold condition by overshooting the supporting parallel line of the down channel. The DJIA entered a Wyckoff oversold condition that made it vulnerable to a rally. A bear-trader would have been alerted to exit for the day. But, the real clincher for exiting was given by Elliott on the next and final rally of the day.

Figure #8: Elliott Analysis: Chart 2

Figure #8 is the Elliott Wave Principle revealed a clear five-stage C-wave down to the low at 12,074. Furthermore, the fifth wave itself revealed a 5-wave pattern with a classic tiny triangle in the fourth wave. Elliott was flashing warning signs to get out. Finally, the Elliott pattern was reinforcing the forgoing Wyckoff interpretation. Together Wyckoff and Elliott were saying “get out” to the trader near the bottom of the day.

The final rally of the day was a 5-wave upward impulse wave that broke the downtrend line in Chart# 1 while recovering 100% of the preceding down wave. This powerful bullish indication warned the trader that more strength would follow; this bullish impulse wave was warning the trader not to carry her short sale position overnight.

In conclusion, Wyckoff and Elliott conducted a command performance for the astute trader on 6/12/08. WE are partners in command!

Conclusion

This article presented the technical analyst and technical trader with the metaphor of the double helix framework for grasping a more profound look into a basic DNA structure of the stock market.

The double helix structure can be used to combine the independent powers of the Wyckoff Method and Elliott Wave Principle. Together Wyckoff and Elliott forge a partnership that combines their strengths and offset each other's weaknesses.

That powerful synergy of Wyckoff and Elliott was illustrated with the case study of an intraday analysis of a trade depicted and explained first with the Wyckoff Method, and then the Elliott Wave Principle.

In a subsequent article, I propose to offer a further refinement of the DNA metaphor combining Wyckoff and Elliott. To that will be added a more detailed application that shows the Wyckoff Method and the Elliott Wave Principle at work together over a bull bear market cycle.

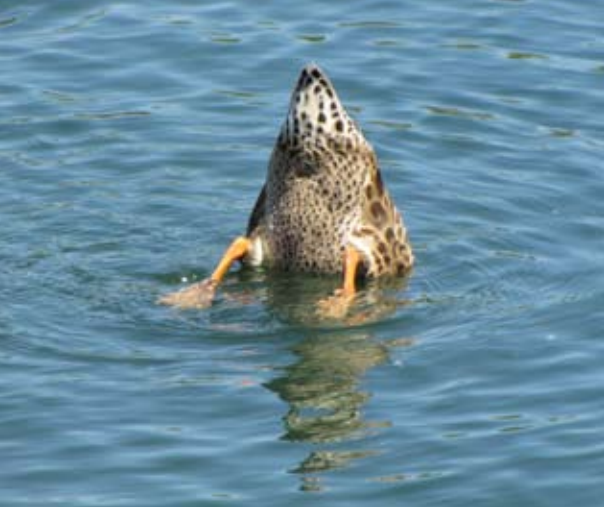
Acknowledgements

I wish to thank Mr. Carlos Gonzalez, Administrative Assistant, Ageno School of Business, Golden Gate University for his deft handling of the double helix slides; I wish to thank Ms. Barbara Gomperts, SAMT Journal committee, for her strategic guidance in the organization and articulation of this article.

- Hank Pruden

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

Henry O. (Hank) Pruden, Ph.D., is a Professor of Business and Director of the Technical Market Analysis Program at Golden Gate University, San Francisco, CA, USA. He is also a Chairman of the Technical Securities Analysts Association of San Francisco (TSAASF). Hank is an honorary member of SAMT.



A BOTTOM-UP APPROACH

BY SECTORS TO SET MARKET EXPOSURE

Alberto Vivanti

It is sometimes amazing how a simple concept like trend following can be applied sophisticatedly in order to enhance the quality of an investment strategy. Trend following is reactive, not predictive, but it is a valuable tool for capturing the whole part of a market trend and, what is more important, for avoiding huge losses in adverse conditions. The ability to exit the investment when a bear trend is in place is the most effective way to reduce the volatility of the equity curve.

On the other side, trend following strategies are laggards. It is quite difficult to exit a position at the top price; at the same time it is almost impossible to enter it at the bottom. But, for the average investor, it matters a constant and robust return, and a sound trend following methodology is able to provide it.

We can decide to stay invested in the stock market in several ways. We all know the pluses and minuses of a passive approach: a decent return over the long run alternated by huge drawdowns that can well even halve the value of your investment in bear markets, and it happened twice to most of the major stocks indexes in the first decade of this century. On the other hand, you can apply a trend indicator to the market index and follow its signals: stay invested when positive, exit when negative. It sounds too simple, but it works.

Another approach is to weigh the investment through multiple rules by diversifying the strategies, but beware. If you apply different trend indicators with a similar time span. you won't get anywhere. Their signals will be very close and the results highly correlated with each other.

BOTTOM-UP APPROACH

The method I am going to introduce is a bottom-up approach based on sectors. Sector indices are available for global markets as well as for the U.S. and European markets. Companies are categorized by the market standard – ICB (Industry Classification Benchmark). There are several levels of classification: the most relevant are the 10 top industries that, in the case of Stoxx® Indices, are broken down into 19 supersectors. Such indexes are replicated by ETFs available in the market and ~~that~~ we can use them when implementing a sector strategy.

This example, and all the related backtesting, has been applied to the 19 so-called supersectors of the Stoxx Europe 600. All the time series I used for this study are total return, including the benchmark Stoxx 600, since the ETFs available for the market use, as a benchmark, the corresponding total return index, even when they distribute a dividend, in order to measure their returns properly.

When a robust trend is in place in the stock market, all the sectors usually follow. So, all the sector indices will signal an uptrend, and, in this case, there is nothing wrong with staying fully invested in the market. We can well equally weight our investment among all the sectors. When the trend indicator turns bearish for some sectors, it means that the market is losing strength or, better said, is losing breadth even if the same trend indicator on the market index stays bullish. In this case, we'll reduce our stake in the market proportionally, by eliminating the bearish sectors from the portfolio. If the bearish signals continue to prevail then more and more sectors indexes will be eliminated and the exposure to the stock market will be scaled down proportionally.

The following are the simulated returns of a strategy applied to the Stoxx Europe 600 total return and its related supersectors.

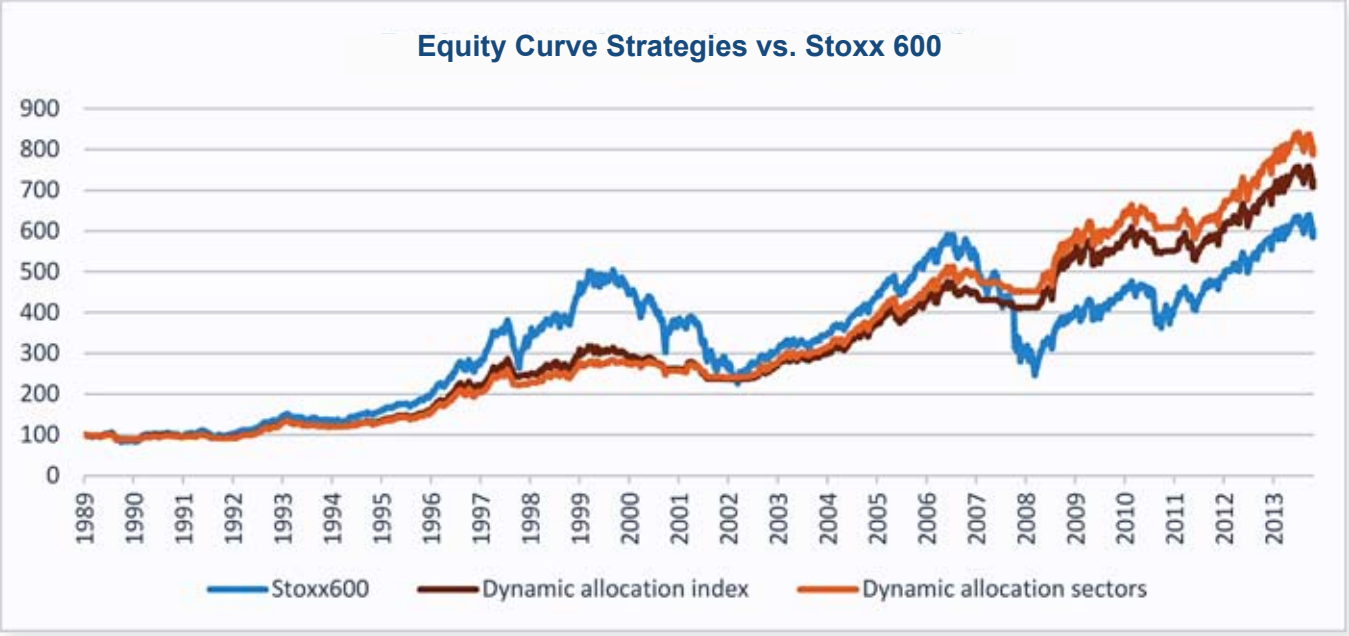
The rules are the following:

- **Benchmark: the passive return of the index Stoxx Europe 600 total return**
- **Dynamic allocation among sectors**
  - Allocate 5% of the investment in each sector showing a positive trend at medium term (5% times 19 sectors plus 5% to the market index, equals 100%, in order to obtain a round figure of 5% for each component).
  - Discard those sectors when trend turns negative and reduce the total equity stake proportionally by a 5% for each down-trending sector.
  - Reintroduce a 5% stake in those sectors which trend turns bullish again.
  - Rebalance to 5% all the long positions at the end of each month.
- **Dynamic allocation onf index**
  - Invest only in the benchmark, by attributing the weight indicated by the dynamic allocation among sectors (i.e. if 4 sectors out of 20 are long, invest 20% in the index, if 20, invest 100%).

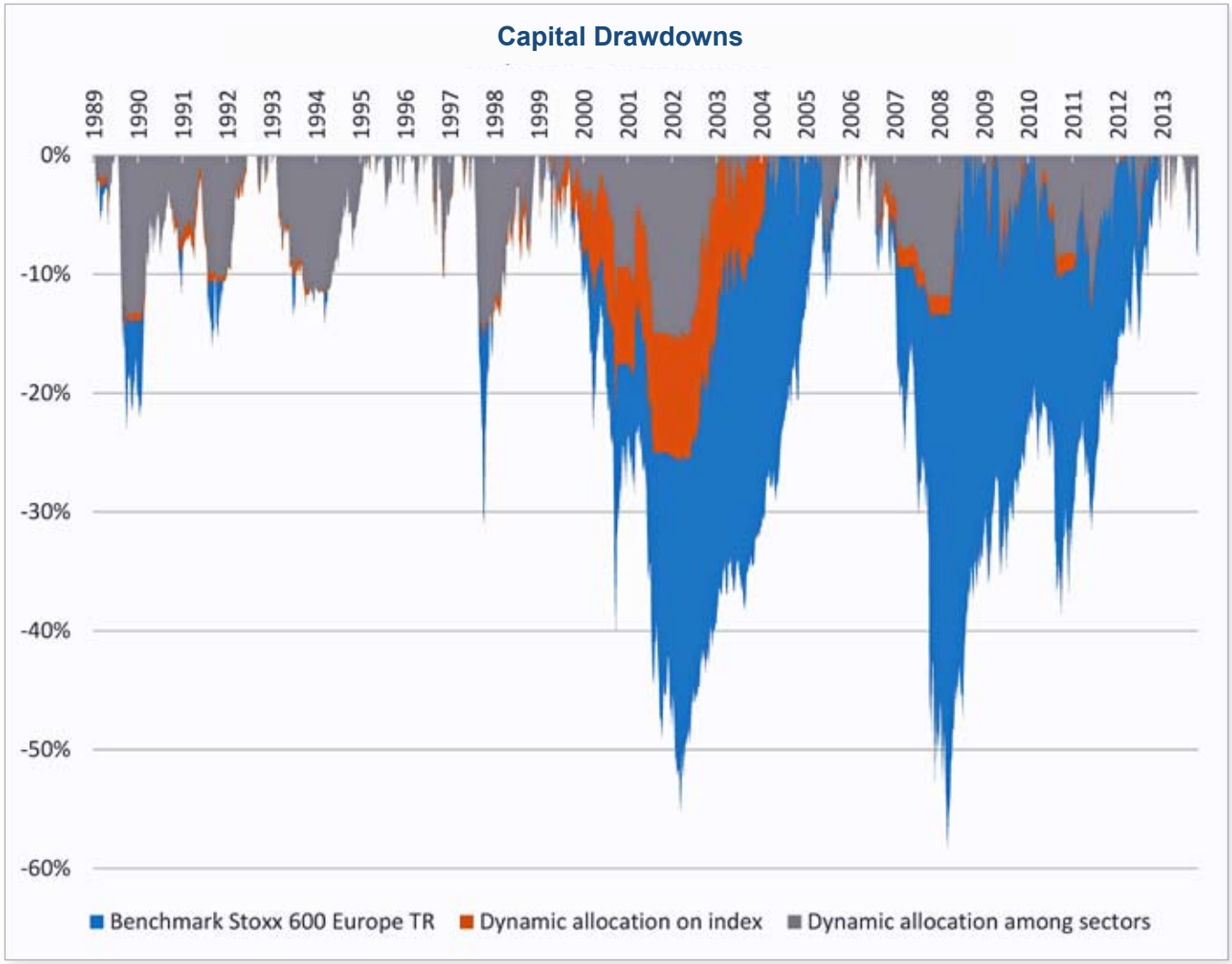
Note: all the investment decision, in this backtest, are taken at the end of every calendar month

Simulation 01.1990-10.2014 24.8 years	Benchmark Stoxx 600 Europe TR	Dynamic Allocation on Index	Dynamic Allocation among Sectors
Total Return	**501%**	**623%**	**703%**
Compounded yr. rate of return	7.5%	8.3%	8.8%
Max. Drawdown	-58%	-26%	-16%
Std. Deviation (Annualized)	17%	10%	10%

Calculations on weekly data. The drawdowns are close to close on a weekly basis



The following is a comparison among the capital drawdowns in the benchmark with those of the simulated equity curves



Yearly breakdown of simulated returns

25 Years	Benchmark Stoxx 600 Europe TR	Dynamic Allocation on Index	Dynamic Allocation among Sectors
1990	-15%	-10%	-11%
1991	13%	7%	7%
1992	7%	-2%	-3%
1993	41%	41%	41%
1994	-6%	-8%	-7%
1995	17%	12%	9%
1996	24%	19%	18%
1997	37%	36%	30%
1998	24%	13%	11%
1999	39%	25%	23%
2000	-4%	-6%	-1%
2001	-15%	-11%	-7%
2002	-32%	-10%	-7%
2003	17%	14%	15%
2004	13%	11%	14%
2005	27%	24%	24%
2006	21%	16%	18%
2007	2%	5%	8%
2008	-45%	-8%	-9%
2009	35%	33%	30%
2010	13%	5%	8%
2011	-9%	-5%	-4%
2012	18%	9%	8%
2013	21%	17%	19%
October-2014	2%	3%	3%

Conclusion

A dynamic strategy, based on a bottom-up analysis of trends among the benchmark sectors, looks interesting as a decision tool for asset allocation. This approach helps to generate constant returns by strongly reducing the volatility. The methodology shouldn't be viewed as a trading tool, especially when the decisions are taken at specific calendar periods, for this example, the end of each month.

Alberto Vivanti, Independent analyst, founder of Vivanti Analysis in 2003. Alberto is a technical and quantitative analyst since the early 1980's, with a sound experience as an asset manager with Swiss Institutions. Author of a technical newsletter, lecturer for institutions and instructor in Technical Analysis courses in Switzerland for the IFTA Certification, author of articles and books, has been co-author of a book with Perry Kaufman. Alberto chaired the IFTA conference held in Lugano in 2006. He has been official speaker at the IFTA Conferences 1998 in Rome and 2006 in Lugano. Alberto is Vice President of the Swiss Association of Market Technicians, representing the Swiss Italian Chapter.

BULLISH TARGETS FOR THE S&P500 AFTER THE FALL 2014 CORRECTION

Bruno Estier, MSTA, CFTe, MFTA

This article was written on 24 October and originally published in French in the WealthGram - La Tribune Mensuelle des Membres du GSCGI, Vol. III - N° 34 - Novembre 2014
wealthgram@gscgi.ch
www.gscgi.ch
Reprinted with permission.

On October 16 the S&P 500 reached a correction of 10% near 1,820 since its high of 2,019 in mid September. At the same time, the volatility index (VIX), reflecting fear of market corrections, reached 31%, a level unseen since 2011. This sharp increase of the VIX is linked to the deep correction of the equity market, usually expected during the four-year presidential cycle, as mid-term elections took place in the fall of 2014 in the USA. Along statistical data a correction in the 10-20% range is expected every four years. But since 2012, as we mentioned in an earlier report, the 10-year cycle and the longer-term, 37-year cycle were both rising and could overcompensate the bearish influence of the four-year cycle. This would explain the relatively modest decline of 10% for the S&P 500, keeping in mind that for Small Caps the correction was deeper, near 15%.

The rebound in the V shape, going on for a week, is strong enough to allow us to define the low at 1,820 as a major through. As the seasonality turns bullish since mid October, and as the statistical data of the four-year cycle is also very favourable for the year 2015, it is time to focus on the next bullish targets, while in the media the fears of global growth slowdown and deflation are making headlines. The monthly chart confirms that the S&P 500 has not broken the 20-month moving average. Also on a monthly basis, the VIX is likely to close the month of October below the 20% range of the last two years. The VIX does not display a rising trend like in 2007. Therefore, it is highly unlikely that the S&P 500 will show a similar development like in 2007-2008, when a test of the 20-month moving average was followed by a test of the upper Bollinger Band, before a reversal into a bear market in 2008.

Indeed, the MACD now has not yet crossed down and a bearish divergence like in 2007 would take many more months to develop.

All these technical indices let us believe that, despite a bull market since March 2009, and despite a very linear rise since October 2012, we have to define the recent 10% correction in the S&P 500 as a pause during a bull market. Therefore, we need to focus now on bullish targets. Indeed, a first target of 2,141 can be defined as a Fibonacci extension of 162% counted from the low of the recent correction near 1,820. Alternatively, a second target at 2,198 can be computed as another Fibonacci extension of 162% based on the latest rise from 1,730 to 2,019, the recent all time high. The likelihood to reach this second target has increased, since the S&P 500 has been able to make a new high above 2,019 at the end of October.

These bullish targets are relatively modest, when one is taking into account the strongly bullish influence of statistical data referring to both the years ending in 5, and the year following the four-year cycle low, that just occurred this fall. Hence, 2015 could even go higher beyond our first two targets. But it is also getting clear that Big Caps will continue to outperform Small and Mid Caps in 2015, as these are unlikely to regain leadership as the bull market progresses to new highs.

What concerns the other main global regional stock indices, the key will be to monitor the development of their relative strength versus the S&P 500. That relative strength is currently flat for emerging market equities, and unfortunately, is still declining for the stock indices of Europe.

The relative strength of Japan versus the S&P 500 was rising during 2014, but has been pausing recently, and would need to re-confirm a new rising trend.

Again all analysts' eyes are focused on the US equity market.

The S&P 500 index with a monthly moving average of 40- and 20 months with two Bollinger Bands. The value of the upper Bollinger Band is currently at 2,078. After the V shape correction in October, targets near 2,141 and 2,198 can be reached once the S&P 500 has moved above the resistance of 2,078 - 2,085. MACD has not yet crossed down, while the monthly STO, which was declining since mid summer, could give a new buy signal to confirm the 1,820 low. Source: Stockcharts.com

Bruno Estier, MSTA, CFTe, MFTA, is a Global Market Advisor and Technical Analysis coach in Geneva for professional traders and portfolio managers. A past president of the Swiss Association of Market Technicians (SAMT) for 12 years, he was also on the board of directors as Secretary and Chairman of the International Federation of Technical Analysts (IFTA) for 15 years. After graduating with an MBA from the University of Chicago Booth Graduate School of Business and a masters in economics from the University of Saint Gallen (HSG), he worked with JP Morgan in FX sales in Zürich and as Senior Technical Analyst in Paris. He then joined Lombard Odier & Cie, Geneva as Head of the Technical Analysis team.

Currently, Bruno Estier Strategic Technicals, based on 30 years experience in Behavioural and Technical Analysis Methodologies, provides coaching on the long-term and short-term evolution of financial markets.

NEXT CFTe PREP COURSE SET FOR 14-15 MARCH 2015

AN IMMERSION COURSE IN PREPARATION FOR THE IFTA CERTIFIED FINANCIAL TECHNICIANS (CFTe) LEVEL II EXAMINATION IN APRIL

On Saturday and Sunday, 14-15 March 2015, the Geneva chapter of the Swiss Association of Market Technicians (SAMT) will present a two-day immersion course on advanced technical analysis and preparation for IFTA Certified Financial Technicians (CFTe) Level II examination. This course is designed for professionals with market experience who are familiar with the essentials of technical analysis and also for those who would like to use more advanced technical analysis on a regular basis.

- This immersion course is also designed to prepare candidates for the upcoming CFTe Levels I and II exams which culminate in the award of an international professional qualification in technical analysis. The exam tests technical skills knowledge and understanding of ethics and the markets.
- The course will be limited to 5-10 candidates so that each person will receive the same individual level of information and instruction.
- The CFTe Level II exam incorporates a number of questions requiring essay-based analysis and answers. The candidate will demonstrate a depth of knowledge and experience in applying various methods of technical analysis.
- The exam also contains a number of different charts covering one specific market (often an equity) to be analysed, as though for a fund manager or trader.

Who Will Teach the Course?

- The course will be taught by Bruno Estier, CFTe, MFTA; and Ron William, CMT, MSTA who are members of the Geneva chapter of SAMT.
- Collectively, the instructors have 50 years of experience, have technical analysis professional designations, and use technical analysis in their daily work.

How Will it Work?

- The two-day course will begin promptly at 09:00 on Saturday morning. The instructors will begin with an overview of basic technical analysis per the CFTe Level I exam.
- A sample of a CFTe Level II exam will be introduced to familiarize each candidate with each of the three sections and how best to answer the questions in the three hours allotted for the exam.
- Lunch will be served (12:00-13:30).
- The afternoon will focus on all aspects of technical analysis – with particular attention to subjects which will be needed to complete and hopefully pass the CFTe Level II exam.
- At the end of the day – about 18:00 – an overnight assignment will be given – similar to the chart analysis section of the CFTe Level II exam. The class will end at 18:00.
- On Sunday morning, the class will review the overnight assignment before continuing with the materials needed to familiarize the participants with the information needed for the CFTe Level II exam.
- Lunch will be served (12:00-13:30).
- The afternoon will focus on sample CFTe Level II exam questions and sample charts which will be analysed.
- There will be a review of all subjects in the late afternoon before the course ends at 18:00.
- In preparation for the exam, candidates should review the IFTA Syllabus and Study Guide (CFTe Level II). Click on link to download.

Preparation Course for the April CFTe Exam

When:

Saturday, 14 March &

Sunday, 15 March 2015

Where:

Geneva

Hours:

9:00 until 18:00 each day

16 hours of Immersion Training

Class Size:

5 minimum; 10 maximum

Cost:

SAMT Members - CHF 1250

Non-Members - CHF 1450

Early Bird Cost:

SAMT Members - CHF 1150

Non-Members - CHF 1350

Registration Deadline:

Friday, 6 March 2015

Early Bird Deadline:

Friday, 27 February 2015

IFTA Exam:

Wednesday, 23 April 2015

Exam Registration Opens:

1 December 2014

Complete information:

http://samtjournal.uberflip.com/i/394255

Contact:

ronwilliamPR@gmail.com

THE COURSE WILL BE PRESENTED IN ENGLISH

SAMT

EDUCATION

Technical Securities Analysts Association - San Francisco (TSAA-SF) Webinars

Each month the TSAA-SF presents webinars that are often free or require a prepayment of a small fee.

The webinars are offered as various times during the day - some early in the morning (Pacific Time), some at noon or in the evening. Because of the time difference between San Francisco and Switzerland (9 hours), SAMT members could view some of the webinars during CEST evening hours.

Click to see the schedule of webinars available.

TSAA-SF is the oldest society in the U.S. devoted to the study and development of technical analysis of stocks and commodities. TSAA-SF is an IFTA Member Society.

IFTA Certified Financial Technician (CFTe) Program

The IFTA Certificate (Certified Financial Technician) consists of CFTe I and CFTe II, which together constitute a complete professional program.

The two examinations culminate in the award of this internationally recognised professional qualifi cation in Technical Analysis.

Examinations

The exams test not only technical skills, but also international market knowledge.

CFTe I

This multiple-choice exam covers a wide range of technical knowledge and understanding of the principals of Technical Analysis, usually not involving actual experience.

The CFTe I exam is offered in English, German, and Arabic, and is available, year-round, at testing centers throughout the world, from IFTA's computer-based testing provider, Pearson VUE.

CFTe II

This exam incorporates a number of questions requiring an essay based analysis and answers. For this, the candidate should demonstrate a depth of knowledge and experience in applying various methods of technical analysis. The exam provides a number of current charts covering one specific market (often an equity), to be analysed, as though for a Fund Manager.

The CFTe is offered in English, German, and Arabic bi-annually, typically in April and October.

Curriculum

The program is designed for self-study. Local societies may offer preparatory courses to assist potential candidates. Syllabus and Study Guides are available on the IFTA website.

To Register

Please visit the website for registration details.

http://www.ifta.org/certifications/financial/

Cost

IFTA Member Colleagues

CFTe I $500 US

CFTe II $800* US

Non-Members

CFTe I $700 US

CFTe II $1,000* US

*Additional Fees (CFTe II only):

$250 US translation fee applies to non-English exams

$100 US applies for non-IFTA proctored exam locations

For more information on these certifications, please e-mail admin@ifta.org

CFTe

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 new Syllabus and Study Guide. Download from IFTA website.

Languages

Effective October 2014, the CFTe I and II exams 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.

LUGANO FUND FORUM

24-25 November 2014 • Lugano

Riccardo Esposito (CEO of Lugano Fund Forum), Mario V. Guffanti (SAMT) and Dr. Dominick Salvatore looking at the SAMT Journal.

Jean-Claude Trichet, former President of European Central Bank, Mario V. Guffanti, Vice President of SAMT Lugano

The Lugano Fund Forum panel on Trading Online

Alberto Vivanti, moderator of the panel and Vice President of SAMT Lugano Chapter

Vittorio Cornaro, Executive Vice President at Cornèr Trader

Carlo Alberto De Casa, Senior Analyst at ActivTrades and Fouad Bajjali, CEO at IG Bank

IFTA2014
Unravelling the DNA of the Market

9-11 October 2014 • London

SAMT Geneva member, Jean-François Owczarczak with SAMT honorary member, Hank Pruden

Rolf Wetzer, IFTA President (and SAMT member) and Deborah Owen, Conference Director, STA, presenting award to John Murphy

SAMT honorary member, Ian McAvity (center)

SAMT friend, Robert Prechter

SAMT President, Daniel Stillhart

STA Chairman, Axel Rudolph, with SAMT VP, Ron William

SAMT VP, Ron William with SAMT honorary member, Hank Pruden with NTAA members

Conference director passing the talking stick to next year's host, Japan

SAMT BOARD OF DIRECTORS & OFFICERS

The Swiss Association of Market Technicians

Founded 1987

The Swiss Association of Market Technicians (SAMT) is a non-profit organisation (Civil Code Art 60ff) of market analysis professionals in Switzerland, founded in 1987. SAMT is a member of the International Federation of Technical Analysts (IFTA).

Technical analysis is the study of prices and markets. It examines price behavior on an emprirical and statistical basis. It extends to the study of all published information on price trends, volatility, momentum, cycles and the interrelationship of prices, volume, breadth, sentiment and liquidity. A comprehensive understanding of technical analysis requires a knowledge of statistics and pattern recognition, a familiarity with financial history and cycles.

SAMT encourages the development of technical analysis and the education of the financial community in the uses and applications of technical research and its value in the formulation of investment and trading decisions. SAMT has a wide range of activities including:

- Organising meetings on a broad range of technical subjects encouraging the exchange of information and knowledge of technical analysis for the purpose of adding to the knowledge of its members.
- Preparing its members to sit for the Certified Financial Technician (CFTe) exams and the Masters level degree Master of Financial Technical Analysis (MFTA) in Switzerland. These exams are controlled by IFTA.
- Developing CFTe preparatory courses which are given twice yearly in advance of the IFTA exams.

Daniel Stillhart
President
daniel.stillhart@samt-org.ch

Patrick Pfister, CFTe
Vice President and
Head of Zürich Chapter
patrick.pfister@samt-org.ch

Ron William, CMT, MSTA
Vice President and
Head of Geneva Chapter
ron.william@samt-org.ch

Alberto Vivanti
Vice President and
Head of Lugano Chapter
alberto.vivanti@samt-org.ch

Mario Valentino Guffanti, CFTe
Vice President
of Lugano Chapter
mario.guffanti@samt-org.ch

Louis Grosjean
Head of Treasury
louis@grosjean.ch

Tim Straiton, FGA
Head of Website Development
info@stoploss.ch

Marco Zahner
Auditor
ma_zahner@bluewin.ch

SAMT MEMBERSHIP

SAMT encourages the development of technical analysis and the education of the financial community in the uses and applications of the technical research and its value in the formulation of investment and trading decisions.

SAMT offers the following benefits:

- The organisation of meetings on a broad range of technical subjects encouraging the exchange of information and knowledge of technical analysis for the purpose of adding to the knowledge of the members.
- The organisation of presentations from guest speakers from around the world.
- The possibility to sit for the Certified Financial Technician (CFTe) exams at a discounted rate. These exams are controlled by IFTA.
- The "IFTA Update" - a quarterly newsletter from the International Federation of Technical Analysts.
- Access to the SAMT database covering trading strategies, chart pattern recognition, technical indicators and a glossary of terms.
- A generous discount on the annual IFTA Conference admission fee.

The Cost of Membership

- Initial one time registration fee of CHF 50.
- Annual membership fee of CHF 150. (The total cost for the first year is CHF 200.)
- Only fully paid-up members have access to the member area.
- The subscription cost for each subsequent year is CHF 150.
- Subscription expiry results in blocked access to the member area. A standing annual payment order is therefore recommended.

Subscription Payments

Please use the Register Here link below for executing your payment and don't forget to make sure your name is mentioned in the payment (especially for members whose subscription is paid by/through their employers).

Also please note that by registering as a member of SAMT you declare that you have read, fully understand and agree to the content of the SAMTDisclaimer statement which appears below.

Payments are made by PayPay, Amex, MasterCard or VISA by linking to

http://www.samt-org.ch/payment.php

SAMT PARTNER SOCIETIES

International Federation of Technical Analysts (IFTA)

IFTA is a non-profit federation of 26 individual country societies who individually and jointly dedicate themselves to

- Research, education, camaraderie and dissemination of technical analysis of world markets. The IFTA societies support sharing technical analytical methodology that at its highest level is a valid, and often-indispensable element in the formulation of a reasonable basis for investment decisions.
- Promotion of the highest standards of professional conduct, international cooperation and scholarship between all its Member and Developing Societies within all arenas of technical analysis.
- Providing centralized international exchange for information and data of various financial centers while respecting individual country and Society business practices, legal structures and customs.
- Encouraging the standardization of education and testing of its constituent members in technical analysis, making sure that each individual country's security analyst licensing, legal and language /communication priorities continue to be individually accepted.
- Fostering the establishment of individual societies of technical analysts without bias in regard to race, creed or religion. It supports the need for maintaining a free and open worldwide markets under normal, and in particular crisis periods.

As a growing bridge of communication worldwide, IFTA remains open to methods of technical analysis, while encouraging the consideration and support of membership for both developing and established societies.

www.ifta.org

Centro di Studi Bancari

Founded by the Ticino's Banking Association in 1990, Centro di Studi Bancari (CSB) is an institution that promotes and provides education, training and continuous update for banking, fiduciary, insurance and legal-financial professionals in the financial markets. CSB provides courses, training courses for various certifications and hosts conferences. The training programs are recognized at local, national and international levels, as well as by many private associations, such as SwissBanking. CSB can also organise tailor-made training, leveraging on its inter-disciplinary competences in the field of banking, finance, compliance, management and taxation.

www.csbancari.ch

Swiss CFA Society

The Swiss CFA Society boasts over 2,400 members in Switzerland, against barely 100 in 1996 at inception. It is the largest CFA Institute society in continental Europe. With more than 2,000 candidates taking the rigorous Chartered Financial Analyst® (CFA®) exam in Switzerland each year, the society's impact on the Swiss investment community is self-evident.

It was the first society of CFA charterholders in the EMEA region to be directly affiliated with the prestigious CFA Institute, which includes more than 110,000 members in 139 countries.

The vision of the Swiss CFA Society is to be a leader in fostering the highest level of knowledge, professionalism, and integrity in the investment business.

www.cfasociety.org/switzerland

Swiss Futures and Options Association

The Swiss Futures and Options Association (SFOA), previously the Swiss Commodities, Futures and Options Association, was founded in 1979 as a non-profit professional association for the purpose of promoting derivative financial instruments, particularly standard futures and options contracts on financial instruments and commodities, to the widest possible audience, and to serve the interests of its members. SFOA serves users of commodity and financial derivatives, as well as professionals, their institutions and the exchanges.

www.sfoa.org

Groupement Suisse des Conseils en Gestion Indepenats (GSCI)

CSCGI is a group of economic interests formed by specialized independent financial intermediaries who are confirmed professionals in the financial services industry. The group is open to contacts with any person interested in the business of wealth management seeking to promote dialogue with the banking partners and authorities at all levels. Their goals are to:

- Promote contacts between professionals motivated by the same desire for independence, wishing to maintain and develop relationships with counterparts.
- Find common ground for exchanging experiences and ideas, a field where diversity and novelty are prevailing.
- The enrichment of the links that can be forged on a friendly and professional level within a well defined and recognized framework to favour professional consultation and close dialogues.

www.gscgi.ch

photograph by Alberto Vivanti

The Swiss Association of Market Technicians

GENÈVE • LUGANO • ZÜRICH