



Nine Essentials of Market Analysis

**Blend Technical and Fundamental
Analysis to Gain Perspective**



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I'm Jackie Ann Patterson – Editor of BackTesting Report

The computer engineer who back-tests
trading strategies and indicators



Agenda

- How I Monitor Broad Market and Find Opportunities
- Live Market Analysis
- Prize Drawing at the end
 - Survey is entry form
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#1) Fundamental Economy

Fundamental Driver of Market Performance

- What: Leading Economic Indicators
- How: conference-board.org
- References:
 - John Hussman weekly commentary at hussman.net
 - John Mauldin weekly commentary at frontlinethoughts.com



#2) Market Valuation

Buy Low, Sell High



- What: S&P500 Price/Earnings Ratio
- How: www.mutpl.com (Robert Shiller's Chart)
- References:
 - John Hussman, article at hussman.net/wmc/wmc050222.htm
 - John Mauldin, Bull's Eye Investing
 - Robert Shiller, Irrational Exuberance

#3) Seasonality

“To Everything There Is A Season”

- What: Election Cycle, Summer Doldrums, Weekly
- How: Calendar with
 - Election year strong, post-election weak
 - Sell in May and Go Away. Oct – Dec better for buying
 - 1st and 3rd weeks of month strong, 2nd week weak
- References:
 - Ken Fisher, The Only 3 Questions That Count



#4) Market Trend

The Trend is Your Friend

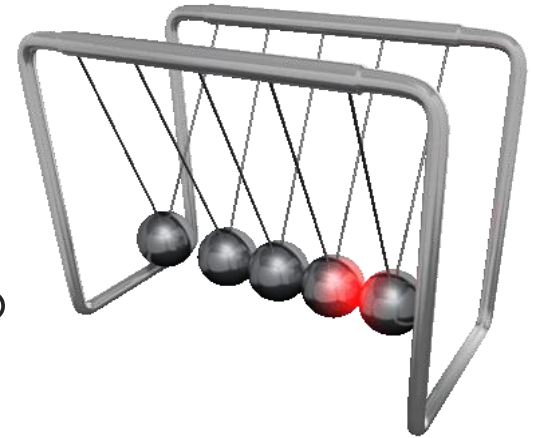
- What: Major Indices Price Trend
- How: TradeStation Chart,
 - Price above 200-day MA is basic uptrend
 - 50-day MA above 200-day MA important too
- References:
 - Moving Average Reports at backtestingreport.com
 - Golden Crosses at backtestingreport.com



#5) Overbought / Oversold

Measure Ebb and Flow of Market

- What: Major Indices Channel Position
- How: TradeStation Chart with
 - Keltner channel
 - 10-day new high / new lows important too



- References:
 - Trading Channels Report at backtestingreport.com
 - Jackie Ann Patterson, Fidelity article
<https://www.fidelity.com/viewpoints/swing-trading-indicators>

#6) Fear / Greed Extremes

Emotion Drives Human Behavior Drives Markets

- What: Options activity via VIX and Put/Call Ratio
- How: TradeStation Charts
 - VIX – look for support / resistance and
 - Put/Call Ratio – look for return from extremes
- References:
 - Alexander Elder, Trading for A Living
 - Manual study of VIX history



#7) Breadth

Narrow Breadth Often Precedes Market Declines

- What: McClellan Summation Index
- How: TradeStation Charts
 - Wrote indicator for McClellan Summation Index
 - Look for divergences between price and Summation Index
- References:
 - Tom McClellan, presentation at LA Traders Expo, June 2009
 - http://www.mcoscillator.com/learning_center/kb/mcclellan_oscillator/the_mcclellan_oscillator_summation_index/
 - Gerald Appel, Technical Analysis Power Tools for Active Investors



#8) Flight to Safety

Yield Spreads Widen During Crash

- What: Corporate vs Treasury Yield Spreads
- How: TradeStation Charts
 - Plot LQD and IEF
 - Monitor price difference for abrupt changes
- References:
 - John Hussman, weekly commentary



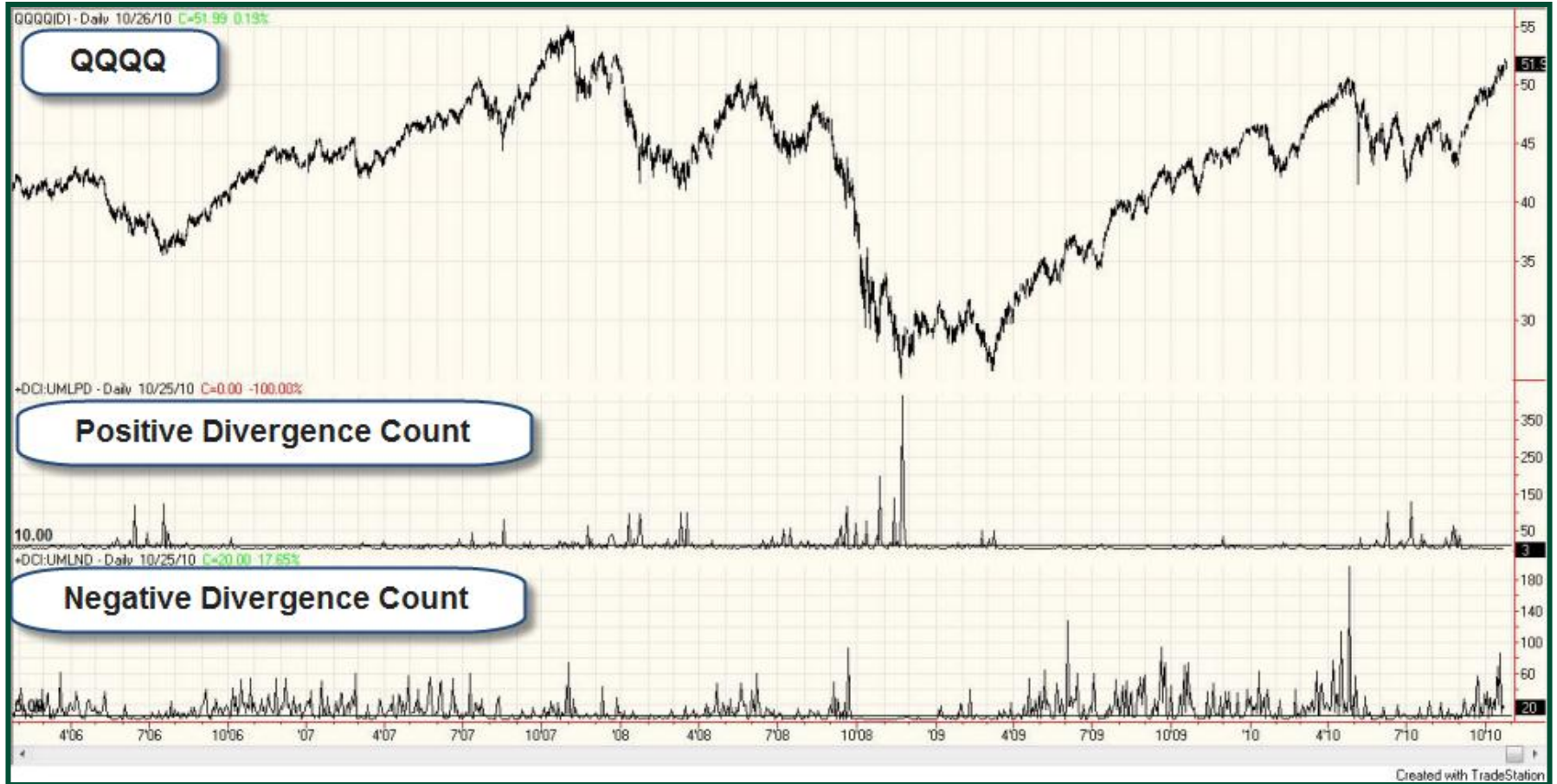
#9) Divergences

“Strongest Signal in Technical Analysis”



- What: Divergence Between MACD and Price
- How: TradeStation Charts with Divergence Detector Add-in
 - Market-wide Divergence Count
 - Buy with many positive divergences and few negative divergences
 - Scan for Divergences on Indices, ETFs, Stocks
- References:
 - Divergence Count Indicator BackTesting Report, divergence-alerts.com
 - MACD BackTesting Reports, backtestingreport.com
 - Alexander Elder, Trading for a Living and Cyprus Camp

The Divergence Count Indicator (DCI)



Buying Zones

Windows of Potential Opportunity

- P-Zone: Many Positive Divergences
 - Simple MA of Positive Divergence Count > 10
- N-Zone: Few Negative Divergences
 - Simple MA of Negative Divergence Count < 5
- Trading Rule: Buy Stocks with MACD Positive Divergence When the N-Zone or P-Zone

Best Case Time to Buy

For Decent Chance to Avoid Loss...

- Trend: up
- Upside break-outs, positive divergences
- Oversold
- Calendar: Oct-Dec, pre-election
- Sentiment: fear peaks
- Valuation: low
- Economic growth
- Widening govt/corp yield spreads



Best Case Time to Sell

For Decent Chance to Profit

- Trend: down
- Downside break-outs, negative divergences
- Overbought
- Calendar: May-June, post-election
- Sentiment: greed, complacency
- Valuation: high
- Economic contraction
- Narrowing govt/corp yield spreads



Summary

Nine Essentials of Market Analysis

- 1) Economy
- 2) Valuations
- 3) Season
- 4) Price Trend
- 5) Price Swing
- 6) Fear / Greed Extremes
- 7) Breadth of Action
- 8) Flight to safety
- 9) Divergences



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[Lesson 7](#) of The Truth About MACD video series goes deep on the historical performance of the MACD Divergences. The focus of this report is buying on positive MACD divergences and then selling on negative MACD divergences. [Study Guide for Lesson 7](#)

If you have The Truth About MACD BackTesting Reports, you can use BTR#8 as a reference text for this video. BTR#10 is the reference for the MACD + ADX section of the video.



[Lesson 8](#) of The Truth About MACD video series goes deep on the historical performance of the MACD Divergences. The focus of this report is selling short on negative MACD and then divergences buying on positive MACD divergences. [Study Guide for Lesson 8](#)

This topic was not covered in The Truth About MACD BackTesting Reports.



[Lesson 9](#) of The Truth About MACD video series addresses the issue of risk in trading. It identifies particular risks with MACD divergences and with discusses methods of risk management such as trade sizing and stop losses. [Study Guide for Lesson 9](#)



[Lesson 10](#) of The Truth About MACD video series brings it all together by stepping through the decision-making needed to form a trading plan using the MACD indicator. [Study Guide for Lesson 10](#)

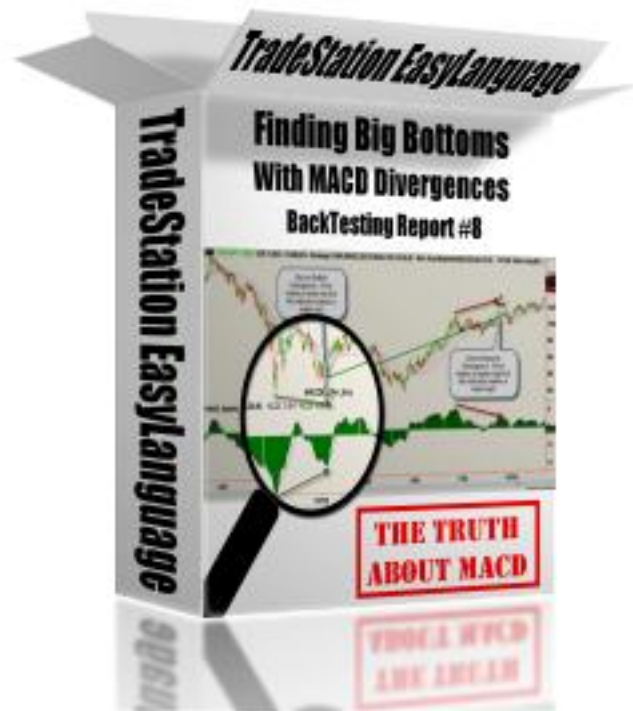
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Thank You!