IFTA
International Federation of Technical Analysts

IFTA UPDATE

2016 Volume 23 Issue 3

a newsletter for the colleagues of the International Federation of Technical Analysts

The *IFTA UPDATE* is a publication of the International Federation of Technical Analysts, Inc. www.ifta.org, a not-for-profit professional organization incorporated in 1986.

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IN THIS ISSUE

Next Issue: December 2016

Submission Deadlines

Education articles: November 15—send submissions to **newsletter@ifta.org**

All other content: December 1—send submissions to admin@ifta.org

President's Report to Colleagues

Dear IFTA Colleagues,

The countdown to the 29th IFTA Annual Conference has begun. With less than a month to go, the hosting society (ATAA) has been preparing for a memorable event in Sydney. Whether it is the exciting conference theme or the outstanding list of guest speakers and intriguing topics, I have no doubt that this conference will be yet another successful IFTA event, and one that will leave the delegates with plenty to take back home, digest, and experiment on while operating in the financial markets. I can already tell that members across the globe are becoming aware of this as well, as very few spots remain before the conference is fully booked! So if you plan to register but haven't yet, I strongly suggest that you take action before it's too late!

The day before the conference, the Annual General Meeting (AGM) will be held in Sydney at the Primus Hotel. The AGM is a unique opportunity for liaisons/representatives of IFTA member societies to meet with each other and with the IFTA board. Both IFTA board and member society-liaisons will present and share their reports on the annual events and developments of their organizations.

This year's AGM agenda will include electing candidates for the IFTA board. This year, IFTA has seven vacant positions, for which we have received seven applications compliant with IFTA bylaws. The candidates' profiles are included in this newsletter. As per the bylaws, IFTA formed a Nominating Committee consisting this year of Stephanie Eismann (VTAD), Dan Valcu (IFTA/AATROM), Tom Hicks (IFTA/STA), Mohamed Younis (ESTA), and me.

Also in October, three IFTA directors will be stepping down after completing their terms. Our dear colleagues Akira Homma (Director/VP Asia Pacific), Dan Valcu (Marketing and Membership Director), and Mohamed Ashraf (Director/VP Middle East and Africa), on behalf of IFTA, I thank you for your profound, active, passionate, and significant contributions over the past years. It has certainly been a pleasure to work with all of you, and I sincerely wish you all the best in your future endeavours.

On a sad note, ESTA lost a dear friend, colleague, and mentor to many ESTA members—Mohamed El Zayat MSTA, CFTe—who passed away suddenly in August. In addition to over

IFTA 2016
Annual General Meeting

Thursday, October 20, 2016
16:00 to 17:30 (4:00PM – 5:30PM)

Primus Hotel Sydney
Sydney, Australia

All IFTA colleagues are invited and encouraged to attend. For further information, contact the IFTA staff at admin@ifta.org.

22 years of experience in the financial markets as a technical strategist, Mohamed has been a major contributor to and co-founder of ESTA since its inception in 2001. He held several positions on the ESTA board and committees, ranging from treasurer to director at large, as well being significantly involved in the ESTA education committee. On the IFTA front, Mohamed was responsible for CFTe translation to Arabic back in 2006–2007. On behalf of IFTA, I offer my sincere condolences on the

President's Report continued

passing of my dear friend and colleague, and to his family, ESTA friends, and colleagues. Through his precious contributions, Mohamed will always be remembered by ESTA.

Last but not least, I would like to thank all member societies who shared updates and news from your local societies with us, as well as all those who contributed to the production of this newsletter. Sharing information, knowledge, and experience is and will always be, in spirit, the reason why IFTA was created and continues to exist.

I'm looking forward to meeting many of you this year in Sydney at the 29th Annual IFTA Conference!

Best regards,

Mohamed El Saiid, CFTe, MFTA
IFTA President

MFTA Research Paper

Jordan Roy-Byrne, CMT, MFTA

The Significance of the 400-Day Moving Average as a Sell Signal as Compared to Other Moving Averages

Jordan Roy-Byrne, CMT, MFTA, is a member of the Market Technicians Association. He is the editor and publisher of TheDailyGold.com and TheDailyGold Premium, a subscriber publication that emphasizes market timing and stock selection for precious metals investors. He is also the author of the 2015 book *The Coming Renewal of Gold's Secular Bull Market.*

Among other areas, Jordan focuses on intermarket analysis, historical analogs, and moving average analysis. He realized that the 400-day MA or 20-month MA was providing superior signals for primary trend analysis in most markets and asset classes and decided to study it for his thesis.

With respect to both Gold and gold mining stocks, the 20-month moving average has been an excellent trend indicator, both in recent years and over the long term. For example, the strongest bear rallies in both Gold and gold stocks from 2012 to 2015 peaked at the 20-month moving average. In early February, both Gold and gold mining stocks exploded through that resistance, and the sector has since continued to advance to higher levels.

Jordan's book shows that Gold is driven by trends in real interest rates (inflation and interest rates) and little else. As a result, it is the perfect asset class for technicians to follow. Its real-time fundamentals can be charted and measured through charts and technical analysis.

Member News

STA (United Kingdom)

The Society of Technical Analysts

The summer kicked off with the STA Summer Party and Awards Ceremony, where diploma certificates were presented to newly qualified MSTAs by the STA chairman, Axel Rudolph. For the second year in a row, the STA had a team running in the JPMorgan Corporate Challenge—London's most popular team road race—raising funds for Cancer Research UK.

The next highlight of the social calendar is the STA Anniversary Dinner, celebrating 30 years since the STA was incorporated. Guests will gather for drinks and a sit-down three-course dinner at the National Liberal Club on Wednesday 30 November.

In mid-October the CISI-accredited Diploma Part 1 course will commence running for 7 x 1 evening a week classes. This will be followed by the Diploma Part 2 course in mid-January 2017. For those unable to attend the courses in London, the home study course is available to download and can be viewed using PC, Mac, iPad, or Android machines. For more information on the courses we offer, please click here or contact the STA office on info@sta-uk.org

To keep up to date with the STA and its events, follow us on Twitter @STA_ORG or like our Facebook page.

Congratulations New MFTAs!

Eric Benhamou (AFATE)
Jordan Roy-Byrne
Greg Schnell (CSTA)

Congratulations New CFTes!

Mohsin Bukhari (STA)
Federico Bustos (STA)
Harry Callaghan (STA)
Elena Charalambous (STA)
Ian G. Coleman (STA)
Melina Deltas (STA)
Ron Faulkner (STA)
Pierre-Emmanuel Fehr (SAMT)
Edoardo Fusco Femiano
Simon Gray (STA)
John Harris (STA)
Nicolas Hatt (SAMT)
Piotr Madej
Serge K. Mazodila (STA)
Timothy McMonagle (STA)
Mark W. Muir (ATAA)
Kenneth Ndungu (STA)
Estevao Oliveira
Guillaume Osouf (STA)
James Philip (STA)
Pavandeep Punny (STA)
Colin Ringrose (STA)
Alberto Rossini (STA)
Mohamed Othman Sayed (ESTA)
Daniel Sedgwick (STA)
Matt Simpson
Olga Small (STA)
Kane Stockwell (STA)
Constantinos Tsangarides (STA)
Christian Walter (STA)
Andrew Willis (STA)
Wing Ho Steven Wong (STA)

IFTA 2016 Conference

21–23 October 2016 I Primus Hotel Sydney
http://conference.ifta.org/2016

This year's IFTA conference is being sponsored by the ATAA. It will run over the three days and is strongly attracting both Australian and overseas technical analysts.

There will be 25 high-caliber speakers, including Muhamad Alatih, Gregor Bauer, John Bollinger, Francesco Caruso, Alan Clement, Muhamad Firdaus bin Majid, Daryl Guppy, Akira Homma, Alan Hull, Nik Ihsan Raja Abdullah, David Keller, Takashi Nakamura, Saleh Nasser, Miyoko Nishimura, Trevor Neil, Jonothan Pain, Hank Pruden, Adam Sorab, Gary Stone, Andrea Unger, Mathew Verdouw, Rolf Wetzer and Masaaki Yamada. (Full speaker and presentation details are on the website).

"Early-bird" registration is now closed. Registration numbers to date, from both Australia and overseas, have been extremely "robust". The Primus Hotel is now fully booked; however, other accommodation options are nearby.

It is highly likely that the maximum number of delegates (due to the capacity of the conference venue) will be reached. Conference registrations may need to close in advance of 20 October.

If you are still considering attending IFTA 2016 Sydney, we recommend you decide now and book soon.

IFTA 2016 Sydney: It will be busy, exciting, demanding, educational and social. Be there if you can!

Robert Grigg
IFTA Conference Committee Chair

Calendar At-A-Glance

Date		Topic	Host	Speaker	Location	Time	Contact
Monthly		Presentations from local and international speakers on a comprehensive range of topics (e.g., sharemarket, CFDs, options, futures, FOREX trading, methodologies, money management, psychology).	STANZ (New Zealand)	Various	Epsom Community Centre 200-206 Gillies Ave. Auckland, NZ	Varies	www.stanz.co.nz/
Monthly		Meetings are held monthly in nine cities across Australia. All monthly meetings are free to members. Visitors are welcome to attend. Bookings are not required. Visitors fee is $30.	ATAA (Australia)	Various	Various	Varies	www.ataa.com.au/meetings
Monthly		Chapter leaders and their volunteer members serve as ambassadors for the CSTA and plan social and educational events for the area. Events include presentations by industry professionals and technical analysis experts and peer learning gatherings. Chapters also play a vital role in their communities by connecting individuals and promoting technical analysis.	CSTA Chapters (Canada)	Various	Various	Varies	www.csta.org
Monthly		Meetings & Events: The STA holds monthly meetings in London, usually on the second Tuesday of every month, except for a summer break in August.	STA	Varies	British Bankers Association • Pinners Hall 105 – 108 Old Broad Street • London EC2N IEX	Varies	Katie Abberton, info@sta-uk.org
Oct	2	Master of Financial Technical Analysis (MFTA) Session 2 application, outline and fees deadline	IFTA	NA	NA	NA	admin@ifta.org
	15	Master of Financial Technical Analysis (MFTA) Session 1 paper submission deadline	IFTA	NA	NA	NA	admin@ifta.org
	20	Certified Financial Technician (CFTe) Examination	IFTA	NA	Varies	Varies	admin@ifta.org; www.ifta.org
	20	IFTA Annual General Meeting (AGM)	IFTA and ATAA	Varies	Primus Hotel Sydney Sydney, NSW Australia	16:00-17:30	admin@ifta.org; www.ifta.org
	21-23	IFTA 29th Annual Conference: *Theory of Profit: Achieving Better Returns Through Technical Analysis*	IFTA and ATAA	Varies	Primus Hotel Sydney Sydney, NSW Australia	Varies	admin@ifta.org; www.ifta.org
Nov	1	*IFTA Journal* Web publication	IFTA	NA	NA	NA	http://www.ifta.org publications/journal/
	15	*IFTA Update* submission deadline for educational articles (mid-December release)	IFTA	NA	NA	Varies	newsletter@ifta.org Attn: Aurélia Gerber, Journal Director
Dec	1	*IFTA Update* submission deadline for news content (mid-December release)	IFTA	NA	NA	Varies	admin@ifta.org
	1	*IFTA Journal* Web publication	IFTA	NA	NA	NA	http://www.ifta.org publications/journal/
2017							
Feb	15	*IFTA Update* submission deadline for educational articles (mid-March release)	IFTA	NA	NA	Varies	newsletter@ifta.org Attn: Aurélia Gerber, Journal Director
	28	Master of Financial Technical Analysis (MFTA) Alternative Path, Session 1 application deadline.	IFTA	NA	NA	NA	http://www.ifta.org
Mar	1	*IFTA Update* submission deadline for news content (mid-March release)	IFTA	NA	NA	Varies	admin@ifta.org
	3	Certified Financial Technician (CFTe) Level II—deadline to register for April examination	IFTA	NA	Varies	Varies	admin@ifta.org
	15	Master of Financial Technical Analysis (MFTA) Session 1 paper submission deadline	IFTA	NA	Varies	Varies	admin@ifta.org http://www.ifta.org
Apr	20	CFTe II Examination	IFTA	NA	Varies	Varies	admin@ifta.org http://www.ifta.org
May	1	Certified Financial Technician (CFTe) Level II – registration opens for October examination through IFTA website	IFTA	NA	Varies	Varies	http://www.ifta.org
	2	Master of Financial Technical Analysis (MFTA) Session 1 application, outline, and fees deadline	IFTA	NA	NA	NA	admin@ifta.org
	15	*IFTA Update* submission deadline for educational articles (mid-June release)	IFTA	NA	NA	Varies	newsletter@ifta.org Attn: Aurélia Gerber, Journal Director
	31	*IFTA Journal* Call for Paper submission deadline	IFTA	NA	NA	NA	journal@ifta.org
June	1	*IFTA Update* submission deadline for news content (mid-June release)	IFTA	NA	NA	Varies	admin@ifta.org

Using Divergences Between the Commodity Channel Index (CCI) and the Relative Strength Index (RSI) for Spotting Turning Points

By Mag. Cezar Lupusor, CFTe
cezar.lupusor@yahoo.com

Introduction

In this paper, I will examine visually how to use divergences between the CCI and RSI for spotting turning points. A turning point is defined as a change of direction in the prevailing trend of the underlying security, i.e., at a turning point the trend of the security turns down from up or up from down.

A *divergence* occurs when the two technical indicators do not confirm each other, i.e., one indicator reaches a new high, for example, whereas the second indicator fails to reach a new high as well. This signals a loss of momentum in the underlying security, and the trader can expect a change of direction in its trend.

Strictly speaking, a divergence can only occur when the technical indicators have reached an overbought or oversold reading. Nevertheless, I expanded the concept of divergence in order to include exhaustion points as well. Exhaustion points will be described later in this paper.

The trader should notice, however, that divergences could be misleading in a strong trend: a strong uptrend, for instance, can show numerous divergences between its price and the technical indicators before a top actually materializes—these numerous divergences are indicative of the strong uptrend. Often these divergences will show up between the CCI (as it is more sensitive than the RSI) and the price of the security.

As already mentioned, the CCI is the more sensitive indicator, as it reaches overbought and oversold conditions more often than the RSI. The RSI is less sensitive and it is often stuck in the range of 40 to 60. I will come back to the latter point later.

In the next passage I will briefly describe the construction of the CCI and RSI.

Definition of the CCI (Calculation, Purpose)

Donald R. Lambert developed the Commodity Channel Index (CCI) in 1980. It is an unbounded oscillator with as filter levels and 0 as a trigger line. Its calculation is based on the following formula:

$$CCI = \frac{TP - SMA(20) of\ TP}{0.015 \times Mean\ Deviation}$$

where TP is the Typical Price, SMA (20) is the 20 period Simple Moving Average of the Typical Price, 0.015 is a constant and the Mean Deviation is based on the Standard Deviation to reflect dispersion around the mean. TP equals (H+L+C)/3, where H is the High of the range of the security, L is the Low and C is the Close. The divisor is used for smoothing the CCI. The look-back period or parameter for the CCI is 20 periods. The look-back period is the crucial parameter for identifying oscillators. If it is lowered, this increases the sensitivity of the oscillators (that shows up in a greater amplitude of the oscillator), and if it is raised, it decreases the sensitivity of the oscillator (that shows up in a lower amplitude). The look-back period also depends on the security's volatility.

The CCI is an unbounded oscillator, which means that theoretically, there are no upper or lower bounds. is used as a filter to qualify for strong uptrends (>100) or overbought conditions and strong downtrends (<-100) or oversold conditions. It means that whenever the CCI crosses 100, a strong or prolonged uptrend is present and the trader should long the security. When the CCI leaves this overbought zone and crosses the 0-Line, the setup changes from bullish to bearish. When the CCI reaches oversold, a prolonged downtrend is present and the trader should short the security. These are technical rules that can be optimized in accordance with the risk preferences of the trader. It means, for example, that the trader can already short the security when the CCI crosses the 0-Line from above.

Definition of the RSI (Calculation, Purpose)

J. Welles Wilder Jr. developed the Relative Strength Index (RSI) in 1978. It is a bounded oscillator that moves between 0 and 100; the 50-Line is the mid-line. It is considered overbought when above 70 and oversold when below 30. RSI is used to identify the general trend.

Its calculation is based on the following formula:

$$RSI = 100 - \frac{100}{1 + RS}$$

where RS equals the ratio between Average Gain and Average Loss. The Average Gain is the sum of Gains over the past 14 periods divided by 14. The converse is true for the Average Loss. The look-back period for the RSI is 14 periods.

The 70 and 30 levels are used to identify overbought and oversold areas respectively. These key levels can be adjusted to 80 and 20 depending on the strength of the trend. Usually, the levels 40 and 60 are used in addition to 30 and 70. It means that whenever the RSI leaves overbought, a bullish consolidation (or counter-trend rally) is present if the RSI finds support at the 40-Line—these are low risk entry points to participate in the uptrend. When the RSI leaves oversold, a bearish consolidation is present if the RSI finds rwesistance at the 60-Line. It follows for a trend of normal strength that the RSI must reach overbought once it leaves oversold. If it finds resistance at the 60-Line, then this uptrend is merely a counter-trend rally.

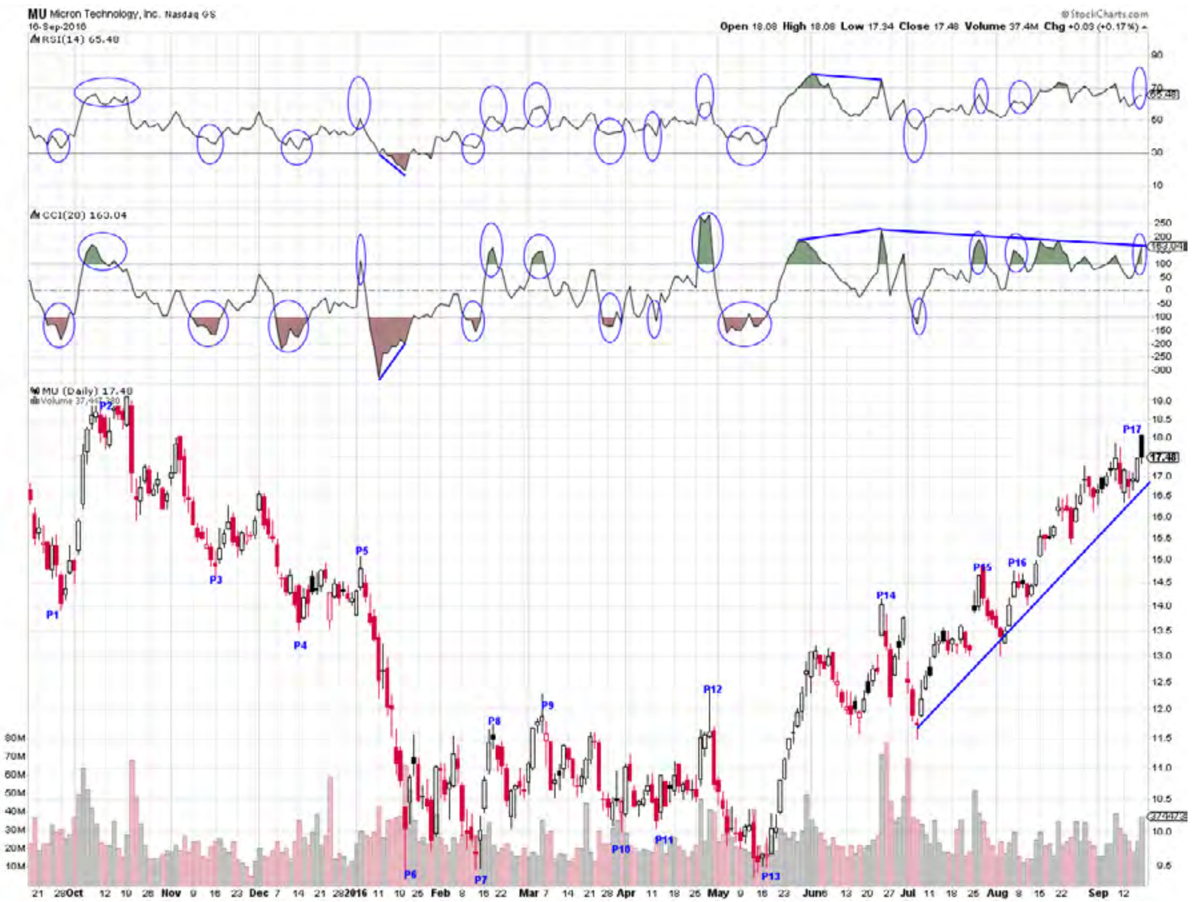
Practical Example

Having outlined the CCI as well as the RSI, I will return to our main topic, i.e., finding divergences between the CCI and the RSI for spotting turning points in the trend of a security. Related concepts to divergences are so called exhaustion points. An exhaustion point occurs whenever the CCI reaches overbought/oversold, whereas the RSI fails to reach overbought/oversold. If, for example, the CCI reaches overbought, then the RSI will reach a reading around 60, whereas if the CCI reaches oversold, then the RSI will reach a reading around 40. In both cases, the RSI will miss its critical readings of 70 or 30. An exhaustion point has the same implication as a divergence: it signals a loss of momentum and consequently a turning point. The reader will notice that exhaustion points are usually more frequent than divergences between the CCI and the RSI.

I will show this by using one stock—Micron Technology. The timeframe of the charts is one year. As can be seen, there are several turning points on this chart. I have marked a total of 17 turning points.

The first turning point is P1: it is characterized by a major upward move of Micron Tech. What do the CCI and RSI tell us about P1? The CCI is oversold, as it is below -100. On the contrary, the RSI remains above oversold at a reading of about 40. This is a typical exhaustion setup—the CCI being oversold, whereas the RSI is not oversold. As a result Micron Tech moves up until P2.

The second turning point is P2: it is the opposite of P1—the CCI is overbought, as it reached a level above 100, whereas the RSI fails to reach overbought. This is another exhaustion setup.



As a result, Micron Tech moves down. The stock reversed its trend from up to down.

The third and fourth turning points are P3 and P4: by now the reader can see that the exhaustion setup repeats itself.

The turning point P5 is again of major importance, similar to P1 and P2: the CCI briefly reached a reading slightly above 100, whereas the RSI got stuck at 50. Micron Tech accelerates to the downside. Between the points P6 and P13, there is an enormous bottom formation. The stock moves sideways as demand and supply are in equilibrium again. The point P13 marks the end of this bottom: it is again characterized by the familiar exhaustion setup. Micron Tech moves up as demand takes control of supply. The point P14 is characterized by a divergence between the CCI and RSI: the CCI forms two higher highs, whereas the RSI forms two lower highs. As a consequence Micron Tech moves down. This move can be described as a countertrend rally.

I have also shown an up-trendline on the Micron Tech chart. This bullish trendline should be compared with the bearish trendline above the CCI. This is the typical case of a bearish divergence between the CCI and the price of the security. However, this sequence of bearish divergences between the CCI and the price of the security is an indication of a strong uptrend. I have mentioned this fact in the beginning of this paper. The crucial point is P17. P17 is the last turning point on this chart: it is again characterized by the exhaustion setup, so my prediction would be that Micron Tech will move down.

Conclusion

I have shown in this paper how to use the CCI and the RSI for spotting turning points on the chart of a well-known security—Micron Technology. I have shown that divergences as well as exhaustion setups can occur between the CCI and RSI. These can be used for spotting turning points. Using the CCI in combination with the RSI is not difficult and it may add considerable value to the tools of every trader.

Literature

John Murphy "Technische Analyse der Finanzmärkte." FinanzBuch Verlag 2006

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Colby "The Encyclopedia of Technical Market Indicators." McGraw-Hill Professional 2004

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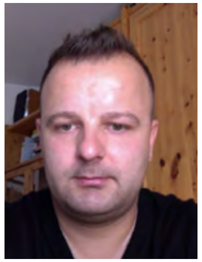
About the Author



Cezar Lupusor, CFTe, attended the Vienna University of Economics and Business, where he studied economics. He finished his studies with a master's degree. In 2013, he obtained his CFTe from IFTA. He is a private investor and currently lives in Linz, Austria.

Focus on Reflation, Cyclicals and Value

Jean-François Owczarczak, CFTe

(Article Submitted on 6 September 2016)

Introduction

When we first presented our reflation scenario back in mid-April of this year, doomsayers were still very much predominant. At the time, US equity markets and Oil were still in the early stages of their rebounds, China was still a major concern, and Janet Yellen was justifying a slower path of interest rate increases based on global economic and financial uncertainties. Our scenario correctly expected equity markets to temporarily top out in early May and enter into a correction period during May and June (although in retrospect the correction would be better labeled as a flat consolidation period). Our medium-term anticipation was that equity markets should start accelerating up again during the 3rd quarter. You can review this scenario in the presentation we held for our IFTA webinar dated 19 April 2016.

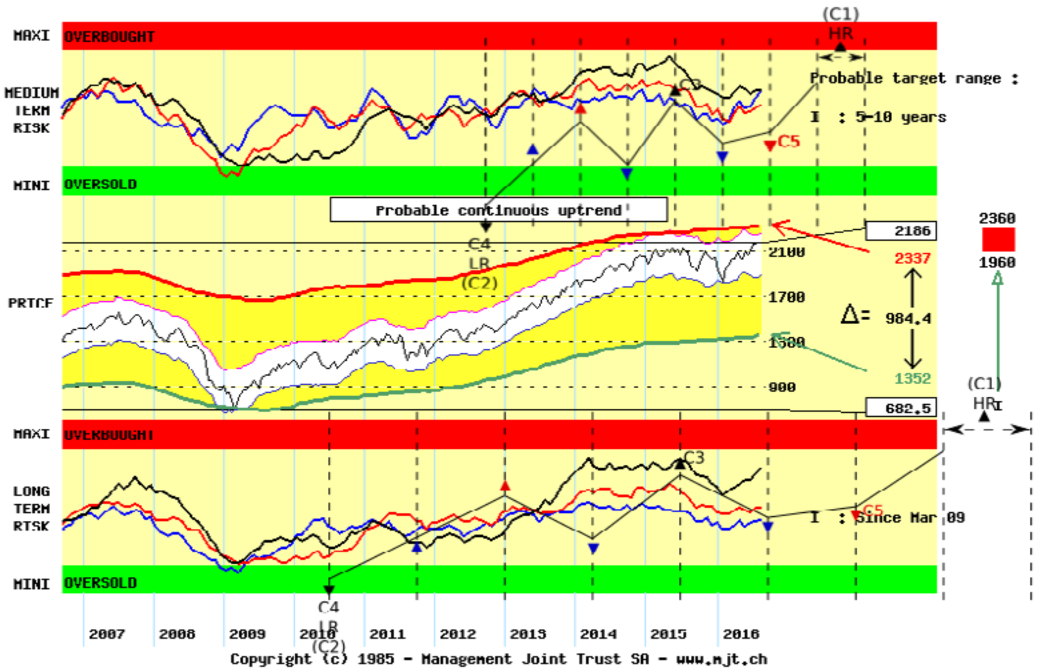
Now that the S&P 500 has recently broken out to new all-time highs, growth prospects in China have improved, and the FED is turning slightly more hawkish again, we believe it's time to review the reflation theme.

Long-term prospects for the S&P 500

We will start our review with our long-term bimonthly charts on the S&P 500 (Chart 1). The projection we show is the same as the one we had back in April (Chart 1). We will also backtrack this chart to 2013 to emphasize that the correction, which started in summer 2015, had long been expected (Chart 2). This will also allow us to highlight the basics of our timing methodology.

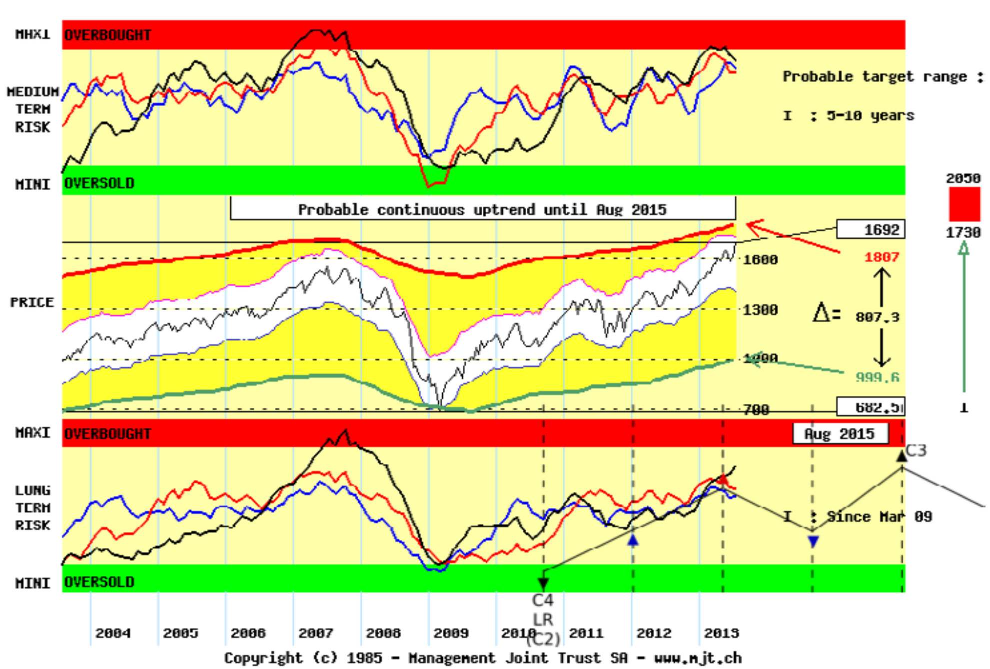
Education Lounge

Chart 1. S&P 500 bimonthly chart or the perspective over the next 1 to 2 years



Our automatic messaging is calling for a "probable continuous uptrend" on this long-term chart of the S&P 500. The scenario (model) we project on our medium-term oscillators (upper rectangle on the chart) calls for a Case 5 (C5), i.e., an acceleration up, which could start soon and lead us into the first half of next year. Following that, a higher "red" bottom on our long-term oscillators (lower rectangle on the chart) could help extend the uptrend into a major top in late 2017 or early 2018. Our price targets (on the right-hand side of the chart) could first reach above 2,350. These will probably be revised up further as the move accelerates.

Chart 2. S&P 500 bimonthly chart as of 26 July 2013



Back then, our automatic messaging read "probable continuous uptrend until August 2015". As a matter of fact, the system did confirm the top a bit earlier on 24 July 2015, or a couple of weeks before the sharp August 2015 sell-off. The price targets we anticipated in 2013 did anticipate levels into 2,050, or just below the 2,100 that were actually achieved. We've overlaid the model behind this automatic analysis to highlight how the algorithm goes about interpreting the charts (it uses the latest red top to calculate its timing projection toward the following black top: here, a red top in early 2013 results in a black top projected for August 2015).

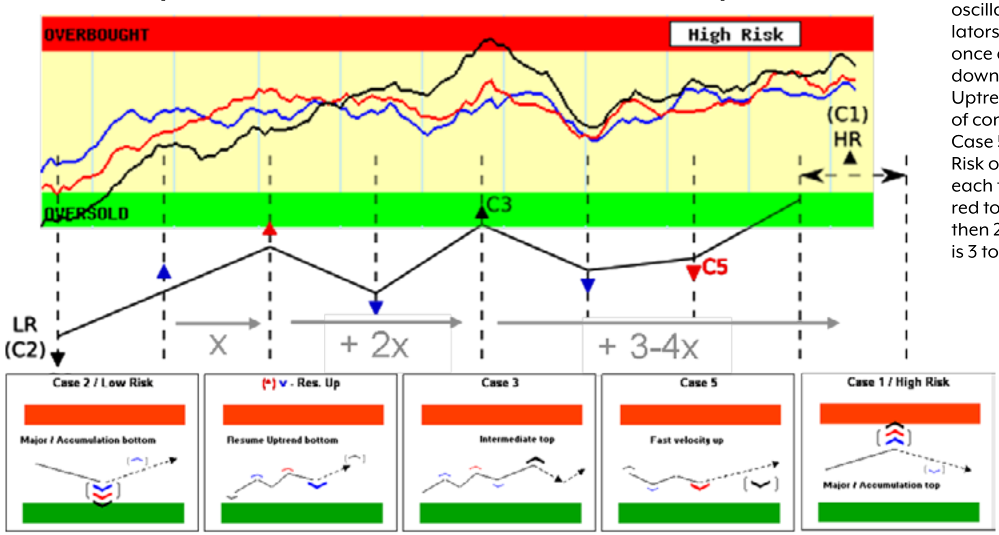
Education Lounge

Methodological brief

In Charts 3 and 4, Management Joint Trust SA (MJT—www.mjt.ch) uses standard deviation envelopes to assess trend direction and calculate potential price targets (middle rectangle on the chart). These elements are then factored into the algorithms, which interpret our medium and long-term timing oscillators (respectively, top and bottom rectangles). This analysis results in a specific positioning in either an uptrend or a downtrend event sequence and delivers the related Timing Message.

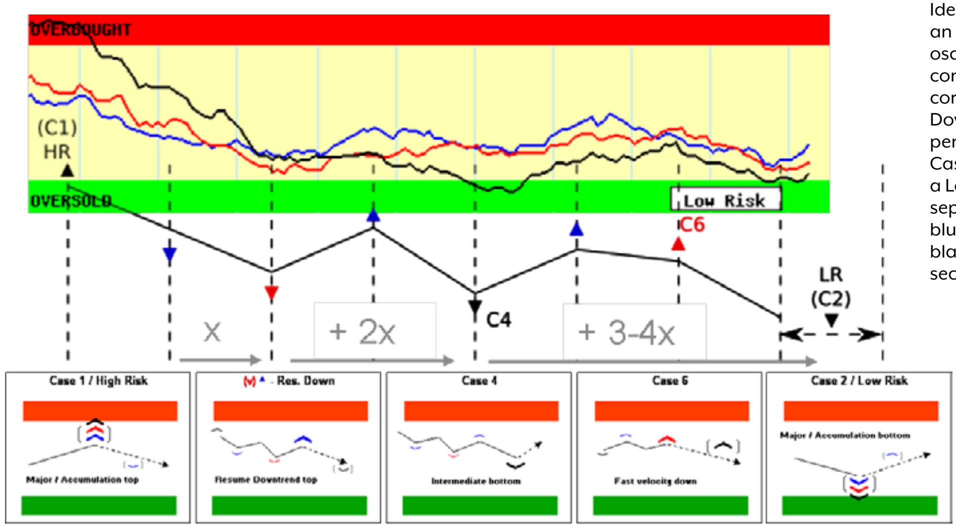
Note: Each oscillator is meant to capture a specific time cycle. Each series of oscillators features three oscillators (a blue one–the shorter term one; a red one–the medium-term one; and a black one–the longer term one). Their relative positioning delivers specific situations (so called "Cases") to always know where you stand within either an uptrend or a downtrend. The long-term oscillators (lower rectangle) serve as the basis for the automatic analysis. The medium-term ones (upper rectangle) are used as confirmations and to fine tune sub-segments of the model.

Chart 3. Ideal uptrend model (oscillators, derived model and case sequence)



Ideal uptrend model explanations from left to right: From an oscillator black bottom (usually a Low Risk or a Case 2), the oscillators and prices will start moving up. An uptrend is confirmed once a red top can be made above a blue one. The correction down that follows delivers a buying opportunity ("Resume Uptrend") followed by an intermediate top (Case 3). A new period of consolidation down or sideways then starts, ending with a Case 5 acceleration up toward an important top (usually with a High Risk or a Case 1). For each timeframe, a fixed time unit separates each timing incidence, so that the distance between a blue and red top is usually X, the distance from the red to the black top is then 2X, and the distance between the first and second black top is 3 to 4X.

Chart 4. Ideal downtrend model (oscillators, derived model and case sequence)



Ideal downtrend model explanations from left to right: From an oscillator black top (usually a High Risk or a Case 1), the oscillators and prices will start moving down. A downtrend is confirmed once a red bottom can be made below a blue one. The correction up that follows delivers a selling opportunity ("Resume Downtrend") followed by an intermediate bottom (Case 4). A new period of consolidation up or sideways then starts, ending with a Case 6 acceleration down toward an important bottom (usually a Low Risk or a Case 2). For each timeframe, a fixed time unit separates each timing incidence, so that the distance between a blue and red bottom is usually X, the distance from the red to the black bottom is then 2X, and the distance between the first and second black bottom is 3 to 4X.

We recently added a new functionality that allows users to overlay their own interpretation, i.e., position their own uptrend and downtrend models on the charts. This is a great addition in terms of tutoring users on the system as well as visually projecting the most likely scenario.

Overall, the MJT system, which was first developed in the 1970s, can be applied to any asset class, any timeframe, to relative charts or to portfolios with many positions. We would be delighted to explain more about our methodology, our functionality set, and our coverage (we cover 5,000 instruments globally across stocks, indexes, trackers, FOREX, interest rates, bond indexes, and commodities, on timeframes ranging from bimonthly to intraday). Please don't hesitate to contact us using the details at the end of this article.

We will now move on to review our case for reflation.

Recent historical perspective

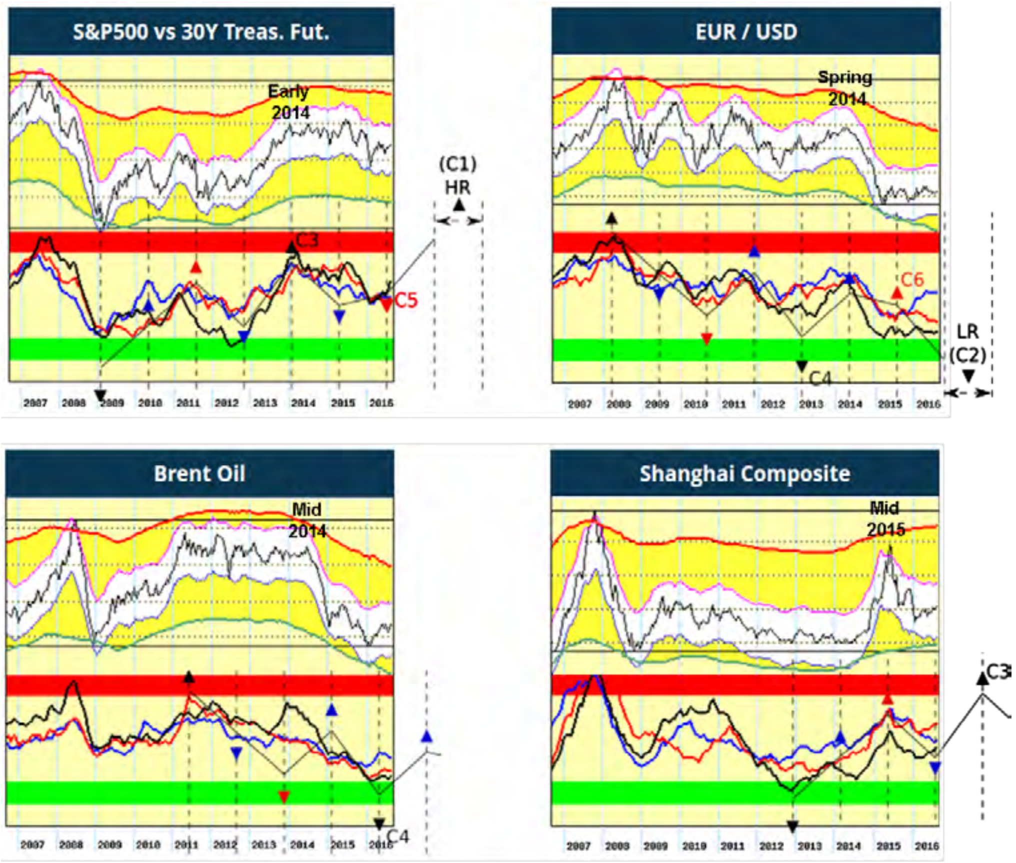
Chart 5 shows a mosaic of four long-term charts. Mosaics offer great market visualisation for intermarket analysis. We recently introduced a new functionality to allow users to create their own mosaics of up to 15 charts on the system.

In early 2014, following several years of loose monetary policy (US QE, SNB peg, Abenomics Chart 7. I), the ratio between the S&P 500 and the 30-Year Treasury Futures entered a period of consolidation. This inflexion point (a Case 3 intermediate top on our chart) coincided with the beginning of the FED tapering program, which extended into late October 2014 when FED asset purchases were ultimately halted. During this tapering process, US GDP was holding up nicely above 4%. Yet, in the meantime, the recovery in Europe had lost momentum and ended with the resurgence of the Greek debt crisis, EUR/USD dropping from 1.40 to almost parity and the announcement of the huge ECB QE program in early 2015. The second half of 2014 also saw the beginning of the sharp drop in oil prices and its negative incidences on the US oil industry and high yield, as well as more generally on commodities and emerging markets. On the back of these negative global developments, US GDP growth slowed down to circa 2% in 2015 and ultimately 1% since the beginning of 2016. During 2015, with the FED on halt to raise rates, Japan extending its Abenomics program, and the huge ECB QE program in place, the S&P 500 vs. the 30-Year Treasury Bonds Futures ratio (revert to chart above) did make a marginal new high in June. Yet, we believe the move was still part of the consolidation pattern started in early 2014. This top was rapidly reversed, as the stock market bubble in China—initiated on the back of the Shanghai–Hong Kong connect program and a series of rate cuts—ultimately burst, and Brent Oil resumed its downtrend below $50 to ultimately reach $28 in January this year.

Fast forward to today

According to the models we've drawn on the previous charts, we believe the S&P 500 vs. the 30-Year Treasury Bond Futures ratio has made an important low earlier this year. A Case 5 bottom ("C5") could soon materialize (i.e., a higher low that concludes a consolidation period and leads into a new acceleration up). At the same time, the downtrend on EUR/USD now seems extended. It could start reversing up in a few months once reflation gathers global steam (reflation will probably start in the US). Oil has reached an important bottom and could continue its correction up. Finally, China has stabilized, creating a base that could see it resume its uptrend into 2017.

Chart 5. Bimonthly mosaic (or the perspective over the next 1 to 2 years) on S&P 500 vs. 30-Year Treasury Bond Futures, EUR/USD, Brent Oil and the Shanghai Composite Index (models have been added to facilitate interpretation)

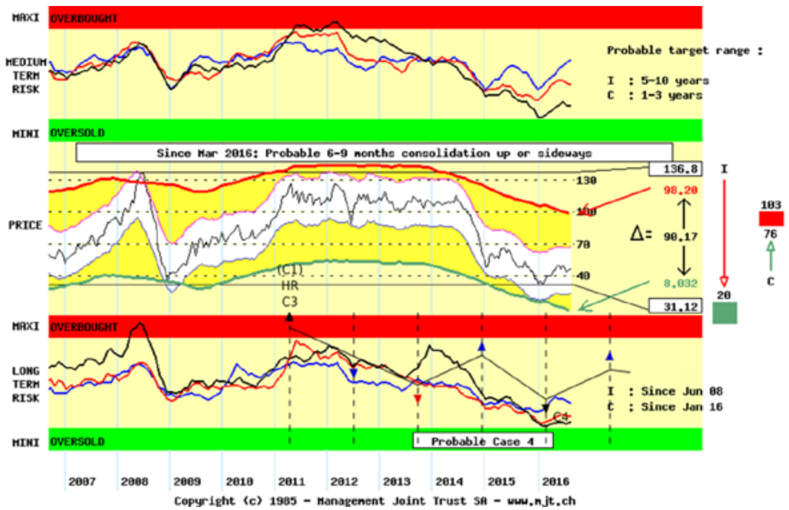


Oil, a key reflation actor

The case for reflation is based off the global recovery and its anticipation. With monetary policy around the world being still very accommodative, it could materialize as the business cycle enters a cyclical expansion. We believe that asset and sector rotation may be ripe for an acceleration in inflation-sensitive assets (our current interpretation of the Pring Turner model). Indeed, following widespread liquidation, most commodities have initiated a first leg up. At the same time, US stocks have recently broken out to new highs, and bonds seem expensive, with many trading at negative yields. On the sector front, 2015 saw early cycle movers such as Consumer Discretionary or Technology outperform. Now, Industrials and Materials could soon be breaking out on a relative basis, and Energy could follow suit. The US definitely leads the theme as a data dependent FED remains on standby despite a tight labor market, yet loose monetary policies and lower equity valuation elsewhere, as well as increasing discussion about fiscal stimulus worldwide, could see other developed markets—and especially emerging markets—aggressively catch up.

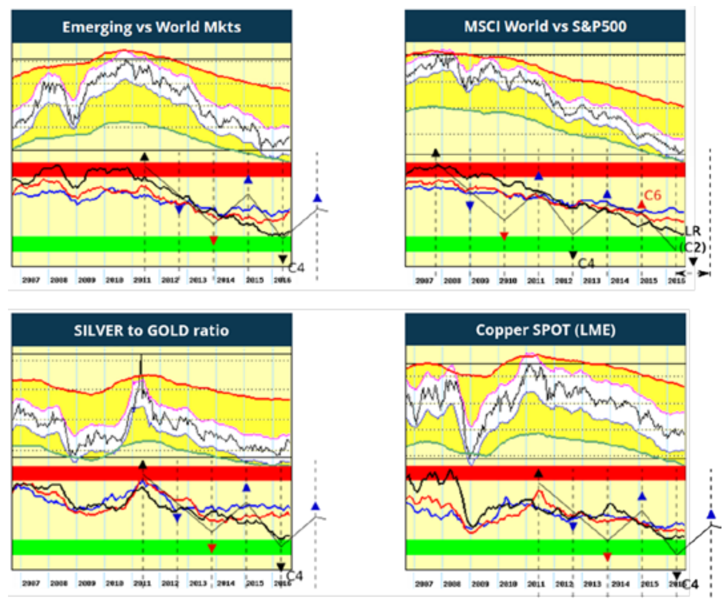
We will start our review with the oil market, which, along with other commodities, is one of the key actors of this positive acceleration of the business cycle.

Chart 6. Brent Oil bimonthly chart or the perspective over the next 1 to 2 years



Our automatic messaging has identified a Probable Case 4. Although a Case 4 is theoretically an intermediate bottom, the reaction up that follows on a long-term chart such as the bimonthly one above could last 1 to 1.5 years (possibly into mid-2017 in our present case). Targets (right-hand side of the charts) show that impulsive targets down (toward $20) have almost been reached and that the correction up that is underway could lead us back toward $76, possibly above $100. Although at early stages of a recovery, this long-term chart is promising. We also get comfort from the following mosaic looking at similar long-term intermediate bottom on Emerging Markets vs. the MSCI World Index and the MSCI World Index vs. the S&P 500, as well as the Silver to Gold ratio and Copper.

Chart 7. Bimonthly mosaic (or the perspective over the next 1 to 2 years) on the MSCI Emerging Markets Index vs. the S&P 500, the MSCI World vs. the S&P 500, Silver/Gold ratio and Copper



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As the recovery accelerates and commodities enter a second leg up, we expect the reallocation of capital into Emerging Markets to increase (a Case 4, which has already started to react). More generally, once confidence returns, we expect capital flows out of the US into other markets, which today show cheaper valuations levels and higher return perspectives (the MSCI World has reached a Low Risk zone vs. the S&P 500). On the metals front, the Silver to Gold ratio is reacting off a Case 4 (the ratio is often used as a proxy for higher industrial metals demand vs. Gold), while Dr Copper (itself a proxy for upcoming economic health) is waiting to confirm a similar configuration. All four charts are positioned on important bimonthly bottoms, which could see them correct up into the second half of 2017.

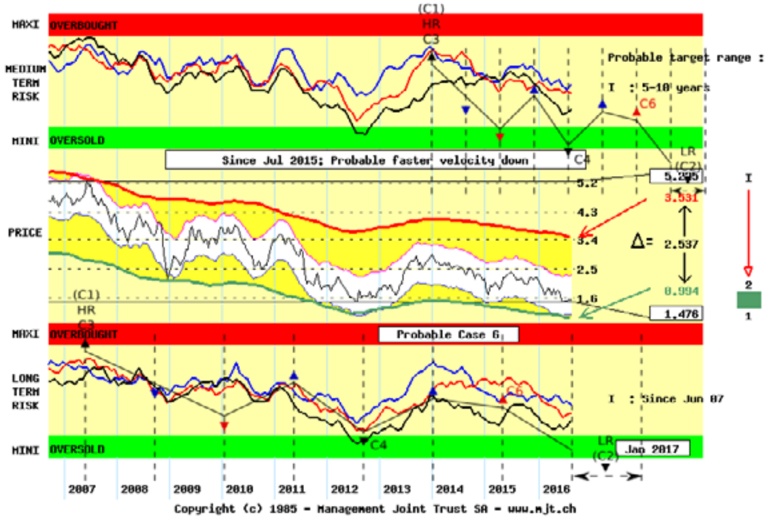
Bond markets waiting to correct

Although secular deflationary forces are still strong, the above cyclical reflationary scenario, if correct, could trigger a sizeable correction down on bond markets. As with other corrections in recent years (2003–2004, 2005–2006, 2009–2010, 2012–2013), it could last a year to a year and a half and add between 100 to 150 bps to the 10-year US government yields. This is equivalent to a circa 10% correction on bond prices, which is a lot in an environment were most bonds offer little yield cushion. (Chart 8)

To refine our timing and have a closer look at the internals of the US bond market, we will review the following weekly mosaic, looking at perspectives for the yield curve as well as different segments of the US bond markets (Chart 9).

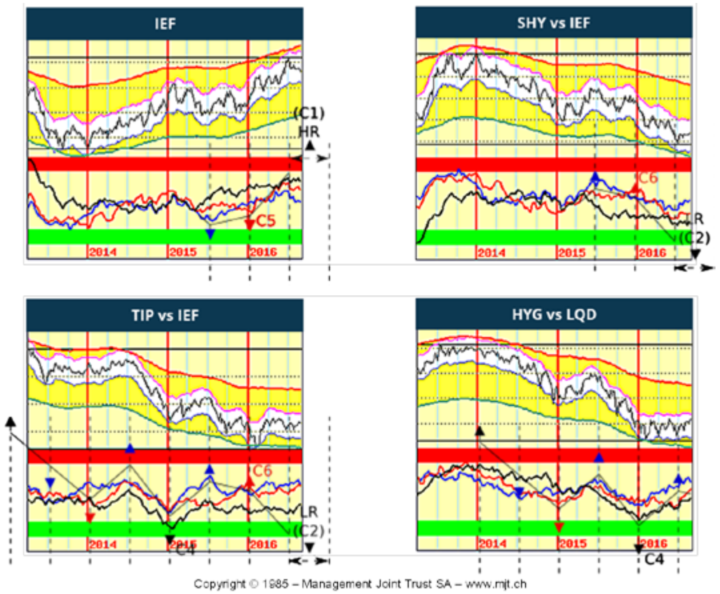
We believe that the corrections in Chart 9 could gain momentum during the coming quarters. As bond markets correct, investors will to want to seek protection by lowering duration and by considering inflation-protected bonds. They will also need to take on more risk, favoring the corporate bond market and ultimately high yield.

Chart 8. US 10-Year Government Bond Yields bimonthly chart or the perspective over the next 1 to 2 years



Following their rebound off a Case 4 in 2012–2013 on our longer term oscillators (lower rectangle), US Treasury yields resumed their downtrend in a succession of descending tops (Case 6). This acceleration down should be coming to an end between now (our suggested model position) and January 2017 (automatic message). Our medium-term oscillators (upper rectangle) are getting close to a Case 4 intermediate bottom. This also implies at least several quarters of consolidation up.

Chart 9. Weekly mosaic (perspective over the next several quarters) on IEF (iShare 7–10-Year Treasury Bond ETF), SHY (iShare 1–3-Year Treasury Bond ETF) vs. IEF, TIP (iShare TIPS Bonds ETF) vs. IEF, HYG (iShares iBoxx $ High Yield Corporate Bond ETF) vs. LQD (iShares iBoxx $ Investment Grade Corporate Bond ETF)



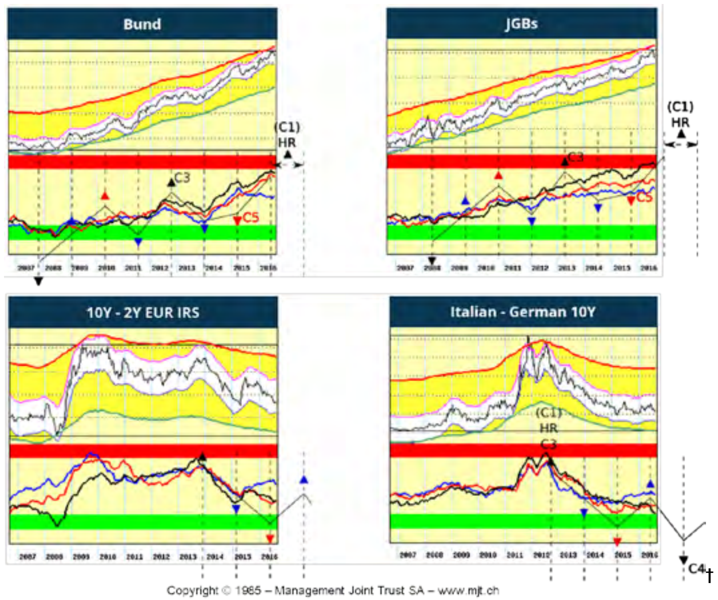
Following a consolidation throughout the year, IEF ended 2015 with a Case 5 acceleration up. It has now reached a high-risk zone and may have already started to correct down. The yield curve (SHY vs. IEF) followed the opposite path, steepening slightly in 2015 before flattening again aggressively during the first half of 2016. We believe it has now reached a low risk zone and could start steepening again. TIP vs. IEF reversed up in the first quarter 2016. Our model was a bit late but can now confirm a low-risk situation, i.e., a comfortable base to move higher as investors gradually seek more inflation protection. HYG vs. LQD has made a Case 4 intermediate bottom early in 2016. A first leg of correction up has been completed. It is now waiting to confirm that it can move higher.

Internationally, we see similar patterns, as you can observe from the mosaic shown in Chart 10.

A quick look at the dollar

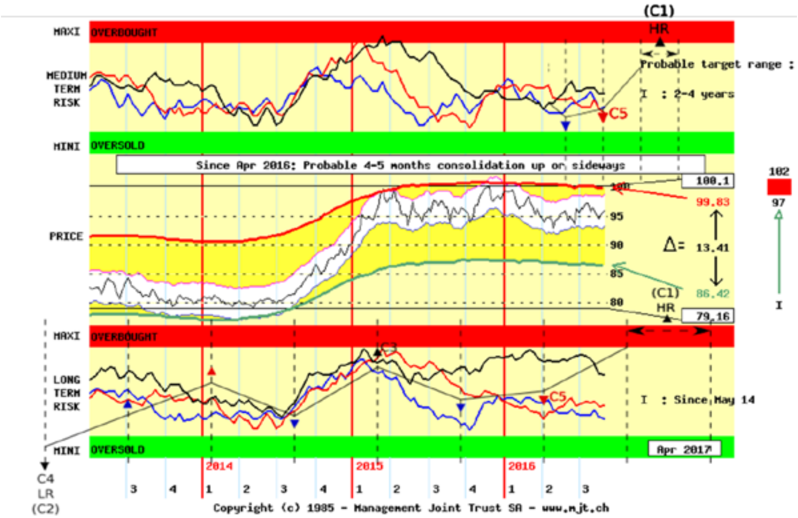
As mentioned earlier, the long-term downtrend on EUR/USD seems extended. It could start to reverse over the coming months (a low-risk zone is expected between now and year end). We will now consider the weekly chart of the Dollar Index to gain a more precise perspective. (Chart 11)

Chart 10. Bimonthly mosaic (or the perspective over the next 1 to 2 years) on the Bund, 10-Year Japanese Government Bond Futures, the spread between 10-Year and 2-Year Year Euro Swap rates, as well as between 10-Year Italian and German Government Bond yields



The Bund and the Japanese Government Bond Futures are close to completing a long-term uptrend (approaching a high-risk zone). We believe they could initiate a correction down over the next couple of quarters. The European yield curve is close to an intermediate "red" bottom, which could see it steepening during several quarters. At the same time, government credit spreads should narrow again in Europe, as with the Italian vs. German spread, which should resume its downtrend into late 2017.

Chart 11. Dollar Index weekly chart or the perspective over the next several quarters



Since its strong uptrend in 2014, the Dollar Index has struggled to move much higher. It is now approaching a high-risk zone on both our long-term and medium-term oscillators (respectively lower and upper rectangles). These should result in several quarters of consolidation down into 2017. These tops could coincide with the globalization of the reflation trade, as investors start to seek more risk exposure in emerging markets and undervalued developed markets (and their currencies). Over the next few months, the Dollar Index may attempt a last move up to re-test its highs. Yet, the trend looks exhausted, as confirmed by our automatic messaging system, which is already positioned in a downtrend (i.e., the correction up since late April/early May is labeled as a correction up rather than a new impulse).

Education Lounge

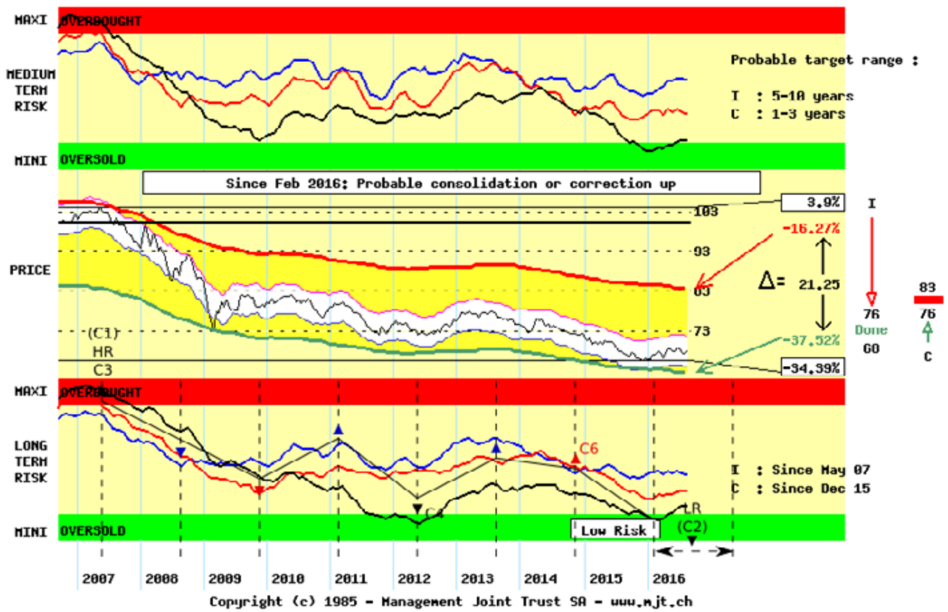
Value vs. Growth

We conclude our longer term analysis with the Value vs. Growth theme. We believe it plays well into many of the arguments developed above. Indeed, when cyclical recovery accelerates, typical value sectors such as Industrials and Energy usually outperform. At the same time, a correction up in interest rates should benefit Financials (banks especially), another value sector, while negatively impacting the valuation of companies with long-dated cash flow projections (typical of growth sectors such as Technology and Healthcare)(Chart 12).

What to monitor over the next couple of months

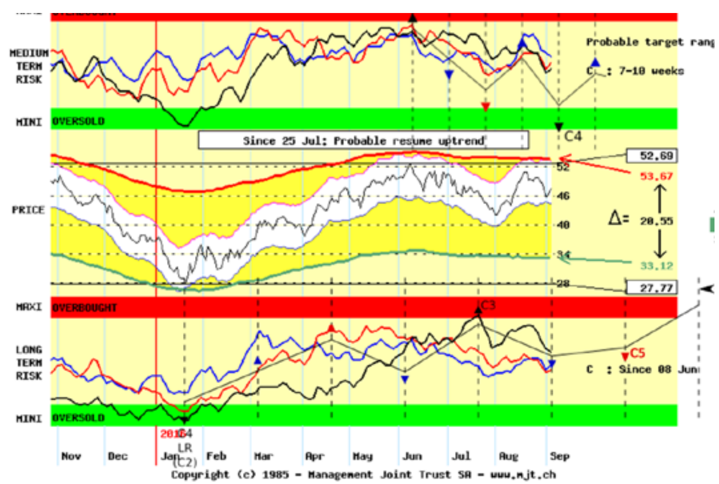
To monitor the shorter term developments of our reflation scenario, we will focus on two main items: Brent Oil and the S&P 500. We will use our daily charts, which typically give the perspective over the next few months. Both assets are currently consolidating following their first leg up since the January/February lows. Over the next few weeks, and couple of months, it will be crucial that they hold up at high levels in order to build a solid base for a second reflation move up into 2017. (Charts 13 and 14)

Chart 12. IVE (iShares S&P 500 Value ETF) vs. IVW (iShares S&P 500 Growth ETF) bimonthly or the perspective over the next 1 to 2 years



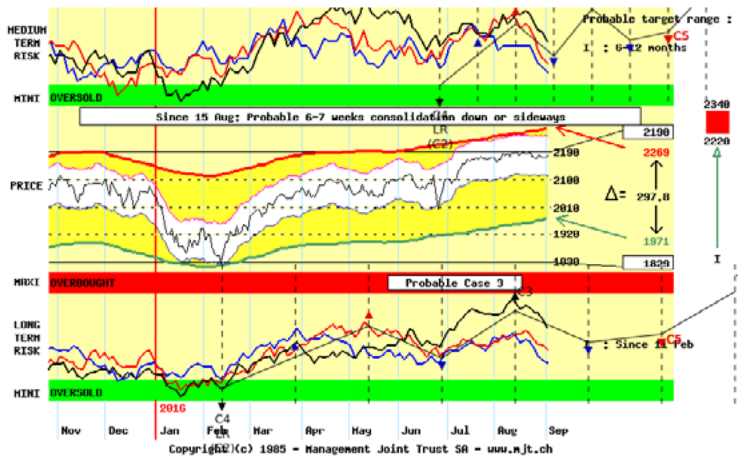
The downtrend model on our long-term oscillators (lower rectangle) is close to perfection. Indeed, following many years of underperformance (-35% since 2006), Value has finally reached a low-risk zone vs. Growth. Our corrective targets now indicate that it could outperform between 10 and 20% over the next 12 months.

Chart 13. Brent Oil daily chart or the perspective over the next few months



According to the model on our long-term oscillators (lower rectangle), Brent oil topped out a bit earlier than planned, in June. That said, if we do follow the model through, Brent could now be in a position to resume its uptrend. The medium-term oscillators (upper rectangle) started a downtrend in June. They are now approaching the timing of a Case 4 (C4) black bottom (between now and mid-September). This bottom could offer welcome support to the resume uptrend situation outlined above on our long-term oscillators. More generally, and despite a certain level of volatility, the consolidation down on Brent Oil has remained relatively tame since it topped out in June. Going forward, we remain confident with our global reflation scenario, as long as it can hold above the lower end of its corrective targets (i.e., above $36).

Chapter 14. S&P 500 Daily chart or the perspective over the next few months



Mid-August, the S&P 500 reached a Probable Case 3 intermediate top on our long-term oscillators (lower rectangle). Typically, a Case 3 would see prices consolidate from 3 weeks to 1.5 months. Following that, prices would typically resume their uptrend on a blue bottom and accelerate on the following higher red bottom. Our medium-term oscillators (upper rectangle) also made a top in August, yet only a red one. This implies that prices could resume their uptrend sooner rather than later to reach a medium-term black top by end of September. Although the medium-term and long-term oscillators may seem in contradiction here in terms of timing, such patterns are typical of running consolidations, when the markets go through a series of small gyrations at high levels before accelerating higher. This situation is not dissimilar to what happened in the Autumns of 2003 and 2009 on the same S&P 500. That said, we intend to remain prudent until the second half of September (based on our long-term oscillators).

We remain at your disposal to provide more detailed insight into our reflation scenario.).

Many thanks

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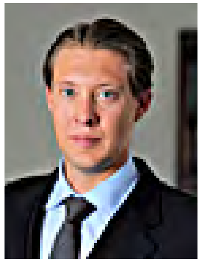
All opinions, news, research, analyses, prices or other information in the article above are provided as general market commentary and do not constitute any financial advice.

About the Author



Jean-François Owczarczak is the CEO of Management Joint Trust SA (MJT—www.mjt.ch), a company founded in 1969 in Geneva, Switzerland, which provides institutional market advisory services based on proprietary algorithms. The methodology uses timing oscillators, trend analysis and price target calculations to monitor risk/reward and cyclicality as well as project likely market scenarios over timeframes ranging from longer term charts to intrahour. Coverage includes circa 5,000 instruments over all asset classes (stocks, indexes, ETFs, commodities, bond indexes, and interest rates). Mr. Owczarczak started his career in investment banking (Paribas, then Deutsche Bank in London), joined MJT in 2003, was awarded IFTA's Bronwen Wood Memorial Award in 2013 (for the best CFTe certification diploma paper in the world during 2012), and was nominated in 2015 as Finalist in "the technical analyst awards" (under the FinGraphs brand-name) for his research.

Join the Quest for the "Composite Man"

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The most profound lesson I learned abroad while working with individuals and groups during my year as IFTA's Roving Ambassador (2004–2005) was the essentialness of the concept of the *Composite Man* for students of the Wyckoff Method of technical analysis.

As Richard D. Wyckoff and his disciples have said:

> *In studying, understanding, and interpreting market action, we consider all market action as a manufactured operation in which the buying and/or selling is sufficiently centered and coming from interests better informed than the generally untrained individual investor/speculator. The many large interests which do have an effect on the market place (trust companies, banks, mutual funds, investment trusts, investment companies, hedge funds, specialists, position brokers, etc.) are best thought of as the Composite Man. This Composite Man causes the market to act and react. Or, what actually happens is the market responds to the ageless, natural law of supply and demand. The Composite Man and the effects of the law of supply and demand are really synonymous. It is the result of the motives, objectives, hopes, and fears of all the buyers and sellers whose actions produce the net effect upon the market.*
>
> *Other terms which may be thought to be synonymous with the Composite Man would be "the market," "the sponsor," "the operator," or "they." These terms are used interchangeably.... The selection of the terms is determined by what is most meaningful to the student [emphasis added].*
>
> *It should be your objective to think of the Composite Man as the primary force in the market place. Thinking of him in this light should enhance your analysis of the action resulting from the dominant groups operating within the individual stocks and their total effect within the general market place.*

During my IFTA Ambassadorship I came to better appreciate how difficult it is for traders and analysts to really grasp and apply with ease the concept of the *Composite Man*. The upshot of that lesson learned abroad was that serious students need to track down the *Composite Man*. Each of us needs to understand him and use him more thoroughly, more intimately, and more profoundly.

To commence this quest for the *Composite Man*, you can rely on the fine starts made by Richard D. Wyckoff and his associates. You can also turn to the captivating anecdotes found in *Reminiscences of a Stock Operator*.

To dig more deeply, select any of the following available routes. There is the historical route of studying the character, life and times of the legendary operators of Wall Street in the early 1900s or of other operators on earlier streets, for example, James R. Keene. Another route would be to conduct the quest using the most modern analytical tools available from the theories of behavioral finance. An interesting and creative approach would be to capture the *Composite Man* with allegories and metaphors. A challenging, and perhaps the most profound route, would be to collect an understanding of the *Composite Man* and increase your capacity to make profitable use of that *Composite Man* Concept through writing, especially fictional writing.

During the year that I travelled about Europe and the Middle East, my awareness of the power of writing, particularly the power of writing fictional stories, became considerably enhanced. In Spain, I found fruit in Washington Irving's *Tales of the Alhambra*. In Paris, I located a good guide in William H. Gass's *Fiction and Figures of Life*. Then there was the inspiring visit to Winston Churchill's home in Chartwell, England. In Cairo, I was introduced to the fascinating short stories recorded in *The Time and the Place*, by Egyptian Nobel Prize Winner Naguib Mahfouz. Finally, in Prague, the Czech Republic, I visited an intriguing exposition of Franz Kafka, and then purchased and studied a book covering that exposition titled *The City of K.: Franz Kafka and Prague*.

All of the foregoing routes and books instruct us to believe that we have powerful ways within our grasp that enable us to command a greater mastery of the concept of the *Composite Man*. For example, Kafka, who was the master at getting behind the scenes and exploring the essence of things, had the following to say about his craft of writing:

> *The strange, mysterious, perhaps dangerous, perhaps saving comfort that there is in writing: it is a leap out of murderers' row; it is seeing of what is really taking place. This occurs by a higher type of observation, a higher, not a keener type, and the higher it is and the less within reach of the "row," the more independent it becomes, the more obedient to its own laws of motion, the more incalculable, the more joyful, the more ascendant its course."*
>
> *Literature is a fiction that achieves its greatest power when it reveals, denounces, or dismantles the powerful fiction that governs the lives of men...*

Within my "Three-in-One Trader Model" there is an additional or fourth dimension, the person of the trader or technical-trader himself or herself. An image of this idealized trader is visible in my book, *The Three Skills of Top Trading*. The image of the 3-in-1 trader appears in the center of that model, where it suggests the combination and unification of the three other dimensions or the three elements of behavioral finance, pattern recognition, and mental discipline personified in one individual.

A fruitful future direction for case study research would be the pursuit of the "person" contained within the Three-in-1 Trader Model. For a sense of proportion and direction in conducting such a pursuit, one can turn to the historical examples provided by Edwin Lefevre in *Reminiscences of a Stock Operator.* Some observers have asserted that the book was based on the persona and the exploits of Jesse Livermore, the famous trader of the 1920s. Other observers believe that the numerous anecdotes were really fictional, that they were inspired by the lives and accomplishments of the many real traders encountered by Lefevre during that epoch of the early 1900s on Wall Street.

The principal character found in the Lefevre book, Mr. Larry Livingstone, could well be a composite of many other men. In any respect, traders and analysts have discovered and rediscovered this book as a treasure chest. *Reminiscences* can serve as a valuable means of rounding out the *Composite Man*.

The concept of the *Composite Man* can be fashioned into an archetype, a fictional character, who works behind the scenes. A useful guide is for one to follow in his footsteps by reading the charts per the Wyckoff Method to interpret his/her intentions and then to act accordingly.

Although the concept of the *Composite Man* is a valuable heuristic for grasping the essence of the 3-in-1 Trader, it is an elusive concept. It has been my experience that the concept of the *Composite Man* is difficult for professional people who are active in the market to grasp and thus to employ with ease. Therefore, a quest for the concept of the *Composite Man* is an ongoing task of high priority for all IFTA members.

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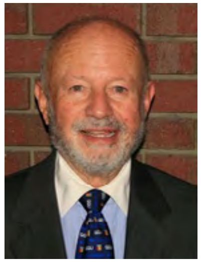
About the Author



Dr. Hank Pruden is a professor in the School of Business at Golden Gate University in San Francisco, where he has been teaching for 37 years. Dr. Pruden is more than a theoretician; he has actively traded his own account for the past 20 years. His personal involvement in the market ensures that what he teaches is practical for the trader and NOT just abstract academic theory.

Dr. Pruden is the executive director of the Institute of Technical Market Analysis (ITMA). At Golden Gate University, he developed the accredited courses in technical market analysis in 1976. Since then, the curriculum has expanded to include advanced topics in technical analysis and trading. In his courses, Dr. Pruden emphasizes the psychology of trading as well as the use of technical analysis methods. He has published extensively in both areas.

He has mentored individual and institutional traders in the field of technical analysis for many years. He presently serves on the board of directors and is past president of the Technical Securities Analysts Association of San Francisco. Dr. Pruden was also on the board of directors of the Market Technicians Association (MTA). He has served as vice chair, IFTA (International Federation of Technical Analysts); IFTA educates and certifies analysts worldwide. For 11 years, Dr. Pruden was the editor of *The Market Technicians Association Journal*, the premier publication of technical analysts. From 1982 to 1993 he was a member of the board of trustees of Golden Gate University.

Dr. Pruden is the recipient of IFTA's 2013 Lifetime Achievement Award.

A Perfect Storm for a Goldilocks Market: How to Prep Your Shelter, Just in Case…

By Jeanette Schwarz Young, CFP©, CFTe, CMT, M.S.

What we need to watch:

- **FOMC** decision to raise interest rates this month or in December, whatever!
- **US Dollar,** which gives clues for everything! It is important to note how the US Dollar's strength has impacted corporate income. (See charts at the end of the article.)
- **Gold** and its role as a currency, a metal and a hedge against inflation. Although when acting as a commodity, gold depreciates as the US Dollar rises, during any global currency disruptions, gold becomes the de facto safety net currency. For those who are adventurous, buy gold in a weaker currency rather than the US Dollar to take advantage of the strength of the US Dollar and the weakness of the target currency while giving you an exposure to gold.

Defensive ball via options: Buy put spreads on the S&P 500 futures, SPY, or NASDAQ, depending on the concentration of your portfolio (buy a higher strike and sell a lower strike to help offset some of the costs). For example, you could purchase the December 2035 puts on the S&P 500 for 45.88 and then sell the 2010 puts for 39, the cost would be 5.88 and offer you 20 points of downside protection. Alternatively, you could buy the 2030 puts for 44.75 and sell the 1990 puts for 35.5, giving you 40 points of downside protection for a cost of 9.25. The amount of put spreads bought/sold is dependent on the size of the portfolio you are hedging. Support for the S&P 500 futures is at 2030.25 below that the market will likely fall to 2019 then 2012. Below that level, there will be a painful trip to 1992 and then 1967. The upside resistance level is at 2184.25. Above that level, there is open space! Sell covered calls on stocks in your portfolio, making sure to capture any dividend that might be paid. I am a believer in selling naked puts on stocks that I want to own. I get paid while waiting to purchase the security. Keep stops active.

September is the worst month of the year, as investors sell fearing a October crash. While this typically doesn't happen, the October 24, 1929, and October 19, 1987, free falls have burned painful memories into the collective memories of investors. By the third week in October, the pressure is off and the market rallies. We have reason to believe this effect may be somewhat delayed this year because…. **The US elections** will bleed uncertainty into the markets. The markets hate uncertainty! Chaos reigns!!! No matter what the outcome, the reality is that nothing much will change. Remember that whatever is being promised has to be passed by Congress…..good luck on that one! Then we move quickly into December tax-selling season.

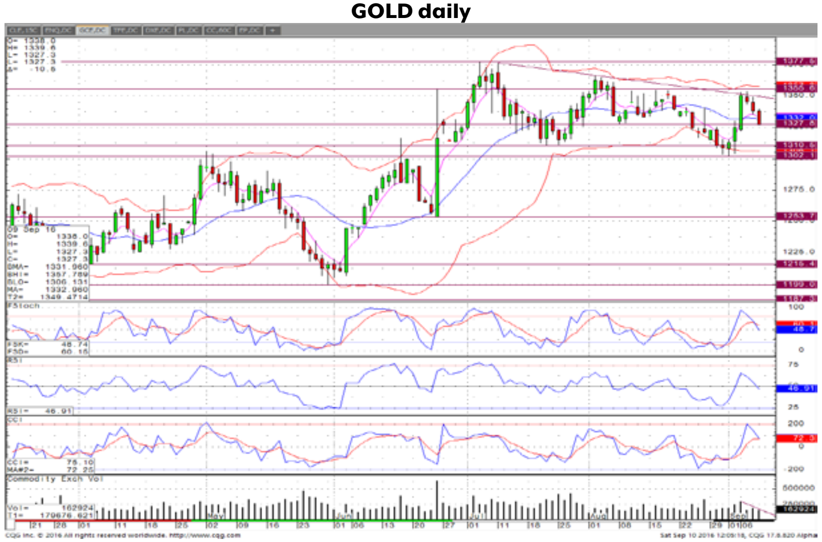
While none of this sounds great for the bulls, much of this is seasonal and as such will pass. Money is flowing to the United States from abroad because we actually have companies that pay decent dividends and bonds that pay interest rather than charging the investor to park their money. Another piece of support for the market is that baby boomers are retiring and cannot live on the paltry interest rates seen on government bonds and are subsequently looking for dividend-paying equities as investment to pay their bills. The only rub is that equities move both up and down and may or may not keep their value, while bonds fluctuate in value but eventually pay off at full value when due or called. Seniors have less time to recoup any losses, simply because the clock is running on their time horizon.

FOMC RATE HIKE in plain English means the FOMC believes the US economy is doing well enough to absorb a rate hike, minimizing the negative effects of the increased cost of money. What we need to ask is are the governors correct or are they misreading the economic data? I believe that a strong dollar, the short-term result of a rate hike, will continue to have a negative effect on corporate earnings and an overall deflationary effect. That, paired with the greater cost of borrowing money, could impact US economic expansion. That said, with the 10-year treasury at 1.61% and the yield of the German bund is not negative, where do you think global investments will flow? The market pressure produced by foreign funds chasing comparatively high US rates will prevent any serious run up in US interest rates. Unfortunately, global yield-seeking investments flowing into our shores might prevent significant rate increases. As the US government bond interest rates decline, the cost of hedging currency risk for foreign investors impacts the flow of funds to the United States. At this time, the hedge can be paid for and interest rates collected. Just remember, the cost of the hedge will impact the flow on money in a declining rate environment. The result of lower corporate profits due to the effects of a strong US dollar will be reduced employment and reduced capital expenditures (machinery and equipment). This last point is, of course, with the

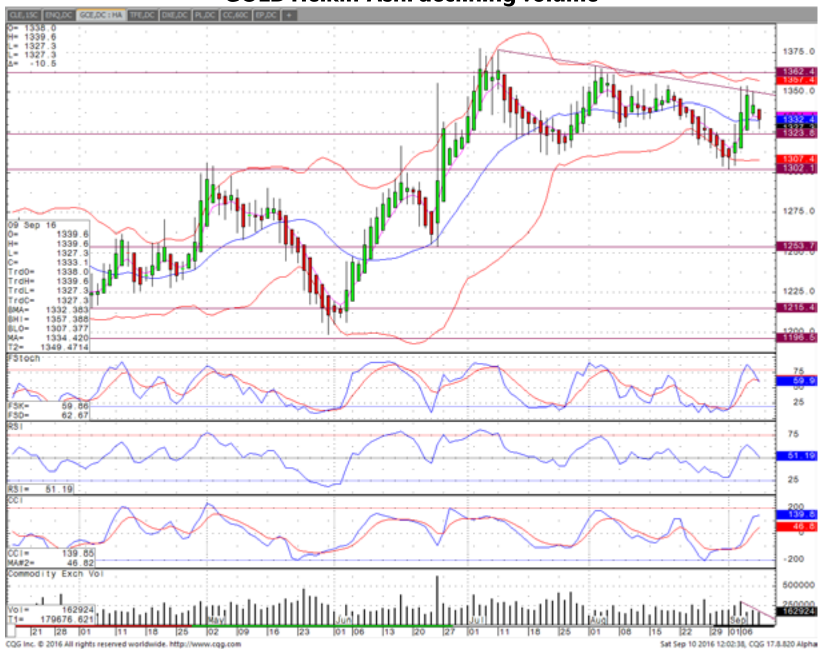
USDX weekly

USDX daily

GOLD daily



GOLD Heikin-Ashi declining volume



Notice on all charts, I use horizontal lines as well as trend lines. CQG provided the charts used.

exception of opportunities to reduce costs, such as equipment that replaces human labor. Mergers and acquisitions will continue as corporations try to trim expenses by merging with companies that will bring value to the bottom line.

Brexit shopping bash!

Money has been flowing into the US markets for the juicy yields on the bonds. How long can this last and when will see this migration of money stop? The flow of money will end soon because, unless the yields appreciate, the cost of hedging that transaction back into the investing currency will negate the interest rate earned. That should slow down the flow of money into the US markets.

The Bank of England devalued its currency by lowering their interest rates. The effect of doing that is to deflate the value of the currency. Here in the USA the FOMC seems to be itching to raise interest rates, which would make the US Dollar strong. A weak currency can be inflationary while a strong currency can be viewed as deflationary. Why? Well, because a strong currency can buy more stuff, especially when buying from a weaker currency. For example, should we want to buy real-estate in London with our strong US Dollars, it is much cheaper today with the pound at 1.31 to the US Dollar than it was a couple of months ago, when the pound was 1.53 to the US Dollar. Your London hotel room will be cheaper if you are from the United States, and the tours will certainly be cheaper. English companies might be so cheap as to become the target for a takeover. Imports from England will also become cheap. Any wonder why England is the hot destination for tourism.

Brexit put England on sale, not only for tourists, but also as a prime target for mergers and acquisitions of companies. If they were fairly valued before Brexit, they are downright cheap now.

What does the weak pound gain? Clearly tourism, shopping, everything is cheaper in England; exports are hot because they are now cheap, and companies, well they too are cheap. We should see some aggressive takeovers in the near future. If you are English and live in England, the world hasn't changed much. Your devalued pound still buys you the same stuff it bought before. Imports are expensive, and travel will likely be out of the question for a while.

As Americans we can stock up on those imports from England that a couple of months ago were too expensive. Everything is on sale in England...enjoy and shop on!

About the Author

Jeanette Schwarz Young CFP®, CMT, M.S., has been a Wall Street professional since 1981, when she began her professional career with Thomson McKinnon Securities. Her career includes portfolio management, syndication, option strategist, hedger, operations principal, bond principal, pit trader, and general market trader. Jeanette worked for the NYBOT (New York Board of Trade) and later ICE, where she wrote, produced, and aired two daily market reports covering the financials, currencies, and softs, which include Frozen Concentrated Orange Juice, Sugar, Cocoa, Coffee and Cotton. She has been a frequent guest on FOX, CNBC, Bloomberg, Yorba TV, CNN and others. She was a market maker in the FINEX ring (Russell 2000 ring) and became an expert hedger. As such, she has used this skill-set to protect capital and make money.

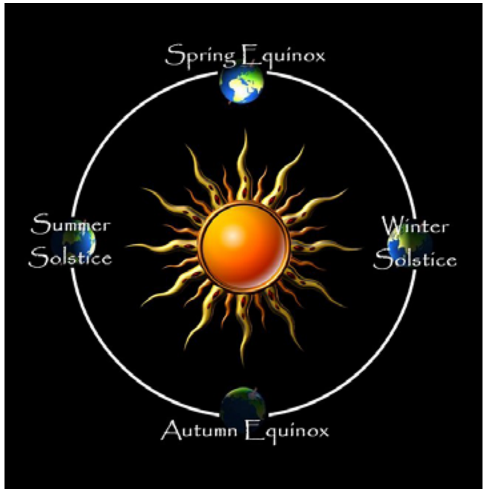
Jeanette was the first director of the CMT program for the Market Technicians Association and is the past president of American Association of Professional Technical Analysts and continues to serve on the board of directors. She is also a past and current member of IFTA's board of directors. Jeanette is the author of the *Option Queen Letter*, a weekly newsletter issued and published every Sunday. She is a member of ICE, COMEX, and CHX holdings, and is also a member of the Adelphi University Presidents Counsel.

In 2007, her book *The Options Doctor* was published by John Wiley & Son. She placed third in the globe in the National Investment Challenge Pro Option's Division in the mid-90s.

Expect a Major Fall in the (Autumn) Fall of 2016

By Ron William, CMT, MSTA

(This article was originally published on June 23, 2016, and then September 8, 2016, and later updated after the predicted early stage sell-off in equity markets after each of those timing windows.)



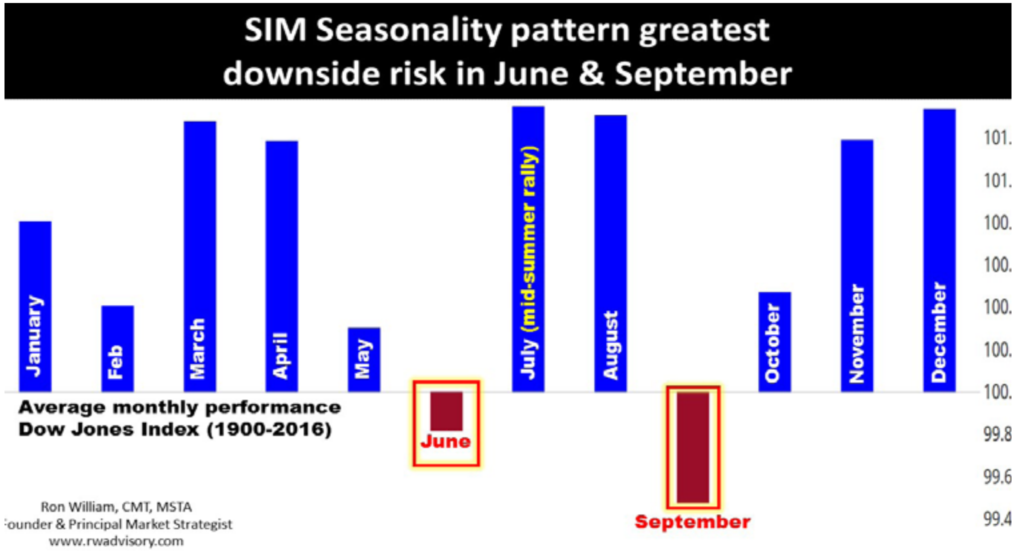
US equities sold off sharply on the opening week of September, during Friday the 9th, with large cap markets such as the Dow, S&P500 & NASDAQ, breaking back under their previous all-time highs (ATHs) at 18351, 2135 and 4816 respectively. This served as a **classic bearish volatility breakout,** with the market previously exhibiting an unusual "calm before the storm" of almost 60 trading days without a 5% move up or down. In price terms, a number of markets also triggered **DeMark™ exhaustion signals,** which still suggests further downside pressure ahead. These market risks are further heightened against the backdrop of rising volatility (VIX).

Why now? It's just time. One technical piece of the puzzle can be found in the annual cycles of each year, which can bring a marked change not only to the weather, but also the surrounding investment landscape. As the temperatures cool again in the fast approaching Autumn equinox (22nd September), our seasonality analysis suggests a growing probability for equity markets, notably those with the highest valuations, to be at **risk of a major fall in the (autumn) fall of 2016, during late September/early October.**

In fact, what the infamous market almanacs have long cited as the seasonal pattern of *"Sell-in-May-and-Go-Away"* or SIM, actually suffers its greatest downside risk during the months of June and September (Fig 1). The exact reasons for this general seasonal trading pattern are not known. Although, **lower trading volumes due to the summer vacation months and increased investment flows during the winter months** are traditionally highlighted as the discrepancy in performance of the overall SIM period between May-October.

Looking back at this year, the equity markets did partly follow the early stages of this pattern by triggering a **sharp correction during the second half of June** (approx. -5%), which was further pressured by the mounting event risk of "Brexit". However, US equity markets launched a sharp relief-rally from oversold conditions, into a marginal new all-time high (ATH) territory. This price reaction was also in-line with the expected timing window of the mid-summer rally, which tends to appear during the month of July (Figure 1). Thereafter, the **probabilities**

Figure 1. SIM Seasonality pattern suffers its greatest downside risk in June and September



Source: RW Market Advisory, Market Analyst

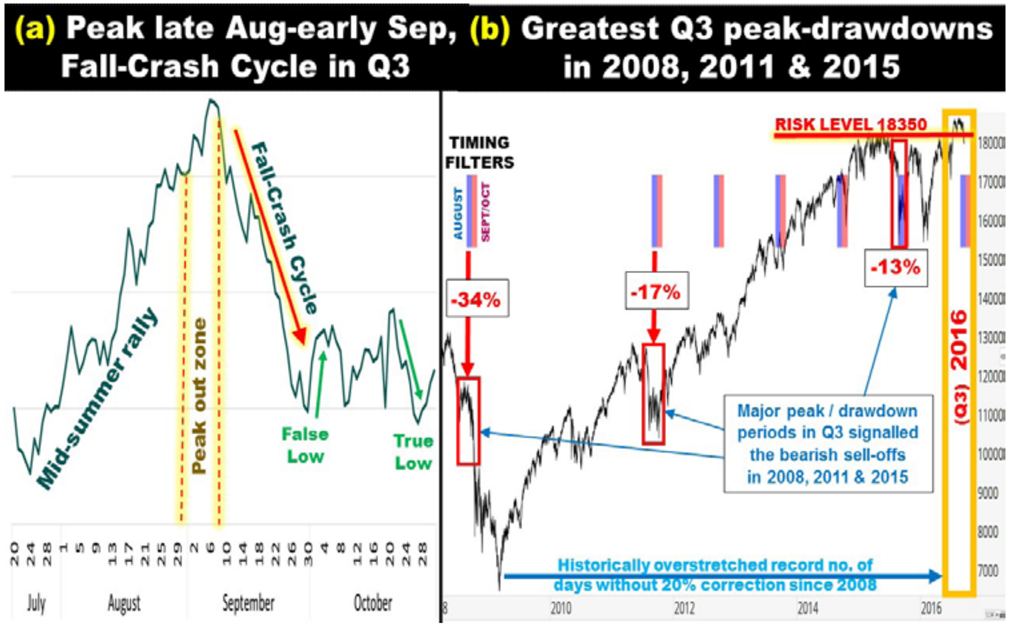
favoured a market peak/drawdown process in the month of August.

Mr. Market should now lead us into the well-known "Autumn (Q3) Fall-Crash cycle" that traditionally unfolds between September and October. Figure 2a illustrates the shape of this seasonal pattern, which is based on the average performance of over 100 years of back-tested price data on the Dow Jones Industrial Average. These results tell us the **largest price fall can be expected in late September, followed by a volatile rise/whipsaw, then another fall in October,** which traditionally marks the final capitulation "true low" in the market.

During the latest cyclical recovery since 2009, there have several peak/drawdown periods in August (Figure 2b). The largest one occurred beforehand, on 8th August 2008, which marked **one of the final major peaks of the Global Financial Crisis, triggering a drop of -34%.** The second largest was an extended drawdown timing window into early August 2011, with a net fall of -17%, which triggered a week earlier on 22nd July.

More recently, our analysis had correctly predicted the mini-crash of 2015, which suffered a price drop of -14% during the month of August, pressured by the Chinese equity market crash. Historically, **one of the most**

Figure 2. SIM Seasonality analysis bearish for (Autumn) fall



Source: The ECU Group, Multi-Asset Research & Advisory Team, Datastream, Market Analyst.

infamous seasonal anniversaries of this kind was the peak of the 25th August 1987, and we all know how that ended.

Ultimately, this peak out in seasonality not only **marks the end of the shorter term mid-summer rally, but also a multitude of more powerful and larger cycles.** This analysis is primarily based on Robin Griffiths' signature Roadmap cycle schema, which is driven by a 10-, 4- and 1-year cycle. The most influential input is the 10-year cycle, also known as the or decennial cycle, which, according to our studies, has **led to nine out of eleven of the major stock market corrections in the last 100 years** (Figure 3). Two of the major corrections were in years ending '0', and the remaining majority in years ending '7'.

Equity markets traditionally suffer their **biggest drop in year 6–7 of the decade,** which presently translates to 2016–2017. Here, we should also be alerted to the historically overextended nature of the market, having **just broken the pre-2008 crisis record for number of days without a 20% correction.**

The four-year presidential election cycle serves as an intermediate overlay, and this year is

Figure 3. Cyclical market forces led to 9 out of 11 of major stock market corrections in the last 100 years (decennial and presidential cycles).

100 years of major Stockmarket corrrections	Post crash % fall	Pre bull-mkt (rise / duration)	Decennial (D) Presidential (P) Cycles
Bankers panic (1907)	-40%	+128% +26 months	(D) 7-yr of decade
Wall Street crash (1929)	-86%	+463% +96 months	✘
The Fed mistake (1937)	-60%	+340% +57 months	(D) 7-yr of decade
Post-war crash (1947)	-30%	+122% +49 months	(D) 7-yr of decade
"Flash crash" (1962)	-28%	+334% +150 months	✘
Energy crash (1970)	-36%	Sideways	(D) 0-yr of decade
Oil crisis (1973)	-48%	+50% +31 months	✘
Inflation crisis (1980)	-27%	Sideways	(D) 0-yr of decade
Program trade crash (1987)	-34%	+232% +61 months	(D) 7-yr of decade (P) Reagan 1988
Tech crash (2000)	-49%	+220% +67 months	(D) 0-yr of decade (P) Clinton
Global financial crisis (2007-08)	-57%	+84% +61 months	(D) 7-8 yr of decade (P) G.W. Bush
Pending crisis? (2016-2017?)	?	+184% +74 months	(D) 6-7 yr of decade (P) Obama

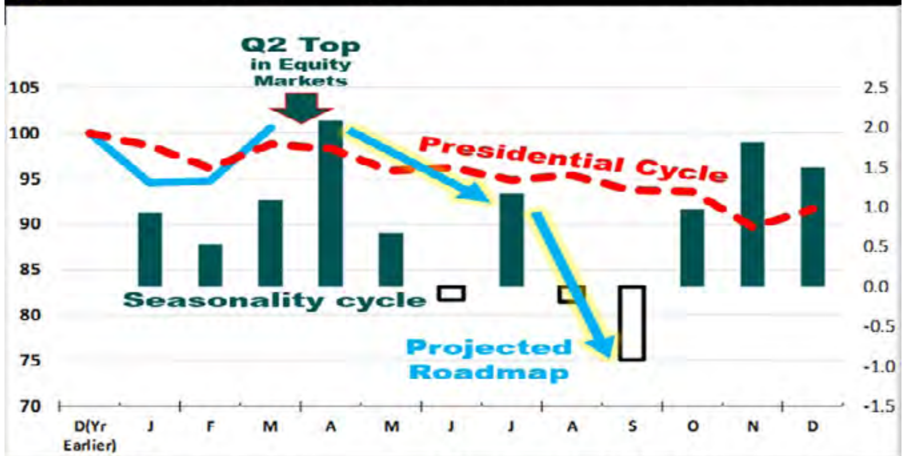
no exception with the level of sheer political uncertainty ahead of the coming US elections in November, less than 60 days away.

Although, it is true that in the run up to a US presidential election, the market normally rises and stays strong through the election to give whoever wins a honeymoon period. However, **if the election is at the end of a two-term president, they become a "lame duck", thereby leading to a negative equity market underperformance of -13.8%** (Figure 4b). This occurs as the incumbent president runs out of time, with a lack of policy ammunition and in most cases diminishing popularity.

This year's level of political and economic uncertainty is mounting higher with a rather polarized selection of US presidential candidates between Trump and Clinton. Market risks are further amplified by the ever widening divergence of asset price inflation vs. economic-business conditions, ahead of a pending risk of Fed rate hikes (potentially on the 20th or 21st of September) and a looming Italian referendum that is set to trigger further ammunition at EU unity. Against this unique backdrop of event risk, the triad of aforementioned cycles; *decennial, presidential and seasonal*, all support our bearish roadmap prediction.

Figure 4. Presidential and seasonal cycles, with bearish projected roadmap (Q3 2016)

(a) Presidential & Seasonal cycle remain bearish from Q2 2016 onwards



(b) Historical performance of the Presidential Election cycle

US President	Two-term Presidents	DJIA Returns (Year 8)	Ave. %
Obama (D)	2008-2016	??	
G. W. Bush (R)	2000-2008	-33.8%	
Clinton (D)	1992-2000	-6.2%	
Reagan (R)	1980-1988	-11.9	
Eisenhower (R)	1952-1960	-9.3%	
Roosevelt (D)	1932-1944	-12.7%	
Wilson (D)	1912-1920	-32.9%	-13.8%

Source: The ECU Group, Multi-Asset Research & Advisory Team, Datastream, Market Analyst.

So far, the successful prediction was to begin the year with a negative January, which was one of the worst in over a decade, followed by a very strong rally from mid-February, into a mid-April peak and a sharp move down into late-June. There is now **growing probability for the infamous Autumn fall-crash cycle of September and October;** just one month ahead of the ever-heated US presidential elections. (Figure 4a)

Technically speaking, it remains important to monitor the key equity market price confirmation for real evidence of trend direction. Only a move above the following risk levels at **4945 (NASDAQ COMPOSITE), 2203/20 (S&P 500) and 18668 (DOW JONES INDUSTRIAL)** would either delay the timing, or alternatively, a strong all-time high (ATH) breakout (signs of a new bull-trend extension, marked by with a lower swing low above the ATH) would cancel the bearish perspective.

Until then, both price and time overlays continue to signal that bearish forces are clawing away at this **"greater fool" danger zone, where the risk/reward remains highly asymmetric.** At 89 months old, the resulting bear skew will likely be much stronger this time around. Indeed, to quote an adapted market maxim, **"the stronger the market trend, the harder the price fall".** It should come as no surprise that when the Wall Street Bear starts its stampede, investors from around the world will be able to be feel the herded exit out of the stadium doors.

Markets 'skewed' to volatility in late September, potentially creating October lows
youtube.com

Select video image to review IG media interview: "Market's Skewed to Volatility in late September"

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About the Author

Ron William, CMT, MSTA, is an accomplished strategist, trader and educator. Mr. William has 16 years of financial industry experience, working for leading economic research and institutional firms and producing macro research and trading strategies. He specializes in macro, semi-discretionary analysis, driven by cycles and proprietary timing models.

Mr. William's work, most recently as part of his institutional market advisory firm (RWA), acquired global industry recognition with the 2014/2013 Finalist Award for "Best Independent Research House for FX" and 2012 Finalist Award for "Best Technical Analyst of the year". His market insights are featured regularly across notable industry publications and financial media programs.

He dedicated four years working at Bloomberg L.P. as a senior technical analyst specialist, responsible for training/consultation across the EMEA region, and contributed to the development of charting strategies and the technical analysis platform of the Bloomberg Professional Service™.

Mr. William is a board member of IFTA, vice president and head of the Geneva Chapter of the Swiss Association of Market Technicians, and honorary member of the Egyptian Society of Technical Analysts and holds both the MSTA and CMT professional designations. He is also co-founder of the SAMT CFTe Immersion Course and a lecturer of STA diploma course at the London School of Economics.

MFTA and CFTe Exam Dates

Certified Financial Technician (CFTe)—Level I

Date	Offered Year-round

See our website for further instructions www.ifta.org/certifications/registration/

Syllabus and Study Guide http://www.ifta.org/public/files/publication-downloads/IFTA_CFTe_Syllabus.pdf

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Date	20 Apr 2017	TBA October 2017
Registration deadline	3 March 2017	25 Aug 2017

Register at www.ifta.org/register/cfte2.php

Syllabus and Study Guide http://www.ifta.org/public/files/publication-downloads/IFTA_CFTe_Syllabus.pdf

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Master of Financial Technical Analysis (MFTA)

Alternative Path Pre-Application Deadline	28 Feb 2017	31 July 2017
Application/Outline Deadline	2 May 2017	2 Oct 2017
Paper Deadline	15 Oct 2017	15 Mar 2018

(Session 1) Register at www.ifta.org/register/mfta_alt_session1.php/

(Session 2) Register at www.ifta.org/register/mfta_alt_session2.php/MFTA/IFTA Journal Style Guide

2016 IFTA Board of Directors Nominations (Term October 2016–October 2019)

Nominations were received for seven open positions on the IFTA board of directors. Elections will be held at the Annual General Meeting (AGM) on Thursday, October 20, 2016, from 16:00 to 17:30 (4:00 pm–5:30 pm).

If you would like to contact any of the candidates, please email the IFTA staff at admin@ifta.org, and we will be glad to facilitate your communication.

Fowzy Alkoblan, CFTe, DipTA

Nominated by: ATAA (Australia)

Current Board Member: No

Fowzy Alkoblan worked as a civil engineer at Saline Water Conversion Corporation—a company that converts sea water into potable water in Saudi Arabia—from 1984 until 2012.

His journey with technical analysis started in August 2004 when he took a course on the basic principles of technical analysis. After that, Fowzy continued reading the well-known technical analysis books and built my own Wall Street knowledge. In 2012, he was awarded the diploma of the Australian Society (DIPL. TA ATAA), which is equivalent to the CFTe, the famous certificate of IFTA.

From September 2004 until January 2012, Fowzy managed portfolios that are invested on the Saudi stock market. Since 2012, he has worked as an independent full-time trader.

Gregor Bauer, Ph.D., CFTe

Nominated by: VTAD (Germany)

Current Board Member: Yes

Gregor Bauer works as an independent asset manager for private clients and companies in Germany. He is also the president of the German Association of Technical Analysts (www.VTAD.de). Gregor authored two books on technical analysis and covers a regular technical outlook on German TV. He also writes articles for leading financial newspapers on a regular basis. He is specialized in applying advanced candlestick techniques in combination with traditional western techniques.

Gregor conducts lectures in portfolio management and technical analysis at various elite universities in Germany and Liechtenstein and runs seminars and workshops on technical analysis for institutional Investors. Together with a partner, he runs a very successful computer-based, medium-term ETF trading system, which is now also open to institutional investors.

Gregor serves on the board of directors of IFTA as a member of the Execution Committee, and in his capacity as exam management director, he oversees the exam administration and is responsible for structuring the exams. For further information please visit: www.drbauer-consult.de or follow him on Facebook.

Francesco Caruso, MFTA

Nominated by: SIAT (Italy)

Current Board Member: No

Francesco Caruso graduated from Bocconi University with a degree in economics. Since 1989, as fund manager and chief of relevant European financial organizations, he has focused on the development of trading systems and the application of technical and algorythmic analysis to asset management and asset allocation.

Fracesco has published books and articles for financial media and created many technical models and indicators, including the Composite Momentum®. He is a two-time winner (1997 and 1998) of the international award, Leonardo d'Oro della Ricerca Finanziaria®, in the technical analysis division. In 2008, he became the first MFTA in Italian history and was awarded IFTA's John Brooks Award® for the best MFTA paper. The paper, "Technical Tools and Equity Selection: A Reward/Risk Rating Indicator for the Stock Market Components", was also published in the official 2010 IFTA Journal. In 2011, Francesco entered the newly organized SIAT Awards for the first time and won. He won again in 2015.

Francesco has 30 years of experience in all the fields of financial markets, from technical and quantitative analysis to trading, asset allocation, and asset management. He is a strategist, chief of financial area, member of the board of directors, CEO, and consultant for primary financial groups (UBIBANCA, BANCA DEL SEMPIONE, ARCA GROUP, RCF, MELIOBANCA, BANCA INTERMOBILIARE, BANQUE MORVAL etc.), He is currently a prominent financial blogger and author of technical books and specialized articles, founder and owner of Market Risk Management, and an Italian leader in independent advisory. He is also an advisor for banks and funds and is associate professor at the Cassino University in the Executive Master's degree in Quantitative and Technical Analysis of the Financial Markets.

Francesco is vice president of SIAT, the Italian Technical Analysis Society, and president of the Scientific Committee of the association.

He has held many courses and conferences on technical analysis and markets and has already been an official speaker at IFTA 1998 (Rome) and IFTA 2006 (Lugano) and the SIAT ambassador at the IFTA Annual Congress 2007.

Alek Jankowski, BE, M.Eng.Sc., Grad.Dip.Mgt.

Conference Director

Current Board Member: Yes

Alek Jankowski originally trained as an electrical engineer (University of New South Wales) and also holds post-graduate degrees in industrial engineering (operations research) and management. Prior to retiring from full-time employment, Alek worked for a Fortune 500 international corporation as group general manager, with responsibility for several businesses in Australia, New Zealand and Southeast Asia. During his career, he worked for several international corporations where he held senior executive roles. He joined the ATAA some nine years ago and since retirement, has taken an active role within the organisation. Alek joined the local Chapter Council in 2013 and then the National Board in 2014. He was elected president in November 2015.

Alek has a keen interest in financial markets, with his current focus on the management of his personal investment portfolio and the development of his own trading systems. He has been instrumental in the development of a large aged care facility in Sydney and has been the finance director for some 15 years. He is now the deputy chairman. An active Rotarian for 32 years, he has served that organisation at Club and District levels.

Takashi Nakamura, MFTA, MBA, MA, CIIA, CMA, CFP, MRICS, CTP, SMECA

Nominated by: NTAA (Japan)

Current Board Member: No

Takashi Nakamura is a senior strategist at Tokai-Tokyo Research Center, mainly focusing on the Japanese stock market, including J-REIT utilizing technical analysis in combination with fundamental approach and behavioral finance theory. Prior to his current position, Takashi worked for both sell-side and buy-side, Yamaichi Securities, Merrill Lynch Japan Securities, Japan Investment Trust, Sompo Japan Asset Management, and Okasan Asset Management.

Takashi has more than 15 years of experience in the field of financial markets. In his previous positions at the asset management companies he has served, he managed pension fund and mutual fund portfolios as a fund manager, investing in stocks (including REIT) in developed countries; emerging markets (mainly focusing on Asian markets); and large-, mid-, and small-cap funds; and employing active quantitative investment strategies and bottom-up approach complemented by fundamental and technical analysis.

Takashi graduated from Keio University (Faculty of Business and Commerce). He received his MBA from the University of Wales HABS and an M.A. in clinical psychology from Alliant International University/California School of Professional Psychology. He is a visiting professor at Buckinghamshire New University.

Jeanette Schwarz Young *CFP®, CMT, M.S.*

Current Board Member: Yes

Jeanette Schwarz Young has been a Wall Street professional since 1981, when she began her professional career with Thomson McKinnon Securities. Her career includes portfolio management, syndication, option strategist, hedger, operations principal, bond principal, pit trader, and general market trader. Jeanette worked for the NYBOT (New York Board of Trade) and later ICE, where she wrote, produced, and aired two daily market reports covering the financials, currencies, and softs, which include Frozen Concentrated Orange Juice, Sugar, Cocoa, Coffee and Cotton. She has been a frequent guest on FOX, CNBC, Bloomberg, Yorba TV, CNN and others. She was a market maker in the FINEX ring (Russell 2000 ring) and became an expert hedger. As such, she has used this skill-set to protect capital and make money.

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In 2007, her book *The Options Doctor* was published by John Wiley & Son. She placed third in the globe in the National Investment Challenge Pro Option's Division in the mid-90s.

Simon Warren, FSTA

Nominated by: STA (UK)

Current Board Member: No

Simon Warren was head of investments at Bupa for seven years, with responsibility for £3.7bn of assets and £1.1bn of debt. Prior to that, he was deputy treasurer and head of front office trading, where he was responsible for all transactional and FX hedging.

Simon is a fellow of the Association of Certified Accountants and began his career at Bupa in 1987 as an accountant before moving over to the treasury and investment areas, where he utilizes his technical analysis skills.

Simon has been treasurer of the STA since 2003 and was also a director of IFTA for three years, where he was chair of the Finance Committee.

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AUSTRALIA—ATAA Australian Technical Analysts Association **www.ataa.com.au**
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HONG KONG—FTAA* Financial Technical Analyst Association **www.ftaa.org.hk**
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INDONESIA—AATI Asosiasi Analis Teknikal Indonesia
ITALY—SIAT Società Italiana di Analisi Tecnica **www.siat.org**
JAPAN—NTAA Nippon Technical Analysts Association **www.ntaa.org.jp**
LEBANON—LSTA Lebanese Society of Technical Analysts **www.lstalebanon.com**
MALAYSIA—MATA* Malaysia Malaysian Association of Technical Analysts **site.malaysianchartist.com**
NIGERIA—TASN Technical Analysts Society, Nigeria **www.tasnigeria.org**
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ROMANIA—AATROM Asociatia Analistilor Tehnici din Romania **www.aatrom.org**
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TUNISIA—ATAT* Association Tusisienne des Analystes Technique
UNITED KINGDOM—STA Society of Technical Analysts Ltd. **www.sta-uk.org**
USA—TSAASF Technical Securities Analysts Association **www.tsaasf.org**
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* Developing

IFTA Update Schedule

The *IFTA Update* is the quarterly electronic newsletter of the International Federation of Technical Analysts, reaching more than 6,950 IFTA colleagues worldwide. The *Update* is an efficient and cost-effective way to communicate with IFTA's member societies and colleagues.

PUBLICATION SCHEDULE

December Issue	Education articles: November 15	All other content: December 1
March Issue	Education articles: February 15	All other content: March 1
June Issue	Education articles: May 15	All other content: June 1
September Issue	Education articles: August 15	All other content: September 1

Send education article submissions to newsletter@ifta.org. Send all other content to admin@ifta.org
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