

Technical Analysis

Topics to be Discussed

Dow Theory
Barron's Confidence Index
Breadth of the Market
Odd-Lot Index
Charting

Dow Theory

Oldest of the technical theories

Created by Charles H. Dow

- ☛ "There is no way of telling when the top of an advance or the bottom of a decline has been reached until some time after such top or bottom has been made."
 - Major (Primary) uptrend (bull market)
 - Major (Primary) downtrend (bear market)
 - Secondary upward or downward trends
- ☛ Change in direction should be confirmed in some way

Barron's Confidence Index

Based on belief that differential between the returns on quality bonds and bonds of lesser quality will forecast future price movements

- ☛ Calculation

$$\frac{\text{Yield on High Grade}}{\text{Yield on Lesser Grade}}$$

- ☛ Theory
 - during periods of high confidence, investors invest more in lower quality bonds for the added yield
 - increased demand will decrease yield

Breadth of the Market

The more stocks participating in market trend, the greater the indication that decision makers agree on future market prospects

New Highs/Lows for January 7, 2011

The following is a matrix of stocks that have made a new high or low price today sub-categorized by exchange, volume and price.

Current New Highs/Lows

Current information as of Friday, Jan 7th, 2011

Current Daily Weekly Monthly							» Add Chart Icons			
HELP	Overall	NYSE	AMEX	Nasdaq	ETFs	OTCBB	Price <\$10	Price >\$10	Vol <100K	Vol >100K
1-Month Highs	731	301	42	388	94	128	279	452	203	528
1-Month Lows	509	258	23	228	66	64	113	396	144	365
3-Month Highs	502	220	27	255	59	61	163	339	124	378
3-Month Lows	78	38	5	35	15	18	37	41	17	86
6-Month Highs	411	195	21	195	55	35	111	300	81	330
6-Month Lows	17	6	1	10	12	6	14	3	6	11
12-Month Highs	267	122	21	195	55	35	56	211	44	223
12-Month Lows	11	5	1	5	6	1	9	2	3	8
YTD Highs	1052	409	71	572	178	280	437	615	359	693
YTD Lows	1631	776	101	754	497	205	502	1129	548	1083

NOTE: Over the Counter Bulletin Board (OTCBB) is a regulated electronic trading service offered by the National Association of Securities Dealers (NASD) that shows real-time quotes, last-sale prices and volume information for over-the-counter (OTC) equity securities. Companies listed on this exchange are required to file current financial statements with the SEC or a banking or insurance regulator. There are no listing requirements, such as those found on the Nasdaq and New York Stock Exchange, for a company to start trading on the OTCBB. It is important to note that companies listed on the OTCBB are not a part of the Nasdaq Exchange. The truth is, OTCBB stocks are not especially large or stable and are considered very risky. As a result, very few OTCBB stocks are successful in making the jump from this market to the Nasdaq or any other major exchange because they are unable to meet the listing requirements. Furthermore, because OTCBB stocks tend to trade infrequently, the bid-ask spread is larger.

Source: www2.barchart.com/newhilo.asp

Breadth of the Market (continued)

Trading January 7, 2011

Index	Time (ET)	Last	Change
Exchange Indexes			
AMEX Comp.	01/07/2011 16:00	2,150.33	22.57 (1.04%)↓
NASDAQ Comp.	01/07/2011 16:00	2,703.17	6.72 (0.25%)↓
NYSE Comp.	01/07/2011 16:00	7,980.02	20.88 (0.26%)↓
DOW Indexes			
DOW Comp.	01/07/2011 16:00	4,072.80	6.40 (0.16%)↑
DJI	01/07/2011 16:00	11,674.38	22.93 (0.20%)↓
DJT	01/07/2011 16:00	5,178.12	34.15 (0.66%)↑
DJU	01/07/2011 16:00	407.74	1.31 (0.32%)↑
S&P Indexes			
S&P Energy	01/07/2011 16:00	509.10	3.30 (0.65%)↑
S&P Financials	01/07/2011 16:00	218.38	2.03 (0.92%)↓
S&P 100	01/07/2011 16:00	573.37	1.36 (0.24%)↓
S&P 500	01/07/2011 16:00	1,271.47	2.38 (0.19%)↓
S&P 400	01/07/2011 16:00	910.45	2.38 (0.26%)↓
S&P 600	01/07/2011 16:00	415.91	2.15 (0.51%)↓
NASDAQ Indexes			
NASDAQ 100	01/07/2011 16:00	2,276.70	0.81 (0.04%)↓
NASDAQ Banking	01/07/2011 16:00	1,848.60	22.00 (1.18%)↓
NASDAQ Biotechn	01/07/2011 16:00	988.99	0.20 (0.02%)↑
NASDAQ Market	01/07/2011 16:00	145.92	0.80 (0.55%)↓
NASDAQ Computer	01/07/2011 16:00	1,406.90	1.61 (0.11%)↓
NASDAQ Financial	01/07/2011 16:00	2,229.82	25.97 (1.15%)↓

Source: www.marketvolume.com/content/products/mktsum/mktsum.asp

Odd-Lot Index

- ☛ Trading on exchanges done only in standard quantities (round lots)
- ☛ Round lot usually 100 shares
 - other quantities are used sometimes
- ☛ Shares less than round lot referred to as odd lots
- ☛ Odd lot trading is considered to reflect investment decisions of small investors
 - analysts consider odd lot investors to be wrong in the market

NYSE Odd Lot Transactions
January 6, 2011

Odd Lot Purchases	21,651,409
Odd Lot Sales	12,322,431
Odd Lot Short Sales	9,302,251
Odd Lot Purchases Dol Vol	\$926,742,089
Odd Lot Other Sales Dol Vol	\$525,846,866
Odd Lot Short Sales Dol Vol	\$400,326,707

Source: http://online.wsj.com/mdc/public/page/2_3024-oddlottrades.html?mod=topnav_2_3000

Charting

Observation of past performance of various factors to evaluate short-term trends

- ☛ prices
 - highs/lows/closes
 - volume
 - other information



Head and Shoulders Formation

Charting (continued)

In 1996, Shi Zhang wrote a program based on the description of the head-and-shoulders formation. Zhang's program looked for six points on a bearish head and shoulders pattern -- the right shoulder, the right trough, the head, the left trough, the left shoulder and "neckline" crossing. The time between points had to be at least five days and no longer than 180 days. Various distances were used to make sure that no patterns were missed. After running his computer nonstop for 10 hours, Zhang came up with seven patterns, which he then evaluated for profitability 1, 2, 3, 4, 5, 10, 20, 30 and 60 days out. The results appear below:

Number of days after neckline crossing

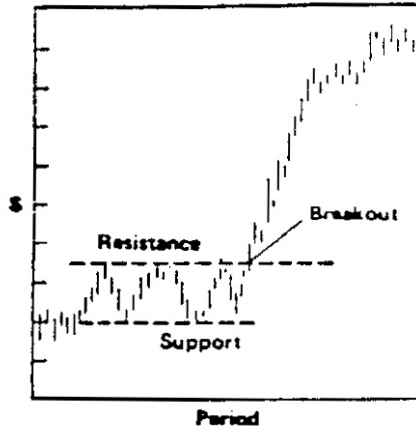
	1	2	3	4	5	10	20	30	60
Average profit/loss	0.3%	1.6%	1.2%	1.1%	1.3%	-0.7%	0.7%	-0.2%	-2.6%
Standard Deviation	0.01	0.03	0.01	0.02	0.02	0.02	0.02	0.04	0.1

We conclude that head-and-shoulders trading does not work either as a signal of a trend change or as a profitable strategy.

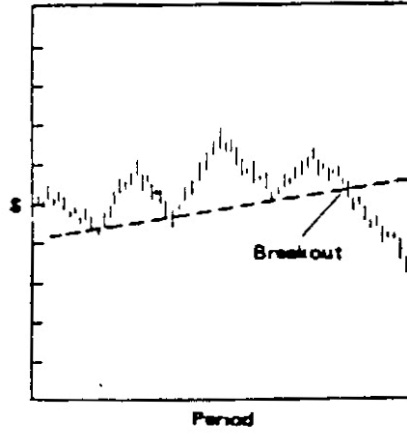
Source: MSN Money with Victor Niederhoffer and Laurel Kenner
<http://moneycentral.msn.com/content/Investing/Powertools/P79688.asp>

Charting (continued)

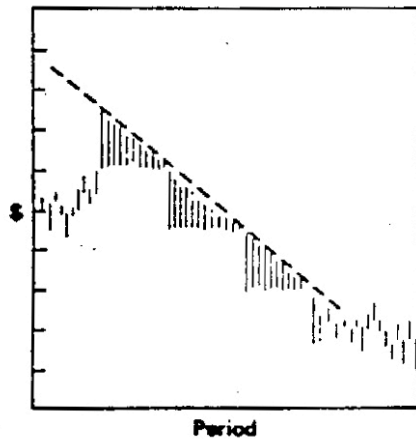
Panel A: Triple Top



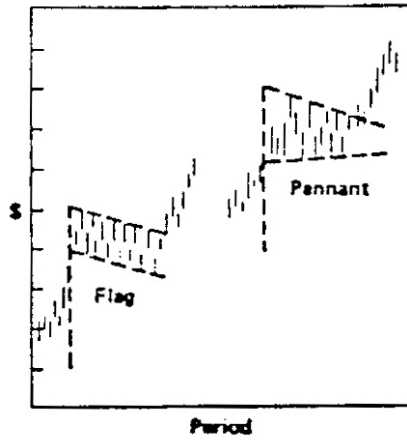
Panel B: Head and Shoulders



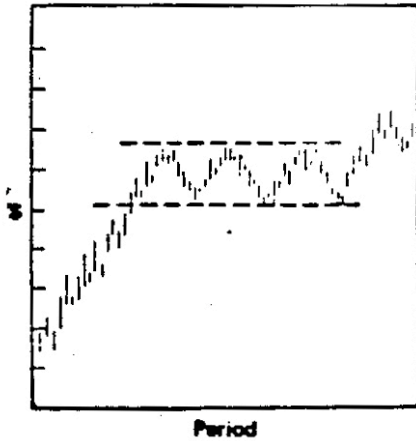
Panel C: Triangles



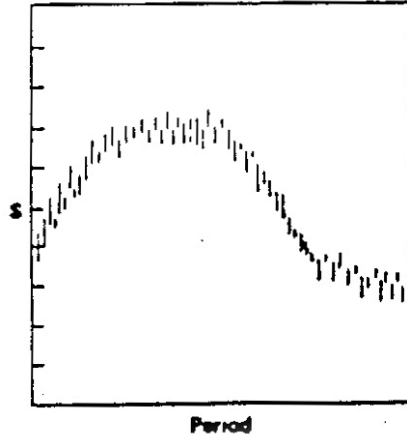
Panel D: Flag and Pennant



Panel E: Consolidation Triangles



Panel F: Inverted Saucer



Some Popular Chart Formations