AUSTRALIAN
TECHNICAL
ANALYSTS
ASSOCIATION

A VIEW TO
THE FUTURE

NEWSLETTER # FOUR MARCH, 1991

WELCOME TO ANOTHER WONDERFUL YEAR IN THE MARKETS!

I have just returned from an extensive lecture circuit in South East Asia. When I was first invited to visit Indonesia to conduct my intensive three day Technical Analysis course, I must confess that I was both flattered and concerned. My concern was twofold. Firstly, there was the challenge of language. I had not spoken Indonesian since I had studied it at school (for all of one term) many, many years ago. This fear was soon put to rest by the wonderful sponsors P.T. Kharisma Mulatama (brokers and traders on the Jakarta Stock Exchange, Gedung Bursa Lt. 3 Jl. Medan Merdeka Selatan No. 14 Jakarta Pusat, Indonesia). My host Mr. Harry S. Indiyanto was absolutely wonderful and looked after me extremely well.

My second, and main, concern was to do with the markets in Indonesia. This was soon to pass when I examined the chart of the Jakarta Stock Exchange Composite Index. (See article on Human Nature and the Markets.)

In Singapore, I was invited to do a presentation to the Singapore Technical Analysts and Traders Society. The President of STATS, Mr. Michael Lim Chuan Seng, made me feel very welcome and even helped establish contacts for me to conduct my courses through The Institute of Banking And Finance in Singapore. Technical Analysis in Singapore has a very strong following. On behalf of the ATAA, I invited Michael to address our group when he comes to Australia.

I received an especially warm reception in Kuala Lumpur where I made a presentation to the Arab-Malaysian Securities company. There Mr. Ahmad B. Abdullah is in the process of establishing a technical analysts society. He has attracted support from individual traders, as well as from the corporates and fund managers.

So, you can see that Technical Analysis is more than alive and well in South East Asia as evidenced by the growing number of TA groups being established and the increasing interest in, and application of, TA in its various forms as part of the decision-making process.

This month's newsletter contains a report on the last meeting of your association, an article on the state of the Australian Stockmarket before the latest run up (updated through early March), an article on The Statistical Approach to the markets being employed overseas and an article on Volume Analysis.

Unfortunately, no contributions have been forthcoming from our members!! I know there is a wealth of knowledge out there that other members could benefit from. How about sharing some ideas, experiences or even frustrations. Please!!! I look forward to receiving some articles from you.

Make it a great year by deciding not to partake of the recession!

Ivan Krastins
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HUMAN NATURE AROUND THE WORLD

The intrinsic nature of mankind, as reflected by their buying and selling in a stockmarket, or any market for that fact, is universal. This may seem like a rather bold comment on the surface, but one needs only to reflect on a chart of a stockmarket from any trading centre in the world to see the veracity of the comment.

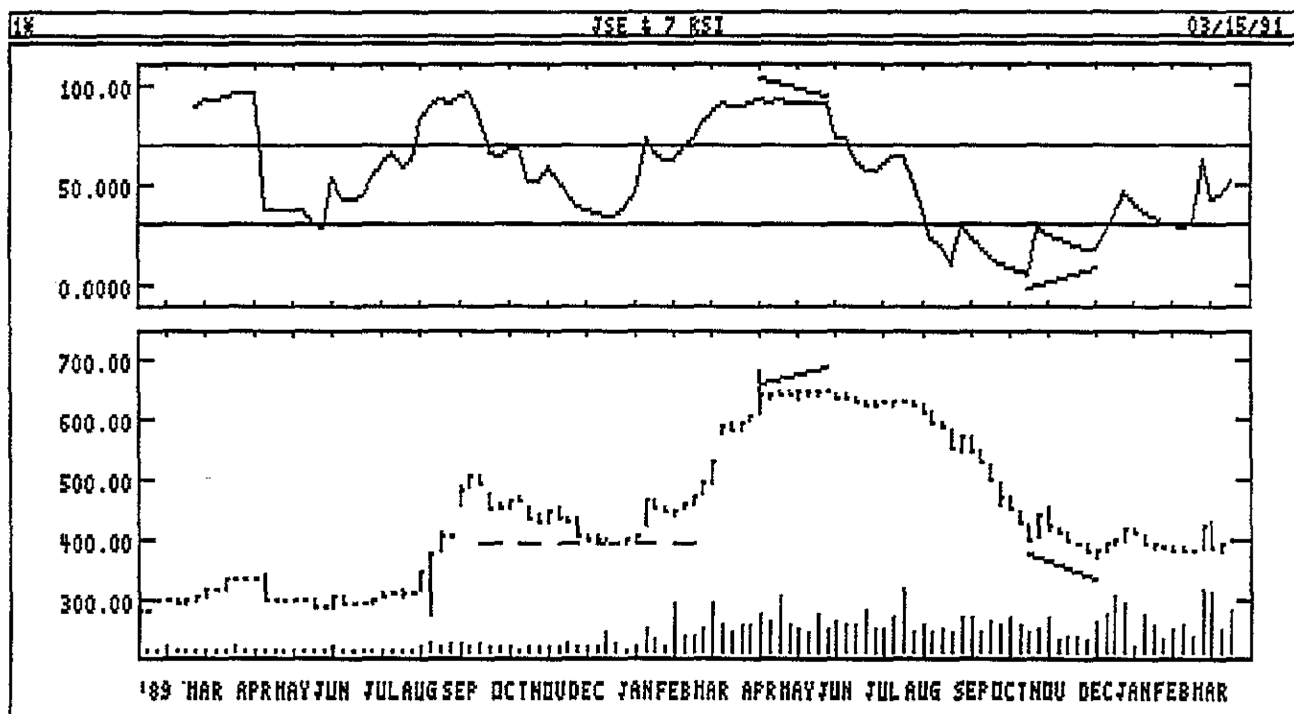
Having just returned from mylecture circuit, I thought that it may be interesting to have a look at a chart of the respective stockmarkets of the countries that I visited. The various countries are at different stages of their economic development, and hence one would assume that the fundamental factors would also be different. Another way of looking at this is that the markets are at different stages of their own cycles. But don't worry, I am not going to start talking about fundamentals.

In order to present a larger picture, I have used weekly data in all the charts. To keep the article simple (I am sure everyone has heard of the K-I-S-S principle ... keep it simple stupid!), the charts feature a seven week Relative Strength Index and Volume, which appears as a histogram below the actual price bars.

Before I left for Jakarta, I did some research on their stockmarket. There had been an explosion in the number of listed companies since 1988 (from twenty odd to one hundred and twenty plus) and a raging Bull market which had seen their Composite Index rise by 500%. This confirms the old cliche that ***there is always a Bull market ... somewhere in the world*** ... and adds weight to the sound investment or trading strategy of diversification.

An extra challenge in looking to trade the markets offshore is obtaining the relevant data. This, in the case of Indonesia, proved to be virtually impossible in Australia. I was only able to procure a limited amount of data on their currency, the Rupiah, and the Jakarta Stock Exchange Composite Index (similar to the All Ordinaries Index in Australia) from Proview Professional Services of Level 3, 33 York St., Sydney. Thank you Andrew Moffat and Richard Crooke. (They are both members of the ATAA.)

More importantly, my research substantiated the concept that money and human nature can be a very volatile mix.



The weekly bar chart above illustrates the Jakarta Stock Exchange Composite Index. Note the textbook Bearish Divergence that appeared on the Relative Strength Index at the highs in April/May 1990 and the Bullish Divergence at the lows of November/December 1990. One could not ask for a more perfect example in any market. In terms of retracements, this market also exhibits rather classic tendencies. The dotted line represents a 50% retracement of the previous move up. The late W.D. Gann would surely have had a smile on his face when this took place!

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There were many stories about the various company stocks that lead to the commonly held belief that Technical Analysis, in its various forms, would not *work* for the Jakarta Stock Exchange.

If the various elements of TA could not have been applied, and applied successfully, to this market, it would have provided a great personal disappointment. You see, in my eyes, the validity of TA relies on its being able to be applied to any widely traded market, on any time scale, anywhere in the world.

Much to my relief, and obviously to that of the people who attended my various presentations, the chart of the Jakarta Stock Exchange Composite Index was as close to ***textbook perfect*** as the Dow Jones Industrial Averages of the USA, the Nikkei Dow of Japan or even the Australian All Ordinaries Index itself.

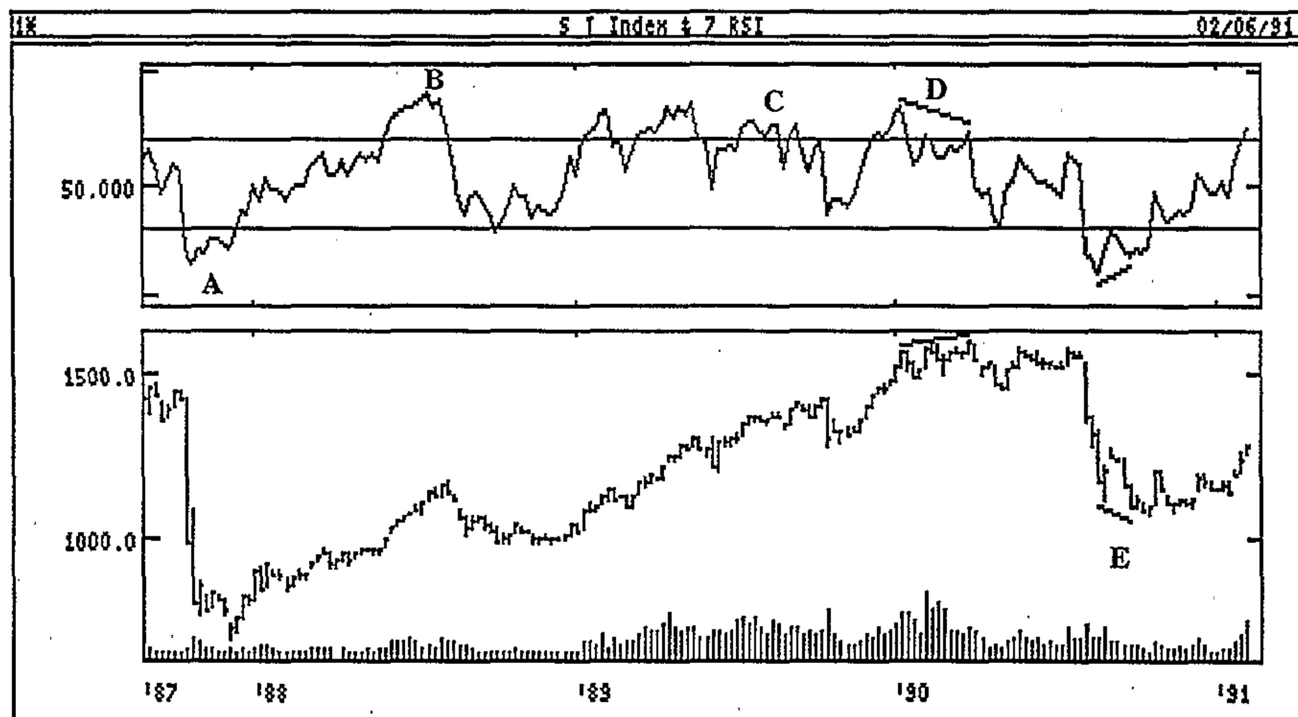
One question that was often asked of me, especially in Jakarta, was whether Technical Analysis in its full sense, or chart analysis in its more limited form, could be successfully applied to a market that was not very mature.

My answer was very simple: the less data that is available for a particular stock or commodity, the shorter the forecast (in terms of time) that could be made. As new data becomes available, the forecast can be increased.

From a practical perspective, if one is just beginning to construct a chart of a particular market that has been trading for some time, ideally the chart would include the all-time high and the all-time low. This was something that W.D. Gann stressed over half a century ago. In his day, all the charts were constructed obviously by hand. Many analysts still prefer their own hand-drawn charts.

The reason that these price extremes are important is that they define the ballpark within which the market is playing, or trading. This then allows an analyst to work out the various percentage retracement and or projection levels that may halt a market rise or fall. Very few analysts actually are such purists, especially in terms of applying the techniques of W.D. Gann. But then again, statistics show that only a very small number of traders actually do succeed.

At the very least, a current working chart should incorporate the most significant high and low for the last twelve months. If one is working with indicators, such as momentum oscillators, the Stochastic or the RSI, an analyst or trader can see the various extreme readings in the actual indicator. This can be very useful when looking to isolate the different cycles that are operating in a market at any one time.



The Singapore stockmarket is illustrated above using the Straits Times Index. The seven week RSI performed admirably in warning market participants when the probabilities favoured going long (just after the 1987 crash) by exhibiting a Bullish divergence pattern (A). As the stockmarket rallied, the RSI also indicated times of high risks for new buyers (B, C). The final Bearish divergence (D) preceded the next significant move down. A low risk buying opportunity was indicated by the RSI at E. Volume served as an important tool of confirmation. (Refer to article on Volume Analysis.)

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My presentation to the Singapore group of analysts was titled: ***Believe what you see, not see what you believe.*** This is always an important point to bear in mind when applying TA. Many market particpants use TA and chart analysis to confirm their opinion as to where the market should be heading, rather than the reverse process.

Our incredibly powerful minds, not to mention our subconscious, can always find reasons to justify why we have a certain view on a market either from a technical or fundamental perspective. This justification process can easily cloud what the chart or an indicator may be really saying to us.

The examples of the Bullish and Bearish divergences of the Relative Strength Index of Jesse Welles Wilder that you have seen in this article did not forecast the size of the next move, but rather that probabilities favoured a change of direction. Very few indicators, if any, forecast the actual size of the next move.

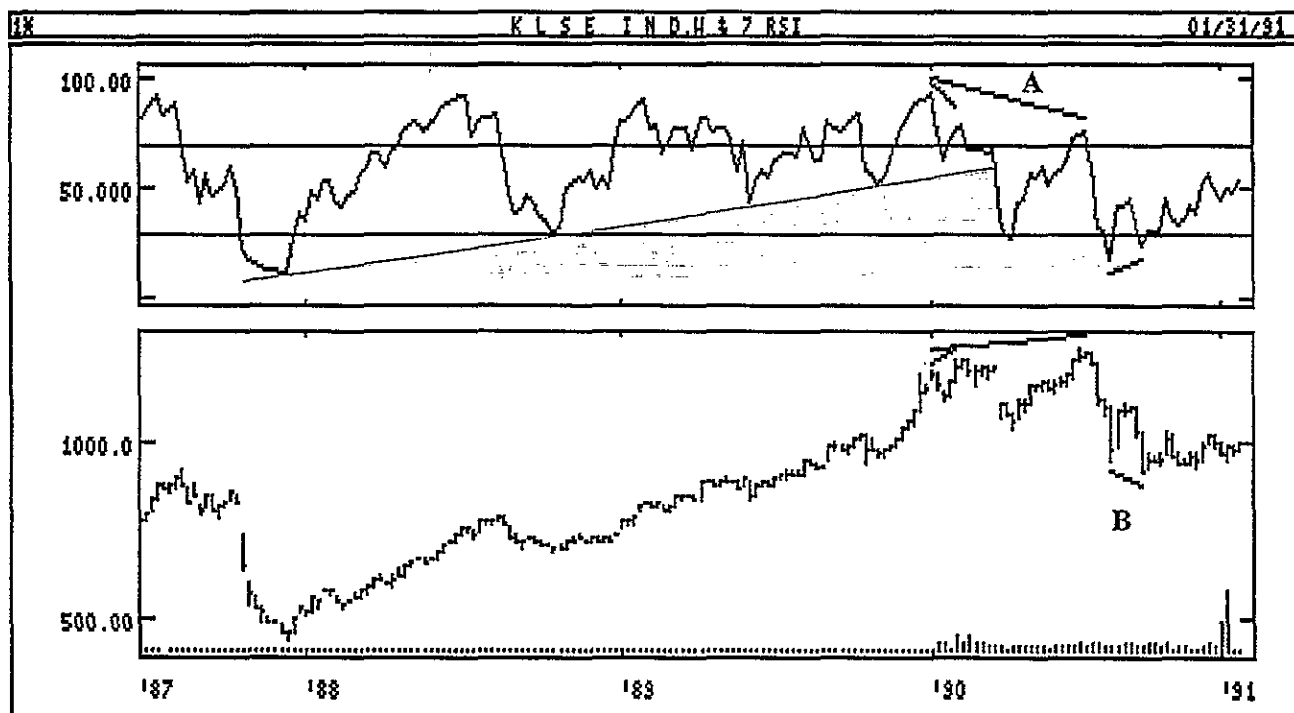
If an extremely bullish analyst were to see a Bearish divergence, he (or she)may conclude that the market was only overbought, expect only a small correction (which is a subtle forecast of new highs ahead) and still recommend that a long position be taken.

Alternatively, the same analyst may accept the immediate message of the same Bearish divergence pattern and wait for the price to react downwards but, because he is bullish anyway, may not wait for a Bullish divergence pattern to emerge before adopting, or recommending a long position. This can be equally as detrimental to one's financial health.

It seems that it is part of the universality of human nature to superimpose their own interpretation on a situation, or even on a market. As the price of a stock or a comodity rises, the more bullish most people become. This is also true of people involved with the real estate market, the art market, the precious metals market, any market.

The reverse is equally true. As a market declines, most people become even more bearish and can easily ignore the message that a chart may be really presenting from a TA perspective. (See article on Market Consensus.)

Ivan Krastins



This weekly chart of the Kuala Lumpur Industrial Index clearly shows how human nature knows no boundaries. The same Bearish divergence pattern in the RSI appeared at, or near, the high (A) as in the charts on the previous pages. Even more interesting, from a Technical Analysis perspective, is the fact that the pattern traced out by this market at the highs is exactly the same one that the Dow Jones traced out in1929. A Bullish divergence at the lows (B), warned of a bottom.

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MARKET CONSENSUS
alias
THE CROWD.

Seeing we have been looking at the stockmarkets of South East Asia, it would seem rather appropriate to review the Australian stockmarket as well. It has been interesting that in the last week or so I have been receiving a number of calls from previous students and clients asking whether it may be an opportune time to start accumulating some stocks. But more on that later.

Over the years of conducting my TA courses and trading the various markets, I have found that the best way to gain an insight into the future is by studying the past. It almost sounds like a paradox.

Let us now spend some time examining the technical picture of the Australian stockmarket before the current strong move up. Take your mind back to late 1990 and early 1991. What was the general market consensus in Australia?

- Petrol prices had been going through the roof courtesy of the invasion of Kuwait.
- The international price of crude oil was heading for the sky.
- The Australian economy was seen to be in a rather poor state, to say the least.
- Real estate prices were coming down.
- Unemployment was rising.
- The January 16 (US date) deadline was drawing inexorably closer.
- War seemed to around the corner.

All in all, the picture and the general mood was not one of optimism or bullishness. In many ways, the mood has not changed much since then. All the economic data that is being released now seems to confirm what most ordinary people already knew.

What was the general market consensus regarding the price of Gold, Crude Oil and the stockmarket if the United Nations coalition forces were to begin their stated offensive to free Kuwait? In other words, which way did the crowd think that the various markets would go when the invasion actually started?

The almost unanimous verdict was:

- *Gold prices up*
- *Crude Oil price up*
- *The stockmarket down.*

In early January, most people were of the opinion that it was not a good time to be buying shares. Why would you bother if the stockmarket were heading down?

From the monthly chart of the All Ordinaries Index on the next page you can see that the market had been declining for fifteen months. In fact, the All Ords was back to its late 1986/early 1987 levels. There seemed to be no relief in sight. Or was there?

If you focus on the Stochastic indicator on the same monthly chart, a **technical** assessment of the market presents an entirely **different picture.**

Using a **top down approach,** the next time frame to examine is a weekly one (also on the next page). For this exercise, I have used a seven week Relative Strength Index to gauge the selling momentum in the stockmarket. A quick analysis of the web of Fibonacci time zones that presented themselves for the week beginning January 14, began to add to the technical proposition that something may be in the air in terms of a potential turning point in the Australian stockmarket.

At this stage, in summary, the **market consensus, alias the crowd, was that the stockmarket should go down,** whilst the technical picture was diametrically opposed. The technical outlook from the monthly and weekly charts showed that the probabilities favoured a move up, not down.

Without the benefit of hindsight, a trader is now placed in a real quandary. What should a trader do? Which interpretation will prove to be the correct one?

The answer to this apparent dilemma is not an easy one. Only through a thorough knowledge of the various markets (stocks, options on stocks, futures and options on futures) can a trader be confident of arriving at the correct decision.

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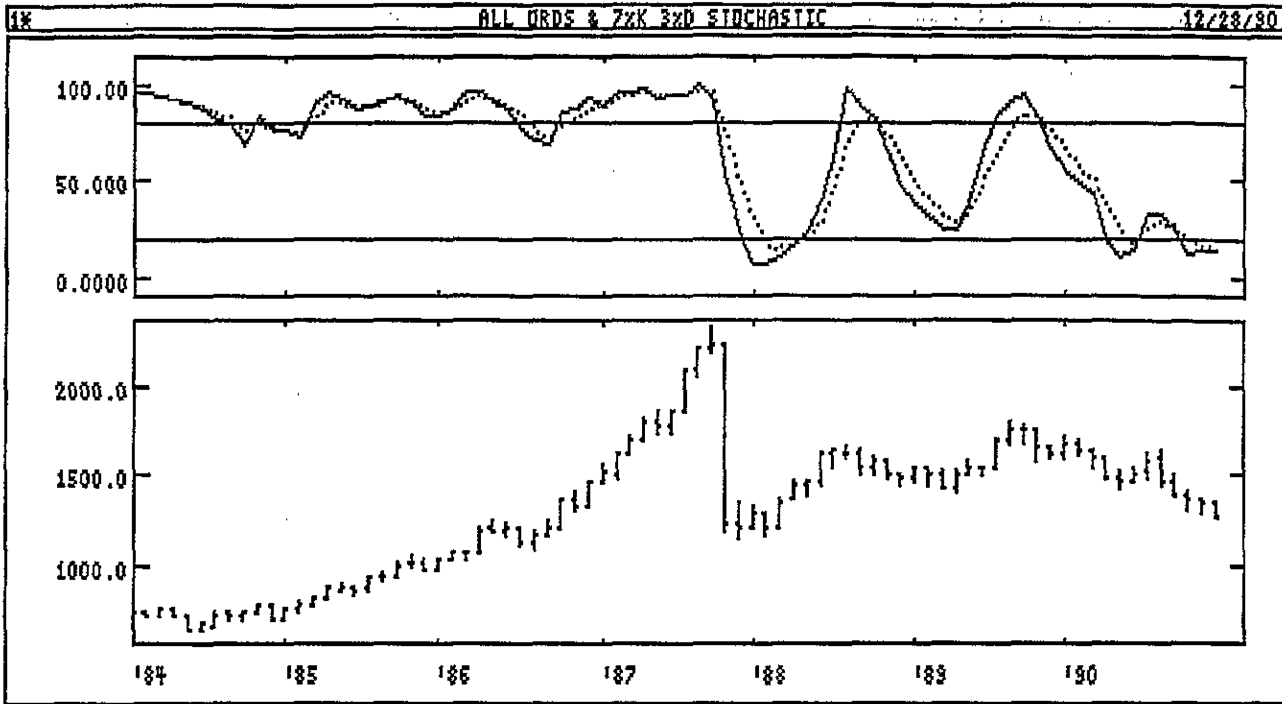
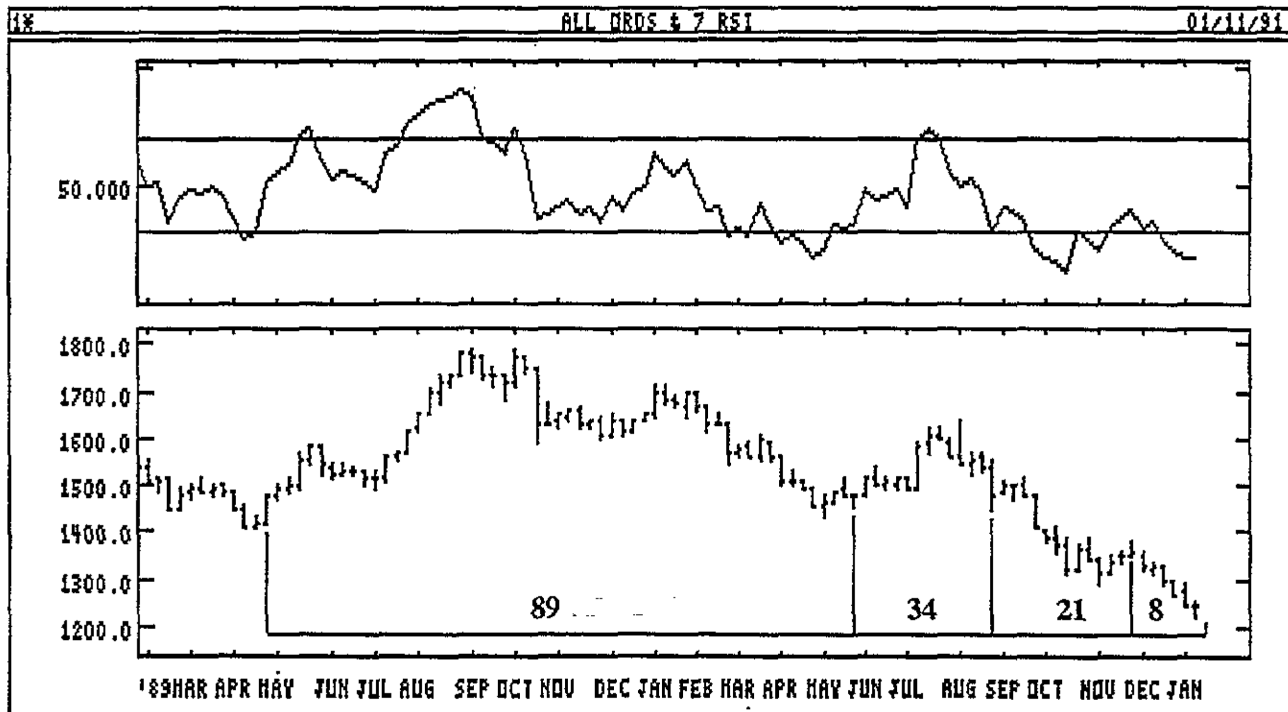


The monthly chart of the All Ordinaries Index (above) really illustrates the larger picture of where the market is, in relation to where it has been. Even though the market has been declining for the last five months, the ranges have been contracting as the market has made new lows. This evidences the fact that the sellers are running out of steam. It can be easy to overlook the classic chart interpretation part of Technical Analysis in this hi-tech world.

The Stochastic Oscillator (featured in the top section of the chart) provides a confirmation of the observation that the sellers are running out of steam by exhibiting a Bullish divergence pattern. Whilst this type of pattern on a monthly chart is not a guarantee of a turning point, its significance cannot be understated.



The weekly picture of the All Ordinaries Index (above), shows that, even though the market traded down to make a new low for the run, the last week had the close being above the open, and a smaller range than for the previous week. Small ranges are traditionally indicative of a potential turning point.

The seven week Relative Strength Index is showing a Bullish divergence pattern. Remember that this is one week before the week of the United Nations deadline! At this point, an analyst would examine a daily chart for an actual entry point.

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The most appropriate strategy depends on quite a few diverse factors:

- Is the trader currently short in the stockmarket, by way of having bought Put options on a stock or the Share Price Index futures;
- is trader currently short futures or short the actual stock;
- is the trader currently out of the market entirely looking to establish a long position in an actual stock or maybe a Call option on the stock;
- is the trader looking to take a long position in the Share Price Index futures market or to buy a Call option;
- what is the risk tolerance of the trader;
- what is the amount of capital being traded.

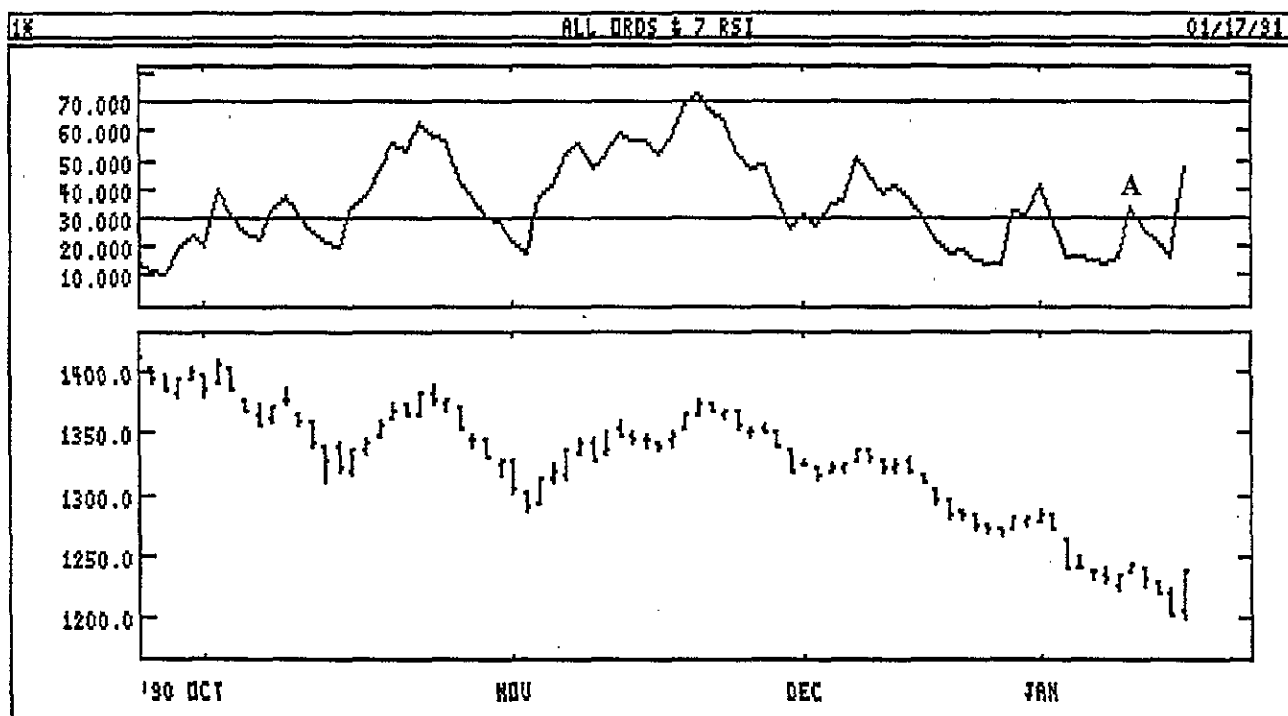
These questions are beyond the scope of this article, but they all play a crucial role in arriving at the most appropriate course of action in a situation such as the one being examined.

It must be stressed that up to the end of the week of January 11, 1991, the technical picture only presented a high probability of a potential move up. This had not been confirmed by the market itself. For this, we can now examine a daily chart (below).

The daily chart is up to, and includes the day that the deadline expired and the use of force to free Kuwait began. It was a Thursday morning that is hard to forget. Was this to be the beginning of a new World War, would the markets behave as the market consensus anticipated? Would the crowd be right this time?

By the time the market closed that afternoon, all the questions had been well and truly answered. Actually, the answer became fairly obvious by the start of the afternoon trading session. The market had not collapsed as had been expected. In fact the exact opposite had occurred.

A classic, and powerful, timing signal (a key reversal) had presented itself. The buyers had overpowered the sellers! The daily indicators both confirmed their Bullish divergence signals and broke above their failure point providing a valid BUY signal!



The daily bar chart exhibited the same Bullish divergence patterns as were evident on the weekly and monthly charts. This divergence was confirmed on the day that the market consensus said that the stockmarket should go down. When the Relative Strength Index rose above the failure point (A), the final confirmation was in place. Many analysts do not wait for the failure point to be broken before taking a position and hence experience more whipsaws than they would otherwise.

Now that the RSI has accomplished the task that it had been designed for, it should be discarded for a more appropriate tool. It is important to understand the various indicators to know which are the right ones for the phase of the market.

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For those of you who keep an eye on the esoteric of Technical Analysis, go back to your diaries a check what natural phenomena occurred on January 15, just two days earlier. For those of you who do not have such a diary, the answer is that the January 15 marked not only a New Moon, but also a Solar Eclipse. Both events in the past have marked significant turning points in the markets. It can be easy to pass off these events as being but a mere coincidence. On the other hand, maybe not.

Let us now turn our attention to the current state of the Australian stockmarket. The All Ordinaries Index has rallied by almost 20%. The market has been advancing for a Fibonacci 8 weeks in a row. Manymarket participants regret that they had not bought earlier.

The weekly indicators have registered an "overbought" reading but they are NOT exhibiting a Bearish divergence signal. The All Ords has also just broken through the important 50% retracement level of the last major decline.

One rather interesting observation in the market at the moment is that the March Share Price Index Futures contract has been trading at a discount to the physical All Ordinaries Index for about 10 days. This type of price behaviour is usually associated with a bottom in a market, rather than a top.

Significant dates to keep in mind for the month of March are the 20th. (Equinox and the beginning of the Gann year) and the 30th. (a Full Moon). Mark them on your charts and see what the market does.

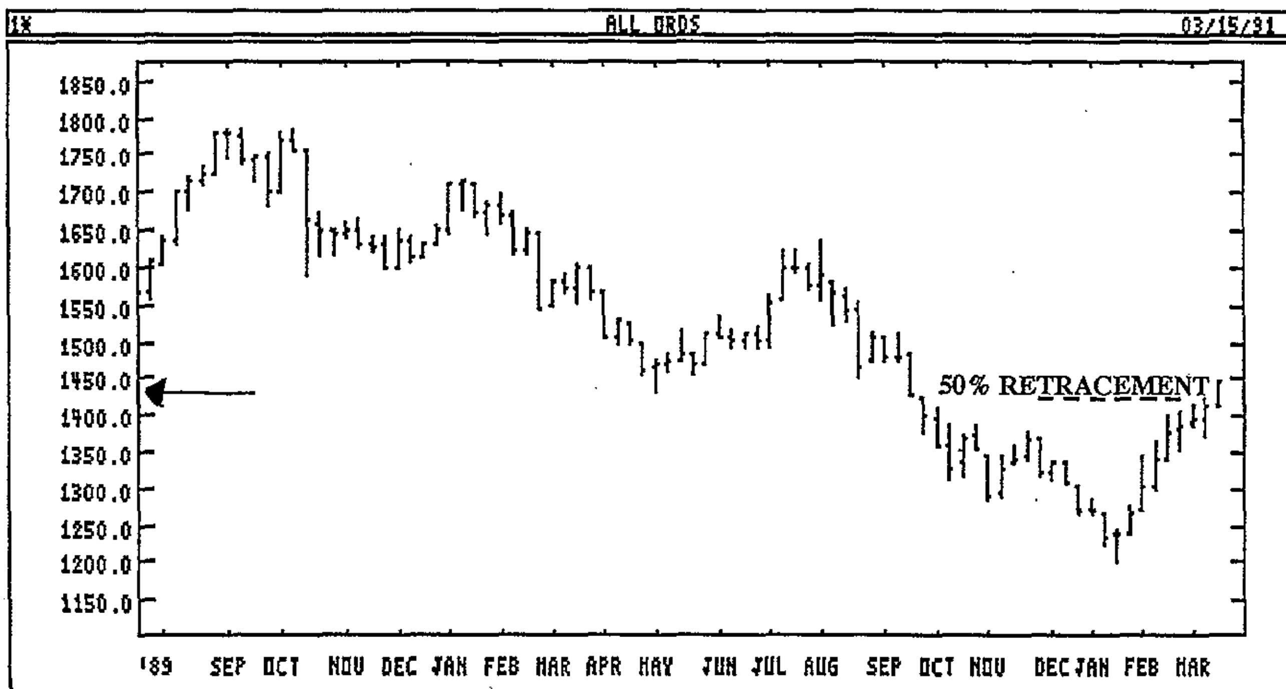
From a practical perspective, a trader who has not already committed themselves to the market is faced with several alternatives. **To buy now has to be acknowledged as being in the high risk category,** especially after the current 20% rally. With this in mind, a smaller amount of capital could be used in recognition of the increased risk.

Alternatively, some protection may be established through the use of a **Stop loss strategy** or through the purchase of **Put options** on the stocks being bought. The point to remember is that the same as an insurance policy does not provide complete or perfect cover, neither do the use of a Stop loss or a Put option!

The most difficult course of action is to **wait.** If the market does start to move down slowly, in relation to the rally from mid January, an excellent entry point may present itself in a few weeks. Waiting, in a disciplined manner, is one of the most difficult challenges for a trader.

A very famous trader in America, Jesse Livermore, once said that he spends most of his time waiting - waiting for the market to put him into a position, and then waiting for the market to take him out of the position. Jesse Livermore reported amassed a sizeable fortune in the 1920's and 1930's trading the markets. Also reportedly, he gave the money back to the same market on several occasions.

Ivan Krastins
The Investment Educator



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VOLUME ANALYSIS - A tool of confirmation.

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What is Volume? Volume refers to the number of stocks or commodity futures contracts that are traded during a particular period of time. This period may be one day, one week or even as brief as one hour or five minutes or each trade.

The actual length of this period depends on the analyst. If the analyst wishes to arrive at a short term picture or view of the market, the price and the volume should be analysed virtually minute by minute, trade by trade.

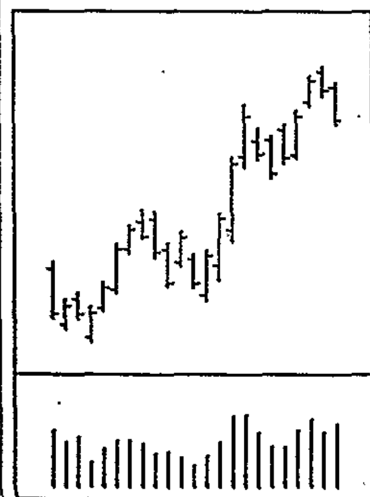
On the other hand, a longer term assessment of a market would be arrived at by examining the price and the volume using a longer time frame - daily or weekly periods.

At critical junctures in the markets, many prudent analysts choose to combine their longer term approach with a short term one. This has the advantage of potentially spotting a change in trend far earlier.

As with any data generated directly by the market itself, volume and its implications, can be of immense value to the ever watchful analyst.

Volume is always analysed in conjunction with the price movement of a stock or a commodity. The actual volume is normally plotted as a histogram directly below the corresponding price action.

In this manner one can more easily recognise the invaluable clues that are present. It must be stressed that volume analysis is only one part of fitting the price of a jig saw puzzle together.



Other parts of the same jigsaw include the analysis of open interest or open position figures, pattern recognition and indicators.

Let us now have a look at various scenarios using volume analysis.

As we can see from the diagramme (left), we have a chart of various movements in price and directly below a histogram of the volume.

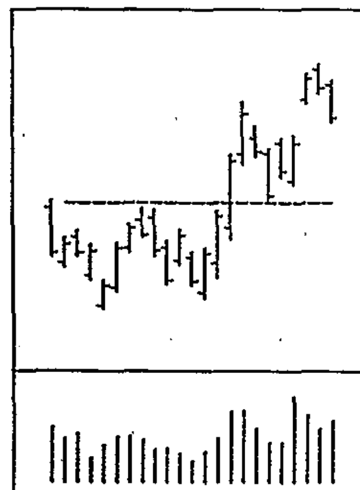
Observation: Price moving up reasonably steadily with the occasional pullback. Volume increases as the price rallies; volume decreases as the price pulls back.

Rationale: Market participants are, on the balance, aggressive buyers. As the price moves up, the buyers are buying heavily as evidenced by the increase in volume. On the price declines, the sellers are not as aggressive as the buyers were. This is evidenced by the corresponding decline in volume.

Volume can quite effectively help confirm whether a current move in a certain stock or commodity is likely to continue, or is merely a false start. This can be invaluable information for any market participant.

A constant battle between the buyers and the sellers exists in any active market. Who is gaining the upper hand can be seen by understanding the implication of the volume analysis.

There are several occasions when heavy volume is expected. More accurately, when increased volume is expected. This highlights the fact that an analyst compares the volume of the latest time frame with that of the preceding one.



Observation: The market has been congesting for a period of time. Suddenly, the price decides to surge upwards through a previous resistance level.

Rationale: High volume confirms that the buyers have been prepared to pay the higher price. If the volume were to have contracted, then the interpretaion would be that the buyers had not been all that keen to pay the higher price. The break through the resistance level would be viewed with suspicion.

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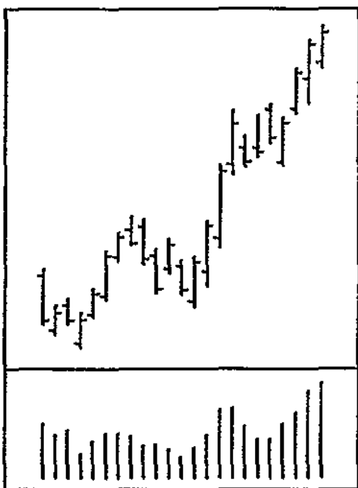
Again in this situation, an analyst would examine whether the ranges are expanding to gain added confirmation. Further clues to the validity of the soundness of the break to the topside can be gleaned from an examination of the Open versus the Close prices. This was covered in an earlier section.



Observation: The price has been advancing for a period of time. No significant pullbacks or corrections have occurred. There is a sudden acceleration of the move up.

Rationale: High volume at this stage could signify that the buyers are totally committed. This could mark the end of the entire move up, or only a pause in the move up.

This is sometimes referred to as a ***blow-off top.***

Blow of tops tend to be far more common in the comodity futures markets than the stockmarket. From a practical trading perspective, this type of market is best left alone, except for the more adventurous and well capitalised traders. Both the potential rewards and the associated risk factors are extremely large.

As with most analytical techniques, the preceding scenarios can be used in reverse. In other words, looking to see whether the volume expands as:

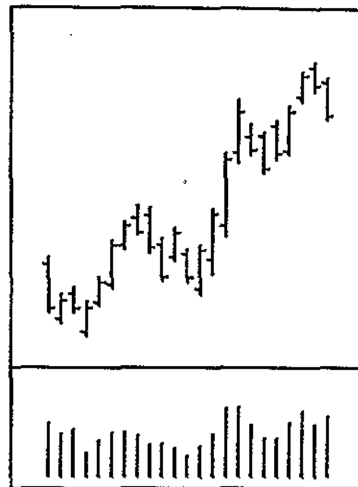
- **1. The price trades down through a previous support level.**
- **2. The price breaks down from a previous up-trend.**
- **3. The price collapses down to new lows (a "panic" sell-off).**

Now that one knows where to expect an increase in volume, an aware analyst also knows when to suspect a ***false start.*** This simple insight can often ensure that one is not caught unaware by the seemingly erratic movement of stocks or commodities.

Volume analysis can help confirm whether a new high or a new low is likely to be just a trap or the start of a meaningful, and hence a potentially, profitably tradeable, trend.

There are two more scenarios that one should be aware of when using volume analysis.

Observation:



Rising price, breaking to a new high for the run, accompanied by smaller daily ranges. High volume.

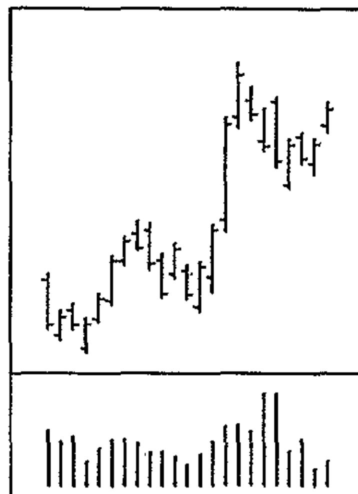
Rationale: High volume confirms that a lot of activity is taking place. However the small daily range shows that the buyers are not able to force the price up significantly.

This could be the first sign that the sellers are actually beginning to overwhelm the buyers. Another way of viewing the same scenario is that the supply is beginning to overcome demand.

It is common for the volume to peak (reach its highest level) before the market registers it final high. With this in mind, it is important to compare the level of volume with not only the previous period or periods, but also with the earlier stages of a market advance or decline.

With this type of price activity an analyst should closely monitor the ranges, Open - Close relationship and volume period by period to see if the market is actually turning around, or merely pausing before it continues its run back up.

Observation: Market has made a top accompanied by high volume. Price retreat on lower volume. Price then stages a new rally but on even lighter volume. The market may be forming a potential secondary top.



Rationale: Buyers are able to push the price up but lack the conviction to commit

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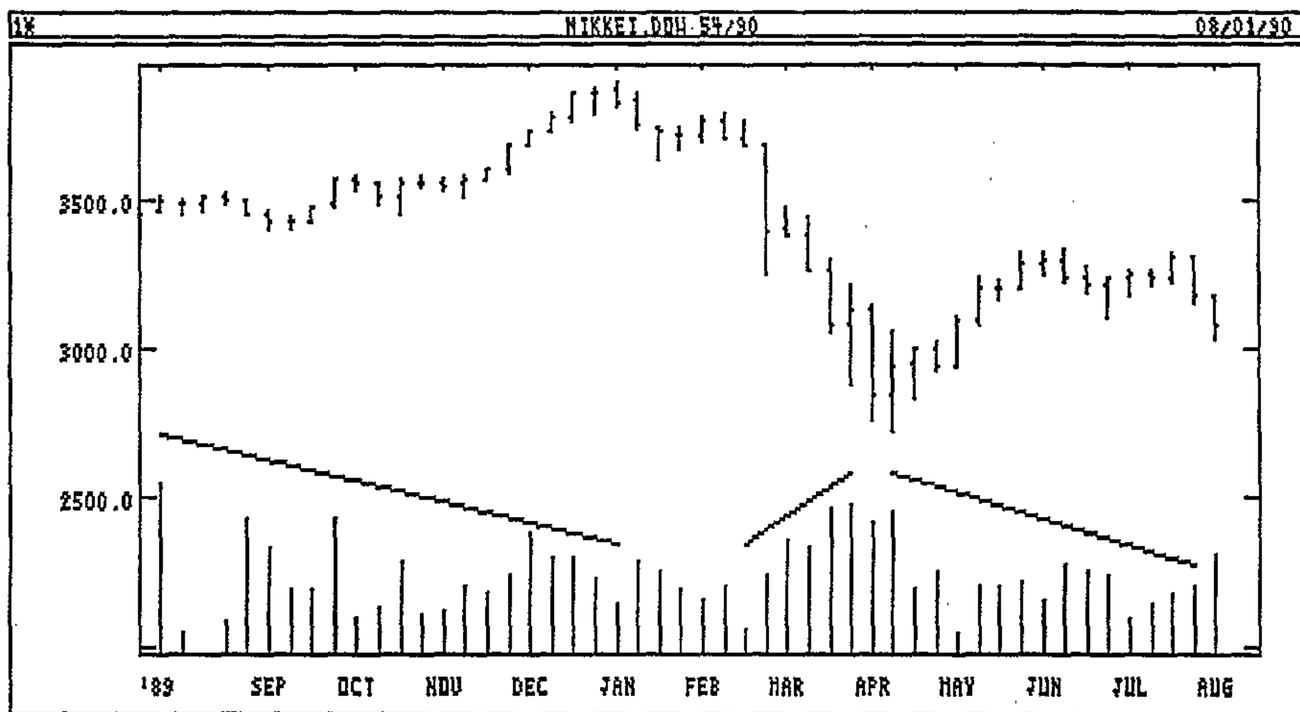
themselves heavily. Hence the lower volume. A contraction of the ranges adds weight to the bearish conclusion. Demand is finely balanced by supply.

As with all the previous scenarios, these two can also be viewed in reverse - as potential bottoms or buying opportunities.

These techniques for the analysis of volume apply just as validly for stocks as they do for the physical markets and the commodity futures markets. However, there are several drawbacks with the other markets. The actual volume figures for the physical market may be extremely difficult, if not impossible to get. In the commodity futures markets, the official volume figures are usually only available one day later.

This article has been extracted from a book on Technical Analysis that has been written by Ivan Krastins, alias The Investment Educator, and is being published by McGraw-Hill Book Company Australia Pty. Ltd. later this year.



The importance and understanding of Volume analysis cannot be overstated. It is a tool of confirmation that, together with the analysis of ranges, can greatly assist an analyst.

The weekly chart of the Japanese stockmarket (above) clearly illustrates the volume contracting as the market rallied into its final high in January, 1990. As the market started to decline, the volume increased, showing that the sellers were sellling aggresively, all the way down to the April lows. During the subsequent rally, into the June - July period, the volume again contracted.

This type of analysis can also do done by those trading the physical currency markets. The volume data would have to come from the appropriate futures markets. Unfortunately for those trading the cross-rates, no volume data is available.

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LONGER TERM STATISTICS:

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A famous trader in the United States is quoted as having said: "A successful speculator is a man who observes the future and acts before it occurs". The trader was Bernard Baruch. By diligently researching the past, an analyst or trader is better equipped to become a successful market participant.

With this in mind, I have prepared some rather fascinating statistics regarding the American stockmarket. On a international level, this market is the most widely reported, and the most closely watched, market in the world. At this stage at least!

- The direction of the first five days in the Dow Jones has correctly predicted the direction for the entire year in 31 of the last 41 years. This is an accuracy of **75.6%.**
- The month of May has been a particularly negative month to be in the stockmarket in **17 of the** last **26 years.** This includes 1989's 62 point gain and 1990's 220 point gain.
- A large number of sharp moves down that have started in March gather steam into the month of June.
- An almost ***incredible*** **98%** of the time, the stockmarket rallies from the May / June lows to make a high in the July / September time frame. This has occurred in **49 of the last 50 years.** The Dow made its historic closing high at 2999.8 on July 17, 1990. The last three years have gained a **total of 882** points, making the average gain each year 9.83%.
- The month of August is second to January in terms of volatility. In August 1990, the Dow declined 290 points or **10%.**
- The stockmarket has only risen 18% of the time in September since 1969 **(4 out 22 years).** 1990 witnessed a decline of 161.9 points, whilst 1989 saw the market decline 44.4 points.
- A very advantageous month to **buy stocks** has usually been **October.** The stockmarket made significant bottoms in 1926, 1927, 1928, 1929, 1933, 1934, 1935, 1936, 1942, 1944, 1946, 1949, 1950, 1951, 1952, 1953, 1954, 1955, 1957, 1958, 1960, 1962, 1963, 1966, 1970, 1971, 1974, 1975, 1978, 1982, 1984, 1986, 1987, 1989, 1990. Major declines in the stockmarket has terminated in October in the following years: 1946, 1957, 1960, 1962, 1966, 1974, 1987, 1989 and 1990. This has caused the ***month of October*** to be nicknamed ***The Bear Killer.***
- Buying the Dow on November 1 and liquidating the position at the end of April of the following year has produced a profit of **2,875 points since 1950.** This includes 1988's 29.1 point and 1989's 264.0 point profits. For the current year, the jury is still out. The market stood at 2560.0 on November 1, 1990.
- Befitting the Yuletide spirit, a market rally occurs the last 5 days of the year into the first 2 days of the New Year 31 out of the last 38 years **(81%).** After producing a gain for 3 years in a row (1988 - 26 points, 1989 - 17 points and 1990 - 118 points) the rally failed to materialise in 1991 producing a loss of 44 points (1.6%).

Whilst all these statistics may be interesting, and perhaps even impressive, it is stressed that they should not be used in isolation. The market may change its character only to see the phenomenon that have regularly occurred over the last sixty plus years totally disappear, or become totally unreliable.

With this in mind, a more cautious approach would be to incorporate these statistics into a general Technical Analysis plan. An analyst could monitor the market to see if, for example, the month of October was actually in an overbought condition technically, or perhaps showing an appropriate reversal chart pattern, before venturing into the market.

The statistics contained in this section show the seemingly regular nature of the American stockmarket, even if, on the surface, the market is seen by most to be totally random in nature.

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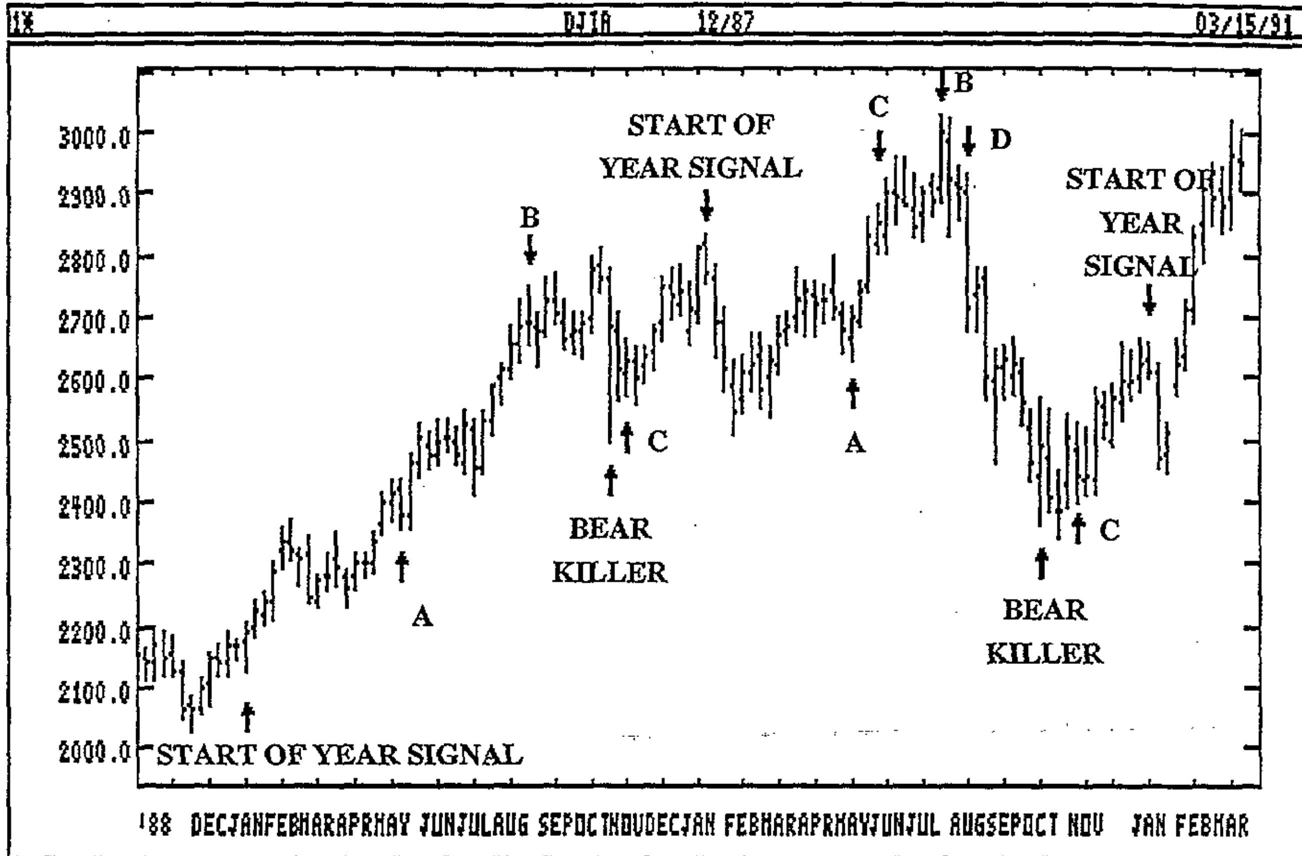
WARNING: THESE STATISTICS SHOULD NOT BE USED IN ISOLATION!



The weekly chart above covers the movements of The Dow Jones Industrial Average from November 1988 through to March 1991. Many of the statistical phenomenon discussed on the previous page are illustrated.

The month of October, both in 1989 and 1990, certainly lived up to its Bear Killer nickname. In 1989 October marked the bottom of a 300 + point decline, whilst in 1990 it saw the low of a 650 + point fall.

Similarly, the Start of Year signal worked well for 1989 (+ 500 points) and for 1990 (+ 215 points). Even though the DJIA went to new all time highs, the 1990 forecast proved correct. It will be fascinating to see how the 1991 signal fares.

A - B marks the May / June to July / September rallies which produced 350 + points for 1989 and 250 + points for 1990.

The following volatile month of August D, heralded the beginning of a solid decline.

C - C marks the November 1 buy and the end of April of the next year liquidation. This saw the market gain 264 points in 1990. Currently, this strategy is showing a gain of approximately 400 points for 1991.

This article has also been extracted from a book on Technical Analysis that has been written by Ivan Krastins.

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A REPORT OF THE FEBRUARY ATAA MEETING.

It was great to see so many "new" faces at our last meeting. Our membership is steadily climbing to the next Fibonacci level of 55. Currently we have 45 members. I trust that the Australian Technical Analysts Association is meeting the needs of our members. To a very large extent, we are a user driven organisation, as well as being user friendly.

All members are encouraged to participate at the meetings, either by way of questions or suggestions for other meetings, as well as with contributions to the newsletter. I know that time seems to be something that most people trade from the short side, but ...

Some members have started to ring me direct in relation to finding the answer to their questions. This may be to do with data, software or even the markets. This is great to see. The whole idea of the organisation is to be a resource centre for our members.

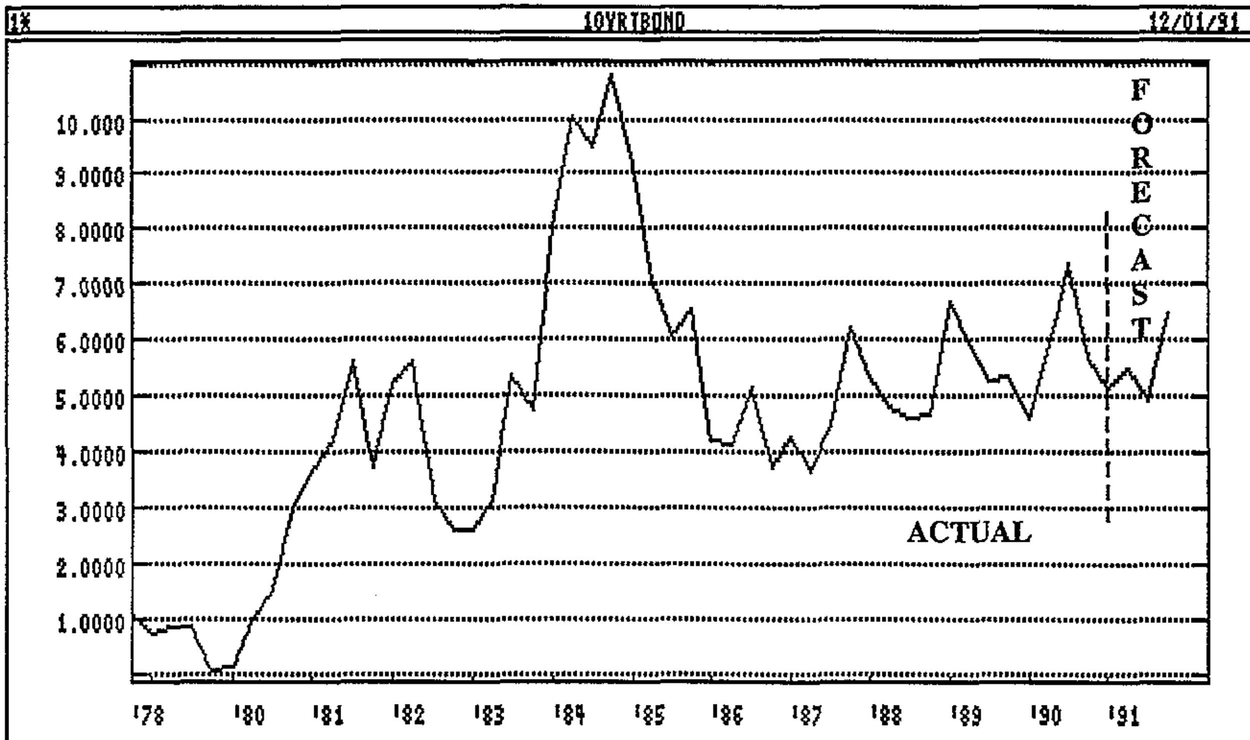
As part of our regular newsletter, I look to present a brief synopsis of our last meeting for those who, for whatever reason, could not attend.

In the early part of the February meeting, Mr. Greg Sermon (economist with Telerate and treasurer of the ATAA) donned his fundamentalist hat and drew a picture of what he saw as the future trend in the interest market. I am sure that this is a market close to everone's heart, not only from a trading perspective, but also in the bigger sense.

Some of our newer members thought that it was rather strange for an organisation of Technical analysts to be exposed to a fundamental point of view. The idea was to present a reasonably balance picture of the most likely direction for the interest market.

Mr. Will Slatyer (past director of the SFE, author, analyst and trader) who specialises in interest rate forecasting and risk management, then presented a technical assessment (as he saw it) for the market. It was interesting to note that on this occasion both the fundamental and the technical view, as presented by Greg and Will seemed to be in accord. They were both looking for lower interest rates in the short term.

I have reproduced some of the charts used by Greg in his presentation for those of you who could not attend the meeting in person. It is fascinating to observe that the various elements of Technical Analysis can be applied to even these charts. But perhaps I am seeing too much into it?



The chart above illustrates the real Ten Year Bond rate adjusted for the CPI.

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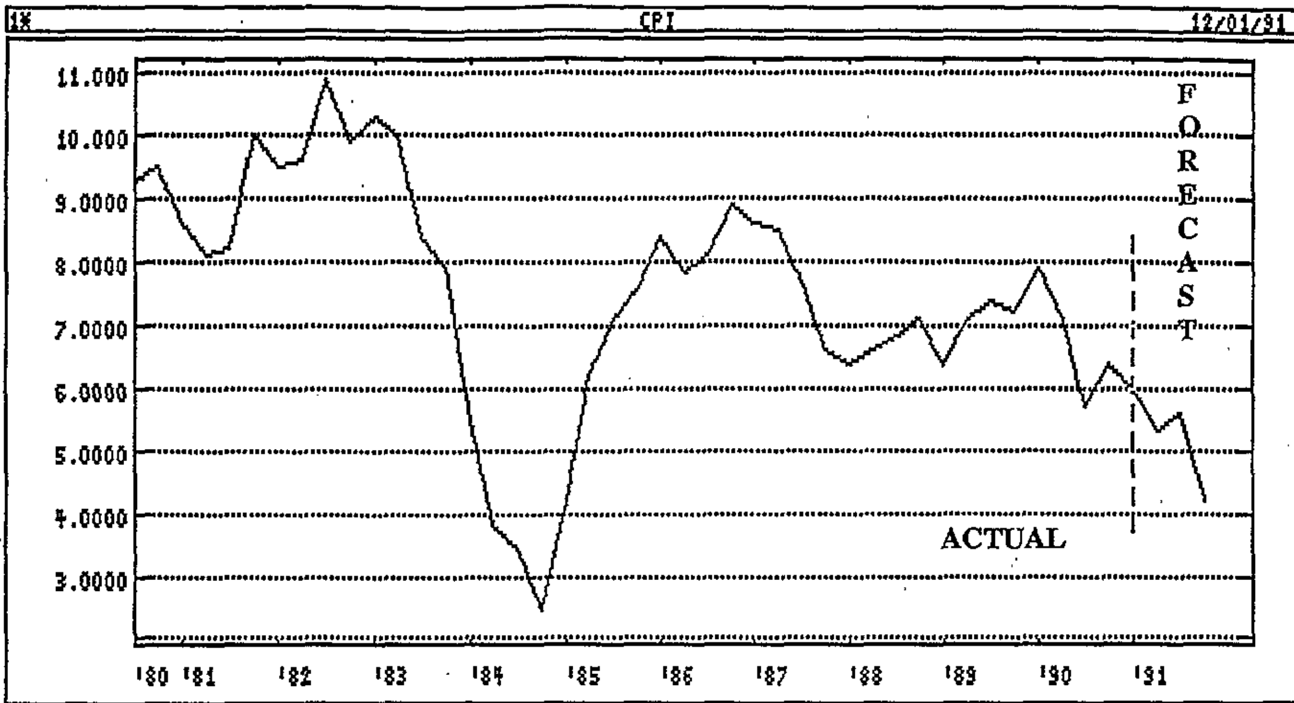
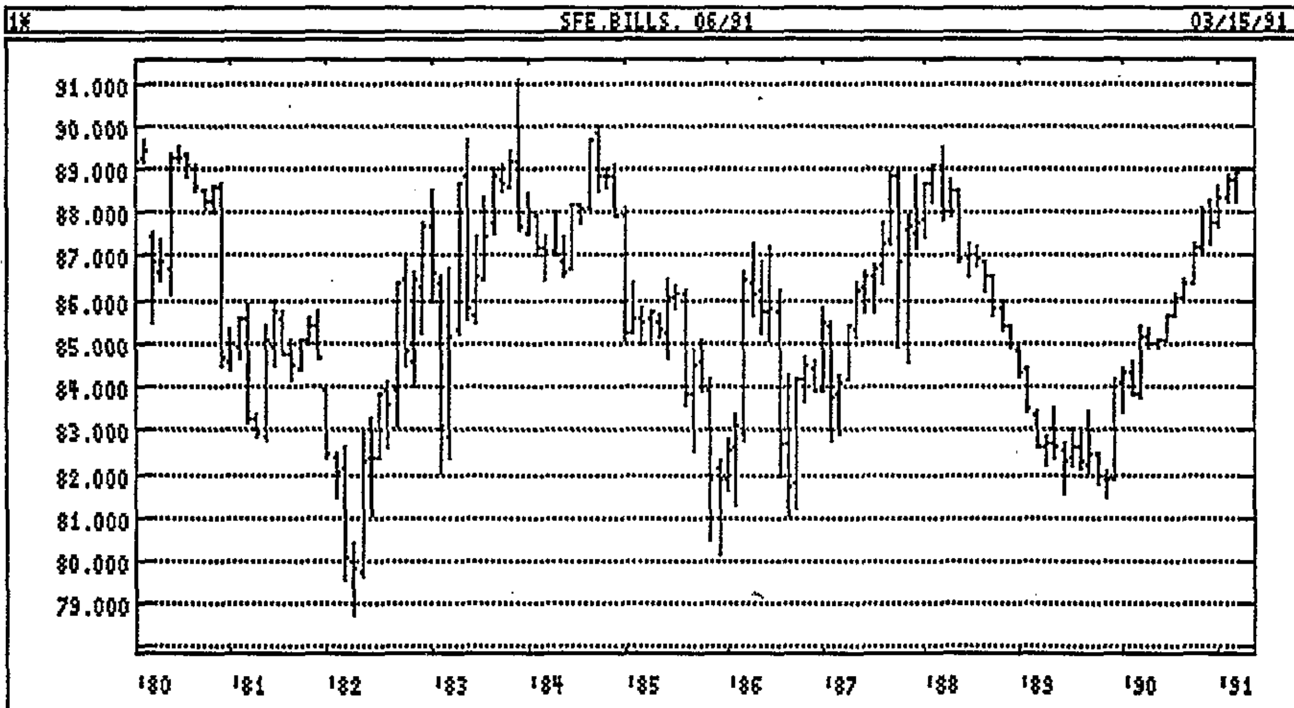


The Consumer Price Index is featured in the chart above. The CPI is seen as a gauge of inflation in Australia. As such, it is one of the many economic numbers that is followed closely by market participants. From the chart we can see that Australia has been in a deflationary phase (as measured by the CPI) since 1986.



The monthly chart above traces the movements in the 90 Day Bank Bill Futures market back to 1980. It is easy to see the volatility in the interest rate market. To determine the actual interest rate simply subtract the futures price from 100. Hence, in 1982 interest rates were nudging 21% and then declined to 9% one year later. In the current fall (rise in the futures price) the rates have moved from 18.5% to about 11% since 1989.

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In the second part of the evening, Mr. Philip York (of QBL Software Services) demonstrated two new software packages that, according to a review from the United States, "offer what justly could be called a new generation of systems design". Both packages are amongst the first few Technical Analysis/graphical/research programmes that run in the Microsoft Windows 3.0 environment.

Composer is a powerful research tool that allows one to design, test and then optimise almost any imaginable trading system. All this without needing to be a computer whiz kid because of the programme's help system, dynamic menu and the ability to check for flaws in the syntax. It also contains some 50 predefined popular studies including some of the less known in Australia such as Bollinger Bands, regression envelopes, curvilinear regressions etc.

The other programme, **Clarity** consists multifunction, fully customizable charting package that can be linked to a direct data feed. Up to fifteen different charts can be created, anywhere from point and figure to Market Profile to candlestick to equivolume, and they are dynamically updated. Currently, the data feeds that are being supported are Comstock, Knight-Ridder with other ones coming on stream.

These products give the dealing room total uniformity from an operational point of view and greater flexibility in the actual source of live data. I am sure that one software vendors will begin to utilise the Windows 3.0 envirnment.

I had planned to reproduce some graphics from Philip's presentation, but alas they would not have done justice to the products of Papyrus Technology.

The evening concluded with a few drinks and with the newer members being able to exchange some ideas (and questions) with the other members. Time disappeared so quickly that the scheduled simulated trading session was postponed to a later date. (See schedule of future meetings.)

Special thanks should be extended to Telerate for providing the computers for evenings presentations and to Mr. Philip York for his expose of the new software packages.

SCHEDULE FOR 1991.

The meetings are held in the **STATE LIBRARY** on the **third Monday of every month.** The sessions will start at 6.00 pm and run for about two hours.

The new venue is **THE COUNCIL ROOM** on the **FIRST FLOOR** of the OLD BUILDING. It will be signposted so you should be able to find it easily.

Each session will consist of a guest speaker talking on a particular market, followed by two workshops allowing you to have a hands-on involvement with the ideas discussed, trading simulations and the actual software packages.

April 15 - Currencies: Simulated trading: Reuters

May 20 - Stocks and Stockmarkets: WaveTrader (Bryce Gilmore and Assoc. Pty. Ltd.): Indexia (Indexia Market Research)

June 17 - Options: Options Evaluation programmes, swaps.

As you can see, the first meetings are crammed full of information and topics that should appeal to you all. If you have any suggestions for the second half of next year, I would love to hear from you.

May the trend be your friend!

Ivan Krastins
Editor

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