

ARMCHAIR INVESTOR **TREND-FOLLOWING STRATEGY***

(*For that part of your portfolio which is invested in a **market-tracking ETF** like the **QQQ**.)



WEDNESDAY: As we approach the end of the year, expect light volume. The heavy lifting of portfolio year-end adjustments is mostly completed.

On Wednesday:

- The **Nasdaq and S&P500** were down **0.2%** with lighter volume.
- Of note: the **Dow Jones Industrial Average** is just **0.3% (\$57)** under the notable **20,000 level**. You don't think 20,000 is a BIG psychological level? Note that the DJIA has boiled very close to 20,000 without going over it even for a single moment for the last seen trading days. That daunting number (20,000) appears to have the power to repel any attempt to climb above it. And we will get there. Any bets on when?

Although the DJIA is not considered a market direction leading indicator, it is the index that gets the most attention in the media. Breaking (and closing) above the 20,000 level could encourage investors to keep it rising.

The Nasdaq distribution count stays at 5 distribution days. (IBD says 6 – see Thursday's note). The S&P500 distribution count is 3 distribution days, still nothing to get scared about. Attention is still focused on the Nasdaq's higher count.

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ArmchairInvestor.com

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MARKET DIAGNOSIS: "UPTREND"

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What to do now: Time to hold the QQQ and add individual stocks if that is part of your investing strategy.

- I continue to hold my full QQQ position.
- Watch this column nightly for updates

TODAY'S MARKET ACTION

12/21/16	Index Close	Index % Change	Volume % Change	Volume vs 50-day Avg	Accumulation or Distribution Day?	Current Trend: UPTREND Began 6/30/2016
Nasdaq	5471.43	-0.23%	-11.1%	-28.9%	Neither	+13.1%
S&P500	2265.27	-0.24%	NYSE Volume		Neither	+7.9%
NYSE	11,142.57	-0.3%	-12.8%	-27.6%	Neither	+6.2%
DJIA	19,943.34	-0.16%			Neither	+11.3%

An **ACCUMULATION** day points at heavy buying by institutional money managers - the mutual funds, pension funds, banks, etc.
 A **DISTRIBUTION** day points at heavy selling by institutional money managers.

See additional notes on accumulation and distribution at the end of the FULL newsletter

A **Major ACCUMULATION Day**: Price RISES 1.0% or more with higher Volume than the day before

A **Minor accumulation Day**: Price RISES 0.2% but less than 1% and Volume is strong (either higher than the day before or is well-above average volume)

A **Major DISTRIBUTION Day**: Price FALLS 1.0% or more and higher Volume than the day before.

A **Minor distribution Day**: Price FALLS 0.2% but less than 1% and Volume is strong (either higher than the day before or is well-above average volume)

Distribution indicates institutions are selling their stock. The standard mathematical requirements for distribution days are shown above.

And there are additional types of distribution days that show **substantial selling** such as happened on Monday June 27, 2016, when the market fell 2.4%, closed near the bottom of the day's price range but had lighter volume. The volume was still a strong 31% above average. In total, the day was heavy selling and labeled distribution (6/27/2016 was the second day of the market's heavy selling response to England's vote to leave the European Union.)

CURRENT TREND: There are two trends (UPTREND and DOWNTREND). But because most tops are rounded and happen over a couple of weeks or more, we find it useful to modify the Uptrend into "Uptrend under PRESSURE" when the distribution count gets uncomfortably high.

For more detailed explanation of Accumulation and Distribution days, please jump to the end of the FULL newsletter which can be downloaded at www.ArmchairInvestor.com.

ARMCHAIR INVESTOR TREND-FOLLOWING RETURNS FOR CURRENT UPTREND *Uptrend ETFs*

12/21/16	Opening Price on 7/1/2015	Today's Price	ETF % Change Today	PROFIT/LOSS from 6/30/2016 Signal: "Market in UPTREND"
QQQ (1x)	107.49	120.46	-0.07%	+12.1%
QLD (2x)	71.14	89.02	-0.3%	+25.1%
TQQQ (3x)	96.15	133.63	-0.4%	+39.0%

If you had purchased the QQQ ETF the morning after the last "Market in UPTREND" signal on 6/30/2016, your investment would be up 10.1%. If you had purchased the TQQQ, you would be up 32.8%.

TREND FOLLOWING IS A VALUABLE TOOL TO ADD TO YOUR PORTFOLIO.

But please remember, the TQQQ fall 3 times the QQQ when the market is dropping.

The ETF QQQ is designed to move WITH the largest 100 stocks on the Nasdaq. QLD is designed to double the price move of the QQQ. The TQQQ is a more volatile Visit Proshares.com for more information.

The "Profit" calculation is based on buying the ETF at the opening price the morning AFTER the signal (as you would have if you followed the ARMCHAIR INVESTOR TREND-FOLLOWING strategy.

LAST Week's Market Action

Week Ending 12/16/16	Index % Change	Volume % Change	Volume Above/ Below 10-week Avg	Type of Week
Nasdaq	-0.13%	+20.9%	+21%	Neither
S&P 500	-0.07%	S&P 500 Volume		Neither
NYSE Comp	-0.6%	+6.2%	+11%	Minor distribution
DJIA	+0.4%			Minor accumulation

The "TYPES OF WEEK" are:
 ACCUMULATION WEEK Price RISES 1+% and Volume RISES 1+%
 DISTRIBUTION WEEK Price FALLS 1+% and Volume RISES 1+%
 Another type of DISTRIBUTION(*): WEEK Price FALLS 1+% & Volume is 15+% above average.
 The NYSE volume is used for the S&P500 and NYSE Composite.

MARKET ACTION 2016 YEAR-TO-DATE

12/21/16	2015 Closing Price	Current Price	Index % Change Year- to-Date
Nasdaq	5007.41	5471.43	+9.3%
S&P 500	2043.94	2265.27	+10.8%
NYSE Comp	10143.42	11142.57	+9.9%
DJIA	17423.03	19943.34	+14.5%

This yearly table is included for your reference. These returns have little relevance to trend-following returns since trend-followers do not hold during "Downtrends" and may lighten their holdings during "Uptrends under Pressure." "Buy and Hold" is never recommended by the Armchair Investor.

PROGRESS IN ACCUMULATOIN / DISTRIBUTION RATINGS for Stocks Over \$5

		A	B	C	D	E	Total
4 weeks ago	11/22	20%	36%	16%	17%	11%	6294
3 weeks ago	11/30	18%	37%	18%	16%	10%	6299
2 weeks ago	12/7	20%	36%	17%	17%	9%	6318
1 week ago	12/14	23%	38%	17%	14%	7%	6321
Today	12/21	19%	39%	18%	16%	8%	
	#	1200	2444	1141	1023	512	6320

The As and Bs of the week with the highest TOTAL of As and Bs are outlined in a heavy solid line.
 The As and Bs of the week with the lowest TOTAL of As and Bs are outlined in a red line.
 The highest lowest totals of As plus Bs are highlighted in yellow.

Note: The Accumulation/Distribution ratings are calculated overnight & reported one day delayed. "2 weeks ago" is 10 market days ago; "4 weeks ago" is 20. The ratings which are higher than two weeks prior are colored light GREEN. Those lower are PINK



Both indexes are significantly below their all-time highs. Both indexes tumbled down a steep slope, closing lower 9 days in a row, then recovered nicely over the last 2 days.

Those highs now appear to be the prices to beat. The “How Close are the Indexes to All-Time Highs?” table (prior page) has been updated to refer to these all-time highs including new highs this year for the Nasdaq, S&P500 and DJIA. The NYSE is still below its 2015 high.

The above charts are from **StockCharts.com**, a valuable site for investors with many free tools. On the **daily charts**: The **price 50-day and 200-day moving averages** are shown. If you don't see the 200-day price moving average, it is too low (or high) to show. But stay tuned – it will appear on these charts when the market direction changes. Also, the **volume 50-day moving average** is shown. On the **weekly charts**: The **price 10-week & 40-week moving averages** and the **10-week volume moving average** is shown.

The rest of this newsletter is an in-depth look at today's market meant for those who enjoy exploring the market forces in more detail and manage individual stocks.

MARKET FACTORS, COUNTS & RATINGS		12/21/2016	
Type of DAY for <u>Nasdaq</u> Major (1%/1%) Accumulation, Distribution or Neither		Neither	
Market Direction Uptrend, Under Pressure, Downtrend, or Attempted Uptrend		UPTREND	
<u>MAJOR</u> Accumulation / Distribution Momentum 20-day count of NASDAQ Major (1%/1%) Acc & Dist days		Major Accumulation Days 1	Major Distribution Days 3
IBD Distribution Day Count including ALL Major & Minor D-days.		5	
<small>This count is the larger of S&P500 or Nasdaq distribution count for the last 25 trading day (but only since the last market Uptrend signal). The IBD Big Picture does not list accumulation days.</small>			
Count of Up Days and Down Days (10-days on the Nasdaq)		Up Days 6	Down Days 4
Leaders Up/Down with High Volume (10-day ratio)		1.6	
<small>This indicator looks at leading stocks (high RS) and is, thus, biased to the upside. Uptrend indicator: 1.5 or higher. Neutral: 1.0 to 1.49. Downtrend: less than 1.0</small>			
Market Accumulation/Distribution Ratings "A": heavy accumulation, "B": moderate accumulation, "C": neutral, "D": moderate distribution, "E": heavy distribution. Accumulation = Institutions are BUYING, Distribution = Inst are SELLING		Nasdaq B-	S&P 500 C-
		DJIA B	
Are Major Indexes Above or Below Moving Averages? "At" is within 1% above or below the moving average.		50-Day	200-Day
		Nasdaq Above	Above
		S&P 500 Above	Above
		NYSE Above	Above
		DJIA Above	Above

MARKET DIRECTION ADDITIONAL COMMENTS

More detailed comments on market direction and technical analysis for individual stocks

WEDNESDAY : As the end of year and the holidays approach, the market activity is likely to stay calm. Unless there is some serious news to stir things up.

NVDA outperformed the market again, rising 0.6% Wednesday. WOW! Nvidia is one of my best stocks this year, up 160% since it bounced off its 50-day moving average on May 12.

Composite 99, RS 99, EPS 96, and Acc/Dist rose to an A

I am watching carefully for a failure of a possible climax top. A trailing stop might be in order.

A few stocks are still showing nice gains, but I would not suggest you run after extended stocks or try to buy them early (before a strong breakout).

This week, I've been looking at the **NEW LEADERS OF THE INDUSTRY GROUPS**. On Tuesday, IBD followed up on that idea with a great article on the **top INDUSTRY SECTORS**. You can read it here:

<http://www.investors.com/stock-lists/sector-leaders/3-fastest-rising-sectors-could-offer-buy-opportunities/>

(You may have to be a subscriber to the newspaper to read this article – sorry if that is the case).

Remember:

The market continues in the direction it's going until it doesn't.

MARKET DIAGNOSIS: "UPTREND"

What to do now:

1. Do a quick **review of each stock you own every night**. Look for strength and weakness signals in the price-volume action, especially watching for distribution (signs of institutional selling)
2. **Sell any stock that is showing a concentration of distribution days**
3. If you **need cash** for a hot new breakout, consider selling a stock that was a strong buy but hasn't taken off. It might be languishing near the buy point or it might have already round tripped – risen from a good buy point and bombed back or below the buy price.

EXPLANATION OF TERMS FOR THE

MARKET ACTION OVER THE LAST 20 DAYS

Four weeks of price and volume action reveal much about the direction of the market and the strength of that movement.

		Price		Volume	
Healthy Uptrend Price-Volume Movement	Strong Action	Up	↑	↑	Up
	Weaker Action	Down	↓	↓	Down
Healthy Downtrend Price-Volume- Movement	Strong Action	Down	↓	↑	Up
	Weaker Action	Up	↑	↓	Down

The chart below identifies the **market direction** indicated by the Nasdaq's price and volume action for the last 20 days at two levels of significance.

ACCUMULATION/DISTRIBUTION COLUMN - TELLS YOU WHERE THE BIG MONEY IS GOING

The listing includes: the date, Nasdaq closing price and percent change of the Nasdaq price and volume.

- The next column identifies days that were **Major Accumulation** (serious UPTREND indicator) or **Major Distribution** (serious Downtrend indicator) using the 1% minimum rise or fall with higher volume.
- **Minor accumulation** and **minor distribution days** are also identified – days that moved 0.2% or more but less than 1%.

"CONSISTENT WITH" – THE SUBTLE, BUT TELLING MOVES

The last column is a UPTREND /Downtrend indicator.

Think of a healthy Uptrend. It will have many days where the index rises with increased volume. But even in the most robust Uptrend, * not every day will be up. In any Uptrend, there will be some down days. If they have higher volume, then the day becomes a distribution day but if the volume is lighter (as frequently happens in an Uptrend), then the down day is NOT a distribution day. In fact, a drop on lighter volume says they market is NOT selling off heavily – good news and consistent with the Uptrend.

Using the Healthy UPTREND/Downtrend price and volume movement listed above.

- For example, if the Nasdaq closing price rose 0.7% and the volume rose 2% (up and up), that movement is "consistent with" the price-volume action of a Healthy UPTREND.
- If the price drops 0.5% and the volume rises 1.2% (down and up), that movement is "consistent with" the price-volume action of a Healthy Downtrend as indicated in the table above.
- Any index change less than + or – 0.3% or volume change less than + or – 1% has no "consistent with" notation. Price and volume movements that small is not strong enough to tell us about the market movement.

MARKET ACTION (Nasdaq) OVER THE LAST 20 DAYS

(For a full explanation of the terms in this table see end of this newsletter)

#	Date	Close	Index % Change	Volume % Change	Current Trend Day Count	Type of Day Accumulation, Distribution or Neither (—)	CONSISTENTWITH: UPTREND or Downtrend?
MARKET IN UPTREND							
20	11/23/16	5380.68	-0.11%	-13.7%	103	—	—
19	11/25/16	5398.92	+0.3%	-47.9%	104	—	DOWNTREND
18	11/28/16	5368.81	-0.6%	+89.1%	105	Minor distribution Day	DOWNTREND
17	11/29/16	5379.92	+0.2%	+10.7%	106	Stalling distribution Day	DOWNTREND
16	11/30/16	5323.68	-1.1%	+13.1%	107	Major Distribution Day	DOWNTREND
15	12/1/16	5251.11	-1.4%	+11.9%	108	Major Distribution Day	DOWNTREND
14	12/2/16	5255.65	+0.1%	-17.5%	109	—	—
13	12/5/16	5308.89	+1.0%	-3.5%	110	—	DOWNTREND
12	12/6/16	5333.00	+0.5%	+10.4%	111	Minor accumulation Day	UPTREND
11	12/7/16	5393.76	+1.1%	+8.1%	112	Major Accumulation Day Market back in UPTREND	UPTREND
10	12/8/16	5417.36	+0.4%	-7.9%	113	Minor accumulation Day	UPTREND
9	12/9/16	5444.50	+0.5%	-15.6%	114	—	DOWNTREND
8	12/12/16	5412.54	-0.6%	-5.8%	115	—	UPTREND
7	12/13/16	5463.83	+1.0%	+7.2%	116	Major Accumulation Day	UPTREND
6	12/14/16	5436.67	-0.5%	-5.9%	117	—	UPTREND
5	12/15/16	5456.85	+0.4%	+5.6%	118	Minor accumulation Day	UPTREND
4	12/16/16	5437.16	-0.4%	+35.2%	119	Minor distribution Day	DOWNTREND
3	12/19/16	5457.44	+0.4%	-40.6%	120	—	DOWNTREND
2	12/20/16	5483.94	+0.5%	-0.8%	121	Minor accumulation Day	UPTREND
1	12/21/16	5471.43	-0.23%	-11.1%	122	—	UPTREND

ACCUMULATION / DISTRIBUTION RATINGS FOR MAJOR INDICES

with Prior Trends for Reference

	# of Days in Trend	Trend Details	Nasdaq	S&P 500	DJIA
1/26/16	1	Tue - A Follow-Through day = NEW UPTREND	E	E	E
2/5/16	9	Fri - UPTREND under PRESSURE 1	D-	D-	D+
2/8/16	1	Mon - Distribution = NEW DOWNTREND	D-	D-	D
2/16/16	6	Tue - DOWNTREND Attempted Rally 3	E	E	D-
2/17/16	1	Wed - A Follow-Through day = NEW UPTREND	E	D-	D+
6/24/16	91	Fri - UPTREND under PRESSURE 1	D	C	C-
6/27/16	1	Mon - Distribution = NEW DOWNTREND	E	E	E
6/29/16	3	Wed - DOWNTREND Attempted Rally 2	E	D-	D-
6/30/16	1	Thu - A Follow-Through day = NEW UPTREND	D-	C	C
8/26/16	40	Fri - UPTREND under PRESSURE 3	C-	B-	C
9/2/16	45	Fri - UPTREND under PRESSURE 8	D+	C+	C-
9/6/16	46	Tues - UPTREND	C	B-	C-
9/8/16	48	Thu - UPTREND	C-	C+	C-
9/9/16	49	Fri - UPTREND under PRESSURE 1	D-	C-	D-
9/16/16	54	Fri - UPTREND under PRESSURE 6	C	D	D-
9/23/16	59	Fri - UPTREND	B-	C-	D
10/10/16	70	Mon - UPTREND	B-	C+	C
10/11/16	71	Tues - UPTREND under PRESSURE 1	C-	C+	C+
11/8/16	90	Tue - UPTREND under PRESSURE 21	E	D	C-
11/9/16	91	Wed - UPTREND	D+	C	C+
11/30/16	107	Wed - UPTREND	D	C-	B
12/1/16	108	Thu - UPTREND under PRESSURE	E	D+	B+
12/2/16	109	Fri - UPTREND under PRESSURE	E	D+	B+
12/5/16	110	Mon - UPTREND under PRESSURE	E	D	B+
12/6/16	111	Tue - UPTREND under PRESSURE	D	D	B+
12/7/16	112	Wed - UPTREND	D+	C	B+
12/8/16	113	Thu - UPTREND	C-	C+	A-
12/9/16	114	Fri - UPTREND	C	C+	A-
12/12/16	115	Mon - UPTREND	C	C+	A-
12/13/16	116	Tue - UPTREND	C	C+	A-
12/14/16	117	Wed - UPTREND	B-	D+	B
12/15/16	118	Thu - UPTREND	B-	C	B+
12/16/16	119	Fri - UPTREND	B-	C-	B+
12/19/16	120	Mon - UPTREND	B-	C-	B
12/20/16	121	Tue - UPTREND	C+	C-	B
12/21/16	122	Wed - UPTREND	B-	C-	B

ARMCHAIR INVESTOR WEEKLY CLASS SCHEDULE

Join us for the **ARMCHAIR INVESTOR** classes.

Be my guest (FREE) if you have not visited in the last six months (guest seating limited).

The next ARMCHAIR INVESTOR classes are shifted due to the Monday New Year's holiday:

Tuesday 1/3 4:00 – 6:00 p.m. Barnes & Noble at Royal & Preston (northeast corner), Dallas

Tuesday 1/3 7:00 – 9:00 p.m. Barnes & Noble at Royal & Preston (northeast corner), Dallas

Wednesday 1/4 10:00 am – noon, Barnes & Noble, on Beltline just east of Montfort, Addison

NOTE: The Armchair Investor classes are on vacation two weeks each quarter.

- Guest attendance is limited to ensure class members get their full value. -
- Be sure to call to confirm we are having a class and to reserve your spot.

Call me at 214-995-6702 to schedule your FREE visit (new visitors only) to an ARMCHAIR INVESTOR class.

TO REGISTER FOR THE COMPREHENSIVE, SINGLE SUBJECT
ARMCHAIR INVESTOR WORKSHOPS
OR TO VISIT AN ARMCHAIR INVESTOR CLASS:

CALL OR TEXT CHARLOTTE HUDGIN AT 214-995-6702

Wishing you "Many Happy Returns,"

Charlotte Hudgin, 214-995-6702, Editor, the Armchair Investor

DISCLAIMER, "Buyer Beware" WARNING:

This newsletter shares the ideas I use in my investing. It is not investing advice but should be taken as education only. Your investment decisions are your responsibility as are the results. If you are not comfortable with or do not understand a strategy completely, I recommend that you paper-trade until you are successful and can sleep at night.

Questions may be submitted to Editor@ArmchairInvestor.com

Some of your questions will be used in future newsletters.

Armchair Investor, P.O. Box 671146, Dallas, TX 75367, USA

Additional notes follow:

EXAMPLE OF ACCUMULATION AND DISTRIBUTION WITH EXPANDED EXPLANATION OF TERMS:

Today's Market Action with explanation						
2/5/16	Index Close	Index % Change	Volume % Change	Volume vs 50-day Avg	Accumulation or Distribution Day?	Current Trend: DOWNTREND Began 1/4/2015
Nasdaq	4363.14	-3.2%	+13.8%	+21.8%	Major Distribution	+11.3%
S&P500	1879.92	-1.9%	NYSE Volume		Neither	+6.6%
NYSE	9,390.33	-1.5%	-5.3%	+15.0%	Neither	+6.2%
DJIA	16,204.62	-1.3%			Neither	+5.5%

A **Major Accumulation Day**: Price RISES 1.0% or more and higher Volume than the day before
A **Minor accumulation Day**: Price RISES 0.2% or more and Volume is strong (either higher volume or is well-above average volume)

A **Major Distribution Day**: Price FALLS 1.0% or more and higher Volume than the day before.
A **Minor distribution Day**: Price FALLS 0.2% or more, Volume is strong (either higher volume or is well-above average volume)

A **Stalling minor distribution Day**: Only in an up-trending index or stock, price is FLAT or DOWN slightly compared to the day before, closing in the bottom half of the day's range and volume is heavier or about equal to the day before or strong compared to the past market. It's the price closing low in the day's range after an uptrend that is the key for this designation. Price close to flat and higher or consistent volume indicates the big money (institutions: mutual funds, banks, etc.) are gently selling, trying to sneak out so you won't notice.

** The "CURRENT TREND" column calculates how far each index has moved in the current trend assuming you purchased the index (which is not buyable) at the opening price on the day after the trend change signal.

- **When this column is GREEN, the index has moved in the direction of the market trend.**
- **HOWEVER, when this column is RED, the index change has fallen into negative territory (which could be a rise during a Downtrend)**

An **ACCUMULATION** day points at heavy buying by institutional money managers - the mutual funds, pension funds, banks, etc.
A **DISTRIBUTION** day points at heavy selling by institutional money managers.