

## **ARMCHAIR INVESTOR<sup>(sm)</sup> MORNING MARKET NEWSLETTER**

**A TREND-FOLLOWING STRATEGY\***

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



**Do you use MarketSmith?** Are you interested in learning more about this powerful, time-saving tool? Join me for an in-depth workshop on how to use MarketSmith for maximum returns. Once you understand how to use its features, you might well become a lifetime user.

**MarketSmith workshop: Saturday 1/6 afternoon 1:00 – 5:00, (north Dallas)**

Call me at 214-995-6702 to find out if there are any seats available (attendance is limited to ensure everyone get all questions answered)

## **MARKET DIAGNOSIS: UPTREND**

### **THURSDAY:**

The 2018 started off with a bang – two accumulation days in a row.

- Tuesday: Nasdaq UP 1.5%. S&P500 UP 0.8%, volume UP
- Wednesday: Nasdaq UP 0.8%. S&P500 UP 0.6%, volume UP
- Thursday: Mixed: S&P500 had accumulation day (+0.4%) but Nasdaq stalled.

We knew the beginning of year springboard might not last forever. But I don't see significant sings of weakness. The market still has a low number of distribution days and continues up.

Lately, I have known the market was rising and wanted to take my share of it. But what is frustrating is the difficulty in finding strong, buyable breakouts that work!!!!

***So what is a good strategy when the market continues up and I can't get fully invested in individual stocks?***

I use the ETF signals to invest in the Nasdaq 100 – the QQQ. Or consider a double or triple ETF as shown in this table below (page 3):

***ARMCHAIR INVESTOR TREND-FOLLOWING RETURNS  
FOR CURRENT UPTREND.***

When I can't get fully invested in an Uptrending market, the ETFs are where I sometimes store my money.

Since this Uptrend was signaled on June30, 2016, the Trend-Following Returns table on page 3 will show you what you would have earned in the ETFs:

- +49% return for the QQQ
- +118% returns for the QLD
- +214% return for the TQQQ

Now, I hope I have your attention. Note: I didn't make 214%. I didn't hold the TQQQ during periods of market uncertainty in the last year and a half!

Daily Market Action						
1/4/18	Index Close	Index % Change	Volume % Change	Volume vs 50-day Avg.	Accumulation or Distribution Day?	Current Trend: UPTREND Began 6/30/2016
Nasdaq	7077.91	+0.18%	-3.3%	-0.7%	Neither	+46.3%
S&P500	2723.99	+0.4%	NYSE Volume		Minor accumulation	+29.8%
NYSE	11,771.61	+0.5%	+4.8%	+8.6%	Minor accumulation	+12.2%
DJIA	25,075.13	+0.6%			Minor accumulation	+39.9%

The Nasdaq distribution days count dropped to 2 as one distribution day fell out of the count Wednesday. The count includes two minor distribution days versus 4 accumulation days of which 2 days are Major Accumulation days (rising over 1%). The S&P500 has only 1 distribution.

**REMEMBER:**  
**THE MARKET CONTINUES IN THE DIRECTION IS IT GOING UNTIL IT DOESN'T.**

Translation:

- An Uptrending market remains in an Uptrend until it fails.
- Neither small market dips nor bull-market longevity concerns change the diagnosis.

<b>ARMCHAIR INVESTOR TREND-FOLLOWING RETURNS FOR CURRENT UPTREND</b>				
<i>Uptrend ETFs</i>				
1/4/18	Opening Price on 7/1/2016	Today's Price	ETF % Change Today	PROFIT/LOSS from 6/30/2016 Signal: "Market in UPTrend"
QQQ (1x)	\$107.49	\$160.31	+0.2%	+49%
QLD (2x)	\$35.57	\$77.63	+0.4%	+118.2%
TQQQ (3x)	\$48.08	\$151.03	+0.6%	+214.1%
<p>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%.</p> <p><b>TREND FOLLOWING IS A VALUABLE TOOL TO ADD TO YOUR PORTFOLIO.</b>  <b>But please remember, the TQQQ fall 3 times the QQQ when the market is dropping.</b></p>				
<p>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.</p>				
<p>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.</p>				

<b>PROGRESS IN ACCUMULATION/DISTRIBUTION RATINGS</b>							
		A	B	C	D	E	Total
1 week ago	12/26	15%	42%	20%	16%	6%	6416
Today	1/4	19%	45%	18%	13%	5%	6433
	#	1224	2902	1169	820	318	
<p><b>I will catch up with past weeks for this table as I am able to fill in the history.</b></p>							
<p>Note: The Accumulation/Distribution ratings are calculated overnight &amp; 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.</p>							

## LAST WEEK'S MARKET ACTION

12/29/17	Index % Change	Volume % Change	Volume Above/ Below 10-week Avg	Type of Week
Nasdaq	-0.9%	-40.8%	-43.0%	Neither
S&P 500	-0.4%	S&P 500 Volume		Neither
NYSE	+0.1%	-45.3%	-33.0%	Neither
DJIA	-0.2%			Neither

The "TYPES OF WEEK" are:  
 ACCUMULATION WEEK Price RISES 0.2% or more and Volume RISES 0.2% or more  
 DISTRIBUTION WEEK Price FALLS 0.2% or more and Volume RISES 0.2% or more  
 Another type of DISTRIBUTION(\*): WEEK Price FALLS 0.2% or more & Volume is 15% or more above average even without an increase in volume.  
 The NYSE volume is used for the S&P500 and NYSE Composite.



The above charts are from **StockCharts.com**, a valuable site for investors with **many free tools**.  
 On the **daily charts**: The **price 20-day, 50-day and 200-day moving averages** are shown. If you don't see the 200-day price moving average, it is too far away from the price bars 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.

<b>MARKET FACTORS, COUNTS &amp; RATINGS</b>		<b>1/4/2018</b>	
<b>Type of DAY for <u>Nasdaq</u></b> Major (1%/1%) Accumulation, Distribution or Neither		<b>Neither</b>	
<b>Market Direction</b> Uptrend, Under Pressure, Downtrend, or Attempted Uptrend		<b>UPTREND</b>	
<b><u>ALL Nasdaq Accumulation &amp; Distribution Days</u></b> 20-day count of <b>NASDAQ</b> Major (1%/1%) Accumulation & Distribution days		<b>Accumulation Days</b>	<b>Distribution Days</b>
		<b>5</b>	<b>2</b>
This field is designed to count ONLY Major Distribution days of 1% drop or more. In more volatile markets, this field will have larger counts.			
<b>Count of Up Days and Down Days</b> (10-days on the Nasdaq)		<b>Up Days</b>	<b>Down Days</b>
		<b>2</b>	<b>3</b>
The Nasdaq moved an insignificant amount (less than 0.2%) on 7/28, 8/2, 8/4 & 8/8. Those days are not included in the Up/Down count which does not, therefore, add up to 10 days.			
<b>Leaders Up/Down with High Volume</b> 2-day ratio (but I will build it back to the usual 10-day ratio)		<b>1.3</b>	
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			
<b>Market Accumulation/Distribution Ratings</b> "A": heavy accumulation, "B": moderate accumulation, "C": neutral, "D": moderate distribution, "E": heavy distribution. Accumulation = Institutions are BUYING, Distribution = Inst are SELLING		<b>Nasdaq</b>	<b>B</b>
		<b>S&amp;P 500</b>	<b>A</b>
		<b>DJIA</b>	<b>A+</b>
<b>Are Major Indexes Above or Below Moving Averages?</b> "At" is within 1% above or below the moving average.		<b>50-Day</b>	<b>200-Day</b>
<b>Nasdaq</b>		<b>Above</b>	<b>Above</b>
<b>S&amp;P 500</b>		<b>Above</b>	<b>Above</b>
<b>NYSE</b>		<b>Above</b>	<b>Above</b>
<b>DJIA</b>		<b>Above</b>	<b>Above</b>

## 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 (—)	CONSISTENT WITH: UPTREND or Downtrend?
<b>MARKET IN UPTREND</b>							
20	12/5/17	6762.21	-0.19%	-14.6%	362	—	—
19	12/6/17	6776.38	+0.2%	-9.7%	363	—	DOWNTREND
18	12/7/17	6812.84	+0.5%	+2.5%	364	Minor accumulation day	UPTREND
17	12/8/17	6840.08	+0.4%	-6.0%	365	—	DOWNTREND
16	12/11/17	6875.08	+0.5%	-1.9%	366	—	DOWNTREND
15	12/12/17	6862.32	-0.19%	+1.8%	367	—	—
14	12/13/17	6875.80	+0.2%	+1.9%	368	Minor accumulation day	UPTREND
13	12/14/17	6856.53	-0.3%	+3.4%	369	Minor distribution day	DOWNTREND
12	12/15/17	6936.58	+1.2%	+65.3%	370	Major Accumulation day	UPTREND
11	12/18/17	6994.76	+0.8%	-34.6%	371	—	DOWNTREND
10	12/19/17	6963.61	-0.5%	-2.5%	372	—	UPTREND
9	12/20/17	6960.96	-0.04%	-8.8%	373	—	—
8	12/21/17	6965.36	+0.1%	-4.0%	374	—	—
7	12/22/17	6959.96	-0.1%	-15.0%	358	—	—
6	12/26/17	6936.25	-0.3%	-16.3%	376	—	UPTREND
5	12/27/17	6939.34	+0.04%	+6.2%	377	—	—
4	12/28/17	6950.16	+0.16%	-3.0%	378	—	—
3	12/29/17	6903.39	-0.7%	+19.7%	379	Minor distribution day	DOWNTREND
2	1/2/2018	7006.90	+1.5%	+20.9%	380	Major Accumulation day	UPTREND
1	1/3/2018	7065.53	+0.8%	+12.9%	381	Minor accumulation day	UPTREND
1	1/4/2018	7077.91	+0.18%	-3.3%	382	—	—

## **MARKET DIRECTION ADDITIONAL COMMENTS**

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

**THURSDAY :** I'm hearing from many of you that finding winning individual stocks is difficult in this market. This is one of the reasons I am more heavily in the market ETFs. I use:

- QQQ (tracks the Nasdaq100 largest stocks),
- QLD (roughly double the QQQ) and
- TQQQ (roughly triple the QQQ).

But remember, these stocks go UP and DOWN by their multiple.

Stay tuned. After the MarketSmith class on Saturday afternoon, I will be able to spend more time considering individual stocks for this market. I may share a few ideas with you in this weekend's newsletter on Sunday.

### **YOU ARE NOT SMARTER THAN THE MARKET**

#### **PRIOR NOTES THAT ARE STILL RELEVANT :**

You can remember my second lesson for every new investor:

**THE MARKET AND STOCKS CONTINUE IN THE DIRECTION THEY ARE GOING..... UNTIL THEY DON'T.**

I bet a few of you are asking, "What is the first lesson?" You might know it so well that you have integrated it your investing and forgotten it:

#### **PROTECT YOUR PORTFOLIO WITH AN 8% STOP**

And, yes. You may have chosen a tighter 7% or 6% stop. The most important aspect of this first rule is:

#### **CHOOSE YOUR STOP & LIVE BY IT – NO EXCUSES!**

And you don't have to wait for your stock to fall to the stop. A concentration of distribution is a good reason to get out wherever it happens!

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Uptrending markets usually climb a "wall of worry." The more worry, the better the climb. Consider these perspectives:

- If you heard a lot of worrying news and believed the market was ready to fail, you would sell much of your stock at today's "high prices." If the market continues to rise after you sold, you would eventually reinvest in the market to participate in the uptrend. You would have missed the profit between your leaving the market and getting back in it.
- **The lesson:** Follow the market strength signals, not the dramatic words on the news.

**Don't be one of the inexperienced investors convinced to sell in an Uptrending market.**

**Remember:**

**The market AND YOUR STOCKS continue in the direction they are going until they don't.**

## **MARKET DIAGNOSIS: "UPTREND"**

### **What to do now:**

1. **WATCH YOUR INVESTMENTS CLOSELY:** 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. **DON'T LOSE YOUR GAINS:** 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 <b>Uptrend</b> Price-Volume Movement	Strong Action	Up	↑	↑	Up
	Weaker Action	Down	↓	↓	Down
Healthy <b>Downtrend</b> 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 an 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 4747.62 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.

# 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 weekly class is:

**Friday 3:30 – 5:30 p.m.** Barnes & Noble at Royal & Preston (northeast corner), Dallas  
The schedule then returns (post-holiday adjustments) to the regular schedule below.

Please register on the Meetup site so I will have a handout for you (25 pages of articles and charts we cover in your class!)

[Link to registering for the Armchair Investor Meetup- CLICK HERE](#)

**The regular 2018 ARMCHAIR INVESTOR classes schedule then resumes next week:**

**Mondays 6:00 – 8:00 p.m.** Barnes & Noble at Royal & Preston (northeast corner), Dallas

**Tuesdays 3:30 – 5:30 p.m.** Barnes & Noble at Royal & Preston (northeast corner), Dallas

**Wednesdays 10:00 am – noon**, Barnes & Noble, on Beltline just east of Montfort, Addison

- **Guest attendance is limited to ensure class members get their full value. -**
- **Be sure to call to confirm we are having a class (we are occasionally on vacation) and an open chair.**

Call or text 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 [0](#)

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.