

ARMCHAIR INVESTOR^(sm) MORNING MARKET NEWSLETTER

A TREND-FOLLOWING STRATEGY*

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



MARKET DIAGNOSIS: UPTREND

THURSDAY: Yes, the market has fallen over the last 4 days. For the Nasdaq, two of those days were minor distribution days.

But I have wondered since the market started rising at a surprisingly high rate on the first trading day of the year, if that slope was just irrational exuberance and NOT sustainable.

OUTCOME #1: THE CRASH

My fear was that rise was just irrational exuberance. And when it imploded, the market would make a severe correction.

OUTCOME #2: THE GENTLE RETURN TO PRIOR UPTREND

The alternative to a crash can be a gentle pull back to the prior upward slope. And then the Uptrend continues at the prior rate.

The problem is – I can't tell which it is yet. I have drawn upward sloping lines on the two daily charts (Nasdaq and S&P500) using the last two months of 2017. You can draw those lines on your own charts, or download the FULL PDF version of this newsletter under the 'CURRENT NEWSLETTER TAB' on the www.armchairinvestor.com site.

A week should give us the answer: (1) New DOWNTREND or (2) soft bounce back into the prior UPTREND. **I suspect door #2. There is substantial data to support a continued growth in this economy.**

CONCLUSION: Until I see more convincing data, I stay with the market in Uptrend.

REMEMBER:

THE MARKET CONTINUES IN THE DIRECTION IT'S GOING UNTIL IT DOESN'T.

Daily Market Action

| 2/1/18 | Index Close | Index % Change | Volume % Change | Volume vs 50-day Avg. | Accumulation or Distribution Day? | Current Trend: UPTREND Began 6/30/2016 |
|--------|-------------|----------------|-----------------|-----------------------|-----------------------------------|--|
| Nasdaq | 7,385.86 | -0.4% | -3.8% | +14.9% | Neither | +52.7% |
| S&P500 | 2,821.98 | -0.1% | NYSE Volume | | Neither | +34.4% |
| NYSE | 13,384.46 | +0.1% | -7.6% | +18.9% | Neither | +27.5% |
| DJIA | 26,186.71 | +0.1% | | | Neither | +46.1% |

Look at ALL THE GREEN in the MARKET FACTORS, COUNTS & RATINGS table near the end of this FULL newsletter. It's a beautiful table showing UPWARD MOMENTUM!

PRIOR NOTES THAT ARE STILL RELEVANT:

Since the first of the new year, I have been concerned that the market has shown an unsustainable rising price line. But the low distribution count says not to worry – for today. No crystal ball – just evaluation of current market conditions.

When I look at the Nasdaq and S&P500 charts, I see their extraordinary rate of rise that started on the first trading day of January. What is driving the market so hard this year?

- **“Sometimes, this increasing slope is caused by a rational expectation of increasing earnings.”**
 - That makes sense with the change in tax rules and can be sustainable in the short run.
- **“But sometimes, the increasing slope is an indication of irrational exuberance which usually ends badly with a quick drop.”**
 - If that is the case, we won't know till after it happens!” Keep your stops up to date!

How can you protect your portfolio if this run-up ends with a fast drop?

It may make sense to put in a **trailing stop** if you are in a trend-following ETF. Just leave some “wobble room” for the ETF to bounce along as it grows. Many investors use a trailing stop equal to twice the average true range of what you are protecting.

INDIVIDUAL STOCKS: Holding onto your winners is a prudent strategy right now as long as they don't show signs of failing such as a concentration of distribution days. Don't let the emotions of non-fact based commentators persuade you to sell some of your winners just to pocket some of the gains.

Do you know when your stocks report? You can look at your brokerage site or go to: www.Finance.yahoo.com/calendar/earnings

Sometimes a stock price drops even if it has a good earnings report. How can that happen? The market is more interested in the future than the past. After a good earnings report, the market immediately says:

“Atta boy! Good job! Now.....what are going to do for me next?”

If forward guidance is weak, there may be a sell-off!

For additional information on how to protect a portfolio during earnings season, download the full Armchair Investor Newsletter (link below) and review the ADDITIONAL COMMENTS FOR INVESTORS IN INDIVIDUAL STOCK section.

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 to capture the general market rise.

You can download the FULL ARMCHAIR INVESTOR NEWSLETTER at:

ArmchairInvestor.com

Click on the **Free Newsletter** tab and then ...

Click on the **Armchair Investor Current Newsletter** tab

No advice is ever given in this newsletter. It is provided for your education only.

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| Uptrend ETFs | Armchair Investor Trend-following Returns for Current Uptrend | | | |
|-----------------|--|---------------|-----------------------|--|
| | Opening Price on 7/1/2016 | Today's Price | ETF % Change Today | PROFIT/LOSS from 6/30/2016 Signal: “Market in UPTrend” |
| 2/1/18 | | | | |
| QQQ (1x) | \$107.49 | \$167.96 | -0.9% | +56.3% |
| QLD (2x) | \$35.57 | \$84.98 | -1.7% | +138.9% |
| TQQQ (3x) | \$48.08 | \$172.92 | -2.4% | +259.7% |

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.

| MARKET ACTION 2018 YEAR-TO-DATE | | | |
|--|---------------------------|----------------------|------------------------------------|
| 2/1/18 | 2017 Closing Price | Current Price | Index % Change Year-to-Date |
| Nasdaq | 6903.39 | 7385.86 | +7.0% |
| S&P 500 | 2673.61 | 2821.98 | +5.5% |
| NYSE Comp | 12,808.84 | 13,384.46 | +4.5% |
| DJIA | 24,719.22 | 26,186.71 | +5.9% |

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."

| PROGRESS IN ACCUMULATION/DISTRIBUTION RATINGS | | | | | | | |
|--|------|------|------|------|-----|-----|-------|
| | | A | B | C | D | E | Total |
| 4 weeks ago | 1/3 | 17% | 45% | 16% | 14% | 5% | 6429 |
| 3 weeks ago | 1/10 | 23% | 43% | 16% | 13% | 5% | 6473 |
| 2 weeks ago | 1/18 | 24% | 42% | 16% | 12% | 6% | 6502 |
| 1 week ago | 1/25 | 26% | 42% | 15% | 12% | 6% | 6518 |
| Today | 2/1 | 15% | 41% | 20% | 15% | 8% | |
| | # | 1002 | 2697 | 1287 | 981 | 536 | 6503 |

I will catch up with past weeks for this table as I am able to fill in the history.

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.

| HOW CLOSE ARE THE INDICES TO ALL-TIME HIGHS THRU Friday 1/26/18? | | | | |
|---|---------------|-------------------|-------------|-------------|
| 2/1/2018 | Nasdaq | S&P500 | NYSE | DJIA |
| Date of Index All-time High | 1/26/2018 | 1/26/2018 | 1/26/2018 | 1/9/2018 |
| All-time High | 7505.77 | 2872.87 | 13637.02 | 26616.71 |
| Current Price | 7385.86 | 2821.98 | 13381.96 | 26186.71 |
| Below (-) or Above (+) Recent High (%) | -1.6% | -1.8% | -1.9% | -1.6% |
| Below (-) or Above (+) Recent High (#) | -119.91 | -50.89 | -255.06 | -430.00 |

LAST WEEK'S MARKET ACTION

| 1/26/2019 | Index % Change | Volume % Change | Volume Above/ Below 10-week Avg | Type of Week |
|-----------|----------------|-----------------|---------------------------------------|--------------------|
| Nasdaq | +2.3% | +28.1% | +18.0% | Major Accumulation |
| S&P 500 | +2.2% | S&P 500 Volume | | Major Accumulation |
| NYSE | +1.9% | +24.2% | +22.0% | Major Accumulation |
| DJIA | +2.1% | | | Major Accumulation |

The "TYPES OF WEEK" are:

ACCUMULATION WEEK Price RISES 0.2% or more and Volume RISES

DISTRIBUTION WEEK Price FALLS 0.2% or more and Volume RISES 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.

| MARKET FACTORS, COUNTS & RATINGS | | 2/1/2018 | |
|---|--|--------------------------------------|--------------------------------------|
| 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>ALL Nasdaq Accumulation & Distribution Days</u> 20-day count of NASDAQ Accumulation & Distribution days | | Accumulation Days 6 | Distribution Days 4 |
| 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. | | | |
| Count of Up Days and Down Days (10-days on the Nasdaq) | | Up Days 5 | Down Days 2 |
| 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. | | | |
| Leaders Up/Down with High Volume 2-day ratio (but I will build it back to the usual 10-day ratio) | | 1.1 | |
| 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 | | | |
| 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 C+ | S&P 500 B+ |
| | | DJIA A+ | |
| 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 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 (—) | <u>CONSISTENT WITH: UPTREND or Downtrend?</u> |
|--------------------------|-----------|---------|----------------|-----------------|-------------------------|--|---|
| MARKET IN UPTREND | | | | | | | |
| 20 | 1/4/2018 | - | +0.18% | -3.3% | 382 | — | — |
| 19 | 1/5/2018 | 7136.56 | +0.8% | -4.1% | 383 | — | DOWNTREND |
| 18 | 1/8/2018 | 7157.39 | +0.3% | +1.3% | 384 | Minor accumulation day | UPTREND |
| 17 | 1/9/2018 | 7164.26 | +0.1% | +4.9% | 385 | — | — |
| 16 | 1/10/2018 | 7153.57 | -0.1% | -2.2% | 386 | — | — |
| 15 | 1/11/2018 | 7211.78 | +0.8% | -5.1% | 387 | — | DOWNTREND |
| 14 | 1/12/2018 | 7261.06 | +0.7% | +0.1% | 388 | — | — |
| 13 | 1/16/2018 | 7223.69 | -0.5% | +19.1% | 389 | Minor distribution day | DOWNTREND |
| 12 | 1/17/2018 | 7298.28 | +1.0% | -5.7% | 390 | — | DOWNTREND |
| 11 | 1/18/2018 | 7296.05 | -0.03% | -9.7% | 391 | — | — |
| 10 | 1/19/2018 | 7336.38 | +0.6% | -2.8% | 392 | — | — |
| 9 | 1/22/2018 | 7408.03 | +1.0% | +6.5% | 393 | Major Accumulation day | UPTREND |
| 8 | 1/23/2018 | 7460.29 | +0.7% | +1.1% | 394 | Minor accumulation day | UPTREND |
| 7 | 1/24/2018 | 7415.06 | -0.6% | +7.6% | 395 | Minor distribution day | DOWNTREND |
| 6 | 1/25/2018 | 7411.16 | -0.1% | -10.3% | 396 | — | — |
| 5 | 1/26/2018 | 7505.77 | +1.2% | +4.2% | 397 | Major Accumulation day | UPTREND |
| 4 | 1/29/2018 | 7466.82 | -0.5% | +2.2%* | 398 | Minor distribution day | DOWNTREND |
| 3 | 1/30/2018 | 7402.48 | -0.9% | +2.6% | 399 | Minor distribution day | DOWNTREND |
| 2 | 1/31/2018 | 7411.48 | +0.1% | +9.4% | 400 | — | — |
| 1 | 2/01/2018 | 7385.86 | -0.4% | -3.8% | 401 | | |

* Means Investors.com adjusted this number after initial report. The change may also have affected the distribution/accumulation counts.

ADDITIONAL COMMENTS FOR INVESTORS IN INDIVIDUAL STOCKS

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

THURSDAY : Nothing more to add. Looking forward to the markets deciding on a direction and going with it.

PLEASE READ THIS “LAGGING RS LINE” WARNING IF YOU MISSED IT:

I am staying away from many stocks with lagging RS (relative strength) lines in their latest base. An RS line usually dips while the left side of a base is formed – it frequently represents a divergence from the general market progress. But a good stock will make up the dip (and frequently more) as it builds the right side of the base so the RS line recovers. When the base ends with a lagging RS line, it means this stock has under-performed the market average.

I seldom want to buy stocks that are in the bottom half of market performance. Recently, I have skipped (or bought smaller positions) in some stocks with otherwise excellent ratings but have lagging RS lines in the most recent base. **OK, I did like a few that had only slight RS line declines but other strong ratings.**

Earnings season is upon us! Review your holdings to decide if you are willing to risk a sudden “adjustment” in their prices if an earnings surprise disappoints.

An 8% gain in your stock can be a buffer to protect you against a temporary drop response to its earnings announcement. If your stock has not produced at least an 8% gain, you may want to exit it or protect your portfolio against a negative earnings result with a stop. Some protective strategies include:

- 1. Put in a stop loss order to automatically sell your stock if it dips too much.**
- 2. Sell stocks without an 8% buffer (gain.)**
- 3. Buy a protective put.**

Please talk to your broker if you are not clear on which of these strategies is right for you. Each can be tricky to implement and yield a nasty surprise if not set up correctly.

YOU ARE NOT SMARTER THAN THE MARKET

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 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 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).

Please register on the Meetup site so I will have a handout for you (25 pages of articles and

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

The 2018 ARMCHAIR INVESTOR classes schedule is:

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 have 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: Editor@ArmchairInvestor.com

Some of your questions will be used in future newsletters.

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 |
| Index | 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.