

## **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 QQQ*



### **MARKET DIAGNOSIS: DOWNTREND**

**MONDAY** NOTES THAT PROBABLY WON'T CHANGE UNTIL THE MAJOR INDEXES MOVE ON THE 4<sup>TH</sup> DAY OF THIS ATTEMPTED RALLY OR LATER. The 4<sup>th</sup> day (the first possible Follow-through day) is Wednesday.

A Downtrend can turn into an Uptrend with a Follow-through day.....  
read on:

- After a market is declared to be in Downtrend (also called “correction”), look for an Up day (day 1 of an Attempted Rally) on the Nasdaq or S&P500.
- Examine the next days: Did the index stay above the recent low? Then count those days. If day 1 is undercut, return to step 1 and start counting on the next Attempted Rally day.
- At day four (or later), look for the Follow-through day – a day that closes UP (usually at least 1.3%) with higher volume than the day before. This F-T day will put the market back in Uptrend!

**A F-T day can happen on day 4 or later** (usually by trading day 14).  
Some factors make the F-T day stronger:

- The earlier the F-T day happens, the stronger the signal.
- The bigger the index move, the stronger the signal.
- The higher the volume is above the volume moving average, the stronger the signal.
- If both indexes F-T on the same day, the stronger the signal.

**A F-T day prediction of a new Uptrend is accurate about 75% of the time.** – a pretty good bet, even in Vegas! When we get that F-T day (this week of 6 months from now), you have a signal to start investing long again.

**So relax on Monday (we're still in a Downtrend). Watch any stocks you still own for falling price and consider selling them.**

**Do you still own individual stocks?**

- “Wishing and Hoping” is not usually an effective strategy.
- The percentage of “A” stocks has dropped from 25% to only 5% in the last two weeks. That means only one stock out of every 25 is an “A”.
- If your stock is holding up well, congratulations!
- If not, REMEMBER: CASH IS A POSITION – sometimes a FINE position!

**NOTE: What I do with my trend-following allocation does not dictate what I do with my individual stocks. I hold each stock until a concentration of distribution days or other sell signals tell me to exit each position independently.**

Daily Market Action						
2/12/18	Index Close	Index % Change	Volume % Change	Volume vs 50-day Avg.	Accumulation or Distribution Day?	Current Trend: UPTREND Began 6/30/2016
Nasdaq	6,981.96	+1.6%	-29.3%	+5.0%	Neither	+2.1%
S&P500	2,653.00	+1.4%	NYSE Volume		Neither	+1.5%
NYSE	12,560.17	+1.2%	-28.5%	+12.5%	Neither	+1.4%
DJIA	24,601.27	+1.7%			Neither	+2.1%

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 e or is well-above average volume)

\*\* The "CURRENT TREND" column calculates how far each index has moved from the recent trend change assuming you purchased the index (in an Uptrend) or sold the index (in a Downtrend) at the opening price on the day after the signal. Although not every year outperforms the common "buy and hold" strategy, using these signals has significantly OUTPERFORMED the buy-and-hold strategy since 1/1/2000.

When this column is GREEN, the index has moved in the direction of the market trend. Thus, when the market goes down during a Downtrend, this column will be green.  
BUT when this column is RED, the index change has fallen into negative territory.

**WHAT TO DO NOW:**

**In a market in “Downtrend,” there are some actions to take:**

- If you don't have **20% of your portfolio in cash**, consider selling your weakest holding to raise that cash as a protective cushion.
- I never fight the Downtrend by holding Uptrend ETFs (such as the QQQ single, the QLD, double the Nasdaq 100 ETF or the TQQQ, triple the Nasdaq 100 ETF).

- The inverse ETFs are appropriate for a Downtrend. Start with the PSQ (single inverse ETF) if you haven't used inverse ETFs before.

- When the Nasdaq goes down, the PSQ goes UP.
- When the Nasdaq goes UP, the PSQ goes down.

- **For individual stocks**, track the **distribution days** and review daily charts. A concentration of distribution days is my primary signal to exit a stock. There are dozens of other signs of weakness in individual stocks. Study them!
- BUT if I have a stock that continues to rise or hold its gains, I will usually hold it during a weak market – that stock is showing unusual strength! And I watch it very closely!
- **DO YOU HAVE STOPS SET ON EVERYTHING YOU OWN? EVEN IF THE STOPS ARE CONSIDERABLY UNDER THE CURRENT PRICES!** Be sure to check that prior stops are still active. Many brokerages cancel them without notice after a stated period of time. I would hate for you to rely on a stop that is no longer active!

**REMEMBER:**

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

Here is what you could have earned (last column) if you bought an Uptrend ETF at the last market change from Uptrend to Downtrend on 2/5/2018.

**Today's Armchair Investor Trend-Following Returns for Current Downtrend begun on 2/5/2018**

**This table tracks shorting the QQQ and investing in the Inverse ETFs which are designed to move opposite to the market by the multiple indicated (1x, 2x, 3x)**

Downtrend ETFs	Price at Open the Day after the Trend Changed	Closing Price Today	ETF % Change Today *	PROFIT /LOSS from 2/8/16 Signal: "Market in Downtrend"
Short QQQ	155.96	158.87	-1.7%	-1.8%
PSQ (1x)	35.47	34.71	-1.7%	-2.2%
QID (2x)	13.26	12.66	-3.6%	-4.7%
SQQQ (3x)	21.11	19.59	-5.5%	-7.8%

The ETF PSQ is designed to move opposite to the QQQ (the largest 100 stocks on the Nasdaq.) QLD is designed to double the opposite price move of the QQQ. Visit Proshares.com for more information.

The "Profit" calculation is based on buying the ETF at the opening price the morning after the signal. In a downtrend, the inverse ETFs (PSQ and QID) should go opposite to the Nasdaq. For the QQQ, the calculation is reversed, e.g. when the QQQ falls, the PROFIT column rises to indicate I have shorted the QQQ and vice versa.

Do you know when your stocks report earnings? You can look at your brokerage site or go to:

[www.Finance.yahoo.com/calendar/earnings](http://www.Finance.yahoo.com/calendar/earnings)

You can download the FULL ARMCHAIR INVESTOR NEWSLETTER at:

[ArmchairInvestor.com](http://ArmchairInvestor.com)

Click on the [Free Newsletter](#) tab and then ...

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

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### MARKET ACTION 2018 YEAR-TO-DATE

2/12/18	2017 Closing Price	Current Price	Index % Change Year-to-Date
Nasdaq	6903.39	6981.96	+1.1%
S&P 500	2673.61	2653.00	-0.8%
NYSE Comp	12,808.84	12,560.17	-1.9%
DJIA	24,719.22	24,601.27	-0.5%

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."

### PROGRESS IN ACCUMULATION/DISTRIBUTION RATINGS

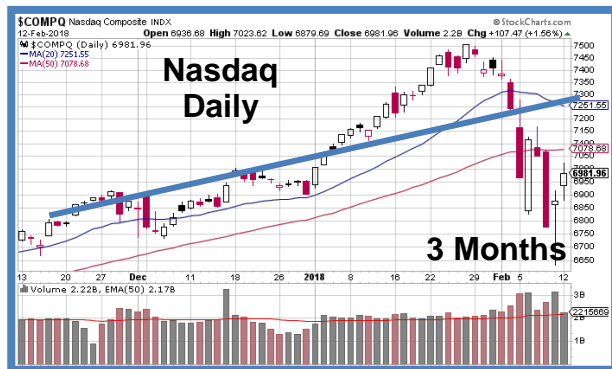
		A	B	C	D	E	Total
4 weeks ago	1/12	25%	42%	14%	12%	6%	6489
3 weeks ago	1/22	24%	42%	15%	12%	6%	6509
2 weeks ago	1/29	26%	41%	15%	12%	6%	6523
1 week ago	2/5	11%	35%	22%	21%	12%	6482
Today	2/12	5%	28%	24%	27%	16%	
	#	335	1835	1558	1736	1008	6472

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?

2/12/2018	Nasdaq	S&P500	NYSE	DJIA
<b>Date of Index All-time High</b>	1/26/2018	1/26/2018	1/26/2018	1/9/2018
<b>All-time High</b>	7505.77	2872.87	13637.02	26616.71
<b>Current Price</b>	6981.96	2653.00	12560.17	24601.27
<b>Below (-) or Above (+) Recent High (%)</b>	-7.0%	-7.7%	-7.9%	-7.6%
<b>Below (-) or Above (+) Recent High (#)</b>	-523.81	-219.87	-1076.85	-2015.44



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>2/12/2018</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>Downtrend</b>	
<b><u>ALL Nasdaq Accumulation &amp; Distribution Days</u></b> 20-day count of <b>NASDAQ</b> Accumulation & Distribution days		<b>Accumulation Days</b> <b>5</b>	<b>Distribution Days</b> <b>7</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>3</b>	<b>Down Days</b> <b>6</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>0.7</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>S&amp;P 500</b> <b>DJIA</b>	<b>C-</b> <b>C</b> <b>B</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>Below</b> <b>Below</b> <b>Below</b> <b>Below</b>	<b>200-Day</b> <b>Above</b> <b>Above</b> <b>Above</b> <b>Above</b>
		<b>Nasdaq</b>	<b>Above</b>
		<b>S&amp;P 500</b>	<b>Above</b>
		<b>NYSE</b>	<b>Above</b>
		<b>DJIA</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 (—)	<u>CONSISTENT WITH: UPTREND or DOWNTREND?</u>
<b>MARKET IN UPTREND</b>							
20	1/16/2018	7223.69	-0.5%	+19.1%	389	Minor distribution day	DOWNTREND
19	1/17/2018	7298.28	+1.0%	-5.7%	390	—	DOWNTREND
18	1/18/2018	7296.05	-0.03%	-9.7%	391	—	—
17	1/19/2018	7336.38	+0.6%	-2.8%	392	—	—
16	1/22/2018	7408.03	+1.0%	+6.5%	393	Major Accumulation day	UPTREND
15	1/23/2018	7460.29	+0.7%	+1.1%	394	Minor accumulation day	UPTREND
14	1/24/2018	7415.06	-0.6%	+7.6%	395	Minor distribution day	DOWNTREND
13	1/25/2018	7411.16	-0.1%	-10.3%	396	—	—
12	1/26/2018	7505.77	+1.2%	+4.2%	397	Major Accumulation day	UPTREND
11	1/29/2018	7466.82	-0.5%	+2.2%*	398	Minor distribution day	DOWNTREND
10	1/30/2018	7402.48	-0.9%	+2.6%	399	Minor distribution day	DOWNTREND
9	1/31/2018	7411.48	+0.1%	+9.4%	400	—	—
8	2/1/2018	7385.86	-0.4%	-3.8%	401	—	—
7	2/2/2018	7240.95	-2.0%	+12.7%	402	Major Distribution day	DOWNTREND
6	2/5/2018	6967.53	-3.8%	+19.8%	1	Major Distribution day	DOWNTREND
5	2/6/2018	7115.88	+2.1%	+2.1%	2	Major Accumulation day	UPTREND
4	2/7/2018	7051.98	-0.9%	-25.6%	3	—	UPTREND
3	2/8/2018	6777.16	-3.9%	+14.3%	4	Major Distribution day	DOWNTREND
2	2/9/2018	6874.49	+1.4%	+17.4%	5	Major Accumulation day	UPTREND
1	2/12/2018	6981.96	+1.6%	-29.3%	6	—	—

\* 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*

**MONDAY :** PRIOR NOTES THAT PROBABLY WON'T CHANGE UNTIL WEDNESDAY, THE FRST POSSIBLE FOLLLOW-THROUGH DAY:

I'm not sure how long this Downtrend will run. I wouldn't be surprised if it ran for 6 months considering the long runup it's had. But I wouldn't be surprised if the turned back up next week. There are some sound fundamentals in the economy to predict that move.

What I will do since the market is in a Downtrend (correction) is own one of the inverse ETFs that will make money as the market falls.

**Or you could learn about shorting to make money on the way down.**

**Individual stocks:** In the worst Downtrend, there are stocks that hold their own and even rise. If you have one of those few that are flat or rising, you might chose to hold it. Consider a closer stop or a trailing stop to protect your gains, especially if you can't review your stocks mid-day and end-of-day.

- I will sell individual stocks on signs of a concentration of distribution days or other signs of weakness. It is hard enough for even strong stocks to beat a Downtrend.

I wait and watch.

**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**

Do you 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:

- The lesson: Follow the market strength signals, not the dramatic words on the news.

Remember:

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

#### **MARKET DIAGNOSIS: "DOWNTREND"**

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

## 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).

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](mailto: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.