

ARMCHAIR INVESTOR^(sm) MORNING MARKET NEWSLETTER

A TREND-FOLLOWING STRATEGY

CURRENT MARKET DIRECTION: DOWNTREND

Welcome to 2019 – a new year that will bring changes to the Armchair Investor newsletter, web site, marketing (social media), classes and workshops.

BACKGROUND: I have emailed the Armchair Investor newsletter almost every night for over 16 years.

- The newsletter started out as a half page comment on market direction.
- It has grown to a 17-page monster (see Monday's newsletter) requiring between two and five and a half hours each night gathering data, researching the current investing environment, writing the commentary (concise writing takes a lot more time than rambling), updating tables, formatting the newsletter and emailing it.

THE NEW DAILY ARMCHAIR INVESTOR NEWSLETTER:

Tonight, we are trying out a new format for the daily Armchair Investor newsletter that will quickly address the market direction – the TREND.

THE GOAL: Make the newsletter short, relevant and earlier!

This newsletter will:

- Be published earlier (as my classes and other commitments allow). Many of you asked for earlier delivery.
- Concentrate on the market action of the day and its impact on the market diagnosis – Uptrend, Uptrend under Pressure and Downtrend.
- NOT include most of the current reference tables (most of them don't change significantly day-to-day)

For the moment, we will continue the FULL NEWSLETTER on the weekends.

YOUR INPUT! I know exactly who of you open the nightly newsletter and how often! The history of your access has been a great help in developing this news format.

PLEASE SEND YOUR COMMENTS TO:

EDITOR@ARMCHAIRINVESTOR.COM

Which tables and comments do you miss from the full newsletter? What will not having that data mean to you?

Welcome to the 2019 Armchair Investor nightly newsletter:

CURRENT MARKET DIRECTION: DOWNTREND

WEDNESDAY: Volume was still light on the day after the New Year's holiday. I see few signs of a market recovery. Apple's warning that revenues and gross margins were coming in lower than previously expected, turned market futures lower.

DAILY MARKET ACTION

1/2/19	Index Close	Index % Change	Volume % Change	Volume vs 50-day Avg.	Accumulation or Distribution Day?	Recent Trend Gain/Loss from 12/17/2018 DOWNTREND SIGNAL
Nasdaq	6,665.94	+0.5%	+6.5%	-9.3%	Minor accumulation	-2.1%
S&P500	2,509.96	+0.1%	NYSE Volume		Neither	-2.0%
NYSE	11,383.54	+0.1%	+8.2%	-10.4%	Neither	-1.8%
DJIA	23,345.20	+0.1%			Neither	-1.8%

When the right-most column is RED, the market has dropped from the last market direction change date.

In a Downtrend which the market is in right now, we expect the market to drop.

By investing in a short ETF, you turn those loses into gains.

See the TREND-FOLLOWING table above.

THE TREND: It's nice to start the year off with a profit in the trend-following strategy since the last market direction change on 12/17/18 to DOWNTREND. Remember: we are using inverse ETFs since the market is in a Downtrend. So above, the Nasdaq rose 0.4%. Below the inverse ETF fell 0.4%. That's the way the inverse ETF is supposed to work. With Apple's bad news mentioned at the top of the page, we may make up today's loss and more Thursday.

**Armchair Investor Trend-Following Returns for
Current Downtrend begun on 12/17/2018.**

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, and 3x)

1/2/19	Price at Open 12/18/2018 the Day after the Trend Changed	Current Closing Price	ETF % Change Today *	PROFIT / LOSS from 12/17/18 Signal: "Market in DOWNTREND"
Short QQQ	158.22	154.87	-0.4%	+2.2%
PSQ (1x)	33.71	34.30	-0.3%	+1.8%
QID (2x)	45.91	47.12	-0.9%	+2.6%
SQQQ (3x)	16.04	16.50	-1.6%	+2.8%

Note: the first column prices above have been updated to the opening prices on 12/18/2018, the morning after the market diagnosis went into DOWNTREND

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.

The PSQ ETF is designed to move opposite to the QQQ (the PSQ raises when the QQQ falls.)

The QLD is designed to double the price move of the PSQ. Visit Proshares.com for more information.

The SQQQ is designed to triple the opposite price move of the QQQ. Visit Proshares.com for more information on inverse ETFs.

REMEMBER: No market continues straight up or straight down. Your question should be, "How strong is the move?"

>>>> Volume will help you answer that question:

- **When a stock or index has low volume for the day, that day's move has little power behind it. (If the institutional investors agreed with the move, they would trade more heavily.)**

LAST WEEK'S RISE: The rise in the last WEEK is what's called, "the Santa Claus rally." This rise is common during the week between Christmas and New Year's day and frequently continues a bit more over the next week as well.

Your question should be, "Did volume show support to the rise?" It tough to tell during a period which always has lower volume due to the holidays. But it has been a period of lower volume, so I discount the movements' strength.

>>>> Note that only 1 day in the last 6 trading days had above-average volume – e.g. had "power."

TREND-FOLLOWING STRATEGY APPLIED TO TODAY'S MARKET

ACTIONS TO TAKE when the market diagnosis is in "DOWNTREND":

IN THIS DOWNTREND, CONSIDER three possible courses of action:

1. **SHORT the market using a short ETF (see list of some short Nasdaq ETFs above).**
2. **Learn HOW TO SHORT INDIVIDUAL STOCKS.**
3. **Wait in cash.**

To learn how to SHORT individual stocks (we can help you with that – go to www.ARMCHAIRINVESTOR.COM for additional workshops (soon!)

Inverse ETFs that track the Nasdaq include:

- PSQ (grows about 1x the Nasdaq drop)
- QID (double inverse ETF that grows about 2x the Nasdaq drop)
- SQQQ (triple inverse ETF that grows about 3x the Nasdaq drop)

THE ARMCHAIR INVESTOR TREND-FOLLOWING

strategy is SIMPLE and FAST to execute:

- Be in the market when it is going up.
- Be out or (or short) the market when it is going down.
ADDITIONAL NOTE: If the market is too volatile, or makes you so crazy you can't sleep at night, consider moving to CASH.
- Protect yourself with an 8% stop.

The ARMCHAIR INVESTOR TREND-FOLLOWING STRATEGY is designed to allow you to capture much of the market's gains in less than 5 minutes a day.

Follow these Armchair Investor Trend-following Strategy moves:

1. **When the Market direction moves into UPTREND:**
 - Buy an UPTREND ETF (and sell any INVERSE ETFs you own)
2. **When the Market direction moves into DOWNTREND:**
 - Sell any Uptrend ETF such as QQQ, QLD or TQQQ
 - Buy an **INVERSE ETF** or wait in CASH IF YOU PREFER
3. Repeat !!
4. **>>>> In times of UNCERTAINTY, a move to CASH may be appropriate.**

WHY DOES THIS STRATEGY WORK SO WELL?

It is hard for the big money (funds, banks and money managers) to hide their actions. But if you follow this newsletter, you will also learn to interpret their stealth moves and take advantage of that knowledge.

DO YOU INVEST IN INDIVIDUAL STOCKS?

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

I have a new investing mantra I hope you'll use as a reminder of how to manage your portfolio:

Buy the BEST
Watch the NEST
Visit the REST

- **Buy the BEST** – self-explanatory: Do not compromise your stock picking or your signal to buy. Only buy stocks in an UPTRENDing market. A market diagnosis of “Uptrend under Pressure” is a time to build your watch list and wait for a stronger market.
- **Watch the NEST** – Once I own a stock, my relationship to it completely changes. It's “my” stock now. Take care of your chicks. Feed them as they grow (even add more). But if you discover your cute cuddly chick is weak or fighting you, it may be time to pass them on to a new caretaker.
- **Visit the REST** – What about all those other stocks you identified as “almost” ready buy? A secret I don't talk about: I have two watch lists. One I look at daily with stocks very near buy points or waiting for EPS announcement. And a second weekly list of stocks that are getting close to a buy signal.

If you take a MarketSmith trial or subscription, please mention the Dallas and Fort Worth Meetup leader (Charlotte Hudgin) as your source. This helps us get occasional guest speakers from IBD and access to MarketSmith! Thank you.

Always consider taking some profit if significant distribution is showing up for your individual stocks. However, many individual stocks are rising with gusto! Look at all the lists in the Investor's Business Daily newspaper for stocks breaking out with high volume. **They are there!**

If this newsletter no longer suits your needs, you may unsubscribe here:

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Questions? Contact Charlotte at 214-995-6702

**NO ARMCHAIR INVESTOR CLASSES until 1/6/2019.
Happy Holidays!**

We have 4 classes given each week in Dallas, Addison and ONLINE:

- [Sunday afternoon 3 – 5 p.m. ONLINE](#)
- [Monday night 7 – 9 p.m.](#)
- [Tuesday afternoon 3:30 – 5:30 p.m.](#)
- [Wednesday morning 10:00 a.m. to noon](#)

PLEASE REGISTER for your visit at [Armchair Investor classes](#) OR CALL 214-995-6702. Seating is limited to no more than 3 guests at each session to ensure the paid subscribers receive full value.

Monday and Tuesday classes are given at the Barnes and Noble bookstore 5959 Royal Lane (at Preston) at in the café.

Wednesday classes are given at the Barnes and Noble bookstore 5301 Beltline Rd, Addison in the café.

No advice is ever given in this newsletter.

It is provided for your education and entertainment only.

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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 well at night.

Questions may be submitted to: Editor@ArmchairInvestor.com
Some of your questions may be used in future newsletters.

EXAMPLE OF ACCUMULATION AND DISTRIBUTION WITH EXPANDED EXPLANATION OF TERMS:

SAMPLE 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.