

ARMCHAIR INVESTOR **TREND-FOLLOWING STRATEGY***

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



THURSDAY: **LOTS OF WEAKNESS SHOWED UP TODAY**

THE NASDAQ HAD A **THIRD DISTRIBUTION DAY** IN THE LAST THREE TRADING DAYS adding one more d-day to its count.

IBD50: LOSERS BEAT WINNERS 6 TO 1

IBD MARKET PULSE LEADERS: LOSERS BEAT WINNERS 5 TO 1

The Investor's Business Daily list of leader stock with high volume Thursday had 2 leaders that closed up with high volume versus 10 leaders that closed down with high volume

THE S&P600 INDEX FELL 1.1% compared to the Nasdaq drop of 0.7% and the S&P500 drop of only 0.3%.

PAUL WHITFIELD explains in tonight's Big Picture: "Small caps, which often serve as a gauge for boldness, also took a hit Thursday. S&P600 [the S&P small caps index] fell 1.1% underperforming the big cap S&P500 for the third day in row.

FOR THURSDAY:

- **The Nasdaq was DOWN 0.7%, volume was up 12% a third distribution day in a row. The Nasdaq closed almost 1% below its 50-day moving average.**
- **The S&P500 was DOWN 0.3%, volume was up 10%.**
- **The market diagnosis remains "Uptrend under Pressure".**
 - The S&P500 distribution count rose to 7.
 - The Nasdaq distribution count rose to 7.

The FULL daily ARMCHAIR INVESTOR NEWSLETTER may be downloaded at:

www.ArmchairInvestor.com

Click on the **Armchair Investor Newsletter** tab

MARKET DIAGNOSIS: "UPTREND under PRESSURE"

What to do now: HAVE PATIENCE – wait for the market direction to reveal itself to you.

- I continue to hold my full QQQ position.
- I am waiting to add stocks to my portfolio; building a watch list.
- Be sure your stops stay active. Some brokers reset stops each month.
- Watch this column nightly for updates

The Day's Market Action

10/27/16	Index Close	Index % Change	Volume % Change	Volume vs 50-day Avg	Accumulation or Distribution Day?	Current Trend: UPTREND Began 6/30/2016
Nasdaq	5215.97	-0.7%	+12.1%	+1.5%	Minor distribution	+7.8%
S&P500	2133.09	-0.3%	NYSE Volume		Minor distribution	+1.6%
NYSE	10503.06	-0.24%	+10.3%	+21.2%	Minor distribution	+0.1%
DJIA	18171.60	-0.15%			Neither	+1.4%

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 or is well-above avg 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 avg volume)
The standard mathematical requirements for distribution days are shown above. Here is one more.
 And there are additional types of distribution days that show **substantial selling** such as happened on Monday June 27, 2016, 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.

Uptrend ETFs Armchair Investor Trend-following Returns for Current Uptrend

10/27/16	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	117.84	-0.5%	+9.6%
QLD (2x)	71.14	85.23	-0.9%	+19.8%
TQQQ (3x)	96.15	125.53	-1.4%	+30.6%

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 10/21/16	Index % Change	Volume % Change	Volume Above/ Below 10-week Avg	Type of Week
Nasdaq	+0.8%	-3.1%	-8%	Neither
S&P 500	+0.4%	+0.9%	-4%	Minor accumulation
NYSE Comp	+0.5%			Minor accumulation
DJIA	+0.04%			Neither
<p>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.</p>				

MARKET ACTION 2016 YEAR-TO-DATE			
10/27/16	2015 Closing Price	Current Price	Index % Change Year- to-Date
Nasdaq	5007.41	5215.97	+4.2%
S&P 500	2043.94	2133.09	+4.4%
NYSE Comp	10143.42	10503.06	+3.5%
DJIA	17423.03	18171.60	+4.3%
<p>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."</p>			

Progress in Accumulation / Distribution Ratings

for Stocks Over \$5

		A	B	C	D	E	Total
4 weeks ago	9/29	11%	43%	24%	17%	5%	6299
3 weeks ago	10/6	11%	40%	23%	19%	7%	6314
2 weeks ago	10/13	9%	36%	23%	22%	9%	6294
1 week ago	10/20	9%	37%	23%	22%	9%	6278
Today	10/27	8%	34%	24%	24%	10%	6268
	#	499	2158	1474	1482	655	

The As and Bs of the week with the highest TOTAL of As and Bs are outlined in a heavy line.

The As and Bs of the week with the lowest TOTAL of As and Bs are outlined in a heavy line.

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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 as of 2015?

The highs referenced below were the all-time highs as of 12/31/2015.

As of mid-July 2016, the S&P500 and the DJIA have inched above those prior highs.

I wait and watch to see if they will continue up. (Or will they retreat again?)

So I will keep the 2015 highs as a reference for the moment.

Reminder: The Long-term "Buy and Hold" Strategy is NEVER recommended here!

	Nasdaq	S&P500	NYSE	DJIA
Date of Index High	All-time High (7/20/15)	All-time High (5/20/2015)	All-time High (5/21/2015)	All-Time High (5/19/2015)
2015 All-time High	5231.94	2134.72	11254.87	18351.36
Current Price	5215.97	2133.09	10503.06	18171.60
% Off All-Time High	-0.3%	-0.1%	-6.7%	-1.0%
\$ off the All-Time High Price	-\$15.97	-\$1.63	-\$751.81	-\$179.76



Both indexes have risen since February 2016 low, yet both seemed stopped at new highs.

- The Nasdaq has joined the S&P500 in diving below its 50-day m.a.
- The S&P500 has been stuck below its 50-day m.a. for two months. This week it fell to a 3-month low, back down to last years all-time high.

REMEMBER: **Prior resistance** (such as the 2015 S&P500 high of 2134.72) can later become **support** (Friday close of 2132.98.)

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

10/27/2016

Type of DAY for <u>Nasdaq</u> Major (1%/1%) Accumulation, Distribution or Neither		Minor distribution	
Market Direction Uptrend, Under Pressure, Downtrend, or Attempted Uptrend		UPTREND under PRESSURE	
<u>MAJOR</u> Accumulation / Distribution Momentum 20-day count of NASDAQ Major (1%/1%) Acc & Dist days		Major Accumulation Days 0	Major Distribution Days 1
IBD Distribution Day Count including ALL Major & Minor D-days.		7	
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.			
Count of Up Days and Down Days (10-days on the Nasdaq)		Up Days 3	Down Days 5
'10/14 and 10/19 were\ FLAT day (less than 0.05% move) so the total above is less than 10			
Leaders Up/Down with High Volume (10-day ratio)		0.8	
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 D-	S&P 500 C-
		DJIA C	
Are Major Indexes Above or Below Moving Averages? "At" is within 1% above or below the moving average.		50-Day	200-Day
		Nasdaq At	Above
		S&P 500 At	Above
		NYSE Below	Above
		DJIA At	Above

MARKET DIRECTION ADDITIONAL COMMENTS

(with more detailed comments on market direction and technical analysis for individual stocks)

THURSDAY: Several stocks that have been recent purchases or on my watch list dropped today.

For example:

- **ULTA:** As we discussed in both the Fort worth and Dallas Investor's Business Daily Meetups during the last week, ULTA has been a watch list stock to see if it would turn back up after recently forming the handle on a cup. ULTA closed just below its 50-day moving average on Tuesday and Wednesday. **Today, ULTA fell 2.5% with higher volume for a MAJOR DISTRIBUTION day.** This action took long-time Sector Leader ULTA off that prestigious list and **off my watch list.**
- **TESLA:** TSLA gave a near perfect short signal today on its earnings report. The market is NOT in a Downtrend, so I will not short but I certainly would not own it at this moment.
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With this weakness in the major indexes, I will not buy any new positions or add stock.

RECENT NOTES THAT ARE STILL RELEVANT: with additional details:

THE ROUNDED TOP (most common top)

Most market tops form in a rounded shape – smooth and slow turning. As they roll over from the top, I expect to see distribution days (price down and volume up) as sellers exit quietly but with intentionality.

Look back at a weekly chart of one of the major indexes and you will see the rounded tops.

What makes a round top finally drop into a Downtrend? Serious distribution is the “tell”. Today's drop into Market under Pressure contains some fairly serious distribution. It's time to do some housekeeping – just in case:

- Make sure your stops are in and current.
- Review each stock and consider selling some or all of the stocks that just haven't gone anywhere since you bought them. This includes stocks that have risen but then have fallen back to your buy

price or even lower.

- It is probably best not to add to current positions or start new ones unless that stock is really strong fundamentally and technically. Even so, add your stop right away to catch an unexpected reversal.
- Remember: Cash is a position – and sometimes, the safest.

RULE #1: PROTECT YOUR PORTFOLIO I know that **I will not hold onto stocks that are falling** – no matter how great *I* think they are. If you get uncomfortable with the market action (daily price-volume moves), **REMEMBER: CASH IS A POSITION.**

What about stocks you already own?

- If you are lucky enough (or smart) enough to hold stocks that are rising, consider holding them until they misbehave. In every sideways and downtrending market, some winning stocks continue to rise.
- **Tracking the daily price-volume action is critical** at this point.
- Price-volume analysis will identify **distribution** (price dropping with higher volume) AND **stealth selling** (a sideways period of days with price up on low volume and other days with price down on high volume).
- Is it time to review the sell rules? Refer to Chapter 11 in William O’Neil’s *How to Make Money in Stocks* book. Or visit one of my Armchair Investor classes this - week as my guest. (One visit per 6 months, guest seating is limited – call to reserve yours – see the class schedule at the bottom of this newsletter.)

Remember:

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

MARKET DIAGNOSIS: “UPTREND under PRESSURE”

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 MORE SUBTLE, BUT TELLING MOVES

The last column is a more subtle 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 the 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 (—)	<u>CONSISTENT WITH:</u> UPTREND or DOWNTREND?
MARKET IN UPTREND							
20	9/30/16	5312.00	+0.8%	+5.5%	64	Minor accumulation Day	UPTREND
19	10/3/16	5300.87	-0.21%	-22.0%	65	—	UPTREND
18	10/4/16	5289.66	-0.21%	+7.0%	66	Minor distribution Day	DOWNTREND
17	10/5/16	5316.02	+0.5%	+3.2%	67	Minor accumulation Day	UPTREND
16	10/6/16	5306.85	-0.20%	-5.8%	68	—	UPTREND
15	10/7/16	5292.40	-0.3%	-1.1%	69	—	UPTREND
14	10/10/16	5328.67	+0.7%	-16.6%	70	—	DOWNTREND
13	10/11/16	5246.79	-1.2%	+32.7%	71	MAJOR DISTRIBUTION Day Uptrend under PRESSURE	DOWNTREND
12	10/12/16	5239.02	-0.15%	-13.2%	72	—	—
11	10/13/16	5213.33	-00.5%	+10.0%	73	Minor distribution Day	DOWNTREND
10	10/14/16	5214.16	+0.02%	-8.2%	74	—	—
9	10/17/16	5199.82	-0.3%	-10.9%	75	—	DOWNTREND
8	10/18/16	5243.84	+0.9%	+2.6%	76	Minor accumulation Day	UPTREND
7	10/19/16	5246.41	+0.05%	+6.0%	77	—	—
6	10/20/16	5241.83	-0.09%	+12.9%	78	—	—
5	10/21/16	5257.40	+0.3%	-5.7%	79	—	DOWNTREND
4	10/24/16	5309.83	+1.0%	-7.1%	80	—	DOWNTREND
3	10/25/16	5283.40	-0.5%	+2.3%	81	Minor distribution Day	DOWNTREND
2	10/26/16	5250.27	-0.6%	+9.7%	82	Minor distribution Day	DOWNTREND
1	10/27/16	5215.97	-0.7%	+12.1%	83	Minor distribution Day	DOWNTREND

ACCUMULATION / DISTRIBUTION RATINGS

FOR MAJOR INDICES w Prior Trends for Reference

	# of Days in Trend	Trend Details	Nasdaq	S&P 500	DJIA
1/4/16	1	Mon - Distribution= NEW DOWNTREND	D-	D-	D-
1/25/16	15	Mon - DOWNTREND Attempted Rally 4	E	E	E
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
7/15/16	11	Fri - UPTREND	D-	B-	C+
8/19/16	35	Fri - UPTREND	C	B	B-
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	C-	C+	C+
10/12/16	72	Wed - UPTREND under PRESSURE	C	C+	C+
10/13/16	73	Thu - UPTREND under PRESSURE	D+	C	C
10/14/15	74	Fri - UPTREND under PRESSURE	D+	C	C
10/17/16	75	Mon - UPTREND under PRESSURE	D+	C	C
10/18/16	76	Tues - UPTREND under PRESSURE	D+	C	C
10/19/16	77	Wed - UPTREND under PRESSURE	D+	C+	C
10/20/16	78	Thu - UPTREND under PRESSURE	D+	C	C
10/21/16	79	Fri - UPTREND under PRESSURE	C-	C	C-
10/24/16	80	Mon - UPTREND under PRESSURE	C-	C	C-
10/25/16	81	Tues - UPTREND under PRESSURE	C-	C	C
10/26/16	82	Wed - UPTREND under PRESSURE	D	C	C
10/27/16	83	Thu - UPTREND under PRESSURE	D	C-	C

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).

No CANDO CLASSES for the week of 10/24 – See you the week of 10/31

The regular ARMCHAIR INVESTOR class schedule is:

Mondays 4:00 – 6:00 p.m. at the Barnes & Noble at Royal & Preston (northeast corner), Dallas

Mondays 7:00 – 9:00 p.m. at the Barnes & Noble at Royal & Preston (northeast corner), Dallas

Wednesdays 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 INTENSIVE ARMCHAIR INVESTOR WORKSHOPS OR TO VISIT A ARMCHAIR INVESTOR CLASS:

CALL OR TEXT CHARLOTTE HUDGIN AT 214-995-6702

hing 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:

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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 0.5% 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 0.5% or more, Volume is strong (either higher volume or is well-above average volume)

A **Stalling minor distribution Day**: Only in an uptrending 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)**