

ARMCHAIR INVESTOR **TREND-FOLLOWING STRATEGY***

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



MONDAY: Monday was a very quiet day. It may be waiting for the FOMC (Federal Reserve Open Market Committee) update on Wednesday at 2 p.m. eastern time. It is unlikely the FOMC will increase interest rates until after the election

- The Nasdaq was **FLAT** with volume down **13%**.
- The S&P500 was **FLAT** with volume down **9%**.
- The market diagnosis remains **“Uptrend under Pressure”**.
 - The S&P500 distribution count rose to 7.
 - The Nasdaq distribution count rose to 7.

I expect the market to remain fairly quiet until the election. But this year, apparently, anything can happen!

My chant (prayer) below worked last night – I won’t let it go until its over! Which should be Wednesday night!

Go Cubs! Miracle time!

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MARKET DIAGNOSIS: “UPTREND under PRESSURE”

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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 have exited some weaker individual stocks before their earnings reports.
- 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

NOTE – UPDATED TABLE: HOW CLOSE ARE INDICES TO ALL-TIME HIGHS?

Until today, this table referred to the all-time highs as of the end of 2015.

Since the major indices are now more than a month past recent highs and are having trouble topping those highs, I have changed the reference numbers to those August/September highs. Since the NYSE peaked in May of 2015, its high reference has not changed.

NOTE – NEW RULE FOR VOLUME CHANGE COLORS:

NEW RULE: RISING VOLUME IS NOTABLE AND WILL BE SHOWN IN YELLOW:

Rising volume shows the institutions' buying and selling has increased from the day before (or week before on a weekly chart).

NEW RULE: DECLINING OR FLAT VOLUME WILL NOW BE SHOWN IN WHITE:

Declining volume shows the institutions have stepped back from their prior day's activity level. (This includes all volumes that do not rise more than 0.2%.) When the volume is lower or flat, the price move usually has no significance.

THERE WILL BE NO CHANGE IN ACCUMULATION/DISTRIBUTION BOX COLORS:

- **Price UP with Volume UP = ACCUMULATION** shown in GREEN:
 - Price moving up more than 1% will be bright GREEN signifying Major Accumulation (heavy buying!)
 - If the price move is between 0.2% and 1%, the box will be LIGHT GREEN
- **Price DOWN with Volume UP = DISTRIBUTION** shown in a Red (or orange):
 - Price moving up more than 1% will be RED signifying Major Distribution (heavy selling!)
 - If the price move is between 0.2% and 1%, the box will be ORANGE

FINALLY: IF THE DAY/WEEK IS NOT AN ACCUMULATION OR DISTRIBUTION DAY/WEEK, IT'S "NEITHER" DIAGNOSIS WILL BE IN WHITE.

- A price or volume move less than 0.2% up or down is not significant (not an accumulation or distribution) and will be white.

VOLUME THAT IS ABOVE THE 50-DAY MOVING AVERAGE IS ALSO SIGNIFICANT and will be shown in yellow.

BOTTOM LINE: A YELLOW VOLUME BOX IS NOTABLE If it is paired with a very small move in price, the combination is usually not significant. (There is very occasional small move/high volume days that are designated "stalling distribution days" but these are rare and explained in my notes when they occur.)

I welcome your comments on this change or the explanation.
Send comments to editor@armchairinvestor.com

Today's Market Action

10/31/16	Index Close	Index % Change	Volume % Change	Volume vs 50-day Avg	Accumulation or Distribution Day?	Current Trend: UPTREND Began 6/30/2016
Nasdaq	5189.13	-0.02%	-12.6%	-12.5%	Neither	+7.3%
S&P500	2126.24	-0.01%	NYSE Volume		Neither	+1.3%
NYSE	10,481.89	+0.05%	-8.6%	+9.7%	Neither	-0.1%
DJIA	18,142.97	-0.10%			Neither	+1.2%

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			
10/31/16	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	116.99	-0.1%	+8.8%
QLD (2x)	71.14	83.89	-0.19%	+17.9%
TQQQ (3x)	96.15	122.66	-0.6%	+27.6%

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).

MARKET ACTION 2016 YEAR-TO-DATE

10/31/16	2015 Closing Price	Current Price	Index % Change Year-to-Date
Nasdaq	5007.41	5189.13	+3.6%
S&P 500	2043.94	2126.24	+4.0%
NYSE Comp	10143.42	10481.89	+3.3%
DJIA	17423.03	18142.97	+4.1%

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."
"Buy and Hold" is never recommended by the Armchair Investor.

Progress in Accumulation / Distribution Ratings

for Stocks Over \$5

		A	B	C	D	E	Total
4 weeks ago	10/3	11%	43%	23%	17%	5%	6319
3 weeks ago	10/10	11%	39%	23%	20%	8%	6310
2 weeks ago	10/17	8%	35%	24%	23%	10%	6287
1 week ago	10/24	9%	36%	23%	23%	9%	6290
Today	10/31	7%	32%	23%	25%	12%	
	#	471	2026	1466	1525	763	6251

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.

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

LAST Week's Market Action

Week Ending 10/28/16	Index % Change	Volume % Change	Volume Above/ Below 10-week Avg	Type of Week
Nasdaq	-1.3%	+10.6%	+1%	Major Distribution
S&P 500	-0.7%	+19.2%	+15%	Minor distribution
NYSE Comp	-0.9%			Minor distribution
DJIA	+0.1%			Neither

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.

HOW CLOSE ARE THE INDICES TO ALL-TIME HIGHS?

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

	Nasdaq	S&P500	NYSE	DJIA
Date of Index High	All-time High (9/22/2016)	All-time High (8/15/2016)	All-time High (5/21/2015)	All-Time High (8/15/2016)
All-time High	5342.88	2193.81	11254.87	18668.44
Current Price	5189.13	2126.24	10481.89	18142.97
% Off All-Time High	-2.9%	-3.1%	-6.9%	-2.8%
\$ off the All-Time High Price	-\$153.75	-\$67.57	-\$772.98	-\$525.47



Both indexes are significantly below their all-time highs.

Those highs now appear to be the prices to beat. The “How Close are the Indexes to All-Time Highs?” table (prior page) has been updated to refer to these all-time highs including new highs this year for the Nasdaq, S&P500 and DJIA. The NYSE is still below its 2015 high.

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		10/31/2016		
Type of DAY for Nasdaq Major (1%/1%) Accumulation, Distribution or Neither		Neither		
Market Direction Uptrend, Under Pressure, Downtrend, or Attempted Uptrend		UPTREND under PRESSURE		
MAJOR Accumulation / Distribution Momentum 20-day count of NASDAQ Major (1%/1%) Acc & Dist days	Major Accumulation Days	Major Distribution Days		
	0	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	Down Days	
		3	5	
10/19 and 10/31 were FLAT days (less than 0.05% move) so the total days is less than 10				
Leaders Up/Down with High Volume (10-day ratio)		1.0		
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	D+	
		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	Below	Above
		S&P 500	Below	Above
		NYSE	Below	Above
		DJIA	At	Above

MARKET DIRECTION ADDITIONAL COMMENTS

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

MONDAY : Although Monday was a quiet day in total (probably waiting for the FOMC announcement on Wednesday 2 p.m. eastern time), this is earnings season and some stocks are reporting earnings that are a surprise (good and bad).

What should you do with stocks you own during earnings season:

- Review each stock.
 - Is recent price-volume action healthy?
 - Are distribution days adding up?
 - Has the stock fallen below its 50-day moving average and can't get back above it again?
 - Is the price stuck below its ideal purchase price?
 - Do you have a reasonable profit buffer to risk holding the stock over the earnings announcement?
 - My minimum profit buffer is 5% gain since I bought the stock. If I don't have that, I sell the stock. I can always buy it back if it takes off.
 - Can you risk a surprise loss?

With this weakness in the major indexes, I will not buy any new positions or add stock.

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 <u>Uptrend</u> Price-Volume Movement	Strong Action	Up	↑	↑	Up
	Weaker Action	Down	↓	↓	Down
Healthy <u>Downtrend</u> 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 4747.62 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>CONSISTENTWITH:</u> UPTREND or DOWNTREND?
MARKET IN UPTREND							
20	10/4/16	5289.66	-0.21%	+7.0%	66	Minor distribution Day	DOWNTREND
19	10/5/16	5316.02	+0.5%	+3.2%	67	Minor accumulation Day	UPTREND
18	10/6/16	5306.85	-0.20%	-5.8%	68	—	UPTREND
17	10/7/16	5292.40	-0.3%	-1.1%	69	—	UPTREND
16	10/10/16	5328.67	+0.7%	-16.6%	70	—	DOWNTREND
15	10/11/16	5246.79	-1.2%	+32.7%	71	MAJOR DISTRIBUTION Day Uptrend under PRESSURE	DOWNTREND
14	10/12/16	5239.02	-0.15%	-13.2%	72	—	—
13	10/13/16	5213.33	-00.5%	+10.0%	73	Minor distribution Day	DOWNTREND
12	10/14/16	5214.16	+0.02%	-8.2%	74	—	—
11	10/17/16	5199.82	-0.3%	-10.9%	75	—	DOWNTREND
10	10/18/16	5243.84	+0.9%	+2.6%	76	Minor accumulation Day	UPTREND
9	10/19/16	5246.41	+0.05%	+6.0%	77	—	—
8	10/20/16	5241.83	-0.09%	+12.9%	78	—	—
7	10/21/16	5257.40	+0.3%	-5.7%	79	—	DOWNTREND
6	10/24/16	5309.83	+1.0%	-7.1%	80	—	DOWNTREND
5	10/25/16	5283.40	-0.5%	+2.3%	81	Minor distribution Day	DOWNTREND
4	10/26/16	5250.27	-0.6%	+9.7%	82	Minor distribution Day	DOWNTREND
3	10/27/16	5215.97	-0.7%	+12.1%	83	Minor distribution Day	DOWNTREND
2	10/28/16	5190.1	-0.5%	-0.08%	84	—	—
1	10/31/16	5188.13	-0.02%	-12.6%	85	—	—

ACCUMULATION / DISTRIBUTION RATINGS

FOR MAJOR INDICES w Prior Trends for Reference

	# of Days in Trend	Trend Details	Nasdaq	S&P 500	DJIA
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 1	C-	C+	C+
10/12/16	72	Wed - UPTREND under PRESSURE 2	C	C+	C+
10/13/16	73	Thu - UPTREND under PRESSURE 3	D+	C	C
10/14/15	74	Fri - UPTREND under PRESSURE 4	D+	C	C
10/17/16	75	Mon - UPTREND under PRESSURE 5	D+	C	C
10/18/16	76	Tues - UPTREND under PRESSURE 6	D+	C	C
10/19/16	77	Wed - UPTREND under PRESSURE 7	D+	C+	C
10/20/16	78	Thu - UPTREND under PRESSURE 8	D+	C	C
10/21/16	79	Fri - UPTREND under PRESSURE 9	C-	C	C-
10/24/16	80	Mon - UPTREND under PRESSURE 10	C-	C	C-
10/25/16	81	Tues - UPTREND under PRESSURE 11	C-	C	C
10/26/16	82	Wed - UPTREND under PRESSURE 12	D	C	C
10/27/16	83	Thu - UPTREND under PRESSURE 13	D	C-	C
10/28/16	84	Fri - UPTREND under PRESSURE 14	D-	D+	C
10/31/06	85	Mon - UPTREND under PRESSURE 15	D-	D+	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)**