

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

TUESDAY: After 8 up days this year (and one flat day), the market took a little back Tuesday in a dramatic, cautioning way.

The market:

- Opened with a gap up as both major indexes hit new, all-time highs.
- They continued up to a 1% total rise within half an hour,
- but drifted down for the rest of the day
- to end about half a percent down from Friday's close.

That action is called a “downside reversal” and it is not good news for the markets or your individual stocks. The way a stock or the market ends the day is much more indicative of the true market message than how it opens.

Today's market opened with some bravura but ended saying, “I'm pooped!”

For the last two market days, it was clear to me that the bold rise of the market since the new year was unsustainable. I told you I was, “a little concerned that the market may be showing signs of a climax top in the current accelerating growth rate of the S&P500 and Nasdaq.”

To continue my prior notes:

“Sometimes, this increasing slope is caused by expectations of increasing earnings. That makes sense today and can be sustainable.

“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!”

And finally, I made a suggestion of how you prepare for a 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.”

I stand by the whole discussion above!

Daily Market Action						
1/16/18	Index Close	Index % Change	Volume % Change	Volume vs 50-day Avg.	Accumulation or Distribution Day?	Current Trend: UPTREND Began 6/30/2016
Nasdaq	7223.69	-0.5%	+19.1%	+19.5%	Minor distribution	+49.3%
S&P500	2776.42	-0.4%	NYSE Volume		Minor distribution	+32.3%
NYSE	11,771.61	-0.4%	+18.6%	+26.5%	Minor distribution	+12.2%
DJIA	25,792.86	-0.04%			Neither	+43.9%

Tuesday’s action was one sign of market weakness. Add it to the unsustainable market rise since the new year, and I am now concerned about the market direction.

Truly, the market still has a VERY low number of distribution days:

- The Nasdaq distribution day count is 1.
- The S&P500 distribution day count is 1.

I suspect more will come shortly.

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.

HAVE YOU READ THE COMMENTS ABOUT in the **ADDITIONAL COMMENTS FOR INVESTORS IN INDIVIDUAL STOCKS** table in the FULL Armchair Investor newsletter? Available at www.armchairinvestor.com .

REMEMBER:
THE MARKET CONTINUES IN THE DIRECTION IT’S GOING UNTIL IT DOESN’T.

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.

Since this Uptrend was signaled on June30, 2016, the Trend-Following Returns table on page 3 will show you what you would have earned in the ETFs:

- +53% return for the QQQ
- +129% returns for the QLD
- +236% return for the TQQQ

Note: I didn't make 239% in the QLD. I made a little less because I didn't hold the TQQQ during periods of market uncertainty (higher distribution counts) in the last year and a half! But you could have earned much of that return following the signals identified in this newsletter, even with the occasional move to the QQQ!

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			
1/16/18	Opening Price on 7/1/2016	Today's Price	ETF % Change Today	PROFIT/LOSS from 6/30/2016 Signal: "Market in Uptrend"
QQQ (1x)	\$107.49	\$163.99	-0.3%	+52.6%
QLD (2x)	\$35.57	\$81.18	-0.6%	+128.2%
TQQQ (3x)	\$48.08	\$161.44	-0.8%	+235.8%

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.

PROGRESS IN ACCUMULATION/DISTRIBUTION RATINGS							
		A	B	C	D	E	Total
4 weeks ago	12/14	13%	40%	22%	18%	6%	6387
3 weeks ago	12/21	15%	42%	21%	16%	6%	6399
2 weeks ago	12/29	16%	43%	20%	16%	5%	6414
1 week ago	1/8	22%	44%	17%	12%	5%	6463
Today	1/16	27%	41%	15%	12%	6%	
	#	1754	2640	947	762	400	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 1/10/18?				
1/16/2018	Nasdaq	S&P500	NYSE	DJIA
Date of Index All-time High	1/9/2018	1/9/2018	1/9/2018	1/9/2018
All-time High	7181.14	2759.14	13156.88	25439.78
Current Price	7223.69	2776.42	13246.82	25792.86
Below (-) or Above (+) Recent High (%)	+0.6%	+0.63%	+0.68%	+1.39%
Below (-) or Above (+) Recent High (#)	+42.55	+17.28	+89.94	+353.08

LAST WEEK'S MARKET ACTION

1/12/2018	Index % Change	Volume % Change	Volume Above/ Below 10-week Avg	Type of Week
Nasdaq	+1.7%	+24.9%	+10.0%	Major Accumulation
S&P 500	+1.6%	S&P 500 Volume		Major Accumulation
NYSE	+1.5%	+26.2%	+12.0%	Major Accumulation
DJIA	+2.0%			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		1/12/2018	
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 Major (1%/1%) Accumulation & Distribution days		Accumulation Days	Distribution Days
		4	2
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	Down Days
		6	1
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)		1.8	
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	A-
		S&P 500	A+
		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	12/15/2017	6936.6	+1.2%	+65.3%	370	Major Accumulation day	UPTREND
19	12/18/2017	6994.8	+0.8%	-34.6%	371	—	DOWNTREND
18	12/19/2017	6963.6	-0.5%	-2.5%	372	—	UPTREND
17	12/20/2017	6961	-0.04%	-8.8%	373	—	—
16	12/21/2017	6965.4	+0.1%	-4.0%	374	—	—
15	12/22/2017	6960	-0.1%	-15.0%	358	—	—
14	12/26/2017	6936.3	-0.3%	-16.3%	376	—	UPTREND
13	12/27/2017	6939.3	+0.04%	+6.2%	377	—	—
12	12/28/2017	6950.2	+0.16%	-3.0%	378	—	—
11	12/29/2017	6903.4	-0.7%	+19.7%	379	Minor distribution day	DOWNTREND
10	1/2/2018	7006.9	+1.5%	+20.9%	380	Major Accumulation day	UPTREND
9	1/3/2018	7065.5	+0.8%	+12.9%	381	Minor accumulation day	UPTREND
8	1/4/2018	7077.9	+0.18%	-3.3%	382	—	—
7	1/5/2018	7136.6	+0.8%	-4.1%	382	—	DOWNTREND
6	1/8/2018	7157.4	+0.3%	+1.3%	383	Minor accumulation day	UPTREND
5	1/9/2018	7164.3	+0.1%	+4.9%	384	—	—
4	1/10/2018	7153.6	-0.1%	-2.2%	385	—	—
3	1/11/2018	7211.8	+0.8%	-5.1%	386	—	DOWNTREND
2	1/12/2018	7261.1	+0.7%	+0.1%	387	—	—
1	1/16/2018	7223.69	-0.5%	+19.1%	388	Minor distribution day	DOWNTREND

ADDITIONAL COMMENTS FOR INVESTORS IN INDIVIDUAL STOCKS

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

TUESDAY : When the market makes such dramatic moves as it has since the new year, it means there are many individual stocks making similar moves. Please re-read the first section of this newsletter but replace market and index with “individual stocks.” Then review your portfolio for those same signals.

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.**

HERE'S ONE TO WATCH AND LEARN FROM:

One stock you should look at is **Arista Networks (ANET)**. It broke out of a **second stage base** last Friday with **53% above average volume** and has risen nicely.

ANET UPDATE AS OF TUESDAY 1/16:

As of Friday, ANET was **1/2% out of the buy zone**.

Today (Tuesday 1/16) ANET had its first Major Distribution day since the breakout: down 2.4% with higher volume leaving it 3% above its proper buy price. One Distribution day seldom ends an uptrend. Be sure your stop is in place. Volume was higher than Friday but only about average today.

I do not make recommendations in this newsletter – but will sometimes point out educational opportunities one to learn from. Do your own

research and make your own decisions! It has an RS line that held up over that cup!

RECENT NOTES THAT ARE STILL RELEVANT:

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 regular 2018 ARMCHAIR INVESTOR classes schedule then resumes next week:

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 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
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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 at night.

Questions may be submitted to [Q](#)
Some of your questions will be used in future newsletters.

Armchair Investor, P.O. Box 671146, Dallas, TX 75367, USA

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.