

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 QQQ*



UNCERTAIN ABOUT WHEN TO SELL YOUR INDIVIDUAL STOCKS?

- Do you find it easy to buy strong stocks and watch them rise, only to hold onto them as you give back most of your gains? Or do you sell too early and miss the next big run?
- How can individual investors beat the Wall Street geeks and gurus? (Yes, we do!)

On Saturday, I will explain why it's not your fault that you miss the key sell signals. You just need the right map! You work hard to buy the best stocks. You may not know it, but selling near the top is a fairly straight-forward process ---- IF you know what to look for.

You will learn why individual investors with the right training and a straightforward set of rules can outperform the big money managers – by far!

In this workshop, you will bring up to 5 of your current or past stocks. You will analyze each stock's strengths and weaknesses – and it's much easier than the work you did to find and buy the best stocks.

You will learn to review each stock nightly in just 1 to 2 minutes. Follow this plan and stock gains will very rarely “get away from you!”

Join us for Armchair Investor Workshop #4, Selling for Maximum Profit.

\$295 at the door, space permitting.

Enjoy a \$100 discount for registration by Friday morning (before noon).

Call Charlotte at 214-995-6702. Leave a message if she does not answer. The time of your call will confirm your discount.

Workshop Schedule: Saturday, February 10, 1 -5 p.m. in north Dallas. You do not have to have completed any of the prior Armchair Investor workshops to attend this workshop. But you do need to know how to read a stock chart. If you are uncertain, call Charlotte at 214-995-6702

This workshop usually sells out.

MARKET DIAGNOSIS: DOWNTREND

TUESDAY: Downtrend or Uptrend????

- **On Monday** the major indexes dropped hard, acting like a confirmation of a new Downtrend. For the day, the S&P500 fell 4.1%; the Nasdaq fell 3.8%.
- After hearing that Monday's losses repeated around the world Monday night, I was not surprised with both major indexes gapped down on their opening Tuesday morning.
- **But by the end of today (Tuesday)**, both major indexes had recovered about half of Monday's losses.
- The Nasdaq closed back above its 50-Dy moving average.
- The S&P500 closed less than 1% below its 50 m.a.
- Tuesday's gains were a surprise. Perhaps this Uptrend is not over?
- I will wait out in cash for at least a day or two to get a clearer picture!
- Remember: Cash is a position!

NOTE: What I do with my trend-following position 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.

WHAT TO LOOK FOR NEXT?

- **The market will do what it does. Your job (and mine) is to take the market's lead and go with that flow.**

A great way to check in on both indexes versus their 50-day m.a.'s is on the "What's the Market Trend" page on Investors.com EVERY DAY! With a subscription to the site, the updated Market Trend page is available at the end of each day showing the S&P500 and Nasdaq for the last 9+ months with their 50-day moving averages.

A link to the Market Trend page is included at the bottom of each daily "Big Picture" column. (If you can't find the link, you may have to wait a bit. The Big Picture is produced ASAP every day. The Market Trend page and some other daily features are added as they are produced. If you can't find the link, visit investors.com a little later.)

HOW MARKETS TOP AND BOTTOM: Market tops tend to show slowing growth as the price bars round over (rounded tops). But bottoms tend to be sharp reversals as they fall hard to the bottom and then one good day pops up and starts a new Uptrend (sharp bottoms). (There may be multiple "attempted uptrends" before the "real Uptrend" is signaled with a strong follow-through day a few days later.)

If last Friday's high was the top of this almost 2-year Uptrend (February 2016 – last Friday), join me in savoring the returns of this low-volatility, long-term Uptrend. (I hope you followed the Armchair Investor Trend-Following strategy of this newsletter to capture much of it!)

WHAT TO DO NOW:

In a market moving from “under pressure” or “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.
- I am out of the market trend ETFs (such as the QQQ single, the QLD (double the Nasdaq 100 ETF) or the TQQQ (triple the Nasdaq 100 ETF).
- **For individual stocks, track the distribution days** and review daily charts. A concentration of distribution days is my primary signal to exit a stock. 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!
- **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.

Daily Market Action

2/6/18	Index Close	Index % Change	Volume % Change	Volume vs 50-day Avg.	Accumulation or Distribution Day?	Current Trend Began 6/30/2016
Nasdaq	7,115.88	+2.1%	+2.1%	+46.1%	Major Accumulation	+47.1%
S&P500	2,695.14	+1.7%	NYSE Volume		Major Accumulation	+28.4%
NYSE	13,384.46	+1.2%	+11.6%	+70.8%	Major Accumulation	+27.5%
DJIA	24,912.77	+2.3%			Major Accumulation	+39.0%

Notice how quickly the **GREEN CAN TURN RED** in the MARKET FACTORS, COUNTS & RATINGS table near the end of this FULL newsletter. This table is quite reactive to the market strength.

PRIOR NOTES THAT ARE STILL RELEVANT:

Since the first of the new year, I have been concerned that the market has shown an unsustainable rising price line. But the low distribution count says not to worry – for today. No crystal ball – just evaluation of current market conditions.

When I look at the Nasdaq and S&P500 charts, I see their extraordinary rate of rise that started on the first trading day of January. What is driving the market so hard this year?

- “Sometimes, this increasing slope is caused by a **rational expectation of increasing earnings.**”
 - That makes sense with the change in tax rules and can be sustainable in the short run.
- “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!” Keep your stops up to date!

How can you protect your portfolio if this run-up ends with a fast 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. Many investors use a trailing stop equal to twice the average true range of what you are protecting.

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.

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

www.Finance.yahoo.com/calendar/earnings

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 Uptrend 6/30/2016 – Ended 2/5/2018 Position “sold” on opening prices on 2/6/2018			
2/6/18	Opening Price on 7/1/2016	Open Price on 2/6/2018	ETF % Change Today	PROFIT/LOSS from 6/30/2016 Signal: “Market in Uptrend”
QQQ (1x)	\$107.49	\$155.96	+2.6%	+51.0%
QLD (2x)	\$35.57	\$73.00	+5.1%	+122.3%
TQQQ (3x)	\$48.08	\$136.82	+8.0%	+221.4%

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.

MARKET ACTION 2018 YEAR-TO-DATE			
2/6/18	2017 Closing Price	Current Price	Index % Change Year-to-Date
Nasdaq	6903.39	7115.88	+3.1%
S&P 500	2673.61	2695.14	+0.8%
NYSE Comp	12,808.84	13,384.46	+4.5%
DJIA	24,719.22	24,912.77	+0.8%

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	1/8	22%	44%	12%	12%	5%	6463
3 weeks ago	1/16	27%	41%	15%	12%	6%	6503
2 weeks ago	1/23	26%	41%	15%	12%	6%	6522
1 week ago	1/30	22%	42%	16%	13%	8%	6516
Today	2/6	6%	26%	21%	28%	19%	
	#	384	1660	1386	1843	1200	6473

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 Friday 1/26/18?				
2/6/2018	Nasdaq	S&P500	NYSE	DJIA
Date of Index All-time High	1/26/2018	1/26/2018	1/26/2018	1/9/2018
All-time High	7505.77	2872.87	13637.02	26616.71
Current Price	7115.88	2695.14	12745.40	24912.77
Below (-) or Above (+) Recent High (%)	-5.2%	-6.2%	-6.5%	-6.4%
Below (-) or Above (+) Recent High (#)	-389.89	-177.73	-891.62	-1703.94

LAST WEEK'S MARKET ACTION				
2/2/2018	Index % Change	Volume % Change	Volume Above/ Below 10-week Avg	Type of Week
Nasdaq	-3.5%	+8.7%	+21.0%	Major Distribution
S&P 500	-3.9%	S&P 500 Volume		Major Distribution
NYSE	-4.0%	+9.8%	+25.0%	Major Distribution n
DJIA	-4.1%			Major Distribution
<p>The "TYPES OF WEEK" are:</p> <p>ACCUMULATION WEEK Price RISES 0.2% or more and Volume RISES</p> <p>DISTRIBUTION WEEK Price FALLS 0.2% or more and Volume RISES Another type of DISTRIBUTION(*):</p> <p>WEEK Price FALLS 0.2% or more & Volume is 15% or more above average even without an increase in volume.</p> <p>The NYSE volume is used for the S&P500 and NYSE Composite.</p>				



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		2/6/2018	
Type of DAY for <u>Nasdaq</u> Major (1%/1%) Accumulation, Distribution or Neither		Major Accumulation	
Market Direction Uptrend, Under Pressure, Downtrend, or Attempted Uptrend		Downtrend	
<u>ALL Nasdaq Accumulation & Distribution Days</u> 20-day count of NASDAQ Accumulation & Distribution days		Accumulation Days 4	Distribution Days 6
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 2	Down Days 6
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)		0.7	
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 B-
		DJIA B+	
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	1/9/2018	7164.26	+0.1%	+4.9%	385	—	—
19	1/10/2018	7153.57	-0.1%	-2.2%	386	—	—
18	1/11/2018	7211.78	+0.8%	-5.1%	387	—	DOWNTREND
17	1/12/2018	7261.06	+0.7%	+0.1%	388	—	—
16	1/16/2018	7223.69	-0.5%	+19.1%	389	Minor distribution day	DOWNTREND
15	1/17/2018	7298.28	+1.0%	-5.7%	390	—	DOWNTREND
14	1/18/2018	7296.05	-0.03%	-9.7%	391	—	—
13	1/19/2018	7336.38	+0.6%	-2.8%	392	—	—
12	1/22/2018	7408.03	+1.0%	+6.5%	393	Major Accumulation day	UPTREND
11	1/23/2018	7460.29	+0.7%	+1.1%	394	Minor accumulation day	UPTREND
10	1/24/2018	7415.06	-0.6%	+7.6%	395	Minor distribution day	DOWNTREND
9	1/25/2018	7411.16	-0.1%	-10.3%	396	—	—
8	1/26/2018	7505.77	+1.2%	+4.2%	397	Major Accumulation day	UPTREND
7	1/29/2018	7466.82	-0.5%	+2.2%*	398	Minor distribution day	DOWNTREND
6	1/30/2018	7402.48	-0.9%	+2.6%	399	Minor distribution day	DOWNTREND
5	1/31/2018	7411.48	+0.1%	+9.4%	400	—	—
4	2/1/2018	7385.86	-0.4%	-3.8%	401	—	—
3	2/2/2018	7240.95	-2.0%	+12.7%	402	Major Distribution day	DOWNTREND
2	2/5/2018	6967.53	-3.8%	+19.8%	403	Major Distribution day	DOWNTREND
1	2/06/2018	7115.88	+2.1%	+2.1%	404	Major Accumulation day	UPTREND

*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

TUESDAY : With the market volatility soooo high and today's surprise turnaround, I am waiting in cash with my trend-following funds.

Individual stocks: Even 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. But the majority of stocks fell with the market Friday and Monday.

- I will sell individual stocks on signs of a concentration of distribution days or other sell signals.

Is this the bottom? It could be. I do not have a crystal ball. I know that the Friday and Monday pulled down the vast majority of stocks. But many recovered some of their losses on Tuesday.

So 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

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!

=====
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: "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 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 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

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.