

ARMCHAIR INVESTOR^(sm) MORNING
MARKET NEWSLETTER
A TREND-FOLLOWING STRATEGY



FREE MARKETSMITH this week – go to Marketsmith.investors.com
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ATTN: Dall/Fort Worth readers. Join me next Saturday (3/10) 8:30 a.m. - noon for a **FREE IBD Trading Summit at the Dallas Marriott Los Colinas**, 223 Las Colinas Blvd, Irving, TX. **No charge** and well worth the time. Register at www.investors.com , 800-831-2525 or just show up. I go every year and take home valuable new ideas. --- Charlotte Hudgin, IBD Meetup leader

MARKET DIAGNOSIS: UPTREND under PRESSURE

MONDAY: I grow more and more concerned about volume! Look at the recent volume on an S&P500 or Nasdaq daily chart. Notice:

- The volume rose last week as the indexes fell.
- Then volume fell as the indexes rose over the last two market days.
- Those price-volume combinations are “consistent with” a Downtrend, not an Uptrend!

Another hint of the market weakness is the very low Accumulation/ Distribution ratings of the major indexes that are just a few percentages off all-time highs: Nasdaq D-, S&P500 E. Those lowest ratings only happen when there has been a lot of selling across the stocks in the indexes. (This does not mean there aren't some great stocks with heavy accumulation. But they sure are harder to find!)

I encourage you to open the FULL newsletter and go down to the **MARKET ACTION (Nasdaq) OVER THE LAST 20 DAYS** table on page 7. You will see weakness in the price-volume action of the Nasdaq over the last 12 days (Monday was another weak day). Look at the last column which answers the question, “Was today's price-volume action healthy or not?” Ten of those twelve days had price-volume action consistent with a DOWNTREND. Either:

- Price fell and volume rose (typical distribution day)
- Price rose and volume fell, showing the institutional players were hesitating to buy into the rise.

And by the way, the other two days were indeterminate – price moved only 0.1% - giving no significance to the day’s action. So, **NO day in the last 12 trading days was consistent with an Uptrend.**

Yikes!!!!

Additional signs of weakness: Notice the Nasdaq and S&P500’s 20-day moving average price lines have fallen below their 50-day m.a. - a sign of how fast the reversal occurred. Right now, the 50-day m.a. and the 200-day m.a. are headed for a collision. As a friend Jimmy R. pointed out Thursday, a 50-day m.a. line crossing below the 200-day m.a. is called the “black cross” implying a failing price line. And they are closing in!

Be sure your stops are in.

IT IS VERY UNUSUAL THAT A GOOD UPTREND WILL START WITH SUCH WEAK PRICE-VOLUME ACTION!

Look at any of the major daily index charts (Nasdaq, S&P500, DJIA) and you will see a lot more volume on the way down to the 2/9 low than on the way up. **To use a Trumpism: “Not good!”**

Daily Market Action

3/5/18	Index Close	Index % Change	Volume % Change	Volume vs 50-day Avg.	Accumulation or Distribution Day?	Current Trend Gains: UPTREND 2/14/2018
Nasdaq	7,330.70	+1.0%	-11.9%	-17.9%	Neither	+1.8%
S&P500	2,720.94	+1.1%	NYSE Volume		Neither	+0.3%
NYSE	12,680.73	+1.0%	-5.5%	+0.1%	Neither	-1.1%
DJIA	24,874.76	+1.4%			Neither	-0.7%

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 e or is well-above average volume)

Current Trend Gains show the gains in these indexes if you bought each at the opening price on the day after the recent trend changed.

Do you still own individual stocks?

- Watch any stocks you still own. Sometimes, they take off (congratulations) in a new Uptrend. But sometimes, they languish as the sectors rotate elsewhere. Is it time to sell those tired stocks?

BE SURE YOU HAVE ACTIVE STOPS ON EVERYTHING YOU OWN

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

**No advice is ever given in this newsletter. It is provided for your
education only.**

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**The Uptrend ETFs are still positive since the last change in market
direction from Downtrend to Uptrend on February 14 (see table below).**

Uptrend ETFs	Armchair Investor Trend-following Returns for Current Uptrend			
3/5/18	Opening Price on 2/15/2018	Today's Price	ETF % Change Today	PROFIT/LOSS from 2/15/18 Signal: "Market in UPTrend"
QQQ (1x)	\$164.14	\$167.82	+1.1%	+2.2%
QLD (2x)	\$80.57	\$83.95	+2.1%	+4.2%
TQQQ (3x)	\$158.00	\$168.01	+3.3%	+6.3%

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.

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**PROGRESS IN ACCUMULATION/DISTRIBUTION RATINGS
"A" stocks at a very low 8%**

		A	B	C	D	E	Total
4 weeks ago	2/2	15%	40%	15%	16%	9%	6498
3 weeks ago	2/9	5%	25%	23%	29%	18%	6466
2 weeks ago	2/16	8%	34%	23%	23%	12%	6495
1 week ago	2/26	9%	33%	23%	24%	12%	6511
Today	3/5	7%	29%	22%	27%	16%	
	#	458	1886	1418	1737	1012	6511

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?				
3/5/2018	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	7330.70	2720.94	12680.73	24874.76
Below (-) or Above (+) Recent High (%)	-2.3%	-5.3%	-7.0%	-6.5%
Below (-) or Above (+) Recent High (#)	-175.07	-151.93	-956.29	-1741.95

MARKET ACTION 2018 YEAR-TO-DATE				
3/5/18	2017 Closing Price	Current Price	Index % Change Year-to-Date	
Nasdaq	6903.39	7330.70	+6.2%	
S&P 500	2673.61	2720.94	+1.8%	
NYSE Comp	12,808.84	12,680.73	-1.0%	
DJIA	24,719.22	24,874.76	+0.6%	

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."

LAST WEEK'S MARKET ACTION				
3/02/2018	Weekly Index % Change	Weekly Volume % Change	Volume Above/ Below 10-week Avg	Type of Week
Nasdaq	-1.1%	+45.9%	+14.0%	Major Distribution
S&P 500	-2.0%	+38.2%	+19.0%	Major Distribution
NYSE	-2.5%			Major Distribution
DJIA	-3.0%			Major Distribution

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		3/5/2018	
Type of DAY for <u>Nasdaq</u> Accumulation, Distribution or Neither		Neither	
Market Direction Uptrend, Under Pressure, Downtrend, or Attempted Uptrend		UPTREND under PRESSURE	
<u>ALL Nasdaq Accumulation & Distribution Days</u> 20-day count of NASDAQ Accumulation & Distribution days		Accumulation Days 3	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 4	Down Days 4
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 10-day ratio		1.4	
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 S&P 500 DJIA	D- E E
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		At	Above
NYSE		Below	Above
DJIA		Below	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 (—)	CONSISTENT WITH: UPTREND or Downtrend?
MARKET IN UPTREND							
20	2/5/2018	6967.53	-3.8%	+19.8%	1	Major Distribution day	DOWNTREND
19	2/6/2018	7115.88	+2.1%	+2.1%	2	Major Accumulation day	UPTREND
18	2/7/2018	7051.98	-0.9%	-25.6%	3	—	UPTREND
17	2/8/2018	6777.16	-3.9%	+14.3%	4	Major Distribution day	DOWNTREND
16	2/9/2018	6874.49	+1.4%	+17.4%	5	Major Accumulation day	UPTREND
15	2/12/2018	6981.96	+1.6%	-29.3%	6	—	—
14	2/13/2018	7013.51	+0.5%	-19.6%	7	—	DOWNTREND
13	2/14/2018	7143.62	+1.9%	+22.0%	1	Major Accumulation day	UPTREND
12	2/15/2018	7256.43	+1.6%	-4.0%	2	—	DOWNTREND
11	2/16/2018	7239.47	+0.2%	-4.7%	3	—	DOWNTREND
10	2/20/18	7234.31	-0.1%	-5.2%	4	—	—
9	2/21/18	7218.23	-0.2%	+1.2%	5	Minor distribution day	DOWNTREND
8	2/22/18	7210.09	-0.1%	-1.0%	6	—	—
7	2/23/18	7337.39	+1.8%	-1.9%	7	—	DOWNTREND
6	2/26/18	7421.46	+1.2%	-1.3%	8	—	DOWNTREND
5	2/27/18	7330.35	-1.2%	+14.8%	9	Major Distribution day	DOWNTREND
4	2/28/18	7273.01	-0.8%	+10.1%	10	Minor distribution day	DOWNTREND
3	3/1/18	7180.56	-1.3%	+5.9%	11	Major Distribution day	DOWNTREND
-2	3/2/18	7257.87	+1.1%	-8.4%	12	—	DOWNTREND
1	3/5/18	7330.70	+1.0%	-11.9%	13	—	DOWNTREND

ADDITIONAL COMMENTS FOR INVESTORS IN INDIVIDUAL STOCKS

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

MONDAY : **Even as this new Uptrend is getting weaker and weaker as significant distribution adds up.**

This is not a market to get aggressive in your buying:

- **You could buy an exceptionally strong stock. Consider pyramiding in. Make the stock prove itself:**
 - Start by buying 50% of your intended position.
 - Add another 30% if the stock rises with supportive volume.
 - Add the last 20% if the stock rises with volume again.
- Remember the guidelines to buying a stock that breaks out – demand volume be 40% above average or more AND buy within 5% of the ideal buy price – no more.

In this uncertain market, it is important to buy properly – it avoids many later problems.

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) before earnings are reported.**
3. **Buy a protective put if near earnings date or if the stock starts to show weakness (distribution, etc.).**

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

**THE MARKET AND STOCKS CONTINUE IN THE DIRECTION
THEY ARE GOING..... UNTIL THEY DON'T.**

I am still looking for stocks to buy or signs to add to existing positions.

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!

Remember:

The market AND YOUR STOCKS continue in the direction they are going until they don't.

MARKET DIAGNOSIS: “UPTREND” under PRESSURE

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. I sell more quickly in a Downtrend

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.

Pre-register please! Schedules change! See phone number below:

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:

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.

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.