

3/13/18 UPTREND: Today's Distribution day is not a major concern.

Tuesday

Volume 17 #049

**ARMCHAIR INVESTOR<sup>(sm)</sup> MORNING**  
**MARKET NEWSLETTER**  
A TREND-FOLLOWING STRATEGY



Join me at the [Fort Worth IBD Meetup](#) on Thursday 3/15 6:45 – 8:45 p.m. at Ol'South Pancake House. Register at [Fort Worth IBD Meetup](#) Call me if I can answer any questions for you.

**MARKET DIAGNOSIS: UPTREND**

**TUESDAY:** No stock or market rises forever. Tuesday's distribution day put some recent breakouts back into the buy range! Only the Nasdaq hit the major distribution of a 1% drop. The S&P500 fell only 0.6%. The higher volume gave both one more distribution day in their counts.

Good news: The Nasdaq held above its 7505 recent all-time high.

Bad news: The S&P500 is lagging, now 3.7% below its all-time high.

The difference in the two indexes just tells me where I am more likely to find the best performing stocks today.

Prior notes that are still relevant:

**To be an Armchair Investor and capture the general market rise**, you could:

- Buy the QQQ, an ETF that is designed to move up and down with the Nasdaq100.
- Buy a double ETF (QLD) or triple ETF (TQQQ) designed to double or triple the gains and losses of the Nasdaq100.

**If you buy individual stocks to outperform the market:**

- Buy stocks with strong ratings and size that are breaking out of proper bases with volume support. *Download the FULL newsletter below. Go to the **FOR INVESTORS IN INDIVIDUAL STOCKS** near the end of this newsletter for more details and a follow-up on **LGND'S successful breakout. (LGND is in a buy range now!)***

The market is up since the Follow-through on Valentine's Day through 3/12:

- The Nasdaq has risen 4.3%
- The S&P500 has risen 1.9%

Please note that since the F-T day, the DJIA has risen only 0.5%. One of the reasons I do not use the DJIA for my trend-following investing is that, overall, the DJIA under-performs the S&P500 and Nasdaq.

If you follow the trend-following rules of this newsletter, history says you will significantly outperform the market. No guarantees!

**THE ARMCHAIR INVESTOR** strategy is SIMPLE. Please sit cross-legged and chant with me:

- Be in the market when it is going up.
- Be out of the market when it is going down.
- Protect yourself with an 8% stop.

And “out of the market” includes going short in a downtrend, if you are willing and able to do so.

**Be sure your stops are in.**

No advice is ever given in this newsletter. It is provided for your education only.  
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DAILY MARKET ACTION						
3/13/18	Index Close	Index % Change	Volume % Change	Volume vs 50-day Avg.	Accumulation or Distribution Day?	Current Trend Gains: UPTREND 2/14/2018
Nasdaq	7,511.01	-1.0%	+6.8%	+12.9%	Major Distribution	+4.3%
S&P500	2,765.31	-0.6%	NYSE Volume		Minor distribution	+1.9%
NYSE	12,831.76	-0.5%	+3.6%	-8.1%	Minor distribution	+0.1%
DJIA	25,007.03	-0.7%			Minor distribution	-0.16%

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.

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

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

<b>HOW CLOSE ARE THE INDEXES TO ALL-TIME HIGHS?</b>				
3/13/2018	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	7511.01	2765.31	12831.76	25007.03
Below (-) or Above (+) Recent High (%)	+0.1%	-3.7%	-5.9%	-6.0%
Below (-) or Above (+) Recent High (#)	+5.24	-107.56	-805.26	-1609.68

<b>PROGRESS IN ACCUMULATION/DISTRIBUTION RATINGS</b>							
		A	B	C	D	E	Total
4 weeks ago	2/12	5%	28%	29%	27%	16%	6472
3 weeks ago	2/20	9%	33%	24%	23%	11%	6507
2 weeks ago	2/27	10%	34%	22%	23%	11%	6510
1 week ago	3/6	8%	31%	22%	25%	14%	6522
Today	3/13	11%	35%	22%	22%	10%	
	#	710	2291	1430	1411	672	6514

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.

Uptrend ETFs	<b>ARMCHAIR INVESTOR TREND-FOLLOWING RETURNS FOR CURRENT UPTREND</b>			
	Opening Price on 2/15/2018	Today's Price	ETF % Change Today	PROFIT/LOSS from 2/15/18 Signal: "Market in UPTrend"
3/13/18				
QQQ (1x)	\$164.14	\$171.71	-1.4%	+4.6%
QLD (2x)	\$80.57	\$87.90	-2.4%	+9.1%
TQQQ (3x)	\$158.00	\$179.71	-3.6%	+13.7%

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			
3/13/18	2017 Closing Price	Current Price	Index % Change Year-to-Date
Nasdaq	6903.39	7511.01	+8.8%
S&P 500	2673.61	2765.31	+3.4%
NYSE Comp	12,808.84	12,831.76	+0.2%
DJIA	24,719.22	25,007.03	+1.2%

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				
3/9/2018	Weekly Index % Change	Weekly Volume % Change	Volume Above/ Below 10-week Avg	Type of Week
Nasdaq	+4.2%	-2.2%	+6.0%	Neither
S&P 500	+3.5%	S&P 500 Volume		Neither
NYSE	+2.9%	-14.0%	-5.0%	Neither
DJIA	+3.3%			Neither

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.

<b>MARKET FACTORS, COUNTS &amp; RATINGS</b>		<b>3/13/2018</b>	
<b>Type of DAY for <u>Nasdaq</u></b> Accumulation, Distribution or Neither		<b>Major Distribution</b>	
<b>Market Direction</b> Uptrend, Under Pressure, Downtrend, or Attempted Uptrend		<b>UPTREND</b>	
<b><u>ALL Nasdaq Accumulation &amp; Distribution Days</u></b> 20-day count of <b>NASDAQ</b> Accumulation & Distribution days		<b>Accumulation Days</b> <b>5</b>	<b>Distribution Days</b> <b>3</b>
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.			
<b>Count of Up Days and Down Days</b> (10-days on the Nasdaq)		<b>Up Days</b> <b>7</b>	<b>Down Days</b> <b>3</b>
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.			
<b>Leaders Up/Down with High Volume</b> 10-day ratio		<b>1.6</b>	
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			
<b>Market Accumulation/Distribution Ratings</b> "A": heavy accumulation, "B": moderate accumulation, "C": neutral, "D": moderate distribution, "E": heavy distribution. Accumulation = Institutions are BUYING, Distribution = Inst are SELLING		<b>Nasdaq</b> <b>C-</b>	<b>S&amp;P 500</b> <b>E</b>
		<b>DJIA</b> <b>D-</b>	
<b>Are Major Indexes Above or Below Moving Averages?</b> "At" is within 1% above or below the moving average.		<b>50-Day</b>	<b>200-Day</b>
<b>Nasdaq</b>		<b>Above</b>	<b>Above</b>
<b>S&amp;P 500</b>		<b>At</b>	<b>Above</b>
<b>NYSE</b>		<b>Below</b>	<b>Above</b>
<b>DJIA</b>		<b>Below</b>	<b>Above</b>

## 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?
<b>MARKET IN UPTREND</b>							
20	2/13/2018	7013.51	+0.5%	-19.6%	7	—	DOWNTREND
19	2/14/2018	7143.62	+1.9%	+22.0%	1	Major Accumulation day	UPTREND
18	2/15/2018	7256.43	+1.6%	-4.0%	2	—	DOWNTREND
17	2/16/2018	7239.47	+0.2%	-4.7%	3	—	DOWNTREND
16	2/20/18	7234.31	-0.1%	-5.2%	4	—	—
15	2/21/18	7218.23	-0.2%	+1.2%	5	Minor distribution day	DOWNTREND
14	2/22/18	7210.09	-0.1%	-1.0%	6	—	—
13	2/23/18	7337.39	+1.8%	-1.9%	7	—	DOWNTREND
12	2/26/18	7421.46	+1.2%	-1.3%	8	—	DOWNTREND
11	2/27/18	7330.35	-1.2%	+14.8%	9	Major Distribution day	DOWNTREND
10	2/28/18	7273.01	-0.8%	+10.1%	10	Minor distribution day	DOWNTREND
9	3/1/18	7180.56	-1.3%	+5.9%	11	Major Distribution day >>>Uptrend under Pressure<<<	DOWNTREND
8	3/2/18	7257.87	+1.1%	-8.4%	12	—	DOWNTREND
7	3/5/18	7330.70	+1.0%	-11.9%	13	—	DOWNTREND
6	3/6/18	7370.78	+0.6%	-5.8%	14	—	DOWNTREND
5	3/7/18	7396.65	+0.3%	+3.0%	15	Minor accumulation day	UPTREND
4	3/8/18	7427.95	+0.4%	+6.0%	16	Minor accumulation day	UPTREND
3	3/9/18	7560.81	+1.8%	+0.8%	17	Major Accumulation day >>>UPTREND<<<	UPTREND
2	3/12/18	7588.32	+0.4%	+0.4%	18	Minor accumulation day	UPTREND
1	3/13/18	7511.01	-1.0%	+6.8%	19	Major Distribution day	DOWNTREND

The CURRENT TREND column colors: Green: Uptrend. Yellow: Uptrend under Pressure. Red: Downtrend.

## **FOR INVESTORS IN INDIVIDUAL STOCKS**

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

**TUESDAY :** When looking for individual stocks, we all like to have a strong suggestion. Investors.com can be an excellent site for good stock ideas.

**But.....** I always do my own additional research.... And sometimes, I disagree.

**Update On Ligand Pharmaceuticals** If you read Thursday's newsletter, you know Ligand LGND broke out, rising 4% with double the average volume. Nice! On Friday LGND continued up. Its breakout price was \$170.30 (many respectable stocks are over \$100 these days) and its volume is low - just under 300,000. Its ratings are spectacular: EPS 98, RS 93, Accumulation A+, Composite 98. Wow!

**LGND Tuesday Update:** Good news! If you don't own a full position of LGND yet and were annoyed that its price was out of the buy range on Monday, its price fell Tuesday (with the market) back into its 5% buy range. The drop was on lighter volume which means Tuesday was not a distribution day. You could add that last 20% of your intended pyramid purchase.

**LGND Monday Update:** I just have to use LGND tonight as another volume example. LGND had a very strong breakout on Thursday of last week and continues to rise. Pull up its daily chart.

- Across the recent base: Notice the low red volume bars (on days when price dropped from the day before) versus the high, blue volume bars (on days when price rose). The picture: Much more buying than selling in this base!
- The ratings are fabulous A's, 98s with the lowest rating a 94!
- At the Breakout: Volume was almost double the average rate with price ending the day up almost 4%.
- The next day: Price rise just a bit. What happened? Look at the volume: it was low compared to the breakout as some institutions sold some stock to take a little profit off the table. That action is common after a new high breakout. Price held up well
- Monday: Price was up another 4% with volume 62% above average: heavy institutional buying continues!



## PRIOR NOTES THAT ARE STILL RELEVANT:

On Monday, Investors.com suggested investors keep an eye on one particular FANG stock (FANG is Facebook, Amazon, Netflix and Google).

I was excited to see their Google comment: "*In particular, Alphabet is flashing bullish relative strength.*" Yes, the relative strength line has held up well during the last base, hitting an all-time RS high today (as shown with a blue dot on the end of the RS line.) But look at the mediocre Accumulation distribution rating of C-. "How can a stock price be closing in on a new high AND the RS line be at a new high, yet the Acc/Dist rating is so tepid?"

Note, I chose "tepid" carefully. It conveys exactly what I want you to feel: Bing's definition of tepid: "moderately warm : lukewarm; lacking in passion, force, or zest; marked by an absence of enthusiasm or conviction."

Wow! Is that what you want in a new stock purchase? But how can the Acc/Dist rating be so medium with the price only 3% under the buy price and with six days closing at or near the tops of each day's price range off the recent low in the base?

As so often is the case ----- **volume tells the truth.** After the strong turnaround day on 3/2, the GOOGL volume has been low with only Friday and Monday *slightly* above average. If the institutions really believe GOOGL is getting ready to take off, they would be buying more heavily on at least a few days to load up on stock that will look cheap after GOOGL breaks out.

Now step back and look at the volume over the whole flat base starting on 1/29. On the next page you will see some of the huge value MarketSmith provides the investor.

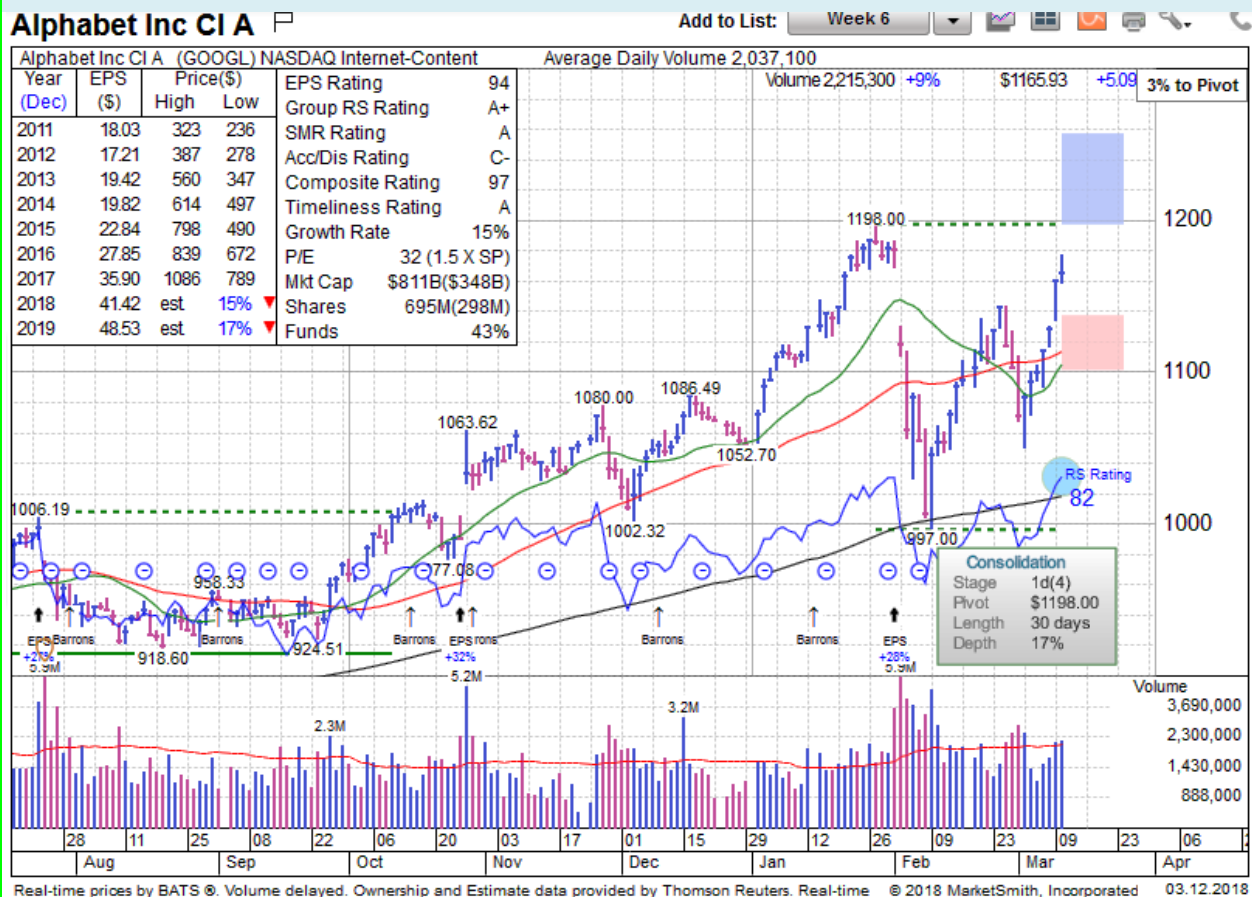
On the Alphabet chart (below), you can see the most recent base, close to breaking out.

On the left, you can see the great GOOGLE ratings: EPS 94, group RS A+ (we all like good company), SMR A, RS 82 (in the chart on the right side), and Composite rating of 97 – in the top 3% of all stocks over \$5!. Wow. So what am I fussing about?

## That last rating of Accumulation/Distribution of C-

How can GOOGL be near an all-time high with a C- Acc/Dist rating? Look at the volume:

- Huge red volume bars at the start of the base including a serious gap down on earnings day (EPS on the chart)
- Mostly wimpy blue bars on the partial recovery
- More high volume on the second drop in the base (look at red bars)
- Lastly on the bounce off the second low, mostly low rising volume bars (blue bars).
- Add it all up (as the very sophisticated math of the Accumulation/Distribution rating does) and you will see a lot more selling than buying.



Does this low rating and disproportionate selling mean GOOGLE will fail if it breaks out? I don't know.

But the high volume selling and the lower volume buying makes me very nervous. I do know that I will not jump in until near the **end of the breakout day** (so I won't be caught by a morning rally that reverses later.) And I will buy **only a 50% position** on the breakout day (if price and volume are strong.) Then I will pyramid into the rest of my position:

- First purchase at the buy signal for 50% of intended position
- Second purchase when price rises 1 or 2% with confirming volume, add another 30%.
- Third and final purchase with another rising price and volume day add the final 20%.

**REMEMBER:**

**YOU ARE NOT SMARTER THAN THE MARKET**

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

**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"**

**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

If this newsletter ever does not suit your needs, you may cancel your subscription here: [Unsubscribe](#) | [Change Subscriber Options](#)

## 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  
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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: [Editor@ArmchairInvestor.com](mailto: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 <b>Uptrend</b> Price-Volume Movement	Strong Action	Up	↑	↑	Up
	Weaker Action	Down	↓	↓	Down
Healthy <b>Downtrend</b> 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.