

ARMCHAIR INVESTOR^(sm) MORNING MARKET NEWSLETTER

A TREND-FOLLOWING STRATEGY

On Thursday I'm going to the **State Fair of Texas**. And Friday morning I will meet at 6 a.m. to help a friend with a monthly networking meeting. Thus, Thursday night's newsletter will be abbreviated.

FYI: A message to non-Texans: **Our Texas state fair is simply better than yours!** – Sorry! Pig races, life size butter sculptures, a huge Ferris wheel, rodeo, rides, bands, hall of technology, film festival, car show, livestock petting and milking parlor, Casa de Chocolate (yumm!), a fireworks show to rival Disneyland, and almost any food you can imagine deep fried (no kidding!) including a Chicken Wing Wearing Sunglasses on a glazed donut, Southern Fried Chicken Fettuccine Alfredo Ball, Deep Fried Chicken Cordon Bleu Stuffed Waffles, Deep fried Mexican Mole, Deep Fried Cracker Jacks. If you are near Dallas, don't miss it!

CURRENT MARKET DIRECTION: UPTREND under PRESSURE

Current Armchair Investor action:

Hold QQQ

Wednesday added another distribution day – 5 of the last 8 market days showed heavy institutional selling. Is a Downtrend around the corner?

- **My QQQ stop was triggered Wednesday** and the position was **sold at a profit**. See TREND-FOLLOWING table on page 2. Now I wait on the sidelines until another clear market direction signal is shown. Don't try to "catch a falling knife." That can get bloody. I would rather wait it out on the sidelines and look for a way to short if the downtrend accelerates.

Current Signs of Market Strength:

- The Nasdaq and S&P500 are still above their 200-day moving average lines.

Current Signs of Market Weakness:

- The Nasdaq had **4 distribution days** (days of broad market selling) in the last 8 days with NO accumulation days.
 - **Look for a CONCENTRATION OF DISTRIBUTION DAYS (with other signs of weakness) to TURN AN UPTREND INTO A DOWNTREND!**
 - **FYI: "Correction" is just a softer word for Downtrend! Down is down!**
- The Nasdaq and S&P500 have spent **2 months flirting below their all-time highs**.
- The Nasdaq **closed below its 50-day moving average** for the last 4 days briefly rising above the average line only to get dunked back below by the end of day.
 - See the **MARKET ACTION OVER THE LAST 20 DAYS TABLE** on page 5.

MY PLAN FOR THURSDAY: My market-following account WAITS IN CASH. Several of my stock positions were sold by stops or weak price/volume action.

- I maintain my watch list of solid stocks, watching for strong breakouts when the market returns to Uptrend.
- I will sell any stocks in my portfolio that have too many distribution days (signs of institutional selling). But a few are holding up well, even rising!

And finally, a friendly reminder: **Cash is a position** – Sleep well!

SEE "DAILY MARKET ACTION" TABLE ON FOLLOWING PAGE.

DAILY MARKET ACTION						
10/2/19	Index Close	Index % Change	Volume % Change	Volume vs 50-day Avg.	Accumulation or Distribution Day?	Recent Trend Gain/Loss from 8/13 UPTREND SIGNAL
Nasdaq	7,785.25	-1.6%	+0.3%	+8.4%	Major Distribution	-0.2%
S&P500	2,887.61	-1.8%	NYSE Volume		Major Distribution	+0.9%
DJIA	26,078.62	-1.9%	+8.9%	+4.5%	Major Distribution	+1.0%

A **Major Accumulation Day**: Price RISES 1.0% or more with higher Volume than the day before.
A **minor accumulation Day**: Price RISES 0.2% and less than 1% with strong Volume (either higher than the day before or is well-above average volume).
A **Major Distribution Day**: Price FALLS 1.0% or more with higher Volume than the day before.
A **minor distribution Day**: Price FALLS 0.2% and less than 1% with strong Volume (either higher than the day before or is well-above average volume).
If the day's price/volume action does not meet the accumulation or distribution definitions above, it is a "**Neither**" day.

I Love Locking in GAINS			
ARMCHAIR INVESTOR TREND-FOLLOWING RETURNS			
Current Uptrend			
10/2/19	Opening Price on 8/14/2019*	STOPPED OUT 10/2/2019 Stop Price set on 9/30/2019 (See 9/30 newsletter in Archive tab)	Gain locked in Since 8/13/19 Uptrend Signal
QQQ (1x)	185.31	187.03	+0.9%
QLD (2x)	93.62	96.74	+3.3%
TQQQ (3x)	59.15	61.63	+4.2%

This table tracks the returns you would now have if you had followed the Armchair Investor plan and bought the ETFs listed above at the opening price on the morning after the new "Market in Uptrend" signal and sold when the market direction changed to Downtrend, or if you sold when a stop was met.
These stops were set on 9/30 and were hit on 10/2/19 which closed even lower. .

MARKET ACTION 2019 YEAR-TO-DATE			
10/2/19	2018 Closing Price	Current Price	Index % Change Year-to-Date
Nasdaq	6635.38	7785.25	+17.3%
S&P 500	2506.85	2887.61	+15.2%
NYSE	11374.39	12,608.43	+10.8%
DJIA	23327.46	26,078.62	+11.8%

PROGRESS IN ACCUMULATION/DISTRIBUTION RATINGS

The market's growing weakness shows as money flows out of the market:
the percent of A and B stocks dropped from 54% to 42% in just 2 weeks.

		A	B	C	D	E	As + Bs
4 weeks ago	9/4	7%	30%	21%	27%	15%	37%
3 weeks ago	9/11	8%	40%	24%	19%	8%	48%
2 weeks ago	9/18	11%	43%	22%	17%	6%	54%
1 week ago	9/25	9%	39%	24%	20%	7%	48%
Today	10/2	6%	36%	25%	23%	10%	42%
	#	402	2334	1610	1500	628	

Stocks with an A or B rating are under accumulation (being bought.)
Stocks with a D or E rating are under distribution (being sold).

LAST WEEK'S MARKET ACTION

9/27/19	Weekly Index % Change	Weekly Volume % Change	Volume Above/ Below 10-week Avg	Type of Week
Nasdaq	-2.2%	+5.0%	-21.0%	Major Distribution
S&P 500	-1.0%	S&P 500 Volume		Neither
DJIA	-0.4%	-19.1%	-8.0%	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, DJIA and NYSE Composite.

HOW CLOSE ARE THE INDICES TO ALL-TIME HIGHS?

10/2/2019	Nasdaq	S&P500	NYSE	DJIA
Date of Index All-time High*	7/26/2019	7/26/2019	1/26/2018	7/16/2019
All-time High	8339.64	3027.98	13637.02	27398.68
Current Price	7785.25	2887.61	12608.43	26078.62
Below (-) or Above (+) Recent High (%)	-6.6%	-4.6%	-7.5%	-4.8%

MARKET FACTORS, COUNTS & RATINGS

10/2/2019

Type of Day for <u>Nasdaq Index</u> Accumulation, Distribution or Neither		Major Distribution	
I track the <u>Nasdaq's</u> price-volume because it usually leads the market direction.			
Market Direction Uptrend, Under Pressure, Downtrend		UPTREND under PRESSURE	
<u>Nasdaq Accumulation & Distribution Days (last 20 days)</u> Only accumulation and distribution days <u>since the last market direction change</u> are in this count.		Accumulation Days	Distribution Days
		1	5
FYI: IBD uses 25 days for their distribution count. I've found the last 20 days to be most relevant. Thus, we don't always match.			
Count of Up Days and Down Days Nasdaq's last <u>10-days'</u> price movement		Up Days	Down Days
		2	6
Only days that move at least + or - 0.2% are included in the Up/Down count which does not always, therefore, add up to 10 days.			
Rising/Falling Ratio of Leader Stocks with High Volume Nasdaq 10-day ratio		1.0	
This indicator looks at the health of leading stocks (high RS) with strong financials 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	D
The 9/25/19 market accumulation ratings shown (9/26 not received on data feed)			
Are Major Indexes Above or Below Moving Averages? "At" is within 1% above or below the moving average.		50-Day	200-Day
		Below	At
		Below	Above
		Below	At
		Below	At

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?
20	9/5/19	8116.83	+1.8%	+2.7%	17	Major Accumulation	UPTREND
19	9/6/19	8103.07	-0.17%	-12.14%	18	—	—
18	9/9/19	8087.44	-0.19%	+17.5%	19	—	—
17	9/10/19	8084.16	-0.04%	+0.8%	20	—	—
16	9/11/19	8169.68	+1.1%	-2.0%	21	—	DOWNTREND
15	9/12/19	8194.47	+0.3%	-4.4%	22	—	DOWNTREND
14	9/13/19	8176.71	+0.2%	-11.4%	23	—	DOWNTREND
13	9/16/19	8153.54	-0.3%	-7.1%	24	—	UPTREND
12	9/17/19	8186.02	+0.4%	+0.1%	25	—	—
11	9/18/19	8177.39	-0.1%	+9.7%	26	—	—
10	9/19/19	8182.88	+0.04%	-12.6%	27	—	—
9	9/20/19	8117.61	-0.8%	+72.2%	28	Minor distribution	DOWNTREND
8	9/23/19	8112.46	-0.06%	-44.6%	29	—	—
7	9/24/19	7993.79	-1.5%	+19.3%	30	Major Distribution	DOWNTREND
6	9/25/19	8077.38	+1.1%	-22.1%	31	—	DOWNTREND
5	9/26/19	8030.66	-0.6%	-15.4%	32	—	UPTREND
4	9/27/19	7939.63	-2.2%	+8.5%	33	Major Distribution	DOWNTREND
3	9/30/19	7999.34	+0.8%	-11.7%	34	—	DOWNTREND
2	10/1/19	7908.68	-1.1%	+24.9%	35	Major Distribution	DOWNTREND
1	10/2/19	7785.25	-1.6%	+0.3%	36	Major Distribution	DOWNTREND

“CURRENT TREND” COLUMN COLORS: Green = Uptrend.
 Yellow = Uptrend under Pressure (e.g. showing weakness)
 Red = Downtrend (also called correction)..

Nasdaq Daily 4 month chart, (updated Wednesday)

Index falls below its 50-day moving average line but still staying close.



Nasdaq Weekly 1 year chart, (updated Friday)

Index closes just below its 50-day moving average. Indecision is in the air!



These charts are from StockCharts.com, a valuable site for investors with many free tools.

S&P500 Daily 4 month chart, (updated Wednesday)

Index fades down toward its 50-day moving average line. I'm a little bit weary!



S&P500 Weekly 1 year chart, (updated Friday)

Index closes at its 50-day moving average – indecision is in the air!



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HOW CAN YOU CAPTURE THOSE GREAT MARKET TRACKING GAINS SHOWN ABOVE?

THE ARMCHAIR INVESTOR PLAN:

It's as easy as 1- 2- 3!

>>>>> On Tuesday 9/24, the market moved back to **STEP 2: UPTREND UNDER PRESSURE**

In **Step 2**: Hold the QQQ and watch the market very carefully for further signs of distribution and a 50-50 chance of the market going into Downtrend!

STEP 1: In an Uptrend, hold the QQQ, a Nasdaq100 ETF.

Find the market direction diagnosis every night in this newsletter. At the Uptrend signal, buy the QQQ the next morning if you don't have that position, yet. The QQQ follows the ups and downs of the Nasdaq100, allowing you to grab the rises of this Uptrend. With some additional positive action, you may decide to switch to the double QQQ ETF (QLD) or triple QQQ (TQQQ). I do not recommend these moves for the first time investor.

Just in case protection: When you receive your confirmation of the purchase price, place an **8% STOP LOSS** order to protect your portfolio from a sudden market reversal (executing this sale is rare – I almost always sell when the market goes into “under pressure” or Downtrend – see Step 2 below). Your broker can help you set up this order.

This upward ride is the most exciting part of trend-following – Ride the escalator up, up, up as the market rises. Exit when the market moves into Downtrend.

Although not every Uptrend signal generates a positive return, most do.

History shows you will earn the highest returns if you act fast to buy the QQQ when the market signals a clear Uptrend (as happened on Thursday 9/5) Enjoy your ETF investment as it increases with the rise of the market.

STEP 2: When the Uptrend slows down: “Uptrend under Pressure”

“Uptrend under Pressure” means the

- The market is showing enough distribution– down days on higher volume – **for investors to be concerned and cautious. Be sure to check on your investments each night! Many investors do not buy new stock position during this period due to higher failure rates.**
- From **“Uptrend under Pressure”** the market diagnosis could:
 - **Rise**, showing strength, and return to a healthy Uptrend – **STEP 1**, or
 - Could have more distribution days and **fall** into a **Downtrend (correction)**

STEP 3: When the market diagnosis changes to Downtrend.
Selling your Uptrend ETF position (QQQ, QLD or TQQQ) will capture gains earned in Steps 1 & 2 above.

After exiting the Uptrend ETF, wait in cash until the next Uptrend signal. More recent Downtrends have been short term and not tradable.

If the Downtrend is strong, this box will identify a signal to invest in an inverse ETF which makes you profits as the market falls!

NOTE: Not every market direction signal ends with a positive return. But overall, the ETFs have outperformed the market when traded according to these guidelines. Plus the market direction signals will help you by indicating when it is most effective to consider adding individual stocks to your portfolio (with a strong uptrending market).

Access the FULL ARMCHAIR Investor newsletter in just 2 clicks

WWW.ARMCHAIRINVESTOR.COM

Then click on **CURRENT NEWSLETTER** tab

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 well at night.

Questions may be submitted to: Editor@ArmchairInvestor.com

Example of the DAILY MARKET ACTION table with full explanation of terms and signals:

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S&P500	2,961.79	-0.5%	NYSE Volume		minor distribution	+3.4%
DJIA	26,820.25	-0.3%	+5.1%	-12.0%	minor distribution	+3.8%

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** The **Recent Trend Gains/Losses** column calculates how far each index has moved from the recent trend change assuming you purchased the index (in an Uptrend) or sold the index (in a Downtrend) at the opening price on the day after the signal. Although not every year outperforms the common "buy and hold" strategy, using these signals has significantly OUTPERFORMED the buy-and-hold strategy in total since 1/1/2000.

Why are my Final Volumes Sometimes Different than Yours? Why do the volume numbers on this table not always match other web sites? The 4:00 close of the market immediately shows an accurate final price. But the volume figures continue to trickle in for hours. At some time, the accumulation of volume numbers has to be cut off and different sites use different cut-offs. Also, some sources include the volume of stocks listed on one exchange but traded on another (e.g. Apple stock listed on Nasdaq but also traded on other exchanges.) And some sources do not. The most important rule is to consistently use only one source for volume.

EXAMPLE and DEFINITIONS used in this newsletter:

DAILY MARKET ACTION						
8/30/19	Index Close	Index % Change	Volume % Change	Volume vs 50-day Avg.	Accumulation or Distribution Day?	Recent Trend Gain/Loss from 8/13 UPTREND SIGNAL
Nasdaq	7,962.88	-0.1%	-15.0%	-30.6%	Neither	+0.9%
S&P500	2,925.35	+0.1%	NYSE Volume		Neither	+2.2%
DJIA	26,403.28	+0.16%	-5.1%	-13.3%	Neither	+2.2%
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DO YOU INVEST IN INDIVIDUAL STOCKS?—

Always consider taking some profit if significant distribution is showing up for your individual stocks. However, many individual stocks are rising with gusto! Look at all the lists in the Investor's Business Daily newspaper for stocks breaking out with high volume. **They are there!**

To get a deeper sense of the health of the market, look at the **MARKET FACTORS, COUNTS & RATINGS table** included each day in the FULL Armchair Investor newsletter. It looks at 7 key market direction factors and highlights the leaning of each:

- If the factor leans toward the **Uptrend**, that box will be **green**
- If the factor leans toward the **Downtrend**, that box will be **orange** or **red**

To schedule a class visit: Contact Charlotte Hudgin at 214-995-6702

One of the reasons I pay so much attention to the Investor's Business Daily strategies and books (*How to Make Money in Stocks series*) is that they work consistently. If you or someone you know is interested in stock market investing, I encourage them to start with:

- *How to Make Money in Stocks – Getting started* by Matt Galgani.

Then they can move on to some of the more advanced books.

Visit an ARMCHAIR INVESTOR CLASS

We have 4 classes given each week in Dallas, Addison and ONLINE:.
Visit a class as my guest

- [Monday nights 7 – 9 p.m.](#)
- [Wednesday mornings 10:00 a.m. to noon](#)

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Wednesday classes are Addison.

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