

ARMCHAIR INVESTOR^(sm) MORNING MARKET NEWSLETTER

A TREND-FOLLOWING STRATEGY

Armchair Investor Mantra:

- Be in the market when it is going up
- Be out of the market when it is going down

CURRENT MARKET DIRECTION: UPTREND under PRESSURE

Current Armchair Investor action:

I am in **CASH** (sold the QQQ)

Over the last 13 trading days, the market has shown a significant sell-off:

- **6 distribution days, 5 of which were Major Distribution days** (1% drop or more with higher volume.) **That is a serious amount of selling without any offsetting accumulation days.**
- **Not one accumulation day** (rising days with higher volume) in the last 20 trading days! That's a real sign of market indecision (*Just make up your mind and give me a direction to trade!*)
- **The Nasdaq and S&P500 are bouncing between their 50-day and 200-day moving average lines.** I like the 200-day support, but wonder what it will take to break above the 50-day resistance.

I continue to wait in CASH in my trend-following account. No QQQ for me while we are stuck in the sideways channel.

Current Signs of Market Strength:

- The Nasdaq and S&P500 hold near the 50-day moving average lines.

Current Signs of Market Weakness:

- The Nasdaq had **6 distribution days** (days of broad market selling) in the last 12 trading days with **NO accumulation days** in the last 20 days.
 - **Look for ADDITIONAL DISTRIBUTION DAYS (with other signs of weakness) to TURN THE UPTREND INTO A DOWNTREND!**
 - **FYI: "Correction" is just a softer word for Downtrend! Down is down!**

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

- I am 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.

See definitions and explanations of terms in each Friday Armchair Investor newsletter found in the Archives on the www.ArmchairInvestor.com site.

DAILY MARKET ACTION						
10/8/19	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	7,823.78	-1.7%	+9.1%	-8.9%	Major Distribution	+0.2%
S&P500	2,893.06	-1.6%	NYSE Volume		Major Distribution	+1.1%
DJIA	26,164.04	-1.2%	+4.0%	-15.8%	Major Distribution	+1.4%
A Major Distribution Day: indicates a day of heavy selling. I identify a Major Distribution day when an index FALLS 1.0% or more with higher Volume than the day before.						

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 53% to 39% in just 2 weeks.							
		A	B	C	D	E	As + Bs
4 weeks ago	9/10	8%	39%	24%	21%	8%	47%
3 weeks ago	9/17	12%	43%	22%	17%	6%	54%
2 weeks ago	9/24	10%	43%	23%	19%	6%	52%
1 week ago	10/1	8%	39%	24%	21%	8%	47%
Today	10/8	6%	34%	26%	24%	10%	40%
	#	397	2176	1692	1571	633	
Stocks with an A or B rating are under accumulation (being bought.) Stocks with a D or E rating are under distribution (being sold).							

ARMCHAIR INVESTOR TREND-FOLLOWING RETURNS Gains Locked on 10/2 in as Market Uptrend Faded			
10/2/2019 Gains locked in	ETF purchased on the Opening Price on 8/14/2019*	EXITED THE ETFS ON 10/2/2019	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. .

I Love Locking in GAINS – e.g. selling my market tracking ETF stocks for gains as I just did this week.

The primary purpose of the Armchair Investor newsletter is to let you, the reader, **make money using the trend of the market.**

By knowing the best (most reliable) market change signals, you, too, can:

- Get in the market near the bottom of a new bull market
- Exit the market near the top, and therefore,
- Capture more of the gains,
- Avoid more of the losses and, therefore,
- Earn higher returns than the “buy-and-hold” strategy recommended by many brokers and money managers!

Knowing when to get out of a market that has topped allows you to keep most of the gains. Do you really want to let your gains fade away as the market falls – sometimes for years?

Most downtrends (also called corrections) fall faster than the uptrend. I frequently wait out a mini-Downtrend in cash. But, I am not willing to sit in a sick, falling market and loss my hard earned gains. I will give you signals in this newsletter for the current market conditions:

- **Uptrends** (get in a market-tracking ETF such as the QQQ) and
- **Wait safely in cash** after taking an Uptrend profit
- **Downtrends** (usually waiting in cash unless the Downtrend is strong).

MARKET FACTORS, COUNTS & RATINGS

10/8/2019

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	
		0	6	
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	
		4	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		1.3		
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	
		Nasdaq	Below	Above
		S&P 500	Below	Above
		NYSE	Below	At
		DJIA	At	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	9/11/19	8169.68	+1.1%	-2.0%	21	—	DOWNTREND
19	9/12/19	8194.47	+0.3%	-4.4%	22	—	DOWNTREND
18	9/13/19	8176.71	+0.2%	-11.4%	23	—	DOWNTREND
17	9/16/19	8153.54	-0.3%	-7.1%	24	—	UPTREND
16	9/17/19	8186.02	+0.4%	+0.1%	25	—	—
15	9/18/19	8177.39	-0.1%	+9.7%	26	—	—
14	9/19/19	8182.88	+0.04%	-12.6%	27	—	—
13	9/20/19	8117.61	-0.8%	+72.2%	28	Minor distribution	DOWNTREND
12	9/23/19	8112.46	-0.06%	-44.6%	29	—	—
11	9/24/19	7993.79	-1.5%	+19.3%	30	Major Distribution	DOWNTREND
10	9/25/19	8077.38	+1.1%	-22.1%	31	—	DOWNTREND
9	9/26/19	8030.66	-0.6%	-15.4%	32	—	UPTREND
8	9/27/19	7939.63	-2.2%	+8.5%	33	Major Distribution	DOWNTREND
7	9/30/19	7999.34	+0.8%	-11.7%	34	—	DOWNTREND
6	10/1/19	7908.68	-1.1%	+24.9%	35	Major Distribution	DOWNTREND
5	10/2/19	7785.25	-1.6%	+0.3%	36	Major Distribution	DOWNTREND
4	10/3/19	78227.27	+1.1%	-21.7%	37	—	DOWNTREND
3	10/4/19	7982.47	+1.4%	-18.3%	38	—	DOWNTREND
2	10/7/19	7956.29	-0.3%	-12.6%	39	—	UPTREND
1	10/8/19	7823.78	-1.7%	+9.1%	40	Major Distribution	DOWNTREND

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

MARKET ACTION 2019 YEAR-TO-DATE			
10/8/19	2018 Closing Price	Current Price	Index % Change Year-to-Date
Nasdaq	6635.38	7823.78	+17.9%
S&P 500	2506.85	2893.06	+15.4%
NYSE	11374.39	12,590.91	+10.7%
DJIA	23327.46	26,164.04	+12.2%

LAST WEEK'S MARKET ACTION				
10/4/19	Weekly Index % Change	Weekly Volume % Change	Volume Above/ Below 10-week Avg	Type of Week
Nasdaq	+0.5%	+4.1%	+1.0%	Minor accumulation
S&P 500	-0.3%	S&P 500 Volume		Minor distribution
DJIA	-0.9%	+3.5%	-5.0%	Minor distribution

HOW CLOSE ARE THE INDICES TO ALL-TIME HIGHS?				
10/8/2019	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	7823.78	2893.06	12590.91	26164.04
Below (-) or Above (+) Recent High (%)	-6.2%	-4.5%	-7.7%	-4.5%

Nasdaq Daily 4 month chart, (updated Tuesday)

Nasdaq caught between the 50- and 200-day moving average lines.



Nasdaq Weekly 1 year chart, (updated Friday)

Index bounces off its 10-week moving average line. Volume is average – not a strong Uptrend signal, yet.



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

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

S&P500 caught between 50- and 200-day moving average lines



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

Index bounces off its 10-week moving average line. Volume is average – not a strong Uptrend signal, yet.



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

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. In this condition, the market has a 50-50 chance of falling 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 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 positions 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 each night 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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9/27/19	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	7,939.63	-1.1%	+8.5%	-11.0%	Major Distribution	+1.7%
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%

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**.

** 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%
<p>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% or more 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% or more with strong Volume (either higher than the day before or is well-above average volume).</p>						
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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.

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Wednesday classes are Addison.

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