

ARMCHAIR INVESTOR^(sm) MORNING MARKET NEWSLETTER

A TREND-FOLLOWING STRATEGY

Please send any comments and ideas about how to improve this newsletter to Newsletter@armchairinvestors.com Thank you!

CURRENT MARKET DIRECTION: UPTREND

Armchair Investor Trend-following
 Investment Action:

I hold the QQQ
 And now the TQQQ

Friday: GET IN THIS MARKET! For the week: the **Nasdaq rose 4.0%** and the **S&P500 rose 3.2%**. Wow! China cut tariffs on US imports – a stimulant to US trade. For ideas of hot stocks to buy, read the IBD Big Picture, Stock Market Today and IBD 50 list at investors.com.

REMEMBER: The Uptrend continues to rise... until it doesn't!

Some other Signs of **Market Strength** last week:

- **All indexes leapt to all-time highs!** (I pay most attention to the Nasdaq and S&P500) but it's great to see the DJIA joining in. See page 9
- **The QQQ is up 7.8% this year.** See Armchair Investor Trend-following. page 3
- **8 Accumulation days versus only 2 distribution day** in the Nasdaq's last 20 trading days! **Wow – that is lopsided to the upside!** See page 7
- **The ratio of rising to falling Leader stocks is a strong 1.8.** page 6
- **All major indexes are above their 50-day moving average lines.** page 6

Current Signs of **Market Weakness:**

- 2 distribution days in 20 trading days. pg 7 *That's it? Yawn!*

DAILY MARKET ACTION						
2/7/20	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	9520.51	-0.5%	-2.9%	-11.5%	Neither	+18.0%
S&P500	3327.71	-0.5%	NYSE Volume		Neither	+14.0%
DJIA	29102.51	-0.9%	-3.5%	+5.3%	Neither	+11.3%

MY PLAN FOR MONDAY: Hold the QQQ. I bought a half position in the TQQQ Wednesday. I do not make recommendations but give you ideas to consider. Most investors own the QQQ or the TQQQ (when the market is uptrending!) I sometimes hold both just to document the buy and sell prices.

I am holding a few stocks (up to 5) that are top performers. I watch for new hot stocks!

I keep my original **stop orders** on my current stocks as they rise. Most of the time I sell my stocks based on weak price-volume action – distribution, etc. before they hit their stops. Is it time to re-read the SELLING rules in your “**How to Make Money in Stocks**” book? If you live in the DFW area, **join my weekly classes (Monday 7-9 p.m. and Wednesday 10-noon.)** Visit my **Armchair Investor Meetup** site for details and to register as my guest.

THE ARMCHAIR INVESTOR TREND-FOLLOWING STRATEGY

A Simple and Powerful Tool to Increase Your Returns

Armchair Investor Mantra:

- **Be IN the market** when it is going up
- **Be OUT of the market** when it is going down
- **Protect your portfolio** with 8% stops.

The primary purpose of this Armchair Investor newsletter is to let you, the reader, earn bigger returns riding the trend of the market.

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

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

Why a “Buy-and-Hold” strategy doesn’t work well:

When the market has topped and starts to fall, do you really want to let your profits fade away as the market falls – sometimes for years? Of course not! Selling your uptrend position allows you to capture your gains and store them safely away in cash. What is the right time to exit? This newsletter will show you the market’s signal.

Most downtrends (also called corrections) fall faster than the uptrends rise.

I am not willing to sit in a sick, falling market and lose my hard earned gains! Cash is a safer position!

Here are the three signals I will give you in this newsletter for the three market conditions:

- **Uptrends:** When the market rises into an Uptrend, buy and hold the QQQ, a stock that rises with the general market.
- **Uptrend showing Weakness:** As a market Uptrend starts to fall, you will receive the signal to exit the QQQ and safely wait in cash.
- **Downtrends:** If the market continues down, you will receive a signal to buy the PSQ, a stock that rises while the market falls.

FINALLY – For individual stocks: Use these market signals to help you when buying individual stocks. You increase your likelihood of a successful stock purchase if you only buy stocks when the market is in an Uptrend. Lesson: Don’t fight the market trend!

The Armchair Investor strategy (explained above) is simple:

- Be IN the market when it is going up.
- Be OUT of the market when it is going down.
- PROTECT your portfolio with an 8% stop.

2020 ARMCHAIR INVESTOR RETURNS

ARMCHAIR INVESTOR TREND-FOLLOWING RETURNS 2020						
Market Direction Changes	Direction	Position	# days	Price	\$ GAIN in each trend (See note)	Total Armchair Investor GAIN since 12/31/2018
12/31/19	Uptrend	Hold the QQQ	38	\$212.61	\$16.59	\$16.59
2/7/2020	Uptrend continues	QQQ		\$229.20		
TOTALS for 2020			38		\$16.59	7.8%

2019 FINAL ARMCHAIR INVESTOR RETURNS

ARMCHAIR INVESTOR TREND-FOLLOWING RETURNS						
Market Direction Signal Change	Direction	Position	# days	Price	\$ gain this trend	TOTAL GAINS EARNED IN 2019
12/31/18	Downtrend	Cash	4	\$153.33	\$0.00	\$0.00
1/4/2019	Uptrend	Buy the QQQ	129	\$155.60	\$23.15	\$23.15
5/13/2019	Downtrend	Cash	28	\$178.75	\$0.00	\$23.15
6/10/2019	Uptrend	Buy the QQQ	56	\$184.29	-\$2.28	\$20.87
8/5/2019	Downtrend	Cash	8	\$182.01	\$0.00	\$20.87
8/13/2019	Uptrend	Buy the QQQ	56	\$184.94	\$2.02	\$22.89
10/8/2019	Uptrend Weakness	Cash	6	\$186.96	\$0.00	\$22.89
10/14/2019	Uptrend	Buy the QQQ	78	\$191.65	\$20.96	\$43.85
12/31/2019	End of Year	Holding QQQ		\$212.61	YTD Gains	\$43.85
TOTALS for 2019			365			

**HOW CAN YOU CAPTURE THOSE
GREAT MARKET GAINS SHOWN ABOVE?
USE THE ARMCHAIR INVESTOR PLAN:
*It's as easy as 1- 2- 3!***

STEP 1: Ride a rising market UP.

STEP 2: Protect your investments during a weakening Uptrend

STEP 3: Go to cash in a falling market.

This newsletter will identify the market direction, (step 1, step 2 or step 3) and explain what you can do to grow and protect your portfolio.

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

Find the market direction diagnosis every night in this newsletter.

- In the Uptrend, buy the QQQ the next morning if you don't yet have that position. This newsletter will alert you to the Uptrend signal! *The QQQ follows the ups and downs of the Nasdaq100, allowing you to grab the rises of an 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, 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 starts to show significant weakness (read this newsletter nightly!

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

“Uptrend under Pressure” is a Warning Message and means:

- The market is showing significant distribution (selling pressure.)
Investors should:
 - **Be concerned about the strength of this Uptrend.**
During an Uptrend under Pressure, this newsletter may move into CASH position to avoid possible losses.
 - **Check on the health of your investments each night!** Many investors do not buy new stock positions during this period due to higher failure rates.
- **From STEP 2, “Uptrend under Pressure,”** the market diagnosis will go one of two ways:
 - **Rise** with price and volume strength, and return to **Uptrend – (STEP 1),** or
 - Continue to add more distribution days and **fall** into a **Downtrend (correction)**
- This is a time to pay attention to the market behavior.

STEP 3: When the market diagnosis goes to “Downtrend”

Capture much of the gains from the Uptrend by selling your Uptrend ETF position (QQQ, QLD or TQQQ) when the market diagnosis goes into Downtrend to capture much of the 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, this Market Tracking Strategy has outperformed the market when traded according to these signals.

BONUS: 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).

MARKET FACTORS, COUNTS & RATINGS		2/7/2020	
Type of Day for <u>Nasdaq Index</u> Accumulation, Distribution or Neither		Neither	
I track the <u>Nasdaq's</u> price-volume because it usually leads the market direction.			
Market Direction Uptrend, Under Pressure, Downtrend		UPTREND	
<u>Nasdaq Accumulation & Distribution Days (last 20 days)</u> Only accumulation and distribution days since the last market direction change are in this count.		Accumulation Days 7	Distribution Days 2
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 6	Down Days 3
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		1.8	
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 B+	S&P 500 B
		DJIA B	
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 Above	200-Day Above
Nasdaq		Above	Above
S&P 500		Above	Above
DJIA		Above	Above

The Armchair Investor Trend-following Basic strategy uses the QQQ. If you had bought the QLD (double QQQ's) or TQQQ (triple QQQ's) you would have made a much prettier return! But you also have a higher risk when the market reverses!

ARMCHAIR INVESTOR TREND-FOLLOWING EARNINGS USING SINGLE, DOUBLE AND TRIPLE ETFs				
ARMCHAIR INVESTOR TREND-FOLLOWING RETURNS				
Current Uptrend				
2/7/20	Opening Price on 8/14/2019*	TODAY's Closing Price	ETF % Change Today	Gain or Loss Since 8/13/19 Uptrend Signal
QQQ (1x)	\$185.31	\$229.20	-0.4%	+23.7%
QLD (2x)	\$93.62	\$140.77	-0.9%	+50.4%
TQQQ (3x)	\$59.15	\$107.02	-1.3%	+80.9%

Note: The links to update "TODAY's Closing Prices" in this table were broken recently. The above Closing Prices are corrected. 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.

>>> The stocks with A or B Accumulation/Distribution ratings lightened up over the last 4 weeks dropping from 65% of all stocks to **50%**. Still lopsided to A and B rated stocks! (an even distribution would be only 40%)

PROGRESS IN ACCUMULATION/DISTRIBUTION RATINGS							
		A	B	C	D	E	As + Bs
4 weeks ago	1/9	16%	49%	20%	12%	4%	64%
3 weeks ago	1/16	18%	49%	19%	11%	4%	66%
2 weeks ago	1/24	17%	46%	20%	13%	4%	63%
1 week ago	1/31	11%	42%	21%	18%	7%	54%
	2/7	13%	42%	21%	17%	7%	55%
	# stocks in each rating:	829	2751	1375	1145	468	6568

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

AN EVEN SPLIT: Since there are 5 ratings, each would equally get 20%. When the market shows heavy buying of top stocks, the A and B counts will rise and the D and E counts will fall. When the market is heavily selling stocks, the opposite happens,

THE SIGNAL: Notice I have noted the % of all stocks that have A or B ratings.

- When the A+B% rises, I know the market, as a whole, is being bought.
- Any total of A+B's over their "fair share" of 40% (2 ratings out of the 5 possible ratings= 40%) is **good news**. (continued next page...)

A BETTER SIGNAL A rising A plus B total is even better! Examine the last column to see the jump in A+B over the last 4 weeks! This means, if you are looking at the best stocks, there are lots of high performing stocks to consider.

>>>>Now, go find the strongest stocks, breaking out powerfully from well-formed bases!

HOW CLOSE ARE THE INDICES TO ALL-TIME HIGHS?				
2/7/2020	Nasdaq	S&P500	NYSE	DJIA
Date of Index All-time High*	2/6/2020	2/6/2020	2/6/2020	43867.00
All-time High	9575.66	3347.96	14069.43	29372.62
Closing Price	9520.51	3327.71	13931.93	29102.51
Below (-) or Above (+) Recent High (%)	-0.6%	-0.6%	-1.0%	-0.9%

*New Highs are daily intraday prices and are noted in **green for a week, even if the price drops lower.**

MARKET ACTION 2020 YEAR-TO-DATE			
2/7/20	2019 Closing Price	Current Price	Index % Change Year-to-Date
Nasdaq	8972.61	9520.51	+6.1%
S&P 500	3230.78	3327.71	+3.0%
NYSE	13913.03	13,931.93	+0.1%
DJIA	28538.44	29,102.51	+2.0%

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				
2/7/20	Weekly Index % Change	Weekly Volume % Change	Volume Above/ Below 10-week Avg	Type of Week*
Nasdaq	+4.0%	-2.7%	+10.0%	Major Accumulation
S&P 500	+3.2%	S&P 500 Volume		Major Accumulation
DJIA	+3.0%	+0.6%	+21.0%	Major Accumulation

2/7/2020 Note: With the Nasdaq up 4% for the week with volume 10% above average, I have called the week a **Major Accumulation** week, even though the volume was lower than last week. That was a Large rise on High volume!

Nasdaq bounces off 50-day moving avg line – sign of STRENGTH !
Nasdaq Daily 4 month chart, (updated Friday 2/7/2020)



Nasdaq bounces off 10-week moving avg line – sign of STRENGTH!
Nasdaq Weekly 1 1/2 year chart, (updated Friday 2/7/2020)



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

S&P500 bounces off 10-week moving avg line – sign of STRENGTH!

S&P500 Daily 4 month chart, (updated Friday 2/7/2020)



S&P500 Weekly 1 1/2 year chart, (updated Friday 2/7/2020)

S&P500 bounces off 10-week moving average line – sign of STRENGTH!



These charts are from [StockCharts.com](https://www.stockcharts.com), a valuable site for investors with many free tools

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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

See additional definitions on the following pages....

**EXAMPLE of the DAILY MARKET ACTION table
with explanation of terms and signals:**

THE DAILY MARKET ACTION						
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						
10/25/19	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	8,243.12	+0.70%	+1.2%	-2.1%	Neither	+5.3%
S&P500	3,022.55	+0.41%	NYSE Volume		Neither	+5.3%
DJIA	26,958.06	+0.57%	-9.2%	-1.5%	Neither	+4.3%
<p>A Major Accumulation Day: Price RISES at least 1.0% or more with higher Volume than prior day.</p> <p>A minor accumulation Day: Price RISES at least 0.2% and less than 1% with strong Volume (either higher than the day before or is well-above average volume).</p> <p>A Major Distribution Day: Price FALLS at least 1.0% or more with higher Volume than the day before.</p> <p>A minor distribution Day: Price FALLS at least 0.2% and less than 1% with strong Volume (either higher than the day before or is well-above average volume).</p> <p>If the day's price/volume action does not meet the accumulation or distribution definitions above, it is a "Neither" day.</p>						
<p>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 p.m. 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 the same source for your volume.</p>						

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.

Visit an ARMCHAIR INVESTOR CLASS

We have 2 live classes given each week in Dallas and one on-demand ONLINE class. Visit a class as my guest

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- [Wednesday mornings 10:00 a.m. to noon](#)
- Monday and Wednesday classes meet in north Dallas.
- Online classes and consultations available by appointment – **Call me for a FREE introduction!**

Newsletter readers get a FREE class visit:

Monday evening, or Wednesday morning in Dallas OR another time online.

Call or text me to set up your visit.

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CALL EARLY: Seating is limited to no more than 3 guests at each session to ensure the paid subscribers receive full value.