IN THIS ISSUE…

- 2016 Fall Financial Market Outlook by Pring Turner Capital Group - Page 3
- 2016 Year in Review – Commodities by Greg Schnell, CMT, MFTA - Page 14
- Two Roads: 1 To N, 0 To 1 By Charlie Bilello, CMT - Page 23
- Fundamental Line Indicators for Investors by Martha Stokes, CMT - Page 28
- The Power of Avoiding Mistakes by Stephen Duneier - Page 31
- Markets Are Too Complacent About China’s Currency Slide by Global Income Team, Eaton Vance - Page 36
- Call for Nominations - Page 38
- Yield-Hungry Investors Explore CBOE’s Option-Selling Benchmarks During Bond Market “Rout” By Matt Moran - Page 39
- Chart Of The Month By Greg Schnell, CMT, MFTA - Page 44

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Summary

This update focused on the challenges facing investors. Retired investors are especially challenged to both protect and grow their portfolios in today’s low return world. We started by highlighting the dual challenges of high stock market valuations coupled with record low interest rates. The current starting point today of near record high equity valuations points to low future investment returns. Investors and savers are also challenged by the fact yields have never in America’s 240-year history been as low as they are currently!

Martin Pring shared his analysis of the economy and financial markets. He likened the economy to an auto race, where the driver had just finished a pit stop, was refueled and moving back on to the racetrack again. Implications of an economic “second wind” mean an improving stock market, higher interest rates (lower bond prices) and higher inflation.
Joe Turner, addressed how these observations affect portfolios. Economically sensitive companies in the industrial, machinery, and chemical industries have been added. Longer maturity bond positions have been reduced and will be replaced with shorter maturity bonds.

Tom Kopas reviewed the many, many investment challenges the firm had faced and met during its 40-year history. He further illustrated several risk management tools the firm incorporates into the decision-making process that protects portfolios in rough times and grows portfolios in the good times.

Pamela Ross, our new office manager, discussed very critical information concerning cybersecurity and the importance of making sure your estate and contingency plan are up to date. She further explained how Pring Turner can help coordinate efforts with your legal advisor and next generation.

**We hope you appreciate reviewing the slides and notes in this summary update!**

Investors, savers and especially retired investors find themselves in the proverbial position between a rock [lower expected returns] and a hard place [higher cost of living]. One example of low returns is in the bond market. Never in 5000 years of recorded history have investors had to deal with **negative interest rates**, but it is a fact today. An astounding 47% of global interest rates are in negative territory. Remarkably, savers pay the bond issuer to hold their money! Also 80% of bonds pay investors under 1% and a full 96% of all global bonds pay less than 2%. Purchasing a ten year U.S. government bond today locks in a paltry 1.58% for the next ten years…. that is one reason why we suggest investors lower their expectations for future investment returns.
For stocks, investors should also lower their return expectations. Present valuation measures determine future long term returns. If valuations are low, then future returns promise to be substantial. If valuations are high, as they are today by most any measure, then returns will be more meager in subsequent years. Passive index investing, also known as “buy and hold” investing will likely prove to be both a frustrating and disappointing experience in the years ahead. Active investing or active asset allocation holds the potential to generate better investment results and eventually will return to favor with investors. The typical Pring Turner client, during the decade starting in 2000 where stock valuations travelled from starting 144% above mean level to ending the decade near 17% under mean valuations still earned solid returns with nearly half the market risk. With similar starting conditions today we understand the challenges ahead and optimistically look forward to protecting and growing your wealth in the future.

During a race, a racing driver needs a pit stop to re-fuel every so often. This is a necessary forced rest in order to continue the race. The stock market and economy are no different, every so often they need a pit stop to refuel and extend the cycle. After a nearly two-year slowdown in economic growth and a relatively range bound stock market, we are encouraged by recent strengthening in a number of gauges including a reliable economic indicator, the Chemical Activity Barometer. The top half of the chart shows the S&P 500 with red highlights indicating recessions. The bottom panel depicts the momentum of the Chemical Barometer, a leading economic indicator published by the American Chemical Council. Each time this indicator falls below zero the U.S. experienced a recession. The only exception was 2002, when the economy recovered but the S&P 500 (at the time heavily weighted with tech stocks) was still crying the blues over the unwinding of the tech bubble. Today, momentum in this indicator is turning up from just above the zero line signaling renewed economic growth and stock prices are likely to strengthen once again. In other words, the economy has experienced a slowdown in growth and taken a pit stop to refuel. In the past such reversals in Chemical Barometer momentum have led to further gains in the stock market.
U.S. Treasury yields have been falling since September 1981. That is what we call a very long-term or secular decline in yields which translates to a secular bull market in bond prices the last 35 years. From the peak of 15% yields back then all the way down to only 2.1% rates today, a truly historic time period! The bottom panel shows the 12-month rate-of-change (ROC) for U.S. Treasury bond yields. Yields are like elastic. If they stretch too much one way, we should expect a strong movement in the other direction. The ROC is our way of representing the elastic. By establishing when it is overstretched and observing a reversal we get a timely signal that a new trend is under way. The green arrows near the -25% line represents where yields have been stretched too low and are likely to reverse higher. The clear message from this chart is to avoid longer term bonds for now because yields are likely to move higher and bond prices lower. This is certainly consistent with what we saw in the last chart which suggested the economy was about to re-accelerate after a temporary slowdown. With an improving economy and higher interest rates, inflation sensitive assets typically outperform. Let’s take a look at commodities next.
The top half of the chart is the CRB Spot Raw Industrial index reflecting only prices of industrial commodities. The green vertical lines flag the major commodity lows going back to the 1950’s. Industrial commodity prices are very much influenced by swings in the economy, so after several very weak years it is encouraging to see recent strengthening in this index. The bottom panel depicts the momentum of Capacity Utilization, an indication of whether manufacturing plants are either somewhat more idle or running at higher capacity. Recently this indicator has turned up and reinforces the case the economy is picking up speed and commodity prices will continue to strengthen. After a pit stop to refuel it’s time to re-accelerate! Putting all three slides together, economic growth is ready to improve giving stocks and commodities a favorable tailwind. Resource based companies in the energy, metals and industrial sectors are prime beneficiaries in this part of the cycle. On the other hand, longer term bonds, which do poorly as inflation and interest rates rise are best avoided for the time being.
Reinforcing the positive view for stocks let’s turn our attention to Pring Turner’s Stock Speedometer, a portfolio management tool that combines a wide range of stock market indicators. Historically higher readings (maximum 100) have led to better returns for the average stock; conversely, lower readings (minimum 0) have led to poorer returns. The speedometer is designed to identify the primary environment of the stock market. Similar to your car speedometer, it signals us how fast or slow to safely drive your portfolio. As the Speedometer changes we make important portfolio adjustments in order to better navigate the financial road conditions ahead.

The Stock Speedometer has two crucial zones: a “Safety Zone” and a “Danger Zone”. Since 2000, the New York Stock Index (a broad proxy for U.S. Stocks) returned +12% per year on average with the speedometer in the positive or Safety Zone. In comparison, the New York Stock Index has dropped -21% per year on average with the speedometer in the negative or Danger Zone. Danger Zone readings do not come around very often (roughly ¼ of the time), but when they do it is imperative to execute a defensive investment game plan. The Speedometer is an excellent new tool that builds on the decades long research work to manage market risk for even better risk-adjusted portfolio returns.

The latest reading for the Stock Speedometer is 90 and solidly in the “Safety Zone”. This is dramatically improved from late 2015 and early 2016 when it stayed in the “Danger Zone”. The latest reading gives us confidence to continue gradually adding positions to your portfolio.
The last 16 volatile years have shown plenty of cyclical ups and downs. For a buy and hold investor who is also a retiree taking out monthly withdrawals ($50,000 annually), it has been especially difficult. For example, since 2000, $1,000,000 invested in the S&P 500 has dwindled to just under $325,000 (red line)—and there is still a need to withdraw $50,000 per year to meet retirement spending needs. On the other hand, the typical Pring Turner client (green line) has taken out the same withdrawals and protected the original nest egg with a current balance of just over $1,148,000. Our active investment strategy has outperformed passive or index investing approaches while taking roughly half the market risk. Your valuable nest egg and your income have been protected over the long run by Pring Turner’s pro-active conservative investment management. How did we outperform the market while taking less risk to secure your retirement? Let’s review three key Pring Turner disciplines used to mitigate risk.
As a conservative investment advisor, we have always built many layers of risk protection into your portfolio, including our key components of quality, value and income. One criterion to assure your portfolio has the highest quality levels is to integrate ValueLine’s Safety Ranking into our decision-making process. ValueLine, founded in 1931, is a highly regarded independent investment research publishing firm. Their ranking system compares and combines balance sheet, financial strength and price stability to arrive at a safety ranking. Ranks of 1 and 2 are the highest quality and safety levels. Rankings of 3 are average, while safety rankings of 4 or 5 are below average for quality and safety. As shown in the table, historically the stocks with the highest quality rankings go down much less during significant stock market declines. We remain diligent in our efforts to emphasize the top safety rankings for you. You can sleep easier knowing the higher quality levels in your portfolio are structured to withstand challenging markets, allowing your portfolio to both generate consistent income and recover from market declines more easily. This is just one more example of how we build a portfolio with safety in mind. By the way, like you, we also like to sleep well at night!

Value Has Underperformed Growth Only Six Times Since 1945...

...Each Time Value Has Had A Significant and Lengthy Period of Outperformance

We could fill an entire library with academic studies that demonstrate a disciplined value approach gives far superior returns with less risk than a growth approach. In other words, growth gets the glamorous headlines, while value quietly gets the better results. Our clients’ long-term track records demonstrate that when you combine a playbook for both offense and defense, along with disciplined value investing, investors can achieve solid risk-adjusted returns. Of course, no investment approach is perfect and every few years we expect to encounter some rough patches. Even the most
successful investment strategies will temporarily fall out of favor and their followers may lose patience. Such has been the case in recent years as value investing has experienced its longest dry spell in over 70 years. So, what can value investors expect looking forward? The chart compares these two investment styles and illustrates that every temporary period of under-performance for value vs. growth investing in the past 70 years has experienced a return to value’s pre-eminence with strong absolute and relative performance. We believe the environment today is quite similar to the early 2000’s following the dot.com bust when leadership changed and value stocks outperformed for a number of years. Evidence is building that value is starting to once again reassert its long-term dominance of roughly 5% annual out-performance. As value investors we can all look forward to a return to better results ahead.

*Your Average Stock Yield – 3.3% Growing*: is the current yield of a typical Conservative Pring Turner Portfolio. Individual account yields could be higher or lower.

In today’s low return world we continuously search for ways to improve income in your portfolio. For instance, the current dividend yield for the S&P 500 index is roughly 2%. On the other hand, the dividend yield for stocks in the *typical Pring Turner portfolio average 3.3%, that’s roughly 2/3 higher than the broad stock index. Whether stocks go up or down it is nice to know that above average, dependable income from dividends flows into the portfolio providing a solid base of return. To further enhance portfolio income we will from time to time be incorporating a conservative strategy, covered call writing. Look for educational material to reach you soon and we stand ready to answer any of your questions regarding the strategy.

**Summary**

The main takeaway from this fall update is that the challenge investors face is lower future returns from both stock and bond markets. If history is a guide, these lower returns will be broken by intermittent rallies and declines. This means
investors should have a game plan to both grow portfolios in favorable periods and take defensive steps in unfavorable markets. This is our proven formula to prosper during this challenging time.

Pring Turner has an organized and disciplined decision-making process that has been helping investors meet whatever challenges face them. The Pring Turner team has faced and successfully met recessions, stock market crashes, interest rates that reached the highest in U.S. history and the lowest rates in our history, along with real estate and technology bubbles and all along the way with both Republican and Democrat administrations. We are confident our experience and investment disciplines will deliver positive returns, no matter the challenges we all face.

Pring Turner is an Investment Advisor in Walnut Creek, California. The firm serves the Walnut Creek, Danville, Alamo, Pleasanton, Orinda, Lafayette, Moraga, Pleasant Hill, and broader San Francisco Bay Area. Since 1977, the firm has specialized in providing personalized financial advice, financial planning, and investment management services to individuals, organizations, and other financial advisors. To learn more, please visit their web site.
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Optuma—the official chart sponsor of the CMT program—is launching online CMT Prep courses for all three levels of the exam.

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These interactive courses will be presented by our two resident CMTs as live webinars, with recordings available until the exams.

Presenters

Mathew Verdouw, CMT, CFTe

For over 20 years, Mathew has been building the Technical Analysis software that is Optuma. Programming the models has given Mathew intimate knowledge on the theories of Technical Analysis. Working with CMTs all over the world has provided the practical implementation of how they’re used. Mathew completed his CMT designation in 2013.

Carson Dahlberg, CMT

Starting as an advisor for Morgan Stanley, then a trader at Wachovia, Carson discovered the effectiveness of Technical Analysis in managing opportunities, risk and emotions. Carson has previously taught CMT Prep courses. He serves on the MTA board, and is Chief Market Strategist for Optuma. Carson completed his CMT designation in 2008.

Enrollments open September 1
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2016 YEAR IN REVIEW - COMMODITIES

BY GREG SCHNELL, CMT, MFTA

Editor’s note: This was originally published at StockCharts.com. Additional 2016 Year in Review articles addressing different markets were also published and can be viewed by clicking the market name, Equities, Currencies, Bonds.

When we look back on 2016, we can add a few tips to our trading journals. Lots of key moments created great buying opportunities. After years of commodities being routed, it was a year for commodities to create fantastic returns. While many Main Stream Media channels focus on the commodities, the majority of the moves happen in the companies related to the commodities.

From the two sectors (Materials and Energy) that generated some phenomenal individual company returns, it is worth looking back to add tips into our trading journal for future use.

Here is the stellar chart showing how ETF’s that average the companies in the industry group moved. Key Commodity Producer ETF’s. Junior Gold Miners were up 160% on average by August! More ‘Senior’ Gold Miners peaked out at 130%, Steel and Coal related companies reached 120%, Copper at 95%, and the Oil and Gas E&P (Exploration and Production) companies only generated 45% at the peak!
Some of the individual large-cap companies had stellar years.

Looking at the specific commodity charts, they were really weak as a group starting the year. Everything had been in a downtrend for years. The bounce was huge!
I had some notes on the $CRB chart all year which I put on as they happened. One of the big benefits of annotating charts is allowing the data to help you understand the importance of what you were watching at the time. Anglo-American, one of the largest companies in the space, announced they were going to lay off almost 2/3 of their staff! Look where that arrow ending up pointing. Pretty much on the lows for the entire commodity complex! However, there are also notes about Glencore and CAT that might have been potential bottoms.

A few years ago, Rare Earth Metals were all the rage in 2011. Gold and Silver were all the rage in 2011. Base metals in general were all the rage in 2011. Shale Oil was all the rage in 2014. Marijuana is all the rage in 2016. Lithium is all the rage in 2016. Can we learn from those previous groups? Let’s take a moment and look at the leaders in Lithium and Marijuana.

Here is a current Lithium stock. Albemarle (ALB). It has been one of the leaders in the industry with SQM and FMC. In both 2011 and 2012, ALB became a top performing stock when the SCTR moved above 75. But more importantly, the trend
changed when ALB stopped being a top performing stock. It spent almost 4 years with an SCTR under 50. That means it's price action compared to the large cap SCTR group was in the bottom 50% of the market. You can't outperform when you are not outperforming. Why own an under performer?

In 2016, Albemarle went above 75 in January 2016 and the stock went on a tremendous run. Now look at the signal on the SCTR. On the most recent high, the trend of outperforming is starting to diminish as it fell below 75, then failed to get back above it on the rally. To confirm, the MACD is putting in a dramatically lower high in momentum compared to price at a new high. Exiting a great trade is very important. This looks like a beautiful reason to take profits. If it starts to outperform in 2017 again, we’ll have a reason for a new entry. FMC looks stretched and SQM just had the SCTR fall below 75. Caution is warranted in the industry group for 2017.
Let’s move onto the new industry of Cannabis. In Canada, where I live, our business news channel has a Cannabis industry CEO on every week for interviews. The Prime Minister campaigned on legalizing Marijuana. The Marijuana stocks went on a fabulous run. But for investors, leaving a great trade is so important to making large profits. Commodities are riddled with parabolic finishes. Understanding how to invest in them is probably more important than most trading styles, because the losses mount ferociously quick! In this example below, the largest marijuana stock surged 550% over 4 months. On the day of the high, the stock had a 40% move!!

We can go back and look at how Gold traded in 2011. The actual trading pattern may not match, but the emotions of traders during parabolic spikes rarely fails to disappoint. What might we expect? We could expect a false breakout with a ripping reversal that never gives the breakout buyer another chance to get even for years! We could expect a meaningful breakout a year or so down the road. There is still a lot of emotion in CGC.TO that probably needs time to move the stock from weak hands to strong hands. My suggestion would be to stay extremely nimble as an investor in Marijuana related
stories for the upcoming year. The US election is over and the states that have adopted more liberalized laws towards Cannabis have already voted on this subject. Looking at the industry currently, it has all the makings of meaningful, multi-year top in place. It may be different this time, but stay nimble.

Outlook for 2017:

One of the areas of beaten down reversals may come in the form of Uranium. The big 800-pound gorilla is Cameco (CCJ). As you can see on the chart below, we are at the horizontal support / resistance and the downtrend line. Worth watching as this could be the commodity stock story for 2017.
I do think there is an important message in the commodity charts in general.

When the oil price soared to $149 back in 2008, this price was high enough to allow a lot of development in alternative fuels. At the end of 2016, we have not seen a major breakup in any of the industry groups. Wind and Solar seem to be spinning and shining into the grid, Natural Gas is abundant in North America, the Eagleford and the Bakken are already drilling again, and the US now allows the exporting of Crude Oil and Natural Gas. Coal is still abundant but not environmentally preferred and there is no shortage of Uranium apparently. More Nuclear power plants in China and India as well as other locations are coming on stream every year. What does it all mean?

At this point, the world seems to have eight abundant sources of low cost energy, with three prominent cost efficient sources in wind, solar and tidal added to the conventional five; Oil, Natural Gas, Nuclear, Hydro, and Coal. How it all settles out does not seem obvious. Long term investors in every area have been handsomely rewarded, then mutilated.
in the last 10 years. 2016 was an up year for some of the energy trades, but the energy trades lagged the basic materials trades substantially.

The question I keep asking is: Why are Commodities at lower price levels as a group than they have been in the last 45 years? This is an important question. Has something fundamentally changed? For that we'll need to keep watching. If this is a five wave move for commodities, perhaps this is just wave 4 and we have one more multi-year flush below. For reference, oil was at $12 in 2000. The current low on the $CRB was made when oil bottomed around $26. Oil makes up 23% of the $CRB. Hard to trade a Kondratiev cycle, but I think being aware of the cyclical nature might help us stay on the right side of the trade. You can see in the zoom box on the right, that the December close was the same as the June close. From 1980 to 2002, commodities continued to make lower highs. We could bounce up to the 220-240 range and still not violate the downtrend.
Regardless of how bullish we want to be, we still have lower highs and lower lows since 2008. Until that secular trend changes, investors should be wary of the wild swings in the commodities market. For now, the $CRB is above the 10-month MA as shown in green. It was below it as recently as last month (November).

My notes for my Traders Journal: Bombed out sectors can really rally hard. When there is blood in the streets, it might be time to revisit the area. The bearish news should be a flag to watch the industry, not invest. Price action has to confirm the suspicion. Stay tuned for big opportunities showing up again in 2017.

Commodities: Bullish until proven otherwise.

Greg Schnell, CMT, MFTA, is a Senior Technical Analyst at StockCharts.com specializing in intermarket and commodities analysis. Based in Calgary, he is a board member of the Canadian Society of Technical Analysts (CSTA) and the chairman of the CSTA Calgary chapter. Greg joined StockCharts.com in 2012 and has be instrumental in helping launch a variety of new blogs and other commentary platforms such as our weekly webinar shows. Presently, Greg contributes market analysis commentary to The Canadian Technician, Commodities Countdown and Don't Ignore This Chart blogs. His primary technical interest is in the global intermarket relationships between the equities, bonds, currencies and commodities markets.
“Doing what we already know how to do takes the world from 1 to n, adding more of something familiar. But every time we create something new, we go from 0 to 1. The act of creation is singular, as is the moment of creation, and the result is something fresh and strange.” – Peter Thiel, Zero to One

Two roads diverged: one takes you from 1 to n and the other from 0 to 1.

On which path is the asset management industry headed?

If we’re being honest, the answer is clear. It’s on the road from 1 to n and has been for some time now. Technology and intense competition are driving down fees at an accelerating pace. There is no sign of this trend abating anytime soon and no economic rationale why it should. If this continues, we will eventually reach a state of “perfect competition,” where in the long run no company makes an economic profit. From Thiel:

“‘Perfect competition’ is considered both the ideal and the default state in Economics 101. So-called perfectly competitive markets achieve equilibrium when producer supply meets consumer demand. Every firm in a competitive market is undifferentiated and sells the same homogeneous products. Since no firm has any market power, they must all sell at whatever price the market determines. If there is money to be made, new firms will enter the market, increase supply, drive prices down, and thereby eliminate the profits that attracted them in the first place. If too many firms enter the market, they’ll suffer losses, some will fold, and prices will rise back to sustainable levels. Under perfect competition, in the long run no company makes an economic profit.”

Vanguard may be perfectly happy in such a world, but most other firms will not be. They will leave to find an industry where they can actually make money, supply will come down, and only then will prices stabilize. With over 10,000 hedge funds currently managing a record $3 trillion at high fee levels, however, we are a long way from such a world. And with hedge funds underperforming by a wide margin over the past 10+ years now (see here and here), there is every reason to believe that we are still in the early stages of such a transition.

While the massive shift from active to passive may ebb and flow in years to come, the underlying force (technology and competition) will remain. Unless technological advances slow (not likely) and competition abates (we are a long way from that), fees will have to come down to the point where active managers earn their keep.
But what about the active managers who have been screaming about “peak passive” for years now, yearning for a return to yesteryear when they could make outsized profits while adding little or no value. “Just wait for the next bear market,” they say, “you’ll see all those mindless passive investors come running back.”

The only problem with this logic is that there is no evidence to support their supposition that active has delivered superior performance relative to a benchmark during bear markets. While some active strategies will outperform (just as some will outperform in a bull market), it is a myth to say that active managers collectively have demonstrated any unique ability to navigate bear markets.

If you are in the active business already, do you just sit back and accept it? Some will and others will attempt to compete on price, a dangerous game given how low the Vanguards and the Schwabs of the world are willing to go.

But is there any other answer to the seemingly inevitable commoditization of the business?

I believe there is, but it is not an easy path and it is not for most. You will have take the road from 0 to 1, creating something new.

By “new” I do not mean slicing the market up into forever smaller segments while charging a higher fee than comparable passive products. This can work in the short run if you’re lucky, but is not a sustainable competitive advantage over time. Your “monopoly profits” will eventually disappear.

The cyber security ETF (HACK) is one recent example. Launched in November 2014, it rocketed to $1.4 billion in assets by July 2015, one of the “fastest ascents in ETF history.” Returns versus the S&P 500 were stunning (21.7% vs. 4.7% through July 31, 2015) and investors did what they do best: chase past performance.
By August 25, 2015, assets were down to $1.2 billion after a sharp decline in performance. But the Bloomberg story was already in motion, reveling in the success story of the 30-year old founder: “The one-man, $1.2 billion ETF Shop.”

“With fees of 75 basis points and an asset base of $1.2 billion, HACK stands to toll off fees of $9 million a year.”

You can guess by the path of the chart above what happened next. As performance continued to wane, assets flowed out. HACK still manages an impressive $750 million, but for how long it can maintain those assets will depend on more than just performance. For they now have a close competitor, First Trust, which launched its own cyber security ETF (First Trust Nasdaq Cybersecurity ETF, CIBR) in July 2015, when assets in HACK reached their peak. CIBR’s expense ratio, while still relatively high at 0.60%, is 15 bps cheaper than HACK. CIBR has thus far attracted $137 million in assets.

If HACK’s assets remain high, we should expect more entrants to the space at even lower fees, until economic profits go to zero. That is the nature of a business without a competitive advantage and minimal barriers to entry. HACK might have a “first-mover” advantage and name recognition, but there is nothing unique about its offering that cannot be replicated at a lower fee.

That is not to say it won’t continue to earn profits for some time. Investors can be lazy and irrational for longer than you think. Remarkably, the Solar ETF (TAN) still has $171 million in assets charging 0.71% in fees even though it has woefully underperformed the S&P 500 since inception in 2008. There is apparently a solar fan base large enough that they are happy to pay a premium price for a commoditized product.

This may be true in cyber security as well, but these are exceptions, not the rule. Far more products will fail due to their commoditized nature than succeed. A new ETF rolls out, on average, every single business day. More supply is on the way and simple economics dictates what that will do to price.
The lesson to be learned by the successes of products that take the world from 1 to n? Sometimes you get lucky. The timing of HACK was perfect as it benefited from a few high-profile cyber-attacks (Sony and Anthem) and an early hot streak in performance. That is not a repeatable process as evidenced by another offering from the same creator of HACK, the Big Data ETF (Ticker: BIGD), which has attracted just $2 million in assets since its inception in July 2015.

The road from 0 to 1

There is only one lasting alternative to creating something the world has already seen. Create something that is truly different. As I noted above, though, this isn’t an easy path, particularly in the asset management business. It is the much harder choice.

Why?

Because something that is truly different than what exists today will have a large deviation from the standard industry benchmarks. Most active managers hug their benchmarks closely for a reason: investors have a very low tolerance for anything that deviates from the norm on the downside. When I say low tolerance I mean they will start redeeming if there is a 6-12 month period of underperformance, and if there is anything longer the floodgates will open.

![Image: How long is underperformance tolerated before seeking a replacement?](image)

<table>
<thead>
<tr>
<th>Active Managers</th>
<th>Smart Beta Managers</th>
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<td>40% 49% 11%</td>
<td>80% 19% 1%</td>
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Therein lies the problem, because even the best strategies will have many, many periods of underperformance over 1 to 3 year time periods. And if those periods of underperformance happen to come early in the life of a fund/strategy, it may not live to see the other side.

But it is a problem and risk that is unavoidable if you want to go from 0 to 1. For in order to have a chance of beating the market average, you have to look different than the average. And looking different means there will be times when the market average looks great and you look terrible. There is no other way.

What does that mean in practice for active investors?
• The Vanguard Value ETFs (VTV – Large, VBR – Small) have an expense ratio of .08%. If you are a large/small value manager charging premium fees, you will need to beat these funds after expenses in order to compete in the new world order. The only way to do that is to look different.

• The iShares MSCI USA Momentum Factor ETF (MTUM) has an expense ratio of .15%. If you are a momentum manager charging premium fees, you will need to beat this fund after expenses in order to compete. The only way to do that is to look different.

• The newly issued Deutsche X-trackers USD High Yield Corporate Bond ETF (HYLB) has an expense ratio of 0.25%, half of the leading ETF in the space (HYG). If you are a high yield bond manager charging premium fees, you will need to beat this fund after expenses in order to compete. The only way to do that: look different.

In looking different, you still might not beat these passive products (the odds are stacked against you as any academic study will tell you), but at least you have a fighting chance. The active managers that hug their benchmarks and charge premium fees have no chance. The passive managers slicing and dicing passive indices, fighting each other to the death for basis points, will eventually drive economic profits in that space to nothing.

From 1 to n or from 0 to 1?

The choice is yours.

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FUNDAMENTAL LINE INDICATORS FOR INVESTORS

BY MARTHA STOKES, CMT

Editor’s note: this article was originally published by Proactive Advisor Magazine and is republished here with permission. To learn more about Proactive Advisor Magazine, click here. Subscriptions are free for financial professionals.

Fundamental analysis is the foundation of stock investing and continues to be the number one source of data for selecting stocks by giant institutions, market professionals, managers of small funds, and retail investors. However, the quality of fundamental data and the timeliness of that data are not the same for each of these market participant groups.

The retail investor often receives data from financial reports after the information has already been acquired by institutions and market professionals.

Major institutions—responsible for the largest mutual and pension funds—have the resources, talent, and power to investigate companies well ahead of any reports issued by a firm to the general public. Though it may appear that technical patterns lead or predict the market, they merely show information that the giant and large institutions already have—current data on the state of financials, company conditions, as well as other factors. (See my Proactive Advisor Magazine article from March 17, 2016, “Identifying the buying/selling patterns of large institutions and why it matters.”)

The result is a huge discrepancy between when retail investors and institutions buy or sell a stock.

One advantage that retail investors now have is that fundamental data is available in a graphical form from many sources. This is possible due to advances in both data collection and software. Skilled technical analysts use market data for analyzing the technical, or price and volume action, of a stock over time.

Fundamental line indicators are drawn by a computer on a stock chart to show what the fundamental data was for that period of time. There are hundreds of pieces of fundamental data that can be graphed in this manner.

The following example for the Walt Disney Company (DIS: NYSE) includes three commonly used fundamental line indicators in the chart windows below the price trend.
Using these indicators can be a huge benefit to technical analysts and investors of all levels, allowing them to see graphically over time what has been going on with the fundamentals of a company. Using graphs to show the data patterns can help investors make better decisions about when to buy, hold, or sell.

The Disney chart shows that institutions once held over 73% of all the outstanding shares. Now that number has dropped to 58%, which is significant. The “percentage shares held by institutions” (PSHI) data comes from the monthly report that all institutions are required to submit to the Securities and Exchange Commission.

*See Related Article: Using technical analysis to understand stock market cycle patterns*

Earnings (EPS) percent change data can also be drawn as a fundamental line indicator over time. Earnings percent change shows the percentage of change in EPS over time. There is a lower percentage for DIS over recent periods that is coincident with a lower stock price.

The relationship between the data seen on the graph and stock chart is important, as most technical analysts would tell you this looks to be a topping action. This means that institutions have been rotating out of DIS for some time, even while “uninformed” retail investors have been buying, unaware of the institutions’ sell sentiment.

Revenue growth rate is another fundamental line indicator. It reveals that DIS has had a fair amount of inconsistency in revenues, with a marked decline in 2015. That is likely the cause of the institutional rotation that has continued throughout
When there is more selling by the larger lot institutions against smaller lot retail investor buying, there is more pressure on the stock price to move down.

The fundamental data is irrefutable, as it is from the audited financial records of the company being studied. The chart merely reflects the changes in a graphical format that is easier to interpret and understand than just looking at earnings reports.

Summary

Investors of all levels can now use fundamental data in their stock chart analysis, providing a graphical perspective of what has been going on with the company in the recent past. This is also often reflected in the stock price and can aid investors in deciding when to buy, hold, or sell. This is an important tool for investors to learn to use. All too often, small lot retail investors and managers of small funds are buying when they should be selling, and selling when they should be buying.

Martha Stokes, CMT, is the co-founder and CEO of TechniTrader and a former buy-side technical analyst. Since 1998, she has developed over 40 TechniTrader stock and option courses. She specializes in Relational Analysis for stocks and options, and Market Condition Analysis. An industry speaker and writer, Ms. Stokes is a member of the Market Technicians Association and earned the Chartered Market Technician designation with her thesis, "Cycle Evolution Theory."
Since 2000, Bill Belichick is far and away the most successful coach in the NFL. Having won slightly more than 80% of their last 200 regular season games, his team, the New England Patriots are head and shoulders above the competition. They are the reigning Super Bowl champs for a fourth time under his leadership, have won 22 playoff games and are on track to easily win their division again this season. The results speak for themselves, but when compared against the other 31 coaches in the league they are simply astounding (see chart below).

In fact, his record is so spectacular that many have resorted to accusations of cheating, seeing no other way to explain his incredible success. The reason even the experts are at such a loss for an explanation is that none of the usual explanations apply. While Belichick has exceptional players on his roster, they rarely come to him as stars. He has something of a knack for turning unsung players into superstars who are then poached for their “outlier” skills, yet time and again, those same players fade back to mediocrity in their new homes. The only true constant is quarterback Tom Brady, a sixth round pick from the 2000 draft when 198 players, including 6 quarterbacks, were selected ahead of him. Indeed, Brady is regarded by most as a superstar, but unlike all the other role players in Belichick’s regime who have garnered that kind of praise while on his roster, Brady never left, so whether he would be such a success with another team is up for debate. There is one other semi-constant for Belichick’s Patriots, though. They’ve always had one of the league’s best place kickers. Initially, it was Adam Vinatieri and since 2006, Stephen Gostkowski. Two of the greatest to ever play the position. The fact that these are the only two constants is actually very significant. More on that in a moment.

In the absence of a clear explanation as to why Belichick has been so successful, the experts have resorted to creating narratives that appeal to deep-seated beliefs. Truth is, if they really want to understand the secret of his success, all they need to do is listen to what he says in every pre- and post-game interview. While the press describe him as evasive, the reality is, the faulty communication lies in the experts’ inability to see past their own flawed, unsubstantiated bias. Coach Belichick’s answers to questions like, “How did you prepare your team for your opponent’s explosive offense or dominating defense?”, is repeated so often it has become a mantra for t-shirts and billboards. The answer goes something like this. “We didn’t prepare for them. We prepared ourselves. If all 11 players on offense, 11 on defense and 11 on special teams simply do their job, we have a good chance to win.”

Since it’s not sexy nor does it sound scientific, and because it’s assumed that everyone needs to do their job in order for a team to win, commentators simultaneously complain about and mock his evasiveness. While it may sound like a stock
answer, he’s actually giving away his secret. Not everyone has ignored his mantra, though. Two of the top four playoff contenders in college football today are coached by Belichick disciples, Nick Saban’s University of Alabama and Kirk Ferentz’s University of Iowa. Listen to their press conferences and you’ll hear an eerily similar message.

I’ll be honest, they are my favorite press conferences, because they speak my language, as well as that of the only other coach to lead four teams to Super Bowl victories, Chuck Noll of the Pittsburgh Steelers. His mantra delivered the same message. “Before you can win a game, you first have to not lose it.” Whether you use Noll’s words or Belichick’s “Do your job”, the message is, don’t make mistakes. While that may sound obvious, surprisingly few experts in fields that involve elements of luck and skill (like ours), truly grasp just how different the approach is from the norm. Watch any football game with this mantra in mind, and you’ll see the game in a whole new light. You’ll discover that in almost every game, the outcome is determined by one team making fewer mistakes than the other. Don’t take my word for it though. The data makes the strongest argument.

In order to create a “Mistake Index”, I have selected the one statistic from each of the three aspects of the game (offense, defense and special teams) which best represents a mistake in its purest form. It turns out there is a phenomenal correlation between a team’s mistake index and their winning percentage over time. Truth be told, because of the natural competitive edge created with ball possession, the predictive power is nearly identical if we limit the inputs to two simple statistics—giveaways and field goal conversions. In other words, if the player on offense who touches the ball most frequently can avoid handing it over to the opponent and the player responsible for converting a field goal attempt into
points can do so with great frequency, you are likely to wind up with a far better record than your opponents. See how Brady and Gostkowski fit in now? Think about Tom Brady and what adjectives are most commonly attached to his name. It’s not “explosive”, “powerful”, or even “creative”, but rather “calm” and “unflappable”. In looking for someone to manage his offense, Belichick doesn’t seek out the scrambler or the guy who can thread the needle. First and foremost, he wants someone who won’t relinquish the competitive edge they have when simply possessing the ball. That is Brady’s strength. Combined with Stephen Gostkowski’s 88% field goal percentage, Belichick’s team provides a formidable foe for any opponent.

As it turns out, Belichick, Noll, Saban and Ferentz aren’t the only ones to discover the power of avoiding the mistake of relinquishing a competitive advantage to the opponent. Since taking the helm in 2013, Bayern Munich’s coach, Pep Guardiola, has zeroed in on the very same aspect of his game. Although his mantra has been adjusted to fit soccer, the message is exactly the same. Above all else, he drills into his players that ball possession is of the utmost importance. While in possession of the ball, his team is more likely to score and less likely to incur a penalty than their opponent. In other words, as it is for American football, simply possessing the ball creates a competitive edge. Therefore, it should only be relinquished when attempting a high probability shot on goal. By pushing time of possession to extreme levels, opponents have a greater tendency to become frustrated, making them more emotional, and leading to more mistakes. Those mistakes generate penalty kicks and breakaway opportunities for Pep’s squad. In other words, they lead to high probability shots on goal.
None of this is rocket science. In fact, it’s all fairly obvious. Why then don’t all coaches and athletes focus on reducing mistakes? Much of it can be explained by cognitive bias and incentives. Commentators, highlight reels and the most often quoted statistics all tend to focus on the upside outlier. If an athlete wants to increase his pay, he need only create a narrative that appeals to our cognitive bias for extreme events. A single, spectacular one-handed catch shown repeatedly on ESPN’s Sports Center and retweeted a few million times will override the mundanity of a hundred dropped passes over the course of a season. Just ask Odell Beckham Jr. or, if you’re a basketball fan, Jeremy Lin. Simply scoring a goal won’t set you apart from your peers, but just one well-placed bicycle kick might. A low probability missed shot will fade into the background of a team sport with numerous players, all of whom share in the blame for a loss. However, one spectacular shot, and by spectacular I mean a shot that required more luck than skill, will be attributed to the shooter and much of the success laid at her feet. As a result of this skewed risk / reward, much of which we owe to a cognitive shortcoming, athletes expend less effort on tilting the odds of success in favor of them and their teams over time, and instead concentrate on threading the needle, swinging for the fences and unleashing the bone jarring hit in the hopes of being noticed.

There’s another reason we focus on creating the memorable play, even at the expense of winning more games. We have a natural predilection for stories that help us make sense of the world in which we exist, even if those stories run in direct opposition to reality. It’s more appealing to look at Belichick’s phenomenal win/loss record and concoct a spectacular story of deceit and chicanery than to accept that he has crushed his competition by simply reducing his mistakes. Same goes for athletes competing in individual sports such as tennis. We look at a player like Novak Djokovic and create a narrative of extraordinary dominance over his opponents. He is ranked number one in the world since 2011, has amassed nearly $17 million in prize money already this year, and wins roughly 90% of the matches he plays. Given those statistics, who in their right mind would expect him to lose to anyone, let alone a young upstart? In explaining such dominance, we go to great lengths to create a story of almost superhuman ability, but the reality is quite different. In achieving everything described above, he still wins just 55% of all the points he plays. That’s a mere 3% better than when he was ranked 3rd and earned 1/3 the prize money. Even more interesting, when he was ranked 680th in the world and earning less than $100,000 per year, he was winning 49% of the points he played. So you see, the difference between good, great and once-in-a-generation is smaller than we think. Novak isn’t superhuman. He simply makes slightly fewer mistakes than every one of his competitors.
So what does this have to do with investing? Everything. Making money in our business comes down to two things; having a portfolio with more winners than losers and / or bigger winners than losers. As it is with most coaches and athletes, investment managers tend to focus on the latter, and that has a great impact on every aspect of their game, from the risk management techniques employed to the rise in popularity of momentum trading. In placing greater focus and importance on skewed returns per trade, much like athletes, we tend to sacrifice the winners to losers ratio. So, if you want to know how to break away from the pack, tear a page out of the playbook of those who have already done it. Focus more on making fewer mistakes by relinquishing that competitive edge only when a high probability shot on goal is available. Remember, it’s easier to improve your winners to losers ratio by avoiding mediocre trades than it is to win the lottery.

For nearly thirty years, Stephen Duneier has applied cognitive science to investment and business management. The result has been the turnaround of numerous institutional trading businesses, career best returns for experienced portfolio managers who have adopted his methods, the development of a $1.25 billion hedge fund and 20.3% average annualized returns as a global macro portfolio manager. Mr. Duneier teaches graduate courses on Decision Analysis in the College of Engineering, as well as Behavioral Investing, at the University of California. Through Bija Advisors’ coaching, workshops and publications, he helps the world's most successful and experienced investment managers improve performance by applying proven, proprietary decision-making methods to their own processes. Mr. Duneier was formerly Global Head of Currency Option Trading at Bank of America, Managing Director in charge of Emerging Markets at AIG International and founding partner of award winning hedge funds, Grant Capital Partners and Bija Capital Management.
MARKETS ARE TOO COMPLACENT ABOUT CHINA’S CURRENCY SLIDE

BY GLOBAL INCOME TEAM, EATON VANCE

Editor’s note: this was originally posted at Harvest Exchange, a research site for investment professionals. To learn more, click here.

Investors began the year concerned that overvalued Chinese markets posed a threat to financial stability, evidenced by capital outflows that drove a 5% slide of the Chinese yuan (the RMB) against the U.S. dollar in the three months ending January 31.

But even though the RMB slid another 5% against the dollar since March, the weakening currency is no longer viewed with concern.

Several factors are behind this turnaround:

- Capital account tightening: Restrictions imposed by the Chinese to prevent money freely leaving the country helped restore confidence in policymakers.
• Economic stimulus: The Chinese economy is better off than at the start of the year, helped by stimulus and re-leveraging of various parts of the economy.

• Basket mechanism: As part of China's plan to make the RMB more responsive to market forces, the People's Bank of China (PBOC) now considers a basket of currencies, in addition to the dollar, in setting exchange rates.

However, in our view, the market has placed too much faith in these temporary factors. As the RMB slides, Chinese households are still likely to make financial decisions based on the U.S. dollar/RMB pair. Early evidence during the third-quarter currency slide supports this. Capital outflow will likely continue. The more hawkish U.S. Federal Reserve will also play a role, triggering expectations of further RMB weakness. Lastly, China’s credit binge continues, but this time with less domestic enthusiasm. Corporations and households are growing more concerned about the levered economic system.

Bottom line: Capital outflows, the Fed and leverage are reasons to be concerned about China, but the market is not listening.

Before investing in any Eaton Vance fund, prospective investors should consider carefully the investment objective(s), risks, and charges and expenses. The current prospectus contains this and other information. To obtain a mutual fund prospectus or summary prospectus, contact your financial advisor or download a copy here. Read the prospectus carefully before you invest or send money. Read the prospectus carefully before investing. Not FDIC Insured. No Bank Guarantee. May Lose Value. Eaton Vance does not provide tax or legal advice. Prospective investors should consult with a tax or legal advisor before making any investment decision. © Eaton Vance Management. All rights reserved. Eaton Vance open-end mutual funds and UITs are offered through Eaton Vance Distributors, Inc. Two International Place, Boston, MA 02110. Member FINRA / SIPC.
CALL FOR NOMINATIONS

The Market Technicians Association (MTA) is a dynamic association focused on building a strong community of market professionals, maintaining the highest ethical standards in the industry, and promoting the use of technical analysis in the investment process. Participating in the leadership of an organization like the MTA can be a deeply rewarding experience. It is an opportunity to work closely with industry leaders, to significantly further the mission of the MTA, and to have a real impact on technical analysis in the financial industry. You will also find the experience to provide great opportunities to improve yourself both personally and professionally.

So what is actually involved in serving on the MTA Board? What qualities should you look for when nominating other members? Is this a good role for you personally? Here are the expectations of MTA Board members, which I have boiled down to the “5 P’s.” An MTA Board member should be:

1) Passionate- have a passion for technical analysis and furthering the mission of the MTA

2) Positive- encourage a positive and collaborative debate and discussion with a diverse group of volunteer leaders

3) Present- able to participate in regular conference calls, as well as attend the Annual Symposium and other events as needed.

4) Prepared- eager to pursue a deep understanding of the organization, its structures, and strategic plans for the coming years.

5) Proactive- be an active participant in discussions, bringing past experiences from inside and outside the MTA to help further the organization

For the fiscal year commencing July 1, 2016, two (2) At-large Director positions are up for consideration for a 3-year term. Members, Honorary Members and Emeritus Members in good standing are invited to submit recommendations for consideration no later than January 27, 2017, and can be submitted via e-mail to nominations@mta.org. Individuals may nominate themselves or others. If you have any questions, please contact Tyler Wood at Tyler@mta.org.
Editor’s note: this article was originally published at CBOE Options Hub.

Here are some highlights from recent news stories on the bond markets:

- A *Barron’s* story noted that Jeffrey Gundlach, CEO of DoubleLine Capital, sees “a rise in bond yields that could lift the yield on the 10-year Treasury note to 6% in the next four or five years.”
- A *New York Times* story stated that “From Indonesia to the United States, government bonds are undergoing a sharp sell-off as investors — large sovereign wealth funds and hedge funds, as well as the accounts of American retirees — restructure investment portfolios to try to capture the fruits of what they expect will be a free-spending Trump presidency.”
- A *CNBC* headline — “‘Trump Thump’ Whacks Bond Market for $1 Trillion Loss.”

I recently spoke with several investors and advisors who are interested in yield-oriented investments that have the potential for positive returns in a rising interest rate environment, and there appears to be increased interest in CBOE’s option-selling benchmark indexes, such as BXM, PUT, BXR, and WPUT. More information about these indexes can be found at www.cboe.com/benchmarks.

**2016 CHARTS ON YIELD-ORIENTED INVESTMENTS**

While many of the recent stories on the bond markets provide data and charts on rising interest rates, a key question for investors is – how have yield-oriented indexes and investments recently performed?

The first two charts below show comparative performance since mid-2016 for select CBOE option-writing benchmark indexes versus select fixed-income benchmark indexes.
In the chart above the percentage changes since mid-year (through November 14) were up 7% for the PUTR Index, up 4% for the PUT Index, and down 13% for Citigroup’s 30-year U.S. Treasury Bond Index. In addition, Citigroup’s 30-year U.S. Treasury Bond Index had a 17% drawdown from its July 8 peak through November 14.

In the chart below the percentage changes since mid-year (through November 14) were up 9% for the BXRD Index, up 3% for the BXMD Index, and down 5% for the Bloomberg Barclays Global Aggregate Index. It is possible that indexes related to the Russell 2000 Index recently have done relatively well in part because the Russell 200 stocks tend to focus more on U.S. (rather than multi-national) markets.

The chart below shows a drop in prices for the iShares 20+ Year Treasury Bond ETF (TLT) from 143.6 on July 8 to 121.31 on November 14. (This chart reflects daily closing prices, but does not show total returns with reinvested dividends).
PERFORMANCE OVER MORE THAN THREE DECADES

The next two bar charts show the performance of four of CBOE’s option-writing indexes (BXM, BXMD, CMBO, and PUT) versus four “traditional indexes” since mid-1986. PUT and BXMD were the top performers on the Annualized Returns chart, while three of the CBOE indexes (PUT, BXM and CMBO) all had less volatility than the Treasury bond and stock indexes.

I been asked about these types of charts – How can the CBOE indexes have higher returns and lower volatility? Is the performance too good to be realistic? In my answers to these types of questions, I often note that the option-selling indexes have received options premiums at regular intervals, and that there generally has been an index options “volatility risk premium” by which the index options usually have been richly priced. One also might note that since mid-1986 a CBOE option-buying index, the CBOE S&P 500 5% Put Protection Index (PPUT) had annualized returns of 6.5% (lower than the annualized returns for all four option-selling indexes in the chart above).

GROSS PREMIUMS GENERATED BY OPTION-SELLING BENCHMARK INDEXES
As shown in the chart below, the aggregate gross premiums in 2015 (as a percentage of the underlying value) were 39.9% for the CBOE S&P 500 One-Week PutWrite Index (WPUT) (which receives SPX options premium 52 times a year), and 20.1% for the CBOE S&P 500 PutWrite Index (PUT) (which receives SPX options premium 12 times a year).

Both the chart above and the chart below are excerpted from a paper by Professor Oleg Bondarenko, An Analysis of Index Option Writing with Monthly and Weekly Rollover. (2016).

**VOLATILITY RISK PREMIUM – RICHLY PRICED INDEX OPTIONS**

The chart below shows that the S&P 500 (SPX) options were richly priced every year since 1990 (except in 2008). This fact could have been helpful to sellers of index options.
RESEARCH PAPERS AND MORE INFORMATION

To learn more about CBOE benchmark indexes and the volatility risk premium, please visit www.cboe.com/benchmarks and click on the research papers below:

- Aon Hewitt. Harvesting the Equity Insurance Risk Premium: Know Your Options (December 2014)
- BlackRock. VIX Your Portfolio – Selling Volatility to Improve Performance (June 2013)
- Cambridge Associates, LLC. Highlights from the Benefits of Selling Volatility (2011)

Matt Moran is vice president of business development for Chicago Board Options Exchange (CBOE), where he communicates with pension funds, mutual funds, and financial advisors. He has delivered more than 200 presentations worldwide on the topics of managing volatility and adding income with option-writing strategies. Additional research is available at CBOE Options Hub.
Each of the following charts contains three components.

- The Index in the top panel
- The Bullish Percent Index in the second panel
- The % of stocks above the long term 200 day average in the lower panel

What I find particularly important about these 3 as a group is they help you stay long the market while everything is working. However, when they start to disagree, it is time to be aware of the potential for change.

The Bullish Percent Index has been calculated by StockCharts.com as one of the early indicators of breadth based on Point And Figure charts. This index calculates the % of stocks on a buy signal. On a PnF chart, you are either on a buy signal or a sell signal, but the distance between the two levels can be significant. If the market has made a recent high, it is bullish until it makes a lower low. Then it goes on a sell signal. So the Bullish Percent Index usually triggers buy signals faster near market lows but sell signals slower. Here is a link to the full ChartSchool article.

For the % of stocks above the long term 200 day moving average (200 DMA), this is a moment in time. Each stock is above a single line or below. For deeply oversold stocks, you can be rising a long time before you reach the 200 DMA. Conversely, you can oscillate back and forth across the 200 DMA for multiple days in a row. So when the market starts to break down as the number of stocks start to fall away, this single line might be a better clue. It usually weakens before the Bullish Percent Index breaks down.

On the chart below, I have the NASDAQ Composite($COMPQ) with the other indicators. When the two indicators are not in agreement, I start to focus intently on the levels. I have drawn some red lines that are at a level that I picked as being important historically. Above the red lines on both is very bullish. More importantly, it shows a new bullish thrust and that you want to be fully invested as that happens. Then the market pulls back as both indicators fall below their red lines. This associates very clearly with meaningful pullbacks in the market. But there is a sweet spot where the black histograms pull back below the red line and the Bullish Percent Index has not. That is the warning zone which is where we find ourselves to end the year. The lime green horizontal lines are the current levels so we can look back to compare. The Bullish Percent Index is still holding up nicely.
Staying with the chart above, notice the black histograms in the bottom panel. At this point in time I am particularly interested in the areas where the indicator has pushed above both red lines (September), pulled back (October) and then tried to rally (November). Often this second rally is where the market starts to separate. The Spring of 2010 is a good example that is similar to now. I have placed red arrows on some other points in time of the conditions. In the zoom box on the right, you can see the pullback in October heading into the election. Then the bounce. However, the bounce was not as strong as the September surge. Now we are back below the red line with slightly more than 1/2 of the stocks (57%) on the NASDAQ market above the 200 DMA. The NASDAQ Composite is typically a little weaker than other indexes like the $SPX. Let's look at some of the other indexes for clues.

Here is the NASDAQ 100 Index ($NDX). The big heavyweights in the market are in this Index. The Bullish Percent Index has had declining tops since the surge off the Brexit lows. While the Bullish Percent Index still shows 72% which is nice and high, the $NDXA200R in the bottom panel shows only 63% of the stocks are above the 200 DMA and that is down.
from 75% after the Trump election surge. It is also well below the support level back in 2014 around 69%. We lost 4% this week and this looks vulnerable.

Staying with the chart above, the lime green horizontal line represents the current reading. We are at the level just before the market broke down in 2015. It does not mean we will break down, but it definitely suggests protecting gains you have made in the 4th quarter. Also notice how the surge in 2016 was so much lower than in 2013, 2014, and 2015. With highs around 69% in early December, it looks a lot more like the market condition in 2006 or 2007. The blue verticals mark major market cracks.

Looking at the NYSE, here is the NY Composite ($NYA). The composite is the total of all stocks on the exchange. The Bullish Percent Index still looks strong, but the $NYA200R has just fallen below the level that supported the first half of 2014. The significantly lower high on this recent rally is concerning. While we are only a few percent above the October lows in the indicator, we don't have any real catalyst like an election on the immediate horizon. I am reluctant to use the lows in 2013 as the Fed was actively pushing the market with QE. I like 2005 or 2006 instead. Or is it like 2002 on the far left?
Lastly, let's look at the strongest group of 500 stocks, the **S&P 500 (S&PX)**. Once again the BPI has declining highs since Brexit. I would suggest this looks more like 2005 - 2006. The good and the bad news for the S$SPX200R in the bottom panel is it rallied to 70%. That would be the weakest rally if the market keeps going higher. I'll just leave it that any further weakness should be given a serious amount of respect.
Let me conclude this article with a cautionary tone. Many think we are in the biggest bull market ever. Recently a money manager said he was as bullish as he has been in 10 years! Much like the plunging days where the $INDU down 800 points is a great buying opportunity, having 10 year highs in 'euphoria' without the same accompanying market breadth suggests a major market top or at least a top of importance for traders. If we start to see market conditions deteriorate from these threshold levels, we can heed the market's message early on. If it rejuvenates itself quickly, we should be able to hold our positions.