The E-Book of Technical Market Indicators 2.0

Complex Technical Analysis Made Simple

How to build a rational decision making framework (systematic trading model) based on different kinds of technical market indicators
Preface

The transparency of the American markets offers an array of indicators and allows deep insights of prevailing sentiment. You find the Short Interest Ratio as well as the large block transactions of the institutional investors published every week.

Other tools for technical analysis include trend indicators, daily advances and declines, daily new highs and lows, volume, indices, put/call ratios and other useful information like Stochastic, RSI, MACD, TICK and more.

The problem is only that all these indicators contradict each other most of the time. Countless books have been written on this subject, and no matter how many will be written in the future: always be aware that there is no such thing as the Holy Grail of the stock market.

But some people are more successful than others and the answer is quite simple: No indicator is right all the time. More important is to combine different kinds of technical market indicators to a sound comprehensible investment process that will give you the competitive trading edge. This investment process does not have to be right all the time. It just should be right a higher percentage of the time than wrong.

Don't follow where indicators lead and switch to some others if they fail. Don't be a technician in the first half-year and a fundamentalist for the next half. Be consistent and disciplined in your approach. Don't abandon a good investment process/indicator just because you assume this time everything will work differently.

Happy Trading
WallStreetCourier.com
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Introduction/Abstract

Over the years, investors have developed literally, hundred thousand of different technical market indicators in their efforts to predict stock market.

Nowadays every investor finds loads of different kinds of technical market indicators available for free on every financial site on the internet. Unfortunately, for the unwary, there are many misleading, untested, overstated or just plain wrong indicators. Additionally, different kind of indicators may contradict to each other. Therefore, such a situation will only lead to a more difficult process for investors to apply a successful and traceable trading approach.

Finally, the investors own emotional basis does interfere too often with the desired goal of maximizing trading returns although disciplined trading decisions are as important as accurate knowledge in actually making money.

Since there is no indicator which is right all the time, a combination of different kinds of technical market indicators is the best method to understand the “big picture” plus the best way to beat the market in the long run. A clear and understandable investment process will deliver more predictable results and allows traders to improve their approach over time.

The content of this book will give a brief overview on how to classify indicators into subgroups, including the advantage and the complicacy as well as a detailed instruction on how to combine different kinds of indicators to a sound investment process. Furthermore, we highlight which types of indicators should be used by short- or long-term investors as well as which are suitable for low- or high experienced traders.
1. **About WallStreetCourier.com**
Philosophy: Diversified Market Timing & Investment Advisory!

- WallStreetCourier.com has become one of the most trusted sources for investment advisory for both individual and institutional investors.

- No strategy can be completely effective under all economic conditions, so we deploy multiple strategies to help achieve your objectives and mitigate risk. This leads to our focus on implementing complimentary, low-correlated investment strategies and market timing tools.

- WallStreetCourier.com believes that it is essential to diversify risk amongst a variety of low-correlated investment strategies based on systematic market timing and highly advanced portfolio construction methods.

- We are devoted to preserve and grow your assets by providing dozens of different uncorrelated performance (alpha) sources that are acting as perfect diversifier within your portfolio.

- Applying a highly transparent investment approach is where our investment philosophy begins.

We believe success over the long run requires mitigating your risk and maximizing the returns of your portfolio. We support you in this endeavor by providing a variety of non-correlated investment strategies that can be combined to a highly diversified and strong performing portfolio!
# Services offered by WallStreetCourier.com (1/2)

<table>
<thead>
<tr>
<th>Name</th>
<th>Description</th>
<th>Short-term trader</th>
<th>Mid-term investor</th>
<th>Low trading experience</th>
<th>High trading experience</th>
</tr>
</thead>
</table>
| **Powerful Weekly U.S. Equity Market Research** | • High quality weekly market research (buy/sell decisions) for the S&P 500 based on our technical indicators  
• Become a pro by following our weekly market research on a regular basis! | ☺ | ☺ | ☺ | ☺ |
| **Proven Indicators:**  
- Trend  
- Breadth  
- Contrarian  
  - Smart-/Dumb Money  
  - Market Sentiment  
  - Options  
  - Oscillators  
  - Cycles  
- CFTC/Cot  
- Investment Process | • Conduct your own research with our powerful technical market indicators  
• Indicators you need for a sound investment process  
• Unique daily/weekly updated indicators for traders and investors  
• Quality before quantity  
• Guaranteed, you won’t find those indicators anywhere in the web  
• What are you waiting for?  
• Start a new trading live now! | ☺ | ☺ | ☺ | ☺ |
| **Day Trading Strategies** | • Eight unique day trading indicators  
• Beat the market by trading only on certain market behaviors  
• Identify powerful trends at work in the stock market, then trade these trends for highly profitable gains.  
• Our proprietary ETF Momentum Heat Maps identify the strongest trending global markets ETFs  
• Short interest data for U.S. equities  
• Commitments of Traders Report Data | ☺ | ☺ | ☺ | ☺ |
<p>| <strong>Proprietary ETF Heat-Maps</strong> | | | | |
| <strong>Data Downloads</strong> | | | | |</p>
<table>
<thead>
<tr>
<th>Name</th>
<th>Description</th>
<th>Short-term trader</th>
<th>Mid- to long-term investor</th>
<th>Low trading experience</th>
<th>High trading experience</th>
</tr>
</thead>
</table>
| The WSC All Weather Model Portfolio (aka Most Diversified Portfolio) | • This ETF Model Portfolio is focused on steady returns  
• It is designed to perform reasonable well during all predominant market conditions and should be regarded as a core investment | | | | |
| The WSC Inflation Proof Retirement Model Portfolio | • The WSC Inflation Proof Retirement Portfolio (IPRP) is focused on absolute return by investing in a highly diversified balanced and equity focused portfolio  
• The main target of the portfolio is to generate enhanced and stable returns above the average inflation rate and to minimize potential losses, even during times when the overall inflation expectations remain quite low | | | | |
| WSC Sector Rotation Strategy | • The target of this portfolio is to limit the downside during a bear market and to profit at least as much as the market does during a bull market  
• The main goal is to achieve steady returns since the focus is based on the portfolio accumulation effect | | | | |
| WSC Global Tactical ETF Model Portfolio | • The object of the WSC Global Tactical ETF Model Portfolio is for investors who are seeking high returns and are able to cope with high volatility | | | | |
2. Overview – Classification, definition, advantage and the complicacy of technical market indicators
There are a dozen ways how to classify different kinds of technical market indicators

WallStreetCourier.com classifies technical market indicators into four main groups

- **Trend Indicators**
  - To measure the main direction of the underlying security/market

- **Market Breadth Indicators**
  - To determine the strengths of a trend or of the market condition

- **Contrarian Indicators**
  - To track the investing behavior of different kinds of investment groups
    - Options Market Indicators
    - Smart Money vs. Dumb Money
    - Market Sentiment
    - Stock Market Cycles

- **Oscillators**
  - Are designed to lead price movements and are oscillating around a certain value
## Definition, advantage and the complicacy of trend indicators

Trend indicators are stronger than any other technical market indicator

<table>
<thead>
<tr>
<th>Definition</th>
<th>Advantage</th>
<th>Complicacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>- A market trend is a tendency of a stock market to move in a particular direction over time</td>
<td>- Money will only be made in strong trends</td>
<td>- Trend indicators will never lead a price of a security. They are not designed to do so</td>
</tr>
<tr>
<td>- These trends are classified as secular trends for long time frames, primary trends for medium time frames, and secondary trends lasting short times</td>
<td>- <strong>Identifying a trend is the most important part in technical analysis since a trend is stronger than any other indicator</strong></td>
<td>- Trend indicators are always lagging indicators as they follow the price action of the underlying security (late in, late out)</td>
</tr>
<tr>
<td>- Trend indicators are always lagging indicators as a trend has to establish first, before it can be measured</td>
<td>- Since stock markets are trending most of the time, trend-following indicators can be enormously profitable and easy to use</td>
<td>- In sideways market, trend indicators are not effective</td>
</tr>
<tr>
<td></td>
<td>- Furthermore the main idea behind those indicators is to catch the middle part of a strong trend</td>
<td>- The shorter the trend, the more signals will be produced and the more trading signals (costs) will be generated</td>
</tr>
</tbody>
</table>
**Definition, advantage and the complicacy of breadth indicators**

Breadth indicators are designed to confirm a price action or an existing trend

<table>
<thead>
<tr>
<th>Definition</th>
<th>Advantage</th>
<th>Complicacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Breadth indicators are measuring the overall strength of a price action or an existing trend by analyzing the proportion of the overall stocks or volume that are participating in the market's up or down move</td>
<td>• Rising stocks should be getting the most of volume in a healthy strong market</td>
<td>• Breadth indicators are designed to point out unusual conditions but they cannot exactly be categorized by length and severity</td>
</tr>
<tr>
<td>• Some measures of market breadth involve the volume of rising stocks compared to the volume of falling stocks</td>
<td>• In a healthy uptrend the amount of advancing stocks should dominate the amount of declining stocks etc.</td>
<td>• A divergence does not necessarily lead to a major price reversal. Nevertheless breadth indicators can be an important red flag on the horizon for traders</td>
</tr>
</tbody>
</table>
## Definition, advantage and the complicacy of contrarian indicators

Measure the investing behavior of certain trader groups

<table>
<thead>
<tr>
<th>Definition</th>
<th>Advantage</th>
<th>Complicacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Contrarian market indicators attempt to measure the overall bullish or bearish attitude towards the market among traders and investors (market sentiment) or tracking down the investing behavior of smart money and dumb money</td>
<td>• A contrarian investor or the behavioral finance followers believe that when everybody is fully invested there will be no further purchasing power. At this point, the market is at a peak</td>
<td>• If a contrarian indicator flashes a divergence that does not necessarily lead to a major price reversal</td>
</tr>
<tr>
<td>• Those indicators lead and/or confirm price actions</td>
<td>• On the other hand, when people predict a downturn, they have already sold out, at which point the market can only go up. Normally when the market hits a new low, Smart Money will buy and Dumb Money will sell. Therefore following the behavior of Smart- and Dumb Money will give additional edge of information</td>
<td>• Nevertheless contrarian indicators can be an important red flag on the horizon for traders</td>
</tr>
<tr>
<td>• Somehow they are a mixture between trend- and breadth indicators and oscillators</td>
<td>• Most of the contrarian indicators lead prices, and in comparison with oscillators they do work in every market phase (trend and trendless market environments)</td>
<td></td>
</tr>
</tbody>
</table>
Oscillators are leading indicators as they lead a price move

<table>
<thead>
<tr>
<th>Definition</th>
<th>Advantage</th>
<th>Complicacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Oscillators are leading indicators as they lead a price move</td>
<td>• Oscillators are designed to lead prices and they work the best if the market is in a trading range or if the trend market is not confirmed by breadth</td>
<td>• It is expensive to trade an oscillator signal against the major trend of the market</td>
</tr>
<tr>
<td>• They move above and below a centerline (center oscillators) or are banded (banded oscillators) between two extreme values</td>
<td>• If the market is in a strong uptrend, the best opportunity to buy is when the oscillator flashes an oversold signal</td>
<td>• Banded oscillators are used to identify overbought and oversold conditions, but overbought does not necessarily mean that a trend reversal is ahead</td>
</tr>
<tr>
<td>• The banded oscillators are designed for discovering short-term overbought or oversold conditions. As the value of the oscillator approaches the upper extreme band the stock market is deemed to be overbought, and as it approaches the lower extreme it is deemed to be oversold</td>
<td>• If the market in a downtrend, it is the best to look for overbought conditions to sell your position</td>
<td>• The bottom line: oscillators should only be used in combination with trend and breadth indicators</td>
</tr>
</tbody>
</table>
All technical market indicators have a trade-off between sensitivity and consistency

Overview: factors being influenced by the underlying time period

<table>
<thead>
<tr>
<th>Period</th>
<th>Time Lag</th>
<th>Trading Signals (Costs)</th>
<th>Avg. Return/Signal</th>
<th>Max. Loss/Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term indicators</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Mid-term indicators</td>
<td>Middle</td>
<td>Middle</td>
<td>Middle</td>
<td>Middle</td>
</tr>
<tr>
<td>Long-term indicators</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>
Indicators you should use, according to your trading horizon and trading experience!

<table>
<thead>
<tr>
<th>Indicator type</th>
<th>Short-term trader</th>
<th>Mid- to long-term investor</th>
<th>Trading Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trend indicators</td>
<td>short term</td>
<td></td>
<td>Low trading experience</td>
</tr>
<tr>
<td></td>
<td>long term</td>
<td></td>
<td>High trading experience</td>
</tr>
<tr>
<td>Breadth indicators</td>
<td>short term</td>
<td></td>
<td>Low trading experience</td>
</tr>
<tr>
<td></td>
<td>long term</td>
<td></td>
<td>High trading experience</td>
</tr>
<tr>
<td>Contrarian indicators</td>
<td>confirming</td>
<td></td>
<td>Low trading experience</td>
</tr>
<tr>
<td></td>
<td>contrarian</td>
<td></td>
<td>High trading experience</td>
</tr>
<tr>
<td>Oscillators</td>
<td>short term</td>
<td></td>
<td>Low trading experience</td>
</tr>
<tr>
<td></td>
<td>long term</td>
<td></td>
<td>High trading experience</td>
</tr>
</tbody>
</table>

○ low  ■ high
3. Investment process – How to combine different kinds of technical market indicators into a sound investment process?
Trend indicators are crucial to watch since a trend is stronger than anything else (1/2)

Low trading experience investors

1. No trades

2. Take profits and/or use close stops

3. Trend according to trend indicators?
   - Yes: Follow trend!
   - No: Take profits and/or use close stops

High trading experience investors

4. Extreme trend following!

5. Top/bottom is near! Act contrarian!

6. Contrarian indicators are not confirming trend
   - Yes: Contrarian indicators are not confirming trend
   - No: Oscillators are not confirming trend

7. Take profits and/or use close stops

8. Contrarian indicators are confirming trend
   - Yes: Oscillators are confirming trend
   - No: No trades

9. Breadth indicators supporting trend?
   - Yes: Follow trend!
   - No: Take profits and/or use close stops

1 Detailed description please see next slide
Trend indicators are crucial to watch since a trend is stronger than anything else (2/2)

Description decision tree

1. Market has no clear bullish or bearish trend
   - Do not trade a trendless market!

2. Market is in a trend but the trend is not confirmed by market breadth
   - Market is extremely vulnerable to macro economical news flows and cycles
   - Take profits and/or use close stops for your portfolio

3. Market trend is confirmed by market breadth
   - This is a scenario for a healthy trend
   - Buy into any upcoming weaknesses in a bullish trend
   - Sell into any upcoming strengths in a bearish trend

4. Market trend is confirmed by market breadth and by contrarian indicators
   - Extremely strong trend
   - Use leverage to boost your profits (only for high experienced traders/investors)

5. Market trend is not confirmed by breadth and not confirmed by contrarian indicators
   - Trend is mostly driven by heavy weighted stocks in the index while the broad market is already lagging behind
   - Market top or market bottom is at hand
   - Act contrarian (only for high experienced traders/investors)

6. Market trend is confirmed by market breadth but not by contrarian indicators
   - Ignore contrarian indicators
   - As long as the trend is confirmed by breadth do not trade against the trend
   - Buy into any upcoming weaknesses in a bullish trend
   - Sell into any upcoming strengths in a bearish trend

7. Market trend is confirmed by contrarian indicators but not by market breadth
   - Follow the trend but use close stops and do not average down your portfolio
4. Trend indicators - measure the main market’s direction
Overview of most important trend indicators offered by WallStreetCourier.com

Sorted by time horizon

- **Short-term traders**:
  - Trend Trader Index Daily
  - Modified MACD Daily

- **Mid-to long-term investors**:
  - Global Futures Trend Index Daily
  - WSC Global Momentum Weekly
  - Global Futures Long Term Trend Index Weekly

More trend indicators available on www.wallstreetcourier.com
4.1 Trend indicators for short-term to mid-term traders
The Trend Trader Index calculates the simple moving average of the daily high and daily low price of the S&P 500 over the past 20 days.

**Signals:**
- A short term uptrend is given if the S&P 500 is trading above the 20 day moving average line of the past highs.
- A short term downtrend exists if the S&P 500 is trading below the 20 day moving average line of the past lows.
- Furthermore, the direction of the simple moving averages could also give additional information about the trend direction.
Trend indicators for short-term traders (2/3)

Short-term trend indicator

**The Modified MACD [daily]**

*Description and signals*

**Description:**
- Moving Average Convergence-Divergence (MACD) is one of the most effective trend indicators
- The Modified MACD uses two zero-lag adaptive moving averages of the S&P 500 to identify a trend

**Signals:**
- Investors should pay attention to a crossovers of the two signal lines (MACD Short and MACD Long)
- Bullish: MACD Short crosses the MACD Long from below
- Bearish: MACD Short crosses the MACD Long from above
Trend indicators for short-term traders (3/3)

Mid-term trend indicator

**Global Futures Trend Index [daily]**

Description and signals

**Description:**
- The Global Futures Trend Index calculates the amount of stocks listed on NYSE which are reaching daily new highs or daily new lows.

**Signals:**
- **Bullish:** as long as the gauge of this index stays above the consolidation level (0.6), a solid bullish trend is in progress.
- **Bearish:** as long as the gauge of this index stays below 0.2, a solid bearish trend is in progress.
Example: combination of short- to mid-term trend indicators (1/2)

1) Low trading experienced: check breadth indicators only
   High trading experienced: check breadth- and contrarian indicators
Example: combination of short- to mid-term trend indicators (2/2)

<table>
<thead>
<tr>
<th>Trend Trader Index</th>
<th>Modified MACD</th>
<th>Global Futures Trend Index</th>
<th>Check breadth and contrarian indicators¹</th>
<th>Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Bullish trend break</td>
<td>Bullish trend break</td>
<td>Bearish</td>
<td>Bearish</td>
<td>Go short!</td>
</tr>
<tr>
<td>2 Bearish trend break</td>
<td>Bearish trend break</td>
<td>Bearish</td>
<td>Bearish</td>
<td>Sell into strengths</td>
</tr>
<tr>
<td>3 Bearish</td>
<td>Bearish trend break</td>
<td>Bearish</td>
<td>Bearish</td>
<td>Hold short position</td>
</tr>
<tr>
<td>4 Bullish trend break</td>
<td>Bullish trend break</td>
<td>Bearish</td>
<td>Bearish</td>
<td>Go short!</td>
</tr>
</tbody>
</table>

¹) Low trading experienced: check breadth indicators only
High trading experienced: check breadth- and contrarian indicators
4.2 Trend indicators for mid- to long-term investors
Trend indicators for mid- to long-term investors (1/6)

Mid-term trend indicator

Global Futures Trend Index [daily]

Description and signals

Description:
• The Global Futures Trend Index calculates the amount of stocks listed on NYSE which are reaching daily new highs or daily new lows

Signals:
• Bullish: as long as the gauge of this index stays above the consolidation level (0.6), a solid bullish trend is in progress
• Bearish: as long as the gauge of this index stays below 0.2, a solid bearish trend is in progress

Countercheck with mid- to long-term market breadth- and other long-term trend indicators to increase performance
Trend indicators for mid- to long-term investors (2/6)

How our payoff would have looked like if you had followed the Global Futures Trend Index?

**Backtest: Global Futures Trend Index [daily]**

**Description of backtest**

**Methodology:**
- When the gauge of the Global Futures Trend Index is above 0.6 (previous page) a long position in the S&P 500 had been taken
- If the gauge of the Global Futures Trend Index drops below 0.6 no investment (therefore a flat line) had been taken
- Subject to one day lag (since you have to generate a signal first before you are able to invest)

**Chart:**
- Right scale: trading signals
- Left scale: S&P 500 and Global Futures Long Term Trend Index payoff
- The red line represents how your portfolio would have looked like, if you have followed this indicator

No transaction cost included
Trend indicators for mid- to long-term investors (3/6)

Long-term trend indicator

WSC Global Momentum [weekly]

Description and signals

Description:
- The WSC Global Momentum Indicator is the underlying risk management indicator of the WSC Global Tactical Asset Allocation Strategy.
- This indicator measures the percentage of 38 global stock markets which are gaining momentum.
- When this indicator flashes a sell signal it should be compared with other long-term trend- and breadth indicators.

Signals:
- Bullish: Gauge of the WSC Global Momentum above 0.35
- Bearish: Gauge of the WSC Global Momentum below 0.35

Countercheck with mid-to long-term market breadth- and other long-term trend indicators to increase performance.
Trend indicators for mid- to long-term investors (4/6)

How our payoff would have looked like if you had followed the this indicator?

**Backtest: WSC Global Momentum [weekly]**

**Description of backtest**

**Methodology:**
- When the gauge of the WSC Global Momentum Indicator is above 0.35 (previous page) a long position in the S&P 500 had been taken
- If the gauge of the WSC Global Momentum Indicator drops below 0.6 no investment (therefore a flat line) had been taken
- Subject to one week lag (since you have to generate a signal first before you are able to invest)

**Chart:**
- Right scale: trading signals
- Left scale: S&P 500 and WSC Global Momentum payoff
- The red line represents how your portfolio would have looked like, if you have followed this indicator
Trend indicators for mid- to long-term investors (5/6)

Long-term trend indicator

Global Futures Long Term Trend Index [weekly]

Description and signals

Description:
- The Global Futures Long Term Trend Index is a long term trend index which is perfectly suitable for long term investors.
- The indicator flashes a beige box when the S&P 500 is entering a technical bull market and flashes a white box when the market is entering a technical bear market
- When this indicator flashes a technical bear market it should be compared with other long-term trend- and breadth indicators

Signals:
- Bullish: beige box
- Bearish: white box

Countercheck with mid-to long-term market breadth- and other long-term trend indicators to increase performance
Trend indicators for mid- to long-term investors (6/6)

How our payoff would have looked like if you had followed the GF Long Term Trend Index?

Backtest: Global Futures Long Term Trend Index [weekly]

Description of backtest

Methodology:
- When the gauge of the Global Futures Long Term Trend Indicator flashes a buy signal (grey box see previous page) a long position in the S&P 500 had been taken.
- If the Global Futures Long Term Trend Index flashes a sell signal (white box see page before) no investment (therefore a flat line) had been taken.
- Subject to one week lag (since you have to generate a signal first before you are able to invest).

Chart:
- Right scale: trading signals
- Left scale: S&P 500 and GF Long Term Trend Index payoff
- The red line represents how your portfolio would have looked like, if you have followed this indicator.

No transaction cost included.
5. Breadth indicators – Determine the strengths of a trend
Trend indicators are crucial to watch since a trend is stronger than anything else

Low trading experience investors

1. No trades

High trading experience investors

4. Extreme trend following!
   - YES
     - Contrarian indicators are confirming trend
     - Oscillators are confirming trend
   - NO

5. Top/bottom is near!
   - Act contrarian!

6. Follow trend!
   - YES
   - Contrarian indicators are not confirming trend
   - Oscillators are not confirming trend
   - NO

7. Take profits and/or use close stops
   - Follow trend!
Trend indicators are always lagging indicators as they follow the price action of the underlying security – so investors are always late in and late out with their trades!

Breadth indicators are fulfilling two functions:

Breadth indicators are telling you if a trend break is possible

Minimize wrong trend indicator signals and reduce the late out problematic

Short-term traders

Mid- to long-term investors
The overview of most important breadth indicators offered by WallStreetCourier.com

Sorted by time horizon

- **Short-Term**
  - Upside-/Downside Volume Index Daily
  - High-/Low Index Weekly
  - Upside-/Downside Volume Index Weekly
  - Advance-/Decline Index Weekly
  - Modified McClellan Volume Oscillator Weekly

  *Short-term traders*

- **Mid-Term**

- **Long-Term**

More breadth indicators available on www.wallstreetcourier.com
5.1 Breadth indicators for short-term traders
Breadth indicators for short-term traders (1/2)

Example: short- to mid-term breadth indicator

**High-/Low Index [weekly]**

**Description and signals**

**Description:**
- The High-Low Index is a breadth indicator based on new highs and new lows made on Nyse.
- New high refers to the number of stocks reaching a new 52-week high. New low refers to the number of stocks reaching a new 52-week low.
- The index is calculated by dividing the number of new highs by the number of new highs plus new lows.

**Signals:**
- Bullish: New highs above new lows
- Bearish: New highs below new lows
- Watch out for divergences between the market and new highs.
Breadth indicators for short-term traders (2/2)

Short- to mid-term trend indicators

1. Short-term trend break but mid-term trend still bullish (Global Futures Trend Index) → check breadth indicators

2. Short-term bullish trend break but mid-term trend still in force and confirmed by breadth

Short- to mid-term breadth indicator

1. The High-Low Index is a breadth indicator based on new highs and new lows made on Nyse
   - Bullish Signals: New highs above new lows
   - Bearish Signals: New highs below new lows

2. Short-term bullish trend break and mid-term trend still in force but not confirmed by breadth

Buy into weakness

Sell into strengths
5.2 Breadth indicators for mid- to long-term investors
Mid- to long-term-investors: using breadth indicators to minimize wrong trend indicator signals

1. Trend break in the Global Futures Long Term Trend Index

1. Market breadth (High-/Low Index) remains bullish!

Stay long!
Long-term investors: using breadth indicators to minimize the late-out problematic (1/2)

Example: long-term breadth indicator

Modified McClellan Volume Oscillator [weekly]

**Description and signals**

**Description:**
- This indicator is derived from the weekly net volume, the number of advancing volume less the number of declining volume.
- By applying 2 exponential moving averages (short and longer one) of net advances this is a perfect breadth indicator

**Signals:**
- Bullish: McClellan Short closes above McClellan Long
- Bearish: McClellan Short closes below McClellan Long
- Watch out for divergences between the market and the Modified McClellan Oscillator
Long-term investors: using breadth indicators to minimize the late-out problematic (2/2)

Global Futures Long Term Trend Index is bullish

Market long-term breadth (Modified McClellan Volume Oscillator) turns bearish!

Hedge or sell positions
6. Contrarian indicators – Indicators for experienced investors only
Trend indicators are crucial to watch since a trend is stronger than anything else

Low trading experience investors

- Trend according to trend indicators?
  - YES
    - Breadth indicators supporting trend?
      - YES
        - Follow trend!
      - NO
        - Take profits and/or use close stops
  - NO
    - No trades

High trading experience investors

- Extreme trend following?
  - YES
    - Contrarian indicators are confirming trend
      - Follow trend!
    - Oscillators are confirming trend
  - NO
    - 6
      - 6
      - Take profits and/or use close stops
  - Contrarian indicators are not confirming trend
    - Follow trend!
  - Oscillators are not confirming trend
    - 7
      - 7
      - Take profits and/or use close stops

- Top/bottom is near!
  - Act contrarian!
Contrarian indicators are tracking the investing behavior of four different kinds of investment groups

Classification according to WallStreetCourier.com

**Smart Money Indicators**
- Measure the investment behavior of well informed investors
- These market participants are usually **right** about the direction of the market and these indicators are therefore confirming indicators

**Dumb Money Indicators**
- Measure the investment behavior of uninformed investors
- These market participants are usually **wrong** about the direction of the market and these indicators are therefore contrarian indicators

**Market Sentiment Indicators**
- Measure the sentiment among investors
- This is important since when everybody is fully invested there will be no further purchasing power.
- At this point, the market is at a peak

**Options Market Indicators**
- The buying and selling activity for puts and calls can be used to help gauge investors sentiment in the market
Overview of most important contrarian indicators offered by WallStreetCourier.com

Contrarian indicators can be again divided into two subgroups (sorted by its nature)

**Confirming**
- Smart Money Flow Index
- Global Futures Dumb Money Indicator
- Cycles
- Market Sentiment
- Daily Put-/Call Ratio All CBOE Options
- WSC Capitulation Index
- WSC Bottom Indicator

**Short-term traders**

**Contrarian**

**Mid- to long-term investors**

More contrarian indicators available on www.wallstreetcourier.com
Contrarian indicators are being used for money management or to act contrarian (experienced investors only)

Money management refers to taking profits/averaging down the portfolio

Confirming indicator (example)

Contrarian indicator (example)

Take profits (if non confirming) and buy if confirming (use them always in combination with trend- and breadth indicators)

Average down your portfolio at the bottom (use them always in combination with trend- and breadth indicators)
The Smart Money Flow Index

Track what smart money is doing

Description and signals

Description:
- The Smart Money Flow Index is calculated by taking the action of the Dow in two time periods: the first 30 minutes and the close. The first 30 minutes represent emotional buying, driven by greed and fear of the crowd based on good and bad news.
- Smart money waits until the end and they very often test the market before by shorting heavily just to see how the market reacts.

Signals:
- Whenever the Dow makes a high which is not confirmed by the SMI there is trouble ahead or the other way round.
The Global Futures Dumb Money Indicator

Do not behave like dumb money!

**Description and signals**

**Description:**
- The Global Futures Dumb Money Indicator is calculated according to a proprietary formula. It shows tops when the so-called "crowd" gets too bullish.
- Take profits if the market is in a long term uptrend and this indicator turns bearish.
- Go short if the market is in a long term downtrend and this indicator turns bearish.

**Signals:**
- Bearish: gauge of the Global Futures Dumb Money Indicator above 5
- Bullish: no bullish signals
Stock market cycles do appear in different weekly regularity and they are very profitable for short-term opportunistic traders.

Average weekly returns of the S&P 500 compared with the different bullish cycles

**Description and signals**

**Description:**
- Cycle analysis has a long history and is also part of technical analysis.
- All markets appear to be subject to cyclical patterns and forces caused by economic influences and countless other factors.
- Stock market movements seem to take place with cyclical regularity and timing your trades to coincide with anticipated cyclical movements can be very rewarding.

**Signals:**
- Bullish: 7-, 16-, 21-, 32-, 38- and the 64-week cycle
Market sentiment – a mixture between confirming and contrarian indicator

Do not get bearish when others are

Confirming/contrarian indicator

**Description and signals**

**Description:**
- Every week the AAII polls its 170,000 members how they feel about the market's performance in the next six months.
- The Bull & Bear AII shows the number of bulls divided by the number of bears.

**Signals:**
- Bullish: extremely low readings
- Bearish: extremely high readings
- Otherwise the crowd should confirm the current trend
Daily Put/Call Ratio All CBOE Options

Do not buy calls/puts when the crowd is betting on further gains/losses

Contrarian indicator

Description and signals

Description:
- This indicator refers to All CBOE (Chicago Board of Exchange) Options.
- High put/call ratios are often indicative of excessive pessimism and thus of large amounts of money on being at the "sidelines"
- Conversely, low put/call ratios indicate a point at when there is so much optimism causing a very little money left to push the stock or index higher

Signals:
- Bullish: extremely high readings
- Bearish: readings below 0.8
WSC Capitulation Index

Buy when dumb money is throwing in the towel

Contrarian indicator

Description and signals

Description:
- The WSC Capitulation Index is shows bottoms when the so called "crowd" gets too bearish. It does not appear very often but it is extremely reliable when the market is at a turning point.
- It prevents long-term investors from buying at the wrong time and works especially well for option traders because of its incredibly perfect timing.

Signals:
- Bullish: gauge of the WSC Capitulation Index drops by half of its rise
- Bearish: gauge of the WSC Capitulation Index is rising
The Global Futures Bottom Indicator

Cover your shorts at the bottom

Contrarian indicator

Description and signals

Description:
- The Global Futures Bottom Indicator is derived from weekly calls and puts.
- It does not appear very often but it is extremely reliable when the market is at a turning point.
- It prevents long-term investors from buying at the wrong time and works especially well for option traders because of its incredibly perfect timing.

Signals:
- Bullish: gauge of the Bottom Indicator drops below 20
- Bearish: no bearish signals
7. Oscillators – a mixture of trend-, breadth- and contrarian indicators – are providing another unique inside about the condition of the market
Overview of most important oscillators offered by WallStreetCourier.com

Sorted by nature

Short-Term
- Modified McClellan Oscillator Daily
- Equity Options Call-/Put Ratio Oscillator
- WallStreetCourier Index Oscillator Weekly

Long-Term
- Modified McClellan Oscillator Weekly

More oscillators available on www.wallstreetcourier.com
Modified McClellan Oscillator Daily – a mixture between trend- and breadth indicator

Use this indicator in combination with other short-term trend- and breadth indicators!

**Trend- as well as breadth indicator**

**Description and signals**

**Description:**
- This indicator is derived from the daily net advances, the number of advancing issues less the number of declining issues.
- By applying 2 exponential moving averages (short and longer one) of net advances this is a perfect momentum as well as breadth indicator.

**Signals:**
- Bullish: McClellan Short closes above McClellan Long
- Bearish: McClellan Short closes below McClellan Long
- Watch out for divergences between the market and the Modified McClellan Oscillator.
Equity Options Call-/Put Ratio Oscillator

Measure the momentum of calls and puts which are being bought by the crowd

**Options market oscillator**

**Description and signals**

**Description:**
- The buying and selling activity for puts and calls can be used to help gauge investor sentiment in the market.
- The Equity Options Call/Put Ratio Oscillator measures the momentum of the Call/Put Ratio of CBOE Equity Options.

**Signals:**
- **Bullish:** readings below -0.2
- **Bearish:** readings above 0.2
WallStreetCourier Index Oscillator

Description:
• The WSC Index Oscillator is based on 15 different price information (option data, upticks/downticks data, new highs and lows etc)
• This indicator is a leading indicator as it leads the price move.

Signals:
• Bullish: readings below -0.1
• Bearish: readings above 0.1

Works especially well when the Global Futures Long Term Trend Index is bearish!
Modified McClellan Oscillator Weekly – a mixture between trend- and breadth indicator

Use this indicator in combination with other mid- to long-term trend- and breadth indicators!

**Trend-as well as breadth indicator**

**Description and signals**

**Description:**
- This indicator is derived from the weekly net advances, the number of advancing issues less the number of declining issues.
- By applying 2 exponential moving averages (short and longer one) of net advances this is a perfect momentum as well as breadth indicator.

**Signals:**
- Bullish: McClellan Short closes above McClellan Long.
- Bearish: McClellan Short closes below McClellan Long.
- Watch out for divergences between the market and the Modified McClellan Oscillator.

[Graph showing Modified McClellan Oscillator Weekly with S&P 500 Index, McClellan Short, and McClellan Long lines and arrows indicating trends and signals.]
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