

Market Timing and Tools to Do It

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My Purpose

- ◆ This Is Intended to Present a Point of View for Using Market Timing That Will Make Life Easier and Less Risky for Investors.
- ◆ This Material Is a Sample of Ideas, and Is Not Intended to Be an Investment Recommendation.
- ◆ Work is not complete. This provides a sample which will be expanded to test more ideas.

Agenda

- ◆ Importance of Market Timing
- ◆ Approach - Investing in Trends
- ◆ Common Tools
- ◆ Identifying Major Trends
- ◆ Using a Framework to Reduce Risk
- ◆ Applying Secondary Strategies

Investing Proverbs

- ◆ Spend at least as much time researching a stock as you would choosing a refrigerator -- Peter Lynch
- ◆ There are two times when people forget their investment principles: at the top of the market and at the bottom -- Phillip A. Lowe
- ◆ It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price -- Warren Buffett
- ◆ You've got to know when to hold 'em and know when to fold 'em.
- ◆ **The Trend is your friend**

Making Money with Less Worry

◆ All About Trends

- Most Profits Made in Up Trending Markets
- When Trend Goes Flat - Change Tools
- Read the Charts - Price Action is King

◆ Capital Preservation

- Avoid Large Losses (Drawdowns)
 - Also Avoid Multiple Small Losses
- Protect Long Positions when Risk is High
- Learn How to Use Trends to Your Advantage

Two Step Approach for Trend Investing

1. Identify Periods When Long Term Trends Change

- Times to Be In Market (Long)
- Times to Avoid Market and Use an Alternative Strategy

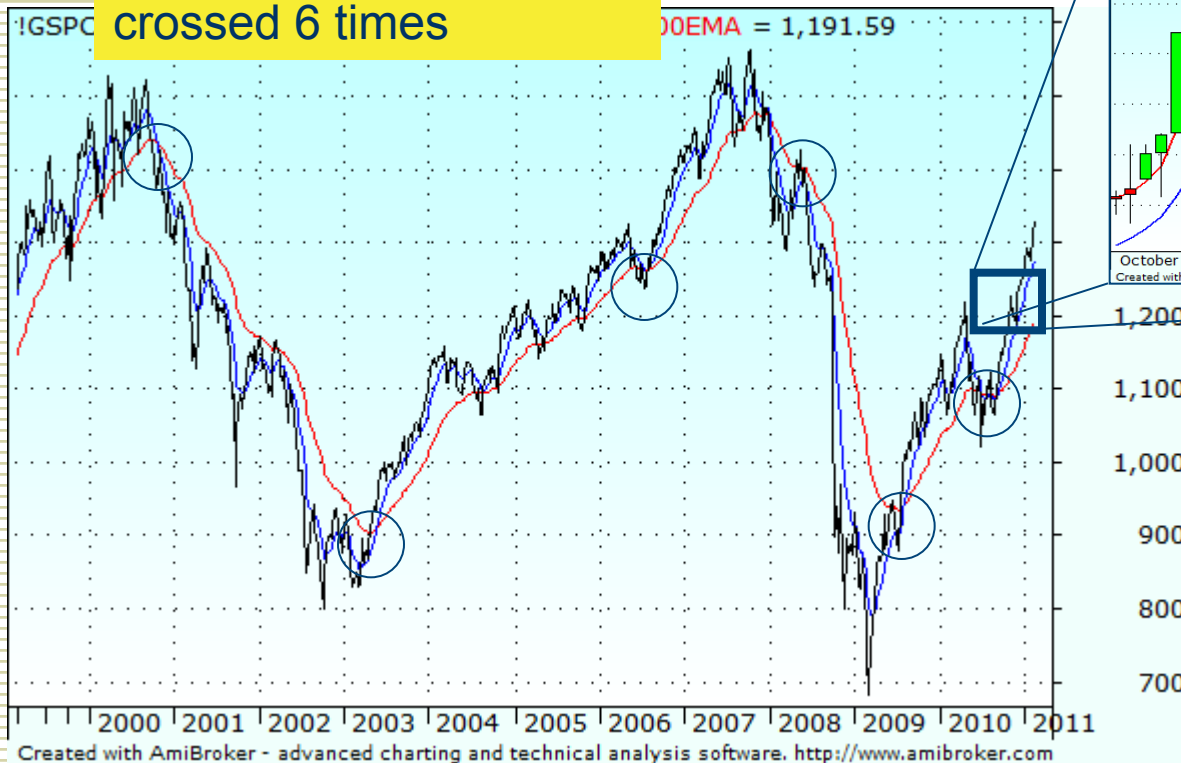
2. Pick & Apply Strategy for Use with Major Trends to Make Money While Avoiding Major Market Turns

- For Rising Periods
 - Buy & Hold
 - Various Portfolio Trading Using Short / Intermediate Term Signals
- For Down Periods
 - Liquidate / Switch to Money or Bond Fund Not Correlated to Mkt
 - Hedge using Bear Funds / Short Positions

Long vs Short Term Trends

Long Term View

In 12 years 50/200 EMA crossed 6 times



Short Term View

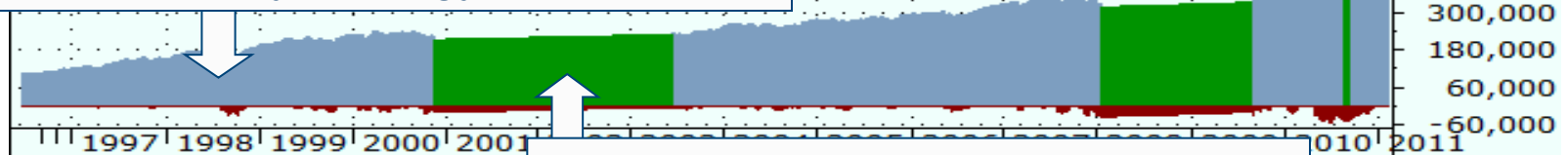
In 5 months 8 /19 EMA Crossed 2 times

Investing In Trends

Step 1 - Identify Individual Periods of Long Term Trends



Step 2 - Apply Strategy for UpTrends



and Apply Strategy for DownTrends

Step 1 - Find Periods of LT Trends

Approaches

1. Use Charts, Trendlines & Patterns
2. Use Technical Indicators and Computerized Signals (and Charts for visual confirmation)

First Approach

Not Quantitative, Depends on Individual Skills

Second Approach

Permits Backtesting & Validation of Methods
Helps to Build Confidence in System

Some Market Timing Tools

Moving Averages - Trend Followers, Momentum Indicators

- 50/200 EMA Cross - Golden Cross
- MACD - Moving Average Convergence/Divergence

Oscillators - Price Strength Indicators

- Stochastic %K Oscillator
- RSI Oscillator - 14 days

Trend Indicators - Strength of Trend

- ADX - Average Directional Index
- Aroon Oscillator - Trend Indicator

Trend Indicators vs Oscillators

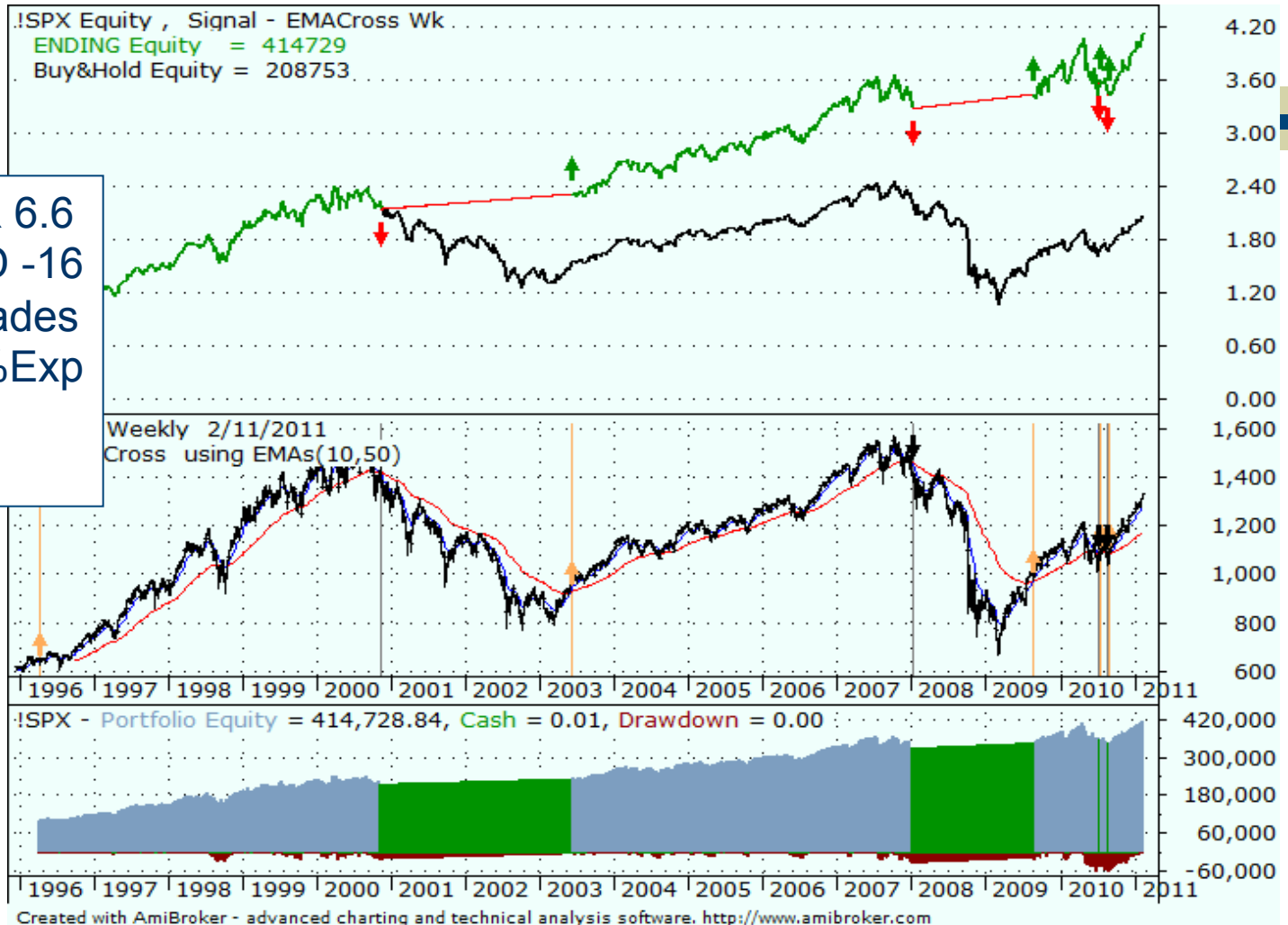
- ◆ Trend Followers Work Well in **Strong Trending Markets**
 - Crossing Moving Averages
 - MACD
- ◆ Oscillators Work Well in **Flat Markets** (in a Trading Range)
 - Stochastics
 - RSI, CCI, Williams %R
- ◆ Trend Indicators - Identify Strength of Trend
 - ADX - Average Directional Index
 - Aroon

Backtests to Find Long Term Trends - SP500

Indicator Study	CAR %	MDD %	Trades	Wins	Losses	Exp %
Buy & Hold (15yrs*)	-0.7	-56	1	0	1	100
50/200 EMA Cross	6.6	-16	4	3	1	55
50/250 EMA Cross	10	-19	4	4	0	72
20/200 MACD Wk	11.5	-19	6	5	1	66
76 Stochastic	13.8	-16	9	9	0	62
320 Aroon Osc	9.7	-18	5	5	0	69

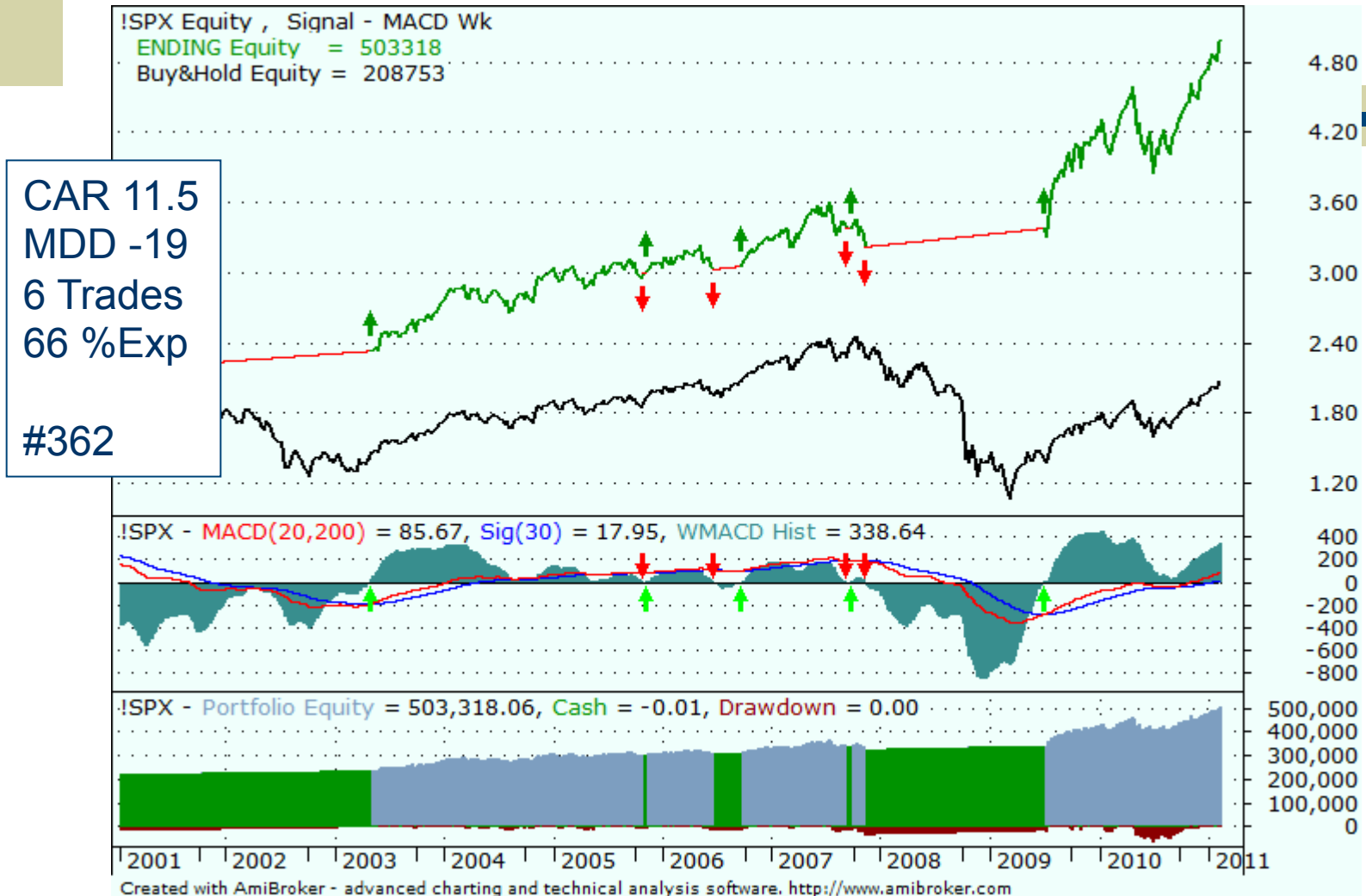
*Backtest Period from 4/10/96 to 2/11/11

SP500 Cross 50/200 EMA



CAR 6.6
 MDD -16
 4 Trades
 55 %Exp
 #251

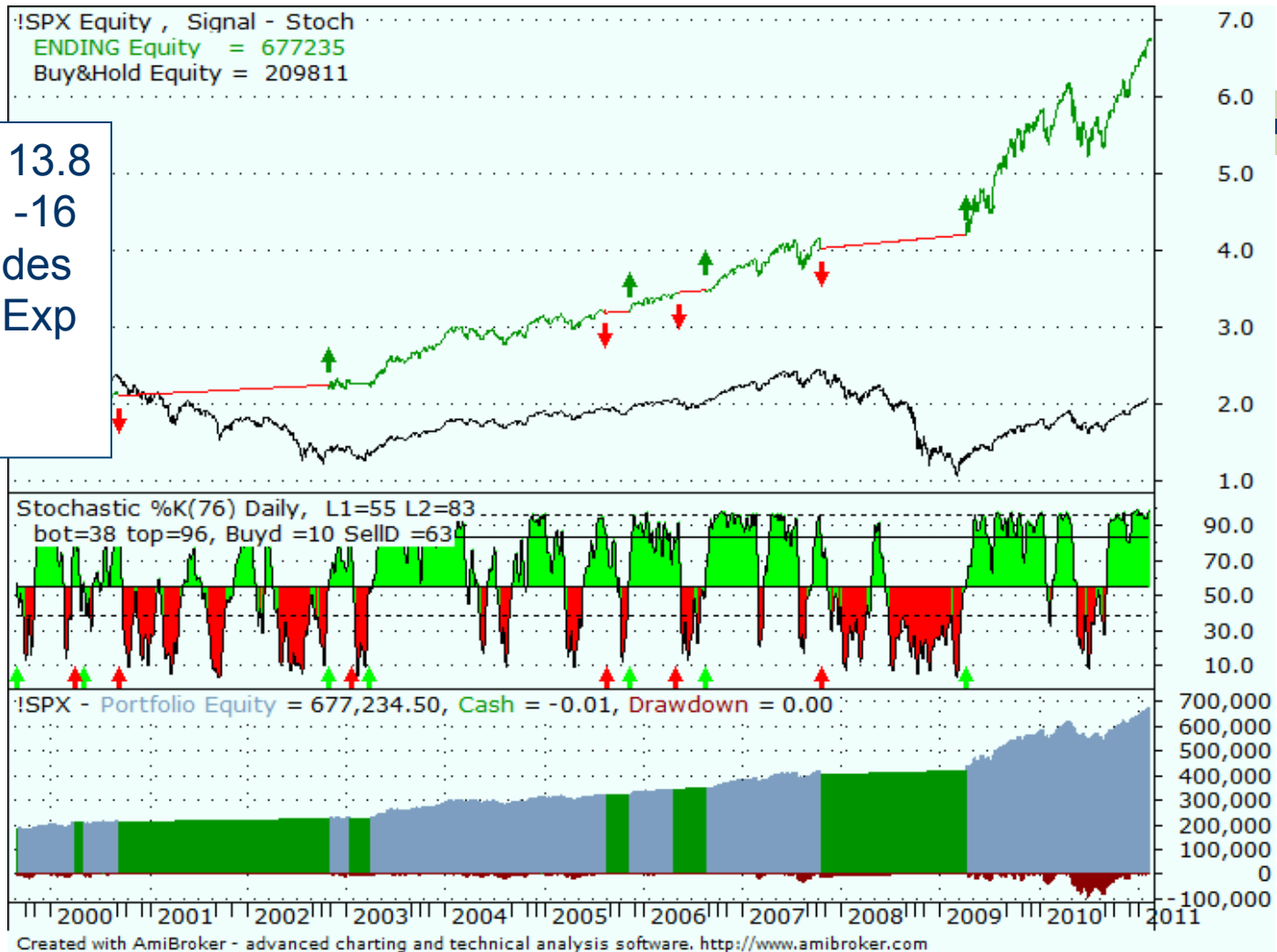
SP500 with MACD 20/200



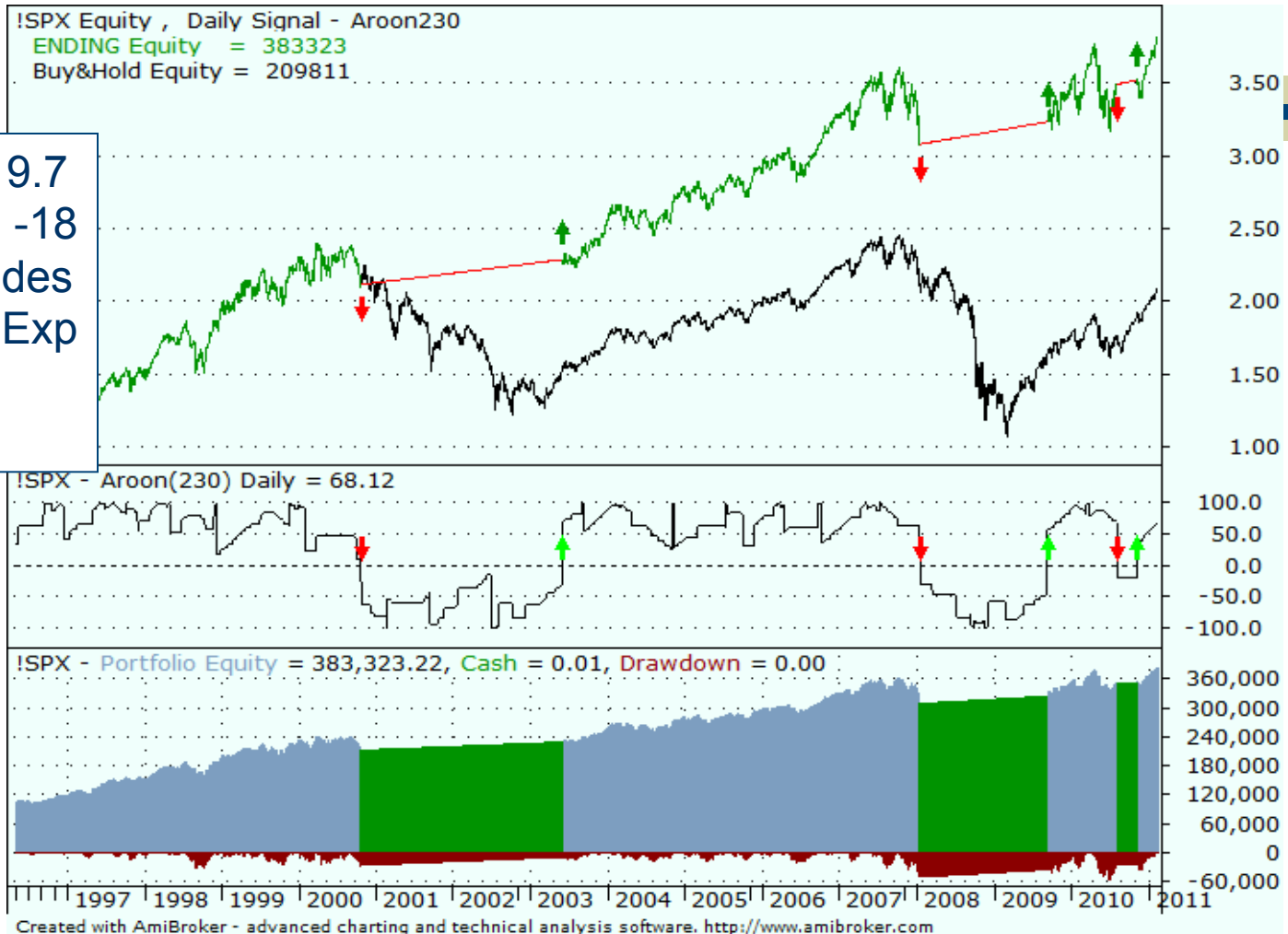
SP500 with Stochastic

CAR 13.8
MDD -16
9 Trades
62 %Exp

#351



SP500 with Aroon 230



So What' s This Mean?

- ◆ **This is Just the Framework for Investing**
 - We Can Avoid The Big Drops and Enter the Market with Greater Confidence
- ◆ **During Up Trends, We Can-**
 - Employ Short / Intermediate Term Strategies
 - Enter At Any Time (Best to Buy on Dips - Sale Prices)
 - Ignore Wall Street Hype About Pending Crashes
- ◆ **During Down Trends, We Can -**
 - Go to Cash, Rest Easy.
 - Be Confident When Up Trend is Signaled, It' s a Good Time to Buy

Step 2 - Investing in Up Trends

- ◆ Pick Best Results for Baseline
My Choice: 50/250 EMA Cross of SP
Simple, Only 4 Trades in 15 Years

- ◆ Use Entry/Exit Periods for Baseline Signal
- ◆ Apply ST Trading System to Augment Returns and Reduce DD

Enter Date	Exit date
4/10/96	11/13/00
6/11/03	1/15/08
8/31/09	8/30/10
9/10/10	2/11/11

Pick & Apply Your Favorite Trading System

- Relative Strength & Momentum
- RSI & Stochastics Combo
- MACD & Stochastics Combos (old FastTrack Signals)
- Bollinger Band & Thrust
- Breadth Indicators (A/D, SI)
- Cycles
- Seasonality
- Breakout Signals

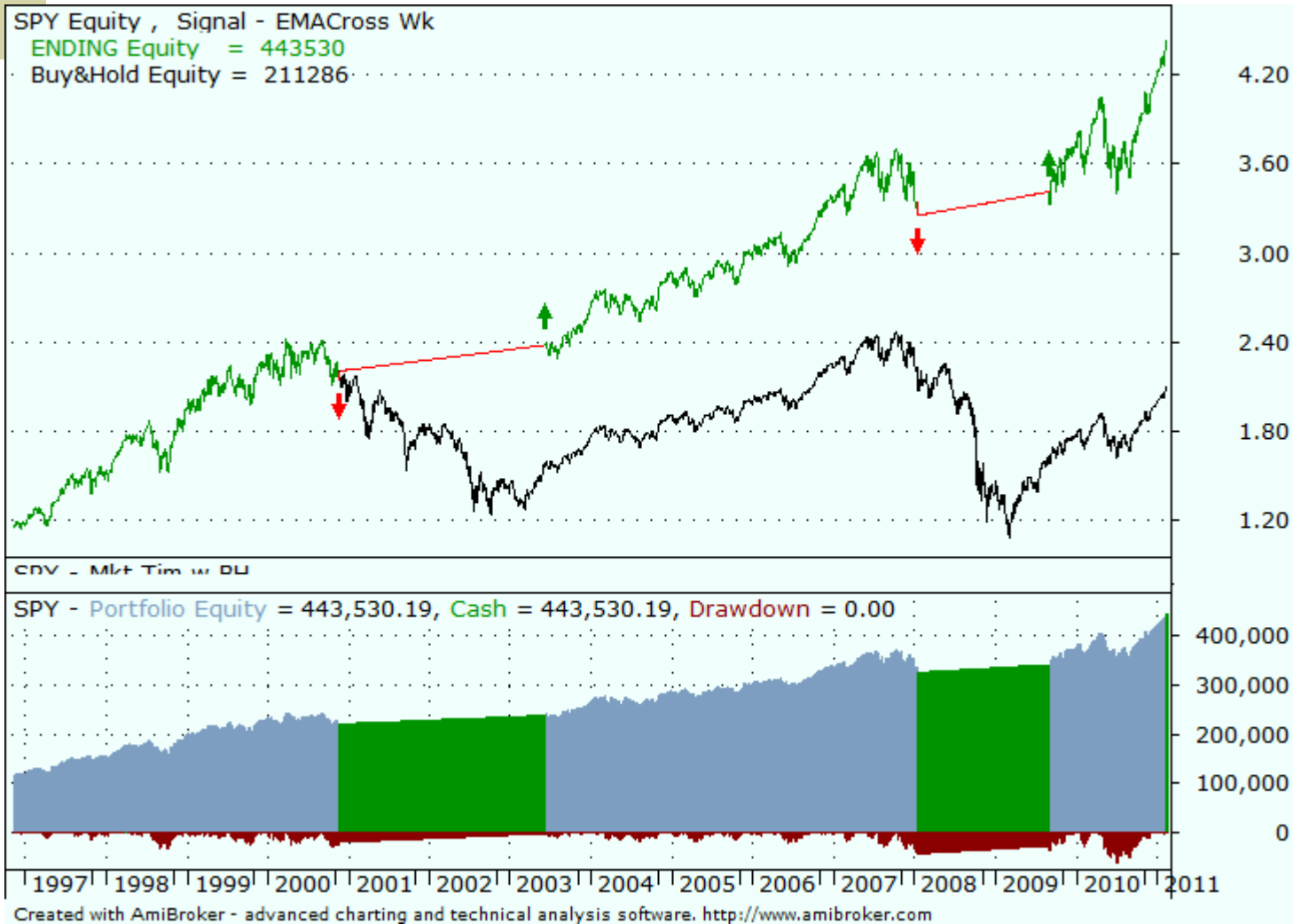
Trading SP500 in Up Trend Periods

Backtest Period 4/10/1996 to 2/11/2011

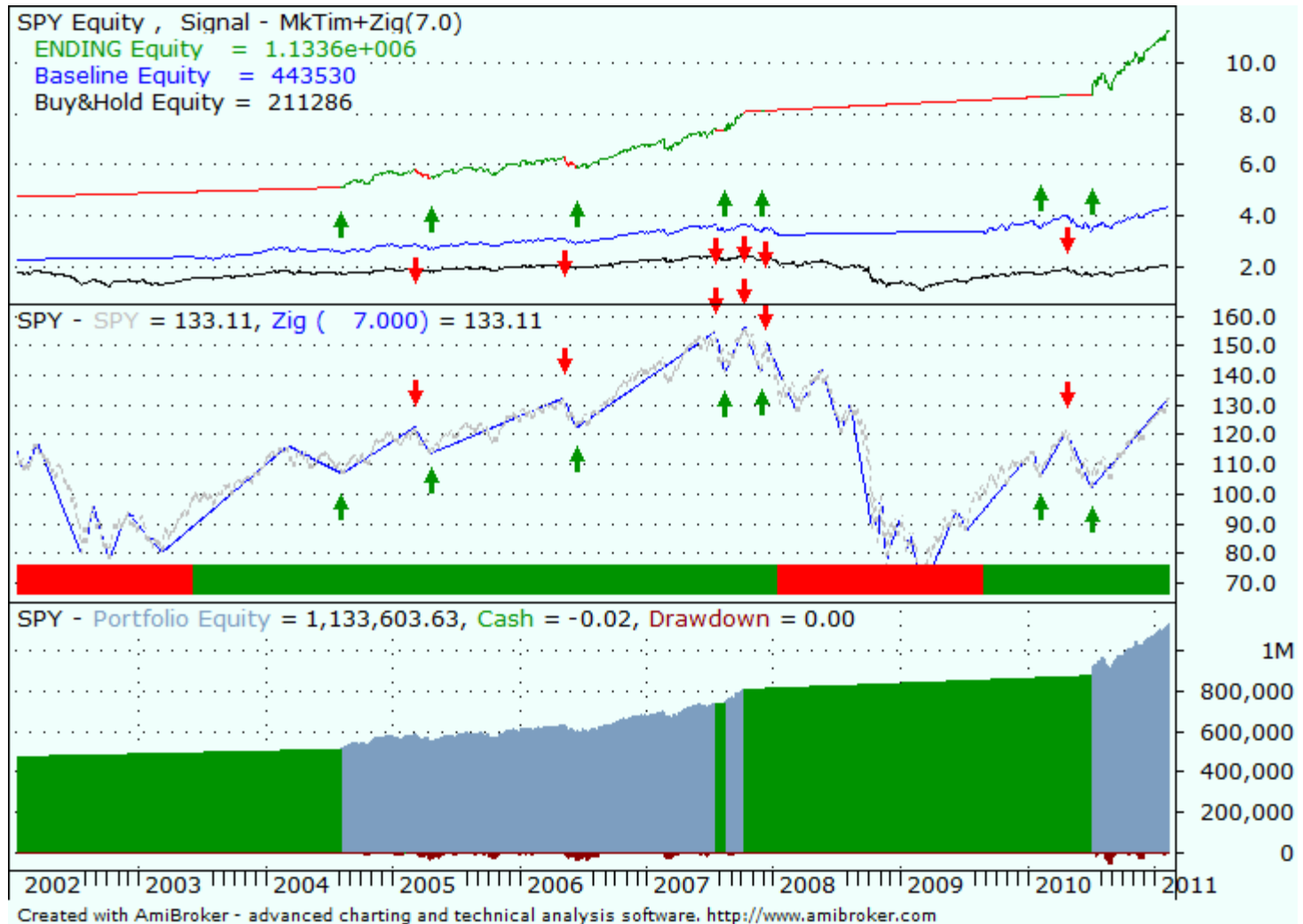
Trading System	CAR %	Max DD %	Trades	W / L
Zig Zag 8% - 7%*	17.7 - 19.7	-8 to -7	11 - 17	0 L
Stochastic	11.6	-16	9	6 / 3
MACD	11.2	-17	86	72 / 14
RUTTR	11.3	-16	6	6 / 0
Buy & Hold	10.5	-19	4	4 / 0

*Note: ZigZag Used to show potential gain only. Higher gains for smaller percentages up to CAR = 42% for 5% setting (64 trades)

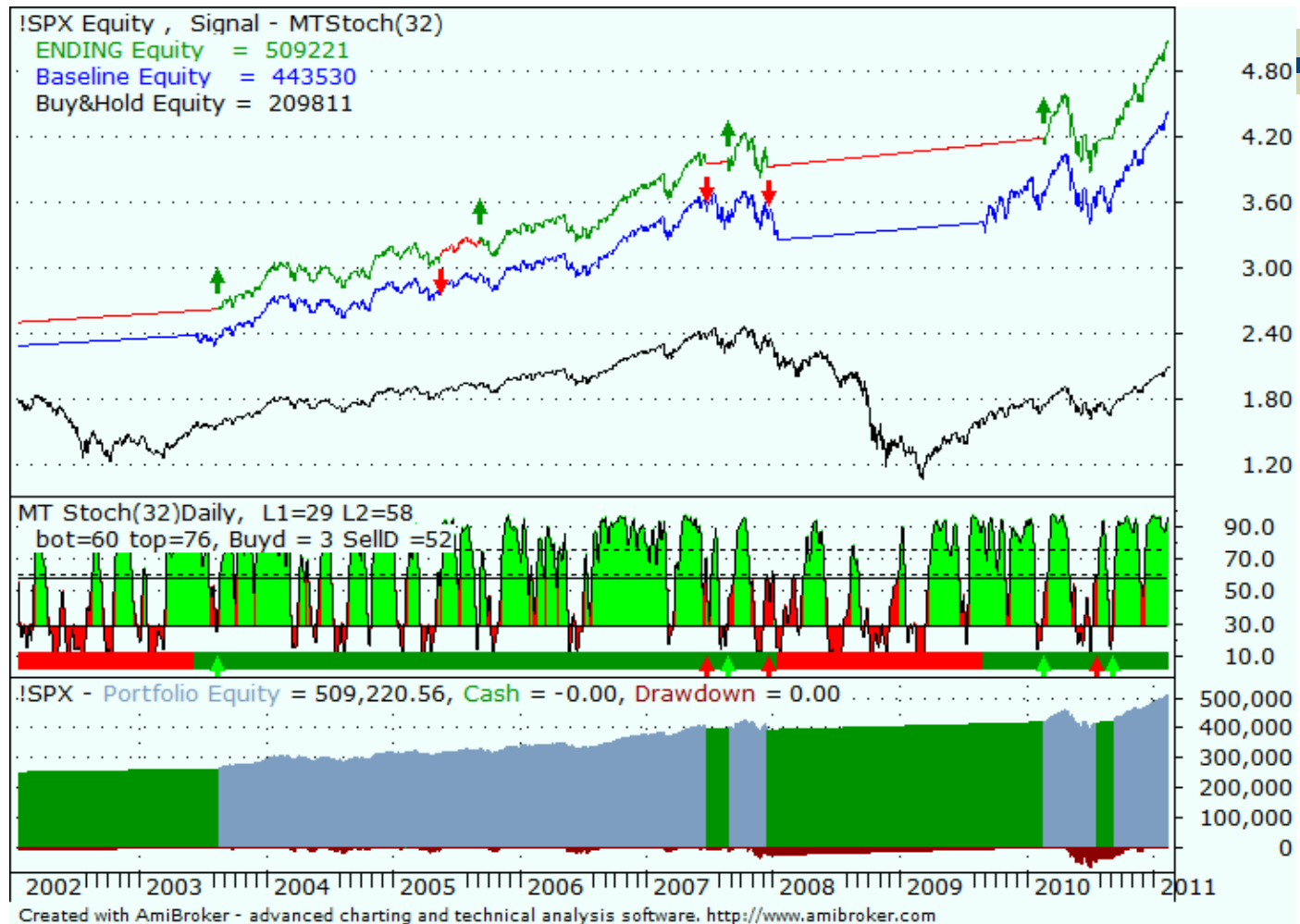
SP500 B&H in Up Trends



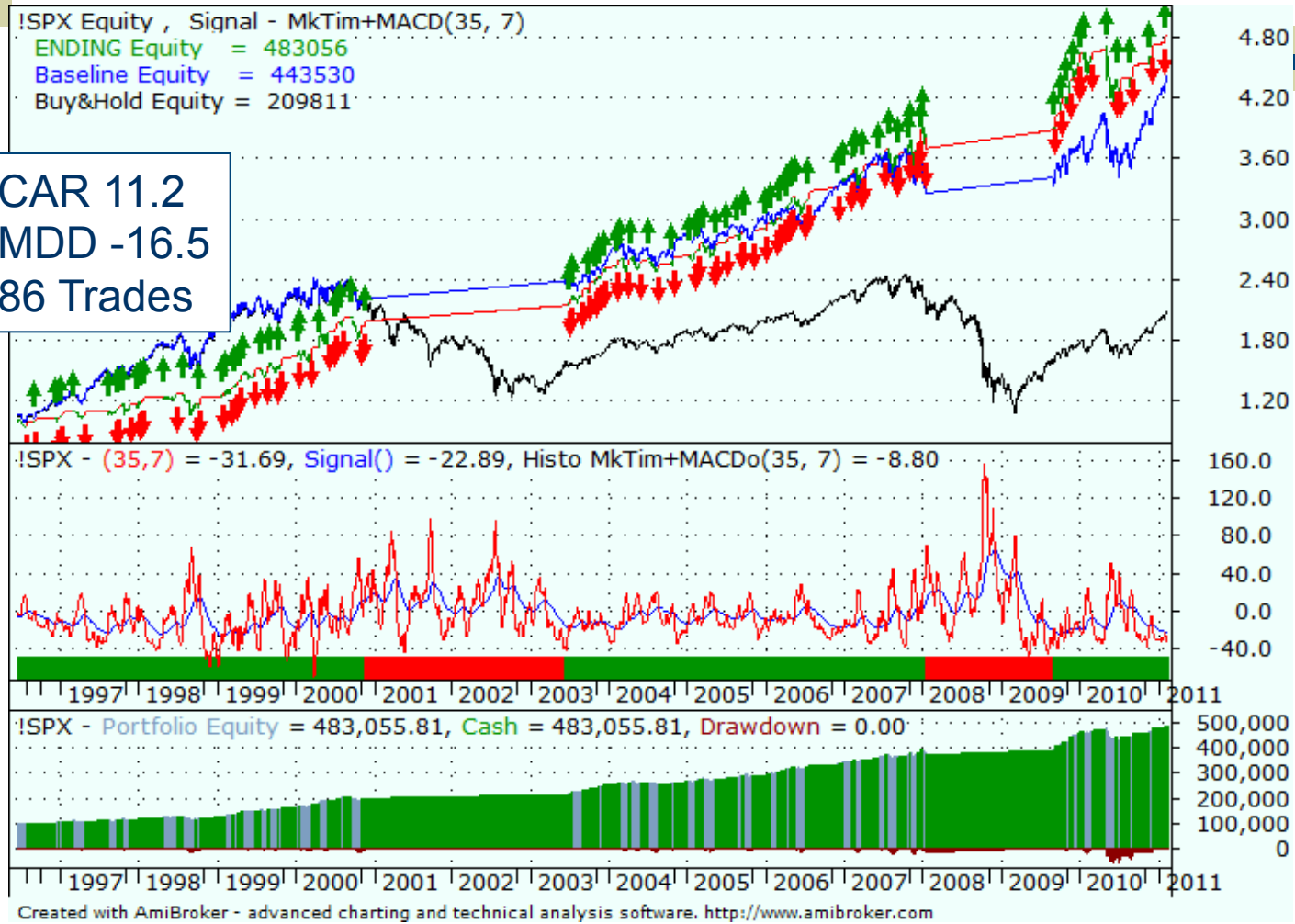
Zig 8% in Up Trends



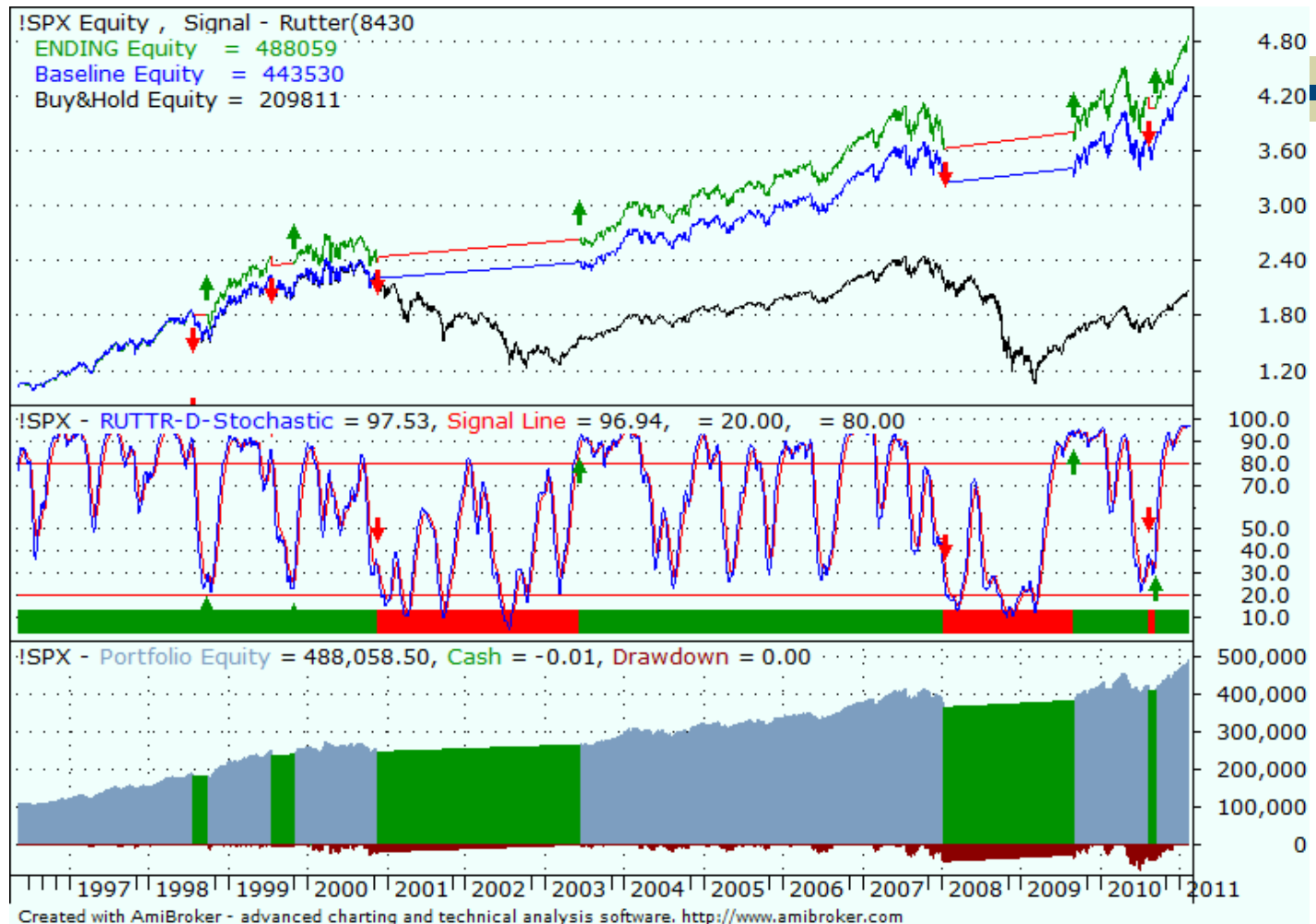
Stoch 32 in Up Trends



MACD in Up Trends



RUTTR in UP Trends



Results for Other ETFs

Using Stochastic(32) Setup for SP500*

Ticker	CAR	Max % DD	CAR/ MDD	Sharpe Ratio	# Trades	# of winners	# of losers	Exposure %
EWZ iShares Brazil	13.5	-32	0.42	0.50	4	1	3	32
XLE SPDR Energy	12.3	-20	0.60	1.23	4	4	0	47
ILF iShares Latin Amer	10.8	-30	0.36	0.52	3	1	2	29
SPY SP500	9.5	-16	0.59	0.88	8	7	1	57
QQQQ QQQ Nasdaq	8.2	-40	0.20	1.05	5	5	0	43
EEM iShares Emerg Mkts	8.2	-26	0.31	1.39	4	4	0	32
SLV iSares Silver	8.1	-20	0.40	1.71	4	4	0	14
GLD SPDR Gold	7.2	-22	0.33	0.71	3	2	1	22
EPP iShares Pac ex Jap	6.1	-33	0.18	0.58	3	2	1	29
DIA Diamonds Dow30	5.5	-20	0.28	0.81	5	4	1	48
IYR iShares Real Estate	4.6	-35	0.13	0.37	4	3	1	27
IWN iShares Russ 2000	4.6	-22	0.20	0.40	5	3	2	29
XLF Financial Sector	3.3	-32	0.10	0.10	7	3	4	44

*Need to Adjust Stoch Signal Parameters for Each Security

Conclusions

- Two Step Method Can Reduce Risk & Increase Investor Confidence
- Day-to-Day Trading Methods Can Increase Return and Reduce Drawdowns
- Need to Tailor Application to Individual Index, Stock, ETF or Mutual Fund

Key Issues To Be Worked

- Revisit SP Baseline Model to Improve Buy Signal and Reduce Lag and Improve Returns
- Apply More Signals to Baseline
 - Revisit Collection of Old Signals
 - Focus on ETF Strategies
- Setup Baselines for Other Markets
 - Russell 2000, NASDAQ 100, Tech Stocks
- Make Use of Market Down Periods
 - Profitable Use of Bear Funds
 - Hedging Strategies



Remember



The Trend is Your Friend

- Don't Lose Track of It.
- Don't Get on the Wrong Side of It.



Questions?

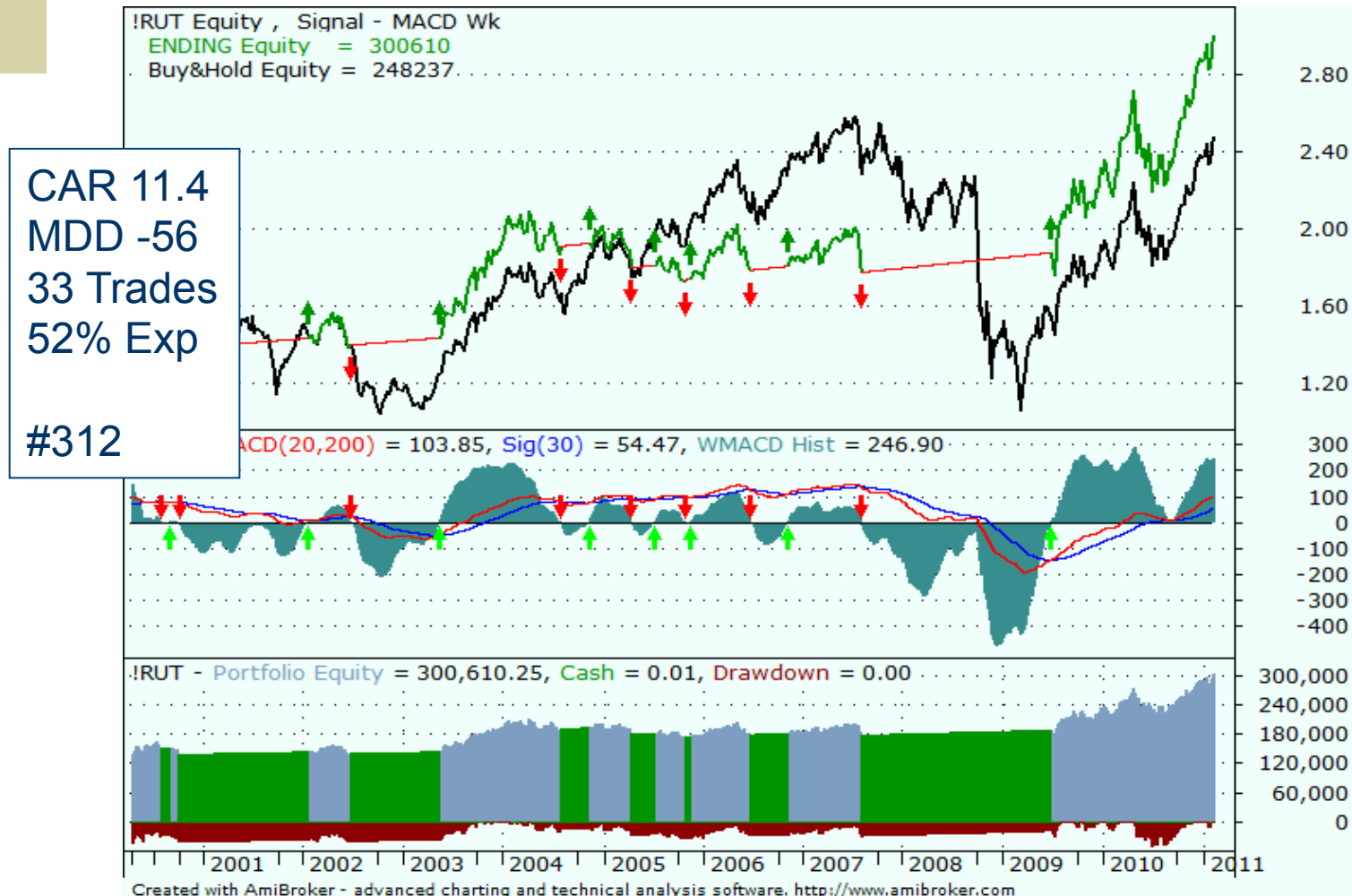
Results over 15 Years

Study Name	CAR %	MDD%	CAR/MDD	Trades	Wins	Losses	Exp %
241 BuyHold BH!GSPC	-0.7	-56	-0.01	1	0	1	100
251 Price 50&200EMA	6.6	-16	0.4	4	3	1	55
289 Crossd opt74 100!GSPC	9.8	-19	0.51	8	7	1	67
370 CrossD50 250!SPX	10.0	-19	0.52	4	4	0	72
299 CrossD50 253!SPX	10.2	-19	0.53	4	4	0	72
366 CrossW24 28!RUT	8.6	-29	0.29	6	4	2	71
312 MACDW1875 2!RUT	11.4	-20	0.56	33	17	16	52
362 MACDW2020030!SPX	11.5	-19	0.59	6	5	1	66
368 StoK74!RUT	14.2	-37	0.38	9	7	2	66
351 StoK76!SPX	13.8	-16	0.86	9	9	0	62
234 MktAlign op1!SPX	11.4	-29	0.39	26	18	8	45
216 MktAlign*!RUT	12.9	-25	0.52	56	45	11	22
369 Aroon Osc	9.7	-18	0.54	5	5	0	69

RUT Cross 120/240 EMA



RUT with MACD 20/200



RUT with Stoch 74

CAR 14.2
MDD -37
9 Trades
66% Exp

#368

