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The E-Book of Technical Market Indicators

by

Wall Street Courier

Version 1.1

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Preface

The transparency of the American markets offers an array of indicators and allows deep insights of prevailing sentiment. You find the activities of NYSE members like specialists and floor traders, public and odd lot short sales, 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 Stochastics, 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 and you don't have to be right all the time. Just be right a higher percentage of the time than wrong. Choose some reliable indicators and stick to them. Don't follow some indicators for a while and switch to some others if they fail. Don't be a technician in the first half of the year and a fundamentalist the next half. Be consistent and disciplined in your approach. Don't abandon a good indicator because you think this time everything is different.

It takes of course a lot of guts because the opinions of the most widely quoted gurus of Wall Street are usually contrary to your indicators at that time. This is much easier if you don't use margin. You will sleep a lot better if you buy fifty shares of IBM with the money you can spare than two hundred shares on credit.

Happy Trading
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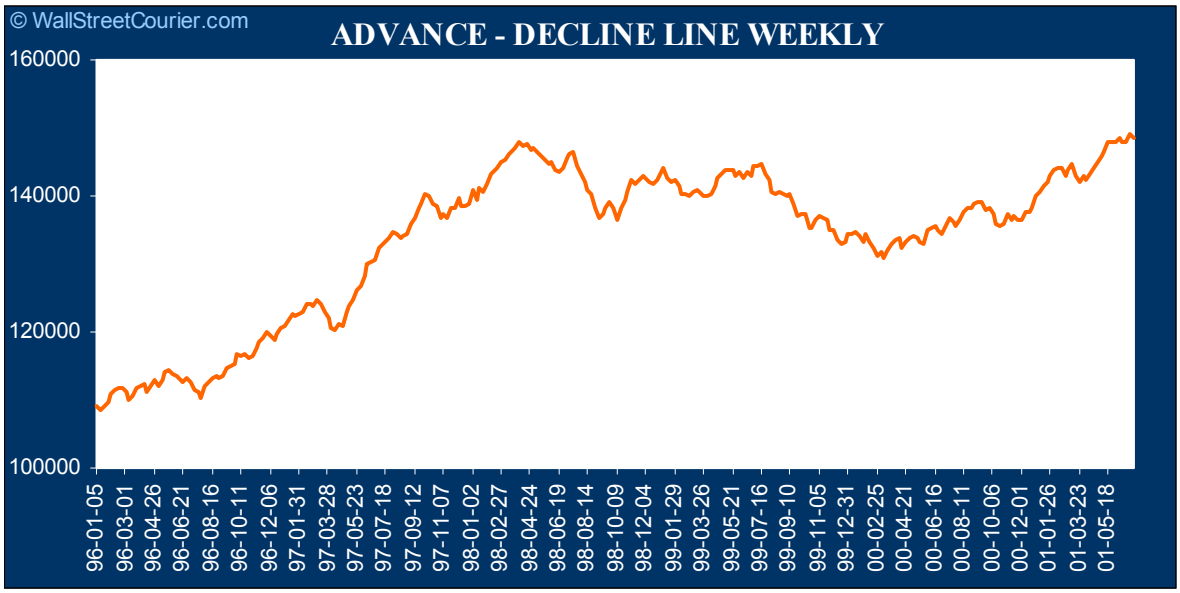
Advance-Decline Indicators

Advance-Decline Line

The Advance-Decline Line is a market breadth indicator and should be compared to the other market indices like the Dow Jones or S&P 500. Daily or weekly NYSE data is used in the calculation. Because the Advance-Decline Line reflects the action of the general market, any divergences are watched closely by market technicians. As long as the Dow and the Advance-Decline Line are moving in the same direction the trend will continue. If the Dow makes a new high which is not confirmed by a high of the Advance-Decline Line, caution is warranted. Vice versa, if the Dow makes a new low and the Advance-Decline Line doesn't you should cover your short sales.



To calculate your own weekly Advance-Decline Line is very simple and you can begin your calculations at any time. Just pick a large enough base number like 100000. Then you calculate each week (or day) the difference between advances and declines by adding the advances and subtracting the declines. If you have 1269 advances and 1457 declines on your first week, the reading of your newly created weekly Advance-Decline Line would be 99812 (example below).

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Date	Advances	Declines	A-D Line
			100000
09.06.95	1269	1457	99812
16.06.95	1714	975	100551
23.06.95	1591	1148	100994
30.06.95	1346	1348	100992
07.07.95	2032	692	102332
14.07.95	1507	1191	102648
21.07.95	894	1875	101667
28.07.95	1891	845	102713
04.08.95	1404	1291	102826
11.08.95	1187	1489	102524
18.08.95	1624	1043	103105
25.08.95	1486	1176	103415
01.09.95	1656	1011	104060
08.09.95	1903	759	105204

The Advance-Decline Line gave a useful example in 1999. During the strong bull market the advance was quite broad and the A/D Line moved in tandem with the Dow. But when the Dow made new highs in the beginning of 1999 the A/D Line was already lagging behind, indicating a weakening of the general market. Internet mania and technology craze kept the market going for a while.

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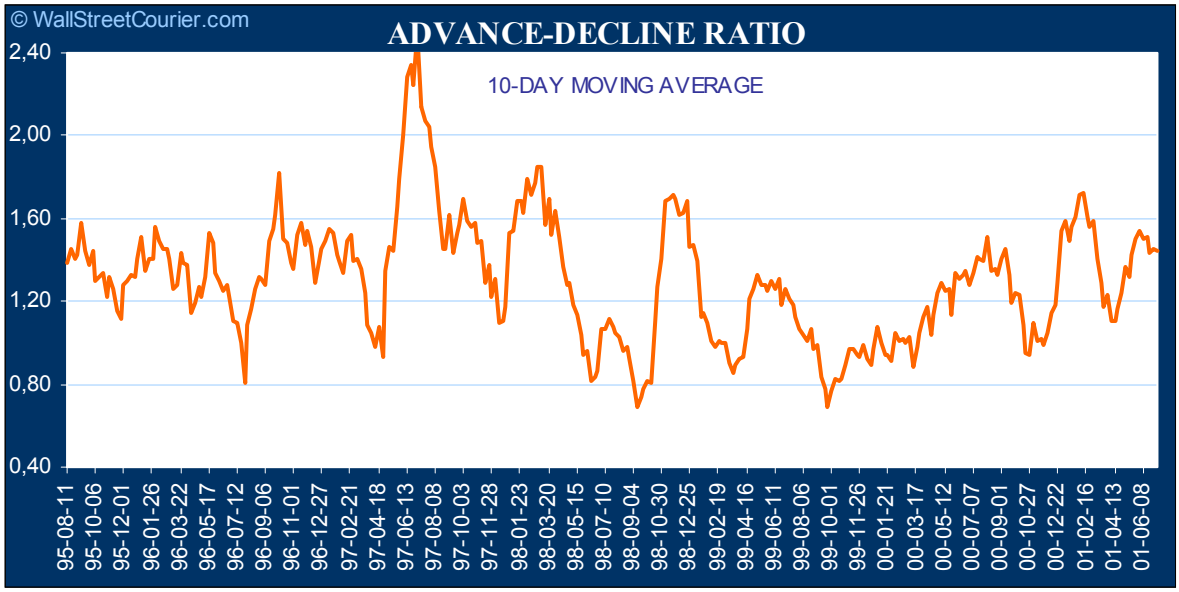
Advance-Decline Ratio

The Advance-Decline Ratio is also market breadth indicator. It is calculated by dividing the number of advancing issues by the number of declining issues using daily or weekly NYSE data. It works very well as an overbought/oversold indicator and as a momentum indicator. A moving average should be used to smooth out the swings.

Date	Advances	Declines	A/D * 100	10-Week MA
09.06.95	1269	1457	87	
16.06.95	1714	975	176	
23.06.95	1591	1148	139	
30.06.95	1346	1348	100	
07.07.95	2032	692	294	
14.07.95	1507	1191	127	
21.07.95	894	1875	48	
28.07.95	1891	845	224	
04.08.95	1404	1291	109	
11.08.95	1187	1489	80	138
18.08.95	1624	1043	156	145
25.08.95	1486	1176	126	140
01.09.95	1656	1011	164	143
08.09.95	1903	759	251	158

This chart shows you the weekly NYSE Advance-Decline Ratio on a 10-week moving average. Readings below 90 indicate intermediate bottoms and readings above 170 tops.



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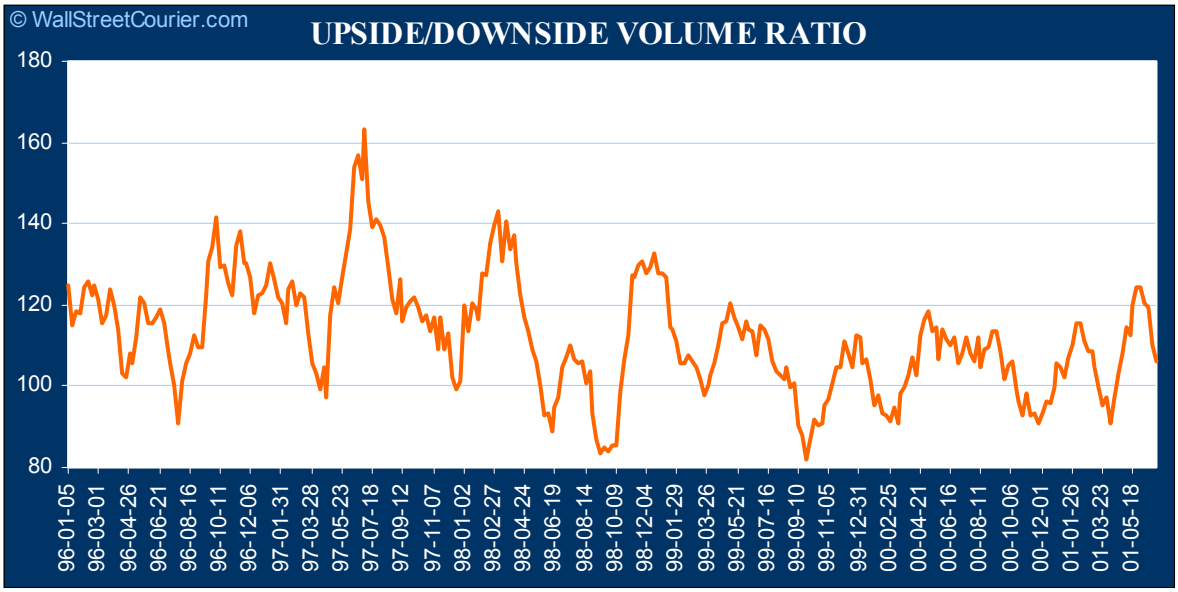
Upside-Downside Volume Ratio

The Upside-Downside Volume Ratio is also market breadth indicator. It is calculated by dividing the volume of advancing issues by the volume of declining issues, using daily or weekly NYSE data. It works very well as an overbought/oversold indicator and as well as a momentum indicator. A moving average should be used to smooth out the swings.

Date	Adv. Volume	Decl. Volume	AV/DV*100	10-Week MA
09.06.95	673210	732827	92	
16.06.95	943121	565840	167	
23.06.95	964871	666807	145	
30.06.95	674725	765076	88	
07.07.95	867512	353025	246	
14.07.95	945574	756197	125	
21.07.95	755969	1027248	74	
28.07.95	1008468	584579	173	
04.08.95	733204	703285	104	
11.08.95	565588	669580	84	130
18.08.95	796723	615752	129	133
25.08.95	629338	603130	104	127
01.09.95	727349	553140	131	126
08.09.95	746298	418632	178	135



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Upside-Downside Volume Line

The Upside-Downside Volume Line is a market breadth indicator and should be compared to the other market indices like the Dow Jones or S&P 500. Daily or weekly NYSE data is used in the calculation. Because the Upside-Downside Volume Line reflects the action of the general market, any divergences are watched closely by market technicians. As long as the Dow and the Upside-Downside Volume Line are moving in the same direction the trend will continue. If the Dow makes a new high which is not confirmed by a high of the Upside-Downside Volume Line, caution is warranted. It is more affirmative than the Advance-Decline Line and it gave a perfect sell signal in January 2000, when the Dow made a new high and the Upside-Downside Volume Line lagged behind (charts below). Vice versa, if the Dow makes a new low and the Upside-Downside Volume Line doesn't, you should cover your short sales. To calculate your own weekly Upside-Downside Volume Line is very simple and you can begin your calculations at any time. Just pick a large enough base number like 1000000. Then you calculate each week (or day) the difference between the upside volume and downside volume by adding the volume of advancing issues and subtracting the volume of declining issues. If you have an upside volume of 673210 and a downside volume of 732827 on your first week, the reading of your newly created weekly Upside-Downside Volume Line would be 940383 (example below).

Date	Upside Volume	Downside Volume	U-D Volume Line
			1000000
09.06.95	673210	732827	940383
16.06.95	943121	565840	1317664
23.06.95	964871	666807	1615728
30.06.95	674725	765076	1525377
07.07.95	867512	353025	2039864
14.07.95	945574	756197	2229241
21.07.95	755969	1027248	1957962
28.07.95	1008468	584579	2381851
04.08.95	733204	703285	2411770
11.08.95	565588	669580	2307778
18.08.95	796723	615752	2488749
25.08.95	629338	603130	2514957
01.09.95	727349	553140	2689166
08.09.95	746298	418632	3016832

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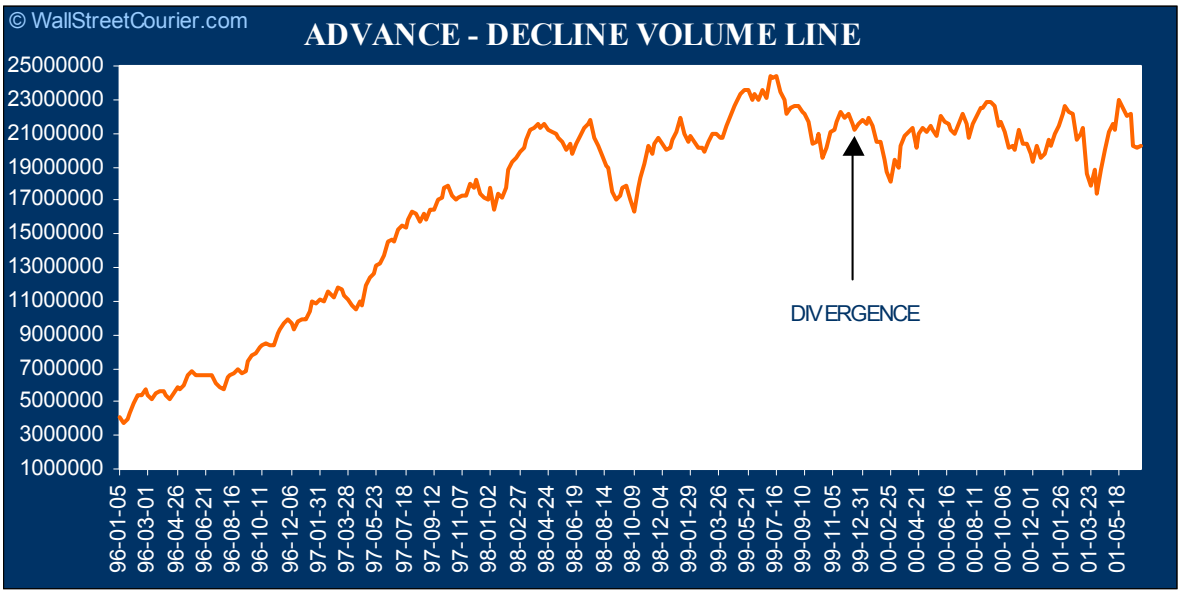
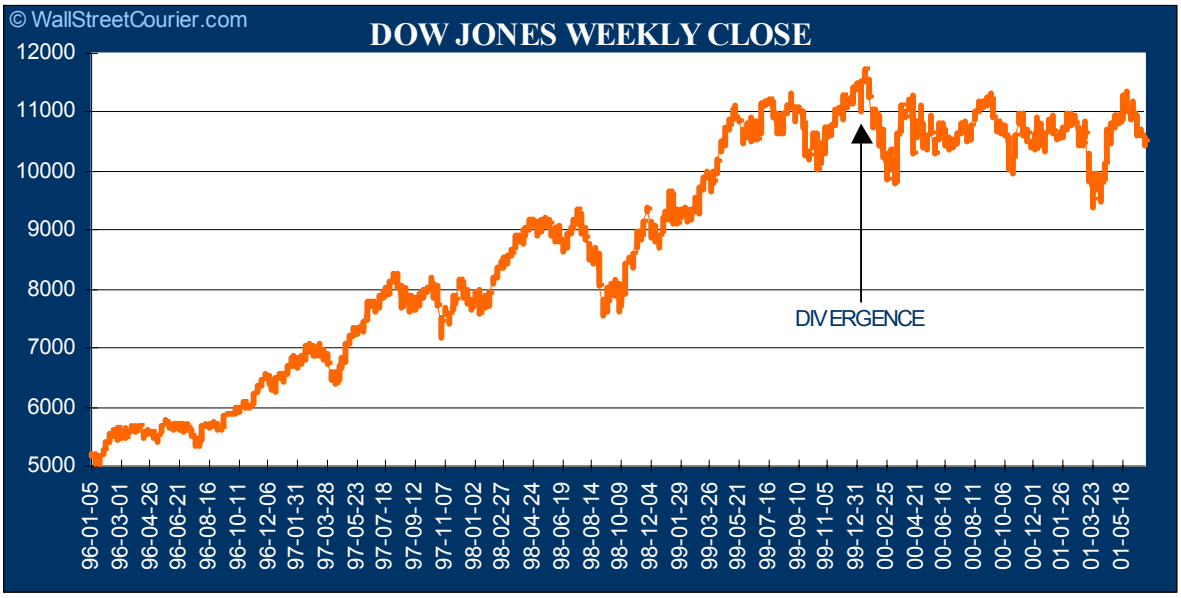
Here is a beautiful example of the Upside-Downside Volume Line. Volume moves the markets and this indicator gave a perfect sell signal in December 1999, when the Dow made a new high and the Upside-Downside Volume Line didn't. It would have kept you also on the right side of the market right to the top.





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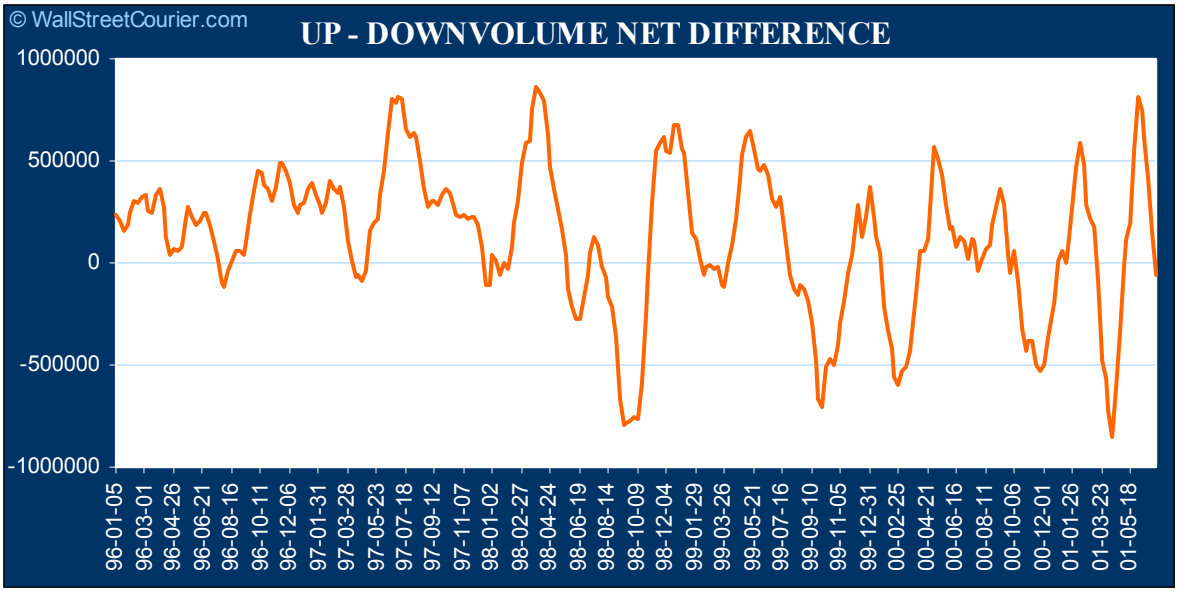
Upside-Downside Volume Net Difference

Another method used by market technicians is to calculate the net difference between the upside- and downside volume. Daily or weekly data can be used. The net difference between upside- and downside volume is calculated weekly and the result is added. To smooth out the swings, a 10-week moving average should be applied. Below there is an example for weekly calculations:

Date	Adv. Volume	Decl. Volume	Net Difference	Cumulative
				0
09.06.95	673210	732827	-59617	-59617
16.06.95	943121	565840	377281	317664
23.06.95	964871	666807	298064	615728
30.06.95	674725	765076	-90351	525377
07.07.95	867512	353025	514487	1039864
14.07.95	945574	756197	189377	1229241
21.07.95	755969	1027248	-271279	957962
28.07.95	1008468	584579	423889	1381851
04.08.95	733204	703285	29919	1411770
11.08.95	565588	669580	-103992	1307778
18.08.95	796723	615752	180971	1488749
25.08.95	629338	603130	26208	1514957
01.09.95	727349	553140	174209	1689166
08.09.95	746298	418632	327666	2016832



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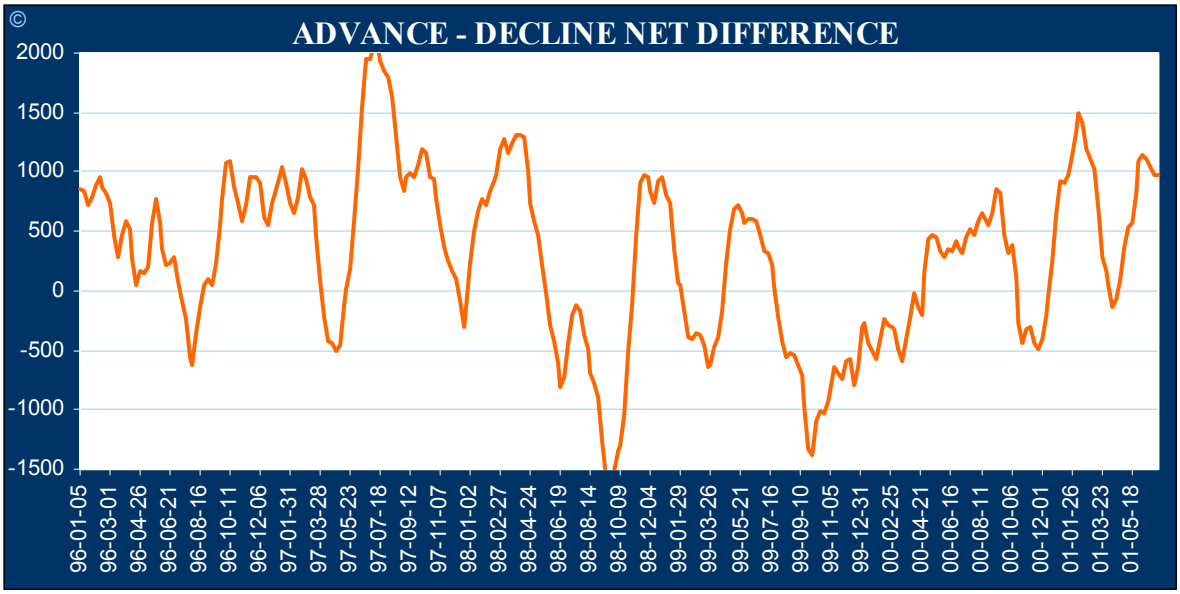
Advance-Decline Net Difference

Another method used by market technicians is to calculate the net difference between advances and declines. Daily or weekly data can be used. The net difference between advances and declines is calculated weekly and the result is added. To smooth out the swings, a 10-week moving average is applied. Below there is an example for weekly calculations:

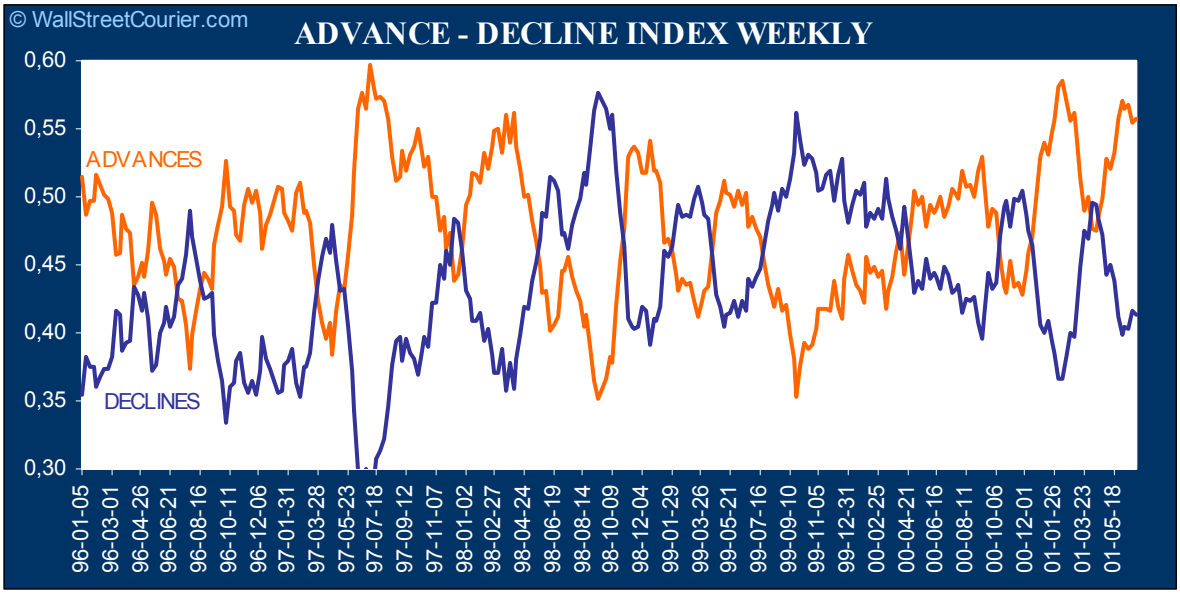
Date	Advances	Declines	Net Differ.	Cumulative	10-Week MA
09.06.95	1269	1457	-188	-188	
16.06.95	1714	975	739	551	
23.06.95	1591	1148	443	1182	
30.06.95	1346	1348	-2	441	
07.07.95	2032	692	1340	1338	
14.07.95	1507	1191	316	1656	
21.07.95	894	1875	-981	-665	
28.07.95	1891	845	1046	65	
04.08.95	1404	1291	113	1159	
11.08.95	1187	1489	-302	-189	535,0
18.08.95	1624	1043	581	279	581,7
25.08.95	1486	1176	310	891	615,7
01.09.95	1656	1011	645	955	593,0
08.09.95	1903	759	1144	1789	727,8

The chart went from extremely overbought in July 1997 to heavily oversold in September 1998:



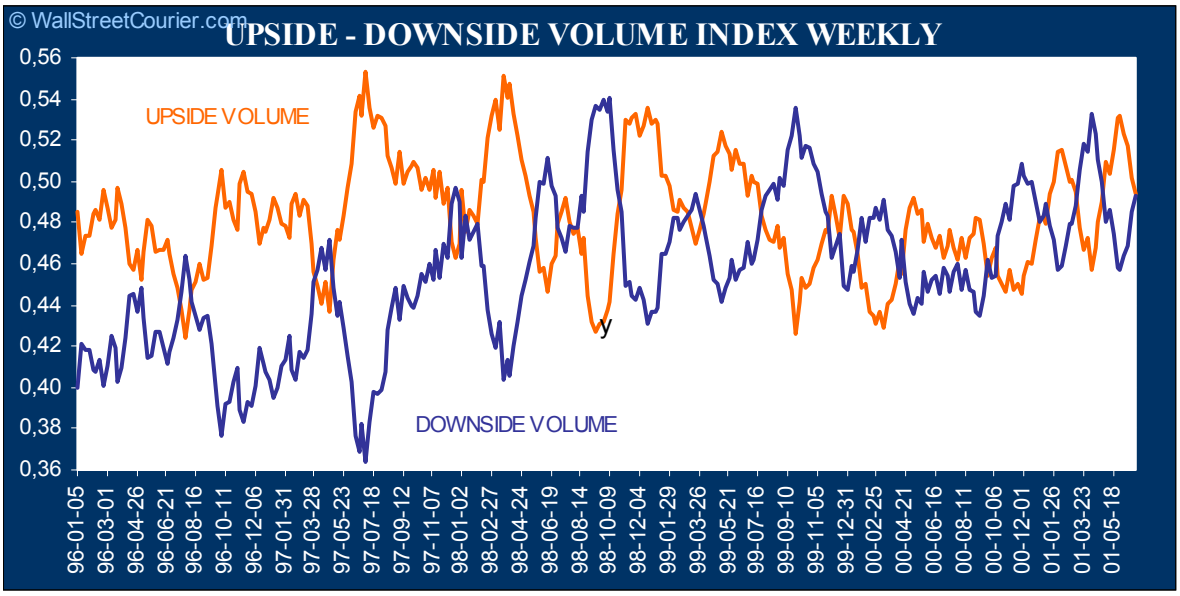
Global Futures Advance-Decline Index

This indicator is calculated by dividing the weekly number of advances and declines by the number of total issues traded. A 10-week moving average is applied to smooth out the swings.



Global Futures Upside-Downside Volume Index

This indicator is calculated by dividing the weekly upside and downside volumes by the weekly total volume. A 10-week moving average is applied to smooth out the swings.



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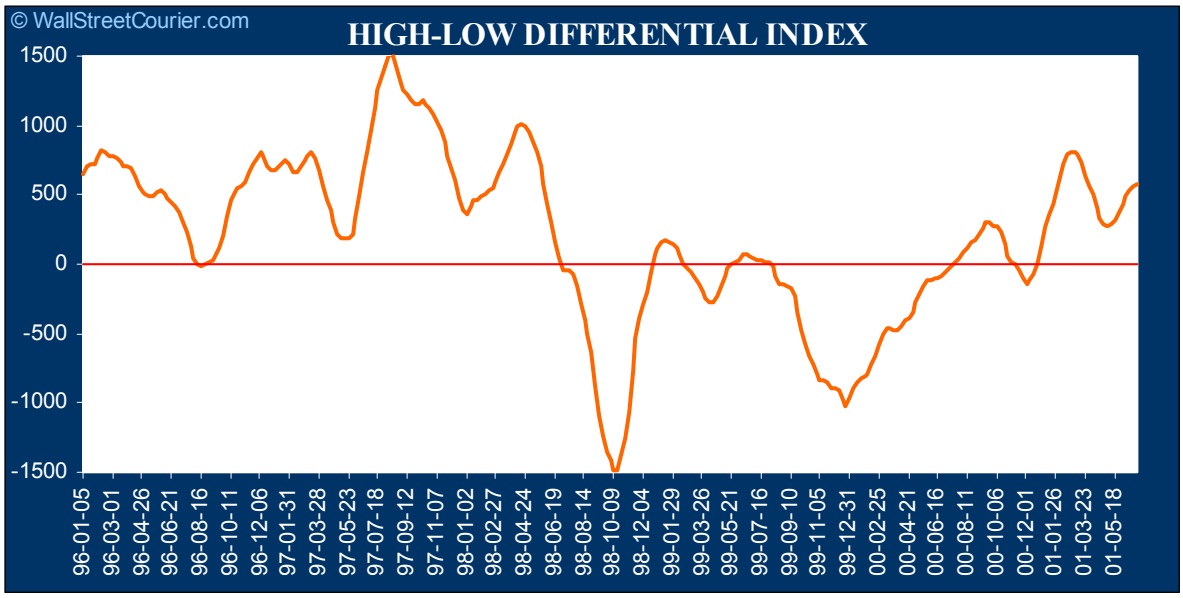
Market Indicators

High-Low Differential Index

Like the advance-decline line, the high-low indicators produce signals when they diverge from the action of the indices like the Dow Jones or the S&P 500. It is considered unhealthy for the market climate if the indices make new highs without many stocks reaching new highs at the same time. Chart technicians use various methods to spot divergences from the major market indices.

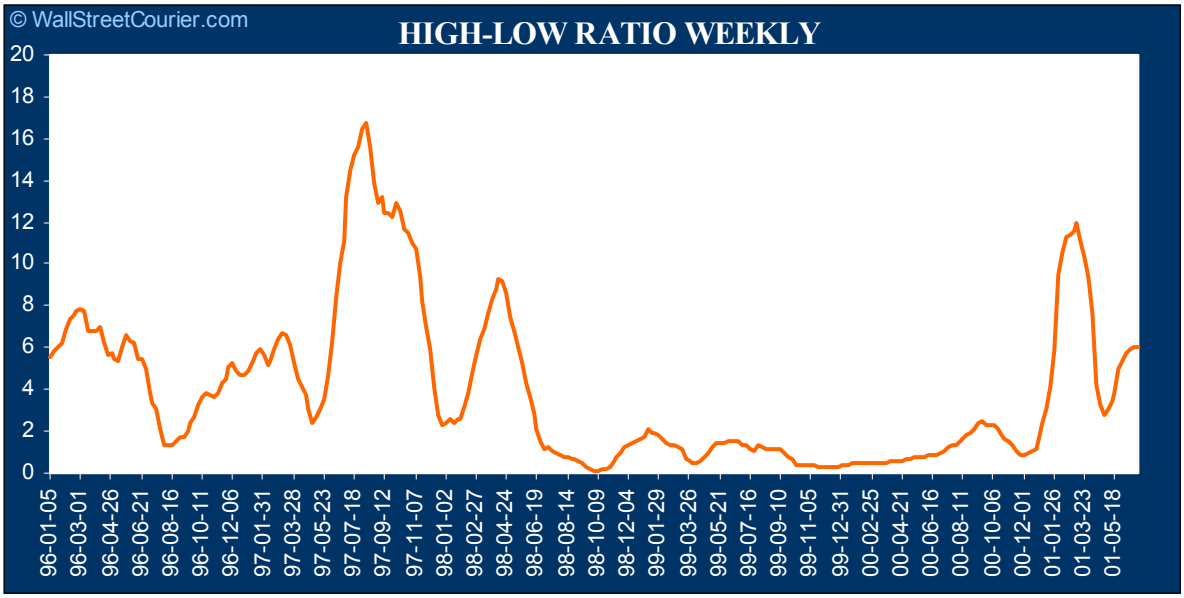
The High-Low Differential Index produces good longer term signals when it diverges from the action of the Dow over a prolonged period of time. Daily or weekly data may be used and the calculation of this indicator is very simple; just subtract the daily or weekly new lows from the new highs to get the differential and apply a moving average to smooth out the swings. If you have 479 new highs and 31 new lows on your first week, the reading of your newly created weekly High-Low Differential Index would be 448 (example below).

Date	Highs	Lows	Differential	10-week MA
09.06.95	479	31	448	
16.06.95	371	42	329	
23.06.95	491	56	435	
30.06.95	292	42	250	
07.07.95	485	29	456	
14.07.95	635	36	599	
21.07.95	331	50	281	
28.07.95	464	43	421	
04.08.95	402	42	360	
11.08.95	337	47	290	387
18.08.95	338	53	285	371
25.08.95	336	46	290	367
01.09.95	397	50	347	358
08.09.95	530	31	499	383
15.09.95	664	43	621	399



High-Low Ratio

The High-Low Ratio is the number of new highs divided by the numbers of new lows. Daily or weekly data may be used in the calculation. Readings do get sometimes very distorted if there are for instance about 600 new highs and 5 new lows or vice versa. A long-period moving average should therefore be applied.



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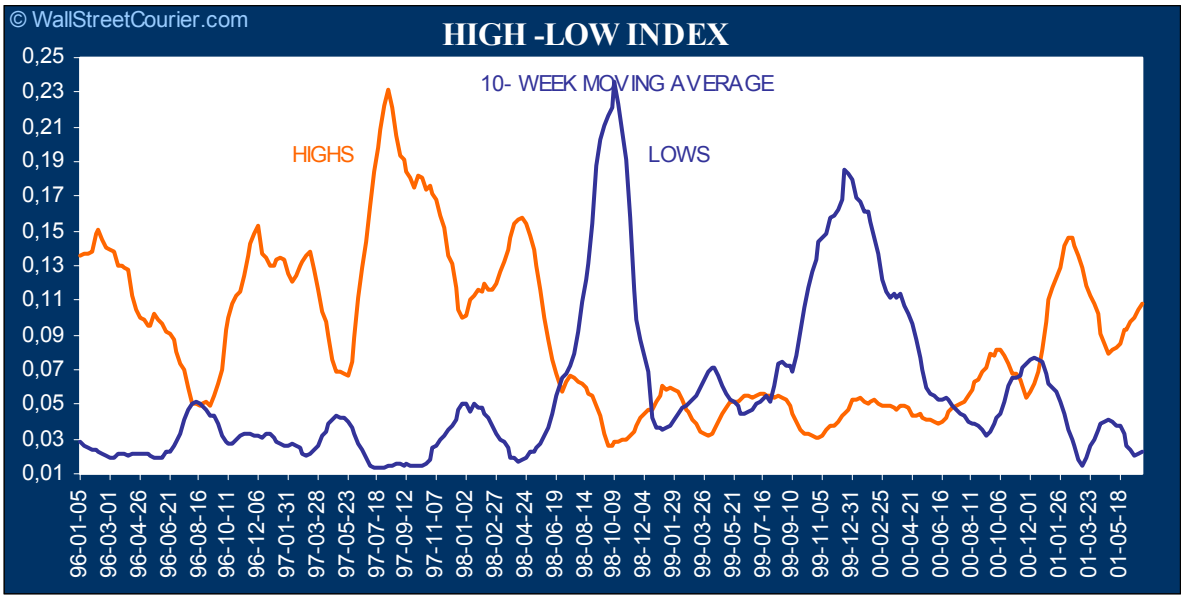
Global Futures High-Low Index

This indicator is calculated by dividing the weekly number of highs and lows by the number of total issues traded. A 10-week moving average is applied to smooth out the swings. Like the advance-decline line, this indicator produces signals when it diverges from the action of the indices like the Dow Jones or the S&P 500. It is considered unhealthy for the market climate if the indices make new highs without many stocks reaching new highs at the same time.



Global Futures Bottom Indicator

The Global Futures Bottom Indicator was developed by R. Koch of Wall Street Courier. To our knowledge there is no previous mentioning of this indicator in any financial publication. 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. Unfortunately this indicator does not tell you when to sell. Set yourself a limit if you trade options, or use trailing stop-loss orders if you are a long-term investor.

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Check BARRON`S every Monday for the weekly:

- CALLS ADVANCES
- CALLS DECLINES
- PUTS ADVANCES
- PUTS DECLINES
- (CBOE MARKET REPORT)

It takes you only five minutes every week to calculate the Global Futures Bottom Indicator:

- Divide the number of calls advancing by the number of calls declining
- Divide the number of puts declining by the number of puts advancing
- Subtract the result of calls adv./decl. from the result of puts decl./adv.
- Plot the difference on a chart and ignore the decimal.

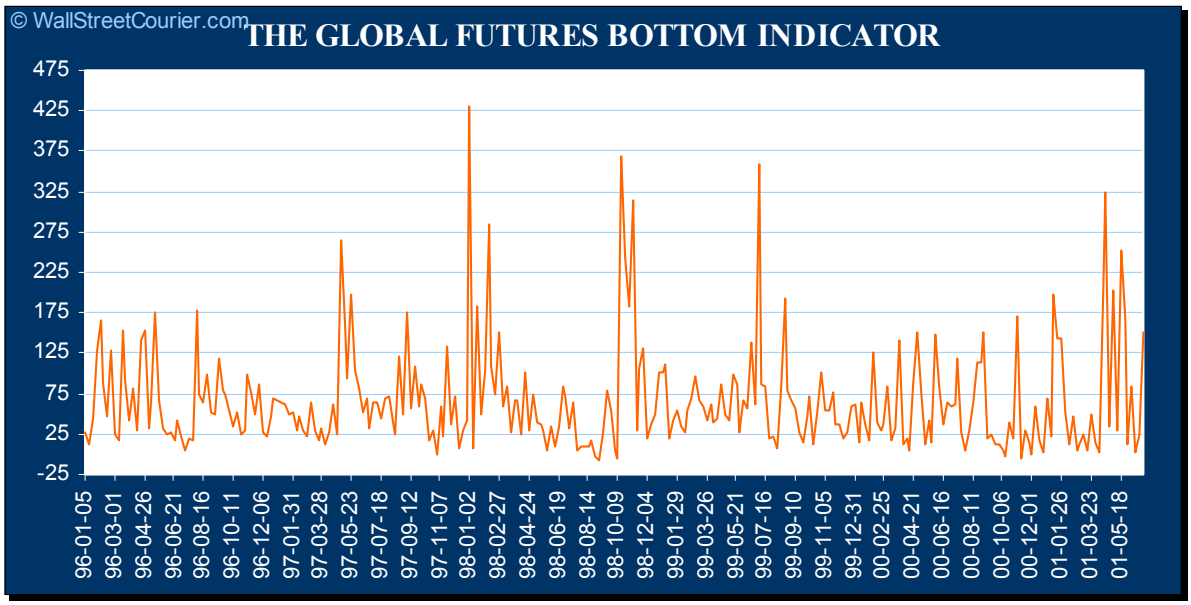
Example	Calls Adv.	Calls Decl.	Unch.	Puts Adv.	Puts Decl.	Unch.
Prev.Week	23000	11000	8000	7000	25000	10000
This Week	9000	26000	6000	24000	8000	7000

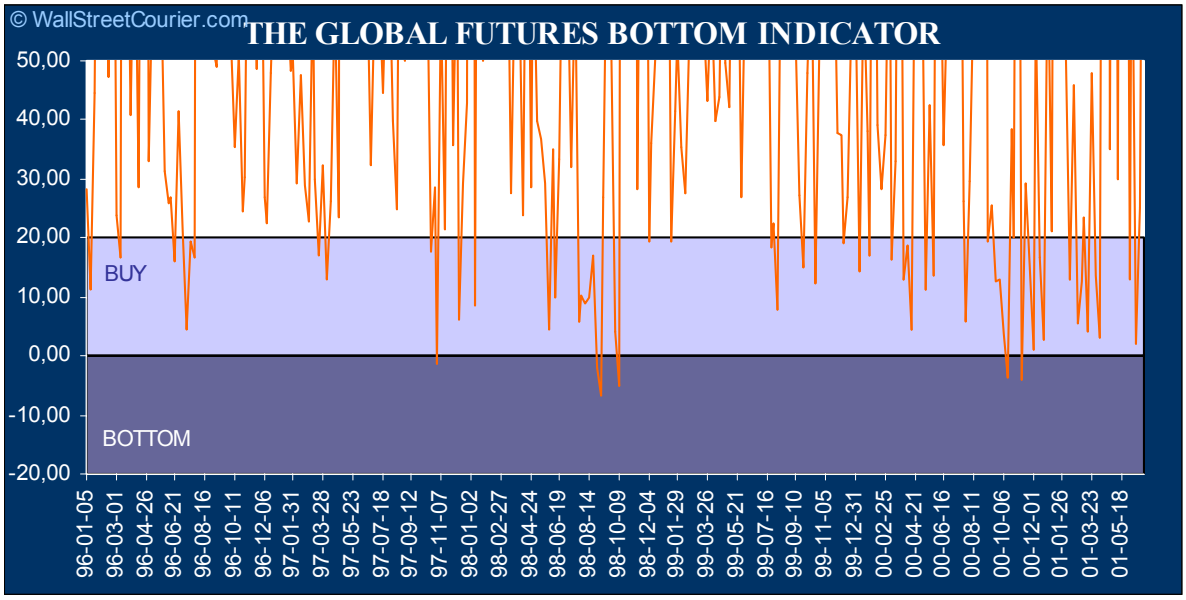
You calculate as follows:

23000 : 11000 = 2,09 25000 : 7000 = 3,57 Difference = 148 (357 minus 209)

9000 : 26000 = 0,34 8000 : 24000 = 0,33 Difference = - 1 (33 minus 34)

Date	Calls Adv.	Calls Decl.	Calls A/D	Puts Adv.	Puts Decl.	Puts D/A	Bottom Indicator
09.06.95	12656	14215	0,89	9590	13879	1,45	56
16.06.95	17696	9818	1,80	5647	18431	3,26	146
23.06.95	14390	8550	1,68	6014	13839	2,30	62
30.06.95	10933	17902	0,61	12571	11735	0,93	32
07.07.95	21611	7779	2,78	4894	20146	4,12	134
14.07.95	17819	12190	1,46	8627	15531	1,80	34
21.07.95	9071	22844	0,40	15943	9405	0,59	19
28.07.95	18152	7554	2,40	4748	17237	3,63	123
04.08.95	11159	21092	0,53	14649	11905	0,81	28
11.08.95	13081	19336	0,68	12100	14522	1,20	52
18.08.95	19594	12741	1,54	6930	20184	2,91	137
25.08.95	9760	16547	0,59	10368	11238	1,08	49





Any zero or minus reading indicates a bottom. Since this indicator was invented and developed it only failed twice on a minus reading if compared to the Dow Jones. This was due to panic selling on August 3rd and August 24th 1990 when Saddam invaded Kuwait.

- Readings between 1 and 5 are also very reliable and indicate intermediate bottoms in bull markets.
- Readings up to 25 may work but should be counterchecked with other indicators such as the Global Futures Market Timing Indicator.
- Readings above 600 are good breadth indicators and show you that a powerful market move on the upside is to be expected.
- Ignore all other readings.

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For your convenience there is a track record attached (377 kb) back to 1985 for you to check the value of this indicator. Plot the numbers on a chart and compare it with previous market action. Feel free to make use of our indicator if you find it useful. Feel also free to publish it as long as you mention the source and call it the Global Futures Bottom Indicator. Download the track record at http://www.wallstreetcourier.com/technician/timing-indicators/track-record.htm

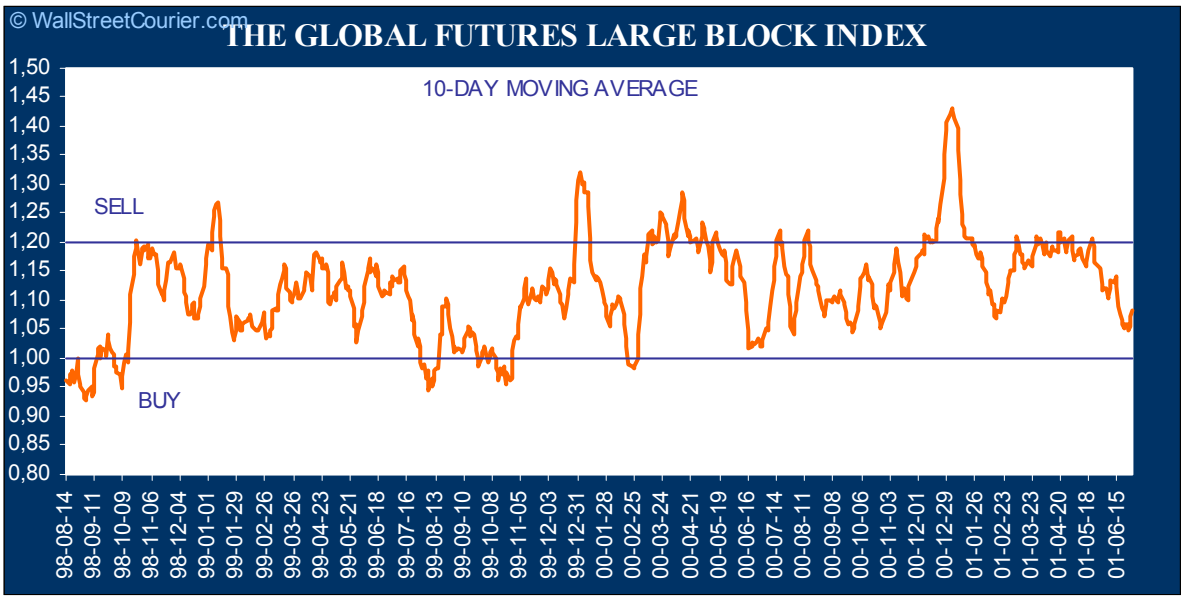
Cycles

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. Wall Street Courier offers some very reliable cycles for subscribers.

Large Block Index

The Large Block Index is calculated from the number of upticks and downticks in large block transactions of single trades of 10 000 shares and over. An uptick is at a price higher than the last previous trade and initiated by a buyer. A downtick is at a price lower than the previous trade and initiated by a seller. The rationale behind the Large Block Index is quite simple. It measures activities and extremes in institutional sentiment and behavior. When the ratio of upticks rises to very high levels, it indicates that the institutions are buying heavily, reaching a fully invested position and therefore lowering their cash reserves.

Conversely, when the ratio of downticks rises to high levels, it indicates that the institutions are selling and are raising cash. When the institutional behaviour reaches extremes, the market will turn in a contrary direction. This indicator has often signaled major reversals and has also prevented investors from plunging into the market at the wrong time. The chart below shows you this indicator on a 10-day moving average.

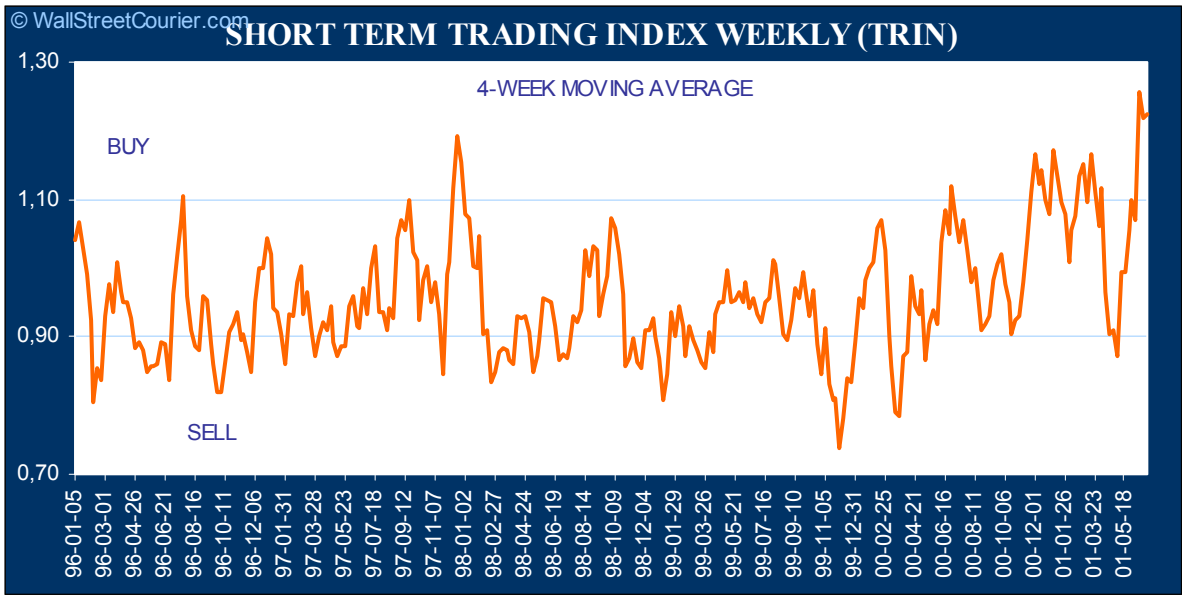


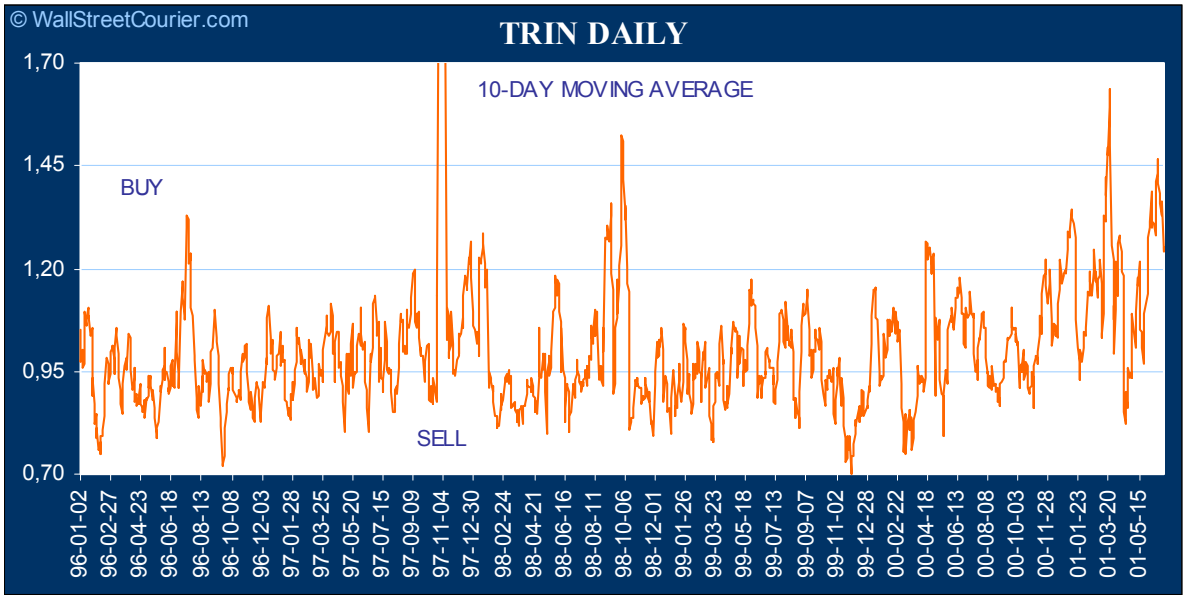
Short Term Trading Index (ARMS Index or TRIN)

The Short Term Trading Index was invented over 30 years ago by Richard Arms and is also known as ARMS Index. It is calculated by dividing advancing issues by declining issues and advancing volume by declining volume. The first result is then divided by the latter and the result is the TRIN. If the index is above one, the average volume of stocks that fell on the NYSE was greater than the average volume of stocks that rose and vice versa. But it is most confirmative when it reaches extremes. This indicator rises sharply when the market is most depressed and selling is climaxing, and falls to very low levels during buying frenzies.

Date	Adv.	Decl.	A/D	Upvol.	Downvol.	U/D Vol.	TRIN	10- MA
13.06.01	1521	1561	0,97	384035	657357	0,58	1,67	
14.06.01	927	2150	0,43	218634	997425	0,22	1,97	
15.06.01	1437	1588	0,90	649006	904083	0,72	1,26	
18.06.01	1309	1776	0,74	408501	682268	0,60	1,23	
19.06.01	1498	1541	0,97	543321	615409	0,88	1,10	
20.06.01	1823	1269	1,44	716273	610436	1,17	1,22	
21.06.01	1738	1352	1,29	905813	547728	1,65	0,78	
22.06.01	1243	1814	0,69	439011	722679	0,61	1,13	
25.06.01	1301	1777	0,73	332607	682239	0,49	1,50	
26.06.01	1778	1294	1,37	577414	605567	0,95	1,44	1,33
27.06.01	1811	1268	1,43	462680	657256	0,70	2,03	1,37

28.06.01	1882	1211	1,55	877241	423609	2,07	0,75	1,24
29.06.01	1938	1141	1,70	964950	759013	1,27	1,34	1,25
02.07.01	1598	1468	1,09	694667	399965	1,74	0,63	1,19
03.07.01	1592	1349	1,18	307258	304648	1,01	1,17	1,20





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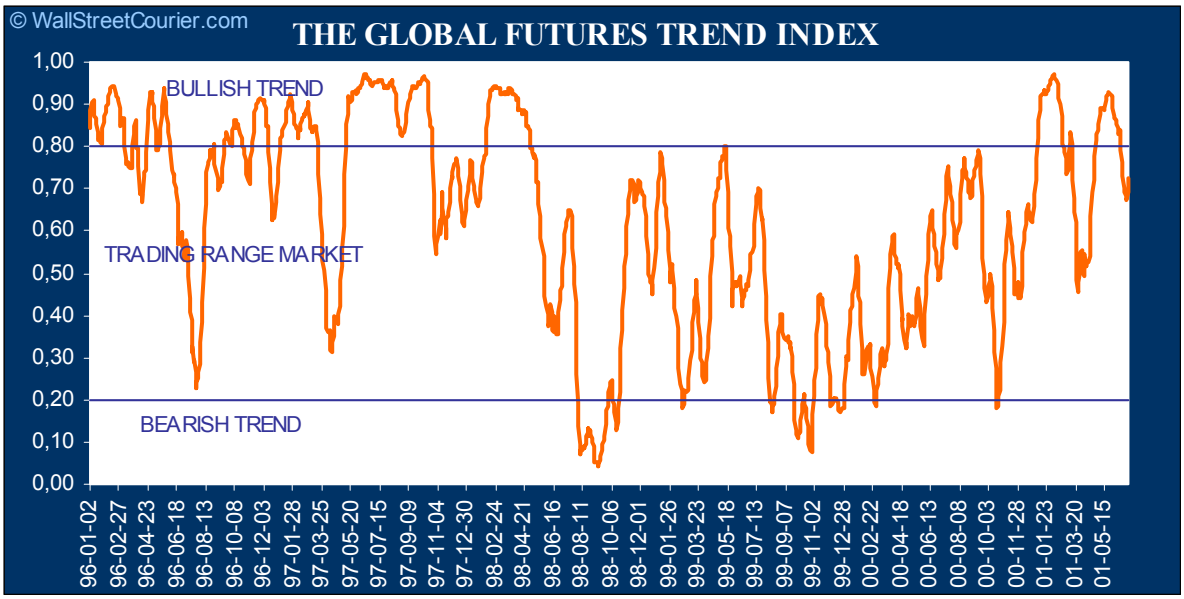
Trend Indicator

Why are some traders more successful than others? There are probably as many answers as there are traders out there. But you will undoubtedly agree that most of the money is being made in a trend, especially as far as options and futures are concerned. In options trading your biggest enemy by far is time. You need to have the patience and discipline to wait for a trend in the market in order to succeed on the long run. The same rule applies to any short-term oriented trader. The Global Futures Trend Index shows you clearly when to enter the market. This index is computed by dividing the daily highs by the sum of the daily highs and lows. A 10-week moving average is applied to smooth out the swings. As long as the readings of this index stay above the 80%-level there is a solid bullish trend in progress. Any weakness should be used to go long or to buy call options, preferably of stocks which are in a clear uptrend, or stock index options. Readings below 20 indicate a bearish trend. Strong days should be used to short stocks which are already weak, or to buy put options. As long as this indicator is in neutral territory don't do anything unless you are a savvy stockpicker, insider or a long-term value investor.



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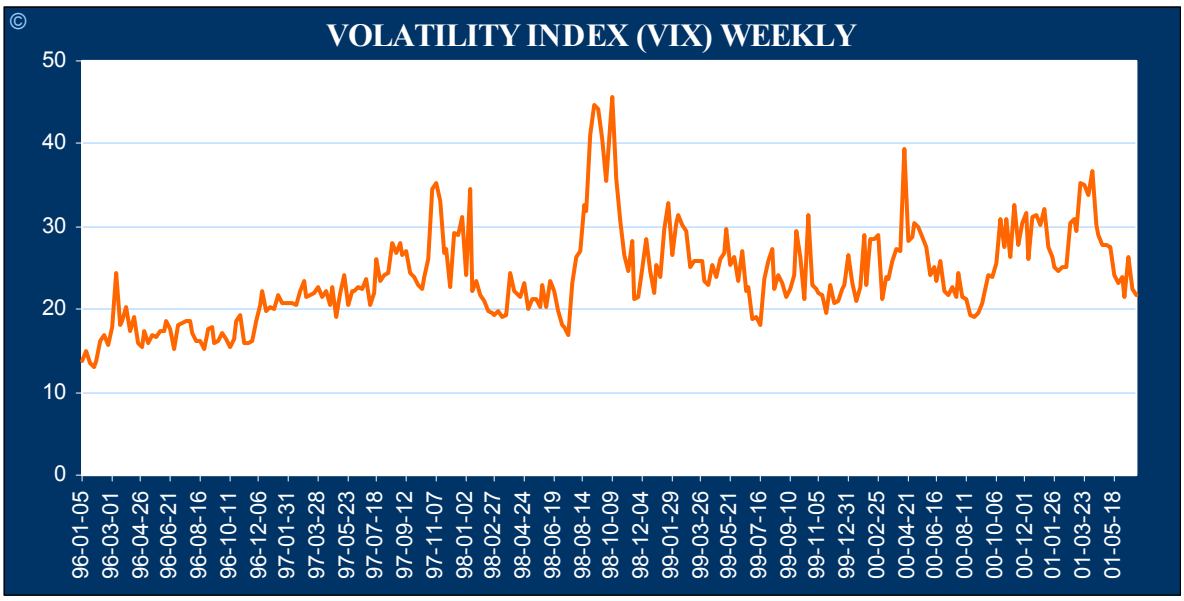
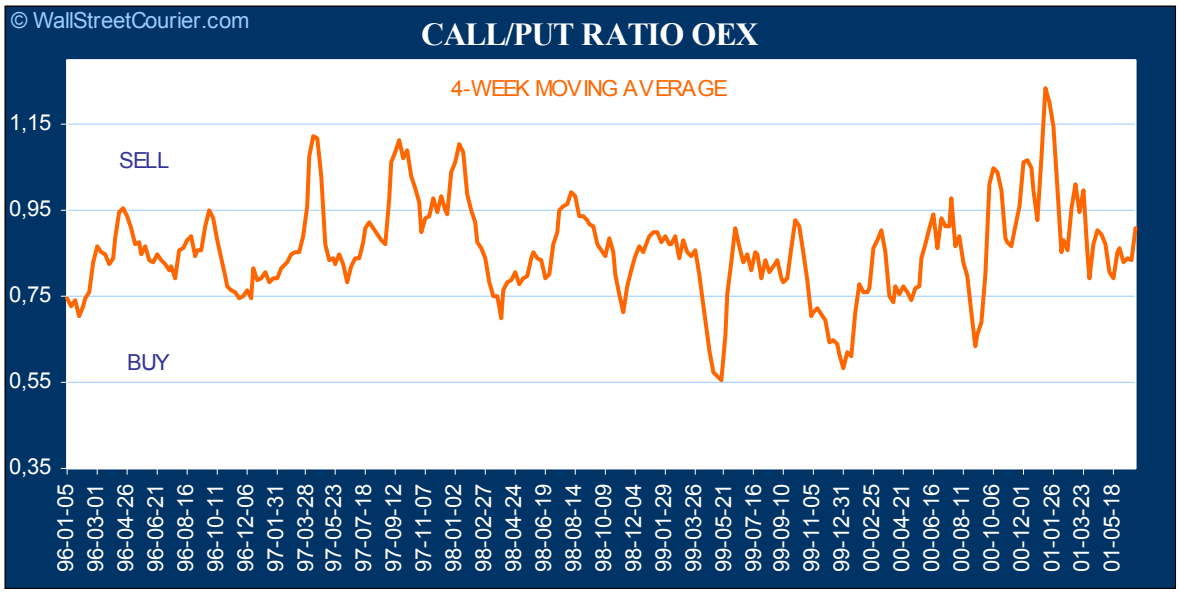
CBOE Volatility Index (VIX)

VIX computes volatility of four OEX contracts in two nearby months and is published daily by the CBOE. Options selected for this index are one call and one put just out of the money, and one call and one put just in the money, for each of the two front months of the OEX (S&P 100). Extremely high readings of VIX indicate bottoms and low readings tops.



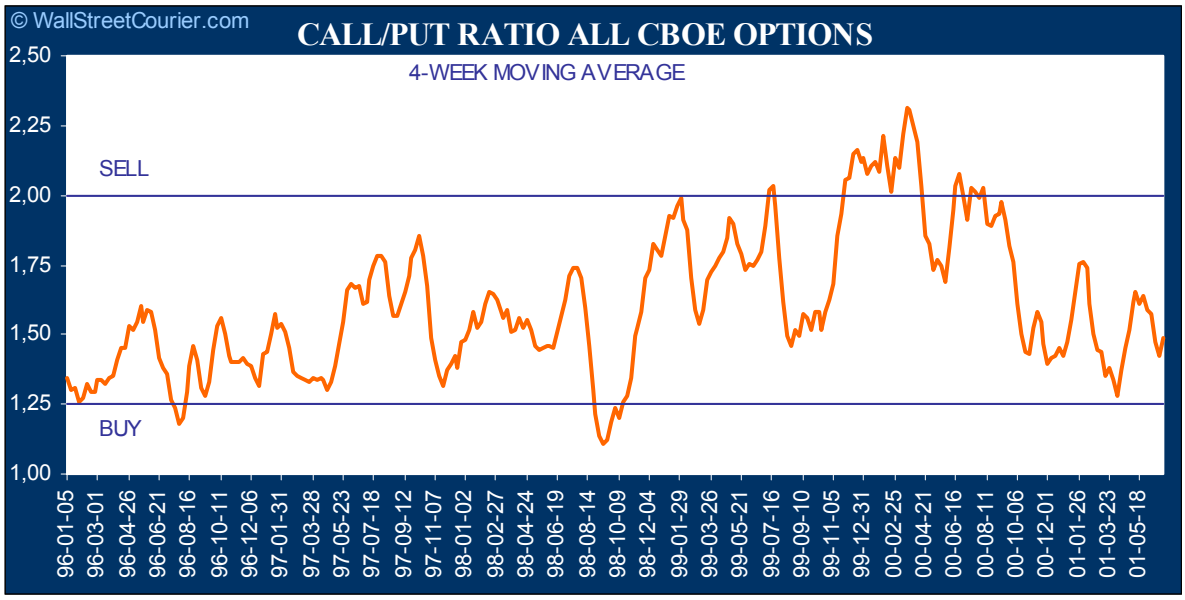
Index Options Put/Call Ratio

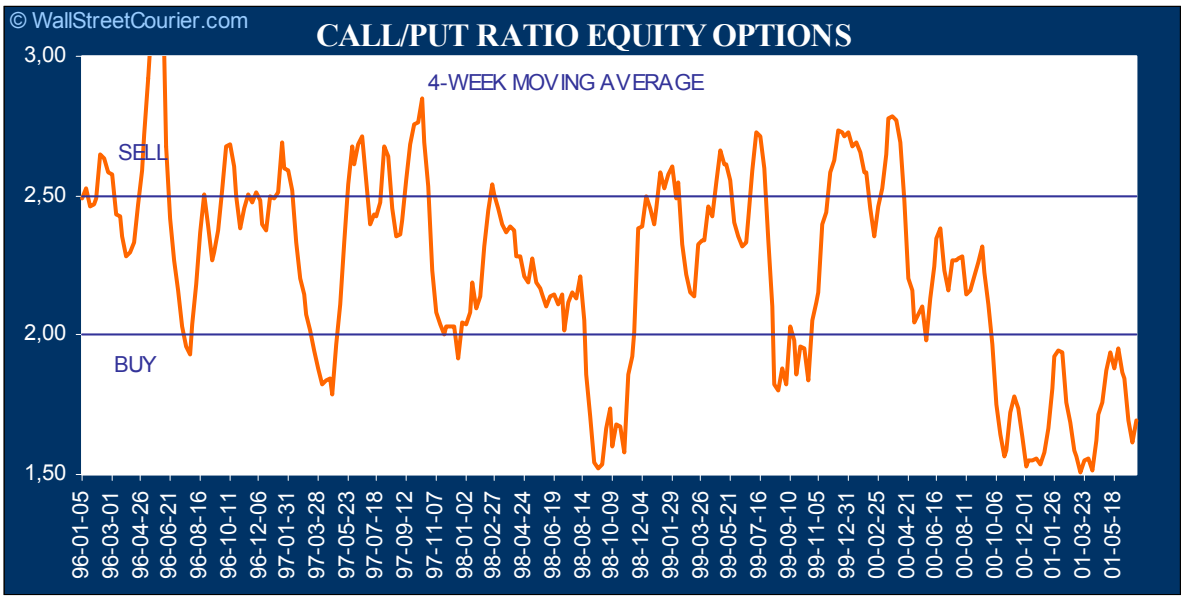
This indicator is calculated by dividing the weekly volume of S&P 100 call options by the weekly volume of S&P 100 put options. Big call volume appears at market tops and big put volume at bottoms. But call/put ratios of the indices like OEX and SPX are distorted and clouded by arbitrage and hedging and do therefore not always reflect true investor sentiment.



Call/Put Ratio

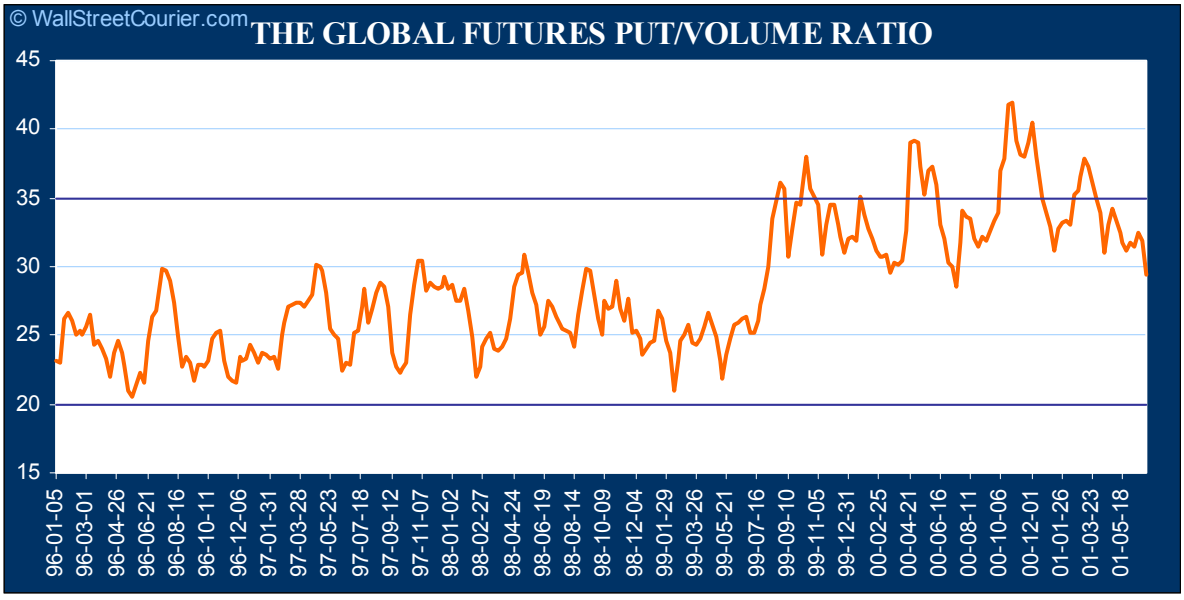
This indicator is calculated by dividing the daily or weekly volume of call options by the daily or weekly volume of put options. Big call volume appears at market tops and big put volume at bottoms. Only CBOE equity options or all CBOE options should be used for this indicator. Call/put ratios of the indices like OEX and SPX are distorted and clouded by arbitrage and hedging and do therefore not always reflect true investor sentiment. The chart below shows you the weekly call/put ratio on a 4-week moving average to smooth out the swings.





Global Futures Put/Volume Ratio

The Global Futures Put/Volume Ratio is a market sentiment indicator. It is calculated by dividing the volume of CBOE equity put options by the NYSE volume on a weekly basis and is interpreted in a contrary fashion. High readings signify extreme pessimism and fear, sometimes outright panic and indicate very often bottoms. Low readings of this indicator result from the anticipation of higher prices ahead and are therefore considered bearish. It is in our opinion more affirmative than the widely used put/call ratio which has gained widespread notice.



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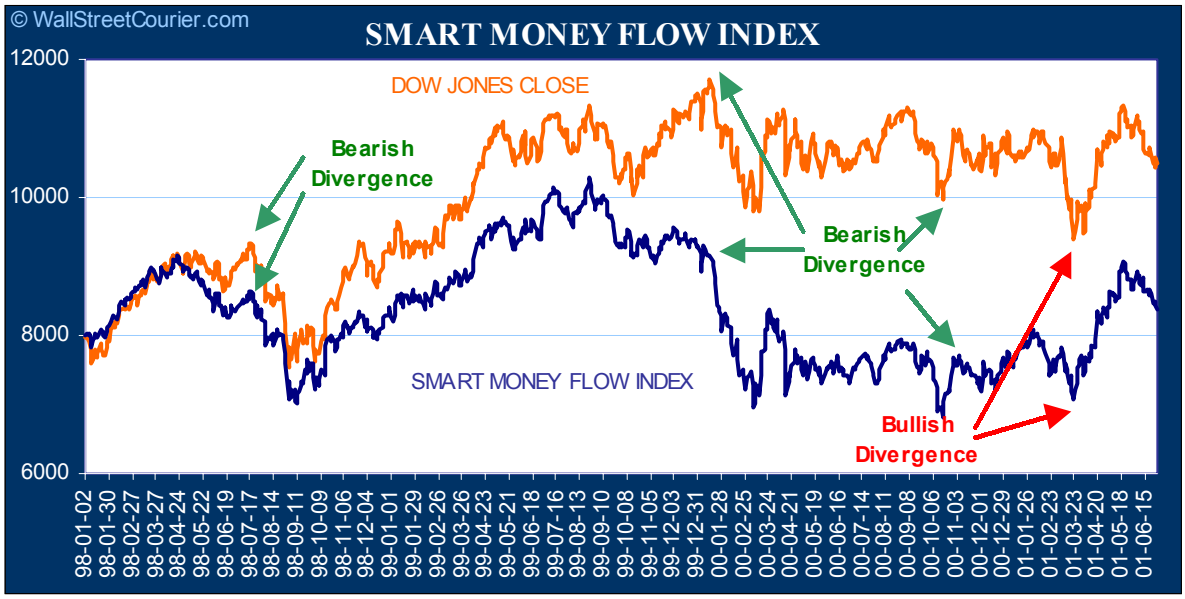
Smart Money Flow Index

The Smart Money Flow Index has long been one of the best kept secrets of Wall Street. Everybody knows the importance of a closing price and other last hour indicators like the Closing Tick, which we publish daily for free on our portal. The Smart Money Flow Index is therefore 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. There is also a lot of buying on market orders and short covering at the opening. Smart money waits until the end and they very often test the market before by shorting heavily just to see how the market reacts. Then they move in the big way. These heavy hitters also have the best possible information available to them and they do have the edge on all the other market participants. The Smart Money Indicator is calculated like the Advance-Decline Line. You can easily do it yourself if you don't want to pay our subscription rate of $1.50 weekly (based on a 6-month membership). Just start at any given day, subtract the price of the Dow at 10 AM from the previous day's close and add today's closing price. The result is plotted on a chart, together with the closing price of the Dow only. Whenever the Dow makes a high which is not confirmed by the SMI there is trouble ahead (chart below). Watch the divergence around June 1998, February 2000 and September 2000. Watching this indicator is like being on a plane and see the pilots jumping off with parachutes. This indicator is suitable only for investors with a longer time horizon. Such investors should buy blue chips when the indicator gives a buy signal, and sell and sell short on a divergence.



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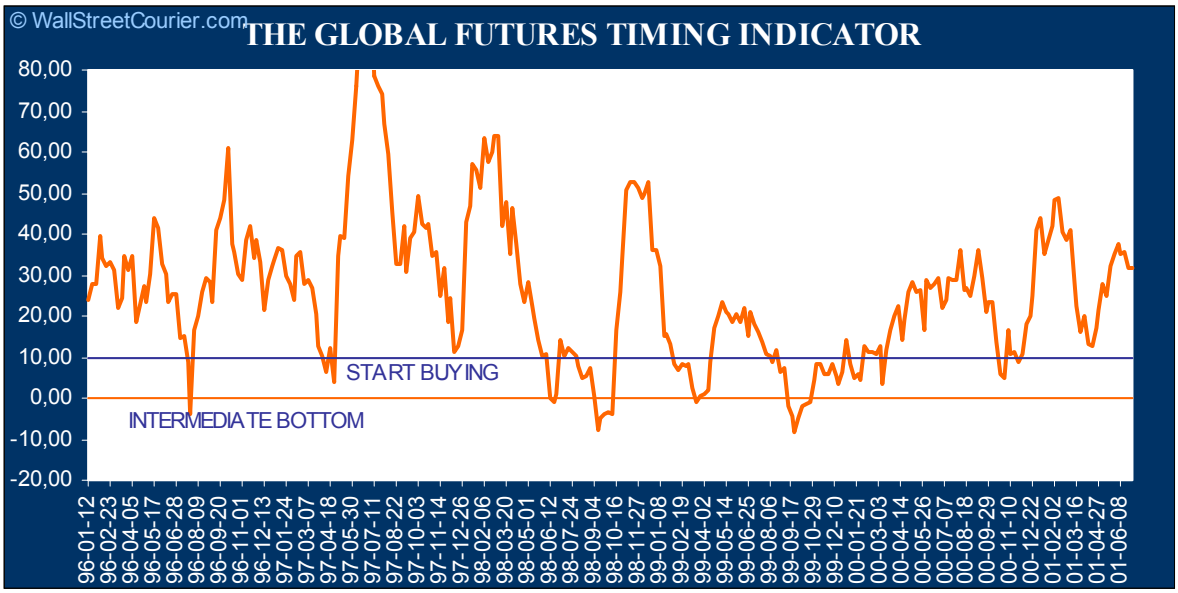
Global Futures Timing Indicator

This indicator, like the Global Futures Bottom Indicator, is unknown until now to the investment community and is not available anywhere else. To our knowledge there is no previous mentioning of this indicator in any financial publication. It was also developed by R. Koch of Wall Street Courier. The Global Futures Timing Indicator gives buy signals more often and is an excellent supplement to the Global Futures Bottom Indicator, especially when this one has readings between 6 and 25. It prevents investors from buying at the wrong time and it works also very well for option speculators and position traders because of its expert timing.

Both indicators together should improve your trading substantially and will build you an estate in the years ahead. Just start buying good value stocks whenever the readings of the Global Futures Timing Indicator shrink to single digit numbers. This takes of course a lot of guts because the opinions of the widely quoted gurus are usually contrary at this time. Minus readings indicate an intermediate bottom.



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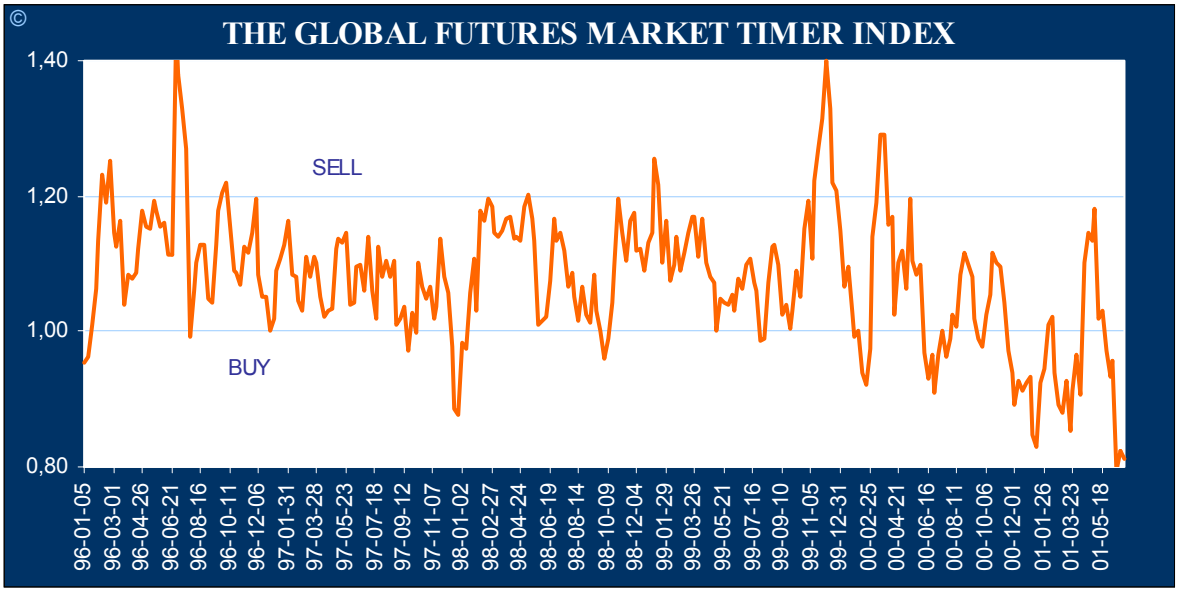
Global Futures Market Timer Index

The Global Futures Market Timer Index is a proprietary indicator of Global Futures and not available anywhere else. It was unknown until now to the investment community and to our knowledge there is no previous mentioning of this indicator in any financial publication. The Global Futures Market Timer Index gives buy signals when it has readings below 1,00 and sell signals above 1,20. Start buying good value stocks whenever the readings of this index fall below 1,00. This takes of course a lot of guts because the opinions of the widely quoted gurus are usually contrary at this time. Place close stops when readings go above 1,20.



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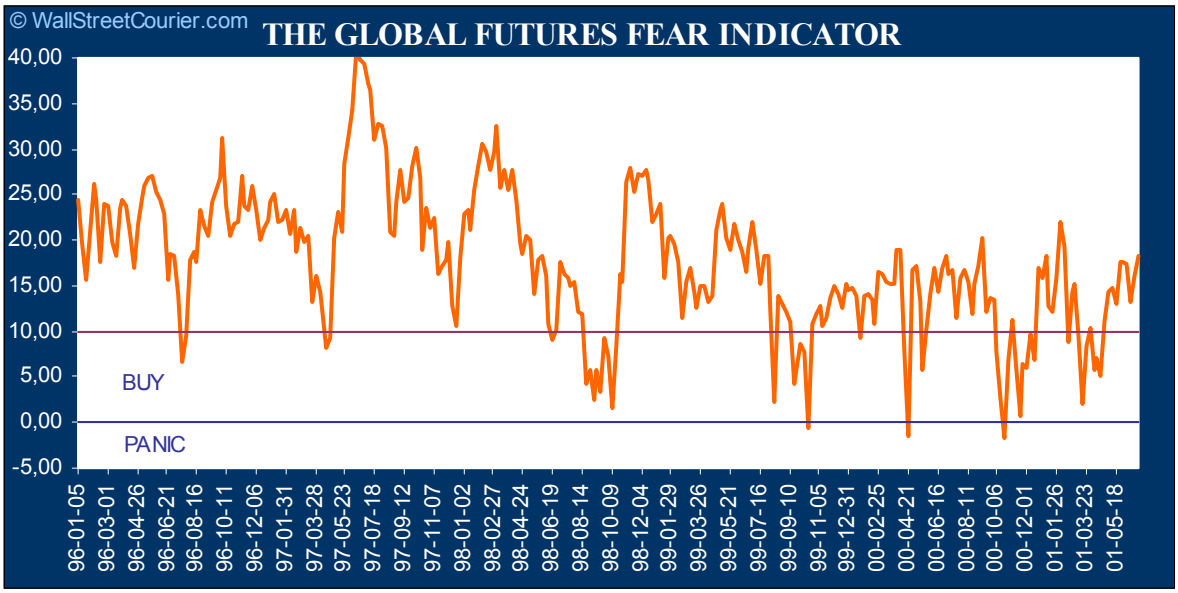
Global Futures Fear Indicator

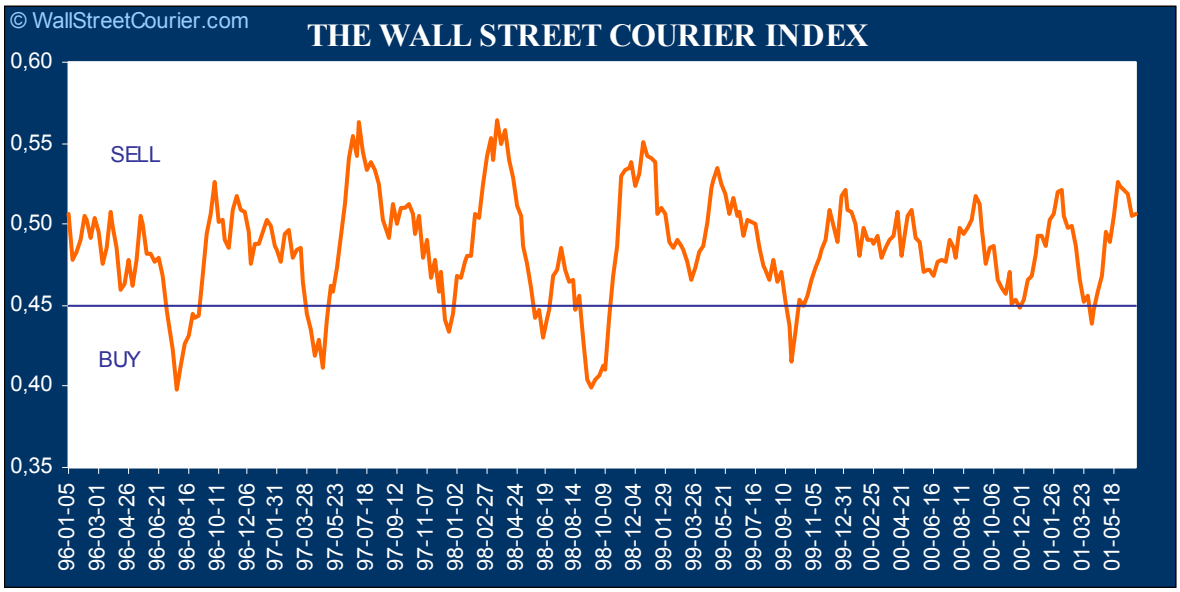
The Global Futures Fear Indicator is a proprietary indicator of Global Futures and not available anywhere else. It was unknown until now to the investment community and to our knowledge there is no previous mentioning of this indicator in any financial publication. The Global Futures Indicator gives buy signals when it has readings between 0 and 10.

Start buying good value stocks whenever the readings of this index fall below 0. This takes of course a lot of guts because the opinions of the widely quoted gurus are usually contrary at this time. Unfortunately this indicator does not tell you when to sell. Set yourself a limit if you trade options or use trailing stop-loss orders if you are a long-term investor.



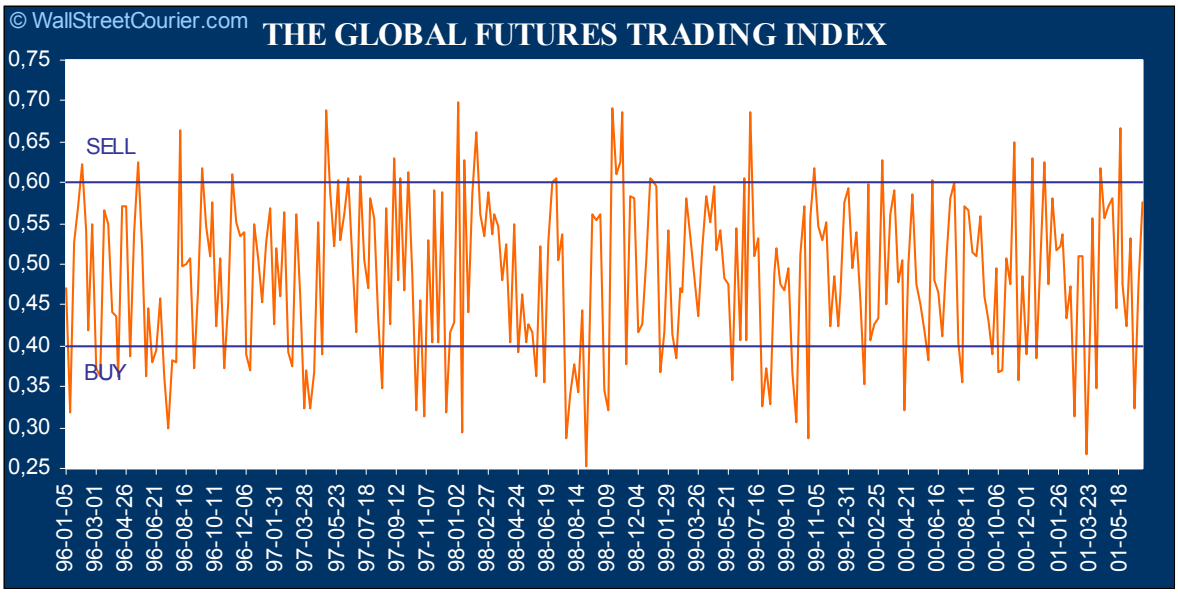
Wall Street Courier Index

The Wall Street Courier Index gives you a longer term picture of the stock market. Readings below 40 indicate a heavily oversold market which is ripe for an upturn. Readings above 50 flash a warning signal and you should use trailing stop-loss orders to protect your profits. This index serves longer-term oriented position traders very well. It is also a contrarian indicator and once again we would like to remind you that charts usually look most bullish at tops and most bearish at bottoms.This indicator has an excellent track record as you can see.



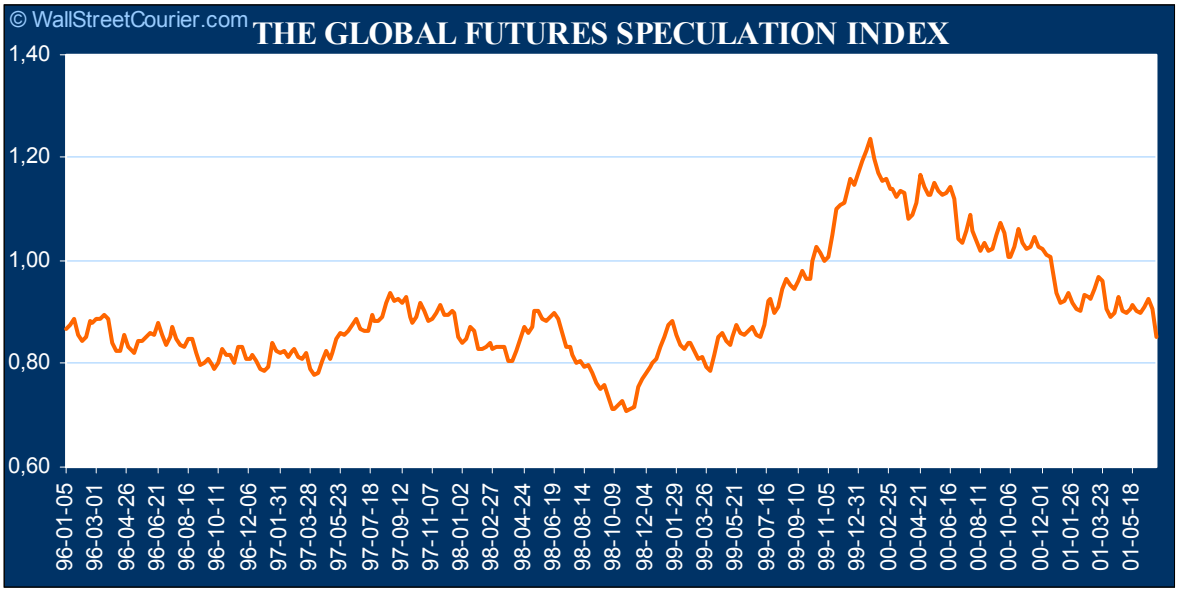
Global Futures Trading Index

The Global Futures Trading Index is a proprietary indicator of Global Futures. It shows bottoms and tops in trends and should be used together with the Global Futures Trend Index for exact timing. If the market is in a clear uptrend according to our trend index, go long if the Global Futures Trading Index shows a reading below 35. The reverse is true in a downtrend. Go short or buy puts if the index gives readings of 55 or above when the Global Futures Trend Index is below 20. Cover all your shorts if the index trades below 35 in a bearish trend. Please bear in mind that this index is a contrary indicator and therefore when these signals are given, they will be most likely contrary to most of the news of the moment and the opinions of the well known and most widely quoted gurus of Wall Street.



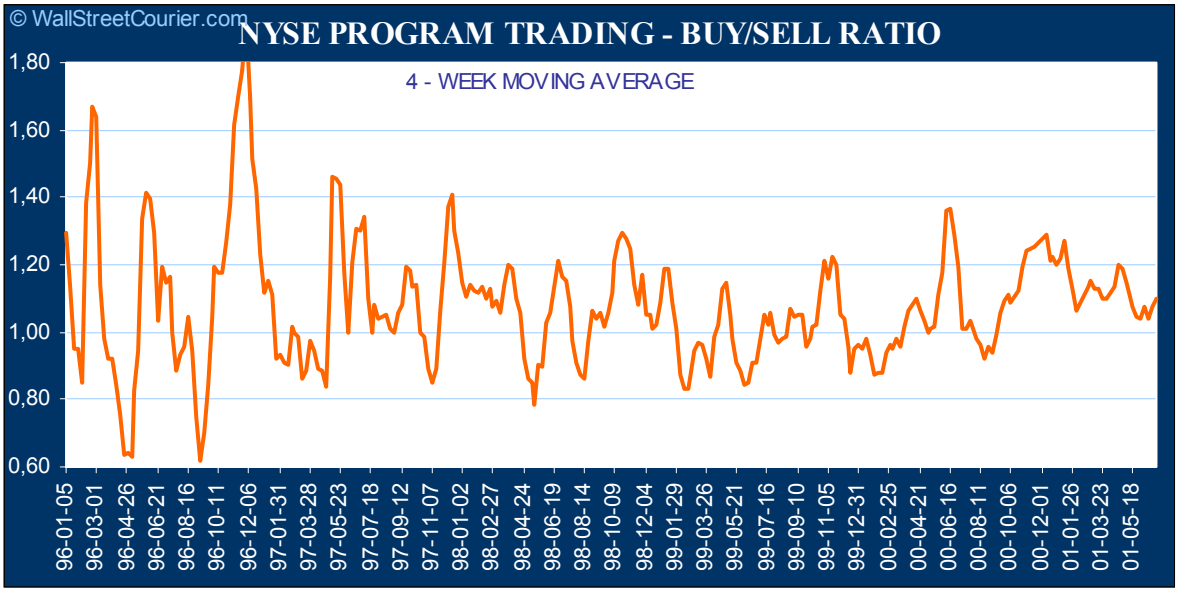
Global Futures Speculation Index

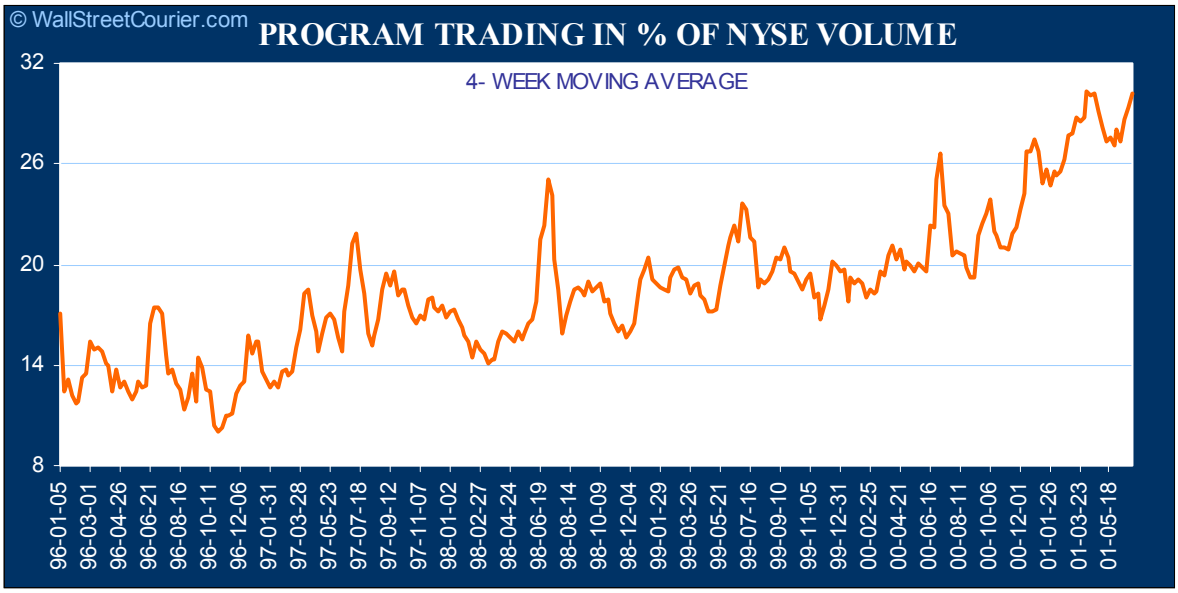
This indicator is calculated by simply adding the number of the weekly CBOE equity calls and puts together and dividing the result by the weekly NYSE volume.



Program Trading

Program trading is the purchase or sale of at least 15 different stocks with a total value of $1 million or more. Some of Wall Streets biggest names are the players in this game and they are among others: Merrill Lynch, Bear Stearns, First Boston, Morgan Stanley, Deutsche Bank Sec, and Nomura. There is a bullish tendency in the market whenever the Buy/Sell Ratio of program traders rises above 1,20 on a 4-week moving average. When program trading becomes excessive and accounts for more than about 25% of total volume on a 4-week moving average, the market became vulnerable in the past.





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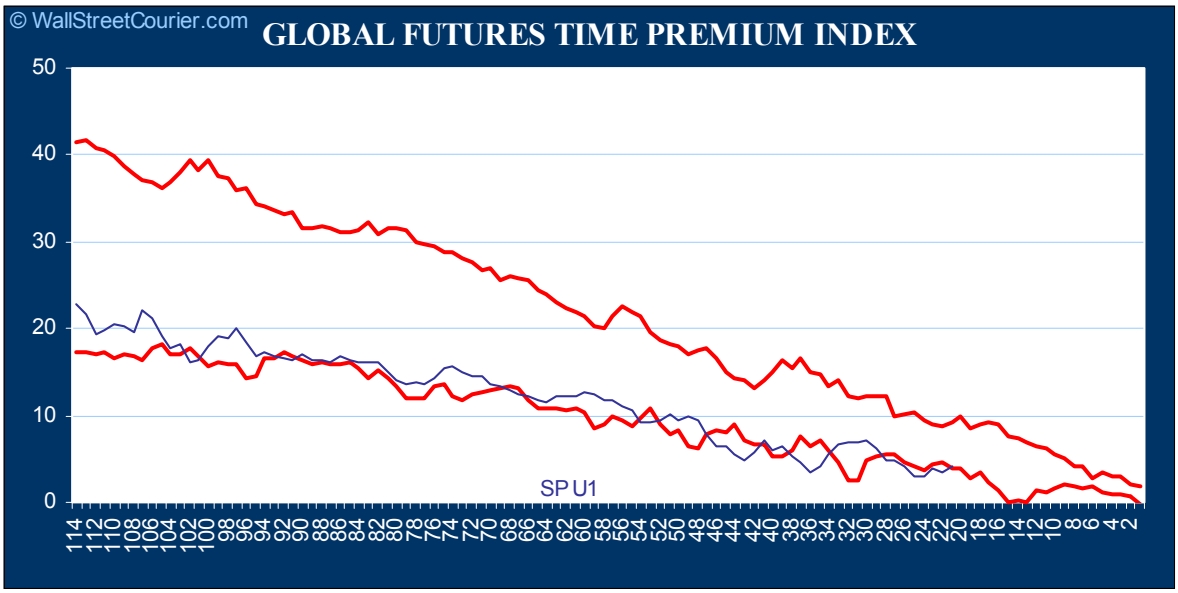
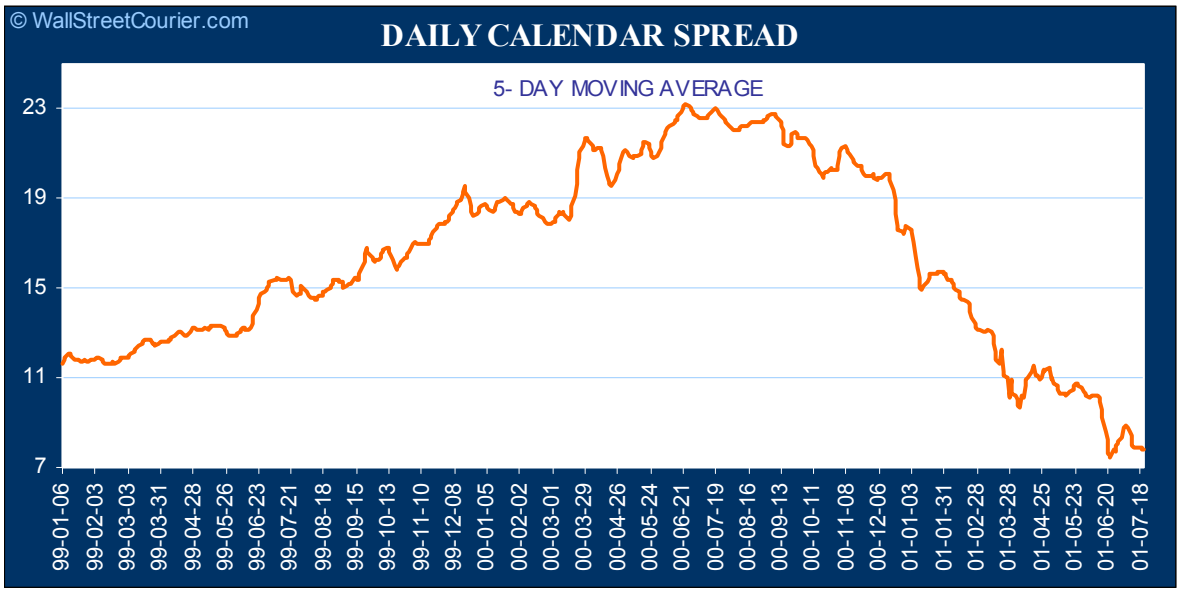
Global Futures Time Premium Index

The Global Futures Time Premium Index is a sentiment indicator. The spread between the S&P 500 cash index and the S&P futures contracts (premium) shows high readings near market tops and low readings near market bottoms. The bold red lines on the chart below show you the futures contracts with the highest and lowest premiums of the last years on a 5-day moving average for comparison (6 months until expiration). If the index (premium of the nearby S&P 500 futures contract on a 5-day moving average) moves close to the upper line or above, bullish sentiment is prevailing which is a bearish indicator. The reverse is true if the index moves near or below the lower line; it shows extreme pessimism by futures traders and indicates bottoms.



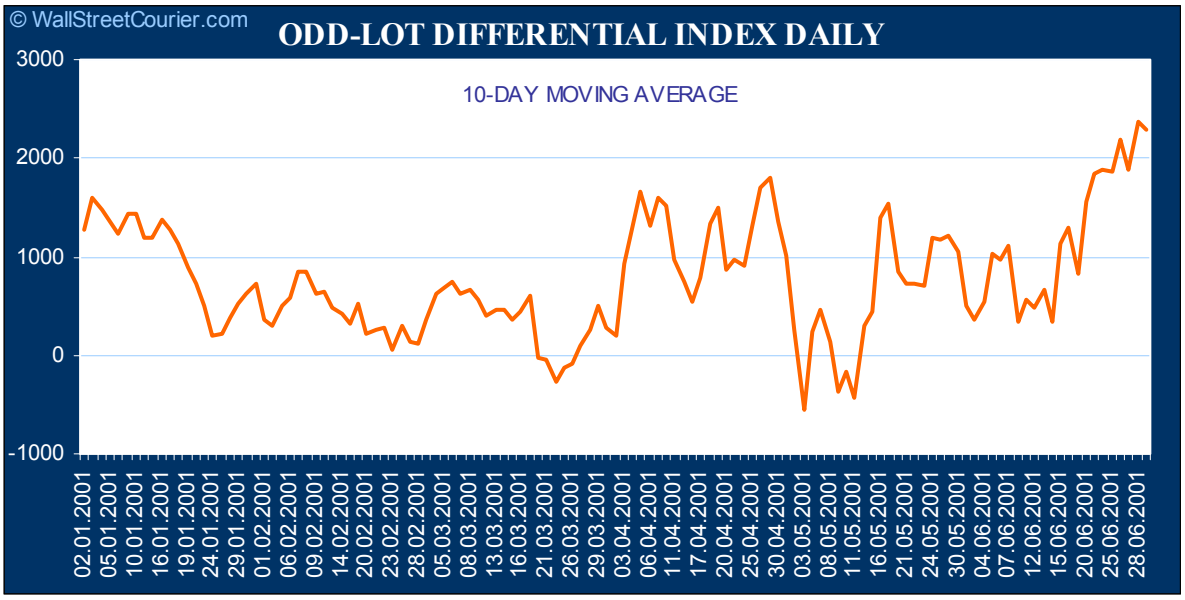
Calendar Spread

A good sentiment indicator in the past has been the Calendar Spread . This is the premium spread of the two nearby S&P 500 futures contracts (for instance the difference between the June SP and September SP contracts on a 5- day moving average). It shows if futures traders are extremely bearish or bullish. When speculation peaked in June 2000 and everybody was bullish, this indicator was as high as 23!



Odd-Lot Differential Index

This index is simply calculated by subtracting the daily or weekly odd-lot sales from the daily or weekly odd-lot purchases. A 10-period moving average is applied to smooth out the swings. High readings appear near market tops and minus readings near bottoms. Introduced by Wall Street Courier, the Odd -Lot Differential Index indicates the market sentiment of small investors who purchase less than 100 shares of a stock. These market participants are usually wrong about the direction of the market and this indicator is therefore considered to be a contrary opinion sentiment indicator.



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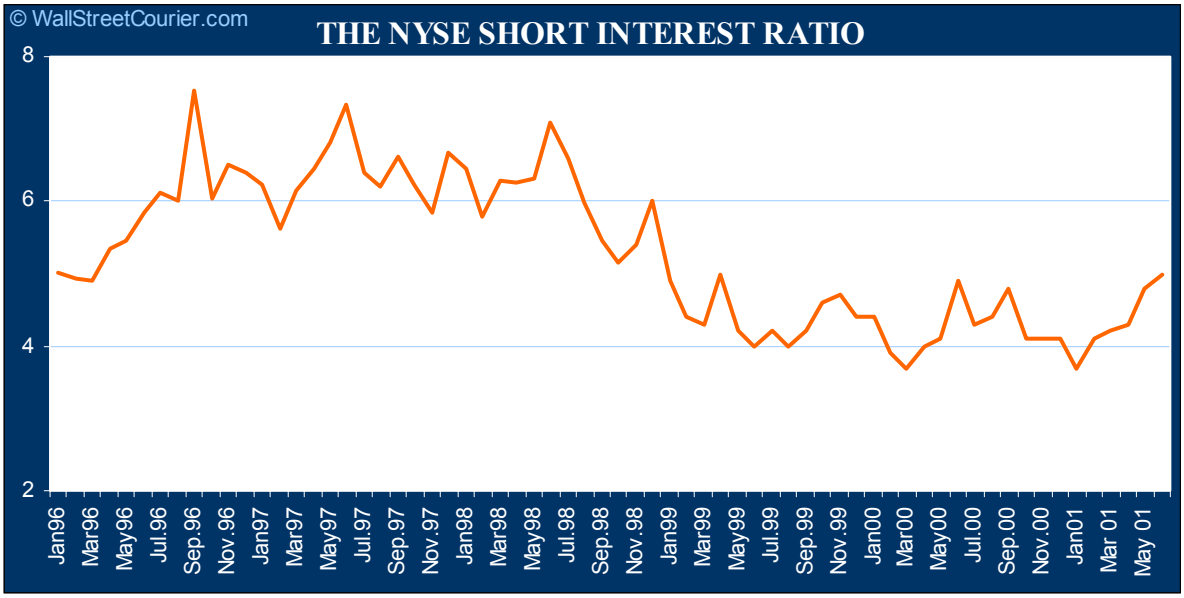
Short Sales Statistics

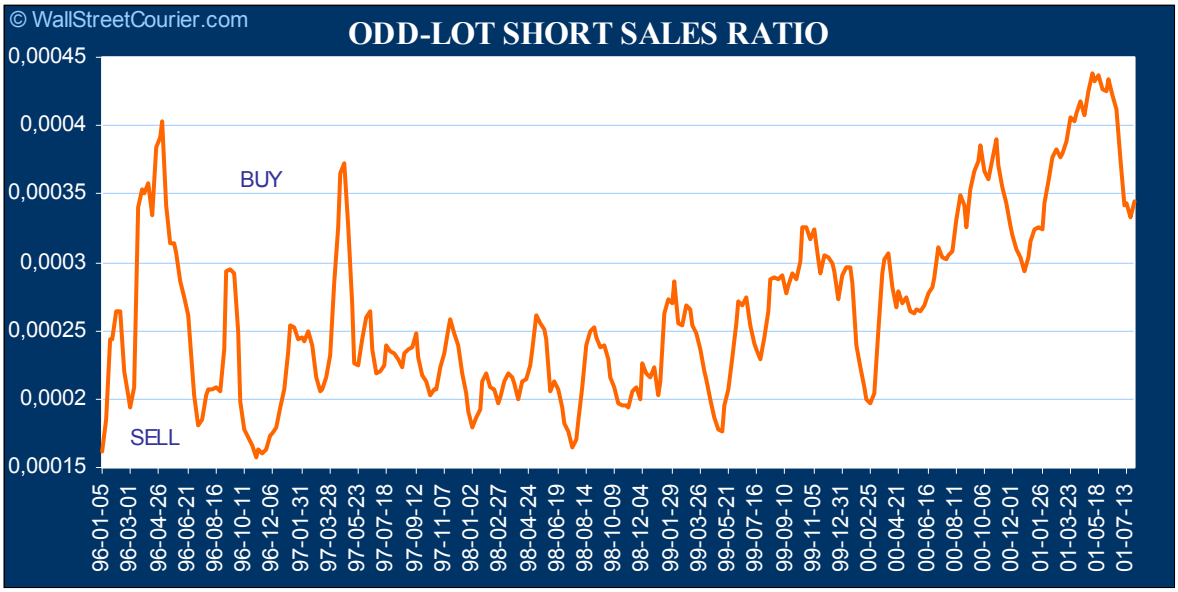
The NYSE Short Interest Ratio

Every short seller anticipates a declining stock market. Investors sell short stock when they anticipate its price going lower. Sooner or later they must cover their short sales by buying back the stock. A profit is made if the stock is bought back at a lower price than when it was sold short. Indicators based on short selling statistics are an important part of technical analysis. Daily and weekly short sales are reported by the NYSE and published by financial sites all over the Internet. Market technicians watch the short selling activities of all the market participants very carefully. They distinguish between the odd-lots and the general public, the so called crowd, and the well informed NYSE members, specialists, floor traders and corporate insiders. When a large amount of short selling activity is occurring, market participants obviously expect prices to head lower. The NYSE Short Interest Ratio is therefore a long-term contrary opinion sentiment indicator. It is calculated by dividing the monthly short interest figure released by the New York Stock Exchange by the average volume of trading per day. These numbers get sometimes distorted by arbitrage transactions, but the short interest ratio is nevertheless a good indicator of optimism or pessimism in the market. Short sellers are potential buyers sooner or later and represent a lot of buying power when they have to scramble for cover in a sudden market turn. Contrary indicators require at least some degree of pessimism in order to function and therefore you should watch this ratio very carefully.



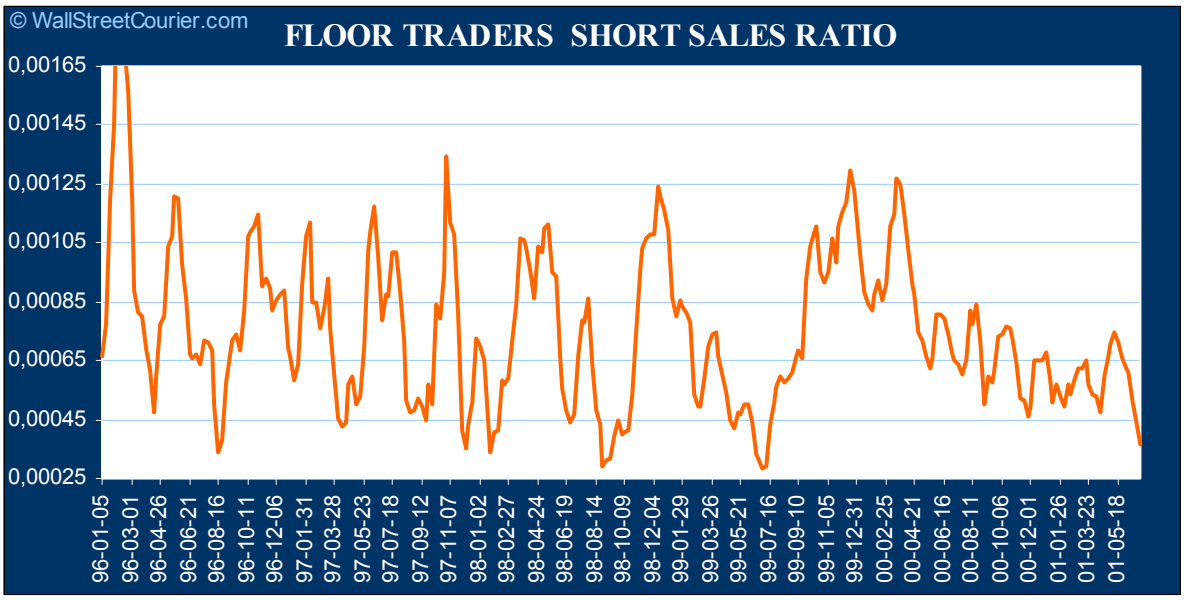
Odd-Lot Short Sales Ratio

The Odd-Lot Short Sales Ratio is calculated by dividing odd-lot short sales by the total number of short sales. For stocks, the generally accepted unit of trading is 100 shares (round lot). The Odd -Lot Short Ratio indicates the market sentiment of small investors who purchase less than 100 shares of a stock (odd-lot). These market participants are usually wrong about the direction of the market and this indicator is therefore considered to be a contrary opinion sentiment indicator.



Floor Traders Short Sales Ratio

The Floor Traders Short Sales Ratio is computed by dividing the total floor traders short sales by total short sales. A moving average should be applied to smooth out the swings. Floor traders are normally right about the trend of the market and if they are shorting heavily the market is usually ripe for a correction. On the other hand, if they are doing relatively little shorting it is most likely that the market has hit bottom, especially if public- and odd-lot short sales increase at the same time.

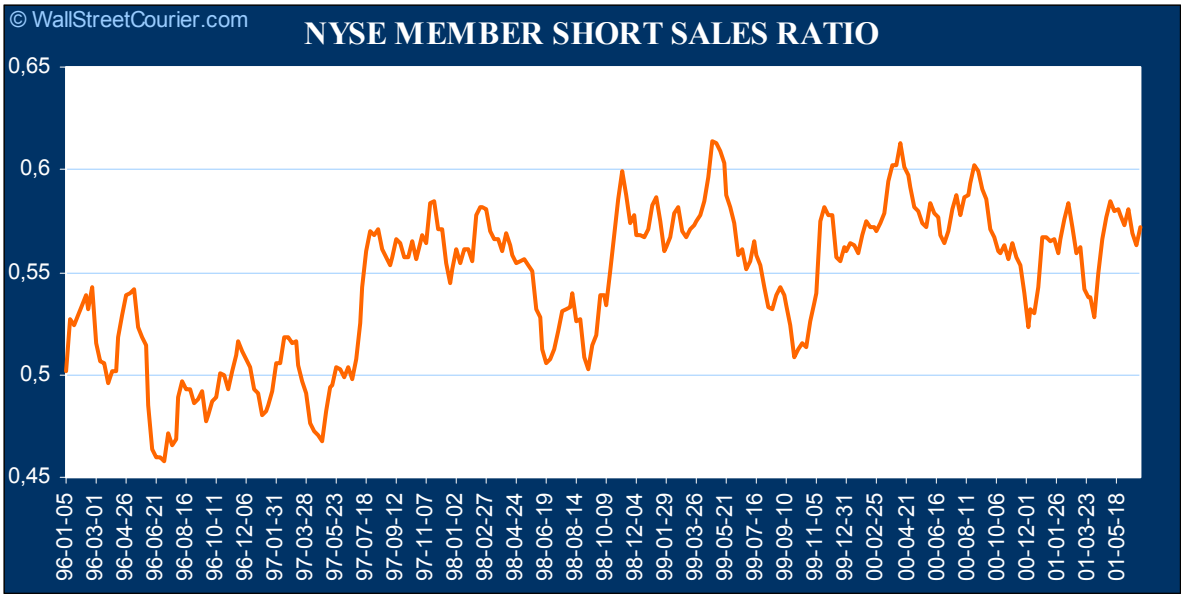


Specialist Short Sales Ratio

Specialists are responsible for balancing incoming buy and sell orders to maintain orderly markets in the stocks in which they specialize. The Specialist Short Sales Ratio is computed by dividing the total specialist short sales by total short sales. A moving average should be applied to smooth out the swings. Specialists are normally right about the trend of the market and if they are shorting heavily the market is usually ripe for a correction. On the other hand, if they are doing relatively little shorting it is most likely that the market has hit bottom, especially if public- and odd-lot short sales increase at the same time.

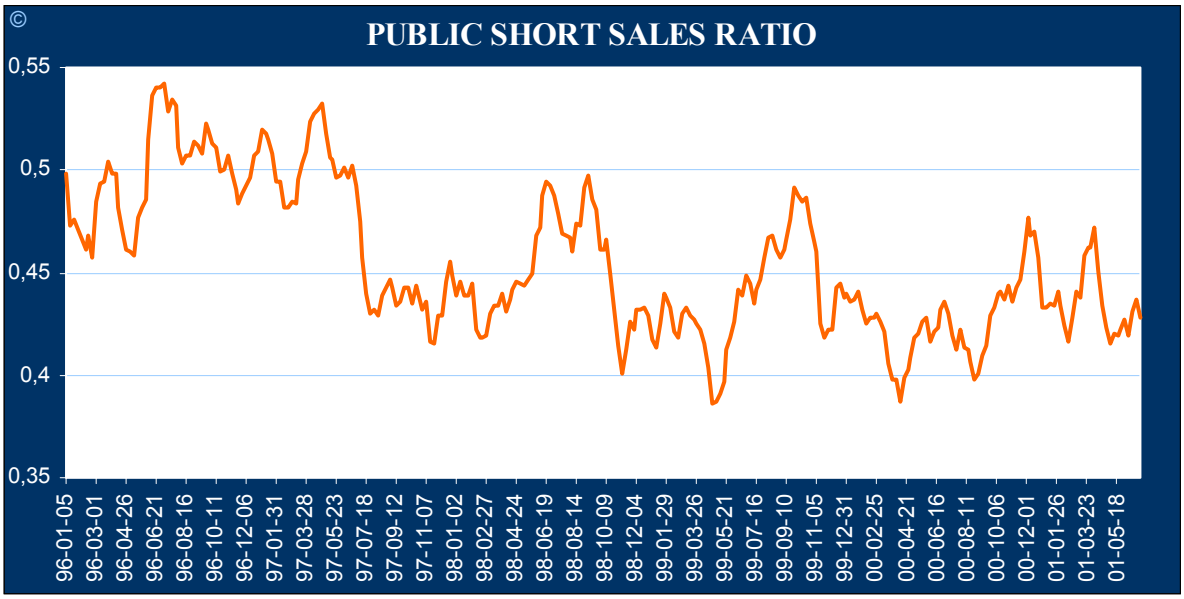
NYSE Member Short Sales Ratio

The NYSE Members Report is compiled by the SEC and issued about two weeks after the applicable date. This indicator is a useful tool to determine what the experts are doing. The NYSE Member Short Sales Ratio is computed by dividing the total member short sales by total short sales. A moving average should be applied to smooth out the swings. Members of the NYSE are professionals and normally right about the trend of the market. If they are shorting heavily the market is usually ripe for a correction. On the other hand, if they are doing relatively little shorting it is most likely that the market has hit bottom, especially if public- and odd-lot short sales increase at the same time.



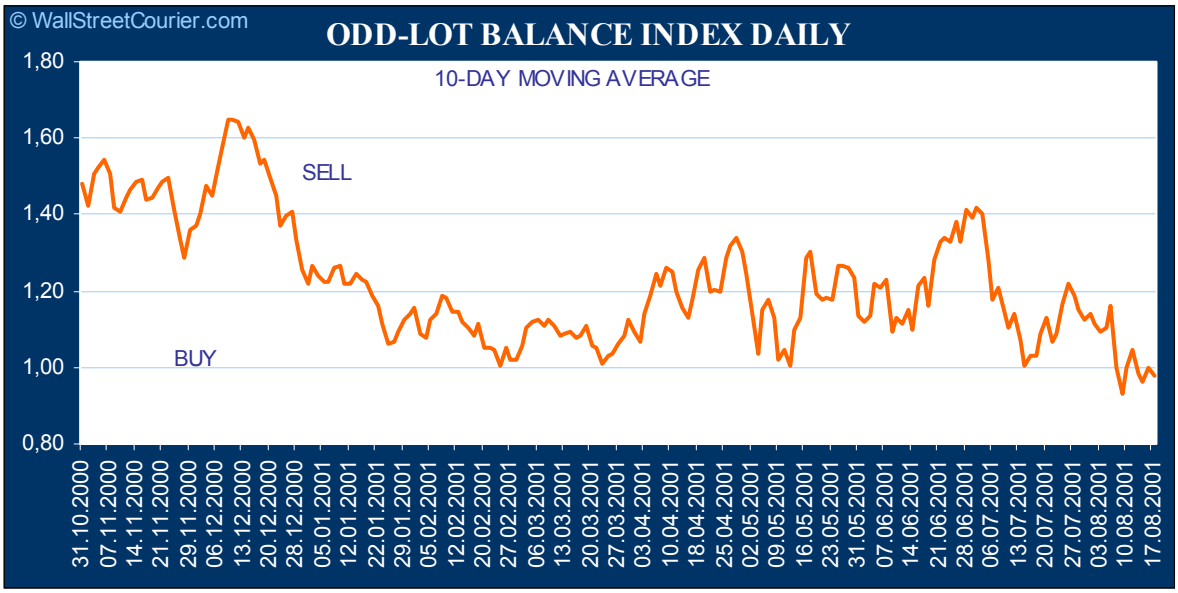
Public Short Sales Ratio

The NYSE Members Report is compiled by the SEC and issued about two weeks after the applicable date. This indicator is a useful tool to determine what the public or the so called crowd is doing. The Public Short Sales Ratio is computed by dividing the total public short sales by total short sales. A moving average should be applied to smooth out the swings. The public is usually wrong about the trend of the market. If they are shorting heavily the market is usually ripe for an upturn. On the other hand, if they are doing relatively little shorting it is most likely that the market is near a correction, especially if specialists short sales increase at the same time.



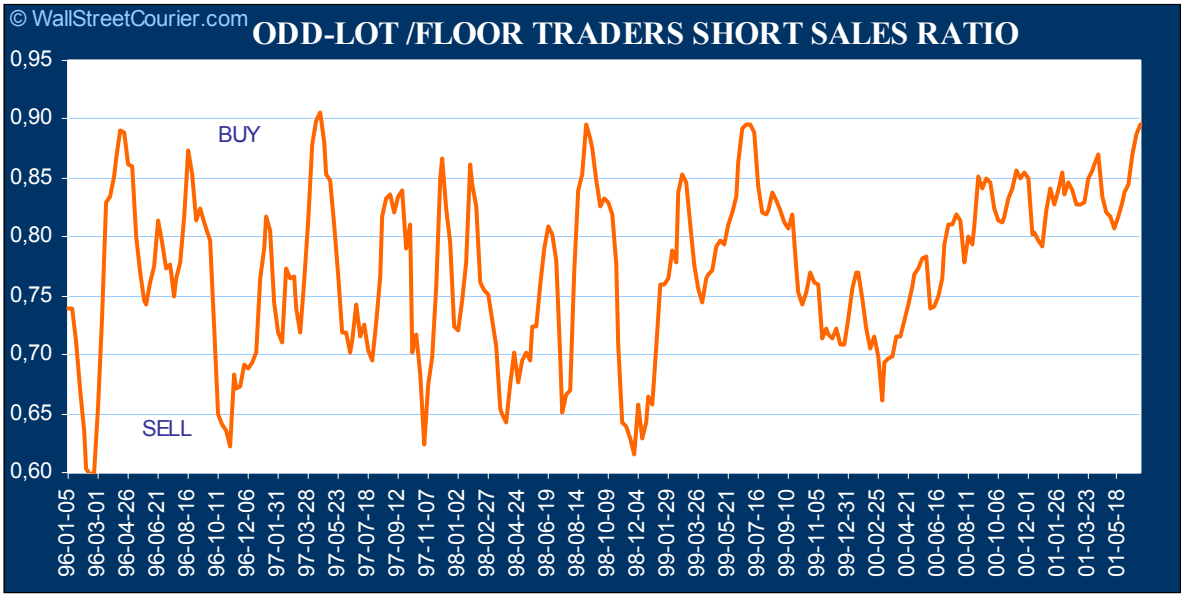
Odd-Lot Balance Index

This index is calculated by dividing daily or weekly odd-lot purchases by odd-lot sales. For stocks, the generally accepted unit of trading is 100 shares (round lot). The Odd - Lot Balance Index indicates the market sentiment of small investors who purchase less than 100 shares of a stock (odd-lot). These market participants are usually wrong about the direction of the market and this indicator is therefore considered to be a contrary opinion sentiment indicator.



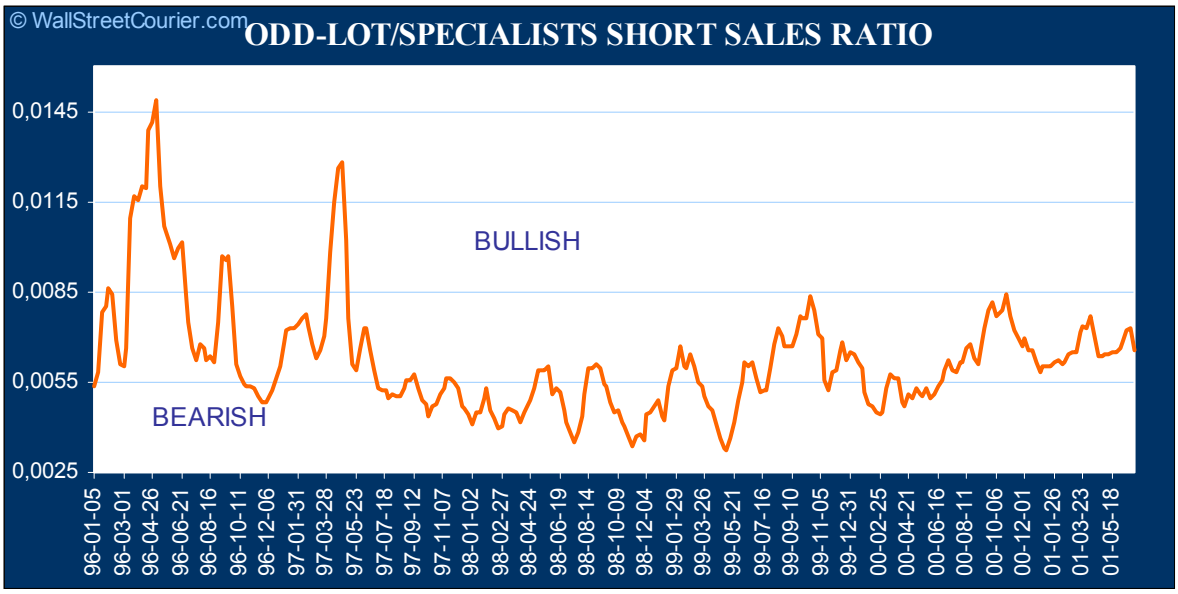
Odd-Lot/Floor Trader Short Sales Ratio

This index is calculated by dividing the weekly odd-lot short sales by the weekly short sales by floor traders for better comparison. Introduced by Wall Street Courier, the Odd -Lot Short/Floor Trader Short Ratio indicates the market sentiment of small investors who purchase less than 100 shares of a stock (odd-lot). Unlike the more sophisticated floor traders, the odd-lotters are usually wrong about the direction of the market and this indicator is therefore considered to be a contrary opinion sentiment indicator.



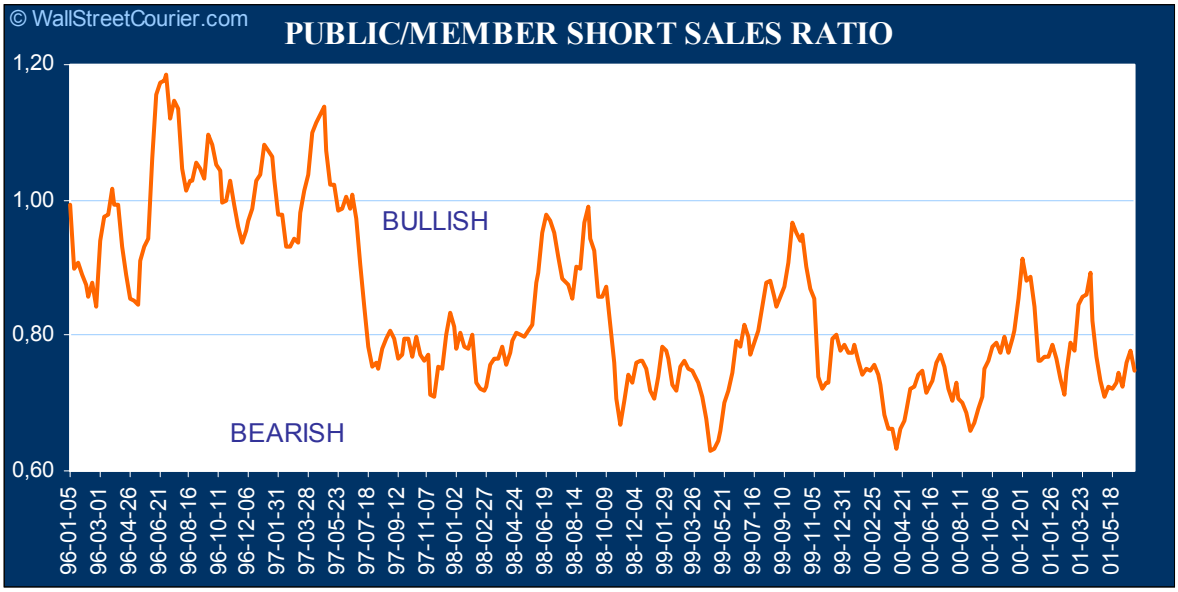
Global Futures Odd-Lot/Specialist Short Sales Ratio

This index is calculated by dividing the weekly odd-lot short sales by the weekly specialists short sales for better comparison. A 4-week moving average is applied to smooth out the swings. Unlike the well informed specialists, the odd-lotters are usually wrong about the direction of the market and this indicator is therefore considered to be a contrary opinion sentiment indicator. High readings indicate heavy shorting by odd-lot investors and therefore bottoms, extremely low readings tops.



Global Futures Public/Member Short Sales Ratio

This index is calculated by dividing the weekly public short sales by the weekly member short sales for better comparison. A 4-week moving average is applied to smooth out the swings. Members of the NYSE are professionals and normally right about the trend of the market. If they are doing relatively little shorting it is most likely that the market has hit bottom, especially if public short sales increase at the same time. High readings indicate heavy shorting by the public (the so called crowd) and therefore bottoms, low readings indicate tops.



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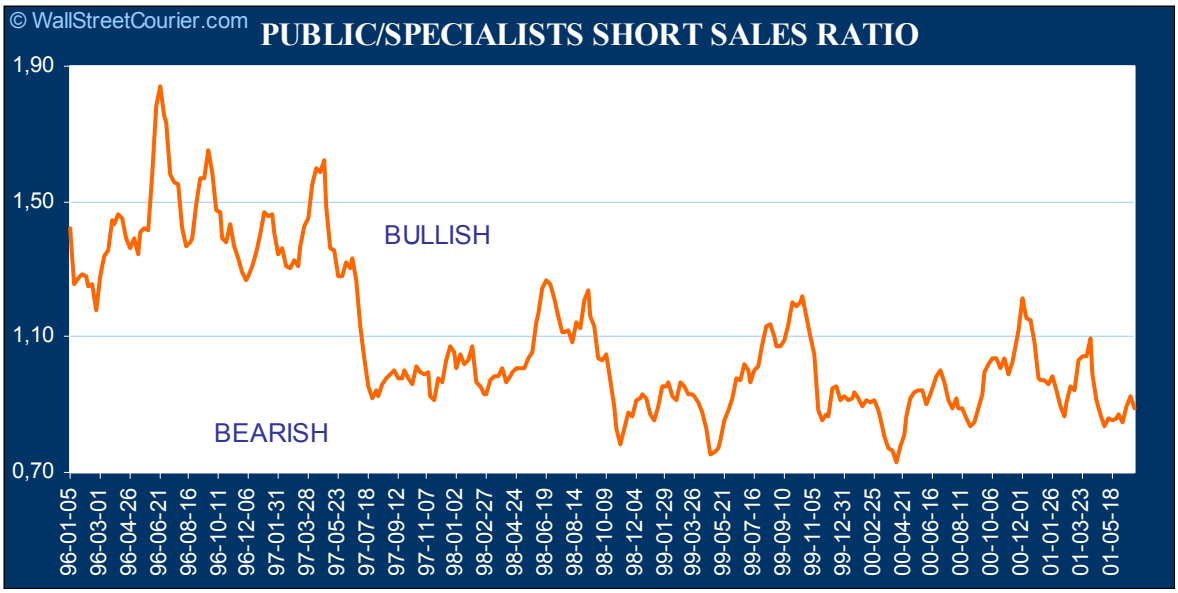
Public/Specialists Short Sales Ratio

The Specialist/Public Short Sales Ratio is a market sentiment indicator. It is calculated by dividing the volume of the weekly short sales made by the public (non members) by the weekly short sales made by stock exchange specialists (members). A 4-week moving average is applied to smooth out the swings. The public is usually wrong about the trend of the market. If they are shorting heavily the market is usually ripe for an upturn. On the other hand, if they are doing relatively little shorting it is most likely that the market is near a correction, especially if specialists short sales increase at the same time. High readings indicate heavy shorting by the public (the so called crowd) and therefore bottoms, low readings indicate tops.



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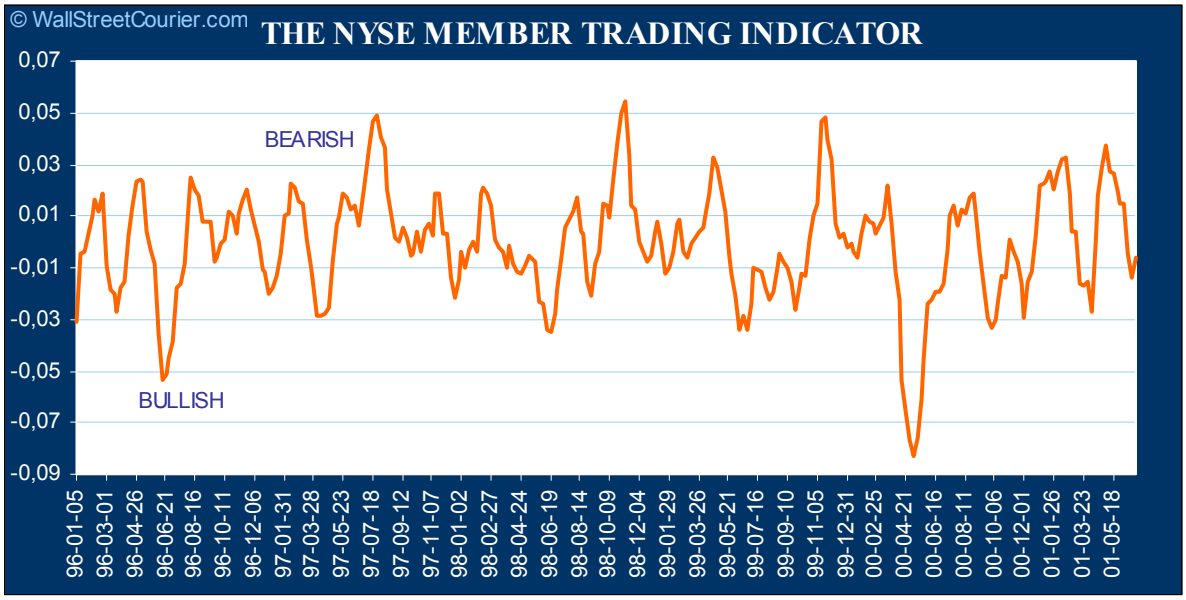
Global Futures NYSE Member Trading Indicator

The NYSE Members Report is compiled by the SEC and issued about two weeks after the applicable date. This indicator is a useful tool to determine what the experts are doing. If specialists, floor traders and other members of the New York Stock Exchange are shorting heavily the market is usually ripe for a correction. On the other hand, if they are doing relatively little shorting it is most likely that the market has hit bottom, especially if public- and odd-lot short sales increase at the same time. Even if data are not quite up-to date, they are nevertheless an excellent indicator of the prevailing sentiment in the market. The formula of the Global Futures NYSE Member Trading Indicator is proprietary and we also use special moving averages to push the tops and bottoms forward an extra two weeks or so.



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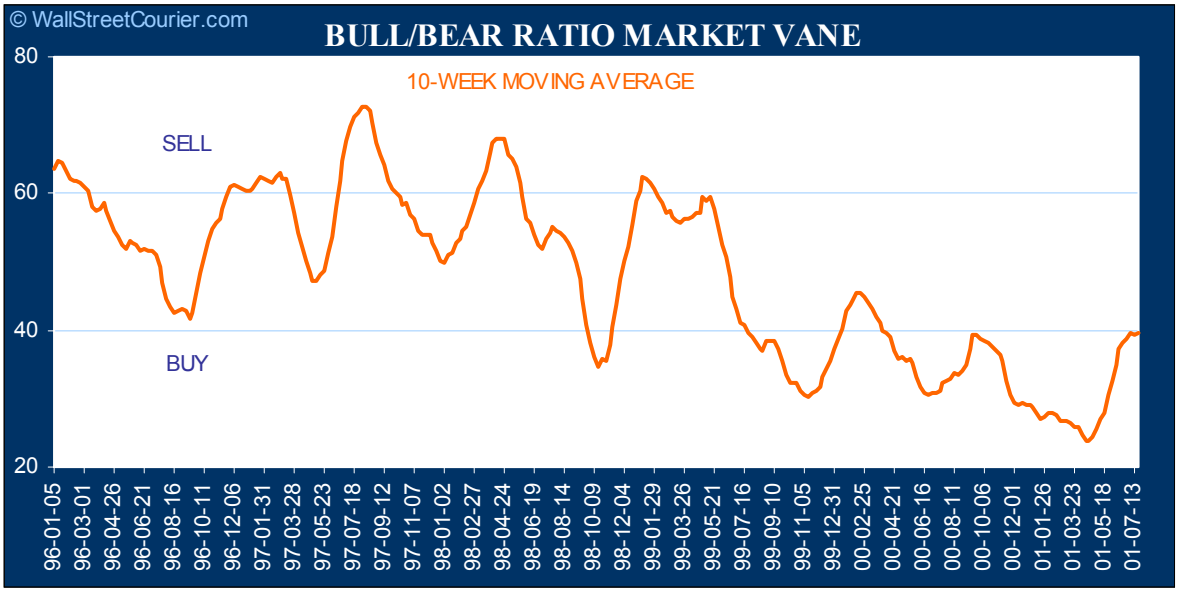
Sentiment Indicators

Investor Sentiment

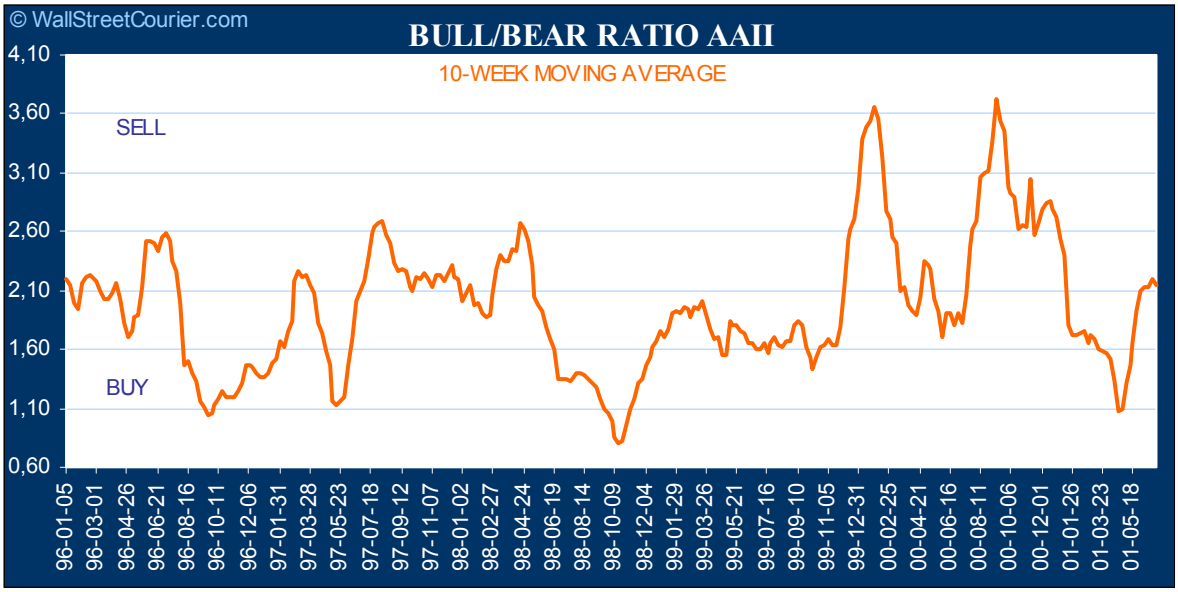
The principles of Contrarian Investing hold that when the vast majority of people agree on anything, they are generally wrong. Otherwise no market would function because there is simply no minority with money enough to make a majority rich. A true contrarian, therefore, will first try to determine what the majority are doing and then will act in the opposite direction. **Market Vane, AAII and Investors Intelligence** are all contrary opinion indicators.

A unique feature of **Market Vane's Bullish Consensus** numbers is a weighting formula applied to the various market letters. More weight is given to letters with a larger following and less weight to those with fewer readers. Each week a poll of market letters is taken to determine the degree of bullishness or bearishness among futures professionals. The theory is that when a significant number of participants are bullish, they are already positioned on the long side and there is little potential buying power left. If most participants are bearish, selling pressure has reached an extreme and prices will reverse to the upside.

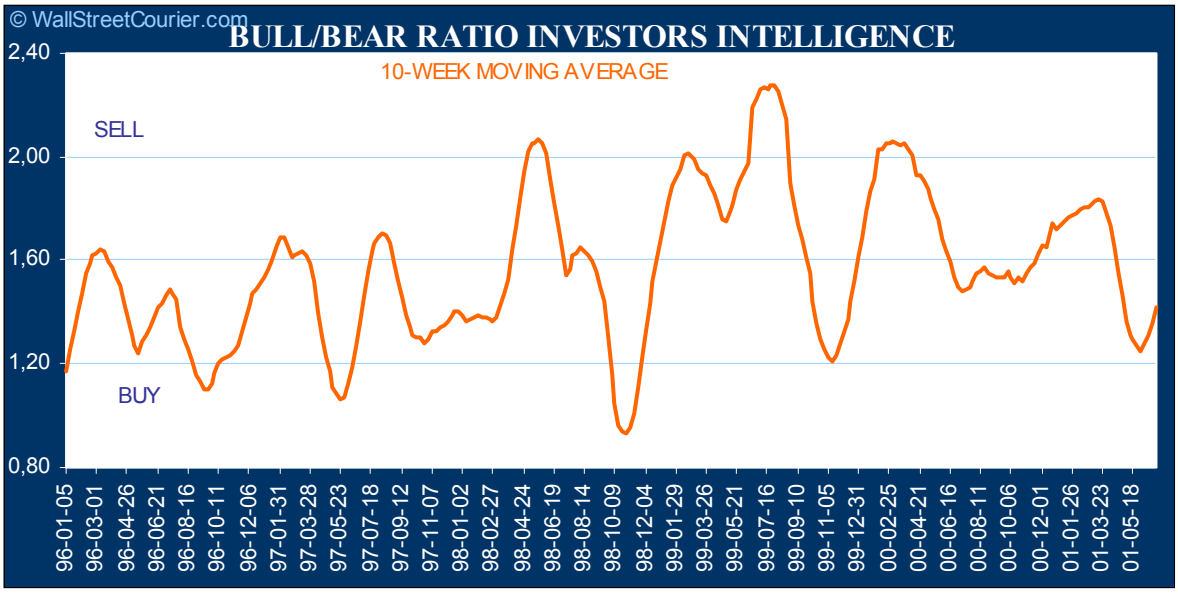


Thanks to the Internet, the **American Association of Individual Investors (AAII)** now polls its 170,000 members daily. Respondents indicate how they feel about the

market's performance in the next six months. The chart below shows the number of bulls divided by the number of bears. A 10-week moving average is applied to smooth out the swings. High readings appear near market tops and low readings near bottoms.



Since 1963, **Investors Intelligence** has been compiling data on the opinions of publishers of market letters. They conduct a weekly poll of about 130 market newsletter writers and calculate the percentage who are bullish, bearish or expecting a short-term correction. The resulting index shows that the advisory services follow the trend of equity prices by becoming most bullish near market tops and most bearish around market bottoms.



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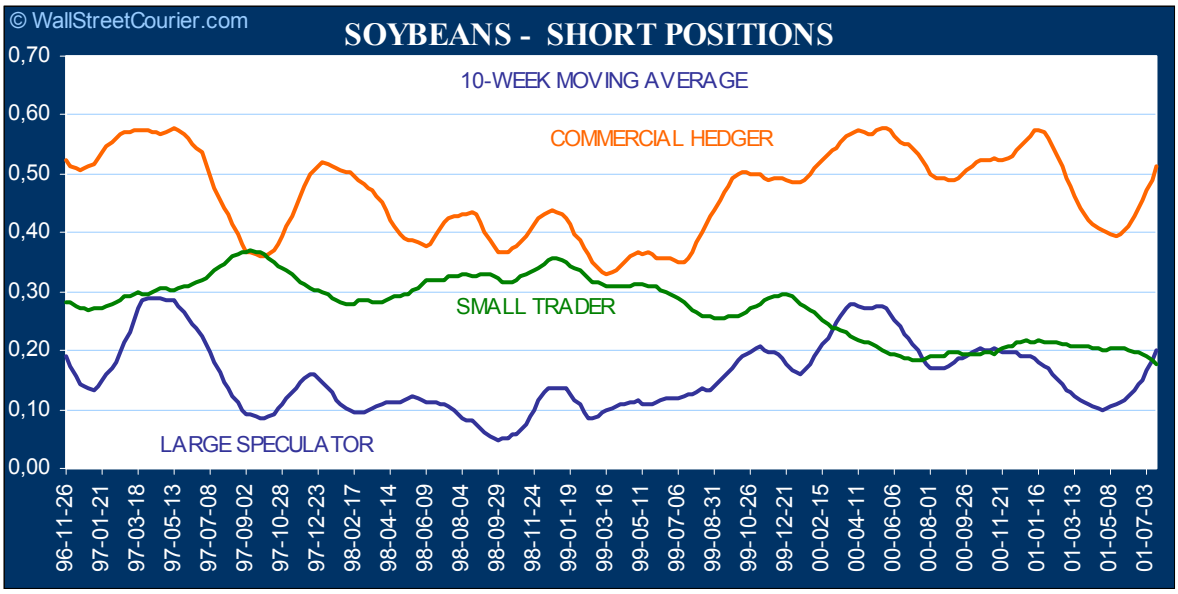
Commitments of Traders Report

The Commodity Futures Trading Commission (CFTC) provides inside information about purchases and sales of futures contracts. The largest players in each market are required to disclose their positions to the CFTC on a daily basis and this report is released weekly on Friday afternoon (the reporting requirement varies by commodity). These traders are separated into **Commercial Hedgers** and **Large Speculators**.

The positions of **Small Traders** are calculated by subtracting the total of contracts held by the reporting groups from all the contracts outstanding (Small Traders are not required to report their positions). Commercial Hedgers hold a significant informational edge over other traders as far as fundamental supply-and-demand statistics are concerned. They tend to be early, but they are usually right on the long run, quite contrary to the small traders. Extreme divergences in long and short positions of Small Traders, Large Speculators and Commercial Hedgers have proven to be reliable indicators of important trend changes. In such cases it is not advisable to bet against the Commercial Hedgers. All other patterns are meaningless. The following charts show you the positions of these three groups of market participants. A 10-week moving average is applied to smooth out the swings.

Three different charts are available for each commodity:

- Short positions of all market participants (Large Speculators, Commercial Hedgers, Small Traders) on a percentage basis.
- Short positions of Small Traders only. Significant changes in those numbers give you an insight about prevailing sentiment..
- The Long/Short Ratio of Small Traders. This chart is computed by dividing the long and short positions of Small Traders. High readings indicate heavy buying by Small Traders which is bearish.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SOYBEANS - SHORT POSITIONS
10-WEEK MOVING AVERAGE
COMMERCIAL HEDGER
SMALL TRADER
LARGE SPECULATOR
0,70
0,60
0,50
0,40
0,30
0,20
0,10
0,00
96-11-26
97-01-21
97-03-18
97-05-13
97-07-08
97-09-02
97-10-28
97-12-23
98-02-17
98-04-14
98-06-09
98-08-04
98-09-29
98-11-24
99-01-19
99-03-16
99-05-11
99-07-06
99-08-31
99-10-26
99-12-21
00-02-15
00-04-11
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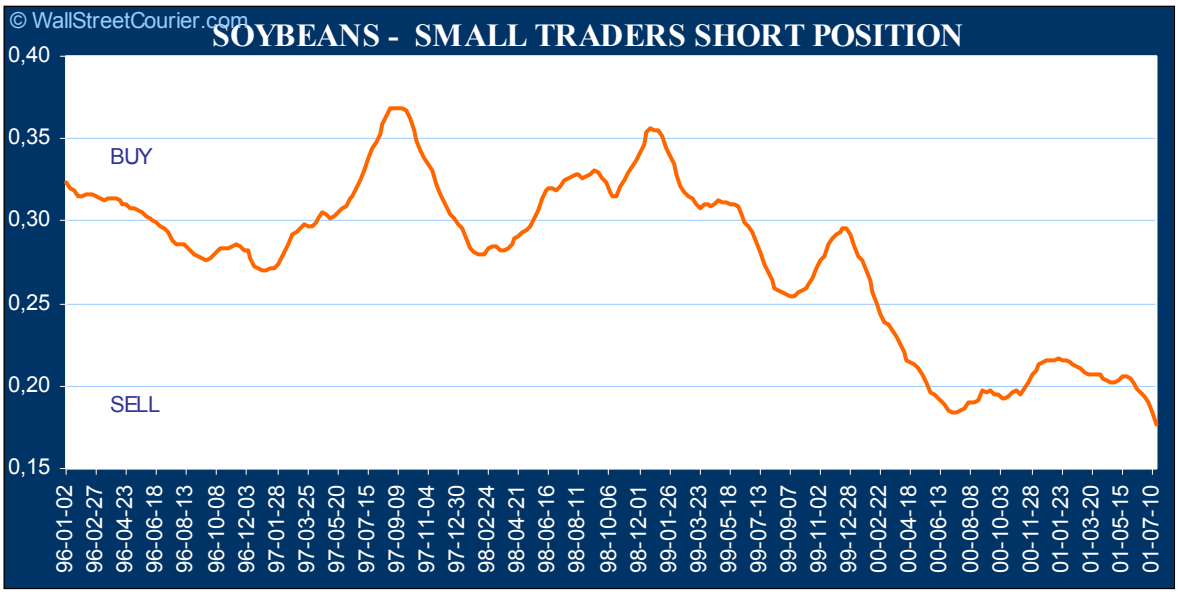
01-01-16
01-03-13
01-05-08
01-07-03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SOYBEANS - SMALL TRADERS SHORT POSITION
BUY
SELL
0,40
0,35
0,30
0,25
0,20
0,15
96-01-02
96-02-27
96-04-23
96-06-18
96-08-13
96-10-08
96-12-03
97-01-28
97-03-25
97-05-20
97-07-15
97-09-09
97-11-04
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98-02-24
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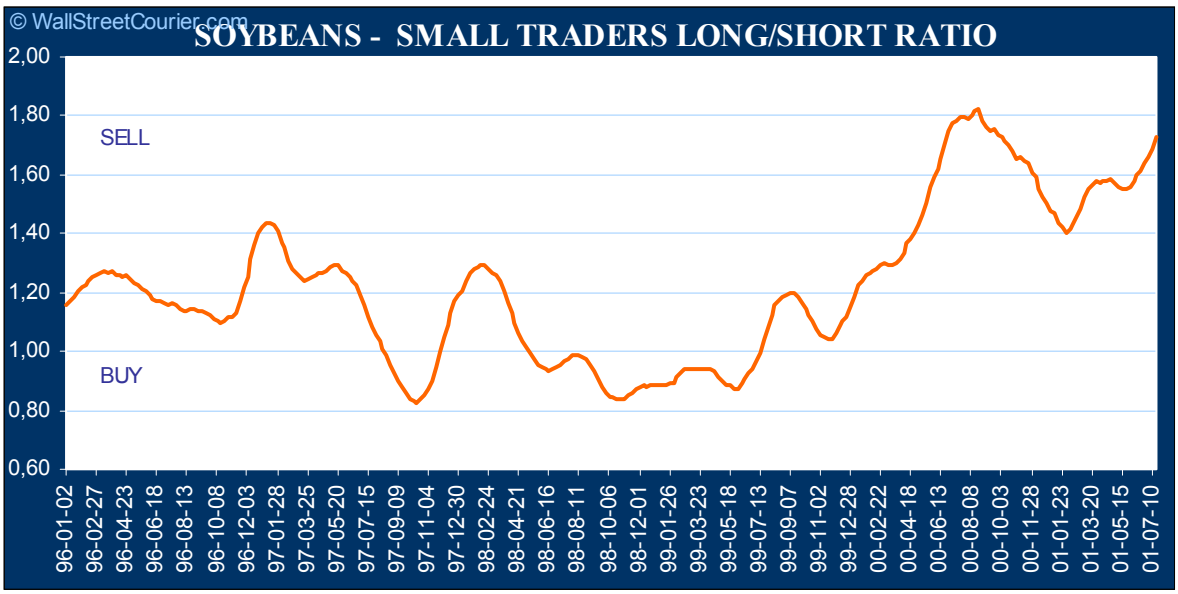
01-05-15
01-07-10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SOYBEANS - SMALL TRADERS LONG/SHORT RATIO
SELL
BUY
2,00
1,80
1,60
1,40
1,20
1,00
0,80
0,60
96-01-02
96-02-27
96-04-23
96-06-18
96-08-13
96-10-08
96-12-03
97-01-28
97-03-25
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00-11-28
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01-03-20
01-05-15
01-07-10

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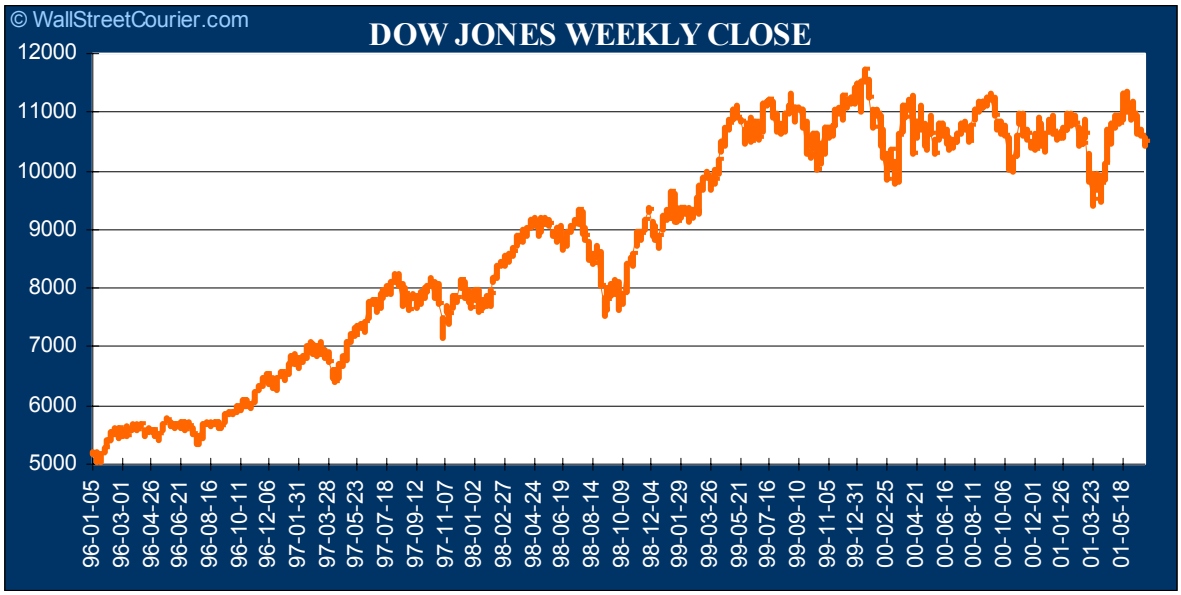
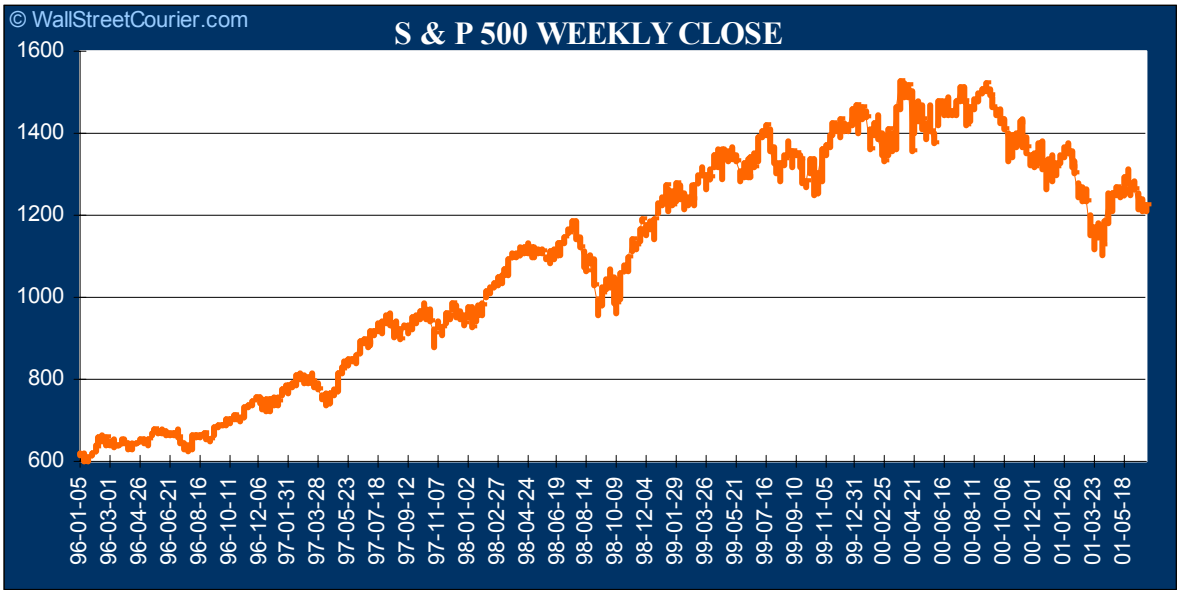
Appendix

The enclosed charts of the indices have exactly the same time span as the charts in our e-book. You will therefore easily be able you to verify the reliability of each indicator.

Dow Jones Weekly Close



S&P 500 Weekly Close



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Risk Statement

HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM. ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS.” TRADING IN COMMODITY FUTURES OR OPTIONS INVOLVES SUBSTANTIAL RISK OF LOSS.

THIS RISK STATEMENT APPLIES TO ANY ILLUSTRATION OF PROFIT AND LOSS CONTAINED WITHIN THIS PUBLICATION. IT SHOULD ALSO BE NOTED THAT STOP LOSS ORDERS DO NOT NECESSARILY LIMIT LOSSES OR LOCK IN PROFITS.

DEPENDING UPON MARKET CONDITIONS, STOP LOSS ORDERS MAY BE EXECUTED AT PRICES SUBSTANTIALLY BELOW OR ABOVE THE SPECIFIED STOP PRICE.