

[Short Term Indicators in Point and Figure Charting]

Speakers: Tom Mullooly and Brendan Mullooly

Brendan: Hello and welcome to the Mullooly Asset Management podcast for December 27, 2012. This is Brendan and today Tom and I are going to be speaking about short term indicators.

All right. So we've looked at long term indicators, as well as the intermediate term indicators, so today we're going to look at the short term indicators. And Tom, do you want to start us off by talking about the three types?

Tom: Yeah. The long term indicators are really great for the big glacial type of moves in the market. When we're going on a long-term, bullish run we'll see it in the long term indicators. And so the long term indicators really become a confirming type of indicator.

The intermediate indicators will tell us primarily whether we're running offensive plays or defensive plays in the market at the present time. An intermediate term can cover anything from a period of a few weeks to a year. So the intermediate term is really where we spend a lot of time and that's why that podcast that we did on intermediate indicators was pretty long.

The short term indicators, which we're going to be talking about today, are like the name implies, pretty short term oriented. Sometimes they're more for traders, but they do give us at least a hint of where the market's going. One of the things I like to tell my clients is that the short term often spills over into the intermediate, and then sometimes even into the long term. So it's important to know what's happening on a short-term basis, but, you know, we want to take all of these together at the same point.

Brendan: Right. So what's the primary purpose for the short term indicators?

Tom: Okay. The short term indicators are really helpful with determining entry and exit points. Suppose we've found a chart that we like and we're thinking about getting involved. The short-term indicators will tell us, "Yes, let's go ahead and do that today," or "You know, let's wait a couple of days or maybe a week and see what happens, it looks like it's over-bought and we're looking to pull back." So the short term indicators are really helpful in determining where we want to get in or perhaps where, you know, where we want to take money off the table as well.

Brendan: Okay. So there are five of the short term indicators, as I gather it? So how about we go over all this.

Tom: Okay. Sounds good. All right. So the first of the five short term indicators that we use is the bullish percent for all mutual funds.

Brendan: Which bullish percent from mutual funds we've seen as an intermediate term indicator and a long term indicator as well. So do you want to explain to the listeners how it could be all three of those things?

Tom: Sure. When we have charts like this, the bullish percent for mutual funds, we have a short term version of the chart, which is usually a half a point or a one point box, an intermediate term chart for bullish percent, which is usually a two point box, and then a longer term bullish percent chart. So we can use the bullish percent for all mutual funds, we can use the long term chart as part of our longer term indicators, the intermediate phase as some of our intermediate term indicators, and then the short term bullish percent will give us swings in the market as well. So it's really pretty helpful to see what's happening with mutual funds in general.

But moving on, there's also the 50-day moving average, that's also known as the 10-week moving average, because there's 5 days in a week, 5 trading days in a week. So this is a 50-day or 10-week moving average for the New York Stock Exchange, and we simply take these numbers and we plot them on the chart and then we make a point and figure chart out of them.

Same thing with the 150-day moving average, even though 150 days sounds like a lot, it really is a short term indicator and that, when you do the math, works into a 30-week moving average.

The other indicators that we use are the high/low on the New York Stock Exchange. That's the number of stocks making new highs versus the number of stocks making new 52-week lows on the New York Stock Exchange.

And then the last indicator that we use, Brendan, is the advanced decline line. This is just the number of stocks advancing versus the number of stocks declining. But with all of these indicators, anything that's got a number, we can plot them on a point and figure chart and that gives us our chart to use. And what happens is, what we're looking for with these indicators, as we've mentioned in previous podcasts, is not necessarily patterns, but we want to know, are these indicators in

X's, are they going up in X's? Are they going down in O's? Are they on a buy signal or a sell signal? Those things are really, really important.

So it's important to know that when you're talking about short term indicators, they're all over the map. I mean, they all move, and sometimes they move independent of each other. It's very rare, we'll hardly ever see short term indicators all moving in the same direction at the same time. But when they do, when that happens, it paints a very strong, short-term picture for the market. For instance, if we see the 10-week moving average and the high/low index both moving up in X's, that tells us that we're probably going to have a good run here for at least the next couple of days or a week or maybe 2 in the market. Likewise, if we see both those indicators move to O's at the same time, we're probably due for a pullback, and that's exactly what's happening right now as we're recording this, Brendan, we see the 10-week moving average, the 50-day moving average, the 150-day moving average, and the high/low have just reversed to O's, and so we're probably going to see a pullback.

Now, is it going to be a catastrophe? No one really knows, and it's really hard to predict the future, but it does give us an indication that if you're thinking about putting money to work, you might want to just wait a bit and see, you know, what's going on in the market.

Brendan: Right. So now that we've talked about short term indicators, let's just review quickly short, intermediate, and long term indicators.

Tom: Okay.

Brendan: And what they all mean for us.

Tom: Great. Well, the five short term indicators really kind of paint a short term situation for us. They tell us, "Here's the condition of the markets right now." Short term is moving up, short term is pulling back, short term is, you know, we need to know, do we have a good entry point right now or should we wait?

The intermediate term indicators give us the picture of which offensive team is on the field, which team is on the field right now? Offense or defense? And you run very different plays when you're on offense as compared to when you're running defensive plays. Defense, you know, when most of our indicators are in O's and we want to play defense, our main focus at that time is principle preservation. When all of the indicators are turning offensive, they're all going up in X's, we

want to work on making money. That's the main thing. The problem, I think for most advisors, is they don't know which team is on the field, offense or defense.

The longer term again, like we mentioned earlier, is more of the glacial view. It gives us that big picture backdrop and tells us we're in a, you know, a long-term bull market, or we're in a trendless kind of market, or we're in a market that negatively constructive and we want to be careful. We will have, you know, in a negative kind of market, we can have nice opportunities to make money but it doesn't always mean that it's going to be long term.

And likewise, you know, when we talk about these different indicators or when we talk about any kind of situation in the market, we want to remind you that none of the securities that we mention in this podcast or any video, represent a past specific recommendation of Mullooly Asset Management. Now this particular presentation is not a recommendation to buy or sell any of the securities that we mention here. And further, if you're relying on a podcast for investment advice, we think you're making a huge mistake.

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Brendan: Okay. That's going to wrap up this week's podcast on short term indicators. We have now covered short term indicators, intermediate term indicators, and long term indicators, so if you missed any of those, you can check them out on our site and thanks for listening.