

Tech Panel

Friday September 15, 2023



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The FRED Report

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Technicals Defined

Moving Averages:

Moving averages are one of the building blocks of Technical Analysis, and there are almost as many ways to use this indicator as there are technicians.

At the FRED report we teach and use a dual moving average crossover system to determine trend. Our favorites are the 5 period and 20 period moving averages. We consider the trend to be up if the 5 is above the 20, and down if below it.

Stochastics:

The Stochastic Oscillator is one of the commonly used momentum oscillators and is standard on charting programs. There are two lines on the chart below, %K and %D.

%K is the faster of the two lines and represents a mathematical formula that *measures where the current close is in relation to the trading range of the last "X" periods of time*. We use a 14-period look-back, so in plain English %K says where the current close is in the trading range of the last 14 days, expressed as a %.

At the FRED report we use it somewhat differently than is commonly taught. The standard way to use the indicator is to register a buy signal when it moves below, and then above, 20 (the lowest 20% of closing prices in the last 14 days). A sell signal is when the indicator moves above, and then below 80 (the highest 80% of closes over the last 14 days).

The other line, %D, is a 3-period moving average of %K. We have found that the Stochastic is sensitive, so we advocate taking signals only in the direction of the trend. When looking at the standard FRED report chart, this would mean taking buy signals when the 5 is above the 20 and sell signals when the 5 is below the 20 but using a different technique to exit positions. The reason for this is the Stochastic is quite sensitive, and can give early indications, especially in new trends. It also can get "stuck" in the direction of trends, which connotes strength and not weakness. Another, preferred interpretation, is to use the indicator to measure risk. An example: buy in an uptrend, not when the stochastic is at 90% but rather wait until it falls below 50%, This way, even if a stock, commodity, or ETF does not give one of the "classic" signals, you can still use the indicator to assess risk, and leg into positions.

Chart: "Basic" External Momentum Indicator



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Parabolic Time Price Momentum System

The PARABOLIC TIME PRICE MOMENTUM SYSTEM, or just Parabolic, is on most of your workstations. As designed, this is a trend following system that is always in the market, long or short at prices represented by the dots above or below price (if above you are short, if below you are long).

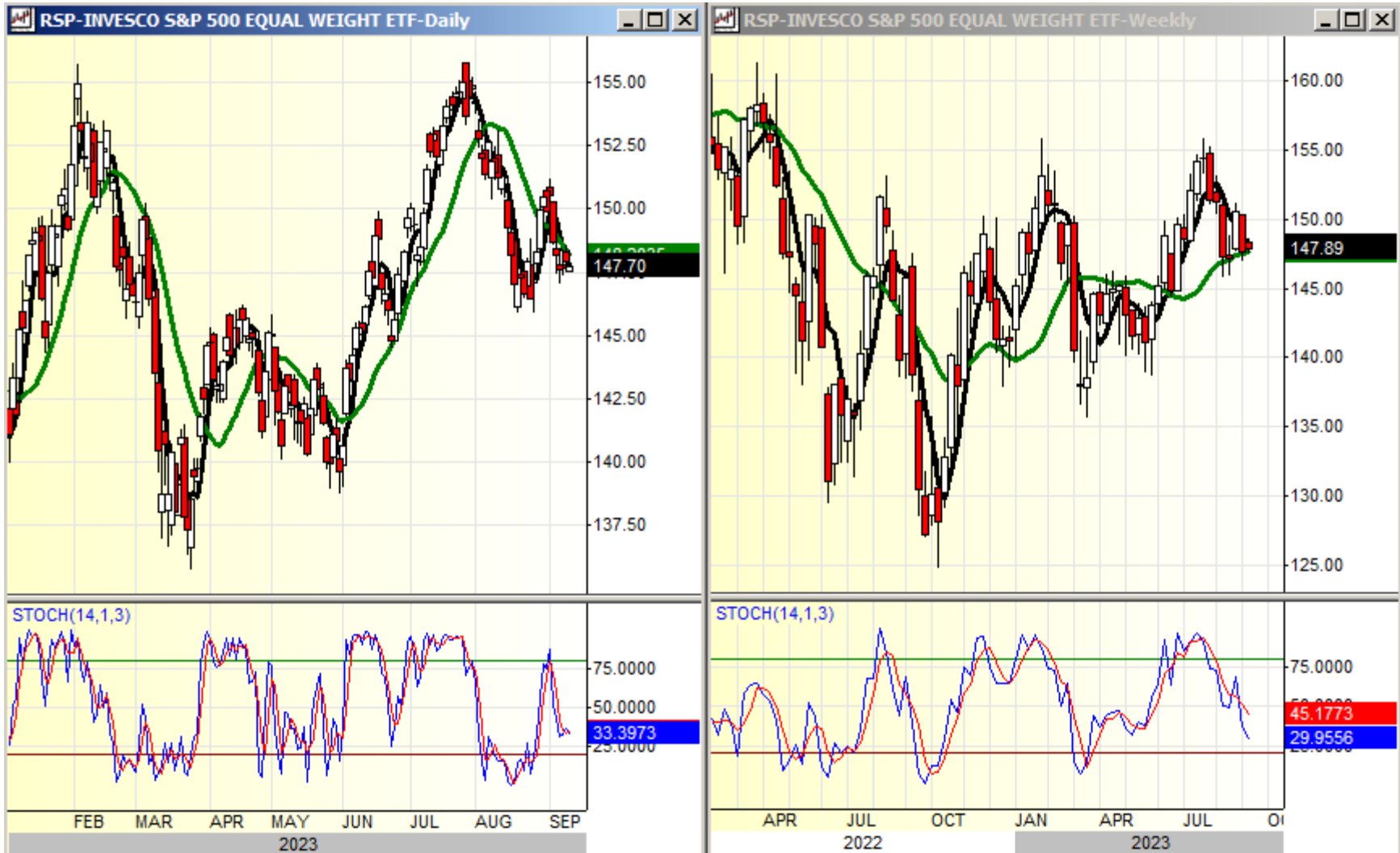
The idea is that if you take each signal, you will eventually catch a trend that is big enough to make up for the small losses (whipsaws) that occur.

At The FRED Report, we use this as an indicator of trend, or a trailing stop, as most clients do not go short. We also do not use it to initiate positions, as the original rules require. The best thing about the Parabolic is that it has a built in “acceleration factor”. This means that the “stop” gets closer the more price advances, and the more upside momentum you need to stay long. This locks in gains.

For us, we really only look at the Parabolic when we are unclear about the trend, after something has been in a trend for a while. Some clients use this to set trailing stops on a portfolio, as well. The rules are simple: You sell when the dot below price is hit, and a new dot appears above the price. This means the trend has turned down.



CPM Tech Panel – Items We Like



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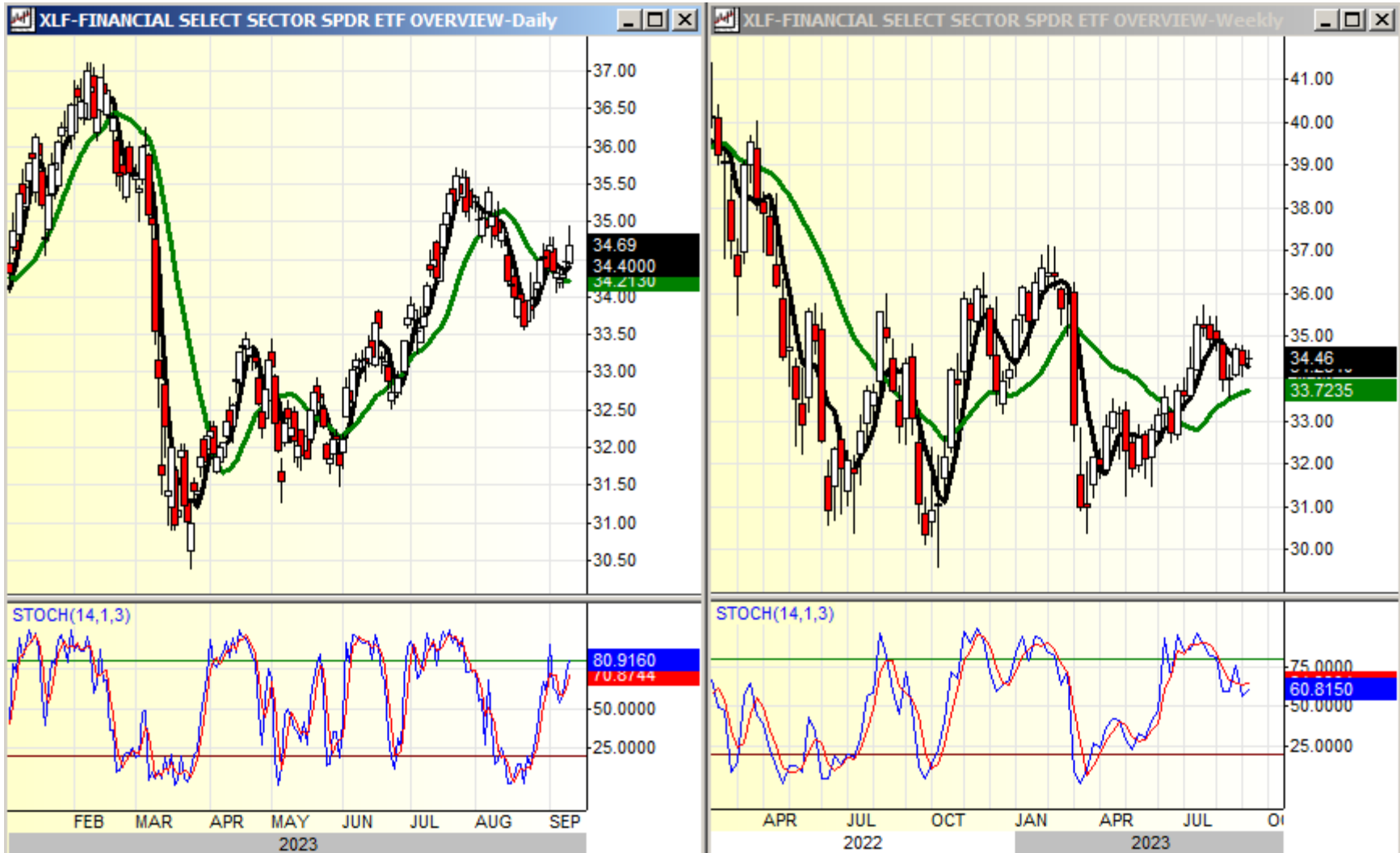


CPM Tech Panel – Items We Like

Long-dated Bulletshares® used as a ladder tool.



CPM Tech Panel – Items We Like



CPM Tech Panel – Items We Like



CPM Tech Panel – Items We *Dislike*

Dislike:



Consider:



CPM Tech Panel – Items We *Dislike*

Dislike:



Consider:



CPM Tech Panel – Items We *Dislike*

Dislike:



Consider:



The FRED Report

Financial Research, Education & Data

The FRED Report (www.theFREDreport.com) was started to provide Financial Advisors and investors access to unbiased market research. The President of The Fred Report, **Fred Meissner, CMT** has been practicing Technical Market Analysis since 1983 and has worked in the research departments of Merrill Lynch and Robinson – Humphrey /Smith Barney. In addition, he has served the public as a portfolio manager and financial advisor. We know the problems investors face and have devoted our career to helping find the best possible investments in all environments.

