

# LIVE @ TAG

W O R K B O O K



# UNDERSTANDING MOMENTUM

## THE RHYTHM OF THE MARKET

By Gary Smith

COVERING: STOCKS, STOCK INDEX FUTURES, INDEX OPTIONS, MUTUAL FUNDS,  
MONEY MANAGEMENT AND PSYCHOLOGY

Gary's presentation will detail his favorite momentum patterns from past actual trades, V-bottom upside reversals, late day upside price surges, extreme momentum days, Friday-to-Monday momentum and momentum break patterns, I% true selling days, and (his favorite), divergence patterns in the Dow, S&P, Nasdaq 100 and the Russell 2000. He will also show you how he uses various sentiment indicators to determine how aggressively to trade these patterns. He will discuss the mental and financial realities of trading for a living. Lastly, he will detail some of the tape reading techniques he uses for intraday trading and how he believes that the real money in trading comes from the trends that extend beyond intraday. This workshop should benefit traders of all asset classes.

**Gary Smith** is a trading maverick who, in his thirty-three year trading career, has learned to shun much of conventional trading analysis, including chart analysis, oscillators, moving averages, waves, cycles, and even computers, as pure fiction. He trades in reaction to market changes as they occur, not after the fact when they can be measured by traditional analytical tools.

Gary dabbled in the markets for almost twenty years before arriving at the conclusions that have allowed him to methodically compound a \$2,200 trading account into a \$650,000+ account. Gary's hallmark as a trader is his consistency and ability to never give back trading profits. He has been profitable 106 of the past 112 months, trading mutual funds, junk bond funds, and stock index futures. Over that period he has never sustained a losing month in excess of \$2,000.

Gary's articles on trading have appeared in major financial publications and he has been profiled in *Futures*, *Technical Analysis of Stocks & Commodities*, and *Commodity Traders Consumer Report*. His new book, *How I Trade For a Living* (John Wiley and Sons), will be available in late 1999.

[Mr Smith's Personal Workshop was presented and recorded at a recent LIVE @ TAG conference.](#)

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**1) Lost in the Wilderness - A Break-Even Trader for 19 Years**

- a) Looking for success in all the wrong places
- b) There are no experts

**2) My Trading Epiphany**

- a) The importance of analyzing past trades
- b) Setting goals
- c) Throwing away the charts and oscillators
- d) Sentiment moves the market

**3) Why The Stock Market**

- a) Exploiting a 200 year upward bias (Figure 3-1)

**4) My Favorite Sentiment-Based Perceptual Trading Filters**

- a) Public/specialist short sales data (Figure 4-1)
- b) Put/call Ratios
- c) Advisory sentiment (Figure 4-2)
- d) Commitments of Traders Report

**5) My Favorite Technical Indicators**

- a) Fosback High/Low Logic Index
- b) Seasonality

**6) How I Trade Pure Price Action - My Momentum Patterns**

- a) V-bottom upside reversals - Figure 6-1 for October 8, 1998
- b) Late day upside reversals - Figure 6-2 for January 12, 1998
- c) Extreme momentum thrusts - Figure 6-3
- d) Friday- to- Monday momentum and momentum break patterns - Figure 6-4 for April 14, 1997
- e) 1% true selling days in Dow, S&P, Nasdaq 100, Russell 2000
- f) Divergence between the Dow, Nasdaq 100, S&P, Russell 2000 - Figures 6-5 for 6/11/98-6/24/98 and 4/12/99-4/16/99

**7) Selecting Your Trading Weapon**

- a) Individual stocks, equity/index options, stock index futures, mutual funds

**8) Mutual Fund Trading Strategies**

- a) Mutual fund seasonality
- b) New funds
- c) Playing the overseas lag

**9) Trading Stock Index futures**

- a) Reading the tape Figure 9-1 November 23, 1993
- b) Trading price Figure 9-2 December 2, 1991
- c) Trading strategies
- l) Divergences between the Dow, S&P, and Nasdaq Figure 9-3 March 18, 1999

- 2) The death zone
- 3) Non repeater patterns
  
- b) The Nasdaq 100 futures contract

**10) Where the Money Is In Trading**

- a) Beyond intraday trading

**11) The Traits and Skills of the Professional Trader**

- a) It's all about risk!

**12) Realizing a Realistic Return**

## TOTAL NOMINAL RETURNS 1802- 1997

**\$1 Investment in 1802 compounded to:**

**STOCKS \$7,470,000.00**

**BONDS \$10,744.00**

**BILLS \$3,679.00**

**GOLD \$13.37**

**COMMODITIES \$11.17**

Source: Jeremy J. Siegel, *Stocks for the Long Run* (New York: McGraw-Hill, 1998)

**NYSE MEMBERS REPORT**

(Thou shrs)	Week 8/16	Prev. Week
<b>TOTAL VOLUME</b>		
Weekly total	3,658,475	3,523,238
<b>MEMBER ACTIVITY</b>		
Net buy/sell	+10,571	+17,643
<b>SHORT SALES</b>		
Total	371,485	364,983
Public	168,136	165,932
Members	208,684	187,859
Specialists	159,783	138,843

# ADVISORY SENTIMENT

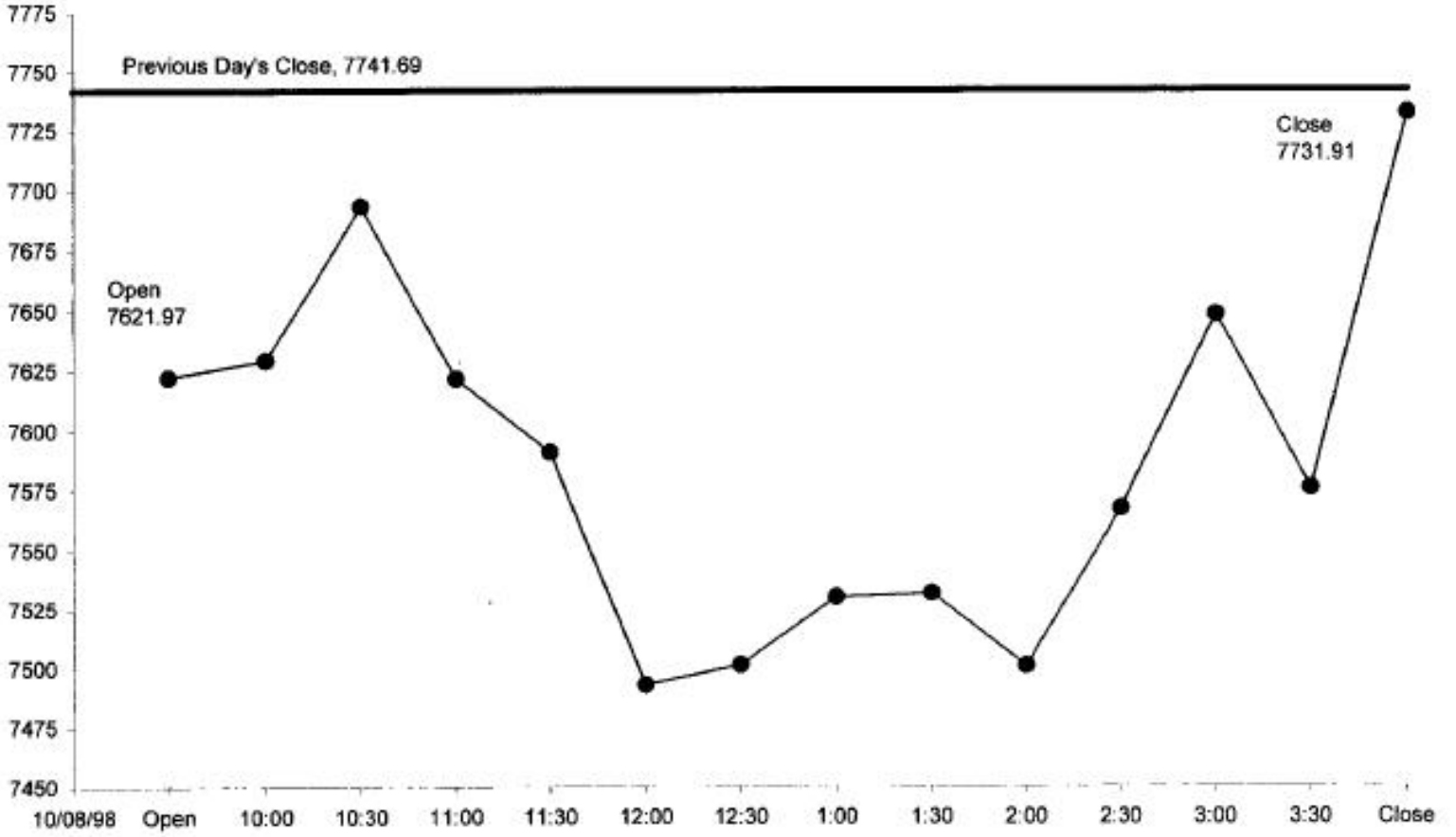
	<b>Last Week</b>	<b>Two Week Ago</b>	<b>Three Weeks Ago</b>
<b>Investors Intelligence</b>			
Bulls	42.5%	44.9%	48.6%
Bears	33.4	32.6	28.4
Correction	24.1	22.5	23.0
<b>Lowrisk.com</b>			
Bullish	29%	32%	28%
Bearish	46	49	52
Neutral	25	19	20
DJII Median Guess	11081	10917	10894
Number of Guesses	397	423	383
<b>Consensus Index</b>			
	30%	28%	33%
<b>Market Vane</b>			
	44%	38%	27%
<b>AAII Index</b>			
Bullish	36%	32%	31%
Bearish	26	23	41
Neutral	38	45	28

Investors Intelligence 914-632-0422  
www.lowrisk.com  
Consensus 816-471-3862  
Market Vane 626-395-7436  
AAII 312-280-0170



Dow Jones Industrial Average, 10/08/98  
Half-hour Prices

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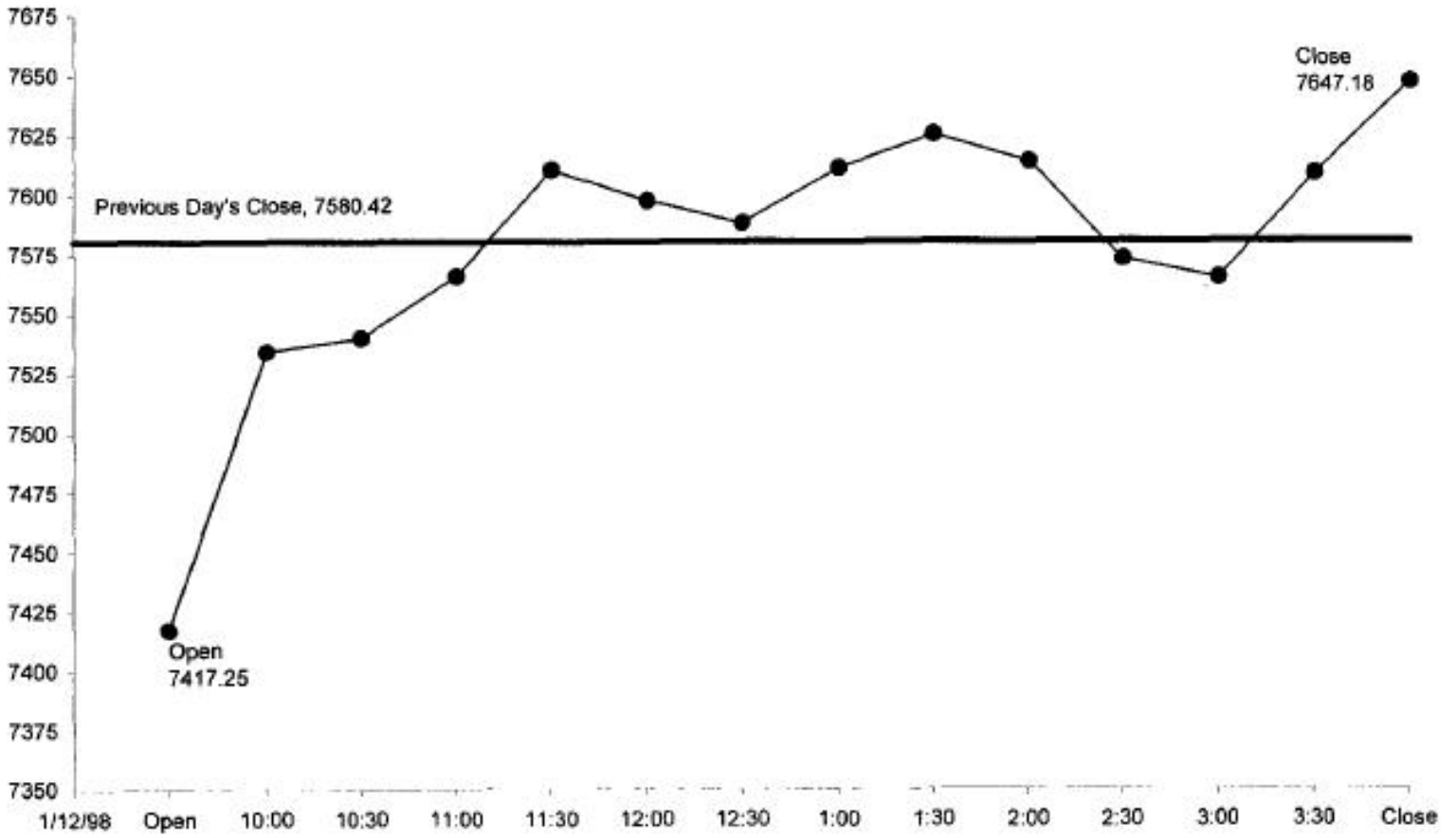


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Dow Jones Industrial Average, 1/12/98  
Half-hour Prices

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**EXTREME MOMENTUM THRUSTS**

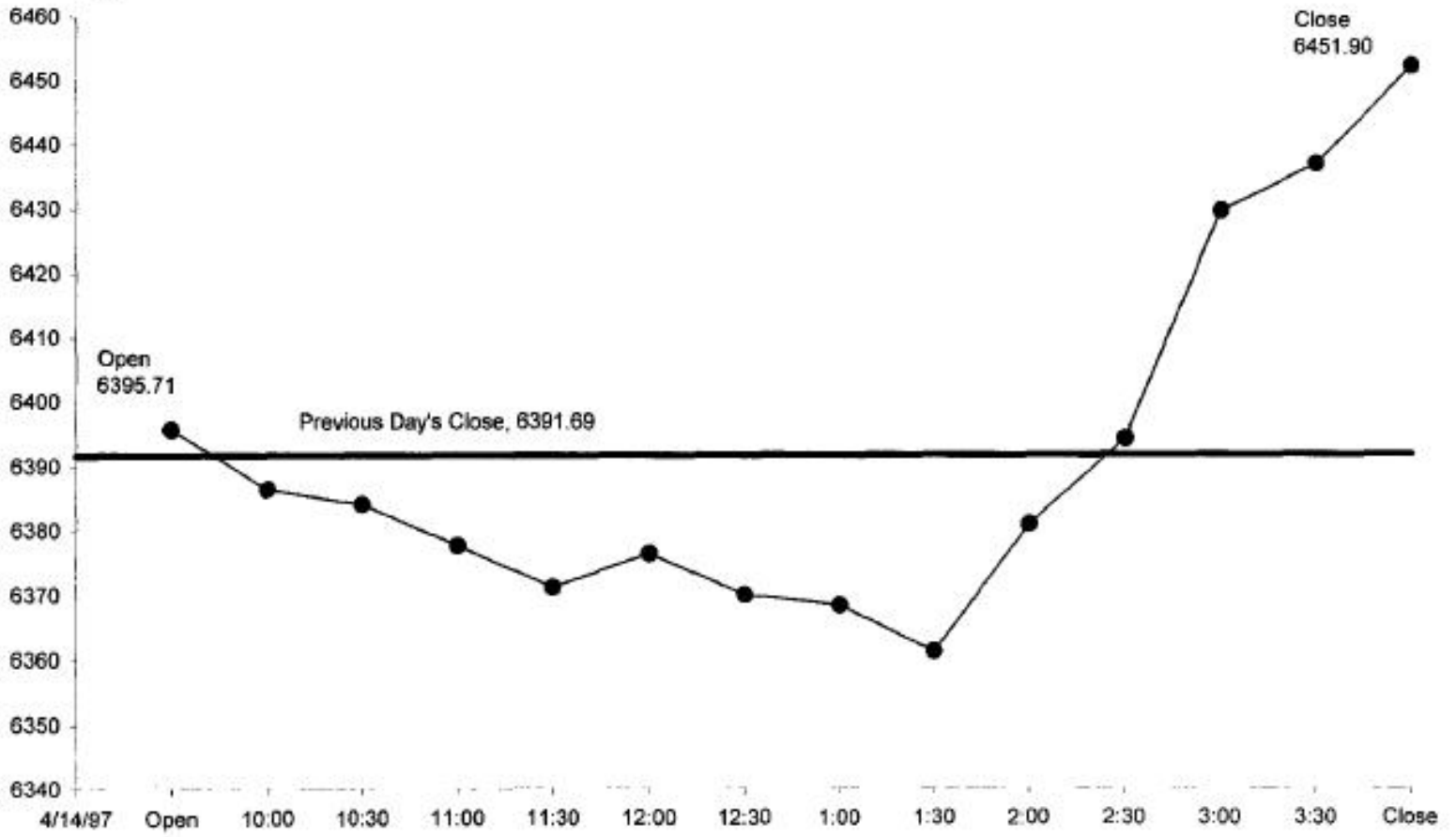
	Dow	Nasdaq 100
April 28, 1997	+44.15	+10.82
April 29	+179.01	+26.87
April 30	+46.96	+18.48
May 1	(-32.51)	+7.38
May 2	+94.72	+27.37

**Five-Day Momentum S&P**

5-Day Gains	Date Ending	3 Months Later	6 Months Later	12 Months Later
+14.12%	10/11/74	+2.06%	+18.33%	+24.21%
+12.33%	11/02/87	UNCH	+2.27%	+9.11%
+11.84%	06/01/70	+3.99%	+12.37%	+28.72%
+11.55%	08/23/82	+14.48%	+26.42%	+40.18%
+10.67%	10/11/82	+8.41%	+15.37%	+26.67%
+9.18%	10/15/98	+18.69%	+26.29%	n/a
+7.79%	07/03/62	(-0.59%)	+12.79%	+23.80%
+7.69%	01/29/75	+10.84%	+14.14%	+29.57%
+7.58%	9/20/74	(-4.61%)	+19.20%	+22.44%
+7.41%	05/05/97	+14.56%	+11.71%	+31.90%

Dow Jones Industrial Average, 4/14/97  
Half-hour Prices

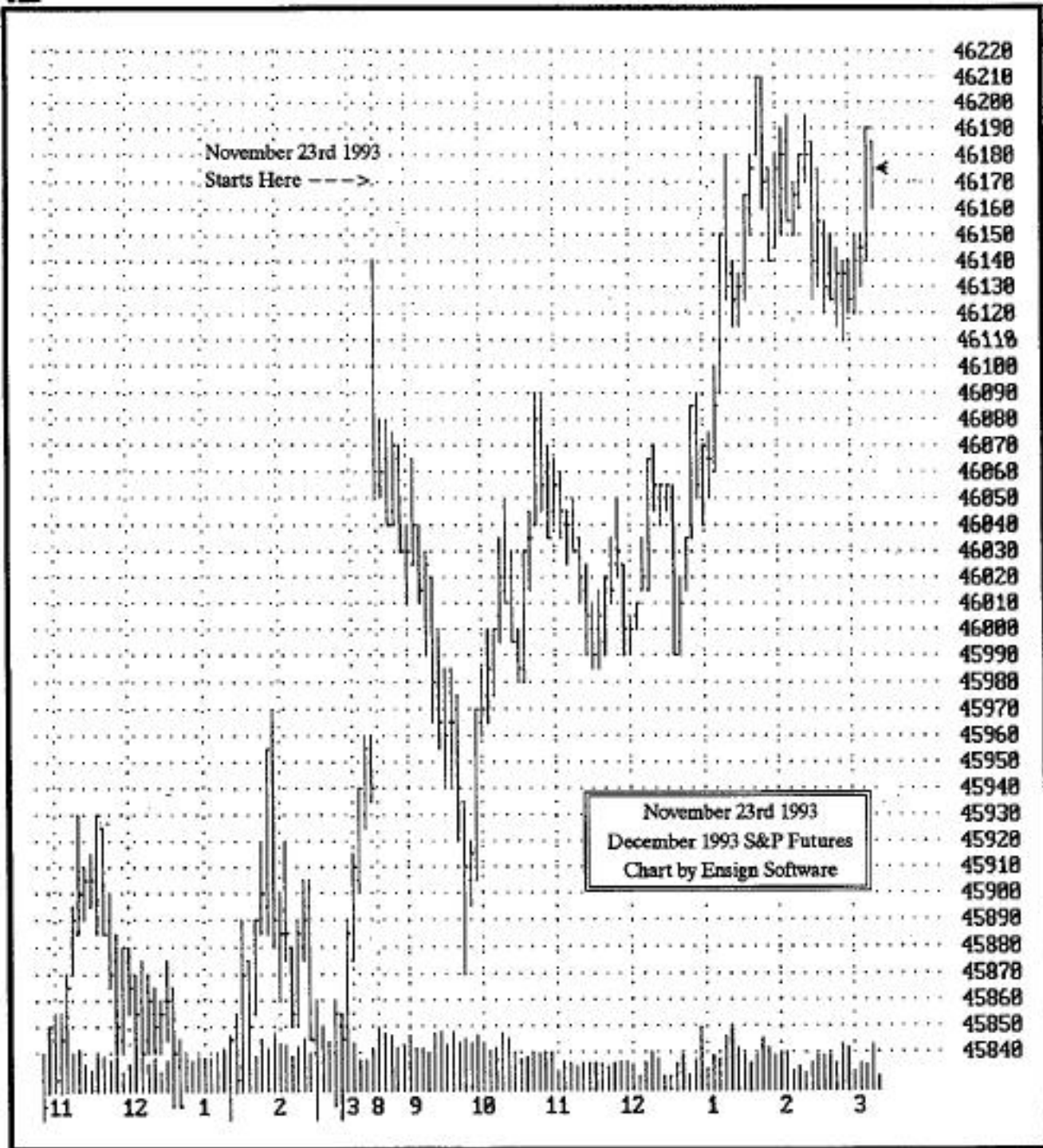
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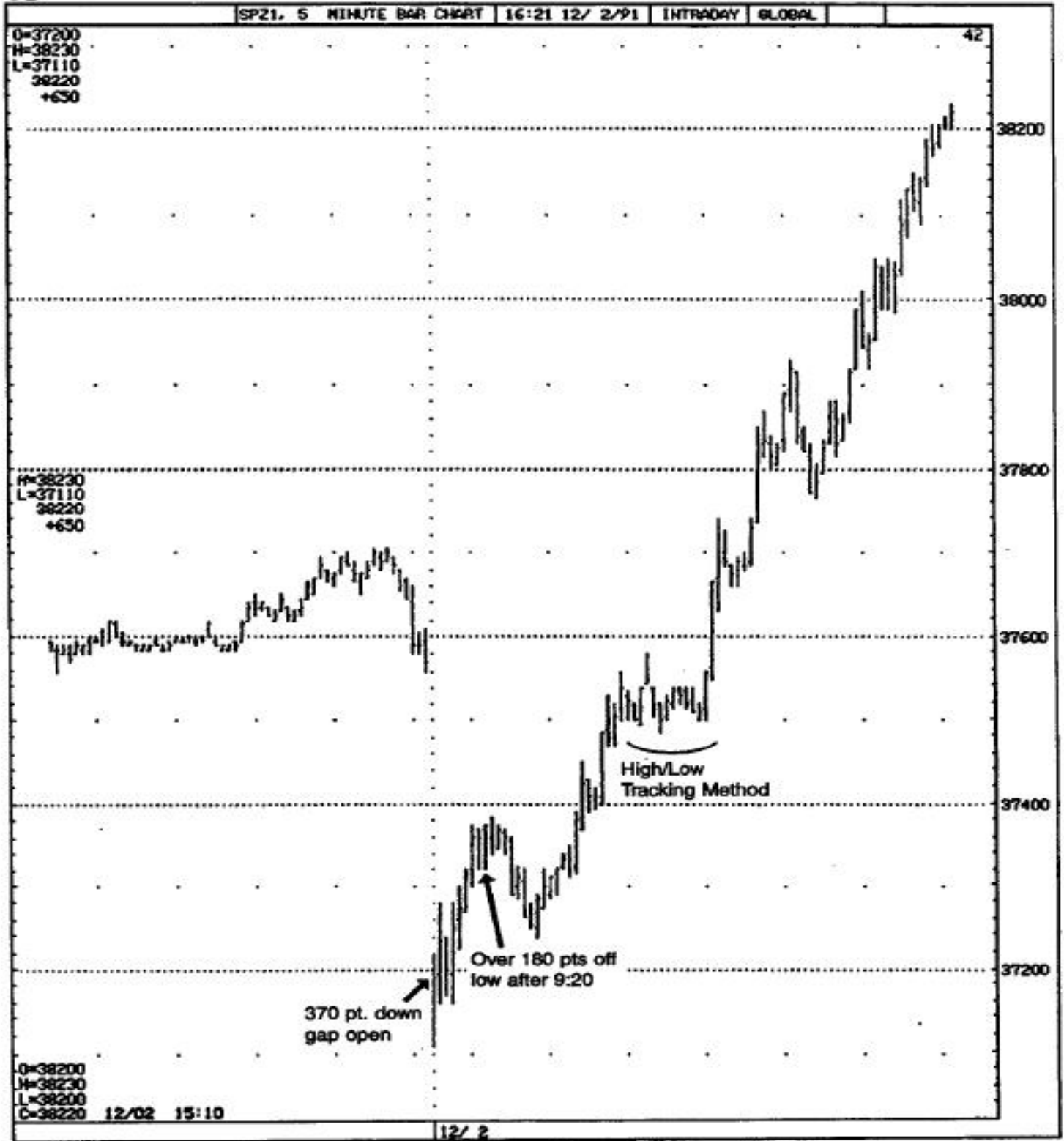


## DIVERGENCES

	<b>DOW</b>	<b>NASDAQ 100</b>	
June 11, 1998	(-159.93)	(-14.19)	
June 12	+23.17	+1.88	
June 15	(-207.01)	(-13.42)	
June 16	+37.36	+37.33	
June 17	+164.17	+13.18	
June 18	(-16.45)	+3.25	
June 19	(-100.14)	+12.38	
June 22	(-1.74)	+24.22	
June 23	+117.33	+38.46	
June 24	+95.41	+28.77	
<b>Total Points</b>	<b>(47.83)</b>	<b>+131.86 = 923 Dow</b>	<b>points</b>

	<b>Dow</b>	<b>S&amp;P</b>	<b>Nasdaq 100</b>
April 12, 1999	+165.67	+10.29	(-13.26)
April 13	+55.50	(-8.82)	(-44.03)
April 14	+16.65	(-21.38)	(-76.22)
April 15	+51.06	(-5.58)	+32.18
April 16	+31.17	(-3.86)	(-49.35)









Thank you for taking  
this **Live@TAG** workshop

### Speaker Info:

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