



Does technician really know the up and down of market?

By CK Wong 2005.09.18

<http://www.ck-wong.ca/Money%20Matters/technician%20konw%20market%2020050918.pdf>

Introduction

1974 I continued my formal education at University of Waterloo after working 3 years to save one year of expense. Other than the financial crunch, it was the year that Hong Kong stock market at 7th heaven. It was just like the 2000 tech bubble. All walk of life put down their life saving on stocks they knew for a few minutes just enough to make the buy order. My brother's big mission for me was to create a chart that would extrapolate the future trend of some specific stocks. My interest on market analysis started a few years later was triggered by this event. Like every one else at the end of a bull they lost their shirt. I was lucky that I did not bet on any of it.

Clash of Titans

I did not find the future chart of the stocks but I was lucky enough to discuss that with a few math professors. All of them did not support the idea of gamble. So that settled the speculative side effects. We engaged in intensive academic discussion. My calculus professor who is also a great apply math expert used all tricks he knew to defeat me and my classmate on interpolation and extrapolation. For the whole year, a bunch of cream of cream got creamed and failed to win any discussion.

Next year was a different story. My statistics professor was the dean of statistics. At Waterloo, this was and is a very honorable position. It is more than administration. He did not believe there was a fixed formula but there was some patterns that should reflect the up and down of stocks. However, he could not put the concept into mathematical theory.

The next victim of discussion was my second year math professor who was also a prominent figure in the field. He believe all these chart reading were voodoo magic.

Their teaching imprinted deeply in my mind for many years.

Patterns of Numbers

In my second year, also studied the quantum theory and like many young guys, studied sub-atomic particles. All these theoretical physic were pretty much based on reading charts of energy measurements. From astrophysics to the output from the cyclotron. These charts show the invisible macro (as big as the universe) and micro (as small as

what inside the nucleus) structure by predicting what was going on. My mind again imprinted with the concept that pattern tells stories.

There are more evidences that numeric patterns tell stories. In material science, the strength of material could be assessed and predicted by the stress and distortion resulted. In a transistor, the gate's throughput is pretty much empirically determined rather than explicit solution.

Technical Analysis

I am not completely remote in the technician's trade. All these patterns of twin peak, head and shoulder, inverted triangle, trading channel, etc are good examples. When it works, pages and pages were written to blow horn the accuracy. But in retrospective, how many technicians could summarize the chart of Nortel to a know pattern other than the spike or toilet bowl.

Most recently, I am fortunated enough to start to study the market from grand masters such as Richard Russell and Rom Meisels.

Richard Russell publishes The Dow Theory Letters. Each day he reads the market chart. More than often he educates the subscriber on how to read it in plain language. Unlike many technician like to do hindsight, Richard clearly spells out his thinking. The current oil price has a left shoulder followed by a peak. The current retreat of oil price is in the process of forming a shoulder or creating a resistant level. Richard is giving his reading blow by blow.

Professor Rom Meisels' North America Market Letter takes the hindsight approach. But please do not mistake my hindsight description. What Professor Ron doing is to provide the buy or sell signal when the situation is confirmed not finished. His reading on Nortel and Bombardier are most straight forward and precise: both stocks did not build any base chance of upside is minimal.

Richard combines the chart and the fundamental but Professor Ron does not. Both use the trend line of the peak and valley, the MACD, and the Oscillators. It is not a single reading. In the Dow Theory, the chart of Dow Industry has to be read together with Dow Transport. If the trend does not align, it is not confirmed, the probability to move at a specific direction is low. When the signal is confirm, the market will go to the indicated direction.

Fuzzy Logic

I heard the name fuzzy logic thirty years ago and did not know what it is about until Panasonic has a fuzzy logic rice cooker. In the marketing material, they explain in

common language that the logic they used does not have a black and white concept. It is a “more or less” concept. The range can be numerically overlapped.

Eureka, this is exactly what happens to the chart reading. There is no fixed formula; things could be different every time. You have to forget the numerical value but put the value to a grade. From the grade or level you do your thinking.

I believe the technician but I also believe not every technician is the same. Until the whole process can be written down in a more precise form, it is still in a very early stage of development. Let’s give it more chances to review its structure.