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Stan Weinstein

If you follow the market properly, it's a slow, evolving process. And life should be the same way, an evolving thing. We need to learn from our mistakes. The market will test every strength and weakness you have. If you're open to learning what your strengths and weaknesses are, you'll grow, and that's what the journey should be about.

Stan Weinstein is president and founder, in 1990, of Global Trend Alert, an advisory service that provides both intermediate and longer-term outlooks for global markets and equities to institutional investors. He was also publisher and editor of *The Professional Tape Reader* market letter, which he retired in 2000, as well as the author of *Secrets for Profiting in Bull and Bear Markets* (1988). Weinstein has appeared frequently as a guest on major financial television programs, was one of Louis Rukeyser's *Wall $treet Week* elves, and has been quoted in leading financial newspapers and magazines, including *Barron's, The Wall Street Journal, Investor's Business Daily, USA Today, The New York Times, Business Week,* and *U.S. News & World Report.*

What led to your interest in technical analysis?

I've had an interest in the stock market since I was a kid. Like most people, I started in a more traditional way. I followed some of the big fundamentalists, and the techniques that were supposed to do very well did not do very well. I ended up losing my bar mitzvah money and figured there must be a better way. When I went to college, I studied economics, although they taught traditional methods, not technical analysis. One day, at the school library, I found a book called *Technical Analysis of Stock Trends,* by Robert D. Edwards and John Magee. I read it, and it seemed interesting to me—I'm willing to give anything a shot. So I started doing some charting, and at the time I didn't make a lot of money, of course. Initially, as I was learning the ground strokes, I found that I was losing less money, maybe made a few dollars. The more I dwelt on it, the more I started to feel that my future was with technical analysis. The Edwards and Magee book really talked to me, and I loved it when I read it. I thought, this is great, and some day I'd like to add a little something to technical analysis. Years later, I ended up writing my own book, *Secrets for Profiting in Bull and Bear Markets*, in which I took off from the good principles of Edwards and Magee. I added a few things of my own. Edwards and Magee didn't have moving averages, for instance. I also simplified some things. In fact, it was my purpose to really make it easy to read, because Edwards and Magee are terrific but very difficult to read.

◈ Are there things you learned only after you started applying technical analysis to real markets, things you never saw in the literature?

I've read so many books. I don't honestly know. I've been doing technical analysis now for well over forty years, and for many things you forget whether you developed them yourself or borrowed from someone. The more relevant question is this: What are the things that I think are important to bring to the market—not that I never saw them written anywhere. Certain truisms go way back into the '30s and are still relevant today. For example, a part of good technique is to always cut your losses quickly. A lot of the books—not just on technical analysis but on the stock market—talk only about the things that look so easy, but they don't talk about things that go awry. In my book I have a chapter about the mistakes I've made and the things they taught me about making money in the market, and that's one of the things I'm proud of.

The truth is, only liars are right 100 percent of the time. My book separates a real winner in the stock market from people who are going to be so-so. It's very important to learn how to take losses. Even if you're right only 50 percent of the time, though I think you can do much better than that, you can make a lot of money in the stock market by letting your good stocks run, by letting the trend work for you. You can certainly be right at least 70 percent of the time. If you make good money on a winning stock, and if you take small losses when you lose, it can become a very profitable endeavor. If you have a false breakout, it's very important to get out immediately, especially if you're trading. That's one of the tips I never saw written anywhere, but I've written about it. Let's say a stock XYZ breaks out above 20. If it closes at 20.5 or 21, that's usually going to work, that's a good thing. But if XYZ broke out and went to, say, 20.5 today, but closed at 19.5 tonight, I get a bad feeling. From a trading point of view, I think it's going to be a loser. The really, really good trades are going to be clean. They're going to break out and close above the resistance level and stay above it. That's one of the key factors to consider in deciding whether or not you're dealing with a false breakout. If it's a false breakout, take a quick small loss. It's better to take the first little loss than a big loss. Volume is the second key factor—this has been written about by others as well as by me. If you have two stocks and both look good, and one breaks out but the volume is only so-so, I would say that that stock doesn't have as high a probability of working as the stock that breaks out on significantly higher volume. The really good breakouts are usually accompanied by a volume level that is triple the normal average volume.

Which mistake taught you the most?

All the mistakes I've made over the years—and I've made many—become like a total gestalt. It all comes together and it's slowly added to my discipline. It's a slow-building process. When I first started trading as a stockbroker, if a position didn't work, I would stay with it longer and wish and hope. I soon learned that it's better to quickly take a loss on a position that isn't working, and to stay with the ones that are working. Also, in the early years, I would look at charts more in a vacuum and not pay as much attention to the market sectors.

All of these things helped me develop my system, which I call my "forest-to-the-trees" approach. I look at the big things first. If the market is very bearish, the way it was in say 2002, even a good stock has less likelihood of working (even though some of them will). Obviously, you're going to bet less of your capital when the major trend is against you than when the trend is with you. That's an important thing to learn. You start with the forest, which is the big thing, the market, and work your way down. I also look to see which are the best sectors. You want to focus on the most positive sectors because they have a greater likelihood of working. At the same time, other groups are often negative and should be avoided even if the overall market is bullish. In my forest-to-the-trees approach, if I'm going to buy, I want to buy in the best sector, and when I want to short, I want to short in the worst sectors.

How is your style of technical analysis distinct?

It's a very simple system to understand, very straightforward: basic charting and chart configuration. I look for patterns, such as a head-and-shoulders top or a double bottom. I also pay a lot of attention to moving averages. Moving averages are a key part of my system, which is one of the things that is not in Edwards and Magee's book. I use three major moving averages: first, a 200-day moving average, which is what most people use; second, a 150-day moving average, because I've found it usually gives you a head start by thirty-plus days over the 200-day one. And if you move above or below the 150, the probabilities are very strong that eventually you'll break above or below the 200. Third is the 50-day moving average, which is more for trading.

If I have a position I like very much, but it starts to roll over and break its 50-day moving average, I definitely do some "trimming" of the position. I am robotic and never violate my discipline. I never say, "This is a special case that I can ignore because I like the company." If a stock is in a long-term uptrend, and it's rising above the 50-, 150-, and 200-day moving averages, it would make for an excellent position, but as soon as it breaks and closes below the 50-day moving average, I trim it. Then I'll see what happens thereafter. I always try to move incrementally, in the stock market and in life. A lot of people will stay bullish until it breaks the 200-day moving average, and they give away a terrific amount of the profits. I like to move step by step by step. I don't think the market changes overnight. If the stock is terrific and we are riding it up, and it starts to make a little head-and-shoulders top, and it also breaks its 50-day moving average, I'll sell a third of the position. And then if it has a normal correction and holds above the long-term moving averages, I'll buy it again when the correction is over. Conversely, if it starts to go down further—let's say it breaks the 150-day moving average—I would sell another third, and when it closes below the 200-day moving average, then I am gone.

Is technical analysis more effective when practiced individually or in teams?

In my experience, it's better to practice as a single practitioner, rather than in a team. But that's just my philosophy. If I have a strong feeling, I don't care about what anyone else says; I'm going to go with my feeling. I don't want to start factoring in somebody else's opinion. It won't work for me. But that doesn't mean that somebody else, who has a different type of personality, wouldn't perhaps be better in a team environment.

How do you deal with the problem of the tradeoff between early signal detection and sensitivity to random noise?

That's becoming tougher, especially in this environment. In the old days, I used to have many more mutual fund clients; now more and more of my clients are hedge fund managers, and they do create a lot of "random noise." You can see their activity all over the tape! You can separate out the noise by following the big pictures on the chart. You have to separate the short-term and the long-term action. For example, yesterday's market may have been terrific, yet today it's suddenly down. In such a situation it helps to have a bit of an overview, to follow the big picture and to say that as long as my big "goal lines" are not violated, as long as I am comfortably above the 50-, 150-, 200-day moving averages, and as long as no serious violations have taken place in terms of patterns, I am okay. The long-term picture still looks fine. I think that's the way to factor out the random noise. As long as the big patterns are okay, and haven't done anything bad, and haven't broken levels that shouldn't be violated, even trading-wise, and you are still above all your moving averages, then the sell-off isn't serious. That's the best we can do to deal with the increasing volatility. But there is no doubt that in the past few years the volatility has become ridiculous. It's a fact of life that we have to live with, as hedge funds become a bigger and bigger part of the market and they move a lot of money in a hurry.

Is technical analysis more effective when used on its own or when combined with fundamental analysis?

I am not antifundamental, but I think there are cases where technical analysis can be more effective when used on its own, especially in selling. It's easier to know where to buy than to know where to sell. On the sell side, technical analysis should be used by itself and not in conjunction with fundamental analysis at all. The market is supposed to be a discounting mechanism, and by the time the bad shows up in the fundamentals, it's too late; you've already topped. I do see the relevance of adding in maybe 20 percent of fundamentals with 80 percent of technicals on the buy side. Even though I personally trade 100 percent off of the chart, if a chart of stock A and a chart of stock B look about equal, but company A has a terrific new concept or new product, I'd choose stock A. I think that you're better off with something you can put your hands on. I'll still do the chart, but on the buy side—unlike on the sell side—if I can see something that makes sense and can get a fundamental edge, that's great. But all things being equal, if you do have a great chart and terrible fundamentals, I would still go with the chart. I'll be advising mutual funds, hedge funds, and they'll follow up with these terrific fundamental stories. And I'll look at the charts and say that these are awful charts; there is no way on God's earth that I'll buy that.

How much of your technical analysis is intuitive?

When I was on the seminar circuit, I used to hold all these classes where I would teach people and they would "get it." So it's certainly at least 85 percent mechanical. I think there is probably about a 15 percent intuitive factor. I get a little bit more of a tingle so to speak than somebody else.

What drives your innovative process?

I think it's the desire to be great. I kid around and call myself the Michael Jordan of technicians. I like to think that I'm one of the best. I think that's what drives me. At this point in life—I'm sixty-two—it's certainly not the dollars, but the desire to excel and the gratification I get from it, knowing that I am going against the best minds and the best computers on the Street. When you win and come out ahead, it's a great feeling. When I hear somebody pontificate about the random walk, saying there is nothing to technical analysis, I just laugh to myself. In fact, that's part of my growth process. When I was young, in my twenties, I wanted everyone to believe in the technical method. I've come to realize that it's really good we have so many people out there who don't believe in technical analysis. If we all did the same game, and we all see the stock is terrible, to whom are we going to sell the stock tomorrow? Years ago, everyone used to use *Barron's* confidence index, and it became widely followed; it became terrible after a while. It takes a certain kind of person to accept technical analysis. Large groups of people keep bringing out fundamental recommendations, regardless of the fact that they have been wrong so many times. Just the opposite is the case with technical analysis: most people, if they don't make it right away, if they lose money trying one or two trades, say, "Ah, I knew there was nothing to this."

Let's face it. Technical analysis doesn't make sense to people, especially to some of the academic types. It doesn't validate what they're taught. Some of these MBAs are really annoyed when I'm right and they're wrong. It bothers them because they've done all these theses, and they think, "How can a person just look at a crummy chart and have a higher batting average than somebody who's done all this work?"

◈ To what extent do you share your inventions with others?

I shared totally with the rest of the world. I developed my eleven o'clock indicator years ago, where I just took the net change from eleven to twelve o'clock. Then I saw that other people were saying in their market letters that it was their indicator. I developed the last hour indicator, and I've seen other people using it. I also developed my most-active-stocks indicator, where I took the net change of the fifteen most active stocks today and started running moving totals on it. And I developed my stage analysis—everybody at least gives me credit for this one—which says that any stock can be categorized into one of the four stages: stage one is the base, two is the advancing phase, three is the distributional top, four is the decline phase.

I always share. When I used to do the *Professional Tape Reader,* when I was doing the writing, I always felt like I was trying to talk to the readers as if they were in my living room. That's how I wrote my book, too. I asked myself, "What would they want to know, and what do I want to tell them?" A lot of times, systems are so confusing. I can't understand them, so I figure they're trying to confuse people. I believe that if you keep it simple, it works just fine. I don't do the *Professional Tape Reader* anymore; I now advise institutions with my Global Trend Alert service. Among my clients, there are hedge funds and some mutual funds, and some of them are very sharp, and they know their technicals well. But there are also some fundamentalists who want to hear what Weinstein has to say, not because they believe in technical analysis, but because they've heard that I have a high batting average.

Why do you share your inventions with others rather than keeping the edge just for yourself?

If you and I are on the same page, I can be of more value to you, rather than if you just take it and say, "Okay, Stan said sell, so I'm going to sell." I think I can make you a better client of mine by showing you the world as I see it. In fact, one of my largest institutional clients today was a strict, 100 percent fundamentalist when he started with me thirteen to fourteen years ago. He just wondered about technical analysis. He said he'd heard I had a pretty good record. Many years later, my wife was laughing because he was now sending us an e-mail, saying let me know where to put my stops, where will it break down, etc. Before then, he didn't even know what stops or breakouts were. The more I can get you to see why I'm saying what I'm saying, the more value added I can be and the more you'll feel comfortable with my advice. For me, it's also very gratifying. All of us at some point—hopefully not for a long time—have to move on to the next world, and we have a legacy. I still get thank you letters from people who used to be *Tape Reader* subscribers. One said reading my book changed his life. He has retired, and he's been so successful. That makes me feel good. We are only here awhile, and we try to make the world a little better place; we try to help a couple of people and leave something positive for the world.

◈ Is your confidence in the ability of technical analysis to forecast future price moves strong enough to relieve you of stress?

Absolutely, but anybody who is in the market and says he or she has no stress is either a liar or a freak. We all have stress in the market, but I think technical analysis lowers the level of stress, even if something is going wrong. This is very unlike fundamental analysis, where, unless you found out the product doesn't work, you have nothing to hang your hat on when the sales are going bad. I have all these guidelines: Up to this point, it's a normal pullback, and I am okay with it. Now it's starting to violate what I thought was a normal correction, and I'm going to take some of that position off. Now it's gotten terrible, and it's breaking my long-term moving averages. I'm out of here! So technical analysis makes me feel that I am somewhat in control.

◈ Did you always have the balance in your life, or did you have to work at it?

No, I did not. I had to really work at it. I have to thank my wife, Rita, big time. She has definitely helped keep balance. And I also think that you mellow as you go through life. Life is a journey, and if you get anything from the journey, you start to learn. When I was starting out, at twenty years old, we wanted to set the world on fire, and all we were thinking about was making trillions of dollars. I don't think I had a balance there, although I always did have the family values. But as you go through life, you see bad things happen to some friends, and you start to realize what's really important in life. For me, it's all about my wife and my kids: I have a terrific family. Just seeing the good and the bad that can happen, you start to realize what's really important in life. We've had some terrific things going on here, and we've had some hard times. When you put it all together, that's what the journey teaches you, if you're open.

That openness, I like to think, is one of my strengths. It's one of the things that made me very good at technical analysis. I am always ready to be wrong and grow. I'm the same way in life; I've made my mistakes and I've grown. I always try to come down in the middle. The same thing in the market: I try to move incrementally. Some people are bullish on Monday, and on Tuesday they're bearish. To me, that's ridiculous. If you follow the market properly, it's a slow, evolving process. And life should be the same, an evolving thing. We need to learn from our mistakes. The market will test every strength and weakness you have. If you're open to learning what your strengths and weaknesses are, you'll grow, and that's what the journey should be about.