

# The Performance of Our Secondary Trend Indicator (a.k.a Technical Indicator Index)

By Robert McHugh, Ph.D.  
March 10th, 2012

Our Market Analysis service specializes in presenting several Indicators designed to find investable trends that last anywhere from several days to several weeks, and on occasion, several months. Our goal is to identify rising and falling trends that occur within the larger Primary Trend. One of our best trend-finder indicators is our Secondary Trend Indicator (a.k.a. Technical Indicator Index). Our **Platinum Trading Service** uses this and several other indicators which we have found are excellent at identifying tradable trends, and make excellent filters to keep us on the right side of high momentum trends, allowing traders to leverage the amount of trading capital at risk into strong returns.

Let us now focus on the performance of our Secondary Trend Indicator. The origin of this indicator is the name of our website, Technical Indicator Index. When we first started publishing our research and newsletters, back in 2003, we came up with a basket of indicators which we believed in combination would be a useful trend analysis tool, confirming whether or not current trends were significant, and identifying when new multi-week trends were beginning. It was a short-term/intermediate-term trend-finding indicator. We made modifications to which components deserved to be part of that Index and changed its name to our Secondary Trend Indicator in 2005. We have been presenting this indicator for seven years in our newsletters using the same component formula that entire time. The components have remained the same since 2005 because this indicator works. It is time this amazing indicator gets more attention.

**Our Secondary Trend Indicator is an independent indicator that can be used to identify the start of significant tradable trends.** The STI caught most of the significant trends over the past seven years. There were a few false signals, but they quickly reversed and caught the next significant trend.

**What is our Secondary Trend Indicator?** We have identified 8 statistics or indicators that we believe in combination are critical to the underlying strength or weakness of a market trend. Very simply, we assign a value of positive 1, negative 1, or zero to each of these 8 statistics/indicators every night. **We total the results and assign that day's summation to a running accumulation of every day's results.** Then we subtract from this accumulation a moving average of these summation figures and the difference is our Secondary Trend Indicator. We

report this every day in our newsletter to subscribers. For example, for Thursday, March 8th, our STI rose 8 points, close to the maximum move that is possible to occur on any given day. We subtracted that from Wednesday's accumulated summation and arrived at our Secondary Trend Indicator reading of positive + 25 as of Thursday night. STI readings above positive + 5 are buys and STI readings below negative -5 are sells. Simple.

The best time to enter is right after new signals are generated. Jumping in after these signals have been in place for a while has more risk because every trend has time limitations, and the more time that has passed, the more likely the trend is maturing.

This Secondary Trend Indicator should be a primary focus of investors and traders using our service.

Here are the results of our Secondary Trend Indicator over the past seven years in the chart that follows:

#### Secondary Trend Indicator Performance

Signal	Date of Signal	S&P 500 at time of Signal	Date Trend Ended (Furthest Move)	S&P 500 at end of trend	Price Move in Drection of Signal	Percent Move
Buy	10/12/2011	1207.25	2/29/2012	1378.04	170.79	14.15%
Sell	7/28/2011	1300.67	8/9/2011	1101.54	199.13	15.30%
Buy	3/18/2011	1279.2	5/2/2011	1370.58	90.91	7.11%
Sell	3/15/2011	1281.87	3/16/2011	1249.05	32.82	2.56%
Buy	12/16/2010	1242.87	2/18/2011	1344.07	101.2	8.14%
Buy	12/2/2010	1221.53	12/14/2010	1241.59	20.06	1.64%
Sell	11/12/2010	1199.21	11/16/2010	1178.34	20.87	1.74%
Buy	9/1/2010	1080.29	11/5/2010	1225.85	145.56	13.47%
Sell	8/19/2010	1075.63	8/26/2010	1047.22	28.41	2.64%
Buy	7/22/2010	1093.7	8/9/2010	1127.79	34.09	3.12%
Sell	6/16/2010	1114.61	7/2/2010	1022.58	92.03	8.26%
Sell	5/18/2010	1120.8	6/7/2010	1050.47	70.33	6.27%
Buy	11/3/2009	1045.41	4/23/2010	1217.28	171.87	16.44%
Buy	12/26/2008	872.8	10/19/2009	1097.91	225.11	25.79%
Sell	10/2/2008	1114.28	11/20/2008	752.44	361.84	32.47%
Sell	6/17/2008	1350.93	7/15/2008	1214.91	136.02	10.07%
Buy	4/24/2008	1388.82	5/19/2008	1426.63	37.81	2.72%
Sell	3/6/2008	1304.34	3/7/2008	1273.37	30.97	2.37%
Buy	2/11/2008	1339.13	2/26/2008	1381.29	42.16	3.15%
Sell	12/13/2007	1488.41	1/22/2008	1310.5	177.91	11.95%
Sell	11/2/2007	1509.65	11/26/2007	1407.22	102.43	6.79%
Buy	8/21/2007	1447.12	10/9/2007	1565.15	118.03	8.16%
Sell	7/18/2007	1546.17	8/15/2007	1406.7	139.47	9.02%

Buy	6/27/2007	1506.34	7/13/2007	1552.5	46.16	3.06%
Buy	6/13/2007	1515.67	6/15/2007	1532.91	17.24	1.14%
Buy	3/8/2007	1401.89	6/4/2007	1539.18	137.29	9.79%
Buy	8/16/2006	1295.43	2/20/2007	1459.68	164.25	12.68%
Sell	5/10/2006	1322.85	7/17/2006	1234.49	88.36	6.68%
Buy	3/10/2006	1281.58	4/5/2006	1311.56	29.98	2.34%
Buy	12/21/2005	1262.79	2/27/2006	1294.12	31.33	2.48%

The chart shows the initial date of a new signal, either buy or sell, in our Secondary Trend Indicator, then measures the price move in the S&P 500 in the direction of that signal to the date the trend ended. **You can see this indicator found a ton of tradable S&P 500 price movements, significant trends over the past seven years.** There were occasions when a false signal was generated (which are not included in this chart but occurred between ending and beginning trend dates shown), but in those instances, that signal was quickly reversed. But once a meaningful trend started, this indicator was on board very soon thereafter and rode it most of the way.

**The Secondary Trend Indicator is a momentum indicator, just like our key trend-finder indicators (the Purchasing Power Indicator, 30 Day Stochastic, and 14 Day Stochastic) and Demand Power / Supply Pressure Indicators are. We believe strongly that momentum rules markets, thus traders and market timing investors should include momentum indicators in their transaction decision-making process.** Momentum catches the powerful mass psychological mood of market participants as well as the unexpected deep pockets intervention that can seem to move markets in bizarre ways and come out of nowhere. Because the STI is a momentum indicator, it will remain on the same signal for a short period of time (usually a few days) after a trend had ended and a new trend is starting. That is because it simply needs the time to gauge when momentum has turned in a powerful way in the opposite direction, versus the possibility that a trend-turn is weak, is a fake-out, and not deserving of a signal change.

In a perfect world, exits come at the furthest point of a trend's move, however that is very difficult to pinpoint most of the time. Exiting is in the eye of the beholder, dependent upon risk appetite, experience, and financial position. Some traders/market-timers exit based upon achievement of a targeted profit level. Others raise stops, hope they do not get stopped out (usually do, more often than not when least desired on a whiplash move) until greater profits are realized, while others ride an indicator until it changes its signal. The problem with the last approach, riding an indicator, is you can lose all your profits if the market turns faster than the signal does. So, if the decision is to ride an indicator and exit on a signal change, that indicator needs to be highly sensitive to a developing trend change. In our experience, most indicators flunk that test. However, based upon the results of the past five years, interestingly, the STI has done a fairly good job of providing a ride'em cowboy exit signal. We are not recommending any particular exit strategy, as again, that is up to the trader/market-timer and their

financial advisor. But we did want you to have information on this STI for you to consider in your transaction decision-making.

**If this is all too much for you, we consider the performance of the Secondary Trend Indicator in our Platinum Trading Service, available at [www.technicalindicatorindex.com](http://www.technicalindicatorindex.com) .**

We recommend that you visit our Glossary button at the left of the home page, as well as our other Guest Articles, especially the article *Understanding Our Primary Trend Indicator*, which is a major component of our “key trend-finder” indicator, dated October 21<sup>st</sup>, 2006 as well as the article *Demand Power and Supply Pressure Buy and Sell Signals*, dated April 22<sup>nd</sup>, 2007.

**Available now, McHugh’s exclusive Platinum Trading Service at [www.technicalindicatorindex.com](http://www.technicalindicatorindex.com)**

Robert McHugh Ph.D. is President and CEO of Main Line Investors, Inc., a registered investment advisor in the Commonwealth of Pennsylvania, and can be reached at [www.technicalindicatorindex.com](http://www.technicalindicatorindex.com). The statements, opinions, buy and sell signals, and analyses presented in this newsletter are provided as a general information and education service only. Opinions, estimates, buy and sell signals, and probabilities expressed herein constitute the judgment of the author as of the date indicated and are subject to change without notice. Nothing contained in this newsletter is intended to be, nor shall it be construed as, investment advice, nor is it to be relied upon in making any investment or other decision. Prior to making any investment decision, you are advised to consult with your broker, investment advisor or other appropriate tax or financial professional to determine the suitability of any investment. Neither Main Line Investors, Inc. nor Robert D. McHugh, Jr., Ph.D. Editor shall be responsible or have any liability for investment decisions based upon, or the results obtained from, the information provided. Copyright 2012, Main Line Investors, Inc. All Rights Reserved.

