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**FINANCIAL MARKETS FORECAST & ANALYSIS**  
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**Past Performance of McHugh's Stochastic and Purchasing Power Buy/Sell Signals  
for the Dow Industrials/S&P500, NASDAQ 100, and the HUI**

*November 25th, 2005  
by Robert McHugh, Ph.D.*

*We have developed buy/sell signals with remarkable correlation to stock market price movements.* Serious Traders, Investors, Advisors and Market Students should find these buy/sell signals invaluable.

*This report will address the following:*

- 1. Theory behind the Signals, and how they work*
- 2. Raw Performance Data*
- 3. Analysis of Performance Data*
- 4. Possible Investment Strategies (for educational purposes only, not as trading advice)*

***The Theory:***

We have two independent indicators for each of three major equity market indices: The large cap DJIA/S&P 500, the NASDAQ 100 (which mirrors the QQQs), and the HUI Amex Gold Bugs stocks.

The first indicator is a ***Stochastic*** that measures price and breadth momentum. When a Fast measure of this Stochastic crosses above a Slow measure of same, we get a momentum “buy” signal. When the Fast crosses decisively below the Slow, we get a “sell” signal.

The second indicator is a confirming ***Purchasing Power Indicator™***. This proprietary indicator **measures the “power” behind a stock market move**. It considers price, but also other factors that are building blocks of supply and demand. This is an amazing tool that generates “buy” signals when the power behind a move is so strong as to suggest that the probability of a multi-week or significant multi-day rally is very high.

It generates a “sell” signal when it identifies when the power behind a move is strong enough to result in a multi-week, or significant multi-day sell-off.

Signals occur whenever momentum is confirmed to have changed direction and a multi-week move is likely.

***Because the Purchasing Power Indicator™ requires confirmation of the trend change, it is not going to hit the tops and bottoms on the nose. But its value is in identifying multi-week trends soon after the turns.*** Thus if we get a “buy” signal, we may have missed the first portion of the rally, however it is telling us there is enough purchasing momentum to expect prices to rise for a while. Same on the reverse. We may not get a signal at a top, but a sell signal will be generated once there is enough downside momentum to conclude that a multi-week, or sharp, sell-off is coming. Thus, jumping on board late with this signal can produce a better trend than guessing or using other technical analysis tools. It makes for a nice complimentary signal indicator to the shorter-term, more volatile stochastic signal.

Another benefit of the ***Purchasing Power Indicator™ (a.k.a. PPI)*** signal is that if the market decides to take a bizarre twist, ***this indicator is smart enough to pick up the changes quickly before too much damage can be done.***

There’s no guessing with these signals: they are cut and dried indicators, objective. ***Opinions, judgments, emotion*** (a huge obstruction to successful trading), ***and investor bias is stripped away.*** Correlation has been nothing short of remarkable.

Here’s how we like to apply these signals: When both the Stochastic and Purchasing Power Indicators issue new “buy” signals, we like to take a long position in the expectation of a rally. When both generate new “sell” signals, we like to go short, or step out of the market and wait for “buy” signals to reappear, anticipating a correction lower (this is not trading advice, but an example of how we use these signals. These and other strategies will be discussed later).

Unique to ***these indicators, they have done an amazing job identifying prolonged “sideways” moves in the market.*** The probability of a “sideways” move occurs when one indicator is on a “buy” and the other is on a “sell.” ***We are not aware of any other market analysis service out there that identifies high probability “sideways” moves.*** This information is critical for options traders as options lose value during lengthy sideways moves. In the options buying world, Bears win, Bulls win, and Sideways lose.

We developed these signals because since 1999, this has not been a buy and hold stock market, not with the S&P 500 still down 19 percent, the Dow Industrials still down 8 percent, and the NASDAQ Composite still down 55 percent -- over the past six years. No, it is a timing stock market, a trader’s market, and that looks to be our future. ***In this stock market environment, to make money, good buy/sell signals are critical.*** We even

developed these signals to incorporate market manipulative activities, such as from the Plunge Protection Team, because their occasional buying shows up in both momentum and in demand that is picked up by our indicators ( M-3 is not a component, so the Fed hiding M-3 will not affect our signals).

***The Raw Performance Data:***

**Dow Industrials/S&P 500 Key Indicator Signals and Performance**

Signal Date	<u>14 Day Stochastic Key Signal Indicator</u>						Calendar Days	Each Signal's (Not Cum) Annualized % Return
	14 Day Stochastic Signal	DJIA Close At Signal	Furthest Extent of Move	Date Reached Furthest Extent	DJIA \$ Move After Signal	DJIA % Move After Signal	Time Took Until Next Signal	
2/18/2004	Sell	10671.99	10092	3/15/2004	579.99	5.43%	28	70.8%
3/17/2004	Buy	10300.3	10570.81	4/6/2004	270.51	2.63%	27	35.5%
4/13/2004	Sell	10381.28	9852.15	5/12/2004	529.13	5.10%	38	49.0%
5/21/2004	Buy	9966.74	10432.81	6/8/2004	466.07	4.68%	24	71.1%
6/14/2004	Sell	10334.73	10162.18	7/12/2004	172.55	1.67%	28	21.8%
7/12/2004	Buy	10238.22	10286.89	7/14/2004	48.67	0.48%	24	7.2%
8/5/2004	Sell	9963.03	9793.05	8/6/2004	169.98	1.71%	6	103.8%
8/11/2004	Buy	9938.32	10390.64	9/8/2004	452.32	4.55%	35	47.5%
9/15/2004	Sell	10231.36	9971.91	9/28/2004	259.45	2.54%	16	57.8%
10/1/2004	Buy	10192.65	10270.37	10/4/2004	77.72	0.76%	16	17.4%
10/8/2004	Sell	10055.2	9708.398	10/25/2004	346.802	3.45%	18	69.9%
10/26/2004	Buy	9888.48	10602.85	11/17/2004	714.37	7.22%	24	109.9%
11/19/2004	Sell	10456.91	10417.08	11/29/2004	39.83	0.38%	12	11.6%
12/1/2004	Buy	10590.22	10868.07	12/27/2004	277.85	2.62%	30	31.9%
12/31/2004	Sell	10783.01	10368.61	1/24/2005	414.4	3.84%	25	56.1%
1/25/2005	Buy	10461.56	10744.51	2/8/2005	282.95	2.70%	15	65.8%
2/9/2005	Sell	10664.11	10396.24	3/29/2005	267.87	2.51%	49	18.7%
3/30/2005	Buy	10540.93	10568.93	4/1/2005	28	0.27%	14	6.9%
4/13/2005	Sell	10403.93	10000.46	4/20/2005	403.47	3.88%	8	176.9%
4/21/2005	Buy	10218.59	10405.77	5/5/2005	187.18	1.83%	19	35.2%
5/10/2005	Sell	10281.11	10075.55	5/13/2005	205.56	2.00%	6	121.6%
5/16/2005	Buy	10252.29	10560.81	5/23/2005	308.52	3.01%	15	73.2%
5/31/2005	Sell	10467.48	10430.97	6/6/2005	36.51	0.35%	17	7.5%
6/17/2005	Buy	10623.07	10646.24	6/22/2005	23.17	0.22%	6	13.3%
6/23/2005	Sell	10421.44	10175.4	7/7/2005	246.04	2.36%	15	57.4%
7/8/2005	Buy	10449.14	10700.06	7/21/2005	250.92	2.40%	13	67.4%
7/21/2005	Sell	10627.77	10349.37	8/29/2005	278.4	2.62%	41	23.3%
8/31/2005	Buy	10481.6	10701.81	9/12/2005	220.21	2.10%	13	59.0%
9/13/2005	Sell	10597.44	10350.96	9/22/2005	246.48	2.33%	16	53.1%

9/29/2005	Buy	10552.78	10608.56	10/3/2005	55.78	0.53%	5	38.6%
10/4/2005	Sell	10441.11	10156.46	10/13/2005	284.65	2.73%	30	33.2%
11/3/2005	Buy	10522.59	10741.99	11/15/2005	219.4	2.09%	12	63.4%
11/15/2005	Sell	10686.44	10652.27	11/16/2005	34.17	0.32%	3	38.9%

### Dow Industrials/S&P 500 Key Indicator Signals and Performance

Signal Date	SPX PPI Signal	S&P 500 Close At Signal	S&P 500 Furthest Extent of Move	Date Reached Furthest Extent	Purchasing Power Indicator Signals		Calendar Days Time Move Took Until Next Signal	Each Signal's Annualized % Return
					S&P 500 \$ Move After Signal	S&P 500 % Move After Signal		
2/4/2005	Buy	1203.03	1212.44	2/16/2005	9.41	0.78%	18	15.9%
2/22/2005	Sell	1184.16	1184.16	2/23/2005	0	0.00%	3	0.0%
2/25/2005	Buy	1211.37	1229.11	3/7/2005	17.74	1.46%	19	28.1%
3/16/2005	Sell	1188.07	1163.69	3/29/2005	24.38	2.05%	22	34.0%
4/7/2005	Buy	1191.14	1191.75	4/8/2005	0.61	0.05%	7	2.7%
4/14/2005	Sell	1162.05	1136.15	4/20/2005	25.9	2.23%	7	116.2%
4/21/2005	Buy	1159.95	1219.59	6/22/2005	59.64	5.14%	64	29.3%
6/24/2005	Sell	1191.57	1183.55	7/7/2005	8.02	0.67%	17	14.5%
7/11/2005	Buy	1219.44	1245.86	8/3/2005	26.42	2.17%	36	22.0%
8/16/2005	Sell	1219.34	1201.07	8/30/2005	18.27	1.50%	21	26.0%
9/6/2005	Buy	1233.4	1243.13	9/9/2005	9.73	0.79%	15	19.2%
9/21/2005	Sell	1210.2	1168.2	10/13/2005	42	3.47%	41	30.9%
10/31/2005	Buy	1207.01	1270.64	11/23/2005	63.63	5.27%	23	83.6%

*The above two charts present the performance of our two key trend-finder indicators for the Blue Chip stock indices.* Signals are generated after the close of business when all data is computed. Dates signals are given are presented in the farthest left column. The closing price of the stock index is the starting point to measure performance, and is the third column from the left. We measure performance to the furthest extent of the move intraday in order to capture the fullest opportunity these signals provide. In life, the hardest thing to come by for most people is opportunity. These signals give opportunity as measured above. Exit strategies are up to the investor and the investor's advisor. ***When to exit a trade is dependent upon many factors,***

*including an investor's risk appetite, an investor's goals and objectives, an investor's financial position and future needs, age, an investor's trading strategies including preference for playing stop losses, etc...*

The price move of the trend after the signal was generated is shown after the date the move reached its furthest point, and the percentage move that the cash market achieved is shown next. Then we present the number of days between signals, and finally the annualized return from each move (which is not a cumulative figure).

*Below we present the performance of the NASDAQ 100 key trend-finder indicators.*

### **NASDAQ 100 Key Indicator Signals' Performance**

Signal Date	<u>14 Day Stochastic Key Signal Indicator</u>						Calendar	(Not Cumulative) Each Signal's Annualized % Return
	14 Day Stochastic Signal	NDX Close At Signal	Furthest Extent of Move	Date Reached Furthest Extent	NDX \$ Move After Signal	NDX % Move After Signal	Days Time Move Took Until Next Signal	
3/1/2005	Buy	1527.25	1552.53	3/7/2005	25.28	1.66%	10	60.4%
3/11/2005	Sell	1505.64	1458.26	3/29/2005	47.38	3.15%	19	60.5%
3/30/2005	Buy	1491.74	1503.21	4/8/2005	11.47	0.77%	15	18.7%
4/13/2005	Sell	1461.68	1394.36	4/29/2005	67.32	4.61%	20	84.1%
5/3/2005	Buy	1427.61	1568.96	6/2/2005	141.35	9.90%	31	116.6%
6/3/2005	Sell	1544.48	1484.18	7/7/2005	60.3	3.90%	35	40.7%
7/8/2005	Buy	1533.27	1610.84	7/21/2005	77.57	5.06%	13	142.0%
7/21/2005	Sell	1601.89	1550.76	8/29/2005	51.13	3.19%	39	29.9%
8/29/2005	Buy	1571.52	1619.12	9/13/2005	47.6	3.03%	16	69.1%
9/14/2005	Sell	1589.63	1551.81	9/22/2005	37.82	2.38%	15	57.9%
9/29/2005	Buy	1589.93	1617.77	10/4/2005	27.84	1.75%	6	106.5%
10/5/2005	Sell	1571.52	1515.42	10/13/2005	56.1	3.57%	14	93.1%
10/19/2005	Buy	1569.61	1593.47	10/26/2005	23.86	1.52%	8	69.4%
10/27/2005	Sell	1543.38	1538.78	10/28/2005	4.6	0.30%	22	4.9%
*11/2/2005	Buy	1597.29	1704.42	11/23/2005	107.13	6.70%	21	116.5%

\* Note: There was a rare “tie” in this indicator on November 2<sup>nd</sup>, which if interpreted as a “buy” signal, would have generated the results noted on the last line above, but if interpreted as a “sell,” would have generated the results on the line just above the last line.

**NASDAQ 100 Key Indicator Signals' Performance**

Signal Date	<u>Purchasing Power Indicator</u>						Calendar Days Time Move Took Until Next Signal	Each Signal's Annualized % Return
	NDX	NDX	NDX	Date	NDX	NDX		
	PPI Signal	Close At Signal	Furthest of Move	Reached Furthest Extent	\$ Move After Signal	% Move After Signal		
2/11/2005	Buy	1530.51	1561.17	2/15/2005	30.66	2.00%	6	121.9%
2/17/2005	Sell	1519.29	1489.99	2/23/2005	29.3	1.93%	7	100.6%
2/24/2005	Buy	1517.71	1552.53	3/7/2005	34.82	2.29%	15	55.8%
3/11/2005	Sell	1505.64	1458.26	3/29/2005	47.38	3.15%	19	60.5%
3/30/2005	Buy	1491.74	1503.21	4/8/2005	11.47	0.77%	14	20.0%
4/13/2005	Sell	1461.68	1404.86	4/20/2005	56.82	3.89%	8	177.4%
4/21/2005	Buy	1447.37	1438.72	4/22/2005	-8.65	-0.60%	1	-218.1%
4/22/2005	Sell	1421.21	1394.36	4/29/2005	26.85	1.89%	12	57.5%
5/4/2005	Buy	1452.2	1568.96	6/2/2005	116.76	8.04%	30	97.8%
6/3/2005	Sell	1544.48	1484.18	7/7/2005	60.3	3.90%	35	40.7%
7/8/2005	Buy	1533.27	1628.57	8/2/2005	95.3	6.22%	28	81.0%
8/5/2005	Sell	1601.59	1550.76	8/29/2005	50.83	3.17%	26	44.6%
8/31/2005	Buy	1581.71	1619.12	9/13/2005	37.41	2.37%	14	61.7%
9/14/2005	Sell	1589.63	1551.81	9/22/2005	37.82	2.38%	15	57.9%
9/29/2005	Buy	1589.93	1617.77	10/4/2005	27.84	1.75%	6	106.5%
10/5/2005	Sell	1571.52	1515.42	10/13/2005	56.1	3.57%	14	93.1%
10/19/2005	Buy	1569.61	1593.47	10/26/2005	23.86	1.52%	8	69.4%
10/27/2005	Sell	1543.38	1538.78	10/28/2005	4.6	0.30%	4	27.2%
10/31/2005	Buy	1579.18	1704.42	11/23/2005	125.24	7.93%	23	125.8%

*On the next page we present the 30 Day Stochastic and Purchasing Power Indicators for the HUI Amex Gold Bugs Index.*

**HUI Key Indicator Signals'**  
**Performance**

							Calendar	
							Days	
							Time	
							Move	Each
							Took	Signal's
							Until	Annualized
							Next	% Return
Signal	30 Day	HUI	Furthest	Date	HUI	HUI		
Date	Stochastic	Close	Extent	Reached	\$	%	Signal	
	Signal	At	of Move	Furthest	After	After	Signal	
		Signal		Extent	Signal	Signal		
3/25/2004	Buy	230.58	240.81	4/1/2004	10.23	4.44%	18	90.0%
4/12/2004	Sell	227.53	163.81	5/10/2004	63.72	28.01%	39	262.1%
5/21/2004	Buy	190.95	203.45	5/27/2004	12.5	6.55%	19	125.8%
6/9/2004	Sell	183.18	175.99	6/14/2004	7.19	3.93%	15	95.5%
6/24/2004	Buy	193.88	197.4	6/28/2005	3.52	1.82%	5	132.5%
6/29/2004	Sell	185.36	185.07	6/30/2004	0.29	0.16%	8	7.1%
7/7/2004	Buy	197.34	201.59	7/12/2004	4.25	2.15%	12	65.5%
7/19/2004	Sell	190.36	171.91	7/27/2004	18.45	9.69%	14	252.7%
8/2/2004	Buy	186.31	237.49	10/11/2004	51.18	27.47%	77	130.2%
10/18/2004	Sell	221.36	200.3	1/6/2005	21.06	9.51%	95	36.6%
1/21/2005	Buy	209.9	227.18	3/9/2005	17.28	8.23%	59	50.9%
3/21/2005	Sell	210.94	165.71	5/16/2005	45.23	21.44%	64	122.3%
5/24/2005	Buy	181.35	205.46	6/30/2005	24.11	13.29%	42	115.5%
7/5/2005	Sell	196.63	191.62	7/19/2005	5.01	2.55%	29	32.1%
8/3/2005	Buy	210.32	219.34	8/16/2005	9.02	4.29%	21	74.5%
8/24/2005	Sell	200.2	198.78	8/30/2005	1.42	0.71%	8	32.4%
9/1/2005	Buy	213.43	250.33	9/30/2005	36.9	17.29%	42	150.2%
10/5/2005	Sell	229.78	214.3	10/20/2005	15.48	6.74%	28	87.8%
11/2/2005	Buy	229.04	255.03	11/22/2005	25.99	11.34%	21	197.2%

*The HUI Purchasing Power Indicator TM performance appears on the next page.*

**HUI Key Indicator Signals'  
Performance**

Signal Date	<b><u>Purchasing Power Indicator</u></b>						Calendar Days Time Move	Each Signal's Annualized % Return
	HUI PPI Signal	HUI Close At Signal	Furthest Extent of Move	Date Reached Furthest Extent	HUI \$ Move After Signal	HUI % Move After Signal	Took Until Next Signal	
2/10/2005	Buy	204	227.18	3/9/2005	23.18	11.36%	39	106.3%
3/21/2005	Sell	210.94	179.97	4/15/2005	30.97	14.68%	29	184.8%
4/19/2005	Buy	193.77	196.59	4/20/2005	2.82	1.46%	7	75.9%
4/26/2005	Sell	184.77	165.71	5/16/2005	19.06	10.32%	22	171.1%
5/18/2005	Buy	174.22	205.46	6/30/2005	31.24	17.93%	48	136.4%
7/5/2005	Sell	196.63	191.62	7/19/2005	5.01	2.55%	16	58.1%
7/21/2005	Buy	201.28	212.3	8/4/2005	11.02	5.47%	18	111.0%
8/8/2005	Sell	203	200.98	8/9/2005	2.02	1.00%	3	121.1%
8/11/2005	Buy	217.85	219.34	8/16/2005	1.49	0.68%	13	19.2%
8/24/2005	Sell	200.16	198.78	8/30/2005	1.38	0.69%	8	31.5%
9/1/2005	Buy	213.43	250.33	9/30/2005	36.9	17.29%	34	185.6%
10/5/2005	Sell	229.78	229.78	10/6/2005	0	0.00%	2	0.0%
10/7/2005	Buy	243.08	245.78	10/10/2005	2.7	1.11%	6	67.6%
10/13/2005	Sell	230.59	214.3	10/20/2005	16.29	7.06%	11	234.4%
10/24/2005	Buy	225.91	255.03	11/22/2005	29.12	12.89%	30	156.8%

*The last signal listed for each schedule is still in progress, so results shown above are interim. All data is shown. These are all- inclusive results. No failed signals were held back from inclusion herein.*

***Analysis of Performance Data:***

The cumulative gains from the ***Dow Industrials 14 Day Stochastic*** Signals from February 2004 through November 2005 (21 months) came to 81.29 percent. During that same period, the Dow Industrials rose 0.88 percent. ***Thus, our signals bettered a buy and hold strategy in the Dow Industrials by 80.41 percent.*** The cumulative annualized returns from our DJIA 14 Day Stochastic signals during this same period came to 1,714.8 percent.

In looking at the *S&P 500/DJIA Purchasing Power Indicator performance* during the period from February 2005 through November 2005 (9 months), we find that the cumulative cash market gains from this signal came to 23.84 percent. During that same period of time, the S&P 500 rose 3.87 percent. **Thus, our signals bettered a buy and hold strategy in the S&P 500 by 19.98 percent over 3/4 of one year.** The cumulative annualized returns from our S&P 500/DJIA Purchasing Power Indicator during this same period came to 410.32 percent.

The cumulative gains from the *NASDAQ 100 14 Day Stochastic* Signals from March 2005 through November 2005 (8.5 months) came to 44.78 percent. During that same period, the NASDAQ 100 rose 9.99 percent. **Thus, our signals bettered a buy and hold strategy in the NASDAQ 100 by 34.79 percent over 2/3 of one year.** The cumulative annualized returns from our NASDAQ 100 14 Day Stochastic signals during this same period came to 953.72 percent.

In looking at the *NASDAQ 100 Purchasing Power Indicator™ performance* during the period from February 2005 through November 2005 (9 months), we find that the cumulative cash market gains from this signal came to 55.62 percent. During that same period of time, the NASDAQ 100 rose 9.76 percent. **Thus, our signals bettered a buy and hold strategy in the NASDAQ 100 by 45.87 percent over 3/4 of one year.** The cumulative annualized returns from our NASDAQ 100 Purchasing Power Indicator during this same period came to 1,198.95 percent.

The cumulative gains from the *HUI Amex Gold Bugs 30 Day Stochastic* Signals from March 2004 through November 2005 (20 months) came to 176.49 percent. During that same period, the HUI rose 7.51 percent. **Thus, our signals bettered a buy and hold strategy in the HUI by 168.98 percent.** The cumulative annualized returns from our HUI 14 Day Stochastic signals during this same period came to 1,994.44 percent.

In looking at the *HUI Purchasing Power Indicator™ performance* during the period from February 2005 through November 2005 (9 months), we find that the cumulative cash market gains from this signal came to 101.34 percent. During that same period of time, the HUI rose 21.52 percent. **Thus, our signals bettered a buy and hold strategy in the HUI by 79.82 percent over 3/4 of one year.** The cumulative annualized returns from our HUI Purchasing Power Indicator during this same period came to 1,614.00 percent.

One point to make here is that these returns were generated during a period of low volatility. Greater volatility, characterized by deeper declines and steeper ascensions would generate even more impressive cash market return opportunities.

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***Possible Investment Strategies (for educational purposes only, not as trading advice):***

Investors have the option of using these signals for either cash market transactions, or leveraged derivative transactions such as the use of index stock options, or futures. ***In the case of index stock options trades, there is the potential for returns of 30 percent or more given a 2 percent cash market trend.*** Adept options traders thus have the opportunity to realize even better returns than noted above.

Before getting into different strategies, let's point out some risks. There are no guarantees with these signals. Even if they work 9 times in a row, there is always the possibility that on the tenth time, a bizarre twist will occur in the markets, from either manipulation or some news event, etc... ***What this means is, no matter how confident we are in these signals, normal prudent investment procedures should be followed, such as using stop losses, or only investing what you can afford to lose, or only investing a small percentage of your portfolio if trading in risky options.*** The signals are designed to recognize the bizarre twist fairly quickly, however losses on occasion can result. This is why it is critical that you use an investment advisor if you are inexperienced as a trader.

These are trend-finder indicators. They are designed to overlook mild whipsawing and keep the focus on multi-session trends, in other words, ***they are designed to ignore minor whipsaw noise. However, some times price and internal market condition whipsaws become loud, and can trigger frequent signal changes over a short period of time.*** That rare, but to-be-expected-on-occasion, price action will get the best of these signals during those periods of time. For example, if markets are primed to decline, and the indicators are on sell signals, but the PPT comes in aggressively, they can initiate enough of a rally to induce shorts to have to buy the market hard and drive it up. If the rally is sufficiently powerful – and often PPT induced short-covering rallies are, it might be enough to change the signal.. However, if true demand from Hedge Funds and the general public does not follow through, and the PPT takes a few days off, we can experience a sharp reversal as selling resumes a day or two later which changes the signal back. Then if the PPT steps in again and pushes prices back up, another signal change can occur a few days later. You get the idea. But at some point, the Hedge Funds take over and a nice trend develops. These signals are designed to find that trend. We recently saw this type of action in late October 2005.

***The Purchasing Power Indicator is designed to avoid whipsaws (false trend signal generation) a little better than the Stochastic indicator is.*** Changes in this PPI signal require a minimum 6 point move from the previous high (to generate a “sell”) or from the previous low (to generate a new “buy”).

***These signals identify entry points, not exit points.*** Because they are designed to kick in after a trend has developed, and are meaningful in telling us whether a trend turn has the potential to last a while based upon momentum and supply/demand power, they trigger after some of the move has taken place. What this means is, if you hold a profitable position until the next signal is triggered, you may lose some of your paper profits as the next signal likely won't trigger until 10 to 20 percent of the next move in the opposite direction has already occurred. ***So you want to set a strategy for exit that fits your risk appetite and financial goals and objective – again under the help of an investment advisor familiar with your unique circumstances.***

Because there is no guarantee of how long or how far a trend will go that the signals have identified, it may not pay to enter a position several days after the signals are generated. ***It may be a better strategy to enter (or act, if getting out of the market) as soon after the signals are generated as possible.***

***For example, one approach that conservative investors/traders might select is to only play the cash market, and only be in the market when the signals are on “buys.”*** This might involve buying an index ETF such as the DIA's that represent the Dow Industrials or the QQQs that represent the NASDAQ 100 when “buy” signals are generated. That conservative strategy does not have to deal with the loss potential risk factor of time decay that options are subject to. ***Such a conservative strategy might place rising stop losses the higher the ETF goes in value.*** Or, such a strategy might decide that a 2 percent rise in the index is the objective for that trade and once it is reached, the long position is liquidated and profits are taken, at which point the investor sits on the sidelines and waits for the next “buy” signal, continuing to sit out of the market while the rest of the rally plays out, as well as while the next “sell” signal and downtrend run their course. ***A slightly more aggressive variation to this conservative strategy might involve adding to positions if the market looks like it is getting some legs on the upside, as evidenced by an ongoing increase in the Purchasing Power Indicator readings, adding long positions every additional six points or more in the index.***

Playing the long side and only the cash markets during “buy” signal periods also avoids the risk of getting burned by market manipulative actions of the Plunge Protection Team.

***Another approach by a conservative investor may be to stay long in the market all the time with a portfolio of stocks that have been carefully selected, however when “sell” signals are generated, sell off weaker performing issues – stocks that did not participate in the last rally – a sign of weakness.*** That raises cash that can be redeployed into newly selected stocks of choice once the next “buy” signal is generated (helping you not only maintain a portfolio of better performing stocks, but also helping you to buy low when adding new positions).

A more aggressive investment strategy might possibly include following only one of our two key trend-finder indicators, such as the Purchasing Power Indicator TM

signals exclusive of the Stochastics, or vice versa, in order to try and get in on a trend earlier, during a “sideways” period. However there is less assurance of a sustainable trend until both indicators are in agreement. The downside risk here is you may be taking a position when our signals are suggesting be on the sidelines as both indicators are in disagreement with one another, and the expected trend never develops, resulting in losses.

***Speculative strategies might include taking a portion of your portfolio, an amount equal to or less than you are willing to lose, and buying call options when both key trend-finder indicators change to “buys.”*** There is time decay risk here, so if you find the trend change suddenly in whipsaw fashion, you could lose a substantial portion of your investment. The upside is, if the expected trend develops, you could find the options rise in value by a far greater percentage than a cash market investment would produce. ***For example, in the cash market, a 200 point rally in the Dow Industrials after our indicators generated “buys” could equate to a 30 percent or higher return on a short-term call options trade.*** Playing only calls instead of puts reduces the added risk of having the Plunge Protection Team manipulate what looks like an attractive profitable put option set up into an out-of-the-blue rally that wipes out the put option’s value, causing the put option to expire worthless. Remember, the Plunge Protection Team is now more interested in protecting Wall Street robber-barron put options writers than they are protecting mainstream American investors and traders, a result of the recent political migration from compassionate conservatism to corporatist fascism.

***If you are a high flying gambler, you can buy both put and call options on an ETF at various times, and time your entry off these signals, using the appropriate strike price, and expiration term suitable for your risk appetite, experience, and investment advisor’s skillful guidance, with the understanding most options expire worthless.*** That means if using this aggressive strategy, you might want to consider having a profit objective in mind and exiting as soon as you have reached that objective. Skillful options traders will exit options trades that take too long to generate the objective profit, accepting either a smaller profit or even a small loss if the expected trend is slow in developing. If your profit objective normally gets reached in 70 percent of signaled moves, that means you are very likely going to hold an option too long 30 percent of the time and lose money 30 percent of the time. Your profit the other 70 percent of the trades will have to be greater than your losses that 30 percent of the time for your trade target profit objective to make sense. The old adage, Bears win, Bulls win, and pigs lose seems to have been written for options trading. ***Cash market trading has the advantage of allowing the investor/trader to be more patient for the expected trend to take off.***

There are plenty of other exit strategies such as watching overbought and oversold readings for evidence of a tiring trend move, or leaning on complimentary technical analysis tools that warn of a coming reversal (one early warning tool is the 10 day average advance/decline line diverging with price, which we present often in our newsletters, but we don’t always see divergences before each trend turn. When we get them, it is a bonus).

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***“God our Savior desires all men to be saved and to come to the knowledge of the truth. For there is one God, and one mediator also between God and men, the man Christ Jesus, who gave Himself as a ransom for all, the testimony borne at the proper time.”***

### ***1 Timothy 2: 3-6***

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