

Making Everything Easier!™

# Market Timing

FOR

# DUMMIES®

## Learn to:

- Make money in bull and bear markets
- Apply timing methods to your investment strategy
- Accurately predict market trends
- Use fundamental and technical analysis tools
- Increase your investment returns

**Joe Duarte, MD**

*President of River Willow Capital Management*



# Market Timing For Dummies®

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**Joe Duarte, MD**



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## About the Author

**Dr. Joe Duarte** ([www.joe-duarte.com](http://www.joe-duarte.com)) is best known for his candid, no-nonsense, and prescient expert commentary on the financial and commodity markets, such as his on-the-money call on CNBC, June 4, 2008, when he correctly noted that oil had made a top and that a fall below \$110 would take prices to \$100 or less. By September 2008, oil had broken below \$100. He is a widely read analyst and writer and an active trader. His daily Market IQ column is read by thousands of investors, market timers, and professional traders around the world.

Dr. Duarte is the author of *Futures & Options For Dummies*, *Trading Futures For Dummies*, *Successful Biotech Investing*, and *Successful Energy Sector Investing*.

His combined expertise in health care, energy, and the effects of politics and global intelligence on the financial markets offers a unique blend of insight and information to thousands of active investors and political and intelligence aficionados around the world on a daily basis.



Dr. Duarte's Market Moves column is syndicated to a global audience through FinancialWire, a leading independent syndicate of financial information. He is also a featured columnist on the popular investor Web site Stockhouse.com.

Dr. Duarte is a frequent guest on CNBC and is an original CNBC Market Maven. He is a regular guest on the *Financial Sense Newshour with Jim Puplava* radio show, where he comments on the energy markets and geopolitics.

Dr. Duarte has been writing about the financial markets since 1990. His articles and commentary have been featured on Marketwatch.com and in *Barron's*, *Smart Money*, *Medical Economics*, and *Technical Analysis of Stocks and Commodities* magazines. He has been quoted in the Associated Press, CNN.com, *The Wall Street Journal*, *Smart Money Magazine*, and *Investor's Business Daily*.

In 2003, Dr. Duarte received second place in the professional section of the Medical Economics Investment Challenge with a 12-month return of 42 percent.

Dr. Duarte published the critically acclaimed market-timing newsletter "The Wall Street Detective" from 1990-1998, when it became an exclusively electronic publication. It later was converted to Joe-Duarte.com. His daily market commentary "Joe Knows" appeared on Financialweb.com from 1998-2000. Dr. Duarte served as senior columnist for Investorlinks.com from 1998-2001. He is a registered investment advisor and president of River Willow Capital Management.

He lives in Dallas, Texas, plays a Gibson ES-135, and loves his vintage Völkl tennis racket.

# Dedication

To family, friends, and market timers around the universe.

## Author's Acknowledgments

Writing a book is a unique, lonely, and personal experience, and very few but the author, the editor(s), and those who share the space-time continuum with them can understand this. During this one, I had my share of ups and downs as well as rewards. So I can't complain. Still, I couldn't have done it without the usual gang that helps me on a daily basis. So here's a big thanks to:

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As always coffee, tea, vitamins, sports drinks, nutrition bars, and the game of tennis also help.

Special thanks to those who read my books, subscribe to my Web site and have kept this thing going for 18 years. Who'd've thunk it?

And also to two longtime friends, John and Greg, whose interactions with me always prove to be worthwhile and interesting, to say the least.

My patients who so graciously come back the next day even if I've had to run out of the office in a hurry to be on CNBC.

If I've forgotten to mention anyone, it wasn't intentional. I'm not as young as I used to be.

## **Publisher's Acknowledgments**

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# Introduction

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When I started trading, I had no idea that I was a market timer. The whole concept that you could actually maximize your gains and avoid major losses by managing your portfolio was foreign to me, given the fact that Wall Street's buy-and-hold mantra is the first thing that anyone ever hears about. But after nearly 20 years in the business, every time there's a bear market or a market crash, I'm glad that I took it upon myself to learn the craft.

Martin Zweig, a legendary money manager from the 1980s, changed the way I looked at investing when he promoted his book *Winning on Wall Street* (Grand Central Publishing) in the early days of financial television. The phrases "don't fight the Fed" and "don't fight market momentum" were so intriguing that I bought the book and became a market timer.

With this book, I hope to humbly contribute to opening more readers' eyes to a new reality — that of being able to avoid catastrophic losses and to maximize stock market gains by actively managing their portfolios.

## About This Book

Market timing is the most essential aspect of all trading and investing endeavors. If you think about it, timing is the key to success in many things you do. Try to hit a tennis ball without timing your stroke. Or try to run a yellow light before that camera goes off behind you without timing.

So why is it that if you're talking about getting married or buying a house, people say that "timing is everything," but when you talk about market timing, people roll their eyes and tell you that it's impossible? In fact, market timing isn't just possible; it's central to successful trading because whenever you mistime an entry or an exit to any trading or investing position, you run the risk of reducing your profits or losing money outright.

Indeed, because market timing is so misunderstood and maligned, it's still an area of trading that few people practice — openly, anyway. Its shady reputation gives the successful timer an advantage over the financial planner, the retail broker, their unsuspecting clients, and their buy-and-hold strategy. As others hold on to falling stocks through bear markets and see their assets dwindle, you'll be able to make money or preserve more of your bull market gains by applying the market timing techniques in this book.

Am I guaranteeing you gains? Of course not; you don't get guarantees on anything in life. You wouldn't stay on a sinking ship in the middle of a hurricane, yet millions of investors decide to ride out massive bear markets and stock market corrections, pinning their hopes and their retirements on that old adage "the long-term trend is up."

Being different could make you money if you consider market timing a viable alternative to the old Wall Street "buy and hold" swindle. If you have any doubts about considering market timing, remember that Wall Street has also given us things like portfolio insurance, the savings and loan crisis, the Internet bubble, and most recently the subprime mortgage crisis. Each of these little gifts from the guys who tell you that holding stocks for the long term is the only way to fly has also led to major bear

markets where investors have lost billions by holding on to their investments too long.

Sure, the market came back. But in many if not all cases, the best that most buy-and-hold investors got was all their money back. Those who sold early in the start of the down trend had more money to invest when the market turned up. Better, those who sold the market short actually made money when the market fell. And because of new products, such as exchange-traded mutual funds (ETFs), short selling is as easy as buying shares of stock through your online broker with one click of the mouse.

This book is about staying with the overall market trend. It's about knowing when to get in and out of your trading or investment positions with enough time to preserve more of your hard-earned money. Accomplish that, and when things turn around, you can start in a better place than someone who rode the bear market all the way down to the bottom and is only likely to get her money back — if she's lucky enough and has enough time.

## **Conventions Used in This Book**

To assist your navigation of this book, I've established the following conventions:

I use *italic* for emphasis and to highlight new words or terms that I define.

I use monofont for Web addresses.



Sidebars, which are shaded boxes of text, consist of information that's interesting but not necessarily critical to your understanding of the topic.

If the book seems to be a little heavy on jargon, it's because there is no other way of saying what I'm trying to say. Believe me, this book was heavily edited, and carefully combed through in order to make it as accessible as possible to you.

## **Foolish Assumptions**

In order to write this book, I had to make assumptions about who you might be. Market timing isn't rocket science, but it's not for preschoolers, either, and I have done my level best to walk the line between basic and technical information that gives readers what they need to go forth and confidently time the markets. As I did that, I assumed that you

Know something about trading and have some experience. (I'm actually hoping that you have more than a little experience; this topic is difficult for beginning investors and may be a fairly risky practice for those with little savvy.)

Don't mind working hard and spending time analyzing the markets on a regular — even daily — basis in order to be successful.

Will set time aside on a regular basis to develop your trading skills, and will run your trading as a business, keeping accurate records of your trades, both winning and losing, and reviewing them on regular basis.

Are well financed enough to be able to take some risks with your money without impairing your long-term finances or your family's well being.

Are interested in trading with the prevailing trend of the stock market but not quite interested in day trading.

Are tired of missing opportunities and waiting too long to take profits and so would like to improve your ability to enter and exit markets.

Would like to expand your trading beyond the stock market but are more interested in trading commodities and futures through exchange-traded funds than in trading futures or options directly.

Want to be able to make money when the market enters a down trend but don't really want to go through the hassle of opening a margin account or a futures account.

Have or would like to develop the market analysis skills that enable you to be patient in order to recognize outstanding opportunities and don't mind some break-even, lose-a-little, or gain-a-little trades along the way.

Recognize that this is a global marketplace in which futures, stocks, bonds, and currencies influence each other and that you need to be well versed in the vagaries of international markets in order to maximize your profit potential.

Have access to top-of-the-line computing equipment, an online trading account, and a high-speed Internet connection, as well as the ability to check your trades when you're not in front of your trading station.

# How This Book Is Organized

To make this book easy to navigate, I've organized it into five parts. The following sections give you a quick rundown of what you find in each.

## **Part I: Stepping Into the World of Market Timing**

In this part, I ease you into the wide world of market timing, introducing you to its basic tenets and showing you the tools you use to time the markets. You find out about the principles that market timers use, and the charts they use to get the timing job done. Read this part to stock up on the raw materials of market timing.

## **Part II: Market Timing's Methods and Strategies**

Here you get into the meat of timing. I tell you how to prepare for and decipher the economic reports that matter. Believe it or not, timing in January can be different from timing in July, and in this part I introduce you to some of the seasonal and cyclical patterns you find in the markets.

Your primary directive as a timer is finding the prevailing trend in the markets and making trades according to that trend. But the market reacts not just to facts and realities

but to how traders, financial experts, and consumers feel about those trends, and I tell you about how to assess the sentiment as well as the trend.

## **Part III: Applying Timing to the Markets**

What happens when the all the timing principles I cover in Parts I and II come together in a trade? I kick off this part of the book by taking you through every step of my actions and thinking as I executed a real trade. Your mileage may vary, but glimpsing the way the parts come together gives you great insight into the planning and evaluation that are timing's hallmark.

The later chapters run through the various markets you might want to dip your toes into, from the stock market you probably already know and trade to the specifics of currency, commodity, and many more markets.

## **Part IV: Timing the Sectors**

Opportunities run through the stock market all the time; your job is to find them, and in this part I take you on a tour of some of the major divisions within the market. You find out about timing technology stocks, for example, as well as the energy, financial, and health care sectors. This part is one of my favorite sections of the book, as I get into the very specific characteristics of each of these very profitable sections of the stock market.

## **Part V: The Part of Tens**

In every For Dummies book, you find chapters that give you quick tips for the topic at hand, and right here is where you find them. In this part, I give you a rundown of many more than ten resources that I turn to most often as well as ten ways to keep your timing practice on track without losing your shirt or your sanity.

## Icons Used in This Book

I use icons to emphasize and reinforce information throughout the book. Here's a list of the icons you find and what you can expect from the text they highlight.



When I present a concept that is important for you to keep in mind as you read, I include this icon beside it. This icon directs you to bits that enable you put together key concepts.



Feel free to skip over information highlighted with this icon. I use it to point you toward information that goes deeper than you need. You might find these advanced tidbits interesting, but you can come away with a complete understanding of market timing without them.



A tip is something that you can use right away in your trading practice. Tips save you time or money and give you the benefit of my many years of trading experience.



This bomb icon reminds me of funny old cartoons and the Pink Panther movies, but its message is hugely important. I use this icon to identify practices or notions that could cause damage to you or your trading accounts.

## Where to Go from Here

In short: Anywhere you want. For Dummies books are written so that you can jump in at any point that interests you. Want to find out how presidential elections affect your investments? Head straight to Chapter 6. Interested in browsing the various market sectors? Part IV has what you want. If you're brand-new to market timing or just an overachiever, turn to Chapter 1 and don't stop reading until you get to the index.

I've been a market timer for 20-plus years and have found the concepts that I've put forth in this book quite useful. I hope that you do, too.