| Broad Market Analysis | by Fernando Gonzales (thank you to
Mike McMahon   both of them
                                          this is what was
                                          learned

"The market is always adjusting and evolving"

"Adaptation is Key" — "we must adapt to the motions of the market"

"Evolve along with the market trends"

"The trend is your friend"

BMA = Broad Market Analysis

Trends are in different shapes and sizes. ("The forest not the trees")

We must be able to distinguish one trend from another.

"place order in the chaos"   "Gain understanding of the market"

"Adapt to the current environment"

Day to Day traders can lose sight of the greater picture.

"The Forest, not just the trees" | Adaptation |

| 2 major classes of trends |: ① Trends in other time frames
                                ② Trends in related markets

preparing for changes in trends, which trend is acting on the market at the moment?

① | Trends in other time frames | — Be aware of larger trends to prepare for changes.

"All trends are part of a larger trend"

Larger trends will overwhelm smaller trends.

Entry of larger trends often produce changes of behavior in smaller time frames.

② | Trends in Related Markets | stocks are systemic in nature
                                  ex: food stocks (fast food vs. health food)

Indices will summarize trends and behaviors of most stocks they represent.

Trends in related Markets

"correlation"

In the stock market there is plenty of interelation across different financial instruments and measures.

Stocks within the same industry will share "similar trends and behaviors"

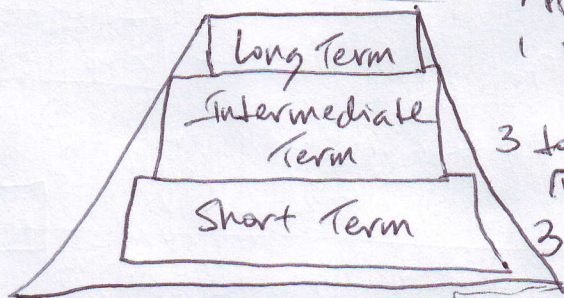However ✗ "Good news for one stock →
may be bad news for the other !

S and P 500

NASDAQ   DOW
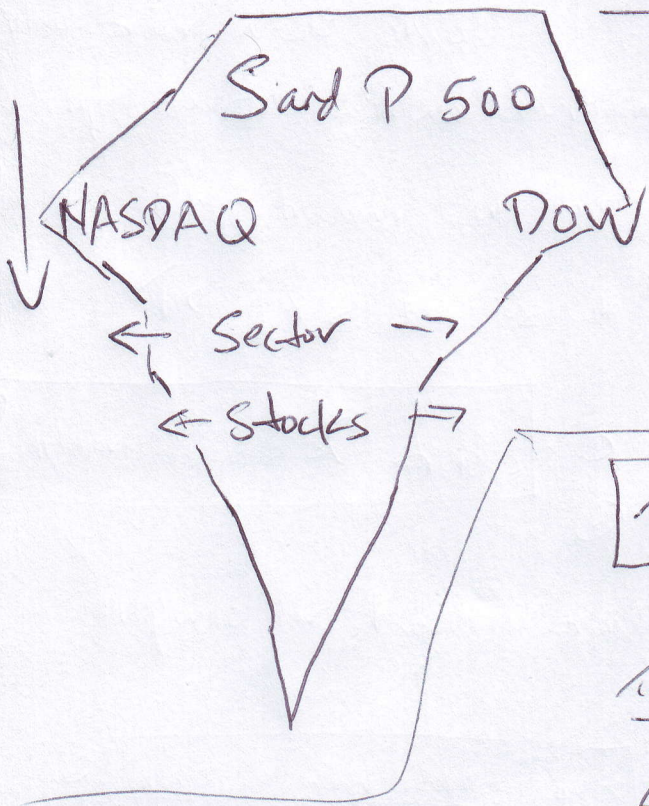
(Hierarchy)   Must understand all levels

← Sector →

← Stocks →

Trends in Other Time Frames

(3 categories)

Time Frame

Long Term	Approximate 1 year ←	(mutual funds, Institutional)
Intermediate Term	3 to 9 months ←	(mutual funds, Hedge Funds, Individual position Traders
Short Term	3 months or less	

Hedge funds
Active Individual Traders

Market Makers

Trends in Related Markets

("Hierarchy")

Diversified Index
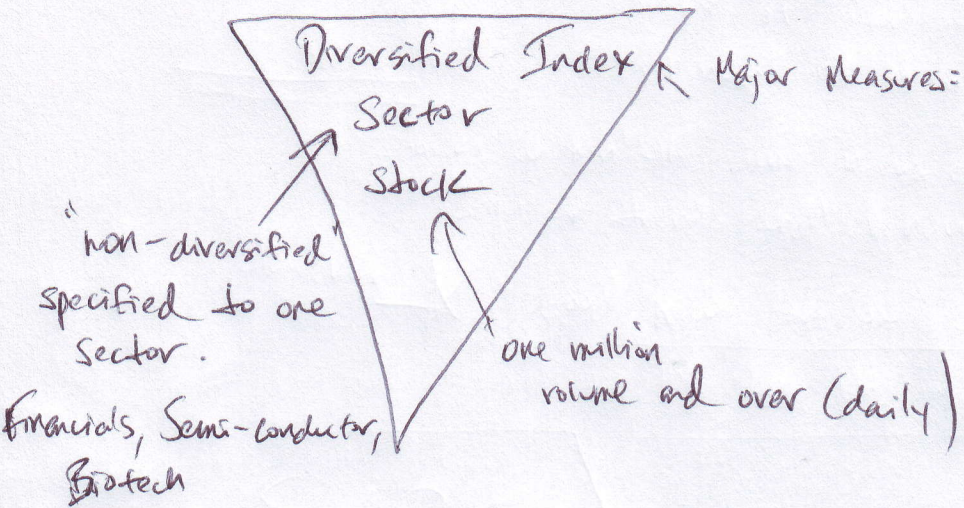
Sector

Stock

Major Measures: S and P 500
Dow, NASDAQ-100
NYSE - Composite
(Russell) Wilshire
1000   (2000)

"non-diversified"
specified to one
sector.

Financials, Semi-conductor,
Biotech

one million
volume and over (daily)

S and P
NASDAQ   DOW
sector
stock

Check interrelation between markets.

Some stocks take a different direction than the index!

"Timing" = turning points

Timing and direction is critical,
to the success of transactions!
(Entries and exits !)

Be aware of trends in
larger time frames!
(what are the indices
telling us)

Trends are summarized by the
indices!

Which group does a
particular stock fall under?

✳ S and P 500 is a highly efficient "barometer"
for the general condition of stocks.

For "equity", the S and P is the best gauge for trends.

Awareness of all levels of the ✸

✸ Hierarchy is necessary for all traders!
(regardless of trading style)

Analyzing the indices, " ... "broad base"

Analysis: cross referencing to related markets ✸
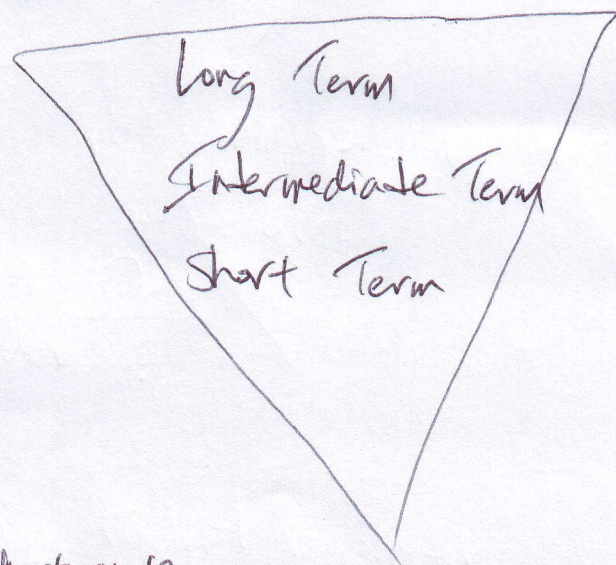consistent behavior vs. single stock/sector

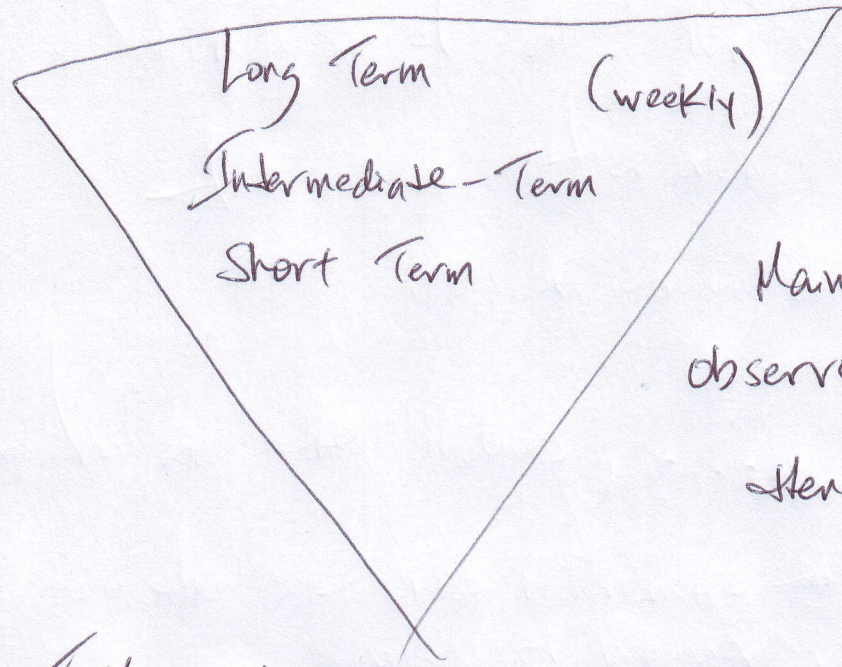Analyzing indices takes time.

Top/Down analysis

① Related Markets　② Time Frame

Diversified index　　　Long Term
Sector
Stock　　　　　　　Intermediate Term

　　　　　　　　　　Short Term

(maintain the
same time horizon) or chart scale.

observe speed and magnitude
of trends　　"turning points"

Top/ Down analysis

Long Term   (weekly)

Intermediate - Term

Short Term

Use weekly for long term

Maintain the same market.

observe similarities and differences.

then Daily ...

then 60 min ...

Minute   15 min ...

            5 min ...

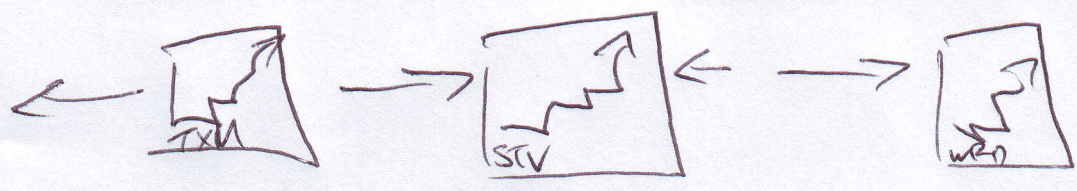   3 min ...

Take notes ...
it can take many days
for the patterns to play out.

"support and resistance"

Lateral Analysis

Maintain the same time horizon and scale.

Move side to side
to choose which
stock.

Study the technical condition . (notice strengths
                              and weaknesses)