eResearch

Third Party Research November 10, 2017

The Carlucci Indicator

***e*Research Corporation** is pleased to provide a weekly chart and table of The Carlucci Indicator, which is billed as the "Best Stock Market Indicator Ever". See below and next page.

The Carlucci Indicator can be used to determine whether an Investor should be "In the Market" (Positive Indication) or "Out of the Market" (Negative Indication).

The Indicator, itself, is a function of Two Requirements. The First Requirement consists of a single parameter, and the Second Requirement comprises three parameters, two of which must be confirming.

To be invested "In the Market" (a Positive Indication), BOTH of the Requirements individually must give a Positive Indication.

FIRST REQUIREMENT

To be Positive (invested "In the Market"), the percentage of stocks in the S&P 100 Index must be >65%.

Current Reading: 74.00%, which is a **Positive** Indication.

SECOND REQUIREMENT

To be Positive (invested "In the Market"), there must be 2 out of 3 positive confirming indications, those being RSI>50%, and MACD and Slow Stochastics being "positive".

Current Reading: only **one** of the three parameters is Positive, which is a **Negative** Indication.

CURRENT INDICATION

The Overall Score is ***Negative***: Investors should be ***Out of the Market***.

The Carlucci Indicator uses the stock chart (OEXA200R) for the S&P 100 that shows the % of stocks that are trading above their 200-day Moving Average.

The Carlucci Indicator, as derived from the chart OEXA200R, is a valuable metric used to assess the state of the market in order to make profitable trading decisions. That is, it can be used for assessing whether it is a bull market, a bear market, or transitioning from one to the other, as well as evaluating market volatility and risk within each of those situations.

Historically, it has given traders a clear early warning signal of impending serious market downturns and later safe re-entry points. While not intended as a day-trading tool per se, it can be used as background information by high frequency traders. The OEXA200R gives traders the ability to identify the most opportune conditions within which to execute their various long, short, or hold strategies.

WHEN TO SELL AND EXIT THE MARKET

Following a major market extended move upwards, the conditions for becoming Negative and, therefore, selling and exiting all positions, are when the following occur:

(1) **Daily** $OEXA200R falls to and remains below 65%;

And/Or two of the following three also occur:

(2) **Weekly** RSI falls to and remains below 50;
(3) **Weekly** MACD black line falls below the red line; and
(4) **Weekly** Slow STO (stochastics) black line falls below the red line.

Without the solid foundational support of two out of three Weekly secondary indicators it is unsafe to trade even if Daily OEXA200R edges above the 65% line.

The market is considered safely tradable as long as Daily OEXA200R remains above 65% and two Weekly secondary indicators remain positive. Volatility and risk for long traders are relatively low. The trend is on their side.

Conversely, when Daily OEXA200R drops to 65%, **and/or** two out of three Weekly secondary indicators turn negative, it is taken as the conservative signal to exit all long positions, even if Daily OEXA is above 65%. Volatility and risk increase substantially. In the past, this has often been a "tipping point" condition presaging a substantial market drop.

WHEN TO BUY AND RE-ENTER THE MARKET

Following a major market move downwards, the conditions for becoming Positive and re-entering the market are when the following occur:

- **Daily** $OEXA200R rises above 65% (i.e., % above 200-day Moving Average);

And two of the following three Indicators (definitions provided below) must also occur:

- **Weekly** RSI rises above 50;
- **Weekly** MACD black line rises above and stays above the red line; and
- **Weekly** Slow STO (stochastics) black line rises above and stays above the red line.

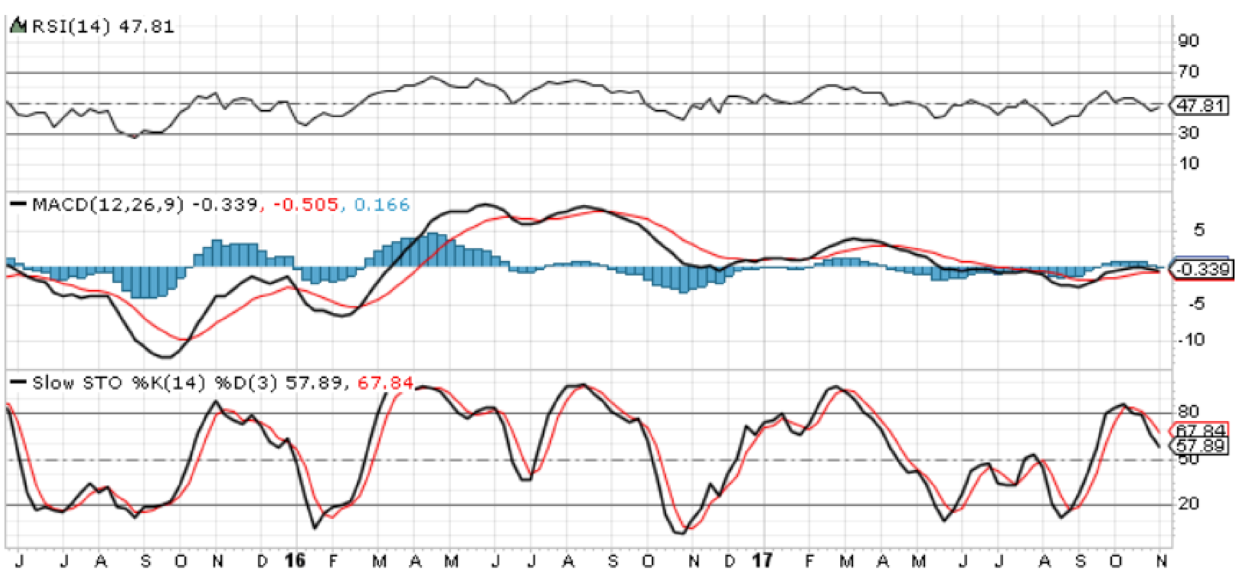
<continued>

The Carlucci Indicator (S&P 100): For the week ending November 10

CURRENT READINGS: The readings for the current week are shown on the following page.

First, the charts:

NOTE: The **Brown** line in the chart above is the demarcation line between **Positive** and **Negative** for the *MA*. Similarly, the **Dotted** line in the chart below marks the delineation between **Positive** and **Negative** for the *RSI*, and the **Black** line below the **Red** line for *MACD* and *Slow Stochastics* is **Negative**, and above is **Positive**.



The table showing the week's metrics is provided on the following page.

The Carlucci Indicator: November 10

S&P 100 - Negative: Be "Out of the Market"

	Required Reading for a Positive Market		November 10 Reading
Per Cent of Daily S&P 100 Above 200-Day Moving Average	>65%		74% Positive

Two of the following three indicators must be positive:

Weekly Relative Strength Index (RSI)	> 50.00		47.81 Negative
Weekly Moving Average Convergence Divergence (MACD)	Positive		Positive
Weekly Slow Stochastics (STO)	Positive		Negative
Requirement Score (to be "long")	2/3	Now	1/3

CONCLUSION: As at November 10, 2017, the % stocks above their 200-Day MA is 74.00%, above the required >65% benchmark. This is one of two conditions to be Positive. Additionally, at least 2 of the next 3 indicators must be positive in order for an investor to be "long" the market. Currently, there is only **one** that is Positive. So, with an overall **Negative** reading, investors should be **"out of the market"**.

READINGS FOR THE LAST TWO WEEKS

The Carlucci Indicator: November 10

S&P 100 - Negative: Be "Out of the Market"

	S&P 100 >65% Daily	RSI >50 Weekly	MACD B>R Weekly	Slow STO B>R Weekly		Need 2/3 Score
10-Nov-17	74.00	47.81	Positive	Negative	=>	1
9-Nov-17	73.00	46.48	Positive	Negative	=>	1
8-Nov-17	72.00	45.08	Positive	Negative	=>	1
7-Nov-17	71.00	43.93	Negative	Negative	=>	0
6-Nov-17	73.00	46.48	Positive	Negative	=>	1
3-Nov-17	72.00	45.08	Positive	Negative	=>	1
2-Nov-17	73.00	46.20	Positive	Negative	=>	1
1-Nov-17	73.00	46.20	Positive	Negative	=>	1
31-Oct-17	72.00	45.06	Positive	Negative	=>	1
30-Oct-17	73.00	46.20	Positive	Negative	=>	1

Remember, this is a long-term Indicator and it must be viewed solely within that context.

DEFINITIONS (condensed from Wikipedia):

RSI: The **relative strength index** is a technical indicator and is classified as a momentum oscillator, measuring the velocity and magnitude of directional price movements. Momentum is the rate of the rise or fall in price. The RSI computes momentum as the ratio of higher closes to lower closes. The RSI is most typically used on a 14-day time-frame, measured on a scale from 0 to 100, with high and low levels marked at 70 and 30, respectively.

MACD: The **moving average convergence/divergence** is a trading indicator that reveals changes in the strength, direction, momentum, and duration of a trend in a stock's price. The MACD indicator is a collection of three time series calculated from closing prices. These three series are: the MACD series proper, the "signal" or "average" series, and the "divergence" series, which is the difference between the two. The MACD series is the difference between a "fast" (short period) exponential moving average (EMA), and a "slow" (longer period) EMA of the price series. The average series is an EMA of the MACD series itself. The MACD indicator thus depends on three time parameters, namely the time constants of the three EMAs. These parameters are usually measured in days. The most commonly used values are 12, 26, and 9 days, that is, MACD (12,26,9).

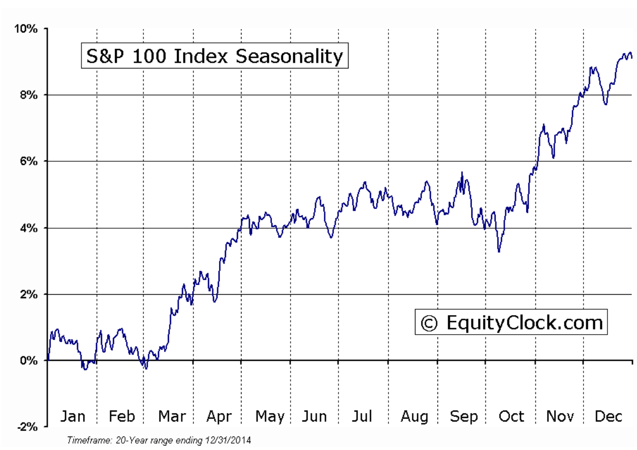
SLOW STOCHASTICS: The **stochastic oscillator** is a momentum indicator that uses support and resistance levels. The term stochastic refers to the point of a current price in relation to its price range over a period of time. This method attempts to predict price turning points by comparing the closing price of a stock to its price range. The calculation finds the range between a stock’s high and low price during a given period of time. The current stock’s price is then expressed as a percentage of this range with 0% indicating the bottom of the range and 100% indicating the upper limits of the range over the time period covered. The idea behind this indicator is that prices tend to close near the extremes of the recent range before turning points. The Slow Stochastic applies further smoothing to the stochastic oscillator to reduce volatility and improve signal accuracy; it is more stable and reliable than the Fast Stochastic.

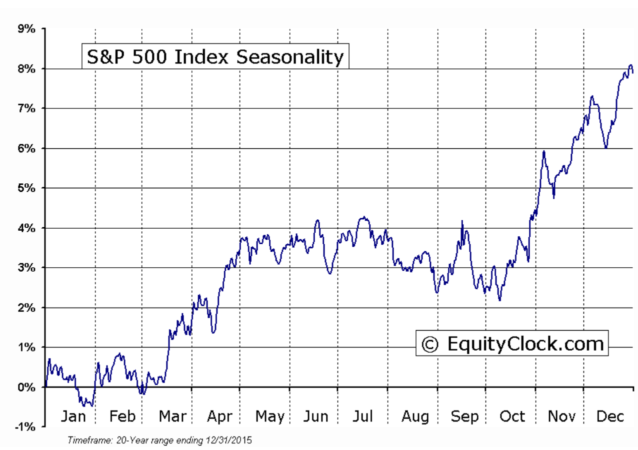
The Carlucci Indicator #2

For comparative purposes, we have adapted The Carlucci Indicator by using the same criteria but applying it to the S&P 500 Index, rather than the S&P 100 Index.

It will be interesting to observe whether the broader index moves in lock-step with its smaller-based brethren, or whether it has a “mind of its own”. (As we subsequently find out, it does indeed differ from its smaller “brother”.)

First, a look at the seasonality trends of each Index. The charts are courtesy of Equity Clock.





They look to move pretty much in unison, but there are slight differences.

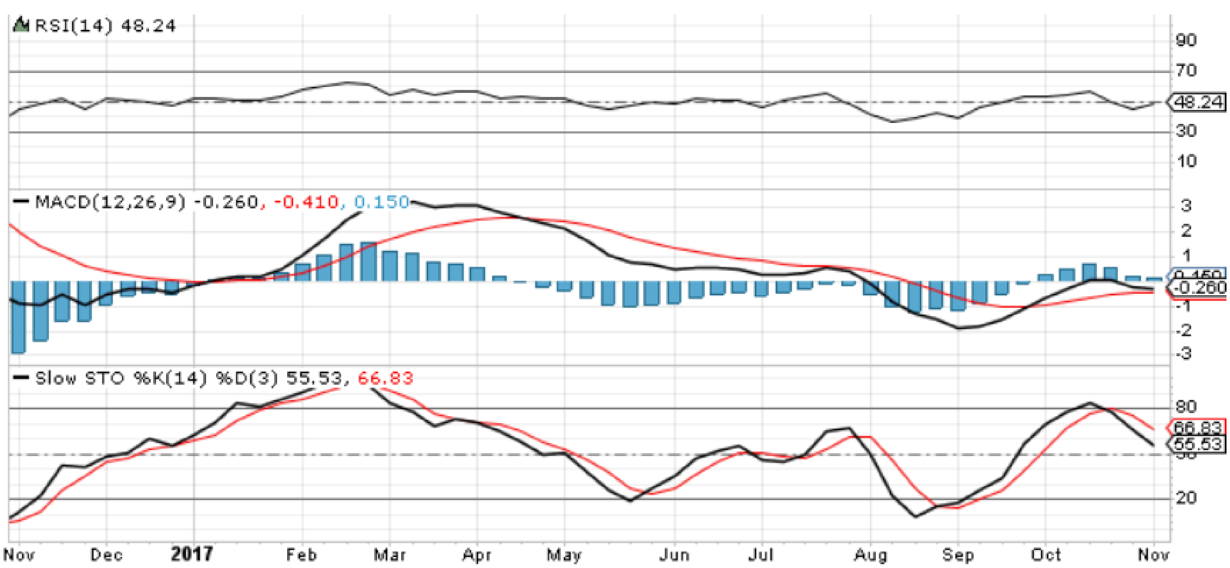
<continued>

The Carlucci Indicator (S&P 500): For the week ending November 10

CURRENT READINGS: The readings for the current week are shown on the following page.

First, the charts:

NOTE: The **Brown** line in the chart above is the demarcation line between **Positive** and **Negative** for the *MA*. Similarly, the **Dotted** line in the chart below marks the delineation between **Positive** and **Negative** for the *RSI*, and the **Black** line below the **Red** line for *MACD* and *Slow Stochastics* is **Negative**, and above is **Positive**.



The table showing the week's metrics is provided on the next page.

The Carlucci Indicator: November 10

S&P 500 - Negative: Be "Out of the Market"

	Required Reading for a Positive Market		November 10 Reading
Per Cent of Daily S&P 100 Above 200-Day Moving Average	>65%		70.60% Positive

Two of the following three indicators must be positive:

Weekly Relative Strength Index (RSI)	> 50.00		48.24 Negative
Weekly Moving Average Convergence Divergence (MACD)	Positive		Positive
Weekly Slow Stochastics (STO)	Positive		Negative
Requirement Score (to be "long")	2/3	Now	**1/3**

CONCLUSION: As at November 10, 2017, the % stocks above their 200-Day MA is 70.60%, above the required >65% benchmark. At least 2 of the next 3 indicators also must be positive for an investor to be “long” the market. Currently, only **one** is Positive. The overall **Negative** reading means investors should be **“out of the market”**.

READINGS FOR THE LAST TWO WEEKS

The Carlucci Indicator: November 10

S&P 500 - Negative: Be "Out of the Market"

	S&P 500 >65% Daily	RSI >50 Weekly	MACD B>R Weekly	Slow STO B>R Weekly		Need 2/3 Score
10-Nov-17	70.60	48.24	Positive	Negative	=>	1
9-Nov-17	71.20	49.17	Positive	Negative	=>	1
8-Nov-17	70.60	48.24	Positive	Negative	=>	1
7-Nov-17	69.60	46.63	Positive	Negative	=>	1
6-Nov-17	70.80	48.55	Positive	Negative	=>	1
3-Nov-17	69.00	45.61	Positive	Negative	=>	1
2-Nov-17	69.40	46.16	Positive	Negative	=>	1
1-Nov-17	69.20	45.88	Positive	Negative	=>	1
31-Oct-17	69.74	46.63	Positive	Negative	=>	1
30-Oct-17	71.20	48.78	Positive	Negative	=>	1

COMMENT: *The “original” Carlucci Indicator uses the S&P 100 Index, not the 500 Index, so caution here.*

Remember, this is a long-term Indicator and it must be viewed solely within that context.

See the *e*Research Disclosure on the next page.

*e*Research Disclosure

*e*Research Corporation was established in 2000 as Canada's first equity issuer-sponsored research organization. As a primary source for professional investment research, its Subscribers (subscription is free!!!) benefit by having written research on a variety of small- and mid-cap, under-covered companies.

*e*Research also provides unsponsored research reports on middle and larger-sized companies, using a combination of fundamental and technical analysis.

*e*Research complements its corporate research coverage with a diversified selection of informative, insightful, and thought-provoking research publications from a wide variety of investment professionals.

*e*Research provides its professional investment research and analysis directly to its extensive subscriber network of discerning investors, and electronically through its website: www.eResearch.ca.

*e*Research does not manage money or trade with the general public, provides full disclosure of all fee arrangements, and adheres to the strict application of its Best Practices Guidelines.

Bob Weir, CFA
Director of Research

#####