

*Chartered Market Technician, Educator, Speaker, Author,
And Technical Analyst Extraordinaire*

A Conversation With Louise Yamada

Louise Yamada, CMT, was the managing director of Louise Yamada Technical Research Advisors (LYA) for 15 years before retiring in December 2020. But she still contributes periodic reports on the market to her website. Her latest reports can be accessed at www.lyadvisors.com. She is still available for portfolio review consulting and educational events.

In 1980, she joined Smith Barney, working under the tutelage of Alan Shaw, CMT before taking over his position of managing director and head of technical research after he left the firm. She was a top performer in the Institutional Investor poll and its top-ranked market technician from 2001 through 2004. She received the CMT Association's lifetime achievement award in 2016.

At Smith Barney for 25 years, she authored many market analyses, forecasts, and reports on structural bull and bear markets, sector analysis, and interest rates, a number of which were notable special TRENDS reports featured in Barron's in 1995 and 1996 projecting major long-term structural trend shifts. Yamada penned Market Magic: Riding The Greatest Bull Market Of The Century, published by Wiley, in March 1998.

She is a Chartered Market Technician (CMT), a member of the American Association of Professional Technical Analysts (AAPTA), and for years, the Financial Women's Association. She has been a frequent guest on CNBC, Bloomberg, and other financial outlets, as well as a speaker at numerous symposia and podcasts. She graduated with a BA from Vassar College and an MS from Bank Street College of Education.

STOCKS & COMMODITIES Contributing Writer and ETF Columnist Leslie N. Masonson spoke with Louise Yamada on April 15, 2022 to discuss her distinguished technical analysis career and her approach to the subject.



After joining Smith Barney (Citigroup) in 1980 and working over 20 years with Alan Shaw, the managing director of the technical research department, how comfortable were you in taking over that title and function when he left in 2000?

Alan was a very good mentor, but, obviously, one is always a little nervous as to how one can follow such a

strong lead. But it didn't take as long as I might have thought.

It was an interesting period because in 2000 we were pretty convinced that the market was moving into a structural bear market. So I felt comfortable taking that message to clients and to the retail force.

You were a perennial frontrunner in the Institutional Investor magazine poll of the top-ranked market

technicians in 2001 through 2004. You must have been very proud of that industry recognition.

I think the most interesting aspect was being able to carry on the number-one place that Alan had fulfilled for the prior four or five years. That at least conveyed that the clients were pleased with the transition.

Well, that's very important because it showed that you had tremendous



The most important argument for technical analysis is as a tool for preservation of capital at major stock and market tops.

capability yourself and you carried on his work in a similar fashion.

Thank you.

In February 2005, Citigroup decided to eliminate the technical analysis department for a number of reasons. That gave you the opportunity to start your own firm, Louise Yamada Technical Research Advisors in October 2005, where you worked until your retirement in December 2020. What were some of the ups and downs during that tenure?

I brought four of my colleagues with me. It took us about six months to get set up and to find an office space. I think the ups and downs were really in the market more than they were in our firm. We moved right into the work and into the next rocky market: By the time we got established we were beginning to see a topping process, moving right into the housing, stock top in 2006 and the financials six-year relative strength divergence and breakdown in early 2007. We were convinced we were moving into another structural bear market.

At the firm, what type of clients did you mostly serve?

We continued to serve institutional clients, money managers, hedge funds, and, of course, our own retail financial consultants that came with us from Smith Barney and wanted to continue with our research.

So would you say that most of the clients, like 80/20, were the institutions and banks?

I think that's probably very true in the beginning, but 2009 wiped out a lot of clients as they became very stringent in their resources. The ability to pay for research through commissions was eliminated, especially for foreign clients at first, and then it

began to dry up here too. So I would say toward the end of our reign, we had mostly retail clients.

What was your daily routine like?

We watched all the domestic and global markets (stocks, bonds, currencies, metals, etc.) and followed all the indicators every day on the movable floor-to-ceiling wall charts that I designed. For years, I and later others were frequently up on chairs or ladders updating all the daily indicators and I must say I have never felt as viscerally on top of the market! These wall charts allowed us to walk through indicator history all the way back to 1974.

We also followed all the S&P 500 sectors' relative strength, which was a huge part of our work, particularly on a weekly and monthly basis.

Did you incorporate any fundamental analysis in your work?

No. At Smith Barney, we posted every intraday one-point price reversal for all the individual New York Stock Exchange stocks by hand in our point & figure (P&F) chart library. From that measure of supply & demand we could project price targets, both up and down.

I would say, over my years at Smith Barney, we saw maybe two fundamental analysts whose analysis (buy and sell recommendations) corresponded to the charts. So the most important argument for technical analysis is as a tool for preservation of capital at major stock and market tops.

How did you adapt to the change from manually updating all your charts to using charting software to make that former time-consuming task disappear, if it did, really?

Soon after we went independent, we lost the company that produced

The advance-decline line is also critical for indicating how strong market breadth is.

the P&F tape from which we posted all the NYSE stocks. We then used Bloomberg and had to translate what we always looked at from a P&F basis to the Bloomberg high-low-close charts.

But there was a British firm, Udata, that constructed the P&F charts for us and they could do so in our methodology, which was to utilize first the one-point intraday reversals, and from those, create the transfer to the three-point reversals for the longer-term view. Many of the mechanical point & figure systems go directly to the three-point and miss the important intraday reversals.

As for the daily indicators, we continued to update the walls by hand because of the visual effect and impact.

In addition to Bloomberg and Udata, did you use any other charting software or platforms?

Not for the stock work. Jonathan Lin, who had been with me for 35 years and has now taken over writing the monthly report in a company in his name (to which I contribute when I wish to write), did all the programming for us for the individual indicators that we charted.

Did you use any bar or candlestick charts, or strictly point & figure?

Yes, we used the open-high-low-close bar charts daily, weekly, and monthly. Jonathan would look at candlesticks.

Did your firm recommend any stocks or did you just focus on the

overall market health and try to stay with the trend until it changed?

We recommended many stocks, both buy and sell, from the P&F perspective, from which we could calculate price targets, as well as from a relative strength (RS) perspective for those outperforming.

And do you prefer to use daily, weekly, or monthly charts?

One should use all of them. We keep our charts fairly simple with a few indicators and 50- and 200-unit moving averages (MAs). First of all, one has to get a sense of the trend of the stock, the industry, the market itself, and then monitor how the daily, weekly, or monthly charts are moving within the given trend direction: up, down, or neutral. We also use the MACD for trend confirmation and divergences.

The MAs offer directional guidance, similar to a trendline. When they are rising, they act as uptrend confirmation. When they flatten, one might watch price more carefully for at least consolidation, and if the 50-unit begins to roll down, one should watch price more carefully. A cross of the 50- below the 200-unit (known as a death cross) suggests a shift of trend. The monthly crossover is the most structural.

The same can be said for the converse: The MAs in declining trends can begin to turn up with the 50- crossing up over the 200-unit (a golden cross), suggesting a price reversal from down to up.

Not all indicators always speak. So taking the weight of those that *are* speaking is helpful.

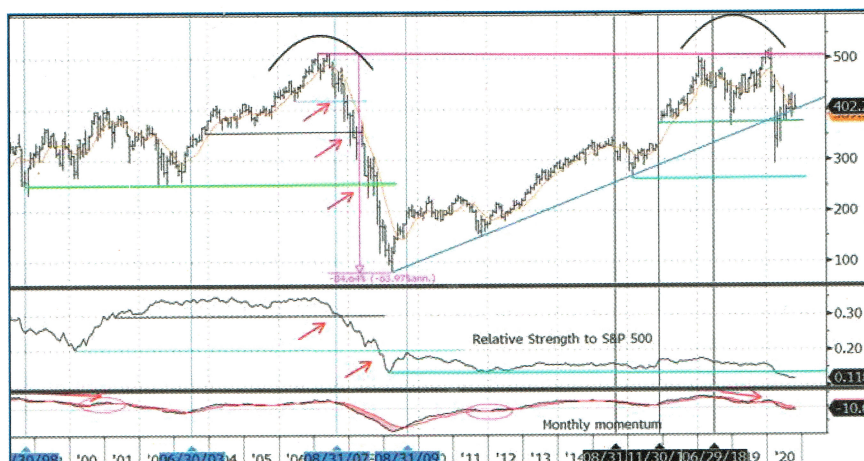


FIGURE 1: S&P 500 FINANCIALS VS. S&P 500 RELATIVE STRENGTH. Note the huge move in financials beginning in early 2009, culminating in a double top in 2017 and 2020 with a decline into early 2022 before reversing up again possibly toward a triple top and beyond.

So if basically the weekly confirms the daily, that made the signal stronger, and if the monthly confirmed the weekly, it was even stronger.

Exactly, both up and down.

You also mentioned that you use point & figure charts. Do you use them to identify relative strength by comparing a stock to a market index?

We did not use P&F for our relative strength (RS) work. We used line charts, especially for the monthly RS work, because that was very efficient and you could see the major trend directions, the negative or positive divergences, the breaks of support, or the penetrations of resistance that were coming into a sector. Then we went through the sectors to take a look at the individual charts for breakouts or breakdowns.

What technical indicator did you use to determine divergence with price?

When we were evaluating the charts through their RS, one could see, let's say, in the financials in 2007, first, a failure in the RS to make a new high with the sector price (negative divergence)

followed by a breakdown in RS through a six-year support line. (See Figure 1 with the left red arrows.) And the support breaks continued, confirmed by the RS downtrend.

Compared to a sector index?

Yes, RS compared to the 11 S&P 500 sector index prices. On a monthly basis we looked for the structural indications. Seeing a minor pullback in relative strength in an uptrend, we wouldn't be as concerned about it as we would when we saw a six-year negative divergence to the new price high in 2007 in the financials sector, and then, finally, the breakdown in the relative strength through a six-year support line.

I remember at the time, people were saying, "Oh, but we've had financial problems before—1998, 1990." But if you looked back on the RS chart for the financials in those years, you could barely see the negative divergence or the pullback in the RS, whereas in 2007, RS was breaking a six-year support. And, of course, the longer the trend, the more significant any breakdown (or breakout) that occurs. So that six-year breakdown was a structural signal to move away from financials.

Can you tell us what you mean by a “structural move”?

There are three timeframes: short-term, which might indicate a price move of short duration; intermediate-term, which might indicate a more extended corrective or consolidation price trend; and longer-term, which might be considered structural and should be followed by a more significant price move (either up or down) depending on whether you are looking at a breakdown (bear market) or breakout (bull market).

Have you found in most cases that divergences work successfully in pinpointing a reversal in prices?

I think they work more times than not and at least put one on alert to be attentive to the price movement. Nothing is exact, but I think that when you see an MACD divergence (a lower high versus a higher price high) on a daily chart, for instance, it could tell you that price is moving into a period of consolidation, as long as the weekly and the monthly charts remain strong. If you begin to see an MACD divergence on the weekly, you may be looking at a longer-term period of time in consolidation or perhaps a larger price pullback.

When you see one on a monthly, that’s a structural alert for the stock, sector, market, etc. which generally result in an MACD sell (or buy) signal.

We’ve seen a lot of these monthly sell signals with or without divergences in today’s markets, especially in the high-priced technology names and even in the major indexes. For instance, the 1.5-year warning MACD divergence in bitcoin, which has now broken down through major support.

How do you minimize acting on false breakouts?

Well, of course, you don’t know it’s a false breakout until it’s proven to

be a false breakout. So you can’t minimize them!

That’s true.

One can’t be intractable. You have to go with what you are seeing that is defining the supply and demand of the moment.

You can have false breakouts because people are short covering and then the stock just collapses, pulls back, or it goes nowhere, or ends up breaking support.

Right. You really only know after the fact that the breakout was false.

Exactly.

What is the best way you’ve found to invest in market sectors: investing in a sector ETF, or a handful of the strongest stocks in the sector, or both?

I think you can’t really answer that with one answer or the other because, in some cases, the sector ETF is effectively owning all the stocks if they are more or less equally weighted. But, for instance, with technology stocks where we had the FAANMG, the five or six stocks that were the most owned, the largest capitalization, the biggest weight in the S&P 500, owning the sector ETF, you were really owning mostly those five stocks.

But would you recommend the strongest stocks in a sector or the sector itself as an ETF?

One should start with the outperforming sectors, and then do a sweep into that sector’s stocks. What I would do in my writings is give the reader the strongest RS stocks in the strongest RS sectors.

Continuing with that line of thought, do you think most investors should invest in a sector fund if they’re doing it themselves, rather than try to

We also followed all the S&P 500 sectors’ relative strength, which was a huge part of our work, particularly on a weekly and monthly basis.

pick stocks in the sector?

For somebody who’s a novice, the sector ETF is probably a wise way of participating. But at some point, they’re going to have to know when to move from one of the outperforming sector funds to another as the RS wanes and moves elsewhere. For example, one might have moved out of the technology sector into the energy sector in the current environment, noting there may well be a significant change of trend.

Right. If you were to rank the indicators that you use, what are your top five in order?

I’m not sure I can stop at five, but basically, in addition to the MAs mentioned earlier as being important for direction of price, I look at the MACD as a primary stock and market indicator, and perhaps a stochastic. The advance-decline line is also critical for indicating how strong market breadth is, moving in one direction or another and nearly always giving strong divergences over several months as fewer stocks participate in a market advance. Think of it as troops and generals: If the troops (stocks) begin to retreat, eventually the generals (indexes) are going to have to turn and flee.

So do you use the standard MACD settings of (12,26,9)?

Yes, for all timeframes (the daily, weekly, and monthly periods), and to observe the changes (and divergences) within the directional trend (up or down) of the stock or market.

How about another couple?

I would say overall, for the market, we like to see how many stocks are trading above their 50-day and 200-day moving averages. These can also give divergences over a multi-month timeframe to indicate the underlying strength of the market as it may be weakening (or strengthening).

We look at the volume. We had a proprietary volume momentum indicator which also gave divergences—you see the markets going to new highs with deteriorating volume momentum over six to nine months and would think the market might be coming closer to some kind of a corrective trend.

Do you recommend using a hard stop limit order or a technical breach to sell a position?

With a hard stop you can get a false sell and price pops back up. I would rather watch the price, and if it breaks support, or if it breaks your 7% or other loss rule, exercise your own sell.

Did you use any sentiment indicators like Investors Intelligence or any data to assist in determining the market's health?

Yes. The Investors Intelligence would be the primary one. With the AAII, you never know how many people are voting; and the VIX has become popularized. We used to have just a very simple 20 line on the VIX scale. If it started to move above it, the market was moving into a risk environment; if it was below it, the

market was more stable. Today, we may be moving into a more volatile period for the VIX.

Would you say you use a weight-of-the-evidence approach in your work?

Absolutely. Not all indicators always speak. So, taking the weight of those that *are* speaking is helpful.

What impact did you think that high-frequency traders had on the market's performance over the years?

Oh, I think it's probably been dislocating some traditional methods of looking at the market and creating more volatility.

Did you enjoy your guest appearance on "Wall Street Week" with Louis Rukeyser, and did you get to meet Gail Dudack and Bernadette Murphy who were frequent panelists?

Yes, it was an honor to be on his show. I've known Gail for a long time. In fact, she was the person who proposed and presented my CMT lifetime achievement award. Bernadette Murphy and I used to correct the technical tests, together with John Murphy, for what was then the Market Technicians Association, now known as the CMT. Bernadette and I also musemed together on weekends after she retired.

As you just mentioned, in 2016, you received the CMT Association's lifetime achievement award. That must have made you very proud.

I was duly very surprised. It was a lovely tribute which I never had anticipated.

How impactful was the development of ETFs on investor choices?

Well, as you said, it gave them a way of not having to pick in-

dividual charts and made it maybe a little bit easier for an average investor to take a position in the market.

What do you think are the most common investor mistakes?

From a purely technical perspective, buying and holding beyond the end of the uptrend.

Also, some say you should own everything, and have a diversified portfolio, but the problem with that is that the stocks you own in a diversified portfolio that are *underperforming* are cutting into the benefits of the stocks you own that are *outperforming*. So our attempt is to invest only in the outperforming stocks in the outperforming sectors. We try to eliminate those that are underperforming.

Instead of diversification, I call that "diworsification."

That's very cute.

What other things do you think investors do wrong?

It's difficult for an average investor to know when the trend is ending. They may sell too soon, but I think the other side is that they hold too long and watch a stock reverse. Remember, an uptrend is a series of higher lows (representing demand on the pullbacks) followed by higher highs (aggressive demand). When that uptrend shifts into a period of lower highs (selling into strength) followed by lower lows (representing aggressive supply), the trend has shifted from an uptrend into a downtrend, and it's a time to be out of the stock, sector, or market.

And also, probably, they are emotional, or they listen to the news and try to do things based on what they think is easy to do and what the crowd is doing.

Yes, I agree. The most important

As long as it's in an uptrend, you can stay with it (even better if it is also outperforming).

thing is to watch the price. *In price there is knowledge.* It's the supply and demand balance that affects which way a stock goes. As long as it's in an uptrend, you can stay with it (even better if it is also outperforming). When you start to see that price roll over or reverse and you see support levels broken, you have to wake up and change your perspective.

What do you think are the most common mistakes that financial advisors make?

All of those we've just discussed.

Do you want to mention anything else regarding the buy-and-hold versus market timing controversy?

I could just mention that market timing, as generally talked about, may well be thought of as very short-term buy and sell. The market timing that we're talking about is that an investor should want to own something as long as it's in an uptrend and outperforming and the indicators for the stock and markets are moving in an uptrend. And that could be days to weeks to months, even years.

Trend-following, basically?

Yes, trend-following. If you invest that way and you alter your perspective when the RS, MAs, and the indicators give you evidence that something is changing and price breaks down through support, you will be on the right side of the market. Moving into a downtrend gives you a sense that something is changing. You have to move with the technical evidence. You cannot be intractable.

Why do you think the technical analysis took so long to be recognized as a complementary approach to fundamental analysis on Wall Street?

I'm not sure I'm qualified to answer that. Many followed technical

analysis for years. Others thought it was voodoo. John Brooks, Paul Desmond, and many others were long-time proponents. Then they and Ralph Acampora and Alan Shaw were determined to get it recognized as a respected analytical approach. I think they've done a phenomenal job of getting technical analysis recognized, of getting it in the schools and universities, giving those that are going into the investment advisor industry a larger toolkit rather than just fundamental analysis.

Why did you decide to write the book Market Magic in 1997, which was published in 1998?

Because the work that I did in 1995 (which Kate Welling reviewed in *Barron's* and also reviewed my new 1996 work) was different with some thinking outside the box, let's say, and it presented some eye-opening perspectives. Kate put me on the map.

Based on the resulting popularity and recognition I received, I thought it was worthwhile to put those observations in a book. In addition, from the 1995-96 material to when the book was published, I added a lot of extra sections, which are still valid: "Looking for Inflation in all the Wrong Places"; also, a different perspective on how to calculate productivity in terms the Laws of Thermodynamics for what I then dubbed the New-Tech era (versus the Low-Tech era); this is still applicable. I had a chapter on water, "We have a water problem coming" (from the UN research on water and population). Everybody thought I was crazy but here we are today!

You were ahead of the curve.

Yes, for those mainstream times, certainly I was. It's nice to know that

The most important thing is to watch the price. In price there is knowledge.

these new perspectives then are still valid in many ways.

I just ordered and received a copy of your book. I flipped through it and will read it when I have a chance. It looked very interesting.

The first part may not necessarily be as applicable today because it was dealing with the equity market then. But if you go into the "Asking Questions" section developed specifically for the book (parts 2 & 3), I hope you find it interesting.

I'm sure I will. What is your view on the impact of Robinhood and the ability to trade from your phone without commission?

I think that the people using it are probably in large part, speculative. I don't know how to evaluate it except to say that speculation generally comes at the end of an uptrend, particularly with record margin debt, which is just beginning to unwind.

I have a follow-up question. Won't this type of easy way to play the market with a phone app lead most of the younger investors to disastrous results as they age, if they did not obtain a sound investing education?

Only if they get caught in a down market. Otherwise, they might think they're geniuses. We used to have a saying on our wall, "Don't confuse brains with a bull market."

Absolutely. That saying has been around a long time.

Right.

In your 1998 interview in this magazine, interest rates were falling to new lows. Now we have a different scenario. Interest rates have accelerated in the past six months. Will this situation negatively impact the market's future performance going forward through the remainder of 2022 and 2023?

That's a big question and it has a big answer. We did a long-term review of the bond market all the way back to the late 1800s. The reversals from rising rates to falling rates were very sharp, inverted V affairs, as in 1981. But the reversals from falling rates to rising rates were saucer-like multiyear affairs from two to 14 years (see Figure 2) because each one experienced deflationary trends, as we experienced again from the 1982 through Covid trend. It took time before rate trends turned up—32 years being the longest trend cycle till now. So we had projected that we might see a turn as the 2002 stock bear market came to an end. But then all the financial trauma that took us into 2009 occurred and we ended up with a greater bear market in stocks. That decline propelled the Fed to loosen, with a breakdown in rates to new lows that we had not expected, as we had already experienced an eight-year *potential* saucer bottom for rates before the 2009 collapse.

Now the rate trend has extended out to 36-plus years of falling rates. But I think we are seeing a valid emergence of a new structural bull market for yields.

The rate rise doesn't have to happen quickly. The one from the '40s to the '60s was slow-moving. It didn't really

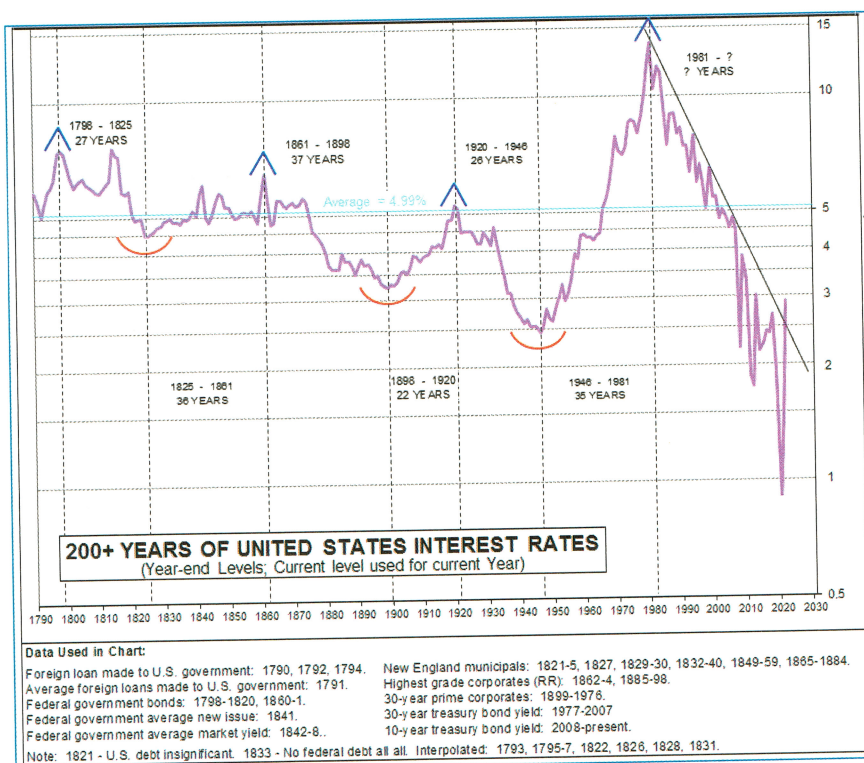


FIGURE 2: 200+ YEARS OF HISTORY OF US INTEREST RATES. Notice the surge, hitting 14% in 1980, the large decline to less than 1% in 2020, and the recent advance to almost 3%.

affect stocks until interest rates hit about 5%, but we have so much debt now that it might be a very different situation.

The rate rise is already having a negative effect on the stock market sooner. The stock market indicators and support breaks now suggest a more structural decline.

The other thing about stock markets is that they have alternating bear cycles. Before we moved into the 1920s, there was a bear market that was a symmetrical horizontal around a pivot low. Then in 1929 and 1932 there was a very sharp reversal in an irregular bear market bottom into a new advance in 1942. The 1968-to-1982 bear was another symmetrical horizontal around a 1974 pivot low.

We suggested that the decline we were seeing in 2000 might be like the 1929 period, which was sharp and irregular, whereas the other two were flat around a pivot

low. (See Figure 3.)

The 2009 decline did help us define the 2002 and 2009 lows as an irregular bear market to its alternate in the 1930s. So it's possible that we move into something that remains volatile, like in the '68 to '82 cyclical bull and bear (up and down) markets. I think that would be the greatest surprise to the younger investors in the market today, that this market may not continue on a straight tangent up and that we may see ups and downs the way we did from '68 into the '74 low, and then the way it moved sideways again into '81, '82. That could lead people into a problematic period if they don't study history.

Do you do any work with cycles?

Well, I leave that to Jeffrey Hirsch at *Stock Trader's Almanac*. He does a fine job with it.

I tune in every Monday to the Foundation For The Study Of Cycles on YouTube for their latest

Speculation generally comes at the end of an uptrend.

commentary. They do a very good job of presenting the cycles.

We certainly follow basic cycles. What I just described to you in the stock bear markets is not a perfect cycle, but what's happened in the stock market is that the 20-year and 40-year cycles bottomed together in 1942, 1982, and they're due to bottom together again in 2022. Each of those bottoms, '42 and '82, initiated new structural bull markets. So the question is, are we going to get a large decline into a '22 low, or will the liquidity that the Fed has injected alter the corresponding cyclical stock observation?

Well, basically, maybe we've had the 2022 drop already since the NASDAQ did touch below 20%.

While NASDAQ was down 20%, the other averages are not yet (as we speak on April 15, 2022). In 2009, the NASDAQ was down 82% and for a lot of the market segments including financials. I'm not sure that the recent 20% fall of the NASDAQ necessarily qualifies as a major market bottom. Major sell signals are in place suggesting more weakness ahead.

In your view, should an investor only work with advisors who use both fundamental and technical analysis in their selection process?

Absolutely.

What is your view on bitcoin and blockchain investment risk and opportunity?

To be honest with you, I just can't get my head around it. So from my perspective, it's speculative. You can put a tiny amount of money that you don't care if you lose, or play the derivatives. But other than that, I'd stick with the more solid investments.

Would you recommend that women consider a technical analysis career,

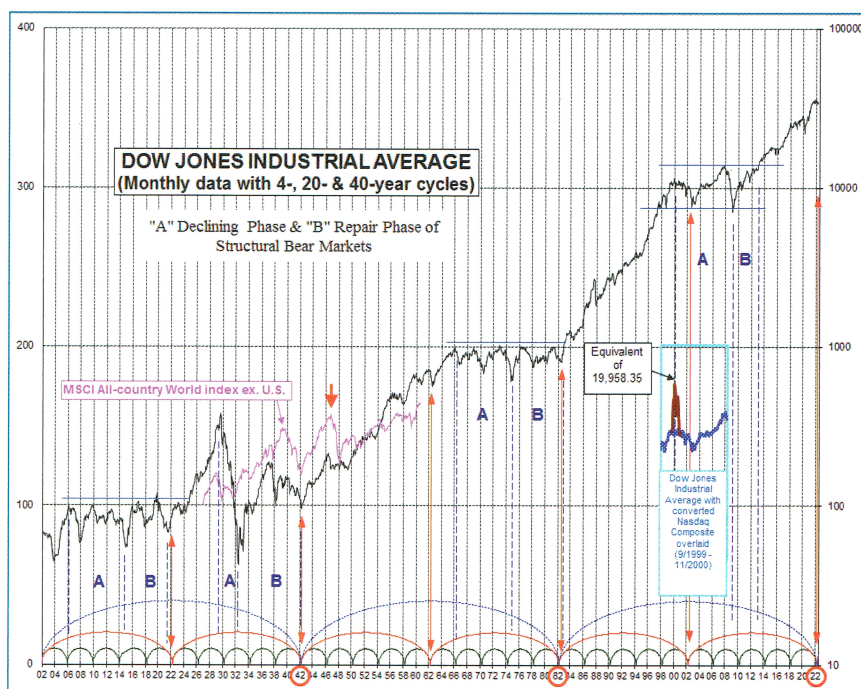


FIGURE 3: DOW JONES INDUSTRIAL AVERAGE MONTHLY PRICE HISTORY. The decline in 2000 was similar to the 1929 period.

and, in particular, obtaining the CMT designation in today's fast-changing world?

If one wants to go into the stock market, I think you definitely should have a technical analysis background with the CMT study program. An exam is a good way to put that under your belt and work with a strong technical reading list.

Do you think it's easier for women to get into the profession nowadays than years ago?

I think it's beginning to be, yes. It's a question of whether they're interested. Katie Stockton has started her own company and is doing well.

I've noticed a few women technical analysts on Bloomberg too whom I wasn't aware of before.

I would say that while firms may not have technical departments any more, most trading desks will have someone who follows technical analysis.

I want to thank you for your outstanding career using technical

analysis tools and your incisive analysis on investing in the markets. I wish you well going forward. And thank you for today's interview.

You are very kind. I appreciate your interest. Readers can check out my website at www.lyadvisors.com to view my current and future market writings.

Leslie N. Masonson is president of Cash Management Resources, a financial consulting firm that focuses on ETF strategies. He is an active ETF and Nasdaq futures trader, and the author of Buy—Don't Hold: Investing With ETFs Using Relative Strength To Increase Returns With Less Risk; and All About Market Timing, as well as Day Trading On The Edge. He can be reached at lesmasonson@yahoo.com.

FURTHER READING

Yamada, Louise [1998]. *Market Magic: Riding the Greatest Bull Market of the Century*. John Wiley & Sons, Inc.

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