

# Jake Bernstein's Online Trading Courses

## Course #2 Powerful Market Timing

### Lesson #1 Overview of Market Timing

Network Press Inc., 1800 Green Hills Rd., Scotts Valley, CA 95066

---

Course #2  
Powerful Market Timing  
Lesson #1  
Overview of Market Timing

**Introductory Comments** ----- 3

**The Timing Dilemma** ----- 4

**Characteristics of Timing Signals** ----- 4

**Lagging Indicators** ----- 5

    Delayed Reaction Time ----- 6

    Best in Bear Markets ----- 6

    Numerous Successive Losing Trades ----- 6

**Time-Current Indicators** ----- 7

    Assets and Liabilities ----- 7

**Leading Indicators** ----- 9

    Defining Leading Indicators ----- 9

**Market Sentiment and Timing** ----- 11

    DSI Theory ----- 11

**Lesson #1 Quiz** ----- 14 - 16

---

# Jake Bernstein's

## Course #2 -- Powerful Market Timing

### Lesson #1 -- Overview of Market Timing

#### Introductory Comments

Market timing based on technical indicators is nothing more than educated guesswork based on a preconceived notion of market behavior. And, market timing based on a fundamental approach, although based on a different understanding of market trends, is also educated guesswork.

While the purely technical trader attempts to discern future market activity based on the behavior of prices and other hard market data, the fundamental trader is charged with the same task, albeit from the perspective of an economic orientation.

Both types of traders attempt to time market entry based on expectations that markets will move either as they have in the past under similar conditions, or on the basis of a logical relationship between their indicators and price trends.

To validate their timing indicators, technicians perform market tests based on the relationship between their operationally defined rules and historical price behavior. It is assumed, whether right or wrong, that the future will be much like the past or at least sufficiently similar to the past to allow traders to profit from their previously researched timing relationships.

There is, however, no guarantee that the future will mirror the past no matter how logical, rational or seemingly valid a technical market theory may be. In the long and short run prices will move based on factors that may not have any logical connection to technical timing indicators but rather to constantly changing multiple stimuli.

The fundamental trader takes refuge in an econometric understanding of price trends. In this view prices move up and down as a function of the two quintessential economic variables supply and demand. Subsumed under these categories are numerous variables that affect one side of the equation or another. The logic is simple enough:

- **When demand is high and supply is either unchanged or lower, prices move higher.**
- **If demand increases faster than supply, prices are also expected to rise.**
- **But if supply is higher than demand or if demand is declining relative to supply, prices decline.**

The fundamental trader, based on a structural or theoretical framework of supply, demand, price and their interrelationships, considers numerous variables -- all related to supply and demand -- to reach timing and trend decisions.

Experience teaches that neither approach is as effective as theory would have us believe. Market life is

---

such that a given amount of randomness or disorder enters into price trends, making timing a less-than-perfect proposition.

Whether timing is based on fundamentals, technicals or on a combination of both, it has not reached the level of development that allows a high degree of accuracy. In testing timing signals we find that an accuracy rate of 60-percent or more for an extended period of time is remarkable, the exception rather than the rule. We also find that the larger the number of observations in our sample, the more accuracy regresses to the mean.

## The Timing Dilemma

To compensate for the inherent weakness in timing signal accuracy, technical traders have developed risk management principles. By limiting risk exposure through the use of money management stop losses, the inaccuracy of trading signals can be limited as long as the dollar amount of profitable trades exceeds losing trades by a significant amount. While this is both an effective as well as a necessary aspect of successful trading, it is also important for traders to understand the nature of technical timing tools.

An understanding of the types of timing signals as well as their assets and liabilities will prove invaluable in your trading since it will:

- **Allow you to know what can be expected from certain types of signals.**
- **Help you understand which types of signals to use in different types of markets.**
- **Help you to determine which signals will be most consistent with the type of trading best suited to your personality and finances.**

## Characteristics of Timing Signals

I divide timing indicators into three categories based on their contiguity to market turns. These are:

- **Lagging Indicators**
- **Time Current Indicators**
- **Leading Indicators**

While these are not rigid divisions, there are sufficiently significant distinctions among the three categories to permit differential applications as well as different results. What follows are my definitions along with some examples.