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Your Letters

by: SFO Magazine

Readers' Thoughts and Questions

Dear Editor:

Thanks for devoting a good portion of the May issue to trend following. I was most impressed with what each author brought to the party, in particular Michael Covel's piece that notes the constant misinterpretation of drawdowns within the trend following scheme. I doubt whether trend following is for everyone, and certainly there are few of us who have the money to jump on, for example, the John Henry fund train or others more geared to the highest net worth individuals. Nonetheless, it has the potential to be useful to those who are willing to open their minds and understand some very simple concepts. Good job.
–Alex Zendra, via e-mail

Dear Editor:

Your interview with Ken Wood ("The Woodman Tradeth...And the CCI Emergeth," May 2005) was an excellent piece. It shows that trading is more than just buying low and selling high. It's also about sharing, positivism and giving back to other traders and the community as a whole. It seems Mr. Wood understands this, and this contributes to his excellent record as a trader and as a good person and educator.
–Dave Monsky, via e-mail

Dear Editor:

In today's jaded world where so many investors are beaten down to believe that nothing is positive and no one can beat the market, an appreciation of what trend followers are accomplishing should be a light-bulb moment for all ("The Reports Of My Death Have Been Greatly Exaggerated," by Michael Covel, May 2005). There will always be trends; history proves it. The

problem is in today's "prove-me-right" (or now) society, everyone wants to pick the top or the bottom. Few people have the patience to wait and identify when trends are in place. When the "tipping point" becomes obvious on a chart, you jump on and repeat to yourself – "The trend is my friend until it bends." You don't get the high and you don't get the low, but you get one hell of a lot of the meat in between.
–W. Lake, via e-mail

Dear Editor:
I found Earl Johnson's comments interesting ("Forex, The Next Frontier for Fundamentals: To Really Get It, Move Beyond the Charts," March 2005), especially when it comes to the strength of the economy in determining its currency strength. Given that both the German and Italian economies (two of the larger Euro economies) were in negative growth territory in the fourth quarter of 2004 – and other Euro economies were suffering anemic growth, while the U.S. economy had an annual growth rate of 3.1 percent – one would expect the Euro to be overvalued versus the U.S. dollar. However, the former has remained stubbornly high.

As a technical analyst, I must plead guilty to a preference for chart pattern analysis in making a trading decision. This approach has been supported by the fact fundamental data often does not contribute to a move until well after the fact. As George Soros once said, "Economic history is a never-ending series of episodes based on falsehoods and lies, not truths. It represents the path to big money. The object is to recognize the trend whose premise is false, ride that trend, and step off before it is discredited."

I have seen far too many people make decisions based on fundamentals only to watch them get creamed while they wait for the market to follow what the fundamentals are saying.
–Matt Blackman, via e-mail

Dear Editor:
On April 20, the NYSE and Archipelago announced that they will merge, thus finally giving NYSE its entrance into the world of electronic trading and the opportunity to expand its product line all in one fell swoop. Directly following that news, NASDAQ and ArcaEx announced their union. I would be interested to learn what all of this means to the individual trader.
–Dennis Walker, via e-mail

[Editor's note: Who could have ever pictured the NYSE hooking up with anyone else? For years, they were content to live on their brand. With competition, all has changed. See our story in this issue; as we were about to put the issue to bed, all of this hit, so we've jumped on it for our readers.]

Correction: In the May article "The Secret to Winning the ETF Game: Market Timing," John McClure's award was misidentified. McClure was the winner of the top timer award by TimerTrac for 2004.

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