

In my trading experience one of the most reliable stock market timing indicators is the Summation Index which is a market breadth indicator. The Summation Index measures the number of advancing stocks versus the number of declining stocks.

When the number of advancing stocks exceeds the number of declining stocks buying pressure is exceeding selling pressure and the trend is bullish for stocks.

When the number of declining stocks exceeds the number of advancing stocks selling pressure is exceeding buying pressure and the trend is bearish for stocks.

Summation Index

High Accuracy Indicator

Advancing Stocks > Declining Stocks = Bullish Trend

Advancing Stocks < Declining Stocks = Bearish Trend

The Summation Index is plotted daily much like a moving average. We can combine the Summation Index with a trend indicator that indicates a bullish or bearish Summation Index. The resulting buy and sell signals from this combination can be very accurate.

For example, the Summation Index MACD can be used to trigger buy and sell signals. If the Summation Index MACD line is above the 9-Day EMA "trigger" line a bullish trend is indicated. Conversely, if the Summation Index MACD line is below the 9-Day EMA "trigger" line a bearish trend is indicated.

We will look at an example of this in a minute

Summation Index 'Buy' Signal

- **Summation Index MACD is Above 9-Day EMA**

Summation Index 'Sell' Signal

- **Summation Index MACD is Below 9-Day EMA**

When the Summation Index becomes overbought and starts to trend down the Summation Index MACD confirms an Index down trend it is time to sell stocks.

I then target a stock to take a short position by checking the price trend of the stock using my three trend following systems:

- MACD (MACD of the stock you are targeting not to be confused with the Summation Index MACD)
- *Intermediate Term Trend System* (50-Day and 100-Day EMA cross over)
- *Major Trend System* (1-Month Price and 20-Month EMA cross over)

If one or more of these three trend following systems is on a "sell" signal and confirms the Summation Index down trend then that stock is a good candidate for a short position. Now This trend confirmation by the three trend following systems is important because there can be stocks in a price up trend when the broad market is in decline. I generally do not recommend shorting stocks as this can be too risky. But in my global powertrend book and wealth creation alliance manual there are systems for establishing short positions with limited risk.

Summation Index 'Sell' Signal

- **Summation Index MACD is Below 9-Day EMA**

Down Trend Is Confirmed with One or More Trend Following Systems

- MACD (MACD of the stock you are targeting not to be confused with the Summation Index MACD)
- *Intermediate Term Trend System* (50-Day and 100-Day EMA cross over)
- *Major Trend System* (1-Month Price and 20-Month EMA cross over)

And when the Summation Index becomes oversold and starts to trend up and the Summation Index MACD confirms an Index up trend it is time to buy stocks.

I then target a stock or call option to purchase by checking the price trend of the stock using the three trend following systems just mentioned. This up trend confirmation by the three trend following systems is important because there can be stocks in a price down trend during a broad market rally.

Summation Index 'Buy' Signal

- **Summation Index MACD is Above 9-Day EMA**

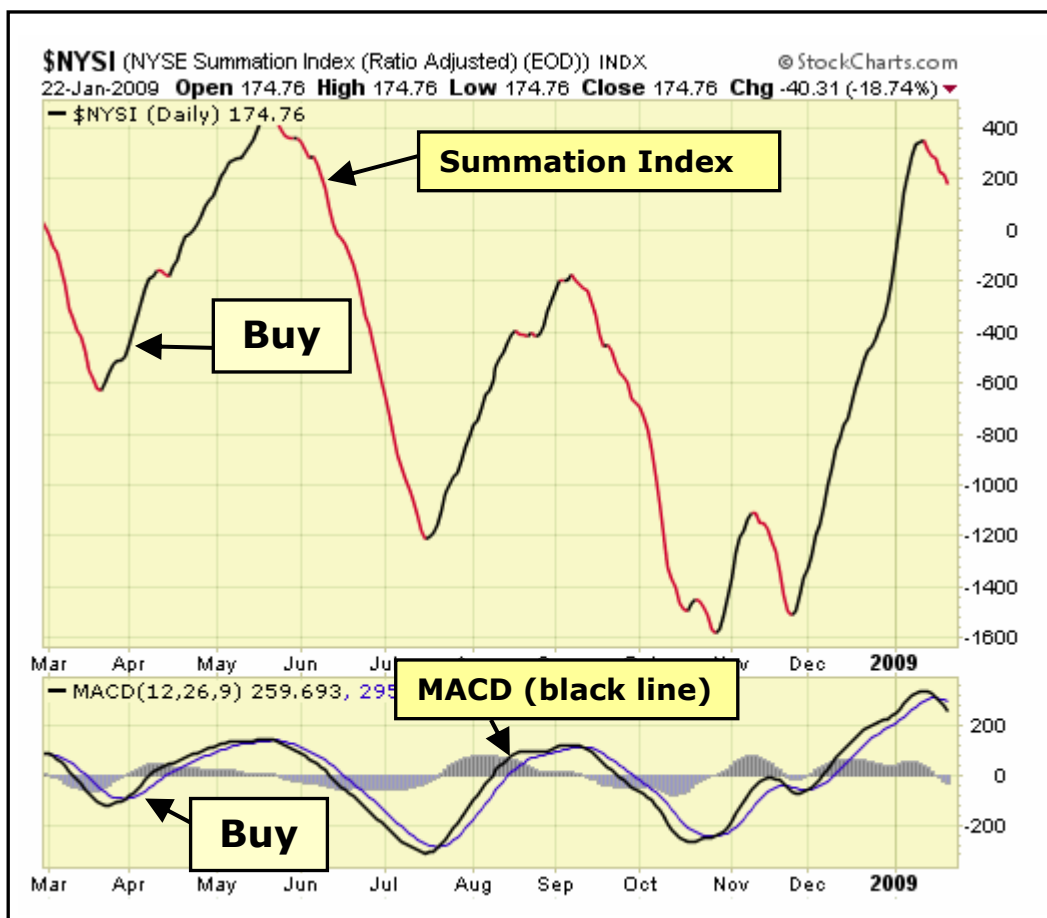
Up Trend Is Confirmed with One or More Trend Following Systems

- MACD (MACD of the stock you are targeting not to be confused with the Summation Index MACD)
- *Intermediate Term Trend System* (50-Day and 100-Day EMA cross over)
- *Major Trend System* (1-Month Price and 20-Month EMA cross over)

Let's look at some Summation Index buy and sell signal examples. This price graph displays the New York Stock Exchange daily Summation Index at the top and the Summation Index MACD below.

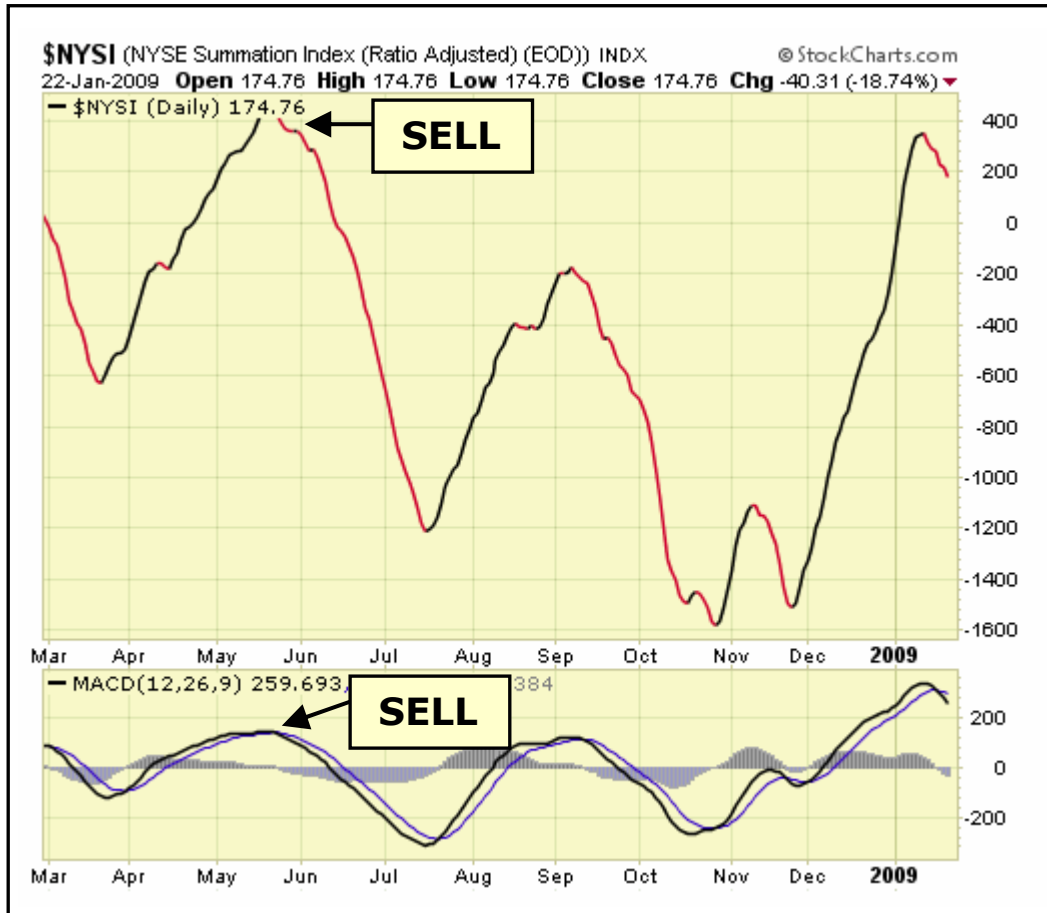
On the left side of the chart we can see the first "buy" signal in March of last year when the Summation Index was oversold and started to turn positive. This buy signal was generated when the Summation Index MACD line, crossed above the 9-Day EMA "trigger" line indicating a bullish price trend for stocks. A nice rally ensued in the S&P 500 Index until May when the Summation Index became overbought and started to turn down.

Once the Summation Index buy signal is generated you want to look at purchasing stocks and call options on stocks that are also in a price up trend as indicated by one or more of the 3 trend following systems . . . MACD, intermediate term and major trend systems



A nice rally ensued in the S&P 500 Index until May when the Summation Index became overbought and started to turn down.

In mid May the Summation Index MACD confirmed the down trend when the MACD line crossed below the 9-Day EMA trigger line indicating a price down turn. The S&P 500 Index sold off 15% into July.



Then in July the Summation Index MACD turned positive when the MACD line crossed above the 9-Day EMA trigger line and a rally followed.

In September the Summation Index and its MACD turned negative and a severe market decline followed. This sell signal is displayed on this price graph.

I identified stock index ETFs that were also on an *Intermediate Term Trend*, MACD and *Major Trend System* "sell" signal that confirmed the Summation Index down trend. I purchased put options and bearish ETFs on these stock index ETFs. Now this was a high probability sell signal as all 3 trend following systems were on a sell signal as well as the summation index.

High Probability Sell Signal for Stock Index ETFs

- **Summation Index MACD below 9-Day EMA "trigger" indicating a down trend**
- ***Intermediate Term Trend System* on a "sell" for ETF**
- ***Major Trend System* on a "sell" for ETF**
- **ETF MACD on a "sell"**



This brokerage account Profit/Loss Report displays the portfolio of the put options and bearish ETF funds I purchased using the MACD, *Major Trend* and *Intermediate Term Trend System* sell signals combined with the Summation Index sell signal. The portfolio shows a \$21,329 profit and no losing trades.

Account Reports: Profit/Loss Report  PRINT

Give your accountant a break. View profits/losses for all trades executed on one specific date or during a range of dates. Track by position, whether it's closed, or still opened. Download to a spreadsheet for easy manipulation, processing and tax reporting.

Trade date: << >> **SELECT DATE**

Trade date: << >> **SELECT DATE**

Symbol: **Submit**  **Show detailed unrealized positions**

* To see all transactions within specified date range leave symbol blank [Guide to the Profit/Loss Report](#)

Unrealized P&L on Open Positions

Symbol	Description	Position	Avg Price	Cost Basis	Market Value	Type	Unrealized Val.
+EEVLD	Proshares Tr Ultr Shrt Msci Dec 2008 120.00	-3	-\$19.9182	\$5,975.45	-\$4,860.00	Stock Option	\$1,115.45
+EWYMH	Ishares Inc Msci S Korea Jan 2009 60.00 Put	10	\$16.6550	\$16,655.00	\$17,300.00	Stock Option	\$645.00
+FLNOD	Currencyshares Euro Tr Euro Shs Mar 2009 160.00 Put	10	\$21.9550	\$21,955.00	\$22,100.00	Stock Option	\$145.00
+JIKOH	Claymore Exchange Traded Fd Tr Bny Bri&c Ptf Mar 2009 60.00 Put	10	\$20.5550	\$20,555.00	\$22,800.00	Stock Option	\$2,245.00
+RSXWX	Market Vectors Etf Tr Russia Etf Nov 2008 50.00 Put	10	\$14.5550	\$14,555.00	\$18,900.00	Stock Option	\$4,345.00
EEV	Proshares Tr Ultr Shrt Msci	600	\$101.9817	\$61,189.00	\$70,050.00	Equities	\$8,861.00
EFU	Proshares Tr Ultr Shrt Msci	600	\$110.9782	\$66,586.90	\$70,560.00	Equities	\$3,973.10
Total Unrealized Gain-Loss:							\$21,329.55

The latest sell signal for the Summation Index MACD occurred in January. The market has been in a free fall since this sell signal.



I purchased stock put options during this latest sell signal which profit if their underlying stock goes down in price. This brokerage account Profit/Loss Report displays the put options I purchased using the MACD, *Major Trend* and *Intermediate Term Trend System* sell signals combined with the Summation Index sell signal. This portfolio has a 52% average return over the past 2 weeks.

52% Average Return Over Past Two Weeks

Account Reports: Profit/Loss Report PRINT

Give your accountant a break. View profits/losses for all trades executed on one specific date or during a range of dates. Track by position, whether it's closed, or still opened. Download to a spreadsheet for easy manipulation, processing and tax reporting.

Trade date: << >>

Trade date: << >>

Symbol: Show detailed unrealized positions

* To see all transactions within specified date range leave symbol blank [Guide to the Profit/Loss Report](#)

[Click here](#) to download data

Realized P&L on Closed Positions

Symbol	Date Bought	Date Sold	Shares	Cost Basis	Sales Price	Gain-loss	
+MSPT	2/25/2009 2:27:19 PM	3/6/2009 10:59:17 AM	3	\$944.50	\$1,625.46	\$680.96	
+SQMPF	2/25/2009 2:20:13 PM	3/5/2009 9:30:51 AM	2	\$703.00	\$1,083.64	\$380.64	
+SQMPF	2/25/2009 2:20:21 PM	3/5/2009 9:30:51 AM	1	\$341.50	\$541.82	\$200.32	
+UHSPH	2/25/2009 3:40:12 PM	3/3/2009 11:17:56 AM	3	\$944.50	\$2,075.45	\$1,130.95	
Total Realized Gain-Loss:						\$2,392.87	
Symbol	Description	Position	Avg Price	Cost Basis	Market Value	Type	Unrealized Val.
+FCXQF	Freeport-Mcmoran Copper & Gold May 2009 30.00 Put	4	\$4.9650	\$1,986.00	\$1,540.00	Stock Option	-\$446.00
+FXIQY	Ishares Tr Ftse Xinhua Idx May 2009 25.00 Put	6	\$2.4983	\$1,499.00	\$1,920.00	Stock Option	\$421.00
+MSPT	Morgan Stanley New Apr 2009 21.00 Put	3	\$3.1483	\$944.50	\$1,710.00	Stock Option	\$765.50
+PBRPY	Petroleo Brasileiro Sa Petrobr Sponsored Adr Apr 2009 27.50 Put	6	\$3.1483	\$1,889.00	\$1,860.00	Stock Option	-\$29.00
+SQMPF	Sociedad Quimica Minera De Chi Spon Adr Ser B Apr 2009 30.00 Put	3	\$3.4150	\$1,024.50	\$1,950.00	Stock Option	\$925.50
+UHSPH	Universal Hlth Svcs Inc Cl B Apr 2009 40.00 Put	3	\$3.1483	\$944.50	\$2,730.00	Stock Option	\$1,785.50
Total Unrealized Gain-Loss:							\$3,422.50

So in summary, these examples of buy and sell signals for the Summation Index combined with the MACD, *Major Trend* and *Intermediate Term Trend System* buy and sell signals demonstrate that this combination of trend indicators can lead to very accurate timing signals.

The Summation Index can be obtained from stockcharts.com. The Summation Index is currently oversold and I am watching for the Summation Index MACD to turn positive and reverse to a "buy" signal.