



Brainy's Articles on Technical Analysis

Weinstein's 30-week SMA + Stage Analysis for the Index

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page 1 of 4
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Introduction

It can be surprising how effective a simple Moving Average (MA) indicator can be. In his classic text book, "*Secrets for Profiting in Bull and Bear Markets*"¹, Stan Weinstein talks about a number of very useful concepts including Stage Analysis (which is covered in Brainy's Share Trading article number ST-6410), and a specific application of the Moving Average indicator. On many occasions in the book he refers to the 30-week (simple) MA. These can be applied to both individual stocks, and to any of the market indexes.

Weinstein also puts forward a case for using both Stage Analysis and the 30-week SMA on the market index to help spot bull and bear markets². He also has a small basket of important and useful indicators that he says are indispensable in monitoring the state of the overall market — including the Advance-Decline indicator, Market Momentum, the New-highs New-lows indicator and the Price/Dividend ratio fundamental measure.

In this article in Brainy's series on Technical Analysis (number TA-6100) we take a look at some of the detail from Weinstein's hypothesis about the overall market, and try to apply it to the Australian market. It is important to note that in his book Weinstein discusses these and others at great length with detailed examples and case studies. We can only hope to briefly cover the topic here.

Spotting Bull and Bear Markets

In Chapter 8 of his book Weinstein provides some good background information, referring to his toolbox of about 50 indicators that he was using to monitor the markets, and to help him with the material for his "*The Professional Tape Reader*" newsletter that he published for many years. He carefully reviewed his set of indicators and came up with just a few to help the majority of investors and traders to stay finely tuned to major market trends. He describes these in Chapter 8. Note that we are referring here to the overall market, and not just to individual stocks.

Weinstein suggests we utilise a small number of indicators including: the 30-week Moving Average, Stage Analysis, the Advance/Decline line (of the major index), the market momentum, new-highs versus new-lows, and the price/dividend ratio. His writings also refer to the trend concepts of higher-highs and higher-lows, so that an observation of a lower-high is bearish and adding weight to a possible change of Stage. He also suggests that zones of support and resistance should be heeded.

Regarding Stage Analysis, he unfortunately does not provide a clear and concise way to determine exactly when a stock or market index moves from one Stage to another. What he does do is to describe levels of caution and resulting actions depending on our observations. Actions such as tighter stops in Stage 3 in anticipation of a pending fall into Stage 4. Because of this lack of preciseness, various charting software packages will potentially implement the Stage Analysis a little different to each other.

Weinstein also says that his approach is not infallible, and it will give occasional whipsaw signals. But he says it is incredibly reliable. It can be said that a false whipsaw signal is much better than no signal to warn of a pending plunge in the market.

[BTW — What is a whipsaw? It is a sharp price movement that is quickly followed by a sharp move in the opposite direction.]

The 30-week MA — some comments

Firstly, we know Weinstein refers to the Simple MA and not Exponential or Weighted MA, etc., because he explains how to calculate it.³

1 Weinstein, Stan (1988). "*Secrets for Profiting in Bull and Bear Markets*", McGraw-Hill.

2 Chapter 8, "*Using the best long-term indicators to spot bull and bear markets*", pp 268-275.

3 Page 313, and Chart 9-2 on the same page.