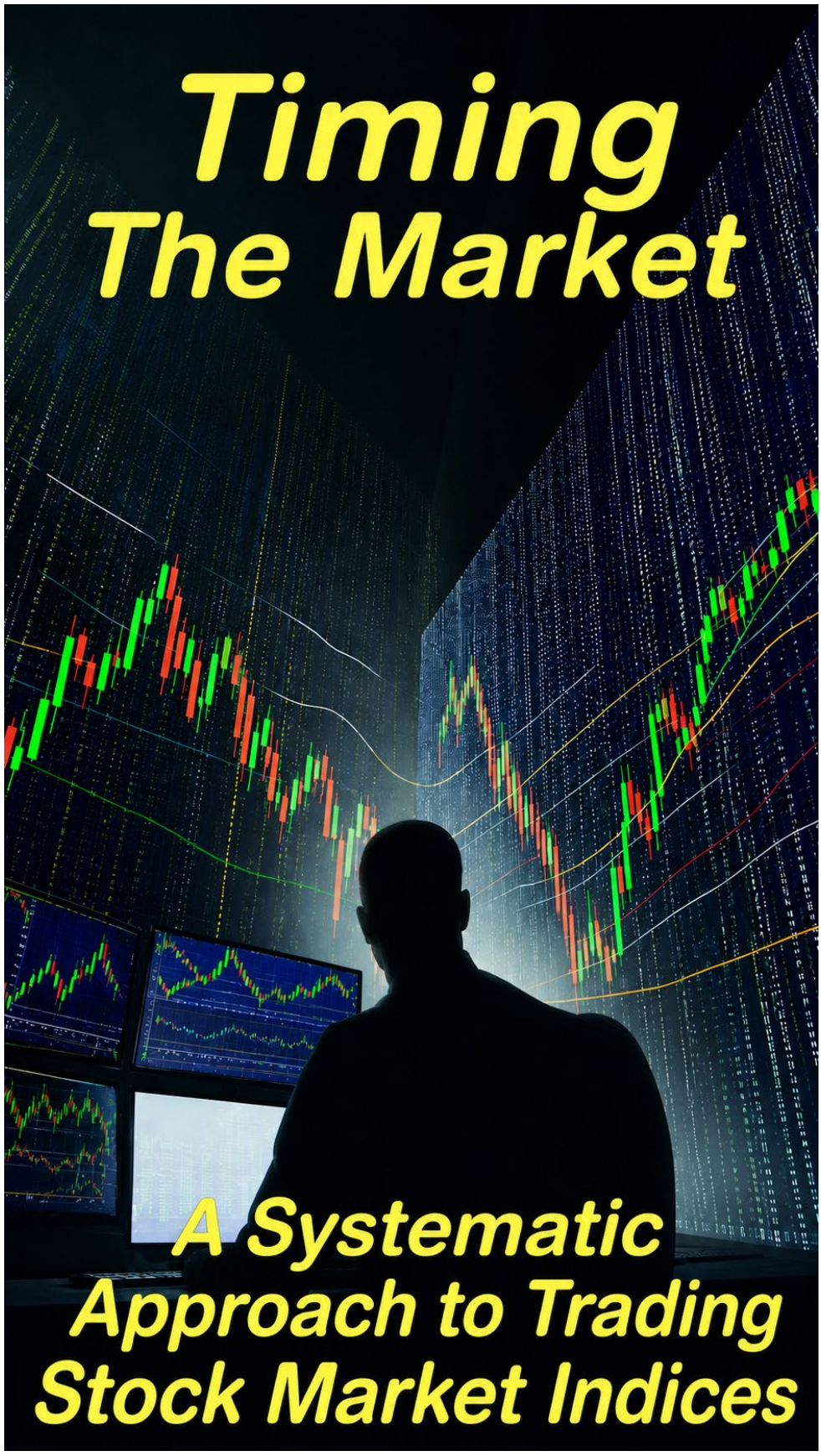
Timing
The Market
A Systematic
Approach to Trading
Stock Market Indices

TIMING THE MARKET

A Systematic Approach to Trading Stock Market Indices

Using Breadth Analysis, Technical Indicators, Market ETFs,
Macro Events & the Power of the AIQ Market Timing System

Steve Hill

Author of ChartSmart and The MACD Divergence Guide
CEO, AIQ Systems | TradingExpert Pro

Behind every great trade lies insight — not intuition.

This book was created to help you understand what the markets are really saying through the lens of timing — using breadth analysis, momentum indicators, macro catalysts, and the power of in depth analysis.

Whether you trade stocks, ETFs, or options, this guide gives you the knowledge to:

- Understand what drives major market moves and why it matters
- Combine multiple breadth and momentum signals for stronger confirmation
- Use the AIQ Expert Rating and market timing tools with confidence
- Apply macro events — Fed policy, earnings, economic data — to your timing decisions
- Build a systematic, rules-based approach to market positioning

Use it as your definitive market timing companion — a bridge between theory and real-world application — and turn raw market data into actionable trading insight.

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Foreword: Why Market Timing Matters

I've been teaching traders on both sides of the Atlantic for well over three decades now, and if there's one question that comes up in virtually every seminar — whether I'm presenting in London, Chicago or Los Angeles — it's this: how do you know when the

market is truly turning? Not just pulling back for a few days but genuinely shifting direction in a meaningful way that warrants changing your exposure to equities.

That question is what this book is designed to answer.

In my earlier works, ChartSmart: The Complete Technical Indicators Guide and The MACD Divergence Guide, I focused primarily on the mechanics of individual indicators and the powerful signals that MACD divergence produces on individual stocks and ETFs. Those books gave traders the tools to read price action and momentum at the stock level. This book takes the logical next step — it zooms out to the market itself.

I'm a native Englishman who's spent a good portion of my professional life working in the American markets, and I'll tell you this: the US stock market is the most closely watched, most deeply analyzed financial market on the planet. The sheer breadth of data available — the number of advancing versus declining stocks, new highs versus new lows, sector rotation patterns, and the mountain of economic reports that hit every week — gives a disciplined, systematic analyst an extraordinary edge over traders who rely solely on gut feel or news flow.

This book is built around a systematic, rule-based approach to market timing. I'm not interested in discretionary guesswork — 'I think the market feels toppy' — and frankly, neither should you be. Feelings don't pay the bills. Rules and data do. Every concept in this book is designed to be objective, testable, and repeatable.

We'll cover the full toolkit: NYSE and NASDAQ breadth indicators, the major indices from the Dow Jones Industrial Average to the NASDAQ 100, the ETFs that allow us to profit from both bull and bear market signals, the dominant market timing platforms — with a particular focus on AIQ TradingExpert Pro — and the macro calendar of Federal Reserve announcements, earnings seasons, and economic releases that act as catalysts for market moves.

Whether you're a seasoned professional looking to sharpen your market timing discipline, or an experienced trader making the transition from individual stock selection to broader market analysis, this book will give you a comprehensive, structured framework for reading the market's health and acting on what it tells you.

Let's get to work.

Steve Hill
CEO, AIQ Systems | TradingExpert Pro

Chapter 1: The Foundation — Understanding Market Timing

1.1 What Market Timing Really Means

Let's clear up a misconception right from the start. Market timing, as I use the term in this book, does not mean predicting the exact top or bottom of the market. Nobody does that consistently — not the hedge funds, not the investment banks, and certainly not the pundits on financial television. What market timing does mean is identifying, with a reasonable degree of confidence and objectivity, whether the current market environment favors being long equities, being defensive, or in some cases actively shorting the market through inverse ETFs.

The distinction matters enormously. A trader who waits for a perfect signal will never trade. A trader who acts on a clear, rules-based weight-of-evidence signal — derived from multiple confirming indicators — will compound their returns over time by simply being on the right side of the major trend more often than not.

> **Core Principle**
>
> *The goal is not to catch every point of a move. The goal is to be positioned correctly during the majority of major bull and bear phases, and to avoid the catastrophic drawdowns that devastate portfolios when markets enter genuine bear conditions.*

1.2 The Weight of Evidence Approach

Throughout this book we'll return again to what I call the weight of evidence approach. No single indicator tells the whole story. Breadth can be bullish while interest rates are rising aggressively. The MACD on the S&P 500 can generate a buy signal while the advance-decline line is diverging negatively. In isolation, each signal is incomplete. Together, they create a picture.

Think of it like a court case. No good attorney rests their entire case on a single piece of evidence. They build a preponderance — multiple strands that, when woven together, point to an inescapable conclusion. We do the same thing with market data.

The indicators I use fall into several broad categories, each of which we'll examine in detail in later chapters:

- Market Breadth Indicators — measuring the internal health of the NYSE and NASDAQ
- Price and Trend Analysis — what the major indices themselves are telling us
- Momentum Indicators — MACD, RSI, Stochastics applied at the index level
- Volume Analysis — confirming or contradicting price moves
- Sentiment and Volatility — the VIX, put/call ratios, and investor surveys

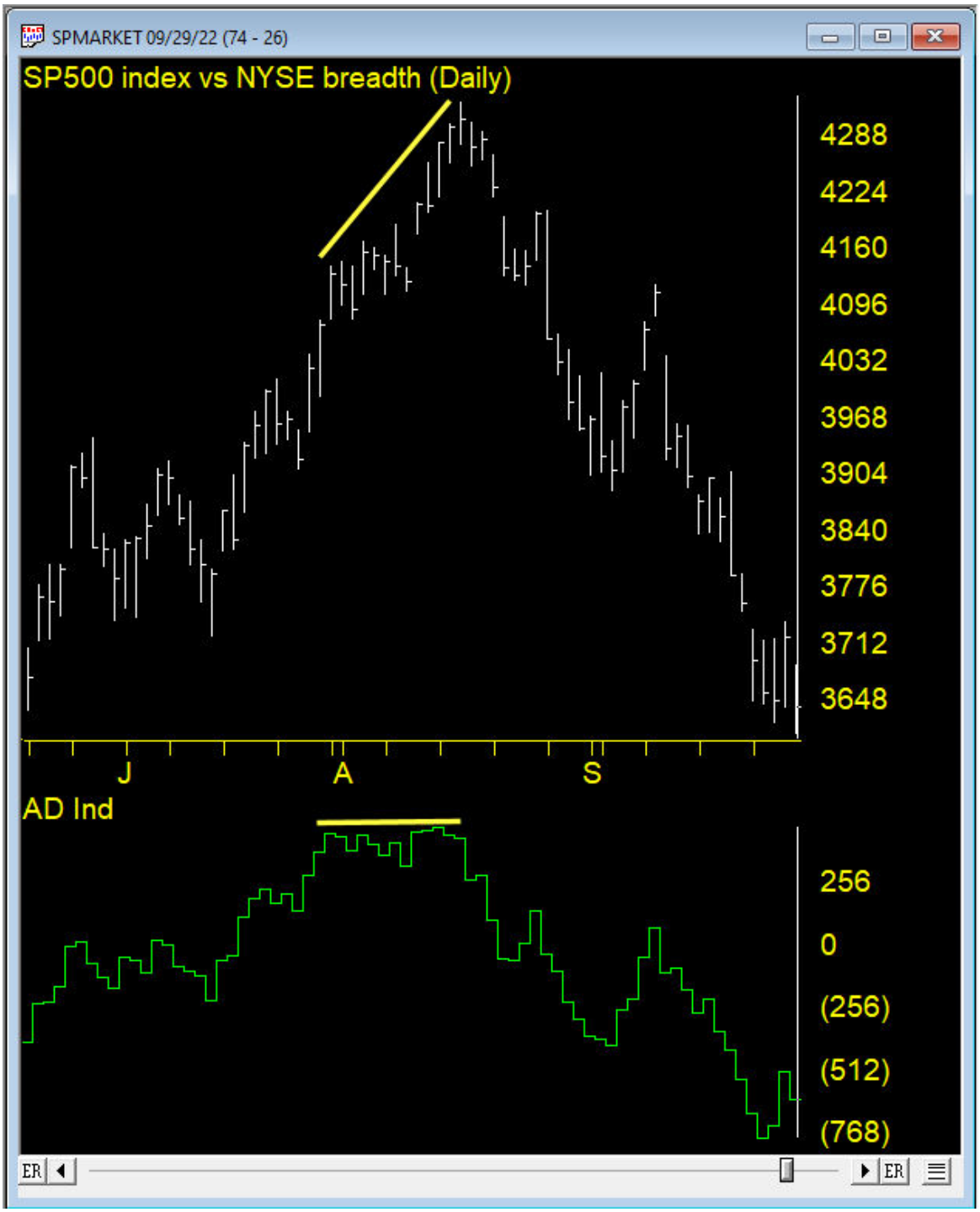
- Macro and Fundamental Catalysts — Fed policy, economic data, earnings

1.3 Why Breadth is the Market's True Heart

The single biggest mistake I see traders make when analyzing the market is to watch only the headline index. The Dow Jones is up 200 points? Must be a good day. The S&P 500 hit a new all-time high? The bull market must be healthy. But those conclusions are dangerously simplistic.

A headline index is typically a price-weighted (in the Dow's case) or market-cap-weighted (in the S&P 500's case) average. What that means in practice is that the performance of a handful of mega-cap stocks — Apple, Microsoft, NVIDIA, Alphabet — can drag the entire index higher even as most stocks in the market are falling. This is the phenomenon of a narrowing rally, and historically it has preceded some of the most significant market tops of the past century.

Breadth analysis cuts through this deception. When we measure how many stocks are advancing versus declining, how many are making new 52-week highs versus new 52-week lows, we get a much more democratic and honest picture of the market's internal health. A truly healthy bull market has broad participation. A bull market that is running on the fumes of five or six mega-caps is one that deserves extreme caution.



The S&P 500 index displayed with the Advance/Decline Indicator from the NYSE with clear divergence prior to the down move in August 2022

1.4 The Markets We Track

Throughout this book, our primary focus is on four key markets and the breadth data that flows from them:

The New York Stock Exchange (NYSE) is the world's largest stock exchange by market capitalization. It lists over 2,300 companies across every sector of the economy. Because of its diversity — from old-economy industrials to healthcare, financials, and consumer staples — NYSE breadth data gives us one of the broadest and most reliable readings of overall market health available anywhere.

The NASDAQ Stock Market is home to the majority of America's technology, biotech, and growth companies. With over 3,300 listed stocks, NASDAQ breadth tells us specifically about the health of the growth and technology sectors, which have become an increasingly dominant driver of overall market returns in recent decades.

The major indices we'll analyze throughout this book are the Dow Jones Industrial Average (DJIA), the S&P 500, the NASDAQ Composite, and the NASDAQ 100 (NDX). Each tells a somewhat different story, and understanding what each one represents is essential to interpreting their signals correctly.

Chapter 2: NYSE and NASDAQ Breadth Analysis

2.1 The Advance-Decline Line — The Market's Most Important Breadth Tool

If I could have only one breadth indicator, it would be the Advance-Decline Line (A-D Line). Period. Its history of signaling major market tops and bottoms before price itself turns is unmatched, and it has been a core component of my market analysis for the entirety of my professional career.

The calculation is straightforward. Each trading day, you take the number of advancing stocks (those closing higher than the previous day) and subtract the number of declining stocks (those closing lower). The result is the net advance-decline figure for that day. The A-D Line itself is simply a running cumulative total of those daily figures. When the A-D Line rises, more stocks are participating in the rally. When it is falling, deterioration is spreading beneath the surface.

What makes the A-D Line genuinely powerful is its tendency to diverge from price well before major tops. In the months leading up to many of history's significant bear markets — 1999-2000, 2007-2008, and the more compressed Covid correction of early 2020 — the A-D Line stopped making new highs while the cap-weighted indices pushed to fresh records. That divergence was the market's early warning system flashing red.

NYSE A-D Divergence Rule

When the S&P 500 or DJIA makes a new 52-week high but the NYSE Advance-Decline Line fails to confirm with a new high of its own, treat any long positions with increased caution. The probability of a significant correction or bear market increases materially in this environment.

NYSE Advance-Decline Line vs. S&P 500 — Long-term chart highlighting historic divergences at major market tops

2.2 NYSE Breadth Indicators — The Complete Toolkit

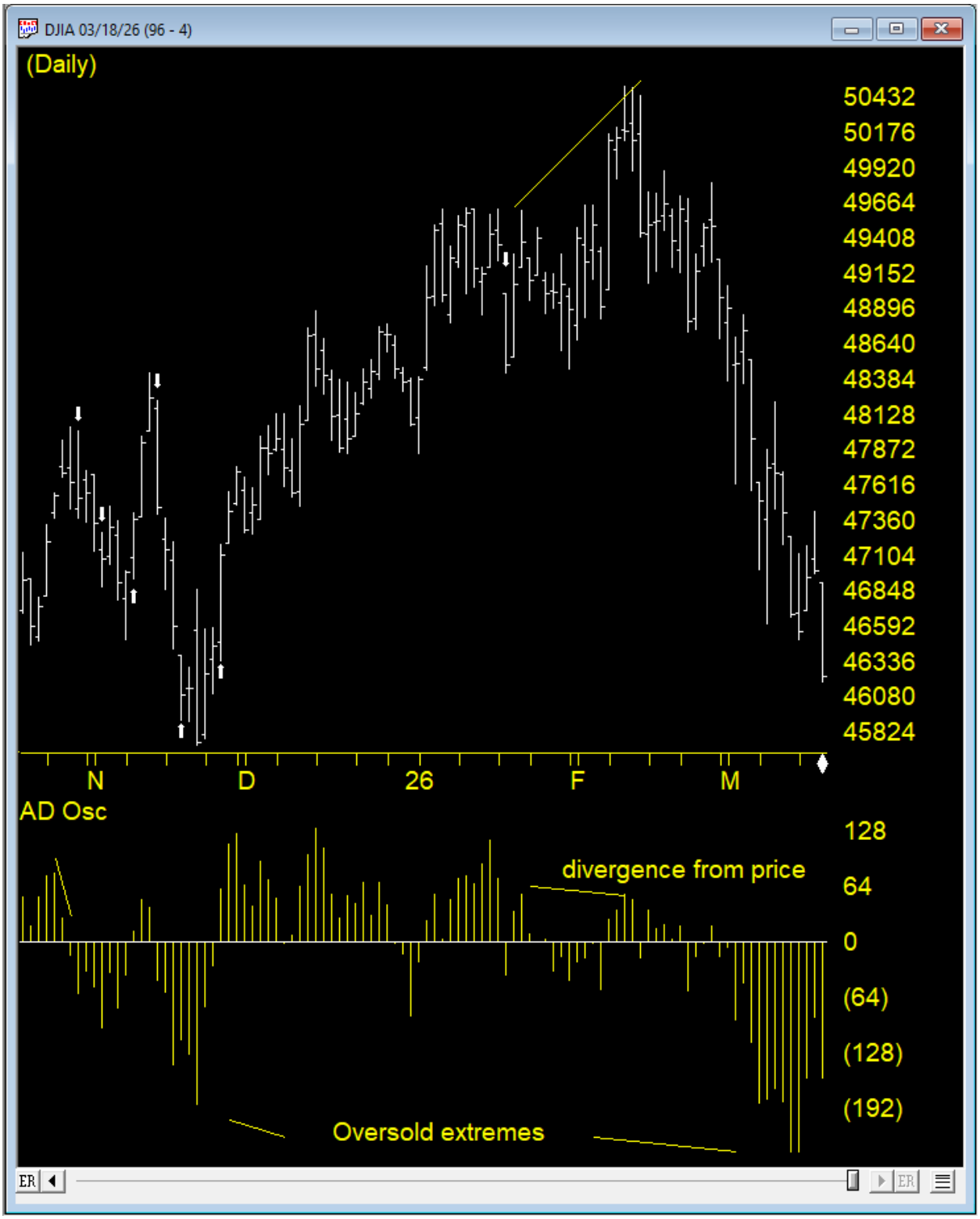
2.2.1 Advance-Decline Ratio

The A-D Ratio is simply the number of advancing stocks divided by the number of declining stocks. A ratio above 2:1 on a given day indicates strong positive breadth; a ratio below 0.5:1 indicates significant selling pressure. More useful for intermediate-term analysis is a 10-day moving average of the daily A-D Ratio, which smooths out daily noise and helps identify sustained breadth trends.

2.2.2 The McClellan Oscillator

Developed by Sherman and Marian McClellan in 1969, the McClellan Oscillator is calculated as the difference between two exponential moving averages of the daily advance-decline figures — specifically the 19-day EMA and the 39-day EMA. This makes it the breadth equivalent of a MACD calculation, which will feel very familiar to anyone who has read The MACD Divergence Guide.

The oscillator oscillates around zero. Readings above zero indicate positive breadth momentum; readings below zero indicate negative breadth momentum. Extreme readings — either above +100 or below -100 — are particularly significant. Extreme positive readings often occur at the launch of powerful new bull trends, while extreme negative readings can mark important market bottoms, particularly when accompanied by positive divergence between the oscillator and price.



NYSE McClellan Oscillator (AD Osc) vs. DJIA — Daily chart showing overbought/oversold zones, divergence signals, and zero-line crossovers

2.2.3 The McClellan Summation Index

The Summation Index is the running cumulative total of the McClellan Oscillator — the breadth equivalent of the A-D Line but with more sensitivity. It's a longer-term indicator, typically used to assess the health of multi-month market trends. When the Summation Index is above zero and rising, the intermediate-term trend is broadly positive. When it turns down from extreme positive readings, it often provides early warning of a more serious correction ahead.

AIQ TradingExpert Pro provides both the McClellan Oscillator(AD Osc) and the Summation Index as built-in market timing tools, and I use both extensively in my own analysis.

2.2.4 New Highs vs. New Lows

The number of stocks making new 52-week highs versus new 52-week lows on any given day is perhaps the most intuitive breadth indicator of all. In a healthy bull market, new highs should consistently outnumber new lows, and the daily count of new highs should be expanding as the market advances.

New Highs/New Lows Rules

- Bull market confirmation: NYSE new highs consistently above 100 per day, and expanding as price advances
- Warning signal: New highs contracting while index makes new highs — breadth narrowing
- Danger signal: New lows exceeding new highs on more than three consecutive sessions while index is near highs
- Bear market: New lows consistently dominate; any rally that fails to generate expanding new highs should be treated as a countertrend move

2.2.5 Up Volume vs. Down Volume — The Arms Index (TRIN)

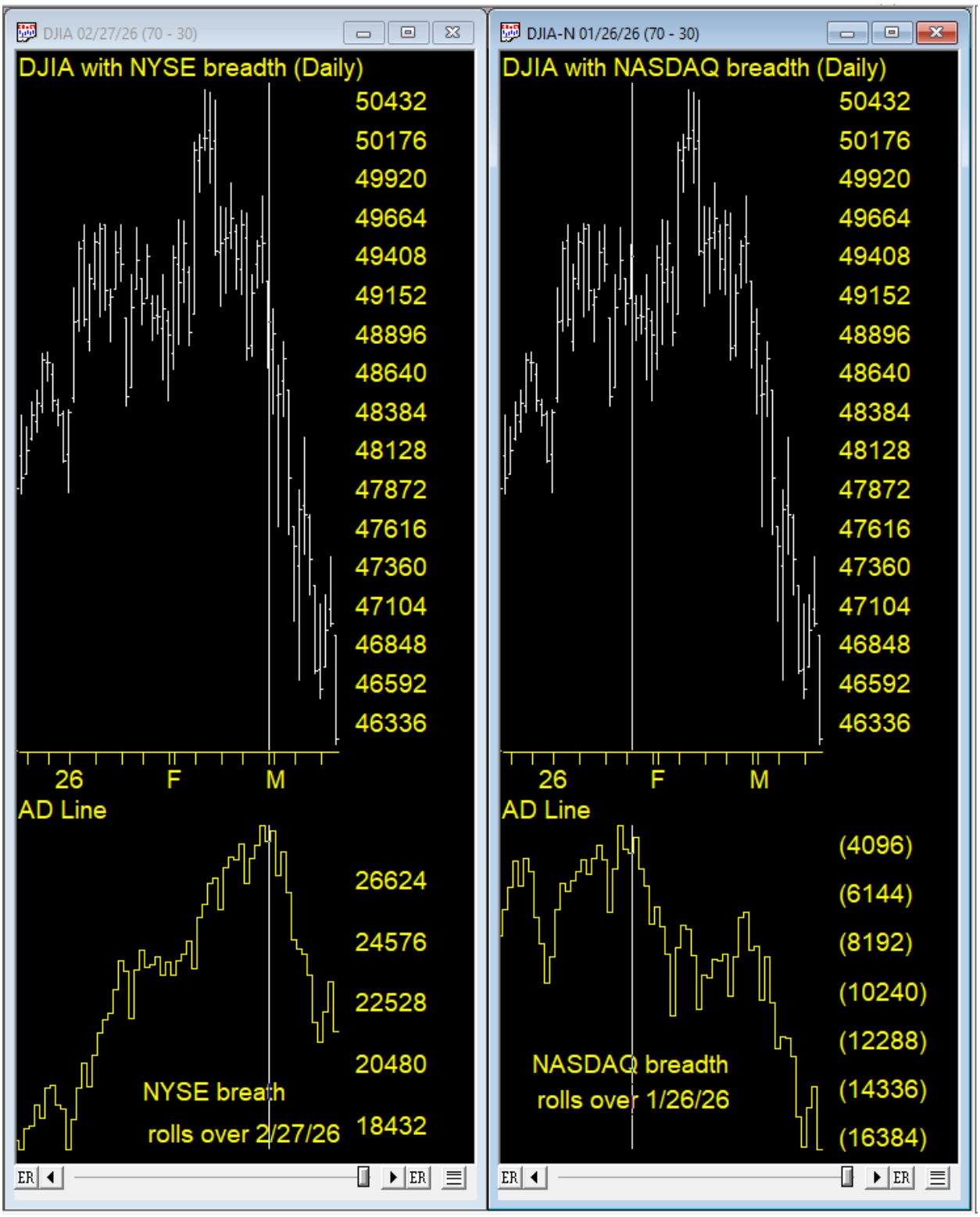
Volume adds a crucial dimension to breadth analysis. The Arms Index (also known as TRIN — Trading Index) was specifically designed to combine price breadth and volume breadth into a single reading. TRIN is calculated as (Advancing Issues / Declining Issues) divided by (Advancing Volume / Declining Volume). A TRIN reading below 75 is bullish — it means that advancing stocks are receiving a disproportionate share of volume. A TRIN above 120 is bearish. Extreme TRIN readings — particularly above 200 on a down day — can actually mark short-term capitulation lows.

2.3 NASDAQ Breadth Analysis — The Growth Market Lens

Everything we've discussed for NYSE breadth applies equally to NASDAQ, but with some important nuances. Because NASDAQ is so heavily weighted towards technology, biotech, and growth companies, its breadth characteristics behave somewhat differently from the NYSE, particularly in certain market environments.

During periods of rising interest rates, growth stocks tend to be disproportionately affected. In these environments, NASDAQ breadth will often deteriorate faster and more severely than NYSE breadth. Conversely, when the Federal Reserve signals a shift towards rate cuts or accommodation, NASDAQ breadth often leads the broader market in recovering.

The NASDAQ A-D Line is therefore an important complement to the NYSE A-D Line. When both are healthy and aligned, the broad equity market is in solid shape. When they diverge — particularly when NASDAQ breadth rolls over while NYSE breadth holds — it's often a signal that the growth rotation within the market is under stress.



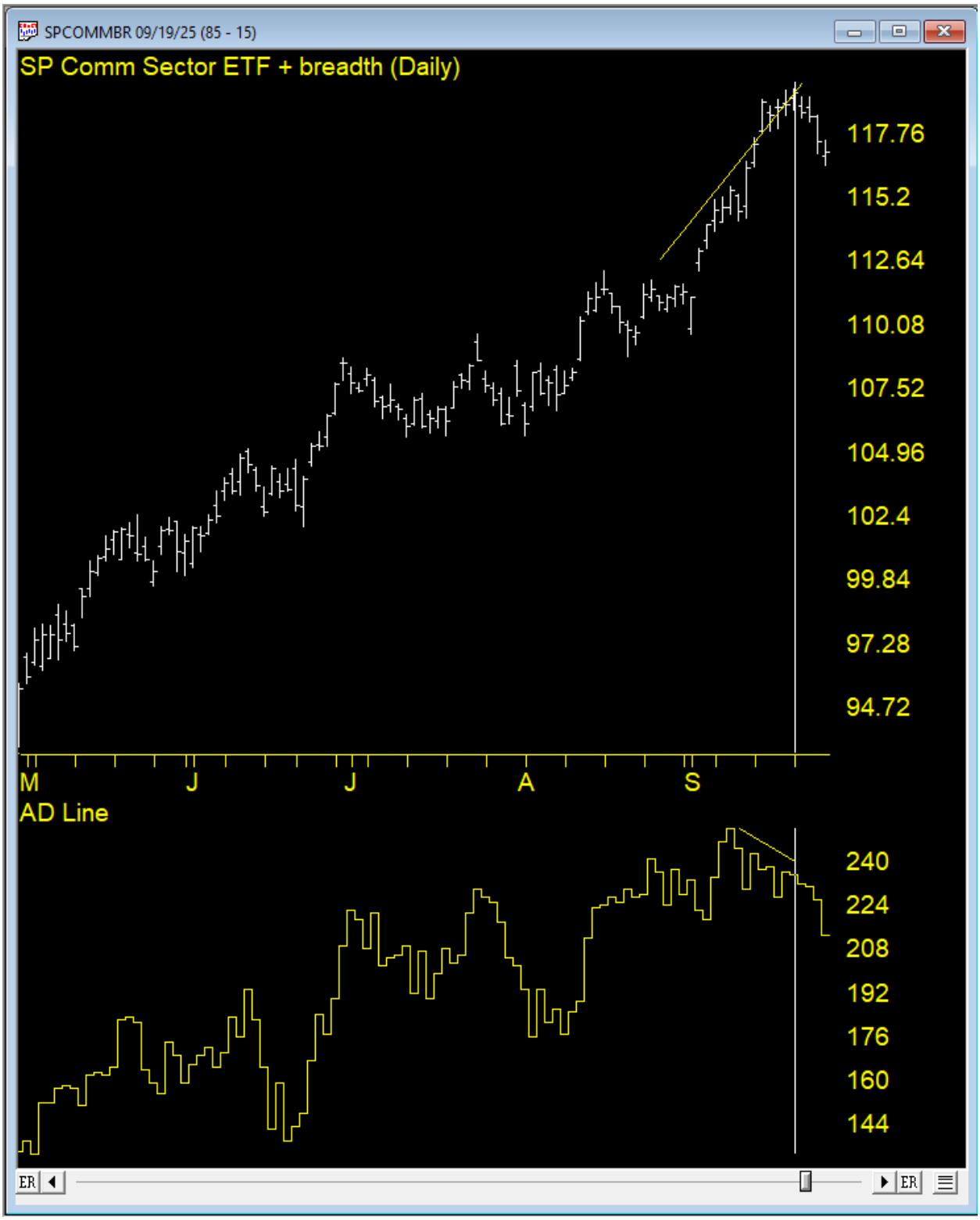
NASDAQ vs. NYSE Advance-Decline Lines Comparison — Highlighting periods of convergence and divergence

2.4 Sector Breadth — Looking Beneath the Surface

Beyond the broad market breadth of the NYSE and NASDAQ, sector-level breadth analysis gives us an additional layer of precision. The S&P 500 is composed of eleven major sectors: Technology, Healthcare, Financials, Consumer Discretionary, Consumer Staples, Energy, Utilities, Materials, Industrials, Real Estate, and Communication Services.

Tracking breadth across these sectors helps us identify which areas of the market are leading versus lagging. In AIQ TradingExpert Pro, we can set special tickers for each S&P sector ETF and monitor their relative breadth and performance. This sector rotation analysis, combined with the broader breadth picture, creates a genuinely powerful multi-dimensional view of market health. Here are the 11 sector ETFs we can combine with breadth data from the Sp500 stocks in this sector.

- Communication Services: Communication Services Select Sector SPDR Fund (XLC)
- Consumer Discretionary: Consumer Discretionary Select Sector SPDR Fund (XLY)
- Consumer Staples: Consumer Staples Select Sector SPDR Fund (XLP)
- Energy: Energy Select Sector SPDR Fund (XLE)
- Financials: Financial Select Sector SPDR Fund (XLF)
- Health Care: Health Care Select Sector SPDR Fund (XLV)
- Industrials: Industrial Select Sector SPDR Fund (XLI)
- Materials: Materials Select Sector SPDR Fund (XLB)
- Real Estate: Real Estate Select Sector SPDR Fund (XLRE)
- Technology: Technology Select Sector SPDR Fund (XLK)
- Utilities: Utilities Select Sector SPDR Fund (XLU)



Communication Services Select Sector SPDR Fund (XLC) with breadth from the SP500 Comms Sector stocks. Note the AD line diverging down as XLC reached new highs

Chapter 3: Reading the Major Indices

3.1 The Dow Jones Industrial Average — America's Original Market Barometer

The Dow Jones Industrial Average is the world's most recognized stock market index, yet it is in many ways the least technically rigorous of our primary market indicators. Created by Charles Dow in 1896 — initially consisting of just twelve companies — the DJIA is today a price-weighted average of thirty large-cap American companies.

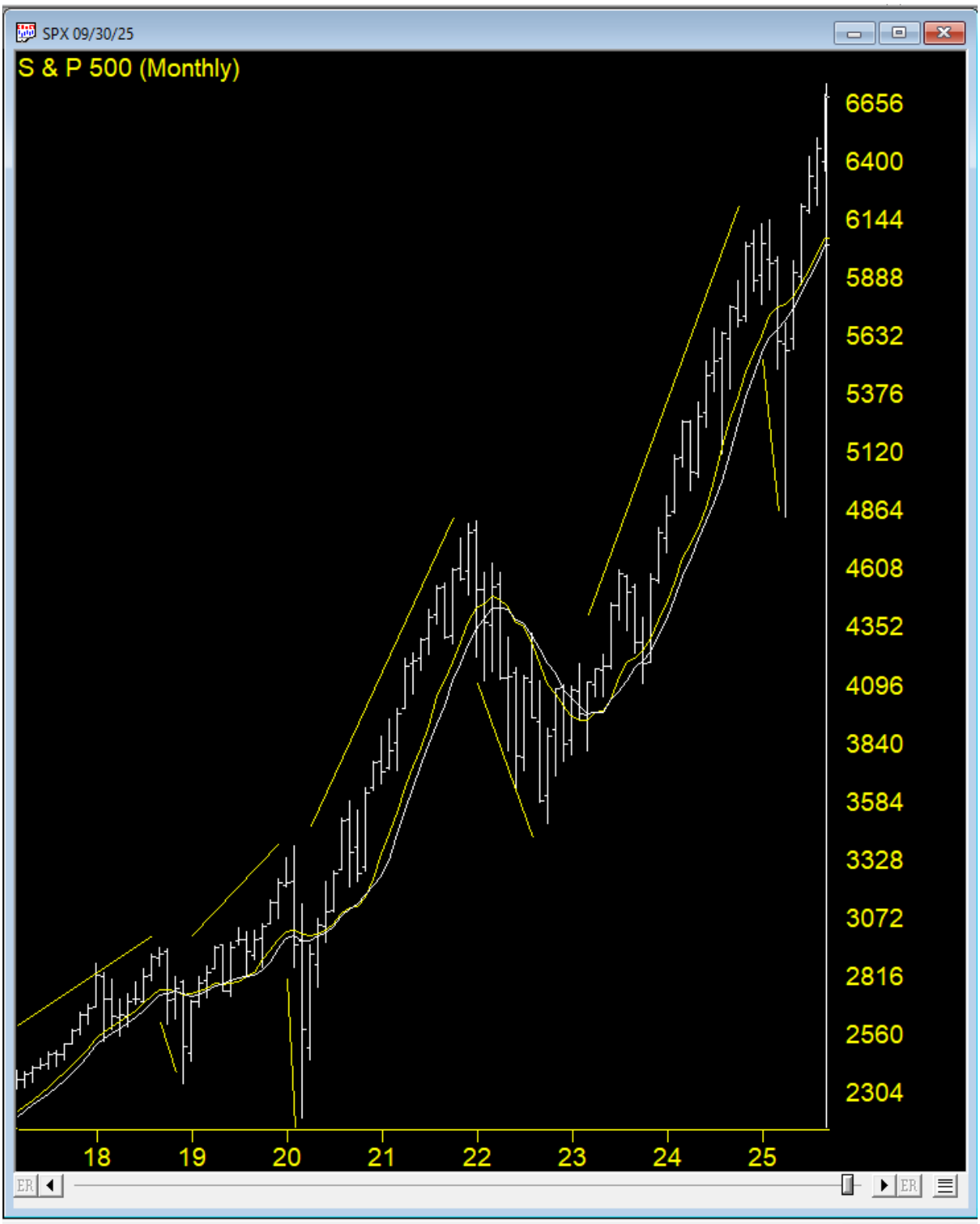
Price-weighting is the DJIA's fundamental quirk. A company with a share price of $400 has roughly four times the influence on the index as a company with a share price of $100, regardless of their respective market capitalizations. This makes the DJIA an imperfect representation of the overall market, but its sheer historical length and psychological significance among market participants means it cannot be ignored.

Where the Dow genuinely earns its place in our analytical toolkit is as a representation of old-economy American business: industrials, energy companies, financial giants, consumer brands. When the Dow is leading the broader market, it often signals that the economically sensitive, cyclical parts of the economy are in good health — a generally positive sign.

3.2 The S&P 500 — The Professional's Benchmark

If there is a single index that most serious traders and investors use as the primary barometer of the US equity market, it is the Standard and Poor's 500. The S&P 500 is a market-capitalization-weighted index of 500 of the largest publicly traded companies in the United States, covering approximately 80% of total US equity market capitalization.

The market-cap weighting means that the largest companies have the greatest influence on the index. As of recent years, the top ten holdings — dominated by Apple, Microsoft, NVIDIA, Amazon, Alphabet, Meta, and Tesla — have represented a historically unprecedented proportion of the total index. This concentration makes our breadth analysis even more essential, because the S&P 500 price alone can be significantly distorted by the performance of these few mega-caps.



S&P 500 Long-Term Chart with Key Moving Averages — Monthly chart showing 10-month EMA, 12-month EMA with major bull and bear phases identified

3.3 Moving Average Analysis on the S&P 500

3.3.1 The 200-Day Simple Moving Average

The 200-day Simple Moving Average (SMA) of the S&P 500 is arguably the single most important technical level in all of financial markets. When the index is trading above its 200-day MA, the dominant long-term trend is considered bullish. When it falls and sustains below the 200-day MA, the trend is considered bearish. Research consistently shows that being long the S&P 500 only when it is trading above its 200-day MA significantly improves risk-adjusted returns over the long run.

200-Day Moving Average Rules

- Long signal: S&P 500 closes above the 200-day SMA after a period below it — particularly powerful when accompanied by positive breadth expansion
- Exit/defensive signal: S&P 500 closes below the 200-day SMA — begin reducing equity exposure, particularly in high-beta positions
- Bear signal confirmed: S&P 500 sustains below 200-day SMA for 5+ trading days with declining A-D Line — full defensive or short positioning appropriate
- Filter rule: Ignore brief, single-day crossings of the 200-day MA — require a sustained 3-5 day close above or below before acting

3.3.2 The 50-Day Moving Average and Golden/Death Cross

The 50-day SMA serves as a shorter-term trend reference. In healthy bull markets, the S&P 500 will typically find support at or near its 50-day MA during routine pullbacks. The relationship between the 50-day and 200-day MAs also generates the 'Golden Cross' (50-day crosses above the 200-day — bullish) and 'Death Cross' (50-day crosses below the 200-day — bearish) signals.

S&P 500 — 50-Day and 200-Day Moving Averages — Daily chart showing Golden Cross and Death Cross signals

3.4 The NASDAQ Composite and NASDAQ 100

3.4.1 NASDAQ Composite

The NASDAQ Composite Index includes all domestic and international stocks listed on the NASDAQ market — over 3,300 companies. It is heavily weighted towards technology, consumer technology, biotechnology, and internet-related businesses. Because it includes thousands of smaller companies alongside the mega-caps, the NASDAQ Composite is more sensitive to small- and mid-cap technology stock performance than the NASDAQ 100. This means it can sometimes give earlier signals of breadth deterioration in the technology sector.

3.4.2 The NASDAQ 100 — The Technology Bellwether

The NASDAQ 100 (NDX) consists of the 100 largest non-financial companies listed on the NASDAQ. Apple, Microsoft, NVIDIA, Amazon, Meta, Alphabet, Tesla, and Broadcom together comprise an enormous proportion of the index. The QQQ ETF — one of the most heavily traded ETFs in the world — tracks the NASDAQ 100.

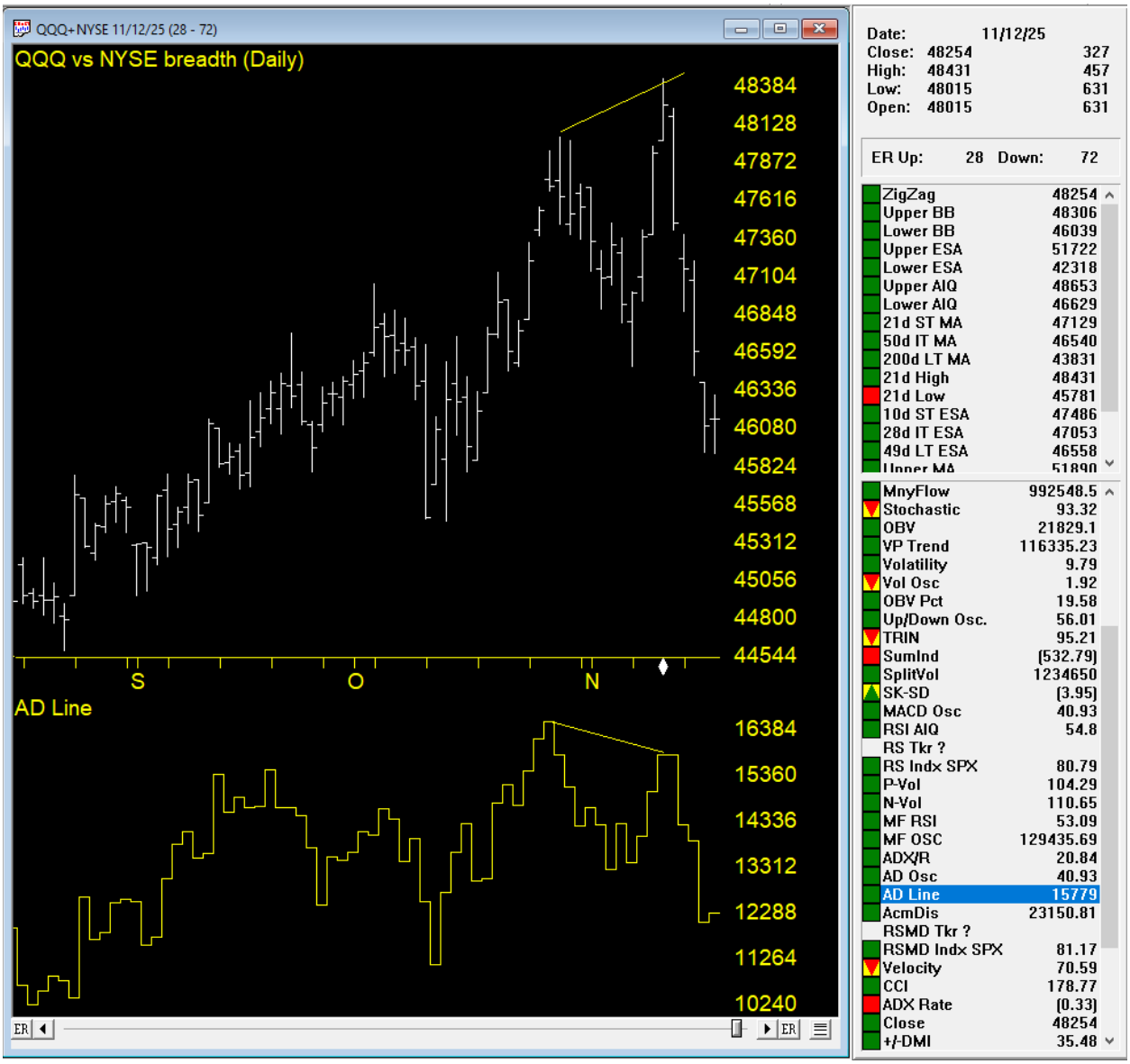
Top 10 Non-Financial Stocks in the NASDAQ-100 (Approximate Weighting)

- Nvidia Corporation (NVDA): ~$8.6-8.8%
- Apple Inc. (AAPL): ~$7.4-10.9%
- Microsoft Corporation (MSFT): ~$5.3-8.7%
- Amazon.com, Inc. (AMZN): ~$4.5-7.4%
- Meta Platforms, Inc. (META): ~$3.6-4.7%
- Alphabet Inc. Class A (GOOGL): ~$3.5-5.9%
- Alphabet Inc. Class C (GOOG): ~$3.3-5.4%
- Broadcom Inc. (AVGO): ~$3.4-5.2%
- Tesla, Inc. (TSLA): ~$3.3-4.1%
- Walmart Inc. (WMT): ~$2.7-3.3%

From a market timing perspective, the NASDAQ 100 is both a useful leading indicator and a potential trap. In late-stage bull markets, the NASDAQ 100 often continues to make new highs as the broader market breadth deteriorates — driven by the same narrow group of mega-cap technology names. When the NASDAQ 100 finally tops out and rolls over in these circumstances, the subsequent declines can be particularly swift and severe.

Key Relationship to Watch

The ratio of the NASDAQ 100 (QQQ) to the NYSE A-D Line is a powerful indicator of market concentration risk. When QQQ continues to make new highs while the NYSE A-D Line is flat or declining, concentration risk is elevated.



QQQ and breadth data from NYSE showing a clear divergence between QQQ and AD Line prior to the move down

3.5 Index Intermarket Relationships

The relative performance of our four key indices tells us important things about the character of the prevailing market environment. When the NASDAQ 100 leads the S&P 500, which leads the Dow Jones, we are typically in a risk-on, growth-favored environment. When the Dow Jones leads or equals the performance of the NASDAQ 100, we are typically in an early cycle recovery or more mature economic expansion phase. When defensive sectors (utilities, consumer staples, healthcare) are leading, we may be seeing a classic late-cycle rotation.

Chapter 4: AIQ Market Timing — The TradingExpert Pro System

4.1 Introduction to AIQ TradingExpert Pro

AIQ TradingExpert Pro has been central to my approach to systematic market analysis for many years, and I make no apology for dedicating a full chapter to it in this book. In a world where traders are bombarded with platforms, apps, and subscription services all claiming to be the definitive analytical tool, AIQ stands apart for one very specific reason: it was built from the ground up around a coherent, systematic, rules-based approach to both stock selection and market timing. Full disclosure, of course, I am CEO of AIQ Systems 😊

The AIQ Market Timing Model — often called the Expert Rating system or the ER — is a composite indicator system that analyses a range of technical inputs and produces a single, actionable market timing signal. Understanding how it works, and more importantly how to interpret and apply its signals in conjunction with the breadth and price analysis we've covered in earlier chapters, is the focus of this chapter.

4.2 The AIQ Expert Rating (ER) System

The AIQ Expert Rating (ER) is expressed as a number from 0 to 100. Readings above 95 are considered strong buy signals. Readings below 5 are considered strong sell signals. The intermediate zone between 5 and 95 represents varying degrees of bullish or bearish bias. The ER is calculated for individual stocks but — critically for our purposes here — it is also calculated for market indices and ETFs.

When applied to the S&P 500, the NASDAQ, or the Dow Jones, the AIQ ER gives us a composite reading of the technical health of that particular instrument. Because it aggregates multiple technical inputs into a single number, it reduces the cognitive burden on the analyst — you don't have to individually read six or seven separate indicators and mentally synthesize them. The ER does that synthesis for you, within a consistent, repeatable framework.

AIQ Expert Rating Interpretation

ER UP ≥ 95 = Strong Buy / Bullish signal. ER DOWN ≥ 95 = Strong Sell / Bearish signal.. Always confirm ER signals with breadth analysis and Phase indicator and the prevailing macro environment.

AIQ Expert Rating on S&P 500 ETF (SPY) — Daily chart with AIQ ER signal showing buy signal (ER >95) and subsequent price move with Phase confirmation

4.3 AIQ Market Timing Indicators

4.3.1 Price Rule Signals

AIQ uses a proprietary set of price-rule signals that identify specific price patterns and breakouts on market charts. These signals are based on technical analysis logic applied to the open, high, low, and close of each bar, looking for specific relationship patterns that have historically preceded significant price moves.

4.3.2 The AIQ New Highs/New Lows Indicator

AIQ's implementation of the New Highs/New Lows indicator applies signal logic to the differential between new 52-week highs and new 52-week lows on the NYSE and NASDAQ. Rather than simply displaying the raw count, it calculates a smoothed

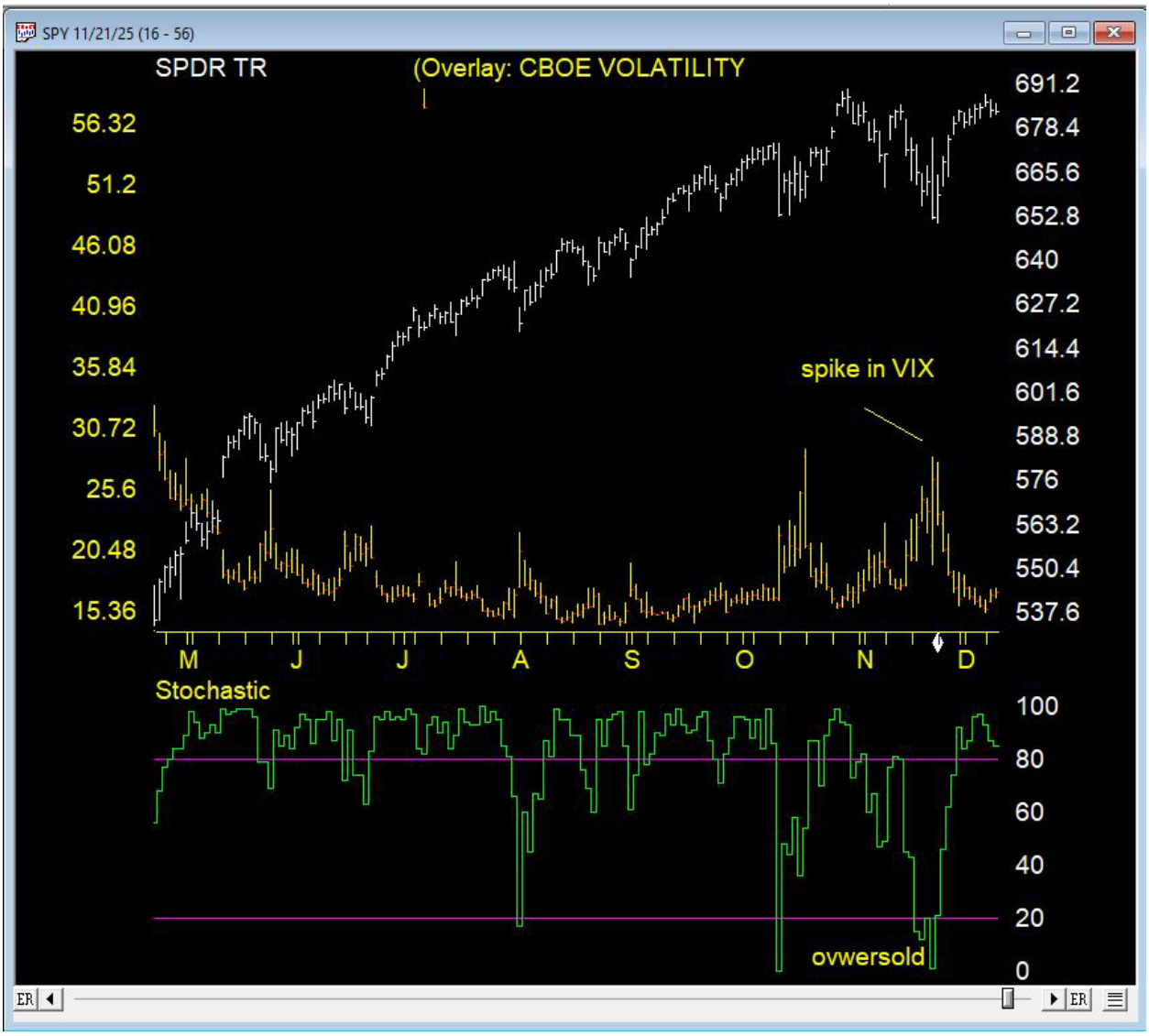
differential and generates signals when the balance shifts decisively in one direction — particularly after a period of compressed, ambiguous readings.

4.3.3 Volume Analysis in AIQ

TradingExpert Pro's volume analysis tools examine the relationship between up-volume and down-volume on an ongoing basis. The On-Balance Volume calculation, combined with AIQ's proprietary weighting of volume distribution, helps identify periods of institutional accumulation versus distribution on the major indices.

4.3. Overbought/Oversold Indicator

Stochastic, for example the indicator is expressed as a percentage, and charted on a scale of 0 to 100. Above 80% indicates an overbought condition, and below 20% indicates an oversold condition and is designed to identify short-to-intermediate-term extremes in price momentum. An oversold reading on the S&P 500, especially when accompanied by a surge in the VIX, is one of the highest probability buy signals available to a systematic market timer.



AIQ Stochastic Overbought/Oversold on ETF SPY with overlaid VIX spike and oversold stochastic prior to the rally

4.4 Using AIQ for Market Group Analysis

One of the most powerful features of TradingExpert Pro is the ability to create and analyze groups of securities with breadth data. My standard market timing setup in TradingExpert Pro includes ETFs for the S&P 500 sectors (using the SPDR sector ETFs — XLK, XLF, XLE, XLV, etc.), the major index ETFs (SPY, QQQ, DIA, IWM), with breadth data. By monitoring the AIQ ER across all these groups simultaneously, I can quickly identify where strength is building and where deterioration is occurring — often days or weeks before it becomes obvious in the headline index prices.

4.5 AIQ Market Timing Scans

Some Core Approaches

- Daily ER scan: Flag any major index ETF (SPY, QQQ, DIA, IWM) generating an ER ≥ 95 (buy) or ≥ 95 (sell)
- Price rule confirmation like phase Identify when a price rule signal fires simultaneously with an ER extreme on any major AIQ market index
- Check sp 500 ETF markets for sector rotation scan, identify which sectors are receiving accumulation vs. distribution
- Breadth divergence when markets make new highs or lows that are accompanied by breadth data like AD Line diverging
- Flag days when up-volume exceeds down-volume by a ratio of 9:1 or greater (power thrusts) or vice versa (panic selling)

4.6 AIQ Reports and the Market Timing Dashboard

AIQ TradingExpert Pro includes a comprehensive reporting system that can be configured to generate daily market timing reports covering much of the key indicators discussed in this chapter. I encourage every reader who uses AIQ to use the Market log that runs automatically at the end of each trading day, summarizing the current readings of the ER major indices, the breadth indicator status, and any new signals.

Date 04/17/26 Friday DJIA 49447.00 SPX 7126.06
ER 33 - 33 99 - 1 Days 36 Change DJIA 869.00 SPX 84.78
WAL 59 - 41 US 9 - 91 Group Score 80+ 20- Group Delta 57+ 43-
Using All Tickers

Market Plot	Bearish	Bullish
MACD		»»»»»»»»»»»»»
MD Osc		»»»»
DirMov		»»»»»»»»»
VA Pct		»»»»»»»»»
OBV Pct		»»»»»»»»»»»»»
P-Vol		»»»»»»»»»»»»»
N-Vol		»»»»»»»»»
MF Rsi	««««««««««	
SVMA		»»»»»»»»»»»»»
AD Line		»»»»»»»»»»»»»
AD Ind		»»»»»»»»»»»»»
AD Osc		»»»»»»»»»»»»»
SK-SD		»»»»»»»»»»»»»
SumInd		»»»»»»»»»
HI/LO		»»»»»»»»»
RS SPX	««««««««««	

AIQ Market Log with sentiment values bullish/bearish on DJIA and Breadth of the NYSE

Chapter 5: Other Market Timing Platforms and Strategies

5.1 The Broader Market Timing Landscape

While AIQ TradingExpert Pro is the platform I've worked with most extensively and the one I recommend without reservation to systematic traders, it would be doing this book a disservice to ignore the other well-developed market timing approaches and platforms that professional traders use. Some of these have decades of track records behind them, and understanding them enriches our overall analytical framework.

5.2 The Ned Davis Research Approach

Ned Davis Research (NDR), founded in 1980, is one of the most respected institutional research firms in the world of technical and quantitative market analysis. Their market timing models are composite, weight-of-evidence systems that have been continuously refined over several decades. The key principles underlying the NDR approach are directly compatible with our own framework:

- Breadth confirmation of price moves — the A-D Line, volume trends, and sector participation
- Sentiment as a contrarian indicator — when optimism is extreme, risk increases; when pessimism is extreme, opportunity emerges
- Monetary conditions — interest rate trends and Federal Reserve policy as primary macro drivers
- Valuation as a long-term risk filter — high valuations compress future expected returns

5.3 Investors Business Daily — The Follow-Through Day

Investors Business Daily (IBD), founded by William O'Neil, developed a straightforward but effective market timing classification system built around the concept of following the market's own price and volume action. The IBD Market Pulse designations — Confirmed Uptrend, Uptrend Under Pressure, Market in Correction — have been widely followed by growth stock traders for decades.

The IBD system particularly focuses on the behavior of the major indices — specifically whether they are in confirmed distribution or accumulation. A 'Follow-Through Day' — a significant up day in price and volume occurring within a defined period after a market low — is IBD's primary bull market re-entry signal.

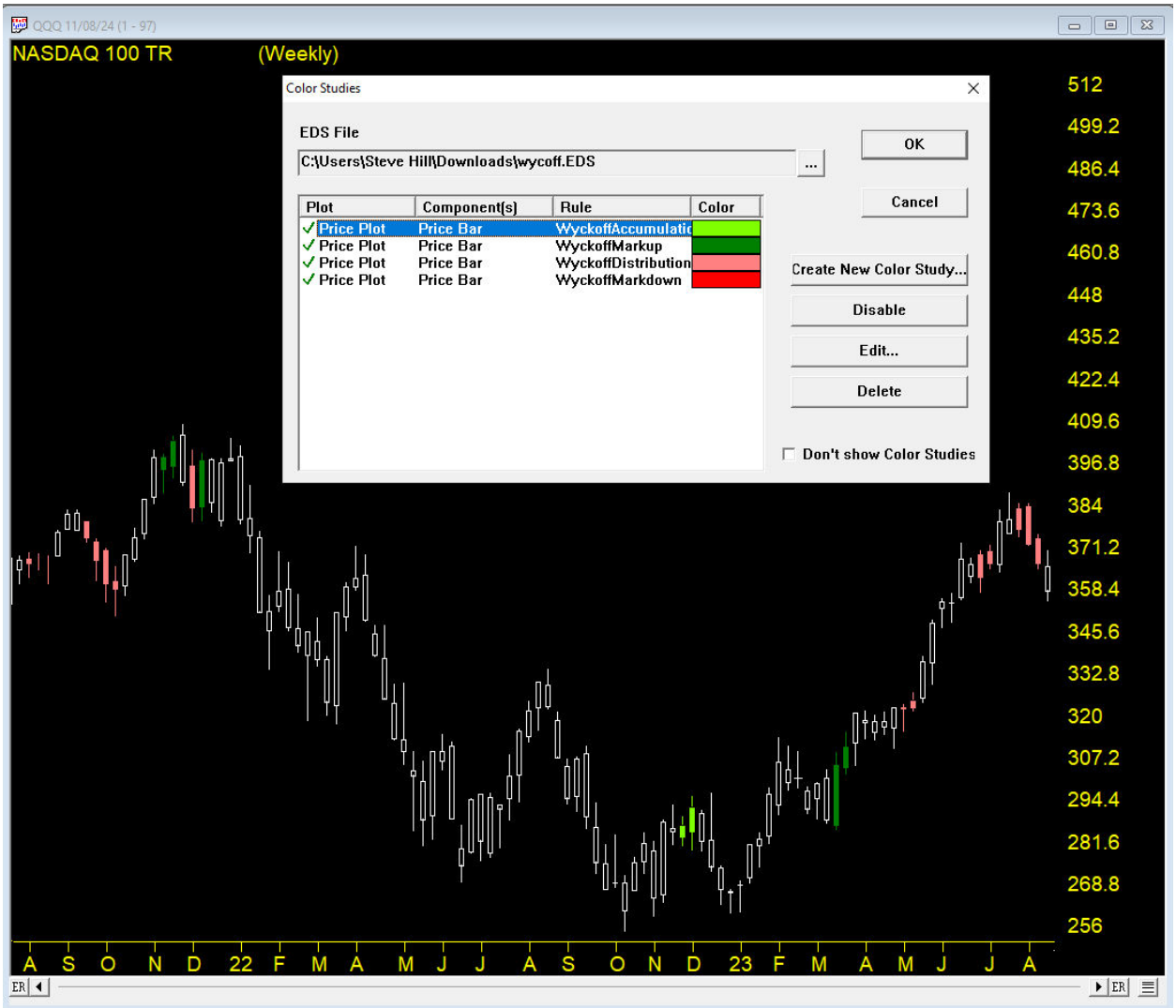
IBD Follow-Through Day

A Follow-Through Day occurs when a major index closes up 1.25% or more in volume higher than the prior session, on the 4th day or later after a new market rally attempt begins. It is a signal that institutional money is beginning to flow back into the market. It is confirmation, not a standalone trading trigger — always require breadth confirmation.

5.4 The Wyckoff Method Applied to Market Indices

Richard Wyckoff's analytical framework, developed in the early 20th century, remains one of the most elegant and powerful approaches to understanding the behavior of the major market indices. Wyckoff's core insight was that the market's price and volume action reflects the activities of large, sophisticated operators — what he called the 'Composite Operator' — who systematically accumulate positions in weakness and distribute them into strength.

Wyckoff identified four distinct phases: Accumulation (the smart money quietly buying after a major decline), Markup (the broad advance as the market trends higher), Distribution (the smart money quietly selling into strength as the market peaks), and Markdown (the decline). These phases are particularly powerful when applied to the weekly charts of the S&P 500 and NASDAQ.



Wyckoff Accumulation and Distribution on QQQ Weekly – distribution in pink accumulation in green

5.5 The Coppock Curve

The Coppock Curve is a long-term momentum indicator designed specifically for identifying major market bottoms. Developed by Edwin Sedgwick Coppock and published in Barron's in 1962, it has a remarkable track record of identifying the early stages of new bull markets. The calculation involves a weighted moving average of the sum of a 14-month ROC and an 11-month ROC. The Coppock Curve generates a buy signal when it turns up from below zero after a period of negative readings. Because it uses monthly data, signals are infrequent but historically very reliable.

5.6 The Zweig Breadth Thrust

Martin Zweig, one of the great market timers of the 20th century, developed the Breadth Thrust signal — one of the highest-probability buy signals in the history of market analysis. The signal occurs when the 10-day moving average of NYSE advancing issues divided by the sum of advancing and declining issues moves from below 40% to above 61.5% within a 10-trading-day window.

Zweig Breadth Thrust Signal Rules

1. Calculate: 10-day EMA of (NYSE Advancing Issues) / (NYSE Advancing + NYSE Declining Issues)
2. Condition 1: Ratio must fall below 0.40 (40%) — indicating severely oversold breadth
3. Condition 2: Within 10 trading days, ratio must rise above 0.615 (61.5%) — indicating exceptional breadth recovery
4. Signal: When both conditions are met within the 10-day window, a Zweig Breadth Thrust has occurred
5. Historical success rate: Extremely high — subsequent 12-month returns have been strongly positive in virtually every historical occurrence

Zweig Breadth Thrust occurs between the first and third week of April 2025

5.7 The 10-Month Moving Average Strategy

The 10-month Simple Moving Average strategy, popularized by quantitative researcher Mebane Faber, is one of the simplest and most effective long-term market timing rules ever documented. The strategy is straightforward: be long the S&P 500 when monthly price closes above the 10-month SMA; move to cash when monthly price closes below the 10-month SMA. Using monthly closing prices eliminates the whipsaws and false signals that can plague daily or weekly signals. Historically, this has significantly improved risk-adjusted returns compared to buy-and-hold, primarily by avoiding participation in the worst phases of bear markets.

Chapter 6: Market ETFs — Profiting from Buy and Sell Signals

6.1 The ETF Revolution for Market Timers

The proliferation of exchange-traded funds over the past quarter-century has been, without question, the single greatest practical advance in the toolkit of the systematic market timer. Where once expressing a view on the direction of the S&P 500 required either individual stock picks, expensive futures contracts, or complex options strategies, we can now do so with a single, liquid, low-cost ETF trade executed directly in a standard brokerage account.

6.2 Bullish Index ETFs — Capturing Upside

6.2.1 S&P 500 ETFs

SPY (SPDR S&P 500 ETF Trust) — the original and still the most liquid equity ETF in the world, with daily trading volumes in the hundreds of millions of shares. SPY is the standard vehicle for broad S&P 500 exposure and the one I use most frequently for market timing trades. IVV (iShares Core S&P 500 ETF) and VOO (Vanguard S&P 500 ETF) are alternative S&P 500 trackers with slightly lower expense ratios — useful for longer-term holding periods.

6.2.2 NASDAQ 100 ETFs

QQQ (Invesco QQQ Trust) is the dominant ETF for NASDAQ 100 exposure, and alongside SPY it is one of the most heavily traded securities of any kind in the world. QQQ's beta is higher than SPY — it moves more aggressively in both directions — making it appropriate for higher-conviction bullish signals, particularly those arising in environments where technology and growth sectors are leading.

6.2.3 Total Market and Small Cap ETFs

IWM (iShares Russell 2000 ETF) tracks the Russell 2000 small-cap index. IWM is particularly useful as a breadth confirmation tool — in healthy, broadly based bull markets, small-caps tend to participate fully. When IWM is lagging significantly behind SPY and QQQ on a relative basis, it's often a sign that the rally is narrowing to mega-caps.

6.3 Leveraged Bullish ETFs — Amplifying Signals

Leveraged ETFs use derivatives and debt to amplify the daily return of their underlying index by a factor of 2x or 3x. They are powerful tools for experienced traders acting on high-conviction, shorter-term market timing signals. SSO (ProShares Ultra S&P 500) provides 2x daily leveraged exposure to the S&P 500. UPRO (ProShares UltraPro S&P 500) provides 3x daily leveraged exposure. QLD provides 2x NASDAQ 100 exposure, while TQQQ provides 3x exposure.

Leveraged ETF Warning

Leveraged ETFs are suitable only for short-to-medium-term trades (days to a few weeks) in strongly trending markets. In choppy or sideways conditions, the daily rebalancing mechanism creates negative compounding drag — 'volatility decay' — that can significantly erode even a correctly directional position. Never use leveraged ETFs as core long-term holdings.

6.4 Inverse ETFs — Profiting from Bearish Signals

When our market timing analysis generates a sell or bearish signal, inverse ETFs allow us to profit from declining markets without the complexity or unlimited risk of outright short selling. SH (ProShares Short S&P 500) returns the inverse of the S&P 500's daily performance. SDS (ProShares UltraShort S&P 500) provides 2x inverse exposure, and SPXU provides 3x inverse exposure. On the NASDAQ side: PSQ provides 1x inverse NASDAQ 100 exposure, QID provides 2x inverse, and SQQQ provides 3x inverse.

6.5 Defensive ETFs for Transitional Environments

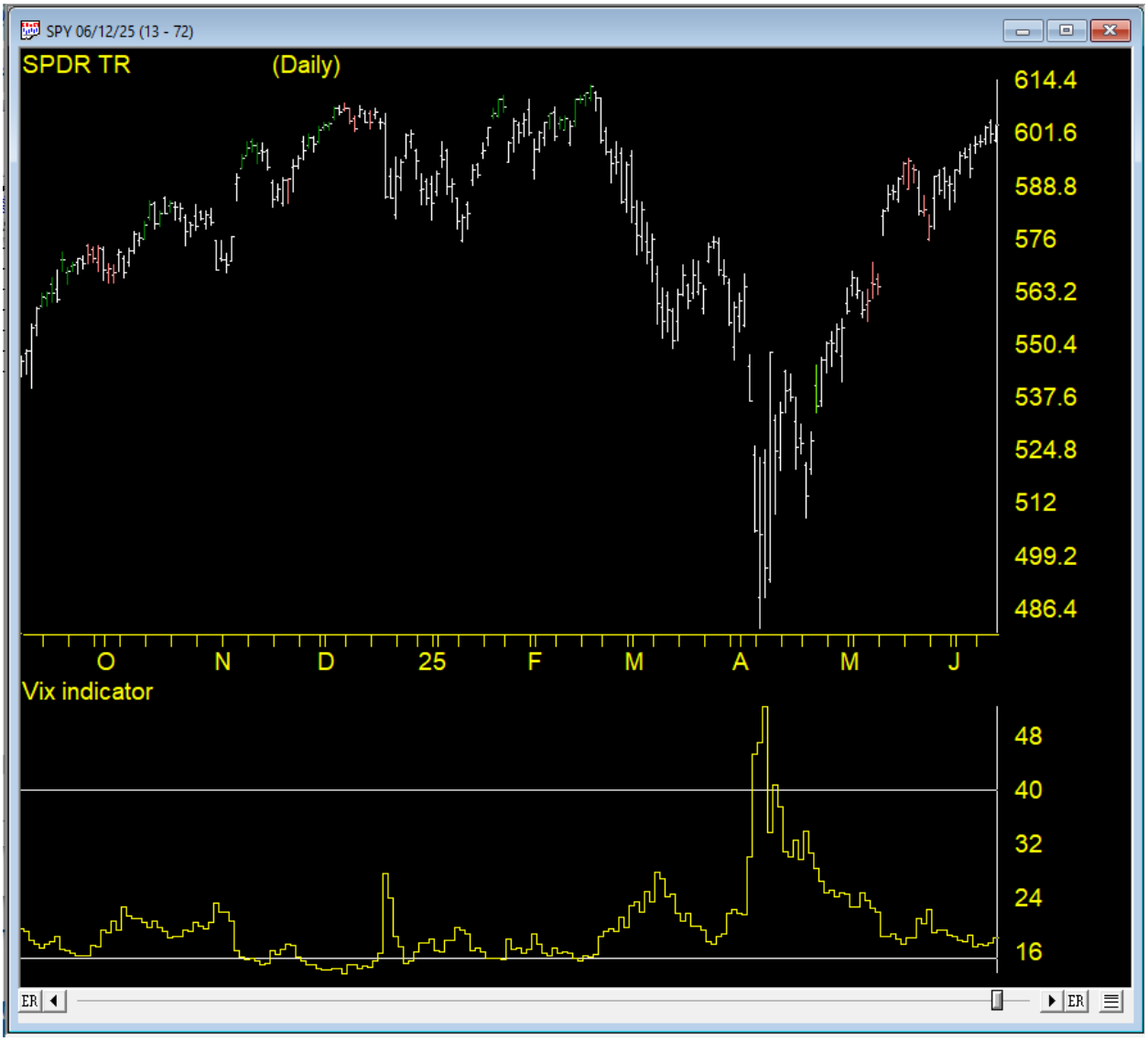
Not every market environment is cleanly bullish or bearish. In transitional periods, I prefer to rotate into defensive sectors and instruments. XLP (SPDR Consumer Staples Select Sector ETF) and XLU (SPDR Utilities Select Sector ETF) provide exposure to the most defensive segments of the S&P 500. XLV (SPDR Health Care Select Sector ETF) provides healthcare exposure. Gold ETFs (GLD, IAU) can also serve a defensive purpose during periods of elevated macro uncertainty.

6.6 Using the VIX for Market Timing

The VIX — often called the Fear Index — measures the implied volatility priced into S&P 500 options for the next 30 days. It has an almost perfectly inverse relationship with the S&P 500 under most market conditions.

VIX-Based Market Timing Rules

6. VIX < 15: Market complacency — reduce position sizes or tighten stops on existing longs; avoid new leveraged long positions
7. VIX 15-20: Normal bull market environment — standard position sizing on long signals
8. VIX 20-30: Elevated uncertainty — size positions more conservatively; be ready to move defensively on any deterioration in breadth
9. VIX 30-40: Significant stress — look for breadth and momentum divergences that signal approaching exhaustion of selling pressure
10. VIX > 40: Panic conditions — highest probability buy signal environment; begin scaling into long positions



SPY with VIX > 40: Panic conditions — highest probability buy signal environment; begin scaling into long positions

Chapter 7: Technical Indicators for Market Timing

7.1 MACD at the Index Level

Regular readers of The MACD Divergence Guide will be familiar with the MACD as applied to individual stocks. Applied to the major indices and breadth indicators, MACD takes on additional power as a market timing tool. For intermediate-to-long-term market timing, I prefer to use MACD on weekly or monthly charts, where signals are less frequent but carry greater significance.

7.1.1 MACD Histogram Analysis on Major Indices

The MACD Histogram — the bar chart representation of the distance between the MACD line and its signal line — is particularly useful on the S&P 500 weekly chart. When the MACD Histogram is making higher lows while the S&P 500 price is making lower lows (positive divergence), it signals that selling momentum is exhausting and a reversal is likely approaching. Conversely, when the S&P 500 is making new price highs but the MACD Histogram is making lower highs (negative divergence), it signals weakening upside momentum.

MACD Divergence on S&P 500 Weekly — Weekly chart annotating positive divergences at major lows and negative divergences at major tops

7.2 Relative Strength Index (RSI) — Market-Level Applications

The RSI measures the speed and changes of price movements on a scale from 0 to 100. A market index in a strong bull trend will frequently sustain RSI readings above 70 for extended periods. Selling the S&P 500 simply because RSI touches 70 has historically been a poor strategy. Instead, I use RSI on the major indices primarily for divergence analysis — watching for negative divergence at price highs and positive divergence at price lows.

7.3 Stochastic Oscillator on Weekly Index Charts

On weekly charts of the major indices, I use the Stochastic (14,3,3 configuration) as a complement to MACD and RSI. Triple confirmation — MACD negative divergence, RSI

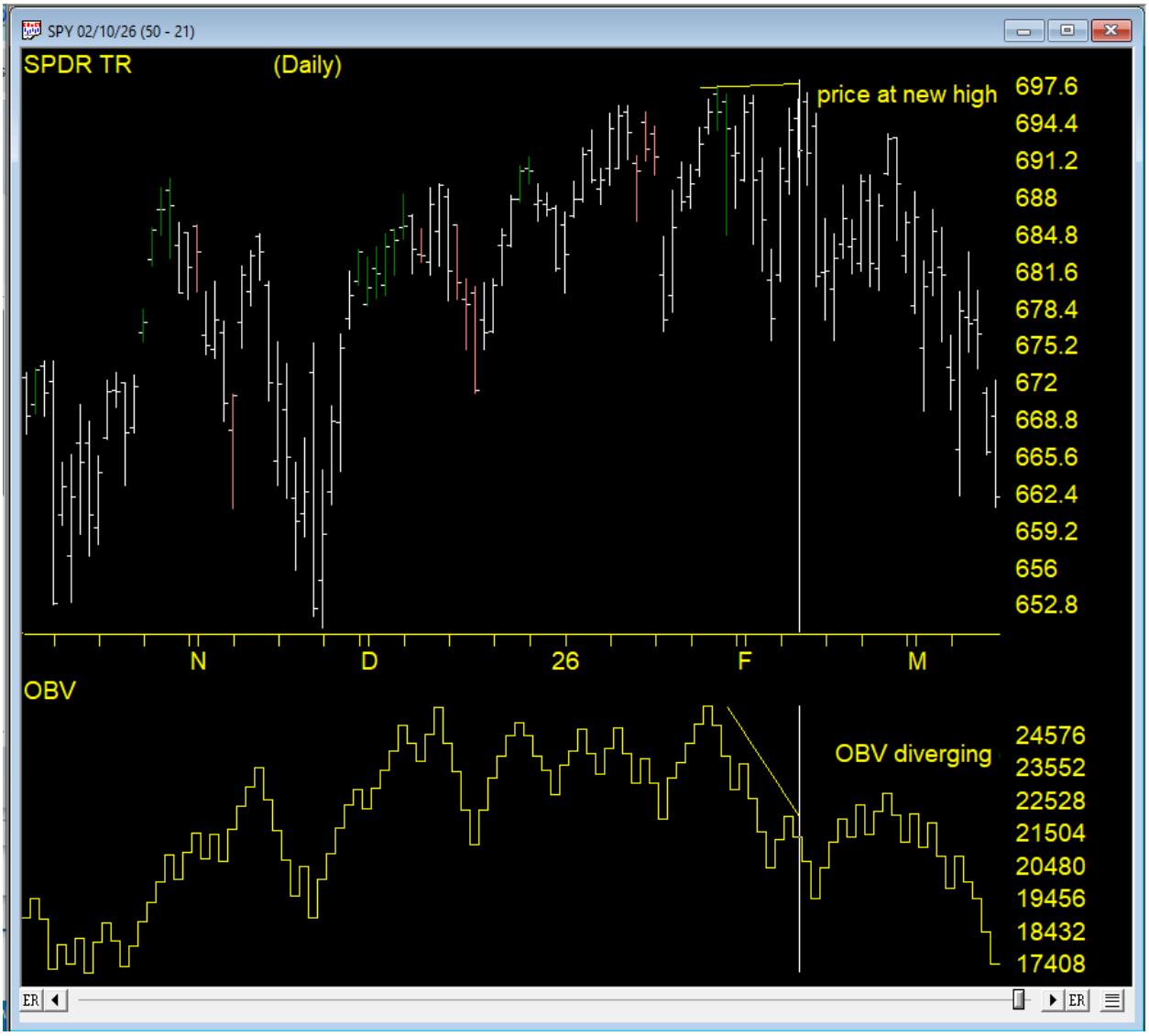
negative divergence, and a weekly Stochastic roll-over from overbought — produces some of the most reliable intermediate-term sell signals available.

7.4 Bollinger Bands on Major Indices

Bollinger Bands, developed by John Bollinger, plot bands at two standard deviations above and below a 20-period moving average. On the daily charts of the major indices, Bollinger Bands serve several useful market timing functions. A narrow Bollinger Band squeeze — which occurs after an extended period of low volatility — historically precedes a significant directional move. The direction of the breakout of the squeeze is the signal.

7.5 The On-Balance Volume Indicator

On-Balance Volume (OBV) is a cumulative volume indicator that adds volume on up-days and subtracts volume on down-days. When OBV is making new highs alongside the S&P 500, volume is confirming the price advance — institutional participation is solid. When OBV diverges negatively — flat or declining while price makes new highs — it signals that advancing prices are occurring on diminishing participation from large buyers.



On-Balance Volume vs. SPY — Daily chart showing OBV divergence at a major market top

7.6 The 52-Week High/Low Ratio — A Composite Market Health Score

The ratio of NYSE stocks at 52-week highs to NYSE stocks at 52-week lows is something I monitor daily as a simple but powerful composite health reading for the market. I express this as a ratio — new highs divided by the sum of new highs and new lows — which normalizes the reading to a 0-to-100 scale. When this ratio is above 70 and rising, the market's internal health is excellent. When it falls below 50, more stocks are making new lows than new highs. A sustained reading below 30 is consistent with a bear market environment.

Chapter 8: Macro Catalysts and the Economic Calendar

8.1 Why Macro Events Matter to the Technical Analyst

Here is a statement that may surprise some readers coming from a technical analyst: I care deeply about macroeconomic events. Not because I try to forecast the economy — I most certainly do not — but because macroeconomic events are the single greatest driver of the regime shifts that make technical analysis either highly productive or frustratingly unreliable.

In a genuine bull market, with accommodative monetary policy, positive earnings growth, and a healthy economic backdrop, almost every technical buy signal in a systematic, rules-based system will work. In a genuine bear market — driven by tightening monetary policy, deteriorating earnings, and economic contraction — technical buy signals become dangerous traps. Understanding where we are in the macroeconomic cycle is therefore not an alternative to technical analysis — it is the essential context within which technical analysis must be interpreted.

8.2 The Federal Reserve — The Market's Most Powerful External Force

Of all the macro factors that influence equity markets, none is more important over the intermediate to long term than Federal Reserve monetary policy. The Fed's primary tools are the federal funds rate (the overnight lending rate that sets the floor for all short-term interest rates) and its balance sheet (through quantitative easing and quantitative tightening). Both tools have profound effects on equity valuations.

8.2.1 Interest Rates and Equity Valuations

The theoretical connection between interest rates and equity valuations is straightforward: equities are priced as the discounted present value of their future earnings or cash flows. The discount rate used in that calculation is fundamentally linked to the prevailing risk-free interest rate. When rates rise, the discount rate rises, and the present value of future earnings falls — all else being equal. This is why rising rates are fundamentally bearish for equity valuations, particularly for high-multiple growth stocks whose value is skewed heavily towards distant future earnings.

Fed Policy Rule of Thumb

'Don't fight the Fed' is perhaps the most enduring piece of macro-driven market timing wisdom. A Fed in active easing mode (cutting rates, expanding balance sheet) creates a positive tailwind for equities. A Fed in active tightening mode creates a headwind. The transition from one regime to the other — particularly the first rate cut in a new cycle — has historically been among the most powerful positive catalysts for equity markets.

8.3 The FOMC Meeting Calendar

The Federal Open Market Committee (FOMC) meets eight times per year to assess economic conditions and set monetary policy. In the two to three trading days before an FOMC meeting, market volatility typically compresses as traders reduce positions ahead of uncertainty. In the immediate aftermath of the FOMC announcement and the Fed Chair's press conference, volatility often spikes before settling into a new trend as the market digests the implications of the policy decision.

FOMC Trading Rules

11. Pre-meeting: Reduce position sizes 2-3 days before the FOMC announcement — elevated uncertainty reduces the reliability of technical signals
12. Post-announcement: Wait for initial volatility to settle (typically 30-60 minutes) before evaluating new signals
13. Surprise cuts: Initial bullish reaction, but confirm with breadth expansion within 2-3 trading days before adding aggressively to longs
14. Surprise hikes: Initial bearish reaction; watch for a VIX spike and extreme negative breadth as a potential short-term buy signal
15. Guidance language: The Fed's forward guidance and the dot plot of rate expectations often move markets more than the actual decision

8.4 Key Economic Reports and Their Market Impact

8.4.1 Non-Farm Payrolls

The Bureau of Labor Statistics releases the monthly Employment Situation Report — universally known as the Non-Farm Payrolls report, or NFP — on the first Friday of each month. This is arguably the single most market-moving regular economic report in the world. The NFP report includes the headline number of jobs created or lost, the unemployment rate, the labour force participation rate, and the Average Hourly Earnings figure.

The market's reaction to NFP frequently defies intuitive logic for the uninitiated. Strong job growth in a high-inflation environment can actually send markets lower — because it implies the Fed will need to keep rates higher for longer. This 'good news is bad news / bad news is good news' dynamic is one of the more counterintuitive aspects of macro-driven market analysis.

8.4.2 Inflation Reports — CPI and PCE

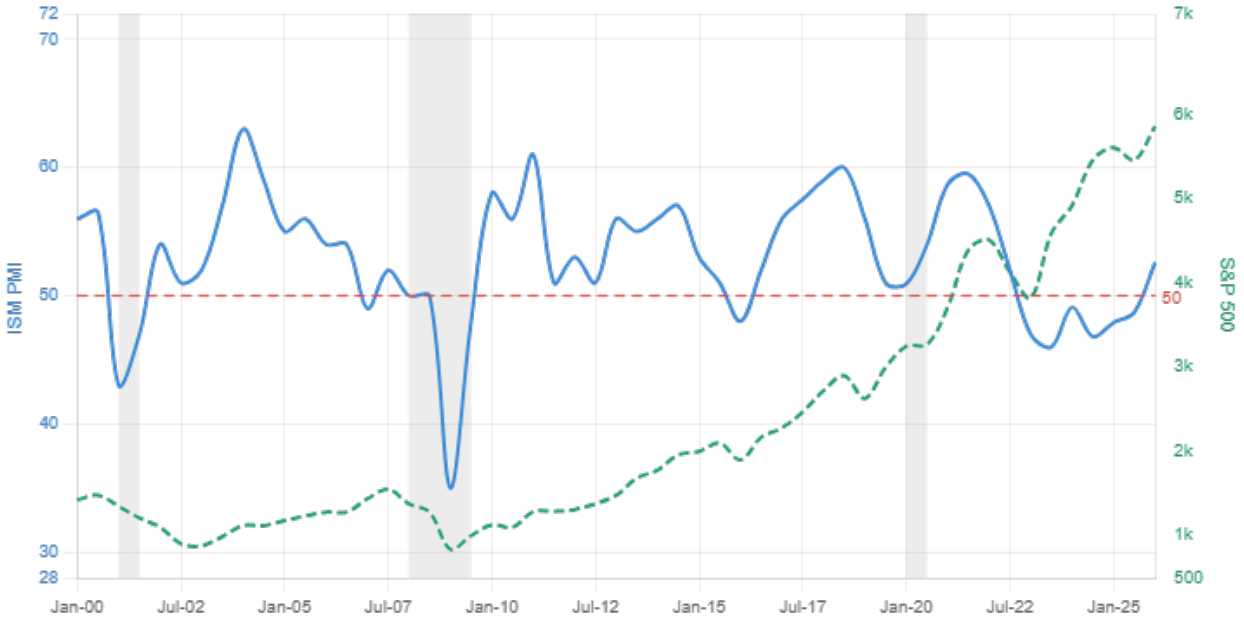
The Consumer Price Index (CPI) and the Personal Consumption Expenditures (PCE) Price Index are the two primary measures of inflation that the Federal Reserve monitors. A CPI print that comes in above expectations typically sends the S&P 500 sharply lower. A below-expectations print — particularly one that shows a genuine deceleration in the year-over-year rate — can produce significant market rallies.

8.4.3 GDP Data

The Bureau of Economic Analysis releases GDP data in three stages: an advance estimate, a preliminary revision, and a final revision. The advance estimate — released approximately four weeks after the end of each quarter — carries the most market weight. Two consecutive quarters of negative GDP growth constitute the textbook definition of a recession.

8.4.4 ISM Manufacturing and Services PMI

The Institute for Supply Management's Purchasing Managers' Index reports provide timely insight into the health of the US manufacturing and services sectors. A reading above 50 indicates expansion; below 50 indicates contraction. The New Orders sub-component is particularly valuable as a forward-looking indicator, since current orders are the revenue of tomorrow.



ISM Manufacturing PMI vs. S&P 500 — Long-term overlay chart illustrating the leading relationship of PMI below 50 with equity market drawdowns

8.4.5 The Yield Curve — The Recession Predictor

The yield curve — specifically the relationship between short-term and long-term Treasury interest rates — has one of the most reliably predictive track records in all of macroeconomic analysis. When short-term rates (typically the 2-year Treasury yield) exceed long-term rates (the 10-year yield) — a condition known as yield curve inversion — a recession has historically followed within 12-24 months in every occurrence going back decades.

Chapter 9: Earnings Season and Corporate Fundamentals

9.1 Earnings as a Market Catalyst

Every quarter, the corporate earnings cycle creates one of the most predictable periods of elevated market volatility on the calendar. Earnings season runs roughly in the four-to-six weeks following the end of each calendar quarter — it is when the market reconciles its expectations for corporate profitability with the reality of reported results. The aggregate earnings trend for the S&P 500 is a fundamental driver of long-term equity value.

9.2 Using Forward Earnings Estimates

The S&P 500's price-to-earnings (P/E) ratio relative to forward earnings estimates is a useful long-term valuation gauge, though it is emphatically not a market timing tool. Where forward earnings estimates become most useful for market timing is when they are being revised dramatically in one direction. A rapid upward revision cycle supports both fundamental valuations and market technical strength. A rapid downward revision cycle is a headwind for equity prices regardless of what technical indicators may be signaling in the short term.

> **Earnings Revision Principle**
>
> *When the 12-month forward EPS estimate for the S&P 500 is being revised upward on a month-over-month basis, the fundamental backdrop supports bullish technical signals. When forward estimates are being revised sharply lower, treat all short-term technical buy signals with additional caution and reduce target holding periods.*

9.3 The Earnings Calendar as a Timing Filter

The specific earnings calendar creates tactical timing considerations for the systematic market timer. The weeks immediately before major earnings reports from bellwether companies — Apple, Microsoft, NVIDIA, Amazon, Alphabet — often see constrained volatility in the NASDAQ 100 as large traders avoid initiating major new positions ahead of binary events.

9.4 Political and Geopolitical Catalysts

9.4.1 The Presidential Election Cycle

The US Presidential Election Cycle has generated one of the more intriguing patterns in market history. Statistically, the third year of the presidential term has been the strongest for the stock market, on average, by a considerable margin. While this cycle is not a

reliable enough pattern to trade mechanically, it's a useful backdrop consideration when setting long-term positioning.

9.4.2 Geopolitical Events and Market Reaction

Geopolitical events — wars, terrorist attacks, political crises, trade conflicts — create sudden, sharp market declines that are almost impossible to anticipate. However, the market's subsequent behavior after these events has historically followed a remarkably consistent pattern: the initial decline is sharp and often overdone, and markets that were in healthy underlying conditions prior to the event tend to recover their losses relatively quickly.

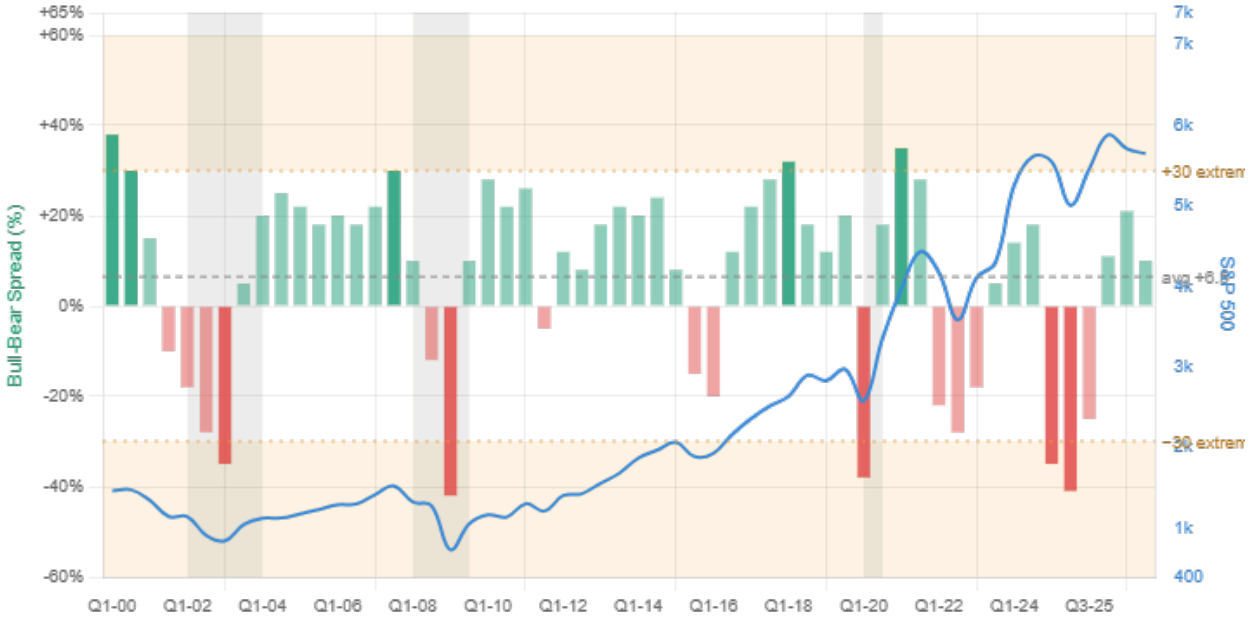
Chapter 10: Sentiment Indicators — When Fear and Greed Drive Markets

10.1 The Contrarian Principle in Market Timing

One of the most counterintuitive but empirically well-supported principles in market analysis is the contrarian nature of sentiment extremes. When the overwhelming consensus of market participants is bullish — when financial media is relentlessly optimistic, when newsletter writers are heavily bullish, when retail investors are pouring money into equity funds — the market is often close to a significant top. Conversely, when the consensus is overwhelmingly bearish, the market is often close to a significant bottom.

10.2 The AAII Investor Sentiment Survey

The American Association of Individual Investors (AAII) publishes a weekly survey of its members asking whether they are bullish, bearish, or neutral on the stock market for the next six months. When the AAII bullish reading exceeds 60% and the bearish reading falls below 15%, historically elevated short-term market risk has followed. When bearish reading exceeds 50% — and particularly when they approach or exceed 60% — it has historically been associated with significant market lows.



AAII Sentiment Survey vs. S&P 500 — Long-term chart showing AAII Bull-Bear Spread with extreme readings highlighted

10.3 The Put/Call Ratio

The put/call ratio measures the volume of put options purchased relative to call options on any given day. When put volume significantly exceeds call volume — a high put/call ratio — it indicates that traders are paying for downside protection, typically associated

with elevated fear levels, and contrarily, precedes market bounces. A 10-day moving average of the put/call ratio smooths the daily noise and makes the trend more interpretable.

10.4 The VIX as a Sentiment Tool

The VIX is fundamentally a real-time measure of fear and uncertainty priced into the options market. The key sentiment insight from the VIX is this: market bottoms rarely occur before the VIX spikes to an extreme level. A market that declines 15-20% without a VIX spike above 30-35 is usually not done declining. The VIX spike itself — the moment of maximum visible fear — is often the signal that the final capitulatory selling is exhausting itself.

10.5 CNN Fear and Greed Index

CNN's Fear and Greed Index is a composite sentiment indicator that aggregates seven different market data points: stock price momentum, stock price strength (new highs/lows), stock price breadth, put/call option ratio, junk bond demand, market volatility (VIX), and safe haven demand (Treasury bond flows). The result is a single reading from 0 (Extreme Fear) to 100 (Extreme Greed). Readings below 20 in conjunction with positive technical divergences and oversold breadth have historically been excellent entry points for systematic market timers.

Chapter 11: Building Your Complete Market Timing System

11.1 The Market Timing Decision Framework

We've covered an enormous amount of ground in this book: breadth indicators, index analysis, AIQ TradingExpert Pro, multiple market timing methodologies, macro catalysts, economic reports, and sentiment tools. Now it's time to synthesize it all into a structured, repeatable decision framework that you can actually apply to your trading.

The framework I use is built around what I call a traffic light system. At any given time, the market is in one of three states: Green (bullish conditions, willing to take risk), Amber (transitional or mixed conditions, reduced risk), or Red (bearish conditions, looking to reduce or eliminate long exposure and/or initiate inverse positions).

11.2 The Four-Pillar Assessment

Pillar 1: Price Trend

The first and most fundamental question: what is the primary trend of the major indices? Is the S&P 500 above or below its 200-day moving average? Is the NASDAQ 100 above or below its 200-day MA? Is the 50-day MA above or below the 200-day MA (Golden Cross vs. Death Cross)? Are the indices making higher highs and higher lows (uptrend) or lower highs and lower lows (downtrend)?

Score Green if: All major indices above their 200-day MAs, 50-day above 200-day (Golden Cross), making higher highs and higher lows. Score Amber if: Mixed conditions — some indices above, some below 200-day MA. Score Red if: Major indices below their 200-day MAs, 50-day below 200-day (Death Cross), making lower highs and lower lows.

Pillar 2: Breadth

Is the advance-decline line making new highs alongside the major index price highs? Is the McClellan Oscillator positive or negative? Is the daily new highs count consistently exceeding new lows? Score Green if: NYSE and NASDAQ A-D Lines in uptrend, McClellan Oscillator above zero (AD Osc in AIQ), new highs consistently dominating. Score Amber if: A-D Line diverging from price, McClellan Oscillator near zero or mixed. Score Red if: A-D Line in downtrend, McClellan Oscillator negative, new lows dominating.

Pillar 3: Momentum

What are the AIQ Expert Rating readings on the major DJIA is there a Phase change confirmation of high ratings? What is the VIX telling us about fear and complacency levels? Score Green if: AIQ ERUP ≥ 95 on DJIA, Phase confirming, VIX in normal range (15-20), sentiment not at extreme bullish. Score Amber if: Mixed AIQ ER readings, MACD divergence developing, VIX elevated. Score Red if: AIQ ERDOWN ≥ 95, Phase confirming, VIX at extreme.

Pillar 4: Macro Environment

Is the Federal Reserve in a tightening or easing cycle? What direction is the yield curve moving? Is the ISM Manufacturing PMI above or below 50? Are forward earnings estimates being revised up or down? Score Green if: Fed in easing mode or paused, yield curve normal, PMI above 50, earnings estimates rising. Score Amber if: Fed in hold mode with uncertainty, yield curve flat, PMI near 50. Score Red if: Fed actively tightening, yield curve inverted, PMI below 50, earnings estimates falling sharply.

11.3 The Traffic Light Scoring System

Traffic Light Scoring Rules

16. 4 Green = Maximum bullish — full equity exposure, consider leveraged ETF allocation (SSO, UPRO, TQQQ) for portion of portfolio
17. 3 Green, 1 Amber = Bullish — standard long equity exposure (SPY, QQQ, sector ETFs)
18. 2 Green, 2 Amber = Neutral Bullish — reduced equity exposure, focus on defensive sectors (XLP, XLV)
19. 2 Amber, 2 Red = Neutral Bearish — defensive posture, consider partial inverse ETF allocation
20. 1 Green, 3 Red = Bearish — significant inverse ETF allocation (SH, PSQ), minimal or no long equity
21. 4 Red = Maximum bearish — full defensive/inverse positioning, consider SDS or SPXU for higher-conviction bear markets
22. Any single extreme Red reading (VIX above 40 or A-D Line in freefall) — override to full defensive regardless of other pillars

11.4 Weekly Review Process

Maintaining a systematic market timing framework requires a consistent weekly review process. I recommend the following routine, which takes approximately 30-45 minutes per week when you're familiar with the tools:

23. Sunday evening: Review the prior week's market action. Update the A-D Line and McClellan Oscillator charts. Check for any new signals from the AIQ Expert Rating on SPY, QQQ, and DIA. Note the weekly close relative to the 50-day and 200-day MAs.
24. Review the macro calendar for the coming week: any FOMC meetings, CPI/PCE releases, NFP reports, GDP data, or major corporate earnings from the NASDAQ 100 mega-caps.
25. Assess all four pillars using the framework above. Assign Green, Amber, or Red to each. Determine the overall market state.

26. Compare the current state with last week's assessment. If the state has changed — particularly if it's shifted from Green to Amber or from Amber to Red — review whether any position adjustments are warranted.
27. Review your current ETF positions. Are they appropriate for the current market state? If the state is now Red and you hold leveraged longs, that's an immediate mismatch that requires action.
28. Document your assessment in a trading journal. This is not optional — it is essential. Systematic traders who keep detailed journals of their decision process improve over time.

11.5 Position Sizing by Market State

In a full Green state (4 Green pillars), total equity exposure can be up to 100% of the portfolio, with up to 20% in leveraged ETFs for traders comfortable with that additional volatility. In a mixed state (2 Green, 2 Amber), equity exposure should not exceed 50-60% of the portfolio, with no leveraged ETF exposure. Defensive sector ETFs (XLP, XLV, XLU) should represent at least 20% of the total portfolio. In a full Red state, equity exposure should be zero or minimal, with up to 30-40% of the portfolio in inverse ETFs (SH, PSQ) and the remainder in cash, Treasury ETFs (SHY, IEF, TLT), or gold (GLD) as a defensive store of value.

Chapter 12: Practical Implementation — From Analysis to Action

12.1 Setting Up Your Daily Market Timing Routine

One of the most important things I've learned over three decades of professional trading and teaching is that consistency in process matters as much as the quality of the individual analytical tools. A good system applied inconsistently will almost always produce worse results than an adequate system applied with complete consistency. The market rewards discipline far more reliably than it rewards cleverness.

Pre-Market (6:00–9:30 AM ET)

Check overnight futures: Are S&P 500 futures (ES), NASDAQ futures (NQ), and Dow futures (YM) indicating a significantly up or down open? A gap open of more than 1% warrants extra attention to the first hour's market breadth. Check the economic calendar for significant data releases scheduled for today.

Market Open (9:30–10:30 AM ET)

The first hour of trading is often volatile and can be misleading. I typically do not initiate new positions during the first 30 minutes unless there is an extraordinary signal. Monitor opening breadth: A 3:1 or better advance-decline ratio in the first 30 minutes is a positive indication. A 3:1 decline-advance ratio is a warning.

Midday (12:00–2:00 PM ET)

The lunch hour in New York is typically the period of lowest liquidity and volume in the trading day. Moves during this period often lack conviction and can be reversed in the more active afternoon session. I rarely initiate new positions during the midday lull and use this time for review and planning.

Close (3:00–4:00 PM ET)

The final hour of trading — particularly the last 30 minutes — is when institutional order flow peaks as fund managers rebalance and execute orders at the closing price. Moves that are confirmed in the final hour on expanding volume carry more weight than intraday moves that fade before the close. The closing price is the data point used for all our moving average and indicator calculations.

12.2 Trade Entry and Exit Techniques for Index ETFs

Once our framework has determined the appropriate market state and positioning, the mechanics of entering and exiting ETF positions are relatively straightforward. Use limit orders rather than market orders wherever possible, particularly for larger position sizes in any ETF outside of the mega-liquid SPY and QQQ. Scale into positions rather than going all-in at a single price point — dividing the full intended allocation into two or three tranches reduces the risk of being caught in a false signal and provides a better average cost.

12.3 Stop Loss and Risk Management

Every position initiated based on a market timing signal should have a clearly defined stop loss level. For long positions in non-leveraged ETFs (SPY, QQQ): Stop loss at the most recent significant swing low on the daily chart, or at the 50-day moving average if that is closer. For leveraged ETF positions (UPRO, TQQQ, SSO): Tighter stops are essential given the amplified volatility. Use a 5-7% loss from the entry price as the maximum acceptable loss on any leveraged ETF position. For inverse ETF positions (SH, SDS, PSQ, SQQQ): Stop losses should be placed above key resistance levels in the underlying index.

12.4 The Trading Journal — Your Most Underused Tool

I've been keeping a systematic trading journal for the entirety of my professional career, and I can tell you with complete conviction that it has been as valuable to my development as a trader as any indicator, platform, or strategy I've ever used. The journal forces discipline — it forces you to articulate your reasoning before you act, which immediately filters out trades based on emotion or impulse. And it forces accountability.

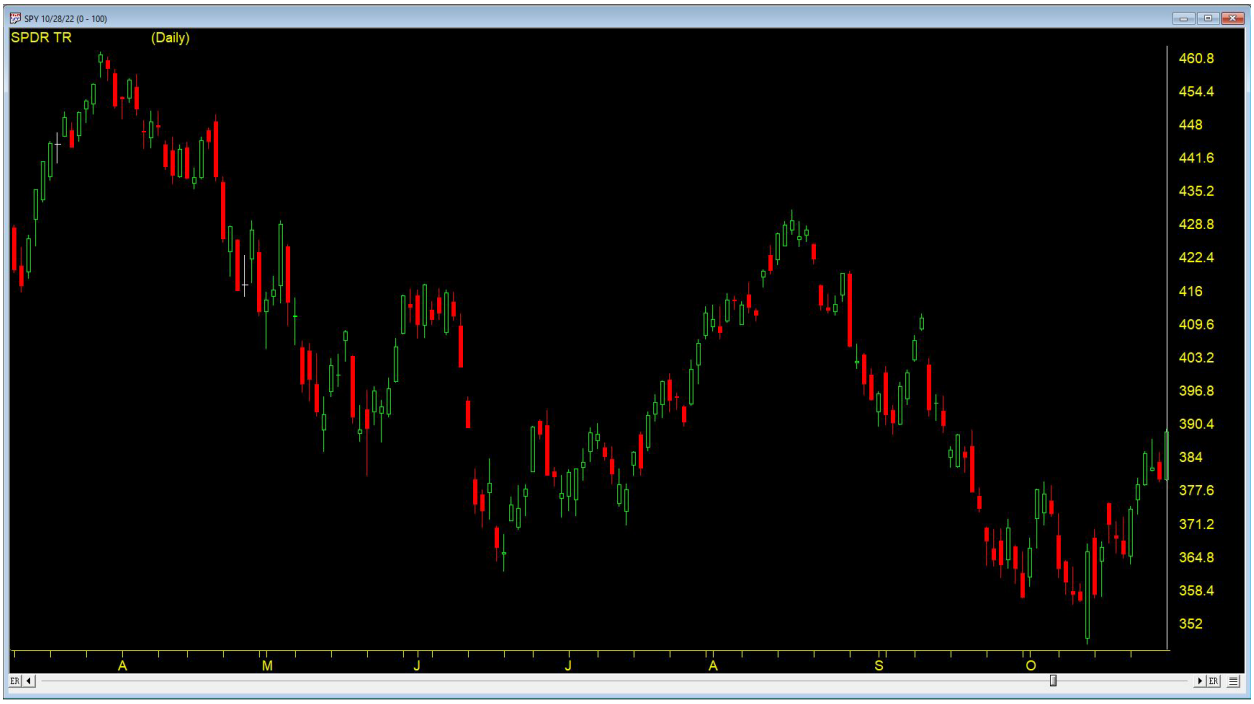
Your market timing journal should record, for every position initiated: the date, the instrument, the specific signals that generated the trade, the entry price, the intended position size, the stop loss level, and the target or intended holding period. When you exit the position, record the exit price, the actual profit or loss, and a brief post-mortem on whether the trade was executed according to plan.

Chapter 13: Putting It All Together — Historical Case Studies

13.1 Case Study: The 2022 Bear Market

The 2022 bear market — driven by the Federal Reserve's most aggressive rate-hiking cycle since the early 1980s — was a textbook example of how macro factors can override short-term technical signals. The S&P 500 declined approximately 27% from its January 2022 peak to its October 2022 low, with the NASDAQ 100 falling a more severe 35%. Critically, this bear market was characterized by multiple powerful counter-trend rallies — bounces of 8-15% — that repeatedly tempted traders back into long positions before the next leg lower.

Our four-pillar framework would have maintained a Red or Amber-Red reading throughout most of 2022, primarily due to the Macro pillar: the Fed was in the most aggressive tightening cycle in a generation, the yield curve was inverting, and forward earnings estimates were being revised sharply lower. These macro realities overrode multiple short-term technical buy signals.



2022 Bear Market — S&P 500 ETF SPY with Counter-Trend Rallies — Daily chart throughout 2022 showing the primary downtrend, major counter-trend, and the October 2022 bottom

The lesson from 2022 is one that I emphasise in every seminar I teach: in a confirmed bear market environment — one where the macro pillar is firmly Red — short-term technical buy signals should be treated as opportunities to reduce existing long exposure or initiate inverse positions on the subsequent bounce, not as signals to aggressively buy.

Conclusion: The Systematic Edge

We've covered an enormous amount of ground in this book, and I want to close with the most important message of all: the edge in systematic market timing comes not from any single magical indicator or secret formula, but from the consistent, disciplined application of a coherent, multi-factor framework across all market conditions.

The indicators and strategies in this book — the NYSE and NASDAQ breadth analysis, the AIQ TradingExpert Pro system, the Zweig Breadth Thrust, the McClellan Oscillator, the MACD divergence applied at the index level, the macro framework of Fed policy and economic data, the sentiment contrarian tools — are all well-documented, widely available, and in many cases have decades of verified track records. The analytical tools themselves are not secret.

What separates the disciplined systematic market timer from the average market participant is the commitment to follow the framework's signals consistently, to resist the emotional pull of the financial media narrative, to size positions appropriately for the current market environment, and to document and learn from every decision. The market is an extraordinary teacher — but only if you're willing to listen to its data rather than your own opinions.

I've been fortunate enough to teach these principles to traders across the United States, the United Kingdom, and numerous other countries over the past thirty-plus years. The consistent lesson is this: systematic beats discretionary, data beats opinion, and patience beats urgency. Apply these principles to your market timing practice, refine them with your own experience and journaling, and you will have a durable edge that compounds over a lifetime of market participation.

I look forward to hearing about your journey with these tools. As always — trade well, manage risk, and trust the data.

Steve Hill
CEO, AIQ Systems | TradingExpert Pro

Appendix A: Key Market Timing Indicator Reference

A.1 Breadth Indicators Quick Reference

NYSE Advance-Decline Line: Running cumulative sum of daily (Advances – Declines). Bullish when rising; bearish when falling. Key signal: divergence from index price highs.

NASDAQ Advance-Decline Line: Same calculation for NASDAQ-listed stocks. More sensitive to growth and technology sector health.

McClellan Oscillator (AD Osc): (19-day EMA of A-D) – (39-day EMA of A-D). Above zero = positive breadth momentum. Key signals: extremes above +100 or below -100; crossings of zero.

McClellan Summation Index: Cumulative sum of McClellan Oscillator. Long-term breadth trend indicator.

TRIN (Arms Index): (Advances/Declines) / (Up Volume/Down Volume). Below 1.0 = bullish. Above 2.0 on a down day = potential capitulation low.

New Highs/New Lows: Daily count of 52-week highs vs. lows. Expanding new highs = healthy market. New lows consistently dominating = bear market condition.

A.2 ETF Reference List

SPY — SPDR S&P 500 ETF. Standard long exposure to S&P 500.

QQQ — Invesco QQQ Trust. Standard long exposure to NASDAQ 100.

DIA — SPDR Dow Jones Industrial Average ETF. Dow 30 exposure.

IWM — iShares Russell 2000 ETF. Small-cap market breadth indicator and vehicle.

SSO — ProShares Ultra S&P500. 2x daily leveraged S&P 500.

UPRO — ProShares UltraPro S&P500. 3x daily leveraged S&P 500.

TQQQ — ProShares UltraPro QQQ. 3x daily leveraged NASDAQ 100.

SH — ProShares Short S&P500. 1x inverse S&P 500.

SDS — ProShares UltraShort S&P500. 2x inverse S&P 500.

SPXU — ProShares UltraPro Short S&P500. 3x inverse S&P 500.

PSQ — ProShares Short QQQ. 1x inverse NASDAQ 100.

SQQQ — ProShares UltraPro Short QQQ. 3x inverse NASDAQ 100.

XLC — SPDR Communication Services. Mega-cap tech/media exposure (Alphabet, Meta).

XLY — SPDR Consumer Discretionary. Cyclical consumer exposure (Amazon, Tesla).

XLP — SPDR Consumer Staples. Defensive long exposure.

XLE — SPDR Energy. Oil & gas sector exposure, commodity-correlated.

XLF — SPDR Financials. Banks, insurance, and financial services exposure.

XLV — SPDR Health Care. Defensive/growth hybrid exposure.

XLI — SPDR Industrials. Economically sensitive; strong in early-cycle recoveries.

XLB — SPDR Materials. Commodity-linked; leads in reflationary environments.

XLRE — SPDR Real Estate. Rate-sensitive; moves inversely with Treasury yields.

XLK — SPDR Technology. Growth/momentum exposure; highest beta sector ETF.

XLU — SPDR Utilities. Defensive long exposure, rate-sensitive.

GLD — SPDR Gold Shares. Defensive store of value, inflation hedge.GLD — SPDR Gold Shares. Defensive store of value, inflation hedge.

A.3 Key Economic Calendar Events

Non-Farm Payrolls: First Friday of each month. Most market-moving regular report. Watch: headline jobs, unemployment rate, average hourly earnings.

CPI (Consumer Price Index): Released mid-month for the prior month. Key inflation measure. Watch: headline, core (ex-food/energy), year-over-year rate of change.

FOMC Meeting Decisions: Eight times per year. Most significant policy driver. Watch: rate decision, statement language, press conference tone, dot plot updates.

GDP (Advance Estimate): ~4 weeks after quarter-end. First comprehensive growth reading. Watch: headline growth rate, personal consumption component.

ISM Manufacturing/Services PMI: First business day of month (Manufacturing), third business day (Services). Leading economic indicator. Watch: composite reading vs. 50, new orders sub-component.

PCE Price Index: Released monthly. Fed's preferred inflation measure. Watch: core PCE year-over-year rate specifically.

Appendix B: Recommended Reading

Technical Analysis of Stock Trends by Robert Edwards and John Magee — the foundational reference work on classical chart pattern analysis.

Technical Analysis of the Financial Markets by John Murphy — the most comprehensive single-volume reference for technical analysis practitioners.

Stan Weinstein's Secrets for Profiting in Bull and Bear Markets — an outstanding treatment of stage analysis that complements the timing framework in this book.

The Zweig Approach by Martin Zweig — the definitive account of Zweig's breadth and monetary model that has influenced systematic market timing practitioners for decades.

— END —

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