

The Market Edge Way

Market Edge has numerous investment tools to address just about any investment or trading approach know to man. But what about us mere mortals who want an uncomplicated, easy to use approach that should produce above average returns in any market environment? The strategy outlined below is just that. It consists of an easy to use market timing method which should keep you on the right side of the market and a stock selection approach that combines fundamental and technical inputs. This one-two punch should help you identify the right stock at the right time. Sounds to be good to be true? Well, read on to find out just how simple it really is.

Every Tuesday, a Market Edge technical analyst reviews 1-3 stocks which have recently been featured by either a major financial publication or recommended by a reputable Wall Street research firm. The featured stocks typically have either a Buy or Neutral recommendation or in some rare instances they can be Sell or Short-Sale candidates. These stocks are located in the 'Dr. Market Edge Talks Stocks' section on the Markets page. These are good stock selections in that they usually have solid fundamentals coupled with good technical underpinnings and a story which details why the analyst covering the stock thinks that it has good potential going forward.

Each selection includes a summary of the analysts' recommendation, the Market Edge - Second Opinion report and a one-year Smart Chart with detailed commentary. Lastly, the Summary section of the report details the technical condition of the stock and suggested actions which should be taken over the short-term. Below is the actual report for Medtronic which was featured on 03/08/16.

Stocks In The News – Medtronic

03/8/2016: On 03/1/2016 Wells Fargo issued an Outperform rating for medical devices manufacturer, Medtronic (MDT). Third-quarter earnings per share of \$1.06 were in line with consensus in part driven by lower interest expense, tax rates and share count. While Medtronic delivered in-line EPS, operating margin came in at 27.8% missing management's guidance of 28% to 28.5%. Its high-level outlook for fiscal 2017 includes mid-single-digit growth on the top line and constant-currency EPS growth in the low double digits before adjusting for the extra selling week in fiscal first-quarter 2016 and a foreign-exchange head wind of 20 cents to 25 cents. Wells Fargo is lowering its valuation range to \$85 to \$86 from \$89 to \$90, but their Outperform rating is unchanged.

What Does Dr. Market Edge Think? The Market Edge Opinion for Medtronic (MDT) was upgraded to Neutral from Avoid on 02/29/16 when the stock closed at \$77.29. The technical indicators and studies on the Second Opinion report are mixed. The Score is +2 and the Power Rating is +13 indicating an improving technical condition. If the Power rating crosses above +59, the opinion will be upgraded to Long. *Check out the expanded Comments section located below for additional commentary.*

Second Opinion® - MEDTRONIC (MDT)

Exchange: NYSE

[Trading Activity - 3/07/16](#)

• In S&P 500

Report Date: **3/08/16**

[Technical Terms Explained](#)

Close	76.01	Change	+0.4	Volume(00)	52567
Open	75.27	High	76.12	Low	75.23

Opinion

Opinion	NEUTRAL FROM AVOID	Date Opinion Formed	2/29/16	Price Opinion Formed	77.29
Score	2	C-Rate	0.0	Power Rating	13

Recommendation

Stock shows Mildly Improving Conditions. SCORE = 2
 If you are Short this stock, hold position. Do not initiate new Short Sale.
 Stock is not a Buy Candidate.

Comments

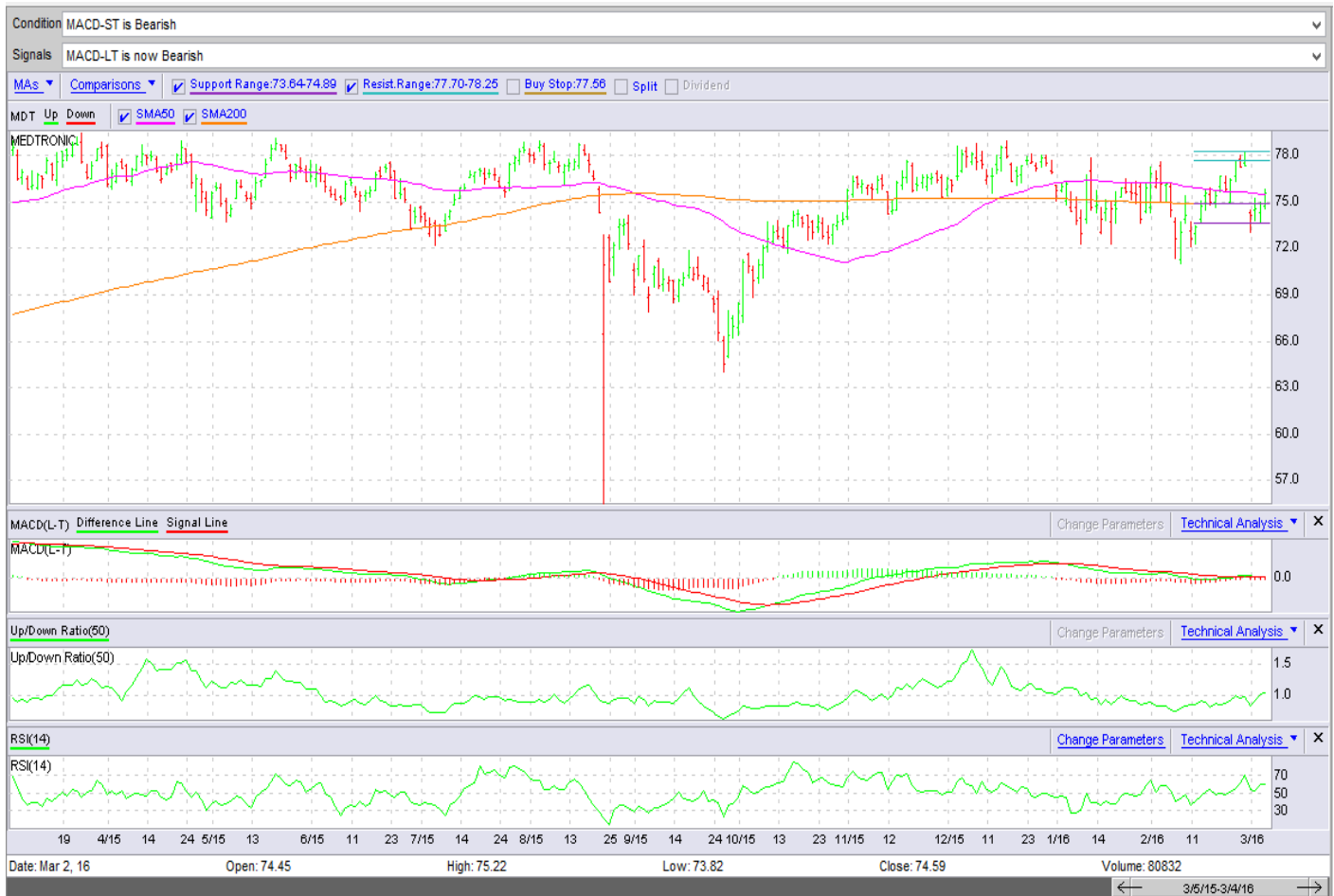
Though the technical outlook remains somewhat mixed there are signs that point to an improved outlook for the stock. Several of the pertinent indicators have turned positive and the stock appears to be under accumulation. Should the stock break above recent resistance numbers it could mark the beginning of a new uptrend. Over the last 50 trading days, when compared to the S&P 500, the stock has performed in line with the market. The MACD-LT, an intermediate-term trend indicator, is bullish at this time. A close above \$77.56 is a number to watch to confirm a trend reversal. Momentum as measured by the 9-day RSI is gaining in strength. Over the last 50 trading sessions, there has been more volume on up days than on down days indicating that MDT is under accumulation, which is a bullish condition. The stock is above its 50-day moving average which is pointed down. This is supportive that the trend is improving. The stock is above a falling 200-day moving average which adds credence to a possible trend reversal.

Price Analysis				Volume Analysis		Technical Analysis		
Yr. High	79.5		Ave Volume(00)	62936		Alpha	0.01	
Yr. Low	55.54		MO Chg.(%)	-9.2		Beta	0.88	
MO Chg.(%)	2.1							
Trend Line Resistance	N/A		U/D Ratio	1.0		MACD ST	BR	
Trend Line Support	73.37		U/D Slope	UP		MACD LT	BL	
Resistance Range	77.7-78.25					STO(Fast %K)	96	
Support Range	73.64-74.89		On Balance Volume	BL		STO(Slow %K)	55	
BUY STOP	77.56		Positive OBV	BR		50-Day R.S.	1.0	
Volatility(%)	1.8		Negative OBV	BL		Wilder's RSI	51	
Position	69					OBOS	-1	
ADXR	19		Money Flow(MF)	59		B.BANDS	9	
MA	Price	%	Slope	MF Slope	UP		RSV	61
10 Day	75.99	100.0	DOWN					
21 Day	75.12	101.0	DOWN					
50 Day	75.47	101.0	DOWN					
200 Day	74.85	102.0	DOWN					

Smart Chart

Medtronic's (MDT) stock has been stuck in a trading range for the better part of a year. Apart from the sharp downturn between August and September of last year, the stock continues to bounce off of support levels around \$72 only to stall at resistance in the high \$70's. MACD-LT, a reliable intermediate

term trend indicator is in bullish territory while upside momentum as measured by the 14-day RSI is very strong. The Up/Down Volume Ratio is also positive at 1.02, which is a good sign of accumulation in the stock, a bullish condition.



Summary

Seven of the past eight technical events since the beginning of March for Medtronic’s (MDT) stock have been bearish March. The combination of Relative Strength turning bearish followed by a Price gap down on 03/01/16 are not positive signs. However, the stock is showing its resiliency again as it is trading above its respective 50 and 200-day moving averages and the Up/Down ratio remains positive. An important number to watch is \$77.56 (Buy Stop Price). If the stock can breakout above that threshold, it will confirm a trend reversal and should lead to the stock becoming an Early-Entry Buy candidate. However, until that happens the stock should be put in a Market Edge ‘Stock Watch’ list and wait for the stock to become either an Early-Entry Buy candidate or for its opinion to be upgraded to Long before initiating a new long position.

Calendar of Technical Events

Date	Event	Connotation
03/07/2016	MACD LT turned bullish	Bullish
03/04/2016	MACD ST turned bearish	Bearish

03/04/2016	MACD LT turned bearish	Bearish
03/01/2016	Price gap down	Bearish
03/01/2016	21 day SMA slope turned down	Bearish
03/01/2016	50 day SMA slope turned down	Bearish
03/01/2016	200 day SMA slope turned down	Bearish
03/01/2016	Relative Strength turned bearish	Bearish
02/29/2016	Up/Down slope turned up	Bullish
02/26/2016	Point & Figure Triple Top breakout	Bullish
02/25/2016	10 day SMA cross above 21 day SMA	Bullish
01/14/2016	21 day SMA cross below 50 day SMA	Bearish

So what should you do now that you are armed with this valuable information? The first thing that you need to do when approaching the stock market is to formulate a market posture, which is either bullish, bearish or neutral. It doesn't matter how you come up with your forecast just as long as you have confidence in the methodology and stick with it. If you don't have a methodology or even if you do, pay attention to the Market Edge, market timing models which are an integral part of both the Market Letter and On The Edge and can be found on the 'Markets' page. While not 100% accurate, these timing models have been a part of the Market Edge web site since 1992 and have a good record of projecting significant moves in the market.

Once you are confident with your short to intermediate-term market projection, it is time to take some positions. It is a good idea to allocate a consistent percentage of risk capital to each stock selection. Let's assume you have \$100,000 and decide on a 10% allocation which would result in a maximum of ten selections with \$10,000 invested to each position. This is a good approach since all plays should be treated as having the same potential. Also, it will prevent you from falling in love with a stock and betting the ranch which usually ends up in a disaster.

Now it is time to put Market Edge to work. Go to the Dr. Market Edge Talks Stocks area located on the Markets' page. As noted above, there are 1-3 stocks reviewed here every Tuesday. What wasn't mentioned is that all of the reports for the previous twelve-months are archived on the site so you have approximately 150 stocks to choose from. Obviously, the more recent stocks will be timelier but there are usually some gems on the list whose time has yet to come. Review the reports and note those that make sense to you. Put these stocks in a Market Edge 'Watch List' in the Stock Watch module. While you're at it, create a Position List. When you create a list in Stock Watch, it is automatically imported into Smart Charts so you can scroll through the charts of those stocks without having to enter individual symbols.

Check your Watch list on a daily basis to see if the Market Edge 'Opinions' for any of the stocks have been upgraded to Long or if any of the stocks have become Early-Entry Buy candidates. Both of these conditions give you the green light to consider opening a Long position. Once the position is opened, place the stock in your Position List. Check your Position List daily to see if the Score has fallen to -3 or below, the stock has traded below its Sell Stop or the Opinion has been downgraded to Neutral. All three of these scenarios suggest that the stock may be headed lower so defensive action is warranted.

That's all there is to it – almost. You need to monitor the activity of the stocks which have been added to either your Watch or Position Lists on a daily basis. Make notes as pertinent technical events occur. This is done by downloading an excel spreadsheet named Money Runner Worksheet.xls. This spread sheet is a great tool which lets you stay on top of your stocks. The following is an abbreviated example of the Money Runner spread sheet.

Symbol	Day	Opinion	Score	Con Rate	Pos	Open Date	Open Price	%	Shares	S-Term Target	I-Term Target	B-S Stop
Initial->												
Mon->						Notes->						
Tue->						Notes->						
Wed->						Notes->						
Thu->						Notes->						
Fri->						Notes->						
Symbol	Day	Opinion	Score	Con Rate	Pos	Open Date	Open Price	%	Shares	S-Term Target	I-Term Target	B-S Stop
Initial->												
Mon->						Notes->						
Tue->						Notes->						
Wed->						Notes->						
Thu->						Notes->						
Fri->						Notes->						
Symbol	Day	Opinion	Score	Con Rate	Pos	Open Date	Open Price	%	Shares	S-Term Target	I-Term Target	B-S Stop
Initial->												
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Initial->												
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Tue->						Notes->						
Wed->						Notes->						
Thu->						Notes->						
Fri->						Notes->						

Print the form and enter the stocks Symbol, Opinion, Score, C-Rate, Position (L-S), Open Date, Open Price, % Allocation, # Of Shares (if purchased), Short-Term Target, Intermediate-term Target and Buy or Sell Stop. There is also a line for daily notes such as when a stock is approaching a moving average, whether it is overbought or oversold, getting close to a target or stop or forming a significant chart formation. There is also a share allocator based on your risk capital, the maximum number of positions that you have chosen, the price of the stock and the allocation percentage.

Opening Long Positions: As noted above, a couple of conditions should exist before initiating a new Long position. The opposite scenario would be true when opening a short-sale. For a stock to be considered for purchase, its Market Edge ‘Opinion’ should be Long or it should be an Early-Entry Buy candidate. This condition suggests that the stock’s intermediate-term trend is favorable which is half of

the battle. Timing the entry point takes a little more work. The good news is that the following technical indicators and studies work well in accomplishing this goal and are listed on the Market Edge - Second Opinion report. Most of the indicators listed below have been described in 'Trade Like A Pro' with an accompany chart. The page numbers are noted for easy reference. To download your complimentary copy of 'Trade Like A Pro', [click here](#).

Stochastic Oscillators: (Page 36 & 37) One of the best entry or exit indicators is the Slow %K stochastic oscillator. This indicator has a daily value which ranges between 0 - 100. Readings below 20 indicate an oversold condition (bullish) while readings over 80 are considered to be overbought (bearish). Usually when a stock is overbought (Slow % >80) the stock will either pull back or trade sideways for a few days as the condition works itself off. Conversely, when a stock is oversold (Slow %K <20) the stock will rally or trade sideways until the condition is resolved. Therefore, once a stock has been identified as a promising long position, it is a good practice to wait for Slow %K to fall back toward 20 before initiating the position.

50-Day Moving Average: (Page 35) One of the most watched technical indicators is the 50-Day Simple Moving Average (SMA). This indicator is relevant in that it represents the average price paid for a stock over the preceding fifty-trading sessions. You would be surprised how often prices fluctuate around this moving average. Because of this tendency, waiting for a stock to pull back toward a stock's rising 50-Day Moving Average is usually a good entry point.

Trend Lines: (Page 38) There is an old saying on Wall Street that the trend is your friend. Simply put, this means that stocks have a tendency to remain in either an upward or downward trend for extended periods of time. This makes a lot of sense since when good things are happening to a company, it is usually the result of long-term efforts by management which in turn is reflected in the price of its stock. However, no matter how good a company's underpinnings may be, stocks seldom go straight up. Usually a strong stock will see a series of higher highs followed by higher lows creating a chart that looks like a set of stairs. By connecting several of the higher lows with a straight line, an upward trend line is created which is a good tool for spotting good entry points for long positions.

Closing Long Positions: Closing a long position is not as simple as opening one and can be an emotional strain unless a disciplined approach is developed. The first issue you need to address is to define your investment horizon since various technical indicators or studies are designed for different time frames. Depending on your time perspective, the following indicators should be utilized when developing a reliable exit strategy.

Stochastic Oscillators: (Page 36 & 37) As with opening a position, the Slow %K stochastic oscillator is a very good indicator in spotting overbought and oversold conditions. Whenever Slow %K moves above 80, an overbought condition (bearish) exists and a pullback or sideways trading pattern is likely to develop over the short-term. This condition gives the trader a good opportunity to either scalp the trade or exit for good by selling when the stock becomes overbought. If you want to reenter the trade, wait for a new entry point based on the criteria listed above under *Opening Positions*.

50-Day Moving Average: (Page 35) As noted above, the 50-Day Simple Moving Average (SMA) is a very popular technical indicator. While stocks have a tendency to bounce off their 50-Day Moving Average, it is usually a good exit point when the stock breaks below this significant support area.

Trend Lines: (Page 38) As with a 50-Day Moving Average, when a stock's price declines towards an upward sloping support trend line, it is usually good point from which to initiate a long position. However, if price penetrates the trend line, the trend is broken and a reversal is likely. Therefore, whenever a stock breaks below a support trend line, it is usually a good time to say goodbye.

Sell Stops: (Page 24) Buy or sell stops can be a good way to protect profits and limit losses if properly used. The most often suggested method of placing stops is to enter them at an arbitrary percentage below the stock's price. This is a very weak strategy. The market doesn't know or care where you own a stock and therefore an adverse move of x% has nothing to do with nothing. Sell stops should be placed just below significant support areas. If your position is stopped out using this methodology, you will know that it is probably a good thing since the prevailing trend could be reversing course and you are better off being long gone. Never forget, your first loss is your best loss.

Opening Short-Sales: When opening a short-sale, DON'T use the same method outlined above in the *Closing Long Position* section. Rather, do the opposite of what has been presented in the *Opening Long Positions* section. Also, it is never a good idea to reverse a long position and turn it into a short-sale. For a stock to be considered as a short-sale, the Market Edge 'Opinion' should be Avoid or the stock should be an Early-Entry Short-Sale Candidate. These conditions suggest that the stock's intermediate-term trend is unfavorable. You should time the entry point using the following indicators.

Stochastic Oscillators: (Page 36 & 37) As noted above, the Slow %K stochastic oscillator is a very good indicator in spotting overbought (bearish) and over sold (bullish) conditions. Whenever Slow %K moves above 80, an overbought condition exists and a pullback or sideways trading pattern is likely to develop over the short-term. This condition gives the trader a good opportunity to short a stock at a short-term peak which is obviously a good entry point.

50-Day Moving Average: (Page 35) Again as noted above, stocks have a tendency to bounce off their 50-Day Moving Average. It is usually a good entry point for a short-sale when a stock trades below this significant support area, especially when the SMA is pointed down.

Trend Lines: (Page 38) As with a 50-Day Moving Average, when a stock's price breaks below an upward sloping support trend line, it is usually good point from which to initiate a short-sale. Another good entry point for a short-sale is when price pulls back from a downward sloping resistance trend line.

Price Projections: Establishing price projections or targets is a good strategy for several reasons. First of all, they act as a good gauge as to whether or not you should pursue a stock. If stock A has twice the potential than stock B, you should forget B and get all over A. Second, targets usually provide good exit points. The reason is simple. The market and most stocks spend the majority of their time in a

trading range. However, from time to time a stock will develop a strong trend even through it isn't the norm. Therefore, by exiting positions based on targets, which should be predicated on current market conditions, profits can be realized which would otherwise fade into the sunset. Most of the stocks that are featured in the "Dr. Market Edge Talks Stocks" section will have a price target based on the analyst's assessment of the company's longer-term prospects. Keep in mind that these projections usually range between 12-18 months in the future. As you adapt to the concept of timing the market, the odds of you holding a position for that long are slim. Therefore it is necessary to develop methods to determine short to intermediate-term targets and act accordingly when they are achieved. The following are some price projection methods that have a history of delivering good results.

50-Day Moving Average: (Page 20) One of the better price projectors is a form of momentum analysis which deals with the closing price of a stock and its 50-Day Moving Average. Let's say a stock closes at 40 when its 50-Day turns up. Count back twenty-five days and note the closing price at that time. A good number for this example would be 28. Subtract the two values, $40-28=12$ and add the difference to 40 to get an intermediate-term target of 52. This method assumes a continuation of a stock's momentum and usually produces good results. This method is also a component of the Market Edge 'Confidence Rating (C-Rate)' which is described in detail in the Market Edge Learning Center located on the Market Edge Home page.

50% Retracements: Another dependable technique in forecasting price projections is to calculate a 50% Retracement following a stock's prolonged decline. After a stock has had a sustained selloff, note the number of points between the top and the bottom. Let's say the stock has fallen 20 points. If the stock retraces 50% of that total, 10 points in this example over a short period of time, a complete retracement of the decline is a good possibility. Therefore, if a stock falls from 80 to 60 and regains 10 points over a 4-8 week period of time, there is a good probability that the entire decline will be retraced.

Reverse Head & Shoulder Patterns: (Page 41) Another good forecasting technique is when a Reverse Head & Shoulder Chart formation occurs, which usually follows a sustained selloff. The pattern consists of a left shoulder, a head and a right shoulder. Typically, the stock will decline to a low (left shoulder), rally and then decline to a lower low (head), rally and decline again to a higher low than the head and often higher than the left shoulder (right shoulder). When this pattern develops, draw a line known as the neckline which connects the peaks or highs created during the rally phases of the left shoulder and the head. If while forming the right shoulder, the stock rallies through the neckline, a trend reversal is highly probable. To determine a price projection, measure the distance from the center of the head to the neckline and add it to the neckline value at the center of the head.

Summary: There you have it. A simple approach which should help you achieve good results in any market environment. At first it may seem to be too complicated for you to comprehend. Rest assured that after a little practice, this approach will become second nature. Keep in mind that Market Edge does most of the work for you. All you have to do is become comfortable with the strategy by reviewing the stock selections, read the Second Opinion reports, track the stocks on a daily basis and get familiar with the various technical indicators and studies.

There are a couple of things to keep in mind. There are going to be times when you can't miss. Everything works perfect and you think you have finally found the secret. Conversely, there will be periods when nothing goes right. You get stopped out of a position the day before a takeover announcement hits the tape or you are within a whisker of hitting your target when the company reports a horrible quarter. Unfortunately, stuff happens. However, if you stick to your guns and maintain your discipline you should do okay. Remember, there is a very small percentage of money managers who consistently beat their benchmarks. And these guys get paid big money. There are times when you should be long in the market, times when you should be short and times when you can't figure out what is going on and should go fishing. Never forget, there is nothing wrong with going fishing.