

Business

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Our unique market timing indicator

Invest in the market when it is advancing and sit on the sidelines when it is declining. Who would not want to do that?

Unfortunately, it is easier said than done, which is the reason that many people do not attempt to time the market. To gain an edge, it is helpful to incorporate some form of analysis that is unique; something that will help you determine market direction in a more informed manner.

A favorite indicator that I've developed looks at the Nasdaq Composite's relative strength versus the S&P 500.



David Vomund
Market Pulse

The Nasdaq is like a mood ring for the market. The Nasdaq stocks tend to be more volatile and aggressive than the blue-chip stocks represented in the S&P 500.

When big-money players like the market, they move money to Nasdaq stocks because of their better growth potential.

When they are nervous, however, investors prefer the safety of the less volatile S&P 500 index. In my studies I found that the most favorable market environments occur when the Nasdaq Composite outperforms the S&P 500. That is true even when you don't own Nasdaq stocks.

To quantify this analysis and give actual buy and sell signals, I used the "RSMD" indicator. For the mathematicians the formula is published in *Exchange Trade Profits*, which is available at the local library.

For others, a rising indicator means the Nasdaq is outperforming while a falling indicator means the S&P 500 is outperforming.

How does it work as a market-timing indicator? From 1996 through last week, an investor that held the S&P 500 only when the indicator was rising (Nasdaq outperforming) would be up 230 percent.

An investor that only held the S&P 500 when the indicator was falling (S&P 500 outperforming) would be down 5.4 percent. There is an average of nine trades per year.

This weekend on the News page of my www.VomundInvestments.com website, I'll show the indicator's current reading.

In my market timing decisions, I try to follow one simple but highly effective rule — you can be wrong, but do not be wrong for long. Bad things happen when you are wrong for a long time.

Those who are wrong for long periods of time are stubborn with their market opinions. Instead of listening to the market, these people try to tell the market what it should do.

Unfortunately, the market is always right.

David Vomund is an Incline Village-based fee-only money manager. Information is found at www.VomundInvestments.com or by calling 775-832-8555. Clients hold the positions mentioned in this article. Past performance does not guarantee future results. Consult your financial adviser before purchasing any security.