



MARKET TECH LAB

CMT Level 2 Reading Plan

May 2014

Book References for the Level 2 Reading Plan

Book references are given as the following:

- “TAST” – Technical Analysis of Stock Trends, 9th Ed.
- “TA” – Technical Analysis, The Complete Resource for Financial Market Technicians, 2nd Ed.
- “TAE” – Technical Analysis Explained, 4th Ed.
- “NTSM” – New Trading Systems and Methods, 4th Ed.
- “EBTA” – Evidence Based Technical Analysis
- “DGPF” – The Definitive Guide to Point and Figure, 1st or 2nd Ed.
- “JCCT” – Japanese Candlestick Charting Techniques, 2nd Ed.
- “IPE” – Investment Psychology Explained
- “TS” – *Technically Speaking*

A Note About This Plan

This plan is designed with the average Chartered Market Technician candidate in mind. While Market Tech Lab has done its best effort developing a complete and thorough reading schedule, we understand that all students learn differently. You may find you wish you study certain sections in a different order, by book, or not at all. The advantage of a self-study program is that candidates can tailor their learning to their benefit, based on their needs.

Regarding our plan specifically, you may find that you would learn Elliott Wave Theory best if you were to study Elliott Wave Theory last instead of first, or third instead of fifth, or in any other position, or broken apart in many sessions, or any of the hundreds of other methods. The choice is yours. Our plan was designed to take you through the contents not only one topic at a time, but specifically in an order that is conducive to memorization. However, we recognize that there is more than one path to success in the field of Technical Analysis. For this reason, you should review the plan prior to following it, and make any modifications you see fit.

Our team hopes you enjoy your studies of Technical Analysis, and we thank you for making us a part of your studies. At Market Tech Lab, our passion is for Technical Analysis, and we welcome you in joining us. We hope our insights can provide you with clarity, precision, and accuracy in your test preparations. We are now proud to present to you our Level 2 Reading Plan.

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BLOCK #1 – ELLIOTT WAVE THEORY

Elliott Wave Theory

- 1.) Elliott, Fibonacci, and Gann (TA)
- 2.) Fibonacci and Human Behavior (NTSM)
- 3.) Wave Theory (EWT)
- 4.) Wave Theory History (EWT)
- 5.) Wave Formations (EWT)
- 6.) Ratio Analysis and Fibonacci Time Sequences (EWT)

Pages: TA 485-506, NTSM 587-625 EWT 19-154

Outcome

After reading this section, you should be able to:

- Define the basic tenets and history of Elliott Wave Theory
- Label the motion of prices as wave types on multiple timeframes
- Calculate the Fibonacci Sequence and its uses in Technical Analysis
- Recite Elliott Wave vocabulary for patterns and occurrences
- Know most of the rules and guidelines of Elliott Wave Theory
- Construct and interpret the Golden Ratio for price retracements and projections
- Explain the advantages and disadvantages for Elliott Wave Theorists

Discuss some of the merits and uses for financial astrology

BLOCK #2 – BROAD MARKET ANALYSIS & CHARTING

Ethics and First Principles of Technical Analysis

- 7.) Code of Ethics
- 8.) A Summary of Technical Analysis (TAST)

Pages: MTA Code of Ethics, TAST 319-324

Outcome

After reading this section, you should be able to:

- Assess ethically questionable situations
- Know what constitutes a breach of the MTA's Code of Ethics
- Explain in layman's terms the principles of Technical Analysis

Charting Review and Techniques

- 9.) Charting (NTSM)
- 10.) Charting Systems and Techniques (NTSM)

Pages: NTSM 59-152

Outcome

After reading this section, you should be able to:

- Articulate the different phases of broad markets and what factors move prices
- Recall area patterns and their implications

- Identify bar chart patterns and understand their implications
- Define various measures of proportional and systematic price movements
- Provide support on why the occurrence of chart patterns can be profitable

Volume and Breadth

- 11.) Confirmation (TA)
- 12.) Volume, Open Interest, and Breadth (NTSM)

Pages: TA 411-449, NTSM 483-514

Outcome

After reading this section, you should be able to:

- Know and interpret the varying types of volume plots
- Define open interest and interpret open interest statistics
- Use and analyze the major indexes and oscillators related to volume and breadth
- Differentiate volume oscillators from standard oscillators

Advanced Point and Figure Charts

- 13.) Analyzing Point and Figure Charts
- 14.) Point and Figure Charts of Indicators
- 15.) Optimization of Point and Figure Charts
- 16.) Point and Figure Charts Contribution to Market Breadth
- 17.) Advanced Point and Figure Techniques

Pages: DGPF Chapters 5-9 (1st Ed.), or Chapters 6-10 (2nd Ed.)

Outcome

After reading this section, you should be able to:

- Select the correct reversal and box size based on the security
- Determine how altering reversal and box size will specifically impact your chart
- Describe the subtle differences between 1-, 2-, 3-, and 5-box charts
- Chart and interpret technical indicators and oscillators with point and figure
- Define optimization and compare advantages and disadvantages
- Explain bullish percent indicator uses and characteristics
- Apply moving averages, bands, and SAR systems to point and figure charts

Japanese Candlestick Charting

- 18.) A Historical Background
- 19.) Construction and Interpretation
- 20.) Reversal Patterns
- 21.) Star Patterns
- 22.) More Reversal Patterns
- 23.) Continuation Patterns
- 24.) Putting It All Together

Pages: JCCT 1-179

Outcome

After reading this section, you should be able to:

- Read and interpret candlesticks
- Relate historical facts about the history candlestick charting
- Identify and define reversal, star, and continuation patterns
- Interpret all forms of Doji
- Dissect and explain each turn or continuation of a candlestick chart

Advanced Bar Chart Patterns

- 25.) Bar Chart Patterns (TA)
- 26.) Short Term Patterns (TA)

Pages: TA 301-339, 365-407

Outcome

After reading this section, you should be able to:

- Familiarize yourself with Behavioral Finance
- Understand the methods for recognizing patterns in markets
- Recall which patterns have the highest significance for trading application
- Incorporate short-term patterns into long-term pattern analysis
- Identify one-bar, two-bar, and key reversal bar patterns and assess their implications

BLOCK #3 – ASSESSING & MANAGING TRADES

Tops and Bottoms

- 27.) What Is a Bottom – What Is a Top? (TAST)
- 28.) Check Points for Identifying Peaks & Troughs (TAE)

Pages: TAST 441-445, TAE 526-538

Outcome

After reading this section, you should be able to:

- Define Primary Tops and Bottoms in markets
- Explain the mechanics of typical peaks and troughs
- Recall all of the influencing factors on peak and trough formation

Trading Tactics

- 29.) Technical Analysis and Technology (TAST)
- 30.) Advancements in Investment Technology (TAST)
- 31.) Trading Tactics (TAST)
- 32.) Selection of Markets and Issues for Trading and Investing (TA)
- 33.) Choosing and Managing High Risk Stocks (TAST)
- 34.) The Probable Moves of Stocks (TAST)
- 35.) Stop Orders (TAST)
- 36.) Breakouts, Stops, and Retracements (TA)
- 37.) Spreads (TAE)

38.) Spreads and Arbitrage (NTSM)

Pages: **TAST** 325-357, **TA** 511-534, **TAST** 401-440, 611-627, **TA** 247-268, **TAE** 320, **NTSM** 515-560

Outcome

After reading this section, you should be able to:

- Know how to place trades
- Define the various types of stop orders
- Identify breakouts with multiple methods
- Grasp basic operating trading knowledge
- Understand how futures contracts work as well as their uses
- Build a working knowledge of pairs trading, spreads, and arbitrage

Risk Management

- 39.) Money and Risk Management (TA)
- 40.) Portfolio Risk Management (TAST)
- 41.) Risk Control (NTSM)
- 42.) Diversification and Portfolio Allocation (NTSM)

Pages: **TA** 571-589, **TAST** 597-608, **NTSM** 983-1082

Outcome

After reading this section, you should be able to:

- Define methods of risk management and betting strategies
- Differentiate between diversifiable and correlated risk
- Determine optimum capital allocation through multiple methods
- Guard against catastrophic risk and gambler's ruin
- Mathematically measure risk and probability
- Understand the merits of diversification
- Relate portfolio allocation techniques to Modern Portfolio Theory

BLOCK #4 – PRICE MOTION, STATISTICS, & SYSTEMS

Advanced Price Motion Theories

- 43.) Theories of Non-Random Price Motion (EBTA)

Pages: **EBTA** 331-385

Outcome

After reading this section, you should be able to:

- Explain Efficient Market Hypothesis
- Recite the Pillars of Behavioral Finance and have an understanding of each
- Diagram a basic feedback system for price movements
- Explain in layman's terms the support for non-random price motion

Regression Analysis & Trend Applications

- 44.) Regression Analysis (NTSM)
- 45.) Time-Based Trend Systems (NTSM)

Pages: **NTSM** 209-248, 285-346

Outcome

After reading this section, you should be able to:

- State the various methods of regression analysis for measuring trends
- Familiarize yourself with techniques for measuring correlation
- Understand how signals are generated by regression analysis
- Describe the purpose and uses of bands
- Familiarize yourself with the way systems work to capture trends

Statistics in Technical Analysis

- 46.) Basic Concepts (NTSM)
- 47.) Statistics for Technical Analysis (TA)
- 48.) Statistical Analysis (EBTA)
- 49.) Hypothesis Tests and Confidence Intervals (EBTA)

Pages: **NTSM** 15-58, **TA** 593-617, **EBTA** 165-253

Outcome

After reading this section, you should be able to:

- Define statistical terms, functions, and tests
- Use statistics to calculate various measures of return and risk
- Differentiate between descriptive statistics and inferential statistics
- Understand how statistics are applied to Modern Portfolio Theory
- Name the elements of statistical inference problems
- Understand probability distribution as it relates to Technical Analysis
- Describe the mechanics and types of hypothesis testing
- Explain what confidence intervals tell us about estimation

Measuring Price Motion and Speed

- 50.) Moving Averages (TA)
- 51.) Time-Based Trend Calculations (NTSM)
- 52.) Momentum and Oscillators (NTSM)

Pages: **TA** 271-296, **NTSM** 249-284, 347-401

Outcome

After reading this section, you should be able to:

- Define all types of moving averages
- Explain how to use error analysis for the purpose of trading
- Recall trading tactics that either use or counter price momentum
- Define the purpose and implications of momentum oscillator measurements
- Know how to trade momentum divergence

Trading Systems

- 53.) Introduction (NTSM)
- 54.) Automated Systems (TAE)
- 55.) System Design and Testing (TA)
- 56.) Advanced Techniques (NTSM)
- 57.) System Testing (NTSM)
- 58.) Data Mining Bias (EBTA)

Pages: **NTSM** 1-14, **TAE** 539-563, **TA** 539-569, **NTSM** 791-934, **EBTA** 255-330

Outcome

After reading this section, you should be able to:

- Formulate a plan for researching trading systems
- Profile a trading system's characteristics
- Articulate the advantages and disadvantages of mechanical systems
- Conceptualize the process for designing and testing a profitable system
- Describe the role that risk management plays in system design
- Explain how you would test system robustness and measure profitability
- Apply volatility measurements to a system
- Define neural networks, expert systems, and genetic algorithms, among others
- Explain the factors that contribute to data-mining bias
- Describe methods used to avoid data-mining bias

Seasonality & Cycles

- 59.) Seasonality (NTSM)
- 60.) Cycle Analysis (NTSM)
- 61.) Cycles (TA)
- 62.) Practical Identification of Cycles (TAE)

Pages: **NTSM** 403-482, **TA** 455-483, **TAE** 391-396

Outcome

After reading this section, you should be able to:

- Define methods used to determine measures of seasonality
- Compare seasonal patterns using various methods
- Explain the concept of seasonal filters and how they can be used for profit
- Name methods for finding cycles, and advantages and disadvantages for each
- Describe methods of using cycles to project future peaks and troughs
- Understand the concept of detrending price data and why it is important

BLOCK #5 – MONEY & BEHAVIORAL FINANCE

Flow of Funds & Interest Rates

- 63.) Flow of Funds (TA)
- 64.) Why Interest Rates Affect the Stock Market (TAE) – WARN'T IN L1???

Pages: TA 169-186, TAE 463-484

Outcome

After reading this section, you should be able to:

- Incorporate flow of funds concepts into your research or investments
- Explain the various methods of measuring market liquidity
- Define flow of funds strategies and indicators
- Relate Federal Reserve Policy to cause and effect
- Articulate what defines favorable and unfavorable interest rate environments

Group Rotation, Relative Strength, & Confirmation

- 65.) The Concept of Relative Strength (TAE)
- 66.) Price Group Rotation (TAE)

Pages: TAE 304-319, 321, 352-363

Outcome

After reading this section, you should be able to:

- Measure and interpret underlying market strength
- Define trends within relative strength measurements
- Articulate the Group Rotation Theory and why it is important
- Know which industries are typically leading, lagging, or middle groups

Investor Sentiment and Psychology

- 67.) Sentiment (TA)
- 68.) Behavioral Techniques (NTSM)
- 69.) “Technically Speaking”
- 70.) Knowing Human Nature (IPE)
- 71.) The Wall Street Herd (IPE)
- 72.) Staying One Step Ahead (IPE)

Pages: TA 85-123, NTSM 561-586 IPE all pages

Outcome

After reading this section, you should be able to:

- Explain contrary opinion and its role in sentiment measures
- Define the various sentiment indicators and how they work
- Compare informed player sentiment with uninformed player sentiment
- Discuss unquantifiable contrary sentiment indicators with friends and family
- Understand how it may be possible to trade on news events
- Recall historical market average ratios, yields, and their extreme readings
- Recall the type of characteristics that are required to trade and invest successfully
- Create a trading plan and trading rules to follow