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THE MIKE ALKIN SHOW

TALKING STOCKS OVER A BEER

Announcer: Free and clear of the chatter from Wall Street, you're listening to Talking Stocks Over Beer, hosted by hedge fund veteran and newsletter writer, Mike Alkin, who helps ordinary investors level the playing field against the pros by bringing you market insights and interviews with corporate executives and institutional investors. Mike sifts through all the noise of mainstream media and wall street to help you focus on what really matters in the markets. And now, here's your host, Mike Alkin.

Mike Alkin: It is Monday, February 4th. Welcome to the podcast. Hope you had a nice weekend. Mine was interesting to say the least. I am a big fan of Caddyshack. And I never thought in my life, you remember the movie Caddyshack with Bill Murray as greens-keeper Carl Spackler who's nemesis was the little gopher running around the golf course. Well, I never realized or thought that I would have a nemesis like gopher, but I do. It is the raccoons that are constantly getting into my garbage. And no matter what I do, I think I've been in my house 11 years, 10 years, or in a house, this is a newer one, but I am constantly ... I put the garbage out, no matter what kind of garbage cans I get, sure enough in the mornings I go out, and they're tipped over, the top is off. They don't have opposable thumbs, the raccoons. So I don't understand it.

I went out and bought new garbage cans, which I do fairly regularly, and I'm hopeful. The problem actually has gotten worse the last year or so. As my son's gotten older, part of his responsibility is to take the garbage out. He's almost 13. But it's just crazy trying to get him to go outside, put the garbage in the can, lift up the lid, close the lid tightly, put the bungee cords diagonally across them, so that we have a better chance at the raccoons not peeling the lids off and getting into them.

Now, I've got a technique on the bungee cords, a wrapping technique, which is kind of proprietary, that has worked sometimes. And I've showed it to my son, and not only does he ... has not been able to get that down, but I'm convinced there is absolutely no way he does anything other than lift the lid, toss it in, and don't even bother. I don't even think he closes the lid. At first I thought it was his way of just not doing it so that he wouldn't have to do it. And that I'd get frustrated and take the

job back myself. I say at first, actually it worked. So now, but now I make him come out with me to show him how to do it. And sometimes it does and sometimes it doesn't.

But these raccoons are just, I mean they don't care. I mean they are suburbanized. They are totally comfortable. I pulled up in my driveway the other night. And there was a raccoon standing there in front of the basketball hoop. And normally, I mean it seemed ... I used to think for years that the raccoon would see you and take off. Or when I'm walking toward the side of the garage where my garbage is, the automatic light goes on. And if they were there, they'd take off. Now, they're getting ballsier. I walk out, I mean I pulled up in the car, the lights flashed on him, looked at me like, it's like, what are you gonna do. Went right back to business, went right back to the garbage cans.

So, went to Home Dept, got what I think is a solution for it. Got the garbage cans with like a lid that locks. So I got that. And I was out practicing my bungee cord technique. I'm hopeful. But I gotta tell you there were times where I would, say, 10:30, 11:00 at night, and I would sit and look out my back window. And wait for the raccoons to come so I could run outside. I did that a couple of times. At the point where I was, really? I'm in a battle of wills with raccoons. But anyway, so I'm hopeful I got that taken care of.

Back feeling good and looking at right now, my yellow legal pad. I think I mentioned, I don't know if I did but, one of the biggest things over my career the last 20 plus years, has always been how to take notes. Right, legal pad, notebooks, and they're great because I love to write. For me, especially when I was studying, if I study something, I can't just read it and absorb it. I have to read it and typically write a lot of notes down. Sometimes twice. But that's how I process, and I like doing it. Then over the years as time passed I started to see more people using the computer and databases and storing notes. I'd try and do that. I'd get an iPad with a separate keyboard. Or I'd type notes while I was on the phone talking to people and then forget it. I mean, I was just never consistent with it.

So I always wind up going back to a notebook or legal pads. I would keep using them. What winds up happening is you use a notebook, maybe every three months you go through one. A legal pad you go through once a week. You talk to ... doing a lot of work, a lot of research, doing a lot of phone calls, but then what happens is you forget where, what day you spoke to somebody. You forget your references, point of reference to remind you where that

notebook is. You keep 'em stacked up, but you could spend an hour going through notebooks. Then I switched to another method. I used different things throughout my career. They had databases, Tamale or Evernote's the new thing. And you can use ... Tamale's still around. A lot of funds will use that, where it's a centralized database where people can share stuff. And then Evernote is more of a web based product that you can use. And you can set up individual notebooks and you can type your notes and stuff like that.

But again, there's something about typing for me. But it's necessary that I have ... to be able to access what I'm writing. Now ... oh I forget, sometime in the last year, we were doing a major attic clean out. And like years of notebooks got accidentally tossed. Would I have ever referenced them? Probably not. But boxes of them.

And the other thing was calendar. The calendar for me was always ... on the phone calendar, I always used my ... for years and years, I used just like a DayTimer. And good old paper calendar. And then trying not to be a dinosaur, I would adapt. You talk to someone and you're going to set up a ... okay, we'll talk in a week from now. Next thing you know, email, you get a calendar invite. You put it in your calendar. I get it. Yeah, it's all good. It's on your phone. It's on your laptop. It's everywhere. You can reference it.

Can't even tell you how many times where something would be on my phone and a calendar appointment, and I forget to look at my phone. It just never got routine for me. For me, it was always paper. But I struggled because I said, I am not going to be that guy that doesn't adapt.

Then something's happened over the last year or so, where I just, I get it. I've accepted. I'm not a dinosaur, but I've accepted there's certain things that I'm a creature of habit at. So, in the last month, I started the new year. I went out to Staples and I bought a $20 DayTimer. And I have not felt better about my organization in the last, I can't even tell you how long. It's paper. You hear it? I look at it. I don't forget to look at it. I look at it. I carry it around with me. I sits in my car if I go somewhere. If I'm on a call, I'm looking at it.

Versus there's something about having it in the mobile phone where I have to go look at it. Open it up, unlock it. I just don't get it done. So I'm feeling good about that.

So I got the raccoon thing hopefully taken care of. I think I have my calendar organization taken care of. People send me invites, I don't respond. Or I'll send an email back saying, got it thanks. But then I write it down. Feels good.

Anyway, big weekend, right? Super bowl. We'll talk about my view of the game, not that anybody cares. But if you listen to the podcast, you'll know that a couple of weeks ago I was in Vancouver giving a talk. And it was on a Sunday. So I missed both games, the NFC and the AFC championship game. And if you also listen to the podcast, you know how important sports are to me and how I love sports. And I'm very fortunate. My wife's amazing on many fronts, but she's really amazing when I comes to sports in the house and giving me the freedom to watch it. And she'll watch it sometimes with me. My son will watch, my daughter, if the game's on. Part of the house is pretty open, open floor plan, in part of it, so our kitchen goes into a big great room where we can have TV and talk and a game can be on in the background.

When football season starts ... In my household, we know pitchers and catcher report to spring training in 11 days. So we know that's coming. So that's like, we get excited. We know when March Madness is there. We know when training camp opens in the NFL, NHL. We anticipate it. We look forward to it. So, during the football season, with Sundays ... Sundays during the day, I'll spend with the family. I'm not, we won't not do anything because there's a football game on. I don't like DVRing the games. It's not my thing. So, Sundays during the day if a Jet's game is on, yeah, I'll watch it. And my wife's awesome, we'll all sit around and watch it. But we'll do our stuff. But Sunday night, Monday night, Thursday night, that's after a long day. I'm always working. I don't have hours. I'm always reading. I'm always on a call. I'm always doing something. So watching a game, I just sit there and just enjoy it.

I played football. I played baseball. I played hockey. For me, that was way back when, a long time ago. I was a very marginal, average high school quarterback, but I loved it. It taught me so many life lessons, but I loved the strategy of the games. But I don't like watching games in big crowds. I'm not a large crowd guy at all. By nature I'm an introvert. You might hear me, and I've said this before, you may hear me ramble here on the podcast, but I'm just talking out loud, but I am not a crowd guy. I'm not a go out be around a lot of people guy. I'm really cool with my family, a couple of close friends, and I'm good. I mean I'm friendly, but I'm more into myself. Once in a while a buddy of mine will come over and we'll watch a game.

But championship Sunday, I missed. It was just like, you gotta be kidding me. I was waiting all year to watch this. And two great games. They turned out to be epic games. I couldn't do it. So Saturday late afternoon, I said to my wife, I said, "What should we order for the Super Bowl?" I assumed we'd all sit around and watch it, maybe a neighbor come over. She said, our neighbors are having a Super Bowl party. I said, "You're kidding." She said no. My daughter is friendly with the kids and my daughter's there, she said, "Oh yeah, we're going." I said, honey, there's going to be a lot of people there, I just wanna watch the game. I didn't get a chance to watch the championship games. I wanna watch the game. "No, you're going. You're going. You're going."

My wife looked at me, she said alright, if you don't want to go you don't have to. But then again, now I feel like mister antisocial. But I really just wanted to enjoy the game. Turned out ... anyway, at the end of the day, I said, "Okay, I'll go." So I went ... was pretty fortunate, while it was loud, there was an area where we could watch TV, watch the game while people come in and out. So it was good. It was pretty good on that.

It was, I mean it was just stunning. Everyone at the house was a Rams fan. They couldn't name two players on the Rams, but they loved the Rams. Why? They didn't love the Rams, they hate the Patriots. Why? Because they always win. People kept saying, they always win. We're getting sick of them. Well, for me, I mean I'm a Jets fan. They play in the same division. And the Jets are a disgrace and have been forever. I can't even say the Patriots are a rivalry, it's not. I mean the Patriots mop up on them all the time. But how can you not like and respect what this team has accomplished? I mean to be at the top of their game at anything, whatever industry, profession you're in, to be there so long and so frequently. Think about the dedication, the hard work, the ups and downs. It's a massive amount of effort that goes into that. You know, people hate Brady because he's now won six Super Bowls. Many people will say he's the greatest of all time. And by all accounts you can say he is.

I'm partial to Drew Brees. Maybe because ... there's the debate about whether or not he's even six foot tall. And there's the debate in my household whether I'm six foot tall or not. I'll push the six foot. My wife will push the 5' 11". The tale of the tape will tell, but I haven't done that in a while. The short guys, shorter guys, I kind of gravitate towards. But I mean how can you not respect and appreciate all that, the effort that these guys put in. And he's got the beautiful wife, and I don't know what they make, 50 million,

60 million a year combined against them. But meanwhile, by all accounts, the guy's a home run guy. I knew someone who had coached one of his kids in sports, and they said, they just can't be nicer. So I'm a fan of his.

But overall, one of the things that sports for me have always taught are life lessons about hard work, effort, perseverance. And just for me, some people haven't played sports, and they have wonderful life lessons, right? But for me it was a brutally cold day in November and the last thing you want to do is at the end of a two and a half hour football practice, is run a mile and do gassers and do sprints. You just can't even think you can do another one. Or line up at one red line in hockey at the end of a long grueling practice and do sprints and do suicides back and forth they're called. Because you go from red line, to blue line, back to red line, to the center line, back to the red line, the opposite blue line. I mean you want to throw up. But what you learn is it doesn't matter. You can always, there's always that extra effort, that extra gear that if you dig deep. For me it always taught that.

And that's carried with me into my work career. No matter how tired you are, no matter how much you have to do, no matter how tough it can be, you can just dig deeper. So for me, great lessons.

But one of the things about ... I like watching the Patriots is, and the similarities to investing besides prep and hard work and grinding it out is, they have an amazing way to take the long view. And if you know the Patriots, they typically get off to slow starts. September, right? It's a long season. It's a grind. September, October, November, December, the playoff and Super Bowl into January, February. And they could start off and be 2-2 in September. They could be sluggish. But they always ... they don't panic. They put in their work, and they ignore the noise. They do their job, and they always stay calm. If you've done your work, and that's as the season's getting going, they're doing their preparation. And they know it's a long season. Kind of like investing, right? There's some really good days and weeks and months. But they have a game plan and they have a framework with which they're working from. And that framework I built on experience. That framework is built on having been through may different scenarios.

So if they start out 2-2, they don't panic. They stay the course. They keep doing what they're doing. It's kind of like investing, you can have a really bad month. You can have a bad couple of weeks. It doesn't mean your investment strategy is wrong. It doesn't

mean what you're doing is wrong. It means it just might not be working then. If over time you have a framework to work off of, there's a good chance that you're going to persevere. But if you start to panic because you're 2-2, or because you had a bad month. You say, oh my gosh, you know what? And it could be whatever it is, I'm doing something wrong. My style is wrong. All the work I've put in is wrong. Let me go chase something else. And when you start chasing things, is when you start to make mistakes.

Now mistakes are good. As a professional investor for three decades, I've made so many of them I can't even tell you. Still do. I made a lot more earlier on, but I still make them. But you learn from those mistakes hopefully. Kinda like football. Kind of like any sport. It's like studying game film of the past game. You look at the film. You look to see what you could have done differently. So that next time, hopefully, you don't make that mistake. I worked for a legendary hedge fund manager earlier in my career named Joe DiMenna. And the firm was called Zweig-DiMenna. Run by Marty Zweig and Joe DiMenna. And Joe's one of the great hedge fund managers of our time. When you'd make a mistake, he'd say do a post mortem on it. Go back, take a look at it. Tell me what part of your analysis do you think you missed. Whether it was a long or a short, how could you have thought of this differently? How could you have approached it differently? How could you have analyzed it differently?

And you do that, and you make these mistakes, and you sit down and have to be intellectually honest with yourself. Then throughout my career I was really fortunate to work for a few people like that. Reid Walker at Walker Smith Capital out of Dallas, Texas. Great hedge fund. They retired in I think it was 2012. But always as an investor, kind of like watching game film, and kind of being really prepared. There's a bull case and a bear case. We might have a really strong bearish view on it, but let's sit down and let's really get in the head of the bull case. What could they dream up? What could a bull really be thinking? What could they be anticipating that we're not? Kinda like watching game film. What are we looking at that they might not be? Are we overemphasizing something?

It's kinda like looking for tendencies in yourself. When you're watching game film, you're looking for your opposing team's tendencies. And if you can pick up on their tendencies, you have a better chance of game planning for them. If you can pick up as an investor your own tendencies ... What are my own personal biases? What are my own things that tend to cause me to make mistakes?

What are some examples of the companies that I'm looking at that I might want to be long or short, that the other side of the trade is looking at, and is it playing to their tendencies or not?

I think about when I was a partner for many years at a hedge fund called Not Partners. It was a multi-billion dollar fund, and I was a senior guy there. Along with a few other of us, but I'd been there for many years. We lived through the global financial crisis, the flash crash. Huge moves up and down in the market. But that preparation, watching that preparation, watching David Knott during a downturn like that, as calm as can be, all of these guys. Calm, rational, reasoned. Why? Because they put the effort in. They put the time in, the preparation, the hard work. They understood and their analysts did it, and they did it. They understood what they owned, what they were short, why they owned it, why they were shorted. What they thought the perceived ... what the value was. So if the market moved against, when the global financial crisis is coming, there was no panic. When the flash crash occurred and the stocks imploded, it wasn't sell everything, it was calm. Any values that we should be looking at here?

These are the preparation and the effort that goes into it on the front end makes ... the game plan, it makes you adapt to the game conditions. You watch a football game and on the sideline, coaches walking around with their laminated boards. And they've got scenarios, it's scenarios. They've got scenarios for everything. It's first and ten, it's second and seven, it's third and five. What plays work best for us against that? They're not doing it on the fly. They've got a checklist. They've got something that's worked for them. That they've seen by watching game film. By preparing for it. So there's so many similarities to investing. There's investor checklists, there's frameworks. I have a framework that I use. And that framework helps me establish who I am as an investor. How I look at things. And it's built up over years of so many mistakes.

And none of the guys I've worked for ever thought they were the best. They never thought they were the smartest. They never thought any of that. But they were amazingly smart, amazingly talented. But they were humble and they prepared and they grinded it out. And became wildly successful.

For me, the way I started as an investor ... you can do many things. I was a fundamental, bottoms-up analyst working at a short fund doing short selling. Learning how to analyze companies form the bottom-up. That's one way of investing. That's one way to go about it. Then there's ... but what moves

the markets? There's bigger things. There's more macro. More top macroeconomic stuff moves market because it creates more money flows into one asset class or another. And I didn't pay much attention to that early on in my career. And I do this podcast for regular investors, not institutions. And there's all different skill levels, I can see it by the emails I get. But when you're early on, where do you begin? It's a big world. There's news come at you every which way. I started out, fundamentals, bottom-up with an understanding of accounting, but you gotta learn then as you start to morph and as you start spending more time, things move stocks. Macro trends move stocks.

As I started to become more well-rounded and more developed, I started to pay more attention to the macro. That's in the type of investing we were doing, the long-short equity fund. Now the PMs, the portfolio managers, they're focused on that. What causes these movements up or down? And then how do I want to allocate my capital into sectors? What sectors are working? What sectors aren't working? And that doesn't mean that we're going to be in those that are working and those that aren't. It might be completely opposite. We might want to look ... because you're planning ahead, what's going to start working. What's going to start not working. So, trying to think about which way the money's going to start flowing into it. Then as you start to ... for me, as my career started to evolve, one of the things that started to come into it was, I'd never really understood it, so there's macro investing, there's bottoms-up investing, focus on the company, more macro looking at sectors and economy and what moves it.

And one of the things early in my career, I was fortunate enough to be around a really talented trader. Right now, you hear the term bandied around, he's a trader. In hedge fund land, you're an analyst, you're a portfolio manager, and then there are traders who execute the trades for you. But one of the guys in the old days before really the computers were so prevalent, every week you'd get a book. A big thick book, one of NASDAQ stocks and one of New York and American Stock Exchange stocks that would be charts. How do we see it looking at the charts? Now the charts, the way I viewed it, it showed past behavior. And I would look at charts, and even today I kind of use charts, but what are they telling us about where this stock has come from?

Not so much about future behavior, and a guest I have on today's going to talk about that. But for me it was fascinating because he would look for a certain pattern. It was ... because the charts showed you what prior behavior was, and he would look for stocks

that had a basing pattern that you could see going back a few years. It would flat line. They'd come from really high levels down to really low levels. He was looking for things that were ... because he would talk to the PM. He was very valuable to the portfolio manager. He would say, have you looked at this industry? It's been basing for a real long time. It stopped going down. The crowd has kind of disappeared on it. But maybe there's something to look at. And often times it wouldn't come to anything, but once and a while you'd find something.

But for me it was fascinating because if you hear me talk about my style of investing is more contrarian. I tend to, or I do, I look at industries where people either really like something, if I'm looking on the short side, or don't like something, if I'm looking at the long side. I swim against the tide. And that's not for everyone. Some people like to own really big growth stocks. It's really great. It's good for them. They like to power short on the way down. I tend to swim against the tide. Now doing that for the sake of it is a fool's errand. Because the crowd isn't always wrong. But exploring something that most don't like, or do, for trying to see if there's a variance perception to be had, to me has always resonated.

And it comes to crowd psychology, mob psychology, right? Because you think about crowd behavior, it's really influenced by the loss of responsibility of the individual. Kind of gives way to this universality of behavior. And the bigger the crowd, the less individual responsibility there is. I tend to gravitate toward that. Now for me, for those of you who listen to podcasts, you know I have an investment vehicle that is focused on the uranium industry, and the seven year bear market. I personally think the bear market's over. But the investors left the house. Nobody cared. They're done, gone, see you. Fukushima came, March 11, everyone left. All the institutions, most of the institutions left. The analysts who covered it on the sell side disappeared. Stocks went down 85%, 90% the commodity was down. Hello? For me that was worth some study. And you peel the onion back, is there a variant view? Does it make sense? Yeah.

Now, the guest I have on today is a very interesting guy. He takes the chart aspect to it, and takes it to a different level. He applies all this behavioral, crowd psychology and tries to take what the patterns have shown, as to what they could reflect in the future. And he's done it at a big shop. He was the head of technical analysis for fidelity for a number of years. So we're gonna bring on him right now to talk about something that I don't spend a lot of time talking about. And I'm looking forward to it because I could learn from him.

David Keller, thanks for joining.

David Keller: Absolutely, Mike. Good to speak with you.

Mike Alkin: So, I mean, in addition to the financial markets, we have something else in common. You live in Cleveland. And are a die-hard Browns fan.

David Keller: That's right.

Mike Alkin: And I have thrown my hat onto the Browns bandwagon.

David Keller: I can't tell you how long I've waited for someone to say that phrase to me, Mike. It's been-

Mike Alkin: You never thought you'd hear it did you?

David Keller: I never thought I would. So no, it's funny, as I was telling you. There's such an optimism here. Which is, it's good in so many ways, but this city has evolved over time and had a rebirth over the years. And having an optimistic Browns cohort is actually really, really nice. It's cool to see. There's a new optimism here. Which is good.

Mike Alkin: And as I was telling you, I mean I love Cleveland. I think it's a great city. I've been going there for a really long time. Friends and people I've known there for a long time. We still have friends there. And it was, actually it was back, oh a number of years ago when steel had a resurgence, a huge resurgence, I took a team with me, some of my analysts, and we went into Cleveland. We went and met with a number of the steel industry guys. I mean which, it's fallen off a lot over the years, right, the steel industry in Cleveland, but ... Steel had been on a tear for a while. And I took my team, I said, let's go see what's going on. Are these prices sustainable? And set up some calls and went out and made some appointments and met people, some really fabulous people. Like old grizzled steel brokers. The guys who'd been around, right? I don't know how many decades they ... it's been a tough grind for them.

And had dinner with one of the guys. And the guy pulls up in front of the restaurant, my team and I are sitting outside waiting, and guy pulls up in a Bentley. He gets out, and he was a character. We started talking. He was a steel broker, and he'd been around the industry forever. I said, wow, business is good, right? He goes, "Oh, yeah, for now. I don't know how long it's gonna last, so I'm

driving this Bentley." He said if you [crosstalk 00:35:36] Cleveland in the steel industry, when you do get a ray of sunlight, you take advantage of it. I said, okay, excellent.

David Keller: That is a bull market vehicle choice right there.

Mike Alkin: Anyways, before you came on, I was telling people that my entire career has spent ... it's evolved. But deep dive fundamental analyst, bottoms-up guy. And then as my career morphed, it was ... you learn about the macro economics and how money's flowing into a sector because that's so impactful as to what you're looking at. And then I made reference before you came on to the podcast to an old guy that I knew at one of the firms I was at that used to love getting the old chart books and looking for [crosstalk 00:36:20] things. And I said for me, charting and technical analysis was always a reflection of prior behavior. And I never really carried it a step forward as to where it's going to go. I never quite got my head around that.

And then, when you and I were introduced and we had a conversation, we were talking about the behavioral aspect of finance. And how you marry it with the charting. And behavioral finance is something I really understand because as a lifelong professional investor and as a deep value guy and a short seller, you're naturally contrarian. So you're taking the other side of convention. In that, a lot of times I was talking about, you're picking off crowd behavior and you're picking off behavior or trying to when it works.

When you and I were introduced and I thought it would be great to get you on the podcast because we could all learn together here, my listeners and me, as we go along. But why don't you tell people ... the name of your firm is Sierra Alpha Research, and I know you were the head of technical analysis at Fidelity for a number of years. But why don't you give the listeners your background.

David Keller: Absolutely. I started in the industry in 2000, so my baptism to understanding the financial markets started in 2000.

Mike Alkin: Welcome to the internet bubble.

David Keller: So I basically arrived just as people were telling me, this was at Bloomberg in New York, and I arrived having people telling me, not how easy this was, but in so many words, how easy it was.

Mike Alkin: [crosstalk 00:37:59] fish in a barrel.

David Keller: Exactly. It was, here's how you do it, and it's not a big deal. Stocks tend to go up, and here's how to find them. So the first couple years were just this painful secular bear market. And 9/11 was right in the middle of that too. That whole two year experience from 2000 to 2002, was really formative for me and I think helped me very quickly embrace the idea of investor behavior. Because I saw the fear so palpable all around me, from my colleagues, from clients, from customers, all of that. So for me that was what immediately drew me to technical analysis. And behavior finance really wasn't a field to speak of yet. That kind of came later in my career. But I was immediately drawn to any measure of sentiment or some crowd behavior, some way that you could quantify what people are thinking. Because I quickly saw the fear and the greed reflected on charts of stocks, and I was drawn to it immediately.

My first eight years in the industry were at Bloomberg in New York, and I quickly became the technical analyst there. I was super passionate about it, and sort of chipped my way up to that position. Eventually ran a team of strategists that covered North and South America. And we would travel around the US, Canada, Mexico and South America and meet with buy side firms, sell side firms, huge trading floors down to one or two man shops in Detroit and everyone in between, just to help them understand how to use technical analysis and get inside their head a little bit as investors. So that first stretch was really, really ... a really cool way to learn directly from people that were making bets on this stuff every day. Just what drove their decisions. And I immediately found weaknesses or places where I felt like there could be better decision making. I was already starting to think of that I guess, when I was having the conversations with everyone.

So ... Go ahead.

Mike Alkin: I was gonna say, it's interesting. Because in the world of hedge funds on the buy side, some guys really like technical analysis other guys think it's voodoo science. So you kinda ... but when you start to really think about how you can incorporate it, it's a tool in the toolbox that can give you a very different view of a company. And the crowd behavior which I think is so fascinating.

So then you went from Bloomberg and then you went over to Fidelity?

David Keller: That's right. So in 2008, I was hired to run a technical research department at Fidelity Investments, moved from New York up to Boston. And was there from 2008 to end of 2016. That was a really,

really fascinating experience. I worked in the equity division, so we ran all the equity mutual funds, many that investors would have heard of, Contrafund and Magellan and all of these funds that had been around for decades. Basically I ran a team of 20 analysts and we would advise the portfolio managers on what stocks to buy or sell on any given day, any given week, and do a lot of portfolio analysis, bet sizing, just thinking how to take in investment thesis and then translate that into positioning. For us it was all about charts and technical analysis, basically understanding where these stocks had come from, and some probabilistic idea of where they were going to go to next. And it was also a huge focus on risk management.

I found one of the best, and probably what I learned most of my time there was the value of charts and technical analysis as a protection against downside risk. Because even though when a stock starts to go down, you can justify why the company is still a good company and why it's a good story and why the investment thesis is sound. And as the stock goes down, the valuation looks more and more attractive. So you can easily justify something that's really hurting your performance. Whereas what charts very quickly and with no emotions tell you is, this stock is breaking down, so regardless of how good the company is, how good the story is, it's hurting your performance and you have to respect that and you have to address it. So I found charts were sort of a truth serum for the investment process. And it would tell you that there was plenty of bad times to buy good companies, and that's what we were really charged with doing.

It's your point of combining the fundamental and the technical, I think that's where I learned so much the value of having a deep, sound rigorous fundamental process, but the value of technical analysis as an overlay to that process, not something you would do on its own.

Mike Alkin: One of the things that, one of the sayings that you'll hear a lot of professional investors say is, you don't want to catch a falling knife, right? You might love a company, it has great fundamentals, but the stock's in free fall. During the month of December for example, people were … there were no bids on certain sectors especially small, microcap stocks and stuff like that, just didn't matter, stocks were going to go down. It is from a portfolio manager's standpoint, it requires a real understanding of money flowing in and out of a sector or a stock and what it can have. Because you can have a great value, but no matter what, if people are determined to get out of that for whatever reason, and I guess

that's what the charts are telling you. So when you think about that, I mean one of the things that I always see when I look at technical analysis is, people have so many different keys that they look at. It could be the 10 day, the 20 day, the 50 day, the 200 day moving average. It's the cup and saucer and all these different technical terms.

It's interesting because you're a pilot, right?

David Keller: Sure, yup.

Mike Alkin: And I would assume, and we'll talk about this, but as a pilot I would assume that checklists are important to you. I know as a fundamental research analyst and portfolio manager, checklists are really important to me. And as a pilot, I'm sure the checklist is to you. What's your checklist? what's your framework by which you go about doing what you do every day? I mean what are the key things you look at?

David Keller: It's funny, when my wife first got nervous about me flying small planes around the greater Boston area, I told her, "Honey, if you actually went around your car and checked everything out as thoroughly as I check a plane out, you would not be nervous about it." Because you are meticulously making sure that every system works, that there's redundancy which means if one thing goes out, there's something else to take care of it for you. So checklists are a way that you literally survive the flight experiences. By checking things ahead of time, and even more important than a preflight checklist is emergencies. So when you're flying and your engine cuts out, you have a checklist that you immediately go through to try and get the engine back started and find a safe place to land if you need to. But it's all driven by checklists.

And it's so funny as investors how we skip that very important process of having a disciplined decision tree or disciplined method of going through, gathering evidence and then developing your thesis and coming up with a game plan. So for me, checklists are really, really important and flying taught me the value of those.

When I teach technical analysis to junior analysts, to new investors, even to college students, I taught at Brandeis University outside of Boston for a number of years, and taught MBA students. We always start with the checklist. What we do over the course of the semester is we start with the most simplistic and by the end, I come up with a series of steps you need to follow. So for me it always starts with price and the very first thing on the checklist

which seems overly simplistic, and I would say that's because it is overly simplistic, is just the trend. Is the stock or the chart you're looking at in an uptrend or a down trend? And there are different ways to measure that, but the basic way is looking at the high prices and the low prices.

Are the high prices getting higher and the low prices getting higher as well? Or do you have lower lows and lower highs. So if you think of a stock price fluctuating, peaks and valleys in any trend, you just measure those things. As long as the stock is going up, that's the starting point of the analysis. That's what you have to remember. So as you're valuing the company, as you're thinking of it as an opportunity, you have to understand that your overall bias is this trend is positive and given all else being equal, you would expect that trend to continue. And then the opposite, if a stock's in a down trend, that has to be part of your thought process of understanding that if you're potentially buying it, you're potentially buying into a weaker price pattern.

So for me, it starts with price and then it goes through a sequence of steps that I've developed over time. And I've shared my checklist with people and I always tell them, this is my checklist which means, this is how I feel comfortable coming to a decision. But based on your time horizon, based on your investment approach, the types of assets that you're investing in, your checklist could and probably should look very different. I think that's part of the growing process as an investor, as a trader, is developing your own decision tree that's based on the inputs that you find the most meaningful.

So for me, it's funny, I've always gone with things that are simple to, that have rigor and have demonstrated to me that they work. So I don't use anything that hasn't worked for me over time. Which is good. It's a good starting point. But also things that I can explain well because I've often, most of the time, worked with people that are not technicians, they're not technical analysts. They're fundamentally oriented investors, they're value investors, growth investors, active investors, individuals. So I want to be able to take anything that I'm showing them and be able to explain it in a way that resonates. Which means I don't use anything that's overly statistically obfuscates what's actually happening. I wanna be very, very clear in understanding. This is what the chart is telling, this is what the tool is, and this is what it actually means as an investor.

So for me, I always use behavioral finance, behavioral biases as a way to understand and embrace some of the chart tools that I would use.

Mike Alkin: Interesting. For me and my style as a fundamental analyst, it's highly contrarian. By its very nature, I'm medium to longer term. If I'm looking at a short, for instance, the reason I'm gonna have the short opportunity, I think is because it's not showing up in the numbers yet or the fundamentals. From a portfolio management standpoint, I need to recognize that often times some of the best shorts are the stocks that are working very nicely at the moment. So the way I do that is I scale into a position. I start small and then … understanding that they could have a quarter where they beat the numbers. But I need to identify something within two, three, four quarters where I can identify that catalyst coming to fruition, but it helps me recognize how I need to scale in and manage the position.

Same thing on the long side, right? If I'm looking at something that's blown up and out of favor, things can stay lower for longer for a very long time. So, I need to identify catalyst but that aren't yet quite visible. For me when I look at these blown up industries, often time the psychology the crowd has dominated the narrative. And the narrative becomes long in the tooth and changes occur underneath. Then people, because they're in the crowd, they just all gather around that one sentiment and you can see it.

So my time frame of investing is medium to long term. Now when you think about it, I mean there's different types of investing, there's tactical, there's short term, there's cyclical which could be a little medium term, and then there's long term structural issues that are very secular. I'll use an example, something you and I have heard forever is, dirt to dinner table. Where people are … yeah, think about it … where the urbanization of the emerging markets and what that's going to mean for the agricultural complex and the fertilizers and all of that. Or even something bigger which was the BRIC acronym, Brazil, Russia, India, China, moving into the developing economies way back when, when that was coined.

How do you … what's your framework for identifying investment ideas between the really short term, the more intermediate term and then the long term?

David Keller: Right, so it's funny that so many times when people are less familiar with charting and technical indicators, they often think in one time frame. They think in one moment or their own investment horizon and that's it. And what you've alluded to which I think is a fantastic way to think of it is remember that if you for example, operating in that couple quarters out type of time frame, 6 to 12 months for example maybe, remember that even

though that's the time frame that you're operating on, you're also victim to the short term fluctuations, that tactical time frame. So an earnings release, a news shock, a-

Mike Alkin: Conference presentation, roadshow.

David Keller: Any of those things, that can completely impact your ability to execute on your time frame. And then also the longer term time frame. So you're also operating within the business cycle and the fact that there's a cyclical nature to the economy and that certain sectors are gonna come in and out of favor. So your time frame is one among many. So I think that's one of the values of technical analysis of charting is that it allows you to see things in multiple time frames in a way that starts to allow you to make some really valid interpretations of where we're at in different cycles. And I would argue that that's one of the most important decisions you have to make as an investor.

The way that I think about it, if you look at the data in the equities space over decades, over multiple cycles, multiple bull and bear phases, you find that in the short term, which is for me a couple days to a couple weeks or so, markets tend to mean revert. Meaning, on average, all else being equal, you're better off buying weakness and selling strength. And this in my opinion is driven from the inefficiency of markets in the short term. So anyone that's gone to business school or taken classes on investing or economics has learned about the efficient markets hypothesis. And that a price is reflective of all known information, and according to a strict interpretation of it, the moment some new news comes out or new information is in the market, the stocks should immediately go to that new appropriate valuation and hit an equilibrium. But anyone that's actually traded a stock or invested knows that's not actually how it plays out in the short term.

Mike Alkin: It is so far from reality.

David Keller: It's laughably incorrect. So what happens is, a market will overshoot or undershoot. So there will be a new valuation that makes sense for a company, but the stock just doesn't go from point A to point B immediately, right? It'll go and it'll overshoot. And then it'll undershoot. And then it'll eventually settle in to an equilibrium. And if you think of, we're recording this is early February, think of stock like Twitter, Alphabet, stocks that are getting ready to report earnings this week, if you look at the charts, they've sort of fluctuated and settled in to a pretty tight price range. Because at this point, up until earnings, we kinda have a sense as a market of where this stock should be.

And then when earnings come out, we'll see if that was ... if maybe there's a new level that we wanna, we would wanna gravitate towards. But in the short term, things will overshoot and undershoot. So I think the value of charts in that time frame, is seeing where we're at in that cycle and seeing if you're able to buy something on a weaker, short term take which in general tends to be better for you than buying when things are breaking out because you're gonna get caught up in a lot of the euphoria and get caught on the wrong side of the correction.

So the short term time frame, really important.

Mike Alkin: And so, talking about short term time frame, we have just witnessed such immense volatility. So October, November, little bumpy. And then December all bets are off and the market craters. And then here we are January and it can't do anything but go straight up. How is a technician or how can somebody technical anticipate that or when it's happening, what's the thought process? Because that's almost like the engine going out or sputtering. What does one do in that time frame?

David Keller: Absolutely. So there's a series of tools that you have available to try and understand, try and get inside the head of all the other investors. And the way you described it, if you think about it, you had a great personification to what the market was doing. It "cratered." It rallied. It feels like it's never going to go down again, and that's exactly how this has felt. But I think you're absolutely right because this is what, this is how it's felt as an investor. If you missed that bottom, the Christmas Eve rally, and things start to come over into your end, and then January ends up being a fantastic month for stocks. If you missed the beginning of that, there's the FOMO or the Fear Of Missing Out that quickly builds into you. And at some point you are unable to stay out of the market. Like you physically get drawn in to buying stocks.

And that, what we have are a series of tools try to identify that moment when the fear of missing out is so strong, that people start piling in for unreasonable expectations. And that's arguably where we could be at right now. The way that you measure that, there's different ways of analyzing price movements from a statistical perspective. One of the common way are a series of tools called momentum indicators. Which basically measure how much a stock or how much an asset is moving relatively to how it normally moves. So there's a normal rhythm, there's a normal volatility, there's a normal fluctuation to any individual stock price. And what you're looking for is when there's an extreme. And we use

words like overbought and oversold when something becomes over extended one way or the other. And I just think of it as a stock has become rich relative to normally how it trades, or it's become cheap relative to its normal kind of movement. And that's all you need to know.

A lot of stocks like Facebook after it gaps up on earnings last week, it's become overbought which means based on how the stock normally trades, it's gone up way more than it normally does. And in general, you would expect the stock to correct back downwards after-

Mike Alkin: That goes back to your mean reversion comment earlier.

David Keller: That's exactly right. So you have these statistical measures to see based on how a stock like Facebook has normally trading, when is it really at an extreme? And recently we've gotten that trigger on Facebook and other stocks as well where they've gone so high so quickly that you would expect some sort of pull back. So on that short term time frame, it's all about trying to anticipate those peaks and valleys. And again, it's never a sure thing. It's always based on probabilities. But I like betting on something that has a more probabilistic outcome than something else. So that's what you're trying to capture are short term extreme movements that would tell you that at some point someone's going to be on the wrong side of that trade or the right side of that trade and want to take profits or want to unwind it, and that's what will cause the mean reversion that you are all kind of expecting.

Mike Alkin: So if you're advising a portfolio manager and he's looking at a stock. He doesn't own it, and that stock has had a big move after earnings. Which again, the efficient market hypothesis is laughable at the least. But it's had a big ... why? Because it has surprised people. And it's surprised people and it goes up. So you would caution, be patient, wait of it to pull back. You'll get a better opportunity. Is that how you think about it?

David Keller: That's exactly right. And getting to the intermediate time frame, there's a fantastic way to combine the two. In general, you like stocks that are stronger on that intermediate time frame, things that have worked, as a growth investor for example. You like stocks that have worked over six to twelve months, but are weaker in the short term. That have pulled back in the short term. Meaning that if you're running a large amount of assets, it's much easier to get a position filled and not disrupt the market if you're buying into pull-backs. But even as an individual investor, as an

advisor, it's all about identifying where opportunistically you can get in at a better price.

So a stock that you like, a company that you like that's doing well, waiting for some short of term pull back is just an easier way to get in. It's a way to make sure that the trend is actually progressing as it normally should. If you try to buy something that's going straight up, it's kinda the opposite of the falling knife issue, it's a rocket that's shooting straight up, and things don't go straight up forever. They go up for a while until enough people are ready to take profits. And then a lot of times it will come back super quickly. So waiting for some sort of pullback, waiting for some sort of mean reversion in the short term, more often than not gets you at a better point over the long term.

Mike Alkin: And how do you think from a strategy standpoint, when I think about as an equity guy, I'm looking at a lot of different things. I'm obviously looking at commodity prices, I'm looking at interest rates, I'm looking at the Fed, I'm looking at the commentary, I'm looking at economic indicators. And that goes into my framework of how I'm thinking about positioning a portfolio from an exposure standpoint. From a hedge fund perspective, how net long do you want to be? Do you wanna be real net long? Or bring your exposure down a lot?

How do you think about the world when it comes to technical analysis? Does it start from a top-down perspective? Or are you just looking at the individual names? Or does that not matter to you?

David Keller: Sure, to be honest I have clients that fit in to both buckets. I have clients that are top-down, and most of the advisors that I work with, you know they're thinking about asset allocation first. That's the first decision. And then within the equity portion, how do you want to be allocated between all the different levers you could pull on in the equity side. And the same with fixed income and alternates and alternatives. And wherever else you want to be. So the good thing about the technical toolkit is it's designed to be market agnostic. You can run it on any price related data. Or I would argue anything that's driven by fear and greed is fair game for analyzing it visually and analyzing it based on some of these techniques that we've started to talk about. So for me, I think from a top-down perspective, it can be really, really helpful.

And so what I do with a lot of my clients is I have some more systematic, more rules based asset allocation models so they

basically look at the overall trends. And in general, you want to be overallocated or allocated asset when they're working, and you wanna be scaling back or out when they're not working. Which again, sounds very simplistic but it's exactly what you are doing. You're basically trying to follow the trends as they're rotating around, and so I'll look at commodities, currencies, interest rates, fixed income, and then global equities, US, domestic and then international. And with ETFs, it's so easy now to compare apples to apples basis, all these different potential places you could be, and just try to identify where the movements are and where the opportunities are.

But then for me, the rules base, the systematic part of it is not the output of my process, it's more of the input of my process. So I'll take the output of those trend following models and then apply some discretionary overlay to that. So based on equities overall appear positive for example, alright now within the equities space, what sectors, what styles, what market cap arranges, developed versus emerging, what are all the different places we could potentially be? And again, based purely on a technical overlay, where do we see them headed?

And then for most of my clients, they're not technically driven investors. It's part of their process, it's an important part of their process, but then they have to marry it back to sort of what you were discussing. So if you see the chart of oil telling you one thing, you have to think about your own understanding of oil and supply-demand and the news flow and your own valuations and what that means for oil prices and for energy stocks and all of that. And I would say the charts should be part of that thought process. It's not the only part, and then obviously shouldn't be missed. It's an important part of it.

Mike Alkin: At the firms I've been at, I've always considered the traders and the guys who pay more attention to the charts as my psychiatrist. Because they're sometimes as an owner of stocks or somebody short stocks, the stocks just don't do what the fundamentals would indicate they should do based on what you know and history and experience. It reminds me of, I can't tell you how many times over my career I'd sit after work and talking to one of the guys and say, "I don't get it. The company missed earnings and the stock was up." And I understand why that happens, but I ... did they surprise on one part of the earnings report. No, it shouldn't have happened. It reminds me of the old Bill Parcells saying, you are what your record says you are. Not, oh we shouldn't have been 6-10, we should have been 11-5. No, you are what your record says you are.

And there are those stocks where, it is what the stock price today says it is.

David Keller: That's right.

Mike Alkin: So often times, it's what you do is more objective almost. Because you're indifferent to the commodity, to the stock, to the direction, to the long or short, you're reading these indicators. So what do these indicators now tell you? I mean we go from a ten year, nine and a half, whatever it was, your bull market to all of a sudden you're in bear market territory. And now it's rip roaring again because Powell says. Oops, we're not going to tighten now, we'll be more accommodative. We're not going to unwind the balance sheet. And here we are. So for those who are listening who are trying to get their head around it and figure out, do I go in now? Is this just an extension, was this a blip in an extended rally, in an extended bull market? Or do you think we've entered bear market? How do you think about it?

David Keller: So I tend to ... as I mentioned. We talked earlier about the three time frames of the market. And I, what I try to do as I go through my weekly process. And then I do a monthly chart review where I look at everything, 30,000 foot view, every asset, every major price series I wanna think about. And I always think of things in three time frames. Sort of that ultra-long-time frame, multiple years down the road. Sort of that intermediate term, 3, 6, 12 months' time frame, and then the short-term time frame. And I would say what you've recognized which is absolutely right, we've clearly been in, I would say a tactical bull market, the tactical move has been up since the last week in December. It's been an impressive rally out of the lows, surprising to many. And the charts to be honest with you, inflected so quickly. It's very different anywhere to pick out the actual bottom or the actual top. You more want to recognize when things have changed. And I think an investor recognizing that we had rallied and there was strength coming out of the lows, and then was fueled by Powell's statements, I think that was really important.

So we've been in a tactical bull market. The challenge I have is that next time frame up, which is short of that couple months to a couple years' time frame. I would argue we're still in a, what I would call a, cyclical bear market. Meaning since the peak in 2018, we've been in a consolidation pattern, if you think of 2018 as a massive sideways range, we've sort of rotated lower. And even with this rally out of December, we're still in a pattern of lower lows and lower highs in the broader markets since October for sure.

And so for me until that pattern changes, and for me from a technical perspective, you'd want to put in some sort of high or low. So since we've rallied so quickly and we've rallied up by most measures into some major resistance levels. So stocks like Facebook, Alphabet, Twitter all have rallied right up to their 200 day moving averages which, more often than not, tends to serve as price resistance meaning we tend to come off the market itself, the broad S&P, has rallied up above 2700, and 2800, 2820 has been a massive level of resistance where we've sold off numerous times when we get up there. Also the 200 day moving average is sort of in play there.

So we've traded up very quickly, but right to this place of supply, a place where sellers have traditionally come in or buyers have exhausted or whatever the reason, we've tended to come back. So in my opinion, we've had this nice tactical rally, but within a bearish sort of cyclical pattern. And I'm expecting that pattern to continue lower.

And the challenge is, as you mentioned, so I often ask people as I'm just starting to work with them, and they're trying to understand what technical analysis means, I say alright, have you ever had a great company, but a wonderful company, good story, good management team, good earnings growth, and then the stock price goes down? And of course everyone says, well, yeah, of course I have. I'm like alright well that is what we're doing here. We're recognizing that a good company doesn't always make a good stock. And there are plenty of bad times to buy good stories or good themes. So my point of saying that is that, the market could turn down from here. The fundamental reasons or the catalysts will become very evident along the way or even after the fact. What we're looking at is just purely the price behavior and trying to identify trends and particularly price levels at which behavior has tended to change before. We're nearing one of those levels, which in my opinion thinks that medium term time frame, we're sort of continuing lower which means all else being equal, this is the type where you want to start to raise cash or take profits on any run you had recently. And just see how we navigate the next couple weeks to next couple months.

Mike Alkin: So now as a portfolio manager the things I have to do is look and say, okay, when my view might be ... and if I think my view's going to be wrong for a period of time, longer than I thought it might be. And you say, okay, now I have to adapt. When you hit these resistance bands, it hits, it doesn't break through that 2800 level, as we were saying.

David Keller: Sure.

Mike Alkin: That day it does. If it does. How do you think about that in terms of, is it a one day close? Are you looking for a week, 10 days? What gives you confirmation on when resistance or the downside support is broken?

David Keller: So, I would say first off that having an exit plan is something that is so, so important, and so many times I see investors not take that crucial step. So they put on a position and then they don't have a rule or they don't have a strategy for when to admit that they were wrong. And if you don't do that ahead of time, right when you put the position on, you are opening yourself up to all these behavioral challenges to making the right decision later because it will be driven more on emotion and less on more of a systematic thing. Just as a pilot, you would always look for, as you are flying around, you would always look for a safe place to land. In case of emergency, I could land at that airport over there, or on that golf course or on that highway. And you would always just have it at the back of your mind. And if God forbid something would happen, you'd just immediately execute it, that game plan.

So as investors, it's absolutely right. When I write research and when I talk to clients, I always articulate, here's what I think, and this is the level, this is the signal, this is the moment at which I will have to admit that this was incorrect and I have to exit it. Because a good investor is often wrong about half the time. Which means, it's not about being right all the time, it's not staying wrong essentially, right?

Mike Alkin: Yeah, yup.

David Keller: It's okay to be wrong, it's not okay to stay wrong. So in answer to your particular question, I would say 20, 30 years ago and further on when stocks traded in eighths or some sort of very clear round number or preset limit, it was very easy to identify a particular level. This thing should hit 25 and 1/8th and that's the level at which you'd put a stop or put a trade or put an order. And expect that to be hit. But now in the days of sub-decimal trading and everything, it doesn't make sense anymore. I think it's more about identifying key levels even key ranges which is how you described it. I think that's perfect. It's not ever a specific level and if it hits 2700 and one penny, I need to sell, by any means. It's all about identifying a range at which you'd expect an inflection point or expect a reversal or expect some other behavior.

And if we would break that, it's all about confirmations. So for me with for example stocks like Twitter hitting their 200 day moving average, for me, I'd expect these to trade a little lower here. But if not, I would expect a close through the moving average or the price level, or things like a higher open, breaking to new highs the day after. Some sort of follow through because what happens a lot of times is enough of us are waiting for that level to be breached and are waiting for an opportunity to sell, and we all look for it, and we all see it, and we all sell, that's going to provide the resistance we were all expecting in the first case.

And with liquid [crosstalk 01:11:56], with commonly used techniques, I would argue that's absolutely happening. And that's why the things like the 200 day moving average, I find are important to look at because I've worked with so many institutional investors that have the 200 day moving average up on their screens and are using it. And for me that's enough to know, I wanna know what everyone else is knowing when they're making their decisions.

But it's absolutely right. You want some sort of confirmation, some sort of follow through. And what that tells you is when we actually do break through a key level and get some sort of confirmation that tells you so much momentum behind that move, it really confirms that there's a new direction, there's a new theme. And you have to reset and sort of recalibrate for the new reality that you're seeing.

Mike Alkin: Well, speaking of themes, I was reading one of the things you sent me and it's interesting because what you think is starting to impress and see sector rotation into is what has not been working for some time. And what has been working, you don't to expect to continue to working. I see you think emerging markets, gold, China, are experiencing a sector rotation into strength, while tech which has been an absolute workhorse for a while now, you're expecting to see some weakness on. So how ... talk about that if you can.

David Keller: Absolutely. So it's funny, gold, emerging markets, these are I would say, looking at charts, one of the best benefits is you are not biased by what price years you're looking at, and one of the parts of my, the thing I enjoy most about doing the monthly chart review ... the beginning of every month I look at every major global asset, US sector styles, commodities, currencies, global markets, and it's just to make sure that I'm looking at everything at least once a month and coming up with a clear sense of what's

happening. I'm not emotionally attached to anything in particular, I'm just trying to see what's happening and bet on and understand the inflection points.

So when the S&P 500, when developed markets, when frontier markets all put in a lower low in 2018, and emerging markets was the one out of all those global regions that actually put in a higher low. So it didn't go to new lows while everything else did, that's what jumped off the page at me. And one of my mentors John Mendelson who was at ISI and other places, a fantastic technical analyst always said, I like trends that I don't need my glasses to see.

So on the chart when you see I'm making a higher low and everything else is different, seeing an outlier like that, it jumped off. And that's when I first started telling people about potentially rotating in the EM. Since then it's been, while the US has lead on a relative basis, the chart of EM I would say has been more attractive than the US in terms of the long term structural rotation. And that's why I think over the course of the year, it's going to be a good place to be.

So for me while so many things were in a period of crazy volatility and uncertainty, gold was one chart that again sort of jumped off the page, at just being rotated into this really clean, really clear uptrend. Higher highs, higher lows. And you could argue it's gone up very quickly all of a sudden. Just like we talked about with some of the stock like Facebook that's accelerated so quickly to the upside, you can see a little short term pull-back of sorts which would be totally reasonable and totally healthy, but the trend has emerged as a positive trend.

Thinking of that time frame of that intermediate term time frame for me, those are the types of opportunities that I like, something that's emerging, that's rotating and starting to work when other things are having difficulty doing so.

Mike Alkin: So when you're looking at let's say gold, do you look at the dollar? Do you overlay them? Do you look at what moves gold typically, and it's sometimes in the last couple years, nothing matters, but do you look at rates? Do you look at dollar? Do you look at oil? Do you look at the things that interact with these different commodities when you're forming? Or is it purely looking at that chart and seeing what that's telling you?

David Keller: Really, really important question. And so the answer is, in terms

of the analysis, I would argue it's vital that you do not think about all these other relationships. So is there a relationship between gold and the dollar? I would say absolutely. Is it interesting to think about gold in the context of other commodities, other metals, hard, softs? Absolutely. The relationship of gold and gold stocks, important. Gold as a safe haven. All those things are important. But what you don't want to do is have that be part of your starting point of analyzing the chart of gold. What you often do, if you do that, if you're applying confirmation bias, which is okay. The dollar's weakening, that should be good for gold ... I mean just randomly, I'm throwing that out. Okay, so that means dollar says this, that means gold should probably do this. Okay that's what I'm seeing on the chart. And you've just completely torpedoed any accurate analysis of the chart. Because you're coming up with a thesis and looking for evidence.

Charts, I would argue are not a visual aid for a fundamental thesis. They are an investment process on their own. So when I'm looking at a chart of gold, you wanna mentally cover the ticker, don't think about what it is, just analyze the movements of the price. Analyze the asset. Then once you analyze and say, okay, I see the dollar going down from a technical basis. I see gold improving. I like how oil is stacking up. I see EM working. Then you start to piece together the relationship between these different assets. Because what happens a lot of times, like right now, recently we've had this period where stocks have been working and gold has been working. On average, if you look at a bunch of times, there are plenty of times where that has not been the case, it's been the total opposite. So stocks don't work and gold's a safe haven, and they go there.

But again, that's the sort of thing that doesn't always happen. So if you think of that relationship as a starting point, you will then start to cloud your own analysis. So for me, it's all about analyzing the prices, analyzing the trends first. Then thinking about the relationships between them. And then thinking about some of the fundamental drivers and some of the reasons why or why not this could make sense. But especially with gold I found more often than not, that is the kind of thing where later, much later down the road, we can come up with a really sound fundamental thesis as to why gold prices have done something. I found it incredibly difficult to come up with a leading approach that allows you to anticipate what's happening. So for me the technical approach has been so important for making, again, making sure you don't miss out on a good opportunity that's out there. Regardless of what market it is.

Mike Alkin: So, I mentioned earlier a checklist and framework and I have guide posts that I look at. And in reading your work to me, it jumps out to me that there are kind of four guide posts, and I could be wrong it could be many more, but ... and there are things that I think are really interesting for people to think about and when they are looking at equity or the markets. And you seem to focus on market breadth, volume, sentiment and momentum. So can you just break each one of those down and what you're seeing now?

David Keller: Absolutely, and so, especially from a big picture perspective, I think these are four spot-on ways to understand just the dynamics, so looking at the price of the S&P 500 as Spiders or some broad ETF is the starting point. But just like fundamentally, you can think about some of the individual themes, some of the deeper details behind that. You can do the same thing with charts, and these are four ways you can sort of validate what you're seeing from the broader analysis of the markets.

So in terms of breadth, it's all about understanding the market is doing X, what are individual companies doing? What is the average company doing? And what you'll find for example at the end of a move, think like the 2007 high, you had the S&P 500 going to new highs, over the course of the year, while most stocks had actually started to break down and go to new lows. Small cap stocks has broken down already. A lot of names in different industries, especially the higher beta names had broken down. But it was the big sluggish stuff like Pepsi that kept going up, and they were big enough to keep the broad market going up. So what market breadth does is it tells you overall, what's the health? What's the participation from individual stocks?

And one of the reasons why this downturn over the last couple months had made so much sense was because there had been a severely weakening breadth, meaning so many stocks had already broken down, a lot of stocks on the new lows list. More stocks closing down versus up on the day. There's so many different ways we can measure that. And it just tells you overall the health of it. And it really started to get negative. What's happened just in the last couple weeks, and you know really into the beginning of the year in January, in the short term breadth has started to improve a little bit. And you've seen stocks starting to appear on the new 52 week highs list. You know, stocks like Starbucks comes to mind, just a random chart out of my head. Something that has really rotated to new highs. You need more and more of those to really believe in the long term health of equities. And we're just started to get the beginning of it. It's still nowhere near where you'd

want it to be for a sustainable bull market, but had just started to emerge.

So breadth is one thing you really pay attention to.

Volume is essentially just what is the overall volume on up days versus down days? So is there institutions accumulating on the up days or really distributing shares on the down days. And volume had been so negative for a while in the fall. And again, just starting to turn up and arguably rotating higher, showing you how much volume there's been on this upswing in the last five or six weeks.

Sentiment is an important measure, that's basically identifying through survey data or through some money flows or some way that you can actually quantify what are people thinking. So there's a number of really common surveys, one of the ones that I follow the most is the AAII survey, which is the American Association of Individual Investors. They survey a couple hundred individual investors; self-directed active investors are how I would think of it. But retail investor. And basically are you bullish, bearish or neutral on equities headed for the next six months is the language that they ask.

Mike Alkin: And is that a contra indicator for you? Or is that, how do you think about it?

David Keller: So, yeah, it's a good question. A lot of people use survey data like that as a contrarian tool, which I get the argument. The argument is people are overly bullish at market tops and overly bearish at market bottoms. And I would say when those indicators get to extremes, I think that's a valid way to think of it. So when market really rallies, you get that final blow off rally where everyone cannot imagine not being part of this rally, and that tends to be the end of the move. That a lot of times will be reflected in some of these sentiment gauges.

But the reality is that most of the time we are not at extremes, we're kind of in the middle. So right now, I think what's important is if you look at last Thursday, it was almost I believe it was identical the number of percent of respondents that were bullish and the percent of respondents that were bearish. So even with this huge rally out of the lows, it was literally a 50-50 split between bullish or bearish, and there are a lot of people that were neutral, but one side or the other wasn't stronger. And for me, that really reflects where we're at. We got so bombed out, and now have railed so quickly, we've essentially gone nowhere over that period,

even though there's been plenty of volatility, we're right flat from where we were not that long ago. And I think we're now at sort of an indecision point. Do we believe this short term rally as being everything's fine and the market will continue up forever, or was this just a relief rally and then we continue the way down.

And I think earning season right now that we're really in the meat of and seeing how some of these big tech companies, communication services respond will give us some insight into what the next movement is.

And that brings us to the fourth item that you mention which is momentum. And that's really understanding where movements are. What the overall trend is and with a lot of equities and with the broader market, it's rallied up to the point where if we're in a bear market phase, which I think we are based on what I'm seeing, this is the level, we're right about at the level where you'd expect the next leg down to start to evolve. So that's what I'm kind of looking for, do we see this roll-over? Do we see stocks hitting resistance and selling off? Do we see profit taking? Shorts entering the market? All those things which would be reflected with depreciating prices. Or, do we break out and start to feel that, okay it's not just a quick rally, we're starting to have more of a meaningful, more of a systematic return to risk on. And that's what will be reflected in prices breaking up.

Mike Alkin: Well, you mentioned something earlier, we were talking about sector rotation and one of the things that surprised me last year was the staple sector was strong. And as I look at your work, you're seeing as reflected in the XLP, the consumer staples ATF, rotating lower on the upswing which is interesting to me because staples have always been a place where people go and hide out when the market's choppy. So here in the latter stages of this blow off bull market that was occurring in 2018, these typically defensive stocks were busting out, yet we just come off of two rough months and one really bad month, and yet people are rotating out of it. What do you make of that? Because to me that confuses me.

David Keller: So it's a really interesting point and I would say that again for me, one of the good things about using charts, especially looking at the 11 S&P sectors of a scatter plot called the relative rotation graph that I referred to in my work regularly, and it basically is just a scatter plot showing you how sectors are rotating relative to the benchmark. And what's good about that is a lot of time, for example real estate has been one of the best sectors during

this upswing, but you wouldn't guess that if you know that the market's rallied, you'd think it's tech and consumer discretionary and all the stuff you normally ... so a lot of times movements will happen especially in terms of sectors that you're not expecting. So I think it's really important to not just assume, the market's healthy, that means these sectors should work or it's defensive, so I need to get defensive in these sectors. I would look at the sectors themselves. Because a lot of times, there are themes that emerge that will cause sectors to move contrary to that traditional offense versus defense.

But it's interesting and I think that's one of the ratios that I look at is consumer discretionary versus consumer staples. And if you think about what happened there, and again, if you bring up a chart like on Stockcharts.com or somewhere where you can look at it, you'll see that in the fall, October, November, December, that ratio just completely went down. Where staples were holding up very nicely, consumer discretionary weakening in the sell off, and it was completely rotating. That completely changed, and then really starting in the last week in December beginning of January, that ratio reversed and all of a sudden discretionary started to really outperform. It's arguably right at that equilibrium point where it's not really clear if that's going to continue high or continue to lower. It's sort of been sideways for the last couple weeks. So-

Mike Alkin: And that ... I'm sorry to interrupt. Go ahead finish.

David Keller: So what I'm thinking is that this movement, this is one of the sort of important guide posts to pay attention to. If this ratio breaks out, that shows you that people are, again just within the consumer space, getting into some of the higher [inaudible 01:27:34] names that should be working in a bull market. That should be a real positive for the broader equity space. But if that ratio breaks down which is what it ... if that happens, we break to new lows in that ratio, I think that should be a level of concern because that's people going more to the conservative sort of spots. But it's very important to know that that is just one broad measure of offense versus defense within consumer discretionary and within staples, there's a lot of dispersion. There are a lot of stocks in both of those sectors that are working, and a lot of stocks in those sectors that are not working. At a group and a stock level, there are plenty of opportunities in both of those sectors I would say.

Mike Alkin: Well, the other one that jumps off the page at me, and another one

like real estate you would think when the market's ripping it's not going to be doing as well as it did last year, the utilities sector was on fire, right? And so, in reading your work or looking at the sector portion of it, it looks like it's rolling down hard. What are you picking up there?

David Keller: Yeah so, and especially on a relative basis, you've seen utilities come down even though the price has come back very nicely in the last couple weeks, it's still on a relative basis down significantly from, really from that Christmas Eve market low. So at this point, where is the money? It's really been rotating, especially on this rallied some more of the traditional offense. That's been across the board. Except for technology which is actually not really outperformed. It's sort of sideways to flat over that period generally. And a lot of that seems like semiconductors haven't really been leading, they've sort of been market performers in a lot of ways.

You know utilities have underperformed, even though the price has come up a little bit, that's the kind of thing if that would start to work I think that would be a really compelling place to be, only because the huge dividend component to it. And in a time of a market sell off, some of the utilities, some of the, and [reeds 01:29:34] get into that, some of the telecoms for example, huge dividend yields especially as the price has come down so much. So it could be a compelling safe haven for investors and some sort of down turn. But yeah, the underperformance in something like utilities, the outperformance in something like consumer discretionary commoditables has been really more of the offense in play, more of a rally. And I think again, if that continues, those are some of the data points that would make me reconsider that broader bearish thesis that I've putting together.

Mike Alkin: So tell me about your business. How does Sierra Alpha work?

David Keller: Thanks for asking. So when I left Fidelity, end of 2016, I eventually came decision to launch my own research firm, Sierra Alpha Research, and the name comes from flying. And it's a slang term for pilots for situational awareness, which is when you're flying an airplane, you have to look outside the cockpit and have an awareness of what's going on around you. Because if you don't, you do silly things like fly into other airplanes or fly into the ground or a mountain or something. And so having an awareness of what's happening around you is really, really important. So I designed my firm to help institutional investors and financial advisors have an awareness of what's going on around you and

most importantly managing risk. Understanding when positions you're in or outlooks that you have are incorrect based on the price movements. Price movements are moving contrary to what you think, and you have to respect that and have to have rules based methods for exiting a position that's not working.

For me, I do two components to that. I write research, so I do a regular research subscription. And that, I actually have some high worth individuals that follow that as well. But it's really geared primarily to financial advisors and smaller institutions who are looking for an understanding of what's happening in the world from a price perspective as an overlay to their fundamental approach, and I cover global assets with that.

And then what I've also been doing is ... You had mentioned earlier that the idea of being a therapist. And one of my customers, one of my consulting clients actually called me their investment therapist recently as I was trying to help them understand how to deal with the market movements and the volatility. So that's the other portion that I do. I actually work with financial advisors, and I work with institutions on stock picking and some of the traditional technical inputs that they would need. But also I've really enjoyed working with financial advisors to help them incorporate technical analysis, but also behavioral finance into their practice. So addressing their own decision making. So a lot of them it's talking once a week, once a month, or ad hoc conversations just to think about their investment process. How they're making buy and sell decisions. How they're following their current holdings. How they're identifying new opportunities. And we often find in this course of a series of conversations, just like you would with a therapist, you identify some potential weaknesses and places where you are just setting yourself up to make bad decisions because humans are hard wired to do so.

So that consulting side of my practice I really, really enjoy, and it's really working one on one with advisors to help them make better decisions using technical and behavioral concepts.

Mike Alkin: It's fascinating. And how do people get a hold of you?

David Keller: Sure, so I write a blog on Marketmisbehavior.com. That's my main website. So I write a blog there. Thinking about behavioral psychology and the investment process. So that's the great place to find my work. Follow what I'm writing and then information on subscriptions and consulting is all on there as well. It's Marketmisbehavior.com.

Mike Alkin: Awesome. It has been fascinating. I really enjoyed visiting with you and talking about your world. It's great stuff.

David Keller: Yeah, thanks Mike. You do a fantastic job with the show. I enjoyed listening to some of your earlier broadcasts. I'm thrilled to be part of it. I hope this resonates with your listeners, and yeah, look forward to keeping in touch with you.

Mike Alkin: Same here. We'll speak soon, and go Browns.

David Keller: Go Browns, Mike. Thank you.

Mike Alkin: Okay, thanks David. Take care.

Well, I hope you enjoyed the conversation with David. I really did. It's a different perspective. He put context around what the charts are and how he uses them, and I learned a lot listening to him. And I enjoyed the conversation. I've been around obviously the investing world for a long time, and he taught me stuff. I really liked listening and speaking with him. And I'm going to have him back. He also mentioned that he's on Twitter at DKellerCMT.

Speaking of Twitter, if you are on Twitter, I'm at FootnotesFirst is how you can find me. And the other thing is, go to the Apple store and iTunes and rate the podcast. I don't care if you say it sucks, doesn't matter to me. You really like it, it's zero to five stars, but that's the one area where I don't ... I get a ton of inbound mail. I get great feedback. I was at a conference in Vancouver recently, I can't walk 20 feet without people stopping me. But I don't have lot of ratings, so I don't know if you folks think it sucks or not. And I don't care. I mean I care if you don't like it because I'd like to make it better. But it doesn't get much feedback there. I have thick skin, so it's fine. If you like it, say that too.

Thanks for joining. Hope you got some insights out of that. I look forward to speaking with you next week. Take care, have a good week. Bye.

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