A DIY Daily Index Model

The Problem: DecisionMoose is published weekly. The models are run daily. Folks who are banking on the newsletter to spoon-feed them a daily signal are left in the lurch. It wasn't always this way. From 1989 until about ten years ago, the model was weekly, not daily, as was the newsletter. Model performance began to deteriorate after the 2009 financial crisis, however, and the shift to daily calculation with stop-losses immensely improved its performance. Thing is, with all the other things going on in the author's life, a 7-day a week commitment to writing and publishing an affordable daily online newsletter was never in the cards. I could hire a team to do it, but the reader would pay way more than the Dollar a week it costs now. Also, if I publish what I am doing daily, I could make myself and my followers vulnerable to contrarian attacks.

The models have always been presented as guidelines, not written in stone. That's because proper advice is as much a function of the reader's risk profile as it is of market conditions. Advice is not a one-size-fits-all proposition despite what the shills always try to tell you. So how does one get a daily signal that fits with personal risk tolerance? By doing it yourself.

A Solution: StockCharts.com is a good mechanism with which to create a do-it-yourself daily model to time the markets more closely than a weekly newsletter can. The opportunity is there, but you have to work for it. That won't get it done for a lot of folks, I know, but if you are up for the adventure, for learning a little more about market timing, and dedicated to paying a modicum of daily attention to the markets, I provide some useful secrets below. It isn't the keys to the kingdom per se, but it does provide a visual illustration of how my index models work day-to-day.

Set-up: Go to stockcharts.com. It's free. Click "Charts & Tools". Then click "SharpCharts". Once you are in:

At the top of the chart

1. Change the chart symbol from the default AAPL to that of an ETF in the index model.

2. Keep the period at "daily".

3. Change the range to "6 months".

Under the OVERLAYS section below the chart

4. Change "Exp Moving Average" (20) to "Price Channels" (20)

5. Keep the 50 and 200-day Simple Moving Averages as is.

Under the INDICATORS section below overlays

6. Keep Price-Performance as is.

7. Change "Volume" to "RSI" (14, Above)

8. Change "MACD" to "PMO" (35,20,10 Below)

9. All other default listings remain the same.

Our index models have 3 components, a relative strength reading, a stops mechanism, and a technical strength reading.

1. Relative Strength over six months is the primary way momentum models rank their ETFs. The Price-Performance section of the above chart configuration is analogous to our relative strength calculation. Compare the relative strength of each asset in your model by typing in each of the component symbols. Record the results on a slip of paper or on a spreadsheet. The ETF with the highest Price-Performance is your #1… until it triggers a stop-loss. At that point, #2 Price-Performance becomes the top preference until it too triggers a stop-loss or until the top relative strength ETF reverses into a buy-stop.

2. The Price Channels (20) section defines the 20-day or 4-week Donchian stops mechanism. The 20-day intraday high sets the current buy-stop, and the 20-day intraday low is the current stop-loss. Some prefer closing highs and lows instead of intraday. Your choice.

3. RSI is used to negate stop-initiated switch signals and reduce false switches. RSI >70 is overbought and negates a buy-stop. RSI < 30 is oversold and negates a stop-loss.

4. PMO is used to confirm switch indicators and reduce false switches. A PMO line above its 10-day average confirms a given buy-stop signal. A PMO line below its 10-day average confirms a given stop-loss signal.

5. The 50 and 200-day simple moving average (SMA) are the primary technical strength indicators that determine a bullish or bearish asset. Technical Strength is a function of the SMA's relation to price, its slope, its relation to other SMAs, and its time period. The simple way to figure TS to apply an integer value to each condition. Sum up the integers. A total of +7 is very bullish; -7 is very bearish; and -2 to +2 is neutral.

CONDITION

Price >50-day SMA = +1, otherwise -1

Price >200-day SMA = +2, otherwise -2

Slope 50-day positive =+1, otherwise -1

Slope 200-day positive =+2, otherwise -2

50-day SMA > 200-day SMA = +1, otherwise -1

Tips on Reading the DIY Daily Index Model

The Problem: DecisionMoose is published weekly. The models are run daily. Folks who are banking on the newsletter to spoon-feed them a daily signal are left in the lurch. Fortunately, the index momentum model is based on some very commonly-used technical measures— ideas that have been around since the 1950's or earlier.
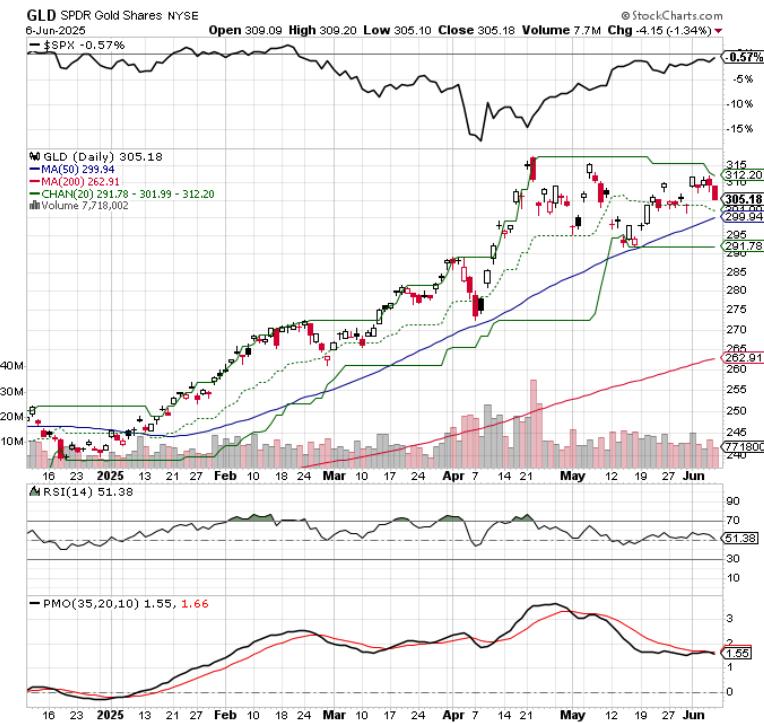
A Solution: A do-it-yourself mechanism to time the markets more closely than the weekly newsletter is doable. Of course, explaining a mathematical model in simple enough terms that it can be replicated quickly by someone with little or no prior experience is no easy feat. To facilitate the job, we'll rely on the old adage that a picture is worth a thousand words. Above, I've outlined a chart set-up at StockCharts.com that provides such a picture.

Our index models have 3 components, a relative strength reading, a stops mechanism, and a technical strength readings. The charts are set up accordingly. The chart to the left references the aforementioned set-up but if you want to follow along on a full-sized version go to Stockcharts.com and set up a chart for GLD, the #1 ranked asset among global indices referenced in last week's pdf.

The Daily Review Process: Once you have your chart set up (use the new not the classic format left), the daily review process consists of 3 things: (a) verifying which assets have the highest relative strength of those in your model; (b) determining which assets will trigger stops that day; and (c) gauging the technical status of the assets. The best time of day to do this is in the last hour of trading— 3PM to 4PM EST.

Relative Strength can be estimated in the Price-Performance section of the chart. Just type the ticker of the asset you want to look at in the chart header. The actual percentages are not as important as the assets' rank. Usually, you'll only need to check the top two ETFs in the model as listed in the newsletter to confirm the ranking hasn't changed. The #1 in relative strength over the last 6 months is your choice until it triggers a stop-loss. Once it does that, the #2 asset replaces it at the top of the model-- until one or the other of the two triggers another stop.

Example: GLD becomes #1 in relative strength 1/8/25. GLD retains top RS rating but triggers a stop-loss 5/14/25. The index model switches from GLD to EFA which has the second highest RS (15) but is not working off a previous stop-loss. That #2 is your model leader until the previous #1 (GLD) reverses out of its stop-loss with a buy-stop, or the current model leader (EFA) triggers a stop-loss.

Donchian 20-day Stops are found in the 20-day price channel section of the chart. Stop-losses are triggered at a 20-day low. Buy-stops correspond to the most recent 20-day high. If the day's price touches one of the green lines that define the price channel, a stop has been triggered, along with a potential switch. While the model tends to automatically react to stops, the investor's objective is to determine whether a given stop is valid or not. Will a buy-stop lead to a continuation on the upside, or will it signal a top and reversal? Will a stop-loss lead to a continuation lower, or will it signal a bottom and a bounce higher? 20-day stops are a common methodology.

Momentum models like Index Moose use stop-losses for cutting losses short. Value models use the same stop-loss levels to buy-the-dip. Guessing which way it will go is never easy. Technical measures may help, or not. In any case, consider both sides of the switch, the asset you're leaving and the one you're buying before deciding.

Example: GLD triggers a stop-loss 5/14/25 suggesting a switch to EFA. Thereafter, price never closed lower than the stop-loss level again. Within three weeks, GLD recovered much of the 7.5% dip it had suffered off the top. A false signal? Not necessarily. On the same day that GLD triggered its stop-loss, EFA triggered a buy-stop. It preceded that with multiple buy-stops over the previous two weeks. EFA's chart was tight and headed up on 5/14, but GLD's was all over the place.

Technical strength readings are secondary. They either reinforce or diminish the hints provided by stop-losses. The idea is to use the simple moving averages to determine whether the ETF's involved are bullish and deserve consideration or bearish and to be ignored. With some experience you should be able to tell at a glance.

If both SMAs are sloping upward to the right; price is above both SMAs (oscillator >1); and the short SMA (50d) is above the intermediate SMA (200d) the chart is as bullish as it gets. Also an SMA's proximity to a 20-day stop is relevant. SMA's have more credence as buy or sell signals than stops.

Apart from simple moving averages, RSI and PMO can also help confirm switches. RSI is used to negate stop-initiated switch signals and reduce false switches. RSI >70 is overbought and negates a buy-stop. RSI < 30 is oversold and negates a stop-loss. PMO is used to confirm switch indicators and reduce false switches. A PMO line above its 10-day average confirms a given buy-stop signal. A PMO line below its 10-day average confirms a given stop-loss signal.

Example: Looking at our chart, GLD's technical condition on 5/14 is very positive, so is EFA's. SMA slopes are positive and oscillators are >1. The 50-day is above the 200-day. The 5/14 stop-loss trigger, however, is right above 50-day support. SMA's have more credence as buy or sell signals than stops. So If the 50-day holds it will mean a buy-the-dip opportunity. If it breaks down further, cutting your losses was the right move. A closer look showed PMO was improving in EFA and deteriorating in GLD, a double confirmation of the switch. RSI was higher in EFA than GLD, but not overbought, another double confirmation. It was a close decision, but the technicals supported the switch from GLD to EFA.

After the switch to EFA, GLD recovered 4.1% of its losses in three weeks, while EFA added 4.2%. Either decision would have been valid performance-wise. (That's far preferable to situations where neither choice turns out to be valid.) Just remember projected return may be first and foremost among your considerations, but switch choices depend on your risk profile and the type of account (tax-deferred or taxable) as well.