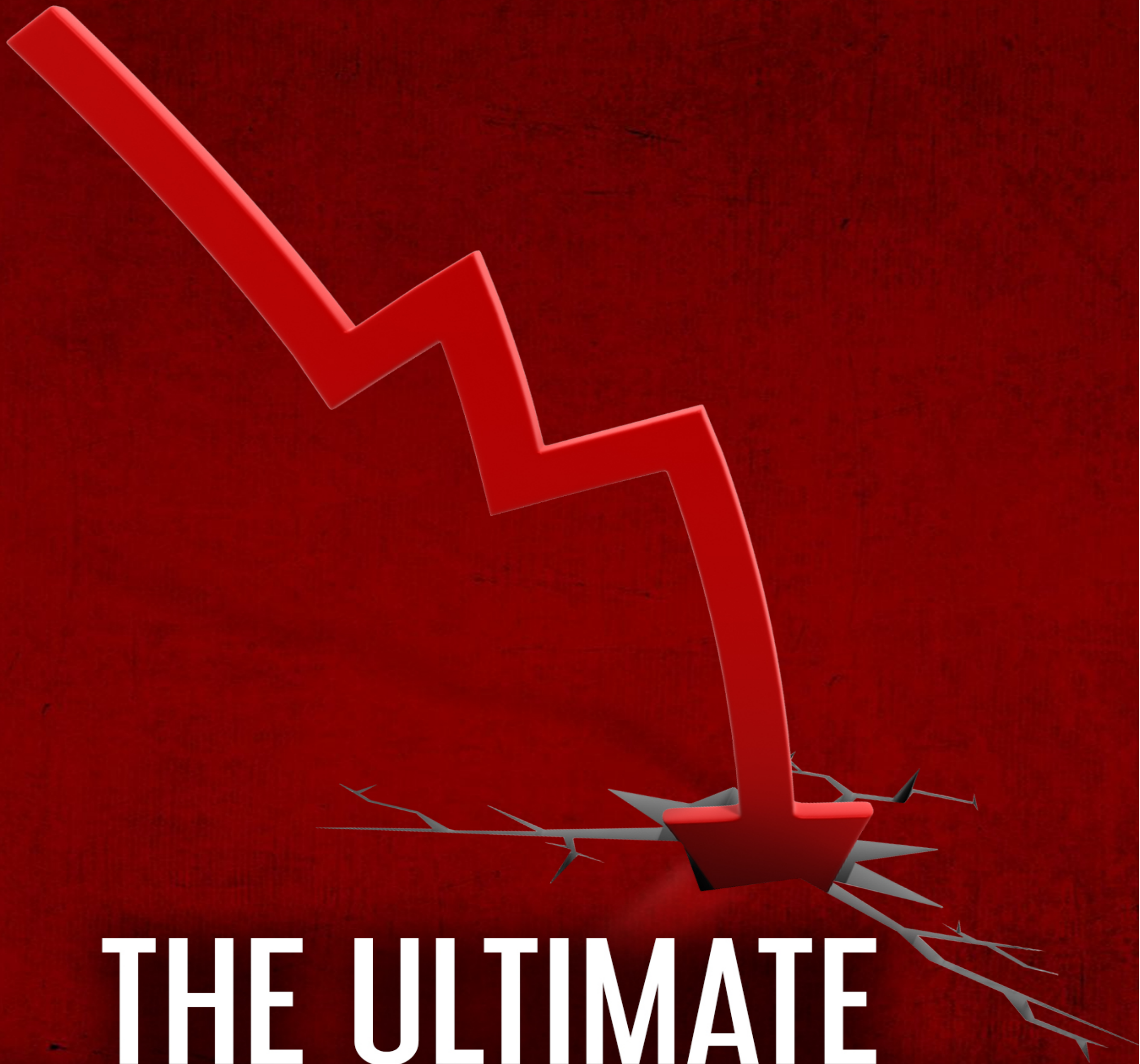
DAN MURPHY



THE ULTIMATE CRASH DETECTOR

HOW A LITTLE KNOWN REPORT HAS PREDICTED EVERY STOCK MARKET CRASH SINCE 1987

The Ultimate Crash Detector

How a Little Known Report Has Predicted Every Stock Market Crash Since 1987

A special report by
Dan Murphy

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About the Author of this Report	4
Introduction	5
The Un-Level Playing Field	5
A Serious Investor	6
Why Write this Report?	7
Part One Wrap Up	8
Into the Futures	9
Warren's Dire Warning	9
Remember the COT?	12
The 'Holy Grail' of Investing	16
Part Two Wrap Up	20
How the System Works I (ETFs)	20
How the System Works II (Market Signals)	21
Part Three Wrap Up	26
At the Mercy of the Markets	26
The Smart Money Indicator	27
The Big Reveal	28
The Four Fatal Flaws of Amateur Traders	30
A Word of Warning	31
Part Four Wrap Up	32
What's Next?	33

ABOUT THE AUTHOR OF THIS REPORT

Meet Dan Murphy

Tanned, relaxed, and affable, Dan Murphy looks nothing like someone who spends his days crouched in front of a computer screen ready to pull the trigger on a stock trade.

Yet, Murphy, a trader for over 20 years and self-confessed “numbers guy” and “stock market junky,” is the founder of PortfolioBoss Inc, the author of *Trading Strategies from a Trading Skeptic* as well as *The Relaxed Investor*, and has helped more than 132,000 traders and investors around the world.

Known as the “Prince of Proof,” he and his team are the creators of dozens of scientifically proven trading models, ranging from high-frequency tick chart trading, to multi-month “always in” hands-free investing.

WHAT PRE-RELEASE READERS ARE SAYING ABOUT THIS REPORT

4.56 out of 5 stars

“Clear and Easy to understand. This is perfect for 401K trading. 401ks usually have SP500 and US treasuries as options for your money and you can change the percentage. You could do this yourself and not have to pay someone a percentage to do it for you when you retire.”

“Knowing there is a way to predict downturns and upturns in the market. I feel confident you have a good strategy and it has been well tested. I liked the smart money and dumb money information. I appreciated you telling us who is the smart money and who is the dumb money. This is excellent information.”

“You're a Genius. I never would have thought the [REDACTED] COT Category. You're a generous man sharing this. I read it right through... glued in. Well written. Many millionaire followers to be made. God Bless.”

“Your description of an amateur trader was right on the mark. I read I listen to so called experts to only find myself more confused and I make poor investment decisions.”

“I fall into that category of investor that tries to figure out what the market is going to do by exploring charts and gathering data, unfortunately, I barely keep my head above water and have always wondered why the market goes in a direction that the charts don't clearly indicate which leaves me scrambling to save what I can. You described it perfectly.”

“Easy read. Sound methodology - I really like that you are using a very different source of data from the norm - hence its power.”

“I like hearing your story of your original theory/idea and discovery of the Z point and verification; p. 16-19. It has all the elements of a great story - a quandary, the inspiration, the hard work, the success (ta-da!).”

Can an Obscure Government Report Become the Ultimate Crash Detector?

I invite you to read this special report. Then, decide for yourself.
– Dan Murphy

Every Friday of every week throughout the year, in a non-descript red brick building in Washington DC, it is dutifully published by an agency of the U.S. government.

It contains no photographs ... no vivid writing ... no exposés.

Yet this document is required reading in financial markets throughout the world.

It is the Commitment of Traders Report and its publisher is the Commodity Futures Trading Commission (CFTC).

The COT, as insiders refer to it, reports on who's buying and selling futures contracts ... and how much buying and selling they've been doing.

It was created to provide transparency of the futures markets.

I believe that it provides something equally important ... the basis of a sound investment strategy.

A strategy that can put the average investor on equal footing with the big players on Wall Street.

And if you happen to be one of those average investors, you know that your footing is anything but.

The Un-Level Playing Field

The reason?

You're simply outmatched in the stock market.

You are competing with the "too-big-to-fail" financial firms ... the behemoth banks with their armies of analysts and reams of research ... the powerful institutional traders with virtually limitless resources.

And if competing with the financial giants with their advanced technology and fiscal muscle weren't sufficiently difficult, consider the additional challenge brought by today's high-frequency traders.

Their super-fast, fiber-optic connections to computers on the world's exchange floors allow them to see the direction of a stock or an entire market far in advance of the independent trader or the individual investor, and to automatically place a computer-generated buy or sell order – all in less than the blink of an eye.

Then, of course, there are the corporate raiders out to wring every penny out of companies in order to line their own pockets ... the hedge and mutual fund managers who can move millions and markets ... and the just plain crooks who infest any place where there's money to be made.

So the question is, how can you survive – much less make money – when you're up against all that?

Maybe you've pondered that question yourself.

Maybe you've seen the funds that were intended to take you through retirement without worry dwindle to insignificance ...

Maybe you're having to hedge on your promise to your kids to send them to the best schools they could get into ...

Maybe you're afraid that you really won't be better off than your parents were.

And maybe you're beginning to believe the market is rigged ... against you.

The good news is that the market isn't really rigged.

But ... it is controlled.

Understanding how it's controlled ... and using that knowledge to your advantage ... is the secret of not only avoiding vicious crashes, but also making money in the stock market.

A Serious Investor

You and I have never met, but I believe I already know something about you.

You're a serious investor. You work hard at it.

You subscribe to the leading newsletters ... read all the books on investing ... spend hour- after-hour studying charts ... trying to decipher Fed-speak and earnings whispers ... and watching Bloomberg, CNBC, and FBN religiously.

But even with all that information, you still can't make consistent money in the market. You're wrong more often than you're right.

You buy the right stocks or ETFs but you sell too soon. Or you hold too long.

You're blindsided by sudden market drops you never saw coming.

Sound painfully familiar?

Your problems with the market aren't because you don't have enough information.

It's because you don't have the *right* information.

No, I'm not trying to sell you yet another newsletter. Or persuade you to sign up for some expensive seminar.

I'm not trying to sell you anything. That "secret" I mentioned is right here in this report. If you skip to the end, you will quickly see that there is no order form – this is not a sales letter disguised as a report.

And all it will cost you is a few minutes of reading time … which I highly value, so I've cut out all the fluff. If you can do that, I promise that you will have a sudden, and clear enlightenment as to the inner workings of the stock market like never before. You will cut your research time by light years. Do we have a deal?

Why Write this Report?

Let me set the record straight: I am altruistic to a degree with my charitable giving, but I'm no socialist, and I do not believe all information should be free. After all, there is one U.S. stock market, and everyone I teach instantly becomes a competitor if you think about it.

In fact, I've gone on record to state that I would never share the secrets inside this report for a fee of less than $100,000. And I would only teach it in person with a signed NDA in hand, and all recording devices tucked safely away in a shielded Faraday cage.

Richard Dennis of Turtle Trading* fame once said that he could publish his rules in the Wall Street Journal and no one would follow them.
**No, what I'm going to reveal to you in these pages has nothing to do with Rich's price breakout strategy. In fact, as you'll soon discover, price isn't even a factor.*

Well, that's only half right. The vast majority of traders would not be able to follow a strategy like Dennis' because he rightfully determined that most could not stick to a strategy that won only 30%

of the time – particularly if they have less than a cool million dollars in their trading account. Yet it was able to make him and his disciples hundreds of millions in a short period of time.

Savvy, battle-hardened hedge fund managers, on the other hand, would have no problem following his strategy because it was proven, through vigorous computer modeling, to have a tremendous edge.

Therefore it would be ill advised to publish those rules on the back of a napkin, let alone a widely read newspaper.

But the market we're dealing with here is worth a staggering amount -- $23.3 trillion as I write this. That's the market cap of all stocks in the S&P 500 index. Over the long haul, not even Warren Buffett himself could move this behemoth around for very long.

So I feel safe in disclosing these insights in the hopes of two mutually beneficial outcomes: That everyday investors like you will gain the power to side-step – and even profit -- from massive 2008 style market crashes, and that you will help me share this report with your friends, family, and colleagues.

My goal, with your help, is to get this report into the hands of a minimum 50,000 traders and investors in the next 12 months. In return, I'm going to give you a very cool bonus, so keep reading.

Part One Wrap Up

Part One introduced the COT and the premise that this document could form the basis of a strategy for competing in the un-level playing field that is investing in stocks. This section explained that the problem with most individual investors isn't that they don't have enough information – they don't have the right information.

Here are the core takeaways for Part One:

- The Commitment of Traders report could form the basis of a strategy for successfully competing with the big financial institutions and high-frequency traders.
- Without such a strategy, the individual investor has little chance against these big players.
- The market isn't completely rigged ... but it is controlled.
- Understanding how it is controlled ... and using that knowledge to your advantage ... is the secret of making money in the stock market.

- Working hard at investing ... subscribing to top newsletters ... studying books on investing strategies ... poring over charts ... and watching TV's financial "experts" may provide plenty of information ... but it isn't the right information.

Into the Futures

As you might know, "futures" is really shorthand for "futures contract" and like all contracts, they're legal agreements.

In this case, they're agreements to buy or sell a particular commodity (like soybeans, wheat or pork bellies) or a financial instrument (like an index made up of the stocks in the S&P 500) at a predetermined price at a specified time in the future. (Hence, the term "futures.")

As fascinating as they might be, we're not concerned with pork bellies in this report but rather with financial instruments.

And we're not concerned with actually trading futures – just the results of other people's futures trades. I'll explain all that in a moment.

The particular financial instrument we care about is made up of stocks in the S&P 500 - 500 of the United States' – the economic powerhouse of the globe -- largest companies. Not surprisingly, this instrument is called S&P 500 index futures.

The first S&P 500 futures contracts made their appearance at the Chicago Mercantile Exchange – the country's biggest futures exchange – in April 1982. The behavior of stock indices has never been the same, as you'll soon find out.

S&P 500 futures expire every three months, so in effect, analyzing this market gives you crystal-clarity into the near *future* direction they believe the stock market will go. That's why they're called "futures."

But unlike what a poll, or a survey, or a Nostradamus-like prediction from your favorite guru divulges, these players have put their (or their clients) hard-earned money on the line.

Action speaks volumes more than words right?

But don't worry, we're not talking about you buying and selling these futures contracts ... just using them as a measuring tool.

Warren's Dire Warning

Index futures are of course "derivatives" because they are derived from the price of the S&P 500 cash index.

In the 80's, Warren Buffett famously lambasted financial derivatives.

He opined that they served no social value, and instead of doing the work of the invisible hand, they were "an invisible foot kicking society in the shins."

He took to satire to expound on his grumblings, imagining what would happen if 25 brokers were shipwrecked on an uninhabited island.

"Faced with developing an economy that would maximize their consumption and pleasure, would they, I wonder, assign 20 of their number to produce food, clothing, shelter, etc., while setting five to endlessly trading options on the future output of the 20?"

Warren's prescient warnings fell on deaf ears. Index futures started trading in April 1982.

Just five short years later, they were responsible for the devastating 1987 crash. A crash that was thought impossible by economists and their extremely flawed Modern Portfolio Theory.

You see, index futures allow for tremendous leverage. Currently, you can control a basket of stocks worth $23 for every dollar you pony up. That's 23-1 leverage in case you missed it. That's the equivalent of a 100-pound jockey controlling a 2300-pound racehorse. Only this horse is a bucking bronco as I'm sure you'll agree.

Earlier, I mentioned the fact that the structure of the stock market was forever changed when index futures were introduced in 1982. Allow me to back that up with facts.

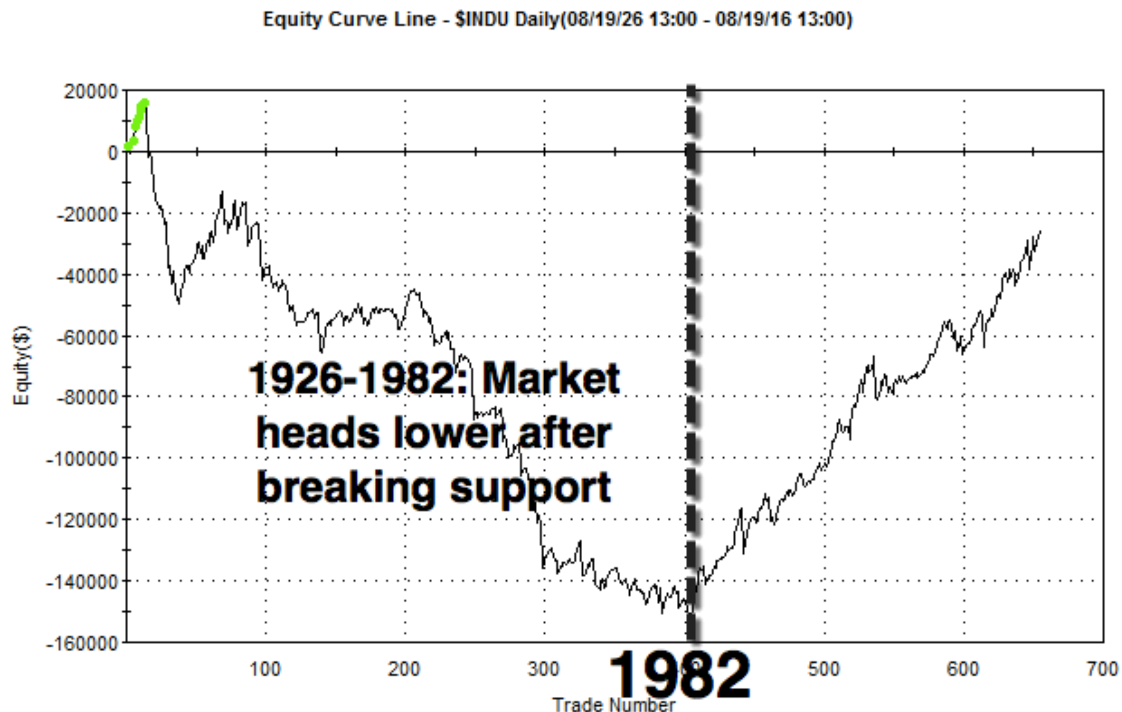
Chart readers are notorious for drawing lines on charts…if that line is broken, then a new trend has developed. They call them "support" and "resistance" breaks. I'm sure you've witnessed market technicians being marched in front of the camera to draw lines on their fancy touch-screen TVs.

The hypothesis sounds fair… to say that if a prior low doesn't hold, there must be something wrong with the market right?

Well, hold on just a cotton pickin' minute pardner. In science, in order to go from "hypothesis" to "theory," you need to do your homework. You need to prove or disprove what you're saying through observation. You don't just declare, "The earth is flat" and expect people to believe it do you?

You need proof. If I'm not there, and my buddy says he caught a 160-pound tuna, he better show me a picture of that monster or it'll sound like a whopper of a fish tale.

With that in mind, what do you think would happen if you did the exact opposite of what the talking heads tell you? Here's a graph of what would happen if you *bought* a 20-day low, and *sold* a 5-day high over the past 90 years:



Clearly, buying a support break was a horrible strategy before 1982. But after that? Not bad. It's still a wild ride, but obviously something changed, wouldn't you agree?

Is it some crazy coincidence that the structure of the stock market changed with the introduction of index futures in 1982? Is it just bad luck that five years later, we experienced the worst 1-day crash in history? Is it coincidence that same crash came only a year after index COT data became public?

Heck, the financial news media was scrambling to figure out what caused the crash. Some say it was due to a bill to curb takeovers. Based on my analysis of the Commitment of Traders report, I believe the crash was triggered by forced liquidation from over-leveraged speculators. The leverage Warren Buffett warned us all about. It only takes a spark to ignite a house soaked in gasoline.

Remember the COT?

That dull government document I mentioned at the start of this report?

That document, the COT, tells you who's buying and selling futures contracts, and how many buyers and sellers there are. It covers corn prices futures, oil futures, and wheat futures ... just about every commodity.

Most important, it covers S&P 500 futures.

In other words, 87% of the U.S. stock market.

The COT legally shows you what the biggest traders, investors and financial firms are up to. It's one of the few places your tax dollars go to work for you.

It lets you know if they're long on S&P futures – buying contracts because they believe the index will go up.

Or if they're shorting the futures – selling contracts because they believe the S&P 500 will go down.

The COT is such a powerful document that the trade association that represents financial institutions, investment managers and banks, went to court to try to keep it out of the hands of investors like you and me.

The association claimed that if we got hold of it, the COT would give small investors a "competitive advantage" by allowing us to trade ahead of their members.

Damned right it would!

Fortunately, the association lost and that information is available to anybody who wants it. It's even on the Internet at www.cftc.gov.

The CFTC forces anyone with over 100 contracts of emini S&P 500 index futures to report their positions every Tuesday for release on that Friday.

As I write this report, 100 contracts are equal to $13.2 million – not so "mini" is it? That might seem an enormous sum, but the CFTC doesn't care unless you exceed their imposed limit (currently $15.2 billion worth of these "financial weapons of mass destruction" as Buffett calls them).

You see, the CFTC watches this market like a hawk to make sure no single fund corners the market like the Hunt brothers did to silver back in the 80's.

Now pay attention, because this is where things get really interesting if you're looking to beat the market. The CFTC even goes so far as to divide up the traders by seven different classifications.

You have your commercial traders, large traders, small speculators, dealer intermediaries, asset managers, leveraged funds, and other.

One of those seven suspects is your partner in crime for knowing when to get out of stocks ahead of the 2008 crash, versus languishing away, trying to cram every last bit of information about the world into your brain, and expecting to spit out an answer like one of those Zoltar fortune teller machines.

Keep reading, and I promise to reveal exactly which of these seven is the key to your success as a trader. A word of warning – if you've been exposed to the COT before, what you'll read in these pages will come as a shock.

Before I go on, we need to discuss how you are currently making your trading decisions. For most people, it goes something like this:

You collect your information from several different sources. Financial news outlets, gurus, newsletters, Federal databases, company reports, etc. By no means was this an exhaustive list.

Next, you try to make sense of all the information on hand and come to a conclusion on what to do next with your hard-earned money.

What ends up happening with this approach is akin to trying to listen to every conversation in a crowded restaurant. Massive confusion.

The great thing about the Internet is that you have an abundance of information at your fingertips 24 hours a day, 7 days a week. The bad thing about the Internet is that you have an abundance of information at your fingertips 24 hours a day, 7 days a week.

People now have a connection to almost every human being in the Western world, and they are screaming louder and louder to get noticed. Facebook, message boards, LinkedIn, online news outlets…they make the world smaller, but sorting through all the chaos is comparable to un-kinking a mile long garden hose.

Information is doubling every 12 months. New methods of beating the markets are being concocted all the time. In the above image, I've included satellite imagery. Yes, hedge funds are now using satellites to analyze everything from crop yields, to Chinese real estate, to the number of cars in retail parking lots.

If trying to "soak in" everything is your trading method, what are you going to do in 5 years when there's 32x more information? Work 32x more hours? Aren't you already working enough hours with results nowhere near where you want them to be?

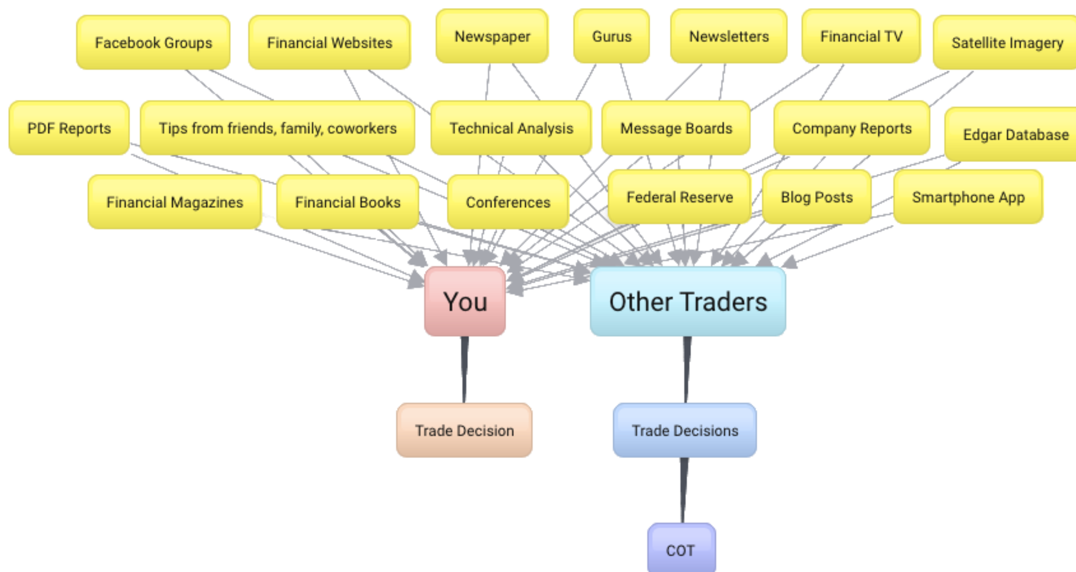
Listen, you're not alone when it comes to feeling overwhelmed by all the information out there. That's exactly how most people trade.

I'll go a step further. The vast majority of traders do the same darn thing as everyone else. You can see evidence of it in the COT report. The data certainly moves around a great deal as if everyone had the same epiphany at the same time.

Motivational speaker and author Earl Nightingale said that "If you want to be successful in life, simply watch what most people would do in a given situation, and then do the total opposite—nine times out of ten, you'll receive greater rewards."

That quote goes doubly so for trading because if everyone has already bought, who's left to buy? The market can only go down.

In a later chapter, I will show you a great deal of proof that following the COT is like playing a game of poker while knowing the cards your opponents are holding at all times.



If you know the cards your opponent is holding, then you don't need to be able to read his tells because you'd know right away if he had a great hand or was bluffing. You wouldn't have to do much in the way of calculating the exact odds either. You'd play your cards and make out like a bandit because of your insider knowledge. You wouldn't win every time, but you would have an unfair advantage even over the top professionals – and beat them consistently.

Are you thinking what I'm thinking? Do you see the shortcut?

Problem solved!

Why not save yourself the migraine headaches and endless hours of research, and cut out all the hard work since the government's COT report hands to you the one true answer you need to know on a digital silver platter?

Now you're just looking at one single piece of data at 12:30PM (3:30PM Eastern) every Friday.

Let the competition read a plethora of balance sheets, hover over every word Jerome Powell or the next Federal Reserve chairman mumbles, and sift through the streams of data being blasted over fiber optic cables.

Let them sort through that mess and make a trading decision.

All you need to do is look at their trades. Every other piece of data is just scratching the surface of what truly matters for beating the stock market right? And lucky for you and I, the U.S. government forces them to show their "cards" every Tuesday like clockwork.

And with that information, you could have…

The 'Holy Grail' of Investing

Excited as I was about the COT when I first heard about it, I still had a nagging suspicion I couldn't get rid of.

Surely, I wasn't the only person to recognize its value to investors. Why wasn't the whole investing world using it?

The minute I got a copy of a COT report, I saw one big reason. It's a mass of numbers ... almost impossible to decipher.

At least, that's what I thought. And I'm a numbers guy. The kind who writes computer programs to relax.

I finally broke the code ... that is I figured out how to read the COT report. But as soon as I did, I discovered an even bigger problem. One week's COT report tells you nothing. Nothing you can use to buy or sell stocks, that is.

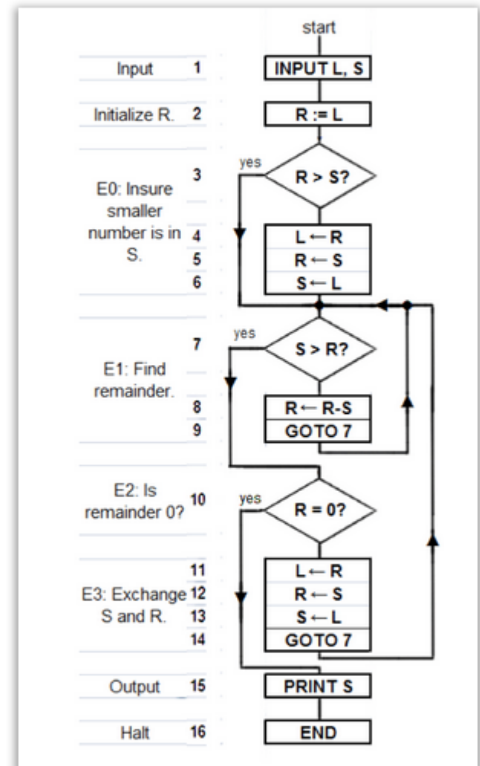
You see, one week to the next is too short a period to find a pattern that can be extrapolated.

(Sorry, but I've got to use some "numbers guy" language to try and explain this.)

You'd also have to know what ratio of buyers to sellers is statistically significant and over what period of time. And there are other factors to be considered.

But I was convinced that if I could crunch the numbers – and discover a pattern – then validate that pattern through back testing – then I could design a program based on an algorithm that might look something like this:

L= long positions
S= short positions
R= length of time



Then I could know which way stock prices were headed – and when – before they started to move.

I realized, of course, that all I had was a hypothesis. And you know how I feel about hypotheses.

It wasn't going to be simple to execute. Or, if I continued in the theory vein, to prove.

I knew I needed much more data than I could squeeze out of the COT report.

So I took some of the money I'd made trading futures and spent twenty thousand of it on a subscription to a professional stock database.

It's a beautiful thing, this database. It had everything there is to know about every stock of every company going back to 1926 – even if they're no longer in business.

With this database, you can discover what Packard stock sold for in 1930. I could have spent hours checking out things like that ... but I had work to do.

I collected all the data on every S&P futures contract going back to 1986. That's when the CFTC started collecting data on index futures contracts.

When I had finished, I had tons of data to sort through and try to make sense of. So I started writing a program to help me do the making sense part of that.

Well, the computer could help but I had to load all the data – 15 years ... 5,400 days worth – by hand.

It was hard work but it was the only way I knew to find a pattern that indicated that a change in the direction of the S&P 500 was about to take place.

I figured that once I found that pattern, I'd find the signal that marked the beginning of that change.

It would be a clear signal ... not a debatable one like the subjective chart patterns spouted about in Elliott Wave Theory.

Once I had that I'd be able to compete against the institutional traders at biggest, most powerful, best-financed firms on Wall Street.

And win!

I'd be rich beyond my wildest dreams. And, believe me, my dreams back then were pretty wild.

This wasn't some project I worked on in my spare time. It totally consumed me. I didn't take phone calls and seldom checked my email. My friends figured I'd become a hermit, gone off the deep end or died.

I spent hour after hour writing one program after another ... back testing the results ... verifying the consistency and accuracy of every supposed pattern. And then starting all over again. And again.

It took me five long months, but finally, I had a prototype program.

I figured I could fine-tune it but there were gaps, holes and flaws in the algorithms and subroutines that I just didn't know how to plug or fix.

I had gone as far as I could on my own.

So I took some of my trading profits and used it to hire a top programmer to help me finish my program. He and I programmed ... tinkered ... tested ... checked and rechecked.

And when we thought we were ready, we did what scientists do.

We tried to disprove our "hypothesis."

Only then could we have a working theory on how the market works.

Our first test drive was to "go back in time" and try to predict the October 1987 stock market crash.

If the program worked, we would see a "market reversal signal" (which I had started calling the Z-point) just before the actual crash. The Z-Point is a specific pattern in the COT data.

We pressed enter. And there it was…

S&P 500

S&P 500 1987 Crash

The Z-point pattern flashed, telling us the direction of the market was about to reverse.

We had done it!

We had created a way to predict – with a high degree of accuracy -- the future ... the future of the stock market.

But we didn't stop there. We tested event after event ... from the 1987 crash to the 2008 debacle, to the start of the 2009 bull market ... and ...

Our program correctly predicted every single major market reversal.

Then we tested for every *minor* market reversal from 1986 to the present.

The program predicted 86% of them. On average, there were about 3-5 trades per year. Sometimes the trades would last over a year. Sometimes just a few weeks. We quickly learned that to be successful, you couldn't marry a trade. Flexibility is the key.

Part Two Wrap Up

Part Two provided a brief review of the futures market and, more specifically, the S&P 500 futures contract. It was explained that we were not concerned with trading futures contracts ourselves but only with the results of other people's trades. The section went into greater detail about the COT and its value as an integral part of the strategy I developed.

Here are the core takeaways of Part Two:

- The futures market – particularly the futures contracts of certain financial instruments, such as the Fortune 500 Futures – plays an important role in the strategy I am outlining.
- While the COT, the Commitment of Traders, reports on who's buying and selling futures contracts in such commodities as corn, oil, wheat and pork bellies, its value to us is in its reports on the buying and selling of financial instrument futures.
- The COT Report, alone, is not sufficient to create an investment strategy. Such a strategy requires discovering a pattern of futures buying and selling – and correlating that pattern with market reversals.
- My objective was to determine which way stocks were headed – and when they would start to move – before they started.
- With the help of a top programmer, I was able to create a computer program that would use the data I had collected to "go back in time" to "predict" various market crashes.
- We were successful in predicting every major market crash from 1986 to the present. And 86% of all minor market reversals.

How the System Works I (ETFs)

Unless you've been in a cave or a coma, or you're completely new to trading, you know about ETFs – Exchange Traded Funds.

ETFs act as proxies for the major indices. They hold a basket of stocks and bonds – or even commodities -- like mutual funds.

But, unlike mutual funds, they trade like stocks. You buy and sell them on the exchange just as you would stocks.

And because most ETFs don't have highly compensated money managers running them, they cost much less than a mutual fund.

ETFs also happen to be the easiest and simplest way to use the COT strategy.

Because even though the strategy works with individual stocks, I recommend ETFs instead.

One big reason is that with ETFs, you don't have to pick individual stocks.

And you can work with ETFs representing an entire index.

Which gives you far greater diversification – you're not betting on a single stock.

There are ETFs for the DJIA, the biotech indices, and hundreds of other categories of securities.

And, most important, there are ETFs for the S&P 500 and the U.S. long bond.

So why am I going on and on about something you already know?

Here's why ...

How the System Works II (Market Signals)

Remember that I said the Z-point is the signal that indicates a market reversal, up or down, is about to take place.

So, if the Z-point tells us the market (represented by the S&P 500) is turning bullish or about to go up ...

You buy one of those ETFs I've been going on about.

One that represents *all* of the stocks in the S&P 500.

I'd go with the oldest and largest S&P 500 ETF, SPY (that's the ticker symbol.) It's also the one with the greatest liquidity.

So, now that you've got your S&P 500-tracking ETF, you go on with your life while staying alert for the signal that the market is reversing to the downside.

That means the stock market is about to decline or worse, crash.

What do you when you get that signal?

You simply sell SPY and move your money into U.S. Treasuries, most likely the 30-year long bond. It's considered one of the safest investments you can own while generating a decent return.

It so happens there's an ETF that does a bang-up job of tracking the 30-year long bond. Its ticker symbol is TLT.

And when the system signals the market is about to go up, you reverse the process.

Simple as that.

Most financial advisors will advise you to be in both stocks and bonds. Usually a 60/40 split between the two. So it's likely you're already invested in both stocks and bonds.

But instead of splitting money between the two, you're always invested in one of the other with this strategy.

Wouldn't it be great to rarely buy high and sell low for a change?

You're using ETFs rather than individual stocks so there's no stock picking involved. You're diversified in instruments you'd normally be in anyway. Only your percentages vary as you switch from stocks to bonds, and back to stocks.

And you're always ready to profit ... no matter which way the market moves.

Now, I'm using the words "system" and "strategy" pretty much interchangeably here.

But if I want to be technically correct, I'd have to say that the "system" is the method (and sometimes the medium) for executing the strategy.

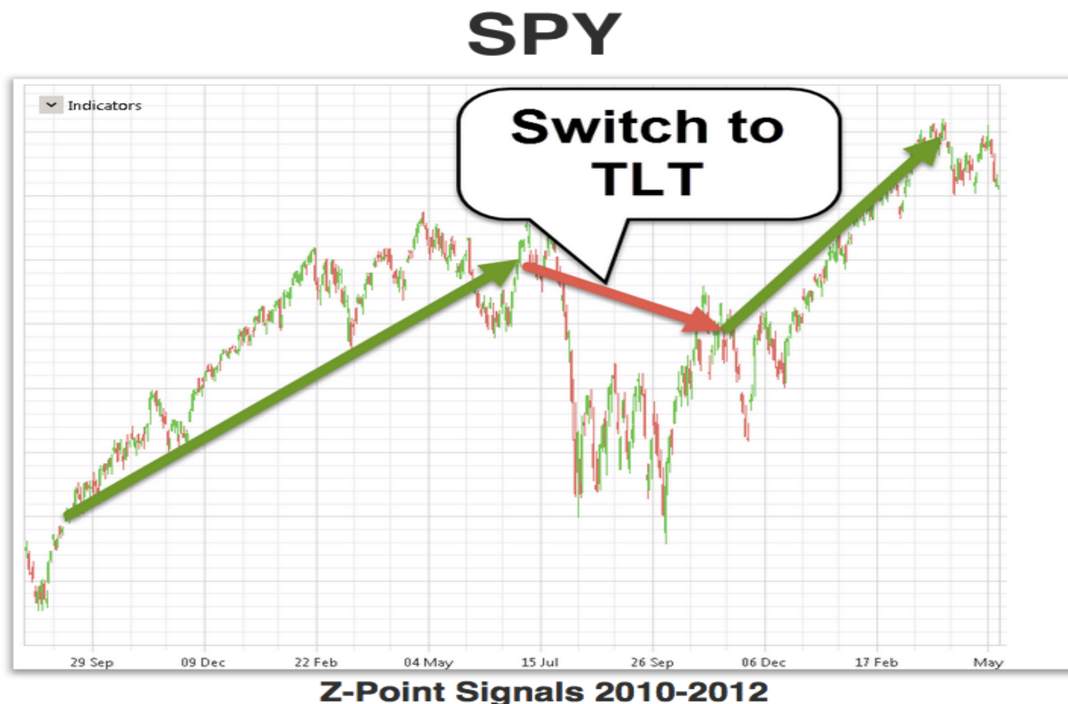
Let's not get hung up on that, though. It doesn't matter what you call it ... it works.

Here's a real-life example:

In the first chart, let's say you bought SPY at $121.31 on May 31, 2011 and held on it until May 31, 2013, selling it at $153.86.

Your gain would have been 27%. Not too shabby, right?

But now take a look at what you could have made if you'd used the Z-point system ...



Z-Point Signals 2010-2012

If you'd bought SPY at $113 on September 18, 2010 – but sold it on July 1, 2011 at $134 – when the Z-point indicated the market was about to reverse ...

And bought TLT at $93 on July 1, 2011 – and then sold it at $116 on November 12, 2011 – when the Z-point indicated the market was about to reverse again ...

And then bought SPY at $126 – and sold it on March 31, 2012 ...

Your cumulative gains would have been 55%.

That's more than **double** what you would have made buying and holding SPY all through the market reversals the Z-point system would have alerted you to.

No wonder some people call the "buy and hold" strategy "buy and fold."

Here's another example.

May 26, 2001: Congress passes President Bush's new tax relief bill.

You'd think the market would've viewed that as great news.

But the Z-point warned: not so fast!

It indicated that the market, the S&P 500, would reverse, and a new bear market would begin.

It was spot on.

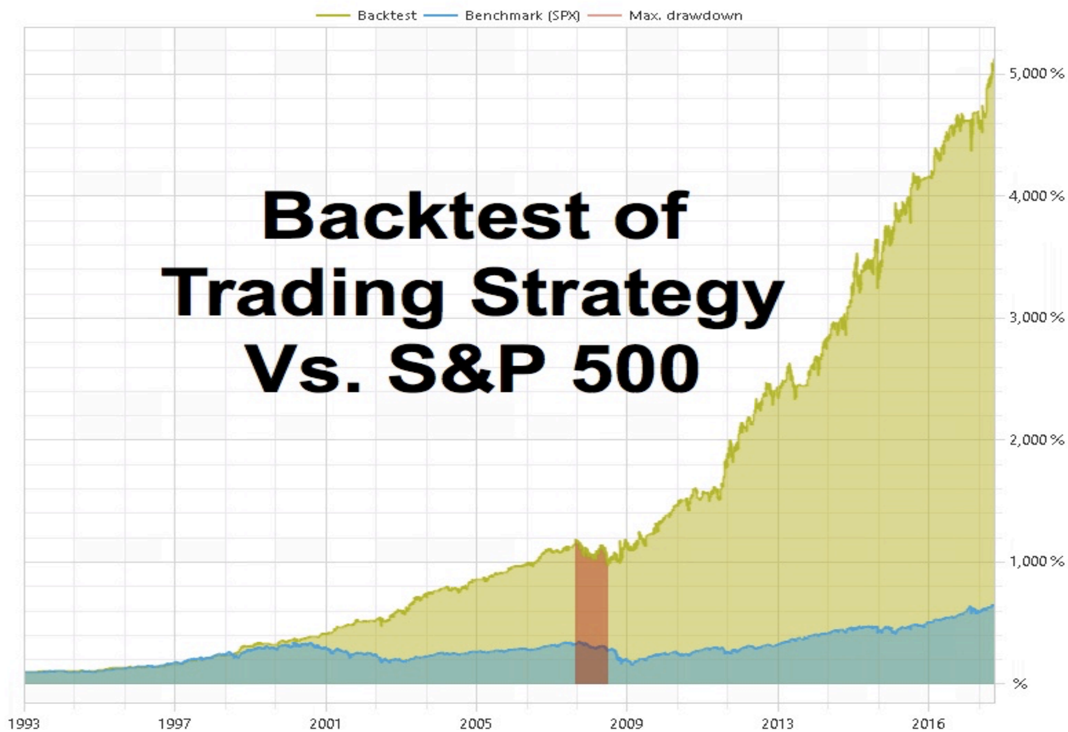
In less than four months, the market dropped 21%.

Z-Point Sell May 26, 2001

The next buy signal was up a decent 5.3% before selling and moving into bonds.

Stocks then proceeded to plummet a staggering 18.1%.

In fact, there have been dozens of these opportunities over the years (about 3-5 per year). Here's a chart of what happens when you switch between stocks and bonds at these opportune moments. The difference is staggering (5,457% vs. 631%):



Warning: From the many questions I've been asked over the years, I know you might be tempted to trade other instruments besides SPY and TLT. I'll give you my honest answers in Q&A format below:

Q: Can I use other index ETFs like **QQQ** (NASDAQ 100) to trade the signals?
A: No. The buy signals are for the S&P 500 index only.

Q: Can I use levered S&P 500 products like **SSO** (2x S&P 500 ETF), or **SDS** (-2x inverse S&P 500)?
A: No. Those ETFs are made for day trading. Longer than a month holding period = horrible performance in these ETFs due to their daily rebalancing. Even -1x inverse ETFs like **SH** don't work well over time. Seriously.

Q: Can I trade options on SPY or trade emini S&P 500 futures?
A: Yes, but buyer beware! As you'll soon discover in this report, most of these traders over-leverage themselves. It's like shooting yourself in the foot with a starting pistol before an Olympic level marathon. Even the best Kenyan runner wouldn't finish the race.

Q: What about using the signals to time individual stocks?
A: It's definitely better than nothing. In fact, I've developed strategies around stock trading and signals from the COT report, but only on baskets of 10+ stocks with certain characteristics.

Part Three Wrap Up

Part Three explains how the strategy works using Exchange Traded Funds, as well as the value of using ETFs as opposed to individual stocks. In this section, I introduce the Z-point and provide several examples of the advantages of my strategy vs. one based on buy-and-hold.

Here are the core takeaways for Part Three:

- ETFs are the simplest and easiest way to use my strategy. Key are ETFs for the S&P 500 and the 30-year Treasury long bond.

- My recommendation for an ETF that tracks the S&P 500 Futures is SPY (its ticker symbol); for tracking the U.S. Treasury's 30-year long bond, an ETF with the ticker symbol TLT.

- With my strategy, you would buy an ETF for the S&P 500 Futures when the indicator tells you the market is going up. When the indicator signals that the market is about to decline, you sell the S&P 500 Futures ETF and buy an ETF made up of Treasuries (U.S. Treasury 30-year long bonds.)

- With my strategy, you are always invested ... you don't have to pick individual stocks ... you're diversified ... and you're always ready to profit no matter which way the market moves.

- My strategy consistently beats one based on "buy-and-hold" by a large margin. Or, for that matter, it beats trying to time the market on your own.

At the Mercy of the Market

That's pretty much your situation right now, isn't it? You're trading blindfolded.

And that isn't working so well, is it?

Let's be brutally honest.

It isn't bad luck ... or bad stock picks ... that have been holding you back ... keeping you from making money in the market.

It's simply that you've been trying to make sense out of the market.

Which with all the noise out there ... the conflicting opinions in the different newsletters ... the differing advice from the financial gurus on TV ... unfathomable Fed-speak ... the rumors ... that isn't easy.

And by trying to follow all that, you end up following all the wrong things.

Watching the COT gives you only one thing to follow.

And that's the "smart money."

Which is why I decided to call my strategy (and the system for executing it) ...

The Smart Money Indicator

Because the strategy is all about following it.

And by smart money, I mean the money the big players bet on the S&P 500 futures market.

Because the S&P 500 index futures basically control the U.S. stock market due to their tremendous leverage potential ...

And whether these big players are long or short on S&P 500 futures ...

Determines whether we're likely to see a bull or bear market in stocks.

Here's an example:

If you were on a cruise ship and saw the captain climbing into a lifeboat, would you hang around the lounge ... asking people at the bar if they thought the ship might be sinking?

Of course not.

You'd figure the captain knew something the passengers didn't.

And you'd follow him into that lifeboat.

In fact, you'd probably try to outrun your shipmates for the next best seat.

You'd be ahead of all the other passengers because you saw what the captain was doing. And you followed his lead.

Following the smart money is the same principle.

(Of course, you'd make way for women and children first, naturally. I'm sure you're that kind of person.)

But how do you know what the smart money is doing?

Well, you can thank Uncle Sam for that.

The government, through the CFTC, "spies" on the big players by forcing them to report how they're positioned every week and disclose it in our old pal, the COT.

The Big Reveal

In a way, the Smart Money is a misnomer. Lean in and pay close attention here. This is where I pull back the curtain to reveal even more about how you can start beating the market…

To explain, we need to revisit Warren Buffett's warnings about derivatives turning the stock market into a casino.

Here's what he said:

"In my judgment, a very high percentage, probably at least 95% and more likely much higher, of the activity generated by these contracts will be strictly gambling in nature." –Warren Buffett to Hon. John Dingell, March 5, 1982

He continues:

"In securities, the unintelligent are seduced by low margin requirements through which financial experience attributable to a large investment is achieved by committing a relatively small stake."

While I would substitute the word "unintelligent" for "uninformed," I think you get the idea. Small traders are gamblers. They're looking for quick lottery ticket payouts. It's the classic story of the tortoise vs. the hare. Most traders are the hare – and most traders lose money.

Nearly every trader I've met – including myself – starts off trying to get rich quick … then either quits, goes broke, or realizes that slow and steady wins the race (although the purpose of this report is to show that your portfolio growth doesn't have to be *that* slow).

In the regular futures market – like corn, oil, soybeans, or gold – there are producers and consumers.

Let's say Farmer John grows – or *produces* -- corn. And he's a smart guy that uses the futures market to lock in prices by selling corn futures.

Companies like Kellogg's consume corn, and buy corn futures months out so they can make cereal to sell to you and I.

So normally, these two groups of traders cancel each other out. Take a look at this chart of commercial traders vs. large traders in corn futures. Look at the lower part of the chart:

They look like mirror images of each other right? As price rises, the producers (blue line) sell corn futures to lock in those higher prices. Farmer John and his fellow growers are more likely to lock in future prices as price goes up. The consumers (like Kellogg's) take the other side of the trade to lock in how much they'll pay for corn in the near future.

There's very little useful information to make money here to be honest. I've tried, but I believe agriculture is tied to the weather too much. And you know how we love to hate the weatherman and his prognostications.

Let's continue with Warren's "casino" analogy for the index futures market.

There are no natural sellers of index futures in the stock market. Most everyone is a buy and hold consumer. It's a very different animal than commodity futures. Which is great because that's what makes the stock market so predictable above and beyond any other market I've traded.

So what the powers that be did was to erect this giant index futures casino. The masters of the "casino," the commercial traders (producers), are typically big banks like Goldman Sachs, while the Large Traders are often hedge funds (consumers). They employ a wide variety of strategies ranging from hedging to high frequency trading to pairs trading, etc.

The third group that I'm of particular interest in is labeled "non-reportable." These are traders with less than 100 contracts in their possession. Those with less than $10 million worth of contracts as I write this. The little guy. The "uninformed" trader that Warren warned would be attracted to this casino.

The big banks and hedge funds by default take the other side of these uninformed traders – and there are a great number of them. The latest COT report showed that 22% of open interest in the emini S&P 500 is due to these "mom and pop" traders. That's a very significant amount of speculators. Tens of billions of dollars of S&P 500 futures… leveraged to the gills.

My work shows that they tend to get it wrong at major turning points. And when I say wrong, I mean WRONG. Like almost always.

Just like a real casino, the house always wins in the long run by taking the other side of the bet. Man, they've sure made a helluva racket in the name of risk aversion haven't they?

Does this mean the stock market is rigged? Not necessarily. Setup to fail? Probably.

The Four Fatal Flaws of Amateur Traders

My observations have led me to believe that these small speculators tend to be easily swayed by four major flaws that every other amateur trader is affected by:

1. Amateurs tend to be under-capitalized, and over-leveraged. Combined with the flaws below, it's a recipe for Hindenburg-style disaster.

2. Amateurs react to news, even though the news only reports what has already passed, not the future. After all, the futures market is all about – well…the future.

3. Amateurs are typically trained in the same theories like Keynesian economics and Efficient Market Hypothesis (which I mentioned helped trigger the 1987 crash), so their trades herd together like a stampede of elephants.

4. Amateurs are more prone to the many cognitive biases that make humans horrible traders. At last count, there are 99 of them on Wikipedia.

Clearly, these flaws, and the mountains of data most traders go through on a daily basis should be sidestepped like a crab exiting a minefield. All you need to do is start doing what the masters of the casino do. Take the other side of the trade from those that are considered uninformed.

Typically, that would be you and I, but now we know better. You know you should take the shortcut become like the "house" and fade these traders…the COT's non-reportables, aka small speculators. Here's a chart of their net positions (long – short):

Small Speculators Net Position, emini S&P 500 (Non-reportable)

When you look at this Friday's COT report, and you start seeing a large amount of buying, you might want to start looking for the exit. The market could be in for a 2008 style crash.

That's what I saw happen in January 2008 when the Smart Money Indicator flipped to a "sell" signal on the S&P 500. I handed off this sell signal in real time to thousands of traders. Even better, the April 2009 buy signal turned out to be one of my best calls ever as stocks had their best rally in years.

If you had known about this sell signal before the stock market proceeded to drop another 52%, and bought bonds, then turned around and bought stocks a month after the market bottomed, and then took all the proceeding trades, returning 308% vs. 78% for stocks, how much closer would you be to retirement? If you're retired, what would you do with the extra income?

A Word of Warning

A strategic trader -- one who follows the numbers – doesn't simply "eyeball" the chart and come up with a decision. I can write the rules of my Z-Point system on a tiny bar napkin, but I leave the analysis to the computer. There have been numerous occasions where I thought it was as obvious as a bowling ball in a bag of diamonds that there was a new signal, but the computer said no. The computer doesn't lie. It's a tool. Use it.

If you can, automate the process. The back testing software we created does this automatically for us so we leave out as much of the human element as possible.

Part Four Wrap Up

Part Four explained that the reason you haven't had the success in the stock market you deserve is that you've been trying to make sense out of all the "noise" about what the market will do next ... the conflicting opinions in the newsletters ... the advice from TV's financial gurus ... the results of all your own research. Simply put, you've been following all the wrong things.

With the COT, you know exactly what to follow: the smart money. The section also explained what I mean by "smart money" as well as the why and how of following by doing the opposite of speculative traders. It also introduced the name of my system/strategy, the Smart Money Indicator and the crazy casino many inexperienced traders have been drawn into by the lure of massive leverage.

Here are the core takeaways for Part Four:

- The reason you aren't making money in the market is that you lack a real strategy and you're following "all the wrong things."
- With my strategy, you know what to follow: the "smart money." (Hence, the name, "Smart Money Indicator."
- The "smart money" is the bets the big players make on the S&P 500 futures market.
- The S&P index futures basically control the U.S. stock market.
- The big players (aka Smart Money) have setup a casino, and take the other side of gamblers who are almost always wrong at major turning points.
- You can make money by doing what the casino does… take the other side of the small speculator's trades. In aggregate, these wrong way traders control over $68 billion. Not so small an amount, but they tend to make huge mistakes – mostly over-leveraging themselves.
- Try to automate and systematize a strategy for making the buying and selling decisions. Don't "wing it" like most other traders do.

What's Next?

Right about now, you're probably expecting a sales pitch... for a handful of people to buy the exact rules I use for the Smart Money Indicator.

Well, I hate to disappoint you. But I promised this report would be pitch-free. That was the guarantee I made with you to read this report in full. And congrats for getting this far by the way. It shows that you're serious about your investing. That's exactly who I like to work with.

But like I told you many, many paragraphs ago, this isn't a sales letter disguised as a report.

The fact is ... I want to give you something to take your trading to the next level.

While you were reading this report, it might have dawned on you that instead of simply holding an entire index of 500+ stocks, why not just hold the top 10 or 20?

There are plenty of dogs in the S&P 500 that you would never want to own, and actually hold back the performance of the index. In fact, you could more than double the performance of the Smart Money strategy by holding stocks instead of the entire index.

But how do you select the perfect stocks and combine them with the Smart Money signals?

Quick story: I'm a big fan of Elon Musk and his endeavors at SpaceX. If you didn't know already, SpaceX is a leader in reusable rockets. The launch vehicles start as a traditional rocket, they deliver their payload into orbit, but then they morph into a landing vehicle instead of being discarded like NASA did with their other rockets. They do this over and over again, bringing the cost to about 1/10th of what NASA used to pay. In other words, our tax dollars are going a lot further.

The SpaceX program is a perfect metaphor for what I call "Metamorphic Trading." When SpaceX launches their rockets, weather conditions have to be perfect. Everything is double and triple checked. The rocket blasts into the sky for a brief amount of time, and then settles gently to the ground to be used again and again.

With "Metamorphic Trading," we wait for the perfect conditions. There's no sense in buying stocks when a bear market is forecast. Then we identify the stocks that are most likely to blast into orbit. But we don't fall in love with these stocks. They're just a vehicle to make us money.

We hang onto these "best of the best" stocks until the Smart Money tells us to go into the safety of bonds. That's where our "rocket ship" of stock holdings morphs into a landing vehicle to be re-used once conditions become perfect again.

With that in mind, I'm holding a complimentary Master Class called "Metamorphic Trading: How to Discover, Buy, and Sell the Hottest Stocks Safely and Consistently for Maximum Results."

During the event, I'll go into greater detail about the Smart Money indicator, and how to more than double its already amazing results by buying the top ranked stocks and disregarding the rest.

Sign up here and join me at the event. There is no cost since you're a reader of this report:

https://portfolioboss.com/go/masterclass

Thank you for your time and interest. I hope you found this report informative.

And that it will lead you to stop spending endless hours trying to soak in every piece of information thrown at you, and instead, take the shortcut offered by the COT report.

Trade smart,

Dan Murphy

PS. Bonus: Join me for a free Master Class event: "Metamorphic Trading: How to Discover, Buy, and Sell the Hottest Stocks Safely and Consistently for Maximum Results."

https://portfolioboss.com/go/masterclass

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