Tom DeMark
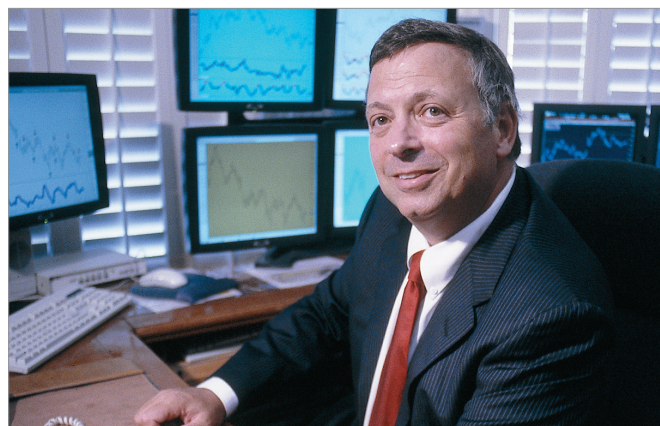
It might seem like a different trading world than it was in 1970, but for Tom DeMark, the game remains the same — price exhaustion.

BY MARK ETZKORN

There are still about two hours left in the trading day and Tom DeMark is recounting the latest success of the basketball program at his high school alma mater, St. Catherine's high school in Racine, Wis., which won its 11th state championship in March to go along with 19 conference championships since 1933.

DeMark played on a St. Catherine's team that took second in state his junior year in 1964, and he's obviously proud of his alma mater's continued success, despite its small size — enrollment is only around 350.

However brief, the discussion is a rare break for DeMark, who maintains an obsessive focus on the markets, even after 36 years and success that he admits exceeded his earliest expectations. Even before he published the three popular books (which he says he wrote because he was tired of other people passing off his work as their own) that made him more of a household name among retail traders, DeMark had a successful career as an institutional trading advisor and analyst, with clients ranging from IBM and Union Carbide to Paul Tudor Jones and, currently, Steve Cohen of SAC Capital.

DeMark has also become increasingly well known because several software platforms and analysis networks, including Bloomberg, CQG, and Thompson Financial have incorporated the indicators he's developed over the years. (Reuters is a future possibility.) His latest project is Bloomberg's "Cursor Commentary" service, an interpretation and expert commentary feature users will be able to access by passing their cursors over his indicators.

DeMark has not slackened his pace, perhaps because — like many people who excel in their fields — he appears to love what he's doing; it's not just a job or a means to an end. I reminded DeMark that, at a presentation nearly a dozen years earlier, he had mentioned he might not be doing this that much longer.

So, after 36 years, does he think he'll ever retire?

"No," he says, laughing. "I retired when I first went to work in this business after finishing law school and graduate business school. This is a vocation/avocation for me.

Most of the people I know in business end up trading the markets when they retire, anyway, so I have a head start on them.

"But," he adds, "I've really been doing this for the equivalent of around 90 years because it's been seven hours a week, 20 hours a day."

He laughs again. "I have no life — maybe that should be the headline for the interview."

FOT: *How many hours do you put in these days?*
TD: On the average day I might get up at 3 a.m. and go until 9 at night. I follow the Far East markets, then the European markets, then the U.S. market, and then get ready to do it all again the next day.

FOT: *Why do you need to watch the markets all the time?*
TD: I've been working on the Cursor Commentary service for a couple of years, and since it has worldwide market application, I've been monitoring and researching foreign markets. My full-time job of consulting (*for SAC*) requires that I prepare for and follow the U.S. markets.

FOT: *Are there indicators or systems you've developed that have fallen by the wayside — things you don't use any longer because they don't work or you've developed something better?*
TD: Not really. The original TD Sequential, TD Combo, and a several other indicators — TD lines, TD relative and absolute retracements, and TD trend factor — are the cornerstone indicators that have been around more than 30 years.

Also, they were all developed pre-computer — I created them manually, using a calculator and examining charts with a magnifying glass.

FOT: *Are these tools still valid today, as far as you're concerned?*
TD: Oh, yeah. Sequential and Combo — the two key indicators — have never really been changed from their original designs. There have been a few adaptations —

FOT: *— you have variations of these tools you don't necessarily make public, right?*

TD: Yes, and it mostly has to do with how aggressively the different versions of the indicators are applied. Everything is there, in terms of the indicators that are available on the analysis platforms, but it would require some manipulation to get the ideal settings. That's exclusively for SAC.

But the original Sequential and Combo signals are still viable, which might be surprising, considering they were created in the mid-70s and first applied to currency futures, the Ginnie Mae and municipal bond contracts at the Chicago Board of Trade, and T-bills at the Merc. This was even before the S&P futures were launched in 1982, and before the first charting service, ComTrend, that offered one-minute charts. When one-minute charts became available, it surprised everyone that Sequential and Combo were applicable to that lowest common denominator.

FOT: *Was that a goal of your work?*

TD: Yes, universal application over all time periods — one-minute charts, daily charts, weekly charts, monthly charts. That's different from the work of many other people, who seem to optimize or customize things for different markets or time periods.

FOT: *Do you really think all markets are created equal, though, in terms of using your indicators? I mean, would you feel comfortable applying Sequential to intraday rice future prices, or cheddar cheese?*

TD: Yes, in fact, the indicators often work better on thinly traded markets and more-distant futures expiration months.

FOT: *Did computers reveal additional things about your tools that you hadn't been aware of before?*

TD: Definitely. There have been some things, like TDST, which are the resistance and support levels that are formed from Sequential and Combo price setups. Those levels didn't become evident until charts were available on computer screens and the interaction of price activity and the indicator became apparent.

And the nice thing is that now you see and learn things on one-minute charts instead of having to look at a daily chart on a piece of paper — you can see prices as they unfold and these numbers (*from the indicators*) appearing and disappearing, so you can draw conclusions from that. It's an educational opportunity.

FOT: *But what about things that just stopped working?*

TD: Well, nothing really comes to mind. Obviously, I've created these indicators and I'm not going to abandon them — they're like children. And most of the things I've developed have been programmed and are on different trading platforms now.

FOT: *But there must have been dead ends in your initial research and analysis, or things that took a long time to develop. Sequential, for example, doesn't seem like something that could have emerged fully formed, right out of the box.*

TD: The indicators often evolved piecemeal and their components required research and testing to develop. Much of the work, despite that trial-and-error approach, was in retrospect a result of inspiration more than anything else.

FOT: *Are you still creating new tools?*

TD: I've done things that aren't for public consumption, including a number of proprietary indicators for SAC.

FOT: *What's the unifying principle in your work?*

TD: I think 95 percent of it is price exhaustion, which is the antithesis of what almost everyone else does in the industry. The overwhelming majority of CTAs (*commodity trading advisors*) are trend followers, for example.

> Ninety-nine percent of the people in trading are not creative and they're not willing to rely upon themselves to make decisions.

FOT: *Did you ever explore trend-following techniques?*

TD: I initially worked for a large fund (NNIS) that grew rapidly from a couple hundred million dollars in 1970 to many billions of dollars. Out of necessity we had to buy weakness and sell strength, so I never thought of the market in any other context. After a bottom was made, it was impossible to accumulate any size, and when a market topped, it was impossible to sell after the peak. So my goal was always to anticipate tops and bottoms.

FOT: *How precisely are you trying to pick tops and bottoms? That's one of the unattainable "holy grails" of trading, isn't it? Don't such approaches run the risk of being too early, just as trend-following techniques are often too late?*

TD: Most of the time markets are in trading ranges and price exhaustion techniques are easily applied. The times when markets are trending can prove to be vexing, but a market often provides clues to trending by recording steep moves where price bars fail to overlap.

FOT: *Do you think about things any differently than when you started — that is, about the principles of price action or t h e*

ways markets work?

TD: Obviously, there are a lot of things

is overbought or oversold tells you [whether it's a justifiable signal]. Then you have to wait for the market to relieve that extreme condition by moving the oscillator back to neutral and recording a mild overbought or oversold reading.

Also, everybody talks about moving averages, and they have their ideal average or series of moving averages. But if a market is trending, *any* moving average will work. And if a market is moving sideways, *any* oscillator will work. It's those times when the market is moving from one to the other that you have to deal with. I've also addressed this with the severe overbought-oversold readings based upon duration — specifically, if the market remains overbought or oversold continuously for an extended period of consecutive price bars, it typically indicates a trend is in force and it would behoove you to respect this trend.

FOT: *Have any people you worked with influenced you?*
TD: There are several people who have been influential, not in the sense that they directed me one way or the other in my ideas, but by being models in terms of their dedication to — or really, obsession with — the markets.

Larry Williams, I think was an inspiration to just about everybody in the 70s. Larry also has something I don't have, which is the ability to pursue other interests — politics, Larr537 Twbought lots, b(Ther). HeT☐±1.050.372 Tw(Also, everybo averages. But30.6(estbriJT,0001 .00tive02 Tc]TJT☐±0excepilliive