

RealMoney.com

TSC Technical Forum

Testing the Conventional Wisdom

By [Gary B. Smith](#)
Special to RealMoney.com

01/13/2004 08:14 AM EST

URL: <http://www.thestreet.com/p/rmoney/techforumrm/10136350.html>

Technical Analysis

NEUTRAL

- Baxter faces resistance at \$31.
- Tenet is getting interesting.
- Golden Star barely holds its uptrend.

We've all been there: You have a line of thought that's so far apart from conventional wisdom that, over time, you start questioning your sanity -- until that one magical moment when you're talking to someone and, lo and behold, they've always thought the same exact thing as you. At that moment, you look them in the eye and simply say "thank you."

I had that feeling many times as I was reading Victor Niederhoffer's most recent book, *Practical Speculation*. (The book is co-written by Laurel Kenner, who probably doesn't get enough credit.) Yes, *that* Victor Niederhoffer. The fellow who blew up just after his first book, *The Education of a Speculator*, came out. The fellow who has had more first dates with financial publications (including a stint at *TheStreet.com*) than you can count. The same fellow who finally knocked Sharif Khan down from the ivory tower of squash. (Squash fans can appreciate Niederhoffer's racquet expertise.)



Now, longtime readers will know that if I advocate anything, it's having a reliable methodology that has been tested and shown to be profitable in a variety of different market conditions. My sword of choice is technical analysis, but it doesn't matter what you use. Just make sure your method is backed by loads of data.

And that is Niederhoffer's main thrust. Coming from a statistics background, he advocates a "count, count, count" philosophy, and he subjects every line of conventional financial thinking to scientific testing.

As an example -- surprise, surprise -- I always thought the link between earnings and stock performance was specious at best, and thankfully Niederhoffer debunks that hoary cliche. He also trashes "value investing" and Alan Abelson, while uncovering the truth about St. Benjamin Graham. Amen, brother!

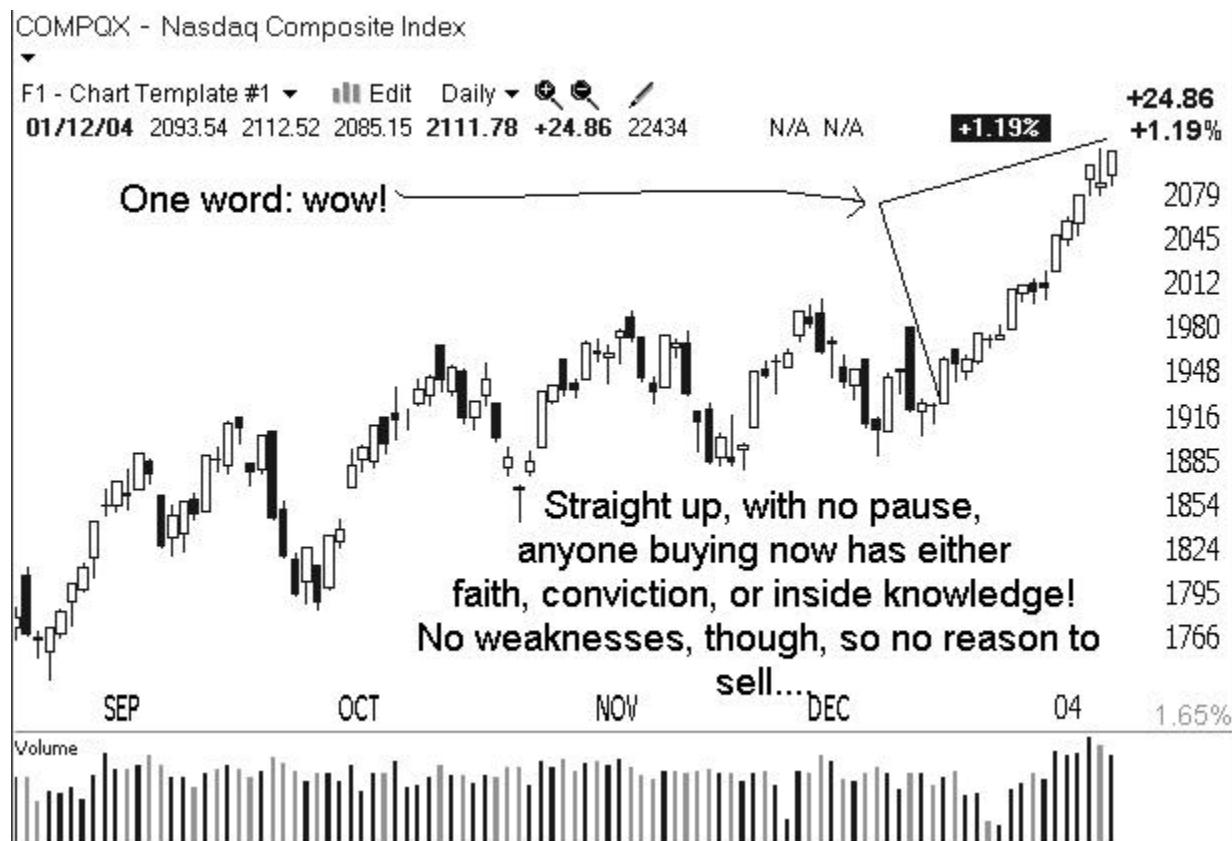
Of course, he also takes plenty of rips at technical analysis, and I can't quibble with him. As I've often said, technical analysis gets you in the door, but it's money management that gets you out, hopefully with a profit. Technical analysis alone as a ouija board? That's ripe for ridicule, so that chapter didn't bother me.

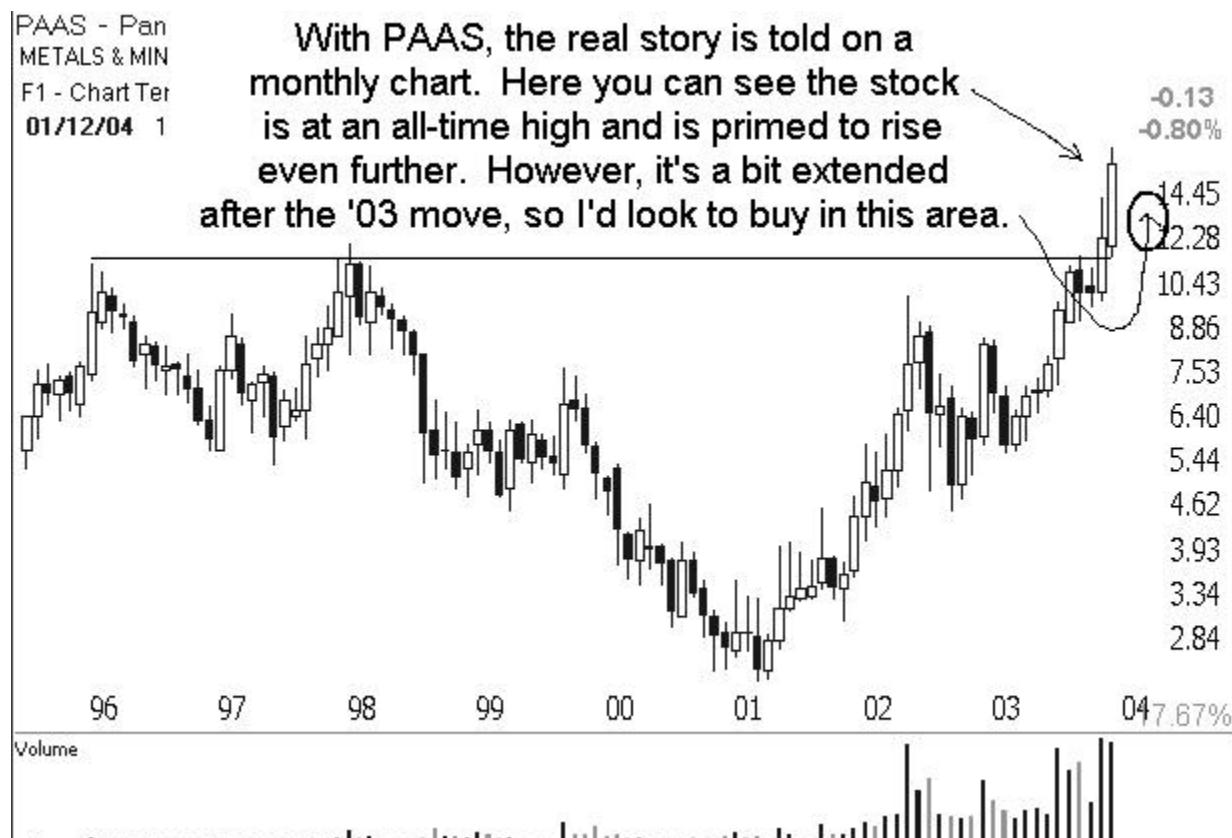
Quibbles? Not many. He remarks that *Market Wizards* by Jack D. Schwager is "one of the most well-known books on technical analysis," which isn't accurate. Anyone familiar with the book will note that it contains plenty of profiles of fundies. In addition, Niederhoffer's ego occasionally shines through -- more when he's talking about racquet sports than anything else -- but it's palatable (and a lot less noticeable, in fact, than many of the "look how great I am" investment books penned by other traders).

It's also balanced nicely with plenty of mea culpas regarding his investment performance.

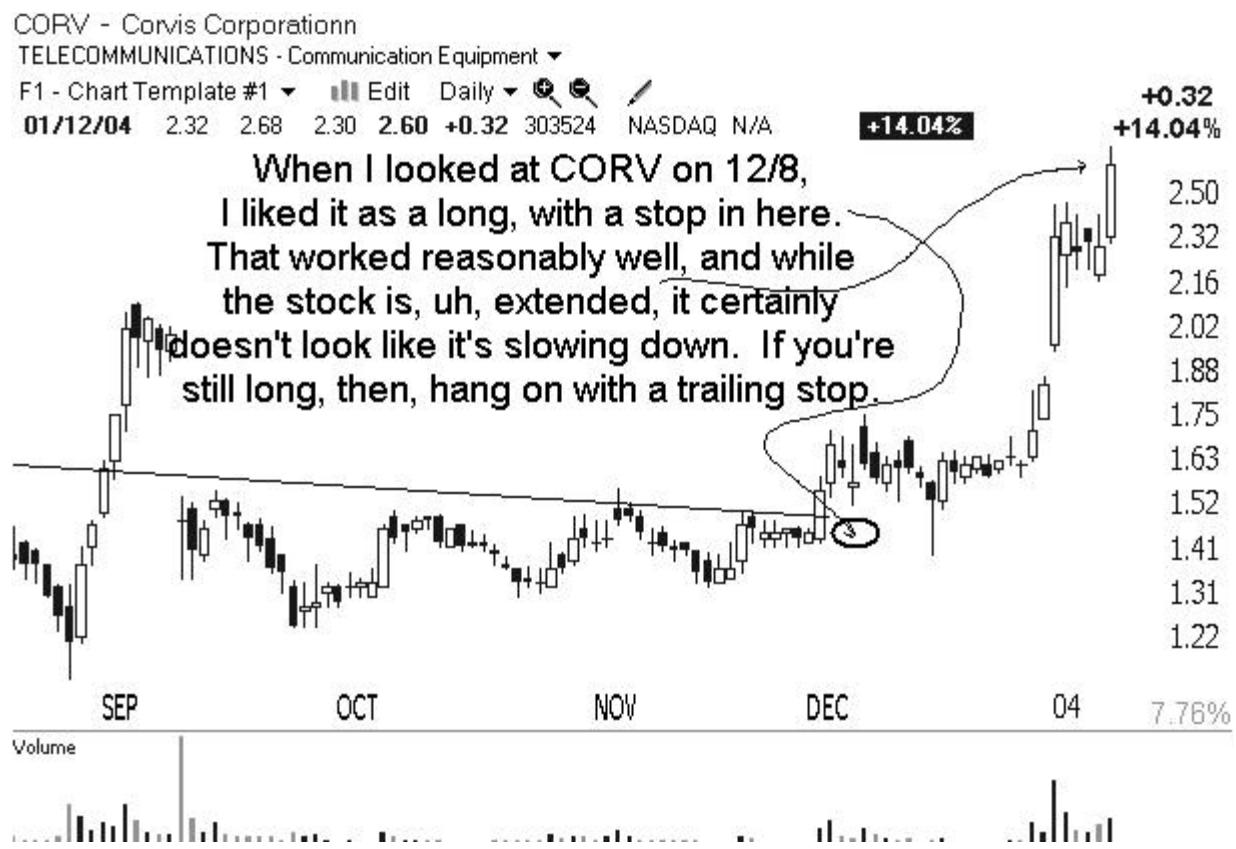
The net? *Practical Speculation* might just be the best book on trading/investing ever. Read it.

Today, the **Nasdaq**, **Baxter International (BAX:NYSE)** , **Pan American Silver (PAAS:Nasdaq)** , **Tenet (THC:NYSE)** , **Corvis (CORV:Nasdaq)** and **Golden Star Resources (GSS:Amex)** .









Charts produced by TC2000, which is a registered trademark of Worden Brothers Inc.

And that is the final word from Saks Fifth Avenue, where I'm not ashamed to say Lancome's Resolution D-Contraxol really does seem to make my wrinkles a little less severe!

Gary B. Smith is a freelance writer who trades for his own account from his Maryland home using technical analysis. Under no circumstances does the information in this column represent a recommendation to buy or sell stocks. Smith writes a daily technical analysis column for RealMoney.com and also produces a daily premium product for TheStreet.com called The Chartman's Top Stocks -- [click here](#) for a free two-week trial. While Gary cannot provide investment advice or recommendations, he invites you to send your feedback to [Gary B. Smith](#).

TheStreet.com has a revenue-sharing relationship with Amazon.com under which it receives a portion of the revenue from Amazon purchases by customers directed there from TheStreet.com.
