



SMART MONEY INDEX (SMI)

(also known as the Last Hour Indicator)

[Click here for chart](#)

APPLICABLE TIME FRAME(S):

INTERMEDIATE

UPDATE SCHEDULE:

Each weekday night by 7:00 PM EST

EXPLANATION:

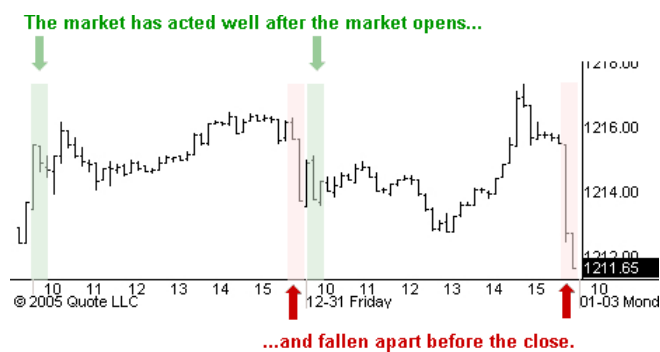
The idea behind this indicator, popularized by money manager Don Hays and existing with many variations, is that emotional trading takes place at the beginning of the trading day (as traders react to overnight news event and economic releases) while the "smart money" takes the day to evaluate price action and input their orders before the market closes.

Due to that assumed tendency, we want to bet against the opening action and bet with the closing action. The way we calculate the index is to subtract the performance of the S&P 500 cash index during the first ½ hour of trading and to add the performance of the S&P during the last hour.

For example, let's say the Smart Money Index closed yesterday at 800. During the first 1/2 hour of today's trading, the S&P 500 gained a total of 5 points. We then ignore what happens until the last hour of trading. Now suppose that during the final hour, the S&P lost 8 points.

To get today's Smart Money Index reading, we take yesterday's number (800), subtract the opening gain or loss (5 points) and add the last hour change (minus 8 points). So today's SMI would be $800 - 5 - 8 = 787$. Today's SMI would be 787.

The following chart shows exactly the kind of action that would be considered very bearish...a market opening strongly, only to fade (fall) near the close. This occurred in late December 2004, giving an excellent heads-up that a market decline may be imminent.



GUIDELINES:

At the bottom in 2003, the S&P was opening very poorly and closing very well. All the news at that time was bad indeed, and we would often see the market dip in the opening hour or so of trading after traders digested the bad news before the market opened.

However, by the close it would often make a comeback, which could be considered accumulation by the smart money. This was bullish action, and resulted in a quickly rising Smart Money Index. Bearish action is shown in the chart above, and is reflected by a sharply declining SMI.

Unlike most of our indicators, there are no hard-and-fast rules to go by with the SMI. There are no absolute or relative levels we can point to and say "yep, this is bullish".

Instead, we need to look at the action in the SMI - when it is rising rapidly during a decline, that means the smart money is buying, and we should expect a bottom soon. Conversely, a rapidly falling SMI during an uptrend would tell us that the smart money is selling into rising prices, and a market decline is likely ahead.