

[Trader's Narrative](#)

Freshly squeezed market commentary & analysis

- [Blog](#)
- [Best Of](#)
- [FREE Stuff](#)
- [T-Shirts](#)
- [About](#)
- [Contact](#)

« [Who Is 'Margin' And Why Does He Keep Calling Me?](#)
[Reasons Why This Is An Intermediate Bottom](#) »

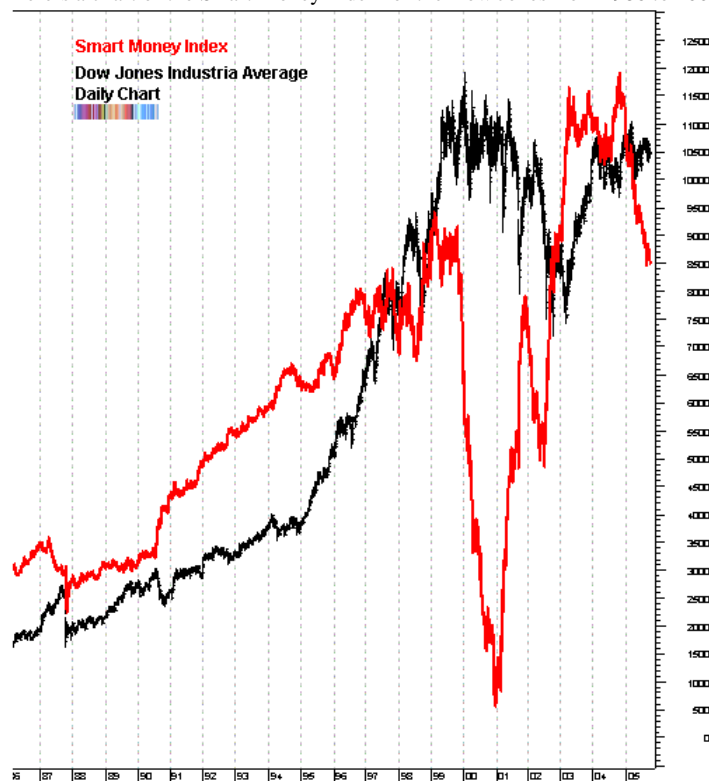
[Smart Money Index: Accumulation During Decline](#)

Published March 11th, 2008 in [Technical Analysis](#) Tags: [accumulation](#), [distribution](#), [don hays](#), [Dow Jones](#), [inflection point](#), [Jason Goepfert](#), [Last Hour Indicator](#), [MarketTells](#), [market crash](#), [market participants](#), [opening hour](#), [rainsford yang](#), [sentimentrader](#), [smart money index](#), [technical analyst](#).

The “Smart Money Index” was created and popularized by technical analyst Don Hays. It is also sometimes known as the “Last Hour Indicator” because it compares the first hour of trading in a day to the last.

The theory behind such a comparison is that the market participants vary in these two time periods. Since the retail crowd usually reacts to prices after the day's close, their trades are processed during the first hour of the next day. And since the professional traders watch the whole day unfold, they are the ones that take, or pare, positions overnight, depending on the risk exposure they desire.

Here's a chart of the Smart Money Index for the Dow Jones from 1986 to 2005:



So by comparing what these two disparate groups are doing, we can attempt to gain some insight into where the market may be headed. For example, if over a period of time the amateurs are buying while the professionals are selling, this indicator will fall showing that distribution is taking place. Which is what we saw well before the infamous 1987 market crash - as you can see on the above chart.

But what gives this indicator its power, is also its weakness: it can lead the market well in advance... from months to almost a year. So it makes it hard to actually time an inflection point. All we know is that one is coming.

So what is it saying now?

It is difficult to decipher this indicator because it doesn't have absolute levels. But at the same time, during this most recent decline, according to the SMI, while prices have been falling, there has been an accumulation going on behind the scene.

That is to say, while the market has been declining, it has generally opened poorly (gap down or negative during the first hour) to close strongly.

MarketTells by Rainsford Yang

The SMI chart for the Dow Jones comes from MarketTells analytic service. I've heard very good things about them so I'm going to check them out and write a review for my readers. There are so many undeserving market services out there than when I discover a gem, I am happy to share it to help out others.

I subscribe to other similar services, like [SentimenTrader.com](#) which also covers the SMI index. I didn't want to include a recent chart of the SMI showing its rapid rise because it would be unfair to Jason Goepfert to give away his fantastic work for free.

You can always take a free, no obligation, 14 day trial of *SentimenTrader* to see for yourself. Full disclosure: I am not an affiliate with either site.

 [accumulation](#), [distribution](#), [don hays](#), [Dow Jones](#), [inflection point](#), [Jason Goepfert](#), [Last Hour Indicator](#), [MarketTells](#), [market crash](#), [market participants](#), [opening hour](#), [rainsford yang](#), [sentimentrader](#), [smart money index](#), [technical analyst](#)

Enjoyed this? Don't miss the next one, [grab the feed](#) or

subscribe through email:

[8 Responses to "Smart Money Index: Accumulation During Decline"](#)

[Feed for this Entry](#) [Trackback Address](#)

1. [1 The ghost of xmas past](#) [Mar 12th, 2008 at 7:38 am](#)

So, did we get a 90-90 up day yesterday? Are we off and racing? I noticed it opened up, way up, and finished up - so the amateurs and the pros are on the same page now or at least yesterday...

2. [2 Bourne](#) [Mar 12th, 2008 at 7:58 am](#)

Seemingly so. Check \$NYUPV/\$NYTV in Stockcharts. Last 2 instances were in august 07. I expect the most serious attempt of a bouncing since august, but also more disappointing or weaker (and/or shorter) than most bulls could wish. Check out the equity put call ratio evolution for optimism figures.

3. [3 Bill K](#) [Mar 12th, 2008 at 10:29 am](#)

Bad news for Bulls. This is the 3rd time in recent history that the Fed has come in right at the point where we are going to break down to new lows and tried to save the market. For those who only look at charts and don't consider any other information, this may seem great, the double bottom theory looks like it had a great start yesterday by just looking at the chart. But in my opinion these attempted technical saves by the fed do more harm then good. What he is doing may or may not help the economy/market short or even long term, that remains to be seen. But I beleive we still have to go through the panic and pain necessary to put in a real bottom, not a fed induced fake double bottom. Having said that, I feel this dead fed (not cat) bounce will roll over quickly and we will go back to the course we were on of putting in a new lower bottom.

4. [4 Dan](#) [Mar 12th, 2008 at 4:55 pm](#)

I think in the next 2 years the stock market will crash and a depression will hit hard and the dollar will be below 23 cents.

5. [5 The ghost of xmas past](#) [Mar 13th, 2008 at 4:10 am](#)

Bah! stockcharts \$NYUPV/\$NYTV says 89.8... close but no cigar. Is this a pattern failure? back to the lows? cumulative breadth looks terrible.

6. [6 Bourne](#) [Mar 13th, 2008 at 7:34 am](#)

?? My \$NYUPV/\$NYTV chart says from 0,11 to 0,90. Some pullback in 1-3 days would be normal. New lows in similar short span, despite the rest of indicators pointed by Babak, could would be disastrous. I think it only could be driven by a black swan event as a cascade of margin calls-defaults.

7. [7 The ghost of xmas past](#) [Mar 13th, 2008 at 11:43 am](#)

check the label it's 89.8 on stockcharts

...plus I could have typed that better to begin with.

Damn foreign keyboards.

"I think it only could be driven by a black swan event as a cascade of margin calls-defaults."

cough Carlyle *cough*

8. [8 Bourne](#) [Mar 13th, 2008 at 12:28 pm](#)

Ha, ha. Cough, cough, really 😊))

Well, I try to understand what the path upwards would be, and the downwards one, also.

For me, breaking down all the technical suggestions of a mid or short term bottom would require a really big black swan. I mean, a chain reaction from Carlyle to X to Y to Ztearnz to Lehman... that is, a good old 87 crash style.

No big black swan like this so far. Not impossible, but...

As for a bullish bouncing, I was trying to figure out what the hell could drive it, given the widely known ugly circumstances.

One possible answer, I have found via Alea blog: "Fed kills Carlyle".

What if Fed movement has as a consequence that medium size vertebrates like Carlyle are chopped into filet mignon in order to feed the ravine of the big predators? That could make sense.

In any case, is the only good bullish bouncing hypothesis I have so far. Even if it is right, I don't mean that everything is quite rosy now (as S&P has suggested just a moment ago). Just a possible fundamental explanation for an eventual counter-intuitive counter-trend rally.

Leave a Reply

Name (required)

Mail (will not be published) (required)

Website

Notify me of followup comments via e-mail

Search

search blog archives



Recent Comments

- [Point and figure trader](#) : Looking forward to that interest rate info! Any thoughts on that? My point and figure...
- [GreenAB](#) : <http://www.reuters.com/article/marketsNews/idAFN0148789420091201?rpc=44> "...As of today, we are a fully unhedged gold producer," Barrick Chief Executive Aaron Regent...
- [Babak](#) : glad to hear it :) let me know what you think of them...
- [Paul](#) : Thank you as always Babak. I found them...
- [Babak](#) : Paul, it is there, I just saw it. Once in the right folder, lick on...
- [Paul](#) : Hi Babak, could not find this article- "the Trading Resource Section (look for it in..."
- [Babak](#) : Jay, even looking at it from a fundamental supply demand lens, gold isn't that attractive....

4073 readers
BY FEEDBURNER



Or subscribe through email:

Recent Posts

- [If Inflation Is Mispriced, So Is Everything Else](#)
- [Looking Ahead To December's Seasonality Pattern](#)
- [Will Dubai's Pseudo-Default Mark The Top?](#)
- [Gold Goes Parabolic Again & Again & Again](#)

- [Weekend Reading: Dubai Or Do-Buy?](#)
- [Sentiment Overview: Week Of November 27th, 2009](#)
- [Losing The Generals: Market Leadership Deteriorates II](#)
- [Losing The Generals: Market Leadership Deteriorates](#)
- [Canadian Real Estate In A Bubble \(Again\)](#)
- [Is The Reflation Trade Over?](#)

Categories

- [Canadian Markets](#)
- [Economy](#)
- [European Markets](#)
- [Fixed Income](#)
- [Geopolitical](#)
- [Internet](#)
- [Life](#)
- [Market Internals](#)
- [Misc.](#)
- [Natural Resources](#)
- [REITs](#)
- [Reviews](#)
- [Sentiment](#)
- [Technical Analysis](#)
- [Trading](#)
- [Trading T-Shirts](#)
- [Wordpress](#)

News: Trader's Narrative

- [Popular Items](#)
- [Morgan Stanley fears UK sovereign debt crisis in 2010](#)
1 point [comment](#)
- [Special Delivery](#)
1 point [comment](#)
- [Luck versus Skill in Mutual Fund Performance](#)
1 point [comment](#)
- [Worse Than Enron?](#)
1 point [comment](#)
- [Goldman's Hubris](#)
1 point [comment](#)
- [The Bank Job](#)
1 point [comment](#)
- [Everyone Hates the Greenback](#)
1 point [comment](#)
- [Is it too quiet out there?](#)
1 point [comment](#)
- [SocGen Strategist: US Stocks Will Plunge Below March Lows](#)
1 point [comment](#)
- [Markets Shrug Off Dubai Concerns](#)
1 point [comment](#)

[More...](#)

Powered by 

Disclaimer

The contents of this website are presented for informational purposes only. They should not be viewed as investment advice, nor a solicitation to buy or sell any financial securities. Neither, TradersNarrative.com, its owners, and/or its representatives are registered as securities broker-dealers or investment advisors with any securities regulatory authority, in any jurisdiction.

[Student Credit Card](#)
[futures trading signals](#)
[Car Finance](#)
[Debt](#)

Trader's Narrative is powered by [WordPress](#) and [Capitalism](#)