Extending the Canon: New Titles

The Heretics of Finance: Conversations with Leading Practitioners of Technical Analysis by Andrew W. Lo and Jasmina Hasanhodzic. Bloomberg Press. 2009. 288 pages. $29.95.

REVIEW BY ROBERT K. BECKER

Fundamental analysis and technical analysis have developed independently over the past several decades, for the most part. *The Heretics of Finance,* coauthored by Andrew Lo and Jasmina Hasanhodzic, enables fundamental analysts and portfolio managers to better understand the evolving profession of technical analysis.

Typically, a book like this would be chockfull of graphics depicting support and resistance levels for the markets, but Lo and Hasanhodzic have opted for a different approach. Thirteen technical gurus are interviewed (a Fibonacci selection by coincidence?), to wit: Ralph J. Acampora, Laszlo Birinyi Jr., Walter Deemer, Paul F. Desmond, Gail M. Dudack, Robert J. Farrell, Ian McAvity, John J. Murphy, Robert R. Prechter Jr., Linda Bradford Raschke, Alan R. Shaw, Anthony W. Tabell, and Stan Weinstein. In the book's opening, all thirteen masters relate the origins of their interest in technical analysis, confess their most instructive mistakes, elaborate on the analytic styles they've made their own, explain the separation of signal detection from random noise, and run through their typical workdays. Subsequent chapters are crafted as a roundtable discussion of key aspects of technical analysis—the development of the profession, inescapable emotional challenges, and favorite patterns and indicators.

The divergence of opinions on salient questions is particularly intriguing. For instance, when asked if technical analysis is more effective on its own or in combination with fundamental analysis, Birinyi acknowledges he's been successful in combining both disciplines, while Desmond prefers to operate "entirely on technical" factors. Dudack, on the other hand, suggests that although "technical analysis excels at tops and bottoms," fundamental analysis "works best in the middle of an economic cycle." Farrell, who endorses a combined approach, cautions against using "one as an excuse for the other or as an excuse for the failure of what you're trying to achieve." Readers may be swayed by some arguments more than others, but there's an impressive sense of the dedication and passion these leading practitioners bring to the field.

Lo and Hasanhodzic give a convincing picture of the breadth of technical analysis, with its wide range of market tools and its myriad applications of techniques. Perhaps the public's misunderstanding of the discipline stems in part from time-constrained media broadcasts that distill complex probabilistic investment themes into deterministic sound bites. Technical analysts earn their recognition through public awareness of the prominent correct or incorrect calls they make, over time, on the market's direction, and *The Heretics of Finance* is a valuable reminder of the extent to which technical analysis is really a science of probabilities. Prechter, for example, emphasizes this, noting that the study of history provides a "basis for *probabilistic* expectations."

Of particular value is the authors' treatment of the evolution of technical analysis in the computer age. Technicians now have instant access to thousands of charts that were once drawn painstakingly by hand. But veteran trader Raschke observes that although "computers have definitely speeded things up," the "window of opportunity is not as big as it used to be." Birinyi, for his part, cautions that "we don't realize the potential weakness of data when we're getting it off of a machine." And Weinstein observes that even though the impact of the rapid evolution of information technology is obvious, "charts are still valid for the simple reason that what we're measuring is supply and demand, which is never going to change ... Fear and greed are always the same." Recent history unequivocally underscored Weinstein's point, when General Electric shares experienced a rare but classic "major reversal" pattern on March 4, 2009, as a downtrend abruptly ended with the exchange of an astounding 752.7 million shares. Interestingly, the S&P 500 index turned higher two days later, on March 6.

The Heretics of Finance is a captivating read that's likely to inspire many to continue their explorations of this controversial field. Some may wish to take advantage of the fact that Acampora still approaches his course on technical analysis at the New York Institute of Finance with unbridled enthusiasm. Others may admit that they're long overdue to read Raschke's *Street Smarts: High-Probability Short-Term Trading Strategies* (with Laurence A. Connors, M. Gordon Publishing Group 1996). And—given the lingering turmoil in global capital markets—further investigation of Prechter's evolving socionomic theories would make a timely sequel to Lo and Hasanhodzic's work here.

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