The Coppock Indicator - How to Catch a Bull

Every bull market climbs a wall of worry. As it goes higher, timid investors hold back committing their funds for fear the run will end. They look for a correction that will let them enter with safety. However, when prices begin falling, they fear a new bear market is starting and still hold off. They never do seem to get set, or only do so when it is way too late, often missing years of rising prices and dividends.

Over the four years and nine months since the Australian stock market hit a low in March 2009, most investors seem to have been sitting on cash waiting for the right time to go back into the stock market. Over this period, the market has risen and fallen several times:

So, they continue to sit and to wonder whether the time has come to go back into the market. Maybe it is and maybe it isn’t, none of us can read the future.

What we can say though is that, if you have been sitting in cash over this period, what you have earned in interest may have just kept you ahead of inflation after tax, though that is increasingly difficult in the low interest rate environment. However, that is a very poor result. Grossed up dividends have given a far better return, currently about 6% and the market has risen above any point you purchased since 2009.

To understand what you have been missing, let me introduce you to the Coppock indicator.

The best time for investors to plough their money into the market is at the bottom, after a ***long*** fall, what we commonly call a bear market. There is one indicator that has nearly always been a good signal for the bottom of the market. This is the Coppock indicator.

This indicator was invented by Edwin Coppock, a US investment adviser and the founder of Trendex. He designed the index to do only one thing – indicate the time to buy stocks for long-term accumulation. It is a little cumbersome to calculate, but is doable by hand. It is now built into computer charting packages and can also be easily calculated on a spreadsheet. I have designed an Excel spreadsheet that I update at the end of each month and make it available on the *Data and Other Files* page on the free website. I mark the signals on the spreadsheet. You can download the spreadsheet and keep it up to date yourself if you wish, using data freely available on the internet.

Coppock described the calculation of the indicator and its use at some length in his paper ***Realistic Stock Market Speculation***, which seems to have been last revised about 1967 and has been long out of print. The indicator was designed for the DJIA and is calculated monthly. It has been found to work on almost any stock market index.

Although some books suggest the indicator is calculated from average monthly values of an index, it is clear from Coppock's paper that the closing value is used. The steps in its calculation are as follows:

- Calculate the percentage change between the index value at the end of the current month and its value 14 months earlier.

- Calculate the percentage change between the index value at the end of the current month and its value 11 months earlier.

- Total the two percentages.

- Calculate a 10 month weighted moving average of the total of the two percentages, rounded to the nearest 10 points to avoid signals that are only "noise".

- This is the indicator, which may be plotted on a chart, or interpreted directly from the spreadsheet.

The Coppock indicator will swing between positive and negative values. The signal for long-term investors to begin buying is when the indicator turns up from below the zero line. In other words: when it becomes less negative than it has been.

Here is how the last signal for the Australian stock market (S&P/ASX All Ordinaries index) appears on the spreadsheet (I have concealed most of the columns, so only the last calculation column, which is the Coppock indicator, is visible):

30/06/2011	4,659.787	35	
31/07/2011	4,500.532	32	
31/08/2011	4,369.852	22	
30/09/2011	4,070.090	-6	
31/10/2011	4,360.462	-17	
30/11/2011	4,184.669	-42	
31/12/2011	4,111.038	-68	
31/01/2012	4,325.715	-82	
29/02/2012	4,388.083	-94	
31/03/2012	4,419.971	-101	
30/04/2012	4,467.202	-103	
31/05/2012	4,133.731	-114	
30/06/2012	4,135.460	-119	
31/07/2012	4,289.376	-110	Signal
31/08/2012	4,339.021	-90	
30/09/2012	4,406.339	-72	
31/10/2012	4,535.364	-44	
30/11/2012	4,518.026	-10	
31/12/2012	4,664.589	14	
31/01/2013	4,901.014	48	
28/02/2013	5,120.378	88	
31/03/2013	4,979.868	110	

Coppock suggested that long-term investors should complete their buying before the indicator reaches the zero line. That is, before it turns positive, however, I have found this to be challenging for most people and myself adopt a slightly more leisurely entry.

My plan is set out in my book *Building Wealth in the Stock Market,* which may be [purchased from my website]() for the recommended retail price, postage free to Australian addresses.

An important caveat is that Coppock claimed his indicator was ***only for entering the market***. He used other means to exit. These were not disclosed in his paper and are beyond the scope of this article.

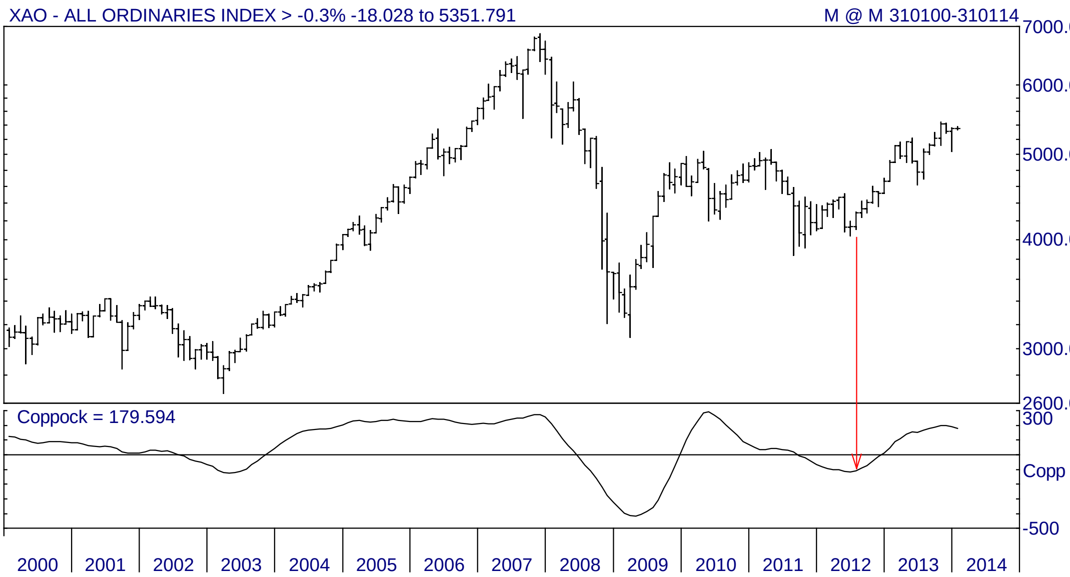
The Coppock indicator does not give very many signals, but when it does give a signal, it is invariably reliable. The spreadsheet on the website has already calculated for you the Coppock signals for the Australian and US markets (Dow Jones Industrial Average and S&P 500) over the last 113 years and for the US Nasdaq Composite, UK FTSE 100, Japanese Nikkei 225 and Shanghai All Ordinaries as far back as I have data (1970 except for Shanghai).

The easiest way to see the Coppock indicator signals, of course, is to use charting software to calculate and plot the Coppock indicator. I publish the updated charts for all of the above markets each week in my *Weekly Market Charts and Analysis* on the members section of the website.

The Coppock indicator is usually plotted as a line in a sub-chart below a chart of the index for which it has been calculated.

The Coppock indicator line will fluctuate slowly above and below the zero line.

The signal is given when the Coppock line falls below the zero line and then turns up. This chart of the ASX All Ordinaries index Coppock shows the last signal given at the end of July 2012 (shown on the spreadsheet earlier):



The red arrow shows when the Coppock indicator ticked up from below the zero line in July 2012.

The way I use the Coppock indicator is something like an alarm clock. If I get a signal and I am not already moving into the stock market, it is a wake-up call to start work on stock selection and building up my portfolio.

To read more of my work

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Books

I have written two books, both of which are available for purchase from the ***Buy Books*** menu:

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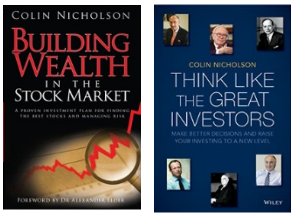
THINK LIKE THE GREAT INVESTORS – Make better decisions and raise your investing to a new level



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I am one of the very few investors who publishes their investment results each year, which I have done since 2000 – see the Investment Returns page on the About Colin menu on the website