2010

Game Plan

A reconciliation and future observation

"The Investment Rate is the most accurate leading Stock Market and Economic Indicator Ever Developed." This presentation offers a road map for probable investment decisions in the coming days, weeks and months.

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HOW TO TRADE THE MARKET

My Market Road Map for the coming months has everything to do with my late April bearish observation and short selections. If you have not already read the rationale for the transition we made, from long to aggressively short, please read this carefully:

http://www.stocktradersdaily.com/may.htm

The material included in the link above references a material shift in trend, and a conversion. When these happen, they are usually followed by prolonged declines. The following concession helps to explain the recent action taken in the Position trading Strategy, and provides actionable strategy for the days, weeks, and months that follow.

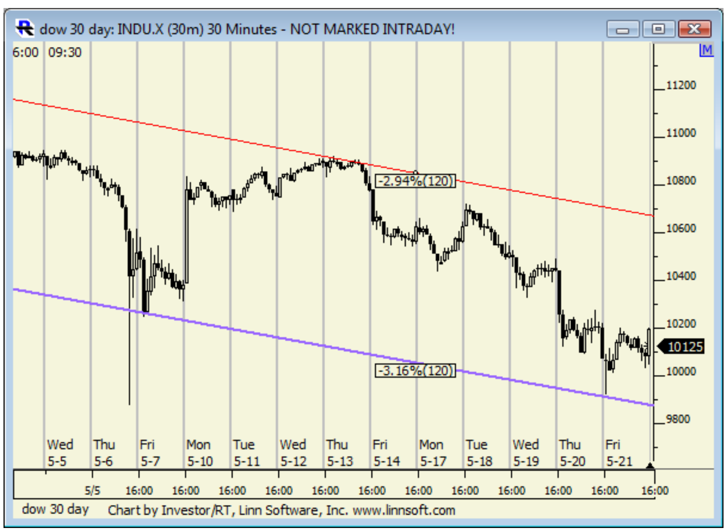
The chart on the next page is a graphical representation of the occurrences between April 26 and now. These bullet points further the explanation.

1. We sold all longs and converted to the short side of the Market on April 27.
2. The Market fell by 1300 points afterwards, and we covered some of the shorts.
3. The Market successfully tested longer-term neutral support.
4. The Bounce back that occurred could have had follow through.
5. The declines were being discounted as error.
6. Longer-term support had been tested.
7. Covering made sense to protect profits.
8. It turned out to be a head fake.

In hindsight, my decisions to buy TBT and UCO each were ill advised. Sometimes, the Market will surprise you, sometimes the trends will transition so quickly that they offer mixed signals, and sometimes we all will be wrong. With all of the resolve in my being, I need everyone to admit to himself or herself that they will be wrong on occasion. I will be wrong sometimes. We all will be wrong. Making near perfect trades like the one in the Strategic Plan on Friday, May 21, 2010 is easy. Being right is easy. Being wrong is not. It is what we do when we are wrong that defines us.

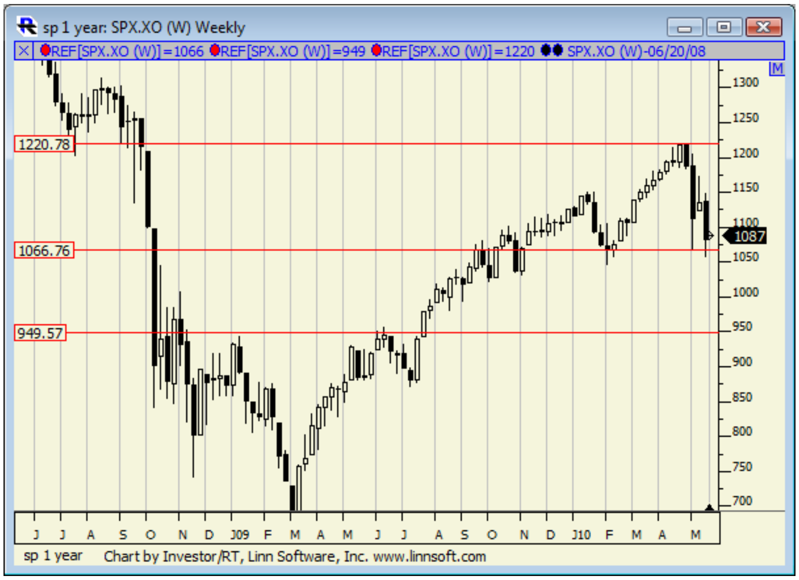
Like all 12-step programs we hear about, the first step is admitting that you are wrong. After that, we need a game plan. Now that we recognize the head fake, we can reconfigure our strategy to take advantage of what is likely to come. With reference to the longer-term conversion signals in the link at the top of this page, they have not changed. The bearish read from that conversion still exists. The subsequent knee jerk was a surprise, and could have resulted in more, but in the end, it was just a knee jerk. Now, trends that are more obvious are developing.

Review these charts:



The first chart is the midterm chart of the S&P 500. The second is the midterm chart of the Dow. As it is normally, these charts are very similar. Notice the leg of the candle on Friday. The Markets tested midterm down channel support lines. This perfect test and subsequent reversal was important. In addition, review the first chart at the top of this report and you will see that longer-term support was also tested in the Dow.

Here is a look at the longer-term chart of the S&P:



Normally, when a reversal confirmation occurs, the Market will break neutral support eventually, and it will continue aggressively lower from there. Thus far, a break has not occurred.

Instead, the Market has tested support, and the test coincides with both midterm and long-term support. This gives it a higher probability of holding for one more cycle, and it suggests that a bounce back to midterm down channel resistance lines is likely to occur. Everything, in this case, rests on support.

For now, support levels have held, and a bounce back has already begun. If it continues, we are likely to see 10700 in the Dow. At that point, given the read from the midterm charts and the reversal confirmation, we should expect the bounce back to stall. When the Market stalls, we will have our opportunity.

First, I will be interested in selling TBT, but this is not guaranteed. I will evaluate the perception of the US Dollar at the time, and depending on my observations, we may hold. Either way, we will add short positions to the Position Trades when the signals come. However, this plan is subjective. The Market must offer the signals first, or we will not take action.

A second possibility exists. If neutral longer-term support breaks lower in the Dow (9904), short signals will surface too. Given the recent bounce back, 10700 may be more likely than a break of neutral longer-term support right now, but a break is a possibility nonetheless. If neutral longer-term support breaks, shorts may also be called.

In any regard, my overall bias is short. The reversal confirmation seems to be solidified, and after a reasonable bounce back, another shorting opportunity is likely. Position Trades will not be called for the bounce back. They are designed for longer-term durations, so we will look for shorts at the top. The Strategic Plan takes advantage of the more volatile oscillations.

More comfortably, I will be patient with the Position Trades, look for the signals, and take action when they surface. Until then, I have recognized the head fake, I have admitted that the transition was a mistake, and I have laid the groundwork for an action plan in the coming days or weeks.

I will leave you with an additional point of fact. In July and August, the banks will need to start asking for permission to charge an overdraft fee. This could cost the banks $40 - $50 Billion.

Lastly, we may not have seen a significant overshoot in the Parity curve this time, but the Market has already begun the third major down period in US History, it has transition from an upward sloping curve to a downward sloping one, and those declines may already have begun again. If they have, the Market may not be capable of such a swift recovery this time around.

My warning is, the risk of a Greater Depression is real!

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