Books & Trades # 200

January 16, 2013

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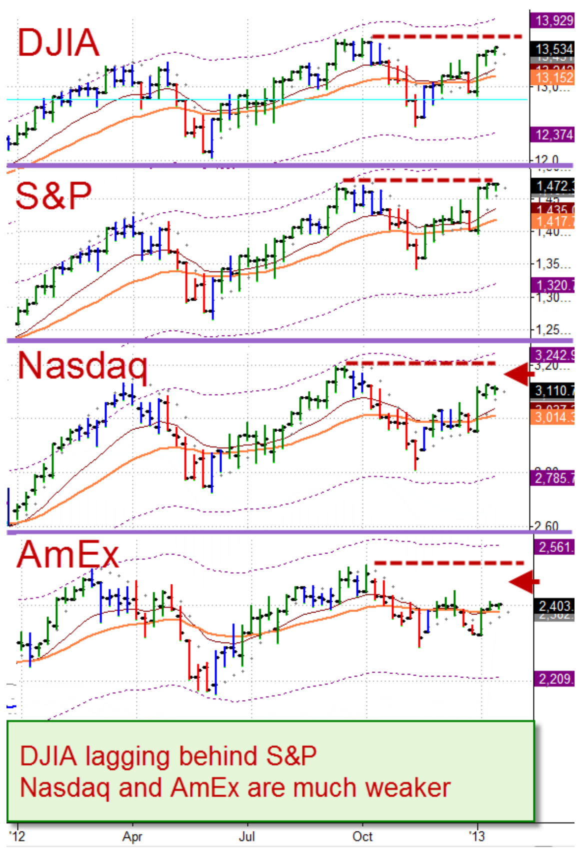
Market update … Education … New Year Specials

Dear Trader,

I suspect it was a case of insider trading reaching into the White House when on December 31, during the fiscal cliff negotiations, at about 12:45 pm the US stock market exploded in a rally. The rally began hours before any official announcement; it continued when the market reopened on January 2. Since then the market has become more and more sluggish. Without inside information (for which I think people should go to jail), let's turn to the charts, analyze the market and plan for the future…



It pays to look at the market from several angles. We always use multiple timeframes for trading decisions (that's the Triple Screen system), but let's do something different today. Let's compare the latest action on the weekly charts of several key indicators.

The S&P rallied in January just one point below its September top – and today it exceed it.
The Dow is only slightly behind, 30 points below its October peak
The broadly based Nasdaq is much weaker. That's a negative sign – it shows that the rally is not broadly based.
The AmEx index is troublesome. It often acts as a leading indicator, and here we see just how weak it is – first, it fell near its November low and now it cannot rise about its December high.

Click on any chart to enlarge

The New High – New Low Index is probably the best leading indicator of the stock market. The weekly chart of NH-NL is positive, but starting to flatten near the level of its September top. All three daily plots of NHNL (yearly, quarterly, and monthly) are positive – and all three are starting to sag. Is this a pause during a rally or the beginning of a reversal?

Date	Bullish	Bearish	Bear ratio
10/6/2012	4	79	20
10/13/2012	5	69	14
10/20/2012	4	64	16
10/27/2012	9	57	6
11/3/2012	12	48	4
11/10/2012	16	38	2
11/17/2012	20	33	2
11/24/2012	22	36	2
12/1/2012	21	38	2
12/8/2012	17	48	3
12/15/2012	13	57	4
12/22/2012	9	75	8
12/29/2012	10	65	7
1/5/2013	7	97	14
1/12/2013	4	114	29

This table reflects my research in progress: applying a semi-automatic MACD S Divergence scan to 500 component stocks of the S&P500. Last week it found 4 potential or actual bullish divergences – and 114 potential and actual bearish divergences. I only have data going back to October, when I started tracking these numbers. Back then, the 20:1 bear to bull ratio nailed the top. Now it is 29:1. While the weekly trend is still rising, these are every ominous numbers for the bulls. I'm very skeptical about the health of this uptrend and prepared to turn short as soon as the weekly Impulse loses its green color

The monthly formt of these letters is not suitable for precision timing, but I hope this general overview will help you orient yourself. If you wish to view our daily analyses, please join us at www.spiketrade.com

Best wishes for success!

Dr. Elder and team at elder.com