

Books & Trades # 203

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Batten down for volatility ... Classes ... New books

Dear Trader,

Volatility has been surging in the stock markets around the world. Here, in the US, the VIX, commonly called the Fear Index, jumped up 50% in the last week, from below 12 to above 18. As an old saying goes, "these are just the flowers; the berries are yet to come." In 2012 VIX rallied above 27 and in 2011 above 48. Just think what mayhem we must see in the market for the Fear Index to revisit those levels. The long period of a steady rise and low volatility is at an end; high volatility is returning.

Let's take a look at gold as an example of how suddenly a storm can hit a seemingly peaceful market. What lessons from gold can we apply to the stock market?



Click [here](#) to enlarge the chart (only when you're online)

The pattern of gold's multi-year bull market has consisted of sharp rallies followed by lengthy rest periods. You can see the latest rally, above \$1,900/oz, in 2011. The rest period that followed included four unsuccessful attempts to break support near 1,550. Since the governments around the world continue to work overtime printing paper money, I expected the bull market to continue.

The daily chart shows where I bought gold futures at 1551, following one of my favorite signals on the daily chart – a false downside breakout with a bullish divergence. That trade was almost immediately successful, but two days later gold seemed to stall in its value zone and I took profits at 1572.

I felt a tinge of regret when gold rallied to 1590, but then, a few days later, thought my monitor was showing a wrong quote – gold was down \$100 overnight. No, it wasn't mistake, and the next day it was down another \$150. It felt as a bullet whistled right by my head.

And why was gold down? Cyprus? European problems? Nobody knew for sure – it just collapsed.

This is a sign that sudden massive volatility is returning to the markets. It may well hit stocks as well as gold, copper, or crude. Now more than ever you need to protect all your positions with hard stops. As for opening new positions – this is no time to be a hero. Preservation of capital (and of peace of mind) are at the very top of the agenda. You want to have your powder dry for great buying opportunities that will present themselves at the bottom of a panic.

Traders' education

Please visit [our website](#) for more information on these events

April 25, Webinar –“Current markets with Dr Elder.” Enter Dr. Elder's trading room from your own computer and follow his analyses of stocks and futures, including those requested by you.

May 5, Class in New York – “Face to face with SpikeTrade.” Dr. Elder and Kerry Lovvorn show how they analyze markets, show their trades, and answer questions. \$49 includes a 2-week Trial of SpikeTrade.

May 6 & 13, Webinar –“Current markets with Dr Elder.” Enter Dr. Elder's trading room from your own computer and watch him review stocks and futures, including your picks if you wish.

May 18-19, Taipei, Taiwan. Intensive Workshop details are posted on our website.



June 26, 2013 – a full-day intensive class in **Sydney** “The essential skills of a pro trader”

Best wishes for success!
Dr. Elder and team at elder.com