

Books & Trades # 206

August 14, 2013

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The Shadows of AAPL '12 ... Classes ... Specials

Dear Trader,

I consider the New High – New Low index the best leading indicator of the stock market. It shows a remarkable deterioration of bullish leadership. With the S&P only 1% below its lifetime high last weekend, the number of monthly New Highs exceeded New Lows by just 25 stocks. That number was 196 for the year-long window, a pretty feeble number. The soldiers are trying to attack uphill, while the officers are shifting to the rear.



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

The day when the New Lows exceed New Highs in the year-long window will deliver a serious sell signal. I'm anticipating a bit, but it looks to me like the market is moving in that direction.



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

Turning to the chart of Industry Groups and Subgroups (unique to SpikeTrade), we see an ongoing deterioration of the bullish Camp. While the S&P continues to hang slightly above its breakout level (marked with an orange dashed line), we see a clear bearish divergence of the Industry Group and Subgroup line (area A).

Moving down the chart (area B), bullish green groups are shrinking, while bearish red groups are expanding. The number of blue groups has reached 111 last week. The 120 level would confirm a major correction.



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

A rally outside of 3-ATR tends to be unsustainable. Looking at the monthly chart of the S&P in the upper right corner, we see that it rallied briefly above the 3-ATR channel in May and is now stalling below that channel line. The last time we saw this pattern was in October 2007 – the last month before the 2007-2009 bear market.

The weekly chart on the left shows a perfect bearish divergence. You see top X (just above the 3-ATR channel), then 'breaking the back of the bull' in area Y, followed by a rally to Z. The S&P rallied to a new high but couldn't rise above its 3-ATR channel. All indicators have traced lower peaks and all have turned down. The divergence pattern is now complete, with an extra weight from the 3-ATR pattern

The chart in the bottom right window traces the percentage of stocks above their 50-day MA. It is a slow-moving indicator that I consider essential for my weekend homework. A week ago it went flat, and then turned down last week, calling for a bearish move.

With all these factors, I have to turn bearish on this market. The only question for me remains: just how bearish? Is the market going to drop to the lower channel line on the weekly chart (currently at 1,521) or will it go lower? No rush to decide now.

This picture reminds me of 2012 when my partner in SpikeTrade Kerry Lovvorn and I made multiple posts about our bearishness on AAPL, which at the time was the highest capitalized stock in the world and everybody's darling. We posted here and also at marketwatch.com for whom we were writing a weekly column at that time. We showed why we expected AAPL to slide to \$500 and then to \$400 – which drew so much abuse from marketwatch readers that we stopped writing for that site. You have to protect people you care about, and if you don't care then farewell.

On a personal note, I first shorted AAPL on April 10, 2012, the day it made its first top at \$644 (I showed my brokerage confirmation at the Spike Reunion). Last Tuesday, the day the S&P reached its lifetime peak and retreated from it, I began shorting e-minis. Let me hope the history repeats.

And what if I'm wrong? What if I misread the market and it'll rally to new highs after the pause? I can still hear the voice of my late friend Lou Taylor who would respond to every idea with a sarcastic "What's wrong with this picture?" I hope I've learned humility, Lou, and all my positions are protected with stops. My risk is much lower than the expected gain.

And that's my best advice to you: stops and humility, humility and stops.

Best wishes from sunny Vermont,

PS this text and charts first appeared in SpikeTrade.com on Sunday, August 11. Consider taking a Trial membership.

Traders' Education

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

Aug 21 at 6pm ET - 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. (followed by webinars September 16 & 23, October 16&23)

September 29-30 Live Trading Workshop – a SpikeTrade event in Alabama. Open to only 12 traders, sold out.

Best wishes for successful trading!

Dr. Elder and Team at elder.com