

Books & Trades #209

November 13, 2013

Market: the Second Bell ... New Video ... Class in Vegas

Dear Trader,

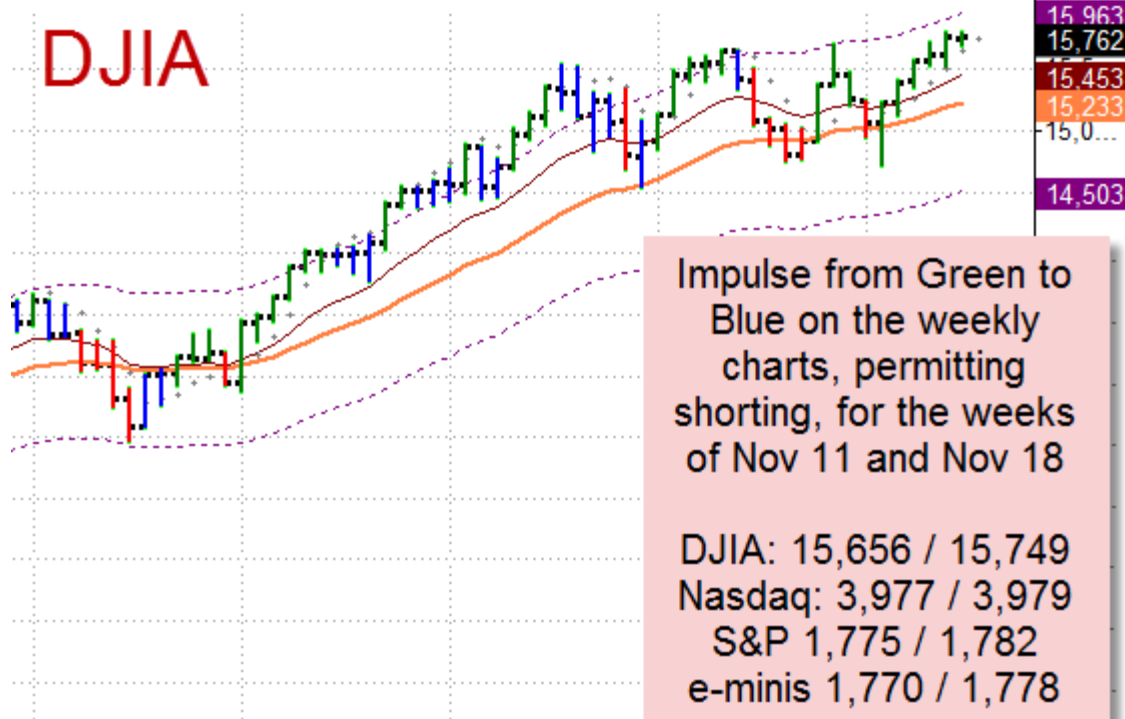
A comment on the timeframe of these letters: I send them once a month, which works for expressing general ideas about the market, but not for precision timing. The site where I post up-to-date comments is SpikeTrade.com

Last month I shared with you my charts of the New High – New Low Index, which I consider the best leading indicator of the stock market. Since that time, the NHNL gave us two messages. First, its weekly chart rallied above the 2,500 level (2,525 on a closing basis). In the past, whenever the weekly NHNL crossed above +2,500, the bull had at least three more months of life left in it (and sometimes a lot more). That signal seems to ensure bull's survival for the rest of the current year.

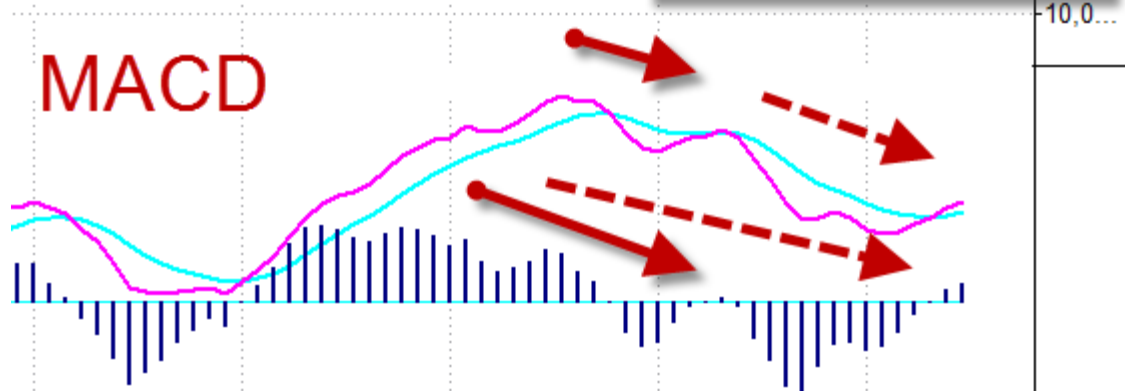
On the other hand, both weekly and daily NHNL are tracing ever deeper divergences, indicating a poor quality of bullish leadership. The bull may survive this year, but along the way it may well suffer through a nasty spill.

Another troublesome sign comes from the relative strength of various market indexes. The 2013 rally was led by the Nasdaq. Whenever this index outperforms the general market, it signals that the broad uptrend is likely to continue, but when it underperforms a downturn is likely to persist. The current rally had a remarkable change of leadership in recent weeks. The Dow has become its leader, while the Nasdaq underperforms. This is typical of market tops, where buying becomes narrowly concentrated in the Dow stocks, considered more conservative and safer.

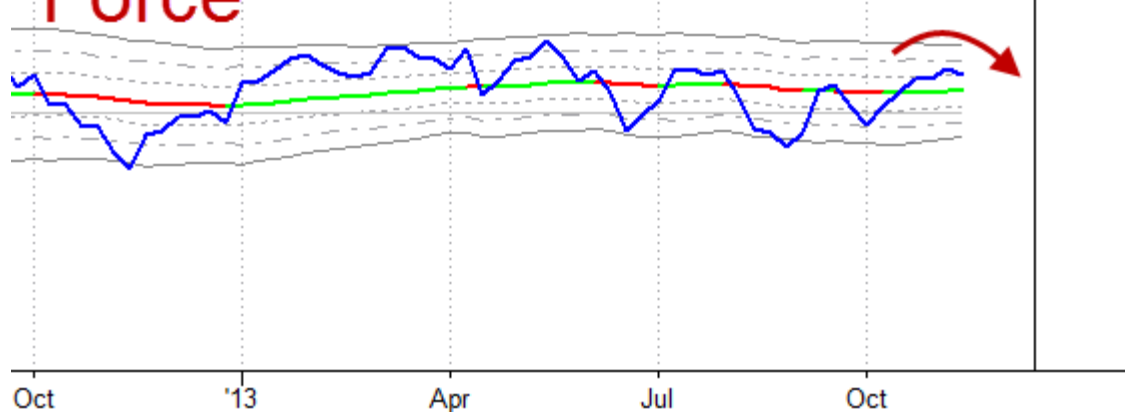
DJIA



MACD



Force



Oct '13 Apr Jul Oct

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

I always watch the Impulse system (described in *Come into My Trading Room*) to confirm trend reversals. Here you can see that the weekly Impulse is still a bullish green for the DJIA. It has already turned Blue for the Nasdaq and the S&P, completing triple bearish divergences. The text in the chart above lists levels for the current week and the next week below which the weekly Impulse loses its green color, permitting shorting.

In October I headlined my post “The first bell rings.” Now we have the second bell (except for Dow), ringing in the bear. It may become quite a rush for the exits on the third bell...

PS: For daily updates, please take a Trial membership in SpikeTrade.com

Traders' Education

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

Best wishes for successful trading from all of us at elder.com

Dr. Alexander Elder & staff