

Books & Trades #210 December 4, 2013

Market: On Thin Ice ... New: How to Find Divergences ... Classes in New York and Holland

Dear Trader,

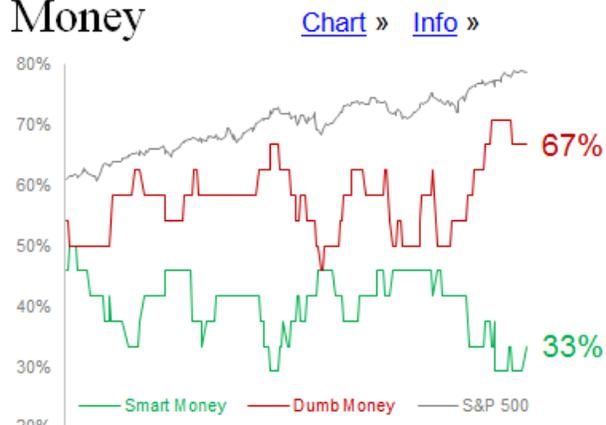
We send out these letters out once a month, which works for sharing general ideas. For precision timing and stock ideas take a Trial of SpikeTrade.com

The level of optimism in the stock market has risen to ridiculous heights. I haven't seen anything like it since the 2007 stock market top. Let's glance at some examples...

The screenshot shows the MarketWatch website interface. On the left, it displays the date 'November 27, 2013' and time '9:20 AM EST'. The main content area features a 'Latest News' section with several headlines, including '9:10a Gold futures rise on dollar weakness, China demand' and '8:52a Stock futures up after encouraging data'. To the right, there is a profile for 'MICHAEL SINCERE' with a photo and a headline: 'Dow 20,000 here we come'. Below the headline is a commentary: 'We'll need more irrational behavior before we are in a real bubble.' and a sub-headline: 'Don't fight the Fed, fear the Fed'.

Just look at this headline last week on one of the most popular websites in the country. I know Mike Sincere, and he's a nice guy; the headline was probably dreamt up by his editor, but it's a sign of the general tenor of the times. The party is becoming unruly, and the police lights are flashing in the distance.

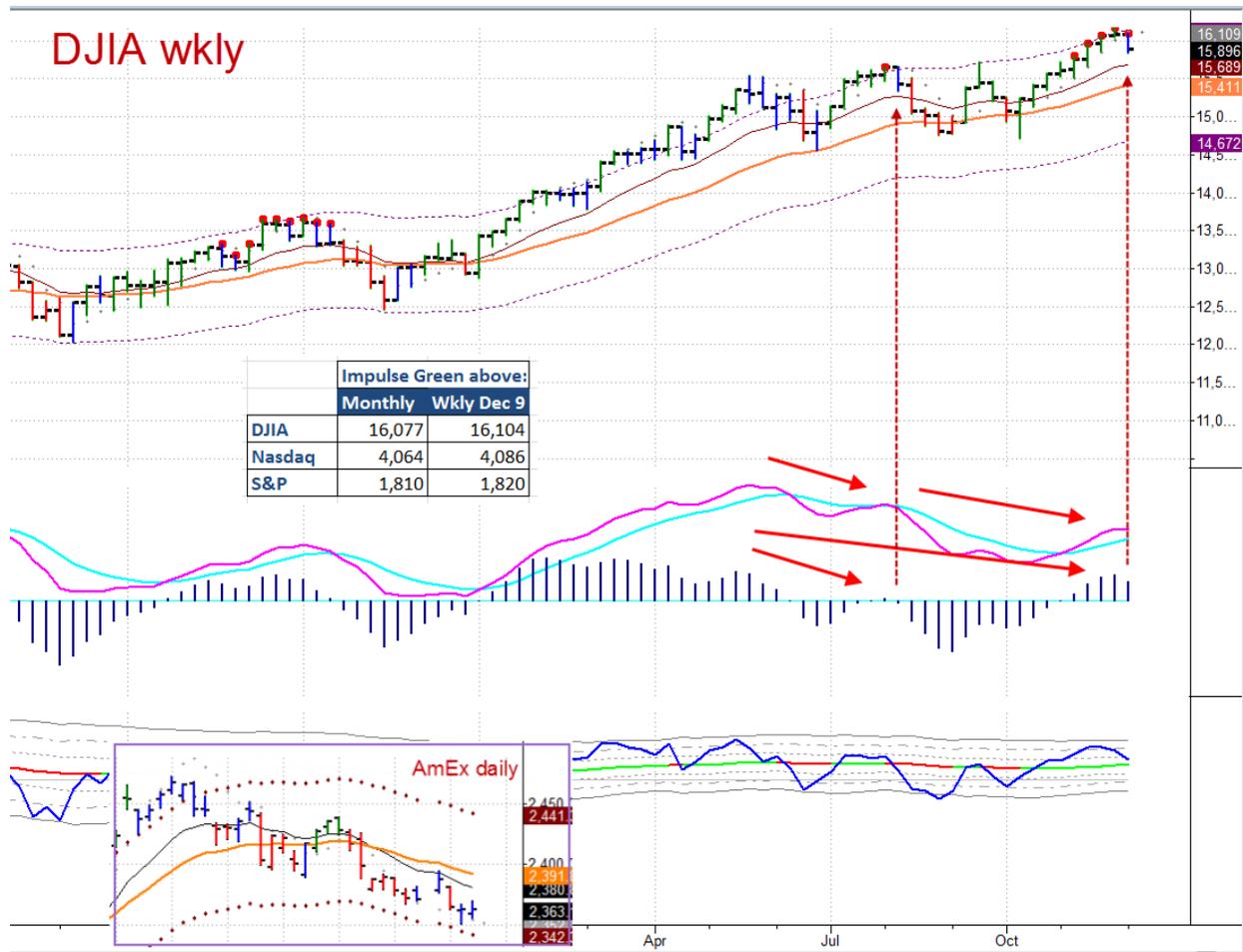
Smart/Dumb Money



This chart comes from Jason Goepfert, a very clever student of mass market psychology. The spread between smart and dumb money is near historic extremes. On whose side would you

rather be?" Jason writes: "Investment managers [not the smart money as a group] have never been exposed to the stock market, this aggressively ...the weekly reading of the Options Speculation Index is tied for the 2nd highest level in 13 years ... the Equity Hedging Index shows that the amount of protection being demanded from investors was among the lowest levels in four years."

We could fill pages with more examples of bubble mentality, but let's take a look at our charts to see what technical market indicators are saying.



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

This weekly chart of the Dow shows a nasty bearish divergence of MACD-Histogram as well as MACD Lines from the bullish trend. When both divergences occur at the same time, they greatly reinforce each other's message.

The Impulse system is one of the most sensitive and objective tools for tracking trends and reversals. It remained green (bullish) at the end of November on the monthly charts of the Dow, the Nasdaq and the S&P, as well as on the weekly charts of the Dow and the Nasdaq (it turned blue for the weekly S&P). This inset shows how high the monthly charts have to rally in

December to maintain their bullish green levels – obviously all are well below those levels. It also shows how high the weekly charts must rally the week of December 9 to maintain their green levels. How likely is this market to get there? Not very...

The other inset shows the daily chart of the American Exchange index. Trends of this pure index, untainted by any trading tools, often precede major indexes, such as the Dow.

Channels centered around exponential moving averages provide important price targets. This chart of the Dow clearly indicates its initial downside target.

What should a trader do now? At the very absolute minimum, all profits on long positions must be protected with hard stops. If this market hits a nasty air pocket, you don't want to be sitting, waiting, and hoping for a rally to salvage losing trades.

Traders' Education

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

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ONLINE: December 11 & 18 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. Ask him to review your picks if you wish.

NEW YORK: February 17, 2014, 1 - 5 pm. “5 Key Tools of a Pro Trader” – an intensive class at the Traders' Expo. Join Dr Elder for a sharply focused overview the essential trading tools and techniques. **Exclusive** for Elder.com clients – a **private dinner** with Dr Elder in the evening after the class (**register** for the class with The Traders' Expo, then email us for a dinner invitation).

HOLLAND: March 9, 2014 10 - 17 –“The Essential Skills of a Pro Trader” – a day-long intensive class in Breukelen (near Amsterdam's Schiphol Airport) – psychology, tactics, risk management, focus on the US and European markets.

NEW YORK: May 9 - 12, 2014 “SpikeTrade Reunion”– no Traders' Camp is planned for 2014, but you're welcome to join this annual event. Deepest discounts offered in December.

*Best wishes for successful trading from all of us at elder.com
Dr. Alexander Elder & staff*