

Books & Trades #214 April 16, 2014

The Strongest Signal in Technical Analysis ... Meeting in Seattle ... Specials

Dear Trader,

The theme of the recent SpikeTrade Reunion was “What Is Your A-Trade?” Have you ever asked yourself this question?

What does a market, a stock, a commodity such as gold, or a currency such as Dollar/Yen has to do in order for you to say – “This is it! This is the exact pattern I trust – an A-Trade.”

My partner in SpikeTrade Kerry Lovvorn says to his students: if you don't know what's your A-Trade, you shouldn't be trading. I know exactly what my A-Trade looks like, and the challenge I face is different – patiently waiting for a true A-pattern emerge and not settle for any B-Trades. Last week Kerry and I, with a group of SpikeTrade members spent several days sharing and discussing our A-Trade patterns.



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

Right after SpikeTrade Reunion the US stock market has completed a pattern that I like and trust. I call it “a divergence with a false breakout.”

In area A MACD-Histogram rallied to a new peak, reflecting high power of the bulls. In area B this indicator dropped below its zero line – I call it “breaking the back of the bull.” In area C it rallied again but barely reached its zero line, even though the S&P rallied to a new high. That bearish divergence was accompanied by a false upside breakout, marked “fb” – prices rallied above their previous peak but could not stay up and fell below their breakout line. To me, a false breakout, coupled with a divergence is the strongest signal in technical analysis.

That signal led to a sharp break in April. Latecomers and dip buyers stepped in and led the index to a recovery. All the while MACD-Histogram reflected their pathetic lack of power – note that the latest top C2 of MACD-Histogram was formed well below the zero line. Still, the index managed to touch a new high before collapsing, leaving behind a false upside breakout coupled with a bearish divergence – an extremely bearish signal.

There is more to trading than a single pattern. An “A pattern” provides a good start when looking for high probability trades. Then we add multiple timeframe review, the New High – New Low Index, trade planning, sizing and risk management.

This pattern works in all markets and timeframes. In the example shown below you can see a weekly chart of Sydney’s All Ordinaries index –similar patterns can be found around the globe.



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

For precision timing, stock trading ideas, and much more take a Trial membership of www.SpikeTrade.com

Traders' Education

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

ONLINE: May 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. Send your picks to him and ask him to review them. **An ongoing bonus for all webinar participants – receive an email each weekend giving you the results of bullish and bearish scans of the S&P500.**

SEATTLE: August 8 - 9, Dr. Elder speaks at Chartcon, a StockCharts.com annual event.

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