

Books & Trades #240

March 6, 2017

US ... Mexico ... Classes ... Special

Dear Trader,

Sorry about skipping February. In the January I wrote: "... long-term we're in a bull market, with higher prices on the horizon. Intermediate term: the market is overbought and stalling, a pullback is likely."

We've got no meaningful pullbacks – any declines we saw in February lasted only a day or two. Why? I think that was because of politics.



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

President Trump evokes strong feelings in many people. Some love him, others hate him, but one point on which there is no argument is that we've got the most business-friendly President in a generation. His programs promise both corporate and personal tax cuts, massive new construction projects to boost the US economy, greater employment – and the market keeps celebrating.

Even so, a sober trader needs to recognize that the market has become extremely overbought. Last week both the weekly and the daily charts have shot up way above their 3-ATR channels.

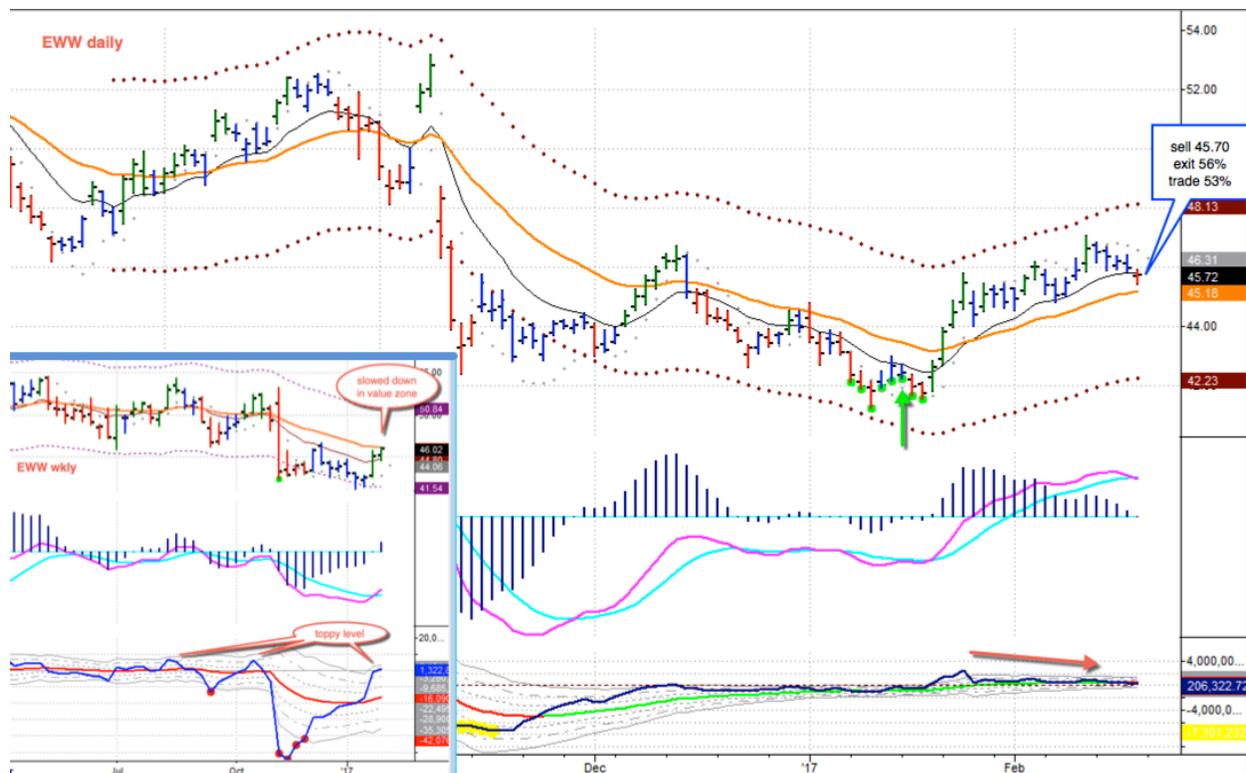
A few days ago Kerry Lovvorn, my partner in SpikeTrade.com published a study of previous such extremes. None of them ended well, all pulled back sharply, with the weekly EMA as the minimum downside target, and often much deeper.

Identifying tops is a notoriously hard business. When the exuberance becomes irrational, the rational tools can warn us of trouble ahead but cannot offer precision timing. We do our level best to ride this rally to its conclusion and aim to catch its reversal at SpikeTrade.com

Mexico

In the previous letter I shared my plan to buy EWW, a Mexico ETF. I pointed out that some 40% of the value of Mexican exports to the US consists of inputs bought from the United States. “Even though Mexico is losing some earlier planned factories, the US would be hurting its own economy if it cut imports from Mexico – and that our businessman President is highly unlikely to do.”

That fundamental outlook was confirmed by a rich set of technical buy signals, both on the weekly and daily charts (please review the January letter).



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

I took profits from the EWW trade in February – both my entry and exit are shown above. I traded a pretty substantial size, and it turned out to be the best earning trade of the month.

Looking at the EWW chart today, it is trading two dollars higher than where I sold it. Beginners tend to be late with their entries and exits, but a typical mistake of an experienced trader is being too early. So many people beat themselves up for leaving some money on the table, but then the next time they overstay their trades and lose. If anything, the sell signals in EWW are stronger today than they were a couple of weeks ago. Also, with the US market being so overbought, a long in Mexico doesn't appear too safe.

I update my analyses in SpikeTrade, whose daily format makes me comfortable sharing specific entries, targets and stops. If you are not a Member, treat yourself to a [Trial](#).

A. Elder

Traders' Education

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



Online: March 15 & 22 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.**



Vermont: May 7 - 8 Live Trading workshop.

You have an amazing opportunity to upgrade your trading – but this one-of-a-kind [class](#) is open to only 12 traders. Reserve your spot early and grab the opportunity before it disappears! Location: Dr Elder’s home in southern Vermont. Must be a SpikeTrade Member.



Caribbean: November 10 - 15 Traders' Camp

Learn trading psychology, market analysis, trading systems, and risk management. Only 25 traders will be accepted (five spots already taken). \$1,000 discount for registering before June 1 (if spots are available). Once you [register](#), you’ll receive immediate access to Dr Elder monthly webinars and his weekly stock scans.

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