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Nikkei, Shanghai, Dow Peaks

April 2, 2010

NEW YORK

Okay, this is the market the global indices have been lagging. The money-printing went to the aid of the global multi-nationals.

This shows why I continue to use the Dow Jones Industrial average as the best basis for the study of sentiment.

From the March 7, 2010 report:

"When it's a second go-round, the targeting of the peak has historically been within days. So, remain confidently and positively negative, for yet another thrill ride."

The January 10 strategy section remained unchanged from the prior month:
"The Dow is rolling over and dangerously close to its tipping point NOW, in line with global market activity. 5000, give or take, awaits below, through 2011. This next cycle, which is commencing NOW will take the Dow to the 4000-6000 area."

For the record, I had forecast that the rally off of the low under 10,000 would make new highs, IF the 10,200 area was worked through. After having reiterated that advice, I then recommended standing aside until this month was over (March SKGS).

To describe a pattern that is typical at major tops, last month I also wrote:
"The move is controlled and manipulated, as "insiders" off-load their inventories. The end of quarter window dressing will potentially end with a bang that drives the Dow lower by a couple of thousand points this year, to get the ball rolling."

"'This year'" just means, 'minimum expectation at ANY time!'"

The March 7, 2010 report discussed the phenomenon of no lead times before peaks, as well as its relationship to insider activity (financial and political). I recommend review of the NEW YORK section of that report.

Strategy
Also from March 7, 2010:

"I don't believe that the Dow will get to 11,142, but I do believe that the best strategy is to play this according to time, not price. Let the month go by and benefit from premiums being crushed further, as the Dow ekes out a very minor new high."

Summary
In the big picture, be sure that this new Dow high will have been viewed as "minor."

With window dressing over, the full show is to convince that the time-extended rally was real, and continuing into April is an attempt to substantiate that. Such would be the complete windrow-dressing show at this major peak.

Can you believe that this past quarter was the best in 12 years?! Among the most manipulated, too?

It would be typical for the Dow to start its collapse some days into April, after a brief new-quarter-stall, then. (See PRECIOUS METALS SECTION.)

I have often written that the market is largely invested at the Dow-11,200 area and, sure enough, the 200-week moving average (MA) (in the chart above) is in that zone.

The 200-week is divergent.

More importantly, the 2-year Dow's 200-day MA is divergent. It also reflects all the requisite Elliott subdivisions needed to complete its post-2008 move.

Please scroll down.

The Dow's 200-day MA is down in the 20%-Dow correction area, under 9000.

VIX

The 10-year weekly chart of the VIX on page 8, shows a bullish reverse shoulder-head-shoulder pattern, which formed during the 2005-2008 period.

The period also created a bowling formation, which indicates a loss of momentum that precedes a reversing pattern.

Then, the 2-year daily VIX chart on page 9 illustrates its own bowling formation, which I interpret as pent-up volatility. This will drive ALL premiums higher, EVERYWHERE.

After the explosion toward unprecedented heights, the VIX has corrected to massive neckline support in the upper teens.

Strategy
We bought the VIX on the day of the low, going long at 16.93.

Again drawing from the March report:

"The stop remains a close-only of 15.75. Why not close the position, given the Dow analysis above?

"Simply, it is dangerous to be out of any bearish theme altogether, assuming one is not invested in the recommended long/short plays, which offer superior downside leverage and safety."

Last month's strategy has been a good one, since the VIX has not made a new low, despite the progressive new highs in the market. Therefore, the strategy remains unchanged.

All downtrend patterns are waning in momentum and primed for a violent upside reversal, which would ideally relate to a violent equity market reversal south.

This massive support in the VIX will not be shattered.

VIX ↓ 17.63 +.04 m
Index TAS
DELAY 15:54 Op 17.01 Hi 18.09 Lo 16.79 Prev 17.59
VIX INDEX
Advanced
Hide
Stochastics
Page 1/37
Range 04/01/08 - 04/01/10
Upper Bar Chart
Mov. Avgs 200
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