

A Turning Point; THE Turning Point?



September 19, 2010

JAPAN

On August 19, 2010 (as per the 1-year daily chart immediately below), in a special study for an institutional investor, I outlined a 5-wave count which completed at, and was supported by, the 9000 area.

The 2nd chart on the next page is also a daily 1-year graph, but is up-to-date. Therein, we see a stochastic which is completely overbought, but without any negative divergences.

Waiting for any could be illogical, since such divergences are more likely when indicating a turn during a primary trend. In other words, if the main trend was down (as is the case with markets since 2008), then divergences would appear that would indicate a reversal to the upside in the short-to-intermediate term.



September 5, 2010:

"Therefore, the next 3 weeks are critical for timing, but: for long term players, particularly those using premium, a week early is usually better than a day late, due the volatility that typically ensues from extreme levels, as such is the nature of 'extreme.'"

Hedge fund managers have found this to be critical and timely advice.

DOW JONES

August 1, 2010:

"Still, as I did not foresee the most recent rally from 10,000, I *might* revisit the best global strategy, upon the market's return to that level; I expect that pullback very soon."

While I did not put out an interim report at 10,000^l*, adjustment was worthwhile for risk management – in managing one's derivatives time horizons.

Similarly today, it is worthwhile to note that the markets appear to have peaked. Please note the [1-year daily chart on the next page](#).

As with the Nikkei graph, the 1-year stochastic is as overbought as possible but, again, without divergences. (I draw your attention to the Nikkei's technical commentary above.)

In any event, with the Dow so overbought, and with such a lovely shoulder-head-shoulder pattern, the US market is prepped for a swift hit. The trend can resume in full force, in which case we can look forward to Dow 9200 in the 4th quarter....or worse.

On the other hand, if the Dow were to continue its uptrend in a "time-wasting correction," then know that it means nothing. We can still look forward to a swift correction to 10,200.

Having gotten to 10,600, the market has truly gone as far as it should. My reference to 11,000 as a level at which to go 200% short (September 7, 2010 interim update) was precisely that: a level at which to go 200% short, if that ridiculous level were to ever be attained.

I was just respecting mathematical possibilities, not Wall Street Week's fantasies. (BTW, is that show still on?)



VIX

September 5, 2010:

“When the June and August lows are connected, there appears to be a pennant from which volatility could break out; the downtrend line of the pennant derives from the May, July and August tops.”

“Still, given the theme of this report, and within its context, considering further that the present VIX trade was purchased at its lows, in order to reduce net short exposure to the market for strategic reasons, liquidate the VIX trade in the morning.”

The daily 1-year VIX chart on the next page clearly illustrates the analysis above though the graph was not annotated to more clearly illustrate the analysis for those of lesser technical experience.

Not making new lows, even as the stock market climbed marginally higher, the VIX has been diverging against the stock market in a subtle manner.

Still, beware volatility: it is about to drive ALL option-related product prices definitively higher.

We are happy to not maintain a long VIX position, since the latter exists when, despite being bearish, there is no short position on the Dow. However, in the context of the September 7, 2010 report, we still hold long term Dow puts.



XAU



August 22, 2010

"My style of risk management is to defer to the concern for a broader market correction and, as a result, I would only advise 33% investment into one's targeted/favoured equities, at this time."

I warned that the XAU would not perfectly mirror gold to the upside, due to positive considerations particular to the metal, as well as negative factors pertaining to the XAU. I then continued:

"This relates to the phenomena of upward corrections in gold, which continues to be caused by Eastern accumulation, coupled with the equity markets' effect on the precious metals index (XAU)."

Recognizing the need to be 33% long one's favourites gold investments, the constructive asset allocation and timing above was expressed, albeit with my continued reticence which stems from extreme concern about the effects of the coming market collapse.

Having said that, the support level for wave-C's conclusion has been raised.

In the name of caution and a strong desire to not miss a multi-decade opportunity, I will ease into recommended strategies....probably when the general market would consider such timing or strategies incorrect. But what would be new, eh?

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* - Short term updates, as well as tailor made strategies according to one's portfolio and objectives, are available:
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