

THAT WAS THE WEEK THAT WAS

Welcome to our Newsletter for Saturday 27th November 2010



S&P500 CASH INDEX DAILY CHART

Point A

We looked at this bar in the last Newsletter and to us it looks like a test and we said we would expect higher prices. The word is 'expect'. If a bar like this fails it's a built-in sign of weakness because you would expect higher prices on a bar like that. As a study in hindsight we see it is an up-bar and we see the volume has dropped off. Was no demand built in there? For a very liquid market like the S&P500 they have to build what we call a cause for that market to become really bullish. In other words, it needs to go sideways for some time as it builds up this cause and sorts out the supply and demand differential.

Point B

This is a clear test. The volume is low, it is a down-bar. It has produced an automatic yellow box to come up telling us that a signal will only appear if the next bar is up. In any weak market you often see what looks like a test but these tests fail. It is no good looking into the why's and wherefores as you would be just wasting your time. You will never hear the truth anyway. You just have to go by the action of the volume and on that volume what did the market actually do?

Point C

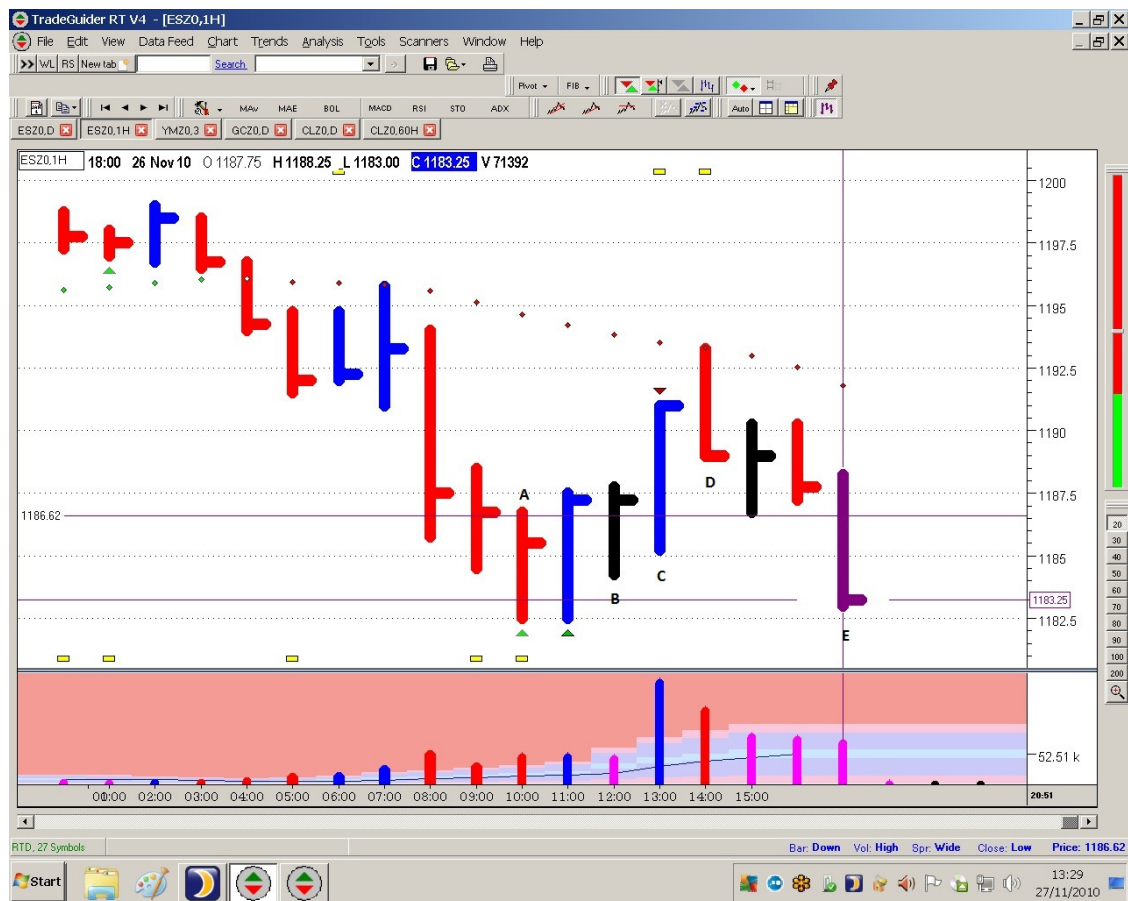
Here we have a widespread down pushing down through the top trendline. The volume is slightly below average. It has closed off the lows so there must have been a little bit of support in there.

Point D

Wednesday. Widespread up, closed on the highs, but notice the volume is definitely lower than the previous two bars, so we have some no demand built into this bar. The following bar is missing (Thursday) because it was Thanksgiving Day and the market was not open.

Point E

Friday. This is a half day and will account for low volume and even the narrow spread on the down-side. If this was a full day's activity then you would say definitely, yes, there's no supply and you would expect higher prices. But we have to sit and wait for the market to unfold with further information.



E-MINI S&P500 INDEX FUTURE ONE HOUR CHART FOR 26TH NOVEMBER 2010

Point A

After a substantial down-move a point will be reached where one or more groups of professional traders will consider supporting the market in anticipation of higher prices. This inevitably shows up on a down-bar. The low must be down into fresh low ground, the spread must be narrow, and

usually closed in the middle or high. We do have an automatic signal of strength appearing on this bar.

Point B

This looks like a test. Do we have enough cause built behind us to substantiate an up-move? This is not all that obvious.

Point C

The market shoots up on a wide spread, closing on the high on the back of that test, but of course what is wrong here is the ultra-high volume. Markets do not like ultra-high volume on up-bars. Professional money is selling into this up-bar.

Point D

This is an upthrust. Professional money has seen the weakness in the previous bar with the excessive volume and have engineered an upthrust to catch the unwary. This type of action is not telling us that we are now going into a bear market because true upthrusts occur after you've seen weakness behind you. So we have to proceed with caution.

Point E

Here we have a widespread down closed on the lows, volume is just about average. We have to be cautious here in our analysis because it's a Friday. We know they like to do the opposite Friday to what they really intend to do the following week. This could easily be an attempt to shake the market out. We need more information.



ABBOTT LABORATORY (ABT) STOCK DAILY CHART

This is an example of a stock acting weaker than the Index. There are no bargains in the Stock Market. Just because you see a stock at lower prices like this certainly doesn't tell you it's a bargain. The professional side of the money would be fully aware of this, and there will be a good fundamental reason why they are not supporting this stock at this moment.



ANALOGUE DEVICES (ADI) STOCK DAILY CHART

This is an example of a stock that is acting stronger than the Index. When the Index decides to turn these are the types of stocks that will out-perform others because it is showing it has got professional support.

Point A

Note the gap down, wide spread down, closed near the highs, volume ultra-high. This has to be a shakeout. Press F1 and read the dialogue box carefully. This fully explains what a shakeout is. We now need to see a test to indicate that the high volume that is present on this bar is greatly reduced showing the supply has dried up.

Point B

Here we have a down-bar closing just off the lows, the volume is clearly less or considerably less than the volume at Point A. Supply appears to have disappeared relative to Point A. Note this has to be on a down-bar back down into the area of the shakeout. You would expect higher prices.

Point C

Here we have a widespread up, closed on the highs, volume is very high. We always tell you that the markets don't like high volume on up-bars, but there is an exception and this is an example of one. Note it pushing up through an old high to the left where they are prepared to absorb any

built-in selling from those locked in at that old high. You would expect this to be tested.

Point D

Here we have an immediate down-bar closing in the middle and although the volume is still quite high, it is considerably less than the previous bar. This is a sign of strength.

Point E

Notice this has almost gapped up as it hits that top trendline. Note this is Wednesday, the day before Thanksgiving. This probably accounts for the lowish volume or no demand, but we have signs of strength behind us. This is the type of stock that is likely to remain bullish, especially as soon as the Index turns.

FRIDAYS !

We know from past experience that Fridays are often deliberately marked in the opposite direction to the way they know the market is going to go during the following week. It's a good opportunity to influence the media, brokers etc, to give wrong opinions in the general direction of the market, especially dangerous over long holidays. Not only do they mislead you, they mislead the media, Sunday newspapers over the weekend. Generally speaking, the market seems to automatically behave in such a way that it confuses you and puts you on the wrong footing. So always proceed with caution. Don't listen to News, don't listen to advice from others, and learn to become an expert in your own right which is possible.

Tom Williams