

# The Technical Trader

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TTT 319

In our 22nd Year!

7th May 2010

## The Features

FTSE sees key peak?.....	2
The Dow ditto?.....	2
The DAX ditto?.....	2-3
T-Bonds break to the upside .....	3
Nikkei Dow corrects?.....	3
£ breaks below \$1.5150.....	4
Gold nears key high.....	3-4
2010 Stock Money Map (continued).....	4-7

## The Month Ahead



### 1. Introduction

Ever since TTT started back in 1989 we have included the section at the top of page 2 headed “Trading Summary.” Up to this point this has been a matter of observation. The LONG trend from looking at weekly price bars, the MEDIUM from daily price bars and the SHORT (Trading) from hourly price bars. This has worked out fairly well over the years but I have now decided to be more scientific and use an algorithm. As I’m sure you all know an algorithm is a formula, aka an indicator. In fact my latest book will be all about this algorithm and, as always, TTT readers will get a special price before the launch. In the book the algorithm becomes a trading system and it is the system I will be using for the “Trading Summary.” But the monthly publishing of TTT is not going to be sufficient to give signals to those who want it so this new project may involve a website with regularly

# Trading Summary

	LONG	TREND MEDIUM	SHORT (TRADING)	TRADING SYSTEM
FTSE 100	UP	DOWN?	DOWN	SHORT
DOW	UP	UP*	DOWN	SHORT
DAX	UP	UP*	DOWN?	SHORT
US T-BONDS	DOWN	FLAT	UP?	LONG
NIKKEI DOW	UP	UP*	DOWN	SHORT
GOLD	UP	UP	UP?	LONG
* Trend change maybe imminent      ?May be corrective action      #Monitor Hotline				

updated signals and updates on where the various algorithms are that day – meaning the same algorithm over the different time zones. That involves some expertise I do not possess so I am currently investigating the possibilities.

Anyway I am fairly certain this can only be an enhancement to TTT and I plan to put this in place within coming months.

## 2 FTSE 100

It looks like FTSE is due a bounce today (Thursday). There are two possible wave counts. Either we have seen a fifth wave failure, see Chart \*2, and now waves 1-2-3 of a possible five wave decline. Or it is just a fairly sharp correction - see ALT count on chart. With the UK election today and a result tomorrow it is perhaps appropriate that FTSE shows a pattern allowing for a fairly sharp move in either direction. But both counts suggest a bounce today, my preferred count as the wave 4 rally and the ALT count as a resumption of the uptrend. On the chart wave 3 is now longer

than wave 1 at 339 points against 267.

**If this does turn into a five wave decline a target around 5150/5200 is indicated.** As far as the UK election is concerned I rather like this quote from Chris Cardell, business trainer extraordinaire: **“The truth is, our goal as successful Entrepreneurs (Traders) is to make politicians irrelevant to our lives.”**

TRADING TREND. TT is DOWN.

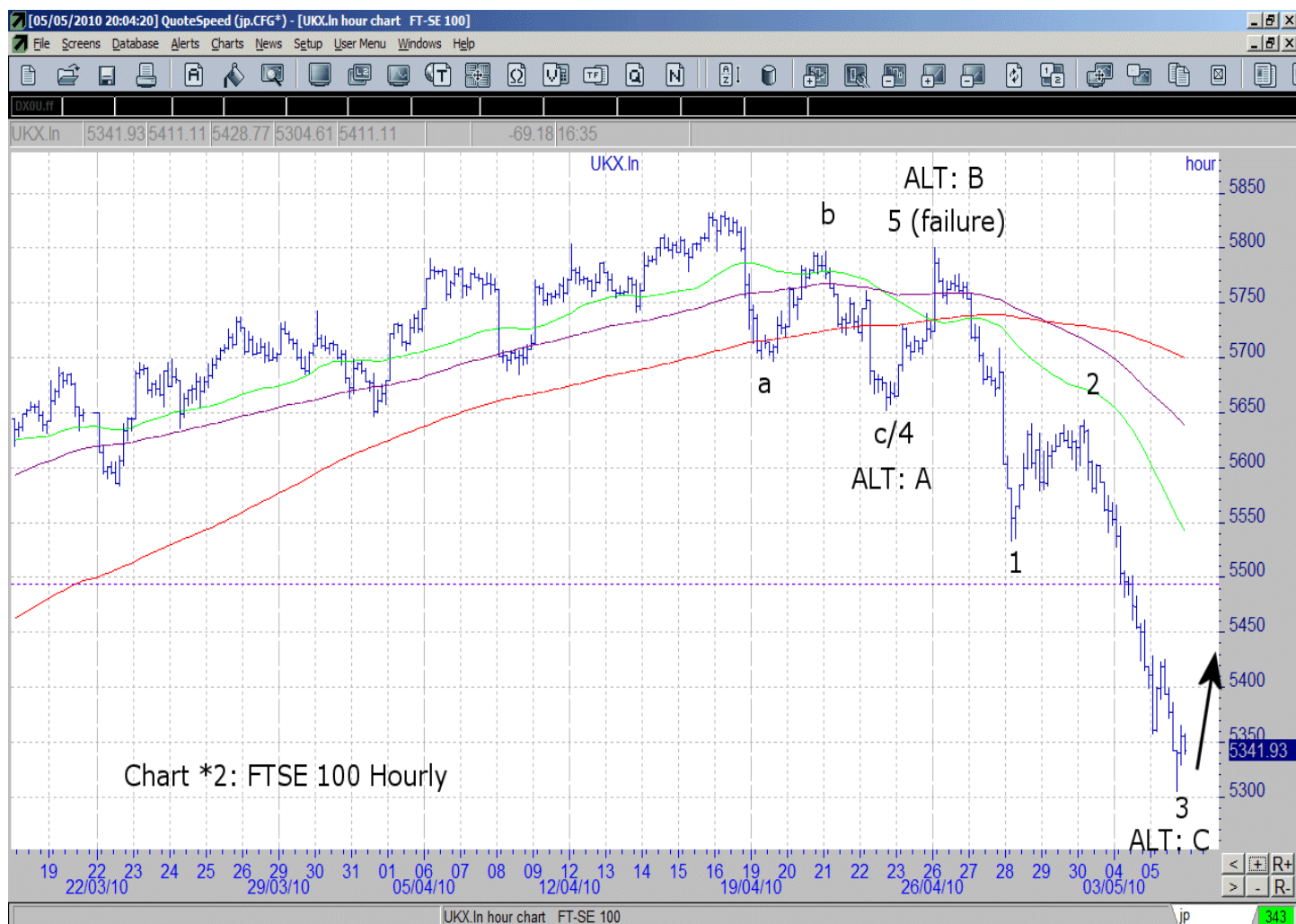
## 3. The DOW

The Dow has fallen sharply but the wave count is not crystal clear as yet - see Chart \*3. We certainly might be seeing five waves down but the current rally certainly cannot take out 11000 and a sharp move above 10950 would be of concern. There is also the fact that FTSE appears to have already seen the end of wave 3 whereas the DOW has not, but this is business as usual - we always get this sort of stuff! TRADING TREND. TT is DOWN.

## 4. The DAX

The DAX also fell back sharply on Tuesday having seen a new high for the rally on Monday at 6341 on 26th





April. The pattern here is different in that we really need to keep going below 6000 to give us an impulsive form to this decline. If we do see that it will suggest continuing declines on FTSE and the Dow. **At this stage I would say the odds that we have seen THE high of the latest bear market rally are around 60/40 in favour.**

TRADING TREND. TT is DOWN?

### 5. US T-Bond

The T-Bond has broken to the upside of the trend channel and this is a sign of a flight to “quality.” As I have said before in these pages the € has pretty much had it, the £ is not a good bet and the ¥ still a little suspect. The \$ is king for now and the T-Bond a good place for your \$s to be. Maybe not long term as the deficits have to catch up with the US at some point (-

don't they?). **The break out from the trading range is a buy signal.**

TRADING TREND. TT is UP?

### 6. Japan

The Nikkei peaked at 18300 in February 2007 and the Fibonacci 61.8% decline down to 6994 in October 2008 can be counted as either a five or a three – see Chart \*4. But however you count it the subsequent rally looks pretty feeble. **The latest fall off the April high at 11408 has a corrective look and might be wave 4 of a final rising wedge – see again chart.**

TRADING TREND. TT is DOWN.

### 7. GOLD

Gold continues to rally but we have yet to see any truly impulsive action and this might simply be a re-test of the December 2009 high at \$1226.

At this stage we cannot rule out

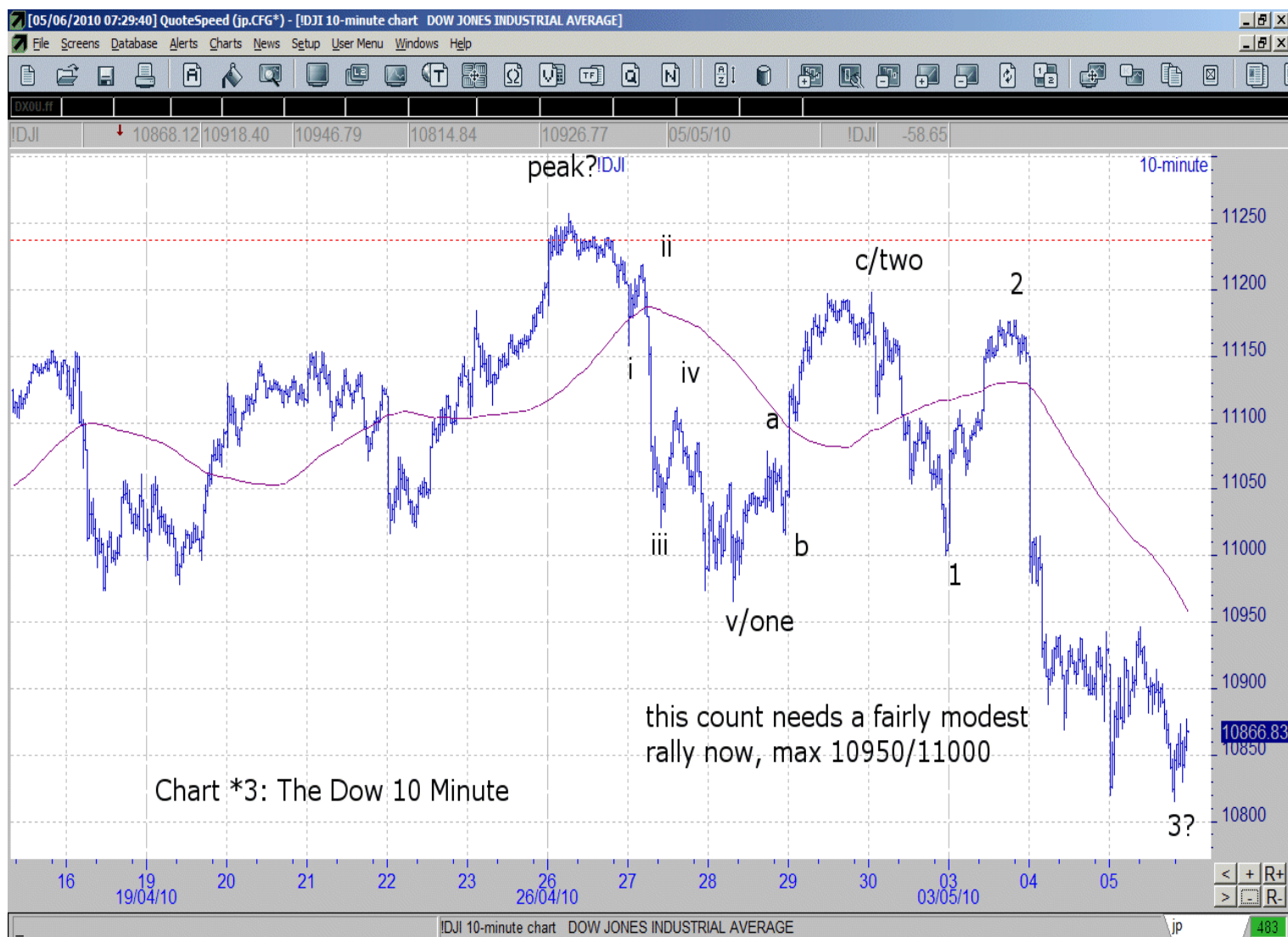


Chart \*3: The Dow 10 Minute

another leg down to complete a bigger A-B-C decline off that high at \$1226. Tuesday's high came in at \$1192 so we are now right in the area where a reversal could come. **Undoubtedly a reversal of some sort will come in and it may well be worth jumping on board in case it proved to be that wave C decline – suggested target \$1000/1050.**

TRADING TREND. TT is UP?.

### 8. £/\$

The £ probed below \$1.5150 on Tuesday and Wednesday and today it is moving up to that level. Currencies seem to spend more time checking out every possible level than indices which makes them on the one hand a little frustrating, as it takes time to get anywhere, but on the other quite good

for using limits, as they always seem to revisit key levels a fair number of times. **If \$1.5150 now proves to be resistance that would be a SELL signal and a sharper break below \$1.50 likely.**

TRADING TREND. TT is DOWN? against the \$.

## 2010 Stock Market Money Map (continued)

by Mike Swanson -

[www.wallstreetwindow.com](http://www.wallstreetwindow.com)

Well the last decade was the worst decade ever, even worse than the Depression years of the 1930's that saw a 0.2% decline overall for stocks. Investors who simply did buy and hold have done nothing. Even bonds beat them. However, some investors did well. Those that invested in gold



in 2002 did great and those that simply kept their pulse on the big trends of the market and engaged in a little market timing did even better.

The thing is it isn't that hard to do. All you need to do is recognize the large trend of the market by looking at the relation of the major market averages to their 150 and 200-day moving averages and the slope of those averages. I've talked about this with you before and have a whole module about it in the Stock Market Mastery Course.

The key is doing this enables you to tell whether the market is in a bull market, bear market, or a transition period. No it doesn't tell you when the exact top and bottom occurs, but it tells you how to think about the big

picture.

Going beyond that there are all sorts of indicators you can follow to get an idea of the smaller trends, but in the end recognizing the big trend and adapting when it changes is the key to making the big money. This is what enabled me to making money shorting in 2008 when everyone else lost money and to believe that the market was going to go higher this past summer when most were calling tops and profit from that belief the rest of the year. Right now the market averages are still above these moving averages so it doesn't make sense to start to worry about a bear market. However, right now isn't a great entry point to start buying long-term positions in stocks blindly, because the market has indeed

run up tremendously and there are important historical precedents that should play out in 2010 that you need to be aware of and can profit from. We are in a cyclical bull market within a secular bear market. That is an important distinction. Most cyclical bull markets in secular bear markets only last one or two years. You can look back at 200 years of historical data in the US stock market and look at other markets that got in a similar position to ours and see a similar pattern that is likely to play out this year. Simply put after a major bottom in a secular bear market like we saw last year typically the stock market will rally back up and take back a good half to two-thirds of its losses and then stall out and go sideways for at least 6-8 months. It then either breaks out and goes on another huge tear for a few months or rolls over and begins another bear market.

I'll show you the examples in a minute, but I want you to realize first what this means is that the market is likely to put in a peak within the next few weeks (if it hasn't already, it is possible) and then go sideways for at least the first two quarters of this year. This sideways pattern will either mark a consolidation phase within this current cyclical bull market that will be a prelude to another huge rally or else will mark a stage three topping phase. I have no interest in trying to predict which will occur, because I'm not going to delude myself or you into thinking I can predict the future of the economy so perfectly and it isn't necessary to make such predictions at all to make money. I've got some guesses about it as I'm sure you do too, but I know that

trying to predict such things may be dangerous to do, because you might focus on them and the news that backs them up instead of real market trends and it isn't how money is made anyway. We have been in a powerful rally since March in which the market has had only one pullback of significance in last May through July. The people who have made the most money are those that bought the dips and ignored the negative news and short-term pullbacks and have held on. I've done that myself most of the time, but there is always a danger in investing that when you are making lots of money using a strategy that when the market changes and the strategy is no longer the way to go that you miss the turn.

That is the mistake I made in the beginning of 2009. I made a huge amount of money in 2008 shorting the market and took profits in the middle of the Fall 2008 stock market crash on short positions and went to cash going into the end of that year. I knew that the next big opportunity to make huge money in the market would be in 2009 when the stock market finally bottomed. But as the year started I started to look at short-term trends in markets and individual stocks and got caught up trying to trade them. I ended up making small losses, putting myself behind, and getting distracted from the big trends of the market. This made it so I missed the bottom and didn't fully adjust to what was happening until the summer. Once I did though I made up my losses and got back to where I've always been in the stock market – making money when aligned with the broad market trend.

But the key is no one is perfect. And

along with ignoring the big trends of the market – which is the mistake the typical investor makes – the professional investor or the trader often makes the mistake of getting caught up watching the market too carefully. A key to following the big trends is patience and it is impatience that costs the professional investor or trader more money than anything else. Everything outside of you is geared to make you impatient and want to trade. When you are a broker or money manager or running a service like mine you feel like you need to make money all of the time for people and that can make you look for opportunities when it is best to just sit back. And the professional trader more often than not cannot stop trading.

The most dangerous time for the professional trader is after he or she has made a lot of money in the stock market using the same strategy over and over again. The strategy is working that well, because it is aligned with the market, but that very fact can lead to the mistake of ignoring the market trend when it changes or taking bigger risks.

I suspect the next few weeks will be a danger point in the markets for most people. The market has been going up and rewarding people, but at some point the trend in the market will change and it will be at that time that most people will be unprepared. No one can sell at a top. You always either do so too soon or too late and one reason I decided to take my profits at the end of the year was to insure that I would adapt to changing market conditions in 2010. It is very important to start the year off as best as you can,

because you do not want to make some critical mistakes in the beginning of the year and then spend the rest of the year trying to fix them.

During the past two months we have seen the market spend most of its time trading in a very narrow range. During this time every time the market got near the top of the range the bulls would get excited and think the market was going to break out and go on a tear and every time the market has fallen down to support or bad news has gotten out the bears have come out with predictions of doom and the short sellers have gotten excited and then disappointed as the market held up and bounced back up. This cycle has repeated over and over again during this time and I've sure you've gotten caught up in some of these emotions too.

I want you to think back on these weeks and picture them as a microcosm for the first half of 2010. I suspect the market will trade in a wide 15-20% range for most of 2010 during which people will get overly bearish on the pullbacks and too excited on the rallies. The problem is most people will either be too bullish or bearish during this time and will end up getting shaken out of their positions or trying to trade too much. The bulls will try to hold on too long while the bears will make the mistake of thinking every temporary dip is a new crash. They didn't realize that the market environment had changed, because they focused on their own hopes and the news instead of real market trends.

(to be continued)

**The next issue of TTT is due on Friday 4th June**



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**P**eople are like sticks of dynamite. The power is on the inside, but nothing happens until the fuse gets lit.”

Mac Anderson

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