

>: How to Trade in This Flat Market

Monday, June 22, 2009 / Barbara Cohen

Are you thinking that the market is going up? Hmmm ... think again.

Even though the market isn't going anywhere, the way to play this market is to stay light on your feet and to move quickly.

I'll show you why.

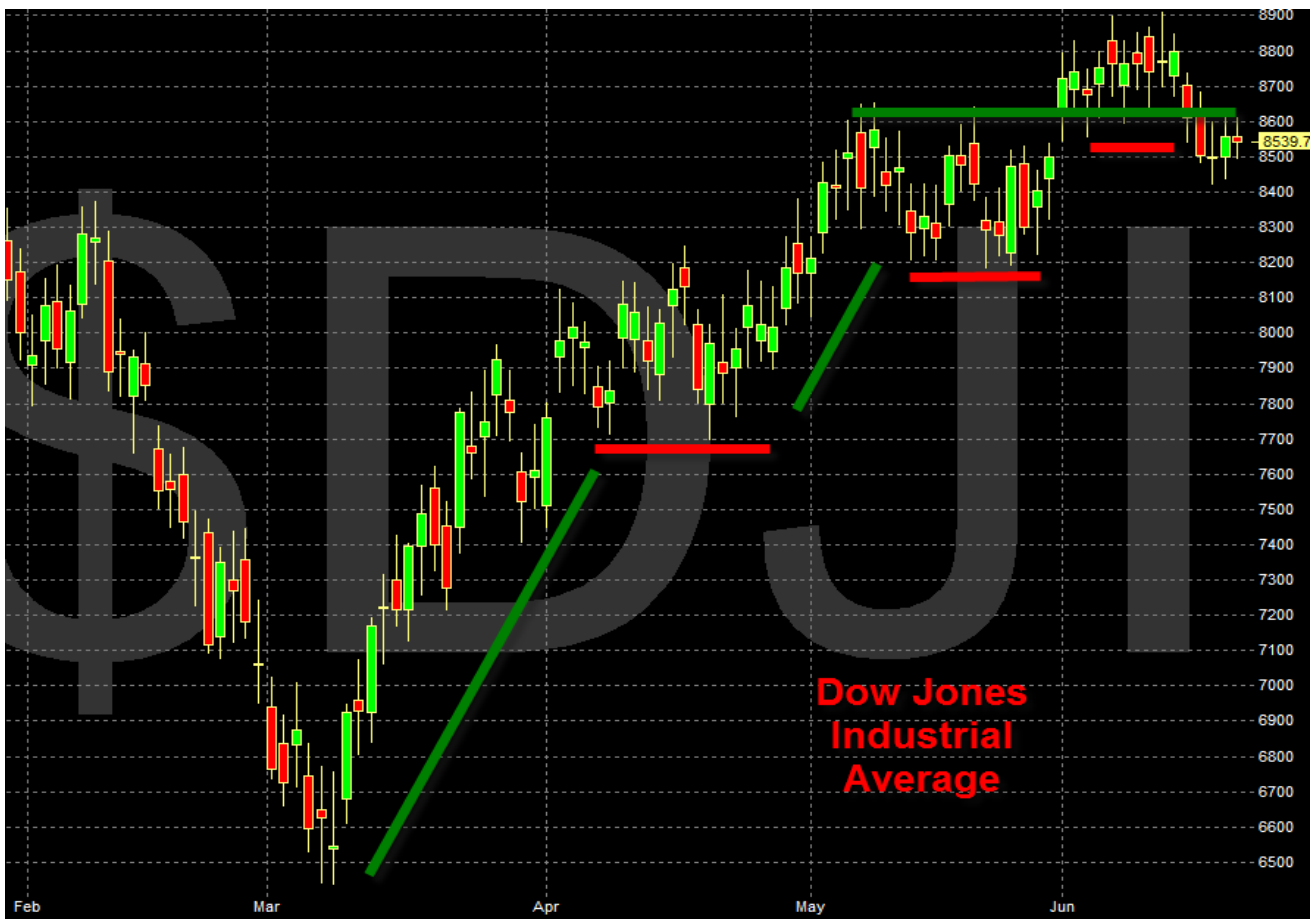
Market at 'Home on the Range'

For the last two months, the market has been in a trading range. At the start of May, the Dow Jones Industrial Average (DJI) was in the 8,600 range. At the end of June, the Dow is *still* in the 8,600 range.

Since the big run-up from March's low, we have seen three extended periods of being range-bound -- almost all of April, half of May, and most of June.

Take a look at this four-month Dow Industrials chart. You can see that the market moved up nicely from March to April. But April came and the market flattened in the 8,200 range.

At the start of May, the market moved up again into the 8,600 range. And it has been there ever since. It moved a little higher to 8,800, but quickly gave up ground.

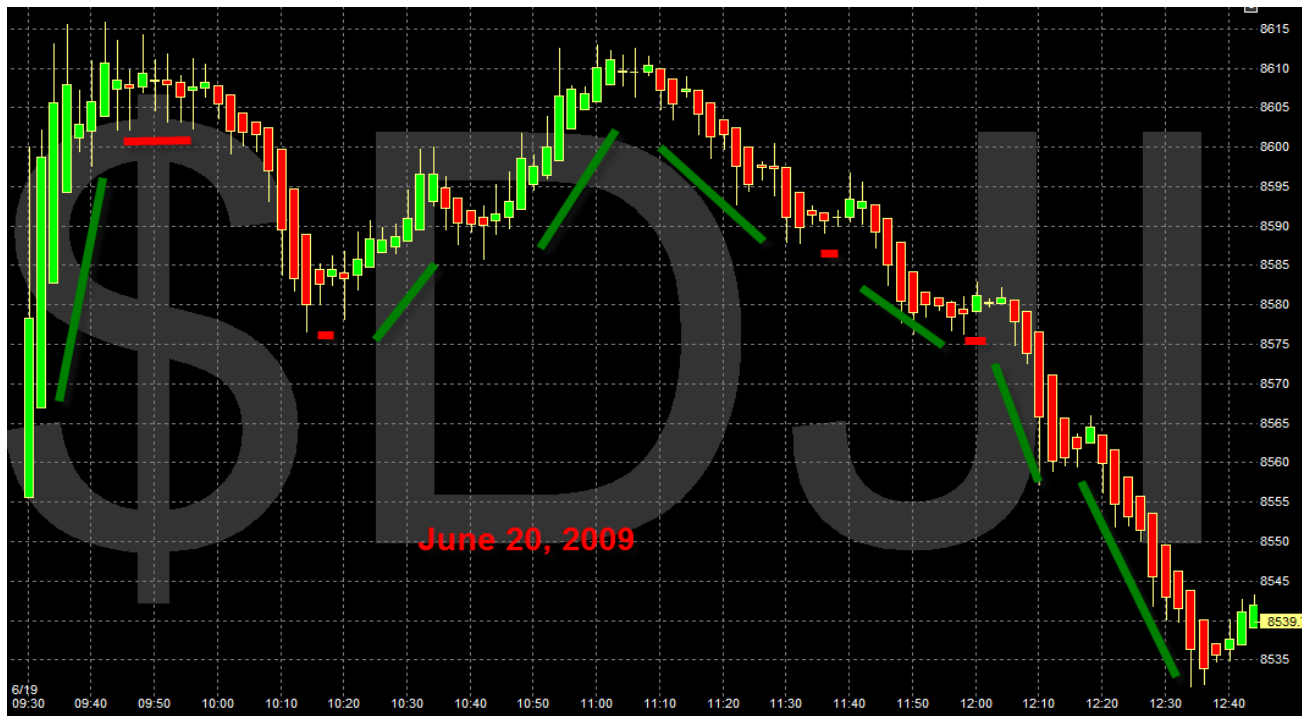


So the question is, **what do you do when the market is in a trading range?** Do you continue to hold? Do you sell and wait for the next big move up?

Welcome to my world, the land of the daytrader!

Compare the four-month Dow Jones chart above to the one-day intraday Dow Jones chart below for June 20, 2009, from 9:30 a.m. to 12:30 p.m.

Eastern. There was more activity in three hours on June 20 than most of May and June.



On June 20, intraday, there were just brief moments of flatness compared to April through June, where most of the time the market was flat.

Why?

Because -- no matter what the Dow does intraday -- by the end of the day, the market seems to revert to where it began in the morning.

If the market is up in the morning, at the end of day, there seems to be a big sell-off, and vice-versa. If you are thinking of buying and holding, you might be holding for the duration of the summer before you see any profit.

The question everyone wants to know is ... will this "flat" market continue?

To answer that, first we need to know where the big money is going before we decide what to do with ours.

This past week, the most important monthly report was released, the TIC (Treasury International Capital) report. This report shows money flowing into and out of the United States. In order to see the market break out of its trading range, the report will have to show countries internationally buying U.S. securities.

Fortunately, we can compare [the March 2009 report](#)

with April's. (Note that TIC data lags by two months.) The market moved up smartly in March and flattened out in April. In March, investors purchased \$51.4 billion of U.S. securities, decreasing April holdings by \$3 billion. Keep in mind that in the April trading of U.S. Treasuries, China sold Treasuries, decreasing April holdings by \$3 billion.

Combined with a major sell-off of corporate bonds, over \$11 billion, the economy cannot recover.

Monthly net flow was negative \$53.2 billion, meaning more money went out of the country than came in.

2. The Treasury also released its April Monthly Bank Lending Survey, showing that **lending decreased in April by 1%**. Banks are

making it increasingly more difficult for corporations to borrow. If corporations cannot sell their bonds to raise money, and they cannot borrow, then it will be difficult for them to expand ... and more layoffs will be inevitable.

So, what happened as a result of this flat market?

Treasury Secretary Tim Geithner flew to China at the beginning of June. Why? To reassure China that its billions of Treasury bond holdings are safe. With much of April and May being flat trading months, China clearly had not returned to the "buy U.S. Treasury bonds" game.

Want to know when to get back into the buy-and-hold game and out of the daytrading game? Watch reports on Tim Geithner and his interfaces with

the Chinese. If he continues to make trips to China, *keep daytrading!*



Barbara Cohen
Chief Investment Officer

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Economic Calendar for the Week of June 22-26

TUESDAY, JUNE 23

8:30 a.m., Durable Goods Orders

- * Importance (A-F): This release merits a B.
- * Source: The Census Bureau of the Department of Commerce.
- * Release Time: 8:30 a.m. Eastern around the 26th of the month (data for month prior).
- * Raw Data Available At: <http://www.census.gov/ftp/pub/indicator/www/m3/index.htm>

The durable orders release measures the dollar volume of orders, shipments, and unfilled orders of durable goods (defined as goods whose intended lifespan is three years or more). Orders are considered a leading indicator of manufacturing activity, and the market often moves on this report despite the volatility and large revisions that make it a less than perfect indicator. These problems can be minimized by looking at the breakdown of orders. The total number is often skewed by huge increases in aircraft and defense orders. An increase based solely on strength in one sector tends to be discounted, while the market is more impressed with broadbased increases in orders.

Highlights

* Durable goods new orders for April rose a surprisingly strong 1.9%. It is just one month of data in a very volatile series and March orders fell 2.1%, so not too much should be made of this report, but it is a positive for the economic outlook.

* The gain was due to strong jumps in transportation and defense orders which prove temporary.

* Transportation orders popped a surprising 5.4%. Defense orders were up 23.2%. Excluding both defense and transportation, orders were down 1.0%. Excluding just transportation, orders were up 0.8%.

Key Factors

* A reversal in defense and transportation orders next month could lead to a decline in overall orders, but the overall picture is still one of approaching stability rather than the free fall of the fourth and first quarters.

Big Picture

* Durable goods orders trends were very weak in late 2008 and early 2009. This reflects the collapse of confidence in the business sector and poor credit market conditions. The rate of decline should ease and orders might stabilize in mid or late 2009, but the outlook has to be described as grim. Overseas demand is particularly weak and exports are plunging. The business sector is in a deep slump.

THURSDAY, JUNE 25

8:30 a.m., Gross Domestic Product

- * Importance (A-F): This release merits a B.
- * Source: Bureau of Economic Analysis, U.S. Department of Commerce.
- * Release Time: Third or fourth week of the month at 8:30 a.m. Eastern for the prior quarter, with subsequent revisions released in the second and third months of the quarter.
- * Raw Data Available At: <http://www.bea.doc.gov/bea/dn1.htm>

Gross Domestic Product (GDP) is the the broadest measure of economic activity. Annualized quarterly percent changes in GDP reflect the growth rate of total economic output. The figures can be quite volatile from quarter to quarter. Inventory and net export swings in particular can produce significant volatility in GDP.

The final sales figure, which excludes inventories, can sometimes be helpful in identifying underlying growth trends as inventories represent unsold goods, and a large inventory increase will boost GDP but might be indicative of weakness rather than strength. The broad components of GDP are: consumption, investment, net exports, government purchases, and inventories. Consumption is by far the largest component, totaling roughly 2/3 of GDP.

Highlights

* Q1 GDP for the U.S. was revised upward to a -5.7% annual rate of decline versus an originally reported -6.1% decline. Economists' median forecast for the preliminary Q1 GDP number was -5.5%.

* Personal consumption expenditures growth was revised lower to 1.5% from an originally reported 2.2%. That dropped the contribution to the change in real GDP to 1.08 percentage points from 1.5 percentage points in the advance report.

* Upward revisions to gross private domestic investment, government spending, and net exports were offsetting factors, in addition to the change in private inventories which subtracted 2.34 percentage points from the change in real GDP versus 2.79 percentage points at the time of the advance report. Core PCE held steady at 1.5%.

* Raw Data Available At: <http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>

Key Factors

* The preliminary Q1 GDP number is dated information, so the market's reaction to it was somewhat muted, if not slightly negative given the downward revision to PCE.

* Still, it stands as a reminder that the worst of the economic downturn seems to be behind the U.S. Even though growth remains elusive, the trend is at least headed in the right direction.

Big Picture

* The trends in the economy were moderately poor through the summer of 2008. Then, in September, the trends tanked along with the stock market. Some tech firms noted a significant dropoff in demand right after the mini-panic of mid-September. These worsening trends were readily apparent in the fourth quarter GDP numbers, and will remain so into 2009 as well.

Consumer spending is weakening and will only take a significant turn for the better once the declines in payroll moderate. Business investment is also in a sharp retrenchment. The stronger dollar clearly hurt export demand. A lot now depends on overall psychology and perceptions of how well the government responds to the financial market and other problems such as exist in the auto industry. The economic outlook is now as much a function of government action as it is of the traditional correlations and trends among macro-economic variables.

FRIDAY, JUNE 26

9:55 a.m., University of Michigan Consumer Sentiment Index

* Importance (A-F): This release merits a B-.

* Source: The University of Michigan.

* Release Time: Preliminary: 10 a.m. Eastern on the second Friday of the month (data for current month); Final: 10 a.m. on the fourth Friday of the month (data for current month)

The Michigan index is almost identical to the Conference Board Consumer Confidence index, though there are two monthly releases, a preliminary and final reading. Like the Conference Board index, it has two subindexes - expectations and current conditions. The expectations index is a component of the Conference Board's Leading Indicators index.

Big Picture

* Sentiment readings are a reflection of a variety of events rather than an accurate tool for forecasting consumer spending. Gas prices and political events can have an outsized impact on sentiment. In general,

these data are of very little economic value.