

>: Read This Before Selling Your Stocks

Tuesday, March 31, 2009 / Chris Rowe

Holy cow! Did you see the market's huge sell-off yesterday?!

And it was on *shocking* news too! It was on this idea that banks might need more federal financing! Wowzerz! What's going on here? They can't be serious! away. What other news did the market sell off on?

Oh, there was this idea that General Motors (as well as Chrysler) may need to file for bankruptcy! Oh jeepers! Let me catch my breath.

Oh my goodness! Did you also read about the notion that Michael Jackson wasn't always white? Did you hear about the terrorists who don't like the United States? ... Or about the credit crisis that has begun? I wonder how that will affect the market.

Okay - Am I trapped in the twilight zone or groundhog day?

What on earth is everybody smoking lately? THIS is breaking news? Really? Banks might need more money and the Auto giants are facing bankruptcy? Is everyone really trading in their rear view mirror?

"Okay Chris, we're good on the sarcasm. How about a nice tall glass of useful guidance please."

Coming right up ...

As we've been saying since January of 2008, the market is officially in a long-term down trend. So we have to bet that the long-term trend will continue to be downwards until that stops. It's a simple way of playing the odds. (Stop trying to figure out where the bottom might be.)

We don't want to get TOO caught up in the "story" although we have to keep our eye on it. I'm an economic junkie, so I kind of have to read about it constantly or my eye twitches, but the truth is the average investor doesn't have to constantly read up in detail on everything to make money.

In fact, trying to understand the entire economic picture, and then trying to take that information and turn it into a correct prediction might just be a great big distraction. You can come to a conclusion and buy into "the story" or into your own predictions of what you think SHOULD happen next, and that only makes it harder to change your stance the way you need to in this market the second it tells you you are wrong.

So we focus heavily on technical analysis. And what might surprise you is we don't have to get incredibly deep into the never ending bells and whistles found in the wonderful world of technical analysis (because they, too, can turn into a distraction).

Let's just keep it simple.

As we said, the long-term trend is down. We don't try to call the absolute bottom. Instead we wait for a confirmation that the bottom has already been found. And THAT almost certainly hasn't happened yet. We have not had a *confirmation* of a bottom anyway.

In a market like this one, one that people compare to the 1930s (gosh, I'm sick of hearing that comparison already - not that it's not a good comparison in many ways, but I'm just sick of it), you should just assume that people won't feel confident jumping in until a bottom has been tested at least a second time and probably a third time.

As you can see below, the S&P 500 had a closing low in early March of 676.53. It hasn't been tested yet. So there you have it. Now we have that out of the way. (It's INCREDIBLY LIKELY that the market goes back down to that level, and it's likely we go lower, but we shall see.)

So we have pretty much already decided the market (S&P 500), at some point, has to be 110 points (14%) lower than it is right now (to test the recent low). Great, now we don't have to panic, and run around like fools talking about "breaking news" that Geithner thinks banks might need more money, anymore.



higher before that happens. To charge or not to charge, that is the question.

Before I talk about that, let me pull the camera back for a second here. As I said, we already know what the basic economic picture looks like. But we have to keep an eye on it anyway. We know the major trend in terms of employment is down (or up if you are talking about UNemployment). Friday we will hear the employment situation. That, we can assume (and we are just playing the odds), will be a grim picture.

I don't have access to the information before you do, but let's just assume unemployment is up, and let's assume the old unemployment numbers are revised up. Maybe that happens, maybe not. The real question is how the market reacts to it, and whether there will be some other news that sort of overshadows it. But if there is a lack of news hitting the wire besides the job numbers, the media will make just as big a deal about it as they made about Geithner talking about banks needing more money yesterday. Duh.

Now let's get back to the question about the bulls ("to charge or not not charge").

First a reminder that we are talking about the INTERMEDIATE trend (weeks to months) when we talk about bulls charging. We assume it's only a matter of time until the intermediate trend rejoins the long-term trend (down).

I am looking at two markets: The external market and the internal market. I won't give a lesson on what the internal market is here, but suffice to say the internal market gives each stock an equal vote (or weighting) while the external market doesn't. You only need to know the following:

The external market tends to give us great and reliable signals. But it can give a false sense of what is really going on. The internal market is much more reliable.

Two weeks ago I told you the internal market indicators were telling us the market wanted to continue its move higher. Obviously it did that so far. And today I'm telling you the internal market continues to tell us that demand is still in control.

What, are you afraid of a little sell off of 2% here and 3% there? Did everyone forget about the 1 day rally of over 7%? We had to pull back a little bit.

Now I'm not telling you we won't turn around and start moving lower. In fact, I have pretty much assured you of that. What I'm saying is it's not time to take that bet in a big way yet. I always stay hedged (I have both bullish and bearish positions at the same time). But to get very bearish right now is a bet against the odds.

The external market does paint a bearish short-term picture. We have an RSI sell signal and the MACD has slightly reversed lower (not yet giving a confirmed sell signal). So we have to check that red flag. But the internal picture says different and we have to respect the indicators that have made us so much money time and time again - and if the internal indicators are wrong this time, so be it.

It will likely come down to Friday's employment numbers and as I said, it may come down to positive news overshadowing grim economic data (or even shrugging off of grim data, or even hopeful data).

In closing - There is an enormous amount of cash on the sidelines right now. That cash is earning NOTHING. It's just sitting there. That's because we have been witnessing a level of bearishness that we haven't seen since most reliable sentiment indicators have been in use. That means if we see good news, this market can really spike much higher very quickly. Sure, it may be a bear market rally that will eventually come back to reality, but the potential remains the same. That's why we have to stick around as long-term bears and intermediate-term bulls.

That means I'm in bullish and bearish positions right now. I'm aggressive so I have more bullish positions on than bearish ones. That can change on a dime. I have been telling you I'd keep you updated. Read *The Tycoon Report* each day. When the internal market points to another sell-off, I will alert you. I write on Tuesdays, but I will either make a special note in someone else's article, or I will make the note in the comments section (more likely). So keep an eye out for the update in case it happens before next Tuesday.

Until next time.

?Profit from the Trend?



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