Long term plan for long term investors
8/31/2007

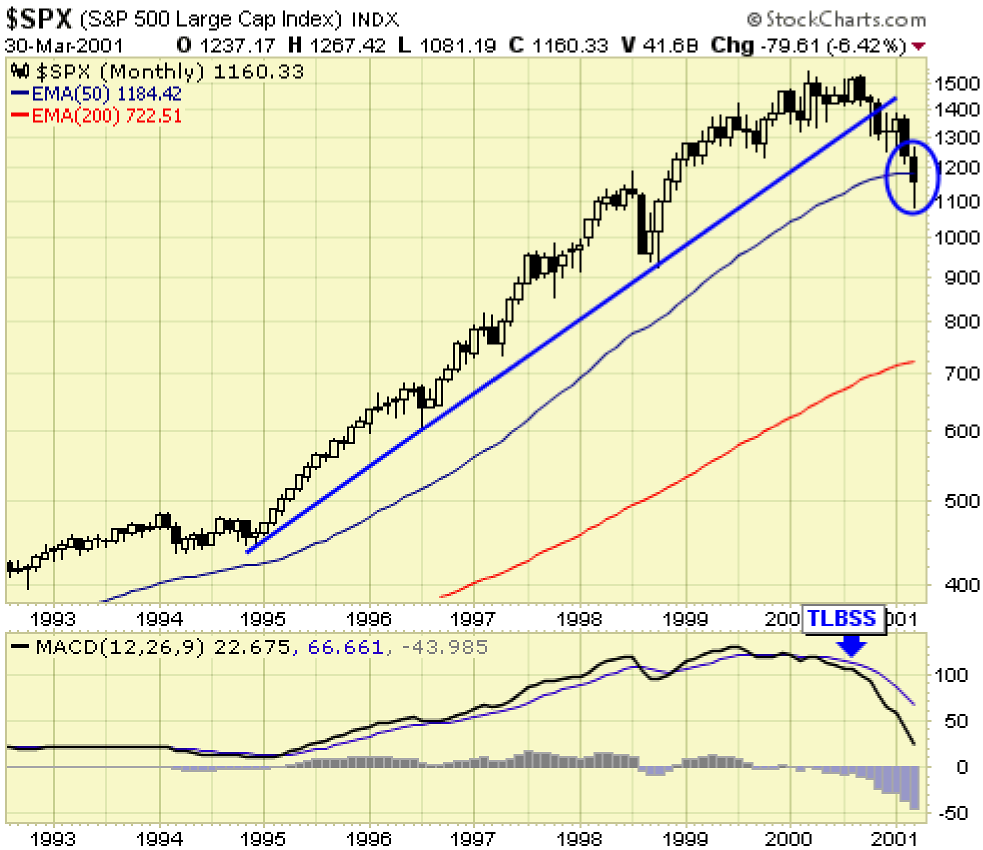
The subprime issue has continued to cause concern among long term investors who have investments tied up within their company 401Ks, pension plans, and other similar mutual funds. This current crisis incidentally is an opportunity. An opportunity for long term investors to examine the current conditions, and decide for themselves whether they should panic out of the markets, or stay invested; or perhaps even take advantage of our short term set ups to add to long term positions.
Again, we will keep things simple.

SPX is the chart for the SP500, which is probably more representative of the broad market, and particularly the growth sector, more than any other indices. We have also switched to this long term chart in our growth sector weekly update, instead of the $NDX which was used exclusively for the tech sector previously.

- despite the two year downtrend between 2000 and 2002, the sell off was contained by the monthly 200ema, and a BSBS resulted in 2003 which was a long term buy signal.
- Therefore, technically from a long term perspective, the major correction of 2000 to 2002 was merely a dip within a huge bull market which began in 1982 and is still going strong at present.

- From years of trial and error, the 50 and 200ema has become the benchmark for my trading models in all time frames, and perhaps now you know why they are so effective. In Oct 2002, we were looking for a major buy signal while many were looking for the bottom to fall out.
- To conclude from the chart above, we are in a long term bull market, and long term investors should stay invested. However, should things fall apart in the near future, when should investors move out of the growth funds and into money market or interest bearing instruments? And, when can new money buy into this bull market?

When to sell



- a major sell signal was triggered in Nov 2000 when the monthly SPX issued a TLBSS. Investors could move some or all of their investments into money markets or similar.
- Last call to move capital to safety was when we had a monthly close below the 50ema, which was March 2001. Folks who did that slept well for the next two years, or if you were with me, we began buying the gold sector in 2001.
- Once out of the market, investors waited for a major buy signal to re-enter which came in the spring of 2003.

When to buy

- As long as the SPX is on a long term buy signal, investors can simply use our short term signals to enter the market, such as the current set ups we have in SPY, which is the ETF for the SPX.
- Or, simply buy when we have a monthly "upside grenade" or hammer which is characterized by a small body and a long tail.
- The fact that August closed with an upside grenade and we also have a buy set up on SPY from the daily chart indicates that we now have a buying opportunity for long term investors as well as traders.

Summary

Being a baby boomer and having spent nearly my entire adulthood in a giant bull market, I may be conditioned to look at the bright side of things. But why not? So many analysts have been drawing parallels between the current twenty five year bull market to eventually ending like 1929, which to me, is nothing but pure fear. The very reason I became a technical analyst more than ten years ago was the fact that I was tired of the constant bickering between the market bulls and bears, and the "why this" and "why that". I have documented in details in previous articles in identifying a bull market, a bear market, and a crash. And once we are familiar with these market conditions, we remove the fear which is the most punitive within an investor's psyche. And when these market conditions change, we deal with it, by using our trading models to guide us in or out of the markets whether we are long or short. For now, the bull market is alive and well, and investors should stay invested and use the current set ups to add to positions.

End of tutorial