A major sell signal
1/31/2008

Folks, a major sell signal on the broad market as represented by the $SPX is now confirmed. This major sell signal indicates a major correction is in progress, and if the major bull market which began in 1980 is to continue, the monthly 200ema should provide support as it did in 2002. If that support fails, we could be slipping into a major bear market, but it is much too soon to talk about that. Right now, the prudent thing for long term investors to do is to seek safety, until this major sell signal is reversed with a major buy signal. During a major correction, or a bear market, capital preservation has priority over capital gains.

As suggested in my previous tutorial, “Long term plan for long term investors”:
http://www.simplyprofits.org/editorials/tutorials/07-0831_Long_term_plan_for_long_term_investors.pdf

Step #1 – upon a major sell signal, investors should move some or all of their portfolios into money market or similar.

Step #2 – upon a monthly close below the 50ema, investors should move all of their portfolios into money market or similar.

What will negate this major sell signal?

One thing I have learned over the years, is never to say never. Markets are dynamic and subject to constant change.

To negate this major sell signal, price action simply has to reverse from how we got here in the first place.

As a member pointed out, in 1998, the monthly $SPX gave a false sell signal and prices went to new highs shortly after. Yes, in fact, there has been a few false MACD sell signals in the $SPX: 84, 87, 90, 94, and 98. Five in all of a twenty seven year major bull market.

The sell signal in Nov 2000 was bonafide, because history said so. Also, the Nov 2000 sell signal was confirmed when the yearly pivot of 1999 was broken. This time, the 2007 yearly pivot was broken first, and now a confirmed sell signal.

<u>Of the five false MACD sell signals, none of them broke below the previous year's pivot.</u>

In order to negate the current sell signal, prices simply must reverse and close above the 2007 pivot high, and that will make 2008 an outside reversal year (lower low and higher high), which is mega bullish and we want to jump back in with both feet. I have not seen an outside reversal year in my thirty two years of investing.

<u>The plan</u>

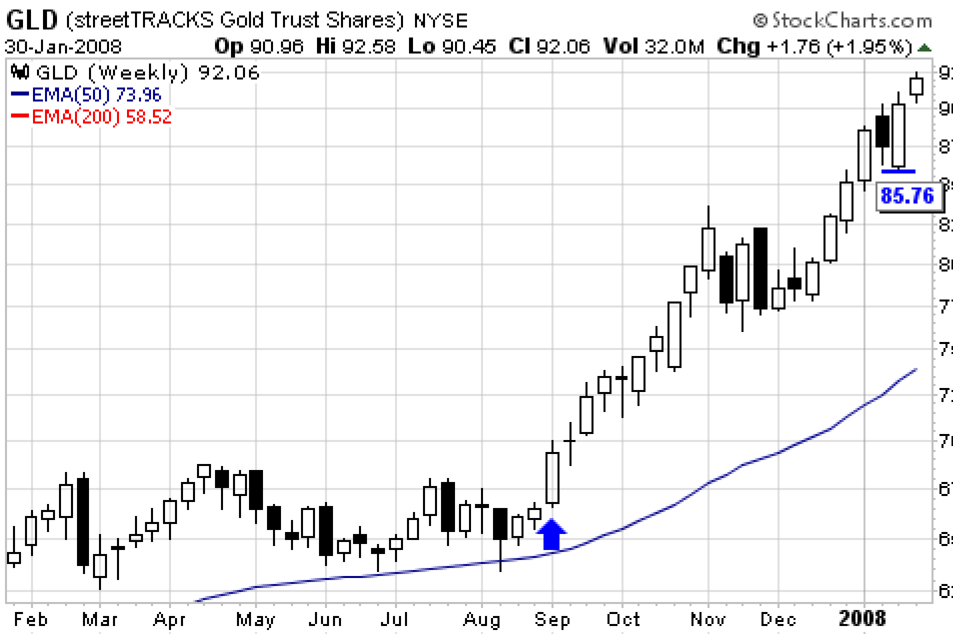
Now, just because we have a major sell signal, it does not mean the market goes straight down from here. In fact, the market has been rallying firmly since the surprise rate cut, and will likely rally further before we will have a short sell signal on the daily charts. Therefore, this is not a panic to exit. Investors have two options:

#1 – liquidation by cost average over the next few weeks, taking advantage of the higher prices.

#2 – hedge your portfolios by taking positions in an inversed ETF such as SDS or HXD.TO. This can also be done by cost average over the next few weeks.

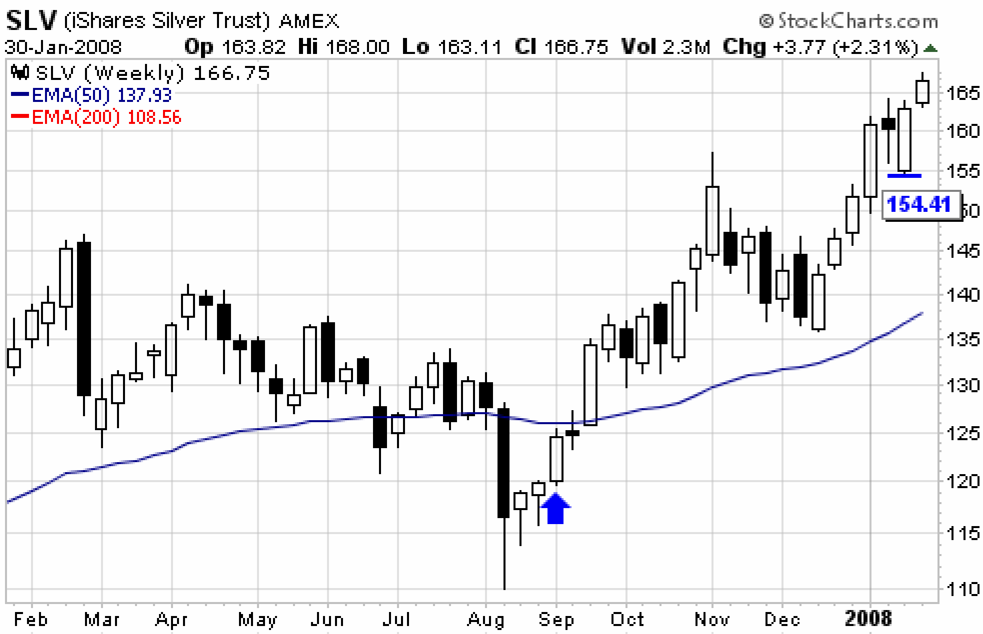
As far as I know, some members have substantial equity holdings in all sectors, accumulated over the course of this major bull market, and would be difficult and perhaps unnecessary to simply liquidate everything. Because even in a bear market, some sectors may perform better than others. Therefore, option #2 may be more suitable to those with substantial holdings. I am not qualified to advise in this matter, therefore, work with your financial advisor or broker to see what and how much to liquidate, and what and how much to keep, and if hedging makes more sense to you than just selling everything blindly.

For those who are holding core positions in the gold sector, it is prudent to wait until there is a major sell signal in the gold sector. However, considering most of these core positions were entered late summer last year, protecting profits before a major sell signal may be appropriate. Depending on your allocations, perhaps move stops up on half and hold remaining at B/E.

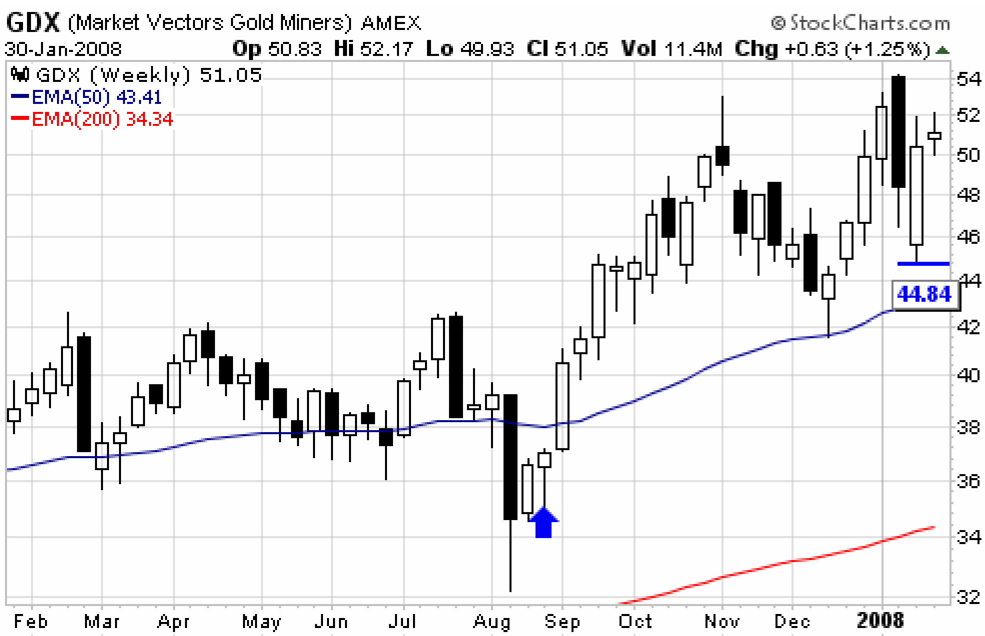


GLD – move stop to 85.76, the current weekly pivot.

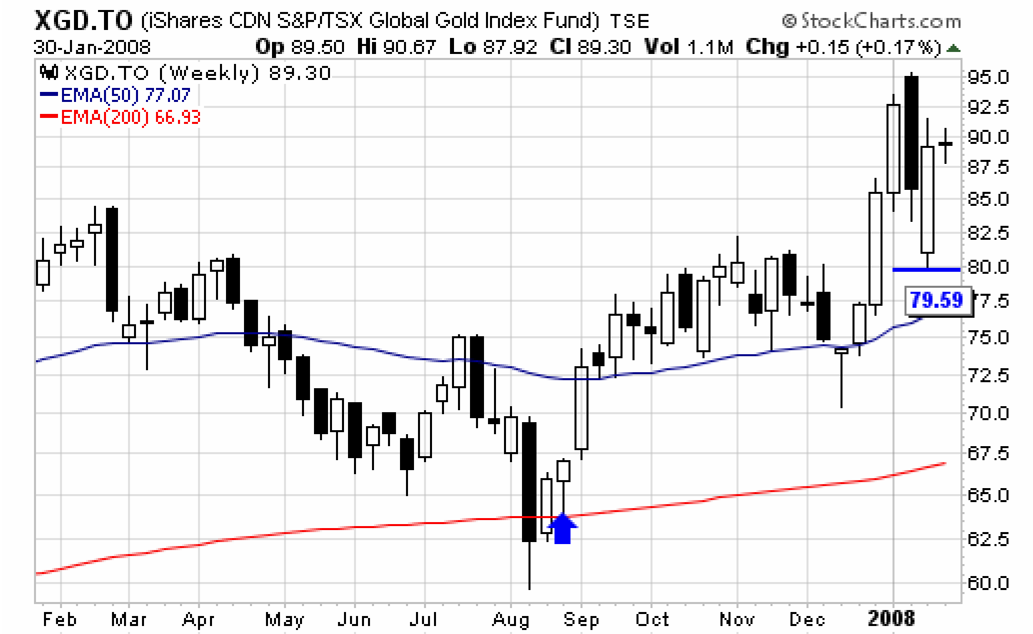
From our early Sep set up, this represents about 25% profit.



SLV – move stop to 154.41.
From our early Sep set up, this represents a 28% profit.
From our Dec set up, this represents a 6.5% profit. Not great, but it was a late entry.



GDX – move stops to 44.84.
From our late Aug set up, this represents a 20% profit.



XGD.TO – move stops to 79.59.
From our late Aug set up, this represents an 18% profit.

Summary

If the current trend continues in the gold sector, these weekly pivots should not be broken. Only a deep correction in the sector will cause prices to break below these pivots, and if that is the case, we can buy back these positions at lower prices.
A reminder that the gold sector did diverge from the broad market during the last major correction between 2001 and 2002, while both the growth and energy sector suffered.
Will it happen again? We don't know. But profit isn't profit until the positions are closed. By moving stops up, it is a good compromise.

End of tutorial