AIQ Opening Bell Newsletter Digest

January 2009 Vol. 18 Issue 1

## In This Issue



The Opening Bell Newsletter is a publication of AIQ Systems
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# The New Opening Bell

**By Steve Hill**
**AIQSYSTEMS.COM**

**Stephen Hill** is President of AIQ Systems. For the past 15 years he has been involved in all aspects of AIQ Systems, from support and sales to programming and education. Steve is a frequent speaker at events in the U.S. and Europe, talking on subjects as diverse as ***Portfolio Simulation Techniques***, ***Advanced Chart Pattern Analysis*** and ***Trading System Design***.

### Introduction:

Welcome back to Opening Bell Monthly. The last 5 months we've been in a hiatus while we focussed on a new look to our magazine.

With this first edition of 2009, we'll introduce three conributors, each of whom will be regular features each month.

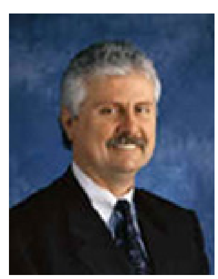
### Dan Zanger - Chartpattern.com

Dan is the world record holder for the largest percent change for a personal portfolio for a 12 month period of time and an 18 month period of time in the history of the stock market. The first twelve months of this incredible record have been audited by a firm that specializes in auditing professional money managers. For one year the record is 29,233% using margin on high flying Internet stocks during the market bubble from 1998 through 2000.

Dan has been featured in FORTUNE MAGAZINE and appeared on a segment of EXTRA TV. He was also the weekly host of his own half-hour show on the Business Channel in LA and featured in numerous leading trade magazines such as Active Trader, TradersWorld, Forbes and Stocks & Commodities.

Dan has been an AIQ user since 1992 and uses AIQ's advanced list feature in charts for his daily stock screening.

### Richard Croft-
### Croft Capital Management



Richard N Croft has been in the securities business since 1975. Since February 1993, Mr. Croft has been licenced as an investment counselor / portfolio manager, operating under the corporate name R. N. Croft Financial Group Inc. The company provides personal portfolio management and consulting services to individual investors.

Mr. Croft authors a regular Market Commentary column on E*TRADE that appears each Tuesday. He is also a regular contributor to the MoneyLetter, where his articles focus on utilizing individual stocks, mutual funds and exchange traded funds within a portfolio model.

In 1998, Mr. Croft co-developed three FPX Indices for the National Post which examine the returns for a series of portfolios geared to average Canadian investors. In 2004, Mr. Croft extended that concept to include three RealWorld portfolio indices which purport to demonstrate the performance of the FPX portfolio indices adjusted for real world costs. In both cases, these indices provide portfolio benchmarks for individual investors.

In 1999, Mr. Croft developed two option writing indices for the Montreal Exchange, and regularly authors options commentary at the Mx Website. He also developed the FundLine methodology, which is a graphic interpretation of portfolio diversification. Specifically the FundLine defines what elements ofdiversification a specific mutual fund brings to the portfolio.

He also developed an index for rating the performance of fund managers. The proprietary model known as Manager Value Added Index (MVA Index), rates mutual fund portfolio managers on a risk adjusted basis relative to a benchmark.

In 1999, Mr. Croft co-developed a portfolio management system for Charles Schwab Canada. This portfolio program was designed to provide registered advisors at Charles Schwab Canada with a defensible long term investment program that could be marketed to Charles Schwab clients worldwide.

Mr. Croft is a global portfolio manager who focuses on risk adjusted performance. He believes it is not just about return, it is about how that return was achieved.

Most recently, Mr. Croft co-authored a Canadian best seller on portfolio building entitled Protect Your Nest Egg. This was Mr. Croft's ninth book.

### Steve Palmquist - Timely Trades

Author Steve Palmquist has been an active trader for over twenty years. Steve has shared various trading techniques at seminars across the country, presented at the Trader's Expo, and has published trading articles in Stock and Commodities Magazine, Trader's Journal, The Opening Bell, and Working Money.

Steve is also the founder of www.daisydogger.com, a financial site that provides trading tips and techniques, and is the publisher of The Timely Trades Letter, in which he shares his market analysis, trading setups, and trading tips twice a week.

### Joe Bartosiewicz- Bartometer

Joe is a certified Financial Planner and gives financial advice to many high net worth clients including a top economist professional sports figures, and corporations. He has been in the financial services industry for 29 years, and has been an AIQ Client since 1991.

# The Option Pricing Maze

**By Richard Croft**
Croft Capital Management

One of the most frustrating positions for an option trader is dealing with the uncertainty surrounding how an option is valued. Even if we understand the six basic components in the options price;

- Strike price
- Price of the underlying security
- Time to expiration
- Risk free rate of interest
- Dividend if any
- Volatility of the underlying security

We know from previous discussions that the only unknown in the option pricing formula is the volatility of the underlying stock. When evaluating the cost of an option, we always have to make our best guess about future volatility. It is the one component within the pricing model that traders can use to compare one series of options against another.

If, for example, a six month call on XYZ with a strike price of 100 is trading with an implied volatility of 40%, all things being equal, we know it is more expensive than an ABC three month 40 call that is trading with a 20% volatility.

The volatility implied by a specific option contract takes all of the components within the options price and breaks them down to the one common denominator. In much the same way as the yield to maturity calculation provides a common denominator in valuing bonds with different terms to maturity and different coupons.

We also know that changes in volatility will quickly impact the price of the option. We know also that higher volatility means higher option prices. When volatility increases, it benefits traders who are long options, when volatility declines it benefits traders who are short options.

The best of all worlds is the individual who buys a call or a put when it is trading at a 20% implied volatility. Then watches as the stock rises or falls and the volatility increases. The option buyers gets the double benefit of an option whose value increases because of the relationship between the stock price and the strike price, and because of the change in the volatility assumption.

Problems arise when we begin to combine strategies. Especially strategies like spreads where we buy and sell options at the same time. The impact a change in volatility can have on a spread is often much different than you might imagine.

For example, suppose you are bullish on the outlook for XYZ currently trading at $100 per share. We will assume that the stock does not pay a dividend, and has strike prices from 80 to 120. The following table prices the six month XYZ calls and puts assuming a 30% volatility assumption.

| Strike Price | TFV Calls | TFV Puts |
|---|---|---|
| 80 | 22.625 | 0.909 |
| 90 | 14.930 | 3.050 |
| 100 | 8.900 | 6.950 |
| 110 | 5.000 | 13.080 |
| 120 | 2.570 | 20.900 |

**Table 1** XYZ at $100, six month calls and puts, Theoretical fair values assuming 30% volatility

Now let's examine the impact a change in volatility can have on an XYZ bull spread. There are of course two ways to enter a bullish spread on XYZ, one is the debit spread using calls, the other is a credit spread using puts.

With the call spread, you could buy the XYZ 90 calls at 14.93 and write the XYZ 110 calls at 5. The total cost for this spread is $9.93. Maximum potential gain is $20, the difference between the 110 and 90 strike prices. Maximum loss is the $9.93 net debit.

Here's the question; what happens to the XYZ call spread if the volatility assumption went from 30% to 50%. Because you are long and short calls, the increase in volatility will positively impact the long XYZ 90 call, but will negatively impact the XYZ 110 call. Overall, the issue is which option will be impacted the most.

Most investors would think that a bullish call spread would benefit from an increase in volatility. But in point of fact, a higher volatility assumption has a negative impact on the value of the position.

Table 2 looks at the same six month XYZ options on the same strike prices, but this time with a 50% volatility assumption.

Look at what happens to the theoretical fair value bullish call spread. It falls from $9.93 to $9.017. Even with no change to the price of the underlying security. Of course, in the real world, you would not likely see a change in the volatility assumption if the price of the underlying security remained constant.

| Strike Price | TFV Calls | TFV Puts |
|---|---|---|
| 80 | 22.625 | 3.930 |
| 90 | 14.930 | 7.387 |
| 100 | 8.900 | 12.070 |
| 110 | 5.000 | 18.152 |
| 120 | 2.570 | 25.238 |

**Table 2** XYZ at $100, six month calls and puts, Theoretical fair values assuming 50% volatility

With the call spread, a change in the volatility assumption has a greater impact on the out-of-the- money call then it does on the in-the-money call. Hence the negative impact on the overall bullish call spread.

You get a similar effect on the bullish put spread, but for different reasons. Using the same strike prices, you might write the XYZ 110 put and buy the XYZ 90 put. This position would be established – assuming a 30% volatility assumption - with a $10.03 credit.

| Strike Price | TFV Calls | Call Vega | TFV Puts | Put Vega |
|---|---|---|---|---|
| 80 | 22.625 | 0.101 | 0.909 | 0.109 |
| 90 | 19.220 | 0.201 | 3.050 | 0.203 |
| 100 | 14.000 | 0.256 | 6.950 | 0.256 |
| 110 | 10.203 | 0.248 | 13.080 | 0.239 |
| 120 | 7.308 | 0.207 | 20.090 | 0.172 |

**Table 3** at $100, six month calls and puts, theoretical fair values assuming 30% volatility

When we look again at the position with the data from table 2, we see that the same bull put spread with a 50% volatility assumption, would be worth $10.77. In a bullish put spread that is established with a credit, you want the net premium to decline, not rise. So again, higher volatility has a negative impact on the spread trader. But unlike the call spread, the change in the volatility assumption had a greater impact on the in-the-money put then it did on the out-of-the-money put.

When looking at the option pricing formula, there is a derivative known as "vega" that can be used to calculate how much of a role a 1% change in the volatility assumption will have on the value of the underlying calls and puts… all other things being equal. Keeping with our XYZ example, we have reproduced tables 1 and 2, only this time we have included a column for the options vega.

Notice at each strike price, the vega for the calls is quite close to the vega for the puts. Note also how the vega declines, the further the strike price is from the current price for the underlying stock.

Looking at the XYZ 90 call, we would expect the price of the call to change by 20 cents for each 1% change in the volatility assumption. Compare that to the 24.8 cent impact a change in volatility has on the XYZ 110 call.

The impact can also be seen on the put side of the table. The in-the-money XYZ 110 put has a vega of .239, compared with .203 for the out-of-the-money XYZ 90 put. Again, explaining why the put spread is negatively impacted when volatility increases.

When you think about this in the real world, the impact from a change in volatility makes sense. Normally we use spreads, because we think the option premiums are high. The sale of the out-of-the-money call helps to offset some of the cost associated with purchasing the in-the-money call. Similarly with the bullish put spread. You sell in-the-money puts to capture an inflated premium, and buy the out-of-the money put as insurance against a catastrophe.

This concept goes beyond the theoretical, when you begin to low at real world pricing that includes a bid asked spread. Changes in volatility not only have an impact on the theoretical value of the option, but also on the size of the spread.

## Summary

What I wanted to demonstrate was the impact changes in volatility can have onthe options price. But more importantly, the options price. But more importantly, we need to understand how that impacts strategy decisions.

Suppose for example, you are bullish on the outlook for XYZ. On the most basic level, you could buy calls. You would do so if you thought the options were cheap. Meaning the option's price is understating future volatility. With the call buying strategy, you hope to benefit from an increase in the value of the underlying stock and perhaps from an upward revision to the volatility assumption.

If you thought the options were overpriced, you have a number of other bullish choices. You could implement a covered call write, write a naked put or use a bullish call debit spread or a bullish put credit spread.

The covered call write, the naked put or the spread strategies are all strategies designed to reduce risk. In the sense that you believe the options are overstating the risks in the underlying security. By writing options, you take advantage of that view. If it turns out that the options were actually understating future volatility, then we should expect the positions to be negatively impacted from an increase in the volatility assumption.

**About the Author:**

Mr. Croft is a global portfolio manager who focuses on risk adjusted performance. He believes it is not just about return, it is about how that return was achieved.

# Timely Trades Jan 4, 2009

**By Steve Palmquist**

## NASDAQ Outlook & Key Trading Levels:

The market was up during three of the last four sessions; and this price action took it above the top of the narrow basing range that we have been watching. The price action is positive, but it came on declining volume. Moving up on declining volume is typically a negative indication, but in this case the pattern formed during a holiday period when volume is typically light. The volume pattern this week will tell us if this move is important.

The trading plan was, 'A move above the 1600 area is clearly a call for longs, and the volume pattern will indicate how many positions to use.' Because of the proximity of the top of the narrow trading range to the upper Bollinger Band; the plan called for taking a couple of longs on a low volume move, and more positions if the move came on strong volume. The market broke above the top of the narrow trading range, but the move came on low, and declining, volume; which indicated it was best to just take a couple of long trading positions.

There were plenty of long triggers to choose from last week. ATMI, CAT, CWT, and THOR triggered and saw profitable moves of 2% to 5%. EAT, JBLU, and VRX saw triggers and profitable moves of 8% to 10%. When we see a lot of triggers, and the plan calls for only opening a few trading positions, I get emails focused on two questions. Some people are frustrated by 'too many triggers'. Well, 'too many' is a blessing, and a lot better than too few. I don't think you can have 'too many' triggers. I look at the volume patterns to select the ones I am going to trade. I focus on the triggers with the largest percentage increase in volume over the previous days volume, or the largest percentage of above average volume. I also look at the risk/reward ratio for prioritizing trades.

The other thing that some new traders worry about when there are lots of triggers is whether or not they should be taking them all. They wonder if they will 'miss the move'. Trading is about risk management, not entering positions. When the market is clearly trending I will use more trading positions. In the current situation, the market is trying to set up a new trend but it is not very strong on the volume pattern. The low volume move, and the proximity to the upper Bollinger Band, indicate that it is better risk management to just enter a few trading positions and let the market prove itself before 'going all in'.

Any move worth trading, almost by definition, does not require you to load up in the first few days. However, loading up early can really hurt if the move is a fake out, and then reverses. I am constantly looking at the risk of the current trading environment and using position sizing, and number of positions, to adjust to different risk environments. If this move is the beginning of something big, then the market will prove it by showing the appropriate price and volume patterns. When it does, I will increase my exposure by taking more trading positions, and using increasing position sizes. It is not what CNBC and the news says that matters, it is what the market shows us.

The market closed slightly above the upper Bollinger Band on Friday. A quick look at a chart will show that this is usually not a good time to buy. Strong markets will tend to 'ride the bands', but again the first day of being on the band is not a trend. If the market remains above the 1600 area I will keep trading the long positions I have. If the market shows some accumulation I will increase the number of trading positions I am using. If the market continues rising with up days having clearly larger volume than down days I will increase the number of trading positions I am using.

If the market falls back into the narrow trading range I will close any long positions that are not moving up on increasing volume. If the market falls back into the trading range on strong volume, or shows some distribution, I will be taking profits on longs. Shorts are not attractive now, with the usual exception of ones triggering on something around double average volume.

There are several signs that the market environment is changing. The break above the narrow base, the increasing number of bottoming patterns, for the first time in a few months there are more interesting long setups than short setups, and the leadership in ETFs is changing from ones like IEF, SHY, and TLT to ones like HYG, EEM, EWM, GXC, and SLV. These observations do not guarantee that the market is going to bounce here; but for the first time in several months the internal strength to bounce is there. If the market continues up and shows a strong volume pattern I will be increasing my exposure. If the volume pattern remains negative, I will remain cautious.

There are no risk free trades. I want to manage risk by looking at each setup and asking, 'what is the lowest risk way to enter this trade'? I then want to compare that risk to what my other choices are. I am not focused on one stock, I am looking to manage units of risk by looking at all available trades, the various entry techniques, and the potential risk to reward that each trade yields. I then take the best of what is available, within the constraints of the trading plan. I do not focus on watching for triggers to within the penny. I am looking at all the potential trades and then picking the ones that are best.

**Exit Strategies:**

Holding periods and profit taking should be based on current market conditions. Take profits quickly in trading range markets, and give positions more time to work in trending markets. In non trending markets holding periods are usually not more than a few days. In trending markets holding periods may be several weeks or months.

In non-trending markets consider taking profits after the initial pop from the trigger. Look to exit as the stock approaches the Bollinger Band, a recent high, a trend line, or when the market approaches support/ resistance. In trending markets, consider trend lines and major support/resistance areas for exits. Strong stocks move up on above average volume. If the volume is low when moving up consider taking profits. When in doubt take profits. There is no guaranteed technique that always works, watch the setups that are triggering and adjust accordingly .

**Entry Strategies:**

In uncertain markets, or narrow trading ranges, consider pairing accumulation and distribution, or bull and bear flag, setups at current levels without waiting for a trigger. In uncertain markets, look for stronger volume on the trigger day before taking positions. In trending markets look to enter flags near the bottom of the flag base or when they hit the classical trigger. Volume measures interest, the stronger volume triggers may be lower risk choices, especially in uncertain markets. Traders willing to assume more risk may enter lower volume triggers or with accumulation/distribution/flags enter before a price trigger occurs. Traders seeking lower risk may lookat triggers that occur on above average volume when the market is bouncing off support or resistance.

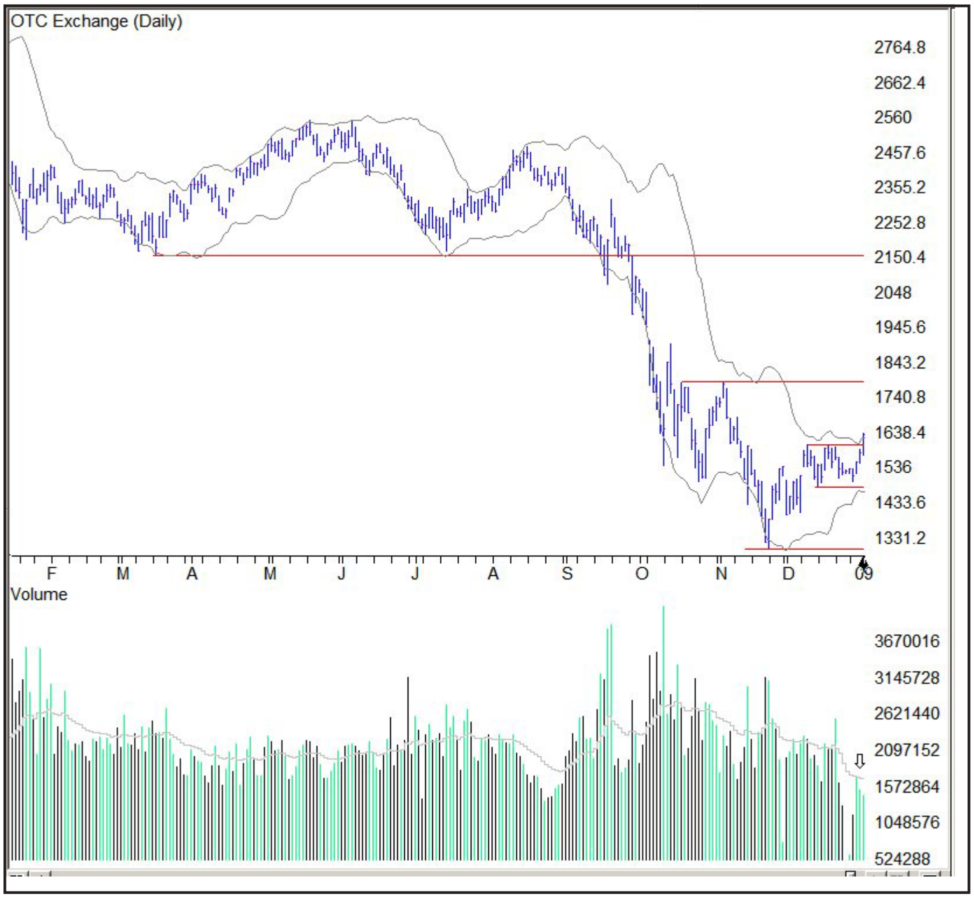



**Figure 1** NASDAQ Market

**Risk Management:**

In an indecisive or uncertain market I will just be trading a portion of myaccount, using a few trading positions. When an individual trade hits either the stop or limit order (which I enter after getting filled) I can then look for another setup that triggers to replace it. For example, in a trending market I might be trading 10-15 full size positions. In an uncertain market I might be trading 3-5 half size positions. When all the positions I am willing to trade in a given market condition are filled, I either let new triggers go, or have to close an existing position to make room for a new trade. I focus on adjusting the number of trading positions and the position sizes as a way of controlling risk in different market conditions.

## Long Trade Opportunities:

Focus on Long setup's that hit the price trigger when the market is bouncing off support, breaking above resistance, or in a clear up trend. See information on Market conditions above to determine if longs are appropriate. Do not take positions just because they reach the price target, check volume and market conditions to determine if taking a position is appropriate. An Initial protective stop loss is typically placed just below the low of the pattern. If the set up does not trigger the next day, watch the pattern for a few more days. Interesting Long set ups include:

**AU** on a move above 28.21. Base.

**BRCM** on a move above 17.77. Double Bottom.

**DLTR** on a move above 42.67. Pullback..

**HEI** on a move above 40.61. Accumulation.

**MAXY** on a move above 9.26. Accumulation.

**RGLD** on a move above 50.06. Accumulation.

**SLW** on a move above 6.97. Accumulation.

**PLD** on a move above 14.73. Accumulation.

## Shorting Opportunities:

Focus on Short setup's that hit the price trigger when the market is retracing from resistance, breaking below support, or in a down trend. See information on Market conditions above to determine if shorts are appropriate. Do not take positions just because they reach the price target, check volume and market conditions to determine if taking a position is appropriate.

An Initial protective stop loss is typically placed just above the high of the pattern. If the set up does not trigger the next day, continue to watch the pattern for a few days. Interesting Short set ups include:

**ALOG** on a move below 25.89. Base.

**FE** on a move below 47.89. Retrace.

**GCO** on a move below 15.88. Retrace.

**HNT** on a move below 10.68. Retrace.

## ETF Corner:

Exchange Traded Funds, REITs, and closed end funds may have low volatility and thus may provide opportunities for intermediate term holdings. Some are not strongly correlated to the market, and provide interesting trading opportunities in poor market conditions. I generally trade these using trend lines for entry and exit points.

I watch for trend line breaks on pull back's, or a break above a long term descending trend line for entries. For exits I look at topping patterns and breaks below ascending trend lines. The volume is often low on ETF's, so I use limit orders for entry and exits.

I generally hold ETF's longer than stocks and look for movement on declining volume, approaching resistance/support, or when the market approaches resistance/ support, as times to take profits and move on to another ETF setup. ETF's that currently look interesting include:

**DBC** is interesting if it breaks and stays above the descending trend line drawn between the highs of 07/11/08 and 09/24/08. A break above the 22.60 area also indicates a double bottom pattern.

**EEM** is in the finishing stages of a double bottom pattern and looks interesting on a move above the 26.77 area.

**EWJ** is forming a triple bottom pattern and looks interesting on a move above the 9.76 area.

**EWM** is breaking above an eight month descending trend line and looks interesting around current levels with a stop under the recent low in the 6.89 area.

**FXI** is interesting if it breaks above the descending trend line drawn through the highs of 05/19 and 07/23.

**SLV** has started forming higher highs and higher lows and looks interesting around current levels for a small test position with an initial stop in the 10.49 area.

## Trader Tips:

Finding good swing trading set ups is fairly straight foreword. However, just taking every trade that comes along will lead to mixed results. The leverage in Swing-trading comes from learning to time the trades with the rhythm of the Market. This requires spending some time in the school of hard knocks, and learning to focus on the charts; not emotions or CNBC.

When the Market is trading in a base the best time to take new swing-trades on the Long side is when the Market bounces from the bottom of the base. New Short trades should be taken when the Market retraces from the top of the base. The middle of the base is the 'no zone', avoid new trades in this area and manage existing trades instead.

Sometimes the top and bottom of a basing area are flat, making it easy to tell when the Market is approaching support or resistance. Frequently the top and bottom of the base slopes which makes it a little harder to tell if the current swing has reached the upper or lower boundary of the base. In practice it is often best to close positions as the Market approaches support or resistance rather than trying to time the exact top or bottom.

The number of positions I take at one time depends on the market conditions. When the market is in a strong trend I want to be fully invested, this is the least risky time to trade. When the market is in a wide base I usually trade half size positions. When the market is in a narrow base I usually stand aside or take only one or two small positions. I let the market conditions tell me when and how much to trade. This is why the first section of the Letter looks at market conditions.

The NASDAQ tends to lead the other indexes on both the up and downside. It is generally the first to indicate a change in trend and is more representative of the overall market. The DOW doesn't tell you much about the market, but is the one the news always reports (there is a message there). SPY is a good indication of how big caps are doing, but does not include much in the way of mid and small cap stocks. In short, I use the NASDAQ for market timing because it works better than the others. I do not limit my trading to only NASDAQ stocks. I just use the index to gauge the health of the overall market.

I watch the market for awhile after the open, but it is not necessary for swing trading. I don't take trades just because they trigger, I also need the market conditions to be favorable and I adjust the number of trades based on the market conditions.

I generally do not wait for a stop to take me out of a position, I close them when they approach resistance or support, if they start moving on low volume, or if the market approaches one of the key levels noted in the Letter.

The Letter is an outgrowth of my process of writing down my trading plan every evening. It is something that reflects my thoughts after running my scans and reviewing the market. I use the first section to determine whether or not I should be trading and if so which direction and how aggressively. If the market is favoring Longs then I look at any long setups that trigger and decide to take them based on the volume, and what the current market conditions tell me about how close to fully invested I want to be. If the market is favoring Shorts then I analyze the Short triggers in a similar way.

**About the Author:**

Steve Palmquist a full time trader who invests his own money in the market every day. He has shared trading techniques and systems at seminars across the country; presented at the Traders Expo, and published articles in Stocks & Commodities, Traders-Journal, The Opening Bell, and Working Money. Steve is the author of, "Money-Making Candlestick Patterns, Backtested for Proven Results', in which he shares backtesting research on popular candlestick patterns and shows what actually works, and what does not. This best selling book is available through:

www.daisydogger.com.

Steve is the publisher of the, 'Timely Trades Letter' in which he shares his market analysis and specific trading setups for stocks and ETFs. To receive a sample of the 'Timely Trades Letter' send an email to

sample@daisydogger.com.

Steve's website .daisydogger.com provides additional trading information and market adaptive trading techniques.

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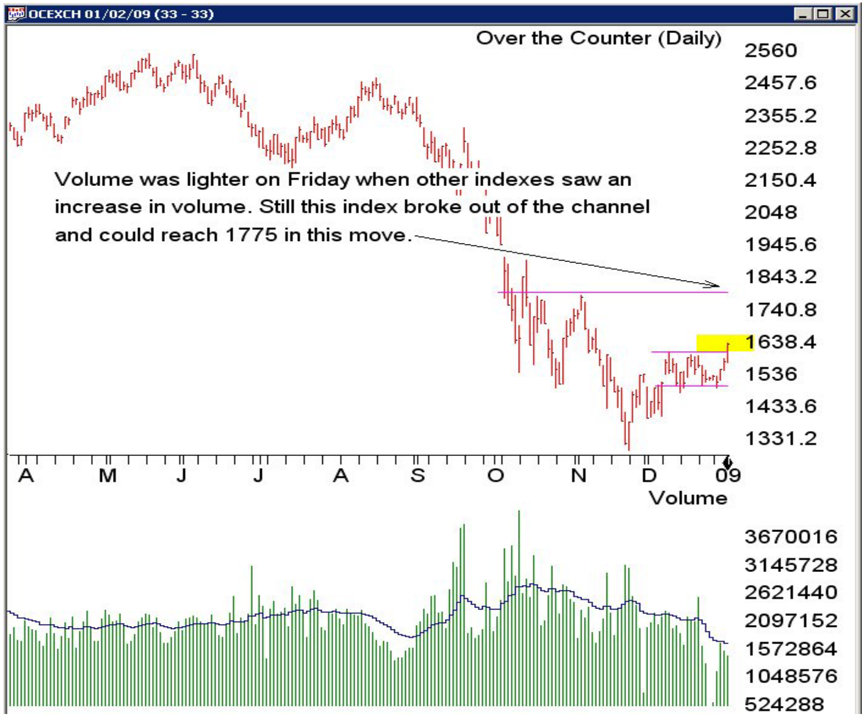
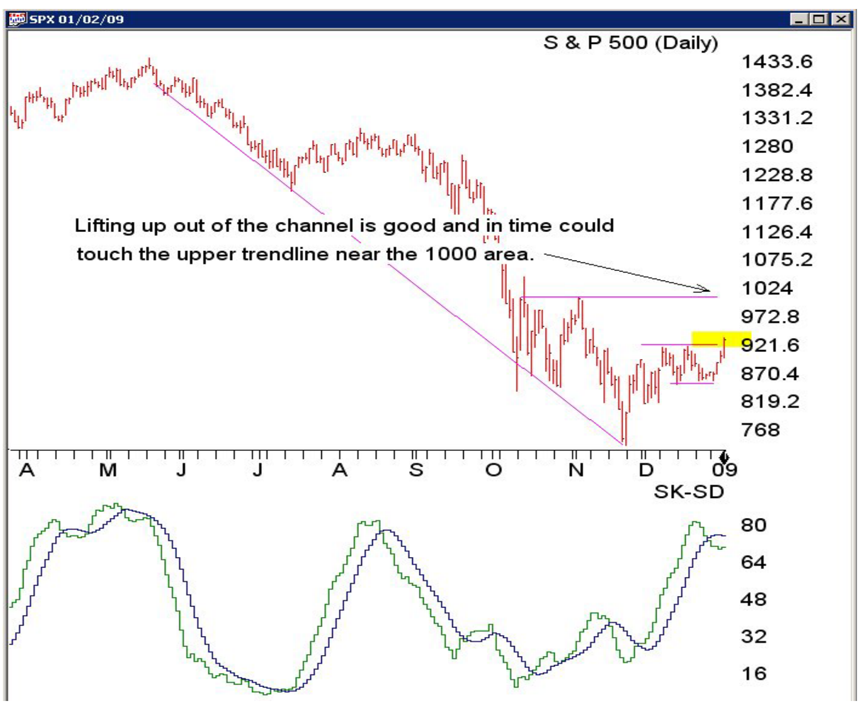
# The Zanger Report Jan 4, 2009

**By Dan Zanger**

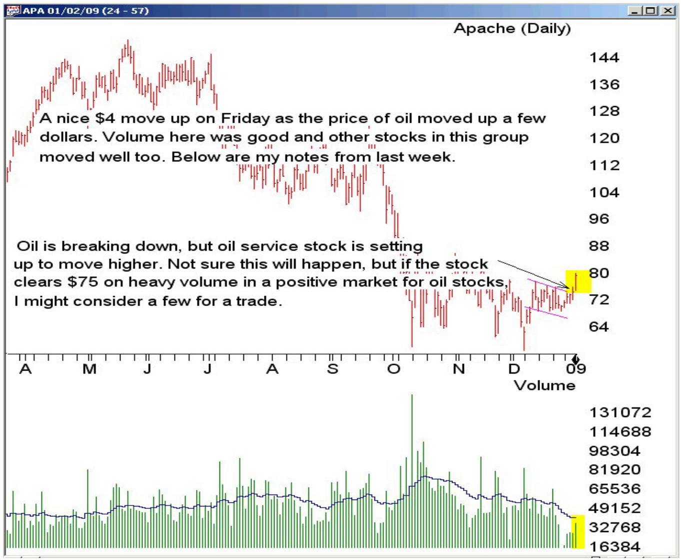
Hello out there stock fans. The S&P-500 and the NASDAQ have finally broken out of their small channels after three consecutive up days on light holiday trading. And while breaking out of these channels should be positive for at least two to three weeks, one has to be careful the first few days of the New Year as this time is often filled with wild swings.

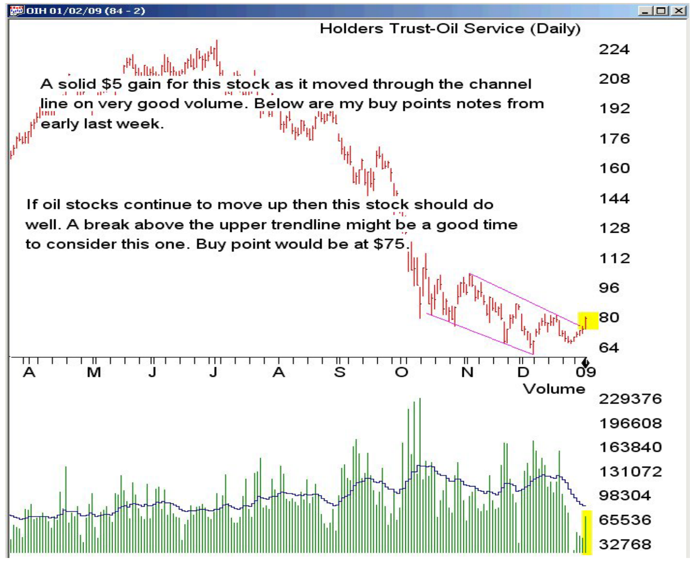
Let's see those channels on the leading averages.

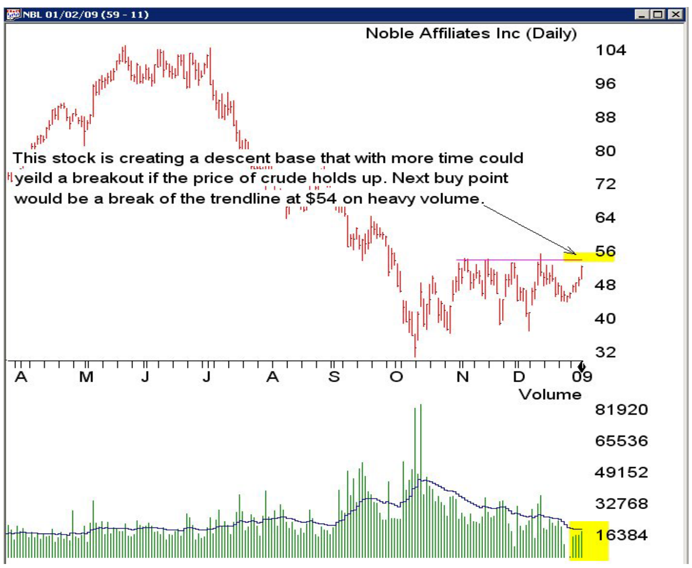


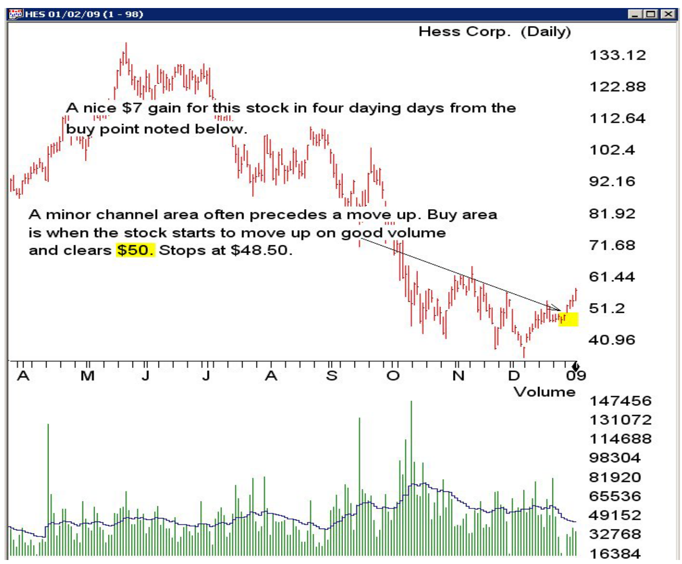



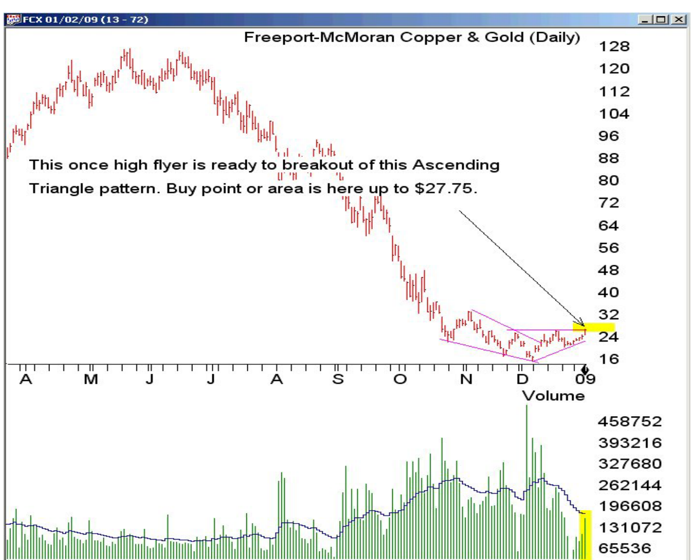
My short term trading oscillator closed at a very high overbought reading of plus 71 on Friday. A reading this high leaves little room for another big up day at this time, but usually suggests some weakness could be coming up in a day or two. Now on to some of the best moving stocks in the market, many of these stocks were up from $3 to $15 each by the end of the day.

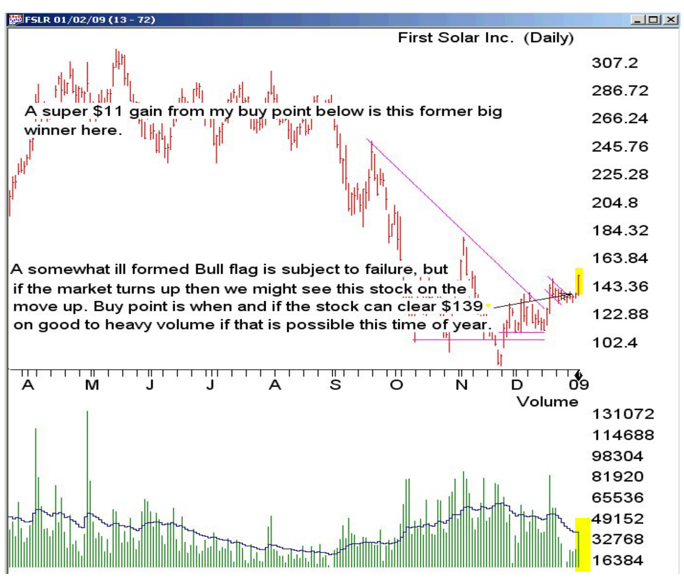


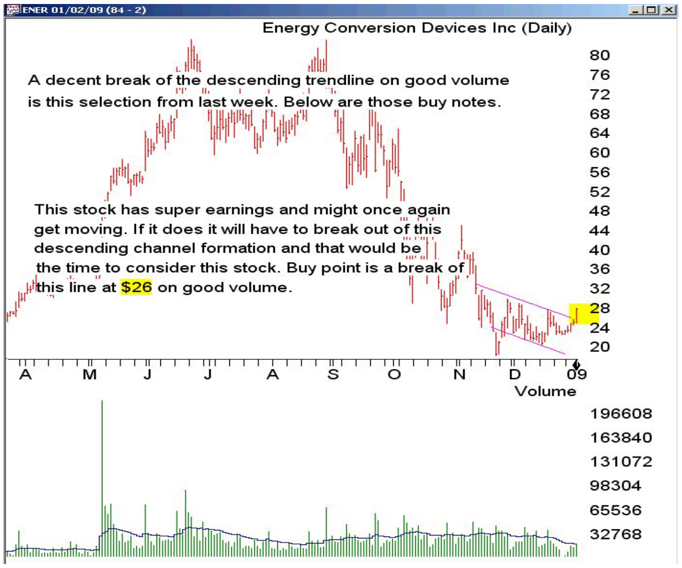



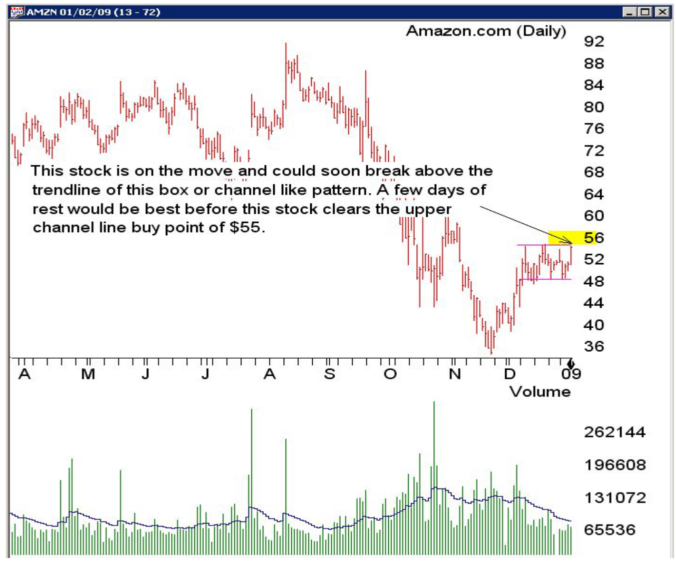



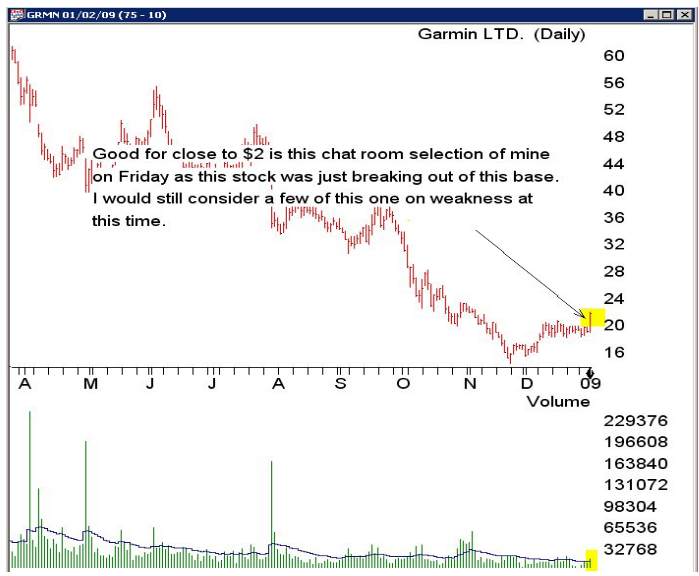










## About the Author:

Dan has been featured in FORTUNE MAGAZINE and appeared on a segment of EXTRA TV. He was also the weekly host of his own half-hour show on the Business Channel in LA and featured in numerous leading trade magazines such as Active Trader, TradersWorld, Forbes and Stocks & Commodities.

Dan has been an AIQ user since 1992 and uses AIQ's advanced list feature in charts for his daily stock screening. More info on Dan's newsletter can be found at Chartpattern.com.



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# Bartometer Market Outlook

**By Joe Bartosiewicz, CFP**
Devon Kay Financial Group

2008 will go down in history as the worst year in the stock market since 1931. The Dow Jones had a negative 34% return and S&P 500 had more than a negative 37% return in 2008. In addition, the NASDAQ and the MSCI fell more than 40%. This market is suffering and will continue to have a hangover until investor confidence is restored and there is a true belief that there is light at the end of the tunnel. 2009 will be tough for many companies in not only the USA, but throughout the world. The outlook for earnings and revenues can remain subdued for a majority of companies in the world. These companies have not seen conditions like we are presently encountering in several years and many companies have never seen conditions this bad.

Demand is falling for many companies throughout the U.S and the rest of the world and the world economy has yet to absorb any slack. The US dollar has risen over the past few months making our products a little more expensive to foreign purchasers of our products. The US dollars upward trend should reverse to the downside as we continue to expand our national deficit. Given the larger national debt, the US dollar should again start to fall.

The US Government made many mistakes that caused the credit crisis. They are just beginning to rectify their mistakes and the economy is now being injected with liquidity that should mitigate some of the current negative conditions we are all experiencing. This will hopefully reverse the downward spiral. I believe the US and world economies will continue to fall through the winter and spring.

Even though the market has fallen, and most people may have lost faith in the possibility of an economic recovery any time soon, economists and money managers now believe that although economic conditions are less than desirable now, there are great long term values in several undervalued selective stocks, corporate bonds, municipal bonds, real estate investments, energy companies, commodities, and other investments.

The light at the end of the tunnel should start to get brighter in mid year to the third quarter according to many analysts. My opinion is the stabilization in the economy and any recovery will be tepid, at best. Given the leverage for many companies have been reduced substantially, and earnings forecasts for the S&P 500 are at $50-52 according to Abbe Joseph Cohen of Goldman Sachs, the market is selling for 16-18 times next year's earnings or more if earnings fall more. These same markets in 1974 and 1980 sold between 5-7 times earnings, which is significantly cheaper than the current price levels. However, interest rates were much higher in 1974, and in 1980 rates were in excess of 19%. Interest rates are currently extremely low. Analysts are looking at PE ratios as well as price to cash flow, price to sales and price to book to determine value.

The market has been trading in technical patterns and within ranges, making this a trader's dream. The market has everything a trader wants: Volatility, liquidity, news, and a trading range that is accommodating, where traders are buying the dips and selling the rips. I have been trading on the news. Currently, I have been BUYING as the market dipped to the 8400 and 850, on the Dow and the S&P respectively, as technical indicators have started to turn somewhat positive.

**There has been a sloppy negative descending triangle, and risingwedge pattern that has put resistance at the 8800-8874 level, so I am watching these levels VERY CLOSELY for an upside breakout.** If you look at the chart below, on the Dow chart you will notice a descending triangle that has resistance right at 8770, literally right where we closed Wednesday. If Friday is a big up day on heavy volume, we may have a quick rally to the 9150-9350 area or higher, but Monday is the day to watch.

**We cannot put too much credence in Fridays trading. Monday is the big day. Analysts believe we are putting in a bottoming process. This process has further to go, and will continue until the conviction and investor confidence rises to a sustainable level in the future.**

Where do most analysts see the markets trading this year? The top analysts see the market rising about 10-20% for 2009 if you listen to CNBC. Will that happen? Time will tell. I do believe that 2009 will be a good time to buy, but I cannot forecast the end of the year. Currently analysts are putting in educated guesses and beliefs. No one really knows. Historically, the equity markets are the best place to have money over the long term. 72% of all money managers consider the stocks undervalued at this time.

## Market Strategies

My computer models are NEUTRAL to SOMEWHAT BULLISH, BUT OPPORTUNISTIC

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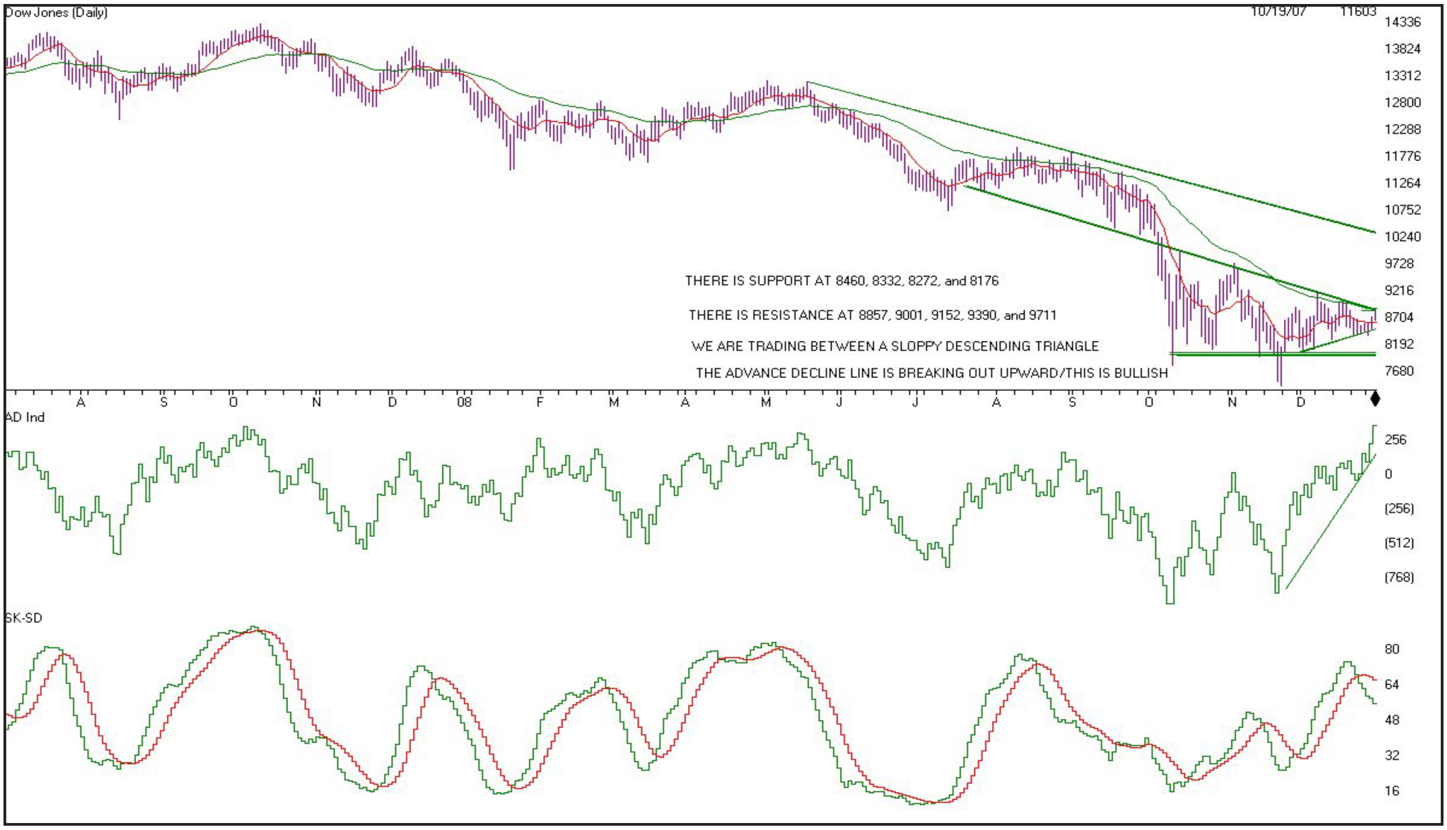


**Figure 1**.Dow Jones descending triangle

If you look at the Dow Jones chart above, you will notice a down trend line right at 8776. We closed Wednesday right at resistance. Friday and Monday are going to be do or die. Either we break out of that pattern that you see above or we sell off and right back in the triangle. 8857 is also the 50 day moving average, putting in some resistance as well.

If we breakout Friday or Monday you will find some resistance at 8857 area, 9001, 9152, 9390 and 9711. These are numbers we can trade around them within 10-20 points. This close is the most important.

If we break down, there is support at 8460, 8332, and 8176, if we break below 8,000 on a close and definitely 7935, we should again test the lows. I don't believe this will happen as the technicals look pretty good.

**The second chart above (Figure 1) is the SD-SK stochastic chart. The cross on the downside shows loss of momentum. This means that we might have a rally then a turn lower. This again is a traders market.**

**MY COMPUTER MODELS ARE NEUTRAL TO MILDLY BULLISH, I AM OPPORTUNISTICALLY TRADING**

**Technical Analysis is based on a study of historical price movements and past trend patterns> There is no assurance that these movements or trends can or will be duplicated in the near future. It logically follows that historical precedent does not guarantee future results. Conclusions expressed in the TA section are personal opinions: and may not be construed as recommendations to buy or sell anything.*

**WE ARE STILL IN A TRADING MODE.**

## S&P 500

ON THE S&P WE ARE AT THE 82 LEVEL ON THE STOCHASTICS CHART (**Figure 2 next page**), WE ARE OVERBOUGHT. THIS IS NEGATIVE. WE NEED MORE DOWNSIDE TO GET US OVERSOLD. POSSIBLY TO THE 800 TO THE 817 LEVEL IF 800 IS BROKEN ON THE DOWNSIDE, WE SHOULD TEST THE OLD LOW OF 742.

LOOK FOR RESISTANCE AT 918, 931, 954, 987 and 1007. IF WE HAVE A BREAKOUT ON HEAVY VOLUME, WE NEED TO BREAK 921. IF THAT HAPPENS, WE DON'T HAVE ANY RESISTANCE UNTIL MAJOR RESISTANCE UNTIL 954 THEN 987, AND 1007.

S&P 500 DOWNSIDE SUPPORT IS AT 875, 857, 817, 800 and 741

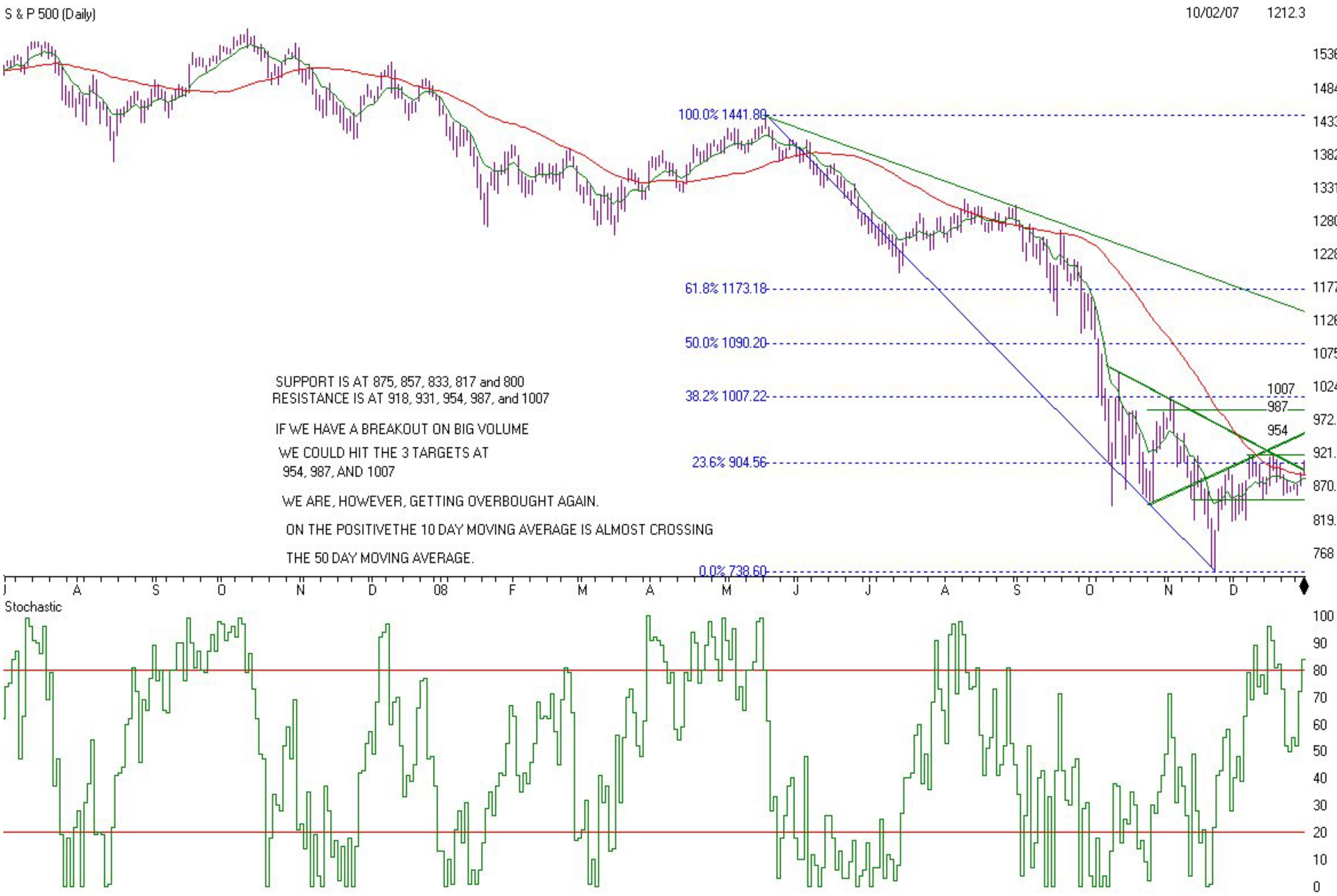


**Figure 2.**S & P 500 index with stochastic

The S&P price to earnings multiple for next year is not cheap; this means that this market can fall further. CAUTION IS STILL ADVISED. ALTHOUGH I AM OPPORTUNISTIC, I AM NIMBLE.

**Indexes cannot be invested in directly, are unmanaged and do not incur management fees, costs and expenses. No investment strategy, such as asset allocation, can guarantee a profit or protect against loss in a period of declining values.*

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## NASDAQ

MACD OR MOMENTUM IS SHOWING A MOVE TO THE UPSIDE (**Figure 3**). THERE IS HEAVY RESISTANCE AT THE 1595 LEVEL. IF THAT BREAKSOUT WITH HEAVY VOLUME, WE COULD TRADE TO THE 1649 TO THE 1680 ON ANY OBAMA INAUGURAL RALLY

THERE IS RESISTANCE ON THE UPSIDE AT 1595, 1649, 1680, 1707, AND 1778.

THERE IS SUPPORT ON THE DOWNSIDE AT 1512, 1478-1488, 1385, AND 1300.

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### Technicals

My technicals have brought in some positive results this week. These numbers are for the Dow Jones, and no other index..

- Þ On Balance Volume % is positive
- Þ Volume is neutral
- Þ The advanced Decline Line and oscillators are now positive
- Þ (MACD) has crossed to the upside (positive)
- Þ Volume accumulation percentage is now positive

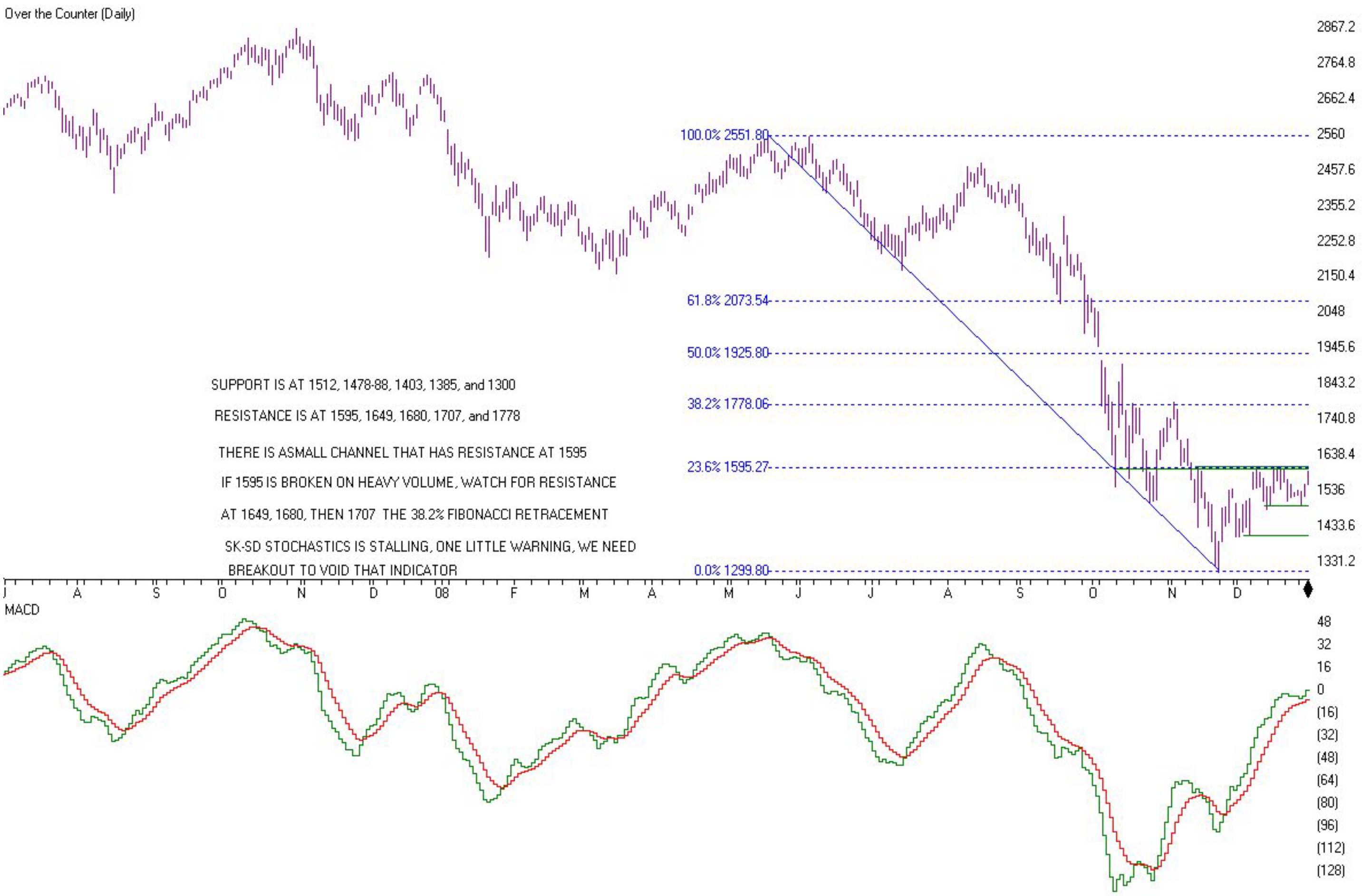


**Figure 3**.NASDAQ with MACD

Þ The Hi-Lo index is going up.

Þ Point and Figure Charts is positive

Þ Money Flow is neutral

Þ Stochastics is neutral

Þ OBV overall is flat neutral

Overall, most technical information is mostly neutral to somewhat positive

## Conclusion:

My computer models are still NEUTRAL TO SOMEWHAT BULLISH currently, IF WE BREAK OUT OF THE 8900 LEVEL we could have a spike to the upper 9152+ area and may selloff a little. This market has had too much damage in confidence. We could trade to up to the 10,300 its downtrend line area or possibly to the down to the 7000 area depending on the news and expectations so you really have to be nimble in this market. I do believe in capitalism even though there have been many times I question or trust certain aspects of it.

We will continue to trade in a volatile way over the next few months. If you are serious about trading or being a long term investor in the market do not trade on emotion, trade, buy or sell on logic, and on true value.

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**There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio in any given market environment. No investment strategy, such as asset allocation, can guarantee a profit or protect against loss in periods of declining values.*

## About the Author:

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