

Falling Hook, Line and Sinker into a Bull Trap?

Every time a minor or intermediate top has neared formation over the past several months, there has been a somewhat consistent trend that has taken place.

A certain combination of fundamentals-driven noisemakers (using the megaphone of the ever-willing mainstream financial media) calling the worst of the _____ (fill-in scandal or worrying-point of the month) -crisis over, and of the trend-following segment of the technical crowd screaming "breakout"/"imminent breakout"/"buy, buy, buy", has come together in unison to scream the birth of a new trading rally.

Each time, that cry has proven to have been plain wrong and, after today's Fed announcement, they're at it again.

Now, we're not going to try and say that we have a crystal ball that tells us that those groups will be wrong yet another time, but we find it our duty to show you one or two signs that have crept up on the charts that possibly point to a bull trap in-the-making...

The following is an adaptation of the Nightly Commentary piece provided to members of TheMarketMessenger.com on Tuesday, Aug 5, 2008...

Good evening,

SPX, INDU, NDX and a host of other indices made big strides today. It would be interesting to note that a good portion of the day's gains actually came before the Fed event.

While not claiming to have a crystal ball, we'd stick our necks out and say that this move might just be a head fake and that the indices may soon move back to the lows or at least find temporary resistance at these levels. It's just a statement of caution that is borne out of two facts.

The first is the fact that the markets have become famous of late for initially moving in the "wrong" direction immediately following a Fed announcement.

We'll get to the second point by the end of tonight's commentary. Let's take a look at the charts first.

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SPX has rallied back to minor resistance at 1285.

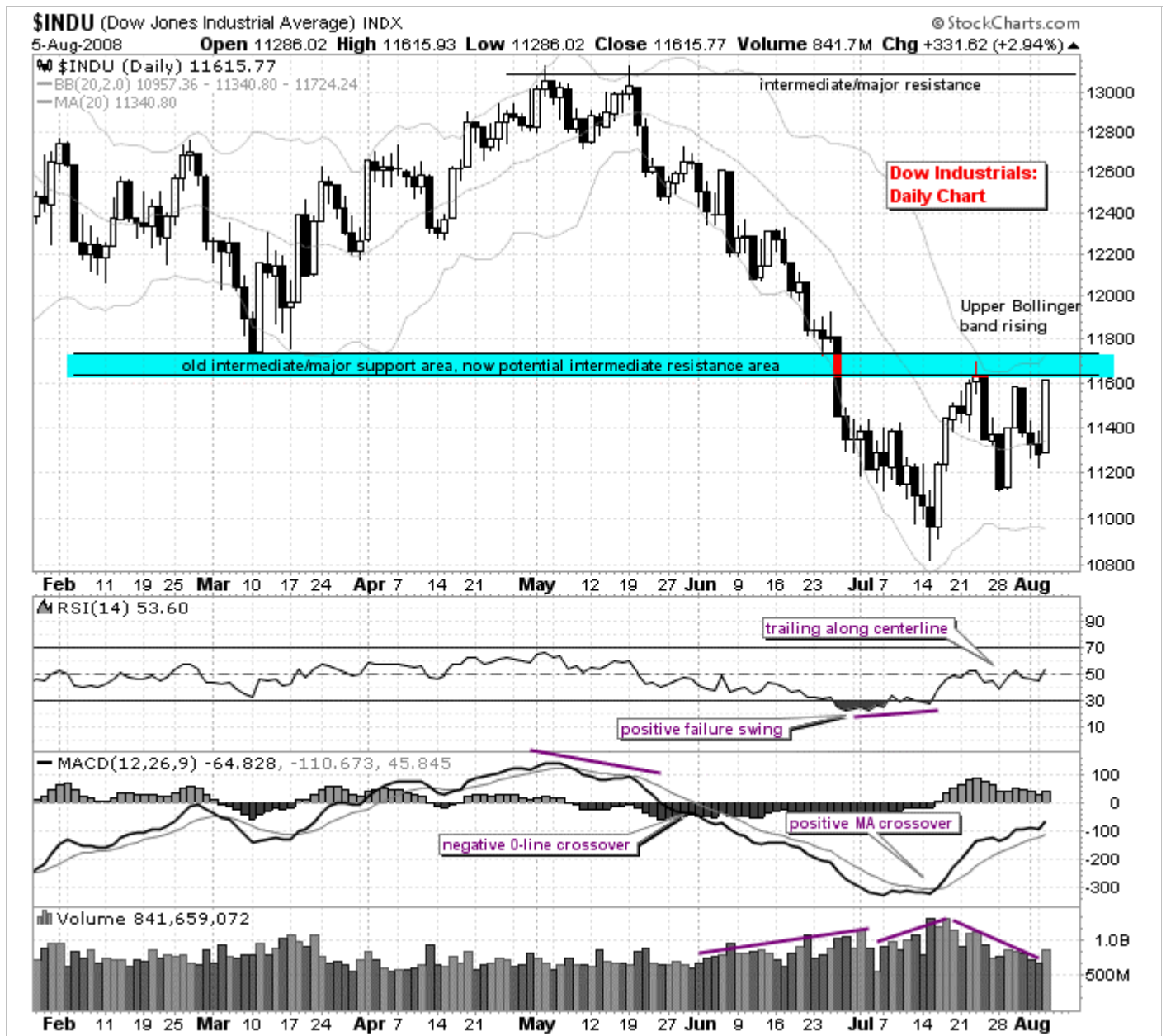
RSI is back above its centerline; we'll to see if it is still above that level tomorrow, before calling it a positive crossover and a potential buy confirmation signal. Until then, it would be prudent to harbour doubts.

MACD is rising and still hasn't even reached its 0-line.

Volumes were decent but short of spectacular.

The Upper Bollinger Band is flat or possibly rising slightly and lies around 7-10 points above today's close. If the band is flat tomorrow, expect resistance from it. The bulls will want it to start rising sharply because they know that if it doesn't, resistance will be found once again.

Dow Jones Industrials Average - Daily Chart...



The Upper Bollinger Band on the Dow is rising. That's good news for the bulls.

However, the price resistance level of 11630-11740 remains to be conquered. Let's see if that level can be taken care of any time soon. Until then, we are forced to expect it to provide resistance.

Nasdaq-100 Index - Daily Chart...



The second big reason that we doubt the potential for much further upside in the markets over the near-term is as a result of what can be seen clear as day on the NDX chart, above.

The upper Bollinger Band on NDX is flat. It's not rising slightly or falling slightly, it is flat as flat can be.

Now, we'll want to look at the band immediately after the open tomorrow. There is the possibility that there could be a drastic shift in the band after tomorrow's open but, short of something spectacular, the band is probably going to remain somewhat flat and, even if it does rise a little, it's probably unlikely that it will do so by much.

Barring a spectacular shift in the upper band, a return to the 20dMA or even a move to the lower band might be imminent. If that does happen, we'd be surprised if it stopped there...

That's it for this issue of Purely Technical.

Good luck with your trading!

Asher Pinto

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