

Short Now, at Your Own Peril

The following is an adaptation of the Nightly Commentary piece provided to members of TheMarketMessenger.com on Tuesday, Sep 9, 2008...

Good evening,

Like we clearly stated over and over again in Sunday's weekly commentary - the technicals were pointing towards a move back towards the July-lows and Monday's news-induced bounce has been relegated to the history books.

Don't say that we didn't warn you about this possibility.

In fact, we even mentioned, yesterday, that if you're solely trading long or short stocks, you've probably got less than a 50% chance that you're going to be able to profit (because the current market volatility might force you into getting stopped out of your position, even if the stock eventually moves in the direction you thought it would).

Time and time again, we've said that as far as we are concerned the majority of one's swing-trading positions should be in volatility options strategies, at the moment. Stocks should only be used for very short-term positions, for quick profits and no more. (Caveat Emptor)

Each of the major indices lost around, or more than, 2.4% today. That's a hiding, by any measure. All of Monday's gains have been lost and then some.

So far, everything has been rather predictable.

Now, you're probably going to find every Tom, Dick and Harry technician-wannable jump on board the "let's-short-this-sucker-'cause-it's-going-to-hell train".

Despite the fact that we've continued, over the past several weeks, to maintain our hunch that the markets would revisit the lows that were put in place in July (and that is exactly what's happening at the moment), we're not necessarily going to bet the farm that those levels will be taken out on the way to much lower levels.

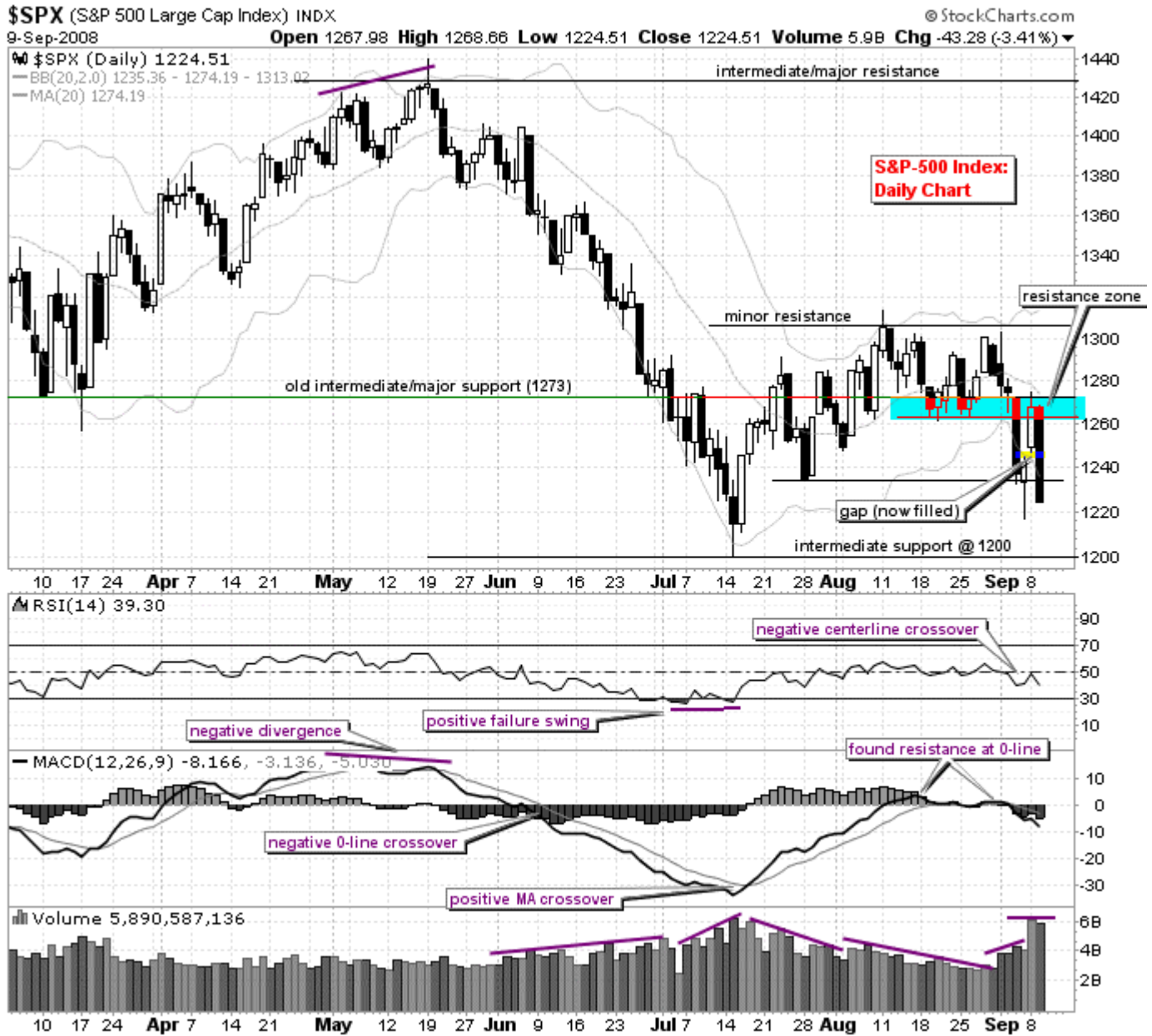
Much lower levels are sure to come eventually, but we're not going to ignore the fact that there are a few solid intermediate support levels just below current levels and that the potentiality for at least a temporary bounce is present.

Bottom line...

You won't find us adding any new short positions - there are and have been a good number of short picks over the past couple of weeks on which we'd like to book profits before getting too greedy - until or unless there is a clear-cut break of those support levels and any such breaks are confirmed by the momentum indicators.

(contd.)

S&P-500 Index - Daily Chart...



SPX lost a whopping 43.28 points (3.41%). We'd pointed out the gap yesterday and said that it would soon need to be filled. Lo and behold, that has been accomplished, and then some.

It was another ~6B volume-day. What a change from the preceding few weeks!

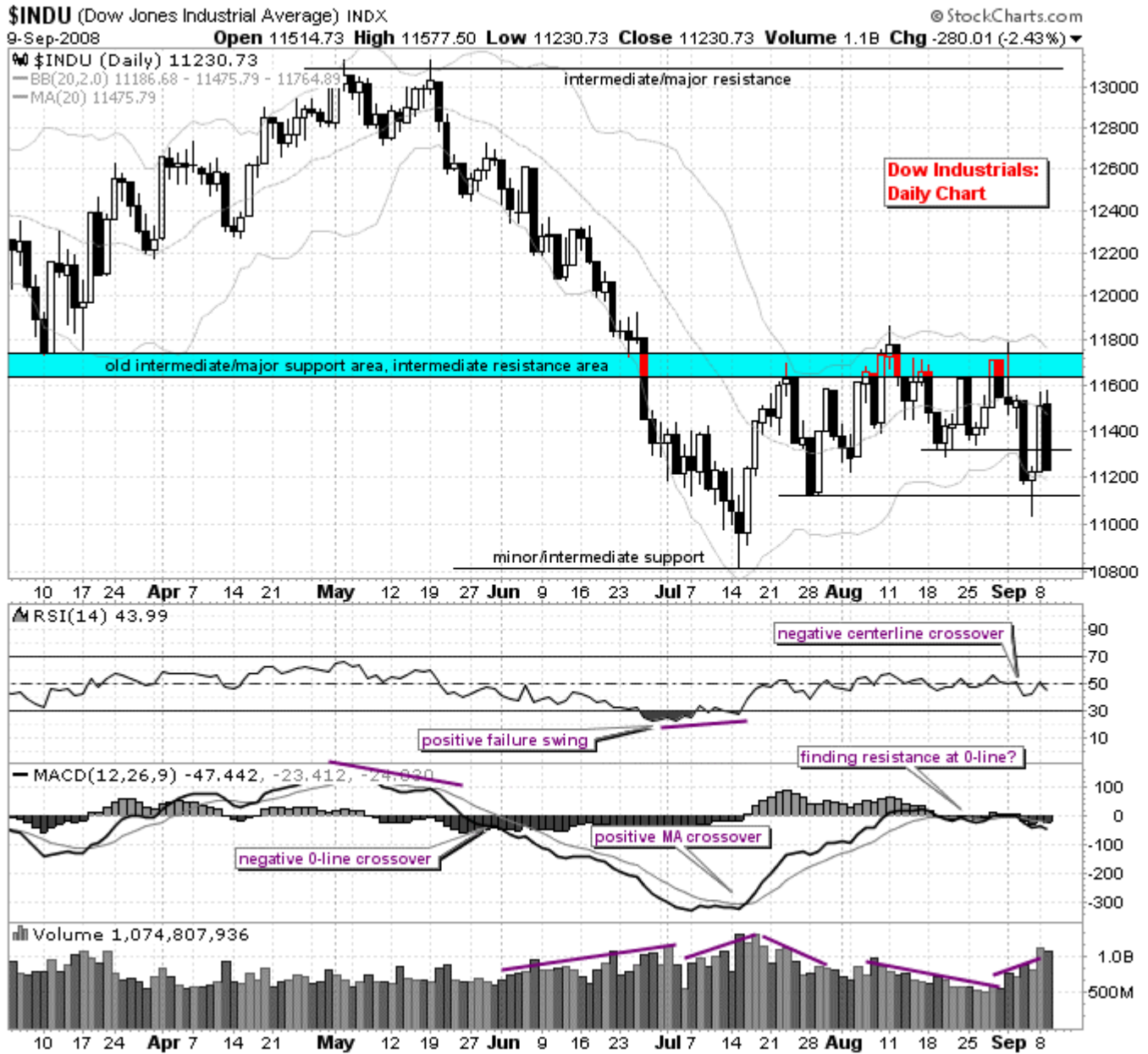
The momentum indicators have just started to descend from their centerlines and there is lots of room to the downside.

However, you'd be foolish to ignore the glaring source of support at 1200, which is now barely 2% below current levels.

Prices are outside the lower Bollinger Band, once again, and the index has closed a new minor closing low.

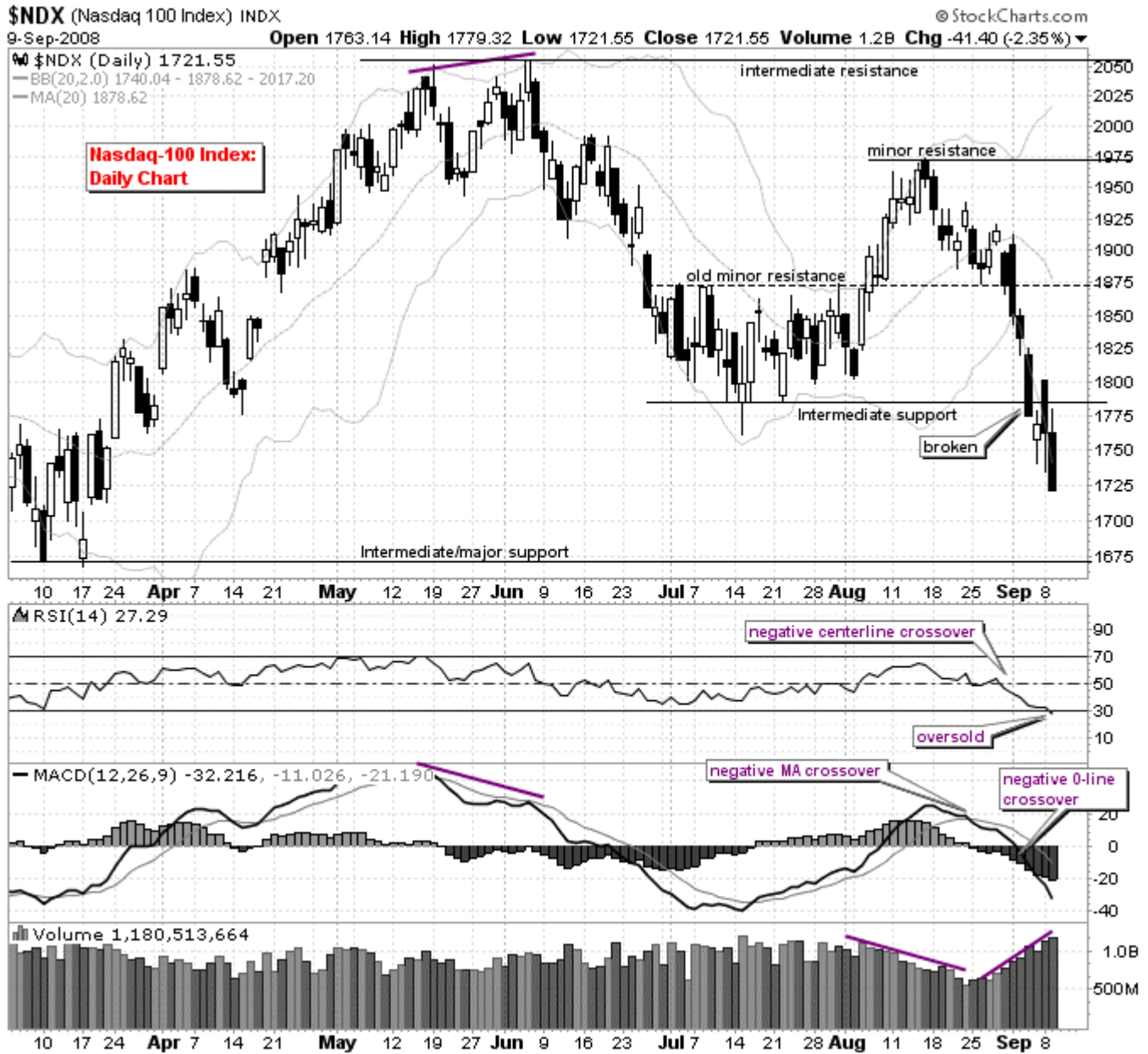
In our humble opinion... If you open new short stock positions now, you do so at your own peril.

Dow Jones Industrials Average - Daily Chart...



In comparison to the S&P-500, the Dow lost a meagre 2.4%. It has stopped just short of closing at a new minor low and lost nearly all of the gains that it had made on Monday. This index is actually still trading within its Bollinger Bands.

Nasdaq-100 Index - Daily Chart...



NDX lost about as much as the Dow today. Not as bad as the S&P-500. However, when you look at what has happened to this index over the past few weeks, it's an ugly scene for the bulls.

Having said that, we'd point out that the index is oversold and it may be perilous to bet against a reversal pretty soon. You'd imagine that if the index continues to the downside before correcting, the intermediate/major support at 1675 is as far as it would go before at least a short-term reversal or consolidation takes place. Let's see...

Volatility Index (VIX) - Daily Chart...



The VIX helped cast doubt on yesterday's move and that's why we decided to bring it to your attention yesterday. The index lost less than 2% yesterday; that was quite a paltry decline considering the big gains that the markets were displaying. Options investors were on to something, after all.

The beating that the markets took today has caused the VIX to surge 12.5% to a 8-week high. Despite that, it's no where near capitulation territory. Let's continue to keep an eye on it over the coming sessions.

That's it for this issue of Purely Technical.

Good luck with your trading!

Asher Pinto

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