

Sell Signals All Over the Place

The bears have given themselves a bit of a chance. They've managed to knock the indices lower by over a percentage point apiece today. The only thing that can be complained about is perhaps the volume, which was slightly below average. As long as the bears can keep the momentum on their side, they'll be in good stead.

Today's move was a really good start - lots of sell signals have come about - but can they capitalize?

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



SPX lost 12.75 points today. In doing so, it has not only closed below the psychological 1000-level, but it has also registered two sell signals on RSI.

Not only has the RSI reading fallen out of overbought territory, which is in and of itself a sell signal, but there is now a confirmed negative divergence on the momentum indicator.

Moreover, if there is more than a small decline tomorrow, there will be also be a sell signal, in the form of a negative MA crossover, on MACD. Not to be left out, the bollinger bands are also providing a sell signal; the upper band is now falling, which means that the bands are now tightening. That means that if prices are to attempt a quick rebound, they're likely to find resistance from the upper band.

The only thing that the bulls could cheer about as far as today's action is concerned was the below-average volume

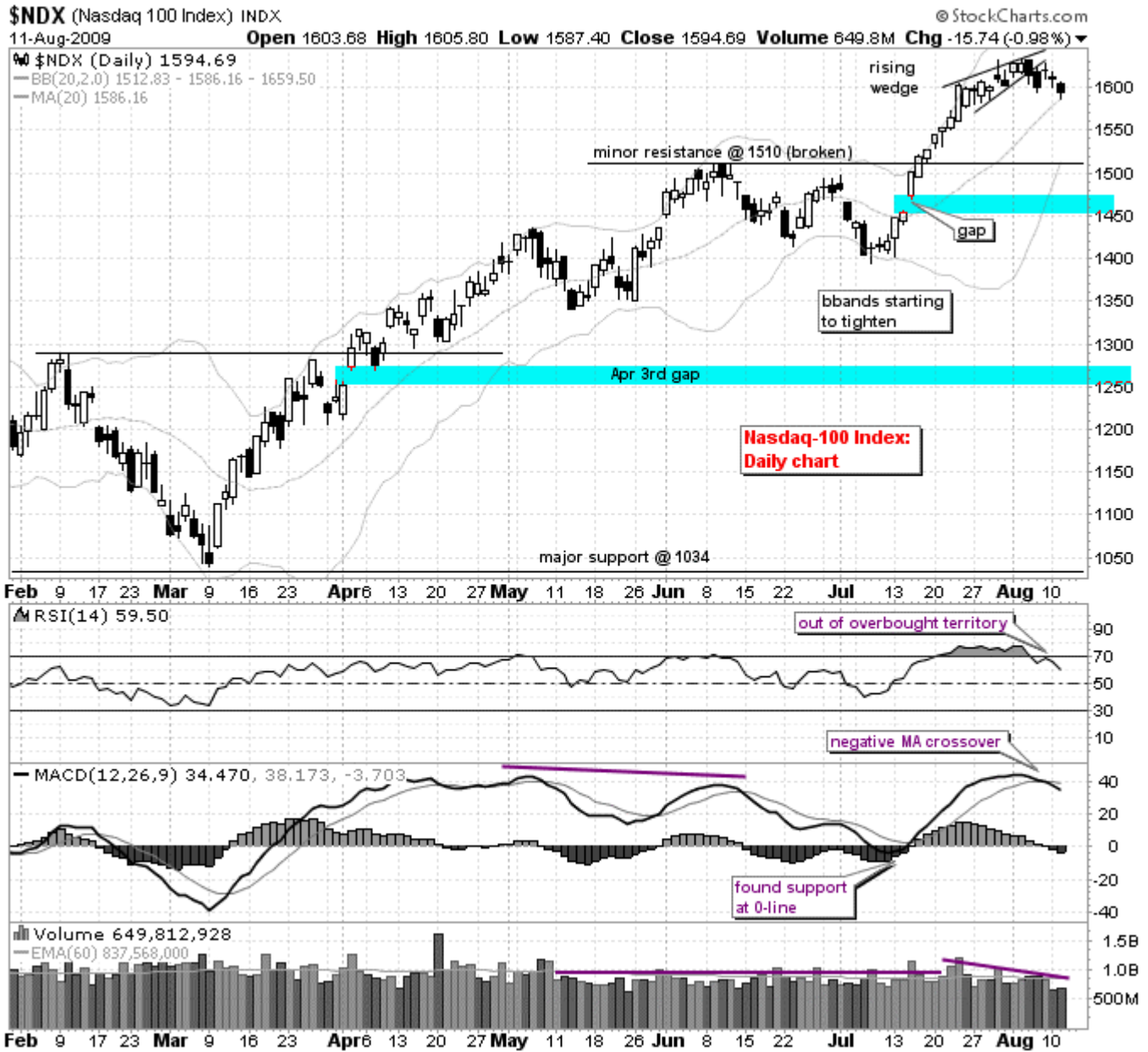
Dow Jones Industrials Average - Daily Chart...



INDU is showing similar sell signals to ones that SPX is showing. There is a negative divergence on RSI, a potential negative MA crossover on RSI, and the bollinger bands are tightening.

The bulls will need to ensure that the index stay above 9050. A breaching of that level would significantly increase the odds of a move to support at around the 8100-level.

Nasdaq-100 Index - Daily Chart...



The falling wedge on NDX has proven true. The index lost 1% today and now sits on its 20dMA.

RSI, which was well above 75 just a few days ago, is now below 60. MACD is already showing a sell signal in the form of a negative MA crossover; the fact that it is at highly overbought levels means that the index can fall a good deal (5-10% easily) before the indicator resets, much less gets oversold.

Still the intermediate trend will have to be seen as bullish until/unless old resistance at 1510 can be broken. But then there is the big gap at 1455-1475 (not to mention the one at 1255-1275), as well.

In any case, like we'd said earlier, the bears have given themselves a great chance. Let's see what they can do with it. For around a week now, we've talked about the importance of instituting (adding to)

portfolio protection measures such as protective puts, because of the potential for exactly this sort of action. In fact, we'd not look at this as just a means of protecting the huge gains that have occurred over the past few weeks, but as an opportunity to reap further gains as the markets retrace the recent climb (if they do so).

Given the developments on the charts, we do not expect any declines to be slow and steady, but rather precipitous in nature, if at all. From what we see, there is just as much chance of an immediate resumption in the rally over the coming sessions, as there is of a precipitous drop, which is why we continue to believe that traders need to hold on to longer-term bullish positions, while adding short-term puts or futures hedging positions to their portfolios.

In our opinion, getting short at this point might lead to quick gains of 10-30% on given stocks, but it comes with big risks if the sell signals actually end up proving false.

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May your trades be good ones!

Asher Pinto

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