

The frustrations of working with other people's numbers

I used to get frustrated with the market. These days it is a rare occurrence. But right now, I am getting frustrated. For the past two months I have outlined a potential way forward in the market, which I believe looks solid on technical grounds, then the market 'pulls the rug from out under my feet', so to speak and I either cannot follow through with my plans or if I do, they are cut short due to volatile swings in the market. It happened again at the end of this week. I identified some potentially strong trading candidates (see the previous PDF titled: The Old, the Blue Chip and the Speculative), but just as we seem set to position ourselves in the market, we get a 350 point drop on the DOW Jones on Thursday night our time, followed up by a 106 point loss the following night.

These sorts of downward moves serve to reinforce the bearish tone on our market on Friday and potentially on the upcoming Monday. For this reason, I have had to reassess the validity and appropriateness of the trading ideas I outlined in The Old, the Blue Chip and the Speculative PDF. This is where the frustration comes in. This market is rewarding the risky and the short term. But some of the stocks I am identifying as potential trading candidates do not fit that profile (E.G., AGK and SOL), and those that do fit the short term and riskier candidate, (E.G. NSL), are such small speculative stocks, that I find it difficult to take positions in them because as I outlined in The Old, the Blue Chip and the Speculative, we all have to chase after the stocks which are more suitable to our individual appetite for risk. In bearish markets my appetite for risk in speculative stocks is not very big so I have side stepped the speculative and not taken positions in HDN or CDS, but as we have seen, NSL and CDS have powered ahead. This is very frustrating.

And this frustration for me personally, stems from my conservatism. So, we may ask: Why am I being so conservative? There are a couple of reasons:

- We have to trade within the boundaries of our personalities and beliefs about what constitutes trading discipline. As stated above, the combination of my personality and trading discipline in market conditions such as we currently have, dictate that I stick to safer 'bets' in the market where possible. If no safe trade is possible, then I simply have to stand aside from the market.
- I am happy to day trade stocks in the Top 300 (both long and short), but I am not particularly keen to risk money on speculative positions, such as NSL or HDN in a market with a very bearish tone. Again it comes down to personality and personal rules that make up each traders guidelines. If we were in a bullish market, I wouldn't hesitate to take a position in NSL or CDS.

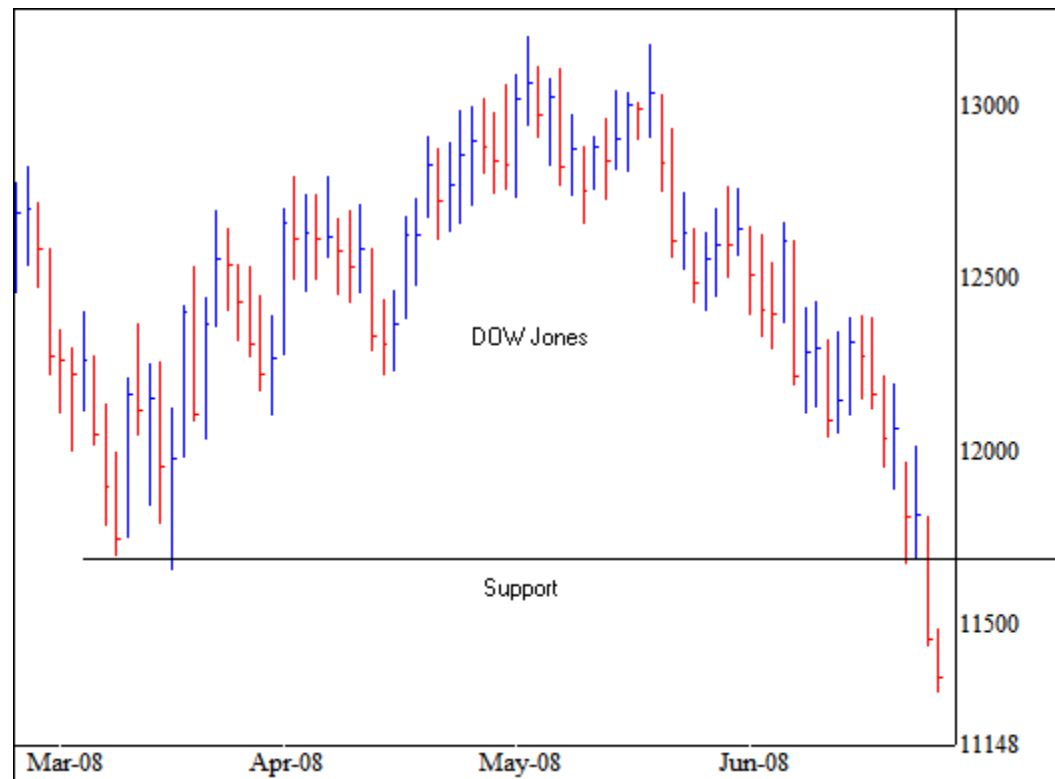
- Essentially as traders we work with other people's numbers. These numbers reflect the hopes, fears, greed and expectations of the market as a single entity. Obviously within the market, there are many varied and individual hopes and expectations. But we ignore these in favour of exploring the hopes and expectations of the herd. So we use the numbers given to us by the herd as a means of providing a framework for identifying future trends, support and areas of resistance.

So for educational and entertainment purposes let's look at what other people's numbers are telling us to expect in the future and we will use these numbers as a guide to help us work out whether or not our individual hopes and expectations for the market are accurate or misplaced.. It will also help to clarify why I have taken such a conservative stance.

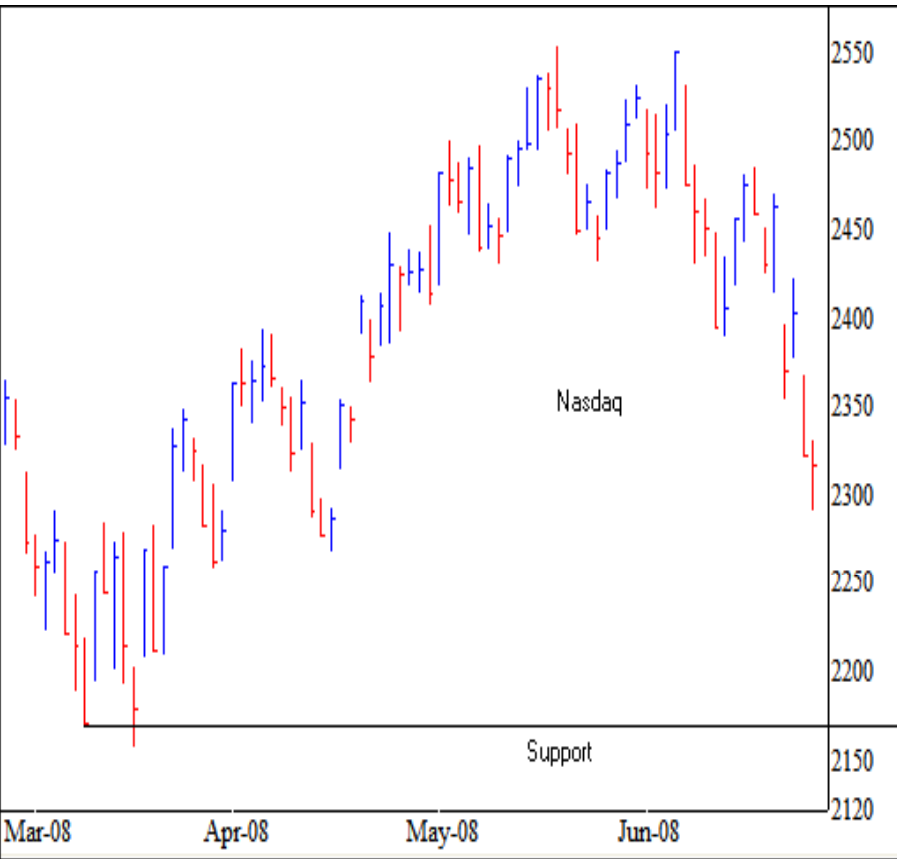
The first chart on our right is that of the DOW Jones Index. As you can clearly see, the index has fallen through recent support as it completes a bearish four month rounding top pattern.

Here are the DOW numbers that we have to work with based on traditional technical analysis.

DOW high of 13192 minus support at 11669 gives us a downside target of 10146 for the DOW. Is this a real possibility? As technicians we have to take these numbers seriously – even if we don't believe them right now.



Here are the other U.S. indices of interest.



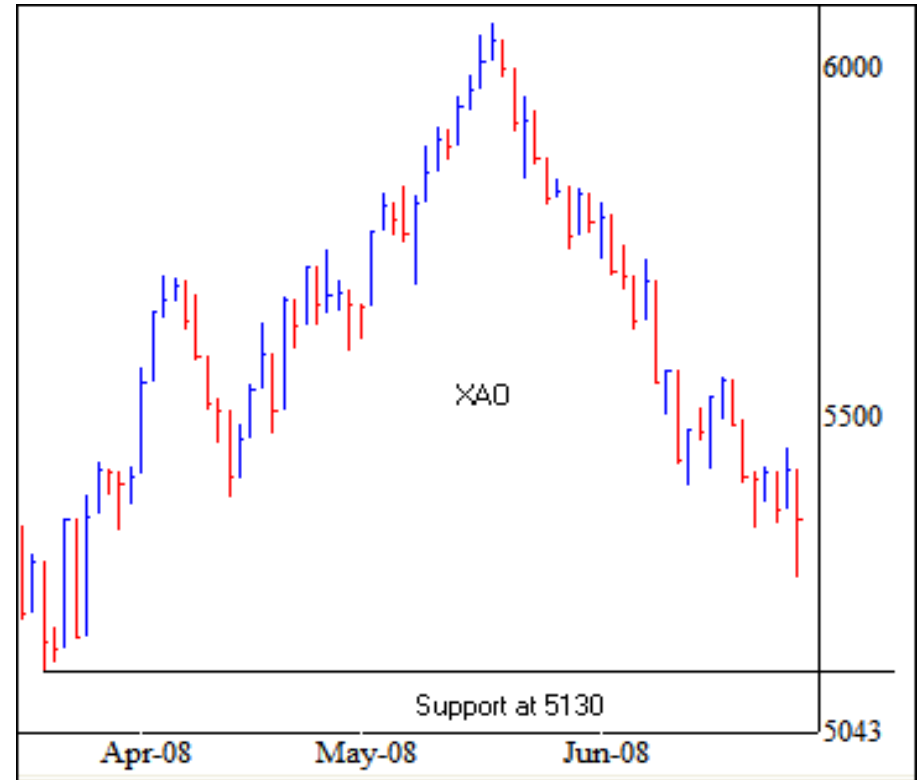
Why look at the DOW Jones and related indices? Because they influence global markets. So what about our own market? What are the XAO numbers telling us? It is indicating support is currently at 5130 so any break below that and we could be in free-fall.

The XAO is not making as nice a rounding top as the U.S. indices, but if we apply the same traditional technical formula to the XAO which we used on the DOW, we come up with a potential bottom of the XAO at 4200.
(XAO high of 6060, low 5130 = 930. Minus 930 from 5130 = 4200)

Seems impossible doesn't it? But what other numbers do we have to use as a guide? Don't forget that Merrill Lynch called the oil price at \$100 about 8 months prior to it happening and when it didn't happen with about 2 months of them making the call, the U.S. media began to ridicule the broker.

Also don't forget that even two weeks ago, U.S. finance channels Bloomberg and CNBC had professional financial analysts saying that the U.S. market looked strong and that it had bottomed and now was a time to be a buyer of the banks such as Citibank and the U.S. was not going into recession.

So while the outcomes of some events sound impossible and very negative (such as the XAO of falling to 4200), we have to keep them in mind. BUT BEFORE we even get there however, the XAO has to fall below 5130 .



So in light of this, you can now see the backdrop against which my conservative decisions have been made. And with the bearish tone on the U.S. markets and the fall of the DOW Jones below support on Thursday night our time, I had to make a call on how to play our market on Friday and that call was to avoid new entries. In short I, like other traders, have had to make our trading decisions based on other peoples numbers and it is frustrating but it is a part of trading.

So this is why I have taken a conservative stance at the moment and avoided throwing money into an unsettled market. I still like AGK – it rebounded strongly on Friday from a low of \$13.51, to close back above \$14 and above the prevailing trend line. I still like RIV – it too should resilience in the face of a bearish market on Friday. But the nature of unsettled markets mean that anything can happen and the ‘anything’ I am trying to avoid first and foremost is a dramatic fall in prices – even in resilient stocks such as RIV and AGK.

So I have only taken a position in Santos (STO) because it is the only stock of the ones recently identified by my trawling techniques which has any real bullish momentum to it (on account of energy prices and rumor of consolidation of Australian energy stocks). So I am trying to hone in on playing only the stocks with the highest probability of success in bearish markets.

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