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April 29, 2015

4/29/2015	Open Trade Watchlist				
Ticker	Market	Position	Stop	Date First Discussed	Comments
$SPX/SPY	Large Caps	Long	<$2075	1/4/2015	Above 2075, we are long; Below we are short
$VXV	Volatility	None	N/A	4/8/2015	Russell 2000 bullish VIX inverted h&s pattern
ITB/XHB	Housing	Short	Breakeven	4/8/2015	ITB performing better than XHB; stops to breakeven
XLE/SPY	Energy	Long	$0.0380	3/22/2015	Pulling pack now. Will stops be hit?
XLU	Utilities	Short	N/A	3/22/2015	Short a break of $43.00; Retesting Fibonaccis now
VGK:SPY	Europe	Long	$0.0265	12/10/2014	$.0265 tested and held last week
FXE/EUO	Currency	None	N/A	2/18/2015	The Euro is rallying in a counter-trend move
FXY/Yen	Currency	Long	N/A	4/15/2015	The Yen strengthened last week=market warning
GLD/Gold	Commodity	None	$109.50	3/18/2015	Watching the miners for a long entry
UNG	Commodity	Long	$12.35	4/19/2015	Pulled back again for another good entry point
UHN	Commodity	Long	$21.00	4/19/2015	Moving stops up to account for rally last week
NIB	Commodity	Long	$35.75	4/19/2015	Took off last week! Stay long and move stops up

Major Longer Term Themes Discussed in Current or Recent Issue

1. The S&P remains above April's Pivot at 2075. This is bullish as we look to moving stops up in May.
2. Treasuries (IEF) may have finally made the long term top I have been looking for. IEF $105 remains key
3. Junk is rallying, but the spread between investment grade and junk is not
4. The Euro's near term bottom looks to be in as we took great short profits at FXE $105; Euro Target $1.1200
5. The Yen remains highly correlated with equities. A long term trend change in it will be bearish for stocks (3/18)
6. November's lows in the precious metals held, and hedgers are now reversing their short bets; Neutral readings

Pivot Points	Pivot	S1	S2	R1	R2
Weekly:	$2,108	$2,094	$2,071	$2,131	$2,144
Monthly:	$2,075	$2,033	$1,997	$2,110	$2,153
Today's Price:	$2,107			Prepared by Chad Karnes, CMT	

The market has set a few more records that very few are talking about.

Take for instance the following analysis included in FRM's quarterly report that crossed my desk this week titled, "Have the Laws of Financial Physics Been Repealed?" (FRM is a buy side money manager based out of Little Rock, AR).

Their report focuses on the mean reversion of markets, warning that markets never move linearly forever (although that's how most analysts wrongly model financials). Trends actually do end, and the laws of economics do eventually take hold. Once these trends end, they mean revert, often beyond the historical means, resulting in a new trend in the opposite direction.

The cyclicality of the markets is not a subjective premise built out of an abstract idea. It is a mathematical inevitability built from the laws of economics (supply and demand). It is never a question of "if" a mean reversion will occur, it is just a question of "when".

FRM correctly suggests, "The hard part for the investor is that you usually do not get to invest inexpensively when everything is smooth sailing". Essentially, when things are smooth sailing (read: when complacency is high and the markets are rising) it is actually not a good time to be a buyer as the trend during such times is always nearer to its end than its beginning. The opposite of course is true as well. When the decision is harder and money is tighter is usually the better time to be investing ("buy when there is blood in the streets"). Supply and demand economics demand it.

First a few statistics FRM reminds us of and why we should be talking about mean reversion rather than linear trend extrapolation at current price levels:

- The S&P has risen for six straight years

- It's been 3.5 years since a 10% correction
- The market has risen 9 consecutive quarters, the longest streak since the 1990s
- Interest rates are at the lowest levels in 70 years
- Gasoline prices fell 123 consecutive days recently, setting a record
- Crude's stockpile is at 80 year highs
- Corporate Profit Margins are at all time highs

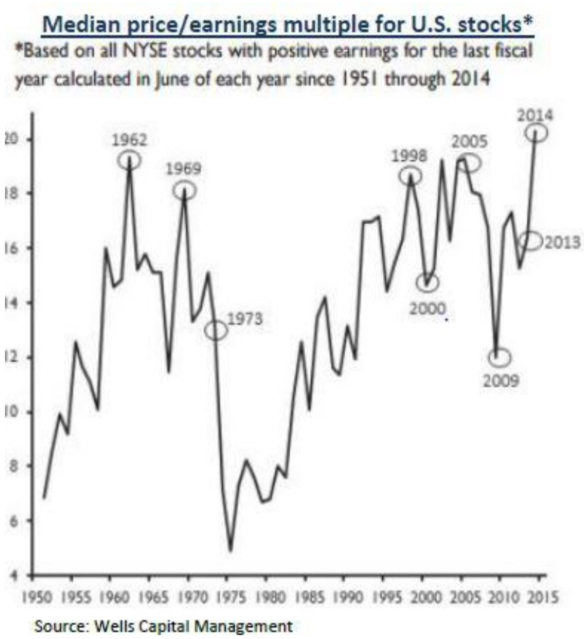
These stats go hand in hand with the many other themes, analysis, and research I have done for you all over the past three years (I can't believe it's been that long now!) The stats above can also be added to the tons of other reasons I have kept the Newsletter's Long Term Market Meter not as a buy signal, but as a cautionary sell signal.

A rising market does not negate the indisputable fact that history teaches us we are indeed at an extreme end of the market's valuation spectrum as measured by many different measuring sticks. Now remains the wrong time to put long term money to work and the earnings multiple levels as shown in the CAPE analysis as well as the charts FRM provides below provide more validity of that statement.

Most are familiar with the S&P's P/E ratio hovering near 20x earnings today, but Robert Shiller's CAPE measurement is also matching its 3rd highest level in over 135 years of history, at 27.3x earnings. Prior CAPE levels this high were only found just before the Great Depression, the 1966 17-year market top and 1970s recessions, the 1990s Tech bubble, and the 2008 Financial Crisis, all of which saw mean reversion eventually take prices back down significantly, offering much better buying opportunities.

The link to the Shiller data and historical charts is [here](#).

FRM adds to the "Financial Laws of Physics" thesis on mean reversion by including the following two very informative charts:



On the left, another sign of extreme valuations, the NYSE's median stock's price to earnings multiple is now officially at an all time high. This extreme valuation exceeds even the tech bubble which was largely skewed by the tech companies.

What this shows is the valuation extreme today is much more across the board than it was at prior market extremes. If the 1990s was the *tech* bubble, then certainly it is not a stretch to call today's valuation extremes an all out *equity asset class* bubble.

The data goes back to 1951 and includes all NYSE stocks that had positive earnings. There are over 1800 companies that trade on the NYSE making this a broad measure of current valuations, at all time highs.

Further proof that today's bubble is across almost all sectors, industries, and companies, the second chart reveals a fascinating development. This is no doubt one reason why indexing is so hot right now.

All stocks are rising and falling together as individual equity valuation differences have reached all time lows.

The chart reveals that the 500 individual equities that make up the S&P have price to earnings ratios that are the closest to each other they have ever been over the last 25 years. Talk about a rising tide lifting all boats! Or, put another way, there are very few places for value investors to hide.

The standard deviation of the 500 S&P companies' P/E ratios is at its lows, meaning more equities than ever are nearer the average P/E ratio (~20x earnings).

Value investors are having a very difficult time finding undervalued companies as all equities have been bid up to high p/e multiples.

Stay short the homebuilders and move stops to breakeven. That trade is turning out great.

Energy (XLE) remains a short term leading sector and another great trade. Stay overweight it compared to the S&P until stops are hit at $0.038.

The commodities I recently suggested long (NIB, UHN, and UNG) continued higher this week as UNG's decline may have now ended. I am now watching for a breakout in it and new highs in NIB and UHN.

Also in this Issue:

- Volatility has certainly picked up as the Russell 2000's VIX equivalent warned us a bottom in it was likely. It hasn't yet confirmed its bullish pattern, and that remains something to watch
- Investors in Europe remain a beneficiary of the rising Euro. Stay overweight VGK at the expense of the S&P 500
- The Euro (FXE) is close to my initial $1.1200 target as the Euro's counter-trend rally has gained some steam. The smart money positions will help provide a confirmation when that trend ends
- Gold (GLD) and silver (SLV) have held their November and March price lows and it looks like they are going to make another attempt at a new 2015 high. Sentiment remains neutral and non-confirming either bullishly or bearishly. Some of the Miners have bullish potential

How to Trade It:

Some notable market analysts that specialize in cycles are predicting the market's top is this week. Courtesy of Elliott Wave International, one of those analysts is Peter Eliades of Stockmarket Cycles. He notes that it has been 1,897 trading days since the 2007 market top.

You know what else was 1,897 trading days long? The time between the year 2000 and the year 2007 market top. That is just the tip of the cycles iceberg surrounding this time of year though.

Elliott Wave International points out that this past Monday, 4/27/2015 it had been 56 days since the Dow Jones Industrial Average topped on 3/2/2015. Why do they think that non-confirmation is important? Because the last time the Dow went 56 days without confirming a new high by the Nasdaq was on 3/10/2000, the day of the Nasdaq's year 2000 major top. The Dow topped on 1/14/2000 and the Nasdaq topped 56 days later. They think that history may be rhyming, raising the odds for a top this week. They also point out that if the S&P is used then 5/11/2015 would mark the similar 70 days between the Dow's and the S&P's year 2000 tops.

As always, we will allow the market's price action to come first and foremost in our trading signals. We remain long as long as the market remains above 2075 (shifting to May's Pivot Point location on Friday).

The S&P had a fairly volatile week as the FOMC minutes came out today, but price again made a lot of moves but really didn't get anywhere as it again tests its uptrend support as the first chart shows.

As of now the breakout last week was a false one as price has moved back into its consolidating triangle. We will know tomorrow if the market will breakout or breakdown again.

This week I am also watching where May's Pivot Points line up. Currently the Pivot is at 2094 and on Friday we will move our long stops for the Pivot Trading Strategy up to just below that level (or whatever the Pivot is as of tomorrow's close).

Volatility ($RVX) / ($VIX):

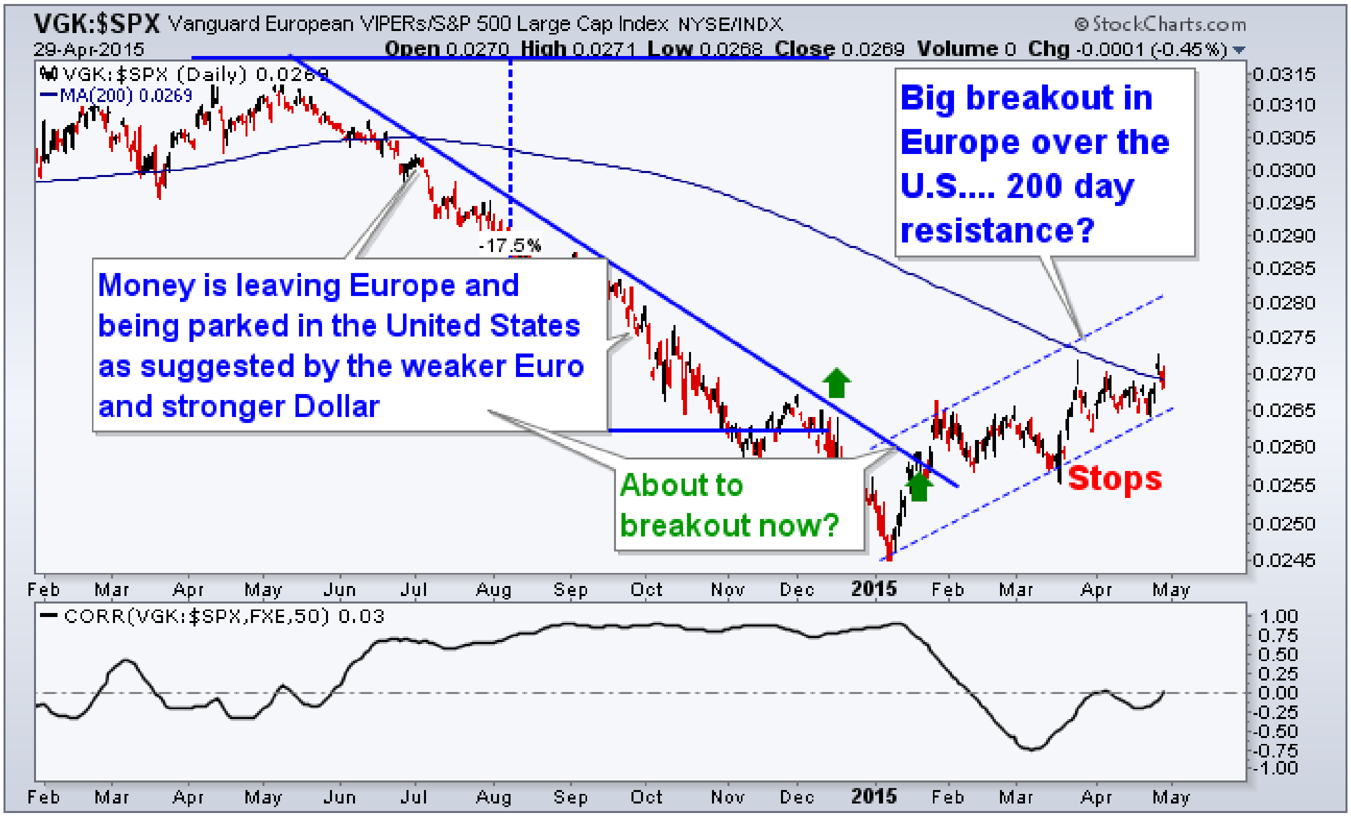
Volatility popped this week and the inverted head and shoulders pattern for the Russell 2000's equivalent helped us prepare for that potential last week. If $RVX breaks out above 19 and its 200 day MA at 19.35, it will be a buy signal for volatility as the pattern points to a move into the mid-20s.

The $VIX meanwhile is extremely correlated with the S&P as the chart below of its inverted price shows. A break of the trendline will help warn that the falling volatility trend in place since December would have ended, and an increasing volatility trend is upon us.

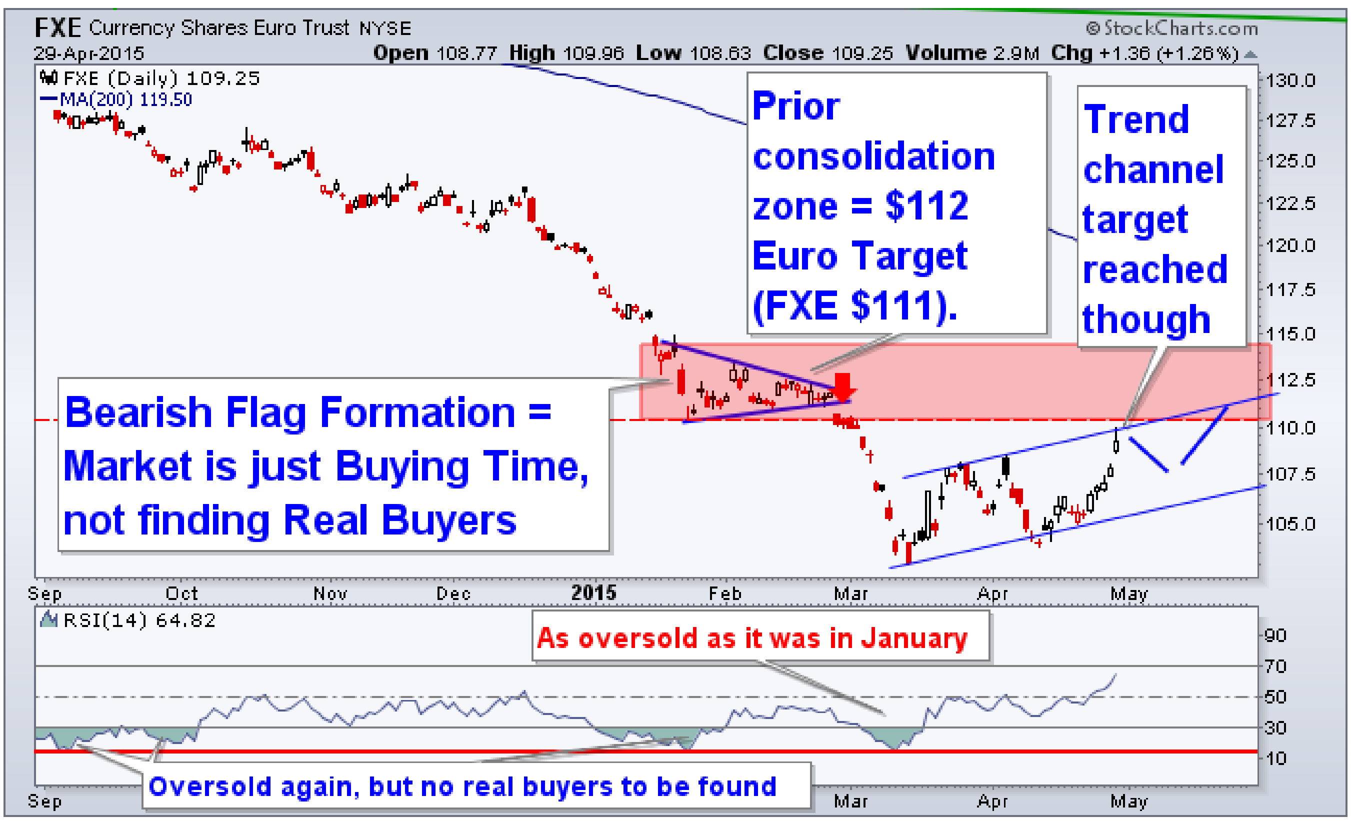
Of note too is the VIX (in black) has not made a new low (a new high on the inverted chart below). This has occurred even though the S&P has itself made new all time highs. It's a divergence worth noting as such divergences helped warn of market tops and get us long volatility in the past as pointed out on the chart.

Europe (VGK):

VGK continues to outperform the S&P on a relative basis. Continue to overweight it and Europe until the trendline support shown on the chart below fails. That is where our stops at 0.0265 resides.



Euro (FXE):



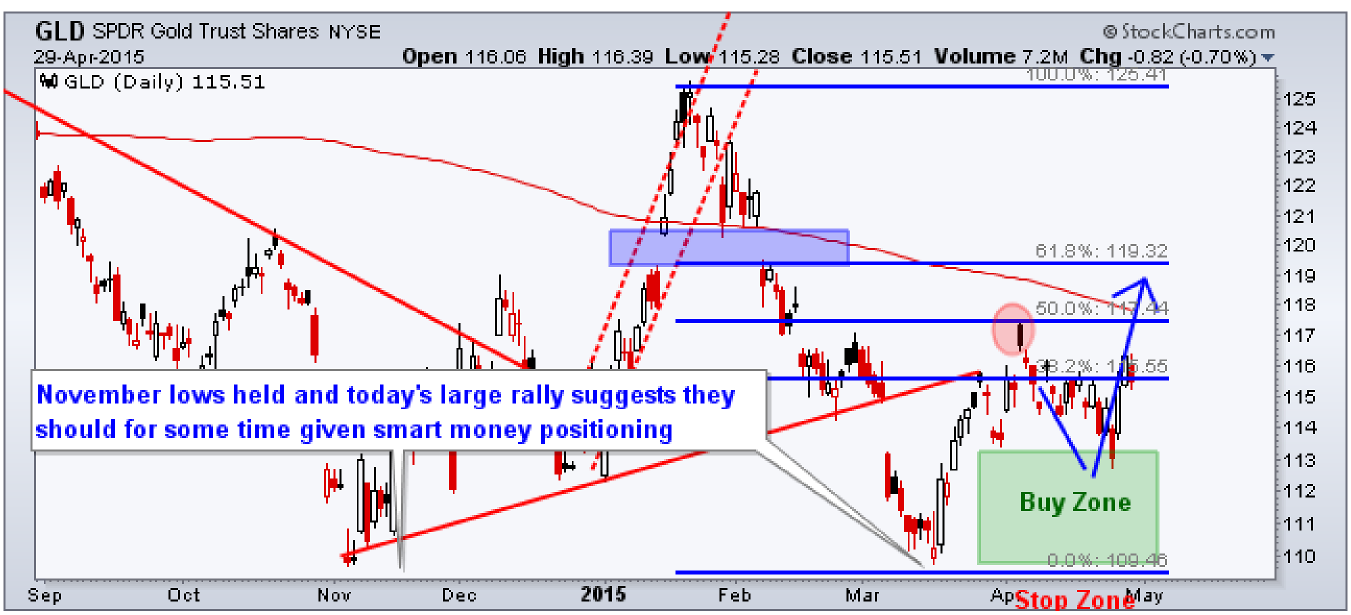
The Euro's counter-trend move continues as expected with the initial $1.1200 target very near to being reached today. It may not quite make it there in this leg of its rally though as the chart shows the trend channel resistance was reached today.

The smart money data for this week won't be updated until this weekend, but it is safe to say that their long positions remain extremely elevated, making it likely the Euro's move higher could run much longer/farther.

Remember a few TFs ago I was showing how it could easily be perceived the Euro's counter-trend move could reach $1.2000 and not do any meaningful damage to the longer term downtrend? How much the smart money has taken profits on their longs this week will go a long way in showing how much underlying power this move still could have in it.

The chart below, one we used to help nail the Euro bottom in March, shows that the 200 day MA (40 week) is way up at $118.32 with $1.2000 the midpoint of the decline from last March and also the support level from the prior two major pullbacks of 2010 and 2012.

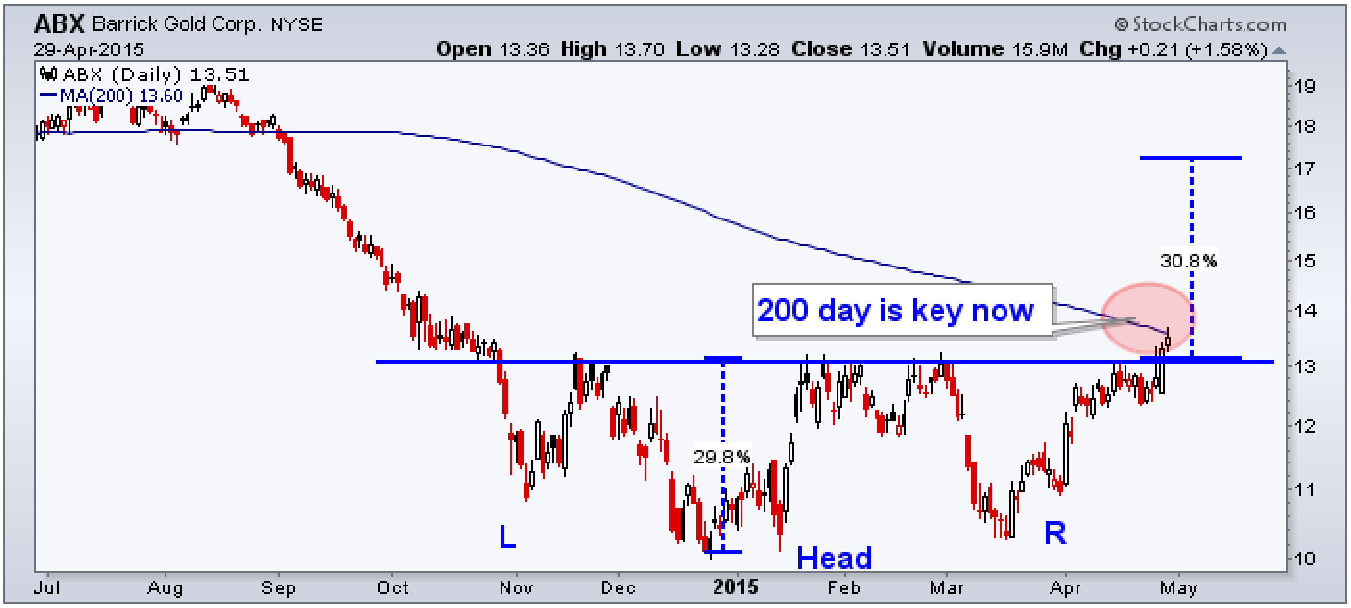
Precious Metals (GLD / SLV / GDX / TCK / ABX):



The precious metals got a big bounce this week and they may be making another run at a new 2015 high toward GLD $125. The first chart shows gold's recent pullback didn't do any technical damage to the support at November and March's lows. The pullback in April seems to be counter-trend.

Weekend updates to the sentiment numbers will also go a long way in helping decipher how much oomph the precious metals rally may have. Could GLD be making another run toward $125? The selected gold miners charts below suggest, yes, that may actually be in the cards.

Barrick Gold (ABX) and Teck Resources (TCK) both have formed bullish inverted head and shoulders patterns. If ABX can break out beyond its 200 day MA it would confirm a break out of the neckline and the pattern. I like buying ABX on pullbacks once that occurs.



TCK is in a similar position, only it hasn't confirmed the pattern yet. Waiting for the 200 day MA to also be exceeded is the safer way to play it. The pattern suggests it could have a 50% pop back up to last Summer's price levels if the pattern is confirmed by a price move beyond $16. This seems reasonable given the technical pattern and if gold rallies back to 2015's highs.