Market Trends

Issue 9

Week ending 11th December 2015

Market futures unless indicated (Contract month)	Weekly Closing Price	Price / % Change from last week	Short-term trend	Long-term trend	Short-term price target	Long-term price target	Position Bias
EURUSD (Mar '16)	1.1020	+0.0119 / +1.09%	→↓	→↓	*1.0588*	0.9794, 0.9520	short
GBPUSD (Mar '16)	1.5231	+0.0129 / +0.85%	↓	→↓	*1.4992, 1.4893*	*1.4996, 1.4957,* 1.4375, 1.4078	short
EURGBP cash	0.7218	+0.0019 / +0.26%	↑	→↓	-	-	-
Crude WTI (Jan '16)	35.62	-4.35 / -10.88%	↓	→↓	*35.44*, 29.01	19.48	short
S&P500 (Mar '16)	2001.25	-79.50 / -3.82%	→↑	↑	2113, 2137.50, 2247	-	-
Gold (Feb '2016)	1075.70	-8.40 / -0.77%	→↓	↓	955.60	1042.40	short
30-year Bond (Mar '16)	157 7/32	+3 14/32 / + 2.23%	↑	→↑	-	-	long

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EURUSD: *see Case Study*

GBPUSD: *(we have rolled into the Mar. '16 contract – price targets have been adjusted according to Mar. '16 basis)* We've rallied >300 points from the recent low having hit quite a few of our price targets but having failed to achieve them on a closing basis. Given all the recent turmoil, it's difficult to see a trade that makes sense.

EURGBP: In Issue #7 I wrote: "*While the sell-off seems to be running out of steam, there is a "magnet" in the 0.6935 area for reasons beyond the scope of this newsletter. The weight of the evidence tells us that there is a very high probability that the 0.6935-0.6950 area will be challenged."* Well, we did venture to 0.6980 but the market reacted hard. Right now, it's best to avoid this currency pair.

Crude WTI: *see Case Study*

S&P500: *(we have rolled into the Mar. '16 contract – price targets have been adjusted according to Mar. '16 basis)* Another week of turmoil with the index failing at quite critical levels. The market is looking for a catalyst. If it can't get one after such a protracted bull run, it will eventually collapse on its own weight.

Gold: This market remains south-bound from a quantitative perspective. That said, it doesn't seem as straightforward as it did a few weeks back.

30-year bond: The bond market is telling us that the FOMC will be dovish OR the bond market is the market of choice as the sell-off in equities is picking-up pace OR…..[complete as you wish] Truth is the market has been stuck in the 150-160 range for a long time. Trend is now up.

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EURUSD: *(we have rolled into the Mar. '16 contract – price targets have been adjusted according to Mar. '16 basis)* The 1.0550 – 1.0600 did hold and our 1.0588 target did eventually act as some kind of support even though we briefly dipped <1.05 on the day of the ECB announcement. The picture is now completely changed and even though from a quantitative perspective we should be short, I struggle to find a decent trade. This coming week's FOMC could be a catalyst of sorts. On the whole, I'd advise to tone-down the bearishness.

General Comment: This is a great example of how crazy moves can really damage your financial health and your psyche. As traders/investors, the only things we can really control are:

1. our order entry/exit
2. our risk
3. our position size

The trend may be our friend but if we can't manage risk properly and we have the wrong position size on, then on a day like the 3rd of December we'll get caught like a deer in the headlights.

We've been bearish on the EURUSD for a while and a circa 5% move in FX is quite big for such short period of time. However it is the risk management that will ultimately make the difference in the bottom line. We were positioned for a move all the way to 1.02 but got stopped.

As I've mentioned in the Appendix, "*The main purpose of the analysis is to help one's decision process by being properly positioned in a market to avoid a big hit. "Staying in the game" is an absolute prerequisite for long term success and it's mostly overlooked by the public. Results will ultimately depend on execution, managing one's risk and emotions and the use of common sense.*"

Market Trends –
Case Study: Crude Oil (WTI)

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Crude WTI: Our 35.44 target got hit intraday on Friday and the week closed down -10.88%. While the sell-off seems "overdone", the structure of this market is such that it could experience a further violent fall. Moreover, our price targets pointing to <$30 and so on should be a clear enough indication of where this could go.

General Comment: A 25% drop is a big move by any measure. Problems will be magnified if you trade a leveraged instrument and you're on the wrong side of this trade. This is simply a catastrophe for anybody trying to pick a bottom arguing "how much lower can it go". On the other hand, it's a profitable proposition for anybody who positions with the trend and manages risk reasonably well. This market is a great example of how trends can morph, accelerate and defy "logic". For the last year or so I'm being continuously asked about oil and its prospects. Here is a summary of the most common questions I've been asked and my answers.

Q: When is it time to buy?
A: When the trend turns up

Q: When will the trend turn up?
A: I don't know but I will certainly let you know

Q: How much further does the fall have to go?
A: I don't know but the price targets should be a good guide. We've been meeting those all along

Q: How can I benefit further from your analysis?
A: Three options:

- *We can provide tailor-made analysis for the markets you're interested. The reports will be more in-depth than the newsletter with additional trading/investing insights and risk management*
- *We can manage money on your behalf in the form of a managed account*
- *You can invest in the fund we're currently setting up (more information to follow)*

Market Trends - Appendix

How to read the table

Market futures unless indicated (Contract month)	Weekly Closing Price (1)	Change from last week (2)	Short-term trend (3)	Long-term trend (4)	Short-term price target (5)	Long-term price target (6)	Position Bias (7)
EURUSD (Dec ’15)	1.1241	+0.0038	→↑	→↓	1.1713, 1.1748, 1.1870	1.1713	-

1. Weekly price close
2. Change from last week
3. Short-term trend
4. Long-term trend
5. Short-term price target
6. Long-term price target
7. This is not a recommendation to enter the market per se but rather a bias on the direction from which to enter if an appropriate trading/investment opportunity presents itself

   - When “long”, we’re thinking of entering from the long side
   - When “short”, we’re thinking of entering from the short side or at the very least we’re out
   - When “-“, then we’re not thinking about this market

So looking at the above table we know that:

1. EURUSD Dec 2015 future closed at 1.1241
2. On a closing basis, EURUSD rallied 0.0038
3. The short-term trend is side-up
4. The long-term trend is side-down
5. We have short-term price targets of 1.1713, 1.1748 and 1.1870
6. We have long-term price targets of 1.1713
7. We have no bias as to where this market is heading, hence we’re not thinking about entering

How to benefit from the analysis

“The presumed positive relationship between risk and return is predicated on the assumption that there’s no such thing as investment skill and value-added decision making. If markets are efficient and there’s no skill, it’s reasonable to believe that higher returns can be attained only through the bearing of increased risk. But if outstanding skill is present, there’s no reason to think that it can’t be used to create portfolios with low risk and high return potential.” Howard Marks, Oaktree Capital Management L.P.

Making money in the markets is not easy and requires second-level thinking. The main purpose of the analysis is to help one’s decision process by being properly positioned in a market to avoid a big hit. “Staying in the game” is an absolute prerequisite for long term success and it’s mostly overlooked by the public. Results will ultimately depend on execution, managing one’s risk and emotions and the use of common sense.

What it does

The analysis is based on a quantitative method. The sole purpose is to detect the trend – or lack of it – and to produce price targets (PT). What you read in the table is purely a quantitative output. However, the decision to trade/invest also depends on qualitative inputs, which is not the purpose of this write-up. At all times, remember that a market is in either of the 3 states below:

1. Uptrend
2. Downtrend
3. Undecided

Basic principles

1. In an uptrend we’re either out, long or looking to enter from the long side
2. In a downtrend we’re either out, short or looking to enter from the short side
3. When there is no trend, we simply wait until the market tells us where it wants to go

When a market is in trend, then we get signals that produce PT. In an uptrend, the PT is higher than current price. In a downtrend, lower. The PT is in effect until achieved or negated.

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