Market Trends ETFs

Issue 14

Week ending 15th January, 2016

ETF Symbol Description	Weekly Closing Price	Price / % Change from last week	Short-term trend	Long-term trend	Short-term price target	Long-term price target	Position Bias
EEM ishrs MSCI Em. Mkts	28.46	-1.05 / -3.56%	↓	↓	**30.86, 30.30**	**29.63,** 25.19	short
FXI ishrs China Lrg Cap	29.80	-1.82 / -5.76%	↓	↓	-	**31.11**	short
HYG ishrs iboxx $HY Corp	77.91	-1.61 / -2.02%	→↓	↓	76.08	**78.63,** 77.19, 76.95	short
XLF S&P SPDR Financials	21.42	-0.68/ -3.07%	↓	↓	**-**	-	short
XLI S&P SPDR Industrials	48.65	-1.07 / -2.15%	↓	↓	-	*48.11*	short
XLK S&P SPDR Tech	39.34	-0.75 / -1.87%	↓	→↑	**42.17, 42.07**	-	-
XLV S&P SPDR Hlth Care	66.87	-1.15 / -1.69%	↓	↓	-	64.44	short

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EEM (ishares MSCI Em. Mkts): *see Case study*

FXI (ishares China Lrg Cap): *see Case study*

HYG (ishares iboxx $high yield): The carnage continues and another of our weekly targets is achieved. We've been pointing out for a while that this market is usually the "canary in the mine" as far as broader equities are concerned.

XLF (S&P Financials): Like every market, this has broken down too.

XLI (S&P Industrials): This market has dropped 10% since our previous update in issue 12. Most equities are arguably oversold. However, given the picture painted, I think that the sell-off is not over.

XLK (S&P Technology): The tech sector finally cracks. It has been the leader (along with healthcare) in the recent bull market and it's logical that it is the last one to crack. Our short term targets from a few weeks ago of 42.17 and 42.07 have been met, which is a further sign of the damage inflicted. There will be better opportunities to enter ahead.

XLV (S&P Healthcare): Along with tech, healthcare also joins the sell-off.

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CASE STUDY: EEM & FXI– *(iShares MSCI Emerging Markets & iShares China Large Cap)*

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Two weeks ago on our previous update, EEM was -10% or so from our short signal on November 20. As of this Friday's close, it's -18.91%. A rather spectacular move as we've managed to drop this amount in 56 days. FXI's move has been even more dramatic, managing a -20.24% in just 42 days from our short signal on December 4th. The text books will tell you that we're not in a so called "bear market" until we've moved down 20%. The reality is that it really doesn't matter what you call it. Furthermore anybody who believes such moves come "out of nowhere" and one "can't see them coming", I hope that this brief newsletter is proof to the contrary.

Both markets have suffered considerable damage and are meeting all our downside price targets. Yes, they are oversold…..and yes, they can stay oversold. What is more interesting to me is that they're demonstrating all the signs of increased volatility and what I call "acceleration". In these situations, and absent any pullbacks, there is usually an explosive thrust in the direction of the trend. I never recommend buying the dips. Markets will always find a "bottom" but it is not the purpose of this methodology to be picking bottoms or tops. Tread carefully on the short side too.

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

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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.