# Market Trends ETFs

Issue 2

Week ending 23rd October 2015

| 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 | 36.29 | +0.04 / +0.11% | ↑ | ↓ | 36.48 | 29.63 | - |
| FXI ishrs China Lrg Cap | 40.37 | +0.61 / +1.51% | ↑ | ↓ | - | - | - |
| HYG ishrs iboxx $HY Corp | 85.83 | +0.55 / +0.64% | →↓ | ↓ | - | 77.19 | short |
| XLF S&P SPDR Financials | 24.14 | +0.59 / +2.51% | →↓ | ↓ | - | 21.58, 21.54 | short |
| XLI S&P SPDR Industrials | 54.66 | +2.11 / +4.01% | ↑ | ↓ | - | - | - |
| XLK S&P SPDR Tech | 43.83 | +1.86 / +4.43% | ↑ | ↓ | - | - | - |
| XLV S&P SPDR Hlth Care | 69.33 | -0.43 / -0.61% | →↓ | ↓ | 71.03 | 65.73 | short |


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**EEM (ishares MSCI Em. Mkts):** Too many conflicting signals. This is usually the sign of a market in transition where it's getting ready for a change in trend or it's taking a breather before the larger trend resumes. We must accept that a) we can't constantly be in a market and b) markets will go through phases of transition/indecision. This is when both bears and bulls are fooled. Patience and preservation of capital are in order.

**FXI (ishares China Lrg Cap):** Unsurprisingly, this market is in an almost identical state as EEM.

**HYG (ishares iboxx $high yield):** The high yield ETF is definitely trying to form some base but the overall weight of the evidence is still to the bearish case. That said, we're struggling to find decent risk/reward trades.

**XLF (S&P Financials):** The overall picture remains bearish but short-term momentum is strong.

**XLI (S&P Industrials):** *see EEM comment*

**XLK (S&P Technology):** *see EEM comment*

**XLV (S&P Healthcare):** Healthcare seems to lag all other sectors at the moment. The market is leaning to the bearish side but it's not easy to pick a trade.

# 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.

**<u>What it does</u>**

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

**<u>Basic principles</u>**

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.