Specialist Share Education

MARKET TRADING ALERTS

Date: Thursday January 27

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The US indices rose then fell late in the session after the Fed comments with the S&P500 down 0.15%, the Nasdaq was flat while small caps lost a large 1.4%. The falls in the main indices look very mild but that was mainly due to MSFT jumping sharply on a good earnings report and GOOG also rising. Underneath it was nasty again with most growth stocks declining by several percent and finishing on their lows. In many cases the volumes were also elevated so the selling is not easing yet, even for a relief bounce.

Technically the S&P500 returned to the 200 dma but then rolled over again so the 3800 target I've been highlighting is still very much in play. US stock futures have tracked lower during the Asian session and were below 4300 at the time of writing.

The big impact overnight came from the Fed which said they could raise interest rates sooner and end bond buying in early March. This is what the market has been fearing but now it is official and that pushed the Vix back above 32 and the 10 year yield up to 1.87%. It is just all so uncertain and markets hate that, so it is not realistic to expect much of a bounce from here.

The MSFT result was great with earnings at $2.48 versus an expected $2.29 or an 8% upside surprise. The price gapped sharply higher before giving back part of the gain into the close. My targets on MSFT when it bottoms are $267 then $242 which compares to the current $297. ADP, which we exited a couple of days ago, plunged on big volume so that was a good move to take profit.

The USD rose on Powell's comments which forced gold, silver and other commodity prices down. Gold was at $1815 and that took the wind out of GDXJ. Oil keeps rising on fears around Ukraine disrupting energy supplies into Europe and energy is the only sector firing at present.

Locally the ASX200 dropped a significant 1.8% with healthcare being by far the worst. Small caps keep getting hit, as is normal, and this is good news if you reduced exposure and raised cash levels a week or two ago when it was flagged. These irrational declines are producing even more compelling buying opportunities – BUT NOT YET. So please continue to wait. Good outcomes will still be rewarded as was the case with MSFT and others.

Please remember when markets are falling session after session and it all looks a bit depressing, this phase is just forced dynamics playing out. Price declines have nothing to do with the merits of the underlying business or its future value – prices will bounce when the inevitable positive news emerges. The forced dynamics can be margin calls, ETF selling which feeds on itself or programmed trading designed to torpedo the legion of new inexperienced traders, who have little idea of market dynamics. They just bought stocks on social media tips and are reacting badly to losing money.

There are two factors likely to support the US market in a few months. The first is that inflation will ease as low numbers drop off, and the market will rejoice over that. The second is that the Fed will only be prepared to allow the stock market to fall so far before doing something supportive – we can bet on it.

I've been contemplating the various ways we can productively address the market in 2022 and there are several ways to do it. Different approaches will suit different members so it is a matter of achieving something workable for you. My base assumptions are;

- The geopolitical issues around Ukraine and Taiwan will continue or escalate because of America's weakened leadership role. Events will be quite unpredictable

- Global growth will come into question until the population really can live with the consequences of Covid

- Inflation will continue to keep the focus on interest rates which are at a 40-year turning point, so lots of uncertainty there

- The net result of the above will be higher levels of volatility for stocks. Cyclical bear markets complete when sentiment has been reset down to something bearish.

So what achieves that? It is a period of negative trading that lasts long enough to shift the psychology of the herd and generally that takes a couple of months. It is for that reason that I think we have entered a period of sharp swings in both directions that will test our resolve. The best stocks will do well and the average stocks will decline, but all stocks will be buffeted around.

So what are the pathways we can take to produce good returns within acceptable levels of portfolio volatility?

1. Hold high levels of cash and just buy the extreme selloffs, ride the rebounds higher for a few weeks or months and then exit. This will probably offer the best reward for risk, but is actually quite hard to do psychologically. It requires great patience and organization – most traders don't have that as we all suffer to a degree with FOMO. I will certainly ring the bell clearly at those major turning points, but there might only be a couple this year, so one has to be "on the ball" and responsive.

2. Trade more actively in the shorter-term swings in the market. Using the Vix index extremes as well as specific stock charts. I will be also be flagging those possibilities. The key here is being prepared to take profits readily and not stress about the part you missed out on.

3. Build core positions and try to look the other way during the main corrections. This is the easiest logistically but also tough to psychologically.

In order to support the #2 process above, I will introduce a second table for shorter term trades when we get closer to that point. This will help more clearly distinguish between core and shorter term trading positions.

TABLE OF OPEN POSITIONS – AUSTRALIAN STOCKS

Stock	Original entry	Initial exit	Category	Current price	% gain	Comment	Entry Date	If you don't own it / buy here
	$0.915		1	$7.15	681%		29/6/20	
	$0.245		2	$0.14	-43%		7/8/20	
	$0.48 & $0.45		2	$0.58	25%		28/8/20 & 17/9/20	
	$0.32 & $0.225		1	$0.47	26%	Av $0.27	23/10/20 & 6/11/20	
	$1.14		1	$8.46	642%	Partial profit @ $6.75	6/11/20	
	$0.12		1	$0.17	44%		8/12/20	
	$0.672		1	$1.865	178%	8:1 consolidation	8/12/20	
	$0.16		1	$0.07	-56%		5/2/21	
	$2.25		1	$2.87	28%	5:1 consolidation	3/3/21 & 16/4/21	
	$0.082 & $0.06		1	$0.052	-28%	Av. $0.071	10/5/21 & 2/9/21	
	$0.37		2	$0.275	-25%		18/6/21	
	$0.465		1	$0.425	-9%		28/6/21	
	$0.355		2	$0.865	144%	Core portion	5/7/21	
	$0.375		2	$0.36	-4%		31/8/21	
	$4.16		1	$3.85	-6%		3/9/21	
	$0.20		3	$0.15	-25%		1/11/21	
	$1.255		2	$1.165	-6%		12/11/21	
	$4.45		2	$4.94	11%		16/11/21	
	$0.28 & $0.30		2	$0.29	0%		20/12/21 & 17/1/22	
	$0.12	$0.09	2	$0.10	-16%		14/1/22	

POTENTIAL TRADES BEING TRACKED – AUSTRALIAN STOCKS

TABLE OF OPEN POSITIONS – AMERICAN STOCKS

Stock	Original entry	Initial exit	Category	Current price	% Gain	Comments	Date first entered	If you don't own it
	$250.51		1	$268.14	8%		19/4/21	
	$20.95		1	$19.97	-5%		11/5/21	
	$36.29 & $35.99		1	$38.43	7%	Av. $36.14	22/6/21 & 12/7/21	
	$119.28 & $113.17		1	$111.47	-4%	Av. $116.24	30/9/21 & 6/10/21	
	$287.40		1	$296.71	-2%	Av. $303.20	4/10/21	
	$330.00		1	$178.64	-47%		18/11/21	
	$46.00		3	$38.87	-15%			
	$272.28 & $240		1	$205.62	-20%	Av. $256.14	24/11/21 & 16/12/21	
	$13.95		1	$7.29	-46%		30/11/21	
	$229.00		1	$196.96	-15%		16/12/21	
	$64.40		1	$55.76	-15%		22/12/21	Partial

POTENTIAL TRADES BEING TRACKED – AMERICAN STOCKS

Stock	Category	Recommended entry		Initial exit	Current price	Comments
	1				$55.76	Waiting on second half

Recommendation table Key

CATEGORIES FOR STOCKS BASED ON MOMENTUM AND UPSIDE POTENTIAL

Category 1

- Stocks which are trending now, and because of their fundamentals should continue to do so. In this category are some stocks which are trending massively at a long-term view, but as a result of reaching a point of excess are trending down shorter term. I prefer to take account of the massive long-term uptrend. Typically the 200 dma will still be rising and the price will be above it.

Category 2

- Stocks which are not trending but have little downside and significant upside. It is really just a matter of time before we get a payoff that is worth the wait

Category 3

- Stocks which are not tending, have enormous upside, but also could have meaningful short-term downside.

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