

MARKET TREND

MAY 2014 ISSUE



INNER-Market Analysis continues to point to higher prices for stocks but market breadth is showing an early sign of weakness.

S&P 500 Monthly Index Chart – BIG PICTURE

The SP500 index (US Stock Market) continues to trade near its long term support trend line. We are likely to have a multi month topping phase before the next bear market will start. But the trend line needs to be broken in a big way first, then a large pause or bounce. With INNER-Market Analysis we can get positioned earlier with our trading system but long term stock based investments should continue to be held at this point.

Tightening your stops and reducing position size for new trades is not a bad idea. We are starting to see divergence on the chart below and this tends to be an early warning of a stage three top.

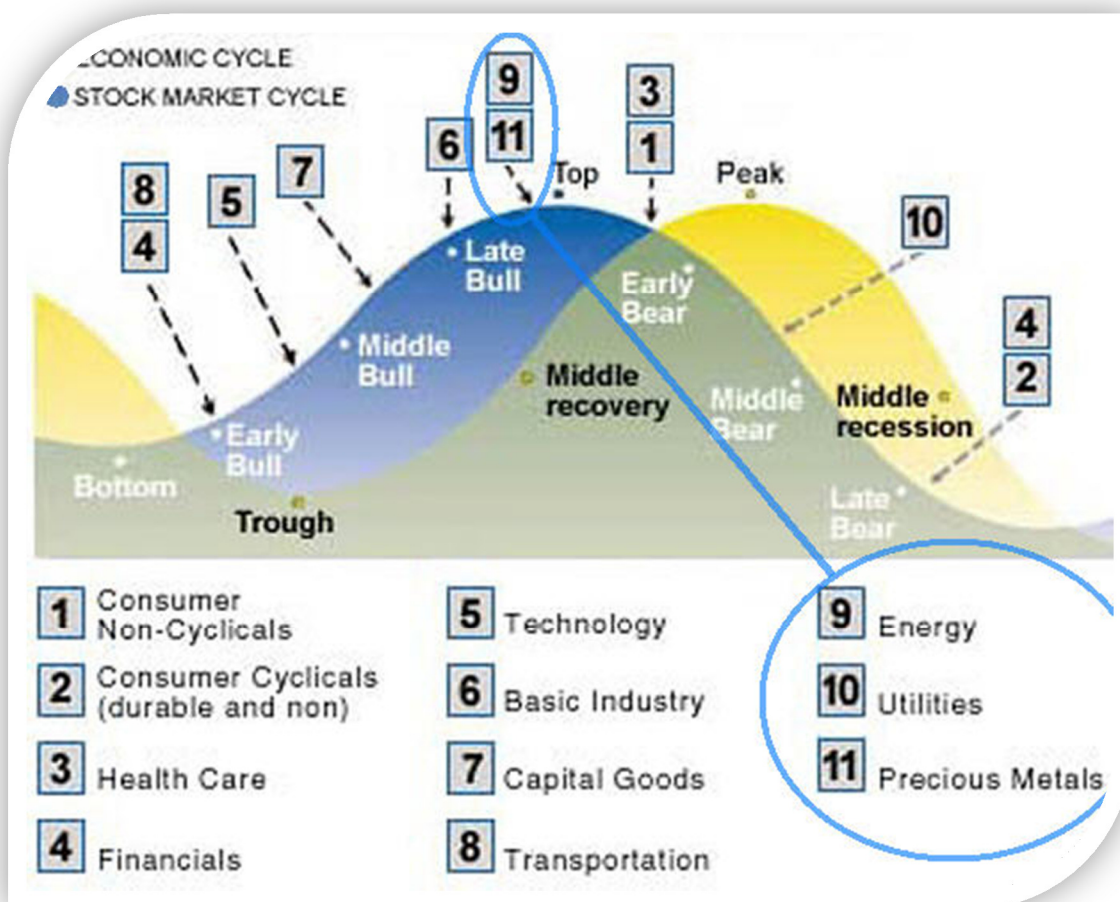


Economic & Stock Market Cycles:

The chart below, courtesy of Donald W. Dony, shows how the market moves in terms of sectors and commodities. Our focus is on the stock market cycle below (blue cycle) and the numbers 9, 10, and 11.

In the last couple months we have seen money move towards the safer investments. Utilities have performed very well, and so has the energy sector. Precious metals on the other hand are still trying to find a bottom. I feel this will happen in the coming months but until then metals will be volatile.

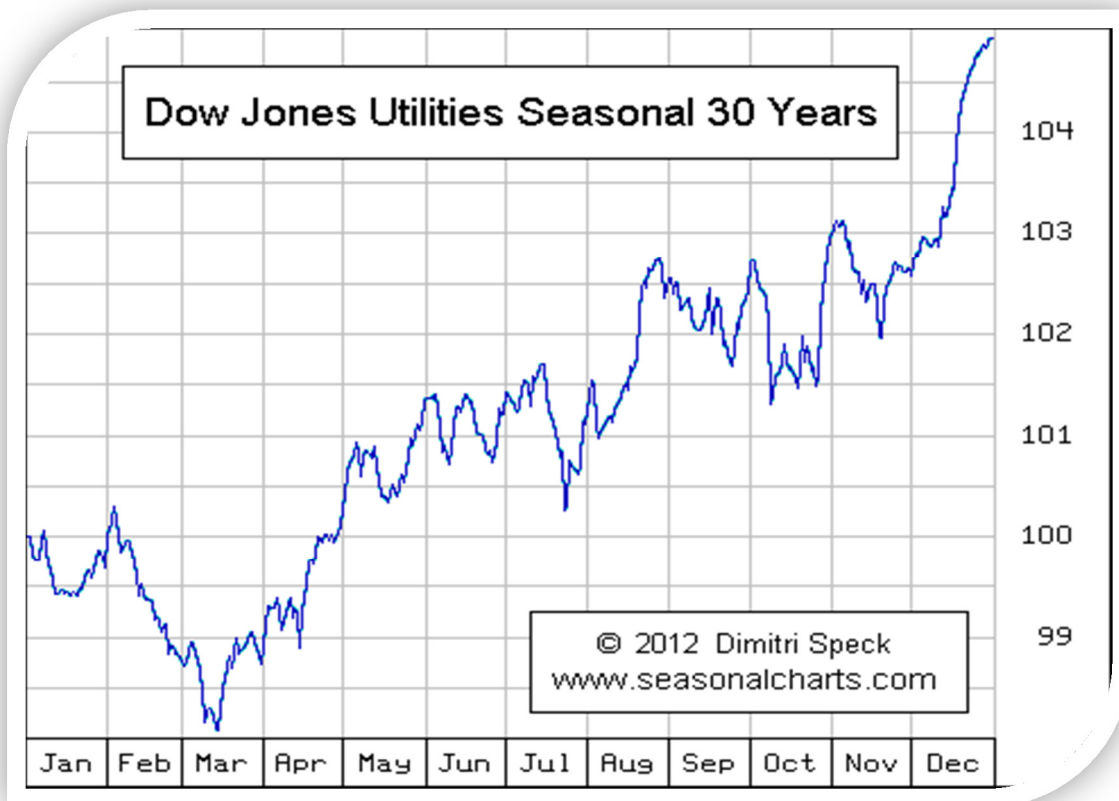
Typically commodities perform well in the late stages of a bull market which is where the US market feels as though it is at within its life cycle.



Seasonality Of Utility Stocks

May has been a net positive month for this sector over the past 30 years.

I'm sure you are aware of the saying "Sell in May and Go Away" when it comes to the stock market. But if we take a look at the utilities sector it is almost the opposite. When fear creeps into the investors mind, money tends to be pulled out of riskier stocks and put to work in the boring big name companies like utilities.

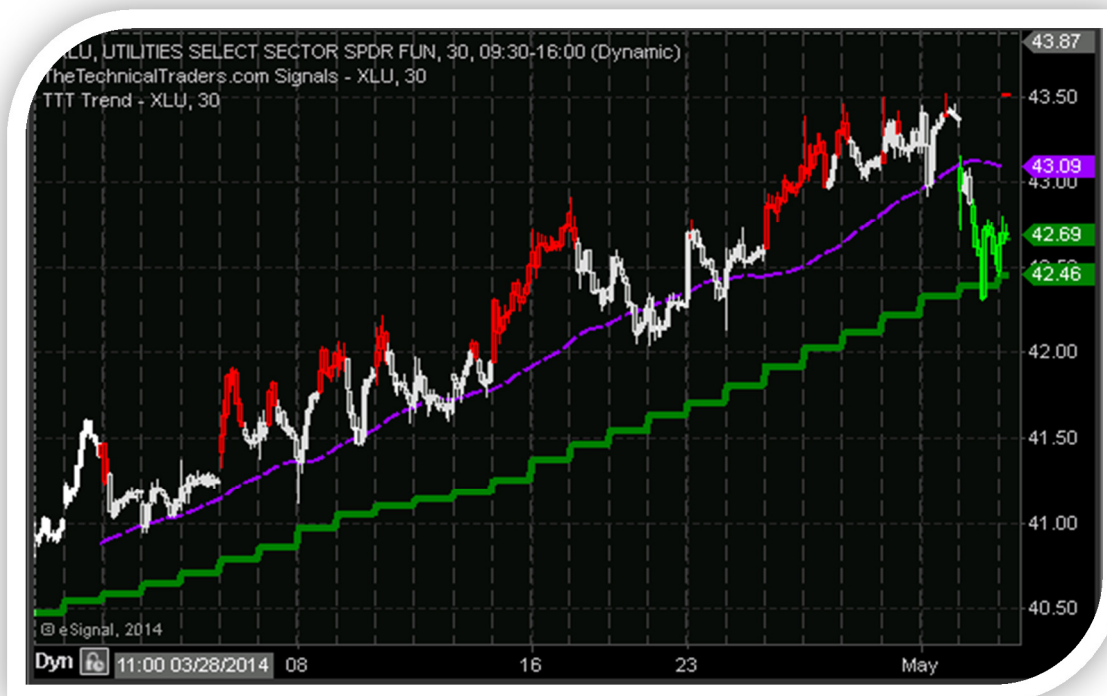


Utilities ETF Trade Idea

We all know the US stock market in general is one of the most overvalued markets when comparing it to other countries and their P/E ratios. But with interest rates at near zero investors cannot make money unless they invest in stocks. The big boring blue chips and dividend paying stocks are the only stocks that logically make sense for investors for the month of May in my opinion.

While the SP500 and DOW JONES are holding up near their highs, only about 30-40 stocks are holding the broad indexes up and what is interesting is that those stocks are mainly utility and energy stocks.

Below is a 30 minute chart of the XLU utilities ETF. This short term chart shows the 20 day moving average stair stepping its way higher and the price of XLU pulling back to this level. Also the green candles indicate an oversold market condition for this sector. Because the stock market trend remains up, and utilities are seasonally in favor, this looks like a low risk opportunity for a long position during the month of May. I currently own shares of XLU with 10% of my active trading portfolio.



Canadian Equities Market:

The TSX Composite is resource-weighted and this market has lagged its counterparts around the world in the last year. This means it is time for Canada to play catch-up.

These equities may hold up well when the US market starts to correct. This is because the TSX's is heavily weighted in late-cycle stocks (resources), it's not unusual for the Canadian market to lag in the early stages of a bull market in the USA, catch up in the late stages, and then outperform toward the end. This appears to be happening now.

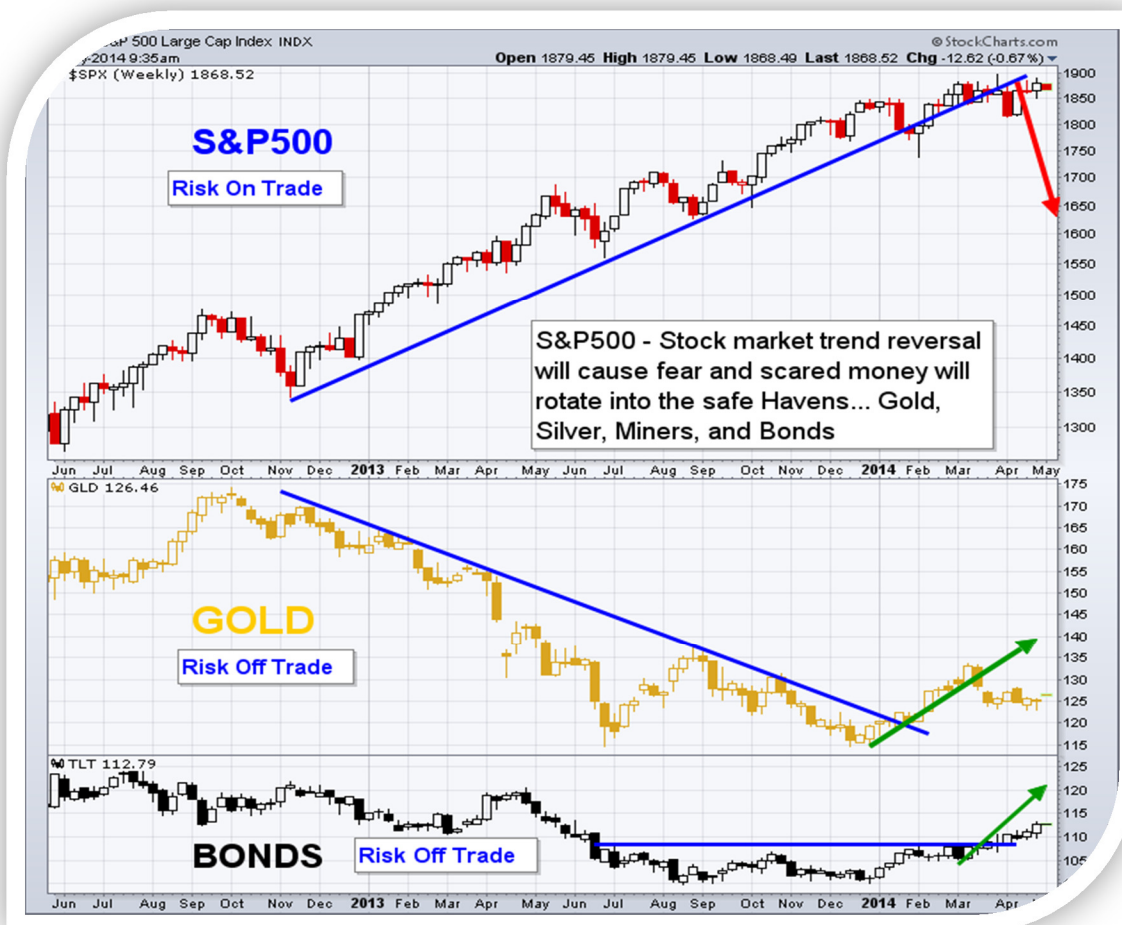


The Risk-Off Trade Is Slowly Unfolding

Comparing stocks, gold and bonds, each look as though they are changing trends.

Most of my timing and trading is based around what I call INNER-Market Analysis (Market Stages, Cycles, Momentum and Sentiment). With these data points I can diagnose the overall health of the market in a simple and logical process. By knowing the overall strength of the market I can forecast short term trend reversals as they happen with a high degree of accuracy.

Investors fear looks to be rising and money is rotating out of stocks and into the Risk-Off assets like gold and bonds. Below is the updated chart showing this rotation and my original analysis from months ago.



INNER-Investor Monthly Conclusion:

The month of April was volatile with the trend briefly flipping to the down side. While the overall trend remains up, we have started to see high volume distribution selling in the marketplace.

The truth about investing is that no one really knows what the market will do next. So all we can do is follow the market as closely as possible and invest with sound position and money management strategies. The better you are at identifying trend changes, spotting overbought and oversold market conditions, and can react to them, the more money you can make.

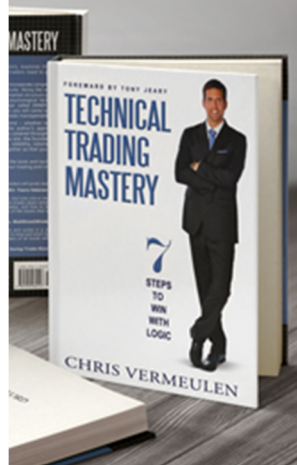
The chart below shows the current market trend. As you can see price has been very choppy and our automated trading system have not issues any new positions. When probabilities are not favorable our system moves to cash, watching and waiting for the next high probability setup considered a position.



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Since the opening of our **automated trading system** in late February our clients have generated a 7.6% return on their portfolio which is a \$3,800 growth in their live trading account. Being able to identify the current trend, timing short term overbought and oversold market conditions and proper management of our investment capital can take navigate the stock market with low risk and profit from the monthly wave like patterns in the stock market.

Just to be clear, we are not yet in a bear market. But our analysis shows the US stock market is likely starting a major stage 3 topping pattern. This will likely take months to unfold as all bull market tops do. And during this process it is going to be very difficult for the average investor involved in the stock market to make money. Expect a lot of trend reversals and range bound trading going forward.

Have a great month!

Sincerely,

Chris Vermeulen

Founder of www.AlgoTrades.net

Buy My New Book: <http://www.amazon.com/Technical-Trading-Mastery-Steps-Logic/dp/1940262143>