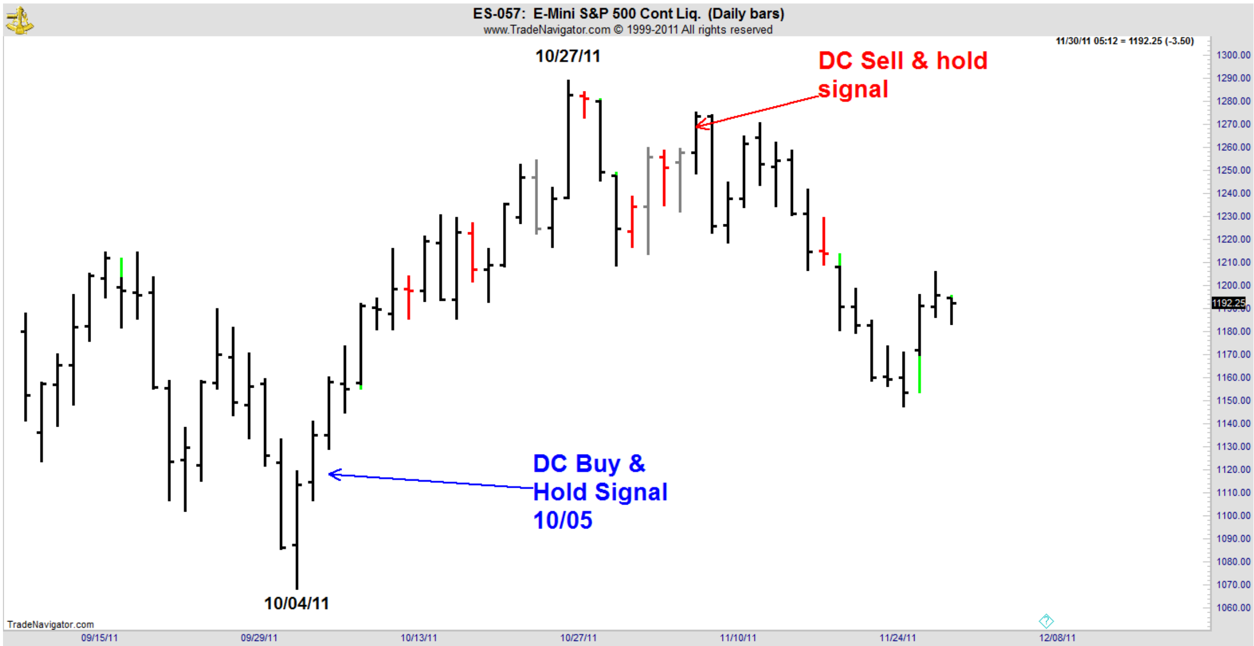
1 December 2011-What’s the Angst?

Whole forests of trees, or their electronic equivalent at least, are being sacrificed as bloggers, market celebrities and witchdoctors (aka e-con-o-my commentators) vie to bring you every nuance of market fear and loathing as they insist that a) The US is insolvent; b) Southern Europe is insolvent; c) French Banks are insolvent; d) market Armageddon is assured.

Every up day in Equities is greeted with distain and disbelief and every rally dismissed as “short covering”. One delicious moment of clarity was provided by a popular economic scribe, known for his verbosity who opined 3 days after the turn was made on 10/04, that there was no discernible reason for a rally, and nothing had been fixed in Europe. The latter part of this statement is of course correct but I use this example not to belittle our fellow market observer, but to highlight the differences between economists and traders. The former believe and follow fundamentals whilst the latter (that’s us guys) contemplate the economic equivalent of chicken’s gizzards on a daily basis to parse out the next tradeable move. This is what happened (below) as the DC Buy and Hold signal posted for Members 3 hours after the 10/04 close, was duly elected and took off to give us one of the biggest rallies of the year.

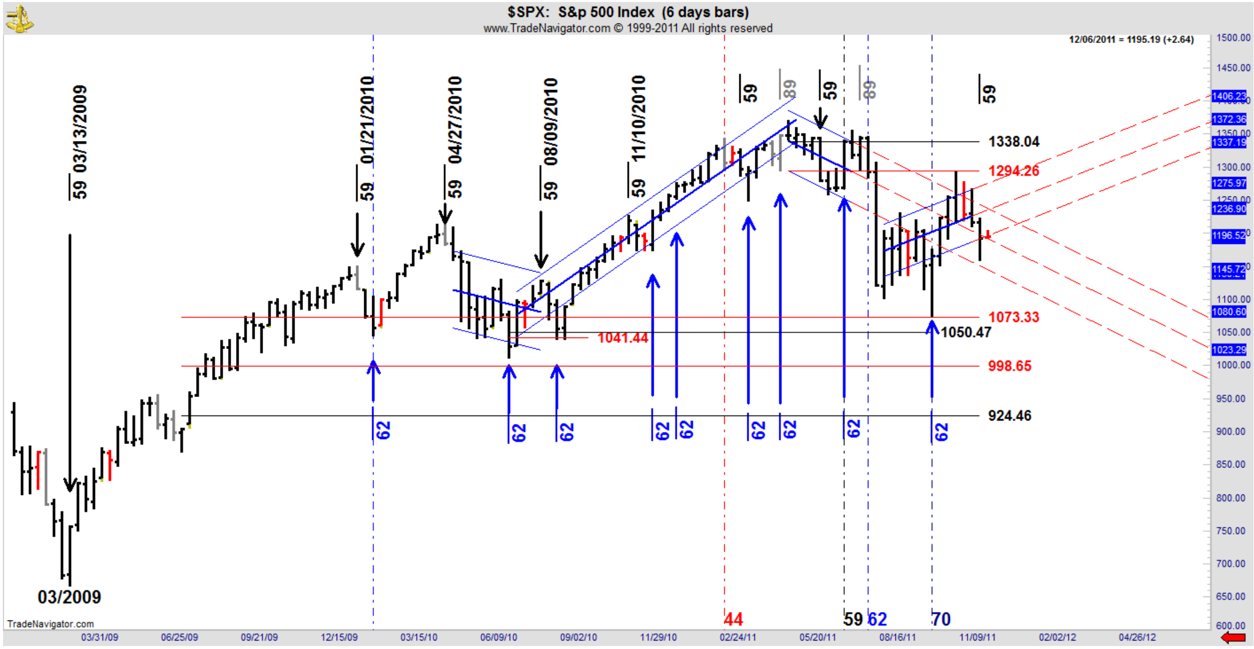


We didn’t trade at the market turn of 10/28 as it was a holiday, but we caught the countertrend rally right at its high.

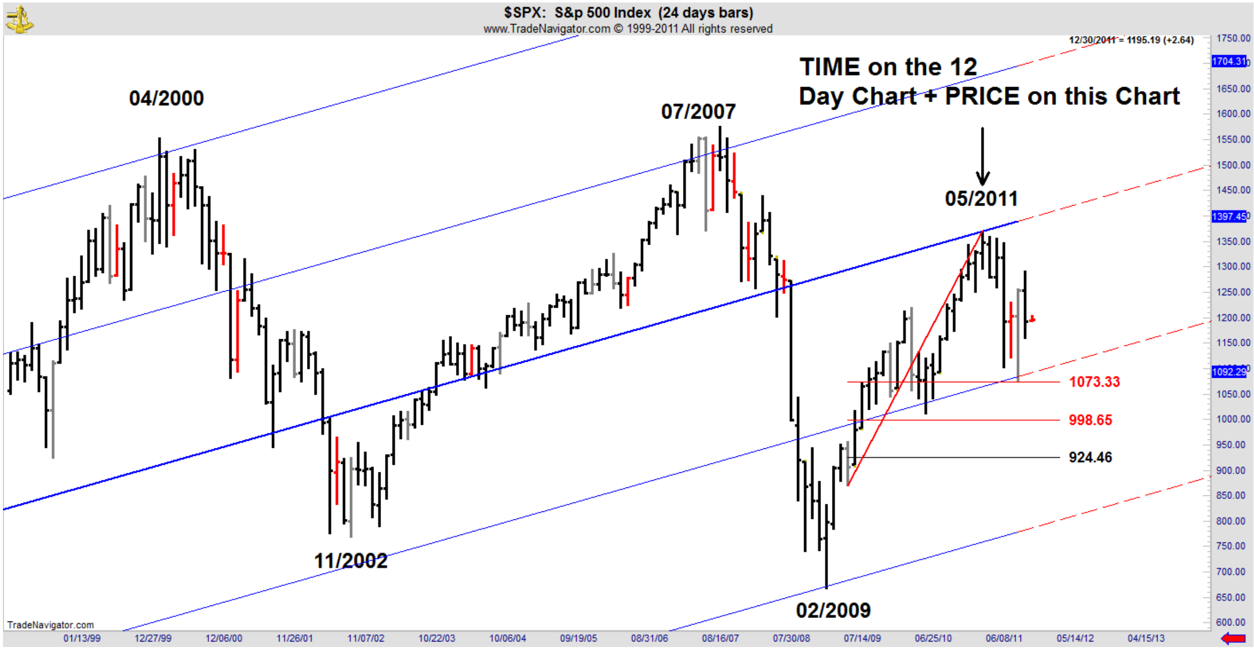
S&P

On 6 Day Regression Channel, Trend is: DOWN but now with 3 conditional Buy signals and already creating a new upward sloping trading channel
On 12 Day Regression Channel, Trend is: DOWN
On 24 Day Regression Channel, Trend is: UP, but now with 3 conditional Sell signal

As you see below this is an entirely orderly market with turns when expected and at recognised Danielcode retracement levels. Quite a conflict to the idea that markets run on daily news cycles. Indeed this market at least continues to do what it always has and the news follows.

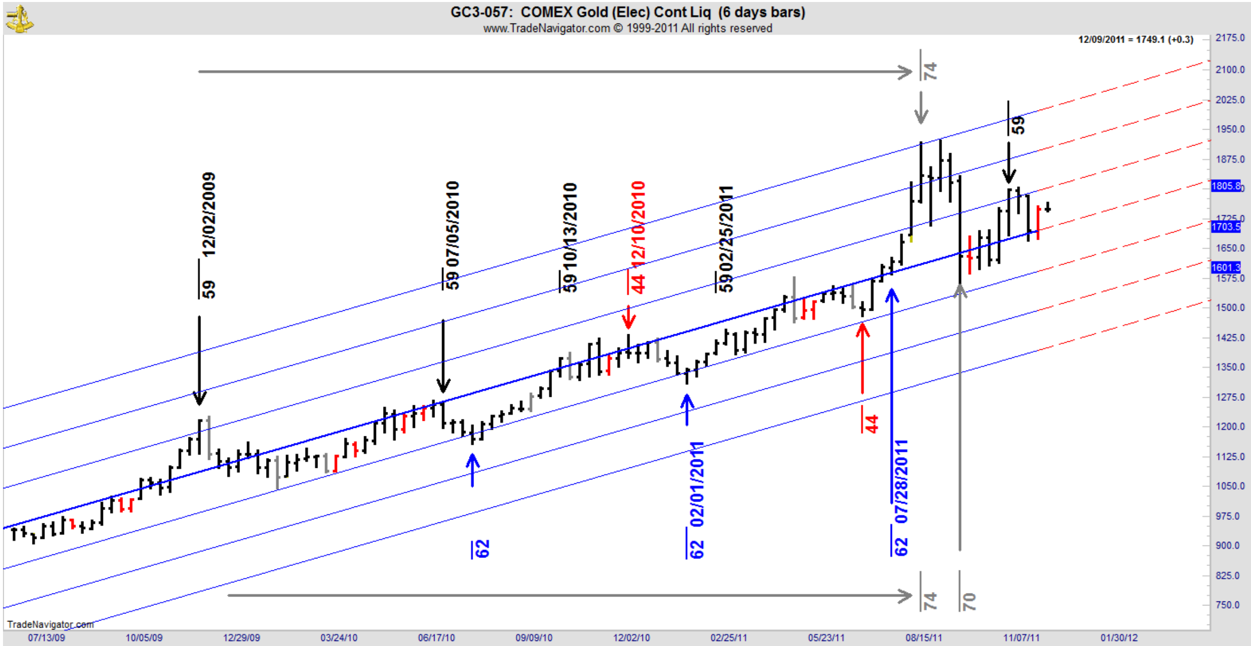


And below is the 24 trading day chart which has tested the bottom of its multi-year trading channel and merely made a normal DC correction. No hint of Armageddon in this chart.



Gold

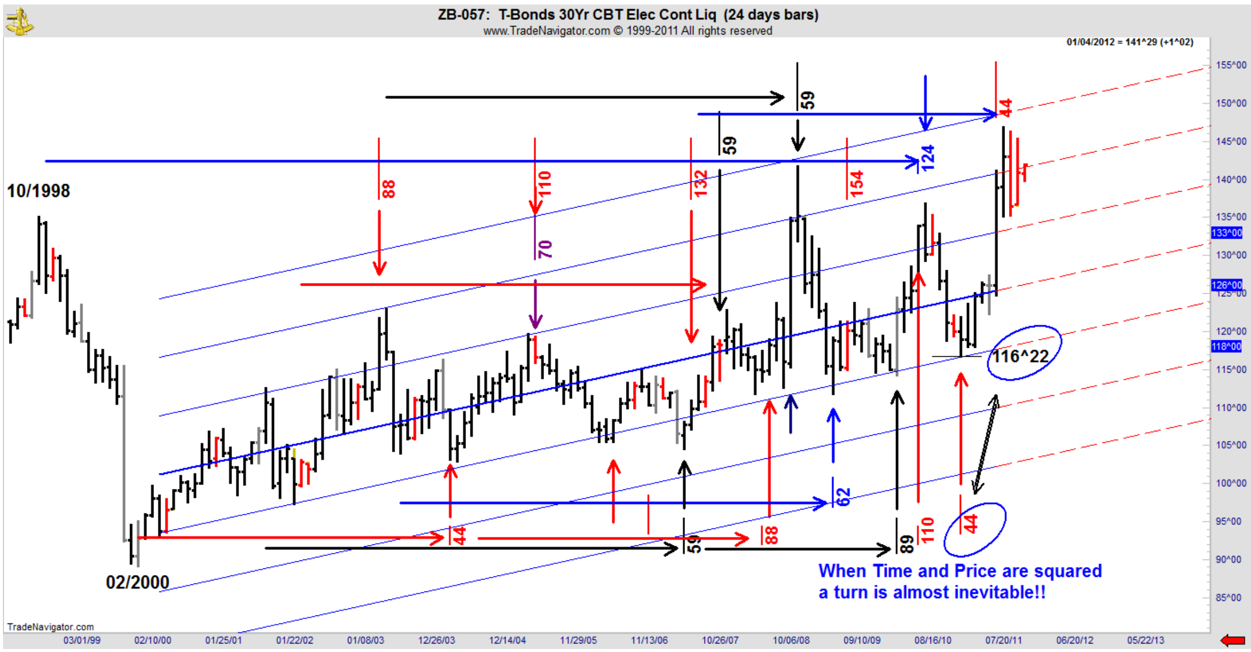
On 6 Day Regression Channel, Trend is: DOWN
On 12 Day Regression Channel, Trend is: UP
On 24 Day Regression Channel, Trend is: UP



US T Bonds

On 6 Day Regression Channel, Trend is: UP
On 12 Day Regression Channel, Trend is: UP
On 24 Day Regression Channel, Trend is: UP

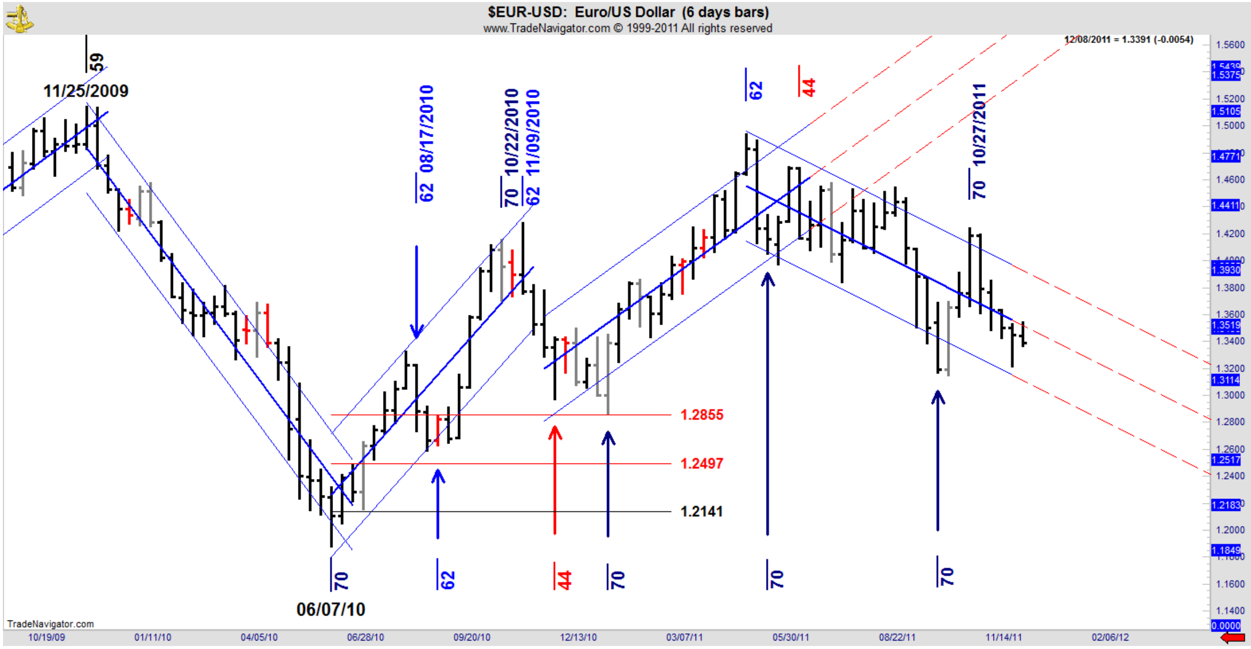
Trying to hold 3 standard deviations from the mean. Some levitation act!!



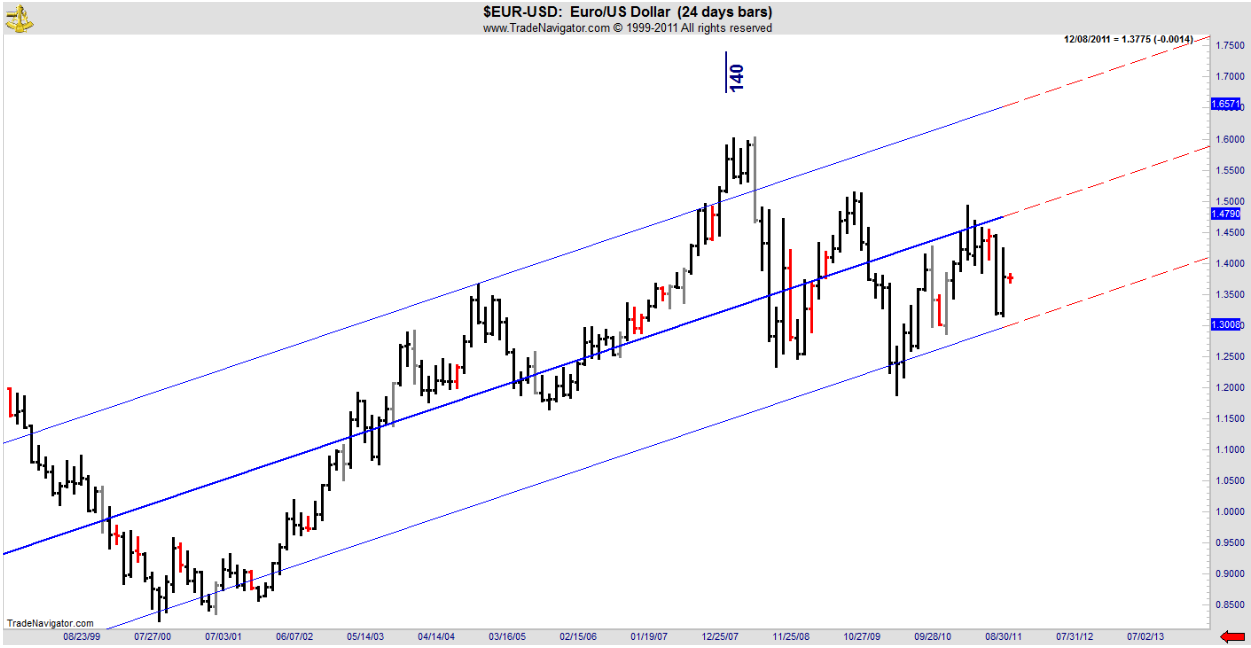
EUR-USD

On 6 Day Regression Channel, Trend is: DOWN
On 12 Day Regression Channel, Trend is: DOWN
On 24 Day Regression Channel, Trend is: UP, but now with 1 conditional Sell signal.

Last 3 turns on the Euro have come on its Heathen 70 vibration. Very tidy.



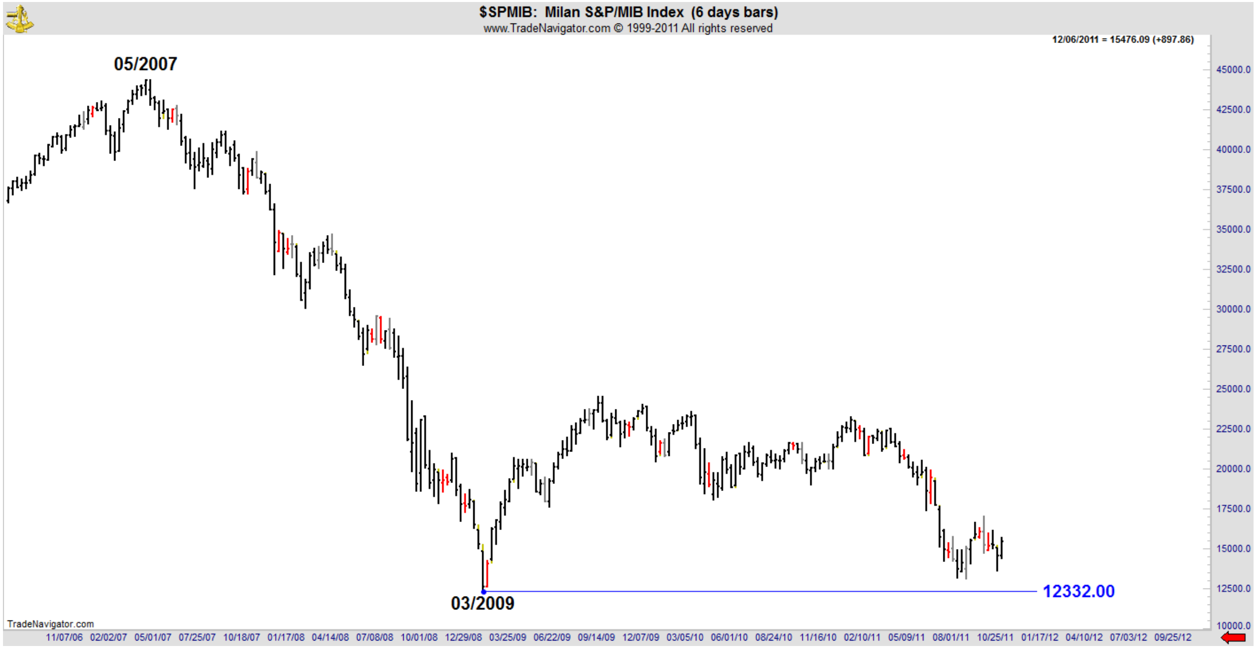
The 24 day chart below is still holding its long term trading channel. No problem for the Euro here.



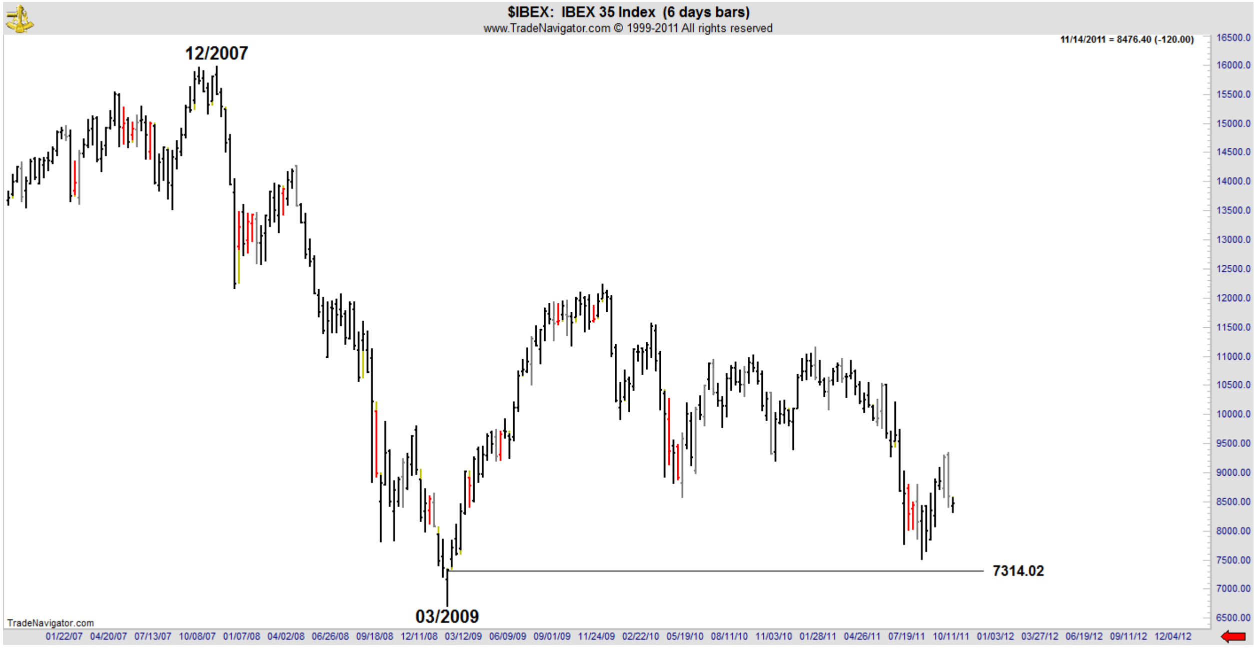
So how do we reconcile the general hysteria about Europe with what the markets are actually saying. Let’s take a look at the stock indices for the headline countries to see if we can make sense of it.

This is the Milan or Italian stock index which is back to testing its 2009 lows:

The following charts don’t show Armageddon. Armageddon is way below the 2009 lows which themselves were mere corrections in enthusiastically overbought markets.

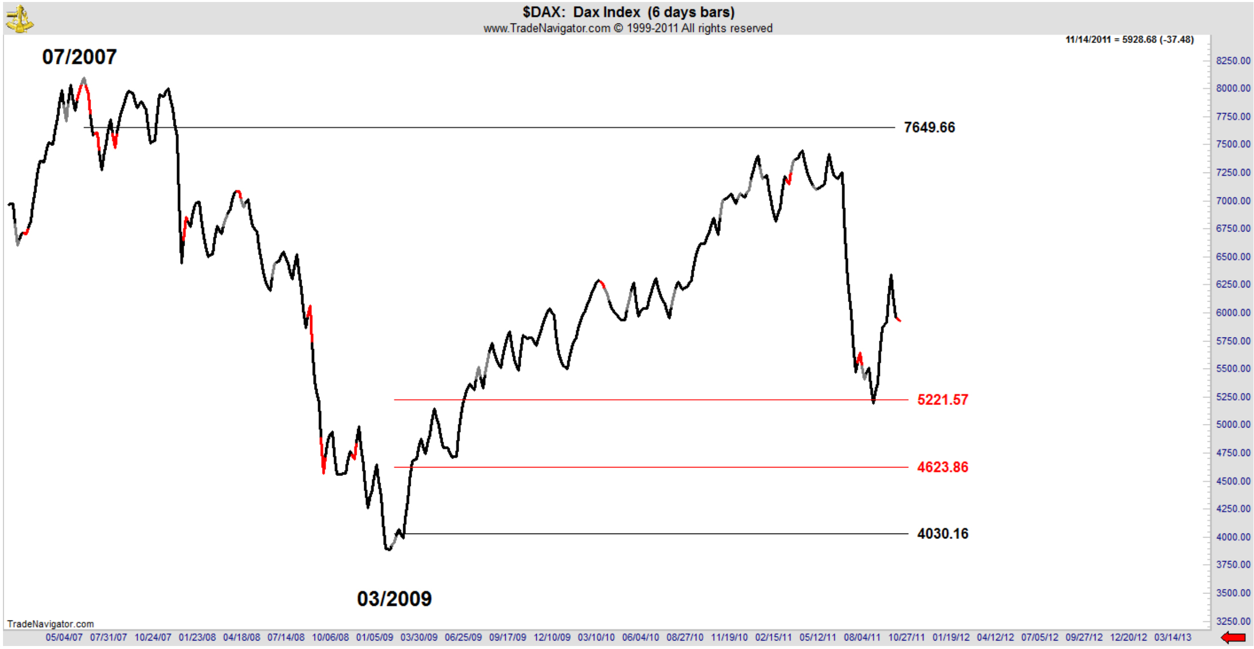


And here's Spain: Near the last level of DC support for the major swing

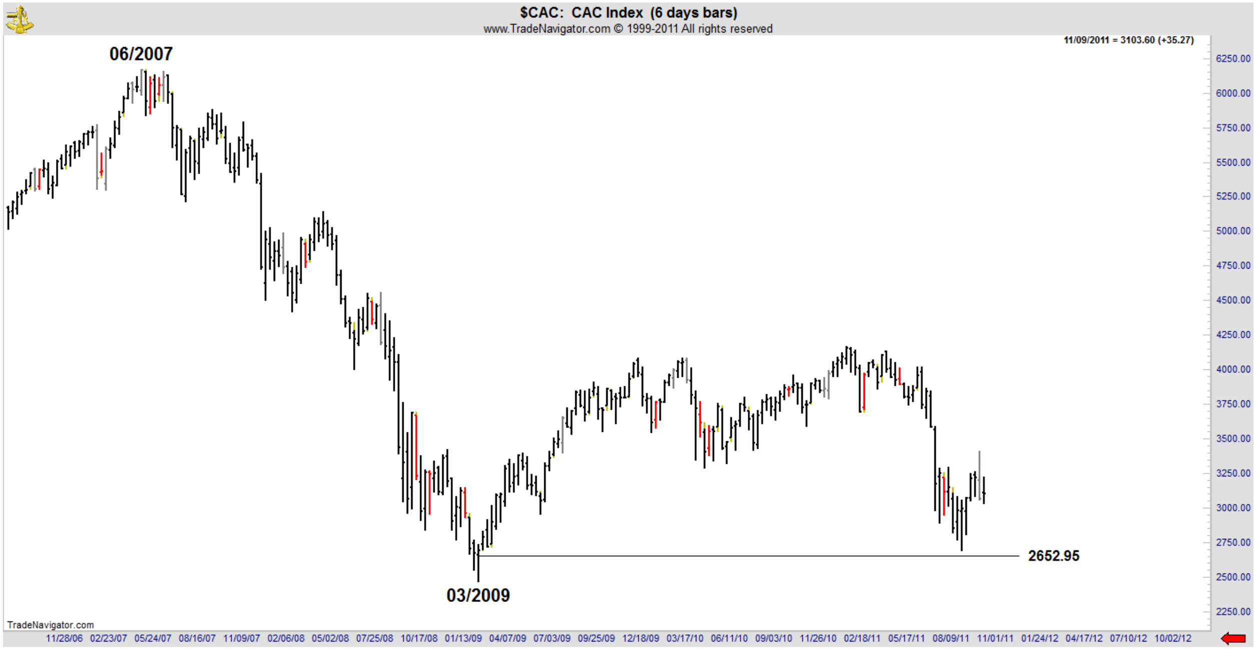


None of this supports the anguish that commentators are displaying. On a European basis, the main countries underwriting the serial bailouts are Germany and France. Let's see how their markets are managing:

Here's the German DAX which has just made a normal DC correction on a close only basis:



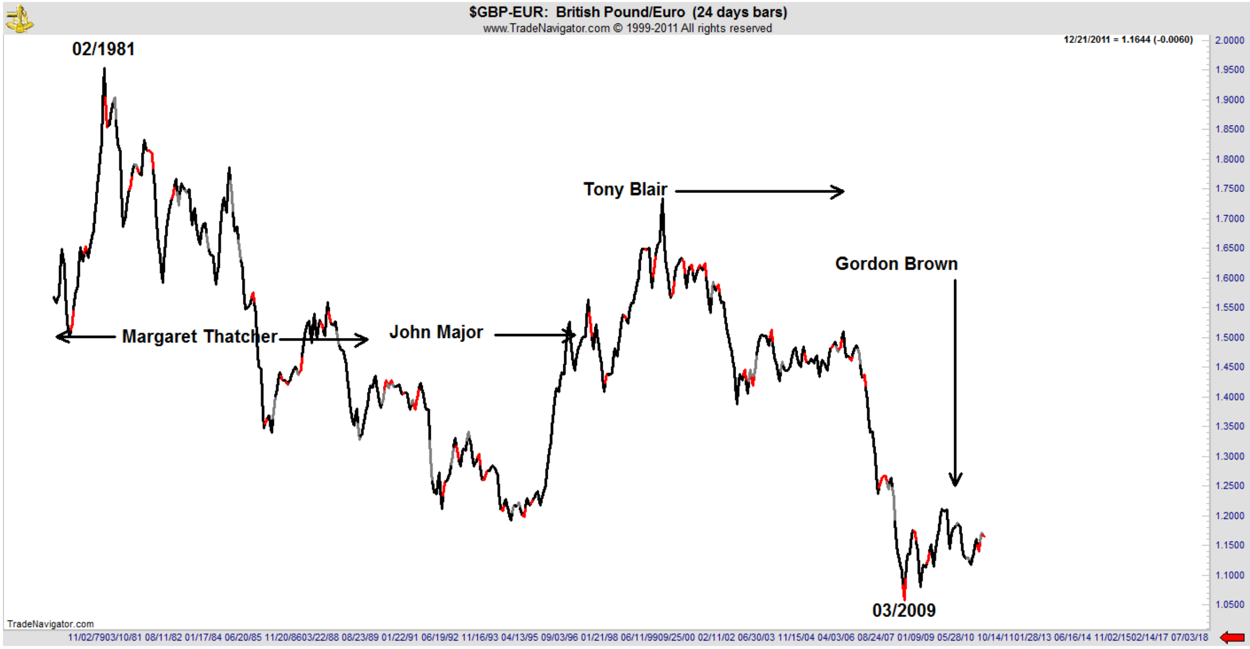
But here’s the real outlier, France’s CAC Index, the major stock index for French Equities. This chart highlights the triumph of spin over reality. That France retains its AAA rating is testimony to it’s political clout rather than any appeal of fundamentals. Markets don’t believe a word of it and are treating France in exactly the same way as they rate Italy and Spain. Now perhaps you can understand Sarkozy’s desperation for ECB to bailout the French Banks in particular.



The Pinnochio of the World’s major Equity Indices is of course London’s FTSE. It’s challenging to think of another country which has been so poorly served by its elected leaders as the UK. Since the reign of Margaret Thatcher, the “Iron Lady” it is statistically almost impossible to compute the probabilities of a sucession of incompetents which includes Major, Blair, Gordon Brown the unelected History major from Edinburgh, and now the youthful David Cameron, in whose defence it must be said that he has at least, the pedigree and education to be the man for the times.

A direct descendant of King William IV, from his mistress Dorothea Jordan, Cameron comes from a long line of sucessful mercantilists on his male line including his great-great-grandfather Alexander Geddes who made his fortune in Chicago trading Grains! His maternal line is stacked with politicians and aristocratic Army officers. Quite the blend for what a much diminished UK now faces.

The chart below shows the joys of devaluation for those who control their own currencies. GBP has almost halved against its major markets since 1981:

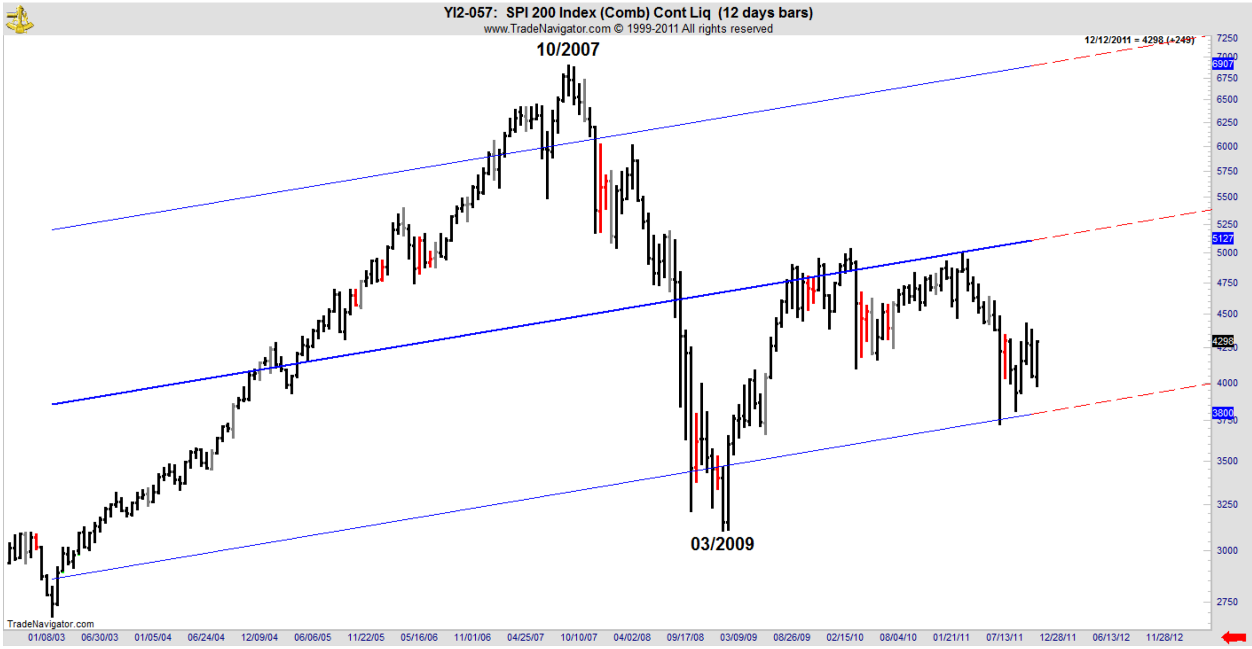


And hence the FTSE which is clinging to its lower trendline in absolute terms is worth about half on the view of its European partners.

And finally the Chinese Dragon, the Shanghai Composite Index, one of the better examples of a boom time market. Now as it matures it is wandering through its Danielcode retracements and a break of its present infatuation with the DC 74 retracement presages a revisit to the dreaded DC Black line, where all good indices either hold or die. Our interest in China's market is driven by its grip on the Australian SPI Index and Australia's wider economy.

Australia and by osmosis New Zealand have tied themselves to China's fate. Australia is in the enviable position of being a major supplier of raw materials, principally Iron Ore and Coal, to China, and that has led to an historic boom in the States that are participating, mainly Western Australia and Queensland. Lavish and unprecedented liquidity introduced by the Australian Federal Government who mistook the threat of GFC in the antipodies with the real thing, has created an overloved and overvalued market in Oz which seems to create new mining billionaires on a monthly basis. Much of this wealth boom has seeped into housing with some markets up 25% in the past 12 months against a small national softening of 5%. Where China goes, so too does Australia so it behoves us to keep an eye on the Aussie SPI which exhibits a shizoid personality somewhere between China's SSE and the S&P.

Presently SPI is clinging for support to the bottom of its long term trading channel. This is a normal part of the recovery process. If and when it closes below this support it will be time to worry. Until then, "She'll be right Mate".



I am entirely sanguine about market action around the world. All assets that I can see are still seriously overvalued, but that means nothing to traders. We care not which way markets move, just so long as they do so with alacrity!!

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