5 April 2011-Long Term Trend Charts-Major Markets

US T Bonds-Special Edition

We start this week's LTTC Update with a more thorough look at T Bonds in view of Messrs Gross and Buffett's recent bearish comments.

This is what Danielcode had to say in August 2010- From the 23 August 2010 LTTC Report repeating the same advice a week earlier: ***"Bonds are at the top of a narrow regression channel and we have a maturing DC time cycle expiring on 08/23. Bonds chart is ripe for a correction shortly"*** Timely, prescient and FREE. Just what all of you folks are looking for!!

Let's move to the present as Marketwatch sets the scene today:

"BEND, Ore. (MarketWatch) — In recent weeks, uber investors Bill Gross and Warren Buffett made headlines with their negative views on the U.S. Treasury bond markets. If you are among the ranks of investors who share Warren's and Bill's bearish outlooks regarding U.S. debt, exchange traded funds can offer you several potent ways to potentially profit from a decline in the value of U.S. Treasury bonds.

Pimco founder Bill Gross lambasted our elected representatives in his April Investment Outlooks for letting the U.S. debt situation get so far out of hand and said that he has been "selling Treasuries because they have little value within the context of a $75 trillion total debt burden."

Small investors hurt by low ratesWSJ's Mark Whitehouse explains how low interest rates have meant big profits for banks, but they are hurting small investors. In fact, last month it was widely reported in the general media that Mr. Gross took his government related debt to zero in his $230 billion Total Return Fund /quotes/comstock/10r!pttax (PTTAX 10.91, +0.02, +0.18%) , the first time it has held no government debt in more than two years. And he has also been quick to point out that investors in U.S. debt are being "under rewarded." All of this is startling, considering that Pimco is traditionally a major holder of U.S. debt and one of the biggest players in the global bond market.

However, Mr. Gross is not alone in his bleak assessment of the situation and the likelihood that the 30 year rally in the bond market could be nearing its end.

Famed investor Warren Buffett joined the chorus against U.S. Treasuries recently when he said in a speech in New Delhi that investors should stay away from long term fixed-dollar investments because of his forecast for weakness in the U.S. dollar. Apparently Mr. Buffett is also reducing his long exposure to the long bond market and focusing on what he seems to love to do best, which is buying companies around the world.

It's difficult to argue with this kind of brain power. As one looks at today's landscape of near zero interest rates, the approaching completion of quantitative easing in June and accelerating inflation, it's easy to make an argument for rising interest rates on our landscape in the near future.

Of course these developments and warnings come after last year's historic inflows of capital into the bond markets as retail investors threw in the towel on equities and sought out a safe haven in bonds. Perhaps this could be the strongest signal of all that it's time to short the bond market since the retail investor usually gets it wrong."

Trying to filter market truths from news reports is a perilous activity. Most of this type of comment is generated by wholly forgettable economists, the puppets of the financial behemoths. I have long argued that even if the information imparted by these worthies is true, it is a useless tool for traders as there is never an element of time.

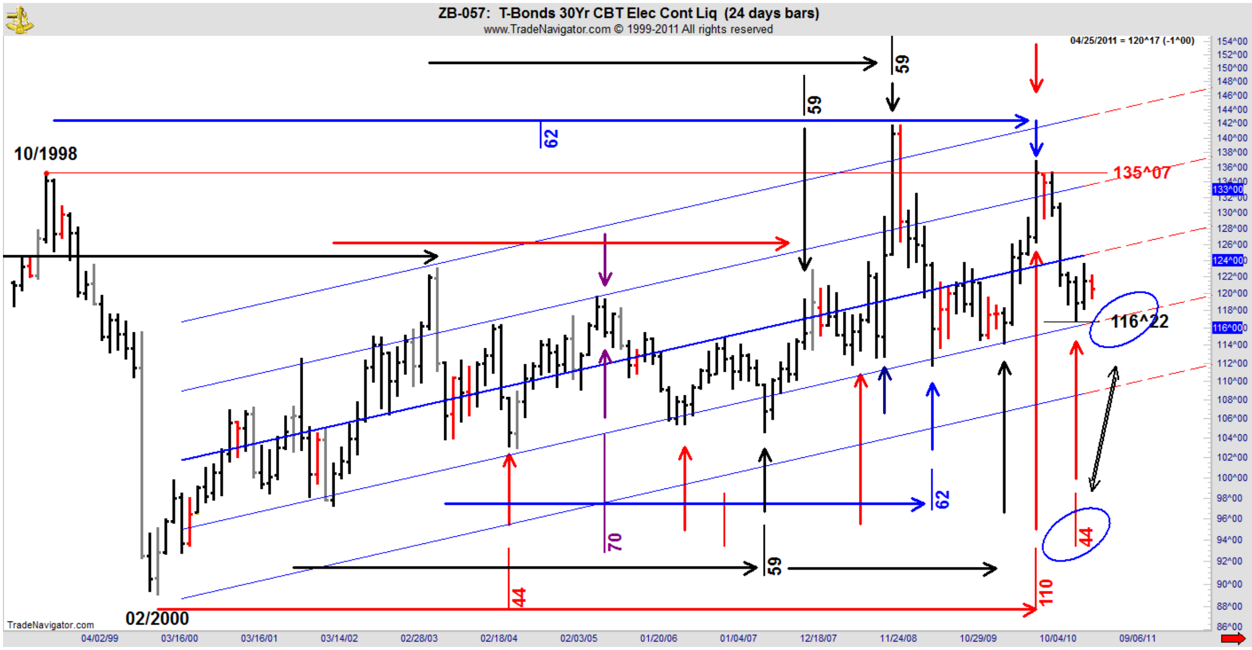
Au contraire, the comments of Messrs Gross and Buffett fall into a totally different class of advice. These guys walk the walk as well as talking the talk, so it behoves us to give appropriate weight to their views. To do this, as always, we turn to that final arbiter of market truth, the trading charts.

We start with our long term chart which is constructed from 24 day trading bars.
The current rally in T Bonds is now in its 11th year. During that time we have seen booms, busts and booms. We have survived Greenspan's aged dementia and absolute refusal to oversee financial regulators as he set the conditions for the historic US property bubble and subsequent carnage. We, in other parts of the world are still living in the twilight of Greenspan's hapless love of debt, and the current Fed incumbent, Ben Bernanke's walk, far past the precipice, to elevate Greenspan's peccadillos to an art form. Bailouts, burnouts and bountiful goodies for Bankers, and now US Treasury. Nothing it seems has either limits or accountability.

As the purveyor of the world's reserve currency, US Fed policy has long arms. We have recently seen from Fed disclosures that the biggest users of Fed largess during the fun filled days of Spring 2009 were European Banks. Quite why US taxpayers were happy to bail out French and Belgian Banks is beyond my understanding, but there has certainly been no outrage over these events.

In other parts, notably the Lands Down Under, residential property prices have increased 104% in the past 8 years, fuelled by historic levels of household debt creation. Prices continue to levitate as the apparent miracles of debt securitisation and Central Banks compliant to their charges (the Banks that they oversee) still hold sway. And we could add Europe, UK and Asia to the "No debt is too large" story.

In the face of these massive policy extensions, T Bonds have been a veritable haven of stability. As the following chart shows, they have been the very model of tranquillity, poise and dedication as they have slavishly tracked along their DC trading channels with very occasional outbursts of "irrational exuberance". Since 2000 we have just 3 closes on this time series, above the 1st standard deviation, and just 1 such close on the downside. Our last look at this chart signalled 116^22 and the DC 44 time cycle as important support, and a quarter later, nothing has changed as a close below the lower regression channel will be the signal if there is to be a dénouement in this historic market.



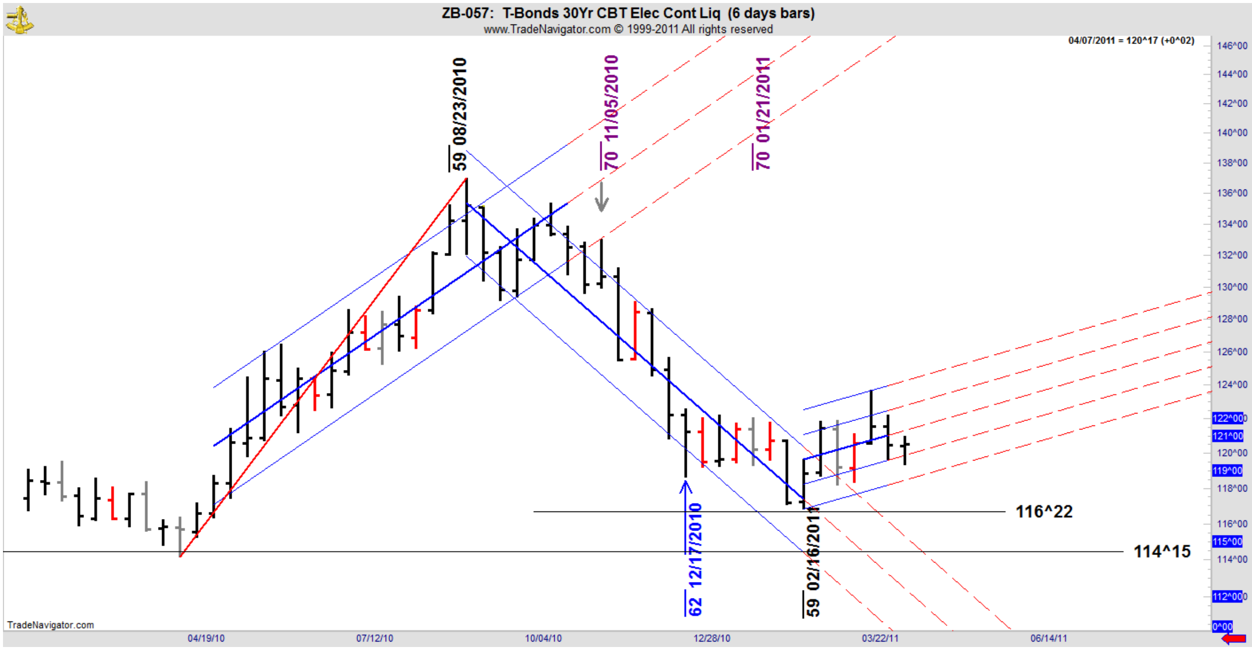
Cynically, we can point to these pronouncements of doom from Messrs Gross and Buffett as being neither timely or helpful as they are all ex post facto (in laymen's terms late!). In fairness, it is no obligation of these gentlemen to signal their market views in advance, but a warning of future downside price action on or around 08/25/10, the most recent high would have no doubt been more useful to you as a timely and accurate market tool.

From the 23 August 2010 LTTC Report repeating the same advice a week earlier: ***"Bonds are at the top of a narrow regression channel and we have a maturing DC time cycle expiring on 08/23. Bonds chart is ripe for a correction shortly"*** Timely, prescient and FREE. Just what all of you folks are looking for!!

Risk of Dollar devaluation (per Buffett) is covered continually in the DX chart.

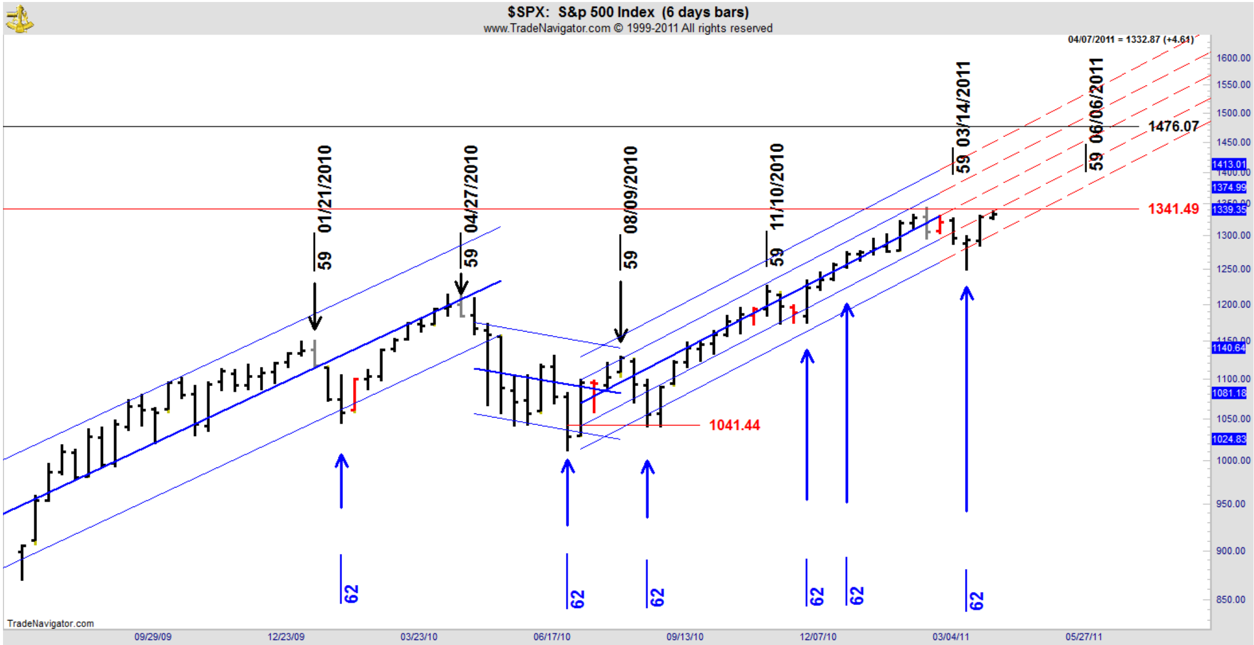
We move now to our traditional 6 day chart:

On 6 Day Regression Channel, Trend is: DOWN, but now with a number of conditional Buy signal
On 12 Day Regression Channel, Trend is: DOWN
On 24 Day Regression Channel, Trend is: DOWN



S&P

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



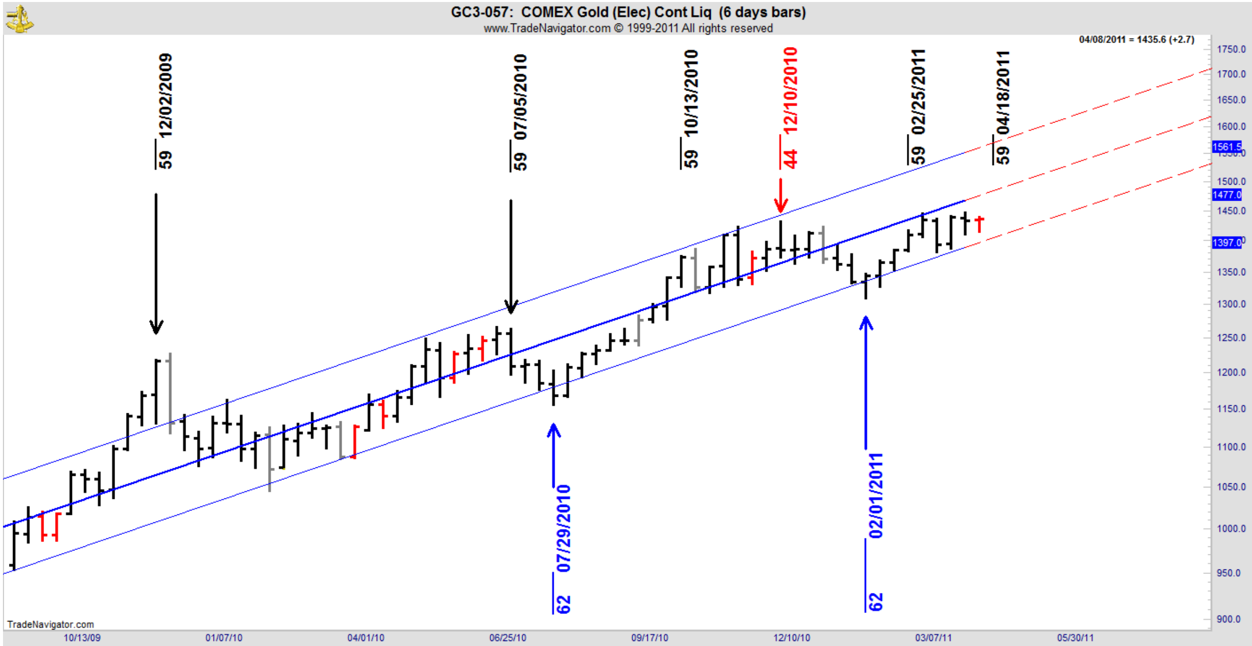
The 62 DC cycle is traditionally supportive in this market and it did its job again terminating the pullback on 03/16 to coincide with our T.03PLUS trade signal to Buy S&P, Dow and DAX on 03/17. Nice enough.

If you missed buying the low on 03/17 you may wish to subscribe for these signals. See details on the Contact Us tab at left.

S&P is again testing the major DC retracement at 1341 and needs to regain the DC trading channel to continue this rally.

Gold

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

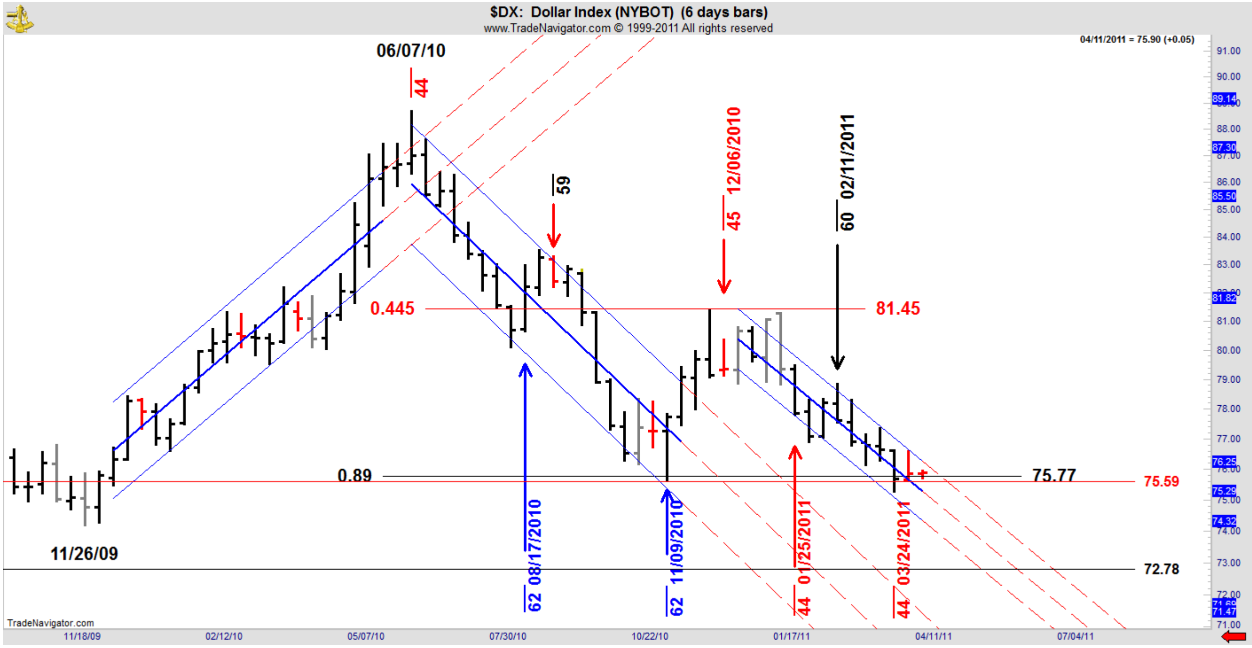


Gold’s 44 DC week cycle on 12/01 forced the current correction and the traditional 62 week support cycle served to hold this market to its lower regression channel.

Gold has been trading sideways since early March, and has now done enough to create a conditional Buy signal again on this time series. This market continues to exhibit strength by holding its DC trading channel, but note the conflict developing between the different time series. The next major move will likely be of some importance so watch the daily trade signals closely.

US Dollar Index (DX)

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

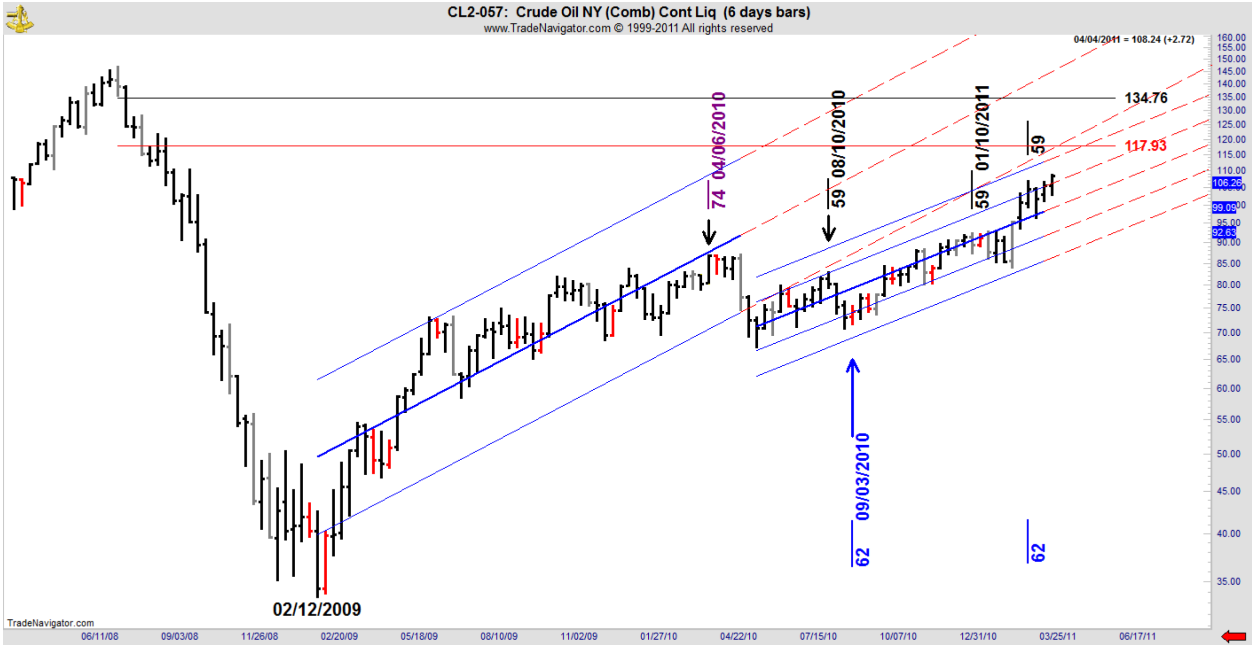


From the previous edition: “Back into the danger zone. A close below 75.77 implies that the 11/09 low will not hold and that is the start of panic land!!”

DX is hanging precariously on the available support. Technically the last level of support in the 06/2010 to 11/2009 swing has been broken. That leaves support inside the major swing to the 03/2008 low at 75.59 then 72.78.

OIL

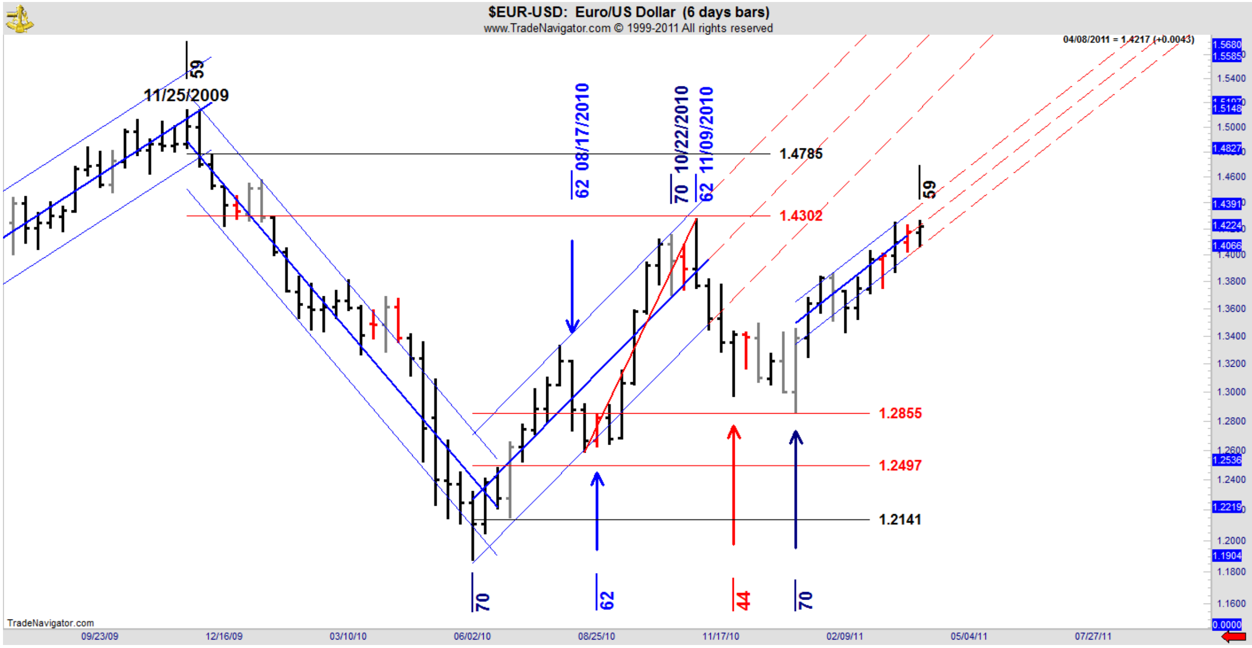
On 6 Day Regression Channel, Trend is: UP
On 12 Day Regression Channel, Trend is: UP
On 24 Day Regression Channel, Trend is: UP



Middle East protestors must be reading these charts. From 02/19 charts: "*Expect volatility as these time cycles unfold*."

EUR-USD

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



This pair has been running up a narrow channel as it approaches an expiring DC time cycle. To sustain a longer rally the channel needs a broader base so a correction is likely imminent.