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SPX's Running Correction, Gold Shines, Cup of Oil Breaks Out!

The financial markets continue to climb the wall of worry on the back of more Fed Quantitative Easing. Those trying to pick a top in this choppy bull market may prove to be correct for a couple hours but over time the shorts continue to get clobbered.

Quantitative easing was enough to turn gold back up and gave oil just enough of a nudge to breakout of its cup and handle pattern explained later.

The past few weeks the number of emails I receive on a daily basis about what individuals should do about short positions they took on their own has growing quickly. Usually when my inbox starts to fill up with traders holding heavy losses trying to pick a top I know something big is about to happen and its not going to be in the favor of the herd (everyone shorting). In the past couple week there have been some great entry points for the broad market whether its to buy the SP500, Dow, NASDAQ or Russell 2K. I focus on trading with the trend and entering on extreme sentiment readings as shown in the chart below.

Extreme Trend Trading Analysis

Below are my main market sentiment indicators for helping to time short term tops and bottoms. That being said I don't pick short term tops in hopes to profit on the down side. Rather I wait for a extreme sentiment bottom to be put in place, then enter long with the up trend (Buy Low).

Once there is a 1-2% surge in price and sentiment indicators are showing a short term top I like to pull a little money off the table to lock in some profits while still holding a core position (Sell High). This is exactly what I/subscribers have done over the last couple weeks. This is a simple yet highly effective strategy and works just as well in a down trend except I focus on shorting extreme sentiment bounces. Subscribers know what these indicators are as I cover them each week in my pre-market trading videos as we prepare for the day ahead.



SPX Running Correction

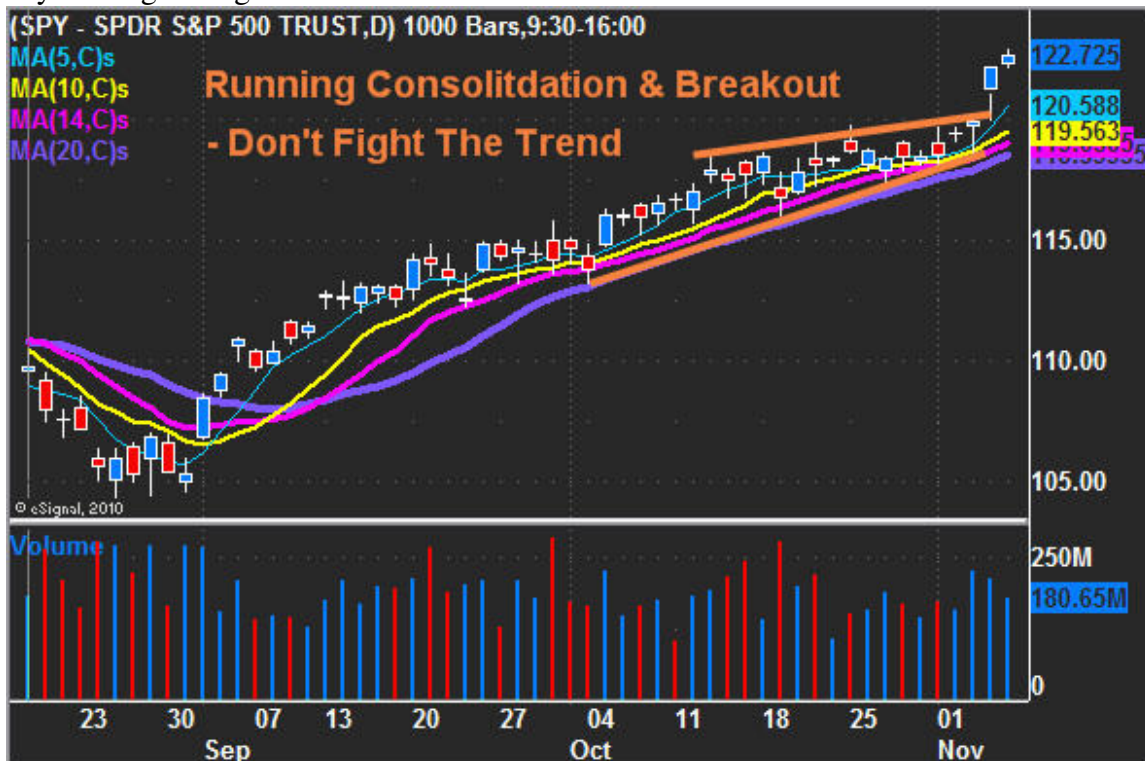
Since early September the equities market has been on fire. In late September the market was extremely topy looking and trading at key resistance levels from prior highs convincing a lot of traders to take a short position. But instead of a correction the market surged and has since continued to grind its way up week after week.

This rising choppy price action can be seen two ways:

1. As a rising wedge with a blow off top (Bearish)
2. Or as a Running Consolidation (Bullish)

The running consolidation happens when buyers are abundant picking up more shares on every little dip. Overall looking at the intraday price action you will see market shakeouts as it tries to buck traders out before it continues higher. This choppy looking market action if not read correctly looks extremely bearish to the novice trader and the fact the market is so overbought it easily convinces them to take short positions. This choppy action is just enough to wash the market of weak positions before starting another run up.

All that said, both a blow off rising wedge and a running correction are very bullish patterns for a period of time. Again I cannot state it enough, trade with the trend and the key moving averages.



Gold Shines On The Daily Chart

The gold story is straight forward really... Trend is up, quantitative easing is back in action and that is helping to list gold and silver prices. Key moving averages have turned back up and gold closed at a new high which shows strength.



Golden Rocket Stock Play

With another round of quantitative easing just starting and gold making another new high last week there is a very good chance gold stocks will rocket higher in the coming 8 months. I have been following Millrock Resources Inc. because of the team involved with this company. A breakout to the upside here could post some exciting gains if you take a look at the chart and see where the majority of volume has traded over the years along with the bullish chart patterns (Cup & Handle/Rising Wedge) with strong confirming volume. From 84 cents to the \$3.50 area there should not be many sellers other than traders slowing taking profits on the way up.



Crude Oil Breaks Out Of Cup

Crude oil has been dormant the past few weeks even though the US Dollar has plummeted. But last week's news on more QE was enough to send oil higher. The surge took oil prices straight to the 2010 highs as expected and blew past my first target of \$86.00 per barrel. I figure it will consolidate here for a while until we see if the dollar bottomed last week or is just testing the breakdown level.



Weekend Trading Conclusion:

In short, the market has played out exactly as we planned and all four of our positions are deep in the money. As we all know the market goes in waves in both price and for trade setups. The past couple weeks were great for getting into trades and now the market is running in our direction. It will take a few days for the market to stabilize (pullback or pause) before we could get another round of trade setups. Keep position sizes small as the market remains overbought and a sharp correction could happen at any time. Until then, keep trading with the trend.

Disclaimer: I own shares of SPY and MRO.V

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