Tischendorf Letter Issue 10: Bearish Market Structure Still Intact

January 31, 2016

Hello members!

As the headline for this week's Letter implies, we are seeing more confirmation that the current market still has to be considered a very bearish one. A quick recap of the current situation:

- **The main indices are still trading below all the major moving averages**
- **Former leaders like Apple and Tesla are not leading anymore**
- **Leadership is getting thinner**
- **New leaders aren't emerging**
- **There are almost no constructive patterns to be found**
- **My personal watch list is getting smaller every day**

Given all the points I've listed above, there is only one conclusion I can come up with. The current rally is extremely weak and should be ignored. So far, this is nothing more than a counter trend rally. It is of vital importance to wait for further evidence before turning bullish again. As long as we do not see this evidence, e.g. more constructive patterns setting up, it is crucial to 'think defense' first. I cannot repeat this often enough: **Protecting capital is key.**

The biggest mistake people make, especially those who have seen success in the corporate world, is that they believe in "**Making things happen".**

As a trader this is possibly the most dangerous thought to entertain. Great traders seek a flow state of mind. They become one with price movement and**react** in an unbiased way to the price information the market offers. "Forcing trades" is not part of a successful trader's vocabulary.

Let me share a personal story with you that illustrates how important the above mentioned points are. For years I used to make a killing when the markets were conducive to aggressive trading only to give back most of my gains during bear markets. After a few years I started to keep track of my

equity curve within my trading software package. I enter the data into my charting software, that way it looks exactly like a chart of a stock (except for the missing volume data). I can plot moving averages, draw lines and objectively analyze it like any other chart I look at. The key word here is '**objectively**'. My brother, who knows almost nothing about the markets and who doesn't have a real interest in the markets either, has always been extremely supportive and interested in my results.

At the beginning of my career as a trader, when my equity curve was starting to turn down, he used to say something like: You're living and breathing the markets 24 hours a day, you know what you're doing, although your equity curve looks tough, keep fighting. He had the best intentions in mind and wanted to keep up my fighting spirit.

After a few years though, we both became much more objective. While looking at my equity curve there was a clear pattern to be seen. When the proverbial shit hit the fan, I simply didn't react fast enough and not decisively enough. I kept fighting the trend until I had given back way too much. The give back phase typically started after extended runs. I literally knew what was to come when the indices turned and was actually telling my brother beforehand what I thought was most likely to happen. He basically said: You see things are going to get worse. If you just step aside during those waterfall declines your performance would be stellar. When you think the market is too tough, sell everything, do nothing and wait until you see 'your patterns'. It was a long struggle to act more decisively and trust my instincts.

Over the past years things have changed. He recently asked how things were going. I said that the markets are extremely tough to read and that I went to cash. He simply replied: Good. Don't worry. Simply do nothing until you think the market looks good again.

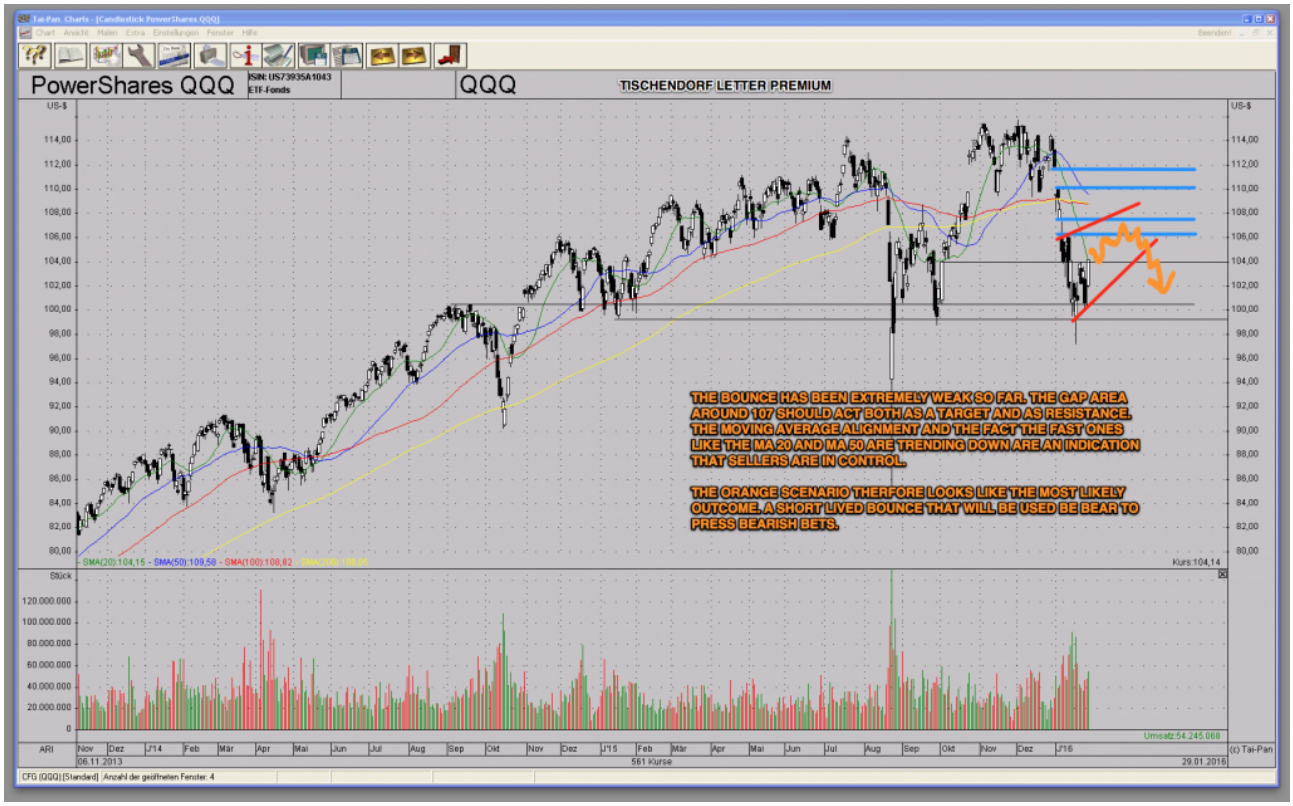
Conclusion: We are wired to 'make things happen'. 'Doing nothing' is often equated to 'being lazy' and not 'working hard enough to make things happen'. The truth is, stepping aside and protecting one's capital is a very conscious and active decision that requires a lot of discipline and energy.

> **Avoiding large losses is the single most important factor for winning big as a speculator. – Mark Minervini**

On to a few **current observations** of what is **typical bear market behavior**. Put another way, the dominant trend is still down. In my opinion a bounce is only worth trading for nimble traders. One of the reasons I believe this to be the case is how weak the bounce has been so far. Keep in mind things can change quickly. By now though, the technical damage is so pronounced that

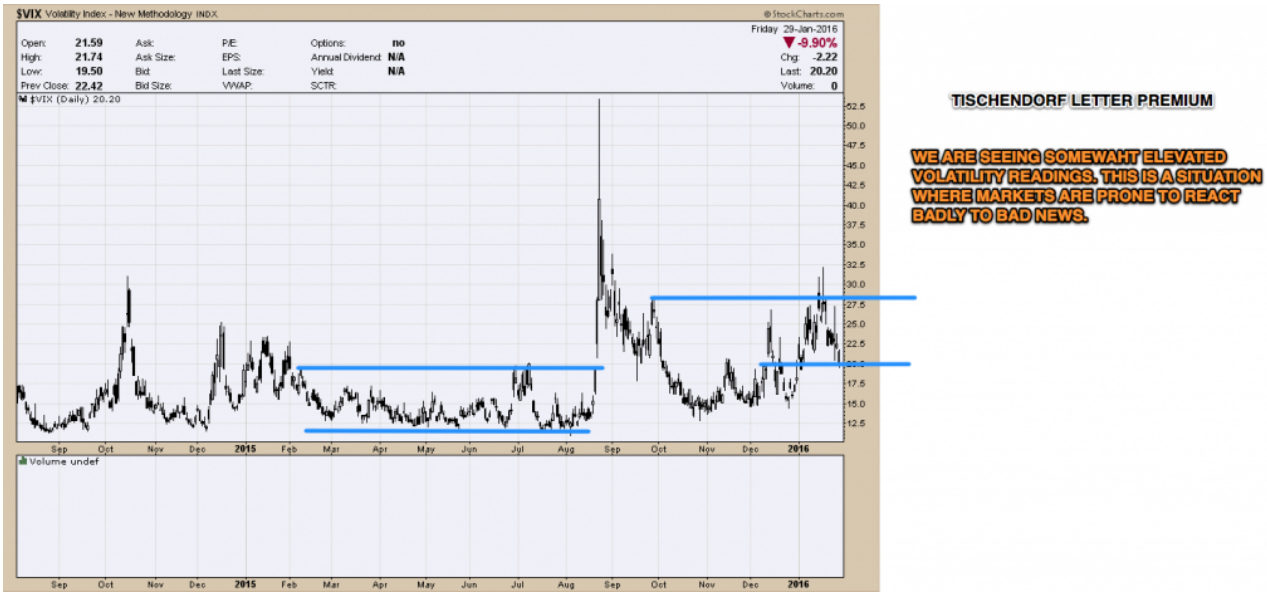
the risk of missing a super move to the upside is extremely small. Technically damaged indices like the ones we are witnessing right now, typically need **at least** a few weeks or months to heal and set up again.

Click on **QQQ – Nasdaq 1000 ETF** chart to enlarge:



Another observation is the $VIX showing elevated readings. In terms of 'context' this is a situation where markets are prone to react badly to bad news.

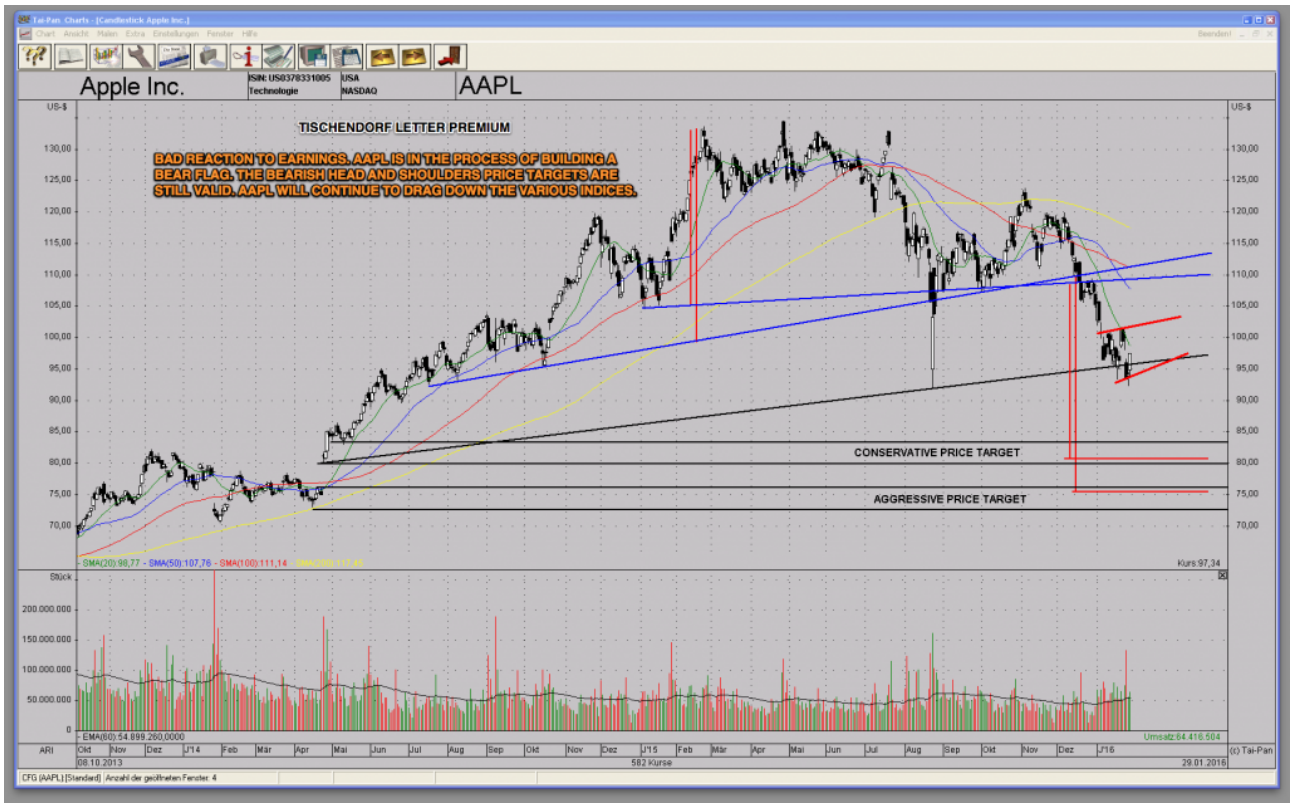
Click on **$VIX – Volatility Index** chart to enlarge:



Another bearish observation is deteriorating price action with former leaders like Apple, Tesla and Amazon. A famous market adage that comes to mind is:

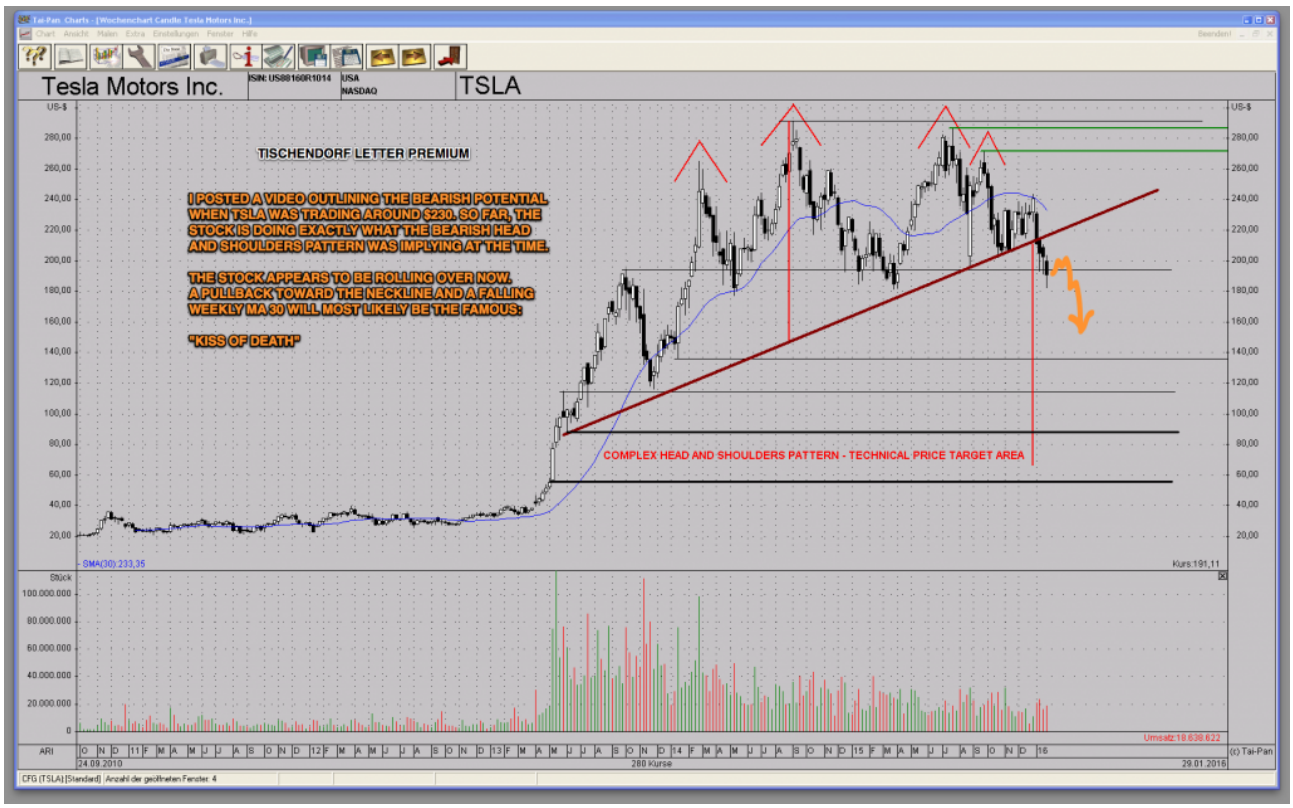
As the leaders go, so goes the market.

Click on **AAPL – Apple** chart to enlarge:



From a purely technical perspective I am expecting much lower prices ahead. The target implied by the conservative head and shoulders pattern should be around $80. This will most likely keep up the selling pressure for various indices.

Click on **TSLA – Tesla** chart to enlarge:



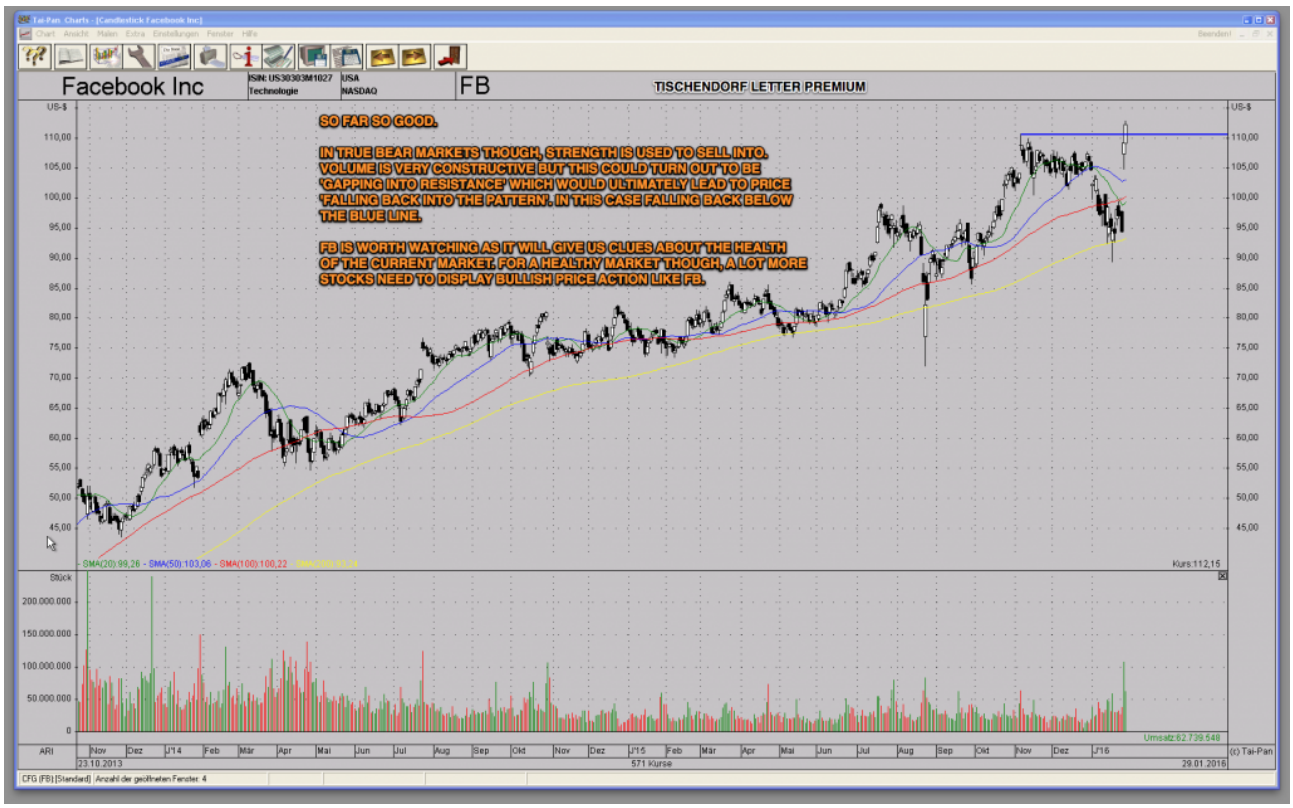
Tesla appears to be rolling over. A pullback has to be considered a “Kiss of death” type of move and technical traders will seek to short bounces. For those who have missed it, click here to watch my **TSLA – Tesla Video**.

The notable exception is FB – Facebook. A leader that is still acting as a leader. The problem I see is twofold:

1. FB is not a new leader anymore. In bear markets almost all the former leaders get taken to the woodshed.

2. In bear markets strength is used to sell into. FB could see the same fate AVGO saw after its great reaction to earnings.

Click on **FB – Facebook** chart to enlarge:



We will have to watch if Facebook follows AVGO price pattern after earnings or if it can hold onto its gains.

Click on **AVGO – Avago** chart to enlarge:

Conclusion: I want to make it perfectly clear I am not making any predictions about Facebook here. These are simply observations and important technical concepts I am trying to convey. When looking at stocks like Facebook, keep in mind that when the market is under pressure, even strength with the strongest stocks is most often used to sell into.

As usual, it is important to keep a very focused watch list with the most constructive charts the market has to offer. In last week's watch list I already included RIC – Richmont Mines, a gold miner. The great majority of gold miners still look abysmal. A simple way to gauge a sectors health is to look at the **trend of the moving average 200**. Most gold miners have daily moving averages pointing to the downside. When that is the case you do NOT get super moves to the upside. Therefore the best case scenario for gold miners is still an intermediate bounce followed by new lows. I could be wrong though and a few miners have clearly started to resist selling pressure. The only one with a MA 200 clearly trending up is CLGRF – Claude Resources. The stock is rather low priced so my focus is on analyzing RIC – Richmont Mines which offers a higher price per share and more liquidity. But its technicals are weaker. The MA 200 e.g. is not trending up and so far only has managed to stabilize after the initial surge in 2014.

Click on **RIC – Richmont Mines** chart to enlarge:

As mentioned int the annotations it is important to keep track of the strongest

stocks within a specific sector. With gold miners, RIC is the liquid one worth monitoring.

Watch List:

Watch List Link – Tischendorf Letter Issue 10

Some of the strongest charts the market has to offer right now. Use the list to add a few to your own watch list.

"The most important rule of trading is to play great defense, not great offense. Every day I assume every position I have is wrong." – Paul Tudor Jones

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