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21ST CENTURY | ALERT

MORNING BRIEFING

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MONDAY a.m.
April 7, 2003

Raise your stop on the Victory Trade

by David Nichols

The war news from the weekend is good -- no surprise! -- and the futures are rocketing this morning.

This is a market that is only offering gains in the overnight

futures session. There is *huge* overnight position risk. It's almost ridiculous, in fact. If making overnight bets is not your game, then please don't feel bad if you're not participating. It only looks obvious in retrospect.

Luckily we sniffed out this "victory trade" in Friday's morning briefing. If you took the advice to go long a small, reasonable amount, then now you've got to "trail a stop" up from the original stop at 868. Since the trade has moved our way, we're going to raise the threshold for exit in order to lock in profits.

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If you're in this long trade, then exit if the S&P 500 drops below 891.



A break below here will indicate that the breakout above the previous highs is just not holding, and the market isn't able to find its way to new ground. If the breakout doesn't hold, then the market will likely seek its "home" -- which is right at the 876 level. Plus many technical traders -- and that's the majority right now, without a doubt -- will recognize this failure above the breakout, making the consequences immediately more dire. So there's no need to hang around on the long side if the SPX breaks 891.

I realize I said that you could buy any stock or index ETF on Friday morning -- as long as it was a small, reasonable position -- and I'm only giving guidelines based on the S&P 500 here. That's because it's all one market these days. Traditional stock-picking isn't that valuable when the market is trading like one big commodity. You might as well just look at the S&P futures --either SPM3 (the "big" contract) or ESM3 (the "e-mini") -- to let you know how the U.S. market is trading.

I'm not going to give a target to the upside, because it might just keep on going and going. The tough points to get through are SPX 900, 910, and then 924. So the market will likely find balance around those points, and if it doesn't pull back and break the next balance level, it will be good evidence that the advance can continue.

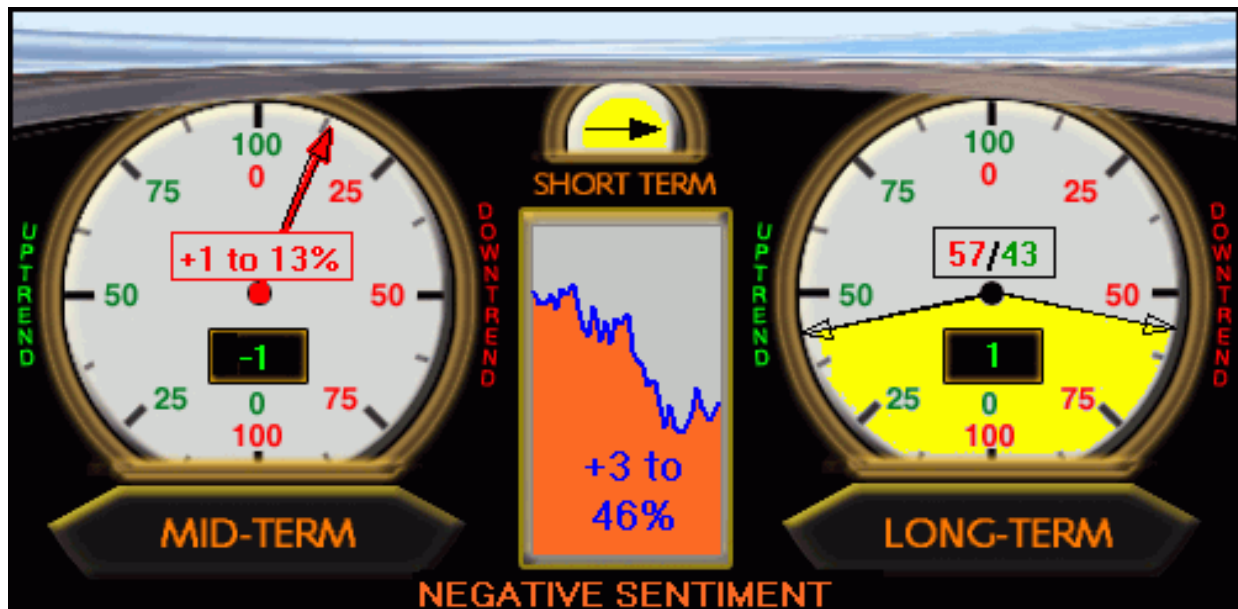
Interestingly, with this morning's positive action, the markets are just *starting* an advance phase according to our momentum indicators on sentiment. This means there is plenty of room in the short-term for the advance to continue. Although a spike in actual volatility should keep the VIX high initially, it will be interesting to see how the implied volatility responds to an intraday congestion period. That will give a good read on trader's feelings about this rally.

As my colleague Adam Oliensis has been pointing out, the economic news has been

disastrous. But this has been trumped by the positive war news. At some point, the euphoria will end and the markets will have to adapt to the post-war reality. "Regular" trading should resume. But in the meantime, let's enjoy the rally.

Sentiment Dashboard

by Adam Oliensis



SENTIMENT TANK: The tank filled up 3 points to 46% on Friday, which didn't tell us any more about whether the recent action was a "continuation pattern" that would lead to more draining or part of a reversal pattern that would lead to the tank filling.

This morning's gap up in the futures suggests that we're likely to drain. We're looking for the 30% area now.

SHORT-TERM: The short-term gauge has really spent the better part of the last 8 days in or very close to neutral. The VIX lived inside the 32-34 range for almost all of that time.

A break below 30 on the VIX today would be of significant interest. That would probably take the tank down below its recent low.

MID-TERM: The mid-term gauge advanced by 1 point to 13% in its downtrend. It has been trying to generate a sell signal, but that signal has been very very weak. Indeed the Confidence Diffusion Index is at "-1" (bullish 1), negating the needle's being on the "red" side. The best way to look at this right now is like any Stochastic oscillator. The mid-term gauge is overbought (in the 90 range) and remaining so. That suggests underlying strength.

LONG-TERM: The weekly gauge has a slight downward bias. It did move a fraction of a point down last week, taking it from 56 to 57 on the decline phase side of the gauge, but that 1-point move was more a function of rounding to the nearest real number. The move was actually less than 0.5 points so NEUTRAL is really the best description.

The CDI is a BULLISH 1.

Definitions



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