

Happy New Year

Friday Morning 12/30

"Those who cannot remember the past are condemned to repeat it."

George Santayana

As we move into the last week of 2011 and approach 2012, I am reflecting on the lessons learned since the S&P 500 recorded its record high in 2000. While many of the insights shown below are personal and not new, they still bear repeating. I hope you enjoy reading my *"Trading Insights for 2012"* as much as I did compiling them.

- Technical analysis is a windsock, not a crystal ball. It is a skill that improves with experience and study. Always be a student, there is always someone smarter than you!
- "Thou Shall Not Trade Against the Trend."
- Let volatility work in your favor, not against you.
- Watch what our "Politicos" do, not say.
- Similar to the Tampa Bay Buccaneers in 2011 (four wins and 11 losses as of this writing, versus 10 wins and six losses in 2010), *markets tend to regress to the mean* over time.
- Emotions can be the enemy of the trader and investor, as *fear and greed play an important part of one's decision making process*.
- Portfolios heavy with underperforming stocks rarely outperform the stock market!
- Even the best looking chart can fall apart for no apparent reason. Thus, never fall in love with a position but instead remain vigilant in managing risk and expectations. Use volume as a confirming guidepost.
- When trading, if a stock doesn't perform as expected within a short time period, either close it out or tighten your stop-loss point.
- As long as a stock is acting right and the market is "in-gear," don't be in a hurry to take a profit on the whole positions, scale out instead.
- Never let a profitable trade turn into a loss and never let an initial trading position turn into a long-term one because it is at a loss.
- It's not the ones that you sell that go higher that matters, it's the ones you don't sell which go lower, that do.
- Don't think you can consistently buy at the bottom nor sell at the top. This can rarely be *consistently* done.
- Don't buy a stock simply because it has had a big decline from its high and is now a "better value;" wait for the market to recognize "value" first.
- Don't average trading losses, meaning don't put "good money" after "bad."

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- Your odds of success improve when you buy stocks when the technical pattern confirms the fundamental opinion.
- There are periods where traders, due to either economic or emotional reasons, don't need to trade. When the market is acting poorly, don't press trades on the long side.
- We can't control the stock market. The very best we can do is to try to understand what the stock market is trying to tell us.
- Understanding mass psychology is just as important as understanding fundamentals and economics.
- When trading, remain objective. Don't have a preconceived idea or prejudice. Said another way, "the great names in our business ... the Paul Tudor Joneses; the Stevie Cohens; the Andy Halls; the George Soros'...all have this same trait: *the ability to shift on a dime when the shifting time comes.*"
- When trading, if a stock doesn't perform as expected within a short time period, either close it out or tighten your stop-loss point.
- Any dead fish can go with the flow. Yet it takes a strong fish to swim against the flow. In other words, what seems "hard" at the time is usually, over time, right.
- Earnings estimates often follow stock prices
- He who panics first (sells, cuts their loss – discern sell rules before buying), panics best... Realize that a loss in the stock market is part of the investment and trading process. The key is not letting it turn into a big one, as this could devastate a portfolio. The table below depicts the percentage gain necessary to get back even, after a certain percentage loss.

Percent Loss	Percent Gain		Percent Loss	Percent Gain
5%	5.3%		55%	122.2%
10%	11.1%		60%	150.0%
15%	17.6%		65%	185.7%
20%	25.0%		70%	233.3%
25%	33.3%		75%	300.0%
30%	42.9%		80%	400.0%
35%	53.8%		85%	566.7%
40%	66.7%		90%	900.0%
45%	81.8%		95%	1900.0%
50%	100.0%			

Source: Raymond James research

- Parabolic topside moves almost always correct in the same way...
- Don't make investment or trading decisions based on tips. Tips are something you leave for good service.
- Where there is smoke, there is fire, or there is never just one cockroach: in other words, bad news is usually not a one-time event, more usually follows.
- To the best of your ability, try to keep your priorities in-line. Don't let the "greed factor" that Wall Street can generate outweigh other, and just as important, areas of your life. Balance the physical, mental, spiritual, relational, and financial needs of life.

Finally, I want to offer a heart-felt "thank you" to all who have worked so diligently in 2011. Thank you for your hard work, I appreciate it!

Thursday Morning 12/29

It's Not the Stocks You Sell That Go Higher That Matters; it's the Stocks You Don't Sell That Go Lower That Matters: Consistent with this and the end of 2011 and the beginning of 2012, may I *please continue* to recommend *sanitizing portfolios* (hedge, tighten stops, reduce, sell, short, pairs trade – you decide) of stocks with weak or weakening technical characteristics and/or questionable fundamentals.

⇒ Relative to the recent *newsletter advisory sentiment figures* from Investors Intelligence, here are some of *their* comments:

After falling Monday, December 19, the markets rebounded for solid 2%-to-3% gains for the entire week. That prompted the **BULLS** to a 50.5% reading, from 48.4% a week ago. Sentiment is now becoming a worry with the bulls above 50%, although most tops show them near 55%. The **BEARS** dropped to 29.5%.

⇒ Relative to *yesterday*, my quote screen and the “most active” list in *The Wall Street Journal* was “red” across the board. This is consistent with an **Arms Index** reading of 5.39 and extreme selling pressure. Besides the liquidation of many commodity-related positions, I think yesterday's pressure-laden sell-off was Wall Street's attempt to use the day as a last minute chance to unload into year-end (tax losses, book profits) – “*sell when you can, not when you have to.*”

⇒ Relative to **2012**, I want to share with you two separate and distinct “**calendar studies**” that are relevant to the stock market. These studies were published by the Hirsch Organization, producers of the always insightful *Stock Trader's Almanac* (2012 edition).

1) Presidential Election Cycle: 2012 is the final year of the Presidential Election Cycle:

Historically, *presidential election years* are the second-best performing year of the four-year election study as incumbent administrations attempt to massage the economy.

If we get specific and break the election year down, since 1950 while *the beginning of the first quarter or so of the election year has been weak* about 50% of the time, the **S&P 500** has seen gains the last seven months of the year in 13 of the past 15 Presidential election years.

Summary: presidential election years generally have an upward bias, *especially in the second half of the year.*

2) Decennial Study: This is a study of breaking down 10-year periods based on the last digit of the year. For instance, how did the stock market do in all years ending in a “0” (zero) (2010, 2000, 1990, etc). In the case of 2012, *a year ending in a “2”* (two), how did the stock market do in 2002, 1992, 1982, etc.?

If you break the stock market down in this fashion, according to the Hirsch Organization, certain patterns emerge. *Please see a copy of the book for specifics; it is worth your investment.*

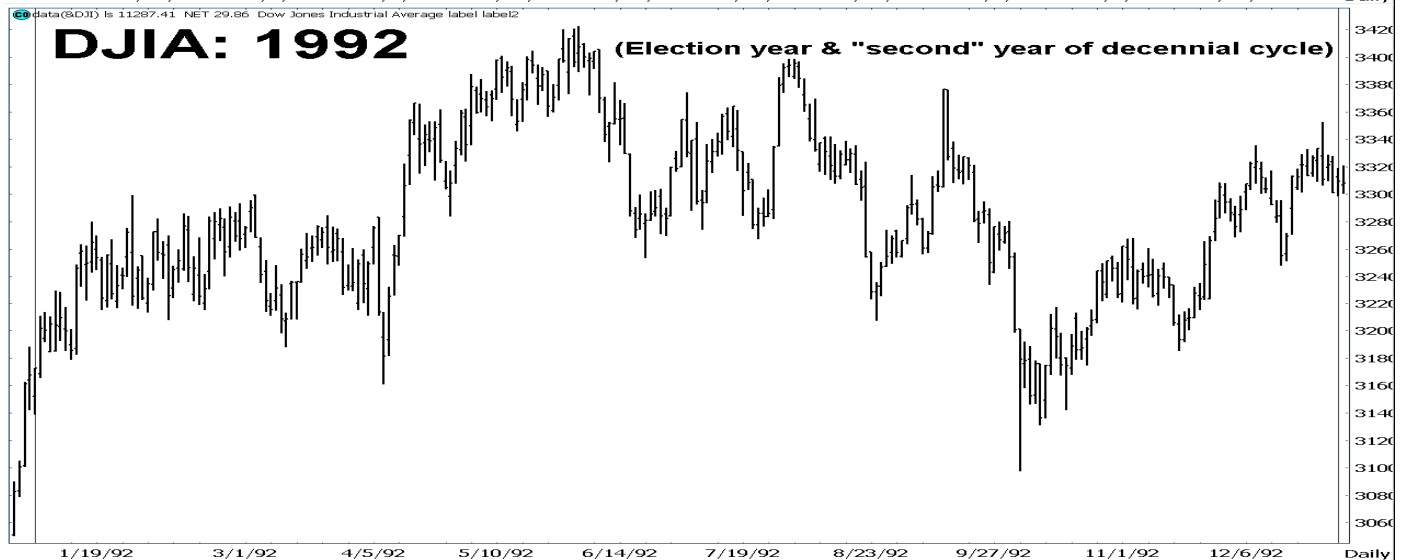
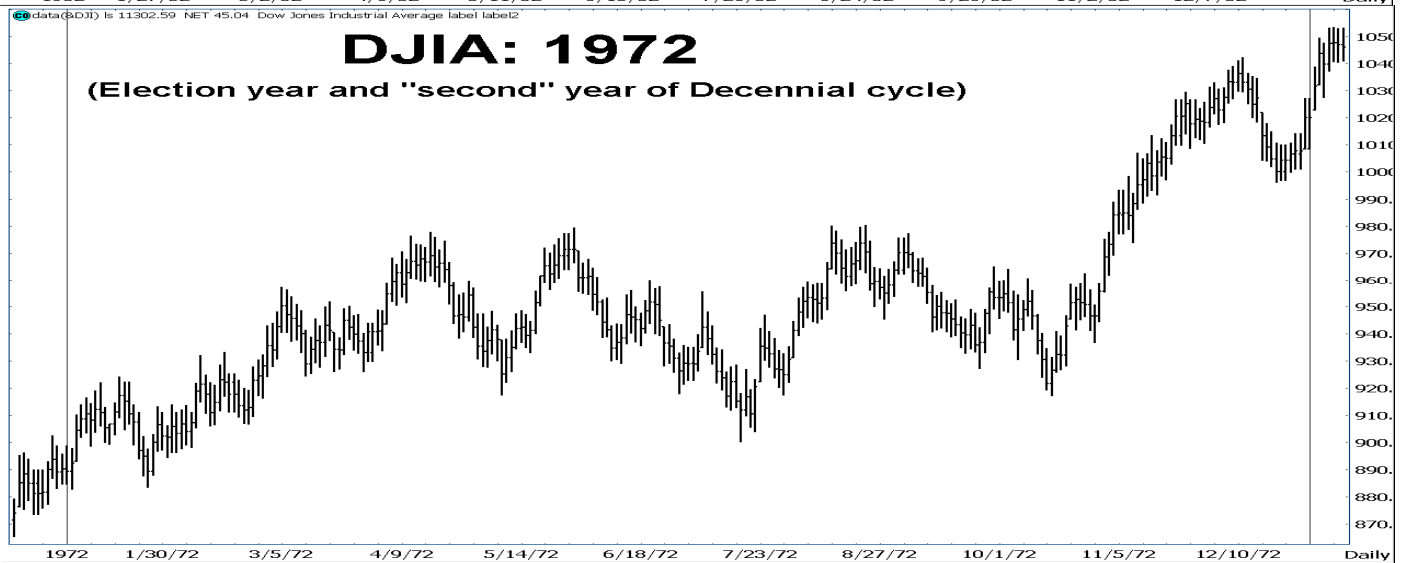
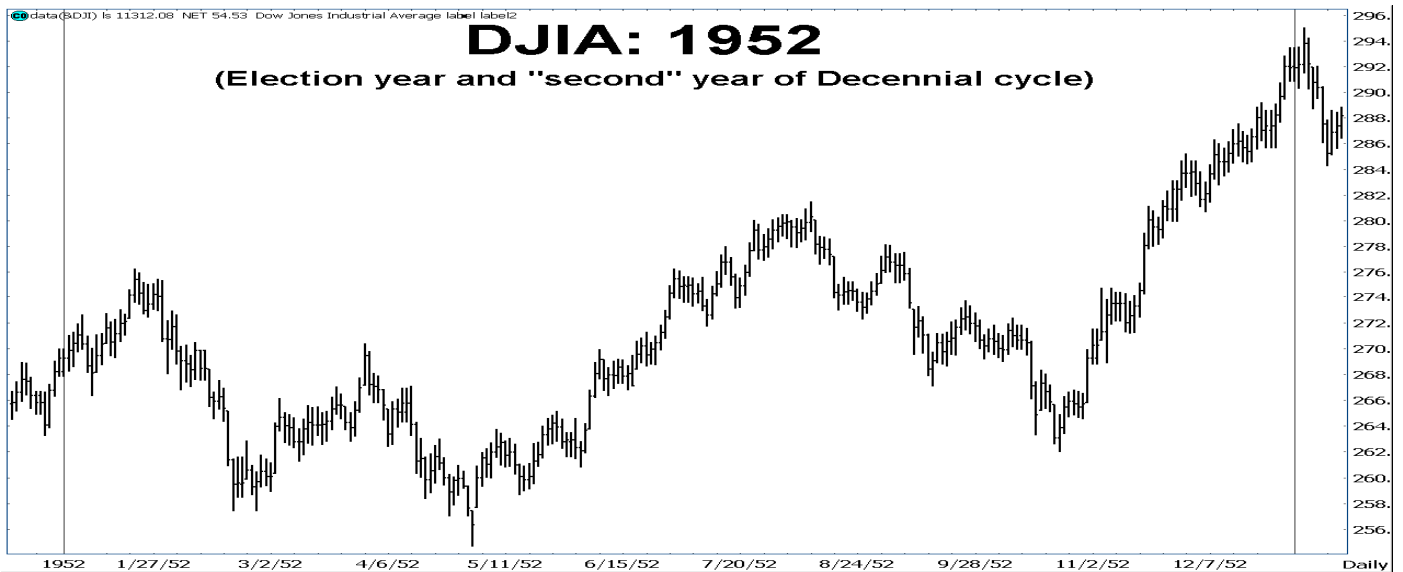
⇒ However, **combining both studies**, (2012 is a presidential election year and a year that ends in a “2”), you get some interesting results.

Since 1932, there have been **three “presidential election ‘second’ years,”** all with a positive bias, producing an average gain of 9.1% - 1952, 1972, and 1992.

The smallest gain was 4.2% in 1992 and the largest gain was 14.6%, recorded in 1972.

Summary: based on these two “calendar studies,” if we can get some of the problems behind us coming out of Europe, and if historical patterns reassert themselves, the probability of a positive 2012 is increasing, especially in the back half of the year.

Charts for the years 1952, 1972, and 1992 are listed below.

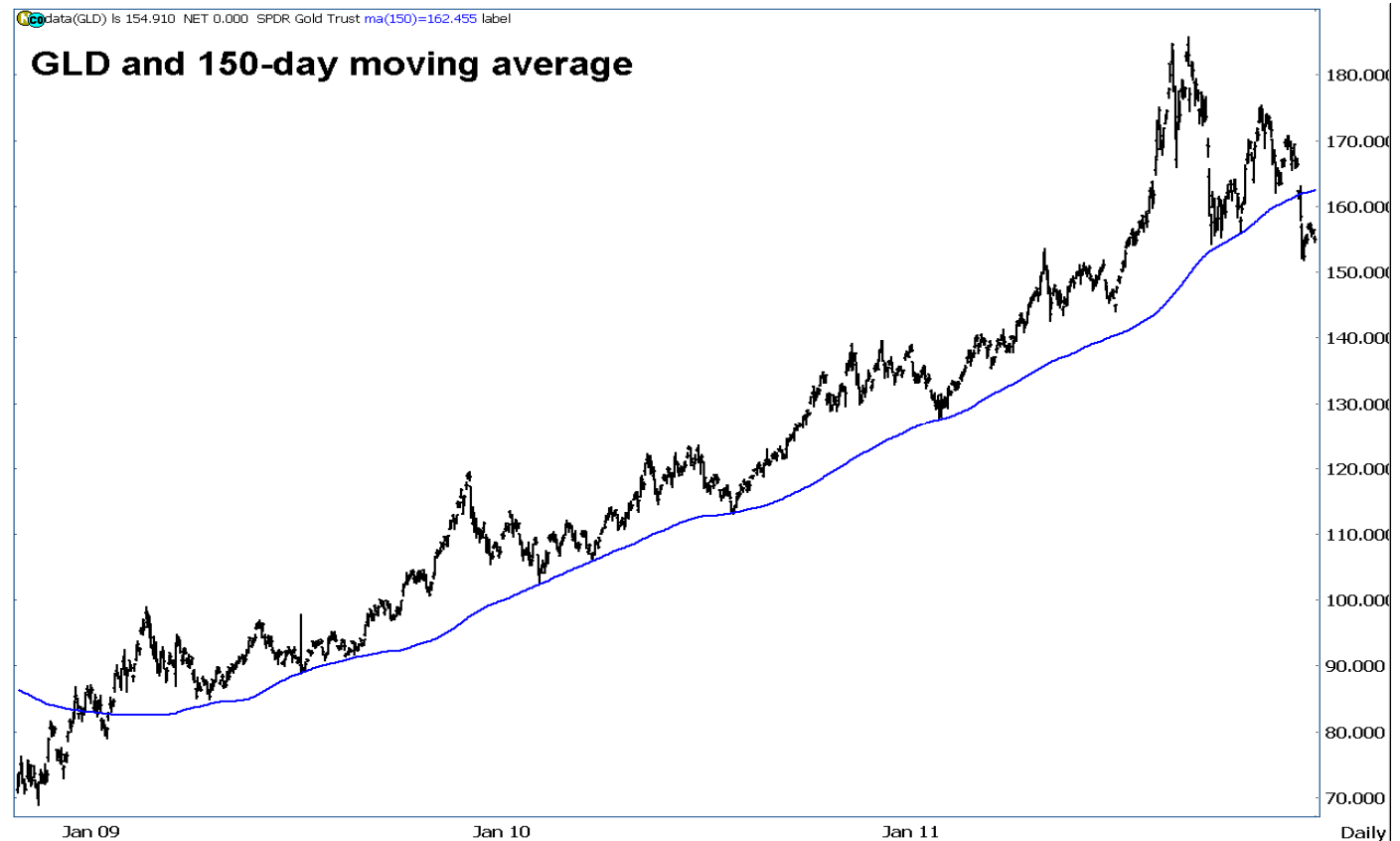


Charts courtesy of Thomson Reuters.

Wednesday Morning 12/28

Change of Character: "A change in a well-established trend can, at times, be meaningful." - Ralph Bloch

Over two weeks ago **Gold**, as defined by the **SPDR Gold Trust (GLD/\$154.91)**, closed below an uptrend line drawn off its January low and also its rising 150-day moving average (DMA). The significance of this move, and why I stated on 12/14/11 "Until proven otherwise a 'defensive' mindset (hedge, reduce, sell, tighten stops, pairs trade - *you decide*) should be applied from all perspectives..." is that since the 150-DMA started rising in March 2009, it (the 150-DMA) has acted as a very consistent support level. **GLD's** 150-DMA contained nine separate declines between April 2009 and October 2011 – shown below.



Another point of anxiety and a further reason for a defensive mindset, besides the development of a *bearish inverse cup and handle pattern* shown in the chart above and which will be completed by a move under \$151.70 by **GLD**, is a *relative strength chart* comparing **GLD** versus the **S&P 500 (SPX)**, or "gold versus stocks," shown below.

The relative strength chart doesn't mean GLD can't rally. It can and it will. What this chart implies is that *until this ratio stabilizes and starts consistently trending higher again* (higher troughs and higher peaks), **GLD** should underperform the **S&P 500** - GLD rallies a smaller percentage and/or declines a greater percentage.



For now, until **GLD** gets back over **AND** stays over its 150-DMA OR a lengthy bottoming pattern develops over a period of multiple quarters and is completed, as has occurred in the past (see below), the gold trade is off, in my opinion.



Charts courtesy of Thomson Reuters.

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