

EPIC ADVISORS, LLC

Weekly Market Commentary

September 23, 2009

Sean Hannon, CFA, CFP

In last week's [market commentary](#), I discussed my belief that we are in the midst of a long-standing range-bound market that mirrors the 1965-1982 period. During those lost years, a buy and hold investor spent 18 years watching the Dow Jones Industrial Average (Dow) move less than one point. An active trader who looked for opportunity and rebalanced his risk had many chances to make money, as great volatility produced many tradable events. Believing history will repeat, to make money over the next decade investors must assess the underlying trend and position accordingly.

Currently, the trend is higher. We are in the midst of a powerful rally that will not end until the Dow trades above 10,500. For now, the opportunistic should use each dip as an opportunity to buy stocks and generate gains as prices move higher.

A key distinction for investors to remember is that while they should be buying dips, the current phenomenon will not last forever. In a long-term range-bound market that has already rallied over 50% from its panic low, what goes up will eventually come down. Those who fail to assess where we are in the cycle are bound to buy one too many dips and be left holding the bag when prices eventually collapse.

To assist in determining what factors will indicate that the trend is reversing from bullish to bearish, I have identified three key red flags. Markets will always act in unexpected manners, so no list will capture every possibility. However, these are the main triggers items and will serve investors as an early warning system:

1. **Divergence**- Great bull runs feed upon themselves and pull all stocks higher. When we see a variety of different stock markets marching in the same direction, it shows strength. Currently, the picture is positive. Nearly every market I follow recorded a new 2009 high between September 17 and 22. As the current decline consolidates, I consider it a pause. Rarely will markets confirm one another and immediately reverse. Instead, this dip will turn higher and at that point we should watch for divergence. If some markets keep going to new highs while others decline, it indicates the rally is becoming stretched and is preparing to reverse.
2. **Fibonacci Levels**- The Dow closed at a record high of 14,164 in October 2007 and tumbled to a panic low of 6,547 in March 2009. This resulted in a total decline of 7,617 points. Typically, bounces off the low will reclaim anywhere from 50 to 65% of prior losses. This results in an interim price target of 10,355. Interestingly, it also offers 9,465 as a key support level. All declines in the Dow should stop as we approach the support level. Until a dip pushes the market below 9,465, the trend remains higher.

EPIC ADVISORS, LLC

Weekly Market Commentary

September 23, 2009

Sean Hannon, CFA, CFP

3. **Volatility**- The VIX is seen as a fear index because it measures investors' demand for insurance via put options. Currently VIX is pushing below its recent consolidation range and the trend is clearly lower. Only a sharp reversal pushing VIX above 30, would indicate we should stop buying the dips.

Combing these market studies with other tools you use will be of great help over the coming months. Prices will continue to be volatile, and those who properly capture the underlying trend will outperform. In a range-bound market, patience is key. Understand what the signs are and incorporate them properly in order to remain ahead of the crowd.