



a weekly newsletter based on S & P 500

“The writing of history is largely a diversion. Most historical accounts distract attention from the secret influences behind great events”.

Bashar Teg (Frank Herbert)

COT Analysis

This week sees the change in the COT index move very powerfully negative to -27%. Long positions are obviously out of the question this week. Short positions however, due to the trend still being higher, are not part of the methodology.

The signal to go long into the uptrend, assuming that it remains intact, will offer a tremendous buying entry point for any new long positions. This will be signaled by the COT report with the same advance warning as the weakness.

The market is looking at approximately 5 weeks of weakness. This time frame will likely see the reversal of many bulls to where they join the bear camp. We are looking at potentially the entire month of October being a bear decline, with early November potentially finding the bottoming process.

The effects of QE Infinity cannot be dismissed here. Although the market will most probably be weak, the uptrend will persist due to the massive

QE program. This is why there is no real doubt that this is a buying opportunity, not a trend reversal. Patience is the key.

Trade of the Week

Here the advantage of the market neutral position is manifest. The pairs trade Long “X” Short [via PUT] “MT” remains in place. In a falling market the PUT will gain far more value than the approaching zero CALL will/can lose. This trade has the potential for large profits this next couple of weeks.

The Federal Reserve

Bernanke has gone with QE Infinity. Although the market is currently weak, do not be drawn into the bears camp. The economy is weak. QE will do little to nothing for the real economy. It will however, create higher nominal prices through inflation.

Earnings Season

Interesting how the COT report exited prior to the earnings season. This would suggest that the

current earnings season will be a disappointment. The earnings will continue through October. Guidance will be...well who knows, but I'm guessing, not great. This will contribute to the market weakness. It will probably be cited as causative for the market weakness. Will it end the trend? Unlikely in the face of QE Infinity. The Commercials have sold out at profit. They have new unlimited buying power from Bernanke. They will step in somewhere around November, we shall be with them when they do.

The duCati Method

I expect to give back some open profits. We did not reach the \$154.00 selling point, so no profits were locked in. This is the nature of the beast. As I fully expect the market under QE Infinity to continue higher, I may when the signal comes, increase the exposure slightly. I'm going to think on that one for the moment.

Until next week, jog on, duc

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