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ROHR ALERT!! So What Now?

1 message

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Dear Subscribers,

As we noted in Monday's 'Flash Crash Trend on Steroids' ALERT!!, quite a bit of the broader US equities concern and general volatility was due to *"...a lot of anxiety on GameStop and other seemingly Reddit messaging-driven volatility in some stocks."* Yet we also noted. *"...the fact is that the level of hedge fund losses are miniscule in the context of the overall market capitalization."* And in any event any aggressive short squeeze is bound to revert to the underlying fundamentals once the shorts are driven out, as who's left to buy once shorts are done buying?

Those chickens appear to be coming home to roost on the present accelerated drop in GameStop today. It is down 42%(+/-) at 130(+/-) with a low of 74.22 (from a trading high of 483.00 last Thursday) at the time of this writing. It is somewhat the same (even if to a bit of a lesser degree) for other recent short squeeze targets.

A bit of a further review of this drag on the recent 'risk on' psychology is worth exploring to consider 'What Now?' The problem is that many among the newer investors/traders are going to be hurt by the price falls after this 'squeeze the shorts' (as synonymous in their minds with large professional traders) tactic. Please see Monday's CNBC interview with Senator Toomey (one of the most financial savvy folks in Washington DC) for investment and political implications.

In fact, it was becoming more apparent across just a short time that this 'get even with the big boys' sentiment was driving more investor/trader activity than any informed idea of what the stocks might be worth, or whether there were even any more shorts to be squeezed. The attempt to squeeze an identified substantial short population in Silver landed with a thud on Monday after only the most passing success, and continues to fall today. As we noted Monday, the entire idea that a new set of aggressive investors was going to destroy shorts was ludicrous.

While there was a basis for the ability of smaller public traders to focus on an overly shorted stock with a limited free float, even in the relatively short-term corporate performance does matter. The failed Silver episode was a wakeup call on the newly aggressive small traders running up against the reality of a very heavily supplied world market. There was also the degree to which the entire exercise had become a bit of a pop-morality play versus economic/market reality.

In fact, the quasi-religious fervor that infected the small investor/trader effort was becoming more apparent in the degree to which some folks thought that more aggressive buying would continue to punish the shorts (who had for the most part already liquidated), and even worse, continue to provide profits. Note the Monday Reuters article (<https://reut.rs/3pRBxxP>) on the squabbling that had broken out on the message boards among the smaller investors.

What does this reversion to much lower prices for the recent highly successfully squeezed stocks mean for 'What Now?' Well, the first thing is the elimination of uncertainty that will allow the 'risk on' psychology to reassert its influence over the US equities and other asset classes. There is also President Biden's obvious rejection of the much lower spending of the Republican 'compromise' COVID-19 relief spending proposal. That would appear to indicate that the Democrats are going to go it alone on Biden's much larger \$1.9 trillion ARP proposal.

While that will still be dependent on adjusting it to suit the Democratic Party moderates (see our previous analysis on that), it raises the chances there will be legislation passed through both the House and senate (the latter bring the stumbling block) prior to the beginning of ex-President Trump's impeachment trial into early next week. That leaves the 'risk on' psychology once again driving current trends, pending further ARP proposal and pandemic developments. (Along with that view, we recommend a read of our recent assessments.)

That is apparent in the March S&P 500 future climbing back up slightly above the 3,800-20 range. That is into the early January congestion highs at which it failed Thursday on the bounce back from the Wednesday 'flash crash'. There is also the further recovery of emerging currencies after their recent uncertainty-driven selloff, even if some of them are a bit reticent to recapture all of the recent gains. Yet that is a bit inconsistent with the lack of a bid in developed currencies.

The global govies outside of the US T-note are also back under pressure, with the March German Bund future trading back below its important 177.50-.00 area. That is also true for the March UK Gilt future slipping below 134.00. As such, the US equities, emerging currencies and even the non-US global govies are all indicating a broad risk on psychology, yet with the US T-note and developed currencies not participating in the more upbeat sentiment. It's going to be interesting later this week on the additional macro news and economic data.

This is the critical consideration

Aside from the sheer magnitude of the selloff in the first week of September, it was also a technical pattern top. That is clear on the front month S&P 500 future weekly chart <https://bit.ly/2MeAAkz> (updated through Friday.) Such a significant rally above the previous week's 3,504.50 Close and drop well below it established a major DOWN Closing Price Reversal (CPR) with a 3,510 Tolerance.

The next significant support after it traded below the February 3,397.50 previous all-time high looked like the 3,230-00 range we had previous highlighted as rally resistance into early June. After that held once again, the recent surge back above the 3,400-30 area left a burden of proof on the bears to get the market to fail back below that area. Yet instead the December S&P 500 future posting weekly Closes above first 3,505-10 and ultimately the 3,550 area looks like it is indeed again 'Risk On' Forever. This is confirmation of our estimation the US election would be a win-win for US equities, with the key accelerated bullish influence from the serial positive vaccine announcements since early November.

The near-term question was whether it could hold support at the early-September 3,587 trading high and 3,582 early November Close, with a Tolerance to the 3,575 congestion? Even though it slid below them in early-mid November on US election concerns, those issues clearing up reinstated the 'risk on' psychology.

Above that range since late November left minor congestion resistance in the 3,625-35 range. Also above that pointed to the recent 3,668 all-time high that was exceeded into the

beginning of December with a 3,700 new all-time high. While it traded slightly above that into early December, the lack of a Trump signature on the COVID-19 relief package sent it back down to a very temporary late-December test of the 3,600 area. Finally more fully out above the low 3,700 area on a belated 'Santa Claus Rally' saw it up near the 3,750-3,800 resistance.

However, based on previous weekly Closes, there are elevated weekly Oscillator historic indications. Those December thresholds are the weekly MA-41 plus 520 and plus 550, and based on weekly MA-41 now rising an impressive 25 points per week, those are up to 3,880 and 3,910 this week. And as is often the case at a new extended all-time high, those are presently the only quantifiable resistances, and they are still rising \$25/week based on the accelerated rise of weekly MA-41.

After the March S&P 500 future recovered back above the 3,775 area minor recent congestion, last week left it pushing up to that next new 3,860 all-time high (right into last week's lower weekly Oscillator resistance.) However, the pressure on the 'risk on' psychology we had warned of came home to roost last Wednesday on the market ignoring the classical 'friendly Fed anticipation' even before Powell's press conference. As noted for quite a while, the more important psychological and technical support below the 3,800 area was the interim 3,740 area.

That is the congestion level seen on misplaced fears of a Democratic-controlled Senate in early January. That was held during that selloff despite the more far prominent lower support being into the 3,700-20 area it had been trading below early that week. Even as last Wednesday's sharp selloff led to an immediate test of that area all in one day, and it was retested on Friday after Thursday's major bounce, it held and still remains the significant support this side of 3,600 area and lower levels; including weekly MA-13 up to the low 3,700 area this week.

Thanks for your interest.

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