

Weekly Trading Education Article

[The Art of Professional Trading during Tumultuous Times, Part II](#)

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If, a "flash in the pan" (a volatile Dow bar without adequate volume [as described in [Part I of this article](#)]) is validated, and the Dow Industrial index retraces below the 11,258 cluster zone (remember that we are calling this "Cluster B") on a closing basis, we can safely say that the short-term interventionist Fed policy has lost a great deal of its initial momentum -- if not the entire momentum. The risk of a renewed descending move becomes, therefore, significant, but, this time, it can have devastating power.

We will see further the consequences for world markets of the Fed's capital infusion.

I present subsequently, in detail, a picture of a tiny portion of the emerging markets, particularly, the Romanian market, whose economy tries hard to integrate the Common European Economic Market. I've treated three different topics using questions and answers.

Question 1:

What is, at this moment, the short- and medium-term outlook for the BET-FI closed-end funds index? Are there any stock securities out of sync with the others?

Answer to Question 1:

As you can clearly see on the following chart (Figure 3), the BET-FI Index -- one of the Romanian market's most important indices, which mirrors most of the economy, quoted on the Bucharest Stock Exchange -- has (as of the first writing of this article) retraced to the 25,110 level -- the last high -- and, then, continued its previous descending move, at least in the short term.

As far as the medium term is concerned, it's worth mentioning that the current descending move will be confirmed should the market fall below the 21,145 and 17,856 levels in a selling climax environment. On the other hand, a market break above the 25,110 level would be a clue to an up thrust, which could take the market up to, and even beyond, the old highs at the 29,578 and 34,770 key levels and also the 29,862 main Gann level (G4).

A more realistic approach would favor a stationary scenario, or even a descending one, until the first half of 2011. But, as always, we must remember that the market is not a crystal ball. Only a thorough analysis of the interconnected markets, such as the three main Dow indices

(Industrial, Transportation and Utility), as well as the currency markets (USD, CAD and AUD), plus commodities and interest rates, could lead us to a trustworthy forecast.

Tip: Lately, I have been successfully using three charts, which, in my opinion, forecast quite frequently the future course of a local (Romanian market) and also that of the U.S. market. I'm talking about the graphical representation of the Korean exports, the copper price and the Baltic Dry index.



Figure 3. The Weekly Chart of the BET-FI Index



Figure 4. Comparative Daily Charts of the Dow Jones Industrial and BET-FI

As you can clearly see in Figure 4, the comparison between the BET-FI (comprising five closed-end funds -- SIF1, SIF2, SIF3, SIF4 and SIF5) and the Dow Jones Industrial reveals that, in the short term -- the last 5 months -- both indices have tried to regain some lost ground.

The Dow Jones Industrial managed to retrace 114.6 percent -- a Fibonacci ratio (0.146×100) - - with respect to the previous descending trend, climbing above its original level. The slope of the current upward move, which defines the market momentum, is worth a 1x1 angle in a Gann Square of Nine pattern, corresponding to the 45° geometric angle.

On the other hand, the relative weakness of the local (Romanian) economy in comparison with the U.S. economy only allowed the BET-FI index to retrace 43 percent -- 2.66 times less than the U.S. index retracement -- with respect to the previous descending trend, and the slope of the current upward move is just 26° -- 1.73 times less than that of the U.S. index.

In these circumstances, it becomes quite clear that the U.S. market offers more volatility and more liquidity than the local (Romanian) market. Still, not many local investors have ventured to trade the external markets. Even so, trading the Romanian market can generate quite a consistent rate of profitability, on one condition...a thorough understanding of technical analysis, be it the classic or the modern version.

As you can clearly see on the following chart (Figure 5), I have employed four elements of integrated pitchfork analysis to identify the most profitable trade opportunity among the five close-end funds (SIFs) traded on the Romanian stock market:

- A Relative Strength comparison of SIF2 and SIF5
- Fibonacci methodology

- The market momentum gauging method, so efficiently illustrated through the use of Gann angles
- Cash flow analysis, which exhibits a surge -- toward the 80 - 100 percent area -- when the market is in a strong up trend and suffers a steady decline -- toward the 0 - 5 percent key threshold -- when the market is in a down trend

We can, therefore, rank the five SIFs according to their relative strength, expressed as the degree of upward retracement with respect to the previous descending trend. Also, according to market momentum gauging, the five SIFs can be ranked as follows:

- It seems that SIF2 is the strongest share, with a 63.5 percent ascending retracement and a 49° ascending momentum slope
- Followed by SIF5 with a 52.5 percent ascending retracement and a 48° ascending momentum slope
- Followed by SIF4 with a 36 percent ascending retracement and a 43° ascending momentum slope
- Followed by SIF1 and SIF3 with a 35 percent (33 percent, respectively) ascending retracement and a 32° (30°, respectively) ascending momentum slope

As far as the last swing is concerned -- the descending move from the last high -- we can clearly see that SIF2, SIF4 and SIF5 have suffered a more severe correction than SIF1 and SIF3. At this moment, SIF4 seems to have experienced the biggest loss.

The cash flow indicator confirms the high relative strength of SIF2 (given that its value has dropped the least from the 100 percent level and is, therefore, furthest away from the 0 - 5 percent lower threshold). The indicator values for the five SIFs are as follows:

- 27 percent -- SIF1
- 46 percent -- SIF2
- 30 percent -- SIF3
- 19.50 percent -- SIF4
- 16.50 percent -- SIF5

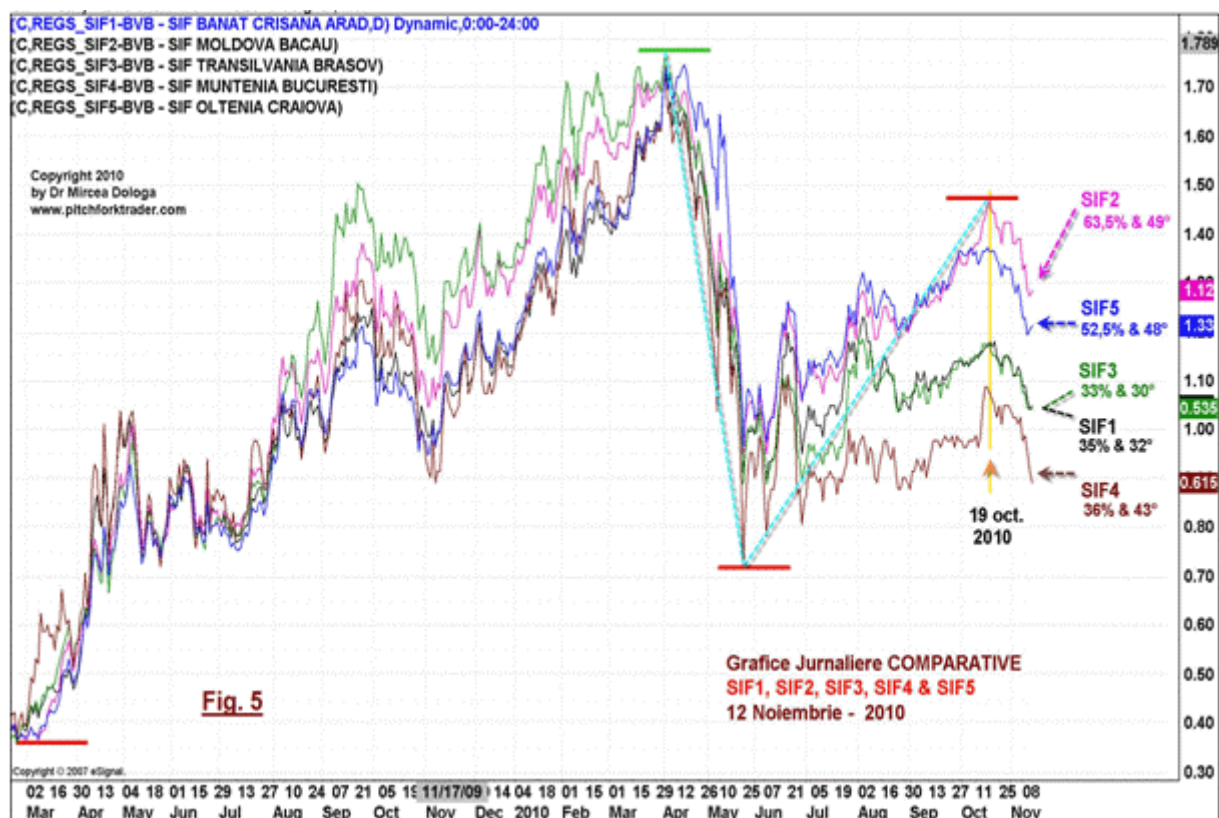


Figure 5. The Comparative Daily Charts of the Five SIFs: SIF1, SIF2, SIF3, SIF4 and SIF5

Question 2:

What is the forecast for the BET stock index? Which are the stock securities with a positive outlook and which with a negative outlook?

Answer to Question 2:

The BET stock market index is composed of the most important Romanian stocks. As you can clearly see on the following chart (Figure 6), I have employed just two elements of integrated pitchfork analysis:

- An ascending pitchfork, paying close attention to its warning line W1 and trigger line
- Fibonacci methodology to pinpoint the locations of relevant confluences and clusters

The BET index is in a sideways movement, waiting for new relevant information:

- The consequences of the Fed's cash infusion to the U.S. capital market
- More importantly, the results of the G20 summit

From a technical point of view, an ascending breakout is highly likely, thanks to market flow congestion below the 5,336 key level. Additionally, the current sideways movement of the BET index hints at a continuation of the up trend, once the 5,336 level is broken, with a target at the 6,155 level.

On the other hand, a market price break below the pitchfork's trigger line and the WL-1 warning line would signal an imminent market correction down to the 4606 - 16 cluster zone or even lower, to the level of the last low -- the 4,315 - 4,295 cluster zone.

For those investors holding long positions in this market -- who, unfortunately, failed to execute a stop loss order below the 6,155 level back in April 2010 -- a wise move might be to close these positions right away or to wait until the market falls to 4,314 if the exit decision at previously mentioned levels would be too hard to accept.



Figure 6. The Daily Chart of the BET Index

As you can see on the following chart (Figure 7), I have employed two elements of integrated pitchfork analysis to forecast the most likely future move of the BET index, given current market conditions (as of the first writing of this article):

- The relative strength comparison of a number of different security shares (5 shares in our study)
- Trend lines that reveal, not only the momentum strength of each trend or each swing, but also the key levels, whether we are talking about support or resistance

If we had to pick two securities, the chart in Figure 7 suggests that Transgaz Medias (TGN) and Antibiotice Iasi (ATB) are the most suitable investment opportunities among the BET index constituents. This particular choice is also supported by the conclusions of fundamentals analysis:

Transgaz Medias (Figure 7 and 8) not only exhibits an excellent positive slope (around 45°), but it is also part of the energy sector, which is very sensitive to the USD devaluation -- the lower the USD goes, the higher this security will climb. (That is, there's an inverse correlation between these two items.)

Antibiotice Iasi (Figure 7) not only exhibits three consecutive positive slopes -- steeper and steeper -- but it is also part of the Defence and Security sector, which is characterized by minimal correction during harsh economic periods.

The securities belonging to this sector are highly recommended especially during a recession. Medicine and pharmaceutical drugs are prescribed at all times, be it a recession or an economic boom. Also, the seasonal effect plays an important role here, medicine consumption being expected to reach a high during the months of January and February 2011.

In my opinion, Antibiotice Iasi and Biofarm Bucuresti stock securities (Figure 9) belong to the same level of the decision-making process.

Among the BET index constituents, we have a negative outlook for banking shares (BRD and TLV), financial investment shares (SSIF Broker -- BRK) and also real estate shares (Impact Developer -- IMP). It is important to remind ourselves, every time we select a specific stock security for investment purposes, that we have to proceed with extreme caution due to the double risk:

- The intrinsic parameters' risk -- characteristic of a specific stock security and the sector it belongs to
- The economic risk -- dependent on the economic cycle we are in at the moment we make that investment decision

Whatever the circumstances, the placement of a stop loss order is of paramount importance.



Figure 7. The Comparative Daily Charts within the BET Index: Transgaz, BRD, BIO and Antibiotice



Figure 8. The Daily Chart of Transgaz Medias: The price chart reveals the bud of a descending move -- only three points below the last high, from the 260 level to the current 257 level -- while the cash flow indicator (not drawn here) has fallen below the 50 percent threshold, its current value being 41.21 percent.



Figure 9. The Daily Chart of Biofarm Bucuresti

Question 3:

Performance-wise, the BET-FI index has fallen behind the BET index in 2010. Do you expect this gap to shrink in the following months, or, to the contrary, do you expect it to widen even more?



Figure 10. The Comparative Daily Chart of the Main U.S. and Romanian Indices -- the Dow Industrial, BET and BET-FI

Answer to Question 3:

As you can clearly see on the chart shown above (Figure 10), both Romanian indices are lagging way behind the key benchmark -- the Dow Jones Industrial index. This fact can be explained, not only by the current global and local economic situation, but also as a consequence of each index composition.

Those that include stock securities affected by the USD value will continue to fall due to American currency devaluation while the ones that include mining stock shares -- especially gold-related -- will certainly increase in value within the next six months.

Tip: As far as an investment in gold is concerned, the most profitable choice is not GOLD Futures on COMEX but rather the gold mining company shares, which are currently undervalued with respect to the index. It is also preferable to choose mining companies with lower extraction costs than those in Canada, the U.S. and Western Europe.

I would like to take this opportunity to commend the original decision of Mr. Razvan Pasol, General Director of Intercapital Invest SA of Bucharest Romania, to launch a gold-related investment fund, called iFond Gold, which is already fully subscribed, after just a few days of publication.

Speaking of interest rate-related shares, not only do they not remain stable, but they will surely decrease in value.

To better understand the difference between the BET and BET-FI, we should study in detail their component shares and classify them according to the market sectors they belong to: The

industrial sector, which is dependent on raw material prices, the energy sector, which includes utility shares, the financial sector, the real estate sector, the insurance sector, the pharmaceutical sector, the consumer staple sector -- especially food-related shares -- and the mining sector with a special emphasis on gold, silver, copper and palladium.

From a technical analysis point of view (see the chart in Figure 10), we can state, in spite of the sideways evolution of both indices (BET and BET-FI) within a trading range, the following:

- The BET rectangle is not as tall as the corresponding BET-FI range, with the market price currently hovering around the mid level. This narrow rectangular structure usually signals an imminent breakout.
- The BET-FI rectangle is wider and taller, with the market price already around the lower quarter (25 percent) threshold.

We can, therefore, claim that the BET-FI correction is much more pronounced than that of the BET index. Forecasting accuracy would be greatly increased when the indices break the rectangle thresholds, either to the up side or to the down side. The direction of the breakout will be revealed by the Dow Jones Industrial index evolution in the near future (see Figures 1 and 2).

Once again, the future evolution of the BET and BET-FI will depend to a great extent on the USD valuation and the Dow Jones Industrial index due to the Fed's intervention and the raw materials evolution. Will the current relationship between the two indices alter in any way in the future? That's highly unlikely!

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