

The Day the Earth Stood Still

August 7, 2019

by Jeffrey Saut
of Saut Strategy

Quote: Professor Barnhardt: "You say we are on the brink of destruction and you are right. But it is only on the brink that people find the will to change. Only at the precipice do we evolve. This is our moment. Don't take it from us, we are close to an answer."

. . . The movie "The Day the Earth Stood Still," 2008

And that was the ubiquitous question we were asked yesterday. Have we changed? Have circumstances changed? Our answer was, "Maybe." With what the PBOC did in basically resetting the U.S. Dollar/ Renminbi exchange rate, it suggests the trade war is going to go on for a lot longer than most anticipated, including us. We also now run the risk that the President responds by starting a "currency war." Anyone that studies the history of currency wars knows that NOBODY wins in such a war! Responding to the huge amount of emails that lit-up our email box (jeff@sautstrategy.com), there has not been a Dow Theory "sell signal." As for the question about a "sell stampede," it was back in the 1970s when we first observed that Buying/Selling stampedes tend to last 17 – 25 sessions with only 1 – 3 session counter trend moves. It just seems to be the rhythm of the thing in that it takes that long to get everybody bullish enough to make a trading top or bearish enough to make a bottom. While it is true some stampedes have extended for 27 – 30 sessions, it is RARE to have one go for more than 30 sessions. If this is a "selling stampede," today is only session 5. However, it is too soon to tell if this is a "selling stampede."

As stated in last week's Monday missive:

"We have used that target price of 3200 pretty much all this year and have not had to raise said target price, at least not yet. Yet it is true the SPX has run into another potential overhead resistance."

We added the stock market is short-term overbought, but any pullback should be mild. In yesterday's missive, we wrote:

"The S&P 500(SPX/2844.74) knifed below our envisioned 2940 – 2960 support level to close last Friday at ~2932. The next support level is at 2870 – 2900 with a point and figure short-term trading target of 2870.

Quite frankly we do not think that target will be touched, but if last Friday's intraday low is violated (~2914), that target zone becomes a real possibility."

W-R-O-N-G as the SPX fell to an intraday low yesterday of ~2822. The preliminary data (9:00 p.m. last night) showed yesterday was a 90% Downside Day, meaning 90% of the total volume and points traded came in on the downside, which is the first step in how bottoms are made. That said, we would not trust the first rally, and we were repeatedly asked if we were buying yesterday. Our answer was no because the market feels "heavy" to us. Subsequently, our colleague (Andrew Adams) wrote this Trading Flash at 3:00 p.m. yesterday:

Just a quick update, though there's not a tremendous amount to say. As I wrote this morning, there really wasn't any obvious support to point to under 2875 until way down at 2725, and now, we're seeing the result. No signs of buyers stepping in yet, so I'm still favoring defense until we get some clearer signs of volume coming in on the long side. The close will be interesting to see just how much damage was done in terms of getting a 90% downside day. If the internals are as extreme as the indices suggest, we may be close to signs of selling exhaustion and a turnaround Tuesday, but it's not something I really want to anticipate by buying early given that we're still 100+ S&P points away from the next obvious support level. 2790-2800 has the 200-day moving average, and the whole number of 2800 could act as some support, but these days, once the market is in sell mode, it's not smart to fight it until we start seeing some strength again.

When I fell asleep last night around 8:00 p.m., the ESUs (E-MINI S&P 500 futures) were down some 55-points as the U.S. Treasury Department designated China a "currency manipulator." I woke up about an hour and a half later only to find the ESUs off a mere 6-points because the renminbi (yuan) was back below 7 to the dollar with a "set" of 6.9683/\$ when 6.9871/\$ was expected. The SPX low of 2728.81 on 6-3-19 is critical support with the SPX's 200-day moving average at

2790. And for all of you that asked me about a stock market “crash,” markets almost never crash off an all-time high. They typically have a return move towards that all-time high where it then becomes “kiss and tell time.” This morning, because of the renminbi’s favorable reset, the ESUs are up some 26-points. However, the “fair value” is about 15, which implies the SPX should open 11-points higher. As stated, “I would not trust the first rally.” Indeed, I know old traders, and I know bold traders, but I know no old and bold traders.

PS: “Klaatu barada nikto”

Saut Strategy LLC
Jeffrey D, Saut
jeff@sautstrategy.com
8-6-19

© Saut Strategy LLC