PRIVATE WEALTH ADVISORY

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First the Test, Then the REAL Action

This week we've got a LOT of ground to cover, so I'm going to launch straight into the market technicals and *then* explain how to play them. A lot has changed in the last week, so please bear with me.

On a side note: for those of you who are long-time readers, I want to explain that I am in no way changing the newsletter by focusing on technical analysis during the last month or so. Instead, I've begun integrating these insights to *Private Wealth Advisory* because the market rally started March 2009 has occurred based largely on technicals NOT fundamentals. Put another way, this is the tune the market's playing. So we're dancing to it until the music stops.

If ever the markets stop being a giant casino and come back to reality, I'll be focusing more on fundamentals. Until then… we'll be using technical analysis to make sense of the madness.

Having said that, on Monday the US Dollar rallied and stocks took it on the chin, falling over 1% for the day. Let's look into the US Dollar first.

From a larger perspective, the US Dollar's moves accomplished next to nothing. The US currency remains in a downtrend, well below both its 50- and 200-exponential moving average (EMA). If you're unfamiliar with exponential moving averages, they're the most common metrics traders use to measure market momentum and trends. And until the US Dollar rallies above its 50-EMA (the blue line above) there is no reason to believe a significant rally is in the works.

Indeed, a close-up of the US Dollar's chart shows a disturbing development for the currency. Previously, 76 was a point of support, meaning that the Dollar bounced there. Having now broken below that level, 76 is now proving a point of upwards resistance: a level that the Dollar is having trouble breaking above.

This is extremely disturbing in that it illustrates just how damaged the Dollar is from a technical standpoint. Had the Dollar broken above 76, we would know that a potential bottom could be forming. The fact that the Dollar DIDN'T do this, indicates that the near-term trend is STILL down and that we may have additional drops coming.

This is truly worrisome because if the Dollar does not stage a REAL bounce here, the next line of support is 72. This is the 30-year low for the dollar: it is the level we hit in July 2008 when Oil was at $140 and other commodities were skyrocketing. At that point we're risking a dramatic flight of capital from our currency as global investors pull their money.

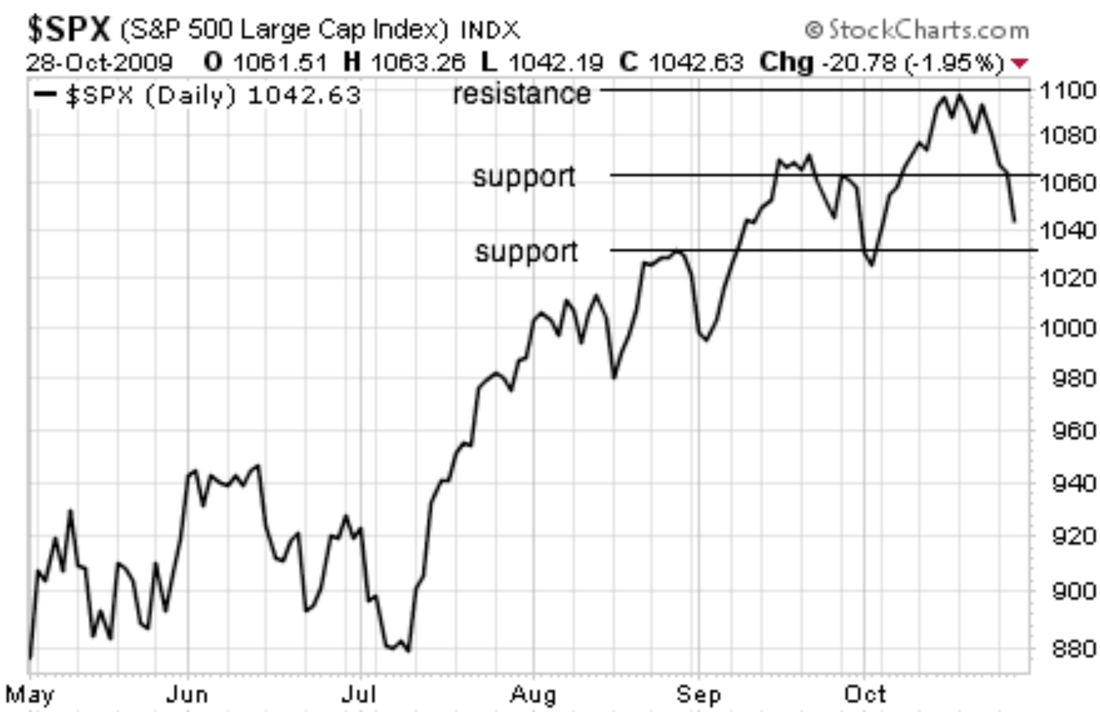
And if we get BELOW 72 on the US Dollar… then we're into uncharted territory.

The US Dollar, is hands down the MOST important chart to be watching right now. IF the Dollar does not bounce here, we will likely see stocks and commodities catapult higher while the Dollar falls to test 72: its 30-year low.

Here's the same idea viewed from the perspective of stocks: The US Dollar's rally on Monday hit stocks hard. The S&P 500 fell over 1% bringing the market close to testing its 50-EMA. Today we closed *JUST* below that level.

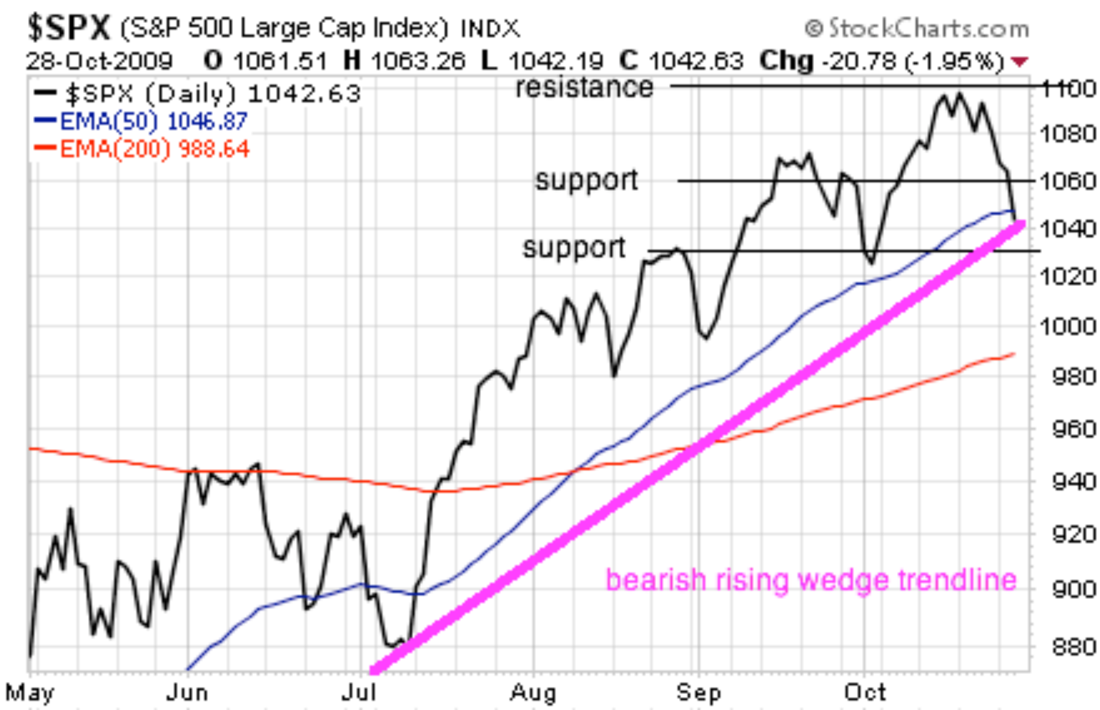
Regarding the Bearish rising wedge pattern we've been following in the S&P 500, today the market *JUST* broke beneath the line BARELY. We NEED a decisive break here (which would likely be brought about by a US Dollar rally), in order for stocks to hit a SELL signal. It looks like this is just days away.

Here's the S&P 500's chart with its support lines drawn in:



As you can see, the S&P 500 was rejected at 1,100 and has now broken its first level of support: 1,060. It is now resting just below its 50-ema. If the S&P 500 DOES NOT bounce strongly from here then **it's SELL time (the next line of support is the 200-EMA, 5% lower).**

Below is a short-term chart of the S&P 500 with ALL of these metrics (EMAs, bearish rising wedge pattern, and support lines):



IF stocks DO NOT rally from here, get your money ready because we will be very, VERY close to issuing an official Sell signal on stocks.

This means we would be shifting all of our stock-based "ON DECK" trades into Official Buys. As you know, I have been predicting another Crash or severe collapse in stocks for several months now. A number of big name investors including Bill Gross, Jeremy Grantham, and others are now stating that stocks are severely overpriced and due for a serious reversal.

We're soooooo close here. Keep your money ready, cause the reversal is just around the corner (it might even be starting now although we won't know until we see a DECISIVE break below the 50-ema (blue line above) on the S&P 500.

Meanwhile, US Treasuries are getting VERY ugly.

As I showed in last week's issue, the bond market is DEMANDING higher yields from US debt. Put another way, US debt holders are unwilling to continue funding our profligate spending without getting paid more to do it… I can't say I blame them, since the prospect of collecting a 3% yield to own a currency that's lost 15% in the last six months isn't too appealing.

Now, in order for bonds to yield more, their price needs to fall. And it looks like this is right around the corner:

The above chart shows the iShares Long-Term Treasury (20 years or more) ETF. It's a decent proxy for the long-term Treasury market. And as you can see, bonds have been trading in an upward bound range since June (which incidentally marks the end of a fiscal quarter in which the US Fed accounted for roughly HALF of all Treasury purchases).

In September, TLT rallied to test 100, its former support line. It FAILED to break it. Since that time, TLT has begun a steep slide for the month of October (which happens to be the final month the Fed will buy Treasuries). And as the below chart shows it *just* broke below the bottom trend line briefly this week. The question now is, does TLT manage to remain within the trend lines… or is this a dead cat bounce followed by great drops?

The image is even clearer when you look at the 30-year Treasury directly, instead of the long-term Treasury ETF.

As I have stated previously, significant collapses occur in three phases:

1) The initial plunge (3-5%)
2) The bounce off a key support or moving average
3) The REAL action (either a renewed rally OR a MAJOR correction/ collapse)

We are now at #2 for **stocks, the dollar, AND Treasuries**. All three assets either falling or have fallen and are now in the bounce stage. The issue now is what's to come.

The fact that all three are following this trend is EXTREMELY disturbing as it indicates we may very well be headed for the Third Crisis from our list of potential Crises (see below for a quick review). I certainly hope this is not the case and that we simply get #1 (the lesser of three awful scenarios). Judging from the market's action this week, we'll know very soon (within days).

Crisis	**What Happens**	**Implications**
Stock Crisis Pt 2	Stocks collapse, Treasuries/ Dollar rally, solvency issues take hold again	China et al are still willing to buy US Debt just for safety's sake with a low yield
Currency Crisis	Stocks rally, Dollar breaks support, Treasuries collapse, flight from Dollar intensifies/ massive inflation hits US	China and friends call "BS" on Bernanke's policies and kick the dollar to the curb, Fed is the only buyer of US debt
World Crisis	Stocks AND Bonds collapse, interest rates soar destroying US economy, ALL big banks implode, US financial system potentially shuts down	Game, Set, Match for Bernanke and pals. Capital begins a full-fledged flight from US. US defaults on debt and loses economic superpower status

Bottomline: we are SOOOOOOOOOO CLOSE to the official SELL signal you can literally FEEL it. Something has changed about this market. If the Dollar bounce of today and yesterday breaks above its falling wedge or IF stocks break below their rising wedge patterns, then it's "ALL IN" for shorting this market.

As I write this section, (3PM on Wednesday), the S&P 500 is LITERALLY on its 50-ema. The NASDAQ looks to have broken its rising bearish wedge. Ditto for the Dow Transports.

So why are we NOT selling short yet?

Because this market is COMPLETELY treacherous. I'll give you an example.

In previous issues, I've noted that Goldman Sachs and other Wall Street banks have been given an unfair edge by the government when it comes to "getting in ahead of the crowd." You can review the October 7 issue, *The New Rules of the Game* for detailed analysis of this.

Well, today (Wednesday) Goldman Sachs publicly cut their expected GDP numbers from 3.0% to 2.7%. The OFFICIAL GDP numbers come out tomorrow. What are the odds Goldman already knows the deal?

The straightforward answer would be that Goldman already knows GDP will be worse than expected and so is already shorting the market. But I wonder… could Goldman potentially put out a lower GDP estimate just to bring in the shorts ONLY to kill them when GDP is higher than hoped and the market RALLIES hard?

See what I mean?

Goldman certainly has engaged in this kind of practice before. In *The New Rules of the Game* issue of Private Wealth Advisory I detail how the bank clearly leaked information to certain clients before issuing a formal "buy" on bank stocks in early October. I honestly would not put it past Goldman to sucker in the shorts only to obliterate them when the market reverses.

As I write to you this moment (3:32PM ET), the S&P 500 is literally kissing its 50-ema (1,047). It HAS NOT officially broken its rising bearish wedge pattern. And as tempting as it is to go "All In" now, I fear there may be one last hurrah in the market. This hurrah should come within the next 24-48 hours.

For that reason we are NOT yet going "ALL IN" shorting the market. We have NOT gotten an official "SELL" and I am sticking with our discipline of waiting for it. The way I see it is:

1) If the market top IS in then not going "all in" right now will only cost us 1-2% in potential gains if the market gaps lower tomorrow
2) If the market top IS NOT in, then going "all in" right now could cause us a WORLD OF PAIN as the market explodes in our faces with the next bounce

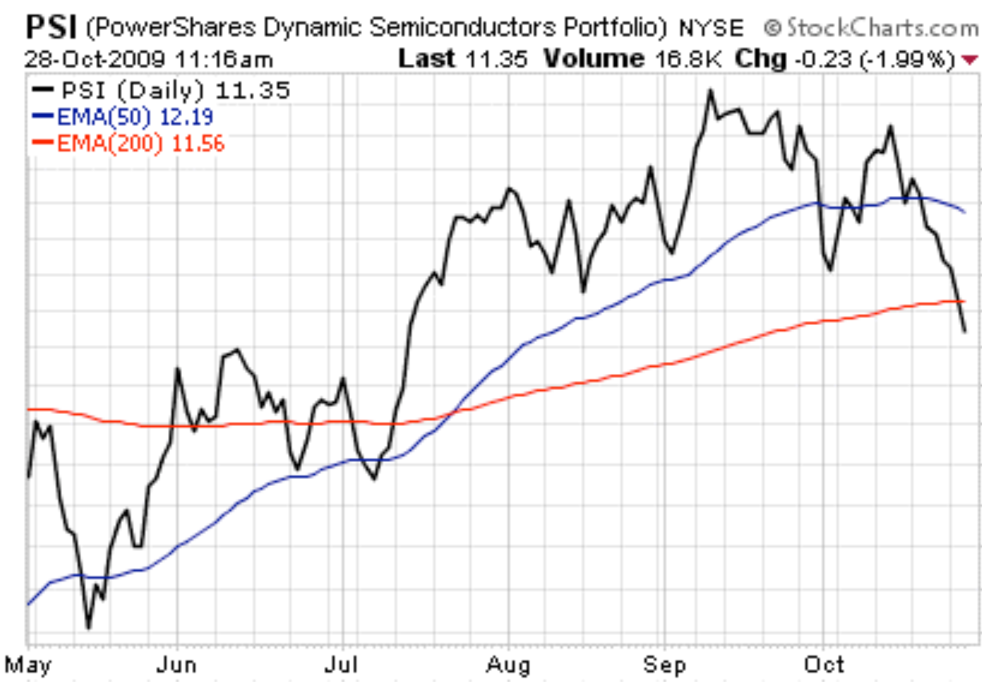
For that reason, we're holding tight today. HOWEVER, this may ALL CHANGE TOMORROW. IF IT DOES I SHALL NOTIFY ALL OF YOU IMMEDIATELY WITH AN EMAIL UPDATE.

In light of this, we're adding two more positions to our "ON DECK" portfolio: trades we intend to make as soon as the Official "SELL" hits.

“On Deck” Trade #7: Short the Semiconductors

Historically, semiconductors (and financials) have lead the market. A brief review of the semiconductor index (black line) against the S&P 500’s (red line) performance over the last year shows semis clearly leading to the upside… and downside…

However, most recently, semis have entered a virtual freefall, plunging below their 50- AND 200-ema:



The next support line is $10.50. If that doesn't hold, semis are heading to $9.50.

When the official SELL signal hits, we will play this trend with the **Ultrashort Semiconductor Index (SSG).**

The Ultrashort Semiconductor Index (SSG) returns 2X the inverse of the semiconductor ETF (PSI). So if PSI falls 5%, SSG returns 10%. If PSI falls 10%, SSG returns 20%. As such it's a perfect trade for profiting from the collapse of one of the market's weakest sectors.

We're adding the UltraShort Semiconductor ETF (SSG) to our "ON DECK" portfolio. DO NOT BUY this investment just yet. We DO NOT have an official "SELL" signal yet on the market. So wait for me to issue the formal "ALL IN" update before buying.

On Deck" Trade #8: Short Financials

Financials, like Semiconductors, are showing serious signs of deterioration, having broken below their 50-ema with little trouble.

At this trajectory, the next line of support is $49. Below that it's the 200-ema at $48. IF we get a break below that level, then we're falling to at least $46 if not $44.

If the overall market breaks below its rising bearish wedge and we get an official "sell" signal, we will play the collapse in Financials with the **UltraShort Financials ETF (SKF).**

SKF returns 2X the inverse of the Financials ETF (IYF). If IYF falls 5%, SKF rallies 10%. If IYF falls 10%, SKF rallies 20%.

This is a great way to play the coming collapse in financials with a bit of extra "juice." The banks are still hiding billions if nor trillions in losses on their balance sheets. It's only a matter of time before this garbage floats to the surface and takes the banks down.

We're adding the UltraShort Financials ETF (SKF) to our "ON DECK" portfolio. DO NOT BUY this investment just yet. We DO NOT have an official "SELL" signal yet on the market. So wait for me to issue the formal "ALL IN" update before buying.

In conclusion…

Stocks are now literally on the edge of the cliff. As I write this (3:50PM ET) the S&P 500 has just dipped briefly below its 50-ema (1,047). Remember, we NEED a decisive break below this level to qualify as an Official Sell signal.

I am watching the markets like a hawk. If we get the move I am expecting tomorrow or Friday, I shall IMMEDIATELY notify you of what to do.

Thank you so much for your patience during the last few months. The moment we've been waiting for may finally be here. I am sitting on the edge of my seat *JUST WAITING* for the final break to signal that it's time to SELL SELL SELL.

Keep a vigilant watch over your inbox in the next few days because if the market moves as I expect it may… I will be sending out an update either tomorrow or Friday.

Good Investing!

Graham Summers

Portfolio Review

Gold is taking it on the chin due to the recent bounce from the dollar. I remain hugely bullish on Gold in the long-term, but in the near-term the precious metal is looking IN TROUBLE. I did not think the US Dollar would bounce but it has. Given how high Gold has run recently, we will likely see the precious metal now test $980 or so.

In light of this, we're closing out our Gold positions.

Action to take: Sell Gold (GLD) immediately.

Action to take: Sell the Gold Miners ETF (GDX) immediately.

Both of these positions have been disappointing. But it appears gold has not fully decoupled from the dollar yet. I expect we shall see this happen within the next year, but for now, it is clear that gold is STILL trading based on where the Dollar goes. Right now the Dollar is beginning to show greater strength. So it's time to leave Gold for now.

I expect we shall return to the precious metal sometime within the next few months.

I DO however, believe that there is potential for a bounce in stocks. And if stocks DO reverse from here, the move will be violent and quick. For that reason we're holding on to our S&P 500 ETF (SPY) and the Utilities ETF (XLU). Both of these positions are small speculative trades. And I'm willing to keep them open until we the Official Sell hits.

Action to take: Hold on to the Utilities ETF (XLU)

Action to take: Hold on to the S&P 500 ETF (SPY)

I remain bullish on Agriculture in the intermediate term. For that reason I am also willing to hold on the Powershares Agriculture ETF (DBA). Food inventories have recently fallen even lower and there is rising potential for food shortages. So we're staying in this position for now. If the Official Sell comes, however, we shall sell it with the rest of our speculative longs

Action to take: Hold on to the Powershares Agriculture ETF (DBA)

OPEN POSITIONS (where we're invested now)					
Company	**Symbol**	**Buy Date**	**Buy Price**	**Current Price**	**Gain/ Loss**
Utilities ETF	XLU	9/16/09	$30.05	$28.66 (HOLD)	-5%
Powershares Agriculture ETF	DBA	9/16/09	$25.45	$25.44 (HOLD)	0%
Gold ETF	**GLD**	**10/7/09**	**$102.36**	**$100.73 SELL**	**-2%**
Gold Miner's ETF	**GDX**	**10/7/09**	**$47.90**	**$41.78 SELL**	**-13%**
S&P 500 SPDR	SPY	10/14/09	$109.31	$104.36 (HOLD)	-5%

ON DECK PORTFOLIO: TRADES FOR WHEN THE OFFICIAL "SELL" HITS		
Company	**Symbol**	**What We Will Do**
Russell 2000	IWM	Go Short
Saks	SKS	Go Short
UltraShort China	FXP	Buy
UltraShort NASDAQ	QID	Buy
Bank ETF	KBE	Go Short
UltraShort Long-Term Bonds	TBT	Buy
Ultrashort Semiconductors	SSG	Buy
Ultrashort Financials	SKF	Buy