SaferTrader

August 3, 2024

Here are the informational and educational contents of your Screening Reports, including all attachments and links to files, if any.

Market Recap and Outlook:

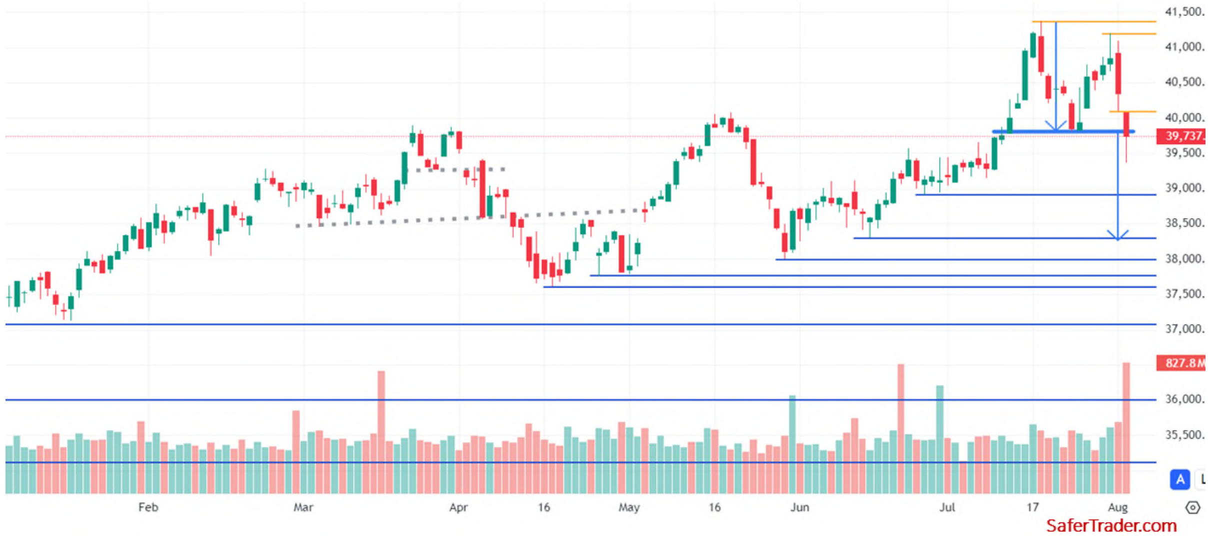
The markets experienced significant volatility this week. The S&P 500 and Nasdaq initially climbed up, creating a fleeting sense of optimism. However, this was quickly extinguished by a sharp decline on Friday, dampening market sentiment.

As highlighted in this newsletter, the US economy has been facing substantial headwinds. This week's less-than-stellar earnings reports and conservative outlooks from several tech giants further support this assessment. It's unlikely we'll see a sustained bullish run in the stock market for some time.

Here's a recap of our (advanced) trading strategies:

1. **False Breakout:** When a false breakout is identified, it often signals an impending market peak. Prioritize bear calls, while exercising caution with bull puts.
2. **Post-False Breakout:** After a false breakout, the market tends to move sideways, forming a top pattern (e.g., double top, head-and-shoulders top, etc.). Trade bear calls when the underlying approaches resistance and bull puts near support.
3. **Confirmed Top Pattern:** Once a top pattern is confirmed, the market enters a rapid downtrend phase. Focus on single leg puts. If you already have a bull put in play, close the short leg and let the long leg run for potential profit to compensate the loss or make a net gain.
4. **Target Reached:** When the top pattern's target is hit, take (partial or entire) profits and meanwhile look for signs of the end of the downtrend (e.g., false breakdown, up gap, etc.).
5. **Bottom Pattern Detected:** When a bottom pattern emerges (e.g., double bottom, head-and-shoulders bottom, etc.), revert to step 1 and reverse the trading strategies.

Dow



The Dow has been less weak than the S&P 500 and Nasdaq for the past month. While the index gapped down and fell sharply on Friday, strong buying activity emerged during the midday and late afternoon, resulting in a long lower wick on the daily chart.

Despite the formation of a **double top**, Friday's breakdown below the **neckline** lacks clear confirmation. Traders should wait 3 days to fully assess the bearish implications. If the index continues to decline, reaching the first target of the **double top** is likely. However, if not, expect the index to fluctuate around the **neckline**.

Noteworthy is the high volume accompanying Friday's session. Typically, the high/low of a high-volume session acts as resistance/support. Whether Friday's session serves as resistance or support will depend on the trading activity in the coming days. Please watch the price actions next week.

S&P 500

The S&P 500's Wednesday gap-up above the **pink head-and-shoulders top's neckline** initially neutralized its bearish implications. However, Friday's significant gap down on high volume confirmed the formation of a larger **head-and-shoulders top**.

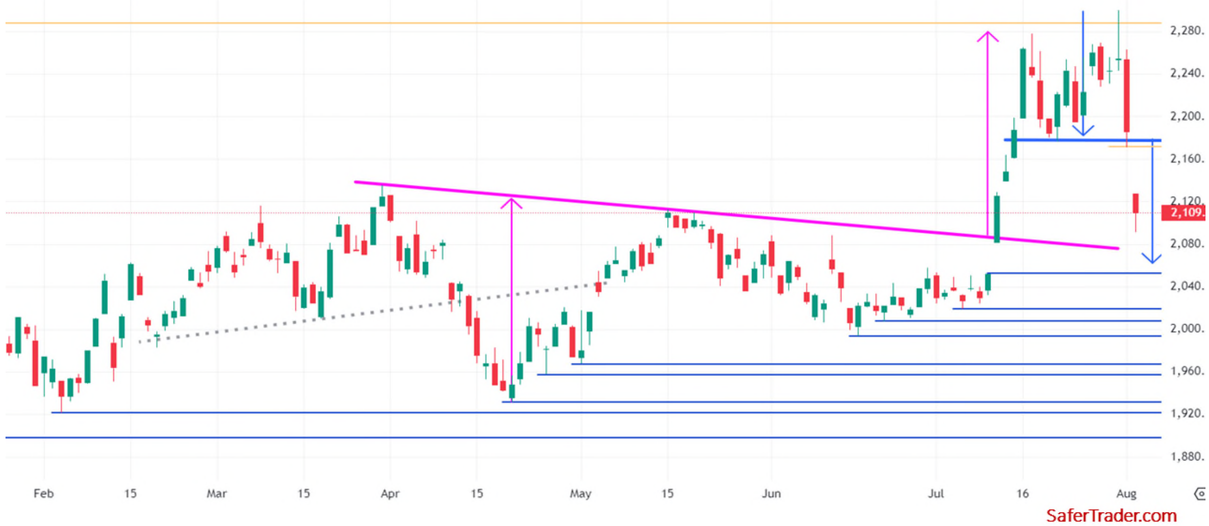
Unlike the Dow, the S&P 500's breakdown is considered valid. Traders can anticipate a bearish trend for the S&P 500 in the near future.

Nasdaq

In contrast to the Dow and S&P 500, the Nasdaq has followed a distinct path. The **head-and-shoulders top** formation for the tech-heavy index remains valid. Despite a challenge to the **neckline** on Thursday, the bearish pressure ultimately drove the index down to reach its first target on Friday.

Currently, the Nasdaq shows no signs of bullish reversal. The expectation is for continued downward movement towards the second target. However, notable support exists around 18,190, established with strong buying power, which could create friction for further decline. Additionally, the second support level around 17,600, resulting from a large up gap, may trigger a bounce in that area. Reaching the second target is likely to take longer than reaching the first.

Russell 2000



The Russell 2000 is currently caught between opposing forces of buying and selling pressure. While it reached the first target of the **head-and-shoulders bottom** on Wednesday, an immediate reversal led to the formation of a **double top**.

The **neckline of the bottom** now serves as a crucial battleground for bulls and bears. The bullish implications of the bottom will persist unless the index breaks decisively below this **neckline**. Adding to the complexity, the first target of the newly formed **double top** also aligns with this **neckline**. Furthermore, substantial support exists around 2,050 due to a prior large up gap, suggesting potential for a bounce in the neighborhood.

To determine the future direction of the Russell 2000, close observation of its performance in the coming trading days is essential. Only then will it become clear whether a bearish trend will ultimately prevail.

<u>Macroeconomic Takes:</u>

The FOMC meeting once again commanded attention. The Fed maintained its 23-year high interest rate but hinted strongly at a September rate cut. This comes amid recent economic data indicating a decline in inflation towards the central bank's 2% target, while the unemployment rate has edged above 4%. In Wednesday's statement, the Fed emphasized its focus on risks to "both sides of its dual mandate" - maximum employment and stable prices.

However, US job growth stumbled with nonfarm payrolls increasing by a mere 114,000, far below the 185,000 estimate. This, coupled with the unemployment rate rising to 4.3%, suggests the possibility of earlier-than-expected rate cuts.

Despite the impending 50-basis point reduction in September, the market reacted negatively. This can be attributed to two factors. First, recent stock market gains have already priced in the anticipated rate cut. Second, the nonfarm payroll data paints the rate cut as a response to economic slowdown rather than a deliberate adjustment to normal inflation. With economic headwinds looming, bears are now seizing control of the market.

Conforming Credit Spread Screening:

High Volatility settings. **Volatility measures surged to 1.6% this week, prompting our screener to operate in the high volatility mode**.

The screening report is displayed in PDF and Excel, with identical contents. To further analyze the data in the Excel report, subscribers can select and copy the data entries of interest into a spreadsheet application for their own personalized studies. Subscribers must double-check the earnings announcement dates on their own.

Stay safe and Trade cautiously,

Shane

www.SaferTrader.com