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The duCati Report
based on S & P 500

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a weekly newsletter based on S & P 500

"We are losing our ability to manage ideas, to contemplate, to think. We are becoming a nation of electronic voyeurs, whose capacity for dialogue is a fading memory, occasionally jolted into reflective life by the one liner.

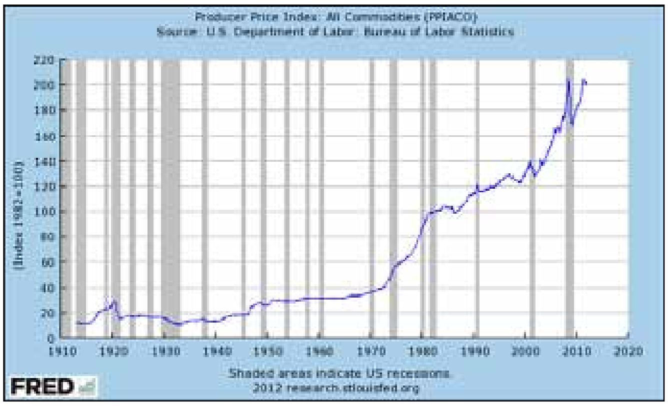
We can talk, but only at the level of the lowest common denominator. We are imposing on our minds the same burdens that we have inflicted on our stomachs - precooked ideas - designed to appeal to the largest number of people at the lowest possible price. McThought. *Ted Koppel.*

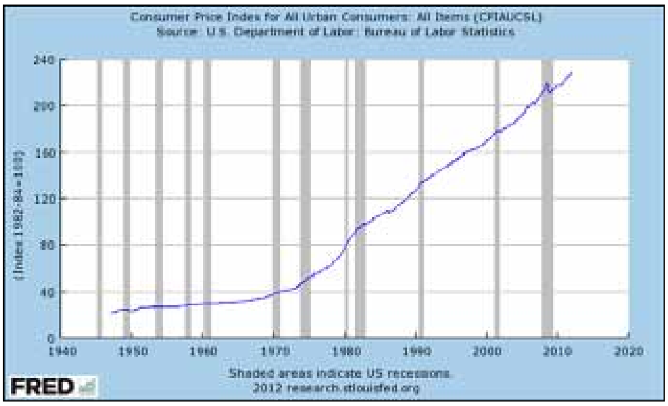
Looking around blogoland, the message is mixed: some are calling the top, some warning of difficulties and chop, and some that the bull trend will continue. I fall into the camp of the bull trend will continue, at least for this week, next week, who knows.

The economy has issues, serious issues. Government is contributing to those issues through misguided, or plain dishonest policy. It is an election year. Obama will use all the Presidential advantages that he can muster, and the economy is a major election point.

Obama is obviously either economically illiterate, or, he simply doesn't really care, and re-election is all that matters.

For those reasons, he will continue to keep the pressure on Bernanke and the Federal Reserve to deliver low rates, which mean liquidity will continue to flood the financial markets. If the Federal Reserve didn't purchase Treasury paper to suppress yields, who would? In an inflationary world of consumer prices and producer prices, who, apart from the Federal Reseve would purchase 10yr paper that yields below 2.5%?





Obviously all that liquidity is flowing into the financial markets, as the money has to end up somewhere, and stocks are still yielding around that 2% mark with the added bonus of capital gains. Of course, some industries are leading, some lagging. That is not our problem with exposure to the S&P500. In the same way that government has promoted the dumbing down of the population, so the added liquidity is attempting to dumb down markets. The QE operations drive financial markets higher, to fight this trend, until it either ends, or starts to implode government itself, simply is silly.

Thus we come to this weeks charts.

The 5day chart is bearish, reflecting last weeks weakness. So which way will it jump? It could go either way. That obviously is no answer. What we must do then is move out a timeframe.

We move out to the 20day chart. Here we see some strength coming back into the market on Friday. We also see that the trend is still higher. We see ‘support’ at $137.00. So, should the market open lower, circa that support area, look to buy long, or add to positions, or simply continue to hold long. If of course the market opens higher, which is suggested via Friday’s close, we simply sit long, and do essentially nothing.

The 3mth chart confirms the bullish posture with the candle, a hammer, after a doji. I’m not going to get terribly involved in a candlestick analysis, primarily as I don’t hold too much confidence in single candles etc. The trend however continues to be bullish. Stay with the trend.

The 3yr again confirms the current trend, but, gives a little warning that we may see slightly lower or flattish prices as a flag formation may develop. The message here is that a flag in this context remains bullish. Sure we may have to sit for another week while price plays out, but this is not a 'top forming pattern'. To sell out of your longs, or god forbid, go 'short' here, is simply asking for losses.

It was Jesse Livermore who said something along the lines of: I make my money by sitting tight and holding my position. I'll look up the exact quote for next week. The message however is pertinent, to make the money in a QE driven market, sit tight and let Bernanke do the heavy lifting for you.

Recommendation: Stay long
duCati system: No changes hold long

Until next week, jog on, duc