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The duCati Report
based on S & P 500

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a weekly newsletter based on S & P 500

"Truth, in her dress finds facts too tight. In fiction she moves with ease".
Rabindranath Tagore, Stray Birds, 1916.

Before moving onto opinion, some facts.

The Federal Reserve will continue with Operation Twist through April. They list the purchase of $44 billion in longer term maturities, and the sale of $43 billion in short-term maturities, for a net purchase of $1 billion in April.

The sale of short-term maturities however, is simply a roll-over of maturing short-term maturities. For arguments sake, assume $43 billion are to be rolled over, thus, I hold a bill for $1 billion that I present to receive cash + interest [which is essentially zero] but instead of taking the cash, I simply accept, or purchase another 90 day bill.

Now the 'net change' is rather different. Instead of a net $1 billion money creation in April, we have a net $44 billion money creation in April, as we had in March etc. This is a QE program, differing only in the gross dollar volumes, but not by much, $44 billion over a year is $528 billion money creation, an astounding rate. Until Bernanke ends Operation Twist, we basically have a sub rosa QE program.

Until Bernanke ends Federal Reserve stimulus, the stock-market will likely reflect the money pumping of the Federal Reserve, and, in direct comparison to Bonds, which simply cannot go much lower, continue their travel higher, providing capital gains far in excess than that of Bonds.

The general public, seem blissfully unaware of the true nature of the Federal Reserve policy. Many financial pundits seem oblivious to the Federal Reserve policy. As to blogoland, there is the ongoing divide between the bull & bear camps, which actually serves our purpose well; you always want the bears to short new highs, and have to provide buying, either to take profits on any decline, they are becoming nicely conditioned to take early profits, and/or covering to stop losses as the market moves higher. The charts remain consistent, save for the 5day chart, which is showing a down-trend, reflecting the weakness that we experienced in the middle of the week.

Certainly we experienced the 'flag' type of technical pattern, which came after the very strong week previously, and was 'flagged' in the newsletter.

The 20day chart remains in bullish mode, reflecting the knowledge of more savvy market participants in acceptance of the underlying bid for the market by the policies of Operation Twist.

For day-traders, a combination of the 5day chart & the 20day chart can provide for well timed entries on pull-backs this week, as in previous weeks, for long positions.

The 3mth chart has become a little redundant as the QE policy simply reduces the volatility of the market. With the volatility so low, the pullbacks, are captured within the 20day & 5day charts, there is no real requirement currently to pay too much attention to this time frame.

The 3yr time frame highlights the early nature, even after 7 months, of this bull move.

The macro-economists are screaming about the economy being bad to horrible: they are correct, it is horrible, and at some point, it is going to end very badly indeed.

The when is of course the crucial question. Not yet, has been the correct answer, and at least for this week would seem to be the correct answer.

We don’t get paid for being right, but years too early, nor for being wrong.

We get paid for gritting our teeth and going with the trend, however unpalatable that fiction may be.

Recommendation: Stay long
duCati system: No changes hold on

Until next week, jog on, duc.