



The duCati Report

a weekly newsletter based on S & P 500



“People who take risks are the people you’ll lose against.”

John Scully.

After all, the biggest risk of all, is the risk of doing nothing. If I define risk as “exposure to the risk of uncertainty,” then risk, as so defined is composed of three variables.

- i. Uncertainty - unknown or unpredictable events or environments.
- ii. Consequences - a change in a market, business environment, or social context.
- iii. Exposure - a financial or social stake in a given outcome.

Uncertainty is quite clearly the future. No-one knows the future. We all seek future ends, and employ current means to achieve those ends. At times our best guesses, estimates, predictions, fall short. This is the reality. When we employ the means, there are obviously [you would think] going to be consequences. If our

means have been correctly chosen, if we have anticipated, or speculated with skill, or luck, the means will achieve the ends. The amount of exposure that we incur, drives our profits, or our losses, dependent upon our means employed.

The means that I employ has both the reward firmly in view, but also controls very tightly the exposure. If I’m right, I want to be highly rewarded for my good judgment, or good-luck, whichever may account for the outcome.

However, if I’m wrong, and very wrong, I will not let my exposure remove me from the game. In other words, through my exposure, my structure of the trade, I insure that even if I am horribly wrong, it is far from fatal. In fact, as will be demonstrated over time, being wrong, unlucky, or otherwise, can and will still be profitable.

Earnings season approaches. Earnings can create increased volatility. We need to be aware that the potentially increasing volatility can, if correctly managed, increase our profitability.

There has been some distribution this week. This is a quantifiable change. It is important. It is currently only a warning flag, which is warning that a change is potentially coming, but not exactly when, but to be aware, and extra vigilant.

Now is the time to tighten stops if you utilise a stop based risk management style. On the 3mth chart, \$138.55 was the recent low, that may be an area that provides enough flexibility. I personally do not use stops, so this is simply an area that may give enough wiggle room to stay in the trade should volatility ramp-up this week.

I would imagine earnings, on aggregate, to be fair to good. Fair to good implies that earnings growth might be slowing. Slowing is not a word the "Street" likes nor rewards. Again I remind you of that distribution. It is happening and will continue.

That of course does not mean that the market will fall, it simply means that those already deep-in-profit are taking some profit, and seem likely to continue to do so. If that sounds like a sell signal to you, then take profits here.

In counterpoint to the above: where else will you invest? Bonds? Gold? Real Estate? They all have their strengths & weaknesses. For the moment, with Operation Twist still in operation until June, still weak, and slowing employment, drawing closer to the election, I see ever more reasons for Bernanke to support further inflation via QE programs.

Stocks therefore to me remain the correct choice. Further, and importantly, the distribution is not a sell or exit signal for my methodology, therefore, I remain unchanged in my exposure. The two shorter term charts, again contradict one another. This will be resolved through the general tenor of earnings announcements of the reporting Corporations: good earnings, and the 5day trend will reverse, thus underlining the 20day trend. Bad earnings, and the 20day will certainly flatten out.

Neither of these is necessarily a sell signal, although they would certainly provide important information.



The 3mth chart has been irrelevant for a while. This time frame may come back

into play this earnings season, keep an eye half on it.



In earnings season, which market action is so sentiment and news related, ignore the 3yr chart for the moment, we are tightening the time frames this week and looking for confirmatory information next week.



Recommendation: Stay long
 duCati system: No changes hold long

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