



Perspective: Volatility vs StormGuard, Plus 6 New Extended ETFs

Apr 04, 2018

Dear Scott,

Putting the Wild Ride in Perspective

I must confess that I had difficulty choosing the newsletter's primary topic given the market's current high volatility. There are three primary issues currently driving the market: (1) the market correction process, (2) trade war fears, and (3) concerns about quarterly earnings reports, due later this month. Let's examine each of these:

— **The Market Correction Process.** In the macro-view, the rapid rise of the market in 2017, and particularly in January 2018, created strong pressure for a correction as market prices arguably got ahead of themselves once again. However, a set of self-fulfilling conditions must take place before technical traders are satisfied that sufficient bloodletting has occurred to move markets forward again. These conditions include (1) at least a 10% drop from the prior high, (2) a re-test of the 10% drop, and (3) the dismissal of intraday trading prices as insufficient for meeting conditions (1) and (2). Many pundits had been suggesting that we did not have a satisfactory re-test of the correction in early February and that a near-term re-test should be expected. We got exactly that a few days ago - including a rout of technology stocks, which had recently moved ahead of other indexes.

— **Trade War Fears.** The market's hopeful recovery from that re-test appeared shattered this morning as the Dow opened down 520 points in reaction to China's proposed retaliatory list of 106 counter-tariffs. While European markets led markets lower and posted losses for the day, US markets spent the day recovering, with the Dow closing up 230 points (1%) and the Nasdaq closing up 100 points (1.5%). With the perspective of the 5-year SPY chart (right), it is difficult to be too fearful of this volatility, particularly considering the strength of the economy.

Here's my take: I view China as a serial abuser of free (but unfair) trade through contrived trade imbalances and intellectual property theft. The US has been practicing what many would call co-dependent behavior by putting up with the abuse out of fear of upsetting the Chinese giant, which has addicted us to its low-priced goods. Our debt to China stands at \$1.17 trillion, with 2017 contributing roughly a third of that amount. Obviously, this cannot continue. Our civil western negotiation style used for decades has been ineffective, and must change. However, by threatening to unilaterally rebalance the trade equation, we should expect (1) Chinese President Xi



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Jinping to retaliate in-kind in order to maintain an appearance of strength, and (2) American businesses and individuals who have benefited from China's market-distorting prices to react negatively. But this goes with the territory. In the end, Xi Jinping knows China must now take a seat at the bargaining table as it presently has \$375B per year more to lose than we do. Thus, I believe the market's sharp recovery following both Trump's initial tariff announcement and today's retaliatory reply show that the smart money believes this process will likely succeed and measurably change the game in our favor. I agree. Bring it on - let's change the game.

— **Concerns About April's Earnings Reports.** We are now only a few days away from seeing the next series of corporate earnings reports. The market is not likely to make significant moves up or down until these reports start rolling in. Expectations are pretty high, but so are prices. If earnings disappoint, the [Sell in May and Go Away](#) crowd may get some traction and put us on StormGuard watch.

What is StormGuard-Armor Telling Us?

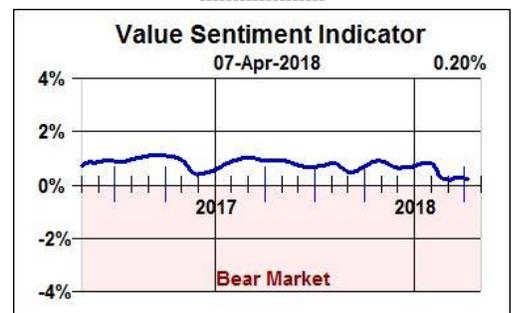
Although the composite StormGuard-Armor indicator had its value cut in half last month, it is now safely heading parallel to the 0% threshold rather than descending rapidly toward it. All three of its components (Trend, Momentum, and Sentiment) are still behaving in a reasonably confident manner. Institutional Momentum (volume) is continuing its steady decline from its sugar-high in January. Whether earnings come in weak or strong, the response of institutional investors will be obvious in the chart by the end of April. Likewise, the Value Sentiment players (high/low), who currently exhibit "bargain hunting stability," will also reveal their interest in driving the market toward more new highs or new lows by the end of the month. Of the three, it is generally either the Momentum or Sentiment indicator that fails first, suggesting investors are headed for the door and that the market is no longer a safe place for your money.

Six New Extended 3x ETFs

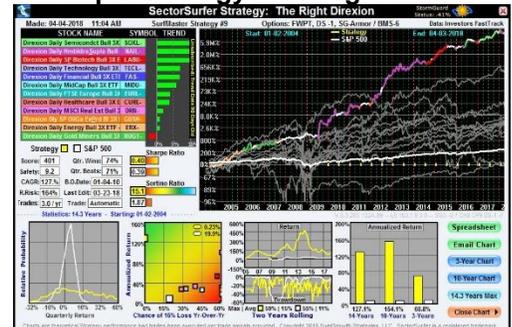
If you are not already familiar with our extended data ticker symbols, please check out their important reason for existence. New to the lineup are the six below ETFs. The example 3x Strategy (chart right) entitled **The Right Direxion** employs many of them and is posted on the Strategy Hall of Fame page. Perhaps you can improve upon it.

If you have any of the non-extended versions of these ETFs in your Strategies, I strongly recommend updating them to provide the best modeling conditions for how your set of funds played together in the past. Aussie Surfer Chris, who nudged making these additions, observes that "Ultra Strategies often implode when JNUG is replaced with JNUG-. Those with safety ~20 are 'worshiping a false god' and JNUG will surely burn them one day." Please consider this wise advice.

The Three Parts of StormGuard-Armor



Example Strategy: The Right Direxion



[Click to Enlarge Image.](#)

- **DFEN**- Direxion Aerospace & Defense 3X
- **DPST**- Direxion Regional Banks 3X
- **JNUG**- Direxion Junior Gold Miners Bull 3X
- **NUGT**- Direxion Gold Miners Bull 3X
- **GUSH**- Direxion Oil and Gas Explor Bull 3X
- **NAIL**- Direxion Technology Bull 3X

Future Speaking Engagements.

Houston, TX: AAI Chapter - 8:30 AM Sat October 13, 2018

- [San Antonio, TX: Riskalyze Fearless Investing Summit](#), Marriott Rivercenter - October 17-19, 2018
- [Las Vegas, NV: AAI National Convention](#), Paris Hotel - October 26 - 28, 2018

Surf Well and Prosper,



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