XT on Markets

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Published by Xenia Taoubina

Mission

The goal of this newsletter is to assist investors with tactical decision-making.

Author

Xenia Taoubina is a capital markets professional with 17 years of experience. Xenia spent the first 10 years of her career working on trading desks of some of the top investment banks on Wall Street. In 2011, Xenia left an Executive Director position at J.P. Morgan to become an independent trader. Soon after, Xenia established a reputation as an Elliott Wave expert, having built a six year track record of market forecasts, with a high degree of accuracy.

Methodology

The basis for the views expressed in this newsletter is technical analysis – Elliott Wave Theory, as well as traditional technical analysis. The underlying premise of my analysis is that anything can happen in the markets. As such, my work is to distill the slew of possibilities down to what is likely to happen, and to identify levels that require me to reassess my working hypothesis. I use that information strategically to increase, or decrease allocation to a particular market.

Executive Summary

The past week was certainly eventful, with panic risk-off action. Several intraweek changes were made, amounting to reduction in what is traditionally viewed as risk-off parts of the portfolio (TLT, GLD and GDX), and bringing the SPX allocation back to neutral post-selloff. Multiple support/resistance levels were also changed, as discussed below.

| Market	Last week		Intraweek changes		This week	
	Level	Allocation	Level	Allocation	Level	Allocation
SPX	2,953.00	90%	2,865.00	10%	2,938.00	100%
RUT	1,546.00	100%			1,533.00	100%
NDX	7,801.00	100%			7,726.00	100%
TLT	134.90	120%	135.70	-20%	140.30	80%
			138.15	-20%		
GLD	136.30	120%	137.95	-20%	142.30	90%
			142.00	-10%		
GDX	27.85	100%	29.60	-10%	29.72	90%

Key features of the newsletter are as follows:

- Newsletter is written in **plain English**, without the use of technical terms. Those interested in the technical discussion should feel free to reach out to me directly.
- **Markets covered** are: US equity markets (SPX, NDX and RUT), bonds (TLT), and gold and miners (GLD and GDX).
- **Investor focus** – assessment is from the long-only perspective, and degrees of risk appetite are stated in terms of underweight/overweight allocation for the asset in question.
- **Risk management** – with the exception of extraordinary market situations, the goal is to have allocations between 50% and 150% of neutral, where "neutral" is defined as one's target allocation model. Given that everyone's allocation model is different, I leave it to the readers to determine what their "neutral" is.
- **Tactical** – strategically adjusting level of market exposure with the goal of outperforming the market on a risk adjusted basis.
- **Publication frequency** –absent action that requires intraweek tactical allocation adjustments, frequency will be weekly. If intraweek adjustments are required, an additional alert will be posted.
- **Support/resistance levels –** levels marked in red mark automatic reduction in positions; levels marked in green mark automatic increase in positions (for details, please review the writeup). The rest of the support/resistance levels are zones where I will consider taking action on a discretionary basis.
- **Charts** are included as a bonus for more technically inclined readers and are not required reading. That said, for those who want to understand the charts: red zones are resistance zones where, upon topping action, reduction of exposure is considered. Conversely, green zones are support zones: bottoming into those zones is a consideration for adding exposure. Lines marked with a green and red arrow are ultimate support/resistance levels; breaching those changes the odds away from the primary scenario and likely warrants a change in allocations.

S&P 500 Index (Ticker: SPX)

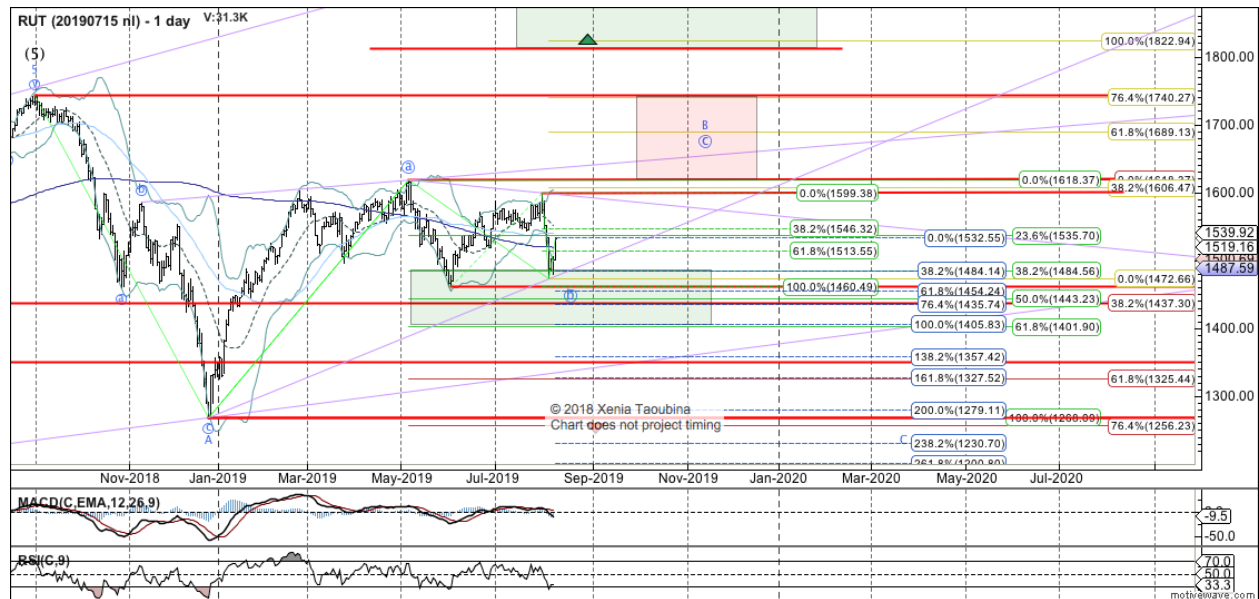| Allocation	Level	Support Levels	Resistance Levels
100%	2938	2822	3027-3119
		2739	3448
		2533	

We saw reversal out of the resistance zone, confirming the topping perspective voiced in the last update. Without a break below 2739, however, we don't have a strong indication that the rally off December low has topped. Action on August 6 was positive enough to have me bring SPX weight back up from 90% to 100% of neutral, at SPX 2865, after taking off that portion at 3115. Today's strong move up was precisely the scenario I saw in the cards. At this point, it's not clear to me whether this week's panic low was all of the decline, or only part one of what I would expect to be a two-part move. IF strong signs develop for lower levels, I will consider reducing allocations to below neutral. Conversely, IF SPX proceeds to a new high, I will look for signs of topping to reduce allocation at new highs. Lastly, IF further downside to the vicinity of 2739 is seen, I will be looking for signs of bottoming to increase allocation to overweight.
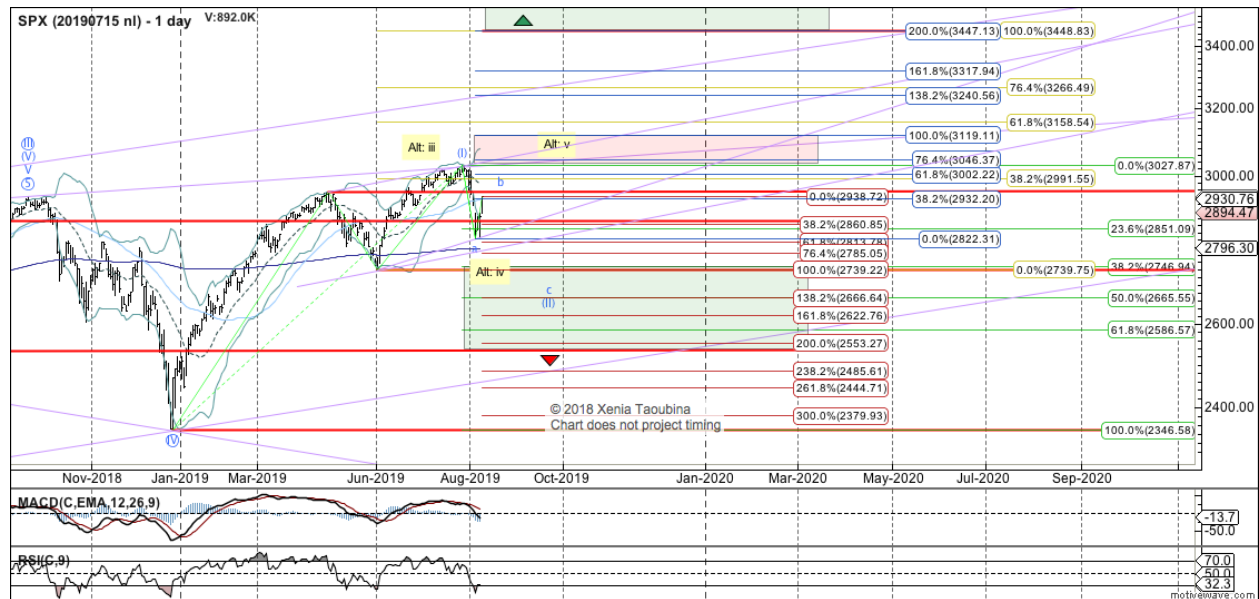
Russell 2000 Index (Ticker: RUT)

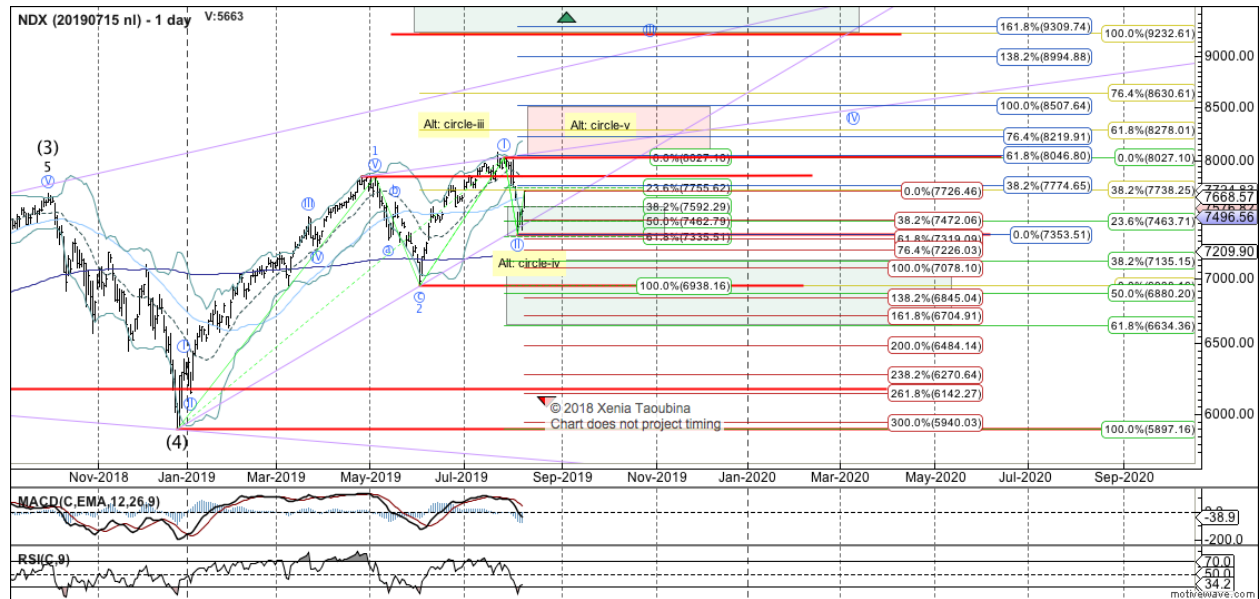| Allocation	Level	Support Levels	Resistance Levels
100%	1533	1472	1599
		1401-1460	1618
		1268	1696-1742

Last week's reversal below 1557 had me looking for a move back to 1460, which is basically what we got this week. While futures did print the equivalent of 1460, breaching it slightly, cash index never gave that magic number, and so I haven't moved this allocation to above neutral yet. I am watching action off this week's low closely, and IF strong enough signs develop that this low will hold, I will consider increasing the position to above neutral. Conversely, IF 1460 is breached, I will look for signs of bottoming over 1401 to add to the position.

Nasdaq 100 Index (Ticker: NDX)

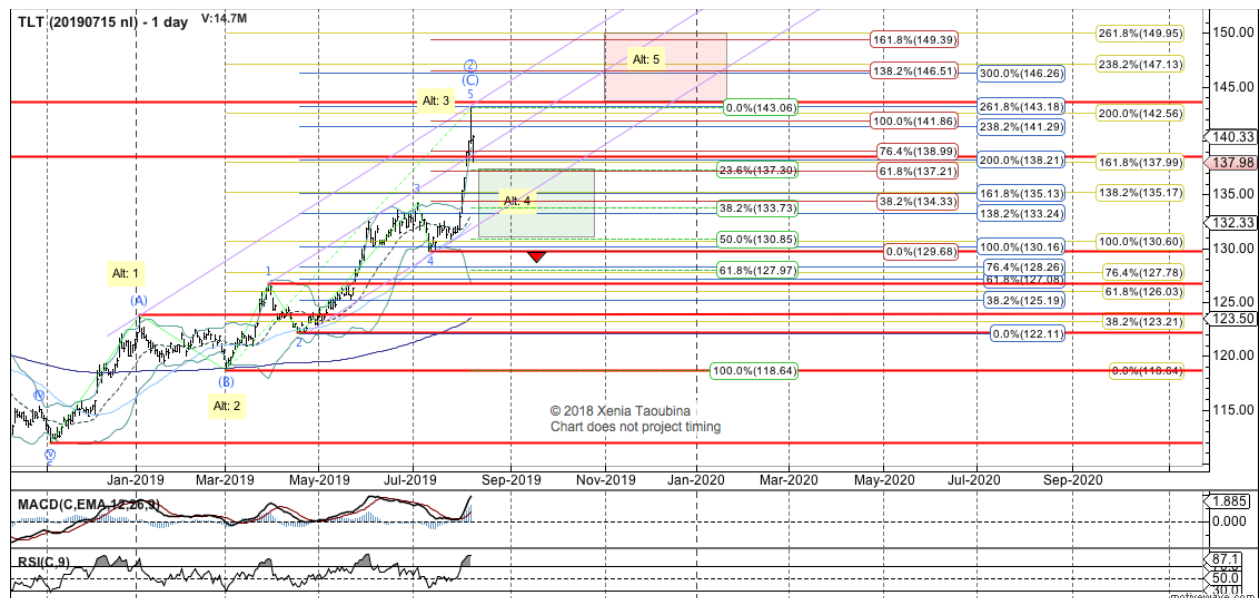| Allocation	Level	Support Levels	Resistance Levels
100%	7726	7353	8027-8507
		6938	9232

This week's action had me consider reducing allocation when early signs of breakdown developed, however, I saw this move as likely to be a very fast one, too fast for the "multi-week and multi-month" framework I intend to uphold for this newsletter, and so I chose not to make any changes. And, that ended up being the correct framework, with NDX close to unchanged on the week. At this point, I am watching closely action off this week's low. IF it begins to unfold bearishly, I will consider reducing allocations to below neutral. Also, topping action into a new high will have me consider reducing allocations. At this point, I don't see enough in the charts to have a bias either way, and that, by definition, implies neutral positioning.

iShares 20+ Year Treasury Bond ETF (Ticker: TLT)

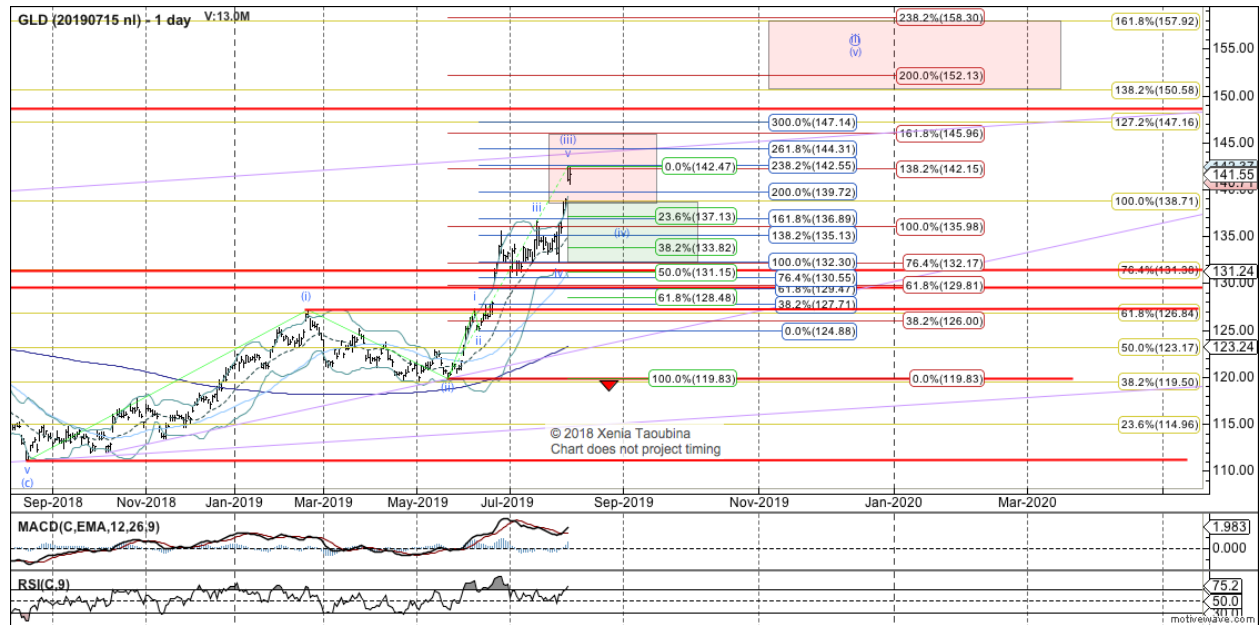| Allocation	Level	Support Levels	Resistance Levels
80%	140.3	137.2	143.06
		130.6-133.7	143.6-149.9
		129.68	

It has been a busy week in bond land! As of last newsletter, I was 120% of neutral in TLT, unwinding the 20% overweight portion at 135.7 (having entered into it at 130.6), and further reducing exposure to 80% of neutral at 138.15. As it stands now, my thesis is that TLT is topping, with this week's spike having been an exhaustion move. However, to begin to make that likely, I need to see it below 137.2. IF it holds over this level, and makes new highs in the coming week, it will suggest acceleration higher, with a move to at least 146.5 needed to make acceleration likely. This is not my expectation, however, if it were to happen, I will have to look for a place to add back to the underweight allocation. My expectation is for this week to bring a move that breaches 137.2; IF it's able to show bottoming in the 130.6-133.7 range, I will consider increasing allocation back to neutral or even overweight. Conversely, IF TLT is able to break below 129.68, I will consider further reducing allocations.

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SPDR Gold Shares ETF (Ticker: GLD)

Allocation	Level	Support Levels	Resistance Levels
90%	142.3	132.3-138.7	142.4-145.9
		127.21	150.5-157.9

I started the week with a 120% of neutral position, and GLD didn't disappoint. I booked the 20% overweight portion at 137.95 (having entered into it at 132.4), and later reduced further to 90% of neutral at 142.0. IF further signs of topping towards 145.9 resistance are seen, I will consider taking off another 10% of allocation. Conversely, bottoming into 132.3-138.7 zone is seen, I will look to bring this position back to neutral, and will consider going overweight.

Market Vectors Gold Miners ETF (Ticker: GDX)

Allocation	Level	Support Levels	Resistance Levels
90%	29.72	25.64-27.62	30.00-31.56
		23.70	31.17-33.58

This week, we got the move higher into the resistance zone stated last week, and that prompted me to reduce allocation from neutral to 90% of neutral today at 29.60. IF higher, towards 31.56, is seen in the upcoming week, I will consider reducing allocation further, to 80% of neutral. Conversely, a pullback to 25.64-27.62 support zone will have me increasing the position to neutral, and potentially, going overweight.