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MARKET WATCH

Look for a Tradable Low

Market Insights

By Brian Thomas

(the following has been excerpted:)

No bull or bear market travels in a straight line. After five down months in a row, it's smart to take a little more risk in stocks even if we have begun a new bear market. The last time the market posted five consecutive monthly declines, it marked the start of the 2008 bear. However, after months of topping action, a swift break of support in January '08 and more than one show of support near the prior-year low, a multi-month rally of nearly 15% took stocks back up for a test of the January breakdown. Look at all familiar to our current situation? Months of topping action, followed by a trapdoor selloff in August, and a fifth month down in a row in September...I'm not implying that the eventual downside will be the same—but to my eye the analog would match best if we got a spike down in October (closer to last year's low) and reversal. This would look awfully similar to January-March '08, and leave the door open for a powerful rally to finish the year.

"These are not forecasts. They are probabilistic thought experiments."

An October low would also line up perfectly with the seasonal tendency for the market to be strong in the fourth quarter....

A strong enough push could nudge us over 1250 by the time Santa arrives, giving us a gain for 2011 and keeping the presidential cycle intact. Sounds crazy...but this is the process you need to be going through: a lot of "if this, then that" analysis. These are not forecasts. They are probabilistic thought experiments. We should be willing to own a certain percentage of equities here. A further drop below 1100 on the Standard & Poor's 500 this month has a very good chance of creating a tradable low.