

Updated: 21-May-12 16:36 ET 16:36 ET **Market Stages a Bounce to Alleviate Short-term Oversold Conditions...:**

The market finally put in a solid day to the upside to alleviate much of its recent short-term "oversold" condition. As of last Friday's close, which left the S&P closing below the 1300-level for the first time 17 weeks since January 18 this year, the index was down approximately -8.5%, or 123 points off its early May high of 1415. Indicators like RSI-5 reached an extreme low of 4.99 (not seen since the Aug 8th 2011 "crash"); the RSI-14, which is more wide used as a standard, closed at 23 in oversold territory; the NY McClellan Oscillator which measures the spread between moving averages of advancing and declining issues, reached a reading of -110, which is typically associated with intermediate cycle bottoms; it was also the 5th consecutive close below an accelerating lower Bollinger Band, which tends to give little to no edge in remaining negative in the near-term. Throw in the fact that we had some key price zones in play (highlighted in prior Swing Trader reports) marked by Fibonacci Retracements, 200-day moving averages and prior support/resistance, and the odds favored buyers would start to show some interest post-Expiration.

The biggest problem for me this time around was 2-fold. First was the issue that arises the few times a year when extreme conditions are in place...it becomes a matter of "too early to Buy and too late to Short." The best we can do as traders is either sit in cash or focus on taking smaller intraday daytrades or scalps. Which brings me to my second issue...I tend to have some sort of Short/Hedge position on during a corrective phase, usually in an Index or Sector ETF. In fact I had one on at the beginning of April around 1420, but took it off at the end of the month when the SPX squeezed back above its 50-day moving averages back above the 1400-level. I failed to put it back on during the initial May sell-off, which has been disappointing to say the least. Without it, I have been less inclined to go "bottom-picking" as I didn't have that "hedge" to protect me. I suppose that was a good thing, given the persistent day after day slide, but it was frustrating to say the least.

Moving forward, I think it's time to start "nibbling" on stocks again for a bounce. I was toying with the ideas of Selling some Out of the Money Puts last week, but volatility wasn't looking high enough to make it worthwhile. With that said, I suspect any sort of bounce here into May's month-end to set up another round of Shorting opportunities in context of the current downtrend off the April/May highs, below the 50-day ma's. I don't particularly like how the Transports (IYT) just began to breakdown last week, as did Retail (RTH, XRT). Other sectors like Semis (SMH), Financials (XLF), Energy (XLE) and Basic Materials (XLB) also look horrible, that without some sort of re-test of the low or double-bottom behavior developing, would I feel comfortable holding on the Long side for more than a day or two.

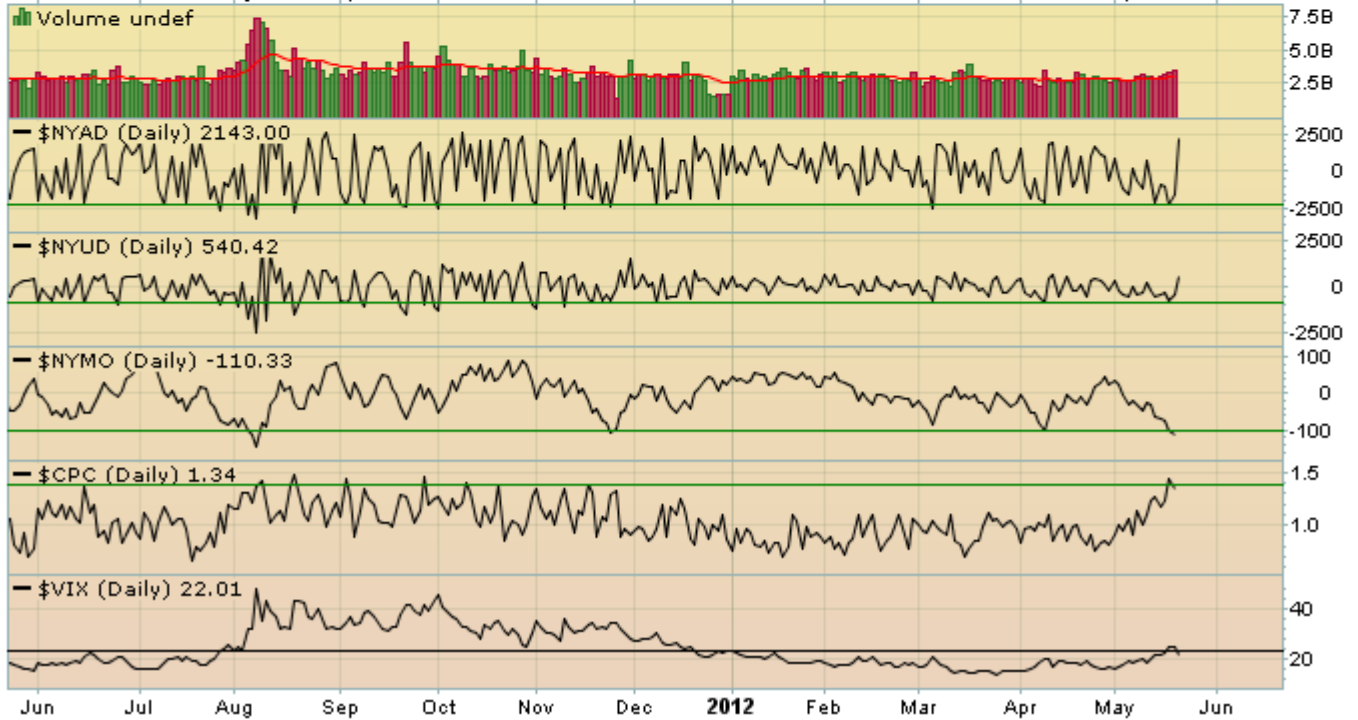
Bottom line, expect this bounce to alleviate the extreme oversold condition, but anticipate the possibility of lows being re-tested as plenty of overhead resistance lies above. I'm on the look out for either Bearish Flags/Pullbacks, Double Bottoms, or some ABC waves with positive divergences, to develop here the next few days.

\$SPX (S&P 500 Large Cap Index) INDX

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21-May-2012

Open 1295.73 High 1316.39 Low 1295.73 Close 1315.99 Chg +20.77 (+1.60%) ▲



IYT (iShares DJ Transportation Average Index Fund) NYSE

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21-May-2012

Open 87.34 High 89.59 Low 87.34 Close 89.59 Volume 272.3K Chg +2.32 (+2.66%) ▲

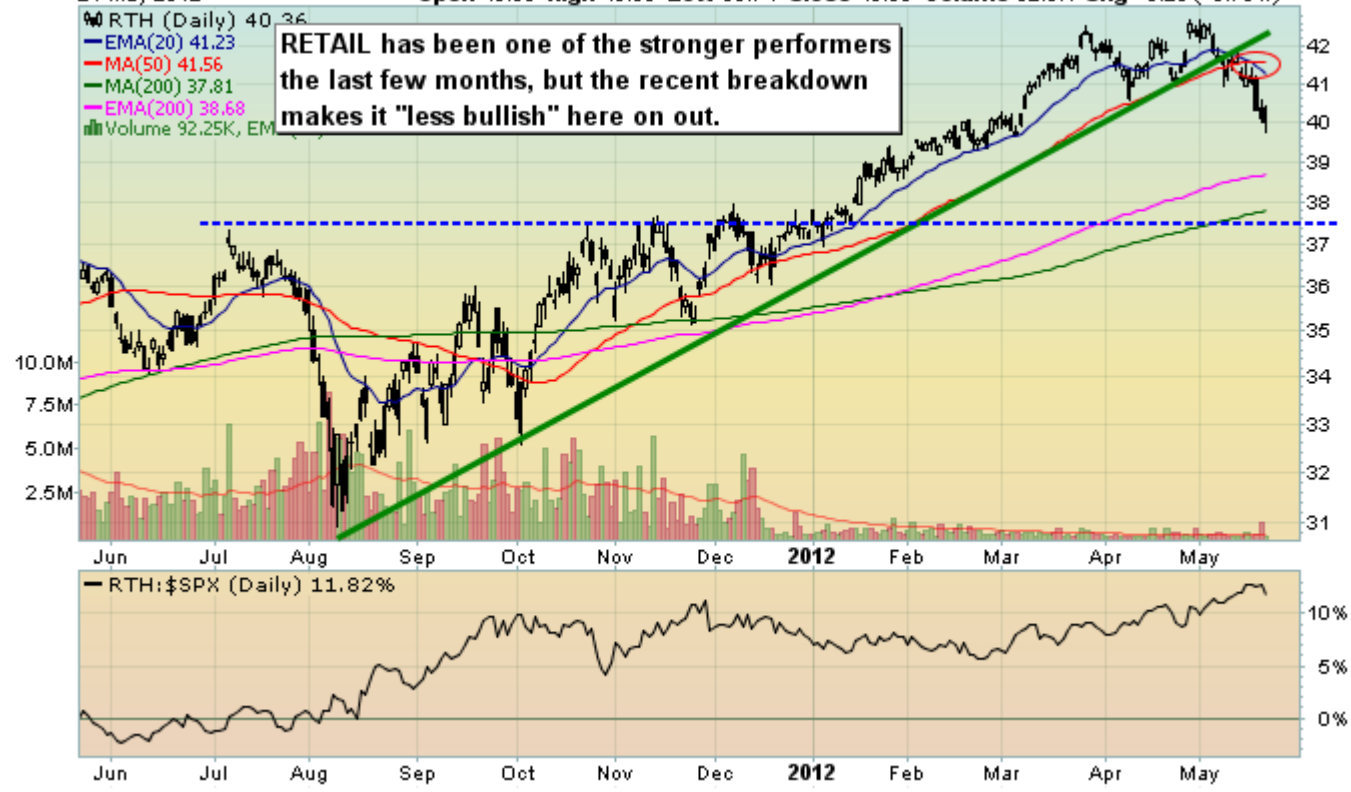


RTH (Market Vectors Retail) NYSE

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21-May-2012

Open 40.00 High 40.39 Low 39.74 Close 40.36 Volume 92.3K Chg +0.28 (+0.70%) ▲



SMH (Market Vectors Semiconductor) NYSE

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21-May-2012

Open 30.96 High 31.54 Low 30.84 Close 31.52 Volume 2.4M Chg +0.65 (+2.11%) ▲

