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Your Free Wrap today is based on an extract from Edition 608 of Jim Berg's *'Investing & Online Trading' Stock* Report

Early Warning Signals

By John Atkinson

On 10th February 2017, in Edition 602 of our weekly '*Investing & Online Trading'* stock market Report Jim Berg wrote re the USA market;

> "… *I believe we need to be cautious as there is a potential market bubble and it will be difficult to trade even in this rising trend….*

Three weeks later, in Edition 605, I provided an update after the strong gap up on 1 March, including;

> " *How steep can these go before they fall over? We do not predict the market. We work on the balance of probability and react accordingly to price moves.*
>
> *Obviously, markets do not continue to rocket upwards forever. Eventually they run out of momentum and they either:*
>
> - *Retrace and take a breather within the rising trend, or*
> - *Retrace further and switch from a rising trend to a falling trend, with a bubble 'burst'*
>
> *Markets very rarely reverse as a 'crash' without warning. Rather, often there are early warning signals – e.g. stocks and Indices may start to roll over beforehand before they go into freefall."*

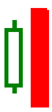
On Tuesday 21st March, the USA markets did give an early warning signal - in the form of a *Bearish Engulfing Pattern*.

As background; before we launched ShareTradingEducation.com in 2004, I wrote a series of articles for Daryl Guppy's newsletter.

These were later collated into an ebook as the very first item on our website, called 'The Atkinson-Guppy Articles'.

In an article titled '*Exit Efficiency',* on Page 105 of that ebook, I detailed, step-by-step various early warning exit signals and exit strategies ahead of bear markets, most of which still apply today. These include the:

'Bearish Engulfing Pattern



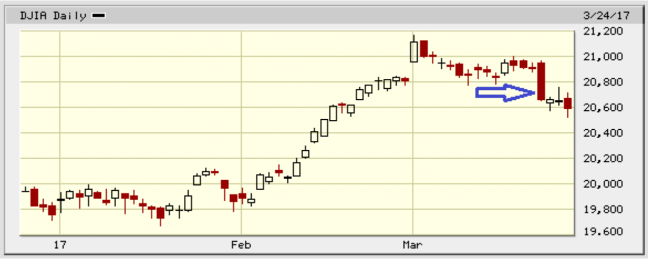
This pattern often dramatically signals the end of an uptrend……. Prices open higher than the previous day's close, then are sold down, closing below the previous candle's open, thus the current period's solid red body engulfs the prior candle's open body.

Only the main body is important in the bullish engulfing pattern, with both upper and lower shadows being ignored. Prices typically plunge steeply after this pattern.

Usually traders wait for confirmation of the candlestick reversal pattern to avoid unnecessary whip saws. '

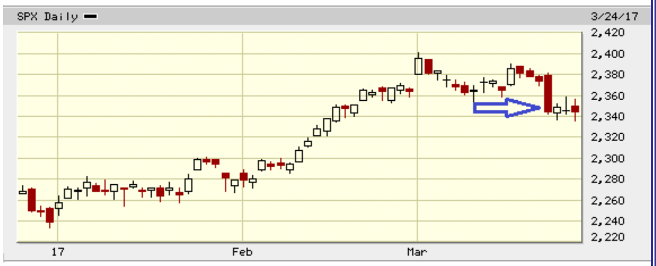
With this in mind, the charts below show a Bearish Engulfing Pattern (marked with arrows) occurred on Tuesday 21st March 2017, for each of the 4 main USA Indices:

The Dow Jones also failed to get back above the 21,000 round number and is now appearing to consolidate around 20,600.



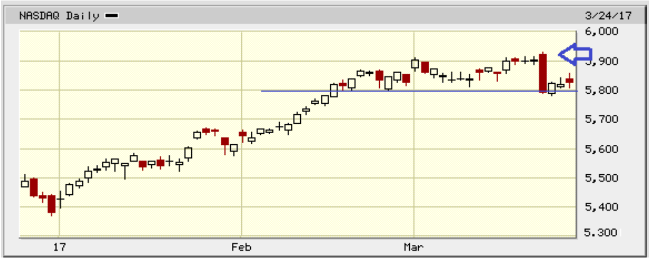
Dow Jones Industrial Average

The S&P500 also failed to break above recent highs and is now appearing to consolidate around 2,340.



S&P500

The Nasdaq was also resisted around the High set on 1 March and has retraced to a nearby support level of around 5800:



Nasdaq Composite

The Russell 2000 was also resisted around the High set on 1 March and has retraced to a longer term support level of around 1350

Russell 2000

In coming weeks we will continue to monitor and report on these Markets for our weekly Report Members. In particular, if these Indices break support and continue to fall, this will add confirmation to the early warnings of their Bearish Engulfing Patterns shown above.

Correspondingly, breakouts above the levels set on 1 March would cancel those early warnings.

In the meantime we recall a phrase quoted by a professional fund manager we met years ago "*Trade what you see, not what you feel".*

This is why the disciplined use of Initial, Adjusted, Trailing and Emergency Stops, as we:

i) Teach in-depth every week in our mentoring-style '*Investing & Online Trading'* Report and

ii) Monitor and apply every day on behalf of Members of Jim Berg's Australian *Investing Signals* and *Trading Signals* Services

is so important to help traders and investors ***minimise losses,*** to lock in and ***protect profits*** in most situations, then ***'Switch to Ca$h',*** before markets tumble.

Jim Berg's Trading and Investing Plan uses his '*Weight-of-Evidence'* and unique '*JB Volatility Indicators'*, developed and tested over more 30 years of his personal experience, 18 years of which were as a professional broker.

That Trading and Investing Plan - which we introduced when we first published our weekly Report in July 2005 - has stood the test of time for almost 12 years, with the introduction of only 3 small changes during that time.

During the Global Financial Crisis, markets around the world fell in the order of 50% and more and many investors who followed the myth '*Time in the Market is more important than Timing'* and the mantra *to 'Buy and Hold for the Long Term'* lost much of their retirement savings as a direct results.

With their wealth decimated, many investors found they had to postpone their retirement and keep working.

In contrast,

1. In January 2008, i.e**. *before the GFC***, Jim Berg closed our Report's notional portfolio and '*switched to Ca$h'*. Those Members who followed his lead did NOT lose millions of dollars between them.
2. Over the next 18 months, from January 2008 to June 2009, Jim kept that portfolio closed and in '*Ca$h'*.
3. In June 2009, Jim Berg gave his overall market re-entry Signal
4. Very importantly, while others had to start rebuilding their decimated portfolios and wealth, Jim then taught Members of our weekly Report how to **ADD** *to their previously locked-in profits.*

Since we first published our Report in July 2005, we have always believed in the pursuit of excellence through continuous improvement. This is why we have progressively reported on testing we have carried out and welcomed constructive feedback along the way.

During the GFC, while our Report's notional portfolio was in '*Cash'* (i.e. between January 2008 and June 2009), we tested and published in our weekly Report:

i) Many shares recommended by '*experts'* at that time, including some so-called '*Safe Starter Stocks'*.

   In fact, we found them to be FAR from '*safe'* and that none would have given a confirmed entry signal by Jim's documented '*Weight-of-Evidence'* stock selection rules. Those traders and investors following Jim's Rules would not entered those '*Experts Picks'*, so would have protected their capital even further.

ii) A few possible '*tweaks'* to Jim's Trading Plan, by testing and measuring each proposed criteria in turn over a table of previously closed trades, then summarising and comparing the outcomes.

We found there was no significant improvement to be made to the '*bottom line'* from any of the proposed suggestions in ii), so no change to Jim's Trading and Investing Plan was made at that time.

In this week's mentoring-style '*Investing & Online Trading'* Report we introduce a new series of '*Continuous Improvement Quest'* articles in which we test and measure 4 new possible early exit criteria, with the aim of:

i) **Minimising** losses and

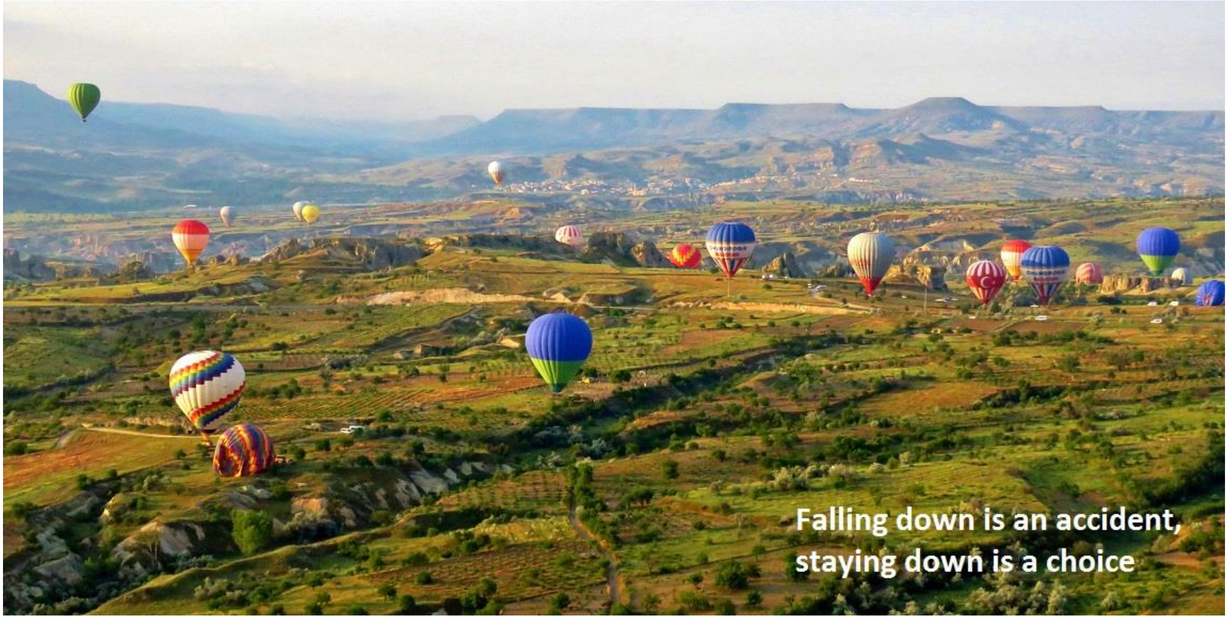
ii) **Locking in** profits - all with the goal of

iii) **Increasing overall profitability**

Jim Berg's analysis techniques which we teach in our Report can be used in markets around the world as the principles remain the same and "*a chart is a chart*".

Starting this week, in addition to the currently open USA and Australian notional portfolios, as part of this new series of articles, we now also feature a USA stock or Australian share and compare the '*Before and After'* results to see if there is an improvement to the '*bottom line'* if we were to introduce any of these 4 potential *'early warning'* Exit Signals.

To Continue Reading....



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