

# Investors Becoming Overly Complacent. Stock Market and Gold Update

By [Daniel Smolski](#)

Global Research, January 30, 2009

Smolski Investment Newsletter 30 January  
2009

Region: [USA](#)

Theme: [Global Economy](#)

A routine I have always kept to is listening to market news on the radio every morning. Recently it has felt as if the morning market news has morphed into the morning job losses report. It is no longer tracked on a monthly or weekly basis but rather the consortium of job cut announcements have been a routine part of the morning news. This Thursday morning, we were confronted with 12,000 jobs cuts lead by Eastman Kodak, Wednesday brought us 15,000, Tuesday 11,500 and kicking off the week on Monday we recorded 71,000 jobs losses. At this rate we are on track to lose about half a million jobs per month, adding to the already 2.6 million lost last year. I cannot remember a point in time when we were faced with such an onslaught of daily negative news regarding the real economy. It is both breathtaking and heart wrenching, the number of people losing their jobs on a daily basis.

It is thus very impressive that the markets have held up in the manner they have. It reinforces the theory that markets always react ahead of time. They have an uncanny ability to somehow predict upcoming news and factor it into the price ahead of time. A historic testament to this theory is that the markets actually turned up before the allies started winning World War II. The markets were somehow able to predict the change in tide and turned up several months ahead of time.

I personally believe it is a pointless exercise to trade on news. On a day-to-day basis, I consider it to be just white noise, in the background, that is best ignored. People often email me asking me if I have changed my opinion on a certain stock or trend because Cramer or a talking head on NBC has voiced a certain opinion. Save for a few that you could count on one hand, there were no analysts in the mainstream media that successfully predicted what has happened the past few months. It boggles the mind why people continue to focus on and value their opinions. They are staunch bulls and will continue to be, if they want to remain on TV. One must keep in mind that their goal is not to provide successful stock predictions but rather to attract viewers. They attract viewers by making bullish predictions that offer potential for profit. They are inherently biased as people tend not to trade in bear markets. Their job is to convince you that a bull market is just in the offing and you are to invest your money or you will lose out on the imminent leg up. At times like these, they are there to reassure you that buy-and-hold is the best strategy. In my opinion, it is the worst strategy.

There are times where buy-and-hold is the ideal approach however those days ended over a year ago. We are not in a bull market anymore and the bear should be respected. All investments must be approached with caution. For the more complacent investors, that prefer buy-and-hold, there are still many months to wait about we receive any indication that all is clear. For now, we continue to track the short-term movements in the hunt for

clues of where this market is taking us.



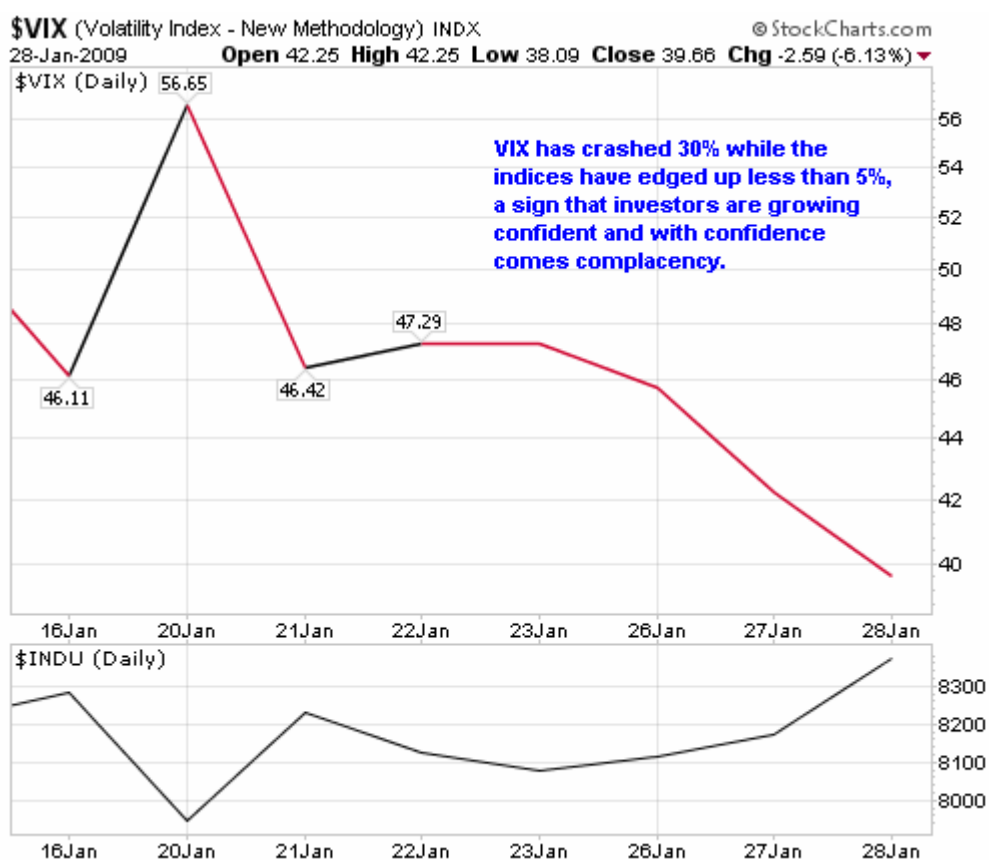
Since 2007 the indices have shaved off over 40%. Since the 1896, there have only been 8 declines exceeding 40% and this one has been, by the far, the fastest. The last such decline was seen in 1974 and it took twice as long to develop. This is the mother of all bear markets. It is the very definition of a bear with continued lower lows and lower highs and until that changes all trades must be considered short-term.

One of the simplest, but most important, indicators that recently been ignored, by many, is the 200day MVA. There has never been a bull market with the long-term moving averages pointing downwards. Today, even the shorter-term moving averages continue to point downwards and until that changes, it is a frivolous exercise attempting to guess a bottom. The bear market started with the moving averages curling down and will not end until the moving averages first flatten out. It will not happen for many months to come and until it does, we are nowhere near a bull market.

Although we do believe we may be at the beginning stages of a consolidation phase, a

phase that would eventually lead to a new bull market, the market will continue to be very volatile. This volatility will probably lead to a new low in 2009. What causes us concern is recent action or rather, the reaction to recent action.

One of the most successful approaches for profitable investing is to invest against the herd, as the herd is usually wrong. When everyone is super bullish about a certain asset class, you can rest assured that bull is near extinction and a bear is about to be born. We can further expand this to include fear in the markets. When investors are extremely fearful, it is usually the most opportune time to put your cash to work. One of the most successful indicators is investor sentiment. Simply put, when most advisors, investors and newsletter writers are recommending their clients pile in, it is time to exit your positions. My personal favorite indicator to employ is the VIX. It is a measure of investor fear and complacency in the markets. The recent action in the VIX has given us reason for concern.



In recent days we have noticed a remarkable trend with the VIX essentially crashing and losing a third of its value, while the indices edged up just a few percentage points. It conveys that investors are starting to grow extremely confident. Excess confidence is always a sign of weakness. The problems of last month have not disappeared and are just hiding around the corner, yet investors are starting to behave rather bullish.

It indicates that if the markets were to move up from here, the VIX would come crashing down, easily shaving off 50% of its value. It would bring the VIX back down to the high teens or low twenties. It means that the average person is starting to grow comfortable with the stock market again and fear is subsiding. Any sustained move up in the stock market from here would bring out everyone sitting on the sidelines and turn them into outright bulls. The talking heads on TV would have a ball and proclaim the death of the bear. Everyone will be screaming to buy. Greed will take over.

To us, it would be the most opportune moment to load up on short positions. The next move down in the market will come completely unexpected. Just as everyone rushes in, fearful of missing the leg up, the bear will once again assert its dominance and bring this market down.



Since the crash, the market has been consolidating, weaving back and forth, in our trading range. With time, we can notice that investors are becoming increasingly complacent as the VIX continues to get weaker. Any move back up to the top of the box will bring the VIX back down to the twenties, a point where short positions should be established.

The most recent action in the VIX has been foretelling but it is also of great interest to note that since the start of the year, indices have already lost 10% while the VIX is pretty much where it was when we entered 2009. Investors seem to no longer be concerned about a double digit decline in less than a month! Everyone will be in for a real shock if the markets do not provide the bull they are expecting.

The market could of course simply taper off here and break through the box on the downside. On such a breakdown, it is critical to observe the response of the VIX. We need

the VIX to have a strong response to the upside, to convey strong fear in the market. If we do breakdown and the VIX does not respond accordingly, we could be facing a more serious decline. Without fear, nothing is preventing this market from making new lows.

In past updates, we have mentioned the possibility of adding to our positions if we breakdown but recent action in the VIX has been conveying that investors are simply becoming too mellow and ignorant of the bear market that we are in. For a sustained move into the spring or the much lauded "Obama rally" we would need the markets to convey extreme fear if we do breakdown.

The response of the VIX to any movement outside of the box, up or down, will provide us with the information we need to assert where this market is headed. We should be prepared for either a complete market breakdown here or the possibility of establishing shorts a month or two down the road if it continues up.



The gold sector, as of late, has truly been performing above average. We see continued strength in terms of relative performance. Gold stocks have recently had several up days in the face of strong declines in the indices, an indication of some level of decoupling action taking place. The rise has been confined to a rising channel that has nearly doubled the HUI in the past three months. It is one of the few sectors where the 50-day MVA has curled up and may be crossing the 200-day MVA within a month.

Currently, the stocks appear to be consolidating with the Bollinger bands pinching. When

volatility is reduced and the spread between the bands decrease, it often foretells of an upcoming move. In this case, our bets would be a move towards the top of the trading channel, near the 400 level.



As it stands today, airlines continue to be the best performing sector in the stock market. In the past decade they have lost 95% of their value but the tide may finally be turning. They bottomed about 4 months before the general stock market, beating out even gold stocks, which managed to bottom about a month before the general indices. All these topics were covered in our recent airline sector report.

I recently heard an interview with Jim Rogers, the famed investor who once ran the Quantum fund with George Soros and called the bull market in commodities years before anyone had any interest. He seemed extremely bearish overall but stated that airlines are one of the very few things he is buying today. It is always a good thing to be on the side of one of the greatest investors of our time.

Most recently, airline stocks have been beaten down with weak earnings news but going forward, it is definitely a sector worth keeping an eye on.

Dan Smolski is a financial analyst the Smolski and editor of the Smolski Investment Newsletter. [smoletter@gmail.com](mailto:smoletter@gmail.com)

[\*\*Comment on Global Research Articles on our Facebook page\*\*](#)

[\*\*Become a Member of Global Research\*\*](#)

Articles by: [Daniel Smolski](#)

**Disclaimer:** The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: [publications@globalresearch.ca](mailto:publications@globalresearch.ca)

[www.globalresearch.ca](http://www.globalresearch.ca) contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: [publications@globalresearch.ca](mailto:publications@globalresearch.ca)