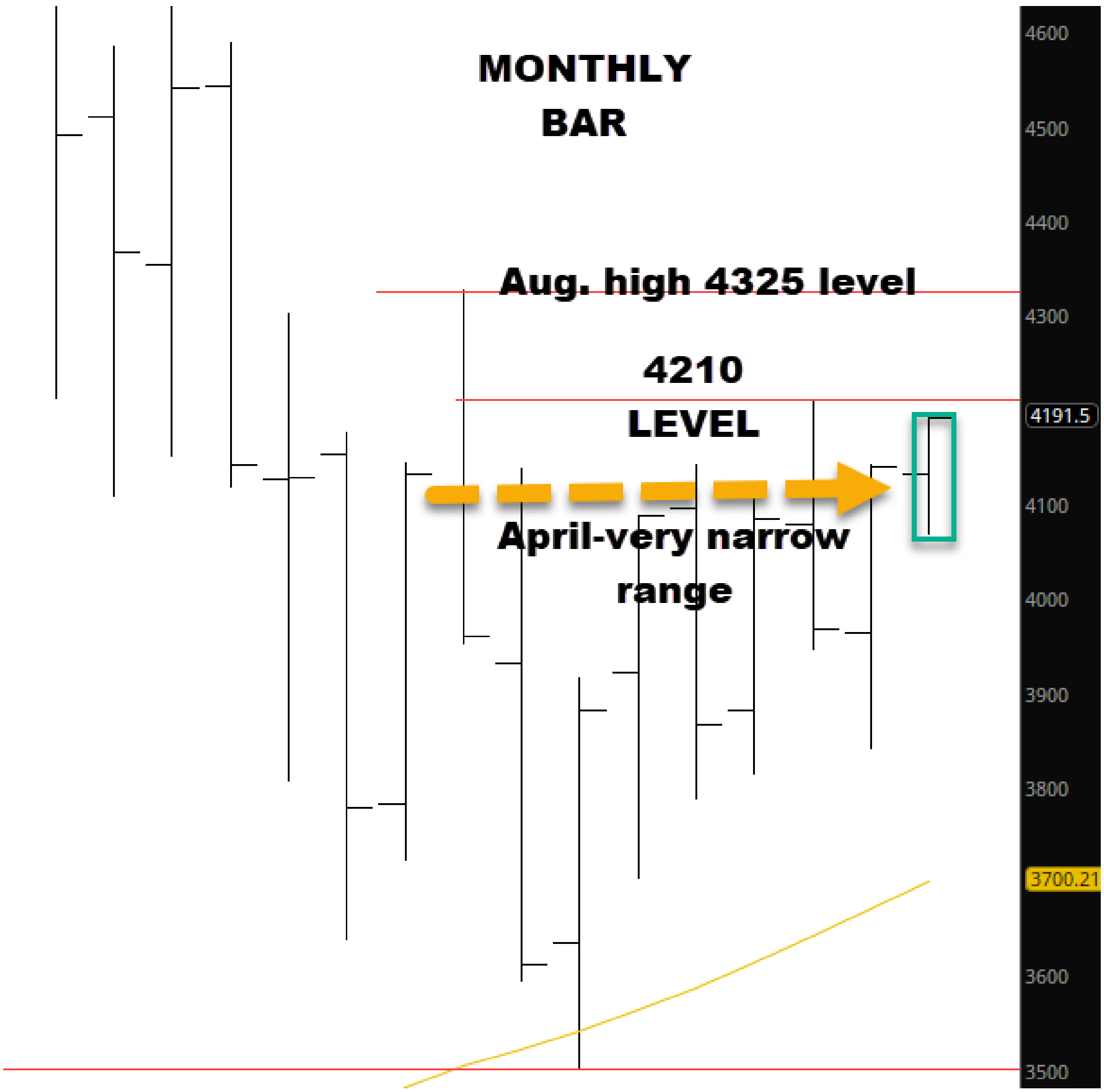
RECAP & PREPARATION REPORT FOR 05-01-2023

## THE STANDOFF CONTINUES – "SELL IN MAY AND GO AWAY"

Only one study was made arriving at this saying - the study is for the period May-October. There are other studies that found no seasonal patterns.



**BALANCE**

April was one of the smallest trading ranges we have experienced. I view April as I would balance. I would apply balance trading guidelines to April's range. The tighter the balance (range) the higher the odds for a dynamic breakout or failure.

1. Remain within balance; unlikely.
2. Breakout of balance to the upside.

   References:

   i. The February high at the 4210 level.

   ii. The August high at the 4325 level.
3. Breakout out of balance to the downside.

   References:

   i. 4100

   ii. The gap between approximately 4010 and 4032.

**THE POTENTIAL DYNAMICS OF AN UPSIDE BREAKOUT.**

The narrow April range is likely the result of two different perspectives.

1. Longer-term funds, both trading and investment, are anticipating a recession.
2. Short-term funds, which are mostly momentum orientated, are anticipating a strong market with the FOMC nearing the end of tightening.

The "pain trade": historically, many "traders" believe that markets trade to levels that will deliver the most pain to non-believers. The non-believers, in the current rally, are the longer-term money managers and larger hedge funds. Most reports that I have seen estimate that the longer-term managers are under-invested, holding large, fixed-income positions along with more defensive stocks. A continued equity advance would further pressure these managers to add equities. This would be like short covering as underinvested funds, in the institutional world, would begin to fall behind their peer group benchmarks. These managers are measured on relative performance (to their benchmarks) versus actual performance.

## POTENTIAL DYNAMICS OF A DOWNSIDE BREAKOUT

The underlying structure, practically based upon a series of weak and poor lower references, is as extreme as I can recall. Additionally, volume has not supported the advance.

The advance is momentum based with no excess or completion on the highs.

Additionally, the current rally high occurred during electronic trading hours. While there is no law that says this can't be the case, my observations, over many years, suggest that the odds are against lasting electronic highs.

## WEDNESDAY'S FOMC

The standoff between the shorter-term momentum traders and longer-term investment managers and larger hedge funds will be front and center on Wednesday afternoon as the FOMC announces their rate decision. The Chairman's press conference is likely to be more telling.

See below for thoughts on Monday's opening trade.


## SPIKE GUIDELINES

1. The base of the spike is support.
2. Opening within the spike shows acceptance of the spike.
3. The strongest opening occurs above the spike high. Prices had not gone high enough to cut off the buying.
4. The weakest opening occurs below the base of the spike. Price had gone high enough to cut off the buying.  The spike is a selling tail or excess.