

## The Importance Of Trading With The Trend

In light of the events, this week I'd like to re-iterate the importance of trading trend as it relates to the US equity markets. Since the meltdown is global, the same patterns apply to world indices. And, I encourage you to study them on your own. We'll get back to the basics next week.

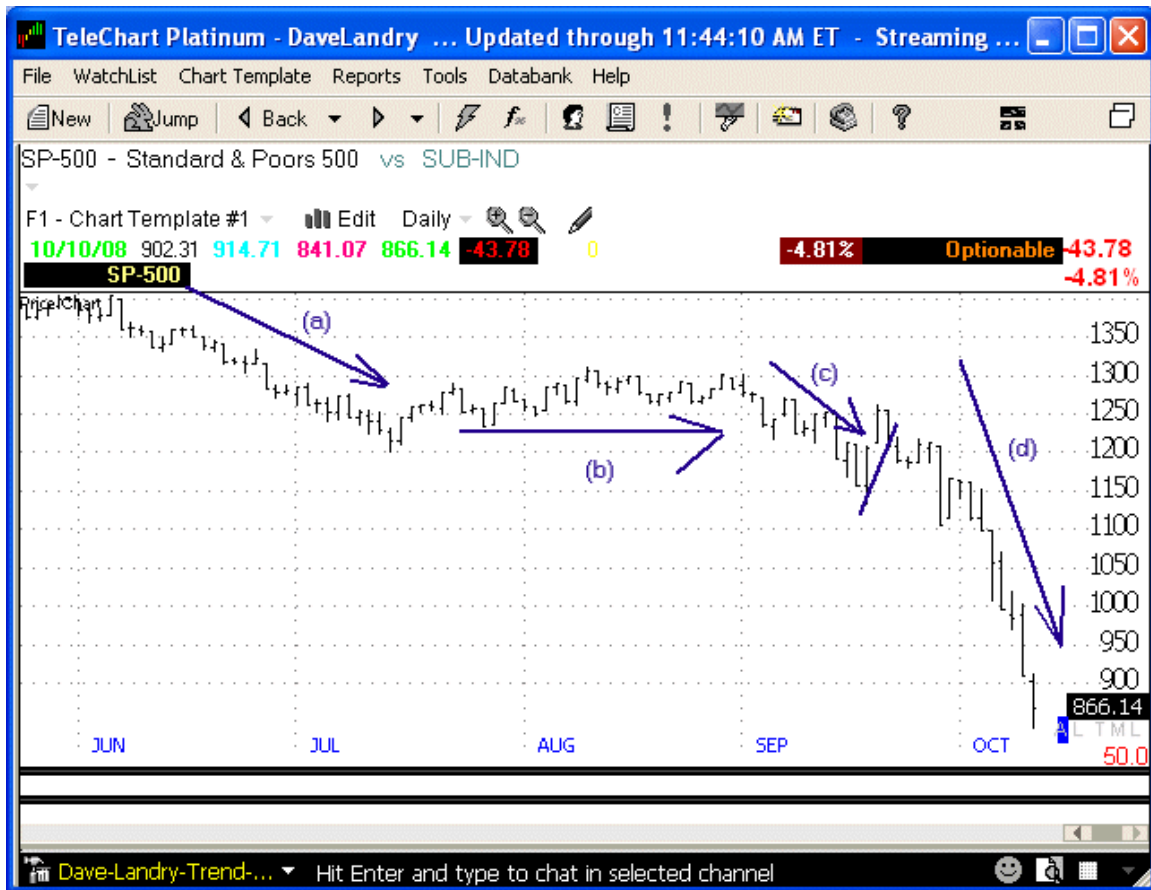
Several weeks ago, I talked about the importance of trading trend. I explained that a simple arrow is a great way to judge trend. Looking at the S&P, we see that from May 2008 to July 2008, the S&P was in a persistent downtrend (a). Then, after a sideways consolidation (b)—which is often typical for late summer trading, the trend resumes (c).



Looking to a weekly chart, we see that this trend is part of a longer-term downtrend.



At this juncture, many called for a bottom. This, obviously, was in spite of fact that the longer-term downtrend remained intact. Getting back to the daily chart, the market did rally—initially. However, notice that this rally quickly exhausted itself and the longer-term downtrend resumed (d). In fact, the market is on track to have its worst 30-day period since the 1930's.



As you can see, something as simple as drawing an arrow on a chart can be quite useful when determining trend. Further, more often than not, it's a bad idea to fight trends or try to pick bottoms.

Looking ahead, in coming weeks, we'll get back to basics. Once the basics are covered, I'll get into some of my specific patterns and how they relate to markets both past and present. To those who speak English, you might want to check out the webcasts on my website. If you have time, watch all the webcasts. This will give you a feel for how the patterns have worked (and not worked!) over the past few years.