



Market Observations - as of May 27, 2022

By Carl Jorgensen - For Objective Traders - For educational purposes only. Not Financial Advice.

Last week we saw a pause Monday followed by a mild rally Tuesday that failed to take out prior highs. Wednesday saw strong selling dominate all day. Thursday saw a pause followed by stronger selling the first half of Friday to new 2022 lows. We saw a pause for about 90 min. then a last hour violent rally to end the day near the prior day's close and down for the week.

This week we saw a mild rally resume Monday most of the day followed by a brief sharp selling for 90 min. early Tuesday before the slow rally resumed. Wednesday saw a bit of a pause then the slow rally resumed the latter half of the day. Thursday saw a much stronger display of the Bulls at the open that slowed but continued most all of the day. Friday saw another strong display by the Bulls at the open followed with a slow rally all day until a brief burst higher the last hour to end the week with several Bullish Confirmation signals seen late this week. We will look at these 'confirmation' signals in the charts below.

In a prior 'Market Observations' (April 29th) we described how Options market data can be used to show how Risk is being priced and where a 1-standard deviation move can be estimated a week in advance based upon how the Options Markets were pricing risk a week before expiration. This 1-standard deviation estimate is often called the 'Expected Move'.

A 1-standard deviation move is an estimate that suggests 68.27% of the time price would remain 'inside' this range and 31.7% of the time price would break 'outside' of this range. A 2-standard deviation move suggests 95.45% of the time price would remain 'Inside' and only about 4.55% of the time move 'Outside'. A 3-standard deviation move would suggest 99.73% of the time price would remain 'Inside' this range and only about 0.27% of the time price would move 'Outside' of this range.

After the close on May 20th, we noted that the SPX Options market was pricing the 'Expected Move' for the following week (May 27th expiration) at +/- \$124.25 from the May 20th close at \$3901.36. Doing the simple math we can see that the Options market suggested the Expected Move (1-standard deviation range) from \$3777.11 to \$4025.61 for the S&P the following week.

As this week's rally progressed, we saw the S&P break above this 'Expected Move' right after the open on Thursday this week. As the rally progressed Thursday and Friday, we saw the S&P approach its 2x Expected Move late Friday, and break above that level (\$4149.86) briefly about 30 min before the close and then again price broke above and remained above the last 5 min. of Friday's session to end the week 'Above' the 2-standard deviation Expected Move.

So far in 2022 we have seen 7 weeks that closed 'Outside' the weekly 'Expected Move' (1-standard deviation), one week closed Outside (Above) the 2x E.M. (May 27th) and one week closed Outside (Below) the 3x E.M. (Jan. 21st). This is one way to identify 'extreme' moves in the markets when the Options Markets significantly under-price 'actual' risk.

There is a long running esoteric argument regarding how often large market moves occur (aka 'Fat Tails') in the markets where moves larger than 2 or 3 standard deviations occur far more often than the

natural probabilities suggest, and occur more often to the bear side than the bull side of the 'normal distribution' curve. We will leave that argument for others to debate. What is important to understand is that the Options Markets are just 'estimations' derived from the Option Market Participants and the supply and demand they represent. Using the 'Expected Move' as a tool to help indicate relative moves in the markets gives us a way to observe price behavior as it approaches these key levels, similar to how we watch price behavior as it approaches a key Simple Moving Average. The indicator is not a prediction but simply a sign post that can help us observe price movement relative to that sign post.

Oil continued to rally this week as Gold seemed to pause. The US Dollar continued to weaken some more this week as the 10 year Yields also drifted lower.

The VVIX could be suggesting some clues that we will look at below.

Let's look at the charts to see what they are telling us this week as it appears that trends may have changed.



S&P 500 weekly chart as of May 27, 2022 - We see 7 declining weeks in a row with this week breaking that trend with a change into a strong rally week.



S&P 500 daily chart as of May 27, 2022 - Here we see a downward sloping Resistance Trend Line (Yellow line) drawn between the May 4th highs and the May 17th highs. The S&P briefly broke above this Trend Line on Wednesday, crossed above its 20 day SMA on Thursday, and broke above its prior highs from May 17th on Friday (Orange line) to provide 3 pieces of evidence that can be seen as a 'confirmation' of a change of trend. The S&P ended this week up +6.58%.



S&P 500 15 min. chart as of May 27, 2022 - Here we see a mild rally Monday that failed to reach the May Trend Line Resistance (Yellow line). A brief pull back the first 90 min of Tuesday before the rally resumed from this 'higher low' (when comparing the lows of last Friday to the lows on Tuesday - as this too can be seen as a form of confirmation that the Bulls are getting stronger or the Bears weaker). Wednesday saw a test of the Trend Line as Resistance early in the day, then broke above this Trend Line in the last 2 hours of the session. Thursday saw a strong open that crossed above its 'Expected Move' and its 20 day SMA. Friday saw another strong open that broke above the prior week's highs (Orange line) and continued to rally, crossing above its 2-standard deviation level in the last half hour.



DJIA weekly chart as of May 27, 2022 - We see 8 declining weeks in a row with a change this week to a strong rally week that recovered the losses from the prior 3 weeks.



DJIA daily chart as of May 27, 2022 - Here we see a rally every day this week that began slowly and accelerated as the week progressed, crossing above its 20 day SMA on Thursday and exceeding its prior week's highs on Friday, ending the week up +6.24%.



NASDAQ weekly chart as of May 27, 2022 - We see 7 declining weeks in a row followed by a strong rally week this week.



NASDAQ daily chart as of May 27, 2022 - We saw a mild rally Monday that was given back on Tuesday. Wednesday saw the rally begin slowly and accelerate Thursday and Friday, ending the week up +6.84%.



Russell 2000 weekly chart as of May 27, 2022 - We saw 7 down weeks and one pause week over the prior 8 weeks, followed by a rally week this week that has recovered losses from the prior 3 weeks. The 200 week SMA (Purple) seems to have provided some support this week and the prior 2 weeks.



Russell 2000 daily chart as of May 27, 2022 - Here we see a mild rally Monday, pull back Tuesday, then a consistently strong rally the last 3 days of this week, crossing above its 20 day SMA on Thursday and continued higher Friday to end the week up +6.46%.

Next we will look at a few key 'Market Internals' to help observe the overall breadth of the markets.



McClellan Summation Index weekly chart as of May 27, 2022 - Last week we saw a pause with little change to end the week at -846.84 with new 2-year lows. This week we saw a rally up to -573.16 as we saw one of the strongest positive momentum weeks in about a year.



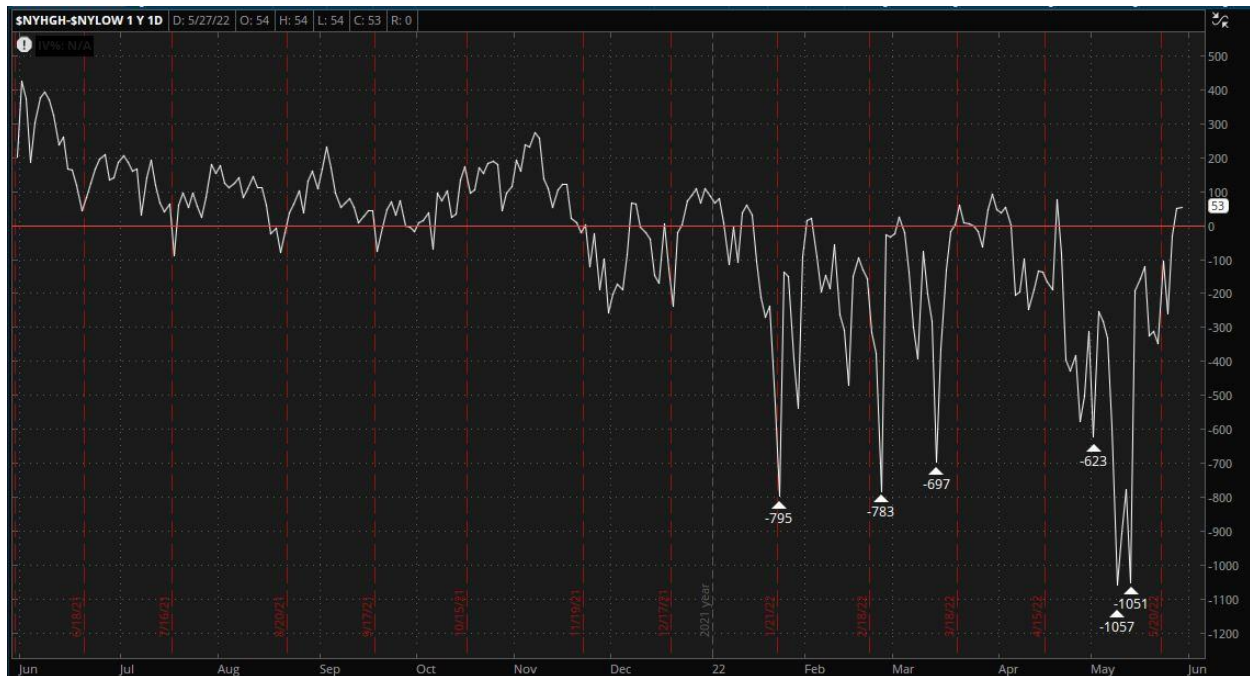
McClellan Summation Index daily chart as of May 27, 2022 - Last week we saw a mostly horizontal pause in market Breadth. This week we saw a rally start slowly then accelerate during the week to end the week at -573.16.



NYSE Percent above 200 day SMA daily chart as of May 27, 2022 - Last week we saw a rally up to 28% that failed and pulled back to end last week with a small decline down to 24.12%. This week saw a mild rally that accelerated during the week to end the week with 32.95% of NYSE stocks now above their 200 day SMAs.



NYSE Percent above 50 day SMA daily chart as of May 27, 2022 - Last week saw a bounce up to 26% that failed and pulled back to end the week at 17.81%. This week saw a mild rally that accelerated later in the week to end this week at 44.44% of NYSE stocks now above their 50 day SMAs.



NYSE New Highs minus New Lows daily chart as of May 27, 2022 - In mid May we saw a pair of dips down below -1000 in this breadth study. Last week we saw the difference remain negative in the -120 to -350 range. This week we saw a rally that delivered a -31 value on Wednesday followed by Positive values on both Thursday (+51) and Friday (+53). Note the Bull Trend in 2021 where the NH-NL line is more often a positive value as compared to the Bear Trend so far in 2022 where the NH-NL has mostly been negative. We have seen several brief breaks to the positive side in 2022 that have not lasted. In time we will see if this week's break into positive values lasts, or not.



VIX weekly chart as of May 27, 2022 - Note how the VIX has been mostly above 20 so far in 2022 while it was more often below 20 in the last 3 quarters of 2021.



VIX daily chart as of May 27, 2022 - Last week we saw new 2022 lows and new 52 week lows in the S&P but we did NOT see a new 2022 high in the VIX. In fact we only saw a brief pop up to 33 which was the lowest peak seen in 2022. It seems like the Options market has become used to this 'elevated' market uncertainty. We did see the VIX drift lower this week, mostly Wed. Thur. and Friday as the markets saw a broad rally. This is more like 'normal' VIX behavior this week as compared to last week's failure to spike to a new high.



VVIX weekly chart as of May 27, 2022 - We saw new lows in the VVIX this week, lows not seen since Jan and early Feb. of 2020. Prior to Feb. 2020 we often saw the VVIX below the 112 level showing us 'complacency' with little 'uncertainty' seen in the Options markets. That changed in late Feb. 2020 to a market that showed elevated 'uncertainty' with the VVIX remaining above 112 more often.



VVIX daily chart as of May 27, 2022 - The VVIX declined this week to new 2-year lows on both Thursday and Friday. This seems to confirm what we saw in the VIX last week with a lower high that continued lower this week. Has the Options market moved to a more 'complacent' mood? Time will tell.

Next we will look at a few key Commodities, Currency and Treasuries.



Oil daily chart as of May 27, 2022 - Oil stayed in a narrow range the first 3 days of this week then rallied higher on Thursday and Friday nearing a retest of its May highs.



Gold daily chart as of May 27, 2022 - Gold prices drifted a little higher on Monday and Tuesday, then pulled back to retest support at its 200 day SMA and closed near its 20 day SMA on Wednesday. Thursday saw an 'Inside Day' followed by a very small rally on Friday.



US Dollar Index daily chart as of May 27, 2022 - The US Dollar weakened significantly on Monday then remained in a lower range the next 3 days with another smaller decline on Friday.



US 10 year Treasury daily chart as of May 27, 2022 - The 10 year saw strong buying volume on Tuesday and Wednesday, and then sold off just a little bit on Thursday and Friday.



US 10 year Yield daily chart as of May 27, 2022 - The 10 year Yield rate paused Monday then dropped Tuesday and a bit more Wednesday as the Bonds were bought up with volume. We see a pause Thursday and Friday in the Yield rate.

Date	1 Mo	2 Mo	3 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
05/02/2022	0.41	0.71	0.90	1.49	2.10	2.73	2.93	3.01	3.04	2.99	3.26	3.07
05/03/2022	0.48	0.77	0.91	1.45	2.16	2.78	2.95	3.01	3.03	2.97	3.21	3.03
05/04/2022	0.49	0.74	0.89	1.44	2.07	2.66	2.85	2.93	2.97	2.93	3.21	3.01
05/05/2022	0.49	0.71	0.85	1.37	2.08	2.71	2.91	3.01	3.07	3.05	3.35	3.15
05/06/2022	0.48	0.72	0.85	1.41	2.08	2.72	2.94	3.06	3.13	3.12	3.43	3.23
05/09/2022	0.51	0.73	0.92	1.43	1.99	2.61	2.81	2.95	3.04	3.05	3.38	3.19
05/10/2022	0.57	0.75	0.89	1.44	2.01	2.62	2.81	2.91	2.99	2.99	3.31	3.12
05/11/2022	0.59	0.77	0.91	1.43	1.99	2.66	2.81	2.89	2.94	2.91	3.25	3.05
05/12/2022	0.61	0.77	0.96	1.44	1.96	2.56	2.73	2.81	2.86	2.84	3.22	3.00
05/13/2022	0.67	0.79	1.03	1.47	2.04	2.61	2.79	2.89	2.95	2.93	3.32	3.10
05/16/2022	0.64	0.85	1.07	1.54	2.07	2.58	2.75	2.83	2.89	2.88	3.30	3.09
05/17/2022	0.61	0.85	1.06	1.57	2.16	2.71	2.89	2.96	3.00	2.98	3.36	3.17
05/18/2022	0.56	0.85	1.03	1.56	2.16	2.68	2.84	2.89	2.91	2.89	3.24	3.07
05/19/2022	0.65	0.91	1.05	1.52	2.11	2.63	2.78	2.84	2.87	2.84	3.24	3.05
05/20/2022	0.63	0.87	1.03	1.51	2.07	2.60	2.73	2.80	2.82	2.78	3.17	2.99
05/23/2022	0.55	0.90	1.07	1.57	2.09	2.65	2.80	2.88	2.90	2.86	3.26	3.08
05/24/2022	0.55	0.88	1.06	1.53	2.02	2.50	2.66	2.76	2.80	2.76	3.16	2.98
05/25/2022	0.58	0.88	1.06	1.52	2.01	2.48	2.63	2.71	2.76	2.75	3.14	2.97
05/26/2022	0.71	0.90	1.07	1.52	1.99	2.46	2.63	2.70	2.75	2.75	3.18	2.99
05/27/2022	0.69	0.91	1.08	1.54	2.01	2.47	2.64	2.71	2.76	2.74	3.16	2.97

US Yield Rates daily chart as of May 27, 2022 - We see some mild oscillations in the longer terms this week while the shorter terms rose a little.



FOMC Balance Sheet weekly chart as of May 25, 2022 - The Fed actually reduced its Balance Sheet this week from \$8.945898 Trillion to \$8.914281 Trillion that is a reduction of \$31.617 Billion. That does not make a big difference in the Total Assets, but it is finally showing that the Fed is 'reducing' the total stimulus.

Next we will look at a few key Sectors.



Dow Transportation Index daily chart as of May 27, 2022 - We saw a mild rally Monday, a pullback Tuesday and rally resumed Wed. Thur. and Friday to end the week above its 20 day SMA, up +7.07% for the week.



XLE daily chart as of May 27, 2022 - The Energy sector rallied every day this week, delivering new 52 wk highs every day this week except on Monday. The XLE ended the week up +8.27.



XLF daily chart as of May 27, 2022 - After delivering new 52 week lows last Friday, we see a rally to higher highs every day this week but on Tuesday. Wednesday crossed above its 20 day SMA. We saw opening gaps higher on Thursday and Friday ending the week up +8.05%.



QQQ daily chart as of May 27, 2022 - The Nasdaq-100 ETF saw a mile rally Monday, a pullback Tuesday, then a rally back up to its May Trend Line resistance. Thursday saw a strong rally day with a gap up Friday above its 20 day SMA and crossing above last week's highs to end the week up +7.07%.



QQQ 15 min. chart as of May 27, 2022 - Here we can see the May Trend Line Resistance (Yellow line) that was broken briefly late on Wednesday, with Thursday's open at the same Trend Line. Friday's opening gap leaped above the 20 day SMA and reached last week's highs (Orange line) where it paused for most of the day. A rally the last 2 hours broke above last week's highs.



SOXX daily chart as of May 27, 2022 - Monday saw a narrow 'Inside Day' followed by a decline on Tuesday. Wednesday saw a mild rally that failed to reach its 20 day SMA. Thursday saw a strong rally above its 20 day SMA and its April-May Resistance Trend Line (Green line). Friday gapped higher and closed the day nearly on the 50 day SMA, up +7.91% for the week.



XLC daily chart as of May 27, 2022 - The Communication Services sector failed to rally to its 20 day SMA on Monday, gapped down on Tuesday to new 52 week lows. The rally began Wednesday, continued Thursday up to its 20 day SMA, and continued Friday to end the week up +3.79%.



XME daily chart as of May 27, 2022 - The Metals and Mining sector paused the prior two weeks after testing support at its 200 day SMA. Monday nearly rallied to its 20 day SMA but failed to reach it. Tuesday pulled back some and Wednesday rallied to end the day 2 cents below its 20 day SMA. Thursday opened above its 20 day SMA and saw a very strong rally on big volume. Friday saw a mild continuation higher to end the week up +9.95%.

<i>INDEXes</i>	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending
<i>SECTORs</i>	4/14/2022	4/22/2022	4/29/2022	5/6/2022	5/13/2022	5/20/2022	5/27/2022
\$SPX	-2.13%	-2.75%	-3.27%	-0.21%	-2.41%	-3.05%	6.58%
\$INDU	-0.78%	-1.86%	-2.47%	-0.24%	-2.14%	-2.90%	6.24%
\$COMPQ	-2.63%	-3.83%	-3.93%	-1.54%	-2.80%	-3.82%	6.84%
\$RUT	0.52%	-3.21%	-3.95%	-1.32%	-2.55%	-1.08%	6.46%
QQQ	-3.07%	-3.85%	-3.73%	-1.28%	-2.36%	-4.39%	7.07%
\$TRAN	2.58%	1.50%	-1.34%	0.24%	-2.98%	-6.68%	7.07%
XLE	0.40%	-4.57%	-1.38%	10.34%	-2.58%	1.23%	8.27%
XLF	-2.64%	-1.95%	-4.59%	0.67%	-3.48%	-1.82%	8.05%
XLK	-3.79%	-2.43%	-1.16%	-0.60%	-3.35%	-3.53%	7.94%
SOXX	-3.01%	-1.28%	-2.38%	2.08%	-0.39%	-2.59%	7.91%
XLV	-2.93%	-3.58%	-2.53%	-0.39%	-0.91%	0.92%	3.27%
XLY	-0.60%	-1.45%	-7.36%	-2.90%	-3.69%	-7.82%	9.51%
XRT	0.79%	-4.50%	-3.79%	-1.17%	-2.49%	-9.44%	10.08%
XLI	0.34%	-1.51%	-3.34%	0.40%	-2.53%	-3.61%	6.39%
XLU	-1.13%	-2.42%	-4.03%	1.33%	-1.08%	0.43%	5.06%
XME	7.30%	-11.28%	-3.78%	-3.65%	-7.18%	0.58%	9.95%
XLP	0.15%	0.51%	-2.02%	-1.18%	0.30%	-8.12%	6.08%
XLB	0.66%	-3.73%	-0.83%	-0.59%	-2.41%	-0.08%	5.99%
XLC	-2.35%	-7.76%	-3.69%	0.52%	-0.61%	-1.68%	3.79%
XHB	-0.03%	-0.18%	-0.08%	0.11%	-0.10%	-3.56%	6.94%

Weekly Percent Change US Indexes and Sectors table as of May 27, 2022 - Note how all of the 4 major Indexes were up by over +6% this week with the NASDAQ the strongest gain for the week, after 6 weeks of mostly negative weekly losses.

The strongest sectors this week were: XRT, XME, XLY, XLE and XLF who all delivered over +8% this week. The XLK and SOXX put in a respectable 7.9% or better this week too.

The weakest sectors this week were: XLV and XLC with less than +4% (if you were to call that weak). No Sector on my list delivered a loss this week.

Out of the 18 Sectors I track, you can see how they reflect the market's daily changes in overall Breadth by counting the number of sectors at the end of each day that are closing the day 'Up' or 'Down'.

	<u>UP</u>	<u>DOWN</u>
Monday:	17	1
Tuesday:	5	13
Wednesday:	16	2
Thursday:	18	0
Friday:	18	0

Note this strength shown on Thursday and Friday this week with all sectors up for each day.

	Mon	Tue	Wed	Thur	Fri	Mon	Tue	Wed	Thur	Fri
INDEXes	End of Day	End of Day	End of Day	End of Day	End of Day	End of Day	End of Day	End of Day	End of Day	End of Day
SECTORs	05/16/22	05/17/22	05/18/22	05/19/22	05/20/22	05/23/22	05/24/22	05/25/22	05/26/22	05/27/22
\$SPX	-0.39%	2.02%	-4.04%	-0.58%	0.02%	1.86%	-0.81%	0.95%	1.99%	2.47%
\$INDU	0.08%	1.34%	-3.57%	-0.75%	0.03%	1.98%	0.15%	0.60%	1.61%	1.76%
\$COMPQ	-1.20%	2.76%	-4.73%	-0.26%	-0.30%	1.59%	-2.35%	1.51%	2.68%	3.33%
\$RUT	-0.52%	3.19%	-3.56%	0.08%	-0.17%	1.10%	-1.56%	1.49%	2.17%	2.70%
QQQ	-1.16%	2.59%	-4.91%	-0.54%	-0.31%	1.66%	-2.13%	1.40%	2.77%	3.26%
\$TRAN	-0.84%	3.16%	-7.41%	-1.84%	0.38%	1.97%	-1.30%	1.21%	2.90%	2.14%

Daily Percent Change US Indexes table as of May 27, 2022 - Note how the Dow Industrials were the strongest Indexes on my list on Monday and Tuesday, then switched to the weakest the next 3 days as the big tech rally kicked into gear. The Nasdaq composite showed weakness Tuesday then found its leadership on Wed. and Friday. Thursday saw the Transports shine briefly. Note also that we only see negative days this week on Tuesday, where all the other 4 days this week were positive.

Next we will look at a few key Stocks. We will start with the biggest 7 names, then follow up on most of the stocks we looked at last week.



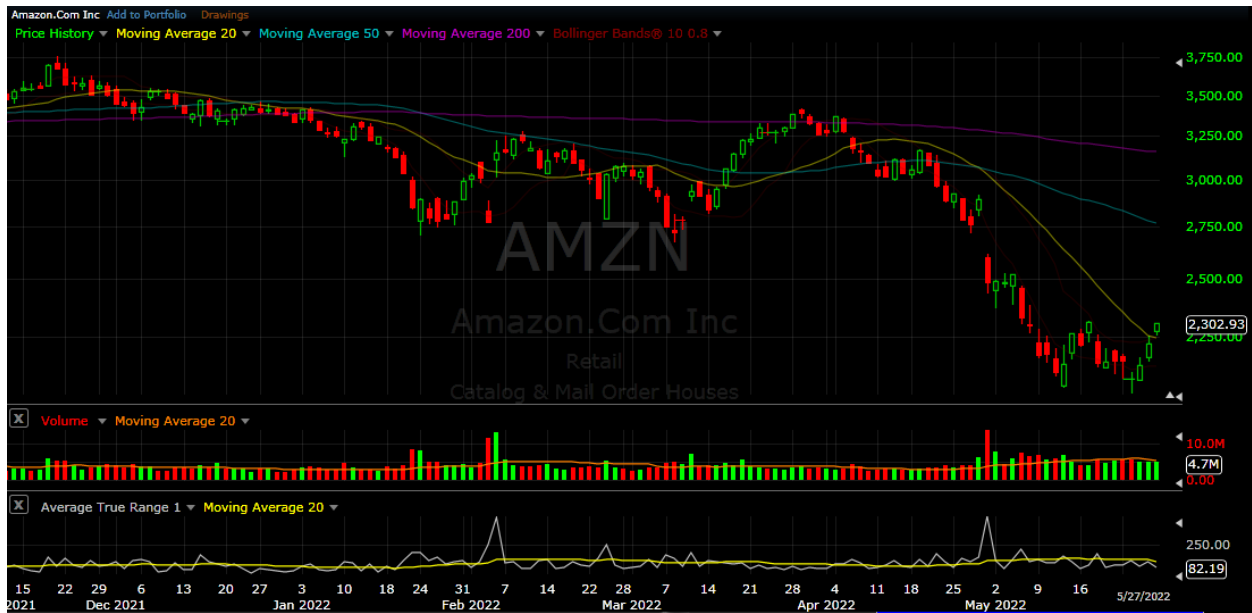
AAPL daily chart as of May 27, 2022 - Apple saw a rally Monday but then pulled back and remained range bound Tuesday and Wednesday. Thursday saw a large range day that continued higher Friday, crossing above its 20 day SMA on light volume. Apple ended the week up +8.76% with most all of those gains coming in on the last 2 days. Note the 'below' average daily volume each day this week except on Monday.



MSFT daily chart as of May 27, 2022 - Microsoft remained range bound Monday and Tuesday, then slowly rallied the last 3 days of this week, gapping above its 20 day SMA at Fridays open and ending the week up +8.19%. Note the below average daily volume we saw each day this week.



GOOGL daily chart as of May 27, 2022 - Alphabet saw an 'Inside day' on Monday followed by a big gap down on Tuesday and pause Wednesday. Thursday and Friday saw a rally to more than fill the gap and end the week up +3.13%. Alphabet remains below all 3 of its key SMAs.



AMZN daily chart as of May 27, 2022 - Amazon saw a small decline Monday then a gap down Tuesday to new 52 week lows. We saw a rally the last 3 days of this week, gapping above its 20 day SMA at Friday's open and ending the week up +7.02%. We saw below average daily volume every day this week.



TSLA daily chart as of May 27, 2022 - Tesla saw an 'Inside day' on Monday followed by continued selling Tuesday to new 2022 lows. We saw a rally begin Wednesday and continue Thursday and Friday to nearly reach its 20 day SMA, ending the week up +14.42 and recovering nearly all of the prior week's losses.



FB daily chart as of May 27, 2022 - Monday was an 'Inside day' followed by a large gap down on Tuesday. A rally began slowly Wednesday and grew stronger Thursday. Friday saw a smaller gain that failed to reach the 20 day SMA and ended the week up +0.82%. Note the below average daily volume every day this week except on Tuesday.



NVDA daily chart as of May 27, 2022 - Nvidia saw a pause near the 2022 lows leading up to Earnings on Wednesday after the close. NVDA dipped to \$152.2 in afterhours trading but then rallied back up to where it was just before Earnings in the first minutes of trading on Thursday. Thursday saw a strong rally above its 20 day SMA that gapped up higher Friday to end the week up +12.68%. We saw very strong volume the last 3 days of this week.

Out of the 7 biggest names above, how many have yet to cross above their 20 day SMA?



JPM daily chart as of May 27, 2022 - JP Morgan delivered a new 52 week low on last Friday. Monday we saw a gap up and rally above its 20 day SMA on very strong volume that continued higher every day this week, crossing above its 50 day SMA on Thursday. Friday again delivered a higher high and higher low to end the week up +11.87%. JPM has not only delivered new highs for May, but has also recovered over half of its losses seen in April and did all of this in 1 week right after delivering a new 52 week low.



HD daily chart as of May 27, 2022 - Home Depot continued to pause near its 2022 lows on Monday and Tuesday this week. Wednesday saw a rally nearly to its 20 day SMA. Thursday gapped above its 20 day SMA and continued higher to touch its 50 day SMA. Friday saw the rally continued above its 50 day SMA to end this week up +7.41%.



COST daily chart as of May 27, 2022 - Costco fell hard most of May and delivered new 2022 lows last Friday. Costco rallied every day this week, with the strongest rally day being on Thursday right before reporting Earnings after the close. Costco continued higher Friday to end the week up +13.05%.



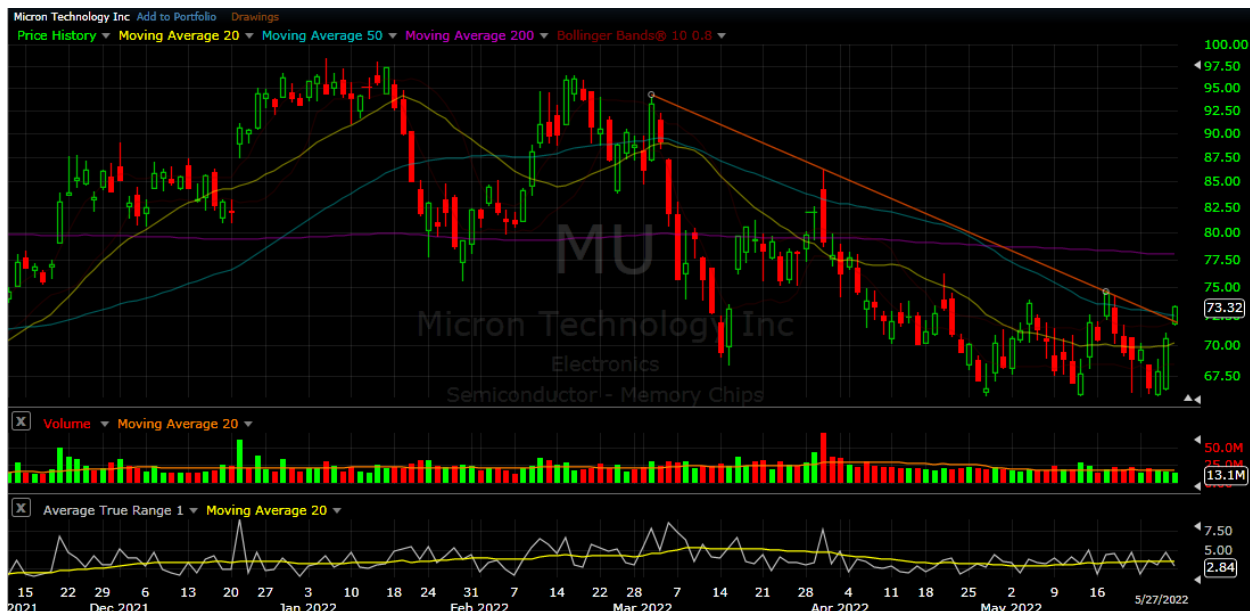
WMT daily chart as of May 27, 2022 - Walmart reported Earnings last week with a very negative reaction that ended last Friday with new 52 week lows. We saw a rally every day this week except on Wednesday that only recovered about 1/3 of last week's decline. WMT ended this week up +7.79.



SLB daily chart as of May 27, 2022 - Schlumberger has been in a non-trending range for over two months and broke above that range (Orange line Resistance) on Wednesday and continued higher Thursday and Friday to deliver new 3-year highs on Thursday and Friday, ending this week up +17.24%.



AMD daily chart as of May 27, 2022 - AMD saw a failed rally Monday, sold lower Tuesday to find support and Rally Wednesday off of higher lows. Thursday saw a large range rally day above its 20 day SMA and tested its 50 day SMA. Friday saw gap above its 50 day SMA to end the week up +9.37%.



MU daily chart as of May 27, 2022 - Micron has been below its 50 day SMA and its 3-month Trend Line Resistance (Orange line) for most of the past 3 months. This week saw MU drop Tuesday and Wednesday to again test support from its 2022 lows. Thursday saw a strong rally above its 20 day SMA then a gap up Friday above its 3-month Trend Line and its 50 day SMA, ending the week up +6.42%.

With most all sector up this week, how do we identify the leaders? One way is the biggest gaining sectors. Another way is identifying those stocks that have crossed above their 20 day SMA or their 50 day SMA, or Both this week. As you can see from the above charts and tables, 'prior leaders' often return as 'new leaders' when markets change character.

We identified four types of 'Confirmation' for a change of trend this week with examples in several charts above. With more confirmation evidence observed, the odds improve that indeed there has been a change in trend from bearish to bullish. HOWEVER, do not think that this bullish trend will continued after the Memorial Day Holiday. EVERY Possibility still remains for the Bulls, the Bears, or a Pause in trend for next week so we prepare for all three scenarios. Even with more confirmation and odds shifting to favor the Bulls, the odds for the Bears never goes to zero. Anything can still happen. We have seen many examples over the years where some surprise event or announcement comes out that can change the markets' behavior in an instant.

As traders, we pay attention to the odds, since we use probabilities to our advantage where we can. HOWEVER, we must never forget to MANGAGE RISKS since we can still be wrong even when the odds are very very small against us. We saw an example of fact on Jan 21 this year when the S&P closed the week below a negative 3-standard deviation move with the normal distribution odd of less than 0.27%.

Knowing these trade-offs, we choose to only trade when the odds are in our favor, while at the same time NEVER failing to manage risks in order to keep losses small on every trade. Hope this helps.

Trade Smart,

CJ