



## Market Observations - as of Oct. 21, 2022

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

Last week we saw the decline continue lower Monday and Tuesday then pause on Wednesday before CPI data was released early Thursday morning. We saw a large drop as CPI data came out the hour before the open on Thursday. At Thursday's open we saw a brief pause in the decline then a large rally began about 15 minutes into the session. The large one day rally last Thursday was reversed Friday as all of those gains were returned to end the week near where the indexes ended on Wednesday, the day before the CPI data came out, negating those brief one day reactions.

This week began with a big gap up Monday that did not see much follow through higher and mostly paused that day near the prior Thursday's close. Tuesday saw another big gap up that immediately sold off to nearly fill that day's gap in the first 2 hours of the session. A smaller bounce mid day failed and retested support before a smaller bound was seen the last 45 min. of Tuesday's session. Wednesday drifted lower with both a lower low and lower high than the prior day. Thursday saw a brief 45 min failed rally at the open that was sold off to deliver lower lows by the end of the day. Friday saw a fast rally the first 30 min of the day that pulled back to Wednesday's lows before resuming the rally the rest of the day to nearly reach its highs from Tuesday. By the end of Friday, only the Dow Industrials were able to deliver a new high for the week.

Friday did see some strong advances this week, but those were not as large as what was seen on Monday of this week. As we have seen in this volatile market, a one day rally can be large, but it often fails to continue. Monday this week was a clear example of this volatility. Friday could be the beginning of a new rally and bull trend, but it is also just as likely (if not more likely) to be another failed attempt at a rally where we wait a few days for the lower lows to confirm it as a failure. Remember the rally we saw the first week of Oct. that reversed on Friday (Oct. 7), and it was the following Monday (Oct. 10) before we saw confirmation with 'Lower Lows'.

The S&P ended this week above its weekly Expected Move, again showing us that Options have underpriced actual risk. The weekly Expected Move represents how the Options market is pricing a one standard deviation move in the underlying stock, or in this case, the S&P-500. If Options were perfectly pricing risk, then the S&P's weekly moves would be within the Expected Move 68.27% of the time over the year and outside of this range 31.73% of the time. However, what we have seen so far this year is that the S&P has ended 19 out of 42 weeks 'Outside' the Expected Move. This represents 45.24% of the time being outside the E.M. which is well above 31.7%. This indicates that the Options on the S&P have more often 'Under Priced' actual risk. In fact, we have seen 4 weeks this year where the S&P ended the week outside 2x (twice) its Expected Move, and one week we saw the S&P end the week outside 3x (Three times) its Expected Move. This is all evidence that Options are under pricing actual risk. This 'Under pricing' gives an advantage to Options Buyers and a disadvantage to Options Sellers focusing on collecting premiums for the risk they are taking on.

Earnings season continues to ramp up with many companies beating their lowered expectations. However, market reactions seem to more reflect the mood of the mob than the actual Earnings numbers and forward guidance. This next week is a big Earnings week with names like: MSFT, GOOGL, AAPL, AMZN, META, HAL, CAT, X and many others scheduled to report.

Let's look at the charts to see what they are telling us.



S&P 500 weekly chart as of Oct 21, 2022 - We see a positive move this week after the test of the 200 week SMA support the prior weeks. The highs this week did not exceed the prior highs from the first week of October.



S&P 500 daily chart as of Oct 21, 2022 - Monday and Tuesday saw a rally that reversed and drifted lower Wednesday and Thursday below its 20d SMA. Friday saw a rally above its 20d SMA that did not exceed the highs from Tuesday this week. The S&P ended this week up +4.74%.

NOTE: how the S&P has remained mostly within a range from 3600 to 3800 for one full month, and the rally this Friday failed to break out of this range. The Trend Line Resistance (Green line) also has yet to be broken. The S&P needs to break above its Oct. highs and this range (>3800) in order to show significant bullish strength.



S&P 500 15 min. chart as of Oct 21, 2022 - Here we see the gap up and pause Monday that tested the 20 day SMA as Resistance. Tuesday saw a gap up and immediate selling for 2 hrs to nearly fill that day's gap. The bounces mid day and late day were smaller than the opening highs that day. Wednesday saw a brief failed rally that reversed in the first hour to sell back down to its 20 day SMA support. Thursday saw a failed rally that did not reach the Tuesday highs and sold off most of the day to lower lows than seen the prior day. Friday saw a brief rally, pull back, then the rally resumed the rest of the day to nearly reach Tuesday's highs.



DJIA weekly chart as of Oct 21, 2022 - After several weeks below the 200 week SMA the Industrials broke above the 200 week SMA and nearly rallied to its 20 week SMA this week.



DJIA daily chart as of Oct 21, 2022 - The Industrials crossed above its Resistance Trend Line (Green line) on Monday and continued higher Tuesday before drifting a little lower on Wednesday and Thursday. Friday saw a strong rally up to its 50 day SMA, ending the week up +4.89%.



Nasdaq weekly chart as of Oct 21, 2022 - The Nasdaq composite delivered new 52 week lows last week then bounced this week while remaining below its 200 week SMA all this month.



Nasdaq daily chart as of Oct 21, 2022 - Monday gapped up but failed to exceed the prior week's highs. Tuesday gapped above its 20 day SMA at the open then pulled back to close back below its 20 day SMA. Wednesday and Thursday drifted a little lower while below its 20 day SMA. Friday saw a rally above its 20 day SMA to its Resistance Trend Line (Green line) but failed to exceed Tuesday's highs. The Nasdaq ended this week up +5.22%.



Russell 2000 weekly chart as of Oct 21, 2022 - The Russell tested its 2022 lows in October then rallied this week. The Russell remains below all of its key weekly SMAs.



Russell 2000 daily chart as of Oct 21, 2022 - The rally Monday crossed above its 20 day SMA but failed to exceed the prior week's highs. Tuesday saw a gap up and selling most of the day. Wednesday and Thursday drifted lower back below its 20 day SMA. Friday saw a rally above its 20 day SMA that failed to retest the highs from Tuesday. The Russell ended the week up +3.56%.

Next we will look at a few key 'Market Internals'.



McClellan Summation Index weekly chart as of Oct 21, 2022 - Last week we saw a decline to -1138.43. This week we saw a small bounce up to -1062.81.



McClellan Summation Index daily chart as of Oct 21, 2022 - We saw a small increase on Monday and Tuesday that was followed by a mostly flat period Wednesday and Thursday. Friday only saw a very small increase to end this week at -1062.81.



NYSE Percent above 200 day SMA daily chart as of Oct 21, 2022 - Last week saw some oscillations that ended the week at 17.00%. This week we saw an increase Monday and Tuesday to about 22% followed by a decline Wednesday and Thursday to about 20%. Friday saw an increase to end the week at 23.12%.



NYSE Percent above 50 day SMA daily chart as of Oct 21, 2022 - Last week saw some oscillations that ended the week at 14.14%. This week we saw an increase Monday and Tuesday up to about 25%, a small decline Wednesday and Thursday to about 21% followed by an increase Friday up to 29.04%.

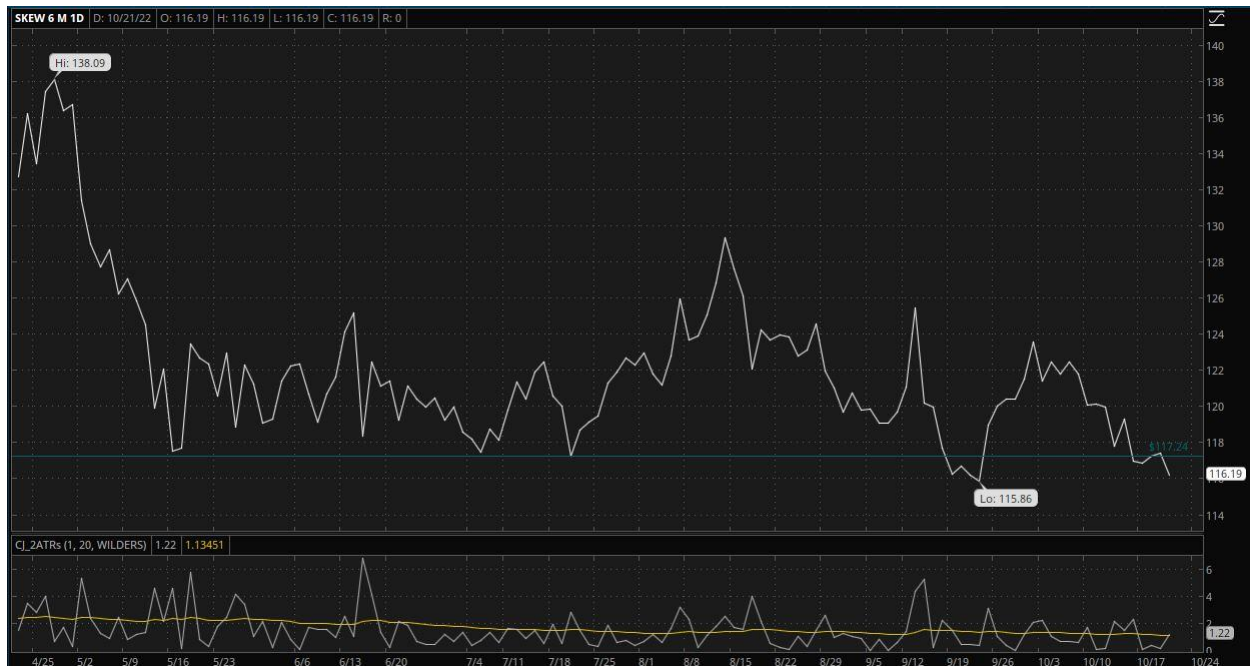




VIX daily chart as of Oct 21, 2022 - The VIX drifted lower Monday and crossed below its 20 day SMA on Tuesday. Wednesday saw a pause before a decline on Thursday that continued lower on Friday to end the week at 29.69.



VVIX daily chart as of Oct 21, 2022 - The VVIX continued lower each day this week, crossing below its 20 day SMA on Monday and below its 50 day SMA on Tuesday. This chart suggests that Markets are becoming comfortable with the level of uncertainty and Volatility.



SKEW daily chart as of Oct 21, 2022 - The Options SKEW shows us a lower extreme is forming this week as demand for Out of the Money Options drives this Indicator.

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



Oil daily chart as of Oct 21, 2022 - Oil prices paused Monday near the prior week's lows. Tuesday saw a drop below the 20 day SMA. Wednesday saw the prior day's losses were recovered. Thursday and Friday paused near the 20 day SMA. Note the converging of the 20 day and 50 day SMAs as trends pause. The higher low this week than last month and the break above the 50 day SMA in early October are clues that rising prices could be more likely ahead. The 50 day SMA provided Resistance in late August.



Gold daily chart as of Oct 21, 2022 - Gold prices continued to drift lower this week then bounced on Friday after delivering a new 2.5 yr low.



US Dollar Index daily chart as of Oct 21, 2022 - The US Dollar weakened a bit on Monday and Tuesday, then rallied on Wednesday just to pull back a little on Thursday. Friday a wide swing and lower close.



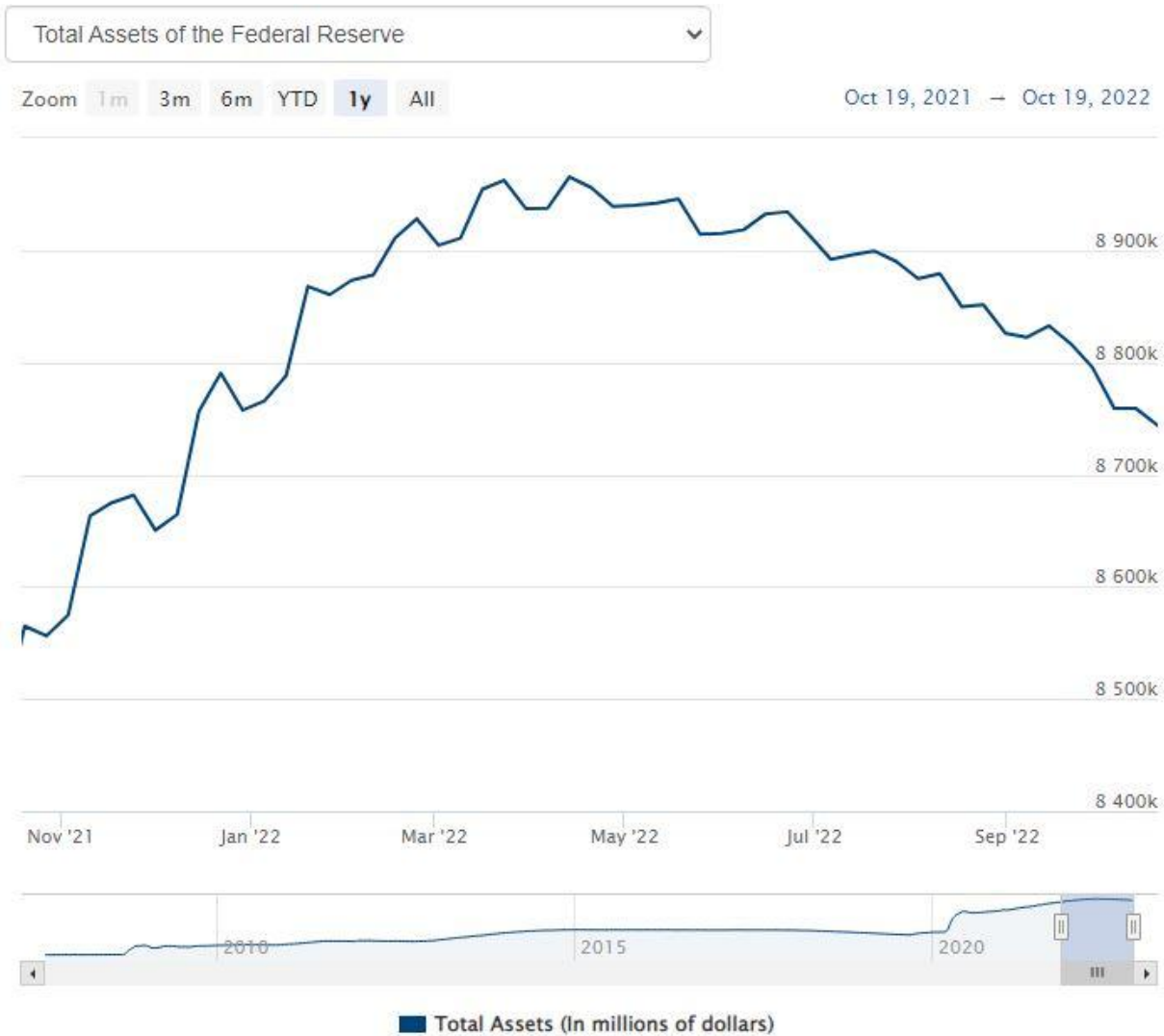
US 10 year Treasury daily chart as of Oct 21, 2022 - The 10 year continued to sell lower this week with most of the decline seen on Wednesday and Thursday. Friday saw a lower low and higher close on strong volume. Note the very steady 'Trend' lower since the beginning of August.



US 10 year Yield daily chart as of Oct 21, 2022 - As the 10 year Treasury is sold off, the Yields continued to increase. Note the steady 'Trend' higher since the beginning of August with new 14-year highs on Friday of 4.333%.

Date	1 Mo	2 Mo	3 Mo	4 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
10/03/2022	2.87	3.26	3.46	N/A	3.97	4.01	4.12	4.12	3.90	3.79	3.67	4.00	3.73
10/04/2022	2.91	3.23	3.45	N/A	3.98	4.15	4.10	4.08	3.84	3.73	3.62	3.95	3.70
10/05/2022	2.89	3.22	3.46	N/A	4.00	4.14	4.15	4.17	3.96	3.87	3.76	4.05	3.78
10/06/2022	3.05	3.34	3.46	N/A	4.04	4.19	4.23	4.24	4.05	3.95	3.83	4.08	3.81
10/07/2022	3.03	3.34	3.45	N/A	4.09	4.24	4.30	4.33	4.14	4.03	3.89	4.13	3.86
10/11/2022	3.07	3.43	3.67	N/A	4.17	4.28	4.30	4.31	4.14	4.06	3.93	4.19	3.92
10/12/2022	3.07	3.45	3.70	N/A	4.16	4.28	4.28	4.29	4.12	4.03	3.91	4.18	3.90
10/13/2022	3.35	3.60	3.79	N/A	4.30	4.46	4.47	4.44	4.21	4.11	3.97	4.25	3.97
10/14/2022	3.30	3.61	3.81	N/A	4.31	4.50	4.48	4.47	4.25	4.15	4.00	4.26	3.99
10/17/2022	3.30	3.66	3.97	N/A	4.38	4.50	4.45	4.45	4.24	4.15	4.02	4.29	4.04
10/18/2022	3.25	3.70	4.04	N/A	4.39	4.50	4.43	4.43	4.21	4.12	4.01	4.27	4.04
10/19/2022	3.31	3.72	4.07	4.32	4.45	4.60	4.55	4.56	4.35	4.26	4.14	4.38	4.15
10/20/2022	3.58	3.83	4.09	4.33	4.48	4.66	4.62	4.66	4.45	4.36	4.24	4.47	4.24
10/21/2022	3.55	3.78	4.09	4.31	4.43	4.58	4.49	4.52	4.34	4.28	4.21	4.54	4.33

US Yield Rates daily table as of Oct 21, 2022 - Note the increase this week of all terms, short term and long term yields.



FOMC Balance Sheet weekly chart as of Oct 19, 2022 - The Fed decreased its Balance Sheet by \$15.047 Billion this week, taking its Total Assets from \$8.758969 Trillion down to \$8.743922 Trillion. We can see the slope of the decline since May 2022 is far shallower than the slope of the increases during 2020 and 2021. If we look at the average decline over the past 5 months and do some simple math, we find that at the current rate of decline, it will take the Fed over 11 years to return the Balance Sheet to Jan. 2020 levels. That 'Assumes' that the Fed continues at the current rate of monthly declines, which I think is unlikely. I have no idea what the Fed will actually do, so I will continue to monitor their Balance Sheet and any reductions in Mortgage Backed Securities.

Next we will look at a few key Sectors.



Dow Transportation Index daily chart as of Oct 21, 2022 - The Transportation Index crossed above its 20 day SMA last week, rallied Monday and Tuesday, then pulled back Wednesday and crossed below its 20 day SMA on Thursday. Friday saw a rally back above its 20 day SMA to recover most of the prior day's decline, ending the week up 1.51%.



XLE daily chart as of Oct 21, 2022 - The Energy sector paused Monday and Tuesday before resuming its rally higher Wednesday, Thursday and Friday, exceeding the prior highs from Aug. 29<sup>th</sup> and ending the week up +8.28%. NOTE: the higher low Sept 26<sup>th</sup> as compared to the low on July 14<sup>th</sup>. Also note we now have a higher high Friday (Oct. 21<sup>st</sup>) as compared to Aug. 29<sup>th</sup> high.





XLF daily chart as of Oct 21, 2022 - The Financial sector briefly crossed above its 20 day SMA late last week and opened on Monday back above its 20 day SMA. Tuesday gapped up to a new Oct. high just to sell back down most of the day. Wednesday and Thursday saw selling continue back down to the 20 day SMA. Friday saw a rally that recovered most of the prior two days of losses, ending the week up +3.81%.



QQQ daily chart as of Oct 21, 2022 - The Nasdaq-100 ETF gapped up Monday and again Tuesday to open above its 20 day SMA before selling off most of the day back down below the 20 day SMA. Wednesday and Thursday saw a pause mostly below the 20 day SMA. Friday saw a rally back above its 20 day SMA and began to break above its Resistance Trend Line (Green line) ending the week up +5.63%.



SOXX daily chart as of Oct 21, 2022 - The Semiconductor sector oscillated in a narrow range for three days then briefly broke higher Thursday just to close back down inside its range. Friday saw a strong rally above this range and crossing above its 20 day SMA to end the week up +7.62%.



XLC daily chart as of Oct 21, 2022 - The Communication Services sector tested and respected its 20 day SMA as Resistance last Friday. This week began with a rally above its 20 day SMA on Monday then continued higher Tuesday before selling lower but remaining above its 20 day SMA. Wednesday and Thursday saw a pause followed by a gap down to test its 20 day SMA as Support on Friday before a rally up to the highest close this week on Friday, up +4.52% for the week.

INDEXes	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending
SECTORS	9/9/2022	9/16/2022	9/23/2022	9/30/2022	10/7/2022	10/14/2022	10/21/2022
\$SPX	3.65%	-4.77%	-4.65%	-2.91%	1.51%	-1.55%	4.74%
\$INDU	2.66%	-4.13%	-4.00%	-2.92%	1.99%	1.15%	4.89%
\$COMPQ	4.14%	-5.48%	-5.07%	-2.69%	0.73%	-3.11%	5.22%
\$RUT	4.04%	-4.50%	-6.60%	-0.89%	2.25%	-1.16%	3.56%
QQQ	4.04%	-5.79%	-4.60%	-2.99%	0.69%	-3.11%	5.63%
\$TRAN	2.35%	-8.79%	-5.43%	-0.59%	3.48%	0.21%	1.51%
XLE	0.80%	-2.68%	-9.17%	2.19%	13.58%	-1.86%	8.28%
XLF	4.47%	-3.78%	-5.59%	-2.22%	1.75%	0.39%	3.81%
XLK	3.27%	-6.19%	-3.62%	-4.01%	1.68%	-3.29%	6.46%
SOXX	4.66%	-5.70%	-5.76%	-3.98%	2.23%	-8.34%	7.62%
XLV	4.41%	-2.34%	-3.32%	-1.32%	1.25%	1.04%	2.13%
XLY	5.78%	-3.98%	-7.10%	-2.71%	-1.26%	-3.83%	5.27%
XRT	5.28%	-5.33%	-6.06%	-3.32%	3.22%	-1.60%	2.63%
XLI	3.40%	-6.38%	-4.54%	-2.25%	2.80%	-0.49%	4.66%
XLU	3.73%	-3.76%	-2.99%	-8.71%	-2.67%	-2.53%	1.87%
XME	6.13%	-10.32%	-7.91%	2.16%	7.30%	-3.11%	9.03%
XLP	1.96%	-3.58%	-2.10%	-3.82%	-0.34%	1.55%	2.04%
XLB	5.00%	-6.62%	-5.60%	-0.61%	2.13%	-1.84%	6.07%
XLC	3.31%	-6.26%	-5.61%	-2.48%	1.75%	-1.54%	4.52%
XHB	4.51%	-6.88%	-3.96%	-1.21%	4.53%	-4.16%	0.49%

Weekly Percent Change US Indexes and Sectors table as of Oct 21, 2022 - We saw a positive week this week in most all indexes, with most of the gains for this week realized on Monday or Friday. The Nasdaq saw the strongest gains this week just as it saw the biggest losses last week. We have often seen the Nasdaq lead the markets both up and down this year.

The strongest sectors this week included: XME, XLE, SOXX, XLK and XLB that all delivered over +6% of gains this week. The XLE was not the strongest sector this week (2<sup>nd</sup> strongest) but it has been the strongest in 11 out of 42 weeks so far this year.

The weakest sectors this week included: XHB, Transports, XLU and XLP. As interest rates increase, higher mortgage rates help to kill some demand as folks can no longer afford payments or settle for smaller homes of which there is less supply. The destruction of Housing Demand is the natural next phase of a contracting economy. Weaker consumer spending and job losses are some of the next phases we may be likely to seeing soon.

I would suggest a study of past Economic Cycles to see how key aspects of Economic activities are linked. With Less consumer spending the demand for products and services decrease, and as demand decreases companies will soon need to down size by reducing jobs to fit these lower demands. With fewer people working, then these folks have less to spend, and the cycle continues to decrease: Less Consumption, less Demand, less production, fewer workers/jobs, less income to spend, etc. etc. etc.

INDEXes SECTORs	Mon	Tue	Wed	Thur	Fri	Mon	Tue	Wed	Thur	Fri
	End of Day 10/10/22	End of Day 10/11/22	End of Day 10/12/22	End of Day 10/13/22	End of Day 10/14/22	End of Day 10/17/22	End of Day 10/18/22	End of Day 10/19/22	End of Day 10/20/22	End of Day 10/21/22
\$SPX	-0.75%	-0.65%	-0.33%	2.60%	-2.37%	2.65%	1.15%	-0.67%	-0.80%	2.37%
\$INDU	-0.32%	0.12%	-0.10%	2.83%	-1.34%	1.86%	1.12%	-0.33%	-0.30%	2.47%
\$COMPQ	-1.04%	-1.10%	-0.09%	2.23%	-3.08%	3.43%	0.90%	-0.85%	-0.61%	2.31%
\$RUT	-0.60%	0.06%	-0.30%	2.41%	-2.66%	3.17%	1.16%	-1.72%	-1.24%	2.22%
QQQ	-1.00%	-1.37%	-0.03%	2.35%	-3.01%	3.30%	0.79%	-0.36%	-0.51%	2.35%
\$TRAN	0.47%	0.03%	0.63%	1.00%	-1.89%	2.38%	1.35%	-1.69%	-2.55%	2.12%

Daily Percent Change US Indexes table as of Oct 21, 2022 - We see daily changes in leadership with the Dow Industrials showing strength 3 days this week (as they did last week) and the Transports showing weakness two days this week.

Next we will look at a few key Stocks.



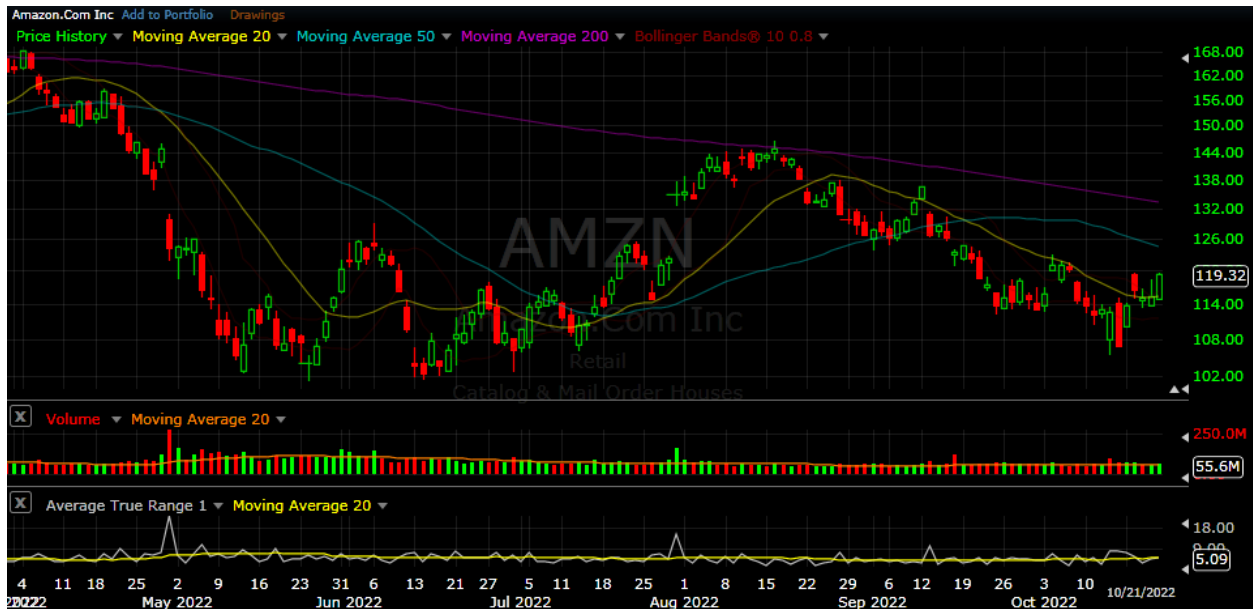
AAPL daily chart as of Oct 21, 2022 - Apple has been below its 20 day SMA Resistance for nearly two months with several tests of that Resistance. This week Apple saw a narrow 'Inside' day on Monday followed by a gap up above its 20 day SMA Tuesday that soon sold off back below its 20 day SMA. Wednesday saw another test of the 20 day SMA. Wednesday saw another 'Inside' day. Thursday saw a failed rally in the morning that was all given back in the afternoon. Friday saw a rally most all day above its 20 day SMA to end the week up +6.42%. Apple is now above its 20 day SMA and above its Resistance Trend Line (Orange line). Apple reports Earnings on Thursday next week.



MSFT daily chart as of Oct 21, 2022 - Microsoft closed a few cents above its 20 day SMA on Monday and gapped up Tuesday just to sell lower most of the day. Wednesday saw more selling back below its 20 day SMA. Thursday saw a failed attempt above and back below its 20 day SMA. Friday saw a rally above its 20 day SMA and the highest close of the week, up +5.93% for the week. Microsoft reports Earnings on Tuesday next week.



GOOGL daily chart as of Oct 21, 2022 - Alphabet rallied above its 20 day SMA on Monday and gapped higher Tuesday just to sell back down most of the day. Wednesday and Thursday saw a pause just above its 20 day SMA. Friday saw a gap down and rally above its 20 day SMA and the highest close of the week, up +4.73% for the week. Alphabet reports Earnings on Tuesday next week.



AMZN daily chart as of Oct 21, 2022 - Amazon rallied Monday but failed to reach its 20 day SMA. Tuesday saw a gap above its 20 day SMA that sold off during the day. Wednesday saw lower lows and lower highs and a close just a few cents below its 20 day SMA. Thursday saw higher highs and higher lows with a close a few cents above its 20 day SMA. Friday saw a rally from below its 20 day SMA to above with the highest close of the week, ending the week up +11.62%. Amazon reports Earnings on Thursday next week.



TSLA daily chart as of Oct 21, 2022 - Tesla saw an 'Inside' day on Monday, a gap up that failed Tuesday and another 'Inside' day on Wednesday right before Earnings were released after the close. Thursday saw a negative reaction at the open that oscillated a bit to fill about half of the gap down. Friday saw a slow steady rally to end the week up +4.61% as about half of Monday's gains were recovered by the end of the week.



META daily chart as of Oct 21, 2022 - Meta rallied up to its 20 day SMA on Monday and Tuesday but could not close above. Wednesday and Thursday saw tests of the 20 day SMA but without a close above. Friday saw a gap down and rally that failed to fill the gap, ending the week up +2.56%. Meta reports Earnings on Thursday next week.



NVDA daily chart as of Oct 21, 2022 - Nvidia rallied Monday and Tuesday up to its 20 day SMA before pulling back most of the day on Tuesday. Wednesday saw an 'Inside' day with another test of the 20 day SMA as Resistance. Thursday saw a failed rally above its 20 day SMA without a close above. Friday saw a rally that did close above the 20 day SMA, ending the week up 11.04%. Nvidia does not report Earnings until mid November.



JPM daily chart as of Oct 21, 2022 - JP Morgan reported Earnings last Friday before the open and saw a gap up that day. The rally continued with a gap above the 50 day SMA on Monday and another gap higher Tuesday that sold back only a small amount. Wednesday saw a little more selling but stayed well above its 50 day SMA. Thursday saw a pause before another strong rally Friday to new October highs, ending the week up +9.93%.



COST daily chart as of Oct 21, 2022 - Costco has remained below its 20 day SMA since late August. Monday saw an 'Inside' day followed by a gap up to test the 20 day SMA on Tuesday. Wednesday and Thursday saw additional tests of the 20 day SMA Resistance as each day delivered a lower low. Friday saw a rally and close above the 20 day SMA to end the week up +5.18%.





DE daily chart as of Oct 21, 2022 - John Deere rallied above its 20 day and 50 day SMA back on Oct. 4<sup>th</sup> then paused and straddled its 50 day SMA for 3 days. We saw higher highs on 3 of 5 days last week as DE also began to straddle the 200 day SMA. This week saw an 'Inside' day Monday that continued to straddle its 200 day SMA. Tuesday and Wednesday saw higher highs and closes above the 200 day SMA. Thursday saw a pull back to the 200 day SMA as a test of Support. Friday saw a rally from the 200 day SMA Support up to new highs for Sept. and Oct., ending the week up +7.26% and now above all 3 of its key SMAs.



SLB daily chart as of Oct 21, 2022 - Schlumberger paused its rally Monday and Tuesday this week then resumed higher on Wednesday, and continued a little higher on Thursday before Earnings due out Friday before the open. On Friday we saw a gap up and close +10.33% higher for the day, ending the week up +19.57%.



HAL daily chart as of Oct 21, 2022 - Halliburton continued its pause from last week the first two days of this week. Wednesday saw a rally that continued higher Thursday to test its 200 day SMA as Resistance before pulling back that day. Friday saw a strong rally above the 200 day SMA to end the week up +15.20%. Halliburton reports Earnings on Tuesday next week.



X daily chart as of Oct 21, 2022 - US Steel remained in a narrow range the first 3 days of this week, just above its 20 day SMA. Thursday saw a rally from its 20 day SMA Support that made a higher high for the day but could not hold onto that to close near the prior day's close. Friday saw a strong rally that crossed above its 50 day SMA to end the week up +14.85%. US Steel reports Earnings on Thursday next week.



CAT daily chart as of Oct 21, 2022 - Caterpillar broke above its 20 day SMA on Oct. 4<sup>th</sup> then stalled out for over a week as the trend paused. CAT straddled its 50 day SMA the first three days of this week then sold lower on Thursday. Friday saw a strong rally above its 50 day SMA to end the week up +7.47%. Caterpillar reports Earnings on Thursday next week.



LMT daily chart as of Oct 21, 2022 - Lockheed saw an 'Inside' day on Monday before reporting Earnings Tuesday morning before the open. Tuesday saw a gap up and very strong rally Tuesday crossing and closing above all 3 of its key SMAs. The rally continued higher Wednesday, paused Thursday with an 'Inside' day then resumed higher Friday to end the week up +16.74%. This week saw the largest range move in LMT since March 2020.

We saw some strong moves this week, mostly in the leading sectors and often a reaction to Earnings. With lots of big companies reporting Earnings next week, we will be ready for potential reactions that could be either positive or negative.

The strong rally we saw Friday (Oct. 21<sup>st</sup>) could be a one day failed rally, or, it could be a beginning of a rally that might continue. We have no idea which it will be, so we prepare for multiple scenarios by identifying key levels in advance, that if broken through will confirm a direction and confirm momentum in that direction. As we have seen over the prior weeks, a one day rally does not equal a 'Trend' and most rallies have eventually 'failed' over the prior months. We will assume that failed rallies will continue until proven otherwise, because that respects the 'Odds' going forward.

Hope this helps.

Trade Smart,

CJ