



Behavioral Trading

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Publishing from Vermont Since 1985

BEHAVIORAL FINANCE STRATEGY: 10/01/2008

COMMENTS ON FINANCIAL CULTURE: Equities remain in a Bear Market. The Commodity bull market will Recycle back up. The Credit Bubble has finally gotten some real **ATTENTION!** HandyHank has both hands on the Bailout Bazooka. **Free Markets** were supposed to be saved! But the **BAIL-OUT** wasn't **wearing the right shade of Lipstick! But, they will BAIL.** This new "Lapdance of Liquidity" in Financial Culture will assist the Inflationary trends.

EQUITY STRATEGY: Financial Culture remains in **Crisis** but some seesaw *upside* into November B4 new declines into 3/2009. Repeat: Investors will find themselves "too long" of stocks in the "long run." **This is how a Bear operates.**

EQUITY TACTICS: The tactical pattern has been incredibly spasmodic. There is a specific profile for strength next week. **A panic low seems to be in.**

GLOBAL EQUITIES: Global equities should still retain a bias for nominal **strength into 11/5-12.** Early 2009 remains due to be very negative.

STOCK SECTORS: Financials remain in a Recovery. Generic risk appetite seems to be returning. Hard Asset areas remain in bullish consolidations.

FIXED INCOME: Another **duration spike has been rejected.** Up in Q1, 09.

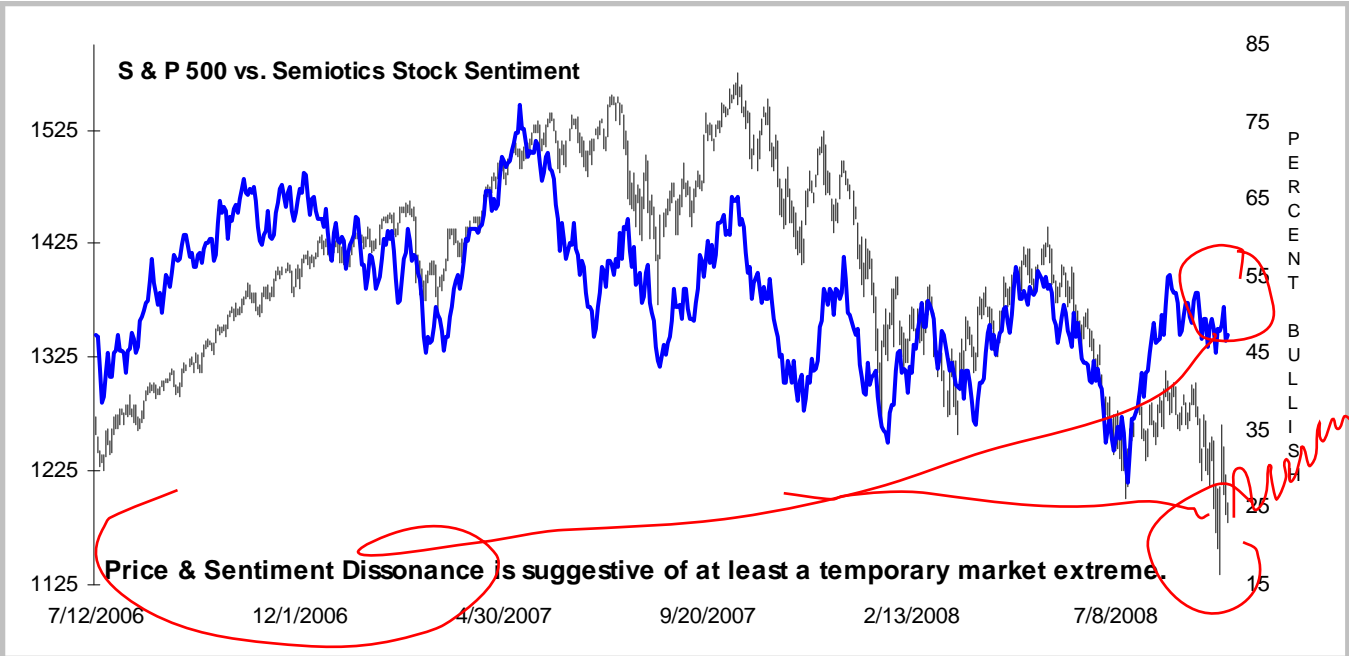
FOREX: Dollar Recovery can stumble but still seems to have more **upside.**

COMMODITIES: The "**Repricing of the Planet**" is in the very early stages of a new leg up. Excess Liquidity is Re-Fertilizing the secular Commodity Bull Market. The Re-Pricing paradigm has been Reborn but may still sputter, by fits and starts, into Q1 of 2009 B4 accelerating. **Gold may correct into 10/17ish.**

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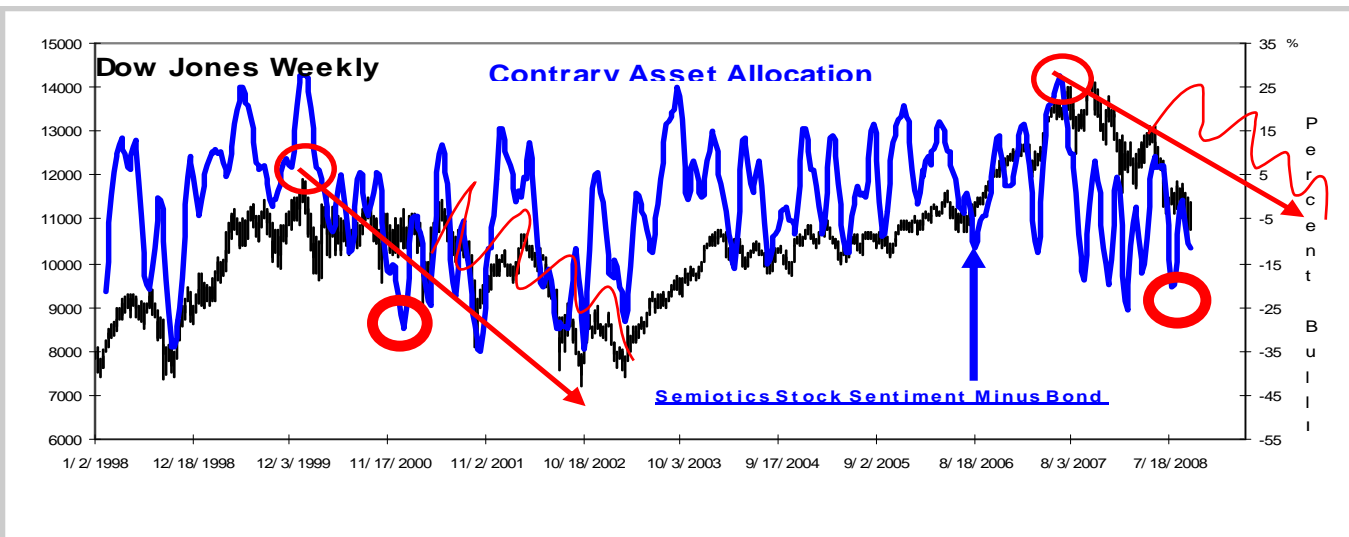
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EQUITY STRATEGY: A spasmodic Reprieve phase should now unfold for a bit but the Bear Market is far from over. As we have advised: The Bursting of the Credit Market Bubble still isn't really over. A **Real Low** hasn't occurred. Handy Hank may still "save the day" but he can't solve "the secular reality."

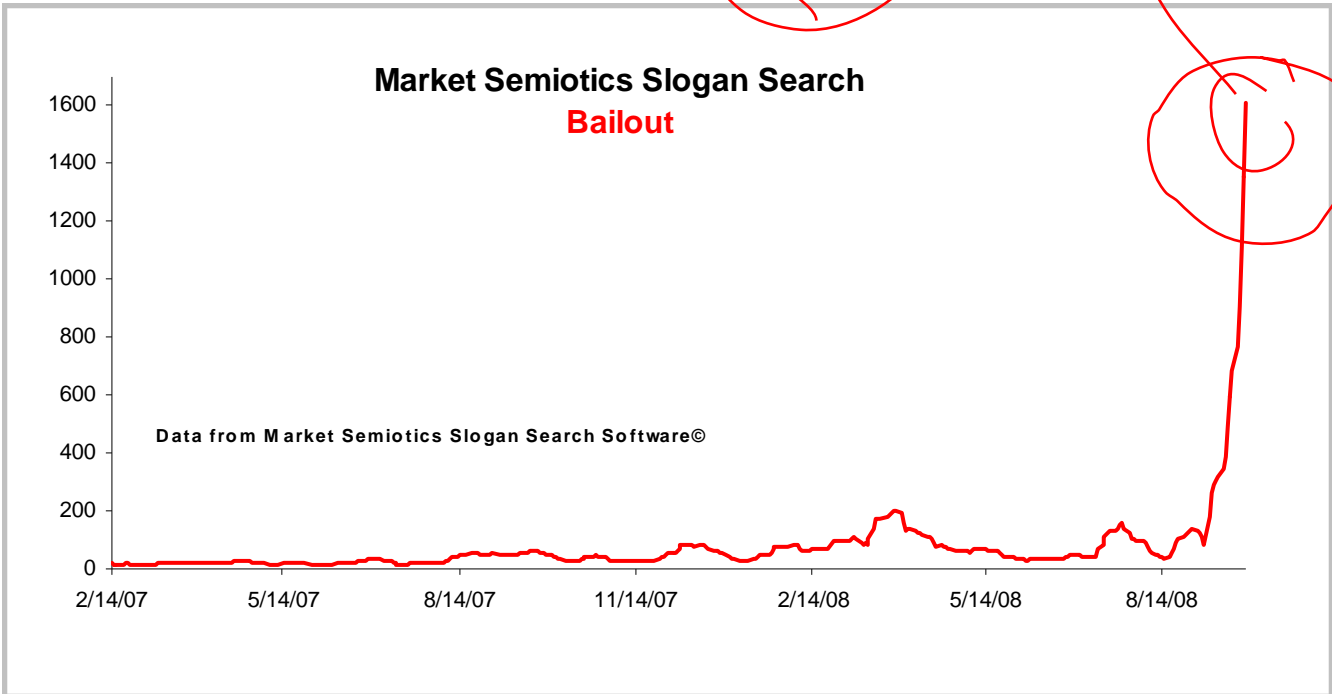


THE MARKET SEMIOTICS CONTRARY ASSET ALLOCATION MODEL

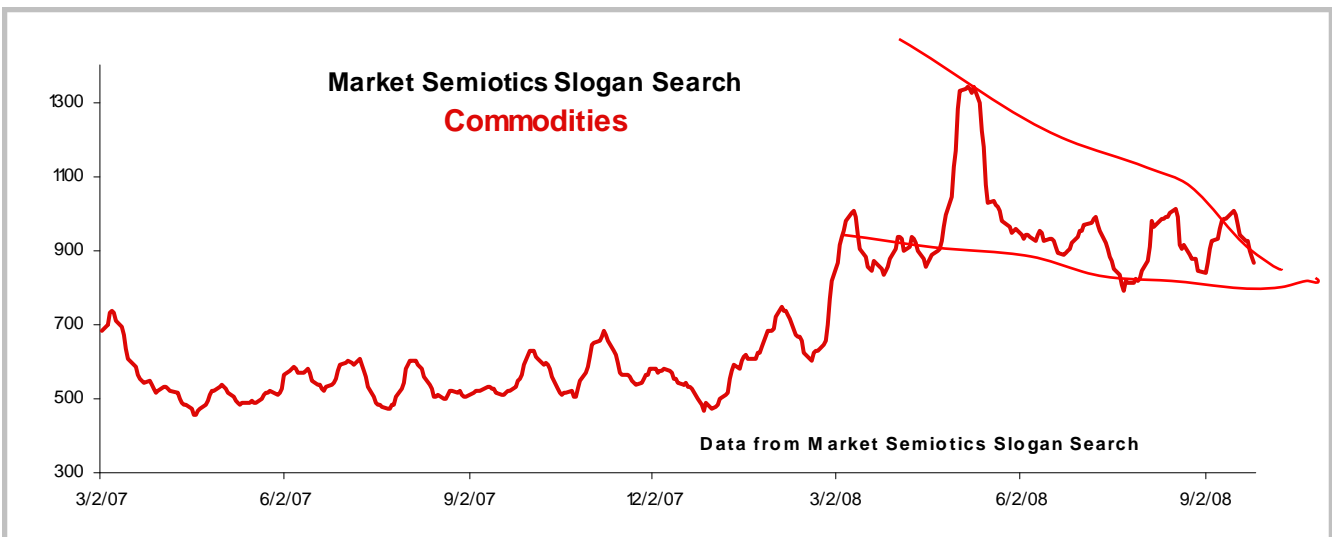
Shows the psychological preference for owning stocks relative to bonds. Some of the Contrarian extremes this year have only led to minor pops in paper assets. The Contrary Asset Model still suggests that Stocks should be relatively favored over Bonds. But, both of these Paper Asset classes remain underwhelming relative to the secular potential of Hard Assets. Still, stocks to pop.



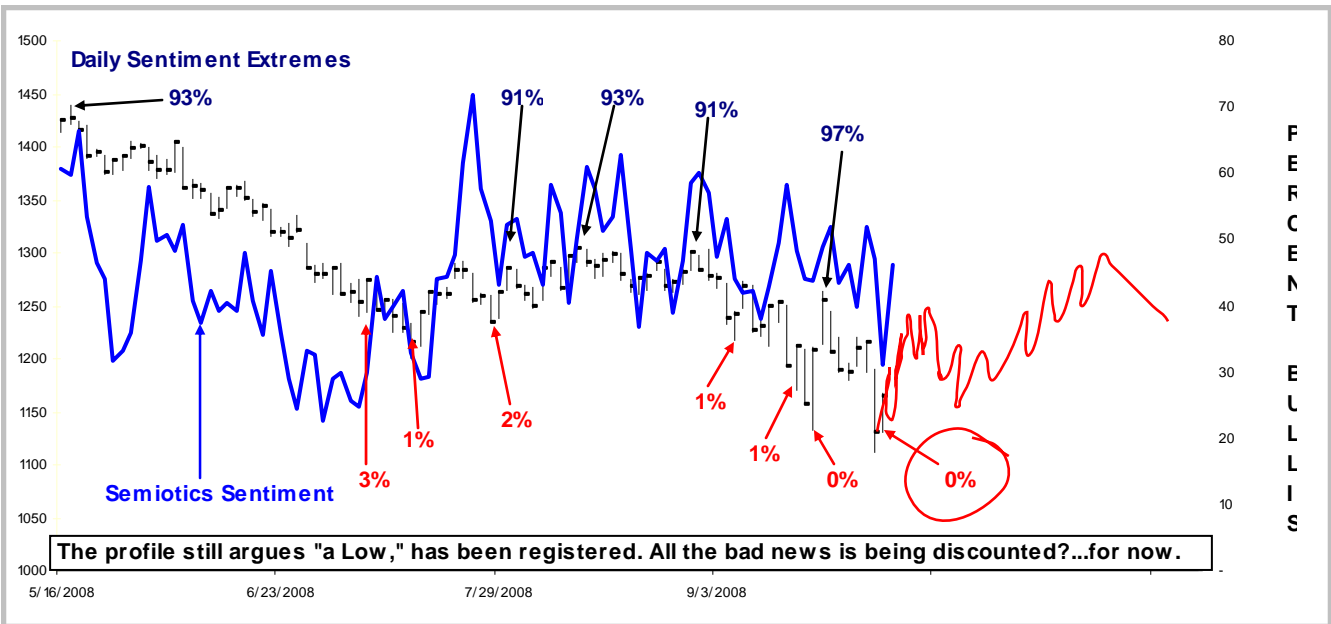
Slogan Searches: Slogan searches measure the Contrarian Potential of ideas. Beware of what everyone else is aware of and... what they are ignoring. Look at the **BAILOUT** slogan. Notice that the idea or, *meme* of **BAILOUT** didn't have much meaning until recently. Now it is **FULL** of Negative context.



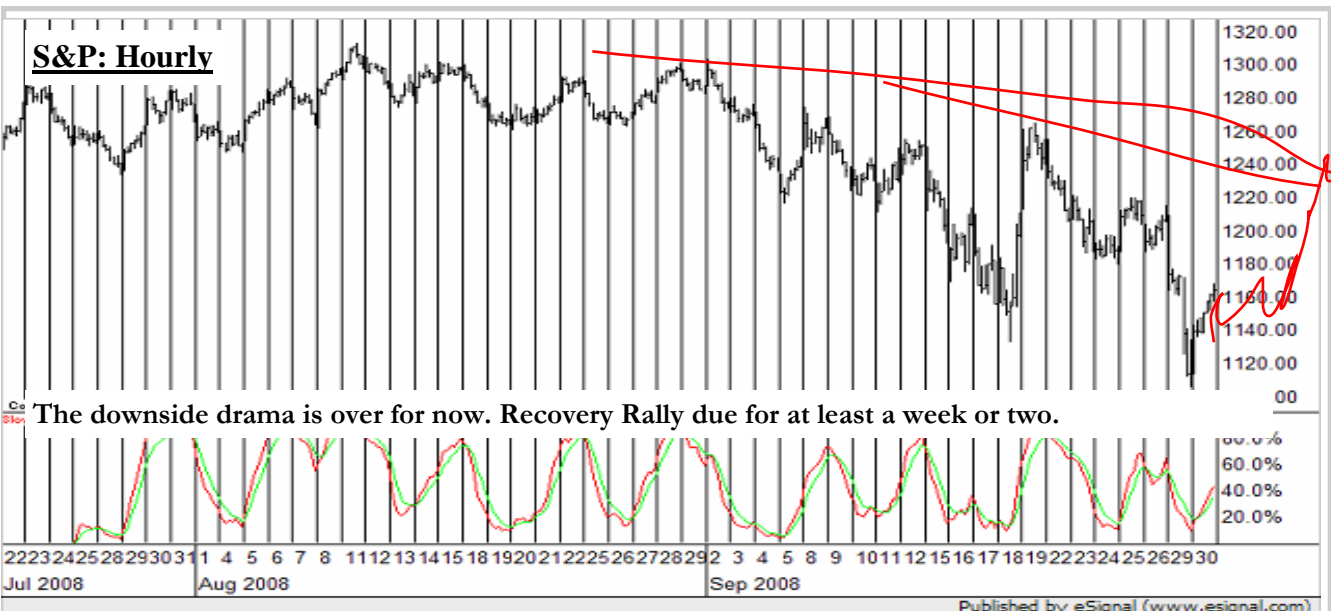
Measuring the Mind of the Market: Slogan searches measure the Contrarian Potential of ideas. We look at the slogan for **COMMODITIES**. Note that this asset class peaked in terms of its media coverage in the Spring. The commodity correction has mirrored that media ignorance. The price profile suggests that this asset class is **Recycling up but could stay quiet for awhile.**



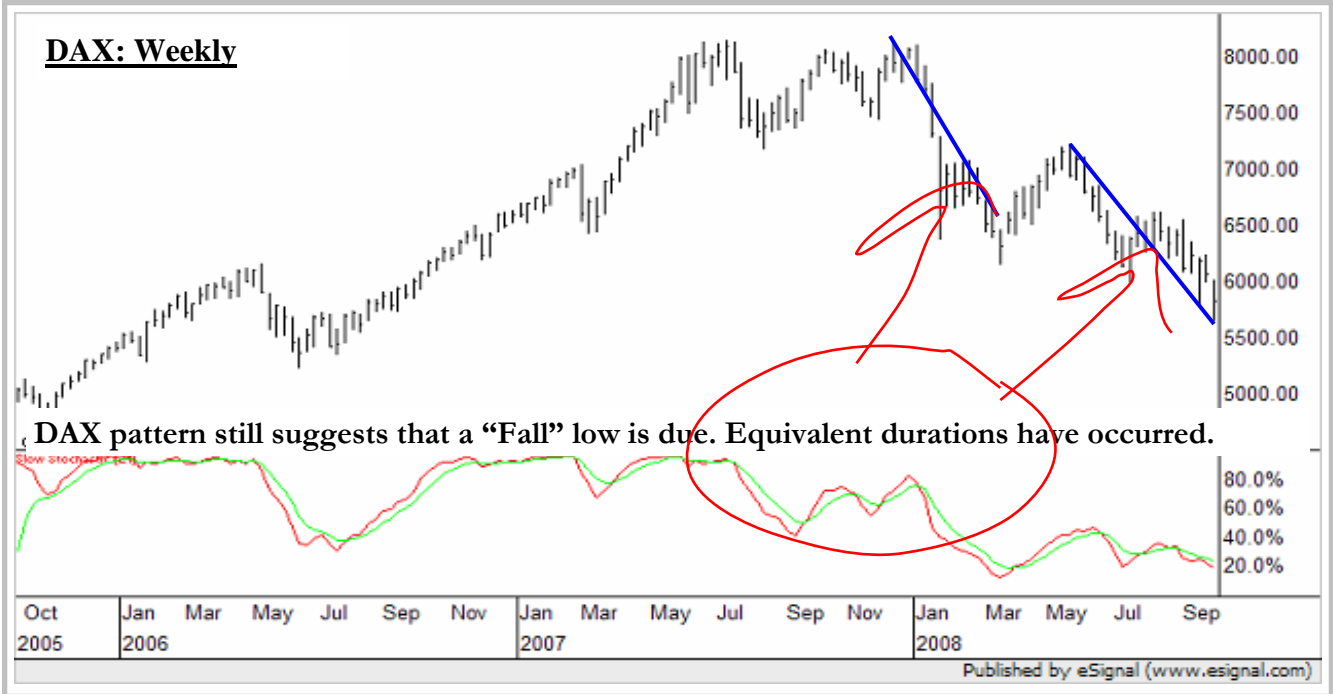
EQUITY TACTICS: The tactical profile has been deferring to strategic bear market pressure. This makes near term prognosis much less exacting. Stocks may remain spasmodic but they still have an unfulfilled upside profile into early to Mid November. **Stocks have probably put in their purgation near term.**



SHORT TERM EQUITY PROFILE: Recent spasmodic panicky price behavior seems consistent with a panic nadir. **Look for a robust rally next week.**



GLOBAL EQUITY STRATEGY: Global equities have continued to freak out over the last week. The DAX broke down to new lows but is still in a potential position to recover sharply into 11/5-12. All of global Financial Culture should get a lift in the near term. But new declines are due into Q1, 09.



GLOBAL EQUITY TACTICS: The EuroStoxx, like all Global Equities, is under the influence of a bear market in Financial Culture. The tactical profile still suggests that there could be a hard rally over the next several weeks.



SECTOR STRATEGY: Hard asset areas have been abandoned by investors. This Liquidation may have now produced a defined trading opportunity in the **Oil Service** Index. It is curious that the political refrain of “Drill, Drill, Drill” is not translating into “Buy, Buy, Buy,” for the Drilling stocks. No doubt, there will still be a demand for Energy for awhile.

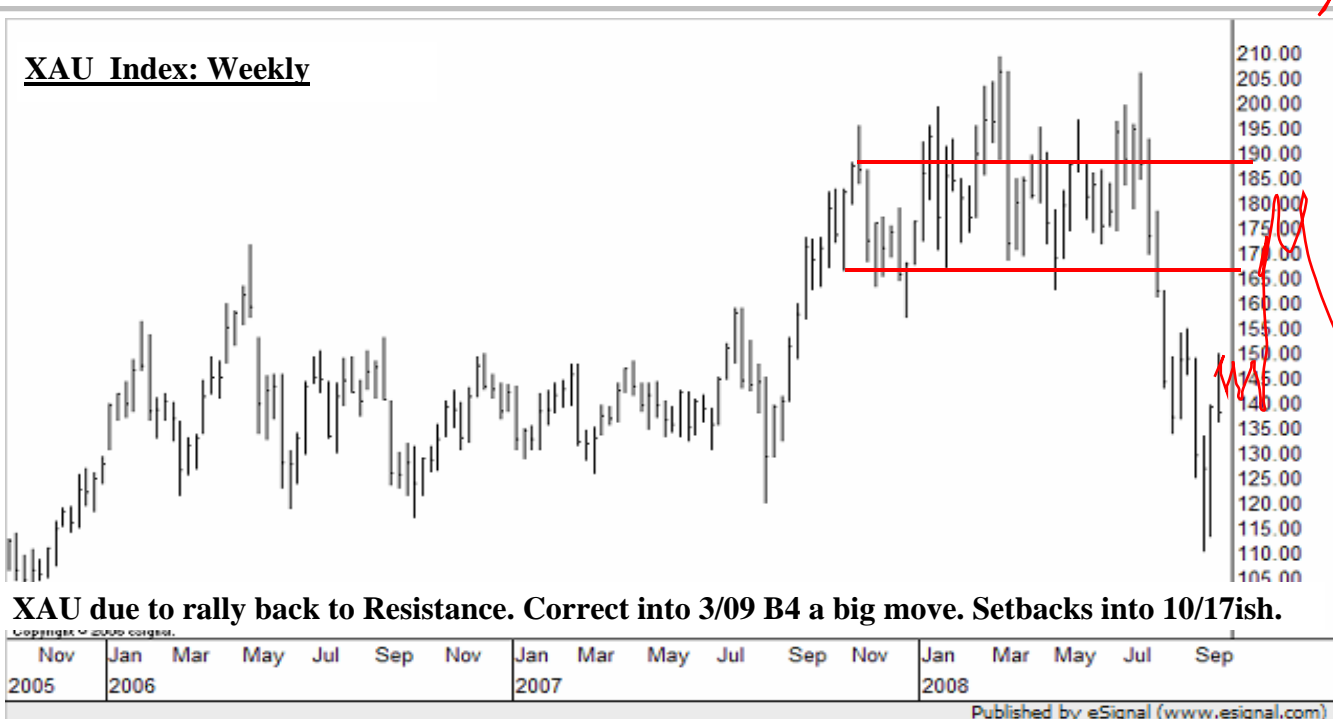
Oil Service: Weekly



OTHER SECTORS: Financials have been the media headliners. They have actually held their Capitulation lows but they are in a nominal time rally more than a price recovery. Hard assets should slowly regain relative strength over paper assets. We reiterate that this is a trading rather than a strategic market. Expect generic recoveries for 5-6 weeks.

SECTOR STRATEGY: We noted a month ago that the XAU pattern suggested a deep decline into late Summer B4 a new leg up. The XAU has Recycled back up in its bullish secular profile. But there is more work to be done in its range. Tactical low due 10/17ish.

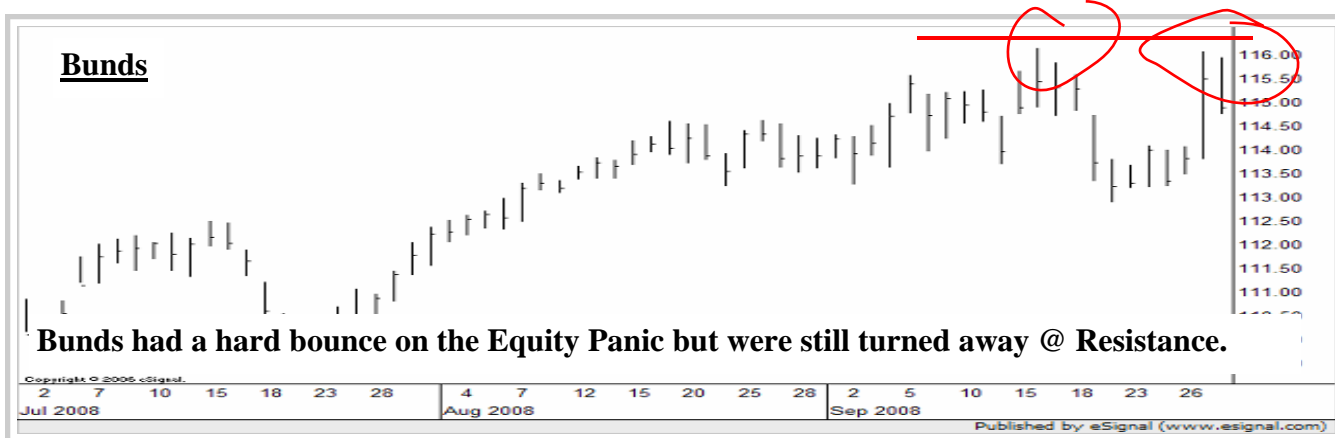
XAU Index: Weekly



FIXED INCOME STRATEGY: Treasuries spiked up in a panic bid once again. Once again, they were Resisted. There is no heaven for duration and duration is no haven in this storm. Handy Hank may be roping up some **Shorts** and tying down some **Toxic Assets** but he is just riding around in a **Box Canyon**. The Lapdance of Liquidity is on. It is an inevitable Steeper.

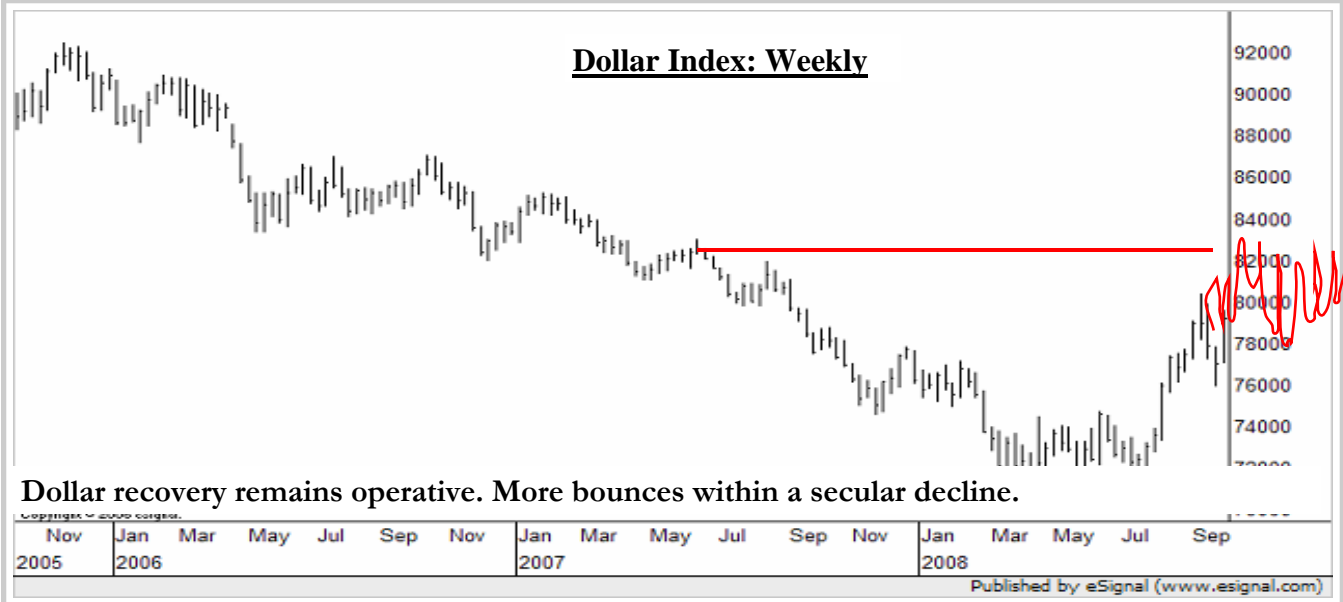


GLOBAL FIXED INCOME STRATEGY: Renewed economic and equity weakness around the world put a bid, once again, back into Global Fixed Income instruments. But nothing has changed: **Global Duration remains constrained by the recognized bias for Central Banks to Reflate.** They can't be trusted.



Bunds had a hard bounce on the Equity Panic but were still turned away @ Resistance.

FOREX DIAGNOSIS: The Dollar **Recovery can continue** but is still best diagnosed as being in a bear market rally. The upside tactical profile could continue into early November. Stiff structural resistance and secular headwinds make substantive upside unlikely. **Going up but going nowhere?**



COMMODITIES: The **“Repricing of the Planet”** is far from over. Commodities may consolidate until Q1 of 2009 **when the upside will get overt.**

ENERGY: Secular Commodity strength remains due. Crude had a Purgation but is due to keep recovering. It may stay in elongated corrective range into Q1 of 2009. Gold has become the new leader in the attraction of harder assets.

