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Even a casual observer of the market could see that this market is in a downtrend. That is why in today's newsletter I am focused on the market, and not on individual stocks. Not to predict where the market is going but to layout high probability downside targets where we can look at placing new stock positions. Once those price targets are hit, I will start giving new individual stock buy recommendations. The quicker I can determine the bottom of the market move, the better. I make some of the best individual stock percentage gains from that point, and I want you to do the same.

Even though my managed accounts are currently in a 90% cash position a short-term bounce, I lay out in this newsletter, would give an opportunity to exit more stock positions. Preservation of principle in your own accounts is the most important thing to do in market declines. The more principal you preserve now, the more you will have to buy emerging winning stocks in the weeks to follow.

The charts below will highlight the tools I use and include the VIX (volatility index) and Fibonacci numbers to set up price targets on the market. I will keep you posted as we get closer to individual stock purchase ideas.

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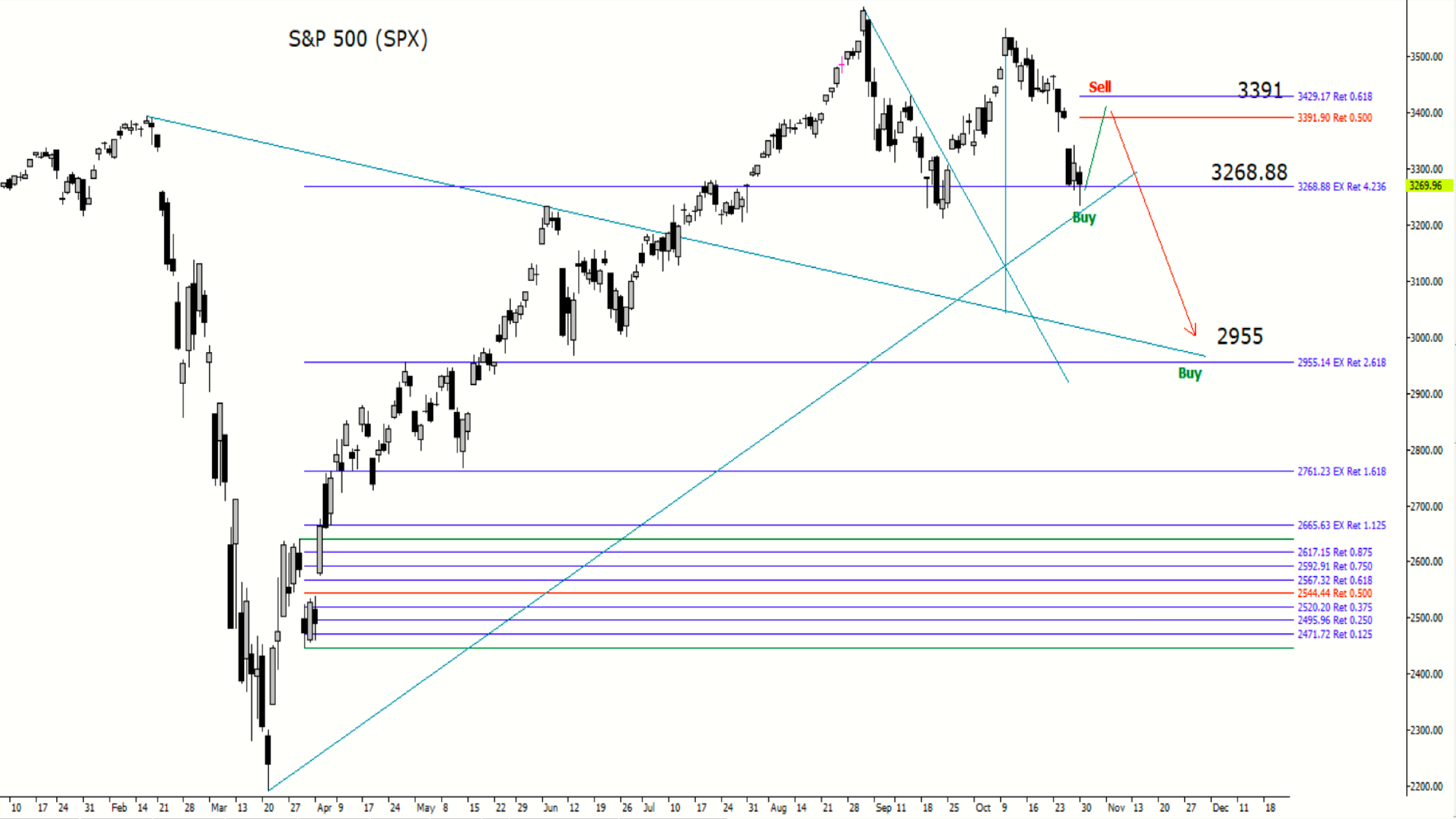
Market Summary:

- Highest probability scenario for S&P 500 is short term rally (be careful of bear market trap)
- S&P 500 short term downside target 3268.88 achieved on Friday (Refer to graph):
- Look for S&P 500 possible short-term bounce to 3391 (Refer to graph).
- After short-term bounce S&P 500 continues its down trend.
- S&P 500 Potential downside price target is 2955 (Refer to graph).
- During market correction TFR will watch for follow through day on market for potential bottom. This could happen at anytime.


S&P 500 (SPX)
Sell
3391
3429.17 Ret 0.618
3391.90 Ret 0.500
3268.88
3268.88 EX Ret 4.236
3269.96
Buy
2955
2955.14 EX Ret 2.618
Buy
2761.23 EX Ret 1.618
2665.63 EX Ret 1.125
2617.15 Ret 0.875
2592.91 Ret 0.750
2567.32 Ret 0.618
2544.44 Ret 0.500
2520.20 Ret 0.375
2495.96 Ret 0.250
2471.72 Ret 0.125
3500.00
3400.00
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2300.00
2200.00
10 17 24 31 Feb 14 21 28 Mar 13 20 27 Apr 9 17 24 May 8 15 22 29 Jun 12 19 26 Jul 10 17 24 31 Aug 14 21 28 Sep 11 18 25 Oct 9 16 23 30 Nov 13 20 27 Dec 11 18

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Market Detail:

In the graph I have included of the S&P 500 (SPX), you quickly notice that the SPX has held up at a target support number of 3268.88. It is trading two standard deviations to the downside and hitting its VIX 41.2 target number (graph included). Remember that trading below two standard deviations means that price has a 5% chance of going lower in the short term and a 95% chance of going higher. The conclusion is that the highest probability points to a rally starting sometime this week. I view this rally as a bear market bounce. An O'Neil follow through day could change that and would indicate that the rally continues. I will provide new individual stock buying opportunities if this happens.

This rally that could take the S&P 500 up to 3391 target carries a lot of risk. It might be better to use a rally to clear some of your broken-down stocks in your portfolio. If the rally takes us to the S&P 500 3391 target area without a follow through day, the highest probability is to complete the downtrend around S&P 500 target 2955 (refer to graph). At that point we will look to put on high probability trades with more conviction.

Volatility Index (VIX)
84.4
58.5
41.2
86`4 EX Ret11.090
58`5 EX Ret 6.855
41`2 EX Ret 4.236
30`5 EX Ret 2.618
24`0 EX Ret 1.618
20`0 Ret 1.000
16`5 Ret 0.500
80`0
70`0
60`0
50`0
40`0
38`0
30`0
20`0
10`0
Dec 13 20 27 Jan 10 17 24 31 Feb 14 21 28 Mar 13 20 27 Apr 9 17 24 May 8 15 22 29 Jun 12 19 26 Jul 10 17 24 31 Aug 14 21 28 Sep 11 18 25 Oct 9 16 23 30 Nov 13 20

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In Conclusion:

Until a high probability time of market reversal is determined, stay in cash for individual stock opportunities.

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[1]The results are not (or may not be) representative of the performance of all selections made by Trading Floor Research (TFR) newsletter.

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