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## Fear Still Prevails

Previously I have referred to Fear and Greed ruling traders emotions. The fear gauge that I mentioned was the Volatility Index (VIX).

The VIX gauge is still at historic highs, which is understandable as the VIX measures market expectations of near term volatility conveyed by stock index option prices. I postulated that if history repeats then we may well be coming close to a market low.

The trigger(s) I suggested investors should look for to confirm a bottom?

**a) A 3-day, then weekly, then monthly close above the previous relative high.**

The DOW JONES has not seen 3 consecutive days of higher closing highs since August; and our market only saw it once during that time.

**b) The 9, 21 and 50 days moving averages turning up.**

We have seen the 9 day moving average turn, but have not had confirmation from the 21 and 50 day moving averages.

**c) Overseas markets settling.**

This has NOT happened in any of the overseas markets as yet. Though most of the markets have not traded below their October lows, and are trying to swing higher.

**d) Positive response to the implementation of the \$700 billion TARP package.**

The response has been generally positive, however the devil is in the detail and the implementation of the package is not going to happen overnight.

**e) Positive impetus from the coordinated global rate cuts.**

We have had a further set of global rate cuts this month. The markets appear to react positively initially then revert back to the trend. The underlying issue here is the freezing of inter-bank lending. This market is slowly thawing, however again this takes time.

**f) Positive response to removal of the Shorting Bans.**

Well the Bans were extended in Australia to: 22 Nov 08 for non financials and until 28 Jan 09 for financials. This ban has obviously had little impact to the bearish sentiment surrounding the markets as they continue to slide.



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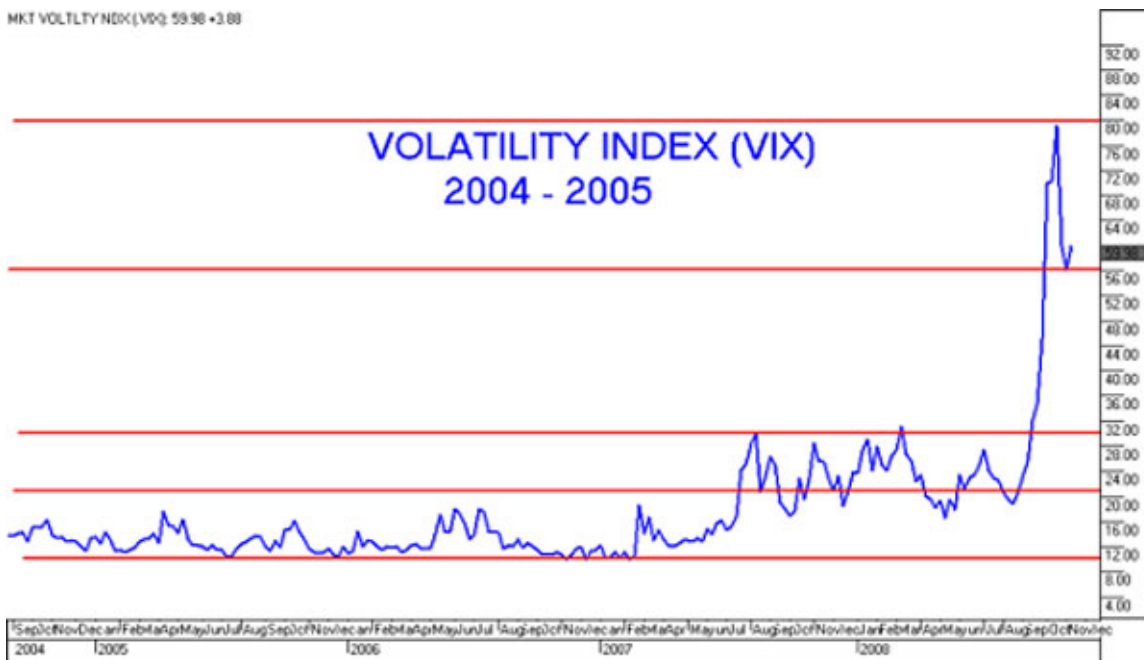
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MKT VOLTLTY IND (VIX) 59.98 +3.88



Fear is still well and truly priced into the market as measured by the Volatility Index (VIX) see the attached chart. However the VIX is retracing from its spike in late October, as the markets digest all the schemes being implemented by the central banks of the world as they endeavour to restore confidence to the markets. The action plan is to keep an eye on the triggers discussed earlier and to act once those conditions indicate a change in sentiment.

### **Aussie Battlers Doing It Tough**

The Australian stock market has given back five years of hard fought gains in just over twelve months, as can be seen on this chart. The slowing world economic growth has fuelled selling across the board and respite looks a long way off. However, if the market can find support at these levels, we may see a bear market rally late in the year. I have drawn a 5 month moving average on this chart which illustrates clearly that we are still in a bear market (and that 3400 is a key level for the ASX 200 index, this level acted as resistance back in 2002 and 2004).



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SPYASX200 (A000) 3,909.40-132.4



The market is looking for support at current levels, however it is very much hostage to what happens overseas. The central banks of the world are undertaking a co-ordinated effort to reduce interest rates and pump in liquidity into their various markets. Key here is: the US Government TARP Rescue Plan; and the recently initiated Chinese stimulus package; these impact the key economies fuelling the world economic growth engine.

It is worth noting that historically market lows are often formed in the later part of October and generally the best six months of the year to be invested are November through to April. This upward bias from November through April, combined with a market bottom may provide traders with a profitable opportunity for a bear market rally into the earlier part of this year.

MDS Financial maintains offices in Sydney, Melbourne and the Gold Coast and NISER can assist local businesses or individuals contact them. Sean Rothsey is Executive



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