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BIOTECH INVERSE ETF PROFIT TAKE at lunchtime today - reasons and outlook...

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There are a number of reasons why we decided to take profits in our Biotech bear ETFs (and any recently opened Puts in IBB) today, which we are now going to look at. The Email alert that was sent out at 1.15 pm EST read as follows...

"IBB approaching initial downside target, BIS and LABD approaching initial uspide targets, BIS and LABD now entering critically overbought territory on RSI. Take profits in ISS Puts, BIS and LABD immediately, or, if you prefer, take profits in half the positions in these inverse ETFs, and see what happens with the rest, as we may be a little early selling here. Update with charts on the site later. LABD has risen by about 90% in two weeks. At 1.06 pm EST IBB was trading at $290.71, BIS at $38.39 and LABD at $55.41."

The best prices of the day were on offer for our Biotech bear ETFs during the next half hour or so, and I know that some of you got very good prices before they started dropping back as the market rallied in the late trade.

A very important point to make at the outset is that we didn't take profits in these today because we changed our minds about the looming huge drop in the sector (and the market as a whole) – that is still on. We decided to get out of the way to avoid a possible bounce over the shorter-term, which would probably cause most of the profits garnered over the past week to evaporate. Our plan in selling here is therefore simply to sidestep any such bounce, and then buy them back cheaper in a little while. There is some risk in doing this of course, which is that the sector doesn't bounce, or hardly at all, and then proceeds to cave in before we can buy our bear ETFs back. It's a calculated risk.

Alright so why did we sell them? – the 1st reason is that they have gone up a lot in a short space of time, which is a good enough reason for many traders, without any others. An example is our LABD, which rose about 80% in less than two and surged higher today. If we look now at the 8-month chart for Biotech iShares, code IBB, a proxy for the Biotech sector, we can see the next big reason – the sector is now oversold and closing on a significant support level, which turned it back up last August and September, so there is a fair chance that it will turn up again here, although any rally is not expected to get as far as on the earlier occasions, before it reverses to the downside again.

Although the longer-term outlook for this sector is awful - it is extremely overvalued and expected to crash, over the short-term it looks like it will bounce back somewhat from the support shown, particularly as the market as a whole showed some signs of temporary downside exhaustion today. Because the support level shown is significant an approach to it as viewed as a signal to take profits on short-term positions with a view to buying them back on a sector bounce. This support is expected to fail in due course leading to a more serious plunge.

Turning now to the two leveraged inverse ETFs in the sector that we bought, BIS, which is twice leveraged, and LABD, which is three times leveraged, we can see that both of them are critically overbought on their respective RSI's, and also arriving at a resistance level. Actually, both of them look like they have a bit more mileage in them, just looking at their own charts, but the clincher for taking profits and standing aside for a while is what we observed on the charts for the Dow Jones Transports and the S&P500 indices, where signs of reversal appeared this afternoon.

While BIS could make further gains, its short-term overbought condition after the rise of recent days, coupled with the probability of a short-term recovery in the market, means that the risk of a significant reaction back now or soon is high. We therefore took profits and now await developments - our plan is to buy it back on a reaction.

While LABD could make further gains, its short-term overbought condition after the rise of recent days, coupled with the probability of a short-term recovery in the market, means that the risk of a significant reaction back now or soon is high. We therefore took profits and now await developments - our plan is to buy it back on a reaction.

Starting with the Dow Jones Transports, we can see on its 6-month chart that it today arrived at the lower boundary of a steep downtrend channel in a heavily oversold condition, where a more bullish looking candlestick appeared. In all but all-out crash conditions, this looks like a set up for a some sort of rebound.

Next, on the S&P500 index chart we see that it is approaching a significant support level at its August and September lows, but looks like it might have a temporary reversal to the upside from where it is now, because a "Dragonfly Doji" appeared at the trendline shown, which is a bullish candlestick if it appears after a steep drop, as here.

The fact that the market is closing on support after a steep decline so far this year means that we should be wary of some sort of recovery rally, even if it is relatively modest and set to be followed by renewed decline, which is what we are expecting. A bounceback now is made more likely by the appeaance of a "Dragonfly Doji" at the trendline today. We spotted this, which is a reason why we ditched some of our short positions today - the Amazon Puts and the leveraged inverse Biotech sector ETFs and Biotech sector Puts (IBB).

None of the above means that a major bearmarket is "off the table", but it does suggest that we may see a modest but tradable bounce off the support at the bottom of the big Head-and-Shoulders evident on longer-term charts for the S&P500 index, before it drives down to lower levels, and we are not going to give back the gains we have garnered over the past week on any such bounce if we can avoid it. This is why we took profits on these positions today.

We will be looking at what to do with several other short positions in the morning, taking into consideration what happens in Far-East and European markets overnight.

This article will be filed under ETFs in the Archive.

End of update.

Posted at 9.00 pm EST on 11th January 16.

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AMAZON PUTS PROFIT TAKE AT 3.40 PM EST TODAY - review...

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The following Email alert was sent out 20 minutes before the close, with a recommendation to take profits in our Amazon Puts, not because I no longer think it is going to collapse, I still do, but to sidestep a probable short-term rally that could make our Puts a lot cheaper,

"We have a big profit on our Amazon March 590 Puts, which were recommended on the site on 4th January at $13.50, although they opened well up after the rec was posted. Even so we have a big profit as they are now at $33.50 bid. Amazon has this afternoon found support at a rising window (gap) and has been running contra its moving averages as expected. However, it appears to be set to close with a bull hammer at the support at this gap, so we should TAKE PROFITS IMMEDIATELY, with the aim of buying back at a better price after a possible bounce."

We will now quickly review its latest chart to see why we sold these Puts. As we can see on Amazon's 6-month chart the sharp decline of the past week halted today right at the top of a "Rising Window" or gap, which is a support level, and a bullish looking hammer candlestick appeared suggesting some sort of reversal is occurring. If the market as a whole should turn up here, even if only for a relatively minor bounce, then Amazon could bounce back quite strongly, because of its current fairly high degree of compression into still rising moving averages.

Going on Amazon's chart alone, the Put options trade we did looks very risky, but we were right in our assessment that the broad market would drop back hard, and so it worked out. The March $590 Puts were recommended at $13.50 before the open on the 4th, but you would have had to pay more, probably $15 or $16, because it gapped lower at the open on that day. They were $33.50 bid when we decided to ditch them during the last half hour of trading today, which we did because of the appearance of a bull hammer by the late trade, and the price compression into still rising moving averages. This along with signs of short-term reversal in the broad market indices was sufficient reason for us to take profits, with the aim of buying them back in the event of the stock bouncing back some. If you sold you are up over 100% in a week.

Another reason for quickly dumping the Puts (at a good profit) is that the broad market does indeed look like it is about to bounce back some, although it shouldn't be very long until it turns down and breaks to new lows again. We can see that from looking at the 6-month chart for the S&P500 index, already discussed in the Biotech Inverse ETF Profit take review.

The fact that the market is closing on support after a steep decline so far this year means that we should be wary of some sort of recovery rally, even if it is relatively modest and set to be followed by renewed decline, which is what we are expecting. A bounceback now is made more likely by the appeaance of a "Dragonfly Doji" at the trendline today. We spotted this, which is a reason why we ditched some of our short positions today - the Amazon Puts and the leveraged inverse Biotech sector ETFs and Biotech sector Puts (IBB).

If you put on this trade and haven't already sold these Amazon Puts as advised today, you should consider doing it in the morning, depending on how the stock opens.

Amazon.com closed at $617.74, March $590 Put closed at $29.00 bid on 11th January 16.

Posted at 10.10 pm EST on 11th January 16.