Bert Dohmen's SMARTER STOCK TRADER™

The Premier Advisory for Active Stock Traders

"Celebrating Our 48th Year of Guiding Investors Successfully"*

Issue # 4 – January 12, 2024
(Last Smarter Stock Trader sent: January 10, 2024)

MARKET DATA:

	LAST	CHANGE	%CHG
DJIA	37592.98	-118.04	-0.31
Nasdaq Composite	14972.76	2.57	0.02
S&P 500	4783.83	3.59	0.08
DJ Total Stock Market	47729.97	13.02	0.03
Russell 2000	1950.96	-4.49	-0.23
NYSE Composite	16799.54	18.42	0.11
Barron's 400	1053.69	-0.89	-0.08
CBOE Volatility	12.70	0.26	2.09

	NYSE	NASDAQ
Issues		
Advancing	1,543	2,035
Declining	1,263	2,212
Unchanged	106	178
Total	2,912	4,425
Issues At		
New Highs	107	136
New Lows	23	87
Share Volume		
Total	3,521,190,080	5,003,113,322
Advancing	1,589,689,074	2,223,524,463
Declining	1,870,082,958	2,745,860,820
Unchanged	61,418,048	33,728,039

Source: wsj.com

MARKETS:

The major indices all opened the day higher on the "cooler than expected" PPI data (more on this later), pushing the S&P 500 briefly above 4800 as it came within 16 points of its all-time high. That resistance sent stocks lower as the market quickly sold off into negative territory.

However, an afternoon rally helped propel the NASAQ Comp and S&P 500 fractionally above the flat line by the close while the DJI and Russell 2000 ended the day slightly lower.

Volume remained low with roughly **3.5 billion shares** traded on the NYSE as the internals continued to be negatively skewed. This continuing very low volume may suggest that genuine new buyers for stocks are hard to find.

For the week, the large cap indices all finished with gains led by the NASDAQ Comp's 3.1% rise and S&P 500's 1.8% gain. As we touched on in Wednesday's issue, the mega-cap "Magnificent 7" stocks have been propelling the NASDAQ and S&P 500 higher this week as the NYFANG Index jumped 4.1%.

The NYFANG Index had its best week in over two months primarily due to **AI related stocks** like MSFT, GOOG, NVDA, and META, all of which gained 5% or more last week (more on our outlook for AI this year later on).

However, **the broader market has been far weaker lately.** Recall the upside move in small cap stocks late last year, which had all the guests on financial TV proclaiming the rally had "broadened out." However, that turned out to be a "Bull Trap" as we can see on the **weekly** chart of the ETF for the Russell 2000 (IWM) below.

The IWM has now declined for the past 3 weeks after the "Bull Trap" in late December when it briefly broke above strong resistance (blue horizontal line, yellow shaded area).

During that late December rally, the MACD (middle) surpassed its previous high from August 2022, showing it became very overbought (orange horizontal line). The Dohmen Money flow (bottom) had a downside crossover last week, giving another "sell" signal, similar to what happened in July and October 2023.

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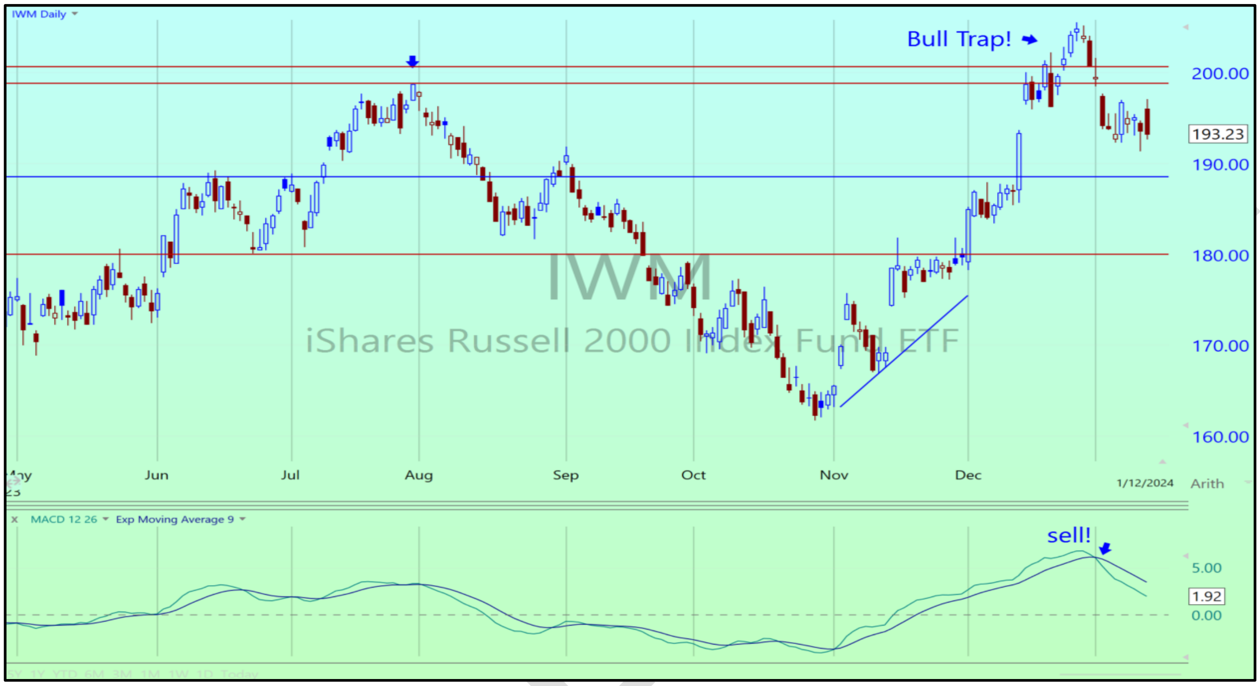
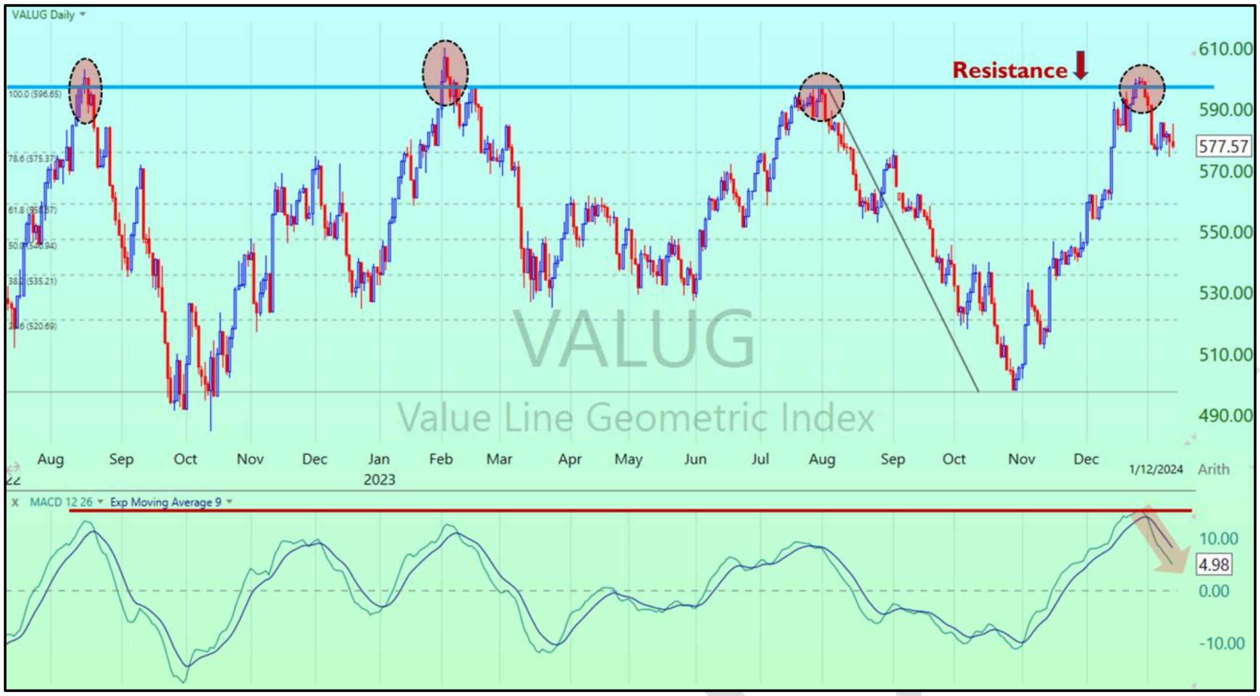
P. O. BOX 7041, Incline Village, NV 89450
dohmencapital.com | client@dohmencapital.com

Below we “zoom in” and show the **daily** chart of the IWM. Again, the brief upside breakout was a “bull trap” because it reversed downward and is starting to look pretty bearish for the near term. The daily MACD indicator at the bottom is on a “sell.”



The daily chart of the VALUG Index, our favorite broad market gauge, is also quite negative. Notice how it ran into strong resistance for a 4th time (blue horizontal line, red shaded areas) during the late December rally and was quickly rejected and sent lower. Over the past week it has found some support in the 574 area. However, once that level breaks, it should test the 558 area.

During the late 2023 rally, the MACD (bottom) climbed higher than its previous August 2022 high (orange horizontal line), crossed over for a “sell” signal shortly after. It continues to be on a sell.



CONCLUSION: We still believe that sometime in 2024 there will be a speculative rally in all the stocks related to Artificial Intelligence. That is much more important than debating what the Fed will do.

If there is a strong rally in AI, it will be a great trading opportunity in a number of sectors. AI firms will bring heavy demand on data centers, their required real estate for servers, demand for computer and server chips, and even office space for all the new startup firms. It could be very exciting.

However, the endless debate of whether the Fed will cut rates or not by March continues. Some analysts forecast 6 rate cuts by the Fed this year. That is hard to believe.

Until the AI frenzy develops, the markets will be choppy without any reliable metrics to guide investments. Currently, good or bad earnings bring unexpected stock reactions. Therefore, we believe that during the first part of this year, further choppiness and a probable correction will occur.

That would be followed by a strong market rally, led by AI, sometime in the second half of the year. Of course, as always there are no guarantees for the scenarios.

WEAK SECTORS: Airlines were very weak today along with bank stocks. Analysts still say that valuations of airlines are cheap. Are there any reliable guideposts? There aren't.

As we concluded last year, the algos just go the opposite way of the majority of investors, and that does not mean retail investors.

Therefore, the key seems to be that the shorter-term market moves will be opposite to the holdings of the majority of most money managers.

On the daily chart below of the airlines sector ETF, JETS, we can see it approached the 61.8% Fibonacci Resistance (red horizontal line) in late December and was sent lower.

It tried to rally again over the previous 6 trading days but **today it plummeted over 5%**, falling below the 50% Fibonacci Retracement level (blue horizontal line). Today's plunge was blamed on Delta's dismal forward earnings guidance in addition to higher oil prices given the airstrikes in Yemen by the U.S. & U.K. last night.

Mild support is around 18, although stronger support is in the 17.65 area, which is the early December up-gap level.

Lately we've heard a number of analysts and money managers promote the regional banks, saying these stocks will have great opportunities ahead given the widely held expectation that the Fed will cut interest rates early this year.

However, the daily chart of the KRE below shows these regional banks have looked quite weak since their mid-December peak, **falling 7.5%** since then.

The MACD (bottom) has been on a strong "sell" signal since late December.

GOLD: Gold had a nice bounce off of the blue uptrend line, which is support, as we forecasted 2 days ago. Below is the 2-day chart of the ETF for gold, GLD. The next move should break above its December high to a new all-time high.

INFLATION DATA: The CPI for December was higher than had been expected by analysts and economists, rising to 3.4% on year-over-year basis. That was up from 3.1% the prior month. Therefore, inflation not only keeps on rising, but is now rising at an increasingly higher rate.

The "shelter" component of the CPI, which makes up 40% of Core CPI, rose 0.5% in December, higher than the 0.4% rise in November. As you know, we have often said that "shelter" prices are far understated.

Today the PPI (producer price index) came in and showed a minus number (down 0.1% in December), which means the costs of goods declined. The long-term T-bonds were virtually unchanged today although this number should have been bullish for bonds.

In the EU, the head of the central bank, Cristine Lagarde, said interest rates in the EU are probably at their peak now. Perhaps the globe is going into a "deflationary" mode. If that continues, it could put the central banks into positions where QE (easing) would have to be pursued. China is already in deflation.

CURRENT POSITIONS:

Redacted – Members Only Access

CONCLUSION:

Our "money flow" charts on the major indices now have bearish formation, suggesting that a downturn is ahead. The odds are very much against another meaningful market up-move.

Our work on the fundamentals shows they are negative, at least for the first part of this year.

In the financial media, it appears that forecasts of Fed interest rate cuts are interpreted as bullish. However, history shows that most rate cuts are followed by economic and stock market declines. Of course, that is not what the media tells you, although it makes sense: the Fed is more incentivized to cut rates when a recession looms than when the economy looks strong.

Wishing you a wonderful weekend,

Bert Dohmen and team

Announcement: Due to the recent high volatility in the markets, we are receiving many requests for consultations. If you are interested in talking one-on-one with Mr. Dohmen (impersonal analysis and forecasts only, not related to specific securities or investments) **please click this link, or send an email to client@dohmencapital.com with subject line "Consultation Request".**

Once received, we will reply back with available time slots. Payment must be made in advance (credit card only). Consultations are in 15-minute increments at the rate of $600 per 15 minutes.

IMPORTANT NOTE: we will publish a new issue only when:

1. There is a change in our positions, or
2. There is a new recommendation, or
3. There is an important event we consider significant to our trading strategy

This will also make it less tedious for our valued subscribers. Time is precious for all of us.

We hope you will support us on this clarification of our publishing schedule. We look forward to continuing to help you become a better, more informed, and more successful trader.

DISCLAIMER for ALL POSITIONS: We (Dohmen Capital) usually try not to have positions in the stocks mentioned and instead go into the same sector with a similar stock for ourselves. This is to avoid any appearance of conflict. However, if there are not enough stocks with good volume and fundamentals in the sector so that we have an alternative for our own accounts, we may have positions in any of the stocks mentioned in the services from time to time. Those buys and sells may be different than the suggestions in this service.

Important: Always remember that the ultimate decision of what to buy, sell, and sell short is up to the individual. Our information, forecasts, and securities are merely suggestions. You should always research all investment opportunities yourself.

HOW TO CONTACT US:

The best way to contact us is via e-mail. Your e-mail will be answered, usually within 24-48 hours. office@dohmencapital.com

WHAT “AREA” MEANS IN SMARTER STOCK TRADER:

When I give advice to buy or sell in certain price area, I do it so that not all of our orders are sitting at exactly the same price. By “area”, I mean a range. Our rules of thumb are as follows:

[< than $15] = ± 0.25;   [< than $30] = ± 0.50;   [< than $50] = ± 0.75;   [< than $100] = ± $1.00;   [> than $100] = ± $1.50.

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BOOKS by Bert Dohmen:

PRELUDE TO MELTDOWN ($15)

The truth behind the global financial crisis of 2008 REVEALED! This book may save you a fortune! Bert Dohmen, who warned at the beginning of 2008, that starting in September ’08 the global financial markets would teeter on the brink. (go to http://dohmencapital.com/PreludetoMeltdown.html)

FINANCIAL APOCALYPSE ($25)

Do you want to know where the global markets are likely to go over the next several years and how to interpret the clues for yourself instead of listening to the pundits? Here is the book that will show you. It is a step by step account of the 2008 financial crisis, with charts, technical indicators, and credit market analysis, which gave us all the clues that in the fall of the year we would encounter something similar to 1929. This book is the road map for the next global crisis. It’s a collector’s item and can be used as a reference book to see what Wall Street tells investors to keep them in the markets even while they are selling themselves.
(go to http://bookapocalypse.com/)

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P. O. BOX 7041, Incline Village, NV 89450
dohmencapital.com | client@dohmencapital.com

THE COMING CHINA CRISIS (Edited Edition) ($25)

Bert Dohmen's SPECIAL E-book on the coming China Crisis presents the case that China will produce a Tsunami throughout the global economies. China was the locomotive of the globe, the financing mechanism for the immense US debt, the source of incredible demand for commodities and oil, and the economic power of Asia. That is changing now.
(go to http://dohmencapital.com/thechinaCrisis.htm)

THE CHINA CRISIS IS HERE ($20)

In this special follow up e-book to the prescient *The Coming China Crisis*, Bert Dohmen explains the true China credit crisis actually started in 2014, when overnight interest rates tripled from one day to the next. That was quickly covered up with massive credit creation by the government. The result was an immense stock market bubble. All bubbles eventually implode and that is exactly what happened to the "China bubble," which burst in June 2015. Wealth equivalent to half of China's GDP was wiped out in a matter of weeks. (go to http://dohmencapital.com/the-china-crisis-is-here/)

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