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**Weekly Commentary Page** Updated each Saturday

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**This is the Stock Index Timing Weekly Commentary Page (usually updated each Saturday):** When the [Stock Index Timing Executive Summary](#) page shows *Net Commercial Watch* "**IN THE GREEN**," my overall market opinion is positive, or, when "**IN THE RED**" my overall market opinion is negative. The following Saturday morning commentary is written with a bias towards that overall market opinion.

**Stock Index Timing .com Model ONE and Model TWO recommendations** are shown on the [Stock Index Timing Executive Summary](#) page and are followed by Timer Digest, see [www.timerdigest.com](http://www.timerdigest.com)

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Before reading my weekly commentary, please review the [Market Timing Signal summary and recommendation](#) and the [Weekly "technical" market review](#), and review the [twelve week summary of net commercial positions](#) .

**2/11/2006 8:45 am eastern**

## **2/11/2006 SWING TRADE RECOMMENDATION UPDATE:**

### **NO OPEN SWING TRADE RECOMMENDATION**

"Swing trade" recommendations are just supplemental one to two week trades for aggressive short term traders. A "Swing trade" is a trade recommendation in addition to my overall market timing trade recommendation listed as the **Model ONE and Model TWO recommendations** shown on the [Stock Index Timing Executive Summary](#) page. Entering the "swing trade," or exiting the "swing trade" does not reflect on my overall market timing recommendations.

When I recommend 100% long, I am recommending a long stock index future for each fully funded underlying value of your account. For example, if the S&P were at 1200 and I recommended 100% long, my recommendation is to have one long E-mini S&P for each \$60,000 of account value. When I recommend a "short term swing trade," I am recommending an additional E-mini S&P future for each \$60,000 of account value, where the S&P is approximately at 1200. That makes the recommended position "double long" relative to the underlying funding of the trading account.

Commentary on COT report as of 2/7/2006

"Adjusted" Net Commercial position review:

Last week, the net commercial's increased shorts to the largest net short in the last year.

**AL POSITION-WITH OPTIONS**

COMM'L NET PC

195% of 5 YEAR RECORD (I=1gear, III=3gr) Net Commercial w/o					1 YR NET RECORD		
	01/17/06	01/24/06	01/31/06	02/07/06		SHORT	LONG
4119	-5322	-5522	-5890	-6492	Commodite	-43158	-3240
5182	-185934	-177157	-173802	-159890	Copper	-227566	-55740
3494	-7011	-7630	-8114	-7201	Gold	-10959	-4060
1326	-80728	-78330	-75770	-73441	Platinum	-85115	-33674
16121	-278995	-268639	-263576	-247024	Silver	-323878	-123256
2428	535490	534594	722697	873669	Metal Subtotal	243276	1148084
1673	97439	101325	198622	224021	Eurodollars	46581	459733
1690	-69518	-52927	70232	87336	5Yr TreasNotes	-69518	621804
7124	21412	20830	71217	58822	10Yr TreasNotes	-18693	113042
1487	49333	69228	340071	370179	TreasureBonds	49333	1048002
1739	-61339	-73547	-87248	-64196	5/10/30Subtotal	-11833	7253
3072	-7003	-13625	-7714	779	Crude Oil	-31211	9870
8951	-39661	-40532	-38891	-32887	Heating Oil	-51305	-11494
3500	4838	4094	3210	-6193	Unleaded Gas	-48158	17079
1262	-103165	-123610	-130043	-102497	Natural Gas	-223828	6007
1979	-12330	-10708	-10642	-8070	Energy Subtotal	-18920	8691
2273	-5999	6499	343	1233	DJ Industrials	-59072	38187
2188	-38705	-40278	-48479	-47293	DJ Industrials \$5	-52206	1514
7804	-101618	-73480	-125550	-39323	SP 500	-311371	41556
1749	-59029	-54974	-73589	-55158	E-Mini SP 500	-77838	6956
2774	-14188	-16735	-15540	-14558	S&P Sub (E/5)	-17058	11547
3838	-27855	-7608	-16407	3527	NASDAQ 100	-87727	203882
3806	19759	-18257	-18821	-13853	E-Mini ND 100	-22154	35714
3036	-92366	22692	-103026	-76866	ND Sub (E/5)	-103026	42199
3046	3483	-4989	2018	10700	Stock Indx Sub	59285	40186
1838	-49634	-47185	-56112	-68268	Dr Pound	-76683	33399
1760	-32879	-29324	-41798	-25051	Canadian \$	-78407	2487
7419	-32507	-53921	-51637	-29728	Australian \$	-53921	24327
1263	12683	11071	45888	64367	Euro FX	-6273	82855
1222	2054	-6572	2710	24963	Japanese Yen	-7626	65188
4619	-48401	-48538	-70416	-65290	Swiss Franc	-89024	-15772
6105	-145201	-179458	-169025	-79305	Mexican Peso	-262975	79604
4138	-3196	-1458	-2416	-5703	FX Subtotal	-31098	13072
1080	56896	74524	1828	-21546	US Dollar Index	-43059	178513
3092	-6320	-5960	-6964	-7730	Corn	-7730	-2149
3069	39224	50709	44428	44317	Oats	-62636	63834
2577	-19094	-11491	-9697	-1632	Soybeans	-48740	43744
6581	17437	20959	14464	4944	Soybean Meal	-25994	66129
3960	34186	34310	22195	9596	Soybean Oil	-55078	20687
8127	-45826	-45950	-50967	-55078	Wheat	-163825	386075
3894	76503	117101	15287	-27129	Kansas Wheat	-51079	13492
1454	-32097	-30772	-28031	-29235	Grain Subtotal		
					Cocoa		

The full page of the above table can be found at <http://www.futuresemail.com/cot/cotp3opt.htm>

See the chart on the [Stock Index Timing Executive Summary](#) page for a view of the range of the net commercial position over the past five years.

**Consider the other side,  
the bulls have to feel very good  
about the market breakout.**

Each week I do the Technical market review before I write this commentary. See [Weekly "technical" market review](#) . I do the technical review because I believe technical analysis can help call the market. The problem is, it may not call the market in advance. It may just tell us, with a high degree of certainty, where we have already been.

First, let me make my view of the market completely clear - The adjusted combined net commercial position was at the largest net short position of the last 12 months and I recommend speculative money be - plan A - out of the market, and most aggressive plan B, 100% short. At some point I

will add a swing trade short to move us to 200% short.

Back to technical analysis.

Boy, the top in January was really a great market breakout! I mean, come on, the technicals on the market at that point really looked great. Expanding new highs, advance decline and volume looks great. And it should! Look at the following chart of the NASDAQ! We have a breakout above a resistance line going back to 2001!



Here is a closer look at the above NASDAQ chart. WOW! a breakout to the upside of a two year wedge!



Here is a chart of the Dow for the same period as the above. It has not yet had the breakout the NASDAQ had in the above chart.



But if I go to the longer term chart of the Dow, maybe it has had the same breakout!



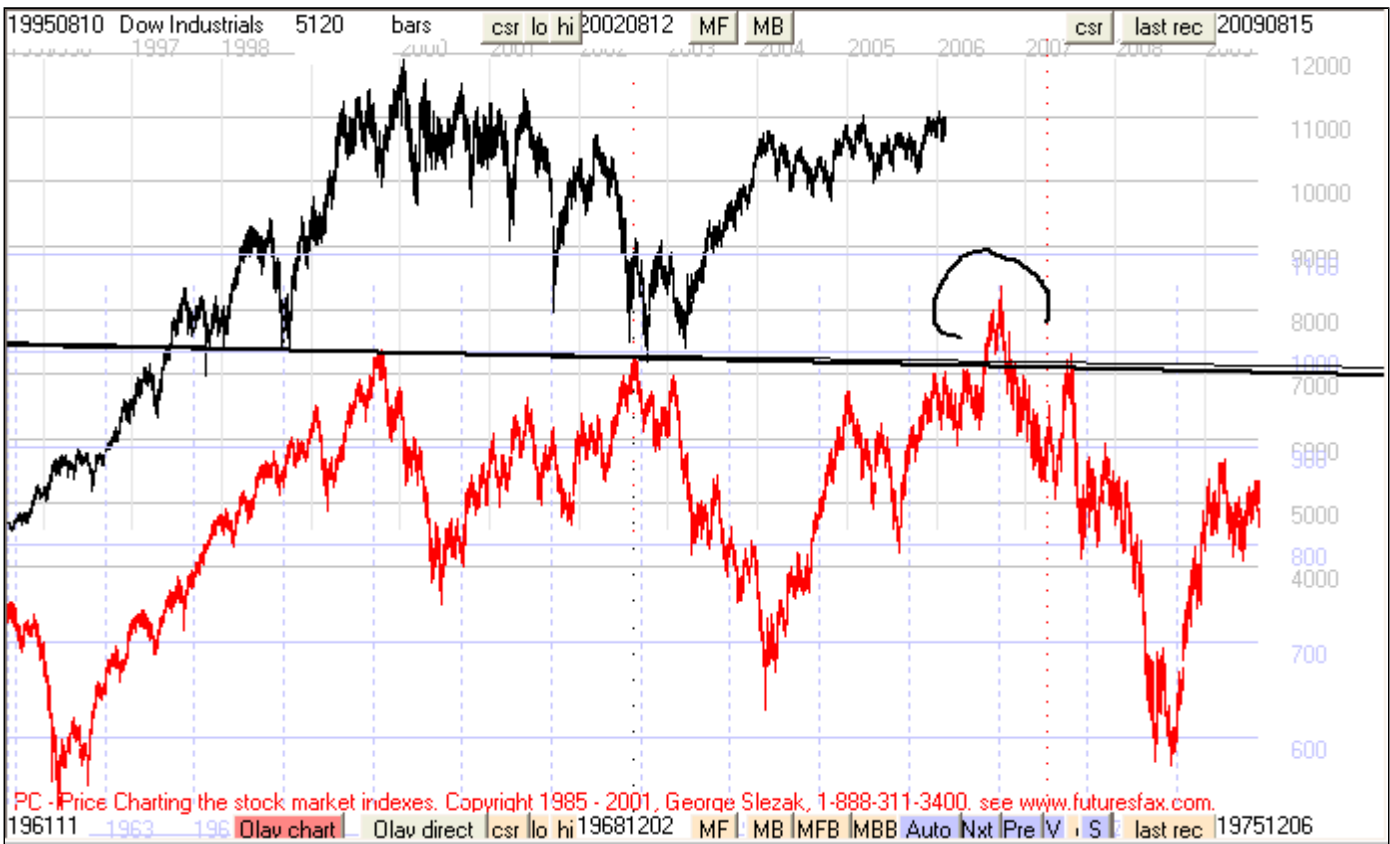
Doesn't that look great!

Years ago I would see charts like the above and call it "BREAKOUT!"

Here is a chart of the 1973 top, with a big erasure of the post breakout.



Here is the above chart with the effect of the breakout FAILURE.



I think many of us would call the 1973 peak a BREAKOUT FAILURE TOP!

Now I'm sure we could find some technical indicators that support the breakout in 1973 as having some critical flaws. And, maybe we have some of those same critical flaws in the market at the current January 11th top.

But, my experience with technical indicators that support a top, is that in many cases the technical indicators eventually catch up with a market moving out from the breakout and confirm the market move if the market move keeps going. Kinda like the way the number of new highs broke out recently to confirm the breakout of the market to new highs.

Some time back, when I was more active with individual commodity trading recommendations, one of the signals I would use in calling commodity trades was a "BREAKOUT FAILURE" chart pattern. The story I would tell to explain the set up was about one of my early experiences on the floor of the CBOE.

*I remember when the market broke out to new highs, and the buzz was all about the advance decline line breaking out to new highs and "everyone" I talked to was buying the market on the breakout. I was pretty new to the floor, so I had not yet put on positions, but I was getting ready to back up the truck like everyone else that next morning. But when the market opened it wasn't strong. In just a short amount of time, I saw the guys that had told me about all the buying they had done were selling, and the market was a little bit lower. It turned out to be a real route of the market. Simply, the great market breakout failed! And all those that bought it for the pop, had to puke it quick, and then like a good floor trader, pound it down knowing others were hooked as well.*

Now, this is not a great personal insight. Dow Theory is pretty much the same thing. Dow Theory is based on calling market tops on a non confirmation. One of the Dow indexes breaks out to new highs but is not followed by all the others. When the indexes fall to take out a previous intermediate low, that taking out of the recent low calls the previous market top as a top. The sell signal comes when the previous low is taken out by all the Dow indexes.

In day trading, one of the very good trade indicators is where the NASDAQ breaks out to a new high for the day, but the Dow Industrials fails to hit a new high. (or the other way) When they both begin to zig zag to the downside, that is a day trading indicator for a day trade sell. Some time back I set up a web page to help clients see the day trade set up. It is still on Futures Trading School, see [Divergence day trade page](#)

In the February 2000 issue of Futures Magazine I wrote the [linked article on "Break out failures."](#)

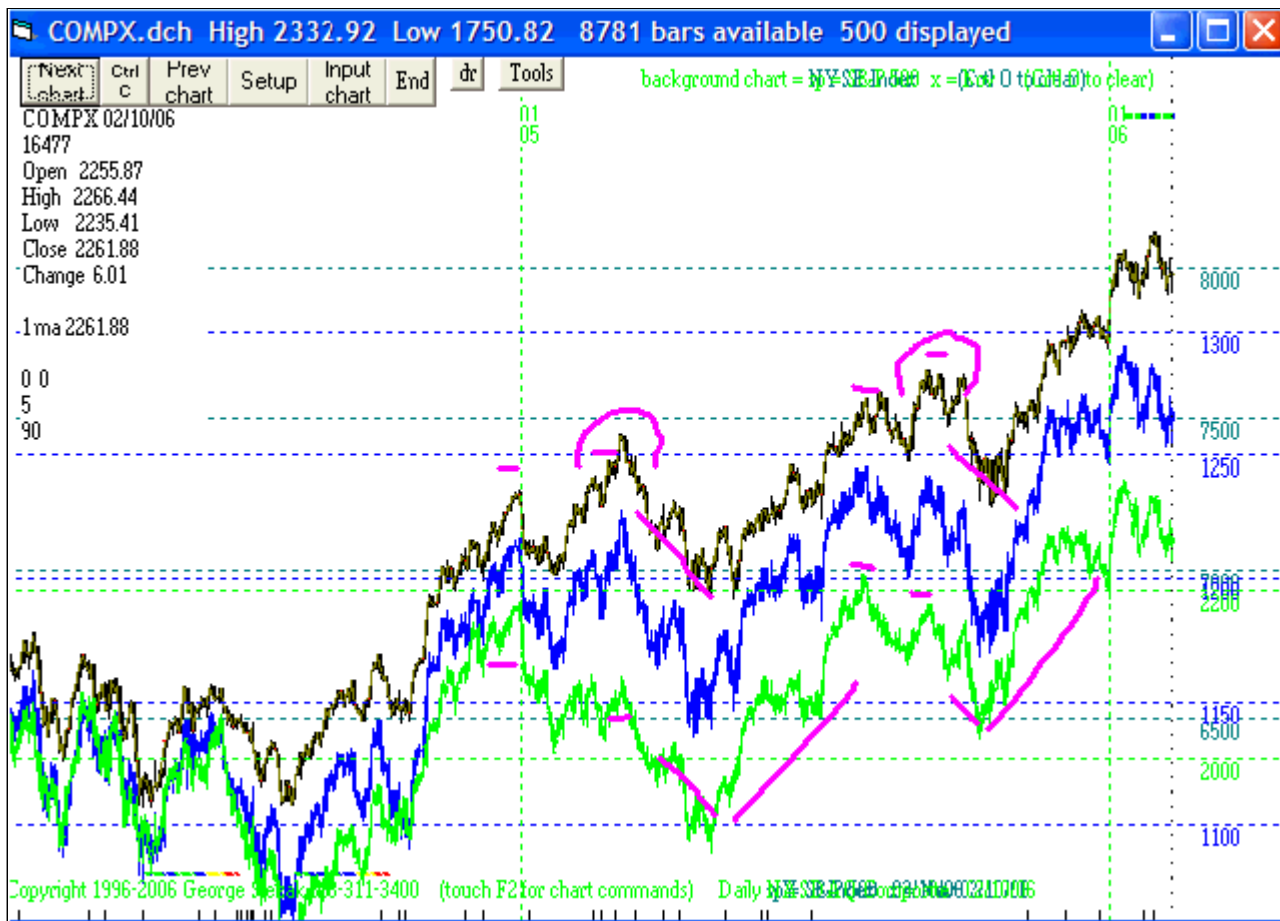
But, a breakout failure isn't a failure until it fails! In the day trading page I say we want to wait for a zig zag in the 5 minute chart away from the failure before taking trades. This is basically the Dow Theory of divergences applied to a 5 minute chart of the S&P and NASDAQ. And then be sure to have a stop.

Here is an illustration of a day trading breakout failure on Thursday this past week. The Dow put in a new high for the day near 1 pm at the time of the announcement of the 30 Bond auction, and the NASDAQ did not. After the ZIG ZAG, a good day trade to the down side ran into the close.



And just a warning, you could have a breakout failure **fail**. Like I always say, up down or sideways pretty much covers the possibilities.

The last two years were the years of the breakout failure failure. Look at the following chart and you can see two breakouts, in March of 2005 and September of 2005, where the NYA broke out to new highs and the NASDAQ did not confirm. Both times the market started a break down, but the breakdown failed to turn into the next bear.



Managed Money Report as of 1/31/06

Beginning August 1, 2005, I am now a Registered Investment Advisor managing client speculative funds using Stock Index Mutual Funds and Exchange Traded Funds. Client accounts are held at a discount stock broker (ie BrownCo) that allows mutual fund switching (market timing) on selected funds (I currently use ProFunds or Rydex Funds) and I take a trading power over the account.

		Jan	F	M	A	M	J	J	Aug	Sep	Oct	Nov	Dec	Aug 1 to Dec 31
2006	Managed Account	-3.3%												
2006	S&P	+3.0%												
2005	Managed Account							+3.5%	-0.6%	-6.4%	+7.8%	+1.9%	+5.9%	
2005	S&P							-1.1%	+0.7%	-1.8%	+3.5%	-0.1%	+1.2%	

The Managed Account Returns, in the above table, are based on **actual accounts and reflect a monthly managed fee of 1/12th of 2% times the month end balance.** The returns are compared to the S&P returns from published data.

I accept only "speculative funds" (in either a regular account or IRA) for management and charge an annual fee of 2% of the account value. For more information on a speculative managed account using Stock Index and Commodity Index Mutual Funds or Exchange Traded Funds, email [george@georgeslezak.com](mailto:george@georgeslezak.com)

Click here to review the Investment Advisor Form ADV Part II [Disclosure](#) (3 meg file) and a copy the Investment Advisor [Agreement](#).

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Bottom line, **CORE SHORT** Stock Index Timing .com is **"IN THE RED."**

See my The Gold Bull commentary on Sunday morning where I am talking about the grains at [www.thegoldbull.com](http://www.thegoldbull.com).

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Good luck and good trading!

George

PS: Be sure to see the [Weekly "technical" market review](#).

For more Info, call George at 1-888-311-3400

Send me an email with your comments! [george@georgeslezak.com](mailto:george@georgeslezak.com)

Managed account profit and loss are based on actual account returns. Any reference to futures Profit or Loss are hypothetical and do **not** reflect the results of any actual trading. Theoretical profit or loss shown are per contract before commission and fees. YOU SHOULD BE FOREWARNED THAT SYSTEMS WHICH TRIGGER FREQUENT TRADING SIGNALS AS PART OF A DAY TRADING STRATEGY CAN RESULT IN SUBSTANTIAL COMMISSIONS AND FEES.

Even though the above trade recommendations are NOT based solely on back tested trading systems (subjective non quantified judgments are often considered) **all traders should read the [CFTC CONSUMER ALERTS](#) and the ["COMMISSION ADVISORY" on trading systems](#).**

All aspects of any trade recommendations contained in this report are subject to modification at any time.

FUTURES TRADING INVOLVES SIGNIFICANT RISK OF LOSS AND IS NOT SUITABLE FOR EVERYONE AND THE RISK OF LOSS SHOULD BE CONSIDERED CAREFULLY BEFORE MAKING ANY TRADES. A STOP LOSS MAY NOT LIMIT YOUR LOSS TO THE AMOUNT INTENDED. YOU SHOULD BE FOREWARNED THAT SYSTEMS WHICH TRIGGER FREQUENT TRADING SIGNALS AS PART OF A DAY TRADING STRATEGY CAN RESULT IN SUBSTANTIAL COMMISSIONS AND FEES. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. ANY STATEMENT OF FACTS HEREIN CONTAINED ARE DERIVED FROM SOURCES BELIEVED TO BE RELIABLE, BUT ARE NOT GUARANTEED AS TO ACCURACY, NOR DO THEY PURPORT TO BE COMPLETE.

ANY REFERENCE TO PERFORMANCE IS INTENDED TO BE UNDERSTOOD AS STRICTLY THEORETICAL.

**REGULATORY DISCLOSURES REGARDING HYPOTHETICAL RESULTS**

HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM.

ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. THE RISK OF LOSS EXISTS IN FUTURES TRADING.

All traders should read the [CFTC CONSUMER ALERTS](#) and the "[COMMISSION ADVISORY](#)" on trading systems.