

The Stock Market's Red Glare

The Whitney Theater (Hamden, CT) marquee advertised movies for children ("Gidget"... "The High and the Mighty"). Every kids matinee, the manager would pick a ticket out of a large popcorn box. He would give the winner candy, free soda and popcorn, or a toy connected to the movie.

One afternoon he read the numbers on my ticket stub. The prize was an air-pumped rocket. My friend Elly and I went to an open field, pumped it as hard as we could, and let it go. It went straight up, stalled, lost momentum, nose-dived and hit the sidewalk.

Stock Markets soar and crash too. Stock Market traders sometimes become kids with a toy. Every day the market pumps itself up. Indices spiral upward making many giddy with kiddish delight; nobody wants this rocket to fall from its lofty heights. With little notice, the market stalls, momentum is lost, and markets crash.

Simple laws of gravity inform us that upward moves of any force require energy and momentum. The stock market is ruled by the same laws. Markets cannot, will not, and have not moved in one direction without correcting. This means that bull markets are not forever, and bear markets are bearable.

"What happened?"

My toy rocket did not give me any warning when falling to reality. Stock markets project warning signs when upward momentum stalls. You never want markets to go up forever. It is best when markets move up, pause, contract, and build a base before making their next move.

A base-line provides support for a market index like the Dow or the S&P. Long support lines give investors solace because it takes a lot of sellers to break through it. A support line or base (see image) is a trading pattern of stock buying and selling with little price change.

No support means the market index has potential to keep falling until it finds a support line/base or bottom. Markets stall when reaching a high price on average daily stock trading volume. Bulls (buyers) will strain to push the markets upward, but Bears (sellers) thwart the momentum. An excessive number of sellers (many more than the average) can force an index/stock to new lows.

"Make it go higher!"

My toy rocket did not reach heights too fast. Elly and I were ten or eleven years old; we wanted that rocket to disappear in the clouds. Many investors act the same way; they want the markets to go up and up because it means more money. When markets hit successive days of positive returns, investors get starry-eyed. We like it when Neil Cavuto (among others) reports new highs for the Dow (read "The Dow Jones Industrial Average: Failing the Average Investor" by Steven Selengut).

Dizzying heights cause most investors to miss subtle market moves. Stocks/indices must move higher on strong buying volume. When markets reach a bench-marked high level, getting past it will take three times the average number of daily buyers. If the price stalls at the bench-marked high and the buying volume is less than the daily average, index prices decline.

"Don't worry."

Elly never worried; I always worried. When that rocket went off, I feared it would break a window or hurt someone. Elly said, "Just pump it Ray and let it go!" Some stock investors never worry. Wise Wall Streeters know that "The market needs to climb a wall of worry." War, high oil prices, poor consumer sentiment, and Federal Reserve rate increases are walls of worry. Euphoric investors topple markets.

Something to Fear

The Vix Index is the "fear index" When the Vix spikes, worry increases; when the Vix is down, optimism is excessive. Today, May 22, 2006, the Vix spiked. The VIX "is a good indicator of the level of fear or greed in U.S. and global capital markets. When investors are fearful, the VIX level is significantly higher than normal." (Antognelli, Ferreira, McArdle, and Traub. "Fear and Greed in Global Asset Allocation." The Journal of Investing. (Spring 2000), pp. 27 - 32). Every rocket must return to earth for refueling. I learned this with my friend Elly and my toy rocket.

Want to build a toy rocket? Gary Rollins tells you how in his article [Building A Model Rocket Can Be A Great Learning Experience](#)

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