5 TIPS FOR OVERCOMING

MARKET VOLATILITY

EXPERT TRADER SERIES

2020

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INTRODUCTION

The outlook of increased volatility and lower prospective returns isn't exactly good news.

Uncertainty in the markets can cause a trader's emotions to become high and confidence to become low.

Savvy traders know, however, that even during times of volatility, money can be made.

But how can we tune out what doesn't matter? Cut through the noise and maintain a profitable portfolio?

We have to adjust.

It can be difficult to adjust to a new market paradigm. For the years following the financial crisis of 2008, the public benefited from a rally in financial markets facilitated in part by expansionary policies of the Federal Reserve and other central banks.

2015 marked a transition in markets as the Federal Reserve hiked rates for the first time in nine years, while volatility moved higher.

2016 has continued in a volatile fashion too as we continue to grapple with the central banks, political uncertainty and so many other factors.

By following these **5 Tips for Overcoming Market Volatility**, you can begin to successfully navigate these choppy waters and find ways to be consistently profitable no matter how turbulent the markets become.

TIP ONE: TUNE OUT THE NOISE

Before you can tune out the noise, you need to understand what the noise is, and to understand what the noise is, you need to have clarity on what I mean when I say "market volatility."

Market volatility unto itself is a naturally occurring element of the market. We see it happen when two or three big tech names come out with earnings reports that fail to meet expectations, or when the head of the International Monetary Fund (IMF) gives a report that points to weakness in the emerging markets, or when the head of the US Federal Reserve leads the market with suggestive statements about where interest rates are headed.

The above and more are examples of what I see as "normal" market volatility, but that is not what makes people panic. No, the kind of market volatility I am referring to in this e-book is the kind that has my brother calling me and asking if he should pull his retirement out of the market, the kind of radical market movement that inspires retail investors to sell-off their holdings.

What I am talking about when I speak about market volatility is the panic we saw in late 2008 and early 2009 in the midst of one of the worst financial crises in American history. Although, that period was bad, very, very bad, it was also educational. It was a time when the breathless media exposed itself for what it is – a corporate entity focused on selling the news, the bad news whether real or contrived.

Of course, we have seen the breathless media drop its pants many times since then, and the market has followed right along. Think back to the European crisis of 2009. Portugal, Italy, Ireland, Greece, and Spain collectively became the PIIGS, and for many months, the breathless media hammered the coming dissolution of the EU, the collapse of the European markets, and, of course, the resulting rippling that would bring the US markets to its knees, again, much like the fall of 2008.

I so vividly remember back in 2008 and early 2009 the breathless media pushing it star doomsayers on the financial networks, each with his or her version of the next big domino that would bring the Dow down to 5,000, would push gold to $5,000 per ounce, or oil to $200 per barrel. Of course, none of that happened, but the really "smart" dudes on TV kept telling us they all would happen, that it was inevitable the then current crisis would drive those prices upward. The market took the bait, hook, line, and sinker.

Admittedly, in 2008 and early 2009, it was difficult to “tune out the noise” when the daily market swings were 500-1000 points on the Dow, and the market panicked in a way unseen for 80 years, and oil and gold did rise speculatively higher, but there were voices of reason that kept me from panicking to the point of getting out. Remember, the closest the Dow got to 5,000 was 7062 in February 2009, and gold never reached $2,000, much less $5,000, and oil never hit $200, instead falling back from a high of $147 to right about $100, and, then ultimately, some years later, all the way down to $30-$50 range.

Smart and steady money kept the ship afloat then, as it always will, but retail investors sold off portfolios taking losses on the way out when all they had to do was to tune out the noise and keep their wits about them.

It was the same in 2011 when the Tea Party commanded center stage in US politics and threatened to bring the US government to its knees with a government shutdown. The breathless media again sold the retail investor the bad news that the US dollar was going to collapse, that gold would skyrocket to new highs, and that the US would have to prioritize its debt payments, meaning, some debts would get paid and some would not.

The breathless media sensationalizing the political grandstanding created yet another wave of hilltop screamers, the preachers of doom always lurking in the financial industry, predicting the end of the market as we knew it.

In the summer of 2011, the market tanked, spooking many out of the market and into who knows what, but the fact is that in September 2011, the market bottomed and thereafter began a steady rise right through February 2015. The next big panic would be January 2016.

In the end, tuning out but not dropping out is the way to go, and when I say tune out I mean tune out the hype, not the real news. The fact is, underneath the hype, something is going on in the market and you need to know what that is.

TIP TWO: TUNE INTO THE REAL NEWS

I just suggested you "tune out the noise" when the market goes haywire, and I meant it, but you also have to understand what is going on, so once you have tuned out, I suggest you tune back in, but do it carefully. By "carefully," I mean objectively and with an understanding that so much of what is happening in the market in times of high volatility derives from the media hype. Remember, "the media" is not some community designed to give us the news and just the news; it is a land populated with for-profit ventures accountable to its shareholders. To that end, it has to get good ratings, and to do that, it has to "sell" the news. We might as well just call it "infotainment."

Now, this is not to say one cannot find any news worth listening to in times of market volatility. There is media that delivers the financial news in a balanced way. *Squawk Box Europe* is one of my favorites. Designed as a panel show with "debate," the format presents and discusses the financial markets reasonably, presenting different points of view with a sophisticated demeanor. Personally, I found (and do find) the format, the anchors, and the panelists bring me to a place of calm reflection, a place to assess the reality of the market turbulence, to identify the real source of concern.

Back here in the USA, I feel the same about *Fast Money*. Facts get separated from hype even as opinions differ, which brings me to an important point – difference of opinion is not the issue when it comes to market volatility. Reasonable and smart folks will always differ about the future of a market driven by human emotion. The real problem is how that difference is portrayed.

On the two financial shows I mentioned, the differences of opinion are on display, but they are delivered in a measured way. The essence of market craziness in times of extreme volatility is the breathless media putting front and center such "elites" as Nouriel Roubini (aka Dr. Doom), Bill Gross, William White, and Meredith Whitney, as if their opinion is worth more than anyone else's out there.

Each of the above has, in their own way, earned the status of "excellent" financial analyst, but, and as well, each has parlayed that reputation into celebrity status, which means that in order to keep on getting the soap box on TV, they need to keep coming up with sensational predictions that sell, which means they are wrong more than they are right.

And in times of true market concern, such as in 2008-2009, 2011, and in early 2016, the hilltop screamers were paraded out on financial networks and presented in the financial media (digital and print) to tell the world how bad it was and the fury that was coming. Yes, sensational sells.

This hyping has the effect of making a bad situation even worse. It causes fear and panic, and the only folks who profit are those in the know who understand this reality, and, perhaps, drive this reality, and then bet in the direction of the panic or buy up the now undervalued markets suffering from irrational selling.

An Oracle of Oil Predicts $200-a-Barrel Crude

The above headline appeared in the Business section of the *New York Times* in May 2008. The oracle worked at Goldman Sachs, and, at the time, oil prices were in the $120 zone. Now, as we all know, oil peaked in July 2008 at $147, which means it never got close to $200 per barrel, but yet, an analyst from Goldman Sachs was allowed to talk up oil reaching $200. Why? Who knows for sure, but there might well have been a reason for Goldman Sachs to take advantage of volatility in oil market prices and drive prices higher, so high that the price of oil had a major impact on the market itself. The point is, it was all media hype creating speculation, and those that bought oil at $129 thinking it would go to $200, well …

In any case, what is important is that outside the media hype, reasonable folks were talking about speculation in oil prices, and it was not a big leap to seeing a potentially different conclusion – speculation was driving oil prices higher, not the fundamentals.

And so it was the same with the overall market. In December of 2007, the US economy officially entered a recession, so by the fall of 2008, that recession was full blown. As well, corporate earnings were less than stellar. That reality strongly suggested a market correction was in order. Adding in the unknown about the financial/banking crisis and the collapse of the real estate market, the major “hit” to the market was understandable, but the talking heads and their hilltop screamers only made a bad situation even worse.

TIP THREE: TRACK THE FUNDAMENTALS

Putting aside the real estate market dissolution, financial collapse, and the recession underpinning the market volatility in 2008-2009, every market panic since then has been one of the media's making. The PIIGS crisis in 2009 and the Tea Party "Revolution" in 2011, and the early 2016 market dive all came at a time when the economic fundamentals and the corporate earnings reports demonstrated the US economy was growing, albeit at a slow rate, but growing nevertheless.

Make no mistake, when the economic fundamentals and corporate profits are doing well, the market will do well, eventually. To get this, simply track the Dow from May 2009 right on through to the summer of 2016 and you will see an undeniable pattern – as the US economy grew and corporations posted profits, the market grew.

Now, there is an argument that concludes the only reason, or, at a minimum, the major reason the market grew in that period of tepid GDP growth is that the Federal Reserve kept interest rates so low that there was nowhere to put money other than the stock market, if you wanted it to grow that is.

I don't fundamentally disagree with the proposition that low interest rates attracted retail investors to the market, as we saw over the period a rise in the number of folks who on their own invested money in the market. I do, however, fundamentally disagree with the notion that the big money was only in the market because of low interest rates.

In December of 2015 when the Fed did raise rates for the first time in nine years, the market tanked in January 2016. No argument. But what happened after that makes it quite clear that the US stock market was ***not*** propped up by the "nowhere else to put your money" theory. In fact, what we saw was big money taking advantage of the panic situation. Soon thereafter, the market began to recapture its losses, taking it back to record heights in the summer, and, coincidentally, in that same period, the economic data that was coming out pointed to a US economy still growing.

Specifically, unemployment remained low, the real estate market continued its rebound, consumer confidence went up, housing permits and housing starts went up, auto sales hit record highs, business investment rose and, perhaps, most importantly, oil prices dropped in the summer, which created an increase in discretionary spending, which, in turn boosted retail sales.

As well, corporate earnings showed strength after three consecutive quarters of decline. Bear in mind, though, those three quarters of decline included major losses from the oil industry, and the reason for those losses, well, check this out from Triple A (AAA) in July of 2016.

National pump prices have fallen for 43 of the past 44 days, dropping 22 cents during this span. The national average price for regular unleaded gasoline sits at $2.16 per gallon, which is the lowest mark since April and the lowest price for this date since 2004. Today's price is five cents less than one week ago, 15 cents less than one month ago, and 56 cents less than the same date last year.

Gasoline prices had been dropping and holding steady at a low rate since oil prices began falling in November of 2015. Here is the pivotal point. The breathless media and the talking heads were pounding us with the "reality" the market would collapse when the Fed finally raised rates, and that happened to a degree in January, but the only reason the market fell apart in early 2016 was the financial media noise. Fundamentally speaking, there was reason for a minor adjustment relative to corporate earnings, but there was absolutely no reality to support the S&P 500 dropping 5% by the end of January 2016.

In fact, what became very clear is that the market quickly began to shake off the panic and steadily began rising again as institutional investors (big money) began taking advantage of the market volatility by slowly buying up bargains in the market. As stated, by the end of June, the market had regained its losses and was headed even higher into the summer.

Now, if in January, the panic in the market steered your emotions toward the idea the market was going to bust because the Fed raised rates in December and was "scheduled" to raise them again in June, you probably were paying more attention to the breathless media, the talking heads, and the celebrity analysts than you were to the economic fundamentals.

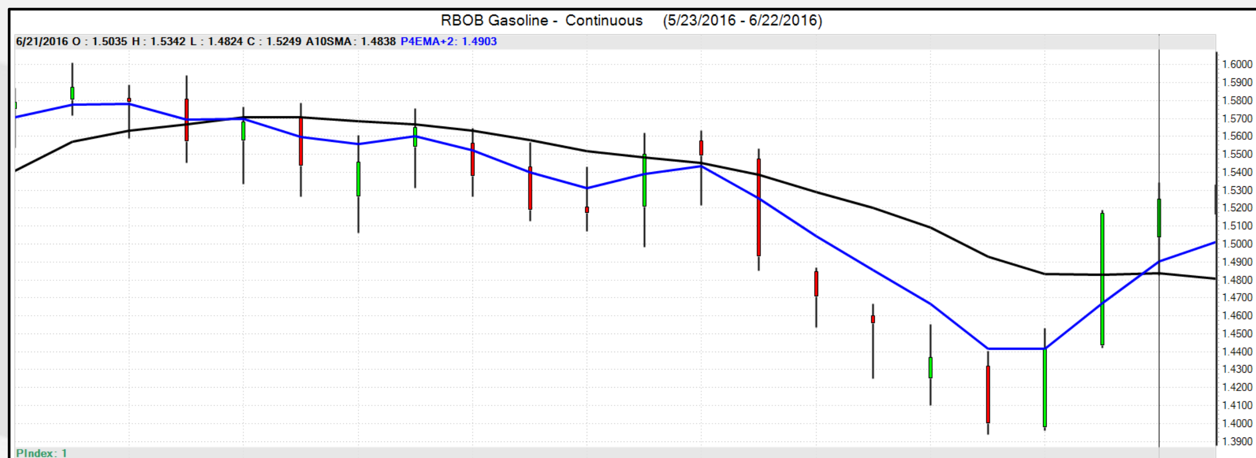
To me, it is simple math. Check this out. Every $1 drop in the price of gasoline means up to $348 million dollars is available on a daily basis to the US consumer. Even if that number is off by half, the point is, at least $175 million per day (or $63 billion per year) is available to US consumers, and that is "freed" money, money already committed to fuel costs but now freed up to spend on, well, whatever.

At least in my mind, it was pretty clear that as oil prices plummeted, gasoline prices would follow, which would then give a monetary boost to the US consumer, which would then push big-ticket sales, discretionary retail spending, and consumer confidence, which would then lead to a positive set of economic data later in the spring. Again, simple logic suggests that since consumer spending drives some 70% of US GDP, it is likely that if you give US consumers some $300-million every day in discretionary money as a gift, they will spend it.

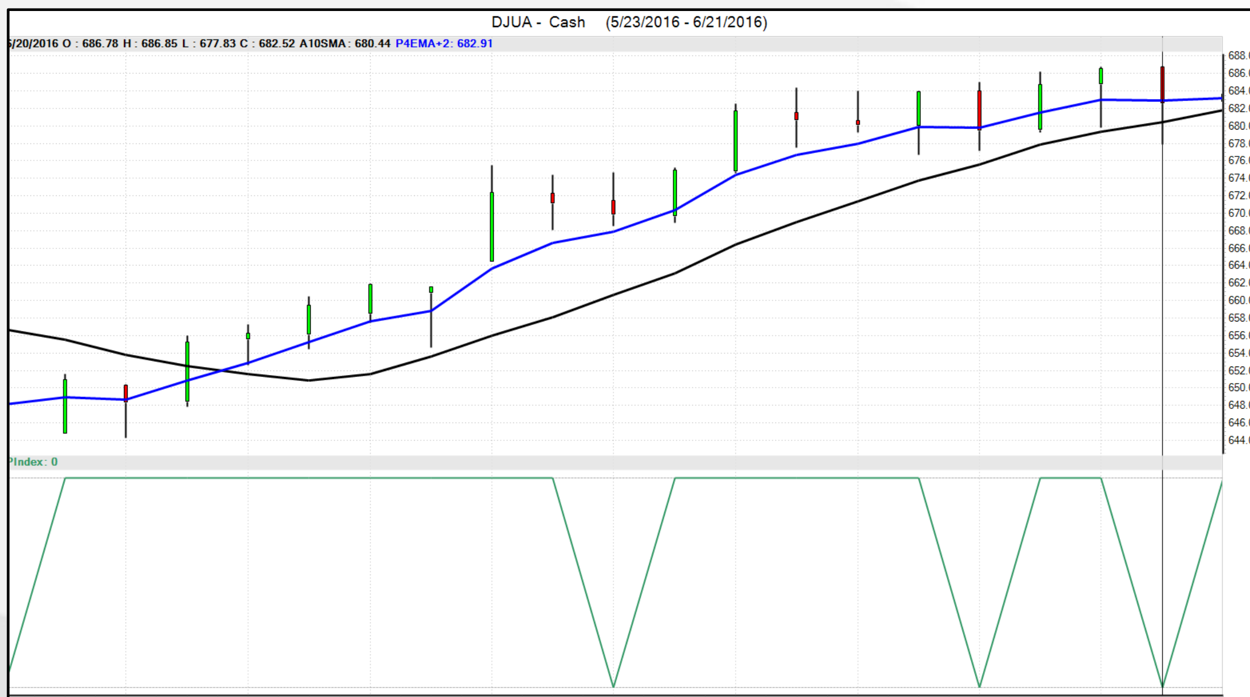
Data on the US economic fundamentals can be found in the news cycle, and sometimes it is headlined, but mostly it is underplayed relative to “bad” news, and you can be sure that when the economic news is bad, it is played up heavily.

Another indicator I like to watch to assess the reality of the market in times of panic is the RBOB gasoline futures. If that indicator remains steady or heads lower, despite what oil does, my take is the US economic fundamentals will be in play for big money.

Vantage Point Intermarket Analysis Software (VP) forecasted P predicted a drop in the RBOB, and sure enough that’s what happened. Using patented, predictive technology, VP forecasted a drop in RBOB with the powerful crossover technology. The Predicted Moving Average (PMA, the blue line on chart representing VPs proprietary leading indicator) crosses below the Traditional Moving Average (MA) indicating a down trend is beginning.



And now look at the chart of the DJUA futures below. Notice the inverse relationship that happened. As the RBOB dropped, big money flowed into the DJUA futures.



Now look at the Yahoo chart below and see where the DIJA itself went during this same period.

Big money always looks down the road, so if gasoline prices are headed lower, as they were in January and February 2016, expect money to flow into the market, not out.

Even as RBOB futures rose through June, money still flowed into the market, as no one believed oil would remain in the $25-$30 per barrel range; however, $40-$50 per barrel seemed right, just as $1.50 seemed a reasonable price for a gallon of gas, and that is what it was in June 2016, just as the market began to challenge resistance at historic highs.

Keep in mind, the leading indicators in VP for any specific market, such as the ones above, are based on neural networks crunching data from 25 correlated markets. Intermarket analysis and advanced neural networks are the reason the predictive accuracy for specific markets in VP is so good.

One can also find economic data at the *US Department of Treasury* website, *Bureau of Economic Statistics* website, and the *Bureau of Labor Statistics*. Keep in mind, though, these numbers are lagging, so you have to do some work to get the picture right, and by work, I mean culling out the current data that is leading. This data includes: oil/gasoline inventories and pricing, US refinery capacity, housing starts and requested building permits; business investment; and projected auto sales, to name a few.

Consumer confidence surveys are helpful as well, but be careful they are not lagging. The most "leading" is from The Consumer Confidence Board.

(https://www.conference-board.org/data/consumerconfidence.cfm

Now, everything above points to a longer term view of the market, which is helpful in "chillaxing" during times of panic, but what do you look for if you want to get a better idea of the seriousness of the panic. My go-to indicators are the Volatility Index (VIX) and gold futures (/GC). If both are jumping higher, watch until they begin to subside. As long as they are rising, expect the market to fall, generally.

And if they are not dramatically jumping higher during a panic, it is likely the market will reverse and go higher.

The information you need to understand the reality of the market in times of panic is there – you just have to get it and analyze it using the key fundamentals and software that provides leading indicators, such as VP.

TIP FOUR: TRADE THE FACTS

First off, when I say "trade," I also mean investing, and when I say investing, I don't mean sticking your money with an advisor and waiting for retirement. I mean actively participating in moving your money around relative to current and future market movement. In my case, this means buying and selling individual markets in my portfolio on a short-term basis (swing trading) or reallocating funds in my portfolio for longer-term returns.

No matter how you view it, though, the point is to generate a decent return on investment (ROI), meaning making money in the market. To do this in times of high market volatility can be difficult, and, sometimes, it is best to simply "sit it out," if indeed you have the patience and emotional mindset to do so. The latter is what this e-book is about – developing the patience and emotional mindset to figure what is happening in the market in times of panic, make decisions relative to future market movement, and then to execute calculated "trades" based on relevant data, not an emotional response.

Perhaps "facts" is not the correct word in this context, as the market moves less on facts and more on speculation, which means you have to be able to guess correctly. To do this, guess correctly, you have to possess the ability to macro analyze the market on a global scale, and you have to be able to specifically analyze markets relative to the overall market madness. To do the latter, you should consider utilizing analytic software that truly works, such as *VantagePoint Intermarket Analysis* software (VP). VP is known for its accuracy in predicting market trends up to three days out. Since, VP relies on neural networks and intermarket analysis of 25 related markets to predict market movement for a single market, its predictive capabilities can be a rational touchstone in an irrational market.

If you are looking for specific trades in the times of madness when panic has driven the prices down on all stocks, not just a few, then VP can help. It is possible to find excellent entry and exit points for solid markets in an overall market running away from itself if you have an edge, but it also helps to …

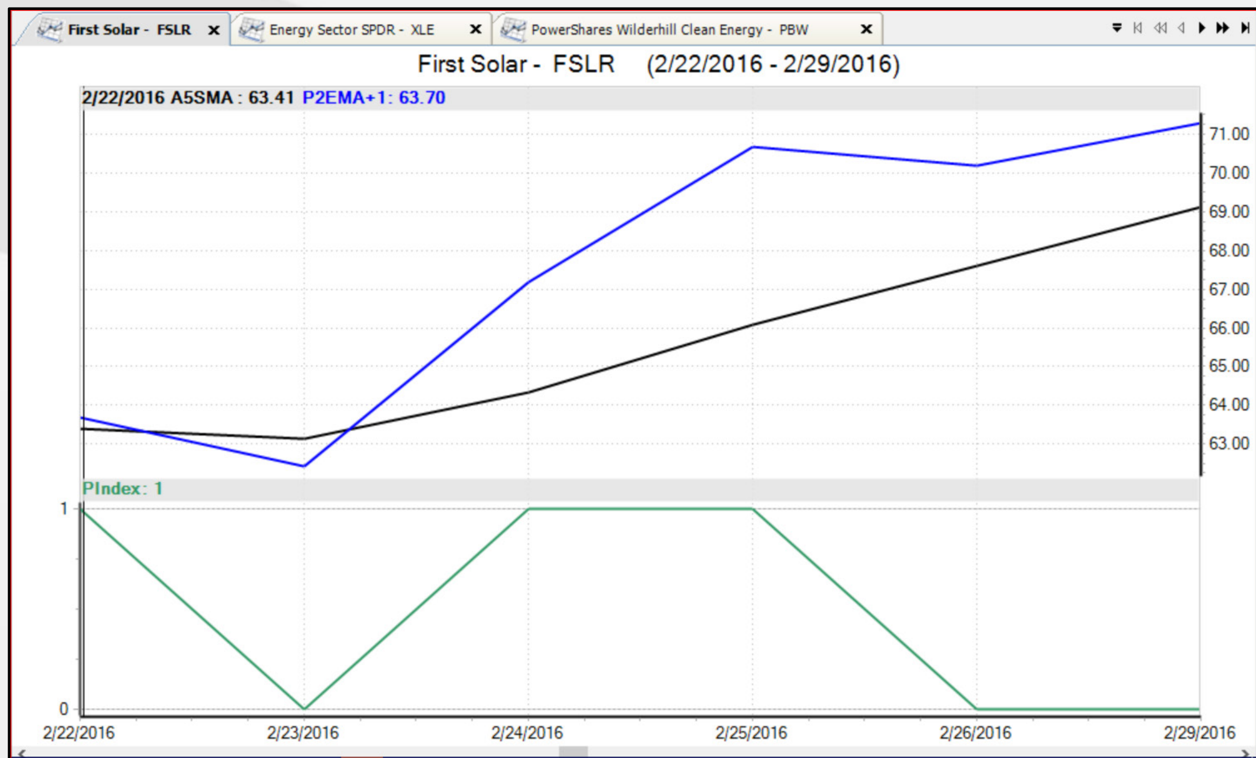
1) Look to the blue chip stocks. In an irrational market panic, these stocks usually sell off along with everything else. Big money is not prone to selling off the blue chips. It is the panicking retail investor (the lot of them) that is causing the price aberration. Now, it might take some time for them to regain confidence, but when they do, they will go for the "sure thing," which is usually the blue chips first.

2) Go for the VIX or gold, as these "barometers" of fear tend to have large swings in short periods of time in market panics. If you get the macro analysis correct, then making a bet on these two returning closer to the mean is probably a good one. Unless the market is truly collapsing for fundamental reasons, the VIX and gold will move up and down in a relatively defined range. You can trade that range.

3) Look to the sectors. Sometimes, whole sectors take a beating because panic exists in a specific market. Oil and gold are examples of this phenomenon. Within every sector, there are companies that appeal to different investors, so they are always looking for buying opportunities. Take the Energy sector for example.

In the oil sell-off in January, First Solar (FSLR) also took a 15% haircut that lasted through February 23rd On February 25th, two days later, FSLR recaptured all of the lost 15% from January, and by March 17th, it had gained another dollar per share.

On February 23, VP predicted a bump up in FSLR over the next week (See blue line, the PMA on the chart closing above black line the SMA forecasting an uptrend).



Yet, the prediction for the overall energy sector was down during this period. The key is using trading tools like VantagePointt that has proprietary indicators give you advanced notice 1-3 days ahead of a stock's trend change.

TIP FIVE: TRUST YOUR TRADING TOOLS

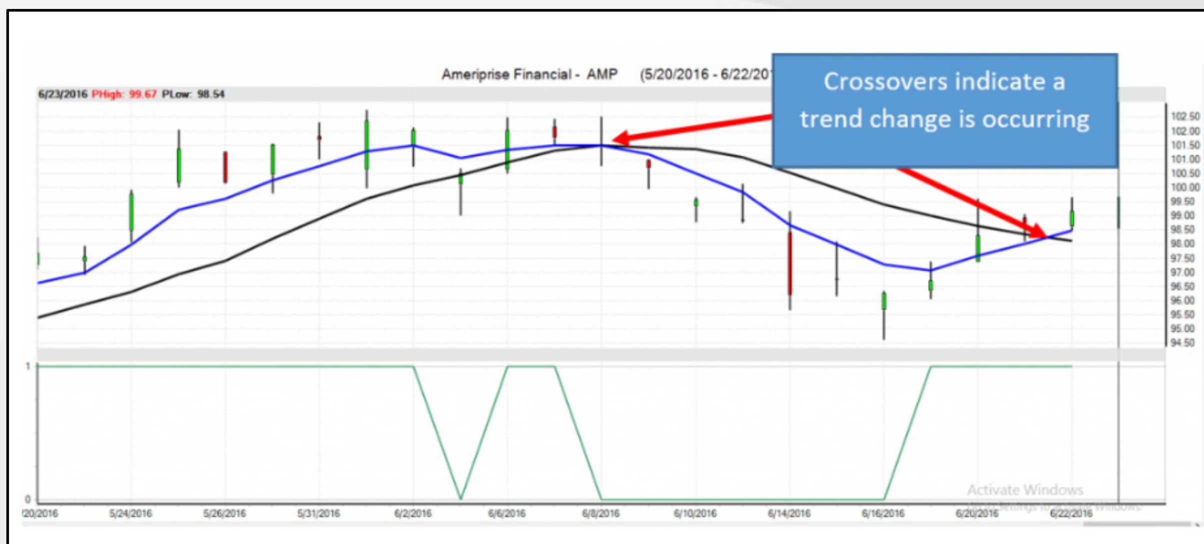
When markets go awry, it's easy to throw in the towel on your technical indicators or your trading software. I know, I've done this in the past only to kick myself for abandoning tried and true technology after a small hiccup.

You need to trust the charts you choose to use. Technicians contend they have an edge because they have an idea of what the trading masses are thinking by the tracks they leave on a price chart. Price includes everything. Sure I've stressed the importance of fundamental numbers in formulating prices, but trading is more about the mass psychology of traders than about supply/demand figures or statistics. A trader who is making or losing money is likely to react in a specific way that will be similar to how other traders in other times and other fundamental conditions have reacted in the past. Because of the tendency of human beings to respond to developments as they have before, technical analysts study price patterns on charts to spot instances where traders might react as they did in the past.

So while it is extremely important to recognize that charts don't lie, they generally rely of past data and this can't necessarily predict future market direction.

Unlike traditional market lagging indicators, VantagePoint's Predicted Moving Average doesn't simply look at past price data, it forecasts 1-3 days in advance, alerting you to impending trend changes before they occur.

As you can see below, when the blue line crosses above or below the black line, a trend reversal is about to take place. Once the reversal occurs, the trend is likely to continue until the next predictive crossover takes place. With this "jump" on the markets, traders see a huge improvement in their timing and direction, ultimately leading to more profitable results.



Yes, in volatile markets, traders expecting to always sell at the exact top and buy at the exact bottom need to operate in a more realistic paradigm. However, you can realistically expect better results from your trading no matter how crazy the markets get.

CONCLUSION

In volatile markets, traders must be willing to adapt to new ways of thinking.

By focusing on what really matters and tuning out the noise, profits are possible, regardless of market conditions.

With the right tools, a solid strategy and an understanding of how to keep emotions at bay, trading during volatility can possible.

By following these 5 Tips for Overcoming Market Volatility, you can begin to successfully navigate these choppy waters and find ways to be consistently profitable no matter how turbulent the markets become.