Sand Spring Advisors LLC

The XRT Has Turned

by,

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June 4, 2011

I recently had a drink with an old hedge fund manager friend.

He was short REITs and frustrated, short various retail stocks, and frustrated, and short a variety of financial stocks which were working better for him. On the long side, he was involved in a few energy and metals plays that previously had been doing well, but more recently had started to stumble.

Then he turned to me and asked, “So what are you involved with?”

I responded that I had just shorted the XRT Consumer ETF as it approached super strong Fibonacci fractal resistance above 54.50, and that was the ONLY position that I was involved with.

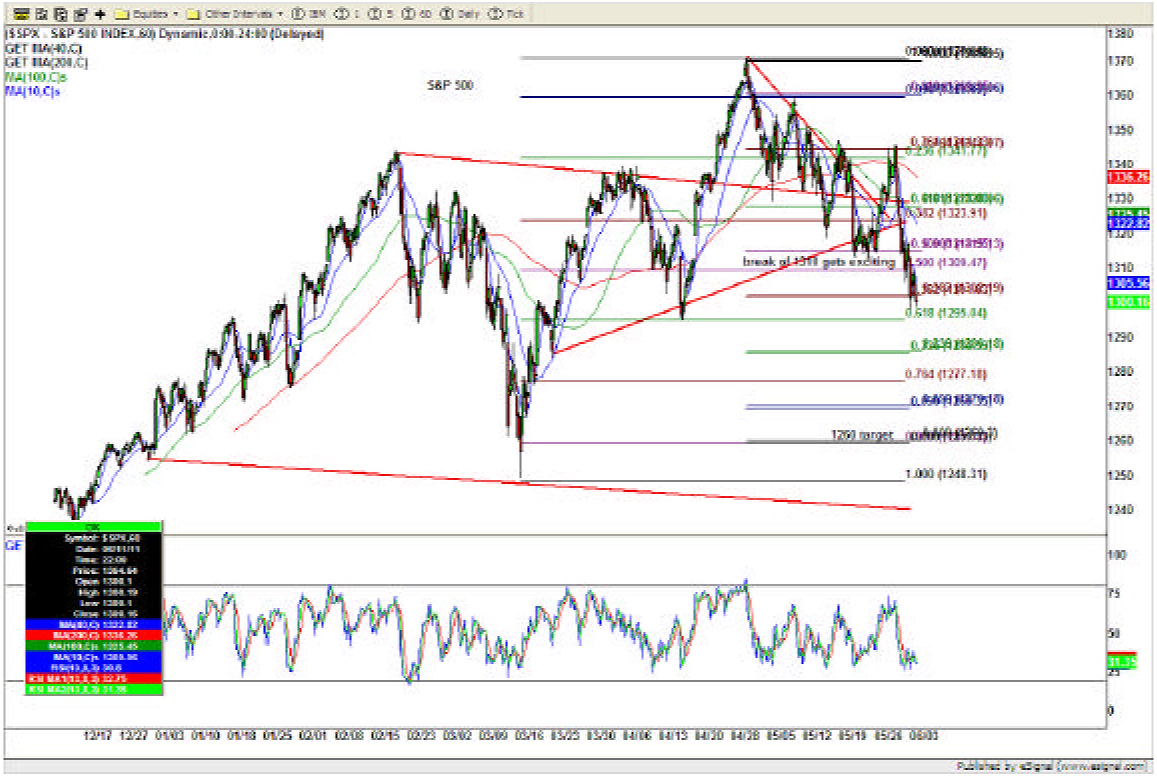
The XRT turned lower just around our pi cycle May 16th window, bounced back a bit on Tuesday, May 31st, and then proceeded to drop sharply lower the rest of last week -- closing at 51.35 last Friday.

<u>The XRT has finally turned, and I believe that the current turn will be significant and lasting.</u>

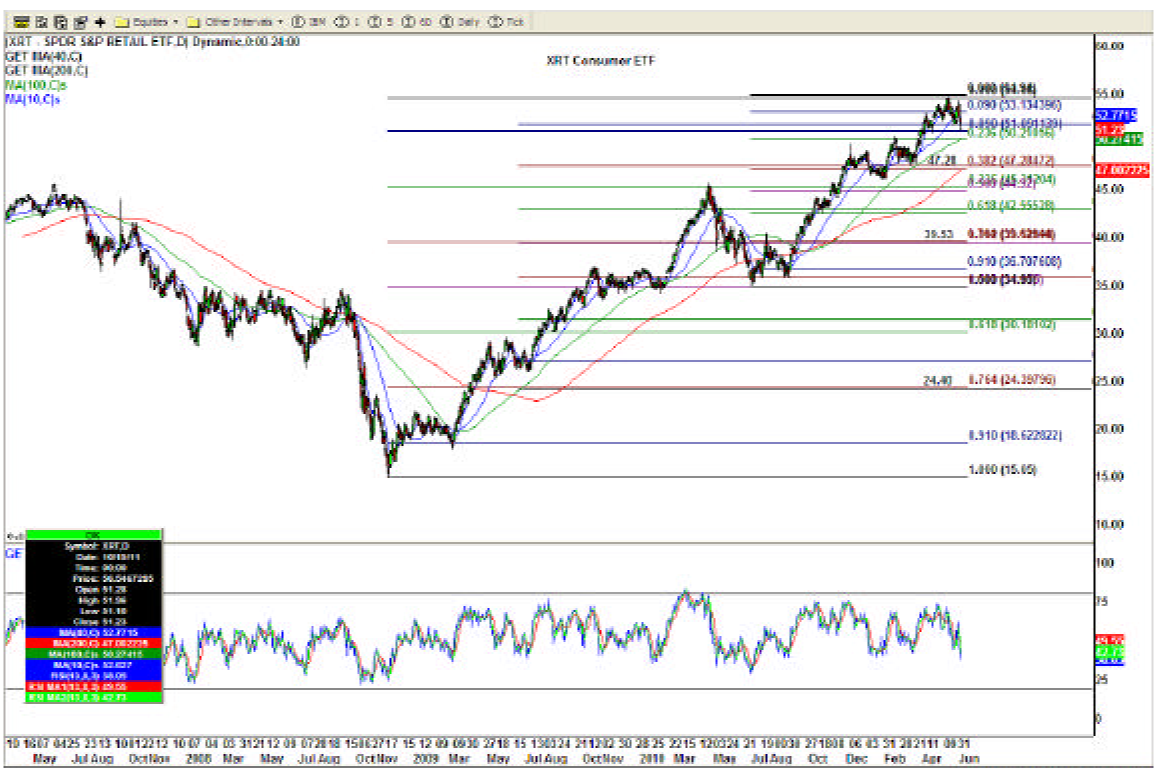
And yet another pi cycle date is fast approaching on June 13, 2011.

Could a “flash crash” type of event take the market down hard over the next week such that June 13 could be a significant low? Or will June 13th be the day when complacency turns to abject fear, and true volatility returns to the capital markets, with an acceleration to the downside?

Once again, I do not hold all the answers, but in terms of the S&P 500, I will be disappointed if that broad market index doesn’t at least visit 1260 fairly quickly.



And for now I am nicely positioned short the XRT and fully confident that it is destined to decline significantly. After getting through just a tad of support around 51, three very specific and clear double fractal downside targets exist. <u>These are: 47.28, 39.53, and 24.40</u>. Upon the respective first touches of 47.28 and 39.53, bounces should be expected, but longer-term it would not surprise me to see 24.40 reached. By that time, the media world would surely be calling this: “a double-dip retest of the 2008-2009 economic bottom.” The nation’s mood should obviously have turned quite sour if this prognostication transpires as envisioned.



For those more inclined to play individual stocks, and as a way to confirm my view of the overall XRT, I also went through ALL of the individual chart patterns of the underlying stock components of the XRT. <u>Seldom have I found as many stretched but "complete" looking chart patterns from a Fibonacci fractal perspective.</u>

First a caveat: Not every stock chart included in the XRT looked bearish. Stocks in the XRT that to my eye could actually rally include: SBH, ULTA, CVS, CASY, AZO, PSMT, CHS, RSH, BBY, KMX, and ABG.

But for every one bullish looking chart pattern, I found two bearish looking patterns where the upside fractal Fibonacci rhythm looks oh-so complete, and where the stocks are just now rolling over to the downside. My preferred shopping list on the short side of the XRT includes: SFLY, GME, DDS, FINL, HIBB, LTD, ROST, TSCO, BKE, FDO, JOSB, WAG, WMT, JWN, and CATO. Each of theses chart patterns is shown below.

(GME - GAMESTOP CORP NEW,W) Dynamic,0:00-24:00
GET MA(300,C)
GME weekly
1.000 (63.77)
0.910 (59.212194)
0.764 (51.84492)
0.618 (44.46754)
0.500 (38.505)
13.24
missing low
↑ 2 for 1
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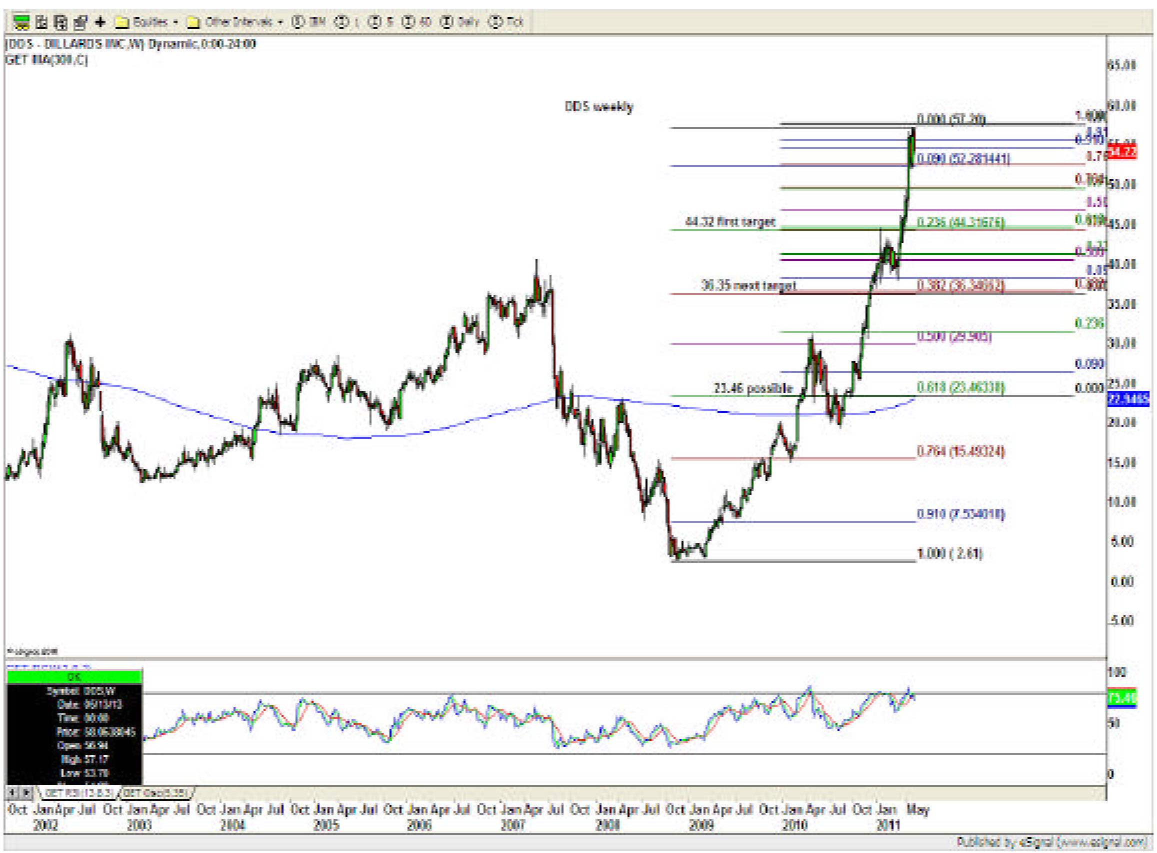

(DDS - DILLARDS INC,W) Dynamic,0:00-24:00
GET MA(300,C)
DDS weekly
0.000 (57.20)
0.090 (52.281441)
44.32 first target
0.236 (44.31676)
36.35 next target
0.382 (36.34062)
0.500 (29.905)
23.46 possible
0.618 (23.46338)
0.764 (15.49324)
0.910 (7.534018)
1.000 (2.61)
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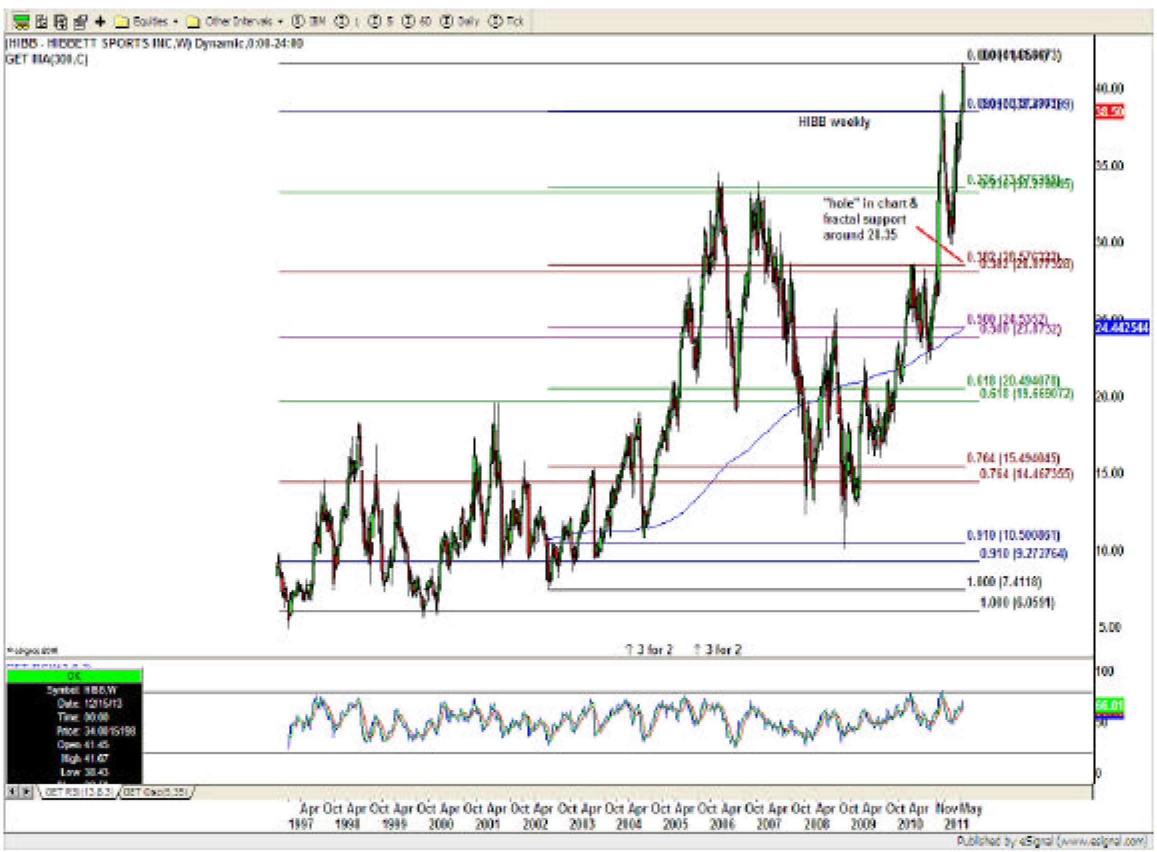
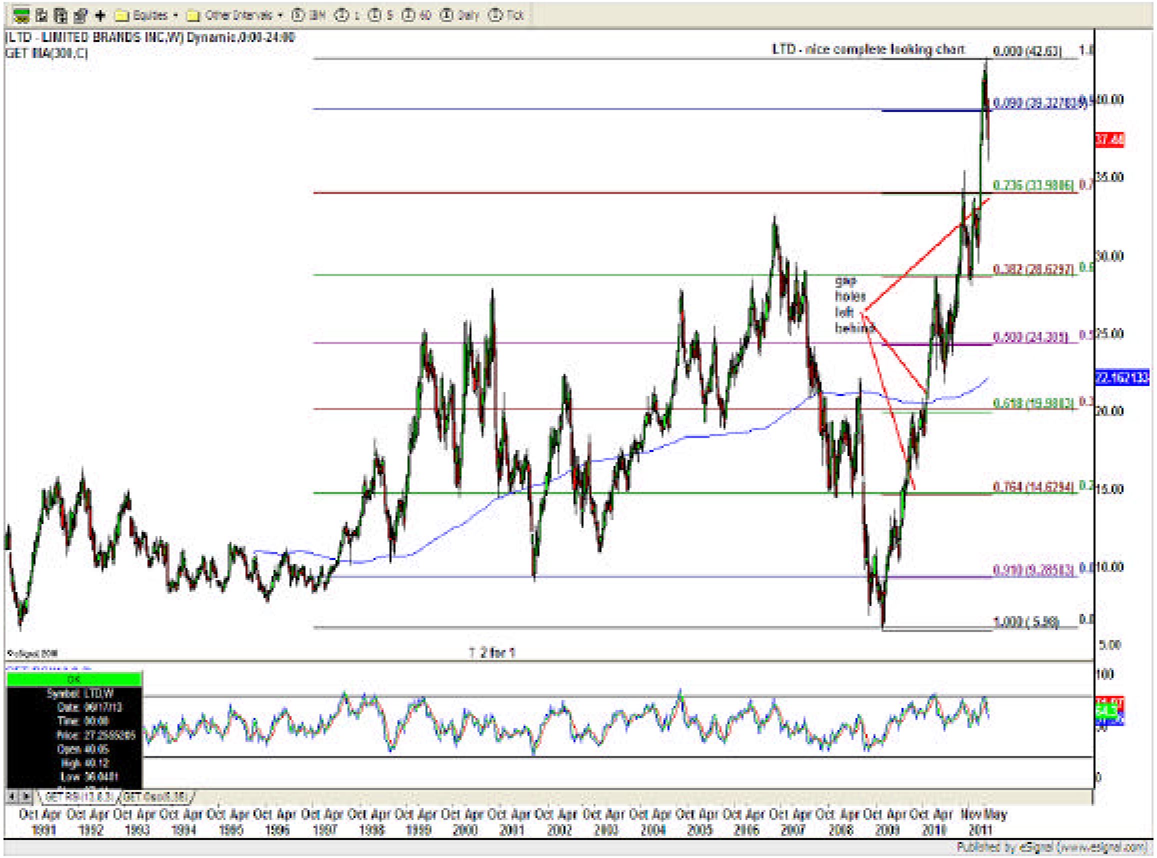
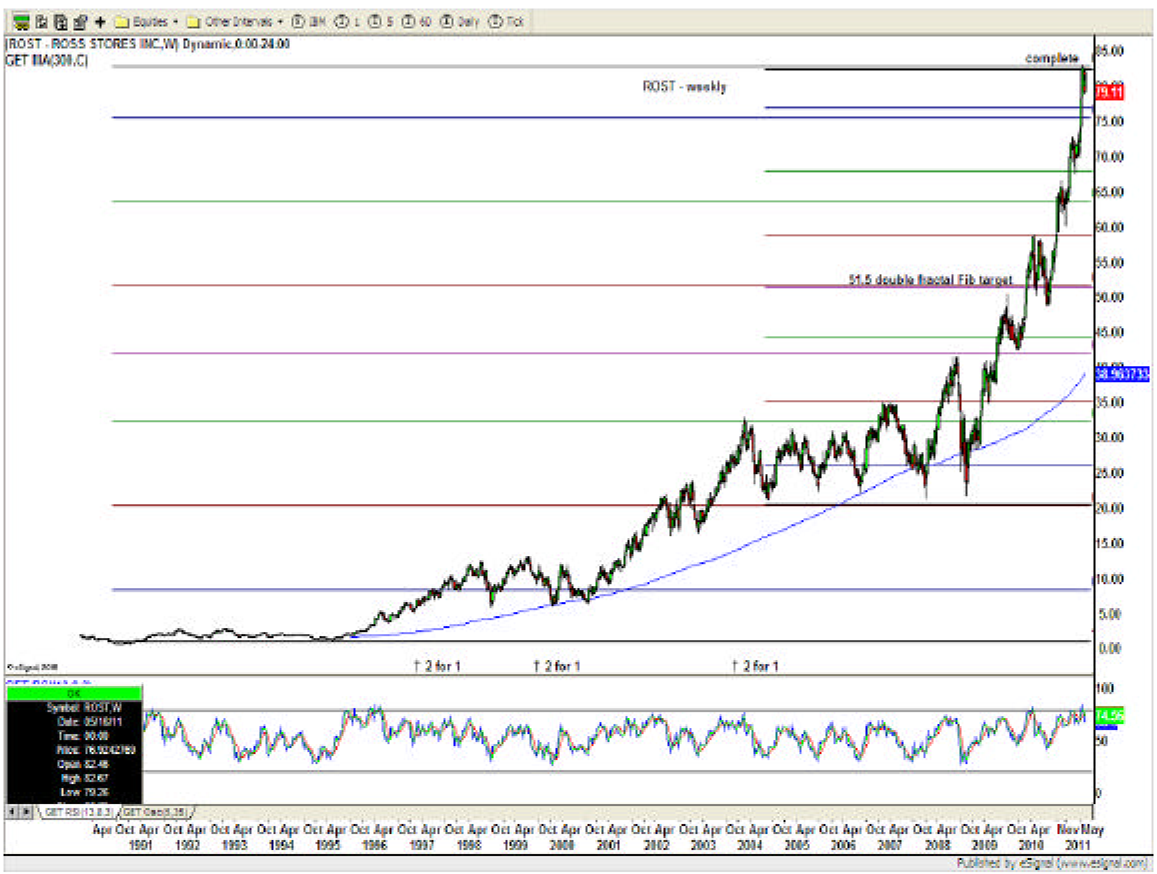
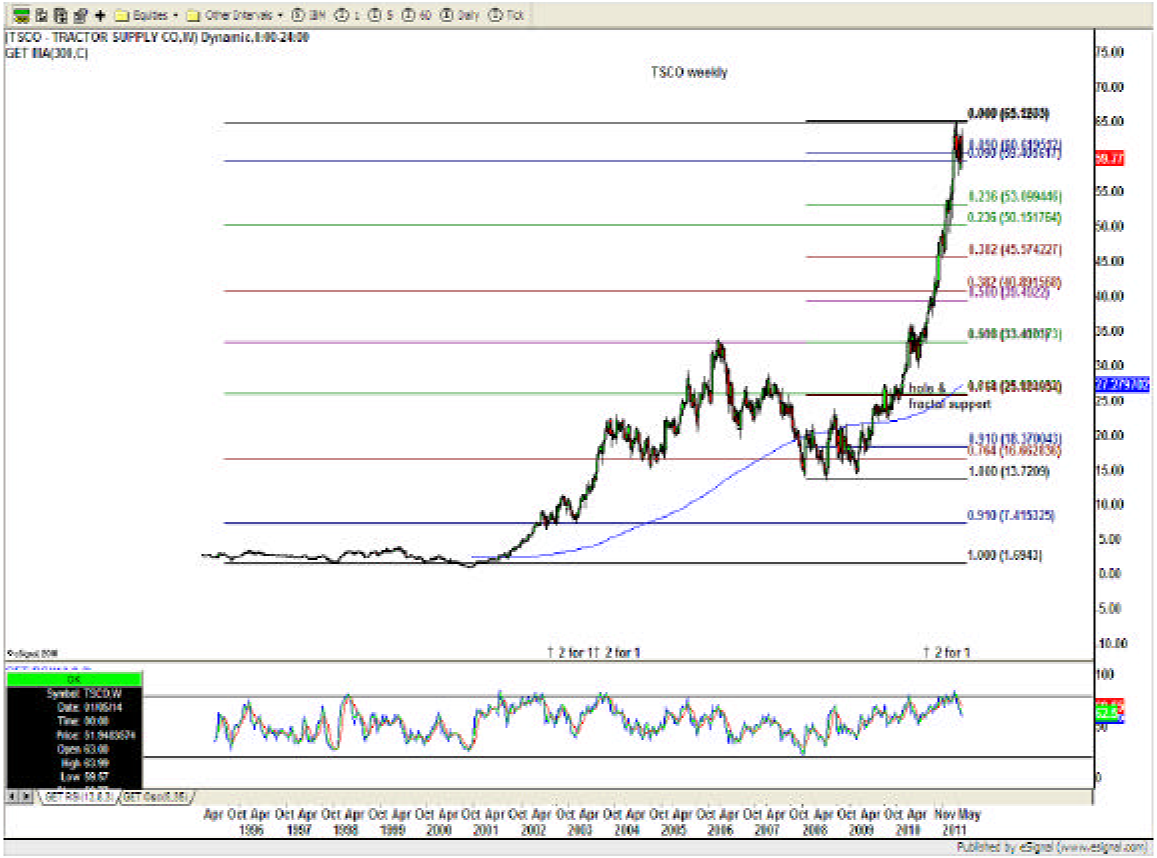
FINL weekly - complete rhythm
GET MA(300,C)
↑ 2 for 1

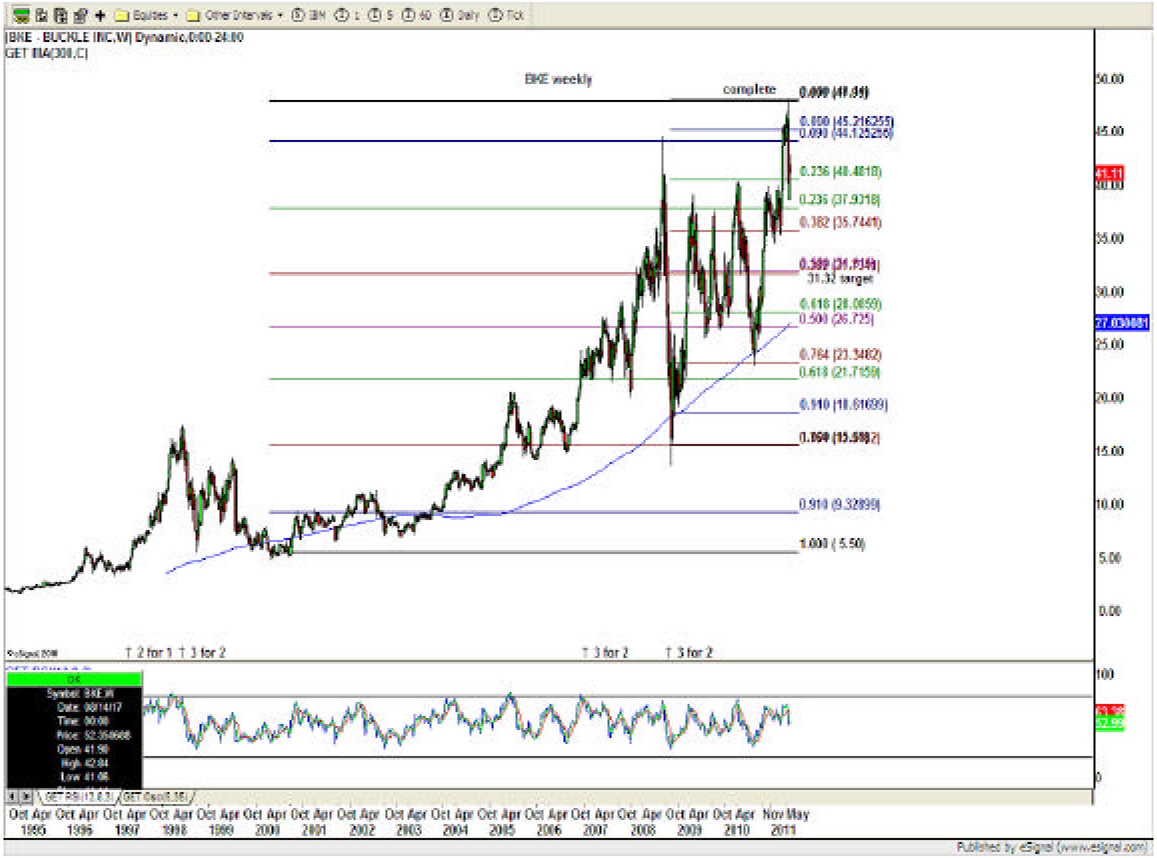

HIBB weekly
"hole" in chart &
fractal support
around 28.35
GET MA(300,C)
↑ 3 for 2
↑ 3 for 2


LTD - LIMITED BRANDS INC,W) Dynamic,0:00-24:00
GET MA(300,C)
LTD - nice complete looking chart
gap
holes
left
behind
0.000 (42.63)
0.090 (39.32783)
0.236 (33.9886)
0.382 (28.6297)
0.500 (24.305)
0.618 (19.9803)
0.764 (14.6294)
0.910 (9.28583)
1.000 (5.98)
2 for 1


ROST - ROSS STORES INC,W) Dynamic,0:00-24:00
GET MA(300,C)
complete
ROST - weekly
51.5 double fractal Fib target
2 for 1
2 for 1
2 for 1


TSCO weekly
hole & fractal support
↑ 2 for 1↑ 2 for 1
↑ 2 for 1


PETM weekly
complete
30 double fractal target
↑ 2 for 1


BKE - BUCKLE INC,W) Dynamic,0:00-24:00
GET MA(300,C)
BKE weekly
complete
31.32 target
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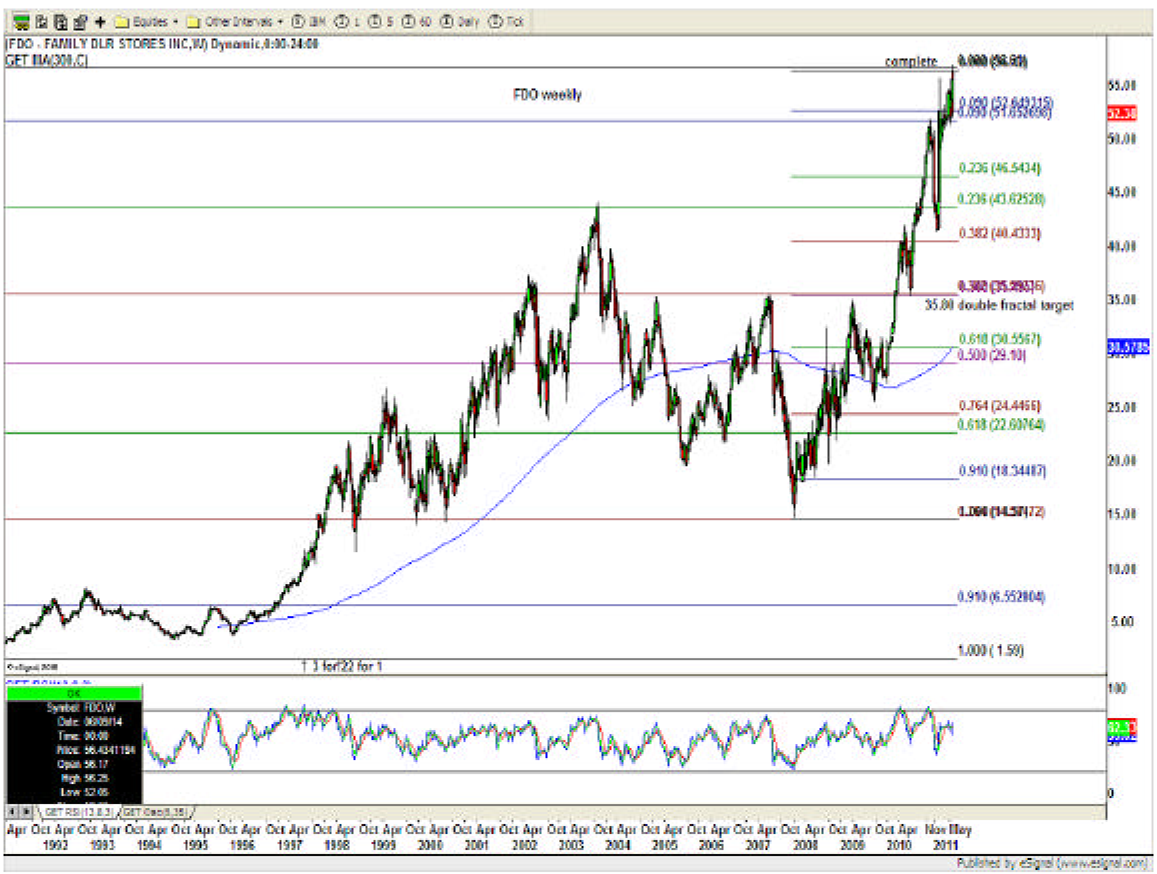
FDO - FAMILY DLR STORES INC,W) Dynamic,0:00-24:00
GET MA(300,C)
FDO weekly
complete
35.00 double fractal target
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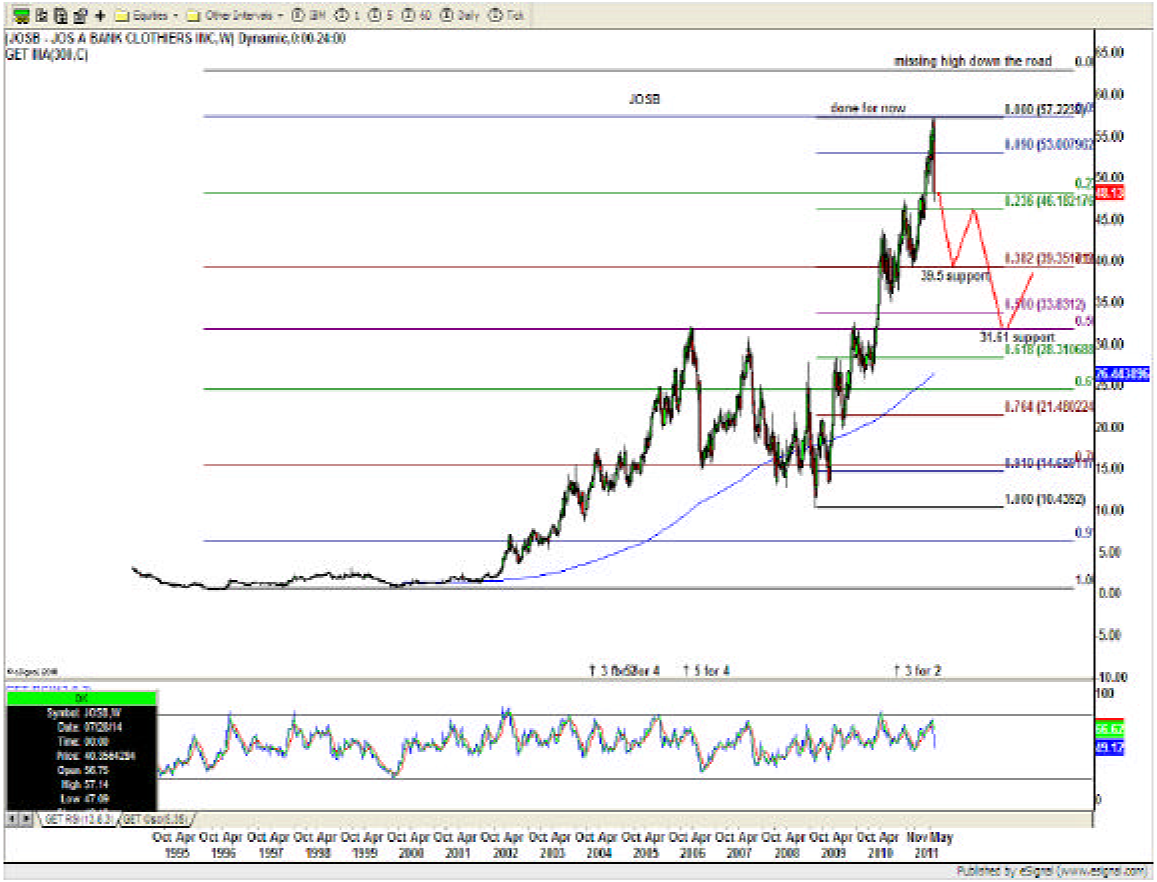
JOSB - JOS A BANK CLOTHIERS INC,W) Dynamic,0:00-24:00
GET MA(300,C)
missing high down the road
JOSB
done for now
39.5 support
31.61 support
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WAG - WALGREEN CO,W) Dynamic,0:00-24:00
GET MA(300,C)
33.88
14.85
Published by eSignal (www.esignal.com)


(WMT - WAL MART STORES INC,W) Dynamic,0:00-24:00
GET MA(300,C)
WMT
missing low around 39
↑ 2 for 1
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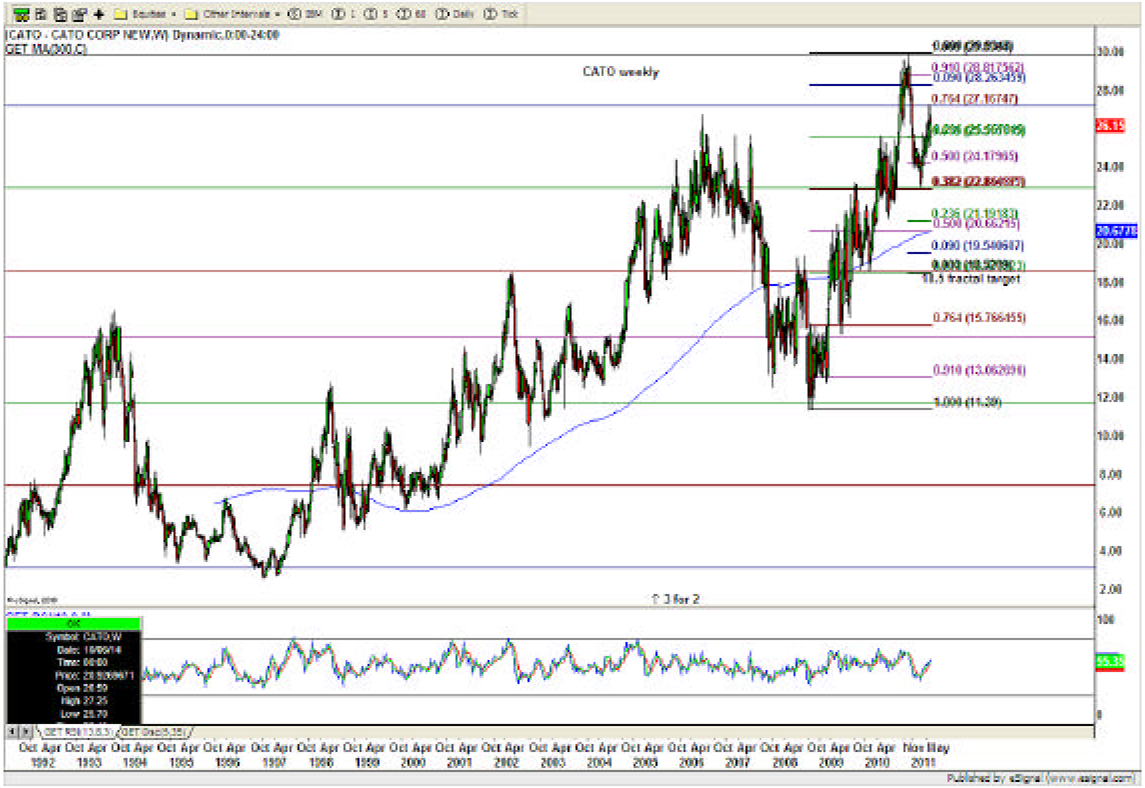
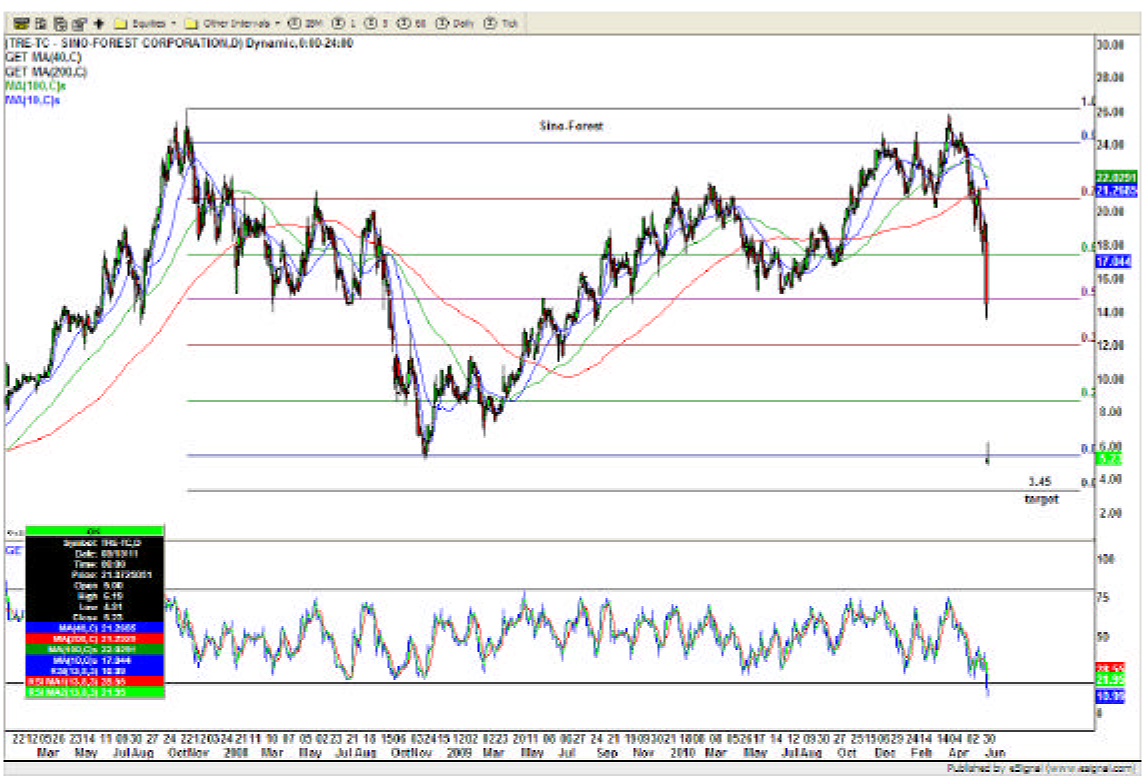
(JWN - NORDSTROM INC,W) Dynamic,0:00-24:00
GET MA(300,C)
JWN
weekly
1.000 (59.57)
33.30 double fractal target
↑ 2 for 1
↑ 2 for 1
Published by eSignal (www.esignal.com)



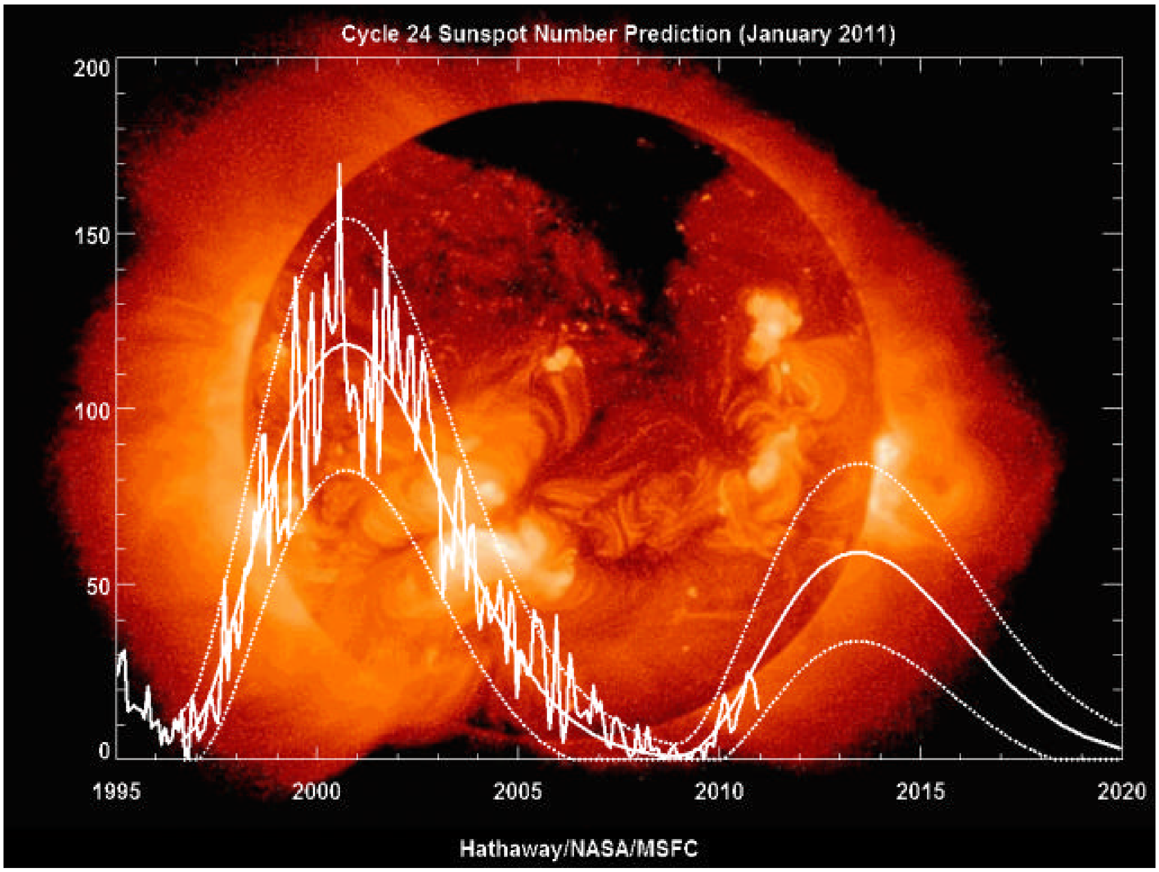
Mixed up in the current market mess is also hubris-laden hedge fund manager John Paulson. Double levered, net very long, and heavily focused on commodity-oriented and gold stocks may have been a great portfolio mix for Mr. Paulson through mid-May, but could his portfolio construction soon come undone in a rush of investor redemptions? I follow Paulson's portfolio closely from his 13F filings, and would guess that he was down approximately -5.5% in May. In June, he is easily down about the same amount again – his general market losses being exacerbated by the alleged asset-overstatement fraud of Chinese timber stock Sino Forest (TRE-CN) of which Paulson is a major holder.



Sino-Forest looks like a good leading indicator of what the entire market could potentially do: lay an egg to the downside, with a sudden explosion of market volatility. Indeed, looking back at our December 2010 article on the similarities of China's 2010-2011 expansion to that of the railroads across the Pacific Northwest in 1871-1872, could one consider the Sino-Forest drop of 2011 somewhat akin to the fall of the Northern Pacific Railroad in 1873? Is this an early crack in the "house-of-cards-like" Chinese "growth story?" Will the next several years deliver a deflationary bust a la 1873-1878 instead of a further inflationary bubble as so many seem to expect?

I am generally disposed to answer "yes" to all of these questions.

May 28th also saw a major eruption of solar flares that sent coronal mass ejections towards the Earth in early June. Sunspot activity should now be marching steadily higher until the end of 2012, and with it, the likelihood of hostilities on Earth and increasing angst in global capital markets.



Along the way, and with regard to Mr. Paulson, I would not be surprised to see a headline someday to the effect: "Market King of 2008-2010 carried out with huge losses in 2011-2012." When he goes, he may easily take other hedge fund managers such as Sprott Asset Management up in Canada with him.

But even given my fixation with Paulson's ultimate demise, being short gold is still a tough trade. Gold longer term is a fine asset. It is simply a very crowded trade in the short-term. I find being short the XRT far easier.

Thus, for this month at least, I will focus just on this one position, and not try to conquer the entire financial world.

Send us your comments at information@Sandspring.com.

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