Dorsey, Wright & Associates
From the Analyst

Dorsey, Wright & Associates

Voice	(804) 320-8511
Fax	(804) 320-8577
Email: dwa@dorseywright.com	

Money Management

Voice:	(626) 535-0630
Fax:	(626) 535-0639
Email: moneymanagement@dorseywright.com	

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Today's From the Analyst will include the following:

Operating on Defense

A brewing credit crisis, suddenly imminent bankruptcies, wild market swings and the feeling as though the rug may be pulled from beneath what was a strong economy. All of this makes for great headlines and that is unfortunately about as far as most clients will dare to read. Having been on a number of financial TV shows and radio shows, in times like this the most asked question by the interviewer is, “where is the market headed?” or “Where do you think the Dow will bottom?” Many will let themselves be painted into a corner trying to make these predictions, we like to focus instead on risk, as no one knows where the Dow will bottom; or when. No one knows for certain where the market will be at the end of the day, the end of the week, or much less where it will be at the end of this correction. The best we can offer is an idea of which team is on the field, whether our primary focus is wealth accumulation or wealth preservation, and a solid set of actions that we can take in either case.

There are ways to lose money in any market, there are simply a lot more ways to lose in a bad market. You can lose by buying more, you can lose by just holding what you had, and if you avoided the first two you can still lose by remaining negative too long. Often times the winner in a bad market is simply the person who lost the least, which is really what wealth preservation is all about; not exposing yourself to the possibility of major losses when the likelihood of a bad market is high. Defense isn’t about predicting where lightening will strike, it is about warning that a thunderstorm is likely, and helping pick out a raincoat that makes sense for them.

I am continually asked by people what I think the market will do and my answer is always the same, "In the words of J. P. Morgan, 'It will fluctuate.'" This is as close to a prediction as one should get. Investors may not be able to grasp the details of mortgage-backed debt instruments or why some institutions became over leveraged with derivative products to spark a potential liquidity crisis in credit markets. They very well might be able to get their arms around the tried and true indicators of supply and demand that suggested to us that risk in equities reached a very high level in late-June. Does all this mean the Dow Jones can’t go up when the risk is high? No, it can (and did) just do that out of the blocks. The Dow hit 14,000 within the confines of a high risk environment, then it fell 6% in short order.

Your favorite football coach never predicts outcomes. He simply runs the best plays he can when he has the football. He is willing to realize when he doesn't possess the football and sends his defensive players onto the field as a result. And so it is in our business, never paint yourself in a corner. The plan of attack is that if the NYSE High-Low and the NYSE Percent of Stocks Above Their 10 Week Moving Average reverse up. These two short-term indicators have fallen into oversold levels now and reversals up from the TWNYSE and the HILO would likely indicate some near-term strength be seen in the overall market. Then we will begin to wade back into the waters with stops in place and then add to positions and expand our horizons when the NYSE Bullish Percent reverses up. Never forget that volatility in the markets present opportunities, including marketing opportunities for those with your skills.