

## **Weekly Market Analysis #313 — 7 August 2020**

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#### **This Week**

This week we will take two pages to provide an introduction to investing psychology.

The mechanics of profitable investing are reasonably simple. The psychological impediments to profitable investing are numerous, obstinate, and wily.

Why? Psychologist and investing coach Dr. Van Tharp said, "The human brain is wired in such a way that the average person will invest poorly without ever understanding why. Ignore this fact and you risk financial peril. Understand how to overcome that intrinsic wiring and you can profit greatly in the markets." And market wizard Robert Krausz estimated that "75% of investing is psychological and only 25% is market know-how."

In the last 30 years a lot of psychological research has been focused on how humans make decisions. This new research has overturned a lot of traditional thinking on the subject.

For millennia humans have rightfully prided themselves on the great intellectual accomplishments made by philosophers, mathematicians, and scientists. This led to the following conclusion: Since we can reason, then humans are rational beings.

We are brought up being told that people are rational creatures. It's a wonderful myth, founded in our Hellenic heritage. We look to the reasoning of the great Greek philosophers and take pride and comfort in the notion that if we just think about things carefully enough, we can eventually work out the answer to any problem.

Through thorough testing, psychological studies over the last 40-50 year have revealed how our brains actually work, and it's not the way people thought in the past. The brain actually has two methods of making decisions. These have been labeled by psychologists as the "C" system and the "X" system.

The C-System is the part of the brain used in conscious intellectual activity such as thinking, learning, perception, awareness, logic, and creative imagination. The C-System can be directly controlled by a person's will. The C-system is also referred to as the "rational" or "cognitive" mind. The C-System can only be engaged through conscious choice. it requires effort to keep it going through its serial, step-by-step process. The C-system demands evidence and logic to support a conclusion.

The X-System is the emotion-driven, decision-making part of the brain. All incoming information goes to the X-system first. It makes decision based on elements like familiarity, similarity, and recency. By limiting itself to simple elements, the X-system can process large amounts of information at the same time, rapidly returning approximate answers.

The X-System is the part of the mind involved with emotions, urges, and sensations of pleasure and displeasure. The X-System is your primary decision making tool. It is this part of the mind that allows you to believe your rational mind is in control, but that's not how the

brain works. For the vast majority of all decisions, your brain takes the facts, runs them through feelings, and comes up with judgments.

The X-System does not yield willingly to the influence of the rational mind and its own internal processes are generally obscure. This is why it is sometimes referred to as the "subconscious mind". Altering your core beliefs – the foundation of the X-System – can be done but it is a difficult task. And trying to simply overrule the biases of the X-System can result in surprising, backlash reactions.

It's not unusual for the X-System to make a decision and then C-System will go to work fabricating a reason why the X-System choice is a sensible idea. This is a textbook example rationalization (making up a "logical" excuse to justify a questionable decision.)

The desire for a thing to be true can be all the X-system needs to accept it as fact. For example, most of us believe we are rational beings because we perceive Science and Reason as ideals.

We are not logical beings by nature. We are emotional beings who have access to reason if we can control our fight/flight/freeze response. -- Dr. Rande Howell

Emotions are a part of our ancient survival equipment. They tell us to avoid snakes and spiders, and to run like crazy when some other creature decides we look delicious.

The first steps to overcoming some of the non-productive activities of the emotion brain is to understand that:

- The primitive, emotional brain is far, far older than the rational brain.
- The emotional brain is in charge. It gets the first shot at all information coming in through the senses. It also gets to referee in your rational thinking process, sometimes derailing useful trains of thought or suggesting flawed notions.
- The emotional brain always gives you an answer, whether you think you asked for it or not.
- The emotional brain is the gatekeeper to the rational brain.

Charles Baudelaire once said, "The greatest trick the devil ever pulled was convincing the world he didn't exist."

The greatest trick the emotional brain ever pulled was letting people believe that the rational brain was in charge.

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If you are having trouble with procrastination, indecision, making bad decisions, or other investing problems, it may not be due to lack of market knowledge. Here are some good psychological trainers that helped me become a successful investor: Van Tharp, Mark Douglas, Rande Howell, Doc Severson, Steve (Slim) Miller, James Montier, Roland Barach, and Alexander Elder.

## [Long-Term Trends](#)

← Use this link to see all the market barometer charts

Markets do not change course overnight. Speculating about the future is a waste of time, but markets trend and *understanding what is happening now tells us what is most likely to happen next.*

VTI is within 1.4% of its February all-time high. So is SPX. COMPQ is at a new all-time high. And IWM (the Russell 2000 ETF) is lagging but still climbing. So all four are green.



## A Closer Look

The SPX climbed above the ending price of the previous week and the NYAD confirmed the advance. The VIX declined further, which is another positive sign.



[Core Universe](#)

← Use this link to get to the live Core Universe Table and column descriptions

Core Universe Analysis for 07-Aug-2020							
Symbol	Description	Instr	MTA 3	RelStr	CMF	NH/NL	MCHist
<a href="#">BND</a>	Total Bond Market	ETF	UP	0.9:3.0	«up»	520/0	-0.0
<a href="#">EEM</a>	Emerging Markets	ETF	UP	3.9:3.0	UP	27/0	-0.2
<a href="#">EFA</a>	Euro/Aust/Asia	ETF	UP	1.8:3.0	UP	1/0	-0.2
<a href="#">GLD</a>	Gold	ETF	UP	4.7:3.0	UP	520/0	1.1
<a href="#">IBB</a>	Bio-Tech & Pharma	ETF	UP	3.7:3.0	«UP»	0/1	-0.9
<a href="#">IGV</a>	Software	ETF	UP	5.3:3.0	UP	520/1	0.1
<a href="#">ILF</a>	Latin America	ETF	DN	0.4:3.0	-dn-	0/3	-0.9
<a href="#">IWM</a>	R2000 Index	ETF	UP	2.4:3.0	UP	23/0	0.4
<a href="#">IYT</a>	Transportation	ETF	UP	3.0:3.0	UP	23/0	0.5
<a href="#">MINT</a>	CASH SURROGATE	ETF	UP	0.3:3.0	UP	1/0	-0.0
<a href="#">PFF</a>	S&P Preferred Stocks	ETF	UP	0.9:3.0	UP	0/0	0.0
<a href="#">QQQ</a>	NASDAQ 100 Index	ETF	UP	5.7:3.0	UP	520/0	0.3
<a href="#">SPY</a>	S&P 500 Index	ETF	UP	2.8:3.0	UP	24/0	0.2
<a href="#">TLT</a>	20+ Year T-Bond	ETF	UP	2.0:3.0	UP	0/2	-0.0
<a href="#">USMV</a>	US Min Volatility	ETF	UP	1.2:3.0	UP	22/0	0.1
<a href="#">VGK</a>	FTSE Europe	ETF	UP	2.5:3.0	UP	1/0	-0.2
<a href="#">VNQ</a>	US Real Estate Sctr	ETF	DN	-0.3:3.0	UP	7/0	0.3
<a href="#">VTI</a>	Total Market	ETF	UP	3.0:3.0	UP	23/0	0.2

[Sector Charts](#)

Last week's selections were: BND 20% (my stop \$87.85), EEM 10% (5% stop \$41.94), GLD 20% (5% stop \$176.16), IGV 20% (5% stop open a bit to \$282.34), QQQ 20% (5% stop \$253.44), and MINT 10%.

BND is still rising and I'm advancing my stop to \$88.15. (Although BND's price gains are small, it also provides a small dividend every month.) EEM got above \$44 then fell back a little below it on Friday, but it's still above its 5% stop. GLD remains strong. IGV made a new all-time high, as did QQQ.

IBB's RelStr came up to 3.7 but its money flow is bad and its MACD is down as it has fallen since its high on July 20<sup>th</sup>. As such, it's not time to put it back on our selection list yet. We'll continue to watch it, though.

So this week's allocations remain the same with minor changes in the stops: BND 20% (my stop up to \$88.15), EEM 10% (5% stop \$42.55), GLD 20% (5% stop \$184.20), IGV 20% (5% stop open a bit to \$287.85), QQQ 20% (5% stop \$260.91), and MINT 10%.

[Sector Universe](#)

← Use this link to get to the live Sector Universe Table and column descriptions

<b>Sector Universe Analysis for 07-Aug-2020</b>							
Symbol	Description	Instr	MTA 3	RelStr	CMF	NH/NL	MCHist
<a href="#">XAR</a>	Space & Defense Sctr	ETF	DN	-1.1:2.9	UP	7/0	0.6
<a href="#">XLB</a>	Materials Sctr	ETF	UP	4.2:2.9	≡UP≡	0/0	-0.4
<a href="#">XLC</a>	Communication Sctr	ETF	UP	3.6:2.9	UP	108/0	0.3
<a href="#">XLE</a>	Energy Sctr	ETF	DN	-3.5:2.9	UP	0/0	0.3
<a href="#">XLF</a>	Financial Sctr	ETF	DN	-0.3:2.9	UP	8/0	0.1
<a href="#">XLI</a>	Industrial Sctr	ETF	UP	1.6:2.9	UP	9/0	0.2
<a href="#">XLK</a>	Technology Sctr	ETF	UP	4.9:2.9	UP	520/0	0.9
<a href="#">XLP</a>	Consumer Staples Sctr	ETF	UP	1.7:2.9	UP	23/0	0.1
<a href="#">XLRE</a>	Real Estate Sctr	ETF	=UP=	0.2:2.9	UP	1/0	0.2
<a href="#">XLU</a>	Utilities Sctr	ETF	UP	0.2:2.9	UP	8/0	0.0
<a href="#">XLV</a>	Health Care Sctr	ETF	UP	2.5:2.9	UP	0/1	-0.2
<a href="#">XLY</a>	Consumer Discret Sctr	ETF	UP	4.4:2.9	UP	520/0	0.1
<a href="#">XRT</a>	Retail Sctr	ETF	UP	6.4:2.9	UP	93/0	0.6
<a href="#">XTN</a>	Transportation Sctr	ETF	UP	1.8:2.9	=UP=	8/0	0.2

[Auxiliary Universe Charts](#)

XLV dropped out of the SPX sectors with relative strength above the SPX. The remaining five came up in this order: XRT, XLK, XLY, XLB, and XLC.

<b>Auxiliary Universe Analysis for 07-Aug-2020</b>							
Symbol	Description	Instr	MTA 3	RelStr	CMF	NH/NL	MCHist
<a href="#">FIVG</a>	5G Networking Sctr	ETF	UP	4.3:3.0	UP	72/1	0.4
<a href="#">HACK</a>	Cyber Security	ETF	UP	4.5:3.0	UP	0/0	0.4
<a href="#">IHI</a>	U.S. Medical Devices	ETF	UP	4.1:3.0	UP	0/0	-0.2
<a href="#">IYT</a>	Transportation	ETF	UP	3.0:3.0	UP	23/0	0.5
<a href="#">QTUM</a>	Quantum Computing Sctr	ETF	UP	5.1:3.0	UP	97/0	0.4
<a href="#">ROBO</a>	Robot/Automation Sctr	ETF	UP	4.8:3.0	UP	0/0	0.1
<a href="#">SLV</a>	Silver Trust	ETF	UP	12.9:3.0	UP	369/0	3.4
<a href="#">SNSR</a>	Internet of Things	ETF	UP	5.5:3.0	UP	0/0	0.3
<a href="#">SOXX</a>	Semiconductor Sctr	ETF	UP	5.5:3.0	UP	0/0	0.4
<a href="#">SRVR</a>	Data & Transmission REIT	ETF	UP	2.8:3.0	-up-	0/0	0.1
<a href="#">USO</a>	US Oil	ETF	DN	-20.7:3.0	-up-	0/0	0.2
<a href="#">XBI</a>	Bio-Tech Sctr	ETF	UP	5.7:3.0	<<up>>	0/0	-0.6
<a href="#">XHB</a>	Homebuilders Sctr	ETF	UP	6.7:3.0	UP	520/0	0.0
<a href="#">XHE</a>	Healthcare Equip Sctr	ETF	UP	4.7:3.0	UP	0/1	-0.1
<a href="#">XME</a>	Metals & Mining Sctr	ETF	UP	3.6:3.0	UP	23/0	0.5
<a href="#">XOP</a>	Oil+Gas Expl+Prod	ETF	DN	-2.4:3.0	UP	6/0	0.6
<a href="#">XPH</a>	Pharmaceuticals Sctr	ETF	UP	1.9:3.0	UP	23/0	0.2

[Core Universe Charts](#)

SLV (the silver ETF) jumped 15.6% this week closing at \$26.19.

The 5% stop for SOXX moved up again to \$285 as the index closed at \$296.20.

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