



# THE RHODES REPORT

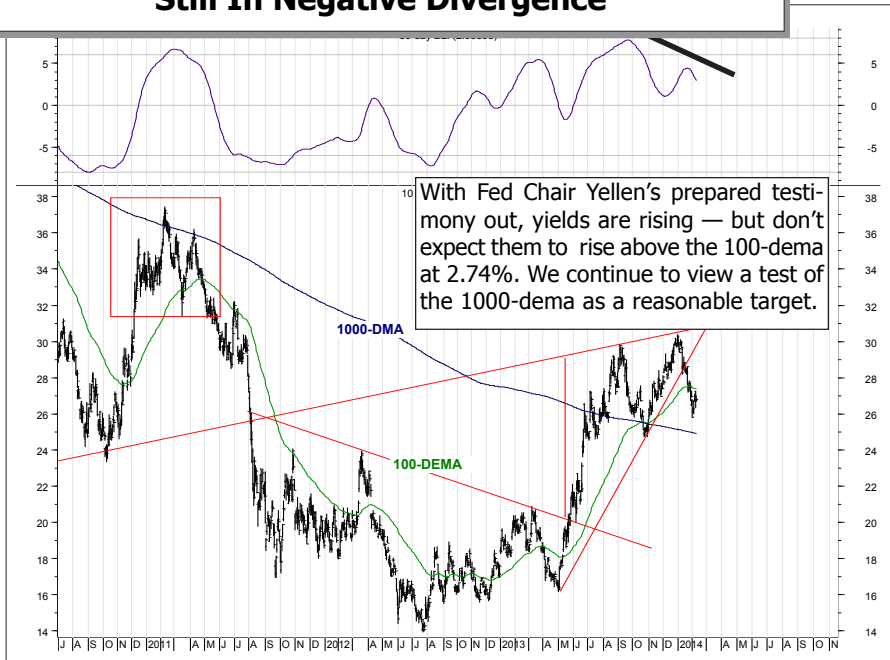
Telephone: 484-278-4073

Email: richard@rhodes-capital.com

Web Address: <http://www.rhodes-capital.com>

**TUESDAY – FEBRUARY 11, 2014**

## 10-Year Note Yield (Daily) "Still In Negative Divergence"



## CAPITAL MARKET COMMENTARY

► **WORLD MARKETS ARE BROADLY HIGHER THIS MORNING** as the Asian bourses have led today's charge with the European bourses falling in behind in higher fashion. China's SSE Composite rose +0.85%, with Germany higher by +1.43%. Spain and Italy are higher, but only by +0.52% and +0.41% respectively. Hence, today appears to be a "risk-on" day if we are reading correctly. However, the S&P 500 futures are well off their highs as Fed Chair Yellen's prepared testimony was released into the market at 8:30am ET. Also, the US dollar is modestly lower, bond yields are modestly higher, gold and crude oil are also modestly higher.

► **US ECONOMIC FRONT:** There are no market moving reports today; however, there are several tertiary reports that the economists will parse over. But, there are several Fed

## "FORECAST"

**STOCKS:** The world economy is healing; however, there remains clear headwinds to the continuation of this healing...such as the emerging market risk-reassessment. Quite clearly, risk is being mispriced at current levels given the economic backdrop and clear pressure upon corporate revenues/margins/earnings — not to mention the continued QE taper glide path.

**STRATEGY:** The S&P 500 remains above the 160-wma long-term support level at 1447; but perhaps more importantly, the distance above the 160-wma stands at +21% — down from a high of +28%. If it expands above +30%, then an upside explosion is under way; but under it — then a larger correction is expected to materialize.

speakers on the docket, with Philly Fed President Plosser speaking at 9:00am ET on "the economy and monetary policy", while Richmond Fed President Lacker and Dallas Fed President Fisher speak tonight at 8:00pm ET on "financial stability" and "the economic outlook" respectively. Fed Chair Yellen speaks before the House Financial Services Committee at 10:00am ET, and her Q&A session will be widely parsed — with market volatility increasing with her answers. We expect her to toe the current Fed line of tapering as warranted, with two weak months of data points not warranting a change in policy — the Fed is not cut from this cloth as they are more long-term in nature, and will not respond to a month's worth of stock market volatility.

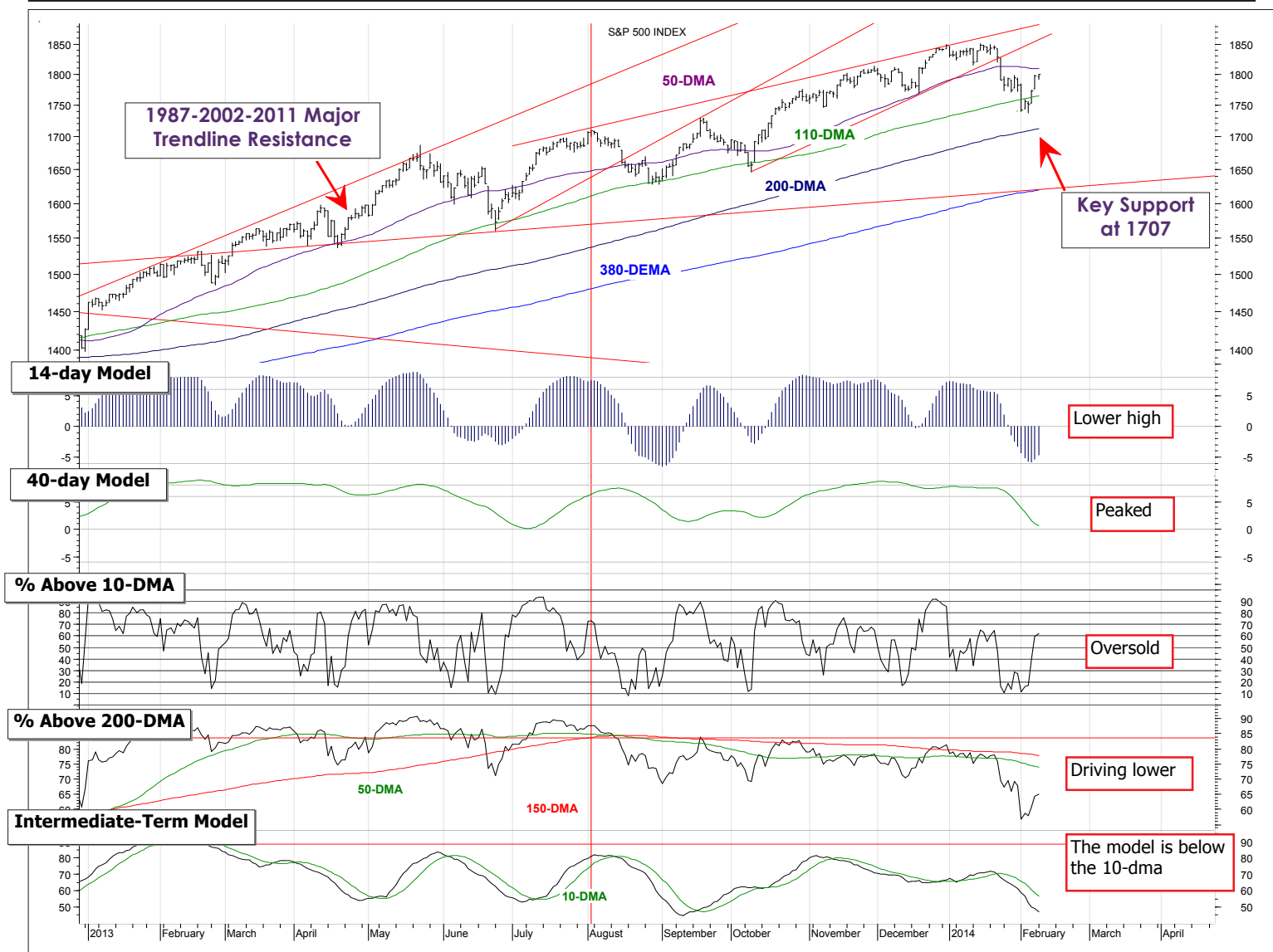
► **TRADING STRATEGY:** The long-awaited correction to adjust the excessive bullish condition is underway, with the S&P 500 and Russell 2000 to hold their 200-day moving averages at 1713 and the Russell 2000 at 1063. Until then, rallies are to be sold rather than strength bought.

## OVERNIGHT PRICES

Quotes at: 7:58am EST

INDEX		LAST	DAILY CHG	CHG %	YTD	YTD %
<b>Morning Futures</b>						
S&P 500	up	1,800.50	5.75			
Nasdaq 100	up	3,590.00	12.50			
10-year Note Yield	up	2.68%	0.0 bps			
Crude Oil	up	\$ 100.17	\$ 0.11			
Euro €	up	1.3677	0.0036			
Yen ¥	down	0.9768	-0.0019			
Gold	up	\$ 1,288.00	\$ 13.30			
<b>Foreign Indices</b>						
Japan Nikkei 225	up	14,718	255.9	1.77%	-1,573	-15.13%
SSE China Composite	up	2,104	18.0	0.86%	-12	-0.53%
German DAX	up	9,418	128.2	1.38%	-98	-1.28%
Spain Madrid General	up	1,027	8.0	0.79%	15	1.83%
Italy FTSE MIB	up	19,779	95.9	0.49%	811	4.98%
<b>US Indices</b>						
Dow Industrials	up	15,802	8.0	0.05%	-775	-5.91%
Nasdaq 100	up	3,582	20.2	0.57%	-10	-0.37%
S&P 500 Large-Cap	up	1,800	2.8	0.16%	-49	-3.40%
S&P 400 Mid-Cap	up	1,311	2.9	0.22%	-31	-3.06%
S&P 600 Small-Cap	up	632	0.0	0.00%	-34	-7.09%

# S&P 500 INDEX/ BROAD MKT INDICATORS



## S&P 500 TECHNICAL COMMENTS

➔ **RISK STILL REMAINS HIGH AT CURRENT LEVELS:** The risk-reward remains skewed to the downside given the weekly models turning lower two week prior. This, in combination of the daily model group remains suggestive of weakness to test the wide 200-dma/380-dma range between 1713-1620.

At this point, the % of stocks above their 10-dma has rallied back above neutral levels, and the % above the 200-dma remains in a downtrend amid a major divergence, and still far above levels consistent with larger bottoms.

We'll suggest a test of the 200-dma at 1711 looms ahead, with a possible breakdown and reversal higher as evidence a tradable rally higher is in place. Until then, rallies are to be sold. Patience remains of a virtue at this point.

➔ The 14-day and 40-day models have traded lower, with the 14-day having turned higher from -6 on Friday...a positive. The 40-day remains in decline.

➔ The % of stocks above their 10-dma has rallied to neutral from near-oversold levels. We view the risk lower into oversold levels.

➔ The % of stocks above their 200-dma stands at 65%...flat from the prior close. The 87% level marked previous highs. The 50-dma/150-dma cross breakdown now confirms a larger correction. Bottoms form between 30%-40%.

➔ The Intermediate-term Model has broken back below the 10-dma; a clear negative.

# SHORT CORNER

No.	Trade Date	POS	Name	SYM	Beta	Entry Price	Current Price	Percent P/L	Stop Loss Point	TARGET	EARN DATE
1	7/8/13	L	Crude Oil 2x Short	SCO	(2.68)	\$ 31.90	\$ 30.55	-4.2%	\$ - "H"	\$ 61.00	N/A
2	8/9/13	L	30-yr Bond Yield 2x Short	TMF	(1.22)	\$ 48.88	\$ 50.74	3.8%	\$ - "H"	\$ 62.00	N/A
3	8/15/13	L	Russell 2000 2x Short	TWM	(2.39)	\$ 63.85	\$ 51.29	-19.7%	\$ - "H"	\$ 19.00	N/A
4	10/31/13	S	Tesla	TSLA	0.67	\$ 157.87	\$ 196.56	-24.5%	\$ - "H"	\$ 110.00	N/A
5	11/14/13	S	Chipolte	CMG	0.55	\$ 539.49	\$ 548.09	-1.6%	\$ - "H"	\$ 470.00	N/A
6	12/11/13	S	Google	GOOG	0.96	\$ 1,075.85	\$ 1,172.93	-9.0%	\$ - "H"	\$ 930.00	N/A
7	12/11/13	S	Cooper Cameron	CAM	1.24	\$ 56.10	\$ 58.76	-4.7%	\$ - "H"	\$ 45.00	N/A
8	1/27/14	S	Amazon	AMZN	0.67	\$ 390.50	\$ 360.87	7.6%	\$ - "H"	\$ 340.00	N/A
9			N/A			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
10			N/A			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
11			N/A			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
12			N/A			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
13			N/A			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
14			N/A			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
15			N/A			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
TOTAL					(0.31)				"<" Denotes Change		

**TRADE PRICE NOTE:** All entry and exit prices for stocks are the "average" of the high and low prices for the trading day as provided for by Yahoo!'s website at <http://www.finance.yahoo.com>; unless clearly stated in the trade instructions below.

**DISCLAIMER:** "The performance data shown represent past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so that investors' securities, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data cited. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index. The illustrations and charts in this report are educational only and do not take into consideration your personal circumstances or other factors that may be important in making investment decisions. This report is not a recommendation to buy or sell a particular security."

## COMMENTS:

1. None

## TRADE ORDERS/EXECUTIONS:

1. None.

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# SHORT CORNER I

## Crude Oil 2x Short

SCO

Last: \$ 30.55 TGT: \$ 61.00  
Entry: \$ 31.90 STP: \$ -



## 30-yr Bond Yield 2x Short

TMF

Last: \$ 50.74 TGT: \$ 62.00  
Entry: \$ 48.88 STP: \$ -



## Russell 2000 2x Short

TWM

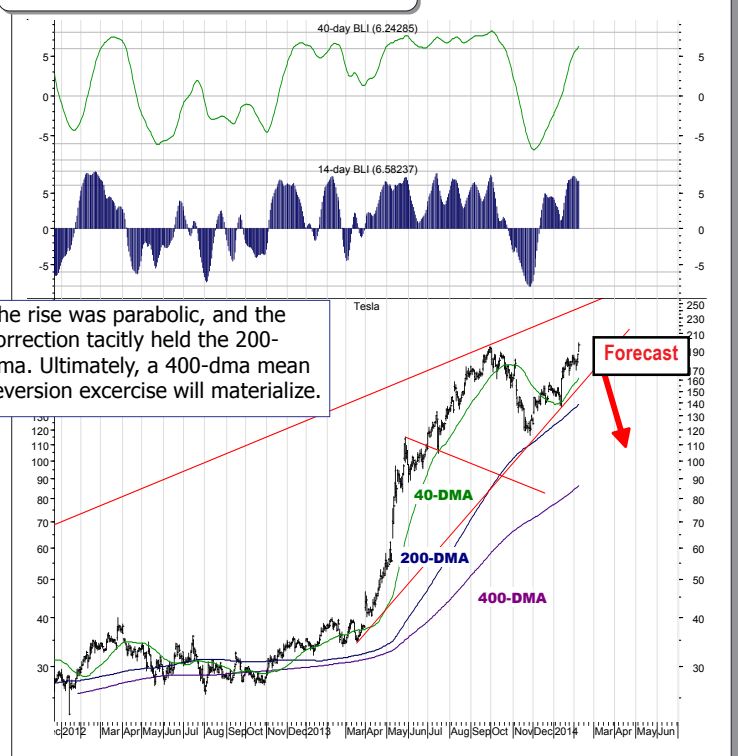
Last: \$ 51.29 TGT: \$ 19.00  
Entry: \$ 63.85 STP: \$ -



## Tesla

TSLA

Last: \$ 196.56 TGT: \$ 110.00  
Entry: \$ 157.87 STP: \$ -



# SHORT CORNER II

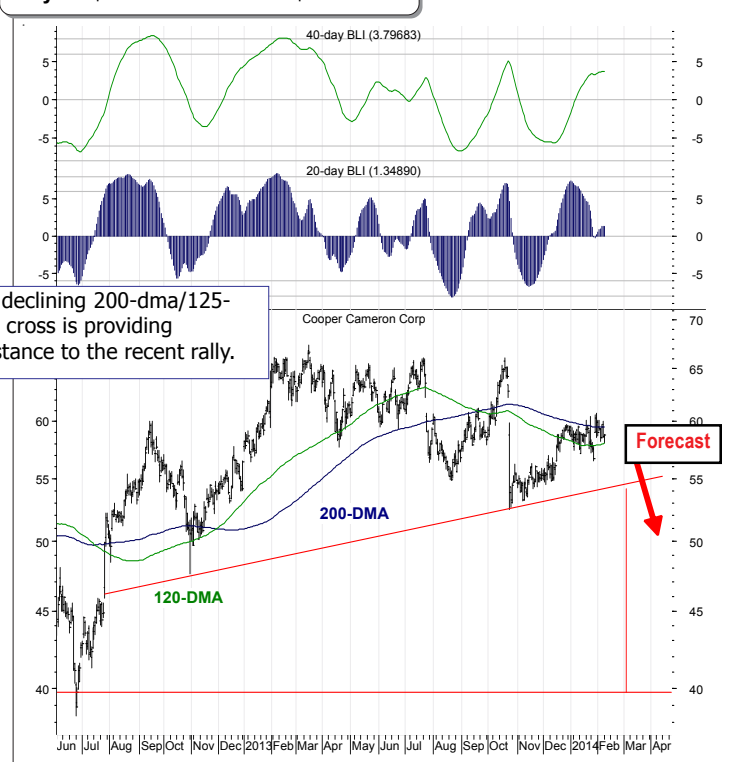
Chipotle		CMG	
Last:	\$ 548.09	TGT:	\$ 470.00
Entry:	\$ 539.49	STP:	\$ -



Google		GOOG	
Last:	\$ 1,172.93	TGT:	\$ 930.00
Entry:	\$ 1,075.85	STP:	\$ -



Cooper Cameron		CAM	
Last:	\$ 58.76	TGT:	\$ 45.00
Entry:	\$ 56.10	STP:	\$ -



Amazon		AMZN	
Last:	\$ 360.87	TGT:	\$ 340.00
Entry:	\$ 390.50	STP:	\$ -



# INSTITUTIONAL MODEL PORTFOLIO

No.	Date	Company	Ticker	Sector	Port %	Yield	Beta	Entry Price	Current Price	Total	Unrealized P/L	Percent P/L	STP	TGT	Earnings Release
1	10/24/13	Arch Coal	ACI	Energy	3.9%	2.9%	2.02	\$ 4.06	\$ 3.96	\$ 390,148	\$ (9,852)	-2.5%	\$ -	\$ 12.00	2/14
2	1/14/14	Diamond Offshore	DO	Energy	3.4%	0.9%	1.44	\$ 54.57	\$ 46.77	\$ 342,826	\$ (57,174)	-14.3%	\$ -	\$ 75.00	2/14
3	11/21/13	Encana	ECA	Energy	3.7%	1.6%	1.43	\$ 19.59	\$ 18.24	\$ 372,530	\$ (27,470)	-6.9%	\$ -	\$ 23.00	2/13
4	1/14/14	Nabors Industries	NBR	Energy	4.3%	0.9%	3.10	\$ 16.53	\$ 17.56	\$ 424,924	\$ 24,924	6.2%	\$ -	\$ 22.00	N/A
5	1/14/14	Newfield Explor.	NFX	Energy	3.9%	0.0%	1.35	\$ 25.08	\$ 24.10	\$ 384,370	\$ (15,630)	-3.9%	\$ -	\$ 38.00	N/A
6	10/22/13	Transocean	RIG	Energy	3.5%	4.6%	2.17	\$ 48.98	\$ 42.26	\$ 345,156	\$ (54,844)	-13.7%	\$ -	\$ 62.00	N/A
7	1/14/14	Allegheny Tech	ATI	Materials	3.6%	2.0%	2.24	\$ 35.00	\$ 31.25	\$ 357,143	\$ (42,857)	-10.7%	\$ -	\$ -	N/A
8	1/14/14	Cleveland Cliffs	CLF	Materials	3.7%	2.4%	2.49	\$ 22.36	\$ 20.58	\$ 368,157	\$ (31,843)	-8.0%	\$ -	\$ -	N/A
9	1/14/14	Freeport-McMoran	FCX	Materials	3.6%	3.5%	2.22	\$ 35.63	\$ 32.23	\$ 361,830	\$ (38,170)	-9.5%	\$ -	\$ -	N/A
10	1/14/14	Newmont Mining	NEM	Materials	4.7%	3.4%	(0.11)	\$ 23.88	\$ 22.20	\$ 464,824	\$ (35,176)	-7.0%	\$ -	\$ -	N/A
11	1/14/14	CH Robinson	CHRW	Industrials	2.8%	2.4%	0.40	\$ 57.45	\$ 52.93	\$ 276,397	\$ (23,603)	-7.9%	\$ -	\$ -	N/A
12	1/14/14	Caterpillar	CAT	Industrials	3.2%	2.7%	1.76	\$ 89.89	\$ 94.50	\$ 315,385	\$ 15,385	5.1%	\$ -	\$ -	N/A
13	1/14/14	Fastenal	FAST	Industrials	2.8%	2.1%	0.89	\$ 47.43	\$ 44.15	\$ 279,254	\$ (20,746)	-6.9%	\$ -	\$ -	N/A
14	1/14/14	YRC Worldwide	YRCW	Industrials	4.9%	0.0%	3.49	\$ 13.20	\$ 21.29	\$ 483,864	\$ 183,864	61.3%	\$ -	\$ -	N/A
15	1/14/14	Bob Evans	BOBE	Consumer Discret.	2.1%	0.8%	2.50	\$ 47.62	\$ 50.95	\$ 213,986	\$ 13,986	7.0%	\$ -	\$ -	N/A
16	1/14/14	Abercrombie-Fitch	ANF	Consumer Discret.	1.9%	2.2%	1.97	\$ 36.14	\$ 33.93	\$ 187,770	\$ (12,230)	-6.1%	\$ -	\$ -	N/A
17	1/14/14	Clear Channel	CCU	Consumer Discret.	1.9%	2.7%	0.61	\$ 22.57	\$ 21.27	\$ 188,480	\$ (11,520)	-5.8%	\$ -	\$ -	N/A
18	1/14/14	Coach	COH	Consumer Discret.	1.7%	2.4%	1.17	\$ 54.30	\$ 47.20	\$ 173,849	\$ (26,151)	-13.1%	\$ -	\$ -	N/A
19	1/14/14	Urban Outfitters	URBN	Consumer Discret.	2.0%	0.0%	1.46	\$ 36.89	\$ 36.64	\$ 198,645	\$ (1,355)	-0.7%	\$ -	\$ -	N/A
20	1/14/14	Avon Products	AVP	Consumer Staples	4.5%	1.4%	1.30	\$ 16.49	\$ 14.75	\$ 447,241	\$ (52,759)	-10.6%	\$ -	\$ -	N/A
21	1/14/14	Quest Diagnostics	DGX	Healthcare	2.9%	2.2%	0.61	\$ 53.75	\$ 51.74	\$ 288,781	\$ (11,219)	-3.7%	\$ -	\$ -	N/A
22	1/14/14	Eli Lilly	LLY	Healthcare	4.2%	3.8%	0.29	\$ 52.07	\$ 53.97	\$ 414,596	\$ 14,596	3.6%	\$ -	\$ -	N/A
23	10/30/13	Teva Pharma	TEVA	Healthcare	4.3%	2.6%	0.99	\$ 41.01	\$ 44.05	\$ 429,704	\$ 29,704	7.4%	\$ -	\$ -	N/A
24	1/14/14	First Horizon	FHN	Financials	2.9%	1.6%	1.79	\$ 12.08	\$ 11.56	\$ 287,086	\$ (12,914)	-4.3%	\$ -	\$ -	N/A
25	1/14/14	Rayonier	RYN	Financials	3.2%	4.7%	0.78	\$ 41.53	\$ 44.25	\$ 319,648	\$ 19,648	6.5%	\$ -	\$ -	N/A
26	1/14/14	F5 Networks	FFIV	Info Technology	3.6%	0.0%	2.69	\$ 92.01	\$ 109.50	\$ 357,026	\$ 57,026	19.0%	\$ -	\$ -	N/A
27	1/14/14	Microsoft	MSFT	Info Technology	3.2%	3.1%	0.72	\$ 34.98	\$ 36.80	\$ 315,609	\$ 15,609	5.2%	\$ -	\$ -	N/A
28	1/14/14	Excelon	EXC	Utilities	3.3%	4.6%	0.21	\$ 26.98	\$ 29.40	\$ 326,909	\$ 26,909	9.0%	\$ -	\$ -	N/A
29	1/14/14	Aqua America	WTR	Utilities	3.2%	2.6%	0.35	\$ 22.79	\$ 23.97	\$ 315,533	\$ 15,533	5.2%	\$ -	\$ -	N/A
30	1/14/14	Energen Corp	EGN	Utilities	3.3%	0.8%	1.77	\$ 65.64	\$ 72.64	\$ 331,993	\$ 31,993	10.7%	\$ -	\$ -	N/A
TOTAL										\$ 9,963,663	\$ (36,337)	-0.4%			

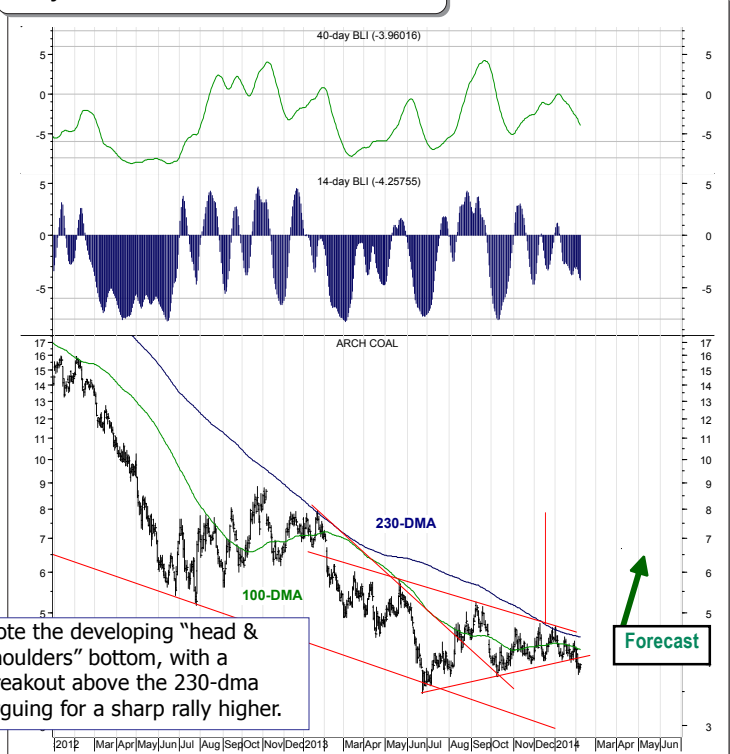
## TRADE ORDERS/EXECUTIONS:

1. None.

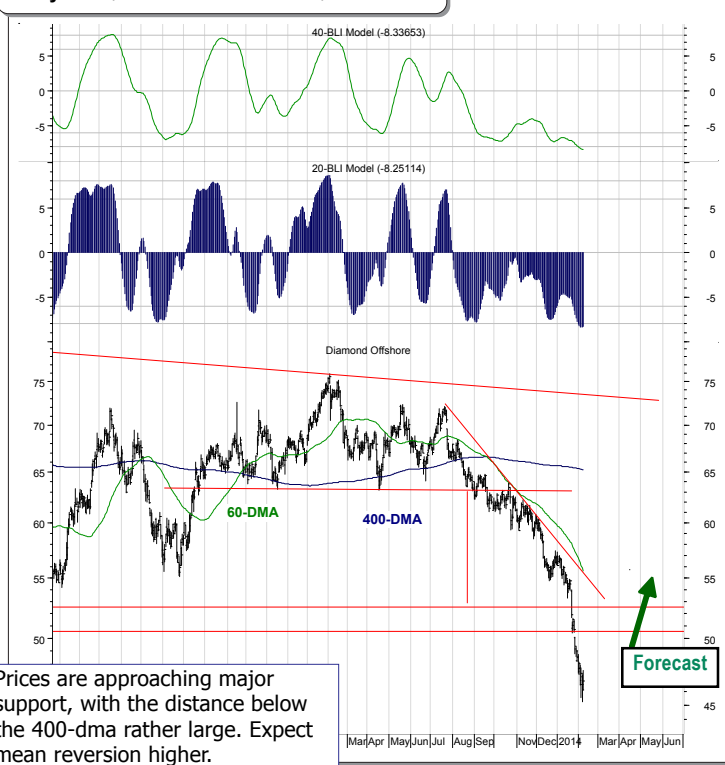


# INSTITUTIONAL MODEL PORTFOLIO I

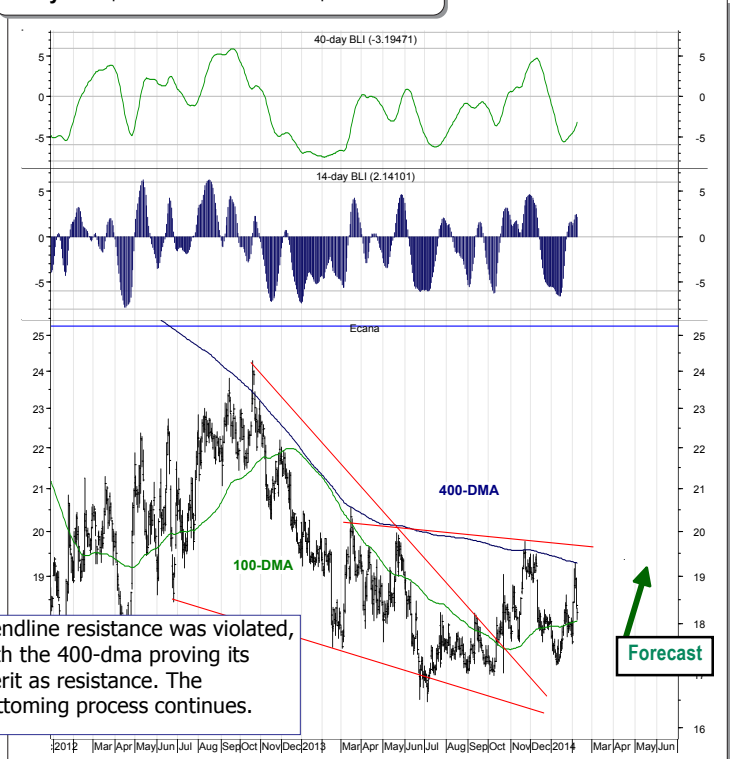
**Arch Coal** **ACI**  
**Last:** \$ 3.96 **TGT:** \$ 12.00  
**Entry:** \$ 4.06 **STP:** \$ -



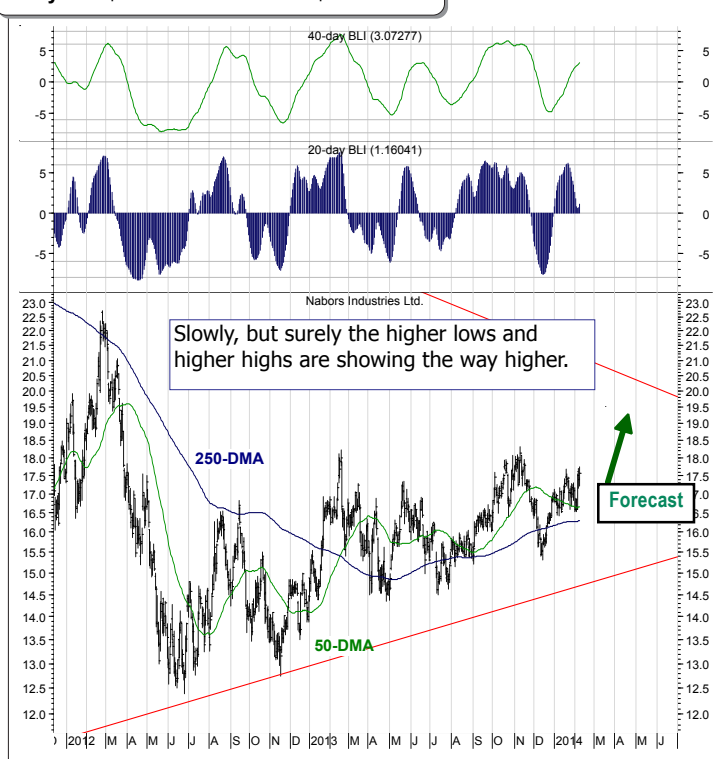
**Diamond Offshore** **DO**  
**Last:** \$ 46.77 **TGT:** \$ 75.00  
**Entry:** \$ 54.57 **STP:** \$ -



**Encana** **ECA**  
**Last:** \$ 18.24 **TGT:** \$ 23.00  
**Entry:** \$ 19.59 **STP:** \$ -

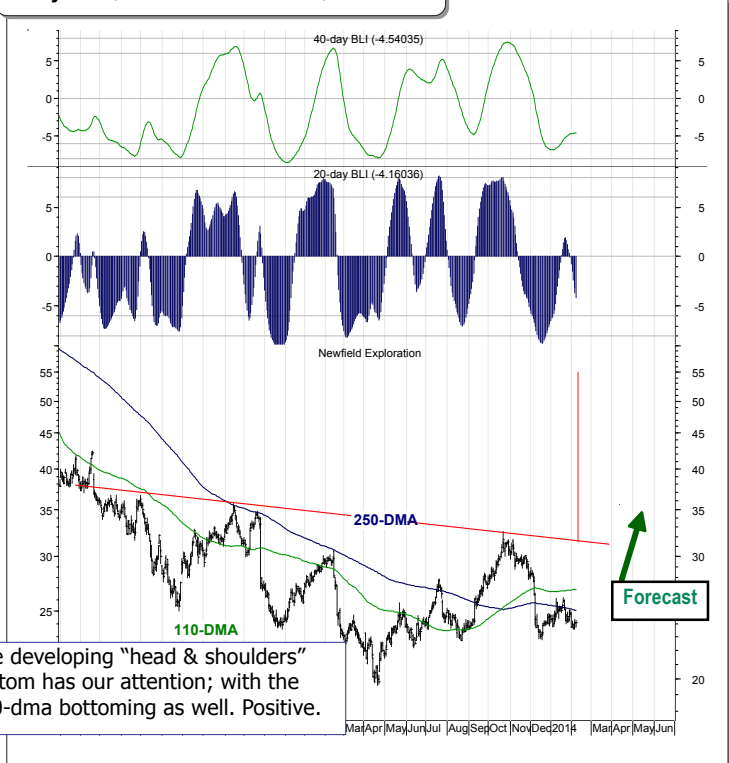


**Nabors Industries** **NBR**  
**Last:** \$ 17.56 **TGT:** \$ 22.00  
**Entry:** \$ 16.53 **STP:** \$ -

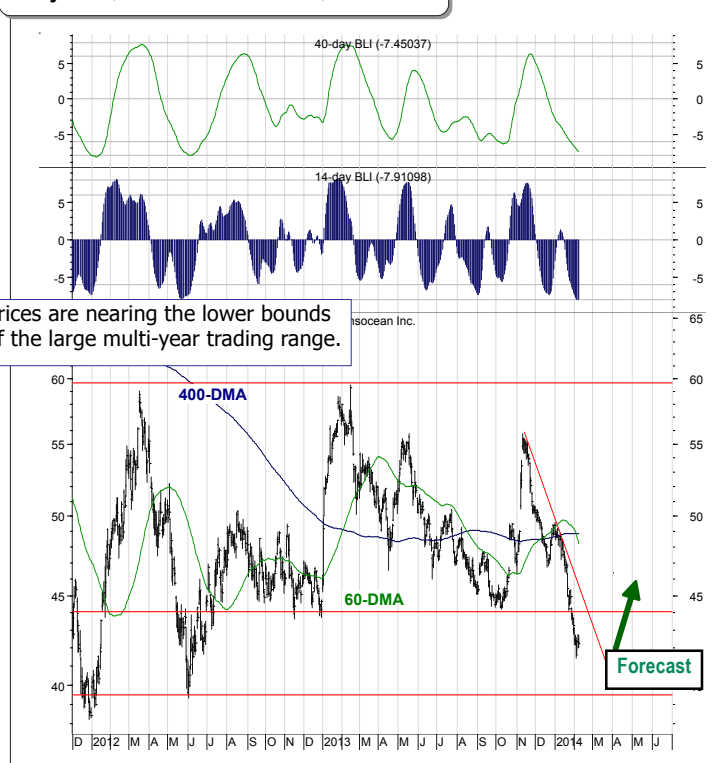


# INSTITUTIONAL MODEL PORTFOLIO II

**Newfield Explor.** **NFX**  
**Last:** \$ 24.10 **TGT:** \$ 38.00  
**Entry:** \$ 25.08 **STP:** \$ -



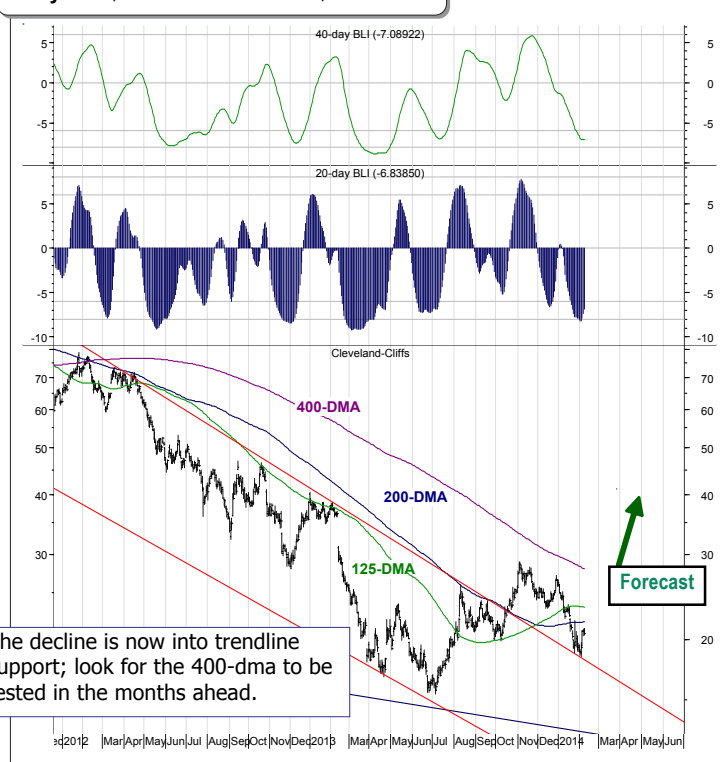
**Transocean** **RIG**  
**Last:** \$ 42.26 **TGT:** \$ 62.00  
**Entry:** \$ 48.98 **STP:** \$ -



**Allegheny Tech** **ATI**  
**Last:** \$ 31.25 **TGT:** \$ -  
**Entry:** \$ 35.00 **STP:** \$ -



**Cleveland Cliffs** **CLF**  
**Last:** \$ 20.58 **TGT:** \$ -  
**Entry:** \$ 22.36 **STP:** \$ -





# INSTITUTIONAL MODEL PORTFOLIO III

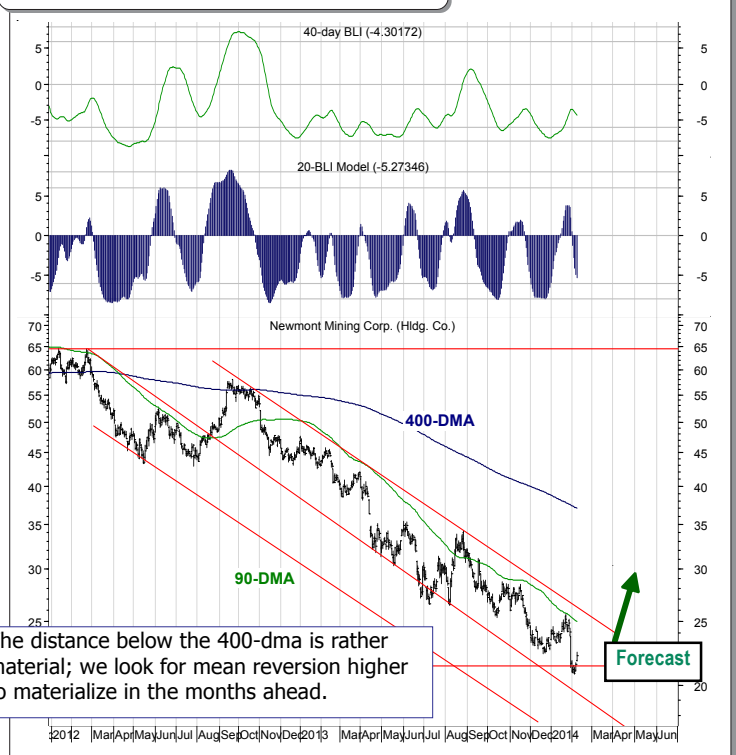
## Freeport-McMoran FCX

Last: \$ 32.23 TGT: \$ -  
Entry: \$ 35.63 STP: \$ -



## Newmont Mining NEM

Last: \$ 22.20 TGT: \$ -  
Entry: \$ 23.88 STP: \$ -



## CH Robinson CHRW

Last: \$ 52.93 TGT: \$ -  
Entry: \$ 57.45 STP: \$ -



## Caterpillar CAT

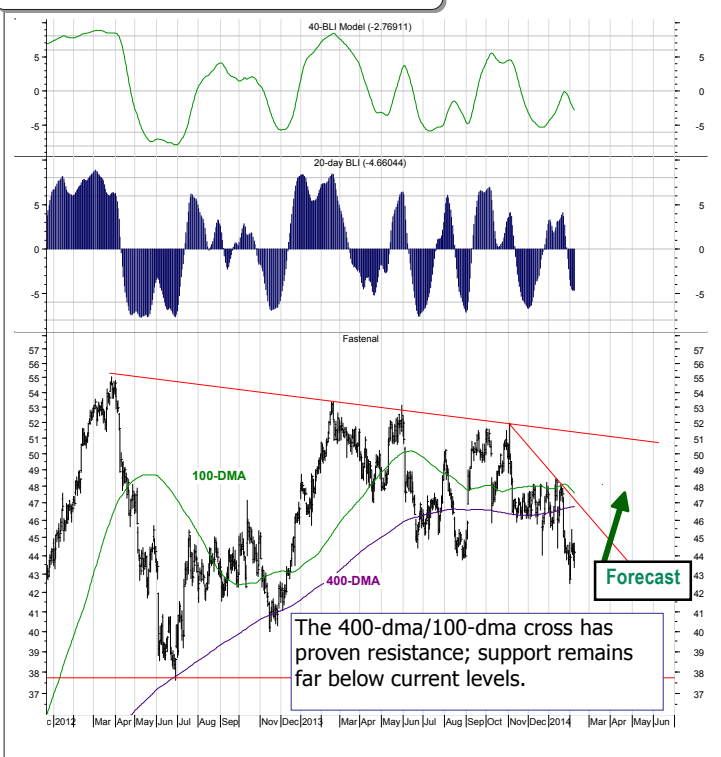
Last: \$ 94.50 TGT: \$ -  
Entry: \$ 89.89 STP: \$ -



# INSTITUTIONAL MODEL PORTFOLIO IV

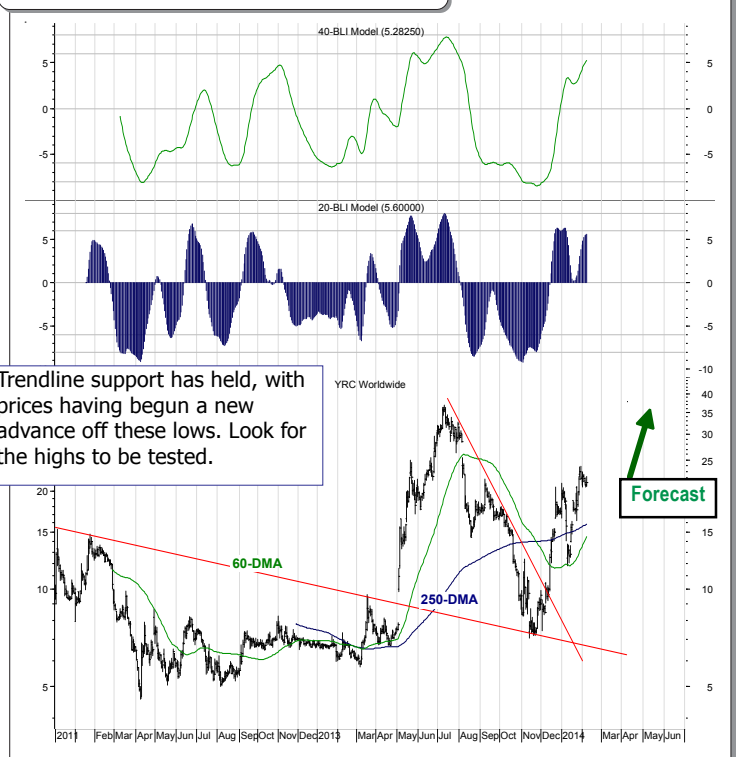
## Fastenal FAST

Last: \$ 44.15 TGT: \$ -  
Entry: \$ 47.43 STP: \$ -



## YRC Worldwide YRCW

Last: \$ 21.29 TGT: \$ -  
Entry: \$ 13.20 STP: \$ -



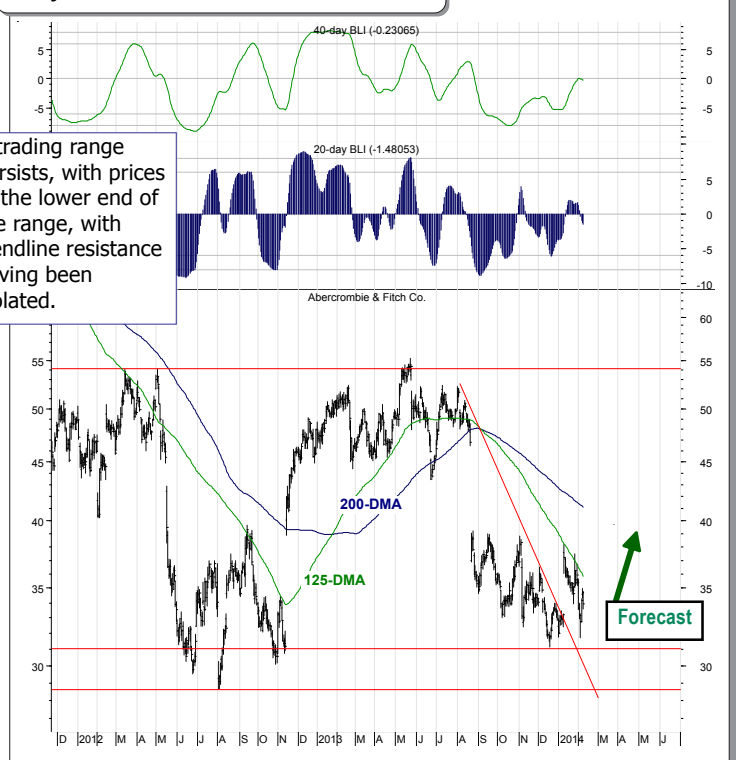
## Bob Evans BOBE

Last: \$ 50.95 TGT: \$ -  
Entry: \$ 47.62 STP: \$ -



## Abercrombie-Fitch ANF

Last: \$ 33.93 TGT: \$ -  
Entry: \$ 36.14 STP: \$ -



# INSTITUTIONAL MODEL PORTFOLIO V

## Clear Channel

CCU

Last: \$ 21.27 TGT: \$ -  
Entry: \$ 22.57 STP: \$ -



## Coach

COH

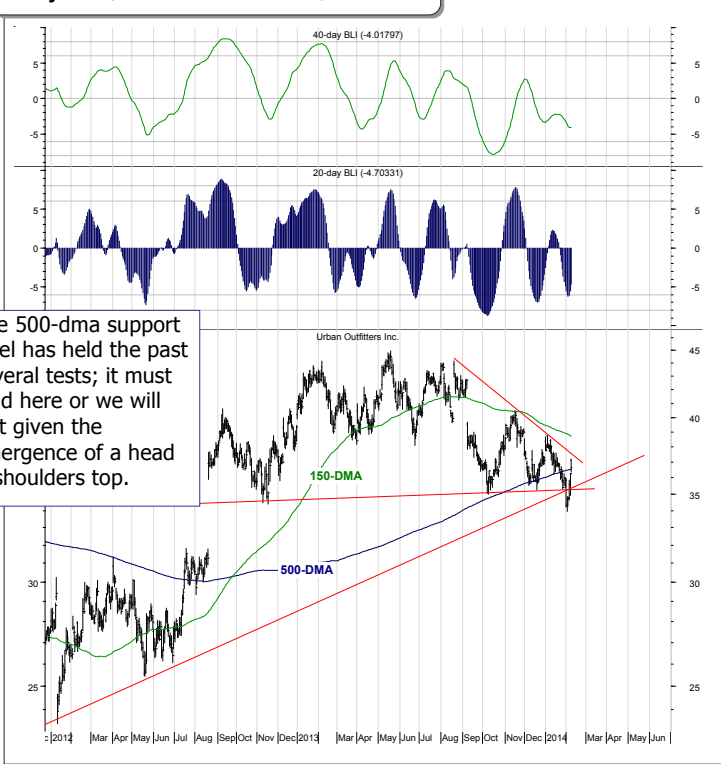
Last: \$ 47.20 TGT: \$ -  
Entry: \$ 54.30 STP: \$ -



## Urban Outfitters

URBN

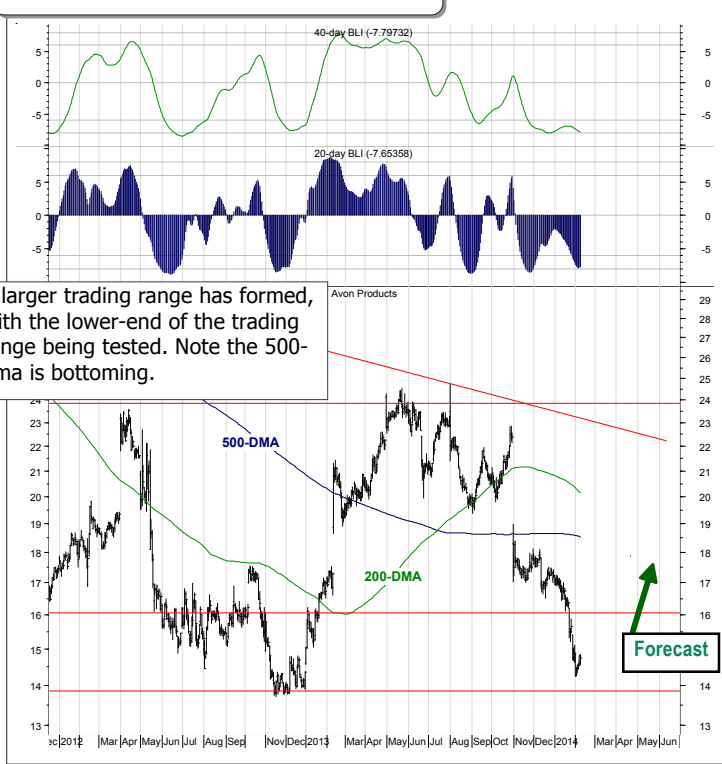
Last: \$ 36.64 TGT: \$ -  
Entry: \$ 36.89 STP: \$ -



## Avon Products

AVP

Last: \$ 14.75 TGT: \$ -  
Entry: \$ 16.49 STP: \$ -



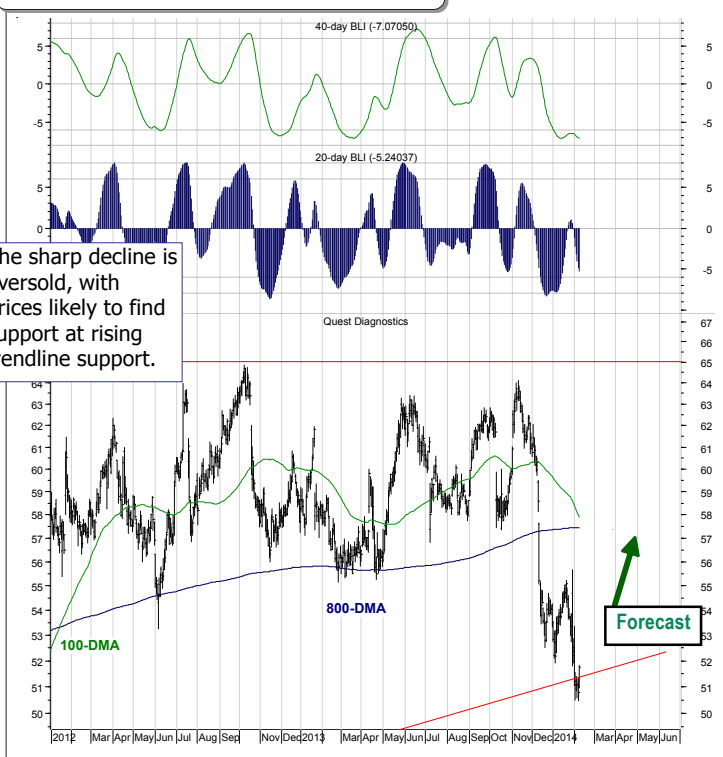
# INSTITUTIONAL MODEL PORTFOLIO VI

## Quest Diagnostics

DGX

Last: \$ 51.74 TGT: \$ -  
Entry: \$ 53.75 STP: \$ -

The sharp decline is oversold, with prices likely to find support at rising trendline support.



## Eli Lilly

LLY

Last: \$ 53.97 TGT: \$ -  
Entry: \$ 52.07 STP: \$ -

The bullish triangle suggests new highs are ahead as long as the 400-dma holds the decline.



## Teva Pharma

TEVA

Last: \$ 44.05 TGT: \$ -  
Entry: \$ 41.01 STP: \$ -

The 400-dma/125-dma cross has held, with resistance violated. This now becomes support moving forward.



## First Horizon

FHN

Last: \$ 11.56 TGT: \$ -  
Entry: \$ 12.08 STP: \$ -

The 300-dma defines the uptrend with rising trendline support. Higher highs and higher lows are the hallmark of a bull market.

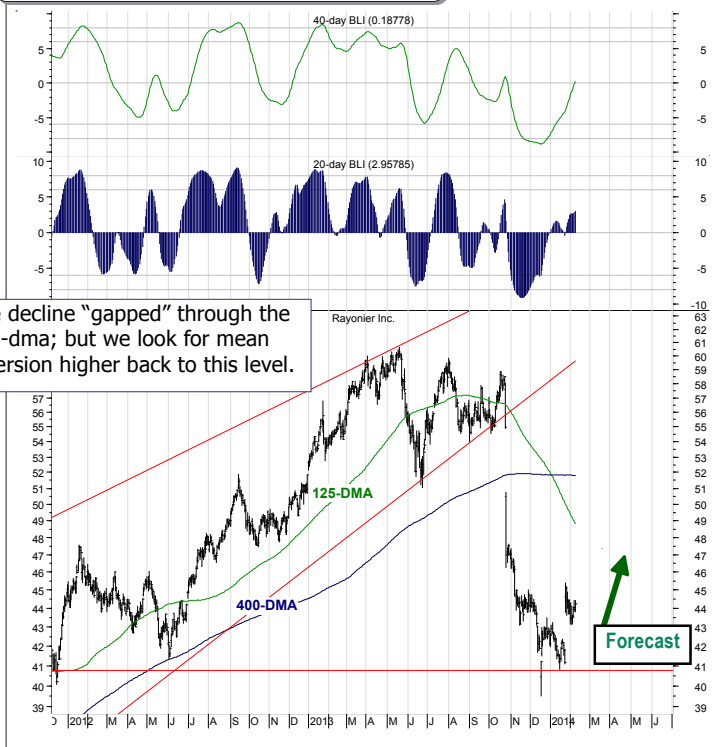


# INSTITUTIONAL MODEL PORTFOLIO VII

Rayonier

RYN

Last: \$ 44.25 TGT: \$ -  
Entry: \$ 41.53 STP: \$ -



F5 Networks

FFIV

Last: \$ 109.50 TGT: \$ -  
Entry: \$ 92.01 STP: \$ -



Microsoft

MSFT

Last: \$ 36.80 TGT: \$ -  
Entry: \$ 34.98 STP: \$ -



Exelon

EXC

Last: \$ 29.40 TGT: \$ -  
Entry: \$ 26.98 STP: \$ -



# INSTITUTIONAL MODEL PORTFOLIO VIII

Aqua America

WTR

Last: \$ 23.97 TGT: \$ -  
Entry: \$ 22.79 STP: \$ -



Energen Corp

EGN

Last: \$ 72.64 TGT: \$ -  
Entry: \$ 65.64 STP: \$ -





# **The “Blue-Line Indicator” or “BLI” Explained**

The BLI is our simple momentum oscillator used for timing and trend decisions; we rarely if ever use other momentum indicators for we prefer to focus and understand one indicator really well rather than a basket of indicators that can at times be contradictory. Furthermore, we prefer to use the BLI in conjunction with basic chart patterns; it is our experience that this combination works rather well for type of trading style.

Basically, the BLI it is a full stochastic indicator derivative of our own undertaking; our changes have been several, but primarily relate to “smoothing” the indicator in order to provide for better signals once it does in fact change directions. We use varying time periods dependent upon whether we are working with weekly or daily charts. We have found that a 14-period BLI works well with the weekly charts, whereas both a 20-period and 40-period work well with daily charts. Obviously, the 40-period BLI catches longer and more tidal changes in direction. We normally don’t use these in our Daily Bulletin given its shorter-term time frame, but behind the scenes it plays a big part.

When using the BLI with price charts; we look upon the following 3-factors as “set-ups” upon which the probability is highest to trade:

## **1. BLI Extremes: Oversold (-6 to -8)/Overbought (+6 to +8)**

- When the BLI trades into either extreme, our “reversal ears” go up as a change in trend becomes a higher probability. This puts the risk/reward dynamic in our favor generally, but we won’t take a position without well defined stop losses and perhaps prices are trading into support or resistance as the case may be. However, we must note that extreme conditions can and will become more extreme in a powerfully trending market; hence this is the “caveat” to trading with the BLI in isolation.

## **2. BLI Divergences: Positive/Negative**

- A divergence is said to have occurred when the price and BLI do not make new lows/highs together. They in effect “diverge”, with the BLI not confirming the prevailing trend. If the BLI turns higher/lower from below a previous BLI low/high – then a divergence is said to have occurred, of which the probability is increased that the trend is changing in favor of the BLI direction.

## **3. BLI Reversals from Positive/Negative Levels**

- Another very good BLI trading pattern which denotes a strongly stock is when the BLI turn higher from already positive levels – this suggests a strong upwards acceleration is underway. Conversely, a turn lower from already negative numbers suggests a strong downward acceleration is underway.