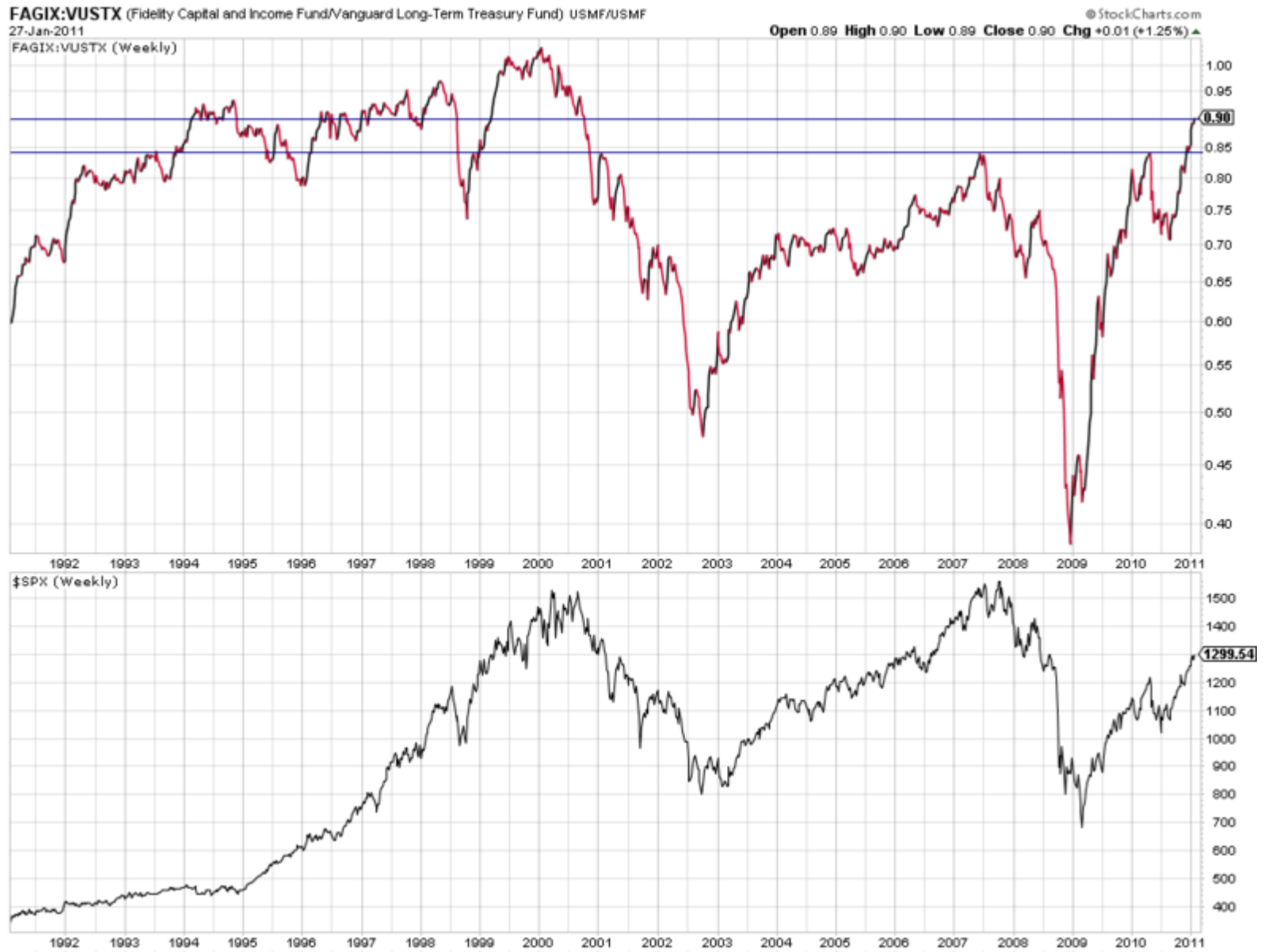


Bond Money Flow Ts™ and the T Theory™ Confidence Index

By Parker Binion Sunday, January 30, 2011

Let's begin this week by looking at the T Theory™ Confidence Index, which is FAGIX divided by VUSTX.



As you can see, confidence (defined as the appetite for risk over safety in the bond market) has rebounded from an all-time low in November 2008 to levels that we have not seen since 2000. Compared to the S&P 500, confidence is well above where it was when the S&P peaked in 2007 at 1560. Yet the recent S&P top is ~16% lower than its 2007 peak on a nominal basis.

As long as the T Theory™ Confidence Index is rising, the stock market should be fine. We know from history that the Confidence Index usually puts in its final top before stocks do, such that bearish divergence should develop between the S&P and the Confidence Index at the final S&P top.

Because the Money Flow Index indicator is not available for mutual funds, we use TLT as a substitute for VUSTX and JNK as a substitute for FAGIX. The correlations in price performance are not perfect between the ETFs and the mutual funds, but the ETFs work reasonably well enough to support the basis of Money Flow T™ studies.

First let's review the recently completed Money Flow T™ in TLT:



This is an example of an inverted Money Flow TTM which projects the end of the energy of a down move. The downtrend started on August 25, 2010 and the Money Flow Index bottomed on October 18, 2010. After that point, the Money Index Flow started to rise, while price continued to fall. Accordingly, the Money Flow TTM rules were satisfied, and the equal time projection suggested that the energy of the down move would deplete on December 9, 2010.

As it turned out, this was four days early. If you recall, last week we discussed that when the energy from a Money Flow TTM dissipates, sometimes the result will be a trend change. Other times, the security will simply enter a consolidation phase. Here, TLT has been consolidating since the end of the Money Flow TTM in December. Unfortunately, this means we cannot draw a new Money Flow TTM in TLT. Money Flow TsTM can only be drawn on trending securities.

Turning to JNK, we have several alternative Money Flow TsTM on the daily chart.



Very clearly, the Money Flow Index peaked on January 6, 2011 and that is where the center post goes. The choices are where to start the Money Flow TTM. The red lines reflect a December 16, 2010 start date, and project a January 27, 2011 end date. Certainly, Friday's action suggests that January 27 was at least an interim top.

The blue lines start the Money Flow TTM on November 29, 2010 with a February 15, 2011 end date. The earliest possible Money Flow TTM that can be drawn starts on November 16, 2010 with an end date of February 28, 2011 (black lines).

Unless JNK starts to fall apart next week, my interpretation would be to start looking for signs of an energy depletion around February 15 but be prepared to wait until the end of February.

I hope you have enjoyed this week's presentation. Next week, we'll examine the stock market. Until then, please use caution in your investments and manage your risk wisely.