



Correction Coming Soon?...

**Overpriced Market? Correction Coming Soon?
(This Article Was Written Prior To The Japanese Earthquake)**

Key Technical Indicators to Watch For

You may be asking yourself... this market has continued to rise for weeks on end, with only occasional pullbacks... so is this market overpriced? Is there a correction due soon?

There is a certain type of analysis called *technical analysis* that can give us some answers to these questions and guide us on points of entry into the market.

For the first two months of 2011, market sentiment has really been outstanding. Everyone says "Now is the time to get in", "Don't miss the upswing", and "You've gotta get into the game".

The economy is on the rebound – there's no question about that.

But there can be a point when investor sentiment gets *too positive*, just as when things are really bad, investor sentiment can get way too negative with everybody selling and running scared.

Now we're perhaps seeing the other side of that coin. The Dow Jones is at 12,000 and people are saying it's going up to 13,000 or even 14,000 - you see it go up everyday and don't want to miss another rally.

Buy Low, Sell High

In such times, always remember Rule No. 1 – Buy Low and Sell High.

Such a simple little phrase, yet so difficult to consistently execute on. To act on it, you need to know what the low and the high points are. And this is where technical analysis can help.

Technical Indicators

Ever heard the phrase, the market is *overbought*, or a stock is *oversold*, and wondered what that meant?

What it simply means is that if a stock moves too high or too low relative to its historical average price movements, it is deemed *overbought* (too high) or *oversold* (too low). So if a stock moves significantly higher, especially to an extreme point in a short period of time, it may be *overbought* and \due for a correction.

Likewise, if a stock goes down very dramatically to an extreme low point, it may be *oversold* and you may see buyers come in until the stock reverts closer to its average historical price. This return to its average price band is called *Regression to the Mean*.

If a stock is *overbought*, hold off on buying it for the moment. If it's *oversold*, hold off on selling at extreme lows.

You may also have heard people say that a stock has reached its *support* level or its *resistance* level. Basically, a *support* level is a price that the stock has difficulty falling below, at which price, for some reason, buyers seem to rush in.

On the other side, if a stock starts going up but just can't break higher than some number, some trigger price at which buyers rush to sell – that is its *resistance* level.

So you must get a sense of the *support* and *resistance* levels on your stocks. Luckily, you don't have to figure these levels out on your own - just Google it and you'll get the answer.

Another key technical is the *Volatility Index* or the VIX – a fascinating and helpful number that measures expected market volatility. As the VIX rises, it signals that *fear* is rising in the market. As it falls, it implies fear is receding.

Back, during the European debt crisis in 2008, the VIX went up into the 60s and 70s – pretty high numbers for the VIX. When the VIX gets too high, you should ask yourself – is our world really coming to an end, or is this a good time to come in and buy?

These days, it's been trading around the 20s, and had even gone as low as 15 a few weeks ago. Any time the VIX drops to the 15 - 20 level, it suggests a lot of complacency in the market - that investors just aren't watching out for bad things. ...And then, of course, something bad always happens.

So keep track of these key technical indicators, and use them to guide your investing decisions.