

## MARKET COMMENT: TAX LOSS SELLING BOUNCE

“Tax loss selling” becomes a topic of investment discussion at this time of the year, and for regular readers of this report you probably know that each year we discuss this, and will often put together a series of tax-loss selling bounce strategies. There has always been a great deal of interest in these types of ideas toward the end of the year, and we want to spend some time talking about some of the tax loss selling basics, and the concepts that make sense at this time of year.

The premise of Tax-loss Selling Bounces begins, naturally, with the concept of tax-loss selling. The idea being that we see the majority of tax-related selling pressure toward the end of the year. This year has been one filled with fits and starts -- but overall has produced positive returns. The first couple of months of the year produced slight gains, only to have them quickly stripped away in late February-early March. But Spring ushered in a blooming market, with the major market averages rallying substantially through June-July. In fact, the S&P 500 (SPX) managed to finally get back to its March 2000 highs during this rally! But then the effects of the credit crunch-subprime mortgage crisis finally took hold of the market in July and August, and took all market indexes and most stocks considerably lower; for example, we saw our first 10% (10.9%) correction in the SPX since early-2003. Furthermore, the general sell-off in the broad market caused our main market indicators, such as the NYSE Bullish Percent (BPNYSE) to fall below 30% for the first time since October 2002; or five years! This identified a meaningful buying opportunity, and from mid-August to October we saw the market rally notably off its August lows; the SPX, for example, logged a gain of roughly 14%. But then the next credit-crunch wave hit (during earnings season) and rocked the market once again, as most indexes went on to test the August lows; while Financial and Consumer Cyclical stocks were beaten down further.

Historically investors have been more reluctant to sell Blue Chips that have underperformed late in the year than they are likely to sell small cap positions, and this all combines to form the backdrop to what is often referred to as the “January Effect”. In any event, we are entering that point in the year where

buying laggards for a short-term bounce can often be a very rewarding endeavor.

The basic concept of a Tax Loss Bounce List is to identify stocks that have seen a saturation of supply, potentially caused by increased tax-related selling, and that are giving the first signs of a tradable bottom. This means that we are often looking at depressed, smaller cap, stocks that aren't highly rated in terms of tech attributes. That said, this is the time of year where these types of bottom-fish pickups often reward the trader handsomely. Eventually all those that want to sell for tax reasons have already done so; and the Point & Figure chart is a tool very useful in identifying such scenarios.

Most all of these plays should be considered aggressive in nature (more of a bottom fish play), as they are typically both counter-trend, and often have negative RS, and therefore are short-term in nature. The premise here is that we see a year-end, thru January, push from new demand entering the market and selling pressure exhausting itself. In other words, these are blind dates that may turn into a fling, but don't have a likelihood for being a marriage. You need to be willing to take profits once you get your bounce, sticking to the reason why you are buying the stock. As well, note that you are buying these stocks for a bounce – for the January Effect. If you get to the 3rd or 4th week in January and you have not seen a bounce in the stock you are playing, then sell it. Buying stocks for tax loss bounces are certainly different then buying with a longer term horizon. And if your reasons for buying them don't come true, then it is just best to walk away.

## TRADING IDEAS: EVEN MORE TRADING IDEAS

We have listed some trading tips in this report previously that may help you in the market. We have used these for a number of years and think they are extremely useful.

1. Most tips to buy a stock come from sellers and most tips to sell come from buyers. Be wise - recognize the fact there are no disinterested people in the market. You and you alone can be your own best financial advisor. The problem only requires some time, study and practice.

2. The first stocks to double in a bull market usually double again.

3. When you close out a position, forget it. It's over. Many people take a profit and are unhappy if the stock does not collapse immediately.

4. The first sell signal in the Point and Figure chart in a bull market when the stock is above its bullish support line and the relative strength is bullish is a very strong buy signal. This is particularly true when the stock is coming off a double top. If it breaks out later, it will give a triple top buy signal. This is the "shakeout" pattern we often refer to.

5. News on stock is not important. It is how a stock reacts to that news which is important.

6. The principal thing needed to make a good investor or trader is patience - lots of patience in fact. In the market, many opportunities for profit come to those who have patience. Do not be carried away by the enthusiasm of other people.

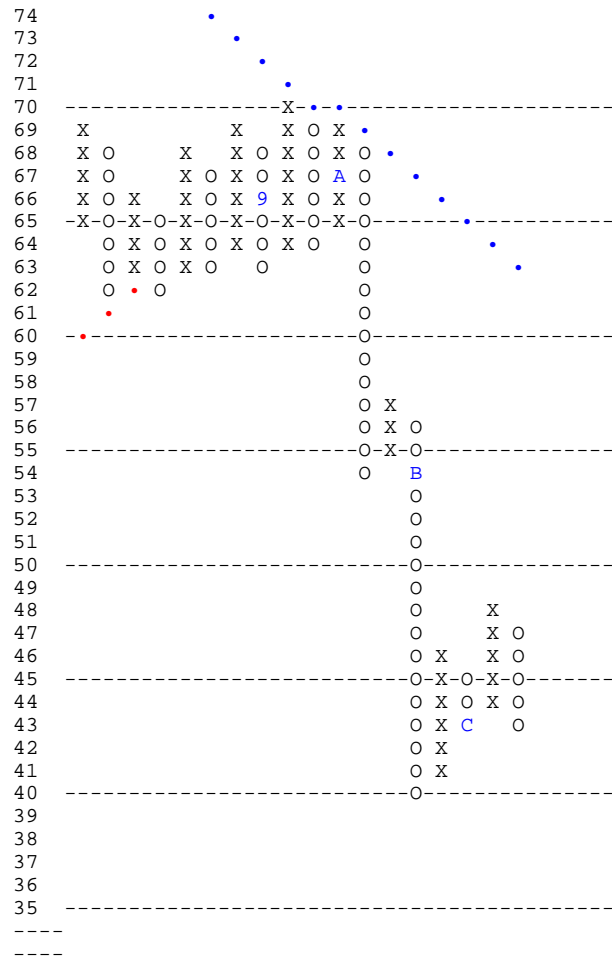
7. When you buy a stock you should write down the reason why you bought it and keep that in mind later on. This may help you better decide when to sell the stock. If your reason for initially buying the stock changes, you should re-evaluate your position and decide if you want to continue to hold the stock or sell it.

**PHLX FOCUS: JC PENNY COMPANY (JCP)**

JC Penny (JCP) one of those retailing stocks that has been hit hard this year and is a very good candidate for a tax loss bounce position. As a matter of fact, there are quite a few names in the retailing sector that would setup good for tax loss bounce candidates, like Dillard's (DDS), Collective Brands (PSS), and Brown Shoe Company (BWS) to name a few. JCP topped out at \$87 back in February of this year, and has since been more then cut in half falling to \$40 before all way said and done. While there are no signs of any changes in long term trend for this stock, it has recently given a first buy signal off the

bottom with a double to breakout at \$47. So our recommendation this week is an in-the-money call on JCP.

**JC Penny (JCP) Point & Figure Chart**



**CALL RECOMMENDATION: JCP**

<b>Stock:</b>	JC Penny
<b>Symbol:</b>	JCP
<b>Price:</b>	\$ 43.18
<b>Call to Buy:</b>	February 2008 40 Calls
<b>Symbol:</b>	JCP BH
<b>Price:</b>	\$ 4.90
<b>Exchange:</b>	Philadelphia

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