

Wash Away The Fear

Uncertainty took hold of global equity markets last week as some doubted the rhyme and reason around the recent run up in stocks. The S&P 500 broke below 1400 and 1392, knocking out technical levels with the precision of a professional bowler.

With the technical in doubt, Friday's low of 1386 seemed like the teetering point where the market would make it or break it. Luckily, after some comments from Federal Reserve Chairman Ben Bernanke in pre-market hours on Monday, combined with a push from the buy-side, the market rose higher and confirmed that a bull market was not only in place, but here to stay.

Friday's trading closed with the S&P hitting 1416, up 19 points on the day and the Nasdaq pacing for its best quarter since 2009. The Dow Jones Industrial Average hardly blinked at the housing starts numbers on Monday and closed the day at 13,241, up 160 points.

“[I am] shorting the S&P 500 as my globally interconnected Macro model is flashing the highest probability of a stock market crash since the first quarter of 2008,” Keith McCullough, chief executive officer of Hedgeye Risk Management, told Markets Media.

McCullough's sentiment is contrarian in the short-term, but he has a point. Despite the CBOE Volatility Index (VIX) being at an abysmal low of 14.5, there was significant buying of April calls with a strike of 20, indicating that the good times won't keep rolling for long. The SPX has only had one day where it was down greater than 1% all year and we're only one quarter into 2012.

Conversely, ChicagoStock's Stewart Solaka believes that we are on track for the S&P 500 to hit the 1441 high we saw in May of 2008.

“This market’s fire continues to burn since starting the year with a gap higher above resistance which gave the spark needed to start a short squeeze that has surpassed the 2011 highs,” Solaka told Markets Media. “The Pattern being repeated is the same one seen in September of 2011 as the market also was meeting heavy resistance following months of volatility which a gap above the resistance was needed to spark a rally.”