HedgeFolios Strategy Advisory

â??The Plug Has Been Pulledâ??

02-23-2025

Our Current View:

Stocks sold off sharply on Friday, February 21, building upon the prior dayâ??s selling momentum. It was the **worst performing day** for the indices so far in 2025 as reportedly **over $927 billion in market value** was wiped out in US stocks in one day. That is close to one **TRILLION dollars of losses.**

All major indices opened in the red and continued to retreat lower into the close. This is bearish market action, especially ahead of a weekend. We expect the selling to continue early this week, at least on Monday.

In fact, this is often what happens during a well-planned top because the big down-gaps at the opening, and continued decline throughout the day, catch the bulls by surprise and they are trapped into inaction.

That creates a situation where all the latest purchases of stocks are locked in with losses, which is the agenda of the manipulators. Perhaps 95% of all investors will not sell a stock at a loss because they pretend if it isnâ??t sold, there is no loss.

This is a big mistake!

With Fridayâ??s plunge, the 4 major indices have now officially **wiped out their â??inauguration ralliesâ?•** since January 20th. **That suggests that most stocks bought since that time, one month ago, are being held at a loss.**

We believe the selling will increase now as new buying diminishes. That changes the supply/demand equation to bearish. As we always say, **only a change in â??supply versus demandâ?• changes stock prices. Itâ??s simple**!

In our Wednesday, February 19 ***Smarter Stock Trader*** ***and*** ***Fearless ETF Trader*** (ahead of the plunge), we showed our members the chart of the QQQ (the ETF for the NASDAQ 100).

We pointed out how the **Dohmen Money Flow** *â??reached the highs seen in mid-October and mid-December of last year. This suggests it is getting a bit stretched to the upside.â?•*

On the daily chart of the QQQ below, we can see that turned out to be right on target as **the QQQ declined the following day (Thursday).** Theresistance from the prior high (pink horizontal line) acted like a wall and rejected the upside breakout last week, resulting in the big decline on Friday (yellow shaded area).

The **Dohmen Money Flow (middle, red arrow) also reversed lower** on Thursday and Friday. Whatâ??s worse is the fact that **Volume (bottom, black arrow) soared on Friday** to its highest level since the January 27 down-gap. As we mentioned, **heavy selling on a Friday is often a very negative signal that further downside is ahead next week.** That makes the failed breakout even more significant.

What was interesting last week was **how deceptive the recent market action** looked to us. On February 18 and 19, we saw the S&P 500 open the day lower then climb higher in the last 30 minutes of trading to finish in positive territory so that financial TV could **declare â??the market closed at a new record high.â?•**

We told our trading services members, ***â??that smells too much like a trap to us.â?•***

The prior several weeks were the formation of a â??**bull trap.â?• We believe last week the trap closed**. What we saw last Thursday and Friday was the â??plug being pulledâ?• on the latest rally, trapping the bulls.

CONCLUSION: You have to understand how â??distributionâ?• works at tops. In the final weeks of distribution, the indices are pushed up to attract more buying. That enables insiders to sell massive amounts of shares on each bounce to investors who believe that prices go up forever.

The final bounce is when a widely watched index like the S&P 500 or NASDAQ 100 makes a new record high, but many other indices do not or decline. That is called a â??**a bearish divergence**.â?• We saw that happen last weekâ?¦**and then the plug is pulled**.

This looks like **the start** of the **â??great unwindâ?•** of the bullish bubble trade.

THE BEARISH FACTORS: As longtime members already know, our **â??Dohmen Theory of Liquidity & Creditâ?•** says that if liquidity and credit contract, the market trend will be down.

We always look where the masses are not looking. Therefore, have to ask, why would **liquidity and credit contract**?

Perhaps a reduction of roughly 500,000 to one million governmental workers. If that occurs, then there will be a shrinkage of the huge money flow from corruption. In our opinion, seeing the amounts of fraud already found by DOGE, that could have been partially responsible for the explosion in governmental debt.

Inflation will eventually decline as wasteful spending is reduced. That should cause a temporary decline in money supply growth, sales, and profits. Remember, sales and profits are boosted by **rising rates** of inflation. When price increases subside and eventually decline, the rate of inflation will plunge.

A renewed economic vigor when the war against â??Team Trumpâ?• fails, and the presidentâ??s policies are implemented, will cause a burst of new business formations.

Therefore, this year will probably **see two distinct phases: the negative effects in the first part of the year, followed by a healthy recovery later in the year.** These are not forecasts, just hypotheses.

Another bearish factor is how the stock market **is drastically overvalued** and yearning for a substantial decline (which we discussed in our last ***Strategy Advisory***).

The **war industry stocks** could also have a meaningful correctionâ?¦or worse. Two factors that could cause these â??defenseâ?• stocks to plunge:

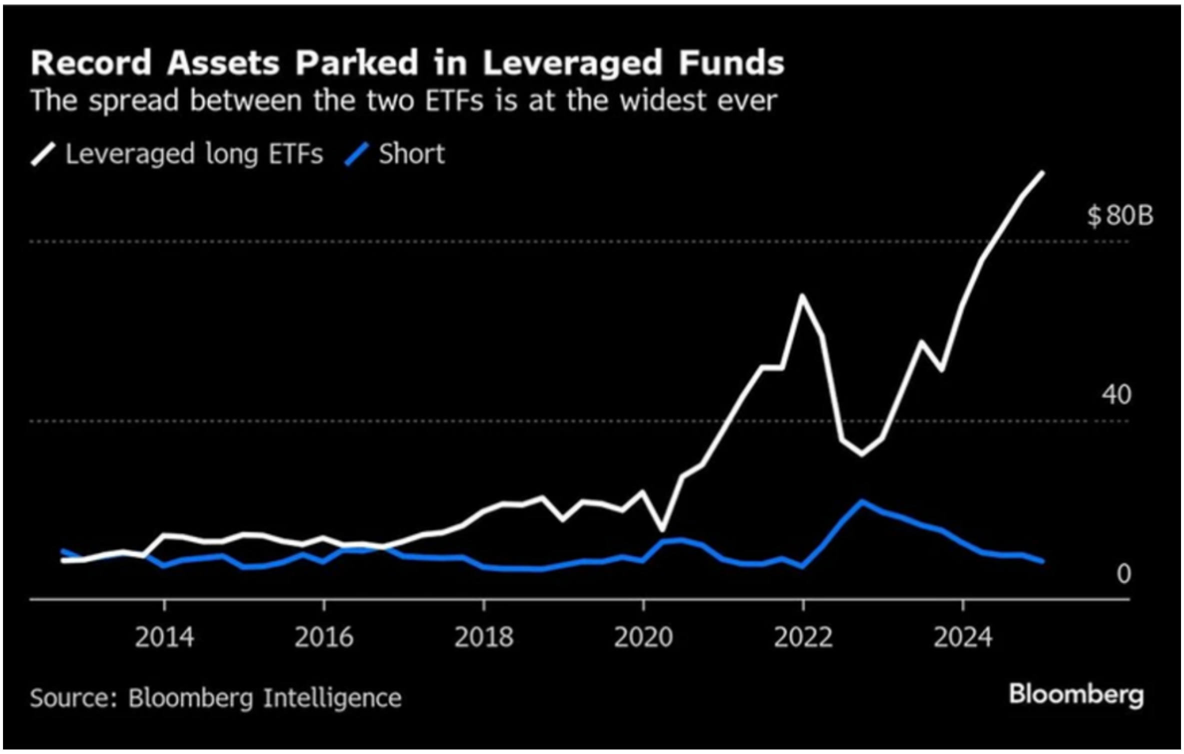
1. Existing wars, such as Middle East, and Ukraine will diminish or be eliminated with the Trump policies. Trump wants to be the President that ends wars. He may be successful.

2. The DOGE efforts to eliminate waste and corruption should have a huge effect on the money going into the pot of gold for the corrupt. Reportedly, the Pentagon **has failed the last 7 audits. No one can find billions of dollars.** The waste at many other agencies will be stopped.

Speculation is another bearish factor for the markets right now. We discussed this in our recent ***Wellington Letters,*** but now weâ??re seeing even more signs that speculation is rampant and leverage is extraordinary.

Look at the chart below, which shows the money going into **leveraged ETFs has risen over the past year and a half to a record high** (chart via Bloomberg).

Notice how almost all the money has gone into the bullish ETFs (â??leveraged long ETFsâ?•, white line). The bearish ETFs (â??short, blue line) have seen an **outflow**. That, to us, is a bearish combination.



THE CHARTS: The longer-term weekly chart of the **S&P 500** below is now falling to the bottom of our Dohmen Deviation Channel (blue diagonal lines). That makes the 6000 price level a good first support level.

We can see the bottom of the deviation channel has been penetrated just 3 times since the April 2024 bottom. Each of those breaks were brief and the S&P 500 was able to quickly reverse higher and reenter the channel the following week.

Therefore, we should consider the possibility that this latest selloff may now be followed **by at least a bounce.**

The MACD, a longer-term indicator, has been on a â??sellâ?• since the December peak.

The S&P 500 only made a **marginal** higher high last week, closing just above the December peak before reversing lower once again. That shows there is heavy resistance above.

The weekly chart below of the **equal weight S&P 500 ETF, RSP**, is more important as it is not skewed by a handful of large-cap names. Unlike the cap-weighted S&P 500 chart above, **the RSP closed just below its deviation channel last week**, which is negative.

Also unlike the S&P 500 above, the **Dohmen Money Flow** on the RSP has already crossed over for a **â??sellâ?• signal**, which is also negative. This suggests the broader market has been deteriorating while the larger-cap stocks have been able to prop up the cap-weighted S&P 500 to disguise the broader selling.

The **MACD on the RSP chart has also been on a strong â??sellâ?• since the early December top,** which is yet another negative. Therefore, while the cap-weighted S&P 500 may be holding up better, the broader market has been deteriorating beneath the surface.

Our HedgeFolios:

Since our last ***Strategy Advisory*** we made a couple of changes. First, on February 14 we sold all but 10% of our BIL position in order to have some more usable cash on hold.

Then, over the past week, we saw the markets deteriorate, with heavy selling starting last Thursday, which then carried over into Friday.

Thus, on Friday, February 21, we sold a number of positions across all 5 of our HedgeFolios models in order to take our profits and reduce long exposure. This was done although we already had light exposure.

We still hold partial positions in BIL, FXU, GLD, TLT in all 5 models. We also hold PSP in our Opportunistic and Global Equity models and SPLV in our two conservative models.

BIL is held as a cash equivalent, earning a yield of 4.31% as of today. TLT will likely perform well as money flows into â??safe havensâ?• like treasury bonds when equities sell off.

GLD (Gold) typically performs well at the start of market selloffs, however, if stocks get sold heavily in the coming days/weeks, gold will also be sold as investors will look for ways to accumulate more cash. Therefore, weâ??ll keep an eye on GLD for now. Investors should decide now whether to hold gold through a potential valley, or not.

Utilities (FXU) have been resilient lately and are typically considered to be a safer, more conservative sector when there is some market volatility. PSP (private equity) looks okay for now, with technicals showing money flow rising over the past week despite a mild decline. This is another one weâ??ll monitor more closely in the coming days.

Lastly, we also held on to **SPLV** as this ETF holds stocks with lower volatility (value stocks, utilities, and consumer staples among others) and has had a nice gradual rise since early January. The technicals still look good but again, if there is a major selloff, this will also be sold. We will see what develops over the coming days.

We now have between 63-67% in cash across all 5 models. That is considered very defensive.

Our Conclusion:

Early last week, the markets were showing waning momentum. However, the market action last Thursday and Friday says that the upside momentum is probably over.

While sentiment until now had been uniformly bullish, the technicals on many charts became **increasingly toppy** and are now looking negative.

Some of the **short-term** charts and indicators suggest that a brief relief rally should occur the coming week, with Tuesday as a likely start day. HFT will use the opportunity to squeeze early shorts.

However, as longer-term investors, we would not try to play that rally. We donâ??t expect any rally attempt to last long as it will likely be met by heavy selling after a couple of days.

Remember, markets donâ??t go up forever. All the good news is already baked into the market. We see the likelihood of at least a sharp market correction in the near-term, and perhaps even a shorter-term bear market, given the amount of leverage used by non-professional speculators.

The decline will be very painful for the leveraged bulls, forcing them to sell at the bottom. That is when Wall Street, along with Warren Buffet, pick up the bargains. Buffett now has a record amount of cash (a whopping $334.2 billion as of Q4 2024).

The Wall Street game is always to have such declines go deep enough in the popular sectors and individual stocks to make even the most committed bulls surrender and sell. That is what creates bargains for Wall Streetâ?¦at the bottom.

Wishing you successful investing,

Bert Dohmen and Dion Dohmen