HedgeFolios Strategy Advisory

â??Bull Trap Ahead?â?•

06-22-2025

Our Current View:

Our view has been that the next several months will see a churning volatile market. That makes low positions imperative. As you know, we believe that money flows is one of the best indicators for the market. Only a change in money flow, i.e. supply/demand, can change the price.

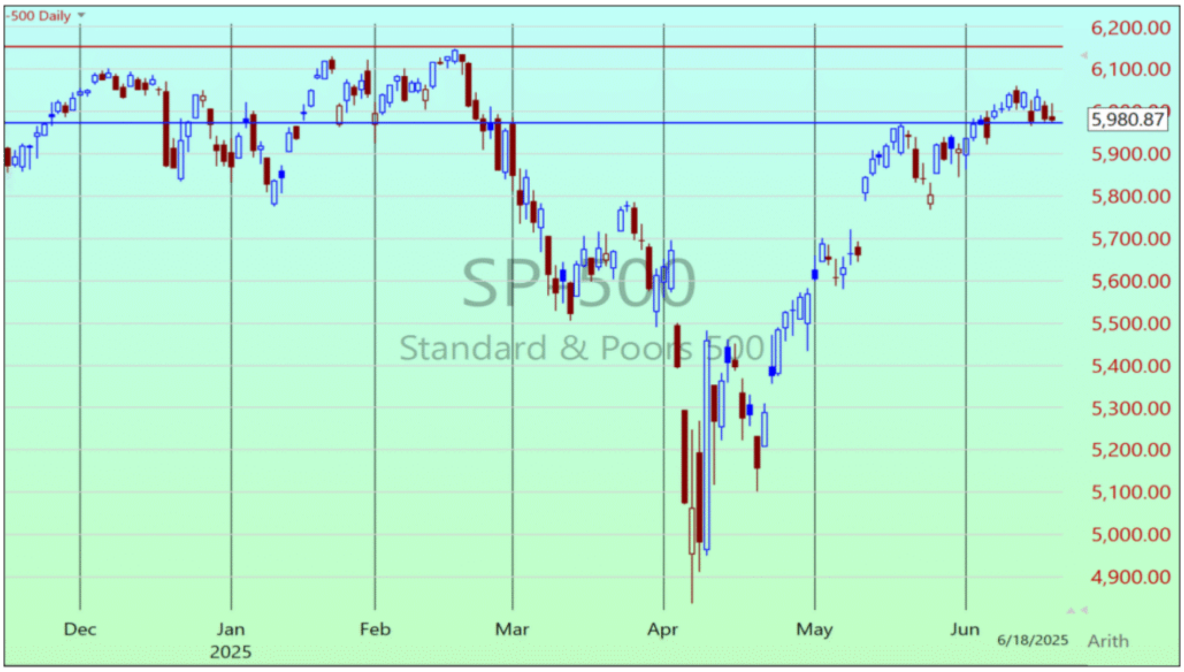
Over the past 11 weeks money flows have been **going out** of the market. But the indices have been rising. Thatâ??s a sign of â??distribution,â?• when stocks are sold by the big smart money to the emotional retail investors and money managers. That often occurs at the top of market moves.

The churning, up and down, is the sign of this distribution. This process takes time.

You see, in a bear market, someone has to own the stocks all the way down. The naÃ¯ve investors are designated as the â??bagholders.â?•

Based on decades of experience, the perfect end of distribution is when a major index makes a new record high. As we mentioned in our last ***Wellington Letter*** (June 8 issue), that will probably be the **S&P 500** to get most of the attention (upper red horizontal line on chart below). From last Fridayâ??s close that would be about **a 3% upmove**.

On the daily chart of the S&P 500 below we can see it is now right at support (blue horizontal line), which it should bounce off in the coming days. That bounce will then be used to propel the S&P 500 to a new record high the next weeks. That could be the ultimate trap.



Small cap stocks are a good way to gauge risk appetite within the market. The IWM is the ETF for the small cap Russell 2000 index. On the daily chart below we can see it was rejected by the strong resistance area (blue horizontal line), which coincided with its 200-day m.a. (pink line), on June 11 and then turned lower.

Currently it is sitting at support from the 50% Fibonacci Retracement of the late November 2024-early April 2025 plunge (green horizontal line). The Dohmen Money Flow (bottom, red arrow) is deep into â??sellâ?• territory now. However, a brief bounce by the IWM back to upside resistance now would be normal.

The QQQ, ETF for the tech-heavy NASDAQ 100 Index, got within a fraction of **1% to the old record** high recently but **failed** to get there and has since rolled over.

On the daily chart of QQQ below we can see a **bearish divergence** since early June as the Dohmen Money Flow (bottom, red arrow) was declining during the rise in QQQ. Over the past three trading days volume (bottom, black arrow) has increased while the QQQ has declined, which is another bearish indication for the near-term.

Another chart that has been flashing â??cautionâ?• signals the past couple of weeks is the **â??Percent of Stocks Above their 40-day m.a.â?•** (daily chart below). It was rejected by the 70% resistance level (red horizontal line) on three consecutive days from June 9-11.

Notice how over the past 15 months, this level has proven to be very strong resistance each time resulting in a decline in the indicator shortly after (yellow shaded circles).

In our June 11, 2025 ***Smarter Stock Trader***, we warned our members that this chart signifies that *â??the **broader market** rally has been exhausted and its â??fuelâ?• is nearly empty or has already run out.â?•*

After **peaking at 69.8%** on June 10, the percent of stocks above their 40-day moving average has now dropped down to **just 50%** (as of June 20). See the chart below:

CONCLUSION: Short term cycle studies show that the market may have that last rally to new highs soon. These short cycles often occur **over the last three trading days of June and the first nine trading days in July**. During that time, the NASDAQ typically enjoys a rally.

This 12-trading-day run has been up 31 of the past 40 years with an average historical gain of 2.5%. Look for this rally to begin around June 26 and run until about July 14. The HFT computers probably have that information fed into them. **That rally would complete our prediction of brief new highs in at least one major index before a top is made.**

Important Note: We published a new ***Wellington Letter*** (23 pages!) tonight, which includes a deeper dive in some important charts and sectors (AI, Credit Card firms, Solar, Silver) and **our latest thoughts and outlook on the Iran-Israel war**, which is important to serious investors globally. Make sure you read this issue (published June 22) if youâ??re a ***Wellington Letter*** member or sign up here to gain instant access.

Our HedgeFolios:

Obviously, having extremely low exposure to the stock market at this time has been highly beneficial. We still hold an inverse (bearish) ETF in our 3 models that can utilize these (Opportunistic, Global Equity, and Income) as a hedge against a potential crash.

Earlier today Iranâ??s parliament voted to close the Strait of Hormuz through which roughly 20% of the worldâ??s oil is transported. Is that bearish for stocks?

It would be in normal times without HFT (high frequency trading) manipulations. However, now HFT may rally the markets in order to squeeze the early shorts.

The Israeli stock market, where about 90% of the stock orders are submitted by HFT, was at a new record high after the first sneak attack of Israel. The day after the stock exchange building was destroyed. Israelâ??s market is more manipulated than the US.

So far, we believe it has been prudent holding a major portion of assets in the short term T-bill ETF (BIL).

These are precarious times that we havenâ??t seen for decades. Making money should be low priority compared to preserving it.

As always, we point out that our models are guide of what we might do, and every investors can modify that.

Our Conclusion:

We have been seeing signs of exhaustion and â??fading buying powerâ?• since late May. Those signs have only become more evident over the past few weeks. We are seeing one sector after another becoming victims of big selling by the big, smart money. The new owners of the stocks are the less experienced â??bagholders.â?•

Therefore, we still believe a popular large cap index like the S&P 500 will be promoted to **a brief new record high** within the next 2 weeks so that it can be celebrated on financial TV. However, we also believe the broader group of stocks will *not* follow and instead continue to deteriorate beneath the surface. That would set â??the perfect trapâ?• for the bulls, which was the title of our June 8 ***Wellington Letter***.

Wishing you successful investing,

Bert Dohmen and Dion Dohmen