

## HedgeFolios Strategy Advisory

# Signs of a Rally Top

08-04-2025

### Our Current View:

We are seeing an increasing number of signs that a rally top is being made. Of course, we always wait for confirmation from our indicators. The next two days will be important.

Our works suggests that the internal market top has been made. The market became overstretched like a rubber band, when it breaks, it will have some significant negative side effects.

Last Thursday's (July 31) **intraday reversals** were very telling about the weakness of the market. That became even more evident the following day (last Friday, August 1) as all the major indices opened on big down gaps. This is exactly what we have been warning often happens at a market top over the past few weeks. Thus, the evidence suggests that the official top may have been made.

We said in our trading services on Thursday that the NASDAQ's drop wasn't *the down gap opening we expected for a top, but that could still happen the next few days.*

That happened the next day (Friday) as the NASDAQ Comp gapped lower at the open, **plunging 2.2%**, **followed by** the Russell 2000 **falling 2%** and the S&P 500 **dropping 1.6%**. The DJI was the least weak on Friday although it **dropped 790 points at the low**, then pared a small portion of that loss to close down 542 points (-1.2%).

A confirmation was the big down-gap on Friday's opening, on **high volume** with nearly 5.9 billion shares traded on the NYSE. Again, the prior day we warned our trading services members about the high volume on that intraday reversal (6.1 billion shares) saying, ***high volume on downward reversal days are very significant negative signals.***

(Note: if you're interested in receiving more frequent analysis, research, insights, and forecasts from us, published 1-3 times per week on average, we encourage you to sign up for our trading services, the **Smarter Stock Trader** or the **Fearless ETF Trader**, to stay on top of all the important market moves. The technical analysis you learn will help you the rest of your life. Learn more here: <https://go.dohmencapital.com/DCRTradingServices>. Our July 31<sup>st</sup> issue was packed full of important signs we saw from the market action, charts, and the VIX volatility index)

Today (Monday) the markets staged a **low volume rebound**, which is a bearish signal after a big down-gap day like we saw on Friday. In fact, NYSE volume on the today's rally was roughly **17% lower** than on Friday's plunge. That's a first indication that the market should continue lower.

Let's look at some charts. First is **the daily chart of the ETF for the mega-cap FANG index (FNGS)** of top tech firms. These are the **primary drivers of the S&P 500 and NASDAQ indices** given

their big capitalizations.

Today the FNGS had a typical weak technical bounce from Friday's strong decline. Friday's decline went back and touched the blue uptrend line, which is a typical short term bounce. We see this in almost all the other indices as well.

Theoretically, the FNGS, and likely the aforementioned indices, would now continue the decline, making new lows that would lock in even more bulls with losses. In fact, a very strong decline on Tuesday (tomorrow) is possible, with perhaps more opening downgaps.



The NASDAQ COMPOSITE index did the same with the break of the blue uptrend line on Friday followed by today's bounce from underneath. Theoretically tomorrow or Wednesday should see a strong decline going below last Friday's lows, which would then erase today's gains.

The Dohmen Money Flow has been declining while the index rose. That is a bearish divergence. Money Flow is the most important indicator for us as it shows changes supply vs demand.



And finally we show the daily chart of the S&P 500 below, which also has a similar pattern after breaking the important blue uptrend line and today's rebound from beneath that line. Notice the **Dohmen Money Flow** has also been declining while the S&P 500 reached new record highs lately, similar to the NASDAQ Comp above.

Also, today's trading volume (bottom, blue arrow) was **lower than all 4 down days last week, showing the rally today was weak in comparison** to last week's selling. Thus, the technicals suggest further downside is ahead.



**WHERE ARE THE MARKETS NOW?:** If we are correct and this was the important rally top, the obvious question now is, **How deep will a market decline go?** • **Every analyst we hear says it**

**will be a correction of about 5%-8%.**

We have a different opinion. This year we have had what was probably one of the most **extreme speculative markets** in many decades this year. It was the remainder of what was caused by the biggest money creation of the Fed in history several years ago. That money is still slushing around.

Most call option trades are now in the "zero day" options (0DTE). They have a lifetime of one day before they expire. We have called that insanity. These people should go to Las Vegas.

The largest amount of money ever has recently gone into leveraged ETFs, most of which are leveraged 2x or 3x.

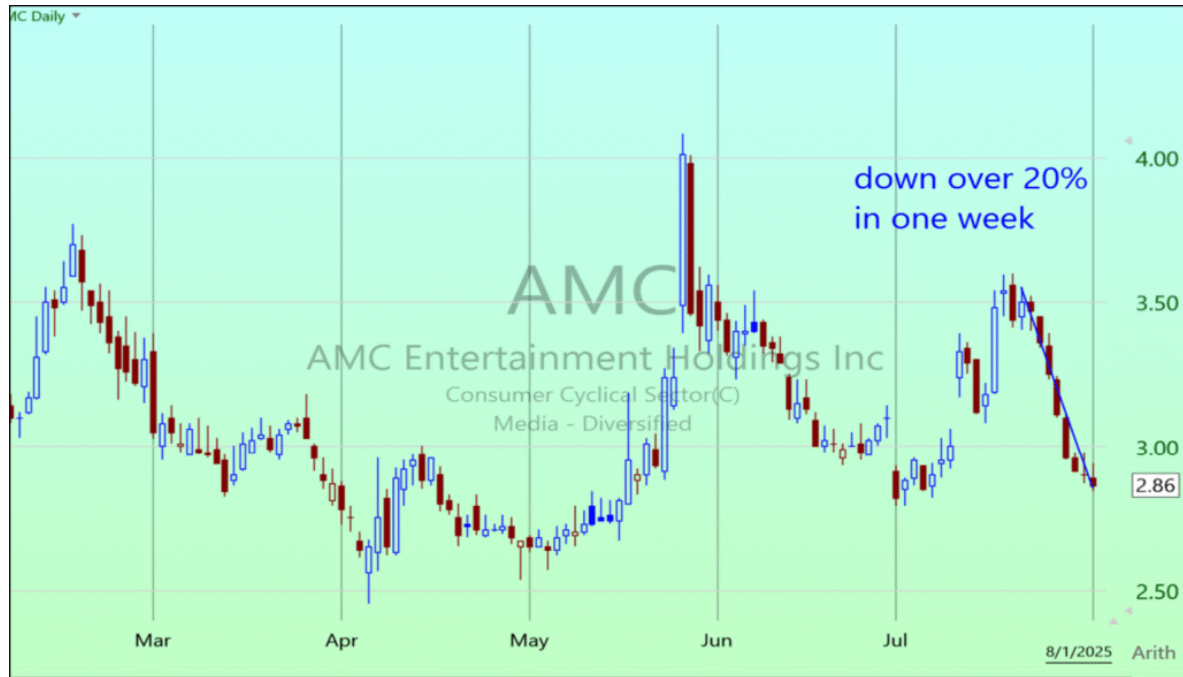
The SPAC market has been re-awakened from the dead. These vehicles often end at zero value.

Below are some charts of one-time favorite speculations stocks. The first one is BEYOND MEAT (BYND). It plunged over 40% in one week.



Another meme stock, AMC, rallied sharply in early July and now has plunged over 20% to return all the way to the low. This is a good example how retail investors are being taken to the cleaners.





These moves are not caused by market forces. It is sheer manipulation. What these outfits do with individual stocks, they also do with the major indices.

Foreign investors are buying US stocks at a record pace. Some Wall Street analysts say that this is a very bullish sign. Foreign investors are less experienced and always come in near the tops of US bull markets. It is a bearish sign.

#### Our HedgeFolios:

We added initial positions in the Gold and Silver ETFs (GLD and SIL) across all 5 models on July 2, which has benefited our models as these precious metals continue to be in a nice longer-term uptrend.

We still hold a small position in an inverse (bearish) ETF in our 3 models that can utilize these (Opportunistic, Global Equity, and Income) as a hedge against a potential plunge.

Given the warning signs we explained above, we believe holding a major portion of assets in the short term T-bill ETF (BIL) is a good way to preserve our capital in this crazy environment.

As always, remember that our models are a guide of what we might do, and every investors can make their own decisions based on their own risk tolerance and financial standing.

#### Our Conclusion:

The downgap openings, as seen last Friday, are **designed to trap late bulls** because their positions are likely now at a loss. Human nature is TO NOT SELL AT A LOSS AND WAIT FOR A BOUNCE. That is a costly mistake.

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**At an important market top, that big bounce doesn't come**, so the losses get bigger. Remember, the *first loss is the best loss*.•

The bounce today, Monday, was technically typical. It perpetuates the deception that this is just a pullback and lures more people to buy stocks that Wall Street wants to sell. If we are right, then Tuesday (tomorrow) could see a sharp downgap opening and a meaningful decline in the indices.

Thus, we are fairly certain that a top in the market has been made. There is always a chance of another attempt at a new high, but we believe the agenda to close the bull trap has been executed.

The alternative, i.e. a rally back to the recent highs, would give investors a chance to sell without a loss. That cannot be allowed to happen.

We are sticking our neck out trying to be so accurate. Of course, there are no guarantees. We use **experience and classical advanced technical analysis patterns**, about which most analysts on TV don't have clue.

Wishing you successful investing,

Bert Dohmen and Dion Dohmen