

Ready to short biotech on downtrend pattern and surprise reversal (12-05-17)

The gist: Markets showed surprising weakness in speculative areas on Monday, and biotech looks like a short in a potential new downtrend pattern.

Actions: Will establish a new moderate short position in IBB on a confirmed break below countertrend support, with risk to $\frac{1}{2}$ ATR above the 12-04-17 highs.

Broad market price action is getting interesting now. On Monday there was more weakness in various high flying areas of the market than expected.

Possibilities include worries that the tax cuts are going to get botched... concern that certain credits and deductions will be invalidated... a dropping of the ball in the hand-off from momentum names to other areas of the market... or plain old fatigue.

We continue to see danger because this market has passed the 'as good as it gets' point with valuations inflated incredibly.

One area showing clear distress is biotech, where the multi-month trend is already broken (see top chart) and Monday was a nasty large-candle reversal day, with IBB already developing a potential reversal pattern.

We aren't ready to start shorting the market aggressively, but Monday's jittery price action was another warning sign, and speculative areas (like biotech) could be first to feel the chill.

