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The Wall Street Sun and Storm Report™

Your daily warning system whether markets turn UP or DOWN!

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Market Timing Brief for 2-17-2012: Soft Signs of Weakness with Some Big Bulls Still Snorting

Despite continued big cap tech strength (NDX; QQQQ), the VIX has dropped to a level where it could now bounce again (and the SPX and NDX could reverse). The small caps are saying “wait,” while big cap growth says “rally on!” The midcaps say “rally on.” The REITs say “wait.” The markets are giving mixed signals at the moment.

Yet, too many participants it seems have been expecting a pullback to allow one to happen. Whether it will come after the Greek agreement kicks in is the question. I compare the rally in the NDX (large cap tech) to the rise in silver last year in the MTT. It eventually gave back half of that rally.

That does not mean the rally is over. It means to have a stop in mind and keep moving it up slowly. Yes, it can kick you out early and you have to re-enter coming from behind a percent or two. That is the risk of protecting your capital and also the reason for leaving the market in steps by averaging out unless there are specific immediate issues like the tsunami damage in Japan. In those cases, you want to leave more quickly. Although there are subtle signs of weakness creeping into the markets we follow here, **some indices are close to breakouts and will be back to buys if they do in fact break out. Let's follow the markets.**

Standard Disclaimer: Remember, it's your money and your decision as to how to invest it.

Please read the notes below the MTT before using any of the information and look at the explanation page on the website to gain a feel for my market timing system:
<http://www.sunandstorminvesting.com/MarketTiming.html>.

Remember that if you sell, you must understand how to get back in. Generally it's best to sell in stages and to buy in stages, but sometimes it's best to exit or enter more quickly. That is where experience in observing the market and intuition help out.

Again, send me any comments you may have here:
<http://www.sunandstorminvesting.com/contact-us.html>

The rest is in the MTT!

All the best,

David

P.S. The best way to keep up with the latest is through:

My Website Feed for the latest articles (whether on the main site or the blog) please bookmark this page: <http://www.sunandstorminvesting.com/market-timing-blog.html>

And for the timeliest info delivered via Twitter please bookmark this page:
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MARKET TREND TABLE (MTT)

***** NOTE LONG TERM SIGNALS FOLLOW the BUY/SELL/HOLD (BSH) and are + OR - *****

Eight Stage Market Ranking System		5 Stages each BULL-BEAR	BSH/LS	COMMENTS
MAJOR INDICES				R (Resistance), S (Support), LS (Long Term Signal) updated at end of MONTH. Dates as Month/Year
Dow Jones Industrials		Bull 5 from Bull 3	BUY/+	2-17 If Dow holds this new high for a couple of days, 2007 highs become next target. Transports lagging.
S&P 500 (SPX)		Bull 4	HOLD/+	2-17 Headed to test the 2011 high.
US Russell 1000 Large Cap G	RLG	Bull 5	BUY/+	2-17 Breakout sustained now. Risk higher with stretch in market so use a stop. 2-10 Close to reversing breakout. Buy new recent high only and average in only.
US Russell 1000 Large Cap V	RLV	Bull 4	BUY/+	2-17 Rally has resumed. 2-10 Pullback likely not done yet. 2-1 Rebuy new closing high. 1-30 Hold rest.
NASDAQ 100	NDX	Bull 5	BUY/+	2-17 The juggernaut of the market, leading the way.

				Chart looks like silver in early 2011 when it just kept going up day after day after day - then corrected half the gain or so. 2-13 New high. 2-10 Did not break down with rest of market yet. I would not buy more at this point until rest of market strengthens
NASDAQ		Bull 5	BUY/+	2-10 Did not break down with rest of market yet. I would not buy more at this point until rest of market strengthens. 1-4 Next buy is move over Dec. high
S&P Midcap 400		Bull 4	BUY/+	2-17 Another breakout. 2-10 Close to sell. Not quite. 1-13 Move above Oct. high is next buy. 12-07 Nov. high is next buy point. Could fail at Oct. high. That is risk. 11-30 Consider buying strength over 11-08 high.
Russell 2000		Bull 4	HOLD/+	2-17 Wait for next breakout to add. 2-10 Trading sell. 2-1 Another breakout. 1-12 Breakout. 1-11 Approaching resistance. 1-10 Buy over Oct. high now
Russell 2000 Growth	RUO	Bull 4	HOLD/+	2-17 Wait for next breakout to add. 2-10 Trading sell. 1-18 Broke above Oct. high. Positive.
Russell 2000 Value	RUJ	Bull 4	HOLD/+	2-17 Wait for next breakout to add. 2-10 Trading sell. 1-18 Back above Oct. high.
BONDS				
10 year Treas. Note		Bear 2	/+	1-26 Has been "waffling" up and down.
30 year Treas. Bond		Bear 2	/+	12-26 30 year is not as convinced that inflation won't pick up down the line. 30 yrs is a long time to believe interest rates won't budge at all.
Corporate Bonds	LQD	Bull 4	/+	
Junk Bonds	HYG	Bull 4	/+	2-10 Weak now.
Short Term Bonds	BSV	Bull 3	/+	
SECTORS				
Amex Biotech	BTK	Bull 3	/+	2-17 Weakening and falling back to near term S. 2-10 Biotech down 4 days in a row now, more than at Dec. bottom. 2-03 Now stretched so hard place to buy. Look for pullback to support and in any case use a stop. 1-25 Biotech rocket as predicted at the beginning of the year.
Amex Pharma	DRG	Bull 3	/+	2-10 Descending triangle forming. Negative. 2-7 Headed up. 2-3 In consolidation. Will drugs be sold off with "safety"? Doubt it, due to yields on the group.
Amex Gold Bugs	HUI	Bull 1	/-	2-3 Held up at resistance this week. Gold did not break the base of the current consolidation, so there is no edge; it could bounce or fall further. I favor a further fall with increased talk of a "risk on" market, but gold is so

				far maintaining an up trend. But then there is Europe, which could get sloppy fast. 1-25 Probably bottomed for a bit.
Amex Oil	XOI	Bull 4	/+	
Natural Gas	XNG	Bull 3	/-	2-17 Index doing very well considering fact that natural gas prices are very low. 1-11 Natural gas has gotten very cheap vs. oil.
Oil Service (Philly)	OSX	Bull 5 from Bull 4	/+	
DJ Transports	DJT	Bull 3	/+	2-17 Lagging the Dow. 2-10 Trading sell. 1-18 Headed to May, July highs. 1-10 Clean breakout now.
Utilities	UTY	Bear 2	/+	2-17 Buy or sell next break of the current consolidation. Has been building energy for over a month moving sideways. 2-3 Flopping back and forth. Still possible buy with stop, but could fall into "safety off" group. On the other hand, if rates remain low, utility dividends look good and power use rises with a gradually improving economy.
BANKING/REAL ESTATE				
BKX (KBW Banking)	BKX	Bull 4	/+	Check premium/discount of ETFs before buying 2-17 Another breakout but only by 0.02 points. Tomorrow could confirm. 2-3 Clear breakout on Friday. 1-18 Rallied today on mixed bank news. Positive.
MSCI US REIT	RMZ	Bull 3	HOLD/+	2-17 Still below 2011 high. Not confirming Dow. 2-10 Trading sell. 1-4 Tested Oct. top and failed so far. Do not buy at this point. Need another breakout to add. 12-30 Testing Oct. high.
US Housing (Philly)	HGX	Bull 4	/+	2-17 Has slowed a bit. Foreclosures are now pouring back into market along with short sale splurge. 2-13 New breakout in housing stocks. 2-10 Failed a small breakout, but needs to close at least below 121.17 if not 119.03 for a more definite sell signal.

FOREIGN MARKETS			BSH/LS	R (Resistance), S (Support), LS (Long Term Signal) updated at end of MONTH. Dates as Month/Year
Australia	AORD	Bull 3	/-	
Canada	TSX	Bull 3	/-	2-10 Hold.
China	FXI	Bull 3	/+	2-17 Buy next breakout. 2-10 Hold at best. 1-18 Buy.
European Stocks	VGK	Bull 3	HOLD/-	2-17 Buy the breakout above Feb. high.

Hang Seng	HSI	Bull 4 from Bull 3	/+	2-3 Nice rally under way. 12-16 Could be forming a bottom.
India	PIN	Bull 3	/-	2-10 Hold. 20.73 is overhead R. 1-17 Still buy, but average in. 1-3 Big up day but looks like a buy. Average in though given the huge up day.
Pacific Stocks	VPL	Bull 3	BUY/-	2-17 Back to buy if gains hold into tomorrow. 2-10 I sold all shares on Friday because I had other Pacific holdings that netted me a gain overall with the VPL sell. Could place a close stop underneath close for Friday and then second sell below there if have not sold yet.
Japan Nikkei		Bull 3	/-	2-10 Trading sell. Buy close > 9152.39. 12-14 Sell close < 9.10 (changed by email today).
Emerging Markets	VWO	Bull 4 from Bull 3	BUY/+	2-17 Buy the breakout if it happens.
US DOLLAR INDEX (near month future)		Bear 2	BUY/+	1-18 Dollar has been consolidating X 1 mo. That helps the stock markets and metals. 1-12 Pulling off Dec. high. 1-4 Back to hold.
COMMODITIES Except GLD based on near month futures prices				R (Resistance), S (Support) and LS (Long Signal) all updated at end of week. Dates as Month/Year
CRB Index		Bull 2	HOLD/-	2-17 Jan. high now target. Have been a series of higher lows on daily chart as oil has maintained strength. Bullish so far as it held the 50 day mav on the last downturn.
Gold	GLD	Bull 3	HOLD/+	2-17 Has steadfastly held the gains immediately post-Fed announcement. Is not clear that it MUST correct further, but a drop to the 50 day mav is not impossible. No technical edge here either way. Economic fundamentals say "hold your gold." 2-10 Trading sell to Nov. low.
Light Sweet Crude Oil		Bull 3	/+	2-17 Testing high. 1-25 Waffling back and forth. Oil is holding up well despite the topping formation.
				R (Resistance), S (Support) and LS (Long Signal) all updated at end of week. Dates as Month/Year

Check premium/discount of ETFs before buying

R = Resistance S= Support mav = moving average ID = Intraday LT = Long term

Low or high: refer to intraday low or intraday high, respectively, unless otherwise specified.

Waffle: Price moving back and forth between two signals at least once.

Commas separate distinct values as in "S @ 42.34, May low." Both 42.34 AND May low = support levels.

Bull Markets are Bull 1 through 5 and Bear Markets are Bear 1 through Bear 5. Note: I added the Bull and Bear 5 designations beyond those initially used to capture markets with no nearby resistance (Bull 5 markets) and those with no nearby support (Bear 5 markets). See the website explanation on the "Market Timing" page (see blue navigation bar).

If you have any comments, please feel free to send them to me here:

<http://www.sunandstorminvesting.com/contact-us.html>

NOTE:

I follow a number of indices that are used to broaden the view of the markets around the world, but our core portfolio is made of RLG (large cap growth, e.g., IWF), RLV (large cap value, e.g., IWD), MID (midcaps, e.g., MDY; note that there are midcaps in RLG and RLV too, but if you want to over represent midcaps, you can use MDY or a mid cap fund to do so), RUO (small cap growth e.g., IWO), RUJ (small cap value, e.g., IWN) European Stocks (e.g., VGK), Pacific Rim Stocks (e.g., VPL; relatively illiquid in my experience; bid-ask spreads may be wider than usual, but low cost), Emerging Market Stocks (e.g., VWO), RMZ (REITs, e.g., VNQ), Commodities (CRB Index, e.g. DBC (but be aware of tax consequences of this ETF; it is more liquid than DJP however), and gold (e.g. GLD or IAU). These are just examples and are used for tracking the indices in some cases where it is more convenient (noted in MTT above). Bonds should be a certain percentage of your portfolio but determining the percentages of all these is a personal decision based on your risk tolerance. I recommend individual bonds over bond funds as the former can be held to maturity generally without much risk of principle, but obviously with the potential of interest rate risk. I do not give BUY/SELL/HOLD ratings on the indices that are not part of the core portfolio, because I prefer to focus my energy on the core portfolio and use the other markets as additional data that may impact my view of the world economy or parts thereof.

It's important to always check the premium/discount of a fund from net asset value prior to buying. Some funds may be priced as much as 60% above their value. It would greatly increase your risk to buy at such a premium as the fund could return to the value of its assets over a period of time. Remember that just because a market is listed as a BUY, SELL, or HOLD does not mean that you should take that action. Your plan may be to buy on the way down for example despite of the trend. Please make your own decisions. Moving an index from a BUY to a HOLD does not mean you should SELL it and nor does moving an index from a SELL to a HOLD mean you should buy it. HOLD means the index is no longer in a great place to be bought or sold. Also realize that signals may reverse 1 or 2 days following their occurrence. Breakouts and apparent breakdowns may reverse course even after 3 days above/below the break point, so remain alert!

A **“new high” means a new intraday high**, not a new closing high, which is a more demanding criterion for a BUY. The same applies to “new lows.”

Further Comments: Realize the support levels cited do not represent numbers that you have to or even should necessarily use as stops. You may be able to afford a wider stop because of where you bought the given index for example. You may be buying a breakout and may then use the breakout point as your stop should the price close below it. Sometimes markets test one day below a breakout before moving up again, so we generally prefer to scale out below breakout points rather than selling all shares at once. Whether you use a wider stop than we do is up to you. In other words, use your judgment and risk tolerance for picking both buying and selling points, while being willing to get back in or back out if you are wrong.

Buying points vary in their reward: risk setup as I often discuss. You should attempt to judge how far away resistance is to your buying point and how far below support is. The reward should always be double or more than the risk when you set up your stop in advance. If not, find something else to invest in! Do not force an investment or trade to work when it does not provide a good set-up. There is more on this on my “Buying Checklist” page on the website.

I will often move an index to a “HOLD” if it is too close to important resistance (R), because what is the point of buying an index if it is about to fall from that resistance level? So when a resistance level is very close, it's best to make the “index” prove itself by moving above resistance, while being alert to possible false breakouts. The same thing goes for breaches of support. One or two days below a key level does not mean there will be a failure necessarily, which is why, as mentioned, scaling out of a downturn or scaling into a rally is often more sensible than jumping in one move, but there are times when a single SELL is more reasonable. For example, a specific event driven move in a market can take on momentum after the first

upside or downside breakout day. So now it's clear that "HOLD" does not mean SELL. It could mean that we've bought earlier, but there is now close overhead resistance. On the other hand, you may choose to SELL at resistance and rebuy higher at certain times as a risk control maneuver. Many systems work. The lack of a system fails routinely, at least at times (which can be painful), in my experience.

In regard to the bond funds we follow, I believe it is better in general to buy bonds you will hold to maturity in the case of AAA rated bonds. Look at the bond fund swoons back in 2008. Maybe that won't happen again, but maybe it will, which is why I don't care for bond funds unless your asset level requires it. We track the ETFs to keep an eye on the behavior of interest rates and to allow you to judge whether to adjust the proportion of stocks to bonds in your portfolio. Also, I like to buy bonds when they are relatively cheap and rising in price.

Slow Signal Review

*****NOTE: Updated only at end of market MONTH as are support and resistance levels unless otherwise specified. Changes are printed in bold.** Using "slower" signals can result in large losses during Bear markets and the failure to participate in significant rallies as well, but they may give me a feel for the longer term market direction, so they are worth following. **The Slow Signal is given as a simple + or - sign in the MTT next to the Buy, Sell, or Hold status.**

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