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The Wall Street Sun and Storm Report™

Your daily warning system whether markets turn UP or DOWN!

Market Update as of 01-22-10: Back to the Past

The market has already given back all the gains it accrued since mid-October. That occurred over a 3 day period. Of note is the fact that several of the sell-offs have involved only about 3 days of major selling pressure, and then we've bounced. The market tends to disappoint the greatest number of people, so assuming the momentum is going to continue day after day without a break is foolish.

The sell-off that has occurred thus far is about as deep as some of the worst sell-offs that we've had during this entire bull rally. The prior sell-offs have been deeper for some markets such as oil during their ascent. The consistency with which the market has met good news on earnings by selling the stocks off is an indication that there is more selling to be done. But whether this is one of those couple day corrections that we've seen during this whole rally or whether we will go as far as giving up 50% of the rally or much worse is unknown at this time.

The change in the VIX which was up 22.63% on Friday indicates a degree of panic, but it's interesting to note that this sort of VIX rise occurred on October 30th as well, which marked the beginning of a rally. This time the 22.63% followed on the heels of a 19.22% bump the prior market day. That was not the case in October, although the rise in the VIX was still fairly steep. But still, it took a few more days to happen back then.

Remember that support levels allow for potential bounces during a sell-off, but the occurrence of a bounce can be just lead to a deeper sell-off. This is the hard thing about shorting these corrections. The bounces can be just as fierce as the sell-offs, and traders often are shaken out of their positions. They get cold feet and don't hold onto their shorts.

One positive is that the banks are not collapsing as fast as the market, BUT they did have a bad day on Friday. You can assume the sell-off is more significant if the market and banks continue to move down together. As we've mentioned before, in a major sell-off, there are only relatively spared sectors, but none is spared.

You will note a number of SELL signals in the table. Work that into your own investment plan. You might want to do something as minimal as rebalancing your portfolio, redistributing profits in the laggard indices or just going to cash for a bit with the proceeds of rebalancing (from your target of say 50% stocks which has gone up to 70%,

by selling enough to bring you back down to 50%). Or you might want to go from 60% stocks back down to 40% for example.

Or you may want to be more aggressive. Scaling out in steps might make sense. You scale out by selling more near the top and less as a market goes lower, which is the reverse of scaling into a rising market. Whether you move out in 3 sells or 1, make a conscious decision NOW, even if you intend to simply hold everything. Send your decision to yourself in an email and put down your reasoning. You will learn from it. And if you sell, be willing to change if the market changes. Not with every positive day going forward, but with a major change in the trend. We will reverse the sell signals if we find the markets turning around.

The dollar may be forming the second double 2 wave and could drop to 76.63 and rebound in a Wave 3 (the wave count goes from the first wave up, followed by 2 down waves, followed by a larger Wave 3 up) or it may just be consolidating here prior to a higher high with a clear breakout above 78.45.

Gold could bounce from a bit of support here, but we'll just have to see.

See the Market Trend Table (MTT) below for further details.

All the best!

David

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Eight Stage Market Ranking System

4 Stages each BULL-BEAR

B/S/H

COMMENTS

MAJOR INDICES				R = Resistance S= Support
Dow Jones Industrials		Bear 2	SELL	BUT buy recovery to new high if it occurs. Downside target is possibly 9709. Pulled back from marginal new high. SAID: Could still fail. More selling is possible due to high volume pullback.
SP-500		Bear 2 from Bull 3	SELL	Broke support. Failed retest again. Buy new high only (use intraday values). Sell reversal of the breakout on close below 1119.13 or 1114.
NASDAQ 100	NDX	Bear 2 from Bull 3	SELL	Buy new high only. May test 1823. Sell close below 1822 or sell failure of this breakout on close below 1815.60.
NASDAQ		Bear 2 from Bull 3	SELL	Buy new high only. May test 2225. SAID: Sell close below 2269 or below 2114. Rebuy new high if you sell.
SP Midcap 400		Bull 3	SELL	Sell and rebuy new high only. OR if you prefer: Sell close below 717.75 or 676.73 depending on which stop you prefer. Could pull back to 718.
Russell 2000		Bull 3	HOLD	SAID: Sell new positions on close below 625.31. Old positions could be sold on close below 588.
Russell 2000 Growth	IWO	Bull 3	HOLD	On initial support. Sell close below 67.89 for new buys or sell close back below Oct. or Nov. low for a wide stop.
Russell 2000 Value	IWN	Bull 3	SELL	On initial support. SAID: Sell close below 59.30 for new buys or below close back below Oct. or Nov. low if you prefer a wide stop.
BONDS				
10 year Treas. Note		Bear 3	HOLD	Could rally back to 3.561% yield and still be in Bear market status. Must now close over 3.886% yield. Slipped in yield after failing to top August high in yield.
30 year Treas. Bond		Bear 3	HOLD	On initial support now. Could rally back to 4.476% yield and still be in Bear market status.
Corporate Bonds	LQD	Bull 3	HOLD	Could be waffle. Sell close below 103.58. Could pull back to there.
Junk Bonds	HYG	Bear 2 from Bull 3	SELL	Sell close below 88.80 for new buys, below 84.65 for wider stop if you like.
				Check premium/discount of ETFs before buying
SECTORS				
Amex Biotech	BTK	Bull 3	HOLD	Wait to buy. SAID: If market sells off hard, biotech will follow. Sell reversal of breakout or close below 894 on new buys. For longer term positions could sell close below

				Nov. high, or either Nov. or even Oct. low depending on what stop you would like to use.
Amex Pharma	DRG	Bull 3	HOLD	Right on initial support. Retreating with market. SAID: Held up better than market post-Scott Brown win in MASS. If market pulls back much more, DRG will also retreat however. SAID: Wait for more definite move below the breakout to sell. If you buy hoping for a bounce, sell if it fails to do so. Sell reversal OR sell close below 305.26.
Amex Gold Bugs	HUI	Bear 3	SELL	Went slightly through support. We will rebuy a recovery from this point. Be warned that doing this could cause trading whiplash. FELL TO 403.68 on close today. SAID: Landed on a bit of support but could fall to 405. Lower high formed. Sell close below 416 or NOW (written when below 451.96) if you prefer.
Amex Oil	XOI	Bear 2	HOLD	Back down testing some support. SAID: Landed at bit of support but could fall to 1042 or about 1021 if next move is down. Bounce is always possible at support. SAID: Sell reversal (1-12-19) for new purchases. Sell close below 1030 for longer term purchases if you want a wider stop. Bounce could happen as low as 1021.
Natural Gas	XNG	Bull 3	HOLD	Failed breakout after retesting recent high. Buy new high only.
Oil Service	OIH	Bull 3	HOLD	Near initial support. Dropped to 121.59. SAID: Next stop 122. SAID: Sell reversal of signal. Sell older positions using your stop. Suggestions: Sell close below 127.30 or 118.81. May fall to 121.83 or so. Next stop after that is at about 114.
DJ Transports	DJT	Bear 2 from Bull 3	SELL	Broke down today. Buy new high only. SAID: Sell a reversal promptly. Pulling back from retest of the last high. May fail. Sell close below 3933 and rebuy if needed.
Utility Index (Philly)	UTY	Bear 2	SELL	SAID: Sell close below 410. Rebuy if needed.
BANKING/REAL ESTATE				
BKX (KBW Banking)	BKX	Bull 3	HOLD	Buy new high only. Failed retest of recent high.
MSCI US REIT		Bear 2 from Bull 3	SELL	Broke down. Sell and rebuy if it turns around and closed above 629. SAID: Caution: Waffling back and forth ABOVE AND BELOW 615. You could wait for a close below the late Nov. low if you prefer or sell on a meaningful move below 615. One point won't do it. Next best thing is to sell close below 596. Buy new high only.
US Housing	ITB	Bull 3	HOLD	Buy new high only. Sell upon close below 11.87 or Dec. or Nov. low.

FOREIGN MARKETS				
Australia	AORD	Bear 2 from Bull 3	SELL	Could sell here OR SAID: Sell close below 4776 or below either Nov. low depending on how tight a stop you wish to use.
Canada	TSX	Bear 2	SELL	SAID: Sell close below 11581. Rebuy if needed.
China	FXI	Bear 3	SELL	SAID: Sell close below 41.04 which would likely result in great damage if there is no bounce from this level. If no follow through on bounce will drop to Oct low for starters.
Europe	VGK	Bear 3 from Bear 2	SELL	This market is extremely weak.
Hang Seng	HSI	Bear 3	SELL	SAID: May drop to about 20932. Sell close below there.
India	PIN	Bear 2	SELL	Sell now below 22.42 and rebuy new high OR wait for close below 20.68 which is the late Nov. low.
Nikkei 225	Nikkei	Bull 3	HOLD	Failed breakout. Could sell reversal or use wider stop on close below 10179.
Emerging Markets	VWO	Bear 2	SELL	SOLD. Back below prior breakout point. SAID: Sell close below breakout at 42.17 for new buys. Could use wider stop for older positions such as 39.76.
US DOLLAR		Bull 2	HOLD	R (resistance) @ 78.45. SAID: The dollar is NOT in the clear for a resumption of the rally, but it did rise to close above the 77.09 breakdown point. Waffle has been going on around this signal.
COMMODITIES				
Except GLD based on near month futures prices				
CRB Index		Bear 2	HOLD	Sell failure to bounce from this level if you have not already sold. SAID: Sell reversal of the breakout promptly OR could sell close below 277 or (new comment) even 267.35 or 264 for a wider stop. The last major breakout survived a retest. SAID: Initial risk is to 277. We are there.
Gold	GLD	Bear 2	HOLD	Bounced a bit from initial support at around 106. SAID: Sell here (108.54) or on close below 105.31. You may want to maintain a long term gold position that you do not trade. Because gold trades in the foreign markets, you may want to sell intraday rather than on a close. Selling the close is arbitrary in such a market. If you bought close over 111.91, sell reversal. GLD could move as low as

				101. We are getting closer to the price at which India bought gold, which was supposedly just above the breakout area. We may retest that area or go a bit lower in this move. The GLD breakout was 100.44.
Light Sweet Crude Oil		Bear 2	SELL	Rebuy recovery. Could fall to 72.75 to start with, then to 68.63. SAID: if the dollar keeps moving up, oil should suffer.

NOTE: The above ETFs are used to follow a given index and are not the vehicles that you should necessarily use to trade or invest in the given market. They are used to track a given market's behavior, so pick the best ETF, mutual fund, or stock yourself as your chosen vehicle or consult an advisor. 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 weeks to months. 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. 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! Consider scaling in and out of markets rather than selling or buying an entire position on one day. This is of course your choice. Please see the disclaimer at the bottom of the newsletter text above for further details.

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

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

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