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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 02-05-10: Bounce Talk.**

We've heard plenty of talk that the rally that occurred toward Friday's close will carry us up again. Given the prevalence of that view, it is more likely to be incorrect. We would continue to sell the bounces. We sense there is still fear of missing out on a rally, but it's being used by the bears now, allowing them to get short, and it's failing the bulls in their agenda. Why? Because the VIX popped up dramatically and then crashed to almost unchanged, which shows that fear selling was stronger than fear buying at the close. It's sort of like someone being self-conscious about being afraid. When they are simply mindlessly afraid, the VIX will make continued upward progress. Sell the rallies for now until proven otherwise.

What is favor of a further bounce here is that every single major index in the upper section of the MTT hit some support and bounced on Friday. Even gold did this. The similarity between all these charts was very impressive. But at the same time, the selling had the feel of giving away where the market is ultimately pointing, which is still down. So perhaps this is an easier place for a trading buy than an outright sell, so the market has a chance for some sort of rally Monday perhaps into Tuesday. Then we may simply continue down again. And this bounce is a riskier bet than we've had before.

Look at the behavior of IWN on 10-10-2008. The small cap value index ETF went down to new lows that day and popped back significantly before the day was over. The next two days were somewhat higher and then the sell-off resumed. So far, we should expect that sort of behavior again. Following that by the way, there was a sell-off to about the same level with a one day break of support, followed by another rally, a sell-off into November and then another rally into early January. Then all heck broke loose to the March low except for one little false hope leap upward at the end of January. So expect the bulls to play around inside the down trend and if we must, we'll reclassify the trend later. For now, the trend is down.

The dollar is up modestly as this is being written and Japan and Hong Kong are both down somewhat. The only thing they could come up with that would help the market in the near term is to be even more overt about destroying the US dollar. They could buy 100 billion in gold in one day. That might do it! If you want to look at a wild chart, take a look at the Euro chart or FXE over the past 2.5 months. What a drop! But the dollar has been a bit too vertical going up and the Euro too vertical going down, so a dollar pullback in the up trend could occur. At least it may move sideways soon. That would calm the stock markets or provide some bounce perhaps.

The interesting thing is that the dollar is getting stronger DESPITE the Fed's moves. So this gives the Treasury and Fed an unexpected boost in floating all the paper they need to sell.

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

**All the best!**

**David**

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<b>Eight Stage Market Ranking System</b>	<b>4 Stages each BULL-BEAR</b>	<b>B/S/H</b>	<b>COMMENTS</b>
<b>MAJOR INDICES</b>			R = Resistance S= Support
Dow Jones Industrials	Bear 2	SELL	<b>Bounced from initial support so it could bounce a bit more. Sell close again below 9824.</b> First downside target is possibly 9818.
SP-500	Bear 2	SELL	<b>Bounced from initial support so it could bounce a bit more.</b> First target is 1055. SAID: Broke downward wedge on slightly increased volume. Still more likely

				headed to 1052ish. Then we see.
NASDAQ 100	NDX	Bear 2	SELL	<b>Bounced from initial support so it could bounce a bit more.</b> Next stop could be 1710. Close over 1826 would be first sign of strength in this bounce.
NASDAQ		Bear 2	SELL	<b>Bounced from initial support so it could bounce a bit more.</b> Next stop could be 2104. Close over 2228 would be first sign of real strength.
SP Midcap 400		Bear 2	SELL	<b>Bounced from initial support so it could bounce a bit more.</b> SAID: Buy close over 727.50 for rest of bounce if happens, but watch your stops! Could bounce from 680.
Russell 2000		Bear 2	SELL	<b>Bounced from initial support so it could bounce a bit more.</b> SAID: Sell new positions on close below 625.31. Old positions could be sold on close below 586. Problem with that is bounce could occur at 588.
Russell 2000 Growth	IWO	Bear 2	SELL	<b>Bounced from initial support so it could bounce a bit more.</b> Did bounce weakly and sold off hard. SAID: Could bounce. Broke downward wedge on low volume.
Russell 2000 Value	IWN	Bear 2	SELL	<b>Bounced from initial support so it could bounce a bit more.</b> Did bounce but weakly and then sold off hard. SAID: Could be waffle. Could bounce. Barely Bull 3. Still in downtrend even after bounce today.
<b>BONDS</b>				
10 year Treas. Note		<b>Bull 1 from Bear 3</b>	HOLD	<b>Buy close in yield below 3.487. SAID:</b> Playing the Bear side is still tricky due to fact that these bonds may rally if stocks sell off hard. They may move together (down with yields UP) if there is a fear of higher interest rates that drives a stock sell-off. SAID: Could sell off from here (yield increases). Depends on degree of stock market selling. SAID: BUT must now close over 3.886% yield to continue Bear market in earnest.
30 year Treas. Bond		<b>Bull 1 from Bear 3</b>	HOLD	<b>Buy close in yield below 4.488%. SAID:</b> Playing the Bear side is still tricky due to fact that these bonds may rally if stocks sell off hard. They may move together (down with yields UP) if there is a fear of higher interest rates that drives a stock sell-off. SAID: Sell again only on close over 4.601% yield. SAID: Could sell off from here (yield increases). Depends on degree of stock market selling.
Corporate Bonds	LQD	<b>Bear 3 from Bear 2</b>	HOLD	Sell close below 103.58. Could pull back to there.
Junk Bonds	HYG	Bear 2	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	<b>Bull 3 from Bull 4</b>	<b>HOLD</b>	<b>Biotech is weakening finally. Buy new high only.</b> <b>SAID:</b> Barely a Bull 4 now, testing the breakout area on a pullback. Would sell now or on close below 972. Will break if there is more downside to the US stock market. SAID: Bouncing (2-1-10). 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 prefer.
Amex Pharma	DRG	Bear 2	SELL	Broke support. SAID: Sell reversal OR sell close below 305.26.
Amex Gold Bugs	HUI	Bear 3	<b>HOLD</b>	<b>Hold or could attempt a trading buy from here as it has survived a one day break of support. It's with risk though, because the market could freefall as it did last September. SAID:</b> Could fall to 332 eventually.
Amex Oil	XOI	Bear 3	SELL	Broke support.
Natural Gas	XNG	Bear 2	SELL	<b>Bounced from initial support so it could bounce a bit more.</b> On a bit of support here. May not hold. Failed at 545. SAID: Could fail at 550. Sell close below 531.
Oil Service	OIH	Bear 2	HOLD	<b>At some support.</b> May not matter. SAID: Barely Bull 3. Could be a waffle. It was a waffle.
DJ Transports	DJT	Bear 3	SELL	
Utility Index (Philly)	UTY	Bear 3	SELL	SAID: Repeat: sell close below 394. Some support here. May not help.
<b>BANKING/REAL ESTATE</b>				
BKX (KBW Banking)	BKX	Bear 2	<b>HOLD</b>	<b>Bordering Bear 2 vs. Bull 3. Must close above close 45.02 to be Bull 3.</b> SAID: Look like they want to pull back. Formed a top since 1-07-10. Regained a bit of footing, but could still slip. Rebuy close over 49.28. 44.04 would be possible next stops before a bounce. Buy new high only. Failed retest of recent high.
MSCI US REIT		Bear 2	SELL	<b>Back retesting the base of the range of consolidation from end of Jan.</b> SAID: Waffle time. Could break down. At best it's weak and testing the breakout. SAID: Trading buy for bounce. Traded above the consolidation range of the prior few days. Then lost it.
US Housing	ITB	Bull 3	HOLD	<b>Tested some support Friday.</b> Closer to the March lows than many other indices. BUT Buy new recent high only on daily chart. Needs to at least close above 13.11 to show strength. It will sell off if the rest of the market moves lower. SAID: Buy new high only above 13.09. Sell

				upon close below 11.87 or Dec. or Nov. low.

<b>FOREIGN MARKETS</b>				
Australia	AORD	Bear 2	<b>SELL</b>	<b>Broke support Friday, but must check overnight market. SAID:</b> Sell close below 4776 or below either Nov. low depending on how tight a stop you wish to use.
Canada	TSX	Bear 2	HOLD	<b>Buy close back above 11590.</b> Could bounce up further. SAID: Sell close below 11581. Rebuy if needed.
China	FXI	Bear 3	HOLD	<b>Weak again.</b> VWO looks better for playing Emerging Market bounce. Back above Oct. low. Could bounce more. 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	HOLD	SAID: Could just roll over again. Bouncing a bit.
Hang Seng	HSI	Bear 3	SELL	SAID: Sell close back below 20533. Check overnight. Broken market is hanging on in a consolidation (sideways move). SAID: May drop to about 20932. Sell close below there.
India	PIN	Bear 3	SELL	Sold off with foreign markets. SAID: May bounce further. SAID: On initial support now. Broke support.
Nikkei 225	Nikkei	<b>Bear 2 from Bull 3</b>	HOLD	<b>Could waffle.</b> Check overnight. May fail again. Buy close over 10439. <b>Sell close below 10129.</b>
Emerging Markets	VWO	Bear 3	SELL	Shows danger of buying in a decline. Trounced today. SAID: Could bounce further. Could use wider stop for older positions such as 39.76. Realize bounces may occur from support.
<b>US DOLLAR</b>		Bull 3	BUY	Breaking out to new recent highs.
<b>COMMODITIES</b>				
<b>Except GLD based on near month futures prices</b>				
CRB Index		Bear 3	SELL	Failed at support. 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.
Gold	GLD	Bear 2	SELL	<b>Bounced from initial support so it could bounce a bit more. Reached our 1<sup>st</sup> target at 102.28 on 2-5-10. SAID:</b> Target is 102.36 or the breakout area of 100.44.

				Got to 109.60 and failed. SAID: Could double top at 113.59. Bouncing on low volume. Bounced a bit from initial support at around 106. If it fails here, it goes to 103.50 for starters. 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. 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		<b>Bear 3 from Bear 2</b>	HOLD	<b>Tested Dec. low and bounced, so could rally a bit more. SAID:</b> Sell close below 72.43. SAID: Rally may be weak; MACD shows negative divergence at last high. SAID: Stopped at 72.65 today. Could fall to 72.75 to start with, then to 68.63. 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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