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# The Wall Street Sun and Storm Report™

**Your daily warning system whether markets turn UP or DOWN!**

**Market Timing Brief for 1-4-2012: The Year of the Living Dead**

The below was published on my blog today. There is little to add except in the MTT below. Today was more of a consolidation day than anything else.

**The VIX did slip a bit more today that had some meaning. The rally still looks OK.**

**Risk is back on in the New Year.** Banks and housing which had already started rallying prior to the New Year moved up strongly today having technically died last year. Biotech, which had been in a major slump badly lagging the market, is beginning to move again.

One negative sign I saw today was the VIX. It did not move down as it should have in a very positive rally. Why? Because traders were NOT taking off their hedges. That is what the VIX is based upon. It can and must still move down more. It was only down 1.84% today.

Gold and silver had a great day having made important reversals that should propel more gains. Follow my comments on Twitter to keep up with the latest (link below; I bookmark links of the Twitter pages I follow so I can dial them up fast). We'll have to see if the gold rally fails at higher resistance which looms above. But that is true for any pullback. The key question is whether the gains will be held or lost once more. **The long term signal has turned at least temporarily negative for GLD and what concerns me is that there is a case for the dollar index continuing to rally up to around 87ish from 790.91 which would pressure gold.**

Commodities are stretched at this point so despite the tempting strength, it's been a bit too much too fast. That is not to say commodities (CRB) do not have more upside after a bit of a pullback.

It is not so clear what will happen this year. There are mixed economic signals. Today's manufacturing data was improved both in China as well as in the US. Europe is slowing still. This means that being nimble and not giving up profits may be the game for 2012 as well as 2011 when the market was barely up for the year. Things are still unstable in Europe we have to remember despite the bursts of enthusiasm. The earlier bursts died and now we have this jump for joy.

However, the point for traders is that charts such as that of Europe and Germany, as I pointed out on Twitter today, are improving. The living dead are back in play at least for the time being. It would be nice if there were only two shoes to drop – one in the US and one for Europe, but the closet is more like that of Imelda Marcos (a famous shoe fanatic most of you still recall). Even Japan has something like 3 trillion dollars of debt maturing this year alone.

**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>

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**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: <http://twitter.com/#!/DavidBDurandMD>**

**Main Website: <http://www.SunAndStormInvesting.com/>**

**CURRENT INTRADAY COMMENTS PAGE PASSWORD: mt**

**MARKET TREND TABLE (MTT)**

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

**Eight Stage Market**

**5 Stages each**

Ranking System		BULL-BEAR	BSH/LS	COMMENTS
<b>MAJOR INDICES</b>				<b>R (Resistance), S (Support), LS (Long Term Signal) updated at end of week. Dates as Month/Year</b>
Dow Jones Industrials		Bull 4	BUY/+	12-30 Must bust back up above the Oct. high.
S&P 500 (SPX)		Bull 4	BUY/+	1-3 Approaching resistance @ 1292.66. Pullback toward 1269.37 might be a good entry point if in fact we get a pullback. 12-30 Above triangle but has to make it above the Dec. high.
US Russell 1000 Large Cap G	RLG	Bull 3	BUY/+	12-28 Moved down from top of triangle. 12-22 Close to buy now. Will face resistance at top of triangle.
US Russell 1000 Large Cap V	RLV	Bull 4	BUY/+	12-07 Next buys would be breakouts above Nov. highs or Oct. high. 11-30 Try to buy pullback or strength above 11-8 high.
NASDAQ 100	NDX	Bull 3	BUY/+	12-15 Triangle forming. 11-30 Buy on further strength as it is stretched.
NASDAQ		<b>Bull 4 from Bull 3</b>	HOLD/-	<b>1-4 Next buy is move over Dec. high.</b>
S&P Midcap 400		Bull 3	HOLD/-	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 3	HOLD/-	1-3 Will look better above 12-27-11 high of 753.19. 12-22 Failing breakout from triangle.
Russell 2000 Growth	RUO	Bull 3	HOLD/-	1-3 Needs to move back above 431.70 or so ID for a buy. 12-22 Bull 2 past 2 days.
Russell 2000 Value	RUJ	Bull 3	HOLD/-	
<b>BONDS</b>				
10 year Treas. Note		Bull 3	/+	
30 year Treas. Bond		Bull 3	/+	
Corporate Bonds	LQD	Bull 4	/+	1-3 Cash flows to bonds still good but may be repelled from Aug. highs.
Junk Bonds	HYG	Bull 3	/+	
Short Term Bonds	BSV	Bull 3	/+	
<b>SECTORS</b>				
Amex Biotech	BTK	Bull 2	/-	12-30 Pulled back up into trend.
Amex Pharma	DRG	Bull 4	/+	1-3 Testing May 2011 top. 12-28 Summer highs may prove to be resistance. 12-20 Breakout.

Amex Gold Bugs	HUI	Bull 1	/-	12-29 A Buy now. Reversal at Oct. low. 12-22 Testing low. 12-16 Got a reversal signal Friday. Technically could break down though.
Amex Oil	XOI	Bull 4	/+	1-3 Broke up above triangle (up trend and down trend lines converging to right). Positive.
Natural Gas	XNG	Bull 3	/+	
Oil Service (Philly)	OSX	<b>Bull 1 from Bull 2</b>	/-	12-15 Broke support.
DJ Transports	DJT	Bull 3	/+	12-28 Back to a top. No point in buying until it makes it over the prior highs.
Utilities	UTY	Bull 4	/+	1-3 Failed breakout. 12-21 Breakout. 12-20 Note that utilities stayed up while the SPX sold off in December.
<b>BANKING/REAL ESTATE</b>				Check premium/discount of ETFs before buying
BKX (KBW Banking)	BKX	<b>Bull 3 from Bull 2</b>	/-	11-30 Held support and bounced on the shock and awe move by the central banks, up 7.21%.
MSCI US REIT	RMZ	Bull 3	HOLD/+	<b>1-4 Tested Oct. top and failed so far. Do not buy at this point. Need another breakout to add.</b> 12-30 Testing Oct. high.
US Housing (Philly)	HGX	Bull 4	/-	12-29 Another breakout. 12-22 Breakout

<b>FOREIGN MARKETS</b>			<b>BSH/LS</b>	<b>R (Resistance), S (Support), LS (Long Term Signal) updated at end of week. Dates as Month/Year</b>
Australia	AORD	Bull 1	/-	
Canada	TSX	Bull 2	/-	SELL EWC on close < 24.95 and rebuy 1 <sup>st</sup> close higher than that.
China	FXI	<b>Bull 1 from Bull 2</b>	/-	1-3 Good buying point as long as you use a stop.
European Stocks	VGK	Bull 2	BUY/-	1-3 Buy above 43.10. R @ 43.94. 11-30 Technically a buy. I refuse to buy the losers though so I'm using EWG as surrogate for Europe at moment. It's also beaten up. It is in same place technically coming off bounce from 2010 lows.
Hang Seng	HSI	<b>Bull 1 from Bull 2</b>	/-	12-16 Could be forming a bottom.
India	PIN	Bull 1	/-	1-3 Big up day but looks like a buy. Average in though given the huge up day.
Pacific Stocks	VPL	Bull 2	BUY/-	

Japan Nikkei		Bull 1	/-	12-14 Sell close < 9.10 (changed by email today).
Emerging Markets	VWO	Bull 2	BUY/-	1-3 I would buy again at around 40.41 intraday and average in up from there. 11-29 Could argue for Bull 1 status since made a higher low than Oct. low and 2010 lows.
<b>US DOLLAR INDEX (near month future)</b>		Bull 3	<b>HOLD/+</b>	<b>1-4 Back to hold. Sell break of recent base.</b> 12-30 Now just above the Oct. high. Below there will fall to 50 day mav at least. 12-16 Failed the 2010 highs.
<b>COMMODITIES Except GLD based on near month futures prices</b>				R (Resistance), S (Support) and LS (Long Signal) all updated at end of week. Dates as Month/Year
CRB Index		<b>Bull 2</b>	HOLD/-	1-3 I'm going to hold off entering now. Popped up to resistance today. Stretched. 12-20 Buy 25% position in DBC if < 26.79 at open. 12-16 Could rally from here. 12-14 Sell break of Oct. low.
Gold	GLD	Bull 1	BUY/-	1-3 Buy but maybe only for trade. We'll see. I would not buy below 156.05 tomorrow. There is a bit of resistance there, which is right above the close of 155.92. Long term signal turned negative this past month.
Light Sweet Crude Oil		Bull 3	/+	1-3 @ R. 12-28 Backing off of resistance. 12-20 Bullish. Not the easiest to buy because it has held up very well due to the Iranian tension. OPEC said it was happy with \$100/barrel oil. 12-14 Rally did break down. Up trend may survive though. 12-08 Oil is a bit topy, but rally need not end.
				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 week 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.**

**Standard Disclaimer:** It's your money and your decision as to how to invest it. The contents of the website, the newsletter (including all reports and emails sent pre-market, intraday, and those following the close) and the Market Trend Table are my opinion only and should not be taken as investment advice. Given your personal investment plan, it may be better for you to buy when others are selling or sell when others are buying. The information we provide should not be construed as telling you what to do or what to believe. You are invited to make up your own mind. The ETFs discussed in the newsletter text and noted in the MTT are just 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 simply to track a given market's behavior, so pick the best ETF or mutual fund yourself as your chosen vehicle or consult an advisor. We may buy or sell an index based on the previous recommendations in the Market Trend Table comments or newsletter text before the market closes, or we may act based on an intraday email prior to a close, the latter being far less common, in compliance with government rules. We do not recommend ETFs with low trading volume to avoid movement of the market from the recommendations of this newsletter, but we cannot guarantee this won't happen if a major investor reads this newsletter, so never chase an ETF and avoid placing stops in the market as you may sustain rapid losses in share value on a pullback after the buying is exhausted. The same is true of sudden high selling volume in any ETF. When the selling is exhausted, the ETF may rebound strongly. The data may not be accurate, although it is our intention to be accurate. We may send intraday emails to alert you of certain market information when possible, but this is a daily newsletter, so do not expect comments before the market close as a rule, as we may not be able to provide alerts on a pre-market or intraday basis. We may have overlooked important issues in our analysis, although we would not plan on doing so, and you and/or your investment advisor should check all facts, numbers, symbols, and strategies prior to investing. In the end, we all must take responsibility for our investment decisions regardless of how helpful an outside source may be. This newsletter may help give you an independent view to test against your own opinions about how to invest, but cannot guarantee any particular results. Past results do not guarantee future results. We are not certified financial advisers, planners, or brokers, so you should consult one if you feel you need to prior to making any investments, and in any case take 100% responsibility for your investment decisions. By agreeing to receive this e-newsletter, emails, and/or by using the website SunandStormInvesting.com, you are in full acceptance of this disclaimer in its entirety. If you no longer wish to receive this newsletter, please notify us by email. Your receipt of this newsletter does not imply any right to receive it in the future. We reserve the right to cancel this newsletter without notice. We also reserve the right to raise the price of the subscription or change the terms with prior notification of you, although this is not anticipated. I wish you the best with all of your investments! Thank you.

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