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The Wall Street Sun and Storm Report™

Your daily warning system whether markets turn UP or DOWN!

NOTE: Please do not read any further unless you understand that you need to come to your own conclusions and take 100% responsibility for what you decide to do. You are the person who is entirely responsible for your investment results. If you understand this, you are in the position to be one of the best traders/investors on the planet. Thank you for understanding.

Market Timing Brief for 1-03-2014: A Pause for the Bull Coming Soon?

Here are the chart links from this week:

Rates are rising still: http://wp.me/p14gPd-FD

GLD: http://wp.me/p14gPd-FI

SP500 Index: http://wp.me/p14gPd-FN

If you have not read this week's investor sentiment report, be sure to read it on the "access page" (just below the link to this report), because it's a likely game plan for the next few weeks. Sentiment is able to support a further rally prior to the next correction.

I've been asked about how I use the term "dip" vs. "correction" on the Twitter stream, so I'll define them as I use them. A dip is a one wave move on a daily chart. I use daily charts to evaluate short term moves in markets. A correction is a multi-wave move as in a 3 or 5 wave move as explained in this week's sentiment report. Five wave moves are sometimes concordant with Fibonacci rules, a common pattern that recurs throughout nature. Human nature follows the same rules quite often.

The goal ultimately is to trade corrections with at least a portion of our assets and avoid selling the dips. It's not always possible of course, and there is risk in being out of the market at exactly the wrong time when you sell a dip**. For most investors, I recommend trading only the slower sell signals and allowing for greater losses from the tops**, because of the tendency to quickly fall behind by not getting back into the up trend after selling small drops or dips.

Yes, you read that right. **If you don't allow for greater losses, you will end up selling every dip.** For this reason, I focus on the bigger signals in the newsletter and on Twitter. The slowest signals are the long term signals I publish in the table below (MTT). The problem with following those is that the losses may get too big while one waits for a sell signal and the entry points are late. So we move to the middle where it's "just right," but never perfect of course. Losses are not fun to take, but if you don't take small losses, you are guaranteed to end up with very big ones.

The third decision point is when I take even more off the table as in a Bear market. If you wish, you can trade Bull and Bear signals alone and ignore corrections. There will still be some false breakdowns.

What's the big picture for this year? The US markets and some foreign markets should remain fairly strong, and experience short corrections, unless the predicted growth of revenues fails to materialize. I like both the US banks (XLF) and housing (ITB) still. The banks are less stretched at the moment (just added in fact to XLF). ITB will be at risk if rates jump higher too quickly, so the banks may be a better play for rising rates, just in case they rise too fast. **US small and mid caps could rally much further too, but I believe the valuation is better for the SP500 (SPX, SPY).** I also have been buying SYLD which focuses on US companies that do debt buybacks, share buybacks, and pay dividends; it looks at the total return to investors. Watch the bid ask spread if you buy it. Don't buy ETF's when they are bloated by big premiums.

I've been wrong so far about China and the emerging markets, which could break down again. They have not triggered a SELL signal yet, but they are getting close. There is some fear still about Chinese growth levels. Measured by electricity use vs. Chinese government data, the amount of growth in the production of electricity is much less at 1.5%. I still see them as having great value, but may have been early. I'll likely maintain 50% of maximum exposure as long as the major lows are not violated. I have not sold yet (follow Twitter to keep up; search @SunAndStormInv on Twitter or Google it). If they don't in fact break down and the economy of the world strengthens, emerging markets could still have a shot

Looking for lower risk foreign markets? Of the other main foreign markets, Europe (HEDJ, VGK) and the Pacific Rim, especially Japan (DXJ), are likely to stay strong. They have similar currency destroying policies to our Fed's. I like the idea of hedging those where possible for the currency impact of a rising US Dollar (as with HEDJ for Europe and DXJ for Japan), as I expect the dollar to strengthen over the short as well as intermediate term as our economy leads the world recovery and interest rates rise accordingly (unless there is high US inflation as explained below). If you want to hedge your hedge, split your buys between hedged and non-hedged ETF's.

Remember that rates are rising because of the economic recovery that is happening and the reduced risk that the Fed sees that we are going to slide back into a recession soon. Slowly rising rates are NOT a threat to stock prices. Rapidly rising interest rates would be a threat, so we'll be watching the rate of climb.

If you've been reading this newsletter at all seriously, you have very little exposure to bonds at this point and you stayed away from bond funds if you could afford it. Bond funds and bonds will likely continue to suffer as the recovery continues into this year and perhaps next. Bond funds are more risky than are bonds with fixed maturities held in a portfolio. When bond funds get too many liquidation requests, they have to sell bonds at bad prices and book those losses. In your private portfolio, you can hold all your bonds to maturity if you like.

Money will continue to flow from bonds to stocks as interest rates rise. That will propel the stock markets beyond what investors imagined could happen. That's been going on this year, but it's still early in the "Great Rotation."

The lowering of QE is NOT the same as raising interest rates UNLESS it happens very fast. Again, I emphasize the need to look for jerky policy moves, because those could pressure stocks quickly if they happen. So far, the Fed is indicating it will move slowly and be a bit late rather than early, which is the reason that gold held the prior major low and was a trading buy this past week.

A lax Fed means there will likely be inflation in this cycle of expansion. But it all depends on the rate of the interest rate rise. That is what gold investors are betting on. And it's a bet. **The rising dollar and/or rapidly rising rates could bring gold down another big notch, so realize this is a trade only and there is risk.** The key, as I've pointed out before, is the balance between the rate of rising rates and inflation. If inflation gets heated and rates are not rising fast enough, the dollar rally will fail and gold will move up.

If the Fed steps on the brakes hard as they did under Paul Volcker's Fed, (see Tweet this past Friday) gold will drop hard and fast. I'm still betting inflation is more likely first, but I'm willing to exit if I'm wrong.

Have a great week investing and/or trading!

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

Note: The long term signals have been updated.

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.

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

The rest is in the MTT below! The long term signals were updated based on the 12-31-2013 data.

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/#!/SunAndStormInv

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 - *******

*****Changes noted are since the last monthly issue in the Bull-Bear Stage Rating*****

Eight Stage Market Ranking System		**5 Stages each BULL-BEAR**	**BSH/LS**	**COMMENTS**
MAJOR INDICES				**LS (Long Term Signal) updated at end of MONTH. Dates as Month/Year R (Resistance) S (Support)**
Dow Jones Industrials		Bull 5	BUY/+	
S&P 500 (SPX)		Bull 5	BUY/+	
US Russell 1000 Large Cap G	RLG	Bull 5	BUY/+	
US Russell 1000 Large Cap V	RLV	**Bull 5 from Bull 4**	**BUY**/+	**1-03 Bolding just means it's changed in the past month, not a better Buy.**
NASDAQ 100	NDX	Bull 5	BUY/+	
NASDAQ		Bull 5	BUY/+	
S&P Midcap 400		**Bull 5 from Bull 4**	**BUY**/+	**1-03 Bolding just means it's changed in the past month, not a better Buy.**
Russell 2000	RUT	Bull 5	BUY/+	
Russell 2000 Growth	RUO	Bull 5	BUY/+	
Russell 2000 Value	RUJ	Bull 5	BUY/+	
BONDS				
10 year Treas. Note	TNX	**Bear 5 from Bull 1**	/-	
30 year Treas. Bond	TYX	**Bear 5 from Bull 1**	/-	
Corporate Bonds	LQD	Bull 3	/-	
Junk Bonds	HYG	**Bull 5 from Bull 4**	/+	**1-03 I'd say the risk is rising in this asset class.**
Short Term Bonds	BSV	**Bear 2 from Bull 5**	/-	
SECTORS				
Amex Biotech	BTK	Bull 5	/+	
Amex Pharma	DRG	**Bull 4 from Bull 5**	/+	
Amex Gold Bugs	HUI	Bull 1	/-	
Amex Oil	XOI	**Bull 3 from Bull 4**	/+	
Natural Gas	XNG	Bear 2	/+	

Oil Service (Philly)	OSX	Bear 2	/+	
DJ Transports	DJT	**Bull 5 from Bull 4**	/+	
Utilities	UTY	**Bear 3 from Bear 4**	/-	
BANKING/REAL ESTATE				Check premium/discount of ETFs before buying
BKX (KBW Banking)	BKX	Bull 5	/+	11-29 Highlighted in early Jan 2013 as a market for the year. So far correct.
MSCI US REIT	RMZ	**Bull 1 from Bear 4**	**BUY**/-	**1-03 Trading buy only.**
US Housing (Philly)	HGX	**Bull 4 from Bear 1**	/+	

FOREIGN MARKETS			**BSH/LS**	**LS (Long Term Signal) updated at end of MONTH. Dates as Month/Year R (Resistance) S (Support)**
Australia	AORD	Bull 3	/+	
Canada	TSX	Bull 5	/+	
China	FXI	**Bear 2 from Bull 4**	/+	
European Stocks	VGK	**Bull 5 from Bull 4**	**BUY**/+	1-03 Correcting with Euro. 11-29 Buy new high only. Just under dividend corrected prior high of 57.47. 11-01 Buy next new high or pullback to support. Same for my often used proxy, EWG. See text.
Hang Seng	HSI	**Bear 2 from Bull 4**	/+	
India	PIN	Bull 3	/**+**	10-31 LT Signal is right on the border of +/-.
Pacific Stocks	VPL	**Bear 2 from Bull 3**	**HOLD**/+	11-29 Added more at S of 50 day mav on Friday. Buy here or on move above Friday high. 10-04 VPL is in pullback but stronger than DXJ. Signals are for VPL.
Japan Nikkei		**Bull 5 from Bull 4**	**BUY**/+	11-29 Buy new high over 15706.63. 11-01 In a triangle. Buy resolution to upside. 3rd wave did not complete. Will only happen now if triangle breaks to downside.
Emerging Markets	VWO	**Bear 3 from Bull 3**	**HOLD**/+	**12-31 Long term signal still positive, but will be back to SELL below current S. The LT signal is slow as mentioned above.** 10-04 Has been oscillating up and down for four years. We are about mid-way through the range and the bias is up. 9-02 Currency weakness has been the issue in India and Brazil. Could test again somewhere between 2012 and 2013 lows. Has held weekly support most recently in June, but back down testing near it. Buying above the July high would be the most conservative approach.
US DOLLAR INDEX		Bull 2	BUY/-	11-29 Buy move over 80.85. 11-01 Could rally further but failing at 50 day mav is not good. 10-04 Sell next break and buy back at S. Likely to find S @ 2012-2013

				lows.
(near month future)				
COMMODITIES				R (Resistance), S (Support) and LS (Long Signal) all updated at end of week. Dates as Month/Year
Except GLD based on near month futures prices				
CRB Index		**Bull 1 from Bear 5**	**SELL**/-	**1-03 Did reverse but now in correction. Sold on Twitter.** 11-29 Hold only because might make reversal. Looks headed to 2012 low, but looking for S right here.
Gold	GLD	**Bull 1**	**BUY**/-	**1-03 Trading buy as Tweeted the other day. But if moves below current S, it's back to a SELL.** 11-29 May as well hold to June low at this point, although if it breaks there, major losses will occur. 11-01 Falling to Sept. support. Sell move below Oct. low if you want a wider stop. If you bought on the 130.62 signal, you should now be out as the market reversed from there. Never held it on a close.
Light Sweet Crude Oil		Bear 4	/**+**	11-29 Iran situation also calm = more oil on market, lower prices. 11-04 Dead on. No war, down we went. 9-02 Looks like it will ease back. Syria is the wild card, but without a war, the oil premium will likely fade away.
				LS (Long Term Signal) updated at end of MONTH. Dates as Month/Year R (Resistance) S (Support)

Check premium/discount of ETFs before buying

R = Resistance **S** = Support **mav** = moving average **ID** = Intraday **LT** = Long term **LS =** long term signal

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 to mid cap growth, e.g., IWF), RLV (large to mid 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 the ETF has low costs), 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 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 stop its move up and 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.** Signals are uncorrected for dividends in the case of the long term signals which could cause some distortions for bond funds.

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. At times we may provide more timely information via Twitter, but cannot guarantee we'll be able to do so. 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, its subdomains (e.g. Wordpress Blog), or Twitter (SunAndStormInv), you are in full acceptance of this and all other disclaimers here and on the website in their 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 wish you the best with all of your investments! Thank you for your support and your subscription.