US Market Timing

Advisors Sentiment

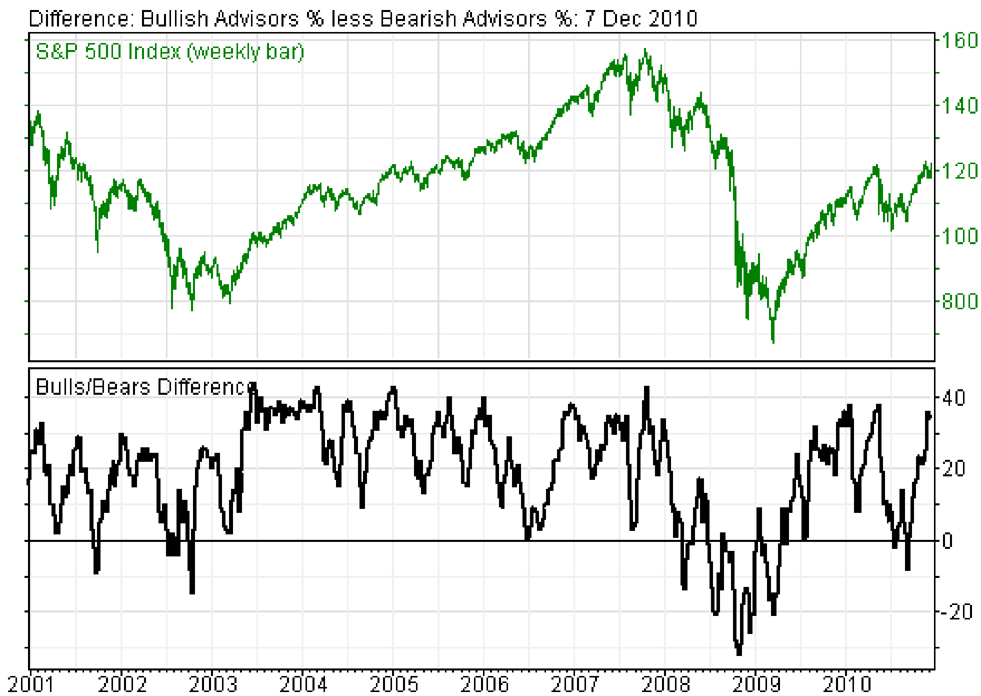
8 December 2010 By Mike Burke & John Gray

Overview

The bulls rebounded after two weeks of small declines and they again show their highest reading since late 2007. After trading in narrow ranges the last two weeks of November, stocks got off to a great start for December, with many averages up more than 3% over the first two sessions. The bears and correction advisors both showed small dips. The level of bulls has been steady for the last four weeks, after showing a large increase early November the same week we recorded over 600 stocks with buying climaxes. Those were negative factors that suggested markets were nearing a top, but so far they have not had a major negative impact. Many indexes achieved new 2010 highs over the last week, including the NASDAQ Composite.

The **bulls** moved higher to **56.2%** from 55.4% last week. That reading equals the high shown three weeks ago and both show a very large increase from the end of August when they numbered 29.4%. Bullish readings below 30% are very positive signals to accumulate shares as they show the great majority has moved to cash. The current data calls for caution, suggesting lots of funds have now been committed. The recent highs for the bulls are just below the 56.5% reading from Dec-07. The markets topped out just before that in Oct-07 when the bulls reached 62%.

The **bears** were slightly lower at **21.3%** from 21.8% last time. Fifteen weeks ago they showed lots of pessimism with a reading of 37.7%. That was the most bears since the Mar-09 market bottom when they were above 47%.



The advisors in the **correction** group also declined, down to **22.5%** from 22.8% the week before. Advisors often shift from bearish to correction before they are ready to make a bullish commitment and vice versa.

The **spread** between the bulls and bears +34.9%, up slightly from +33.6% from last week. The difference continues to hold at negative levels, similar to the readings shown in Apr-10 when it was +37%. These are at the widest margin since the all-time high market back in Oct-07 when the difference was +42%.

Sentiment now is negative and that raises the risk level.

Bullish Themes

"With volume expanding during this week's surge, we expect the current rally to continue for the next two months, although some minor profit taking can be expected in the last half of December. Let your profits ride and cut your losses short." (2-Dec-10)"

Bob Jubb's Tomorrow's Stocks, PO Box 14111 Scottsdale, AZ 85267 602-996-2908

"Our Long Term Model for the US Stock market has been on a BUY signal since Mar-09. Our Intermediate Term model has been on a BUY since Feb-10. Currently there are numerous potential stumbling blocks, but unless and until the data deteriorate significantly from here, position accounts have little choice but to be invested. Our model for Global Bourses remains slightly Negative, but we are temporarily treating the non US markets on an ad hoc basis. Our models for T-Bonds remains Negative for all degrees of trend-Short, Intermediate and Long Term and almost all of our sub models are also negative: e.g. TIPS, Global Governments hedged, Global Governments un hedged Tax frees, Emerging Market Bonds, etc. Convertibles and Floating Rates are the sole Bullish holdouts. After many months on the BUY side, our Junk Bond model finally turned negative on Monday. However, the last three days of rising prices has returned some of the Junk indicators to Neutral, raising the possibility that Monday's signal was a False Negative. Our Debt/Equity Algorithms still have dedicated accounts100% in Stocks, 0% in T-Bonds. Our Gold models are all also Positive, and so position accounts should remain long. Our Commodity Index models are also positive, and so trading accounts should remain long. We have significantly more experience in the former model than we do in the latter. Both our Intermediate and Long Term models for the US$ are Negative, and consequently position should be short the Dollar (i.e.., long Forex or flat. However, we went long the US$ for a trade based on the October 16th "Currency Wars" Cover Story and the November 3rd "Date Certain" QE 2 announcement We have a close stop on our longs. " (6-Dec-10)

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Correction/Bearish Themes

[Correction Theme] "Clearly the near shut down of credit availability worsened the last recession and has hampered the recovery. A simple way to monitor whether our nation's credit conditions are turning around is to track the financial stocks: banks, financial services and stock brokerage firms. Presently most of the financial stocks remain locked in a major downtrend. Yet they are positioned to break out their downtrend. Simply put, if the bulk of these financial stocks successfully and decisively break above their respective downtrend lines, it will bullishly signal that credit flows to business are undergoing a major positive reversal.
Another very simple indicator we are tracking is the number of new highs for the NYSE stocks. It is very bullish once the number of new highs surpasses the previous number of new highs. How bullish? An increase in the number of new highs strongly correlates with a stock market uptrend that will l continue for at least several more quarters. The number of new highs on April 26th was 674. A print of 675 or higher will be very bullish." (December 2010)

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[Bearish Theme] "While it's a tad early to call with great conviction, I suspect that New York and other major global stock markets may have put in a double top (April & November) and I think the mid-year lows are likely to be tested and broken in the next six months or so.
Based on the past, this is supposed to be the bullish phase of the Presidential Election cycle, and in the monthly seasonal patterns December ranks #1. I know…but dealing with monthly seasonals first, 8 of the last 11 months have been virtually upside down. November was supposed to be the 3rd strongest, but closed with a minor loss. May, supposedly the 4th best month turned out to be the worst. September, supposed to be the worst month, turned out to be the best. July was not #9, it turned out to be #2, etc.. etc.. With a track record of 8 of 11 months effectively upside down this year., don't pay much attention to talking heads preaching that December is the strongest month of the year, and the Santa Claus rally will appear. In baseball parlance, if the guy at the plate has hit in 8 of his last 11 at bats, do you pitch to him or walk him in the 9th inning of a tied game? The same applies to the Presidential cycle. 2010 was supposed to be the worst year…that's still possible, but less likely." (1-Dec-10)

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<u>Newsletter Extracts</u>

Indicators and Equities
The Bank Credit Analyst | *Martin H. Barnes, Editor* | 1002 Sherbrooke St. W, #1600, Montreal, QC H3A 3L6 Canada
www.bcaresearch.com

"While some technical measures are suggestive of a pullback in equities, liquidity conditions and valuations continue to be supportive and sentiment remains in an uptrend.

The recent backup in yields has removed near-term overbought conditions in the Treasury market. The Fed will remain alert to the risks of any overshoot in yields.

The US dollar has had a bounce but technical readings are not pointing to a strong trend in either direction.

Broad commodity prices have undergone some corrective action, but remain in an uptrend. Despite some short-term weakness, agricultural prices should remain well supported, further fanning the flames of Chinese inflation worries.

Our Equity Indicators generally paint a constructive picture for stocks, although risks of a pullback have increased. The Composite Monetary Indicator is still above zero, which is supportive of prices. Our Composite Technical Indicator is in positive territory, and it is hovering around its 9-month exponential moving average. It is at a critical spot, as a move below the zero line would be a bearish development, especially as some of our other technical indicators are flagging stretched conditions. Lastly, our Valuation Indicator highlights that equities remain modestly undervalued.

The S&P has backed off its recent highs as a result of escalating European debt worries, Chinese inflation fears and doubts over the effectiveness ofQE2.

While the index remains well above its 200-day moving average, which is an encouraging sign, other technical indicators suggest that risks of a correction in equities are elevated. In particular, the percentage of stocks above their 30-week moving average is hovering at extreme levels. And while the uptrend in the advance/ decline line is intact, the cumulative measure appears overextended.

Sentiment has improved but remains in neutral territory. This suggests that investors are not yet overly optimistic, which bodes well for the stock market from a contrarian viewpoint. Ample liquidity also continues to be a major source of support for equities.

From a global perspective, emerging market stocks should continue to outperform. Capital inflows are accelerating, with trading volumes going vertical. That said, while the fundamentals remain supportive, the likelihood of a short-term correction has increased." (2-Dec-10)

Market Briefing
Ford Equity Research | *Richard Segarra, Editor* | 11722 Sorrento Valley Rd, #1, San Diego, CA 92121 www.fordequity.com

"Equities posted mixed results in November as performance for large cap stocks lagged that of small caps. The result was that the major large cap indexes finished lower for the month while indexes with small and mid cap issues had gains. The month was not short of news headlines impacting equity prices: The mid-term election results returned Republicans to the majority in the House of Representatives and boosted their number in the Senate; the Fed detailed plans to purchase $600 billion in government bonds in a move to boost economic growth: European Union countries put together a bailout plan to address Irelands debt crisis; and General Motors filed a public offering that reduced the US government's stake in the company. Against this backdrop, investors favored high beta, lower-quality growth stocks during the month as seen in the relative performance of the factors we track each month. On average, stocks exhibiting quality and value attributes posted relatively weak performance. Oil related issues and coal ranked among the best industry performers during November. In addition, reports of improved sales helped boost department stores and specialty retailers to above average gains for the month. Utilities and financial issues were among the relatively poorer performers during the period." (6-Dec-10)

Advisors Sentiment Table

Date	DJIA	S&P 500	Bullish Advisors %	Bearish Advisors %	Correction Advisors %
Tue Dec 7, 2010	11,362.19	1,223.12	56.20	21.30	22.50
Tue Nov 30, 2010	11,006.00	1,180.55	55.40	21.80	22.80
Tue Nov 23, 2010	11,036.40	1,180.73	55.70	21.60	22.70
Tue Nov 16, 2010	11,023.50	1,178.34	56.20	20.20	23.60
Tue Nov 9, 2010	11,346.80	1,213.40	48.40	23.10	28.50
Tue Nov 2, 2010	11,188.72	1,193.57	46.70	24.40	28.90
Tue Oct 26, 2010	11,169.46	1,185.64	45.60	24.40	30.00
Tue Oct 19, 2010	10,978.62	1,165.90	45.10	22.00	32.90
Tue Oct 12, 2010	11,020.40	1,169.77	47.20	24.70	28.10
Tue Oct 5, 2010	10,944.72	1,160.75	45.60	28.30	26.10
Tue Sep 28, 2010	10,858.14	1,147.70	43.30	27.80	28.90
Tue Sep 21, 2010	10,761.03	1,139.78	41.40	29.30	29.30
Tue Sep 14, 2010	10,526.49	1,121.10	36.70	31.10	32.20
Tue Sep 7, 2010	10,340.69	1,091.84	33.30	32.20	34.50
Tue Aug 31, 2010	10,014.72	1,049.33	29.40	37.70	32.90
Tue Aug 24, 2010	10,040.45	1,051.87	33.30	31.20	35.50
Tue Aug 17, 2010	10,405.85	1,092.54	36.70	31.10	32.20
Tue Aug 10, 2010	10,644.25	1,121.06	41.70	27.50	30.80
Tue Aug 3, 2010	10,636.38	1,120.46	38.90	33.30	27.80
Tue Jul 27, 2010	10,537.69	1,113.84	38.20	34.90	26.90
Tue Jul 20, 2010	10,229.96	1,083.48	35.60	35.60	28.80
Tue Jul 13, 2010	10,363.02	1,095.34	32.60	34.80	32.60
Tue Jul 6, 2010	9,743.62	1,028.06	37.00	34.80	28.20
Tue Jun 29, 2010	9,870.30	1,041.24	41.10	33.30	25.60
Tue Jun 22, 2010	10,293.52	1,095.31	41.10	31.10	27.80
Tue Jun 15, 2010	10,404.77	1,115.23	37.00	32.60	30.40
Tue Jun 8, 2010	9,939.98	1,062.00	38.50	31.90	29.60
Tue Jun 1, 2010	10,024.02	1,070.71	39.80	28.40	31.80

Tue May 25, 2010	10,043.75	1,074.03	39.30	29.20	31.50
Tue May 18, 2010	10,510.95	1,120.80	43.80	24.70	31.50