US Market Timing

Advisors Sentiment

6 April 2011 By Mike Burke & John Gray

Overview

The market rally continued with the DJ Industrials and most small stock averages achieving new highs since mid-2008. There were also a few all-time record highs. That action in the face of still ongoing negative news from around the world was certainly impressive and it reinforced the perception that US stocks were still offering value. That was also shown by more takeover announcements and anticipation building for earning's season, which begins next Monday.

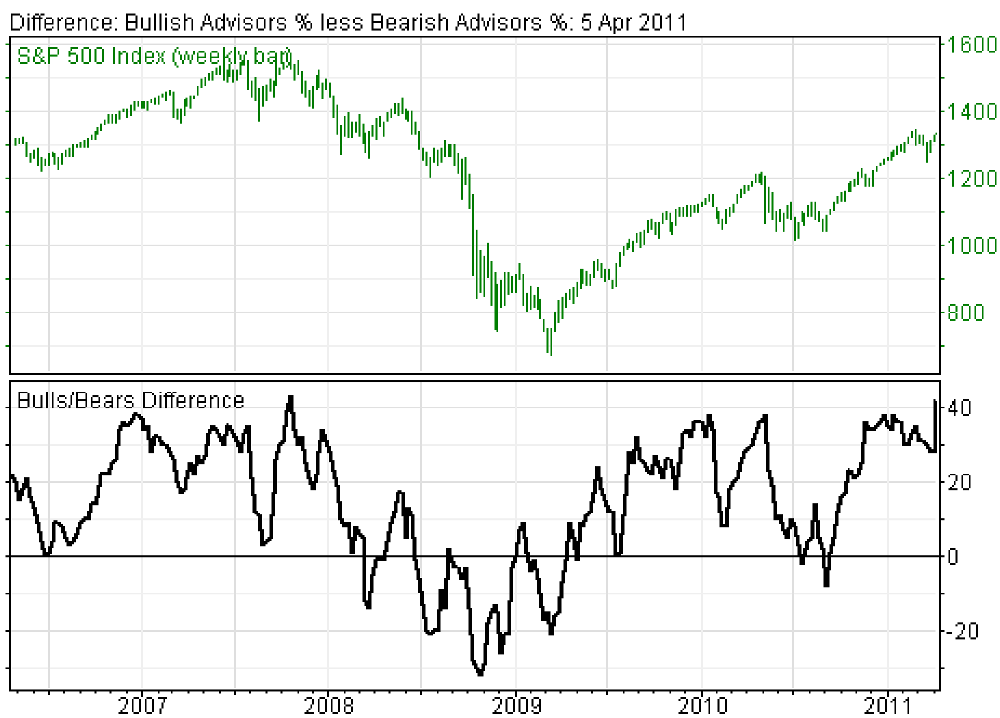
A week ago we noted the speed of the move from the March lows didn't allow for much reaction from the advisors. However, another week of markets moving higher was clearly enough for many newsletter editors to make a shift. We noted a sharp jump in advisor optimism and an even larger move down for the bears.

The **bulls** moved up to **57.3%** from 51.6% last week and their recent low at 50.6% just prior to that. The new increase in bullishness is not a good sign as it signals more funds moving off the sidelines and into stocks. This is the most bulls since mid-December when we counted 58.8%. At the end of last August's market lows the bulls were as few as 29.4%, suggesting a time to buy. The latest reading suggests increased danger. At the October 2007 top the bulls were 62.0%.

After a 7.4% drop the **bears** were down to **15.7**%. They were 23.1% a week ago. The current negative reading below 20% is a low since mid-December 2009 when they were 15.6%. Low levels for the bears say there is not much cash left on the sidelines.

The remaining advisors, classified as **correction,** rose to **27.0%** from 25.3% last week. That category has been in a tight 5% range for the past 8-weeks, at fairly high levels. Some nervous bulls have shifted back and forth into this camp, avoiding outright negative projections.

The **difference** between the bulls and bears jumped to +**41.6%,** a negative level. Last week it was +28.5% and contracting in the right direction for more stock gains. This latest reading is close to the +42.4% spread that accompanied the all-time market peak from October 2007. This is bearish.



Bullish Themes

“The S&P 500 has recouped some of its losses after undergoing a sell off on social unrest in the Middle East/North Africa and the Japanese natural disaster. While momentum measures have rolled over – especially in the short term – the index remains well above important support levels, which reinforces a positive outlook for equities.
Other technical measures on US stocks have also receded from over extended levels. Sentiment and breadth have retreated from extreme highs, indicating that some of the excess in the market has been eliminated. Stocks are now less overbought, which is an encouraging development for this asset class going forward.
The downdraft in Japanese equities on the back of the earthquake has been overdone. The Nikkei has since rebounded, but has plenty of room to move up further, especially as Japanese currency is not expected to act as a major deterrent to its performance.
There are many headwinds for European stocks, including a hawkish central bank, a strong currency and ongoing uncertainty surrounding the stability of Euro area peripheral countries. Despite these negatives, attractive valuations argue against a very bearish stance.” (April 2011)

Martin H. Barnes' The Bank Credit Analyst, Sherbrooke St W, Montreal, QC, Canada www.bcaresearch.com

“In less than a month the DJIA dropped 6.8% as it broke below its 100-day Moving Average on Wednesday, 16-Mar. Now, a mere eight days later, the DJIA is back at 12,220, only 171 points from 18-Feb's 12,191 two-year high The market's turn saw good volume, but the rally has seen light volume since, but impressive moves. The S&P 500 fell 6.4% only to reverse. With a number of major problems the fact that stocks could rally is impressive and suggests that this major two-year bull market is not finished yet. We had Japan, Libya, Egypt, Ivory Coast, Yemen, Bahrain and Portugal to worry about but stocks kept climbing. The first half of April is normally weak, but given the impressive strength in the face of all the world's problems anything is possible.” (26-Mar-11)

Bob Jubb's Tomorrow's Stocks, POB 14111 Scottsdale, AZ 85267 (602-996-2908)

“Stocks and investors have proven to be surprisingly resilient despite a litany of alarming events that have triggered global uncertainty. Over the past several months we have witnessed global unrest on a major scale. Conflict in the Middle East, first in Egypt and then Libya, surging oil prices, the Japanese earthquake and tsunami and subsequent nuclear crisis, renewed European debt worries, as well as very disappointing home sales in the US have dampened but not broken investor optimism. The return of skepticism, though might be a good thing as sentiment measures have dipped to more reasonable levels. The latest from Investors Intelligence now as 50.6% of advisors in the bullish camp, down from a high of 58.8% last December, while the American Association of Individual Investors in their weekly poll shows bulls down to 38% versus over 63% in December.” (24-Mar-11)

Dan Sullivan's The Chartist, POB 758, Seal Beach, CA 90740 www.thechartist.com

Bearish Theme

“What if?: The Dow topped out at 12,391.29 on 18-Feb. With the Dow now at 12,220.59, what if it betters the February high? My 25-Mar commentary answered that question. Here is what was said:
‘The Dow rose 50.03 points to the 12220.59 level. The stock market didn't like what it saw on Friday. Support was quickly being removed in the final hour. The high in the Dow was a gain of 89 points, cut back to 50.03 on the close. The pullback for the market (NYSE) was far greater. In less than an hour the NYSE approaching the close fell from 25.39 to 10.17.
The climax indicator fell from +20 to +14 on the higher Dow. That was seen to be a major upside non-confirmation. Of the several recordings of record highs in the number of lower OBV lower up designations which gave me a sell signal on Tuesday, this is seen to be the most valid because it is the ONLY one accompanied by the huge loss of 19 field trends since 18-Feb.
Would my bearish outlook change should the Dow record a new rally high? The answer would be a big NO because I correctly stayed bearish in 2007 as the Dow was still rising while many stocks were declining. I am doing now precisely what I did in 2007, shorting selected stocks based on their bearish chart signals. Being in late March at this writing, should there be any breakout above the 18-Feb Dow high it would soon thereafter encounter its low in April.” (31-Mar-11)

Joseph E. Granville's The Granville Market Letter, POB 413006, Kansas City, MO 64141 www.granvilleletter.com

Newsletter Extracts

A Bull Surviving (Nay, Thriving) on Headwinds
Intelligent Value | *Christopher Michaels, Editor* | 1630 30th St, #115, Boulder, CO 80301 www.intelligentvalue.com

A strong bullish case can be made for stocks at this point. In the last two weeks, stocks reversed course from what looked to be a major sell-off, then shot higher with amazing authority in the face of almost unprecedented worldwide problems. If ever there was a case for the old saw about propensity to climb a 'wall of worry,' this is it. Let's look at both the headwinds and tailwinds that are affecting stocks today.

For starters, according to Dow Theory adherents, investors received an intraday classic Dow Theory MARKET UP signal: the Dow Jones Industrials hit a new 52-week high at same time as Dow Transports on Friday. In addition, small cap stocks (RUT) and Nasdaq are also hitting new 52-week highs.

Now, just to be clear, this isn't a Dow Theory Advisory newsletter, but my understanding of Dow Theory is that the Indices must CLOSE above the previous highs in order to confirm a Dow Theory Buy Signal. In late afternoon on Friday, It appeared that those closing highs would be achieved. The Dow Jones Industrial Average was hitting 12,377 and the Dow Transportation Average was hitting 5,370.

The 100+ year-old Dow Theory is the oldest stock market-timing system that is still in widespread use today. The Dow Theory was formulated from a series of Wall Street Journal editorials authored by Charles H. Dow from 1900 until the time of his death in 1902.

Because of his death, Dow never published his complete theory on the markets, but several followers and associates have published works that have expanded on the editorials. Dow first used his theory to create the Dow Jones Industrial Average and the Dow Jones Transportation Average. Much of what we know today in technical analysis can be traced back to the Dow Theory.

According to an article by Mark Hulbert, Dow Theorists focus particular attention on how these two benchmarks behave after market corrections, such as the one we witnessed In March. It's considered a bearish omen if either or both fail to surpass their pre-correction highs, and it's an all-clear signal when both eclipse their respective highs.

The Dow Transportation Index has already signaled an 'all-clear' with a close at 5,370 on Friday. However, traders sold off the Dow Industrials late Friday Afternoon, to close out that index at 12,377, not quite surpassing the pre-correction high of 12,391 on February 18. This was the DJIA's third attempt to close the day with a higher high than the last pre-correction high - not a good sign. [Ed. Note: that new closing high was shown 4-Apr]

However, there are other signs of all shapes and sizes that indicate that the bull market is still live and kicking, In case no one noticed, the stock market has shrugged off an incredible amount of bad news in the last two weeks, all the while making a steady climb higher:

• This bad news included the Japanese earthquake, tsunami, and nuclear-core meltdown, all of which have taken thousands of lives and which threaten supply chains across the world, not to mention cutting the key, third-largest economy down by one-half to two-thirds of its' former levels for the foreseeable future.
• Middle East protests, rebellion and violence continues, led off by Moammar Gadhafi's attacks on insurgents and everyday citizens using powerful military equipment including helicopter gunships and fighter jets. As a result of fighting all across the Middle East, oil prices hit $108/barrel, with a strong likelihood that we will see higher oil prices before we see lower prices.
• Crude oil closed at a 30-month high, yet the $20 increase has done little to slow down the economy.
• The European debt crisis has once again come to the forefront of investor's attention with more than one country threatening insolvency.

In the face of these natural disasters and political crisis, during the first two weeks of March, wary investors gravitated to safe assets such as bonds, commodities, and even cash - but away from riskier assets such as stocks. But savvy investors bought the dip. In fact, companies that track such things show that the top hedge funds also bought the dip in mid-March.

The Positive News

• The Dow Jones Industrial Average kicked off a new quarter by touching the highest point since the summer of 2008, as investors were heartened by signs of stronger job creation in the U.S. and the lowest unemployment rate in two years.
• It was the strongest quarter in several decades, finishing with a week of strong volume.
• There was another major takeover story with Canadian drug maker Valent offering $5.7 billion for Cephalon causing strong gains in the biotech sector. There was also a very successful IPO from a Chinese internet stock. Taken together that shows US stocks still trade at levels not reflecting their current earnings potential and that there is a demand to Increase ownership of growing companies.
• March private sector jobs added = 230,000 - but there was a a very Impressive number of 150,000 teacher layoffs in the last year.
• In addition to Oracle's strong earnings beat, the government revised the latest GDP growth report to the upside. The US remains on a steady expansion track and if energy costs don't increase any further it should continue.” (4-Apr-11)

Japan's Earthquake Reveals Fault Lines Here, Too
Profitable Investing | *Richard E. Band, Editor* | 9201 Corporate Blvd, Rockville, MD 20850 www.rband.com

By now, the human dimensions of the Japanese tragedy are becoming horrifyingly clear. Americans (including, I know, many of my subscribers) are rising to the occasion and offering help.

Yet the long-term economic impact of the earthquake/tsunami is still unclear, and may remain uncertain for a number of weeks. What do we know for sure right now?

On the positive side of the ledger, we know that the two hardest-hit prefectures account for only about 2.5% of Japan's GDP. In the 1995 Kobe earthquake, the damaged area represented 12.4 % of the country's GDP. So Japan's total economic output ought to recover more quickly this time to pre-quake levels perhaps as soon as the third quarter of this year, when reconstruction should be in full swing.

Furthermore, we know that Japan, as a whole, accounts for only 8.7% of global GDP. Thus, simple arithmetic suggests this incident is unlikely to push the world economy over a cliff. If the history of past earthquakes (including Kobe) is any guide, the Japanese stock market may struggle a while longer. However, the underlying bullish trend in the rest of the world should soon reassert itself.

You're Looking Older, Dear “

It may sound as if I'm whistling Pollyanna's tune, but I'm not. Truth is, our own two-year bull market on the NYSE was showing signs of age even before the news from Japan broke. Here are some of the clues I've detected in the past few weeks:

• Fewer stocks are participating on the upside. Back in the fall of 2009, during the market's explosive kickoff phase, more than 90% of NYSE common stocks climbed above their 50-day average price: (In other words, "everything" was going up.) More recently, at the February top, fewer than 80% of individual Big Board issues were trending upward.

Now, of course, with the market crack, this number has plummeted, to as low as 31 % on March 16. A near-term bounce is under way. Even so, should the blue chip indexes march to a new peak with only 70%-80% of the rank-and-file joining in, it would be a serious warning.

• Valuations are getting stretched. Last month, I showed you a chart of the Q Ratio, which reveals that US corporations are trading at a higher premium to the replacement value of their assets than at any time in the past 110 years (except for a brief period at the end of the Internet bubble). Other value benchmarks are overextended, too. Example: Despite a wave of dividend increases, the yield on the S&P 500 index fell to a meager 1.86% in early March. That's an eyelash away from the 1.76% dividend yield that prevailed at the major market top in October 2007. We all know what happened next!

34 Big Names to Sell

We're long past the point in the current market cycle when the great majority of stocks rated a buy. Many, in fact, are now overvalued. H you own any of the following big names (all members of the S&P 500 index), sell them on the next rally back to 1300 on the S&P. They've gotten too expensive, as measured by their earnings prospects for 2011 and beyond.

Altera	Nvidia
Autodesk	Pall Corp.
AutoNation	Public Storage
Capital One Financial	(common)
Carmax	Rockwell Automation
Conoco Phillips	Ross Stores
Discover Financial	Rowan Companies~
El Paso Corp.	Sealed Air
Equity Residential	Stericycle
Family Dollar Stores	Sunoco
J.C. Penney	Sun Trust
Juniper Networks	Tesoro
Kimco Realty	Texas Instruments
Marathon Oil	Valero Energy
Massey Energy	Vornado Realty
Murphy Oil	Weyerhaeuser
Netflix	Wynn Resorts
Novellus Systems	

Insiders and other knowledgeable investors are bailing out. Corporate officers and directors know more about their companies' business than any outside analyst. During one week in February, near the most recent interim market peak, insiders of NYSE- and ASE-listed firms placed 10.5 sell orders for every buy order in their companies' shares. In my 30-odd years as an insider sleuth, I've never seen a figure that high.

I also note that Carl Icahn, an extremely savvy market operator, is returning all the money ($1.8 billion) public investors have entrusted to his hedge fund. In a remarkably frank 8-Mar letter, Icahn• said: "I do not wish to be responsible to limited partners through another possible market crisis."

Big-money types like Icahn and corporate CEOs generally begin to sell in earnest well ahead of a major top. (They've got a lot of merchandise to unload.) So I think the final peak in this bull market is still at least four to six months away; and may not come until 2012.

But the party is slowly winding down. Before the punch bowl drains completely, you and I will want to move gradually into a more defensive position. " (April 2011)

Advisors Sentiment Table

Date	DJIA	S&P 500	Bullish Advisors %	Bearish Advisors %	Correction Advisors %
Tue Apr 5, 2011	12,400.03	1,332.87	57.30	15.70	27.00
Tue Mar 29, 2011	12,279.00	1,319.44	51.60	23.10	25.30
Tue Mar 22, 2011	12,018.63	1,293.77	50.60	22.40	27.00
Tue Mar 15, 2011	11,855.42	1,281.87	52.20	22.30	25.50
Tue Mar 8, 2011	12,214.38	1,321.82	52.20	21.10	26.70
Tue Mar 1, 2011	12,058.02	1,306.33	50.60	19.50	29.90

Tue Feb 22, 2011	12,212.79	1,315.44	53.30	18.90	27.80
Tue Feb 15, 2011	12,226.64	1,328.01	52.20	19.60	28.20
Tue Feb 8, 2011	12,233.15	1,324.57	53.40	23.30	23.30
Tue Feb 1, 2011	12,040.16	1,307.59	52.70	22.00	25.30
Tue Jan 25, 2011	11,977.19	1,291.18	55.10	19.10	25.80
Tue Jan 18, 2011	11,837.93	1,295.02	56.00	20.90	23.10
Tue Jan 11, 2011	11,671.88	1,274.48	57.30	19.10	23.60
Tue Jan 4, 2011	11,691.18	1,270.20	54.50	20.50	25.00
Tue Dec 28, 2010	11,575.54	1,258.51	55.60	20.00	24.40
Tue Dec 21, 2010	11,533.16	1,254.60	58.80	20.60	20.60
Tue Dec 14, 2010	11,476.54	1,241.59	56.80	20.50	22.70
Tue Dec 7, 2010	11,359.16	1,223.75	56.20	21.30	22.50
Tue Nov 30, 2010	11,006.02	1,180.55	55.40	21.80	22.80
Tue Nov 23, 2010	11,036.37	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	11,346.75	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