

MARKET STRATEGIES AND INSIGHTS

...for Sophisticated Institutional Investors

July 26, 2012

THE MOST MEANINGFUL SENTIMENT POINT?

Two weeks ago, I published a nine-page comment entitled "Think Of The Risk - Please". It was atypically - and very deliberately - unhedged, blunt and one-sided (which is usually a big no-no for market strategists), since it was intended to encourage discussion of what I think is the "good possibility - not 100%, but not zero either - that the S&P will trade both below 1100 and below 1000 before it makes its next Four-Year Cycle bottom that's due in the first half of next year." My goal with the commentary was to get "investors of all shapes and sizes" to at least consider this possibility- and do so very, very carefully.

Two former Putnam colleagues, who wound up at very senior investment positions at other firms before they retired, quickly sent me congratulatory e-mails that said "very well done". Interestingly, I later sent the comment to a well-known financial columnist and three influential bloggers, in my ongoing attempts to generate some publicity for "Deemer On Technical Analysis", but despite its atypically-blunt content I got no response whatsoever from them. I also got no responses from any of my clients. The report, in other words, went over like a lead balloon-- other than with retired very senior investment people.

That may be the only sentiment data point that's meaningful here.

(When I was at Putnam and made a forceful recommendation to buy or sell, if the money managers then jumped up, started cheering, and carried me on their shoulders as they ran to the trading department, orders in hand, I would go back to my office and wonder where I had gone wrong. But if they looked at me as if I had just arrived from another planet, I was pretty confident that I was right.)

The Market Now. We are in Year Four of the Four-Year Cycle when bad things (and, sometimes, very bad things) traditionally occur. A failure by this latest rally to get

through 1375 would indicate a further loss of momentum, while a close below 1325 would have negative short-term implications (especially if the financial sector turns relatively weak in the process). A close below 1266, meanwhile, would have at least intermediate-term consequences.

The uptrend of the past few years is giving way only very reluctantly, as is almost always the case in uptrends of this magnitude, and the fact that our economy is relatively stronger than other global economies is undoubtedly a big factor in this. Whatever may happen over the short-term, though, long-term risks are unacceptably high.

Fidelity Sector Funds. 54% positive vs. 85%. Switching program holdings: #1 Biotechnology, #2 Consumer Finance and #5 Banking; Utilities fell below the S&P this week so was sold and replaced by Consumer Finance.

-- Walter Deemer

FIDELITY SECTOR FUND	PRICES (in cents)				R/C	DTR		STRENGTH		RATINGS	
	Jul 25	Jul 18	Jul 11	Jul 4		Jul 25	Jul 18	Jul 11	Jul 4	Jun 27	
Biotech	10578	10913	10534	10826	-33	165	198	164	174	154	
Consumer Finance	1318	1342	1317	1343	-18	81	99	79	80	40	
Multimedia	5022	5122	4983	5146	-31	80	110	81	97	62	
Banking	1854	1909	1862	1891	-21	75	95	74	68	26	
Consumer Stpls	7787	7981	7815	7911	-34	55	89	70	66	14	
Pharmaceutical	1465	1510	1464	1491	-39	54	93	66	71	42	
Telecommun	4704	4904	4820	4849	-48	51	99	86	82	40	
Chemicals	10750	11019	10675	10989	-32	45	78	55	67	9	
Healthcare	13224	13741	13418	13624	-46	45	90	73	72	55	
* * S&P 500	137278	137278	134145	137402	-5	44	49	25	35	-4	
Constr/Hous'g	4075	4172	4118	4208	-27	44	71	70	60	8	
Utilities	5668	5748	5672	5724	-32	40	72	64	70	49	
Financial	5550	5686	5579	5719	-29	40	70	35	38	-13	
Natural Gas	3013	3033	2933	3028	-14	23	37	0	18	-68	
Medical Equip	2680	2777	2759	2827	-38	20	58	53	47	15	
Retailing	5874	5995	5933	5968	-31	19	50	36	6	-16	
Consumer Discr	2566	2646	2597	2634	-35	12	47	31	25	9	
Broker/Invest	4288	4420	4353	4481	-37	12	49	29	22	-29	
Insurance	4680	4828	4753	4850	-45	7	52	33	30	-14	
Materials	6414	6570	6394	6640	-35	6	41	19	39	-26	
Software	8000	8216	8011	8435	-36	3	39	-23	13	-28	
Energy	4736	4850	4680	4823	-29	0	29	-17	-3	-102	
* * T Bills	1984	1984	1984	1984	0	0	0	0	0	0	
Wireless	726	742	731	753	-32	-3	29	11	24	-23	
Indust Equip	3295	3371	3270	3418	-20	-3	17	-16	9	-42	
Energy Serv	6191	6251	6007	6174	-2	-7	-4	-52	-36	-151	
Industrials	2271	2333	2266	2367	-25	-8	18	-13	19	-34	
Airlines	3652	3832	3815	3867	-47	-9	39	42	37	13	
Defense/Aero	7901	8110	7890	8219	-28	-10	18	-11	17	-30	
Technology	9358	9555	9398	9871	-26	-10	16	-12	19	-26	
Transport'n	4980	5251	5241	5309	-54	-11	43	45	38	5	
Computers	5910	6065	5940	6227	-32	-11	21	-9	17	-45	
IT Services	2236	2333	2269	2386	-46	-15	32	-8	30	-11	
Environmental	1483	1535	1499	1548	-36	-23	13	-16	-1	-56	
Nat Resource	2932	2997	2903	3018	-28	-23	4	-36	-11	-114	
** Emerging Mkts	3760	3881	3840	3991	-38	-32	6	-3	6	-80	
Medical Del	5715	6118	6021	6018	-82	-38	44	37	23	32	
Electronics	4450	4463	4375	4706	-15	-51	-36	-57	-24	-79	
Leisure	9673	10297	10151	10293	-59	-68	-9	-11	-9	-24	
Automotive	3019	3232	3193	3337	-62	-91	-29	-42	-30	-73	
Comm Equip	1959	1978	1948	2078	-22	-103	-81	-106	-68	-126	
Gold	3404	3339	3418	3723	-8	-131	-123	-98	0	-95	