

MARKET STRATEGIES AND INSIGHTS

...for Sophisticated Institutional Investors

September 9, 2012

WAITING FOR NOTIFICATION

Last week, I listed a rather remarkable list of divergences and non-confirmations in the stock market, each one signaling that caution needed to be exercised. The market promptly responded by thumbing its nose at the divergences and rallying to a four-year high – reminding us yet again of legendary analyst Stan Berge's oft-stated comment that as far as the stock market is concerned, "We are dealing with probabilities – not certainties."

The warning flags are still flying, but given the market's response to them last week we must now wait for it to tell us that it's responding to them. This notification will come via three things (probably in this order):

- 1) Two consecutive closes below the short-term trend-defining 13-day moving average, which is currently 1413 and rising four points a day.
- 2) A close below the recent series of short-term lows in the 1395-1396 area.
- 3) A 90% downside day.

As I concluded last time, though, whatever may or may not happen over the short-term, long-term risks are unacceptably high in this, the fourth year of the Four-Year Cycle (when Central Bank action can only postpone, not cancel, the day of reckoning).

Fidelity Sector Funds. 87% positive vs. 92%. Switching program holdings: #5 Consumer Finance, #8 Biotechnology and #18 Banking.

The Election According To Intrade. The probability that Obama will be re-elected: 58.0%, up 0.3% from last week. The probability that he will carry some key states: Florida, 45.0%, down 3.0% from last week, and Ohio, 60.1%, up 3.1% from last week.

-- *Walter Deemer*

FIDELITY SECTOR FUND	PRICES (in cents)				R/C	DTR		STRENGTH		RATINGS	
	Sep 5	Aug 29	Aug 22	Aug 15		Sep 5	Aug 29	Aug 22	Aug 15	Aug 8	
Multimedia	5409	5380	5369	5372	-17	98	115	92	111	112	
Telecommun	5076	5049	5013	5123	-11	82	92	82	112	92	
Constr/Hous'g	4389	4398	4380	4278	-13	79	91	68	60	38	
Technology	10318	10392	10358	10114	-21	75	96	70	61	33	
Consumer Finance	1384	1386	1378	1371	-21	72	93	79	83	74	
Retailing	6256	6266	6194	6092	-14	71	86	57	53	27	
Wireless	789	799	754	805	-25	69	94	18	97	65	
Biotech	10952	10834	10670	10713	-14	68	82	58	89	87	
Software	8674	8681	8640	8537	-17	62	79	50	57	27	
Insurance	5037	4990	5021	4966	-1	57	58	50	56	39	
Consumer Stpls	8059	8043	8039	8076	-13	56	69	57	82	84	
Healthcare	14053	13907	13739	13736	-1	56	57	38	50	30	
Computers	6436	6512	6527	6396	-30	53	83	63	68	48	
Pharmaceutical	1525	1506	1499	1515	-5	53	58	41	65	52	
Gold	3841	3767	3840	3589	35	51	16	23	-35	-93	
IT Services	2420	2410	2405	2398	-8	49	58	33	60	35	
Energy Serv	6723	6768	6873	6777	-31	45	76	84	112	62	
Banking	1926	1935	1924	1914	-25	44	69	52	61	50	
Consumer Discr	2711	2711	2697	2678	-17	41	57	40	44	26	
Broker/Invest	4608	4607	4616	4567	-15	39	54	42	54	29	
* * S&P 500	140344	141049	141349	140553	-21	38	59	48	56	38	
Comm Equip	2176	2230	2213	2155	-38	37	76	31	8	-29	
Financial	5829	5813	5817	5758	-14	34	48	36	51	36	
Chemicals	11225	11258	11446	11316	-24	31	56	68	69	54	
Materials	6800	6816	6932	6812	-19	31	50	54	48	29	
Energy	5042	5085	5137	5112	-33	29	61	55	79	47	
Nat Resource	3150	3171	3215	3178	-28	24	52	50	66	29	
Industrials	2405	2430	2445	2426	-29	19	49	36	50	25	
Natural Gas	3093	3122	3156	3147	-33	19	52	47	69	54	
Medical Equip	2787	2770	2748	2777	4	19	14	-5	25	4	
Utilities	5629	5653	5690	5747	-14	18	31	31	50	47	
Environmental	1574	1589	1607	1592	-24	13	37	35	43	20	
Indust Equip	3468	3512	3536	3510	-35	11	46	32	44	21	
Medical Del	6030	6020	5955	5691	-4	5	9	1	-54	-34	
Defense/Aero	8191	8231	8282	8190	-21	3	24	12	18	-7	
* * T Bills	1985	1985	1985	1985	0	0	0	0	0	0	
Automotive	3337	3368	3406	3337	-24	-12	12	3	1	-36	
Electronics	4631	4742	4769	4807	-40	-13	28	-6	26	-12	
** Emerging Mkts	3886	3937	4041	4030	-23	-19	4	10	31	4	
Leisure	10100	10122	10075	9892	-14	-28	-14	-24	-39	-74	
Transport'n	5003	5080	5203	5171	-16	-42	-26	-8	8	-19	
Airlines	3662	3677	3765	3710	-10	-43	-32	-14	-8	-22	