US Market Timing

Advisors Sentiment

13 March 2013 By John Gray

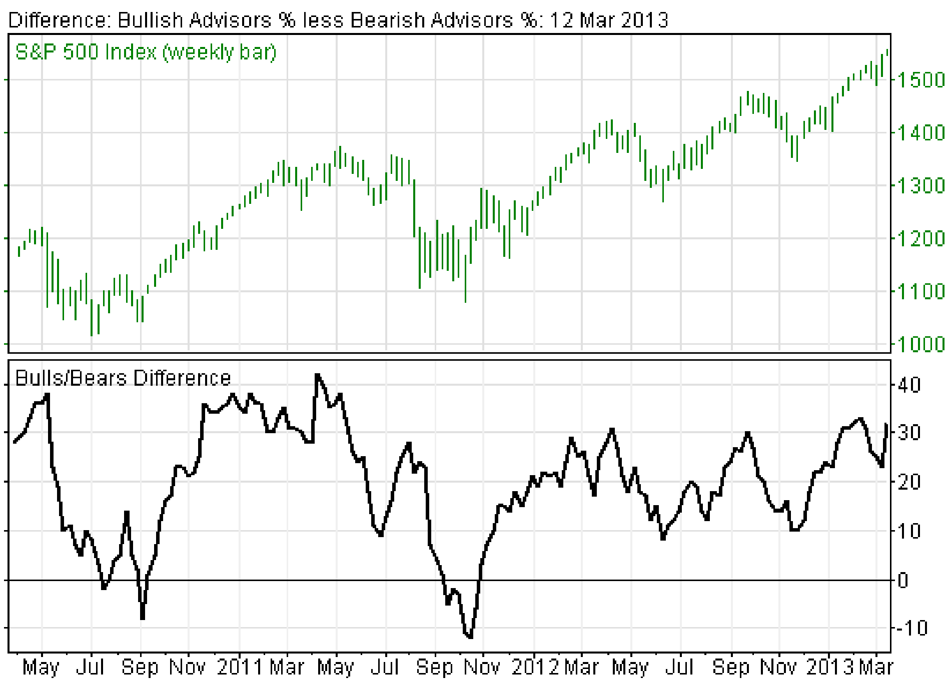
Overview

Averages rallied steadily last week, ending with gains of 2.2%-3.0%. Many also set new highs including an all time record for the DJI and most small-stock indexes. There was also new indicator strength and the combined strong action caused a large jump for the bulls as some editors ended their immediate expectations for a market retreat. Those shifts follow the sentiment readings from early 2012 which did end with a 10% correct to June lows.

There was a large jump in the **bulls** to **50.0%**, up from 44.2% last week. That ends four weeks of lower readings which showed a greater than10% drop from their initial Feb high at 54.7%. That was when the DJ I hit 14,000 for the first time this year. Mid-Feb 2012 had almost the same bullish level at 54.8% and the reading also contracted just over 10% over the next month before rebounding to 52.7% at the end of Mar-12. Indexes also advanced modestly over that period, exceeding their earlier highs. If the same scenario follows the current move, the bulls will near their recent high and then stage a large decline. At the lows last year the bulls were down to 34.0%. That set up a great buying chance.

The **bears** fell to **18.8%** with their largest weekly change in ten months. They were 21.1% last issue and that same level for four of the five prior weeks. A modest group of advisors has remained steady since last summer, not convinced by the Fed inspired rally. Now some are finally throwing in the towel and suggesting at least some modest buying. The late great Marty Zweig's adage of ‘don't fight the Fed' would certainly have help shift them earlier if they had paid heed.

Some of the advisors calling for a **correction** also recognized that action was at least postponed. That dropped their number to **31.2%,** from 34.7% a week ago. That lack of market progress during most of Feb increased the correction reading more than 10%, with many editors noting that the markets were seriously overbought and due for some relief. There was a quick modest pullback of barely 3% to end that month, which failed to fulfill their downside expectations. Now the strong new highs show them shifting bullish, so the long awaited market retreat may finally occur over the coming weeks.



The **spread** between the bulls and bears expanded to **31.2%,** from 23.1% a week ago. The **difference** is back up into the dangerous territory around 30%, and higher, after three weeks below. A year ago there was also a backing off from the initial wide spread mid-Feb-12 and then a slightly larger difference last March. That led to the market retreat and a difference of only 7.4% last June. Low ‘positive' readings often coincide with correction bottoms while large market declines see more bears than bulls (a negative spread) for even better buying opportunities.

Bullish Themes

“The stock market remains within the reasonable bounds of its historic valuation range as March commences. Although the growth rate of corporate earnings remains gradual, the market's valuation level is not excessive based on comparisons with past experience. The 50-year average price/earnings (P/E) ratio stands at 16 times earnings. The 10-year average P/E ratio is 16.1, and the 5-year average is 15.6. Based on our 2013 S&P 500 operating earnings estimate of $105, the S&P 500 Index closed at 14.4 times earnings at the end of February. Valuations benefit from low levels of inflation and interest rates. This is a much more reasonable valuation picture than we saw in Jan-2000 (pe 20.2X). (5-Mar-13)

Bob Brinker's Marketimer, Littleton, CO www.bobbrinker.com

“The best strategy for these times is simple; make hay while the sun shines by buying stocks that are going up. But there are few signs that the bull market is maturing, and we want to mention them here, because it is important to have an idea where we are in the market cycle. First is the very black-and-white fact that we saw the number of stocks on the NYSE hitting new 52-week lows exceed 40 on three of the last 10 trading days. The first occasion came only two days after the market hit a

high two weeks ago and that was worrisome, a clear sign of internal weakness. A few days later, interestingly, at the correction bottom, the news lows had shrunk. The second and third days when new lows exceeded 49 came as the market was climbing back and heading to record highs. And that's not ideal behavior either.
Technically, therefore, we are leaving the environment that we call a 'robust' market and entering the environment we call a 'healthy' market. This is still a fine environment for investing but its characterized by narrowing market breadth. Having recognized this, the prescription is simple; Focus more than ever on leading stocks while working to jettison stocks that are losing vigor." (6-Mar-013)

Michael Cintolo's Cabot Market Letter, Salem MA www.cabot.net

Correction Theme

"The Dow Jones traded and closed in uncharted territory this week, ending today at 14,296. The S&P500 is a mere 24 points away from its all-time high of 1565 in 2007. Although the Nikkei index, which is Japan's stock market gauge, would need to gain 50% from its current levels to reach its 2007 levels, it has jumped over 30% in just the last three months. It led the way again this week, climbing more than 3%.
Several indicators are flashing warning signs that there is not much more room for stocks to move higher. The risk of investing now far outweighs the potential for return throughout the summer. We recommend close stops and quick exit strategies as the market right now is akin to being led like a bull with a ring in its nose by the governments and central banks." (7-Mar-13)

Harland Hendrickson's Market Trend Follower, Edmonton, AB Canada www.markettrendfollower.com

Bearish Theme

"Recommended allocations: 10% ELEMENTS Rogers Intl Agriculture ETN (RJA), 5%% iShares FTSE China 25 Index (FXI), 15% PowerShares DB US$ Index Bullish (UUP) and 70% money market (cash).
The majority of the portfolio remains in cash, sheltered from what I suspect is the coming market decline. Our high cash position allows us to allocate to other tactical buying opportunities, and it lets us move unfettered back into stocks one the Fabian Plan receives a much-needed reset. When will that reset occur? Of course, nobody knows for certain but I suspect that the markets can't keep living off the sugar high that is the Federal Reserve and its easy-money transfusion. I think at some point in the near future we are likely to see the market give back most of its 2013 gain." (April 2013)

Doug Fabian's Successful Investing, Costa Mesa, CA www.fabian.com

<u>Newsletter Extracts</u>

Balance Your Portfolio
The Investment Reporter | *MPL Communication* | Toronto, ON Canada   www.investmentreporter.com

"While stock prices are rising, it's important not to get carried away by enthusiasm. As a very experienced investor has told us, as the market rises you need to become more cautious. When the market declines, by contrast, you're likely to find more bargains. That's the time to get most enthusiastic.

The Federal Reserve plans to leave its benchmark interest rate close to zero until the end of 2015. It may also continue to provide monthly 'quantitative easing' until the US unemployment rate falls substantially. This keeps a lid on rates.

We expect some investors to rotate away from utilities. Most pay high dividends to investors who need more income than they can earn from bonds. But investors are becoming more aggressive. And some utilities have become costly. Enbridge Inc (NYSE – ENB), for instance, trades at an unattractive price-to-earnings ratio of 56.2 times.

We're more optimistic about the outlook for financial stocks. We expect battered life insurers Manulife Financial (NYSE – MFC) and Sun Life Financial (NYSE – SLF) to recover.

We're optimistic about consumer stocks. After all, consumer spending is fairly stable, especially for consumer staples. Even indebted consumers need food, drugs and so on. So we've included nine consumer stocks among our market beaters.

We're pessimistic about the outlook for resource stocks. Over the next 180 days we expect commodity prices and sales volumes to remain somewhat low. So will the share prices of producers. Still, our market-beaters now include two key stocks as well as Canadian National Railway (NYSE –CNI) (which carries lots of resources). The long-run outlook for resources is attractive. And it makes sense to gradually buy these stocks when they're cheap. But they'll likely fare poorly over the next 180 days.

We're somewhat optimistic about manufacturing stocks. That's why we've included five manufacturers among our 25 market beaters. By sticking mostly to Key stocks, we expect you to profit in the long run, if not in the short.

It's best to diversify across the five main sectors of the economy: finance, utilities, consumer products and services, manufacturing and resources. Each of these broad sectors is made up of sub-sectors that often have different outlooks.

Below we show our outlook for each sub-sector over the next six to twelve months.

Remember, though, there's danger in loading up on stocks in sectors that we expect to beat the market. That's because investors often bid up the prices of such stocks, making them vulnerable in market setbacks. Stocks in sectors that we expect to underperform, by contrast, often trade at bargain levels. Besides, predictions-including ours-are susceptible to errors. So make sure you own some stocks even in sectors that we expect to lag the market.

Sector	**Sub-sector**	**Outlook**
FINANCIAL	Banks & trusts	Match
	Investment Co's. & funds	Match
	Insurance	Match
UTILITIES	Gas/Electrical	Match
	Pipelines	Underperform
	Telephone	Match
MANUFACTURING	Building materials	Outperform
	Chemicals	Underperfomr
	Fabricating	Match
	Engineering	Match
	Steel-related	Match
	Technology	Outperform
	Transportation	Match
CONSUMER	Communications	Match
	Food, beverage & tobacco	Outperform
	Healthcare	Match
	Merchandising	Underperform
RESOURCES	Gold & precious metals	Underperform
	Oil & gas	Underperform
	Metals & minerals	Underperform
	Paper & forest products	Match."

(8-Mar-13)

Utilities: It's the Economy
Utility Forecaster | *Roger Conrad Editor* | Falls Church, VA 22043 www.UtilityForecaster.com

"Is the bond market a bubble about to burst? That's a fair question to ask when a BB+ bond maturing in 2068 yields less than 4 percent. Dividend-paying stocks, however, haven't exactly tracked interest rates the last five years.

Wall Street conventional wisdom still considers utilities the ultimate rate-sensitive stocks. Yet since early 2008 the Dow Jones Utility Average has moved in lockstep with the S&P 500, rallying when economic news improves, falling when the skies have darkened. That's the polar opposite of bonds' meteoric rise.

Lower bond prices would raise the cost of capital. But their likely trigger-a revived US economy-would also bring opportunity to grow revenue and dividends to more than offset the blow.

Down 20 percent in 12 months, Growth Spotlight Exelon Corp (NYSE: EXC: yield 4.1%) is hardly a bubble. But a more robust US economy would spur wholesale electricity prices and an earnings recovery.

And it would speed Income Spotlight Buckeye Partners LP's (NYSE: BPL: yield 7.8%) return to dividend growth.

Faster economic growth would also catalyze the communications industry. Until it happens, however, risk of dividend cuts will remain elevated. That's why it's so important to watch earnings." (March 2013)

Advisors Sentiment Table

Date	DJIA	S&P 500	Bullish Advisors %	Bearish Advisors %	Correction Advisors %
Tue Mar 12, 2013	14,447.29	1,556.22	50.00	18.80	31.20
Tue Mar 5, 2013	14,253.80	1,539.79	44.20	21.10	34.70
Tue Feb 26, 2013	13,900.10	1,496.94	46.30	21.10	32.60
Tue Feb 19, 2013	14,035.67	1,530.94	48.40	22.10	29.50
Tue Feb 12, 2013	14,018.70	1,519.43	52.60	21.10	26.30
Tue Feb 5, 2013	13,979.30	1,511.29	54.70	21.10	24.20
Tue Jan 29, 2013	13,954.42	1,507.84	54.30	22.30	23.40
Tue Jan 22, 2013	13,712.21	1,492.56	53.20	22.30	24.50

Tue Jan 15, 2013	13,534.89	1,472.34	53.20	22.30	24.50
Tue Jan 8, 2013	13,328.85	1,457.15	51.10	23.40	25.50
Wed Jan 2, 2013	13,412.55	1,462.42	47.80	24.50	27.70
Wed Dec 26, 2012	13,114.59	1,419.83	48.90	24.50	26.60
Tue Dec 18, 2012	13,350.96	1,446.79	46.80	24.50	28.70
Tue Dec 11, 2012	13,248.44	1,427.84	45.70	23.40	30.90
Tue Dec 4, 2012	12,951.78	1,407.05	43.60	25.50	30.90
Tue Nov 27, 2012	12,878.13	1,398.94	39.30	27.70	33.00
Tue Nov 20, 2012	12,788.51	1,387.81	37.20	27.70	35.10
Tue Nov 13, 2012	12,756.18	1,374.53	38.30	28.70	33.00
Tue Nov 6, 2012	13,245.68	1,428.39	43.60	27.70	28.70
Tue Oct 30, 2012	13,107.20	1,411.94	41.50	27.70	30.80
Tue Oct 23, 2012	13,102.53	1,413.11	41.50	27.70	30.80
Tue Oct 16, 2012	13,551.78	1,454.92	42.60	26.60	30.80
Tue Oct 9, 2012	13,473.53	1,441.48	45.70	25.50	28.80
Tue Oct 2, 2012	13,482.36	1,445.75	46.80	25.50	27.70
Tue Sep 25, 2012	13,457.55	1,441.59	51.00	24.50	24.50
Tue Sep 18, 2012	13,564.64	1,459.32	54.20	24.50	21.30
Tue Sep 11, 2012	13,323.36	1,433.56	51.10	25.50	23.40
Tue Sep 4, 2012	13,035.94	1,404.94	51.00	24.50	24.50
Tue Aug 28, 2012	13,102.99	1,409.30	48.90	24.50	26.60
Tue Aug 21, 2012	13,203.58	1,413.17	47.30	24.70	28.00