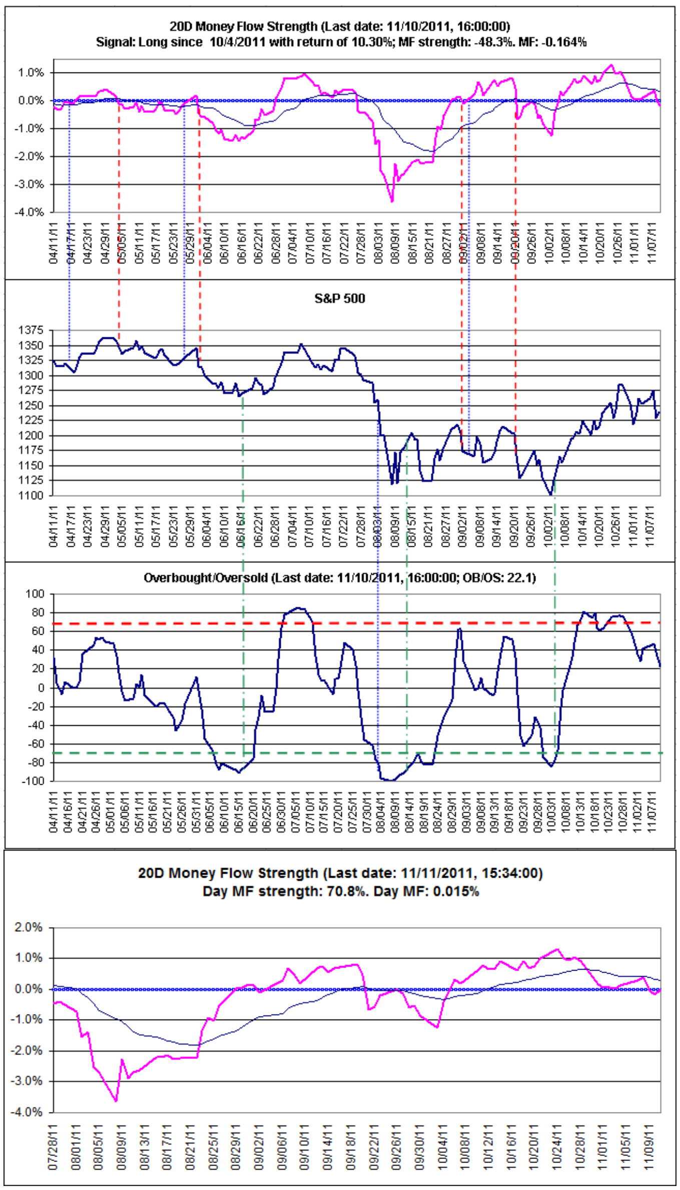
Market Observations: 11/12/2011
By Eric Coleman

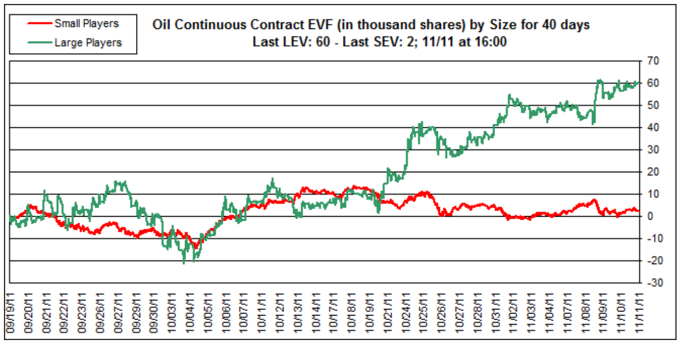
Summary:

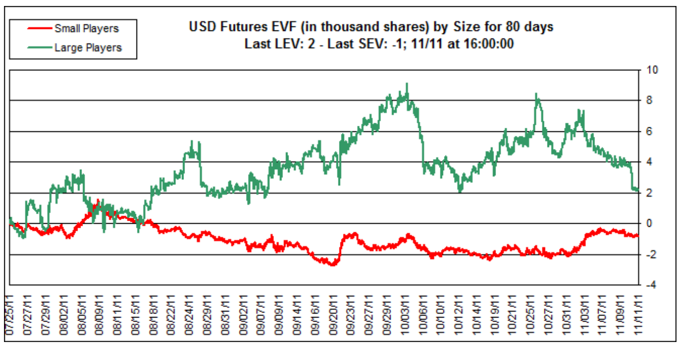
In a quest for simplicity, one observes that the market merely traded within a range last week. One may infer reasons for the day-to-day volatility, which span the gamut of nervousness regarding Euro debt to the implications of rising oil prices. Ultimately, the market demonstrates an unwillingness to break down here . . . 85% of S&P components trade above their 50-day moving averages (*Bespoke*). The 20-Day MF reveals that large players are not running for the exit. And the OB/OS oscillator reveals a market becoming less overbought as we correct through time rather than price. To quote Kevin Marder:

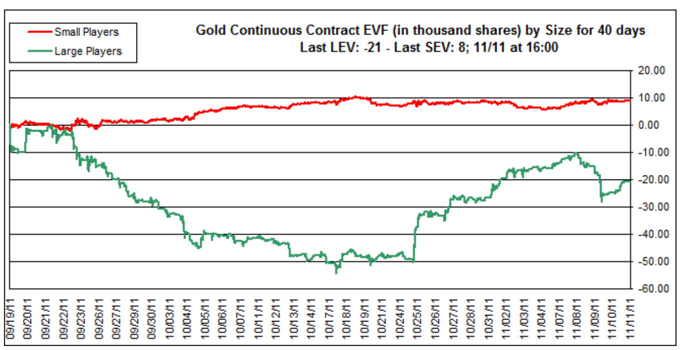
If one were to take a step back, wipe the fundamental backdrop clean with an imaginary wand, and look at shares purely from the standpoint of supply/demand, shares behave normally. Technically, the big picture is that of a market going through a normal digestive process in the wake of an October that by one measure was the most productive in nearly two decades.



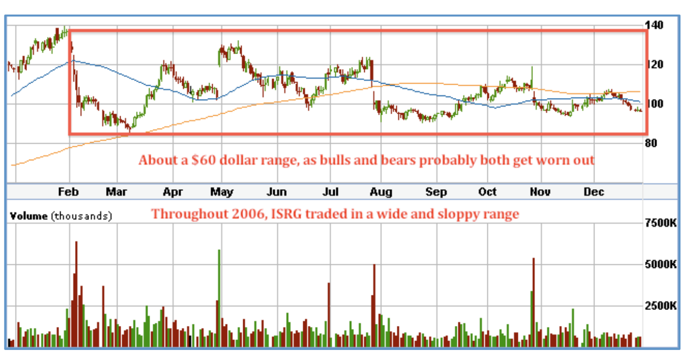
The EV pattern on Crude suggests mounting inflationary concerns. Pascal's daily comment, however, notes that oil sands producers do not confirm the strength – perhaps the strength will be short-lived. The dollar shows selling pressure, and the pullback in gold and silver likely shook out some hot money – that is a good thing for a continued advance in the metals.







Meanwhile, I sense premature anticipation of big stocks like AAPL and AMZN to follow the path of fallen stars like GMCR and NFLX. These must-own stocks may alternatively form wide trading ranges and frustrate bulls and bears alike. In the meantime, other sectors, industries, and stocks may flourish. To illustrate a potential outcome for AMZN or AAPL, I highlight ISRG during 2005:



Once again, I am continually reminded that the market is comprised of participants operating under various strategies, timeframes, and analysis; therefore, it pays to keep an open mind.

Stage Analysis:

Each pullback in the major index ETF's quickly reverts from a late uptrend or neutral setting to a strong mark-up phase. This has been occurring with persistency, and tells me that pullbacks are being viewed as buying opportunities. The Q's presence in the early distribution phase simply describes a neutral setting; cultivating a watch-list of possible longs attracting money remains a prudent strategy.

Daily Stages: 11/12/2011

SPY	Current Stage is 2-1 (Strong Mark-Up) Has been in current stage for 1 day(s)
QQQ	Current Stage is 3-1 (Early Distribution) Has been in current stage for 1 day(s)
DIA	Current Stage is 2-1 (Strong Mark-Up) Has been in current stage for 1 day(s)
IWM	Current Stage is 2-1 (Strong Mark-Up) Has been in current stage for 1 day(s))

The fact that the market pulls back on the daily timeframe should be of no surprise. The weekly stages are not yet aligned to enter the strong markup phase so fake-outs and shakeouts are no doubt the order of the day. A period of price congestion prior to an attack of new highs or the 200-day moving average seems natural. Simultaneously, one sees progress. The Q's have finally entered the early accumulation phase – the longer price holds above the 200-day MA, the more evidence mounts that large players are indeed accumulating for the longer-term. Selective short selling might be prudent in certain issues, but increasingly one might expect that pullbacks will be bought.

Weekly Stages: 11/12/2011

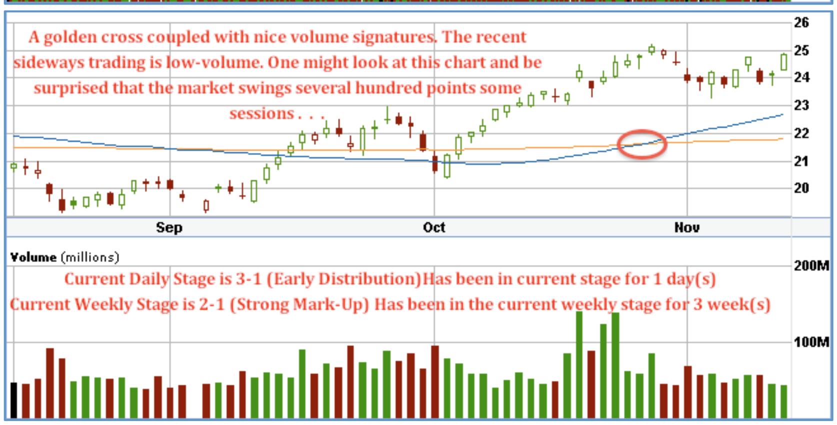
SPY	Current Weekly Stage is 4-3 (Weakening Decline) Has been in the current weekly stage for 4 weeks
QQQ	Current Weekly Stage is 1-1 (Early Accumulation) Has been in the current weekly stage for 1 week
DIA	Current Weekly Stage is 3-3 (Late Distribution) Has been in the current weekly stage for 9 weeks
IWM	Current Weekly Stage is 4-3 (Weakening Decline) Has been in the current weekly stage for 3 weeks

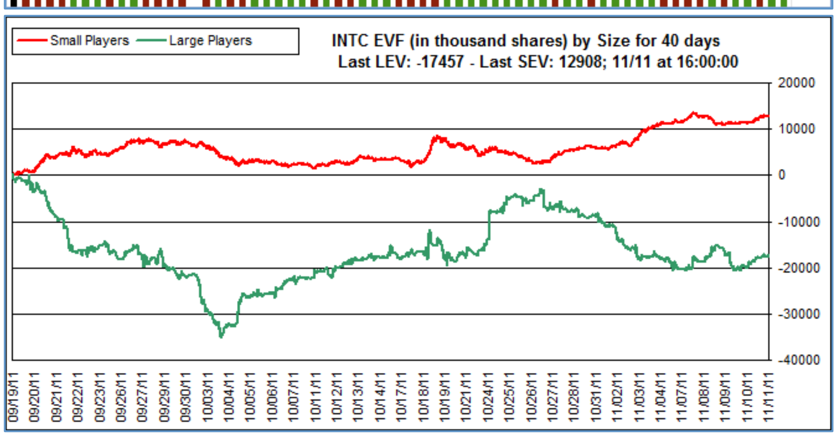
While growth investors may experience temporary disappointment in glamour issues like AAPL and AMZN, value managers may finally be getting their comeuppance, as other large cap tech makes a resurgence. While the heights of the bubble days may never be breached, recent performances in "staid" issues like CSCO and INTC are encouraging. Indeed, "dead" stocks like CAT and DE probably surprised many as they rose from the ashes last decade.

The charts of Intel, Cisco, and Microsoft show that once the 50-day declined below the 200-day during 07/08, there was no turning back for many months – the stocks and market alike. On the contrary, these same stalwart companies are currently exiting corrective phases with the 50-day now rising above the 200-day MA. These issues that pre-led the market to the downside in 2008 could be pre-leading to the upside going into yearend.

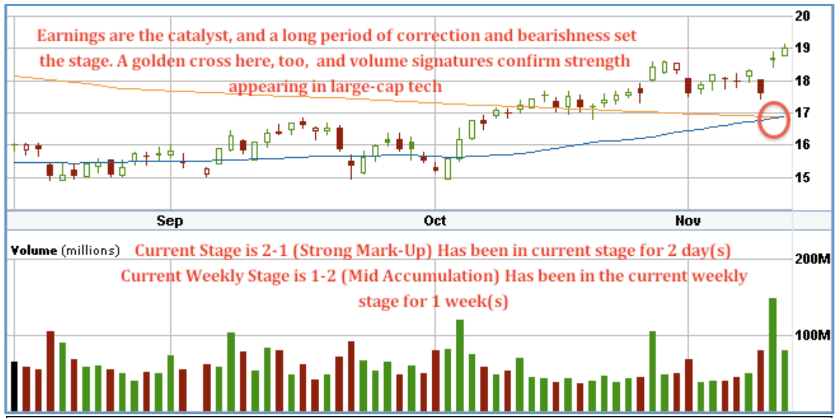
Note the increasingly bullish weekly stage settings for INTC and CSCO . . . (See charts on following pages). I contrast their current trade with their action from late 2007 until the beginning of the 2009 bull. Current trade resembles that of a thrust from a bottom versus a downside thrust from a major top. Given their stature, I think such action is noteworthy and bodes well for the Q's. Note how INTC made a higher low even when the markets pushed into low territory on October 4th. Additionally, CSCO and QCOM also refused new lows.

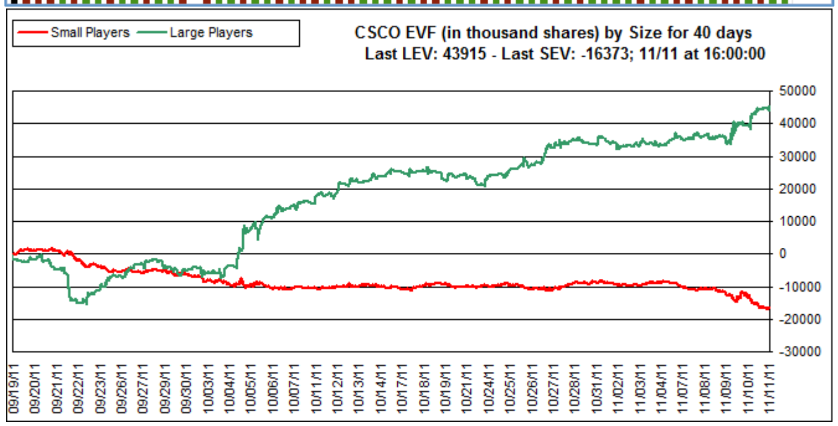
INTC: Intel (07-08/Present/EV)



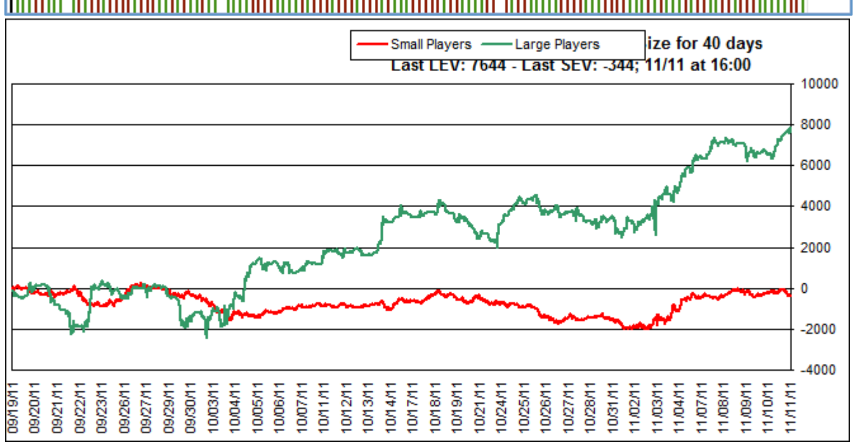


CSCO: Cisco Systems (07-08/Present/EV)





QCOM: Qualcomm (Present/EV)



There was an expansion of stocks in simultaneous weekly and daily strong mark-ups, indicated in the first scan. This suggests that upward participation is steady, if not expanding. One continues to see a presence of weekly strong mark-up stocks that encompass all daily and intraday stages – this week the number increased by 19. Finally, weekly strong decline stocks remain numerous, with an increase of nearly 50 stocks. The bullish implication from so many weekly strong decline stocks is that selling pressure likely remains contained to swift but violent pullbacks. Meanwhile, those pullbacks lay a necessary foundation for a period of accumulation.

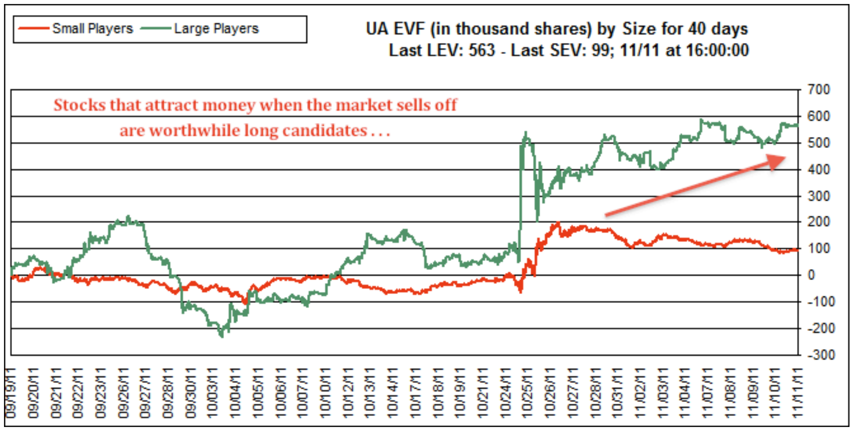
Scan 1: Weekly Strong Mark-Up + (Daily Late Accumulation-Strong Mark-Up)	95 Results
Scan 2: Weekly Strong Mark-Up	172 Results
Scan 3: Weekly Strong Decline	285 Results

A qualitative review of these scans continues to suggest constructive participation. The first scan reveals numerous sectors. Some standouts include precious metals (GOLD AUY), consumer discretionary (FAST ROST SCSS TJX ULTA UA), restaurants (MCD DPZ), energy (COG GLNG REXX), software (AZPN SWI), payment services (TSS V), and pharmaceutical and biotech (ABT QCOR VPHM). Overall, the stages once again suggest underlying improvement as the market continues digesting the October advance, which bodes well for long positions. There are no guarantees that a strong decline won't emerge, but the current action suggests a market structure that is not ready to implode.

Highlight Equities:

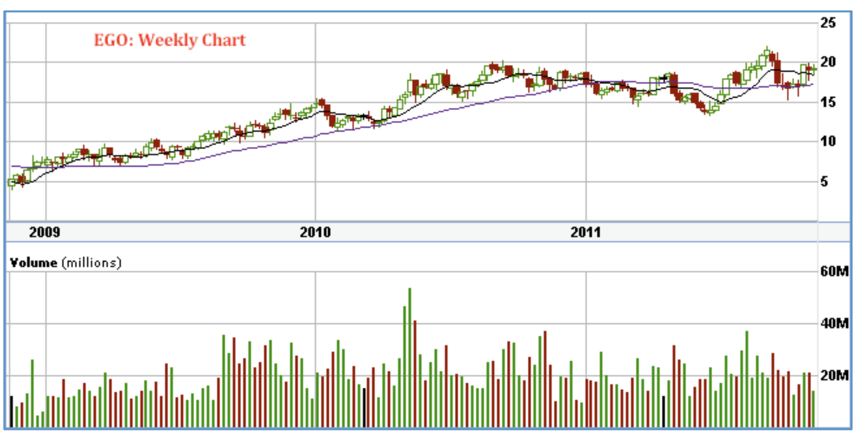
UA: Under Armour

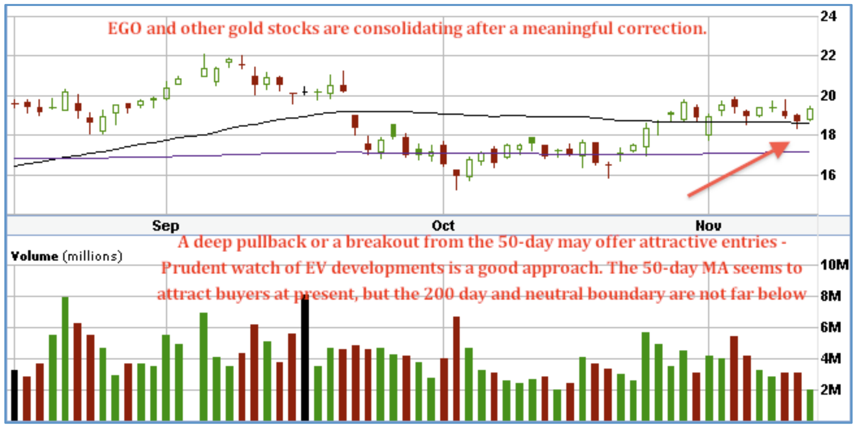
- Current Stage is 2-1 (Strong Mark-Up) Has been in current stage for 1 day(s)
- Current Weekly Stage is 2-1 (Strong Mark-Up) Has been in the current weekly stage for 3 week(s)

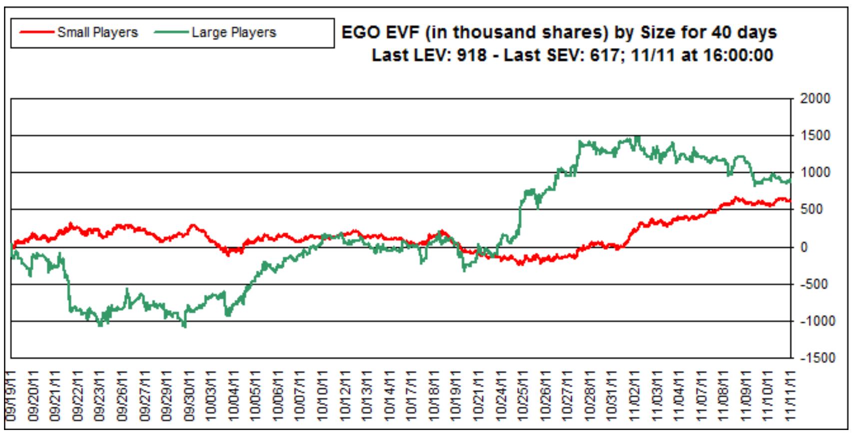


EGO: Eldorado Gold

- Current Stage is 1-2 (Mid Accumulation) Has been in current stage for 7 day(s)
- Current Weekly Stage is 2-1 (Strong Mark-Up) Has been in the current weekly stage for 3 week(s)







Conclusions:

In hindsight, one will be able to determine whether or not this was a bear market rally. The latter part of October kept me cautions, and I even attempted a few short-lived short trades – they simply were not working. The past few weeks resulted in numerous developments that improve the longer-term outlook for US markets. By longer term, I mean weeks to months and that positions can increasingly be held through pullbacks. And these developments should cause one to reevaluate their stance and maintain an open mind, not always an easy task.

A bright individual and I exchanged thoughts about what types of declines need to occur for a sell-off the magnitude of 2008 to happen again. Indeed, I believe the stage structure is not indicating a market implosion barring a severe and unknown exogenous shock. Additionally, reading through discussions of value-oriented investors leads me to believe that many structural and terminal shorts were eliminated during the last financial crisis. In other words, besides high-multiple momentum names, of which many are now decimated anyways, where is the fuel for a trip to the March lows? While the market can take the low road, more evidence is needed.

Large cap tech stocks are trading above rising 50 day moving averages, which are also trading above 200 day moving averages, while attracting money from large players. Short interest in transports and banks is now at 52-week lows, which may suggest that savvy short-sellers have closed a good portion of their books in the sectors that led to the downside. With declines in short interest, we now have a chance to see whether institutions step up or if the October advance was merely a mirage caused by massive covering of those late to the bear camp.

A broader swath of stocks shows leadership traits. This will need to pickup in the coming weeks, yet seasonality is a tailwind at the current moment. If we are in a bull market advance, then Aly's Weekly CSI suggests a neutral interpretation of sentiment. Conversely, if the market is close to finishing a bear market rally, then sentiment suggests we should rollover very soon, especially as the markets bump into their 200-day moving averages from below.

It is never too late to turn off the barrage of headlines. That is what Charles Kirk challenges subscribers to do for the remainder of the year. That seems like a smart idea . . . and as always, one must keep an open mind.

Best,
Eric