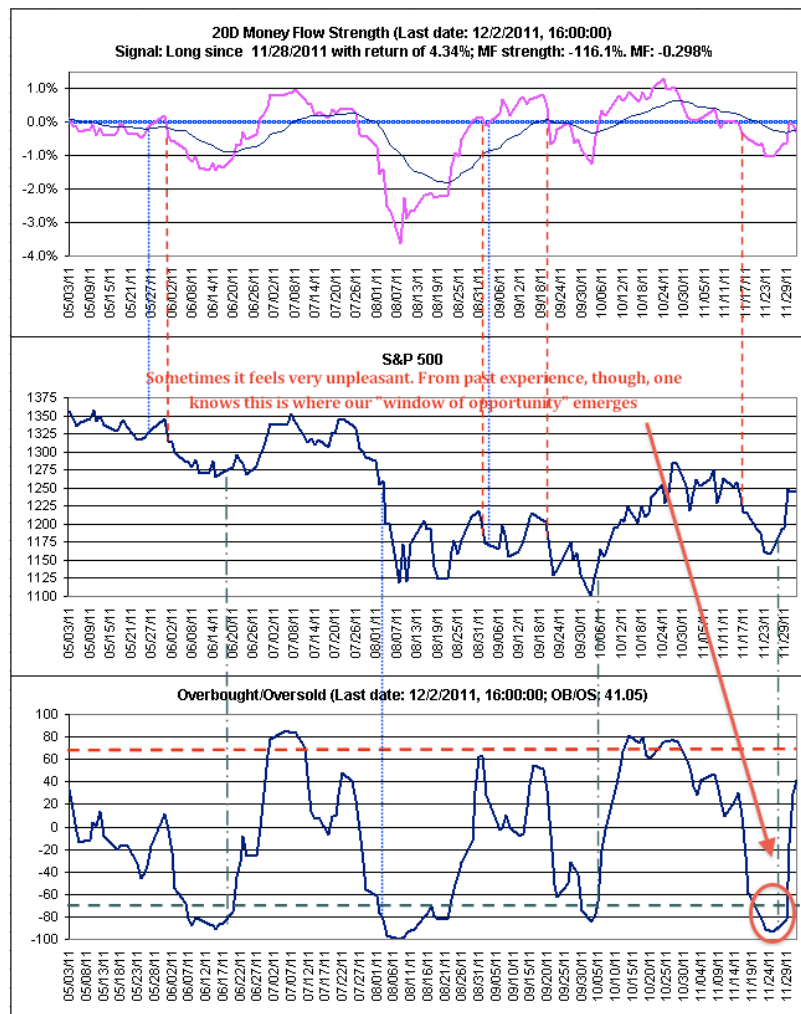


Summary:

My 11/18 Report emphasized the steady nature of the 20-Day MF indicator ...

Like a trustworthy friend – reliable, and able to give truth and guidance even when a situation is both challenging and confusing

Heading into Thanksgiving Week, the market was on the precipice of a deeper selloff, confirmed by a quickly deteriorating stage structure and EV short signal. And while confusion reigned amok, the 20-Day MF finally gave a buy signal early last week – and that is what one needed to know. That is the period where one understands that favorable opportunities for long trades emerge, that shorts are in danger of giving back profits; a transition of some unknown duration may be underway. Sometimes acting on such a signal is difficult and uneasy.



The "easy" money off the initial thrust came swiftly. Though the market experienced some unusual selling on Friday, this participant believes credence must be lent to bulls and longs, at least temporarily. A short signal is not so close. Simultaneously, the market moved quickly out of the oversold level as indicated in the OB/OS graph, so some backing and filling and otherwise choppy intra-day behavior won't surprise this week. The important feature will be whether buyers step-up to buy weakness or simply press higher.

Stage Analysis Comments:

The daily stages continue indicating a neutral to slightly bullish bias under shorter-term timeframes. Questions remain regarding whether or not price action will crumble into a more bearish setting, or whether buyers can support this market and even take it higher. In other words, one might expect a few days before directional resolution emerges, and numerous technical hurdles do exist that suggest buyers have work cut out for them. For example, the SPY bumps up against the 200-day MA from below and small-caps are still hanging out there, too. DIA and Q's have regained this line, though.

SPY	Current Stage is 3-2 (Mid Distribution) Has been in current stage for 4 day(s)
QQQ	Current Stage is 3-2 (Mid Distribution) Has been in current stage for 7 day(s)
DIA	Current Stage is 3-1 (Early Distribution) Has been in current stage for 9 day(s)
IWM	Current Stage is 3-1 (Early Distribution) Has been in current stage for 10 day(s)

If one's grown weary and worn of a persistently shaky weekly stage structure, then last week's developments are an early Christmas gift for longs. First, the Q's refused to surrender price to new lows and have now been in the early-accumulation stage for 4 weeks. Joining for the first time in many months are SPY and DIA, as large caps whet the appetite of large players during deep pullbacks and oversold conditions – either HFT's are exploiting mean-reverting strategies at extremes in price, or institutions are truly buying shares in the world's biggest companies. At best, IWM is playing catch-up, but will likely follow if price action improves. That said, the early-accumulation stage is not outright bullish, and is described as *Bearish turning to Neutral – Cash is best*. Caution is warranted.

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

Last weekend, the first scan revealed a measly 8 results, which is the lowest reading in all reports thus far. Either the market was on the cusp of a major liquidity crush, or a vigorous bounce was in the making as nearly no stocks were leading the market in concomitant daily and weekly strong mark-ups. Hindsight reveals the latter. Weekly strong decline stocks had ballooned to 800+ results, too.

The first scan improved over the past week with 34 results, mostly characterized by biotech (QCOR SPPI PCYC VPHM) software (SWI VRSK) railroads and capital goods (KSU CFX) tobacco (PM RAI) and natural gas & pipelines (GLNG ENB EPD). While nothing to get excited about, the fact that there was expansion coinciding with the strong market performance last week should keep one alert for any near-term improvement in participation.

Ironically, weekly strong mark-ups remain greater in number today than during the week going into Thanksgiving. Weekly strong decline stocks are half the number when compared against this time two weeks ago. One may conjecture that amidst all the doom and gloom, some issues held up and are forming base patterns that could fuel the next uptrend. Still, there is much room for improvement that waits, and an imminent broad based rally seems unlikely without additional expansion in bullish scans.

Weekly Strong Mark-Up + (Daily Late Accumulation-Strong Mark-Up)	34 Results
Weekly Strong Mark-Up	166 Results
Weekly Strong Decline	257 Results

Conclusion:

When a 20-Day MF long or short signal emerges, that is when a window of opportunity is opening. And sometimes the feeling is awkward and unpleasant, and the circumstances might make action difficult. But this is the zone where such feedback is vitally important. I like some advice that Mike Scott shared when I was an early member in the VIT group (emphasis added):

*Pay attention to your gut, not what it is telling you to do but how it feels like when you are making money, what does it feel like when you are losing money. What ever you felt when you sold after hours, remember what it felt like, then next time you feel the same way look for the money making opportunity, **it is likely right there in front of you.** Your gut can guide you if you know what to look for – 8-1-2009*

The edge from the initial buy signal has come and gone. In fact, a moneymaking opportunity was “right there in front of us” last week . . . Developing a list of potential long and short candidates seems prudent here. The weekly stage structure is finally showing hints of accumulation, but that does not imply smooth sailing or an abrupt exit from volatility. Meanwhile, the daily action may need more time before a decisive trend emerges, and bullish results from the weekly scans should show expansion if a rally of even a few weeks duration is to emerge. Of course, there are outstanding and unpredictable risks that remain ever-present.

Best Always,
Eric