

Weekend Review 9/11/2011

By Eric Coleman

Summary:

Pascal's *comment of the day* succinctly describes the current market in relation to the 20-day MF. On a discretionary note, while price action was quite poor on Friday, I did not get the "liquidation sensation" that accompanied the selling in early August. In other words, an intraday look at some of the budding leadership gave little indication that the market was in a panic fall – see GMCR, AAPL, ULTA, and POT for examples of stocks that outperformed the broader indices on the day.

In my 8/5 Report, I noted the following about the market stages:

Given the sharp declines, any possibility of recovering into more bullish stages without first visiting the even more bearish stages, is a low probability bet.

The stages indicate that the market is at least closer to a significant low than a little over one month ago. I anxiously await Billy's next blog post, which will provide greater clarity to the current market structure. Meanwhile, I share the following tables:

Daily Stages 9/9/2011:

QQQ	Current Stage is 1-1 (Early Accumulation) Has been in current stage for 6 day(s)
SPY	Current Stage is 1-1 (Early Accumulation) Has been in current stage for 6 day(s)
DIA	Current Stage is 1-1 (Early Accumulation) Has been in current stage for 6 day(s)
IWM	Current Stage is 1-1 (Early Accumulation) Has been in current stage for 6 day(s)

Weekly Stages 9/9/2011:

QQQ	Current Weekly Stage is 4-1 (Strong Decline) Has been in the current weekly stage for 1 week(s)
SPY	Current Weekly Stage is 4-1 (Strong Decline) Has been in the current weekly stage for 1 week(s)
DIA	Current Weekly Stage is 3-2 (Mid Distribution) Has been in the current weekly stage for 4 week(s)
IWM	Current Weekly Stage is 4-1 (Strong Decline) Has been in the current weekly stage for 1 week(s)

The following bullet points summarize my interpretation of the current stage structure:

- The daily stages are quickly evolving toward an area where underlying accumulation becomes more pronounced – a transition to the neutral 1-2 *Mid-Accumulation* stage may occur as early as this week.
- In just days, the weekly stages quickly transitioned from the 3-2 *Mid-Distribution* stages that were present during my 9/1 Review, to the 4-1 *Strong Downtrend* phase now present. The most bullish thing that can be said about this is that the weekly timeframe is moving closer to a stage where subtle accumulation overcomes blatant distribution
- Leading stocks and sectors will start to pre-lead during this type of stage structure. PCLN broke out over month before the 9/2 FTD last year. The same thing happened with the fertilizers. So this will be a critical time to watch for any follow-through or strength that may emerge for the next cycle. The Q's and small-caps are also progressing ahead of the larger-cap DIA in terms of their stage evolution.
- The overall stage structure does not have "the stars aligned" in terms of the weekly and daily characteristics; nonetheless, the current structure leads this participant to believe that we are closer to the valley rather than on the edge of the precipice of the market landscape.

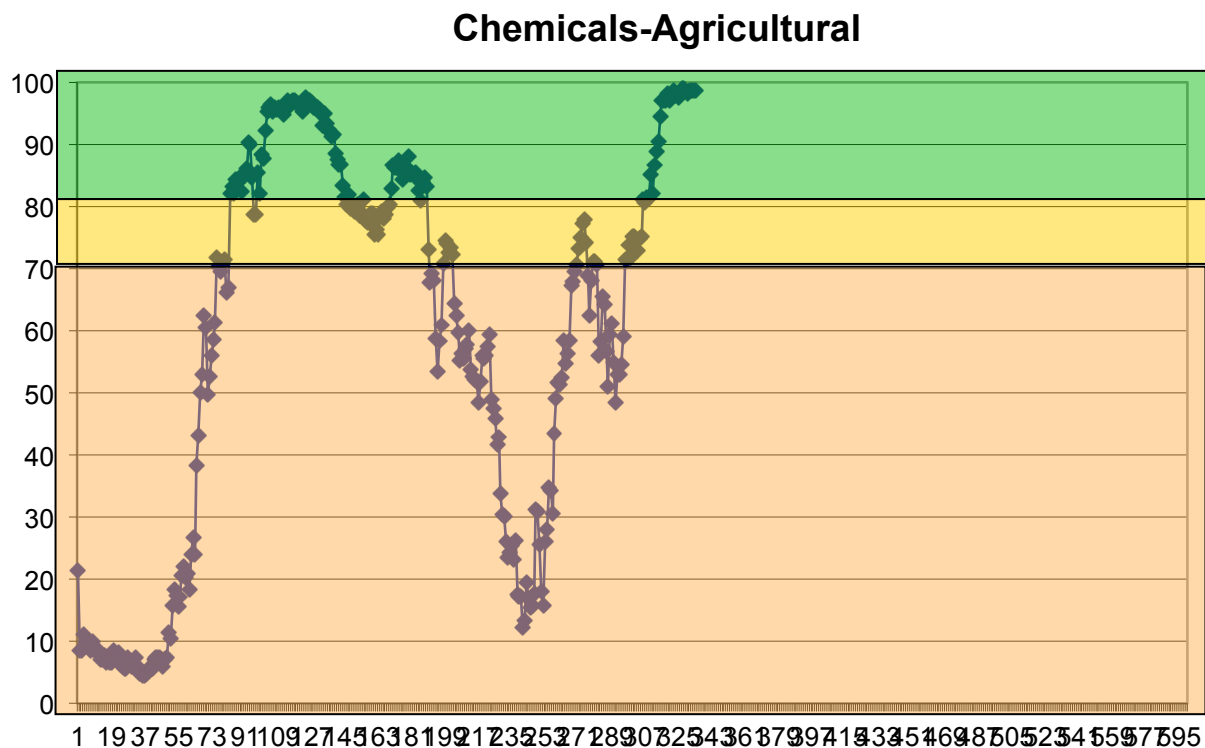
In addition to the stages and Pascal's and Billy's weekend commentary, I note one additional reason why now may be different than 2008 – and that is the element of surprise. In 2007, even though bearish pundits knew of the problems in the housing market, little could stop the bullish ascent of the market. Today, the whole world knows that financial disarray and waning leadership characterize much of the Western Nations. For a down-leg to emerge in the coming days, I would want to see a total surprise, a canary in the coalmine – something that would shock large players because they hadn't priced such an event into their current models. Otherwise, this juncture looks more like the choppy and neutral trading that marks bottoms, which might not be *the* bottom, but is at least a temporary support area while the market sorts through the current malaise.

To complement the above comments, I share a few observations that I consider most relevant for the week ahead.

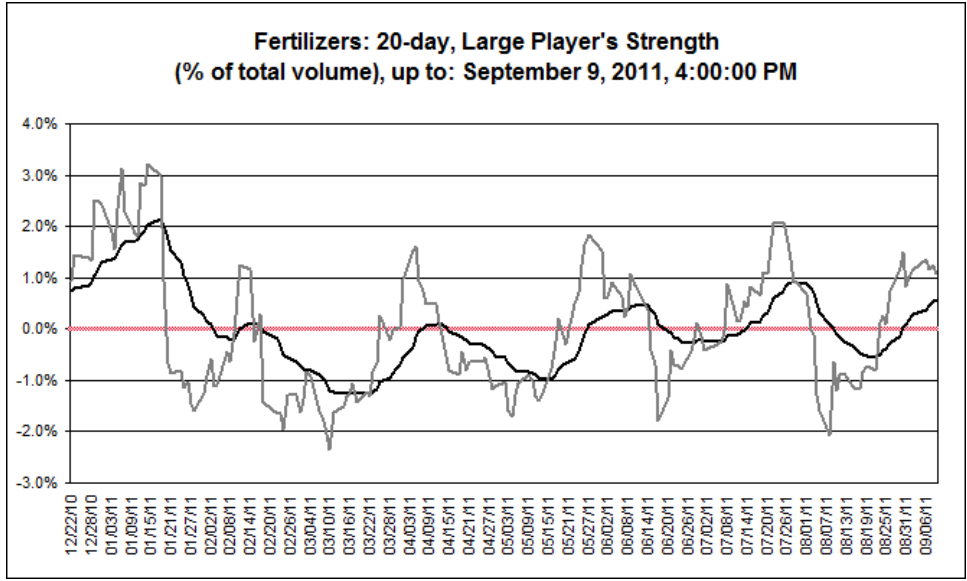
Agriculture – Fertilizers:

This sector has been actively covered here over the past months. In late July, the fertilizers began showing important leadership traits and improving RS. Then, the market sold off hard. In hindsight, such selling is healthy because one sees firsthand whether a stock or sector is really attracting the interest of large investors. Needless to say, we can see the SIGR rating has steadily advanced to the most bullish green zone. From Billy's May 26, 2009 publication:

From historical studies of past post-follow-through day uptrends, most leading winning stocks started and developed their major up move when their SIGR stayed above 80. Therefore the 80-99 areas is green-colored, indicating that any stock with its SIGR over 80 has a very high probability of success (For some reason my graph remains distorted)



Meanwhile, the Fertilizers remain on a buy signal:



POT is one of my favorites in the group:

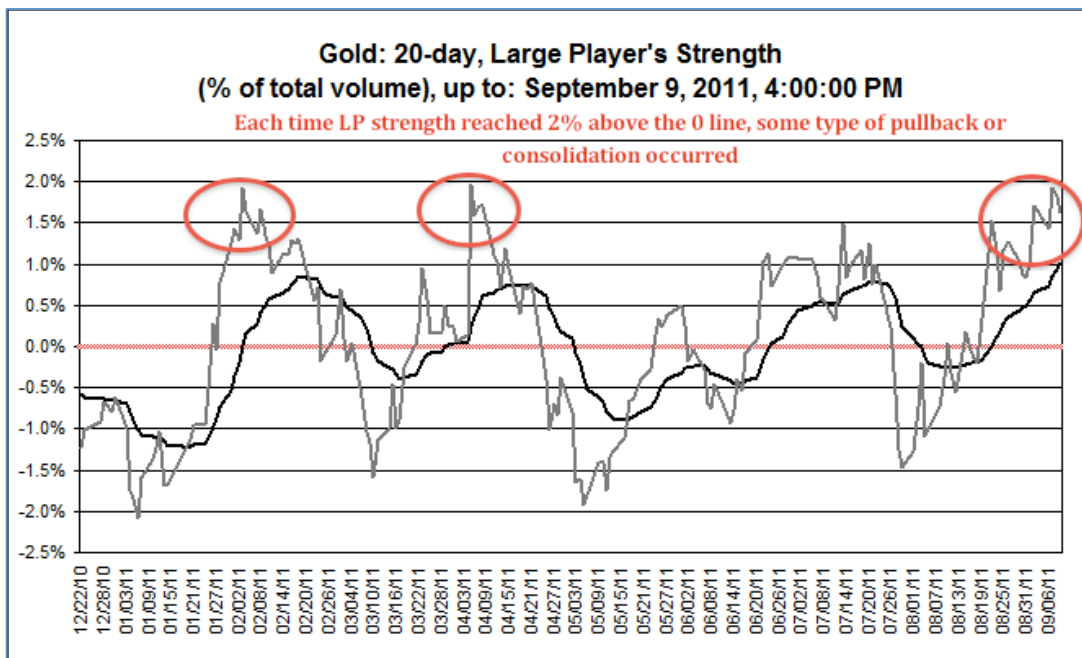
- 89 Relative Strength Rating
- Top rated (#1) Chemicals-Agriculture Industry Group
- Ample liquidity allowing for institutional sponsorship

An updated chart below, with 10, 50, and 200 day MA's:

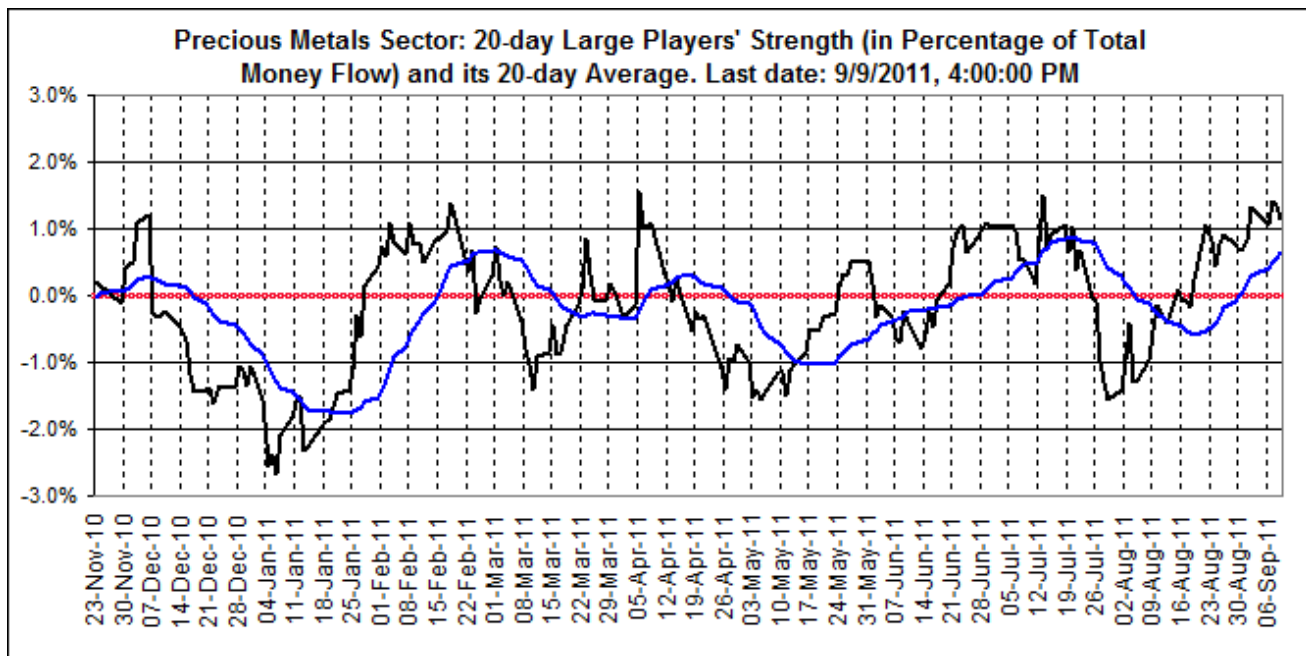


Precious Metals:

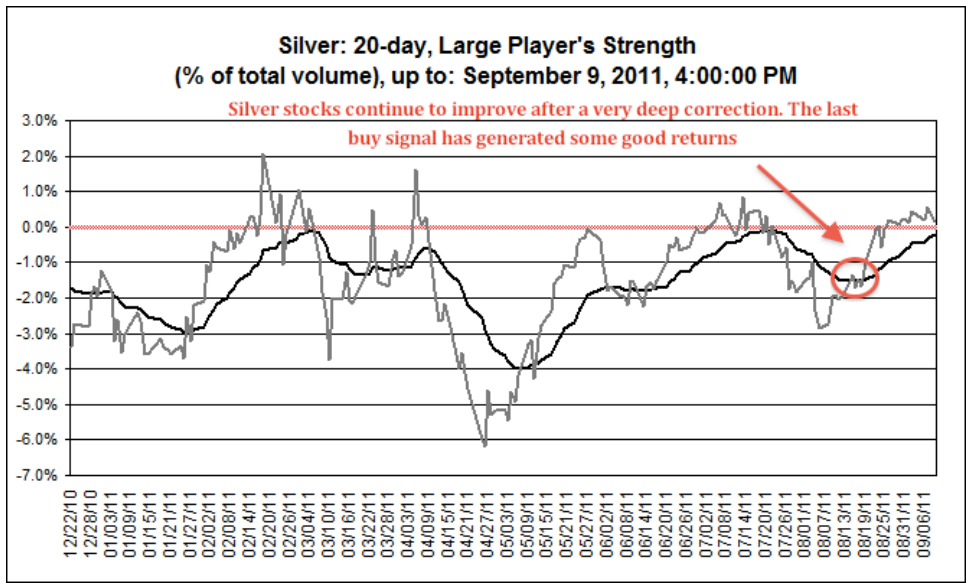
Precious metals issues continue to be a leadership area of the current market; however, some additional consolidation or a brief pullback would not surprise at this juncture.



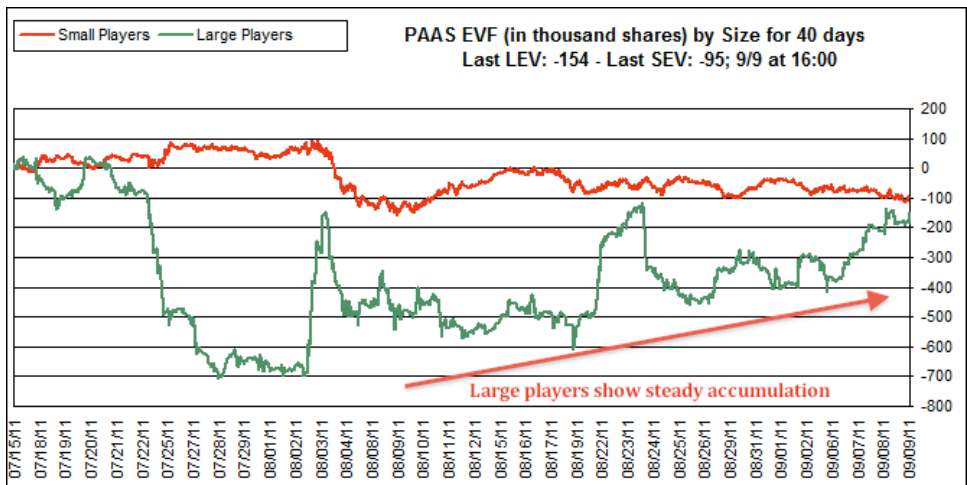
Bullish patterns characterize many of the gold stocks, and accumulation in the broader pm sector is impressive. AUJ, ABX, EGO, GG, and IAG show noteworthy accumulation and are worth monitoring. If a pullback or consolidation does not ensue, then a short-term climax run may be in the cards . . .



A link shared by Aly over the weekend presented a dollar rally scenario with bearish implications for silver. An alternative scenario, though, is that the silver miners continue their base-building evolution in the days ahead.



PAAS shows some interesting accumulation and technical improvement:



Conclusion and Others Updates:

Besides the above observations, some of the stocks discussed in recent reports are worth reviewing. AAPL and GMCR, for example, retain their leadership. Kevin Marder's recent "Marder on the Market" report highlights the current leadership, narrow as it may be. LULU disappointed but did not blowup TZOO or RVBD style.

Otherwise, this week will likely offer some useful clues as one monitors the energy sector and oil/copper. Also, as Pascal suggested, some accumulation or technical improvement in the semiconductors could be a positive for the market.

There are elements of underlying accumulation in certain sectors like the fertilizers. Additionally, pockets of leadership are scattered in the market, but the current stages do not as of yet indicate large-scale accumulation and participation. That said, I think the current stage structure warns of becoming overly bearish and may even suggest a cautious bullishness as volatility dampens. While the statistics for a bad start to September appear foreboding, the two worst declines took place in well-entrenched bear markets. The 3rd worst occurred in 1946 in the midst of the post-war boom. While seasonality is important, my belief is that the 20-day MF, behavior of leadership stocks, and the presence or lack of accumulation will remain the best tells on the market direction and individual stock scenarios.

Best,

Eric Coleman