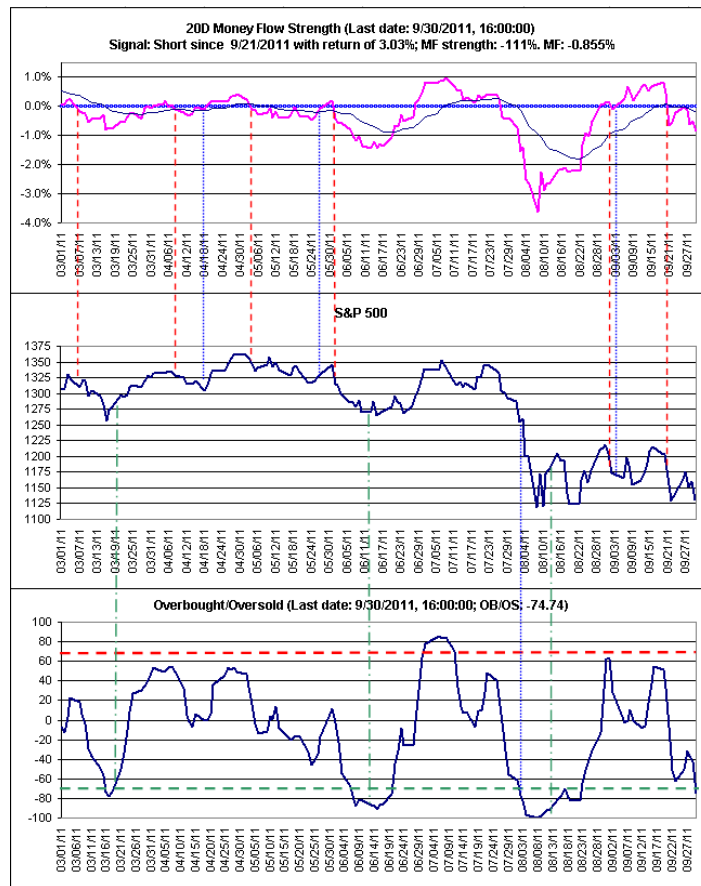


Summary:

The market is telling its story, and I expect denouement to our current range in a matter of days. Little has changed from my last report, other than continued deteriorating action lending more evidence to an impending strong decline stage.

On 9/27, I shared the following thoughts with a friend:

Today's action suggests to me that a resumption of strong decline on the daily timeframe is imminent. There are so many "hope" headlines, in conjunction with money managers showing up reminding everyone about being "in stocks for the long haul." Each bid today looked like it was being sold, finally overcome by a vacuum of buyers the last hour. The 20 day MF showed no support given how much the market was up mid-day. Additionally, rallying from the OB/OS Oscillator before becoming truly oversold seems unlikely, at least in a downtrending market.



Shared below is an insightful quote from Peter Brandt, which I read on The Kirk Report last week.

*But even if it is not a three-day weekend, I love Friday breakouts. The reason is that **Friday breakouts are being supported by position traders willing to hold the position for the entire weekend. This is an indication that "strong hands" are supporting the move.** I could show you chart after chart of huge trends that kicked off on a Friday.*

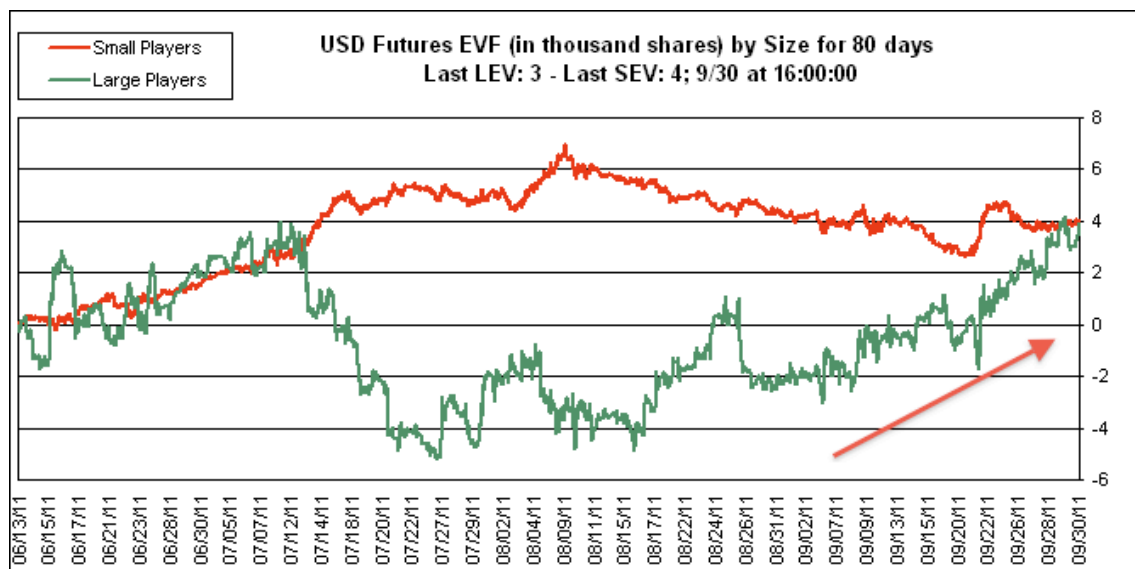
The above statement sums up Friday's close. The market is entitled to do anything it chooses, yet mounting evidence suggests a downside resolution to this participant. The three most important features I note are:

- 20-Day MF Indicator remains on a short signal
- Failure of market leadership reinforcing the lack of institutional demand
 - See WYNN, BIDU, NFLX, FOSL, CMG, LULU, GMCR - all failing below 50 and/or 200 day moving averages
- Breakouts from late-stage bases failing
 - See AAPL, AMZN, CMG

What we need to know is known; the market lacks buying interest at these levels, and remaining leaders no longer get supported. That is what I see in the tape. Last week masked severe weakness in numerous issues. Following are a few other simple, yet powerful observations that are speaking – one must listen.

US Dollar:

The dollar is now in demand. The following are poignant illustrations of demand:

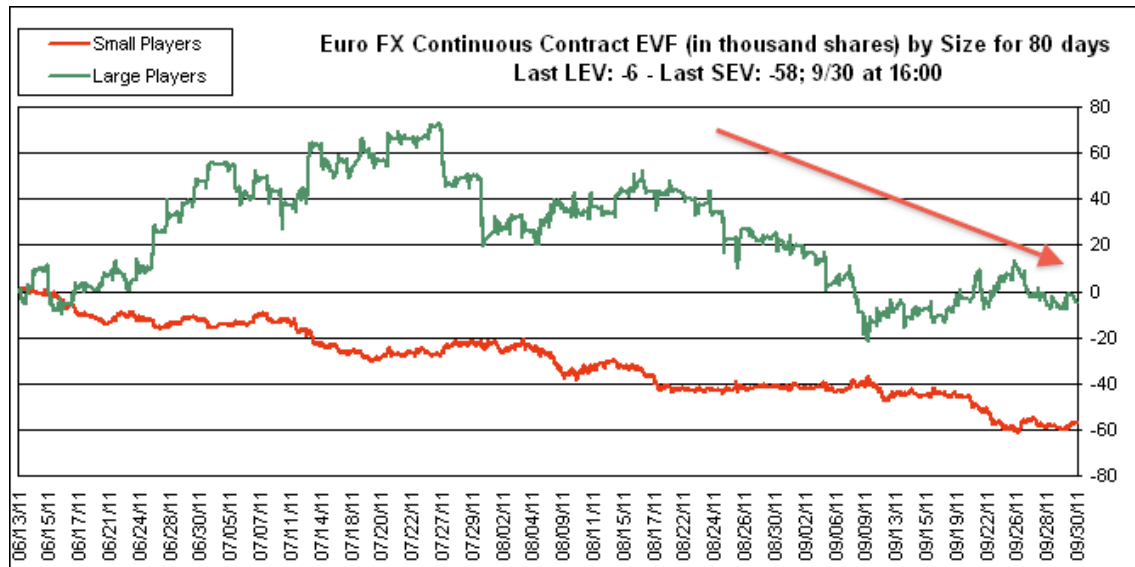


Euro:

The *Ultra short Euro* EUO fund exhibits demand – the RS line is at new highs and price trades above the 200, 50, and 10 day moving averages.



EUO reflects weakening EURO:

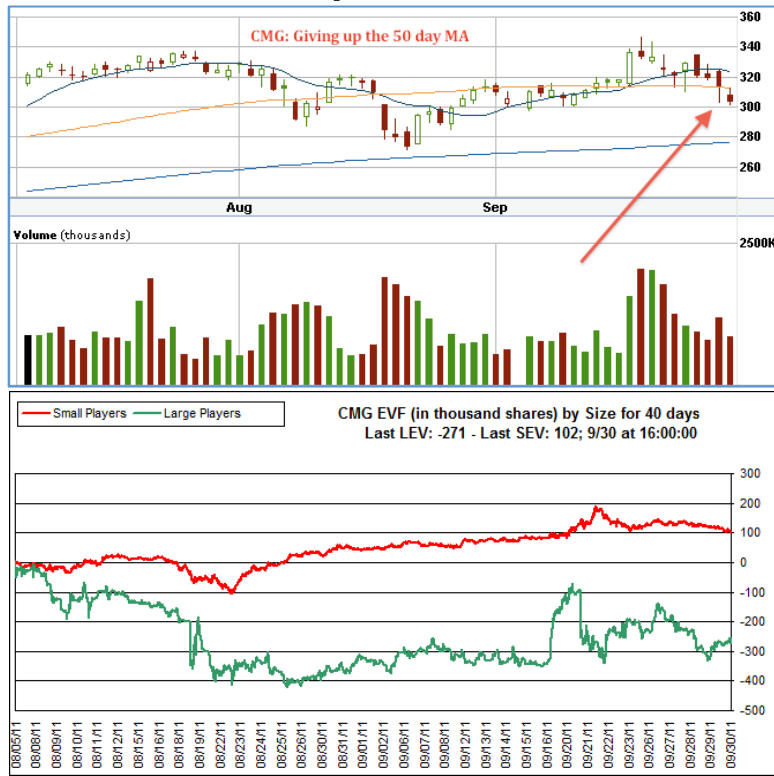


Leading Stocks:

Leading stocks and sectors have been discussed over the weeks and months. Last weeks action hid the deterioration among the bull market leadership complex. The following issues have populated the IBD 50 or Big-Cap 20 at one point or another during the bull run, and are now in the “Stocks with Worst Ratings” filer: TPX CMI VMW ALTR CTXS CAM AAP NFLX FDX INTC OPEN HAL ACTG PCLN DE MCP DSW TIF. When a plethora of stocks from diverse sectors with leading traits appear in a scan designed to turn up the “best available stocks at any given time for short positions,” then one must acknowledge the precarious state of the market.

We have tracked some of the leaders for feedback throughout recent reports. Displaying the charts for each issue would be too time consuming. Below are a couple recently recent discussed stocks.

CMG: Chipotle Mexican Grill



GMCR: Green Mountain Coffee Roasters



A review of the final bull market leadership, including AAPL, AMZN, GMCR, and LULU, amongst others, leaves much to be desired. Besides a real dearth of growth leadership, a review of the leading sector-industry groups through the lens of Billy's SIGR shows the following:

1. Retail – Wholesale Auto Parts
2. Retail – Major Discount Chains
3. Retail – Discount and Variety
4. Mining – Gold/Silver/Gems
5. Utility – Electric Power
6. Wholesale – Food
7. Utility – Diversified
8. Beverages – Non-Alcoholic
9. Retail – Specialty
10. Tobacco

The strength exhibited by the above sectors illustrates defensive positioning amongst large players.

Some Non-US indexes:

Hong-Kong and the Emerging Markets look ready for a capitulatory move within their strong decline phase; both remain mired in 4-1 strong decline stage on both daily and weekly timeframes. This type of action underlies the context of the overall market landscape – one of shifting capital flows, and the action has been ominous for more than a few days.



Conclusions and Thoughts:

I attempted to keep this report straightforward and short. The weekly stage structure is little changed from the previous weekend report. A strong-decline phase on the weekly timeframe primarily characterizes the major benchmark etf's at the current juncture. That fact alone provides a backdrop from which one may interpret action within shorter timeframes. Many Non-US stock markets are under extreme selling pressure.

The dollar is in demand. For the duration of the bull market, stocks have mostly moved inverse to the dollar. The recent shift is yet more feedback that the market is undergoing a transition. Commodities crashed. A commodity crash is perhaps a more politically acceptable way of putting money into the pockets of citizens – lower input costs should translate into lower prices for food and energy.

Market dislocations can be messy – they can be very quick and liquidity may evaporate in a heartbeat. Such dislocations can overwhelm sentiment indicators and seasonal biases. “Wishing Behavior” seems to characterize such dislocations.

By wishing, you try to decrease your discomfort by escaping into a fantasy. This is a dreadful waste of power. Not only do you not have power going into passive behavior, but you also cloud reality, impairing your ability to problem-solve. – Arno Ilgner, The Rock Warrior's Way

I cannot predict what the market will do. But one must acknowledge what it *is doing* – as I write, Hong Kong is down another 5%, although futures on US indexes are less severe; nonetheless, I am prepared and positioned for the possibility of a significant selling event. The 20-Day MF, and action in the leading stocks have been notable tells. The market took gold and the leading miner group to the woodshed following the Fed Day. Apple couldn't sustain new highs, and supply came into the market on strength. BIDU has plunged below the 200 day MA. PCLN has broken the 50 and 200 day MA on heavy volume. There are likely hedge funds meeting redemptions, and vultures will prey on heavily concentrated positions during such periods. Friends, this action is the most eerily similar to my experience in 2008.

In prior reports, I noted that the market has been well aware of Greece, and that surprise might be necessary to really shake the market. I believe such possibilities are arising – China, Morgan Stanley, Bank recapitalizations, possible currency crises . . .

There will eventually be a time to go long. As of now, that time has not arrived.

Best,
Eric