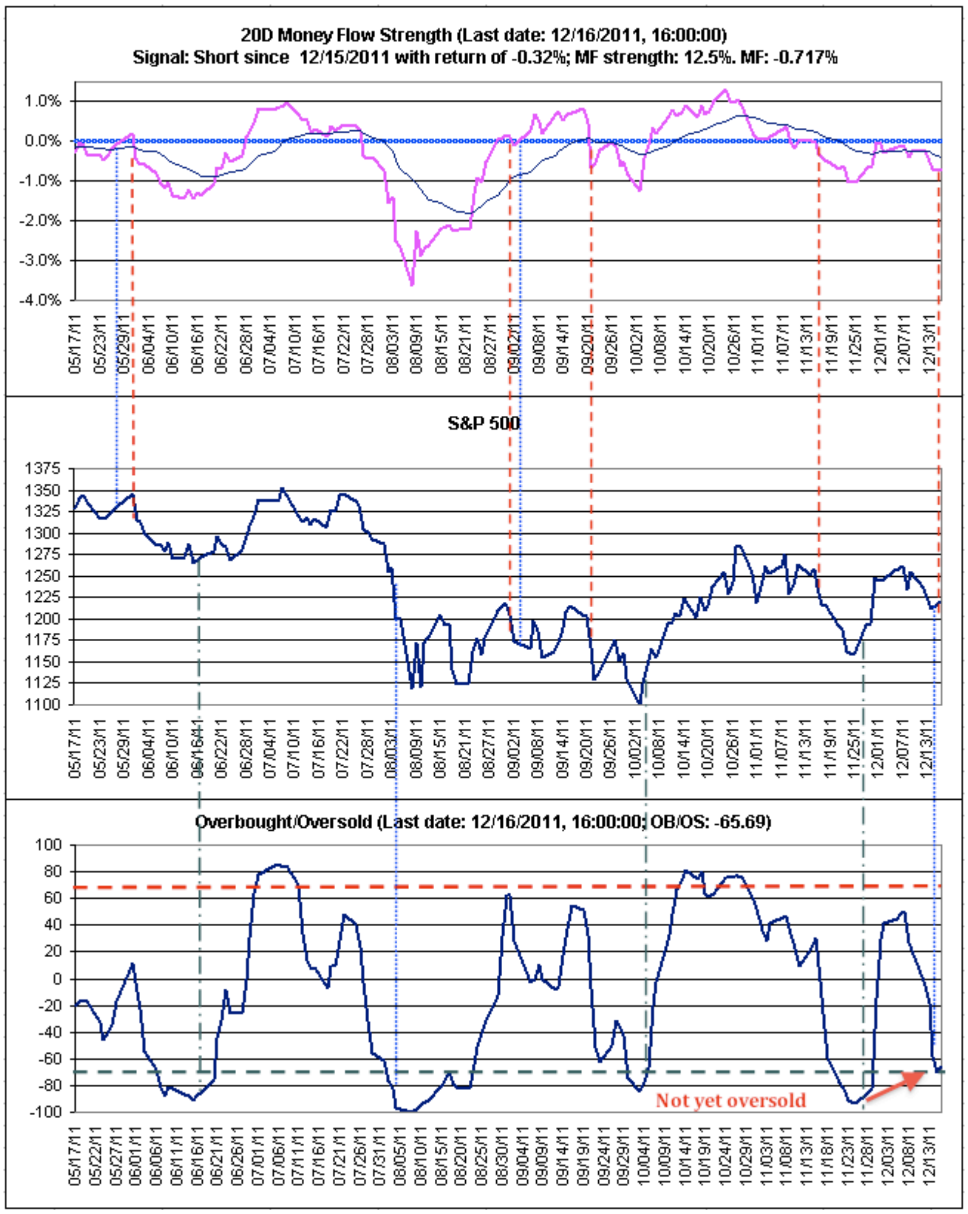
Market Observations: 12/17/2011
By Eric Coleman

Summary:

The 20-Day MF entered short mode last week, and the OB/OS oscillator suggests a level that is not oversold. The S&P 500 remains below 200-50-20-10 and 5 day moving averages. Evaporation of old leaders crept into the market during these past months, and continues to do so; consequently, a bounce is likely viewed with healthy skepticism, and a further press into more oversold levels would not surprise.



Stage Analysis Comments:

A look at the daily stage structure of benchmark index etf's reveals nothing but neutrality. Against the backdrop of the 20-day MF short signal, a bearish resolution may be a more likely outcome, and the Q's possess the least bullish daily stage structure of all. AAPL, a major component, came under large player selling last week as the neutral boundary of price proved difficult to overcome. And AMZN, which staged an impressive intra-day reversal mid-week, was hardly bought by large players.

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

Little needs to be said about the weekly stage structure. Once again, neutrality characterizes all.

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

The scans are more indicative of the weak and apathetic market. Expansion in the first scan is hardly impressive; a mere 11 more stocks are in bullish daily and weekly strong mark-ups compared to 34 on 12/4. A qualitative review of said results indicates a bias toward biotech and healthcare (ABT AKRX BMY QCOR SPPI VPHM). Other more defensive issues make an appearance, too – McDonalds (MCD) Altria (MO) Phillip Morris (PM) O'Reilly Automotive (ORLY) and Kraft (KFT) amongst others. Some leaders like DLTR HANS and SBH appear, but offer little room for honest long-enthusiasm at the current juncture. Expansion of results in more bullish stages remains elusive.

Weekly Strong Mark-Up + (Daily Late Accumulation-Strong Mark-Up)	45 Results
Weekly Strong Mark-Up	117 Results
Weekly Strong Decline	387 Results

I reviewed some previous reports to gain potential clarity regarding what these current results might suggest, and I found some marked similarities to my 10/22 report. Those results are below:

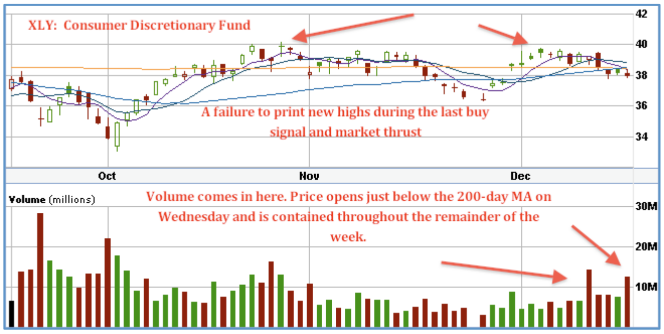
10/22 Scan Results

Weekly Strong Mark-Up + (Daily Late Accumulation-Strong Mark-Up)	67 Results
Weekly Strong Mark-Up	117 Results
Weekly Strong Decline	361 Results

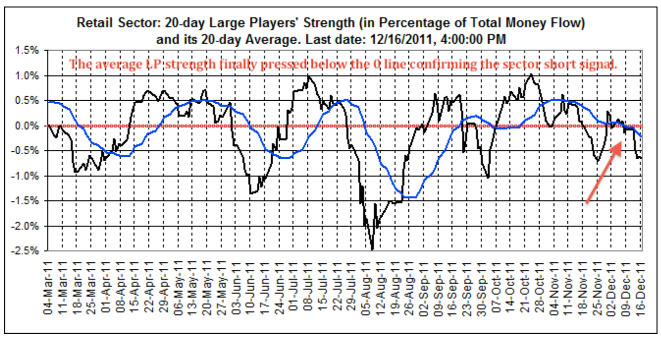
Four trading days later marked a price top in the S&P, and a short signal emerged some days following. Today, the first scan is even weaker, and the ratio of weekly strong decline to weekly mark-up stocks is slightly higher. And this time, the 20-Day MF is short, too. To this participant, the current market structure remains quite susceptible to another onslaught of distribution, which is my own subjective expectation. A more optimistic scenario might emerge whereby price trades in a range until the next 20-day buy signal. Regardless, there appears no reason to be long here: more extreme selling will be indicated by a dearth of results for the first scan. Only 8 appeared prior to the last EV buy signal. Alternatively, an expansion of stocks that are breaking into daily and weekly uptrends amidst a weakening market might indicate some underlying bullish divergences. Time will tell.

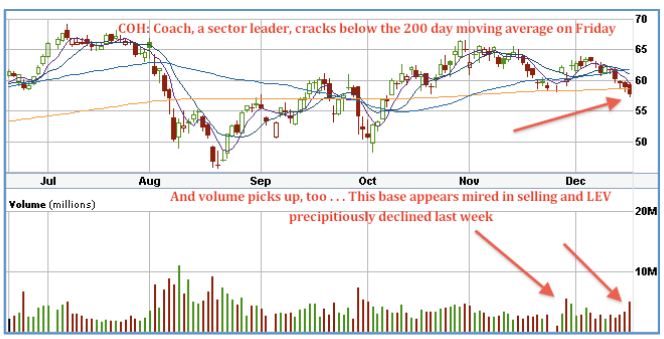
Consumer Discretionary:

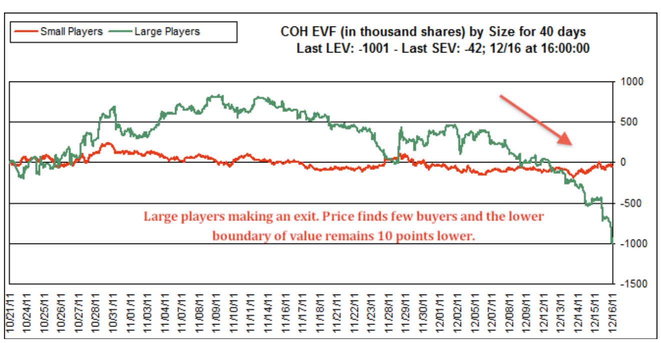
Consumer discretionary issues commanded an important leadership role for the duration of the bull market. As the chart of XLY indicates, the last buy thrust was unable to crack the October high.



Meanwhile, money moves out of the retail sector, which is under a short signal. See accompanying charts including Coach (COH).





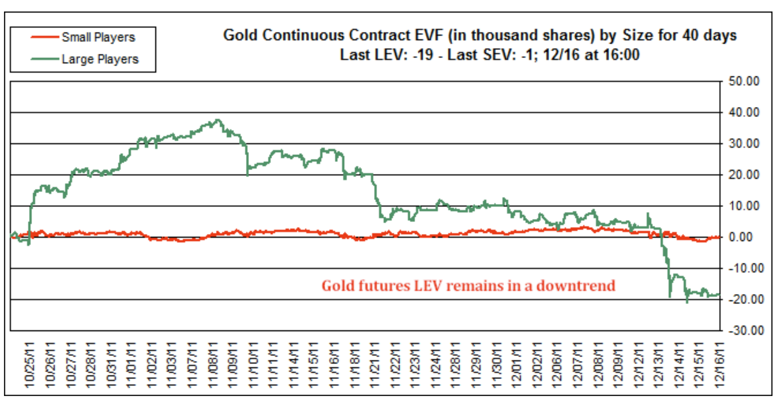


Not that the sector must go lower, but the weakness persistent in issues like LULU DECK UA and TIF is disconcerting.

Gold:

Events in the gold market last week do not appear fully appreciated by participants. The heavy volume coinciding with a failure at the 200-day moving average is significant, considering the secular uptrend that commenced in the early part of last decade marched unabated above this level since 2009.

While a technical bounce may be in the works soon, price is not required to do anything. SLV, though more volatile, is a precedent.



A regime change may be taking place, and such changes are often not initially accepted. I think the recent strength in the dollar and serious declines in the precious metals may indicate such a regime change underway. I don't desire to call a top in the gold market, but the events of last week are materially significant. Resumption of the trend requires serious mending, and the possibility of a long-term top is not out of the question.

Conclusion:

I'm not sure why some are anxious to buy this dip. Perhaps a couple weeks from now, this weakness will appear as having been a prescient buying opportunity; however, the 20-Day MF remains short, and longs are quite vulnerable, especially as indexes trade below their 200-day moving averages. Faltering consumer discretionary and retail leaders, dollar strength, and a possible regime change underway in the precious metals complex all highlight important traits and transitions within the current landscape.

There was some positive action in FedEx (FDX) last week, and the US economy may be slowly on the mend. Some transport stocks are trading fairly well given the backdrop of uncertainty, too. Nonetheless, the market may need more time to sort through a gamut of issues on the table. A period of rotation and disequilibrium will eventually bring about more ripe conditions for longs.

The daily and weekly stage structures remain mostly neutral. The short signal colors such neutrality with a bearish lens, though. The current stage scans produce results that are almost identical to the results that precipitated the October top. And this feature might temper one's expectations until a buy signal emerges or the market turns higher in a more convincing manner. Current market structure remains vulnerable to a period of choppy trade or quick downside.

Best,

Eric