

Market Observations: 2/5/2012

Looking back, prior reports noted certain puzzle pieces, which are now coming together more clearly in the current uptrend – early strength in large cap tech, bottoming types of action; yet, understanding where the market *was* going is most certainly a difficult task, and hindsight reveals as much.

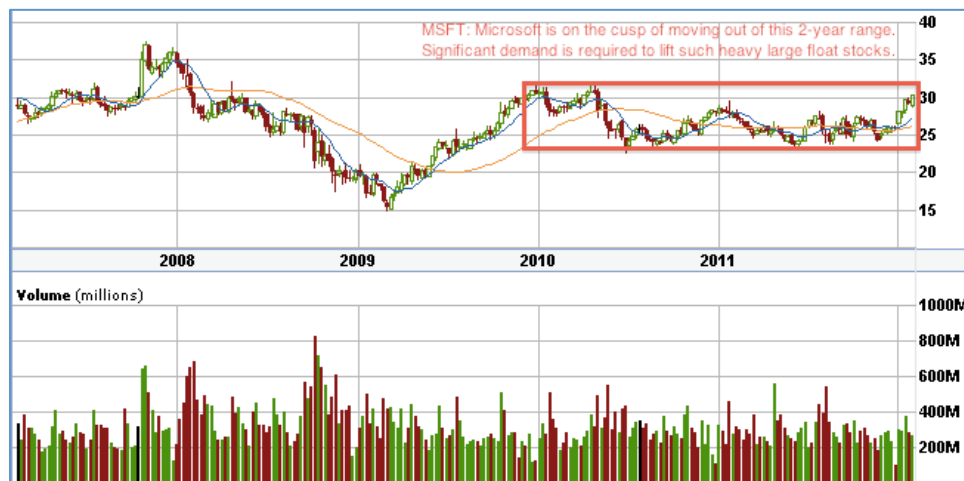
The market continues building on themes discussed in the previous stage analysis comments (1/17/12). I'm aware of at least one respectable technician suggesting an imminent short-term top this week, though; nonetheless, daily stages remain constructive. Tech and small-caps were quickly defended at the rising 10-day moving average, while large caps only briefly broke that line.

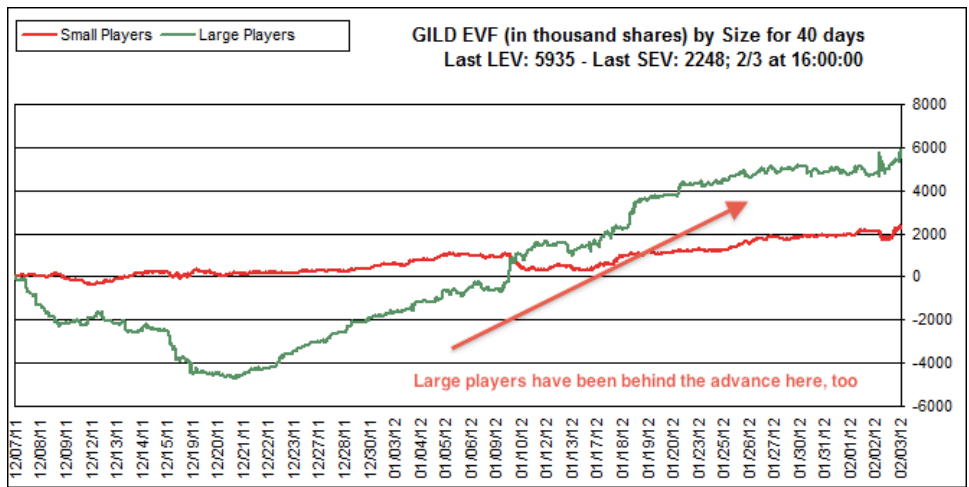
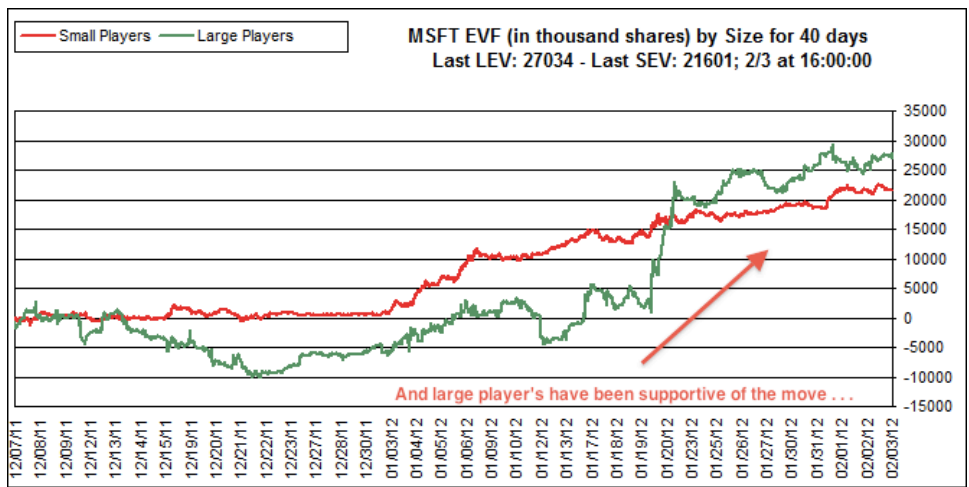
DIA	Current Stage is 2-1 (Strong Mark-Up) Current stage for 3 day(s)
IWM	Current Stage is 2-1 (Strong Mark-Up) Current stage for 18 day(s)
QQQ	Current Stage is 2-1 (Strong Mark-Up) Current stage for 16 day(s)
SPY	Current Stage is 2-1 (Strong Mark-Up) Current stage for 3 day(s)

One must respect the leadership displayed by IWM and the Q's, which asserted themselves over their larger brethren in recent weeks. Most notable are the persistent simultaneous daily strong mark-ups in each major ETF. Obviously, uptrends evolve over time, and a period of consolidation or digestion would not surprise, yet the resilience and power of this current trend is very noteworthy.

DIA	Current Weekly Stage is 1-2 (Mid Accumulation) Current weekly stage for 7 week(s)
IWM	Current Weekly Stage is 1-2 (Mid Accumulation) Current weekly stage for 1 week(s)
QQQ	Current Weekly Stage is 2-1 (Strong Mark-Up) Current weekly stage for 3 week(s)
SPY	Current Weekly Stage is 1-2 (Mid Accumulation) Current weekly stage for 2 week(s)

The Q's, after many months of waiting, are the first to enter concomitant daily and weekly strong mark-ups - a few months ago, such a prospect seemed dim. Underlying this trend are very long, multi-year consolidations, which are deserving of any market participant's consideration . . .





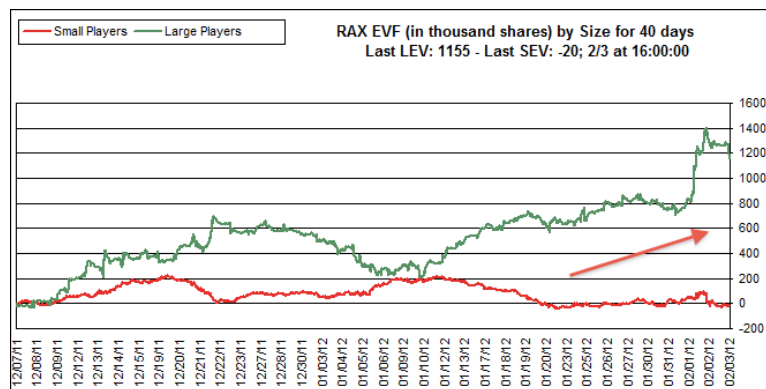
The weekly stages are now much supportive of strong stocks witnessing follow-through. Note how the 11/5/2011 report highlighted the previous strength in RAX, which was held back by the general market, at the time in a 4-3 weekly weakening decline phase:

RAX reports earnings after the close on Monday, which may act as a catalyst in either direction. Daily price action is indicative of large player buying/covering in recent weeks. The cloud-computing

sector has awakened recently. The 3-3 late distribution stage warns of any entry until after earnings, when the neutral condition is likely to be resolved.

Against the backdrop of a market now entering strong daily and weekly mark-ups, RAX moves higher asserting leadership. Such action signifies the importance of the overall market for certain strategies. Clearly, momentum and breakout strategies are in revival amidst current conditions.

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



The weekly scans once again illustrate the changing market dynamics:

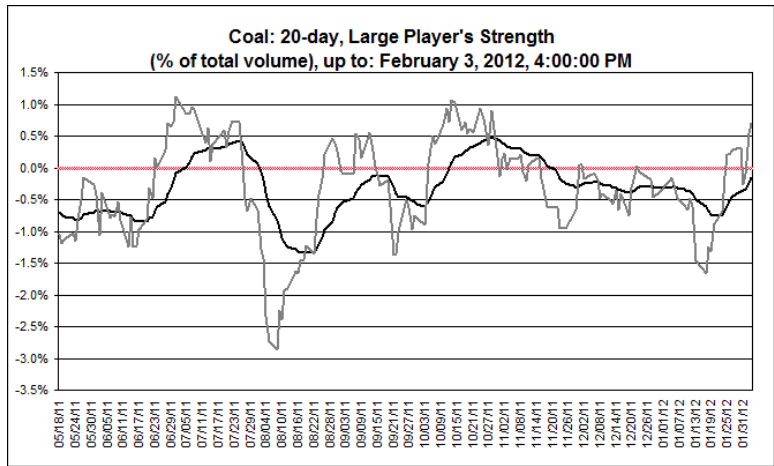
Weekly Scans: 2/5/2012

Weekly Strong Mark-Up + Daily Late Accumulation – Strong-Mark-up	234 Results
Weekly Strong Mark-Up	345 Results
Weekly Strong Decline	42 Results

Since 1/17/2012, bullish scan number one more than doubled. Weekly strong mark-ups witnessed serious expansion, also doubling since the end of January’s first week. Meanwhile, weekly strong declines continue disappearing, as more stocks repair technical damage incurred throughout mid-late 2011. Stocks that span the gamut of sectors and industries now characterize

the first scan, which indicates broader participation than in previous months. Overall, I have little to add, other than noting the continuing positive and constructive price action for longs.

Lastly, some sectors look to be making important bottoms. Coal is one of them:



Conclusion:

The action may be described as “frothy,” but the market maintains a strong bid. A digestion or pause of the advance would not be a serious impediment to the current uptrend. Stage analysis reveals a strengthening market in which new trends are likely to emerge and/or persist. Aly’s BSI points out some notable sentiment observations that are worth consideration. A swift shakeout may happen at anytime, and exogenous shocks are ever-present risks.