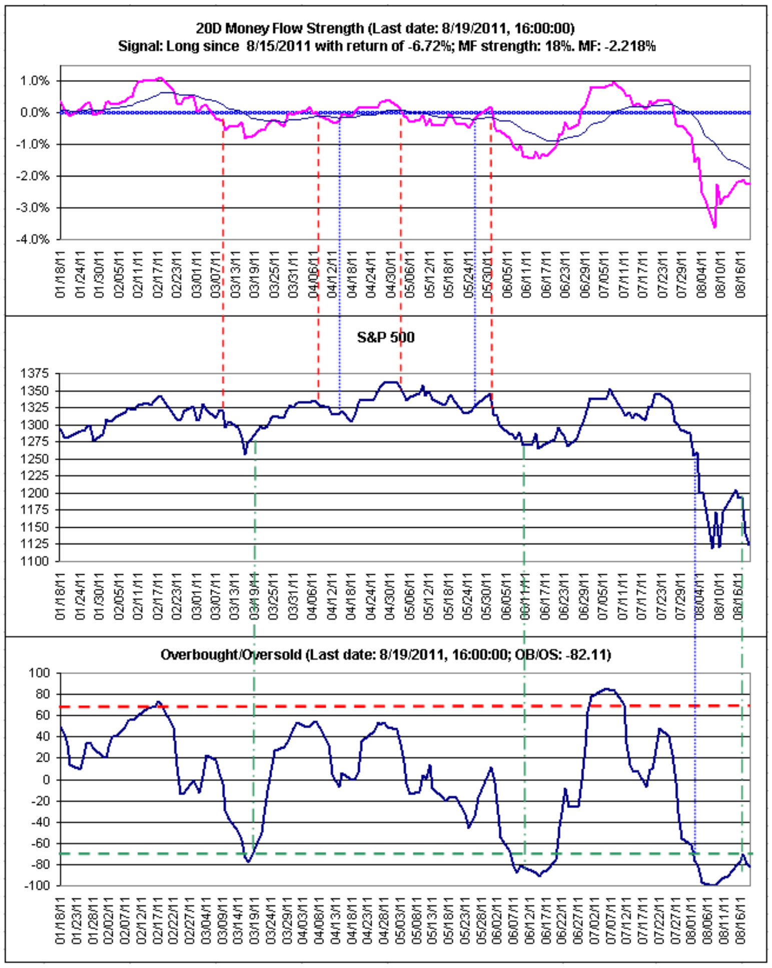
Weekend Review: 8/20/2011
By Eric Coleman

An impending storm brews outside my home here in the western United States – perhaps a fitting environment for reflection on the undercurrents of worldwide stock markets. Mike Scott's *8-20 market comment* is a must read and fittingly characterizes the current landscape at home and abroad . . .

The 20-Day MF indicator isn't particularly encouraging, other than remaining mired in a condition that often precedes a tradable buy signal. The inability to rally from such conditions, though, highlights the precarious state of the market.



A review of previous post-crash markets offers little room for optimism for periods 1, 3, and 6 months forward. The most optimistic assumption is that our current path follows the 1987 post-crash period; however, given that the market was in a secular bull period much different than our current position, less weight is given to that scenario. Finally, additional follow-through on top of Thursday's 400+ point decline more often than not precipitates selling in immediate days ahead.

A variety of market punditry pounds the table about the oversold market. Meanwhile, the voracity of the selling following the measly low-volume bounce, suggests to me, that large players are simply not too interested here. On a purely observational note, Mark Hulbert's HSNI sentiment indicator actually increased on Thursday. Please review Aly's CSI report for a more thorough review of weekly sentiment trends. The following chart of SPY is notable:

The Stages:

Stage analysis helps determine where we are and where we might be going. Most importantly, the stages highlight more or less favorable times to be long, short, or neutral.

Daily Stages of Benchmark ETF's

SPY	Current Stage is 4-1 (Strong Decline) Has been in current stage for 2 day(s)
QQQ	Current Stage is 4-1 (Strong Decline) Has been in current stage for 1 day(s)
DIA	Current Stage is 4-1 (Strong Decline) Has been in current stage for 2 day(s)
IWM	Current Stage is 4-1 (Strong Decline) Has been in current stage for 2 day(s)

Weekly Stages for Benchmark ETF's

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

The daily timeframe indicates little support for stocks. Meanwhile, distribution now characterizes the weekly timeframes. A bear market rally will eventually be present itself, yet my expectation is for the daily stages to reach a level of weakening decline before such a rally is launched.

The underlying conditions of today's market are markedly different than at this time last summer; therefore, such comparisons are not particularly useful. What makes today different than last year? When reviewing my market observations from 8/9/10, the following characteristics were present:

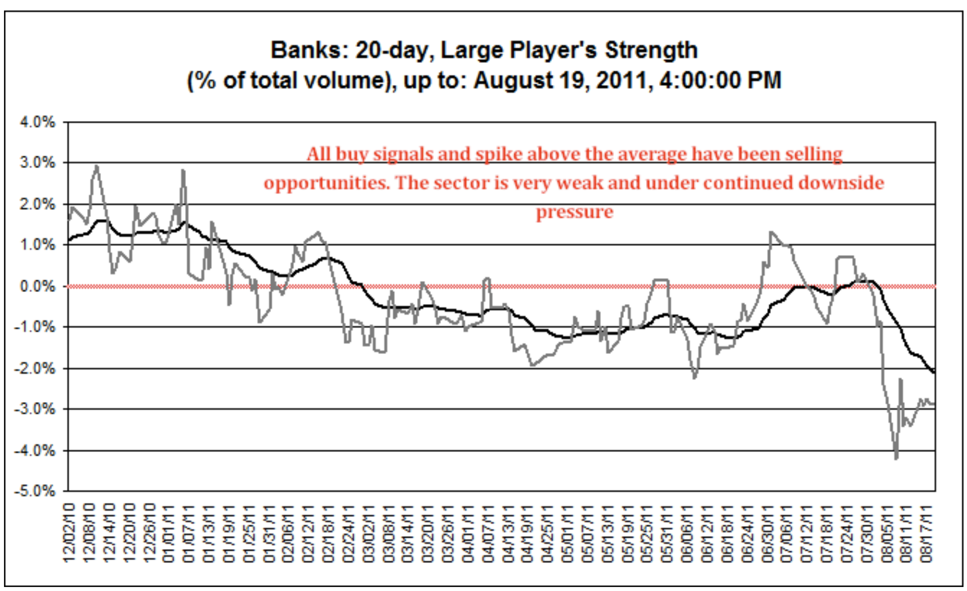
- The growing number of issues under late accumulation
- Earnings breakouts and breakaway gaps in stocks like PCLN and FFIV
- New leadership from small-caps and IPO's (JKS for example)
- Leadership in frontier markets including Indonesia (IDX) and Turkey (TUR)

Sentiment levels in late August also reached a low point, which was diverging from the emerging underlying strength that came just before a 20 MF day buy signal and Dr. K MDM buy signal. And today no such features are present. Consequently, last summer is an inappropriate precedent for the current correction, at least in this participant's view.

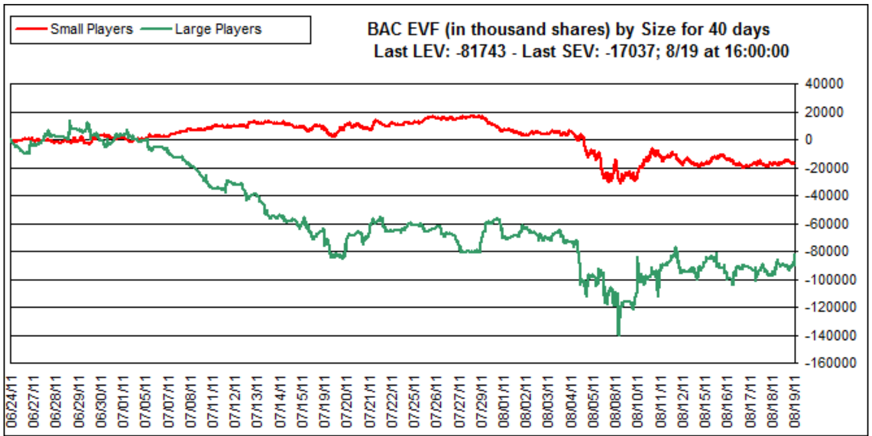
Financials:

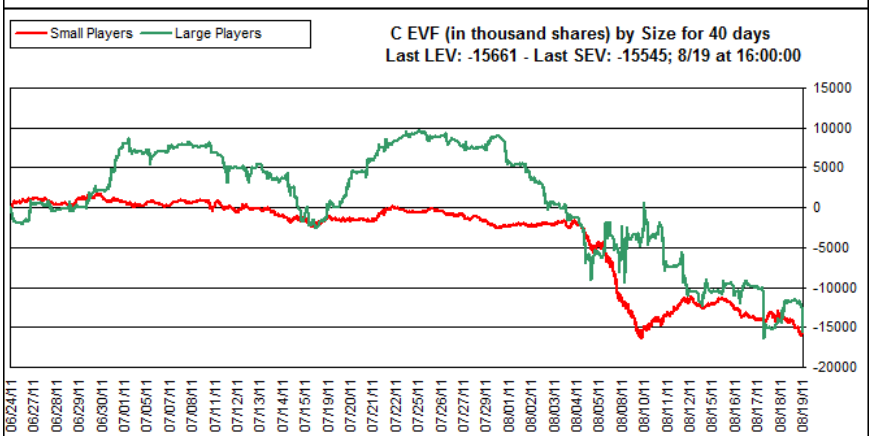
The financials highlight the market sickness more than any other sector. I am no expert in bank fundamentals, but BAC trades at a fraction of book value, which reveals little confidence in the viability of the enterprise as price nears the $5 level. With hardly a dividend, what incentive remains for large players to buy?

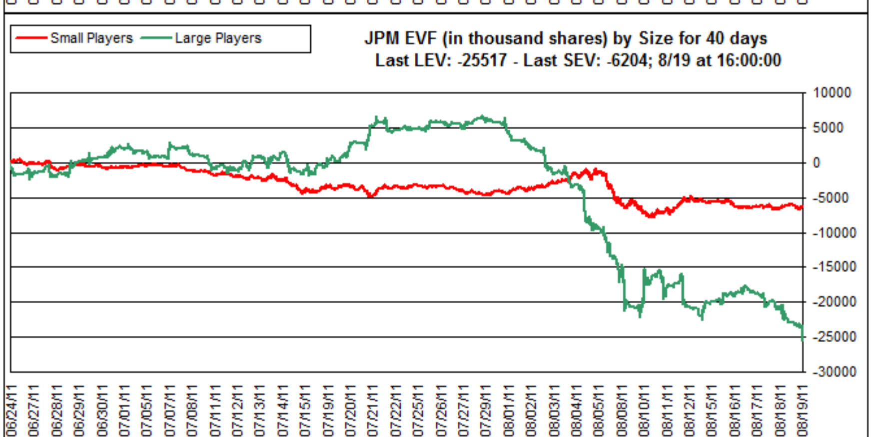
The sector is far from healing . . .

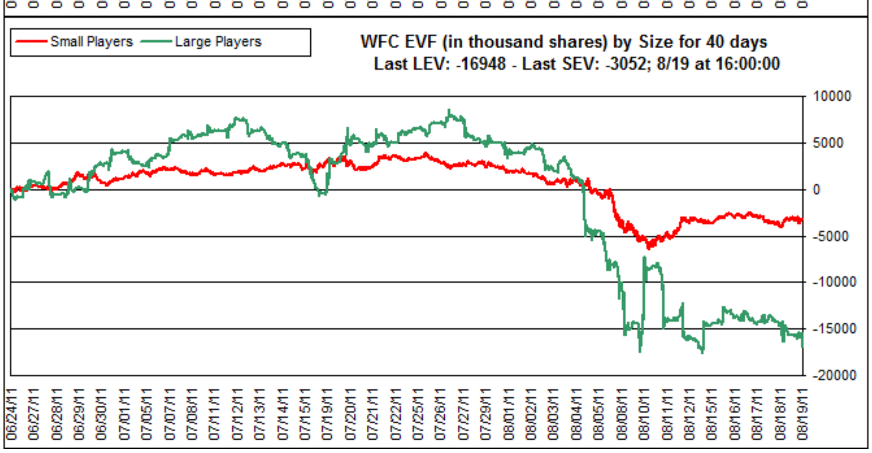


And the biggest banks garner little support from large players – who truly understands their books? Even financial guru Bruce Berkowitz must find little comfort in his concentrated BAC position. Effective Volume graphs for BAC, C, JPM, and WFC are shown on next page.


Small Players
Large Players
BAC EVF (in thousand shares) by Size for 40 days
Last LEV: -81743 - Last SEV: -17037; 8/19 at 16:00:00
40000
20000
0
-20000
-40000
-60000
-80000
-100000
-120000
-140000
-160000


Small Players
Large Players
C EVF (in thousand shares) by Size for 40 days
Last LEV: -15661 - Last SEV: -15545; 8/19 at 16:00:00
15000
10000
5000
0
-5000
-10000
-15000
-20000

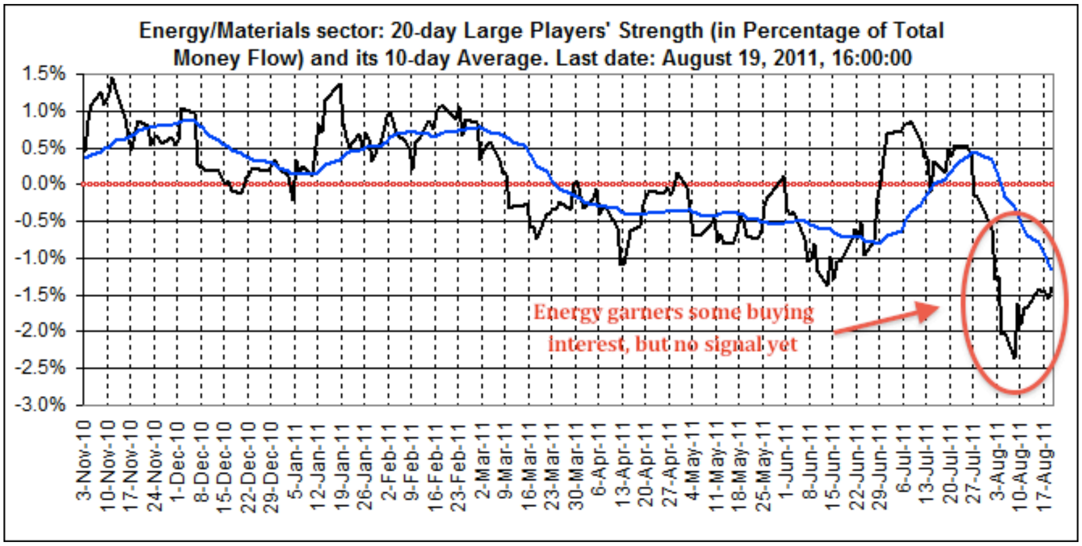

Small Players
Large Players
JPM EVF (in thousand shares) by Size for 40 days
Last LEV: -25517 - Last SEV: -6204; 8/19 at 16:00:00
10000
5000
0
-5000
-10000
-15000
-20000
-25000
-30000


Small Players
Large Players
WFC EVF (in thousand shares) by Size for 40 days
Last LEV: -16948 - Last SEV: -3052; 8/19 at 16:00:00
10000
5000
0
-5000
-10000
-15000
-20000

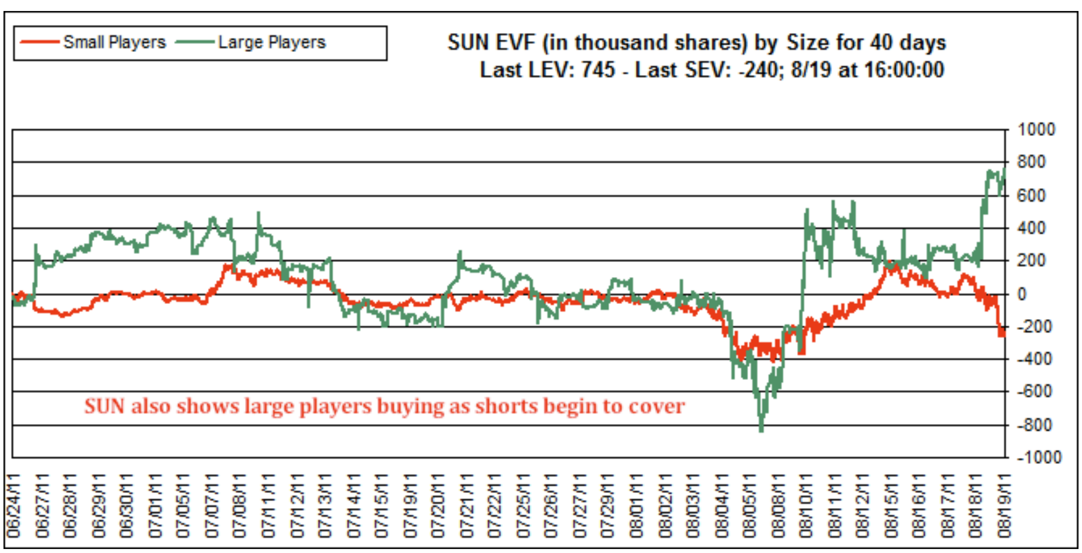
Bounce Candidates:

When the market shows more willingness to bounce from the current oversold condition, stocks with the worst RS will likely move the fastest; therefore, if the market encounters selling earlier in the week, one might monitor which stocks and sectors resist further selling or simply hold their August lows. Sectors that experience large player buying in the face of weakness may provide the best opportunity to trade such a bounce.

One group I am paying attention to is the energy sector. While a buy signal has not been issued, one might consider a close watch on stocks where shorts are beginning to cover.



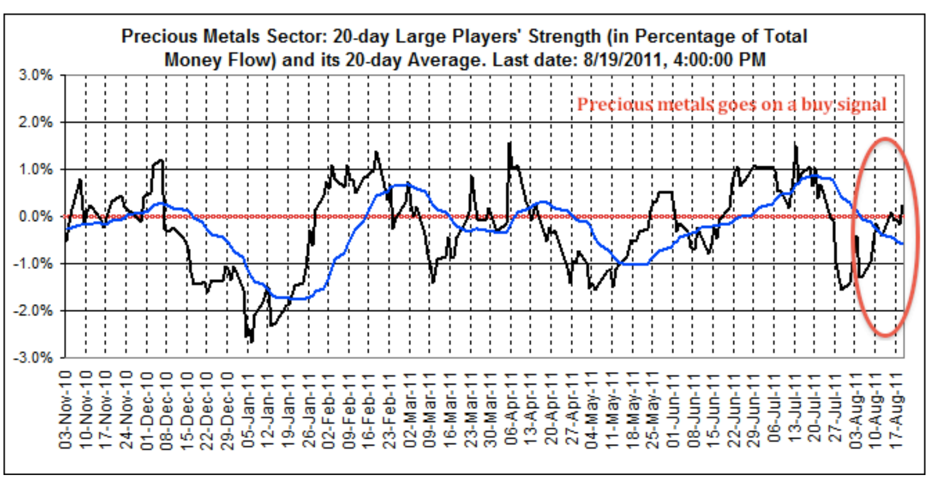
Some interesting patterns I came across in the *Best Thrust* and *From Sectors That Issue a Buy Signal scans* are ATW DO DRQ SWN SUN TCK and VALE. Of course, any trade in said issues is short-term in nature – there are no bases that I have found in stocks that I watch and/or track. Looking for extremes in price with positive LEV divergence is something I intend to closely monitor. SUN and VALE shown below:

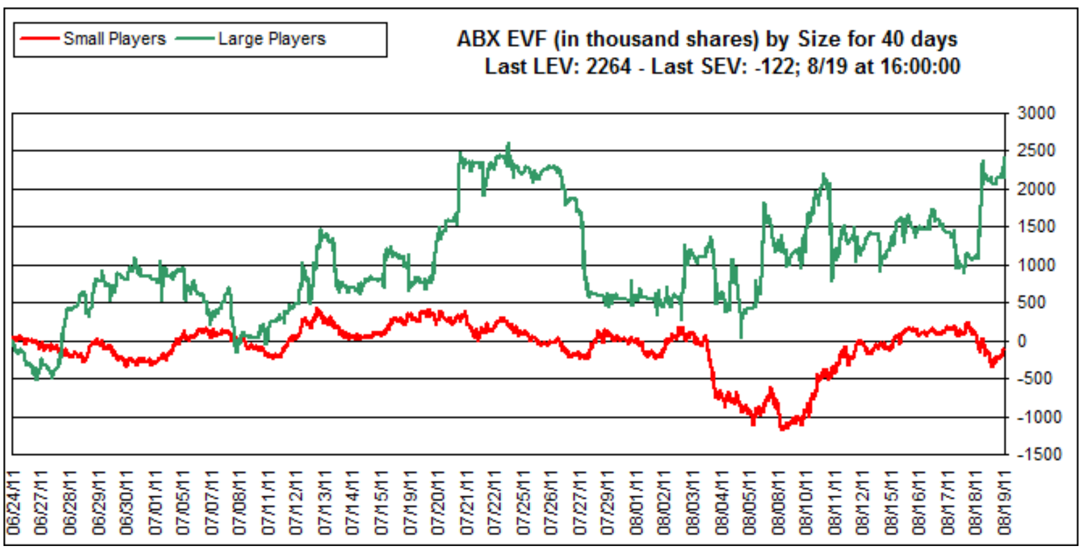


VALE is an example of what one might be looking for in the midst of some additional weakness – large players buying beginning to overcome small players, even in the face of price declines.

Precious Metals:

With gold on a tear and possibly on the verge of a short-term parabolic move, the pm stocks have been more muted. Nonetheless, the sector is on a buy signal and warrants further consideration. Some issues have yet to push through their recent consolidations and even came under a bit of selling pressure – RGLD, for example. Meanwhile, some of the mega-producers like Barrick and Goldcorp showed nice accumulation within their respective price consolidations.





Some silver stocks also appeared in the scans, PAAS appeared in the *Best Thrusts* and *From Sectors that Issue a Buy Signal* scans, while SLW showed up in the latter. With the SLV closing near the day's highs on Friday and the Silver Stocks sector going into a buy signal, there is ample reason to keep the group on the radar.

Summary:

There is little else to add other than what is already known – the market is oversold, we should bounce, gold is going up, etc. Now, one observes whether there is any downside follow-through following last weeks selling. Evidence I've read coupled suggests some selling is to be expected; however, in the event of such selling any divergence between large player buying and declining prices might suggest a degree of downside exhaustion. As Charles Kirk notes, price performance will be key, and thus far, the elements of a significant bounce have yet to emerge.

Best to everyone,
Eric Coleman