

Defying Gravity

Stocks continue to climb 'Wall of Worry'.

MARKET REVIEW - DECEMBER 2009

Following a lackluster October, stocks showed marked improvement during November despite ending the month some what below the highs posted during the October – November time frame. After gaining less than a ½ point during October, the DJIA led the charge throughout the month recording seven new recovery highs during the period. Equally impressive was the fact that the blue chips closed lower on only seven of the twenty sessions. After ending October at 9712.73, the DJIA headed higher for most of the month peaking on 11/26/09 at 10464.40, a gain of 751.67 points (+7.7%) On a percentage basis, the DJIA out paced all of the broader market averages throughout the month. However, as the month came to a close, the blue chips gave back some of the gains as the Dubai credit crisis put pressure on US equities. For the month, the DJIA gained 632.11 points (+6.5%) while closing at 10344.84.

The NASDAQ, which lost 3.6% of it's value in October, underperformed the DJIA once again during the month of November as it gained only 99.49 points (+4.8%) to close at 2144.60. The NASDAQ flirted with it's 50-day moving average (2130) late in the month but managed to stay above this important support area. Of particular note has been the recent performance of the Russell 2000 and the Philadelphia Semiconductor Index (SOX). Both of these indexes fell below their respective 50-day moving averages in mid-month and look to be headed lower.

Year to date, the DJIA is up 17.9% while the NASDAQ has gained 36.0%.

The Market Edge 'Market Posture', bearish since the week ending 10/02/09, (DJIA – 9487.67) remains negative at this juncture. The following review of the timing models will provide some insight as to what to expect over the intermediate term.

CYCLICAL TREND INDEX (CTI): Bearish

The CTI, bearish since the week ending 10/02/09, remains negative at this juncture. As can be seen from the table below, three of the five cycles are in bearish territory at this time resulting in a -04 reading. However, the picture should change shortly as the count for Cycles A, B and C should reset soon resulting in a +13 CTI. The CTI will then be projected to remain in positive ground through the end of February 2010. It should be noted that a reset could occur sooner or later than the projected date. What is needed is for the DJIA to end a week with a higher intra-day low that the previous week's intra-day low. Also, the reset would have to be accompanied by a significant improvement in the Momentum Index which is a very bearish -10 at this time.

Cycle	Average # Of Weeks In the Cycle	# Of Weeks Since Previous Bottom	Bullish or Bearish Connotation
A	6 + or – 1 Week	3 Weeks	Bearish
B	18 + or – 2 Weeks	20 Weeks	Bearish
C	36 + or – 4 Weeks	38 Weeks	Bearish
D	72 + or – 7 Weeks	38 Weeks	Bullish
E	216 + or –20 Weeks	38 Weeks	Bullish

The following are projected CTI readings over the intermediate term. It should be noted that these projections are subject to revision. For a 35 year historical performance record of the CTI, click on "**Market Letter Track Record**" located on the Market Edge Home page.

Week Ending	CTI	Connotation
11/27/09 (Actual)	-04	Bearish
12/04/09 (Projected)	-05	Bearish

12/11/09 (Projected)	+13	Bullish
12/18/09 (Projected)	+13	Bullish
12/25/09 (Projected)	+13	Bullish
12/31/09 (Projected)	+13	Bullish
01/01/10 (Projected)	+13	Bullish

** The CTI is the total of the plus and minus values assigned to each cycle based on the number of weeks that have passed since their previous cyclical bottom. Projected CTI readings are for informational purposes only. No guarantee is made that the actual CTI reading will be the projected number on the date referenced. The actual CTI reading will be determined based on market conditions. For a detailed explanation of the market timing models, click on **Market Letter Help** located on the top of the **Market Letter** or check out the articles located in the **Market Edge Education Center** on the Home page.

Market Posture Performance And Projections For 2009

The following is the performance record and projections of the Market Edge 'Market Posture' for 2009.

Projected Strong Periods		Actual Results – DJIA
12/19/08 – 10/02/09 - 8579.11 – 9487.67	DJIA Gain/Loss---->	+908.56
11/20/09 - 02/26/10		

Projected Weak Periods		Actual Results – DJIA
10/02/09 – 12/11/09 - 9487.67 - ??????	DJIA Gain/Loss---->	+857.17 *

* As of close 11/30/09: (DJIA –10344.84)

Did you know that while the DJIA was down five of the last nine years (2000 - 2008), timing the market with the Market Edge long/short approach would have produced a gain in seven of those nine years? For the nine-year period, a buy and hold strategy produced a **loss of 13.3%** while the Market Edge long/short approach would have generated a non-compounded, **32.6% gain**.

Year	DJIA Buy – Hold Points – Gain/Loss	DJIA % Gain/Loss	Market Edge Long – Short Points – Gain/Loss	Market Edge % Gain/Loss
2000	-709.13	-6.2%	+1609.55	+14.0%
2001	-766.42	-7.1%	+1424.02	+13.2%
2002	-1679.94	-16.8%	+710.34	+6.6%
2003	+2112.29	+25.3%	+1362.87	+16.3%
2004	+329.09	+3.1%	+924.40	+8.8%
2005	-65.51	-0.6%	+515.49	+4.8%
2006	+1745.65	+16.3%	-826.64	-7.7%
2007	+801.87	+6.4%	+1057.51	+8.5%
2008	-4485.43	-33.8%	-4616.35	-34.8%
Totals	-2720.73	-13.3%	+2521.19	+32.6%

***Past Performance Is No Guarantee Of Future Results.**

MOMENTUM INDEX: (MI) Bearish

The Momentum Index, a gauge of bullish or bearish divergence in the market, is bearish at -10, up a point from the previous month's bearish -11 reading. Readings of +4 and higher are regarded as bullish signaling stronger performance from the majority of the broader indexes vs. the DJIA. Conversely, readings of -4 or lower are regarded as bearish.

Prev. Highs	DJIA	DJTA	S&P 500	NYSE	AMEX	NASDAQ	UTIL	A/D LINE
Oct – Nov '09	10464.49	4049.60	1110.32	7237,10	1878.84	2203.78	387.70	+135720
11/27/09	10309.92	3922.84	1091.49	7070.09	1760.78	2138.44	375.71	+132378
% Change	-1.48%	-3.13%	-1.70%	-2.31%	-6.28%	-2.96%	-3.09%	-2.46%

Average % Change of the Broad Market Indexes: -3.85%

As can be seen from the chart above, the broader market indices, excluding the NYSE A/D line, are down on average **3.85%** from their October lows while the DJIA is down only **1.48%**. Of particular note has been the weakness in the DJ Transportation Index which is off over 3% from its previous high and the AMEX which is down 6.28%.

During the month of November, breadth was positive at the NYSE but mixed at the NASDAQ. The NYSE Advance/Decline line gained 4986 units vs. a gain of 2965 units in October. However, the NASDAQ's A/D line fell from -296235 to -296901, a loss of 666 units vs. a loss of 5585 units the previous month. Also, the number of NYSE new 52-week highs exceeded the number of new lows throughout the month while the new highs at the NASDAQ out did the new lows on 18 of the 20 sessions. Finally, the percentage of NYSE stocks above their 200-day moving average fell to 81.6% from 89.2% at the end of October, while the percentage of stocks above their 50-day rose to 51.7% from 44.1%.

SENTIMENT INDEX: (SI) Neutral

The Sentiment Index is neutral at +0, down two points from the previous months neutral +2 reading. This index is a measurement of the degree of optimism or pessimism prevalent in the market. Whenever the crowd becomes overly optimistic (a bearish condition), the readings from the Sentiment Index will drop into negative ground. Conversely, when fear is rampant (a bullish condition), the index will be in the +3 to +8 area.

Those indicators that are in bullish ground include the Odd Lot Short Ratio (78.31), the Dividend Yield Spread (2.77) and the high but declining levels of short interest at both the NYSE and the NASDAQ. Bearish indicators include the very low Mutual Fund Liquid Asset Ratio (3.8), the Public/Specialist Short Ratio (1.59), which indicates that the public is only shorting 1.59 times more stock than the NYSE specialists and the low percentage of Bearish Investment Advisors (17.6%). The remaining sentiment indicators are neutral.

*****To view the charts and graphs of the major market indexes and pertinent technical indicators that are incorporated in the Momentum and Sentiment indexes go to the Market-At-A-Glance section located under Market Recap on the Market Edge home page.***

STRENGTH INDEXES: Mixed

As of the close on 11/27/09, only one of the three Strength Indexes is in positive ground. The DJIA (DIA) jumped to 56.7% from 36.7% at the end of October, while the S&P 100 (OEX) rose to 44.4% from 43.4%. The NASDAQ (QQQQ) climbed to 38.0% from 27.0%. While readings below 50% indicate that the majority of the stocks in the index are under distribution, which is a short-term bearish condition, it is the trend that tends to forecast future price direction. All three of the indexes bottomed the first week of November and steadily gained ground throughout the remainder of the month which is a plus.

SUMMARY

The technical condition of the market, which began to deteriorate in the latter part of September, continued to weaken throughout November. While the DJIA was posting new recovery highs throughout the month, all of the broader market averages, with the exception of the DJ Transportation Index (DJTA) underperformed the performance of the DJIA. This is why the Momentum Index, which measures market divergence, is at a very bearish -10 reading.

As we have noted throughout the month of November in the Market Edge 'Market Letter', none of the DJIA's new recovery highs were confirmed by the majority of the broad market averages. After closing at 9712.73 on 10/30/01, the DJIA recorded seven new recovery highs in November. The high on 11/16/09 (DJIA 10406.96) was the closest to being a confirmed high as four of the nine broader indexes followed suit. When the DJIA closed on 11/23/09 at 10450.95, none of the broader indexes posted a new high.

It is also a sign of market weakness when the DJIA posts a new high while the NYSE A/D line does not and the number of NYSE new 52-week highs begins to contract. On 11/25/09, the DJIA closed at

10464.40, its seventh new high for the month. On that day, the NYSE A/D line closed at 132378, 3342 units off its previous high (135720) recorded on 10/19/09 when the DJIA stood at 10092.19. The number of new NYSE new 52-week highs on 10/19/09 was 430, only 32 less than the high for the year posted on 10/14/09 (462). On 11/25/09, the number of new highs was only 170, 260 fewer than the 10/19/09 total. The same comparisons hold true for the NASDAQ.

In addition to the divergences detailed above, there are several other negatives that are worth noting. The percentage of Bearish Investment Advisors (17.6%) is the lowest it has been since the week ending 10/12/08 (18.3%) when the DJIA peaked at 14164.53. While the number of NYSE daily new highs has been contracting, the number of *weekly* new highs has declined from 802 in mid-October to 319 the week ending 11/27/09. Also, the MACD-LT indicator, which is a good intermediate-term trend indicator, is negative for all of the major averages with the exception of the DJIA. Finally, the number of stocks in the Market Edge universe with a Long (Buy) opinion has fallen from a high of 3024 on 9/25/09 to 1534 on 11/30/09. While positives are few and far between, the improvement in the Strength Indexes over the last couple of weeks is an encouraging sign.

Although our longer term forecast, based on projected CTI readings is for a continuation of the bull market into 2010, the negatives at this juncture far outweigh any positives that may exist. Should a sell off occur, the DJIA should find initial support around 9700. Should that area be breached, look for a drop to 9450 – 9500.

NUMBERS TO WATCH

DJIA: 9953--50-day simple moving average
DJIA: 8783--200-day simple moving average
DJIA: 10495--Resistance-11/23/09 high
DJIA: 9678--Support- 11/02/09 low

S&P 500: 1073--50-day simple moving average
S&P 500: 941--200-day simple moving average
S&P 500: 1112--Resistance-11/23/09 high
S&P 500: 1029--Support- 11/02/09 low

NASDAQ: 2130--50-day simple moving average
NASDAQ: 1844--200-day simple moving average
NASDAQ: 2205--Resistance-11/16/09 high
NASDAQ: 2024--Support- 11/02/09 low

****Click on 'Market Letter' located on the Markets Page for weekly updates of the market timing models.***

INDUSTRY GROUP RANKINGS: What's Hot (31) - What's Not (60)

Of the 91 Industry Groups that we track, 31 are rated as either Strong or Improving while 60 are regarded as Weak or Deteriorating. The previous month's totals were 24-67.

The following are the strongest and weakest industry groups for the period ending 11/27/09. Strongest: Cosmetics/Personal Care, Internet-Retail, Pollution-Waste Management and Household Products (Non-Durables). Weakest: Home Construction, Recreation/Entertainment, Casinos and Drug Based Retailers. For a complete analysis of the 91 industry groups and the stocks that make up the groups, go to the Market Edge Home Page, login, click on Advanced Tools and then on Industry Group Analysis.

TRADING STRATEGIES WHEN THE MARKET POSTURE IS BEARISH

- 1) Initiating new short positions for an intermediate-term trading approach:
 - a) Go to Stock Watch, select a list, click on the Opinion/Conditions drop down and then on Avoid for potential short sale candidates. Click on the Situations drop down and then on Early Entry Shorts.

b) Click on the Analysis Tools tab and then on Money Runner. Select stocks from the Today's Shorts list as potential short sale candidates.

c) For a more conservative approach, check out the ETF Center. Choose a category that is either 'Deteriorating' or 'Weak' and then choose ETF's with Avoid Opinions as potential shorts.

d) Click on Screening Tools on the too bar and then on Market Edge Prime Ideas. Choose the Market Edge Short Sale Candidates for stocks that are considered to be broken momentum stocks.

2) Initiating new positions for a short-term trading approach:

a) Click on Analysis Tools located on the toolbar. Then select either NYSE or NASDAQ Short Term Shorts from the Market Edge Trading Desk Module.

b) Go to Point & Figure Breakouts and the Point & Figure Early Alert modules. Look for stocks that have either broken or are in the process of breaking either a Triple Bottom or Quadruple Bottom and have an Avoid Opinion for potential short sale candidates.

c) Check out Short Term Shorts from the Market Edge-Trading Desk Module for potential short-sale candidates.

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