Market Charts

WEEKLY BREADTH ANALYSIS

February 22, 2010

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NYSE WEEKLY BREADTH NUMBERS

NYSE NET (A-D) NUMBERS	DAILY 02/19	WEEKLY 02/16-02/19	4-DAY CUM. 02/16-02/19
ADVANCES	1,825	2,599	8,590
DECLINES	1,245	587	3,718
NET (A-D)	+580	+2,012	+4,872

NASDAQ WEEKLY BREADTH NUMBERS

NASDAQ NET (A-D) NUMBERS	DAILY 02/19	WEEKLY 02/16-02/19	4-DAY CUM. 02/16-02/19
ADVANCES	1,403	2,022	6,473
DECLINES	1,243	821	4,144
NET (A-D)	+160	1,201	+2,329

5-DAY NYSE MARKET BREADTH REVIEW

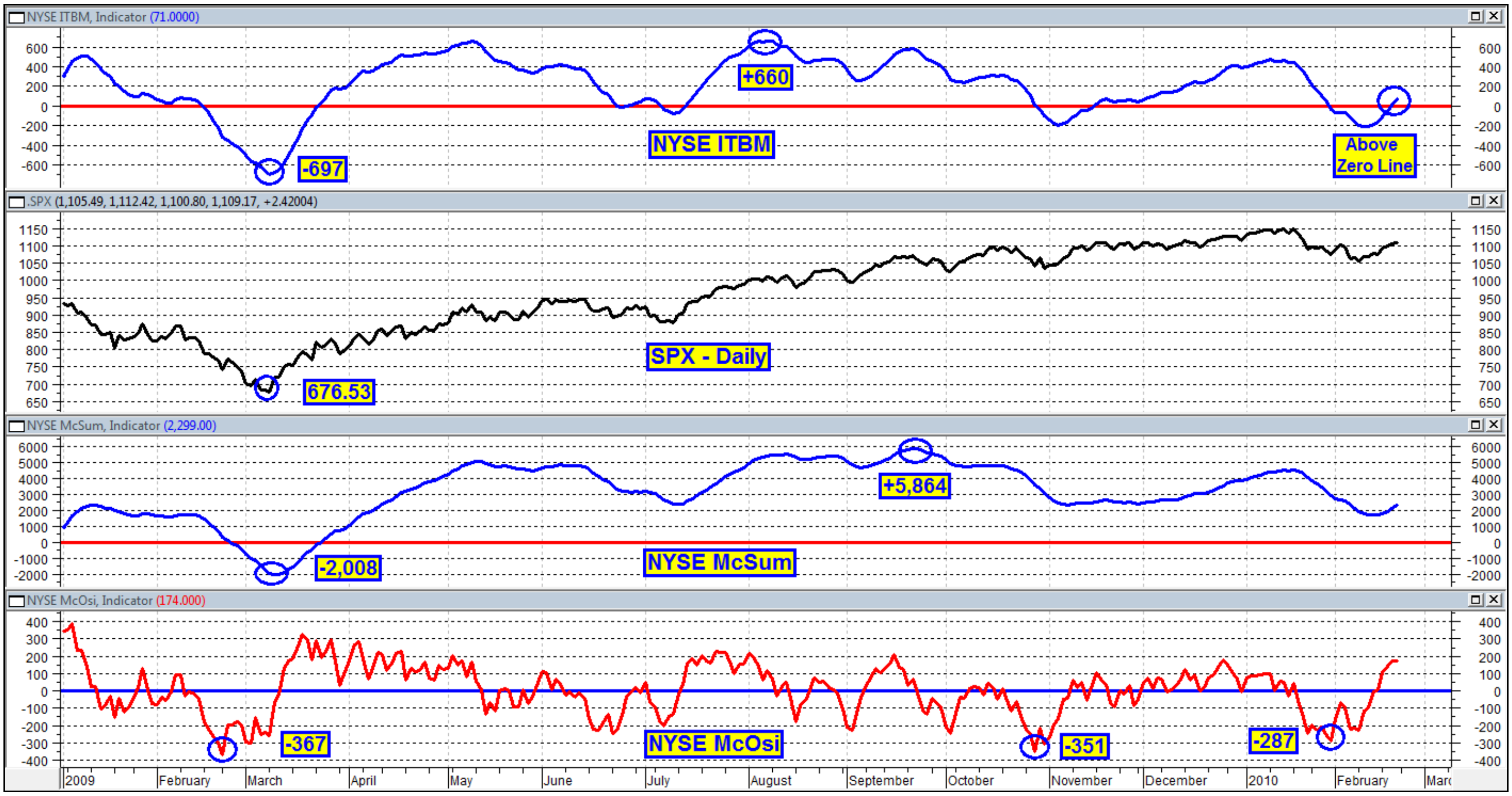
DATE	NYSE McOsi	McOsi SIGNAL	NYSE ITBM	ITBM ROC	ITBM SIGNAL
02/12-FRI	+4	BUY	-164	+25	BUY
02/16-TUE	+103	BUY	-112	+52	BUY
02/17-WED	+140	BUY	-54	+58	BUY
02/18-THU	+175	BUY	+11	+65	BUY
02/19-FRI	+174	BUY	+71	+60	BUY

NYSE MARKET BREADTH COMMENTARY

From Weekly Commentary for 02/26/10: "The NYSE McOsi declined on Monday and bottomed at -230, which was close to the low (-219) from the prior week. The McOsi advanced the next 4 days and issued a new ST Buy Signal on Friday after being on a ST Sell Signal for 17 days. The McOsi is in a position to make a "Buy Spike" after being on a ST Sell Signal for an extended period of time. The McOsi will spike up and issue a new ST Buy Signal for 1-3 days before reversing and issuing another ST Sell Signal. The market becomes volatile with a ST bearish bias. If the McOsi maintains a ST Buy Signal for more than 3 days then the "Buy Spike" pattern will be negated. The next 2 days are important for the McOsi."

Update for 02/22/10: NYSE market breadth was positive each day last week and it has been positive for 8 consecutive days. The potential "Buy Spike" pattern by the McOsi was negated last week. The McOsi advanced on Thursday to +175, which is the highest level since December 2009. ST market breadth momentum made a new high on Thursday so it is not likely price has made a ST high. Most of the time price and market breadth momentum will not make highs at the same time. The market should make a higher high even if there is a ST correction during the new week.

The NYSE ITBM issued a new Buy Signal on February 11 and it continued to advance last week as the daily ROC was above +50 for 4 consecutive days. The daily ROC above +50 can be significant and I have included additional analysis in the Weekly Market Breadth Commentary. The ITBM (+71) advanced above the zero line on Thursday after being below it for 13 trading days or since January 29. The IT trend of the market is now considered to be bullish with the ITBM advancing above the zero line. ST downside risks should be limited as long as the ITBM is advancing above the zero line.



5-DAY NAZ MARKET BREADTH REVIEW

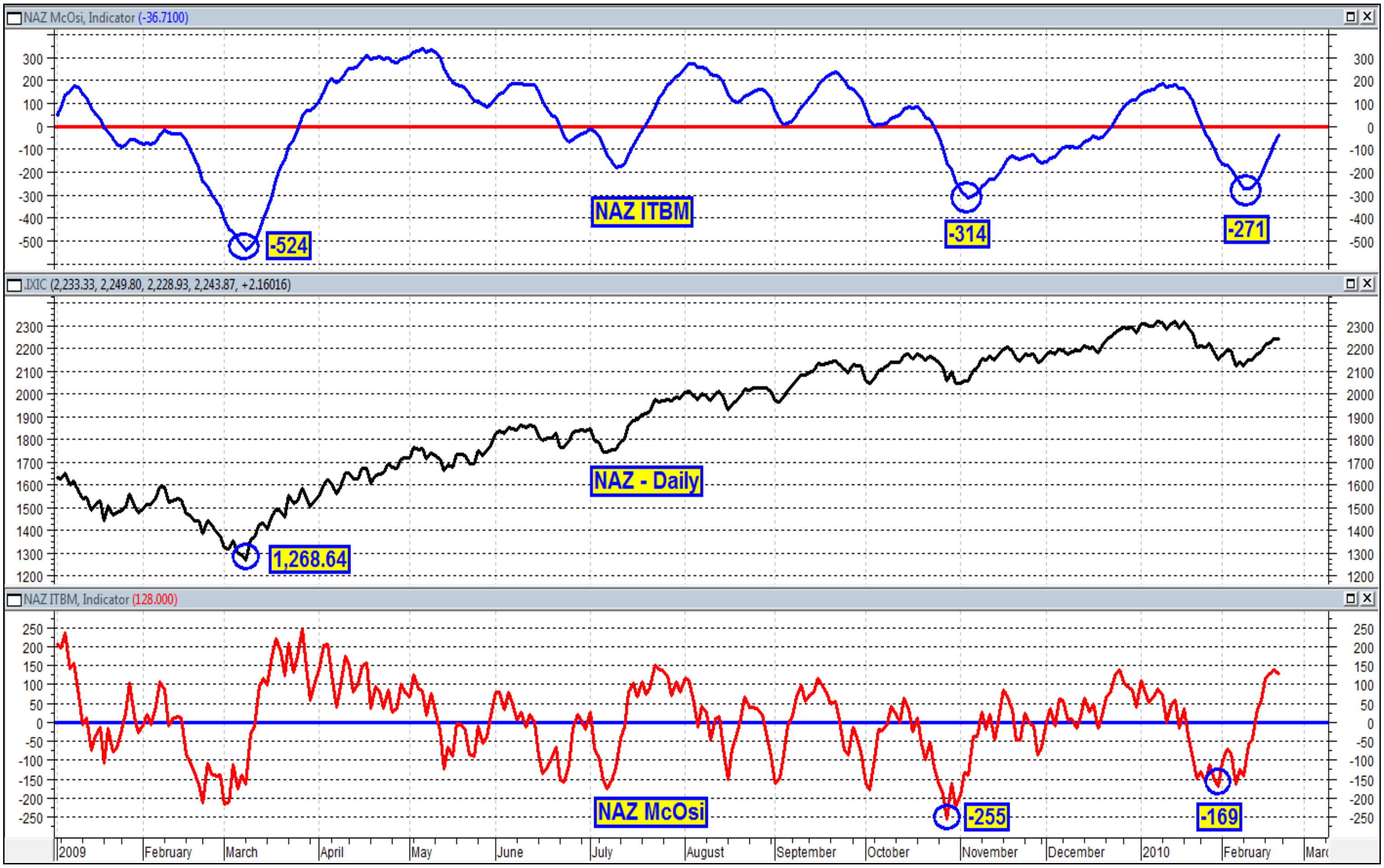
DATE	NAZ McOsi	McOsi SIGNAL	NAZ ITBM	ITBM ROC	ITBM SIGNAL
02/12-FRI	+58	BUY	-212	+31	BUY
02/16-TUE	+114	BUY	-167	+45	BUY
02/17-WED	+128	BUY	-122	+45	BUY
02/18-THU	+137	BUY	-76	+46	BUY
02/19-FRI	+128	BUY	-37	+39	BUY

NASDAQ MARKET BREADTH COMMENTARY

From Weekly Commentary for 02/16/10: "The McOsi issued a new ST Buy Signal on Thursday after being on a ST Sell Signal for 16 days. The McOsi is also in a position to make a "Buy Spike" but it has been performing better than the NYSE McOsi in the past week. The NAZ McOsi ended the week at +58 versus +4 for the NYSE McOsi. However, if NAZ market breadth turns negative then the McOsi is in a position to issue a ST Sell Signal in the next 1-2 days."

Update for 02/22/10: NAZ market breadth was positive each day last week. The potential "Buy Spike" pattern by the NAZ McOsi was also negated last week. The NAZ McOsi advanced to +137 on Thursday, which is the highest level in 2010.

The key during the new week is the performance of the NAZ ITBM (-37) because it remains below the zero line. However, the ITBM advanced sharply last week as the daily ROC was +39 or higher each day. If NAZ market breadth maintains a positive bias then the ITBM should advance above the zero line in the next 1-2 days. The ITBM has been below the zero line since January 26. If the ITBM advances above the zero line then the IT trend for the NAZ is considered to be bullish.


NAZ McOsi, Indicator (-36.7100)
-524
NAZ ITBM
-314
-271
.IXIC (2,233.33, 2,249.80, 2,228.93, 2,243.87, +2.16016)
1,268.64
NAZ - Daily
NAZ ITBM, Indicator (128.000)
NAZ McOsi
-255
-169
2009
February
March
April
May
June
July
August
September
October
November
December
2010
February

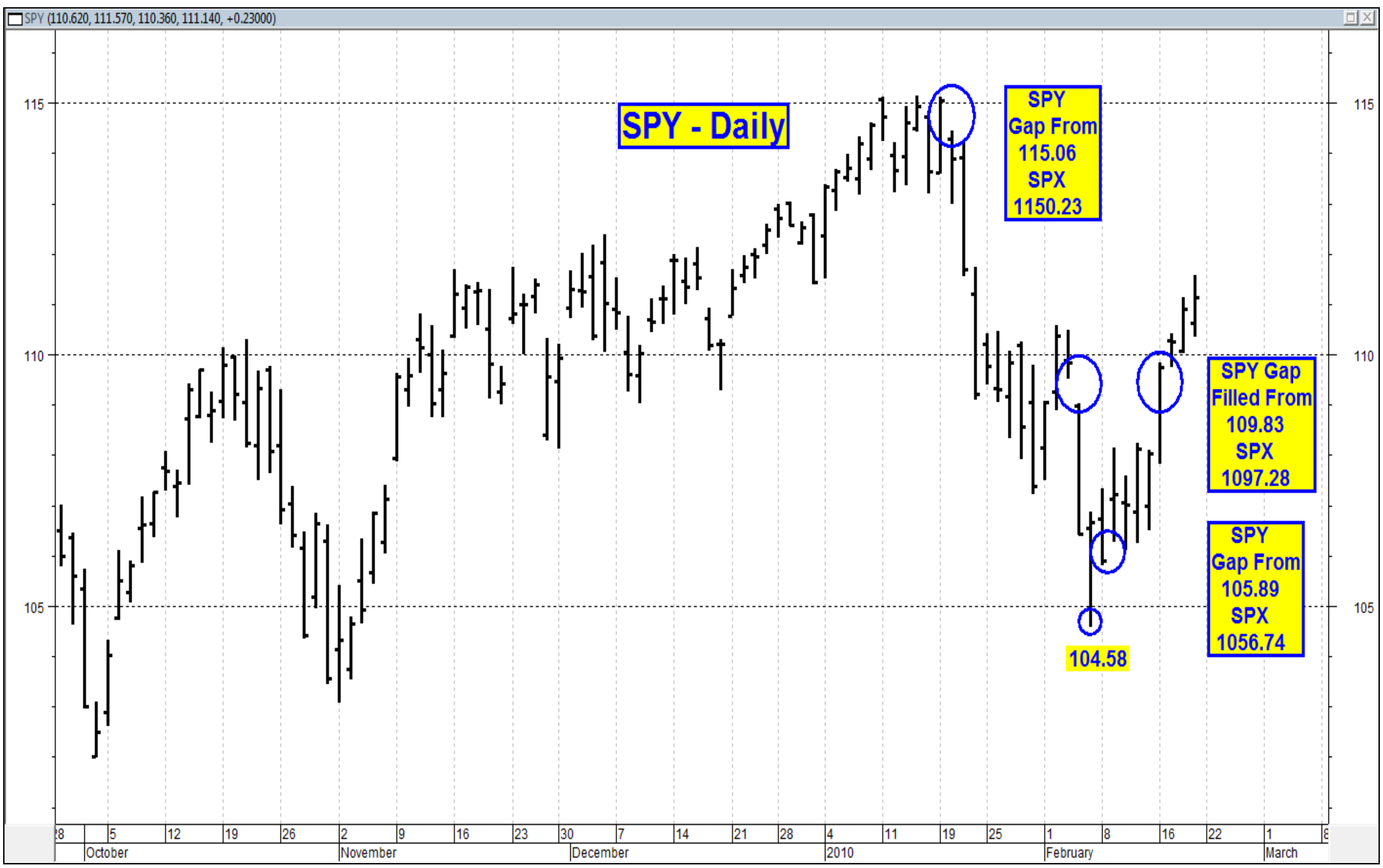
WEEKLY MARKET BREADTH COMMENTARY

From Weekly Commentary for 02/16/10: **"**NYSE weekly market breadth had the best week since the week ending January 8. The NYSE weekly McOsi bottomed the prior week at -196, which is very close to the low of -204 in March 2009. The market began a strong rally in March 2009 after bottoming at -204. However, the advance began from much lower levels and it also occurred after significant declines over the prior 6 months. Although the weekly McOsi (-119) advanced last week it remains on a Sell Signal. It will be interesting to see how this plays out in the next few weeks."

Update for 02/22/10: NYSE weekly market breadth continued to improve and it was the best week since the week ending October 9. The NYSE weekly McOsi advanced sharply last week as the ROC expanded from +77 to +101. However, the McOsi remains on a Sell Signal. NYSE market breadth needs to maintain a positive bias during the new week or the McOsi will make a top below the zero line. If NYSE weekly market breadth is +645 or more this week then the McOsi will issue a new Buy Signal.

From Weekly Commentary for 02/16/10: "The SPX declined on Monday and made a new ST closing low. On Tuesday, the SPX gapped higher but spent the next 4 days trading in a fairly narrow range between 1,060 and 1,080. The SPX has made two key gaps in the past 2 weeks. There is a gap lower from 109.83 and a gap higher from 105.89 (see chart below). They correlate to SPX 1,097.28 and 1,056.74. Both levels will be important to follow in the next week. If the SPX continues to advance then the gap to 109.83 should get filled."

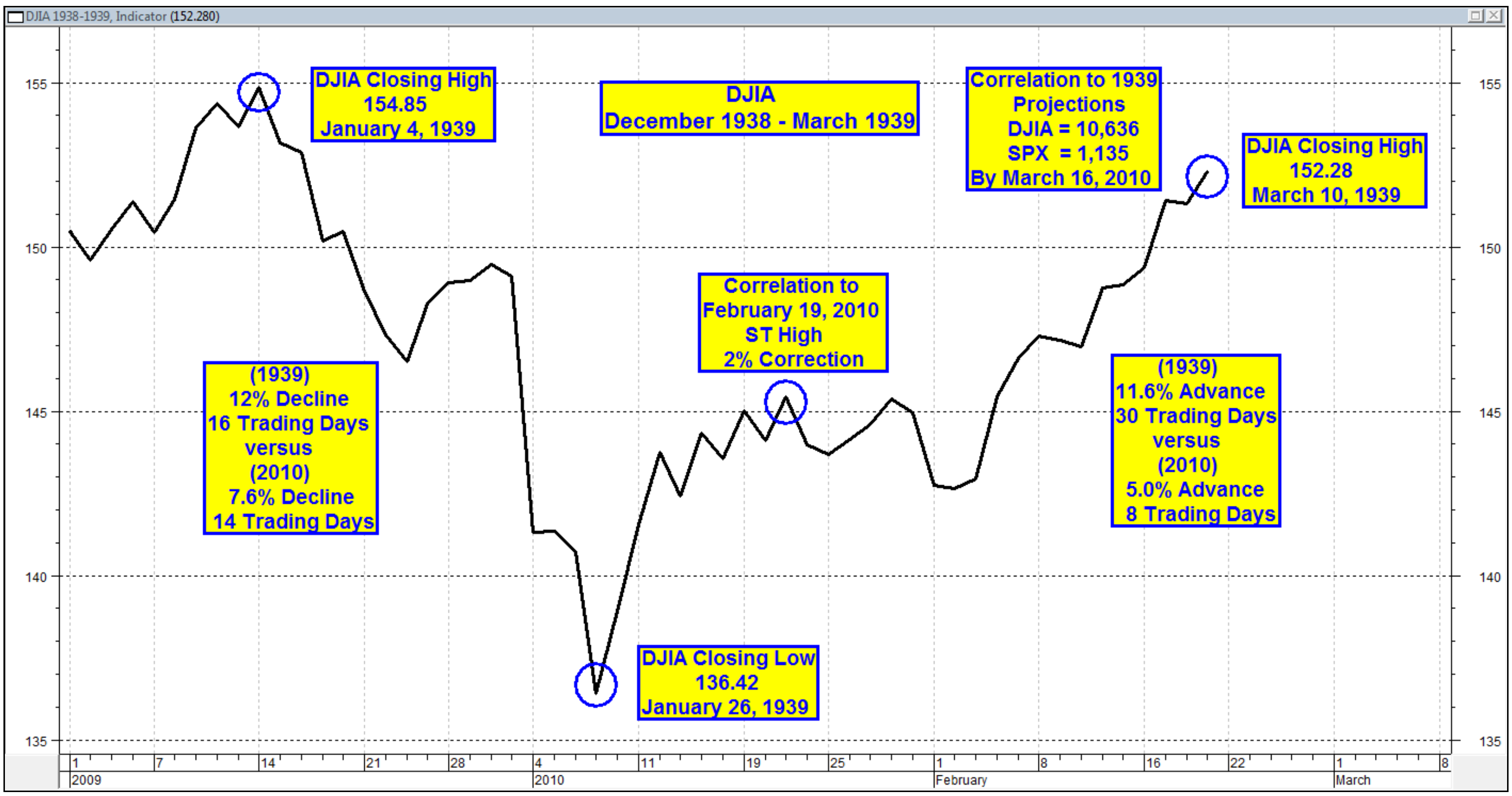
Update for 02/22/10: The market advanced from the opening bell on Tuesday and never looked back last week. Most indexes advanced between 2% and 4% for the week. The SPY gap from 109.83 was filled on Wednesday and the SPX advanced 3.13% last week. Based on the recent advance by the SPX, there is another gap that could get filled if the SPX continues to advance in the weeks ahead. The SPY has a gap from 115.06, which occurred the day after the SPX made a closing high on January 19 (see chart below). The correlation to the SPX is 1,150.23. There is no guarantee the gap will get filled in days/weeks ahead. However, the gap remains open and it is likely to get filled at some point in the future.



Based on correlation studies completed by Moore Research Centers, Inc, the DJIA and SPX continue to follow a high average correlation to 1939. I have included a DJIA daily chart from December 1938 to March 1939 (see chart below). I have also included data based on correlating the current DJIA to 1939. The data on the chart is based on closing prices.

On the chart below, notice the DJIA declined 12% in 16 trading days from a high on January 4, 1939 to a low on January 26, 1939. The current DJIA declined 7.6% in 14 trading days from a high on January 19 to a low on February 8. Notice the strong advance (11.6%) by the DJIA over the next 30 trading days. The advance was countertrend. The DJIA made a high on March 10 and then got hammered with a decline of 20.3% from March 10 to April 8. The closing low in 1939 was made on April 8. The current advance has been about 5% in 8 trading days.

I included the chart because of the high average correlation to the current DJIA. If the current DJIA continues to follow a high average correlation to 1939 then the DJIA and SPX should advance higher in the weeks ahead after a ST correction (2%). There is also a possibility the SPY will fill the gap (SPX = 1,150.23) left over from the decline on January 19. I have included projections on the chart based on the correlation to 1939. The DJIA would advance to 10,636 and the SPX to 1,135 by March 16. I also included a blue circle and highlighted the correlation to February 19, 2010 based on the pattern from 1939. Notice how the DJIA made a ST high near current levels and this was followed by a 2% correction. After the correction was complete the DJIA had another strong advance to a high on March 10, 1939.

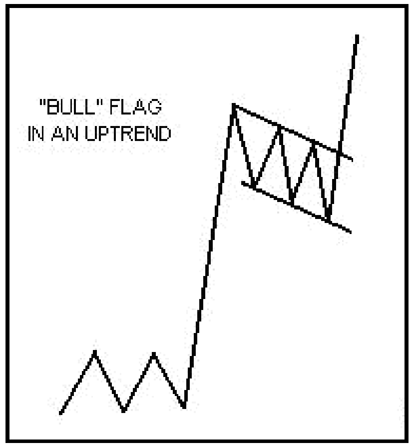


The market had a good week and the next 1-2 weeks are important for ST direction. The recent sharp decline from a closing high on January 19 may have bullish implications for the market in the weeks ahead. At this point I am only speculating but there is a possibility the recent correction pattern by the SPX in January/February 2010 is similar to the correction pattern from June/July 2009. First, I included the Weekly Market Breadth Commentary from July 20, 2009 with additional data about the pattern from June-July 2009. Second, I will include an updated chart with the recent pattern through February 19, 2010 (see chart on page 7).

<u>From Weekly Commentary for 07/20/09</u>: "The market had a strong week with most major indexes advancing 6-8%. An advance last week was not unexpected because most market breadth indicators were in deep oversold territory. The market had a good day on Monday as most indexes were in the process of retesting prior support levels that were violated during the decline in July. However, the market had another strong day on Wednesday as most indexes gapped higher and never looked back. The trading on Wednesday was very interesting and this will be important to follow in the next few weeks. I have included some additional data about the potential significance of the advance on Wednesday.

The SPX was forming a head and shoulders topping pattern between May and July. It was obvious on a daily chart and the talking heads on CNBC were discussing it a few weeks ago. Of course, when they start discussing chart patterns then we know everyone else is following it. When everyone else is following it then it probably will never be completed. I just illustrated how a 20 DMA / 50 DMA cross over Sell Signal that has been very reliable since October 2007 was not reliable last week. The same thing happens with chart patterns. A head & shoulders topping pattern is bearish in a bearish phase but it can also be only a continuation/consolidation pattern in a bullish phase.

This week I want to provide a possible alternate bullish scenario from the prior bearish scenario from the head & shoulders topping pattern. There is a possibility the market is in the process of making a "Bull Flag" in an uptrend not a head & shoulders topping pattern. This occurs AFTER the market makes a strong move in one direction. The chart below is only for illustrative purposes to understand what a "Bull Flag" in an uptrend looks like, which is basically a continuation pattern, not a bearish pattern. The chart is from www.chartpatterns.com."



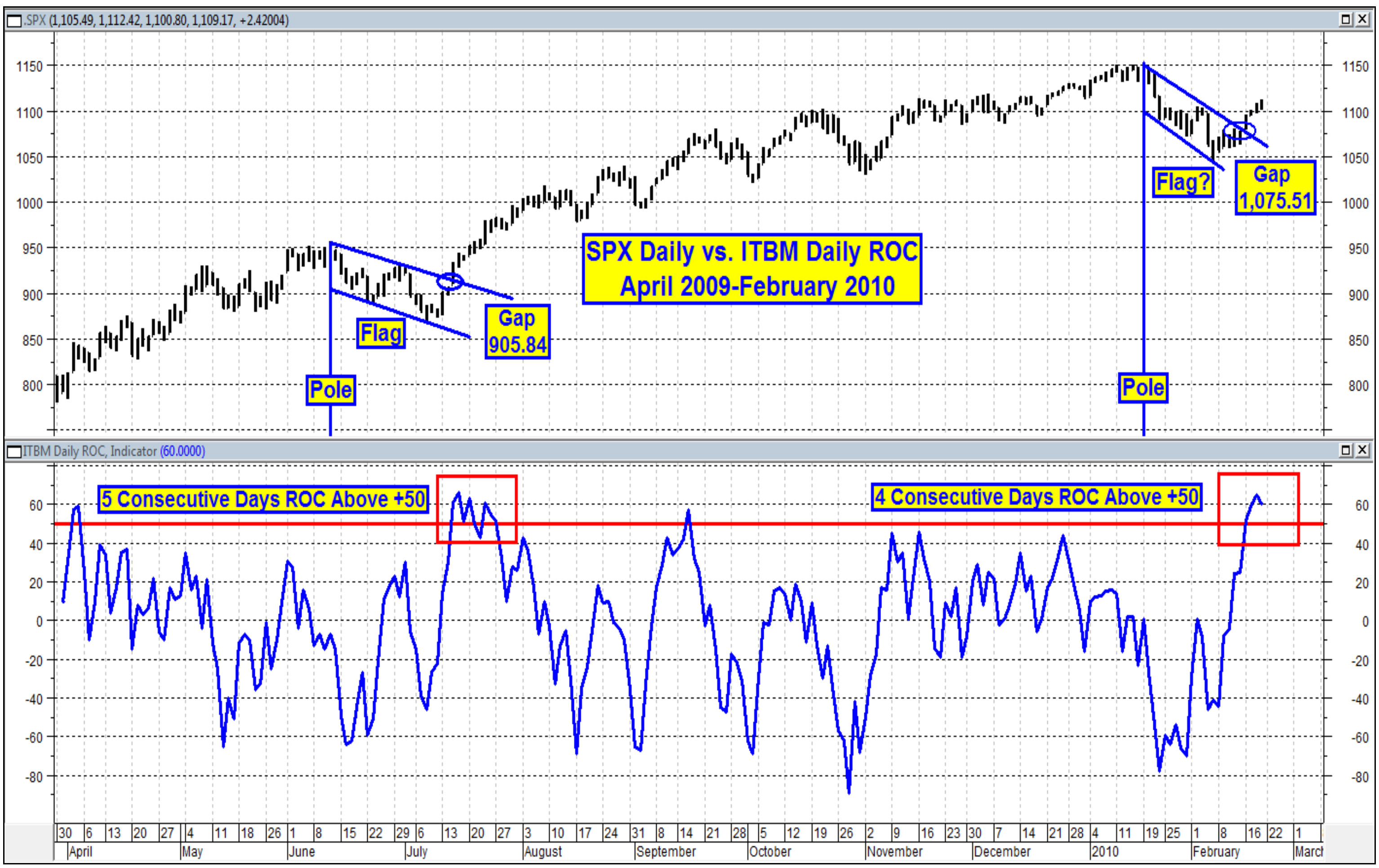
<u>From Weekly Commentary for 07/20/09</u>: "The "Bull Flag" is a ST consolidation pattern that develops over a few weeks when prices trade between the high end and low end of a previous range. Once the consolidation pattern is complete, the market will break out above prior resistance (the market gapped above prior resistance on Wednesday). When prices advance above the upper trendline this can be a confirmation that previous trend is in continuing and higher prices will be seen in the future. I have included a daily chart of the SPX so it better illustrates that this is a possible alternate pattern the market will follow in the weeks ahead. The prior head & shoulders pattern was a fake out. Obviously, there is no guarantee the "Bull Flag" pattern is correct but as always, time will tell. It is typical for the prior break out area to be tested the weeks ahead so a decline to the upper trendline is expected in the next few weeks."

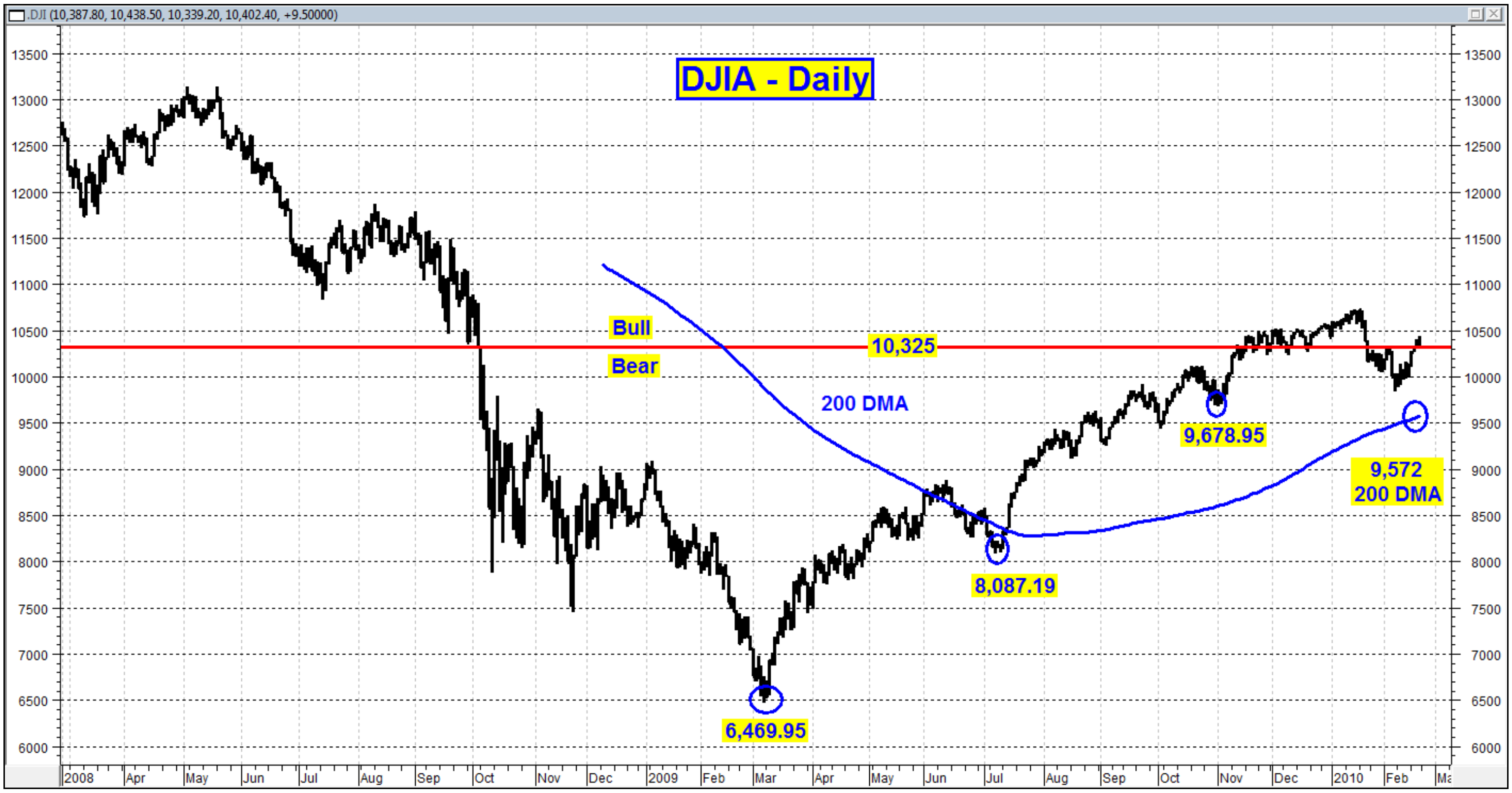
Update for 02/22/10: The following is a daily SPX chart from April 2009 to February 2010 (see chart below). Notice the bull flag pattern in June-July 2009 after the SPX declined 7.1% in 19 trading days. The SPX made a closing low on July 10 and it gapped higher (905.84) above the down trendline on July 15. The SPX advanced to new highs and had a large advance in the months ahead. Notice the "potential" bull flag pattern developing after the decline in January-February 2010. The SPX declined 8.1% in 14 trading days. The SPX gapped higher (1,075.51) above the down trendline on February 22.

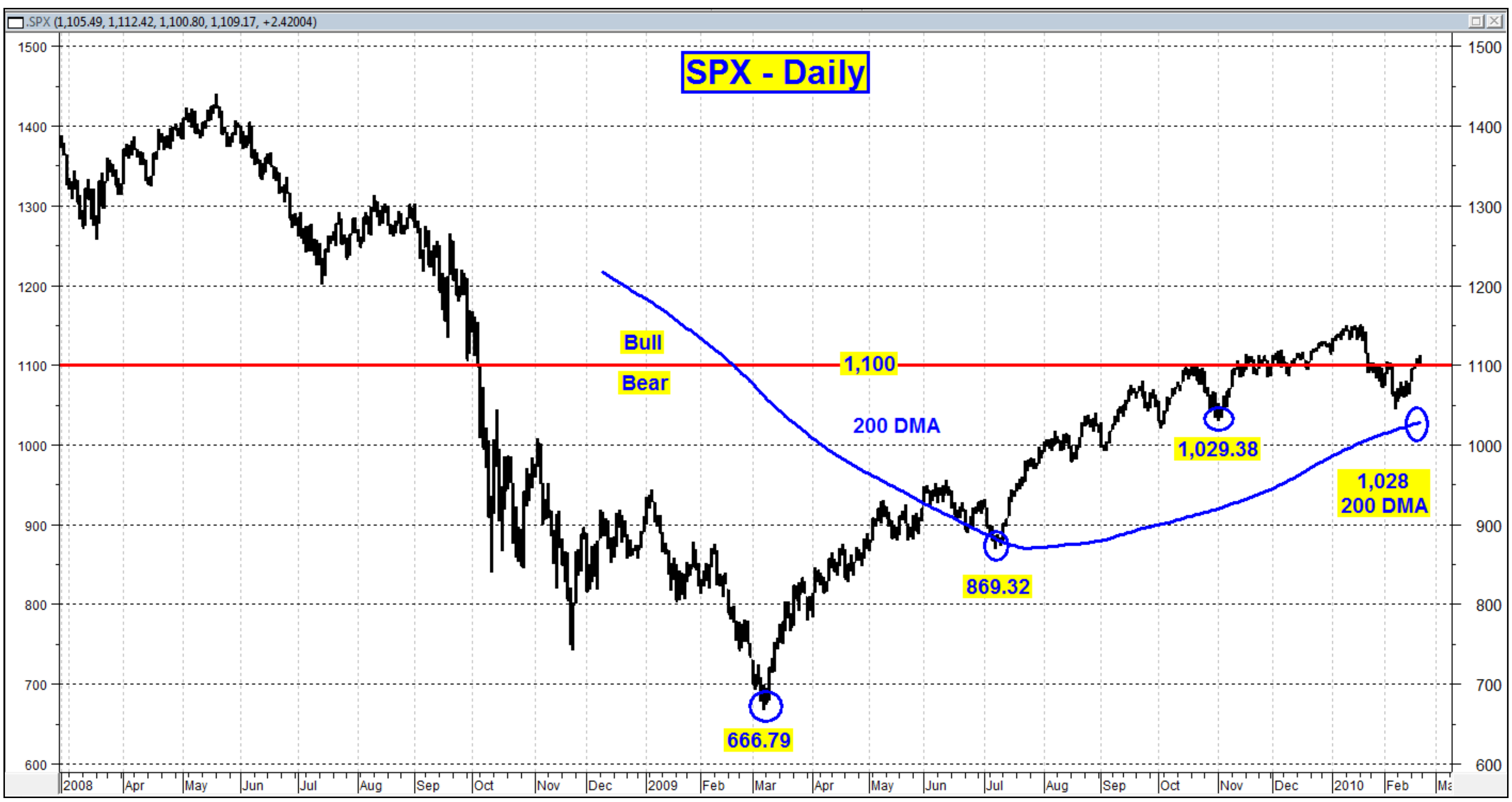
As I mentioned previously, I am only speculating about this "potential" pattern because there always needs additional confirmation. However, I have also included the NYSE ITBM daily ROC on the chart below. Notice how the NYSE ITBM daily ROC expanded above +50 for 5 consecutive days as the SPX gapped higher above the down trendline in July 2009. Last week the ITBM daily ROC expanded above +50 for 4 consecutive days as the SPX gapped higher above the down trendline. There was a large IT market breadth momentum thrust higher during the pattern in July 2009 and it is similar to the IT market breadth momentum thrust higher last week. Obviously, this does not guarantee the outcome will be the same but this will be important to follow in the next few weeks due to seasonality patterns.

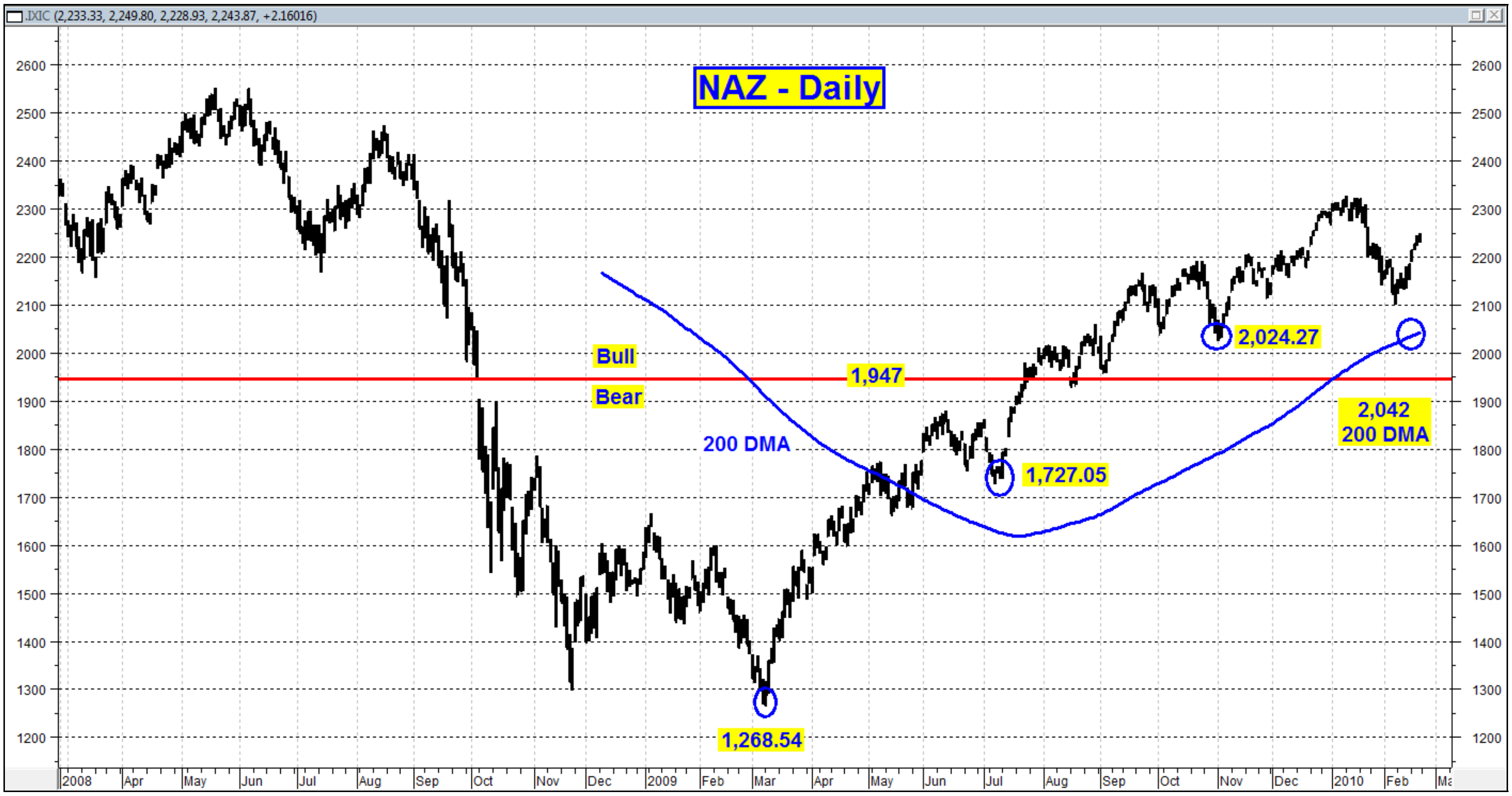
There is a "Spring Rally" seasonality pattern that typically occurs from a closing low in February/March to a closing high in the second quarter (April/May/June). Based on DJIA data from 1964-2009, the average advance is 11.6% and the median advance is 9.4%. As of February 19, the closing February low occurred on February 8 at DJIA 9,908 and SPX 1,057. If the DJIA and SPX made their February/March closing low on February 8 then the DJIA and SPX are in a position to advance to new highs by the second quarter if they follow an average or median advance for a typical "Spring Rally".

Based on the closing low on February 8, the DJIA is projected to make a second quarter closing high between 10,839 (median advance) and 11,057 (average advance). The SPX is projected to make a second quarter closing high between 1,156 (median advance) and 1,180 (average advance). The SPX projections are based on the DJIA historical data. The closing high in 2010 for the DJIA is 10,725 and the SPX is 1,150. The DJIA and SPX projections are based on an extraordinary assumption the February/March closing low occurred on February 8. However, regardless if the closing low did occur on February 8, if the market declines over the next 6 weeks towards the February 8 low or it makes a new low in February or March then this should be a buying opportunity for a "Spring Rally" into the second quarter. We need additional confirmation in the days/weeks ahead so I will continue to provide weekly updates as we see how this plays out in February and March.

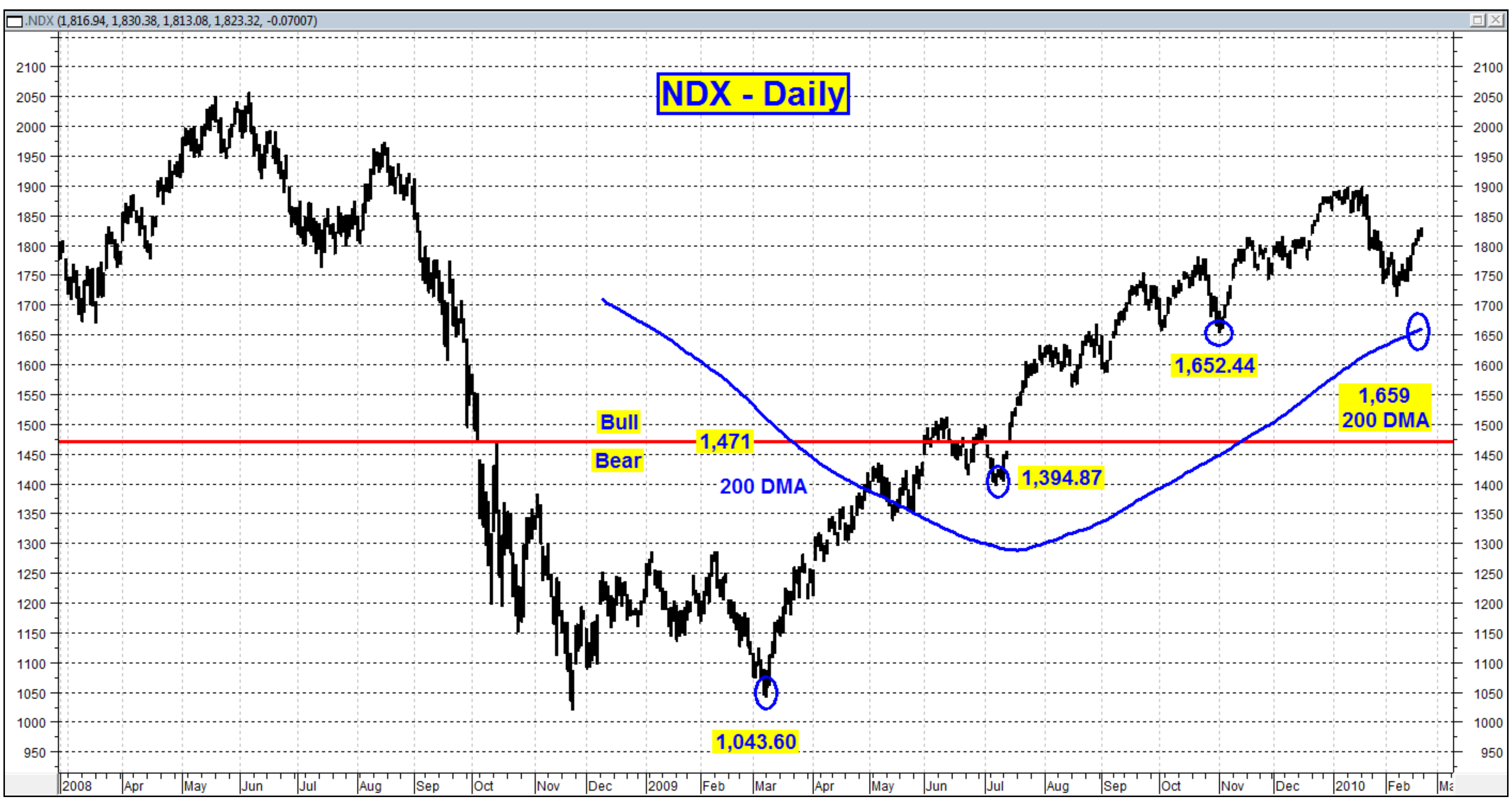



.DJI (10,387.80, 10,438.50, 10,339.20, 10,402.40, +9.50000)
DJIA - Daily
Bull
Bear
10,325
200 DMA
6,469.95
8,087.19
9,678.95
9,572
200 DMA

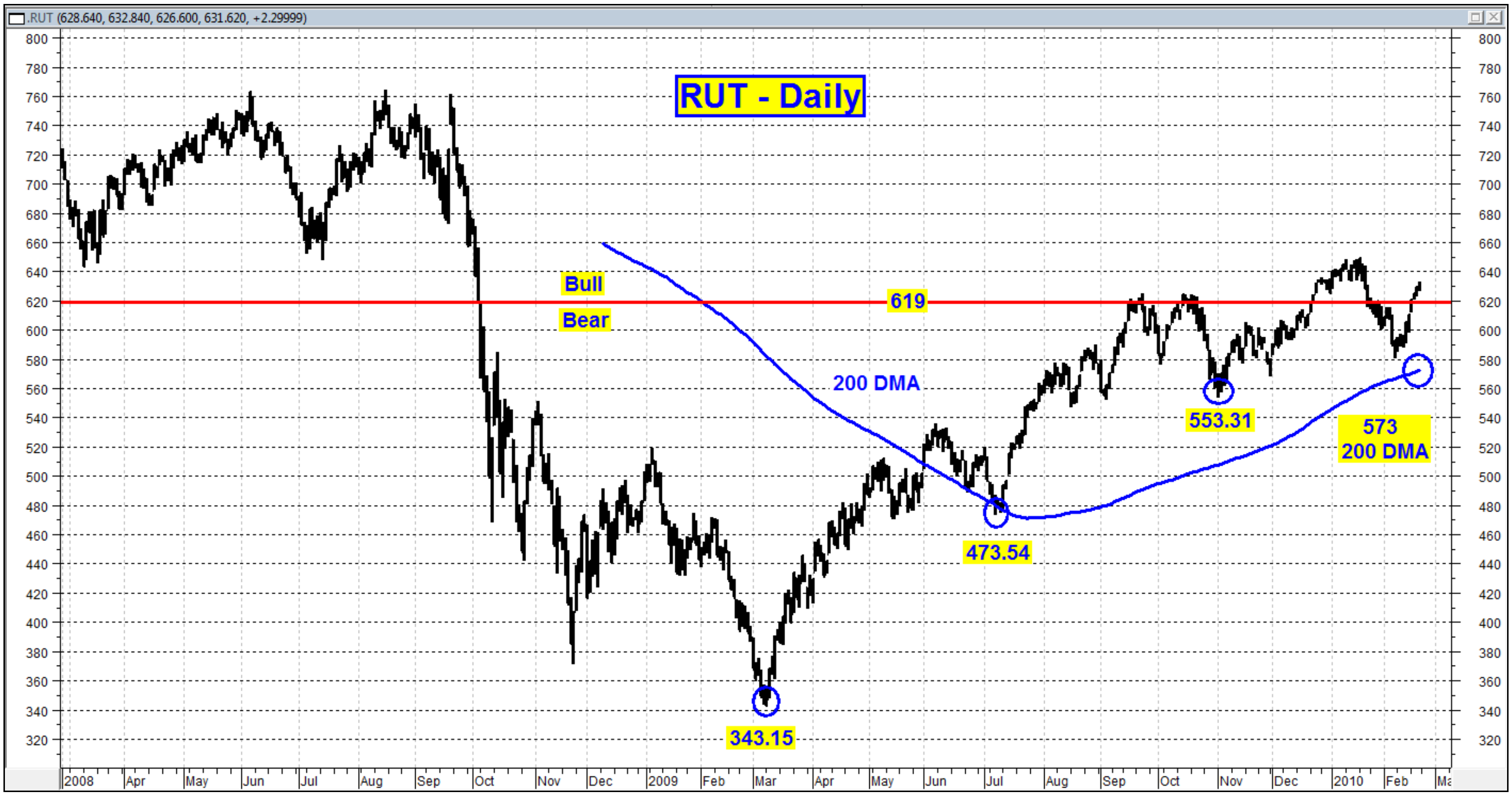

.SPX (1,105.49, 1,112.42, 1,100.80, 1,109.17, +2.42004)
SPX - Daily
Bull
Bear
1,100
200 DMA
666.79
869.32
1,029.38
1,028
200 DMA



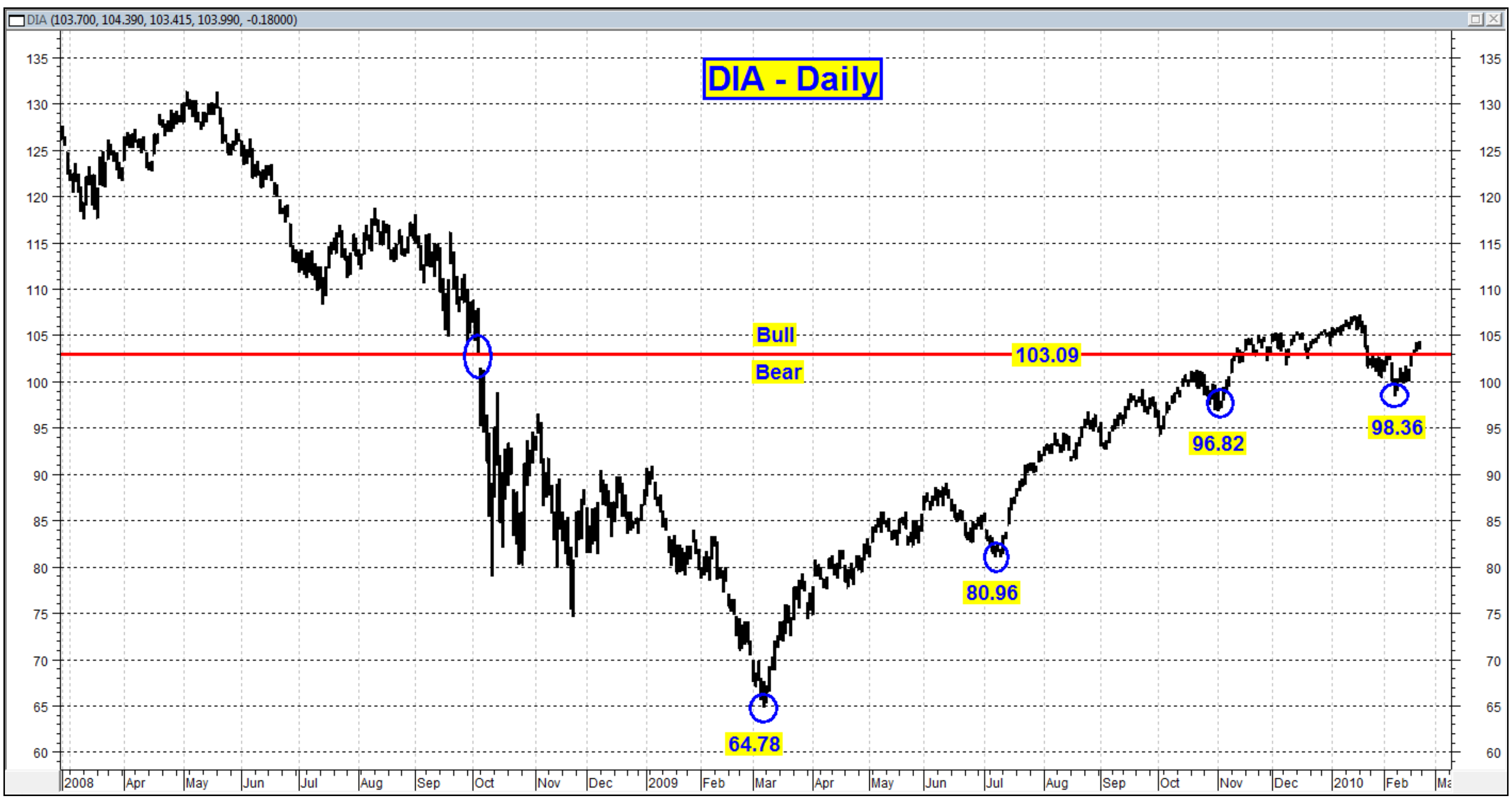
.IXIC (2,233.33, 2,249.80, 2,228.93, 2,243.87, +2.16016)
NAZ - Daily
Bull
Bear
1,947
200 DMA
2,042
200 DMA
2,024.27
1,727.05
1,268.54



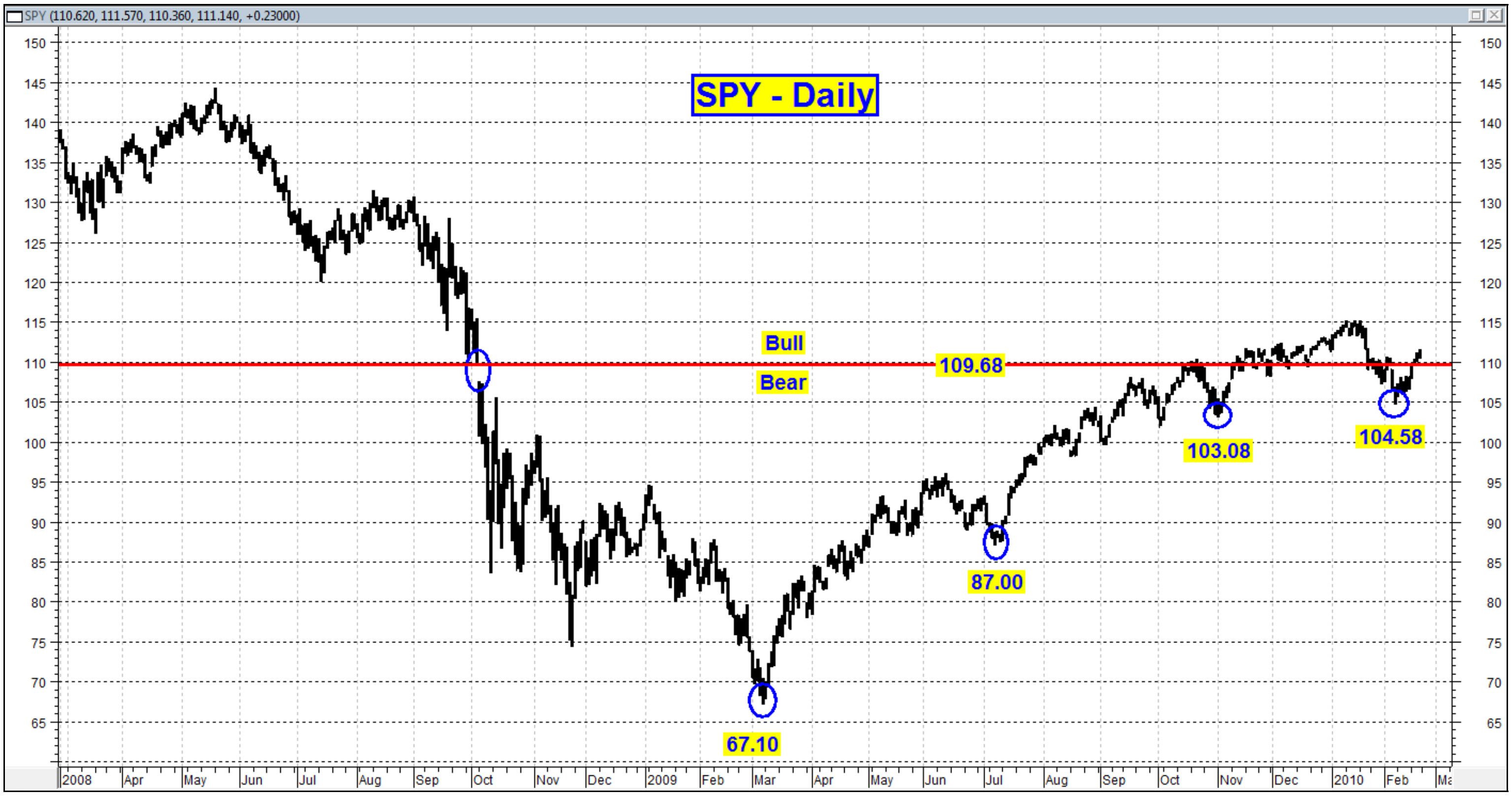
.NDX (1,816.94, 1,830.38, 1,813.08, 1,823.32, -0.07007)
NDX - Daily
Bull
Bear
1,471
200 DMA
1,659
200 DMA
1,652.44
1,394.87
1,043.60

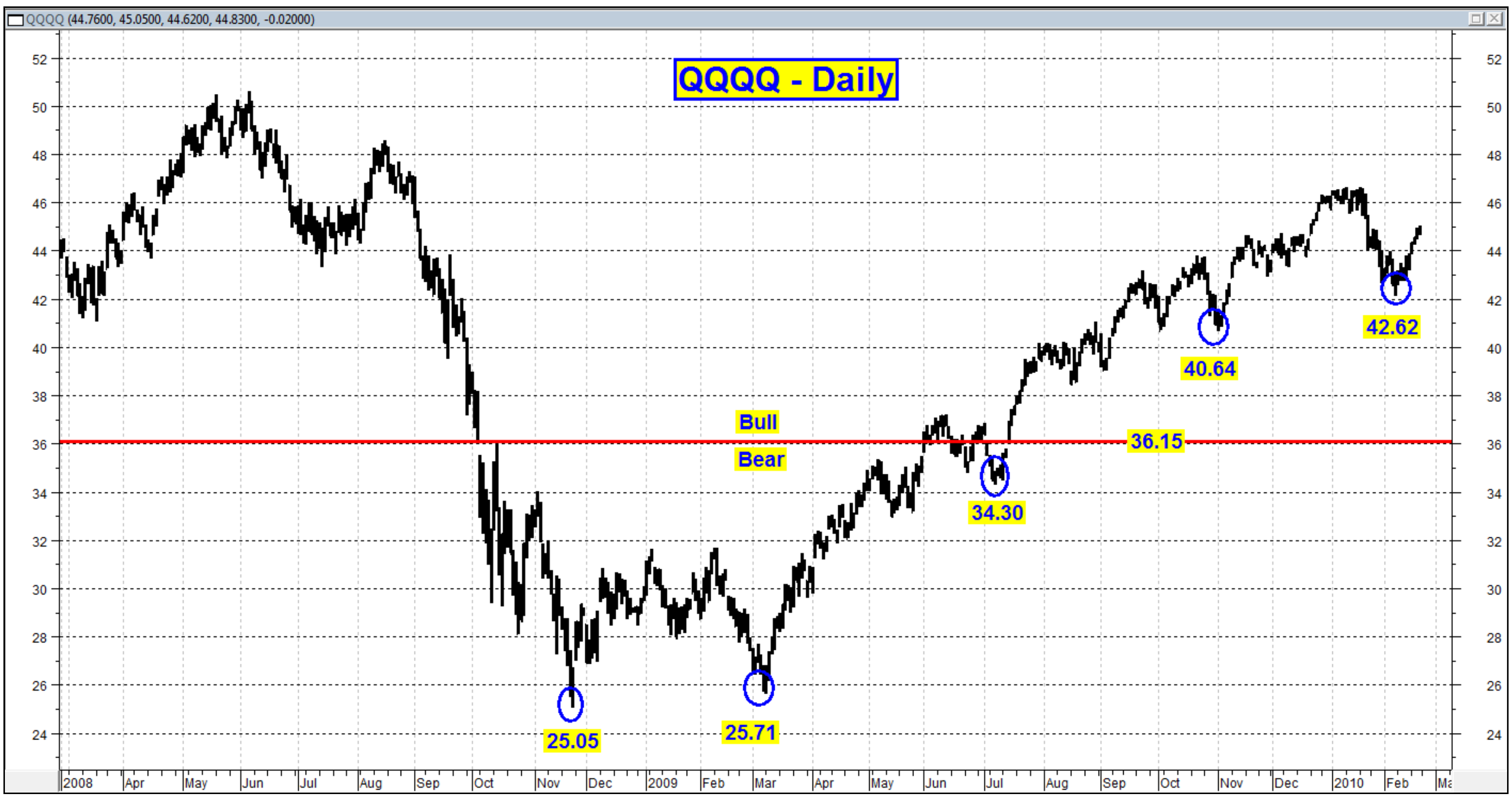


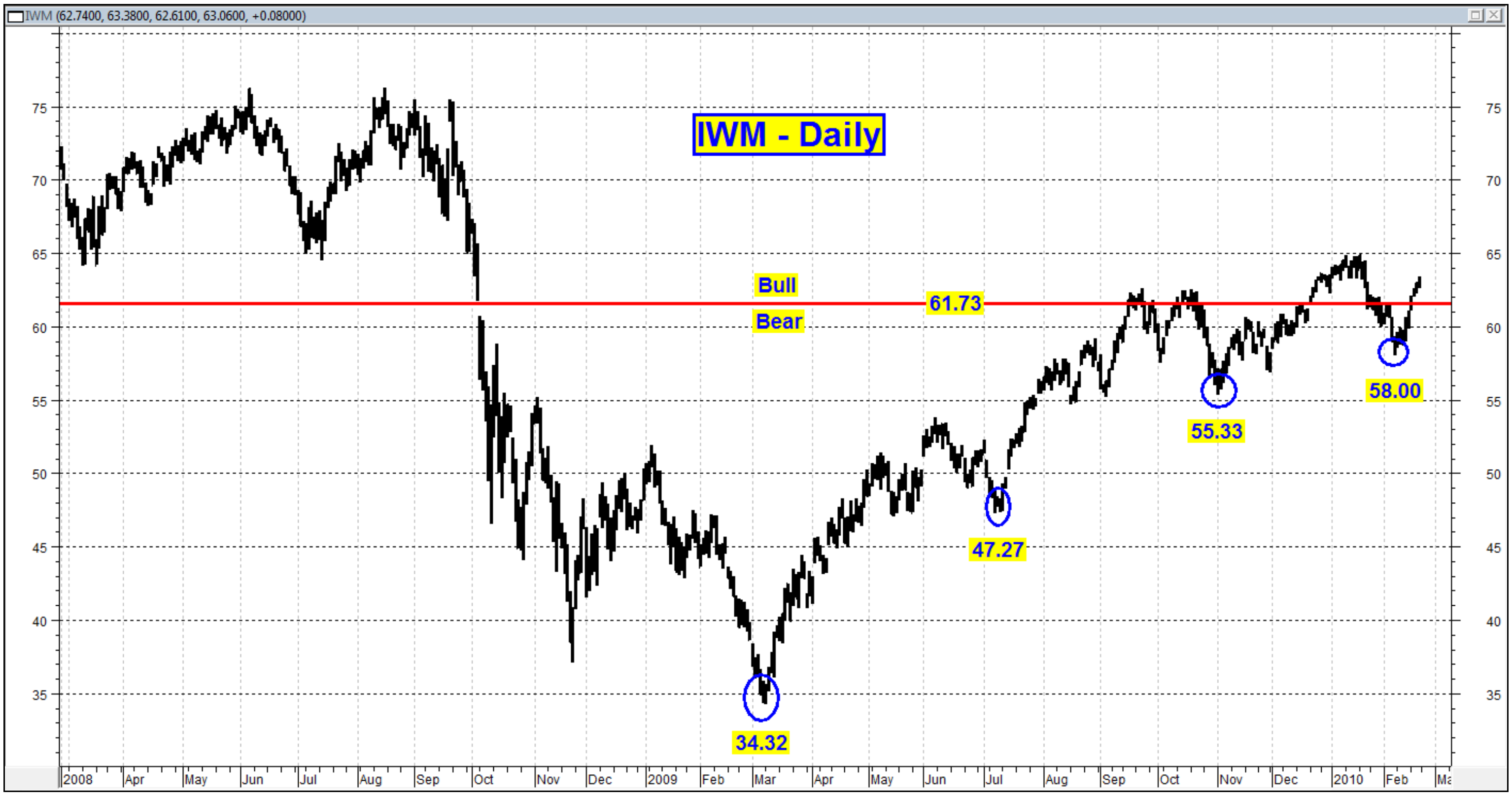
.RUT (628.640, 632.840, 626.600, 631.620, +2.29999)
RUT - Daily
Bull
Bear
619
200 DMA
343.15
473.54
553.31
573
200 DMA



DIA (103.700, 104.390, 103.415, 103.990, -0.18000)
DIA - Daily
Bull
Bear
103.09
64.78
80.96
96.82
98.36


SPY (110.620, 111.570, 110.360, 111.140, +0.23000)
SPY - Daily
Bull
Bear
109.68
67.10
87.00
103.08
104.58


QQQQ (44.7600, 45.0500, 44.6200, 44.8300, -0.02000)
QQQQ - Daily
Bull
Bear
36.15
25.05
25.71
34.30
40.64
42.62


IWM (62.7400, 63.3800, 62.6100, 63.0600, +0.08000)
IWM - Daily
Bull
61.73
Bear
34.32
47.27
55.33
58.00
75
70
65
60
55
50
45
40
35
2008
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2009
Feb
Mar
Apr
May
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Dec
2010
Feb