

>: Market Wrap Up November 17, 2008

Monday, November 17, 2008 / Chris Rowe

Since I'm having computer issues right now, I will give you a quick market wrap up in text and pictures instead of the usual video.

We are at a critical point right now because the market just closed at its latest important support level. Check it out below (the lower green line).



There is definitely a bull argument here, but at the same time, I have to respect the bearish argument more so because the major trend is down and the trend is your friend. I'll get to what a bull would tell you in a minute, but first I want to point out something Teeka and I were discussing this morning. All of the people that we know, that are not market professionals, that know we are market professionals (neighbors, circle of friends, etc.) have been asking both of us if we think it's time to jump back into the market. This is not a bullish sign. They are telling us they have all their money on the side, and they are ready to plunge right back in. That's a contrary indicator. When the market bottoms out, you will hear those same people telling me (not asking) that the market is probably gonna just keep going lower and they want no part of it.

Let's look at what happened today...

Below is a 5-day intraday chart. As you can see, the market sold off at the end of the day (today's intraday market action is highlighted in red on the right side). For most of the day, it looked somewhat hopeful for the bulls as the market climbed higher. But like Friday's market, the hopeful climb was met with a sharp end of day sell-off - never a bullish sign.



Also look at Thursday's action (green). If the S&P 500 closes below 840, it will likely be really bad for the market (unless you have bearish

positions, like me and members of The Trend Rider to profit from). You can see on Thursday the market dipped down below that critical level, but then rallied back in a strong way. What was great about that rally (for bulls) is there was no real catalyst. Just bargain hunters.

Now for the bullish argument ...

If you look at the NYSE chart below, you can see that after the initial sharp sell-off in early October, the market found a bottom, with a bearish reversal pattern (bullish hammer) and that happened on very strong volume. The upside volume was 50% stronger than the downside volume on the day prior.

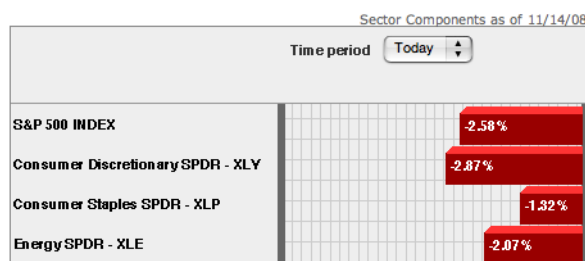


You should also note that on the days the market sold off, the selling volume gradually declined which indicates the market moving lower, not due to heavy selling pressure, but due to lack of buyers (a sign that traders look for in a bottom.)

So the price volume action is what you would see in a bottom. But again, my indicators point to a lower market as of now. Below is a longer term chart (6-month) showing the strong upside volume along with the very important support level we are looking at.



Part of the reason for the weakness today was the fact that Citigroup announced plans to cut 52,000 jobs from its 352,000 workforce in order to cut costs. Below you can see the 9 major economic sectors in the S&P 500 and obviously Financials are the hardest hit with a 6.36% loss.



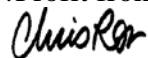
cut was they said evidence suggested the global economy will be weaker than previously anticipated. That definitely didn't help today's attempted advance. The market is so fragile, if it hears one significant negative announcement (which is totally in the cards, obviously) it will drop fast. Hopefully if that happens, we will see the panic selling we typically find in a stock market bottom.

Japan officially fell into a recession for the first time since 2001 and that news was pretty much shrugged off (as it was announced over the weekend and the market didn't tank). Some people were talking about the fact that the group of twenty finance ministers, known as the G-20, but didn't produce anything that would benefit the global economy in any meaningful way. But don't listen to the idiot financial media as the G-20 meeting wasn't expected to produce anything big. (What on earth did they expect from the meeting. It's not a big deal - just media hype).

Finally we got some ugly corporate earnings announcements (even though the actual earnings weren't bad). Target reported earnings in-line with expectations but said they would suspend its share repurchase program because of the uncertain economic environment. That's not encouraging. It's like publicly saying they think the stock will drop further. Then Lowe's beat expectations but gave downside earnings guidance for the fourth quarter saying consumers will probably delay home improvement and big ticket purchases.

That's it folks. No "Always a bear market somewhere". It's more of a wait and see for now.

?Profit from the Trend?



Chris Rowe

Chief Investment Officer

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Economic Calendar for the week of November 17 to November 21

Monday Nov. 17

9:15 Industrial Production

- **Importance (A-F):** This release merits a **B-**.
- **Source:** Federal Reserve.
- **Release Time:** 9:15 ET around the 15th of the month (data for month prior).
- **Raw Data Available At:** <http://www.federalreserve.gov/releases/G17/Current/g17.txt>.

The index of Industrial Production is a fixed-weight measure of the physical output of the nation's factories, mines, and utilities. Manufacturing production, the largest component of the total, can be accurately predicted using total manufacturing hours worked from the employment report. One of the bigger wildcards in this report is utility production, which can be quite volatile due to swings in the weather. Severe hot or cold spells can boost production as increased heating/cooling needs drive utility production up.

In addition to production, this monthly report also provides a measure of capacity utilization. Though the rate of capacity utilization is seen as a critical gauge of the slack available in the economy, the market does not completely trust this measure. Capacity is very difficult to measure, and the Fed essentially assumes that growth in capacity in any given year follows a straight line. One can therefore predict the capacity utilization rate quite accurately based on the assumption for production growth. The 85% mark is seen as a key barrier

over which inflationary pressures are generated, but given revisions to these data and the difficulties with capacity measurement, the 85% mark should be viewed cautiously. It would be appropriate to look for corroborating inflation indications from commodity prices and vendor deliveries.

Tuesday Nov. 18

8:30 Producer Price Index (PPI)

- **Importance (A-F):** This release merits a **B-**.
- **Source:** Bureau of Labor statistics, U.S. Department of Labor.
- **Release Time:** Around the 11th of each month at 8:30 ET for the prior month.
- **Raw Data Available At:** <http://stats.bls.gov/news.release/ppi.toc.htm>.

The Producer Price Index measures prices of goods at the wholesale level. There are three broad subcategories within PPI: crude, intermediate, and finished. The market tracks the finished goods index most closely, as it represents prices for goods that are ready for sale to the end user. Goods prices at the crude and intermediate stages of production often provide an indication of coming (dis)inflationary pressures, but the closer you get to crude goods, the more that these prices track commodity prices which are already available in traded indexes such as the CRB (Commodity Research Bureau).

At all stages of production, the market places more emphasis on the index excluding food and energy, referred to as the core rate. Food and energy prices tend to be quite volatile and obscure trends in the underlying inflation rate. Though the market reaction is determined by the month/month changes, year/year changes are also noted by analysts. The index is not revised on a monthly basis, but annual revisions to seasonal adjustment factors can produce small adjustments to past releases.

Big Picture

The Big Picture here is not that complicated. The outlook for total PPI depends heavily on the trend in commodity prices. Those are very hard to predict. Core prices will be influenced by commodity prices as well, as evident in recent data. But weak demand will keep core prices relatively in check. Whether higher PPI prices can be passed along into CPI is questionable, given weak final demand. There will be pressures, obviously, but the outlook for consumer prices also depends heavily on commodity price trends.

Wednesday Nov. 19

8:30 Consumer Price Index (CPI)

- **Importance (A-F):** This release merits a **B**.
- **Source:** Bureau of Labor statistics, U.S. Department of Labor.
- **Release Time:** 8:30 ET, about the 13th of each month for the prior month.
- **Raw Data Available At:** <http://stats.bls.gov/news.release/cpi.toc.htm>.

The Consumer Price Index is a measure of the price level of a fixed market basket of goods and services purchased by consumers. CPI is the most widely cited inflation indicator, and it is used to calculate cost of living adjustments for government programs and it is the basis of COLAs for many private labor agreements

as well. It has been criticized for overstating inflation, because it does not adjust for substitution effects and because the fixed basket does not reflect price changes in new technology goods which are often declining in price. Despite these criticisms, it remains the benchmark inflation index.

CPI can be greatly influenced in any given month by a movement in volatile food and energy prices. Therefore, it is important to look at CPI excluding food and energy, commonly called the "core rate" of inflation. Within the core rate, some of the more volatile and closely watched components are apparel, tobacco, airfares, and new cars. In addition to tracking the month/month changes in core CPI, the year/year change in core CPI is seen by most economists as the best measure of the underlying inflation rate.

8:30 Housing Starts and Building Permits

- **Importance (A-F):** This release merits a **B-**.
- **Source:** The Census Bureau of the Department of Commerce
- **Release Time:** 8:30 ET around the 16th of the month (data for one month prior).
- **Raw Data Available At:** <http://www.census.gov/const/www/newresconstindex.html>.

Housing Starts are a measure of the number of residential units on which construction is begun each month. A start in construction is defined as the beginning of excavation of the foundation for the building and is comprised primarily of residential housing. Building permits are permits taken out in order to allow excavation. An increase in building permits and starts usually occurs a few months after a reduction in mortgage rates. Permits lead starts, but permits are not required in all regions of the country, and the level of permits therefore tends to be less than the level of starts over time.

The monthly national report is broken down by region: Northeast, Midwest, South, and West. Briefing recommends analyzing the regional data because they are subject to a high degree of volatility. The high volatility can be attributed to weather changes and/or natural disasters. For example, an unexpectedly high level of rain in South could delay housing starts for the region.

Big Picture

The housing sector has been in a deep recession. Fortunately, there are now some signs that the rate of decline is slowing, and even that some stabilization is occurring. The rate of decline in existing home sales has slowed over the past half year. Sales are not picking up, but a bottoming is preceded by a leveling off. Now, housing starts and permits are starting to level off as well. It may well be that the housing sector stabilizes over the summer months, and picks up in the third quarter. Lower mortgage rates and a stabilizing economy will help. Lower prices on homes will ultimately stimulate demand, but for now may inhibit sales as the urgency to buy is mitigated. The housing sector is a long way from anything that can be called a recovery, but even a general stabilization would help boost GDP numbers by eliminating what has been a major negative on the numbers the past year.

Thursday Nov. 20

10:00 Philadelphia Fed Index

- **Importance (A-F):** The Philadelphia Fed Index merits a **B**.

- **Source:** The Philadelphia Federal Reserve bank.
- **Release Time:** Third Thursday of the month at 12 ET for the current month.
- **Raw Data Available At:** <http://www.phil.frb.org/>

There are many regional manufacturing surveys, and they tend to be ranked in order of timeliness and the importance of the region. The Philadelphia Fed's survey is first each month, actually coming out during the third week of the month for which it is reporting. Several smaller surveys are then released before the Chicago purchasing managers' report on the last day of each month. A few, such as the Atlanta and Richmond Fed surveys, are released after the NAPM and are of little value. The purchasing managers' reports are measured like the national NAPM - 50% marks the breakeven line between an expanding and contracting manufacturing sector. For the Philadelphia and Atlanta Fed indexes, 0 is the breakeven mark.

These surveys can be of some help in forecasting the national NAPM - particularly the Philadelphia and Chicago surveys which are more closely watched due to their timeliness and the fact that these regions represent a reasonable cross section of national manufacturing activities.