Each week we produce a chart book of the major financial markets to review whether the markets, as a whole, warrant higher levels of equity risk in portfolios or not. Stocks, as a whole, tend to rise and fall with the overall market. Therefore, if we get the short-term trend of the market right, our portfolios should perform respectively.

HOW TO READ THE CHARTS

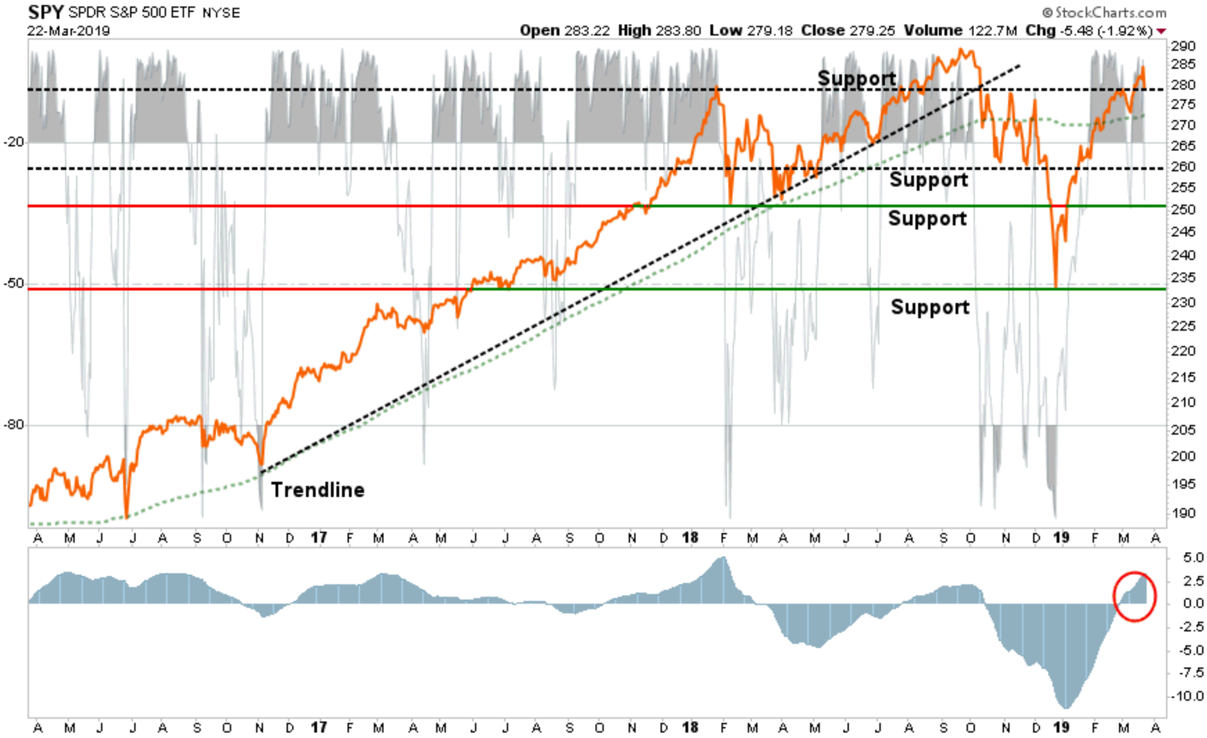
There are three primary components to each chart:

- *The price chart is in orange*
- *The Over Bought/Over Sold indicator is in gray*
- *The Buy / Sell indicator is in blue.*

When the gray indicator is at the TOP of the chart, there is typically more risk and less reward available at the current time. In other words, the best time to BUY is when the short-term condition is over-sold. Likewise when the buy/sell indicator is above the ZERO line investments have a tendency of working better than when below the zero line.

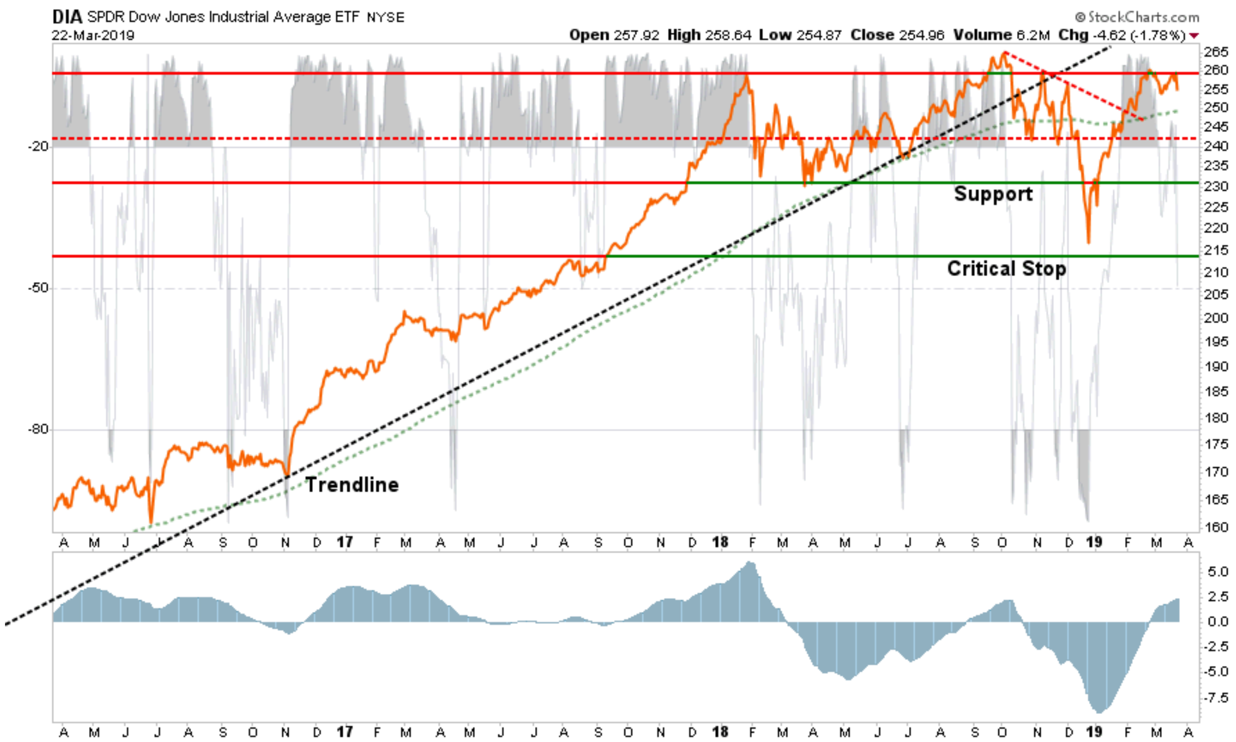
With this basic tutorial let's review the major markets.

S&P 500 Index



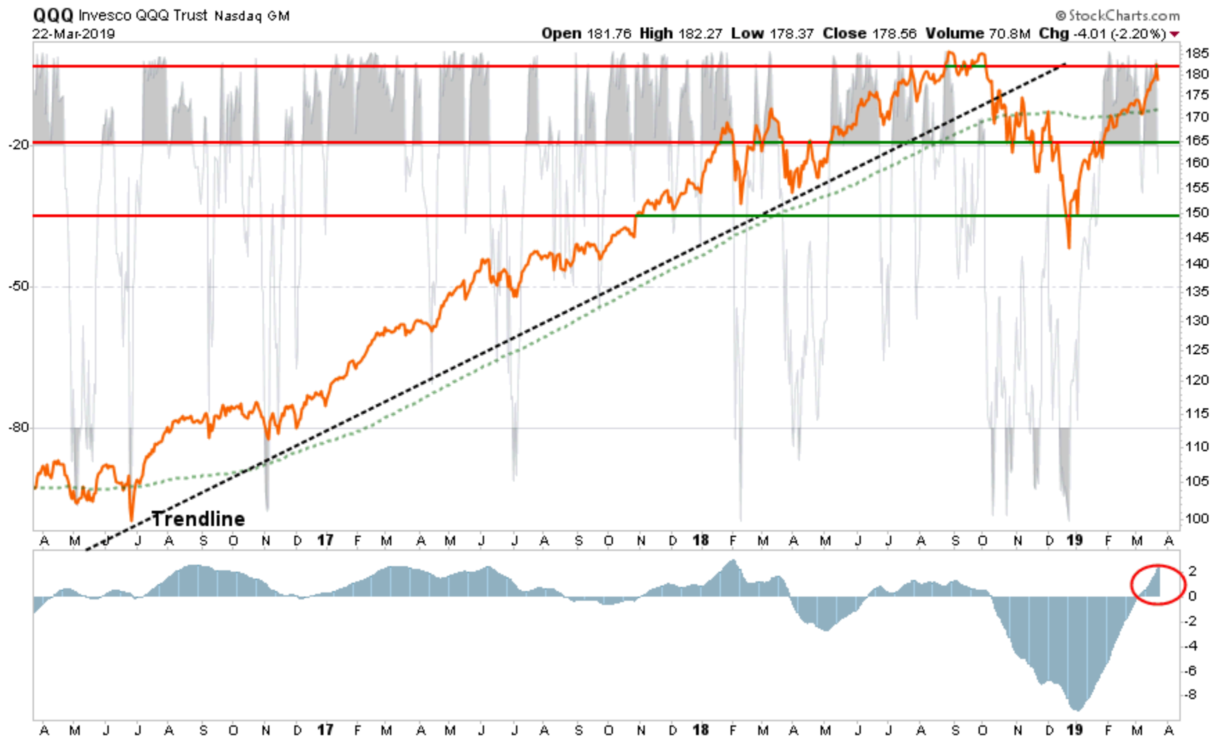
- *The rally off of the 200-dma, as we previously discussed, was expected and the break above 2800 resistance sets up a test of all-time highs.*
- *The sell off on Friday has SPY testing 280 which will be important support to hold.*
- *However, with SPY still very overbought, further corrective action would not be surprising.*
- *Short-Term Positioning: Bullish*
    - *Last Week: Added 1/2 position bring position to full weight.*
    - *This Week: Hold*
    - *Stop-loss remains at $275*
- *Long-Term Positioning: Neutral*

Dow Jones Industrial Average



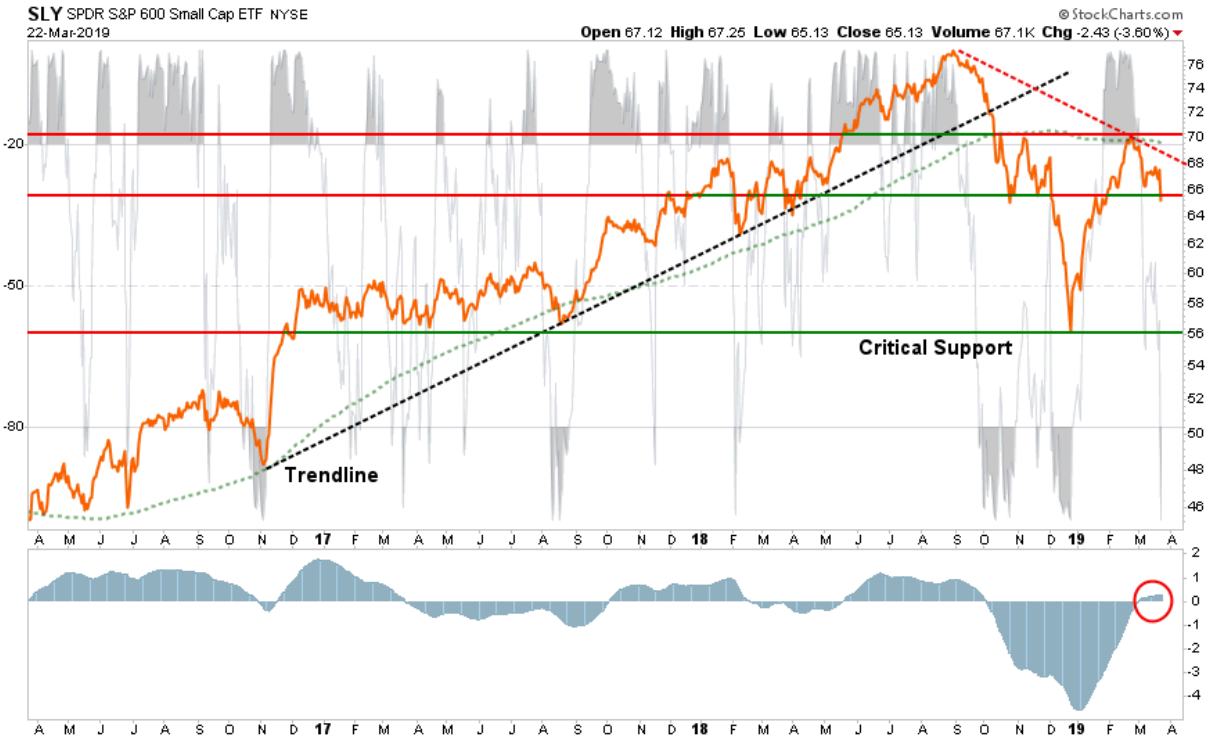
- *Recent rally failed for a second time at the January highs and remains very overbought.*
- *DIA remains well above its 200-dma but that will be critical support.*
- *A "buy signal" is in place*
- *Market is back to extreme overbought, so a break above resistance is key before taking on additional exposure. Most of the underperformance can be attributed to BA over the last couple of weeks, due to its impact on the index, focus on SPY and QQQ for now until there is so resolution with BA.*
- *Short-Term Positioning: Neutral*
    - *Last Week: Hold 1/2 of position*
    - *This Week: Hold 1/2 of position*
    - *Stop-loss remains at $250*
- *Long-Term Positioning: Neutral*

Nasdaq Composite



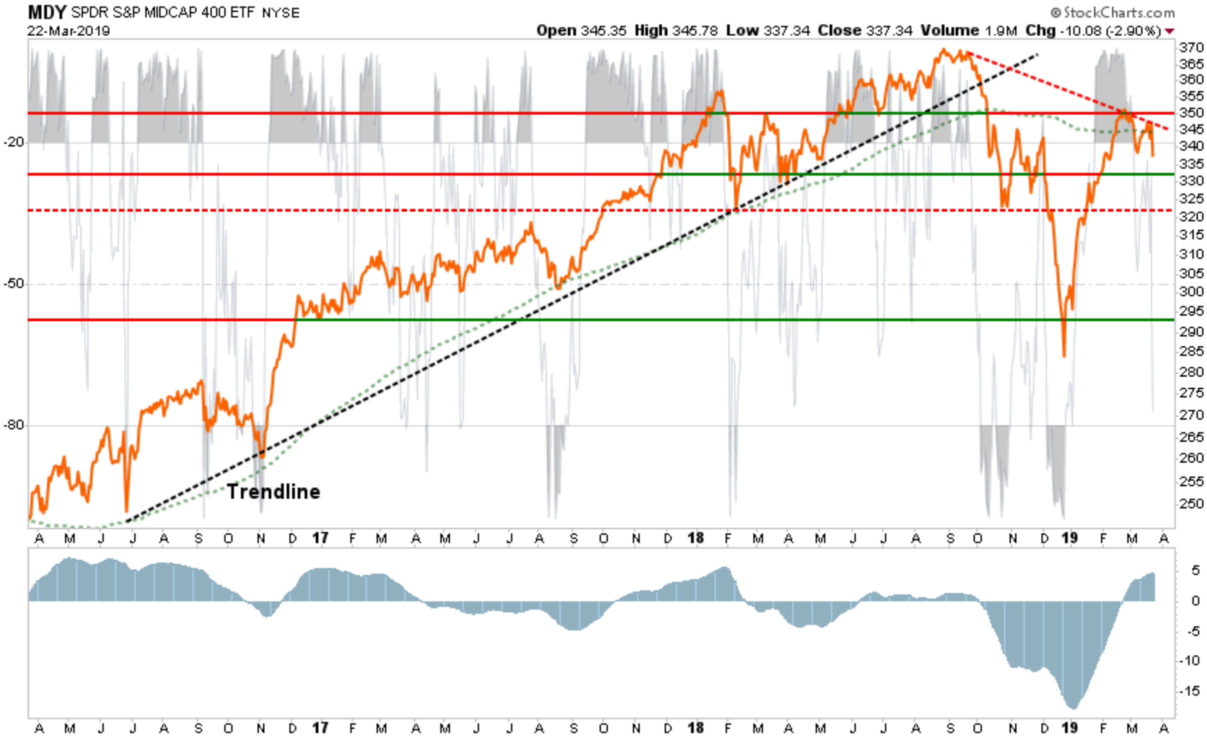
- *By far the best looking chart of the 5-major domestic indices.*
- *A buy signal was triggered following a successful retest of the 200-dma*
- *Market remains very overbought but the failure last week at minor resistance may set up a buying opportunity if further correction action continues this week.*
- *Short-Term Positioning: Bullish*
    - *Last Week: Added 1/2 position bringing total back to full weight.*
    - *This Week: Hold position*
    - *Stop-loss remains at $170*
- *Long-Term Positioning: Neutral*

S&P 600 Index (Small-Cap)



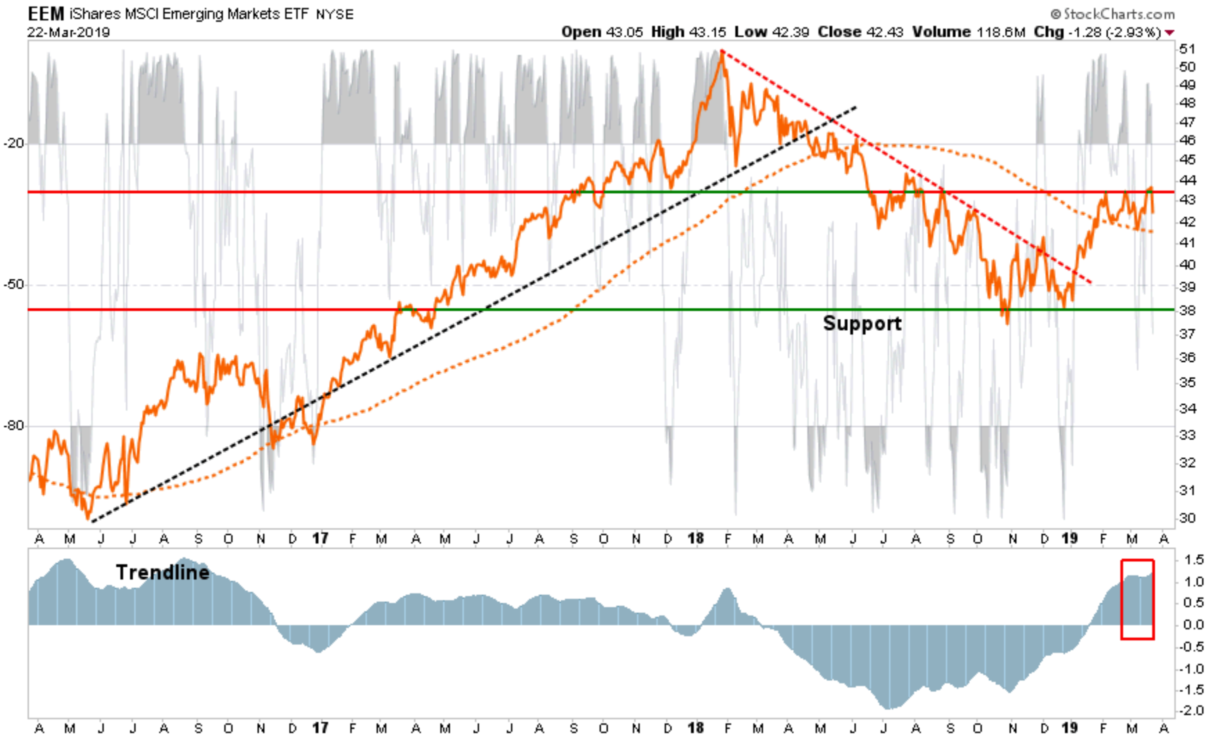
- *Recent rally failed at the 200-dma, and has now established a new downtrend with a lower high on the bounce and the break of previous support at the Oct-Nov lows.*
- *Current on a "buy" signal but no reason to buy at this time.*
- *Small-caps have reversed their overbought condition and is now oversold. A bounce next week would not be surprising, but again, small-caps are not "buyable" currently.*
- *Short-Term Positioning: Bearish*
    - *Last Week: Hold 1/2 of position*
    - *This Week: Sell last 1/2 of position*
    - *Stop-loss triggered with break on Friday, sell last 1/2 position on Monday*
- *Long-Term Positioning: Bearish*

S&P 400 Index (Mid-Cap)



- *Like it's small-cap brethren, the recent rally failed to hold the 200-dma, has created a new downtrend, and broke back below the Oct-Nov highs.*
- *Mid-caps have recently flipped back onto a buy signal. However, the recent correction has not completely reduced the overbought condition yet.*
- *Short-Term Positioning: Bearish*
  - *Last Week: After taking profits previously, hold 1/2 of position*
  - *This Week: Sell last 1/2 of position*
  - *Stop-loss triggered with break on Friday, sell last 1/2 position on Monday*
- *Long-Term Positioning: Bearish*

Emerging Markets



- *EEM recently testing its 200-dma for a second time.*
- *Unfortunately, it has also failed a third time at overhead resistance.*
- *The extreme overbought condition is being worked off, so it will be important for EEM to continue to maintain support over the next week.*
- *After adding a 1/2 position to portfolios we suggested a short-term corrective action was likely. If the position holds support and turns up and breaks recent highs, we will add to our holdings.*
- *Short-Term Positioning: Bullish*
    - *Last Week: Hold current position.*
    - *This Week: Hold current position.*
    - *Stop-loss remains at $41*
- *Long-Term Positioning: Bearish*

International Markets

- *Recent rally finally pushed above the 200-dma. However, the sell off on Friday is now testing that 200-dma. It is import for EFA to turn that resistance into support this next week.*
- *The downtrend from all-time highs and remains and international markets are extremely overbought.*
- *While a "buy signal" has been triggered, EFA remains very overbought in the short-term.*
- *Short-Term Positioning: Neutral*
    - *Last Week: After taking profits, hold 1/2 of position*
    - *This Week: Hold 1/2 of position, looking to add second 1/2 if support holds*
    - *Stop-loss moved up to $63*
- *Long-Term Positioning: Bearish*

West Texas Intermediate Crude (Oil)

- *Oil showed some muscle by breaking above the 3-year trend channel and above the 38.2% Fibonacci retracement.*
- *However, as noted last week, $60 was the next major resistance level at the 50% retracement which will coincide with the downward trending 200-dma. Oil failed at that level lest week.*
- *Oil has triggered a buy signal, but remains extremely overbought.*
- *Short-Term Positioning: Neutral*
  - *Last Week: After taking profits, hold 1/2 position*
  - *This Week: Hold 1/2 position, look for a break above the 50% retracement.*
  - *Stop-loss adjusted to $55*
- *Long-Term Positioning: Bearish*

Gold

- As we noted two weeks ago, the sell-off tested support at the 61.8% retracement of the decline and had gotten oversold.
- Gold turned up last week and remains on a "buy" signal but that signal is weakening.
- After adding to our position, gold has rallied, but that rally remains very unconvincing.
- Short-Term Positioning: Bullish
    - Last week: Hold positions.
    - This week: Hold positions
    - Stop-loss for whole position moved up to $121
- Long-Term Positioning: Improving From Bearish To Bullish

Bonds (Inverse Of Interest Rates)

- *By far one of the best looking charts technically.*
- *After spending nearly 3-years in a consolidation process, bonds broke out last Friday after triggering an entry opportunity at $120.*
- *Currently on a buy-signal (bottom panel), bonds have once again swung from oversold to overbought.*
- While *resistance remains from $122 to $124, the bullish breakout suggests investors should become more cautious on equities at least in the short-term.*
- *Strong support at the 720-dma (2-years) (green dashed line) which is currently $118.*
- *Short-Term Positioning: Bullish*
    - *Last Week: Add to holdings 2-weeks ago.*
    - *This Week: Hold positions.*
    - *Stop-loss adjusted to $121*
- *Long-Term Positioning: Bullish*