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The Numbers

Major Index Bullish Percent

BP NYSE	Os @ 70%	DEFENSE
BP OTC	Os @ 64%	DEFENSE
BP S&P500	Os @ 76%	DEFENSE

What a difference a week makes. The market which had flipped has again reversed course. Earnings continue to come in better than expected but the market is backing off any signs of good news. The breadth of the sell off late last week has everyone running for cover.

The talking heads are now talking about the long anticipated correction...

As you will see below, most of the sectors have turned negative. We are now in the Capital Preservation phase and should act accordingly.

Major Sector Bullish Percent

Consumer Discretionary	Os @ 64%
Consumer Staples	Xs @ 88%
Energy	Os @ 76%
Finance	Os @ 64%
Healthcare	Os @ 70%
Info Tech	Xs @ 94%
Industrials	Os @ 68%
Materials	Os @ 66%
Telecom	Os @ 58%
Utilities	Xs @ 76%

Sub-Sector Bullish Percent

game	O @ 38
savi	O @ 40
bank	O @ 42
biom	O @ 42
buil	O @ 42
elec	O @ 50
leis	O @ 52
auto	O @ 54
drug	O @ 54
prot	O @ 54
rest	O @ 54
tran	O @ 56
fore	O @ 58
meta	O @ 58
prec	O @ 58

stee	O @ 58
heal	O @ 60
real	O @ 60
semi	O @ 60
chem.	O @ 62
comp	O @ 62
euti	O @ 62
inet	O @ 62
tele	O @ 62
wast	O @ 62
aero	O @ 64
text	O @ 66
oil	O @ 68
busi	O @ 70
fin	O @ 70
mach	O @ 70
wall	O @ 70
insu	O @ 72
oils	O @ 72
reta	O @ 72
soft	O @ 72
food	O @ 74
hous	O @ 74
MEDI	X @ 76
GUTI	X @ 82

Green = Favored **Yellow** = Average **Red** = NOT favored
X = Offense **O** = Defense

Note: Please note the color change in many of the sectors.

This week's diatribe ...

U.S. DOLLAR BOUNCE HURTS COMMODITIES

The market and the dollar have been trading lock step for most of the year. This is not uncommon because a weak dollar is good for both stocks and commodities. Things get a little dicey when it appears that one or the other is changing direction. The dollar has gotten clobbered this year and has been pushed to such a low level that it is becoming an attractive trade. With the dollar showing signs of strength, we can expect more selling in both stocks and commodities.

Commodities were down last week, but no real technical damage occurred – yet. The selling in the commodity pits was best reflected in the Materials sector which flipped from Offense to Defense.

VOLUME PATTERN REMAINS BEARISH

All the major stock indexes (except for the Dow) ended well below their 50-day moving averages. What is more disturbing is the negative volume patterns that emerged. Thursday's price bounce had lighter volume which means that sellers are more aggressive than buyers. Breadth figures were negative by a six to one margin on the big board on Friday and four to one negative on the NASDAQ. That's going to weaken market breadth figures even more.

This week's price drop represents the market's second losing week in row. Weekly volume picked up on both down weeks. This week's volume was the heaviest in seven weeks. It's usually not a good sign when the market starts dropping in heavier trading.

NASDAQ DANGEROUSLY CLOSE TO SELL SIGNAL

I have written at length why I like the precision and simplicity of point & figure charts. The p&f chart shows alternating X and O columns. Each X column shows rising prices, while each O column shows them falling. The last buy signals were given during July at much lower levels. In order for a p&f sell signal to be triggered, the last O column must fall below a previous O column. The **NASDAQ Composite** is sitting on chart support. A close at 2040 or lower would trigger its first sell signal since July (it closed at 2045 today).

NO FOLLOW-THROUGH

Heading into last week, we had been warning about a downside correction in stocks and commodities. Thursday's stock rally muddied the water a bit but Friday's sharp price drop erased all of the Thursday's price gains and more. If you look at the double top breakdowns in the Bank Index, Russell Small Cap Index, The Semiconductor Index, and the Dow Transports you see why we were urging caution.

This week, we're keeping an eye on housing and real estate stocks and on the major averages 50-day moving average.

The market is on defense and we are in the capital preservation phase. Now is not the time to be aggressive and try to time a bottom. It happens when it happens.

As for particulars, I am:

Long gold and silver

Long oil and oil service

Long agricultural commodities

Short Treasury bonds (I expect yields to go up over the next 6-12 months)

Have a short position on the S&P 500 – which I will increase if the market breaks down through current support levels.

I am short (long puts) on a couple of real estate/financial companies and I own protective puts on my Google position as a way to hedge against any major decline in the stock.

I'm as anxious now as I have been all year. I am long until I am wrong.

That's about it for now. Let me hear from you if you have any questions.

Robert Christy

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