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Walter Murphy's Insights

Short Term Review

Strategic Analysis for the Serious Investor

Walter G. Murphy, Jr., CFA | WMinsights.com | February 17, 2014

"Plain English"

US Equities: It is entirely possible that we will see new highs in the S&P while the DJIA remains below long term resistance.

Global Equities: Japan's Nikkei is on a six-week losing streak and has satisfied the minimum requirements for a complete five-wave rally from the late 2011 low. In turn, this is enough to complete an ABC rally from the early 2009 low. Either way, the index is could well be in the early stages of its most important correction in several years.

Interest Rates: Important support trend lines for 10-year yields from last May's low have been violated. Our sentiment index is still on the overbought side of neutral. The weekly Coppock Curve for is in a downtrend and the monthly oscillator is peaking. All of this suggests that the decline from December's high is within a still-developing intermediate-to-primary downtrend and that the recent "strength" is an oversold rally that should be relatively short-lived

Commodities: Fourteen of the 15 commodities that we regularly monitor gained ground; sugar's modest decline was the exception. Overall, the CCI recorded its fifth gain in six weeks with a 1.6% rally to 533.95. The index has not had back-to-back weekly losses since November. For the second week in a row, silver was the best performer; gold had the next-best return. Crude oil is on a five-week winning streak.

US Dollar: The dollar index's decline from January's high has an impulsive look and the weekly Coppock oscillator is under pressure (even as the monthly indicator is in a downtrend). This, plus last week's breach of 80.51, prompted us to place a preliminary **(B)** at January's high in anticipation of **(C)**-wave weakness.

Chart List: http://bit.ly/RLnAdq

Insights on US Equities:

S&P Primary Trend: Up
S&P Intermediate Trend: Neutral
S&P Minor Trend: Up

DJIA Primary Trend: Up
DJIA Intermediate Trend: Down
DJIA Minor Trend: Up

Last week, both the S&P 500 and the DJIA had their best weeks of the year with gains of 2.3%.

We have mentioned in the past that the S&P and DJIA are operating on different counts. For example, the S&P's monthly chart has not made a large degree lower low since October 2011. Since then, there have been eight waves, but none of the corrections violated the lows of the prior correction. The DJIA also made a lower low in October 2011 but has had 12 waves since then and two of the six corrections violated the previous correction's low. In a large sense, therefore, we are arguably counting one uninterrupted 28-month uptrend for the S&P while arguably only needing to focus on the DJIA's much shorter uptrend from the last October's low.

This complexity is compounded by the fact that the S&P's most recent all-time high occurred in mid-January while the DJIA's benchmark high was in December. We expect that the patterns will ultimately return to being much closer in structure. But, in the meantime, our approach is to look for similarities and go with the idea that the DJIA has the cleaner count. With that in mind our sense is that, once we can determine that the DJIA has definitively reversed its post-October uptrend, the larger uptrend from at least the June 2012 low will also be complete. In our search for similarity, it seems that we will need to complete the S&P's count from June 2013 before we can finalize the uptrend from June 2012.

With the above in mind, the respective corrections from the all-time highs to the February low were only a normal Fibonacci retracement of the indexes' rally from their respective benchmark lows. For example, the S&P's pullback was almost exactly 38.2% of its rally from June 2013. The DJIA retraced 61.8% of the rally from last October's low. This indicates that the corrections from the December-January highs may prove to be only an interruption within, but not a reversal of, the rally from the June 2012 low. This description is bolstered by the fact that the 1%x3 point-and-figure charts for both indexes are still on a "buy."

As indicated, the DJIA has the easier/cleaner chart to analyze. The brevity of the pattern (in terms of both price and time) arguably has fewer alternatives. With this in mind, we are inclined to count the DJIA's January high as the orthodox peak, even though the "real" price high occurred in December. This generates several important points. First, the DJIA's October-January rally can be counted as a five-wave pattern, but that involves at least one fifth wave failure – a sign of weakness. With that failure in place, it is then reasonably easy to count the subsequent decline to the February 5 low as a five-wave pattern. Finally, the rally since then is, at least so far, only three waves. If this is correct, then the DJIA has five trend waves down from the highs followed by a potential three counter trend waves up. That combination is usually not a good thing.

These deteriorating trend conditions are further shown by the NYSE's Bullish Percent Index and the percentage of stocks above their own 50-day moving average. The BPI is a breadth/momentum indicator that is calculated by dividing the number of stocks that are trading on a point-and-figure (P&F) buy signal by the total number of

stocks within the group being analyzed. The NYSE BPI recorded its 2011-2014 high at 79.3% last May. At the market's recent mid-January all-time high, the index was significantly lower at 72.9%. Then the January-February correction caused the BPI to break trend and chart support with a decline to below 60% -- a 19-month low. Similarly, the percentage of NYSE stocks above their 50-day ma has regularly been peaking near 85% since October 2011, but only reached 72% in mid-January before dropping to 32% earlier this month. These two indicators clearly show that the degree of participation is deteriorating. These divergences are likely to come home to roost sooner rather than later.

The deterioration in participation is confirmed by momentum and sentiment. The daily Coppock Curves have a bullish bias for both the DJIA and the S&P. However, these oscillators are positioned to peak by the end of this month. Meanwhile – and despite the recent near term strength – the weekly and monthly oscillators continue to deteriorate for both indexes. For example, the weeklies had a bearish reversal in late December/early January and are likely to remain under pressure for another month or more.

At the same time, the monthly indicator has already peaked against the DJIA and is peaking for the "500." Both oscillators are positioned to be weak for most, if not all, of 2014. Thus, a reasonable case can be made that a coming short term peak will add to the divergences and the increasingly bearish intermediate and primary trend conditions.

Sentiment is not as excessively bullish as it has been, but is still on the overbought side of neutral. For example, our proprietary index, which is based on a 0-100 scale, reached "100" for the first time ever in December; last week's reading of "58" was still above neutral ("50") and well above oversold ("30"). Similarly, the NAAIM survey showed that active managers were leveraged long in December, retreated to only neutral earlier this month, and then meaningfully increased long positions last week. All and all, the best that can be said is that investors have retreated from excessive optimism to complacency. However, fear is still a long way off.

In the end, a weekly review of seven technical indicators is still generally constructive, but bearish divergences are apparent. This indicates that the uptrend from at least June 2013, and arguably from October 2011, is fatigued.

For some time we have been using 16783-16810 as long term resistance for the DJIA. So far, that has not been seriously challenged. More recently, in our last *STR* we said that the rally from the early February low should be an ABC pattern and may not carry much beyond chart and Fibonacci resistance at 16096-16241, with intervening resistance at 15784-15952. The higher range has not been broken; a reversal back below the lower range will do much to lock in the February rally as an ABC. If the higher range is breached, there is significant resistance at 16375-16580.

As for the S&P, we had been looking to 1808-1824 as fairly important resistance. This range has been violated, opening the door for a challenge of the 1851 highs. As a result, it is entirely possible that we will see new highs in the S&P while the DJIA remains below long term resistance. Nearby support exists at 1827-1809.

Stay tuned.

S&P 500 with WMGA Sentiment

S&P 500 with NYA Bullish Percent Index (Daily)

S&P 500 with NYSE Stocks Above 50-dma (%)

S&P 500 with WMGA Tech Tab (Weekly)

Insights on Sector SPDRs:

Favorable	*Neutral*	*Unfavorable*
XLB (Materials)	XLE (Energy)	
XLF (Financials)	XLP (Cons. Staples)	
XLI (Industrials)	XLU (Utilities)	
XLK (Technology)		
XLV (Health Care)		
XLY (Cons. Discretionary)		

S&P Health Care Sector Relative to the S&P 500

Insights on Global Equities: Last week, the Dow Jones Global (ex US) Index had its best week since October with a rally of 2.3%. Similarly, the Dow Jones Emerging Markets Index's 2.1% gain was its best performance since September. Internally, 34 of the 37 non-US markets in our regularly weekly survey were higher for the week. The best gains were in South America as both Chile and Argentina gained more than 5%. By contrast, the three weak markets (Japan, Norway, and India) fell by 1% or less. Several markets are on three-week winning streaks while Japan is on a six-week losing streak.

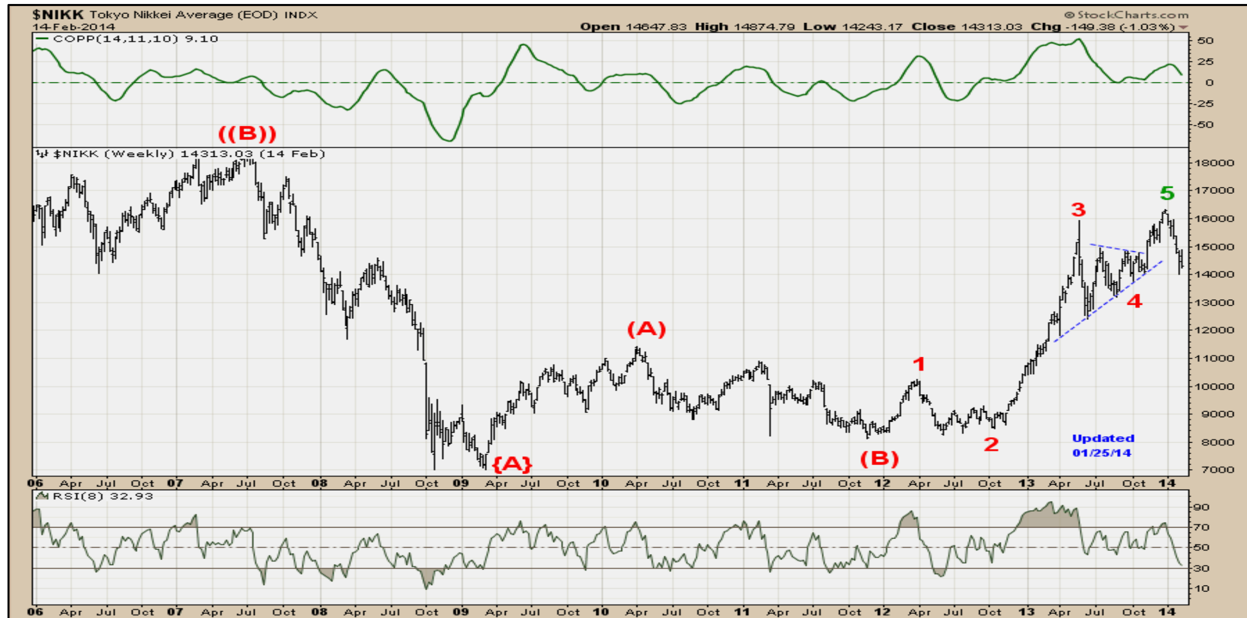
The weekly Coppock Curve has been weak for most of the 37 markets since late November and currently still has a bearish bias against 23 markets. However, these momentum pressures are likely to ease in coming weeks. Our models suggest that the oscillators could take on a bullish bias for a majority of markets by as early as this week. However, this improvement may only continue into late March for the developed markets but could continue into May for the developing markets.

The global index finished last week at 234.75. There is a fair amount of resistance in the 229-235 area. A rally through that range will be a sign that the index is preparing to challenge its 238-239 double-top. Support is apparent at 223-222; a reversal back below this range will indicate further weakness to at least 214-213. Its weekly Coppock may not show much improvement in coming weeks; the deteriorating monthly oscillator is likely to remain under pressure for the foreseeable future.

The emerging markets index closed at 280.36 on Friday. The rally from 269 earlier this month has occurred on five Elliott Wave and the daily Coppock Curve is oversold and improving. This combination suggests higher highs over the near term. Our expectation has been – and still is – that this rally will likely be a counter-trend **B**-wave within a larger ABC decline. In that regard, 281-289 should prove to be strong resistance.

Earlier we mentioned that Japan's Nikkei is on a six-week losing streak. With this in mind, we note that the index has satisfied the minimum requirements for a complete five-wave rally from the late 2011 low. In turn, this is enough to complete an ABC rally from the early 2009 low. Either way, the index is could well be in the early stages of its most important correction in several years. Support is at 14000-13750 then 13188-13154.

Japan's Nikkei 225



Insights on Interest Rates: *The post-1981 secular downtrend for yields is still nominally intact. However, we have made the case that this multi-decade downtrend is ending. Indeed, it may have already ended. Thus, the next multi-month primary decline – probably a 2014 event – will be either the last leg in the post-1981 pattern or the first correction is a new multi-decade super-cycle bull market.*

US 10-Year Yields Primary Trend: Up
US 10-Year Yields Intermediate Trend: Neutral
US 10-Year Yields Minor Trend: Up

Last week 10-year yields rose seven basis points (bp) to 2.75%. This was enough to lock in the December-February 3.04%-2.58% decline as a complete pattern.

We have been monitoring two scenarios. We can count December's 3.04% high as either the end of the uptrend from last May (and possibly from July 2012) or as a lower degree **b**-wave within a **B**-wave trading range from last September's high. Both scenarios indicate that 2.47% will be tested. The difference is that 2.47% will only be a pause within a larger decline under the first scenario but could be the foundation for an upside reversal under the second.

It appears that the weight of the evidence favors the first scenario. All of the important support trend lines from last May's low have been violated. Our sentiment index is still on the overbought side of neutral. Thirty-year yields – which have a similar momentum configuration – have already broken their equivalent of 2.47%. The weekly Coppock Curve for 10's is in a downtrend and the monthly oscillator is peaking. All of this suggests that the decline from December's high is within a still-developing intermediate-to-primary downtrend and that the recent "strength" is an oversold rally that should be relatively short-lived (to potentially no higher than 2.75%-2.76%). By contrast, if 2.47% is decisively broken, we will look to 2.41%-2.33% then 2.22%-2.16%.

US 10-Year Yields (Daily)

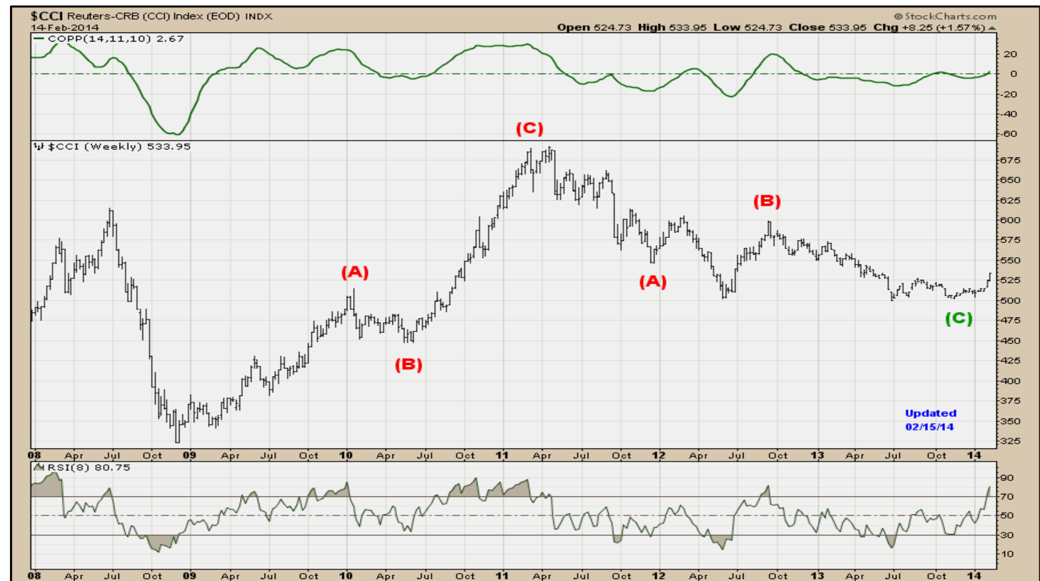
US 10-Year Yields (Weekly)

Insights on Commodities: We have been making the case that gold, oil, and the broad equal-weighted Continuous Commodity Index (CCI) were all positioned to rally and now, for the second week in a row, commodities were broadly higher. Fourteen of the 15 commodities that we regularly monitor gained ground; sugar's modest decline was the exception. Overall, the CCI recorded its fifth gain in six weeks with a 1.6% rally to 533.95. The index has not had back-to-back weekly losses since November. For the second week in a row, silver was the best performer; gold had the next-best return. Crude oil is on a five-week winning streak.

CCI Primary Trend: Up	**Gold Primary Trend: Down**	**Oil Primary Trend: Down**
CCI Intermediate Trend: Up	**Gold Intermediate Trend: Up**	**Oil Intermediate Trend: Neutral**
CCI Minor Trend: Up	**Gold Minor Trend: Up**	**Oil Minor Trend: Up**

In our recent monthly, we noted that the CCI appeared to be forming a base as a number of commodities were searching for a bottom. Last week's gains appear to have completed that base, paving the way for still higher highs. The breakout allows for further strength to chart resistance in the 550-555 area; point-and-figure counts allow for 570 and even 584. Key support remains 504-500, but there is now intervening support at 527-517.

As mentioned, silver was the best performer for the second straight week. In last week's comment we noted that, while silver had not reversed its post-August downtrend, the weight of the evidence indicated higher highs and broken downtrend lines. This week's rally completed a base and penetrated trend lines going back to 2012. Thus, the door has been opened for further strength to at least 22-24 and potentially to 26-28. Nearby support is apparent at the 19.84-19.69 breakout point.



In last week's *STR* we suggested that gold seemed to be preparing for its best rally in months. Last week's 4.1% gain – which was the best rally since July – has reversed the decline from at least August's 1420 high. More importantly, the rally appears to have been enough to invigorate the monthly Coppock Curve and position it to maintain a bullish bias for most, if not all, of 2014. This indicates at least a 38.2% retracement of the decline from the October 2012 high (1792). This implies a rally back to at least last August's 1420 high (38.2%) and potentially to fill the 1472-1536 gap. Nearby support exists at the 1269-1261 breakout point.

As mentioned, last week's 0.2% rally was WTI crude oil's fifth straight gain. We have been making the case that September's high completed a 2008-2013 **(B)**-wave. If correct, this suggests that recent strength is a pause within a larger **(C)**-wave decline. The monthly oscillator remains under pressure, but the weekly indicator is improving and sentiment is oversold. Moreover, last week's rally reversed the December-January decline. Further strength through 103.80 will lock in the decline from September's high as a complete pattern and place our long term count in jeopardy. Support is apparent near 98-95 then the November-January 92.36-91.80 double bottom.

Despite sugar's 0.6% decline, the PowerShares DB Agriculture Fund (DBA) still posted its fourth straight weekly gain with a rally of 1.3%. In our recent monthly we suggested that the downtrend from the September 2012 high (30.87) – and possibly from the March 2011 high (35.58) – is in its terminal stages. In that regard, the weekly Coppock Curve has bottomed and we have been carrying a preliminary **C**-wave at the late-January low. However, the rally still has not decisively completed the bottoming process with a breakout from its base. From a

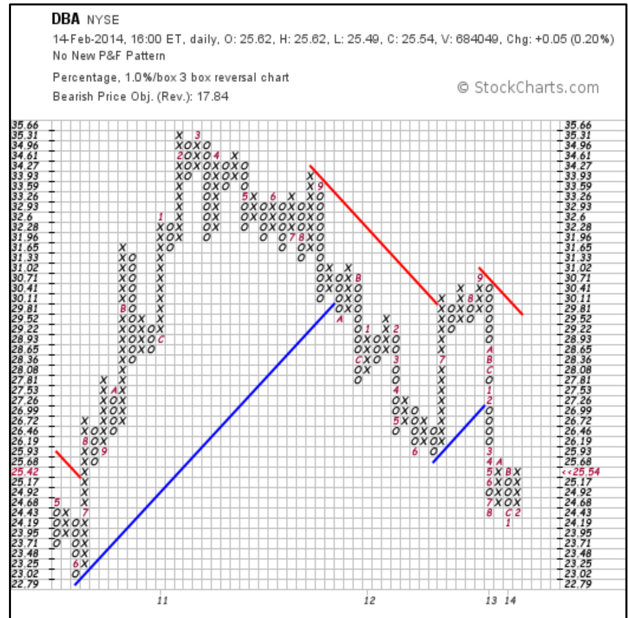
point-and-figure perspective, that will require a rally through 25.93. When that happens, it will set the stage for at least a 38.2%-50% retracement of the entire decline from the September 2012 high. This, in turn, will indicate potential to 26.65-27.46. Support exists at 24.90-24.45 then last month's 24.04 low.

Silver (Weekly)

Gold (Weekly)

WTI Crude (Weekly)

DBA (1%x3)



Insights on the US Dollar: *The dollar index is in the latter stages of its post-2001 decline. Our long term count indicates that the index may only need one more intermediate **(C)**-wave decline to complete the larger pattern. The relatively short duration of the 2010-2011 decline, the need to use a failure to reach a satisfactory 2001-2011 count, and the corrective nature of the post-2011 rally pattern leaves open the distinct possibility that the post-2001 downtrend still has unfinished business. Either way (and much like yields), the next primary decline will likely be either the last leg to the dollar's secular downtrend or the first correction in a new decades long uptrend.*

US$ Primary Trend: Neutral	€ **Primary Trend: Up**	¥/$ **Primary Trend: Up**
US$ Intermediate Trend: Neutral	€ **Intermediate Trend: Neutral**	¥/$ **Intermediate Trend: Down**
US$ Minor Trend: Down	€ **Minor Trend: Up**	¥/$ **Minor Trend: Down**

Last week, the US dollar index recorded consecutive losses for the first time since December with a decline of 0.7%. The decline was broad-based as, for the first time since October, the greenback retreated against every one of the index's six currency components.

The dollar was also broadly weak against emerging market currencies. The greenback fell against 12 of the 14 emerging market currencies in our universe. Overall, the Wisdom Tree Emerging Currency Strategy Fund (CEW) gained 1.3% to 19.93.

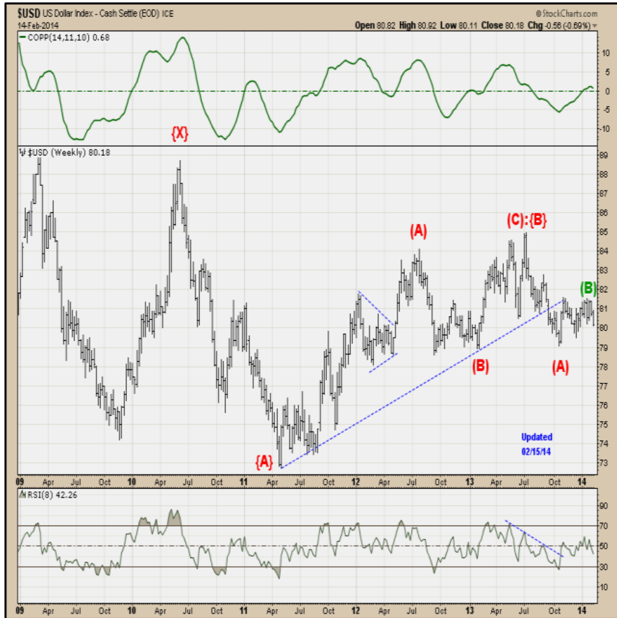
From our perspective, the dollar index's primary downtrend from July's high is still intact. We are counting October's low as an intermediate **(A)**-wave within a larger **(A)-(B)-(C)** decline. The trading range since then fits as the counter-trend **(B)**-wave. With this in mind, the decline from January's high has an impulsive look and the weekly Coppock oscillator is under pressure (even as the monthly indicator is in a downtrend). This, plus last week's breach of 80.51, prompted us to place a preliminary **(B)** at January's high in anticipation of **(C)**-wave weakness. As such, this implies further weakness to initial chart support at 79.69. Below that, key support remains in the 79.00-78.08 range. Nearby resistance is apparent at 80.45-80.83. Beyond that we will look to 81.32-81.48.

The euro rallied 0.4% last week and remains in a well-defined uptrend channel that has been developing since the first half of last year. The weekly Coppock Curve has not been above its own five-week weighted moving average since November and the monthly oscillator is deteriorating. This combination, plus the beginning of important resistance at €1.385-1.395 suggests that upside potential could be limited. Nearby chart support is apparent at €1.348 then €1.330.

The dollar rallied 0.6% against the Japanese yen last week. Our preferred count is that the dollar rally from October's low is the fifth wave from the September 2012 low. As a result, the decline from the late December high, which locked in the October-December rally as a complete pattern, has satisfied the minimum requirements for a finished 15-month rally. With that in mind, the current decline has retraced little more than 50% of the preceding October-December rally. As a result, we have to allow for the possibility that this correction is only a pullback within a still developing post-October fifth wave rally. Deteriorating weekly and monthly Coppock guides argue against this possibility, but it deserves consideration until proven otherwise. A breakdown through ¥/$100 will be increased evidence that the 2012-2013 rally is done and that we should look for at least a 38.2% retracement – to the ¥/$94.63 area – of that larger pattern. Resistance exists at ¥/$103.13 then ¥/$104.01 and above.

The 1%x3 point-and-figure chart for the Wisdom Tree Emerging Currency Strategy Fund (CEW) shows chart support at 19.24; trend support exists at 18.86. Trend and chart resistance exists at 20.02-20.22.

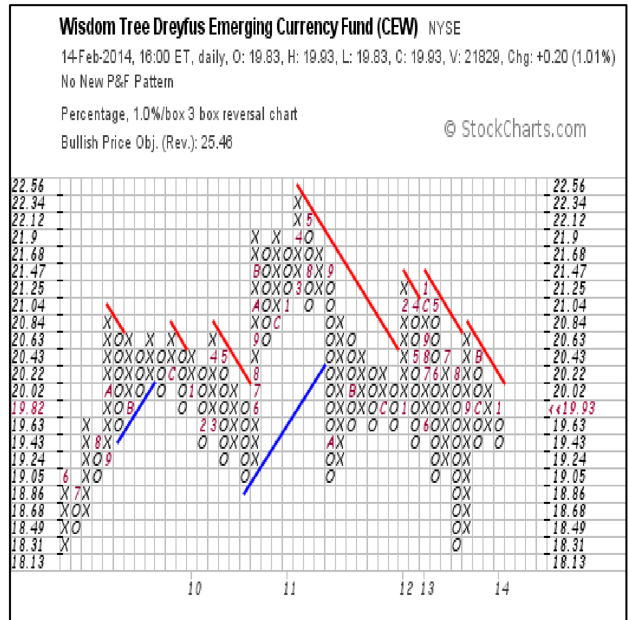
US Dollar Index (Weekly)



Euro (Weekly)

Japanese Yen (Weekly)

Wisdom Tree Emerging Currency Fund (1%x3)



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