The Wall Street Examiner

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Professional Edition

Daily Market Update- Monday, January 03, 2011 6:29:43 PM ET The market burst through resistance, but did so without a significant increase in cycle breadth or momentum. So this looks like more of the same of what we've been seeing. The 6 month and 13 week cycle projections now point to 1317 and 1320 and the 10-12 month cycle projection range has widened to 1310-1360, with highs due later in the first quarter.

1/3/2011 Stock Screen Statistics	New Buys	New Sells	Net	Change Since Last	5 Day Change
Intermediate Term New Signals					
10-13 week cycle	24	9	15	30	-49
6 Month Cycle	50	48	2	12	-69
Both Concurrent	0	4	-4	1	-10
Short Term New Signals					
4 Week Cycle	60	99	-39	-32	-26
6-7 Week Cycle	86	35	51	38	91
Both Concurrent	10	55	-45	-6	-33
All Stocks in Sample *Current Cycle Status*	**Buy Side**	**Sell Side**	**Net**	**Change Since Last**	**5 Day Change**
6 Month Cycle	267	308	-41	52	-118
10-13 Week Cycle	364	211	153	32	-110
6-7 Week Cycle	169	406	-237	84	-190

Cycle based stock screening data – The change in the cycle screen numbers was a lot less impressive than the gain in the market. Nevertheless, the indications were mostly positive, particularly in new 13 week and 6-7 week cycle signals and 13 week and 6 month cycle status. The uptick was not enough to turn 6 month cycle status positive following a weak performance in that measure on Friday. Weakness in new 4 week cycle signals included an increase in sell signals, which is often the first sign of an approaching short term top. All in all, it was an incoherent performance, which raises suspicion but gives me nothing concrete that would cause a more bearish view of the trend. A sloppy uptrend is a sloppy uptrend, and it can stay that way for weeks. (10/28/10) The sell side indications are mostly manifestations of slowed upside momentum and negative divergences, but no real declines. If there's no break soon, then these may fall into the realm of "internal corrections" which could lead to even bigger upside later. 13 week cycle status also weakened slightly but remains strongly positive. Nothing is likely to change much until new short term sell signals increase significantly, along with a big jump in new 13 week and 6 month cycle sell signals. Until that happens, the market should continue to trundle gradually higher.

Centered moving average projections and time counts (Discussion on page 6)

	Phase/PTT	SPX Target	Ch	QQQQ Target	Ch
6 Month	Trending/?	1320	+	56.50	-
13 Week	Up/8-26	1317	+	57.50	New
6-7 Week	Top-SWD/<=9	1266 Done	0	55.50 Done	0
4 Week	Up/5-10	1274 Done	New	56.00	New
SWD: Sideways Down Phase		SWU: Sideways Up Phase			
PTT- Periods till turn, normally in days		Ch- Change since prior day			

Indicator Review (Discussion on page 6)

	Last Signals	Status	Comment
4 Week Cycle	Buy	Mid Up Phase	
6-7 Week Cycle	Sell	Top Phase	
17 Day Rate of Change	Sell		
10-13 Week Cycle	Buy	Mid Up Phase	Some indicators weaken a little
29 Day Rate of Change	Buy		
6 Month Cycle	Mixed	Trending	
10-12 Month Cycle	Buy	Late Up Phase	1310-1360 projection

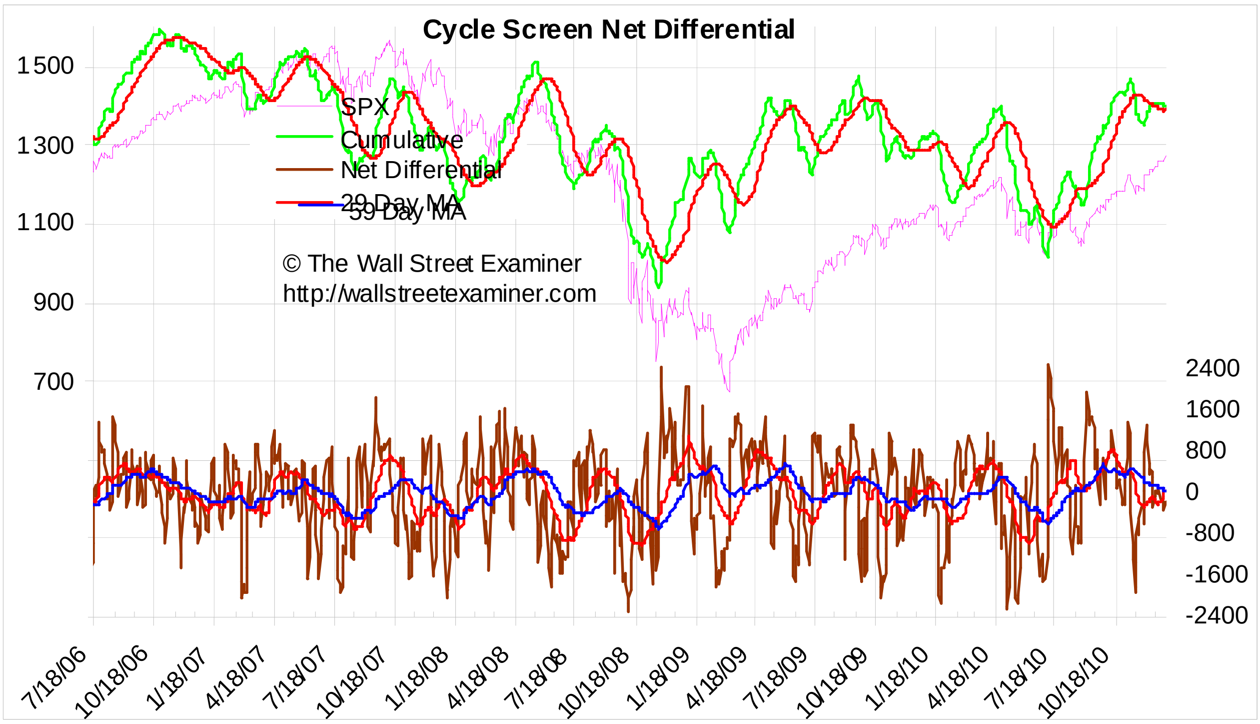
Support and Resistance See charts on pages 4-9.

Cycle Screen Aggregate Indicator The net aggregate differential between buy and sell side indications rose from -356 to -145, which again isn't too impressive considering the gain in the market averages. The indicator established a lower low on Friday at -356. The last short term high was on December 22 at +158. The extremely narrow range of the swings is unusual. As long as the numbers stay near neutral, the uptrend can continue at more or less its present rate. A move above +158 would suggest broadening and acceleration. A move below -356 would suggest a downturn. On a couple of occasions, extreme negative divergences with the indicator rolling over from near the zero line have signaled important tops. All that's needed here is the rollover.

(12/29/10) The indicator has been trading in a narrow, indecisive range near neutral for 2 weeks in what seems like a holding action until reinforcements arrive in the New Year. The question is whose reinforcements they will be.

The indicator has quickly narrowed in a pattern of lower highs and higher lows. Decision time approaches. While it may be true that sentiment measures reflect a lopsided bullishness among the chattering classes, the only sentiment that matters is Ben Bernanke's and his network of captive dealers. While contrarians might want to lean to the sell side, I'll continue to throw my hat in the ring with the Fed.

Long Term View (Zoomed view, next page)



The net aggregate differential between buy and sell side indications is generated by the 9 screens of the stocks in the S&P 500, along with 65 leading industry ETFs. Peaks have typically been at a reading of +1,200 to +1,400, with a new high of +1,855 being reached in September 2007 when the Fed surprised the market with a ½ point rate cut. Intermediate lows had coincided with readings of -1,400 to -1,700 until March 1, 2007 when a new low was established at -2059. That level was almost reached again in January 2008. A new record low of -2316 was set on October 7, 2008. A new record high of +2440 was reached in November 2008. That was breached in July 2010 with a new high of +2508.

The 29 day MA theoretically represents the 13 week cycle. The direction of the 29 day MA only signals cycle phase. It does not indicate how strong the up or down phase will be. Prior to 2007, there was little correlation between the phase of this indicator and the price trend because the market was uptrending most of the time. The same process occurred in 2009 and early 2010. The correlation was strong during the bear market.

(12/30/10) The 29 day MA has just come off a double bottom to move above the mini-peak of December

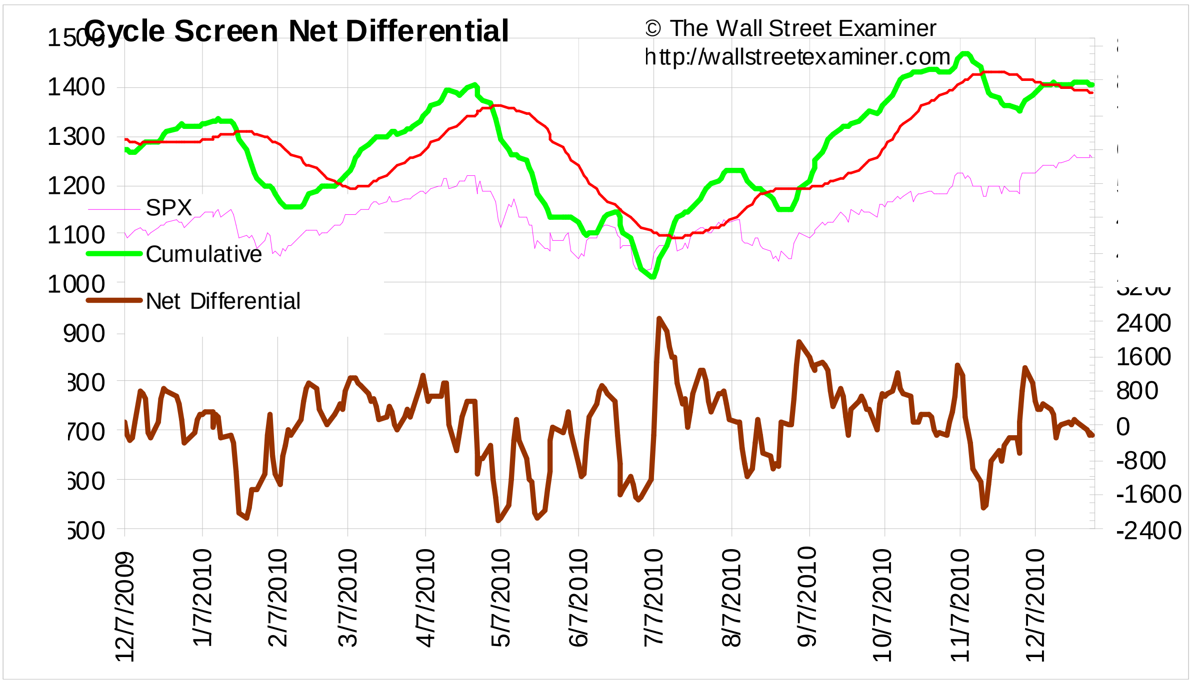
13, but it is still essentially moving sideways near neutral. If it begins to accelerate to the upside from this pattern, that would be a bullish sign for the intermediate term. If it doesn't, then we should expect more of the same weak trending in the market unless and the indicator breaks down from this pattern. From this configuration, that would probably be accompanied by a price decline.

(12/21/10) The 29 day MA has had a double dip over the past few days, in the process retesting the early December low. This attests to the narrow and modest momentum of the upmove. If this continues, the growing negative divergence would be a yellow flag that would suggest a big decline upon the completion of the up phase. By the same token, with the indicator hovering around the neutral line, without a break in price the status quo could persist for weeks or months with the market continuing to trend higher.

(12/6/10) The 29 day MA has turned up, signaling a probable 13 week cycle up phase. The indicator corrected while prices went mostly sideways. That's bull market type action.

(12/1/10) The 59 day MA, which is the theoretical representation of the 6 month cycle, has turned down from a topping pattern suggesting a down phase in the 6 month cycle. Since the market averages haven't broken, I will have to put this in the class of a bullish internal correction in this cycle while the market moves sideways. Only a price break of the lows in the 1170s would change that to a more bearish view for this cycle.

Zoomed View



(12/21/10) The cumulative line has been flat since December 10, bringing it to a second fan line off the July low. Given the negative divergence that has developed since early November, a downside break of that trendline could be a significant sell signal. On the other hand, an upward surge from the trendline could signal a significant extension of the market upleg.

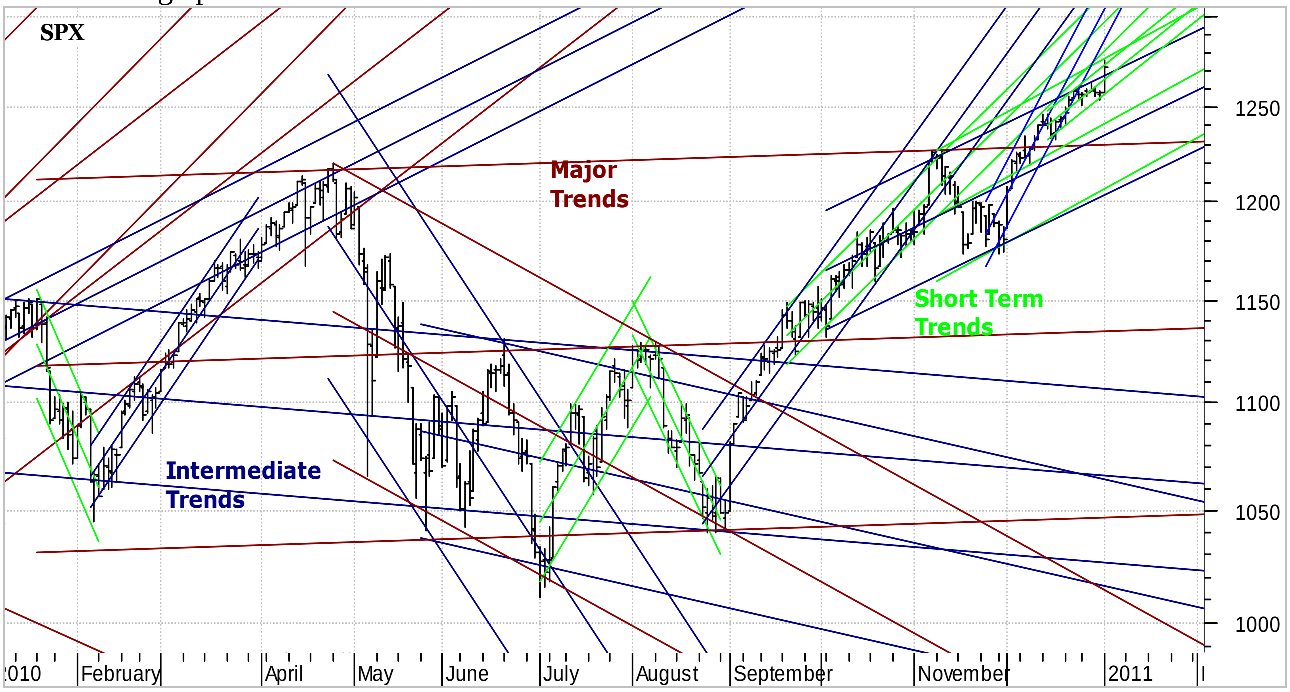
(12/15/10) The cumulative line stalled on Wednesday just as it reached its 29 day moving average. A downturn from here would make things interesting from a bearish perspective because it would mark a lower high and a bearish non-confirmation of the new high in the SPX. It's too early to call this a turn. That would require a couple more down days.

(12/5/10) The cumulative line has turned up. It also corrected while the market stayed even. If it makes a lower high on this swing, that would suggest the onset of top formation. If it makes a new high, a major high in the market could still be months away. (11/30/10) The new high in early November suggested that the market was in a bullish major trend. At the same time, the line did not break the December 2009 high.

That was a non confirmation of the new high in the SPX. I would still expect this indicator to turn up and make a lower high before a major top is completed in the market.

Continued on next page

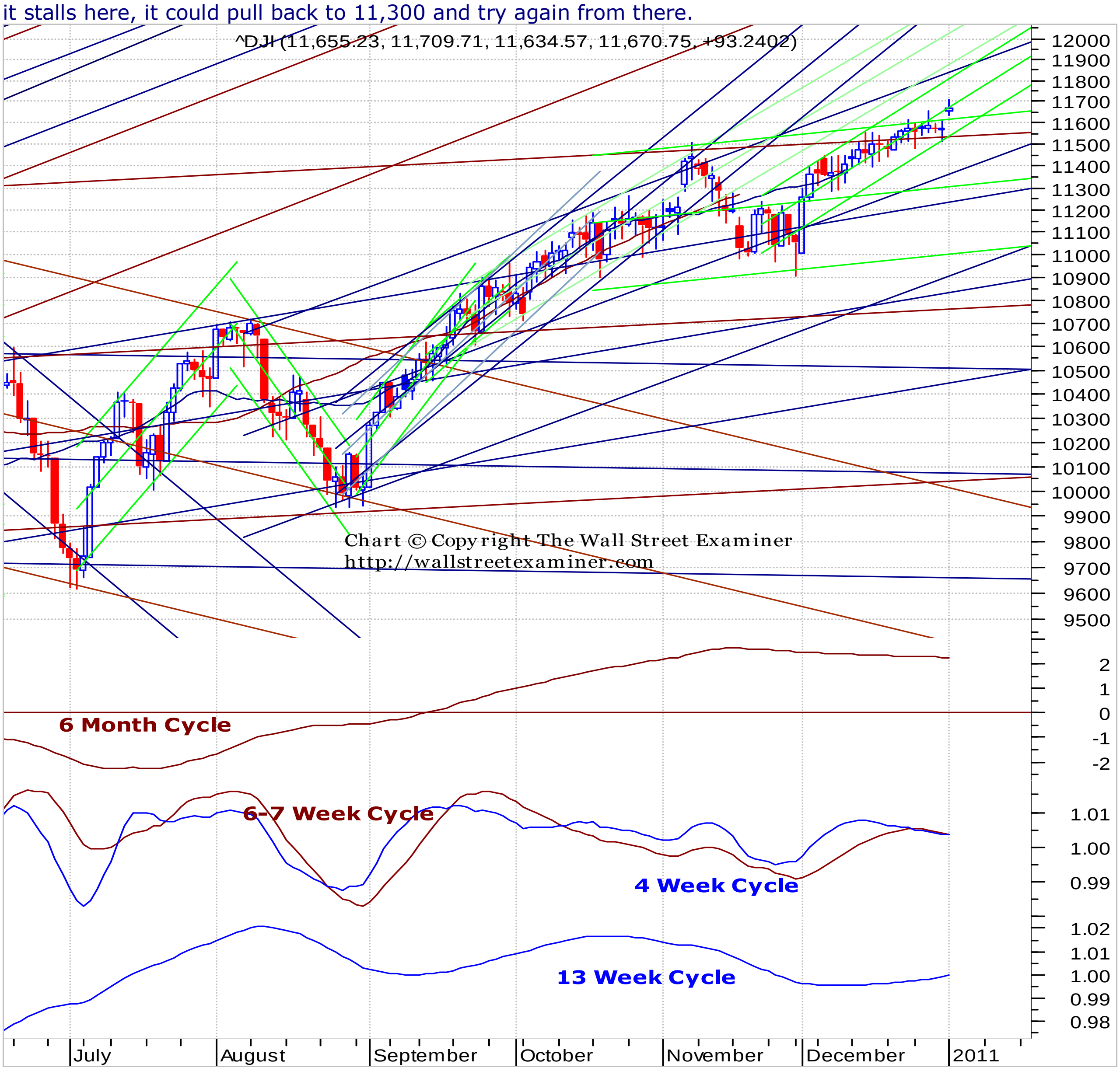
Third Rail – The market broke out of the intermediate uptrend channel on Monday. Several short term trendlines indicate resistance right where the market peaked today. If it immediately reverses within the intermediate channel, that would be a probably short term peak. If it holds here, the uptrend could accelerate. The top of the wider short term channel is now around 1280. If that's cleared the move could go parabolic.



The Third Rail Chart uses linear regression analysis to illustrate trends. A linear regression channel is drawn normally 2 standard errors around the centerline between two cyclically related points. That means the regression is drawn either between the dates of two highs or two lows of the same cycle. They may or may not be consecutive highs or lows. The regression channel is then extrapolated forward. This defines a particular trend. As long as the index stays within the trend projection, the trend is in force. Once broken, it is usually an indication that the trend has changed direction. In other words, a particular cycle has gone from an up to a down phase, or vice versa.

Dow Jones Industrials

This looks like a breakout with initial room to run to 11,900. (12/21/10) The last line of resistance on the Dow appears to be at 11,600. If it breaks that, it should be clear for a run to 11,800-12,000. (12/16/10) The Dow could blast off if it takes out the highs concurrent with an upturn in the 13 week cycle indicators. If it stalls here, it could pull back to 11,300 and try again from there.



Cycle Analysis

	Phase/PTT	SPX Target	Ch	QQQQ Target	Ch
6 Month	Trending/?	1320	+	56.50	-
13 Week	Up/8-26	1317	+	57.50	New
6-7 Week	Top-SWD/<=9	1266 Done	0	55.50 Done	0
4 Week	Up/5-10	1274 Done	New	56.00	New
SWD: Sideways Down Phase		SWU: Sideways Up Phase			
PTT- Periods till turn, normally in days		Ch- Change since prior day			

The Cycle Conditions tables include cycle phase and a guess as to number of periods to the next turn (PTT), in days for the shortest cycles, weeks (W) or months (M) for the longer ones. This is a fluid exercise, in other words, the projections are likely to be wrong at times, but they force us to be vigilant for key turning points, and frequently work well enough to prevent costly misreadings. The Cycle Conditions chart and Cycle Map discussion are updated daily, and take precedence over the weekly long-term chart discussions. Centered moving average projections are used to project targets.

Indicator Review

	Last Signals	Status	Comment
4 Week Cycle	Buy	Mid Up Phase	
6-7 Week Cycle	Sell	Top Phase	
17 Day Rate of Change	Sell		
10-13 Week Cycle	Buy	Mid Up Phase	Some indicators weaken a little
29 Day Rate of Change	Buy		
6 Month Cycle	Mixed	Trending	
10-12 Month Cycle	Buy	Late Up Phase	1310-1360 projection

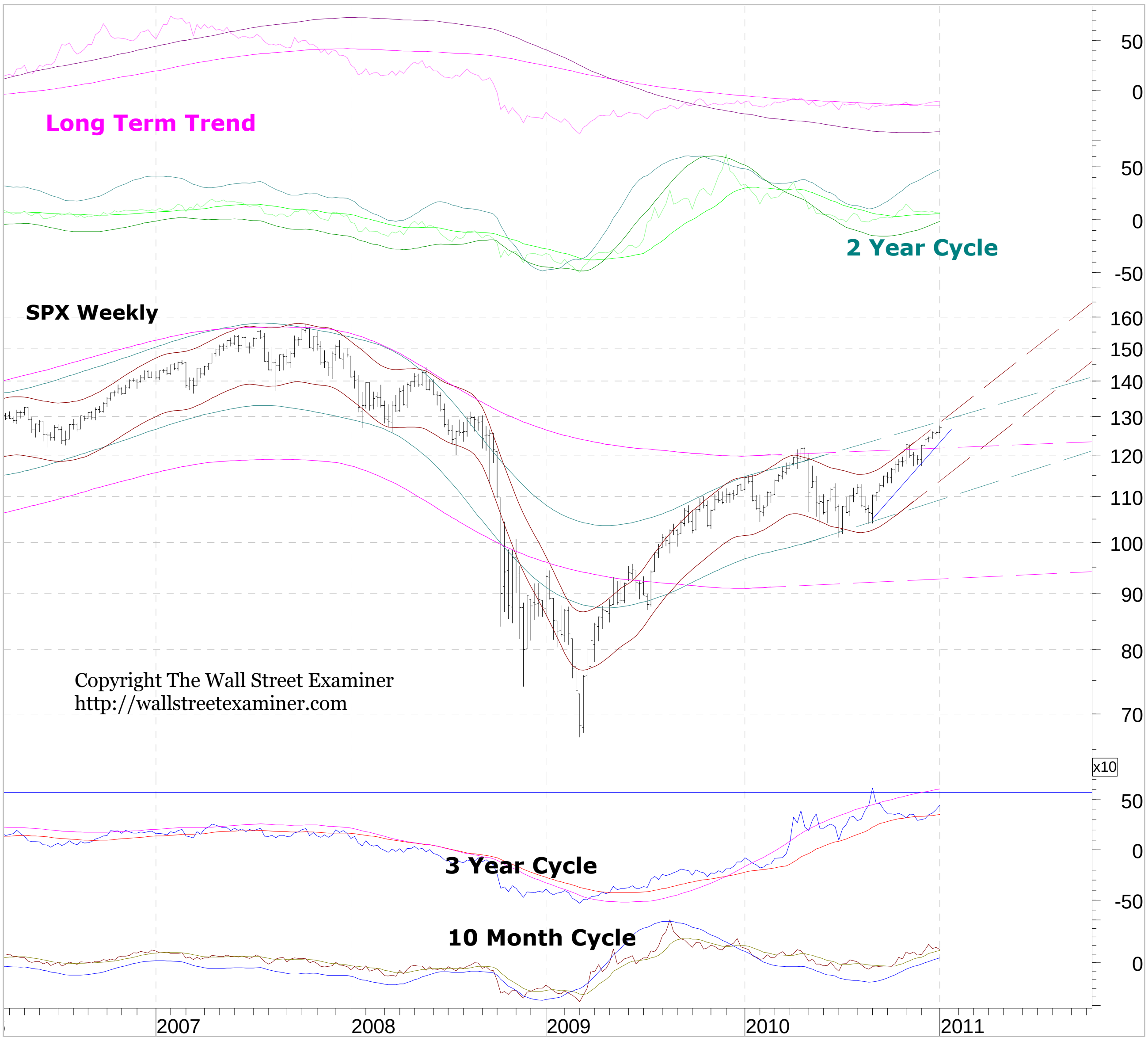
The 13 week cycle projection moved up to 1317 as a result of Monday's surge. The 6 month cycle, projection appears to be aimed at 1320. The 10-12 month cycle projection range has expanded to 1310-1360. The market could work toward the 10-12 month cycle projection ideally due between February and April, with a variance of a month or two being typical. A 13 week cycle high would be due between mid-January and mid February.

A long term update is posted at http://wallstreetexaminer.com/stocks/longterm120710.pdf.

(12/28/10) The 3 year cycle sell signal has whipsawed, signaling a likely extension of the rally toward 1300. Long term trend indicators are on the cusp of upturns. That is something to watch over the next several weeks.

(12/21/10) If the market closes at 1255 or higher this week, the 3 year cycle sell signal on the long term chart on the next page will whipsaw, signaling an extension of the upleg. If this rally sticks, it would be enough to push the long term wave to an upslope. Resistance on this chart appears to be around 1300. A 3-4 year cycle top could begin to develop from there, but it could take much of the year to reach a final peak, given the typical length of time it takes long term cycles to top out.

(12/30/10) A close below 1220 could be a major trend sell signal. It would bring the index back within the major trend channel parameters and could trigger a renewed sell signal on one of the 3 year cycle indicators from a growing negative divergence. As long as it stays above that level the major uptrend should be considered intact.



Long Term Trend
2 Year Cycle
SPX Weekly
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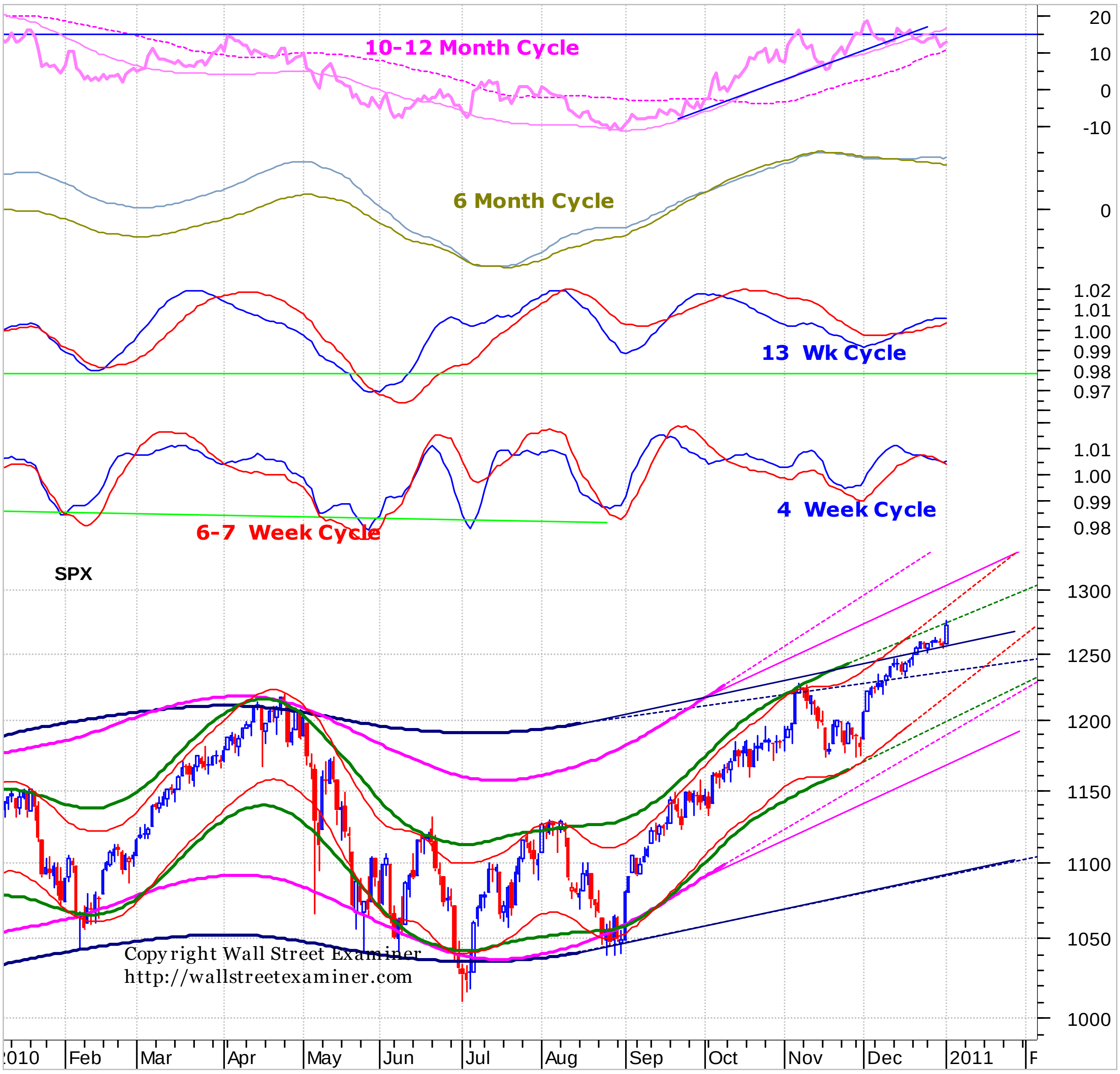
3 Year Cycle
10 Month Cycle
50
0
50
0
-50
160
150
140
130
120
110
100
90
80
70
x10
50
0
-50
0
2007
2008
2009
2010
2011



The dark blue channel is the idealized 18 month-2 year cycles. Magenta is the 10-12 month cycle. Green is the 6-month cycle. The red channel is the 10-13 week cycle.

The market looks poised to move toward 1300, the primary question being which uptrend channel is likely to contain the move. A drop below the 18 month cycle channel projection now around 1260, would be needed to signal a potential reversal. (12/28/10) The market remains above the top of the 18 month cycle channel projection. A close below that level could lead to a correction back toward 1235, or even 1210-1220 over the next few weeks. However, if the market holds above 1257, the way would be clear for a move toward 1300. With a 6-7 week cycle down phase now due, if there’s no break over the next few days, then the market is likely to continue to trend higher in January. (12/22/10) The market has broken through the top of the 18 month cycle channel projection and appears to be on its way toward 1300+. The breakout suggests acceleration. The move could go parabolic. An immediate reversal back within the trend projection below 1250 would be needed to possibly change that outlook.

Equal Vertical Width Channel Chart – The market found support above the lines at 1250 and could move to an old trendline extension around 1287. If it gets through that, the target should be the top of the channel from the late August low, now projecting around 1325. Support at 1250 and 1240 would need to fail to have a chance of trend reversal.

Inverted Scale VIX Chart- (12/23/10) VIX has grazed the outside parameter of the longer term regression projection near the same level where the market topped out in April. (12/17/10) The surge to the top of the intermediate wave channel looks like a short term sell signal. However, the last similar signal resulted in only a one day pullback. (12/8/10) The continued push in the VIX suggests a parameter shift in the long term regression channel. A move to the 15.50 area may be needed for a sell signal.

The 17-day rate of change is a proxy for the 6-7 week cycle. The 29-day rate of change is a proxy for the 10-13 week cycle. The VIX is a measure of implied options volatility reflecting relative fear or complacency. It is plotted on an inverse scale to better show the relationship to the price chart. Regression projections and a 10-12 month cycle wave band are used to estimate extremes, which typically result in intermediate reversals.

QQQQ The 10-12 month cycle projection range has expanded to 56.50-59 and there's a new 13 week cycle projection of 57.50. (12/30/10) The 6 month cycle projection looks like it will settle around 56.50. (12/23/10) However, the 10-12 month cycle indicator has formed a negative divergence over the last 4 weeks in what could be a warning sign of topping action. (12/5/10) It still may take a couple of months for the kind of negative divergence to form that usually marks a top. Resistance is around 54-55. If they take that out, the move could go parabolic.

The 17-day rate of change is a proxy for the 6-7 week cycle. The 29-day rate of change is a proxy for the 10-13 week cycle. The navy channel is the idealized 18-month cycle. The magenta channel is the idealized 10-12 month cycle. The dark green channel is the idealized 5-6 month cycle. The red channel is the 10-13 week cycle, and the blue channel is the 6-7 week cycle.

Stock Screens

The following list of stocks have generated buy or sell signals on the date of this report. The screens use proprietary cycle indicators applied to all stocks in the S&P 500, as well as the SPX itself, and the QQQQ. In order to be listed as either a buy or a sell, the stock must have triggered the corresponding signal on its 6-month cycle indicator within the past 2 weeks, *and* on its 13-week cycle indicator within the past day, or on the 13 week cycle within the past week and the 6 month cycle within the past day.

These are not buy or sell recommendations, but rather a suggested list of stocks for you to look at to see if they meet your own trading criteria. This assumes you have a certain level of proficiency at chart reading. Stocks in trading ranges are likely to generate frequent whipsaws. Look for patterns where buy signals appear to be in a trough, and sell signals appear to be in a top pattern. Using the link to our chart pages on either the top or side menus of the Wall Street Examiner will preload charts with indicator periodicities that I like for helping to make trading decisions.

These are intermediate signals. The expected holding period would be from 3 to 8 weeks. In the short run, stocks will frequently run counter to intermediate signals for up to two weeks. However, depending on the typical volatility of an issue, if it breaks support or resistance in a move counter to the signal, then the signal is probably wrong. Stocks may appear on the lists for more than one or two days when the signals whipsaw back and forth across the signal lines. With intermediate signals, time must be allowed for the change in direction to occur. Normally this will be within two to three weeks at most. These periods are commonly known as periods of "accumulation", associated with buy signals, or "distribution", associated with sell signals. In some cases moves will start immediately. The goal of this signal system is to identify possible trending moves before they begin, or at least, very early in the trend. If the move has not begun within three weeks, the signal is probably wrong.

From time to time, some charts will be selected for publication as Chart Picks in the following section of the report. These charts exhibit the characteristics of holding promise of a significant move in the ensuing swing. As always, there is substantial risk of loss. Use of these tools is subject to the Wall Street Examiner's Terms of Use.
http://wallstreetexaminer.com/?page_id=126

Chart Picks are restricted to major sector ETFs and broad index ETFs. The raw screen data will continue to be posted for those of you looking for individual stock pick ideas. The raw data requires further analysis to choose the best setups.

12/30/2010

Buys Ticker	**Sells Ticker**
APC	EIX
STR	STT

ETF Chart Picks- No new selections (12/29/10) A few days ago (see below) I mentioned that ILF and EWZ appeared to be on the cusp of a move. Today they began to trigger buy signals. Obviously there's a risk they could be false alarms, but I have posted the charts below and will begin tracking them as of Thursday's open. (12/23/10) There are no open selections. There are no obvious long or short entries. However, EWZ and ILF have been weak, and are on the cusp of a move. The setups are interesting but the direction of the break is a tossup. It's something to watch.

About Opening, Stops and Targets: The starting price will usually be the open for tracking purposes, unless otherwise noted. When considering stop orders, I base them on support levels on the charts for sell stops, and resistance for buy stops. I'd wait until it was clear that the closing price would be through the pertinent level rather than leave stop orders on the market makers' books. That means waiting until later in the session to allow for the possibility of a reversal following a stop clearing run. Normally it will be clear around 3:00 PM ET whether the stop level will be cleared as of the end of day. However, that rule is not carved in stone. Common sense should apply. If a stock has gone through a stop level earlier in the day, reacted, then resumed heading in the wrong direction, I would pull the plug right away. When a selection hits a target the selection will be closed, regardless of the time.

Chart Picks Charts **Chart Key** The indicators at the top of the charts are designed to filter out moves that are consistent with nominal cycle lengths of 4-5 weeks (light green), 6-7 weeks (red), 10-13 weeks (blue), 5-6 months (brown) and 10 months (dark green).

No new selections

Chart Picks Tracking Report

The table below tracks current open selections, including the current status of the open selections, and targets, where available, along with selections closed on the most recent trading day.

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Open Date	Signal	Symbol	Open Price	Stops & Tactics	As Of Date	Current Price	Gain or Loss	% G/L	Target	Duration
12/30/10	Long	EWZ	76.37			78.12	1.75	2.3%		5
12/30/10	Long	ILF	53.32			54.34	1.02	1.9%		5
							avg.	2.10%		

Stop prices are effective in PM trading only. See discussion.
Target prices are currently treated as price triggers for the purpose of tracking a closing price.

Performance Metrics on Open Selections

2	Longs		Total Gains	2.77	
0	Shorts		Total Losses	-	
Total Points Paid	129.69		Total Points Gain or (Loss)	$ 2.77	
Total Selections	2		Average gain (loss) per selection	$ 1.39	2.10%
Average Price	64.85		Avg. holding period	5 days	
Number of Gainers	2	Number of Losers 0			
% Winners	100%				
% Losers	0%				

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Past performance may not be indicative of future results.

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