

Sy Harding's

# STREET SMART REPORT

22 Years of exceptional market research for professionals and serious investors!

Much more online at [www.StreetSmartReport.com](http://www.StreetSmartReport.com)

## INDICATOR SUMMARY:

Our Seasonal Timing Strategy™ (STS) remains in its favorable season. The earliest possible exit date is April 20. (The re-entry signal was Oct. 28, the previous exit May 9). Our non-seasonal Market-Timing Strategy is on a buy signal from early March. We are on a sell signal for gold from April 1, and remain neutral on bonds.



April 6, 2009.

We began the last issue, 3 weeks ago, by saying “We believe the significant bear market rally we predicted has begun.” We went into *why* the odds favored the rally being substantial. Those included the extreme oversold condition of the major indexes beneath their long-term 200-day moving averages, the extreme fear and pessimism in investor sentiment, and encouraging signs in some of the economic reports.

Several weeks prior to the rally beginning we also predicted that when it arrived it would begin explosively. We expected the high degree of short-selling created by the extreme fear and bearishness would result in a larger than normal rush by short-sellers to the buy side to close out those positions once a rally began. So our advice was to be alert for an upside reversal and buy signal at any time, and to be ready to move quickly.

Then we actually jumped the gun on our indicators, not waiting for the buy signal. We recommended via the March 10 hotline that subscribers immediately move from the then 70% cash position to 70% invested. Yet, even with that nimbleness we missed the first day of the rally and its 5.8% gain.

**The Dow gained 622 points, or 9.5%, in the first three days of the rally, and in four weeks has now gained 22.5%.**

The Nasdaq 100 (one of our recommended positions for the rally) gained 11.6% in the first three days of the rally, and is now up **26%** in four weeks.

The small cap Russell 2000 index, another of our selections via the etf IWM, gained 13.7% in the first three days, and has now gained **33%** in four weeks.

So, it has already amounted to the significant bear market rally we predicted. (The market does not often make those kinds of gains for a full year).

**So what's next?**

**Will the rally continue?**

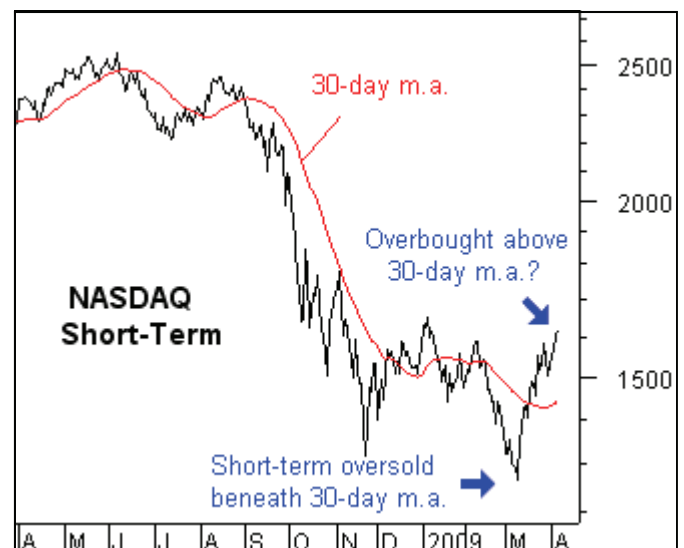
**We believe it can, but that it will become more choppy and difficult, including being subject to quite troublesome short-term pullbacks.**

So far, the rally has been pretty much a straight line up (see chart below). But the market doesn't move in a straight line in either direction for very long, which means there would be periodic pullbacks anyway.

In addition, the double-digit profits so far are tempting for traders to take, as in why take a chance of losing the profits by holding through a pullback that *could* be the beginning of a resumption of the bear market.

So just as excessive short-selling led to a big move when the rally began, so the big profits are likely to lead to greater than normal volatility on pullbacks.

And, just as the upside began with a rally off the oversold condition *beneath* key short-term moving averages, so the first pullback is probably due from the short-term overbought condition *above* key short-term m.a.'s.



Also, while March provided a respite from earnings reports, we are now coming into the 1st quarter earnings

reporting season, which will last for roughly six weeks, and those reports are not likely to be pretty.

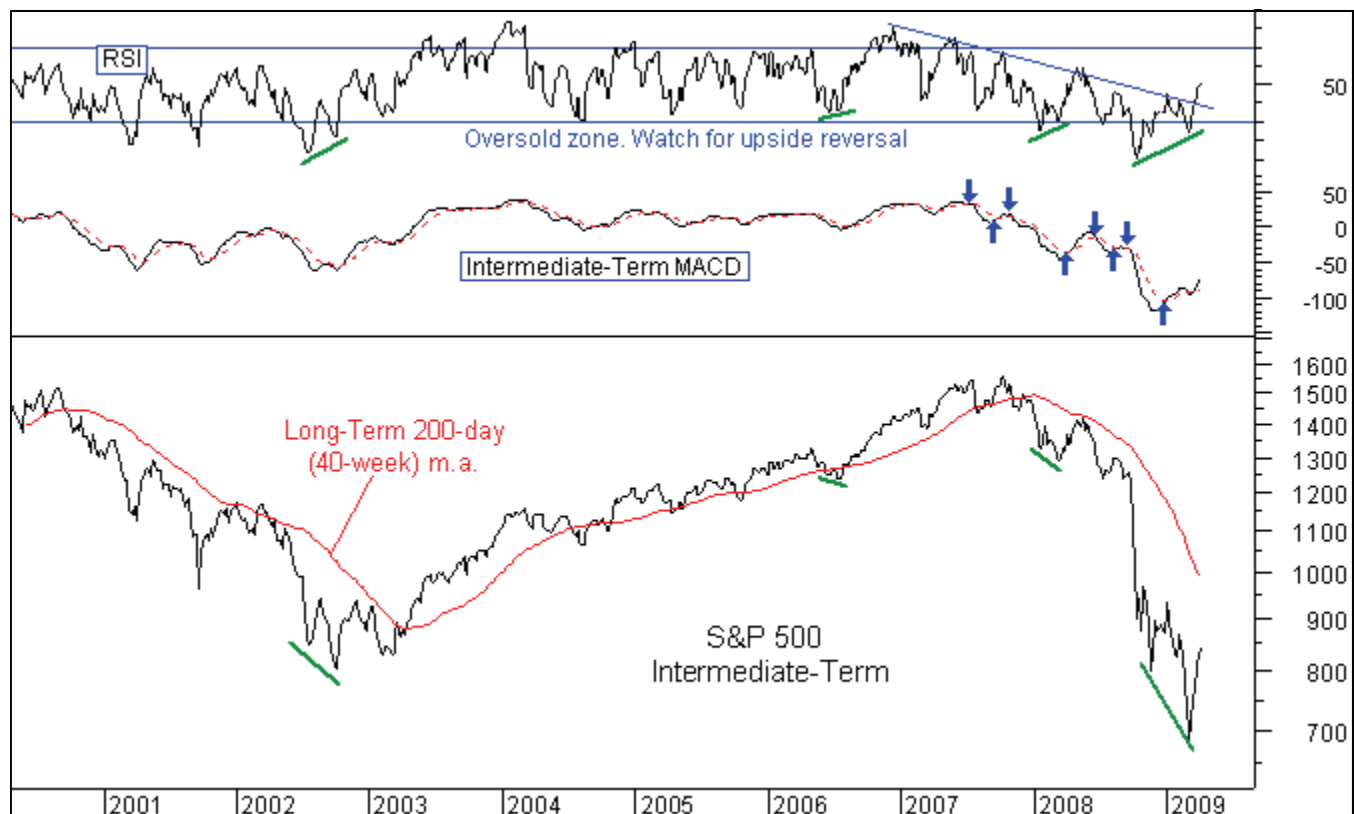
So there are potential problems now that the rally has matured.

**For clues, let's look at the current condition of the factors that prompted us to expect the rally in the first place, to see if at least *they* have room for still more upside.**

First let's look at the previous extreme oversold condition of the major market indexes below their long-term 200-day moving averages.

The S&P 500 is typical. As the next chart shows, it was oversold beneath its long-term 200-day m.a. to an even greater degree than it reached prior to any of the bear market rallies in the severe 2000-2002 bear, and in fact was more oversold than at any time in the last 75 years.

And no wonder! January, usually a positive month, was the worst January in history, and February was the third worst February. Back-to-back record declines *should* produce oversold conditions of extreme proportions, just as the crash of three straight months down created last fall.



The oversold condition has obviously been partially alleviated by the significant rally of the last four weeks. But if the oversold condition is to be completely alleviated, by the S&P rising enough to retest the overhead resistance at the m.a. again, then it has quite a ways further to go. The m.a. is currently at 1,003 (but declining some each day), which is roughly 21% above the S&P's current level.

In addition, the consensus of the 35 technical indicators we use remains on the buy signal, and most have some distance to go before they would reach their overbought levels, *if* they are to reach those levels this time.

It's also interesting that prior to the rally beginning, momentum-reversal indicators like RSI and MACD did not confirm the S&P 500's last low (they made higher lows). That is usually an early alert to expect a rally, as marked with the green lines at previous such occasions (including the low that ended the 2000-2002 bear market).

So that the major indexes remain oversold beneath the m.a. indicates the rally has *room* to continue higher.

**INVESTOR SENTIMENT:**

The extreme level of investor fear was another significant factor in having us expect a substantial rally.

We use numerous methods of measuring investor sentiment. One we like to use to illustrate sentiment is the poll of its members by the American Association of Individual Investors (AAII), because it is easy to understand without a lot of explanation.

As long-time subscribers know, we consider investor sentiment has reached a level of excessive bearishness (which prompts us to watch our market-momentum reversal indicators for a potential buy signal) once the bearish percentage on the AAI poll reaches 55%.

Not surprisingly, after those 'worst' market declines of Jan. and Feb., investor sentiment also reached a record, 70% bearish on March 5, only 19% bullish. That was less than a week prior to the beginning of the rally.

In the opposite direction, history shows bullishness and confidence has reached an extreme that signals a top may be near when the AAI poll reaches a level of 55% *bullish*.

**As is normal, investor fear and bearishness have been declining as the rally has continued. The latest AAI poll shows that bearishness has fallen to 37%, while bullishness has increased to 42.7%.**

So, also based on investor sentiment the rally probably has further to go, *if* bullishness is going to again exceed 55% before the rally ends.

**ON THE ECONOMIC FUNDAMENTALS:**

Another of the factors that had us expecting a rally was the extent of doom and gloom virtually everywhere, in the newspapers and on TV, just as early signs of improvement were beginning to show up in economic reports.

We have been saying for more than a year that the problems for the economy began with the collapse of

the housing industry, and that the recovery will also begin in the housing industry.

And in early March came reports that 'new home' sales rebounded 4.7%, and 'new home starts' rose 22% in February, while permits for future starts rose 11%. Then it was reported that 'existing home' sales rose

5.1% in February, the largest monthly rise since 2003.

Even away from the housing industry, it was reported that Durable Goods Orders rose 3.4% in February, and Factory Orders rose 1.8%. More recently the Institute for Supply Management (ISM) reported its New Orders Index

jumped to 41.2 in March from 33.1 in February, and its record low of 23.1 in December.

Ben Bernanke, Treasury Secretary Geithner, and the White House, seemed to finally address the psychological side of the recession and bear market with messages of hope, after 2 years of the steady beat of gloomy pronouncements that held out little in the way of hope and had become a self-fulfilling prophecy.

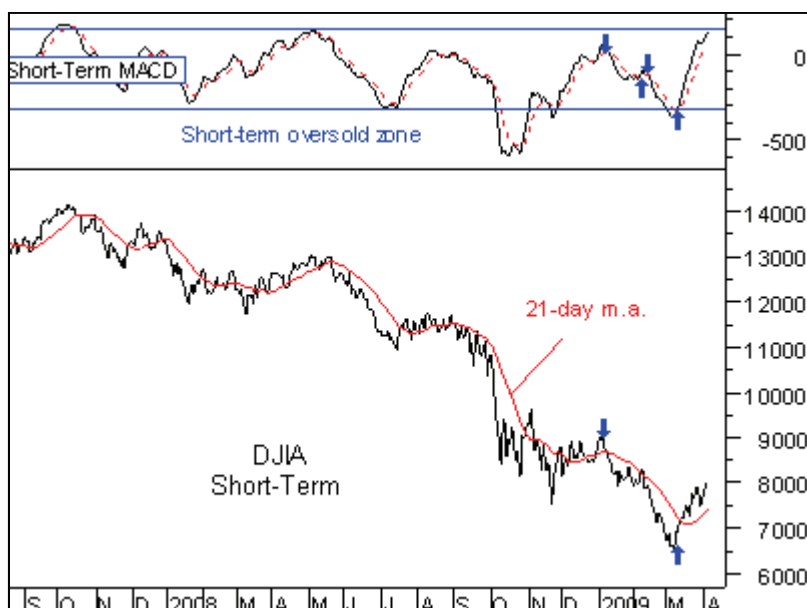
Numerous heavyweights, including Warren Buffett and George Soros, also weighed in to say they are encouraged by the prospects for the latest versions of the bailout plans.

**All of this, plus the rising market, has helped keep the rally going, and indicates there is room for further rally. But *will* it rally further?**

*There is room for further rally from the oversold market conditions, from investor sentiment, and from improvements in economic reports. But it is still a bear market rally and must be watched closely!*

**AT THE LEAST IT IS NOT LIKELY TO BE AS SMOOTH AND ONE-SIDED AS IT WAS IN MARCH:**

To begin with there is the *short-term* overbought condition of the major indexes and the technical indicators, (as opposed to their long-term *oversold* condition beneath their long-term 200-day moving averages).



We showed you the short-term overbought condition of the Nasdaq on Page 1. The chart at left shows the similar short-term condition of the Dow.

Since the bear market began, each time the Dow has become this over-extended above its short-term 21-day m.a. it has pulled back enough to at least retest the potential support at the m.a. That would be about 550 points on the Dow.

But just as it proved on the downside with its *oversold* condition at the October and November lows, the market *can* become just as significantly *overbought* above the m.a. before it tops out.

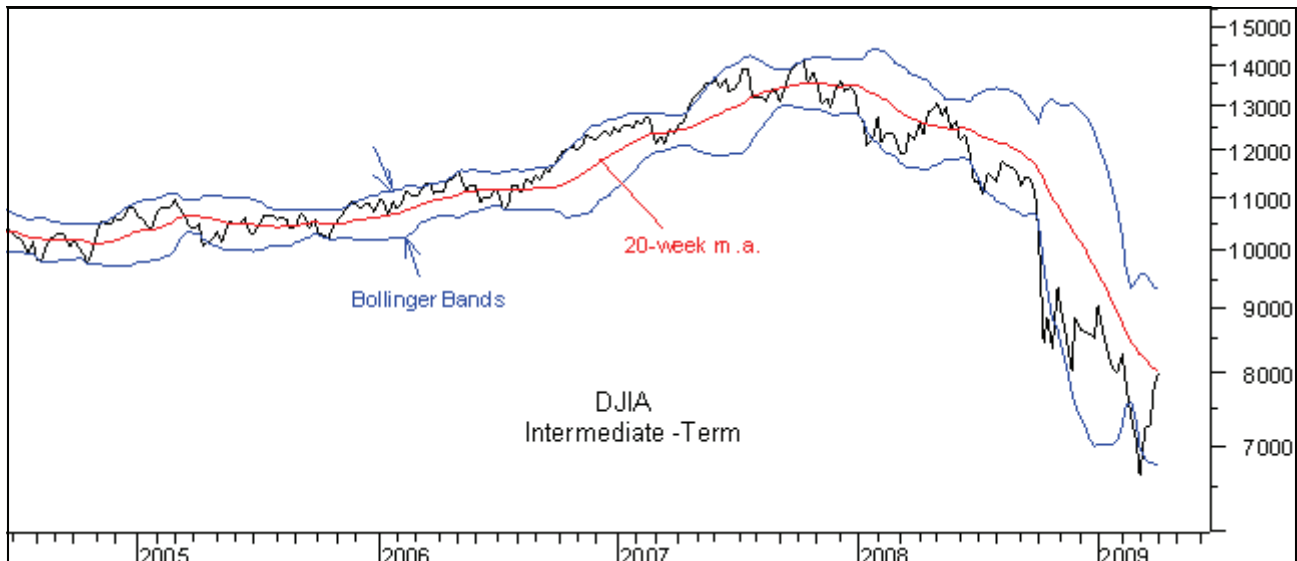
But the market is at a point where it will have to be watched closely.

### Here's another way to look at the market's current situation.

We've shown you the long-term charts, and how the major indexes are still quite oversold beneath their long-term 200-day (40-week) m.a.

We've shown you the short-term charts, and how the major indexes (and short-term technical indicators) have us concerned about the severity of potential *short-term* pullbacks, due the short-term overbought condition.

To confuse you more, let's look at the intermediate-term, by utilizing weekly Bollinger Bands, which we haven't shown you in quite awhile (since they were useless in the big plunges of the last nine months or so).



The Dow remains below its intermediate-term 20-week m.a., around which Bollinger Bands are calculated, and therefore remains in the bearish lower half of the bands. **But the big rally of March has halted, at least at this point, with the Dow exactly at the potential overhead resistance at the m.a.**

If it breaks through that resistance into the bullish upper half of the bands, the odds would be for the rally to continue and carry the Dow up to the upper limit of the bands, with the moving average acting as support on any pullbacks on the way. If not, perhaps a little backing and filling first, or a decline back down to the lower limit of the band becomes possible.

### And thus have we arrived at this point of a difficult decision.

Already concerned about the market's short-term overbought condition last week, we took our 22% profit on the ProShares UltraDow etf in the Aggressive Seasonal Timing Strategy.

At the same time, in the non-seasonal Market-Timing Strategy portfolio we took an 11.2% profit on the Vanguard Emerging Markets etf. In both cases we expected to get back in it at a lower price and make at least some of the profits all over again. We may yet do so, but so far both have been up 3 of the 4 days since we took the profit.

We've been at this way past long enough to know we can't expect to either get in or out at exact bottoms or tops, that the goal is to take as large chunks out of the middle of each rally, and each correction (with downside positions) as possible, and move on to the next decision.

But we're no different than the most amateurish investor when it comes to always spending some time either wondering why we didn't wait, or when we're late why we didn't act sooner. By hindsight the evidence is always clear as to what should have been done and exactly when.

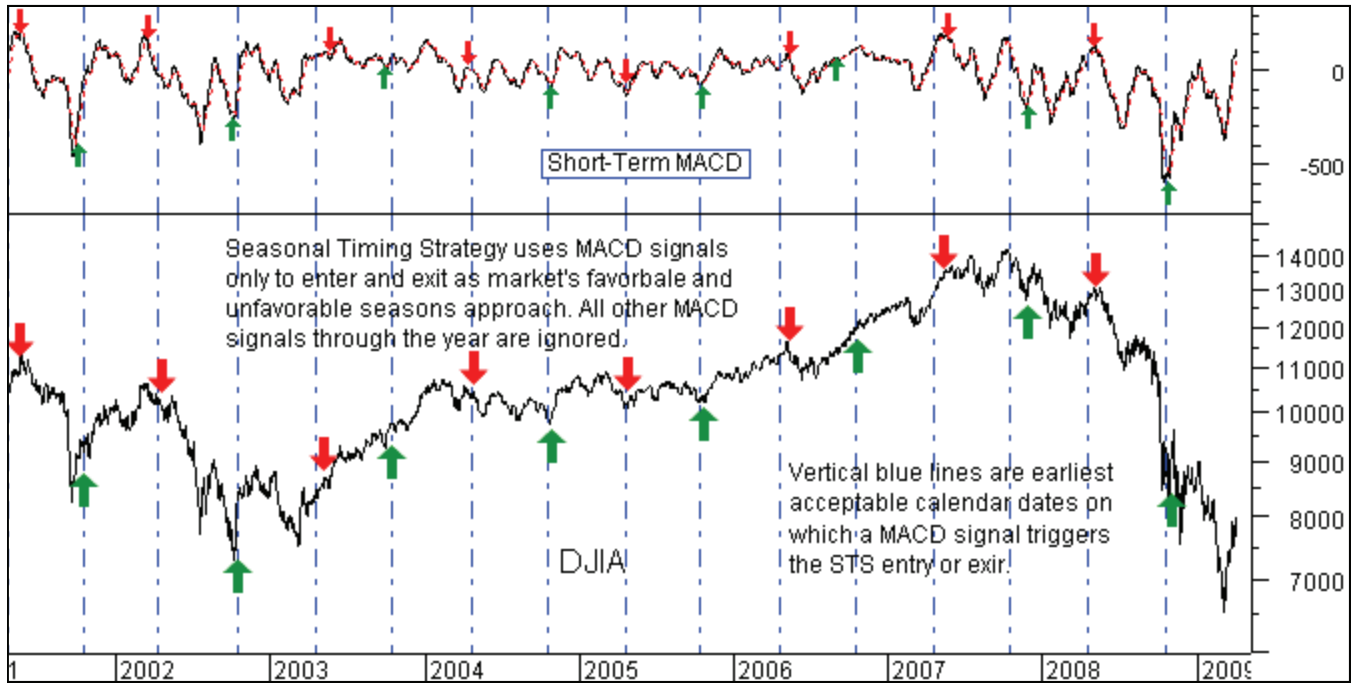
**So on to the next decision:** Although remaining on the buy signal, for risk management purposes, given that it would be a sizable short-term decline for the market indexes to just retest their key short-term moving averages, we have decided to take another profit. Tomorrow, Tuesday, we're going to take the profit on the 10% position in the iShares Russell 2000 etf, symbol IWM. As of today's close we have a 21.4% profit on it. An up-day tomorrow will give us more. A down day will take some of it away.

This change will cut the Market-Timing Strategy portfolio back to 50% invested 50% cash.

We will expect to get back in at lower prices on a successful retest of the short-term moving averages, or be thankful we took the profit if the retest is unsuccessful. And of course if the market just keeps going up we will spend a few hours commiserating about that before moving on.

**Our proven, mechanical Seasonal Timing Strategy (STS) remains in its favorable season., which so far this year has been a poor description of the season. But given its long-term record we have faith in STS.**

The earliest possible date for its exit signal is April 20, but that will depend on whether short-term MACD is on a buy or sell signal when April 20 arrives. If MACD is on a buy signal the exit will be delayed until its next sell signal, which could be as late as late June.



STS significantly outperformed the market last year, (down only 3.6%, in a year when the S&P 500 lost 36%). But is not off to a good start this year. Even after the big rally it is still down 7.7% for the year to date.

It got off to a bad start last year also, with the market making an initial low in March. But it then rallied back by the end of the STS favorable season (the exit signal was triggered on May 8). So we maintain the faith.

**Whether STS will outperform the market this year depends on how much the market declines in its unfavorable season, AND how much STS makes from the start of its next favorable season to year-end.**

The table shows the performance of STS over the last 10 years, based on entering and exiting 100% at each signal, and using the DJIA Index as the holding.

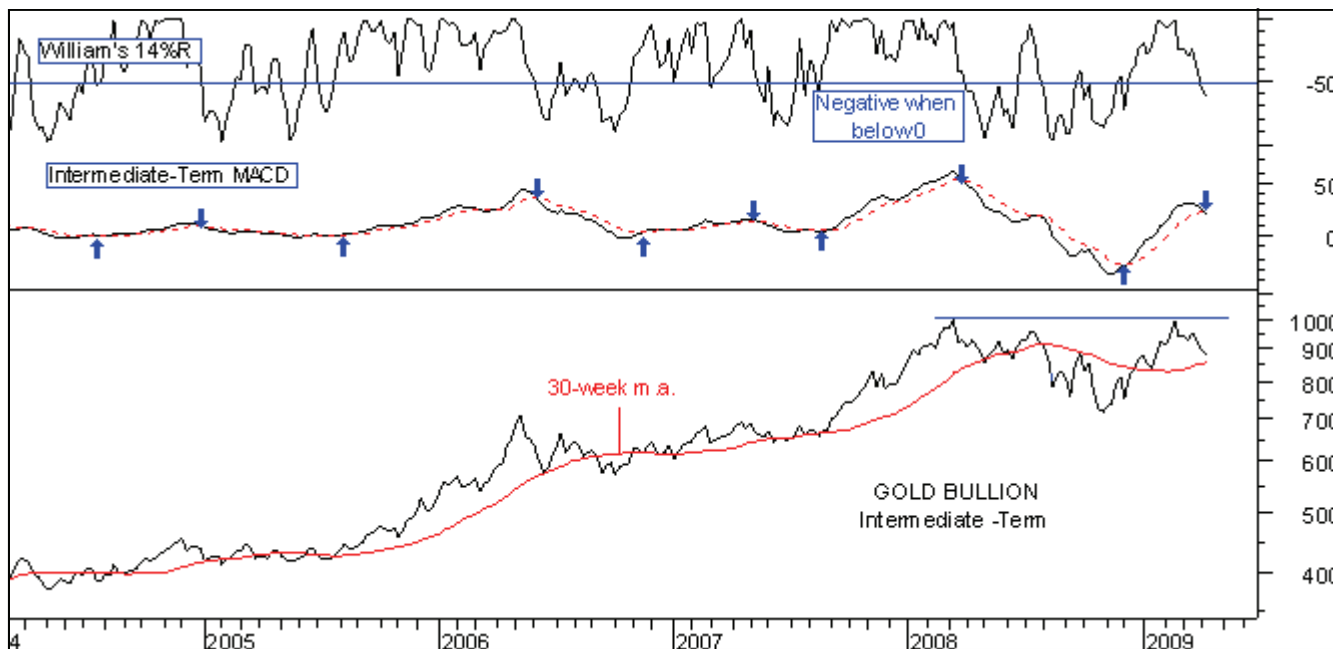
Just as important as the profits is that they have been made while taking just 50% of market risk, since the STS strategy is out of the market for 4 to 7 months each year.

The Aggressive STS portfolio, which can take leveraged positions, was up 3.6% last year, and is down only 3.4% so far this year.

YEAR	NASDAQ	S&P 500	DJIA	STS using DJIA Index Fund
1999 (Bull Market)	+ 85.6%	+ 20.1%	+ 26.8%	+ 35.1%
2000 (Bear Market)	- 39.3%	- 9.1%	- 4.6%	+ 2.1%
2001 (Bear Market)	- 21.1%	- 11.9%	- 5.3%	+ 11.1%
2002 (Bear Market)	- 31.5%	- 22.1%	- 14.7%	+ 3.1%
2003 (Bull Market)	+ 50.0%	+ 28.7%	+ 27.6%	+ 11.2%
2004 (Bull Market)	+ 8.6%	+ 10.9%	+ 5.5%	+ 8.1%
2005 (Bull Market)	+ 1.4%	+ 4.8%	+ 1.6%	+ 0.6%
2006 (Bull Market)	+ 9.5%	+ 15.4%	+ 18.5%	+ 14.2%
2007 (Bull Market)	+ 9.8%	+ 5.4%	+ 8.6%	+ 11.2%
2008 (Bear Market)	- 40.5%	- 36.1%	- 31.1%	- 3.6%
<b>10 - Year Return</b>	- 28.0%	- 13.2%	+ 17.9%	+ 132.5%
<b>5 - Year Return</b>	- 21.2%	- 9.6%	- 5.2%	+ 47.2%
<b>3 - Year Return</b>	- 28.5%	- 22.3%	- 11.6%	+ 22.4%
<b>2009 so far</b>	+ 2.8%	- 5.9%	- 7.7%	- 7.7%
Performance includes dividends, and interest on cash.				

**GOLD. The consensus of our intermediate-term technical indicators is on a sell signal.** There was a brief interruption in the signal. The Fed's surprise announcement March 18 that it will buy \$300 billion of long-term Treasury bonds plunged the dollar and sent gold surging up \$6 an ounce in a day. Not knowing what it would mean longer term, that spooked us off the previous sell signal, but only to neutral. And that lasted only until last Thursday, **when we returned to the sell signal for gold** (via Thursday's online Gold, Bonds, Dollar report).

The signal has now been corroborated by two more indicators, MACD and William's 14%R, triggering sells.



Although on a sell signal, we are not recommending downside positions against gold, but just standing aside. Gold is quite capable of spiking up on any unexpected event in these unusual times. Most recently that was illustrated by its spike up after the Fed's announcement (which shows more clearly in the short-term chart below.).

As we showed you in last Thursday's online Gold, Bonds, Dollar, Inflation report, for many years gold's 30-week moving average has been important support when gold is in a bull market and important overhead resistance when it is in a bear market or serious correction.

**So we will be watching it closely as it comes down to its 30-week m.a. this time.**



**Gold Short-Term.** On the short-term chart, gold has broken down out of its rising trading band that had been in effect since November.

And after its brief spike up above its 21-day m.a. in response to the Fed's surprise announcement, gold has resumed its decline, in a negative pattern of lower highs and lower lows.

So the short-term is telling us that the odds are high that gold will continue down to its 30-week m.a., where we will be watching for a potential new buy signal *if* the 30-week m.a. proves to be support again.

Otherwise look out below.

Gold just closed (down \$25 at \$868). Its 30-week m.a. is at \$853.

**BONDS.** Our intermediate-term indicators are mixed, and therefore neutral, and we remain neutral for bonds.

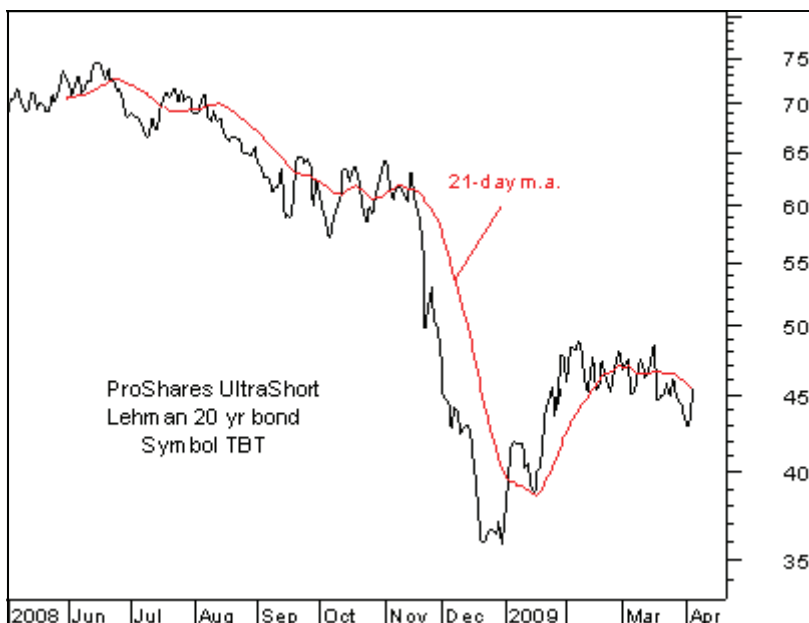


**The previous bubble in bonds did burst as expected, and still lower prices may lie ahead at some point. But there are reasons to remain neutral for the moment, with no positions either way.**

Those reasons include that if the stock market does get short-term choppy (as we expect) and experience a few pullbacks, nervous investors are liable to move back into bonds as a perceived safe haven.

Then there is our expectation that the stock market will be back to the downside during its unfavorable season this summer, which may also bring buying to bonds as a perceived safe haven.

And as the above chart shows, bonds have tended to rally in the summer months beginning as early as May, which is not that far away.



**Meanwhile,** short-term, we have been watching the ‘inverse’ etf’s on bonds as another indicator of direction.

The ProShares UltraShort Lehman 20-yr bond etf, symbol TBT, is designed to move opposite to the 20-year bond, and is leveraged 2:1.

It has been moving sideways since mid-January, most recently dropping below its 21-day m.a. as bonds put in their little brief rally. Then, as bonds have pulled back some, the ‘inverse’ etf rallied briefly.

But at this point it remains in a narrow sideways trading range, below its 21-day m.a., and supportive of our neutral outlook for bonds, and recommendation of no new positions in either direction.

% of Portfolio	Name	Symbol
Proprietary Information		
For Subscribers Only		

**Next issue: April 27. Meanwhile, please stay tuned to the hotline and syhardingblog.com!**

- OUR TIMER DIGEST RANKINGS:**
- 1990: #2 Stock Market Timer in the U.S.
  - 1991: #2 Long Term Market Timer.
  - 1991: #1 Gold Timer (Gold Timer of the Year).
  - 1992: #1 Gold Timer Two Year period.
  - 1992: #1 Stock Market Timer 3 Year period.
  - 1993: #1 Gold Timer 3 Year period.
  - 1993: #2 Long Term Stock Market Timer 3 Yr Prd.
  - 1994: #5 Gold Timer last 12 months, May 16.
  - 1998: #10 Stock Market Timer in U.S.
  - 1999: #2 Bond Market Timer last 12 months. July, 1999
  - 1999: #4 Gold Timer last 12 months. Sept 1999.
  - 1999: #3 Stock Market Timer last 6 months. Dec., 1999
  - 2000: #3 Stock Market Timer last 6 months. Jan., 2000.
  - 2001: #3 Bond Timer last 12 months. Sept. 2001.
  - 2001: #7 Stock Market Timer for 2001
  - 2002: #3 Gold timer last 12 months. Mar. 2002
  - 2002: #3 Stock Market Timer last 12 months. July, 2002
  - 2003: #4 Stock Market Timer last 3 months. Aug, 2003.
  - 2003: #1 Gold Timer last 12 months, Sept. 2003
  - 2004: #2 Gold Timer last 12 months, Feb., 2004.
  - 2004: #9 Stock Market Timer last 3 months. May, 2004.
  - 2004: #5 Bond Timer for 2004.
  - 2005: #2 Gold Timer last 12 months. Nov., 2005.
  - 2006: #5 Bond Timer last 12 months. Dec., 2006.
  - 2008: #4 Stock Market Timer last 6 months. Sept, 2008

**Sy Harding’s STREET SMART REPORT**, Asset Management Research Corp., 505 East New York Ave., Suite 9, DeLand, FL 32724. For subscription service call 1-386-943-4081.

**Sorry - At just \$6 a week to cover research, analysis, and website costs, a subscription cannot also include discussions on an individual basis via phone or e-mail.**

**STREET SMART REPORT ONLINE** is one of the lowest cost sources of *independent* market and economic research. **\$275 per year, or \$25.95 per month on automatic renewal.**

Our research is provided with constant communication, via a traditional **newsletter** online every three weeks, **hotline updates** online *at least* weekly, an **8-page Mid-Week Update** with charts and commentary on the short-term and intermediate-term outlook for markets, a frequent **‘Gold, Bonds, Dollar, Inflation’ Report, plus** articles and charts on economic and market history, short-term and annual seasonal patterns. **Plus** frequent ‘street smart’ commentaries on Wall Street’s scams and its efforts to mislead you.

**We take care to assure accuracy of contents but accuracy is not guaranteed. These reports express our opinions, provided solely as a supplement to your own further research. It is each subscriber’s responsibility to decide which, if any, opinions or recommendations are suitable for their own situation, and in what manner to use the information. Past performance is not a guarantee of future results.**