

MARKET STRATEGIES AND INSIGHTS

...for Sophisticated Institutional Investors

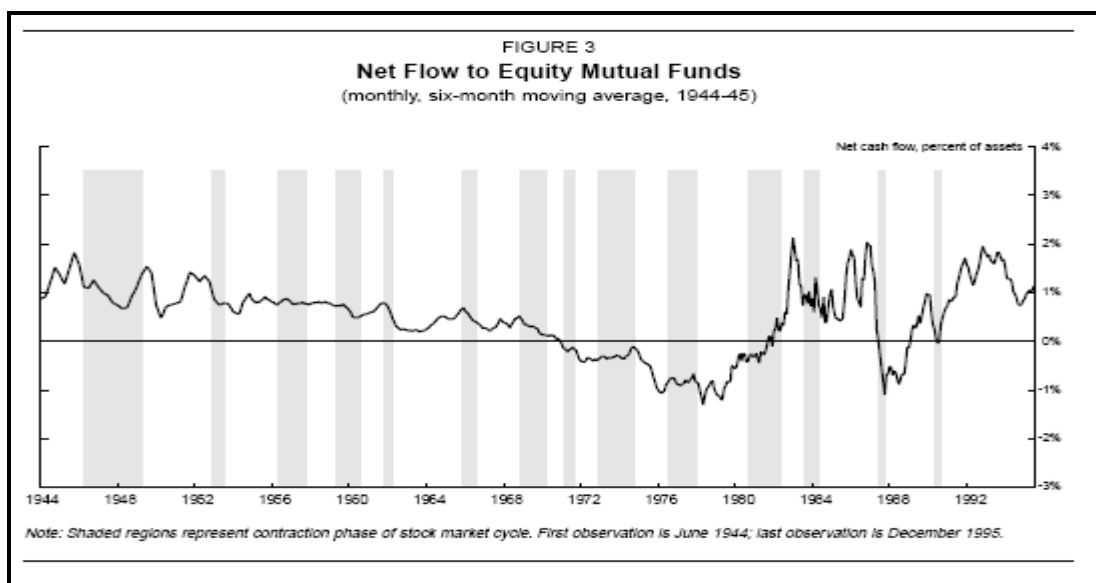
September 13, 2012

IT MAY BE A LONG, LONG TIME BEFORE THE PUBLIC COMES BACK

I mentioned in a recent report that we're in a secular valuation contraction, which means that sentiment indicators aren't likely to work in the same way as they used to.

Case in point: Mutual fund inflows and outflows. Investors have been pulling money out of equity funds consistently for the past year, and many strategists are saying that the rally won't end until they come back. During the last secular valuation contraction (1968-1982), however, equity fund investors started redeeming on balance in 1971 - and continued, consistently, to do so for the next ten years. (The chart, from the ICI website, shows equity fund flows from 1944 through 1996.)

Given this, it may be a long, long time before the public again embraces equities.



The Market Now. Warning flags (divergences and non-confirmations) are still flying, but given the market's response to them --- including today's apparent second 90% upside day in a week -- we must wait for it to tell us that it's responding to them. This notification will come via three things (probably in this order):

- 1) Two consecutive closes below the short-term trend-defining 13-day moving average, currently 1427 and rising about five points a day.
- 2) A close below the recent series of short-term lows in the 1395-1396 area.
- 3) A 90% downside day.

As I concluded last time, though, whatever may or may not happen over the short-term, long-term risks are unacceptably high in this, the fourth year of the Four-Year Cycle (and, as I also noted last time, Central Bank action can only postpone, not cancel, the day of reckoning). Given the fact that the bull market has now been able to make a new high in Year Four, however, it is probably time to start thinking about bull market extensions, which I first started writing about when the four-year cycle low failed to materialize on schedule in the first half of 2007. You can see what the first two bull market extensions, in 1962 and 1987, looked like here: <http://www.walterdeemer.com/SP196187.pdf>, and no refresher course is required with regard to the last one in 2007. Suffice it to say that the subsequent decline, when it finally took place, was considerably more severe than average.

Fidelity Sector Funds. 100% positive vs. 87%. Switching program holdings: #5 Consumer Finance, #10 Biotechnology, and #12 Banking. (A description of our switching program methodology is at <http://www.walterdeemer.com/fidoprogram.htm>.)

The Election According To Intrade. The probability that Obama will be re-elected is currently 64.6%, up 6.6% from last week. The probability he will carry key states: Florida, 54.0%, up 9.0% from last week, and Ohio, 65.1%, up 5.0% from last week. Intrade's odds that Romney will be elected are now close to 2-1 - which are a lot longer than the Wall Street consensus currently appears to be. (Are you listening, ISI??)

FIDELITY SECTOR FUND	PRICES (in cents)				R/C	DTR STRENGTH			RATINGS	
	Sep 12	Sep 5	Aug 29	Aug 22		Sep 12	Sep 5	Aug 29	Aug 22	Aug 15
Multimedia	5520	5409	5380	5369	31	129	98	115	92	111
Constr/Hous'g	4532	4389	4398	4380	49	128	79	91	68	60
Telecommun	5190	5076	5049	5013	43	124	82	92	82	112
Energy Serv	7112	6723	6768	6873	75	120	45	76	84	112
Consumer Finance	1430	1384	1386	1378	48	120	72	93	79	83
Wireless	812	789	799	754	38	107	69	94	18	97
IT Services	2506	2420	2410	2405	57	107	49	58	33	60
Technology	10547	10318	10392	10358	32	107	75	96	70	61
Broker/Invest	4817	4608	4607	4616	65	104	39	54	42	54
Biotech	11109	10952	10834	10670	34	102	68	82	58	89
Software	8905	8674	8681	8640	39	101	62	79	50	57
Banking	1983	1926	1935	1924	57	101	44	69	52	61
Energy	5320	5042	5085	5137	70	98	29	61	55	79
Nat Resource	3339	3150	3171	3215	73	97	24	52	50	66
Retailing	6359	6256	6266	6194	24	95	71	86	57	53
Insurance	5142	5037	4990	5021	36	93	57	58	50	56
Healthcare	14212	14053	13907	13739	31	86	56	57	38	50
Materials	7057	6800	6816	6932	54	85	31	50	54	48
Computers	6556	6436	6512	6527	30	84	53	83	63	68
Automotive	3517	3337	3368	3406	95	83	-12	12	3	1
Pharmaceutical	1544	1525	1506	1499	29	82	53	58	41	65
Financial	6000	5829	5813	5817	46	81	34	48	36	51
Consumer Discr	2768	2711	2711	2697	39	80	41	57	40	44
Gold	4030	3841	3767	3840	26	77	51	16	23	-35
Industrials	2489	2405	2430	2445	56	76	19	49	36	50
Chemicals	11489	11225	11258	11446	42	74	31	56	68	69
Comm Equip	2251	2176	2230	2213	36	73	37	76	31	8
Environmental	1625	1574	1589	1607	57	70	13	37	35	43
Natural Gas	3241	3093	3122	3156	49	68	19	52	47	69
Medical Equip	2865	2787	2770	2748	47	66	19	14	-5	25
Indust Equip	3591	3468	3512	3536	54	66	11	46	32	44
Consumer Stpls	8059	8059	8043	8039	9	66	56	69	57	82
* * S&P 500	143656	140344	141049	141349	25	64	38	59	48	56
Leisure	10552	10100	10122	10075	82	53	-28	-14	-24	-39
** Emerging Mkts	4078	3886	3937	4041	65	45	-19	4	10	31
Defense/Aero	8344	8191	8231	8282	35	38	3	24	12	18
Transport'n	5208	5003	5080	5203	73	31	-42	-26	-8	8
Utilities	5668	5629	5653	5690	12	30	18	31	31	50
Medical Del	5991	6030	6020	5955	19	24	5	9	1	-54
Airlines	3802	3662	3677	3765	65	22	-43	-32	-14	-8
Electronics	4771	4631	4742	4769	29	17	-13	28	-6	26
* * T Bills	1985	1985	1985	1985	0	0	0	0	0	0