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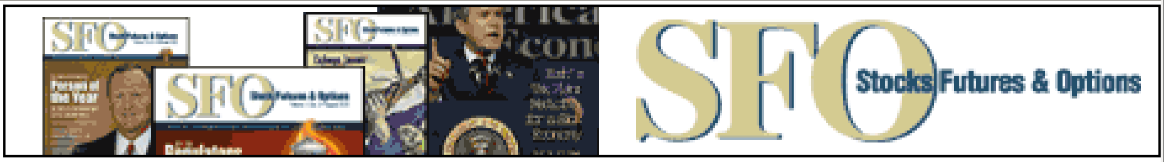
Subject: Morning Briefing, 05/01/2003

Sent: 01/05/2003 15:15 **Importance:** Normal

21ST CENTURY | ALERT

MORNING BRIEFING



THURSDAY a.m.
May 1, 2003

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It Never Feels Right

by David Nichols

This morning I want a show of hands: How many out there feel like going short right now?

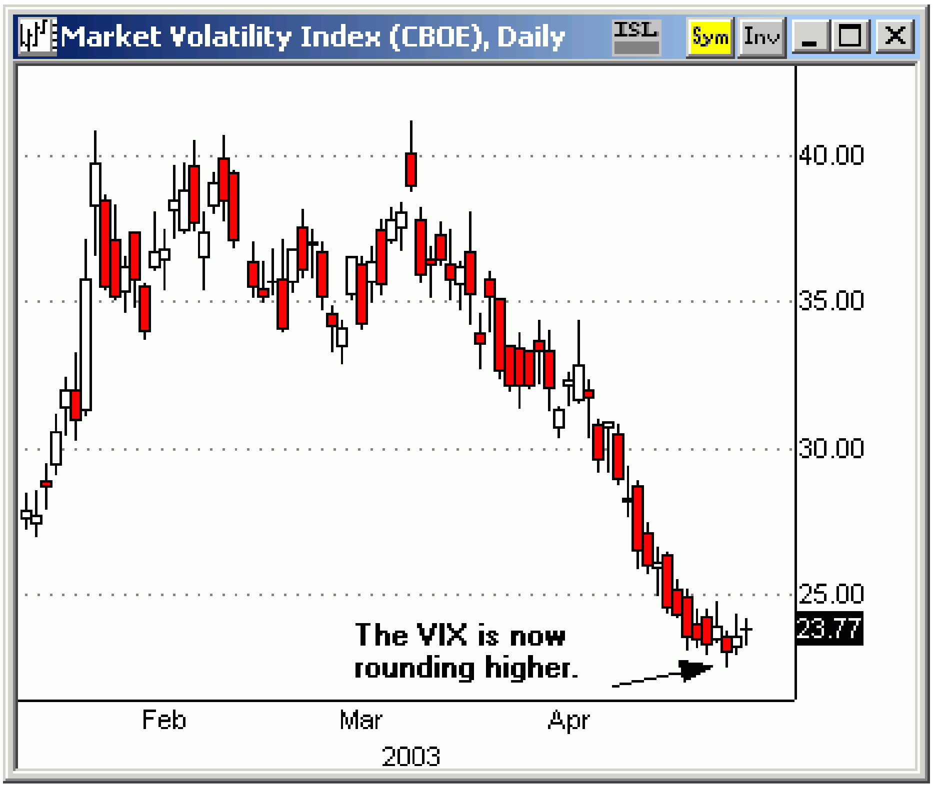
Not too many, I bet. It doesn't feel right, certainly, to bet against this market. The underlying strength is apparent for everybody to see. The economic recovery seems to be percolating along nicely. The bear market has already lasted 3 years -- longer than all but a handful of bears. Earnings are getting better. Oil is coming down. Greenspan and the Fed may even cut rates again, as hinted yesterday (wait, that's not such a positive...)

The bull case is obvious, and right there splattered across financial headlines and CNBC. People believe in this market, and more importantly -- they *want* to believe.

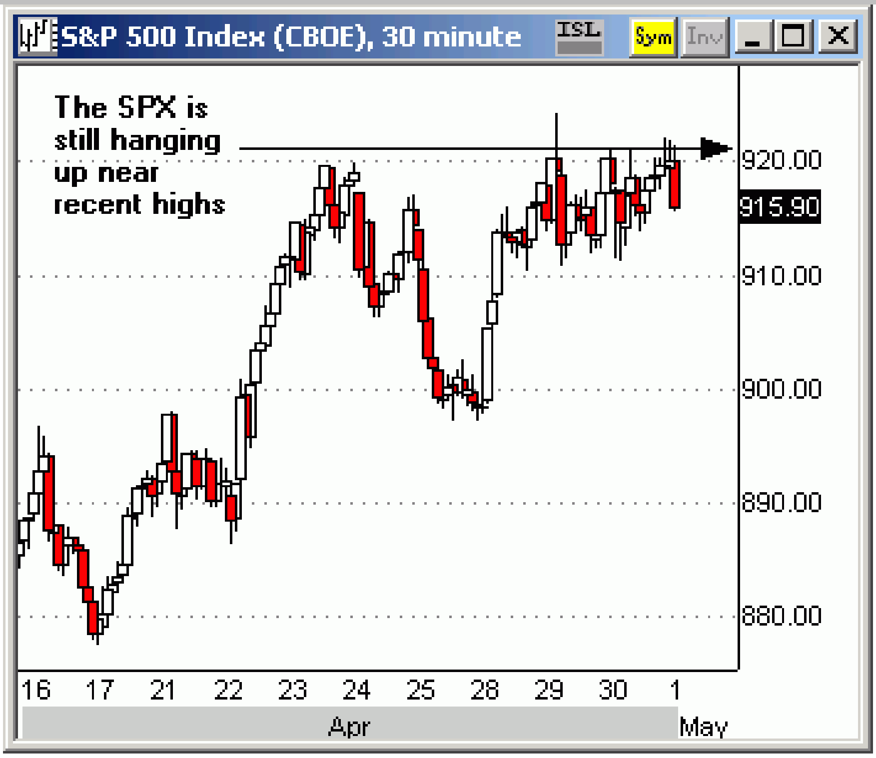
Heck, I want to believe too. I like a bull market as much as the next guy -- or more! But wanting to believe in a bull market -- and an actual bull market -- are two entirely different things.

It's getting very close to the time where we are going to have to "fade the crowd" to rack up some returns. We're going to have to bet against the bullish consensus. Time and time again during this bear market, it has paid off to stake out a position opposite the crowd. Although it never feels good when it's time to act. Indeed, if the hallmark of a really good sentiment trade is not *feeling right* when you put it on, then this one could be a classic.

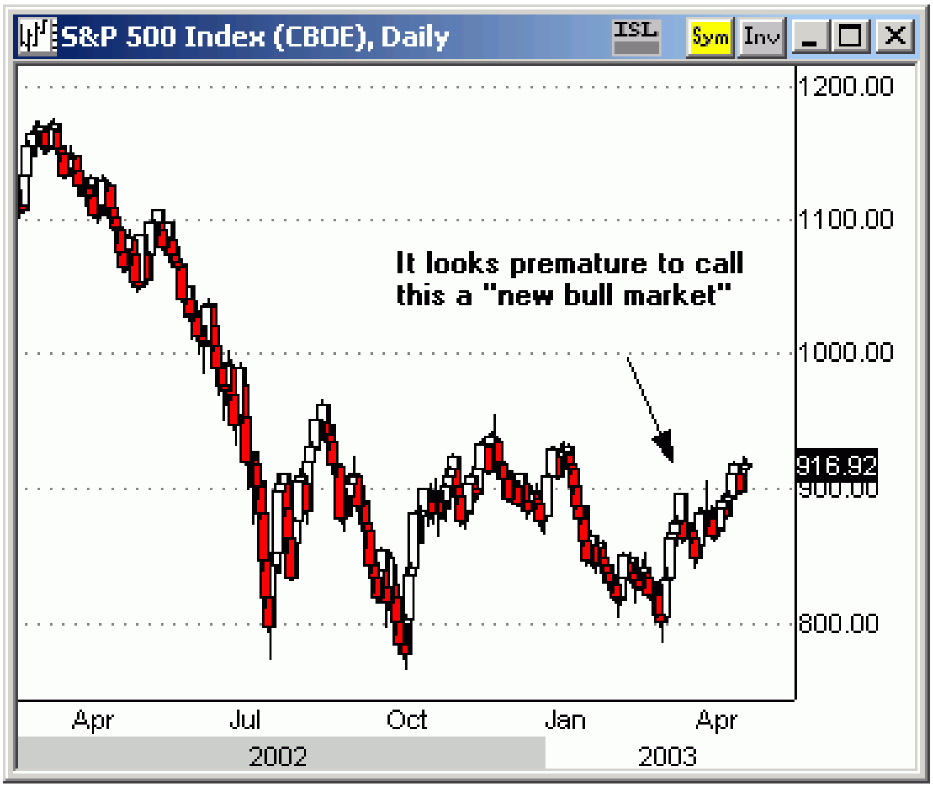
Our trusty VIX is showing the pendulum of sentiment starting to swing back against the bulls.



While the VIX shows signs of changing direction, prices have hung up near the highs for this move, continuing to bang against SPX 920.



Even though this price action seems bullish -- and it is bullish in a short-term context -- from a longer-term view prices have not been able to advance very far up the field while the bulls have had the ball.



Yet many now believe in the "next bull market". The information that really interests us about this mythical next bull market is how many people will believe in it when the S&P 500 is 100 points lower.

Will it be a "new bull market" at SPX 815, as it is now at 915? Theoretically, if you believe in this market at 915, then you'll be very gung ho at 815, and ready to buy everything in sight. That is, if you truly believe in the fundamental case for the bull cycle.

However, if you're just a believer because stock prices have been doing well over the last month and a half, then you don't have much to fall back on if prices should start to come down. I think there is only a bullish majority now because *prices are up* , and not because anybody truly believes the economy and earnings are about to roar back to life.

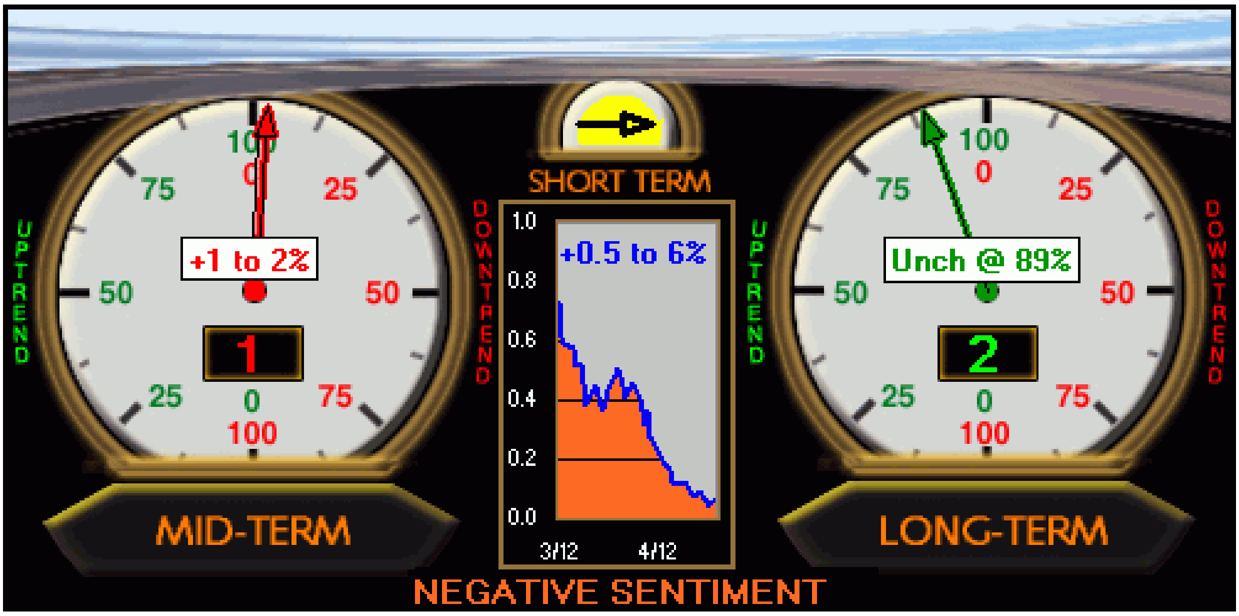
That's why we can confidently fade the bullish crowd, once that spark of fear hits, and the emotional selling pressure is on the rise. The crowd doesn't really believe in the bull market. They believe in the power of the latest uptrend, and are afraid that the bull market is going to take off without them.

Sorry, but that's not a foundation for a lasting bull trend. It's classic *bear market behavior* .

The call to action could come as early as today, so be on the alert for an intraday update to enter into bearish Rydex funds, or any short vehicle of your own choosing.

Sentiment Dashboard

by Adam Oliensis



SENTIMENT TANK: The tank**filled up fractionally to 6% full of negative sentiment,** up from recent low of 3%. Sentiment is becoming incrementally more cautious.

SHORT-TERM: The hourly gauge remains **caught in a rabidly neutral position** and has been essentially this way for more than a week. It would be unusual for this condition to persist much longer.

MID-TERM: The mid-term gauge **progressed 1 point from a neutral reading to 2% in the developing downtrend.** Our Confidence Diffusion Index (CDI) moved "into phase" with the gauge by sliding from a bullish ONE across the ZERO line to a bearish ONE. We have a speculative sell signal. Aggressive traders who want to get short the market with a tight stop above the recent highs can take positions now. Slightly less aggressive traders should look for the SHORT-TERM GAUGE to launch a decline phase before jumping in.

LONG-TERM: The weekly gauge **remains unchanged at 89% in its advance phase.** Our weekly CDI regressed a click to a bullish TWO. The weekly gauge is in overbought territory with a declining CDI. It hasn't rolled over but if the tank begins to fill the weekly gauge could be ripe to turn down.

BOTTOM LINE: If you listened to the financial media over the past few days all you heard was gloating about just how bodacious has been the market's performance over the past few weeks. Rule of thumb: buy terror, sell glee. The ambiance is glee. The tank is ready to be filled. Numerous timing models are now suggesting that the extreme of bullish sentiment is teetering on the precipice and is ready to collapse. The market is an indeterminate system subject to the vicissitudes of an indeterminate world (or indeterminate to those of us living in real time, anyway). On a cautionary note, it is still possible for the market to launch one last bullish leg up and drain the tank completely dry, but the path of least resistance based on a view of sentiment points south.

Definitions

You can find this article on the Web at:
http://www.21stcenturyalert.com/page/tcx/morningbriefing/2003-05-01/