

THOUGHT FOR THE DAY

June 14, 2006

Despite our message that the worst was over (Friday, June 9, 2006), the markets have declined further on Monday and yesterday.

Does this change the forecast? Let's look at the evidence.

The market told us in May to "let's stop for fresh air" (Market Comment #96, May 4, 2006) because the market was "overbought".

How overbought was it? Let's look at the "health" of the market as it was then.

- The percentage of stock above their 10-week Moving Average in New York was at an extreme high of 70% (as supplied by Investors Intelligence),
- There were 434 New Highs vs. 39 New Lows, an 11-to-1 ratio,
- There were 2063 Advancing stocks vs. 1228 Decliners, a 1.7-to-1 ratio,
- The Upside Volume vs. Downside Volume had a 2-to-1 ratio,

to quote only four of the Indicators we look at.

Our Market Comment #97 (May 17, 2006) suggested that "for the next few weeks, North American markets will likely be under more intense pressure than at any time since last October".

What happened yesterday?

- There were 9 New Highs vs. 267 New Lows, a 1-to-30 ratio!
- There were 668 Advancing stocks vs. 2,675 Decliners, a 1-to-4 ratio.
- Upside Volume vs. Downside Volume had a 1-to-5 ratio.
- The percentage of stock above their 10-week Moving Average was at an extreme low reading of 14%!

How extreme is 14%?

- In August 2004, the number got down to **33%**. Subsequently, the S&P rallied **15.2%** and the TSX **22.8%**.
- In April 2005, the reading was down to **19%**. Subsequently, the S&P rallied **9.6%** and the TSX **20.2%**.
- In October 2005, the number got down to **25%**. Subsequently, the S&P rallied **13.6%** and the TSX **23.2%**.

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Will the **14%** reading and the other extreme oversold statistics bring similar results? Let's remember that this is option expiry week and that the hedge-players may continue to distort the action; but aside from this, the next few days will tell.

Yesterday I had an appointment with a retail-brokerage firm. My question to them was: what is the normal customer behavior after the bull market had its top and during the subsequent decline? The reply (correctly) was that customers would say: this is just a correction, a place to buy Let's average down!

So I inquired: what are your customers doing these days? And the answer was (not surprisingly): they want to sell everything (as in "get me out of here, I can't stand it anymore!"), which is not an "after the bull market top" reply!

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