



## Bull Bear Review<sup>sm</sup> with Michael J. Chapman, CFP



### Provident Capital Management's Chief Investment Officer

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- **Multi Month Rally Ahead**
- **Technical Support for a Rally**
- **Fundamental Support...CASH**

The S&P 500 cash index just finished a very impressive 14-trading-day run from 667 to 833. This was a 25 percent move; CNBC tells us you would have to go back to 1938 to find a similar event.

Those of you familiar with this report know that I like to list reasons for the market to go up on the left side of the page and reasons for a declining market on the right (hence the "Bull/Bear Review"). Once finished one can stand back to review the weight of the evidence and have a good read on the near term (3 month) direction of the market.

Today that evidence, as seen below, falls decisively in the Bull camp. I am projecting a multi-month rally. My first upside objective is the 950 to 1,010 basis the S&P 500 cash.

#### On The Upside

PCM's weekly trend indicator is UP with a stop at 739. This is a proprietary indicator that I developed to answer the age-old "what is the trend" question.

A second way of determining trend is by watching the percent of New York Stock Exchange stocks in a point and figure chart buy signal. This is called the **NYSE Bullish Percent**. When this percentage dips below 30% then rises back above the 30% number it suggest that the trend of the market is up. When it rises above 70% and then dips below the 70% number this suggest that the trend is down. We are at 43% on our way **UP**.

Volatility, size of daily trading ranges, and the size of two and three day swings, can be used to determine trend. One measure of volatility is the VIX index. The VIX increases in price during down moves and declines in price during up moves. It is in a weekly down trend with a stop at 48.

The low made Friday March the 6<sup>th</sup> completed an "Elliot wave" 5 to the downside. This type of **market form** marks a completed move down and suggest that the next move will be to the upside.

A follow through day has preceeded every significant rally in the past 50 years according to Investor Business Daily (IBD) founder William O'neil. This is a day that 4 to 15 days after a significant market low, closes higher then the previous day on Volume greater than the previous days volume. March 12, four trading days after the March 06 low, was a follow through day.

**BULL BEAR REVIEW 04-01-2009**

**SPX 785 NDX 1,220 DJIA 7,500**

**Bull (up)**

**Bear (down)**

**Trend-PCM's Weekly Trend indicator is Up**

**Price at 55 Day Moving Average**

**Trend- NYSE Bullish Percent @ 43%**

**Trend- Vix Down Stop at 48**

**Form- Elliot 5 Wave Down Complete**

**Form- IBD Follow Through Day Confirms Rally**

**Smart Money Commercials Covering Shorts**

**4 Trillion in Cash on the Sidelines**

The Commodity Futures Trading Commission classifies any S&P 500 futures trader that owns more than 1,000 contracts and uses this position to hedge a cash position, as a “**Commercial Trader.**” These commercials must report their net holdings each Tuesday. Their net long or short position and the degree of change from the previous weeks holdings give us an indication of what the “smart money” is doing. While not a good short term indicator, next few weeks, it has proven to be very reliable on a longer term basis. For example, If the commercials had a large percentage change in their holdings from net short to net long we would look for the market to rise over the next two months. During the two week period ending March 17<sup>th</sup> the commercial traders reduced their short holdings by 47% which gives us a buy signal. They obviously think the March 6<sup>th</sup> low has significance.

I have seen several sources suggesting that the amount of money in **cash** and money markets is approaching 4 trillion dollars. This amount represents close to 75% of the entire US stock market capitalization. If this is true, then there is plenty of fuel (buying power) to keep this market moving higher for many weeks.

### **On the Downside**

The market may have gotten ahead of itself with such a big 14 day rally. It is at its downward sloping 55 day moving average and may consolidate before moving higher.

Kindest Regards,

Michael J. Chapman, CFP

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