

Remaining Short Term Cautious Insiders Accelerate Selling

Opinion: Based on the current state of the data and charts, we continue to have a short term cautionary outlook for the major equity indexes. Although the data remains mixed in general, insider buying has accelerated while the DJT chart continues to be a source of concern for us at the present time.

On the charts, all of the indexes closed lower yesterday as volumes rose on the NASDAQ but declined on the NYSE. In both cases, breadth was broadly negative. While no notable support levels were violated, the DJI (page 2) did join the DJT by closing below its 50 DMA. The DJT, which we continue to pay close attention to, declined further and closer to its support level of 7,052 while flashing a “bearish stochastic crossover” signal as the %K crossed below the %D line with both below the 80 signal line. The stochastic is, in our opinion, not so much a trading signal but more of a confirming indicator suggesting potential for further corrective action. As noted in a recent report, our observation over the past several months has been that the DJT given important forward indications for the equity markets in general. Its current chart is suggestive of a potential “head and shoulders” formation. Should that pattern be fulfilled, it would send an important negative signal for the markets as a whole, in our opinion. As yet, no such signal has been triggered.

On the data, yesterday’s drop brought most of the McClellan OB/OS Oscillators back to neutral with the exception of the NYSE 1 day that remains an overbought +61.55. Looking at sentiment, the new Investors Intelligence Bear/Bull Ratio (contrary indicator) saw bears unchanged while the level of bullishness rose. The current 17.2/46.5 remains a negative signal, in our opinion. Meanwhile, insider selling has accelerated with the Gambill Insider Buy/Sell Ratio dropping to a bearish 8% as of 2/18. Insiders have been selling into the rally.

For the longer term, we remain bullish on equities as they remain undervalued with a 6.6% forward earnings yield for the SPX based on 12 month IBES forward earnings estimates of \$120.69 versus the 10 Year Treasury yield of 2.73%.

SPX:1,790/1,850

DJI:15,710/16,373

NASDAQ:4,123/???

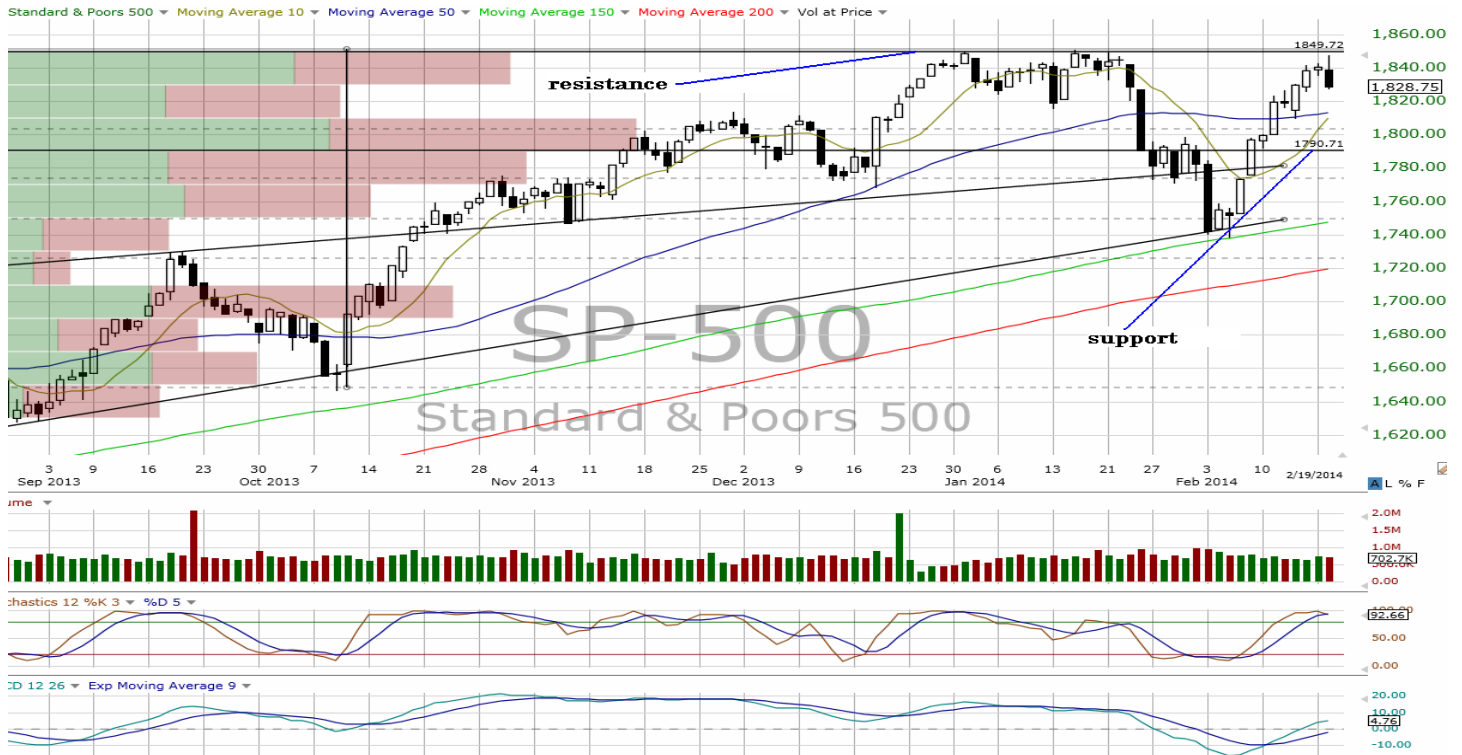
DJT:7,050/7,348

MID:1,310/1,350

RUT:1,111/1,169

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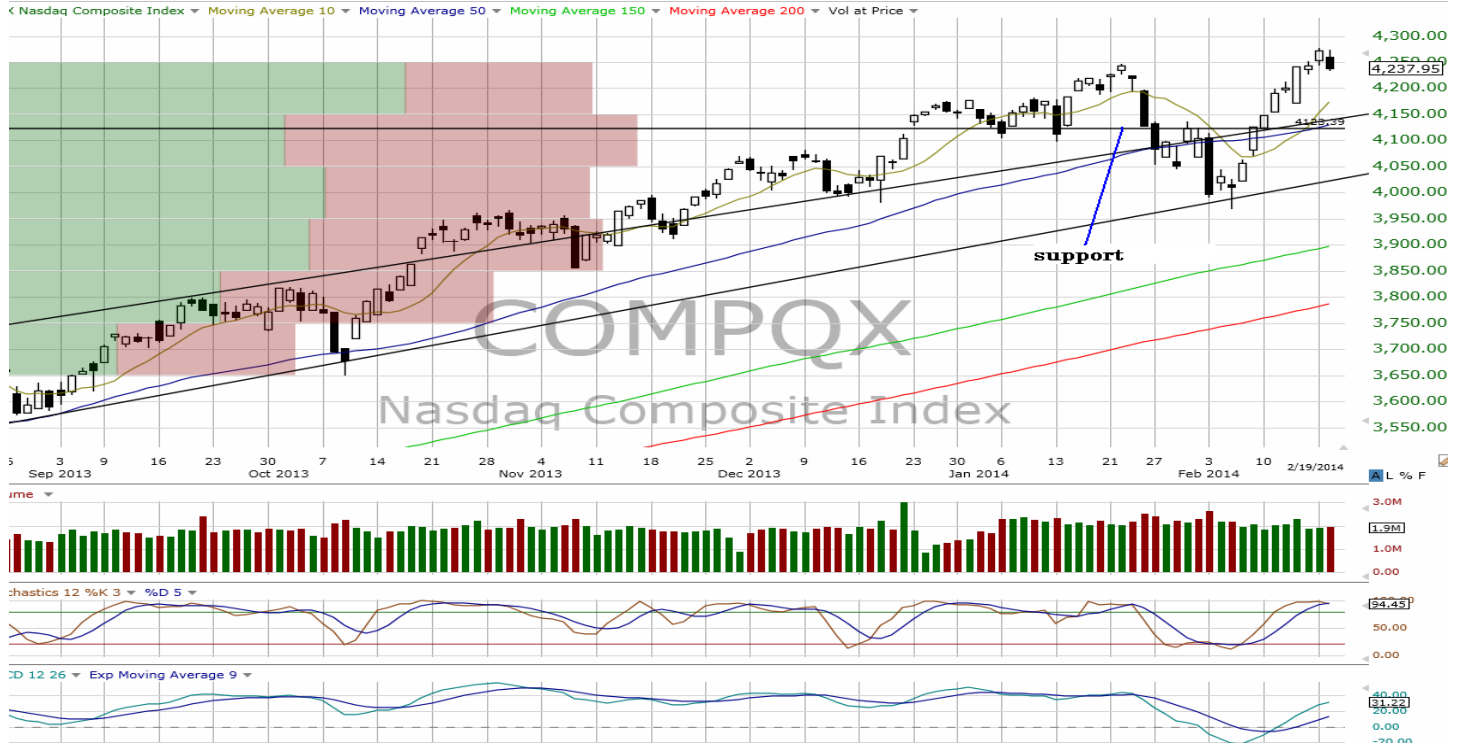
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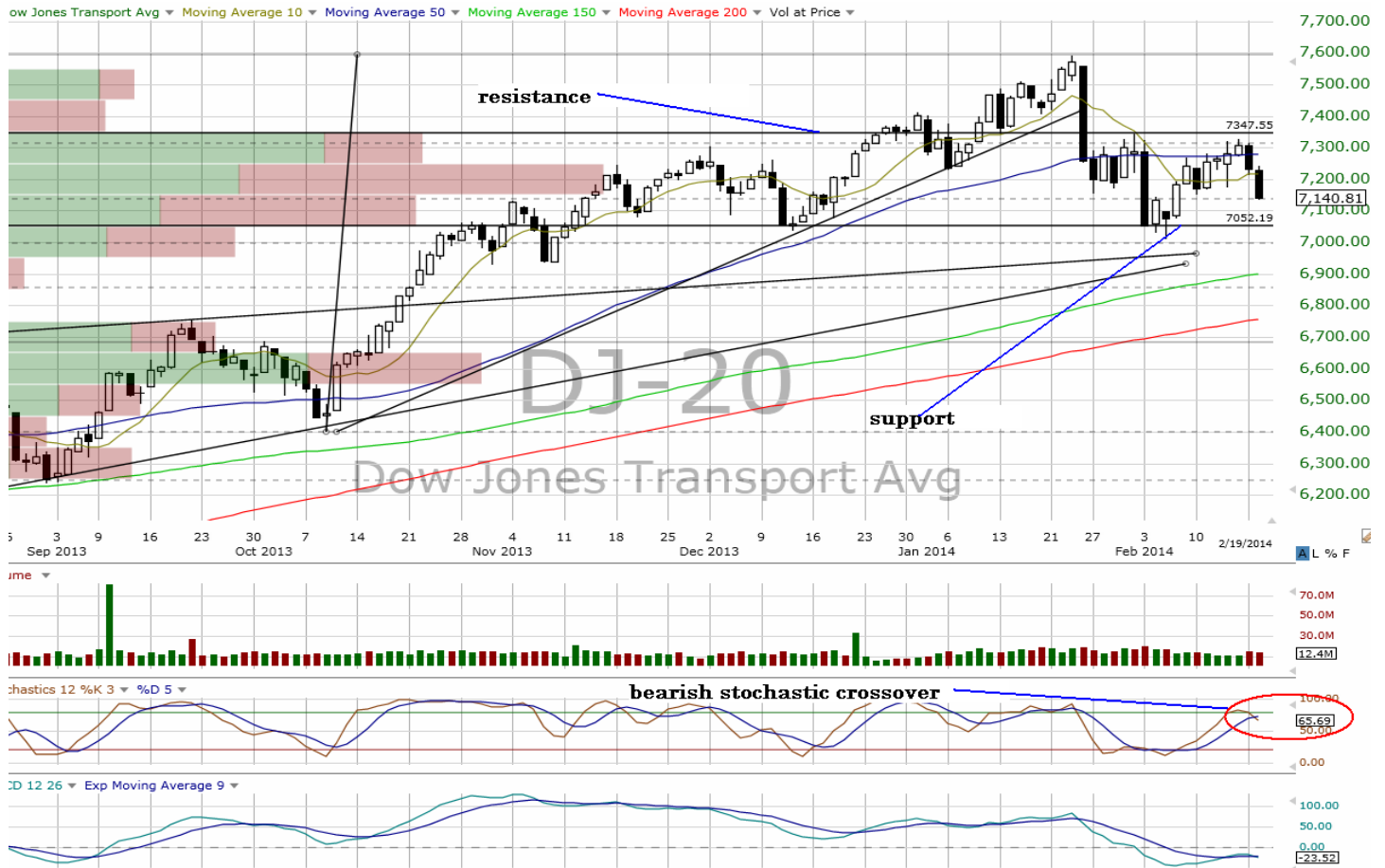
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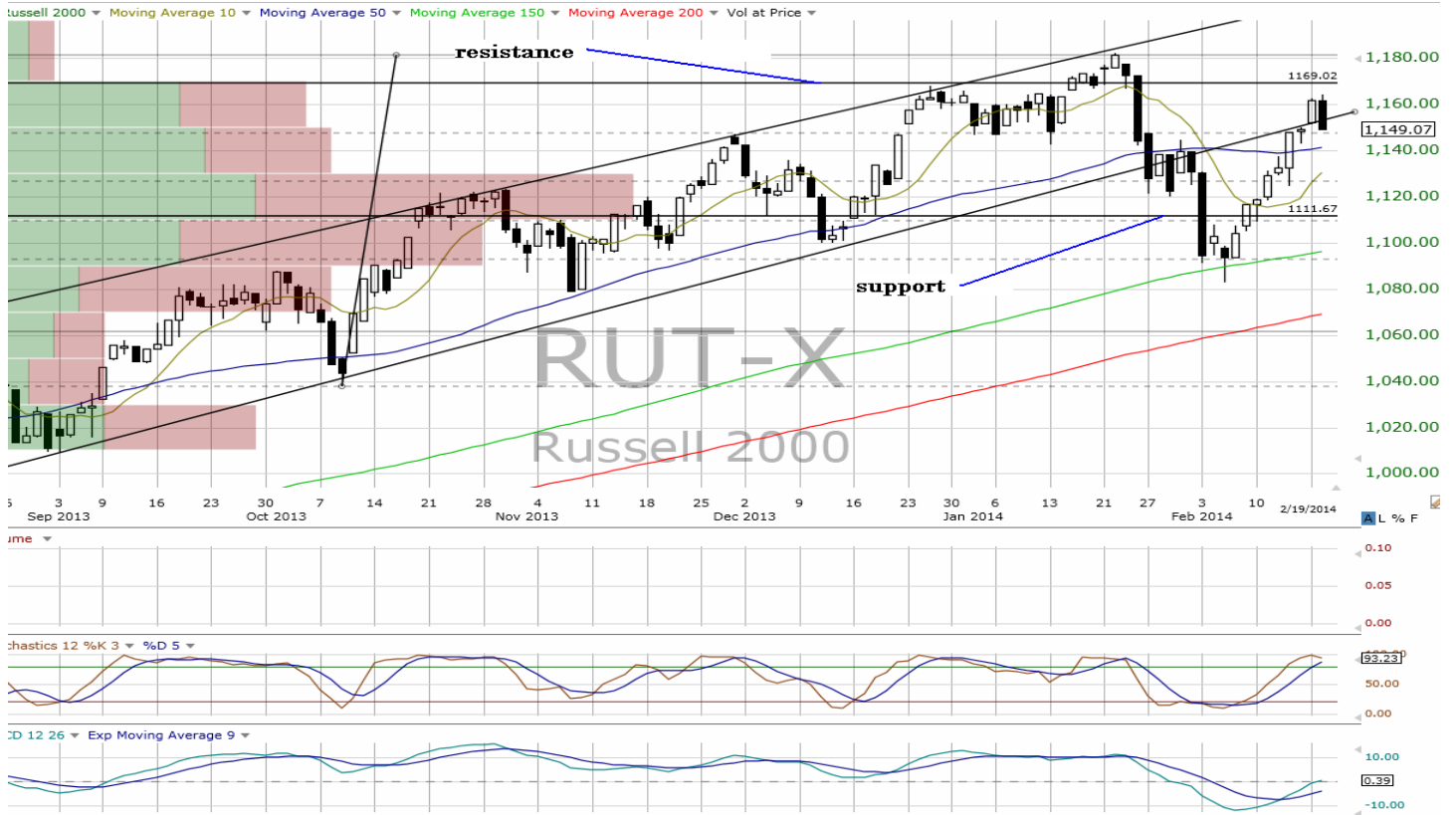
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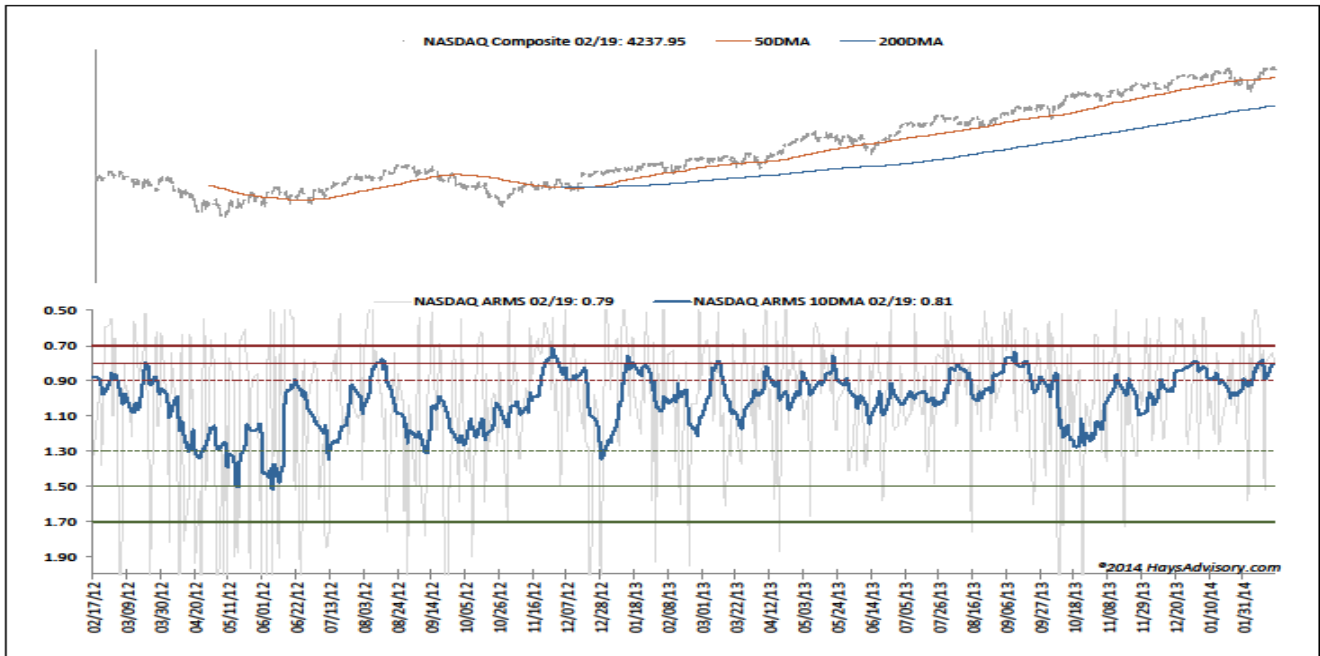
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The NASDAQ 1 and 10 day Arms Index are .79 (bearish) and .81 (mildly bearish) respectively.

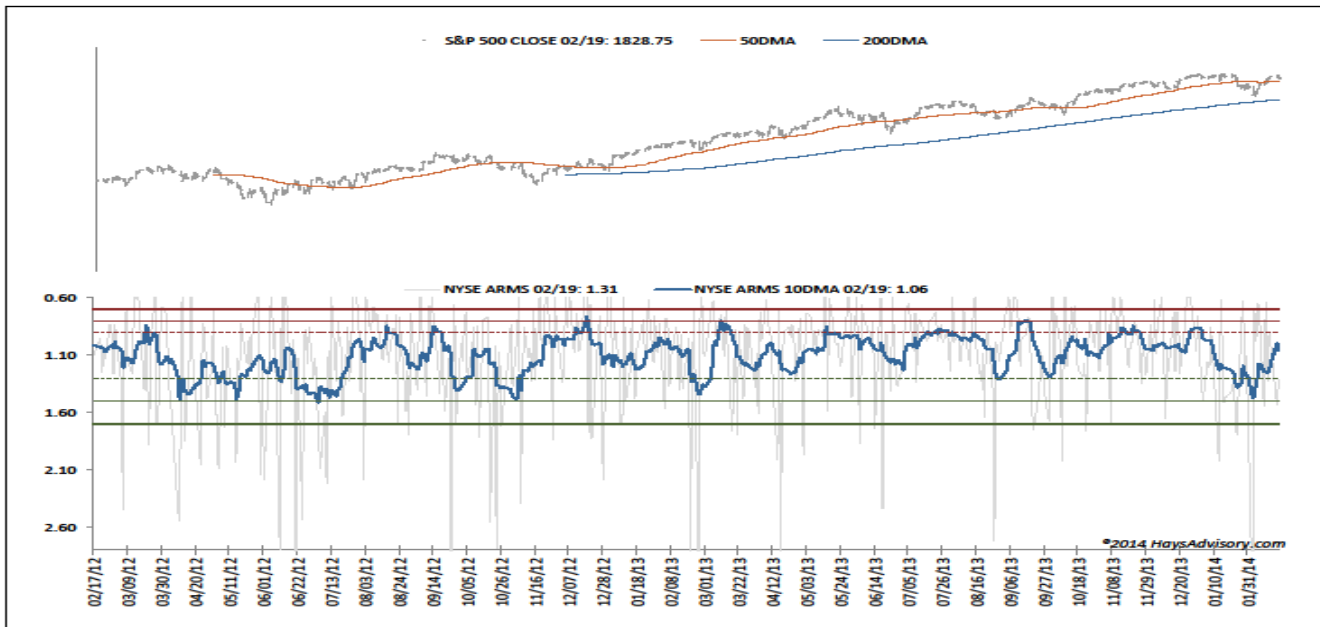
NASDAQ Market Internals



1

The NYSE 1 and 10 day Arms Index are 1.31 (neutral) and 1.06 (neutral) respectively.

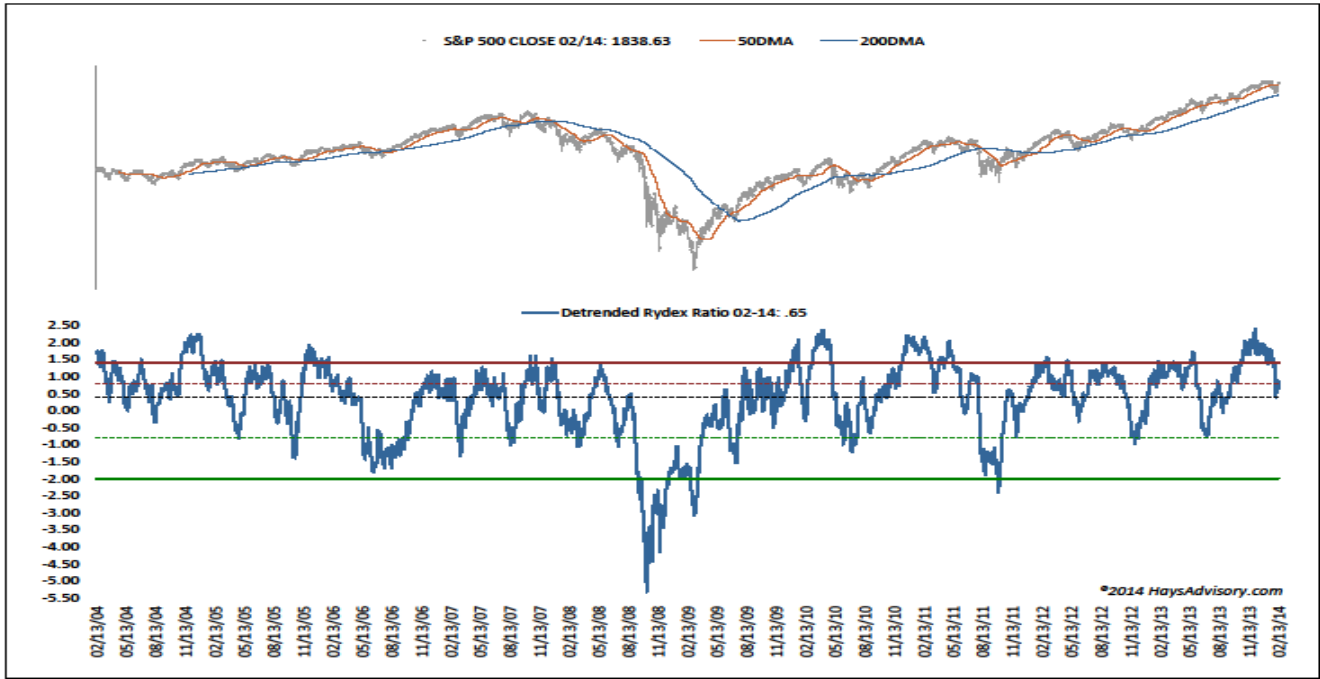
NYSE Market Internals



1

The detrended Rydex Ratio is .65 (mildly bearish) as of 2/14.

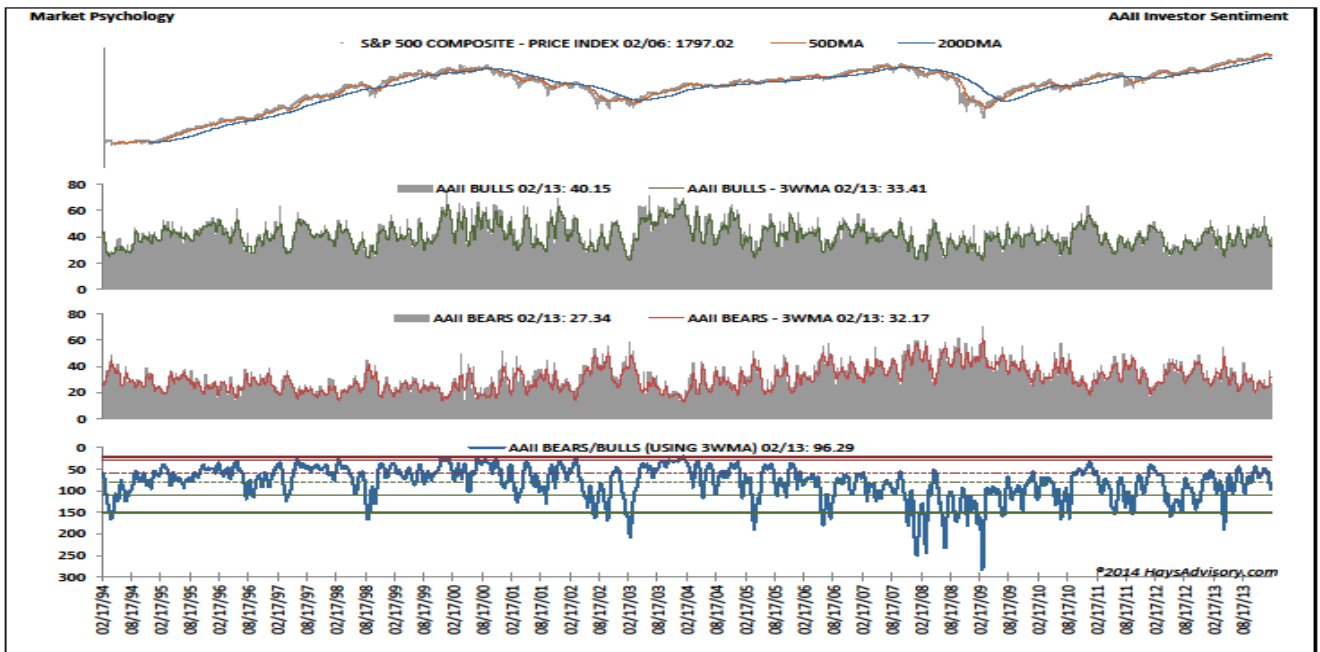
Psychology Indicators



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The AAI Poll weekly bear/bull reading as of 2/13 is 27.34/40.15 (mildly bearish) and 3 week average 32.17/33.41 (neutral).

Key Indicator Chartbook

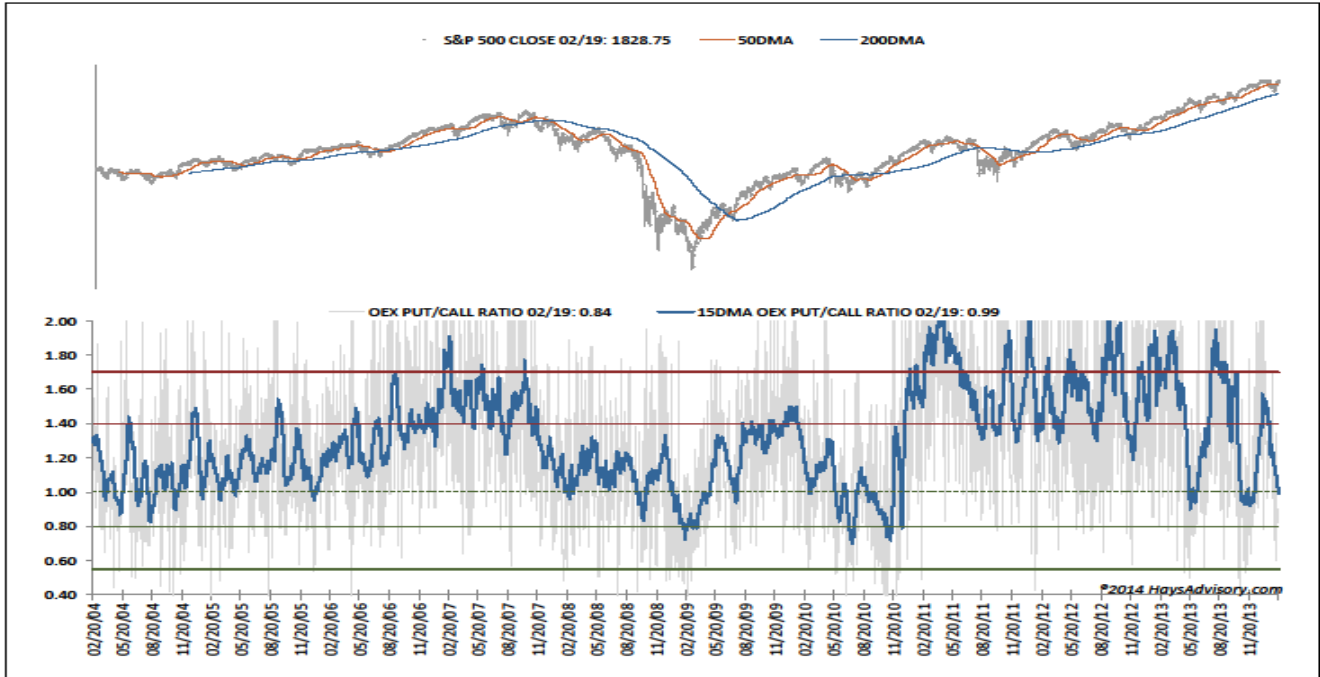


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Total and Equity put/call ratios are .90 (bullish) and .55 (bearish) on the 1 day. The 15 DMAs are .87 (mildly bullish) and .61 (neutral) respectively.

OEX put/call ratio 1 day is .84 (mildly bullish) and .99 (mildly bullish) on the 15 DMA.

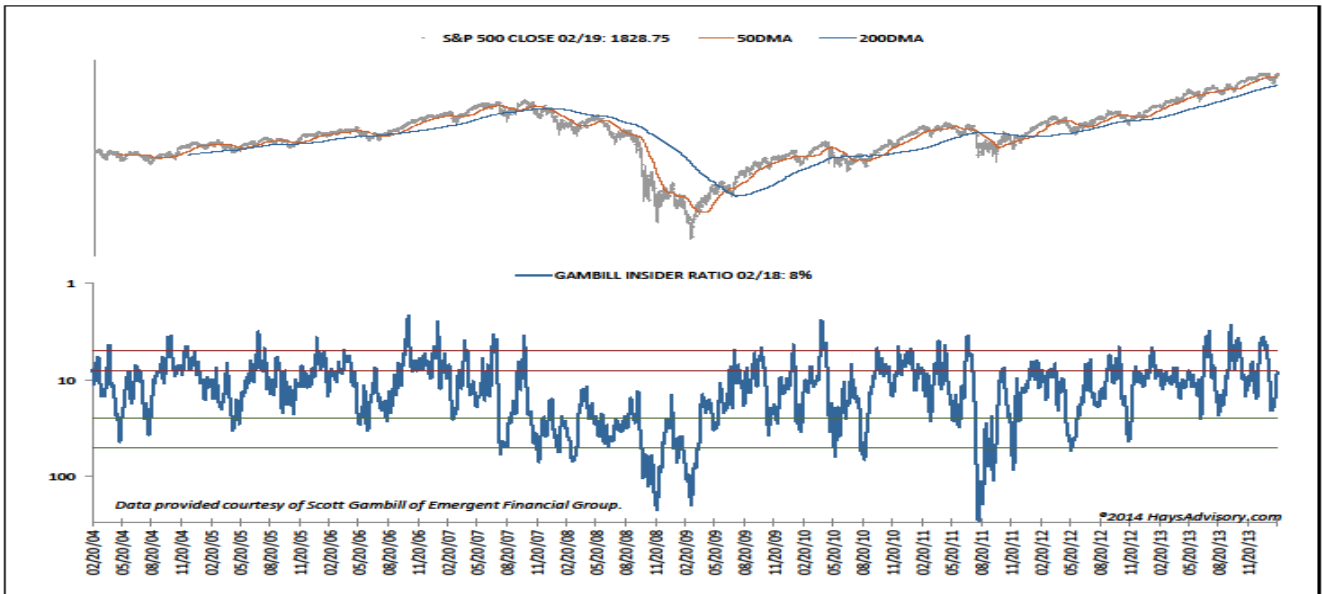
Psychology Indicators



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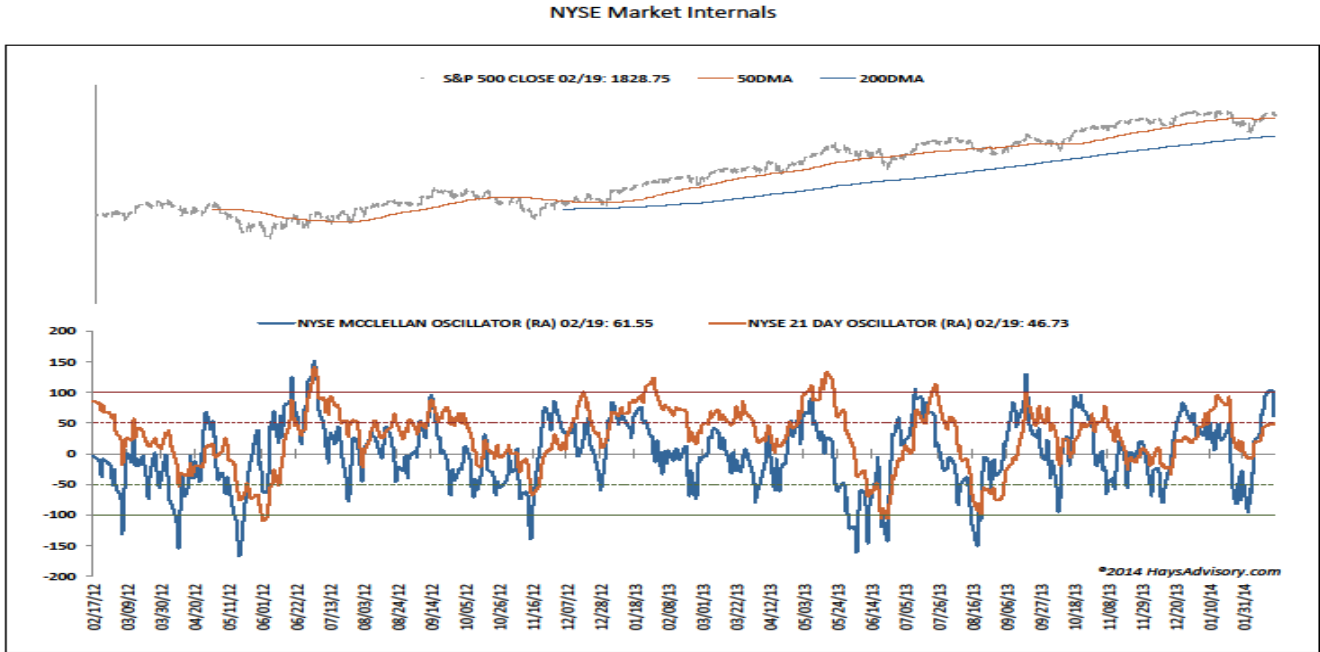
The Gambill Insider Buy/Sell Ratio is 8% as of 2/18 (bearish).

Psychology Indicators



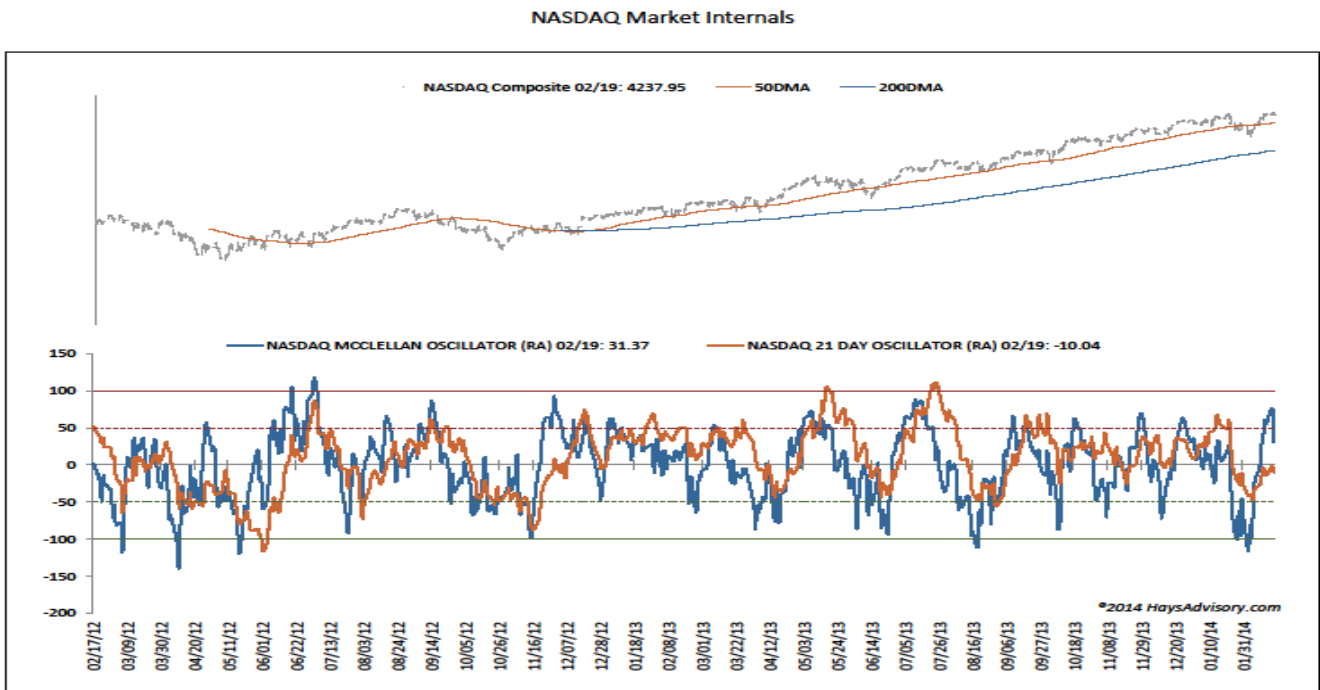
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The NYSE McClellan OB/OS ratio adjusted is +61.55 (bearish) on the 1 day and +446.73 ratio adjusted (neutral) on the 21 day.



2

The NASDAQ McClellan OB/OS ratio adjusted is +31.37 (neutral) on the 1 day. The 21 day reading is -10.04 ratio adjusted (neutral).



2

Data:

- NASDAQ Arms Index .79 (bearish) and 10 day .81 (mildly bearish). NYSE Arms Index 1.31 (neutral) and 10 day 1.06 (neutral).
- AAI bear/bull ratio is 27.34/40.15 as of 2/13 (mildly bearish).
- Investors Intelligence Bear/Bull Ratio 17.2/46.5 (bearish) as of 2/19.
- The detrended Rydex Ratio is .65 (mildly bearish) as of 2/14.
- Gambill Insider Buy/Sell Ratio is 8% (bearish) as of 2/18.
- The WST Ratio 1 day is 47.7 (neutral) and its Composite 129.6 (neutral). (Source: bullsorbears.com).
- Total and equity put/call ratio 1 day readings are .90 (bullish) and .55 (bearish) respectively. The 15 day averages for the total and equity p/c are .87 (mildly bullish) and .61 (neutral) respectively.
- OEX put/call one day is .84 (mildly bullish) the 15 DMA .99 (mildly bullish).
- ISEE call/put Sentiment Index 1 day 88 (very bullish) and 15 day 109 (neutral).
- NYSE McClellan OB/OS ratio adjusted is +61.55 (bearish) 3 week average +46.73 (neutral).
- NASDAQ McClellan OB/OS ratio adjusted is +31.37 (neutral) 3 week average -10.04 (neutral).
- The NYSE A/D line closed above its 50 DMA.
- The NASDAQ A/D line closed above its 50 DMA.
- The DJI and DJT closed below their 50 DMAs.
- The SPX, MID, NASDAQ and RUT closed above their 50 DMAs.
- The Hang Seng, DAX and FTSE closed above their 50 DMAs.
- The Nikkei and closed below its 50 DMA.
- The U.S. dollar as measured by the UUP ETF closed higher at \$21.51 and held support. Support and resistance levels are \$21.45 and \$21.66 respectively.

Commodities in up trends:

DRAMs (closed above its 50 DMA)
 Oil (closed above its 50 DMA)
 Gold (above its 50 DMA)
 CRB Spot Raw Industrials (closed above its 50 DMA)

Commodities in down trends:

Stainless steel (closed above its 50 DMA)
 Baltic Dry Bulk Rate (below its 50 DMA)

Commodities trading sideways:

Aluminum (closed above its 50DMA)
 Copper (closed above its 50 DMA)
 Silver (above its 50 DMA)

Market Internals:

The markets closed lower yesterday.

Internals were negative for the NYSE and NASDAQ.

Volumes were above prior levels for the NASDAQ and lower on the NYSE.

NYSE: A/D 1087/1959 U/D Volume 206M/487M Total Volume 702M.

NASDAQ: A/D 739/1876 U/D Volume 619M/1.24B Total Volume 1.92B.

Disclosure Appendix

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