Aletheia SG Capital

Note & Market Comments, APRL 15, 2010
Reference – ASG Daily COMM 2010- APRL 15

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SPX – Closed @ 1210 on Wednesday

Market Insights

POM 15 is not confirmed yet . The correction is likely to be on the order of what was seen during the January-February period…short and sweet in the first get go. It triggered POM 14 at 1110 and POM 13 at 1050.

INTERESTING OBSERVATIONS:

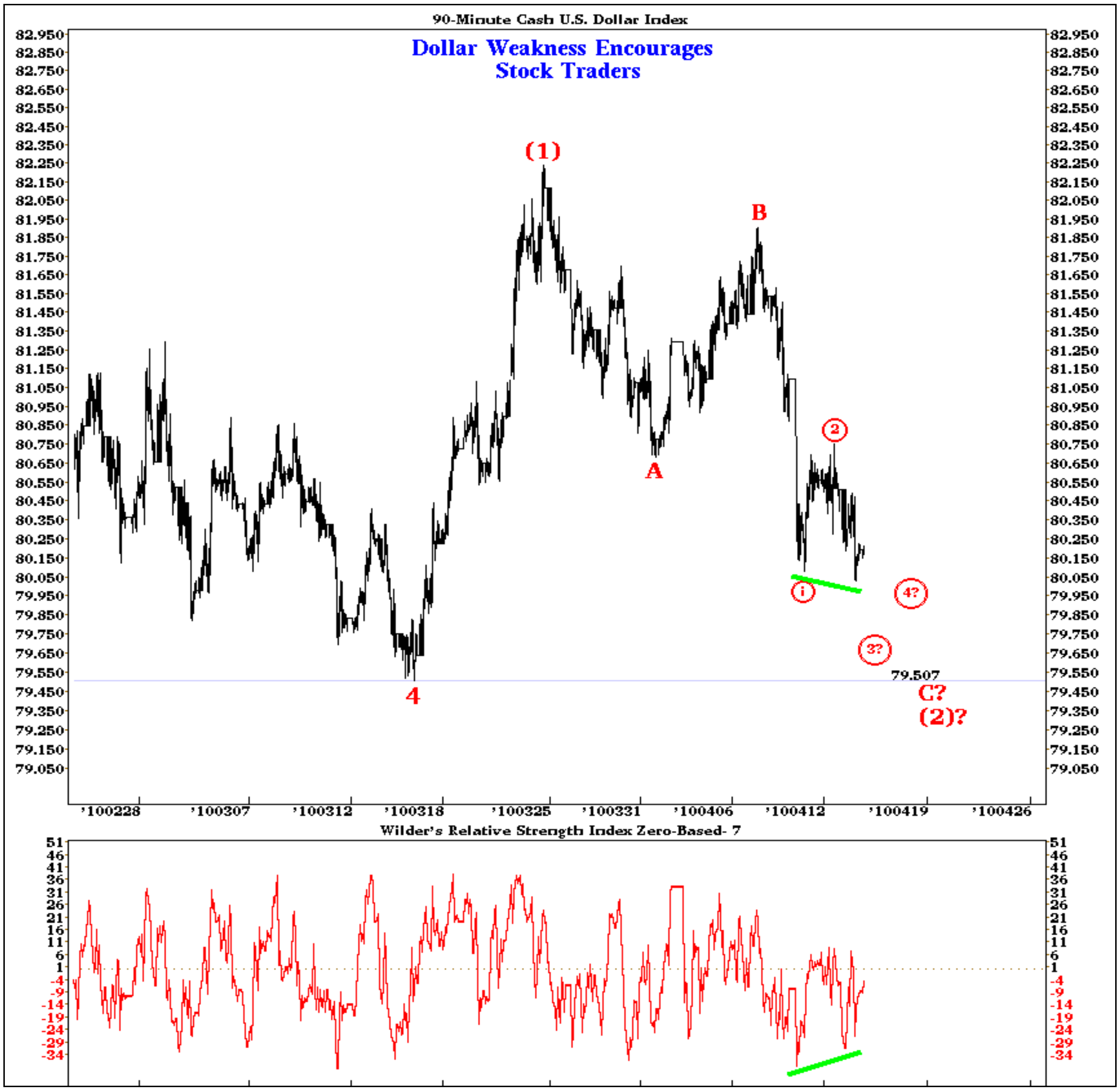
Dollar Carry Trade v/s SPY

The lack of a correction in the stock market has been quite a puzzle, 37 up days in 47 without more than 1% correction. It's the dollar effect again. During the big decline in DXY last year , stocks got a big boost as the carry trade seemed to be at work pumping stock prices higher in inverse proportion to the fall in the dollar. The suspicion was that the stock market would be under pressure when the dollar bottomed and headed higher. Yet, all we saw was a flattening out of the uptrend in stocks even as the dollar soared and the Euro declined. This was a sign that the carry trade may have been eliminated from the market.

In late March 2010, DXY entered a correction after forming a big leg up. We're looking on this as another leg up wiles leg down in Euro. What we saw was that the weakness in DXY was generating the same kind of buying pressure in the stock market that we had last year when it was in full retreat. Whether it's the same carry-trade mechanism isn't known, but stocks are certainly failing to correct their extremely overbought condition right now, so it's best to simply assume that the carry traders are at work as the Fed is keeping short term interest rates near zero and that simply changes most of the rules of trading.

So, this may be the reason the market is not acting "normal" and is not responding to normal technical indicators. And, it's basically driving folks nuts Bulls and Bears. This manic rally is probably just a blowoff phase like we see at the end. As far as we've been able to tell, the valuations are stretched.

DXY, seems to be the catalyst for the last few weeks of mania (mix of declining DXY with very low interest rates) certainly get an explosive combination).



If the five-wave move up from December is counted as a completed wave (1) up, we could be close to the end of wave (2) down right now. If so, we could be gearing up soon for a wave (3) advance that should be far more powerful than the December-March rally in number of points and in momentum.

We don't think it would drop back to 76 a much deeper retracement than we expect. 79.50 is quite possible but showing dome positive divergence now as indicated in Green.

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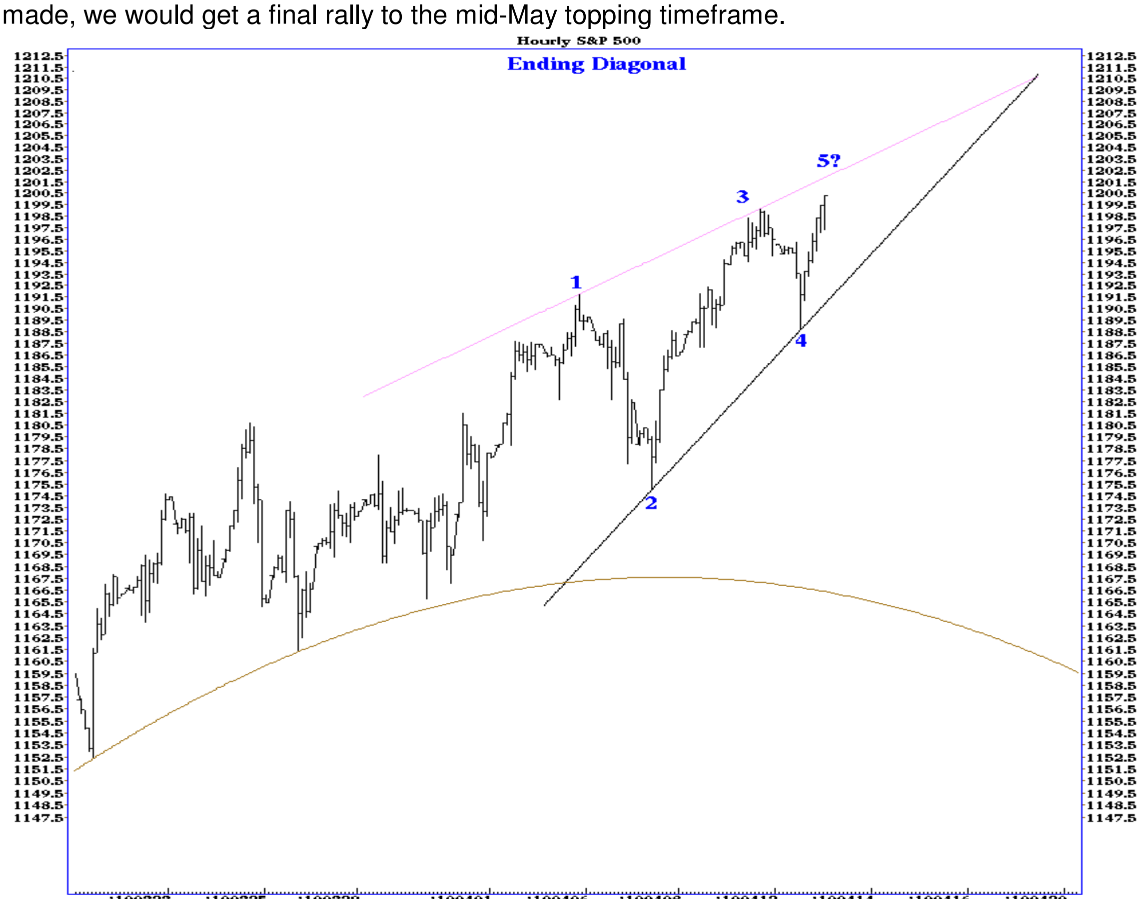
SPY

Once again we had a day where the OEX option traders spent at least twice as much on calls as puts. This is a sign of a very tired market and, despite up close, there were more high quality stocks are lagging whiles Russell is stretched out. (See Chart below)

After the first pull back , the best timing indicators point toward the secondary top in the middle of May and that's still the best estimate for a significant trend change to the downside. The lack of any correction since the February low strongly warns that when the market does move into a corrective mode, the downside could be substantial. Yes, the trend is nominally still up, but the distance the market can move on the upside is limited, while the risk on the downside is huge. The SPX, for example could move into the 1200s, since that was the site of substantial volatility on the way down. In fact compare the last time the SPX was in this price range

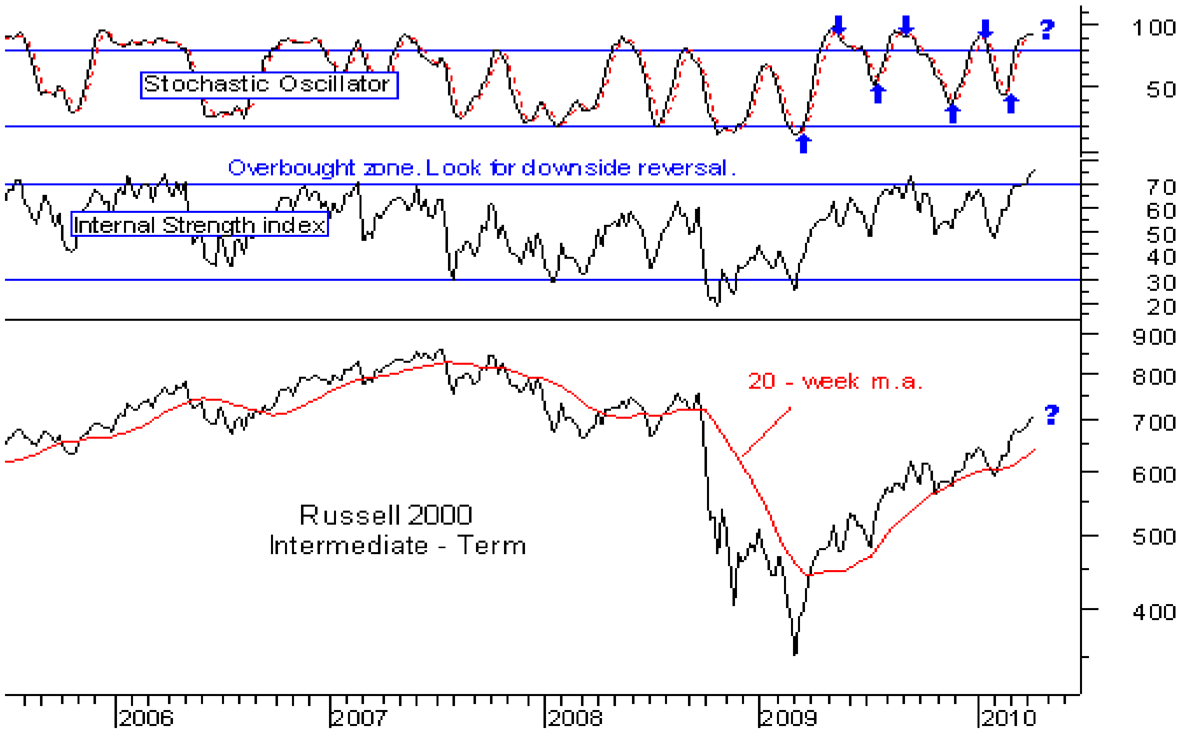
Here is the trademarked ending pattern we've seen in this market for several years. --- an ending diagonal triangle. Each leg of the five-wave pattern unfurls in a three-legged pattern and the support and resistance line converge (normally). Waves 1 and 4 overlap, unlike every other impulsive wave and that indicates great underlying weakness, just as the struggling nature of the rise implies.

If this is *not* the final high, then the most probable scenario would be that, once the fifth wave up in the triangle is finished, the entire pattern would be retraced to its starting point (the base of wave 1) *as a minimum move*. That retracement would come very quickly (much of the time the low will be made at the time corresponding to the apex of the pattern. Then, once that low is made, we would get a final rally to the mid-May topping timeframe.



RUSSEL

Russell 2000 has a target date for a high on Thursday, so we'll be watching for weakness in the small stocks to help identify a change in trend in coming days. (Please note past 3 T terminations have not worked out). But this quite a stretch above 20WMA.

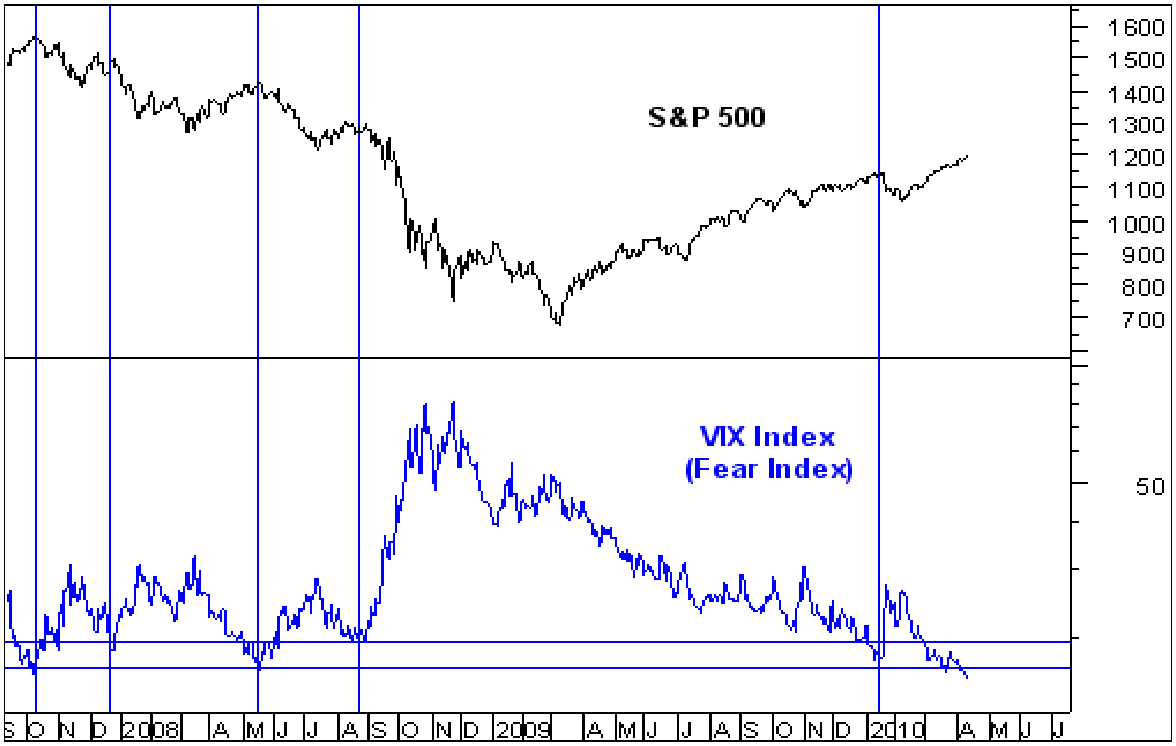


We believe the charts are giving a fairly serious warning of high risk, as is the proximity to the potential beginning of the market's unfavorable season.

<u>The VIX Index</u> has been hovering around 16 to 17, indicating excessive bullishness and complacency. <u>It has closed that low only four times since 2007.</u>

It closed at that level on October , 2007, which was the exact top of the 2003-2007 bull market, prior to a two-year market decline of close to 50%. It closed at that level in December 2007 which was the top of a mini-bear market rally after the October 2007 top. It closed at that level on May 2008, which was the market's exact high for 2008. It closed at that level on January , 2010, which was the exact closing high when the January-February correction began. And it has now been at this level again for an unusual four weeks

VIX & The AAII investor sentiment



The AAII investor sentiment poll is not as bullish as it usually gets at important tops,(They may be saving this for the May top, but its hard to wait for all the indicators to penout) There is planty of room for a more serious correction on the charts if the indicators were to decline all the way from their overbought zones to their oversold zones, as often happens. And sentiment as measured by the VIX is very bullish as *is* usually seen at important tops.

In any event, as we said last week, we are planning at the moment anyway to take downside positions if we get an intermediate-term sell signal just in case a short-term pullback does morph into something worse

VIX & Put / Call Ratio Sentiments

Above are the five day average Put/Call ratios for Equities, Indexes and Total. When the 5 dma Equity P/C is less then .53 and the 5 dma Index P/C ratio is less then 1.2 and the 5 dma Total Put/Call ratio is less then .77 at the same time then a pull back is likely near term. These are the conditions that produced pull back in August, September and October 09 and also in January 2010. VIX also gave a bearish sign yesterday. When the VIX closes below the lower Bollinger Band and then closes above it the next day a bearish signal is triggered. This setup on the VIX identified the January high and yesterday it gave another bearish signal. Judging by the VIX and Put/Call ratios the market is very frothy here and the type of readings that come at intermediate term highs.

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XLF

Above is the McClellan Oscillator and Summation index for the XLF sector. Since late March the Oscillator has been flirting with the “0” and a defiant down turn through the “0” line will turn the down the Summation index and trigger a sell signal by that method. We have pointed out on the chart the bearish divergences between XLF prices and the Oscillator. Since mid March XLF has made higher highs and the Oscillator has made lower highs. The weekly chart (See below) showed that XLF is up to major resistance and the Oscillator showing divergences it would seem a decline of intermediate term is not far off. Also the surges in Cash Flow and assets levels are consistence when previous highs have formed in XLF. XLF has made only about 38% retracement of its bear market decline.

We have updated the weekly XLF to today's close. The same types of divergences are occurring that occurred at the 2007 top. The weekly MACD is showing a bearish divergence and the same type of divergence that occurred at the 2007 top. The weekly Money Flow is showing the same negative divergence that appeared at the 2007 top. The weekly Bullish Percent index also is showing the same negative divergence as appeared at the 2007 top. Major resistance lies at the trend line near 16.50 and the 38.2% retracement level which comes in near 16.85. With the negative divergences and current resistance zones the market does not appear to be beginning a major leg up. With the weekly RSI over 70 it would appear a top could develop at any time on XLF. Since XLF has made only about 38% retracement of its bear market decline.

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Should you have any questions regarding this Daily Trade Advisory, you can reach me by email at apavse@aol.com or at 978- 662 3329. We will continue to send our " Intraday Alerts" as needed

Best Regards,

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