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## Monthly Market Commentary

### August – 2009

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## **July/August Recap**

While the medium-term outlook remains resolutely bullish (1200 in 2010!), in the short term the stock market appears to have hit a wall at the 38.2% retracement level (1014 for the SPX). All in all, it looks like the market is finally ready to correct a bit as we head into “storm season”.

The “melt-up” that occurred from the July 9th low to the August 7th high had all the markings of a buying panic, driven by those who missed the rally and who could no longer ignore the reality that the economy is indeed getting better. Indeed, sentiment has become a lot more ebullient, with the II and AAll surveys now showing roughly twice as many bulls and bears and the ISI hedge fund survey showing the highest exposure since mid-2008. While that is hardly a sentiment extreme, it also a far cry from the depressed sentiment in March. That was the proverbial fat pitch if ever there was one. Also, we now have several bullish magazine covers to contend with, including the latest editions of Newsweek, Businessweek, and The Economist, which targets Asia (now that China has gained 100%!).

Technically, this is what I see: The SPX hit a brick wall on August 7th at the Fibonacci 38.2% retracement level amid sizeable bearish divergences. It then corrected a bit to 992 and then tried to overcome the 1014 resistance level a second time. It failed again and last Friday it tested the range lows again (and held). So, if we now take out 992, we go lower and test the 950 major break-out area from June.

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Why should it break the range lows? Because the Shanghai Composite has already done so. Emerging markets in general, and the China A-Shares in particular, have been leading this market higher all along, so the weakness here could be a sign of things to come. China led the U.S. higher earlier this year, while at the same time there were massive bullish technical divergences. Now those bullish divergences have become bearish divergences while at the same time China is correcting.

I do expect the 950 area to hold, because that is also the neckline for a massive inverse head and shoulders bottom. Very often a neckline will get retested before really taking off, and that may well happen in the weeks ahead.

If so, that will be the low risk buying opportunity to set up for the next leg of this bull market. But maybe not until September.

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## Definitions:

S&P 500 is an unmanaged index of the common stock prices of 500 widely held stocks and includes reinvestments of dividends

Russell 1000 Growth Index is a market capitalization-weighted index of those stocks of the 1,000 largest U.S. domiciled companies that exhibit growth-oriented characteristics.

Russell 2000 Index is a market capitalization-weighted index measuring the performance of the smallest 2,000 companies, on a market capitalization basis, in the Russell 3000 Index

Russell 3000 Growth Index is a market capitalization-weighted index of those stocks of the 3,000 largest U.S. domiciled companies that exhibit growth-oriented characteristics.

Russell 3000 Value Index is a market capitalization-weighted index of those stocks of the 3,000 largest U.S. domiciled companies that exhibit value-oriented characteristics.

Morgan Stanley Capital International (MSCI) Europe Index is an unmanaged index that measures the performance of stock markets in Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Spain, Sweden, Switzerland, and the United Kingdom.

Morgan Stanley Capital International (MSCI) Emerging Markets Free – Latin America Index is a market capitalization-weighted index of approximately 170 stocks traded in seven Latin American markets.

BC Aggregate Bond (Barclay's Capital Aggregate Bond Index) is a market value-weighted index of investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage backed securities, with maturities of one year or more.

Merrill Lynch High Yield Master Index is a market value-weighted index of all domestic and Yankee high yield bonds. Issues included in the index have maturities of one year or more and have a credit rating lower than BBB-/Baa3 but are not in default.

Shanghai Composite index is a market cap weighted index of all stocks (A and B Shares) traded on the Shanghai Stock Exchange.

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