

ASBURY ALERT

US Stocks: Making Another Attempt At A Q4 Advance

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Summary

Monday's bullish shift in market momentum in the S&P 500 confirms that at least a near term bottom is in place in the US stock market at its 1075 October 4th low, and suggests that the intermediate term US stock market advance that we have been expecting to emerge in Q4 2011 is underway. *This shift in momentum "officially" turns our market bias back to Positive or bullish, from Neutral as of September 30th.*

Introduction

Since September we have been pointing out what we believe to be favorable conditions for the US stock market to begin an intermediate term advance during Q4, one that could extend through at least early Q2 2012, and waiting for tangible evidence that this advance was beginning.

Following a failed attempt to sustain such an advance last month, near term market momentum has once again turned positive (bullish) in the major US indexes as of the close Monday (October 11th), indicating that the market is making another attempt at putting in a sustainable bottom at the recent lows.

Explanatory Note: When we use the phrase "near term market momentum", we are referring to a combination of 3 different price-based indicators that we use as a purely mechanical metric to indicate a tangible change in near term, or monthly, price direction. We use it as a means to "officially" change our directional bias in a given asset for performance measuring purposes. Although our momentum tool is admittedly a backward-looking, conservative price screen that does not catch the very beginning of a new trend, it does greatly reduce the amount of whipsaws during choppy markets and — most important — keeps our changes in directional bias objective and consistent regardless of what is happening around us.

Bullish Shift In Momentum Confirms A Near Term Bottom

The upper panel of Chart 1 displays a daily bar chart of the S&P 500 (SPX) since July, along with its 4- (red line) and 9-day (blue line) moving averages and an indicator known as the [Parabolic SAR](#) (red dots). The [MACD Indicator](#) appears in the lower panel. We use all three indicators on the chart, **together**, to identify changes in near term market direction.

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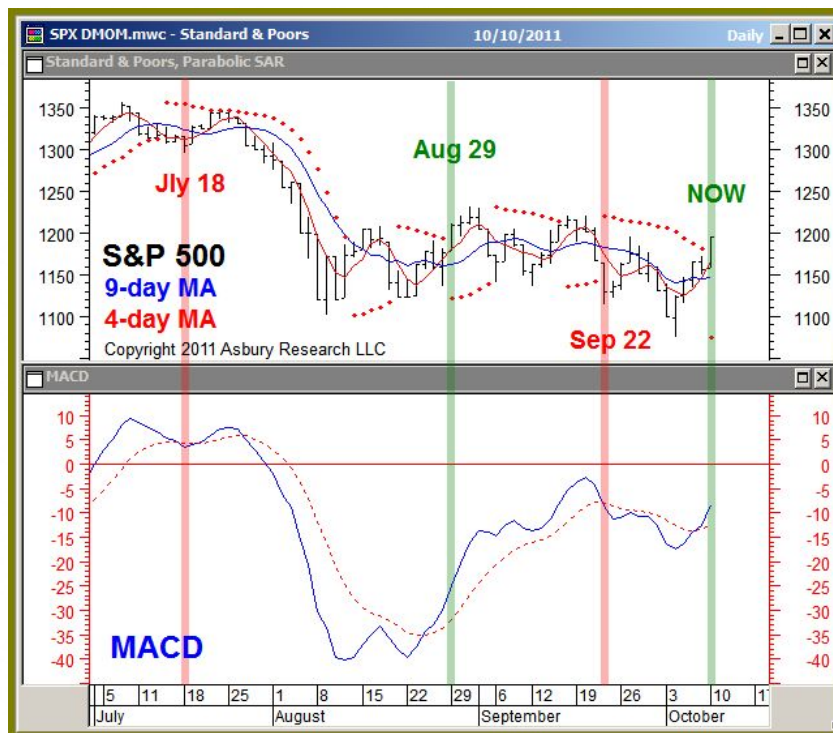


Chart 1

Specifically, when: 1) the 4-day moving average has crossed *below* the 9-day, 2) the solid blue MACD line has crossed *below* its red dotted trigger line, and 3) the Parabolic SAR's "dots" have moved *above* price — all on the same day as they did on July 18th and again on September 22nd (red highlights) — this "triple screen" methodology indicates that *near term momentum has turned negative or bearish*. These most recent negative shifts in momentum: 1) preceded the most recent "trade-able" decline into the August lows, and 2) signaled the most recent reversal to new 2011 lows following the failed August rally attempt.

Conversely, when: 1) the 4-day moving average crosses *above* the 9-day, 2) the solid blue MACD line crosses *above* its red dotted trigger line, and 3) the Parabolic SAR's "dots" move back *below* price — as they did on August 29th (green highlights) and again as of the close on Monday (October 11th), — this indicates a **positive or bullish** shift in momentum that identifies a near term bottom at the recent lows.

This most recent positive shift in momentum is seen as tangible evidence that the more intermediate term, quarterly advance that we are expecting during Q4 2011 is making a measurable attempt at getting underway.

How High Can We Go?

Chart 2 displays a daily bar chart of the S&P 500 since the beginning of the year along with its 50- (blue line) and 200-day (orange line) moving averages, which are widely-watched minor and major trend proxies. The chart also highlights the 2010 closing price of 1258 (lime green), and defines the non-directional, sideways price activity since August 9th between 1102 and 1231 (green highlights).

Stock Market Sectors

Foreign Exchange

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Chart 2

The chart shows that SPX has risen above its 50-day moving average this week for the first time since July 28th, which suggests that a new minor bullish trend change *is emerging*. However, consecutive closes **meaningfully** (more than just a couple of index points) **above** the August 31st high of 1231 would be necessary to establish a more sustainable bottom at the recent lows.

If and when these closes above 1231 take place, they would immediately clear the way for at least a test of 1258 to 1277, the former which is breakeven for the year and the latter which defines the major downtrend at the 200-day MA. However, the bullish implications of the breakout from the rectangle pattern would target an eventual rise to 1359, which would essentially result in a retest of the July and May 2011 highs.

Conclusion & Investment Implications

Monday's bullish shift in market momentum in the S&P 500 (which were corroborated by similar momentum changes in the other major US indexes) confirms that at least a near term bottom is in place in the US stock market at its 1075 October 4th low. Moreover, this bullish shift in momentum suggests that the intermediate term US stock market advance that we are expecting to emerge in Q4 2011, and to potentially extend into early Q2 2012, is underway.

This shift in momentum "officially" turns our market bias back to Positive or bullish, from Neutral as of September 30th.

Moreover, a rise above S&P 500 1231, which is the market's next important upside obstacle, would indicate that a more sustainable bottom into place at the recent lows and would target an eventual retest of the index's 2011 highs.

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