

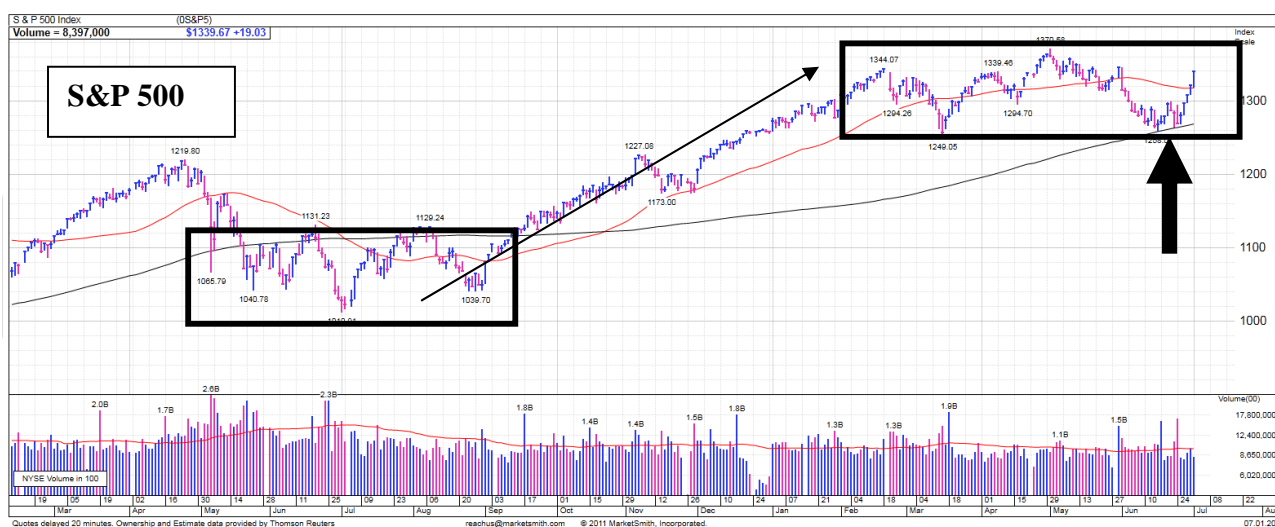
## Stock Market Update

### July 4, 2011

By Don Freeman

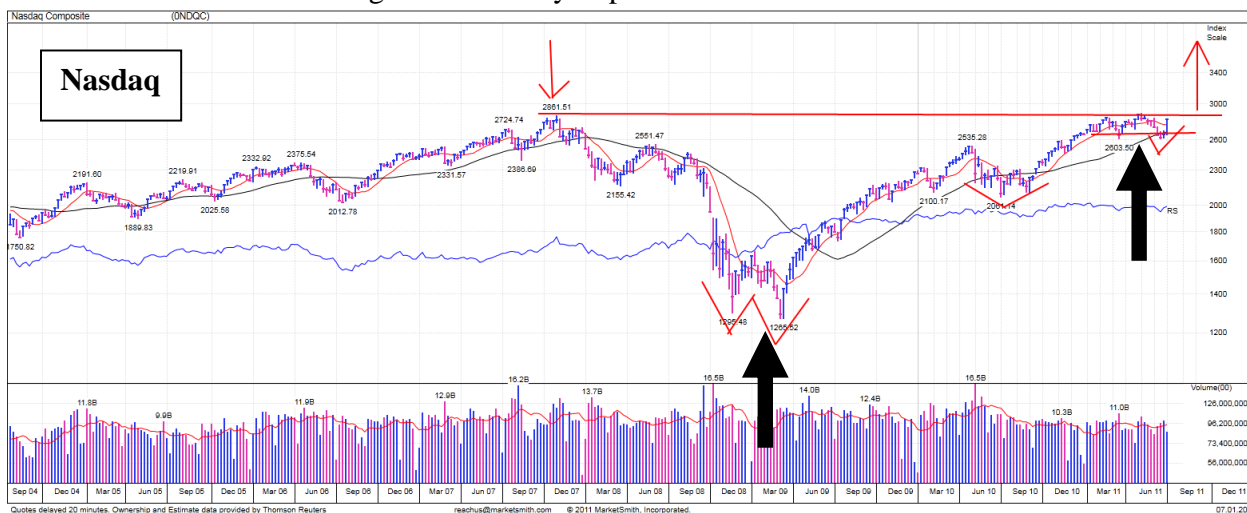
### The Global Bull Market Alive and Well

#### Dow Transports hit new highs: A positive sign



S&P 500, Source: marketsmith.com

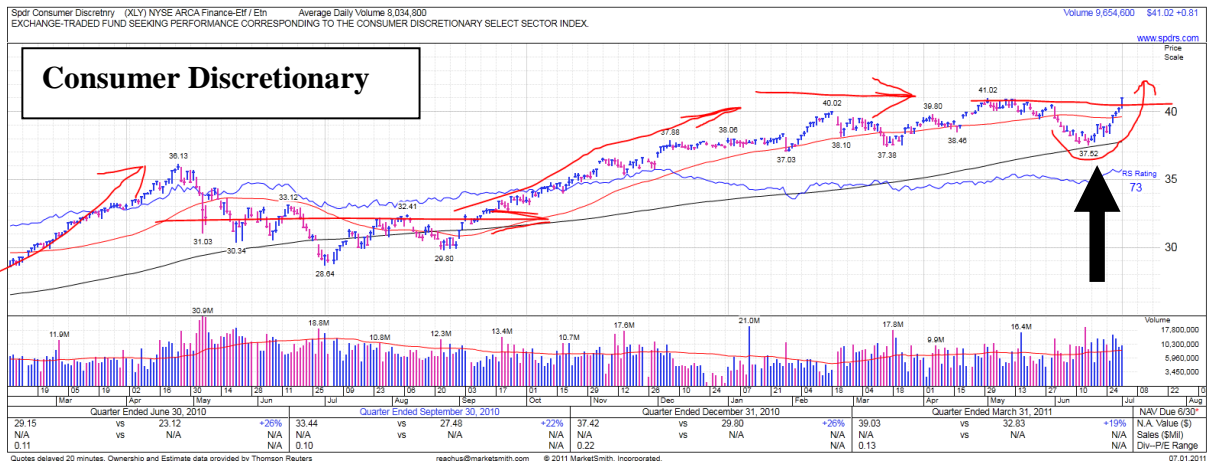
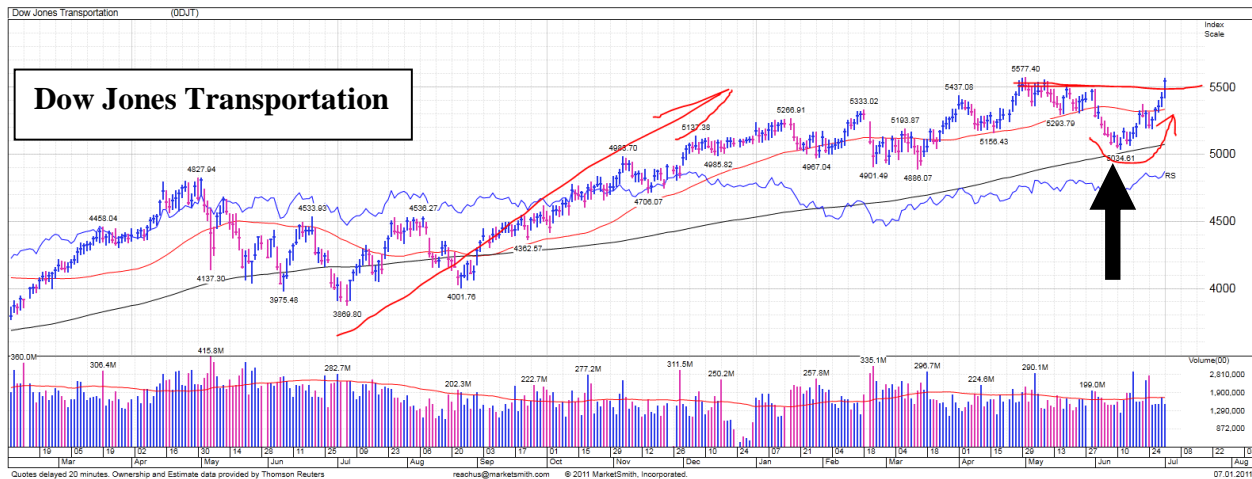
The S&P 500, shown above, moved up 6.5% in the past two weeks. The black arrow shows the US market pulling back to its 200-day moving average and finding support. The market has been in a sideways consolidation since February 2011 as many stocks and funds have been correcting after posting strong gains off the August 2010 low (see left rectangle). This is normal action in a healthy bull market. The S&P 500 is 2% from hitting a new high. I expect the major market indexes to move higher in the weeks and months ahead as the global economy improves.



Nasdaq Composite Index, Source: marketsmith.com

The Nasdaq, above, represents US technology stocks. You can see the low in 2008 during the financial crisis, the strong gains since 2008 and now a six month tight range in 2011. I connected the 2007 peak with the highs in 2011. I am expecting the next phase of the bull market to break above this red line and post strong gains in the next 15-24 months. Later in this report I will profile charts of large cap Technology stocks such as IBM and EMC which also provide evidence of a much higher market in the months to come.

## Dow Transports and Consumer Discretionary hit New Highs

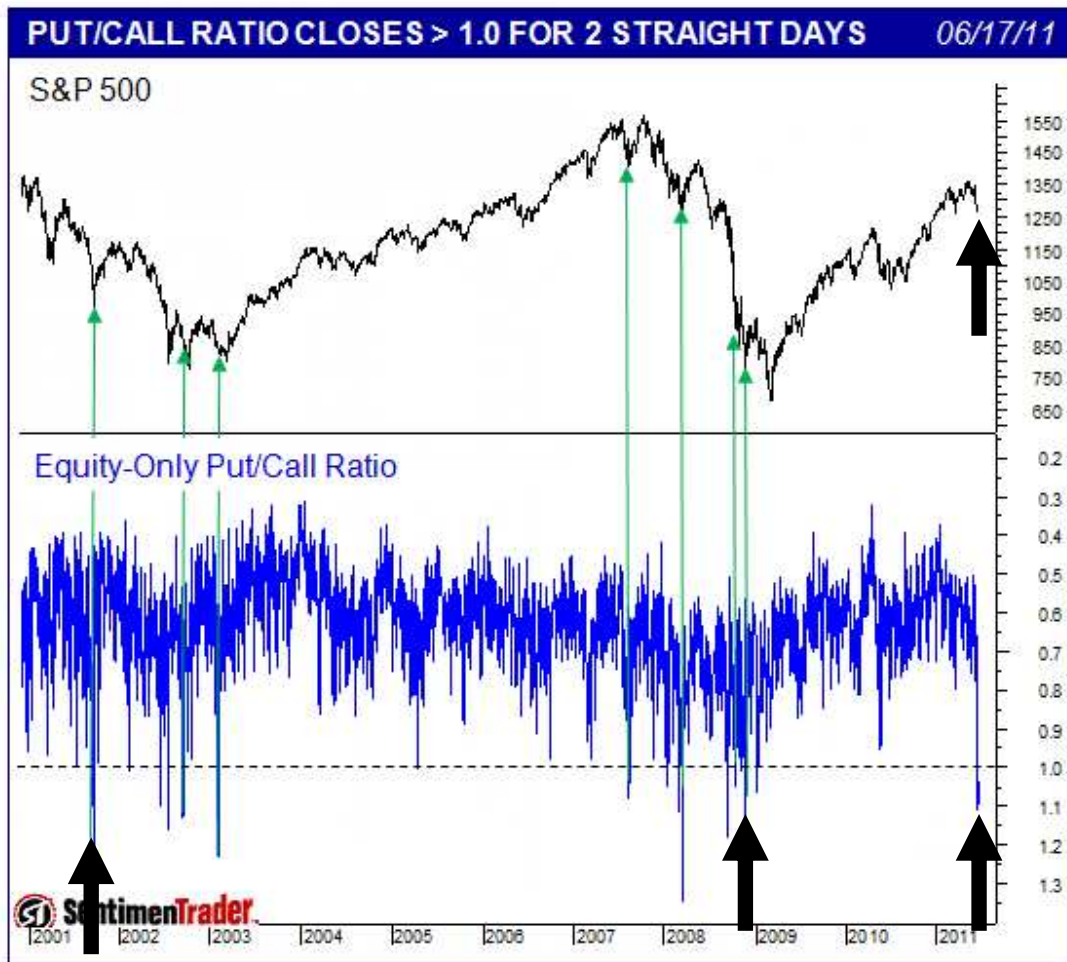


Both the Consumer Discretionary and Transportation Indexes hit new highs last week. These two sectors are the most cyclical sectors of the economy. It is an amazing that both hit new highs last week- a sign of strength.

## Equity-Only Put/Call Ratio

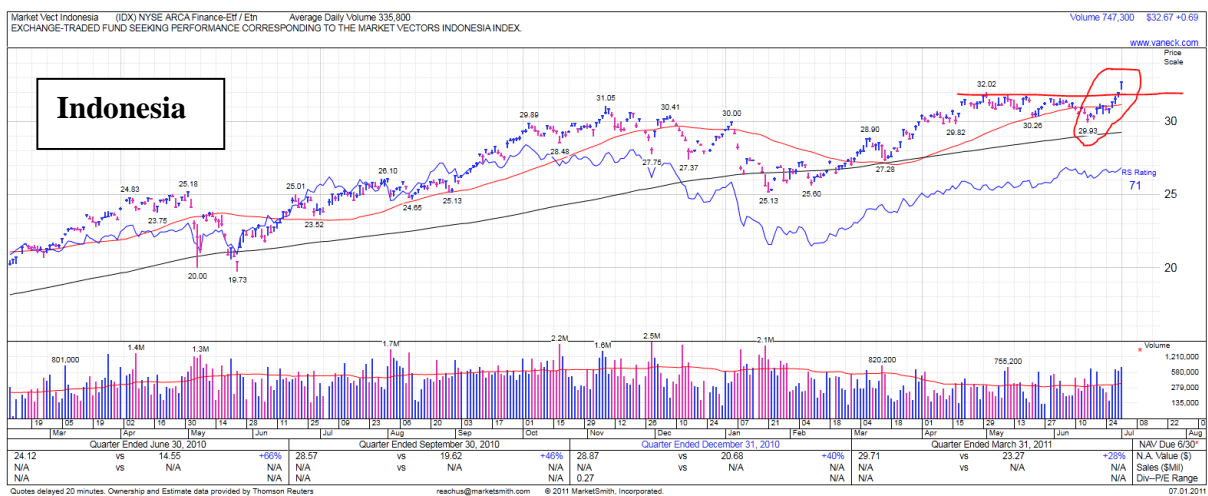
One chart I use that is a great graphical representation of fear is the Put/Call Ratio. I won't go into detail on how it is calculated but you can see in the chart below that when it spikes down to the 1.0 level it pays to begin accumulating growth stocks and funds. The first two arrows represent the September 11, 2001 terrorist attacks on New York and the bottom of the 2008 Financial Crisis. Both were great times to be buying. It didn't "feel good" and the media was convincing you otherwise but it was the time to buy. Two weeks ago the Equity-Only Put/Call Ratio closed above 1.0 for the 2nd day in a row. That's the first

time since November 2008 that we've seen such a thing, and the 8th time since 1997 according to Jason Geopfert of Sentimentrader. This is a measure of fear and a great sign to replant cash and position accounts for growth as this bull market matures.



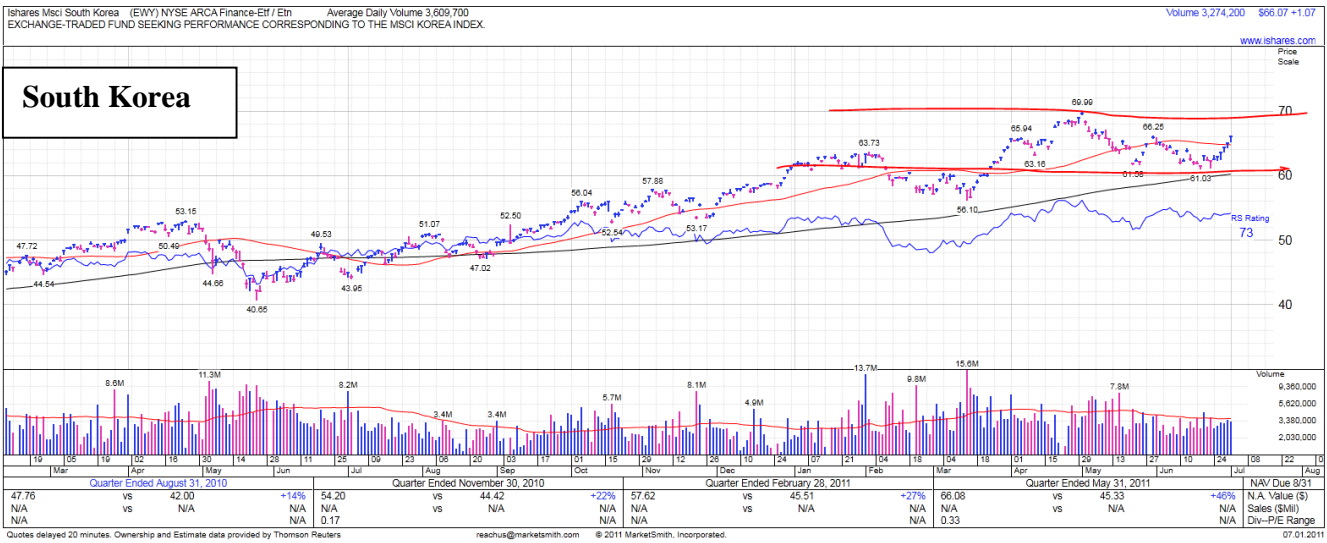
Source: Sentimentrader.com

## Emerging Market ETFs Hitting New Highs



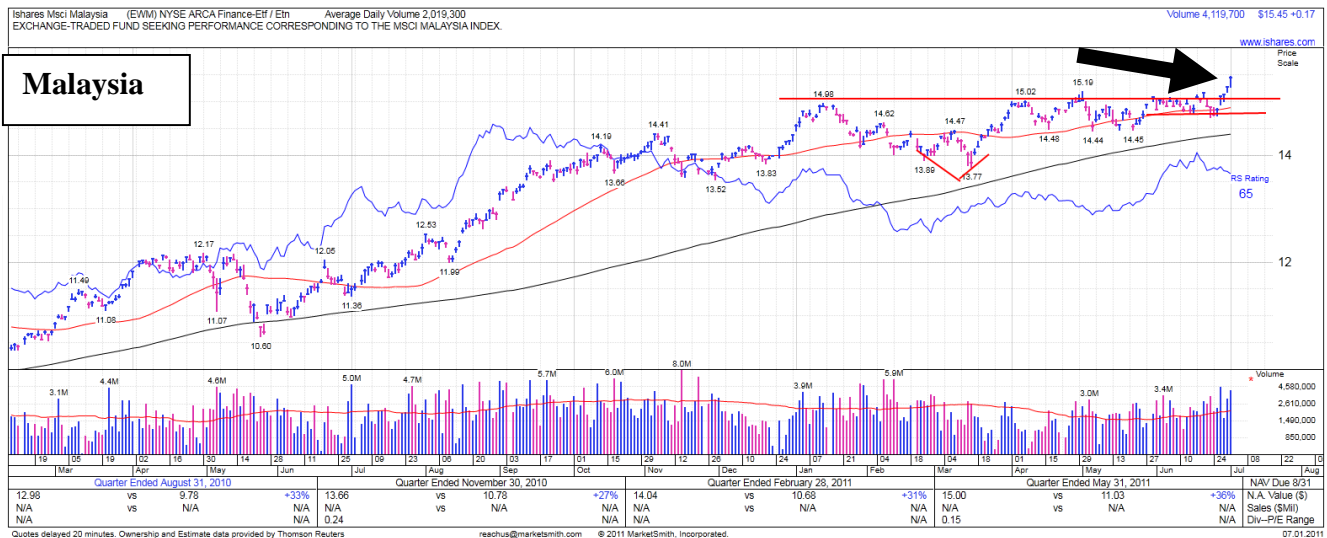
Source: marketSmith.com

Not only have the US markets been improving over the past two weeks but take a look at some emerging market Exchange-Traded Funds. The Indonesian ETF (chart above) hit a new high on Friday after consolidating for 9 months. Very bullish price action.



Source: marketSmith.com

South Korea, above, has trended sideways and sits only a few points off its high reached 10 weeks ago. It is up 8% over the past two weeks.

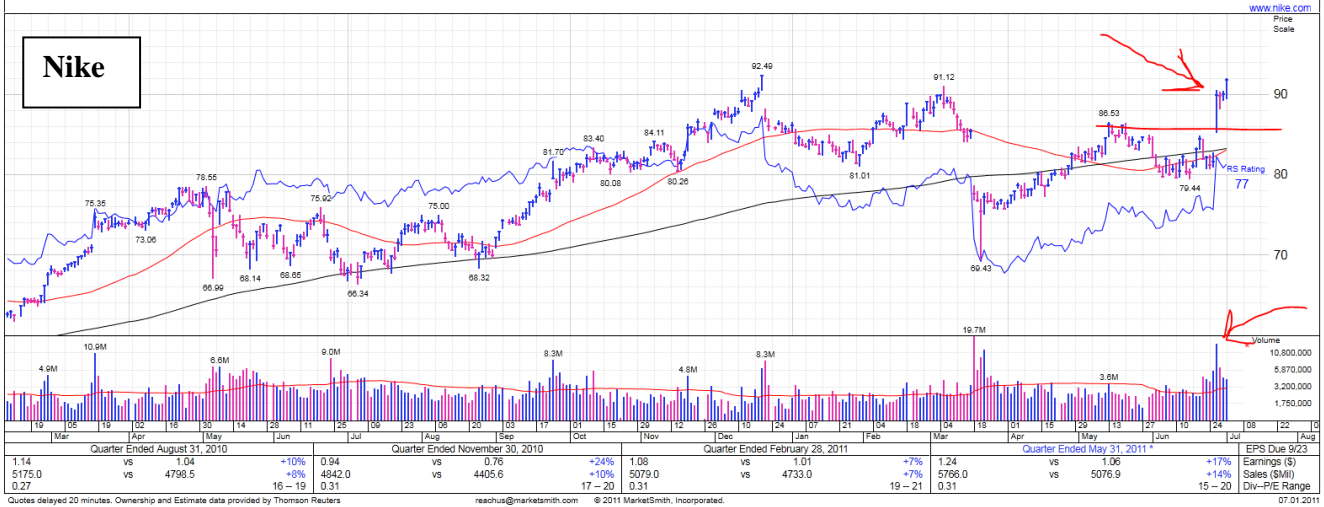


Malaysia, above, has spent 6 months in a very tight sideways range and last week broke out to new highs.

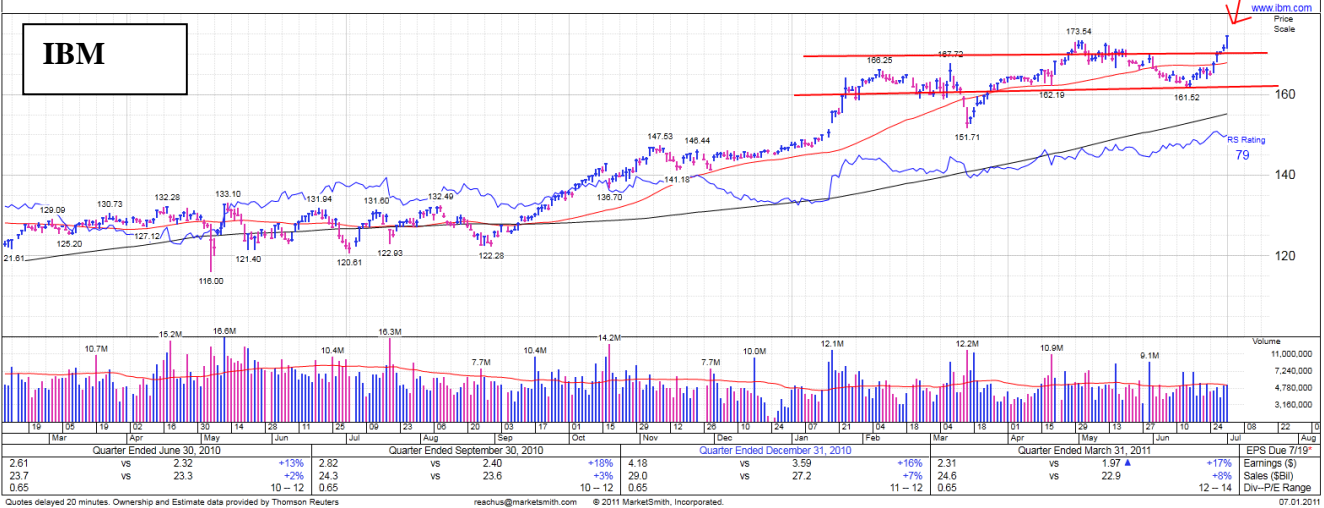
### Large Cap Stocks Breaking to New Highs: A Very Positive Sign

Nike, IBM, and EMC Corp are shown below. Nike gapped out of a sound base on heavy volume last week and sits 1 point from a new high. IBM spent the first two quarters of 2011 going sideways but last week also hit a new high. IBM gained 40% prior to forming its base and now looks ready to move higher. EMC Corp, which makes data storage devices, also spent 6 months going sideways and is completing a sound base pattern.

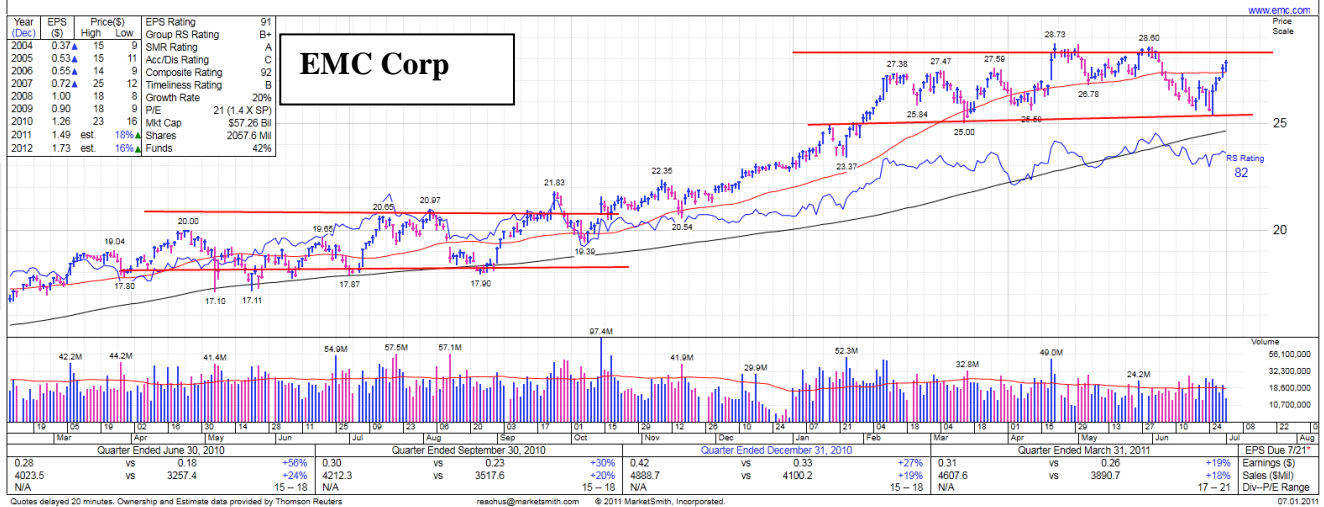
Nike Inc Cl B (NIKE) NYSE Apparel-Shoes & Rel Mfg Average Daily Volume 3,006,500 Volume 4,195,300 \$91.82 +1.84  
 MARKETS HIGH QUALITY ATHLETIC FOOTWEAR, APPAREL, EQUIPMENT AND ACCESSORIES VIA 689 RETAIL STORES



Intl Business Machines (IBM) NYSE Computer-Tech Services Average Daily Volume 5,204,700 Volume 5,181,700 \$174.54 +2.99  
 PROVIDES IT CONSULTING SERVICES AND COMPUTER HARDWARE AND SOFTWARE FOR INSTITUTIONS WORLDWIDE



E M C Corp (EMC) NYSE Computer-Data Storage Average Daily Volume 18,756,900 Volume 13,369,400 \$27.83 +0.28  
 DEVELOPS A RANGE OF INFORMATION INFRASTRUCTURE AND VIRTUAL INFRASTRUCTURE TECHNOLOGIES



Source: marketSmith.com

## Summary:

The US indexes have been in a shallow correction for the past 1-2 quarters. Two weeks ago with the Debt Crisis in Europe again resurfacing the market created a short term bottom. It is too early to tell if the correction is over but many sectors and stocks are now at new highs and extending their gains. The shallow 8% correction was enough to refortify the “wall of worry” that stocks need to move higher. In healthy bull markets stocks often rest after posting strong gains then stair-step-higher.

It will be important in the next upward move to ignore the “bad” news and buy on weakness. Yes, the worries centered on housing, lack of jobs, high energy prices, the Japan tsunami and the crisis in Egypt or Libya may shake your confidence but it is important to watch what the charts are telling us and stick with a sound investment discipline. Buying stocks when the news is horrible and downright scary is not easy but overtime will lead to successful investing.

I believe the last two weeks was one of the best buying opportunities of 2011. It is not too late to invest in this maturing bull market. I continue to see higher prices throughout 2011 and into 2012. , the economic engine is running well, for the most part, and earnings are still on the increase. I expect the economy to continue to improve going forward which should, in turn, drive equity prices higher.

## Wall Street Journal Article: [Before You Get on That Plane....](#) June 20, 2011

Recently I was quoted in the Wall Street Journal by Riva Froymovich. The article is directed toward expatriates working outside the US and focuses on taxes, inheritance, saving and investing, insurance, and keeping your finances in order. You can read the article by clicking on the link below.

<http://online.wsj.com/article/SB10001424052748703730804576321411442008294.html?KEYWORDS=before+you+get+on+that+plane>

**Happy 4<sup>th</sup> of July to my US Clients!**

Thank you for reading. It is a pleasure navigating the market with you.

Don Freeman

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