November 2009

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Asset Class Outlook

CIOVACCO
CAPITAL MANAGEMENT

Short-Term and Longer-Term Bull Market Corrections

Recent volatile market action highlights the need to respect and study corrections within a bull market. Chart 1 (right) shows short-term and longer-term corrections that occurred within the context of the early stages of the 2003-2007 bull market. 2003–2004 represents a good laboratory in which to study corrections due to the following similarities to present day 2009:

- Low interest rates and excess market liquidity
- Weak U.S. dollar and carry trades
- Bottoms in early March ('03 & '09)
- Similar points in economic cycle
- Similar bear markets prior to March lows
- Similar seasonal periods
- Low inflation
- Skeptical general public
- Sharp moves off bottom
- Corrections short in duration
- Similar chart patterns
- Periods of low volume
- Commodity bull market
- Asia theme
- Recent wealth destruction
- Threat of deflation
- Fed trying to reignite wealth effect

Our main focus in this issue of the Asset Class Outlook will be to highlight general and conceptual differences between short-term and longer-term corrections within the context of an early stage bull market. While the future will present its own unique set of challenges and market reactions, we can become better equipped to identify potential market weakness by studying human actions under similar circumstances. Charts represent a way to monitor and study mass psychology. Mass psychology and the collective actions of market participants are what determine (see above right)

Chart 1 - 2003-2004: S&P 500

asset prices, not opinions or forecasts. From our perspective, technical analysis is about monitoring the market's health, not forecasting the future. In a bull market, we assume we will see more of the same (higher highs and higher lows) until we observe evidence to the contrary.

In This Issue:

TRADER'S NOTES: As of November 8, 2009

Global Market Trends

Short-Term: Neutral-to-Bullish
Intermediate-Term: Bullish
Long-Term: Bullish

Important Levels: Monitoring Risk

Market / Index	Level One	Level Two	Want To See Hold
Gold	1,034	987	Above
S&P 500	1,025	1,018	Above
Copper	295.60	264.00	Above
CRB Index	266.00	257.00	Above
U.S. Dollar Index	77.47	77.82	Below
Volatility Index	30.92	32.77	Below

How to read the table above: In the short-to-intermediate-term, it is bullish for risk assets if gold, the S&P 500, copper, and the CRB Index can hold above the levels shown. Bulls would also like to see the dollar and VIX remain below the levels shown. Movements outside of these boundaries would be negative for risk assets such as stocks, commodities, and foreign currencies.

2009: Recent Break Of Wedge Similar to 2003

Chart 2 (right) shows an ascending wedge pattern off the March 2003 lows. A low occurred on September 30, 2003 after a bearish break of the wedge. Chart 3 (right, below) shows an almost identical pattern off the March 2009 lows. Since both markets, 2003 and 2009, experienced bearish breaks of the wedge, it may be helpful to study the implications of the wedge's break in 2003.

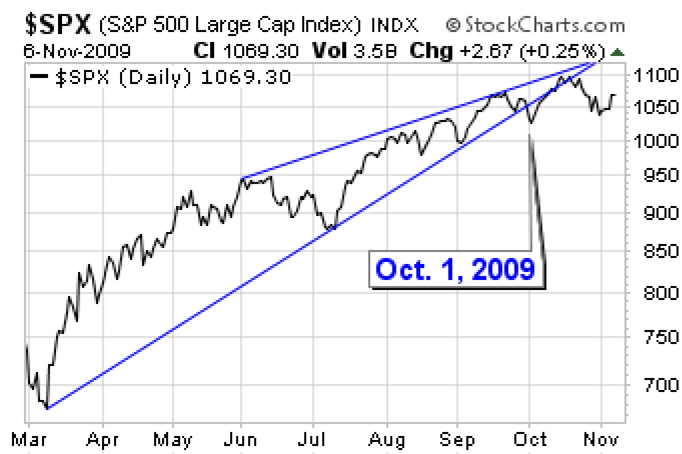
Chart 2 - 2003's Ascending Wedge In S&P 500

CCM Attractiveness Rankings

The asset classes, markets, and sectors below are shown in order of attractiveness based on the CCM Asset Class Rankings. More rankings are shown on the following pages: 3,5,7,and 8.

Emerging Market Stocks
Brazil
Latin Amer 40
Infrastructure Emer Mkts
Russia
Turkey
BRIC
India
Asia Ex-Japan
Malaysia
Mexico
Chile
China
Taiwan
Hong Kong
South Africa

Chart 3 - 2009's Ascending Wedge In S&P 500



TRADER'S NOTES: 22-Week MAs (see page 4 for more 22-Wk MAs)

22-Weeks Worth Monitoring

The 22-week moving average (MA) often acts as support during bull markets. Therefore, markets that remain above their 22-week moving averages tend to be healthy from an intermediate-to-longer-term perspective. Several 22-week MAs are shown (left) as of November 8, 2009. Breaks below these levels, especially on a weekly basis (after a Friday close), would move us closer to a defensive posture.

	Symbol	22-Week MA	Current	Market State
S&P 500 Index	$SPX	1,003	1,069	Bullish
Emerging Markets	$MSEMF	857.98	930.09	Bullish
CRB Index	$CRB	257.28	269.44	Bullish
Copper	$COPPER	268.48	295.25	Bullish
Gold	$GOLD	982	1,095	Bullish
Silver	$SILVER	15.34	17.39	Bullish
Crude Oil	$WTIC	70.92	77.43	Bullish
Brazil	$BVSP	57,493	64,466	Bullish

2009: Recent Break Of Ascending Wedge Pattern

Chart 4 (right) shows market behavior following the break of the ascending wedge off the March 2003 lows. As you can see, after the break, the lower trendline becomes of little use in the short-term. However the upper trendline still remained relevant after the bearish break of the wedge. Chart 5 (right, middle) shows similar concepts in present day 2009.

Chart 6 (right, bottom) shows how the market formed a new lower trendline in 2003 after the bearish break of the ascending wedge. As we might surmise, a simple trendline using the last two lowest lows defined the new lower trendline (see blue line in Chart 6).

Chart 4 - 2003's Wedge Break (S&P 500)

Chart 5 - 2009's Wedge Break (S&P 500)

Favored Asset Classes Next 6 to 12 Months

The asset classes and sectors shown below were selected after comparing over 450 indexes, ETFs, stocks, and asset classes head-to-head using CCM's proprietary Asset Class Ranking System. Correlations and diversification considerations were also factored in when adding commodities and currencies. Listed in order of relative attractiveness.

Emerging Market Stocks
Energy / Materials / Commodity - Stocks
Gold Mining Stocks
Income - Specific Segments
Small Cap Stocks - Global
Developed Markets - Stocks
Technology Stocks
Retail / Consumer Discretionary
Financials - Global
Gold - Physical
Commodity - Physical
Currency - Foreign

Chart 6 - 2003-2004 Post Wedge Break

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For Short Takes — Updated Regularly

Short Takes can be accessed using a link in the left margin of CCM's home page. Updated 2 to 5 times a week, Short Takes is a good way to keep up with important market developments. It may be worth a bookmark.

Corrections Within A Bull Market

Chart 7 (right) shows the recent break of the lower trendline in 2009. A similar trendline in 2003 held, so the current correction needs to be respected and monitored closely (as of 11/06/2009).

Chart 8 (right, middle) shows the lower trendline using the last two lowest lows. Obviously, if the current November 2009 correction has further to run, the lower trendline in Chart 8 will not hold. Our job is to monitor the trendline, not forecast if it will hold or not.

Asset prices are determined by the collective thoughts, beliefs, hopes, fears, and actions of millions of market participants from all over the globe. How realistic is it that any one person or any one firm can accurately predict how millions of people will interpret the news of the day? The previous comment applies to both fundamental and technical analysis. The best we can do is monitor the mood and risk tolerance of market participants as a whole by monitoring and studying charts. Fundamental analysis has a role to play as well. Both are important.

Using the two charts to the right as an example, based on past actions of market participants, we would have expected the lower 2009 trendline in Chart 7(top) to hold. It did not. We should not ignore that fact since it sends signals that the market's current trend may be weakening. Currently, we expect the lower trendline to hold in Chart 8 (right). If it does not, it sends another signal to consider becoming a little more defensive. When the market breaks a trend (does not do what we expect), it is providing new and useful information to us. We expect more of the same until we see something different. When we see something different, we better pay attention.

Chart 7 - 2009 Post Wedge Break

Chart 8 - 2009 Post Wedge Break

TRADER'S NOTES: More 22-Week MAs

The 22-week moving average (MA) often acts as support during bull markets. Therefore, markets that remain above their 22-week moving averages tend to be healthy from an intermediate-to-longer-term perspective. Several 22-week MAs are shown below as of November 8, 2009. Breaks below these levels, especially on a weekly basis (after a Friday close), would move us closer to a defensive posture. Neutral designates markets that remain bullish, but may need to be watched more closely due to recent breakdowns or tests of support.

As of 11/06/2009

	Symbol	22-Week MA	Current	Market State
Australia	$AORD	4,370	4,604	Bullish
NASDAQ	$COMP	1996	2112	Bullish
Australian Dollar	$XAD	84.87	91.83	Bullish
Semiconductors	$SOX	298.78	301.76	Neutral
India	$BSE	15,719	16,158	Neutral
China	$SSEC	3,020	3,164	Neutral
Russell 2000	$RUT	563	580	Neutral
U.S. Dollar	$USD	78.02	75.76	Bearish

Corrections Within A Bull Market (cont.)

Chart 9 (right) shows another possible 2009 scenario for an upper trendline using a parallel channel (blue lines). Chart 10 (right, middle) illustrates the same concept from a closer view. Charts as of 11/06/2009.

CCM Attractiveness Rankings (cont.)

Energy / Mater. / Commod. - Stocks
Coal Stocks
Steel Stocks
Oil & Gas Stocks
Base Metal Stocks
Basic Material Stocks
Oil Equipment Stocks
Water Stocks

Developed Markets - Stocks
Australia
Sweden
Spain
Austria
Belgium
EUR Mon Union
EAFE
Europe 350
France
Switzerland

Chart 9 - 2009 Channel and Upper Trendline

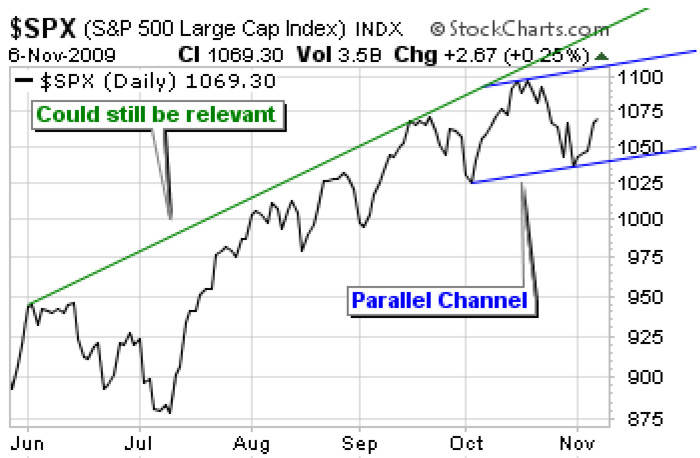


Chart 10 - 2009 "Zoom In" On Trends

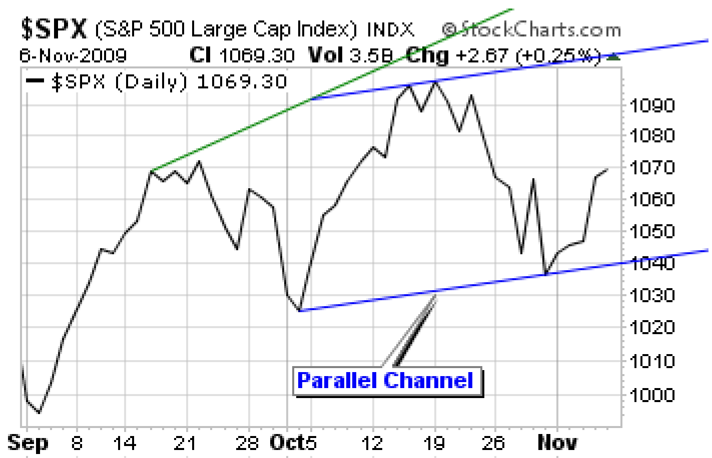
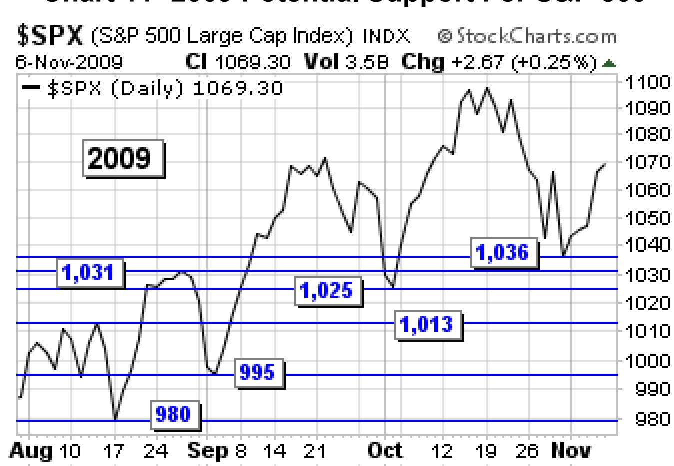


Chart 11- 2009 Potential Support For S&P 500



Support: Best Offense Is A Good Defense

Chart 11 (right) shows possible areas of support should the current correction have further to run. As of November 8, 2009, the S&P 500 had not yet made a lower low or a lower high (a bullish sign). If and until that happens, it is difficult to create meaningful downward sloping trendlines, which can help us project possible downside targets. When markets correct or change their short-to-intermediate term trend, recent areas of support and resistances can offer possible termination points for the current trend. A close below 1,025 would represent a significant lower low and possibly foreshadow more downside for stocks.

Short-Term Corrections vs. Longer-Term Corrections

There is a fine line between a normal correction within a positive trend and a longer-term correction that can negatively impact months of hard work and analysis. On the left side of Chart 12 (right), we see a series of higher highs in 2003, interrupted by an intermediate-term correction in July of 2003. Some defensive posturing would make sense after the lower lows in July 2003, but for the most part our objective would be to ride out the correction and stay with the primary trend.

The right side of Chart 12 (top) shows a multi-month correction with a series of lower lows. The series of lower lows (see red arrows) define an intermediate downtrend within the context of an ongoing bull market. One of our primary objectives is to understand as best we can what a "normal correction" looks like and what red flags may signal something more than a normal correction.

As we stated earlier, if we continue to see more of the same (higher highs, higher lows), it is best to err towards staying with a trend. Every market and market cycle is a little different, so there are no firm and absolute rules with regard to what is normal and what steps outside of normal. The best way to understand *normal* is to study the current trend for each market (go back roughly a year). For example, in the move off the March 2003 lows, the S&P 500's 75-day moving average (green) acted as support (Chart 13 right). In the first quarter of 2004, the market clearly broke the 75-day, which no longer qualified as "seeing more of the same". The break of the 75-day foreshadowed a multi-month correction and a series of lower lows. The more the market steps outside of what has been normal in past corrections, the more defensive-minded we would become. When things look positive and normal we can migrate toward risk in an incremental fashion. When things begin to look "not-so-normal", we can begin to migrate away from risk in an incremental manner.

In 2009 (Chart 14, right), the S&P 500's 75-day MA has, thus far, acted as support for falling prices. If we see a clear break of the 2009 75-day in the coming days and weeks, we would be much more apt to adopt a more defensive posture. Decisions are made using all information available from all markets. For example, the current state of the trend in the U.S. dollar is an important input in all allocation decisions in 2009. If the 75-day is violated in the S&P 500 and the U.S. dollar was showing relevant signs of strength (a negative for risk assets), we would be more inclined to take defensive measures. We study fundamentals, indicators, volume, inter-market relationships, etc. in an effort to best discern the collective acceptance of risk or aversion to risk. Looking at any market in isolation is not optimum.

The index of U.S. leading economic indicators rose in September for a sixth straight month, showing the economy is likely to expand into early 2010.

Chart 12 - 2003-2004: Corrections In S&P 500

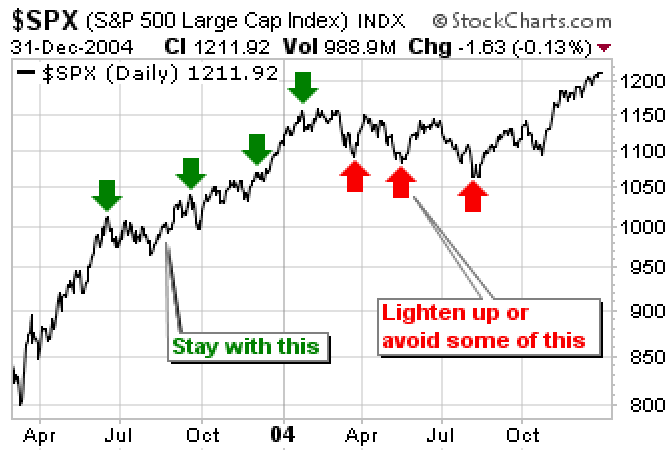


Chart 13 - 2003-2004: 75-Day Was Important

Chart 14 - 2009: 75-Day Acts As Support

Short-Term Corrections

There are some general and observable differences between short-term and longer-term market corrections. In the next 15 charts, we will dissect a correction of short duration (see left side of Chart 12-B) and a correction of longer duration (see right side of Chart 12-B). While the future will always be different from the past, similarities always exist that can help us identify possible changes in market trends. Trends can help us manage risk and protect hard-earned capital. Erring on the side of cutting losses early is a hallmark of good money managers.

Chart 15 (right, middle) highlights the portion of market activity in 2003 that we will use as a proxy for a short-term market correction. Charts 16-19 will highlight some general observable conditions common to shallow market corrections.

Chart 16 (right, bottom) shows the 2003 correction where price had a sideways or consolidation look to it. The market's move toward the 75-day MA (green line) was somewhat sharp, but it is was also short-lived. Some clustering also took place near the 50-day MA (red line).

Chart 12-B 2003-2004: Corrections To Study

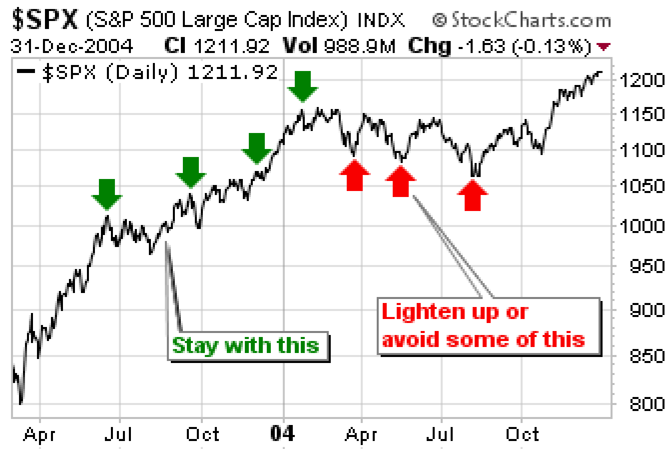
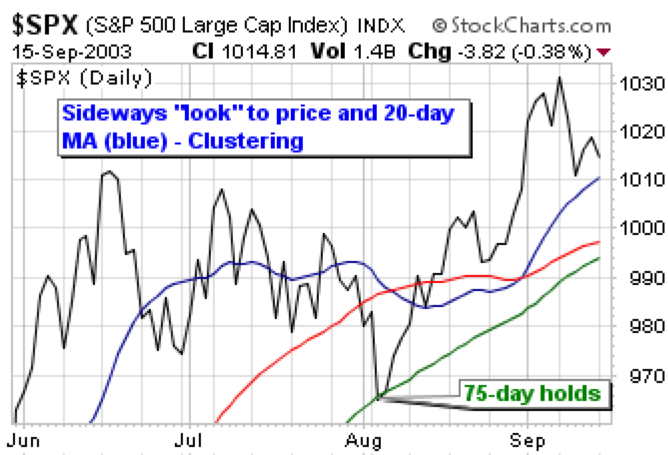


Chart 15 - 2003: Shorter-Duration Correction

Chart 16 - 2003: Clustering During A Correction



CCM Attractiveness Rankings (cont.)

Commodity - Physical
Copper
Base Metals
Silver Physical
Gas Physical
Oil Physical

Small Cap Stocks - Global
Small Cap - Blend
Small Cap - For China
Small Cap - Value
Small Cap - Emer Mkts
Small Cap Index
Small Cap Global
Small Cap - Global Dividend

Upside earnings surprises outpaced downside surprises by a ratio of 6-to-1 in the 3rd quarter of 2009.

Short-Term Corrections (continued)

Chart 17 (right) shows somewhat of a “non-violent” or “horizontal-like” cross of the 50-day MA (red) by the 20-day MA (blue). The 20-day also returned to a horizontal path quickly after crossing the 50-day MA in a negative manner.

In Chart 18 (right, middle), price (black) stayed below the 50-day MA (red) and 75-day MA (green) for a very short period of time. Buyers were quick to step in when given the chance.

Chart 19 (right, bottom) depicts 50-day and 75-day MAs that were either able to stay positive or for the most part horizontal (their slopes). All things being equal, MAs with positive slopes are indicative of a healthy trend. MAs with negative slopes are indicative of a weakening or bearish trend.

Chart 17 - 2003: Moving Average Cross Over

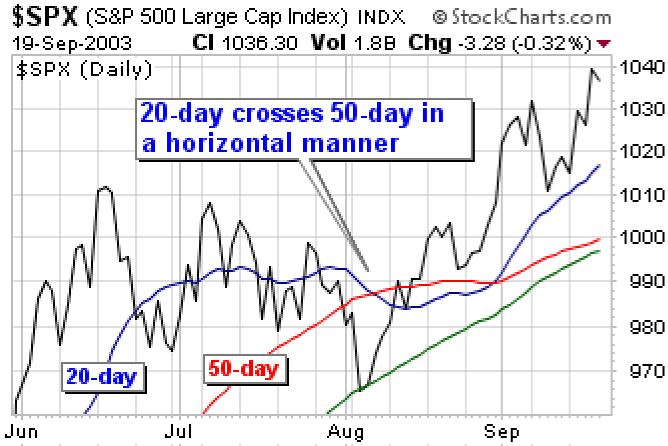


Chart 18 - 2003: Short Stay Below 50 and 75-Day

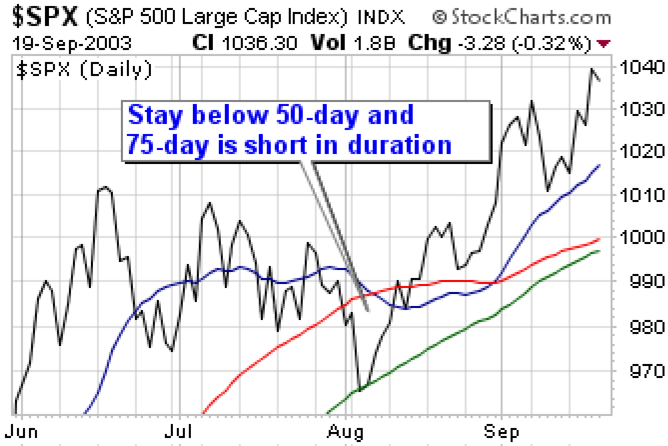


Chart 19 - 2003: Moving Average Slopes

CCM Attractiveness Rankings (cont.)

Technology Stocks
Tech - Internet
Tech - U.S.
Tech - Networking
Tech - N. America
Tech - Semiconductor

Income - Specific Segments
Income - High Yield
Income - Convert
Income - Senior
Income - Floating Rate
Income - Em Mkts
Income - Credit
Income - Multi-Asset

Currency - Foreign
Brazil Real
Australian Dollar
S. African Rand
Swiss Franc
Euro
Short Dollar

Longer-Term Corrections Within A Bull Market

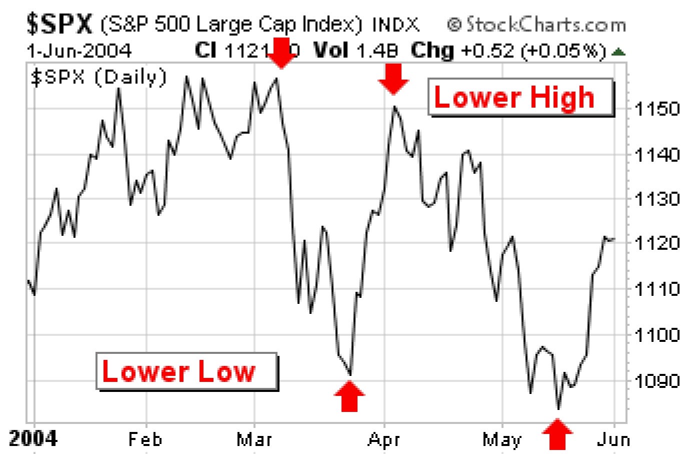
Chart 20 (right) highlights an intermediate to longer-term correction that occurred in 2004. When studying markets, we always want to ask ourselves, "How would I have known X was possibly about to happen?". In this case, our question would be, "How would I have known the correction in 2004 should be taken more seriously than the correction in 2003?". As stated previously, all markets and market cycles are different, so the concepts presented here are general in nature. However, the basics apply to all markets including stocks, ETFs, bonds, indexes, commodities, and currencies.

Chart 21 (right, middle) shows the basic elements for a possible trend change. The prior bullish trend should be questioned when we see (a) a lower high, and (b) a lower low. One cycle of a lower high and a lower low can sometimes mark the end of a correction, so it is prudent to move away in a measured manner and take all known factors from all markets into consideration. The more lower highs and lower lows we see after a positive trend, the more concerned and defensive we would become.

Chart 22 (right, bottom) shows how drawing parallel lines from a lower high can help us discern where to look for a possible lower low, assuming the trend remains in place. Trends are always changing, but the general direction of the trend (up or down) can remain in place for extended periods of time.

Chart 20 – 2004: Longer Duration Correction

Chart 21 - 2004: Break Of Trend



Monthly Charts Have Room To Run

S&P 500: Notice in Chart 22–A (below) monthly RSI and CCI levels in 2003 (green circles, left). Compare them to current CCI and RSI levels in 2009 (right side of chart). S&P 500 (right, lower) is also above its 7-month MA (blue). Green box was a good buy point in 2003.

Chart 22-A - Monthly S&P 500

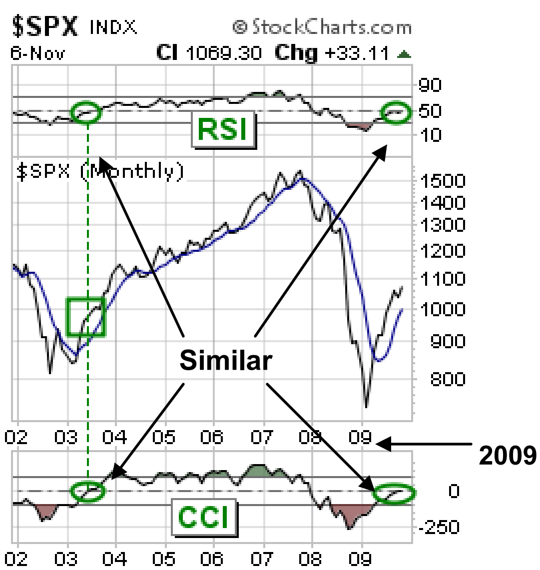
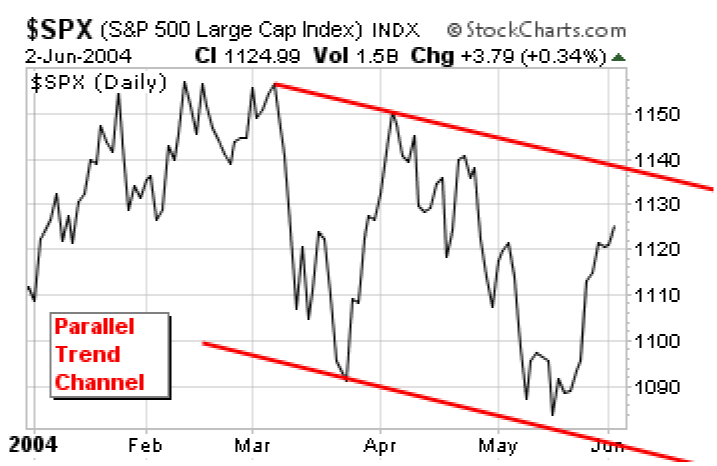


Chart 22 - 2004: Bearish Trend Channel



Longer-Term Corrections (cont.)

Chart 23 (right) shows a more "violent" or "vertical-like" cross of the 50-day MA (red) by the 20-day MA (blue). This is a red flag signaling a possible change in trend. Unlike Chart 16 on page 7, the 75-day MA did not provide stable support in Chart 23 (right). The break of the 75-day MA qualified as "something different" under the concept of "expect more of the same until we see something different". A MA break alone may not be that significant, but notice price went on to make a lower high after the violation of the 75-day (a big red flag when both happen).

In Chart 24 (right, middle) price showed little to no hesitation as it crossed through the 50-day MA (red). Price did not even bounce on the first pass through the 75-day MA (green). These were also red flags indicating a decreased willingness on the part of buyers to step in.

Unlike the more shallow correction in 2003 (see Chart 19 on page 8), Chart 25 (right, bottom) shows negative slopes in both the 50-day (red) and 75-day MA (green).

Chart 23 - 2004: Red Flags In S&P 500

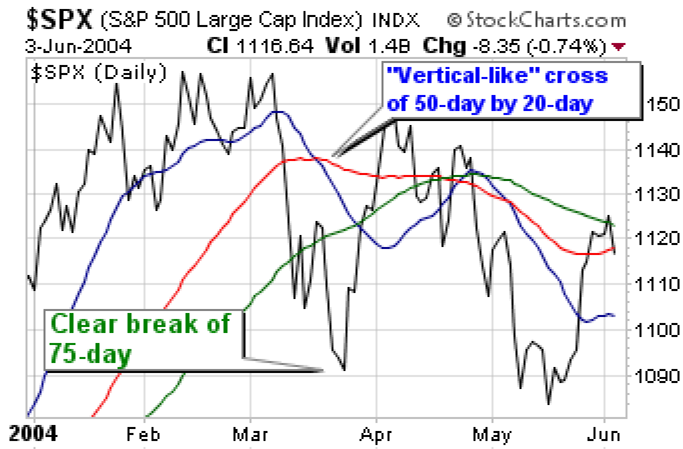
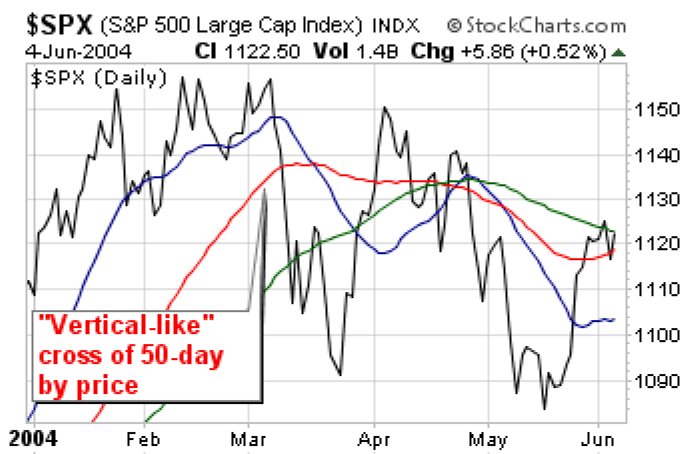


Chart 24 - 2004: 50-Day

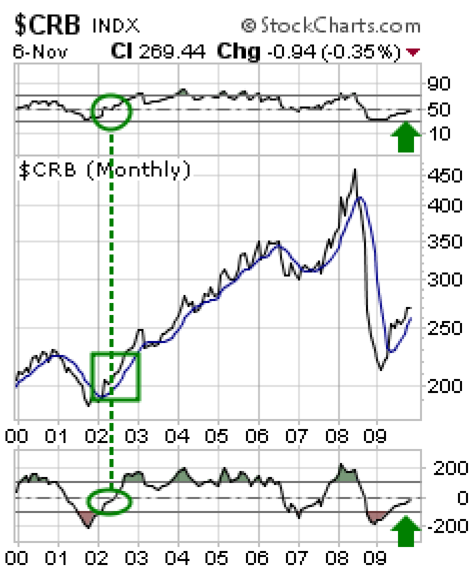


Monthly Charts Have Room To Run

CRB Index (commodities): In Chart 25-A (below) notice monthly RSI and CCI levels in 2002 (green circles, left). Compare them to current CCI and RSI levels (green arrows). The CRB Index is also above its 7-month MA (blue), which is bullish long-term. If you bought at similar RSI and CCI levels in 2002 as we have now in 2009, you did quite well (see green box labeling buy point in 2002).

Chart 25 - 2004: Negative Slopes

Chart 25-A - Monthly CRB Index



Longer-Term Corrections (cont.)

Unlike during the 2003 correction (see Chart 18 on page 8), Chart 26 (right) shows price with an extended stay below the 50-day (red) and 75-day MAs (green). Another cause for concern.

Chart 27 (right, middle) shows the extent and duration of the 2004 correction in the S&P 500.

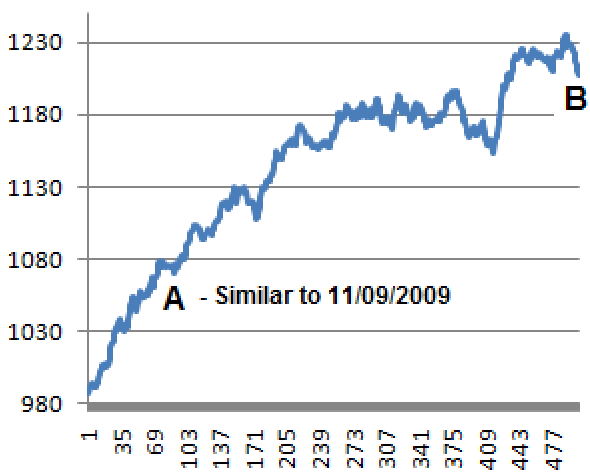
Chart 28 (right, bottom) points out that the slope of the S&P 500's 200-day MA (pink) remained positive during the entire correction from the early 2004 highs. A positive slope on the 200-day MA tells us not much damage was done to the long-term trend, which remained up. After the correction, stocks went on to make higher highs into late 2007.

Update: Stocks Do Well After The End Of A Recession

Chart 28-A and concept below was first presented in the Sept/Oct edition of the Asset Class Outlook, which can be downloaded at www.ciovaccocapital.com (provides more detail on topic).

Chart 28-A - Two Years Following Recession

Composite stock market performance two years after the end of historical recessions. Assumes 2009 recession ended on July 31, 2009 (Trading Day 1 on horizontal axis) with the S&P 500 Index trading at 987. Historical recessions ending in 1949, 1954, 1958, 1961, 1970, 1975, 1980, 1982, and 1991 (excludes 2001).



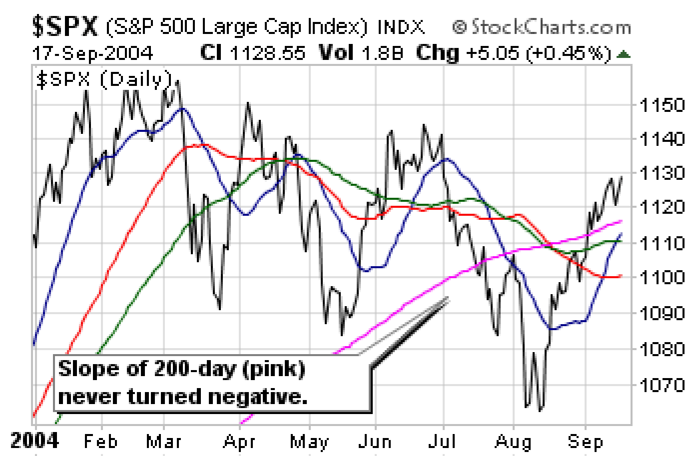
Trading Days After Recession's End

Point A corresponds to 1,066 in the present day S&P 500 based on the percentage change in the historical composite 70 trading days after a recession ends. 70 trading days from July 31, 2009 is November 9, 2009. Point B in Chart 28-A would hypothetically occur in July of 2011.

Chart 26 - 2004: Price's Extended Stay

Chart 27 - 2004: Full Correction

Chart 28 - 2004: 200-Day Kept Bull Alive



2009: How Bad Does The Current November Correction Look? So Far, Not That Bad

While volatility in the U.S. dollar has spooked risk markets during the current correction, the technical damage to the markets has thus far been somewhat muted (as of Sunday 11/08/2009).

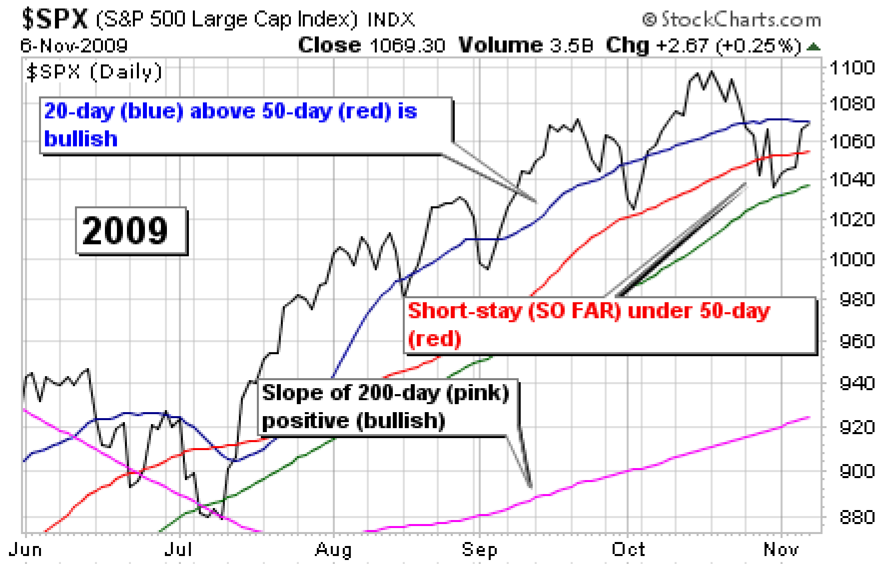
Chart 29 (right, top) shows the following encouraging signs in 2009:

- Price above 50-day (red)
- Price above 75-day (green)
- 20-day MA (blue) still above 50-day MA (red)
- Price made a short stay under the 50 -day
- Positive slope of 200-day MA (pink)

Chart 30 (right, below) also has some encouraging and bullish signs:

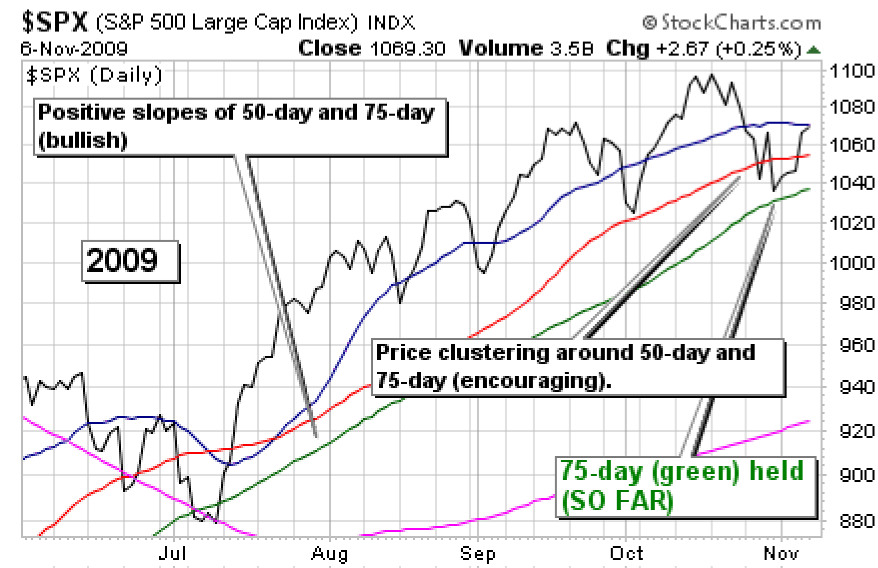
- Positive slope 50-day MA (red)
- Positive slope 75-day MA (green)
- Price clustering near and around 50-day and 75-day MAs

Chart 29 - 2009: Market Remains Relatively Healthy



Charts 29 and 30 as of Sunday 11/08/2009

Chart 30 - 2009: November Correction



Monthly Charts (cont.)

Emerging Markets: In Chart 30-A (below), notice monthly RSI and CCI levels in 2003 (green circles, left). Compare them to current CCI and RSI levels (green arrows). EM Index is also above its 7-month MA (blue), which is bullish long-term. If you bought at similar RSI and CCI levels in 2003 as we have in 2009, you did quite well (see green box).

Chart 30-A - Monthly Emerg. Mkts.

According to Bloomberg, more that $2 trillion in government stimulus programs worldwide are being enacted in an effort to revive economic growth.

CCM would like to thank www.stockcharts.com for allowing us to publish charts created using their fine service.

2009: How Bad Does The Current Correction Look? So Far, Not That Bad (as of 11/08/2009)

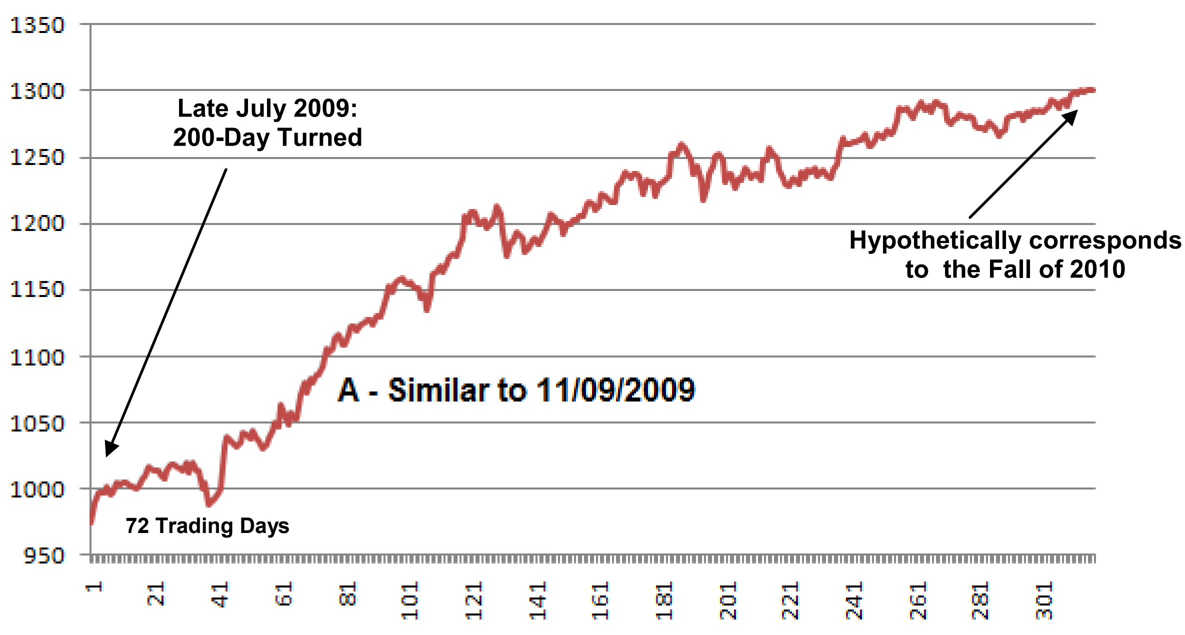
Chart 31 (right) shows that so far in November 2009 we have not seen a meaningful lower low in price. The market continues to show an impressive ability to bounce.

Chart 31 - 2009: As of 11/06/09, No Lower Lows Yet

Update: Stocks Do Well After 200-Day Turns

Chart 32 (below) shows the composite performance 315 trading days after the 200-day moving average turned up following stock market declines of 35% or more. Using prior declines lasting at least 515 calendar days, five cases meet the criteria since 1929; following the lows in 1932, 1942, 1970, 1974, and 2002. Composite below (Chart 32) is the average path of the five cases cited after the 200-day moving average turned up, NOT from the market bottom.

Chart 32 - Similar Bears: After The 200-Day Turned - Composite Performance



Point A corresponds to 1,086 in the present day S&P 500 based on the percentage change in the historical composite 72 trading days after a the S&P 500's 200-day MA turned up. 11/09/2009 is 72 trading days after the 200-day turned on July 31, 2009. *This chart and concept was first presented in the August 2009 edition of the Asset Class Outlook, which can be downloaded at www.ciovaccocapital.com (provides more detail on topic).*

2009: Big Picture Criteria Continues To Support Intermediate-To-Long-Term Gains

On pages 8-10 of the August issue of the Asset Class Outlook, we presented a big picture context that can be used to help make better allocation decisions. An updated version of the big picture criteria is shown to the right in Table A. The comments below from August still apply to Table A:

Table A can help us control our fear and avoid making emotional decisions during inevitable corrections, which can be significant in any bull market. Study results of market behavior after the slope of the S&P 500's 200-day moving average turns up support erring on the side of holding as long as bull market conditions exist (as they do today). If conditions change, we will adjust accordingly. Until they do, we will remain in the mindset of long-term investing. The evidence continues to support higher stock prices in the months ahead. There is no compelling reason to believe recent corrections have been anything more than that - normal corrections within a bull market.

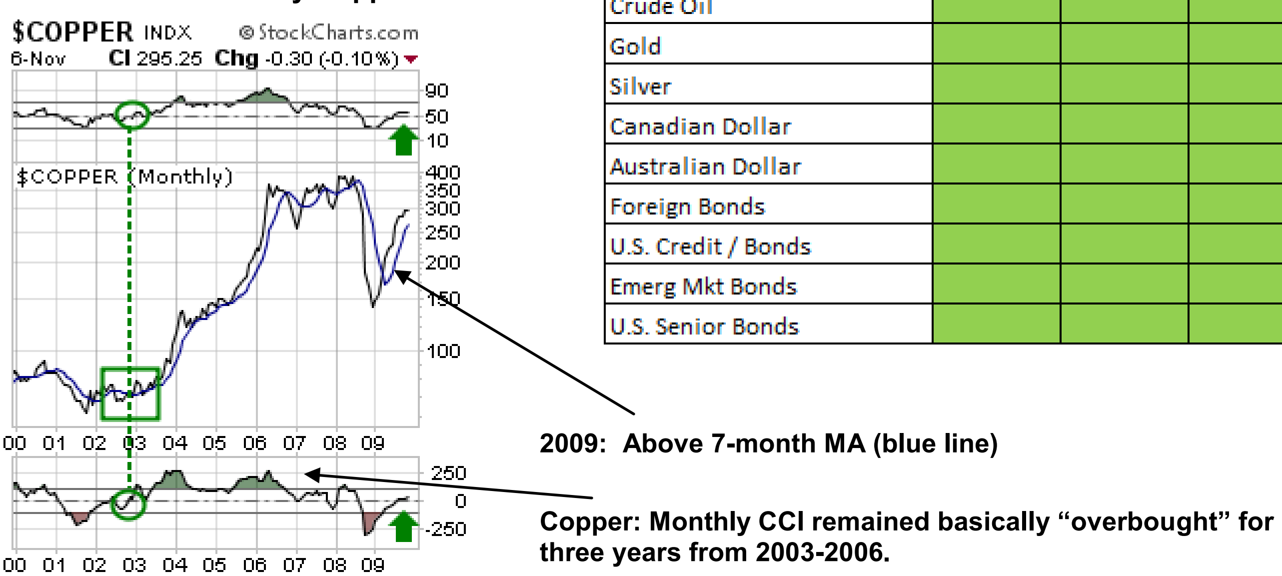
Table A - Big Picture Still Positive

As of 11/08/2009	Above 200-Day	50 Above 200-Day	Slope of 200-Day
S&P 500 Index			
Consumer Discretionary			
Semiconductor Stocks			
Steel - Stocks			
Base Metals Stocks			
Agricultural Stocks			
Broker-Dealer Stocks			
Timber - Stocks			
Coal Stocks			
Gold Mining Stocks			
Small Cap Value Stks			
Small Cap - Inter'l - Stocks			
Small Cap - China			
Emerging Market Stocks			
Brazil - Stocks			
India - Stocks			
China 25 - Stocks			
Australia - Stocks			
Spain - Stocks			
Sweden - Stocks			
Copper			
Gasoline			
Crude Oil			
Gold			
Silver			
Canadian Dollar			
Australian Dollar			
Foreign Bonds			
U.S. Credit / Bonds			
Emerg Mkt Bonds			
U.S. Senior Bonds			

Monthly Charts (cont.)

Copper (Chart 33—below): Notice monthly RSI and CCI levels in 2002 (green circles, left). Compare them to current CCI and RSI levels (green arrows). Copper is also above its 7-month MA (blue), which is bullish long-term. If you bought at similar RSI and CCI levels in 2002 as we have in 2009, you did quite well (see green box).

Chart 33 - Monthly Copper



Low Volume Rallies

(see Short Takes)

As we go to press, the S&P 500's rally off the November 2, 2009 low has occurred on relatively light volume. All things being equal, we would like to see big volume follow all rallies. It may be worth your time to review a chart of the S&P 500's rally off the March 2003 lows posted in the November 10, 2009 Short Takes. Numerous rallies in 2003 and 2004 occurred on light volume while stock prices moved higher and higher. We are always concerned about volume, but it is one of many inputs into our decision making process.

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Monthly Charts Have Room To Run Based On RSI and CCI

Charts 34 and 35 (below): Notice monthly RSI and CCI levels in 2002-03 (green circles, left). Compare them to current CCI and RSI levels (green arrows). CRB is also above its 7-month MA (blue), which is bullish long-term. If you bought at similar RSI and CCI levels in 2002-03 as we have in 2009, you did quite well (see green box). Notice how long monthly charts can remain "overbought" (RSI > 70 and CCI > 100).

Chart 34 - Monthly Gold

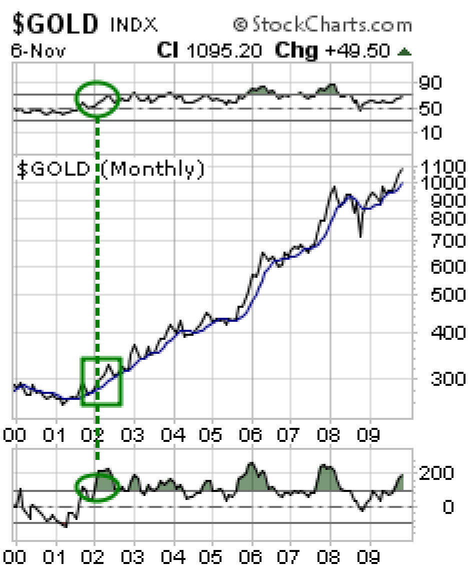
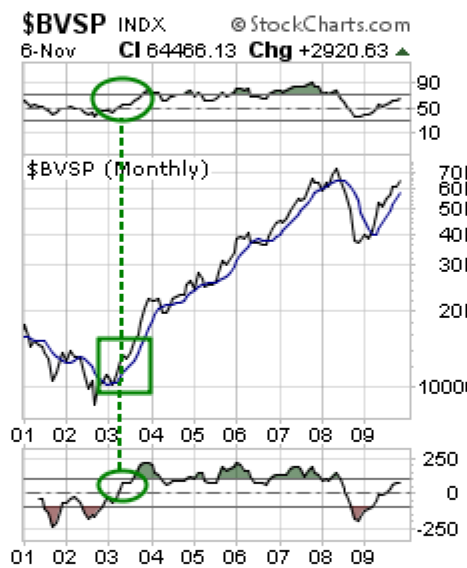


Chart 35 - Monthly Brazil Stock



Monitoring The Health Of The Bull - Red Flags

Trends are always subject to change, but there is no need to guess or forecast concerning a possible reversal – it is better to wait for evidence of a change or impending change. We assume we will get more of the same until we see significant evidence to the contrary, which means more than a normal countertrend rally. Some red flags to watch for:

Slope of moving averages: Negative slopes on 50-day, 89-day, and 22-week moving averages.

Moving Average Crossovers: Negative crosses of 20 and 50-days.

Poor Market Breadth: If the number of stocks participating in the gains deteriorates, especially for a prolonged period, it could signal the end of a bull run.

A Spike In Interest Rates: With large amounts of supply due to hit the Treasury market and foreigners keeping an eye on the dollar, higher interest rates are a distinct possibility.

Extreme Bullishness: Investor sentiment is a contrary indicator as investors tend to hope and fear at the wrong times.

Valuations: Rising normalized PE ratios may result if earnings fail to materialize over the coming months.

Trendline and Trend Channel Breaks: Used in concert with other methods, trendline and trend channels can help us discern between normal corrections and not-so-normal corrections.

Volatility Characteristics: Each investment, market, or asset class has a unique and ever-changing set of volatility characteristics. When markets step outside their recent norms, it is time to pay attention.

About Ciovacco Capital Management

Ciovacco Capital Management, LLC (CCM) is an independent money management firm based in Atlanta, Georgia. CCM helps individual investors protect themselves from inflation while minimizing the probability of investment losses via research, disciplined risk management techniques, and globally diversified investment portfolios. Since we are a fee-based financial advisor, our only objective is to help you protect and grow your assets. Our long-term, theme-oriented approach allows for portfolio rebalancing from time to time to adjust to new opportunities or changing market conditions. CCM's risk management and stop-loss disciplines help preserve principal in even the most challenging investment environments. We explore opportunities in all asset classes to help protect and grow your hard earned assets. Our clients may hold positions in timber, foreign commercial real estate, gold, silver, base commodities, foreign stocks, foreign bonds, and foreign currencies to complement their positions in U.S. stocks and U.S. bonds. When conditions warrant, we also use hedging strategies as "insurance policies" to protect against downside risk. This approach (wide diversification and hedging) has been used successfully for many years by the best pension and endowment managers to reduce risk and improve returns. Clients who work with Ciovacco Capital Management gain access to a diversification strategy that is seldom seen at the individual investor level.

Visit www.ciovaccocapital.com For CCM's Five Major Investment Themes

Visit www.ciovaccocapital.com For Short Takes — Updated Regularly

* Subjet to registration requirements

If you have questions or would like to schedule a time to talk, please email

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If you get voice mail, please leave a detailed message including your name and phone number.

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