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Overview

Some averages set further highs last week before tumbling Friday to end the five days broadly lower. Negative economic news from China appeared to trigger the selloff with additional pressure from corporate results that are not as strong as expected. Overbought conditions were relieved with some quick indicator declines to prior lows. Sentiment reflected the market retreat with some advisors looking for larger declines.

After the fourth loss over the last five weeks the **bulls** ended at **53.1%**, from last week's 57.6%. The reading has dropped 8.5% from the six-year high of 61.6% that finished 2013. That was the most optimism since October 2007 when their count was 62.0%. This week's decline does end the streak of nine weeks in danger territory above 55%. After the recent negative reading the short term shift usually accurately forecasts the market direction. The sentiment readings of importance should be when the correction or bearish readings expand to reflect a market retreat.

For another week the **bears** were little changed at **15.3%** up 0.2% and back at the level shown two weeks ago. Those differences were only due to changing totals, not opinion shifts. Late December their number fell to a 26-year low ago at 14.1%. A lower bearish level was last shown on 20-March-1987 at 13.6%. The bears say the market advance without any notable correction means conditions are ripe for a major tumble. Once the decline gets underway they expect it to quickly accelerate to the downside. They reiterated that outlook this week.

Again the changes were between the bulls and **correction**, with the latter jumping 4.3% to **31.6%**. There number is back above 30%, a level last shown with the October highs. The market weakness through mid-December then satisfied them and they shifted to bullish to avoid missing the year-end rally. The Monday weakness occurred too late for many comments and the correction number will likely expand further. It peaked at 36.1% early October last year.

The **spread** between the bulls and bears contracted to **37.8%** from 42.5%. That is the first reading since November below the dangerous **difference** of 40% and higher. 2013 ended with a 46.4% spread, signaling high risk. The difference was 42.4% in October 2007. In contrast August 2013 ended with the **spread** at 13.4%, close to the 10% (or less) reading that allows for buying. The bears haven't outnumbered the bulls (negative spread) since October 2011, after the correction from highs that April.

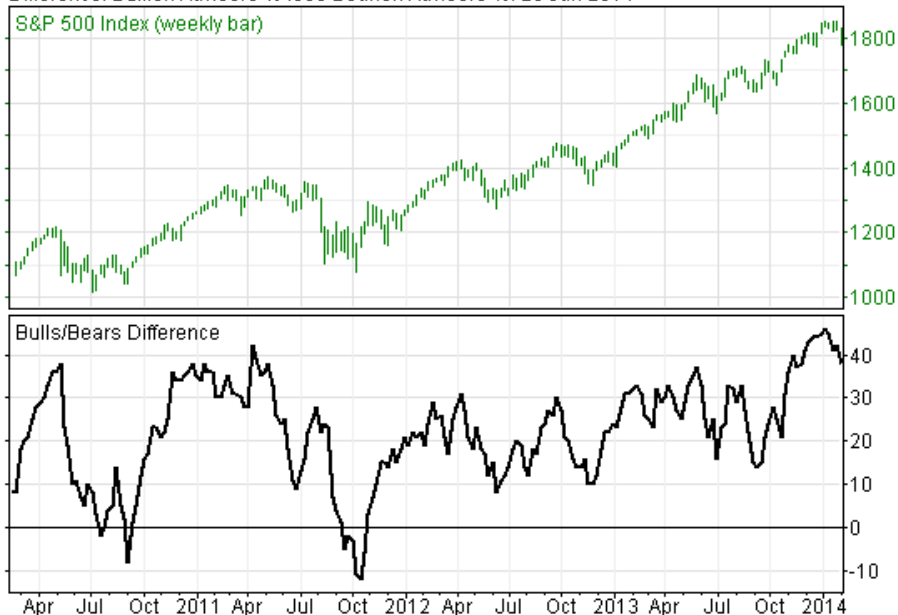
Bullish Theme

"The market was hammered for the second day in a row with the Dow sustaining its worse daily loss since last June, falling 318.24, -1.96%. 27 out of the Dow's 30 components were under water. In the process, it dropped below its 50 day moving average by a fairly wide margin and is testing near term support in evidence at the December lows, around 15,700. That's about 180 points below its current level. The S&P 500 also took out its 50 DMA, closing at 1,790.31, falling -38.15, -2.09. Near term support is around 1765. Among the widely followed indices, the Russell 2000 was the hardest hit losing 28.30, -2.41%. However, it did manage to narrowly hold above its 50 DMA. It was not a pretty sight today, with declining stocks overwhelming advancing stocks by a ratio of 6.25 to 1 on the New York and close to 6 to 1 on the NASDAQ. Our Actual Cash Account sustained a loss of \$20,305, -2.12%.

With our models in a positive mode, long term investors acting in synch with the Actual Cash Account and Dan's Aggressive Account are advised to stay fully invested." (24-Jan-14)

Dan Sullivan & Steve Mais' The Chartist, Seal Beach, CA www.thechartist.com

Difference: Bullish Advisors % less Bearish Advisors %: 28 Jan 2014



Correction Themes

"The incessant march upward has run into a bit of a roadblock. The 1850 level on the Standard & Poors 500 Index (\$SPX) has proven to be stiff resistance. The failure of the market to clearly break through to new all-time highs has put the bears (temporarily?) in charge. There is most likely going to be a challenge of support at the 1810 level soon. That support was tested and held about two weeks ago, and the bulls hope that it holds again. If not (if \$SPX closes below 1810), a more significant correction is likely to take place.

The next major support level below 1810 is 1770. However, there are other areas that might provide support. For example, the modified Bollinger Bands have tightened up a lot as the market rose and volatility declined. Thus the -4 standard deviation Band is at about 1795. A touch of that Band would set up a potential buy signal. Of course, as volatility increases that lower Band will move downward and any potential buy signal setup might occur at a lower price." (24-Jan-14)

Lawrence McMillan's The Option Strategist Hotline, Morristown, NJ www.optionstrategist.com

"Over the long-weekend, after looking at the first few weeks of 2014, I have decided to pare-back my stock numbers and dump some stocks that I have lost my enthusiasm for. Right now I have 63 stocks in the Growth Portfolio.....I am going to sell six (BAM, CVE, AGCO, ATW, SLV, & KEWL)....why? One reason, and one reason only: lack of performance. Some other stocks that did not keep up with the market last year – and I chose to keep them, for various reasons, but mostly, because I still believe they can deliver.... for these, I just don't honestly feel that way after reflecting on it." (21-Jan-14)

Bob Howard's Positive Patterns, Turners, MO postivepatterns@prodigy.net

Bearish Theme

"In May 2013 90% of all S&P 500 stocks were above their own 200-Day MAs. At the yearend high it was down to 79% and the latest level is 74%. It bounced back from about 70% four times since May but in 2012 it poked down to the mid-40%. It was under 10% around the 2011 lows. Like the Net New Highs lists, it is high but sequentially weakening of successive index highs. With the drug dealer now into a 'taper' that is expected to shrink the dosage down to \$65 billion/month shortly further weakness is expected for the S&P.

I see the rush of the last year as a Fed fueled blow off to put in a third major top of the debt madness secular phase dating from the 1998 LTCM bailout and Glass-Steagall repeal that enabled conversion of the mega banks of Wall Street into casino operators that are too big to bail, fail or jail." (22-Jan-14)

Ian McAvity's Deliberations on World Markets, Toronto, ON Canada imcavity@yahoo.com

Newsletter Extracts

Bert Dohmen's The Wellington Letter, Los Angeles, CA www.dohmencapital.com

"So far this year, the stock market has disappointed all of the over-enthusiastic bulls. However, they are not changing their forecasts of another year of big gains. That in itself is a big warning signal.

In recent issues, we discussed "what could go right in 2014." It would involve governments at all levels in the US becoming more pro-small business, removing obstacles, removing all of the growth-stifling obstacles. It includes changing or rescinding the monstrosity of the federal health care law, which threatens to make the US economy as bad as the worst economic basket cases of Europe. We give the "what could go right" scenario a lower probability.

We have also discussed in these pages "what could go wrong" in 2014: Asia is very much dependent on China. And China's private sector economy is in recession, though no one on Wall Street mentions that. Currently, China is experiencing a severe credit crunch. It's so severe that the words "credit crunch" are prohibited to be used in articles or blogs. Only the SOE's (owned by the government) are able to get credit. These companies are supporting the entire economy because of the large programs initiated by the government. They are largely managed by the "princelings," the families of the top governmental officials. That's how things are done under communism.

This year we could see the truth of China's pseudo-growth finally surfacing. That may produce a rush to the exits by investors, not only in China, but then Asia, and finally the rest of the world. Virtually no one in the financial world is looking at this potential danger, just as the credit market freeze-up in the US was ignored in 2007. This could become the "Black Swan" event of the year because it would infect all of the financial markets, not just stocks.

The much promoted idea on Wall Street of a big European recovery may become a significant disappointment, especially if China's problems become more severe. In Spain, the bad loans in the banks continue to rise to new highs. Greece desperately needs another "debt adjustment."

Unemployment is not declining. The only positive is that the banks have improved their positions based on very low interest rates and selling some of their assets. A global rise in interest rates would kill that positive.

In the US, the most significant factor for rising stock prices has been the very large corporate buybacks of their own stocks.

Companies have been the biggest stock buyers over the past five years, while every other major, traditional buyer has been on the sell side. Last year earnings gains were largely due to companies shrinking the number of shares outstanding, so that "earnings per share" increased even as total earnings did not. That pushes stock prices upward. But even with that, only the financial sector showed earnings growth. Revenues disappointed across the board.

This year, sales and earnings are bound to be disappointing. This comes at a time when stock prices have 10%-20% gains built into their prices. That makes for a big 'price adjustment' sometime this year. Now we only have to focus on the timing.

Conclusion: Our work shows that a number of important markets may now be approaching meaningful turning points. The precious metals have already done so, but to the upside. Soon the broader stock markets may see their turns, but to the downside. We will be looking for the confirmation from our technical indicators. Possible time frame is February. Stay tuned to potential warning signals from our indicators.

What to do: We will not make any sector recommendations at this time. We would start raising some cash over the next several weeks if we were heavily exposed to the long side." (24-Jan-14)

Richard Moroney's Dow Theory Forecasts, Hammond, IN www.dowtheory.com

"The stock market gives an Ivy League education in humility. Even as more investors grudgingly return to the market, few have fully recovered from the psychologically crippling crash of 2008 and 2009.

Never mind that the S&P 1500 Index has delivered a positive total return in 10 of the past 11 years. Or that returns exceeded 5% in nine of those years.

However, a dash of discomfort, I've gradually realized, tends to accompany my better investment decisions. Comfort comes at a price and often takes the form of lagging returns — from overpaying for assets already widely loved by the market to avoiding an investment priced for a disaster that seems unlikely to materialize. But that uneasy feeling of going against the grain can be compensated with higher returns. And it usually steers me toward value plays, while today, the supply of cheap stocks has dwindled.

The 2013 rally was a rising tide that lifted nearly all stocks — more than 90% of S&P 1500 constituents had a positive total return and 71% returned more than 20%. Entering 2014, S&P 1500 stocks averaged: (1) Trailing P/E ratios of 24, exceeding the average of 21 over the past 229 monthly periods dating back to December 1994. S&P 1500 stocks last traded this high relative to earnings in January 2004. (2) Price/sales ratios of 2.4 — the highest level since at least December 1994 and well above the long-run average of 1.8. The price/sales ratio has been the most effective factor in rating system for 12-month returns over the past five and 10-year periods for S&P 1500 stocks; it also ranks second for the past year.

Moreover, just 18% of S&P 1500 stocks trade at a discount to their five-year median P/E ratio, the fewest since at least December 1994. The story is identical for stocks trading at a discount to their five-year median price/sales. At the same time, corporate profit growth, buoyed by the gradually improving economy, is now unusually widespread. A total of 790 companies in the S&P 1500 Index grew both earnings per share and revenue last quarter, above the average of 724 companies since December 1994.

But only 276 of those companies also have P/E ratios below 20 - in just 14% of the past 229 periods have there been fewer companies with the combination of growth and moderate valuations. Stocks with solid operational growth and attractive valuations — the *Forecasts'* prescription for success over the years — are in short supply.

The quick (read: comfortable) fix for investors hoping to catch up on missed gains is to chase the performance of last year's winners. But these high-flying stocks, now with elevated valuation ratios, may not have much room left to expand their multiples, especially as the first wave of December-quarter earnings reports has been middling at best.

With genuine values now scarce, patient investors could do better by shifting their attention to pockets left behind by the recent rally. Of course, nobody knows exactly when the market will recognize these undervalued stocks. But buyers do tend to bid up the prices of what's become scarce, and plenty of research suggests that stocks with attractive valuations tend to outperform.

Consider our top value picks: Apple (\$549; AAPL), DirecTV (\$73; DTV), J.P. Morgan Chase (\$58; JPM), Kroger (\$37; KR), Lear (\$79; LEA), Magna Int'l (\$87; MGA), Skyworks Solutions (\$31; SWKS), Wells Fargo (\$47; WFC) and Whiting Petroleum (\$61; WLL)." (27-Jan-14)

Advisors Sentiment Table

Date	DJIA	S&P 500	Bullish	Bearish	Correction
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			Advisors %	Advisors %	Advisors %
Tue Jan 28, 2014	15,837.88	1,781.56	53.10	15.30	31.60
Tue Jan 21, 2014	16,414.44	1,843.80	57.60	15.10	27.30
Tue Jan 14, 2014	16,373.86	1,838.88	56.10	15.30	28.60
Tue Jan 7, 2014	16,530.94	1,837.88	60.60	15.20	24.20
Tue Dec 31, 2013	16,576.66	1,848.36	61.60	15.20	23.20
Tue Dec 24, 2013	16,357.55	1,833.32	59.60	14.10	26.30
Tue Dec 17, 2013	15,875.26	1,781.00	58.20	14.30	27.50
Tue Dec 10, 2013	15,973.13	1,802.62	58.20	14.30	27.50
Tue Dec 3, 2013	15,914.62	1,795.15	57.10	14.30	28.60
Tue Nov 26, 2013	16,072.80	1,802.75	55.70	14.40	29.90
Tue Nov 19, 2013	15,967.03	1,787.87	53.60	15.50	30.90
Tue Nov 12, 2013	15,750.67	1,767.69	52.60	15.50	31.90
Tue Nov 5, 2013	15,618.22	1,762.97	55.20	15.60	29.20
Tue Oct 29, 2013	15,680.35	1,771.95	52.60	16.50	30.90
Tue Oct 22, 2013	15,467.66	1,754.67	49.50	18.50	32.00
Tue Oct 15, 2013	15,168.01	1,698.06	42.30	21.60	36.10
Tue Oct 8, 2013	14,776.53	1,655.45	45.40	20.60	34.00
Tue Oct 1, 2013	15,191.70	1,695.00	46.40	18.60	35.00
Tue Sep 24, 2013	15,334.59	1,697.42	44.30	20.60	35.10
Tue Sep 17, 2013	15,529.73	1,704.76	42.30	21.60	36.10
Tue Sep 10, 2013	15,191.06	1,683.99	37.10	22.70	40.20
Tue Sep 3, 2013	14,833.96	1,639.77	37.10	23.70	39.20
Tue Aug 27, 2013	14,776.13	1,630.48	38.10	23.80	38.10
Tue Aug 20, 2013	15,002.99	1,652.35	43.30	21.60	35.10
Tue Aug 13, 2013	15,451.01	1,694.16	47.40	20.60	32.00
Tue Aug 6, 2013	15,518.74	1,697.37	51.60	18.50	29.90
Tue Jul 30, 2013	15,520.59	1,685.96	48.40	19.60	32.00
Tue Jul 23, 2013	15,567.74	1,692.39	51.50	19.60	28.90
Tue Jul 16, 2013	15,451.85	1,676.26	52.10	19.80	28.10
Tue Jul 9, 2013	15,300.34	1,652.32	46.90	22.90	30.20

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