

# deGraaf's Daily

Momentum rules this market. It's not as dirty of a word as it's often considered to be, and far more legitimate when other factors such as sentiment and breadth are confirming its presence. That's not to say it's flawless even when those conditions are present, but it is consistent enough to respect, particularly in a 4<sup>th</sup> Q where performance has otherwise been lacking. Price is now at it's furthest extreme from it's own 50-day since the Spring of 2009 (SPX). We find NO utility in such measures unless they are used from a momentum perspective, and find not statistical advantage to using such indications as mean-reverting signals. If anything, this spread is further confirmation of the strength of momentum, and the likelihood of it's continuation into 2012.

Unintended consequences are the hallmark of government intervention. Why, after the EU solution to insolvency are Italian yields trading at all time wides to Bunds? Our policy team (with no argument from us) believes the European "solution" is just more of the same, and will likely require yet another round of bailouts with more stress in the not so distant future. We do not believe, however that Italian yields are signaling immediate failure, rather they reflect (at least partially) the consequence of "voluntary" haircuts on Greek debt. Insurance is a mechanism to control risk, usually through leverage, and the notion that a 50% loss somehow isn't protected by CDS holders has resonated with those holding Italian, Spanish or French debt. People carry mortgages worth multiples of their cash on hand, and banks loan those monies with the understanding (proof) that the asset is insured. A voluntary haircut may be good for Greece, counter-parties to CDS (GS & MS) as well as European banks. It is not the renegade bear on the other side of the trade that takes the hit, instead it is the very people willing to have large long vanilla positions, that need to hedge out some of that risk with a levered and convenient vehicle. In typical fashion, policy makers may have cost themselves billions of Euros in the unforeseen consequences, by scaring away natural holders of the debt they need to sell.....HAPPY HALLOWEEN!

## Industry Group Technical Rankings

### Strongest

Trading Companies & Distributors

Multiline Retail

Tobacco

Internet Catalog & Retail

Health Care Technology

### Weakest

Real Estate Management & Development

Construction Materials

Diversified Financial Services

Capital Markets

Metals & Mining

Jeffrey deGraaf, CMT, CFA   Rob Ginsberg   Alex Meintel   [technical@renmac.com](mailto:technical@renmac.com)

## Intermediate Term Barometer

### Conditional Elements

**Trend**

Bearish   Neutral   Bullish

**Liquidity**

Bearish   Neutral   Bullish

**Sentiment**

Bearish   Neutral   Bullish

**Price Proximity**

Bearish   Neutral   Bullish

**Momentum:**

Bearish   Neutral   Bullish

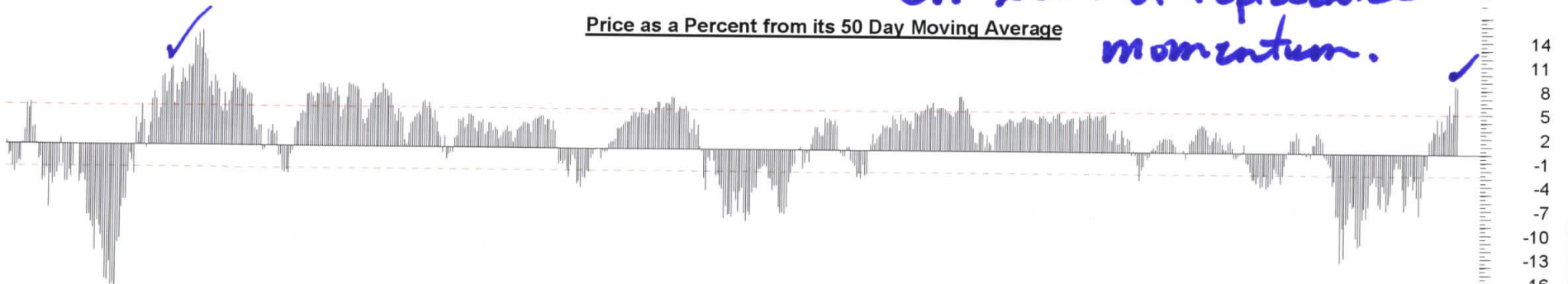
Important disclosure on page 20

S&P 500 Index

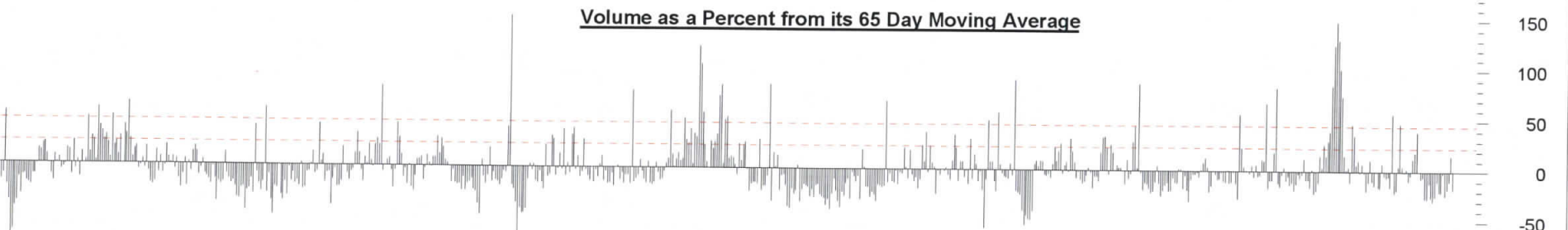


Spread between price and 50-day does NOT test well as a reversion indicator through time. In 2009 it represented momentum.

Price as a Percent from its 50 Day Moving Average



Volume as a Percent from its 65 Day Moving Average



© 2009 Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2010 Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2011 Mar Apr May Jun Jul Aug Sep Oct No

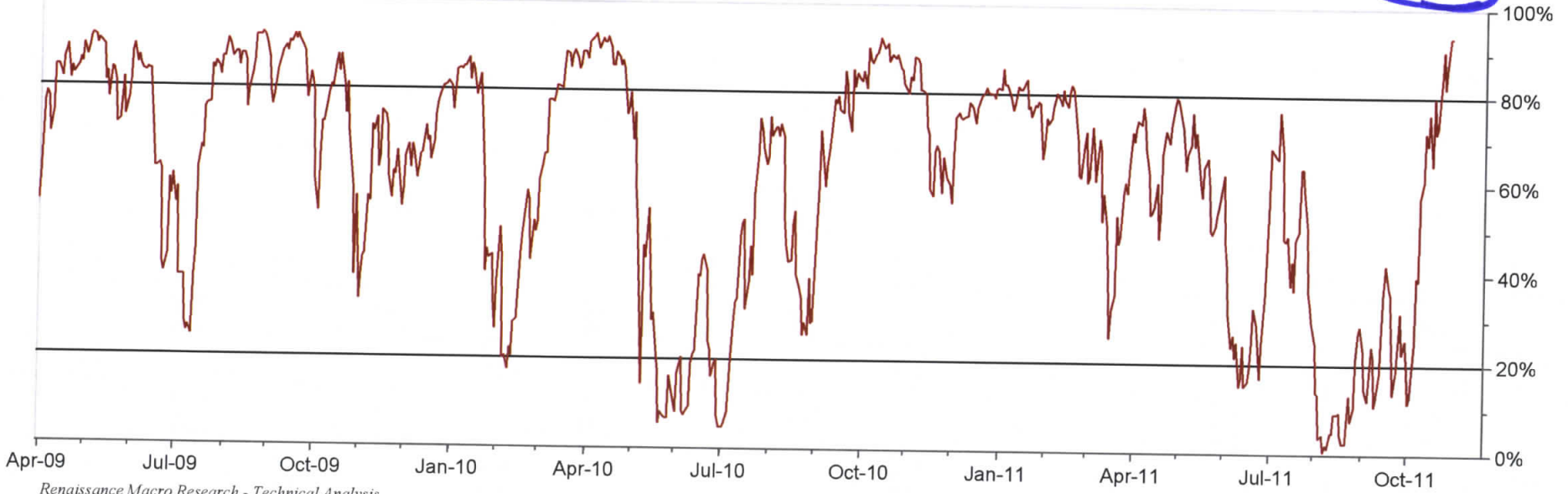
# S&P 500 (SP50)

— Price - Close or Current Intraday



## % OF ISSUES ABOVE THE 50 DAY MOVING AVERAGE

10/28/2011 = 93.80%



S&P 500 Index



Russell 2000 Index Relative to Russell 1000 Index



Rising inflation expectations  
(5yr forward) tend to be bullish  
for stocks

■ SPX

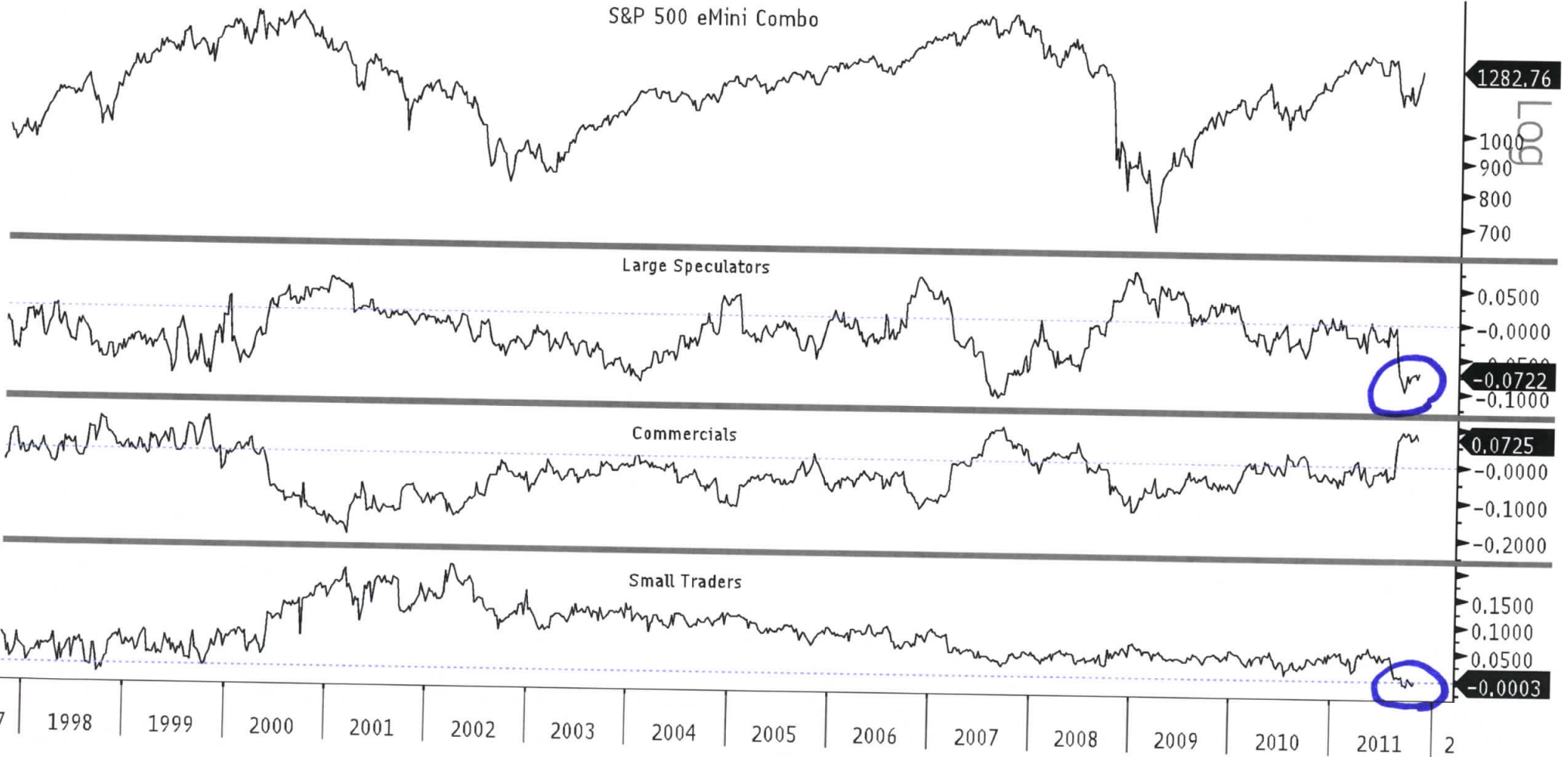


■ .5YR5YR  
■ Max  
■ Min



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Still room to drag  
Shorts into this market



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Our favorite G20 index

MEXBOL

Mexican Bolsa

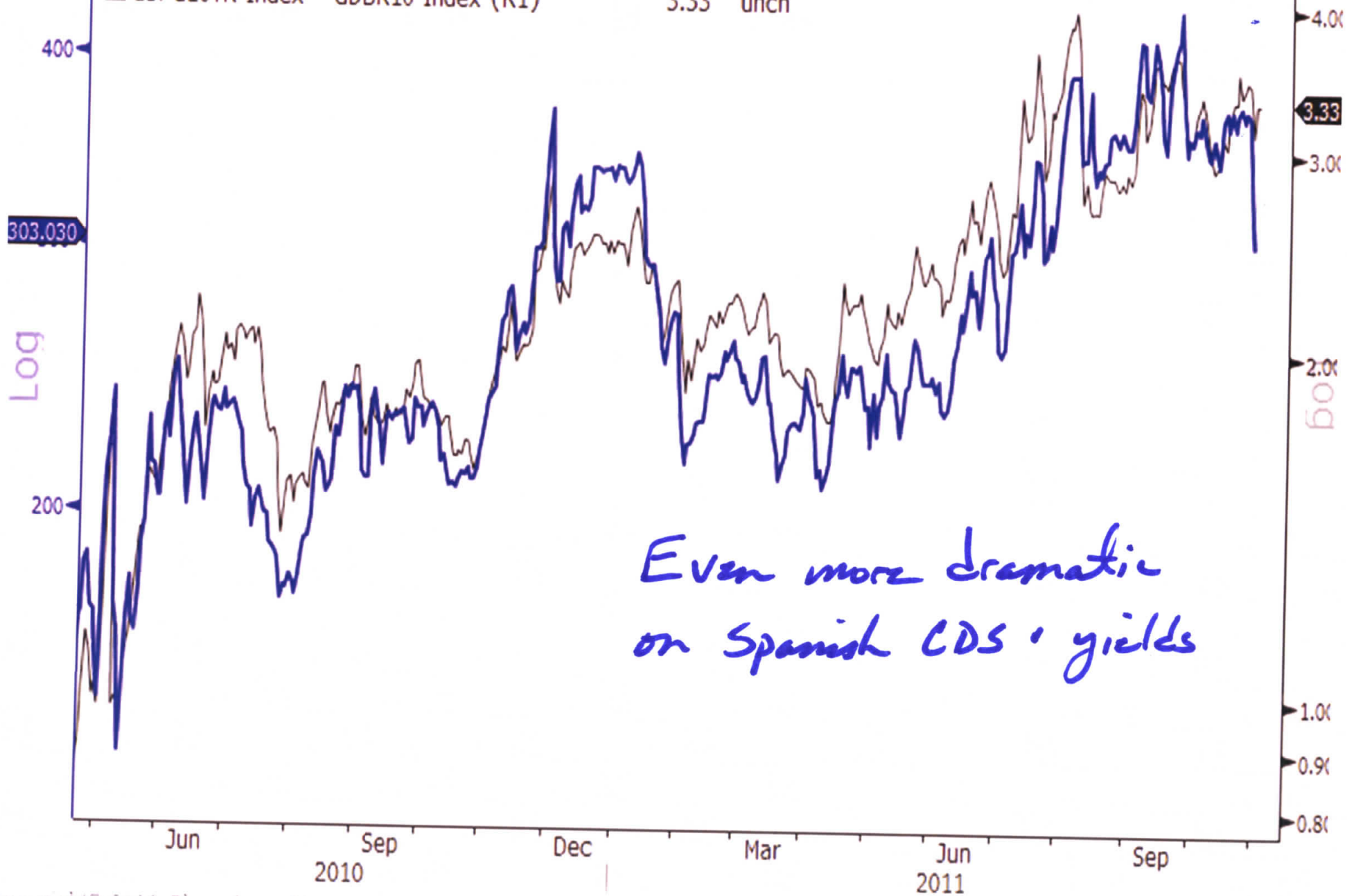


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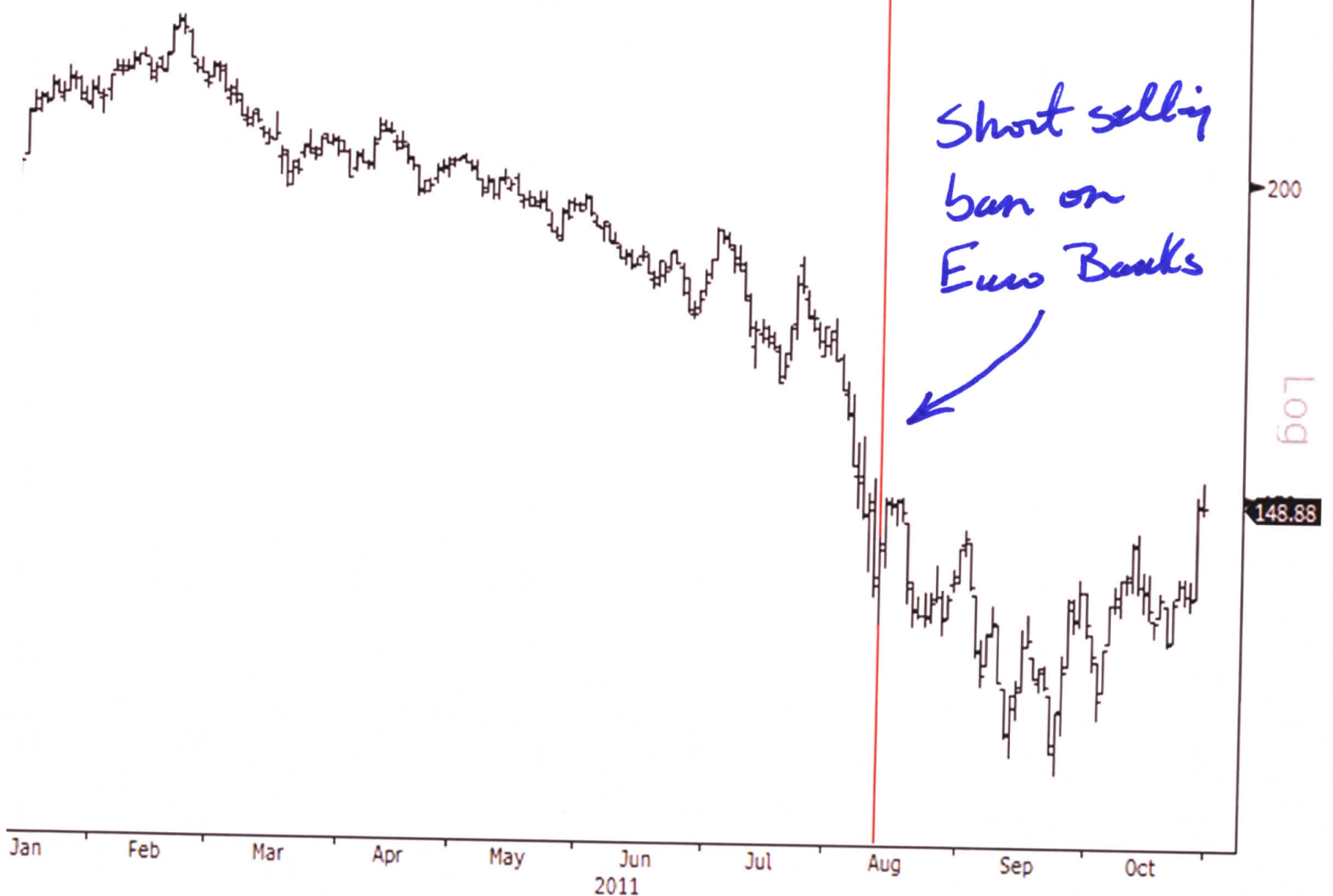




■ SPAIN CDS USD SR 10Y Corp - Last Price (L1) 303.030 -15.915  
■ GSPG10YR Index - GDBR10 Index (R1) 3.33 unch



■ STOXX Europe 600 Banks Price EUR - Last 148.88 -.14



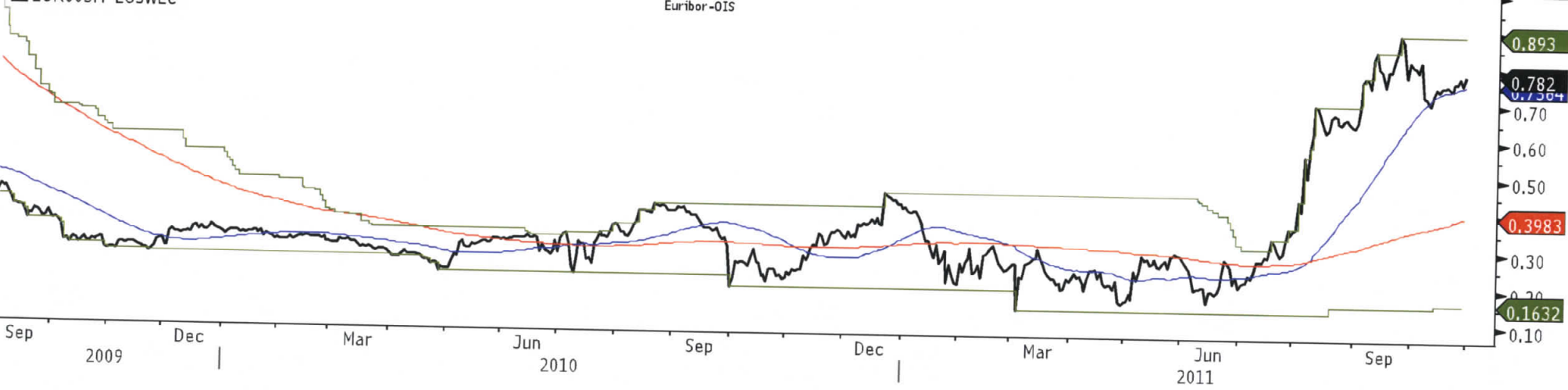
Euribor has not reacted well to EU plan. Maybe because the next 9-month require them to fend for themselves

■ MXEU



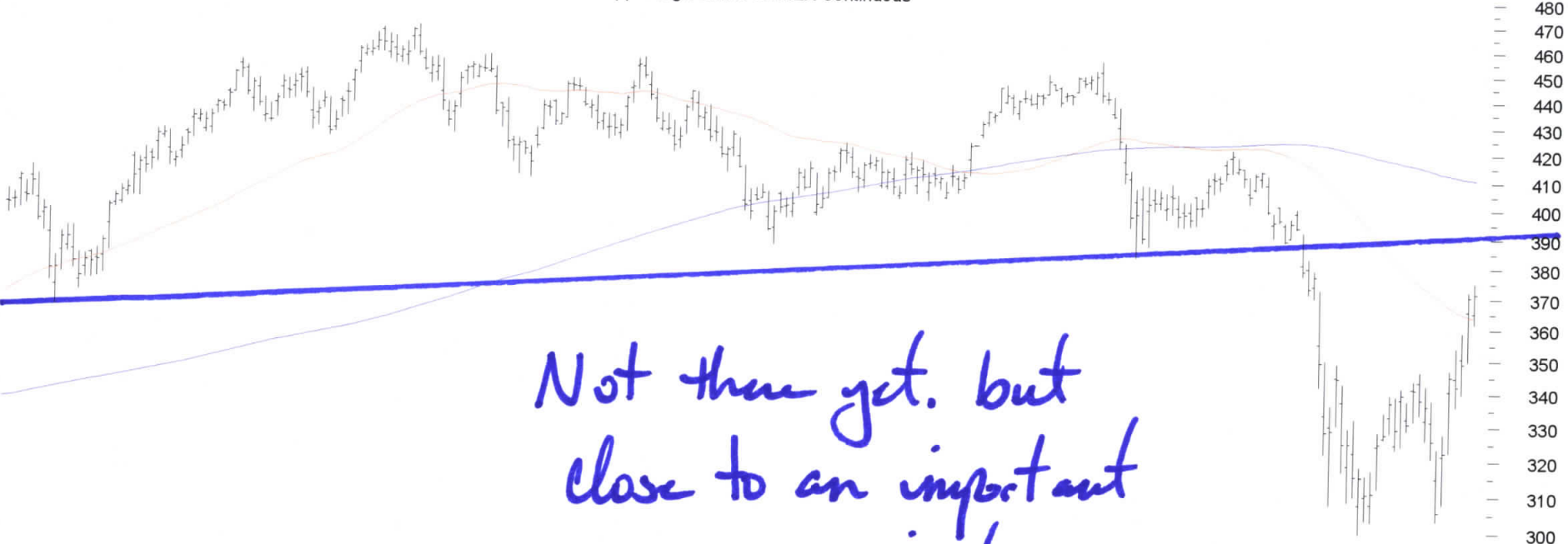
■ EUR003M-EUSWEC

Euribor-OIS



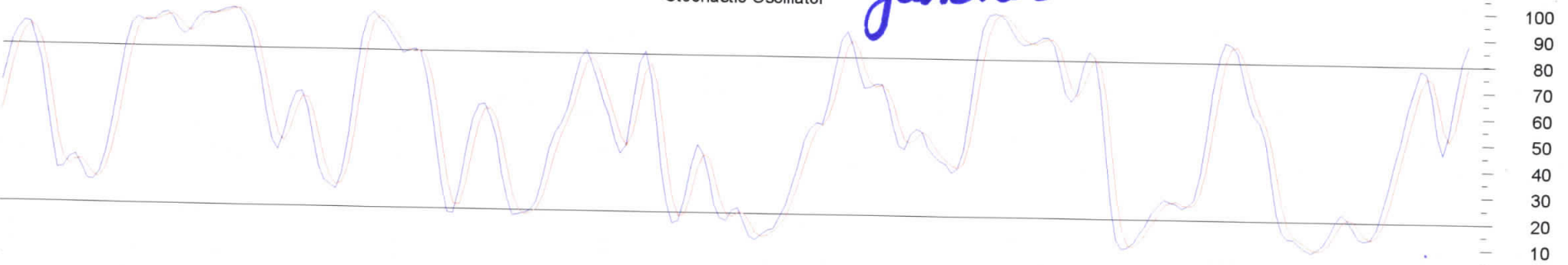
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Copper High Grade COMEX Continuous

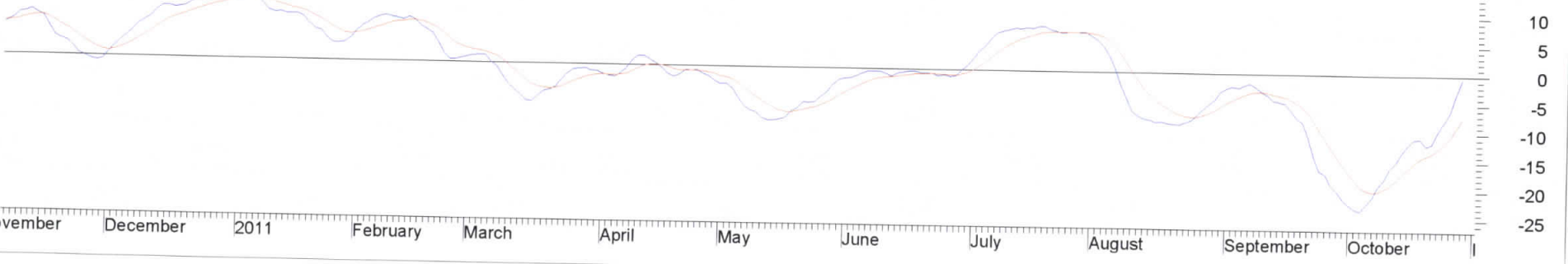


*Not there yet, but  
close to an important  
junction*

Stochastic Oscillator

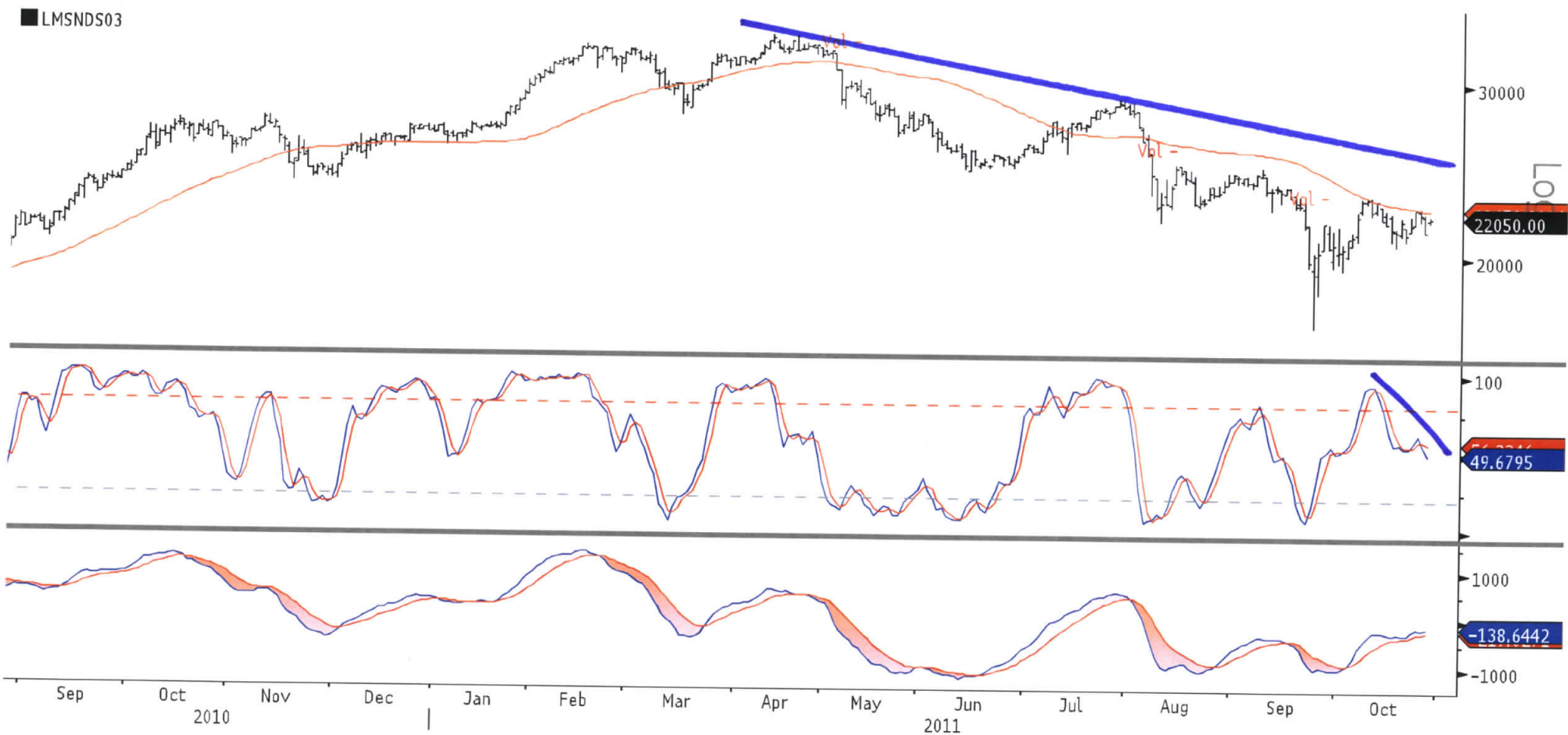


MACD



November December 2011 February March April May June July August September October

*No momentum in Tin*



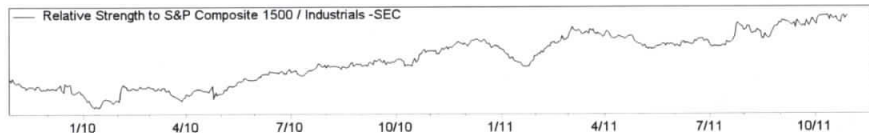
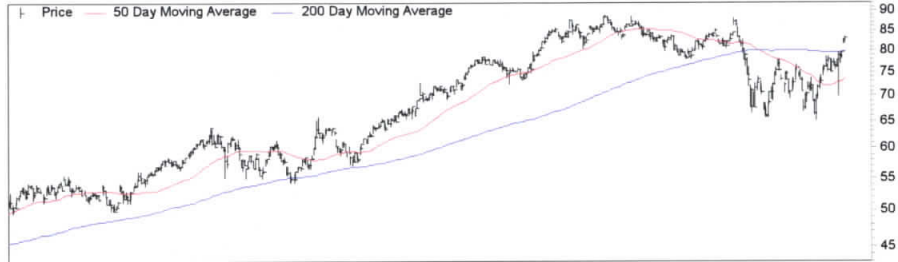
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■ Iron Ore Fines 63.5% - Last Price 131.50 -4.00

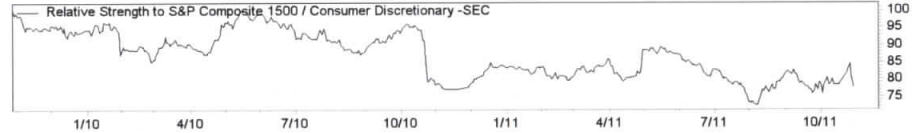


# 29 Fresh Breakouts Last Week

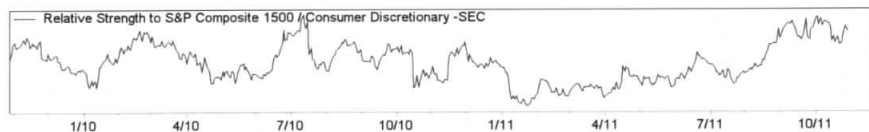
Roper Industries Inc. (ROP-US) Technical Ranking: 4 Electrical Components & Equipment



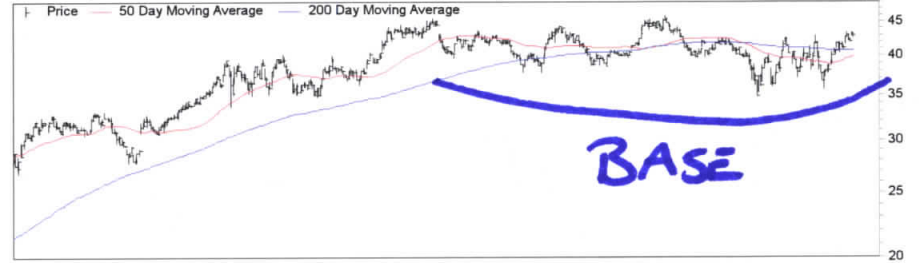
Leggett & Platt Inc. (LEG-US) Technical Ranking: 4 Home Furnishings



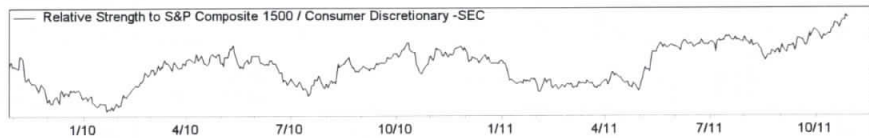
Mattel Inc. (MAT-US) Technical Ranking: 2 Leisure Products



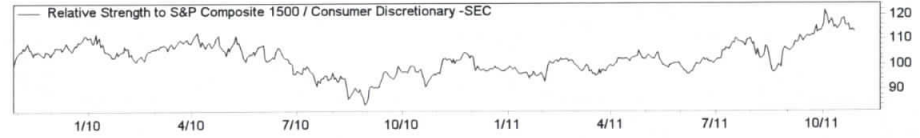
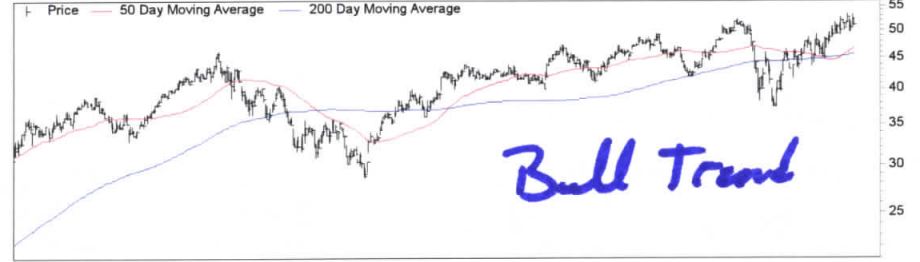
Discovery Communications Inc. Series A (DISCA) Technical Ranking: 4 Broadcasting



Macy's Inc. (M-US) Technical Ranking: 1 Department Stores



Nordstrom Inc. (JWN-US) Technical Ranking: 1 Department Stores



Sears Holdings Corp. (SHLD-US) Technical Ranking: 4 Department Stores



Quest Diagnostics Inc. (DGX-US) Technical Ranking: 4 Health Care Services



Merck & Co Inc (MRK-US) Technical Ranking: 4 Pharmaceuticals



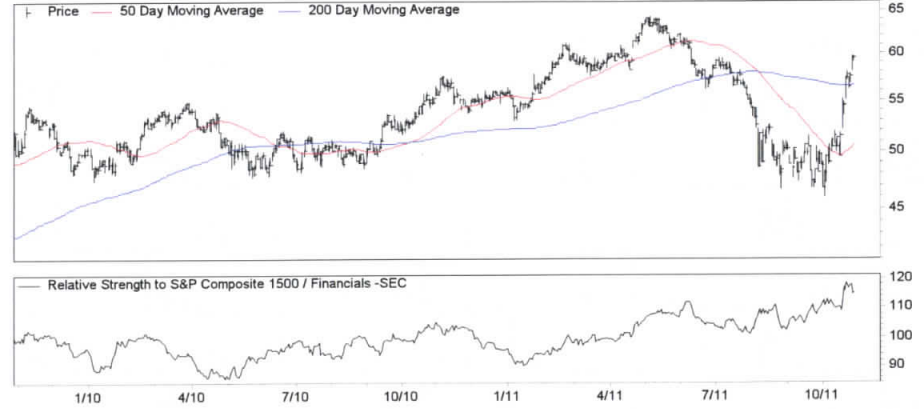
Berkshire Hathaway Inc. Cl B (BRK B-US) Technical Ranking: 4 Property & Casualty Insurance



Cincinnati Financial Corp. (CINF-US) Technical Ranking: 3 Property & Casualty Insurance

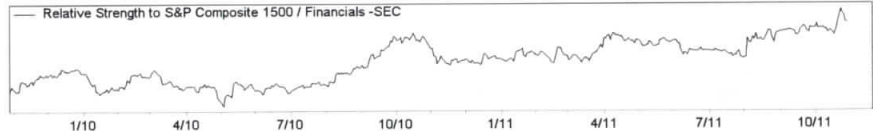


Travelers Cos. Inc. (TRV-US) Technical Ranking: 3 Property & Casualty Insurance

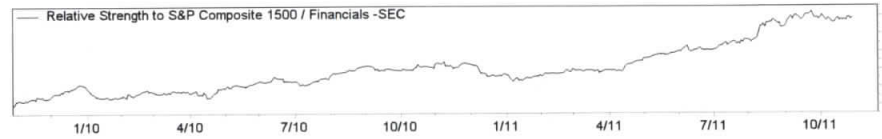
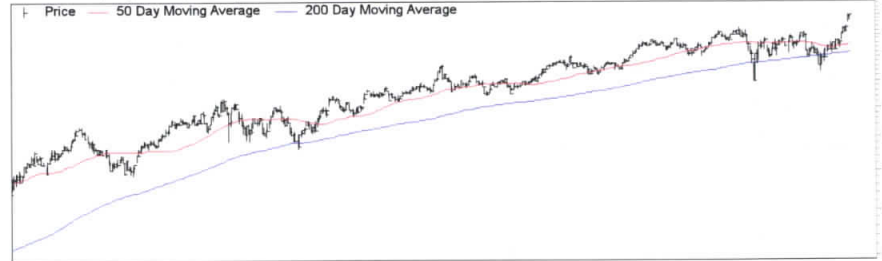




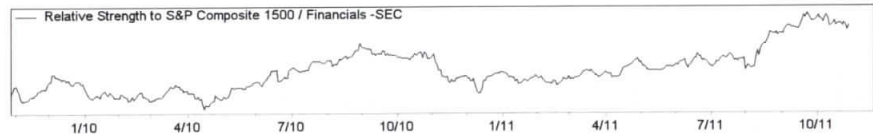
XL Group PLC (XL-US) Technical Ranking: 3 Property & Casualty Insurance



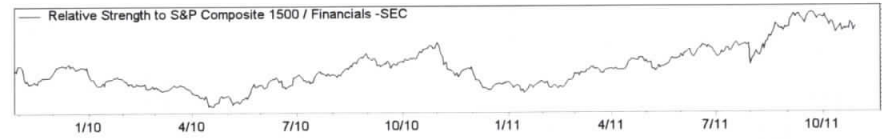
Simon Property Group Inc. (SPG-US) Technical Ranking: 2 Retail REITs



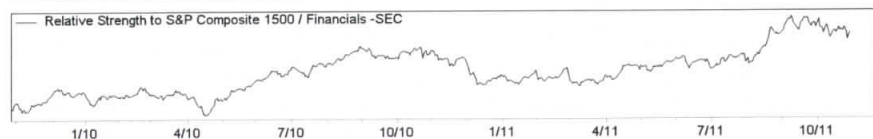
HCP Inc. (HCP-US) Technical Ranking: 4 Specialized REITs



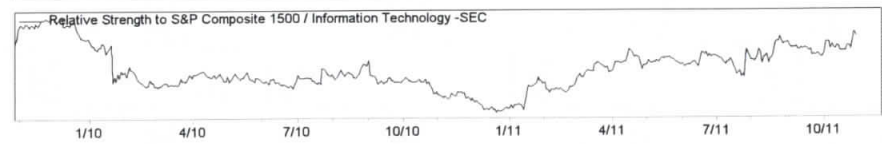
Health Care REIT Inc. (HCN-US) Technical Ranking: 4 Specialized REITs



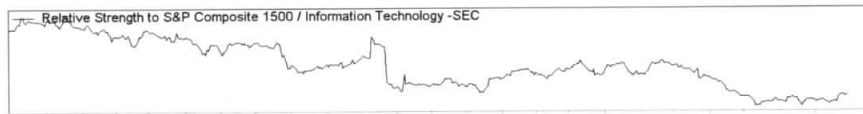
Ventas Inc. (VTR-US) Technical Ranking: 4 Specialized REITs



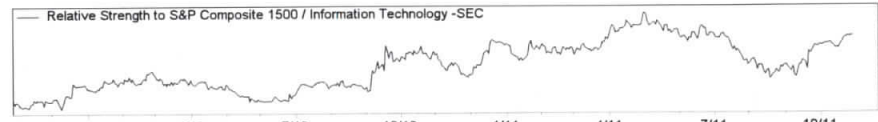
Total System Services Inc. (TSS-US) Technical Ranking: 3 Data Processing & Outsourced Services



Adobe Systems Inc. (ADBE-US) Technical Ranking: 4 Application Software



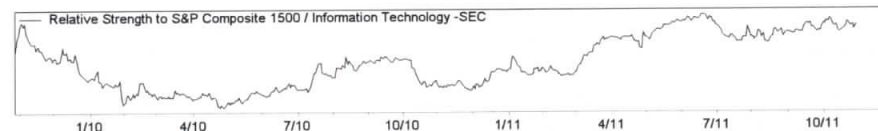
Oracle Corp. (ORCL-US) Technical Ranking: 3 Systems Software



F5 Networks Inc. (FFIV-US) Technical Ranking: 4 Communications Equipment



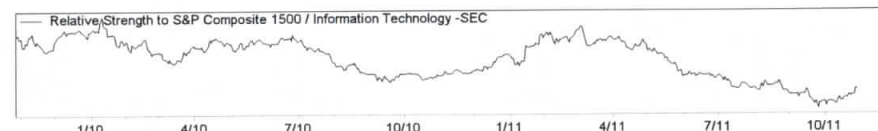
Motorola Solutions Inc. (MSI-US) Technical Ranking: 4 Communications Equipment



Tellabs Inc. (TLAB-US) Technical Ranking: 5 Communications Equipment



Applied Materials Inc. (AMAT-US) Technical Ranking: 5 Semiconductor Equipment



KLA-Tencor Corp. (KLAC-US) Technical Ranking: 4 Semiconductor Equipment



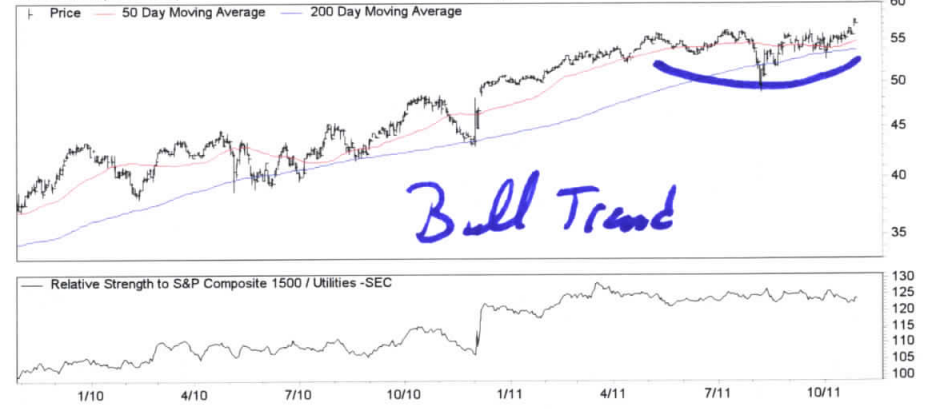
Linear Technology Corp. (LLTC-US) Technical Ranking: 4 Semiconductors



Entergy Corp. (ETR-US) Technical Ranking: 4 Electric Utilities



Nicor Inc. (GAS-US) Technical Ranking: 1 Gas Utilities



Integrys Energy Group Inc. (TEG-US) Technical Ranking: 3 Multi-Utilities



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