

West Coast Cycles Club Discussion Notes

Bob Krishfield

April 30, 2013

Topics

- Health of the Market
- Sell in May?
- New Inputs

Market Health

- Ron brown's weekly [movie](#)
- Bruce Saunders [Health of the Market](#)
- Sy Harding's Free Blog [StreetSmartPost](#)
- Jim puplava's [Financial Sense News Hour](#)
- Fabian.com (Tuesday) [Market Overview](#)

Greg Schnell, StockCharts.com

- The BRIC countries have weak equity charts.
- The commodity prices are all snapping major 4 year trendlines. Is Oil next?
- The commodity countries made their equities highs in 2011.
- The US currency looks like it is about to break up and out of a 4 year downtrend. This is bearish for commodities.
- The US market continues to outperform the world in stock market equity performance.
- Recently Japan has surged onto the scene. This wouldn't be the first attempt by Japan to break out of the demographic headwind they have in their country.

Bruce Saunders, Health of the Market

The indicators in the longer-term market view show a **up market** in an intermediate-term **Bull Cycle**.

- The end of the **Power Zone** (Sell in May) seems to have occurred on Monday 4/15, earlier than May 1st this year.
- The SP500 is very close to switching to negative as shown by MACD.
- However, a **Health Buy Alert** (Mc SI cross MA) occurred Thursday 4/25, and there was a **VIX Buy Alert** on the same day.

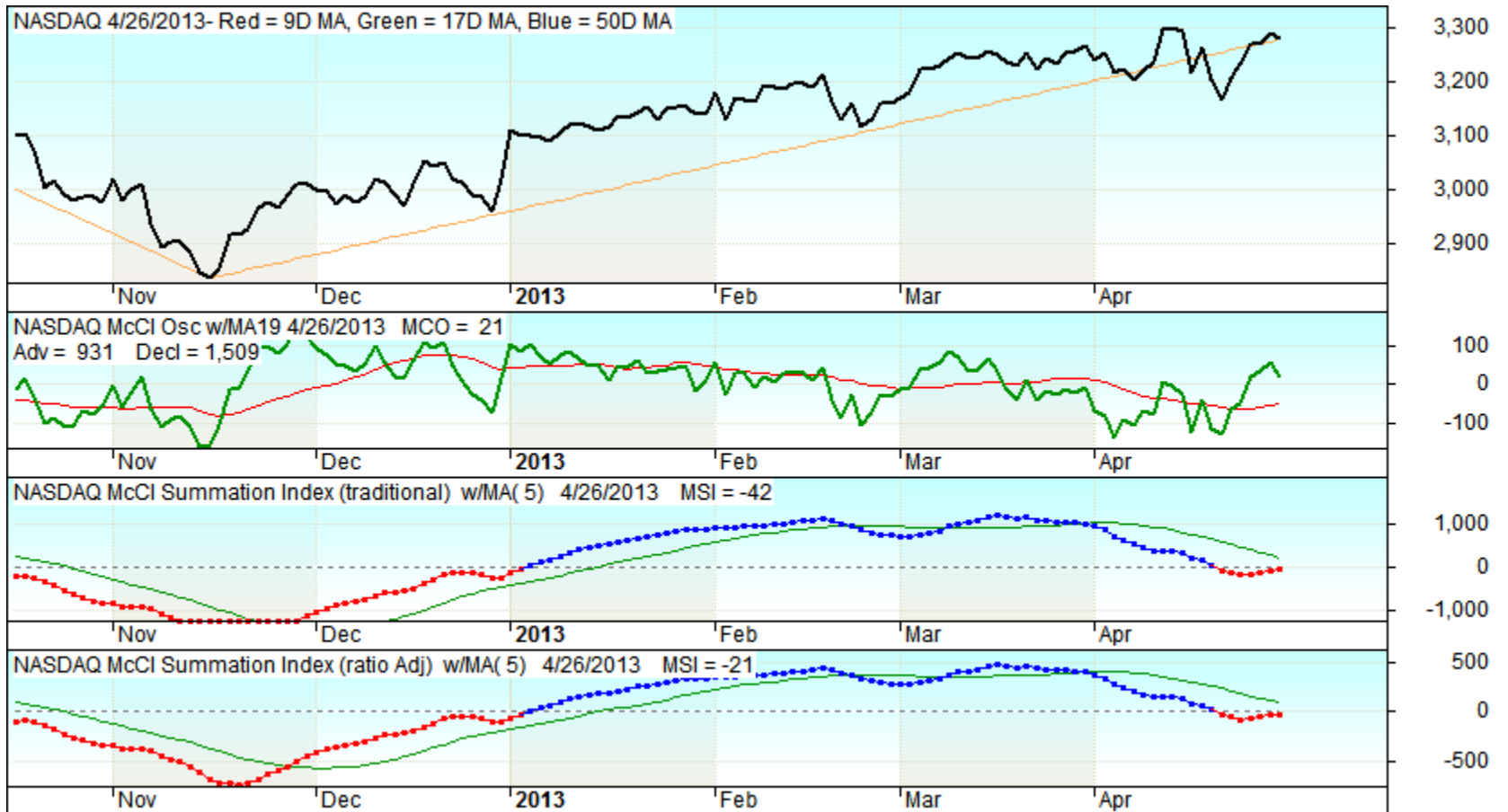
We are between a rock and a hard place. Most equity market gains can be obtained during the Nov – Apr period, but the typical 1st year of the presidential cycle has the April gain extending into July.

- A chart of May shows that May is quite good -- and we just got buy alerts. In the past, the place to be during the time outside the Power Zone is the bond market. Now with interest rates at all-time lows, going into the bond market is risky.
- However, with the Fed pumping \$85 billion a month, maybe the risk is not too high. Dividend paying funds (or stocks) such as DVY or SPLV have been quite stable during recent dips in the market. The "experts" writing for Barron's recommend considering dividend-paying stocks rather than bonds.

SP500 – MACD Ready for Sell Sig



Health Alert – SI Cross Above MA



Sy Harding, StreetSmart.com

Commodities Still Pointing To Economic Downturn!

Declining commodity prices usually indicate demand for goods is dropping and the economy is in trouble.

In the summer of 2010 the CRB Commodity Index fell 15%.

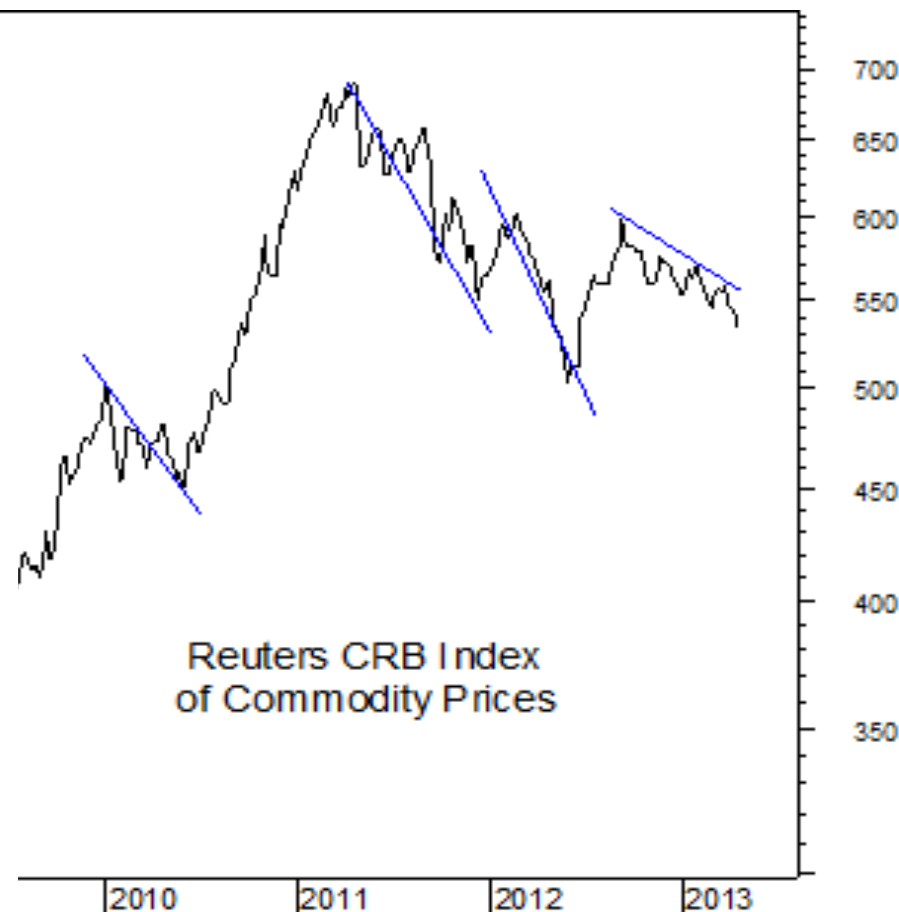
S&P 500 fell 15% and the Fed came to the rescue with QE2.

In 2011, the CRB Index fell again, declining 19.5%.

the S&P 500 declining 21% before the Fed came to the rescue with 'operation twist'.

In 2012, the CRB Index only partially recovered, topped out again, then the S&P 500 pulling back 11% to its June low

Now, the CRB is dropping, having topped out last fall, while the economy seemed to be recovering again and the stock market has been in an impressive favorable winter rally.



Short Term CRB

The CRB has declined 11.5% so far from its most recent peak, making lower highs on its short-term rally attempts and lower lows on its subsequent pullbacks, showing no signs of reversing to the upside.

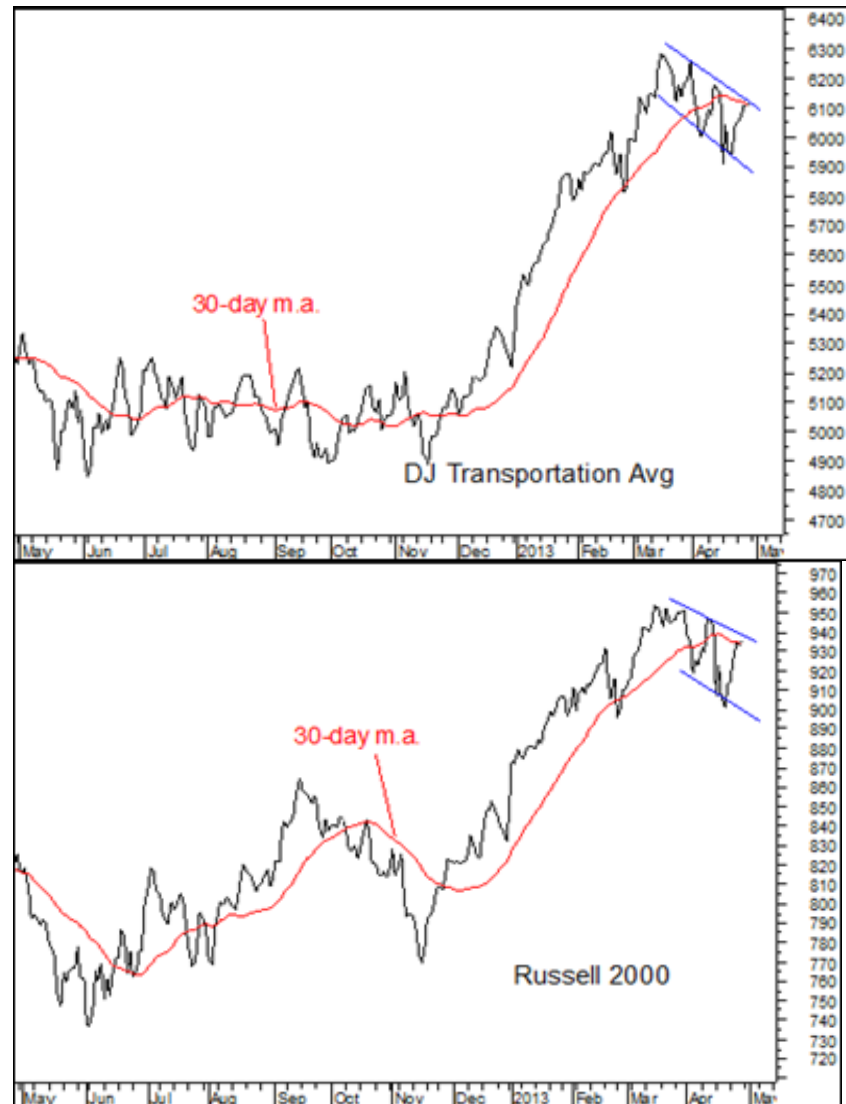
It seems to be another indication that the **economic recovery is due to stumble again this year.**



Divergences DJ Trans & Russell

While the Dow Industrial Average continues to hold up near its highs, the DJ Transportation Average remains in **negative divergence** with it, in a pattern of lower highs and lower lows since early March.

And while the S&P 500 continues to hold up near its highs, the small stock Russell 2000 remains in **negative divergence** with it and in a pattern of lower highs on the rally attempts and lower lows when the rally attempts fail.

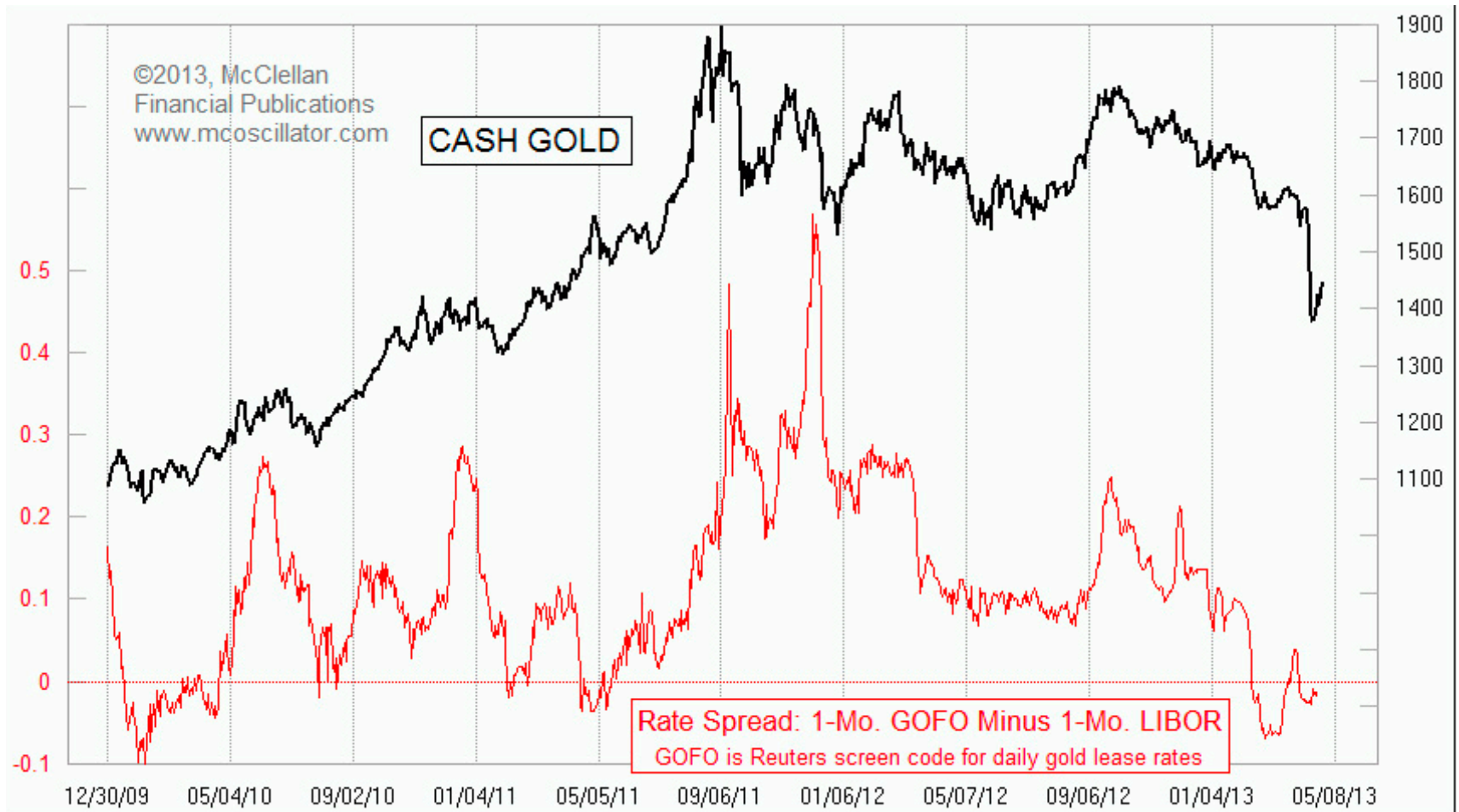


Tom McClellan on Financial Sense News Hour

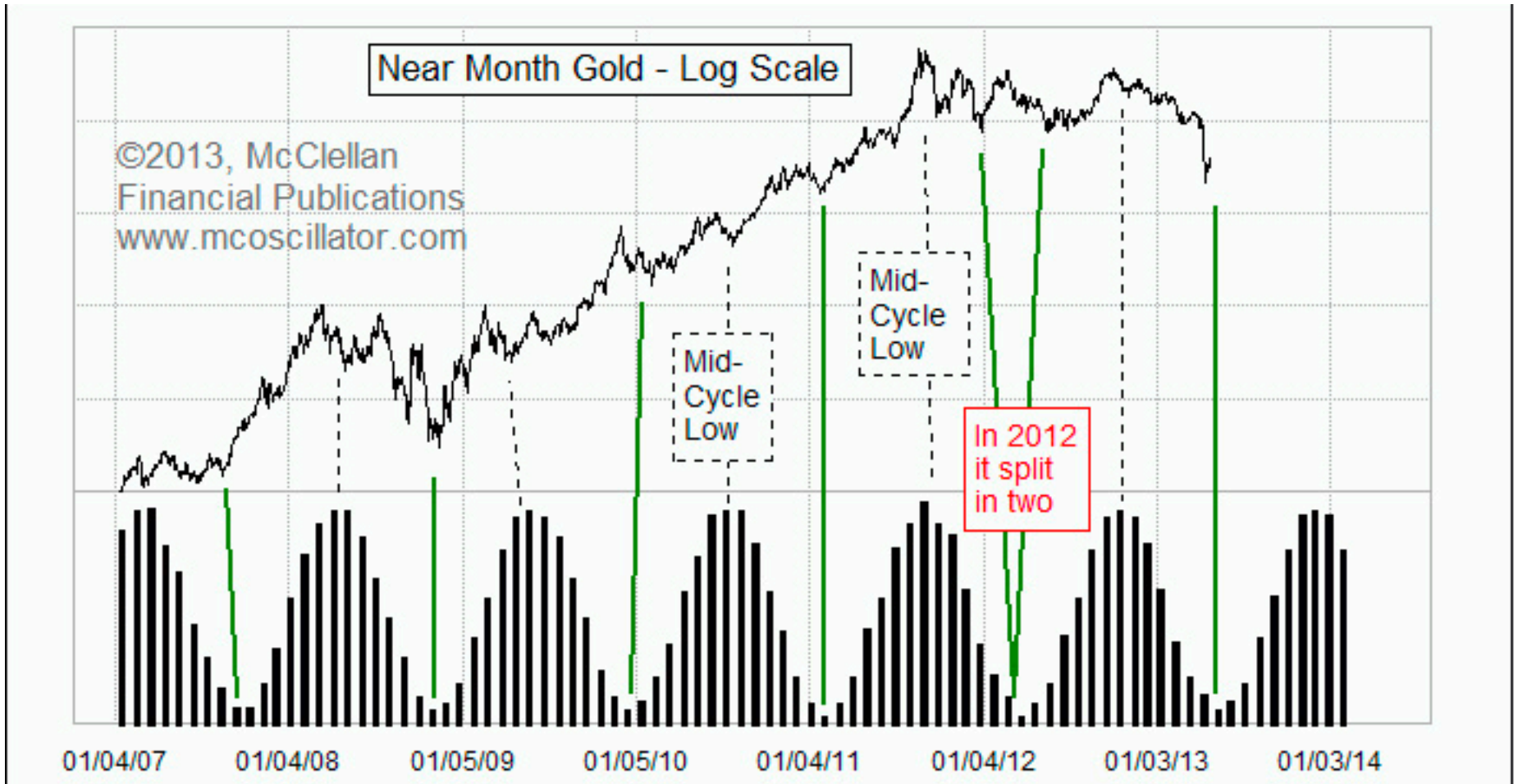
- Technician Tom McClellan: Gold Cycling Up – Summer Doldrums Ahead for Stocks
- Also, Ryan Puplava with the Market Wrap, Erik Townsend on Commodities, and Rob Bernard with the Fixed Income Report
- Jim welcomes back noted technician Tom McClellan of *The McClellan Market Report*. Tom sees some near-term problems in the markets through the summer, but is optimistic long-term on the stock market for the balance of the decade. Tom sees gold cycling up, and notes that junior gold stocks are widely disliked, and thus present a great opportunity
- [Download mp3 file \(45 min\)](#)

Tom McClellan: Gold Cycling Up – Summer Doldrums Ahead for Stocks

- Negative Spread (Gold Lending Rates - LIBOR rates) Indicates Rise ahead in Gold Prices



Tom McClellan on Gold



Market Overview Charts

Daily or Weekly

- Ron Walker, [The Chart Pattern Trader](#)
- StockCharts Blogs- [The Canadian Technican](#)
- Finvis [Group Sector Heat Maps & Bar Charts](#)
- [Ian Woodward's Blog](#)
- Elliot Wave Lives On [Caldaro Blog](#)
- David Larew [Think Tank Public Charts](#)
- Jeff Scott's [Weekend Review 4-28](#)

Sell in May?

Sy Harding's System

Dave Hayward's Analysis

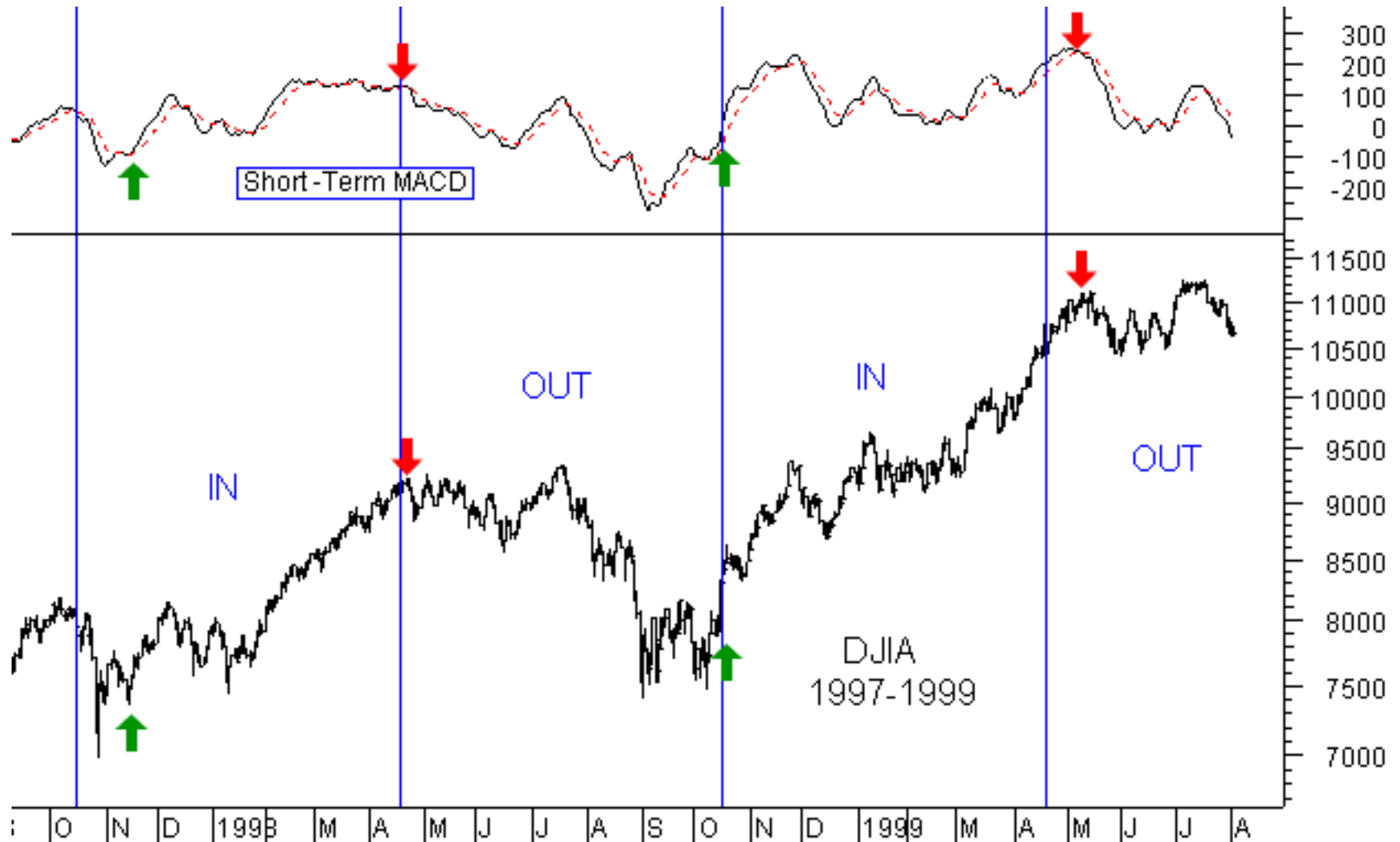
Rick Ferri, Busting the Sell in May and Go Away Myth

Sy Harding's - Seasonal Timing Strategy

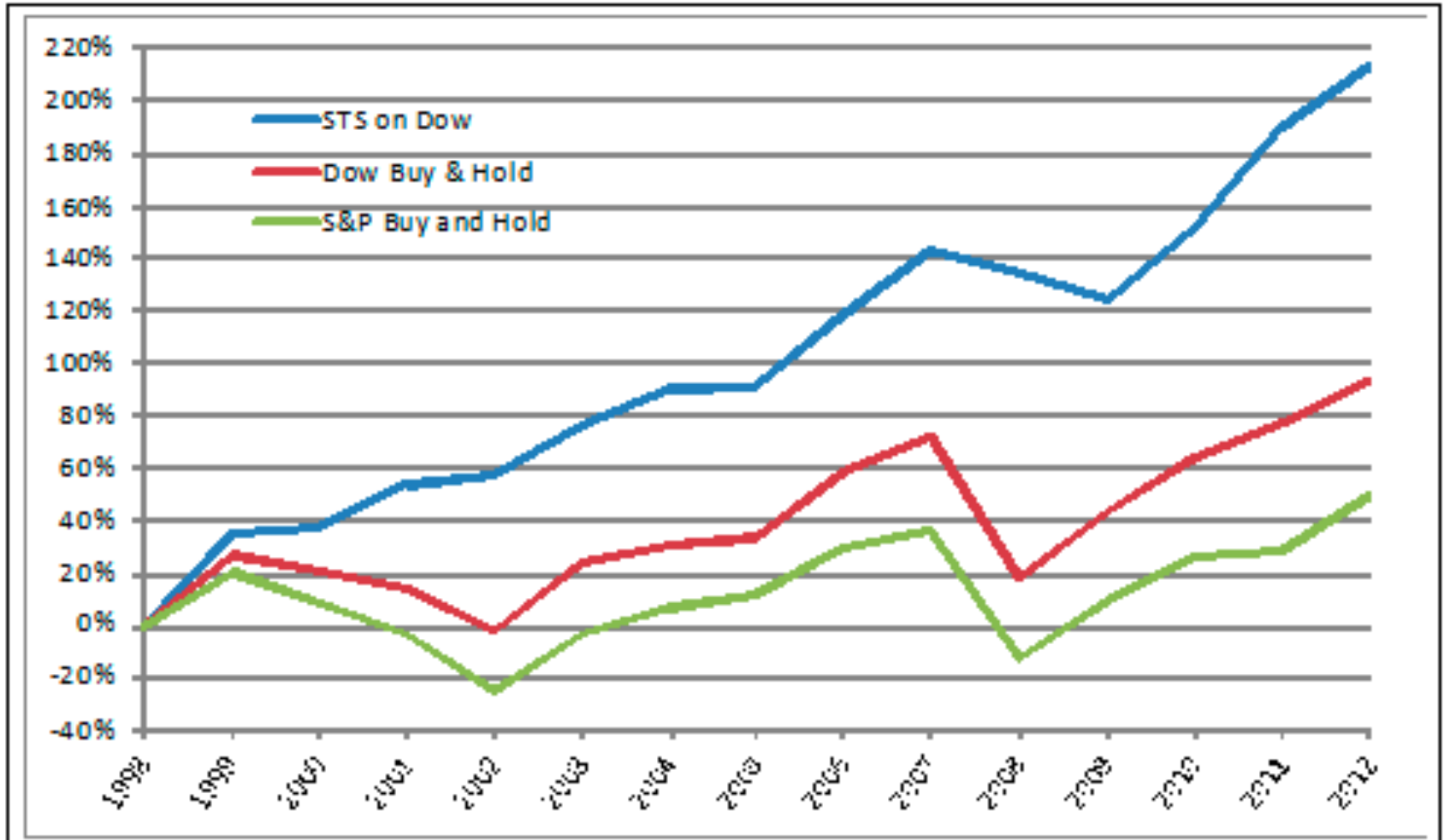
- Last year's exit signal for our Seasonal Timing Strategy was triggered on Friday, April 20, 2012,
 - Profit was 13.8% from holding DIA.
- Re-entry on Friday, November 23, 2012.
 - Bought ETF symbol DIA.
- Now it has triggered its sell signal as of Friday, April 19
 - Made a 13.4% profit on the holding in DIA since November.

<u>Name</u>	<u>Symbol</u>	<u>% of Portf.</u>	<u>Date Bought</u>	<u>Purch Price</u>	<u>Curr. Price</u>	<u>Paper Gain/Loss</u>	<u>Date Sold</u>	<u>Selling Price</u>	<u>Gain/Loss</u>
DJIA index etf	DIA	100%	10-19-10	108.11*			4-21-11	124.49	+ 15.2%
iShares 20yrbond	TLT	100%	5-5-11	94.87*			6-28-11	95.20	+ 0.4%
DJIA index etf	DIA	100%	10-17-11	113.02*			4-23-12	128.62	+13.8%
DJIA Index etf	DIA	100%	11-26-12	127.79*			4-22-13	144.91	+13.4%
Money Mrkt Fnd		100%	11-22-13						

Seasonal Timing Applied to DIA



Sy Harding's - Seasonal Timing – 15 yrs



Notes from Sy on “Sell in May”

- Sy’s Seasonal Modification for Sell in May incorporates MACD, to identify whether the market is still in correction mode in the fall, and whether it is still in rally mode in the spring. If MACD is still on a sell signal in the fall the entry is delayed until it triggers its next buy signal. In the spring if MACD is still on a buy signal when the calendar exit day arrives the exit is delayed until MACD triggers its next sell signal.
- Yale Hirsch, developed the original Sell in May strategy in the 1970’s, in his *Stock Trader’s Almanac*, reported that “Back-tested over the last 51 years, the strategy more than doubled the already outstanding performance of the basic ‘Best Six Months’ (Sell in May) strategy”, and he adopted my strategy.
- Mark Hulbert, *The Hulbert Financial Digest*, has been tracking it since 2002, Reported it more than doubling the performance of buy and hold over the long-term while taking only 61% of market risk.

	Ann Returns	Risk Level	Sharpe Ratio
Buy & Hold	3.4%	100%	0.05
Halloween Indicator	6.3%	63%	0.14
Sy Harding's Street Smart Report	7.8%	61%	0.18
Almanac Investor Report	5.1%	62%	0.11

“Sell in May and Go Away.”
How accurate is this?

Dave Hayward
April 30, 2013

PERFORMANCE OF THE S&P 500

Year	High	Close	Low	Close
2004	Mar 5	1157	Aug 6	1064
2005	Mar 11	1200	Apr 22	1152
2006	May 5	1326	July 21	1240
2007	Jul 13	1552	Aug 17	1445
2008	May 16	1425	Mar 6 09	0683
2009	Jun 12	0946	July 10	0879
2010	Apr 23	1217	July 2	1011
2011	July 22	1345	Aug 19	1122
2012	Mar 30	1408	Jun 1	1277

ANALYSIS

Year	Decline	Percent	Weeks
2004	93	8.0	22
2005	48	4.0	6
2006	86	6.5	11
2007	107	6.9	5
2008	742	52.1	Many
2009	67	7.1	4
2010	206	16.9	10
2011	223	16.6	4
2012	131	9.3	9
Average*	120	14.2	8.9

*Ex 2008

Summary

1. For the past 9 years, the stock market declines during summer months.
2. Substantial variation exists in the start and end dates of the decline periods and their lengths.
3. Start of the decline was most frequent the first week in May but varied from March 5 to July 22.
4. End of the decline was most frequent the 2nd week in July but varied from April 22 to August 19, except for 2008, the recession year, when it ran until March 6, 2009

5. Average duration of the decline was 9 weeks, but varied from 4 weeks to 22 weeks, excluding 2008.

6. The average drawdown was 120 points on the S&P 500 but varied from 48 to 223 points, excluding year 2008 when it was 742 points.

7. The average decline was 14.2 % but varied from 4% to 16.9%, excluding year 2008 when it was 52%.

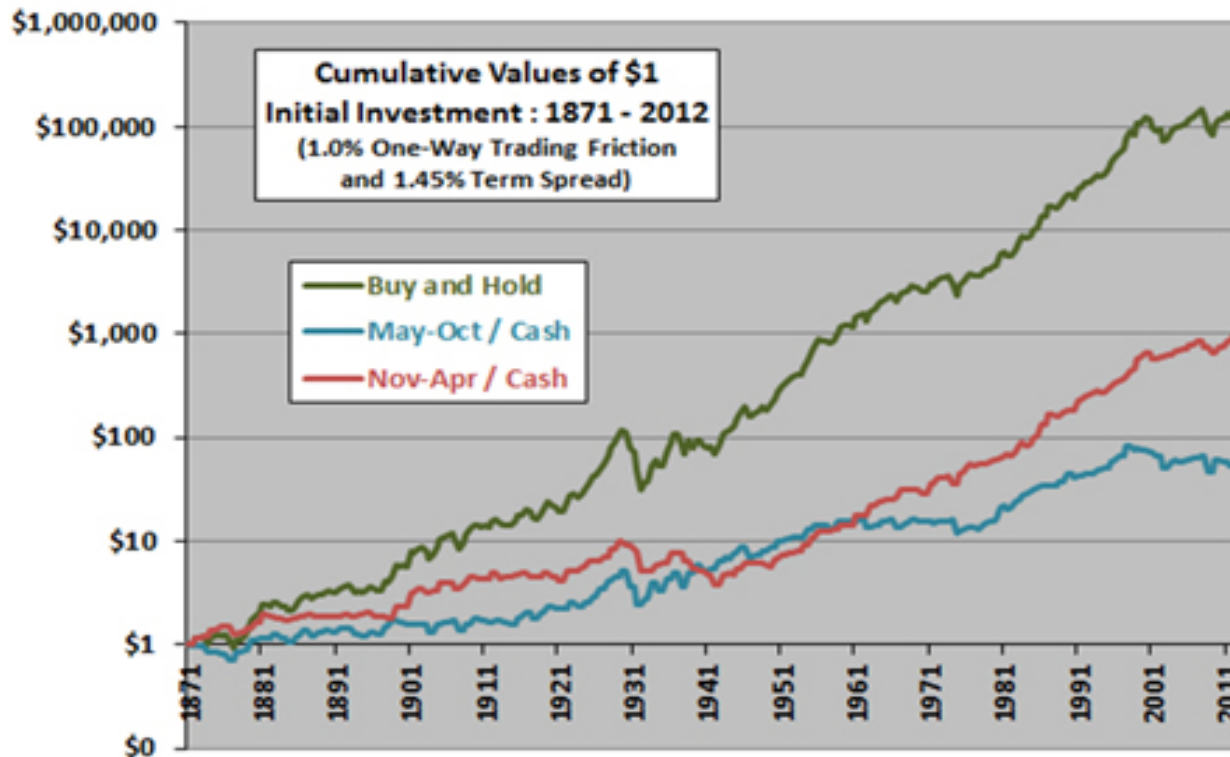
Conclusion

Based on the past 9 years of performance, the prudent investor would do well to watch for a substantial decline in the stock market, beginning in the March-to-July period and to expect the decline to continue until the April-to- August period.

Busting the Sell in May Myth

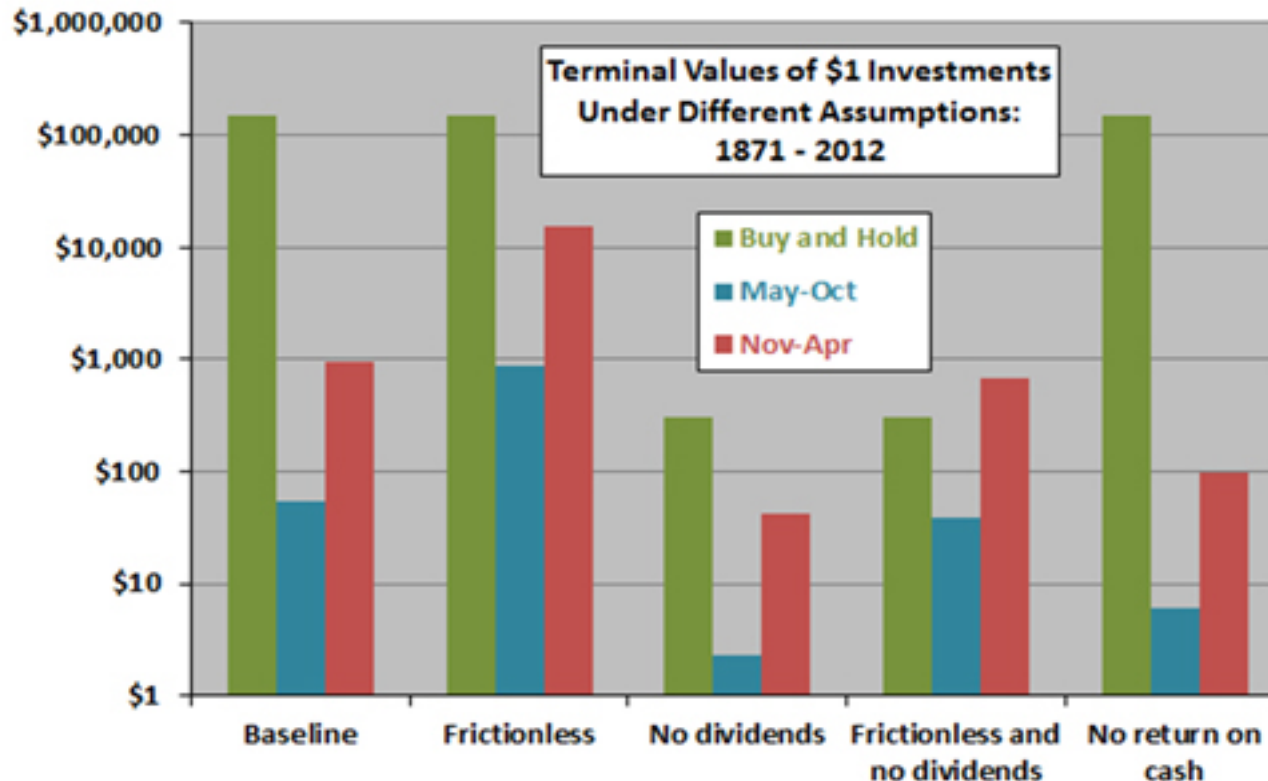
by [Rick Ferri](#)

- CXO Advisory looked at [“Sell in May”](#) over the long-term to determine if this belief was fact or fiction.
- The clear winner in this three horse race was a buy and hold investment strategy. \$1 grew to nearly \$200,000 over the entire 142 year period. Sell in May and go away (red line) did outperform the opposite strategy (buy in May – the blue line), although the returns of both market-timing strategies fell far short of buy and hold.



Busting the Sell in May Myth

- CXO tested several trading cost, dividend payment and interest rate assumptions in their model.
- Figure 2 illustrates the results of five scenarios: baseline as represented in Figure 1; no trading costs; no dividends paid or reinvested; no trading costs and no dividends; and no interest earned on cash.
- *Sell in May and Go Away* achieved superior results only in the 4th scenario from the left where there was **no trading cost and dividends were ignored**. Neither of these assumptions is realistic. There is always a cost to trade and stocks do pay dividends even in the worst of times.



New Inputs

Check These Ideas Out

ETF Mosaic.com

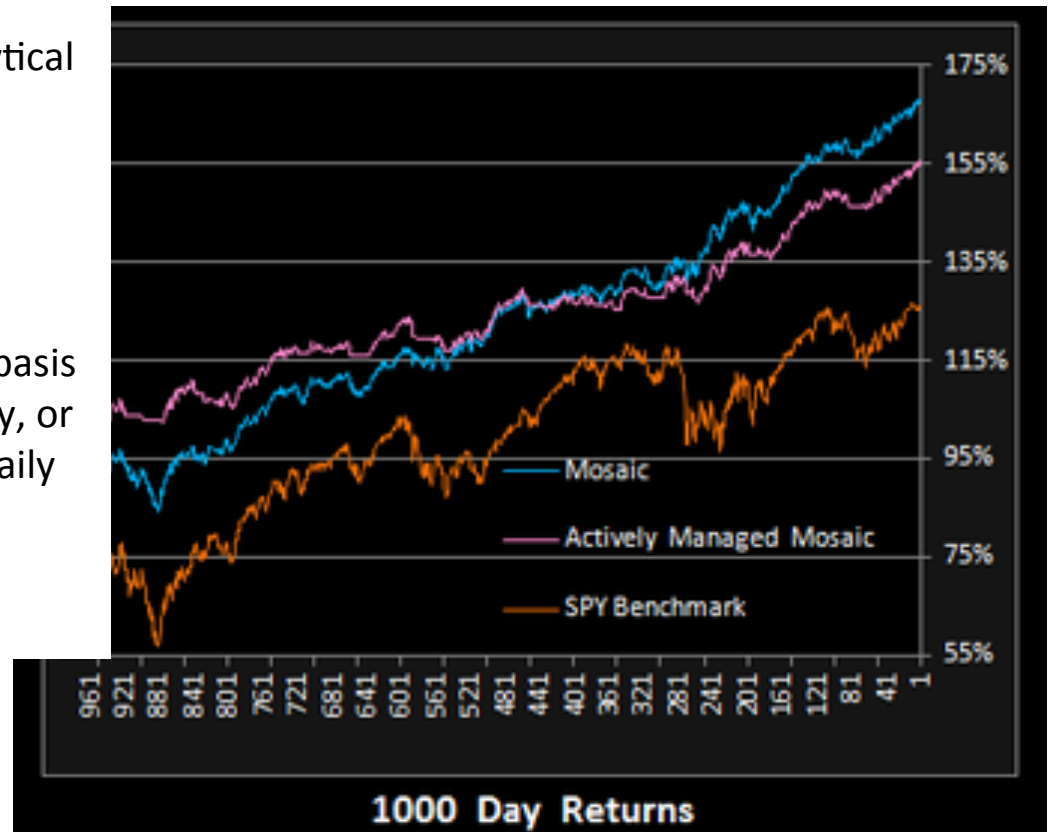
Momentum Based

Mosaic uses a momentum based analytical platform focused on a collection of portfolios based on equities, bonds, commodities, countries, sectors.

Daily Evaluation, Weekly Trades –

Computes relative strength on a daily basis
Portfolios may or may not trade weekly, or more frequently - depending on the daily rankings of each portfolio component.

Website ETF Mosaic.com



Mosaic Newsletter

Mosaic Solutions Newsletter *Mosaic Solutions* is published **daily**

Mosaic Solutions models can be used singly or in conjunction with one another to craft portfolios of defined risk.

Annual subscription **\$400.00**

T6 TEST LAB & Situations: a tactical momentum matrix focused on a wide spectrum of ETFs and designed to capture incremental short term gains within support/resistance and volatility cycles using polynomial and RSQ (linear regression) money management tools and confirming indicators to manage and contain risk exposure and limit drawdown.

The Newsletter subscription includes the Mosaic T6 and T11 TEST LAB software package with embedded end of day data feed.