Walter Deemer's

MARKET STRATEGIES AND INSIGHTS

...for Sophisticated Institutional Investors

August 7, 2016

A MINIMAL DECLINE, BUT...

I have been stating, based on my recollections, that minimal declines like the one we just saw are a hallmark of post-Breakaway Momentum markets. I've been adding that a decline of more than 3% would be really pushing the limits of normal post-Breakaway Momentum behavior and that a decline of more than 5% would be a deal-breaker as far as the very bullish implications of Breakaway Momentum are concerned.

I decided this week to check my recollections. As it turned out, minimal declines like the one we just saw are, indeed, very definitely a hallmark of post-Breakaway Momentum markets but the biggest post-Breakaway Momentum declines were deeper than I thought. The first column in the table on the next page lists the biggest pullbacks the market staged during the first six weeks after it generated Breakaway Momentum; the next column shows the biggest correction during the first three months. All data are based on intraday highs and lows.

After reviewing the biggest pullbacks during the first six weeks after the market generated Breakaway Momentum in the past, then, I discovered that the least of those pullbacks was 2.4% -- and 75% of them were over 3%. The average of those first-six-weeks-pullbacks was 4.5%, and 20% were more than 5%. During the first three months afterwards, meanwhile, 45% of the biggest pullbacks were over 5% -- as was the average of 5.6% itself. As a result:

- It would be unprecedented if the S&P does <u>not</u> stage a decline of <u>at least 2.4%</u> by August 24 (the six-week mark from July 12th's Breakaway Momentum).

- A decline of more than 3% would <u>not</u> be pushing the limits of normal post-Breakaway Momentum behavior.

- And a decline of more than 5% would <u>not</u> be a deal-breaker.

BIGGEST POST-BREAKAWAY MOMENTUM PULLBACKS (IN %)

BAM DATE	IN FIRST 6 WEEKS	IN FIRST 3 MONTHS
Jul 14 1949	2.5	3.1
Nov 20 1950	5.8	5.8
Jan 26 1954	2.4	2.4
Jan 24 1958	5.0	5.0
Jul 12 1962	4.9	8.4
Nov 12 1962	2.8	2.8
Jan 18 1967	3.9	4.2
Dec 7 1970	2.4	2.5
Dec 8 1971	3.3	3.3
Jan 14 1975	5.4	8.5
Jan 14 1976	4.3	4.8
Aug 16 1982	5.0	9.4
Oct 13 1982	9.1	9.1
Jan 23 1985	4.2	4.2
Jan 15 1987	4.7	9.2
Feb 5 1991	2.4	4.7
Jan 6 1992	3.5	4.7
Mar 23 2009	6.4	7.0
Jul 23 2009	4.6	5.6
Sep 16 2009	6.5	6.5
AVERAGE	4.5	5.6

I should stress, though: if the S&P does decline 2.4% or more and follow the past precedents the new bull market leadership is unlikely to go down as much as that and/or is likely to come roaring back faster than the market itself. This is also the case in lesser declines, as the chart of the Technology SPDR on the next page vividly demonstrates. Waiting for a pullback in the market to buy market leadership, in other words, doesn't always work out all that well. In addition, if the S&P does stage a pullback of at least 2.4% between now and August 24 the pullback could start from a higher point instead of this general area. There is thus no certainty than any such pullback will end up pushing the S&P a whole lot lower than where it is now.

The Market Now. The market just completed a minimal 1.4% correction. As just noted, though, based on past precedents it should stage at least a 2.4% decline sometime between now and August 24th. (As a guideline, a 2.4% decline from Friday's new high would take the S&P down to 2130.) Even if it does stage a 2.4%-plus decline, though, there is no way to tell what level the S&P will be at when it begins. In addition, the new bull market leadership is unlikely to go down as much as the market itself and/or come roaring back faster than the market itself during the corrective process. Playing a possible 2.4% correction, in other words, probably entails more risk than reward. This is especially the case when the S&P's ultimate upside potential is above 2400 -- and if the S&P goes up 10%, some leadership areas will go up a lot more than that.

NAAIM Survey Update: 93 this week vs. 101 last week.

Leadership. This is the most important issue investors need to deal with here, since leadership should rotate into more and more aggressive areas of the market as the advance evolves. The areas that look the most promising in that regard are S&P Small-Caps (SML), S&P Mid-Cap Growth (IJK), Emerging Markets, Gold, Healthcare (especially Medical Equipment), Natural Gas and Technology. Technology, in fact, may well eventually prove to be the main thrust of leadership in this bull market.

Fidelity Sector Funds. 82% positive vs. 90% a week ago. Switching program holdings: #1 Gold, #4 Telecommunications and #14 Natural Gas.

This Week's Political Markets:

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    PROBABILITY AS OF AUG. 7 THAT THE DEMOCRATS
WILL WIN THE WHITE HOUSE (PER PREDICTIT.ORG): 71% +4

 PROBABILITY THAT THE DEMOCRATS WILL WIN FL: 68% +6
 PROBABILITY THAT THE DEMOCRATS WILL WIN OH: 65% +4
 PROBABILITY THAT THE DEMOCRATS WILL WIN PA: 75% +5
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-- *Walter Deemer*

FIDELITY	PRICES (in cents)					DTR STRENGTH RATINGS				
SECTOR FUND	Aug 3	Jul 27	Jul 20	Jul 13	R/C	Aug 3	Jul 27	Jul 20	Jul 13	Jul 6
Gold	2810	2697	2550	2766	-47	457	504	413	542	510
Medical Equip	4239	4188	4200	4141	-6	122	128	152	152	127
Utilities	7621	7640	7680	7768	2	98	96	114	133	124
Telecommun	7174	7236	7214	7238	-19	91	110	113	128	94
Electronics	8240	8374	8144	7898	-29	84	113	94	94	37
Comm Equip	3018	3041	2962	2926	-22	61	83	60	67	22
Software	13051	12943	12866	12531	8	60	52	61	45	13
Technology	12692	12583	12428	12065	3	58	54	56	43	5
Defense/Aero	12399	12324	12273	12154	-8	53	61	62	51	25
Constr/Hous'g	6263	6299	6283	6237	-6	51	57	61	70	30
Computers	7237	7207	7103	6957	-2	50	52	45	50	9
** Emerging Mkts	3601	3601	3582	3526	-37	47	84	80	72	13
Healthcare	20694	20576	20300	19953	0	44	44	57	50	36
Natural Gas	2443	2382	2495	2505	-36	39	75	103	104	69
Retailing	10985	10898	10989	10906	10	38	28	43	47	20
* * S&P 500	216379	216658	217302	215243	-7	32	39	48	49	18
Nat Resource	2726	2662	2748	2755	-13	32	45	68	76	43
Pharmaceutical	2016	2010	1982	1955	1	31	30	41	37	27
Environmental	2067	2082	2062	2039	-27	31	58	45	40	-9
Consumer Stpls	9779	9728	9899	9947	0	31	31	58	81	55
Wireless	868	873	855	846	-15	31	46	21	25	4
Consumer Discr	3531	3533	3545	3523	0	29	28	35	35	-5
Industrials	3128	3150	3173	3150	-21	25	47	52	50	10
Indust Equip	3905	3933	3977	3941	-24	22	46	57	53	19
Chemicals	14223	14336	14534	14229	-25	22	48	50	54	11
Insurance	6954	6908	6906	6848	6	21	16	13	9	-5
Energy	4033	3945	4094	4111	-15	20	35	66	74	41
Multimedia	7234	7270	7280	7297	3	11	8	19	30	-21
Health Care Svcs	8633	8736	8803	8758	-30	10	40	56	57	46
Transport'n	7707	7852	7953	7932	-34	8	41	54	47	-35
Financial	8377	8412	8414	8303	-6	7	13	18	9	-17
Materials	7202	7336	7350	7207	-39	4	43	31	30	-19
Leisure	13135	13348	13340	13157	-24	2	26	27	22	-13
Biotech	19375	18852	18058	17461	41	2	-40	-25	-35	-13
* * T Bills	1986	1986	1986	1986	0	0	0	0	0	0
Consumer Finance	1195	1199	1198	1176	-12	-4	8	14	5	-49
IT Services	4069	4139	4121	4065	-20	-11	8	15	15	-30
Energy Serv	4359	4317	4428	4459	-48	-27	21	27	42	1
Banking	2434	2455	2453	2430	-12	-32	-20	-19	-21	-67
Airlines	6163	6372	6399	6358	-46	-38	7	8	1	-59
Broker/Invest	5862	5900	5862	5702	-1	-40	-39	-49	-64	-112
Automotive	3555	3668	3612	3527	-48	-48	0	-22	-33	-98