*e*Research

Third Party Research **December 5, 2017**

Notes From The Rabbit Hole

***e*Research Corporation** is pleased to provide an article, courtesy of NFTRH.com, and written by Gary Tanashian, with a bio on the Author provided at the end of the article.

The article, starting on the next page, is entitled:
"Market Update"

Biiwii.com was created in mid-2000 solely as a way to help get the message out about deeply-rooted problems about too much debt and leverage within the financial system. The concerns were confirmed and the message proved justified 3 to 4 years later as the system began to purge these distortions, resulting in a climactic washout extending from October, 2008 to March, 2009.

Along the way, a geek-like interest in technical analysis, a long-time interest in human psychology, and various unique macro market ratio indicators were added to the mix, with the result being a financial market newsletter (and dynamic interim updates), Notes From The Rabbit Hole (NFTRH) that combines these attributes to provide a service that is engaged and successful in all market environments by employing risk management first, and opportunity for speculation second.

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Bob Weir, CFA
Director of Research

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Market Update

By **Gary Tanashian** (bio at the end of the article)

December 5, 2017

At this interesting juncture in the markets, I want to take the opportunity to provide eLetter readers with the view that premium subscribers receive in-week, as needed during dynamic market phases.

The weekly report alone is worth the price of admission from a value standpoint. But, add in strategic updates like this, just e-mailed minutes ago to subscribers, and you have a full package of market intelligence with which to operate. For this reason and the fact that it is unfair to existing subscribers, discounts are not offered to the general public. But a subscription to NFTRH will, over not too much time, prove to be a considerable value to you in your ongoing market management.

NFTRH Update: US Market Rotation, Interesting Internals, and a Word on Uranium

The market is rotating out of the leader (NDX, tech) and even more so the leader's leader (SOX, Semiconductors) and even more than that, the leading component within Semis, the Equipment stocks (LRCX, AMAT, etc.). I have made a few posts lately about why the Semi equipment sector could signal some bad stuff in 2018, with MarketWatch calling a top just about to the day.

But let us be aware that the NDX is not at all broken. It is taking a much-needed hammering as man and machine move on, en mass, to more relative value-oriented areas like Retail and Financials. If 2000 is a guide, that is market top behavior. But this is 17 years later and we should not make assumptions that the market that was then (pre-Greenspan's most intensive inflationary policies, pre-Bernanke and all those QEs and Op/Twist, pre-bond manipulating schemer known as Mnuchin and pre-sophisticated algos, quants, and HFTs. To me the market almost feels programmed or regimented right now. Sort of artificial. But that is just a whipsawed human speaking.

Let us take a look at the daily charts of major U.S. indexes and then note some still positive internals, some of which are very notable after a weird day like yesterday.

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Notes From The Rabbit Hole

The Dow, is overbought, as players fly into the biggest names, or so it seems, during the rotation. Distance from SMA 50 is as stretched as it gets.

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The SPX is overbought as the market rotates.

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The NDX is where the new Dow and SPX momos are coming from. Semi companies AMAT, NVDA, LRCX are part of the index, as are Biotechs AMGN, CELG, and GILD. Those are two sectors that have been hammered lately. As to its technicals, there is volume getting out the door and the next objective is a test of the SMA 50 (6180 and rising). But that gap down at 6050 would really clean out the index while maintaining an uptrend.

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The SOX has smashed the SMA 50 and has a gap around 1185. But there is no lateral chart support until around 1160 and no solid-looking support until 1100 to 1120. I would say any bounce to the now-declining EMAs 10 & 20 (currently 1283 & 1287) could be worth a shot from the short side for those who would like to take that risk. Otherwise, I would leave the Semi sector alone, given the slower growth projections for 2018 from SEMI (see link above). At least that is my view at this time. I will keep an eye on the sector going forward because in this market it seems you just never now.

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The RUT made a big test of the SMA 50 on Friday and that moving average can be watched as key support for this still well-intact index. The 50 is rising to meet lateral support in the 1500 to 1510 range.

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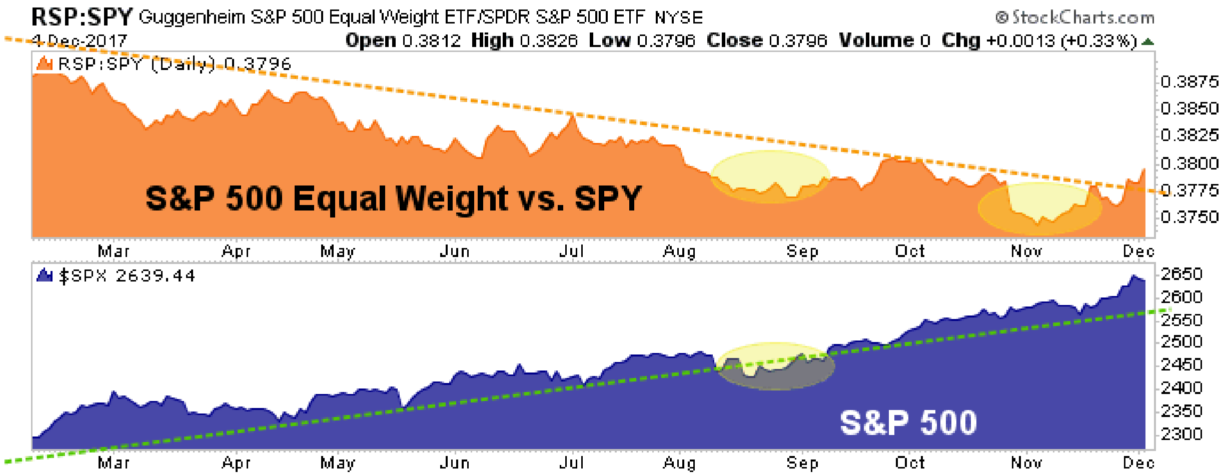
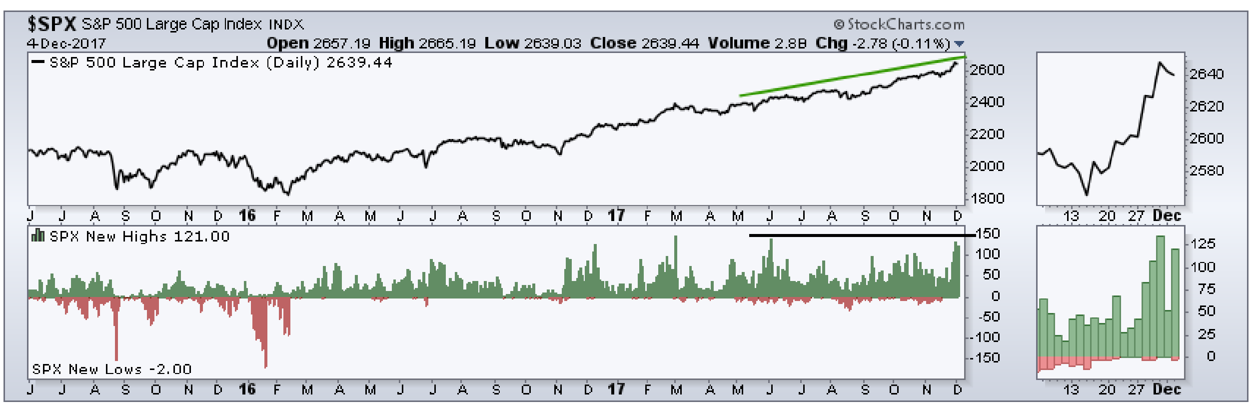
On to some internals. As the market rotates its breadth is improving. Equal-weight SPX is breaking the long-term trend-line even as nominal SPX eases. This may not mean players are rotating into average stocks so much as it means they are puking the headline names that they have been riding the whole damn time. But, at face value, this is a positive internal indicator.



SPX by extension, had a solid showing of new highs yesterday.



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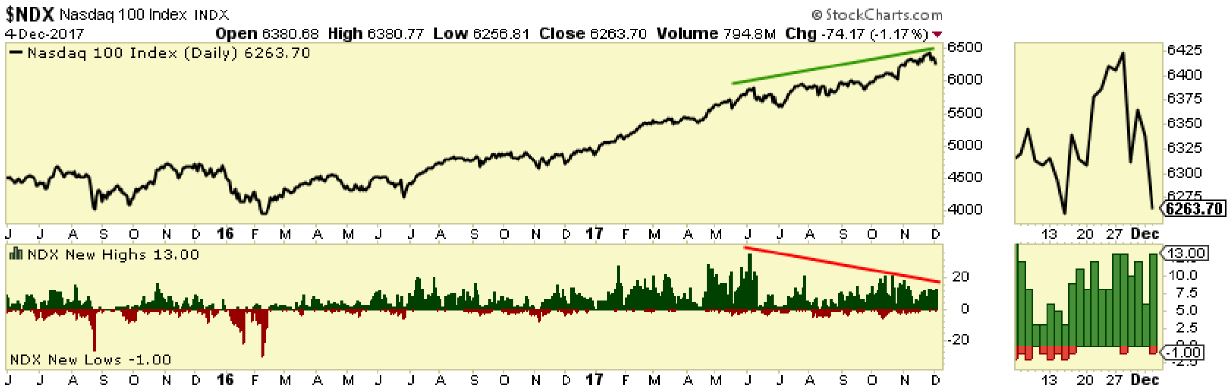
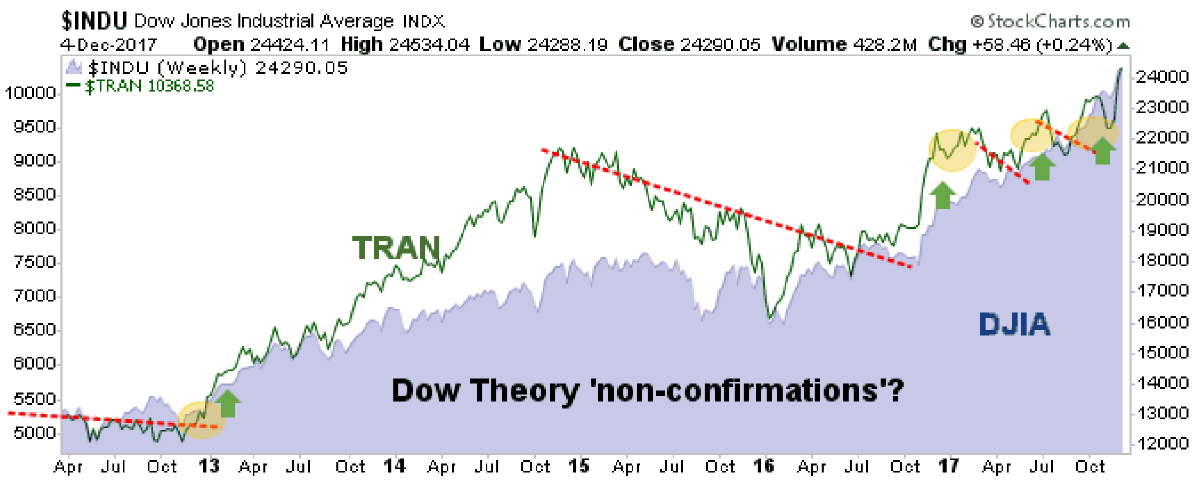
NDX, as well, diverged its negative price activity in getting a bump in new highs.



Of course, the Transports are not signaling anything even remotely bearish for the market, if you trust Dow Theory. If we ignore it on its negative signals, maybe we might not overly respect it on its positive ones. So let's call the Transports/Dow a non-issue. It's fine.



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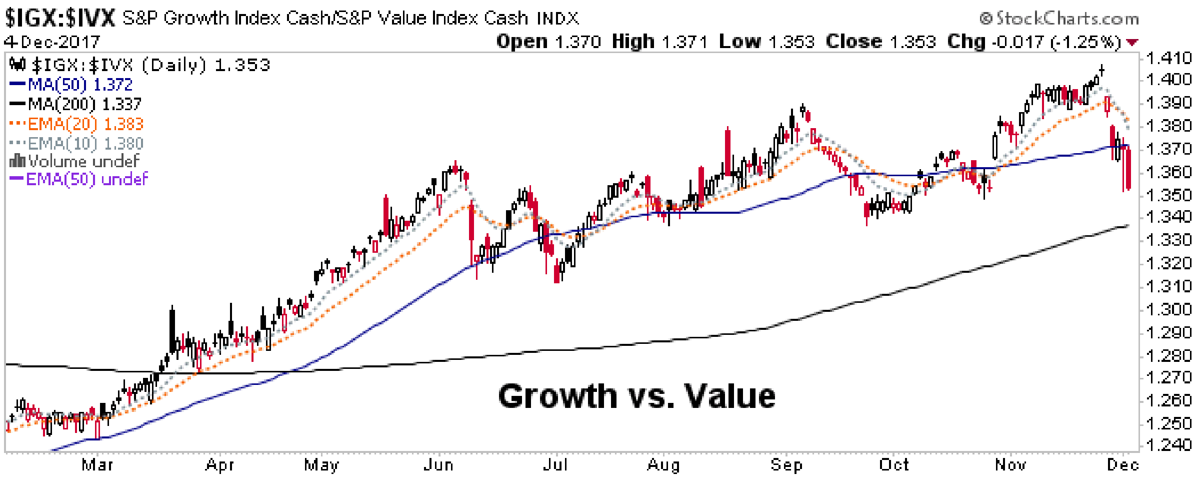
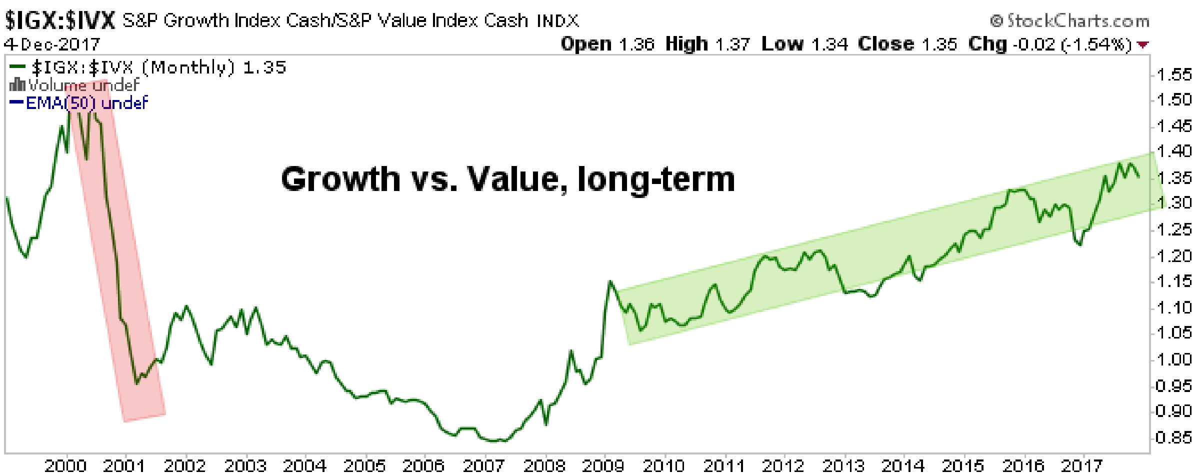
It continues to appear that the market is rotating from the overdone big sexy tech names to the boring, old fart names. That is what happened in 2000, but...



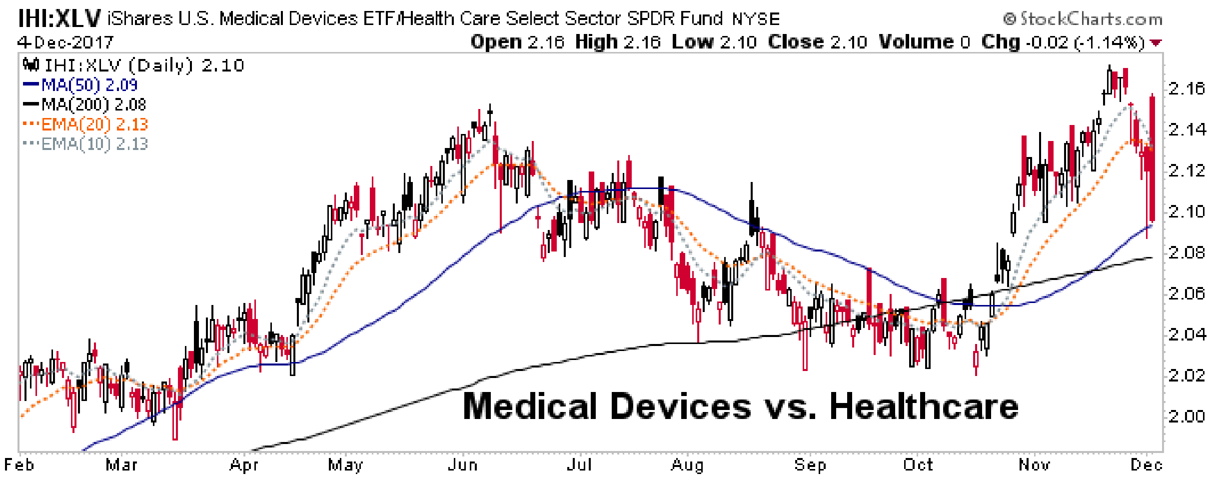
There is no sign as yet of a trend change in that regard. The first good signal on that would be if the chart above loses the September low and the SMA 200.

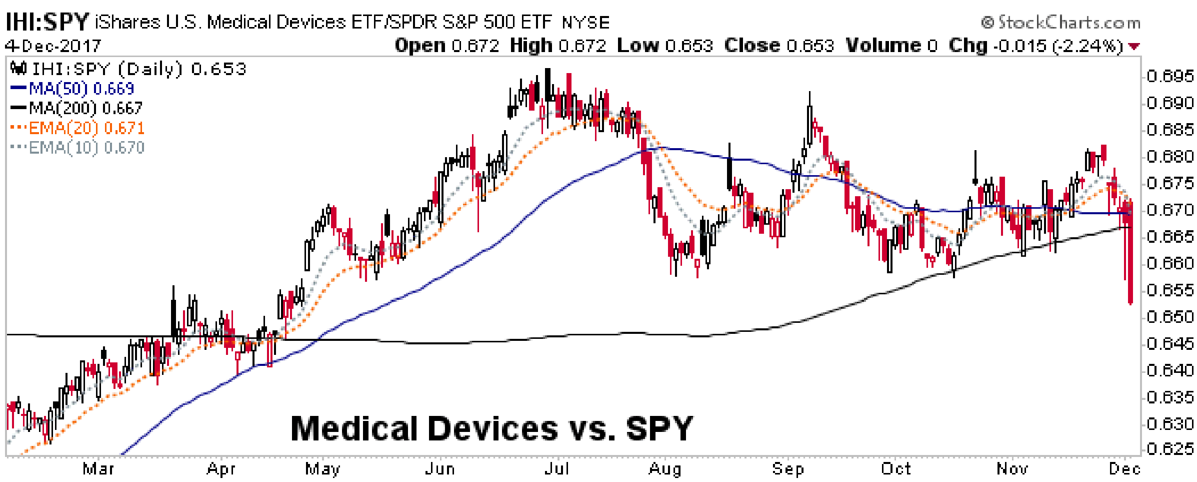


On to some sector comps, I don't like what is going on in Medical Devices and am naturally a weak hand because I am also the person who produced the questions about the sector's tax burden a couple of weeks ago. With the failure to replace the ACA, the sector's Obamacare *"device tax"* is due to return in January.

Did the Republicans sell the sector up the river as part of their need to fund massive corporate welfare elsewhere? My question then was could market analysts be so dim as to not see a rapidly oncoming tax burden? Recall that the sector was leading then. Now, not so much.

I try not to write in alarmist ways that may aid in emotional decision-making. But I took the profit in IHI as noted last week and am watching individual companies on a company-by-company basis. For instance, MDT still looks technically okay to me and new position NUVA is apparently going up for NUVA reasons, not sector reasons. We will see, but generally I have not found reason not to be concerned about the impending tax situation.





Financials vs. SPY gain what may be a relative value bid along with an interest rate bid. Energy is still okay, but I took the profit yesterday. Healthcare took a hit yesterday with a lot of news flying around, including CVS's bid for Aetna, Republican failure to reform and, of course, tax policy. Industrials and Materials seem stable and Tech's leadership is still intact. I would not be surprised to see the overbought Dow/SPX fade in relation to big tech on a new rotation back to growth. But we can let market activity sort that out.

See the charts on the following page.

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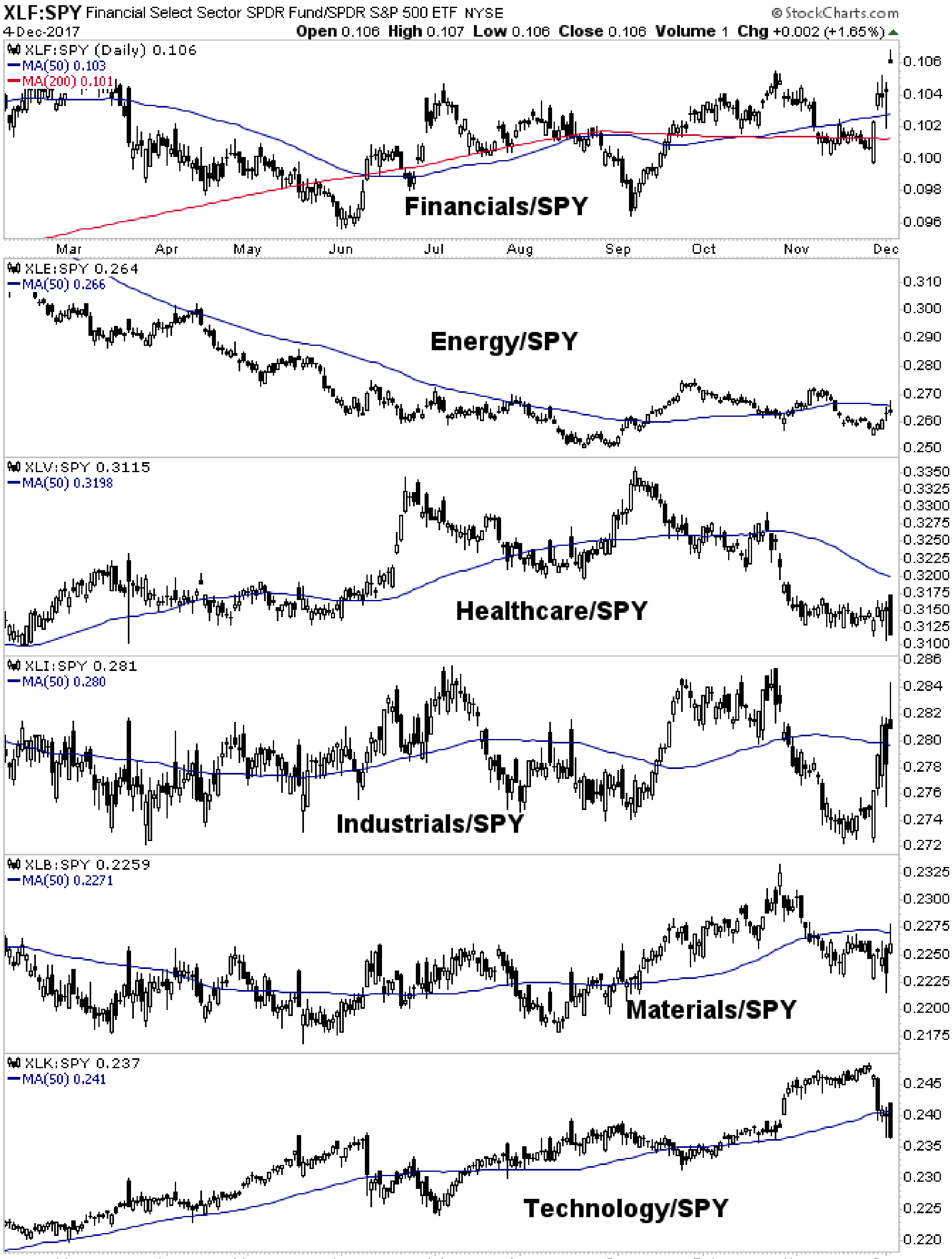

XLF:SPY Financial Select Sector SPDR Fund/SPDR S&P 500 ETF NYSE
© StockCharts.com
4-Dec-2017
Open 0.106 High 0.107 Low 0.106 Close 0.106 Volume 1 Chg +0.002 (+1.65%)
XLF:SPY (Daily) 0.106
MA(50) 0.103
MA(200) 0.101
Financials/SPY
XLE:SPY 0.264
MA(50) 0.266
Energy/SPY
XLV:SPY 0.3115
MA(50) 0.3198
Healthcare/SPY
XLI:SPY 0.281
MA(50) 0.280
Industrials/SPY
XLB:SPY 0.2259
MA(50) 0.2271
Materials/SPY
XLK:SPY 0.237
MA(50) 0.241
Technology/SPY
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec

From NFTRH 476's Wrap Up summary: *"any change in character (i.e. if Friday's VIX spike and market Micro Blip do not promptly renew bullish activity heading into year-end) could be a caution flag. When markets change character it is always good to take note."*

The VIX popped a bit yesterday and needs to calm down. I did raise cash out of the medical device sector (MZOR, after its plunge and rebound) and Uranium (because I did not like the fundamental reason for the big spike upward) because as noted at the end of the report, cash for my personal situation was as low as I want it to be in a risky (yet still bullish) market.

Uranium Sector

As to Uranium, I edited in the reason for the big spike into a public post yesterday and that I was not comfortable with that reason as any sort of real fundamental (as opposed to knee jerks pumping in). Then, a learned subscriber checked in and put definition to that reasoning, making me doubly satisfied with taking the profit, which eased an otherwise difficult day for my holdings, on balance. In a nutshell, there is a reason that Kazatomprom cut production by 20%, and that reason is over-supply vs. demand. In other words, they are getting in line with slack demand. It seems not much different than when OPEC schemes up its production cuts against poor fundamentals.

Bottom Line on U.S. Stock Markets

Rotation has been a theme of this market since Trump was elected. You know by now that I do not like the president of the United States. But the stock market that he touts and pumps like a crackhead casino patron on Twitter, is just fine as of now.

I am trying to stay disciplined to the 3 Amigos theme, which would see L/T yields rise (10yr to 2.9%), the yield curve flatten or invert, and stocks fully retrace vs. gold. There is no guarantee that the limits we are watching will be registered before a real strong correction or bull market end.

But, by the same token, the shorter-term views above show no reason to abandon the view that the market is up-trending and taking a healthy rotation right now as over-played areas get dumped and new ones become overbought. I don't discount the idea that, before year end, casino patrons could slam back into the Nasdaq 100 type plays.

Semiconductors remain a wild card, because real, though preliminary signs of fundamental and technical degradation could be developing there. If that is the case, I see no reason not to start developing a case for a negative economic cycle out ahead. It could be slow motion stuff, but in

January 2013 we began developing a case for the opposite, economic growth. Then slowly things ground positive over the subsequent years, right up to today's joy fest. Just sayin'…

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See NOTES, next page.

NOTES

Biiwii: But it is what it is

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See **ABOUT THE AUTHOR** on the following page.

ABOUT THE AUTHOR

Gary Tanashian is a financial market analyst, writer, and editor. He provides "Accurate financial market analysis and commentary focused on unbiased reality as opposed to preconceived assumptions."

As a long-time participant in financial media (published at leading outlets like SeekingAlpha, Investing.com, and many more), Gary has learned how to communicate with people about often-complex material. He knows that it requires hard work, but he believes that there is no other way in order to provide the highest quality service to the public.

Gary is the owner of Biiwii.com (launched in 2004) and, later, NFTRH.com (launched in 2014).

Biiwii is a financial website that got it RIGHT in the run up to 2008, unlike many in the financial services industry.

He is the owner and publisher of the weekly premium financial market report Notes From The Rabbit Hole, which was launched in September, 2008.

Notes From The Rabbit Hole is a premium newsletter service (including detailed in-week updates) for people who care more about financial market realities than having their preconceived notions reinforced. http://nftrh.com/nftrh-premium/

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