

Market Edge® Weekly Market Update Friday, October 23, 2009

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Market Recap (10/23/2009)

Index	Close	Week Chg	Week % Chg	YTD Chg	YTD % Chg
DJIA	9972.18	-23.73	-0.24	1195.79	13.63
DJ TRAN	3804.95	-218.20	-5.42	267.80	7.57
DJ UTIL	377.43	-4.60	-1.20	6.67	1.80
NASDAQ	2154.47	-2.33	-0.11	577.44	36.62
NYSE	7066.80	-67.16	-0.94	1309.75	22.75
AMEX	1834.13	-26.48	-1.42	436.60	31.24
S&P 100	500.00	-2.89	-0.57	68.46	15.86
S&P 500	1079.60	-8.08	-0.74	176.35	19.52
RUS 2000	600.86	-15.32	-2.49	101.41	20.30
10 YR BOND	3.48	0.06	1.75	1.24	55.36

Bears Are Back

After two weeks of strong rally, the bulls ran out of gas at S&P 1100. An intraday downside reversal on Wednesday signaled a pause in the October run.

Equities opened modestly to the upside on Monday. When selling pressure failed to materialize, the bulls ran the Dow Jones Industrial Average (DJIA) to an advance of 122 points by midday. Of note, the S&P 500 reached the 1100 level on an intraday basis for the first time this year. Prices held for the rest of the day with only minor erosion as traders awaited the quarterly report for Apple (AAPL) after the close. The blue chips posted a gain of 96 points to DJIA 10,092 and all three major averages made new highs for the year.

Apple's numbers were spectacular. The computer giant beat on earnings, revenues and margins by a landslide proportions. AAPL traded up by 5% on Tuesday but it was not enough to lift the overall market. Equities traded lower throughout the session although the losses were modest. The DJIA shed 50 points.

After dipping slightly at the open on Wednesday, the bulls rallied the DJIA to a 78 point advance and the S&P 500 back to the 1100 mark. However, the gains were short-lived and when it became apparent in the final hour that the bulls would not be able to re-rally back to S&P 1100, stocks reversed course into negative territory and closed at the lows of the day. The blue chip index dropped 92 points to DJIA 9,949.

Equities rebounded sharply on Thursday. While earnings from five components of the DJIA were well received and lifted the DJIA by 70 points in morning trading, the S&P 500 and NASDAQ were little changed halfway through the session. When the DJIA pushed its gains to triple digits in the afternoon, the other two major indexes climbed aboard for the ride. The DJIA rose by 132 points as all three major averages sat just below their year highs.

Blockbuster earnings from Amazon.com (AMZN), a solid beat by Microsoft (MSFT) and a 9.4% increase in existing home sales failed to lift stocks to new highs on Friday. Although AMZN shares jumped 27% and MSFT shares added 5%, the market gave back most of Thursday's gains. The DJIA dropped 109 points.

For the week, the Dow Jones Industrial Average declined by 23.73 points (-0.2%) and closed at 9,972.18. The NASDAQ lost 2.33 points (-0.1%) to settle at 2,154.47 while the S&P 500 shed 8.08 points (-0.7%) to finish at 1079.60.

The VIX indicators, measurements of volatility in the market, have trended down to the lowest levels of the year. The best-known VIX, which has the S&P 500 as its underlying index, touched 20 this week while its NASDAQ counterpart fell to 21.

The VIX tends to drop as the market rises. Low readings indicate complacency in the marketplace and suggest that stocks are poised for a pullback. Yet, the VIX has dropped quite sharply from the 29-30 area and the major indexes continue to make new highs. What's behind this seemingly contradictory behavior?

The explanation likely is found within historical context. The oddity in the VIX isn't its current levels. The once-in-a-lifetime readings that occurred in the past two years are the anomaly. It was rare to ever have VIX readings above 40. At the height of the financial crisis last year, the VIX closed over 80 on two occasions.

We have been gradually receding from those highs during the past twelve months. At the March bottom, the VIX was 50. At the start of this month, the VIX was at 28. Now, at 20-22, the VIX suggests that stocks are ripe for a fall. However, from early 2005 to the fall of 2007, the VIX was range-bound from 10-20. Are we too high or too low on the VIX?

Simply put, the VIX is flashing a warning sign that complacency is seeping into the market. As history shows us, the VIX can slip lower from its current 20-22 area without incident. What we have witnessed over the last year is a marketplace undergoing the process of readjusting and recalibrating to "normalized" VIX readings after the shock caused by the global financial crisis.

by Mark Huard

Comments, feedback and e-mail requests for topics of future Weekly Commentary articles are welcome at mhuard@marketedge.com.

Next Week

The economic calendar kicks off on Tuesday with the latest figures for the Case/Shiller Home Price Index, durable goods orders, and consumer confidence. An update on new home sales and the weekly tallies for oil and gas inventories are due out on Wednesday. On Thursday, we will get a look at Q3 Gross Domestic Product (GDP) as well as the weekly totals for jobless claims. The week concludes with new numbers for the Chicago Purchasing Managers Index, personal income, personal spending, the employment cost index, and the University of Michigan's consumer sentiment survey on Friday.

Significant Numbers To Watch

DJIA

- 9116 - Support, the 08/17/09 low
- 10310 - Resistance, the 10/34/2008 low
- 9577 - 50-day simple moving average
- 8522 - 200-day moving average

S&P 500

978 - Support, the 08/17/09 low
 1098 - Resistance, the 10/03/2008 low
 1036 - 50-day simple moving average
 909 - 200-day moving average

NASDAQ

1929 - Support, the 08/17/09 low
 2318 - Resistance, the 10/03/2008 low
 2059 - 50-day simple moving average
 1757 - 200-day moving average

What To Watch For Next Week

Market At-A-Glance Charts (10/23/2009)

DJ Industrials

Close: **9972.18**
 Change: **-109.13**
 % Change: **-1.08**
 Open: **10099.9**
 High: **10109.57**
 Low: **9932.5**



NASDAQ Composite

Close: **2154.47**
 Change: **-10.82**
 % Change: **-0.50**
 Open: **2186.64**
 High: **2190.48**
 Low: **2149.35**



S&P 500

Close: **1079.6**
 Change: **-13.31**
 % Change: **-1.22**
 Open: **1095.62**
 High: **1095.83**

Low: **1075.49**



Russell 2000

Close: **600.86**
 Change: **-12.52**
 % Change: **-2.04**
 Open: **614.73**
 High: **615.62**
 Low: **599.95**



DJ Transport

Close: **3804.95**
 Change: **-137.73**
 % Change: **-3.49**
 Open: **3942.32**
 High: **3942.32**
 Low: **3790.93**



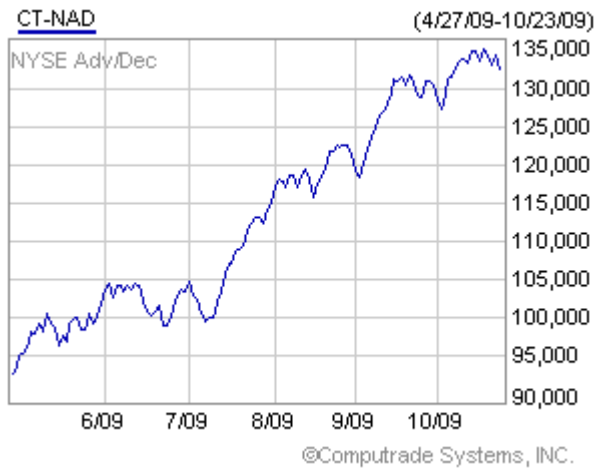
DJ Utilities

Close: **377.43**
 Change: **-6.25**
 % Change: **-1.63**
 Open: **383.64**
 High: **383.97**
 Low: **375.95**



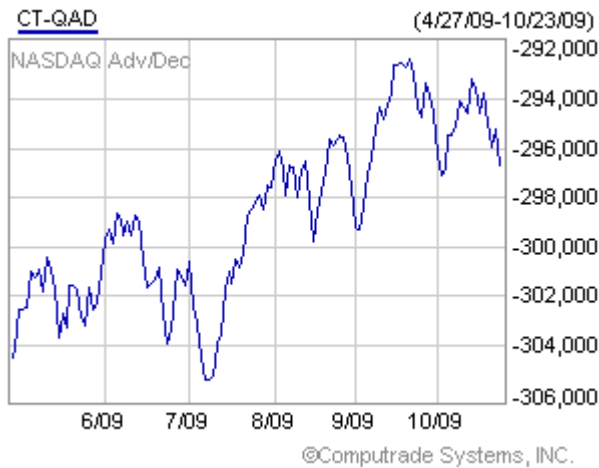
NYSE Adv/Dec

Close: **132186**



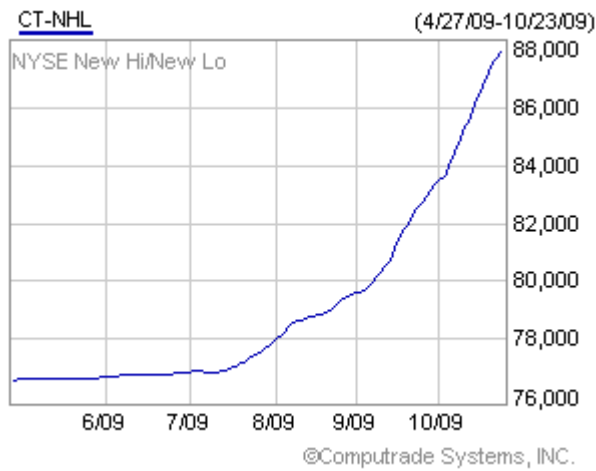
NASDAQ Adv/Dec

Close: **-296717**

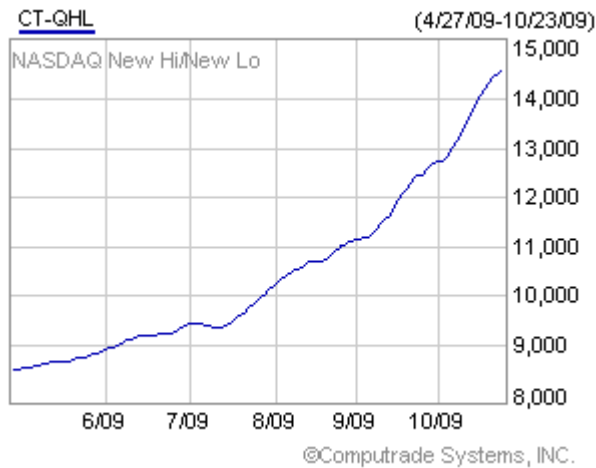


NYSE New Hi/New Lo

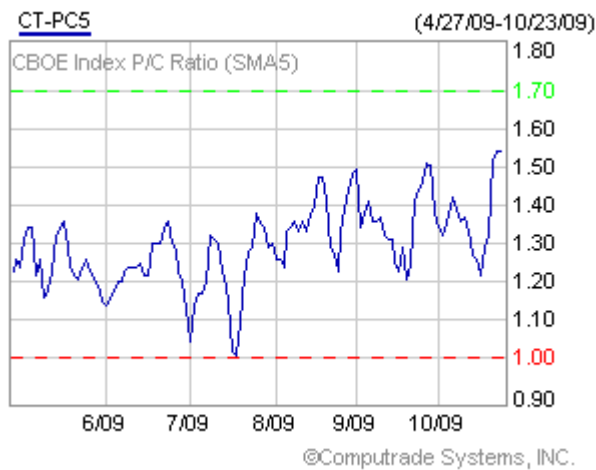
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NASDAQ New Hi/New Lo
 Close: **14541**



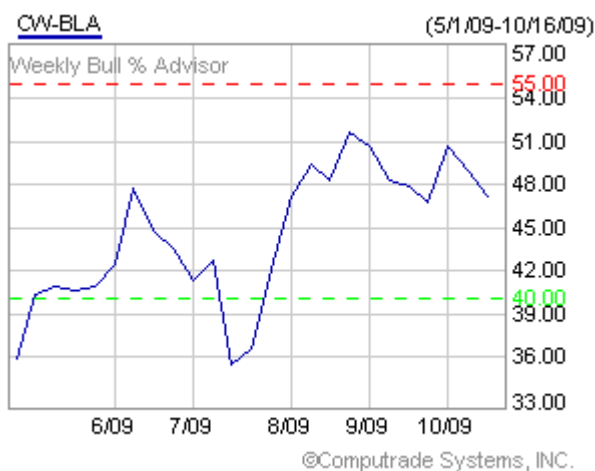
CBOE Index P/C Ratio (SMA5)
 (> 1.70 Bullish, < 1.00 Bearish)
 Close: **1.54**



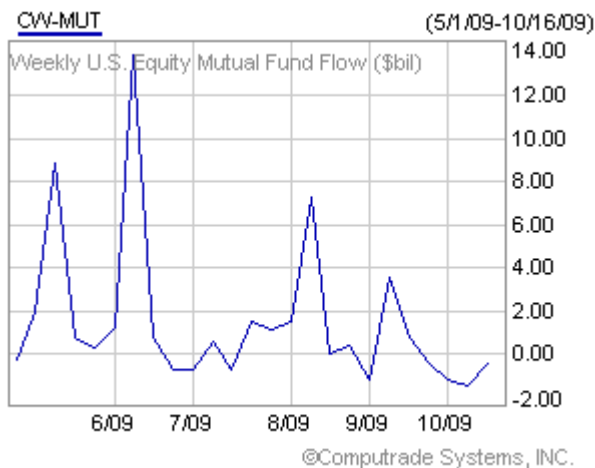
CBOE Mkt Volatility
 (> 30 Bullish)
 Close: **22.27**
 Change: **1.58**
 % Change: **7.64**
 Open: **20.7**
 High: **22.59**
 Low: **20.34**



Weekly Bull % Advisor
(< 40 Bullish, > 55 Bearish)
Current % Bullish: **47.2**



Weekly U.S. Equity Mutual Fund Flow (\$bil)
Previous Week's Inflow (\$bil): **-0.4**



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