To

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21ST CENTURY ALERT

MORNING BRIEFING

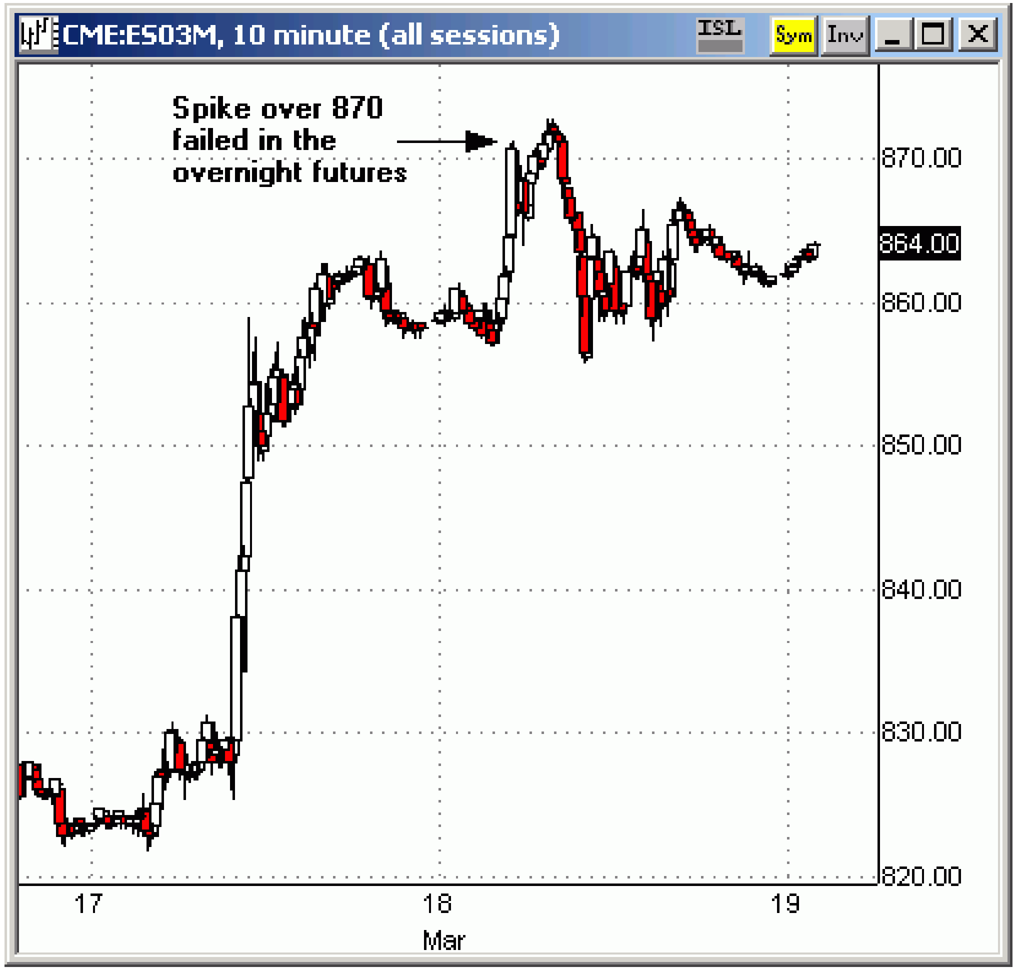
WEDNESDAY a.m.
March 19, 2003

Not So Insignificant

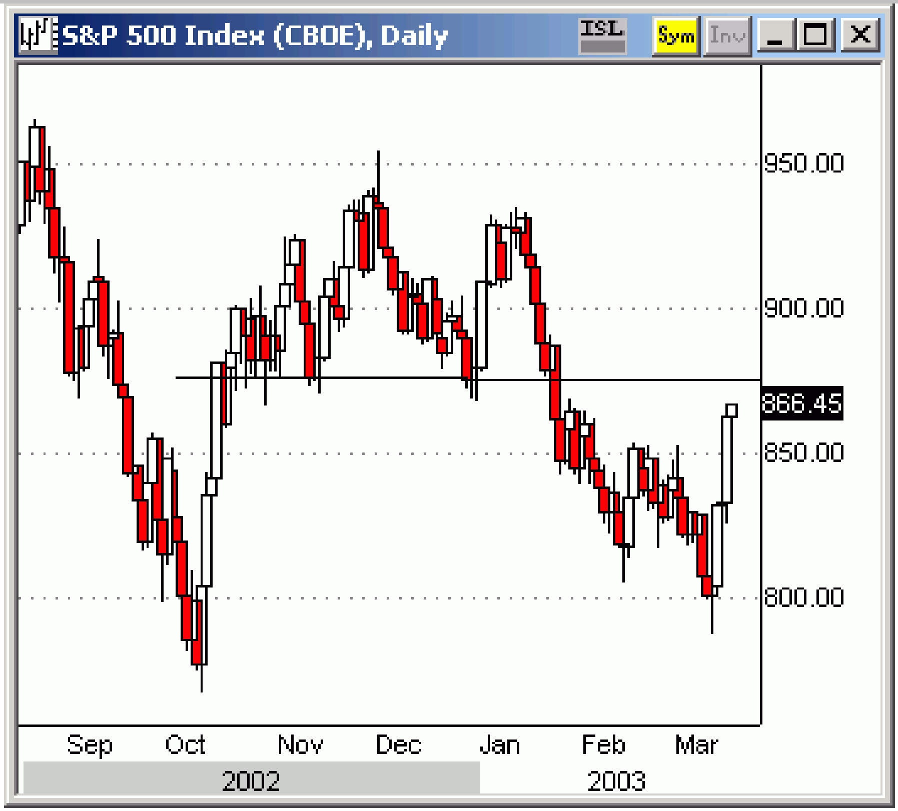
by David Nichols

Yesterday was a seemingly insignificant day -- just a sideways drifty congestion after a very large move up. That's an undeniably bullish way for the market to respond after such a straight-line move.

But a look at Tuesday 's overnight session in the futures gives a more interesting picture of the action. You can see what I mean on a 10 minute chart of the Globex futures on the S&P 500 (symbol ESM3):



In the middle of the night, the futures made a big run over 870, on the heels of Europe's strong start. But by the open in the US, the markets had stalled. That pre-market spike that failed at 870 was actually more important than it might appear, because this is the neckline of the "head-and-shoulders" pattern that foretold the breakdown into the February and March lows. This SPX 870 level was a very important level on the way down, making it also an important level now that we're trying to get back over it.



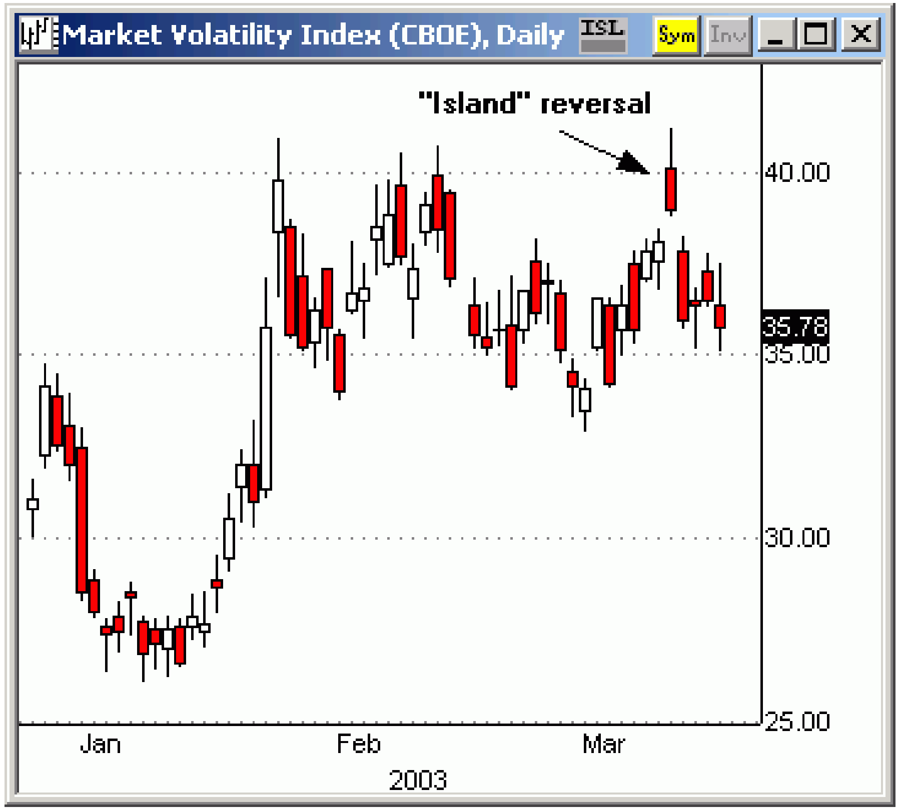
The first attempt to get through -- while coming on scant overnight volume -- was thoroughly rejected. Adding in the overnight session actually gives this chart a much more ominous look, I think. I'm going to stick by my forecast that the markets should retrace more before heading higher, and that this would ultimately be a much healthier way for the intermediate-term uptrend to develop.

In the short-term, the traders at Rydex have become very anxious that the train is leaving the station without them. At SentimenTrader.com -- now available to 21st Century Alert subscribers -- Editor Jason Goepfert has a nifty indicator that tracks the momentum of money flowing into the bullish and bearish Rydex Funds. He calls this the "Rydex RSI Spread", and it just hit 100%, which has it pegged to the limit at a record high reading. This indicates that the traders at Rydex have switched to bullishness more quickly than any other point in the bear market.

[Image 3]

As the chart plainly shows, this is a very valuable indicator in the short-term. These extremes of bullishness at Rydex are strongly correlated with short-term tops. This indicator, and the unusually low put/call ratio yesterday, show that there has been a real burst of enthusiasm for stocks, at least among the "hot money". The market invariably likes to disappoint sentiment extremes, even if it's just in the short-term.

Longer term, the sentiment picture is still fuzzy. The VIX still resides at relatively high levels, in the mid-30s, and lately just hasn't been able to develop much momentum in either direction. The VIX has been weird lately. Although now there are signs that the decline in the daily VIX is starting to gain traction; and the "island" gap left behind on that one day spike over 40 is a strong reversal indication.



Ultimately this is a rally that can really extend, given the right flow of information hitting the markets at opportune moments. There is still plenty of doubt and bearishness lingering around from the brutal bear market. If this is the start of a true, sustainable uptrend, then there should be much bigger gains coming.

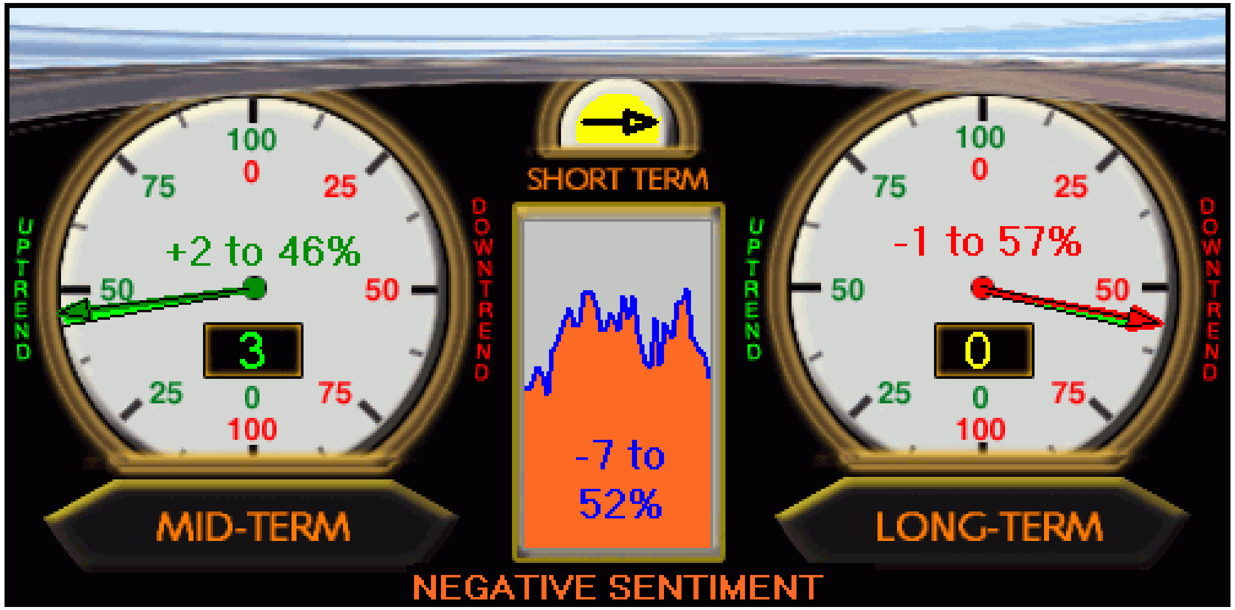
But right now this rally still looks too much like so many other bear market rallies that have burned brightly, only to flame out just as spectacularly. We have to remain skeptical about the longer-term prospects for the market, while the same destructive patterns keep playing out over and over again.

A scary looking little bout of selling right now would actually make it much more palatable to enter long positions, as it would stoke up the necessary levels of doubt to fuel a bigger move. The markets will need plenty of bearish fuel to push through the crucial SPX 870 level.

And getting through SPX 900 and the big line at SPX 950 is going to take a serious amount of energy. Perversely, if you're long-term bullish, you actually want to see some decline phases that pack a wallop. Only then could bullishness actually end up being rewarded for more than just a few weeks.

Sentiment Dashboard

by Adam Oliensis



SENTIMENT TANK: The tank drained 7 points down to "52% full" of negative sentiment on Tuesday. In last night's Closing Bell I wrote that the VIX was not declining much. Well, the tank IS declining, and represents a draining of fear. Why? The daily aggregate Put/Call Ratio was down to 0.61 on Tuesday. That's close to levels that have lately been associated with short-term tops and that figures into the calculation of the tank. The tank is now in neutral territory relative to its levels over the past year.

SHORT-TERM: The hourly gauge remained in neutral today. Because the VIX has not dropped precipitously we haven't seen the clearest of signals here. The market's job is to make it awkward to trade and it's doing a darn fine job.

MID-TERM: The mid-term gauge progressed by 2 points to 46% in its advance phase. The CDI remained at a bullish 3. There's still plenty of room for this up trend to continue in terms of the momentum of sentiment.

LONG-TERM: The weekly gauge regressed by 1 point to 57% in its decline phase with a CDI of 0.

The dashboard is most useful at extremes of sentiment. We have experienced a strong rally over a few days, but the whole dashboard still has a neutral feel to it. All three gauges are close to middling levels. The tank is smack in the middle and the long-term CDI is neutral. Meanwhile overhead resistance and war approach. Of course we could unwind more war premium, but we're getting awfully ripe for a dip to find out if there are more buyers under the market.

Definitions

You can find this article on the Web at:
http://www.21stcenturyalert.com/page/tcx/morningbriefing/2003-03-19/