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From: 21st Century Alert

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21ST CENTURY ALERT

MORNING BRIEFING

FRIDAY a.m.
March 21, 2003

V-Bottoms

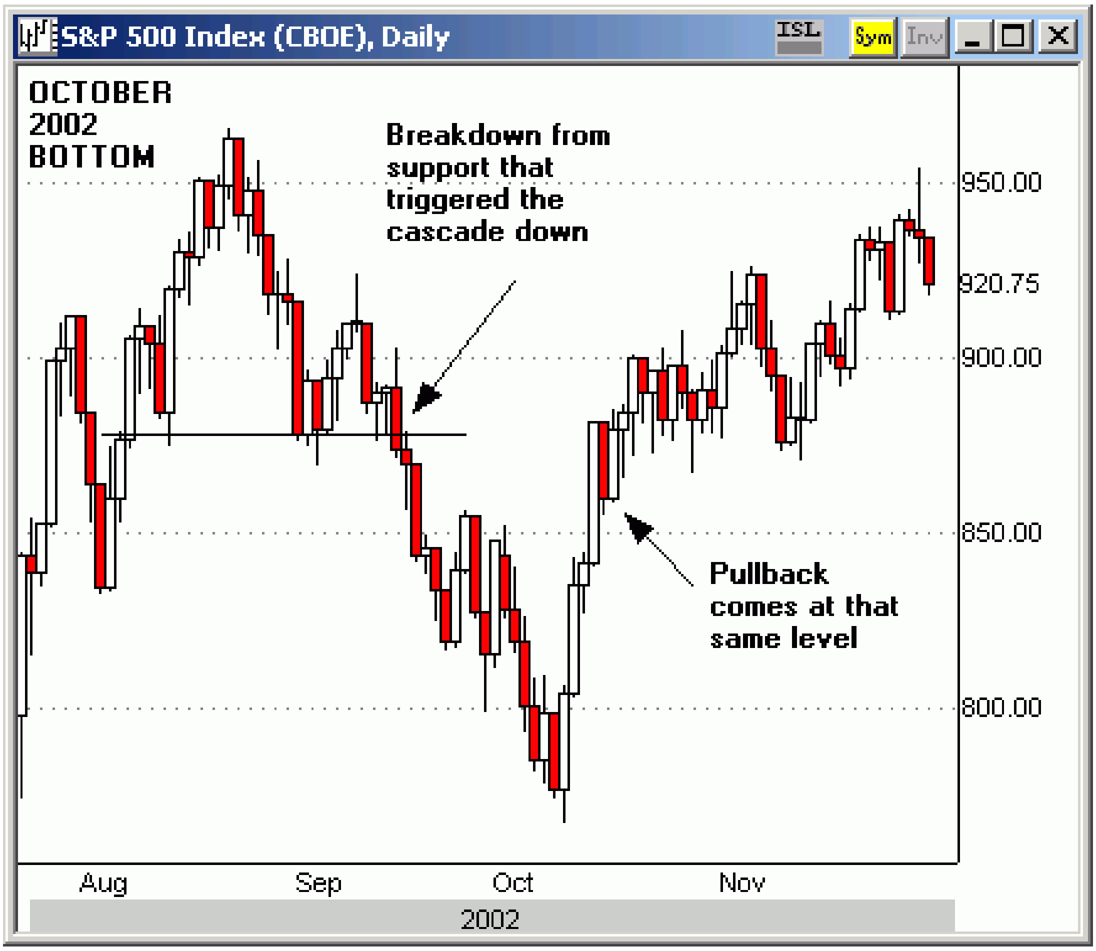
by David Nichols

This move off the bottom has been spectacular. After seven straight up days, many are convinced there's no reason why the upward momentum should ever wane. It looks like this market can just march straight back up to the "neckline" at SPX 965 without even a pause.

You can also count me among those that think this rally can get all the way to the neckline, and perhaps beyond. Absolutely. But I just don't think it's going to happen in a straight line of 18 consecutive up days.

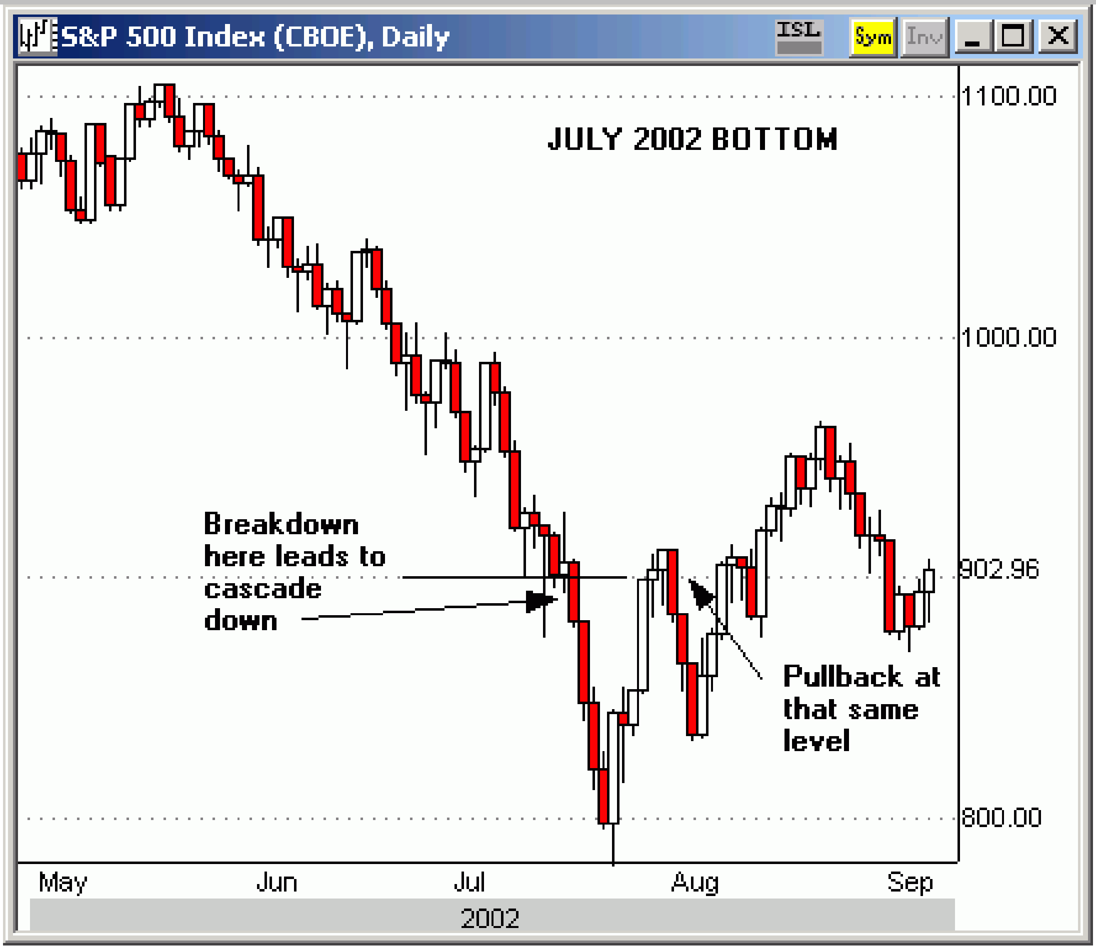
The markets are tracing out another classic "V-bottom", which gets its moniker because its shape on the chart resembles the letter V. Remarkably, this is the *fifth* V-bottom of the bear market. So we're now sitting on a handy collection of recent V-bottoms to look over, to see if there are any common characteristics.

One thing that's apparent wtih V-Bottoms is the way in which price is magnetized right back up to the breakdown point -- where it then stalls out. Here's what I mean on the V-bottom from this past October:

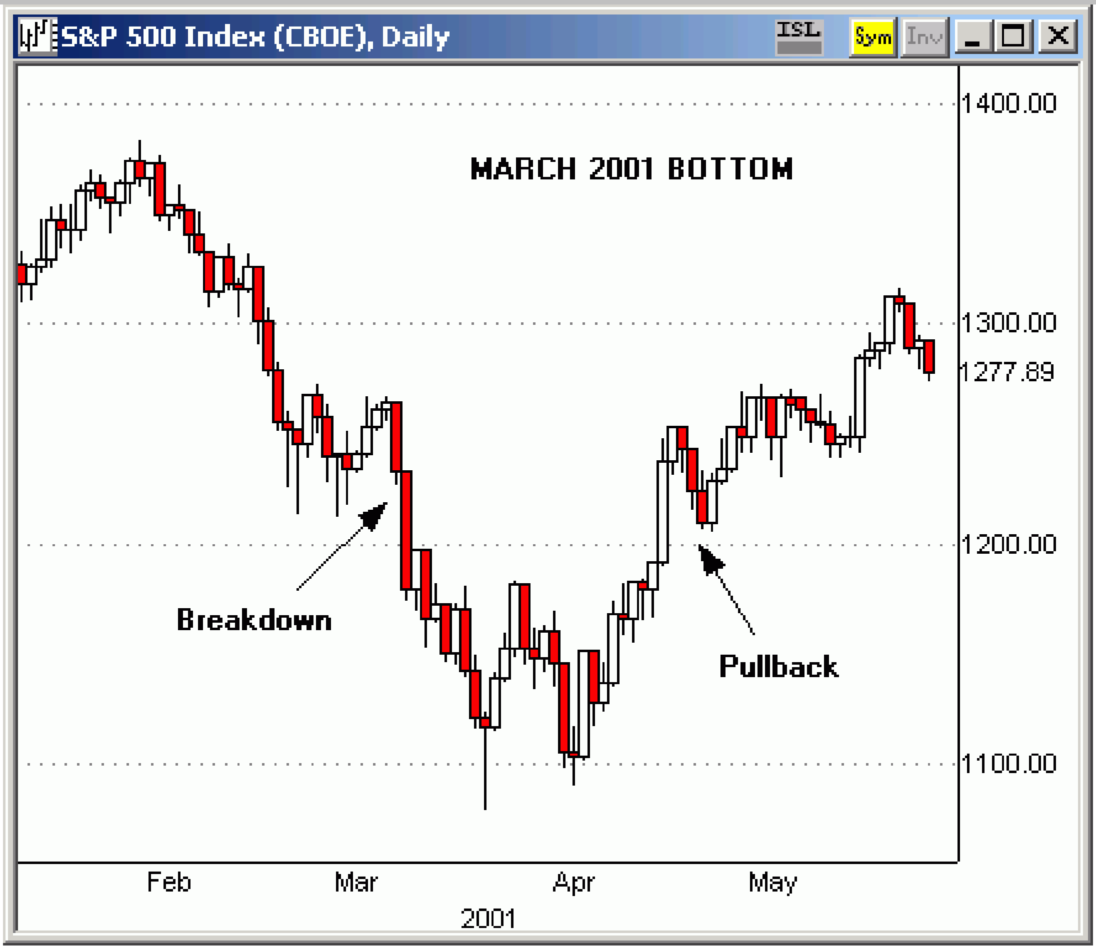


This is precisely the kind of pullback I've been looking for recently. It's very likely that this initial thrust higher will stall near its breakdown point, around SPX 870. I'm confident saying this, because, well...that's what all the previous V-Bottoms have done. After all, this is a pattern spawned from the same emotional raw material, so they tend to play out in the same general way.

Let's work back and take a look at all of them.


S&P 500 Index (CBOE), Daily
ISL
Sym
Inv
JULY 2002 BOTTOM
1100.00
1000.00
902.96
800.00
Breakdown here leads to cascade down
Pullback at that same level
May
Jun
Jul
Aug
Sep
2002


S&P 500 Index (CBOE), Daily
ISL
Sym
Inv
SEPTEMBER 2001 BOTTOM
1200.00
1167.10
1150.00
1100.00
1050.00
1000.00
950.00
Breakdown candles
pullbacks
Aug
Sep
Oct
Nov
Dec
2001



Another common element among all these Vs is that after the pullback, the markets then have the necessary energy to push through and continue the second half of the journey upwards.

Now let's see how this might play out on the current bottom:

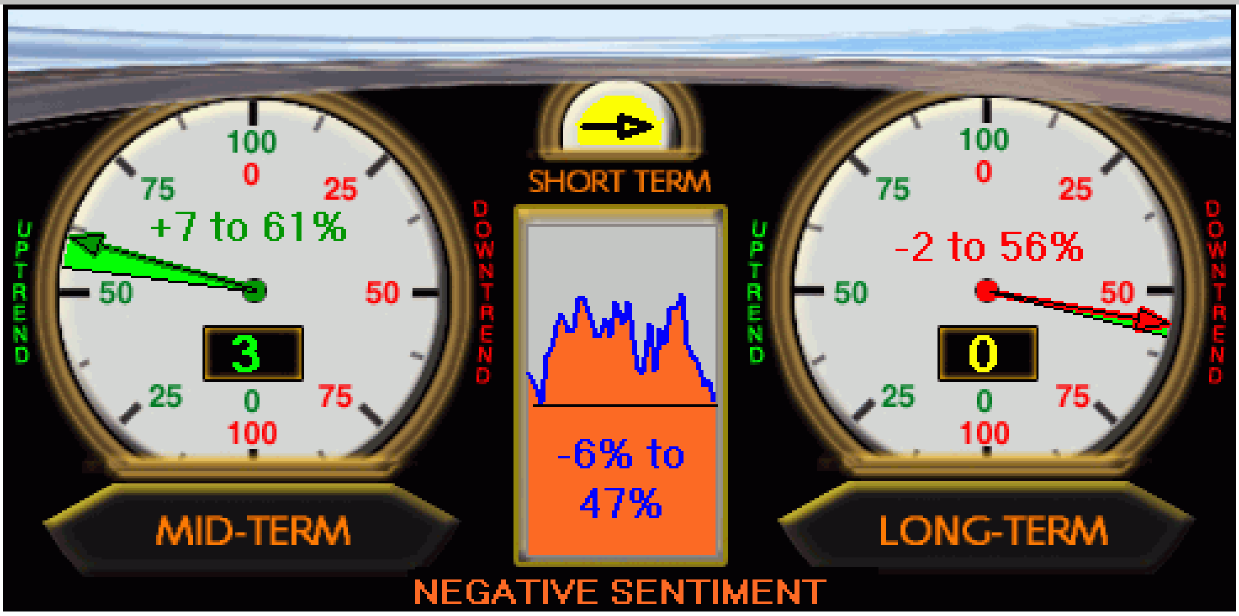
One of the things that was different on this bottom was the strange behavior of the VIX. We didn't get a good reversal signal, so there wasn't a high-odds play to step in, as with some of the previous bottoms.

But really, trying to step in at the precise bottom is not the safest way to play these moves. The safest way is to enter after the pullback, as a much bigger portion of the risk is removed by that point. After all, at the bottom it just might have been a bigger washout, as markets are in a very precarious state at those dramatic lows.

Over the next week or so -- maybe even over the next few days -- there is a strong likelihood we'll get a chance to enter Rydex bullish positions on a pullback, just like these previous bottoms. In fact, the gains that are still coming should be larger and less gut-wrenching than those seen already off the bottom.

Sentiment Dashboard

by Adam Oliensis



SENTIMENT TANK: The tank drained 6 points to "47% full" of negative sentiment on Thursday. That's the lowest level since early February. We're right in the middle of the range here, so there's no preponderance of tension one way or the other. The overabundance of bearishness has been "smited" as the market has rallied (the tank is down from 85%). The tank can drain lower IF we're moving into a more bullish market overall. However, if this is a bear market rally, then we've drained about as much bearish sentiment as we can. This market will now have to retreat or else grant itself a more bovine nickname.

The 20-dma of the Put/Call Ratio is still near 0.75, above the 0.72 level, which has been its HIGHEST major turning point. This measurement could drop another 12 points by longer historical standards, which would project further price appreciation. However, the P/C 3-dma has dropped to 0.63, which is getting close to as low as it has tended to go during the bear market. (Note: It's common for the 3-dma of the Put/Call Ratio to move low in its range as options expire. That could be the subject of endless speculation, but for whatever reason, it does tend to be the case.)

In contrast the VIX remains at a still-high 35. Markets do not tend to "top out" with the VIX at 35. So, what can we conclude? That this is a non-normal market. We're at war. And Expiration is here. Not that those two are of equal importance, but both contribute to the unusual behavior of sentiment measurements. It's not so much that our gauges have gone wacky. They are working! And they're telling us that people are behaving strangely! In that light it might behoove one to EXPECT STRANGE BEHAVIOR in the markets.

SHORT-TERM: The hourly gauge remains in neutral. The markets have crept higher of the past few days without bringing down the premiums on options. It's been difficult for a retracement to gain any traction. As David often says, the VIX is *anti-persistent*. Since the VIX has remained between 35 and 40 since January with only the briefest reconnaissance trips outside that range, this stagnant behavior will have to break one way or the other very soon.

MID-TERM: The mid-term momentum moved up 6 points in its advance phase to 61% on Thursday. However the CDI regressed a point to 3. It's either backing up to make another surge in its advance phase or else it's starting to weaken. It may be hard to know after Friday's session because of Expiration, but I suspect we'll know more by Monday night.

LONG-TERM: The weekly gauge backed up another 2 points to 56% in its decline phase. The weekly CDI is at 0. This could be on the verge of flipping into an advance phase next week. We're heading right at the fulcrum on which it will either accelerate to the downside or else flip over.

Definitions