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21ST CENTURY ALERT

MORNING BRIEFING

WEDNESDAY a.m.
March 26, 2003

Click Here!

I need your help!

by David Nichols

The single greatest thing about the Internet is the "network effect," where the value of a community grows exponentially as the number of users grows. Fortunately for all of us, our 21st Century Alert site is experiencing this powerful network effect, as we've now reached a critical mass that is allowing us to expand our site in exciting new directions.

Quite simply, our most valuable resource is you, our subscribers. By aggregating people like you who are deeply interested in the markets, we can use our combined purchasing power to aggregate the best financial research in one spot.

I'm excited about what we're doing, and I can tell by the feedback that many of you feel the same way. So far I think we've done a good job developing 21st Century Alert by simply following our own instincts. But now it's time to get feedback from you on what you like about our service, what you don't like, and what you'd like to see.

For my part, I'm constantly thinking about new services and new research that we can add to the site. Right now we're putting the finishing touches on *Dr. Sassouni's Profit Prescription* , a new service focused on investing in healthcare, written by Dr. Chris Sassouni -- truly one of the world's leading experts in this field.

Chris is a very smart and thorough analyst, and is much sought-after by institutions for his insights. I have no doubt you'll be impressed with the caliber of his work, and his in-depth understanding of this specialized area of investing. His initial reports will be on our site within the next few days. His special white paper on investing in healthcare is an absolute must-read.

The next service I'm working on involves getting a better return on your cash. Let's face it, most people have most of their liquid holdings in cash -- for safety reasons -- and the current paltry returns from money market funds are just not cutting it. Within the next few weeks you can expect to find a service devoted to making you more than 1% on your cash. This is an extremely important area, and nobody else is addressing it.

I'm also going to add a service that provides expert advice on mutual funds. This will be very valuable for those who don't like to trade so much, or who just want to set up a 401k or IRA and be well-positioned for their own financial goals. We're working on bringing in the top person in this area -- a real legend. We hope to have this service for you soon.

But I want your ideas. I know we have an extremely bright group of subscribers -- I read the e-mails -- which gives us an unparalleled scout team for finding valuable financial research. If you have a favorite service, or an area that you'd like us to explore, then please -- make a suggestion!

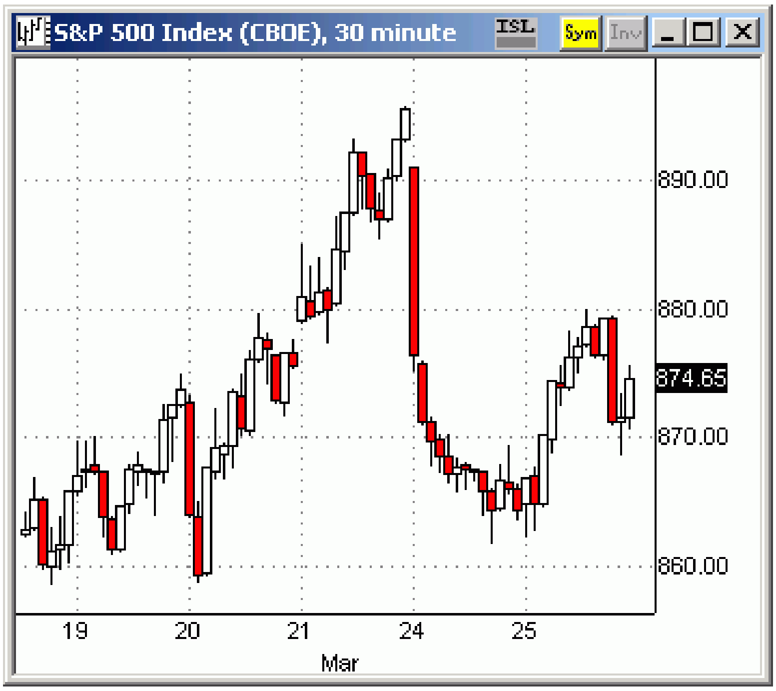
You can send your suggestions to comments@21stcenturyalert.com. This will go to a special e-mail box, where I'll work through each and every suggestion myself.

You can criticize our service too. Fire away! All I ask is that you keep it civil and constructive.

We rely totally on subscription revenue, so you can be sure that we'll listen to your feedback and tailor our service to suit your needs. Now is a great time to let us know how we're doing.

Market Flips

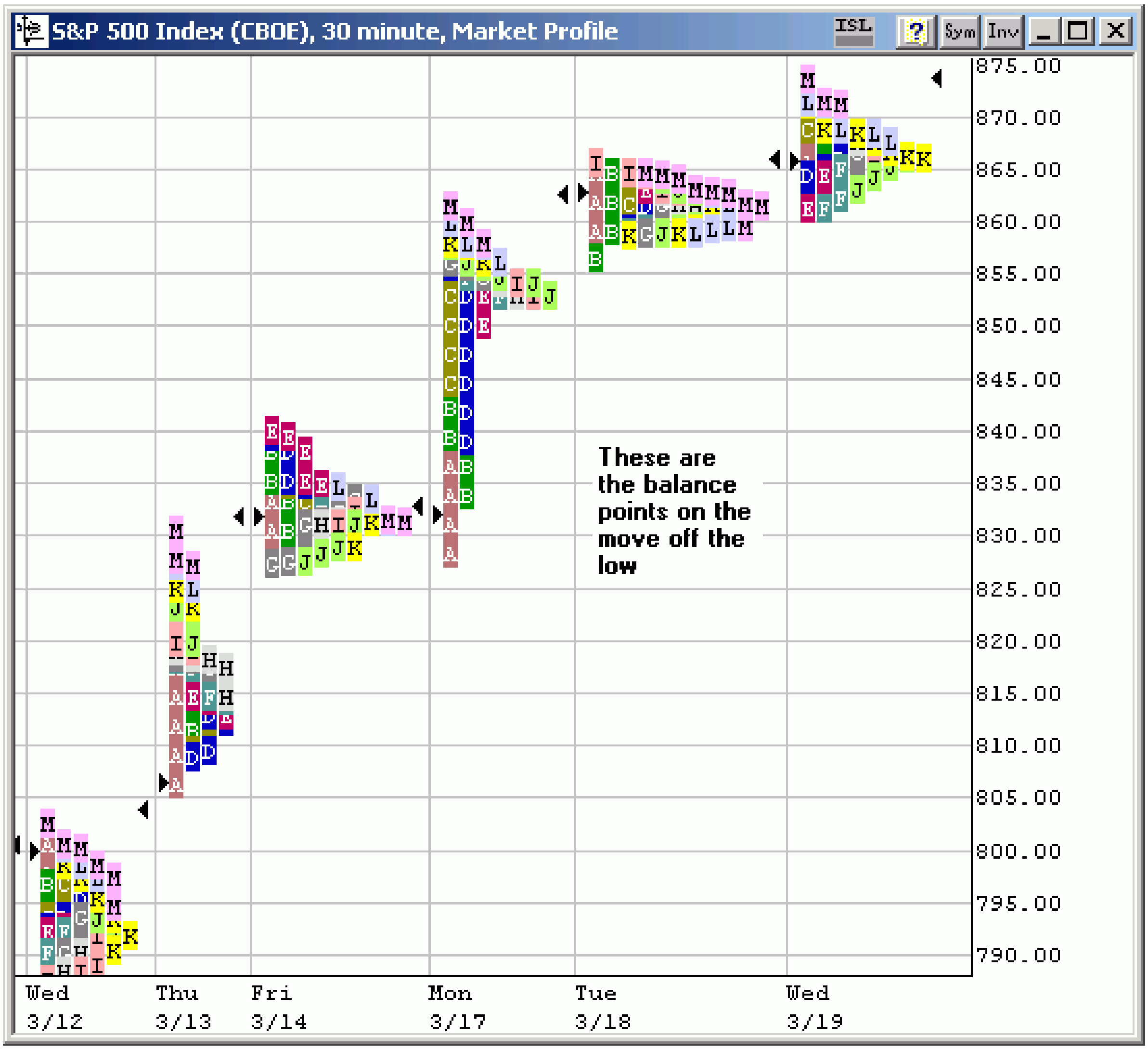
The market looks like it wants to get busy congesting right around the 870 level. We had the spike above it, and then the reaction lower, and now the market has oscillated up and down again in a narrower range.



The market is attempting to find equilibrium, even in the middle of the war. As I mentioned yesterday, congestion periods are the enemy of the "stop-and-reverse" methodology I've been advocating during this volatile, uncertain war market -- so if the markets are going to go into a period of congestion, we're going to step aside from this tactic.

The market went just far enough to take us out of the short, and enter us long -- but it didn't take off to the upside. Ideally, when you're entered on a stop-and-reverse, you want the market to really move. So if you were elected long yesterday, then simply exit the position -- at just below breakeven -- on a break below SPX 870. The only good scenario for the bulls here is a real take-off to the upside. It's possible, but it doesn't look likely.

The preferred longer-term scenario is actually a deeper pullback that finds strong support at one of the "market profile" balance points on the way down, and gives a reversal off it. That way the market could sling-shot back up over last Friday's highs, perhaps all the way to the neckline at SPX 965. My plan is potentially to go in on bullish Rydex positions if we get such a reversal off a support level, such as SPX 830.



An initial upside thrust like the one just seen invariably spawns a similar, companion thrust, after the counter-trend pullback is complete. Right now we're in the middle of this pullback.

Speaking of market profile, I promised a longer description of this indicator. Here is the explanation from the help section of my charting software, ErlangerQuote. You'll actually notice a quaint bit of history from the chart used as an example, which shows Human Genome Sciences (HGSI) up in the 170s. That stock has been in the single digits for months.

Market Profile

The Market Profile Plugin is one of those chart types that is so strange when you first see it, that if you had to figure it out by study with no manual to guide you, would take a very long time. An enigma wrapped in a mystery? Only until its explained, then it will make you smile when you see how it works. Look at the Market Profile chart below and compare it to the candlestick chart below it. They are both set to 30 minutes, and in fact a Market Profile chart must be one of the following: yearly, monthly, weekly, daily, 60, and 30 minutes. If you select any other value they will be moved to the closest value in this set. The chart is one of Humane Genome Sciences.

Bottom line is that the Market Profile organizes market activity into a logical and meaningful format that can be read and understood.

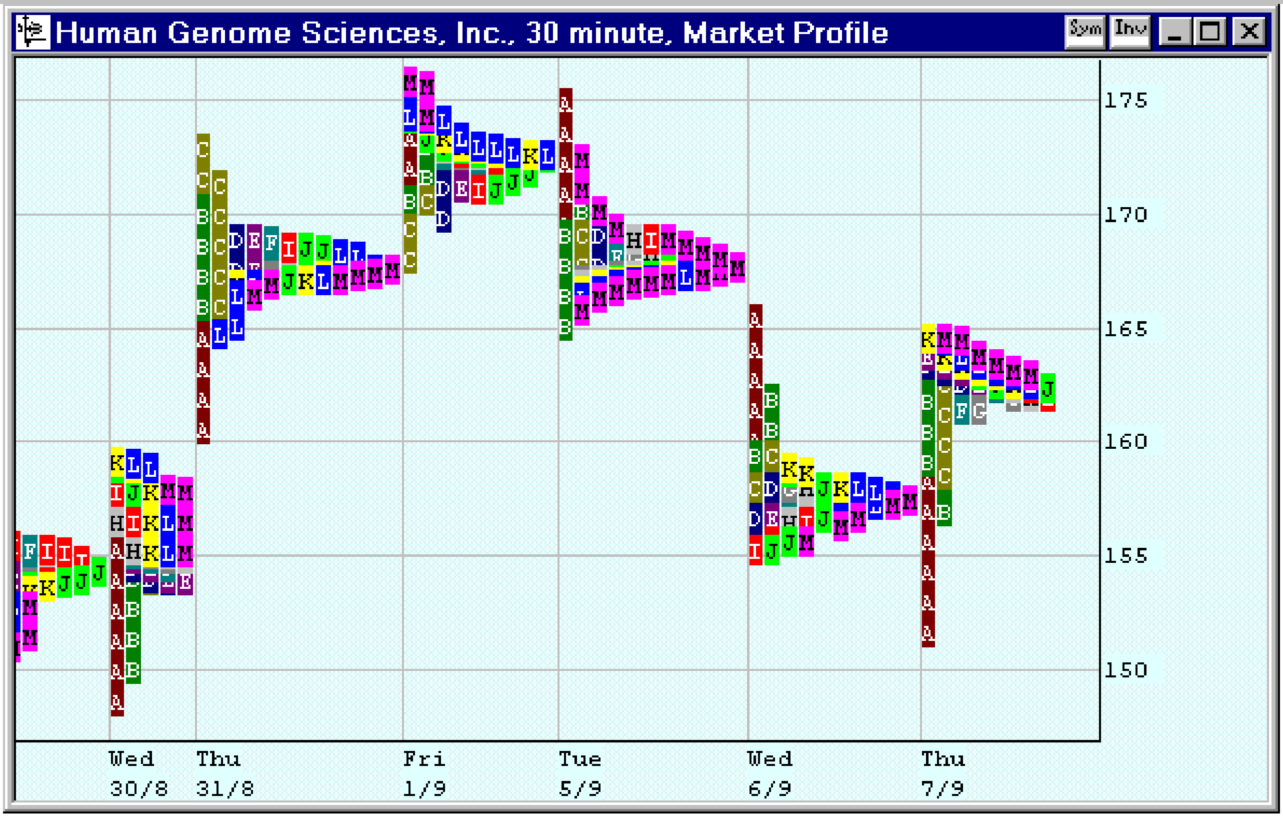
Lets first understand the mechanical action, then we can learn about the more sophisticated ideas behind this system. The figure below is a 30 minute chart, so we see exactly 13 bars per day in the candlestick chart (6 1/2 hours in a trading day is 13 30 minute bars). In the market profile there are 13 small boxes with letters in them from A to M, each box has a different colored background. Each letter represents a half hour period of the day so A is from 9:30 AM to 10:00 AM, B is from 10:00 AM to 10:30 AM and so on. With the coloring in the defaults, dark colors are at the beginning letters, while bright colors are in the later letters.

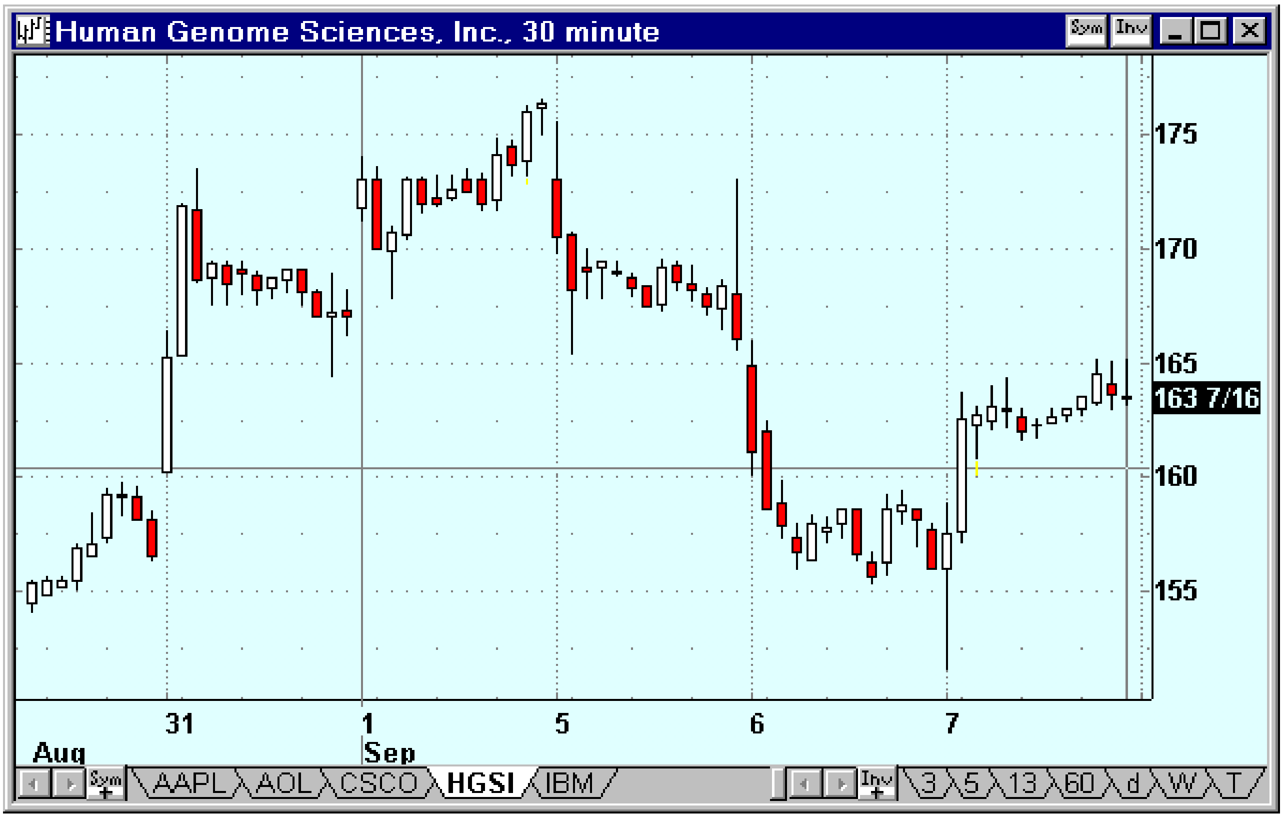
Each letter represents a range of prices. For example note in the chart below (which is enlarged a bit to be easier to see) for HGSI on Thursday, the range of the first half hour of trading is mostly showing the letter A. It extends from a low of about 152 to a high of about 158. But then we see the letter B continues on up to about 163, then there is another letter K above that. How did those get there?

When the B bar was drawn in its 2nd slot over, it went from 156 to 163. The bar was compared to the A bar. The part of B that did not overlap A was drawn at the 2nd bar location. The part that overlapped the A bar was drawn on top of the A bar (like it was slid over to the right). If you look closely at the figure you can see that is exactly what happened.

The C bar was the 3rd bar to draw. Again its range was compared to the range of the bars to its left. Its range did not go below the B bar but overlapped B from about 157 to abut 163 and so it was drawn in location in that place. So each time we notch to the right in time, we compare the respective bar for that slot and see how is range compares to the range of previous bar. Where they do not over lap we draw the new bar, and where they overlap we overlap the new bar on the old bar.

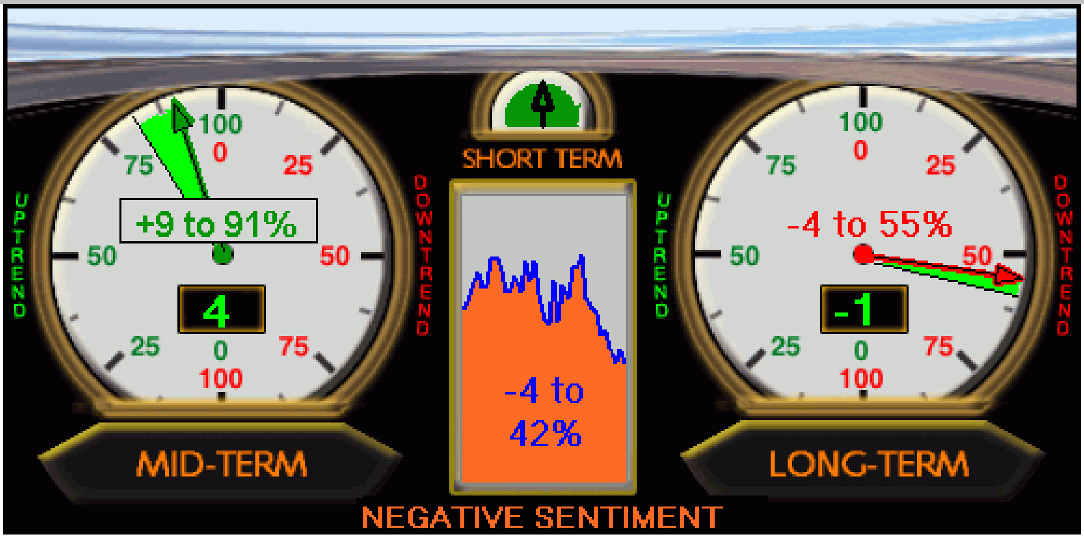
Now look at Thursday again. Note how the letter M appears across the top of every bar for that day. You can see what happened when you compare to the candlestick for Thursday. Towards the middle of the day the price range of HGSI started to move up and exceed the previous highs. M is the last half hour of the day and its range exceeded each previous bar's high. As it moved up it propagated down the line, testing against previous bars and overlapping or overlaying when required. Look at Tuesday, here we see the last half hour of the day has a range that exceeded the daily range of every previous half hour except the first.





Sentiment Dashboard

by Adam Oliensis



SENTIMENT TANK: The tank drained 4% down to "42% full" of negative sentiment again on Tuesday (which is where it closed on Friday). The VIX may be initiating a downtrend out of the 35-37 range in which it has been abiding for the last two months. And with the Put/Call Ratio up at 0.93 (bullish on a contrarian basis) the climate may be ripe for some further draining of negative sentiment (continuation of the advance phase).

SHORT-TERM: The hourly gauge moved into an advance phase on Tuesday morning.

MID-TERM: The mid-term momentum of sentiment progressed 9 points to 91% on Tuesday. The advance phase is getting mature, no doubt. But keep in mind that the three most recent advance phases have peaked between 94 and 99%. The gauge has the potential to "live" for a time up in the 90s before generating a sell signal. The Confidence Diffusion Index (CDI) clicked up three points to 4 with the VIX's second close in three days below 35. The potential exists for the VIX to drop into the mid 20s. The continued existence of war premium may prevent that, but, for instance, if coalition troops were to essentially secure Baghdad in some short-ish period of time, then we could see the VIX drop into that mid-20s range.

LONG-TERM: The weekly momentum of sentiment continues to play cat and mouse. It REGRESSED by 4 points backup to 55% on Tuesday. That is, on a D/D basis it regressed, but it remains one point lower than Friday's close. Our weekly CDI also regressed to a BULLISH 1 (that's -1 in a decline phase...if the gauge flips to an advance phase, then the CDI would be +1 as it is on the bullish side of zero). There is a slight preponderance of bullishness internally. This gauge continues to flirt with turning up into an advance phase, though it has not done so yet.

Definitions

You can find this article on the Web at:
http://www.21stcenturyalert.com/page/tcx/morningbriefing/2003-03-26/