valbury
Expect More
Menara Karya 9th Floor
Jl. H. R. Rasuna Said
Block X-5 Kav 1-2
Jakarta 12950
Indonesia
T. +62 21 255 33 777
+62 21 255 33 600
E. helpdesk@valbury.com

18 November 2014

Lonjakan Bursa BUKAN Karena Faktor Fundamental (Bagian 2)

"To be sure, in this world of relativity, equities stand out. But rest assured that relative valuations have been influenced – dare, I say, distorted – by central bank interventions that have gone global. But as a standalone, not as a relative comment, let it be known that these central banks have turned a blind eye to the excesses in the financial markets. The price-to-sales ratio for the S&P 500 has soared to 1.77x – actually taking out the 2000 bubble high to register the highest reading on sixty years. Hey, maybe it is totally justified across a broad array of measures. Frankly, I don't care. Price-sales ratios are at six-decade highs. Use that information any way you like."
-- David Rosenberg

"Right now stocks as a multiple of last year's expected earnings may look only modestly overvalued or modestly richly valued. Really if you look at the measures of valuation that are most correlated to the returns that stocks deliver over time say over seven years or over the next 10 years the S&P 500 in our estimation is about double the level of valuation that would give investors a normal rate of return."
-- John Hussman

valbury
Expect More
Menara Karya 9th Floor
Jl. H. R. Rasuna Said
Block X-5 Kav 1-2
Jakarta 12950
Indonesia
T. +62 21 255 33 777
+62 21 255 33 600
E. helpdesk@valbury.com

Seperti diketahui, bursa saham telah *rebound* dari *low*-nya di pertengahan Oktober lalu.

Indeks saham *S&P 500* bahkan sudah menutup seluruh penurunannya selama 2 pekan pertama Oktober tersebut, dan kemudian mencetak rekor tertinggi terbarunya.

Meskipun kini memasuki musim penguatan bursa saham di penghujung tahun ini, saya masih meragukan jika koreksi bursa sudah benar-benar selesai.

Jared Dillian, editor *The 10th Man*, menyebutnya *"**The Financial Engineering Market**"*, dan saya akui saya setuju dengannya:

"IBM went down hard on its quarterly earnings report this week. This made a splash in the news because, well, it's IBM, and also Warren Buffett owns it, so it was a rare moment of human fallibility for him. But there is a lot more to the story than that. Very sophisticated people have been keeping an eye on IBM for some time.

In particular, Stanley Druckenmiller—former chairman and president of Duquesne Capital, former portfolio manager of Soros's Quantum Fund, and, honestly, one of the greatest investors in modern times—went public about a year ago saying that IBM was his favorite short (which says a lot) and that it was the poster child for, well, the type of stock market we have nowadays.

What was Druckenmiller referring to?

Some Quick History

Ten years ago, during the housing boom, the consumer was the most leveraged entity, taking out negative amortization mortgages, cashing out home equity, things like that. The consumer got a margin call, which was ugly—you know the story—and has spent the last six years deleveraging.

While the consumer was taking down leverage, the US government was adding leverage, taking the deficit to over 10% of GDP at one point. But even the government is deleveraging (for the moment), and now it is America's corporations that have been adding leverage, at a furious pace. We've had trillions of dollars in corporate bond issuance in the last few years.

So when corporations sell bonds, what do they typically use the proceeds for?

In theory, the proper use for debt is to finance capital expenditures. Growth. But in this last cycle, that's not what the money has been used for. It's primarily been used for stock buybacks and dividends.

Expect More

Menara Karya 9th Floor
Jl. H. R. Rasuna Said
Block X-5 Kav 1-2
Jakarta 12950
Indonesia
T. +62 21 255 33 777
+62 21 255 33 600
E. helpdesk@valbury.com

Robbing Peter to Pay Paul

Now, there are good corporate finance reasons to lever up a balance sheet and conduct stockholder-friendly actions, like buying back stock or paying dividends. You can read about it in the corporate finance textbooks. For any company, there is an optimal amount of leverage. It's even possible to be *under*leveraged.

But you see (and this is the important thing), when you take out debt to buy back stock, leveraging the balance sheet in the process, you may be increasing the *optics* of how profitable the business is by increasing earnings per share—but you are not actually changing the fundamentals of the business.

You are not actually increasing profitability. You are just rewarding one tranche of the capital structure (common stockholders) at the expense of another one (bondholders).

IBM just happened to be a particularly egregious example. IBM—whose core business was basically flat over six years—well, you'd never know it from looking at a chart of the stock. (Hint: it went straight up for years.)

What happened?

They *tripled* their debt over time, retiring stock, taking the share count under a billion, ramping up the earnings per share. The goal was to get it over $20, which they abandoned on the last earnings call.

Financial Engineering Works, to a Point

So what can we learn about financial engineering? It works, up to a point. In the short term, you can conceal from investors the fact that your business model is broken and you don't have a plan. You can conceal it for a number of years, in fact. That is the thing about finance: you can suspend the laws of economics in the short term. But not forever. It will always come back to haunt you.

IBM is by no means alone. There are dozens, even hundreds of buybacks going on as we speak. One of my favorites is GameStop (NYSE:GME). It is an open secret that GME is the next Blockbuster, now that the technology exists for games to be downloaded over the Internet with no interruption of play. Everyone knows that unless there is a radical change in strategy, GME is doomed. But you couldn't short the stock because of… a buyback.

So with a good portion of the S&P 500 buying back stock, it's no surprise that it wants to keep going up, and hindsight being what it is, it has been very foolish to try and short it.

Expect More
Menara Karya 9th Floor
Jl. H. R. Rasuna Said
Block X-5 Kav 1-2
Jakarta 12950
Indonesia
T. +62 21 255 33 777
+62 21 255 33 600
E. helpdesk@valbury.com

This Can't Go On Forever

There is good news, though (or bad news, depending on your point of view). IBM might be the canary. Put another way, there is a limit to how many bonds can be issued, and for sure, the credit markets have been less accommodative lately. Maybe that is how it ends—the credit markets shut down, no more bonds, and no more buybacks.

People kind of forget what it's like when the credit door slams shut. I remember writing bullishly on Gannett (NYSE:GCI) back in 2008. The stock was in the low single digits. The market was very worried that the company would not be able to refinance an existing bond issue maturing in 2009. GCI did manage to refinance, and stockholders have been rewarded. But it was looking very sketchy there for a moment.

The credit markets are kind of my hobby horse, and it is the right of anyone with a hobby horse to ride that thing as long as possible. There's been so much debt issued—at such unfavorable terms and at such low interest rates—that the credit markets are more vulnerable than at any point in history. A mild recession, and we are looking at 20% default rates. All it takes is a push.

Just last week, it looked like we were going to get it. A hint of QE4, and the market seems to have changed its mind. We shall see. I tend not to use phrases like "smoke and mirrors" to describe the stock market, because that is very tinfoil-hatty.

Put more thoughtfully, I would say that much of this 200% move in the stock market off the lows has been divorced from economic fundamentals, and based solely on financial engineering, which can be ephemeral.

It's a self-reinforcing process that has worked for a while, but I don't want to be around when it stops working."

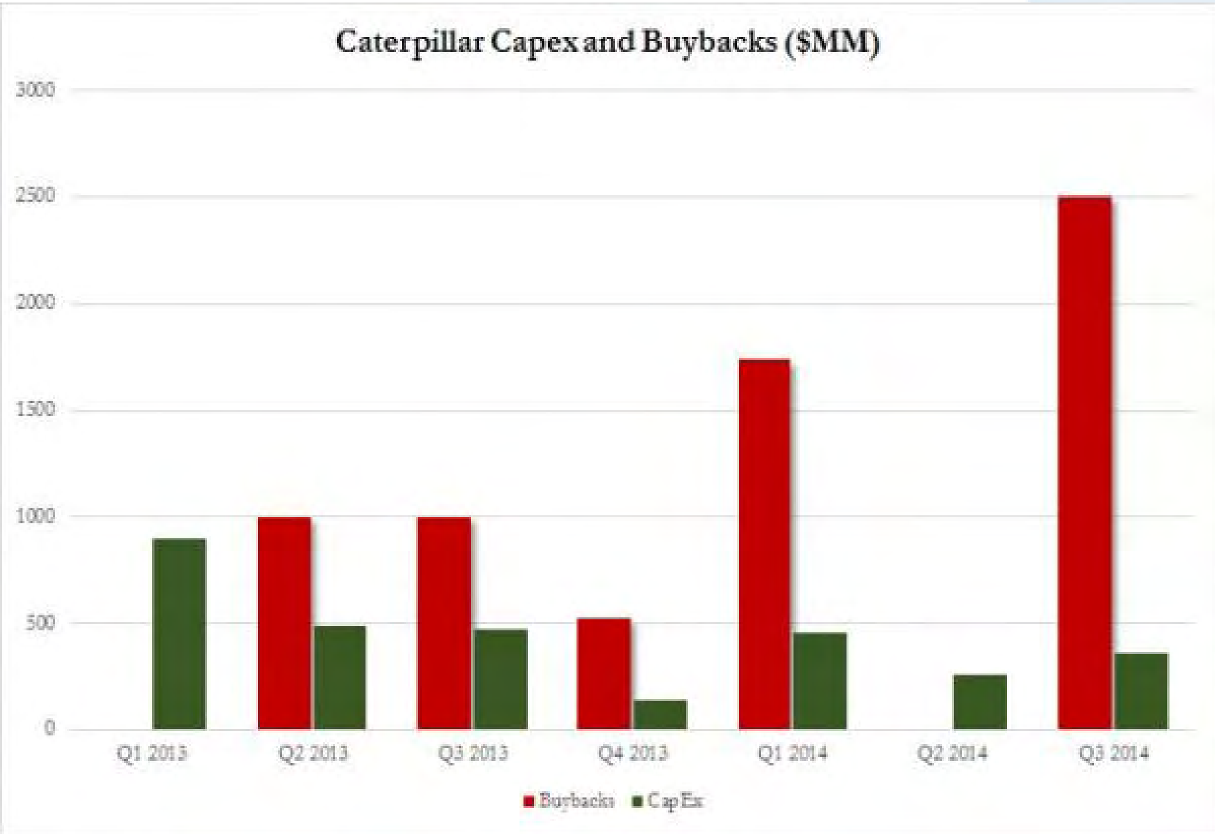
Expect More
Menara Karya 9th Floor
Jl. H. R. Rasuna Said
Block X-5 Kav 1-2
Jakarta 12950
Indonesia
T. +62 21 255 33 777
+62 21 255 33 600
E. helpdesk@valbury.com

Jadi daripada pinjam uang dengan bunga rendah untuk mengembangkan bisnis mereka, mayoritas perusahaan cenderung melakukan *buy back* saham – untuk tingkatkan rasio *PER* saham mereka, bukan ekonominya.

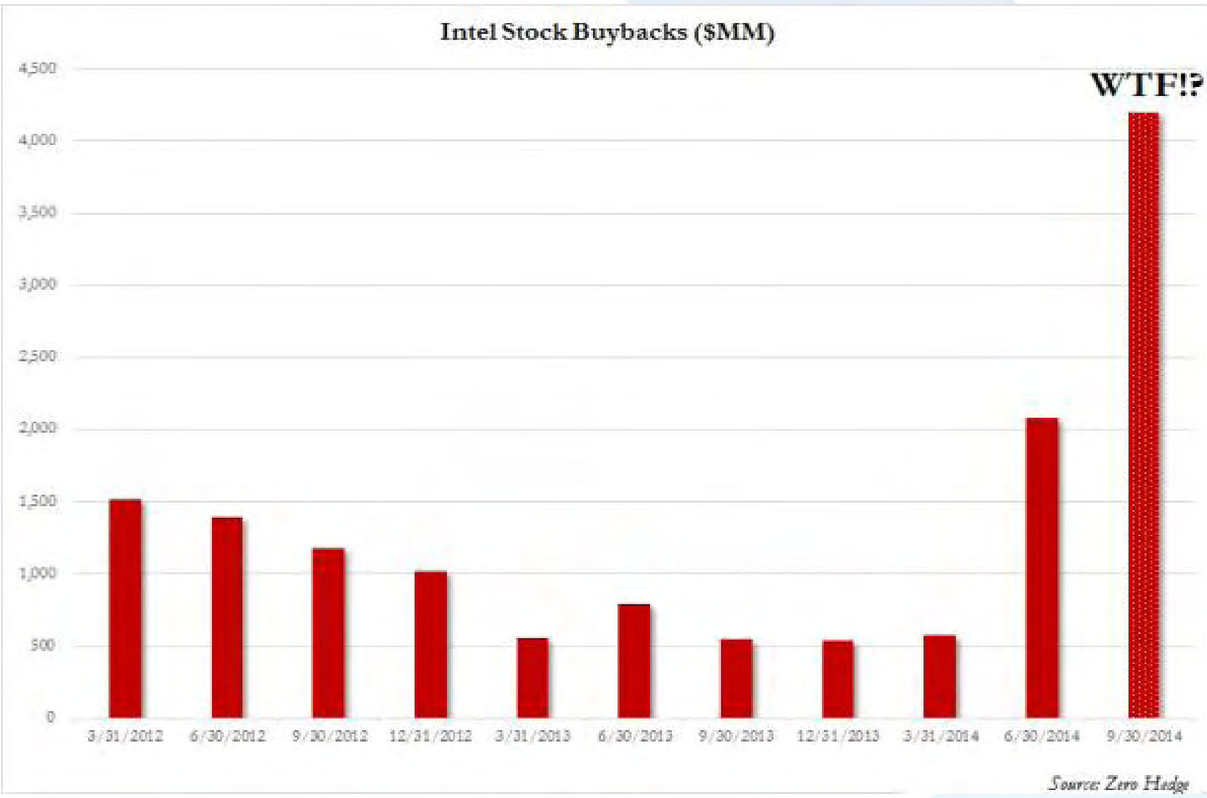
Ini terus membuat bahagia mereka yang banyak berharap di Wall Street, namun tidak berkontribusi mendorong pertumbuhan yang berkesinambungan.

Dan tentunya, dari perspektif strategis, aksi *buyback* telah menjadi sumber terbesar keselruhan *demand* di bursa AS dalam beberapa tahun terakhir ini.

Silahkan lihat sejumlah grafik di bawah ini, yang dengan sangat jelas menunjukkan bahwa peningkatan prospek profit Caterpillar dan Intel adalah akibat lonjakan *buyback* saat ini serta yang akan datang:



Expect More
Menara Karya 9th Floor
Jl. H. R. Rasuna Said
Block X-5 Kav 1-2
Jakarta 12950
Indonesia
T. +62 21 255 33 777
+62 21 255 33 600
E. helpdesk@valbury.com

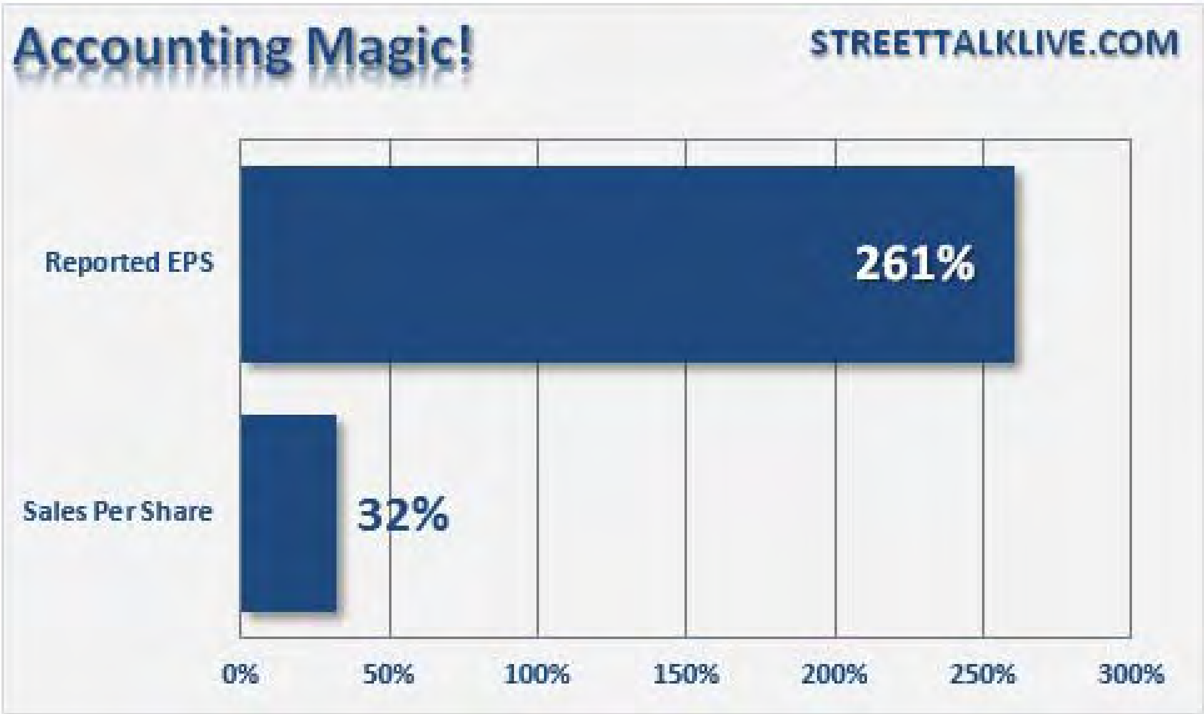


P.S. INTC guided to $4 billion in Q3 buybacks. The final number was $4.2 billion.

Expect More
Menara Karya 9th Floor
Jl. H. R. Rasuna Said
Block X-5 Kav 1-2
Jakarta 12950
Indonesia
T. +62 21 255 33 777
+62 21 255 33 600
E. helpdesk@valbury.com

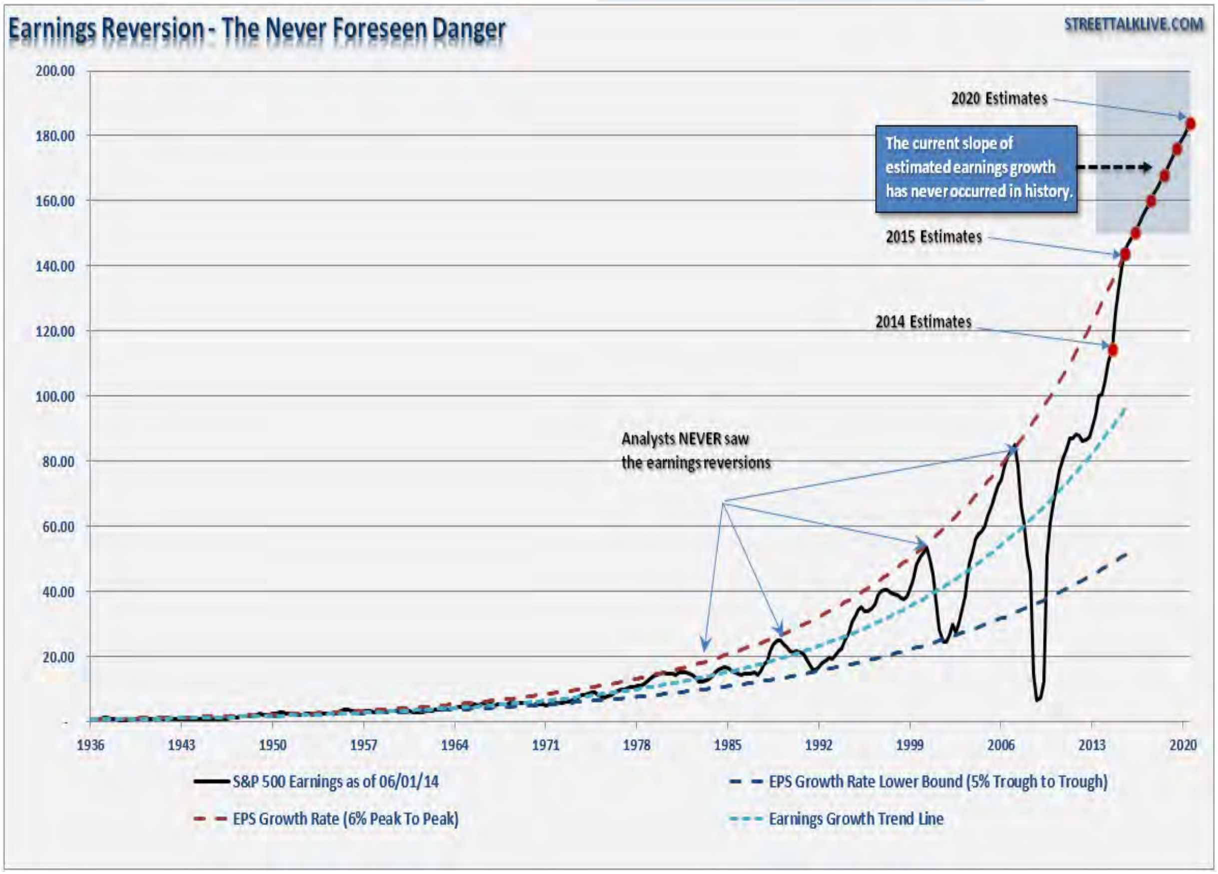
Berikutnya adalah *Lance Roberts of STA Wealth Management* dalam laporan terbarunya yang berjudul *"**Why The Stock Market Is Detached From The Economy**"*, yang menjelaskan bahwa pertumbuhan pendapatan masih sangat lemah sejak akhir resesi lalu:

"As shown in the chart below revenue per share has increased by a total of 32% from 2009 through the second quarter of 2014 while reported earnings per share has exploded by 261%. This has been due to the near record level of companies buying back shares to artificially boost profitability.



The problem with this activity, along with cost cutting, employment reductions and other measures to increase profitability, is that they are all finite in nature. Eventually, either revenue growth must accelerate, or earnings are at risk of a significant disappointment. As shown in the chart below, earnings have never attained the currently expected growth rate**...ever.**

valbury
Expect More
Menara Karya 9th Floor
Jl. H. R. Rasuna Said
Block X-5 Kav 1-2
Jakarta 12950
Indonesia
T. +62 21 255 33 777
+62 21 255 33 600
E. helpdesk@valbury.com



The [recent mid-term elections] sent a very clear message to Washington, D.C., which was simply *"the economy sucks."* While statistical economic data suggests that the economy is rapidly healing, it has only been so for a very small percentage of the players. For most American's they have only watched the *"rich"* prosper as the Federal Reserve put Wall Street before Main Street. Stock buybacks, dividends and acquisitions are great for those that have money invested in the financial markets, however, for the rest of America it is only a spectator sport.

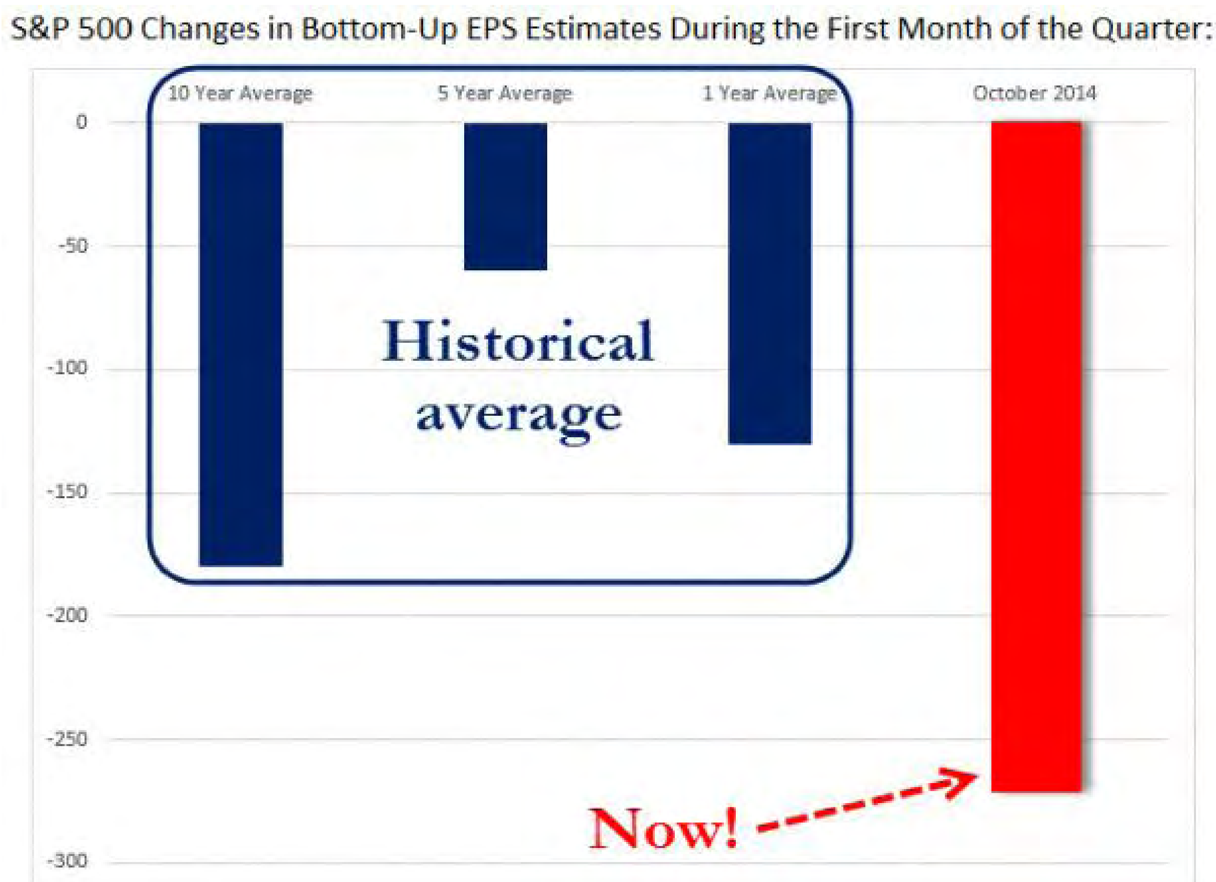
The risk to the markets currently is that the **wave of deflationary pressures engulfing the globe have only begun to wash back on the domestic economy**. The drag on exports, combined with the potential for extremely cold winter weather, puts both economic and earnings growth rate projections at risk. With the markets in extremely overvalued territory, the **risks to investors clearly outweigh the rewards over the long-term**."

Expect More

Menara Karya 9th Floor
Jl. H. R. Rasuna Said
Block X-5 Kav 1-2
Jakarta 12950
Indonesia
T. +62 21 255 33 777
+62 21 255 33 600
E. helpdesk@valbury.com

Berikutnya adalah sejumlah peringatan Tyler Durden dari *Zero Hedge*, dalam tulisannya yang berujudul *"**The Dismal Earnings Outlook In A Chart Even Bob Pisani Can Understand**"*:

Having destroyed any remnants of the "it's earnings that matter" meme, we thought the following chart would clarify just how bad the outlook for Q4 EPS is. As Factset notes, *"**the decline in the bottom-up EPS estimate recorded during the course of the first month (October) of the fourth quarter was higher than the 1-year, 5-year, and 10-year averages**."* That is not a 'good' thing..

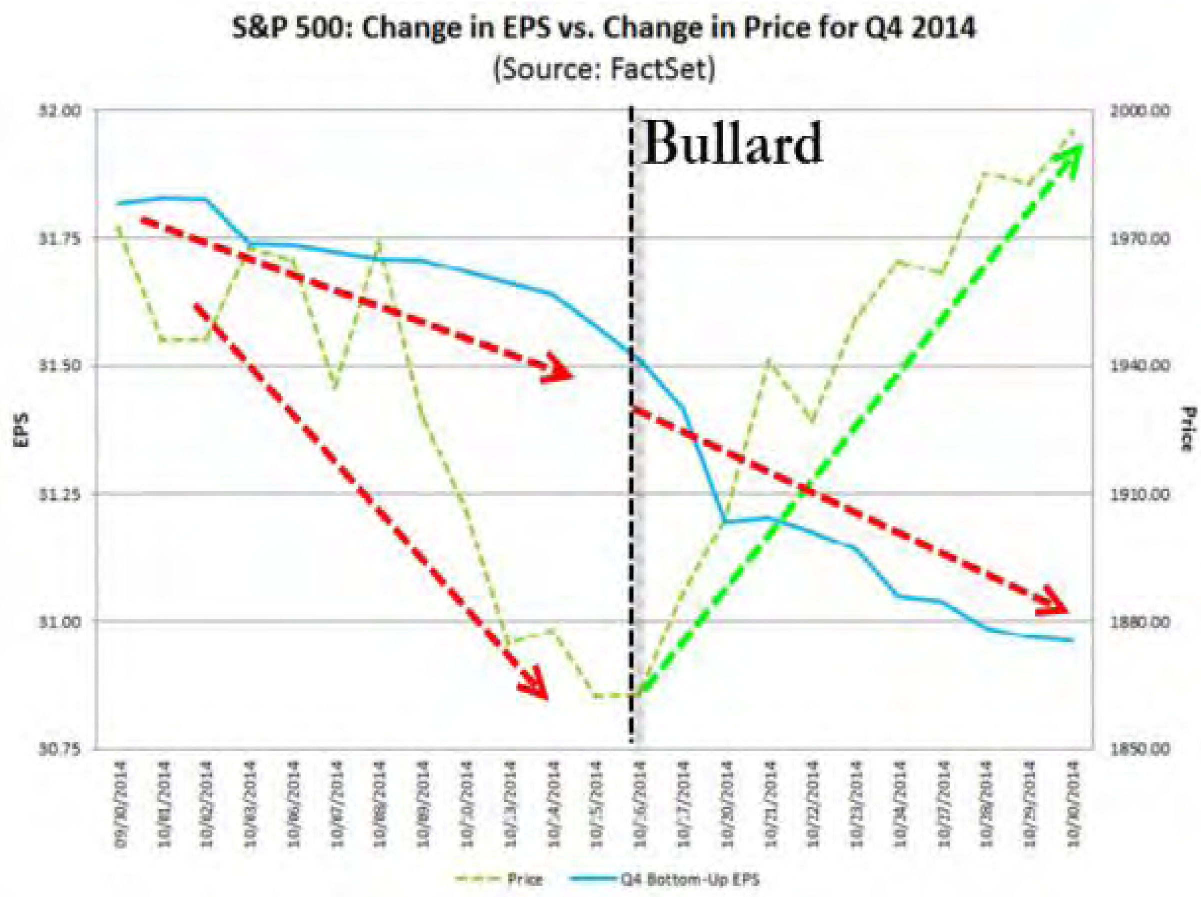


h/t @Not_Jim_Cramer

valbury
Expect More
Menara Karya 9th Floor
Jl. H. R. Rasuna Said
Block X-5 Kav 1-2
Jakarta 12950
Indonesia
T. +62 21 255 33 777
+62 21 255 33 600
E. helpdesk@valbury.com

During the month of October, three things happened that destroy any credibility that 'believers' had about the stock 'market' being an efficient discounter of fundamental earnings. Stocks began the month weak on geopolitical fears, concerns about the end of QE, and falling earnings; then Bullard unleashed his "but but but we might do QE4" words and stocks exploded higher. But a funny third thing happened as this malarkey occurred... **analysts kept on slashing EPS estimates - in fact they slashed them by more than double the average EPS downgrade of any quarter in the last 10 years**... *So, if earnings are the mother's milk of the market, central bank promises are the Human Growth Hormone, EPO, Steroid cycle of all-time highs.*

Fundamentals or Central Bank liquidity!



Expect More
Menara Karya 9th Floor
Jl. H. R. Rasuna Said
Block X-5 Kav 1-2
Jakarta 12950
Indonesia
T. +62 21 255 33 777
+62 21 255 33 600
E. helpdesk@valbury.com

As Factset reports,

During the month of October, analysts lowered earnings estimates for companies in the S&P 500 for the fourth quarter. The Q4 bottom-up EPS estimate (which is an aggregation of the estimates for all the companies in the index) dropped **by 2.7%** (to $30.96 from $31.82) during the month. How significant is a 2.7% decline in the bottom-up EPS estimate during the first month of the quarter? How does this decrease compare to recent quarters?

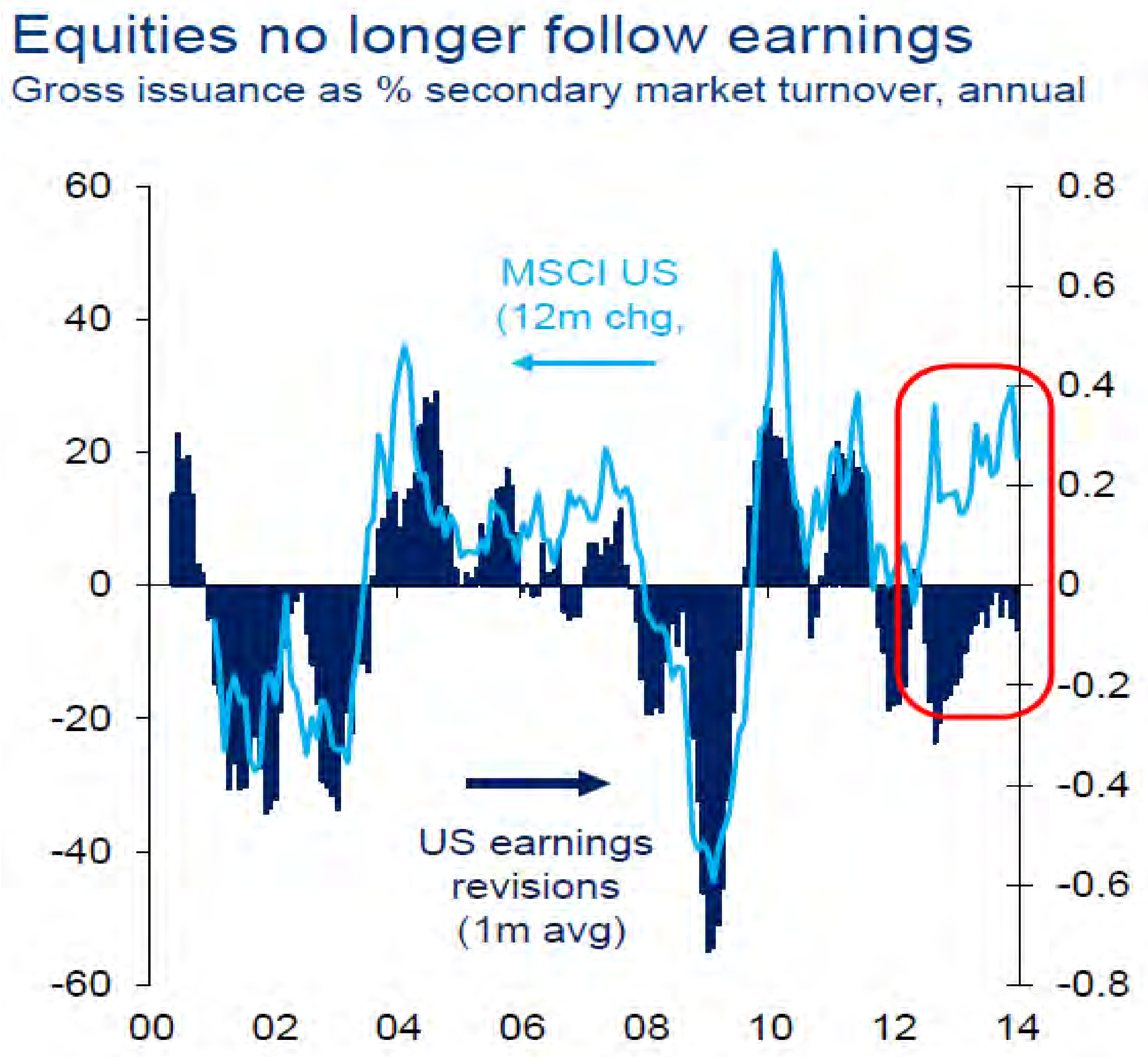
During the past year (4 quarters), the average decline in the bottom-up EPS estimate during the first month of the quarter has been 1.3%. During the past five years (20 quarters), the average decline in the bottom-up EPS estimate during the first month of the quarter has been 0.6%. During the past ten years, (40 quarters), the average decline in the bottom-up EPS estimate during the first month of the quarter has been 1.8%. **Thus, the decline in the bottom-up EPS estimate recorded during the course of the first month (October) of the fourth quarter was higher than the 1-year, 5-year, and 10-year averages.**

However, most of the reductions to earnings estimates have occurred in the commodity-based sectors. As noted in last week's report, the Energy sector (-10.8%) has recorded the largest decline of all ten sectors in terms of bottom-up EPS, followed by the Materials sector (-7.5%). No other sector has recorded a decrease in bottom-up EPS of greater than 3.3% through the first month of the quarter.

In terms of price, the value of the S&P 500 has increased by 1.1% (to 1994.65 from 1972.29) during the month of October. **This marks the 7th time in the past 12 quarters that the bottom-up EPS estimate has decreased while the price of the index has increased during the first month of the quarter.**

valbury
Expect More
Menara Karya 9th Floor
Jl. H. R. Rasuna Said
Block X-5 Kav 1-2
Jakarta 12950
Indonesia
T. +62 21 255 33 777
+62 21 255 33 600
E. helpdesk@valbury.com

and haven't done for a long time...



Charts: Citi, Factset, @Not_Jim_Cramer

valbury
Expect More
Menara Karya 9th Floor
Jl. H. R. Rasuna Said
Block X-5 Kav 1-2
Jakarta 12950
Indonesia
T. +62 21 255 33 777
+62 21 255 33 600
E. helpdesk@valbury.com

Bahkan media *mainstream* saat ini juga mulai memperhatikan ‘mahalnya harga saham-saham di bursa AS:

...and how we worked it out

How each country scored on the three main measures of value against its historic average

	Price to earnings ratio (p/e)	Cyclically adjusted p/e	Price to book ratio	Ave
AUSTRALIA	17.00	17.91	2.08	
AUSTRIA	17.50	12.77	1.07	
BELGIUM	14.90	16.47	1.81	
BRAZIL	13.80	13.76	-	
CHILE	17.80	19.88	1.78	
CHINA	6.30	10.85	1.07	
COLOMBIA	15.00	23.45	1.79	
FINLAND	19.10	13.73	2.03	
FRANCE	19.20	16.68	1.60	
GERMANY	16.70	17.37	1.83	
GREECE	3.40	6.08	1.12	
HOLLAND	17.60	13.55	1.73	
HONG KONG	12.00	14.97	1.46	
HUNGARY	17.70	10.06	0.82	
INDIA	15.70	23.23	2.41	
INDONESIA	18.20	27.34	3.69	
ISRAEL	18.00	11.04	1.78	
ITALY	20.30	13.40	1.06	
JAPAN	13.90	21.57	1.32	
MEXICO	20.60	21.91	2.75	
NEW ZEALAND	17.10	18.45	1.89	
NORWAY	13.20	14.79	1.62	
PAKISTAN	12.80	18.78	3.11	
POLAND	15.40	14.54	1.43	
PORTUGAL	20.90	16.16	1.62	
RUSSIA	5.30	7.69	0.71	
SPAIN	20.40	14.06	1.61	
SRI LANKA	13.90	21.94	2.15	
SWEDEN	14.80	17.34	2.14	
SWITZERLAND	19.20	19.87	2.48	
THAILAND	14.30	18.65	2.40	
TURKEY	9.90	15.52	1.54	
UK	15.80	15.28	2.05	
US	19.20	24.51	2.77	

KEY

Green	+	Green	+	Green	=	
Green	+	Green	+	Red	=	
Green	+	Red	+	Red	=	
Red	+	Red	+	Red	=	

Source: The Telegraph

Menara Karya 9th Floor
Jl. H. R. Rasuna Said
Block X-5 Kav 1-2
Jakarta 12950
Indonesia
T. +62 21 255 33 777
+62 21 255 33 600
E. helpdesk@valbury.com

Expect More

What Do the Charts Say?

Di saat yang tepat saya menemukan artikel ini dan isinya sangat **PENTING**, oleh karenanya menurut saya ini masuk dalam kategori **WAJIB DIBACA** oleh seluruh investor dan *trader* yang serius.

Ditulis oleh John C. Burford, editor *MoneyWeek Trader*, yang mencoba jelaskan kemungkinan arah harga bursa saham AS dalam beberapa pekan ke depan:

November 3, 2014

The US passes the QE baton to Japan

In a last-ditch desperate move by central banks to keep all of the plates in the air, Japan made a shock pledge to resume QE (quantitative easing) operations. Their previous QE operations were such a roaring success in stimulating the economy (current GDP is declining at annual rate of 7% with benchmark interest rates stuck on zero) that they have loaded Big Bertha (aka Abe's first arrow) for another round of money printing.

The well-known definition of insanity comes to mind here.

At the same time, as expected, the US Fed wound down their money-printing operations to zero. Was that an accident of timing?

This is not the place for me to go into highlighting the even taller – and ultimately unstable and dangerous – house of (debt) cards that central banks are foisting on us. But one thing is certain: the stock markets loved it – at least for a day.

valbury
Expect More
Menara Karya 9th Floor
Jl. H. R. Rasuna Said
Block X-5 Kav 1-2
Jakarta 12950
Indonesia
T. +62 21 255 33 777
+62 21 255 33 600
E. helpdesk@valbury.com

The Fed's scramble to keep global asset bubbles alive

The buy-the-dippers had a field day after the Bank of Japan announcement, cheered on by the overwhelmingly bullish money managers/advisors. Here is an illuminating chart:

Chart courtesy elliottwave.com

There are currently only a record low 13% of professional advisors who are bearish stocks. The US media was full of advice to buy the dip last month – and boy, did they! And the surprise Japanese rocket on Friday only served to amplify their bullishness.

Expect More
Menara Karya 9th Floor
Jl. H. R. Rasuna Said
Block X-5 Kav 1-2
Jakarta 12950
Indonesia
T. +62 21 255 33 777
+62 21 255 33 600
E. helpdesk@valbury.com

Remember, stock market tops are always made on extreme bullish sentiment.

It is clear to me that the mid-October Dow swoon of 1,500 points within just a few days put a massive scare into the Fed. They were staring down the barrel of a dreaded deflationary depression and had to do something. It was looking as if the markets were in freefall. Because they had pledged not to amend their taper program (as some were hoping for), they phoned around to see what central bank was willing to take the QE baton in order to keep the global asset bubbles alive. Japan was the obvious choice.

The euro zone was a no-go because of Germany's solid opposition to QE, the UK had already done its bit, so Japan, in the form of Abenomics on steroids, came to the Fed's rescue just in time. Is it possible that insiders front-ran Friday's announcement by turning shares back up from the abyss two weeks ago? Hmm.

In any case, Friday's rocket shot my immediately bearish stance out with the Dow making a new all-time high, the Nasdaq at a multi-year high and the S&P matching the 19 September top. The small cap Russell 2000 fell short of new highs.

The German DAX and UK FTSE both lagged – a very telling divergence.

What the charts are telling us

So, with all that drama, are the charts telling me anything useful? Here is a long-term daily chart which shows my revised EW labels:

valbury
Expect More
Menara Karya 9th Floor
Jl. H. R. Rasuna Said
Block X-5 Kav 1-2
Jakarta 12950
Indonesia
T. +62 21 255 33 777
+62 21 255 33 600
E. helpdesk@valbury.com

I still have my large C wave but now, I have a well-proportioned five motive waves with the third wave very long and strong. This wave contains many sub-five wave patterns.

Why not have fun and see how many five-wave patterns at different degrees of scale you can find in wave 3?

The 19 September top is now my wave 3 (not wave 5, as I originally believed), the 1,500 point plunge is my new wave 4 and we are now in the final wave 5 up.

Note that waves 2 and 4 are both A-B-Cs and of about equal height. The guideline that waves should 'look right' and in proportion is being obeyed, and the proportions look much better now than in my previous labeling.

As an Elliott wave technician, you must constantly review your labels in the light of new market action that comes your way. If the market does something unexpected, it pays to be prepared to move them.

Can I find better tramlines to go with my EWs?

Now I have better EWs, do I have some great tramlines to go with it?

valbury
Expect More
Menara Karya 9th Floor
Jl. H. R. Rasuna Said
Block X-5 Kav 1-2
Jakarta 12950
Indonesia
T. +62 21 255 33 777
+62 21 255 33 600
E. helpdesk@valbury.com

Here is a very good tramline quartet with ample accurate touch points all round. I first drew the second tramline, taking in the October low. Then, I drew the highest tramline and was pleased to see three very accurate touch points at the highs. Then, when I drew the fourth tramline, I was very pleased to see that it passed accurately across the 2011 low. Nice.

The vigorous rally off the October low has produced a hugely overbought momentum reading – and that sounds a note of caution to those bulls who expect more upside. Also, the market is getting very close to my upper tramline where there is stiff resistance. That would be an ideal place for the market to make a major turn as wave 5 terminates.

The subtle clue that stocks now have limited upside

Friday's action was very emotional with the USD/JPY gaining over 200 points and the Nikkei up massively.

But strangely, US Treasuries hardly moved on the news. And that must be worrying for the bulls who expect the share rocket to go to the moon.

With risk off in that scramble to load up on equities, I would have expected T-Bond yields to rocket (prices to decline), but it was a pretty calm day on Friday:

Menara Karya 9th Floor
Jl. H. R. Rasuna Said
Block X-5 Kav 1-2
Jakarta 12950
Indonesia
T. +62 21 255 33 777
+62 21 255 33 600
E. helpdesk@valbury.com

The trend has been down since the blow-off spike top on 15 October, but there was no flight out of safe-haven bonds. This could be a subtle clue that stocks now have limited upside, unless matched by weakness in the bonds.

Why I consider this campaign a success

To review my trades: I shorted the Dow at the 17,345 level on 19 September. I added to shorts at 17,215 on 25 September.

I covered half positions on 14 October at 16,350 for a gain of 1,860 points.

Then, I covered the remainder at 16,960 on 30 October for another gain of 640 points. Total profit was 2,500 points.

On the debit side, I had five aborted short trades, losing a total of 300 points for a net profit of 2,200 points.

I consider that an excellent campaign, despite the market ending on Friday higher than when I first shorted it on 19 September. The amazingly deep "V" shaped October market was tricky, and it required nimble footwork to take profits.

Now I am ready to start a new Dow campaign – when I see another high probability/low risk setup.

Expect More
Menara Karya 9th Floor
Jl. H. R. Rasuna Said
Block X-5 Kav 1-2
Jakarta 12950
Indonesia
T. +62 21 255 33 777
+62 21 255 33 600
E. helpdesk@valbury.com

Dan Harry S. Dent Jr., presiden dan sekaligus pendiri *Dent Research* and *H.S. Dent Publishing*, pun yakin bahwa bursa saham AS dalam jangka pendek akan capai puncak kenaikannya:

A "Mini Me" Megaphone Pattern: A Top in November or Early 2015?

The overarching pattern in stocks that I have been following for years is called a megaphone pattern. This is simply a series of higher highs and lower lows. The S&P 500 traced out a large megaphone pattern with three tops in 1965, 1968 and 1972 just before the big crash of 1973.

The first major bubble in the Dow began in November of 1994 and topped six years later in January 2000. That was the first high. The low came during the October crash of 2002.

The second high (and higher than the previous one) came in October 2007 and soon followed by the lower low of March 2009. Now we're potentially seeing the final top forming.

To chart this pattern I simply draw a trend line through the tops and the bottoms. The top comes through presently around Dow 17,400 and the next lower low would project to somewhere between the levels of 5,500 and 16,500… depending on *when* that bottom trend line is hit.

The final top (or E wave) can often go a little above the trend line as it has recently been hitting 17,638.

It shouldn't go much higher than 17,700…

If this megaphone pattern continues to play out, then the *big crash* would seem more likely to occur in the 2015 to 2016 time frame, as it did back in 1973 to 1974, just after the last major long-term stock peak from the Bob Hope generation Spending Wave.

If the broader Dow megaphone pattern is violated then stocks could head substantially higher. The only resistance level left for stocks would then be the 2000 peak for the Nasdaq at 5,050.

That would represent a major B wave peak and it would be very unlikely that it would be exceeded, or at least not by much and imply a Dow as high as 19,000 and an S&P 500 as high as 2,200 — which is around 8% higher than it is currently.

Such targets would make this bubble roughly equal in percentage terms to the extreme bubble that peaked in early 2000, hence that would be a very credible topping point.

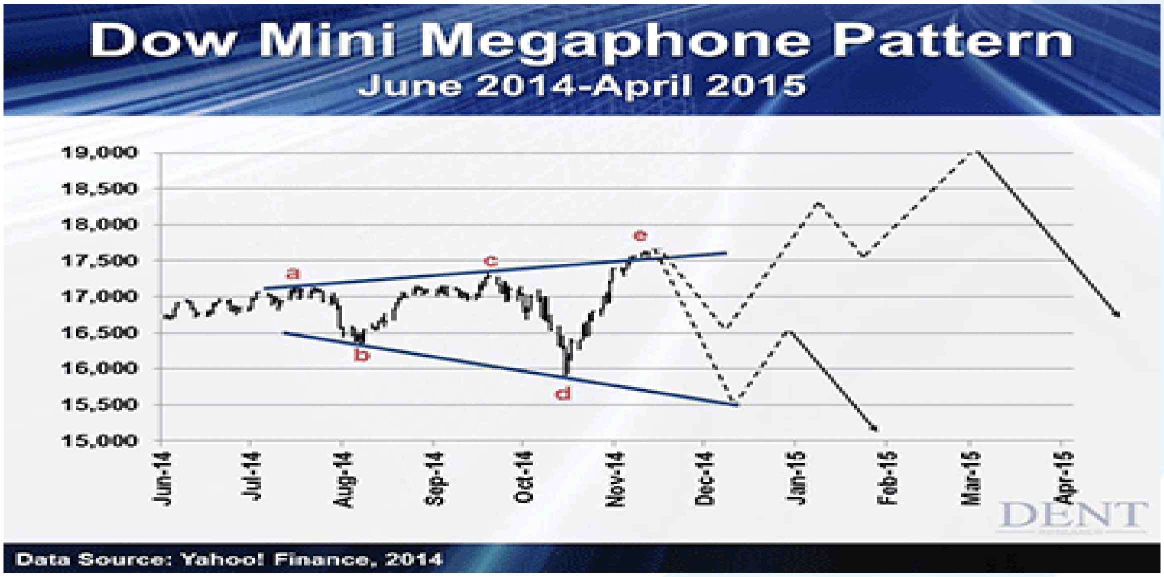
Expect More
Menara Karya 9th Floor
Jl. H. R. Rasuna Said
Block X-5 Kav 1-2
Jakarta 12950
Indonesia
T. +62 21 255 33 777
+62 21 255 33 600
E. helpdesk@valbury.com

I'm in total agreement with an observation Adam O'Dell made last week. He said that in the last several months the market has been reaching higher highs and lower lows and that if the next correction likely just ahead sees a lower low after the extreme spike from October 15, then a top is likely been put in.

If it doesn't, then the markets are likely heading to substantially higher levels.

The higher highs and lower lows Adam was referring to form a mini megaphone pattern as the chart below shows. The July peak was the first high. The second peak was in September followed by a lower low on October 15.

The current rally would represent the E wave if this megaphone pattern continues to play out. The target for the next lower low would be around 15,500 and should occur by mid-December or so.



If we see such a lower low, then it's highly likely we put in a top in November. If we instead get a correction in early to mid-December and we're not seeing a lower low and/or the market is starting to rebound strongly, then we're very likely to break above the broader megaphone pattern and see substantial new highs in the months ahead before a final peak.

My best short-term cycle expert, Andy Pancholi in London, has a minor turn date around November 14 for stocks and a major set of turn dates between late February and mid-April, especially around mid-March.

Expect More
Menara Karya 9th Floor
Jl. H. R. Rasuna Said
Block X-5 Kav 1-2
Jakarta 12950
Indonesia
T. +62 21 255 33 777
+62 21 255 33 600
E. helpdesk@valbury.com

We're likely to either see substantial new highs or a crash into this March time frame. Stocks are now as overbought as they were oversold on October 15, so a correction is very likely in the coming weeks.

In the chart above I've outlined two potential scenarios: the first with a peak in mid-November and the second with a peak around March of 2015 near 19,000 on the Dow. Hopefully, one of these two scenarios will be validated by mid-December 10 and even more so by year-end or early January.

On average mid-October through early January is the best seasonal period for stocks on average. However this is not the case when there are major tops like 2007 or 1929.

Adam noted that the advance/decline line (which shows more selective buying of larger cap stocks) is not confirming the new highs in stocks as of yet, but it certainly would if we break well above the broader megaphone pattern. I commented last week that rising trends in buying power and falling trends in selling pressure on this recent rally is the one major indicator that would suggest that the top has not been put in yet.

This indicator is saying that the "smart money" is not exiting yet. But what if they react differently this time when the Fed seems to be guaranteeing that the markets won't fall very much?

I've commented many times that the rally we've been experiencing since March of 2009 has been the trickiest in history because it's an artificial rally fueled almost solely by unprecedented stimulus measures. Many technical indicators and leading indicators simply don't work anymore because the markets have been essentially taken over by central banks.

The one thing that has worked better is the visible patterns in stocks like head-and-shoulders, channels, wedges and megaphone patterns. Although I had a key wedge that was broken on the downside on October 15… this sharp rally occurred to new highs despite of it.

I still warn that it's better to get out a little early than too late as such an artificial bubble rally will likely see a swift and violent crash when it does finally top. The Nasdaq crashed 40% in its first 2.5 months of the down wave in 2000.

If, by December 10 or so, we do see the markets holding well above the October 15 lows then the odds are the markets are going higher. Investors who have sold could then choose to get back in altogether or in steps and increasing your exposure if we do break to new highs above the levels achieved in November.

I wish this market wasn't so hard to read but that's the hand we've been dealt. But make no mistake, this is a bubble and the lagging performance of small-caps is a clear sign that the end is near.

valbury
Expect More
Menara Karya 9th Floor
Jl. H. R. Rasuna Said
Block X-5 Kav 1-2
Jakarta 12950
Indonesia
T. +62 21 255 33 777
+62 21 255 33 600
E. helpdesk@valbury.com

Akhirnya, seperti biasa agar Anda tetap ceria, saya lampirkan gambar kartun lucu berikut:

Overheard In Every Boardroom In America

Could it really be this simple?

h/t MI

Terima kasih sudah membaca dan semoga beruntung!

Regards,
Nico Omer Jonckheere
VP Research and Analysis
PT. Valbury Asia Futures