

Risk-off is looking ever more likely

Bottom line: A correction is becoming more and more likely. Small-caps (SCXP) are sharply down relative to large-caps as money rotates out of higher beta names (e.g. Basic Resource, Auto & Parts, Construction). Telecom, Healthcare, Retail are showing signs of leadership. **This potential decline could wipe out all the year's gains made in January in the weeks ahead.**

As January goes, so goes the year!

Good morning – “As January goes, so goes the year”. This is what the so-called January Barometer states, i.e. a positive January tends to precede a positive year (only seven major errors since 1950 for an 88.7% accuracy ratio). That reinforces a degree of confidence in a bullish scenario this year (S&P 500 above +5% year-to-date).

Back to the short-term: I am still waiting for a correction move so yesterday's pullback is encouraging. Few days ago, we got signals identifying trend exhaustion areas...but no confirmed bearish reversal. Not yet. Key stock indices have now reached levels where one should reassess the situation. Sentiment across the board is heated. Consequently, even if it is quite frustrating, “don't chase this rally” is the best advice I could give until now.

Today is potentially an interesting day from a DeMark point of view. If today's close is below the close four price bars earlier (VGH3 **2753**), we will have a bearish TD Price Flip, i.e. a sign of change in market dynamics, from a bullish momentum to a bearish momentum. However, this is not enough to go short: a close below VGH3 **2717** (TD Reference Close Down) would add an additional factor suggesting a pullback have started – see Figure 1.

It is worth noting that **FTSE MIB Index (FTSEMIB)** already made its bearish price flip yesterday back on Saipem crash, then dropped below TD Reference Close Down level. One should wait for more downside (next potential target 16873 then 16273). Yes, FTSE MIB is a short-term sell now (sell on strength).

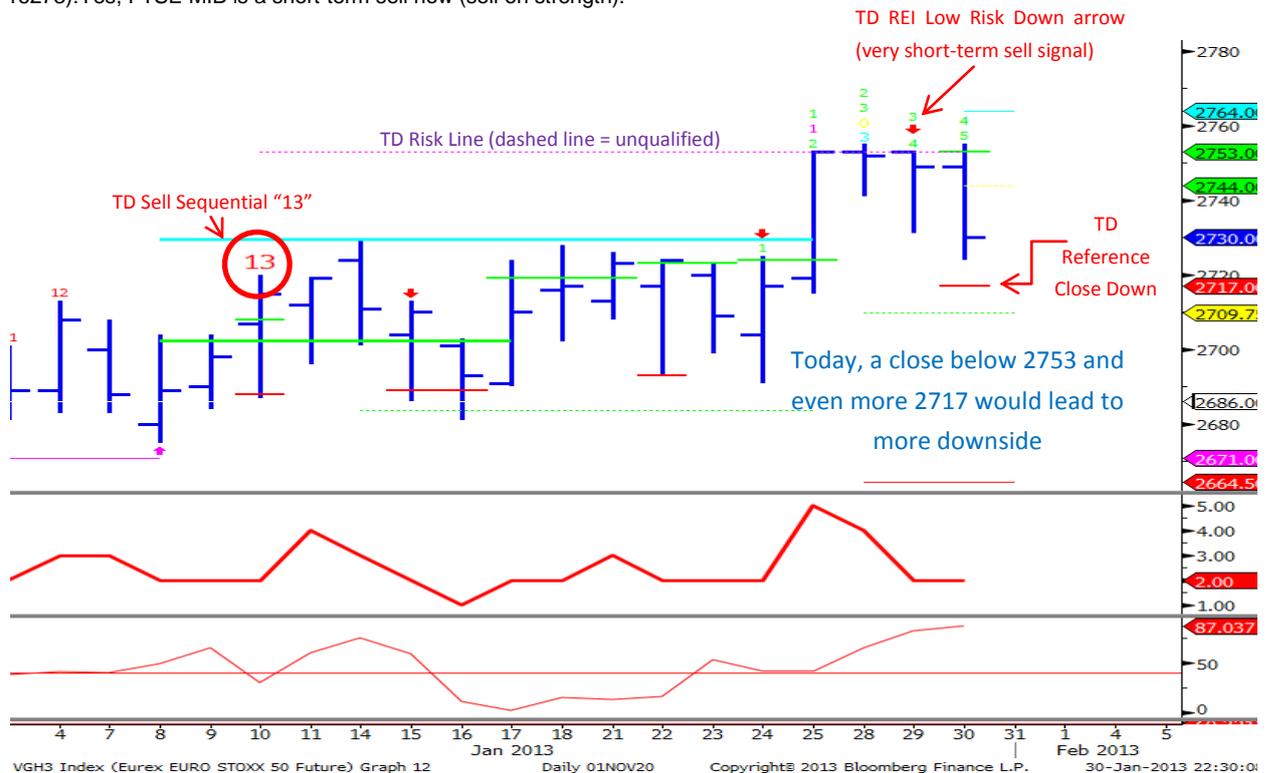


Figure 1 – EURO STOXX 50 Future March 2013 (VGH3) – Daily – DeMark indicators

In the US, the situation is also deteriorating. Take the **Russell 2000 Index (RTY)** – I like this index because it is used as the performance measuring index for small and mid-cap growth money managers. The action of RTY is an omen of what happening economically in the US. So, what happens with RTY? The index is on the verge to reverse its underlying short-term trend. Yesterday, price moved towards the 20-day MA. More important, we got a daily TD Sell Combo “13” on Jan.29 then a bearish

TD Price Flip yesterday, a hair above TD Reference Close level (896.70). If selling continues today and Friday, RTY would be in trouble over the next days/weeks.

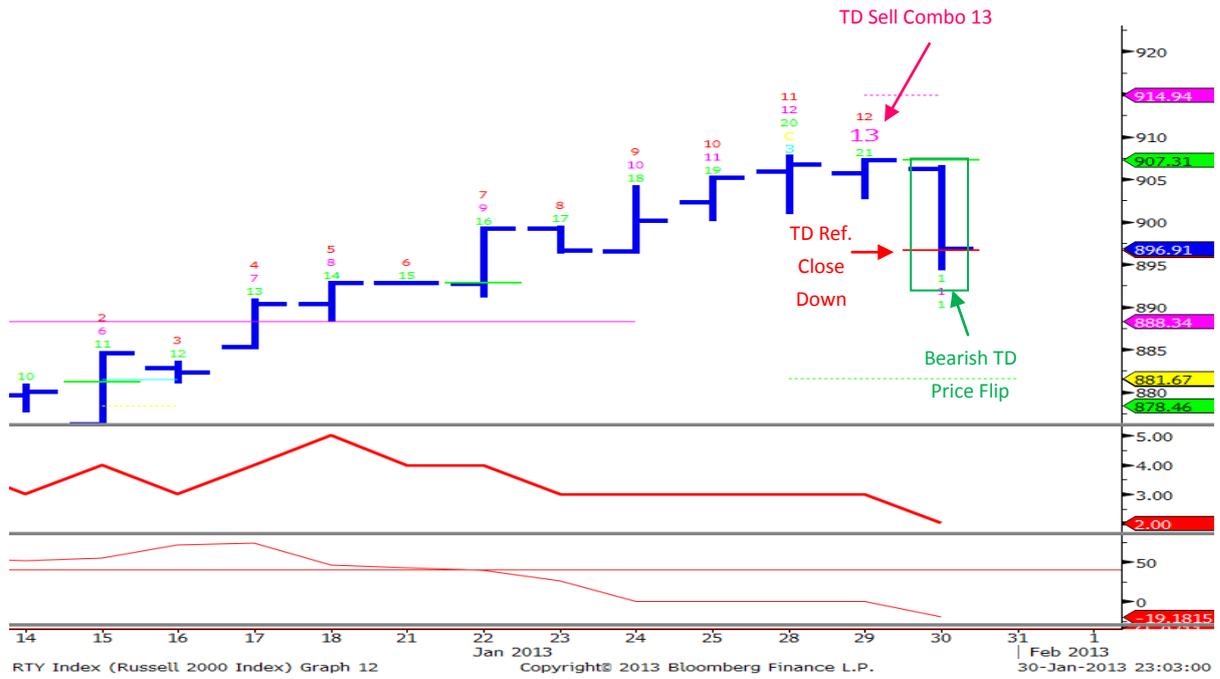


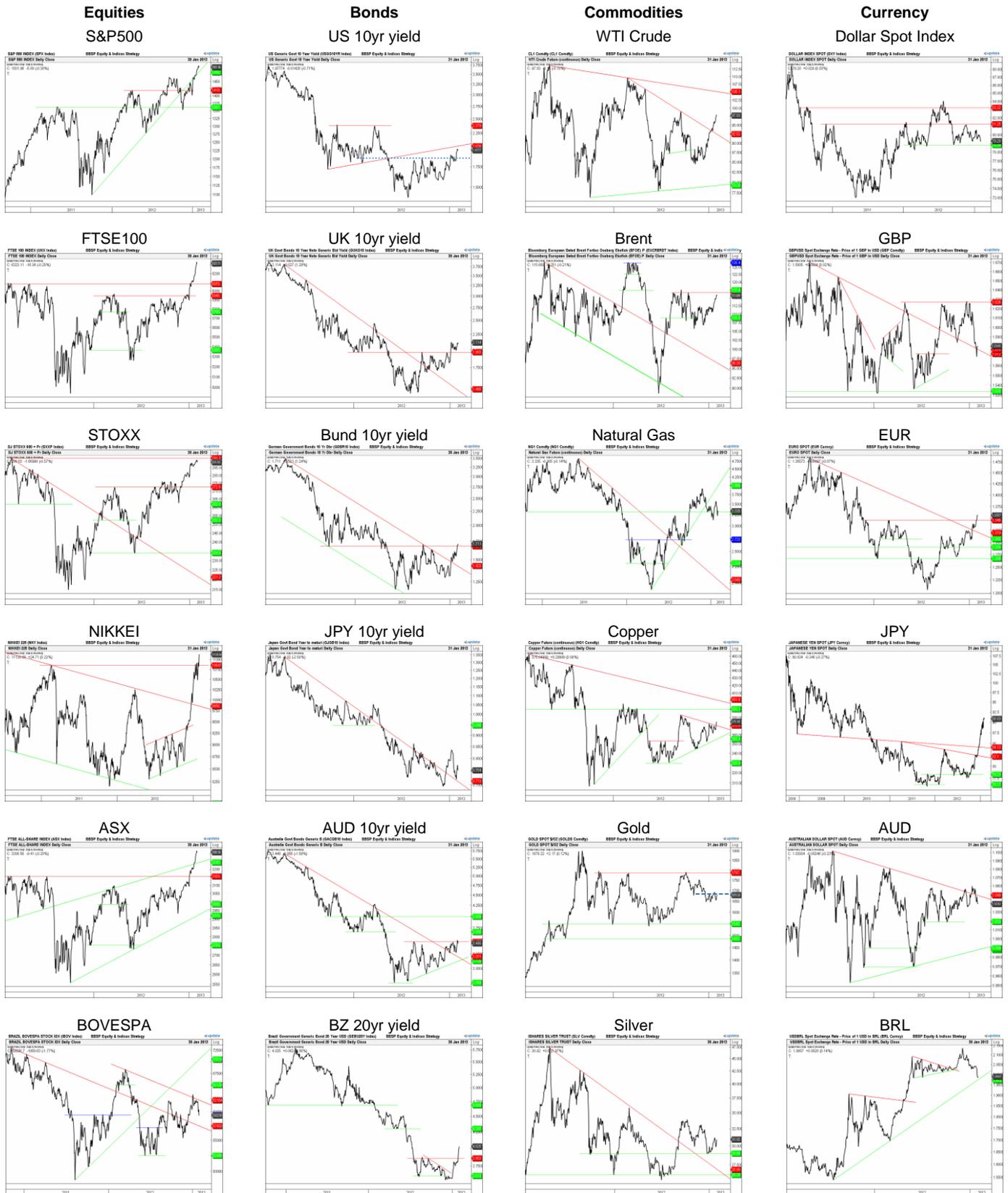
Figure 2 – Russell 2000 Index (RTY) – Daily – DeMark indicators

Finally, take a look at Investors Intelligence last weekly poll. Bulls rose to 54.3% from last week's 53.2%, the highest since Feb 14. Bears were unchanged at 22.3%. Advisors seeking a correction fell to 23.4% from 24.5%, the lowest since Sept 19. Investors Intelligence notes that the Bull-Bear spread has risen to a **20-month high**.

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GLOBAL TREND LINES AT A GLANCE (24-month charts)



- Charts to watch are BRL, AUD, EUR, Brent
- Bullish breakouts are seen in Copper, BZ 20yr yield
- Bearish breakout is seen in Bovespa

Data by Bloomberg - Some charts use generic ticker for the active contract from points in time historically to provide a snapshot of the most active contract going back (e.g. Crude, NatGas).