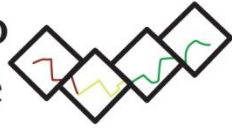




Prospero
Institute



A Registered Investment Advisor
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Last week decliners outpaced advancers by approximately a 2 to 1 margin on the Nasdaq and NYSE and negated the short term advance decline buy signal from a week earlier. **Equity allocation has been trimmed once again.**

Trend momentum has turned negative. Long term trends ?? At best pointing to a choppy and directionless environment and more likely is a market that will be confined to a series of lower highs and eventually lower lows.

High Low indicators? Concerns remain (as I have asserted over the past few weeks)... i.e. the relationship of leaders and laggards continues to disappoint... and in fact no longer can comparisons be drawn to 2011....

Bottom line: short term indicators have been in a preponderance of the evidence mode ... delivering conflicting messages on a week to week basis in an attempt to convince us beyond a reason of doubt that a guilty as charged verdict is premature on the relationship between 52 week highs vs. lows..... yet the evidence is contrary

Small and Mid Caps continue to underperform... when they decide it is time to party everyone has fun.... Seemingly unannounced they tend to leave without notice. Have you seen them around lately?

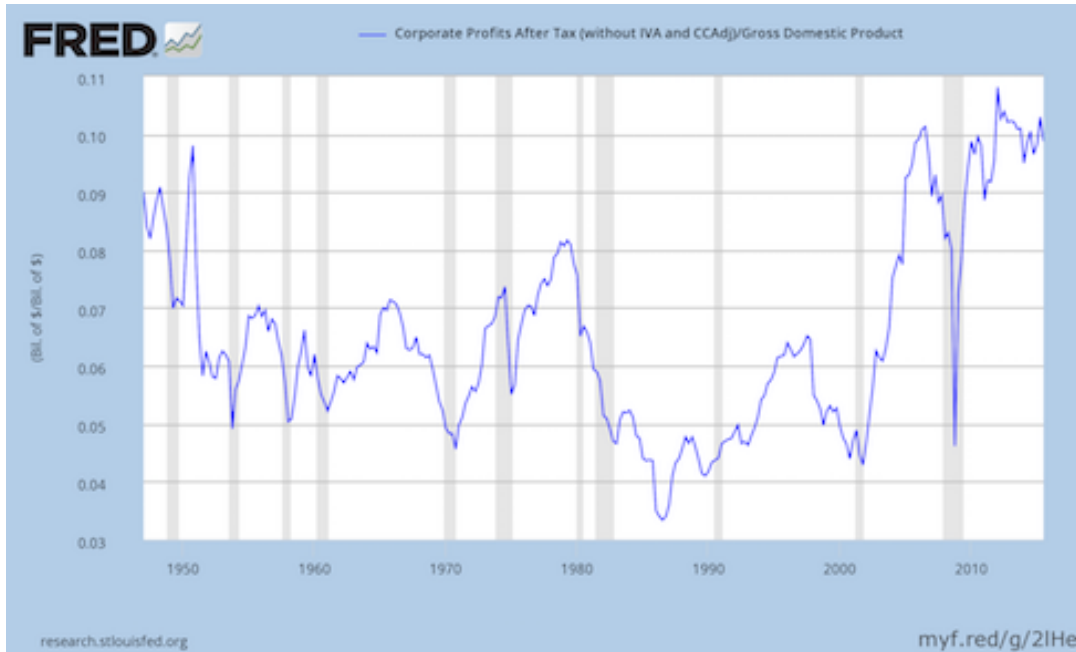
A Happy New Year? Well it appears that 2016 will prove to be a difficult year as the prospect of a bear market appears to be in process as a sell the rally mode will likely prevail.

2015 returns: S&P 500 -.69%, Dow: -2.29%, Nasdaq: + 5.94%, Russell 2000: -5.25%, NYSE Composite: - 6.35%.
(Russell 2000 and NYSE have made zero progress over the past 2 + years).

Concerns remain in High Yield, flattening revenues, valuations, China economy and yuan devaluation, Middle East tensions ..

Doug Ramsey (CIO of the Leuthold Group): Based on the recent ISM report his "Liquidity Index" indicator is maximum bullish, yet overall he is in the camp that a bear market (in fact probably the second leg) is underway.

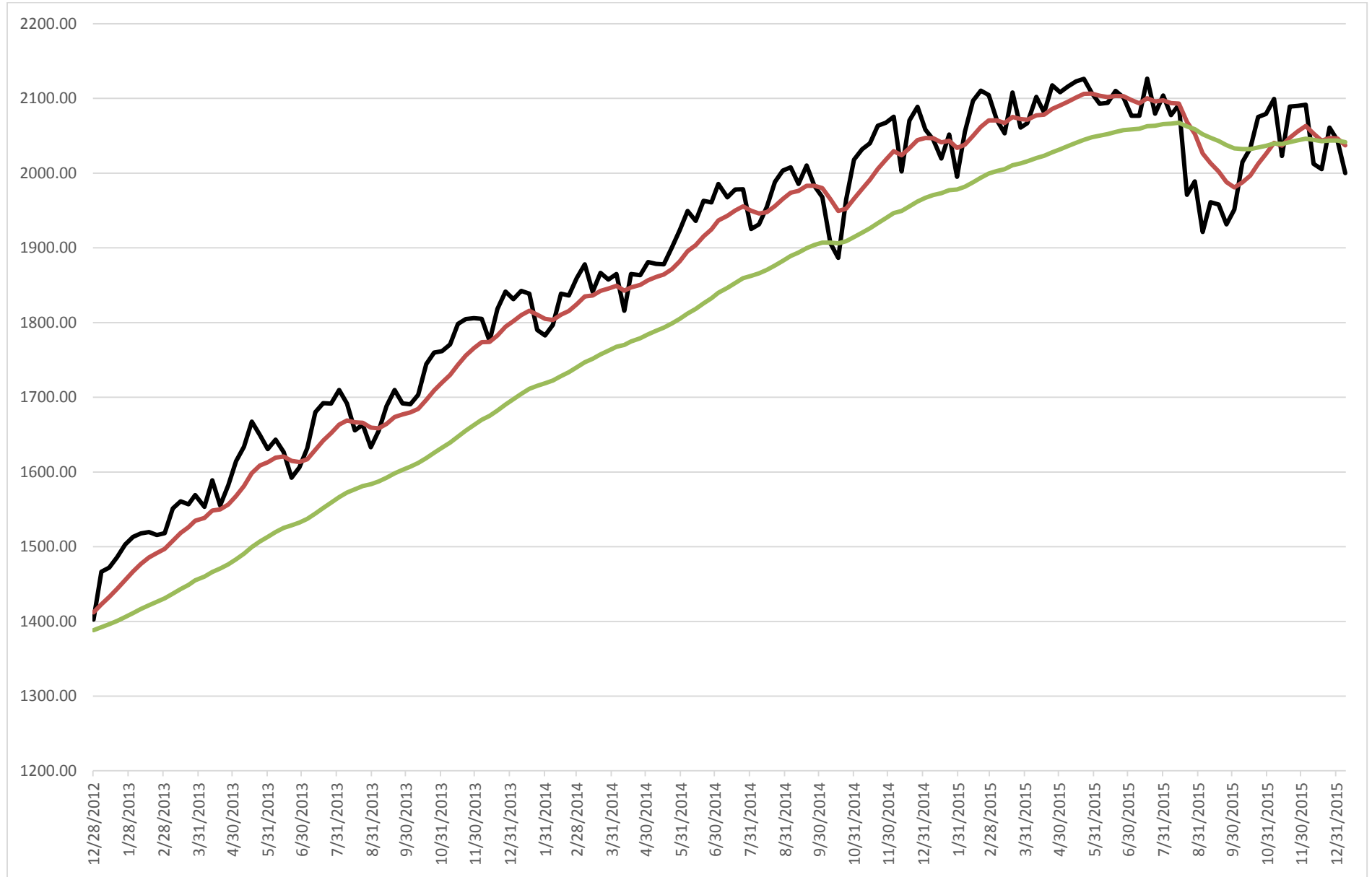
What is going on in the economy? Corporate profits relative to GDP are at their record highs.... and rolling over??.



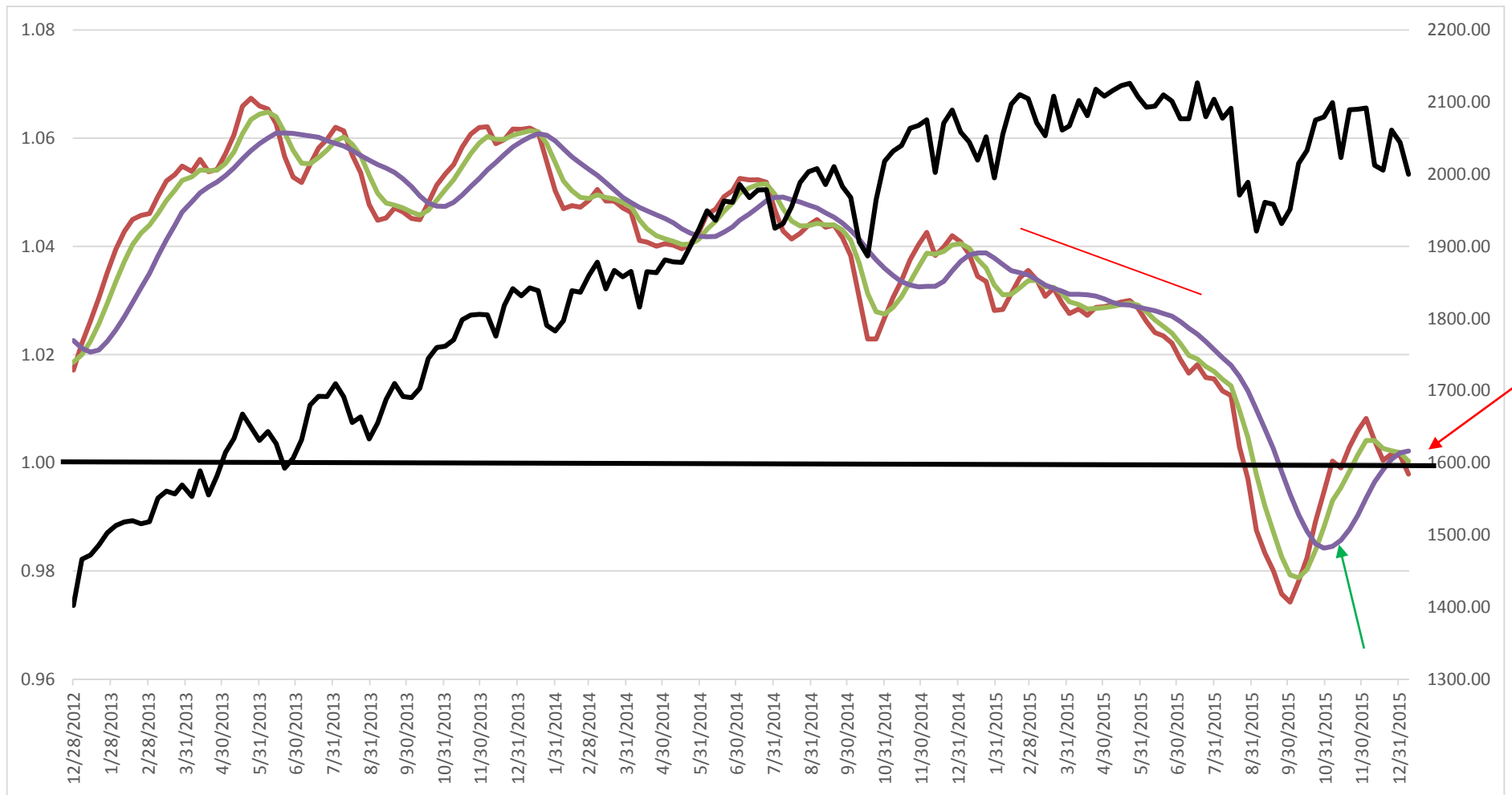
And growth can be generated through:

- 1) good old fashioned economic growth
- 2) stock buybacks – oops interest rates are going up? And liquidity is possibly drying up
- 3) Increased productivity hmmm... with low unemployment...

S&P 500 long term trend: has now turned negative



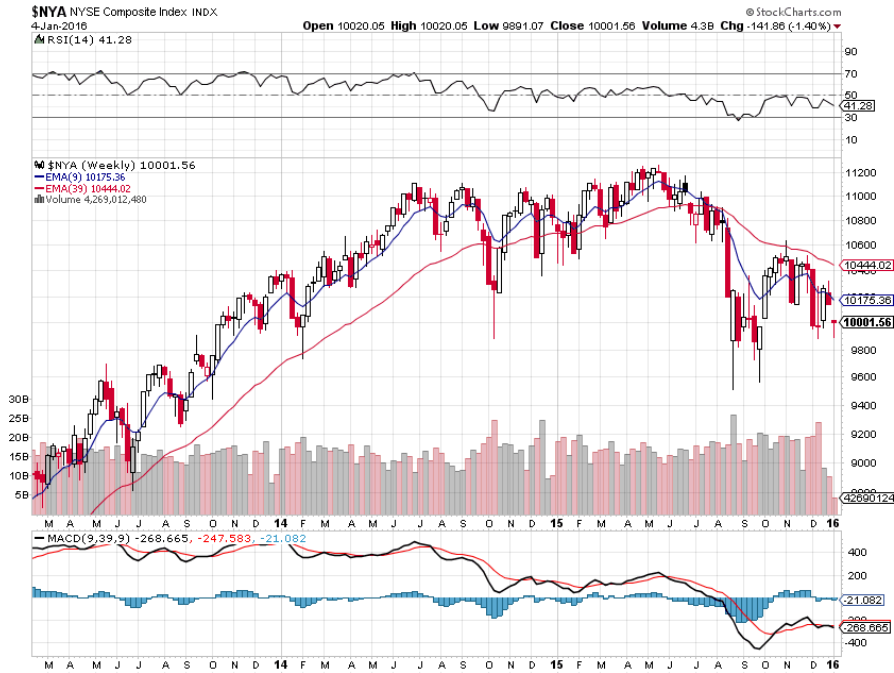
S&P 500 and trend momentum: (MACD ratio) has now turned negative. This chart provides the same (yet more) information as the long term trend chart of the S&P 500 on the previous page. The 9 week ema is divided by the 39 week ema which creates a MACD ratio. When the red indicator line is above 1.0 the S&P is trading in a positive long term trend. (9 ema is above the 39 ema). The MACD ratio however allows us to measure and view acceleration/deceleration within the trend. Two signal lines are added to the MACD ratio (4 and 9 ema). Long term investors are best off ignoring crosses of the signal lines when the indicator is above 1.0. However a turn UP of the indicator signal lines when the indicator is below or above 1.0 holds an excellent track record of producing timely buy signals. (like recently). **Trend and momentum have turned negative as the indicator (red) has crossed below and the 4 ema has crossed below the 9 ema.**



So what have you been doing for the last couple of years?

NYSE: it's complicated but I feel like have been sort of stuck in the same place for awhile.

Russell 2000: me? Um yea... ditto

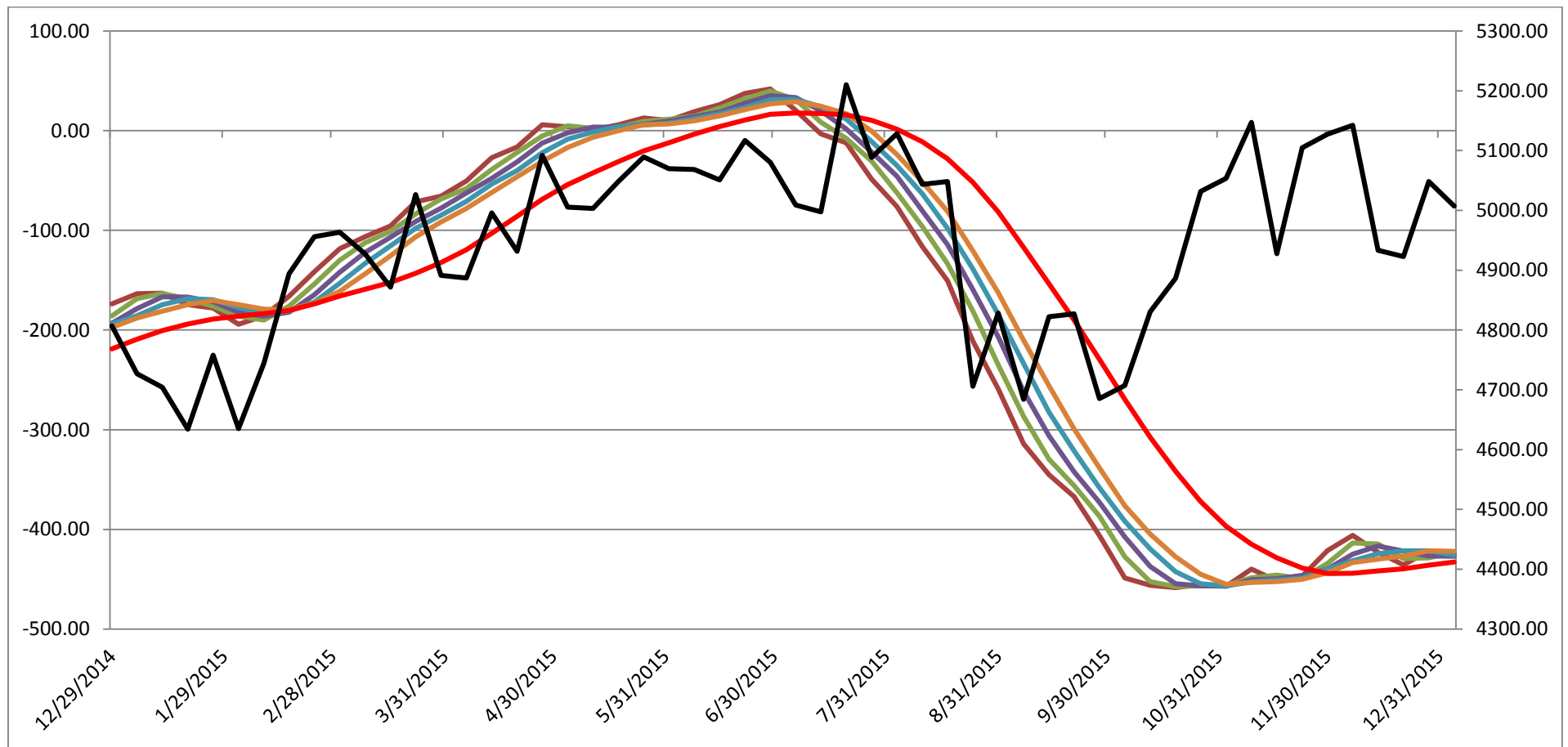


CYB (Yuan ETF) vs. S&P 500: recent times a turn down in the yuan (CYB) has preceded a turn lower in equities.

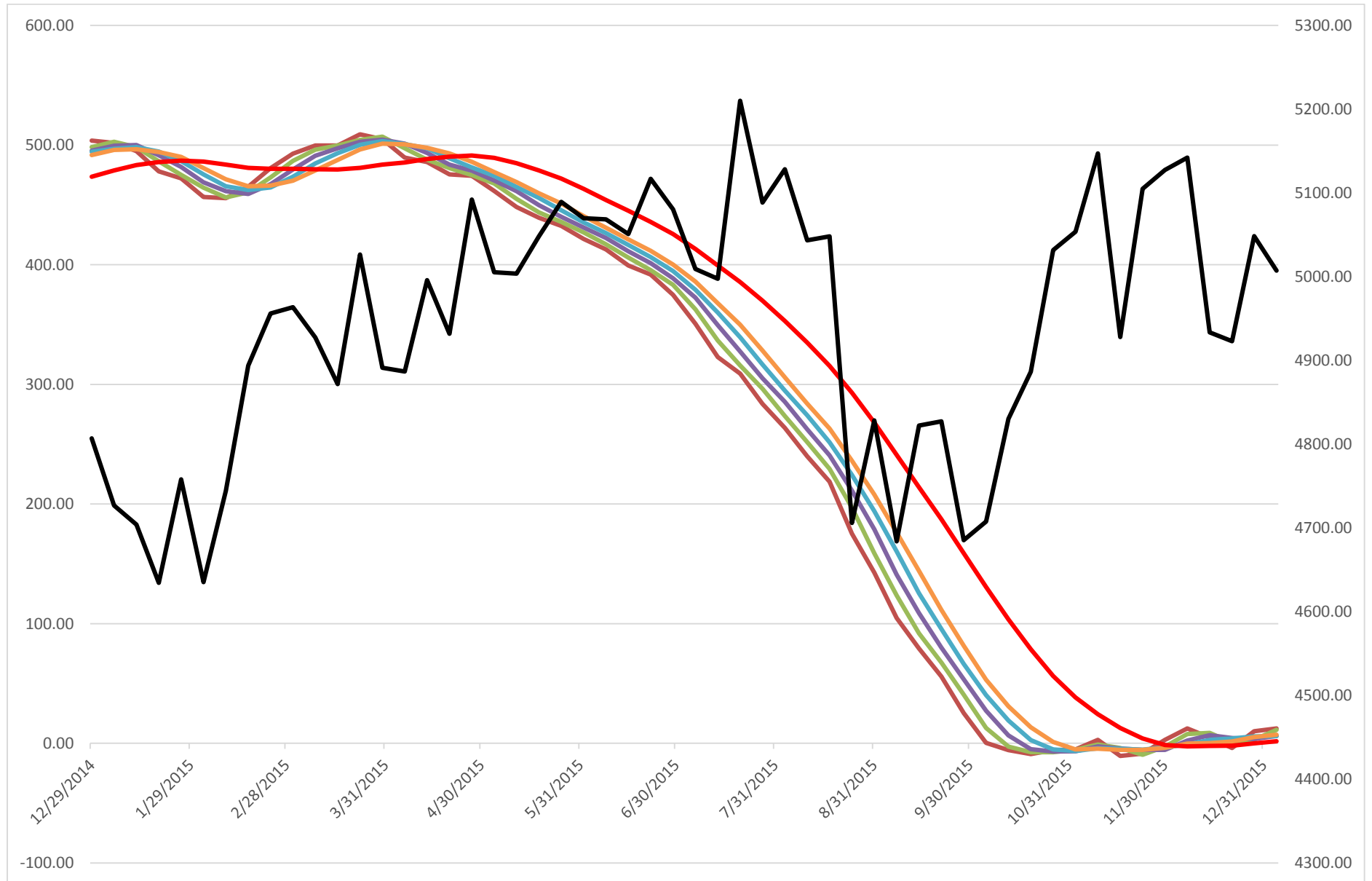


Nasdaq advance decline summation index.

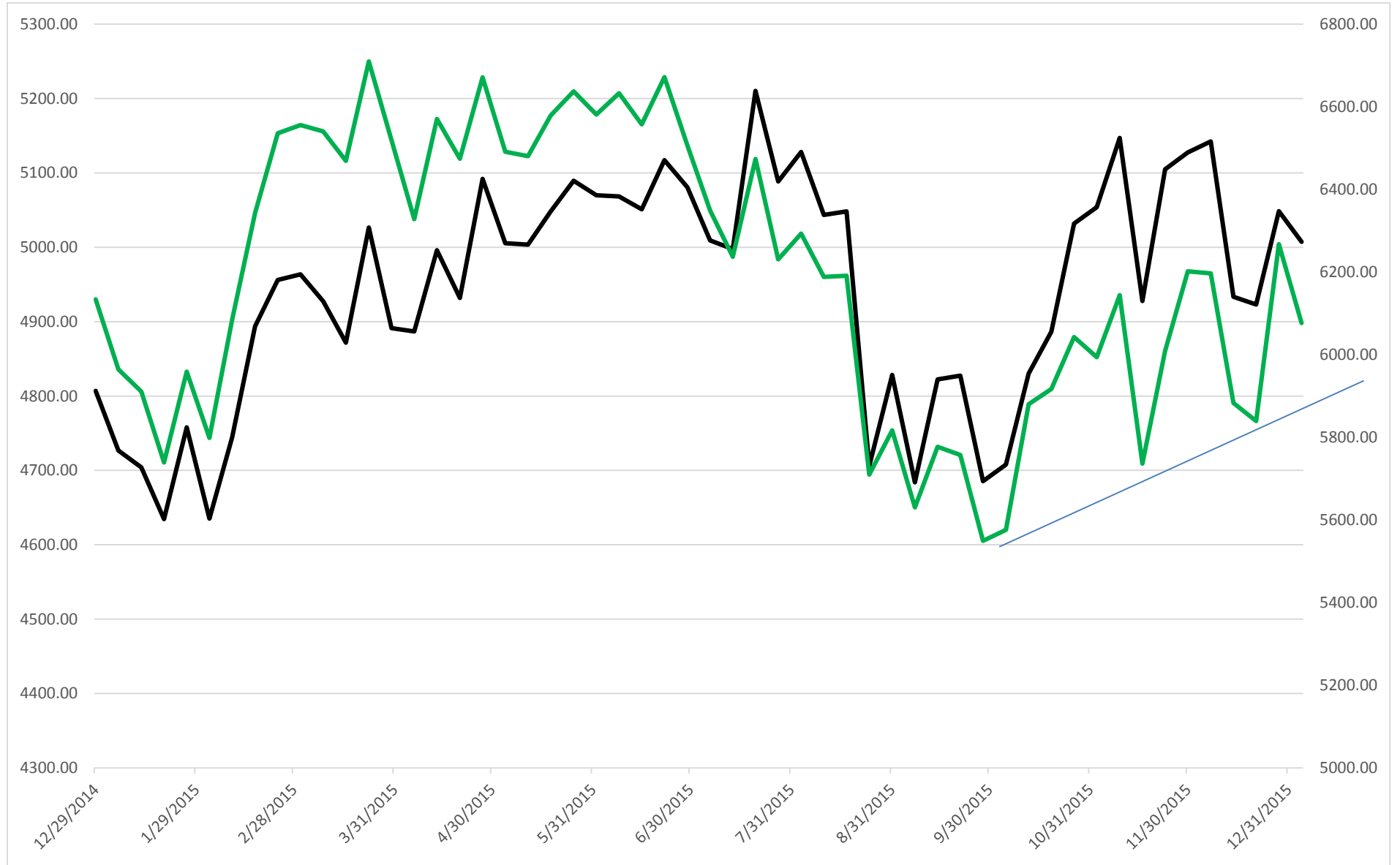
Decliners outnumbered advancers by a 2 to 1 margin. Indicator signaled a buy 2 weeks ago and short term turned negative this past week. It can be a dangerous time to own stocks (like now) when this indicator is below zero and the indicator lines turn lower. Yet the dark red indicator line is ABOVE the 10 week moving average (bright) red. (hanging on.... If this turns lower it will spell continued trouble for equities.??) (again this indicator measures acceleration/deceleration in the relationship between advancing and declining Nasdaq stocks. A multiple signal line approach is utilized. Indicator is generally bullish when above the zero level or if the indicator (dark red) is above any or all of it's moving averages. More specifically short, intermediate and long term signals can be utilized based on the position of the indicator relative to it's moving averages and level (above or below zero).



Nasdaq Up vs. Down Volume Summation: Declining volume outpaced up volume by a .5 to 1 margin and this indicator. **Surprisingly this indicator remains “positive” as of Friday’s close.** Further improvement is very important at this point in time.

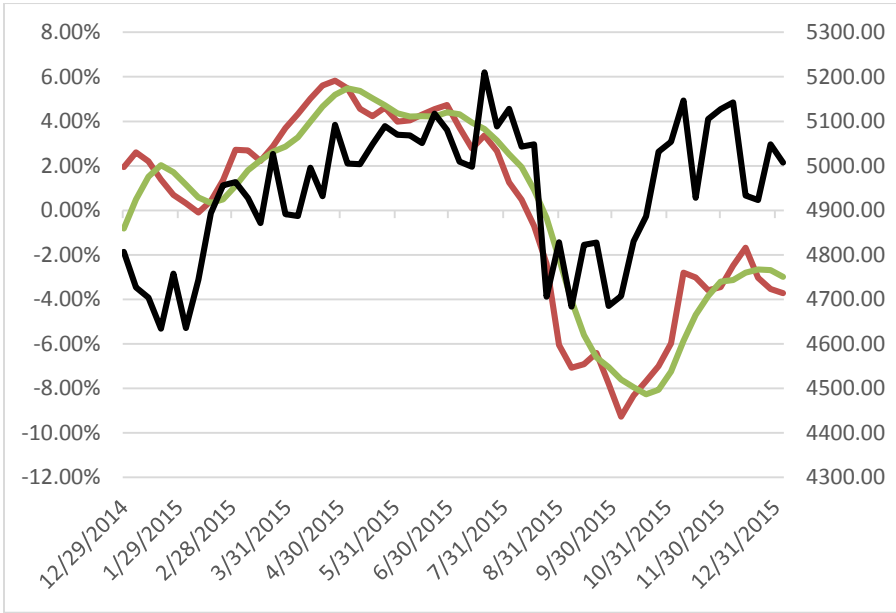


Nasdaq weekly up down volume line (green) vs. the weekly price of the Nasdaq (black): Surprisingly perhaps the running total of up vs. down volume has been trending higher recently while the price of the Nasdaq has made a lower high. **Perhaps this relationship is indicating that the bottom is not about to fall out of the Nasdaq immediately...**

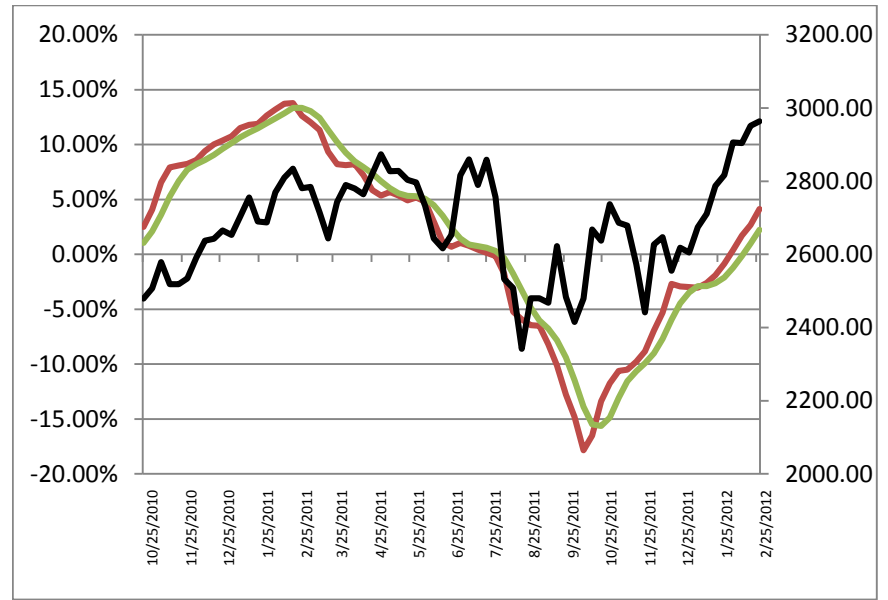


Nasdaq High Low % of total issues: turned lower three weeks ago, continued lower this past week. Improvement is required as the indicator is below the zero level. **Indicator and moving average have turned lower.... Suggesting the current market does not have the leadership as 2011.....**

Current

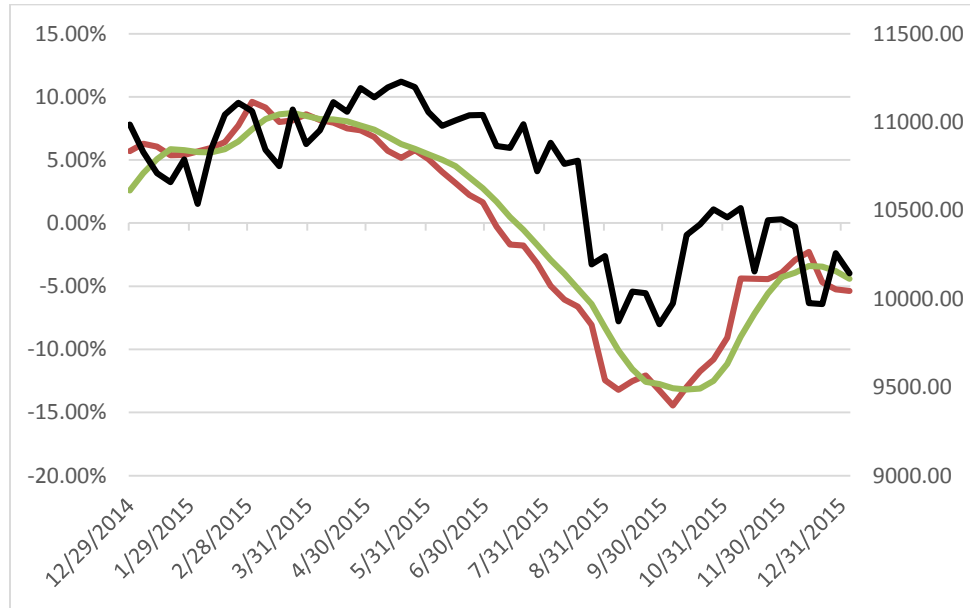


2011

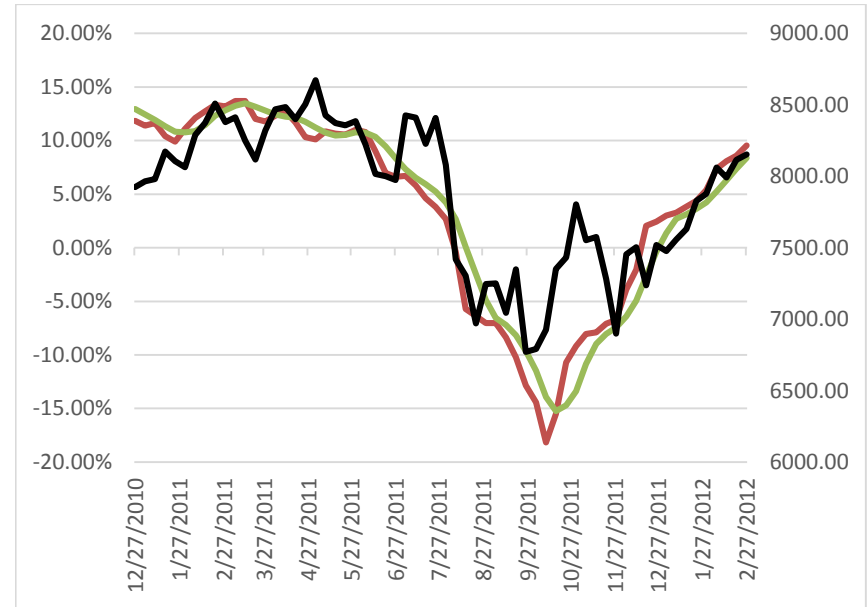


NYSE High Low as a % of total issues: turned lower three weeks ago, continued lower this past week. Improvement is required as the indicator is below the zero level. **Same story as the Nasdaq**

Current



2011



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