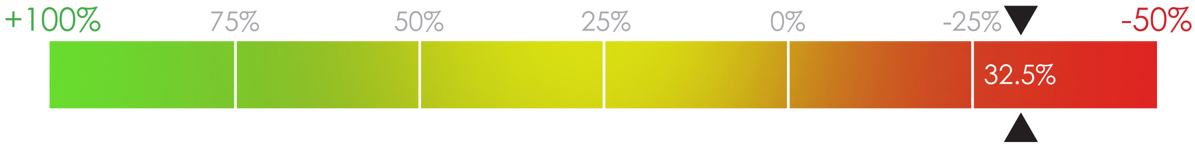
LAMENSDORF
MARKET TIMING REPORT

MARCH 2014

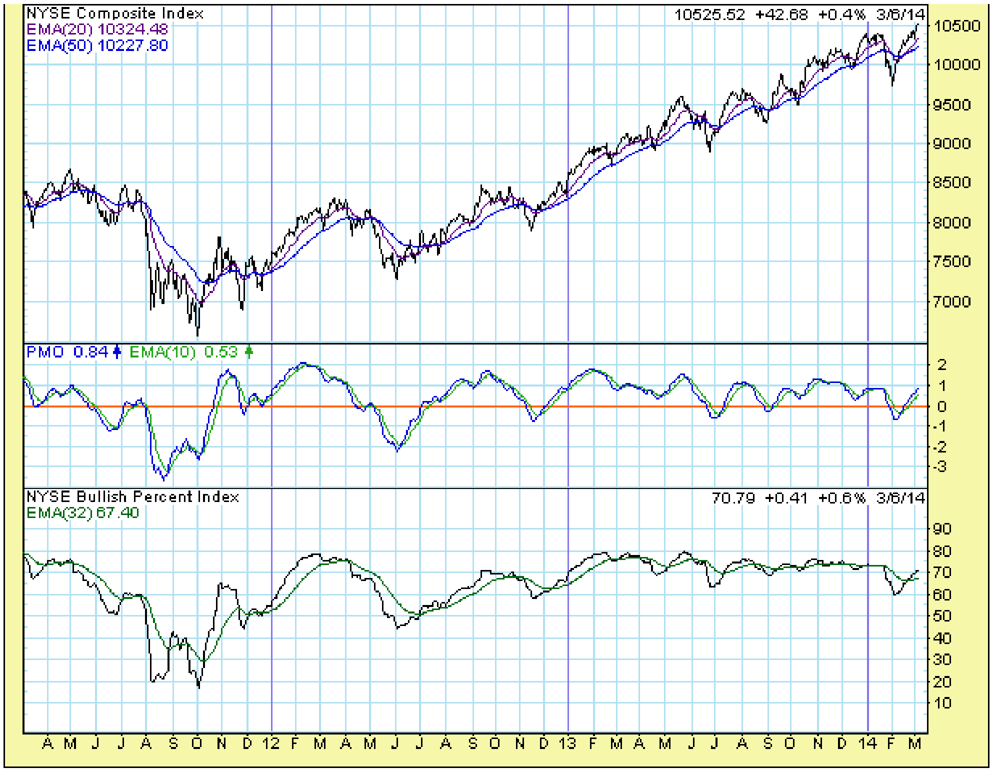
EDITOR: DICK STERN | **CIO:** BRAD LAMENSDORF



The charts and graphs presented in LMTR's newsletter are not produced by LMTR. The interpretation of the charts and graphs is only the opinion of LMTR and does not reflect the associated firms' opinions.

Negative Divergences Set the Stage for a Nasty Spill

In the stock market, there has historically been a pronounced correlation between what occurs in January and what happens for the remainder of that year. The January 2014 correction and subsequent rally have left some significant negative divergences and subsurface weakness, which the indexes are masking. The "January Barometer" is firmly in place, insider selling is at alarmingly high levels and margin debt is being used in a reckless fashion. Thus, we feel the stage has been set for a nasty spill in the stock market.



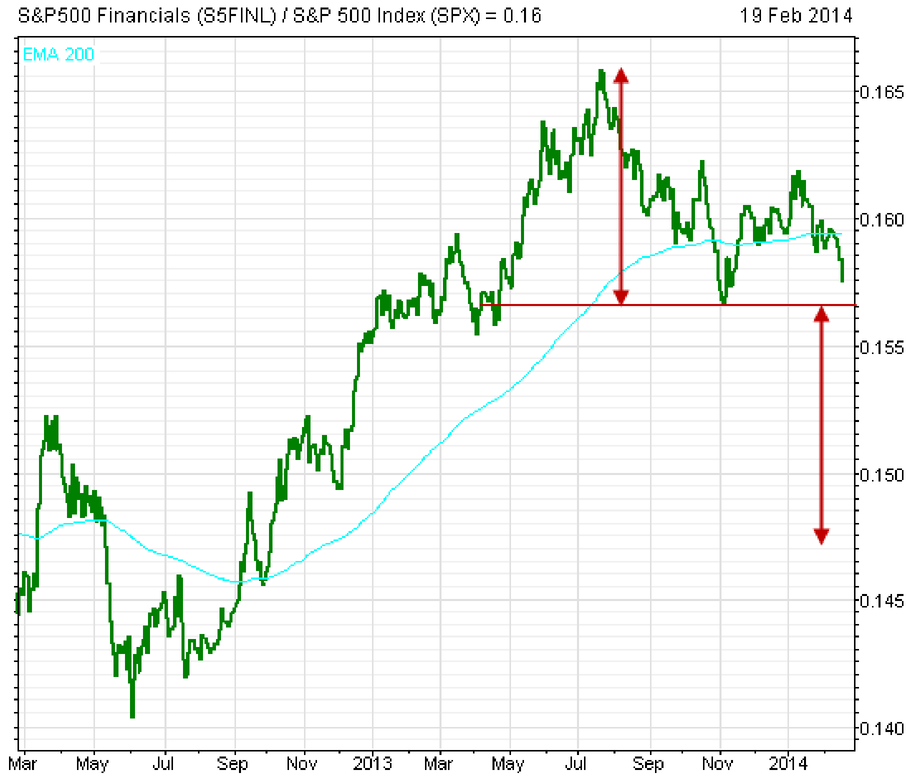
The January Barometer has been much debated over the years, yet the data clearly supports the fact that stock market performance in the first month of the year predicts performance for the remainder of that year. The charts to the right clearly illustrate what a strong January leads to for the rest of that year versus what occurs when a weak January has occurred.
A data outlier occurs for 2009 (second chart). In 2009 we were just coming off the 2008 crash. January 2009 was down 8%, yet yearly performance was actually up 23%. This outlier does not negate the efficacy of the January Barometer; entering another bear market would be highly unlikely after having just experienced such a significant crash.

Ten best Januarys since 1928… with Rest-of-Year Performance and Full-Year Performance… pretty good.

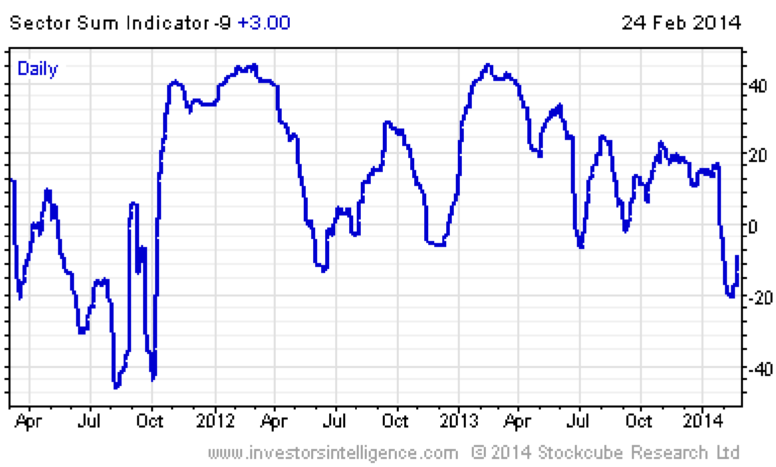
Year	January Performance	Rest-of-Year Performance (Feb-Dec)	Full-Year Performance
1975	12.28	17.16	31.55
1934	12.04	-14.95	-4.71
1976	11.83	6.54	19.15
1967	7.82	11.38	20.09
1985	7.41	17.62	26.33
1989	7.11	18.80	27.25
1946	6.97	-17.61	-11.87
1943	6.86	11.78	19.45
1936	6.55	20.06	27.92
1961	6.32	15.81	23.13
Average	**8.52**	**8.66**	**17.83**

Ten worst Januarys since 1928… with Rest-of-Year Performance and Full-Year Performance… pretty bad.

Year	January Performance	Rest-of-Year Performance (Feb-Dec)	Full-Year Performance
1941	-4.82	-13.70	-17.86
1977	-5.05	-6.79	-11.50
2000	-5.09	-5.32	-10.14
2008	-6.12	-34.48	-38.49
1978	-6.15	7.69	1.06
1939	-6.39	1.30	-5.18
1990	-6.88	0.35	-6.56
1960	-7.15	4.50	-2.97
1970	-7.65	8.39	0.10
2009	-8.57	35.02	23.45
Average	**-6.39**	**-0.31**	**-6.81**

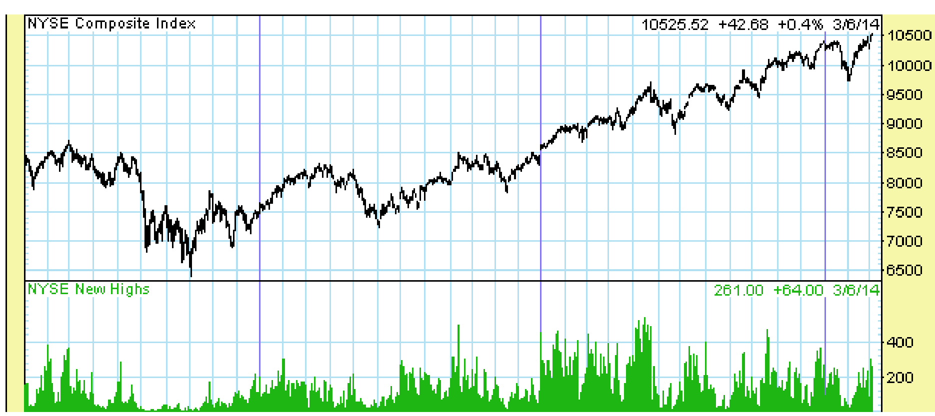


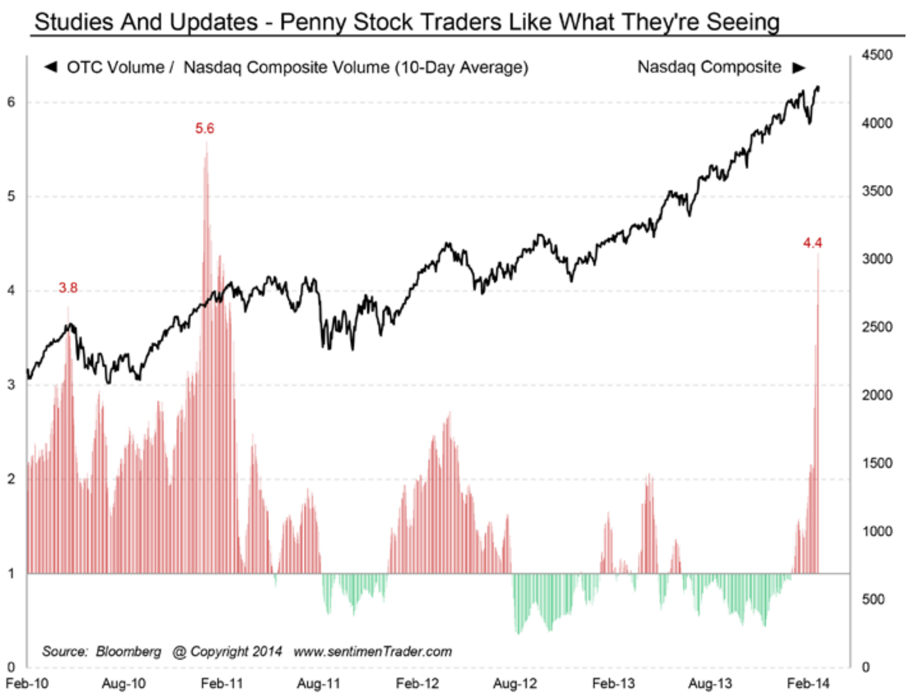
Until recently, the financials have participated in the general upswing in equities. However, over the last six months financials have begun to underperform the stock market. This is a concern because when financial institutions begin to have difficulties, problems are exacerbated and spill over into the general economy.



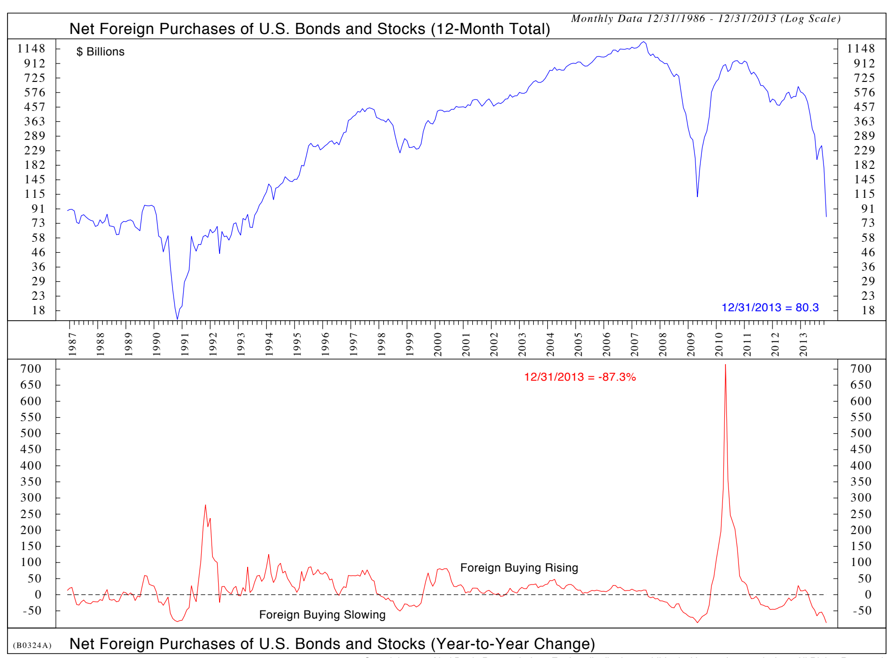
The Sector Sum Short- Term Status is determined by its chart direction in combination with the direction of the group's cumulative advance decline line and the last three day's direction on the NYSE bullish %. Not only has the Sector Sum been on a sell signal, but it has also been making a series of lower highs over the last 12 months. The indexes, in comparison, have been making higher highs. This shows that not all sectors are moving up higher with the market. Although the indexes have moved higher, the Sector Sum Indicator is showing sub-surface weakness and deterioration.

One can see in the chart to the right that although the indexes have been moving higher over the last six months, the number of 52-week highs has been in steady decline. This warning sign is a direct symptom of a narrowing tape.

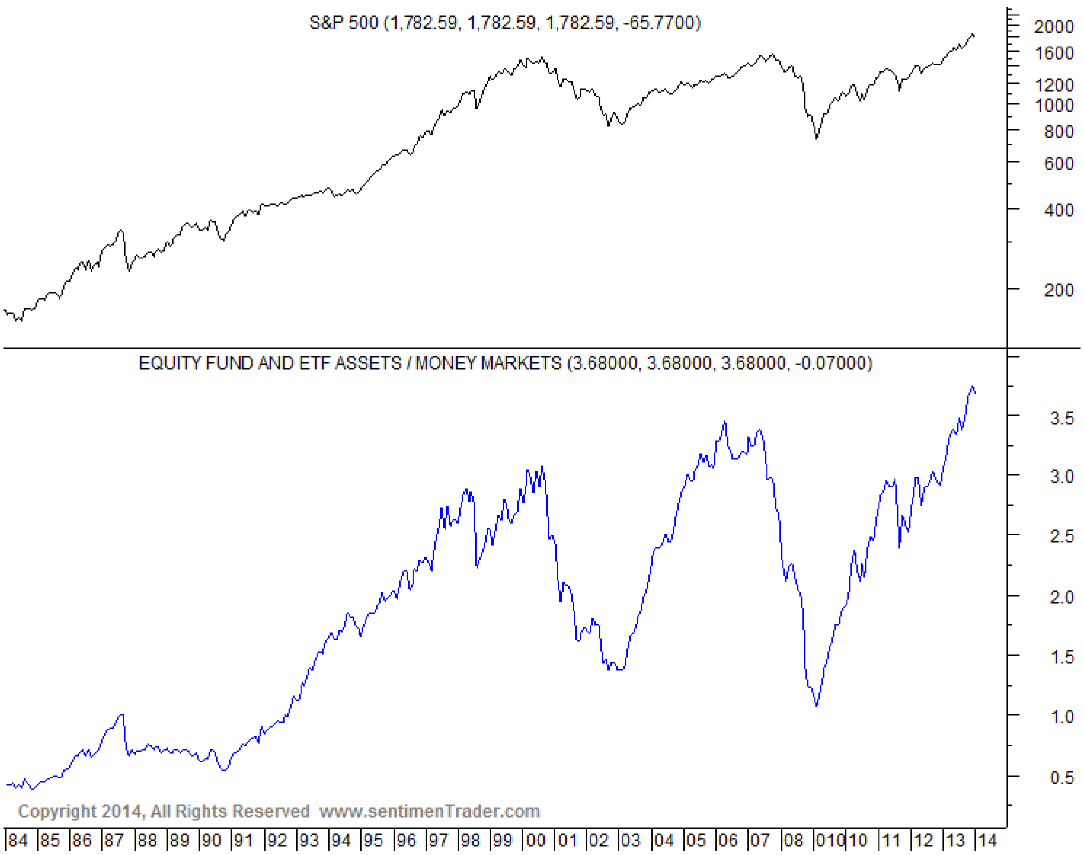




It is useful to gauge speculative fervor in the Over-the-Counter market. At this time we are noticing a significant spike in speculation. Since February 10th there has been increased volume in penny stocks relative to the NASDAQ Composite volume. This activity is a warning sign; traders are becoming extremely active in penny stocks, which are traditionally speculative in nature.

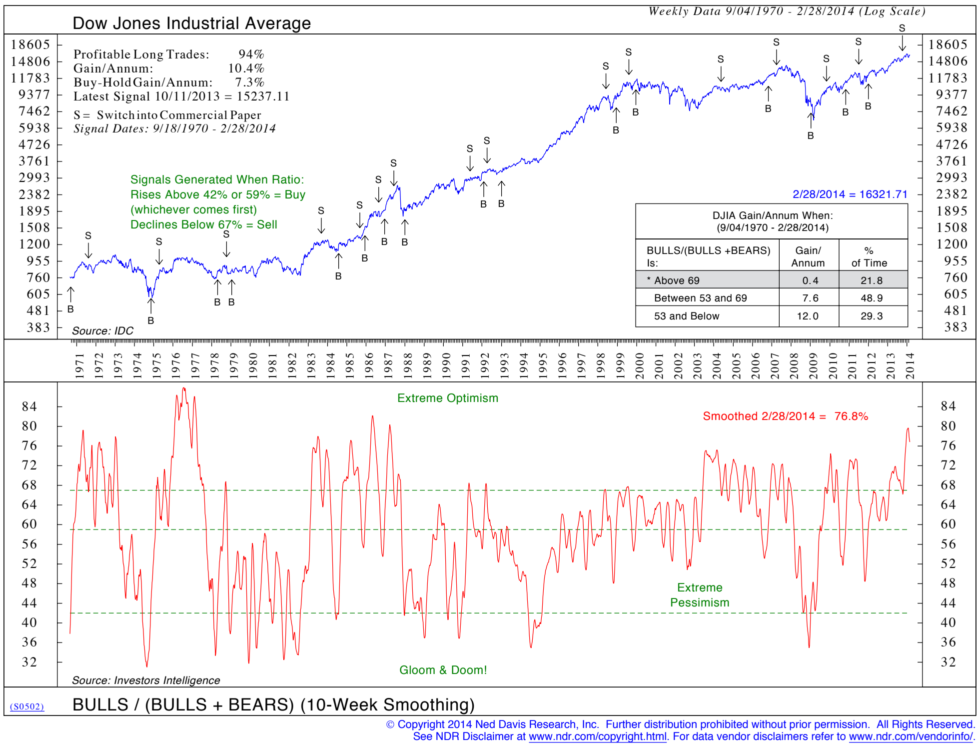


While corporations have been a steady buyer of stocks, foreigners have begun to sell US securities. In fact, their purchases have fallen to a 20-year low. This move downward encompasses both official institutions and private investors.

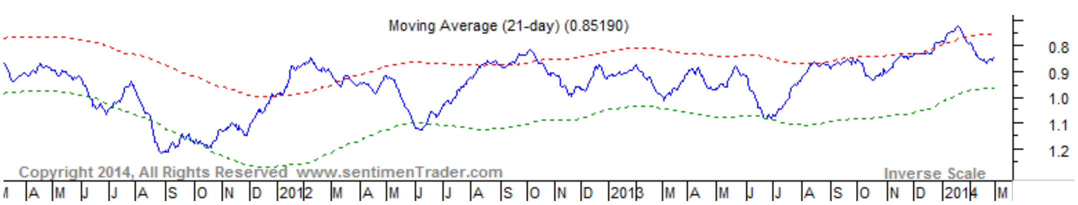


There is currently 3.68 times more money allocated to stocks than is invested in money market funds. This is a 30-year high. The last two peaks occurred during the top of the last two markets of 2000 and 2007. While most believe there is plenty of cash on the sidelines, this ratio indicates otherwise and is a significant intermediate term negative.

SENTIMENT

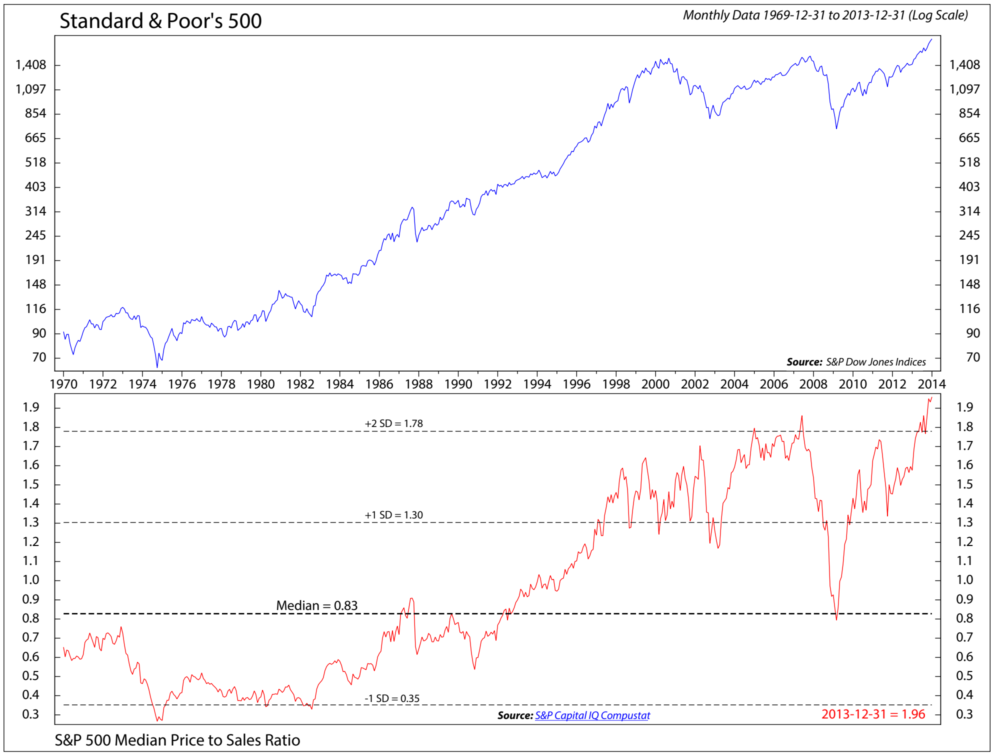


The Bulls/ (Bulls+Bears) sentiment gauge remains at a lofty level. The current reading of 78 reflects an overoptimistic marketplace with high expectations. Margin debt is also at an all-time peak, reinforcing our assertion that speculation is running high.



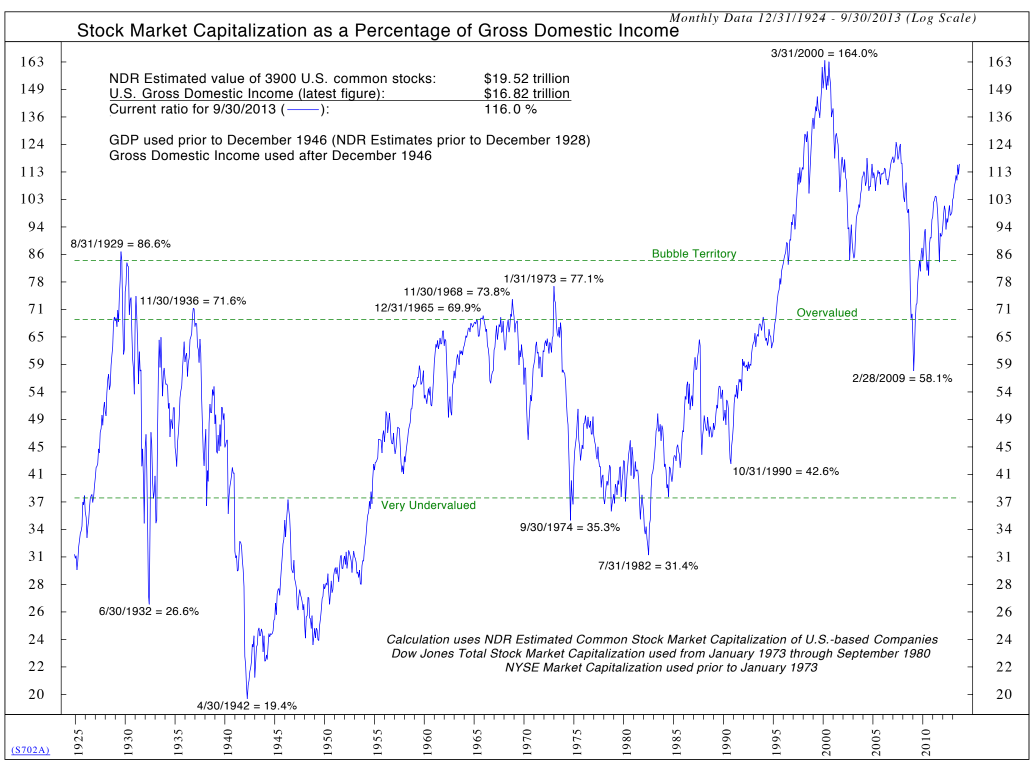
The CBOE 25-day Total PutCall ratio is designed to monitor monthly put versus call activity. It is used in a contrary fashion, meaning that when more puts are purchased it is a bullish sign and vice versa. The most recent reading of .83 shows that currently excessive call buying is taking place, which is extremely bearish.

MACRO POINTS



HOT201312181_C

We've written about Price To Sales in previous issues of LMTR. This indicator recently hit a 50-year high. Many fundamentalists assert that the stock market is "cheap", but we do not believe that this is the case. Sales are extremely difficult to manipulate through earnings buybacks, and the current reading of two standard deviations from the mean is extremely bearish.



The primary concept expressed in this final chart is a comparison of stock market value relative to GDP. We are presently above 2007 levels and are fast approaching 2000 levels on this indicator. Such distortion typically occurs during periods when stocks are overvalued in comparison to the GDI.

CONCLUSION

The January correction and subsequent February rally have created some negative divergences. As the indexes continue to advance, more and more indicators and fewer and fewer stocks are participating in each upswing. Sentiment, margin debt and insider selling are all in red-hot sell zones. In fact, insider selling has accelerated 30% over the preceding period. Such negative readings lead us to maintain our 32% short position.

SUBSCRIBE TO THIS NEWSLETTER

Contact us today to recieve this newsletter at the low annual price of just $399.

Phone: 203-557-3006 **Email:** info@LMTR.com

Please send a check to: **LMTR**
PO Box 5087, Westport, CT 06881

We also accept

PayPal

DISCLAIMER

Lamensdorf Market Timing Report is a publication intended to give analytical research to the investment community. Lamensdorf Market Timing Report is not rendering investment advice based on investment portfolios and is not registered as an investment advisor in any jurisdiction. Information included in this report is derived from many sources believed to be reliable but no representation is made that it is accurate or complete, or that errors, if discovered, will be corrected. The authors of this report have not audited the financial statements of the companies discussed and do not represent that they are serving as independent public accountants with respect to them. They have not audited the statements and therefore do not express an opinion on them. The authors have also not conducted a thorough review of the financial statements as defined by standards established by the AICPA.

This report is not intended, and shall not constitute, and nothing herein should be construed as, an offer to sell or a solicitation of an offer to buy any securities referred to in this report, or a "buy" or "sell" recommendation. Rather, this research is intended to identify issues portfolio managers should be aware of for them to assess their own opinion of positive or negative potential.

BIO

Brad Lamensdorf, a seasoned money manager and market strategist, is the CIO of The Lamensdorf Market Timing Report, a newsletter designed to help investors improve performance via market timing by assessing the environment of the stock market using a variety of technical, fundamental and sentiment-oriented tools from powerful independent research firms. Many investors mechanically enter and depart the market without a true "game plan." Studies have shown that retail investors, in particular, are very poor market timers, tending to invest at or near market peaks and sell at or near market lows. The newsletter is designed to provide risk parameters for both professional and retail investors around the short-term stock market environment, giving subscribers better insight about when to allocate assets into or out of the equity markets.

Lamensdorf, a frequent guest commentator and analyst on major business networks including CNBC, CNN and Fox Business News, also serves as a Portfolio Manager and Principal of Ranger Alternative Management LP, a sub-advisor to the Advisor Shares Ranger Equity Bear Exchange Traded Fund (NYSE: HDGE). In this role, he conducts top-down technical evaluations of broader market liquidity, sentiment and breadth to help identify short and intermediate-term market trends, manage exposure and mitigate risk. HDGE was launched in 2011 and is the first and sole actively managed, short-only ETF in existence.

Lamensdorf, also has managed investment portfolios for the Hughes family and was principal of Tarpon Partners, managing a long/short fund that was up more than 200% gross over six years. Earlier in his career, he was as an equity trader/market strategist for Taylor and Company, the Bass brothers' trading arm, co-managing a short-only strategy in a derivative format with national exposure. He also served as the in-house market timing strategist for the entire internal and external network of Bass managers.

LAMENSDORF
MARKET TIMING REPORT