



## MARCH 15, 2011 SPECIAL MARKET ALERT

Due to the recent events in Japan we thought it is important to keep you fully informed regarding the current down side in the market.

Japan accounts for 50% of the market for the wafers used to build computer chips. Based on this situation, "high tech" stocks and mutual funds could possibly suffer during the catastrophic events currently taking place.

Another concern we have discussed numerous times in **our Market Letters** is about the **underperformance** of the Dow Transports and how this is a negative for the market. Apparently, some prominent Dow Theorists are now worried because in mid-February, the transports fell so much further than the Dow Jones Industrial Average. Some followers of the Dow Theory are beginning to worry about the health of the bull market. The Dow Theory focuses on the behavior of the Dow Industrials and the Dow Jones Transportation Average. It's generally taken to be a **good sign** when **they are rising** together, and usually a bad omen when both are falling. Potential market turning points are sometimes signaled by **divergences between the two**. Some analysts believe the Dow Transports dropped so sharply in mid-February they doubt that even if the Dow Industrials are able to reach a new high in coming sessions, the Transports would not be able to join them. The action of the Transports remains a concern and must be monitored closely. As always, you can be assured we will keep you posted on this issue.

To be sure we are all now aware of this divergence and can respond appropriately if this situation should worsen.

**Current market support for the Dow begins at 12000/11900 and then down to 11000 and finally 10700 (the 200 day moving average, usually seen as a major support level).**

We are happy to report that in our November and January Market Letters, 12250/12300 were called possible resistance levels in the Market. The actual high made on February 21<sup>st</sup> was 12391. PRETTY CLOSE!

Even though the markets are falling, using Japan and the Middle East crisis as its excuse, it is important to remember this: The market has not had a meaningful correction since the rather small one in early November 2010. The market has been very "overbought" and was technically due for a retracement to make it healthy again, to hopefully resume its overall uptrend.

Although this catastrophe is beyond measure, it is important to remember that while another catastrophe, the attacks of 9/11, also took the market down, it rebounded within 5 ½ months to levels prior to this.

We will keep you posted as these events unfold.