



# Markets This Week

July 8, 2006

In This Issue:

**Investment Idea**

**Quiz**

**Our Results**

**Market Highlights**

**Behavioral Finance Indicators**

**Answer to the Quiz**

## Investment Idea

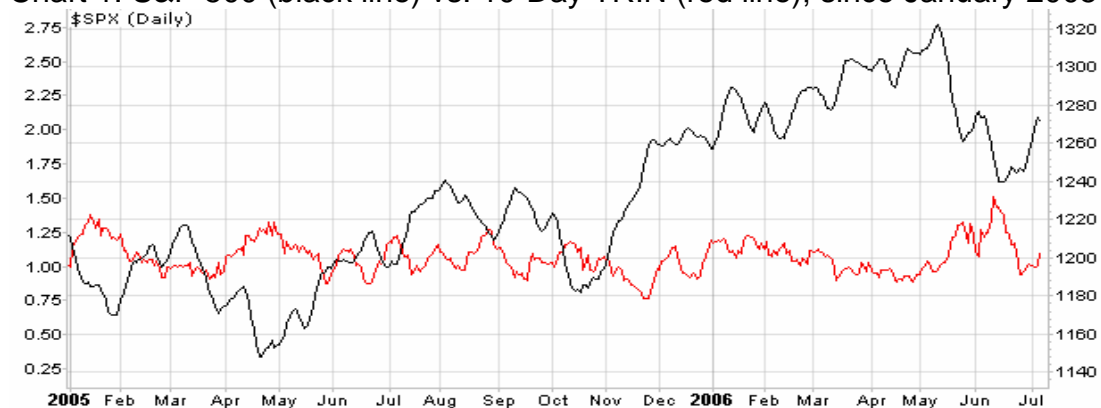
Question: What is TRIN and how does it work?

Answer: TRIN (a.k.a. Arms Index, since it was developed by Richard Arms) is an effective indicator of investors' behavior. TRIN is very effective at pointing out the extremes of fear and greed which often coincide with market reversals. High readings on TRIN indicate panic while low readings mean greed in the market. (N.B. Our own research shows that TRIN is more effective at showing panic.)

Here is a calculation of TRIN, but many sources also provide the final number:  
$$\text{TRIN} = (\# \text{ of Advancing Stocks} / \# \text{ of Declining Stocks}) / (\text{Volume of Advancing Stocks} / \text{Volume of Declining Stocks})$$

Please take a look at the excellent track record of TRIN coinciding with the market reversals (Chart 1).

Chart 1. S&P 500 (black line) vs. 10-Day TRIN (red line); since January 2005



Charts courtesy of StockCharts.com

## Quiz

When can we expect that TRIN would stop being an effective indicator of market panic and greed?

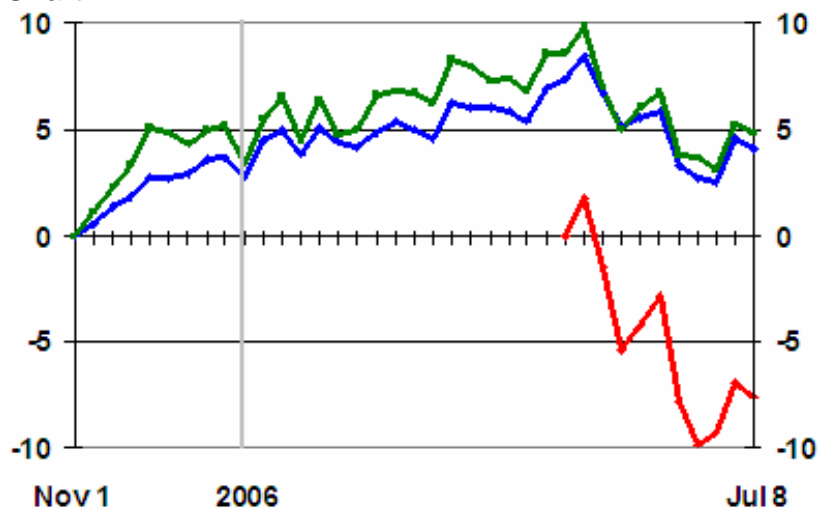
- A) Significant changes in market structure, behavior, etc.
- B) Nobody follow and acts on it
- C) New York Times announces TRIN is no longer working
- D) False, it will always work

Answer at the bottom of the newsletter.

---

### Our Results (Cumulative %)

Chart 2



Symbol	One-week %	Since Inception %	We Bought On	We Sold On	Expected Return %	Risks	Reasons
Members Info	-1.20	-10.34	May 1, 06	-	Market + 4	Medium	Trend investing
Members Info	-0.26	-4.96	May 1, 06	-	Market + 2	Low	Investment style
<b>InvestWELL Picks (Average)</b>	<b>-0.73</b>	<b>-7.65</b>					
<b>Passive 60/40</b>	<b>-0.42</b>						
<b>S&amp;P 500</b>	<b>-0.37</b>						

Last week, **InvestWELL Picks** declined more than the market. Please keep in mind that InvestWELL Picks contains only 2 positions, which means it is subject to a greater volatility.

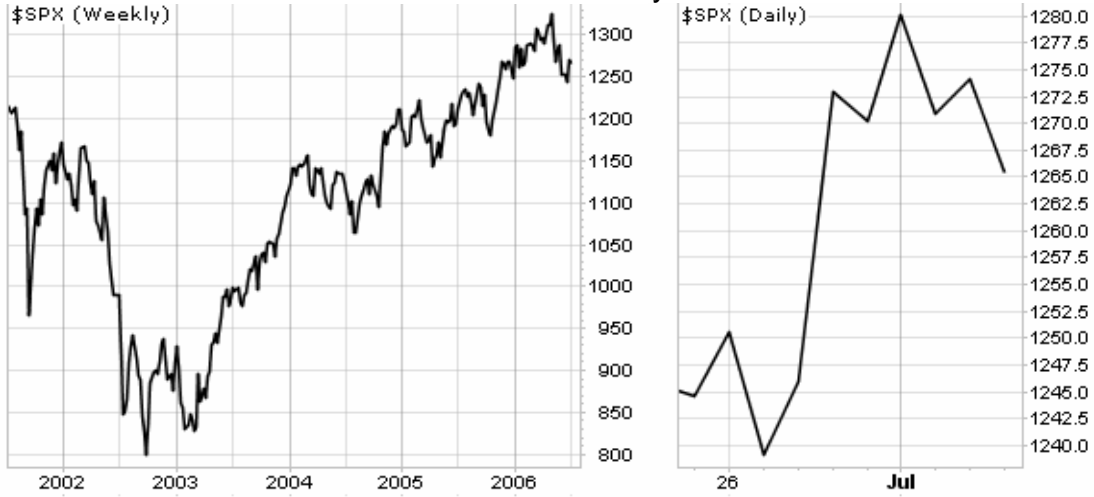
---

## Market Highlights

### Jul 1 – Jul 8, 2006

- Last week, the US markets declined slightly but continued to hold gains from the previous week (Chart 3 & 4). The US employment data was a big disappointment as the market expected 175,000 new jobs, yet the economy produced only 121,000. On the other hand, the Hourly Earnings went up by a very healthy rate.

### Charts 3 & 4. S&P 500: 5 Years and Last 10 Days



Charts courtesy of StockCharts.com

- Last week, the Canadian equities declined slightly (Chart 5 & 6). Last month Canada lost about 5,000 jobs with a big drop in the number of self-employed. Many economists consider this shift in the self-employment as an indication of economic strength. Since January 2006, Canada added a solid 189,000 new jobs.

### Charts 5 & 6. TSX Canada: 5 Years and Last 10 Days



Charts courtesy of StockCharts.com

- It is interesting to note that the Canadian equities are once again supported by rising stock prices of companies dealing with commodities. We believed that after an excellent run, commodities were not going to come back. However, we may need to review our position.
- Japan has raised its annual economic growth forecast to 2.1%. This is the first time Japanese officials have adjusted the growth figure up since 1998. It appears that Japan is finally starting to benefit from spillover effect from other fast-growing Asian countries.

### **Worth Watching**

- Gyricon, a subsidiary of Xerox, has developed a revolutionary digital paper that could retain its image without an electronic charge, and draws battery power only when the image changes. It will cost somewhat more than a normal piece of paper but a sheet of electronic reusable paper could be re-used thousands of times. This material has many potential applications in the field of information display, including digital books and low-power portable displays. InvestWELL Financial believes that the paper industry will be undergoing significant changes in the next decade, and the company might be one of future leaders.

---

### **Behavioral Finance Indicators** (see explanation)

The indicators are beginning to flush mixed signals, which is only normal given that the market is not any extreme of overbought / oversold. Given that the market has managed to set a solid support, we believe it has a potential for an upward move in the next couple of weeks (Charts 7 – 9).

Please consider the following factors:

- Chart 7 – the prices (black line) and the advancing/declining line (red line) are converging but the two started to diverge in February this year which signaled that the market was heading for trouble.
- Chart 8 – a low confidence of small investors (as represented by AAll, i.e., the ratio of bulls/bears). Small investors are usually a contrary indicator.
- Chart 9 – the rising put/call equity ratio indicates that small investors are losing their confidence that the market will advance (red line). Again, an excellent contrary indicator. Presently, this ratio appears stable after giving a buy signal in the middle of June.

### Charts 7 - 9: Advancing/Declining Line, AAll and Equity Put/Call Ratio



Charts courtesy of StockCharts.com and DecisionPoint.com

### Answer to the Quiz:

A is correct. Significant changes in market structure or behavior. For instance, in the 1970s, odd-lot index stopped being a reliable indicator, as the number of odd-lot buyers declined considerably.

Thank you for reading Markets This Week.

Please feel free to share it with your friends.

---

**Copyright**

The contents of this publication are the property of InvestWELL Financial and may not be summarized, reproduced, or rebroadcast in any fashion without our written permission.

**Disclaimer**

InvestWELL Financial's first priority, as a provider of independent and unbiased financial information, is to educate our clients. Not only do we provide practical information about securities, but we also coach our clients to become successful independent investors. As such, InvestWELL Financial does not assume any responsibility whatsoever for the use of any information from the website or related publications. Although all sources of information are vetted and the information is believed to be reliable, it is not provided as investment advice. Past performance is not an indicator of future performance in securities. Each portfolio must be balanced and based on personal circumstances. High-risk investment decisions should be made in consultation with a professional.

InvestWELL receives no commission or benefit of any kind from the companies whose securities InvestWELL Financial showcases. We do not necessarily own shares in the showcased securities, but if we do, these shares would only form a very small part of widely-held and publicly distributed companies. There is no intention whatsoever of profiting in a manner where the price-impact of trading or holding of a security might arise. The website and related publications of InvestWELL Financial are intended to only be used for educational purposes.