Sand Spring Advisors LLC

Bubbles that Build

by,

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Grindy up markets – infused by excessive government-inspired liquidity that is faux in every sense of the word – represents a most difficult forecasting environment for us.

Maybe this shows in a particularly light round of subscription renewals to Sandspring.com recently. Tant pis.

There is no doubt that after catching much of the February slide lower in the equity markets; then pin-pointing the March 6, 2009 low quite presciently; then running long for the first 15-20% return portion of the equity market rally, we have – ever since, say, late-April – been struggling in our prognostications. Yes, we had some success across the July 2009 zig-zag correction lower, but this period quickly waned, as we then tried to locate highs on the S&P 500 first at 1060, then at 1090, until we finally hit one recently up at 1105. Some might suggest that a "clock is eventually right at least twice a day."

But even post our 1105 successful call for a top, the market has grudgingly refused to show the type of downside impulsive momentum that we would have liked to have witnessed to really believe that the recent high will last. Support between 1020 and 1040 on the S&P has instead appeared quite strong.

Somewhere in our memory of working for Martin Armstrong, we also keep hearing memories of Marty saying: "A significant high has to be an isolated spike high." And there was nothing isolated about recent topping formations.

This sent us back to the drawing board to examine a variety of long-term Fibonacci fractal and pi cycle tools. What follows is an open dialogue about this re-examination process.

First of all, where really is the "big-time" Fibonacci fractal resistance? To answer this question, we took a variety of significant highs and lows on the S&P 500 between 1929 and 2009, and calculated Fibonacci retracements between these highs and lows. Specifically, the segments of time included were:

1929 low to 2007 high
1974 low to 2007 high
1982 low to 2007 high
1987 low to 2007 high
2007 high to 2009 low

What we found is that while there is a minor Fib retracement level at 1121.44 (which represents a 50% retracement of the 2007-2009 decline), the real "cluster" of Fibonacci resistance – the real "line in the sand" so to speak -- where a bear market rally would have a super high probability to stop in its tracks resides up at a cluster of retracements between 1205-1255 (highlighted in yellow in the table below):

1205.13 represents 76.4% retracement of 1929 low to 2007 high;
1218.52 represents 76.4% retracement of 1974 low and 2007 high;
1228.07 represents 76.4% retracement of 1982 low to 2007 high;
1255.22 represents 76.4% retracement of 1987 low to 2007 high;
1228.74 represents 61.8% retracement of 2007 high to 2009 low.

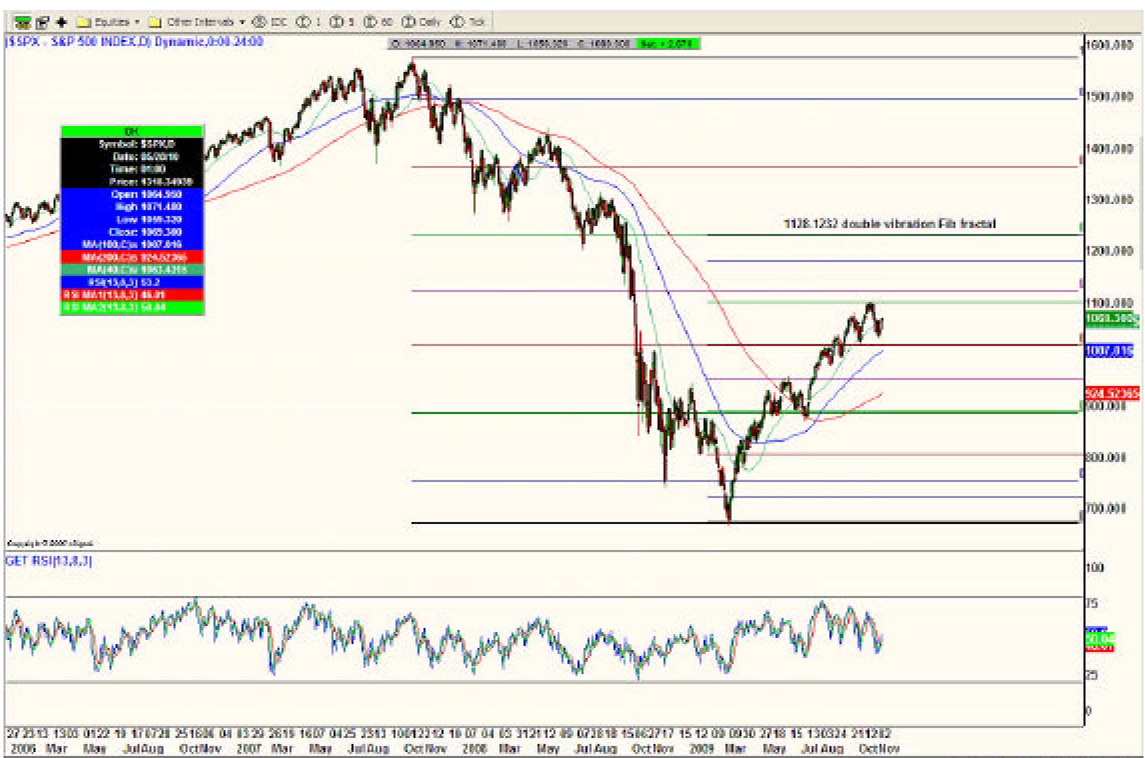
2007 HIGH	1576.09	2007 high	1576.09	2007 high	1576.09	2007 high	1576.09	2007 high	1576.09
0.9099	1434.464	0.9099	1439.577	0.9099	1443.224	0.9099	1453.587	0.9099	1494.162
0.764	1205.126	0.764	1218.519	0.764	1228.073	0.764	1255.217	0.764	1361.495
0.618	975.6318	0.618	997.3103	0.618	1012.774	0.618	1056.711	0.618	1228.737
0.5	790.15	0.5	818.525	0.5	838.765	0.5	896.275	0.5	1121.44
0.382	604.6682	0.382	639.7397	0.382	664.7563	0.382	735.8387	0.382	1014.143
0.236	375.1737	0.236	418.5307	0.236	449.4574	0.236	537.3327	0.236	881.3848
0.0901	145.8364	0.0901	197.4732	0.0901	234.306	0.0901	338.9627	0.0901	748.7179
1929 LOW	4.21	1974 low	60.96	1982 low	101.44	1987 low	216.46	2009 low	666.79

Then we listened to a conference call by CLSA's Russell Napier where he predicted that the next step in a recovery would be to see a few multi-billion dollar takeover announcements. Per Napier, money is cheap, corporate coffers are relatively plentiful, and ten years of sideways to down equity performance almost guarantees that a few perceived bargains are out there to be tendered for. Per Napier, only when inflation actually arrives back with clear force (>4% annually) and the bond market starts to really misbehave, does he see equity markets becoming undercut. Until these latter events transpire, he sees an ongoing and building market party.

Alas, last week, almost on queue, Warren Buffet arrived with a $34 billion tender offer for that portion of Burlington Northern that he doesn't already own. You can almost feel other takeovers currently being hatched behind the scenes. What we have reluctantly ended up concluding is that when Buffet goes "all in," we are not likely to be at the pinnacle of excess quite yet. Instead, the latest bubble in asset prices is likely still building.

Then we sat down and took a look at a long-term chart of the S&P 500, and graphically could see the longer-term Fib cluster emerging <u>not</u> around current levels, but instead up around 1228-1232 – consistent with the table above. Could a further bounce to this level become the left shoulder of a huge Head & Shoulders top still to be formed? Yes – quite possibly.

Even on a shorter-term basis, 1228-1232 on the S&P 500 would seem to beckon as an emerging more important "double vibration" fractal level.



Thus, as much as we have a distaste for the “artificiality” of the current manufactured market rally, we have no real technical leg to stand on to argue that the recent 1105 high in the S&P 500 will hold for very long. Yes there is a downtrend line across the 2008 highs still to be dealt with, but could the path for the next year or so resemble the red line below?

We realize that this is quite a change in tune for us, and make no mistake: we remain secular bears into June 2011. What is far trickier is the shorter term. Our next minor pi cycle date hits on January 5/6, 2010 followed by another minor date May 16/17, 2010. We would not be surprised to see the first date represent a spike high around either 1125 or even 1232 on the S&P. Moreover, it is only AFTER our second May 17, 2010 pi cycle date that we can be far more confident that the short-term path of the market will be skidding southward.

Summertime 2010 is indeed due as a horrific one up in the heavens for the markets. Per Arch Crawford, “We’ll have the worst stuff in the sky in the two hundred years we’ve checked…At the end of July, Mars and Saturn will be conjunct and in opposition to Uranus, and all three will be square to Pluto.” Per another astro source: “The coming 2010 transits will lead to a backlash against those deemed responsible for the economic crisis and throughout the 2010s it will be very difficult for institutions, cities, counties, states, and federal authorities to contain the seething anger of populations bent on payback from what they will have determined to be a series of criminal actions against the population to take away their right to “life, liberty, and the pursuit of happiness.”

So to get to our expected June 2011 pi cycle market low, we look for ugliness across the summer of 2010, but not necessarily right now. Conceptually, we would love to simply speed up the clock to get to this latter period (since it will represent a truer manifestation of real market forces), and we dislike in the short-term participating in a rally that is so falsely constructed. But unfortunately we have to play with the deck of cards provided.

Balanced against some the many shorts previously discussed in earlier letters (such as MAT, GFF, and BLK to re-name a few, and add in DDS as yet another with some downside promise), it may be astute to layer in a basket of stocks deemed to be takeout targets. In this space, we are positively disposed to the fractal chart patterns of the following rumored takeover stocks: DTV, ACV, CHTT, ICFI, ONXX, RRC, and RVBD.


DTV - DIRECTV GROUP INC,W) Dynamic,0.00-24:00
DTV (weekly)
target
0.000 (33.61)
0.090 (31.770158)
0.236 (28.79088)
0.382 (25.80956)
0.500 (23.40)
0.618 (20.99044)
0.764 (18.00912)
0.910 (15.031884)
1.000 (13.19)
Published by eSignal (www.esignal.com)


ACV - ALBERTO CULVER CO NEW,W) Dynamic,0.00-24:00
ACV (weekly)
target
0.000 (32.16)
0.090 (29.518268)
0.236 (25.24048)
0.382 (20.95976)
0.500 (17.50)
0.618 (14.04024)
0.764 (9.75952)
0.910 (5.484664)
1.000 (2.84)
Published by eSignal (www.esignal.com)


CHTT - CHATTEN INC,D| Dynamic,0:00-24:00
CHTT (weekly)
target
0.000 (86.543)
0.090 (81.3039373)
0.236 (72.8202608)
0.382 (64.3307696)
0.500 (57.4094)
0.618 (50.4880304)
0.764 (42.1185392)
0.910 (33.6406774)
1.000 (28.3958)
Published by eSignal (www.esignal.com)

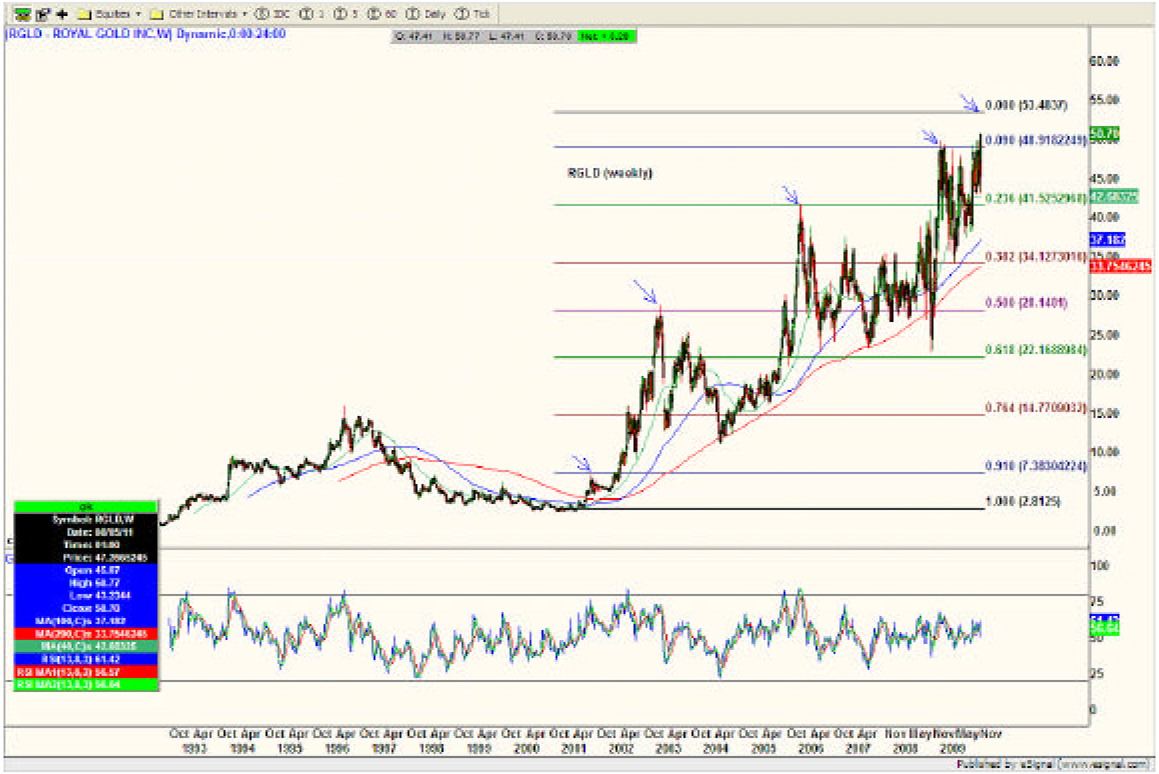

ICFI - ICF INTL INC,D| Dynamic,0:00-24:00
ICFI (daily)
target zone
0.000 (41.3738)
0.236 (34.3786184)
0.236 (32.9797848)
0.090 (36.5088432)
0.382 (29.4483076)
support
0.764 (20.2084152)
0.764 (18.7283816)
0.910 (16.6817756)
1.000 (11.7332)
Published by eSignal (www.esignal.com)


ONXX - ONYX PHARMACEUTICALS INC,W) Dynamic,0:00-24:00
ONXX - constructive pattern
with several different possible upside targets
0.000 (76.7733)
0.090 (70.182467)
0.910 (55.8617344)
0.500 (35.56725)
0.090 (15.2678133)
1.000 (3.6231)
Published by: eSignal (www.esignal.com)


RRC - RANGE RES CORP,W) Dynamic,0:00-24:00
longer-term double fractal target
RRC (weekly)
0.000 (95.81)
0.000 (95.61)
0.090 (89.151632)
0.236 (78.69352)
0.236 (73.61184)
0.382 (68.22824)
0.382 (59.87908)
0.500 (59.77)
0.618 (51.31176)
0.500 (48.78)
0.764 (40.84048)
0.618 (37.68092)
0.910 (30.395536)
0.764 (23.94816)
1.000 (23.93)
0.910 (10.234212)
1.000 (1.75)
Published by: eSignal (www.esignal.com)

In addition, energy and gold markets are also exhibiting signs of exuberance, and we are of a view that these could build just a bit further. The IEO energy research & exploration ETF specifically exhibits a double fractal target up around 59.80 and we will use that as our target to exit energies.

Meanwhile, the clearest “bell” in the gold sector of a “complete move” will be the moment Royal Gold (RGLD) touches 53.48. That “touch” will be a sign to harvest some profits from the precious metal sector in general.



The broader GDX may similarly reach 52.88, but we would be surprised to see advances beyond such a level – at least in the short term.

But if the government is to perhaps get away (at least in the short-term) with its asset reflation gambit, a piper must be paid somewhere, no?

YES – in the Treasury Bond market, where bonds should step and stumble into a faster and faster slide lower over time. We are staying structurally short the TLT ETF. With time, we see it reaching price handles in the mid to low 50's. Shorting T-Bonds may be the single greatest trading opportunity for the coming few years.

Stay tuned to your e-mail inbox for further updates. While we are currently less bearish in the short-term than we have been in the past, any impulsive break of 1020 on the S&P (while currently not expected) could serve to reignite our bearish proclivities.

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