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MARK HULBERT

Short-term bullish

Commentary: Thursday's market satisfied definition of a "key reversal"

By [Mark Hulbert](#), MarketWatch

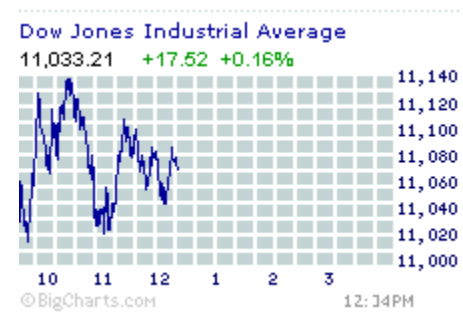
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ANNANDALE, Va. (MarketWatch) -- The stock market's dramatic comeback from its intraday lows on Thursday constitutes a textbook illustration of a "key reversal day," which has bullish consequences for at least the stock market's short-term prospects.

According to the standard definition, a key reversal day occurs when the market hits a new intraday low and then closes up. And that the stock market did in spades on Thursday.

At one point in Thursday's session, the Dow Jones Industrial Average ([\\$INDU](#)) was sporting a 150-point loss, trading at around 10,460. The Dow rallied strongly into the close, finishing the day with a 410-point gain -- and 560 points higher than its intraday low.

Thursday's key-reversal is reminiscent of another such day in March 2003, which turned out to launch the stock market on a strong rally that eventually took the Dow from around the 7,500 level then to over 14,000 in October 2007. During the trading session on March 12, 2003, the Dow at one point was down markedly -- by more than 1.4%, in fact. It finished the day up 0.4%.



Can we expect as happy an outcome today as in 2003? Unfortunately, that's asking too much, since technicians consider key reversal days to have significance mostly for just the short-term.

That least is the argument made in the latest edition of "Technical Analysis of Stock Trends," the classic textbook on technical chart formations. Written originally many decades ago by Robert Edwards and John Magee, this textbook was updated as part of the latest (ninth) edition by W. H. C. Bassetti, who is an adjunct professor of finance and economics at Golden Gate University.

Though the stock market's key reversal day is bullish, in other words, its bullishness is probably only short-term.

Can we draw more bullish conclusions from Thursday's upside volume? Did it constitute a so-called 9-to-1 up day, which many technicians look for at the start of rallies that have more than short-term significance?

Unfortunately, no.

The volume of NYSE-listed shares that rose in price on Thursday amounted to 87.8% of all NYSE-listed shares that either rose or fell in price. To be sure, that's higher than any of the other big upside days since the stock market's July low, but still short of the 90% mark that past research has found to have intermediate term significance -- and even shorter still of the double nine-to-one up days that have particularly bullish intermediate-term significance. [See March 19 column](#)

What, then, about newsletter sentiment? Did the mood among short-term market-timing newsletters ever become bleak enough this week to constitute the capitulation that contrarians look for at market bottoms of longer-term significance?

The answer appears to be "No" here, too. Consider the Hulbert Stock Newsletter Sentiment Index (HSNSI), which reflects the average recommended stock market exposure among a subset of the short-term market timing newsletters tracked by the Hulbert Financial Digest. At no point this week did the HSNSI get as low as it did in early July, just prior to that month's low.

For example, the HSNSI got as low as minus 42.9% in July. In contrast, it closed at minus 35.9% on Thursday, after having gotten as low as minus 36.6% earlier in the week. In other words, panicky as the stock market otherwise felt this week, at no point did the average newsletter editor get even as scared as he was in July.

So, just as was the case with the evidence on key reversal days and 9-to-1 up days, the sentiment data allow us to project nothing more bullish than the kind of rally that ensued following the market's July lows.

That doesn't mean that the market won't stage a more powerful rally. It just means that, if it does, it won't be because Thursday was a key reversal day, Thursday's upside volume, or where sentiment stands among newsletters. ■

Mark Hulbert is the founder of Hulbert Financial Digest in Annandale, Va. He has been tracking the advice of more than 160 financial newsletters since 1980.



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Thursday constituted a key reversal day to the upside - MarketWatch

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