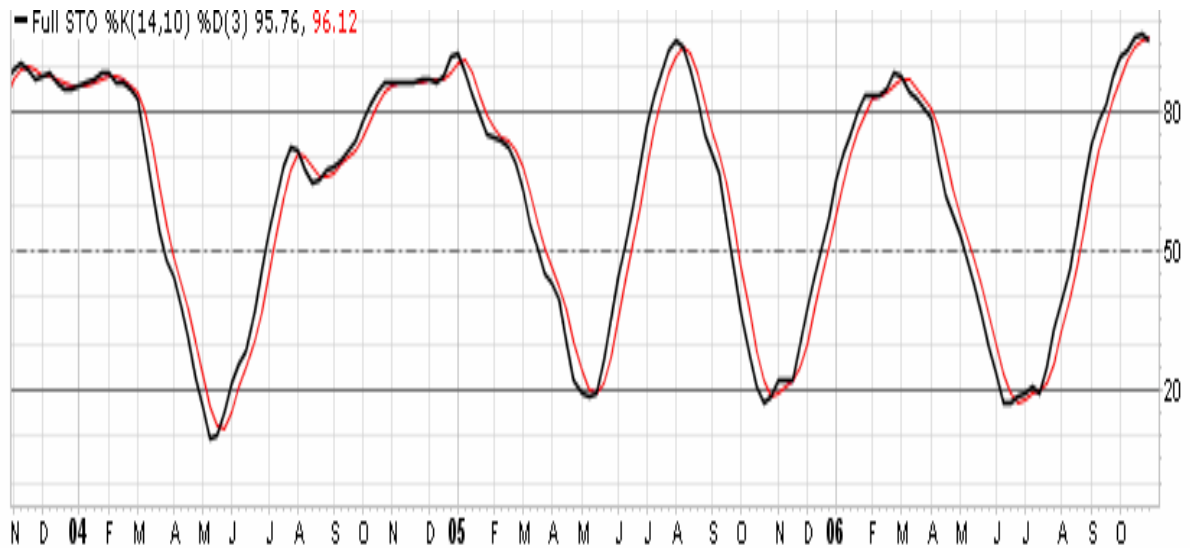


## CHART OF THE MONTH: NOVEMBER 2006



This is one of the indicators I follow closely to recognize market risk.

I like it because its graph has some interesting properties.

1. The smoothness of the graph makes this indicator reliable and easy to interpret.
2. The market bottoms when this gauge rises and/or moves above 20.
3. The market peaks when the indicator declines and falls below 80.
4. The indicator is symmetrical. If it rises for, say, three months, you can expect it to decline for about three months. This is useful information because it indicates the approximate length of the market consolidation.
5. When it moves above 80 and it stops rising, market risk is high and investors should gradually raise cash because the price appreciation is likely to be small.
6. When it moves below 20 and stops declining, market risk is low and the market is at the beginning of a strong move on the upside.

Where do we stand now?

This gauge has been deep in overbought territory, well above 80, **for more than a month.**

Past experience suggests this is about the time the market starts having some difficulties.

Because of the symmetrical nature of the indicator, the market weakness should last until March.

The bottom line is this is not the time to panic. This gauge, however, is saying you should start doing some planning.

Trimming the weakest stocks/sectors may be a good idea.

Going “short” to protect your portfolio could also be advisable.

How did this type of indicators help me in the past?

- In the issue of 6/26/06 of *The Peter Dag Portfolio Strategy and Management* I wrote: “*There is going to be a solid move on the upside*”. The S&P 500 was standing at 1,244.50.
- In the issue of 7/10/06 I wrote: “...., *this move will surprise many investors*”. The S&P 500 was standing at 1,265.48.
- The S&P 500 is now standing at 1,367.34.

Best,

George Dagnino, PhD  
Editor  
The Peter Dag Portfolio Strategy and Management  
Since 1977

11/03/07

PS:

This a small sample of the type of research you will find in *The Peter Dag Portfolio Strategy and Management*. I am looking forward to having you as one of our valued subscribers.