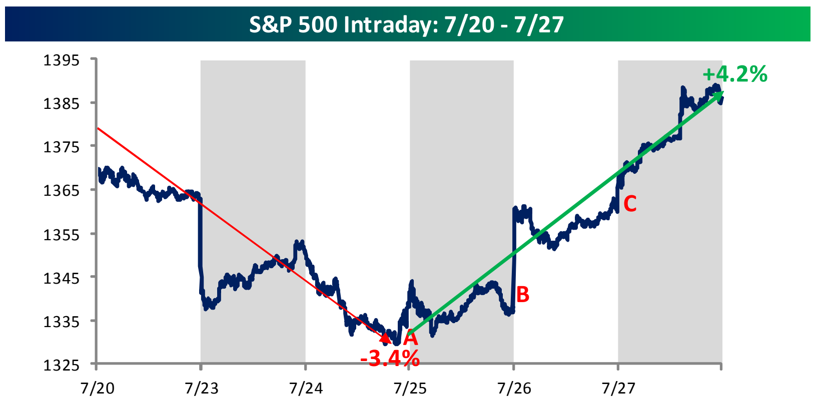
Week in Review: The Power of Words...For Now

Everyone knows that a picture is worth a thousand words, but the question that nobody has ever answered is, what are those words worth? If the performance of the stock market this week is any indication, words can be worth a whole lot. Following up from last Friday's big drop, the S&P 500 got off to a rough start this week. By late Tuesday, the S&P 500 was down 3.4% since the prior Thursday's close. In the final few minutes of trading on Tuesday, however, the S&P 500 saw a late day rally, cutting that day's losses in half.



Fed Moves Closer to Action

Central Bank Prepares Steps to Spur the Economy Unless the Recovery Picks Up

The culprit behind Tuesday's late day rally was a *Wall Street Journal* story that said that if the economic data continues to worsen then the Fed would act at either its next meeting or the one after. Should that really have surprised anyone? Of course the Fed is going to act if the economic data continues to deteriorate.

'Within our mandate, the ECB is willing to do whatever it takes to preserve the euro and, believe me, it will be enough.'

On Thursday morning, the S&P 500 gapped higher on an even more incredible headline. As shown to the right, ECB chief Mario Draghi stated that the ECB would do whatever it takes, within its mandate, to preserve the Euro. What else would you expect him to say? If you were in charge of the Euro, wouldn't your goal be to preserve it? Some will argue that the end of his comments where he said, "believe me, it will be enough" show he is committed to the Euro's success. One would hope so. Can you imagine if Draghi said the ECB would do whatever it takes, and hopefully it will be enough?

Friday, equities got another boost when German Chancellor Angela Merkel and French President Francois Hollande issued a joint statement saying that they will do anything to protect the Euro region. This last statement was perhaps the most important statement of the week, given that both Hollande and Merkel have opposing views on how the crisis should be handled. Therefore a joint statement by the two of them gives a sliver of hope that they may be more open to working together.

*MERKEL, HOLLANDE READY TO DO ANYTHING TO PROTECT EURO REGION

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While all these words were comforting to investors and helped to push stock prices higher, the key ingredient still missing is any substantive action, if there even is any that can be taken. This week's statements from leaders in Europe were reminiscent of comments from US officials during the Financial Crisis from 2007 and 2008. Below we highlight comments from Treasury Secretary Hank Paulson from the early stages of the financial crisis in early to mid 2007.

> *Marketwatch 3/13/07: Paulson also said the fallout in subprime mortgages is "going to be painful to some lenders, but it is largely contained."*
>
> *Reuters 4/20/07: "I don't see (subprime mortgage market troubles) imposing a serious problem. I think it's going to be largely contained."*
>
> *Bloomberg 5/22/07: Paulson, also speaking to CNBC, said the housing slump was ``largely contained'' and that market's correction was mostly ``behind us.''*
>
> *Bloomberg 6/20/07: Subprime fallout ``will not affect the economy overall.''*
>
> *Forbes 7/27/07: Appearing on CNBC with other members of the Bush administration's economic team, he again said mortgage industry problems would be 'largely contained.'*
>
> *Boston.com 8/1/07: Paulson added that he did not see anything that caused him to reconsider his view that the economic damage from the housing correction was "largely contained."*

As shown above, more than a year before the collapse of Bear Stearns and Lehman Brothers, Secretary Paulson began to repeatedly assure the public that the housing crisis was 'contained' and that the worst was 'behind us.' As we all know now and Paulson probably knew than, the worst was yet to come.

Not to pick on Secretary Paulson, but the point of highlighting his comments is that it is the job of policymakers to try and restore confidence in the public. The Treasury Secretary was not going to come out and say, "If you think it is bad now, you ain't seen nothing yet." Likewise, the head of the ECB or leaders of two of its largest members are not going to come out and say, "We're toast."

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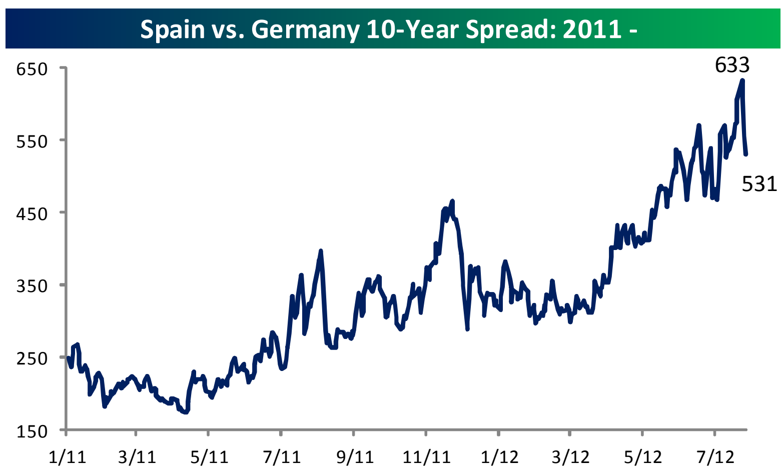
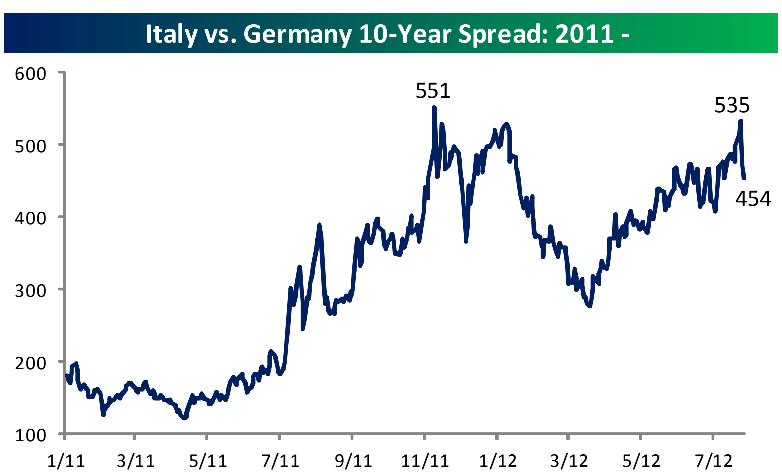
This week's soothing comments from EU leaders also helped to provide some much needed relief to the credit markets of Europe. The charts below show the spreads between the yields on 10-year sovereign debt of Spain and Italy relative to Germany. Earlier in the week, spreads in Spain widened out to a record high of 633 basis points (bps) as the 10-year Spanish yield rose to 7.57%. In Italy, spreads saw an even bigger move, albeit off a lower base, rising to 535 bps and a yield of 6.57%.

Compounding matters even further for countries like Spain and Italy was the fact that not only were yields rising on their debt, but yields on German debt were also rising after Moody's put that country's debt on watch for a possible downgrade. In the past, the widening of spreads on Spanish and Italian debt had been a combination of higher yields on their debt and lower yields on German debt. With yields on German debt now rising, the wider spreads were now indicative of yields rising at a *faster* pace in Spain, Italy, as well as France.

Clearly, the debt crisis was reaching a breaking point, which is what provided the catalyst for the comments from Draghi on Thursday and then Merkel and Hollande on Friday. Based on the reactions in the credit markets for both countries, the comments provided some short-term relief, but the question is whether or not it will be enough.



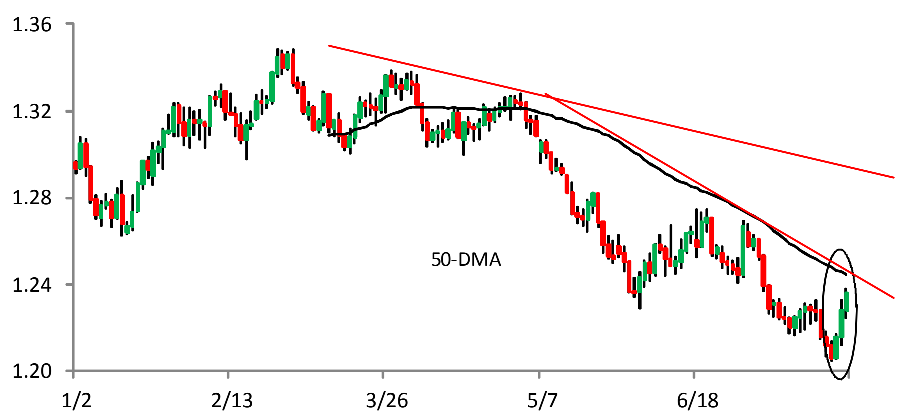


This week's comments from EU leaders even provided relief to countries like France that didn't necessarily need it. As shown in the chart below, after widening out earlier in the week, spreads on 10-year French debt narrowed to 82 bps which is the lowest reading since October 2011.

France vs. Germany 10-Year Spread: 2011 -

The Euro currency also saw some much needed relief towards the end of the week, rallying more than 2.5% since Wednesday. Even after this rally, the currency still remains below its 50-day moving average as well as its downtrends that have been in place for much of 2012. Late Friday, there was talk of a plan to allow the EFSF to purchase as much as $300 billion in Spanish and Italian debt, but once again it was just words. We still have yet to see any substantive action. Even if there is any, the question is whether or not it will be enough. With the Euro currency still trading below its 50-DMA, the market doesn't seem entirely convinced.

EUR/USD: 2012



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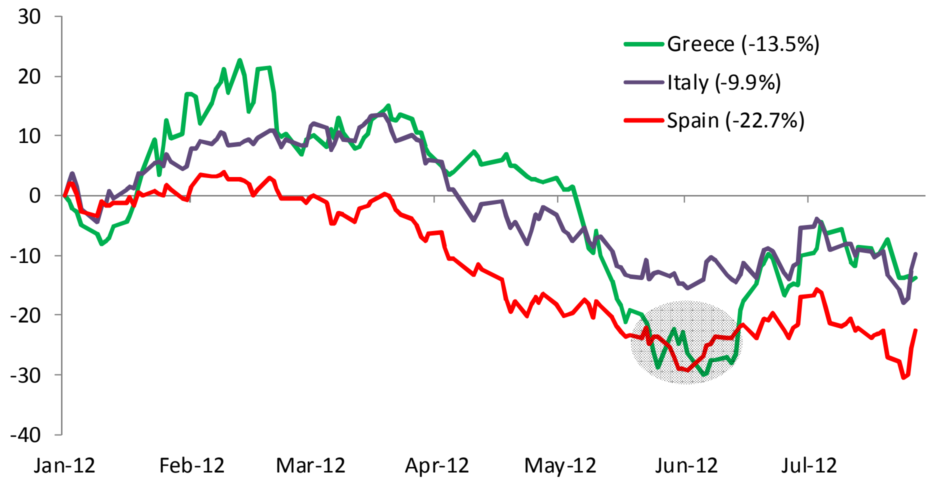
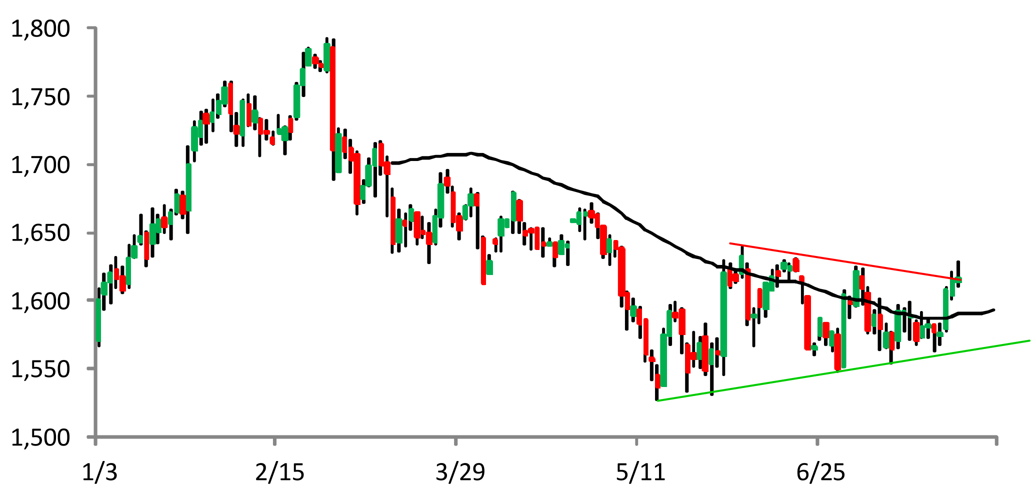
The rallies that we saw in European equities this week also have to be placed in the context of how they have done this year.. While the S&P 500 is up over 10% on the year, the 'problem children' of Europe are still down by nearly 10% (Italy) and more.

2012 Stock Market Returns (%) for Greece, Italy and Spain



If European leaders can ultimately agree on a plan to bailout countries like Spain and Italy, it is going to involve some degree of debt monetization, which should in theory, benefit the price of gold. With the exception of the first month and a half of 2012, gold has been in a slump, falling by 10% since its highs. The last few weeks, however, have been interesting. Although there hasn't been a lot of price appreciation, the metal has been putting in a series of higher lows, and it is close to making its first higher high in months. Friday's trade above $1,620 provides an attractive entry point for an upside trade.

Gold: 2012

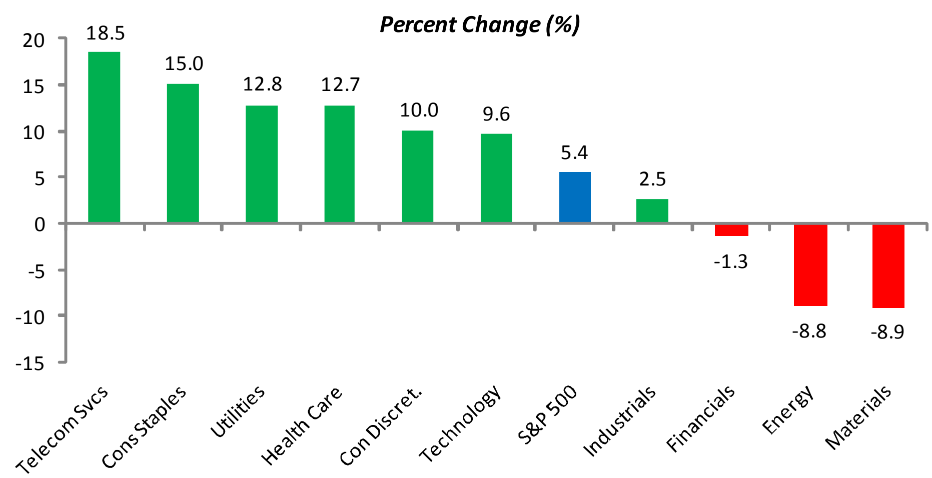


While investors in the US are quickly becoming 'experts' on EU policy and learning the names of certain officials that they never thought they would ever need to know, we would suggest that they start to concentrate more of their focus right here at home. The US versus the rest of the world (ROW) trade has been well discussed by us over the last couple of years, so it is no secret that US stocks have been on a strong run relative to the ROW so far this year. Even still, we think it is worth noting that after two months of sideways action, the performance of the S&P 500 relative to the MSCI World (Ex US) Index hit its highest level this Friday in nearly eight years.

The chart below shows the relative strength of the S&P 500 versus the MSCI World (Ex US) Index since the start of 2000. In the chart, a rising line indicates that the US is outperforming the ROW, while a falling line indicates outperformance of the ROW versus the S&P 500. After peaking in late 2001, the relative strength of US stocks began a multi-year downtrend where international stocks outperformed the US. Beginning in 2008, however, that trend began to reverse as US stocks rounded out a bottom relative the ROW. Since then the S&P 500 has been making a run of higher highs and higher lows as investors rotate back into the US. With this trend still in place, we believe investors should continue to overweight US stocks, and more specifically, US stocks which generate the majority of their sales in the US.

Taking our own cue and turning our attention back to the United States, the chart below shows the performance of the S&P 500 and all ten sectors over the last year. After looking at the chart, one trend becomes clear– investors are in no mood to take on risk. The top performing sectors over the last year are Telecom Services, Consumer Staples, Utilities, and Health Care. It doesn't get much more defensive than that. On the other side of the spectrum, the four sectors that have underperformed the S&P 500 (Materials, Energy, Financials, and Industrials) are all some of the most economically sensitive sectors in the market.

S&P 500 Sector Performance: Last 12 Months



The risk averse nature on the part of investors is certainly understandable given the weak economic data we have been seeing over the last three to four months. It is simply hard to get excited about economic prospects when report after report not only shows slower growth, but is also weaker than expected. Based on this week's data, however, that could be set to change.

In what was a relatively busy week for economic data, we saw stronger than expected reports outnumber weaker than expected reports by a margin of more than two to one. Of the fourteen indicators released, nine came in stronger than expected, four were weaker, and one was inline. We don't remember any week in the last few months where the pace of economic beats was this strong. Hopefully it is indicative of the fact that expectations have come down to more realistic levels. It's only a week, but it's a start.

Economic Scorecard: Week of 7/27

Date	Release	Estimate	Actual	Difference
7/24	Richmond Fed	-1	-17	-16
7/24	House Price Index	0.4	0.8	0.4
7/25	New Home Sales ('000s)	372	350	-22
7/26	Durable Goods	0.3	1.6	1.3
7/26	- Ex Transports	0.1	-1.1	-1.2
7/26	Initial Claims ('000s)	380	353	-27
7/26	Continuing Claims ('000s)	3300	3287	-13
7/26	Pending Home Sales	0.3	-1.4	-1.7
7/26	KC Fed	4	5	1
7/27	GDP	1.4	1.5	0.1
7/27	Personal Consumption	1.3	1.5	0.2
7/27	GDP Price Index	1.5	1.6	0.1
7/27	Core PCE	1.8	1.8	0.0
7/27	Michigan Confidence	72.0	72.3	0.3

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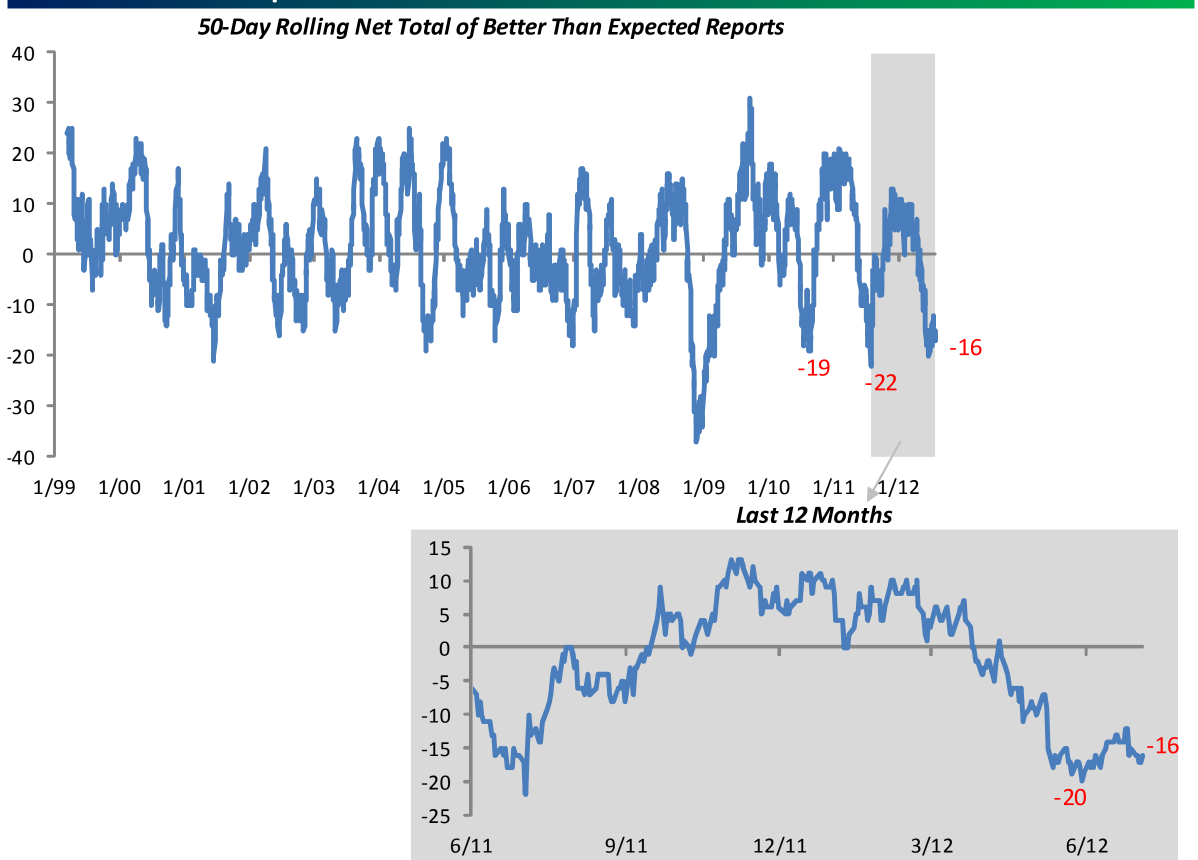
This week we also updated our *Economic Indicator Diffusion Index* (shown below) which measures the pace at which indicators are coming in ahead of (or below) estimates over a 50-day period. Trends in this index provide a nice snapshot of how the economy is playing out compared to expectations. Positive readings indicate an economy surprising to the upside, while negative readings are representative of an economy failing to live up to expectations.

After bottoming out at a level of –20 late last June, the index saw a minor rebound during the first half of July, giving hope that expectations had finally come down enough. In the last week, however, we have seen another minor leg lower in this index, falling from –12 to –16 today. Part of the reason for the decline, however, is due to the fact that some positive numbers dropped from the 50-day total. The test going forward will be whether the June lows of –20 and the Summer 2011 lows of –22 can hold.

The bar for economic data in August is going to be pretty low. Not only have most economists been cutting their forecasts over the last few weeks, but the numbers that will drop from the 50-day moving average are also quite negative. In fact, over the course of the 20-days that will drop off the running 50-day total in the coming month, that period was tied for the worst 20-day period in terms of economic data relative to expectations going back to 1999!

Bespoke Economic Indicator Diffusion Index: 1999 - 2012



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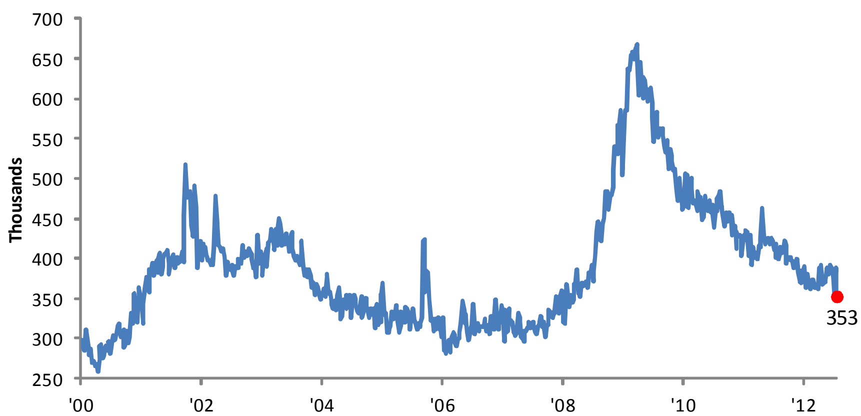
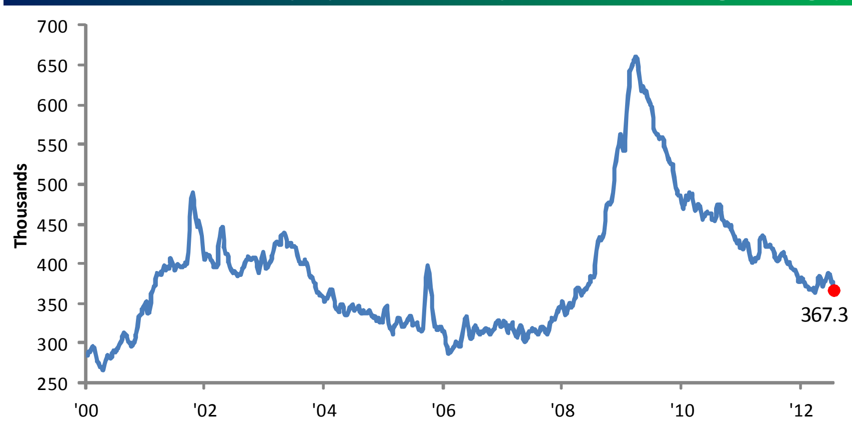
One of the more positive aspects of this week's economic data was the initial jobless claims reading, which typically does a good job gauging the current state of employment which ultimately impacts economic growth. In this week's report, jobless claims rose considerably less than expected as economists continue to struggle with seasonal adjustments. While economists were looking for first time claims to come in at 380K, actual claims rose by only 353K. This marks the fourth straight week where the weekly change in claims topped 10K which is actually the longest streak of weekly moves in excess of 10K since April 2011.

Initial Jobless Claims (Seasonally Adjusted): 2000 - 2012



The four-week moving average in claims was even more encouraging. At a current level of 367.3K, the four-week moving average is now down to its lowest level since March.

Initial Jobless Claims (SA): 2000 - 2012 (Four Week Moving Average)



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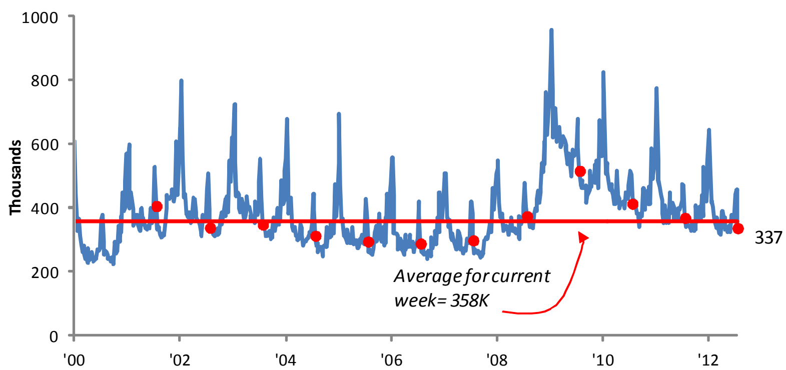
Given all the seasonal distortions (July 4th holiday , auto plant non-closures, etc.) in the current batch of jobless claims numbers, there has been some valid criticism of the recent numbers. With that in mind, it may be best to look at the non-seasonally adjusted numbers (NSA). On this basis, claims fell to 337K, which is the lowest for the current week since 2007, and below the average for this week (358K) going back to 2000. So no matter how you look at it, this week's claims number was a move in the right direction.

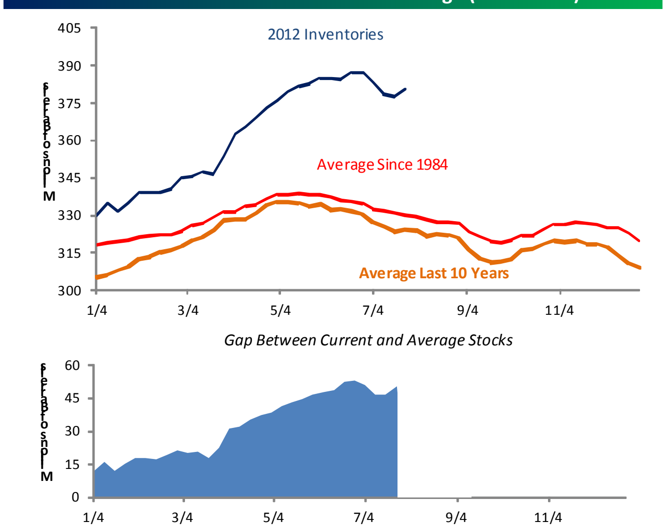
Initial Jobless Claims: 2000 - 2012 (Non Seasonally Adjusted)



While the jobless claims numbers were positive, not everything was positive. Housing has been a bright spot in the last few months. This week, though, two of the three housing related reports were weaker than expected. While the House Price Index came in ahead of expectations (0.8% vs. 0.4%), New and Pending Home Sales were both weaker than expected.

Tangentially, crude oil inventories suggest that the current state of the economy is less than robust. After two straight weeks of declines, crude oil inventories showed an unexpected increase in the latest week, rising by 2.717 million barrels (consensus was for a decline of 1 million barrels). As shown in the chart at right, this week's rise was even more noteworthy given the fact that we are currently in the time of year when inventories are in a seasonal decline. We are no experts on the commodity markets, but when crude oil inventories are rising during a time of year when they are almost always on the decline, it suggests that demand is weak.

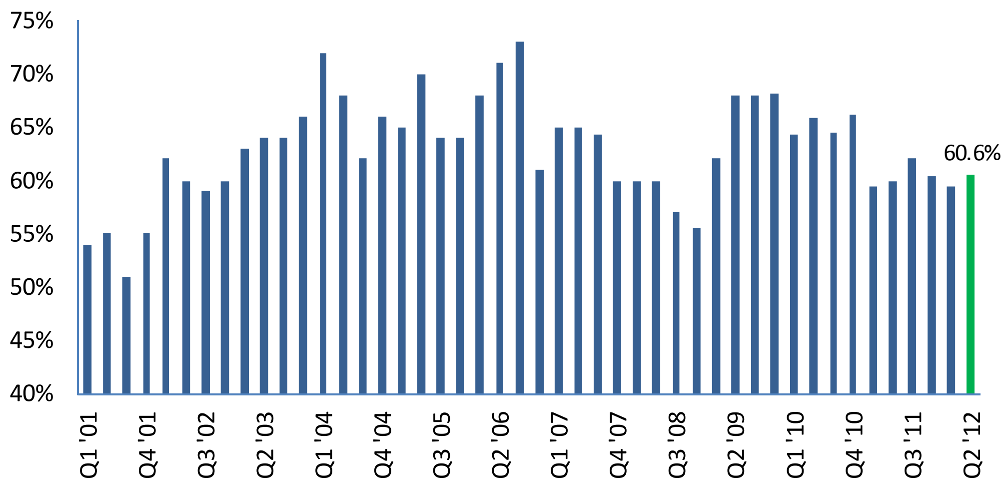
Crude Oil Inventories: Current vs Average (Since 1984)



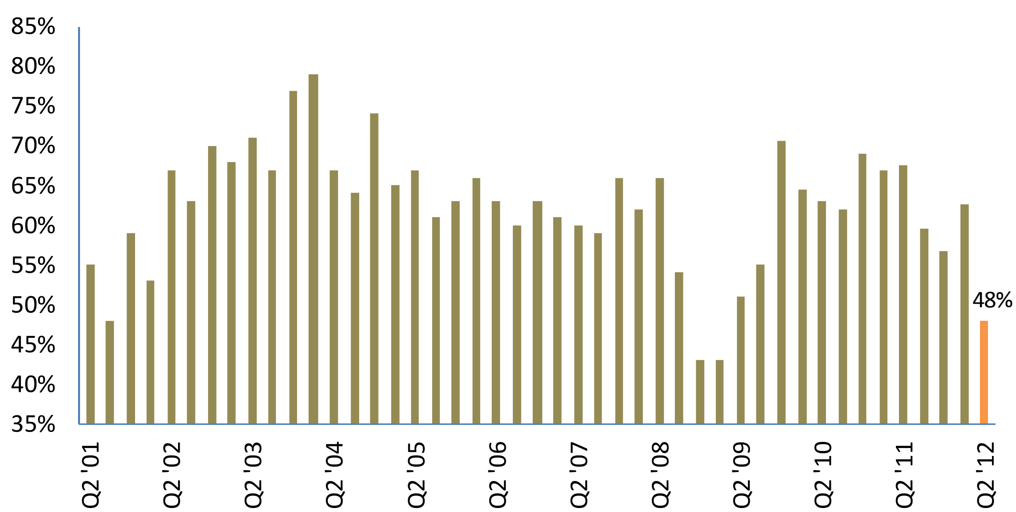
As it stands now, US crude oil inventories remain well above average. In fact, the only other year where inventories were higher at this time of year was during the summer of 1990.

Shifting our focus from the economy to earnings, nearly 1,000 companies have now reported their Q2 EPS and revenue numbers. At the moment, 60.6% of the companies that have reported have beaten earnings per share estimates, while 47.9% have beaten top-line revenue estimates. At 60.6%, the current EPS beat rate for this season is right inline with the average beat rate that we have seen since the start of 2011. At 47.9%, the revenue beat rate is much lower than the average of 60% that we've seen start of 2011.

% of Companies Beating Earnings Estimates by Quarter: 2000-Present



% of Companies Beating Revenue Estimates by Quarter: 2000-Present



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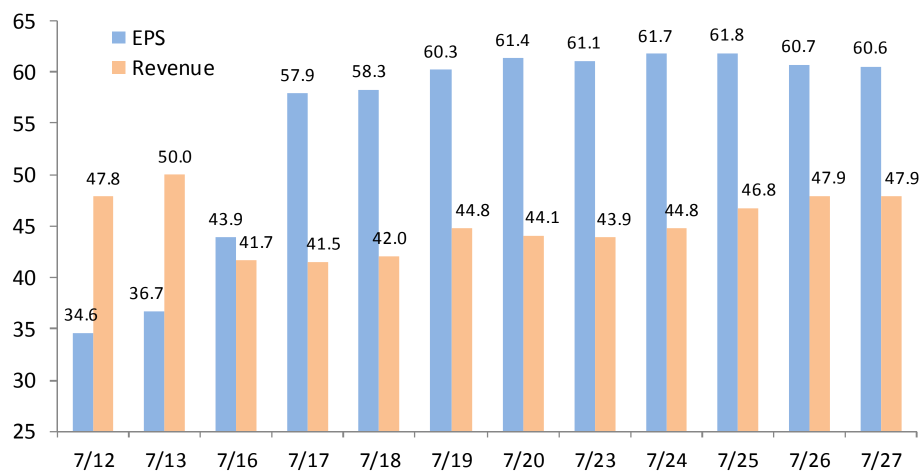
Below is a chart that shows how the overall earnings and revenue beat rates have changed as earnings season has progressed. As shown, the earnings beat rate started out very low, but it ticked up above 60% on July 19th and has remained above 60% since then. The revenue beat rate was down near 41% early on, but it has been ticking higher this week. On Monday, the revenue beat rate for all companies that had reported was 43.9%, but through today, the beat rate has ticked up near 48%.

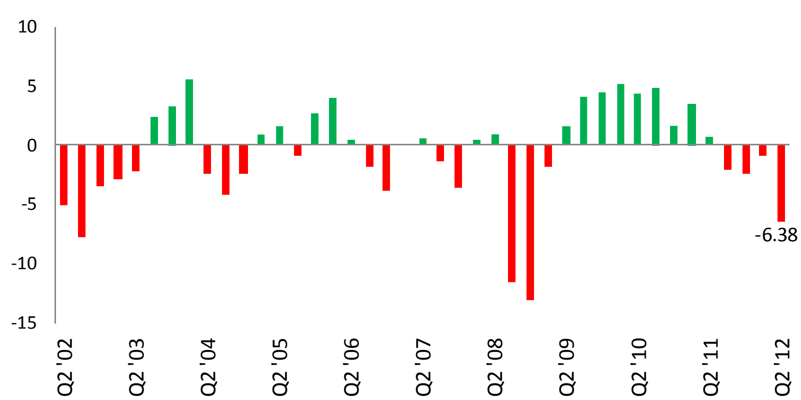
We're just now halfway through the second quarter reporting period, and another 1,000+ companies still have to report. If the revenue beat rate can continue to tick higher and get into the 50s, it will look much better than it did early on.

% of Companies Beating EPS and Revenue Estimates as Season Has Progressed



Guidance numbers remain extremely weak. More than 10% of companies have lowered guidance, while just 3.77% have raised guidance, which leaves a spread of –6.38%. This is an extremely low reading (fourth lowest of the last ten years) as shown in the chart below, and shows just how negative companies are on future quarters.

Spread Between % of Companies Raising vs. Lowering Guidance



The average stock that has reported has averaged a gain of 0.71% on its report day. This number has picked up considerably over the past two days as the market has moved higher. In the S&P 500, the average stock has gained even more at 0.99%. This is due to the strong gain of 2.04% for companies that have beaten earnings estimates and the relatively small decline from companies that have missed estimates. Typically, the companies that miss estimates go down much more than companies that beat go up, simply because companies typically beat at twice the rate that they miss. The fact that companies that are beating are going up so much and companies that are missing aren't going down so much shows just how negative investors got heading into earnings season. They clearly got too negative and sold shares indiscriminately on worries that earnings would be worse than they have been.

From a sector perspective, eight have seen their stocks average gains on their report days, while two — Financials and Health Care — have seen their stocks average declines. For Financials, the average is negative because the stocks that have beaten in this sector haven't gained much. For Health Care, the average is negative because the stocks that have missed have gotten crushed. Consumer Discretionary and Consumer Staples stocks that have missed earnings have also gotten crushed. These are two sectors that investors didn't get too bearish on heading into earnings season like the rest of the market, so companies that haven't lived up to expectations have seen huge drops.

Q2 2012 Sector Earnings Season Stats

	# Reported	Avg 1-Day % Chg	Beat EPS	Avg 1-Day % Chg	Missed EPS	Avg 1-Day % Chg
All Companies	954	**0.71**	60.6%	**2.89**	27.4%	**-3.39**
S&P 500	264	**0.99**	70.1%	**2.04**	20.5%	**-1.68**
Cons. Discret.	134	0.31	59.7%	3.59	28.4%	-6.50
Cons. Staples	27	0.74	70.4%	3.29	18.5%	-9.48
Energy	55	1.59	49.1%	3.15	47.3%	0.03
Financials	200	-0.55	59.0%	0.40	27.0%	-2.54
Health Care	106	-0.10	65.1%	2.25	22.6%	-6.39
Industrials	157	1.04	63.1%	2.63	26.8%	-2.35
Info. Tech.	198	2.02	61.6%	5.16	25.3%	-3.15
Materials	59	0.27	50.8%	2.65	30.5%	-3.06
Telecom	10	6.55	70.0%	8.28	20.0%	5.24
Utilities	10	0.63	70.0%	0.98	20.0%	-0.69

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B.I.G. Tips 7/27/12

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We've now crossed the apex of earnings season, and the number of reports we get each week through mid-August will now drift lower. But there are still quite a few big name companies left to report Q2 numbers. Below is a list of the 40 largest stocks that are set to report earnings next week. For each stock, we highlight its report date and time, its EPS estimate, its historical earnings beat rate (from our *Interactive Earnings Report Database*), and its average one-day change on its past reports.

Key Earnings Reports Next Week

Stock	Company	Date	AM/PM	Est. EPS	Beat Rate	Avg. 1-Day % Chg	YTD % Chg
APC	Anadarko Petro	7/30	PM	0.77	83.7%	1.22	-6.03
DB	Deutsche Bank	7/31	AM	1.07	33.3%	-1.48	-20.84
BP	BP	7/31	AM	1.45	62.5%	1.13	-3.28
PFE	Pfizer	7/31	AM	0.54	86.0%	-0.81	9.57
HCP	HCP	7/31	AM	0.47	69.2%	-0.57	12.89
TYC	Tyco	7/31	AM	0.93	86.0%	-0.49	15.37
ECL	Ecolab	7/31	AM	0.72	45.5%	-0.60	15.43
AGN	Allergan	8/1	AM	1.06	72.1%	-0.01	-1.64
D	Dominion	8/1	AM	0.60	62.8%	0.09	3.15
ADP	Automatic Data	8/1	AM	0.53	48.8%	0.10	5.63
TWX	Time Warner	8/1	AM	0.58	77.1%	-0.49	7.50
MA	MasterCard	8/1	AM	5.57	95.8%	4.35	14.54
AMT	American Tower	8/1	AM	0.42	33.3%	-0.03	20.35
CMCSA	Comcast	8/1	AM	0.48	66.7%	-0.34	34.96
APA	Apache	8/2	AM	2.54	51.2%	-0.21	-4.63
GM	General Motors	8/2	AM	0.76	66.7%	-2.72	-4.61
TEVA	Teva Pharma	8/2	AM	1.28	84.6%	-0.10	1.49
VIAB	Viacom	8/2	AM	1.00	66.7%	3.66	2.47
DTV	DIRECTV	8/2	AM	1.14	51.5%	0.71	14.94
TWC	Time Warner Cable	8/2	AM	1.40	76.2%	0.45	33.00
EOG	EOG Resources	8/2	PM	0.94	74.4%	0.84	1.26
KFT	Kraft Foods	8/2	PM	0.66	65.9%	-0.45	5.78
CBS	CBS	8/2	PM	0.59	84.6%	1.38	21.92
AIG	American Intl	8/2	PM	0.61	46.5%	-0.42	35.05
PG	Procter & Gamble	8/3	AM	0.77	81.4%	-0.17	-2.22

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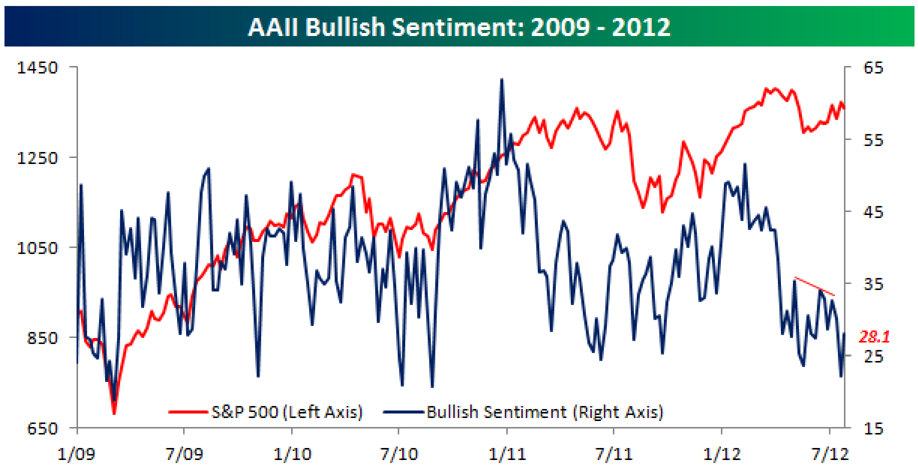
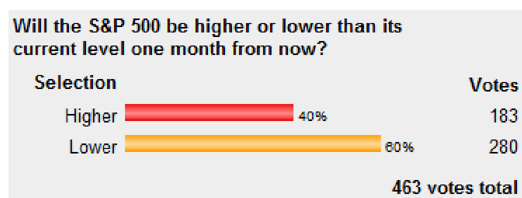
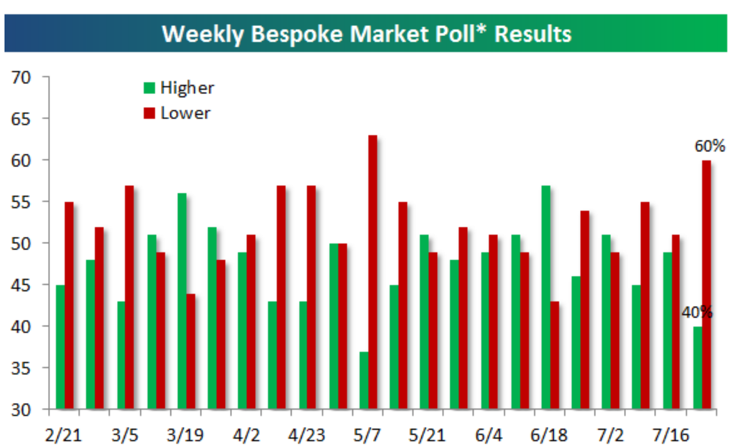
In terms of market sentiment, it was somewhat surprising to see this week that individual investor sentiment improved. In Thursday's release of individual investor sentiment from the *American Association of Individual Investors (AAII)*, bullish sentiment rose. In spite of the fact that the S&P 500 was down over the period in which the survey was conducted, investors turned more optimistic. After dropping to a multi-year low of 22% last week, the percentage of bullish investors in the *AAII* weekly sentiment poll rose to 28.1%. Although this is an increase, we would note that going back to 2009, the average weekly bullish reading has been 38.0%, so investors still remain stuck in hibernation.



This week's increase in the AAII bullish sentiment survey was likely more an aberration than an accurate depiction of investor sentiment. A more accurate barometer of sentiment may have been our weekly reader poll from our blog site (www.bespokeinvest.com). As shown to the right, 60% of participants in our weekend market poll think the S&P 500 will be lower one month from now, while just 40% think it will be higher. This is the second highest bearish reading we've seen this year.





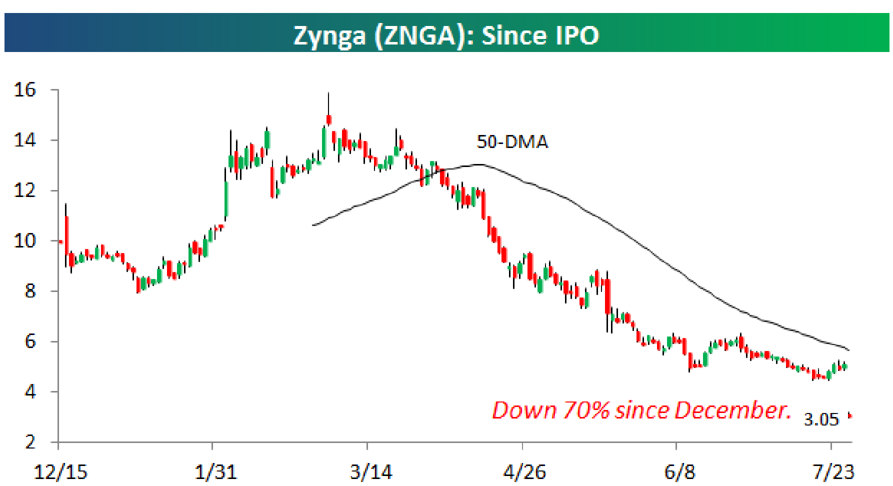
*Asks Bespoke readers whether the S&P 500 will be higher or lower one month from now.

While the weak macro environment is definitely a big factor behind the low levels of optimism on the part of investors, it is not the only factor. There has also been a structural shift in sentiment where even when the market is doing well, investor optimism remains subdued. As a case in point, since the start of 2011, bullish sentiment in the AAII survey has only exceeded 50% in four different weeks. This comes despite the fact that there have been eleven weeks where the S&P 500 has traded at new bull market highs. So there has definitely been an overall decline in investor optimism.

One potential reason for this structural shift in sentiment is that investors are increasingly losing faith in Wall Street. A case in point is Zynga (ZNGA). Since going public just over seven months ago at a price of $10 per share, shares ZNGA have lost nearly 70% of their value, including Thursday's decline of 40% following a disastrous earnings report. As if Wall Street didn't have enough of an image problem, stories like this only add fuel to the fire.

Looking at the firms who underwrote the ZNGA offering shows a who's who of the most high profile firms on the street, including Morgan Stanley, Bank of America/Merrill Lynch (BAML), Barclays, Goldman Sachs, and JP Morgan. When the so-called most respected companies on Wall Street underwrite garbage like ZNGA, can you fault individual investors for becoming disillusioned with the stock market? In the eyes of investors, these firms are no different from a sleazy used car salesperson, or a guy on the street selling fake handbags or Rolex watches.

Now, we realize that the IPO process is a two-way street. The firms underwriting the stocks wouldn't be selling the deals if there weren't eager buyers. In this respect, investors who bought the stocks are just as much if not more at fault than the underwriters selling to them. Additionally, the underwriters are also trying to get the best possible price for their clients. What makes the whole deal with ZNGA so bad in the eyes of individual investors, though, is that of the five lead underwriters of the stock, BAML was the only firm who didn't initiate coverage of the company with a Buy or Overweight rating. Furthermore, even after declines of 50% from the stock's IPO price, three of those firms still had the stock at an overweight rating today.



Turning our attention to a less dour topic, with the opening ceremony of the London Olympics starting on Friday, we went back and calculated the performance of the Dow Jones Industrial Average (DJIA) during each Summer Olympic Games since 1900. We also found the performance of the market for host countries during the Summer Olympics since 1984.

As shown below, the DJIA has averaged a gain of 4% from the opening ceremony to the closing ceremony over 26 Summer Olympics since 1900 (3 of the 29 were cancelled due to world wars). The median return has been smaller at +0.81%, and the index has been positive 68% of the time. From 1980 through 1996 (5 Summer Olympic Games), the DJIA gained during every Summer Olympics, but since 2000 (3 Olympics), the index has fallen twice and gained once. During the 2008 Beijing Olympics, the DJIA fell 0.91%, which actually wasn't that bad since we were in the middle of a financial collapse.

The stock markets of host countries have done well during the Games as well. Since 1984, host countries have averaged a gain of 1.54% (median 1.72%) from opening ceremony to closing ceremony, with positive returns 5 out of 7 times (71.4%). The Beijing Games were not kind to Chinese stocks, however. During the 2008 Games, China's Shanghai Composite fell 7.69%. If you remember, there was extreme optimism for China heading into the 2008 Games, as the country was set to display its extravagant growth. Unfortunately, investors sold the news, and it ended up being a terrible time for Chinese markets. With Europe in the depths of despair heading into the 2012 Olympics, London doesn't have to worry about displaying any extravagance. Instead, they've got to worry about digging out of a deep recession.

Stock Market Performance During Olympics Since 1900

Year	Host	Opening Ceremony	Closing Ceremony	DJIA % Chg	Host Country % Chg
1900	Paris, France*	5/14/1900	10/28/1900	5.13	N/A
1904	St. Louis, United States	7/1/1904	11/23/1904	41.74	N/A
1908	London, Great Britain	4/27/1908	10/31/1908	18.80	N/A
1912	Stockholm, Sweden	7/6/1912	7/22/1912	0.17	N/A
1916	Berlin, Germany (cancelled)	N/A	N/A	N/A	N/A
1920	Antwerp, Belgium	4/20/1920	9/12/1920	-11.56	N/A
1924	Paris, France	5/4/1924	7/27/1924	8.64	N/A
1928	Amsterdam, Netherlands	7/28/1928	8/12/1928	-0.35	N/A
1932	Los Angeles, United States	7/30/1932	8/14/1932	17.11	N/A
1936	Berlin, Germany	8/1/1936	8/16/1936	0.54	N/A
1940	Helsinki, Finland (cancelled)	N/A	N/A	N/A	N/A
1944	London, Great Britain (cancelled)	N/A	N/A	N/A	N/A
1948	London, Great Britain	7/29/1948	8/14/1948	-2.15	N/A
1952	Helsinki, Finland	7/19/1952	8/3/1952	2.15	N/A
1956	Melbourne, Australia	11/22/1956	12/8/1956	5.74	N/A
1960	Rome, Italy	8/25/1960	9/11/1960	-3.62	N/A
1964	Tokyo, Japan	10/10/1964	10/24/1964	-0.12	N/A
1968	Mexico City, Mexico	10/12/1968	10/27/1968	1.23	N/A
1972	Munich, West Germany	8/26/1972	9/10/1972	0.20	N/A
1976	Montreal, Canada	7/17/1976	8/1/1976	-0.86	N/A
1980	Moscow, Soviet Union	7/19/1980	8/3/1980	0.81	N/A
1984	Los Angeles, United States	7/28/1984	8/12/1984	9.28	9.28
1988	Seoul, South Korea	9/17/1988	10/2/1988	0.70	0.86
1992	Barcelona, Spain	7/25/1992	8/9/1992	1.41	1.72
1996	Atlanta, United States	7/19/1996	8/4/1996	4.66	4.66
2000	Sydney, Australia	9/15/2000	10/1/2000	-2.53	-0.93
2004	Athens, Greece	8/13/2004	8/29/2004	3.76	2.92
2008	Beijing, China	8/8/2008	8/24/2008	-0.91	-7.69
2012	London, Great Britain	7/27/2012	8/12/2012	?	?
			Average	**4.00**	**1.54**
			Median	**0.81**	**1.72**
			% Positive	**68.0%**	**71.4%**

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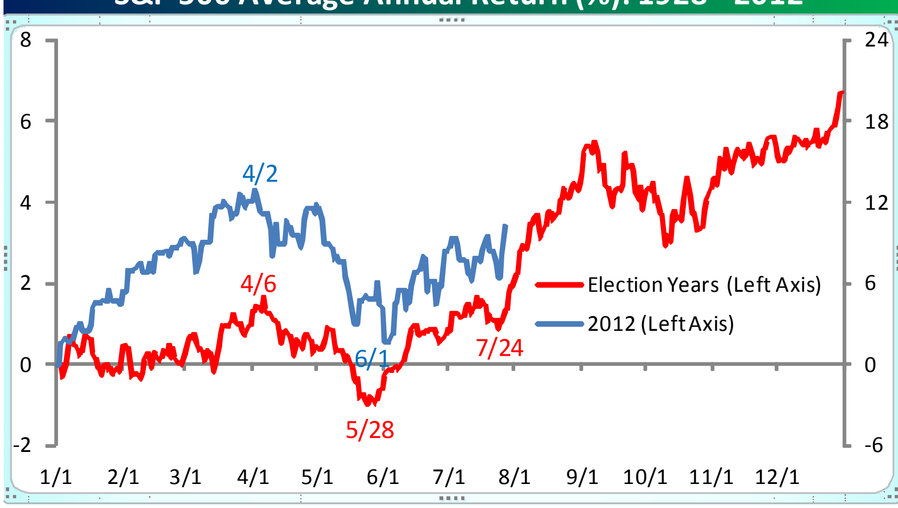
Finally, we also looked at the performance of Nike (NKE) during the Summer Olympics since 1984. As shown, Nike has gained during six of seven Olympic Games, with the only decline coming during the 2008 Games. NKE's average gain from opening ceremony to closing ceremony has been strong at +7.07%.

Nike's (NKE) % Chg During Olympics Since 1984

Year	Host	Opening Ceremony	Closing Ceremony	Nike (NKE) % Chg
1984	Los Angeles, United States	7/28/1984	8/12/1984	19.10
1988	Seoul, South Korea	9/17/1988	10/2/1988	3.97
1992	Barcelona, Spain	7/25/1992	8/9/1992	6.47
1996	Atlanta, United States	7/19/1996	8/4/1996	7.55
2000	Sydney, Australia	9/15/2000	10/1/2000	6.13
2004	Athens, Greece	8/13/2004	8/29/2004	9.17
2008	Beijing, China	8/8/2008	8/24/2008	-2.92
2012	London, Great Britain	7/27/2012	8/12/2012	?
			Average	**7.07**
			Median	**6.47**
			% Positive	**85.7%**

Once the Olympics wind down, the Presidential Election will take center stage. As we have highlighted numerous times since May, this year's stock market pattern has followed the typical Presidential Election year pattern very closely. At the beginning of July we highlighted the 'Election year script' and noted that if the pattern held we would see a minor pullback in the middle of the month with the low coming on July 24th. Coincidentally, this week's low came on July 24th! If the pattern holds, expect a strong end to the Summer.

S&P 500 Average Annual Return (%): 1928 - 2012



While the week ended on a positive note, recent history suggests that the DJIA's three day winning streak will come to an end Monday. As we noted earlier this week, the DJIA has been down on each of the last 8 Mondays. In the table below, we highlight each prior period in the DJIA's history where the index started off the week on a down note for eight straight weeks. You have to go back more than ten years (May 2002) to find a streak this long, and prior to that you have to go all the way back to 1985!

If you think the current streak has been annoying, it pales in comparison to the period in 1963 where the DJIA started off the week on a down note for 14 straight weeks! Looking at the DJIA's performance following similar periods shows that it has averaged a gain of 0.02% in the following week (median = 0.88%), and a decline of 0.22% on the following Monday (median = +0.15%). Over the next month, the DJIA has averaged a gain of 0.07% (median = -0.10%).

While the poor starts to the last eight weeks have been annoying, we would note that in spite of these declines, the S&P 500 is still up since the streak began. On Friday 6/1 (the closing price before the first down Monday of the current streak), the DJIA closed at 12,118.57. As of Friday, the DJIA is trading more than 8% higher near 13,100. Down Mondays? Bring 'em on!

DJIA Down to Start Week Eight or More Weeks in a Row: 1900 - 2012

8th Down Start	DJIA Percent Change				Total Number of Consecutive
to Week	Percent Change	Next Week	Next Monday	Next Month	Down Starts to Week
4/28/1902	-0.47	-1.86	-0.29	-1.26	13
2/7/1910	-3.44	5.04	0.65	10.54	8
8/15/1910	-0.35	-0.38	-1.21	-0.80	9
7/16/1917	-1.29	0.25	-1.08	1.39	9
6/28/1920	-0.47	2.82	0.87	-3.08	8
8/30/1920	-0.20	2.06	0.18	-3.02	8
11/3/1924	-0.27	1.94	0.36	6.30	8
10/6/1930	-3.95	-2.99	1.89	-8.57	8
9/28/1931	-2.77	-17.16	-6.78	1.90	10
10/17/1932	-2.38	-2.65	0.30	4.59	8
10/8/1934	-0.38	1.79	-0.78	3.85	11
12/16/1935	-0.90	1.06	0.28	5.33	8
3/27/1939	-0.29	-6.30	-0.44	-9.78	9
3/24/1952	-0.03	1.45	0.17	-1.49	8
2/25/1957	-0.01	0.98	0.55	0.99	8
10/16/1961	-0.02	-0.59	-0.94	3.60	9
6/10/1963	-0.82	0.24	-0.53	-0.81	14
12/13/1965	-0.12	0.07	-0.59	3.56	12
8/8/1966	-0.39	-1.67	-0.68	-7.86	12
4/27/1970	-1.62	-2.80	-2.60	-12.76	10
6/4/1973	-0.90	3.30	-0.53	-0.60	12
12/3/1973	-1.91	5.53	1.56	5.50	8
2/25/1974	-0.54	0.21	0.15	3.48	8
3/24/1980	-2.51	2.65	1.04	-0.82	8
2/21/1984	-0.83	3.57	1.28	2.81	8
8/26/1985	-0.05	0.88	-0.36	-0.10	9
5/6/2002	-1.98	3.08	1.71	-1.00	8
7/23/2012	-0.98				8
Average		**0.02**	**-0.22**	**0.07**	
Median		**0.88**	**0.15**	**-0.10**	
% of Time Positive		**0.67**	**0.52**	**0.48**	

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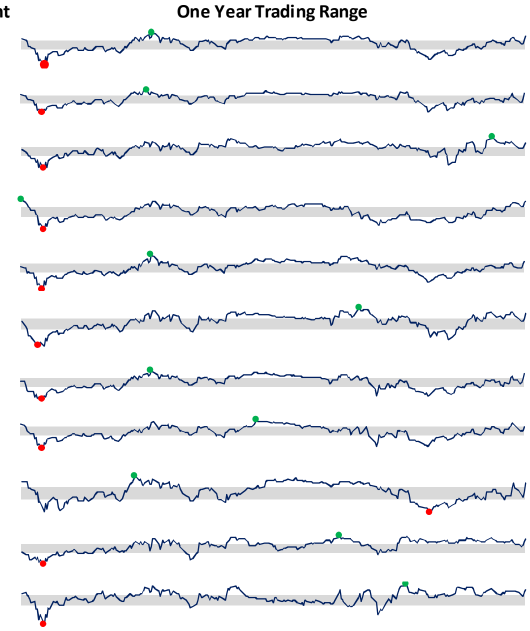
As frustrating as the last several weeks of trading have been, the bottom line is that the S&P 500 is up more than 9% since its intraday low on June 4th. As shown in the chart below, it has definitely been a saw-tooth pattern, but the grind higher has been made with three higher lows and three higher highs, and as long as that pattern remains in place, the skeptics can say what they want, but price is the only thing that matters. Equally important is the fact that although small cap stocks have been lagging the overall market lately, in Friday's rally the Russell 2000 outperformed all of the major US indices.

Following this week's rally, the S&P 500 and nine out of ten sectors are currently overbought, with Materials being the only sector that is trading in neutral territory. Previously we noted that defensives had been the market's leaders over the last year. In the last week, though, nearly all sectors have been participating. Going forward, mere words alone will not be enough to keep this rally going, so market bulls will need some action sooner rather than later.

Have a great weekend!

S&P 500 Sector Trading Ranges: 7/27/12

Sector	Overbought/ Oversold	Correlation with S&P 500	Dates: Most Oversold	Dates: Most Overbought	One Year Trading Range
S&P 500	OB	-	8/8/11	10/27/11	
Cons. Discret	OB	0.98	8/8/11	10/24/11	
Cons. Staples	OB	0.89	8/8/11	7/3/12	
Energy	OB	0.63	8/8/11	7/22/11	
Financials	OB	0.96	8/8/11	10/27/11	
Health Care	OB	0.95	8/4/11	3/27/12	
Industrials	OB	0.97	8/8/11	10/27/11	
Materials	N	0.80	8/8/11	1/12/12	
Technology	OB	0.97	5/18/12	10/14/11	
Telecom Svcs	OB	0.67	8/8/11	3/13/12	
Utilities	OB	0.67	8/8/11	5/1/12	



Normal Trading Range ● Most Oversold Reading ● Most Overbought Reading

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Bespoke Model Portfolio: 7/27/12

Stock	Company	Current Price	Portfolio Weight (%)	Entry Price	Stop Price	Date Added	% Change
Consumer Discret.			**20.1**				
PII	Polaris	77.89	6.8	54.16	44.25	9/8/11	43.8
UA	Under Armour	55.14	7.2	35.90	24.95	9/8/11	53.6
VFC	VF Corp	150.15	6.1	118.65	96.90	9/8/11	26.5
Consumer Staples			**6.3**				
CHD	Church & Dwight	57.68	6.3	43.02	34.80	9/8/11	34.1
Energy			**5.5**				
XOM	Exxon Mobil	87.45	5.5	73.87	64.90	9/8/11	18.4
Financials			**4.8**				
RJF	Raymond James	34.08	4.8	32.80	28.70	1/17/12	3.9
Health Care			**6.4**				
BIIB	Biogen Idec	149.47	6.4	111.68	98.00	12/6/11	33.8
Industrials			**21.5**				
CTAS	Cintas	39.29	6.1	30.51	27.95	12/6/11	28.8
GE	General Electric	20.92	5.6	16.41	14.20	8/5/10	27.5
TGI	Triumph Group	60.28	5.6	50.67	41.90	9/8/11	19.0
WCN	Waste Connection:	30.70	4.3	34.30	27.80	9/8/11	-10.5
Materials			**0.0**				
Technology			**7.4**				
AAPL	Apple	585.16	7.4	387.14	295.00	9/8/11	51.1
Telecom Services			**0.0**				
Utilities			**5.1**				
AEE	Ameren	34.42	5.1	32.26	29.40	12/6/11	6.7
ETFs			**0.0**				
Cash			**23.0**				

Performance (%):

	Since Inception[1]	YTD
S&P 500	-8.7	10.2
Model Portfolio	19.1	11.1
vs. S&P 500	27.8	0.9

= Recently Added
= Changed Stop Price

[1] *Bespoke's Model Portfolio began with an initial value of $100,000 on 5/29/07.*

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