Creative Global Investments

Morning market commentary & charts

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Carlo R. Besenius
Chief Executive Officer
cbesenius@cg-inv.com
+(352) 2625 8640

Creative Global Investments LLC
115 East 57th Street
11th Floor
New York, NY 10022
Tel: 212 939 7256
Mob: 917 301 3734

Creative Global Investments/Europe
5, op der Heed
L-1709 Senningerberg
Tel: +(352) 2625 8640
Mob: +(352) 691 106 969

Objectivity

Integrity

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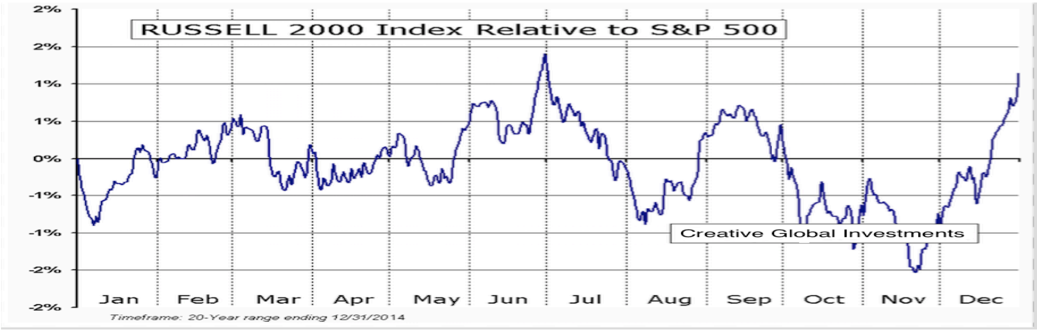
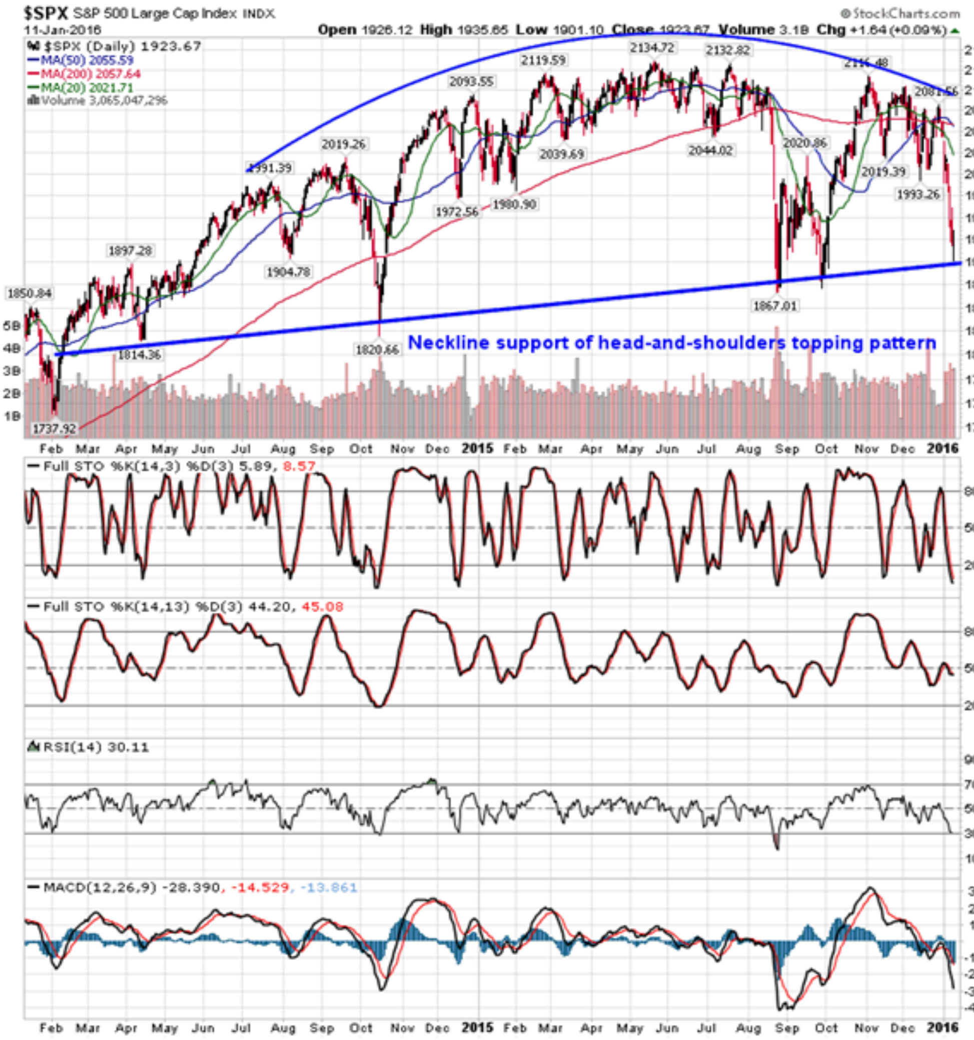
US equities indices confirming bear market

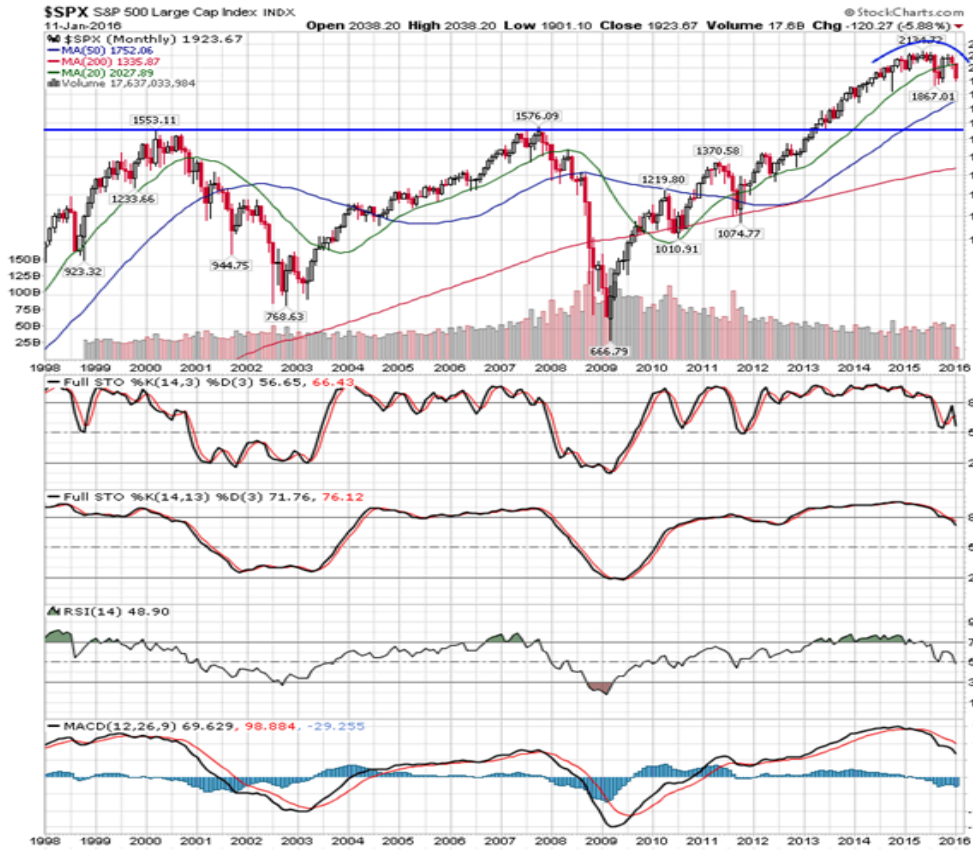
The Russell 2000 Small Cap index was down -20.4% from the peak in June 23rd 2015, crossing the -20% bear market threshold. The $RUT is already below support that represents the neckline of its head-and-shoulders topping pattern. Downside potential is to the 2007 and 2011 highs around 860. The breakdown falls within the period of seasonal strength for small cap companies that runs through to the start of March. Risk aversion is weighing on the notorious January effect when investors tend to take on risk at the start of the year. The $RUT has been underperforming the $SPX since early 2014, seemingly as "leading indicator".

March historically marks the end to the period of seasonal strength for small-caps and presents the best possibility for the $RUT to return to “normality” given the strong influences into the start of Spring.



The S&P 500 Index traded down to support at 1900 before rebounding into the close on Monday; the benchmark ended marginally higher by 0.09%. 1900 was a critical level of support to hold as it roughly represents the neckline of what appears to be a massive head-and-shoulders topping pattern. A break of this level of support, as well as the August lows, could result in a retracement back down to as far as the 2000 and 2007 highs around 1575. This suggests downside risks of around -17% from current levels. The target of the head-and-shoulders pattern of 1575 also represents a key Fibonacci level, indicating a retracement of 38.2% of the gains between the 2009 low and last year’s peak. While troubling to think that a decline of over 20%, from peak to trough, may be realized, the retracement would be a healthy move within the context of an even longer-term bull market cycle that began with the 2012 breakout above the highs from the last decade.





The depth of this decline forced the 50-day moving average down and it is currently below the 200-day moving average. This “death-cross”, however, is not the only negative on the chart. The index is below both moving averages, the 50-day is below the 200-day and both moving averages are pointing down. Such a bearish event also occurred in early September. Note that moving averages are lagging indicators and prone to whipsaw when there is no trend. Prior to the recent whipsaws, the 50-day held above the 200-day from February 2012 to August 2015.

There was a golden cross as recently as December 21st when the 50-day SMA moved above the 200-day SMA. The S&P 500 also moved above both moving averages in late December, but failed to hold above these moving averages for very long. Should December's golden cross be negated today, it would mark the shortest golden cross signal in over 50 years.

Oil/$WTI at bottom of l-t trading range

Oil dipped below US$31a/brl nearing the lower limit of the range of long-term support between US$30 and US$40. For some time we have been suggesting that the price of $WTI would find a floor in this range, The ten-dollar range acted as resistance through the 80's and 90's; therefore previous resistance would be expected to provide support. Obviously, a break of this support opens up a move into the US$20 range, of which many points of reference dating back 40 years exist. The fundamentals remain sufficiently negative to justify further declines, particularly given the risk of topping out storage capacity by the end of April, a period known for inventory builds. The pace of inventory builds in the month ahead could be key. As of the close of the year 29.1 days of supply of oil was in inventory, which was off from the 2015 high of 31.2, but still significantly above the average for the end of the year of 22.9 days. $WTIC is now significantly oversold, which at some point should exhaust downside pressures for the short-term.

Carlo R Besenius, CEO & Head of Global Strategy
cbesenius@cg-inv.com
office: +(352) 26 25 86 40
mobile: +(352) 691 106 969
Luxembourg/Europe

Steve Gluckstein, Global Strategist
sgluckstein@cg-inv.com
office: 212 939 7256
mobile: 732 768 8843
New York, NY, USA

Sabine CJ Blümel, Head of Global Automotive Research
sblumel@cg-inv.com
office: +44 (7785) 301588
London, UK

Marc Peters, Head of Global Industrial Strategy
mpeters@cg-inv.com
office: +(352) 26 25 86 40
mobile: +352 621 36 44 50
Luxembourg/Europe

Trish Twining, Managing Director of Sales
ttwining@cg-inv.com
office: 7817710117
Boston, MA, USA

Allison M Cimon, Director of Sales & Technology
amcimon@cg-inv.com
office: 646 228 4321
Boston, MA, USA

Gary Schieneman, Managing Director,
Global Accounting and Finance
gschieneman@cg-inv.com
office: 917-868-6842
New York, NY, USA

Jennifer Crisman, COO
jcrisman@cg-inv.com
office: +(352) 26 25 86 40
Luxembourg/Europe