LOWRY GLOBAL

An Analysis from **Lowry Research Corporation**
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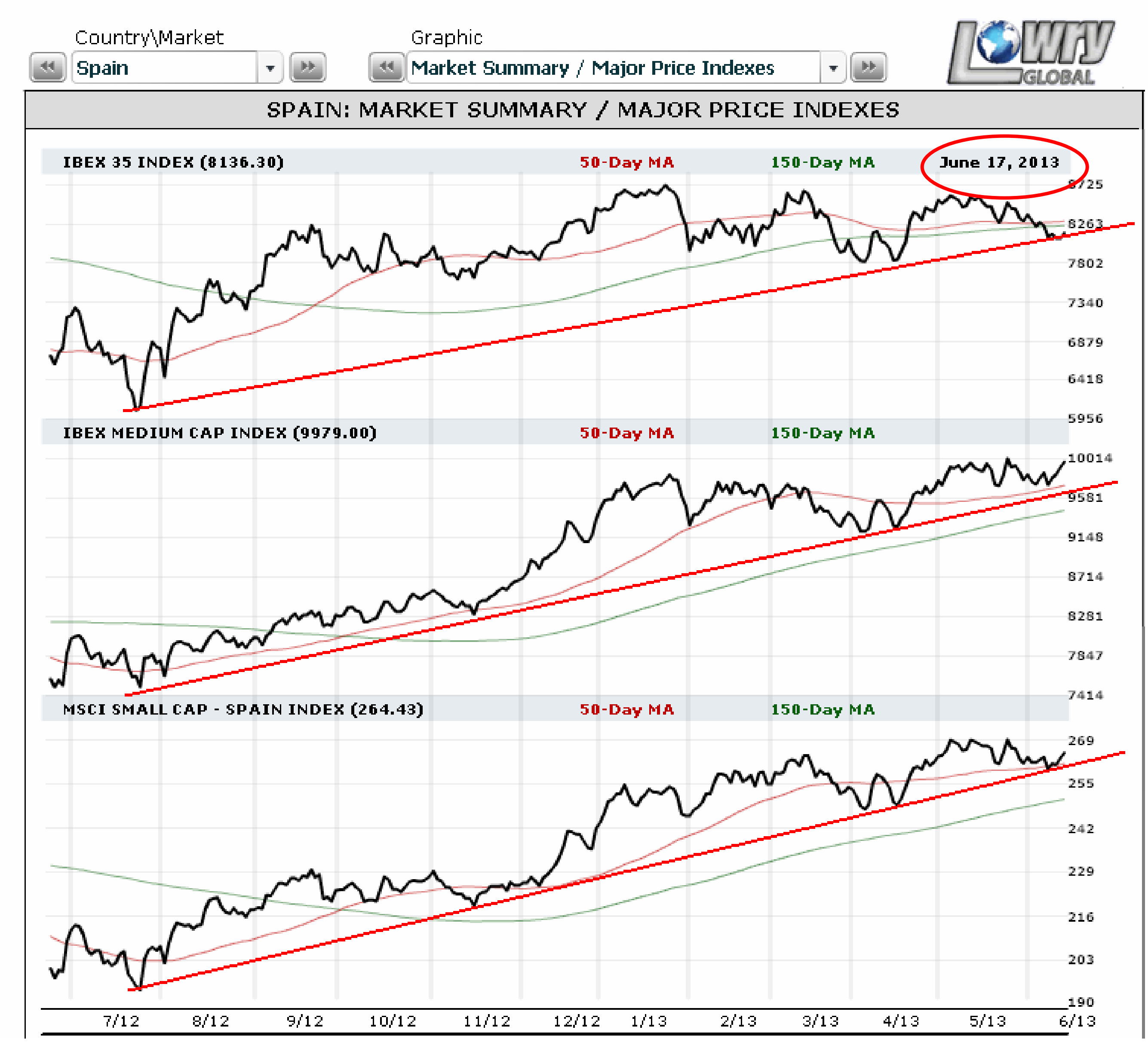
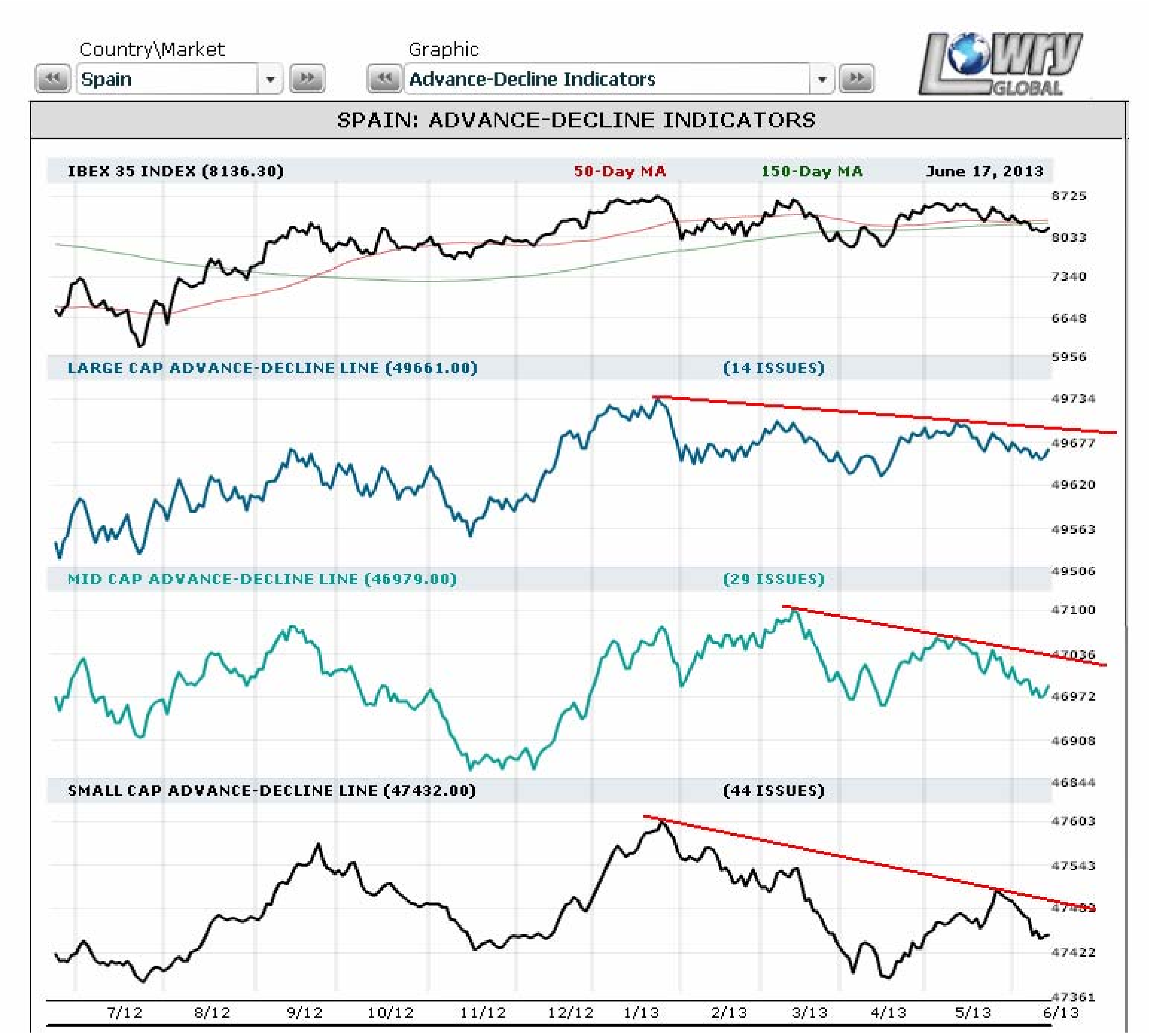
The Pain In Spain . . . . . (An objective lesson in the Law of Supply and Demand)

Just a few weeks ago, the major price indexes (big-cap, mid-cap, and small-cap) for the Spanish equity market appeared to be in relatively positive patterns, all at or near their bull market highs. However, investors who simply watch the popular price indexes to determine their investment strategy were in for a difficult surprise with the recent plunge in the IBEX 35 Index to a 9-month low. A review of some of our key measures of the forces of Supply and Demand show that significant signs of internal weakness in Spain have been apparent for months, warning of substantial price weakness ahead.

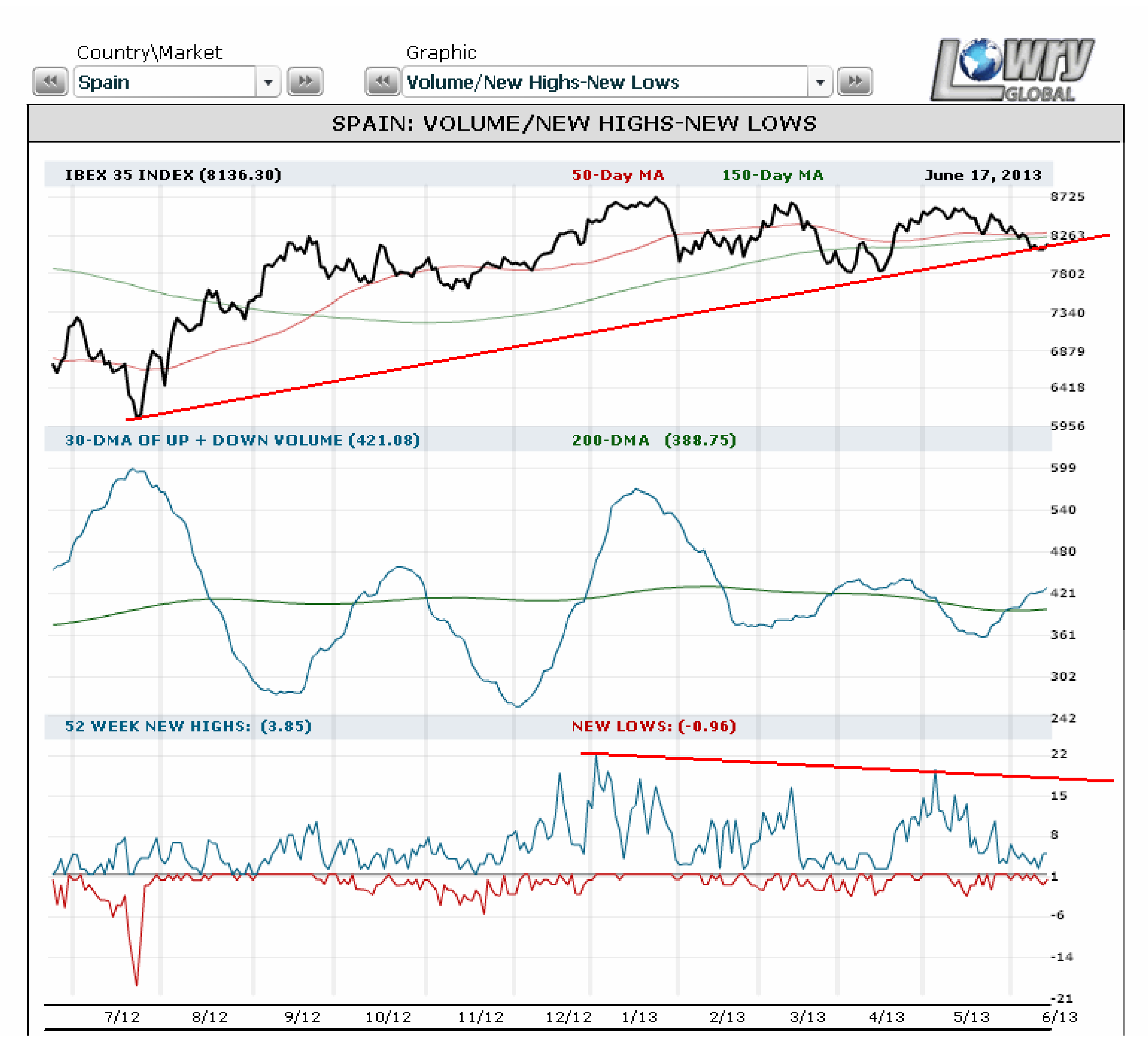


The Advance-Decline Lines for the Big-Cap, Mid-Cap and Small-Cap stocks in Spain show that the number of stocks participating in the bull market has been fading for several months. In a healthy market advance, we would have expected to see all of the Advance-Decline Lines at new highs, confirming new highs in the major price indexes in May. Typically, the deterioration in the Advance-Decline Lines begins to occur approximately 4 to 6 months in advance of the final top in the bull market. Since the current deterioration had been going on for about 4 months in May, investors should have been adopting a more defensive stance.

The deterioration in market breadth was most apparent in small-cap and mid-cap stocks. And, those two segments represent more than 80% of the stocks traded in the Madrid Exchange. Thus, it was particularly important for investors to consider selling laggardly stocks in those two segments first, and building defensive positions in cash equivalents.



As the Spanish bull market matured, and many stocks began to look over-priced to investors, the number of stocks able to rise to New 52-Week Highs began to contract, showing that fewer stocks were participating in the bull market. This repetitive pattern can be found throughout the 85 year history of the Lowry Analysis in advance of major market tops, showing that stocks do not reach their bull market highs simultaneously. As a result, stocks must be sold individually, as they no longer participate in the market uptrend. It is comparable to the leaves falling from the trees, one at a time, in Autumn, warning of the approaching Winter. New Highs typically begin to contract about 6 to 8 months, and sometimes longer, ahead of the final high in the bull market. As markets become increasingly selective, they also become increasingly fragile. The number of New 52-Week Highs has been contracting for almost 6 months.



Another sign of bull market fatigue can be seen in the percentage of Spanish stocks able to remain above their 150-day moving averages of price (the indicator at the bottom of the chart). While the major price indexes were near their bull market highs in May, the percentage of Spanish stocks above their 150-day moving averages of price had decayed to 58%. In a healthy bull market, that percentage should have been above 75%, as it was in January 2013. This kind of warning sign of internal market weakness cannot typically be seen while looking at the popular price indices -- until it is too late. Given these classic warning signs of major market tops, investors in the Spanish equity market should consider selling individual portfolio components as they fail to participate in rallies. That strategy, if applied consistently, in any of the Global markets should result in investors holding a progressively smaller number of strong stocks whenever a final bull market top is made in the popular big-cap price indexes.

As the Ibex 35 Index approached its highs in January, March and May, our Buying Power Index, measuring investor Demand (black line), became progressively weaker, as shown by the green trendline. At the same time, our Selling Pressure Index (red line), which measures the desire to sell stocks, had been steadily increasing since September 2012. Finally, notice that Supply exceeded Demand in March. According to the Law of Supply and Demand, when Supply is dominant over Demand, lower prices are expected. Thus, while it may not be necessary to sell all stocks right now, investors should be restructuring their portfolios and building cash reserves – or moving assets to stronger Global markets.

LOWRY GLOBAL analyzes the forces of Supply and Demand in 24 equity markets around the World.

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