

Hamilton-Bates Market Update

February 3, 2012

P.O. BOX 270 Newtown Square, PA 19073 877.768.4247 www.hbir.com

January Barometer Bullish

The last few days of January saw the market back off a bit, but even with that small drop the market's gains for the month were impressive. The S&P added 4.4% during 2012's opening month, which was good enough to make it the strongest performance since 1997. For what its worth the January Barometer has given a bullish sign. The January Barometer states that "as goes January, so goes the year". According to the Stock Traders Almanac, which created the closely followed 'January Barometer' in 1972, since 1950 stocks have finished lower for the year only three times after posting gains in January. This market prediction tool has been correct 89% of the time since 1950, and its record is likely part of the reason why the market's gain has raised Wall Street hopes that good times will continue despite the ongoing debt crisis in Europe.

Earnings, Economics, Interest Rates, & Europe

The European debt crisis has been put on the back burner, at least temporarily, as US economic numbers have taken center stage. Hopes of a Greek debt deal, which has been called 'imminent' for the last few weeks (sarcasm), and the positive affects of the European Central Bank's LTRO program (similar to our Fed's QE programs) have taken the threat level down a few notches for now. As noted, the big news this week is the US economy and economic data, in the form of the January Payroll Report and the ISM number. Jobs are critical for any growth to occur, and finally it seems we have a couple good readings in a row. The latest report shows that the economy added a net 243k jobs in Jan, which was well above expectations of 140k. Revisions to the prior two months were also higher, and as a result the unemployment rate fell to 8.3% from 8.5%. These gains came even as 500k people joined the labor force, which shows a belief that jobs may be getting a bit easier to get. The accompanying household survey was also strong, showing a huge 847k jobs added in the month. The ISM Manufacturing survey was also strong, jumping from 52.6 to 56 in the month, above expectations and the strongest reading in months.

Today's economic data was unambiguously positive, and could be the first clear signs that just maybe things are getting better. Of course there are some caveats, as there were 'seasonal' adjustments to the employment number and the overall labor participation rate remains very low. But, bottom line, this is the payroll report since summer 2010, and hopefully this is the start of a trend. In the short-term the data is supportive for stocks but it is not clear that the

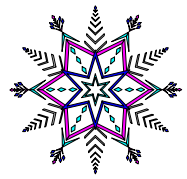
market will be off to the races without looking back.

Remember that the market has been moving higher due to the hopes/beliefs of central bank QE, but stronger economic data take some of the steam out of that. It will remain to be seen whether the initial enthusiasm will last if there is less of a possibility of more QE, especially if Greece/Europe troubles move to the forefront once again.

Market Outlook

Being able to separate what may be going on in the economy from the movements in the financial markets has indeed been important in the past few months, as the market has rallied in the face of economic concerns given the backstop of more QE, and could now be due for a pullback just as the economic data is getting 'good enough' to entice the sideline money back into the market. The major averages have rallied since the October lows, and especially so since mid-December. This has been because of the actions of the Fed and the ECB, both of which have undertaken programs of quantitative easing—which are at least temporarily very supportive for stocks. Now that economic reality may be catching up, it's important not to get too bullish and get caught should stocks be due for a correction. We have caught this rally and remain bullish, at least for as long as the market trends remain intact across all time frames. But market rallies need a breather, and the S&P was up for 13 of January's 20 trading sessions, or 65% of the time. If the market kept up this pace, it would be the highest daily winning percentage in history. Couple this with the fact that on an annualized basis January's gains would be 55%. It seems clear that this pace is unsustainable. A correction is coming sooner or later, whether it comes with a pullback in prices or through a period of sideways trading. We could see the S&P move up to the 1350-1370 area in the near-term, but much more than that without an intervening correction/consolidation seems unlikely.

In summary, stocks have rallied through resistance, and the strength of the market has likely caught many off guard. We have been positioned appropriately and **as long as the S&P holds above 1300 and the NASDAQ 100 holds above 2400 the immediate outlook is bullish. Note: Our 'key' price levels for the S&P and NASDAQ 100 are likely to be raised after this week's rise.** We'll be looking for signs that a short-term pullback is imminent, and we would then lighten positions in anticipation of that, should these signs begin to pop up from our market models and indicators.



Hamilton-Bates

Market Update

February 3, 2012

P.O. BOX 270 Newtown Square, PA 19073 877.768.4247 www.hbir.com

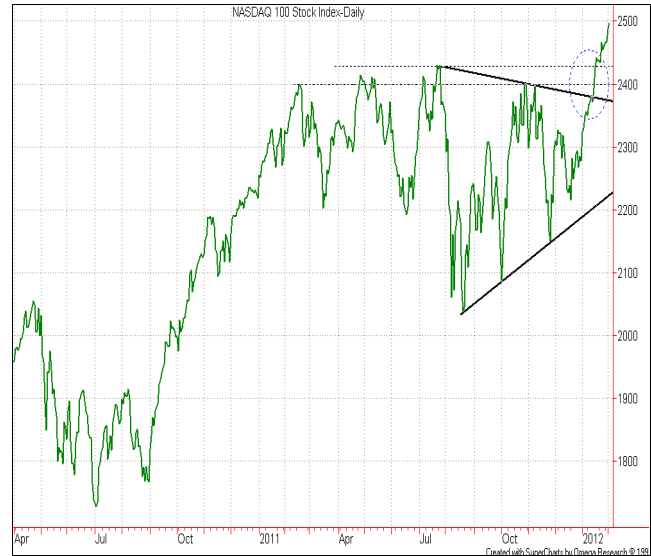
Key Charts

S&P Near-Term



The major averages consolidated during the last few days of January, but the bullish breakout above the downward trend lines held (blue circle above). As long as 1300-1310 holds, a continued move up is allowed. The definitive move may have cut a number of investors underinvested, and we could see the S&P 500 challenge the 2011 highs around 1350-1370 over the next few sessions. The market's bullish action coupled with the strength in the NYSE A/D Line (not shown), suggests more upside is likely for the rally.

NASDAQ 100



The NASDAQ 100 has been leading the S&P during this rally, and this relative strength from the growth-oriented NASDAQ 100 is generally a positive, dovetailing with the other technical signs we see that suggest more upside for stocks. The NASDAQ 100 has already pushed out above the 2011 highs (blue circled area above), and is making new highs for the move up from the 2009 lows. The structure of the NASDAQ's pattern is such that it projects for a rally to 2700-2800, or a potential gain of 7-8% from current levels. Though possible, such gains are not likely without some corrective activity as part of the move.

As we have been noting, the big gains since mid-December have left the market overbought, so a short-term pullback could happen at any time. But the trend remains up and as long as the S&P holds above the now key 1300 level, the bullish outlook holds sway. For the NASDAQ 100 the key level is 2400, the level of the breakout above the prior 2011 highs. This level should act as support if the bull run is to continue.

Disclosures:

This report has been produced and compiled by Hamilton-Bates on a best efforts basis, and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. The investments referred to herein may not be suitable investments for you and if in any doubt consult an independent adviser. This report is prepared solely for the information of clients of Hamilton-Bates and readers are expected to make their own investment decisions after consulting with their personal financial advisor and without reliance on this report. Neither Hamilton-Bates nor any officer of HBR, Inc. accepts any liability whatsoever for any direct and consequential loss arising from use of this report or its contents.