Breakout or fakeout? The markets have punched through their most recent resistance levels at the high end of the ranges of the past six weeks, and although this appears to be a bullish occurrence, we see it as being more of an ending move to the bounce from the low than the start of a bigger leg to the upside. Investors have become too complacent and accepting of the markets’ strength, in our view, and this is evidenced by the sharp increase of individual investors participating in the markets and the high level of more speculative option buying that commonly occurs near market peaks. We continue to believe that it is better to be more conservative after the market has made a big move to the upside and be more aggressive after a pullback, and the recent market action causes us to be more cautious at this time.

The breakout from the range of the past six weeks may lead to a short-term peak soon.

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