

THE McCLELLAN MARKET REPORT

DAILY EDITION

Prepared after the close of trading,
Thursday, July 09, 2009

CURRENT OPINIONS

STOCKS: Bullish short, intermediate and long term. An oversold condition, arriving within a seasonally strong period, suggests we'll see a robust rebound now that sentiment is so bearish.

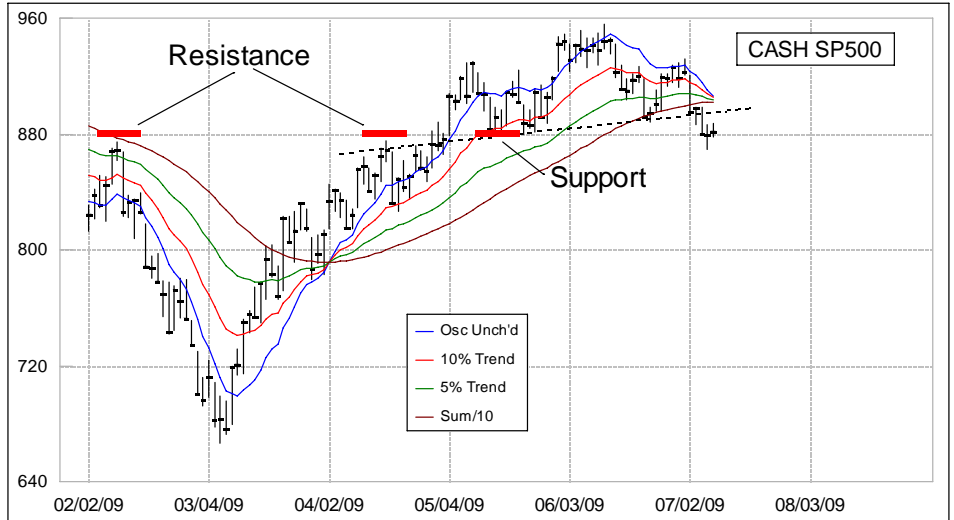
T-BONDS: Neutral now short and intermediate term. Bonds are overbought and needing a rest. Look for a bottom next week to restart the uptrend.

GDM & GOLD: Neutral short term, still bearish intermediate term. Thursday's bounce was called for by our Timing Model signals, and it does not upset the existing downtrend. Change to short term bearish again as of the close on Friday.

The market finally caught a bid Thursday, thanks in part to a "less worse" number in the weekly jobless claims report. I'll have more on that below.

We are continuing to hear a lot of talk about the supposed head and shoulders top formation in the SP500, and guests appearing on CNBC have been making daily and sometimes hourly mention of its downside implications. Longtime readers know that I like to listen to the people appearing on CNBC to gather opinions of which I think the opposite (except when I appear there myself, of course). The talk has been fierce about that ever since Tuesday's big "break down" below the neckline. Interestingly, prices have not been continuing that break-down following the point when "everybody" noticed it. My belief is that if everyone is looking for something to work, and counting on it working, then it cannot possibly work.

While most people are watching the head and shoulders formation, there is much less attention being

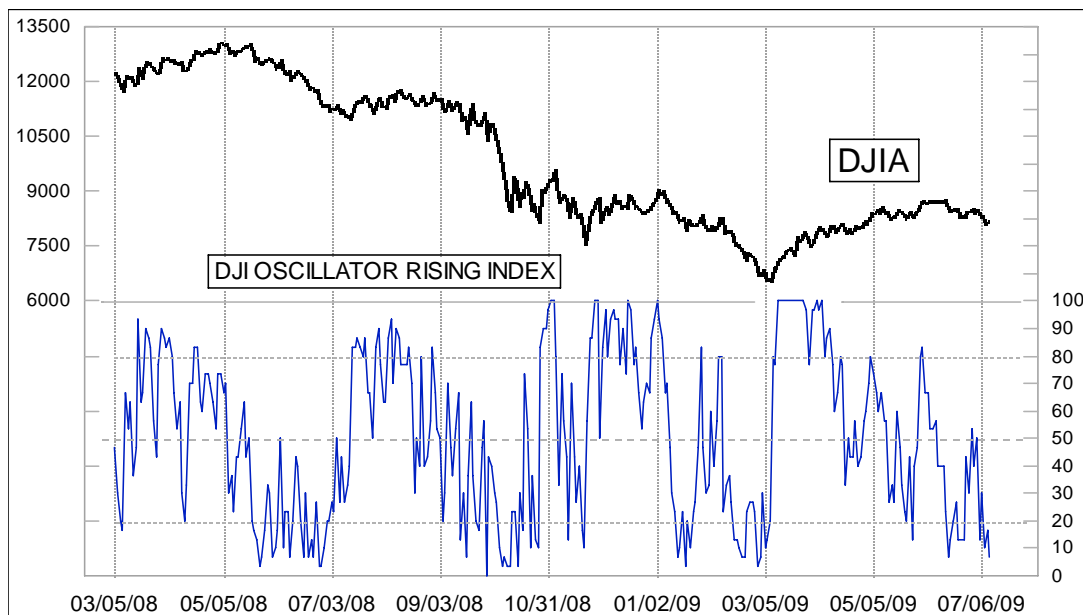


Segment	Rank	Score	Current Managed Account Program Positions		
Sm Cap Value	5	-4.94%	Stock Optimizer: 100% 1.5x Russ2000		
Sm Cap Grwth	3	-3.45%	Equity Allocation: 100% IWO (Small Growth)		
Lg Cap Value	4	-4.33%	RS 2000: 21% 2x Inv SP500, 79% Cash		
Lg Cap Grwth	2	-1.95%	Program funds managed by Global Investment Solutions, LLC		
Cash	1	0.00%	For more information, call (866) 547-3123		

ADV-DECL	ADV	DECL	A-D	10%T	5%T	A-D OSC	SUMM INDEX	OSC UNCH'd	OSC TO ZERO		
NYSE	07/09/09	1860	1186	674	-151.443	-4.436	-147.007	2278.697	-298	2642	
NASDAQ	07/09/09	1338	1314	24	-292.695	-141.890	-150.806	938.356	-444	2573	
NDQ 100	07/09/09	62	37	25	-9.218	-4.167	-5.051	3.791	-14	87	
VOLUME	UP VOL	DN VOL	UV-DV	10%T	5%T	Volume OSC	SUMM INDEX	OSC UNCH'd	OSC TO ZERO		
NYSE	07/09/09	678486	316893	361593	-97184	-36529	-60654	180595	-157838	1055248	
NASDAQ	07/09/09	1314924	521127	793797	-91001	21795	-112796	1233119	-203797	2052129	
NDQ 100	07/09/09	528540	217057	311484	-33156	5837	-38993	409299	-72148	707703	
PRICES	HIGH	LOW	CLOSE	10%T	5%T	PRICE OSC	OSC Direction	OSC UNCH'd	Sum/10 Level	1%T	
DJIA	8228.67	8145.31	8183.17	8384.07	8392.12	-8.046	DOWN	8376.02	8399.36	8774.30	
NYComp	5702.73	5624.57	5667.37	5825.12	5814.84	10.278	DOWN	5835.40	5805.59	6009.58	
SP500	887.86	878.45	882.68	905.22	903.67	1.546	DOWN	906.77	902.28	936.81	
SP400	551.67	544.83	548.03	566.84	566.07	0.771	DOWN	567.61	565.38	575.75	
NASDAQ	1763.63	1747.44	1752.55	1793.98	1776.69	17.291	DOWN	1811.27	1761.13	1755.33	
NDX	1423.44	1409.13	1414.98	1445.63	1432.55	13.082	DOWN	1458.71	1420.78	1402.60	
Russ2000	483.91	478.97	479.27	499.32	498.04	1.279	DOWN	500.59	496.89	510.12	
GDM	1004.35	966.23	971.83	1042.36	1051.21	-8.844	DOWN	1033.52	1059.17	989.12	
TYX	4.327	4.237	4.318	4.364	4.334	0.030	DOWN	4.394	4.307	4.021	
Sep Bonds	120.906	119.172	119.344	118.014	118.137	-0.124	UP	117.890	118.249	121.023	
DJI Osc Rising Index:		7%	Oversold, Trend Dn			DJI Osc Pos & Rising:		3%	Oversold, Falling		
NDX stocks >100MA:		72	Arms Index: 0.73		VIX: 29.78		Uppr Band: 33.10		Lwr Band: 28.04		

given to the fact that the SP500 is finding support at the 880 level, as shown in the first chart. That price level once acted as overhead resistance, but that resistance has now turned into support.

As the SP500 contends with this support, the market is oversold according to multiple measures. I mentioned yesterday the McClellan Oscillator dipping back down below -200. The top chart on page 2 shows the DJI Oscillator Rising Index, which measures the percentage of those 30 issues which have a rising Price Oscillator. The value of this indicator is reported every day in our big page 1 table. This low value does not guarantee that the market will go up; it can stay



oversold for a long time in a protracted downtrend. But it does add to all of the evidence we are seeing elsewhere saying that the market is oversold, even though it is really just at the lows of a fairly tight two-month trading range.

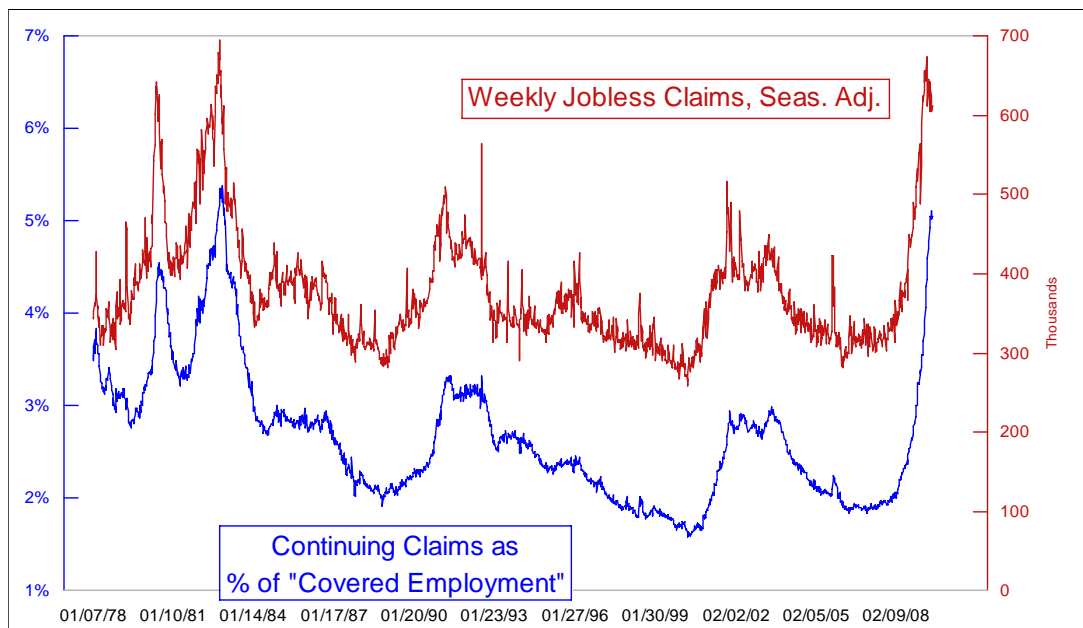
I mentioned that the weekly jobless claims number was not as bad as expected. The reporting on this data can sometimes be skewed based on the biases of the reporting news agency, so I thought it would be good to give you some reporting that is skewed based on my biases.

The numbers that the Department of Labor releases each week contain both raw and seasonally adjusted values. It should come as no surprise that there are seasonal tendencies in unemployment. Retailers need more employees before Christmas than they do after Christmas. Graduating students flood the jobs market in the summer. You get the idea.

The chart below shows a couple of different data items published by the DOL. The top line is the seasonally adjusted value for weekly jobless claims. It is indeed declining from the peak value of 674,000 for the week of March 28. This week's report showed a drop in the raw value from 581,080 to 558,407, although when the statisticians add their "seasonal adjustment factor", the seasonally adjusted number actually rose just a tiny bit.

Also included in this chart is the plot of "continuing claims", meaning people who are still drawing unemployment benefits because they either have not found a job, or the term of their benefits has not run out.

You might wonder how long people get to stay on unemployment, which is a very reasonable question which unfortunately has no simple answer. The reason is that unemployment benefits are administered by the states, and the rules differ from state to state. Most offer benefits lasting 26 weeks, and Congress authorized the "Emergency Unemployment Compensation" program on June 30, 2008 to extend benefits by an additional 13 weeks over whatever the length of state benefits might be. That authorization was extended to 20 weeks on Nov. 21, 2008, with additional special rules for states with high unem-



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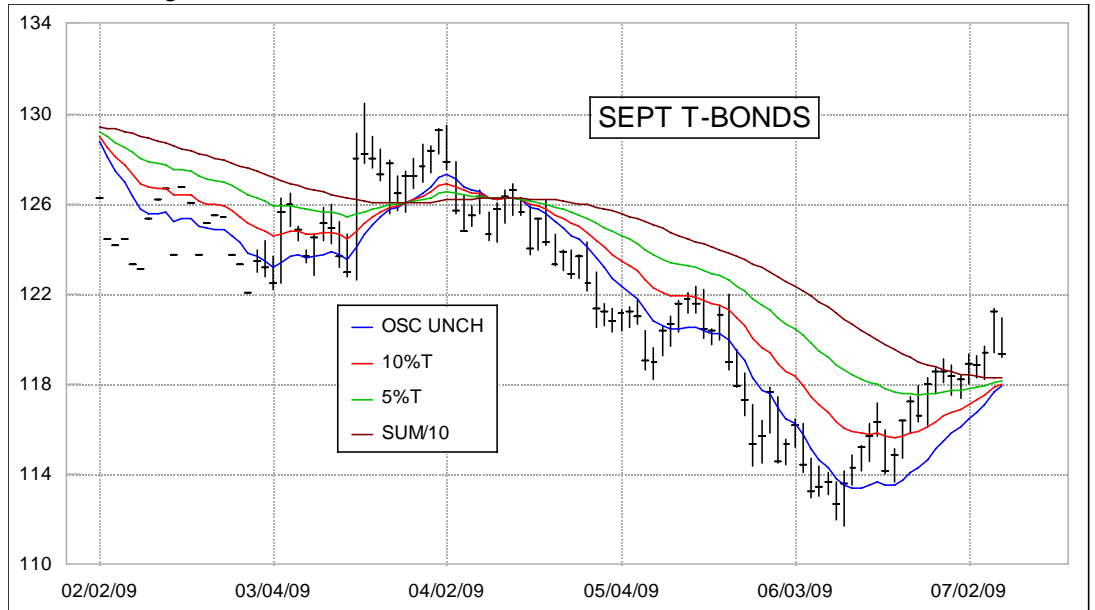
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ployment rates, and extended even further on Feb. 17, 2009.

One point that is important to understand about these data is that the new weekly claims number will indeed tend to top out before the unemployment rate. Also included in this chart is the percentage of “covered employment” (i.e. people in the system) who are maintaining continuing claims for unemployment benefits. That is up to 5.0% now, which is almost as high as it got in 1982. You might notice that this is well below the reported 9.5% unemployment rate. The unemployment rate is based on a household (telephone) survey, and reflects what people say about their own status. Some people stay unemployed for longer than the unemployment benefits, which explains some of the differences in the numbers.

As an interesting statistic, you might be interested to know that the numbers we have been seeing are nowhere near the all-time records, even though we keep hearing that this is the “worst economy since the Great Depression”. The data on weekly jobless claims go back all the way to 1967, and the all-time high raw weekly reading for new jobless claims was 1.073 million, which was reported on for the week of Jan. 9, 1982 (post-Christmas retail layoffs). That was when the number of “ensured employees” was 87 million. The peak for this current economic slowdown has been 956,791 reported for the week of Jan. 10, 2009 (again, that post-Christmas thing), but this number comes in an environment with 133.8 million ensured workers.

T-Bonds traders did not like the idea that unemployment might be moderating, and so the September T-Bond contract fell pretty hard. Thursday’s drop wiped out the big pop we saw on Wednesday, after the successful T-Note auction. It also takes bond prices back down toward an impending rainbow convergence. This activity makes it look like bond prices are retracing back toward the price-time point of the convergence, which would imply that the preceding trend should continue itself. That would mean a resumption of the uptrend that we have seen since early June. Another few days is likely needed to complete this action. A bottom



for bond prices that our Timing Model signals suggest is due July 14-17 would be just about right, provided that bond prices do not continue to break down far below the Price Oscillator Unchanged level.

Gold had broken a rising bottoms line on Wednesday, and it retraced back up to a test of the underside of that line on Thursday. The impetus was some big dollar weakness, although gold’s strength was only a fraction of the decline in the

Dollar Index. This looks like a breakdown and retest of the breakdown, a normal and typical event in chart analysis. When we also consider that Thursday was an “inside day”, meaning that the intraday high-low range was fully contained within the prior day’s range, this confirms the hypothesis that this is a genuine breakdown. Just as outside days can imply reversal of trend, inside days imply continuation of whatever the existing trend direction is. It is left to the observer to declare what that direction is, and it seems pretty safe to say that the current trend direction for gold is downward.

