

THE McCLELLAN MARKET REPORT

DAILY EDITION

Prepared after the close of trading,
Friday, October 09, 2009

CURRENT OPINIONS

STOCKS: Bullish short, intermediate, and long term. Expecting a top Oct. 19. It will be time to worry, and to change to short term neutral, if the SP500 closes below 1050.72 (10% Trend).

T-BONDS: Bearish short and intermediate term. There is more of this downtrend still coming.

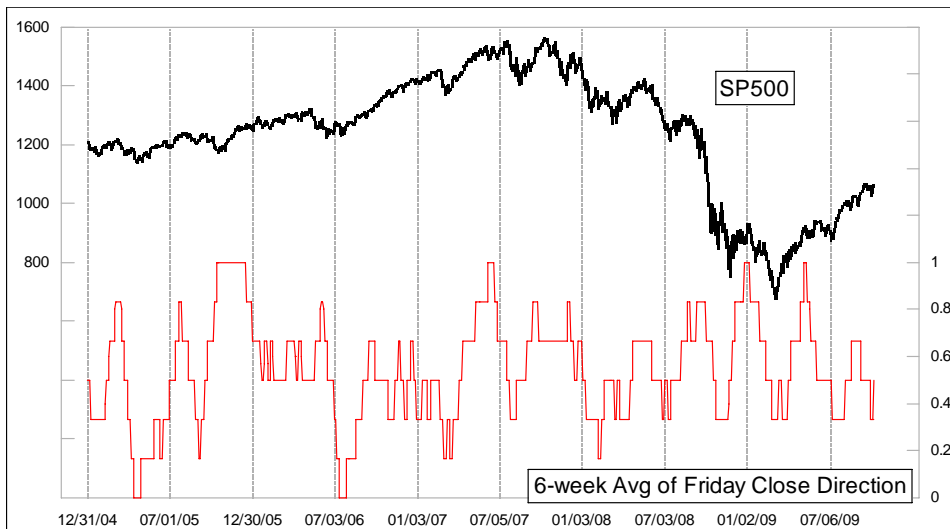
GDM & GOLD: Bullish short and intermediate term. Change to short and intermediate term neutral on an intraday high above 1062.70 with a close near the bottom of the day's range, or to bearish if December gold closes back below \$1034.50/oz.

Note: Time frames mentioned refer to trading styles, and not to the duration of a forecast.

The market capped off a strong week on Friday with yet another up day, taking the DJIA up to a marginally higher closing high, and taking the SP500 up close to its Sep. 22 high. The willingness to close the market up on a Friday is a statement of bullish sentiment from market participants, since they don't get to trade over the weekend. When people are feeling some trepidation about "event risk", they tend to want to sell their long positions on Fridays so that some unknown world event over the weekend does not bite them in the backside.

That is the reasoning behind the behavior of the indicator in my first chart today. It looks at the SP500's closing price change on Fridays, and assigns an up Friday a value of 1, while a down Friday gets a value of 0. Then I run a 6-week moving average to create this indicator.

Low readings are reliably associated with bottoms for stock prices. High readings are a bit less reliable, since they can arrive both at price tops and as the



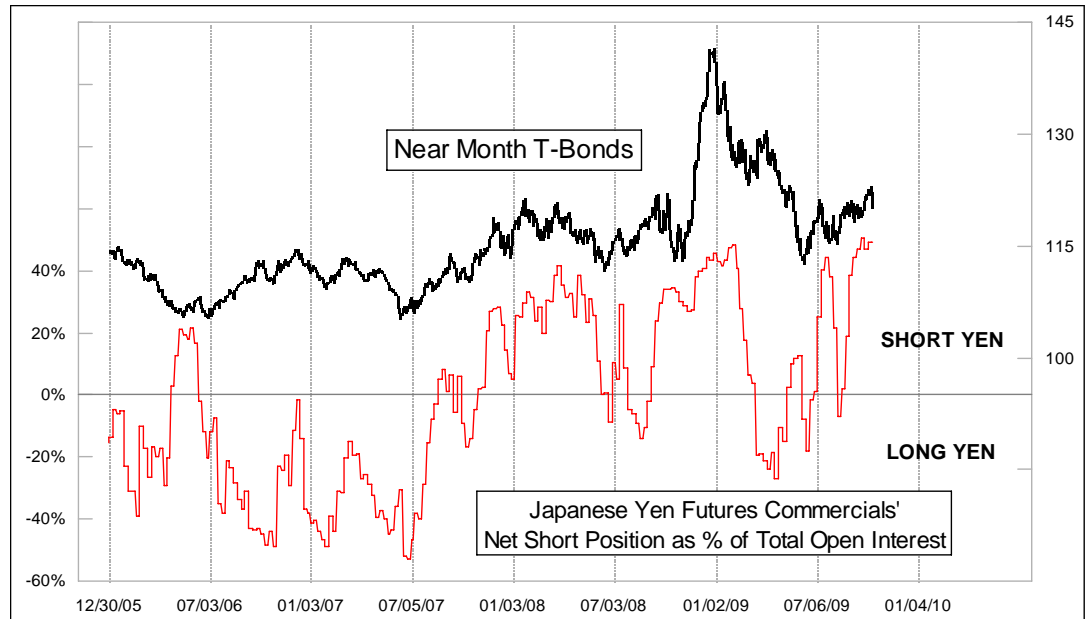
Segment	Rank	Score	Current Managed Account Program Positions		
Sm Cap Value	4	2.22%	Stock Optimizer: 100% Rydex Nova		
Sm Cap Grwth	2	2.60%	Equity Allocation: 100% IWF (Lg Grwth)		
Lg Cap Value	1	2.63%	RS 2000: 22% 2x Inverse SP500, 31% 2x Russ2000, 47% Cash		
Lg Cap Grwth	3	2.36%	Program funds managed by Global Investment Solutions, LLC		
Cash	5	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	1829	1188	641	403.660	376.150	27.510	4513.912	431	-119	
NASDAQ	1784	825	959	165.126	122.506	42.620	1841.482	208	-645	
NDQ 100	69	29	40	12.775	10.393	2.382	82.494	15	-32	
VOLUME	UP VOL	DN VOL	UV-DV	10%T	5%T	Volume OSC	SUMM INDEX	OSC UNCH'd	OSC TO ZERO	
NYSE	592335	384078	208257	88034	94910	-6876	1010981	81158	218676	
NASDAQ	1222185	697537	524648	205731	210115	-4385	2140616	201346	289039	
NDQ 100	417348	267821	149527	85073	70846	14228	580407	99301	-185254	
PRICES	HIGH	LOW	CLOSE	10%T	5%T	PRICE OSC	OSC Direction	OSC UNCH'd	Sum/10 Level	1%T
DJIA	9865.01	9764.88	9864.94	9682.97	9553.68	129.289	UP	9812.26	9437.32	9083.11
NYComp	7015.54	6968.58	7015.54	6872.53	6759.92	112.608	UP	6985.14	6658.58	6310.10
SP500	1071.51	1063.00	1071.49	1050.72	1034.91	15.811	UP	1066.53	1020.68	975.80
SP400	702.19	694.24	702.19	684.93	671.71	13.217	UP	698.15	659.82	614.72
NASDAQ	2139.62	2118.04	2139.28	2097.58	2062.74	34.849	UP	2132.43	2031.37	1886.29
NDX	1729.22	1710.58	1727.76	1698.30	1670.14	28.162	UP	1726.46	1644.79	1517.82
Russ2000	614.92	607.18	614.92	600.23	589.14	11.087	UP	611.31	579.16	542.13
GDM	1342.03	1311.95	1331.10	1251.56	1209.28	42.288	UP	1293.85	1171.22	1071.81
TYX	4.248	4.070	4.227	4.116	4.182	-0.066	UP	4.050	4.241	4.140
Dec Bonds	122.063	119.625	119.969	120.965	119.981	0.984	DOWN	121.949	119.095	119.603
DJI Osc Rising Index:	67%	Hi Neutral, Trend Up			DJI Osc Pos & Rising:		60%	Overbought, Rising from Oversold		
NDX stocks >100MA:	89	Arms Index:	1.00	VIX: 23.12		Uppr Band:	26.69	Lwr Band: 23.83		

market is making a strong initiation of an up move. Neither of those is a concern right now, since this indicator is at 0.50, neither oversold nor overbought. It is just coming up off of a sort-of low reading, and the absence of a high reading at this point suggests that there is more room to run.

I noted the reversal bar for **T-Bonds** on Thursday, and Friday brought about an acceleration downward. The reversal was clear enough on its own to anyone looking, but one additional motivation for the urgent selling likely is the 3-day weekend for bond traders. Monday is the Columbus Day holiday for the bond market, but is not a holiday for the stock market. So the “event risk” I mentioned above as a factor heading into a weekend is magnified 50% whenever there is a 3-day weekend.

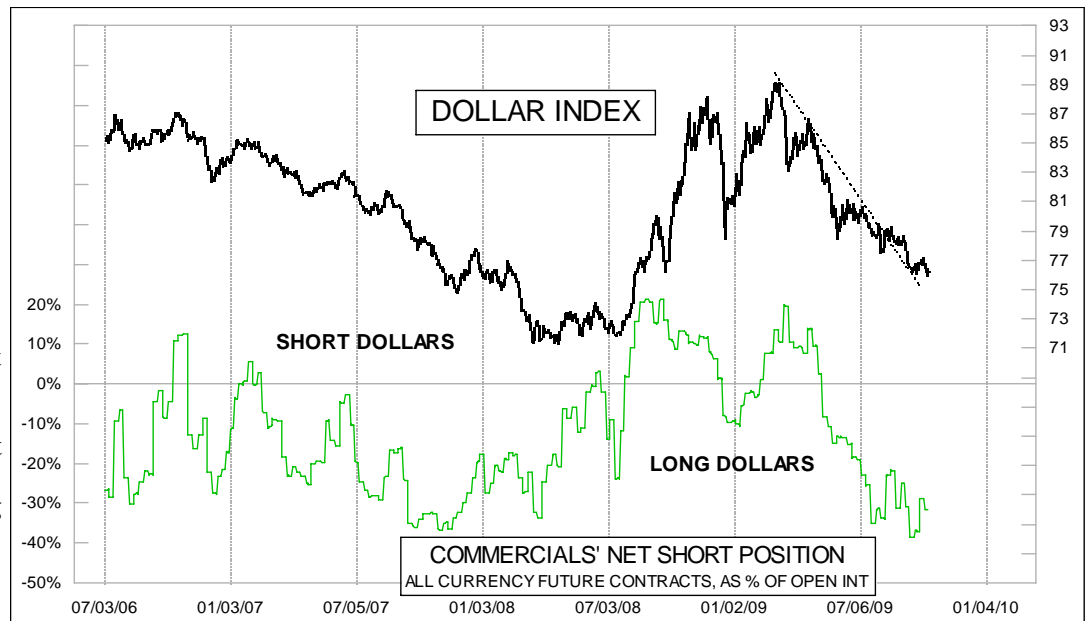
Looking ahead, there is plenty of rationale for bond prices to continue downward. The top chart on page 2 shows that commercial traders of Japanese yen futures are still holding a huge net short position. This week’s Commitment of Traders (COT) Report shows that these traders have not changed much over the past few weeks, still betting on a decline in the yen. Because the yen’s movements have a strong positive correlation to the price of T-Bonds, this becomes a good sentiment indicator for what bond prices should do.



It is not infallible however. The commercials held a big net short position all the way up during the late 2008 blowoff move. They were eventually proven right, and I believe that they’ll also eventually be right this time about the yen and bonds heading lower. With this week’s reversal after a failed upside breakout from a bearish rising wedge, this looks like the time for “eventually” to arrive.

The weakness of the **US dollar** is reaching a climax as an overplayed story, with CNBC commenting on it daily and with Fox’s Glenn Beck even throwing piles of dollar bills in the air as a way of saying that they are not worth anything. It has gotten big play in the media lately that some countries around the world are calling for an alternative to the dollar for oil trading, and for central bank reserves. That story has been around for a long time, but it seems to be attracting more attention just lately.

The real truth, however, is that the Dollar Index has just been moving sideways for the past 5 weeks. That fact would be evident to anyone who took a look, but there seems to be a lot less looking going on lately and a lot more “feeling” and “thinking” about the dollar’s problems. That probably means it is near a turning point, which is what the commercial traders of currency futures have been gearing up for over the past several weeks.



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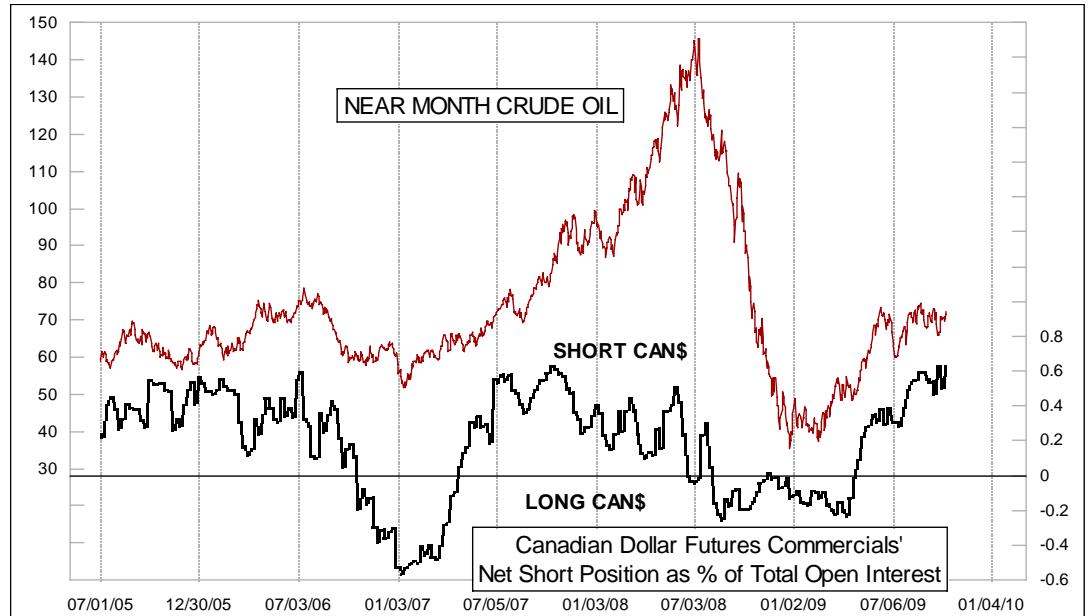
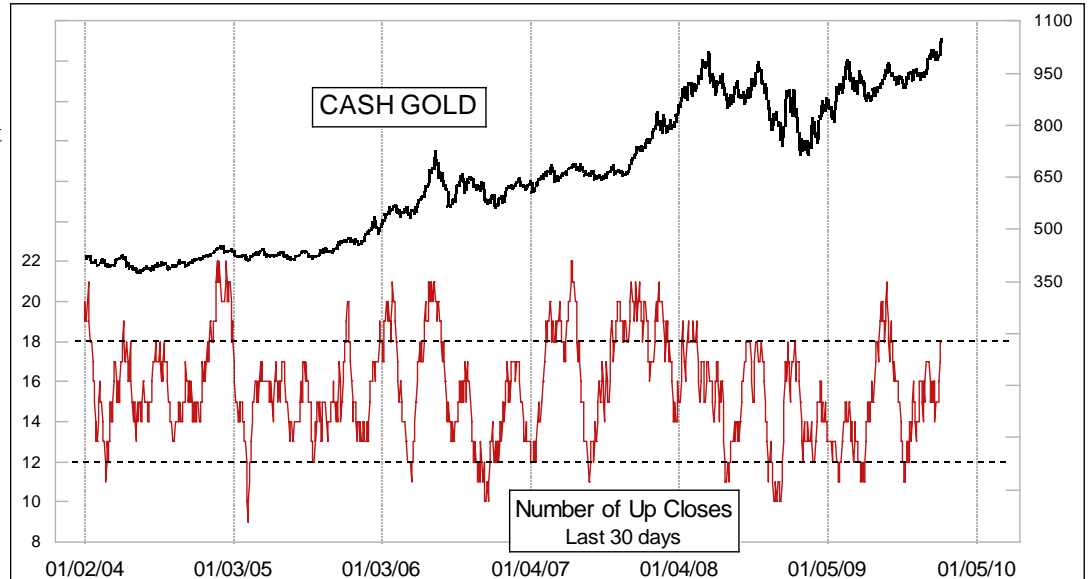
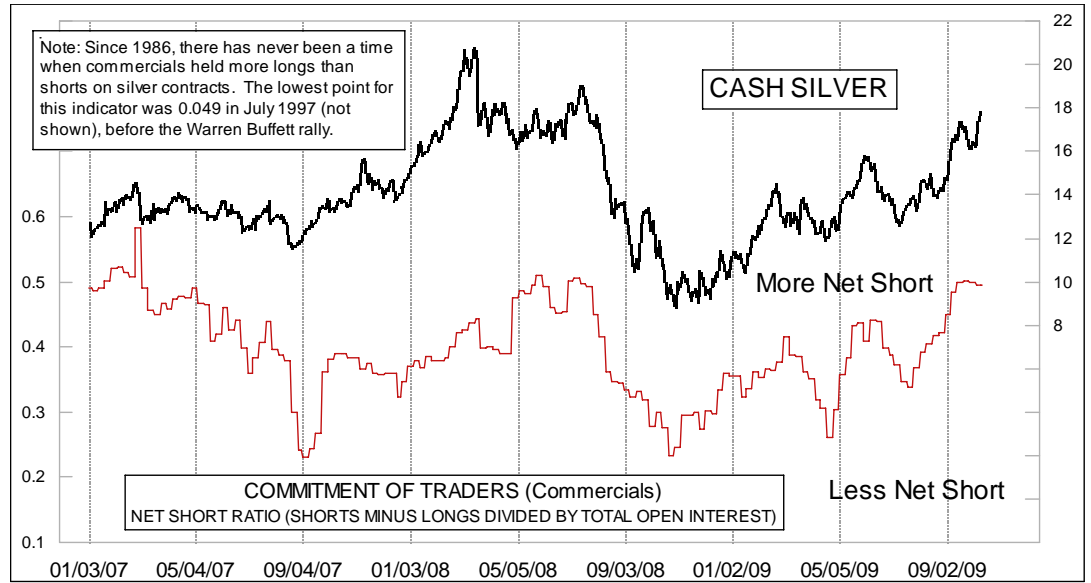
The bottom chart on page 2 shows our composite indicator, measuring the commercials' net position in all of the currency futures contracts included in the COT Report. They have been net long the dollar for a while now, just as they were long for quite a while during the last decline in the Dollar Index before it finally turned up. The potential energy is there to fuel a dollar rally, if only it can get sparked by something.

There seemed to be a hint of a possibility of a potential spark for the dollar on Friday, with talk of the Fed thinking about how it might someday eventually start "removing policy accommodation", which is code for raising short term interest rates. That was good enough to push the Dollar Index up half a percentage point, and take **gold** prices down a bit. The uptrend in gold lives on at the moment, but there is a lot of reason for concern. Commercials are net short in a big way in both silver and gold futures contracts. The commercial silver traders' net position is shown in the top chart on page 3. They remain just as net short as they were at the peaks in 2008. Even though silver prices are still running higher in spite of the commercials' bearish bets, eventually the commercials are going to be proven right as they nearly always are.

One other reason for worry about the precious metals is the extended nature of the up move in gold prices. It does not seem that far extended, but the middle chart shows that spot gold has seen a majority of up closes recently. When this indicator gets up to 18 or higher, it shows an overbought condition. Gold might continue building an even bigger overbought condition, so we should not all panic now just because of this one overbought message. We should also remember that as the first big push to \$1000 was beginning in late 2007, this indicator stayed overbought and gold ignored it for a long time.

That 2007 episode was unique, though, because the Fed was cutting rates and printing money (not quickly enough to save Lehman Brothers, it turned out), which helped push gold prices upward.

The bottom chart shows that the price of oil might be in for a bit of a drop soon. Oil prices are strongly correlated to the value of the Canadian dollar, and so even though the COT data for oil futures are not working well



right now, we can borrow an indication from the Canadian dollar much like borrowing from the Japanese yen futures for T-Bonds.

As with any indicator, this relationship is not perfect. The commercials were abandoning their big net short position in the middle of 2008 even though oil prices still continued to climb. That was partly because the Canadian dollar did not follow oil upward for the last part of its blowoff. Now the two are back in sync again, and the current big net short position in Canadian dollar futures tells me that oil is likely to stumble a bit over the next few weeks.

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