

THE McCLELLAN MARKET REPORT

DAILY EDITION

Prepared after the close of trading,
Friday, April 23, 2010

CURRENT OPINIONS

STOCKS: Bearish short and intermediate term. Stocks should sell off next week. A single bottom signal is due April 27, but it is an important looking one. More top signals are due May 3-4, but I do not think it has to be a higher top. We still need to see a scary selloff to change sentiment before prices can go up again. **Still bullish long term.**

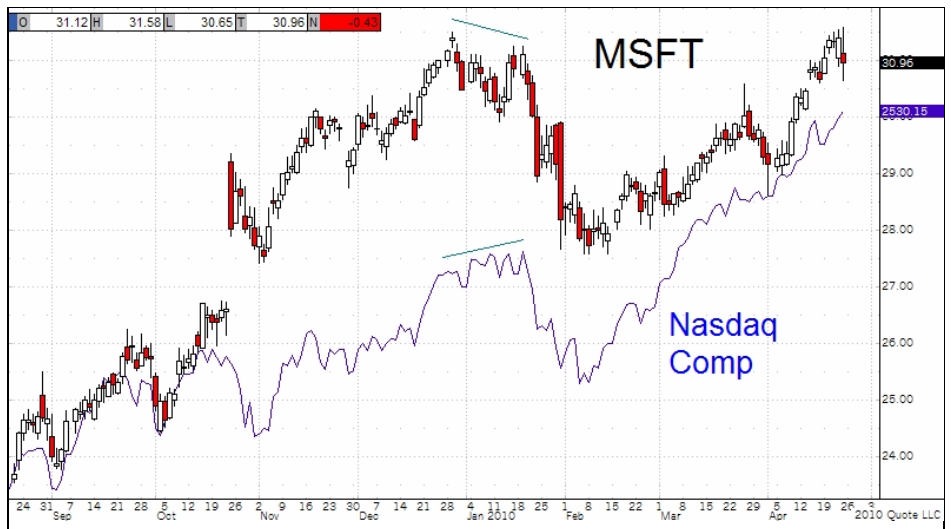
T-BONDS: Bullish short and intermediate term. Bonds have had their rest, and the uptrend is still intact despite 2 days' pullback.

GDM & GOLD: Bullish short and intermediate term. Change to short term neutral if June gold closes below \$1132.00/oz..

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

The expectation from my Timing Model signals was for a top at the end of this week, and the market appears to have complied. Next up is a bottom due on Tuesday, and I expect that we will see a down market early next week to accommodate. I was not able to get the instructions conveyed to up the short position held in the Stock Optimizer program due to events at the conference I am attending, but we plan to do that at Rydex's morning fix on Monday.

One interesting development that seems contrary to the overall up day on Friday was a reversal in the share price of Microsoft. It came out with earnings numbers on Friday, showing a 35% profit growth mostly from sales of Windows 7. But after making a higher intraday high at the open, MSFT moved downward against the rising tide of the market, making an outside day reversal bar in the process. By that, I mean that both the high and the low on Friday were outside the range made on Thursday, and the direction of the closing price change was downward



Segment	Rank	Score	Current Managed Account Program Positions
Sm Cap Value	1	10.44%	Stock Optimizer: 37% 1x Inverse SP500, 63% Cash Equity Allocation: 100% Cash RS 2000: 47% 2x Inverse SP500, 6% 2x Russ2000, 47% Cash Program funds managed by Global Investment Solutions, LLC For more information, call (866) 547-3123
Sm Cap Grwth	2	7.85%	
Lg Cap Value	3	5.44%	
Lg Cap Grwth	4	4.12%	
Cash	5	0.00%	

ADV-DECL	ADV	DECL	A-D	10%T	5%T	A-D OSC	SUMM INDEX	OSC UNCH'd	OSC TO ZERO		
NYSE	04/23/10	2185	886	1299	492.623	430.803	61.820	4751.652	554	-682	
NASDAQ	04/23/10	1717	1004	713	299.480	236.781	62.699	2803.524	362	-892	
NDQ 100	04/23/10	70	30	40	15.858	13.549	2.309	114.702	18	-28	
VOLUME	UP VOL	DN VOL	UV-DV	10%T	5%T	Volume OSC	SUMM INDEX	OSC UNCH'd	OSC TO ZERO		
NYSE	04/23/10	794037	399558	394479	108206	108216	-10	1082255	108195	108404	
NASDAQ	04/23/10	1586651	761650	825001	427835	371186	56650	3202007	484485	-648512	
NDQ 100	04/23/10	511691	360546	151145	107165	101798	5368	969670	112533	5180	
PRICES	HIGH	LOW	CLOSE	10%T	5%T	PRICE OSC	OSC Direction	OSC UNCH'd	Sum/10 Level	1%T	
DJIA	11205.64	11105.65	11204.28	11015.25	10856.59	158.653	UP	11173.90	10713.80	10161.85	
NYComp	7701.61	7603.85	7701.61	7591.71	7478.56	113.156	UP	7704.87	7376.72	7019.21	
SP500	1217.28	1205.10	1217.28	1193.56	1173.40	20.161	UP	1213.72	1155.26	1091.80	
SP400	850.07	839.12	849.82	818.58	798.60	19.986	UP	838.57	780.61	717.07	
NASDAQ	2530.15	2507.60	2530.15	2465.84	2412.04	53.806	UP	2519.65	2363.61	2189.59	
NDX	2055.63	2036.99	2055.33	2002.80	1960.39	42.405	UP	2045.20	1922.23	1778.72	
Russ2000	741.92	731.72	741.92	710.24	690.28	19.958	UP	730.19	672.31	619.57	
GDM	1332.07	1288.56	1328.19	1293.05	1275.85	17.204	UP	1310.26	1260.37	1222.64	
TYX	4.681	4.645	4.668	4.689	4.676	0.013	DOWN	4.702	4.664	4.466	
Jun Bonds	117.469	116.688	116.875	116.474	116.406	0.068	UP	116.542	116.345	117.227	
DJI Osc Rising Index:		57%	Neutral, Trend Dn			DJI Osc Pos & Rising:		53%	Neutral, Rising		
NDX stocks >100MA:		93	Arms Index: 1.24		VIX: 16.62		Uppr Band: 20.03		Lwr Band: 16.18		

which is contrary to the existing uptrend. I am showing MSFT in the chart on page 1 on a candlestick chart, and even though Friday was not particularly a candlestick sell signal (aside from the doji on Wednesday signaling indecision ahead of Friday's reversal bar) these charts can often allow us to see behaviors that the conventional OHLC bar charts don't reveal.

Having MSFT give a sell signal like this on a day that saw a higher close for the Nasdaq Comp presents us with an interesting quandary. MSFT is obviously a big part of the weighting of the COMPQ as well as the Nasdaq 100 (NDX), so its movements matter in that respect. But MSFT can also be giving a hint about where the overall market is going to go. Notice in the middle of the chart that MSFT made a divergent lower top in January, foreshadowing the weakness that was to come for the Nasdaq and the rest of the market during that month's big correction.

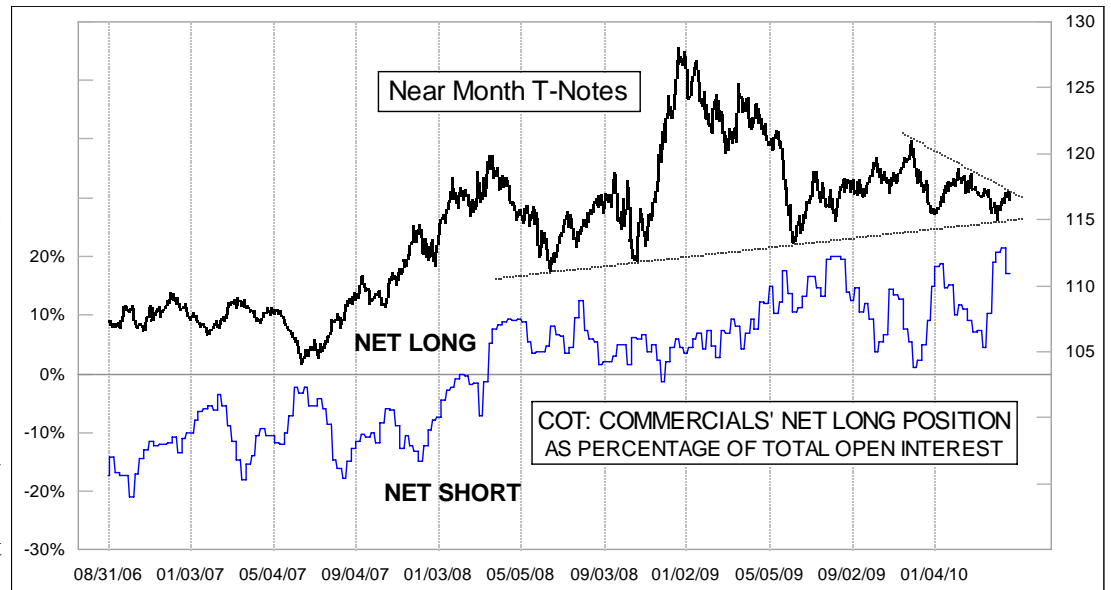
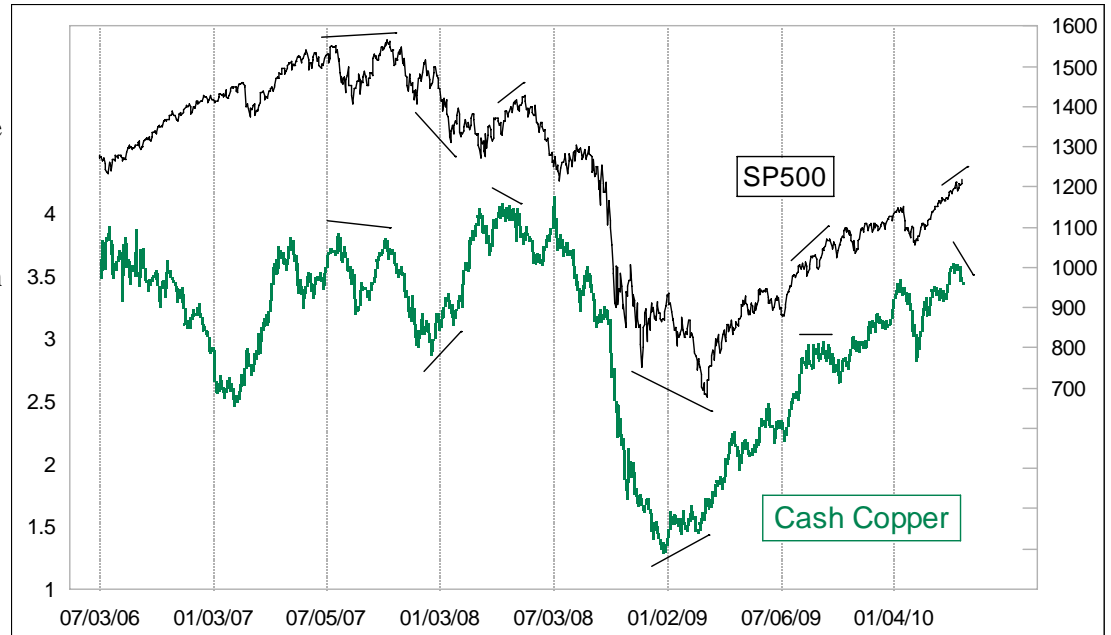
Also signaling trouble for the overall stock market is the troubling action this past week in copper prices. Copper has become much more of a big speculative play, as China is perceived as a major player and as rumors circulate concerning China trying to lock up future supplies to support its construction needs and economic expansion. Copper is also going to be used a lot more in automobiles, as electronic propulsion systems (i.e. batteries and electric motors) become more common.

Copper prices did not used to be nearly so well correlated to the US stock market, but since late 2007 we have seen them move largely together. The interesting point of that observation comes not from looking at their similarity, but rather from noticing the times when they disagree. Two items doing something similar is not newsworthy, but two similar behaving items suddenly behaving differently is a piece of important information. Copper did not confirm the up move into the end of this week, and instead copper prices appear to have topped and turned downward. I believe that copper is foreshadowing a decline that lies ahead for stock prices.

T-Bonds had a negative reaction to a report showing home sales rose 27% in March, on the eve of the expiration of the new home buyer tax credit.

Durable goods numbers also came out Friday, showing a drop instead of the consensus expectation for a slight rise, but the ex-transportation part of that number was up more than expected, leading bond traders to have more worries about a rebounding economy.

The COT data released on Friday showed a slight downtick in the commercials' big net long positions in both T-Bond and T-Note futures. The 10-year T-Note situation in the COT data is shown in the lower chart. In last week's COT Report, the commercials were at their largest net long position in 5 years, and

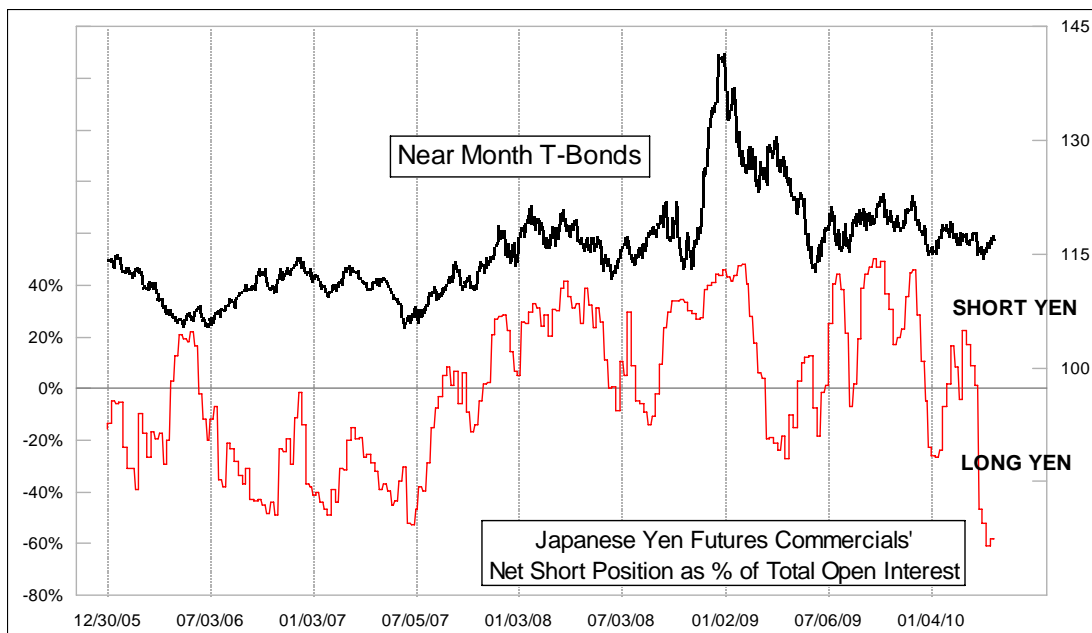


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so this backing away from that big net long position is not a sign that the uptrend is over. The commercials typically lighten up on their longs throughout an uptrend, and they have a really long way to go before they are at a point suggesting that the up move in bond prices is over. T-Notes are also pausing here out of respect for the declining tops line, which I expect to offer only minimal and temporary resistance.

This message of more upside to come for T-Bonds is confirmed by the COT situation in the Japanese yen, shown in the top chart on page 3. Because the yen is very closely correlated to T-Bond prices, we can use the commercials' net positions in the

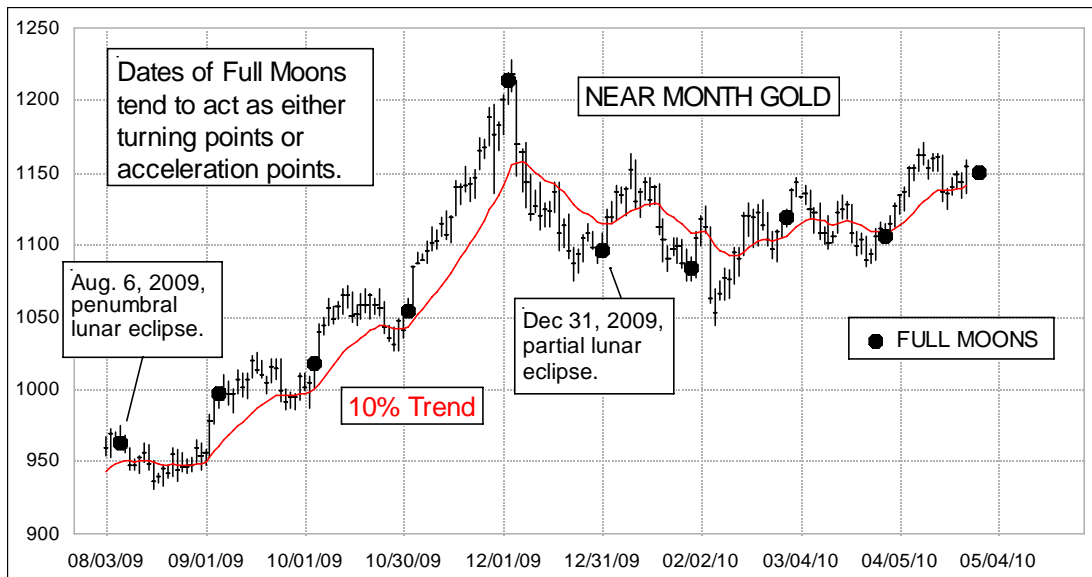


yen as a surrogate sentiment indication for bond prices. Last week, the commercial traders of Japanese yen futures were at a multi-year maximum for a net long position, and this week they only backed off a small amount from that extreme.

Gold had a really nice up day on Friday, reacting positively to the outside day reversal bar in the XAU that I talked about on Thursday. Gold also had a chance to catch up in its reaction to a higher than expected PPI on Thursday. There was also a dollar decline to help gold, and as you might have guessed it was the on-again off-again saga of Greece either getting help or melting down. Friday it was a story of getting help from Germany. Sometimes I think that the FOREX brokers are just making up some of these stories to keep the trading alive in those markets, because their flow into the news stream seems so well managed to send currencies moving back and forth.

Coming up next week is a full moon on Wednesday, April 28. I have noted in the past that full moons often tend to mark turning points or acceleration points for gold prices, and I have also noted equally as many times my own discomfort in using this relationship. Something that is 243,000 miles away ought not to have much influence on the price of gold, but if it can

move the tides up and down by several feet then it can perhaps have some effect on our brains. There is some worry also that next week's full moon may have more tidal effects on the tectonic plates that are bumping and grinding underneath Iceland, setting up for more ash-spewing. From a more technical standpoint, I do have tops in gold due April 26, so a top that might arrive with the full moon a couple of days later would not be too far out of whack. For now gold looks like it is in an uptrend, with higher lows and higher highs, and with no loss of momentum nor an overbought condition to get in the way of that uptrend. So I'll continue to bet on that uptrend for now.



On page 4, I show again a couple of energy sector charts that I have not updated for a while, so it is appropriate to examine them to see what they are saying now. The fact that they disagree slightly with each other is noteworthy, and so we have to work to use our gray matter to see how prices might move in such a way as to allow both indications to turn out to be correct.

The top chart on page 4 shows the commercial traders' net position in the Canadian dollar futures contract. Because the Canadian dollar is very closely correlated to crude oil prices, it makes for another surrogate sentiment indicator much like the yen is for T-Bonds. The commercials right now are at a really big net short position in the Canadian dollar, meaning that they are expecting it to fall relative to the U.S. dollar, and that means the price of crude oil should fall in sympathy. Perhaps it is the Canadian dollar that moves in sympathy to whatever happens to crude, instead of the other way around. Which one is dominant is less important than the fact that they tend to move together.

It helps the argument for a down move in crude oil prices that commercial traders are also net short crude oil futures in a pretty big way (not shown here). I don't trust that indication as much, since the commercials' indications got all wacky during the crude oil price bubble in 2008. Things seem to be settling down in the oil market, so that indication will probably start working better as time marches on.

The final chart shows the leading indication for gasoline (RBOB) futures that is given by the total open interest data for those futures contracts. The open interest plot is shifted forward by 8 weeks to reveal that leading indication.

Gasoline prices typically reach their peak for the year sometime between April and June, as the dates in this chart highlight. The hurricanes of 2005 which hit the gulf coast made for a rare exception to that seasonal tendency. We are in that time window for a price top, and the upswing in total open interest that occurred starting on the week of the March 9 COT Report should be manifested very soon by gasoline prices.

The red lines added to this chart are a crude attempt to illustrate how the price pattern in RBOB futures leading up to the June 2008 top seems to be repeating itself on the way up

out of the December 2008 bottom. I drew the left-hand line freehand over the price data heading up to the top. It is offset just below that uptrend in this chart so that you can see its pattern. I then cloned that polyline, and rotated it 180° to create its dop-pelganger on the right side. The implication is that the coming up move in gasoline prices that the open interest data are calling for should be the inverse equivalent of the price move out of the January 2007 bottom toward the April 30, 2007 top. What happens after that is more unknown, since I would not expect such symmetry to persist for too long

With the political heat ramping up against Iran, and with many calls for a blockade or other stronger sanctions against that country over its nuclear ambitions, I would not be surprised to have that be the news story which causes gasoline prices to spike, even if only on a speculative basis.

