

THE McCLELLAN MARKET REPORT

DAILY EDITION

Prepared after the close of trading,
Friday, May 14, 2010

CURRENT OPINIONS

STOCKS: Neutral short and intermediate term, thinking the worst is over. **Still bullish long term**. Being done doing down is not the same thing as the start of an up move. Prices will likely muck around here a bit. I'll start looking for conditions for a buy signal next week.

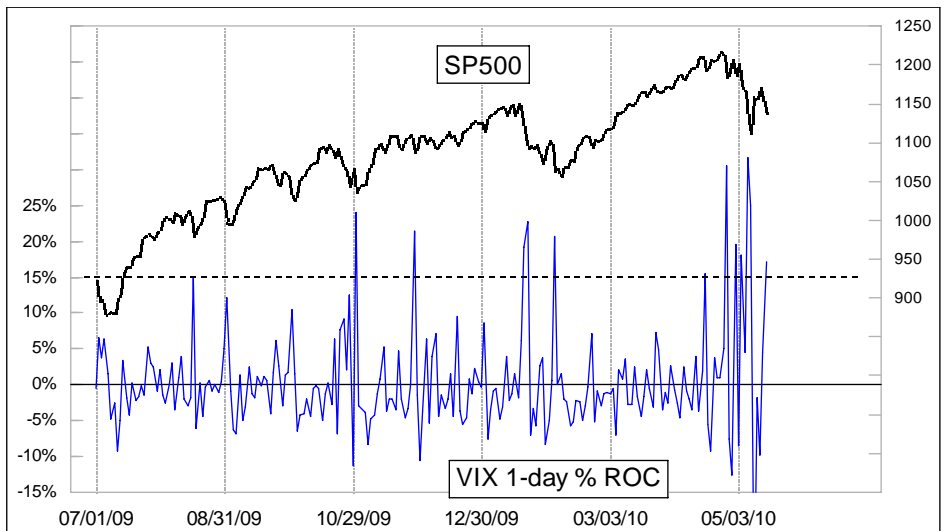
T-BONDS: Bearish short and intermediate term. Bonds popped with the stock decline, but I think that's done.

GDM & GOLD: Bearish short and intermediate term. This is a blowoff, and most of the recent gains should be given back at just as rapid of a rate on the down move.

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

We have a new addition to the *Daily Edition* starting today. You can see the new Rising Star Stock program on the last page of this issue, and read more about it in this week's Chart In Focus. We also have some additional information about it on our web site. The idea is to offer our readers an interesting new piece of information, with timing signals for a pool of individual stocks. In addition to the buy and sell signals on the individual stocks, this page also includes a really cool new indicator. I hope that you enjoy it.

Friday saw a pretty scary decline. It could have been worse, and perhaps should have; perhaps it will get worse next week, but at this point it is inappropriate to bet on a further decline. It is important to remember that a bottom is sometimes what prices go down into, and sometimes what they go up out of. A bottom does not have to serve both functions at the same time. The most likely scenario is for prices to chop around down here, making sure that the bottom is fully in, before we see prices start upward.

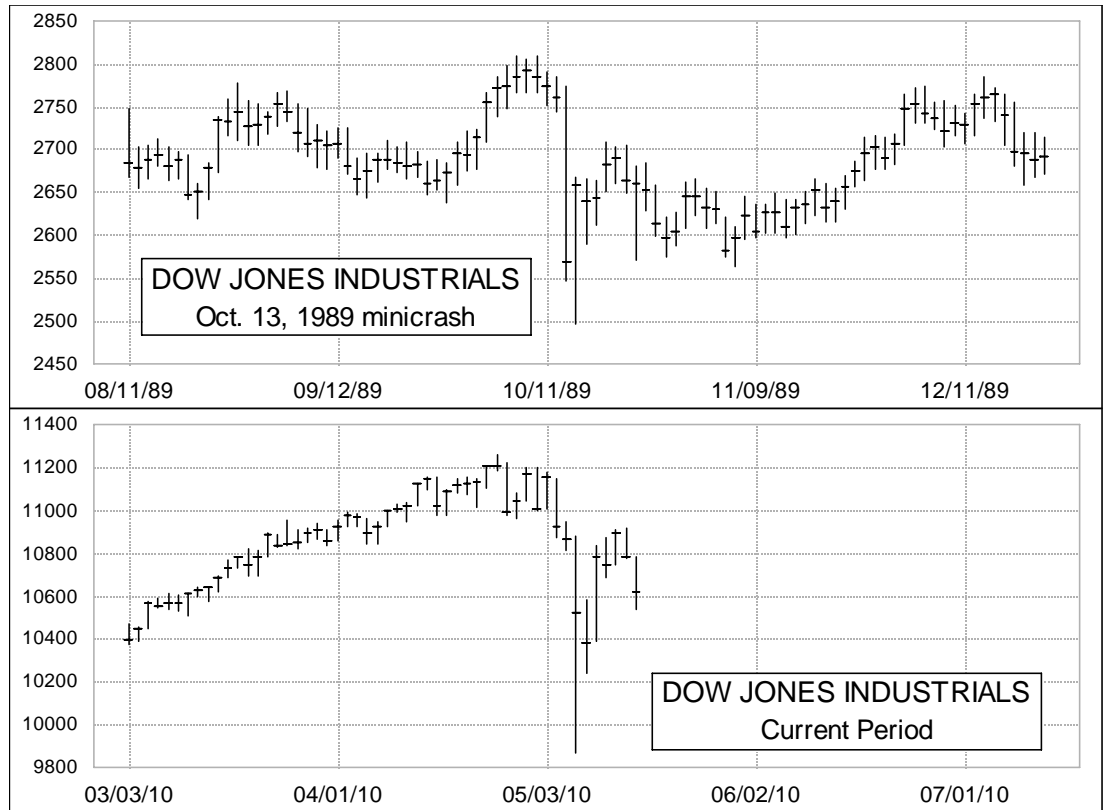


| Segment | Rank | Score | Current Managed Account Program Positions | | |
|--------------|------|--------|---|--|--|
| Sm Cap Value | 2 | -0.88% | Stock Optimizer: 50% 1x Inverse SP500, 50% Cash | | |
| Sm Cap Grwth | 3 | -1.20% | RS 2000: 33% 2x Inverse SP500, 30% 2x Russ2000, 37% Cash | | |
| Lg Cap Value | 5 | -3.70% | Program funds managed by Global Investment Solutions, LLC | | |
| Lg Cap Grwth | 4 | -3.55% | For more information, call (866) 547-3123 | | |
| Cash | 1 | 0.00% | | | |

| ADV-DECL | ADV | DECL | A-D | 10%T | 5%T | A-D OSC | SUMM INDEX | OSC UNCH'd | OSC TO ZERO | |
|-----------------------|----------|--------------------|----------|----------|-----------------------|------------|-------------------|------------|--------------|----------|
| NYSE | 05/14/10 | 391 | 2749 | -2358 | -222.349 | -19.019 | -203.329 | 2639.771 | -426 | 3641 |
| NASDAQ | 05/14/10 | 421 | 2312 | -1891 | -227.539 | -89.391 | -138.148 | 1349.416 | -366 | 2397 |
| NDQ 100 | 05/14/10 | 6 | 94 | -88 | -16.350 | -6.281 | -10.070 | 27.820 | -26 | 175 |
| VOLUME | UP VOL | DN VOL | UV-DV | 10%T | 5%T | Volume OSC | SUMM INDEX | OSC UNCH'd | OSC TO ZERO | |
| NYSE | 05/14/10 | 67183 | 1454894 | -1387711 | -346089 | -194269 | -151819 | -576317 | -497908 | 2538480 |
| NASDAQ | 05/14/10 | 276439 | 2297871 | -2021432 | -533872 | -248411 | -285461 | 85045 | -819334 | 4889896 |
| NDQ 100 | 05/14/10 | 62551 | 953128 | -890578 | -259720 | -137635 | -122084 | -277598 | -381804 | 2059878 |
| PRICES | HIGH | LOW | CLOSE | 10%T | 5%T | PRICE OSC | OSC Direction | OSC UNCH'd | Sum/10 Level | 1%T |
| DJIA | 10780.75 | 10537.25 | 10620.16 | 10850.48 | 10847.25 | 3.235 | DOWN | 10853.72 | 10844.34 | 10260.44 |
| NYComp | 7234.15 | 7017.56 | 7077.64 | 7329.38 | 7378.38 | -48.997 | DOWN | 7280.38 | 7422.47 | 7061.09 |
| SP500 | 1157.19 | 1126.14 | 1135.68 | 1167.86 | 1168.98 | -1.121 | DOWN | 1166.74 | 1169.99 | 1102.55 |
| SP400 | 808.62 | 783.87 | 789.31 | 807.25 | 803.17 | 4.079 | DOWN | 811.32 | 799.50 | 730.02 |
| NASDAQ | 2374.53 | 2323.63 | 2346.85 | 2411.37 | 2409.32 | 2.054 | DOWN | 2413.43 | 2407.47 | 2221.21 |
| NDX | 1929.91 | 1885.51 | 1907.10 | 1962.52 | 1960.01 | 2.514 | DOWN | 1965.03 | 1957.74 | 1804.97 |
| Russ2000 | 709.32 | 686.50 | 693.98 | 703.88 | 697.91 | 5.972 | DOWN | 709.85 | 692.53 | 631.76 |
| GDM | 1481.31 | 1417.94 | 1465.23 | 1386.59 | 1343.47 | 43.120 | UP | 1429.72 | 1304.67 | 1246.76 |
| TYX | 4.408 | 4.290 | 4.316 | 4.480 | 4.550 | -0.070 | DOWN | 4.409 | 4.613 | 4.465 |
| Jun Bonds | 122.563 | 120.750 | 122.031 | 119.665 | 118.460 | 1.204 | UP | 120.869 | 117.377 | 117.616 |
| DJI Osc Rising Index: | 7% | Oversold, Trend Dn | | | DJI Osc Pos & Rising: | 3% | Oversold, Falling | | | |
| NDX stocks >100MA: | 41 | Arms Index: | 3.08 | VIX: | 31.24 | Uppr Band: | 24.80 | Lwr Band: | 14.48 | |

One sign that the damage is done, at least for the moment, is the fact that the VIX rose so rapidly on Friday. It moved from 26.68 on Thursday to 31.24 on Friday, an up move of +17.1%. As we see in the chart on page 1, big up spikes of greater than 15% in one day tend to be terminal events, at least in the short term. Whether we start upward again is a different question, and I do not think the market will give us a definitive answer until sometime next week. For now, I'm happy to take profit on a short trade within an uptrend, and I won't try to be greedy and squeeze more out of that trade.

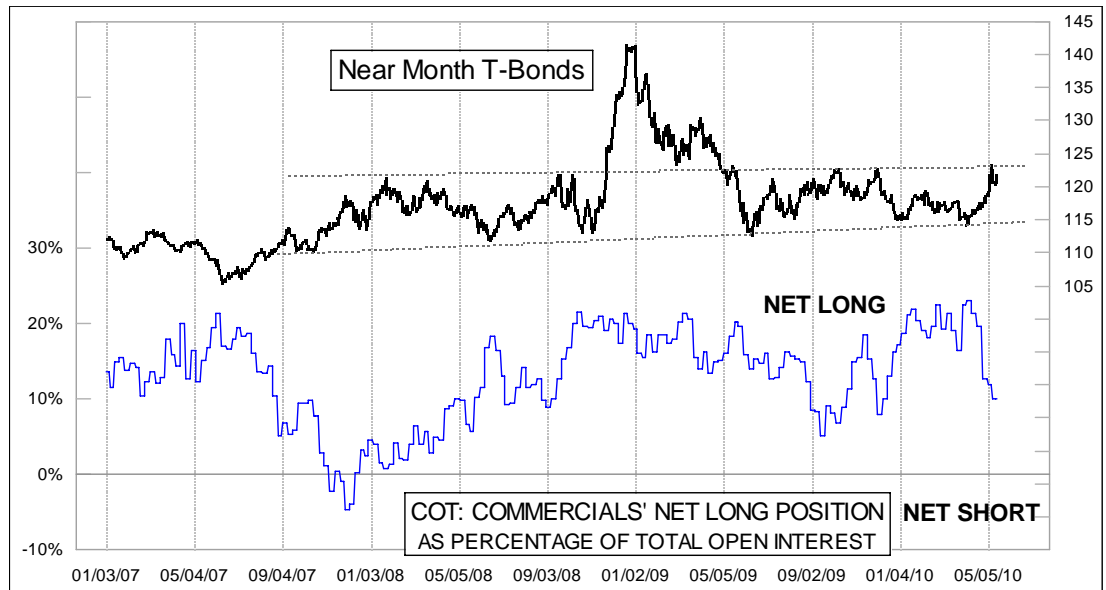
The two charts paired at the top of page 2 show that the current market is following the script pretty well from the 1989 minicrash. The similarity to the 1997 minicrash that I have shown previously also appears to be working pretty well. The exact path of prices from here on should not be expected to repeat exactly what prices did in the earlier episodes, but the key idea is that the market should make an attempt to retest the May 6-7 minicrash lows. It does not have to get all the way there, although it should threaten to, and the market should do its best to make everyone believe that the sky is indeed falling. A few days of choppy behavior that does not really go anywhere seems to be part of the normal recipe following one of these short term illiquidity events.



T-Bonds bounced upward Friday thanks to the stock market selloff, and after hanging around at the Price Oscillator Unchanged level for the past few days. I was at least a day early in moving to a bearish stance, but I still believe it is the right position here.

The chart below shows that commercial T-Bond futures traders continued their abandonment of their formerly big net long position. They are almost back down to the same level this indicator saw at the last big top in November 2009.

A few years ago, the COT data for T-Bonds was much more well behaved. The commercials would go up to a nice big net long position and price bottoms, and they would go to a similar degree of a net short position at price tops. Now, it is not as easy as that to interpret this data. The world and the financial markets have gotten more complicated. Now, the key



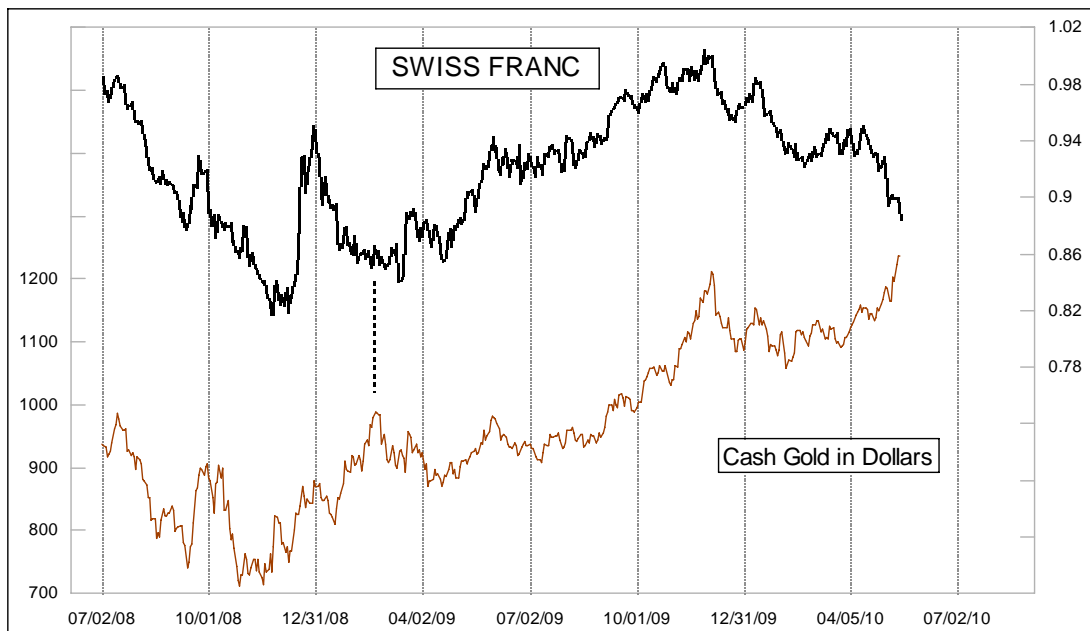
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is to examine the current net position of the commercial traders on a relative basis, compared to where this indicator has been recently. It does no good to point out that they are still net long when they have been continuously net long since December 2007, and given that there have been plenty of big declines over that time period.

Given that bond prices have once again bonked against an overhead resistance line that has held back everything except the Fed-induced bubble, and given that the commercials are rapidly paring their longs (even though they still are net long), the weight of the evidence favors a decent price decline for T-Bonds.

The **gold** market definitely has some interesting things going on lately. Of course, any time that something makes a new all time high, that is by definition interesting. But things are not working in the normal way, thanks to the excitement over Europe's debt problems. And if you think that the response by gold was big for Europe's debt problems, just wait for the day when the monetary spin-the-bottle game of sovereign debt worries comes around to the US. But that is a topic for another time.

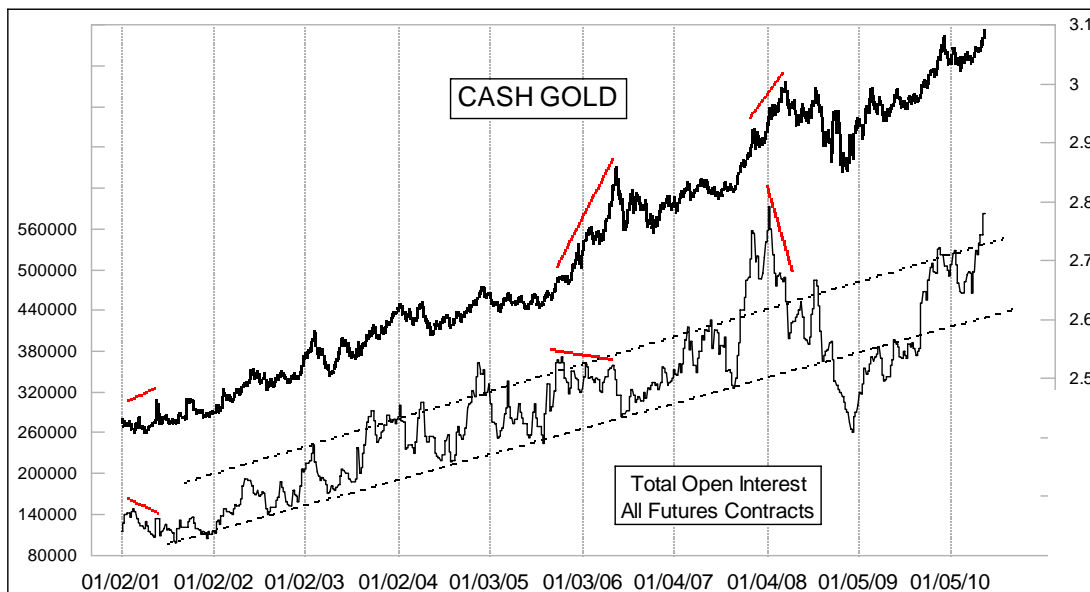
The top chart on page 3 shows a comparison between gold prices measured in US dollars and the dollar exchange rate with the Swiss franc. Usually these two are very tightly correlated, but right now they could not be more inversely correlated.



There is precedent for this sort of behavior. Back in January and February 2009, gold prices moved up rapidly while the Swiss Franc moved downward, as highlighted by the dashed vertical line. It is important to observe that following that up move in gold prices, the two eventually got back in step with each other after gold prices gave back most of the gains made during the period of inverse correlation.

The lower chart on page 3 shows the total open interest in all gold futures contracts. It is closing in on making a new all time high, and has already exceeded the high it made last December when gold prices made their prior all time high.

The interesting point about open interest in gold is that it has been in a long term uptrend since 2001 along with gold prices. I have drawn upper and lower channel lines, and we can see that excursions outside those boundaries have been pretty reliably associated with important tops and bottoms. It has not been a perfect signal, but it is still a nice one to know about.



Also worth noting is the fact that we are not yet seeing a divergent condition between prices and open interest. The instances when there have been divergences have led to more significant declines in gold prices. So even though we are seeing open interest making this big rapid spike upward and outside of the upper boundary line, the response should not be expected to be a major decline in gold prices. Just an ordinary one is in order.

The final chart looks at copper prices. Once again, total open interest is the data I am interested in, and the lower indicator in this chart shows the 5-week rate of change of total open interest in copper futures. There has been a big drop recently, as traders have fled the copper market during the recent selloff. Part of that selloff in copper prices stems from the fact that the dollar has been rallying, and so when a dollar is suddenly worth more then it takes fewer dollars to buy the same amount of copper.

What we see in this chart is that when the 5-week change falls below around -15,000, it usually coincides with an impor-

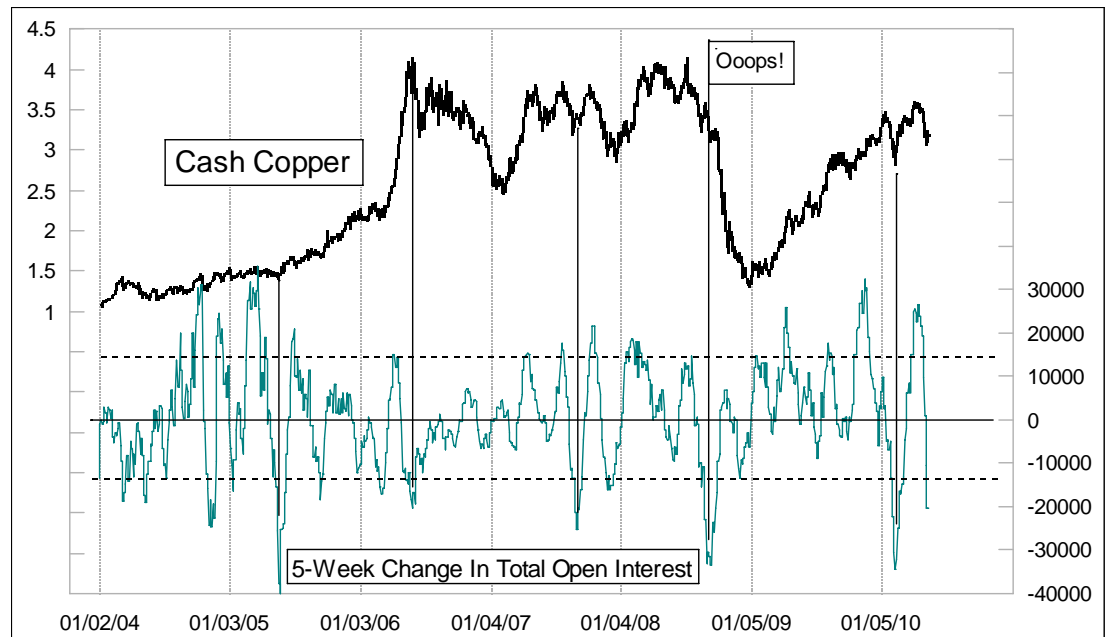
tant bottom for copper prices. There are some important exceptions, most notably the big “Oops!” labeled in the chart. That was during the late summer of 2008, when a lot of indications did not work as well while the financial markets were melting down.

Aside from conditions like that, a big negative dip in the rate of change of open interest like this one usually marks a good looking bottom for copper prices. Occasionally it can also mark an important top, as was the case in 2006. But I don’t think that this particular instances is trying to tell us that copper prices are topping right now.

If this signal is right, and copper prices do start rising again, then that would be a sign of an improving economy, a weakening dollar, or both.

Final Note: As part of the introduction of the new Rising Star Stock Program on the following page, we are going to do something special. Next week, anyone can sign up for a free one-week trial of our *Daily Edition*, so we hope that you will tell your friends and colleagues about this.

They just need to go to <http://mcoscillator.com/trial/> to sign up. No strings attached, and we won’t share the information with anyone else.





Stocks Currently on a "Buy"

| Company Name | Symbol | Buy Date | Buy Price | Current Price | % Change |
|-------------------------|--------|-----------|-----------|---------------|----------|
| Resmed Inc. | RMD | 1/25/2010 | \$53.03 | \$68.31 | 28.81% |
| Medifast Inc. | MED | 2/24/2010 | \$20.97 | \$35.76 | 70.53% |
| Encore Capital Group | ECPG | 4/16/2010 | \$17.24 | \$20.94 | 21.46% |
| Valassis Communications | VCI | 4/20/2010 | \$29.48 | \$34.18 | 15.94% |
| F5 Networks Inc. | FFIV | 5/12/2010 | \$72.73 | \$69.98 | -3.78% |
| Express Scripts Inc. | ESRX | 5/12/2010 | \$104.13 | \$101.69 | -2.34% |
| Ctrip.com International | CTRP | 5/13/2010 | \$40.57 | \$37.99 | -6.36% |
| Goodrich Corp. | GR | 5/13/2010 | \$76.42 | \$74.23 | -2.87% |

Recent Sales

| Company Name | Symbol | Buy Date | Sell Date | Buy Price | Sale Price | % Change |
|--------------------------------|--------|-----------|-----------|-----------|------------|----------|
| Carbo Ceramics Inc. | CRR | 4/12/2010 | 5/7/2010 | \$68.20 | \$63.03 | -7.58% |
| Cooper Industries Inc. | CBE | 2/18/2010 | 5/6/2010 | \$45.59 | \$46.50 | 2.00% |
| Tupperware Brands Corp | TUP | 2/18/2010 | 5/6/2010 | \$45.74 | \$46.11 | 0.81% |
| Coach Inc. | COH | 2/25/2010 | 5/6/2010 | \$36.69 | \$39.12 | 6.62% |
| Nordstroms Inc. | JWN | 2/25/2010 | 5/6/2010 | \$36.88 | \$40.56 | 9.98% |
| Rockwell Collins Inc. | COL | 2/26/2010 | 5/6/2010 | \$56.28 | \$61.64 | 9.52% |
| FMC Technologies | FTI | 3/1/2010 | 5/6/2010 | \$56.89 | \$61.69 | 8.44% |
| F5 Networks Inc. | FFIV | 3/1/2010 | 5/6/2010 | \$58.25 | \$65.74 | 12.86% |
| Alexandria Real Estate | ARE | 3/2/2010 | 5/6/2010 | \$62.40 | \$66.97 | 7.32% |
| Catalyst Health Solutions Inc. | CHSI | 3/3/2010 | 5/6/2010 | \$38.42 | \$39.11 | 1.80% |
| Apple Inc. | AAPL | 3/4/2010 | 5/6/2010 | \$210.71 | \$246.25 | 16.87% |
| Polo Ralph Lauren Corp. | RL | 3/11/2010 | 5/6/2010 | \$82.67 | \$85.28 | 3.16% |
| Flir Systems Inc. | FLIR | 3/22/2010 | 5/6/2010 | \$27.45 | \$29.06 | 5.87% |
| Intuitive Surgical | ISRG | 4/13/2010 | 5/6/2010 | \$367.43 | \$337.29 | -8.20% |
| Zimmer Holdings | ZMH | 4/14/2010 | 5/6/2010 | \$61.03 | \$59.74 | -2.11% |
| Corrections Corp of Amer | CXW | 4/19/2010 | 5/6/2010 | \$21.24 | \$20.24 | -4.71% |
| Express Scripts Inc. | ESRX | 4/20/2010 | 5/6/2010 | \$104.91 | \$99.60 | -5.06% |
| Goodrich Corp. | GR | 4/22/2010 | 5/6/2010 | \$76.51 | \$71.36 | -6.73% |
| Factset Research Systems | FDS | 4/23/2010 | 5/6/2010 | \$76.61 | \$72.16 | -5.81% |

Buy and Sell signals are generated by technical indicators often referred to as "directional" indicators. In backtesting, best results were obtained when new positions were taken upon "New Buy" signals, and when stocks that generate a "Sell" were promptly removed from a portfolio. Since many of the stocks in this program carry above average risk, stocks should be bought only by investors financially able to purchase speculative stocks. Investors should be prepared to lose their entire investment and prudence should be displayed when entering a position. Trading based on these signals is available in a managed accounts program through Global Investment Solutions, LLC. For more information on this program, contact Roger Kliminski at 949-660-7960 or Roger@Globalinvestsolutions.com.

