

# THE McCLELLAN MARKET REPORT

## DAILY EDITION

Prepared after the close of trading,  
Monday, June 07, 2010

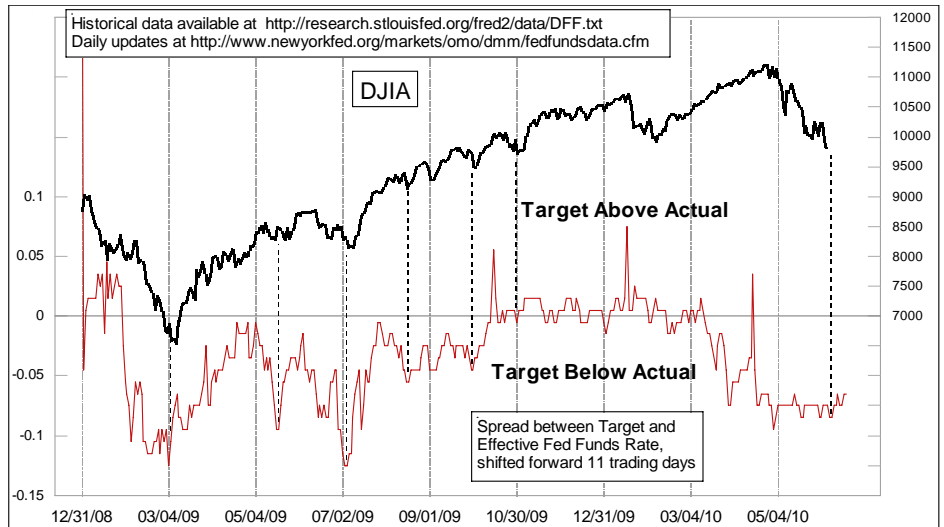
### CURRENT OPINIONS

**STOCKS: Bullish short, intermediate, and long term.** The oversold condition in the market still matters, and is going to lift the market just because so few people think that a rebound is possible.  
**T-BONDS: Bearish short and intermediate term.** As soon as the stock market starts its rebound, T-Bonds will commence their retreat.  
**GDM & GOLD: Bullish short and intermediate term.** Change to short and intermediate term bearish if the August gold futures contract closes below \$1210.50/oz (10% Trend).

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

It looked for much of Monday like the market was going to catch itself after Friday's big scary selloff. There were even comments from Hungary's government saying that the worries which circulated on Friday about Hungary's economy were overblown. But traders took counsel of their fears once again, and pushed markets down further to what is now a clearly lower low on many of the major indices.

In the latest issue of our twice monthly newsletter, we posed the headline question, "Why Now?", referring to why the market has been experiencing weakness since the April 23/26 high. One point we did not get to in that coverage has to do with what the Fed has been doing with the overnight auction of excess banking reserves, known as "Fed Funds". We all know that the FOMC sets the target rate for Fed Funds at its meetings 8 times per year, but the actual or "effective" rate comes about through the tug-of-war between the forces of supply and demand among member banks. The NY Fed is supposed to act



Segment	Rank	Score	Current Managed Account Program Positions		
Sm Cap Value	5	-8.28%	Stock Optimizer: 100% Rydex Nova		
Sm Cap Grwth	3	-6.44%	RS 2000: 15% 2x Inverse SP500, 47% 2xRuss2000, 38% Cash		
Lg Cap Value	4	-6.91%	Rising Star: 20% Invested, 80% Cash		
Lg Cap Grwth	2	-5.87%	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	06/07/10	832	2267	-1435	-395.326	-247.560	-147.767	-145.697	-543	2412
NASDAQ	06/07/10	468	2247	-1779	-479.015	-324.750	-154.265	-859.112	-633	2452
NDQ 100	06/07/10	4	96	-92	-21.507	-14.237	-7.270	-76.942	-29	117
VOLUME	UP VOL	DN VOL	UV-DV	10%T	5%T	Volume OSC	SUMM INDEX	OSC UNCH'd	OSC TO ZERO	
NYSE	06/07/10	218145	1195465	-977320	-325020	-248795	-76225	-1801931	-401244	1123247
NASDAQ	06/07/10	138054	2035032	-1896978	-513987	-381121	-132867	-2615409	-646854	2010477
NDQ 100	06/07/10	16840	828684	-811843	-224933	-175326	-49607	-1306795	-274541	717605
PRICES	HIGH	LOW	CLOSE	10%T	5%T	PRICE OSC	OSC Direction	OSC UNCH'd	Sum/10 Level	1%T
DJIA	9982.38	9810.30	9816.49	10264.88	10468.88	-203.995	DOWN	10060.89	10652.47	10247.37
NYComp	6643.50	6509.66	6512.42	6854.59	7040.46	-185.873	DOWN	6668.72	7207.75	7019.39
SP500	1071.36	1049.86	1050.47	1100.39	1124.23	-23.844	DOWN	1076.55	1145.69	1100.50
SP400	740.58	720.96	721.31	762.31	776.05	-13.742	DOWN	748.56	788.42	733.42
NASDAQ	2232.89	2172.25	2173.90	2277.08	2321.74	-44.659	DOWN	2232.42	2361.93	2225.18
NDX	1845.30	1795.54	1798.16	1867.26	1897.64	-30.383	DOWN	1836.88	1924.99	1810.58
Russ2000	639.22	617.99	618.49	660.96	673.37	-12.409	DOWN	648.55	684.54	634.89
GDM	1400.69	1335.09	1384.13	1369.85	1354.72	15.128	UP	1384.98	1341.11	1263.17
TYX	4.174	4.113	4.124	4.240	4.351	-0.111	DOWN	4.130	4.451	4.425
Sep Bonds	125.469	124.219	124.813	122.602	120.703	1.899	UP	124.501	118.994	117.860
DJI Osc Rising Index:	3%	Oversold, Trend Up			DJI Osc Pos & Rising:	0%	Oversold, Falling			
NDX stocks >100MA:	18	Arms Index:	2.01	VIX:	36.57	Uppr Band:	33.37	Lwr Band:	16.30	

as a market maker for those auctions, supplying additional liquidity when it is needed.

The latest adjustment in the Fed's target was to a nebulous "0 to 0.25%", which many analysts have interpreted to mean 1/8th of a percentage point or 0.125%. The chart on page 1 shows an indicator that measures the spread between this target rate and the effective rate, and it is shifted forward to show how its movements tend to get echoed a couple of weeks later in the stock market. Or at least it used to work that way, up until the pattern correlation seems to have broken around March 2010.

Or did it? The Fed Funds spread indicator headed south in March, indicating that liquidity was not being made sufficiently available to the banking system to keep the overnight rate at 1/8th of a point. But the stock market kept marching higher, with very low volatility, right up until the point when it stopped going higher at the end of April. One might reasonably argue that the stock market is just now having a delayed reaction to that illiquidity that has been present in the banking system for 3 months now. If so, then this is a problem that can be fixed by the NY Fed doing its job, and adding enough extra reserves to get the effective rate back to where it is "supposed" to be. The question is, will the NY Fed do its job any better now than when current Treasury Secretary Geithner was the NY Fed president, and failed to add enough liquidity to keep the banking system from melting down in September 2008.

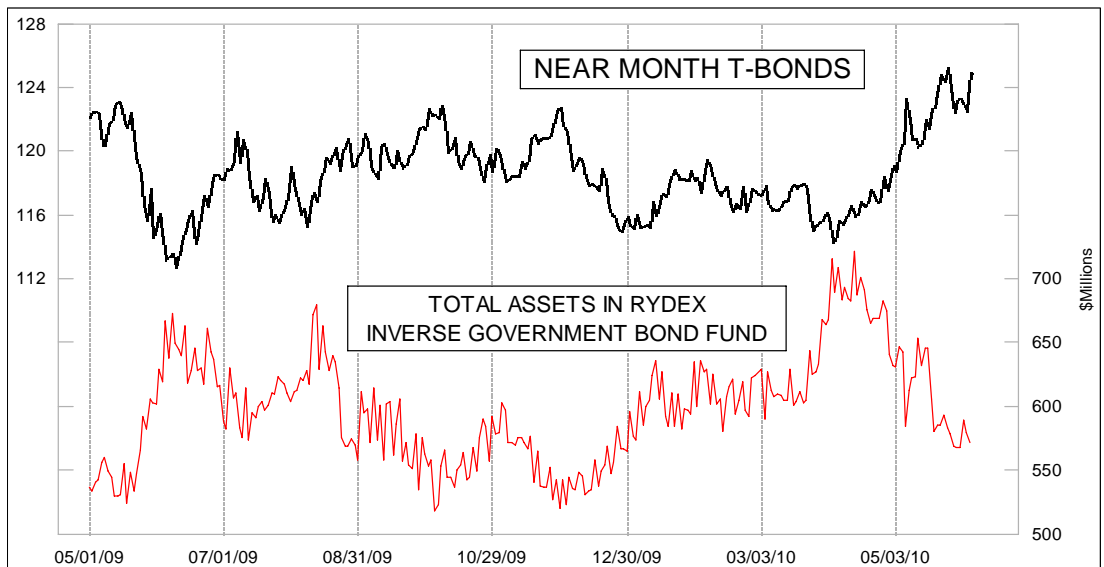
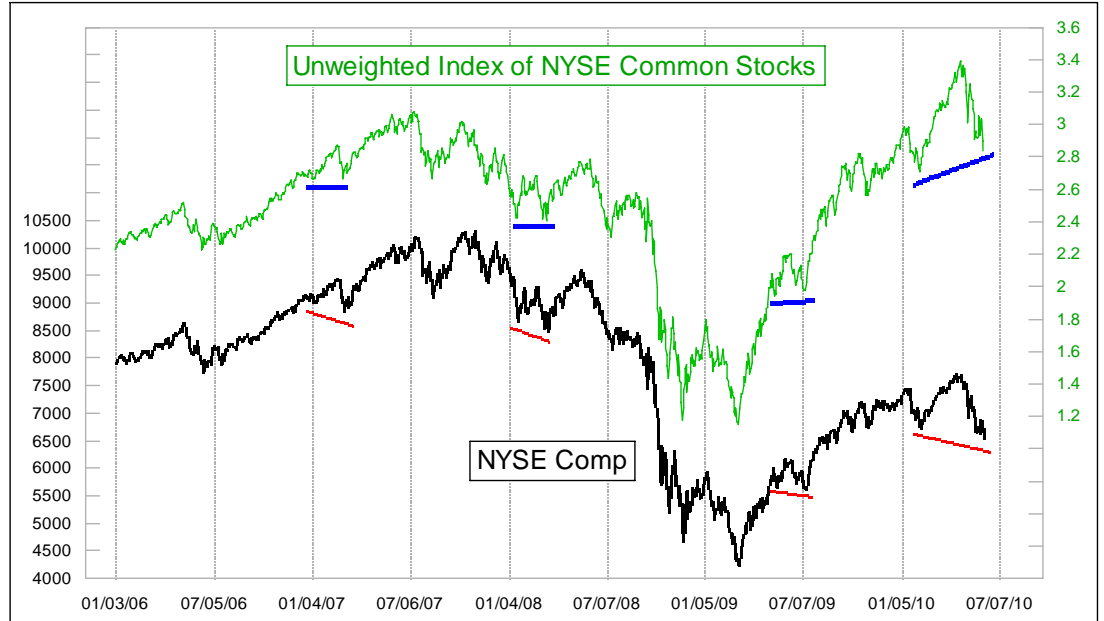
I mentioned above that the major averages were now at lower closing lows than what we saw at the February bottom.

That's certainly the case for the DJIA and SP500. The Nasdaq Comp, Nasdaq 100, and Russell 2000 have not yet exceeded their equivalent lows, which illustrates the point that this market decline has been a large-cap affair.

That point is further bolstered by what we see in the top chart on page 2. The NYSE Comp is making a lower low, but an unweighted index I keep of the stocks which make up the NYSE Comp is still above its own February low. Highlighted in this chart are several examples of similar divergences between these two, and they typically lead to a rebound for the overall market.

It is not labeled in that chart, but you can also see that at the October 2007 price top for the NYSE Comp, the unweighted index was making a lower high, like the A-D Line, giving the message that there was trouble in the market.

**T-Bonds** had a late rally to erase early losses. So far, the story has not changed; T-Bonds are still in reaction mode, moving in opposition to whatever the stock market does. The lower chart on page 2 shows that investors who use Rydex mutual funds have lessened their convictions about bond prices possibly going lower from here. The Rydex Inverse Government



©2010, McClellan Financial Publications, Inc., P.O. Box 39779, Lakewood, WA 98496-3779, [www.mccoscillator.com](http://www.mccoscillator.com), (253) 581-4889, (800) 872-3737, fax:253-584-8194. This copyrighted periodical is published on stock market trading days by McClellan Financial Publications, Inc., and is intended solely for use by designated recipients. No reproduction, retransmission, or other use of the information or images is authorized. Legitimate news media may quote representative passages, in context and with full attribution, for the purpose of reporting on our opinions. Analysis is derived from data believed to be accurate, but such accuracy or completeness cannot be guaranteed. It should not be assumed that such analysis, past or future, will be profitable or will equal past performance or guarantee future performance or trends. All trading and investment decisions are the sole responsibility of the reader. Inclusion of information about managed accounts program positions and other information is not intended as any type of recommendation, nor solicitation. For more information, contact Global Investment Solutions at (888) 359-4723. We reserve the right to refuse service to anyone for any reason. The principals of McClellan Financial Publications, Inc. may have open positions in the markets covered. **Subscription cost: \$600/year, or \$160/qtr.** Subscribers paying quarterly agree to accept automatic subscription renewal by credit card.

We also publish the twice monthly *McClellan Market Report* newsletter, which is available by separate subscription at \$195/year.

Bond Fund moves inversely to the direction of T-Bond prices, and so it is a way for an investor to profit from declining bond prices.

Back at the April 6 price low for T-Bonds, the amount of money invested into this fund was up to its highest level in several years. That conviction has taken a big hit, as bond prices rallied strongly in response to the stock market weakness.

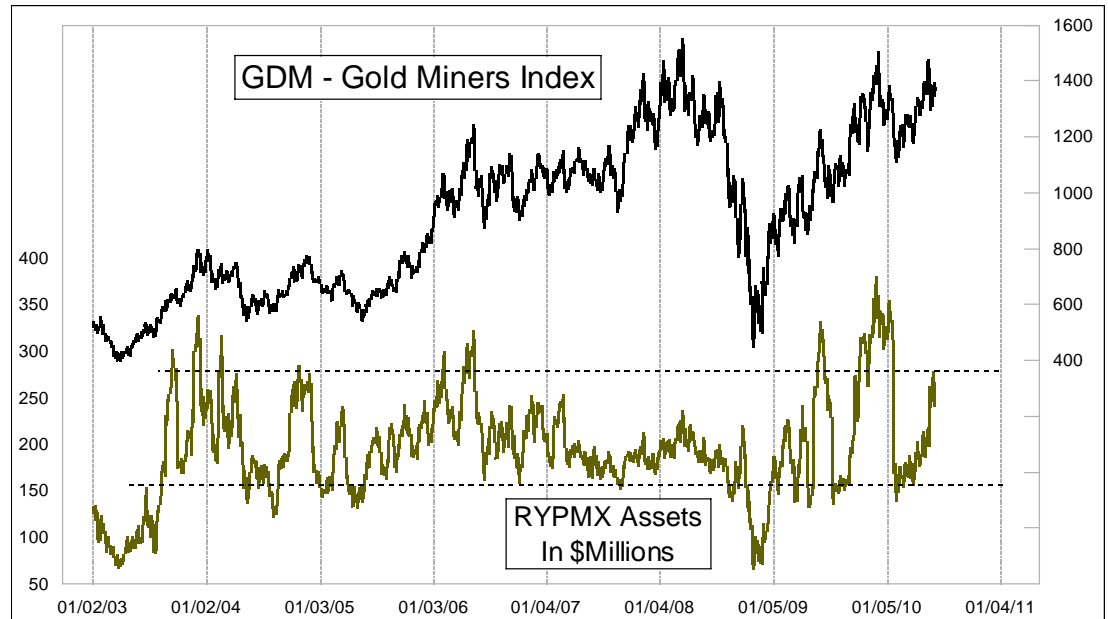
The asset level in that fund is not yet back down to the lows it saw in late 2009, but it is getting there. Perhaps more

importantly, the amount of money that has been yanked out of this fund in the short time since its asset level peak is one of the biggest readjustments to the sentiment of these investors that we have seen in this data in a long time. Bond prices and sentiment toward bonds seem poised to reverse hard, as soon as the stock market will allow that to commence.

**Gold** caught fire and headed higher from a standing start a couple of hours into the trading session on Monday. There was not one single news story which could logically deserve the credit. It seems that gold went up because people were buying it because it was going up. Circular logic can be a powerful force in moving prices.

By the close of the day session, the August contract had moved up \$23/oz, which was enough to turn up its Price Oscillator again. Silver had an even bigger up day, gaining 5% on the day. Silver tends to see bigger moves, both upward and downward. For all the talk about silver being an industrial metal, it is still the market where the speculators like to play.

The chart on page 3 shows that the asset level in the Rydex Precious Metals Fund has climbed back up to a high level. The gold stocks have not done as well as gold itself, since they experience the gravitational pull of the overall stock market while at the same time responding to movements in gold prices. This chart shows that when RYPMX gets up to just above the current level of invested assets, gold stocks are near a top. So anyone entertaining a foray into that sector should do so with the knowledge that the uptrend is nearer the end than the beginning. But it is nevertheless a uptrend that gold is in for the moment.





**Stocks Currently on a "Buy"**

Company Name	Symbol	Buy Date	Buy Price	Current Price	% Change
Medifast Inc.	MED	2/24/2010	\$20.97	\$28.19	34.43%
Valassis Communications	VCI	4/20/2010	\$29.48	\$32.99	11.91%
F5 Networks Inc.	FFIV	5/12/2010	\$72.73	\$67.05	-7.81%
Express Scripts Inc.	ESRX	5/12/2010	\$104.13	\$103.37	-0.73%
Ctrip.com International	CTRP	5/13/2010	\$40.57	\$36.23	-10.70%
Sina Corp	SINA	5/20/2010	\$34.27	\$35.11	2.45%
Millicom Intl Cellular Sa	MICC	6/2/2010	\$80.88	\$78.99	-2.34%
Deckers Outdoor Corp	DECK	6/3/2010	\$154.36	\$142.99	-7.37%
Lululemon Athletica Inc.	LULU	6/3/2010	\$43.76	\$38.32	-12.43%
World Acceptance Corp	WRLD	6/4/2010	\$34.62	\$34.15	-1.36%

**Recent Sales**

Company Name	Symbol	Buy Date	Sell Date	Buy Price	Sale Price	% Change
Encore Capital Group	ECPG	4/16/2010	5/28/2010	\$17.24	\$20.90	21.23%
Resmed Inc.	RMD	1/25/2010	5/21/2010	\$53.03	\$61.13	15.27%
Goodrich Corp.	GR	5/13/2010	5/21/2010	\$76.42	\$70.24	-8.09%
Davita Inc.	DVA	5/18/2010	5/21/2010	\$63.49	\$61.28	-3.48%
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](mailto:Roger@Globalinvestsolutions.com).

