

# THE McCLELLAN MARKET REPORT

## DAILY EDITION

Prepared after the close of trading,  
Friday, October 08, 2010

### CURRENT OPINIONS

**STOCKS: Bearish short and intermediate term, still bullish long term.** Prices should dip toward a bottom next week. This does not feel like a bottom, though, but that date is important according to my predictive work. Currency turmoil is the most likely culprit.

**T-BONDS: Bearish short and intermediate term.** Look for a dollar rebound to be related to rising bond yields in the very near future.

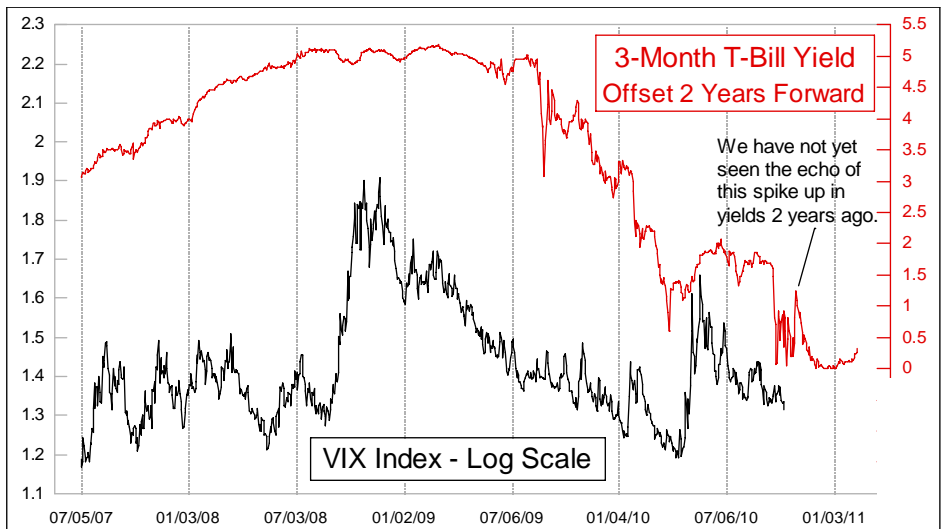
**GDM & GOLD: Neutral short and intermediate term.** Change to short and intermediate term bearish if Dec. gold closes below \$1334.00/oz.

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

Wall Street got its big employment report on Friday, and decided that the bad news was good news. The consensus seems to be that Helicopter Ben is going to push money into the system to keep the rally going, and there is good reason for thinking this way (i.e. his past actions).

But I still figure that there is one more scare out there before we get the election-celebration rally that so many people are looking for. One reason for thinking so is shown in the chart here on page 1, which examines the leading indication that short term interest rates give for what the VIX should do. The plot of the 3-month T-Bill yield is shifted forward by 2 years to reveal that the VIX follows the same dance steps. The correlation is not perfect, and the VIX definitely shows a lot more noise in its movements than the yield data. But it is clear that there is a correlation, and it has been going on for a lot longer than the time span shown in this chart.

Two years ago, short term rates were undergoing



Segment	Rank	Score	Current Managed Account Program Positions		
Sm Cap Value	2	4.58%	Stock Optimizer: 100% 1x Inverse SP500		
Sm Cap Grwth	1	5.96%	RS 2000: 38% 2x Inverse SP500, 28% 2x Russ2000, 34% Cash		
Lg Cap Value	4	2.90%	Rising Star: 82% Invested, 18% Cash		
Lg Cap Grwth	3	3.90%	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	10/08/10	2253	756	1497	388.640	324.217	64.423	3662.356	453	-835				
NASDAQ	10/08/10	1897	741	1156	194.545	122.866	71.679	1583.547	266	-1167				
NDQ 100	10/08/10	70	28	42	7.680	7.912	-0.232	81.210	7	12				
VOLUME	UP VOL	DN VOL	UV-DV	10%T	5%T	Volume OSC	SUMM INDEX	OSC UNCH'd	OSC TO ZERO					
NYSE	10/08/10	708007	229765	478242	142146	102911	39235	675989	181381	-603325				
NASDAQ	10/08/10	1279265	644602	634663	175720	143691	32030	1148636	207750	-432847				
NDQ 100	10/08/10	541383	168609	372774	89321	63995	25326	412011	114647	-391877				
PRICES	HIGH	LOW	CLOSE	10%T	5%T	PRICE OSC	OSC Direction	OSC UNCH'd	Sum/10 Level	1%T				
DJIA	11032.17	10929.28	11006.48	10775.73	10628.34	147.395	UP	10923.12	10495.68	10358.13				
NYComp	7493.12	7417.59	7478.42	7282.08	7162.63	119.457	UP	7401.54	7055.12	7009.04				
SP500	1167.73	1155.58	1165.15	1140.00	1123.69	16.306	UP	1156.30	1109.01	1102.00				
SP400	813.35	802.36	811.37	793.08	779.11	13.975	UP	807.06	766.53	749.90				
NASDAQ	2406.67	2370.53	2401.91	2347.11	2305.45	41.661	UP	2388.77	2267.95	2243.67				
NDX	2030.89	1999.89	2027.03	1980.66	1939.47	41.195	UP	2021.86	1902.39	1854.76				
Russ2000	696.18	682.32	693.82	669.51	656.39	13.117	UP	682.63	644.59	639.50				
GDM	1583.51	1559.17	1577.86	1541.07	1501.97	39.099	UP	1580.17	1466.78	1370.30				
TYX	3.749	3.677	3.746	3.736	3.775	-0.039	UP	3.696	3.810	4.096				
Dec Bonds	135.250	133.906	134.313	133.175	131.976	1.198	UP	134.373	130.898	125.090				
DJI Osc Rising Index:		73%	Hi Neutral, Trend Dn			DJI Osc Pos & Rising:		63%	Overbought, Rising					
NDX stocks >100MA:		85	Arms Index:		0.97	VIX:		20.71	Uppr Band:		25.30	Lwr Band:		21.59

fibrillations ahead of the Fed's effort to slash rates to zero. The month of October 2008 started out with the Fed Funds target at 2.0%, then the FOMC cut it to 1.5% on Oct. 8, 2008, then to 1.0% on Oct. 29, 2008, and finally to "0 to 0.25%" on Dec. 16. All of that turmoil was reflected in the jumping around of the 3-month T-Bill yield back in October 2008, and there is a big spike up that the VIX has not yet echoed.

A spike upward by the VIX, if it comes, would presumably accompany a sharp selloff in stocks like the one I have been waiting for (and wondering where it is). I have been expecting the bottom of that selloff to arrive Oct. 11-12 for several reasons, and that is Monday and Tuesday of next week so there is not much time to get a selloff done. I continue to believe that a currency related news event is the most likely agent for bringing about such a quick hit.

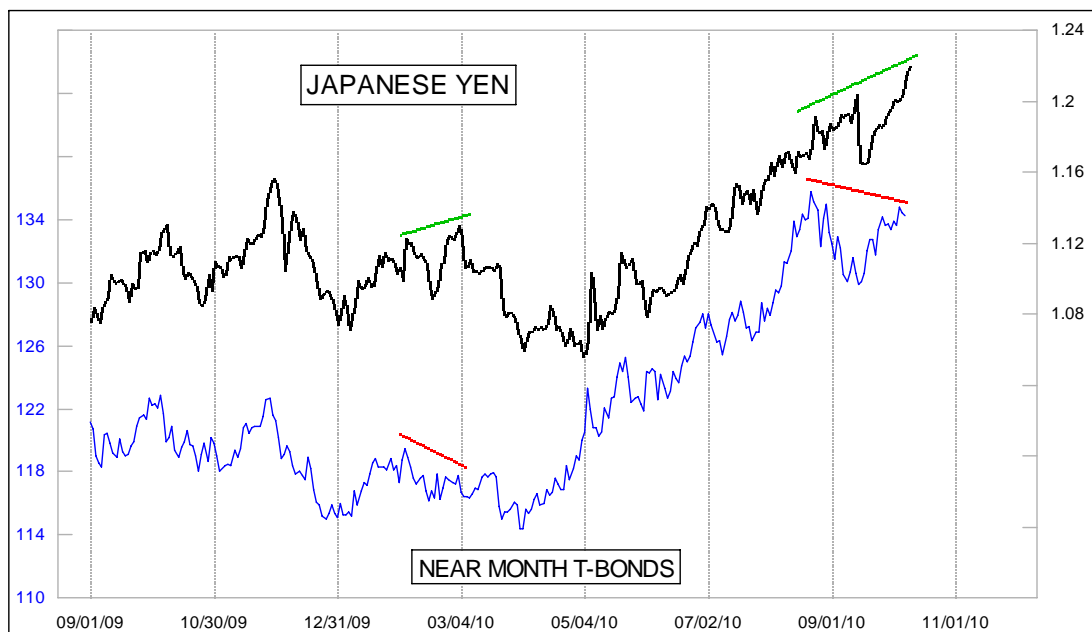
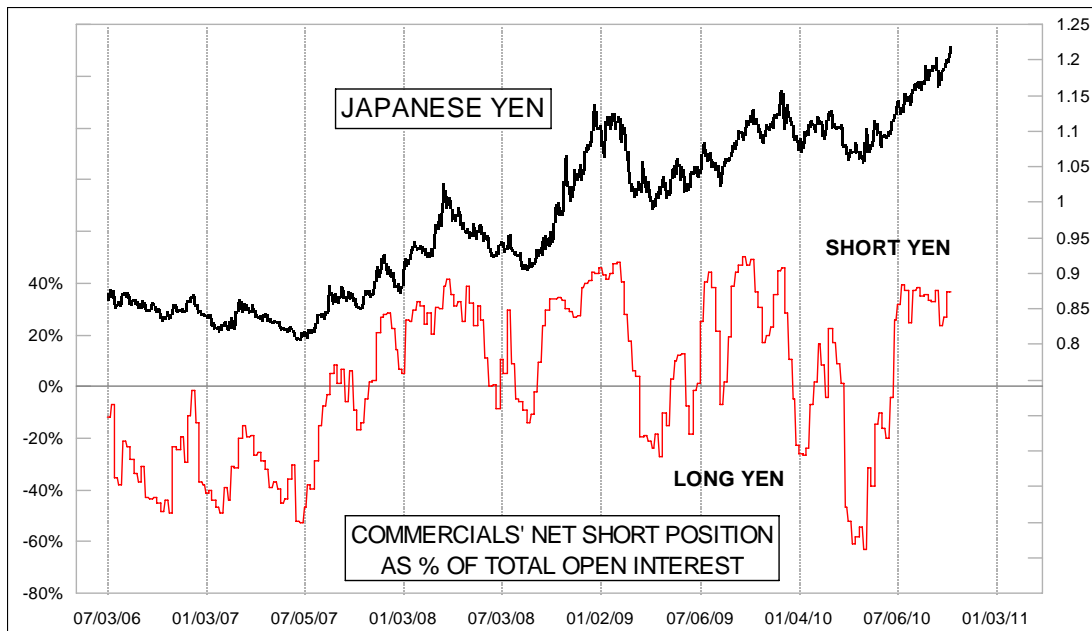
On Sep. 15, the Bank of Japan intervened when the yen was at 120, knocking it down to 116. That put a scare into the hearts of currency traders, but the scare seems to have worn off. Now the yen is at 1.22. If the BoJ was ready to jump in at 1.20, it seems reasonable that they would jump in at 1.22.

That seems to be the view of the commercial traders of Japanese yen futures, who are maintaining a high net short position. They have been short and wrong for the last 3 months, but they have a strong record of being proven right eventually.

If we do see the yen get knocked down, by the BoJ or by anyone else, then **T-Bonds** ought to go along for the ride downward. The two are very well correlated, although they do not match up perfectly. It is interesting to note that the BoJ action 3 weeks ago came at a time when the yen was making a higher high and T-Bonds were headed downward. The 4 point drop in the yen served to mark a bottom for both of them.

Now we have the yen at a still higher high, and T-Bonds still below the high they made back on August 31. Such divergences are rare, and the ones we have seen lately have resulted in the suggestion by T-Bonds being the way that both of them go. The linear nature of this apparent blowoff move in the yen looks a lot like the way that it has formed important tops in the past, so a downward resolution is the most likely.

The commercial T-Bond futures traders are betting in line with the commercial yen traders, as we see in the top chart on page 3. There, we see that commercial T-Bond futures traders are back to being net short, after not seeing a single instance of a net short position since late 2007. So far, that has not mattered for T-Bond prices, but the commercials' track record sug-



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gests that it should matter eventually.

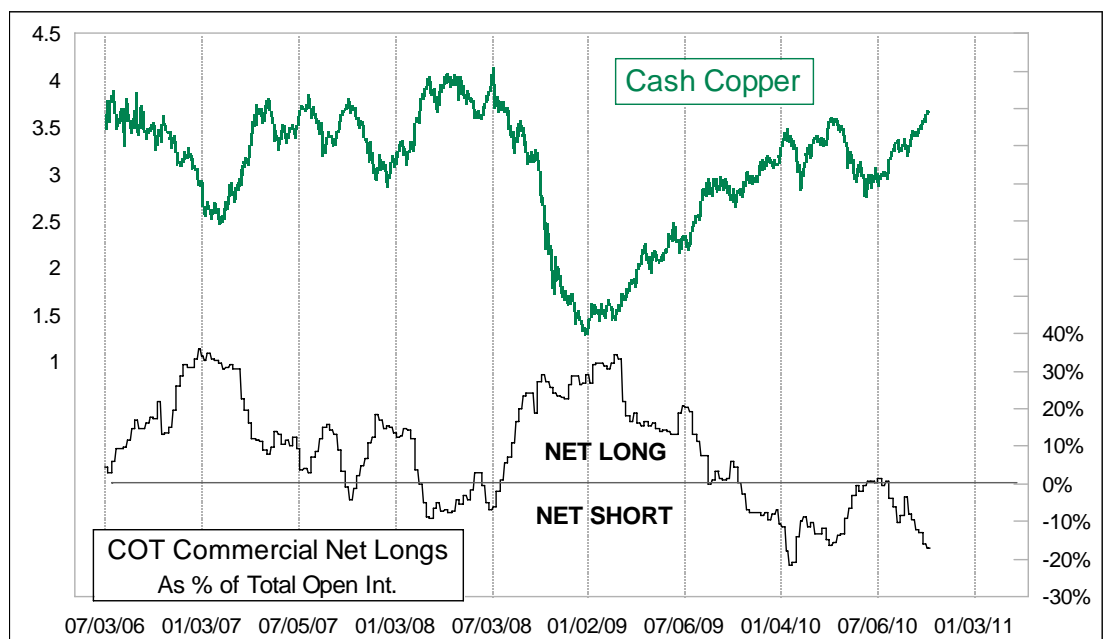
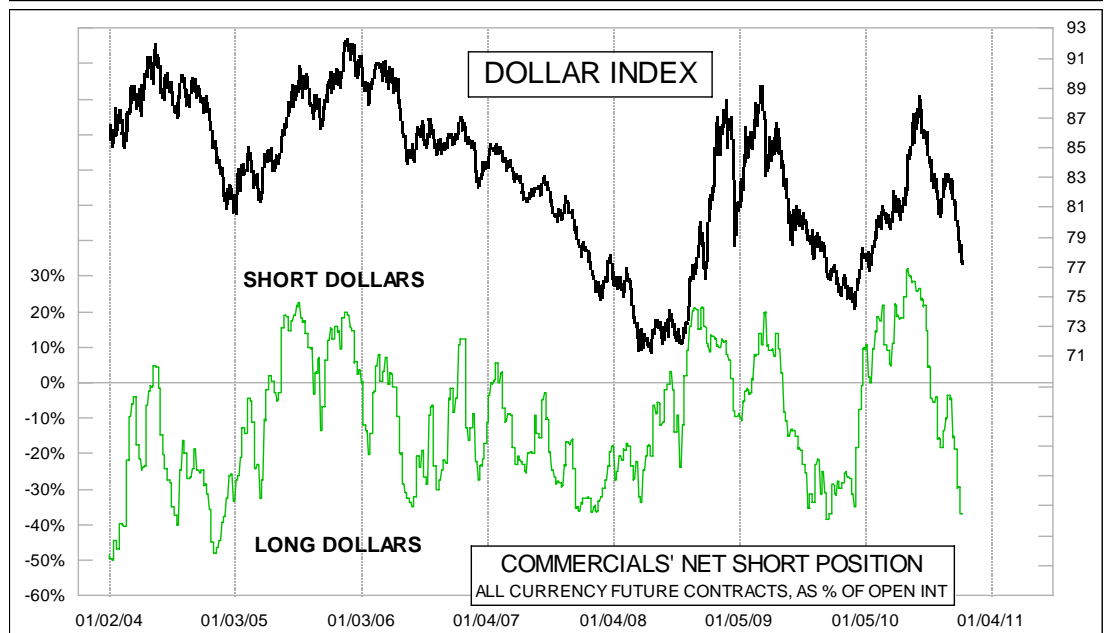
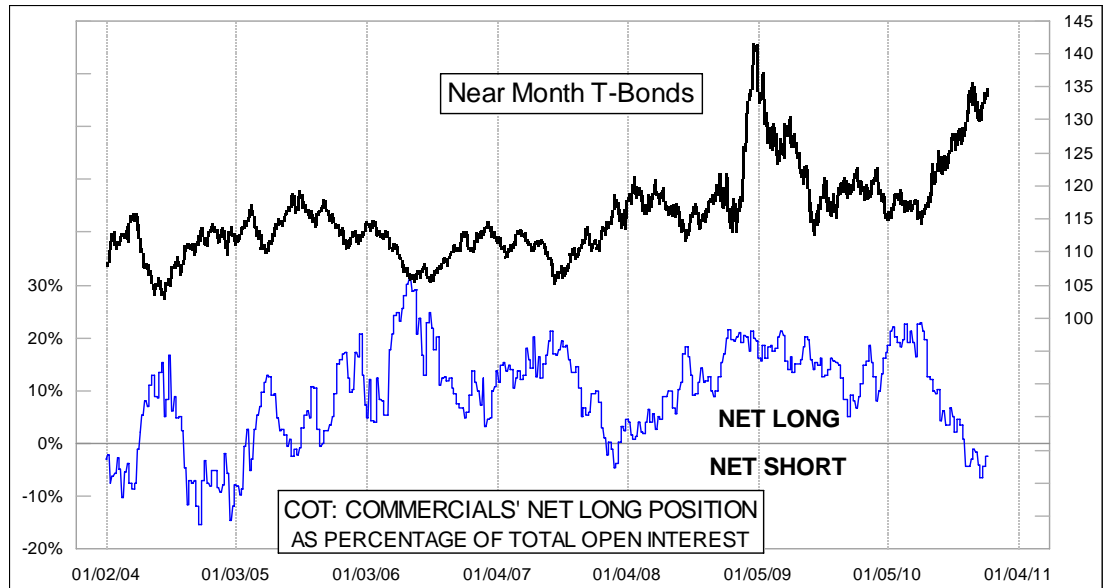
The COT chart of the yen above includes only the commercials' positions in yen futures. That data is rolled together with the commercials' positions in the other currency futures contracts to create the indicator in the middle chart on page 3. Because the contract specifications are different for each of the currency futures contracts, they are not comparable on a contract count basis. So each of the positions in the different currency futures contracts is weighted according to the dollar value of the contract.

The current reading on this indicator is about as low as it ever goes. We have to go all the way back to 2004 to see a significantly lower reading, which appeared just ahead of a year long rally in the Dollar Index.

My hunch is that as world investors start to have confidence about what is going to be coming out of Washington, DC next year, they will be more interested in holding the dollar. That confidence might wait until after the election results are counted in November. Or it might arrive earlier than that, as the oddsmakers and pollsters start painting a clearer picture about the election's outcome. Investors can usually handle just about any type of news out of Washington DC, but not knowing creates the biggest type of fear, which is fear of the unknown.

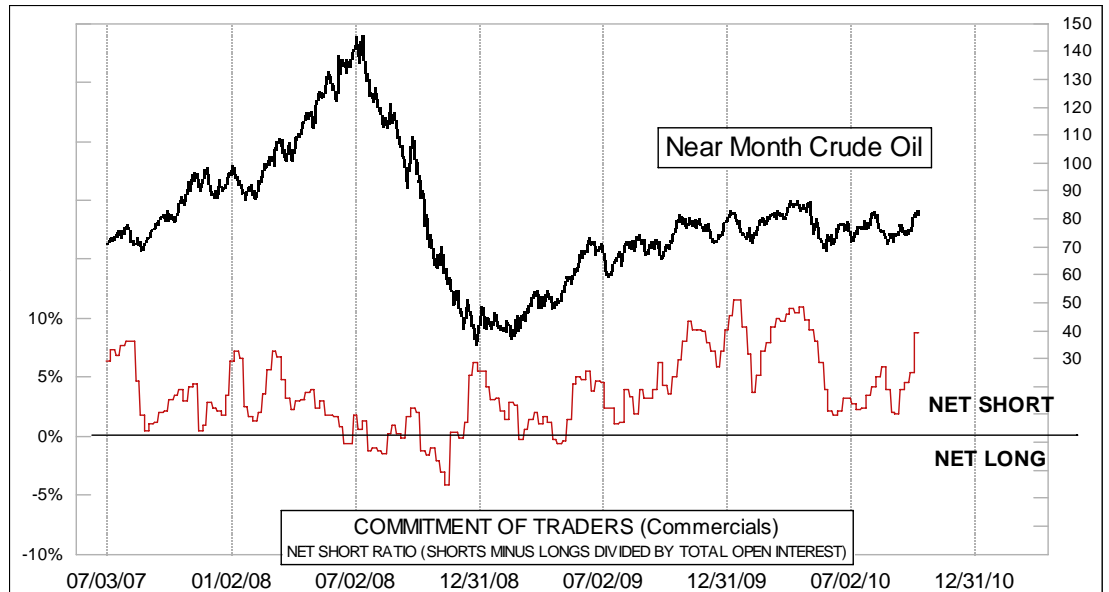
One other reason to think that the dollar might rebound (and T-Bonds start to slide) is that the folks at the Federal Reserve might finally start to notice that the prices of "stuff" have been going up. CNBC has started talking about corn and wheat prices on a more regular basis, because they have been making some noticeable gains.

Copper has also been rising noticeably, and the commercial copper futures traders have responded by moving farther to the short side. The only time in recent years that we have seen a bigger net short position was back in January 2010, just ahead of a 20% drop in copper prices.



Similarly, commercial traders of crude oil futures have been responding to the price rise by upping their shorts. This week's rise was especially large, as if to assert an even greater sense of urgency about needing to get net short.

This chart of oil price and oil COT data merits a brief historical discussion to understand properly. The commercials have been net short continuously for over a year, but we can make some inferences about the relative degree to which they are more or less net short. Right now, the commercials are inching up toward levels that have marked big price tops.

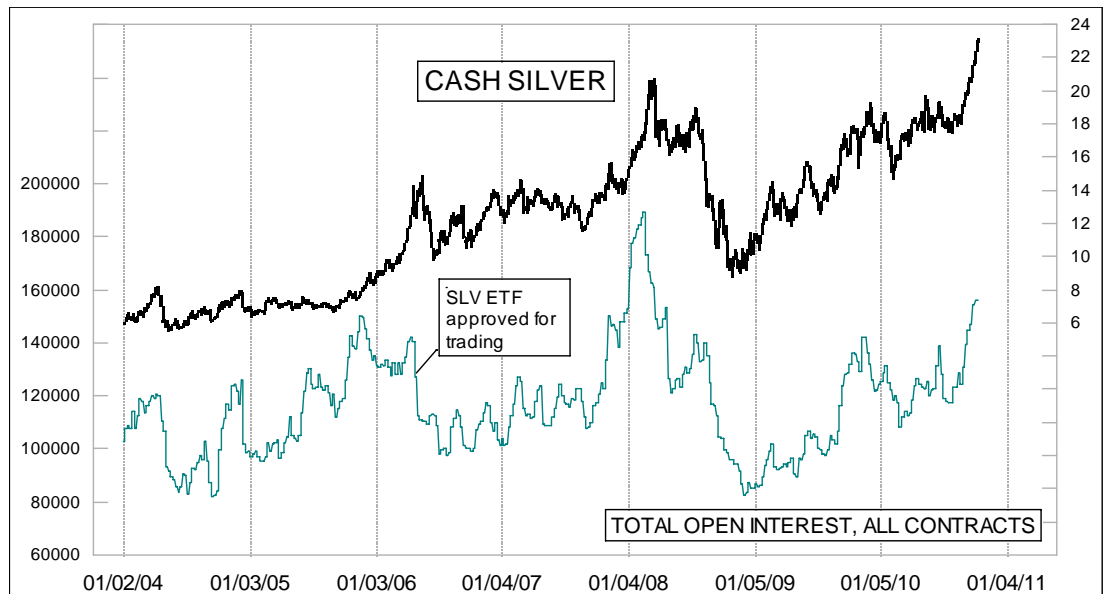


The COT data did not work too well during the 2008 oil price bubble, nor during its unwinding. That was a strange and extreme time for the oil market. One point to remember is that the data in the COT Report is aggregated from all contracts within each commodity, and so the commercials' positions in the far out expiration months may not be the same as for the near month contract. We don't get to see that sort of granularity in the data, but it may explain why the commercials were net neutral at the big oil price top.

Longer term, the recent rise in gold prices still suggests that we should see an echo in oil prices. Oil price movements follow those of gold prices by about 4 months. So even though oil looks short term overbought at the moment, and worthy of a dip based on what the commercials are saying with their net short position, gold's leading indication says that oil and other commodities have higher to go over at least the next 4 months.

Gold prices did not follow through to the downside after Thursday's big key reversal bar day. That was sort of hinted at by the fact that gold held support at its Price Oscillator Unchanged line during Thursday's selloff.

But a top in gold is forming, and it will signal its completion when the Price Oscillator turns down from its current high level. We also know that a top is forming because of the eagerness with which the momentum chasing speculators are piling in. The final chart looks at total open interest data for silver futures. Seeing the total number of futures contracts rising at such a rapid pace like this is a sign that speculation is at a fever pitch, and thus a top cannot be far away.





**Stocks Currently on a "Buy"**

Company Name	Symbol	Buy Date	Buy Price	Current Price	% Change
Alcon Inc.	ACL	6/23/2010	\$150.22	\$166.68	10.96%
Priceline.com	PCLN	7/2/2010	\$176.41	\$340.90	93.24%
Fmc Technologies	FTI	7/7/2010	\$60.14	\$69.33	15.28%
Corrections Corp of Am	CXW	8/2/2010	\$20.25	\$25.83	27.56%
Davita	DVA	8/5/2010	\$63.19	\$72.14	14.16%
Joy Global	JOYG	9/2/2010	\$62.50	\$72.99	16.78%
Ctrip.com Intl.	CTRP	9/3/2010	\$42.28	\$46.02	8.85%
F5 Networks	FFIV	9/3/2010	\$93.80	\$94.69	0.95%
WR Grace & Co	GRA	9/3/2010	\$27.67	\$29.26	5.75%
Factset Research Sys	FDS	9/3/2010	\$78.98	\$82.67	4.67%
Venoco	VQ	9/7/2010	\$18.03	\$19.64	8.93%
Sykes Enterprises	SYKE	9/8/2010	\$13.48	\$14.05	4.23%
Apple	AAPL	9/8/2010	\$262.90	\$294.07	11.86%
Cognizant Tech Sol	CTSH	9/9/2010	\$61.74	\$64.20	3.98%
Precision Castparts	PCP	9/9/2010	\$122.64	\$131.80	7.47%
Blue Coat Systems	BCSI	9/9/2010	\$21.00	\$22.80	8.57%
Lululemon Athletica	LULU	9/10/2010	\$40.53	\$47.48	17.15%
Rockwell Collins	COL	9/13/2010	\$59.13	\$59.49	0.61%
Resmed	RMD	9/13/2010	\$33.06	\$32.66	-1.21%
Infosys Technologies	INFY	9/13/2010	\$64.71	\$69.49	7.39%
Century Aluminum	CENX	9/13/2010	\$11.52	\$13.99	21.44%
Terex	TEX	9/13/2010	\$21.41	\$24.06	12.38%
Valassis	VCI	9/13/2010	\$34.31	\$35.79	4.31%
Nordstrom	JWN	9/14/2010	\$35.28	\$39.06	10.71%
Express Scripts	ESRX	9/15/2010	\$46.79	\$48.30	3.23%
Sina Corp	SINA	9/15/2010	\$45.91	\$50.86	10.78%
Medco Health Solu	MHS	9/15/2010	\$48.20	\$52.62	9.17%
Wipro	WIT	9/16/2010	\$13.75	\$15.73	14.40%
Emeritus	ESC	9/16/2010	\$16.45	\$18.29	11.19%
Polo Ralph Lauren	RL	9/16/2010	\$86.39	\$92.91	7.55%
Tenneco	TEN	9/16/2010	\$26.85	\$30.19	12.44%
Deckers Outdoor	DECK	9/16/2010	\$46.83	\$50.75	8.37%
General Dynamics	GD	9/17/2010	\$62.69	\$63.37	1.08%
Brightpoint	CELL	9/17/2010	\$6.70	\$7.32	9.25%
NII Holdings	NIHD	9/17/2010	\$41.38	\$43.01	3.94%
Google	GOOG	9/20/2010	\$508.28	\$536.35	5.52%
Bon-Ton Stores	BONT	9/20/2010	\$8.56	\$12.62	47.43%
Televant Git Sa	TLVT	9/20/2010	\$21.16	\$23.98	13.33%

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@Globalinvestmentsolutions.com](mailto:Roger@Globalinvestmentsolutions.com).

**Stocks Currently on a "Buy" Continued**

Company Name	Symbol	Buy Date	Buy Price	Current Price	% Change
Harbin Electric	HRBN	9/21/2010	\$ 17.87	\$19.96	11.70%
TRW Automotive Hld.	TRW	9/24/2010	\$ 39.02	\$42.26	8.30%
Intuitive Surgical	ISRG	9/27/2010	\$ 290.26	\$289.82	-0.15%

**Recent Sales**

Company Name	Symbol	Buy Date	Sell Date	Buy Price	Sale Price	% Change
Millicom Intl Cellular	MICC	9/3/2010	10/8/2010	\$98.79	\$98.73	-0.06%
Urban Outfitters	URBN	9/9/2010	10/8/2010	\$33.32	\$31.28	-6.12%
Petroleo Brasileiro	PBR	9/16/2010	10/7/2010	\$35.09	\$33.89	-3.42%
Flir Systems	FLIR	9/20/2010	10/5/2010	\$27.76	\$25.28	-8.93%
Hansen Natural	HANS	6/24/2010	10/1/2010	\$39.65	\$46.96	18.44%
Encore Capital	ECPG	9/16/2010	9/23/2010	\$20.11	\$18.86	-6.22%
Catalyst Health Solutions	CHSI	8/5/2010	9/16/2010	\$40.50	\$37.48	-7.46%
Cognizant Tech Sol	CTSH	7/23/2010	9/8/2010	\$55.34	\$63.23	14.26%
TRW Automotive Hld.	TRW	7/27/2010	9/7/2010	\$32.90	\$37.30	13.37%
Express Scripts	ESRX	8/24/2010	9/2/2010	\$45.02	\$43.79	-2.73%
Sina Corp	SINA	7/16/2010	8/30/2010	\$39.91	\$41.93	5.06%
WR Grace & Co	GRA	7/22/2010	8/30/2010	\$24.28	\$25.08	3.29%

