

THE McCLELLAN MARKET REPORT

DAILY EDITION

Prepared after the close of trading,
Monday, June 04, 2012

CURRENT OPINIONS

STOCKS: Neutral short term, still bullish intermediate and long term. Change to bullish if the NYSE sees more than 1977 net advances at the close.

T-BONDS: Bearish short and intermediate term. This is a blowoff, whose downward slope should match the slope on the way up.

GDM & GOLD: Bullish short and intermediate term. The ability of gold mining stocks to move upward on Monday as gold paused is a bullish sign for both.

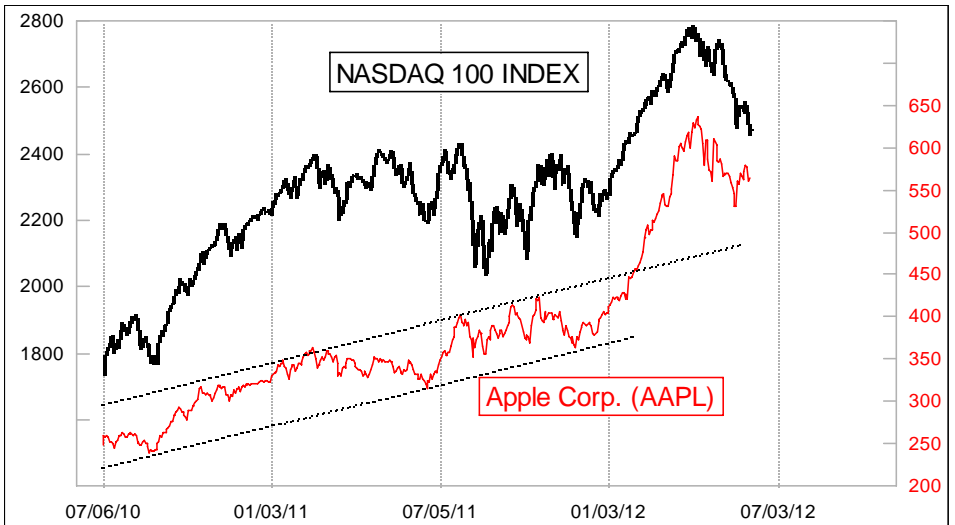
Note: Time frames mentioned refer to trading styles, and not to the duration of a forecast.

Well, the first week of June is here, which is the time when I have been expecting to see "a bottom to go up from". I had not thought we would see a plunge to a lower low, below the May 18 low, but the disappointment over Facebook's lousy IPO coupled with the disappointing jobs numbers last week.

Exceeding a low that coincided with such an oversold condition is not unusual, as long as the penetration of that low price does not go too far. I chalk this up as a "retest attempt", and it is important to understand that the prior low does not always hold on something that is a retest.

The interesting aspect of this whole bottoming effort for me is that not all stocks are participating. 3 months ago, it was all-Apple all the time on the financial TV networks, and lately we hardly hear anything. This is all the more interesting because Apple has not joined the major averages in making a lower low, as shown in the first chart.

We saw similar behavior last August, when a scary



Segment	Rank	Score	Current Managed Account Program Positions		
Sm Cap Value	3	-5.57%	Stock Optimizer: 50% Inverse Govt Bond, 50% Cash		
Sm Cap Grwth	5	-6.47%	RS2000: 23% Inv Govt Bond, 5% 2xDow, 72% Cash		
Lg Cap Value	2	-5.35%	Rising Star: 6% Invested, 94% Cash		
Lg Cap Grwth	4	-5.59%	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	06/04/12	1290	1768	-478	-406.877	-281.388	-125.489	-684.480	-532	1977
NASDAQ	06/04/12	1244	1264	-20	-363.322	-286.695	-76.626	-1177.316	-440	1093
NDQ 100	06/04/12	74	24	50	-15.912	-13.131	-2.781	-106.274	-19	37
VOLUME	UP VOL	DN VOL	UV-DV	10%T	5%T	Volume OSC	SUMM INDEX	OSC UNCH'd	OSC TO ZERO	
NYSE	06/04/12	1325367	2543281	-1217914	-845392	-650975	-194418	-4759989	-1039810	2848541
NASDAQ	06/04/12	961353	758564	202789	-373878	-294756	-79122	-2235455	-453000	1129445
NDQ 100	06/04/12	479243	201326	277917	-197693	-161698	-35995	-1293024	-233688	486212
PRICES	HIGH	LOW	CLOSE	10%T	5%T	PRICE OSC	OSC Direction	OSC UNCH'd	Sum/10 Level	1%T
DJIA	12143.69	12035.09	12101.46	12526.08	12700.23	-174.145	DOWN	12351.94	12856.96	12470.31
NYComp	7320.63	7222.88	7285.53	7578.93	7736.66	-157.728	DOWN	7421.21	7878.62	7791.75
SP500	1282.55	1266.74	1278.18	1322.27	1341.88	-19.609	DOWN	1302.66	1359.52	1313.94
SP400	900.12	882.01	891.32	933.48	948.90	-15.415	DOWN	918.07	962.77	933.62
NASDAQ	2769.93	2726.68	2760.01	2857.00	2907.65	-50.649	DOWN	2806.35	2953.23	2824.61
NDX	2480.97	2443.92	2478.13	2552.37	2595.33	-42.961	DOWN	2509.40	2633.99	2488.67
Russ2000	742.73	729.75	737.24	767.54	781.75	-14.205	DOWN	753.34	794.53	777.64
GDM	1307.61	1268.51	1307.01	1224.50	1248.46	-23.957	UP	1200.54	1270.02	1430.97
Aug Gold	1629.70	1610.00	1613.90	1589.75	1610.58	-20.836	UP	1568.91	1629.33	1643.02
Sep Bonds	153.09	151.72	151.97	147.41	144.93	2.484	UP	149.90	142.70	138.97
DJI Osc Rising Index:	7%	Oversold, Trend Dn			DJI Osc Pos & Rising:	7%	Oversold, Falling			
NDX stocks >100MA:	24	Arms Index:	1.40	VIX:	26.12	Uppr Band:	22.33	Lwr Band:	16.17	

plunge took most stocks to a lower low, but Apple's share price made a higher low. It was foreshadowing the strength that would eventually come around to the rest of the market, and I believe it is conveying the same message now.

A reader wrote today, expressing a concern that is on the minds of many people. He wondered if, before we see the recovery I am looking for, we might see a 1987-style crash this month.

The comparison to 1987 is something that I addressed here last month, and it is worth taking another look now. The pair of charts on this page compare the current market price plot and Summation Index plot to those of 1987, using the best alignment that I could achieve. One key point of similarity was the telltale "fishhook" structure in the Summation Index each time, right before the ugly part of the plunge.

But one big difference between the two periods was that the 1987 price top came with a much weaker reading on the Ratio-Adjusted Summation Index (RASI). It had failed to

then to get back up above the key +500 level, which marks the go/no-go level for an advance to show that it has the necessary "escape velocity" to keep an uptrend going. By contrast, the RASI high earlier this year was well above +500, which promises us a resumption of the uptrend once we get through with this corrective period.

One point for everyone to remember when contemplating price pattern analogs like this is that all of them eventually break down. The market falls into a familiar rhythm that it has displayed before, and then it falls out of that at some point (often when one is counting on it most to continue working). Sometimes the way that a break in correlation first appears is for the correlation to flip to inverse, and that is what appears to be happening with this comparison to 1987.

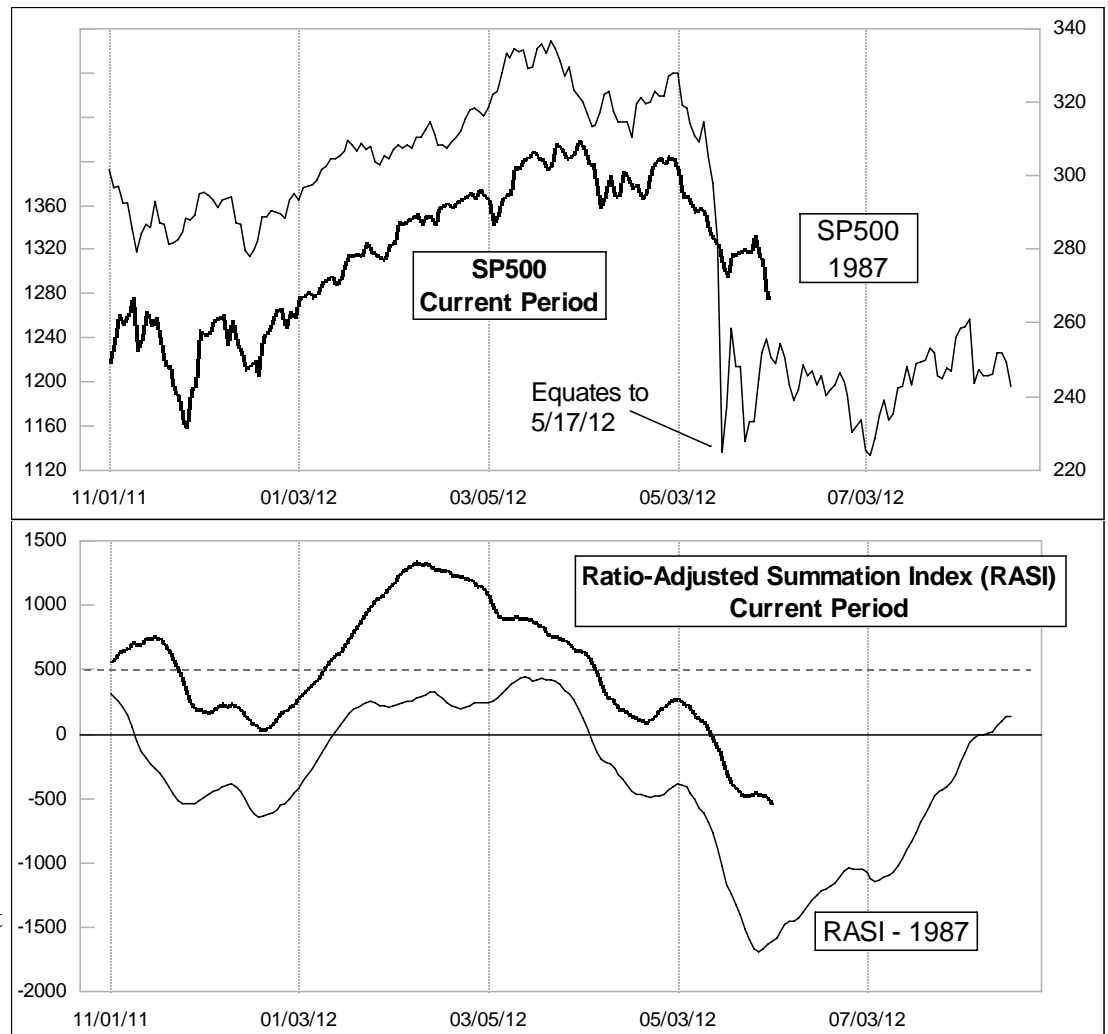
According to the alignment of patterns as I had first created, the 1987 crash bottom equated to May 17, 2012. That was pretty close to the actual bottom on May 18. There was an initial robust bounce back upward on May 21, which was the next trading day, that matched the initial bounce in Oct. 1987. But since that initial bounce, it appears that the two patterns have been moving inversely. If that inverse correlation keeps up, then we should see the robust rebound in stock prices this month that I have been looking for.

One last point: Those who closely watch the daily values of the McClellan Oscillator may have noticed that Monday's reading of -125.5 is very close to the prior reading of -127.9. Years ago, a lot of people thought that such "minor change readings" were a sign of a big move coming for stock prices in the days that followed. The late Kennedy Gammage, who wrote *The Richland Report* newsletter, was a big proponent of this theory.

I did a more statistically rigorous study of this a few years ago, which found that the hypothesis was not statistically supportable. Those who are interested can read the full details of this study at:

http://www.mccoscillator.com/learning_center/kb/market_data/meaning_of_minor_mcclellan_oscillator_changes/

T-Bond prices have pretty much been doing the opposite of whatever stock prices do each day, but while the overall market finished slightly in the red on Monday, that was no help to T-Bonds. Evidently, bond traders are starting to feel twitchy

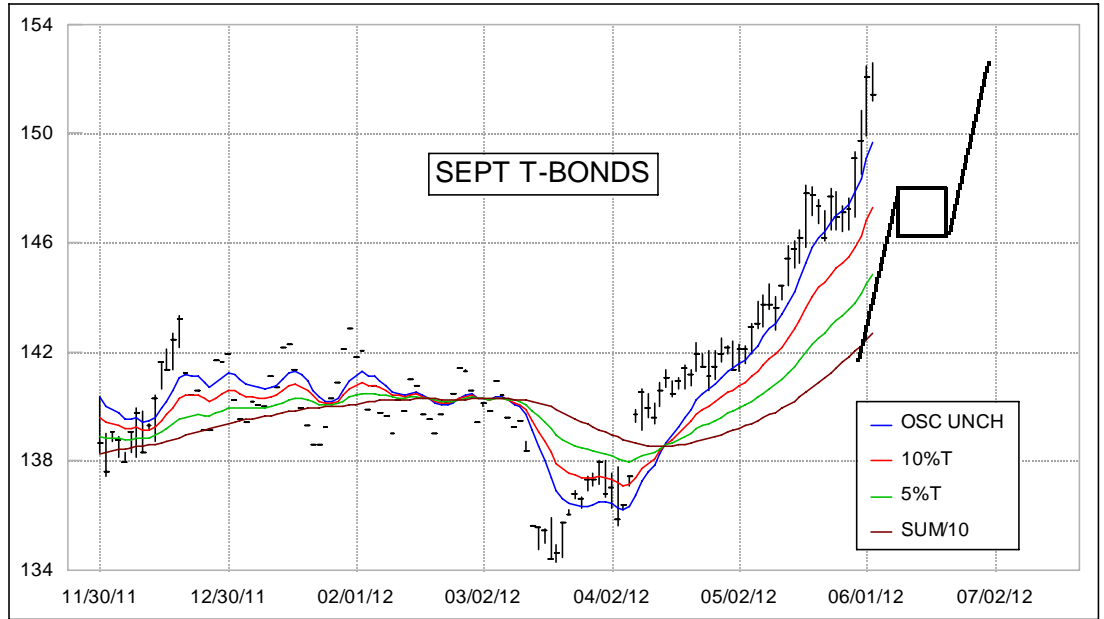


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about how overbought prices have gotten recently, and how ridiculously low yields have gone. The momentum players who have helped make this recent push higher may rightfully be worrying about what happens when the music stops playing, so it is understandable that they would start dancing over closer to the exits

The top chart on page 3 shows that the up move seen last week fulfills an upside measuring objective, if we call the consolidation structure between 146 and 148 a flag structure. I have drawn diagram of a flag structure off to the right, just so as not to stomp on the data in this chart.



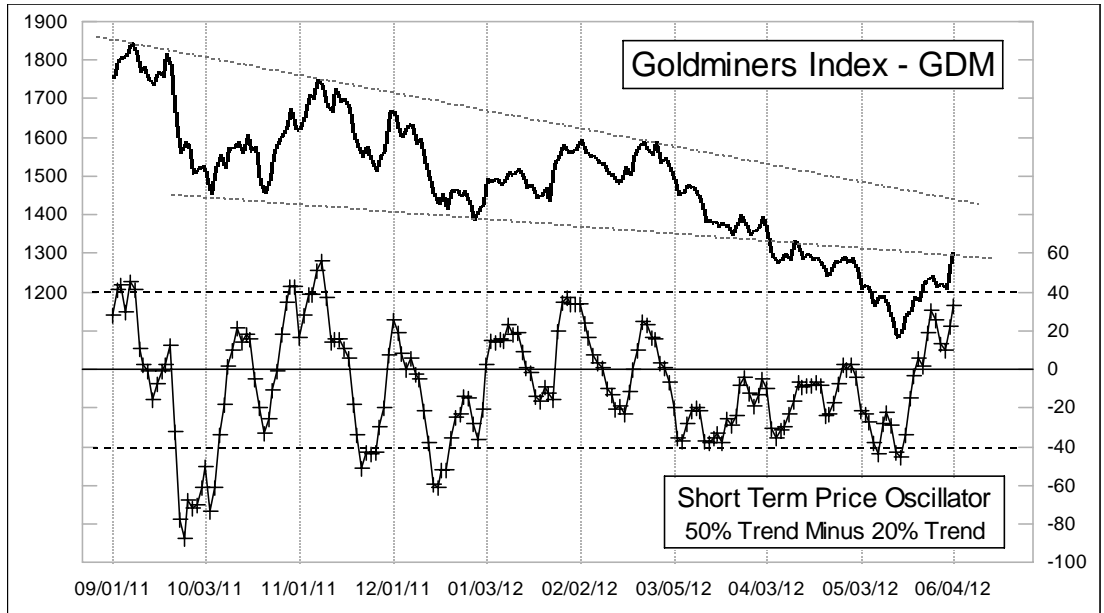
Measuring objectives like these from classical bar charting techniques do not preclude having prices move beyond the objective, but it is nice to at least know that meeting the objective is no longer an item on the “to-do” list.

Gold took a well-deserved rest on Monday following Friday’s gigantic one-day pop. August gold futures closed down by \$8.20/oz during the day futures session, but that small loss has now been made up in the after hours session.

Gold mining stocks decided not to stay down with gold, and started a fairly linear intraday uptrend right around 1:30 PM Eastern time. It was interrupted for a while around 3 PM, but resumed its linear march during the final half hour. When I see linear price moves, it tells me

that some big buyer or seller is metering out his trades in an organized fashion, so as not to cause the market to run away from him all at once. So the message is that some big buyer was working on building a big position in gold stocks on Monday. Who that buyer is, and what his motivations might be, are not revealed by the price structure.

The final chart shows that the Short Term Price Oscillator (STPO) for the GDM Index is getting up toward an overbought condition just as the GDM itself is bumping up against the lower boundary of a now-broken narrow triangle structure. Given the STPO’s already overbought condition, it would not be a surprise to see a pause here, and it would not even be a discouraging sign. But if it should burst on up through this line then the declining tops line about 150 points higher represents a reasonable objective.





Stocks Currently on a "Buy"

Company Name	Symbol	Buy Date	Buy Price	Current	% Change
Sykes Enterprises	SYKE	5/10/2012	\$16.14	\$15.05	-6.75%
Deckers Outdoor	DECK	6/4/2012	\$52.09	\$52.09	0.00%
Valassis Commun	VCI	6/4/2012	\$19.46	\$19.46	0.00%

Recent Sales

Company Name	Symbol	Buy Date	Sell Date	Buy Price	Sale Price	% Change
Monster Beverage	MNST	1/17/2012	6/1/2012	\$50.29	\$70.54	40.27%
Factset Research	FDS	3/13/2012	6/1/2012	\$98.66	\$101.46	2.84%
Resmed	RMD	4/26/2012	5/31/2012	\$32.04	\$30.98	-3.31%
Google	GOOG	5/21/2012	5/25/2012	\$613.86	\$591.35	-3.67%
Cree	CREE	4/25/2012	5/18/2012	\$30.35	\$28.49	-6.13%
Precision Castparts	PCP	4/27/2012	5/17/2012	\$177.43	\$166.54	-6.14%
Lululemon	LULU	5/2/2012	5/17/2012	\$79.45	\$66.97	-15.71%
WR Grace	GRA	4/27/2012	5/16/2012	\$59.76	\$54.02	-9.61%
Intuitive Surgical	ISRG	12/22/2011	5/16/2012	\$448.49	\$536.07	19.53%
Century Aluminum	CENX	5/3/2012	5/11/2012	\$8.68	\$7.80	-10.14%
Corrections Corp	CXW	1/17/2012	5/10/2012	\$22.66	\$27.63	21.93%
Medifast	MED	3/26/2012	5/9/2012	\$17.39	\$16.70	-3.97%
Wynn Resorts	WYNN	4/10/2012	5/8/2012	\$122.10	\$119.15	-2.42%
Acme Packet	APKT	4/19/2012	5/8/2012	\$28.84	\$25.90	-10.19%
Terex	TEX	4/25/2012	5/8/2012	\$23.90	\$21.67	-9.33%
Nordstrom	JWN	5/2/2012	5/8/2012	\$57.19	\$54.00	-5.58%
Rackspace Hosting	RAX	5/3/2012	5/8/2012	\$59.04	\$52.63	-10.86%
Express Scripts	ESRX	2/21/2012	5/7/2012	\$52.31	\$54.55	4.28%
Mesabi Trust	MSB	4/9/2012	5/3/2012	\$30.41	\$28.37	-6.71%
Herbalife	HLF	4/20/2012	5/1/2012	\$72.31	\$56.30	-22.14%
Sykes Enterprises	SYKE	4/3/2012	5/1/2012	\$16.24	\$15.98	-1.60%
Verifone Systems	PAY	1/25/2012	4/30/2012	\$40.33	\$47.66	18.18%
Baidu	BIDU	3/21/2012	4/25/2012	\$140.61	\$134.82	-4.12%
Lululemon	LULU	12/28/2011	4/24/2012	\$47.11	\$70.18	48.97%

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, see http://www.mcoscillator.com/market_reports/rising_star_stocks.html or contact Roger Kliminski at 949-660-7960 or Roger@Globalinvestmentsolutions.com.

