

# THE McCLELLAN MARKET REPORT

## DAILY EDITION

Prepared after the close of trading,  
Friday, March 9, 2007

### CURRENT OPINIONS

**STOCKS: Bullish short, intermediate, and long term.** Expecting a bounce toward a top due March 14-16. Change to short and intermediate term neutral if the NYSE sees more than 525 net advancing issues at the close. But we'd rather exit at a top due the end of next week.

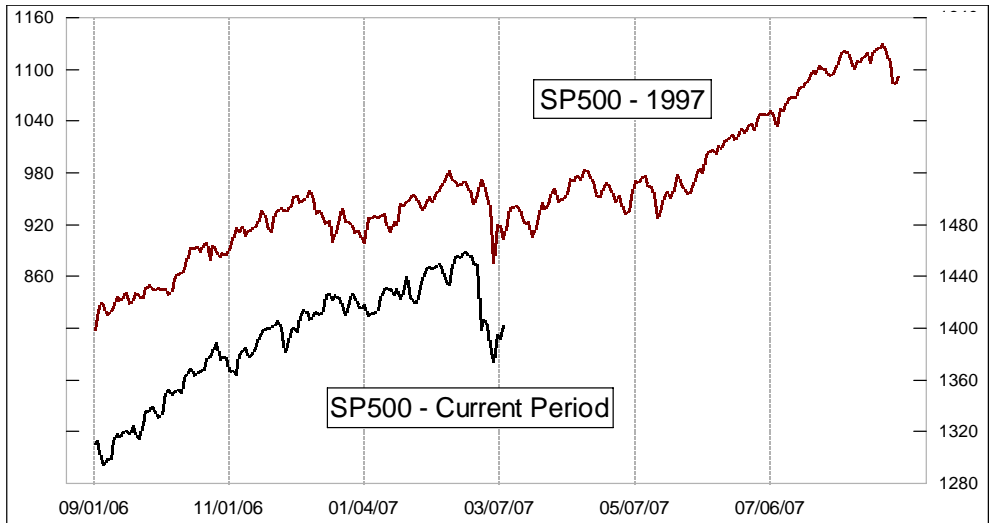
**T-BONDS: Neutral short term, still bullish intermediate term.** Change to short term bullish if June T-Bond futures close above 112-25/32. Change to short and intermediate term bearish if March T-Bonds close below 112-10/32.

**GDM & GOLD: Bearish short and intermediate term.**

The Monthly Employment Report was good, and bad. The stock market bounced up, and it also didn't. This wasn't so much of a Goldilocks day as it was a kissing your sister non-result. It leaves us wondering if the bounce we have had is enough, or if there is more to come next week before prices turn down.

We are getting into risky territory now when it comes to dancing all the way up to the edge of the bounce, because the dropoff once the bounce is done is usually a violent affair, of the sort for which protective stops won't be enough protection. It is the sort of drop one has to get out in advance of.

The 1997 minicrash was a lot like this year's in several ways. Both occurred with strong breadth numbers leading up to them, and that liquidity helped the market pull itself out of that 1997 panic pretty easily. The Oct. 27, 1997 minicrash was all done in just one day; the Feb. 27, 2007 minicrash was mostly done in that one day, with a little bit

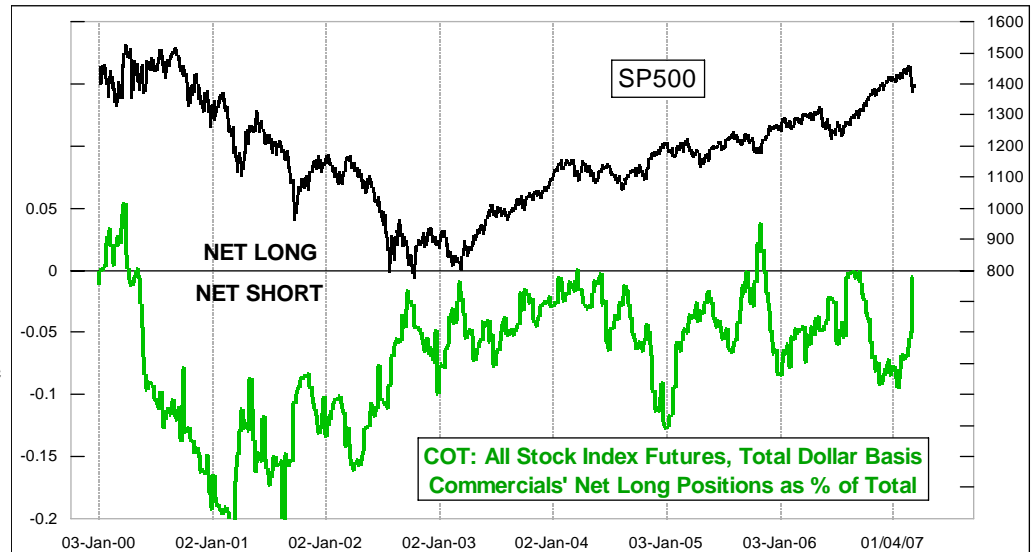


Segment	Rank	Score	Current Managed Account Program Positions		
Sm Cap Value	4	-1.15%	Stock Optimizer: 25% Rydex Nova, 50% Rus2000 Adv, 25% Cash		
Sm Cap Grwth	3	-1.11%	Equity Allocation: 100% IWD (Russell 1000 Value ETF)		
Lg Cap Value	2	-0.88%	RS 2000: 100% Money Market		
Lg Cap Grwth	5	-1.50%	Program funds managed by Global Investment Solutions, LLC		
Cash	1	0.00%	For more information, call (800) 440-7283		

ADV-DECL		ADV	DECL	A-D	10%T	5%T	A-D OSC	SUMM INDEX	OSC UNCH'd	OSC TO ZERO				
NYSE	03/09/07	1958	1316	642	116.870	138.342	-21.471	2576.66	95	525				
NASDAQ	03/09/07	1637	1324	313	-141.173	-88.078	-53.094	597.07	-194	868				
NDQ 100	03/09/07	55	45	10	-5.195	-3.881	-1.313	-26.99	-7	20				
VOLUME		UP VOL	DN VOL	UV-DV	10%T	5%T	Volume OSC	SUMM INDEX	OSC UNCH'd	OSC TO ZERO				
NYSE	03/09/07	776231	610387	165844	-46567	-15086	-31481	132465	-78048	551570				
NASDAQ	03/09/07	756302	1087082	-330780	-180184	-89767	-90418	-83907	-270602	1537753				
NDQ 100	03/09/07	307557	516866	-209309	-95341	-56469	-38872	-214840	-134214	643232				
PRICES		HIGH	LOW	CLOSE	10%T	5%T	Price OSC	OSC UNCH'd	Sum/10 Level	1%T				
DJIA		12330.88	12228.50	12276.32	12380.71	12440.25	-59.539	12321.18	12493.84	11954.17				
NYComp		9122.15	9063.85	9094.99	9155.02	9175.01	-19.990	9135.03	9193.00	8744.86				
SP500		1410.15	1397.30	1402.85	1415.68	1421.60	-5.915	1409.77	1426.92	1366.67				
SP400		835.28	828.83	832.84	836.84	834.08	2.758	839.60	831.60	794.05				
NASDAQ		2404.80	2375.57	2387.55	2424.30	2437.94	-13.637	2410.67	2450.21	2345.64				
NDX		1760.96	1734.35	1744.74	1769.89	1779.98	-10.089	1759.80	1789.06	1715.19				
Russ2000		787.49	780.07	785.12	793.69	795.69	-2.001	791.69	797.49	760.84				
GDM		1047.99	1033.32	1035.80	1065.04	1068.05	-3.009	1062.03	1070.76	1032.09				
TYX		4.733	4.654	4.723	4.727	4.765	-0.038	4.689	4.799	4.822				
Jun Bonds		112.625	112.344	112.500	112.313	111.860	0.452	112.765	111.453	111.156				
DJI Osc Rising Index:		33%	Low Neutral, Trend Up			DJI Osc Pos & Rising:		7%	Oversold, Rising from Oversold					
NDX stocks >100MA:		45	Arms Index:		1.17	VIX:		14.09	Uppr Band:		14.16	Lwr Band:		9.47

of overthrow in the days afterward. Our first chart shows these two price patterns aligned as of the ultimate low day. If we are going to see a bounce upward that is the equivalent of the 1997 bounce, before we get to the retest attempt, then there still ought to be a bit more bounce. We still have top signals due at the end of next week, which just happens to be quarterly options expiration. That expiration makes a good time to end a bounce, since the short term trend that exists into expiration usually goes the other way afterward, which would fit well with our notion of an important bottom around the end of this month.

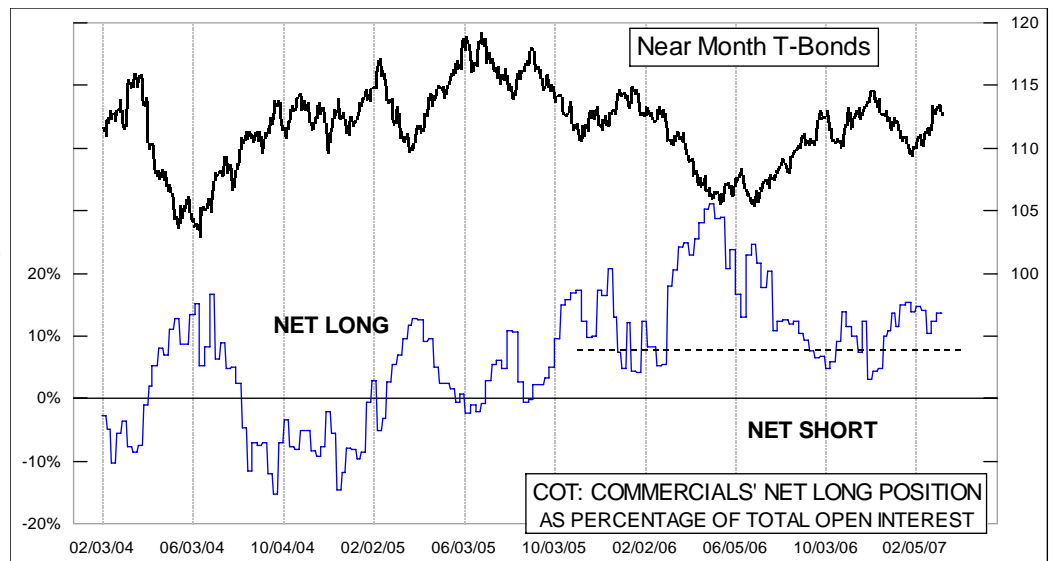
Also fitting that notion, at least in terms of the importance of the bottom if not its timing, is the change that we have seen over the past two weeks in the Commitment of Traders (COT) data for stock market indices. The top chart on page 2 shows our composite indicator which combines all stock market index futures contracts' COT data on a dollar value basis. This week especially, the commercials have been madly covering their shorts in the wake of the Feb. 27 minicrash. This indicator has risen back almost to its neutral level, which in the past has been more than enough to mark an important bottom for the SP500. The fact that this indicator is up this high does not tell us anything about the timing of this bottom we see coming, since it can continue even higher than this like it did in October 2005. What it does tell us, however, is that once the bottom is in, the up move out of that bottom should have a lot of strength. April and May should be a good time to be a bull. It's just tough being patient and keeping one's powder dry while waiting for that time frame to roll around.



**T-Bond** prices finished the week in a perfect way to put us into a quandary. Bond traders did not like the slower job creation in the jobs report for some reason, and pushed the June T-Bond contract down by 7/8ths of a point. That was enough to take the close down below the Price Oscillator Unchanged level, which is where we thought a routine and healthy pullback ought to be able to stop. But the decline was not enough to take prices down below the 10% Trend, which would have been a surer sign in our eyes that a new downtrend for bond prices is getting under way. We are left in an indeterminate no-man's land on the price chart, and will have to sit on our hands until the chart makes up its mind and tells us what is really in store.

Adding to the quandary is what we see in the COT data. This week's COT Report showed the commercial T-Bond futures traders moved back up to a higher level of net longs, as seen in the bottom chart on page 2. The current level of their net long position is almost what we saw when bond prices were bottoming at the end of January. This is not the sort of indication we would have expected to see at this point, just ahead of an expected protracted down move for bond prices, and it gives us pause.

Interpretation of this indicator has required a different set of rules since mid-2005, when the normal top to bottom amplitudes of this indicator shifted upward in the chart. It used to be a few years ago that price tops and bottoms corresponded to COT data extremes about equally deviated from the zero line. But since 2005 that whole range of values has shifted upward in the chart, such that price tops arrive with this indicator down near +5% or so. It is with that adjusted range interpretation in mind that we then turn our task of fitting



this week's information into our overall expectation for an end to this price bounce, and the start of a new downtrend for prices (uptrend for yields) as called for by our four-year Election Cycle Pattern discussed on Thursday.

We are still going to watch what prices do and base our opinions on that, but we are nevertheless troubled and conflicted by the unclear composite picture from these indicators. Proceeding with caution in bondland may be in order until the picture is clearer.

**Gold** did turn down on Friday, after testing the 0.382 retracement level we talked about on Thursday, and being rebuffed. That puts us back into a short term bearish mode in agreement with the intermediate term bearish stance we have maintained throughout the recent bounce.

We still think that there is more downside yet to come in gold prices over the next several weeks. One reason is the indicator shown at the top of page 3, which simply examines the number of up closes over the past 30 trading days. This indicator has not yet retreated from its overbought foray, and it usually takes a drop down below neutral and even toward oversold before a price decline is done in the wake of such an overbought reading.

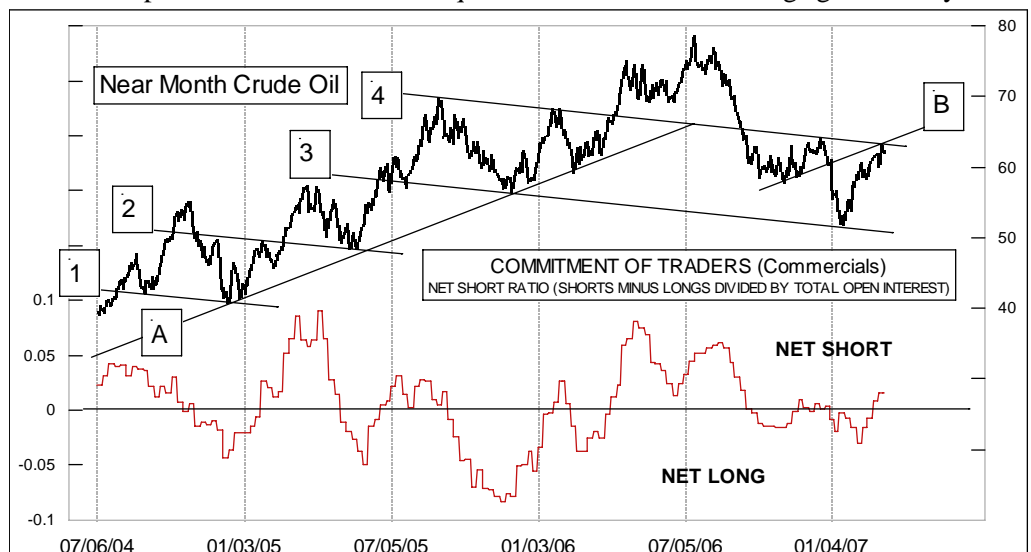
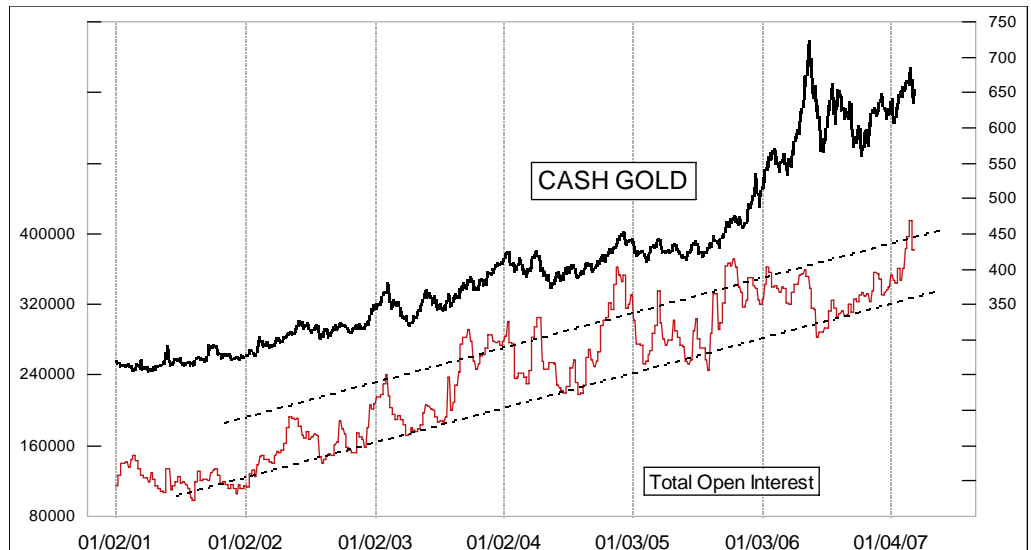
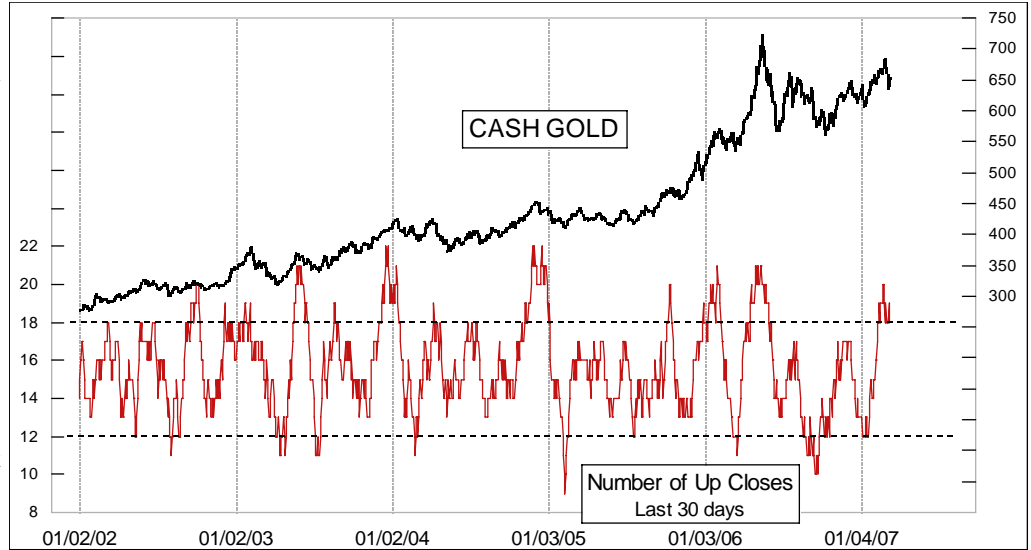
We have also not yet seen a full retreat in total open interest in gold futures, which we show in the middle chart on page 3. Open interest has been in a rising trend channel, and the piercings of the upper channel line have been associated with price tops. It usually takes a much deeper decline in open interest than we have seen thus far to finish such a decline.

We showed this same chart last week, and got a very nice email from our friend and colleague Ian McAvity, who has published his *Deliberations* newsletter since shortly after the earth's crust cooled, and who is a renowned expert on the precious metals and other financial markets. Ian offers the following insight which is worthy of your consideration:

"Just saw your focus on the Open Interest buildup in Comex Gold and wanted to point out that converting the gold that has flowed into GLD [ETF tied to gold price] since late 2004 is now up to more than 40% of the Open Interest. While GLD holders are a different species, a combination of OI plus the Comex contract equivalent of the GLD holdings gives a very different picture. That said, I agree short-term that the buildup of OI on price weakness is evidence of a substantial buildup of shorts opening new positions.

"I'm waiting to see a bearish phase where the ETF starts liquidating gold to handle basket redemptions in the absence of adequate public demand for the shares on the NYSE... All the best, Ian."

Our take is that when such a break begins, and those among the public who have migrated their assets into GLD begin to realize the error of that decision, that should be the event which breaks the rising trend channel in Total Open Interest and sends gold



prices downward toward the next 8-year cycle low due in 2009.

The bottom chart on page 3 shows the COT situation in **crude oil** futures. This is not all that remarkable of an imbalance in the commercials' positions, certainly not presenting a compelling argument that crude oil prices ought to be topping out anytime soon. Their slight net short position as of this week may be enough to put in a temporary top for crude oil prices, but there is a more compelling argument for a top.

We beg your indulgence for having dirtied up this chart with all of the drawn lines, but there is a point here. The upward sloping lines are labeled A and B, and these two lines are parallel to each other. The downward sloping lines are labeled with numbers 1 through 4, and they too are all parallel to each other, acting as sloped agents of support and resistance.

The rally we have seen since the January low for crude oil has taken the price up to touch the underside of line 4. Coincidentally, the price is touching line B. The justification for even drawing line B is pretty tenuous from a technical standpoint, since its only justification for existence is to copy the slope of line A, and attaching it to the lows seen in November and December. That is not as good of a justification as if we had another low to attach a line to. But we gain confidence in its validity from noticing the behavior of the other parallel lines in this chart, downsloping lines which at first had little justification for their own existence other than being parallel to prior lines, but which nevertheless turned out to matter.

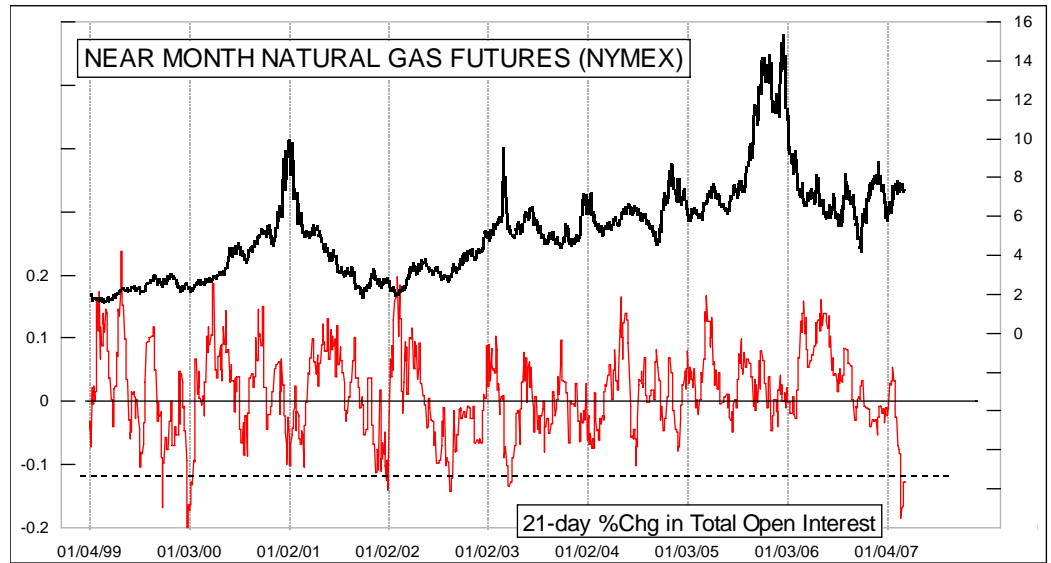
How long this dual resistance will matter for crude oil prices is a separate issue, but with President Bush making a big political deal about the importance of ethanol imports from Brazil this week, it would not be surprising for the crude oil community to back prices off just a bit, and steal away some of the immediacy of that perceived issue.

One last point since we are talking about energy. We look at the COT data for **natural gas** futures every week when we go through this data on Fridays, and there have not been many insights to be gained from it lately. But over just the last few weeks, there has been a huge drop in the total open interest for natural gas futures.

To depict this in the most meaningful way, we constructed the indicator in the chart on page 4, which looks at a 21-day percentage change in natural gas futures open interest. Very low readings are generated when there is a rapid reduction in total open interest, and these events tend to correspond with bottoms for natural gas prices. What is interesting is that the same principle does not work for very high readings.

The current price pattern does not look much like the sort of oversold bottom from which a huge rebound might reasonably develop, but this dropoff in open interest does suggest that there is something brewing in the natural gas market which may surprise traders.

What it might be that could send natural gas prices up and crude oil prices down (slightly) is interesting to contemplate. It should make for some interesting action in those markets, and some confused price action in the stocks of the major integrated energy companies who have exposure to both markets.



**Final Note:** Don't forget to turn your clocks ahead by an hour on Saturday night, if you live in an area that observes Daylight Saving Time. Also remember to change the batteries in your smoke detectors, regardless of where you live.