

THE McCLELLAN MARKET REPORT

DAILY EDITION

Prepared after the close of trading,
Thursday, January 17, 2008

CURRENT OPINIONS

STOCKS: Bullish for short, intermediate, and long term trading styles.

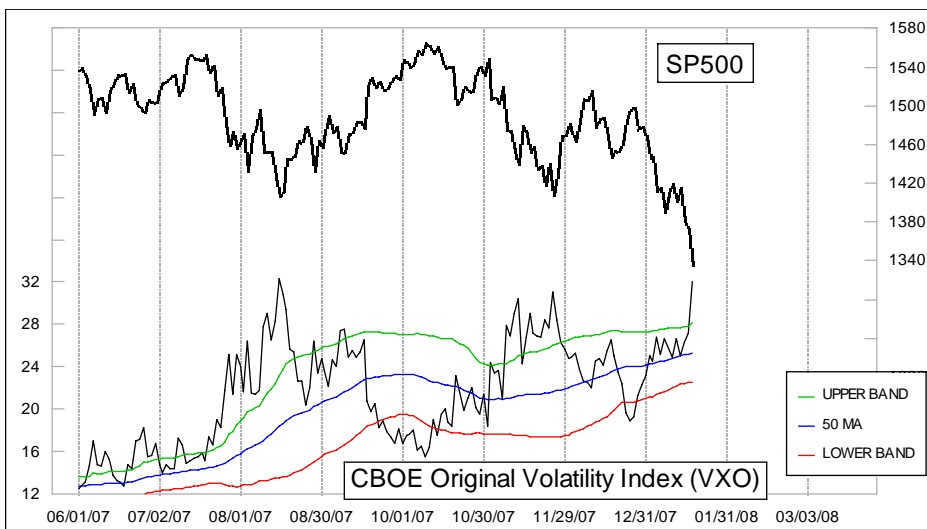
People have given up hope of the Fed ever doing its job. We are now ready to call for Bernanke to resign, since he appears unwilling to cut rates when the need is so clearly evident. That sets the market up for a robustly positive response to any surprising good news.

T-BONDS: Bearish short and intermediate term. Bond prices are just as overextended upward as stock prices are oversold. That means an ugly reversal is ready to unfold as soon as a spark hits the puddle of gas.

GDM & GOLD: Bearish short and intermediate term. Gold has further to fall before the unwinding of the recent top is completed.

Well, this is getting ugly. But you did not need us to tell you that. It certainly was not our intention to ride down a decline like this in a leveraged long position, and had we seen credible signs that such a drop was coming we would have positioned ourselves differently. We would love to hit the rewind button, and change the outcome of past events, but we are trapped in the present and can only face the task at hand, which is to ascertain the most likely outcome for the future based on the available information.

The market was particularly unamused by the comments of Fed Chairman Ben Bernanke, who told a house committee that he did not think a recession was coming, but that he nevertheless thought that some sort of congressional stimulus plan would be a good idea. This is a guy who just a few days ago said that the Fed was ready to take necessary action, and then blinked when the opportunities came and went to do a cut between meetings. This has led a lot of stock market traders to throw in the towel, concluding that the Fed



Segment	Rank	Score	Current Managed Account Program Positions		
Sm Cap Value	4	-6.83%	Stock Optimizer: 100% Rydex Nova		
Sm Cap Grwth	5	-7.26%	Equity Allocation: 100% IVF (Russ100Grwth)		
Lg Cap Value	2	-6.67%	RS 2000: 25% R-2000 Adv, 25% Real Est, 50% Money Market		
Lg Cap Grwth	3	-6.72%	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	01/17/08	478	2794	-2316	-366.600	-244.250	-122.350	-341.35	-489	1958				
NASDAQ	01/17/08	699	2331	-1632	-517.806	-398.580	-119.227	-1912.76	-637	1747				
NDQ 100	01/17/08	21	79	-58	-19.009	-13.263	-5.745	-80.92	-25	90				
VOLUME		UP VOL	DN VOL	UV-DV	10%T	5%T	Volume OSC	SUMM INDEX	OSC UNCH'd	OSC TO ZERO				
NYSE	01/17/08	205227	1948769	-1743542	-375460	-237770	-137690	-1138494	-513150	2240648				
NASDAQ	01/17/08	569560	2201190	-1631630	-512647	-346819	-165829	-1975732	-678476	2638094				
NDQ 100	01/17/08	321191	1042564	-721372	-234131	-157859	-76272	-892148	-310402	1215029				
PRICES	HIGH	LOW	CLOSE	10%T	5%T	Price OSC	OSC Direction	OSC UNCH'd	Sum/10 Level	1%T				
DJIA	12517.61	12125.56	12159.21	12834.68	13054.03	-219.351	DOWN	12615.33	13251.44	13171.00				
NYComp	9129.01	8805.67	8818.95	9423.58	9581.05	-157.471	DOWN	9266.11	9722.77	9632.53				
SP500	1377.72	1330.67	1333.25	1417.52	1442.39	-24.870	DOWN	1392.65	1464.78	1465.98				
SP400	787.49	758.93	758.93	815.46	835.22	-19.764	DOWN	795.69	853.01	857.07				
NASDAQ	2416.51	2343.65	2346.90	2511.34	2573.70	-62.367	DOWN	2448.97	2629.83	2590.22				
NDX	1894.19	1838.99	1842.10	1970.54	2017.38	-46.842	DOWN	1923.70	2059.54	1986.32				
Russ2000	703.56	680.13	680.57	726.51	746.13	-19.619	DOWN	706.89	763.79	783.29				
GDM	1391.10	1319.69	1324.63	1352.30	1317.60	34.696	DOWN	1387.00	1286.38	1193.12				
TYX	4.347	4.247	4.253	4.396	4.461	-0.064	DOWN	4.332	4.519	4.717				
Mar Bonds	120.188	118.844	120.094	117.792	116.736	1.055	UP	118.847	115.797	113.012				
DJ Osc Rising Index:		10%	Oversold, Trend Dn			DJ Osc Pos & Rising:		3%	Oversold, Falling					
NDX stocks >100MA:		13	Arms Index:		1.62	VIX:		28.46	Uppr Band:		26.43	Lwr Band:		21.12

does not have a clue and the FOMC is asleep at the switch.

That throwing in the towel took the form of a 307 point drop in the Dow, and pushing up the various volatility indices.

Our first chart shows the VXO, which is the old VIX and which is based on options on the SP100 Index. It is now at 32.10, almost equaling its Aug. 15, 2007 high of 32.25. We have to go all the way back to early 2003 to find a higher value.

A chart of the VIX (not shown) looks pretty much the same as the VXO shown on page 1; the VIX is now also well above its upper 50-1 Bollinger Band, which is where price bottoms are seen.

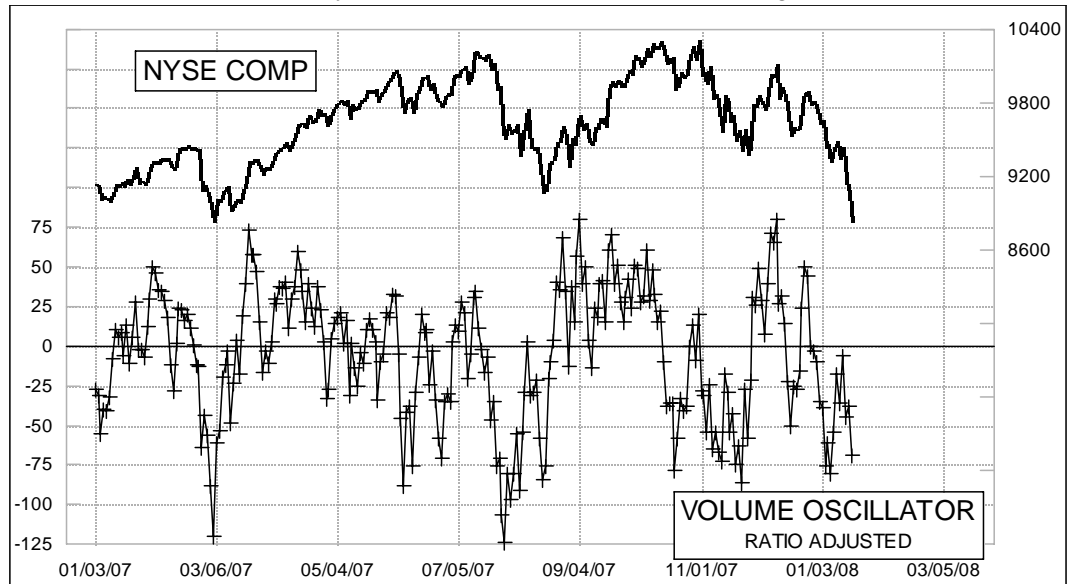
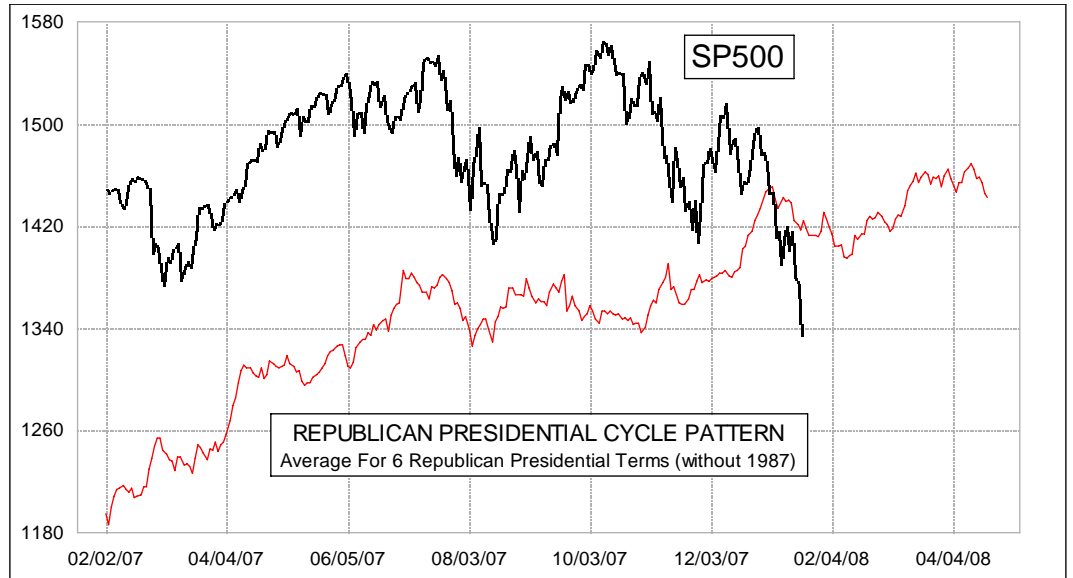
Historical patterns showed us some evidence that weakness was possible in January, but not this much. The top chart on page 2 shows the Republican Presidential Cycle Pattern (RPCP), which has a weak period in January of the election year where we now find ourselves. But that RPCP still says that the market should be making higher lows and higher highs, so this most recent excursion downward is a deviation from that normal pattern. As such, it should be corrected once traders and investors get an excuse to have some optimism. The VIX and VXO are showing numbers consistent with exasperation and capitulation.

We are also seeing oversold and now divergent conditions in one version of the NYSE McClellan Volume Oscillator. The lower chart on page 2 shows the Ratio Adjusted Volume Oscillator, which factors out differences in total volume traded each day. It is showing a higher low right now than what we saw back on January 8. Divergences like this are typical at important bottoms.

Interestingly though, the raw Volume Oscillator is making a lower low right now. Today's value (from our table on page 1) is -137,690, which is more negative than the -121,084 reading on Jan. 8. Indeed, that is the lowest raw Volume Oscillator reading since the August 15 reading of -152,525. The reason why the raw Volume Oscillator is making a lower low while the Ratio Adjusted Volume Oscillator is making a higher low has to do with a ramping up of total volume into this decline. Traders are piling up the total volume numbers as they seek to flee the melee. That by itself is important information.

There is a temptation to look at the raw Volume Oscillator and the Ratio Adjusted Volume Oscillator, and attempt to make a judgment about which one is "better". Our take is that each has an important message to convey, and that trying to roll up all of that information into a simple judgment of "better" can miss some of that important information.

The key point for analyzing the current market is that, while we wish we had not ridden down a steep short term decline like this, we find ourselves facing an oversold and overly stretched market that is poised to rebound as soon as it gets a hint of an excuse to do so. Bear markets do not unfold this rapidly, they unfold more slowly so that the selling can be dragged out and not exhausted all at once. So finding ourselves in this situation,



even though it was not one that we foresaw developing, we are obligated to recognize it for what it is, which is a deeply over-extended condition arising in a period when one is not due, which adds up to (eventual) opportunity if one can stand the pain.

T-Bonds kept adding to their gains as stocks added to their losses, which makes bonds all the more vulnerable to the eventual reversal of stock prices once the stock market's oversold condition finally gets some traction. This is another case of prices persistently going where they are not supposed to, since bond prices usually turn downward at the beginning of an election year. That leaves bond prices vulnerable to a "recognition wave" of selling, one which comes as bond traders "recognize" that oh! bond prices are supposed to be over there, and they are heading that way in a hurry.

Already we have not only an overbought reading in the Short Term Price Oscillator but also now a divergent lower high. That is a reliable sign that it is time to head for safer ground, away from the supposed safety of T-Bonds.

Gold tried to rally on Thursday, but ended up serving as a "source of funds" for stock traders whose stock positions were quickly headed south. The result was a test of the underside of the Price Oscillator Unchanged line for both February gold and for the GDM Index, which is shown in the lower chart on page 3. After bonking against the Price Oscillator Unchanged line, the GDM headed to a lower close, which is in keeping with the aftereffects of the bearish rising wedge pattern we saw earlier this month. The GDM has now retraced about 50% of the rally from the mid-December lows, but we do not believe that this is all of the decline that we are going to see. The rising dollar should continue to put pressure on gold prices over the next few months.

