

THE McCLELLAN MARKET REPORT

DAILY EDITION

Prepared after the close of trading,
Tuesday, September 09, 2008

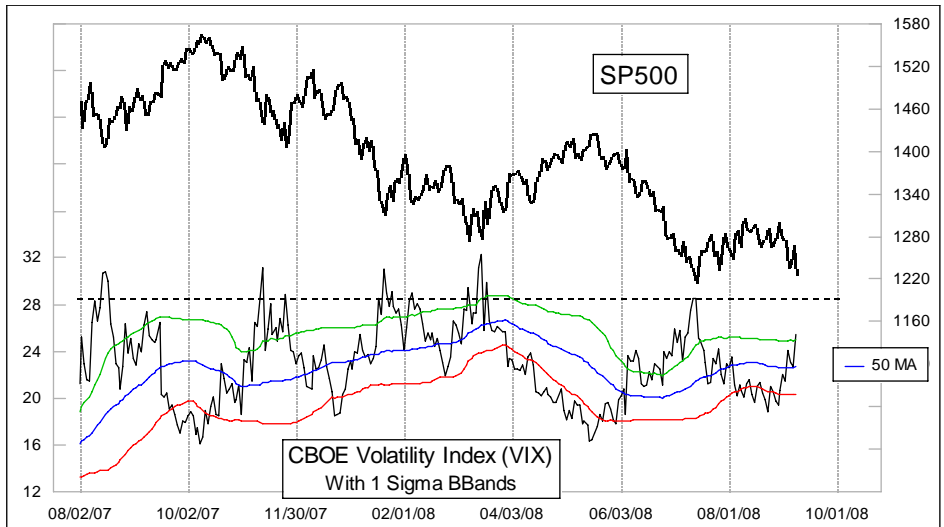
CURRENT OPINIONS

STOCKS: Bearish now short, intermediate, and long term. The decline continues, and the Fed is not printing money fast enough to stop it.
T-BONDS: Bearish short and intermediate term. The violent bond price action resembles that of a climactic blowoff top.
GDM & GOLD: Very bullish short and intermediate term. Look for dollar weakness to spark a big gold rally.

2008 will go down as the year of the banking crises. Lehman Brothers led the way lower on Tuesday, after word came that a deal to get an infusion of capital from a South Korean bank had fallen through when the buyers walked away. That led to a 45% decline for Lehman, and others got sucked down into the swirling vortex. WAMU fell 20%, and AIG fell 19% which helped to pull down the DJIA.

The DJIA and SP500 have not quite made lower closing lows below their July 15 levels, but other indices have done so, most notably the NYSE Comp. The NDX had already broken below its July 15 low last week, and the Nasdaq Comp joined the club on Tuesday as tech stocks got hurt.

The first chart shows the SP500 versus the VIX. Tuesday saw the VIX move up strongly to a closing value of 25.47, a level which is now just barely above its upper 50-1 Bollinger Band. But in raw terms, this is far from the VIX peaks at 28 or higher that have marked the important bottoms over the past



Segment	Rank	Score	Current Managed Account Program Positions		
Sm Cap Value	1	5.44%	Stock Optimizer: 50% Rydex 1x Inverse SP500, 50% Cash		
Sm Cap Grwth	4	-1.00%	Equity Allocation: 100% Cash		
Lg Cap Value	2	2.65%	RS 2000: 10% REIT, 14% 2x Russ2000, 20% 2x Inv SP500, 56% Cash		
Lg Cap Grwth	5	-3.27%	Program funds managed by Global Investment Solutions, LLC		
Cash	3	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	09/09/08	394	2827	-2433	-202.632	-130.185	-72.446	350.162	-275	1174
NASDAQ	09/09/08	556	2322	-1766	-247.912	-157.494	-90.418	238.825	-338	1470
NDQ 100	09/09/08	7	93	-86	-18.902	-11.587	-7.315	-50.037	-26	120
VOLUME	UP VOL	DN VOL	UV-DV	10%T	5%T	Volume OSC	SUMM INDEX	OSC UNCH'd	OSC TO ZERO	
NYSE	09/09/08	141010	1480144	-1339134	-131864	-83876	-47988	-406873	-179851	779900
NASDAQ	09/09/08	171025	2413942	-2242917	-456324	-247202	-209122	-589927	-665446	3516991
NDQ 100	09/09/08	40345	1145826	-1105481	-255209	-146457	-108751	-485808	-363960	1811069
PRICES	HIGH	LOW	CLOSE	10%T	5%T	Price OSC	OSC Direction	OSC UNCH'd	Sum/10 Level	1%T
DJIA	11577.50	11230.73	11230.73	11441.26	11509.14	-67.888	DOWN	11373.37	11570.24	12177.52
NYComp	8168.59	7871.07	7871.15	8234.34	8356.46	-122.118	DOWN	8112.23	8466.37	8910.86
SP500	1268.66	1224.51	1224.51	1267.07	1275.87	-8.801	DOWN	1258.26	1283.79	1344.56
SP400	795.96	765.22	765.22	799.88	806.06	-6.176	DOWN	793.70	811.61	824.88
NASDAQ	2285.54	2209.81	2209.81	2330.30	2345.20	-14.904	DOWN	2315.40	2358.62	2405.45
NDX	1779.32	1721.55	1721.55	1842.60	1863.64	-21.044	DOWN	1821.55	1882.58	1896.58
Russ2000	738.11	707.29	707.29	728.27	724.44	3.834	DOWN	732.11	720.99	728.29
GDM	855.93	770.47	771.25	969.63	1049.42	-79.785	DOWN	889.85	1121.22	1208.12
TYX	4.266	4.173	4.192	4.381	4.458	-0.077	DOWN	4.304	4.527	4.558
Dec Bonds	120.359	119.234	120.188	117.761	116.561	1.199	UP	118.960	115.482	114.633
DJI Osc Rising Index:	47%	Neutral, Trend Up			DJI Osc Pos & Rising:	30%	Neutral, Rising from Oversold			
NDX stocks >100MA:	22	Arms Index:	1.46	VIX:	25.47	Uppr Band:	24.98	Lwr Band:	20.31	

year. There is assuredly fear out there, but it is evidently not of a sufficient magnitude to lead options players to price fear into their SP500 options. In other words, the market can still get a lot worse from here before we have an extreme for the VIX.

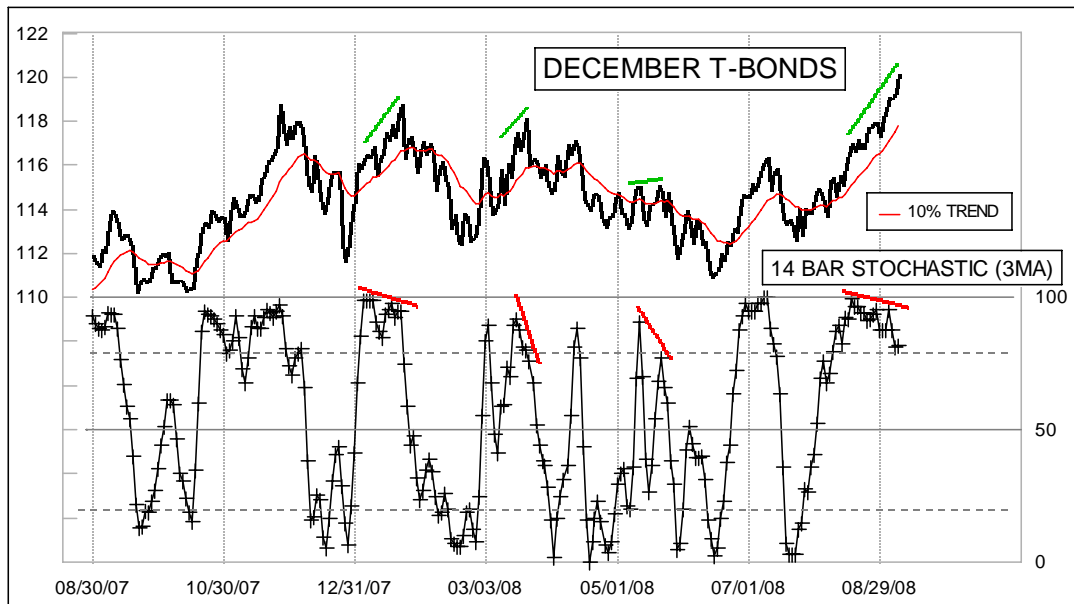
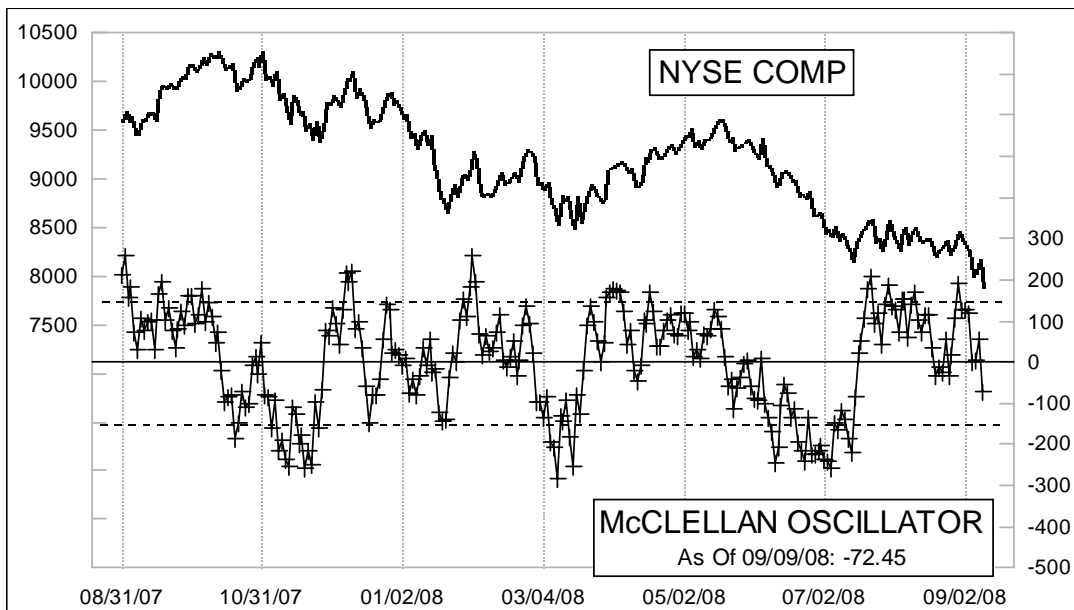
And we are not yet seeing an oversold reading on the NYSE's McClellan A-D Oscillator, which is shown in the top chart on page 2. The large negative breadth on Tuesday caused the Oscillator to plunge well below zero, and to a lower low than what we saw in the minor dips below zero during August. Recent price bottoms of importance have come at lower Oscillator readings, usually well below -200 and with a divergence in place relative to prices. We don't have anything like that now, so it is not yet time to start betting that the worst is over.

T-Bonds were once again the beneficiaries of the flight to quality trade. The December T-Bond contract jumped another 29/32nds of a point, which is about appropriate in magnitude based on the sharp drop in the stock market. But in the very near future, I think we are going to see a break in the classic flight to quality behavior. Investors may still flee to "quality", but the difference will be that T-Bonds are not going to qualify.

Today's up close was part of a lengthening chain of up days. Since August 22, we have seen only one small down close, and a couple of unchanged days. The rest of the trading days have seen up closes, which creates an overbought situation just on the basis of that counting. We also see an overbought condition in the lower chart on page 2, which shows the 14-3 stochastic oscillator for the December T-Bond contract. This indicator can stay above the 80 level, which marks overbought conditions, for a long time during trending moves. But such moves usually end once a divergent condition appears, and we have one now. Not all tops see a divergence, but nearly every divergence which does appear results in an important top.

T-Bonds are living on borrowed time up here, and if we see the dollar reversal which I am looking for, and which the dollar's overbought condition demands, then the definition of "quality" to which money will flee could change rapidly.

Monday saw the Dollar Index up strongly, and gold moving up in spite of that dollar strength. That was a strange development, because dollar strength usually hurts gold prices. Well, gold made up for that anomaly on Tuesday by falling sharply even though the Dollar Index was down. The drop takes December gold futures back down to retest the Aug. 15 low. In after-hours trading, gold is down even further this evening, even though the dollar is not helping or hurting things. I suspect that there may be some hedge funds out there which had exposure to both financial stocks and long gold positions, and they are having to liquidate one to cover the other.



Understand, though, that gold prices have already dropped 20% in just 2 months, which is an unsustainable rate of decline. Eventually the bungee cords will snap taut, and bring at least a temporary rebound.

Next Monday, Sep. 15, is the date of the next full moon, and so we should expect some kind of turning point behavior from that event if nothing else intervenes before then. But as I mentioned on Monday, the holding still of gold prices for four trading days is an unnatural behavior which tends to occur just before big rallies, as if someone is holding prices in place until everything is ready for the rally to commence. Tuesday looks to me like a fakeout dip.

