THE McCLELLAN MARKET REPORT

DAILY EDITION

Prepared after the close of trading,
Friday, October 10, 2008

CURRENT OPINIONS

STOCKS: Bullish now for all time horizons. Next week should see a big relief rally, although Monday might see the market try to squeeze a few last souls out of their positions by selling off early. But I also think that the bottom is likely to see a retest, probably around Oct. 30.

T-BONDS: Bearish short and intermediate term. Even crashing stock prices cannot help T-Bonds.

GDM & GOLD: Neutral short term, bullish intermediate term. Gold deserves a pause, and the Oct. 14 full moon ought to start an acceleration again as all of the extra money being printed right now pushes gold upward.

Never has there been a wilder day in the history of stock market movements, as far as I know. Overnight selling led to a big surge downward at the open, taking the Dow down as much as 697 points about 5 minutes after the open. But then a half hour later, the Dow was back to almost unchanged. A couple more selling waves retested the opening low, but then buyers came in like crazy in the final hour. Had the market closed trading twenty minutes earlier than the 4PM close, there would have been green numbers for most of the indices. Last minute selling turned the late gains into losses for most indices, although the Nasdaq Comp had a small gain, and the Russell 2000 Index closed up 4.6%! The Russell 2000 Value Index gained 5.9%.

The smaller cap stocks are little bit easier to push around in a big way with a little bit of money, but I see this as a sign that a turn is coming. A bottom is assuredly due. Our Timing Model signals have said that a cluster of bottom signals was due Oct. 13-16. We are close enough for the bottom described by those

Segment	Rank	Score
Sm Cap Value	2	-20.73%
Sm Cap Grwth	5	-23.19%
Lg Cap Value	4	-22.79%
Lg Cap Grwth	3	-22.61%
Cash	1	0.00%

Current Managed Account Program Positions
Stock Optimizer: 25% 1x Russ2000, 25% Nova, 50% Cash
Equity Allocation: 100% IWD (Russ1000 Value)
RS 2000: 15% REIT, 16% 2x Russ2000, 16% 2x Inv SP500, 53% Cash
Program funds managed by Global Investment Solutions, LLC
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	10/10/08	1146	2130	-984	-1170.628	-780.741	-389.886	-3298.438	-1561	6237
NASDAQ	10/10/08	1456	1576	-120	-927.159	-643.161	-283.998	-2875.627	-1211	4469
NDQ 100	10/10/08	39	61	-22	-36.393	-24.486	-11.908	-137.687	-48	190

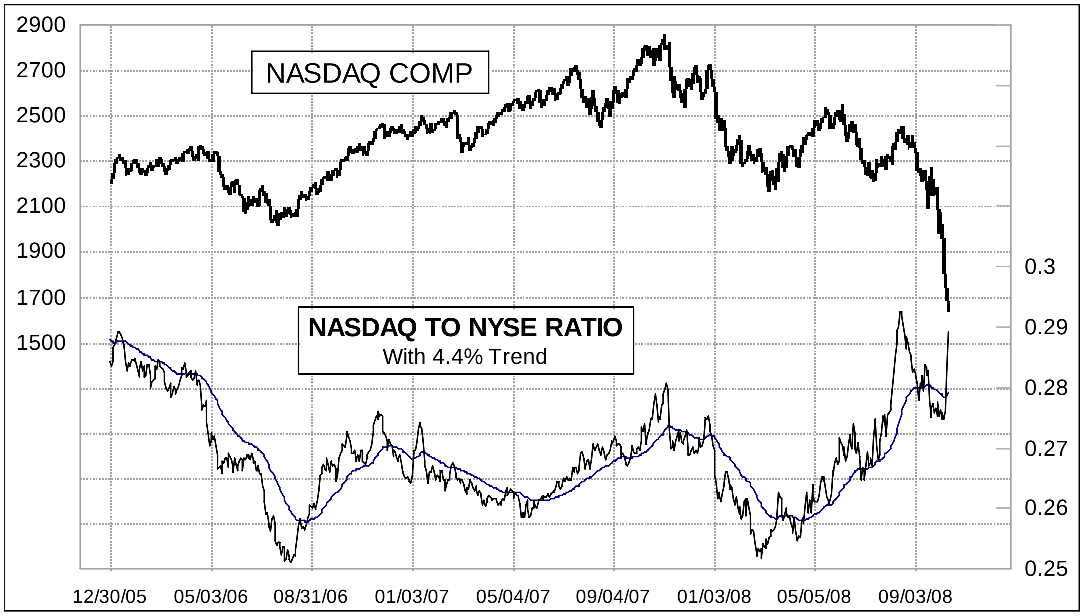
VOLUME		UP VOL	DN VOL	UV-DV	10%T	5%T	Volume OSC	SUMM INDEX	OSC UNCH'd	OSC TO ZERO
NYSE	10/10/08	1037028	1813354	-776326	-619643	-379333	-240309	-1630548	-859952	3946235
NASDAQ	10/10/08	1628692	2514465	-885773	-1032443	-650991	-381451	-3076852	-1413894	6215130
NDQ 100	10/10/08	705346	1321314	-615968	-485871	-309318	-176553	-1504207	-662424	2868632

PRICES	HIGH	LOW	CLOSE	10%T	5%T	PRICE OSC	OSC Direction	OSC UNCH'd	Sum/10 Level	1%T
DJIA	8901.28	7882.51	8451.19	10148.66	10667.41	-518.747	DOWN	9629.91	11134.28	11830.78
NYComp	5887.55	5336.59	5704.13	7048.94	7530.50	-481.565	DOWN	6567.37	7963.91	8586.19
SP500	936.36	839.80	899.22	1092.91	1160.77	-67.861	DOWN	1025.05	1221.85	1301.41
SP400	560.37	506.75	549.85	675.00	724.31	-49.311	DOWN	625.68	768.69	800.65
NASDAQ	1690.77	1542.45	1649.51	1965.70	2102.06	-136.360	DOWN	1829.34	2224.78	2330.83
NDX	1317.48	1196.11	1269.80	1509.16	1631.60	-122.437	DOWN	1386.73	1741.79	1829.21
Russ2000	526.39	467.92	522.48	627.98	666.71	-38.737	DOWN	589.24	701.58	713.88
GDM	840.50	684.26	714.16	865.65	927.59	-61.940	DOWN	803.71	983.34	1141.27
TYX	4.159	4.076	4.137	4.188	4.273	-0.086	UP	4.102	4.351	4.486
Dec Bonds	117.063	116.219	116.625	118.577	118.131	0.446	DOWN	119.023	117.729	115.531

DJI Osc Rising Index:	0%	Oversold, Trend Dn	DJI Osc Pos & Rising:	0%	Oversold, Falling
NDX stocks >100MA:	0	Arms Index: 0.94	VIX: 69.95	Uppr Band: 42.47	Lwr Band: 17.41

signals to be in. In addition, I sent out a message to all of our readers earlier today, pointing out the similarities between the current financial panic and the panic of 1903. I see lots of similarities, and believe that the worst is over now. That does not preclude the market from doing a retest of this low, probably around Oct. 30 according to some new predictive work we are doing.

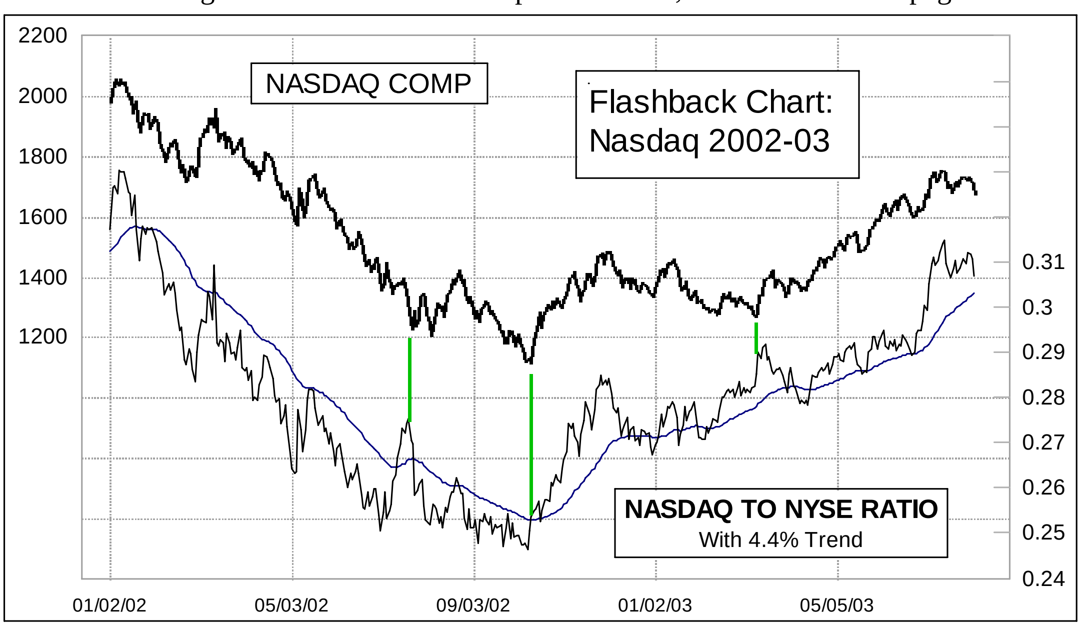
It is no small thing that the Nasdaq has started doing better. The top chart on page 2 shows the Nasdaq/NYSE relative strength ratio, which is calculated simply as the value of the Nasdaq Comp divided by the value of the NYSE Comp. When the line moves higher, that means the Nasdaq is outperforming the NYSE, either by going up faster, or going down more slowly. When this ratio moves above its own 4.4% Trend, it can be said that the Nasdaq is the relative strength leader.



That is an important classification, because the overall market tends to do better when the Nasdaq is leading the way. Part of that is a function of the higher beta of the Nasdaq stocks relative to the older, more staid NYSE issues. But part of it is that the Nasdaq tends to be the "minor league" for stocks, where new companies get listed as a stepping stone to someday becoming "real" companies listed on the NYSE. That stereotype has changed quite a bit over the years, with big companies like Intel, Microsoft, Oracle, and others deciding not to make the leap to the big league listings, but it is still a relevant factor overall.

The point about this minor league comparison is that the lesser deserving stocks tend to suffer first when liquidity dries up. So if it happens that the less deserving companies finally start to do better, that can be a sign that money is coming back to the stock market. Looking back at the March 2008 price bottom, we can see that the Nasdaq/NYSE relative strength line bottomed ahead of the price low and was already moving up when prices finally bottomed. It was not moving up as dramatically as this current up move, but few things in the history of the stock market have ever happened as dramatically as this week's events.

To better illustrate this point about relative strength bottoms ahead of final price bottoms, the lower chart on page 2 presents a flashback to the 2002-03 period, the last major bottoming period before this current ugliness. The green vertical lines help to point out how the major price lows for the Nasdaq Comp saw an upward movement in the relative strength ratio before the final price bottom. So it is a piece of good news to see small cap stocks starting to outperform the supposed blue chips.

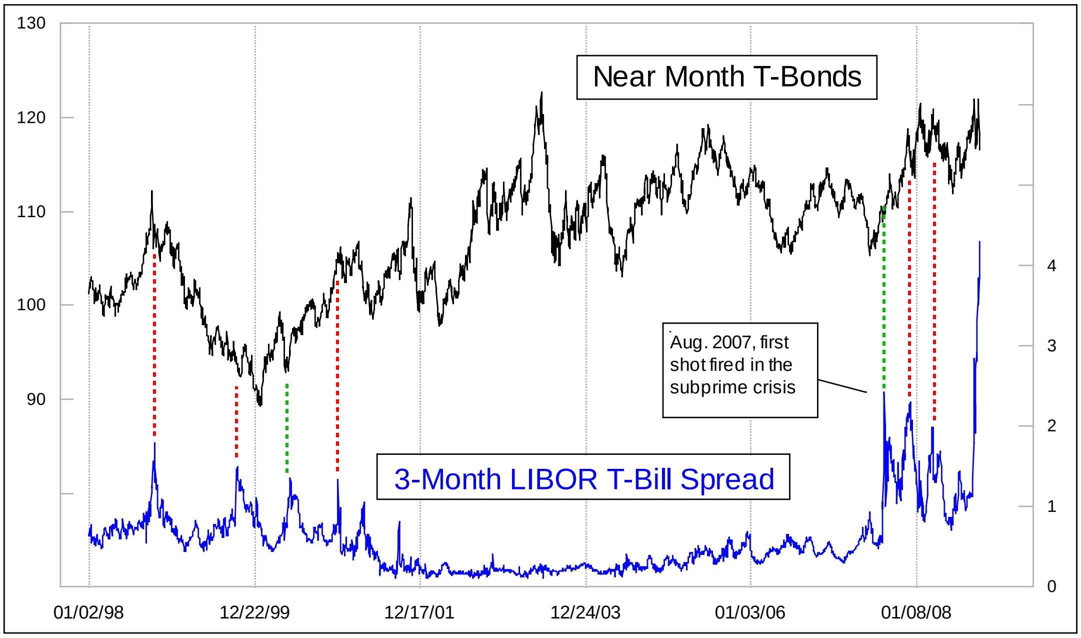


T-Bonds had their quietest day in the last two weeks, in spite of the wild excitement going on in stock prices. The close saw a very slight gain, but not one big enough to change the downtrend which now appears to be in effect.

The bigger bond market news

once again occurred at the shorter end of the yield curve. The banking crisis in Europe really appears to be reaching a zenith, and doing so at a much faster clip than what we have seen in the US. The result was another rise in the 3-month LIBOR to 4.82%. That takes the spread between the LIBOR and the 3-month T-Bill yield to a new record, as seen in the top chart on page 3.

You might wonder what this has to do with longer term T-Bonds, and so did I, which is why I put this comparison together. It turns out that big spikes in the LIBOR T-Bill spread usually tend to result in tops for long term T-Bond prices. And I should reemphasize the word *usually*.

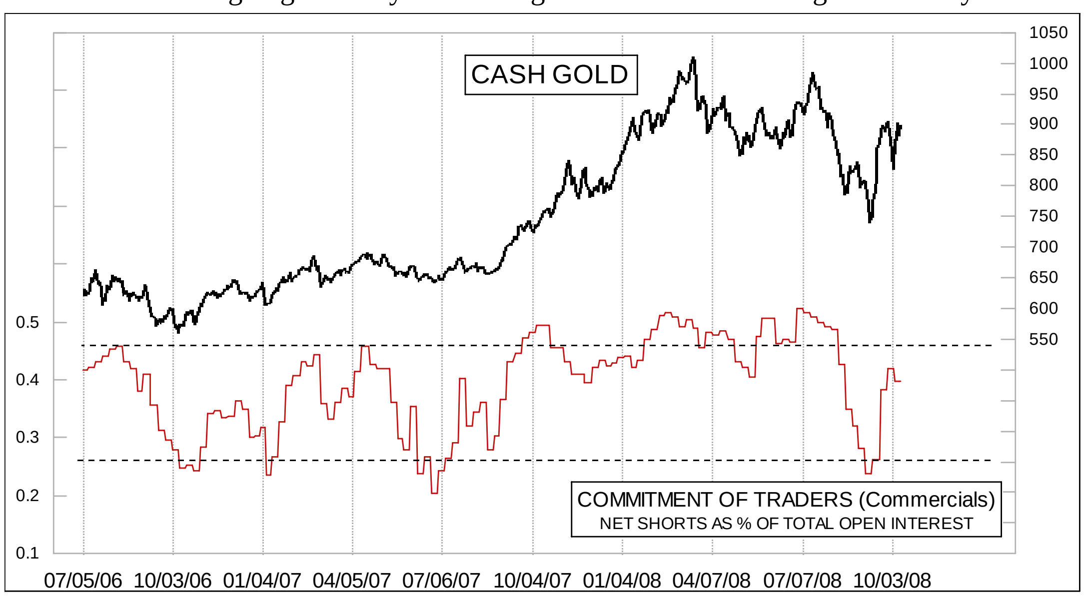


The dashed vertical lines in the chart highlight the major spikes in this spread over the last 11 years, although none of those prior spikes is the equal of the current one. Most of the time following these spikes, long term bond prices moved downward, although there were a couple of important exceptions. The first of these was in May 2000, when the collapsing tech bubble sent traders scurrying into T-Bills. The T-Bond uptrend was only briefly interrupted, and the spread spike actually marked a bottom for the long T-Bond.

The second exception was in August 2007, when this whole liquidity crisis was just getting underway, and the thought was that a Fed rate cut and some extra lending from the discount window might mean just a brief slowdown for the economy.

Aside from those two exceptions, a spread spike has meant lower bond prices in the weeks and months to follow. The biggest and best example of this is at the left end of the chart, when T-Bond prices spiked up as part of the collapse of Long Term Capital Management. The implication here is that the high prices of T-Bonds (low yields) should get unwound as the spreads start working their way back to more normal ranges. Perhaps the addition of extra quantities of long term bonds needed to help finance all of the creative bailout ideas going on lately in Washington will have something to do with yields rising and prices coming down.

Gold prices had been up overnight, as mentioned in Thursday's *Daily Edition*. But gold could not survive the onslaught of traders rushing madly into the US dollar. The Dollar Index closed up by more than 2% on Friday as part of that same rush that had European banks scurrying for capital and raising the LIBOR up so high in hopes of attracting it. December gold futures closed down by \$26.50/oz, and actually had what looked like an outside day reversal bar. I am inclined not to believe the bearish implications of that chart indication simply because these are not orderly times for the markets. So basing one's conclusions on a quantified examination of such erratic behavior seems like a risky way to go.



This week's COT Report showed that commercial gold futures traders pared back their net short position in gold futures just slightly. They are not at as low of a net short position as they were when gold was bottoming in the low \$700s, but they are not at a high enough net short position at the moment to really get me worried about a major top. This just looks like the brief pause that I figured was on the schedule, and gold will soon begin to benefit once again from all the fresh money being printed lately.

There is a financial crisis that you probably have not heard much about yet, I know I have not, and I am figuring that it is going to come to a head very soon. And that crisis is the problem with the Mexican peso. The top chart on page 4 shows that the value of the Mexican peso compared to the dollar has been in a huge, steep decline in recent weeks. As recently as early

August, 100 pesos would get you $10. Now it is down to only $7.59, a decline of 24%. Most of that decline took place over the last 2 weeks. You can just imagine what sorts of economic dislocations and turmoil this is going to cause with our big trading partner to the south. When you also factor that we purchase roughly 40 million barrels of oil from Mexico each month, and the dollar price of that oil is way down, that means the realized value in pesos for those oil sales is also way down. Look for that factor to start creeping into the news very soon.

Crude oil prices fell along with gold, as all sorts of commodities gave up the tiny bit of strength they were seeing on Thursday and turned into a "source of funds" for strapped traders.

Wholesale gasoline prices have also been falling rapidly lately, which is part of what has pulled crude oil prices downward. And the decline in gasoline prices is extremely unlikely to be over just yet for one very important reason: major bottoms in gasoline prices tend not to arrive while total open interest in RBOB futures is still declining.

In the chart at right, we see that open interest for RBOB futures gave a nice divergence to indicate an important price top, and both prices and open interest have been falling since then. The circles indicate how important bottoms for gasoline prices tend to arrive only after open interest has started to climb back up again. Once we see open interest start to move up, then we can start to think about maybe seeing gasoline prices find a bottom.

The final chart is my Friday regular, showing that yet again the commercial natural gas futures traders are adding to their net long positions. This is yet another new record net long position for the commercials, and it says that at some point we are going to see a big rally in natural gas prices. I don't know why the commercial traders think that; I only know that they have a well established track record for being right, but also for being early to the party ahead of the rally.