Stocks tried to rally, but the unease over next week’s elections proved to be too potent a factor, and most of the major averages finished with a small loss. In a surprise, though, breadth was slightly positive, and the Russell 2000 was actually up by +0.56%. That’s positive development, because the small caps are the most liquidity sensitive issues. So if they are starting to do relatively better, that could mean liquidity is coming back, even though fear is not yet leaving.

The SP500 is only down by 4.8% from the all-time high it made back in August. So it is really hard to say that it is “oversold”. But we have now seen a somewhat oversold reading in the SP500’s Short Term Price Oscillator (STPO). It can certainly go lower than this, but this is also a low enough reading to get a market bottom if the market wants to bottom.

We are now at the moment when worries about the election are at a climax. After the election, people still might have worries about the future, but they won’t
have worries about the election because we should know the result (2000 was an historical anomaly). Fear of the unknown seems to be the most powerful type of fear for investors. After Tuesday, the unknown will become known, and there is very likely to be a relief rally.

But what if Mr. Trump wins? I have been asked that a lot lately, apparently because the consensus view is that a Trump victory would be bad for the stock market. But if “everyone” believes that, will the market allow “everyone” to be right? Not very likely.

Earlier this week, I noted the oversold readings we were seeing on the NYSE’s McClellan A-D Oscillator. Those happened because the daily A-D number have been decidedly negative lately, and the Oscillator measures the upward or downward acceleration in the A-D stats.

We are also seeing a lot of negative breadth numbers among the high-yield bonds as tracked by FINRA. These are corporate bonds, categorized as not being “investment grade” (I don’t know who does FINRA’s categorizing). They move in sympathy with the stock market much more than with bond yields.

The raw A-D Line for these high-yield bonds (not shown) topped back on Oct. 25, and has been in a sharp drop since then. The downward acceleration in that A-D Line has produced an oversold reading for its McClellan Oscillator, shown in the top chart.

The point of this chart is that when one of these really extreme low readings appears, the price decline for the stock market is usually about done. One notable exception was back in October 2014, when traders were gripped by the fear of Ebola reaching the U.S. and causing us all to die of hemorrhagic fever. In that instance, the market kept going downward even after one of these very low readings on this particular McClellan Oscillator. So as with everything in life, there are exceptions. But the idea of an oversold reading on this and many other indicators does fit well with the notion of a market reaching a climax of fear ahead of the election.

Friday is COT Report day, and there are some really interesting developments this week. The lower chart shows that commercial traders of T-Bond futures are now back to net long, after spending all of 2016 on the net short side of neutral. Perhaps more important than
the raw value is the point
that this week’s movement
in the numbers seemed to
show a great deal of urgency
among these big-money
traders to get repositioned
the other way. That can be a
useful indication that a big
change is brewing.

The same message
comes from the COT data on
10-year T-Note futures. In
these data, the commercial
traders net position has actu-
ally been trending over the
years toward the net short
side, but excursions outside
of the trend channel shown
in the chart have been
important.

This week saw a rapid
drop to below the lower
band, which is where mean-
ingful price bottoms are
seen. So we ought to get
ourselves ready for a rally in
T-Bonds and T-Notes.
Remember that the 3-week
anniversary of crude oil’s
price top is on Tuesday,
which would make for a nice
topping point for bond
prices as discussed earlier
this week.

I suspect that the dollar
is going to somehow be
involved in that change for
bonds. Commercial traders
of US Dollar Index futures
continued to increase their
net short position this week,
ne the slight pullback in
the value of the dollar. High
readings like this are associ-
ated with tops for the Dollar
Index.

Why would that be help-
ful to T-Bonds? I really
don’t know. But bond
prices have been moving
down since early July, even
as the Dollar Index has
moved higher. So for the
moment they appear to have
an inverse correlation.
Whether that makes sense or
not is secondary.

A presumptive dollar
drop should be at least help-
ful for the dollar price of
gold, if not for gold prices in
other currencies. The COT
data for gold futures this
week showed the commer-
cials upping their shorts, but that is to be expected given the rapid price rise.

The revelation in this chart is that the rise in the commercials’ net short position has only been a small one. That says the price rise to date is not yet enough to get the commercials to aggressively move to a higher net short position. In other words, there should be more room to run higher for gold prices.

Not so, however, for copper futures. Spot copper prices this week saw a slight breakout from the long triangle structure that has been underway all of this year. Triangles are a regular feature in the history of copper prices. So a breakout like this could be a bullish development.

But the COT data say otherwise. The commercial traders were slightly net long, but have now moved to slightly net short. The advantage of seeing a lot of history is that it allows us to know that being slightly net short is about as extreme as they ever get in that direction. Such readings are associated with price tops, and not the start of successful breakouts. Although, having said that, I will note that we have not seen any successful breakouts lately.

So what circumstances add up to a stock market rally, a bond rally, a dollar drop, a gold rise, and a copper drop? That’s a tougher one to answer. But that’s what the data are pointing to. Should be an interesting time.

Final Note: I am scheduled to be Carl Quintanilla’s guest on CNBC Monday morning at 10 AM Eastern Standard time (yes, we “fall back” this weekend), talking about how the stock market’s movements forecast changes in presidential poll numbers, and other topics that may come up.

On another note, the latest issue of Timer Digest has me ranked as the #1 stock market timer over the past 12 months. See the note on our web site’s Home page.

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Buy and Sell signals are generated by technical indicators often referred to as “directional” indicators. Each stock generates its own signals based on its share price action, and independent of other factors, including our views about the overall market trend. 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](http://www.mcoscillator.com/market_reports/rising_star_stocks.html) or contact Roger Kliminski at 949-660-7960 or Roger@GlobalInvestsolutions.com.