

Monday June 16, 2008

Closing prices of June 13, 2008

The S&P 1500 rallied again Friday as stocks continued to rebound from oversold levels. On Thursday it printed an inverted hammer on the daily chart. Hammers are bottoming candles, and Thursday's hammer showed buyers starting to creep off the sidelines. A hammer-like doji candle was printed on the weekly chart. Doji are signs of indecision, frequently seen at the end of trends. Hopefully this week's earnings reports from Goldman Sachs and Morgan Stanley will give buyers greater courage.

The S&P 1500 recorded a panic-selling 90% down day June 11th, just two days after a 90% down day June 9th. June 9th's 90% down day erased a strong rally on June 8th. After the June 8th rally there was rapid deterioration in market breadth. The lack of any kind of a bounce after the June 9th 90% down day was worrisome, but to be followed so quickly by a second 90% down day is very disconcerting. A market that does not respond to oversold conditions is dangerous.

Since the break down from the bearish rising wedge on May 21st we have been saying pull backs would not be deep. However, on Wednesday the 50% Fibonacci retracement level was broken, leaving us with two other potential targets. Those are the 301 area, and after that the 284 -285 area, which would be a 100% retracement of the rally from the March low to the May high.

We remain concerned about spreads between earnings yields and bond yields. On May 29th the spread based on the current P/E narrowed to the smallest level since July 13, 2007, which was an important top just ahead of a sharp drop in equities. That spread is currently just above those same levels which preceded drops in equities. The spread based on the forward P/E is the smallest since December 31, 2007.

We have seen some improvement in forecast earnings, but since fundamental information will be limited until second quarter earnings season begins in July, we have been saying for a while that upside for stocks as a whole will probably also be limited.

The current short, intermediate, and long-term trends are down, and we reiterate that this continues to be a bifurcated, opportunistic trader's market, with adept traders able to take advantage long or short. Investors need to be alert to sector rotation and not hesitate to move out of lagging sectors and stocks and into leaders.

Federal Funds futures are pricing in an 78% probability that the Fed will leave rates at 2.00%, and a 22% probability of raising 25 basis points to 2.25 when they meet again on June 25th.

The S&P 1500 (309.68) was up 1.524% Friday. Average price per share was up 1.77%. Volume was 97% of its 10-day average and 107% of its 30-day average. 85.87% of the S&P 1500 stocks were up on the day. Up Dollars was 307% of its 10-day moving average and Down Dollars was 2% of its 10-day moving average. For the week the index was down 0.148% on increasing but below average weekly volume. A hammer-like doji candle was printed on the weekly chart.

Options expire June 20th. The FOMC meets June 25th.

IMPORTANT DISCLOSURES

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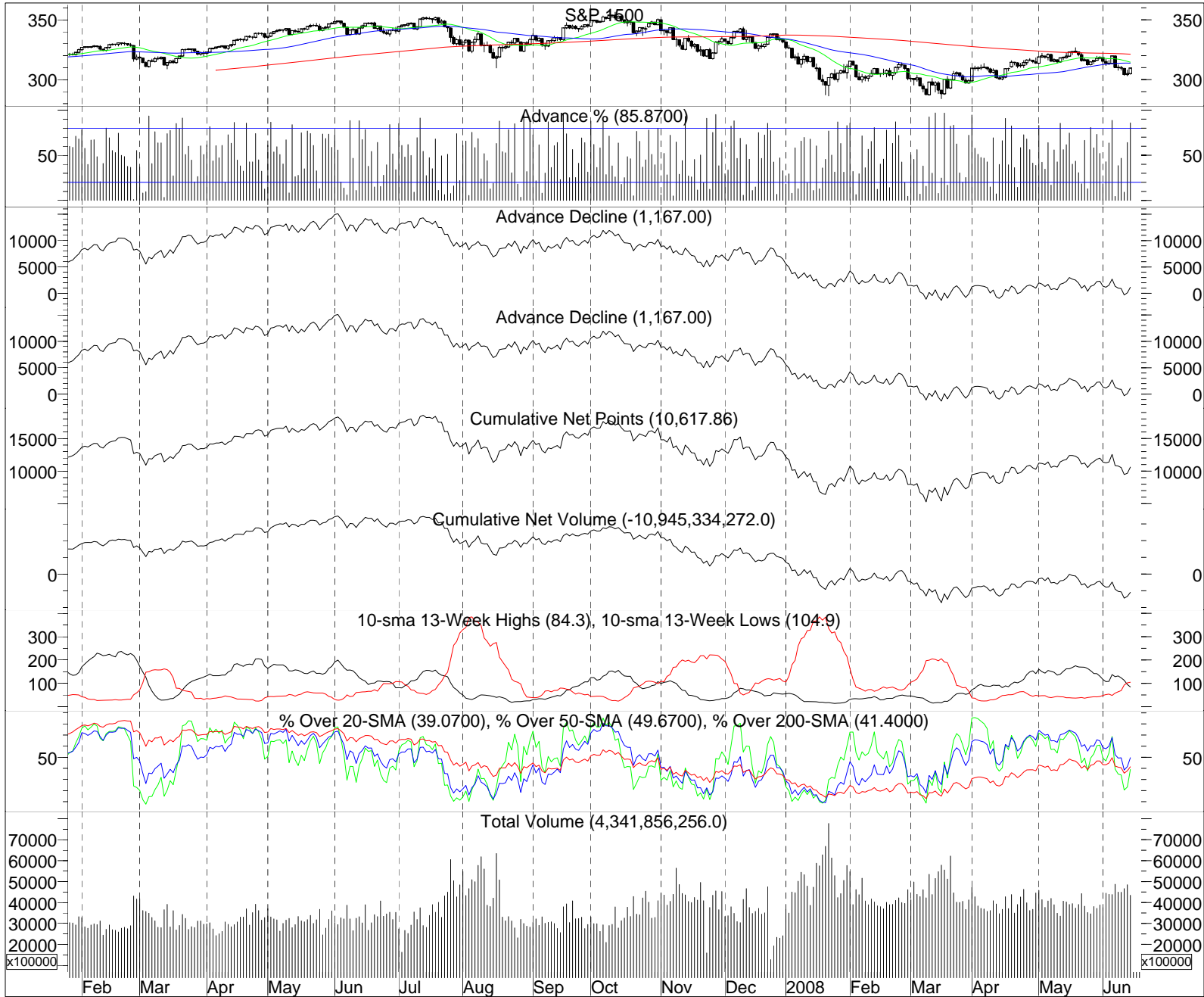
The S&P 1500 followed through Friday after printing a hammer Thursday on the daily chart. Hammers are bottoming candles. It is below the 20, 50, and 200-day moving averages, and their is resistance just above at the 311 - 312 area.



Stocks bounced Thursday after the stochastic and RSI reached oversold levels. Our oscillators remain at low levels.

Our price oscillator, a good indicator of trends, is in negative territory.

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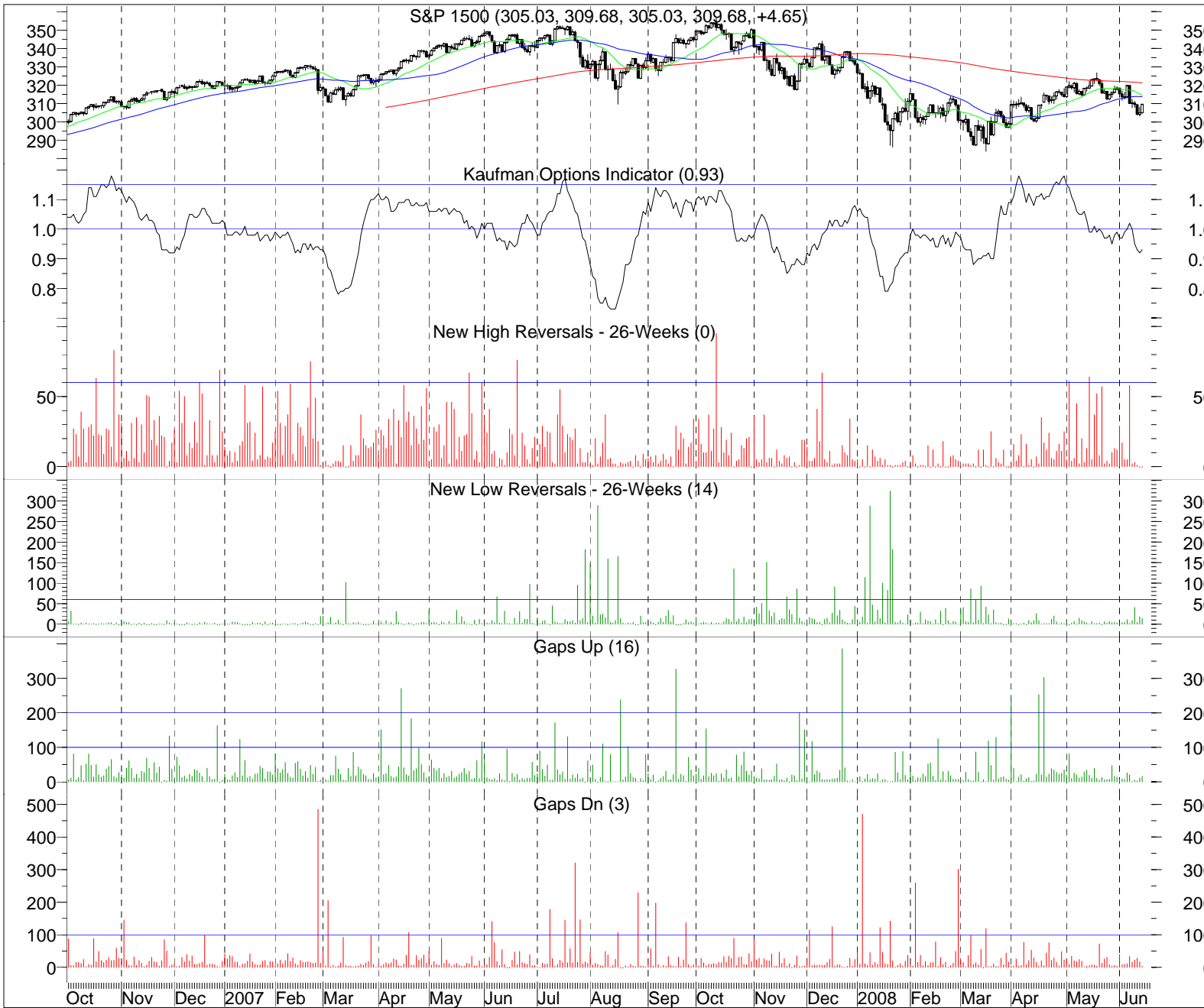
85.87% of the S&P 1500 traded higher Friday.

The AD line remains weak.

The 10-sma of 13-week lows is now above the 10-sma of 13-week highs.

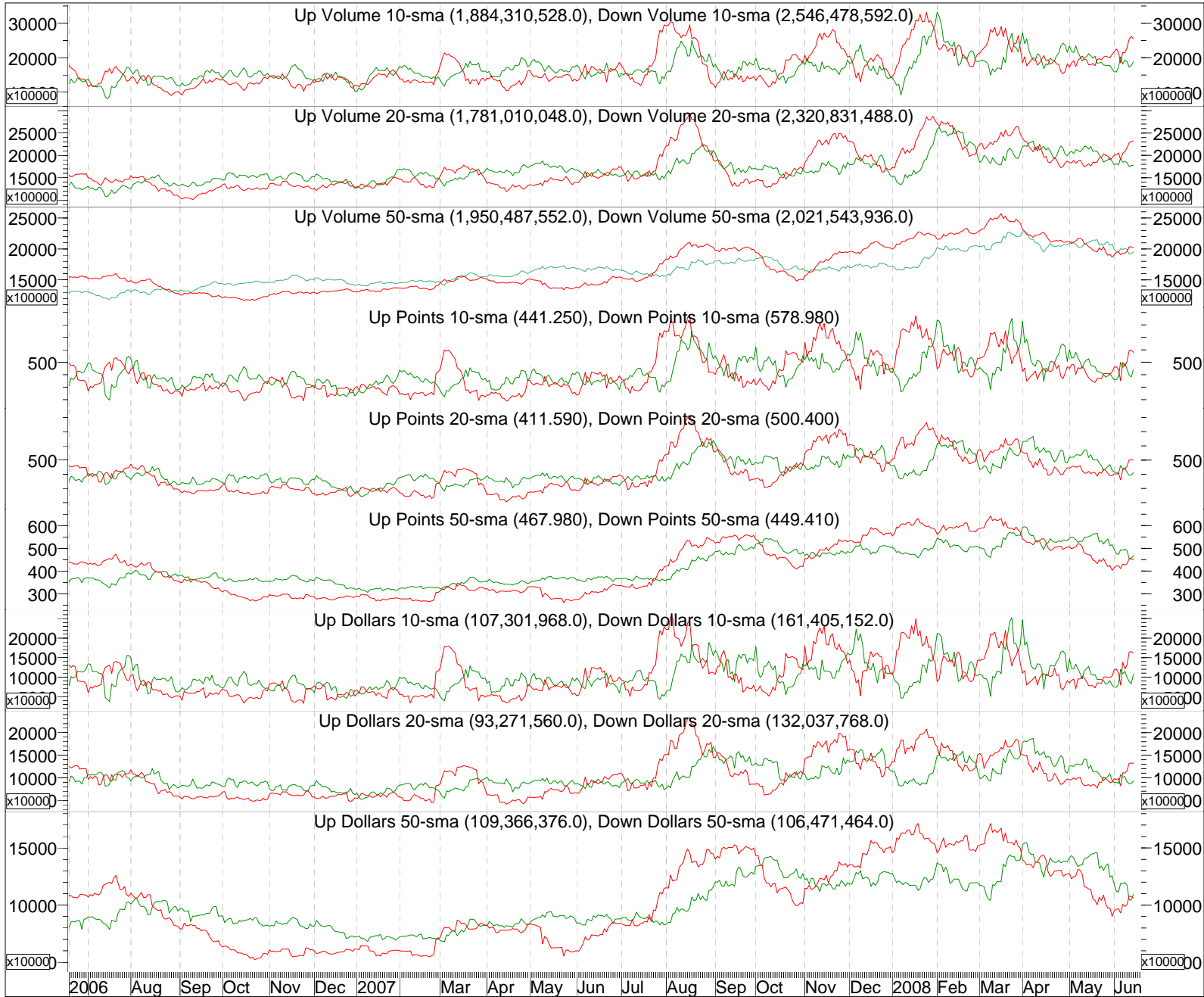
Volume declined during Friday's rally.

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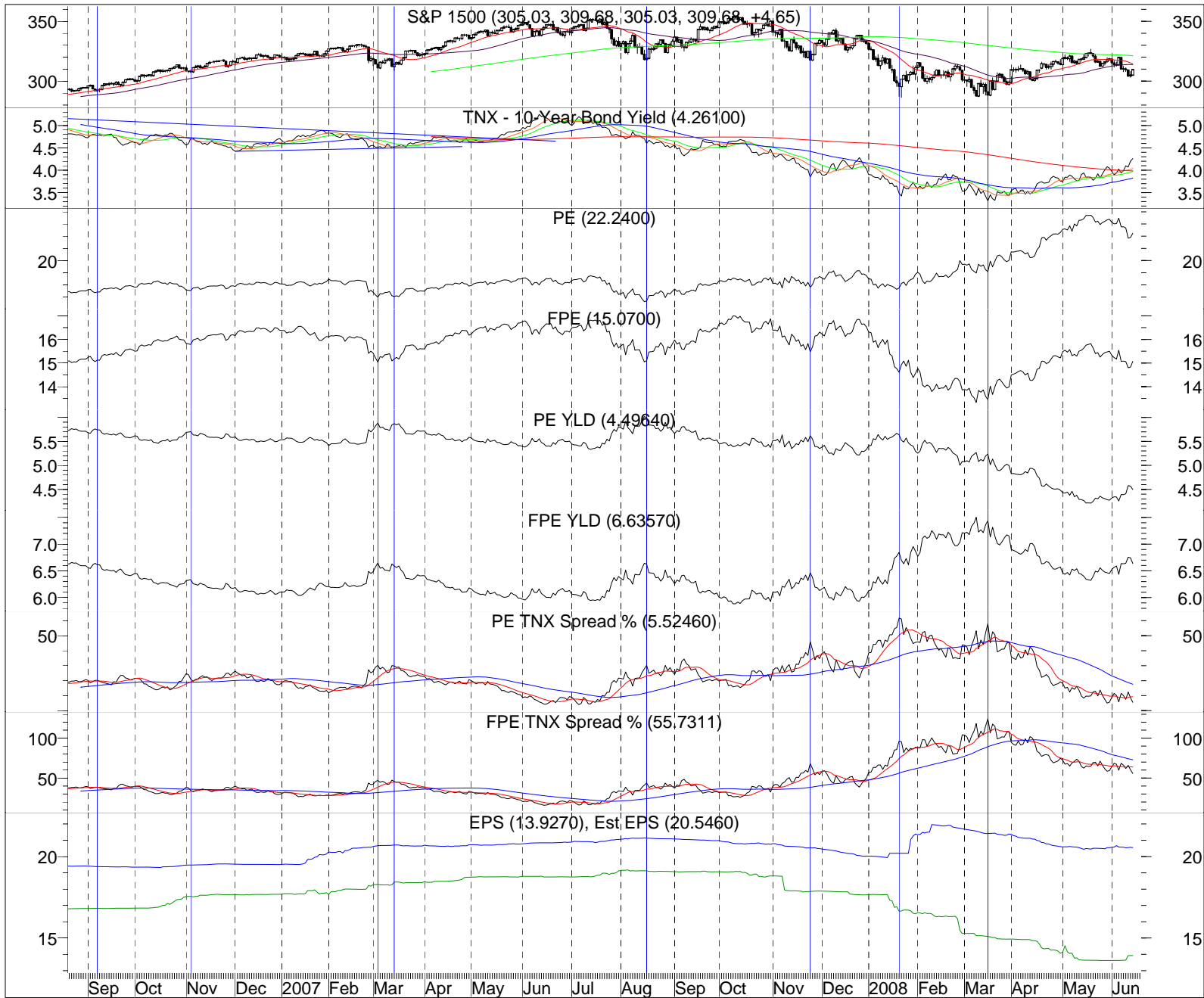


Our proprietary options indicator is in negative territory. A rally could start from this level, but it is not at levels where important bottoms have been made.

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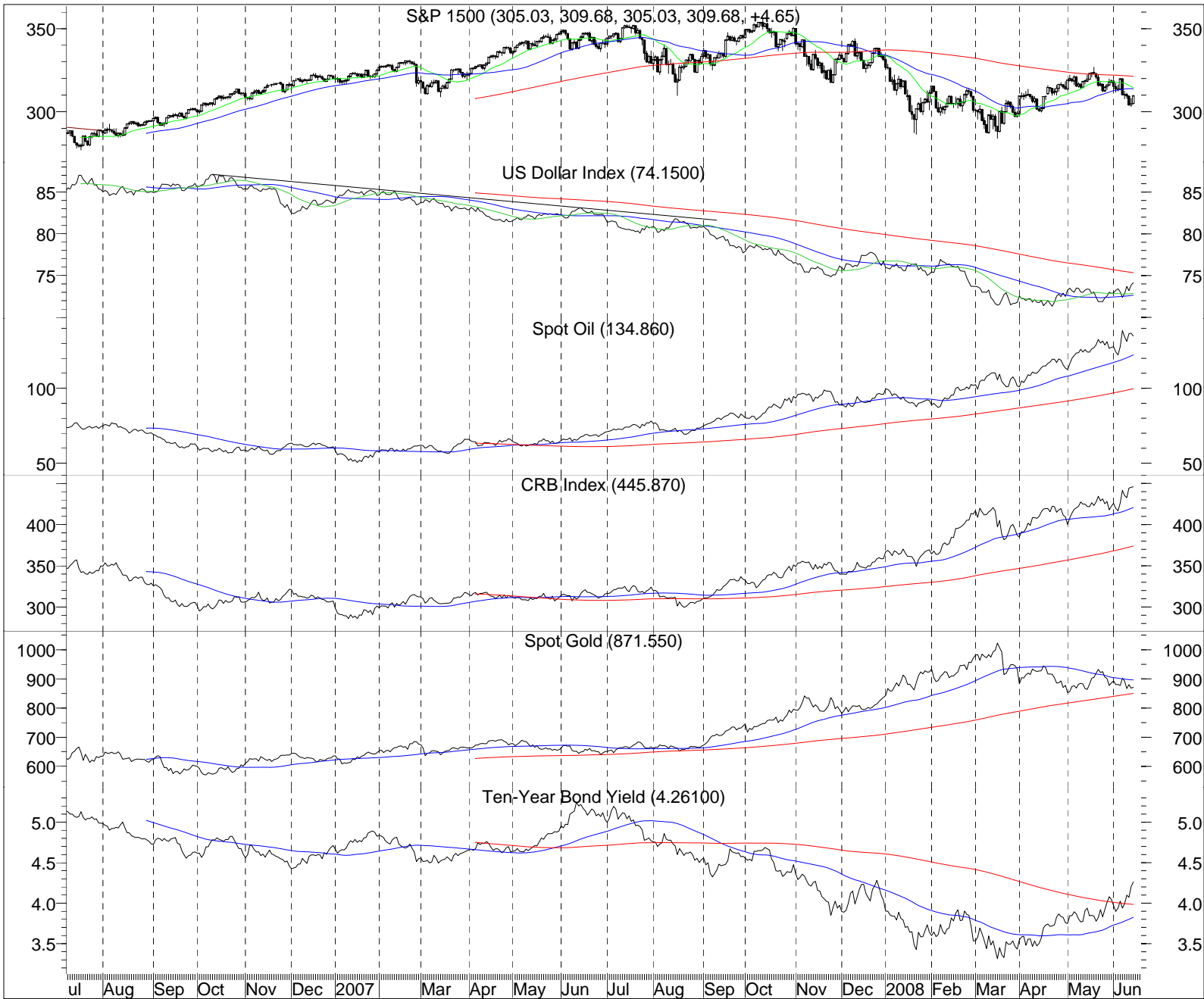
Almost all of our statistics of supply (red) are greater than our statistics of demand (green) for all time frames.



10-year bond yields are now in an up trend. There is resistance just above in the 4.3 to 4.4 area.

Spreads between earnings yields and 10-year bond yields have narrowed, and the spread based on the current P/E is just above levels where stocks have topped the last two times that level was reached.

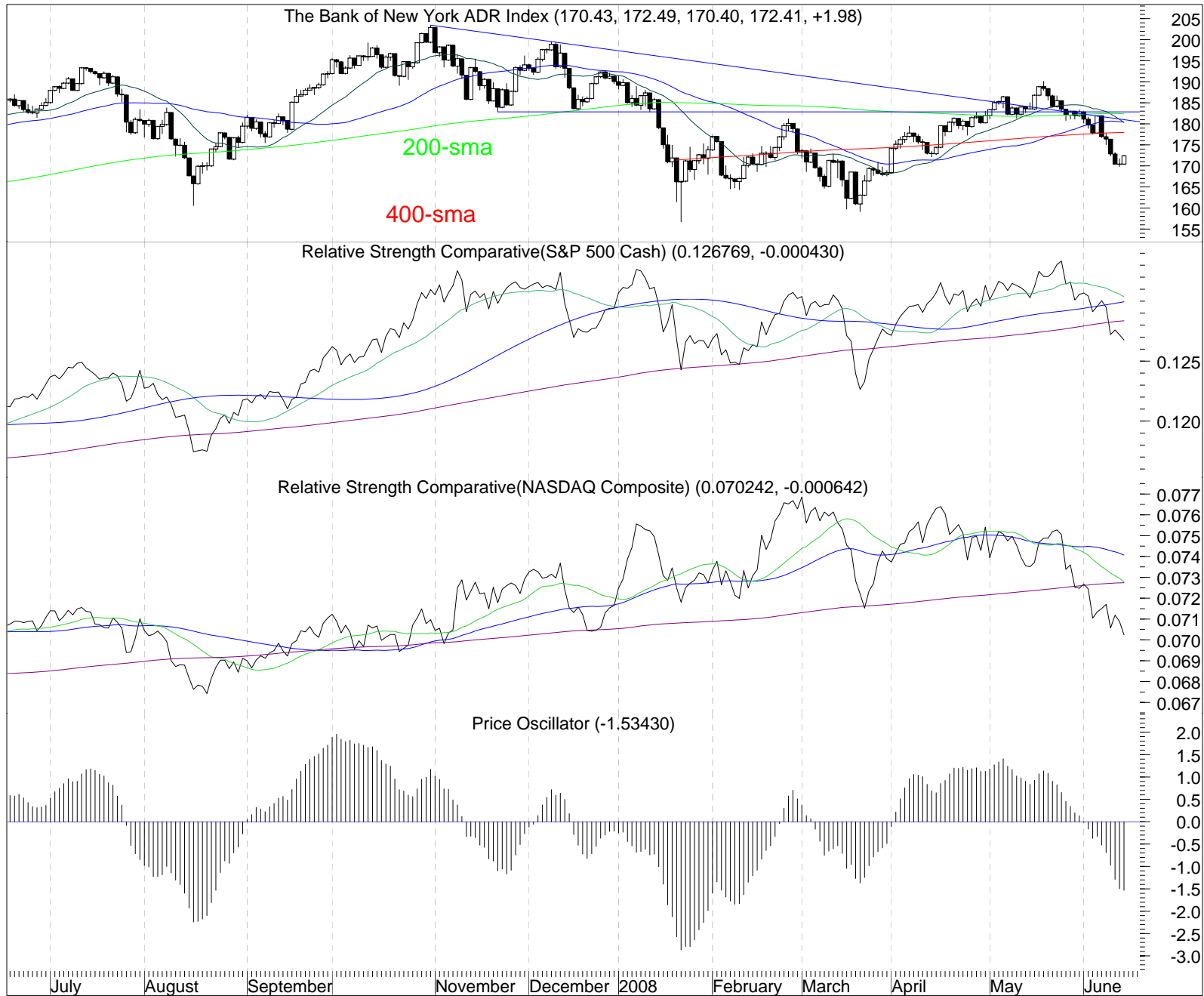
After a prolonged slide, current and projected earnings have leveled off.



The U.S. Dollar Index had its best week in three years and is the highest since February.

Since April 1st, the US Dollar Index is up 2.17%. At the same time crude oil is up 33.58%, and the commodities index is up 15.83%. The classic relationship between the U.S. Dollar and commodities is inverse. The strength in commodities and crude oil in spite of strength in the U.S Dollar shows strong demand for commodities and oil.

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The ADR index has been underperforming both the S&P 500 and the Nasdaq Composite.