Financial Research Education & Data

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Trading Week Starting
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# The FRED Report

## Summary of Market View

This is set to be an interesting week. **We expect a choppy, but ultimately up week in stocks and think a tradable low has arrived**. We look for the SPY to challenge, and possibly exceed, the 113 area as the rebound plays itself out.

The TLT looks to have made a peak and we look for a move back below 100 to confirm this.

The FXE has challenged the 126 area where we would have a reversal in effect. This could be exceeded this week. Recall that the reason for the market turmoil we have seen over the last two months was weakness in the Euro. As part of this, the DXY could test 82.

Oil, and the commodities complex, may have bottomed. Gold, on the other hand, looks to have registered a short-term peak.


### INSIDE THIS ISSUE:



### Special points of interest:

- We expect a choppy, but ultimately up week in stocks and think a tradable low has arrived.
- A close below 100 on the TLT would tend to confirm a false breakout, and could lead to a decline in bonds, and a rise in rates, into the fall.
- Should the USO move back above 35, a move towards 40 could occur.
- The dollar looks to have peaked, and the Euro may have bottomed.

# Stocks Review

We have reached an interesting juncture in the stock market, as the set-ups we have been looking for to mark a tradable low are present. Monthly indicators, in particular the monthly FPO (see the research piece in this month's Monthly Report out later today) have declined, and we have divergences on daily and weekly indicators. So, **we expect a rally starting this week.**

We call reader's attention to sentiment. See the Monthly for our sentiment charts, which have improved. In addition, anecdotal sentiment (which is defined as what we hear from investors and advisors) is about as bad as it can be. The press is uniformly negative. While all of these people may be right, the contrarian in us suggests that something should happen to shake up the bears.

*"We have reached an interesting juncture in the stock market, as the set-ups we have been looking for to mark a tradable low are present."*

We would like to see some choppiness, backing and filling, before a strong up move takes hold, rather than simply rallying. Some basing-type up and down trading with a strong close to the week would be ideal, and that is what we expect.

We note that broader indexes, and the transports, continue to outperform, a bullish sign.


# Fixed Income Review

We note that the TLT moved towards the 103.00 area we have been looking for and then sold off sharply (High was 102.66 on July 1). **A close below 100 would tend to confirm a false breakout, and could lead to a decline in bonds, and a rise in rates, into the fall.** We note that 100 was tested on July 2, so far successfully, but we believe that area will be broken. **We continue to advocate taking some money out of treasuries and putting it into high grade corporate bonds**. While the LQD has broken out above the 107.50 area it has lagged the TLT on the way up. This suggests that (a) either the TLT is a false breakout and the LQD will fall less as it declines, or (b) the TLT is NOT a false breakout, in which case the LQD and corporate rates will play catch up. Either way, the LQD looks more attractive to us.

*"We continue to advocate taking some money out of treasuries and putting it into high grade corporate bonds."*

A note on the HYG seems appropriate. Over the last few months we have commented that the HYG is acting more as a proxy for risk than an interest rate play.  HYG has followed stocks both up and down. However, recently HYG has been outperforming the SPY, and has not made new lows with the major stock indexes. This suggests that there are less credit problems, even if the economy is slowing. **This is a positive suggesting that the economy may be stronger than it looks**. We would look actively at this, as high yield may finally warrant a second look. See the Monthly for these charts.


# Commodity Review

The commodities markets have been out of synch of late, with a big move up in Gold and the other commodities lagging. Now, it looks like this could be reversing**. Gold looks to have made a short-term peak, as we have been expecting. Natural Gas looks like a base and Oil could be bottoming as well.** Should the USO move back above 35, a move towards 40 could occur.

The DBC is hovering just below 22 and a move above 22 would target the 28 area. **We continue to be commodity bulls.**

*"Gold looks to have made a short-term peak."*

# International Review

The International markets have hit an interesting juncture, **as the dollar looks to have peaked, and the Euro may have bottomed**. Should this have occurred, we should see Europe gain strength. We noted in last week's Midweek report that **Germany and France were outperforming the US**, and this could continue. **Commodity related markets like Canada (EWC) and Australia (EWA) should also start to do better**. Australia and Germany also have better yields than the US, making these somewhat attractive. The Canadian Dollar (FXC) and Aussie dollar (FXA) also look poised to advance. Falling gold might hurt Canada short-term, but we believe that to be a temporary condition. We would look at the EWC should the GLD make a successful test of the 115 area.

*"Commodity related markets like Canada (EWC) and Australia (EWA) should also start to do better."*


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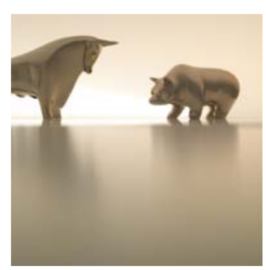
## Weekly Chart of Interest

We show below charts of two ETFs that are interesting for those looking at equities that are off the beaten path. EWS which is an ETF tracking Singapore is outperforming the US. We mentioned the EWM, which is an ETF tracking Malaysia, in last week's midweek report and it continues to outperform as well. Both of these are interesting ideas from a technical standpoint.



## About Our Organization

The FRED Report was started to provide Financial Advisors across firms and platforms access to unbiased market research. The President of the Fred Report, Fred Meissner, CMT, has been practicing Technical Market Analysis since 1983 and has worked in the research departments of Merrill Lynch and Robinson – Humphrey /Smith Barney. In addition he has served the public as a portfolio manager and financial advisor. We know the problems advisors face and have devoted our career to helping advisors find the best possible investments in all environments. We want to help you help your clients and grow your business.



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