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The FRED Report – Mid Week Update

Stocks

The SPY has rallied up to the 112 area resistance. This is important, because in spite of the favorable action and trading we have seen since early July, stocks remain in a slight downtrend. Should our bullish stance prove to be incorrect, this should just about be it for the rally. We do not think this is the case. **Internal indicators look positive longer-term, but are short-term overbought**, and conference call level subscribers should check the equity trading area of the site for updates. A little defense now could pay dividends.

In the weekly report, the possibility of a short-term decline to build a right shoulder was discussed. In some ways this would actually be more bullish than simply advancing here, as such action would build a larger base. **Given the levels of sentiment, this would also likely be greeted with a sharp rise in bearish sentiment once again**. We note that the recent put/call numbers are in the mid 80's, which is healthy, rather than the 70's of the last rally. Should this occur, the SPY could retest the 160 – 107 area where there is a gap, and a range of 106 – 112 or so could ensue.

The IYT is trading a bit stronger than the SPY and should it pull back, an ideal place for it to hold would be 76.50 to 78.00. A close much below 76.50 would cause our bullish outlook to be questioned and would be a concern. There is a gap at 75 which could be filled intraday. We mention this because, should the bearish case be realized, this index should break down ahead of the SPY.

Special points of interest:

- Internal indicators look positive longer-term, but are short-term overbought.
- Gold (and the GLD), has declined to our forecast 114 area, and indeed has closed below it. If gold is going to rally, it should do so in the next two or three days. If it does not, a move to the 108 GLD area is possible.
- We remain positive on the USO and especially on the UNG.
- Bonds have a seasonal tendency to drop in the fall and a couple more months of topping action would not be out of the question, and indeed is likely.

Commodities

Gold (and the GLD), has declined to our forecast 114 area, and indeed has closed below it. If gold is going to rally, it should do so in the next two or three days. If it does not, a move to the 108 GLD area is possible. We note that the SLV (Silver) is trading and looking better than gold, on a technical basis, and also note that there have been several articles recently advocating utilization of silver instead of gold. This is one of the old commodity trader's signals that the metals are getting overheated. We will look for a new buy signal on the metals.

In spite of the above, the DBC has, so far, remained above 22, and we would still look for a commodity rally. We have looked at oil and although it had a bad day on Tuesday, **we remain positive on the USO and especially on the UNG**. For this reason, as well as "newsy" reasons, we now prefer the XLE over the OIH. In other words, bigger oil companies over smaller and the drillers. However – we would avoid BP stock here.

Ordinarily, we do not comment on stocks directly but there have been so many questions on this one. We show below charts of BP and CVX. Note that BP has a gap in the 42 area that has not filled, note also the current price of the stock vs. the May lows. Contrast this with CVX, which is comfortably above the May lows after having dipped below. The market appears to be saying that very little favorable news can be expected on BP and we suggest that subscribers find another way to take advantage of the last part of the seasonal summer rally in oil, should it occur.

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Bonds

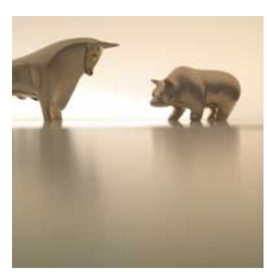
The recent action in the bonds bears discussion. First and foremost, while the TLT looks to be building a top, the accumulation model here is giving ground reluctantly and not heading sharply down. **Usually this means that this market is going to meander around and build a broadening top rather than simply collapsing**. This makes sense. We have noted, in prior letters and calls, that a ton of people remain short treasuries and these people are going to have a tough time being patient and being rewarded. This market has a seasonal tendency to drop in the fall and a couple more months of topping action would not be out of the question, and indeed is likely.

The TBT, see chart below, is one instrument many are using to position on the short side of this market. There is resistance on the TBT at 38 and then 40. A move above 40 should target 44.

Note that High Yield Bonds (the HYG), has got resistance at the 90 area which was also our short-term target for this unit. Right now, it does not look like it will go through there easily, so trade accordingly.

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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