Financial Research Education & Data

Volume 7, Issue 60
Trading Week Starting
August 17, 2015

The FRED Report

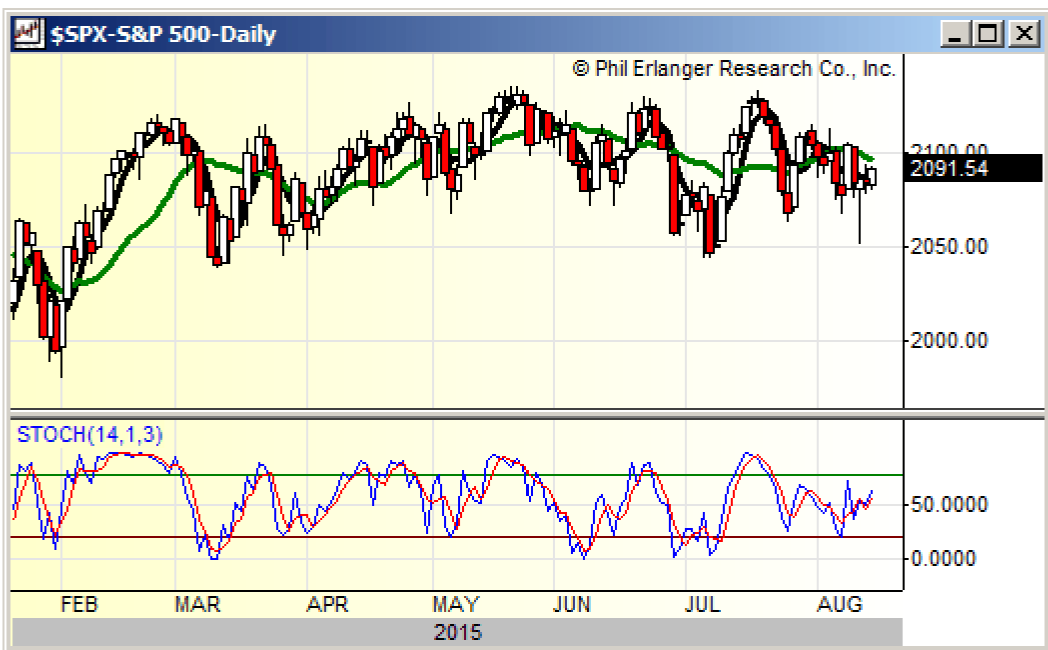
Summary of Market View

Stocks are little changed from last week, as are our views, but there has been some improvement beneath the surface. We discuss this and some of the indicators in the stock section. Perhaps the most interesting area for this report is Fixed Income, as bonds look poised to resume their decline in price (and corresponding rise in rates). We show a chart of bond sentiment in this section.

In Commodities we discuss MLPs. We understand the concern advisors feel about this area, and have some suggestions for ways to be involved. We also give some more charts of this area in the Chart of Interest section.

In the International section we discuss Latin America as this has been, and remains, the weak link in emerging markets. Several of these are challenging the 2009 lows, and commodity weakness is a real concern for their economies. We discuss this and other aspects of these markets.

We realize there is not a lot of action to comment on, but this may be getting ready to change.



INSIDE THIS ISSUE:

Special points of interest:

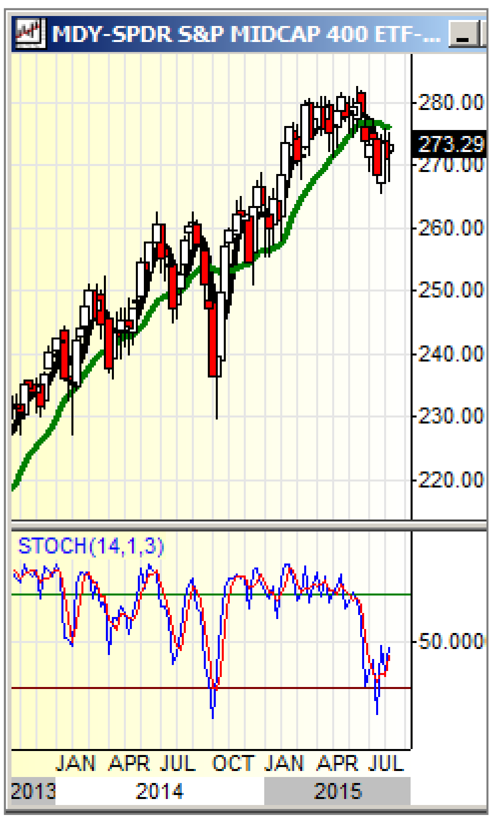
- Stocks are little changed from last week, as are our views, but there has been some improvement beneath the surface.
- Bonds look poised to resume their decline in price (and corresponding rise in rates).

Stocks Review

Last week, we stated that we needed to see improvement in the New Highs/New Lows numbers and an up week. This would be our best chance to start the rally to 223 on SPY we have been forecasting for the second half of 2015. We did see this improvement, as New Lows contracted to 379 from 555 and support held on the major indexes. But, the market was a bit weaker than we wanted to see, with intraday weakness and breaks of support on all indexes. In addition, we had hoped to see a surge in breadth and the McClellan Oscillator only made it to +51 or so.

"Indicators still support a rally, especially in IJR and MDY, although they are not as exciting as they were last week."

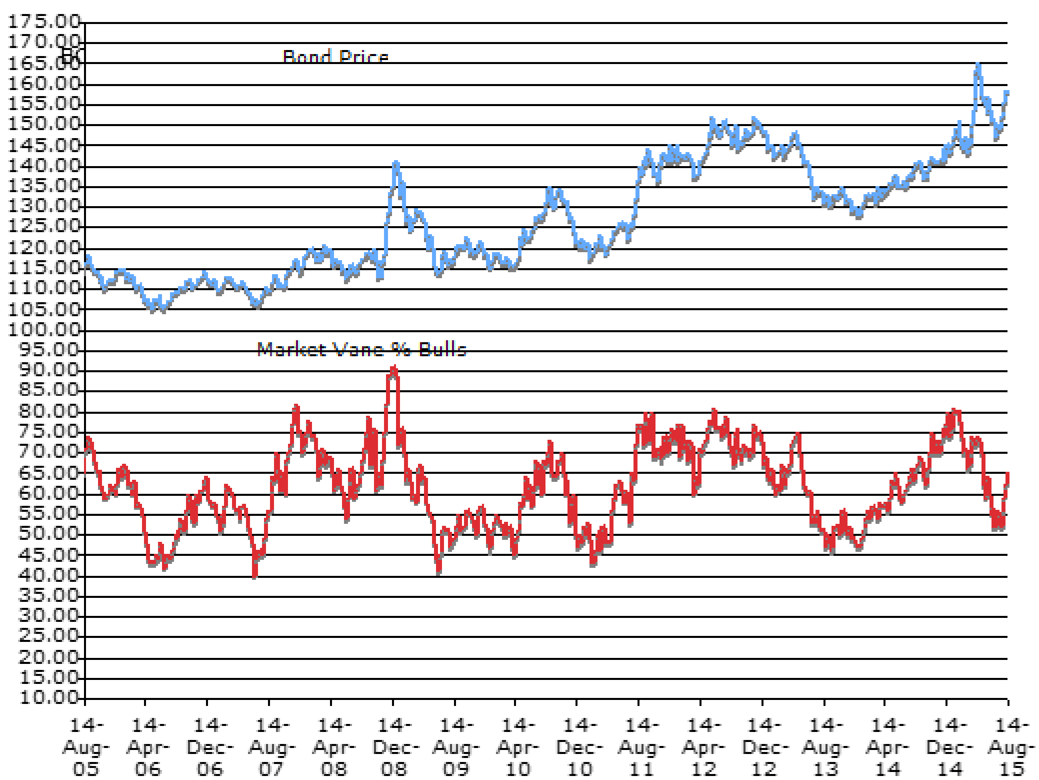
Indicators still support a rally, especially in IJR and MDY, although they are not as exciting as they were last week. Weekly stochastics on these have turned up from low levels. As mentioned the McClellan Oscillator is positive and turning up, and could certainly improve from here. As last week suggests, the "pump is primed" – now all we have to see is some strength. Movement above MDY 278 and IJR 120 would suggest the rally we have forecast is starting. Failure at these levels on a weekly basis would be negative. Also negative would be exceeding these numbers on the downside: SPY 204, MDY 265, and IJR 113. For now we remain positive, and we show these weekly charts below (we know we showed them last week, but believe this is still important).



Fixed Income Review

Bonds have traded to the areas we have been looking for, to stage a reversal, over the past two weeks. Anecdotal sentiment has again flipped on bonds – we had a couple of emails suggesting rates could never go down again, while TLT was above 125. The actual sentiment numbers are not so clear. Our favorite indicator of bond sentiment, Consensus Inc., has shown an advance in sentiment from a low in the mid 40's to the mid 50's. Market Vane, the other service we use, shows similar numbers and we show a chart of this below. Recall that we indicated a choppy couple of weeks, and then decline, in our Weekly Review last week. Nothing has happened to change our views as expressed then.

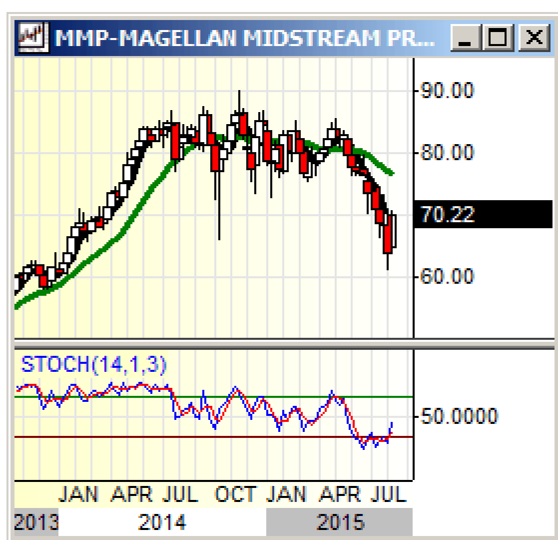
We will be looking at some of the ETFs in our bond bucket for clues as to the direction of bonds, as these have been moving opposite Treasuries. In particular, BKLN should hold support in the 23.50 to 23 area and rally from here. We will look at this in depth in the midweek. PCY also is on support and should rally. CWB trades in line with stocks as well as rates and is not a good indicator, and IEI and PGX both trade in line with TLT. Assuming these ETFs start to rally we will feature them in the midweek or in next week's weekly review.



Commodity Review

We visited with several clients this week, and there were many questions about MLPs so we will cover these in this week’s piece. Before we do this, though, we want to discuss oil a bit. Our perpetual contract for oil is at an interesting juncture, as it has just undercut the March low and rebounded. This differs from USO, which has made new lows and closed on these lows. Divergences in our FPOs, both daily and weekly, are present. While it is not a strong seasonal time for oil, the possibility of a rally is here. Note that the products look better than oil, often a good sign.

Individual MLPs have fallen with the commodity, and our conference call of July 30th explained why this risk exists in our view. We are interested in MLPs but the fundamentals of these are muddy enough, in our view, that there is only one way to buy them properly and that is to trade them technically with technical discipline. We have four individual MLPs that look buyable, or rather three MLP’s and a company in this area, KMI. KMI has altered their structure so it is not an MLP in the strictest sense but it remains in that business. These four are KMI, EQM, GEL, and MMP and these have the best weekly charts in the MLP area. We would be comfortable buying these using stops as follows: KMI 29, EQM 68, GEL 34, MMP 61. These are a bit more than we would normally risk but the charts are trying to bottom. We would also use a “time stop”, and look to evaluate these if they have not advanced from your purchase price in a month. We show weekly charts, below.



International Review

Emerging markets have been weak. Our analysis has suggested that unless the Latin American markets turn up emerging market has little chance of recovery, so it is in that vein that we look at Latin America. Many of these charts are weak. The biggest market, EWZ (iShares® MSCI Brazil Index Fund) is breaking down through the 2009 lows. This means that ILF (iShares® S&P Latin America 40 Index Fund) is also weak but since other Latin Markets are stronger than Brazil it is still holding above 209's support. The best looking chart in this part of the world remains ARGT (Global X FTSE Argentina 20 ETF), and the second best is GXG (Global X Interbolsa FTSE Columbia 20 ETF). ARGT is holding support, and while this country has debt problems it is more than a "one commodity" country. And Columbia is taking some steps to turn its economy around and diversify away from exports for foreign currency – this country may be the best long-term investment of all of these.

The main point here is that, with the exception of Argentina, all of these countries are hurt by commodity deflation, which we are now seeing. We discussed DBC last week, and should this rally we could see some improvement in this area of the market, otherwise we would expect emerging markets to languish. We show Weekly charts below.

THE FRED REPORT

4514 Chamblee-Dunwoody Road

Suite 112

Dunwoody, GA 30338

Phone:

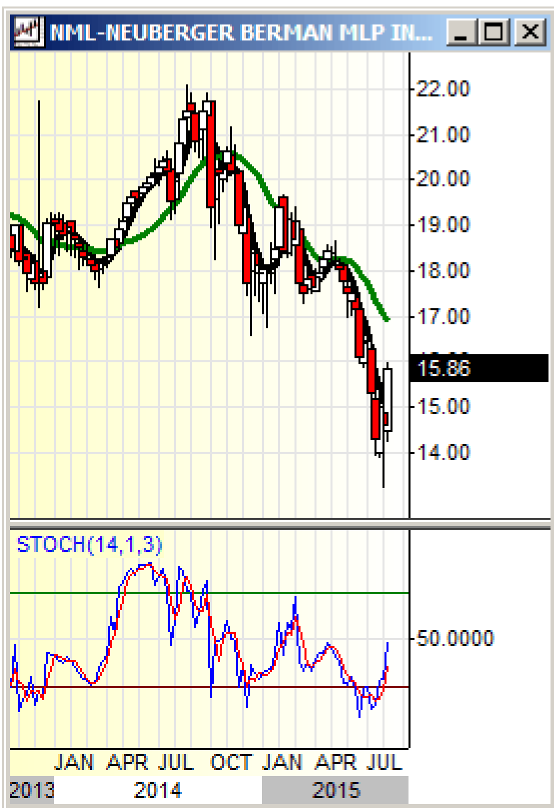
(404) 875-FRED

E-Mail:

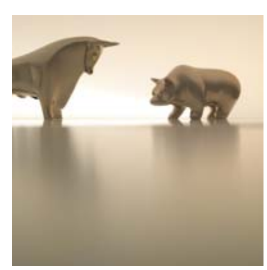
fred@thefredreport.com

Weekly Chart of Interest

We have two more instruments of interest in the MLP space. The chart of NML is interesting and strong here. We compare this to the one of the MLP ETFs, AMLP, that we follow. Other exchange traded instruments are mostly ETNs and since most advisors cannot buy these we mostly look at AMLP. NML is a stronger chart and we could use this although the individual names given above are stronger.



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.

Disclaimers:

Research used in this report does not purport to be comprehensive or to contain all the information which a prospective investor may need in order to make an investment decision. The information is based on publicly available information and sources, which the publisher believes to be reliable, but does not represent to be accurate or complete, and it should not be relied on as such. The publisher may update any research report as it determines appropriate, in its sole discretion. Each reader of this report must make its own investigation and assessment of the information presented herein. No representation, warranty or undertaking, express or implied, is or will be made or given and no responsibility or liability is or will be accepted by Fredco Holdings, Inc. or by any of its directors, officers, employees, agents or advisers, in relation to the accuracy or completeness of this presentation or any written or oral information made available in connection with the information presented herein. Any responsibility or liability for any such information is expressly disclaimed. Any person or entity who does rely on this report does so at his/her own risk and by doing so assumes all liability for any such loss, harm or other detriment.

The information contained herein was prepared by Fredco Holdings, which is solely responsible for the contents of this report.

All prices provided within this research report are a snapshot taken as soon as practicable prior to the release of the report. No representation is made as to the current prices of securities.