Financial Research Education & Data

Volume 2, Issue 41
Trading Week Starting
May 24, 2010

The FRED Report

Summary of Market View

The stock market acted badly as we thought it might, but possibly made a short–term bottom. **While we remain cautious a few moths out, we can still see a positive end to 2010.**

The TLT has rallied again, but is in resistance and trading patterns suggest **a decline in the TLT is imminent.**

Gold has had a nice pullback and looks buyable.

Overall, we have seen some volatility and difficulties, but remain optimistic intermediate–term, while realizing this could be a difficult two or three months.

INSIDE THIS ISSUE:

Special points of interest:

- While we remain cautious a few moths out, we can still see a positive end to 2010.
- We continue to look for new highs in Gold through summer and again in the winter.
- Overall, we expect speculative money to move into small and mid cap US stocks, and away from international markets for a while.

Stocks Review

"While we think that the first part of this correction is likely over, we still see this as being the steepest correction of the bull market from the 2009 lows, and advise caution, risk management and selective buying for now."

The market came down last week, as we thought it might. Friday's rally did come after a divergence bottom but Thursday's close was, overall, weaker than we would like to have seen. Intermediate (weekly) indicators are coming down, but are not yet oversold. In fact, daily stochastics, have not fully corrected either. It looks like this correction could also correct the monthly indicators, which implies a deeper oversold than we have seen thus far, on daily and weekly indicators. What this likely means is some short–term rallies to relieve daily oversold conditions, followed by lower lows. For this reason, we expect the next intermediate rally to come only after several months of choppy behavior as these indicators correct. **While we think that the first part of this correction is likely over, we still see this as being the steepest correction of the bull market from the 2009 lows, and advise caution, risk management and selective buying for now**. We realize this is a difficult, and fast changing market. We will do our best to keep subscribers apprised of opinions via alerts, and even an extra conference call, if needed. Intermediate investors: be patient, buy on down days, and let stuff come to you rather than chase it.

We note that while global growth expectations are coming down, we still see growth in the economic numbers, at least for now. This could simply be a pullback in a recovery trend, before more recovery takes hold. **Note that the Dow Transports have been weaker on this decline than the Industrials. This is a negative indication, suggesting slower growth, and is the first such indication we have had since the bull market started in 2009**.

This week should be up for at least part of the week, especially if Monday is down, which is what we expect. Indeed, we would like to see a flat to slightly down close after a choppy day on Monday. That should lead to a two-day or so rally, and yet still give us a down month.

Fixed Income Review

The TLT has traded up on European and market turmoil, and actually now looks opposite the SPX. **If the market rallies, or even stabilizes, we could see an extremely sharp decline in this ETF**. We notice the TLT opened up and closed down on Friday, and this was right at resistance. Further, we notice that none of the other bond ETF's have broken out to new highs. We advise people to take at least some capital gains on treasuries at this juncture. The BWX has snapped back from its breakdown and looks like it could advance as well. Indeed, what may occur is the TLT falls and the BWX advances.

We note that the LQD has been turned back by resistance and looks to trade back down to the bottom of the trading range (around 105). The HYG, as well, looks like the stock market, and could advance here, at least short–term.

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Commodity Review

Gold has had a nice pullback, but the trend remains up and we would stick with Gold positions**. We continue to look for new highs in this market through summer and again in the winter.** We may see a steeper than average correction in Gold, but in the late summer/early fall as Silver has started to move and is being touted in the financial press. **Strength in Sliver generally presages weakness in the metals.**

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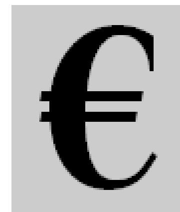
Oil has given ground, but grudgingly of late, and we can see a rally in the USO from this 31 area up towards the 35 area which should help energy stocks. Natural Gas, while weak in recent days, looks to have found a trading range, and as long as the UNG holds the 6 to 7 area might be setting up for an advance.

The DBC has traded down to support at the 21 area, and while weaker than expected at the beginning of May, it has held and looks to rally. We will monitor this for overall commodity market strength.

International Review



Interesting and fast - changing markets here, but there are a couple of things that are worth noting. First, while the currencies have been all over the place, we note that the dollar has spent very little time above 86. **We think the Yen remains attractive relative to the Euro but would not be surprised to see some Euro strength over this week or so**. 128 on the FXE looks possible and 133 would go a long way to repairing damage we have seen in this currency.

Second, the EWC (Canadian stocks) looks attractive in this area and is a good way to play continued growth and commodity price increases. It should be noted Canada is closed for trading on Monday.

We also like the looks of the EWZ, which has basically held secondary support. A move back above the 65 area would be a positive for Brazil.

Japan has been weak of late, but he EWJ is still above the November 2009 low, and the JOF continues to trade well enough. We will watch carefully here as there may be an opportunity to buy Japan.

China looks a bit weaker.

Overall, we expect speculative money to move into small and mid cap US stocks, and away from international markets for a while.

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THE FRED REPORT

4514 Chamblee-Dunwoody Road

Suite 112

Dunwoody, GA 30338

Phone:

(404) 875-FRED

E-Mail:

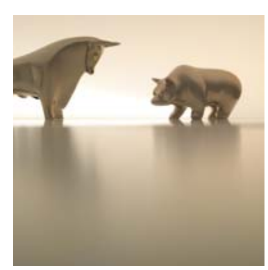
fred@thefredreport.com

Weekly Chart of Interest

We show daily and weekly charts of the US Dollar Index. Note the weekly DXY has got the start of a Prussian Helmet formation in the 86 to 87 area. **Unless this high is exceeded fairly soon this is likely a significant top, implying a correction back towards 82 or so at least**.

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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