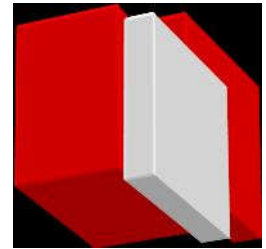




July 6th, 2010

Market Update

For daily commentary see
SeattleTechnicalAdvisors.com



Ready to Rally

Ready to Rally

Best Case Scenario

For the last few weeks we've been discussing 1,020 SPX and July 7th as important points to watch. With the S&P having closed at 1,022 on Friday and July 7th this Wednesday it's time to start looking for **signs of a tradable bottom**...and we think we see them. The S&P is in its buy mode and we're expecting a *Carlson Confirmation Model* buy-signal this week. We're targeting **10,300** Dow and **1,095** SPX.

ECRI Countdown

Best Case Scenario Just Got a Lot Worse

Sentiment

A large head-and-shoulders top was triggered last Tuesday when the neckline at 1,050 was breached. This top implies a minimum move to 885. The first Fibonacci confluence zone past 885 is at 880. **880** is now our *best-case scenario*.

US Equities

VIX

McClellan Oscillator

Other Signs

Cycles

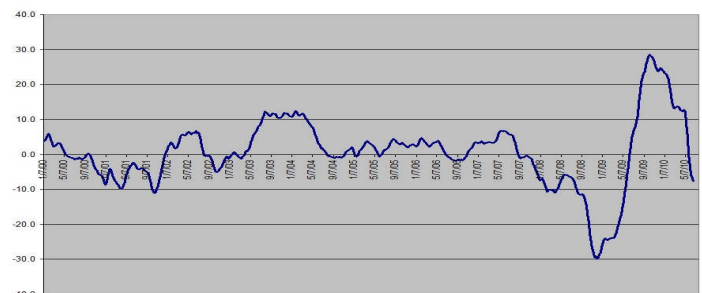
Price Targets

Best Case Scenario

ECRI Countdown to Recession

Last Friday the ECRI WLI was reported down again at -7.70. We are just 2.3 points away from that critical -10 threshold on the ECRI WLI which, at least historically, has guaranteed a recession.

ECRI Weekly Leading Growth Index



Foreign Equities

Nikkei

FTSE/Xinhua25

US Treasuries

TNX

Currencies

Dollar

Euro

Yen

Sentiment

Investor's Intelligence: Bulls were unmoved last week at 41.10. Bears increased from 31.1 to 33.30.

Commodities

CCI

Crude Oil

Gold

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US Equities

Despite not having received a buy-signal from the *Carlson Confirmation Model* yet, we believe the short-term (this week through early August) looks bullish for equities. We are expecting the buy signal this week. Watch the *Daily Commentary* for updates.

VIX, Volatility Index

The VIX triggered a CCM Sell-Signal last Friday (bullish equities).

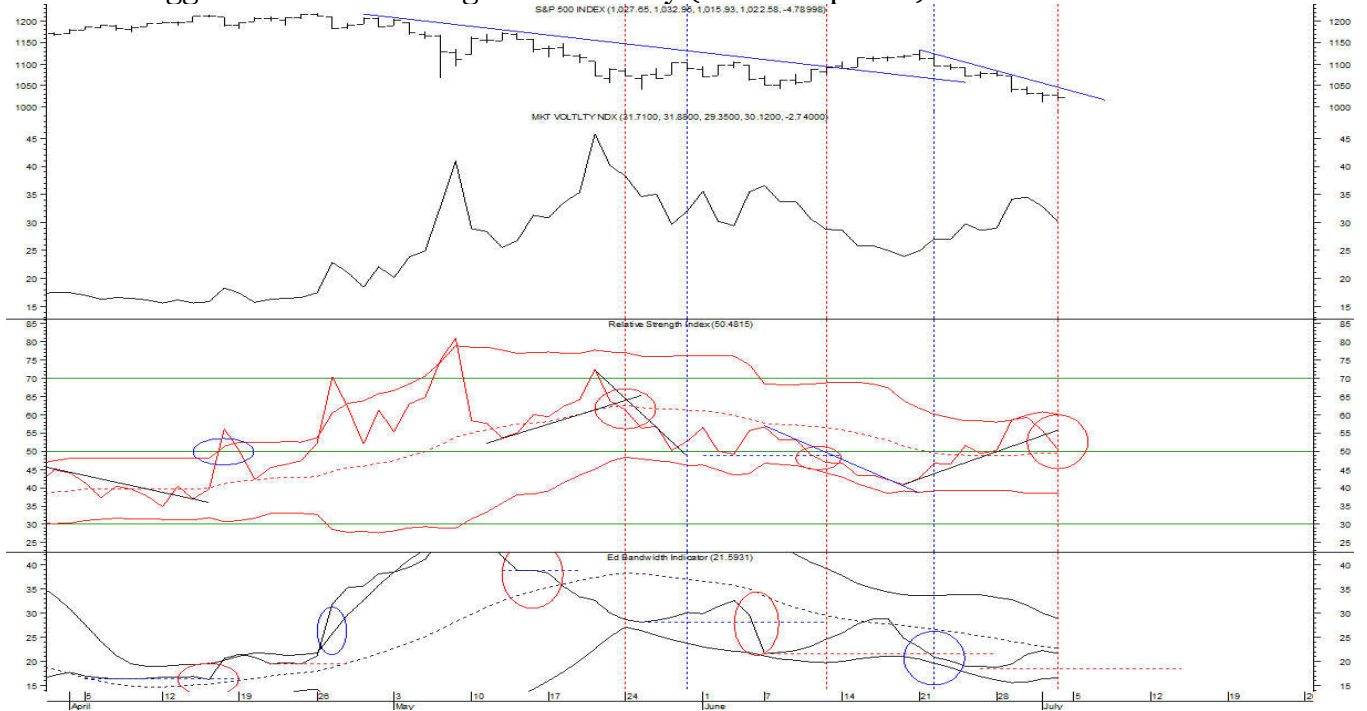


Figure 1: VIX, Volatility Index, S&P 500

McClellan Oscillator

We have the positive divergence in McClellan Oscillator that we look for at tradable bottoms.

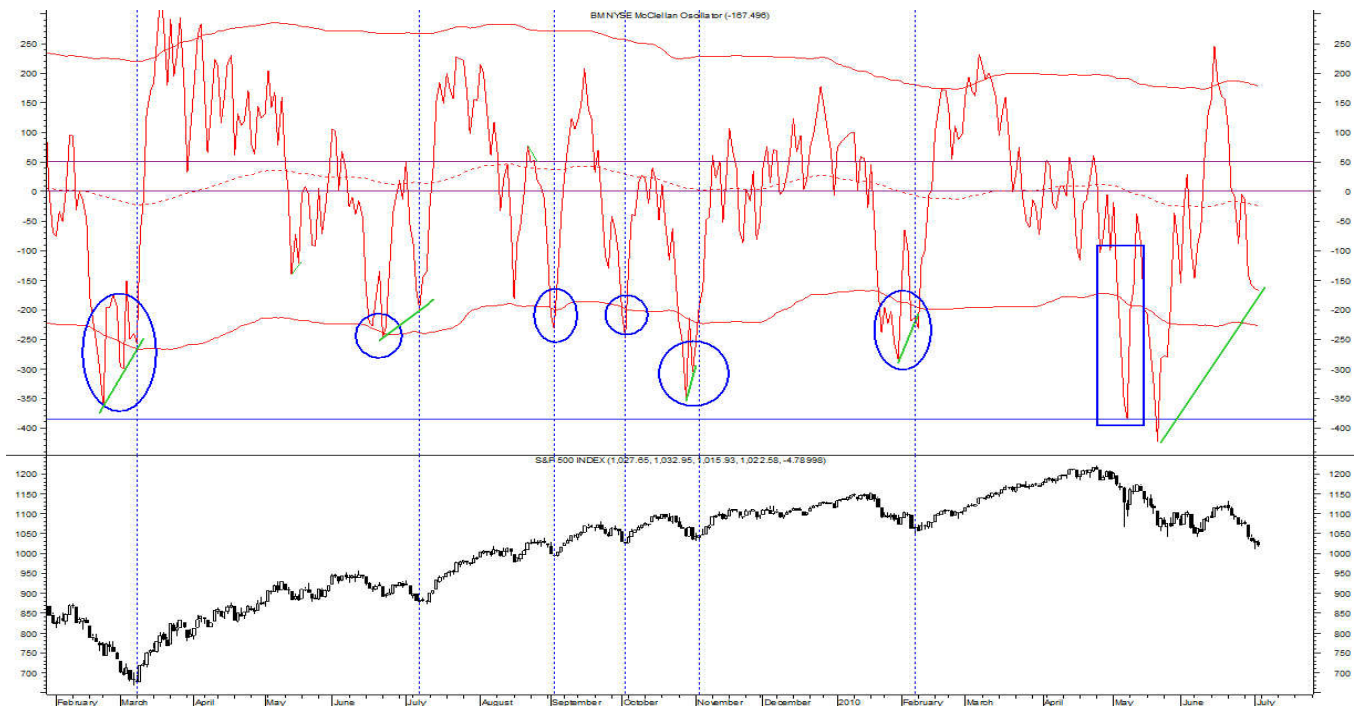


Figure 2: McClellan Oscillator, S&P 500

Other Signs of a Bottom

The **Euro-Yen Cross** bottomed last Tuesday as was forecast by our Fibonacci Trendline Model and the *Carlson Confirmation model* triggered a buy-signal in the cross on Thursday. This cross normally has a high correlation to the direction of equities. Positive divergences exist in **Stochastics** and **MACD**.

The **Copper to Gold Ratio** is giving a positive divergence – equity bullish.

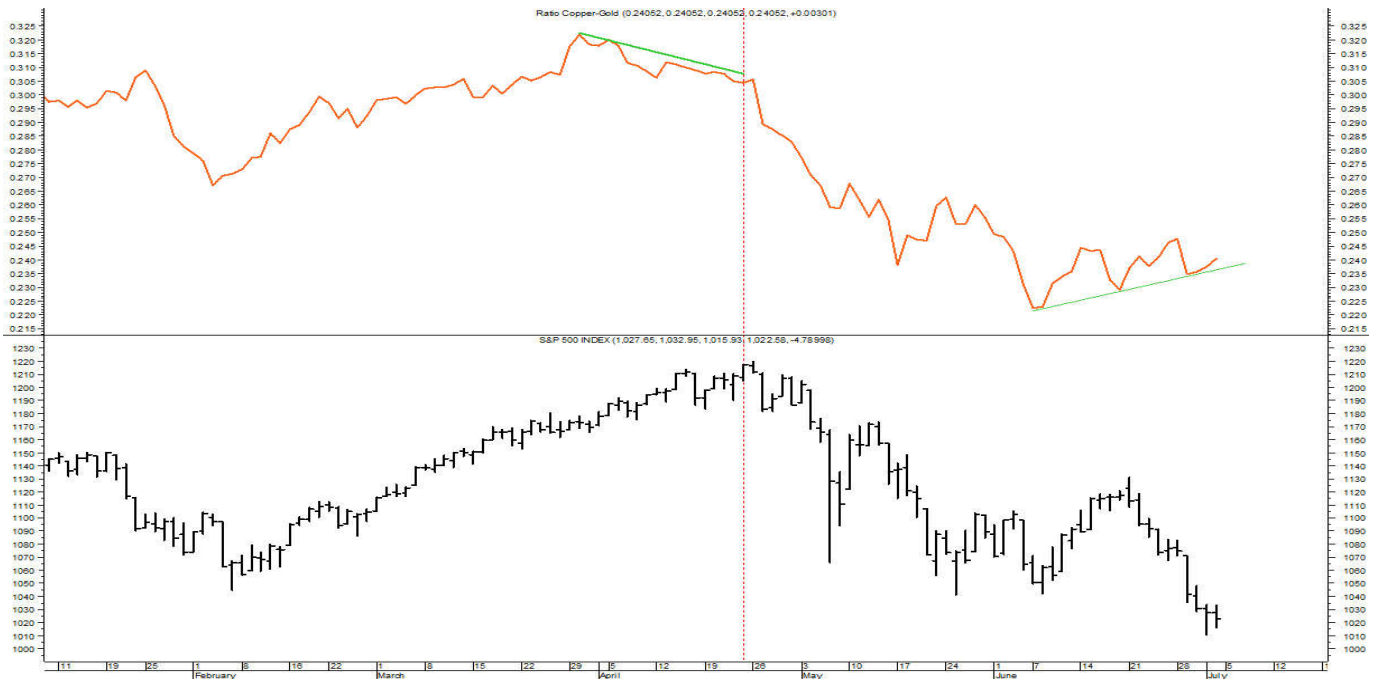


Figure 3: Ratio Copper/Gold

Cycles

Both the **21-day** and **42-day** (trading, not calendar days) cycles are due to bottom **July 7th**. We could see a “summer rally” begin on or around July 7th.

The **21-day cycle** has tops scheduled for **July 20th** and, together with the **42-day cycle**, **August 18th**. A **107-day cycle top** targets **August 6th**.

40- and 80-week cycle bottoms are not due until 9/10 and 9/17.

Price Targets

The Dow's lows last Thursday and Friday stopped right at the Fibonacci confluence zone surrounding 9,600 and the SPX closed Friday on top of its zone at 1,020. Our rule of thumb for a minimum retracement of 38.2% would take the Dow to 10,260 and 1,095 SPX. We see dense Fibonacci confluence zones at 10,300-10,350 and 1,095. We'll call **10,300** and **1,095** our price targets for now. We expect to sharpen this up as the advance develops.

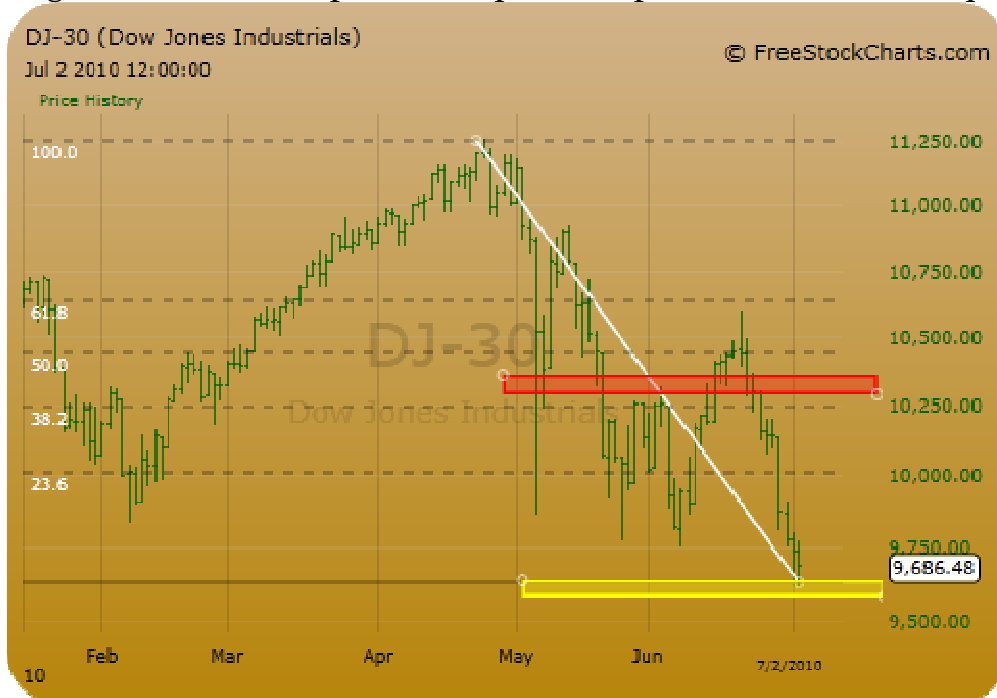


Figure 4: Dow Jones Industrials

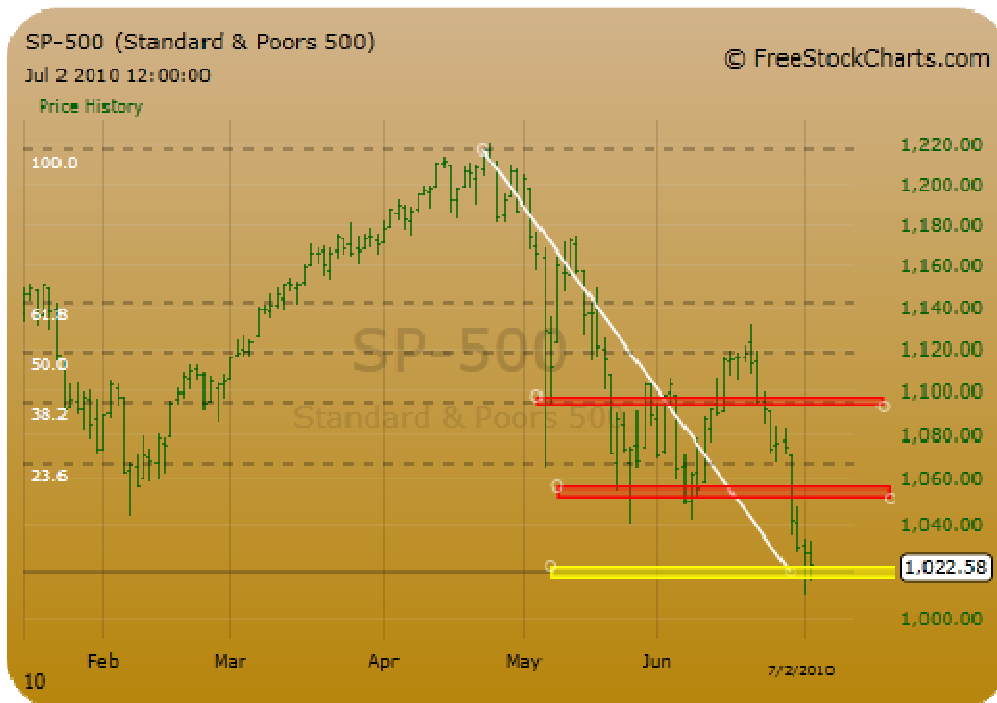


Figure 5: S&P 500

Best Case Scenario Just Got a Lot Worse

Everyone is talking about the confirmed head-and-shoulders top last week. The formation implies a minimum move to 885. That is a minimum. The 1st Fib support zone beyond that level is 880 which is also the 61.8% retracement of the March'09 bull market. Of course, nobody knows about that head-and-shoulders top but us! – NOT! This is the perfect time for a bounce in equities.



Figure 6: S&P 500

Foreign Equities

Nikkei

The Nikkei triggered two CCM sell-signals during the latest decline, the first of which was on June 22nd at 10,112.90. Since then the index has dropped almost 1,000 points or 10%. Last Thursday found the index at the 50% retracement level of the March'09 bull market. NKX triggered a **CCM buy-signal** on Friday but we wouldn't be surprised by another day of downside. We see big positive divergences in 14-day RSI, stochastics and MACD. Retracing 38.2% of the April 5th decline targets 10,050 but we see a Fibonacci confluence zone surrounding **9,900**. We'll call that our target for now. The 107-day top to top cycle sees a "top" on July 16th.



Figure 7: Nikkei

FTSE/Xinhua 25, FXI

The Fibonacci confluence zone at 38.50 continues to hold back the decline in FXI. This level is also the 61.8% retracement of the May 20th advance. Honestly, we're not comfortable with making a call on FXI here so we'll step aside. Fib support at 38.5, 37.4, and 34.5

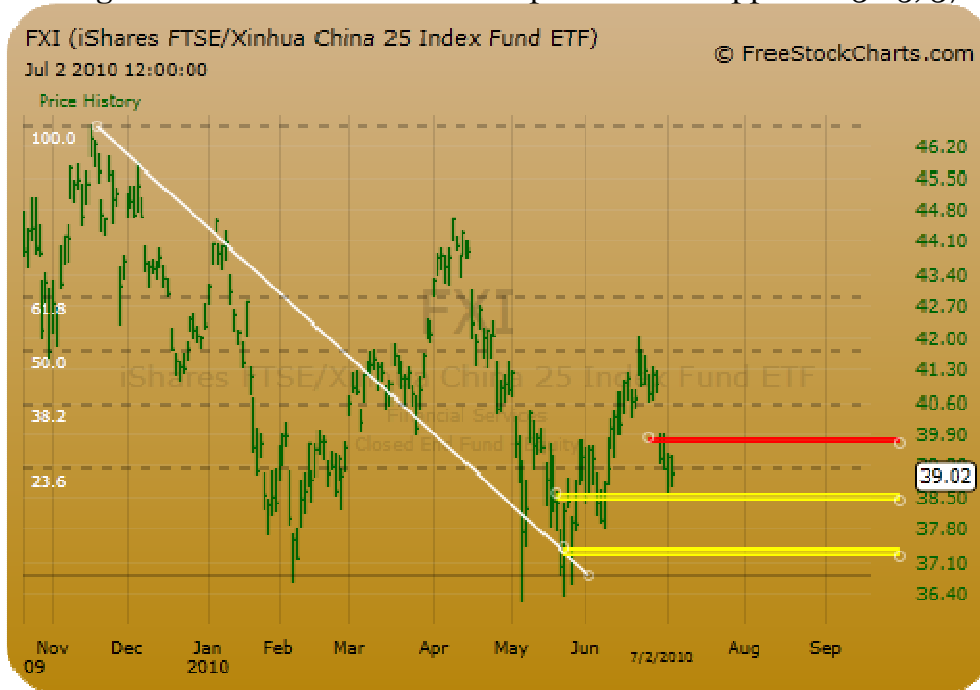


Figure 8: FTSE/Xinhua25, FXI

U.S. Treasuries

TNX, Ten-Year Treasury Yield

The 40-week cycle-bottom is due **this week**. TNX tested and bounced off the Fibonacci confluence zone at 29 last Thursday and our Fibonacci trendline model allows for a possible bottom there. CCM flashed a **buy signal** last Friday. Fib resistance at 32.

As readers can see from the chart below, we are starting to see a case for a move back to the Dec'08 lows (and beyond). We'll wait for the bounce before trying to develop that further.



Figure 9: TNX, 10-year Treasury Yield

Currencies

US Dollar

The Dollar's bandwidth indicator flipped into its buy-mode on Friday. Could the Dollar be set to rally with equities? A buy-signal would be triggered today with a close by 14-day RSI over 46.49. Keep in mind we're on the downhill slide into both the 20- and 40-week cycle bottoms (both cycles are scheduled to bottom September 3rd) but the Dollar did close Friday dead-on the Fibonacci confluence zone at 84.60 and this would be "the place" to bounce. Still, tough headwinds with both cycles headed down. Longer-term, the Dollar broke the neckline of a head-and-shoulders top on Thursday. The top measures a minimum move to 81.90 and a Fibonacci confluence zone surrounds 82. The 200-day moving average is currently in this area, as well.

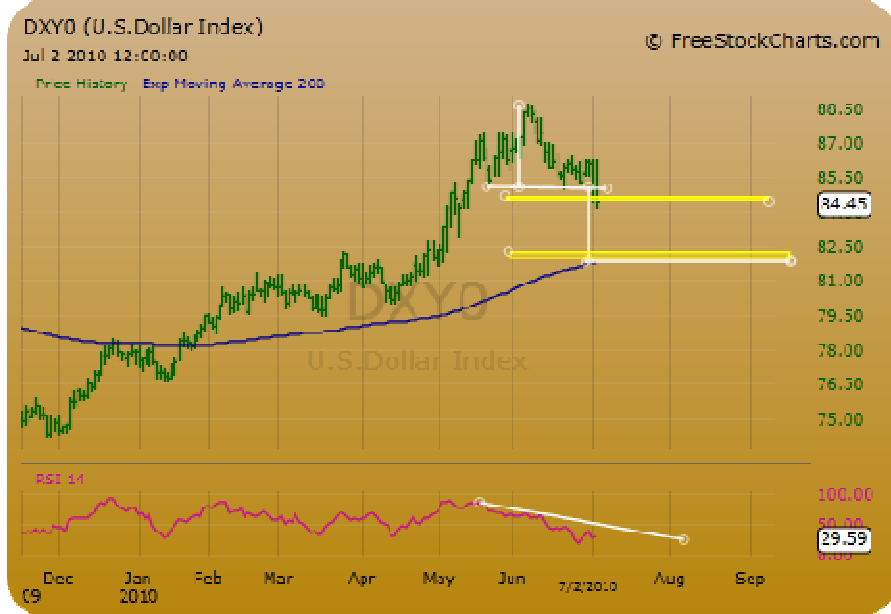


Figure 10: US Dollar

Euro

No change of mode for the Euro and, as it is in a *confirmed* buy-mode, any pullbacks should be treated as buying opportunities. The Euro broke through a small, bullish head-and-shoulder which measures to 129. 38.2% retracement of April-May decline is at 131.50.



Figure 11: Euro

Japanese Yen

After that buy-signal on June 18th the Yen has been on a roll. Fib zones at 115, 118 and 127. We have a price target of 127.

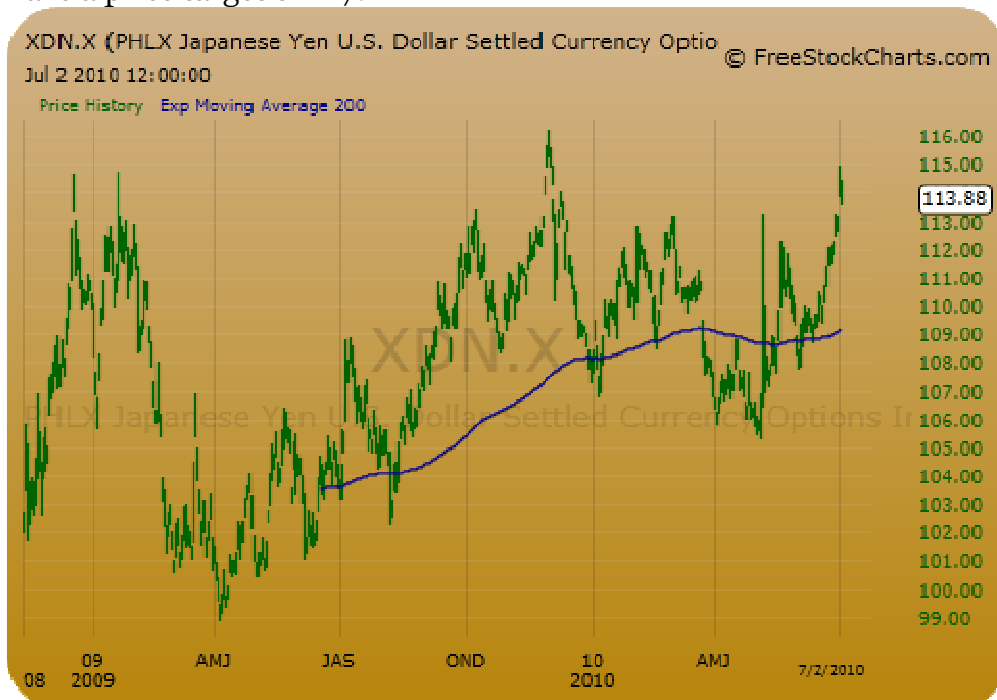


Figure 12: Japanese Yen

Commodities

Continuous Commodity Index, CCI

Last Monday saw a sell-signal triggered by CCI and on Wednesday BWI moved back into the buy-mode! Pretty much any advance on Monday will trigger the buy-signal and start a new advance (with equities?). The 30 week cycle is not due to bottom until September 3rd – not far from that other portion of the ‘risk-trade’, equities, which are due to bottom in mid-September. We still think we’ll see 435 prior to any new highs.

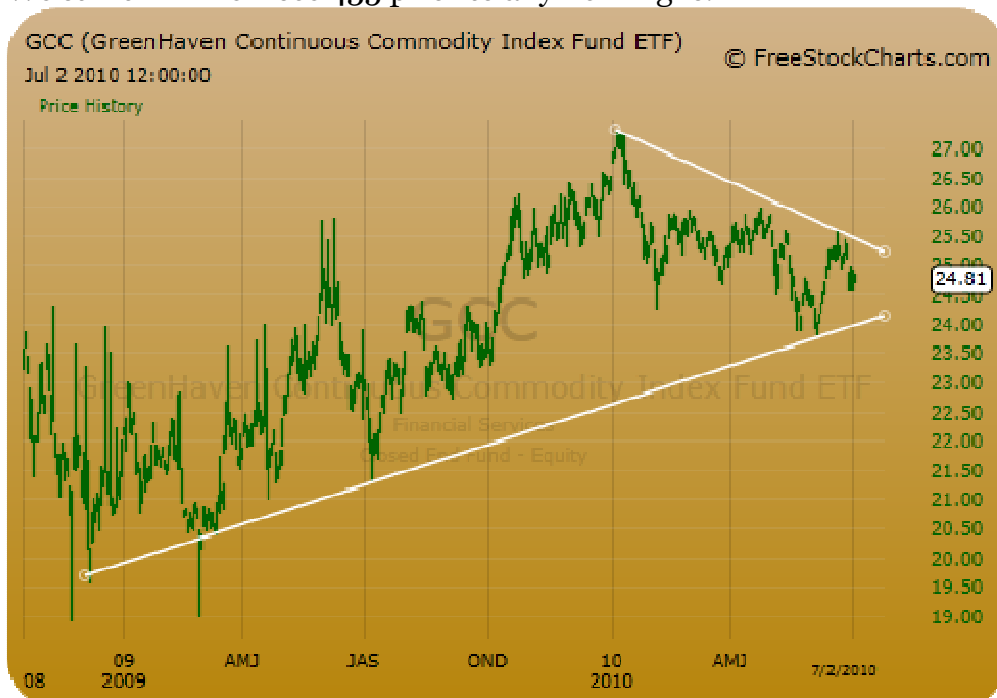


Figure 13: GCC, Greenhaven Continuous Commodity Index ETF

Crude Oil

Our patience paid off. Crude hit its high 3 days prior to the expected 107-day cycle top due June 30 – within the 5-day window. A return to the bottom of the wedge will take price near 64 but we think there is more downside ahead. There is a Fibonacci confluence zone at 71 which could provide some support particularly if risky assets are poised to bounce in July. Other zones of support exist at 69.50 and 65.50. *Best-case scenario* is a 38.2% retracement of the Dec'08 advance at 66.

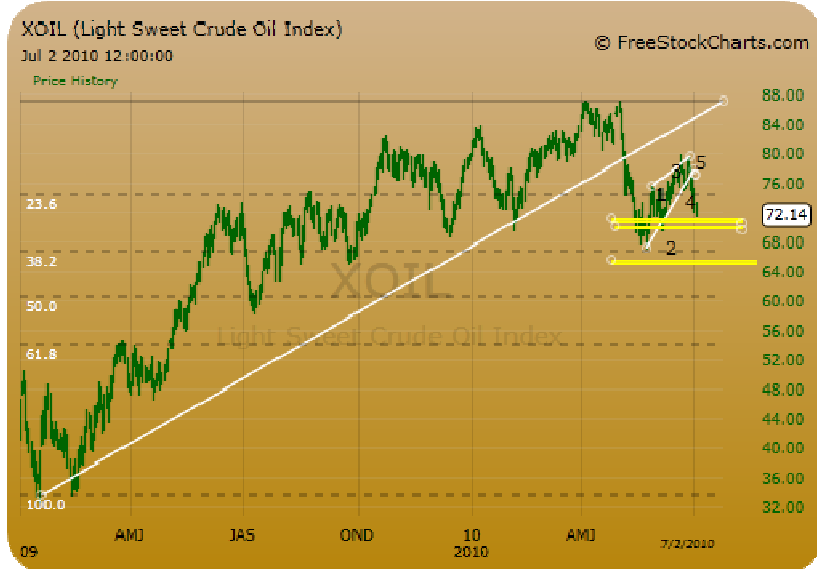


Figure 15: Crude Oil

Gold

The 21-week cycle told us a top was due last week and it didn't disappoint. The final high for gold was on Friday, 6.25.10 and a full moon shone the next night. On Thursday gold dropped \$44/oz. Gold is in an unconfirmed sell-mode and 3-day RSI breached 20. Stochastics and MACD are headed down. If gold is simply correcting the Feb'10 advance then our *best-case scenario* is 1,180 and there is a Fib zone at **1170**. On the other hand, if gold is correcting the Oct'08 advance, then we've got to plan on a move to 1,050 at a minimum. Gold did spend Friday consolidating in a Fib zone at 1205 (and cloud support) and, like Crude Oil, could be expected to bounce with equities this month. Gold exhibits a seasonal fall rally but should be weak until then.



Figure 15: Gold ETF, GLD