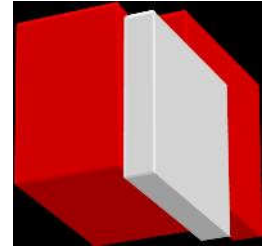




Market Update

For daily commentary see
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Hit the Bid

As of last Friday, the closing high for the July advance was printed on July 26th, the date of the full moon (sheer lunacy). On Friday equities triggered a **Carlson Confirmation sell-signal**. We would advise readers to 'hit the bid' (sell equities). We still wouldn't be surprised by a pop up on Monday but that should be looked upon as a gift to get short equities. This week we are lowering our *best-case scenario* for an end to the bear market to **8,300** Dow and **880** S&P 500.

Deflation Sightings

Record lows were set in the 2-year treasury auction as well as the 30-year mortgage rate last week.

Sentiment

NYSE short interest saw a 1.2% decline over the past month.

EPFR: Overall, investors pulled another \$15.3 billion out of Money Market Funds last week taking year-to-date outflows back over the \$450 billion mark, and redeemed a net \$3.16 billion from equity funds.

Investor's Intelligence: Bullish Percent 38.2, Bearish Percent 34.9.

AAll: Bullish sentiment rose 7.8 percentage points to 40.0% in the latest AAll Sentiment Survey. The percentage of individual investors who expect stocks to rise over the next six months is at a six-week high. The historical average is 39%.

Bearish sentiment, expectations that stock prices will fall over the next six weeks, fell 11.7 percentage points to 33.3%. This is a five-week low for bearish sentiment.

July consumer confidence report: **9%** of American households rate business conditions as being "good".

When Lehman failed in September 2008, **13%** believed business conditions were "good"

When Bear Stearns failed in March of that year, the ranking was at **16%**.

In the wake of the 9-11 tragedy, it was **19%**.

Consumer confidence dipped in July again over worries about the jobs picture and over income prospects. The overall consumer confidence index slipped to 50.4 in July from an upwardly revised 54.3 in June (initially 52.9). Analysts projected July to print at 51.0.

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US Equities

The S&P 500 triggered a CCM sell-signal on Friday (NASDAQ on Thursday) but the Dow is still on the precipice of doing so, even though its bandwidth indicator is now in its sell-mode. Unlike the S&P, the Dow's 107-day cycle top was due August 1st which means last Tuesday's high was within the ± 5 -day window. The daily **Coppock Curve** peaked one-day after its 21-day cycle high had predicted and is now pointed down.

On-Balance Volume triggered a CCM sell-signal last Wednesday. Even that troublesome **Euro-Yen cross** saw its bandwidth indicator breach a previous low on Friday taking it to its sell-mode... although the sell-signal has yet to be triggered (very close!).

Dow Jones Industrials

The highs for the **Dow** last week were turned back at the Fibonacci Confluence zone surrounding 10,550. With a new high to work with, we now see Fibonacci Support zones at 9,600, **8,950**, and **8,300**. We'll be keeping our eyes open for CCM buy-signals at these levels. **9,425** is the 38.2% retracement of the March'09 advance, **8,900** is the 50% retracement and **8,300** is 61.8%. We normally expect a minimum of a 38.2% retracement which means the 9,600 Fib zone should be breached and **8,900-8,950** would be the next expected level of support. The post-April'10 decline will equal 38.2% of the Oct'07-Mar'09 decline at **8,300** so we're leaning toward that as a price target for the bottom of the current decline given the Fib zone that exists there and the 61.8% retracement level. A bearish head-and-shoulders formation measures to a minimum move to 8,400.

S&P 500

The S&P topped out last week at its 200-day moving average and the 50% retracement of the April'10 decline on July 26th, the date of the full moon. The Bandwidth indicator breached a previous low changing the mode to 'sell' on the same day that 14-day RSI broke its advancing 'anti-trendline' triggering a sell-signal.

We see Fibonacci Confluence zones at 1,015, 955, **885**, and 845. A minimum expected 38.2% retracement of the Mar'09 advance is at 1,010 - indicating the zone at 1,015 will be breached. 945 is the 50% retracement suggesting the zone at 955 will be breached, as well. The 61.8% retracement is **880**. A bearish head-and-shoulders measures to **885** (minimum). The Apr'10 decline will equal 38.2% of the Oct'07-Mar'09 decline at **880**. 880 is our price target and *best-case scenario* for an end to the bear market.



Figure 1: S&P 500, Fibonacci Confluence Zones/Retracements

Cycles

We had been expecting the top for the latest advance to hit in the first week of August (**Aug3-Aug6**) based on 21 and 42-trading day cycles as well as a **107-day cycle top** scheduled for **August 6th**. If last Monday, July 26th, was the top of the advance, we'll need to re-set our cycle count.

August 11th and 24th now show as a possible inflection dates. A **new moon** is due August 11th.

The **40- and 80-week** cycle bottoms are due **9/10 and 9/17**. A **20-week** cycle (not harmonic with 40- and 80-week cycles) is due to bottom **9/10**, as well. The **3-year cycle** is targeting an inflection point near Aug 13th (given the size of the cycle, we may have seen that inflection already).

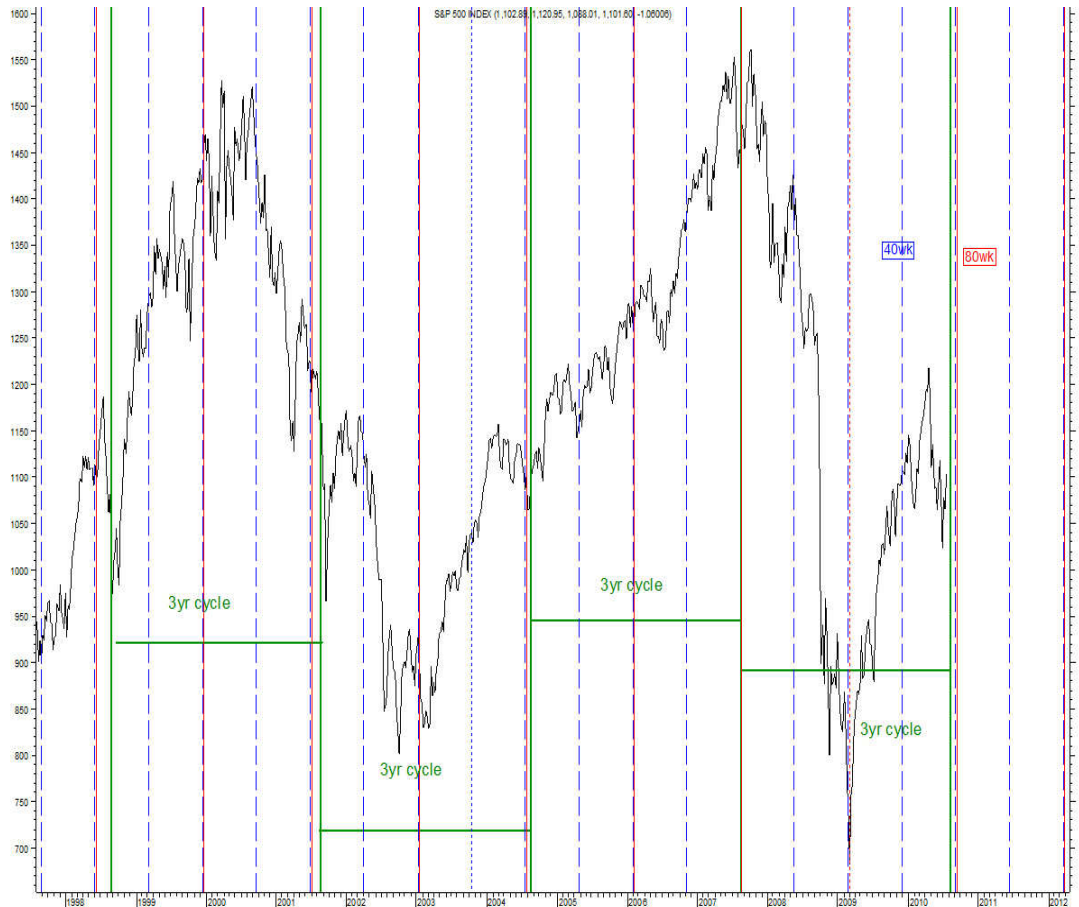


Figure 2: 3-year, 40-week, 80-week Cycles

Foreign Equities

Nikkei

The Nikkei triggered a CCM sell-signal on Friday. Given price is nowhere near Fib resistance at **9,900**, we are tempted to ignore the signal but with US equities on the verge of a big downturn we're not brave (stupid?) enough to do so. The daily Coppock Curve has turned down too, adding to our nervousness. Perhaps, today will be the big day for the Nikkei that sees a move up the Fib zone surrounding 9,900 prior to a sell-off.

A downside break of the Fibonacci Confluence zone at **9,050** points to the next zone at **8,250**. **Ouch!**

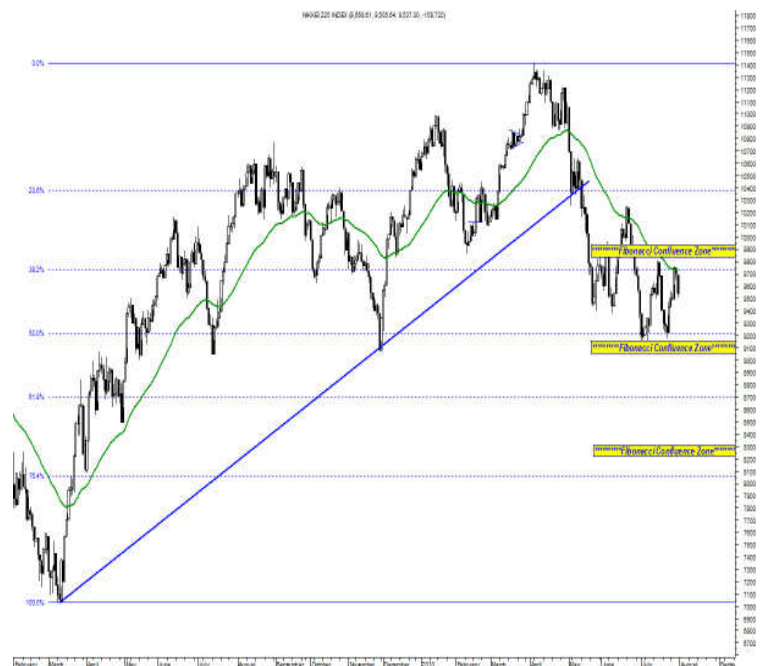


Figure 3: Nikkei 225

FTSE/Xinhua 25, FXI

The 107-day cycle top due July 23rd appears to have timed the high perfectly. We weren't comfortable with the CCM sell-signal generated last week until Thursday as the advancing 'anti-trendline' was breached by 14-day RSI by a horizontal move. The overlapping nature of the May 21st advance versus the impulse nature of the April decline adds to our confidence that the larger trend is down. A Fibonacci Confluence zone (resistance) surrounds 42 and stopped the May advance – as has the 200-day moving average. A 72-day cycle low is due September 1st.



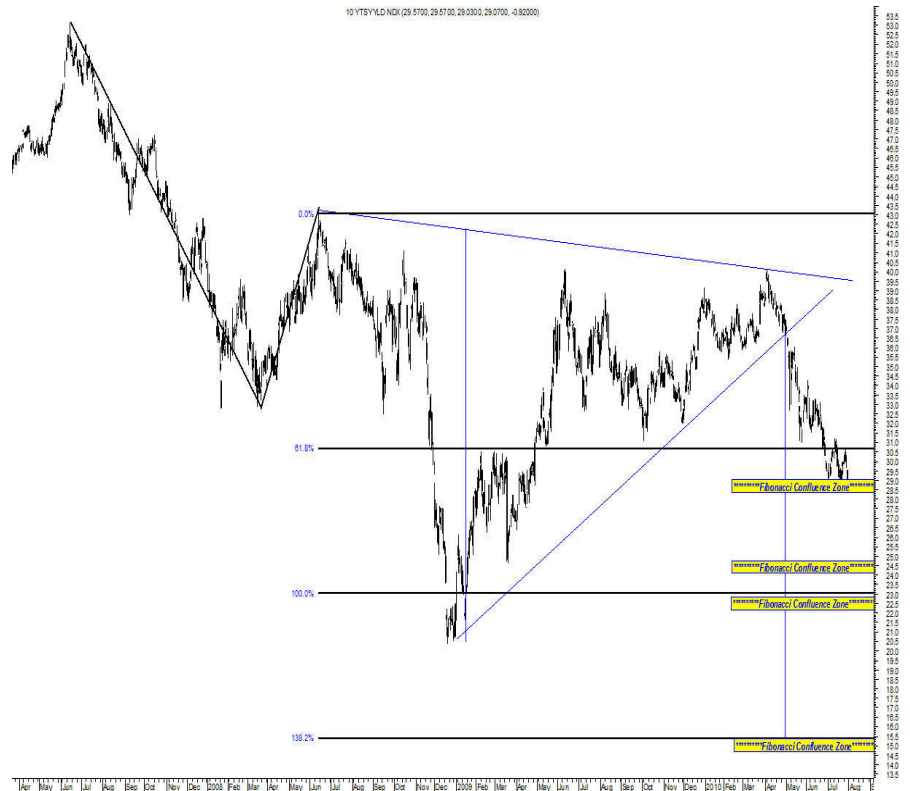
Figure 4: FTSE/ Xinhua25, FXI

U.S. Treasuries

TNX, Ten-Year Treasury Yield

TNX triggered a sell signal last Wednesday. TNX has already breached the 50% retracement level of the Dec'08 advance. 61.8% is at 2.80% but after the Fib zone at 2.90% the next zone isn't until 2.45%. A break of the June/July lows would be very bearish for equities. A 21-day cycle low is due today but we are suspicious. A Fibonacci Confluence zone surrounds 2.90% so we'll be watching to see if this level is breached this week. Seasonality is bearish into the fall.

A triangle measures to **1.5%** as does 1.382% of the June'07-March'08 decline. Fibonacci confluence zones (support) exist at 2.45%, 2.25%, 1.9%, 1.7%, and 1.5%. Historically, there is a 160 basis point spread between the Fed fund rate and the 10-year T-note yield, and a 210 basis point spread between the funds rate and the long bond yield. So if the Fed keeps the overnight rate close to 0% our **target of 1.5%** doesn't sound so far-fetched.



Currencies

US Dollar

The Dollar breached its 200-day moving average last week, is in a sell-mode, and 14-day RSI is headed down. Thursday's close fulfilled the minimum measuring implications of the bearish head-and-shoulders top we wrote about in early July. 20- and 40-week cycle bottoms nest together on September 3rd. Very difficult headwinds to overcome with both cycles on a downhill slope between now and then. 14-day RSI twice dipped below 20 in July telling us that the Nov'09 bull market is over. Fibonacci Confluence zones exist at **80.50** and then not until **73.50**.

We do see a positive divergence in the daily Coppock Curve. The Dollar's Coppock Curve has a very regular 21-22 day cycle. It bottomed on July 20th but, despite the positive divergence, no turn upward for the Dollar yet. Friday's close found the Dollar sitting on the 50% retracement of the Nov'09 rally. This would be a natural spot for a quick bounce prior to dropping into the cycle bottoms due in early September... and a good opportunity to get short.



Figure 6: US Dollar

Euro

The Euro is close to our price target of 131.50 just as negative divergences are appearing in RSI (and the Coppock Curve) and the bandwidth indicator has moved into its sell-mode. Our FTL (Fibonacci Trendline Model) allows for a top at last Thursday's close and at 131.50 today. A top in the Euro fits perfectly with a top in equities and the risk-trade in general. The Euro has retraced the minimum expected (38.2%) of the Nov'09 decline; A natural place to top. A closing breach of 64.29 by 14-day RSI will trigger a CCM sell-signal today.

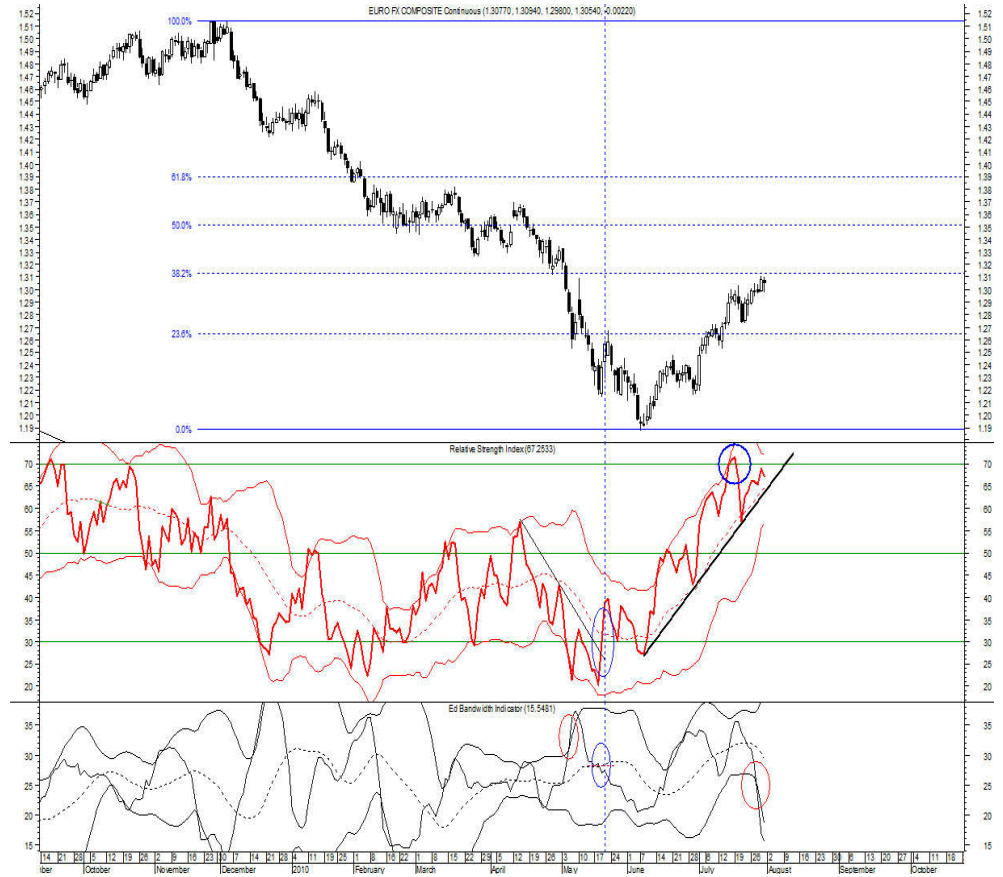


Figure 7: Euro

Japanese Yen

We're Yen-bulls but negative divergences in RSI have appeared and 3-day RSI failed to breach 80 during last week's advance to a new high in price. We'd look to buy on any dip into this Friday's non-farm payroll report. An advancing Yen fits a declining equity market. *A triangle measures to 127. We see Fibonacci resistance zones at 120.50, 123.50 and 129. 129 is our target.*



Figure 8: Japanese Yen

Commodities Crude Oil

Crude has been very difficult for us lately but we see a negative divergence in the daily Coppock Curve now. A 107-day cycle top is due **August 4th** so we're now in the **+5-day** window. A top here makes sense as the Coppock Curve will reach the half-way point in its 36-day cycle this week.

Next resistance is at 81.50. If equities pullback here, we'd expect crude to do likewise.

The overlapping nature of the May advance adds to our belief that this move is corrective to the downtrend. A break of the triple-top on the point and figure chart will cause us to throw in the towel on our short position for now. 14-day RSI never managed to get above 70 during the post-May advance so we believe Crude remains in a bear market.

Oil - Light Crude - Continuous Contract (EOD) (\$WTIC) INDX

30-Jul-2010, 16:00 ET, daily, O: 78.21, H: 79.06, L: 76.84, C: 78.96, Chg: +0.60 (0.77%)

No New P&F Pattern

Traditional, 3 box reversal chart

Bearish Price Obj. (Rev.): 64.0

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Gold

Gold bottomed on July 27th, the morning after a full moon, and on its 150-day moving average. It triggered a Carlson Confirmation Model **Buy-Signal** on Friday. We see positive divergence in the Coppock Curve. A 21-day cycle inflection point hits this Thursday, **August 5th**. If gold advances into that date, then our buy-signal will be short-lived as that would imply a top. If gold pulls back this week, we will call that a bottom.

Gold's 14-day RSI has yet to breach 30 so we believe the bull market in gold is still alive and well. A bullish head-and-shoulders from 2008-2009 implies a minimum move to **1,300**.

We find it curious that gold bounced here as there is no Fibonacci Confluence zone nearby to have provided support. **1,150** would be the closest and gold's low at 1,158 seems too far away to provide a suitable launching pad for a new advance. Best support would be at **1,105**. Bottom Line: watch for a breach of the 150-day moving average.

The 3rd quarter tends to be, seasonally, the weakest time period for commodities and mining equities. **November 26th** is an inflection point for the 21-week cycle.

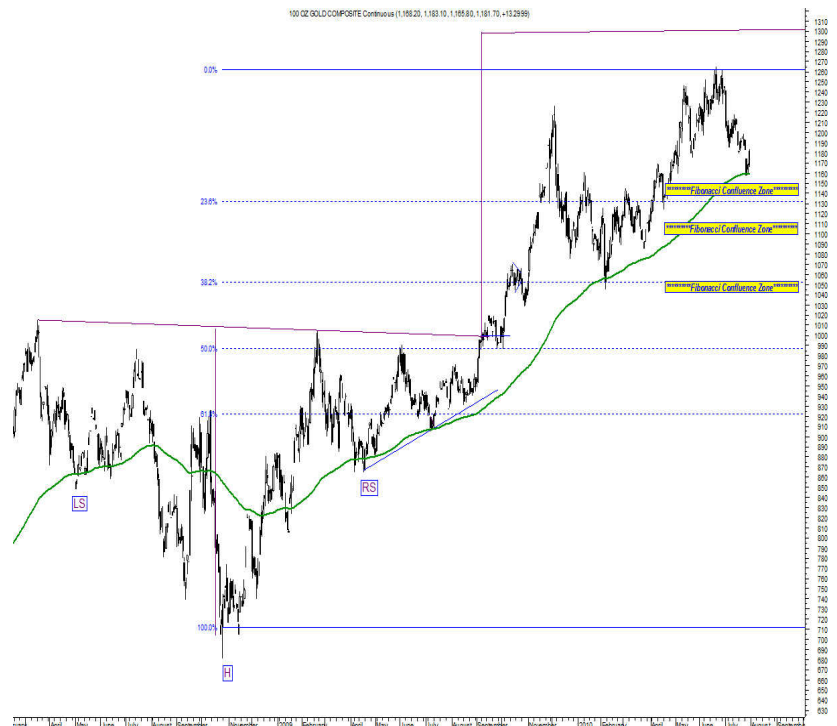


Figure 10: Gold