



THE RHODES REPORT

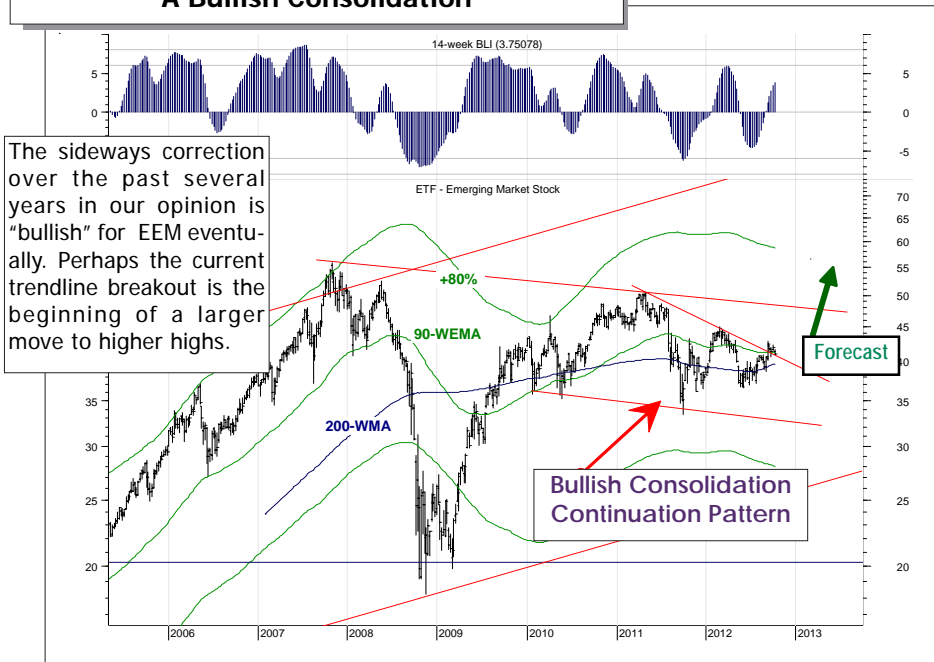
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THURSDAY – OCTOBER 11, 2012

Emerging Markets ETF (EEM—Weekly) “A Bullish Consolidation”



“FORECAST”

STOCKS: The European debt contagion has been “kicked down the road” as Spanish and Italian short-and-long term bond yields have moderated recently given the ECB “plan” to buy bonds of up to 3-years in maturity...but only if asked; and only if conditionality is imposed upon those asking. The Fed has also changed its game from “inflation-fighting” to “unemployment fighting”; and with any war — they will go further and farther than anyone believes in printing money to achieve their ends. This will support all asset prices ultimately.

STRATEGY: The S&P 500 remains above the 160-wma long-term support level at 1233. The much followed 200-dma support level stands at 1365, and remains the bulls “Maginot Line.” We’ve noted this is perhaps one of the “weirdest rallies” we’ve ever been witness to, and it causes us a great deal of consternation. But the new Fed policy directly targets stocks; expect a near S&P all-time high test at 1515-to-1530.

This move S&P has caused “hope” that a request will come sooner rather than later, which has pushed the European bourse modestly higher, and the S&P futures higher by +8 points. We should note even through yesterday’s weakness, the S&P futures are a higher level this morning than they were yesterday when we marked prices prior to releasing our report. Moreover, “risk-on” seems to be “on” for the moment, with the Euro currency rising and the USD falling; precious metal prices are higher; energy is higher and copper is higher. These are the necessary ingredients for a rally; but whether it extends remains to be seen. Certainly we can make the case prices are oversold on a short-term basis, and

CAPITAL MARKET COMMENTARY

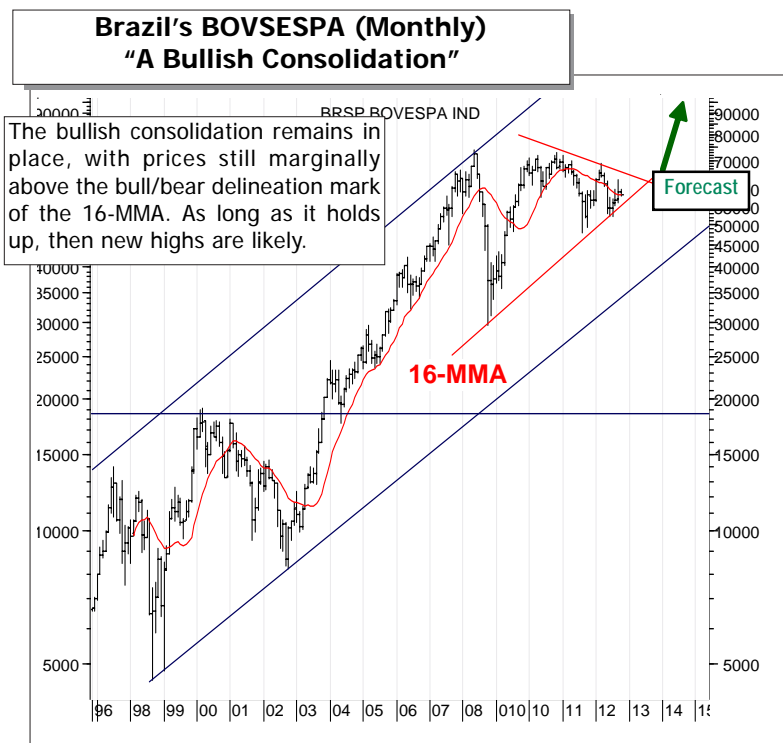
► **ASIAN BOURSES ARE LOWER; BUT EUROPEAN BOURSES HAVE TURNED HIGHER** as S&P downgraded Spain to one-notch above junk; and issued a “negative” outlook. Moody’s had already taken Spain to this level previously. But as the thought goes, this pushes Spain closer to the edge of oblivion and renews pressure upon Spain to quit dragging their feet and formally request an aid package – which the market wants. Prime Minister Rajoy has said he will only make an aid request decision when he has all the details; but the fact of the matter is Mr. Rajoy is waiting for his home region elections in Galicia on October 21st before making a decision. He has no other decision; Spain will require a bailout; we will welcome it once it comes to fruition. Lastly, let’s note the Spanish 10-year notes are higher by 8 bps to 5.89%...far lower than the 7.62% that was in place during July.

OVERNIGHT PRICES

Quotes at: 7:54am EST

INDEX		LAST	DAILY CHG	CHG %	YTD	YTD %
Morning Futures						
S&P 500	up	1,431.50	5.25			
Nasdaq 100	up	2,734.75	12.00			
10-year Note Yield	up	1.69%	1.7 bps			
Crude Oil	up	\$ 92.23	\$ 0.98			
Euro €	up	1.2931	0.0026			
Yen ¥	down	1.2766	-0.0031			
Gold	up	\$ 1,771.80	\$ 6.60			
Foreign Indices						
FTSE 100 Index	up	5,811	33.9	0.59%	238	4.28%
German DAX	up	7,249	43.8	0.61%	1,351	22.90%
French CAC	up	3,384	17.9	0.53%	248	7.90%
Japan Nikkei 225	down	8,547	-49.5	-0.58%	91	1.08%
SSE China Composite	down	2,103	-17.1	-0.81%	-97	-4.39%
Spain Madrid General	down	768	-3.9	-0.51%	-90	-10.45%
Italy FTSE MIB	down	15,437	-4.1	-0.03%	347	2.30%
US Indices						
Dow Industrials	down	13,345	-129.0	-0.96%	1,127	9.22%
Nasdaq 100	down	3,052	-13.2	-0.43%	584	23.66%
S&P 500 Large-Cap	down	1,433	-8.9	-0.62%	175	13.91%
S&P 400 Mid-Cap	down	978	-4.5	-0.46%	99	11.28%
S&P 600 Small-Cap	down	461	-0.7	-0.15%	46	11.11%

CAPITAL MARKET COMMENTARY



are rising in tandem with our model turning higher from oversold levels on an hourly basis.

► **TRADING STRATEGY:** We are long China and Brazil; Natural Gas and Copper via FCX; long bond yields via TBT, and long Microsoft and Weatherford Int'l. This is rather aggressive for us, but certainly over the past two trading sessions as the down lost nearly -2%, our model portfolio lost less than one-half of this, and therefore its relative performance has been rather nice. Now, we need to see a rally upon which "spread its wings" and provide the gains we expect to see.

We are not looking to add any other positions at this point, although certainly FedEx (FDX) rallied sharply yesterday above its major moving averages and remains in a bullish consolidation pattern. If we are to add, then we would be patient and allow yesterday's gain to digest and then consider adding FDX...and possibly exiting any underperforming position that is yet to be determined. Nothing more at this point.

PORTFOLIO: RHODES AGGRESSIVE DISCRETIONARY

No.	Trade Date	Long/Short	Share No.	Name	Ticker	Beta	Port %	Invest	Entry Price	Current Price	Unrealized P/L	Percent P/L	Stop Loss Point	TARGET	Earnings Release	
1	9/10/2012	L	643	China ETF	FXI	0.09	10.5%	\$ 21,344	\$ 33.20	\$ 35.26	\$ 1,328	6.2%	\$ 33.25	TRADE	\$ 41.00	N/A
2	9/12/2012	L	1,056	Natural Gas ETF	UNG	0.05	10.9%	\$ 21,389	\$ 20.25	\$ 22.32	\$ 2,186	10.2%	\$ 20.35	TRADE	\$ 35.00	N/A
3	9/19/2012	L	331	20+yr Bond 2x Short	TBT	0.07	9.7%	\$ 21,777	\$ 65.74	\$ 63.33	\$ (798)	-3.7%	\$ -	HOLD	\$ 23.00	N/A
4	9/21/2012	L	529	Freeport McMoran	FCX	0.22	9.9%	\$ 22,108	\$ 41.80	\$ 40.22	\$ (836)	-3.8%	\$ 38.50	TRADE	\$ 50.00	N/A
5	10/2/2012	L	395	Brazil ETF	EWZ	0.12	9.9%	\$ 21,568	\$ 54.60	\$ 53.83	\$ (304)	-1.4%	\$ 52.66	TRADE	\$ 62.00	N/A
6	10/3/2012	L	641	Microsoft	MSFT	0.10	8.6%	\$ 19,220	\$ 29.97	\$ 28.98	\$ (635)	-3.3%	\$ -	HOLD	\$ 40.00	N/A
7	10/9/2012	L	1,793	Weatherford Int'l	WFT	0.21	10.0%	\$ 21,618	\$ 12.06	\$ 11.97	\$ (161)	-0.7%	\$ -	TRADE	\$ -	N/A
8				N/A			0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -		\$ -	N/A
9				N/A			0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -		\$ -	N/A
10				N/A			0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -		\$ -	N/A
11				N/A			0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -		\$ -	N/A
12				N/A			0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -		\$ -	N/A
TOTAL						0.86	69.5%	\$ 149,025			\$ 780		" < " Denotes Change			

Model Portfolio Inception (\$100k): **January 1, 2005**

2005 Performance: +20.34%
 2006 Performance: +47.57%
 2007 Performance: +20.84%
 2008 Performance: -3.75%
 2009 Performance: +7.45%
 2010 Performance: +10.22%
 2011 Performance: -0.08%

2012 RECAP		Starting Balance	\$ 244,451
	Closed Positions		\$ (30,286)
	Open Positions		\$ 780
	Dividends		\$ 450
PORTFOLIO YTD (Gain/Loss)		\$ 215,395	\$ (29,056) -11.89%
S&P 500 YTD		13.91%	
Over/(Under) Performance		-25.80%	

TRADE PRICE NOTE: All entry and exit prices for stocks are the "average" of the high and low prices for the trading day as provided for by Yahoo!'s website at <http://www.finance.yahoo.com>.

DISCLAIMER: "The performance data shown represent past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so that investors' securities, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data cited. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index. The illustrations and charts in this report are educational only and do not take into consideration your personal circumstances or other factors that may be important in making investment decisions. This report is not a recommendation to buy or sell a particular security."

Trade Orders:

1. None.

Trade Executions:

1. Weatherford Int'l (WFT) — bought a 10% long position at an average of \$12.06.

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S&P 500 INDEX/ BROAD MKT INDICATORS



S&P 500 TECHNICAL COMMENTS

➔ **RESISTANCE AT 1425 WAS BROKEN ABOVE; AND MUST NOW HOLD ALL CORRECTIONS:** Quite simply, in the days leading up to the QE-3 announcement — resistance was broken above. This is bullish, although since this breakout — prices have had difficulty extending their move higher, and have now broken trendline support and the 28-dma. And while we consider this a “bullish consolidation” as long as 1415-to-1425 holds up to corrective scrutiny — we are now “officially” worried that a larger correction could take place.

We continue to see a “weirdness march” towards 1515-to-1530 zone; but if we were to target downside levels...then the 200-dma at 1367 would be reasonable.

TECHNICAL INDICATOR REVIEW:

- ➔ The 20-day is showing a negative divergence; and has turned lower again.
- ➔ The % of stocks above their 10-dma are at neutral levels.
- ➔ The % of stocks above their 200-dma stands at 59%...down -1% from the prior day's close. The 50-dma/150-dma cross is major support, and is being materially challenged to hold the breakout.
- ➔ The Intermediate-term Model has rolled over from less than overbought levels — AND, has now broken below the 10-dma. This indicates waning upside momentum; and is of a concern.

MODEL PORTFOLIO POSITIONS I

China ETF FXI
 Last: \$ 35.26 TGT: \$ 41.00
 Entry: \$ 33.20 STP: \$ 33.25



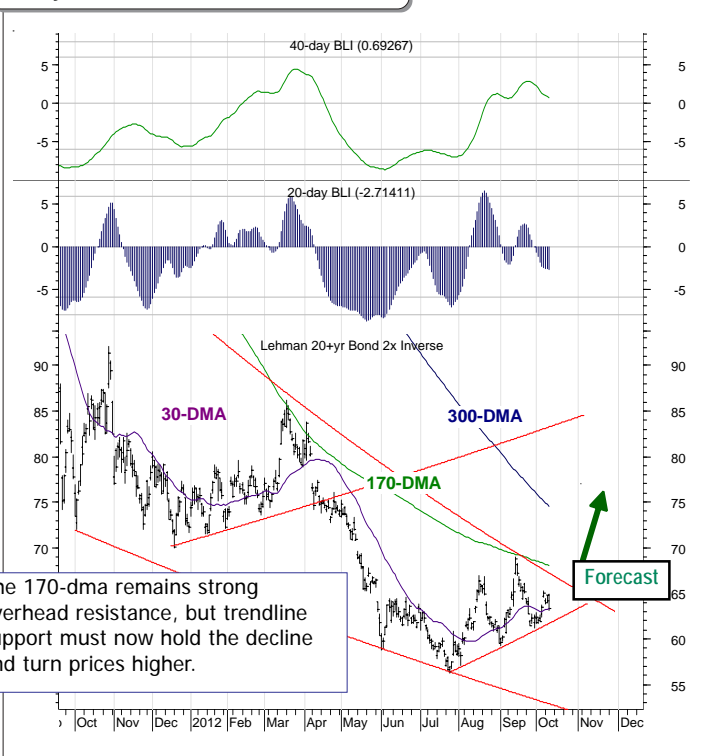
Recent support has held, and we can view this pattern as a bullish falling wedge; a 280-dma breakout would indicate a new bull market.

Natural Gas ETF UNG
 Last: \$ 22.32 TGT: \$ 35.00
 Entry: \$ 20.25 STP: \$ 20.35



Two higher lows coupled with the bottoming 150-dma suggest the trend is changing to higher. The 150-dma breakout should lead to a sharp move higher.

20+yr Bond 2x Shc TBT
 Last: \$ 63.33 TGT: \$ -
 Entry: \$ 65.74 STP: \$ -



The 170-dma remains strong overhead resistance, but trendline support must now hold the decline and turn prices higher.

Freeport McMoran FCX
 Last: \$ 40.22 TGT: \$ 50.00
 Entry: \$ 41.80 STP: \$ 38.50



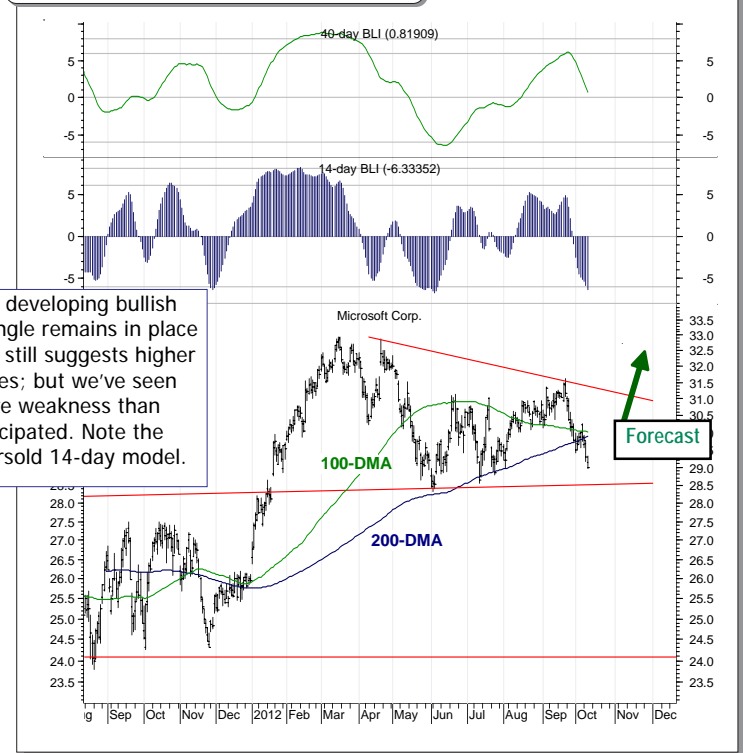
Trendline and 300-dma resistance were violated, with prices having corrected back to the breakout level and resumed their rally.

MODEL PORTFOLIO POSITIONS II

Brazil ETF	EWZ
Last: \$ 53.83	TGT: \$ 62.00
Entry: \$ 54.60	STP: \$ 52.66



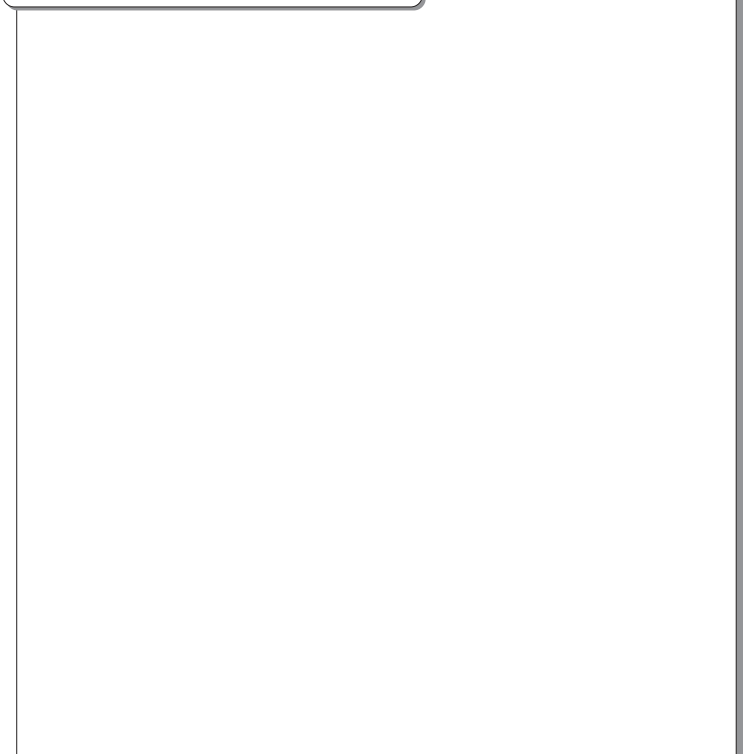
Microsoft	MSFT
Last: \$ 28.98	TGT: \$ 40.00
Entry: \$ 29.97	STP: \$ -



Weatherford Int'l	WFT
Last: \$ 11.97	TGT: \$ -
Entry: \$ 12.06	STP: \$ -



NA	0
Last: \$ -	TGT: \$ -
Entry: \$ -	STP: \$ -



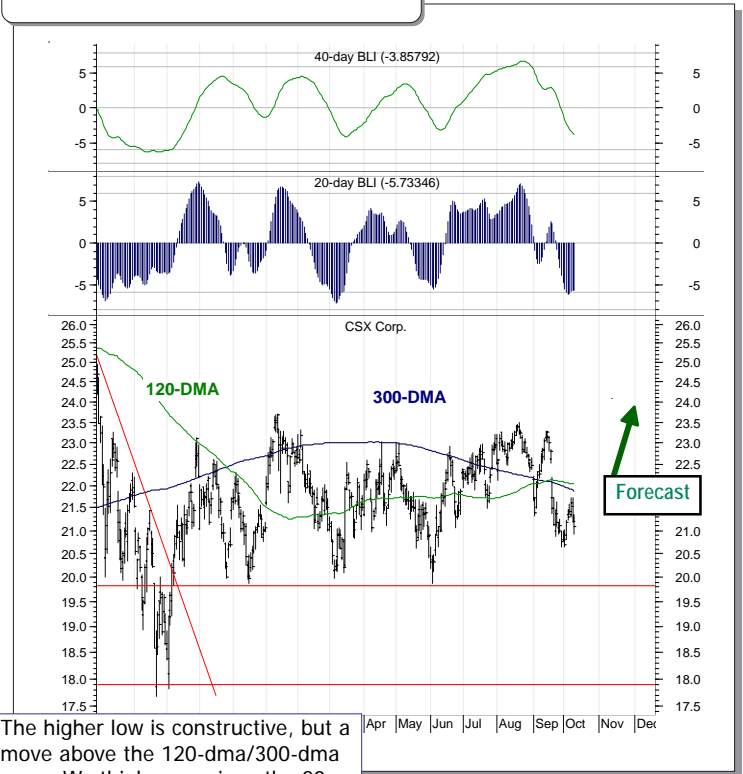
STOCKWATCH – POTENTIAL LONGS I

FedEx **FDX**
 Last: \$ 89.99 \$ 4.41



The higher low is constructive, but yesterday's move above the 80-dma/250-dma cross is bullish given the 20-day model. We are buyers soon.

CSX Corp **CSX**
 Last: \$ 21.09 \$ (0.12)



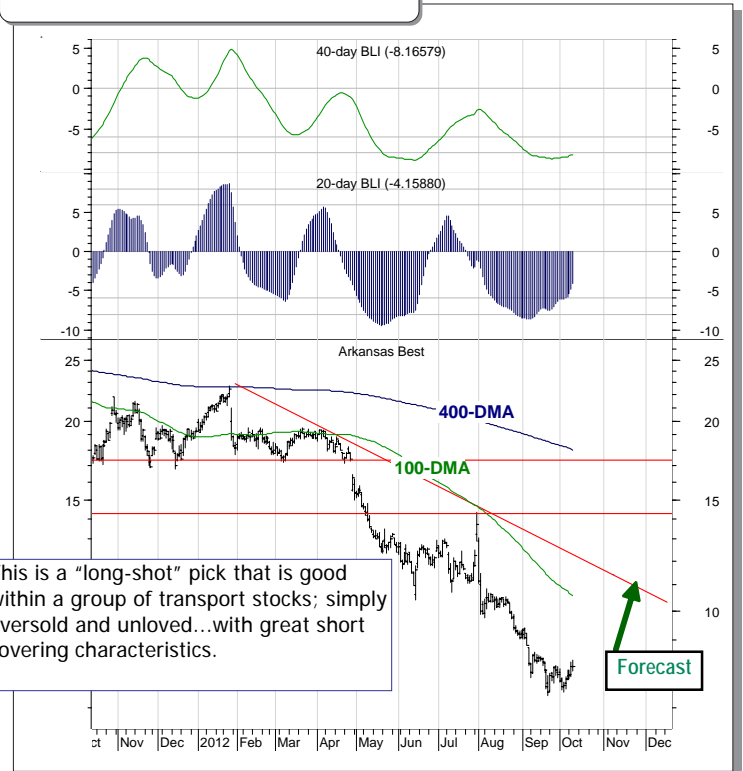
The higher low is constructive, but a move above the 120-dma/300-dma cross. We think soon given the 20-day model turn higher.

LandStar System **LSTR**
 Last: \$ 48.82 \$ 0.57



The decline appears complete given the trendline breakout and supportive models. We'll look to be a buyer soon.

Arkansas Best **ABFS**
 Last: \$ 8.15 \$ -



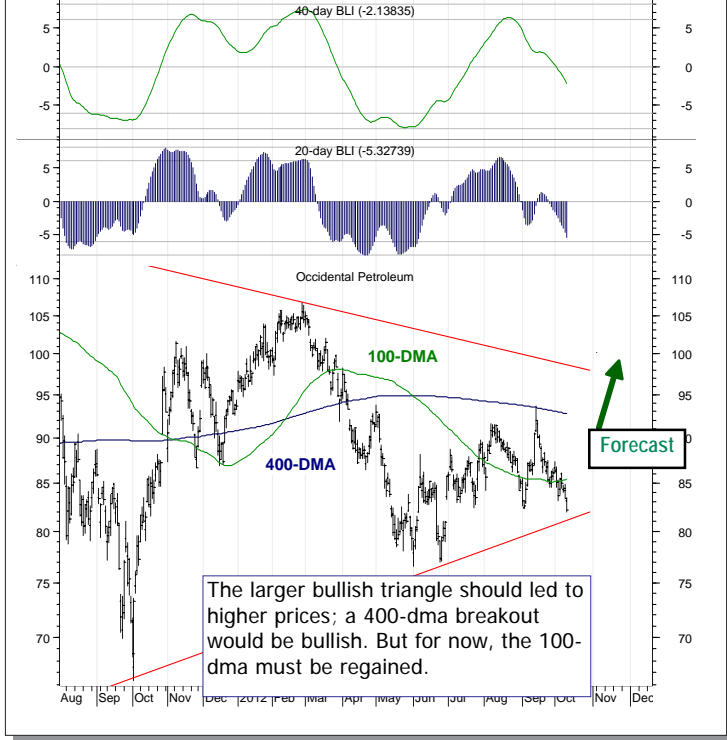
This is a "long-shot" pick that is good within a group of transport stocks; simply oversold and unloved...with great short covering characteristics.

STOCKWATCH – POTENTIAL LONGS II

Devon Energy **DVN**
 Last: \$ 60.48 \$ (0.59)



Occidental Petro **OXY**
 Last: \$ 82.22 \$ (1.19)



N/A **0**
 Last: \$ - \$ -

N/A **0**
 Last: \$ - \$ -

The “Blue-Line Indicator” or “BLI” Explained

The BLI is our simple momentum oscillator used for timing and trend decisions; we rarely if ever use other momentum indicators for we prefer to focus and understand one indicator really well rather than a basket of indicators that can at times be contradictory. Furthermore, we prefer to use the BLI in conjunction with basic chart patterns; it is our experience that this combination works rather well for type of trading style.

Basically, the BLI it is a full stochastic indicator derivative of our own undertaking; our changes have been several, but primarily relate to “smoothing” the indicator in order to provide for better signals once it does in fact change directions. We use varying time periods dependent upon whether we are working with weekly or daily charts. We have found that a 14-period BLI works well with the weekly charts, whereas both a 20-period and 40-period work well with daily charts. Obviously, the 40-period BLI catches longer and more tidal changes in direction. We normally don’t use these in our Daily Bulletin given its shorter-term time frame, but behind the scenes it plays a big part.

When using the BLI with price charts; we look upon the following 3-factors as “set-ups” upon which the probability is highest to trade:

1. BLI Extremes: Oversold (-6 to -8)/Overbought (+6 to +8)

- When the BLI trades into either extreme, our “reversal ears” go up as a change in trend becomes a higher probability. This puts the risk/reward dynamic in our favor generally, but we won’t take a position without well defined stop losses and perhaps prices are trading into support or resistance as the case may be. However, we must note that extreme conditions can and will become more extreme in a powerfully trending market; hence this is the “caveat” to trading with the BLI in isolation.

2. BLI Divergences: Positive/Negative

- A divergence is said to have occurred when the price and BLI do not make new lows/highs together. They in effect “diverge”, with the BLI not confirming the prevailing trend. If the BLI turns higher/lower from below a previous BLI low/high – then a divergence is said to have occurred, of which the probability is increased that the trend is changing in favor of the BLI direction.

3. BLI Reversals from Positive/Negative Levels

- Another very good BLI trading pattern which denotes a strongly stock is when the BLI turn higher from already positive levels – this suggests a strong upwards acceleration is underway. Conversely, a turn lower from already negative numbers suggests a strong downward acceleration is underway.