



THE RHODES REPORT

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MONDAY – JULY 22, 2013

S&P 500 vs. 10-Year Note Yield (Daily) "1000-DMA Reistance"



CAPITAL MARKET COMMENTARY

► **WORLD MARKETS ARE MIXED AS WE BEGIN MONDY MORNING** as there is very little on the overnight news line that would push prices either sharply higher or sharply lower. In effect, Europe shall be leaving on vacation for the month of August, and they are likely to continue "book squaring" in lieu of relaxing on a beach and understanding perhaps that their years may have been made at this juncture. And why not? With the German DAX up +10% YTD, and the continued uncertainty surrounding the Fed and tapering, as well as the US Congress and the budget deficit upcoming...it would be reasonable to step back and reassess after a month on the Riviera. If we were so lucky, then we would certainly do so. But truth be told, a hot, dusty baseball field coaching our 12U travel baseball team (Lower

"FORECAST"

STOCKS: The world economy is weakening: the US payroll tax increase and "sequestration" are pressuring the US economy; China is being pressured by Japan, and has "dampened" their housing market. the Eurozone remains mired in "inaction." For now, although we feel that risk is being mispriced at current levels given recent pressure upon world economic figures and the developing pressure upon corporate margins/ earnings — the consensus is that the world's central banks will save the day.

STRATEGY: The S&P 500 remains above the 160-wma long-term support level at 1341; and the standard 200-dma support level at 1521. But perhaps more importantly, the distance above the 160-wma has now faltered below the +23% "bubble-like rally" threshold. This is a warning sign to be sure; especially given 1600 was violated to the downside.

Merion Hawks) in a close game is better than any day on the Riviera – every time.

► **US ECONOMIC FRONT:** Today's economic docket features the June Existing Home Sales figures, and they are expected to rise +1.7% to 5.27 million annualized units from May's 5.18 million figure (a +4.3% gain). If there is a risk to this figure, then it is for a "higher figure" given the Pending Home Sales Index rose +6.7% in May (based on contract closings), which tends to lead existing home sales by a month or two. Outside of this, there is nothing else today, and for that matter, there is very little left for the entire week. Ah, the summer doldrums.

► **TRADING STRATEGY:** Nothing has changed. We look for stock prices to find re-

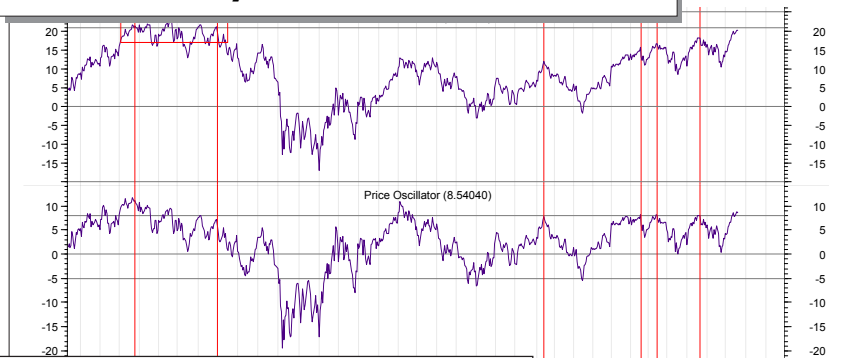
OVERNIGHT PRICES

Quotes at: 7:44am EST

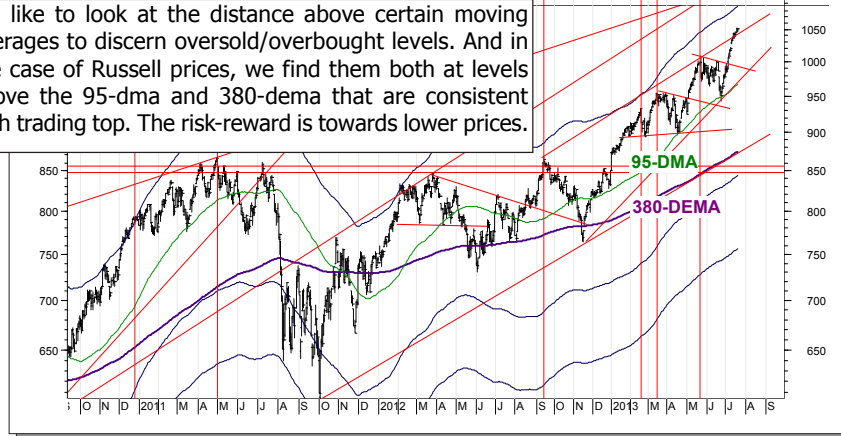
INDEX		LAST	DAILY CHG	CHG %	YTD	YTD %
Morning Futures						
S&P 500	up	1,691.50	2.00			
Nasdaq 100	up	3,046.50	5.75			
10-year Note Yield	up	2.48%	-2.0 bps			
Crude Oil	up	\$ 108.20	\$ 0.32			
Euro €	up	1.3175	0.0037			
Yen ¥	up	1.0005	0.0025			
Gold	up	\$ 1,315.40	\$ 22.50			
Foreign Indices						
Japan Nikkei 225	up	14,658	68.1	0.47%	4,263	41.01%
SSE China	up	2,005	12.1	0.61%	-264	-11.65%
German DAX	up	8,332	0.2	0.00%	719	9.45%
Spain Madrid	up	800	0.0	0.00%	-25	-3.03%
Italy FTSE MIB	up	16,248	124.0	0.77%	-25	-0.15%
US Indices						
Dow Industrials	down	15,544	-5.0	-0.03%	2,440	18.62%
Nasdaq 100	down	2,984	-32.9	-1.09%	323	12.14%
S&P 500 Large-Cap	up	1,692	2.7	0.16%	266	18.64%
S&P 400 Mid-Cap	up	1,234	1.6	0.13%	214	20.95%
S&P 600 Small-Cap	down	590	-0.1	-0.02%	114	23.85%

CAPITAL MARKET COMMENTARY

Russell 2000 Small Cap Index (RUT—Daily) "Very Over Extended"



We like to look at the distance above certain moving averages to discern oversold/overbought levels. And in the case of Russell prices, we find them both at levels above the 95-dma and 380-dema that are consistent with trading top. The risk-reward is towards lower prices.



sistance upwards of current levels in what many would call an S&P 500 "double top." This becomes more plausible given the sharp frothy rises in the "beta indexes" of the Russell 2000 Small Caps and the NASDAQ 100 to levels in the past consistent with larger corrections. One only need consider Friday's -1.1% decline in the NASDAQ 100 due to poorly received quarterly earnings and guidance from GOOG and MSFT...two stalwarts, with tentacles through the tech world. We look for more of the same to develop in the other indices, for forward earnings guidance isn't very strong at this juncture...even with QE in the background.

Hence, propensity is to add to our short positions in the very near future given we are within the time table for a top to develop. Whether it is this week or next week, the time is nigh to do so, and this is clear in both lead charts on page 1 and page 2. We find it rather interesting that when the 10-year note yield falters from the 1000-day moving average, then a tradable top starts to develop – a circumstance that is now in place. Too, the Russell 2000 is at extended levels above both the intermediate-term 95-day moving average, and the longer-term 380-day exponential moving average. Therefore, the risk-reward is setting up for prices to falter, and to falter in the largest decline since

the November-2012 low. Our opinion is that it will be a few percentage points around a loss of -15%.

Good luck and good trading,
Richard

S&P 500 INDEX/ BROAD MKT INDICATORS



S&P 500 TECHNICAL COMMENTS

➔ **NOTHING HAS CHANGED. NEW HIGHS ARE A STONES THROW AWAY** under the guise of a short-term very overbought condition; and a developing intermediate-term overbought condition. Quite simply, a tradable correction is a growing probability from near current levels — the only question is “how deep” given the extension of other indices. We believe that the first major correction since the November lows is forthcoming, and shall be on the order of -15% given or take a few percent or a test of the slowly rising 380-dema.

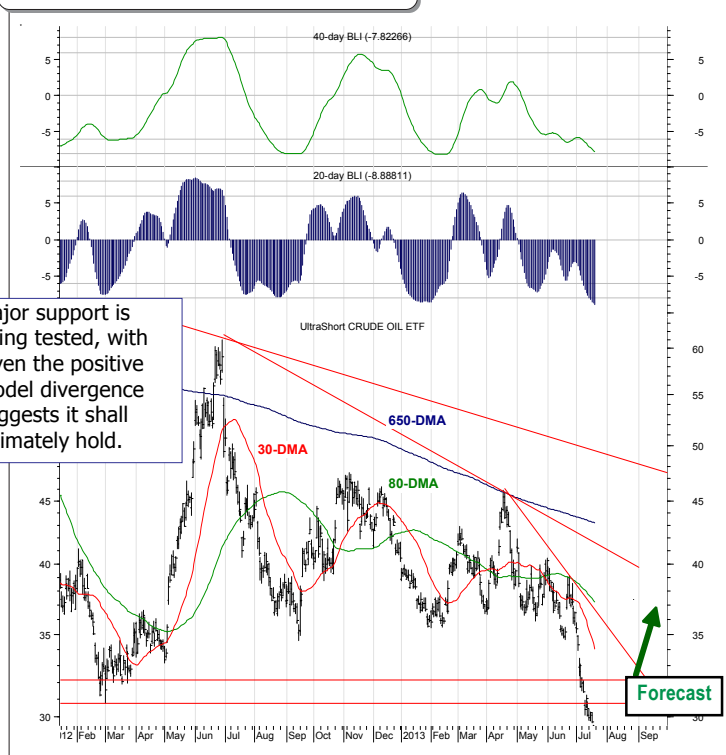
And it is a test of the 380-dema that will likely provide the next “big” buying opportunity sometime in October/November time frame. We are apt to move to a short position a breakdown of the 1672 level in the days ahead.

TECHNICAL INDICATOR REVIEW:

- ➔ The 20-day is trending higher, with the 40-day model bottoming thus far. The question is whether this is a bottom or “ledge correction” in a downtrend...so far it is the former.
- ➔ The % of stocks above their 10-dma is back to “overbought levels”. The recent oversold condition has allowed for this countertrend rally.
- ➔ The % of stocks above their 200-dma stands at 89%...flat from the prior close. *The 87% level has marked the previous highs, with the high 50-dma/150-dma levels putting us on guard.*

MODEL PORTFOLIO POSITIONS I

Crude Oil 2x Short SCO
Last: \$ 28.66 TGT: \$ 61.00
Entry: \$ 31.90 STP: \$ 28.00



Euro 2x Short EUO
Last: \$ 18.86 TGT: \$ 23.00
Entry: \$ 19.90 STP: \$ 18.25



Russell 2000 2x Short TWM
Last: \$ 15.45 TGT: \$ 22.00
Entry: \$ 16.00 STP: \$ -



N/A 0
Last: \$ - TGT: \$ -
Entry: \$ - STP: \$ -



TRR MODEL PORTFOLIO: "PAID-TO-PLAY"

No.	Trade Date	POS	Share No.	Name	SYM	Beta	Port %	Invest	Entry Price	Current Price	Unrealized P/L	Percent P/L	Stop Loss Point	TARGET	EARN DATE
1	7/8/13	L	1,472	Crude Oil 2x Short	SCO	(0.63)	23.4%	\$ 46,965	\$ 31.90	\$ 28.66	\$ (4,764)	-10.1%	\$ 28.00 "C" <	\$ 61.00	N/A
2	7/9/13	L	1,411	Euro 2x Short	EUO	(0.18)	14.8%	\$ 28,082	\$ 19.90	\$ 18.86	\$ (1,468)	-5.2%	\$ 18.25 "T"	\$ 23.00	N/A
3	7/12/13	L	2,317	Russell 2000 2x Short	TWM	(0.47)	19.8%	\$ 37,065	\$ 16.00	\$ 15.45	\$ (1,274)	-3.4%	\$ - "H" <	\$ 22.00	N/A
4				N/A			0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -	N/A
5				N/A			0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -	N/A
6				N/A			0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -	N/A
7				N/A			0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -	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
13				N/A			0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -	N/A
14				N/A			0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -	N/A
15				N/A			0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -	N/A
TOTAL						(1.28)	58.0%	\$ 112,113				\$ (7,505)	"C" Denotes Change		

2013 RECAP	Starting Balance	\$ 210,130	"T" = TRADE
	<i>Closed Positions</i>	\$ (22,420)	"C" = CLOSE
	<i>Open Positions</i>	\$ (7,505)	"E" = EXIT
	<i>Dividends</i>	\$ 177	"H" = HOLD
PORTFOLIO YTD (Gain/Loss)		\$ 180,381	\$(29,749) -14.16%
S&P 500 YTD		18.64%	
Over/(Under) Performance		-32.80%	

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>; unless clearly stated in the trade instructions below.

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. None.

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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.