# THE RHODES REPORT

RHODES
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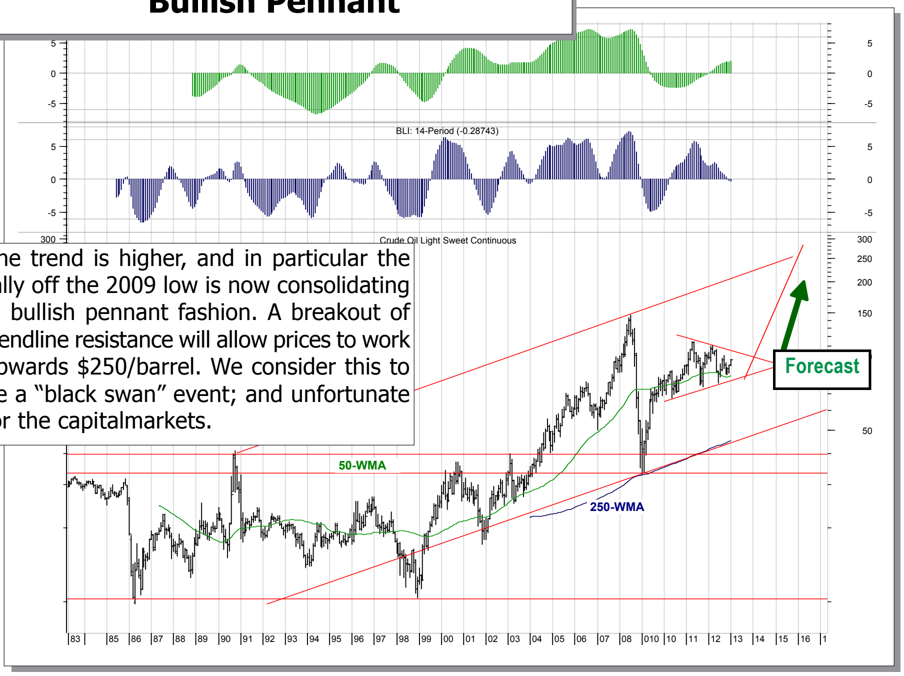
## WEDNESDAY – JANUARY 30, 2012

## "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" with the new move to QE-4; and with any war — they will go further and farther than anyone believes in printing money to achieve their ends...regardless of their balance sheet concerns.

**STRATEGY:** The S&P 500 remains above the 160-wma long-term support level at 1268; and the standard 200-dma support level at 1396. Collectively, with the breakout above the Sept-2012 highs at 1475 likely to be fleeting given the relative under performance of the NASDAQ 100. We are long of gold; and we are short the NASDAQ — and today we shall be short on the opening with the Russell.

**Crude Oil Futures (Weekly)**
**"Bullish Pennant"**




Over the past several days, we've reviewed quite a few commodity charts in the precious metals and energy sectors. And what we see "scares" us somewhat in regards to the current "group-think" among analysts that most commodity prices are doing to stay rather sanguine. Many expect gold, silver, palladium and platinum prices to moderate around current levels or go perhaps modestly higher or more often than not…lower. Energy prices are the very same; and the fundamental backdrop there is that the US is almost energy self-sufficient given low natural gas prices and stable crude oil prices.. But in ALL CASES, the technicals on both a weekly and monthly charts are showing signs that these various commodities are "coiling" for sharp moves higher. We've spoken

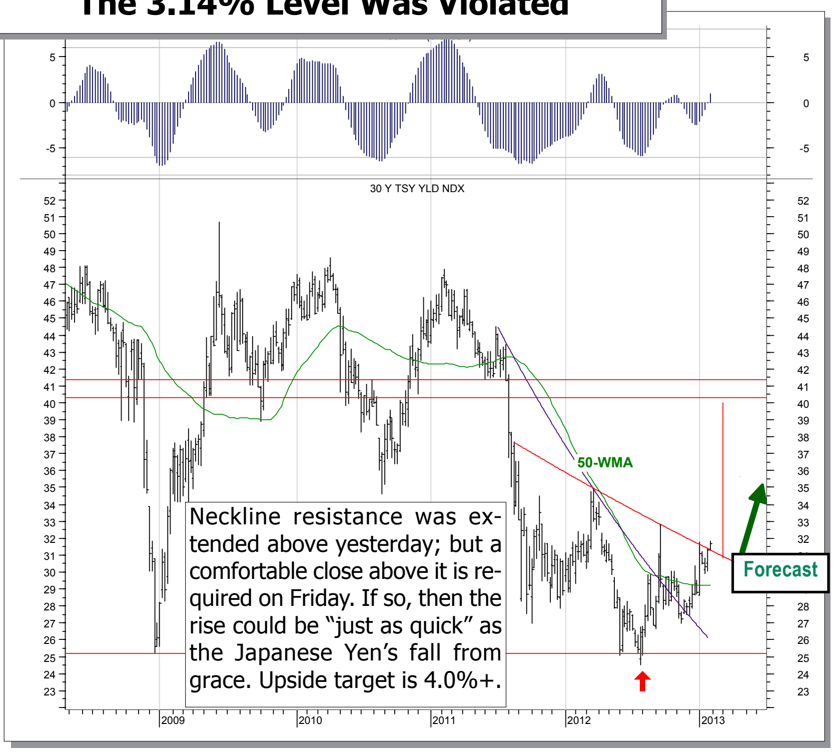
## CAPITAL MARKET COMMENTARY

▶ **WORLD MARKETS ARE MIXED ALONG REGIONAL LINES THIS MORNING:** Asian bourses are higher led by Japan +2.3% and China…up +1.0%. However, Europe is lagging once again, with the main Germany-France block down very modestly…-0.3%. That said, Italy's market is taking the brunt of the selling – down -2.0%. Italy's bond yields are rising by +4 bps to 4.24%. In fact most 10-year paper in Europe is higher this morning – led by the Czech Republic…up +8 bps to 2.07%. In other words, even though Europe and US stock futures are down this morning; the bond market yields are rising in each case. Too, the US dollar is falling against most of the currencies save for sharp move higher in the Euro and the Swissy – and a modest gain in the British Pound.

**OVERNIGHT PRICES** Quotes at: 7:53am EST

| INDEX | | LAST | DAILY CHG | CHG % | YTD | YTD % |
|---|---|---|---|---|---|---|
| **Morning Futures** | | | | | | |
| S&P 500 | down | 1,502.25 | -2.50 | | | |
| Nasdaq 100 | down | 2,740.00 | -3.00 | | | |
| 10-year Note Yield | up | 2.00% | 1.2 bps | | | |
| Crude Oil | up | $ 97.67 | $ 0.09 | | | |
| Euro € | up | 1.3552 | 0.0062 | | | |
| Yen ¥ | down | 1.0973 | -0.0055 | | | |
| Gold | up | $ 1,677.30 | $ 14.40 | | | |
| **Foreign Indices** | | . | . | | | |
| Japan Nikkei 225 | up | 11,114 | 247.2 | 2.28% | 719 | 6.91% |
| SSE China | up | 2,382 | 23.5 | 1.00% | 113 | 5.00% |
| German DAX | down | 7,836 | -12.6 | -0.16% | 224 | 2.94% |
| Spain Madrid | down | 876 | -3.0 | -0.34% | 51 | 6.18% |
| Italy FTSE MIB | down | 17,526 | -366.0 | -2.05% | 1,253 | 7.70% |
| **US Indices** | | | | | | |
| Dow Industrials | up | 13,954 | 72.0 | 0.52% | 850 | 6.49% |
| Nasdaq 100 | up | 2,744 | 1.2 | 0.04% | 83 | 3.10% |
| S&P 500 Large-Cap | up | 1,508 | 7.7 | 0.51% | 82 | 5.73% |
| S&P 400 Mid-Cap | up | 1,095 | 0.4 | 0.03% | 75 | 7.34% |
| S&P 600 Small-Cap | up | 508 | 0.4 | 0.08% | 32 | 6.65% |

**30-Year Bond Yield (Weekly)**
**"The 3.14% Level Was Violated"**




about this in gold prices for we are long via the 2x long leverage DGP.

Now, one only need take a look at the crude oil weekly chart in the lead chart position on page 1 to see a bullish pennant forming. This has taken years to form, and hence the validity of the pattern isn't as suspect. The measurements shall blow one's collective mind: crude oil could rally upwards of the highs of $157 and then over $200 in the years ahead. No one expects this to occur, but Middle East concerns and QE printing may be the kindling to put prices in motion. A breakout above $104-to-$105 would confirm that this move is underway. Be prepared.

▶ **TRADING STRATEGY:** Nothing has changed in our minds: the short-term S&P and Russell technical conditions have become rather "frothy" on a number of fronts; the NASDAQ has already shown evidence the highs are in, and lower prices are forthcoming. In other words, the risk-reward has shifted from buying stocks to selling stocks into this short-term euphoria. At this juncture, we can only point to a correction of -5% to -10% as there is yet no material evidence a major decline is underway. Certainly this could change in the fullness of time once several downside levels are violated; and there is certainly evidence that certain sector rotation indicates this is a very late stage rally. But, at this point we can simply say that a correction is warranted to cull out the late longs in that manner as time moves forward. We simply don't know as the wildcard is the recent rise in bond yields and whether that will fuel further gains, but as time goes on it shall become clearer.

We remain short position the Russell 2000 Small Cap Index and the NASDAQ 100 (QID). This is "it" as far as our short positions are concerned for the time being; and we would look to add once our positions are insulated from random noise. We would note at this point as far as January is concerned, the S&P is up 11 of the past 13 sessions, and hasn't declined more than -0.32% on any given day, with only "one" down day of -1.0% or more since November 14th. This development has allowed our models and other various daily indicators to move to egregious overbought levels consistent with a changing risk-reward dynamic.

As far as other potential positions are concerned, on Friday and Monday – and once again this morning – we are providing a weekly chart of the 30-year bond yield, which is modestly flat this morning at 3.19%. Quite simply, the weekly chart illustrates a very bullish "head & shoulders" bottom pattern, of which neckline resistance was violated on Tuesday at the 3.14% level. However, we need to see Friday's close comfortably above this level to definitely look for a massive spike in yields to develop. Obviously, this week's trade will be impacted by the important FOMC statement and the non-farm payrolls figures. If and when we trade, then our propensity is to own the 2x levered ETF (TBT).

Good luck and good trading,
Richard

# Model Portfolio: Rhodes Aggressive Discretionary

| 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 | 11/21/12 | L | 1,178 | **Gold ETF 2x Long** | DGP | 0.12 | 29.0% | $ 61,291 | $ 52.03 | $ 51.29 | $ (872) | -1.4% | $ - "H" | $ 75.00 | N/A |
| 2 | 1/15/13 | L | 1,497 | **NASDAQ 100 2x Short** | QID | (0.38) | 19.9% | $ 42,186 | $ 28.18 | $ 27.68 | $ (749) | -1.8% | **$ 26.10 "T"** | $ 44.00 | N/A |
| 3 | 1/24/13 | L | 1,869 | **Russell 2000 2x Short** | TWM | (0.46) | 19.8% | $ 42,057 | $ 22.50 | $ 22.04 | $ (860) | -2.0% | **$ 20.85 "T"** < | $ - | 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 |
| | | | | **TOTAL** | | (0.72) | **68.7%** | **$ 145,535** | | | $ (2,480) | | "<" Denotes Change | | |

| | | | | |
|---|---|---|---|---|
| **2013 RECAP** | Starting Balance | $ 210,130 | | **"T" = TRADE** |
| | *Closed Positions* | $ 458 | | **"C" = CLOSE** |
| | *Open Positions* | $ (2,480) | | **"E" = EXIT** |
| | *Dividends* | $ - | | **"H" = HOLD** |
| | **PORTFOLIO YTD (Gain/Loss)** | **$ 208,108** | $ (2,022) | **-0.96%** |
| | **S&P 500 YTD** | | | **5.73%** |
| | **Over/(Under) Performance** | | | **-6.69%** |

**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 byYahoo!'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. None.**

# S&P 500 Index/ Broad Mkt Indicators


# S&P 500 Technical Comments

➔ **PRICES HAVE TRADED INTO THE "SELL ZONE":** The S&P remains above all the major moving averages: 380-dema/200-dma/60-dma/28-dma; however, the short-term "frothiness" is getting more so as the underlying advance/decline and other broad market indicators are showing signs of fatigue. We won't be surprised to see upper trendline resistance tested given the inability of prices to decline...yet.

But we will note that once prices rise to +3.9% above the 28-dma...a correction has materialize. This is where we are today; and therefore we'll look for weakness to develop towards the 28-dma now crossing at 1456. This would allow for a -4% correction; a breakdown would allow for something on the order -6% or -7%. The downside "bear-line' in the sand stands at 1398.

**TECHNICAL INDICATOR REVIEW:**

➔ The 20-day and 40-day model stand at clear overbought levels; The 20-day is rolling over; the 40-day model will do so soon.

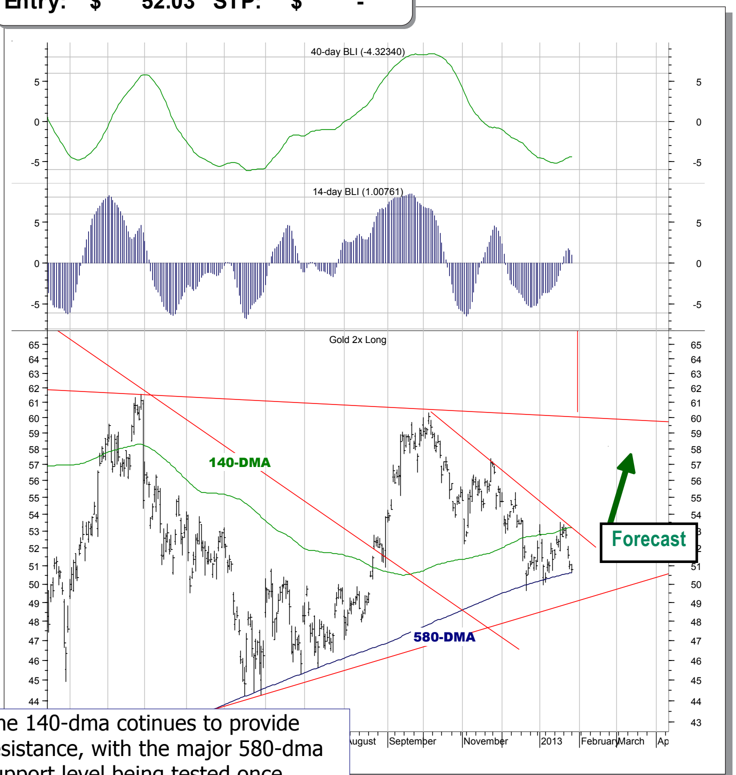
➔ The % of stocks above their 10-dma are below their highs; indicating a selective market divergence; and is quite bearish.

➔ The % of stocks above their 200-dma stands at 84%...+1% higher from the prior close. *This level in the past has marked the "good as it gets" level.*

➔ The Intermediate-term Model is very near rather overbought levels — a clear bearish signal will be elected with a 10-dma breakdown.

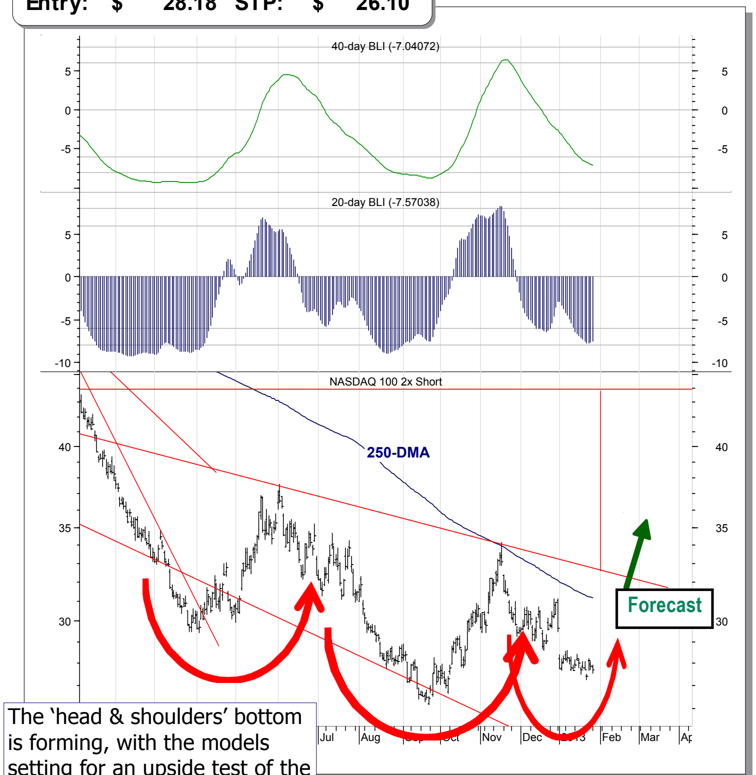
# Model Portfolio Positions I

| Gold ETF 2x Long | | DGP | | |
|---|---|---|---|---|
| Last: | $ 51.29 | TGT: | $ | 75.00 |
| Entry: | $ 52.03 | STP: | $ | - |




The 140-dma cotinues to provide resistance, with the major 580-dma support level being tested once again. Expect the 580-dma to hold, and a declining trendline breakout.

| NASDAQ 100 2x Shc | | QID | | |
|---|---|---|---|---|
| Last: | $ 27.68 | TGT: | $ | 44.00 |
| Entry: | $ 28.18 | STP: | $ | 26.10 |




The 'head & shoulders' bottom is forming, with the models setting for an upside test of the 250-dma at $31.50.

| Russell 2000 2x Sh( | | TWM | | |
|---|---|---|---|---|
| Last: | $ 22.04 | TGT: | $ | - |
| Entry: | $ 22.50 | STP: | $ | 20.85 |


The decline is rather pronouched, but the models are at levels consistent with a mean reversion move back towards the 75-dma in the least.

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

# 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. **<u>BLI Extremes: Oversold (-6 to -8)/Overbought (+6 to +8)</u>**
    - 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. **<u>BLI Divergences: Positive/Negative</u>**
    - 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. **<u>BLI Reversals from Positive/Negative Levels</u>**
    - 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.