

TODD MARKET FORECAST

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www.toddmarketforecast.com Issue 8 Year 23 e-mail -toddmarketforecast@charter.net

AUGUST 2007

Due the first Tuesday of each month.

NEARING A BOTTOM (time wise)

The title of our July newsletter was "Little Bits of Trouble Now." In retrospect, we should have entitled it "Lots of Trouble." We went on a short term sell on July 23rd, but the subsequent decline has been much more severe than I would have anticipated at the time.

However, let's keep in mind that periods of trouble in the stock market frequently lead to opportunity. There is even an old English proverb to that effect and the fact that it's a proverb suggests that it came along well before there even was a stock market.

This distinct possibility is suggested by the chart at the bottom of this page. It is a compressed version of the McClellan Oscillator, an overbought-oversold gauge based on market breadth.

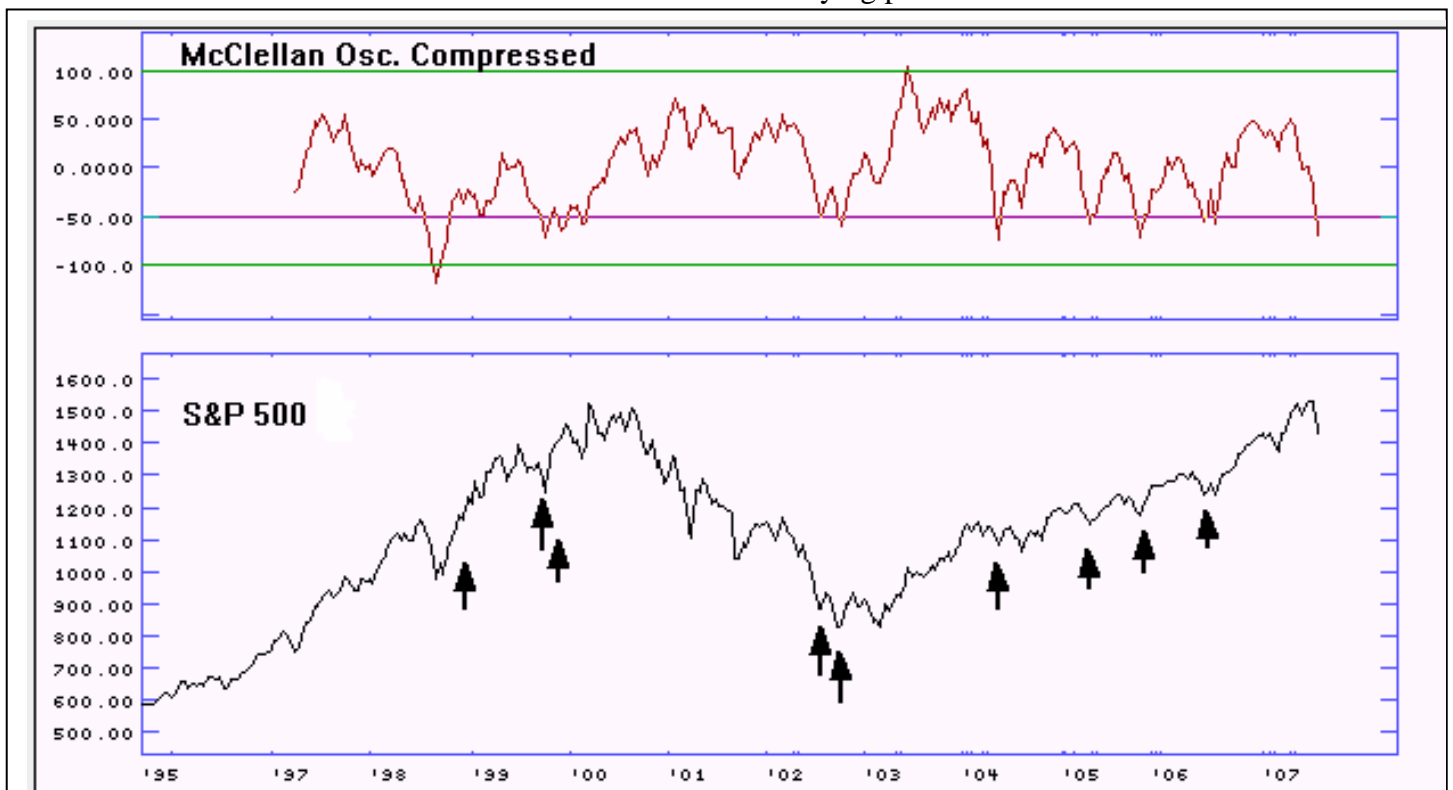
We have compressed it by an order of 10 in order to get a longer term time frame. As you can see, we cover the period from well before the massive 2000-2002 bear market. It's always interesting to see the same indicator in both bull and bear markets since a particular gauge will frequently act differently depending upon the longer term trend.

We have provided arrows when the oscillator moved below -50 and then moved higher. As you can see, on these occasions, the S&P 500 was very close to embarking upon a significant advance. The indicator hasn't curled up yet, but we think it will happen soon.

Let's also not forget all the other things this market has going for it. Remember that there has not been a down pre election year since 1939 and that the average gain has been 17%. As of Friday's close, the Dow was up 7% for the year.

Going back to 1913, the average gain from the low of the midterm election year (2006) to the high of the pre election year has been 50%. So far, the gain from the '06 low has been 31%. If indeed 14,000 turns out to be the high of 2007, this would be the fifth smallest such gain in 95 years.

And when you consider the liquidity that is still available, well you get the picture. Yes, I know. There has been talk of a drying up of liquidity, but not the way I measure it. I look at cash and margin equity in brokerage accounts and the short interest ratio. By these measures, there is still a lot of buying power left.



THE SUB PRIME MESS

I first heard the term sub prime in early February as bank holding company HSBC reported troubles in that arena. But long before that I was hearing anecdotal evidence about a plethora of negative amortization loans coming due that would not be allowed to roll over.

It seems like a major failing by the regulatory bodies that such loans would even be permitted. It's hard to imagine a loan that actually allows your mortgage to increase. I suppose it's O.K. as long as home prices continue to rise, but what a gamble! For everyone.

Since the HSBC revelation, the Dow is higher by About 5 ½ % and HSBC, after dropping 10% in response, is back up to the level it was when the event first occurred. If the market is sorting out the risk, it doesn't seem to be all that concerned. At least until lately.

THE ADVANCE DECLINE LINE

On the chart below, you can see the way breadth is acting and it's not good. In fact, this is the one indicator that is keeping us up at night. When this gauge is going down, it means that most stocks are in a decline. We need to see it start to rise before we can really be comfortable with a buy signal.

Note the arrows back in March. As the Dow was retesting its lows, the A-D line was surging. Now we have just the opposite. When the Dow made an all time high in July, the advance decline line was lower than it was in early June. Now as the Dow tries to stabilize, breadth is making new lows. It's hard to get short term bullish while this is going on.

However, we think that this too will pass. Rightly or wrongly, the U.S. stock market is tied to the global economy and the sub prime situation is such a minor part. Probably the biggest negative right now isn't economic, it's psychological.

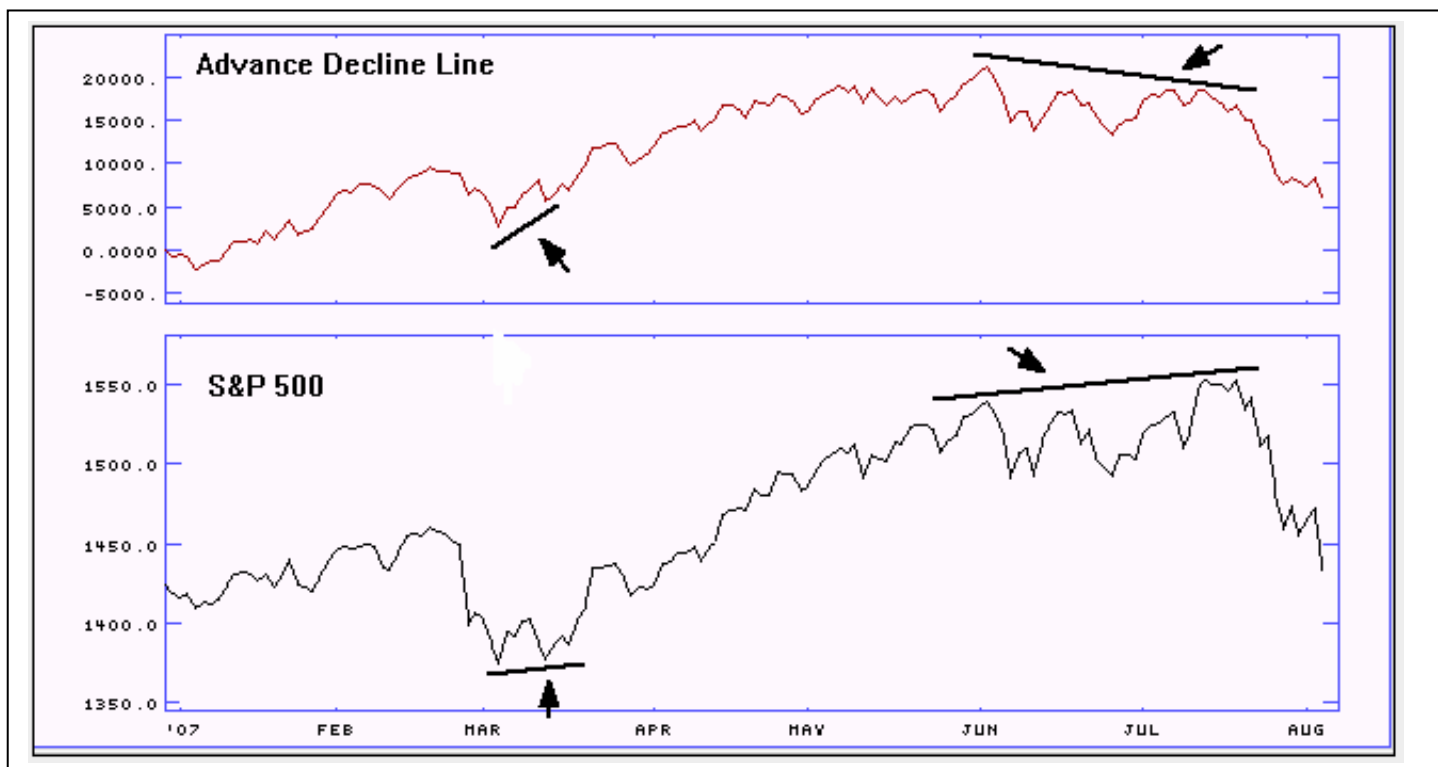
Actually, none of this matters. We will let the markets sort it out. Right now, the markets are sorting it out negatively, but we have been through this so often during our thirty year career in the stock market.

I feel for intermediate term mutual fund investors, who are invested in S&P 500 related funds. After having been up 9% this year they closed this past Friday only up 1%. Dow related funds are still up 5.8% and the NASDAQ is higher by 3.4%. I felt that the market would have some weakness when I went on a short term sell, but I didn't think it would be this extreme.

We should soon get a rally of more than a couple of days. This should ease the pain and allow us to gauge the market's health. A solid rally will suggest that the decline is over. A poor quality affair will cause us to re evaluate the intermediate term.

Regardless of this, however, we are of the strong belief that 14,000 does not mark the high point for the Dow this year. Once this craziness ends, and it will, we should have a date with at least 14,500 and probably much higher.

The Fed FOMC meeting occurs on Tuesday and Wednesday of this coming week and chances are pretty good that we will hear some soothing words that will be a catalyst for a decent bounce.



BONDS AND SENTIMENT

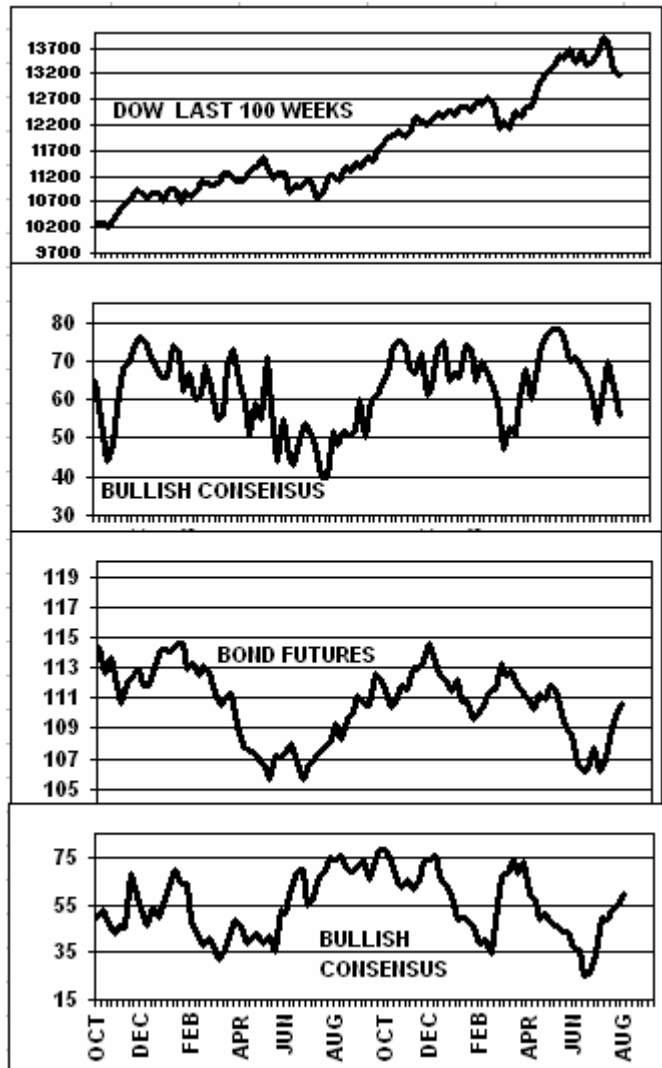
The **BULLISH CONSENSUS** for stocks is not at levels one would expect after such a decline. This indicator is neutral.

The **BULLISH CONSENSUS** for bonds has just turned up from solidly oversold condition. We should have a few weeks of upside left.

The **COMPOSITE GAUGE 5 DAY M.A** in the next column was recently in a very oversold and bullish condition and the market went down anyway. Nevertheless, this gauge is saying higher.

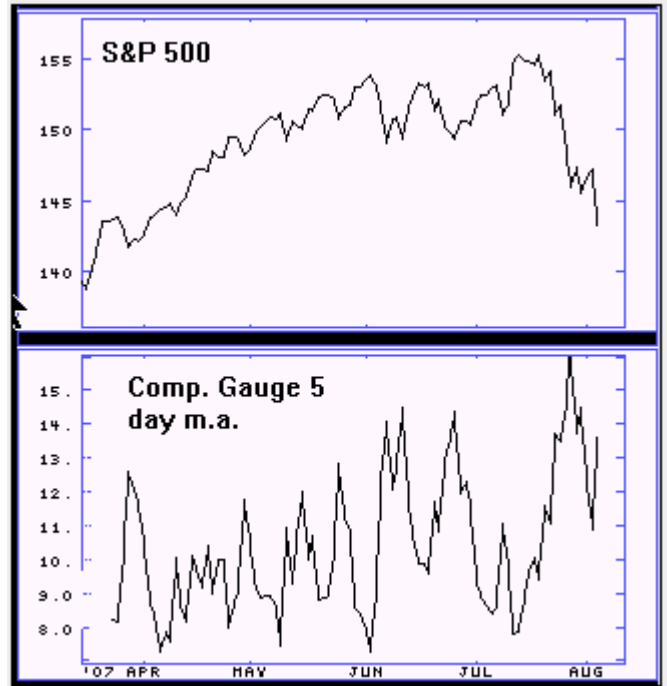
OTHER MARKETS

Below and in the next column are the signals for the other commodities over the past couple of months. B means buy, S means sell and N means neutral.



Bonds B 01/31, S 3/22, B 4/16, S 5/15, B 6/15
Gold S 5/10, B 5/31, S 6/8, B 7/9, S 7/25, B 7/30
Crude Oil B 2/22, S 3/12, B 3/26, S 4/19, B 5/11

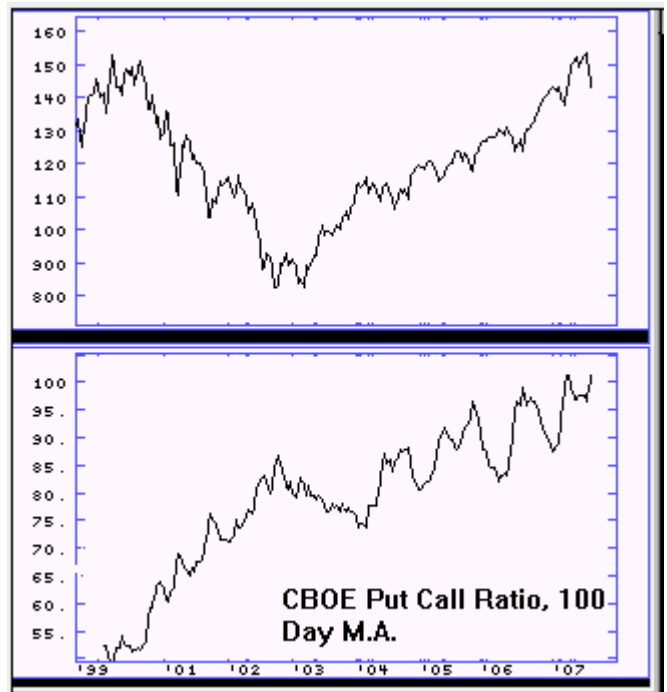
U.S. Dollar B 12/13, S 2/15, B 5/10, S 7/2, B 7/27
EURO S 12/13, B 2/15, S 5/10, B 7/2, S 7/27



CBOE PUT CALL RATIO

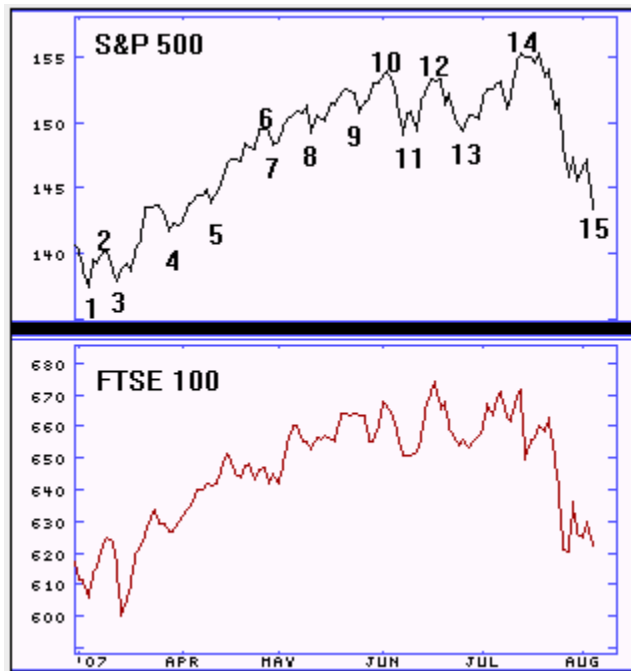
The put call ratio 100 day moving average just keeps on working higher. It is considerably higher than it was at the bottom in late 2002.

In fact, it is higher now than at any time in its history. Note how low it was at the top in 2000 and how high it got in comparison at the bear market bottom and now it is higher still. This indicator is telling us that the stock market has much further to go.



NEWS AND THE MARKET

(1) On March 5, world markets were getting hammered and the services ISM number came in lower than expected. (2) March 9 was a choppy day. The market was up sharply on a



mildly improved employment picture, but later sold off on wage concerns. (3) Dow was down 245 points on sub prime worries, a higher yen and poor retail sales. Also, quadruple expiration week played a role. (4) On March 28, the Dow dropped 97 points on weaker than expected durable goods orders. (5) On April 11, the Dow lost 89 points. The Fed's FOMC minutes revealed a more aggressive stance against inflation than had been expected. (6) On April 17, the Dow gained 53 points as the CPI increase came in more tame than expected. (7) On April 30, the stock market dropped 58 points on seemingly good news. The PCE deflator was less than expected. (8) On May 10, the Dow dropped 148 points after the trade deficit expanded more than expected and import prices rose more than anticipated. (9) On May 24, sharply higher new home sales surged the Dow 100 points before investors became concerned that economic strength could cause the Fed to be less accommodating. (10) On June 4, it was disclosed that China was down 8% overnight. Our market fell at the open, but came back to close up 8 Dow points. (11) On June 7, the Dow lost 199 points when it was disclosed that New Zealand had raised its rates. No kidding. That was said to be the trigger. It was reasoned that -

--- we were seeing a worldwide rise in rates. (12) On June 15 the Dow gained 186 points when it was disclosed that the core CPI rose only 0.1%. The expectation was for a rise of 0.2%. (13) On June 26, the S&P Home Price Index for the 10 largest cities showed the largest drop in price in 16 years. (14) On July 12 the Dow rallied 284 points on no real news. It seems that a chart break out brought in some short covering. (15) On Aug. 3, a largely negative conference call from Bear Stearns brought out sellers. The fact that it was Friday and no one wanted to hold over the weekend probably contributed to the carnage.

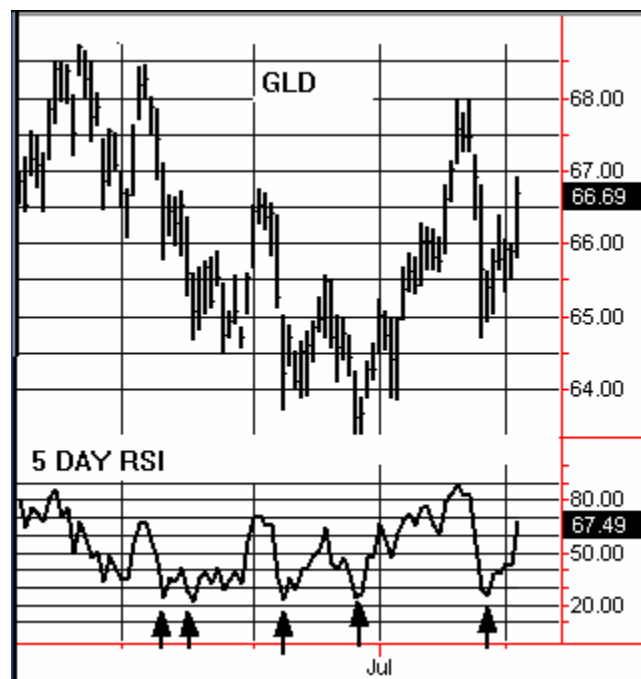
THE LONDON MARKET

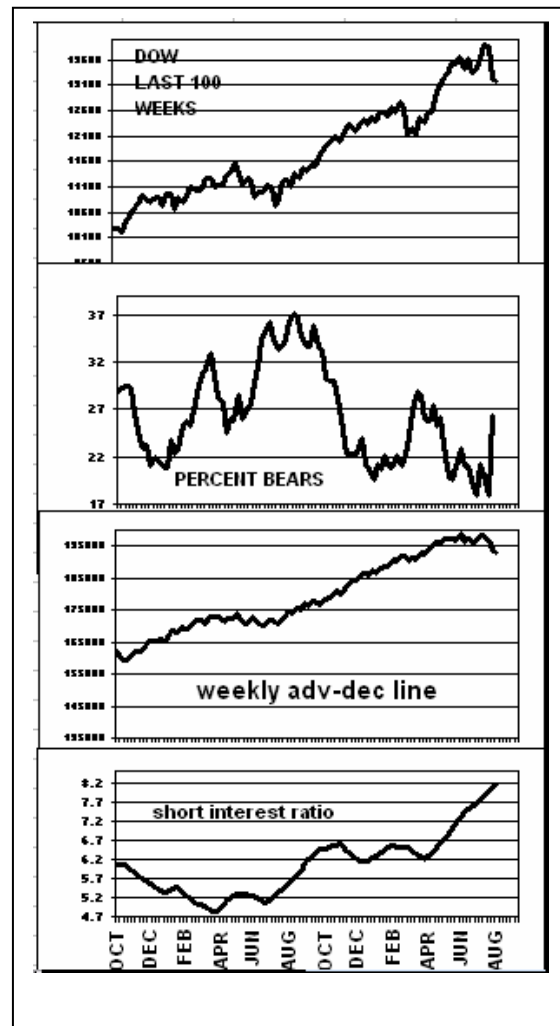
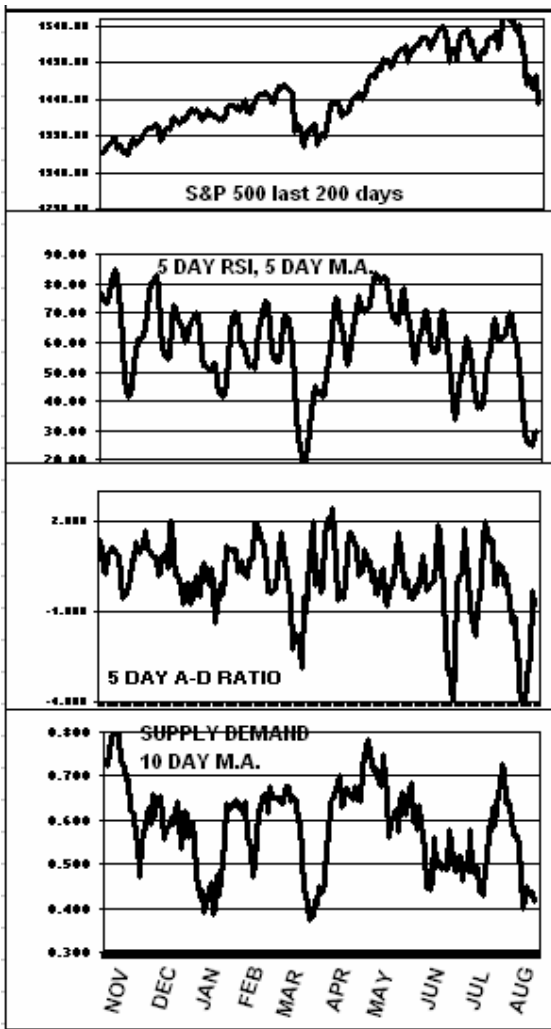
The FTSE 100 is holding minor support that arrested the last decline five days ago, but we don't expect that to last. The late day sell off in the Dow and other U.S. indices are bound to influence trading in the FTSE on Monday.

GOLD

GLD, an ETF for gold was in a downtrend punctuated by sharp short rallies from mid April until late June then in early July it broke this pattern of descending tops and descending bottoms.

It basically looks like a major saucer pattern we're estimating that gold should move still higher. We have placed arrows on the RSI indicator to show short term buy signals which have worked fairly well.





The S&P 500 now looks to be free fall, but with so many momentum gauges oversold, we'll be looking for this drop to soon halt. Of course, we will continue to give preference to the price action which right now is negative.

The five day moving average of the five day RSI is nicely oversold. This gauge is looking for a rally.

The five day moving average of the advance decline ratio has just turned up from an oversold condition. This gauge is suggesting that the next short term move will be up.

Supply demand is in a solidly oversold condition. It is also telling that we should soon see some strength.

The Dow has broken below a prior low and this in and of itself is a negative, but the accompanying indicators are looking for a bottom soon.

The bearish percentage is finally showing some bearishness which should be good from a contrary opinion standpoint, but it's only mildly positive at present.

The Weekly advance decline line has also turned down and must be graded negative as of this update.

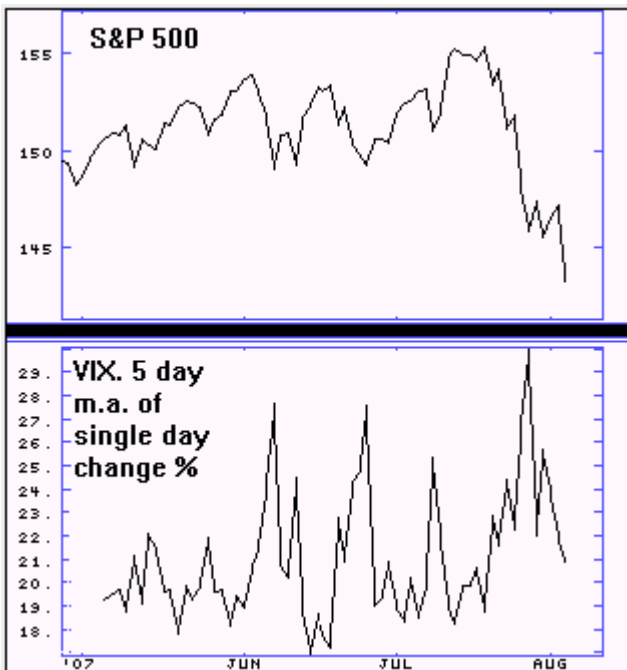
The short interest ratio remains quite bullish. This is one reason we have trouble buying the "new bear market" scenario.

MANAGED ACCOUNT UPDATE

We exited our high yield bond positions for managed accounts on June 7 and since then have managed to avoid the subsequent turmoil in both the equity and fixed income markets. Incidentally, there is an interesting article in this week's **Barron's** concerning the high yield bond market.

THE VIX

In the short history of our VIX percentage change indicator 5 day moving average, moves above 27 have tended to mark decent bottoms, but it didn't work this past time. At least not yet. It will be interesting to see how it all works out.



ODDS AND ENDS

We have heard some commentators refer to the stock action leading into the recent top as a bubble, but we disagree. The S&P 500 has rallied 84% from the bottom in October of 2002, but earnings have increased a whopping 140% since that time. If anything, the stock market is owed something because of earnings.

Here's a discordant note. According to the **Stock Traders's Almanac**, August, which was the

-- best market month between 1901 and 1950, because of the harvest is now the worst over the past 19 years.

In our nightly update of June 25, we had a chart showing that the normally correct commercial S&P 500 traders were quite long. That is still the case. These pros are still betting on the upside. And as we said, they are rarely wrong.

INTERMEDIATE TERM BUYS AND SELLS

Since 1993, we have given instructions to mutual fund investors to be either 100% invested or 100% on the sidelines. On the next page are the signals and the dates. According to *Timer Digest*, of Greenwich, CT, we are only one of four services to have beaten the buy and hold over the past ten years. We were rated # 1 for the past ten years at year end, 2003, 2004 and 2005. In 2006, we slipped to # 3.

MANAGED ACCOUNTS A HIGH YIELD BOND INCOME PROGRAM

In association with Financial Growth Management, we can make available to you a low risk bond income program. Your account would be actively managed through TD Ameritrade, one of the largest discount brokers in the country.

Your funds will be exchanged between high-yield bond funds and money market funds based on our proprietary mathematical model. Our goal is to return 10-12% per year during a 3 to 5 year market cycle with very low risk. Since 2003, the program has produced in excess of 10% annual return.

If you would like more information, please contact us. My associate, Ray Hansen can be reached at 714 637 7784.

The Todd Market Forecast makes no guarantees concerning profits or losses and may from time to time take positions in the investments discussed.

Please scroll to the next page for our intermediate term buys and sell since 1993.

TRACK RECORD

INTERMEDIATE TERM MUTUAL FUND SWITCHING (S&P 500)

DATE	SIGNAL	S&P 500	INSTRUCTIONS	POINTS
11/03/93	BUY	463	100% INVESTED	
03/30/94	SELL	446	100% CASH	- 17
04/22/94	BUY	448	100% INVESTED	
09/06/94	SELL	472	100% CASH	+ 24
09/28/94	BUY	465	100% INVESTED	
08/15/95	SELL	559	100% CASH	+ 94
09/08/95	BUY	573	100% INVESTED	
02/29/96	SELL	640	100% CASH	+ 67
03/11/96	BUY	640	100% INVESTED	
04/01/97	SELL	760	100% CASH	+ 120
04/17/97	BUY	762	100% INVESTED	
12/12/97	SELL	953	100% CASH	+ 191
12/16/97	BUY	968	100% INVESTED	
03/30/98	SELL	1094	100% CASH	+ 126
04/02/98	BUY	1120	100% INVESTED	
07/23/98	SELL	1140	100% CASH	+ 20
10/20/98	BUY	1064	100% INVESTED	
08/27/99	SELL	1348	100% CASH	+ 276
10/07/99	BUY	1318	100% INVESTED	
09/11/00	SELL	1489	100% CASH	+ 171
10/20/00	BUY	1397	100% INVESTED	
02/22/01	SELL	1253	100% CASH	- 144
04/18/01	BUY	1238	100% INVESTED	
06/14/01	SELL	1220	100% CASH	- 18
07/13/01	BUY	1216	100% INVESTED	
08/28/01	SELL	1162	100% CASH	- 54
09/17/01	BUY	1039	100% INVESTED	
09/20/01	SELL	985	100% CASH	-54
10/11/01	BUY	1097	100% INVESTED	
01/29/02	SELL	1101	100% CASH	+4
03/01/02	BUY	1132	100% INVESTED	
04/29/02	SELL	1065	100% CASH	- 67
05/16/02	BUY	1098	100% INVESTED	
06/03/02	SELL	1041	100% CASH	-57
07/29/02	BUY	899	100% INVESTED	
06/25/03	SELL	975	100% CASH	+76
09/04/03	BUY	1028	100% INVESTED	
02/22/05	SELL	1184	100% CASH	+ 156
04/21/05	BUY	1160	100% INVESTED	
06/07/06	SELL	1256	100% CASH	+ 96
07/03/06	BUY	1280	100% INVESTED	
07/21/06	SELL	1240	100% CASH	- 40
10/26/06	BUY	1389	100% INVESTED	

End of letter

