

TODD MARKET FORECAST

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LOOKING BETTER

To a casual observer the stock market seems almost giddy with joy. Ben Bernanke and the Fed stand ready to come in if there is trouble. President Bush is going to help sub prime borrowers which will, in turn, help ease the credit crunch. The stock market responds with a sharp rally on Friday.

But the reality is that there is a lot of fear and worry in market land. The chart below shows one manifestation of concern. This is the percentage of bears among market advisors and newsletter writers as reported by Investor's Intelligence. Historically whenever the percentage of bearish advisors moves above 35, It's time to start looking to buy. The percentage did get into the 40s during the 2000-2002 bear market, but during bull markets the current reading is an extreme.

It's such a reliable law. Investors get scared at bottoms and optimistic at tops, so based on this indicator, we are flirting with a bottom.

The same with insider buying. Corporate insiders have a good record when they actively buy the stock of their own companies. Right now the home builder insiders are buying the most stock since the last major real estate bottom in 1990.

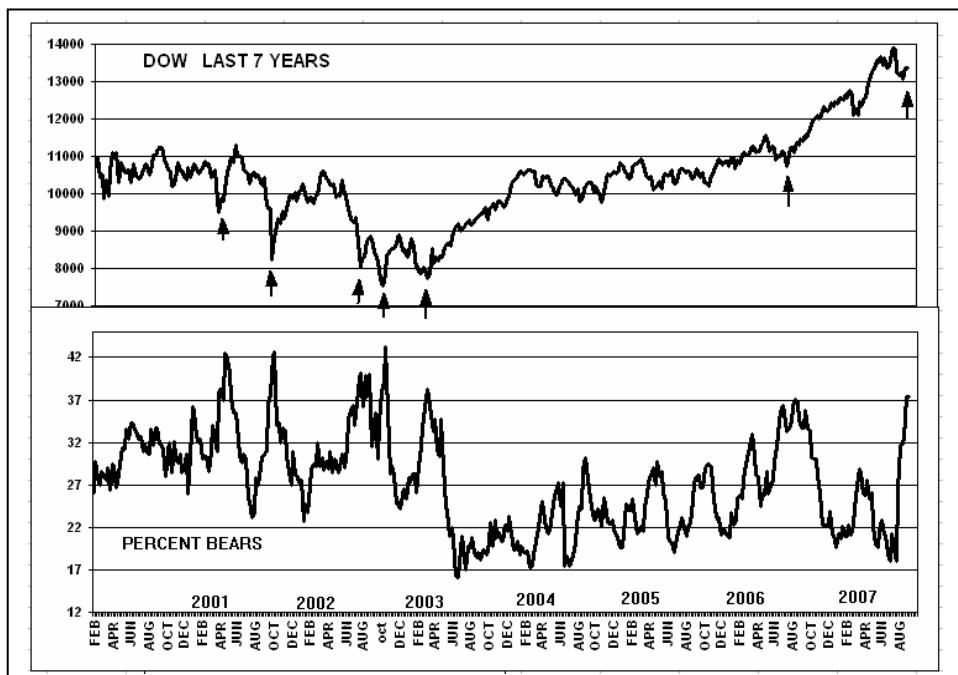
The insider buy sell ratio for all stocks is the best since the last major bottom in the spring and summer of 2006.

And of course, the CBOE put call ratio continues to show a lot of put buying and its cousin the VIX is also demonstrating a lot of fear, consistent with market bottoms.

This dovetails nicely with the momentum extremes that are generally associated with bottoms. We show one measure of this on the following page.

So why am I officially bearish for the intermediate term with all the bullish things going on around me? I don't think we have done enough retesting of the recent lows. When the stock market gets as oversold as it recently did, the major averages revisit those lows about 90% of the time.

The fact that we are coming into September, the weakest month historically would seem to suggest that we haven't seen the last of stock market weakness. However, as this is being written, we are considering parameters for getting back in. We want to at least see a close above the level of August 24 for some of ---- **CONT. NEXT PAGE.** -----



--- the major indices such as the Dow and S&P 500. So far, the only major index to do so is the NASDAQ Composite. In chart terms, this would give us a high above a previous high which is the definition of an uptrend.

The NASDAQ Composite has been a market leader so this probably means that the others will follow suite, but we want to see it actually confirmed.

NEW LOWS

The chart below, courtesy of DecisionPoint.com, shows that we recently reached a crescendo of selling. Whereas the declines of 2005 and 2006 only gave us 250 to 300 new lows, this latest drop was actually quite more extreme. Crescendos tend to mark turning points.

The arrows signify levels at which the new lows reach at least 250 and then are subsequently outnumbered by new highs. As you can see, this has tended to pinpoint rather significant bottoms.

HEDGE FUND PANIC

There is an investment approach embraced by some hedge funds and major institutions that is supposed to be market neutral.

These are computer programs developed by math PhDs known as quantitative analysts or “quants”. They exploit minor market dislocations and tendencies to make small but consistent gains in a supposedly low risk approach to investing. If one segment of the portfolio goes down, there is ---

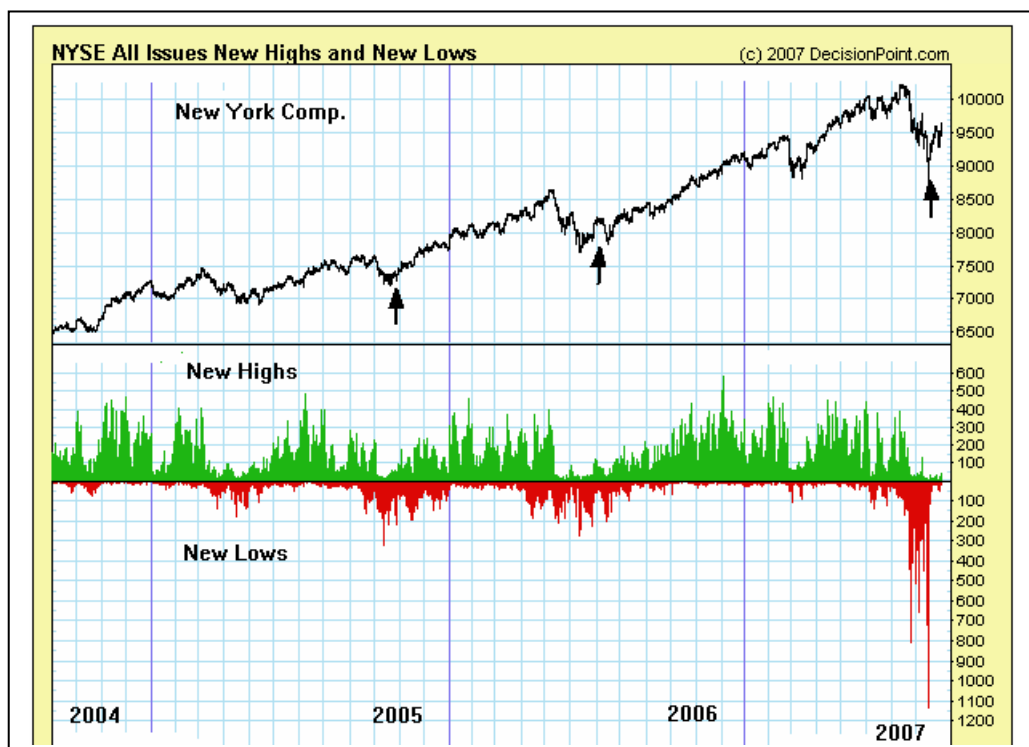
---- another portion that is supposed to go up. Hence the term hedge fund.

At least that is how it’s supposed to work, but on August 3 a lot of the rules were cast asunder. According to the Wall Street Journal of August 11, “...stocks started moving in ways the commonly used models didn’t predict, but in precisely the opposite direction from what was expected. Equally troubling, the moves were far more volatile than models, based on decades of testing, assumed were likely. These relatively minor anomalies escalated quickly this week, exploding into a global rout for quantitative funds.”

In the words of Matthew Rothman, the global head of quantitative equity strategies for Lehman Brothers, “events that the models predicted would happen only once in 10,000 years happened every day for three days”.

It now appears that a lot of the weakness was induced by hedge funds using the same models and this caused them to all try to exit at once. It was reminiscent of October 19, 1987 when investors thought that they had portfolio insurance with puts and the market lost 20% in one day. Incidentally, the stock market made a bottom on that very day, but retested several weeks later in December.

Floor veteran Art Cashin, whose market insights we have come to respect since we were both at Paine Webber, said that it was the most unusual market he had seen in his 45 years on the floor. I must say that I was confused as to why my normally reliable bottom spotting gauges weren’t working.



BONDS AND SENTIMENT

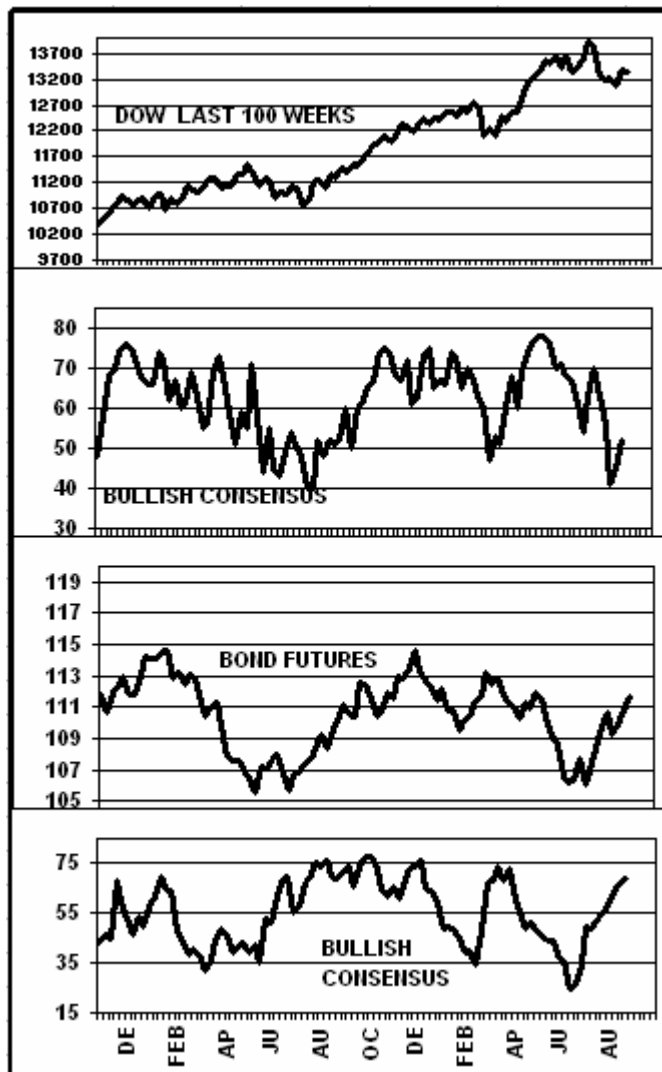
The **BULLISH CONSENSUS** for stocks has just curled up from an oversold condition giving us a nice buy signal.

The **BULLISH CONSENSUS** for bonds gave us a buy signal back in June and still hasn't gotten oversold enough to trigger a sell.

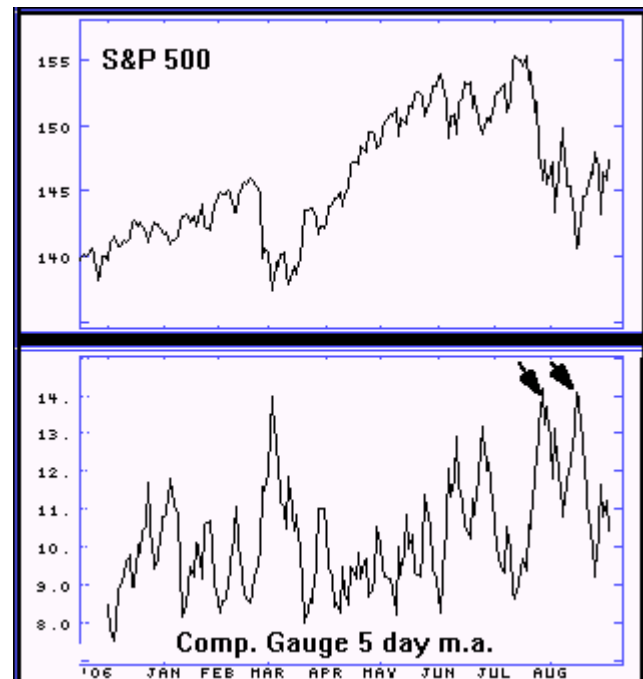
The **COMPOSITE GAUGE 5 DAY M.A** in the next column recently gave us two buy signals. We really haven't rallied enough since then. We are owed more on the upside.

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.



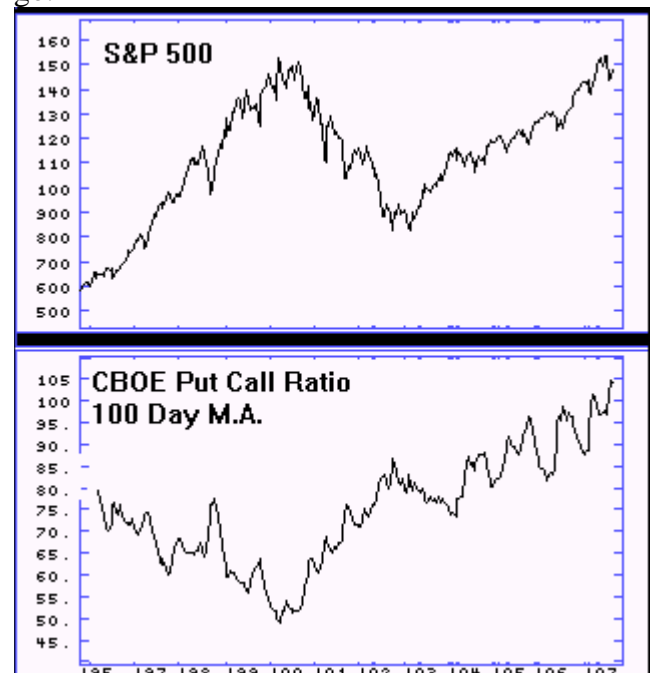
U.S. Dollar B12/13, S 2/15, B 5/10, S 7/2, B 7/27
EURO S 12/13, B 2/15, S 5/10, B 7/2, S 7/27



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.

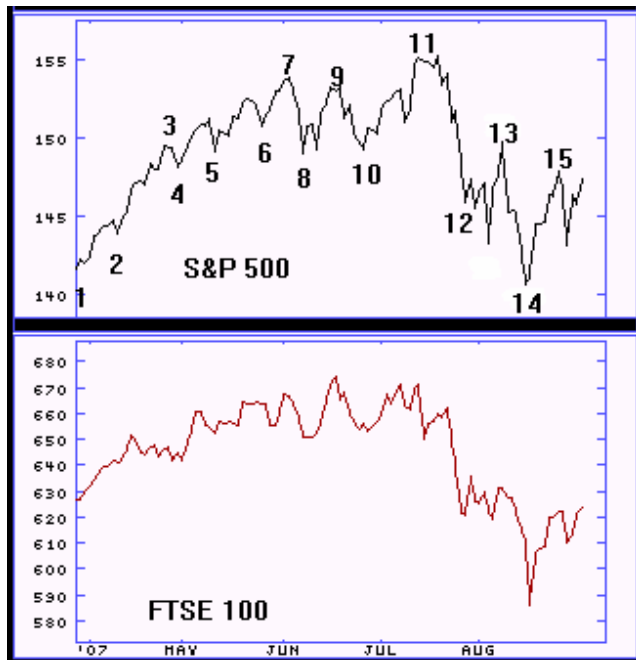
In fact, it is higher now than at any time in its history. Note how low it was at the top in 2000 and how high it got in comparison at the bear market bottom and now it is higher still. This indicator is telling us that the stock market has much further to go.



Bonds B 4/16, S 5/15, B 6/15, S 8/17, B 8/24
Gold S 5/10, B 5/31, S 6/8, B 7/9, S 7/25, B 7/30
Crude Oil S 3/12, B 3/26, S 4/19, B 5/11, S 8/06

NEWS AND THE MARKET

(1) On March 28, the Dow dropped 97 points on weaker than expected durable goods orders. (2) On April 11, the Dow lost 89 points. The Fed's FOMC minutes revealed a more aggressive



stance against inflation than had been expected. (3) On April 17, the Dow gained 53 points as the CPI increase came in more tame than expected. (4) On April 30, the stock market dropped 58 points on seemingly good news. The PCE deflator was less than expected. (5) On May 10, the Dow dropped 148 points after the trade deficit expanded more than expected and import prices rose more than anticipated. (6) 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. (7) 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. (8) 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. (9) 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%. (10) On June 26, the S&P Home Price Index for the 10 largest cities showed the largest drop in price in 16 years. (11) On July 12 the Dow rallied 284 points on no real news. It seems that a chart break out brought in some --

short covering. (12) 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. (13) On August 8 Cisco CEO John Chambers said that this was the best world economy he had ever seen. (14) On August 15 it was revealed that the commercial paper market was seizing up. The largest mortgage company in the world, Countrywide, was paying 12% on its short term obligations. (15) On August 24 good news on durable goods and home sales helped the markets, but the most important development was the NY Fed which hinted that it would take commercial paper at the discount window.

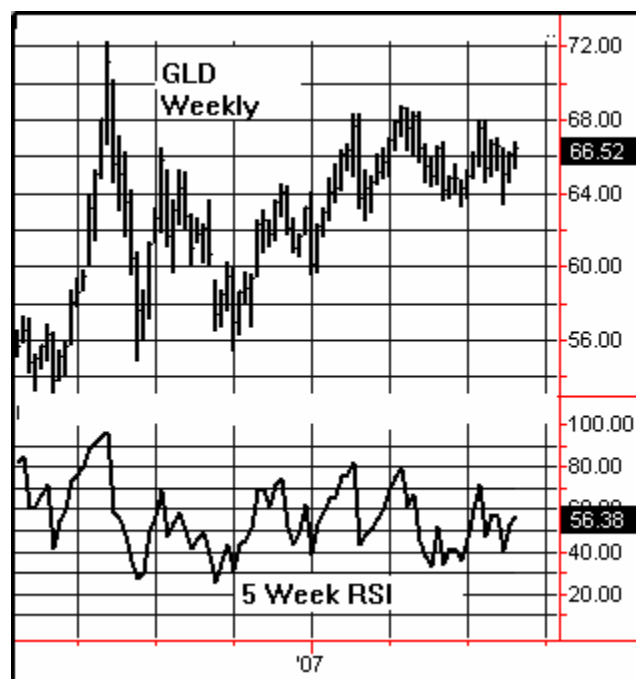
THE LONDON MARKET

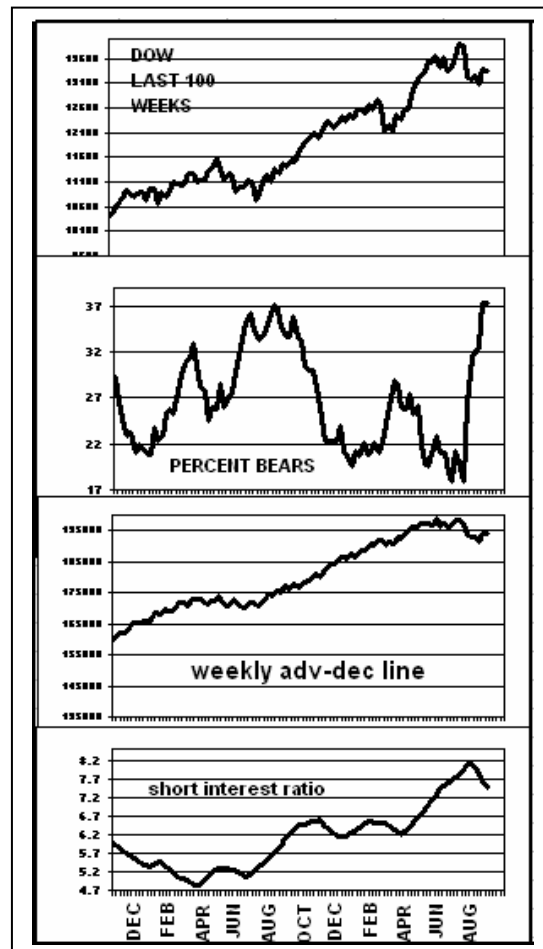
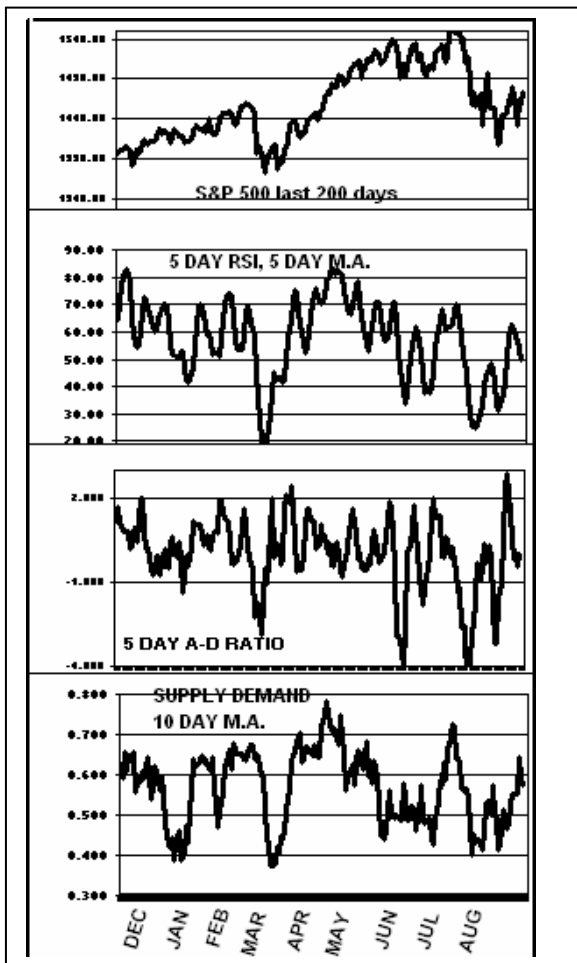
The FTSE 100 looks quite similar to the S&P 500 and looks to have similar potential on the upside. This index should be considerably higher in January.

GOLD

Gold peaked in May of 2006 and since then has been in a sideways pattern that is starting to look like a coil. This is a chart pattern with decreasing short term moves both up and down. The breakout direction should predict the next major move and we're expecting it to be higher, but it does bear close watching.

This sideways pattern on the weekly chart has made it a bit of a challenge to call the short term moves.





The S&P 500 looks to be in a complex bottoming pattern. We really need to break above the previous high to have more confidence that the next major move is higher.

The five day moving average of the five day RSI was recently quite oversold and from this type of reading, one normally can expect much more of a rally than we recently have seen.

The five day moving average of the advance decline ratio recently became very overbought which can be a short term negative, but on a more intermediate term basis, can be a sign of strength.

Supply demand is just coming off an oversold condition and is telling us that the path of least resistance is up.

The Dow has broken below a prior low and this in and of itself is a negative, but the other indicators are telling a much more bullish story.

The bearish percentage is showing some solid readings and is predicting more strength in the weeks ahead.

The Weekly advance decline line has been showing some weakness in line with the action of the Dow.

The short interest ratio has turned down, but remains quite bullish. This is one reason we have trouble buying the “new bear market” scenario.

ODDS AND ENDS

We decided to demote one of our indicators because it simply was not giving useful signals. The Nova Ursa ratio has been correctly bullish for years, but has failed to predict any of the substantial declines since 2002. It's not worth tracking any more. There are other more important gauges.

According to the **Stock Traders Almanac**, September is the worst month of the year. Forewarned is forearmed.

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.

MANAGED ACCOUNT UPDATE

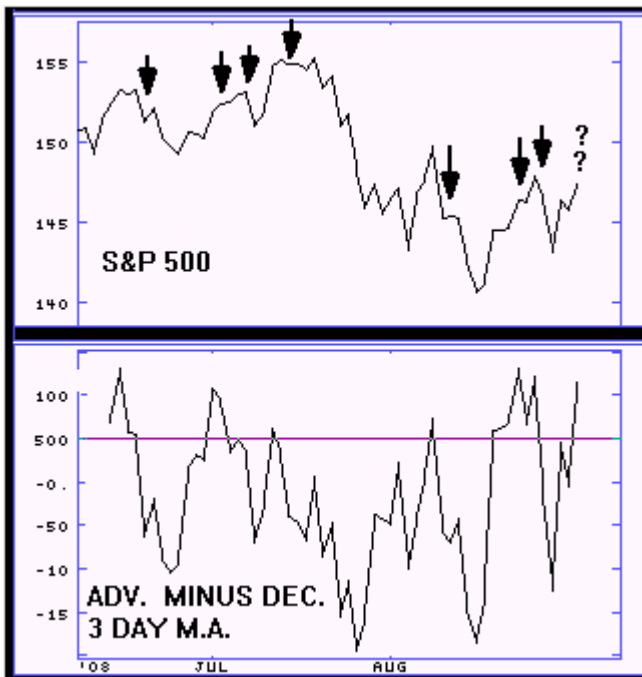
We exited our high yield bond positions for managed accounts on June 7, but have now reentered the market with a 100% invested position as of August 23rd.

SHORT TERM TOPS

It has been our experience that one of the more difficult things in all of market analysis is to pick a short term top. However, that hasn't kept us from trying.

Probably the most promising indicator that we have found is the 3 day moving average of advances minus declines. We have noted that when the indicator reaches + 500 and then turns down that we frequently have a few days on the downside.

As of the close on Friday, the gauge was at a +1314 level, but it had not yet turned down, hence the question marks. However, due to major take away value this is almost certain to happen on Tuesday. We'll see how it works out. Stay tuned.



PLEASE SCROLL DOWN TO THE NEXT PAGE FOR OUR INTERMEDIATE TERM BUYS AND SELL

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	
08/16/07	SELL	1411	100% CASH	+22

END OF LETTER

