

TODD MARKET FORECAST

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MANY MONTHS LEFT ON THE UPSIDE

Editor's note. I will be speaking at the Wealth Expo in New York City on Saturday October 20. The location is the Javits Center. Also speaking will be Newt Gingrich and Charles Payne. Attendance is free and I will send additional info next week.

We showed a version of the chart below in last month's letter. It was the percentage of bears among newsletter writers and assorted advisors as reported by Investor's Intelligence.

As you know, we place a lot of emphasis on sentiment because investors tend to get bearish at bottoms and bullish at tops.

This time, instead of the raw figures, we are showing the five week moving average. We decided to deal with the same data because there was a large drop in the bearish percentage shown on page 5 and we wanted to make sure that you didn't get the wrong impression.

Once the bearish figures reach extremes, the market tends to move up for an extended period regardless of what the figures do subsequently and the moving average demonstrates this admirably.

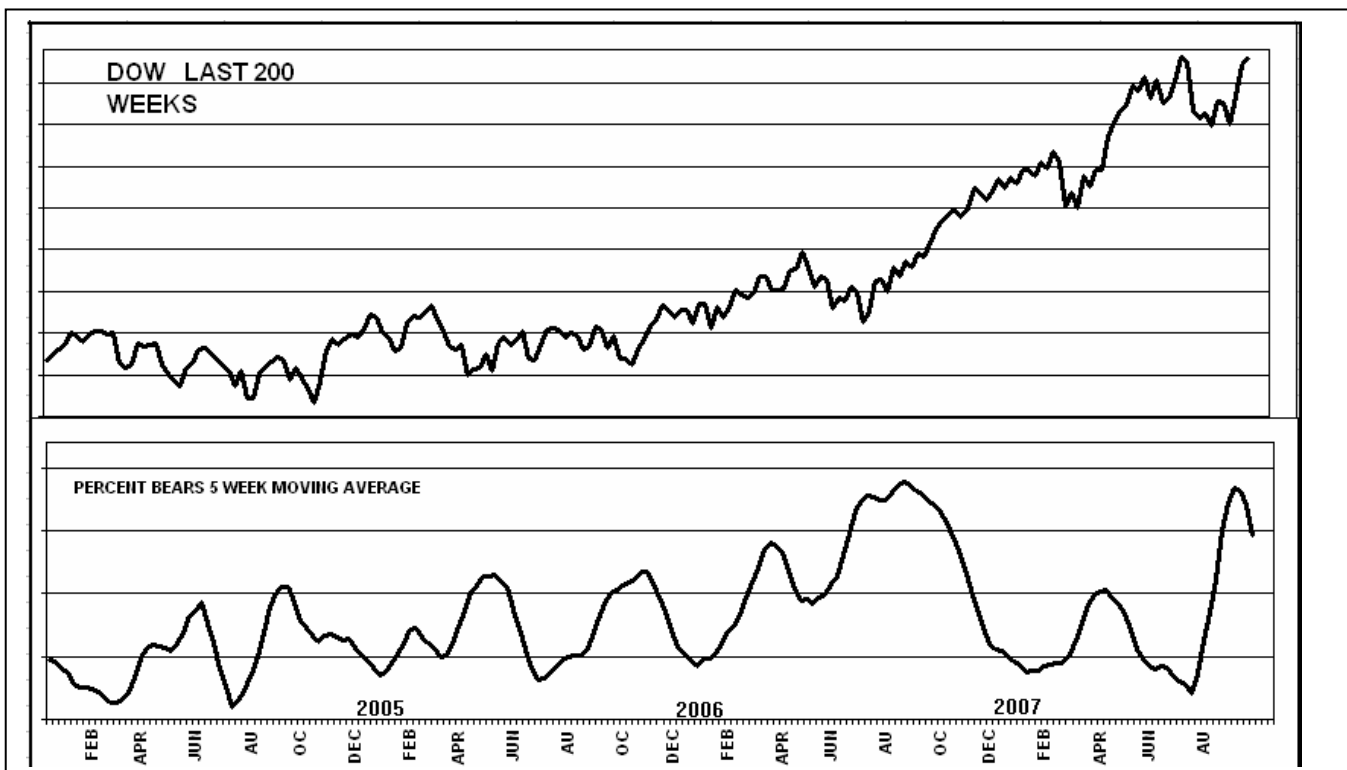
Sentiment isn't the only thing that the bulls have in their favor. We are rapidly approaching favorable seasonality. According to research by the Stock Trader's Almanac, the period between November 1 and April 30 is much stronger than the other six months of the year.

Since 1950 through 2005, the "good six months" gained a total of 11,692 points while the "bad six months" has actually lost 539 points.

We're not sure why this happens. Perhaps it's because the good period contains the best three months, November, December and January. Why these three? Probably because of the good feeling associated with Thanksgiving, Hanukkah and Christmas.

No doubt the yearly pension fund contributions in January are a factor. Perhaps it's because the bad six months are roughly coincident with the hurricane season.

When you through in the fact that we are just coming off a major oversold condition, we think the stock market has a lot going for it.



GOLD AND THE DOLLAR

The gold market has certainly gone a lot further than I would have expected over the past several months.

I think there are a number of reasons. World wide investment liquidity is having its effect. The strength of the Third World stock markets are creating wealth in lands that have habitually gone to gold since they don't trust their own currency. Concerns about a potential terrorist attack have no doubt played a part.

A major factor in recent years has been the decline of the dollar. As assets priced in dollars have suffered through currency translations, many investors have turned to gold.

The chart below shows that there is indeed an inverse relationship between the yellow metal and the dollar. It's not perfect. No two markets are exactly alike or exactly opposite, but looking at the chart, there seems to be no denying that there is a relationship.

As long as the greenback continues to drop and right now, it looks inexorable, gold should continue to have an upward bias.

MORE STOCK MARKET

Getting back to the stock market, floor traders and a lot of hedge funds were caught being net short when Bernanke and company shocked the "Street" with a half point drop for both Fed funds and the --

-- discount rate.

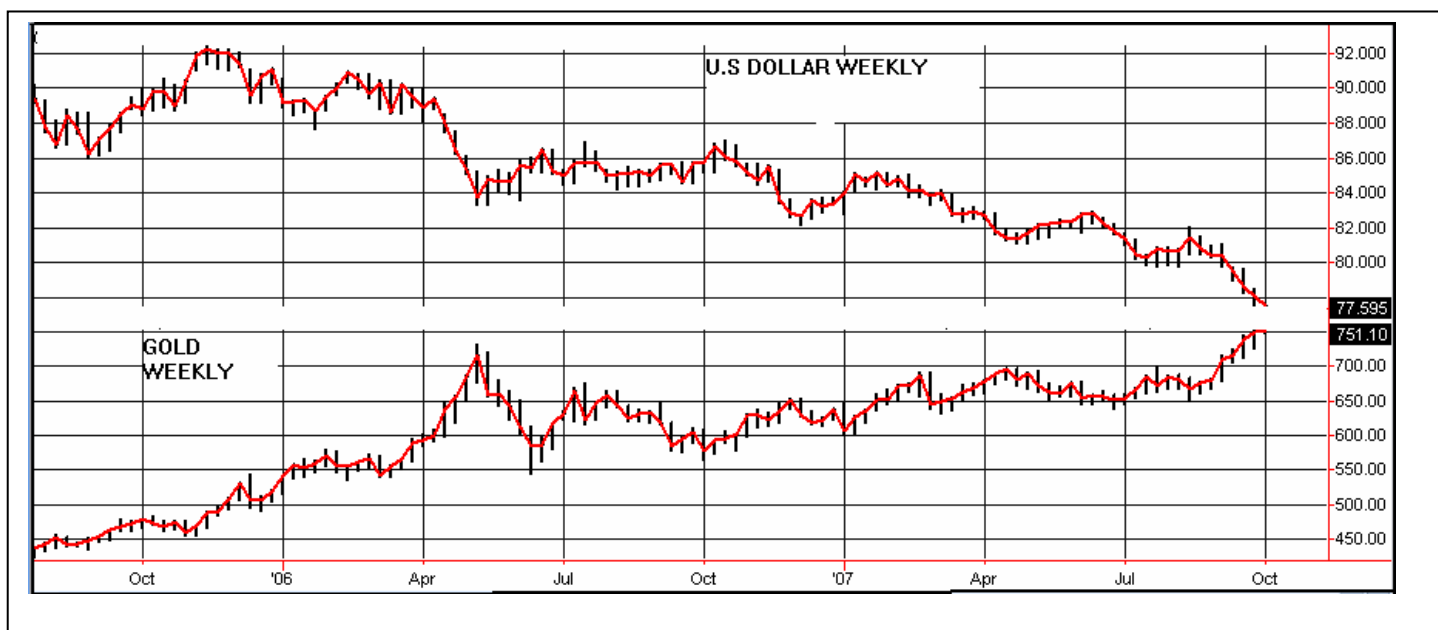
Normally, the Fed does exactly what is expected. The surprises tend to come with the wording that accompanies the action. It's been years since the central bank has truly shocked the investment community and sent them scurrying to cover shorts like it did in mid September.

So, what is the history of rate cuts and its effect on the stock market? Historically, it pushes the market higher, but not always. There have been times when accommodative Fed action was met with a yawn. It happened several times in the bear market of 2000-2002. We're reading it somewhat differently this time. This isn't a bear market.

There is a market rhythm that we have found very useful over the years. Every four years, at the mid point of the presidential term, there tends to be a sharp decline and then an upward bias for about three years afterward.

We believe that the drop in the summer of 2006 was such an occurrence. If you go back in history, the market tends to make a significant low every four years. This happened in 2002, 1998, 1994, 1990, 1986, 1982, 1978, 1974, etc. We have found that looking at the stock market through this prism is very helpful in understanding its movements.

Finally, there is the little matter of liquidity. There is still a lot of money around. You can see this in all the stock buy backs. All in all, the stock market has a lot going for it.



BONDS AND SENTIMENT

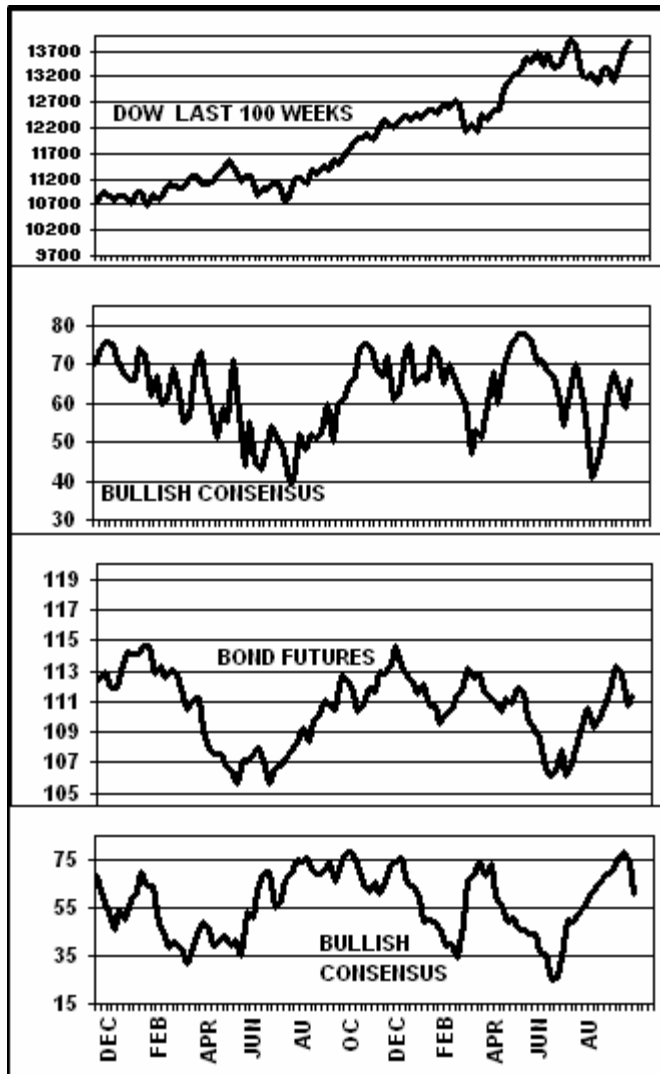
The **BULLISH CONSENSUS** for stocks was recently very oversold. We haven't rallied enough considering the depth of the oversold condition.

The **BULLISH CONSENSUS** for bonds has just curled over from being very overbought. This indicator is bearish, but we look at various gauges, not just this one.

The **COMPOSITE GAUGE 5 DAY M.A** in the next column is a bit low suggesting some sort of pullback may be in the offing.

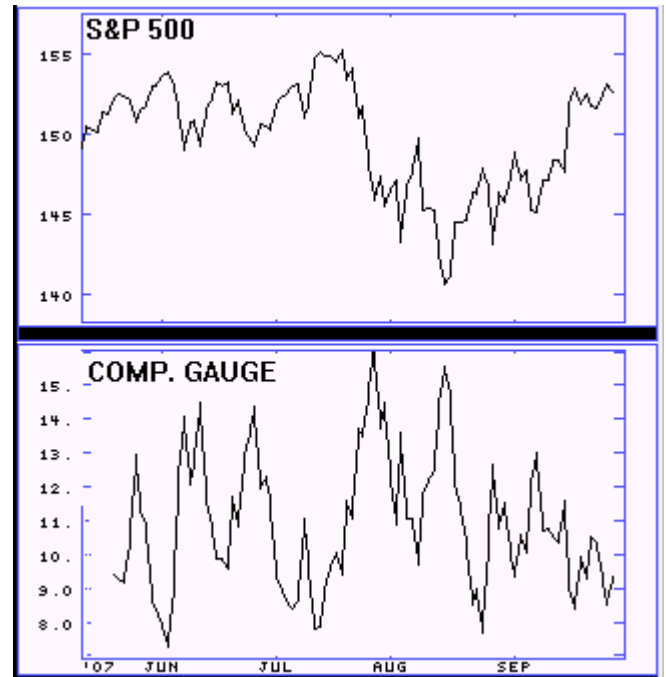
OTHER MARKETS

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 S 5/15, B 6/15, S 8/17, B 8/24, S 9/13
Gold S 6/8, B 7/9, S 7/25, B 7/30, S 9/14, B 9/18
Crude Oil B 5/11, S 8/06, B 8/29, S 9/25, B 9/27

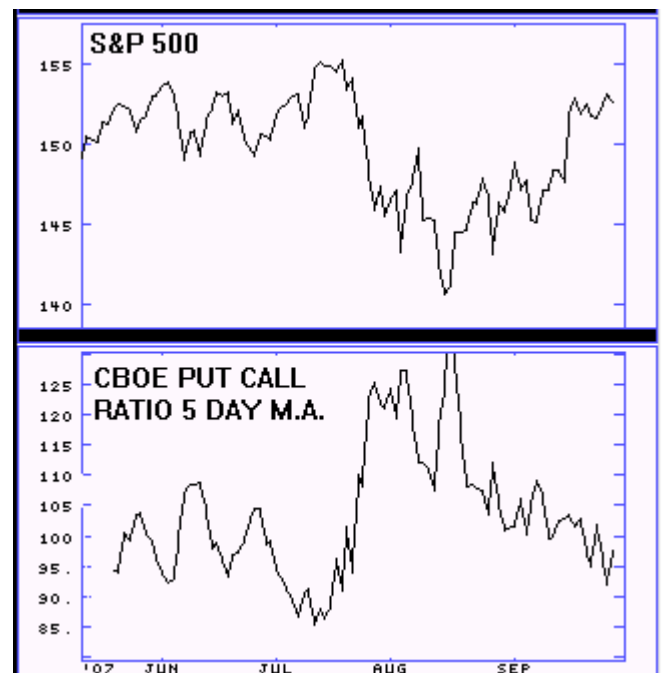
U.S. Dollar S 2/15, B 5/10, S 7/2, B 7/27, S 9/11
EURO B 2/15, S 5/10, B 7/2, S 7/27, B 7/11



CBOE PUT CALL RATIO

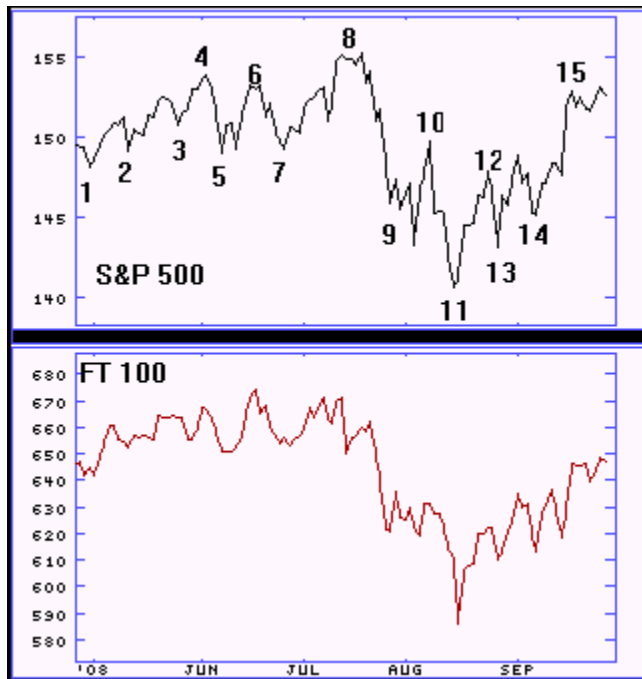
The put call ratio 5 day was very high back in late July and well into August predicting the sharp upmove that we have since seen.

Now, it has moved down, but not by nearly enough to suggest any sort of significant top. There has been quite a secular uptrend in this indicator. In years past, the current level would have predicted a bottom. Now it's a bit too low. Amazing.



NEWS AND THE MARKET

(1) On April 30, the stock market dropped 58 points on seemingly good news. The PCE deflator was less than expected. (2) On May 10 the Dow dropped 148 points after the trade



deficit expanded more than expected and import prices rose more than anticipated. (3) 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. (4) 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. (5) 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. (6) 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%. (7) On June 26, the S&P Home Price Index for the 10 largest cities showed the largest drop in price in 16 years. (8) On July 12 the Dow rallied 284 points on no real news. It seems that a chart break out brought in some short covering. (9) 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. (10) On August 8 Cisco CEO John Chambers said that this was the best world economy he had ever

seen. (11) 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. (12) 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. (13) On Aug. 28 home prices dropped the most in 20 years and the FOMC minutes didn't seem concerned about the economy. (14) On Sept. 7, 4,000 jobs were lost instead of the expected 110,000 gain. (15) On Sept. 18, the Fed shocked Wall Street and the world with a half point drop for Fed funds and the discount rate.

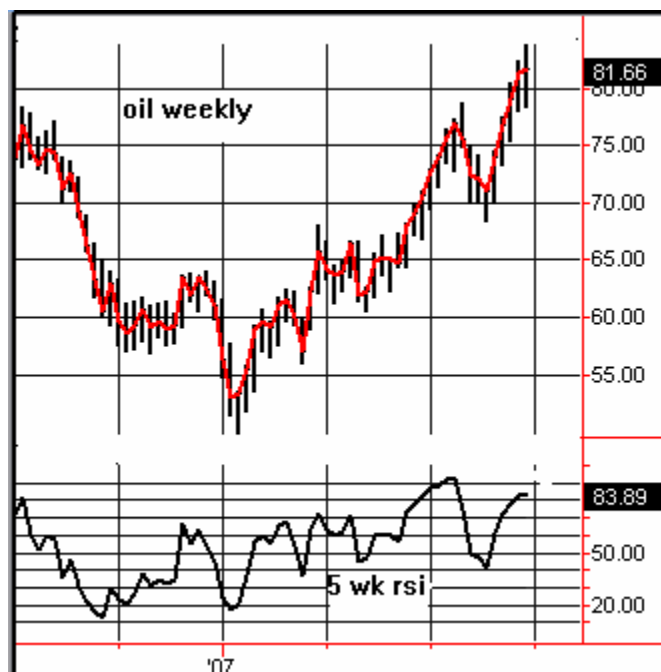
THE LONDON MARKET

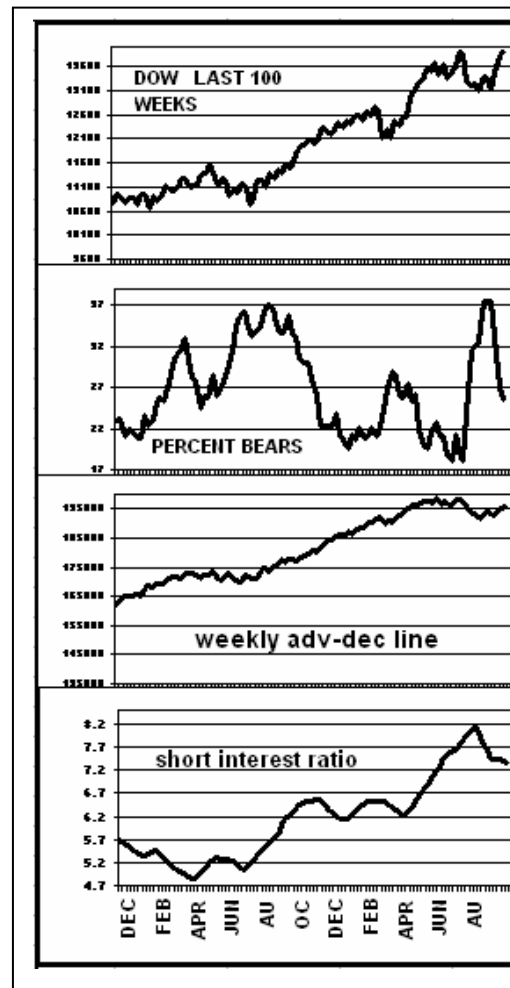
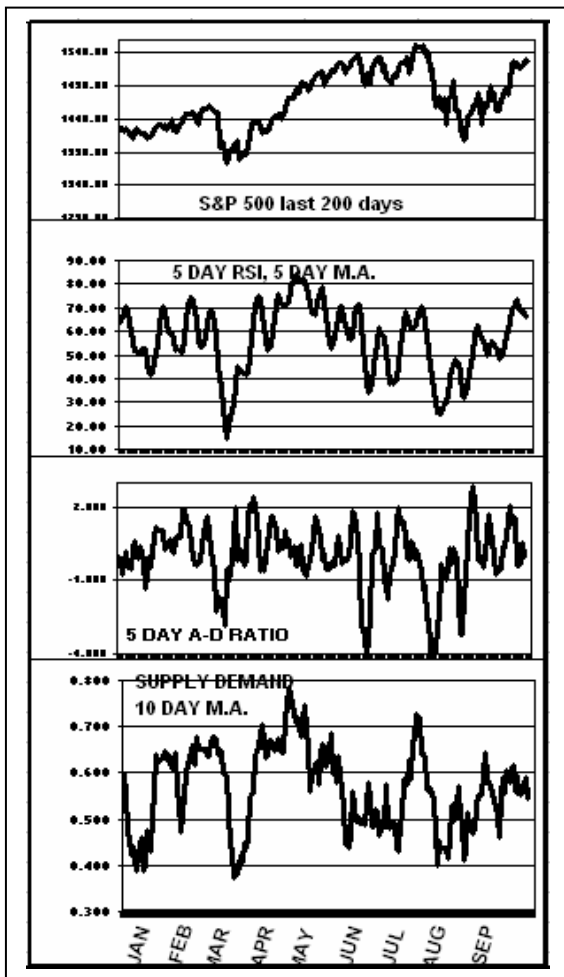
The FTSE 100 continues to look quite similar to the S&P 500. It bottomed on the same day and has worked its way up in a similar pattern.

CRUDE OIL

We normally reserve this section for gold, but since we cover it extensively on page 2, we thought we would take a look at crude.

It's our understanding that many major fields are in decline and the newer smaller fields aren't making up the difference. When you combine this with the fact that demand is exploding in the many Third World countries, it would appear that crude has a lot of uptrend left, near term setbacks aside.





The S&P 500 has had a good rally and is rapidly approaching the prior peak. This level may impede progress for a while in October, but we think it will break to a higher high in the not too distant future.

The five day moving average of the five day RSI is just curling over from an overbought condition. This indicator may be predicting some October weakness.

The five day moving average of the advance decline ratio is currently waffling around the neutral level. It's not telling us much at the present time.

Supply demand is also in a neutral status, but like the other indicators on this page, it did an excellent job of predicting the latest rally.

The Dow is within a whisker of the all time highs, but like the S&P, this level may provide some resistance during a seasonally weak period in October, after which we expect new record levels.

The bearish percentage has dropped sharply, but the market hasn't rallied enough to satisfy its very high recent readings so the message is still a bullish one.

The weekly advance decline line is not lagging the Dow and S&P, but we don't think that this is a problem. Breadth frequently lags sharp rallies.

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

MANAGED ACCOUNT UPDATE

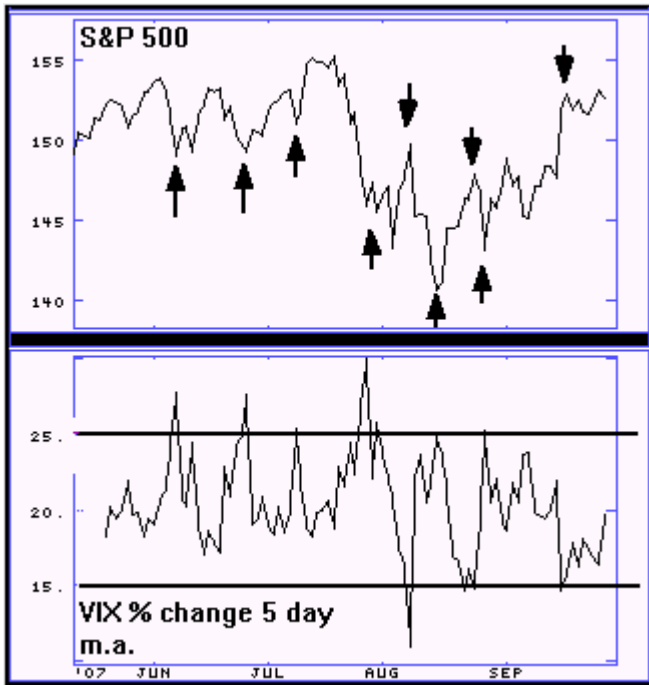
Since we entered the high yield market from cash on August 23rd, our managed accounts are up approximately 2%.

THE VIX

We report the VIX % change every night in our e-mail updates. Readings of + 5% or higher tend to predict a next day rally. Readings of - 5% tend to predict a decline.

In order to have a 5 day moving average, we had to add 20 to each reading. This is because our most convenient charting program is an old Doss affair that does not take negative numbers.

At any rate it does a pretty good job of finding tops and bottoms as the chart below shows. Five day readings above 25 tend to mark bottoms. Readings below 15 tend to mark tops. This is one of the components of our composite gauge.



ODDS AND ENDS

There has been a lot of talk about a recession related to the housing market. We're not experts on this (and neither is anyone else), but the question has been asked, "If we are approaching a recession, why is the stock market so high?"

The answer may be in the changing world economy. The other parts of the planet Earth are growing faster than the U.S. And since many of our big multi national Dow type companies derive so much of their earnings from overseas, there is a distinct possibility that a recession wouldn't punish the stock market as much as in the past.

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 down to the next page for our intermediate term buys and sells.

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
09/18/07	BUY	1520	100% INVESTED	

FROM 1993 UNTIL OCT. OF 2006 WE HAD OUTPERFORMED THE BUY AND HOLD BY A SUBSTANTIAL MARGIN.

END OF LETTER

