

TODD MARKET FORECAST

Stephen Todd

Registered Investment Advisor Phone 909 338 8354

P.O. Box 4131

Crestline, CA 92325-4131

www.toddmarketforecast.com Issue 8 Year 24 e-mail -toddmarketforecast@charter.net

AUGUST 2008

Due the first Tuesday of each month.

A NEW TRADING SYSTEM

We are becoming convinced, perhaps a bit late, that system approaches are the only way to consistently make money in the stock market.

A few months ago we introduced a system that makes use of intraday trading and we're proud to say that it is doing quite well with the subscribers who signed up for this extra level of service.

For the past several weeks, we have been devoting most of our waking hours to another approach. If certain criteria are met, we buy at the close and hold for two days, selling at the close on day 2.

The chart below shows the results going back almost 11 years to October 20, 1997. Here are the results.

From October 20, 1997 through August 1, 2008, the S&P 500 rose 305 points. During this time the system added 1655 points (A to E on the chart).

In this study we used the e-mini S&P as the trading vehicle. If you started with a total of \$5000, the net profits would be over \$80,000.

This works out to be a bit over 28% compounded and far outperformed the best mutual fund and the best hedge fund that we could find during this time frame.

It also outperformed gold, oil, and real estate since late 1997.

Here are a few more statistics. From Oct. 20, 1997 to the top on March 24, 2000, the S&P rose 572 points. The system added 719 points (A to B on the chart).

From March 24, 2000 through October 9, 2002, the S&P dropped 751 points. The system lost 107 points (B to C on the chart).

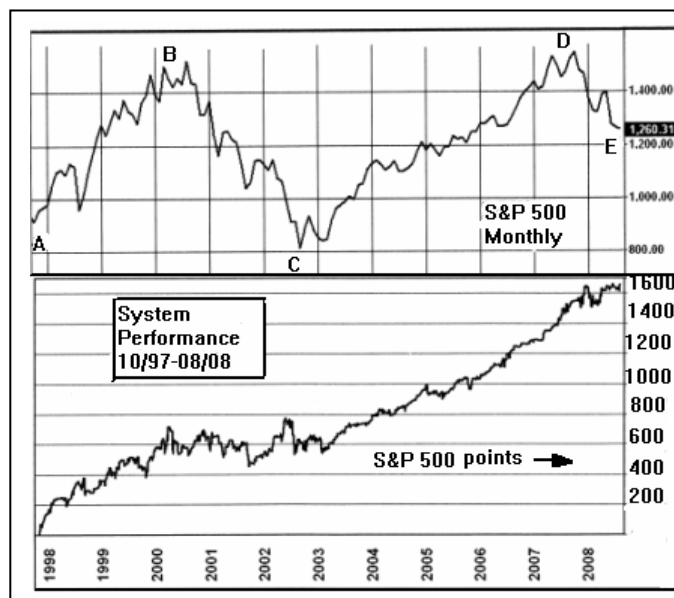
From Oct. 9, 2002 through Oct. 9 2007, the S&P rose 788 points while the system was adding 937 points (C to D on the chart).

From Oct. 9, 2007 through July 18, 2008, the S&P dropped 304 points while the system was gaining 85 points (D to E on the chart).

The worst draw down over this 11 year period occurred between March 14, 2000 through October 4, 2001. The system lost 248 points while the S&P 500 was losing 289 points.

In summary, the system beat the buy and hold on extended uptrends and protected investors during extended downtrends.

Not every subscriber can make use of this system. They would have to be available to receive an e-mail at 4:00 EST --- **CONTINUED**----



--- which is closing time so we looked at the performance if we had bought at the opening the next day instead of at the close.

From January 20, 2006 through Friday Aug. 1, 2008 the S&P 500 lost a total of 5 points. In other words, it was essentially flat. During this period, the buy at the close method gained a total of 609 points utilizing the e-mini S&P.

If instead we bought the opening the next day, the back testing showed a gain of 472 points. Less effective than buying at the close, but still not bad.

We are going to begin using this methodology immediately on the nightly hotline. We will recommend purchase at the opening the next morning. Right now, we don't have the ability to consistently get out the message between 4:00 p.m. New York time and the end of trading at 4:15. It takes a certain amount of time to do the work and see if we have a signal, but we are working on it.

Based on 11 years of back testing, this should work with various instruments, including the mini S&P futures contract, the standard S&P, options and ETFs. We are going to utilize the ProShares, ultra S&P 500 ETF symbol SSO. This is somewhat tamer than the S&P futures. Of course clients can use any instrument that suits them.

Bear in mind that this system is long only. It doesn't take short positions. Also, it can go for extended periods without a signal. We have seen it go dry for 25 market sessions. In addition, it can have some fairly substantial draw downs. We covered this on the first page. Finally, it is only in the market for two days. If we buy at the open, we sell at the market at the close on the second day.

THE MARKET

Now to the stock market. We believe that we are putting in an important bottom. One reason is shown in the chart below.

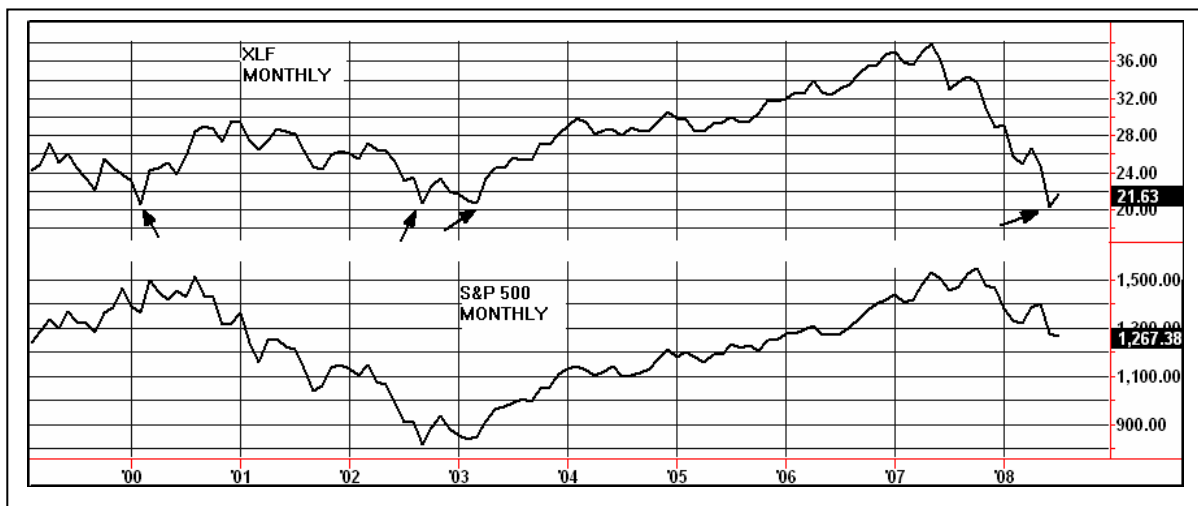
The XLF, which is an ETF for financial stocks, has given back the entire bull market from the bottom in October 2002. This also means that it is in a really major support zone (arrows). This is the level that arrested the last bear market decline and we're betting it does it again.

In conjunction, there is a tremendous amount of money on the sidelines. There is currently more cash in money market funds than there was at the bear market bottoms in 2002, 1998, and 1990.

Then there is the extreme pessimism. Investors and advisors tend to get bearish at bottoms and bullish at tops. In our nightly update for July 25, we showed a chart of bearish advisors from Investor's Intelligence. At that time, bearish advisors were 49.4%. This is a greater number than it was at the bottom in October of 2002 which saw 43% bears and also the bottom in September of 1998 which saw 47.5% bears. The latest reading shows 50.0% bears.

We also have an extremely oversold condition for most stock indices. Look at our nightly update for July 23rd. Like most stock indices, the S&P 500 is very oversold on a monthly basis.

Then there is the fact that this is an election year. We have found that there is a very strong tendency for the last six months of a presidential election year to be up. We go into more detail on this subject on the last page under the title "**Strong Second Half**". We urge you to read it.



BONDS AND SENTIMENT

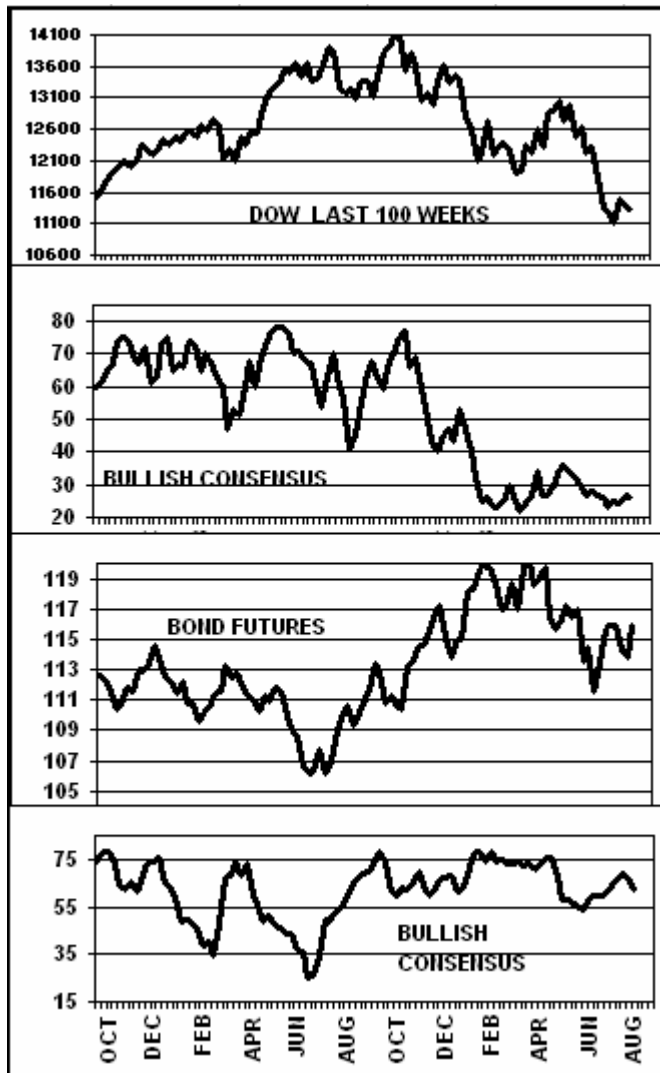
The **BULLISH CONSENSUS** for stocks is still at a solidly oversold level. This should support a rally for a number of weeks but so far it hasn't.

The **BULLISH CONSENSUS** for bonds is meandering right now. It's not telling us a great deal.

The **COMPOSITE GAUGE 5 DAY M.A** in the next column has fallen back quite a bit, but in early July it was very high and bullish. So far the market has failed to deliver, but perhaps we are still owed something on the upside.

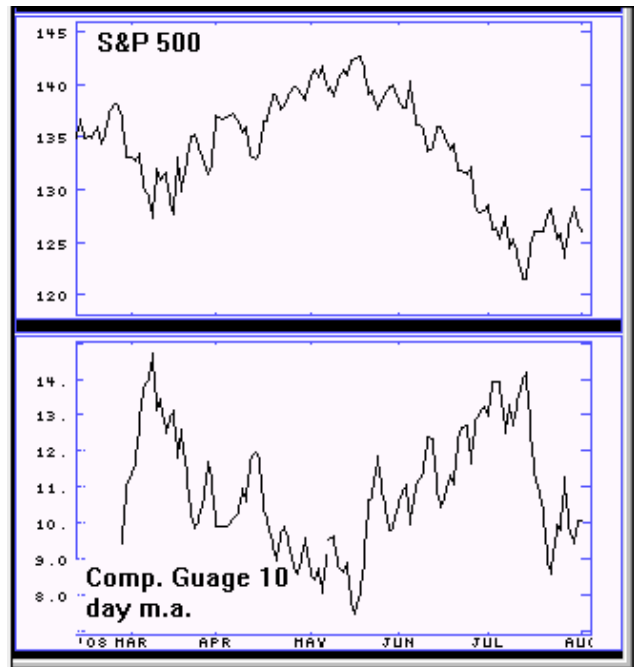
OTHER MARKETS

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.



Bonds B 04/21, S 04/25, B 06/20 S 07/11, B 07/24

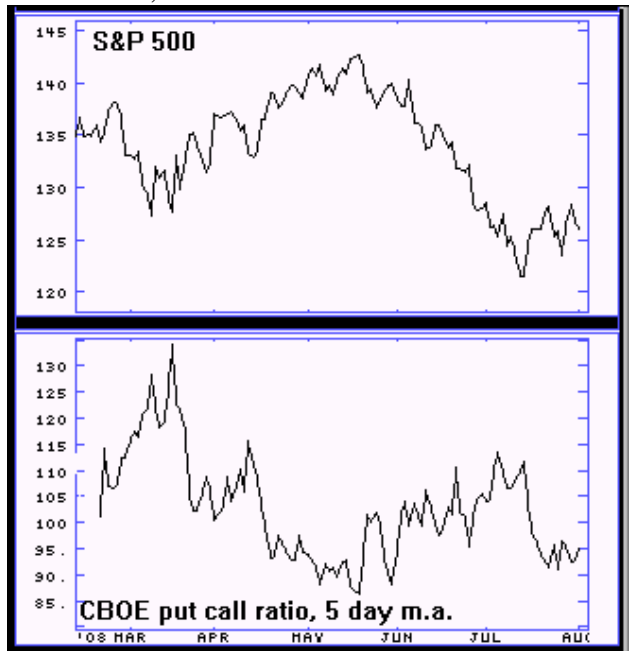
Gold B 04/16, S 04/29, S 05/27, B 05/30, S 07/18
Crude Oil S 05/27, B 06/05, S 07/08, B 07/30
U.S. Dollar S 06/06, B 06/13, S 07/14, B 07/23
EURO B 06/06, S 06/13, B 07/14, S 07/23



CBOE PUT CALL RATIO

The CBOE put call ratio 5 day moving average was oversold in early July which is why we have had the bounce since then, but it was much less bullish than it was in March right before the big uptrend.

Still, it was oversold enough to give us more of a rally than we have had so far. Even though it has fallen back, we'll still rate it bullish.



NEWS AND THE MARKET

(1) On March 10 it was reported that the FBI was investigating Countrywide Financial and 15 other sub prime lenders. (2) On March 19 many heretofore strong commodities fell sharply.



Gold had its worst day in 28 years. (3) On March 24, J.P. Morgan upped its bid for Bear Stearns from a ridiculously low price of \$2 to \$10. (4) On April 1st, the Dow gained 391 points on dollar strength after two European banks reported sharp write downs. (5) The Dow dropped 256 points after a much worse than expected earnings report from market bellwether GE. (6) The Dow managed a 229 point rally after Google reported much better than expected earnings.

(7) On May 9, American International, AIG, reported sharply lower earnings and the stock lost 9%. Oil also surged and the Dow lost 120 points. (8) On May 19, the Dow was up 150 points intraday when the CEO of SanDisk said that oil prices were hurting business. The Dow reversed to be up only 41. (9) On May 23, there was no news. The only thing to explain the weakness was a dropping dollar. (10) On June 11, a sharp rise in the price of oil and the fact that several Fed governors were hinting at a Fed tightening caused a sharp drop. (11) On June 13, Greenspan stated that he saw a diminished possibility for a steep U.S. recession. (12) On

June 26, the president of OPEC predicted \$170 oil because of dollar weakness and oil reached almost \$140. Also Goldman Sachs made negative comments about financial stocks The Dow dropped a cool 358. (13) On July 15, exactly one day after a government rescue plan for Freddie Mac and Fannie Mae, the stocks dropped another 25%, taking the market down with them. (14) On July 22nd the financials turned a down market around when Mike Mayo of Deutsche Bank had some kind things to say about the bank stocks. (15) On July 28, the IMF stated that there were no signs of a housing market turnaround for the U.S.

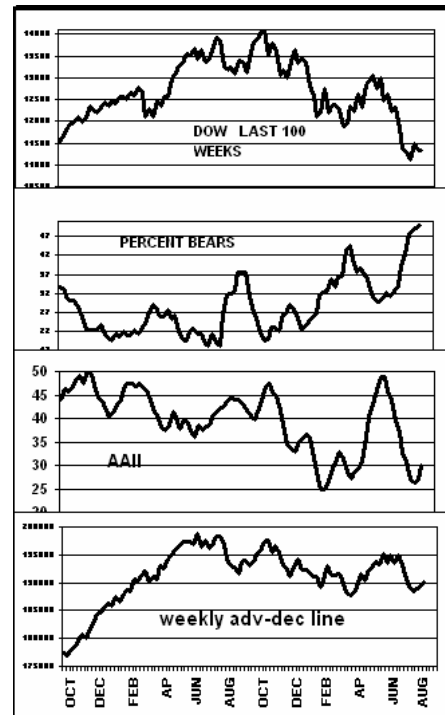
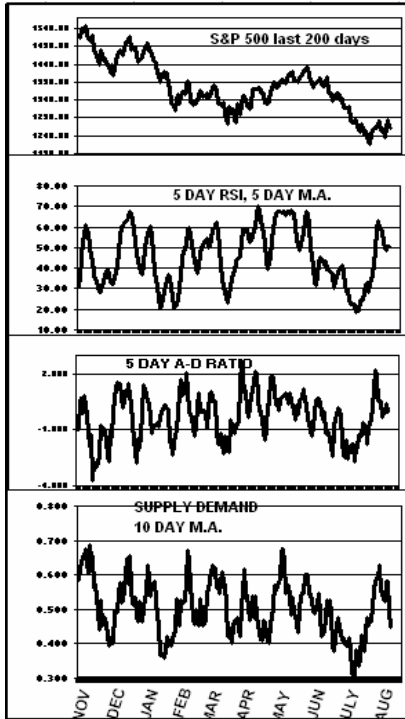
THE LONDON MARKET

The FTSE 100 has been going down in lock step with the S&P 500, but now both indices look like they are trying to make a bottom. In the last letter I stated that I expected both to break the lows of March which they did. Now, I'm expecting both to hold the July lows.

GOLD

Gold is clearly in a downtrend. We can see this by the pattern of descending lows and descending highs. The yellow metal looks to have settled into a longer term sideways pattern so we're just moving back and forth on short term buys and sells.





The S&P 500 has bounced and so far held the early July lows. We are betting that this index continues to hold here and rally further.

The five day m.a. of 5 day RSI was recently quite oversold, but so far the ensuing bounce has been somewhat anemic. We think we're owed something on the upside.

The same is true for the five day m.a. of the advance decline ratio. We should get more than the anemic bounce we've managed so far.

The supply demand 10 day moving average was recently oversold in the extreme and after a bounce, it has settled back into a mild oversold condition. Clearly this gauge is anticipating another surge on the upside.

The weekly chart of the Dow shows signs of bottoming. It has bounced off a very oversold condition and is now holding above the recent lows.

The percentage of bears from Investor's Intelligence is showing the highest levels in over 20 years and perhaps longer. This should give us a major rally.

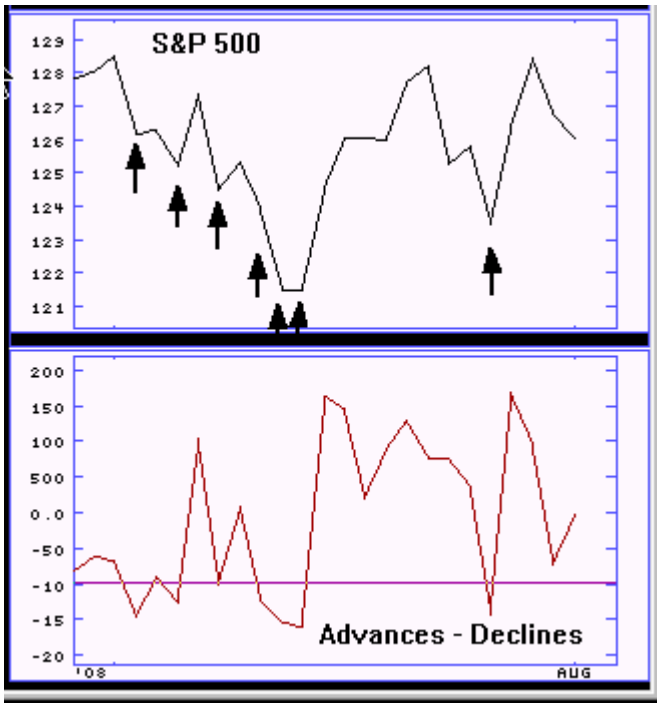
The AAI bullish percentage is showing major league pessimism by individual investors. Unless crude oil takes off and flies, we are convinced that this is a major low.

The latest drop to new lows by the Dow has not been confirmed by the weekly advance decline line. It's showing a bullish non confirmation.

ADVANCES MINUS DECLINES

There are a lot of short term tricks we can use to improve our performance. For instance, when there are at least 1000 net declines on the NYSE, the next day is frequently higher. Knowing this can help you keep your perspective when others are in a panic.

Obviously, this little rule is less effective when the market is in a persistent downtrend, such as it is on the left side of the chart below. But even here, you frequently get a next day rebound (arrows). Failure to rally the next day can be a signal that tells you to watch out for a general downtrend.



STRONG SECOND HALF

We entered the second half of this election year on July 1st, so we are a bit late in pointing this out, but the second half of such years have a strong tendency to be higher.

We did some checking and found that in the 14 presidential election years since 1950, only one lost ground in the second half, a 3.9% decline in 1960.

When you consider the fact that the Dow was up only 28 points in July and the S&P 500 lost 13, you can see that we have some ground to make up in the remaining 5 months.

Also, consider the high cash levels, the extreme pessimism and the fact that the market is very oversold, especially the financials and we think a very strong case can be made for more strength in the months ahead. This is especially the case if crude oil has truly topped out.

INTERMEDIATE TERM

Since 1993, we have given instructions to mutual fund investors to be either 100% invested or 100% on the sidelines. Following 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. At the end of 2007, we were ranked # 4.

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.

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 TO SEE OUR BUYS AND SELLS 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	
08/16/07	SELL	1411	100% CASH	+22
09/19/07	BUY	1520	100% INVESTED	
11/08/07	SELL	1475	100% CASH	-45
11/28/07	BUY	1469	100% INVESTED	
03/10/08	SELL	1273	100% CASH	-196
04/01/08	BUY	1370	100% INVESTED	
06/26/08	SELL	1283	100% CASH	-87

END OF LETTER