
From The Trading Turret

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Current Field Position	Offense
Bullish Percent NYSE	Xs@ 68.99
Bullish Percent OTC	Xs@ 57.69
Bullish Percent Option	Xs@ 68.59
Sector Bell Curve Percentage	63.47%
Favored Sectors	COMP, BIOM, INET, SOFT, TELE

This week's comment …

In a recent Turret, I stated the obvious. "The rally has both positive and negative characteristics. On the positive side, new highs by the Dow and S&P 500 may bring in further buying interest, which may prolong the rally over the short-term. It is often said that the most bullish thing a market can do is advance (no kidding). So, in that respect, we may see higher prices over the very short-term. However, on the negative side the rally is lacking several bullish characteristics that call into question its longevity. The internal condition is lagging the major indices and showing a lack of broad based participation with breadth and volume flows weakening, an increasingly small number of stocks hitting new 52-weak highs while stocks hitting new 52-week lows is rising as the market advances. New high/new low statistics tend to have leading tendencies for the market, so an improvement in these statistics would be encouraging while a further deterioration would portend trouble ahead."

The Dow Jones Industrials and the S&P 500 have not made any progress over the past two-weeks but the secondary indices have continued to push higher with the Russell 2000 Small Cap Index and S&P 400 Mid Cap Index posting new all-time highs.

The stock market has been very frustrating so far this year. Many prognosticators feel like the market has staged a big advance already this year given that the financial news outlets repeatedly highlight that the major indices, the Dow Jones Industrial Average and S&P 500, stand at five-year highs.

The market trend is higher, but it is anything but dramatic. In fact, the majority of the gains so far this year occurred during the first two-weeks of January. Since the January

11th peak, the Dow Jones Industrial Average is up only 1.6%, the S&P 500 is higher by 0.7%, and the Nasdaq Composite is up only 0.3%.

So, while the market has trended higher, the gains over the past two and a half months have been modest. Up to this point, the internal condition of the market lacks bullish thrust characteristics and many technical indicators have been diverging for quite sometime. That could all change if the market breaks out with conviction. Time will tell.

The market has been very resilient recently in spite of an increase in price volatility, rising energy prices, and higher interest rates. Crude oil has risen to over $66/barrel. Part of the spike in oil prices is due to the speculation that a new oil-based ETF (Exchange Traded Fund) could begin trading as early as next week.

Interest rates also continue to trend higher with the Fed hiking overnight rates again and the 10-year Treasury yield rising to 4.80%. Risks remain high and the market has become more volatile as a result. The market has experienced several one-day reversals and negative outside days, which typically signal additional price weakness, only to rebound and recoup the losses the very next day. Something has to give here shortly.

Fed Notes

The Federal Reserve began its new era under Chairman Bernanke the same way that it ended the Greenspan era, with another rate hike. The Fed hiked rates for the 15th consecutive time to 4.75%. The 15 consecutive hikes is the longest stretch of increases in more than 25 years. The rate hike was expected, so no big surprise there. However, expectations were growing that the language in the Fed's statement would signal that the hikes were coming to an end and those expectations were not realized. The language in the Fed's official statement was more hawkish toward inflationary pressures. The FOMC retained the language that "some further policy firming may be needed," and "it will respond to changes in economic prospects."

The Fed also said "The slowing of the growth of real GDP in the fourth quarter of 2005 seems largely to have reflected temporary or special factors. Economic growth has rebounded strongly in the current quarter but appears likely to moderate to a more sustainable pace. As yet, the run-up in the prices of energy and other commodities appears to have had only a modest effect on core inflation, ongoing productivity gains have helped to hold the growth of unit labor costs in check, and inflation expectations remain contained. Still, possible increases in resource utilization, in combination with elevated prices of energy and other commodities, have the potential to add to inflation pressures."

In English, the economic slowdown in the fourth quarter was caused in large part by the hurricanes and resulting spike in energy prices. Evidence suggests that the economy has rebounded strongly in the current quarter with GDP likely to come in over 5%. The Fed believes that growth will moderate to a more sustainable level of between 3.5%-4.0% moving forward. While core inflation is currently well contained there are substantial risks to the upside. The reference to "other commodities" was new in this statement and this broadening assessment of inflation likely indicates the Fed is concerned with ongoing inflation pressures.

As a result, the fed funds futures market is pricing in another rate at the May 10th FOMC meeting and a 20% chance of an additional hike at the June 29th meeting.

That's about it. Have a great week!!

RA Christy

Robert Christy is a professional stock trader, money manager and author. Mr. Christy is also the President CEO of Christy Investment Group, Ltd., a registered investment advisory firm. He is also the Managing Partner and Portfolio Manager of Plato Advisors, LLC. At the time of publication, Mr. Christy may from time to time write about stocks in which he, Christy Investment Group Ltd or Plato Advisors LLC has a position. In such cases, appropriate disclosure is made. Under no circumstances does the information in this column represent a specific recommendation to buy or sell stocks. Mr. Christy appreciates your feedback and invites you to send it to rac@christyinvestments.com.