
From The Trading Turret

From: R.A. Christy
Editor, 'From the Trading Turret'
Managing Partner, Portfolio Manager, Plato Advisors, LLC
http://www.stock-trading-advisor.com

Date:

Current Field Position:	OFFENSE
Bullish Percent NYSE:	Xs @ 50.89
Bullish Percent OTC:	Os @ 37.11
Bullish Percent Option:	Xs @ 43.77
Sector Bell Curve Percentage:	43.12
Favored Sectors:	OIL, Wall Street
Unfavored Sectors:	All the rest

This week's comment …

What goes around – comes around. It seems like we're right back where we started from just 2 weeks ago. From a technical perspective, the market has rallied into resistance and is now in a slightly overbought condition. This is based on the hope that the Fed is done playing around with interest rates and the good inflation news of the past day or so.

As to whether or not the recent gains hold remains to be seen. The indicators tell us that the OFFENSE is on the field but with only 2 sectors favorable (OIL and Wall Street), caution is the watchword.

For the record, the market has challenged resistance 3 times since the beginning of June. It has failed to breakthrough each time. This tells me that the overhanging supply is still there and as much as the talking heads want it to go up, the market simply isn't ready to do so.

Historically, we are entering the weakest seasonal timeframe of the year. So we'll continue to be careful with new purchases, etc. Just for the record, over the past 20 years, the market has peaked 16 times between mid-August and mid-September.

From my perch, it looks as though the market is weighing the tradeoff between inflation and growth. The Fed's position is that growth will moderate causing inflation pressures to ease. If that's the case, every economic report in the coming weeks will carry more weight than usual. This is because the market needs to gauge how much inflation is still in the pipeline and how much growth is needed to slow everything down.

If inflation picks up, the risk is that the Fed will step back in and resume hiking rates. And if it appears that growth will slow too much, a hard landing may be in the offing, which is big time bad for the market.

I've stated a number of times in recent months that the historical precedent when the Fed stops hiking rates is bearish for the market. The talking heads on CNBC would like you to believe that this time is different, but I'm not betting on it.

To reiterate, in 12 of the past 16 cases in which the Fed stopped hiking rates, the market was lower six months later. Now there is always the exception. The exception happens to be when the Fed engineers a soft landing for the economy, as they did in 1989 and 1995. However, soft landings are the exception and not the rule, with the Fed failing more times than not and causing a greater economic dislocation than desirable.

According to Ned Davis Research's (NDR) chart of the S&P 500 "Around Last Fed Rate Hike", the current market is closely tracking the historical norm. NDR says that "if the last rate hike was June 29th, the message and its implications are dire". This market is headed substantially lower.

US Economy / Bonds

The inflation reports that sent the markets higher showed that core prices (wholesale and consumer level) moderated in July. Producer prices rose 0.1%, below the consensus of a 0.4% increase. At the core level, which excludes food and energy, producer prices fell 0.3%. Overall producer prices have risen 4.2% on a y/y basis. Meanwhile, consumer prices rose 0.4% in July, with core prices rising 0.2%, below expectations of a 0.3% rise. On a y/y basis consumer prices have risen 4.1%. Although inflation remains above the Fed's comfort zone, the market is currently betting that slower economic growth will eventually allow inflationary pressures to ease. The better than expected monthly inflation numbers were a bit surprising given that inflation is a lagging indicator and normally continues rising for several months after the economy slows.

The bond market is cheering the inflation numbers and yields are lower across the board. The 10-year Treasury-Note is currently yielding about 4.88%. In my last Turret, I opined that a 10-year yield below 4.90% would heighten the risk of a more severe slowdown. We are right at that level now which places the economy at a critical juncture. While I don't think a recession is in the cards right now, the flat yield curve suggests that there is a risk that a marked slowdown in the housing sector would weigh heavily on the overall economy. According to InvesTech Research, over the last 40-years a recession has occurred in 7 of 8 times in which the yield curve, defined by the difference between the 10-year Treasury Note and 3-month T-bill yields, has narrowed to less than 0.50%. Currently, the 10-year Treasury-Note yield is 0.10% lower than 3-month T-bills, resulting in an inverted yield curve. While not infallible, an inverted yield curve has historically been a harbinger of trouble ahead for the economy.

In The News:

On July 1st, we rolled out our newest portfolio, the Rydex Strategic Sector Portfolio. If you'd like some information on it, just send me an email (rac@stock-trading-advisor.com) or a fax at 1-678-302-4348. The press release announcing the rollout can be found on the archives page (http://www.stock-trading-advisor.com/archives.html)

SPECIAL TRADE ALERT!

Members: Please note, I am having server problems today and the Trade Alert that was scheduled to go out earlier today may not have been sent. Here's the Trade Alert.

1. **CURRENT MARKET – OFFENSE**
2. **FAVORED SECTOR – WALL STREET**
3. **BUY CHARLES SCHWAB (SCHW) AT THE MARKET.**
4. **PLACE YOUR GTC STOP LOSS AT 13**
5. **I'M PUTTING BEAR STEARNS (BSC) ON THE WATCH LIST FOR FURTHER REVIEW TODAY AND TOMORROW.**
6. **IF YOU HAVE ANY QUESTIONS OR COMMENTS, PLEASE FEEL FREE TO GIVE ME A CALL.**
7. **I'M HOPING TO HAVE THE SERVER PROBLEMS RECTIFIED LATER TODAY.**

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

RA Christy

P.S. Please fee free to forward this to your peers, friends and associates you think would benefit from its contents. They will thank you for it - and so will I!

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R.A. Christy is a professional stock trader, money manager and author. Mr. Christy is 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@stock-trading-advisor.com.

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The Stock Trading Advisor
c/o Plato Advisors, LLC
P.O. Box 625
Alpharetta, GA 30009-0625

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online: http://www/stock-trading-advisor.com/contact.html
by email: info@stock-trading-advisor.com
by fax: 1-678-302-4348.