Financial Research Education & Data

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Trading Week Starting
December 27, 2010

The FRED Report

Summary of Market View

WE WILL BE AROUND TO ANSWER EMAILS AND WILL HOLD OUR WEEKLY THURSDAY CALL, BUT PLAN TO BE OUT FOR MUCH OF THIS WEEK

We have no changes to our opinions in this last week.

Stocks should rally a bit more, and attack our yearend objective of 130 on the SPY. **We continue to maintain our cautious stance going into the New Year.**

Bonds look to rally a bit and oil should continue the seasonal rally.

INSIDE THIS ISSUE:

Special points of interest:

- We continue to maintain our cautious stance going into the new year.
- Energy continues the seasonal rally and this sector should remain stronger even during a correction after the first of the year.
- Bonds look to be setting up for a bit of an oversold rally.
- The Euro markets seem to be saying that the idea of “two Europe’s”, at least for investors, is gaining credence.

Stocks Review

Stocks continue to rally into the end of the year and look to rally this week. We are within roughly 5 SPY (SPDR S&P 500 Trust) points of our yearend target of 130, first forecast in our December 1, 2010 Monthly Report, when the SPY was at 118 – 119 or 9% away from 130. **We continue to see the breadth divergences and such that warn of an impending correction, and therefore remain with a cautious stance into year end.**

We note that there is some sector rotation going on under the surface – Tech seems to be lagging a bit, for example. We show charts of the QQQQ (Powershares QQQ) and IYW (iShares Dow Jones US Technology Sector ETF) below, and note the relationship between where we are now and the November highs. Compare to the SPX chart on the previous page. **Energy continues the seasonal rally and this sector should remain stronger even during a correction after the first of the year.** The big question is how much of what we observe is due to yearend maneuvers and how much is actual weakness, remains to be seen. For this reason, we are not "selling everything" – rather we are advocating raising stops, holding onto cash, but letting winners ride as long as you are comfortable.

We will be around this week to respond to emails but plan on being out and about (weather permitting – first white Christmas in Atlanta in my memory!). Enjoy this last holiday week of 2010.

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Fixed Income Review

Bonds look to be setting up for a bit of an oversold rally. We continue to be longer-term bond bears, and would cover short bond positions if anyone has any left, except for maybe a token position in case I am wrong on this.

The TLT (Barclays 20 Year Treasury Bond iShare) could challenge the 97 area on this move and we show a chart below.

Other than this, we have no change in our outlook.

"Bonds look to be setting up for a bit of an oversold rally."

Commodity Review

Oil continues to perform well on the upside and we look for the USO (United States Oil Fund) to challenge the 42 area by the end of January. We will watch this carefully, as the projected stock correction may affect the commodities as well. DBC (PowerShares DB Commodity Tracking ETF), our main commodity index, looks to be on a breakout now that it is above 27. A test of the 30 area cannot be ruled out.

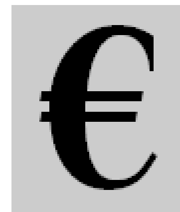
We will reprise our "FRED's Fab Four" piece from last month as our research piece for this month – but want to point out that one of our forecasts for 2011 is that inflation will finally win over deflation. This suggests that oil will continue to have a good year and that gold also will ultimately do well. We say ultimately, because the metals look a little bit overdone here and may have a stronger than expected correction after seasonal strength in commodities ends (normally at the end of January).

For now, no change in our outlook – we expect these markets to trend up into the end of the year.

"Oil continues to perform well on the upside and we look for the USO to challenge the 42 area by the end of January."

International Review

We take a quick look at Europe. The markets seem to be saying that the idea of "two Europe's", at least for investors, is gaining credence. There are some marked differences in performance in these country ETFs and will simply show the charts so that readers can judge for themselves.



Our favorite remains Denmark, which we show first, and least favorite is Spain, which we show last. These charts are EWD (iShares MSCI Denmark Index Fund), EWG (iShares MSCI Germany Index Fund), EWQ (iShares MSCI France Index Fund), and EWP (iShares MSCI Spain Index Fund).

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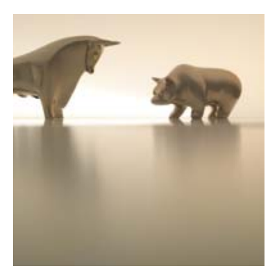
Weekly Chart of Interest

China has raised interest rates a bit to combat inflation. **This is the first sign that our "inflation wins" forecast is coming true.** We show charts of the FXI (iShares FTSE Xinhua China 25 Index ETF) and HAO (Guggenheim China Small Cap ETF). Traditionally stocks have trouble as rates rise, but in this case it looks as if the Chinese indexes have fallen, anticipating this change. **Should this be correct, HAO should outperform FXI – but both should rally a bit from here. It should be noted that China raised interest rates over the weekend.**

About Our Organization



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