

INVESTTECH[®] RESEARCH

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Technical and Monetary Investment Analysis

JULY 27, 2007



4 Weeks Ending July 20, 2007

| | High | Low | Last |
|---------------|-------|-------|-------|
| Federal Funds | 5.34% | 5.22% | 5.25% |
| 30yr T-Bonds | 5.28% | 5.06% | 5.06% |

| | | | |
|------------------|----------|--------|----------|
| Gold (London PM) | \$681.60 | 642.10 | \$681.60 |
|------------------|----------|--------|----------|

| | High | Low | Last | 200D M.A. |
|---------|----------|----------|----------|-----------|
| DJIA | 14000.41 | 13337.66 | 13851.08 | 12733.78 |
| DJUA | 520.77 | 487.84 | 511.85 | 481.29 |
| NASDAQ | 2720.04 | 2574.16 | 2687.60 | 2483.74 |
| S&P 500 | 1553.08 | 1492.89 | 1534.10 | 1446.95 |

S&P 500 P/E Current: 16.9 70 yr Avg: 15.6

BEAR MARKET WARNING FLAGS!

Since our last issue, the DJIA has hit nine new record closing highs. Yet, at the same time, two of our primary indicators have turned bearish, our Housing Bubble Index has dropped into a freefall that rivals the dot-com bust of the late 1990s [see graphic], and breadth has taken a decisive turn for the worse – as noted by these developments...

- The DJIA has closed higher in 5 of the past 8 trading days, but declining stocks outnumbered advancing stocks in 7 of those 8 sessions. **That type of negative breadth divergence has occurred only 15 times in 75 years – the majority of which were in bear markets.**
- On Monday of last week, the DJIA hit a record high while declining stocks overwhelmed advancing stocks by a 2:1 margin. **That ominous divergence has never occurred in the past 75 years of market history.**

Divergences are also appearing in major indexes, as the headline-grabbing DJIA has risen over 1000 points in the past five months – but the small-cap Russell 2000 Index has slipped lower. If that isn't a flight to quality, we don't know what is!

As a consequence, we are moving to a full bear market defensive mode. Inside this issue, we discuss what that means for our already conservative portfolio, and reveal which warning flags to watch closely in the coming weeks and months ahead...

Housing Bubble Bellwether Index

