



# THE RHODES REPORT

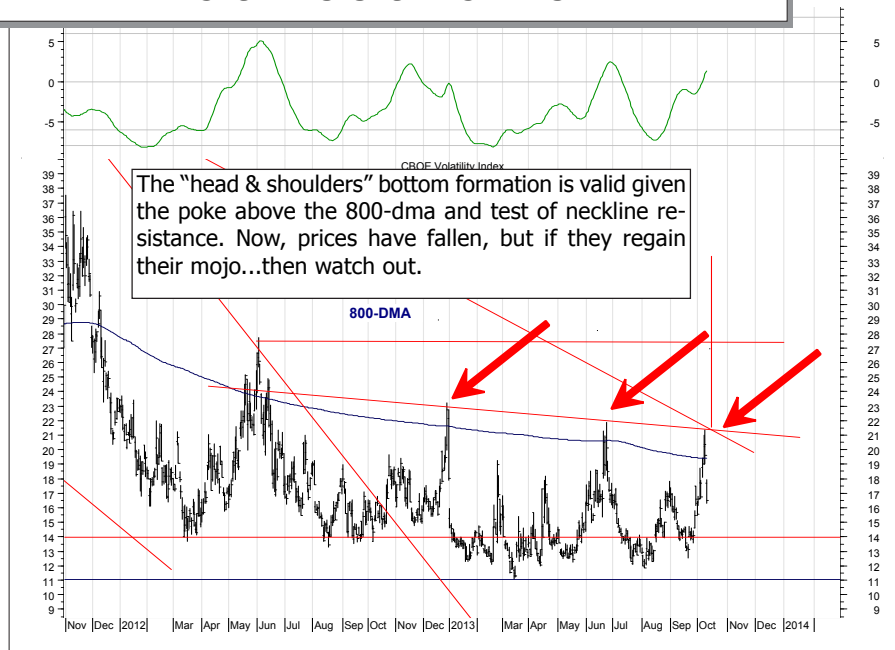
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**FRIDAY – OCTOBER 11, 2013**

## CBOE Volatility Index (Daily) "Is it Different This Time?"



## CAPITAL MARKET COMMENTARY

### ► WORLD MARKETS ARE ON BALANCE "HIGHER"

with Asian bourses leading the charge as they followed Wall Street's sharp gain yesterday. This isn't surprising, but clearly the markets are "jumping the gun" just a bit in terms of a rally as the White House and the House Republicans have only begun talking; a deal is imminent certainly, but given the scope of the rally – it simply means any negative body language out of the involved groups means that the rally could be taken away and even more. Remember, Congress goes on Columbus Day recess for the entire week next week, so they had better get crackin'!

That said; let's outline what has occurred thus far. House Republicans indicate that they will offer a six-week extension of the debt limit through Nov 22. Their proposal would

## "FORECAST"

**STOCKS:** The world economy is muddling through: the US payroll tax increase and "sequestration" are headwinds to the US economy; China is being pressured by Japan, and both the US and China housing market are "weakening". The Eurozone remains mired in "inaction", although showing signs of growth. Quite clearly, we feel risk is being mispriced at current levels given the economic backdrop and developing pressure upon corporate revenues/margins/earnings. At some point, the market will view the central banks will be non-sequitur.

**STRATEGY:** The S&P 500 remains above the 160-wma long-term support level at 1385; and the standard 200-dma support level at 1601. But perhaps more importantly, the distance above the 160-wma "falied" at the +23- to +25% zone that is our "bubble-like rally" threshold. Hence, a correction of some proportion is forthcoming.

also ban the Treasury's use of "extraordinary measures" to avoid default, measures such as suspending investment into government pension plans. And in exchange, they expect broad negotiations on spending and entitlements.

Their proposal would not affect the Federal shutdown unless the Senate was to amend the bill. In many ways, this extension just puts off the problem. However, it represents some compromise by the President – who initially refused to negotiate – and by House Republicans...who refused a debt ceiling extension without White House concessions. This is what gets you an S&P 500 jump of +2.2%.

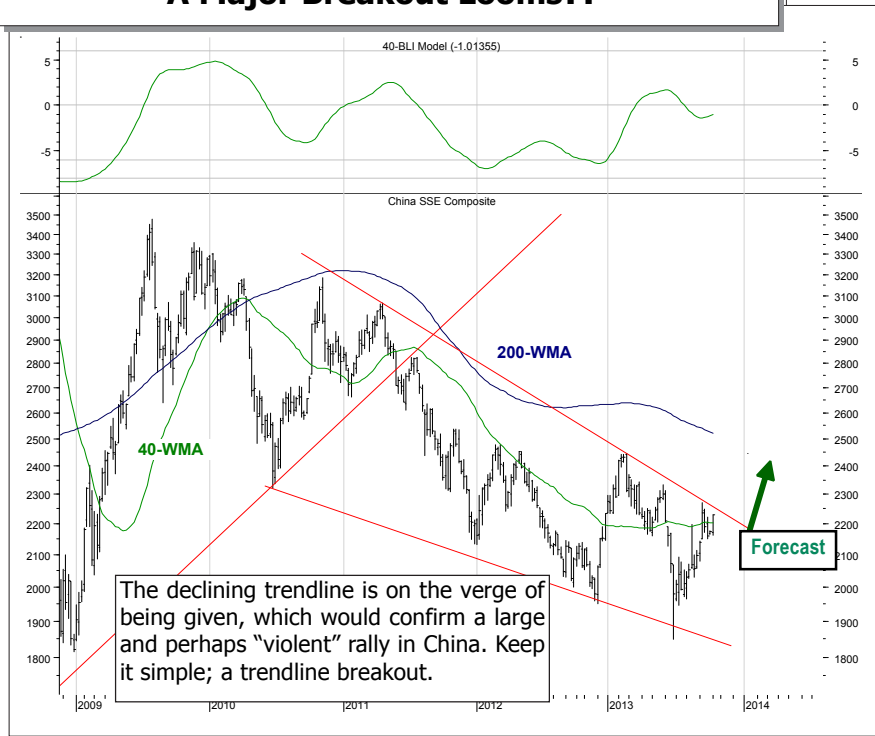
## OVERNIGHT PRICES

Quotes at: 7:25am EST

INDEX		LAST	DAILY CHG	CHG %	YTD	YTD %
<b>Morning Futures</b>						
S&P 500	up	1,686.75	1.75			
Nasdaq 100	up	3,197.25	4.00			
10-year Note Yield	up	2.68%	-1.0 bps			
Crude Oil	down	\$ 101.76	\$ (1.25)			
Euro €	up	1.3570	0.0032			
Yen ¥	down	1.0174	-0.0019			
Gold	down	\$ 1,286.00	\$ (10.90)			
<b>Foreign Indices</b>						
Japan Nikkei 225	up	14,405	210.0	1.48%	4,010	38.57%
SSE China Composite	up	2,228	37.2	1.70%	-41	-1.81%
German DAX	up	8,715	29.0	0.33%	1,102	14.48%
Spain Madrid General	down	884	-2.0	-0.23%	59	7.15%
Italy FTSE MIB	down	18,812	-24.7	-0.13%	2,539	15.60%
<b>US Indices</b>						
Dow Industrials	up	15,126	323.0	2.18%	2,022	15.43%
Nasdaq 100	up	2,984	68.3	2.34%	323	12.14%
S&P 500 Large-Cap	up	1,693	36.2	2.18%	266	18.68%
S&P 400 Mid-Cap	up	1,250	27.2	2.22%	230	22.50%
S&P 600 Small-Cap	up	607	14.1	2.38%	130	27.32%

# CAPITAL MARKET COMMENTARY

## China SSE Composite (Weekly) "A Major Breakout Looms??"



110-day. Still, this level remains very important, for if violated, then expect a test of the 200-day, and perhaps the 380-day moving average. We remain cognizant that market participants like to "buy'em" on the resolution of anything – but yesterday's really seem a bit contrived. The question we have is whether market participants "sell the news" this time around.

Having said this, are still working on changing up the letter just a bit to reflect long-only portfolios and a tactical option portfolio. This will debut on Monday.

Good luck and good trading,  
Richard

Therefore, volatility is the king of the roost at present, and there is nothing else to really say. Many believe this to be like Pavlov's dog – and the result will be the same as was in January-2013 when stocks "rocketed"; however, stocks are still within spitting distance of their highs – and risk remains high. Perhaps we'll see a "sell the actual agreement"; now that would be a market change of tenor now wouldn't it?!

► **ON THE US ECONOMIC FRONT:** There is very little today. The University of Michigan Consumer Sentiment "preliminary figures" for October are expected to print lower at 76 from 78, with both the "conditions" and the "expectations" components falling very modestly as well. Generally, there is some variability between expectations and the printed figure in the preliminary report – it could be market moving to be sure.

Then a bit later at 11am ET, Fed Governor Powell takes to the podium to speak about "Monetary Policy."

► **TRADING STRATEGY:** This "showdown" between the Congress and the President is thawing, and this pushed prices higher from the first mean reversion level test at the

# S&P 500 INDEX/ BROAD MKT INDICATORS



## S&P 500 TECHNICAL COMMENTS

### ➔ NOTHING HAS CHANGED REGARDING A TOP:

Once again, the S&P has thus far successfully tested the 110-dma: the three previous attempts were successful and led to rallies. Hence, if this test remains valid, then it shall prove critical to the intermediate-term bullish stance. A clear breakdown would continue the decline towards the wide 200-dma and 380-dema range between 1598-1522. With the volatility surrounding the US government — this zone still remains within the realm of possibility to be tested very soon.

At this point, the models suggest weakness, which means trendline support will be tested. But if this level is violated, then we would have to consider the alternatives, which at this point aren't so sanguine.

➔ The 14-day model is decling, with the 40-day model rolling over. If the 40-day turns clearly lower in negative divergence, then certainly a larger correction becomes a higher probability.

➔ The % of stocks above their 10-dma is back to near "oversold levels" at the 10% level.

➔ The % of stocks above their 200-dma stands at 75%...up +5% from the prior close. *The 87% level marked previous highs. The 50-dma/150-dma cross breakdown now confirms a larger correction. Bottoms form between 30%-40%.*

➔ The Intermediate-term Model has broken below the 10-dma; a clear bearish signal. However, it is challenging this level once again.

# MODEL PORTFOLIO POSITIONS I

## Crude Oil 2x Short

SCO

Last: \$ 30.65 TGT: \$ 61.00  
Entry: \$ 31.90 STP: \$ -



## 30-yr Bond 2x Long

TMF

Last: \$ 47.41 TGT: \$ 62.00  
Entry: \$ 48.88 STP: \$ -



## Russell 2000 2x Short

TWM

Last: \$ 15.31 TGT: \$ 19.00  
Entry: \$ 15.96 STP: \$ -



0 0

Last: \$ - TGT: \$ -  
Entry: \$ - STP: \$ -

# TRR MODEL PORTFOLIO: "PAID-TO-PLAY"

No.	Trade Date	POS	Share No.	Name	SYM	Beta	Port %	Invest	Entry Price	Current Price	Unrealized P/L	Percent P/L	Stop Loss Point	TARGET
1	7/8/13	L	1,472	Crude Oil 2x Short	SCO	(0.68)	25.3%	\$ 46,965	\$ 31.90	\$ 30.65	\$ (1,833)	-3.9%	\$ - "H"	\$ 61.00
2	8/9/13	L	371	30-yr Bond 2x Long	TMF	(0.12)	9.8%	\$ 18,119	\$ 48.88	\$ 47.41	\$ (545)	-3.0%	\$ - "H"	\$ 62.00
3	8/15/13	L	6,811	Russell 2000 2x Short	TWM	(1.40)	58.4%	\$ 108,728	\$ 15.96	\$ 15.31	\$ (4,445)	-4.1%	\$ - "H"	\$ 19.00
4							0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -
5				N/A			0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -
6				N/A			0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -
7				N/A			0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -
8				N/A			0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -
9				N/A			0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -
10				N/A			0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -
11				N/A			0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -
12				N/A			0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -
13				N/A			0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -
14				N/A			0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -
15				N/A			0.0%	\$ -	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -
TOTAL						(2.19)	93.5%	\$ 173,812			\$ (6,823)		"C" Denotes Change	

<b>2013 RECAP</b>	Starting Balance	\$ 210,130	"T" = TRADE
	Closed Positions	\$ (24,833)	"C" = CLOSE
	Open Positions	\$ (6,823)	"E" = EXIT
	Dividends	\$ 177	"H" = HOLD
<b>PORTFOLIO YTD (Gain/Loss)</b>		\$ 178,650 \$ (31,479)	-14.98%
<b>S&amp;P 500 YTD</b>			18.68%
<b>Over/(Under) Performance</b>			-33.66%

**TRADE PRICE NOTE:** All entry and exit prices for stocks are the "average" of the high and low prices for the trading day as provided for by Yahoo!'s website at <http://www.finance.yahoo.com>; unless clearly stated in the trade instructions below.

**DISCLAIMER:** "The performance data shown represent past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so that investors' securities, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data cited. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index. The illustrations and charts in this report are educational only and do not take into consideration your personal circumstances or other factors that may be important in making investment decisions. This report is not a recommendation to buy or sell a particular security."

## TRADE ORDERS:

1. None.

## TRADE EXECUTIONS:

1. None.

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# **The “Blue-Line Indicator” or “BLI” Explained**

The BLI is our simple momentum oscillator used for timing and trend decisions; we rarely if ever use other momentum indicators for we prefer to focus and understand one indicator really well rather than a basket of indicators that can at times be contradictory. Furthermore, we prefer to use the BLI in conjunction with basic chart patterns; it is our experience that this combination works rather well for type of trading style.

Basically, the BLI it is a full stochastic indicator derivative of our own undertaking; our changes have been several, but primarily relate to “smoothing” the indicator in order to provide for better signals once it does in fact change directions. We use varying time periods dependent upon whether we are working with weekly or daily charts. We have found that a 14-period BLI works well with the weekly charts, whereas both a 20-period and 40-period work well with daily charts. Obviously, the 40-period BLI catches longer and more tidal changes in direction. We normally don’t use these in our Daily Bulletin given its shorter-term time frame, but behind the scenes it plays a big part.

When using the BLI with price charts; we look upon the following 3-factors as “set-ups” upon which the probability is highest to trade:

## **1. BLI Extremes: Oversold (-6 to -8)/Overbought (+6 to +8)**

- When the BLI trades into either extreme, our “reversal ears” go up as a change in trend becomes a higher probability. This puts the risk/reward dynamic in our favor generally, but we won’t take a position without well defined stop losses and perhaps prices are trading into support or resistance as the case may be. However, we must note that extreme conditions can and will become more extreme in a powerfully trending market; hence this is the “caveat” to trading with the BLI in isolation.

## **2. BLI Divergences: Positive/Negative**

- A divergence is said to have occurred when the price and BLI do not make new lows/highs together. They in effect “diverge”, with the BLI not confirming the prevailing trend. If the BLI turns higher/lower from below a previous BLI low/high – then a divergence is said to have occurred, of which the probability is increased that the trend is changing in favor of the BLI direction.

## **3. BLI Reversals from Positive/Negative Levels**

- Another very good BLI trading pattern which denotes a strongly stock is when the BLI turn higher from already positive levels – this suggests a strong upwards acceleration is underway. Conversely, a turn lower from already negative numbers suggests a strong downward acceleration is underway.