



THE RHODES REPORT

Telephone: 484-278-4073

Email: richard@rhodes-capital.com

Web Address: <http://www.rhodes-capital.com>

MONDAY – NOVEMBER 4, 2013

Russell 2000 Sm. Cap Index (Daily) "Watch Trendline Support"



CAPITAL MARKET COMMENTARY

► **WORLD MARKETS ARE MOSTLY HIGHER THIS MORNING** as Asian bourses for the most part were "flat-to-lower", with the Eurozone markets have begun to focus on Thursday's ECB monetary policy meeting and the subsequent decision. There is a growing chorus of voices that believe the ECB will move to lower the o/n refinancing rate from 0.50% to 0.25%; and this is in response to concerns that deflation is starting to gain a toehold in Europe. There are further hopes that the committee will move to inject further funds into the banking system; and there are some who have even higher aspirations for the ECB – those that "hope" it shall embark upon a QE-style move to begin a bond-buying campaign. The fact of the matter is that if anything is done on Thursday...it will be to simply lower the o/n refinancing rate to 0.25%, for the ECB rarely if ever

"FORECAST"

STOCKS: The world economy is muddling through: the "sequestration" and continued Congressional argument regarding government closures and "debt ceilings" are clear headwinds to the US economy; while China is showing signs of trying to cool inflation. The Eurozone remains mired in "inaction", although showing nascent 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. But, the QE pillars continue to hold prices higher than in non-QE times.

STRATEGY: The S&P 500 remains above the 160-wma long-term support level at 1397; and the standard 200-dma support level at 1621. But perhaps more importantly, the distance above the 160-wma has regained the +23%/+25% zone that denotes a "bubble-like rally" threshold. If it expands towards 30%, then an upside explosion may be under way.

gets out in front of a situation – simply liking to combat situations from behind.

► **US ECONOMIC FRONT:** Today, we'll see two Factory Orders reports released for August and September; this due to the government shut-down. The consensus tells us August should be flat at 0.0%, with September's figure rising +1.8%. Outside of this, there is nothing else of consequence on the docket. But let us note here, the October US Employment Situation Report is due out on Friday, and the preliminary estimates are for the overall non-farm payroll number is +125k...a very paltry figure indeed.

► **TRADING STRATEGY:** Nothing has changed whatsoever. The S&P stretched above overhead trendline resistance, with other indices stretched as well – especially the Russell

OVERNIGHT PRICES

Quotes at: 8:17am EST

INDEX		LAST	DAILY CHG	CHG %	YTD	YTD %
Morning Futures						
S&P 500	up	1,760.00	5.25			
Nasdaq 100	up	3,382.50	14.50			
10-year Note Yield	up	2.62%	+0.0 bps			
Crude Oil	down	\$ 94.26	\$ (0.35)			
Euro €	up	1.3505	0.0012			
Yen ¥	up	1.0136	0.0009			
Gold	up	\$ 1,319.30	\$ 6.10			
Foreign Indices						
Japan Nikkei 225	down	14,202	-126.4	-0.88%	3,806	36.62%
SSE China Composite	up	2,150	0.0	0.00%	-119	-5.25%
German DAX	up	9,041	33.4	0.37%	1,429	18.77%
Spain Madrid General	up	1,006	4.0	0.40%	181	21.94%
Italy FTSE MIB	up	19,288	124.1	0.65%	3,015	18.53%
US Indices						
Dow Industrials	up	15,616	70.0	0.45%	2,512	19.17%
Nasdaq 100	up	2,984	2.0	0.07%	323	12.14%
S&P 500 Large-Cap	up	1,762	5.1	0.29%	335	23.52%
S&P 400 Mid-Cap	up	1,291	1.5	0.12%	270	26.49%
S&P 600 Small-Cap	down	627	-2.6	-0.41%	150	31.50%

CAPITAL MARKET COMMENTARY

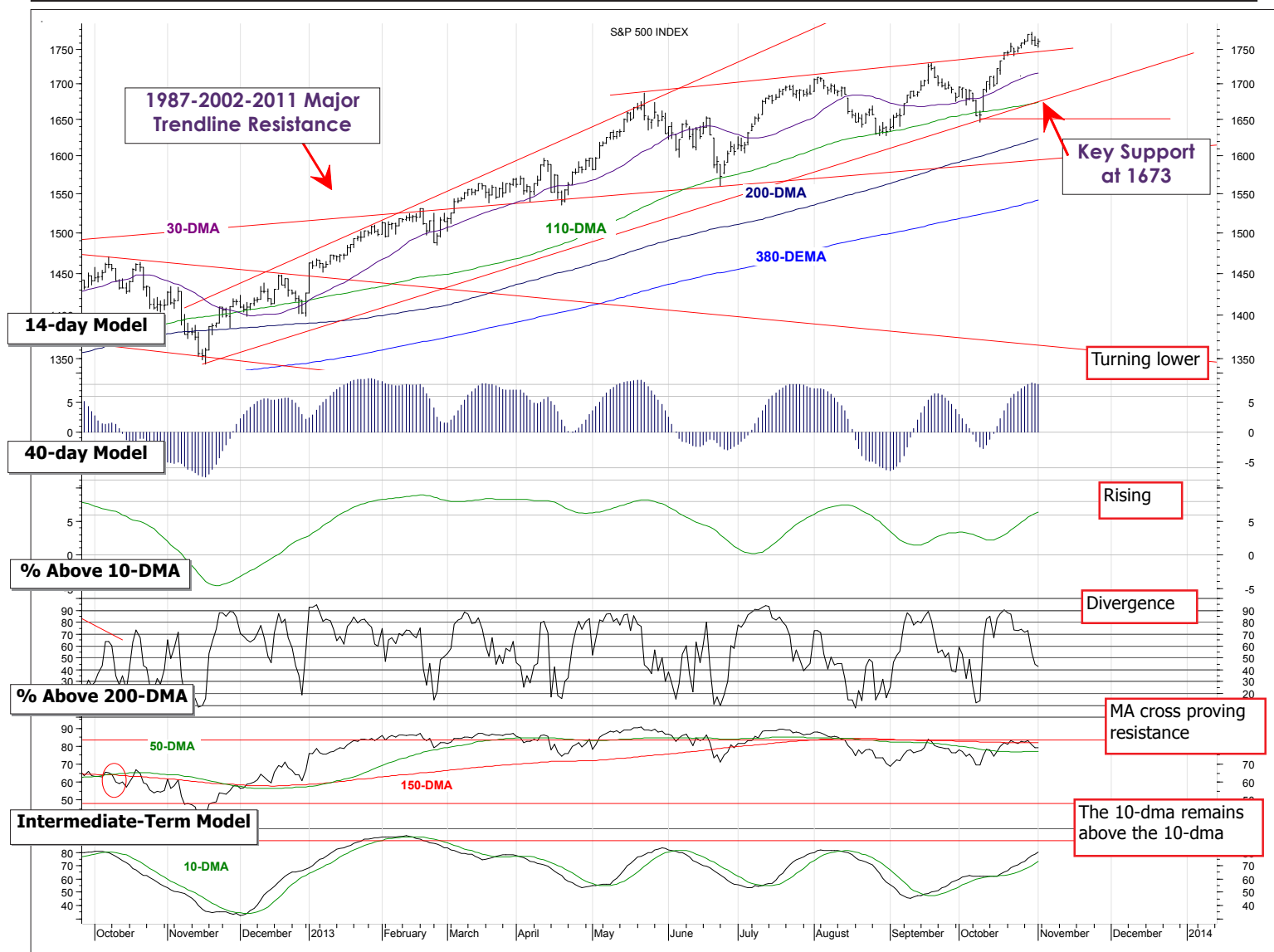
Gold Futures (Daily) "A Consolidation to Lower Levels??"



on a daily basis given has faltered overhead trendline resistance and appears likely to test rising trendline support and perhaps the 95-day moving average. On a weekly basis, the Russell is 46% above its 400-week exponential moving average, which is down from 52%. In the past, anything over 50% has ultimately led to a correction of some proportion, and looks like the case at this point. This doesn't mean it can't go higher in the interim, but it is unlikely and the risk-reward is skewed towards selling rather than aggressive buying.

As far as adding additional short positions to the Short Corner, or more long positions to the Institutional Model Portfolio – we are sitting tight for now. We do see some longer-term positions in the energy sector we may add on a long-term basis to the IMP, and as for short positions – it is likely we'll look to add some of the recent high flyers as the market begins to show us that a correction is in process.

S&P 500 INDEX/ BROAD MKT INDICATORS



S&P 500 TECHNICAL COMMENTS

➔ NOTHING HAS CHANGED REGARDING A TOP:

A “throw over” of trendline resistance is where prices stand at this moment. Thus, the risk-reward is skewed towards a correction back towards the 110-dma at current at 1671, of which a clear breakdown would accelerate the decline towards the wide 200-dma and 380-dema range between 1620-1537.

At this point, the % of stocks above their 10-dma is showing a major divergence, which means fewer stocks are participating, and suggestive of a correction. But, the 14-day and 40-day models are still rising — with the former looking like it is peaking. Too, the % of stocks above their 200-dma has forged lower lows, and is below its 150-dma...generally called a distribution phase.

➔ The 14-day and 40-day models are now rising. Now, the 14-day appears to be peaking, which would certainly indicate a correction is at hand.

➔ The % of stocks above their 10-dma is correcting from the 90% level; note divergence.

➔ The % of stocks above their 200-dma stands at 77%...down -1% 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 back above the 10-dma; and moving to levels that in the past have seen it stall, peak and turn lower.

SHORT CORNER

No.	Trade Date	POS	Name	SYM	Beta	Entry Price	Current Price	Percent P/L	Stop Loss Point	TARGET	EARN DATE
1	7/8/13	L	Crude Oil 2x Short	SCO	(0.78)	\$ 31.90	\$ 34.37	7.8%	\$ - "H"	\$ 61.00	N/A
2	8/9/13	L	30-yr Bond Yield 2x Short	TMF	(0.13)	\$ 48.88	\$ 48.90	0.0%	\$ - "H"	\$ 62.00	N/A
3	8/15/13	L	Russell 2000 2x Short	TWM	(1.29)	\$ 15.96	\$ 13.82	-13.4%	\$ - "H"	\$ 19.00	N/A
4	10/31/13	S	Tesla	TSLA	0.06	\$ 157.87	\$ 162.17	-2.7%	\$ - "H"	\$ 101.00	N/A
5			N/A			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
6			N/A			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
7			N/A			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
8			N/A			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
9			N/A			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
10			N/A			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
11			N/A			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
12			N/A			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
13			N/A			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
14			N/A			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
15			N/A			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
TOTAL					(2.13)				<" Denotes Change		

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."

COMMENTS:

None.

TRADE ORDERS/EXECUTIONS:

1. None.

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MODEL PORTFOLIO POSITIONS I

Crude Oil 2x Short

SCO

Last: \$ 34.37 TGT: \$ 61.00
Entry: \$ 31.90 STP: \$ -



30-yr Bond Yield 2x Short

TMF

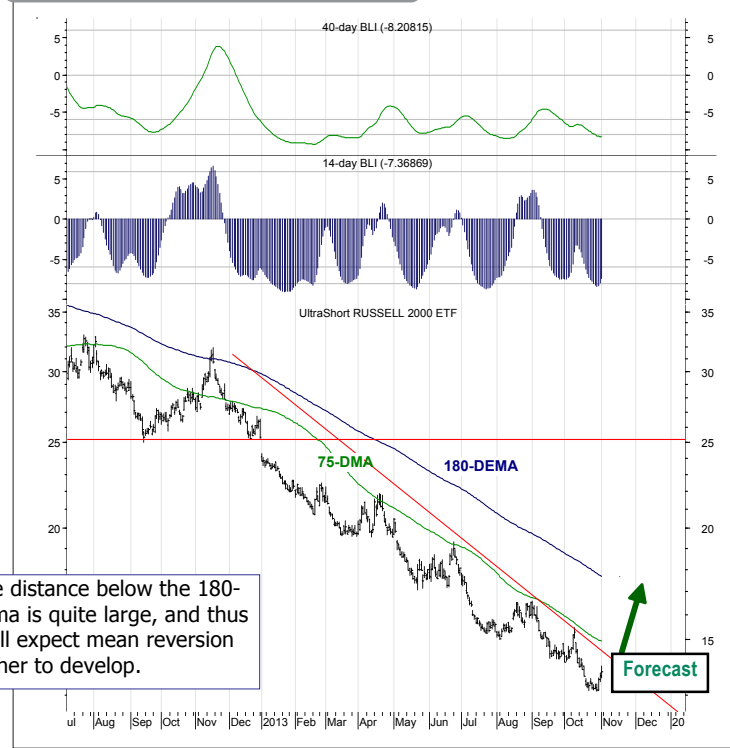
Last: \$ 48.90 TGT: \$ 62.00
Entry: \$ 48.88 STP: \$ -



Russell 2000 2x Short

TWM

Last: \$ 13.82 TGT: \$ 19.00
Entry: \$ 15.96 STP: \$ -



Tesla

TSLA

Last: \$ 162.17 TGT: \$ 101.00
Entry: \$ 157.87 STP: \$ -



INSTITUTIONAL MODEL PORTFOLIO

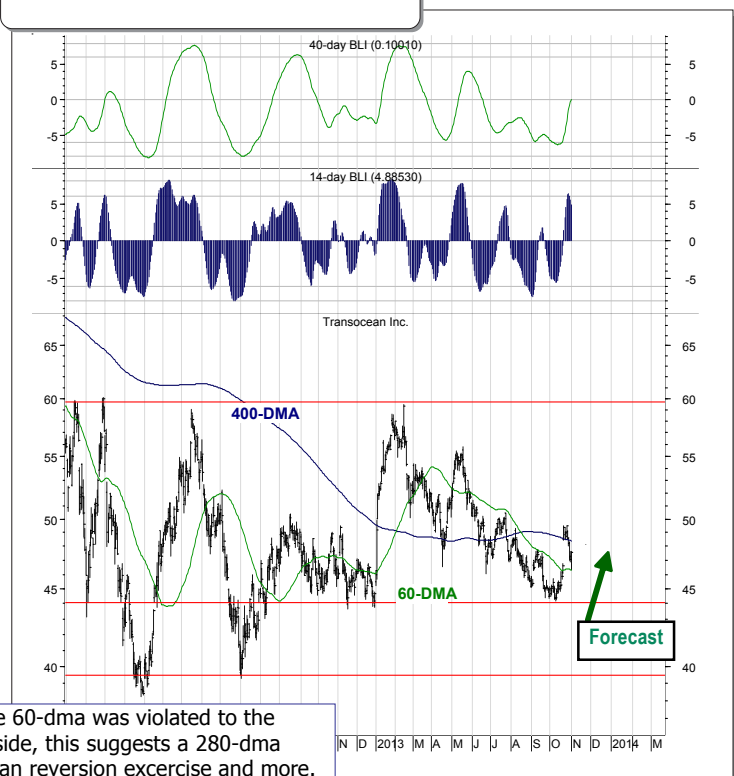
No.	Date	Company	Ticker	Sector	Sub-Industry	Port %	Port Sector %	Current Yield	Beta	Entry Price	Current Price	Total	Unrealized P/L	Percent P/L	STP
1	10/22/13	Transocean	RIG	Energy	Oil & Gas Drilling	2.9%		4.9%	2.00	\$ 48.98	\$ 47.56	\$ 291,362	\$ (8,669)	-2.9%	\$ 39.30
2	10/24/13	Arch Coal	ACI	Energy	Coal	3.2%		3.1%	2.03	\$ 4.06	\$ 4.29	\$ 316,992	\$ 16,995	5.7%	\$ 3.20
3						0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
4				Materials		0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
5						0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
6						0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
7				Industrials		0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
8						0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
9						0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
10				Cons. Discretionary		0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
11						0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
12						0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
13				Cons. Staples		0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
14						0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
15						0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
16	10/30/13	Teva Pharma	TEVA	Healthcare	Pharmaceuticals	2.7%		2.6%	98.0%	\$ 41.01	\$ 37.12	\$ 271,683	\$ (28,434)	-9.5%	\$ -
17						0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
18						0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
19				Financials		0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
20						0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
21						0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
22				Info Technology		0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
23						0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
24						0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
25				Telecom		0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
26						0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
27						0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
28				Utilities		0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
29						0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
30						0.0%				\$ -	\$ -	\$ -	\$ -	0.0%	\$ -
TOTAL												\$ 880,037	\$ (20,108)		\$ <= Denote

Comments:

1. None.

INSTITUTIONAL MODEL PORTFOLIO I

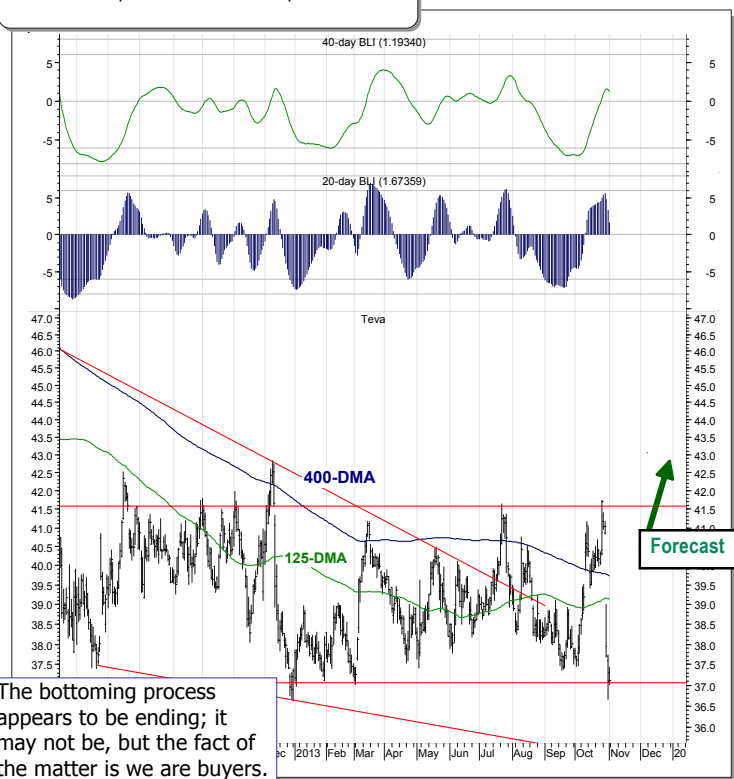
Transocean **RIG**
Last: \$ 48.96 \$ (0.39)



Arch Coal **ACI**
Last: \$ 4.29 \$ 0.05



Teva Pharm **TEVA**
Last: \$ 37.12 \$ 0.03



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.