



THE RHODES REPORT

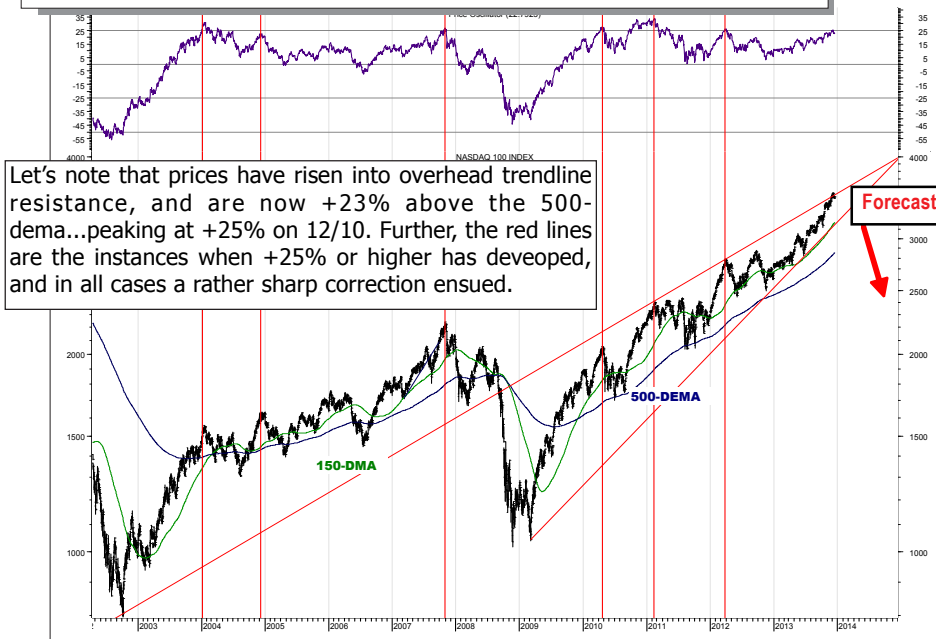
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WEDNESDAY – DECEMBER 18, 2013

NASDAQ 100 Index (Daily) "Stretched and into Major Resistance"



back to 3rd week of October. Remember, this is the most seasonally strong periods. Now, if the 1800 level is violated to the upside from the current 1782, then the prospects of higher prices increases; but if the recent lows at 1764 are violated...then lower prices are forthcoming. This is the range we must take into consideration.

Also of interest is the NASDAQ 100 Index chart featured today. Note that the index tends to "top out" at or above the +25% level, with a majority of the occurrences leading to a sharp correction. Certainly the circumstances are ripe for just such an outcome, but it may be delayed if prices move still higher. Note the overhead trendline resistance off the 2002 lows and 2012 highs – hence any gains are likely to be very modest, while the risk of a correction is very high.

CAPITAL MARKET COMMENTARY

► **WORLD MARKETS ARE BROADLY HIGHER**, but we should caution that volume has fallen to very low levels as many market participants are on extended coffee or tea breaks in lieu of this afternoon's 2:00pm ET FOMC decision. This is perhaps the most anticipated "taper call" since the October surprise by the FOMC "not to taper." The Committee has another opportunity to do so to put to rest speculation of a "taper", but they very well may say that another several months of data is required. PIMCO's El-Erian puts the odds of a "taper" today at 60%, and if not today, then a much higher percentage in January, and if not then...then a virtual certainty in March. The point is...its coming.

TRADING STRATEGY: The S&P futures are modestly higher this morning, but they are trading at levels that go

"FORECAST"

STOCKS: The world economy is has begun to heal if we look at the PMI figures across the world; however, there remain clear headwinds to the continuation of this healing...like potentially higher interest rates. 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 would be seen in non-QE times.

STRATEGY: The S&P 500 remains above the 160-wma long-term support level at 1415; and the standard 200-dma support level at 1652. But perhaps more importantly, the distance above the 160-wma has regained the +27% level that denotes a "bubble-like rally" threshold. If it expands towards 30%, then an upside explosion may be under way.

OVERNIGHT PRICES

Quotes at: 7:33am EST

INDEX		LAST	DAILY CHG	CHG %	YTD	YTD %
Morning Futures						
S&P 500	up	1,776.50	3.50			
Nasdaq 100	up	3,464.75	4.25			
10-year Note Yield	up	2.84%	0.0 bps			
Crude Oil	up	\$ 97.51	\$ 0.04			
Euro €	down	1.3750	-0.0015			
Yen ¥	down	0.9715	-0.0025			
Gold	up	\$ 1,231.80	\$ 1.70			
Foreign Indices						
Japan Nikkei 225	up	15,588	309.2	2.02%	5,193	49.95%
SSE China Composite	down	2,148	-3.0	-0.14%	-121	-5.34%
German DAX	up	9,176	90.9	1.00%	1,564	20.54%
Spain Madrid General	up	964	11.0	1.15%	139	16.85%
Italy FTSE MIB	up	18,126	201.3	1.12%	1,853	11.39%
US Indices						
Dow Industrials	down	15,875	-9.0	-0.06%	2,771	21.15%
Nasdaq 100	down	2,984	-6.5	-0.22%	323	12.14%
S&P 500 Large-Cap	down	1,781	-5.5	-0.31%	355	24.88%
S&P 400 Mid-Cap	down	1,299	-0.4	-0.03%	279	27.32%
S&P 600 Small-Cap	down	643	-1.0	-0.16%	167	34.94%

S&P 500 INDEX/ BROAD MKT INDICATORS



S&P 500 TECHNICAL COMMENTS

➔ RISK REMAINS HIGH AT CURRENT LEVELS:

The risk-reward remains skewed to the downside regardless of whether prices remain above trendline resistance, as the model group suggests a correction to the 110-dma at current at 1719, of which a clear breakdown would accelerate the decline towards the wide 200-dma and 380-dema range between 1667-1579.

At this point, the % of stocks above their 10-dma and 200-dma continue to show major divergences, which means fewer stocks are participating in the rally, which is nearly always attached to -5% to -7% corrections at a minimum. Too, the models has now peaked and are turning lower, which in combination with the other models argues rather strongly for continued weakness. The overriding bullish December seasonal continues to modestly elevate prices.

➔ The 14-day and 40-day models are now trending lower, and are far from normal oversold levels. This continues to indicate a correction stands as the highest probability.

➔ The % of stocks above their 10-dma is at the 50%-level; which still puts it at a major divergence in prices.

➔ The % of stocks above their 200-dma stands at 74%...down -4% 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 continues to trade below the 10-dma; and trending still 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	(2.68)	\$ 31.90	\$ 32.65	2.4%	\$ - "H"	\$ 61.00	N/A
2	8/9/13	L	30-yr Bond Yield 2x Short	TMF	(1.22)	\$ 48.88	\$ 45.05	-7.8%	\$ - "H"	\$ 62.00	N/A
3	8/15/13	L	Russell 2000 2x Short	TWM	(2.39)	\$ 15.96	\$ 13.06	-18.2%	\$ - "H"	\$ 19.00	N/A
4	10/31/13	S	Tesla	TSLA	0.67	\$ 157.87	\$ 152.46	3.4%	\$ - "H"	\$ 110.00	N/A
5	11/14/13	S	Chipolte	CMG	0.55	\$ 539.49	\$ 512.64	5.0%	\$ - "H"	\$ 470.00	N/A
6	12/11/13	S	Google	GOOG	0.96	\$ 1,075.85	\$ 1,069.86	0.6%	\$ - "H"	\$ 930.00	N/A
7	12/11/13	S	Cooper Cameron	CAM	1.24	\$ 56.10	\$ 58.68	-4.6%	\$ - "H"	\$ 45.00	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					(0.41)				"<" 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:

1. None

TRADE ORDERS/EXECUTIONS:

1. None.

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SHORT CORNER I

Crude Oil 2x Short

SCO

Last: \$ 32.65 TGT: \$ 61.00
Entry: \$ 31.90 STP: \$ -



30-yr Bond Yield 2x Short

TMF

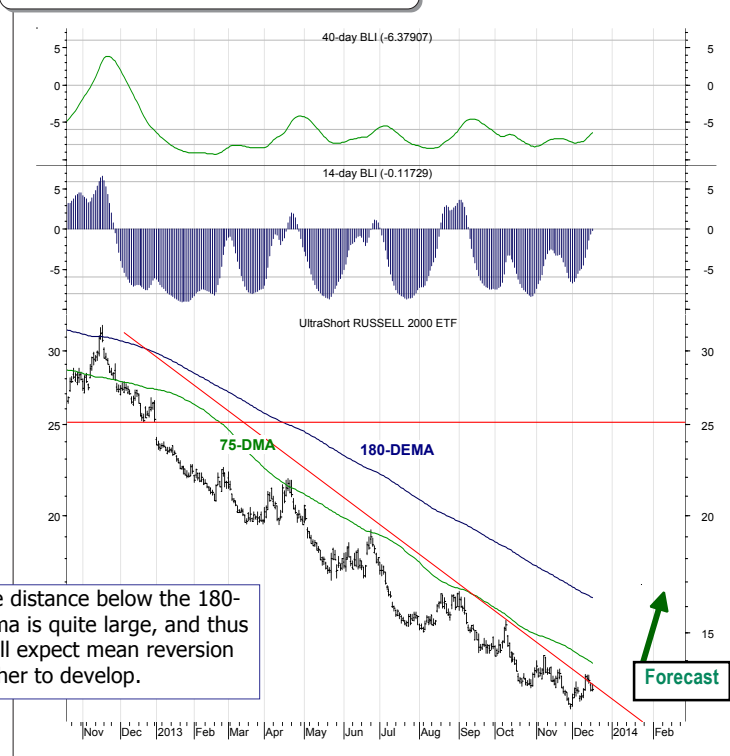
Last: \$ 45.05 TGT: \$ 62.00
Entry: \$ 48.88 STP: \$ -



Russell 2000 2x Short

TWM

Last: \$ 13.06 TGT: \$ 19.00
Entry: \$ 15.96 STP: \$ -



Tesla

TSLA

Last: \$ 152.46 TGT: \$ 110.00
Entry: \$ 157.87 STP: \$ -

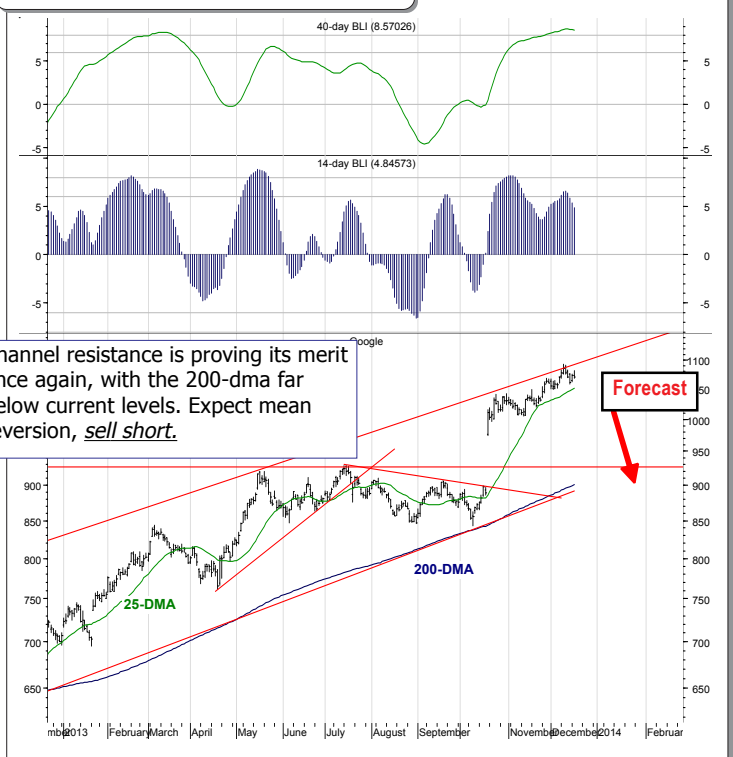


SHORT CORNER II

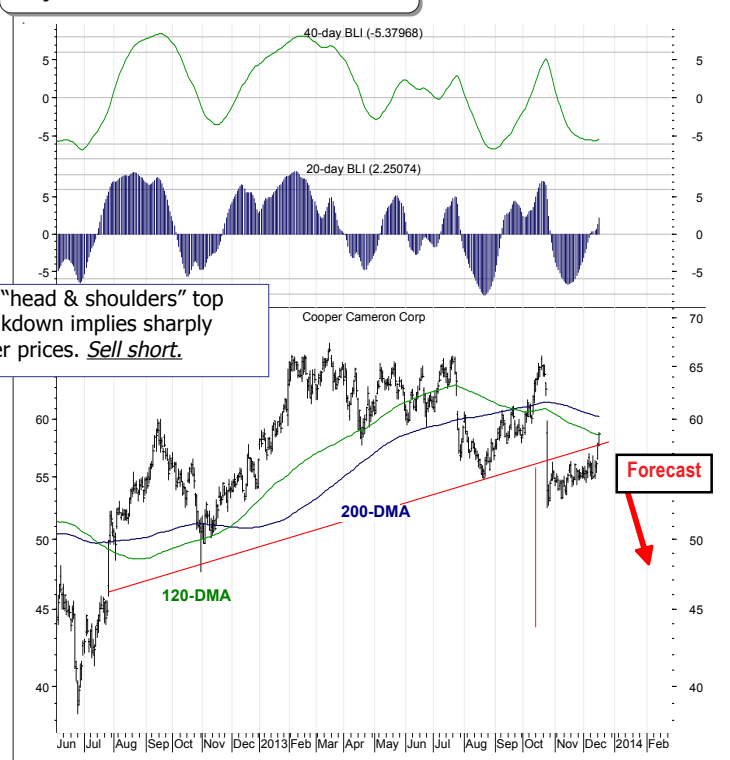
Chipotle **CMG**
Last: \$ 512.64 **TGT:** \$ 470.00
Entry: \$ 539.49 **STP:** \$ -



Google **GOOG**
Last: \$ 1,069.86 **TGT:** \$ 930.00
Entry: \$ 1,075.85 **STP:** \$ -



Cooper Cameron **CAM**
Last: \$ 58.68 **TGT:** \$ 45.00
Entry: \$ 56.10 **STP:** \$ -



NA **0**
Last: \$ - **TGT:** \$ -
Entry: \$ - **STP:** \$ -

INSTITUTIONAL MODEL PORTFOLIO

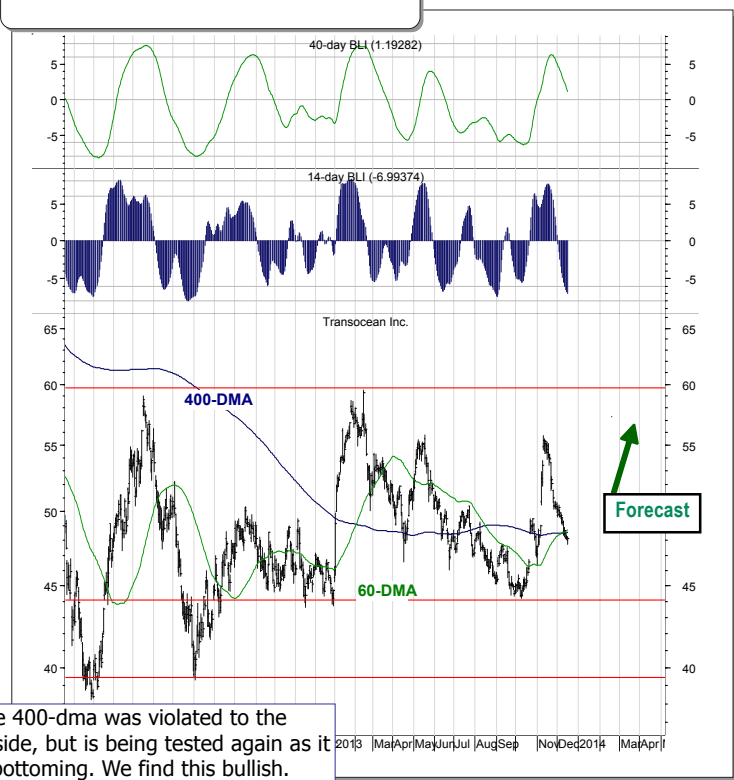
No.	Date	Company	Ticker	Sector	Sub-Industry	Port %	Yield	Beta	Entry Price	Current Price	Percent P/L	STP	TGT	Earnings Release
1	10/22/13	Transocean	RIG	Energy	Oil & Gas Drilling	3.0%	4.9%	2.00	\$ 48.98	\$ 48.13	-1.7%	\$ 39.30	\$ 85.00	N/A
2	10/24/13	Arch Coal	ACI	Energy	Coal	3.0%	3.1%	2.03	\$ 4.06	\$ 4.08	0.5%	\$ 3.20	\$ 15.00	N/A
3	11/21/13	Encana	ECA	Energy	Natural Gas	2.8%	1.5%	1.40	\$ 19.59	\$ 17.86	-8.8%	\$ 16.40	\$ 27.00	N/A
4				Materials		0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
5						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
6						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
7				Industrials		0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
8						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
9						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
10				Cons. Discretionary		0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
11						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
12						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
13				Cons. Staples		0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
14						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
15						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
16	10/30/13	Teva Pharma	TEVA	Healthcare	Pharaceuticals	2.9%	2.6%	0.98	\$ 41.01	\$ 39.84	-2.8%	\$ 36.25	\$ 65.00	N/A
17						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
18						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
19				Financials		0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
20						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
21						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
22				Info Technology		0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
23						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
24						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
25				Telecom		0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
26						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
27						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
28				Utilities		0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
29						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
30						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
31	11/18/13	China	FXI	Country ETF	Index	2.9%	2.4%	0.91	\$ 39.97	\$ 37.72	-5.6%	\$ -	\$ -	N/A
32						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
33						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
34						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
35						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
36						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
37						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
38						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
39						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
40						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
41						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
42						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
43						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
44						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
45						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
46						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
47						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
48						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
49						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
50						0.0%			\$ -	\$ -	0.0%	\$ -	\$ -	N/A
TOTAL											-0.6%			

TRADE ORDERS/EXECUTIONS:

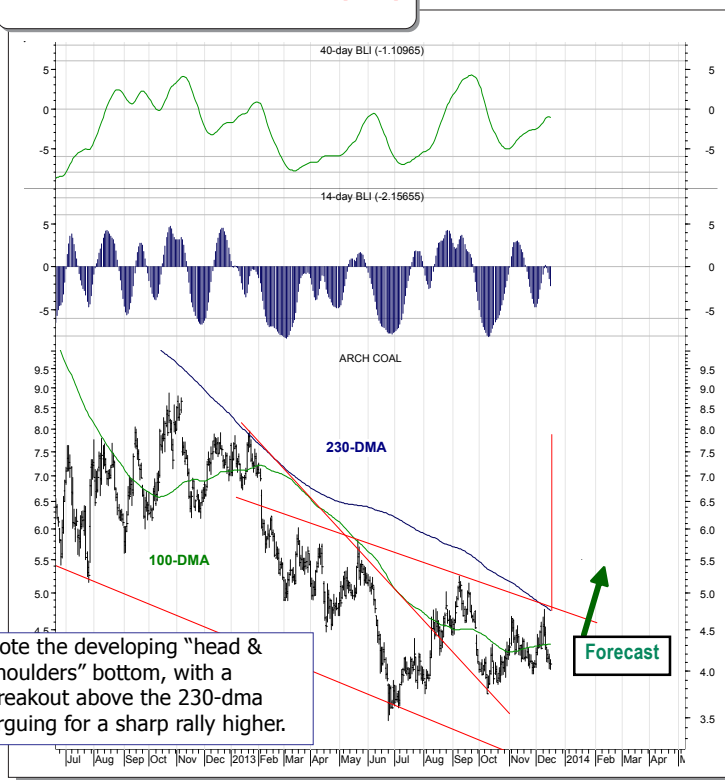
1. None.

INSTITUTIONAL MODEL PORTFOLIO I

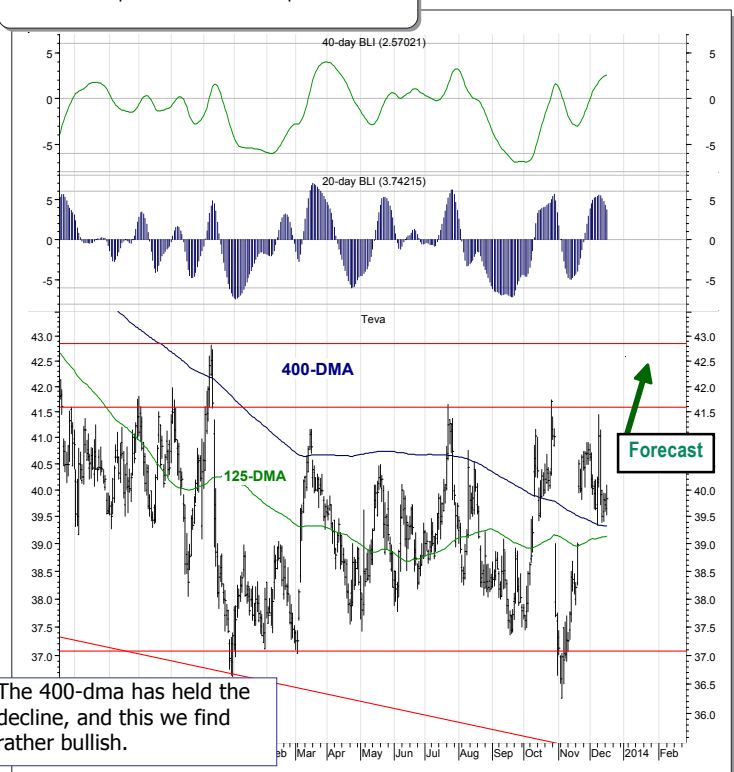
Transocean **RIG**
Last: \$ 48.13 \$ (0.39)



Arch Coal **ACI**
Last: \$ 4.08 \$ (0.01)



Teva Pharm **TEVA**
Last: \$ 39.84 \$ 0.12

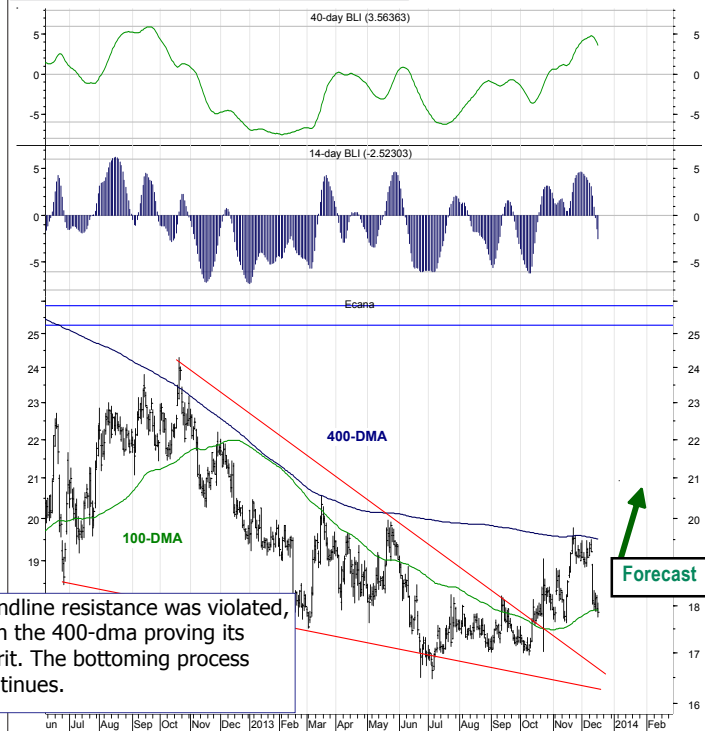


China ETF **FXI**
Last: \$ 37.72 \$ (0.65)



INSTITUTIONAL MODEL PORTFOLIO II

Encana		ECA	
Last:	\$ 17.86	\$ (0.08)	



NA		0	
Last:	\$ -	TGT:	\$ -
Entry:	\$ -	STP:	\$ -

NA		0	
Last:	\$ -	TGT:	\$ -
Entry:	\$ -	STP:	\$ -

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.