



THE RHODES REPORT

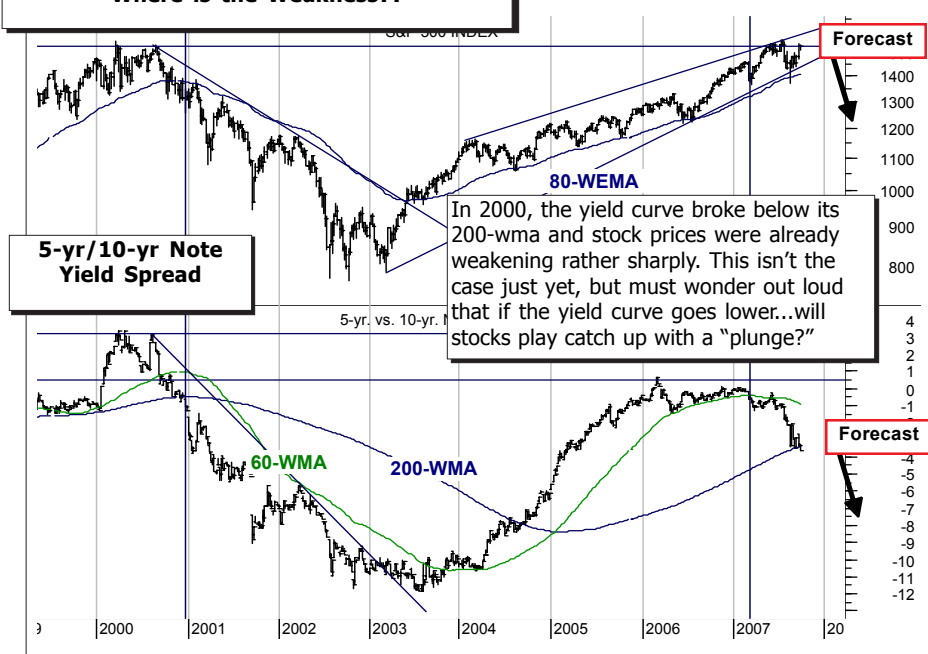
Telephone: 610-667-0360

Email: rhodesreport@gmail.com

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

THURSDAY – SEPTEMBER 27, 2007

S&P 500 vs Yield Curve Spread
"Where is the Weakness?"



"BOTTOMLINE SUMMARY"

STOCKS: The bullish S&P breakout above head & shoulders neckline resistance at 1496 targets 1600-1630; the time frame horizon remains October-December. Once 1556 is cleared, we'll look closely at the advance/decline line and small and mid caps indices to see if it confirms new highs; a classic divergence at new highs would warn of impending weakness. We continue to forecast a recession beginning by1Q-2008.

STRATEGY: We continue to like long positions in the biotech and selected oil & gas driller plays as traders have shown a propensity to "gravitate" towards these areas given continued strong relatively low prices and increased earnings power. However, that said, we can find quite a few oil service issues that warrant our attention from the short perspective; we'll also include the basic materials sector as well. We aren't ready yet to put these on en masse, but consider us very interested.

should continue to see European bourses under-perform both Asian and US indexes.

As for commodity prices – they are on balance higher; this is due to the lower US dollar this morning against all the major currencies. Energy prices are sharply higher due to the tropical storm in the Gulf of Mexico; metal prices are higher; grain prices are higher. There is very little of consequence that is trading lower...except for natural gas and platinum. Too, the Euro/Yen cross rate is rising...indicating that risk can be put on; that the 'yen carry-trade' is alive and well and expanding once again. Hence...all is as it should be in the eyes of traders.

➔ **WE REMAIN CONSISTENT...OUR STANCE HASN'T CHANGED:** On a short-term basis, we continue to note the bullish hourly S&P 500 "head & shoulder" pattern confirmed

continued next page

CAPITAL MARKET COMMENTARY

➔ **STOCK PRICES ARE RISING AROUND THE WORLD THIS MORNING** as we can find no major index or bourse that is lower. Asian shares certainly take the limelight this morning, with sharp gains across the board; both Japan and Hong Kong bourses were higher by +2.4% – the former's strength ostensibly related to the election of new Prime Minister Fukuda and the hope that reform will continue and actually increase. Certainly Mr. Fukuda has the opportunity to do so; hence the strong rise in Japanese stocks. We'll cull our Japanese ADRs today; and look to add long positions perhaps in the days ahead.

In Europe, the major bourses are higher on average by +0.7%...give or take a tenth of a percent; and if we must attribute this relative weakness to Asian bourses – it would clearly come down squarely upon the back of a higher Euro currency...which has moved to new all-time highs near 1.42. We can certainly expect to see European politicians start to make "noise" concerning the Euro's strength; with those concerns falling on deaf ears we are afraid. As a result, we

OVERNIGHT PRICES

Quotes as of: 7:51am EST

INDEX		LAST	CHG	% CHG	YTD	YTD % CHG
Morning Futures						
S&P 500	up	1,541.10	4.90	0.31%		
Nasdaq Composite	up	2,119.00	9.50	0.45%		
10-year Note Yield	up	4.612%	-0.8 bps	-0.17%		
Crude Oil	up	\$ 81.17	\$ 0.87	1.05%		
€ Euro	up	1.4196	0.0041	0.29%		
¥ Yen	up	0.8754	0.0008	0.09%		
Gold	up	\$ 740.50	\$ 5.00	0.68%		
Foreign Indices						
FTSE 100 Index	up	6,485	51.7	0.80%	264	4.24%
German DAX	up	7,845	40.5	0.52%	1,248	18.91%
French CAC	up	5,730	39.3	0.69%	188	3.40%
Japan Nikkei 225	up	16,832	396.5	2.41%	-394	-2.28%
Korea KOSPI	up	1,945	26.0	1.36%	511	35.61%
HK Hang Seng	up	27,065	634.9	2.40%	7,100	35.56%
Mexico IPC	up	30,303	8.4	0.03%	3,855	14.58%
Brazil Bovespa	up	59,715	857.1	1.46%	15,275	34.37%
US Indices						
Dow Industrials	up	13,878	99.5	0.72%	1,415	11.35%
Nasdaq Composite	up	2,699	15.6	0.58%	284	11.75%
S&P 500 Large-Cap	up	1,525	8.2	0.54%	107	7.55%
S&P 400 Mid-Cap	up	881	6.5	0.75%	77	9.54%
S&P 600 Small-Cap	up	426	3.0	0.72%	26	6.39%
Russell 2000	up	809	6.1	0.76%	21	2.72%

CAPITAL MARKET COMMENTARY

breakout above 1496; which targets the 1630 level. Prices have consolidated their recent gains over the past few days in what we perceive to be a bullish fashion – hence we suspect a resumption of the uptrend began with yesterday's surge. However, as prices do rise – we do expect the rally to become narrower and narrower. Currently – and after the Fed's rate cut last week, we have seen the financials perform poorly; consumer discretionary shares perform nearly as poorly – and retail shares doing so as well. We, and everyone involved in the capital markets would have thought the rate cut would have spurred these shares higher given their oversold natures...that simply isn't the case. Technology and biotech are garnering quite a bit of the long activity; and we are starting to see weakness in the energy and materials sectors. We find this rather bearish from an intermediate-term basis – and suggests any new highs formed in the weeks or months ahead will be fleeting...and should be sold. This is our strategy; and we're sticking to it until the facts change. What those 'facts' are is yet to be known...but we'll know it when we see it.

in order of importance are 1pm EST, 5:30pm EST, 10:40am EST, and 8:30am EST.

➔ TODAY'S ECONOMIC AGENDA IS RATHER FULL:

The most important aspects of today's trade will be the release of the New Home Sales data at 10am; the consensus believes it fell to 830k annualized units from 870k. We would surmise it will be weaker than expected...perhaps only modestly though to 820k. Also, the Kansas City Fed manufacturing survey will garner some attention given the Chicago Fed manufacturing survey was expected to show positive gains...and actually declined. And finally, Fed Chairman Bernanke, Fed Governor Mishkin, Chicago Fed President Evans and Boston Fed President Rosengren all speak today at a globalization conference; the times respectively and

RECOMMENDATION SUMMARY

ORDERS: PTP — "Long Only" Portfolio

1: None.

EXECUTIONS: PTP — "Long Only" Portfolio

1: None.

ORDERS: PTP — "Long/Short" Portfolio

1: **Blue Coat Systems (BCSI)** — sell short 300 shares. Place the stop loss at \$91.00.

EXECUTIONS: PTP — "Long/Short" Portfolio

1: **Microsoft (MSFT)** — bought 1000 shares at \$29.65.

S&P 1500 INDEX/ BROAD MKT INDICATORS

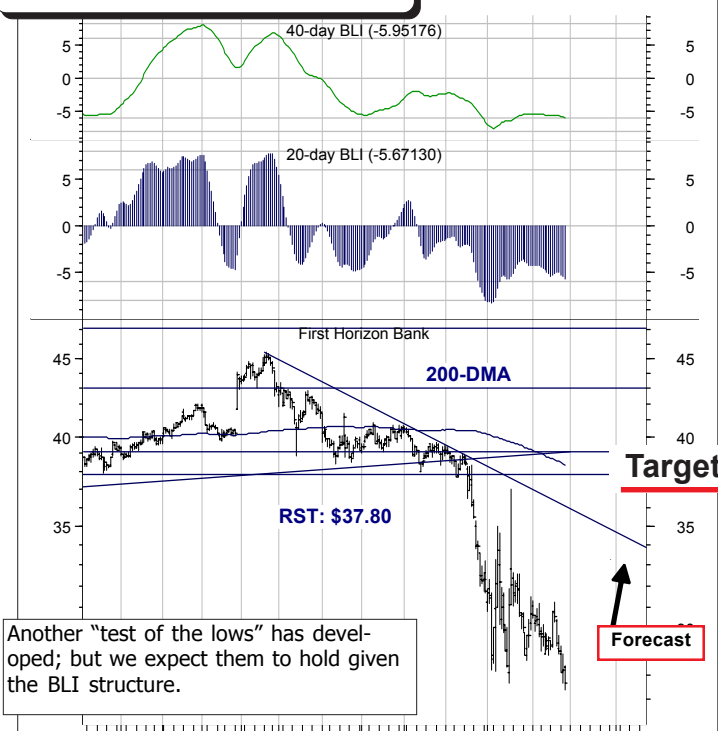


PTP "LONG ONLY" PORTFOLIO [I]

W&T Offshore **WTI**
 Last: \$ 24.19 TGT: \$ 31.00
 Entry: \$ 23.16 STP: \$ 23.16



First Horizon **FHN**
 Last: \$ 27.66 TGT: \$ 37.00
 Entry: \$ 29.72 STP: \$ 26.50



Pfizer **PFE**
 Last: \$ 24.58 TGT: \$ 26.50
 Entry: \$ 24.05 STP: \$ 24.05



Cimarex **XEC**
 Last: \$ 37.05 TGT: \$ 43.00
 Entry: \$ 38.04 STP: \$ 35.00



PTP "LONG ONLY" PORTFOLIO [II]

Yahoo! **YHOO**
Last: \$ 26.70 **TGT:** \$ 28.00
Entry: \$ 24.98 **STP:** \$ 22.40



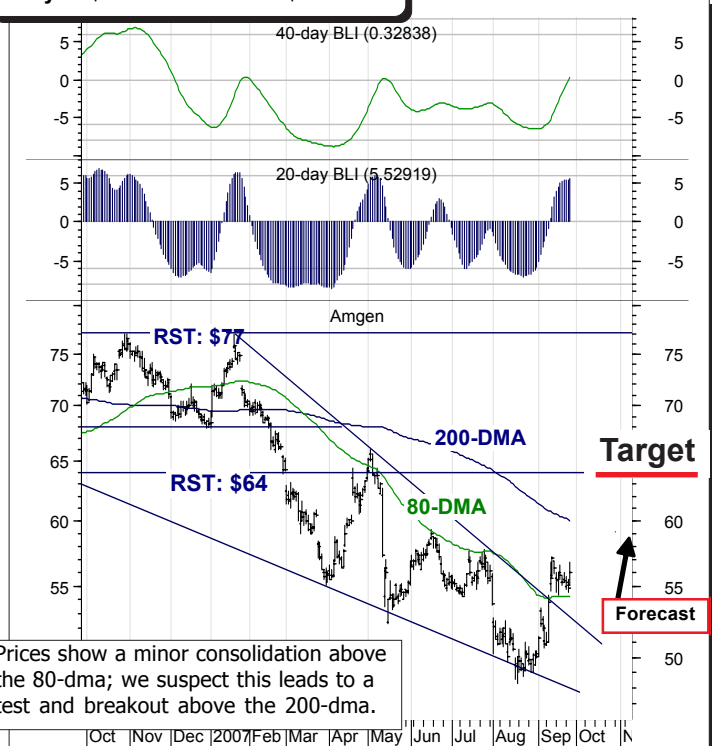
Major support held; now the 200-dma is likely to be tested. We anticipate exiting our position at that point...for now.

Universal Health **UHS**
Last: \$ 53.01 **TGT:** \$ 57.50
Entry: \$ 53.48 **STP:** \$ 51.25



The spike off the lows consolidated in bullish fashion; perhaps yesterday's really is the beginning of the move higher towards overhead resistance.

Amgen **AMGN**
Last: \$ 56.08 **TGT:** \$ 63.00
Entry: \$ 55.50 **STP:** \$ 53.95

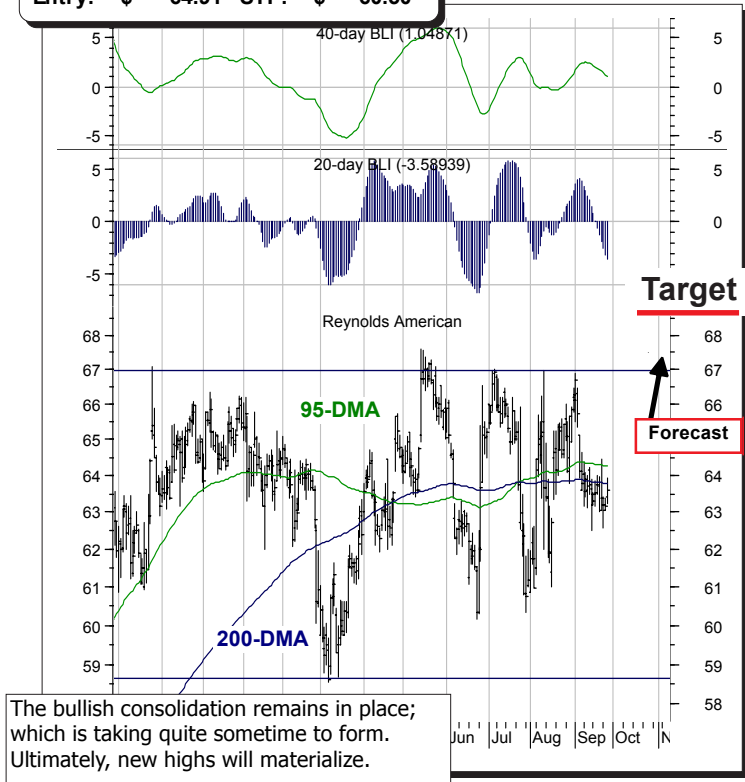


Prices show a minor consolidation above the 80-dma; we suspect this leads to a test and breakout above the 200-dma.

N/A **0**
Last: \$ - **TGT:** \$ -
Entry: \$ - **STP:** \$ -

PTP "LONG / SHORT" PORTFOLIO [I]

Reynolds American RAI
 Last: \$ 63.60 TGT: \$ 72.00
 Entry: \$ 64.91 STP: \$ 60.50



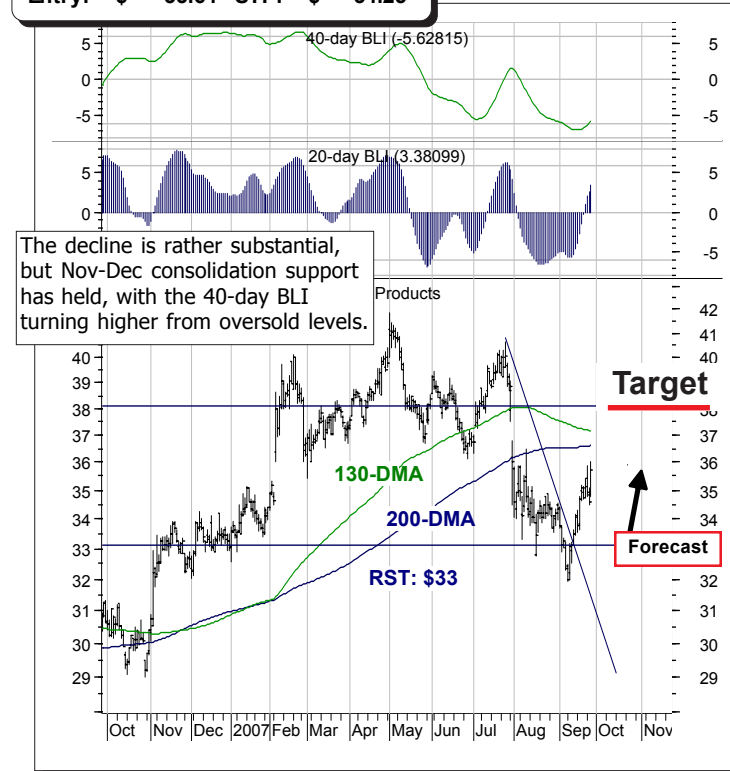
Region's Financial RF
 Last: \$ 29.57 TGT: \$ 35.00
 Entry: \$ 32.24 STP: \$ 29.00



Pioneer Drilling PDC
 Last: \$ 12.44 TGT: \$ 14.50
 Entry: \$ 12.28 STP: \$ 11.75



Avon Products AVP
 Last: \$ 35.73 TGT: \$ 38.00
 Entry: \$ 33.64 STP: \$ 34.25



PTP "LONG / SHORT" PORTFOLIO [II]

Savient Pharma SVNT
 Last: \$ 15.44 TGT: \$ 17.00
 Entry: \$ 13.27 STP: \$ 14.50



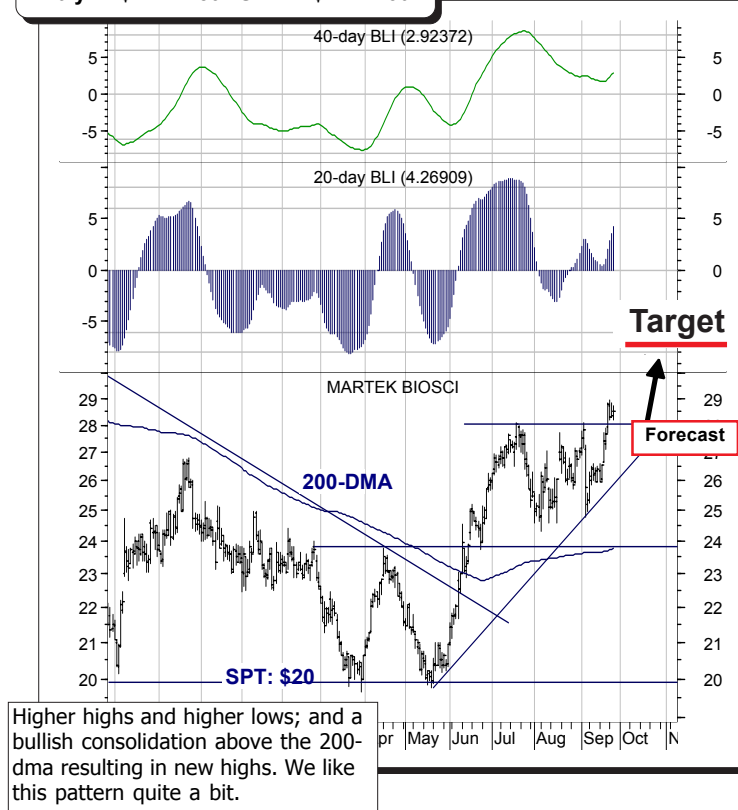
Freeport-McMoran FCX
 Last: \$ 103.91 TGT: \$ 85.00
 Entry: \$ 107.20 STP: \$ 118.00



Tidewater TDW
 Last: \$ 64.00 TGT: \$ 75.00
 Entry: \$ 67.28 STP: \$ 62.15



Martek MATK
 Last: \$ 28.50 TGT: \$ 32.00
 Entry: \$ 27.86 STP: \$ 27.50



PTP "LONG / SHORT" PORTFOLIO [III]

Norfolk Southern	NSC
Last: \$ 51.93	TGT: \$ 45.00
Entry: \$ 51.13	STP: \$ 54.00



Microsoft	MSFT
Last: \$ 29.50	TGT: \$ 34.00
Entry: \$ 29.65	STP: \$ 28.25



N/A	0
Last: \$ -	TGT: \$ -
Entry: \$ -	STP: \$ -

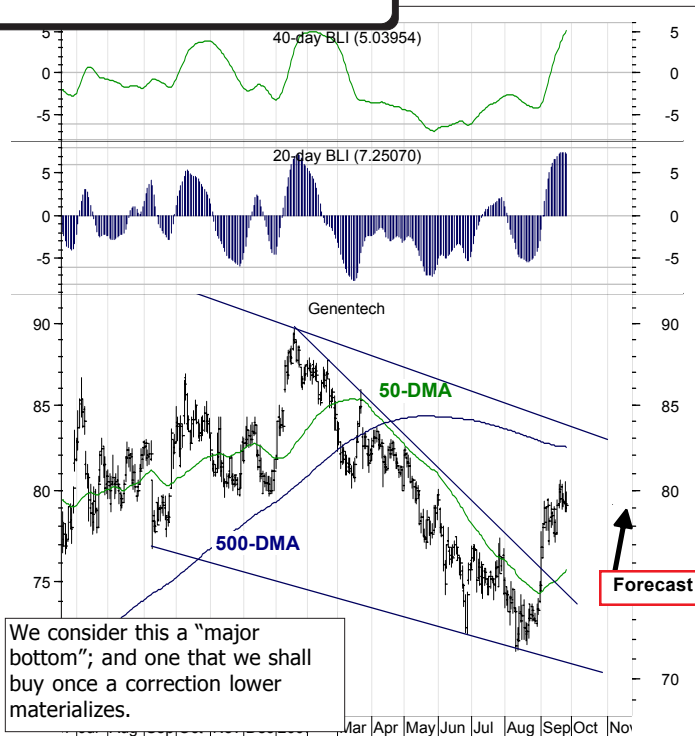
N/A	0
Last: \$ -	TGT: \$ -
Entry: \$ -	STP: \$ -

STOCKWATCH HOLDING AREA – LONG POSITIONS

UST Inc. UST
Last: \$ 29.56



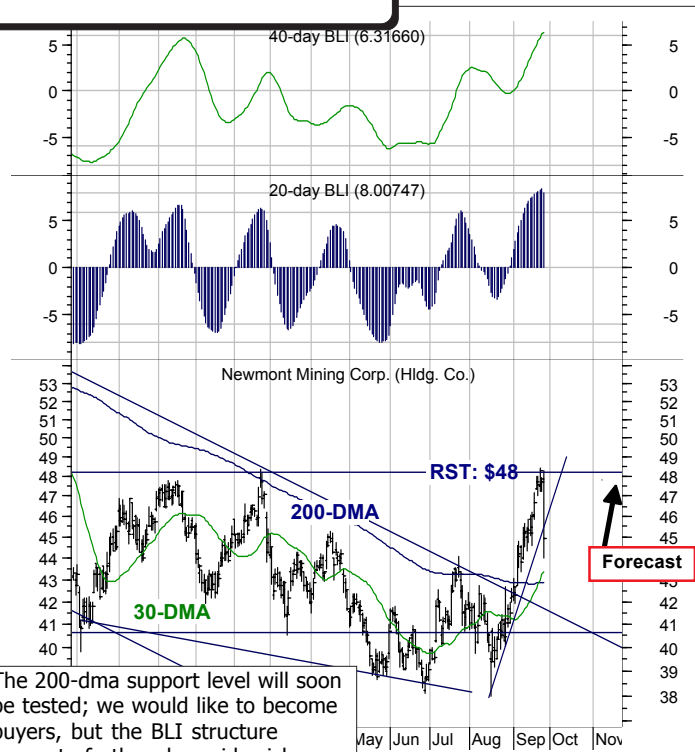
Genentech DNA
Last: \$ 79.19



Gencorp GY
Last: \$ 11.99



Newmont Mining NEM
Last: \$ 44.90

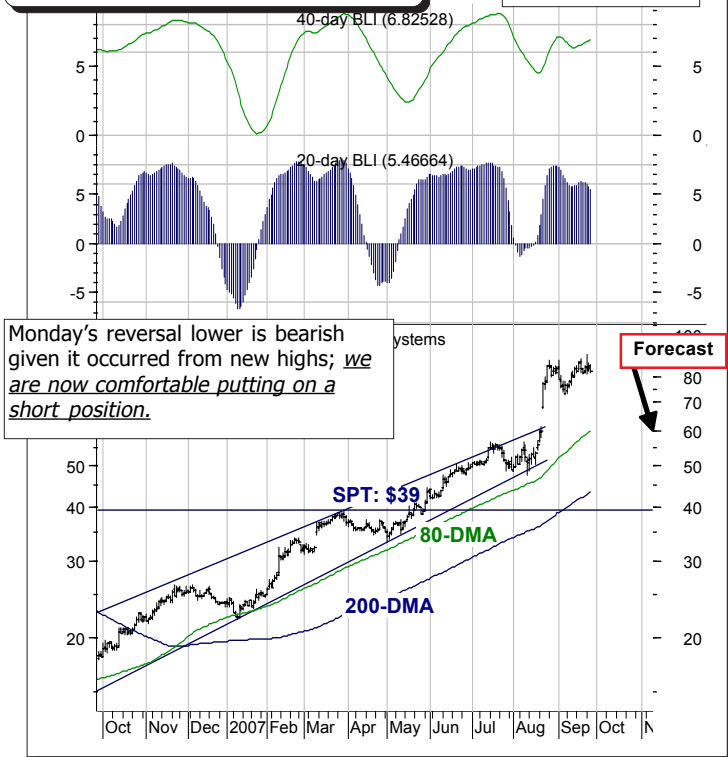


STOCKWATCH HOLDING AREA – SHORT POSITIONS

Blue Coat Systems BCSI

Last: \$ 82.05

**TRADE:
SELL SHORT**



Conoco-Philips COP

Last: \$ 87.30



IBM IBM

Last: \$ 117.30



Schlumberger SLB

Last: \$ 103.00

