

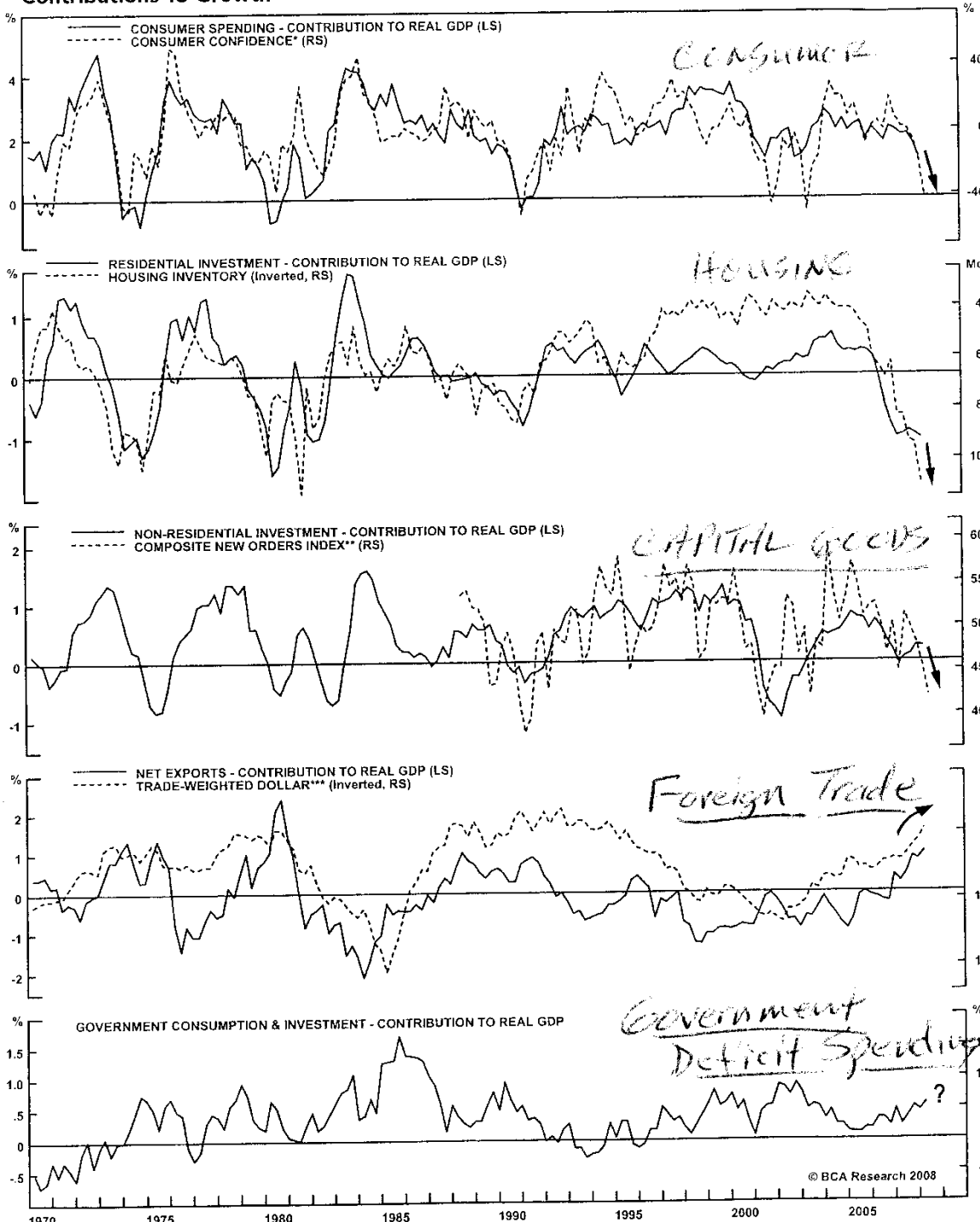
# THE FULL HOUSE TRADER MONTHLY FORECAST

May 2008 Edition  
May 15, 2008



... without Foreign Trade + Government Deficits (from tax cuts), the economy would be deep in the tank

CHART 4 Contributions To Growth



NEGATIVE

DEEPEST NEGATIVE IN 30 YEARS

NEGATIVE

POSITIVE

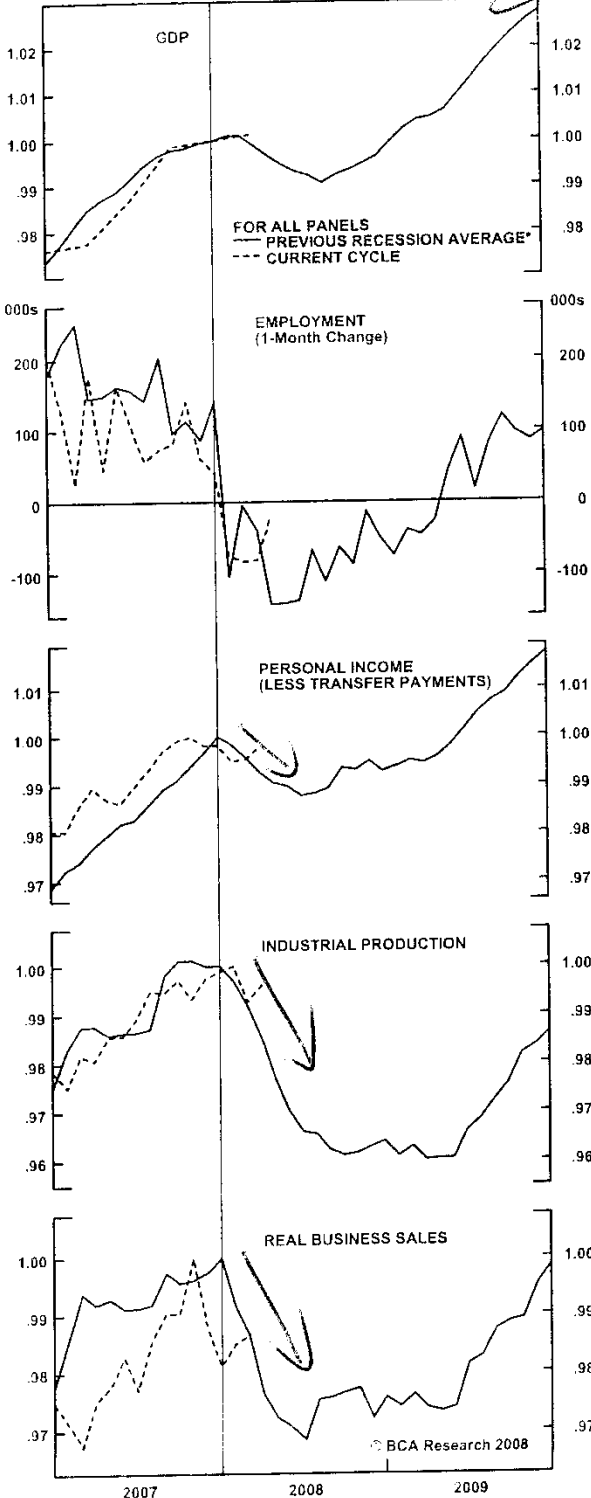
POSITIVE

3

NOTE: ALL CONTRIBUTIONS TO GDP ARE SHOWN AS A 4 QUARTER MOVING AVERAGE  
 \*SOURCE: THE CONFERENCE BOARD, SHOWN AS ANNUAL CHANGE IN CONFIDENCE, ADVANCED BY 3 MONTHS  
 \*\*AVERAGE OF ISM, CHICAGO, AND NFIB NEW ORDERS SURVEYS, ADVANCED BY 3 MONTHS  
 \*\*\*SOURCE: JP MORGAN CHASE & CO.

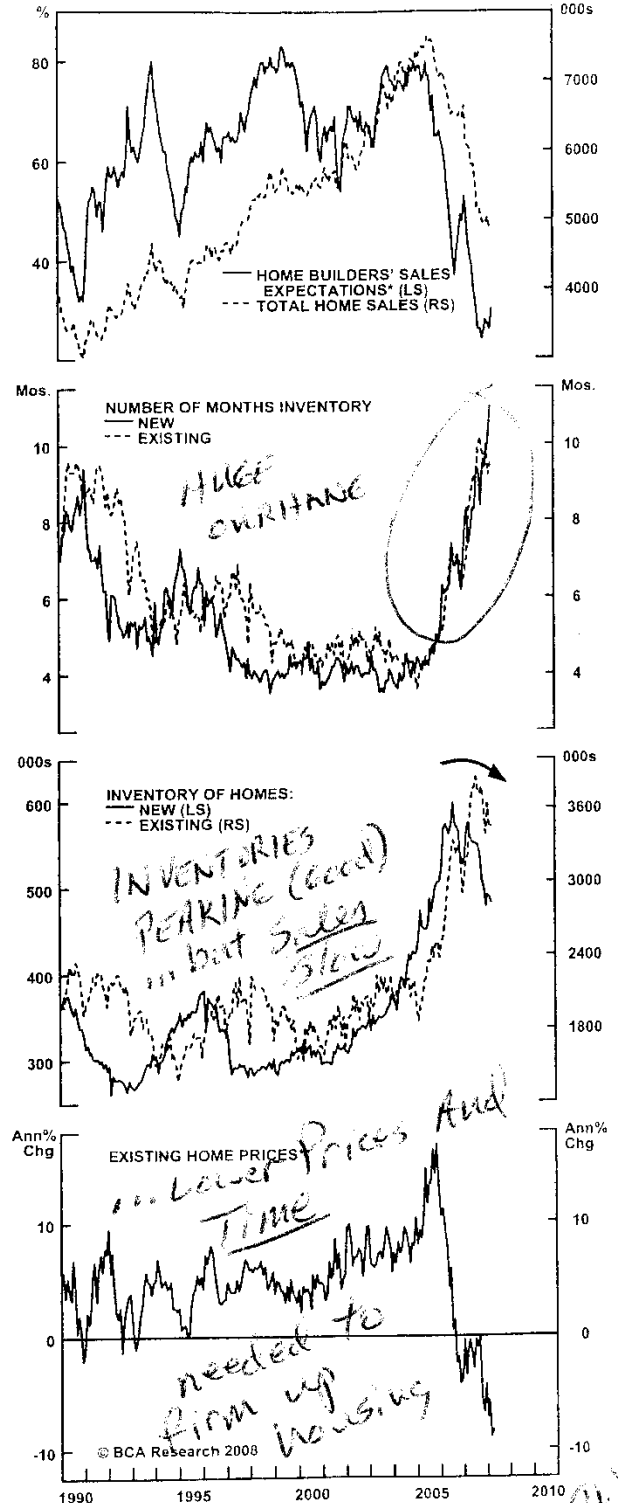
*... IS THERE MORE RECESSION TO COME?*

**CHART 3  
Recession Watch: Still Unconfirmed**



\*AVERAGE OF 7 RECESSIONS, ALIGNED TO THE CYCLE PEAK, DENOTED BY VERTICAL LINE  
NOTE: ALL SERIES (EXCEPT EMPLOYMENT) REBASED TO 1 AT ECONOMIC PEAK

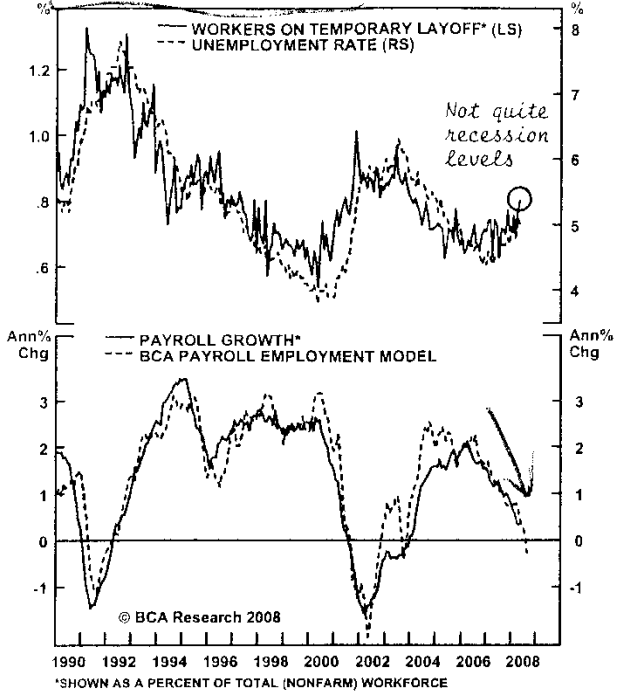
**CHART 10  
Inventories Must Fall A Lot Further**



\*SOURCE: NATIONAL ASSOCIATION OF HOME BUILDERS  
\*\*SOURCE: NATIONAL ASSOCIATION OF REALTORS

*... meanwhile, can jobs hold up!?*

**CHART 1**  
**Employment Is The Key**



**CHART 9**  
**Consumers Feel Miserable**

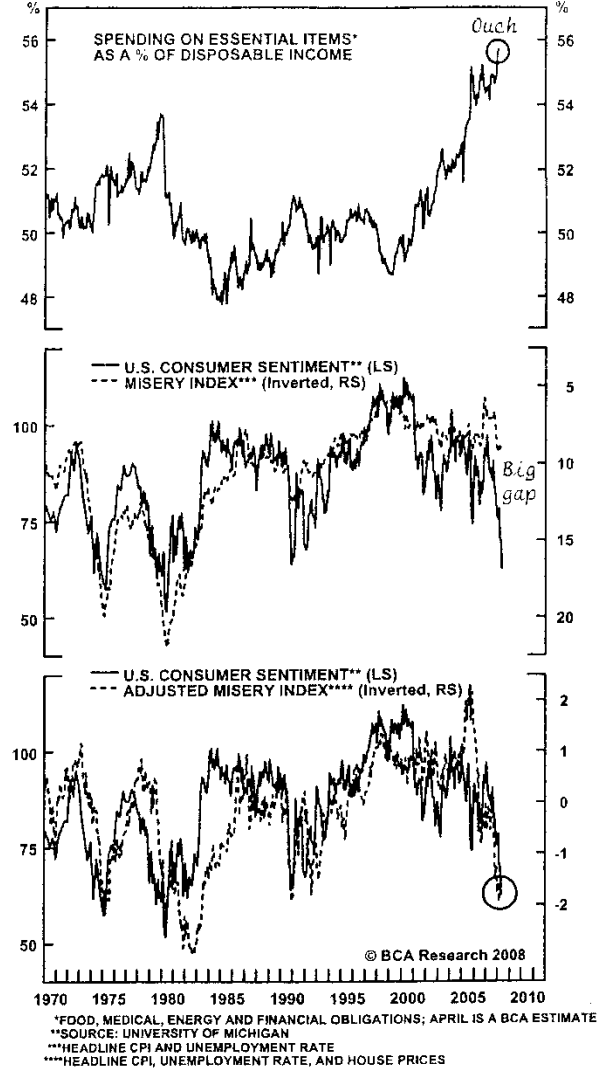


Chart 9 shows that the U.S. economy is not on the verge of regaining vigor. Spending on essential items is siphoning off an ever greater slice of income at the same time that income growth has slowed, employment prospects have deteriorated and house prices have continued to sink. The latter may be having an unprecedented impact on consumer sentiment.

In the 1970s and 1980s, consumer confidence closely tracked the so-called Misery Index, the sum of the unemployment and inflation rates (second panel, Chart 9 shown inverted). However, this relationship has recently broken down, with sentiment at the lowest level since 1982, despite an historically low unemployment rate and relatively modest inflation. The relationship is re-established if the Misery Index is adjusted to include the change in house prices (bottom panel).

The implication is that, even if the labor market holds up, some stabilization in house prices will be needed before there is a rebound in confidence.

Unfortunately, housing is not set to improve. House inventories look grim when compared to the level of sales. However, the level of inventories has rolled over for both new and existing houses (Chart 10), and the implosion in new starts implies that this trend will continue. Unfortunately, rising foreclosures will prolong the inventory problem, thus ensuring that housing will remain a drag on the economy for some time.

As noted last week, homebuilders are slowly becoming less pessimistic, which suggests that the implosion in sales may soon level off. If so, then



## MARKET COMMENTS May 15, 2008

### STOCKS

- 1) North American stocks market patterns are among the most constructive in the world right now. [SEE GLOBAL STOCK SPREADSHEET](#)
- 2) European stocks also on-balance constructive.
- 3) The wild card is a pattern of "converging consolidation" that's reflected in a lot of markets. Assuming this happens in the next few weeks the key will be "how deep" ? A mild consolidation is longer-term quite bullish. But if key support levels are broken the probability is for a re-test of lows earlier in the year.

### SECTORS

- 1) Within the U.S. market, certain industries have charts rallying in an intact uptrend (Defense, Cyclical, Energy, Industrial equipment, Natural Gas, etc...)

...whereas other sectors appear to be rallies in a larger downtrend (Air Trans, Biotech, Gold, Health Care, Leisure, Media, Retail, etc....) SEE CHART  
[SEE U.S. SECTOR SPREADSHEET](#)

- 2) Two sectors in particular are potentially sensitive predictors of how the overall market trend is likely to evolve:

- A) Brokers: Should key support levels hold in any short-term selloff this is quite constructive. Conversely, should they break the probability increases of low re-test.
- B) Financial Services: Ditto. A someone weaker overall chart than the Brokers

### BONDS

- 1) The Treasury uptrend is now well-broken and at least moderate further selloff likely.
- 2) Alternatively, Corporate Spreads peaked in late March/ Early April. This reflects some improvement in overall confidence in BOTH Corporate Debt and Corporate Stock also.
- 3) The prevailing trend in credit markets may thus be one characterized more by "spread adjustment" than by overall up or downtrend in interest rates. Once this confidence-based spread adjustment process smooths out we'll have a better picture of overall rate direction.

### GOLD

The gold selloff has also broken upsloping support and the March high looks more secure. Note that the gold selloff has mirrored the dollar rally which now looks ready for consolidation.

### DOLLAR

A decisive "climax bottom" in the dollar is less certain at this point. The DX is poised at the junction of resistance and likely to at least mildly selloff here. Overall pattern shape still mildly supports a re-test of the March low which would spark some related gold upside. On the other hand the Yen does resemble a climax top and the Euro is quite topy as well so the overall pattern of the Dollar sketching out an important longer-term bottom is intact.



GLOBAL STOCK MARKET SUMMARY

CURR PRICE  
TREND COMMENTS

2007 HIGH  
2008 LOW  
LOW DATE  
% OFF HIGH

SYM

NORTH AMERICA (North American markets are generally constructive, but vulnerable to a global consolidation that might feed on itself)

Canada	iShare	EWC	\$36.68	\$26.40	1/25	28%	\$34.26	Reasonably bullish. New high likely
Mexico	iShare	EWV	\$65.00	\$47.00	1/22	28%	\$61.08	Bullish. Retest of high likely. <i>Note: Large American markets have had similar</i>
U.S.A.	Dow Indus		14,280	11,508	1/22	19%	\$12.89	ST Pullback then reassess.
	NASDAQ		2,861	2,155	3/17	25%	2,496	Broken downside resistance, now at horiz. Resistance. <i>Reassess</i>
	S&P		1,576	1,257	3/17	20%	1,408	Ditto. Breakout of 5-2 high or 5-9 low likely dictates ST trend <i>than 5/14/08</i>

ASIA-PACIFIC (The patterns of these markets at this time are more erratic. Indicating they may be waiting for "clues" fr other markets)

Australia	CEF	IAF	\$18.50	\$14.00	1/22	24%	\$16.84	Erratically bullish
China Region	CEF	JFC	\$32.99	\$19.94	3/17	40%	\$23.26	Erratic. Interesting upside risk/reward using tight stop at 5-12 low
Hong Kong	iShare	EWH	\$24.00	\$16.80	3/20	30%	\$19.54	Erratic ST selloff most likely. Fair chance to retest 3-20 low.
India	CEF	IFN	\$70.90	\$39.70	3/10	44%	\$47.90	Fairly bearish short term. Retest of low technically probable
Indonesia	CEF	IF	\$14.20	\$9.37	4/14	34%	\$10.76	Erratic
Japan	iShare	EWJ	\$14.78	\$11.53	3/17	22%	\$13.28	ST selloff in mildly positive uptrend
Korea	iShare	EWY	\$74.76	\$49.78	3/17	33%	\$58.18	Unclear. Retest of 3-17 low slightly more likely
Malaysia	iShare	EWM	\$14.01	\$11.52	3/10	18%	\$11.93	Erratic
Singapore	iShare	EWS	\$15.60	\$11.64	3/10	25%	\$13.45	ST selloff, then re-assess pattern.
Taiwan	iShare	EWT	\$18.19	\$13.41	2/6	26%	\$16.29	A more bullish Asian chart. Upside risk/reward w/ stop @ 5-9 lows
Thailand	CEF	TTF	\$14.65	\$10.30	1/23	30%	\$12.57	Erratic

EUROPE (Majority of these markets are reasonably constructive but poised for at least short-term consolidation. Will any such selloff feed on itself?)

France	iShare	EWQ	\$40.00	\$32.19	2/11	20%	\$36.35	ST Pullback thereafter retest of high looks most likely. <i>Would say</i>
Germany	iShare	EWG	\$36.50	\$29.60	1/23	19%	\$32.83	ST Pullback thereafter retest of high looks most likely. <i>Retest of high</i>
Italy	iShare	EWI	\$36.35	\$27.83	3/20	23%	\$31.33	Slightly favoring upside
Netherlands	iShare	EWN	\$32.71	\$25.39	2/12	22%	\$29.79	ST Pullback followed by longer-term rally most likely. Erratic. <i>Retest of high</i>
Russia	CEF	TRF	\$92.21	\$55.10	3/19	40%	\$59.59	Interesting tech. risk/reward to the upside. Stops @ 3-20 & 4-29 lows
Spain	iShare	EWP	\$68.12	\$53.58	2/5	21%	\$64.21	ST Pullback then reassess. Probably favors upside. <i>Retest of high</i>
Sweden	iShare	EWD	\$38.75	\$26.29	2/8	32%	\$32.24	ST Pullback then re-assess. If pattern sets up well, probably favors upside
U.K.	iShare	EWU	\$25.88	\$20.88	3/17	19%	\$21.59	ST Selloff. Thereafter re-assess. Could go either way at this point. <i>Retest of high</i>

MIDEAST

Israel	CEF	ISL	\$25.78	\$20.06	4/29	22%	\$20.38	Erratic
Turkey	CEF	TKF	\$29.60	\$14.40	4/15	51%	\$16.10	Like Russia. Did multi-yr selloff bottom 4-15? Good tech risk/reward

S. AMERICA

Brazil	iShare	EWZ	\$81.80	\$69.00	1/23	16%	\$95.02	In new high territory, curving for at least ST consolidation. <i>Retest of high</i>
Chile	CEF	CH	\$24.00	\$16.72	1/18	30%	\$18.36	Erratic

GLOBAL AVERAGE SELLOFF:

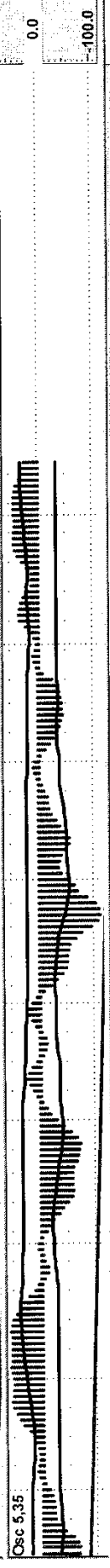
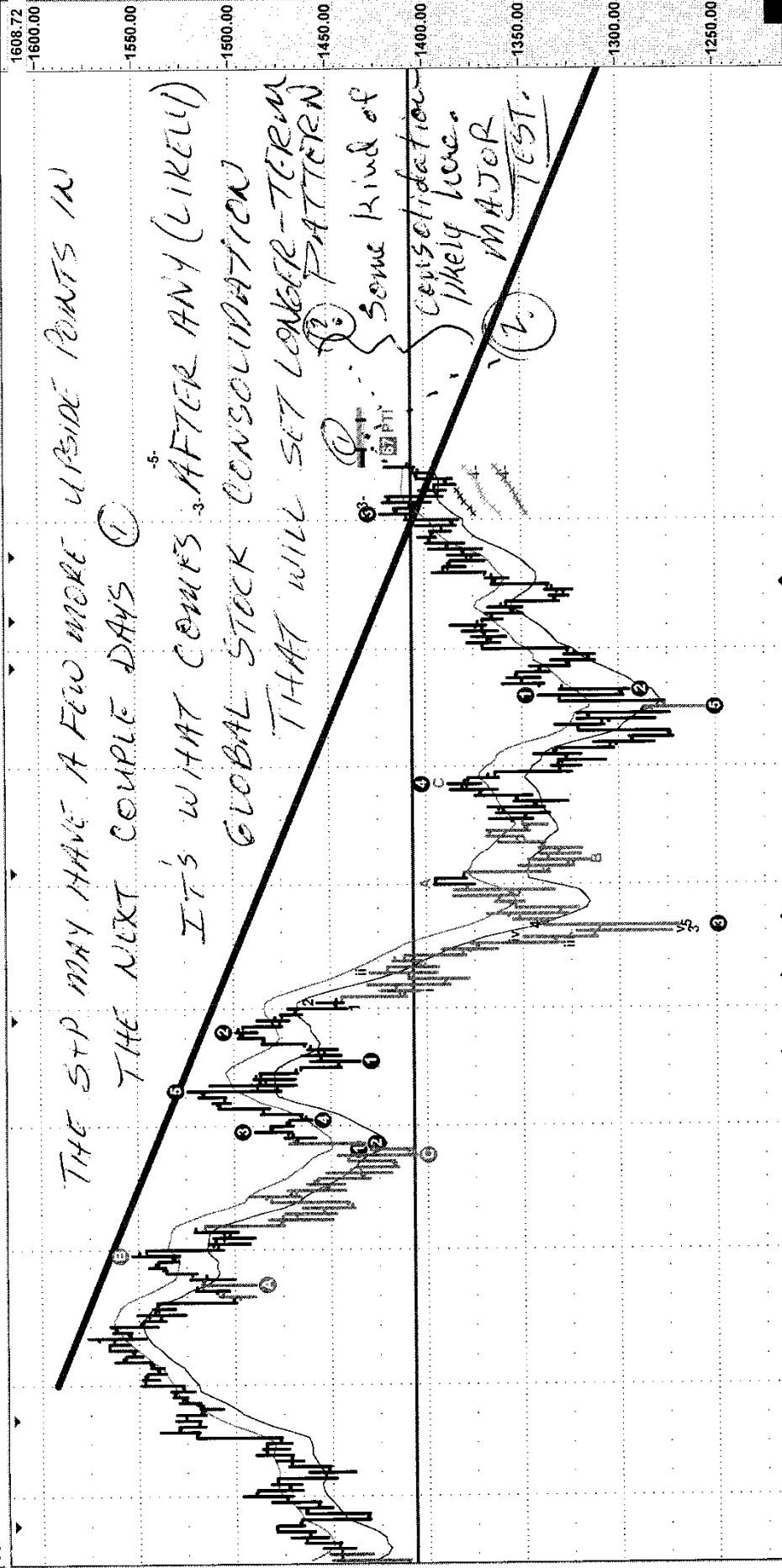
27%

Notes: 1) "ST": Short-term 2) Indonesia & Turkey are 2006 high. 2) Israel is 2008 high.

THE S&P MAY HAVE A FEW MORE UPSIDE POINTS IN THE NEXT COUPLE DAYS (1)

IT'S WHAT COMES AFTER ANY (LIKELY) GLOBAL STOCK CONSOLIDATION THAT WILL SET LONGER-TERM PATTERN (2)

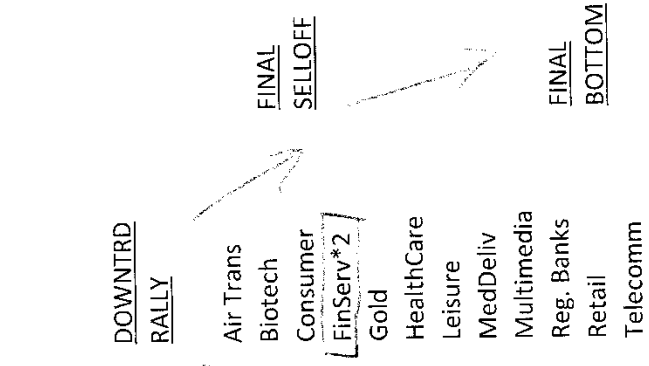
Some kind of consolidation likely here. MAJOR TEST.



(9)

# U.S. INDUSTRY GROUP MARKET TRENDS

TOP



RALLY  
 Enviro  
 Food/Ag  
 IndMtrls  
 MedEqpt

INITIAL SELLOFF

Brokers\*1  
 Bus Serv.  
 Cyclical  
 Defense  
 Energy  
 Chem  
 EnergServ  
 IndEqpt  
 NatGas  
 REIT  
 Software

DOWNTRD RALLY

Air Trans  
 Biotech  
 Consumer  
 FinServ\*2  
 Gold  
 HealthCare  
 Leisure  
 MedDeliv  
 Multimedia  
 Reg. Banks  
 Retail  
 Telecomm

PULLBACK/CONSOL.

INITIAL RALLY

INITIAL BOTTOM  
 Home Fin  
 Insurance  
 PaperFor

BOTTOM

FINAL SELLOFF

FINAL BOTTOM

UNCLEAR, FAVORS UPSIDE

DevComm

UNCLEAR

Autos, Computers, Home Const.  
 Electronics, Technology, Transportation

UNCLEAR, FAVORS DOWNSIDE

\*1: March 17 and April 15 area lows for Brokers are key to continuing overall market upside support.

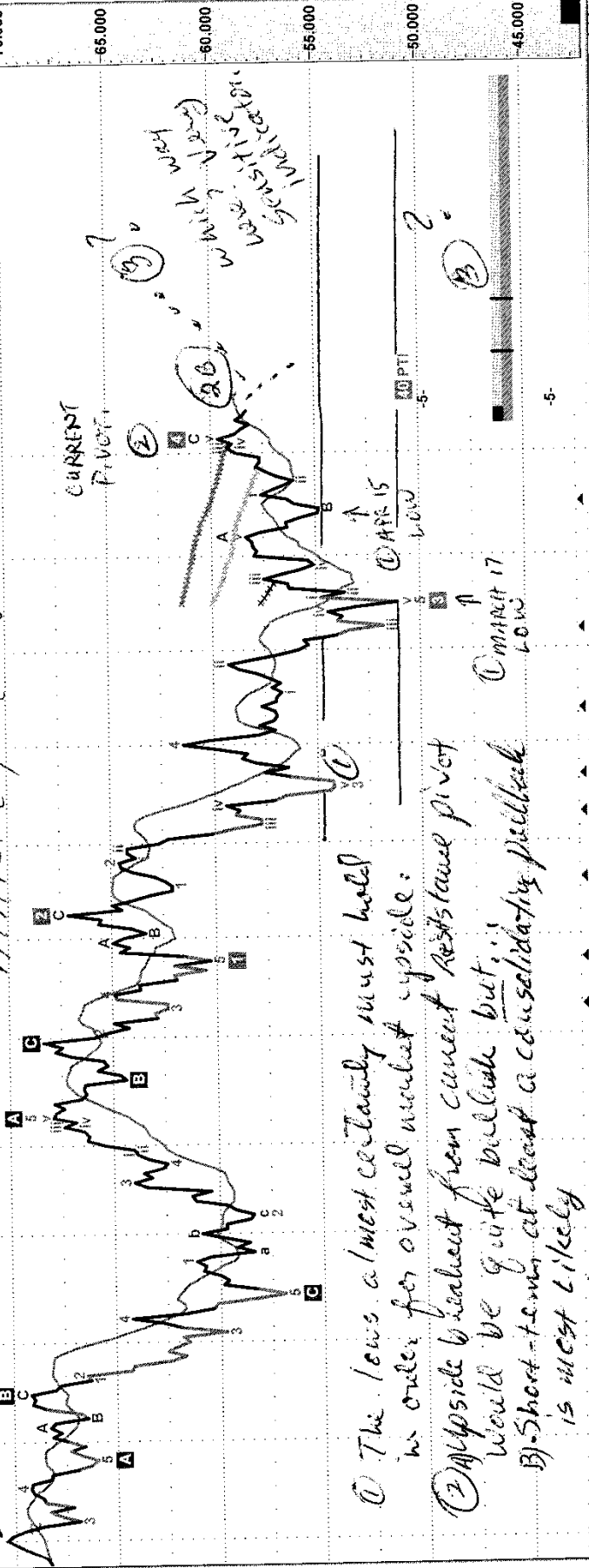
\*2: May 2 area highs for Financial Services is a key area that probably must be broken if the broad market is to return to bull trend

*NOTE: There are Fidelity Sector Funds. May own 5% of each holding. Document.*



# WHICH WAY BROKERS: VERY SENSITIVE SECTOR IN THIS MARKET ENVIRONMENT.

← 2007 HIGH



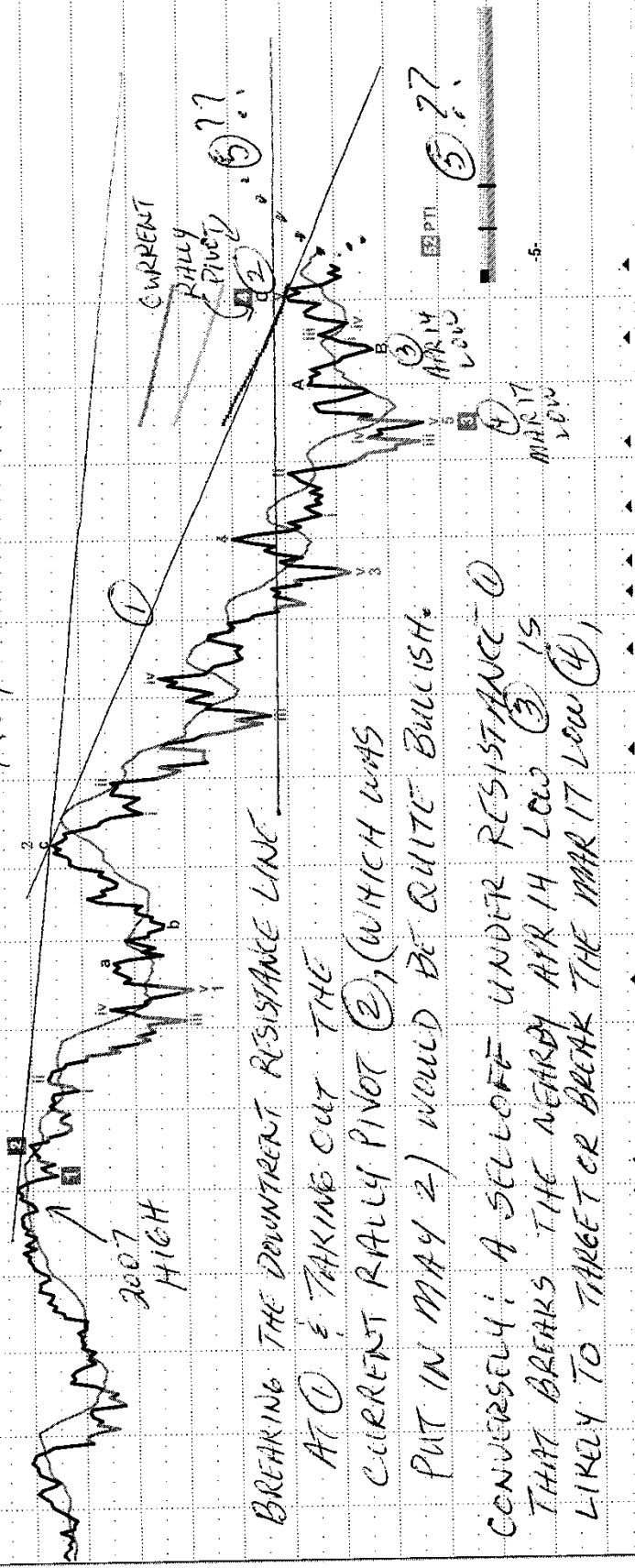
- ① The lows almost certainly must hold in order for overall market upside.
- ② Upside breakout from current Restraint pivot would be quite bullish but...
  - B) Short-term at least a consolidating pullback is most likely



③ Can brokers stay above the Apr. 15 & especially March 17 lows and avoid plunging re-test to the 45-47 area? This is a key signal for overall market direction, in my opinion.

④

WHICH WAY FINANCIAL SERVICES. ALSO COULD BE IMPERATANT KEY TO THIS MARKET...



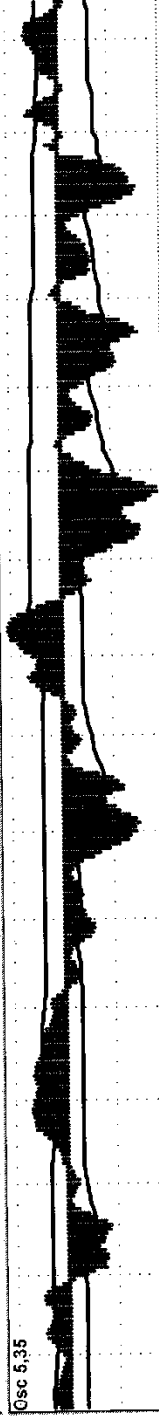
BREAKING THE DOWNTREN T RESISTANCE LINE

AT ① & TAKING OUT THE CURRENT RALLY PINOT ②, (WHICH WAS PUT IN MAY 2) WOULD BE QUITE BULLISH.

CONVERSELY: A SELLOFF UNDER RESISTANCE ① THAT BREAKS THE NEARBY APR 14 LOW ③ IS LIKELY TO TARGET OR BREAK THE MAR 17 LOW ④,



Osc 10.70



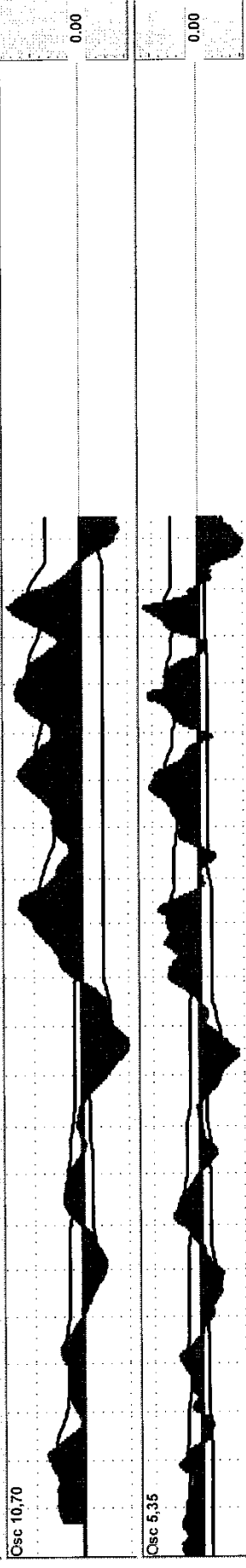
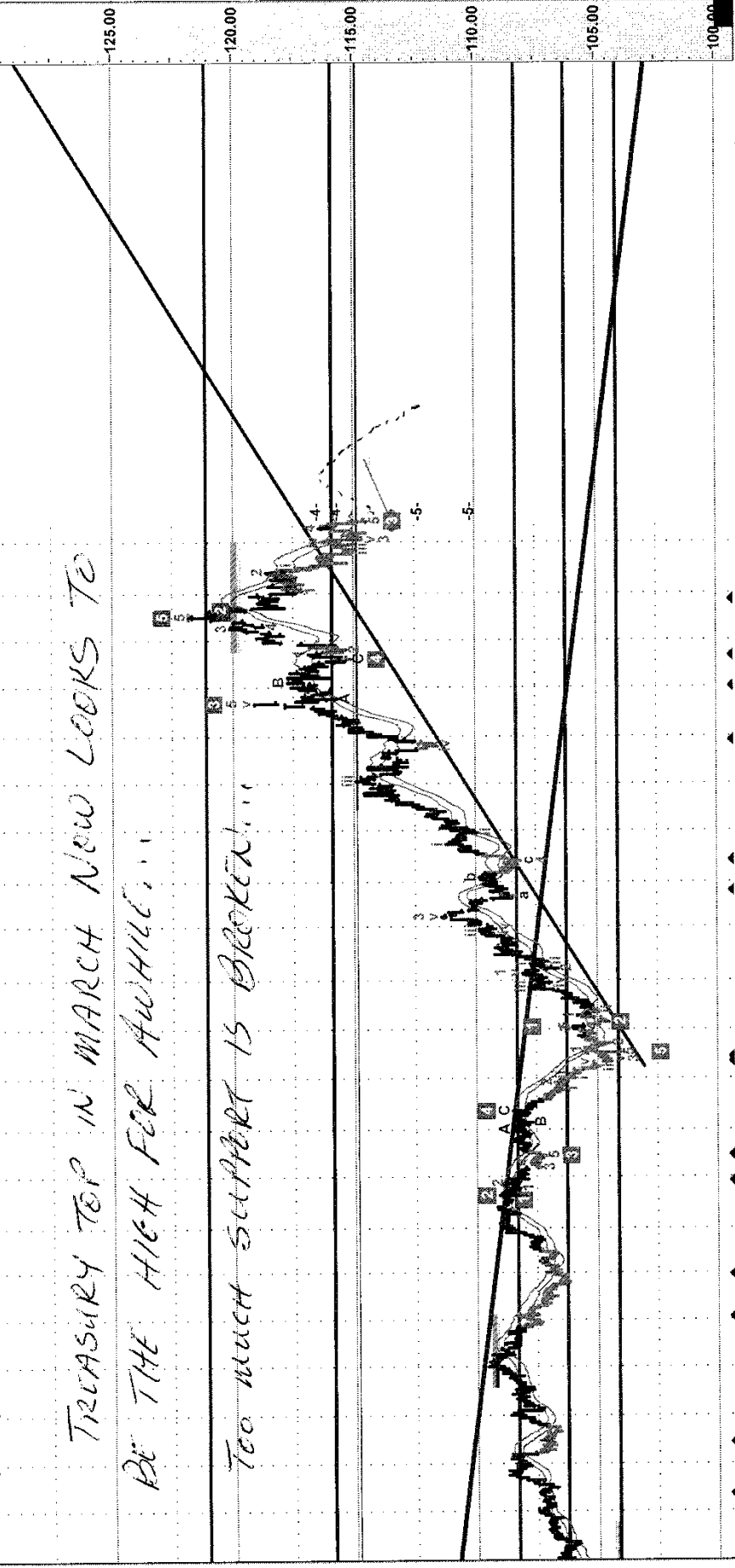
Osc 5.35

... AND BE QUITE A DOWNSIDE WEIGHT ON OVERALL MARKET

(10)

O: 114.47 H: 115.19 L: 114.47 C: 114.56

TREASURY TOP IN MARCH NOW LOOKS TO BE THE HIGH FOR AWHILE...  
Too much support is broken...



173

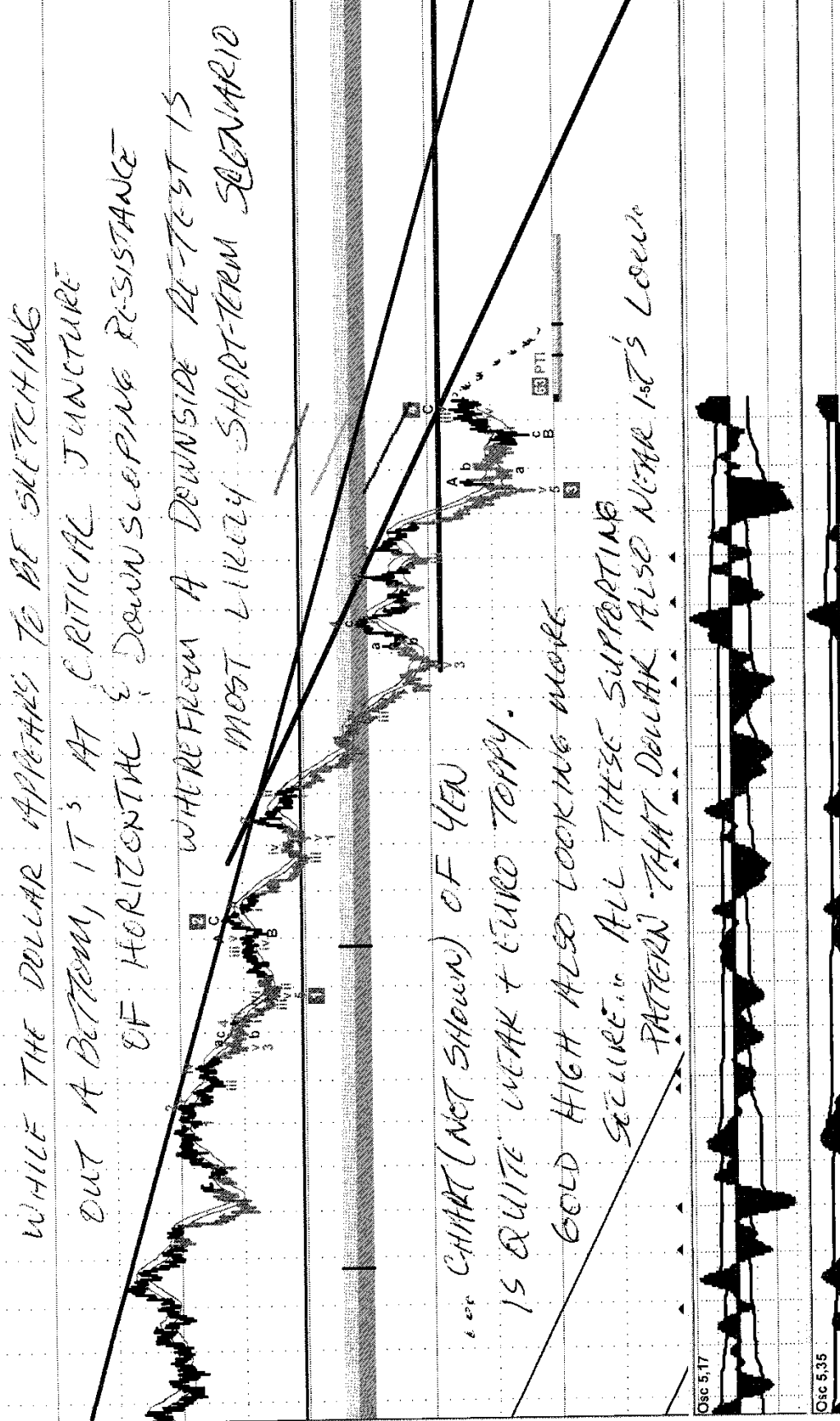
WHILE THE DOLLAR APPEARS TO BE SKETCHING OUT A BOTTOM, IT'S AT CRITICAL JUNCTURE OF HORIZONTAL & DOWNSLOPING RESISTANCE

WHEREFROM A DOWNSIDE RE-TEST IS MOST LIKELY SHORT-TERM SCENARIO

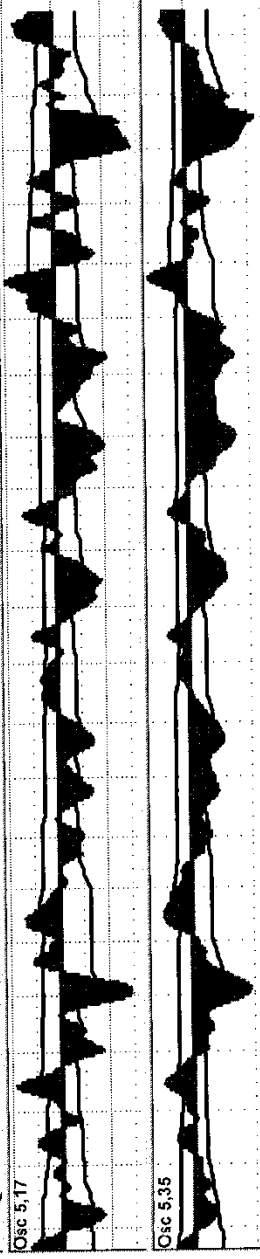
... CHART (NOT SHOWN) OF YEN IS QUITE WEAK + EURO TOPPY.

GOLD HIGH ALSO LOOKING MORE SECURE. ALL THESE SUPPORTING PATTERN THAT DOLLAR ALSO NEAR 1ST'S LOW

-90.00  
-85.00  
-80.00  
-75.00  
-70.00



Osc 5,17

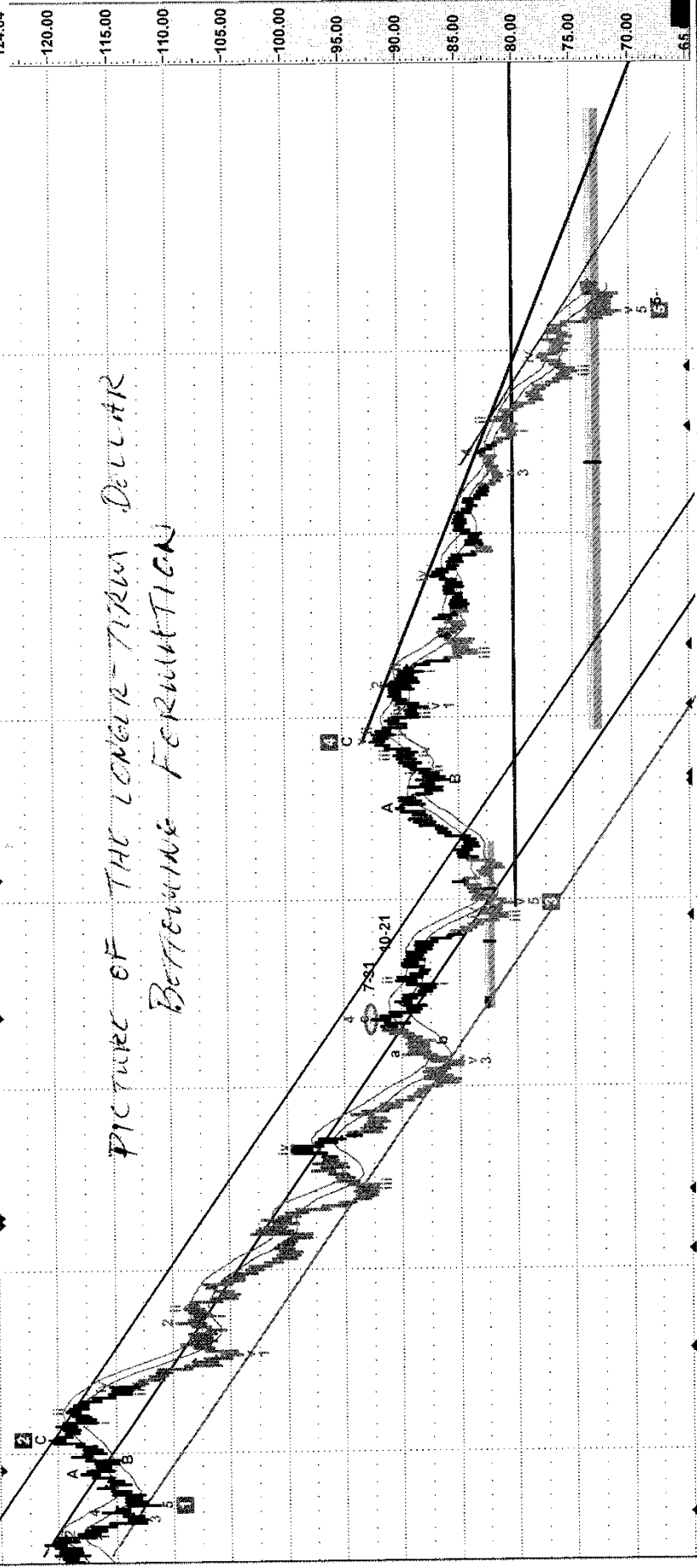


Osc 5,35

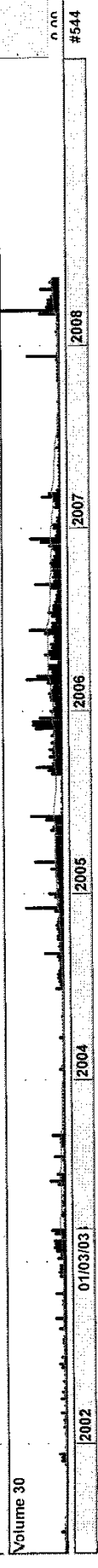
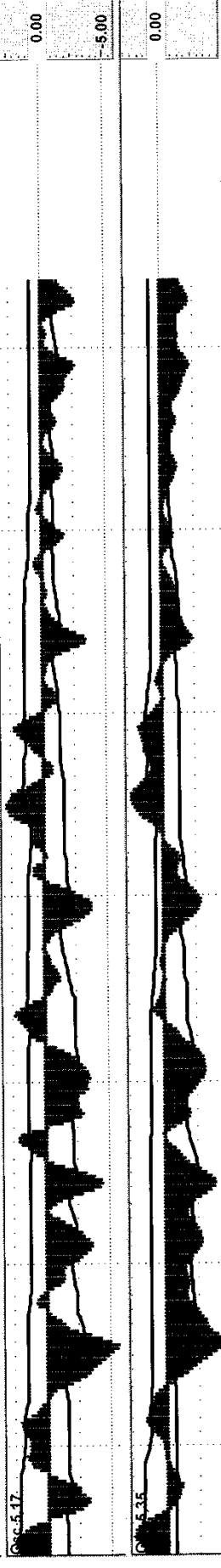
Aug Sep Oct 1109/06 Dec 2007 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2008 Feb Mar Apr May

⊗ NOTE: ANY DOLLAR SELLOFF / LOW RE-TEST HERE IS LIKELY TO GENERATE KNEE-JERK GOLD RALLY AS WELL !!

03/16/08 O: 73.21 H: 74.00 L: 72.94 C: 73.57



PICTURE OF THE LONGER-TERM DOLLAR  
BETTERING FERMULATION



2002 2003 2004 2005 2006 2007 2008 #544

55