

ROBERT D. MCHUGH, JR., Ph.D.
Daily Market Newsletter
A Publication of Main Line Investors, Inc.

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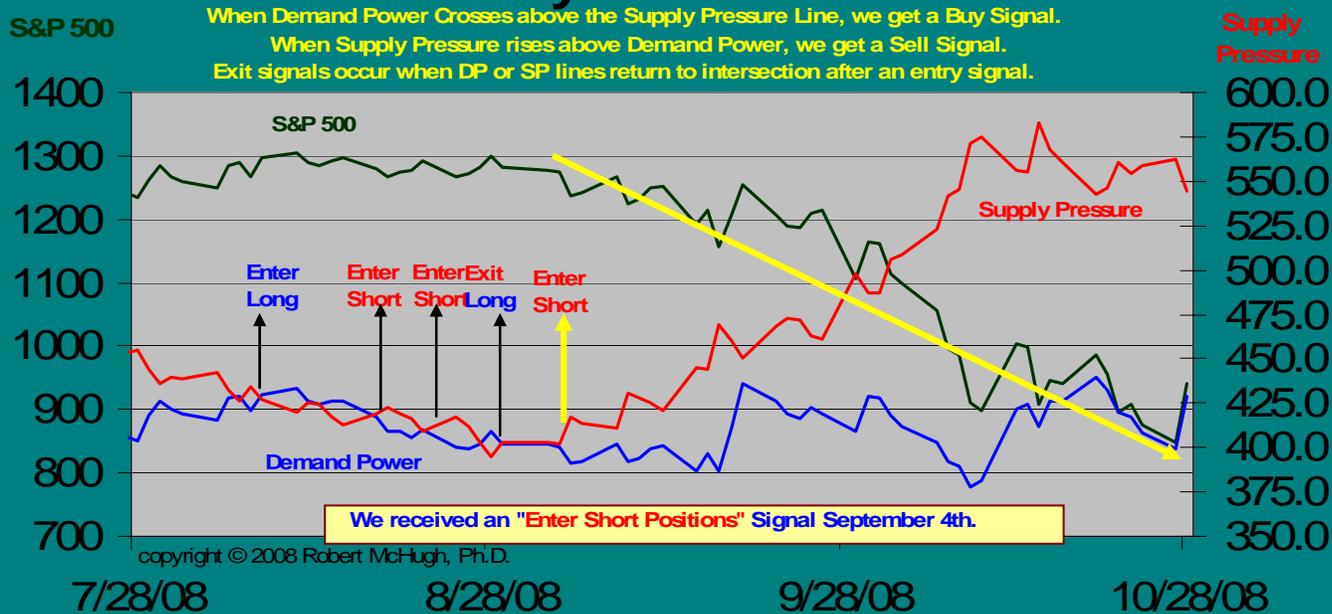
Issue No. 945
 Tuesday, October 28th, 2008

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SUMMARY OF INDEX DAILY CLOSINGS FOR TUESDAY, OCTOBER 28th, 2008

<u>Date</u>	<u>DJIA</u>	<u>Transports</u>	<u>S&P</u>	<u>NASDAQ COMPQ</u>	<u>NASDAQ 100</u>	<u>Russell 2000</u>	<u>30 Yr Treas Bonds</u>
Oct 22	8519.21	3601.74	896.78	1615.75	1237.09	501.97	115^28
Oct 23	8691.25	3565.45	908.11	1603.91	1239.16	489.92	117^30
Oct 24	8378.95	3448.44	876.77	1552.03	1202.27	471.12	116^30
Oct 27	8175.77	3364.98	848.92	1505.90	1169.78	448.40	117^11
Oct 28	9065.12	3574.16	940.51	1649.47	1297.57	482.55	116^11

S&P 500 vs: Demand Power & Supply Pressure
Pressure July 2008 to October 2008



Status of Demand Power/Supply Pressure Key Trend-finder Indicator

<u>Index</u>	<u>Term</u>	<u>* Signal</u>	<u>First Date of Signal</u>	<u>Current Demand Pr.</u>	<u>Current Supply Pr.</u>	<u>Fullest Extent of Index Move Since Signal</u>
S&P 500/DJIA	Short	Enter Short	9/4/2008	429	544	SPX Fell 393 Points (31.9 %)
NDX	Short	Enter Short	8/25/2008	417	491	NDX Fell 743 Points (39.3 %)

* We consider a new entry point for a signal the day when one measure crosses more than 10 points above the other. We like to exit when (or before if conservative) the two measures return to an intersection.

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Summary of McHugh's Proprietary Index Key Trend-finder Buy/Sell Signals

	<u>Index</u>	<u>Term</u>	<u>Signal</u>	<u>Date Current Signal</u>	<u>Fullest Extent of Index Move Since Signal</u>
Purchasing Power Indicator	DJIA/S&P	Short	Buy	Oct 28th, 2008	New Buy Signal
DJIA 14 Day Stochastic	DJIA	Short	Buy	Oct 28th, 2008	New Buy Signal
DJIA 30 Day Stochastic	DJIA	Short	Buy	Oct 28th, 2008	New Buy Signal
DJIA Primary Trend Indicator	DJIA	Long	Sell	Sept 30th, 2008	DJIA Fell 2968 Points (27.4 %)
Secondary Trend Indicator	DJIA/S&P	Short	Sell	Oct 2nd, 2008	DJIA Fell 2600 Points (24.8 %)
NDX Purchase Power Indic	NASDAQ 100	Short	Buy	Oct 28th, 2008	New Buy Signal
NDX 14 Day Stochastic	NASDAQ 100	Short	Buy	Oct 13th, 2008	NDX Rose 41 Points (2.9 %)
RUT Purchase Power Indic	RUT	Short	Buy	Oct 28th, 2008	New Buy Signal
HUI Purchasing Power Indic	HUI	Short	Sell	Oct 10th, 2008	HUI Fell 92 Points (37.3 %)
HUI 30 Day Stochastic	HUI	Short	Sell	Oct 2nd, 2008	HUI Fell 110 Points (42.5 %)

*I had a feeling. There was just too much event risk for shorts at this time, many of those risks mentioned in last night's newsletter. Stocks exploded higher Tuesday, increasing the odds (but not to the point of certainty) that wave **a-down** has bottomed, a truncated wave **5** down, which sometimes happens, that the first phase of the Bear Market has ended, and wave **b-up** has started, the second of the three phases of the Bear Market, a multi-month rally that could take the Industrials toward the 12,000 +/- area. If so, that does not mean we go straight up here, as there will be a stair-step move over the next 2 to 4 months. In fact, we would not be surprised by profit taking over the next few days, and a ton of volatility over the next week as events such as the Fed's interest rate decision, and the election occur. Mutual Funds needed a huge rally this week as their year end statements close this coming Friday, so window dressing is important for them.*

*If this is the case, wave **5** down still generated a 547 point drop, so shorts did get an opportunity to profit after the wave **4** triangle completed last Thursday.*

*Tuesday was a 90 percent up day, which was one of the signs we are looking for to identify when wave **b-up** starts. On the caution side, we did not get a new "buy" signal in our PPT indicator.*

*The stock market crash potential scenario has not been eliminated Tuesday, but stocks would have to dive immediately Wednesday for that to be occurring. We show both the bullish and bearish scenarios in several charts tonight. While it is tempting to place the odds for the bullish scenario above 50 percent, based upon Tuesday's amazing rally, if you study the S&P 500 chart at the bottom of page 9, you'll notice that prices were stopped cold by a descending tops trend-line Tuesday. **It shows a fascinating pattern that wave 5 down has formed a Descending Bullish Triangle that needs one more sharp decline to complete, that could take the S&P 500 to 750ish.** At the bottom of page 12, the NDX sports a similar pattern, adding power to the imminent crash scenario. Strange markets at this time.*

The 30 minute, 15 minute, and percent above 5 day indicators all suggest that stocks should decline Wednesday.

The *Dow Industrials* catapulted 889.35 points, almost 11 percent in one day, closing at 9,065.12 Tuesday, October 28th. *NYSE volume was up at 111* percent of its 10 day average. Upside volume was 95 percent, with advancing issues at 79 percent, with upside points at 99 percent. *S&P 500 Demand Power rose 30 points to 429, while Supply Pressure fell 18 points to 544*, telling us demand was powerful, but about half of it was shorts covering.

To repeat what we said, in last weekend's newsletter, our view of the big picture after this developing decline to a bottom for wave **a**-down, *"if there is a bottom here, it is certainly a technical bounce we get. The present economic fiasco does not deserve a bottom here.* The bailout plan is an utter socialist disaster. A major recession, possibly depression, is just starting, and nobody has a clue what to do. Confidence in markets and governments is gone, the PPT is proving ineffective, jobs are disintegrating, foreclosures wiping out entire neighborhoods like some sort of plague, runs on banks 1930's style, mortgage backed securities so complicated nobody can identify who owes what to whom, lines of credit evaporated, cries for Federal Reserve guarantees of pretty much everything contracted to offset all counterparty risk in the universe, trembling lipped, flush-faced newly anointed King Henry, the Treasury Secretary, letting it slip he won't be staying on the job much longer, "nationalization" the most popular word in the English vocabulary, and a political campaign with divisiveness rhetoric last seen in pre-Civil War times.

"Here is what is going on big picture: *We just got a reconfirmation of the Dow Theory Primary Bear Market sell signal, and just got a new sell signal in our Primary Trend Indicator. These are two long-term fresh sell signals, suggesting that this Bear Market is nowhere near over.* It means the coming bounce will be corrective. Putting this all together, it means the decline from the October 2007 highs is just wave **a**-down of an **a**-down, **b**-up, **c**-down Bear Market. Friday's closing low came precisely on the one-year anniversary of the all-time high in October 2007, and precisely the same day, six years later, from the October 2002 Bear Market bottom. This is amazing. It has a poetry to it. *Whether the final bottom comes Friday, October 10th, or next Friday, or some other day soon, this will only be the bottom of the first leg down of a three-phase Bear Market.*

"The next leg, wave **b**-up, could/should last about 2 to 4 months, and we anticipate a ton of volatility. We have a bunch of *phi* mate turns coming over the next 2 to 4 months, the next one after October 13th scheduled for October 23rd +/- . Wave **b**-up could be an **a**-up, **b**-down, **c**-up affair, or a five wave **a-b-c-d-e** triangle, with violent swings, each wave shorter than its precedent wave.

"Once wave **b**-up completes, sometime in early 2009 most likely, wave **c**-down will follow, which should prove cataclysmic, and based upon how low wave **a**-down got Friday, will likely hit new lows far below the 2002 lows. It will feel like it is ushering in Armageddon. *Conservative investors must raise cash at the coming technical bounce, wave b-up.* If wave **b**-up retraces 38.2 percent of the decline from October 2007, it could rise to 10,295. If that is the case, it argues for a triangle pattern, essentially sideways pattern for wave **b**-up, as its price target would get hit before a reasonable proportional time period has passed. If the rebound is 50 percent, we are talking an upside target of 11,040. A 61.8 percent retrace would target 11,785.

"Wave **c**-down could result in a new form of government, something quite different than the Founding Fathers established. There could be an international crisis that feeds it, perhaps a new war, assassinations, or something horrendous and violent. It is here that owning gold coins will be important.

The Demand Power/Supply Pressure indicators generated an enter short position signal September 4th, and remains there Tuesday. Tuesday's McClellan Oscillator improved to negative -28.27. The Summation Index worsened to negative -4,132.19. NYSE New Highs fell to 4, with New Lows falling to 701, but still strong, Tuesday. Nearly a quarter of all stocks on the NYSE hit new 52 week lows as the Industrials staged the second highest daily rally ever. Conditions remain terrible.

The percent of DJIA stocks above their 30 day moving average rose to 16.67 from 0.00. The percent above 10 day rose to 76.67 from 6.67. The percent above 5 day rose to 100.00 from 3.33. The NYSE 10 day average Advance/Decline Line Indicator rose to negative -28.27, remaining on a "sell" signal from September 11th, when it fell below negative -120.0 threshold necessary for a new "sell."

Our three Blue Chip key trend-finder indicators (other than the Demand Power/Supply Pressure Indicator) moved to a "buy" signal Tuesday. The DJIA 30 day Stochastic Fast rose to 16.67, decisively above the Slow at 3.33, triggering a new "buy" signal October 28th. The DJIA 14 day Stochastic rose to 66.67, decisively above the Slow at 20.00, triggering a new "buy" signal October 28th. The Fast had to cross more than 10 points below the Slow for a new "sell." The S&P 500 Purchasing Power Indicator rose 27 points to negative -93.22, triggering a new "buy" signal October 28th.

The Plunge Protection Team Risk Indicator rose to negative -15.30 Tuesday, remaining on a "sell" signal. A drop below negative -16.0 triggers a new "buy" signal. After it generated a buy signal on July 31st, the Industrials rose 489 points. When the reading rises above positive +20.00, or falls below negative -16.00, we usually see multi-week rallies. On the other hand, declines can (don't have to) occur when this reading falls within the range of negative -16.00 to positive +20.00. The PPT Indicator was in the range where declines typically occur, between negative -16.00 and positive +20.00 for most of the late December/January decline, which saw the DJIA drop over 1,100 points. It then rose above +20.00 January 14th. Rallies usually start about a week or two after this measure exceeds positive +20.00. When this indicator last went below negative -16.00, triggering a new "buy" signal, on February 7th, 2008, the Industrials closed at 12,247. After that the Industrials rose 509 points. After they rose above negative -16.00 on March 3rd, the DJIA dropped over 500 points. From May to July 2008 we saw a significant decline within this range, 1,650 points. After this indicator generated a sell signal October 1st, the Industrials declined 2,948 points.

The DJIA Call/Put Ratio fell to 0.95 Tuesday, on a "neutral" signal from May 27th (moving below 1.00 and above 1.40 is neutral, while rising decisively above 1.00 (above 1.10) triggers a new "buy"). On Tuesday, the Secondary Trend Indicator fell 9 points, the daily maximum, to negative -22, on a sell signal. Above zero is Bullish. Below zero is Bearish. The closer it moves toward zero, the greater the risk of a coming trend turn, thus caution with open positions would be recommended. After it turned Bearish on December 31st, 2007, the Industrials fell 1,630 Points, or 12.3 percent. After it generated a sell, on June 17th, the Industrials fell 1,200 points. After it triggered a sell signal on October 2nd, the Industrials fell 2,600 points. This indicator correlates well with price trends.

On October 10th, the Industrials blew past the downside target of 9,750 we had been warning for months would be reached, per a Head & Shoulders top in the Dow Industrials. There is a smaller H&S top that has completed with a downside target of 7,500ish, which we also came close to hitting Friday, October 10th. That level could be tossed aside over the next few weeks if the triangle scenario is occurring.

SUMMARY PAST WEEK'S DEMAND POWER/SUPPLY PRESSURE STATISTICS

Blue Chips S&P 500/DJIA

<u>Date</u>	<u>Demand Power</u>	<u>Supply Pressure</u>	<u>Purchasing Power Indicator</u>	<u>Secondary Trend Indicator</u>
Oct 21	Down 8 to 432	Up 3 to 546	Down 5 to -93	Down 6 to -19
Oct 22	Down 12 to 420	Up 15 to 561	Down 13 to -106	Down 8 to -27
Oct 23	Down 3 to 417	Down 7 to 554	Up 1 to -105	Up 3 to -24
Oct 24	Down 9 to 408	Up 5 to 559	Down 9 to -114	Down 6 to -30
Oct 27	Down 9 to 399	Up 3 to 562	Down 6 to -120	Down 1 to -31
Oct 28	Up 30 to 429	Down 18 to 544	Up 27 to -93	Up 9 to -22

NASDAQ 100

<u>Date</u>	<u>Demand Power</u>	<u>Supply Pressure</u>	<u>Purchasing Power Indicator</u>	<u>PPT Risk Indicator</u> (Above +18% Means High Risk of a Short-covering Rally)
Oct 21	Down 6 to 414	Up 7 to 495	Down 13 to -70	- 1.19
Oct 22	Down 5 to 409	Up 5 to 500	Down 10 to -80	- 4.79
Oct 23	Down 1 to 408	Down 1 to 499	Flat 0 at -80	- 7.49
Oct 24	Down 4 to 404	Up 3 to 502	Down 8 to -88	- 14.36
Oct 27	Down 4 to 400	Flat 0 at 502	Down 6 to -94	- 15.85
Oct 28	Up 17 to 417	Down 11 to 491	Up 34 to -60	- 15.30

10 Day Average Short-term Advance/Decline Signals

<u>Index</u>	<u>Oct 28th A/D Indicator</u>	<u>Signal</u>	<u>Date of Signal</u>	<u>Fullest Extent of Index Move Since Signal</u>
NYSE/S&P 500	- 506.0	Sell	Sept 11th, 2008	SPX Fell 409 Points (32.8 %)
NASDAQ 100	- 19.3	Sell	Aug 20th, 2008	NDX Fell 766 Points (40.00 %)
Russell 2000	- 503.1	Sell	Aug 25th, 2008	RUT Fell 272 Points (37.8 %)

Shorting should only be done with funds that are speculative and the investor is willing to accept a substantial loss on. That is because the PPT is very active at this time.

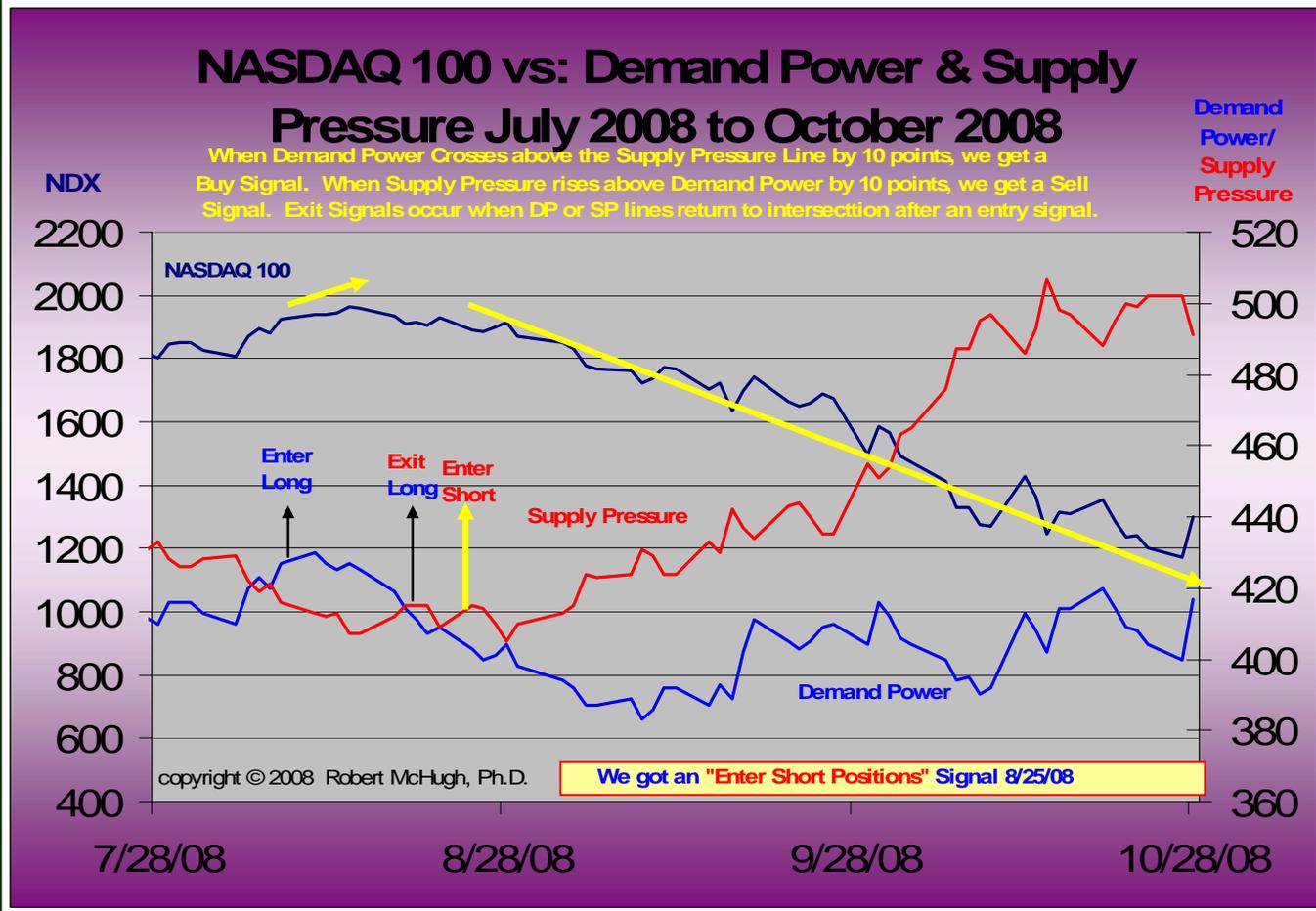
Have you noticed that the NDX crashed 40.0 percent since our NDX 10 day average Advance/Decline Line Indicator generated a sell signal August 20th, 2008, less than two months ago.

Gold's Daily Full Stochastic generated a new buy signal Tuesday. The HUI Amex Gold Bugs Index Daily and Weekly Full Stochastics just generated new buy signals.

Check out our new [Bailout Specials extended through Sunday, November 2nd](#), including an [18 month offering](#). If you are enjoying your subscription, please tell a friend.

The **NASDAQ 100** catapulted 127.79 points Tuesday, closing at 1,297.57. Volume rose to 102 percent of its 10 day average. **Upside volume led at 94 percent, Tuesday. Advancing issues led at 96 percent, with upside points at 99 percent. NDX Demand Power rose 17 points to 417, with Supply Pressure down 11 points at 491**, telling us demand was powerful with two thirds of it shorts covering, not convicted institutional buying.

Our key trend-finder indicators **triggered a new "buy" signal Tuesday**. The **NDX 14 day Stochastic Fast** rose to 46.00, above the Slow at 20.40, **remaining on a "buy" signal from October 13th**. The **NDX Purchasing Power Indicator** rose to negative -60.53, **triggering a new "buy" signal October 28th**. The **NDX 10 day average Advance/Decline Line Indicator** rose to negative - 19.3, **remaining on a "sell" signal** from August 20th, when it fell below the negative -5.0 threshold for a new "sell" signal. The **Demand Power/Supply Pressure Indicator generated an enter short positions signal Monday August 25th**, when the SP indicator rose more than 10 points above the DP indicator, and remains there Tuesday, October 28th.



The *Russell 2000* rose **34.15** points Tuesday, closing at 482.55. Volume rose to 116 percent of its 10 day average, with upside volume leading at 81 percent, with advancing issues leading at 87 percent. *The RUT Purchasing Power Indicator* rose to negative -0.94, **triggering a "buy" signal October 28th**. *The RUT 10 day average Advance/Decline Line Indicator* rose to negative -503.10, **remaining on a "sell" signal from August 25th**, needing to rise above the positive +180.00 threshold for a new "buy" signal.

The *HUI Amex Gold Bugs Index* rose **21.12** points Tuesday, closing at 172.69. Volume rose to **96 percent of its 10 day average**. Upside volume was 99 percent, with advancing issues at 95 percent, and upside points at 99 percent. *Our key trend-finder indicators remain on a "sell" signal Tuesday, October 28th*. The *HUI 30 day Stochastic* Fast remained at 0.00, equal to the Slow, **remaining on a "sell" signal from October 2nd**. The Fast has to rise more than 20 points above the Slow to trigger a new "buy." The *HUI Purchasing Power Indicator* rose to **176.42, remaining on a "sell" signal from October 10th**. December *Gold* rose to 749.4. *Silver* rose to **9.23**, while *Oil* rose to **65.04**. The *Dollar* fell 0.02 to 86.73. *Bonds fell a point to 116^11*. The PPT has to buy the long end to keep Bonds headed in the right direction, to support the housing market, especially now that AMBAC and MBIA are no longer rated AAA, Fannie Mae and Freddie Mac — who hold half of all mortgages - have collapsed, and credit markets have frozen, requiring lower interest rates, and Master Planner interest rate (bond) intervention. The *VIX* fell to a still high **66.96, as volatility and fear remain**.

The *Australia SPASX200* fell **14.60** points, or **0.38 percent** Tuesday. Click on the Weekend Australia Report, *which includes EW charts of the FTSE and DAX, for the latest analysis*.

Bottom Line: The Fed has to continue hyperinflating to bail out this sick economy, feeding a major trend up in precious metals. Households, not just Wall Street, must be bailed out. If this doesn't happen we are headed for an economic depression.

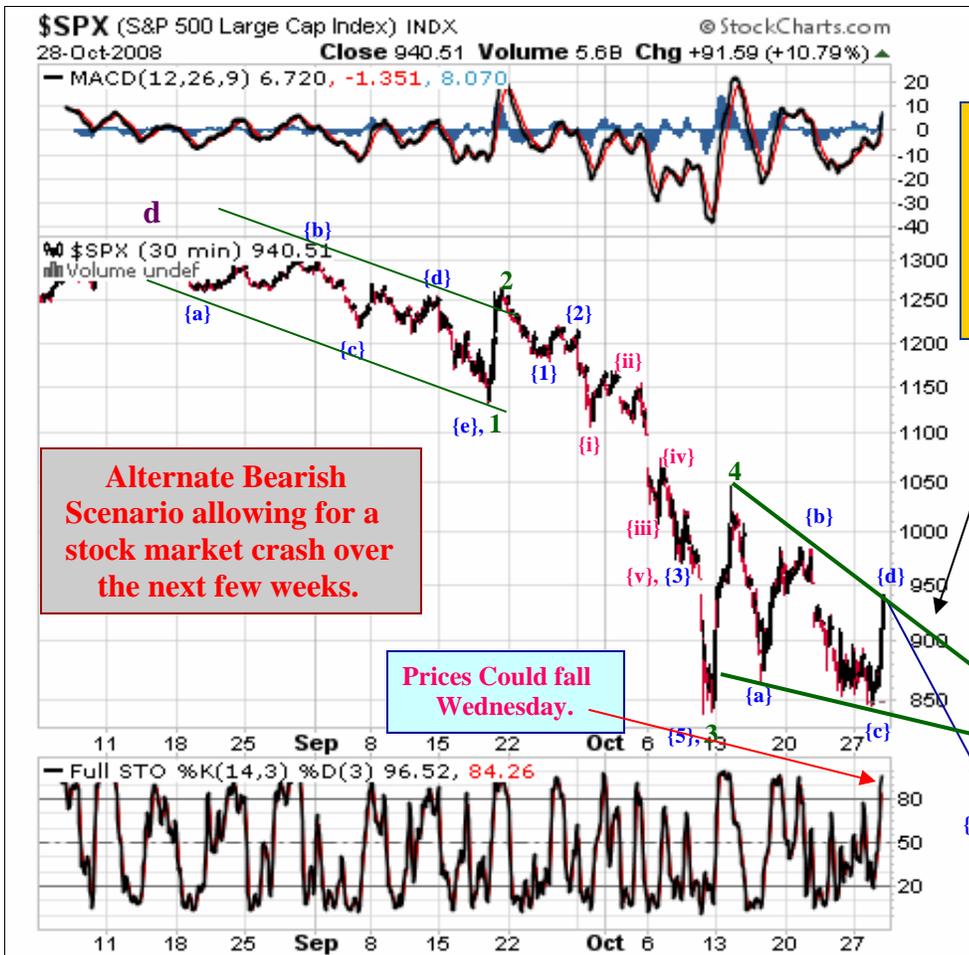
New Bailout Specials:

***6 Months for \$175, or
10 Months for \$215, or
12 Months for \$300, or
13 Months for \$249, or
18 Months for \$359, or
* 24 Months for \$449 ****

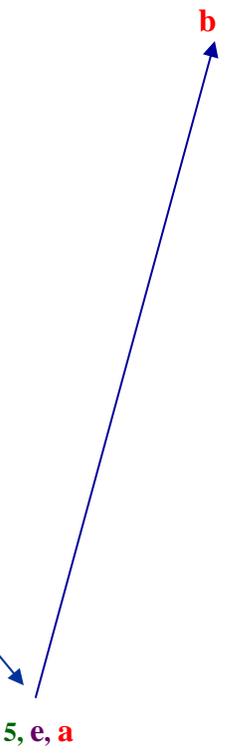
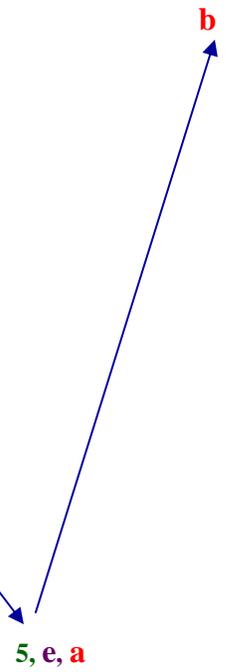
Extended through Sunday, November 2nd, 2008

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The NASDAQ 100's Wave C up of (B) up would be considered finished. If so, we are headed back down to 800 or lower.

The NDX is approaching a bottom.



Stocks Could Fall Wednesday.





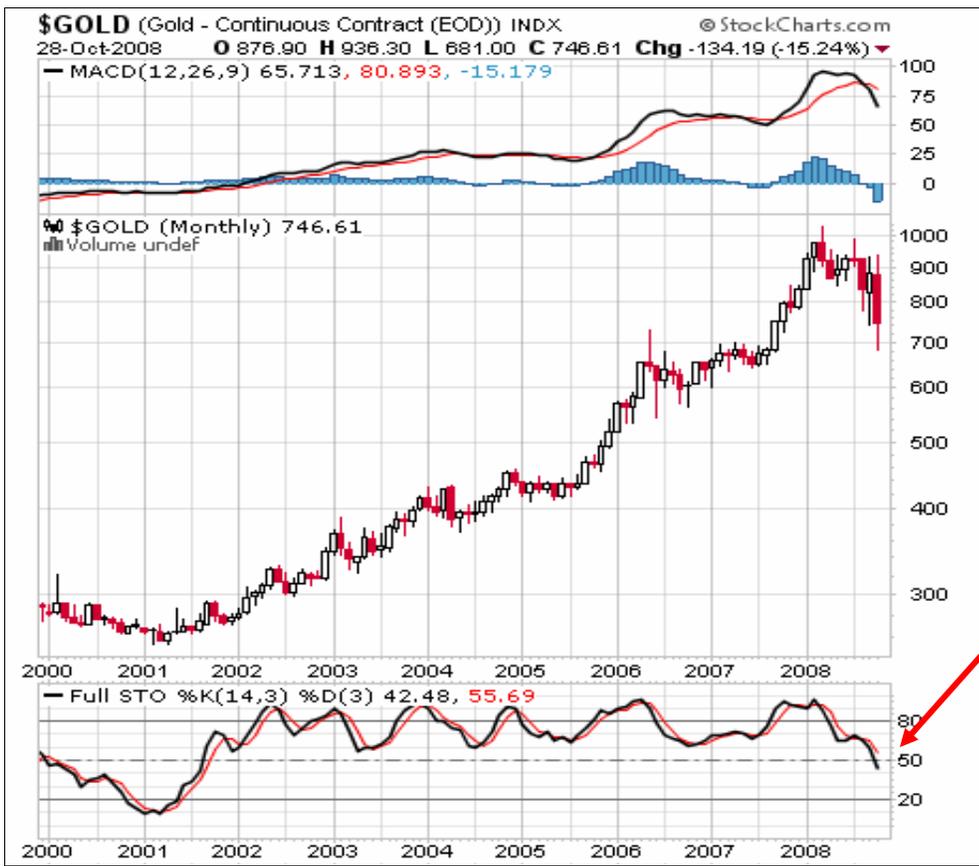
The MACD is on a Sell signal.
 The Full Stochastics Trigger a buy signal.
 However, the Full Stochastics are at the level where bottoms arrive.



The Weekly Full Stochastics trigger a buy signal, at the level where bottoms arrive.



The Monthly Full Stochastics are on a sell signal. However, the Monthly Full Stochastics are at the level where bottoms arrive.



Gold's Monthly Full Stochastics allow for more decline, however by dropping to the 50 level, they have fallen further than at any time since 2001. That suggests either a deep decline is underway, or a bottom is imminent.



3 of (1), III

Weekly Full STO
 Suggests Gold is
 bottoming.





Daily MACD
 On a sell signal,
 But curling up,
 ready to generate a
 new buy.

Daily Full STO
 Trigger a new
 buy signal!!



The MACD is
On a Sell Signal.

The Weekly Full
Stochastics
Are on a
Sell Signal.

Key Economic Statistics

<u>Date</u>	<u>VIX</u>	<u>U.S. \$</u>	<u>Euro</u>	<u>CRB</u>	<u>Gold</u>	<u>Silver</u>	<u>Crude Oil</u>	<u>1 Week Avg. M-3</u>
10/17/08	70.33	82.40	134.14	280.65	787.7	9.34	71.85	Hidden
10/24/08	79.13	86.42	126.35	256.00	730.3	9.30	64.15	Hidden
10/28/08	66.96	86.73	127.23	259.02	749.4	9.23	65.04	Hidden

Note: Dollar, Oil and Gold rise; VIX and Silver fall.

Conservative Balanced Portfolio Recent Transactions As of Tuesday October 28th, 2008

* On 8/25/08 we increased the Market Timing segment allocation of our conservative portfolio from 5 percent to 10 percent, by moving \$50,000 of cash to this segment.

* On 8/25/08, we sold 50 shares of IYT, an ETF that mirrors the Trannies, at \$89.17 per share. We also sold 100 shares of QQQQ, the ETF that mirrors the NDX, at \$46.50 per share.

* On 8/25/08, we purchased 50 shares of SLV, at \$136.89 per share, an ETF that mirrors Silver. We also purchased 300 shares of GDX, at \$36.91 per share, an ETF that mirrors the HUI Amex Gold bugs Index. We also purchased 100 shares of GLD, at \$80.95 per share, an ETF that mirrors the price of Gold. These purchases were made within the Market Timing Segment of our Conservative portfolio.

* On 8/25/08, we purchased 12 ounces of actual Gold at \$820 an ounce, in the Gold segment of our portfolio.

Note: Our Conservative Portfolio Model substantially outperformed the S&P 500 in the first quarter, 2008. Check it out! Click on the Conservative Portfolio button at the left side of the home page.

We posted an updated Balances/Market Value Portfolio as of March 31st, 2008, available in the Conservative Portfolio section.

New Bailout Specials:

*6 Months for \$175, or
10 Months for \$215, or
12 Months for \$300, or
13 Months for \$249, or
18 Months for \$359, or
* 24 Months for \$449 **

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Robert McHugh Ph.D. is President and CEO of Main Line Investors, Inc., a registered investment advisor in the Commonwealth of Pennsylvania, and can be reached at www.technicalindicatorindex.com. The statements, opinions, buy and sell signals, and analyses presented in this newsletter are provided as a general information and education service only. Opinions, estimates, buy and sell signals, and probabilities expressed herein constitute the judgment of the author as of the date indicated and are subject to change without notice. The information contained in the newsletter is expressed in good faith, but its accuracy is not guaranteed. Nothing contained in this newsletter is intended to be, nor shall it be construed as, investment advice, nor is it to be relied upon in making any investment or other decision. Prior to making any investment decision, you are advised to consult with your broker, investment advisor or other appropriate tax or financial professional to determine the suitability of any investment. Neither Main Line Investors, Inc. nor Robert D. McHugh, Jr., Ph.D. Editor shall be responsible or have any liability for investment decisions based upon, or the results obtained from, the information provided. Copyright 2008, Main Line Investors, Inc. All Rights Reserved.

“Jesus said to them, “I am the bread of life; he who comes to Me shall not hunger, and he who believes in Me shall never thirst. For I have come down from heaven, For this is the will of My Father, that everyone who beholds the Son and believes in Him, may have eternal life; and I Myself will raise him up on the last day.”

John 6: 35, 38, 40

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Here are the symbols for Exchange Traded Funds for the Major Indices:

<i>DIA</i>	<i>Dow Industrials</i>	<i>IYT</i>	<i>Trannies</i>
<i>SPY</i>	<i>S&P 500</i>	<i>GDX</i>	<i>HUI Amex Gold Bugs*</i>
<i>QQQQ</i>	<i>NASDAQ 100</i>	<i>GLD</i>	<i>Gold</i>
<i>IWM</i>	<i>Russell 2000</i>	<i>SLV</i>	<i>Silver</i>
<i>EWA</i>	<i>Australia</i>		

**** Note: The GDX actually tracks the GDM, a grouping of 45 mining stocks, but the GDX has very high correlation to the HUI so we mention that as a suitable ETF for the HUI.***