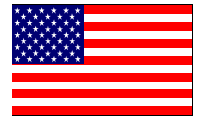


# Hamilton-Bates

## Update

April 28, 2008



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### **Holding Steady at the Top of the Range**

The major averages are all slightly higher on a weekly basis as the week's economic and earnings news were received with a positive spin, and investors looked 'across the valley' to growth by the end of 2008. The week's minor gains leave the averages at the top of the trading range they have been in since January's lows. The market needs a favorable news jolt to move up and out of this range.

### **Economy, Interest Rates, and Earnings**

Earnings results have included positive and negative surprises, but it has been mostly favorable compared to recent expectations. Some financial companies reported more large losses and further write-downs but many technology firms have exceeded forecasts and export stocks generally delivered better than expected gains. Better-than-expected first quarter results and improved 2008 earnings outlooks from NASDAQ components like Intel, Apple, and Broadcom have helped the technology-heavy index cut some of its 2008 losses. Like much of the U.S. industrial sector, technology firms derive much of their revenue from exports, and there is currently a PC boom underway in Asia. According to IT research firm Gartner, computer shipments to the Asia/Pacific region topped sales in the U.S. for the first time.

While earnings have beaten lowered expectations, economic data has continued to show a slide in activity but a better than expected job market. Last week for example, we saw a new low for housing starts but also somewhat better than expected jobless claims data. New houses are now selling at the slowest pace since the last residential real estate slump in the early 1990s. The news is particularly bad because spring is the traditional busy season in the real estate market. Durable goods orders also fell last month—the third consecutive decline in that series. Demand for cars was weak, according to the Commerce Department, as was demand for new home appliances. Economists who follow the housing market have speculated that the slump could last through the second half of 2009. The next two months will see the distribution of the government stimulus checks that promise to cause

more spending. How much is up for debate. We have an FMOOC meeting this week, and analysts who follow the Federal Reserve closely are increasingly discussing the possibility of a pause in the central bank's rate-cutting program. Since last September, Federal Reserve Chairman Ben Bernanke and his colleagues on the policy-setting Federal Open Market Committee have taken the key federal funds rate down from 5.25 percent to its current level of 2.25 percent and have taken a series of sometimes controversial steps to restore liquidity to the U.S. credit markets. While most Fed watchers expect another rate cut of at least a quarter point at the end of this month, the Fed will likely use the other means at its disposal in the coming months to address the ongoing problems in the financial sector. **We expect the Fed to move 25 basis points and then halt the rate cuts.**

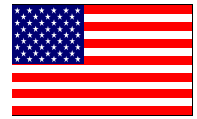
### **Outlook**

The market didn't do anything last week to change our outlook. **The up-trend since March remains intact, but the market is stuck at a well watched 'resistance' area around 1400 on the S&P 500. It will take some positive news or event to get the market above that level. Once there, we could see an acceleration of upside, possibly to 1470. What we would not want to see, would be a move above 1400 followed by a surge in sell orders that takes the market back below this level. That could signal a breakout 'fake-out' and precede a larger decline.** For now, the up-trend is still in rebound mode. Even if we are in a recession (we are) the current bounce can still take the market higher. During the March weakness we noted that many indicators were diverging and not confirming the market's price low. This signaled a loss of downside momentum and rebound potential. If the market can push above the well-watched resistance just above current levels, traders will rush to buy and cover shorts. Instead of selling into the rally, managers will then step in to buy, recognizing that the chances to 'buy low' could become less frequent once the market makes a clear breakout. There is cash on the sidelines waiting to move into equities and it will do so if the S&P can push above 1400.



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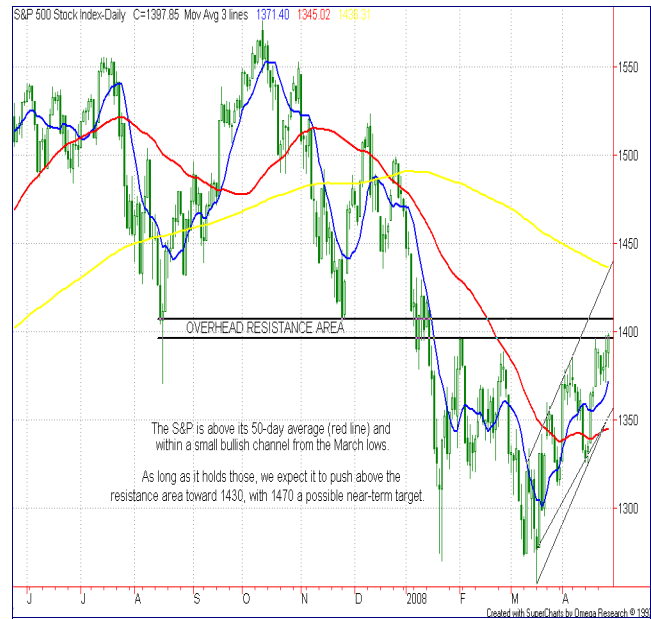
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### Market Charts and Technical Indicators

#### S&P Clawing Away at Resistance (S&P 500)

The S&P 500 remains at the top of its recent trading range, and just at the lower edges of a widely watched technical resistance area. The market simply refuses to back away from this level. This is a big news week, with an FOMC meeting on Tuesday and an Employment Report on Friday. If the S&P can punch through this area we could very well see a rapid push toward 1430, then 1450-1470 as shorts scramble to cover and long-side managers move sideline money into the market for fear of missing out. This resistance area (black horizontal lines in chart labeled resistance) is so well defined and watched that there is a good deal of complacency that the market won't punch through or one it does will give the buyers time to get in afterwards. The market rarely complies with the masses, so likely we'll see a stampede of buying if the indexes can move through this level or it won't make it at all. We expect the former, and only a breakout fake-out could change the outlook.



#### A Look at a Longer Term Chart

Once again we take a look at the S&P Weekly Chart. This shows the correction since last Fall clearly breaking the 2003-2007 uptrend (upward sloping line in chart) before beginning a basing period over the past several weeks. The past few weeks have put the market in the position to breakout above the 1380-1400 resistance that has capped gains for the past five months. A Friday close above 1400 will do the trick.

The bottom panel shows the MACD indicator, albeit a longer Term version given it's a longer term chart. The MACD Indicator is essentially a trend indicator, doing a good job at identifying trending markets. It had been negative since November of last year, with the market briefly moving higher before rolling over into Spring of this year. The indicator has been gradually improving, and finally two Friday's ago it finally triggered a 'buy' signal reversing last year's 'sell'. This suggests that the market advance should last longer than many expect, and unless we get a whipsaw sell, should push the S&P past 1400 perhaps even close to 1500 in the next few months. 1430-1450-1470 are likely waypoint targets once 1400 is broken to the upside.

