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Bull Bear Review[sm] *with*

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- **Trends turn higher**
- **Commercials add to long position**
- **Focus now on 1st quarter earnings**

We can add **Trend** to the Bull side of our ledger this week as prices of all indexes continue to move higher.

The commercials continued buying into last week's up movement in price and are now long the same degree that they where prior to the 2,000 point rally from July 2006 through February 2007. It's a bit unusual to see them add to longs on a move up; they normally are scale down buyers and then sell into rallies. Their aggressive action gives me confidence that the nascent up trend will continue. Last week's commitment of traders report also showed that the small speculator has moved to a neutral position from being net long for many months. What a perfect time for the market to go up after the little guy gives up and gets out. Taking the opposite side of the large commercial was the large speculator a.k.a. hedge fund. They are getting heavily short which is what could add fuel to this rally. As prices move to new highs they will cover their positions, which means they have to BUY back their shorts.

The market will likely turn its attention to earnings as the 1st quarter reports start coming out. I believe that expectations have been lowered to the point that upside surprises will be common and this could be the catalyst that propels this market higher.

On The Upside

Trends have all turned positive. My proprietary trend indicator is up. Additionally, the slope of the 21-, 50- and 200-day moving averages is up. Richard Russell in his Dow Theory Newsletter publishes his trend indicator and it is up and moving to new highs. The Utility index hit a new high this week. As long as price remains above **12,220** in the Dow and **1,408** and **1,750** in the S&P and Nasdaq 100 indexes respectively, all lights are green.

According to Thomson Financial, 2006 was a record year for global merger and acquisition activity, hitting 3.77 trillion and topping the record set in 2000 of 3.44 trillion. This trend has continued into 2007. A recent *Fortune Magazine* article discussed the ten biggest

BULL BEAR REVIEW 04-04-2007 SPX 1,437 NDX 1,795 DJI 12,510

Bull (up)	Bear (down)
Trend	**Inverted Yield Curve**
Liquidity and Free Cash Flow	**Housing Market Fall Out**
Leeb Oil Index	**Pattern (Time & Price)**
Seasonals (Up Nov. 1 thru April 30)	**Major Cyclical low due late 4th quarter**
Commitment of Traders	

private equity firms. By their calculations these top ten firms have $250 Billion in cash. They will borrow up to 10 times that amount in doing their deals (hence the term "leveraged buy out"). This means they have buying power of $2.5 Trillion. This should add tremendous **liquidity** to the market thus driving it higher during good times and supporting it during sell offs.

Oil prices are $65/brrl. However, because the price of oil moved up sharply from February to August of 2006 we are still trading below year ago levels. The price of oil verses one year ago has been lower for the last seventeen weeks. Stephan Leeb, editor of the *The Complete Investor*, notes that, "Over the past 30 years, stocks have never fallen more than 5% during the 6 months following a drop in price below year ago levels."

There is a strong up **seasonal** from November 1 through April 30th.

The Dow Jones Industrial Utility index is in an up trend and just made new highs**.** This index normally tops before other indexes top not after.

On the Downside

Three-month treasury bills are yielding more then the ten- and thirty-year treasury bonds and have been since June of 2006. This is what is called an **inverted yield curve** and is an important "red flag" because this condition has resulted in a recession seven out of the last eight occurrences. There has not been a recession since 1950 that was not preceded by a 10 to 20 percent decline in the stock market.

The **housing market fall out** remains the wild card. What we know about the housing market cycles are that the average length of time from peak to trough is 27 months. This down move started in January of 2006 and therefore likely has another 12 months. In the past 40 years private residential construction has never contracted to this extent with out triggering a recession. February New-home sales in the U.S. fell to seven year lows (Bloomberg March 26). Housing inventories are at a 16-year high (8.1 months at the current rate of sales).

Robert Prechter's Elliott Wave International report is showing a completed wave **pattern** through February the 22, 2007. The next move using their approach is strongly lower. The last three out of four calls they have made have been correct on direction but wrong on the degree of the drop. They correctly called the May 2006 highs to the day but where calling for a much greater move down then the 8 percent.

The 3.3-year **cycle low** is due late in 2007 early 2008. This cycle low has marked many significant lows over the past twenty-five years including the 1987 crash low.

Your Bull Bear Review Analyst,

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