High Grade Bond Summation Index

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***e*Research Corporation** is pleased to provide a weekly commentary, authored by Tom McClellan, entitled "The McClellan Chart-In-Focus", which is a free technical analysis article published each week.

In this article, Mr. McClellan explains why the same RASI indicator has different rules of interpretation for the stock market and for the corporate bond market.

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Bob Weir, CFA
Contributing Analyst

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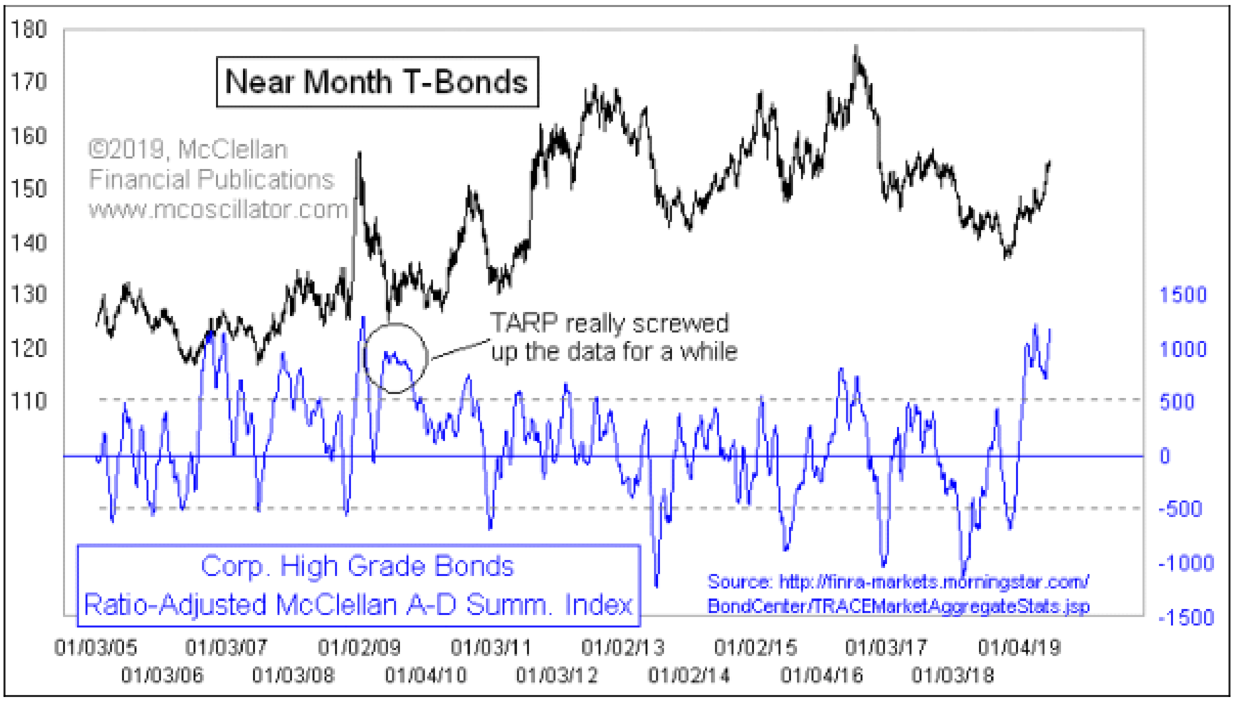
The McClellan Chart-In-Focus

by Tom McClellan (bio at end)

High Grade Bond Summation Index

The Treasury Bond blow-off that is currently underway is dragging along the high-grade corporate bonds due to the coattails effect. That is leading to really strong numbers for the Advance-Decline statistics for these corporate bonds, which has driven up the Ratio-Adjusted Summation Index (RASI) for these bonds to a really high level.



When it comes to the stock market, a really high RASI for the NYSE is great news. (BW: See our latest RASI report to be posted on Saturday, June 22.) It says that strong upward initiation of an uptrend has taken place, and it promises us further gains yet to come in the weeks and months ahead.

But it does not work the same in the bond market.

Stocks make spike bottoms and rounded tops; there are no real blow-offs in the historical record for the overall stock market, although there was one for the Nasdaq back in 2000 which was a rare exception. But the bond market DOES see blow-off price tops. So when there are really high RASI readings like what we are seeing now, they are usually associated with important price tops for T-Bonds.

This is somewhat counter-intuitive. Why should the same indicator have different rules of interpretation for the stock market and for the corporate bond market? Markets should be markets, and the rules should be the same, dammit!!

But that is a procrustean view. That is telling the market how IT should behave, rather than listening to the data and learning how to accept their messages. It is not our place to tell the stock and bond markets how they are supposed to behave. Our job is to figure out the rules that they follow, and see where those rules can perhaps give us an edge.

Right now, the message is that everyone is mad for T-Bonds and piling in like crazy. That sort of investor action in the past has usually not been rewarded.

Tom McClellan, Editor
The McClellan Market Report

BW: Information on Tom McClellan and *The McClellan Market Report* and *The Daily Edition* is provided on the next page.

ABOUT THE AUTHOR

Tom McClellan

Tom McClellan has done extensive analytical spreadsheet development for the stock and commodities markets, including the synthesizing of the four-year Presidential Cycle Pattern. He has fine-tuned the rules for inter-relationships between financial markets to provide leading indications for important market and economic data.

Tom is a graduate of the U.S. Military Academy at West Point, where he studied aerospace engineering, and he served as an Army helicopter pilot for 11 years. He began his own study of market technical analysis while still in the Army, and discovered ways to expand the use of certain indicators to forecast future market turning points.

Tom views the movements of prices in the financial market through the eyes of an engineer, which allows him to focus on what the data really say rather than interpreting events according to the same "conventional wisdom" used by other analysts.

In 1993, he left the Army to join his father in pursuing a new career doing this type of analysis. Tom and his Father spent the next two years refining their analysis techniques and laying groundwork.

In April 1995 they launched their newsletter, The McClellan Market Report, an 8-page report covering the stock, bond, and gold markets, which is published twice a month. They utilize the unique indicators they have developed to present their view of the market's structure as well as their forecasts for future trend direction and the timing of turning points.

A Daily Edition was added in February 1998 to give subscribers daily updates on their indicators and also provide market position indications for stocks, bonds, and gold. Their subscribers range from individual investors to professional fund managers. Tom serves as editor of both publications, and runs the newsletter business from its location in Lakewood, WA.

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