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BOND MARKET

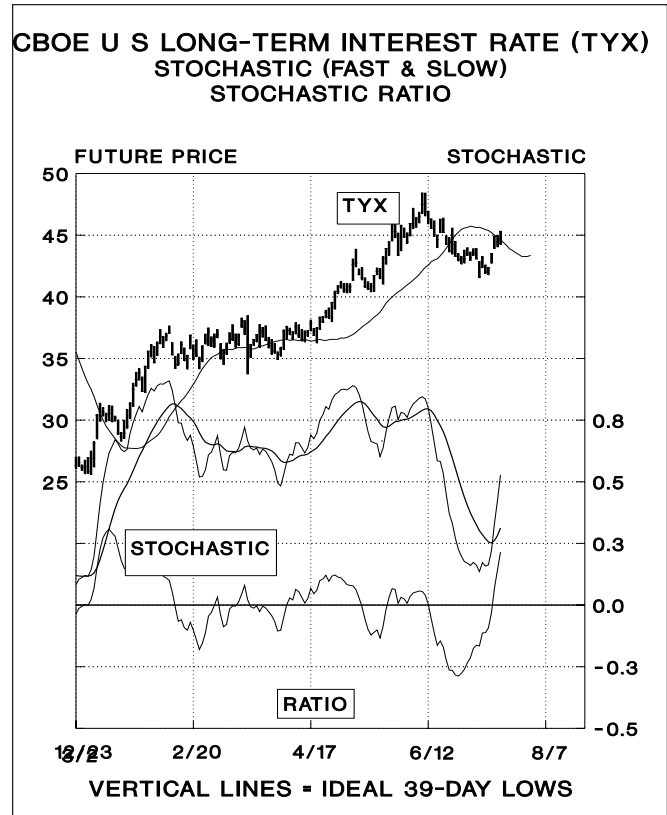
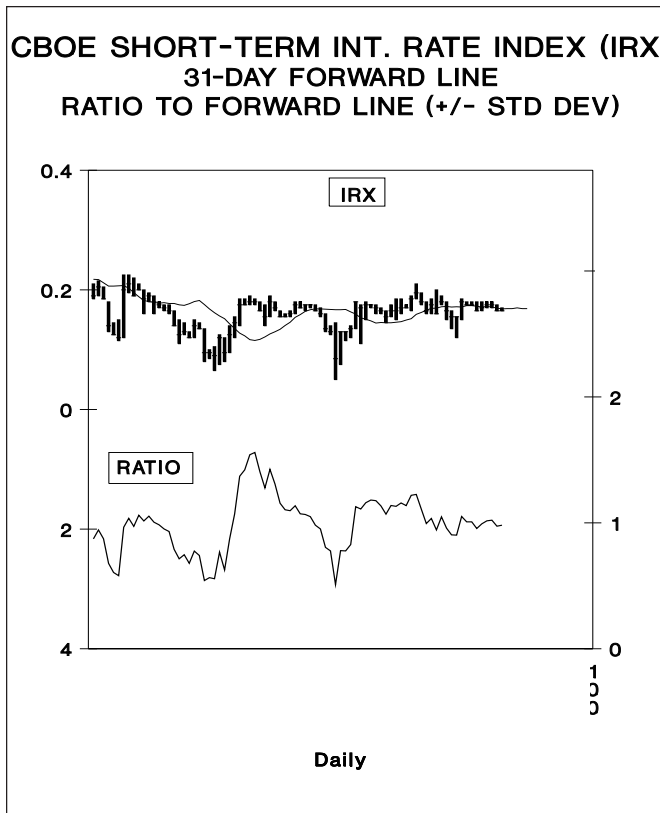
July 17, 2009

Trend Table

Index	Signal	Date	Sig Pr	Cur Pr
BKX	Dn	7/10	34.58	37.08
IRX	Dn	3/13	0.240	0.165
TYX	Dn	7/10	4.266	4.529
UTY	Up	3/20	344.89	380.33

* change from last week

Last week I mentioned that the long-term interest rate had a half cycle or roughly 20 days that was due to bottom at any moment. From looking at the chart, you can see there is not much question a bottom occurred. Now the question arises as to whether the earlier inver-



sion has upset the normal cyclical rhythm of around 40 days. Have peaked at the ideal cyclical turning point in mid June rather than bottoming, the inversion may be telling us that the cycle has advanced half a length. This will be proven if the long rate breaks above its forward line where it is stuck right now. If it breaks the forward line, the low last seen was a 40-day low and rates will rise for at least another few weeks. If forward line holds and the rate turns back downward from here, the low was the 20-day variety and the longer, 40-day low is coming up around the first week in August. Frankly, I believe this recent low was an important one, but we will see how the rate interacts with its forward line to be sure. The forward line was at 4.458% on Friday. The close was higher,

continued on page 3

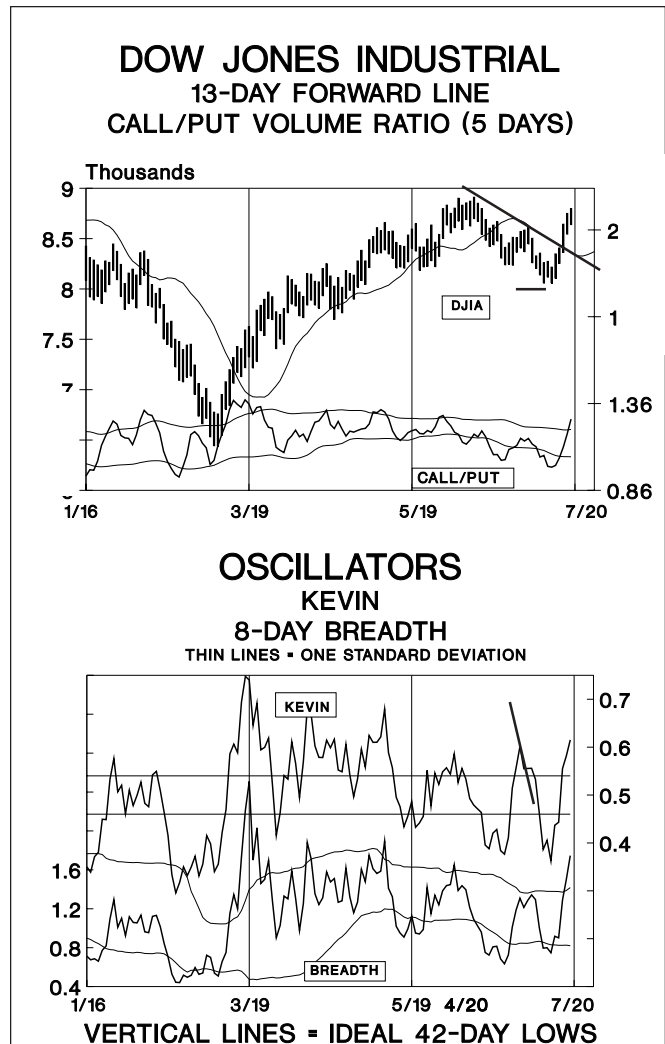
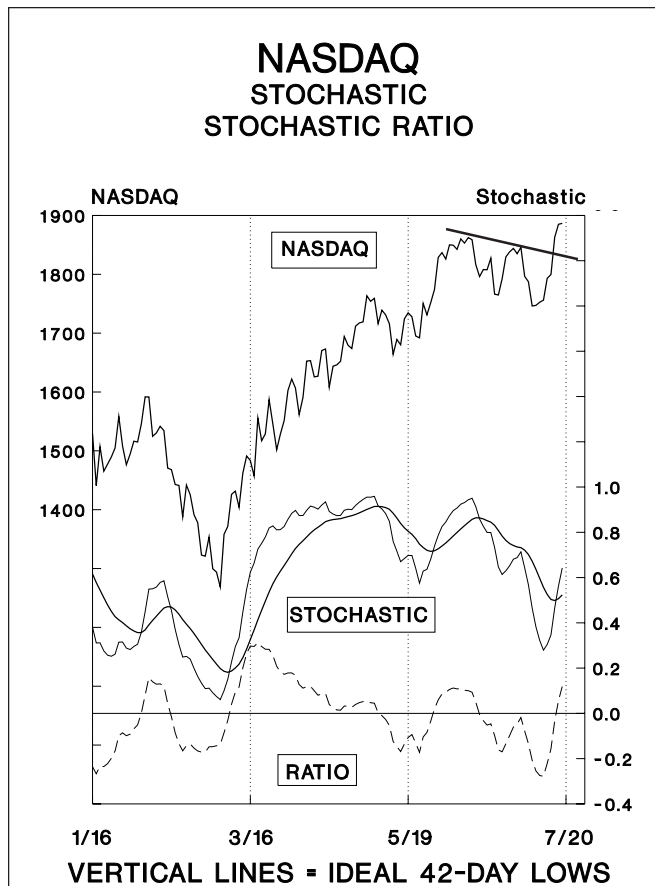
STOCK MARKET

Trend Table

Index	Signal	Date	Sig Pr	Cur Pr
DJIA	Dn	6/26	8421	8744
NDX	Dn	7/10	1413	1527
OEX	Dn	7/10	416.76	441.14
VIX	Dn	7/10		

* change last week

The head-and-shoulders top pattern visible last week failed this week. The rally broke the trend line from the head through the right shoulder. It also exceeded the peak of the right shoulder in the DJIA and the head in the NASDAQ. These are very favorable developments. Failed patterns usually behave better than standard



patterns. A failed head-and-shoulders top is one of the most powerful bullish patterns.

The strength of last week's rise and its confirmation by the momentum oscillators indicate that the prior low, the one a week ago, was the cyclical low and that we can expect another month or more of market rally just in the trading cycle. Earlier I had speculated that if the low was also the bottom to the longer, 24-week cycle, the rally could last through the summer at least into late August when the first signs of longer-term problems may appear. This now appears also to be true, namely that an intermediate-term low has formed. In addition, confirmation of this turn in events came from the Value and Bargain stock lists that both turned positive enough

continued on page 3

STOCK MARKET (continued)

to suggest addition of stocks to a portfolio. The trend table above does not reflect the changes in direction mentioned because it waits for slower momentum confirmation. Another week of favorable market (no sharp declines) should push most of the indexes in the table into “Up” trends.

Investment in the hypothetical Value list rose to a **25% invested position**, and in the Bargain list, the suggested investment increased to a **50% invested position**. Rather than buy stocks outright, I suggest placing buy stop orders slightly above last week’s highs. Because the market is overbought, it may correct a little and give you a chance to buy at slightly better prices.



BOND MARKET (continued)

suggesting a breakthrough, but we must wait for another close above that level to confirm Friday’s move.
The short-term interest rate is still in its trading range with no discernable direction.

Glossary of Indicators

KEVIN

The KEVIN oscillator is simply the 8-day moving average of the daily up-volume divided by the total of daily up-volume and down-volume. It was presented to me by an old floor-trader friend named Kevin MacNamara, thus the name "Kevin." I don't believe you will find it in any technical references, but as you can see it is very simple and effective.

FORWARDLINE

When analyzing the cyclical nature of price behavior, I find that moving averages are very useful to dampen shorter- and longer-term price trends. This allows me to concentrate on a specific cycle in the data. Without going into great detail, however, let me give you an example. Let's say a stock index appears to have a 20-day cycle. Using a 10-day moving average, we eliminate the effects of price motion of 10 days and less, allowing us to concentrate on the next higher order cycle, in this case the 20-day and longer cycles. Half the suspected cycle length is usually the period for the calculating the moving average.

When we plot a moving average, however, it lags behind current price behavior because it is being affected by the past prices in the average. To be absolutely true, a moving average should be plotted half the period back from the present. Thus a 10-day moving average should be plotted 5 days behind the present. A moving average is not just an average of prices but also an average of time. The average of price in our example is 10-days, and the average of time is halfway through the period or 5 days earlier.

If a cycle of 20-days exists in the data, and we are representing it by a 10-day moving average plotted 5-days earlier, we will see the highs and lows in the average roughly 10-days apart, high to low, and low to high. The full cycle would be from high to high or low to low of 20

days. The rising portion and declining portion of a 20-day cycle lasts 10-days, ideally. We now plot the moving average ahead 10-days from the true plot (or 5 days from the current price). This is called the "forward line." When the current 20-day cycle is rising, the forward line should be declining because it is half a cycle forward. Crossing above the forward line should ideally occur when the rise is half over. Breaking the forward line can thus be a means of estimating where the next target will be. Because the rise is half over when the forward line is broken, the second half should occur at roughly the same distance (if the cycle is valid and flat).

I know, it sounds complicated. It isn't really, but does sound that way from my trying to describe it. The thing to remember is that if the forward line is broken, say from the upside, the downward price target will be the distance from the top price to the forward line projected below the forward line. If the price stops at the forward line, we know that the underlying trend is strong. If the price exceeds its forward line target, a larger trend reversal is likely developing

KIMM

KIMM is used in the monthly overview as one measure of longer-term stock market momentum. It stands for Kirkpatrick Indicator of Market Momentum. It is a composite of the 12-week momentum of all stocks listed on the New York Stock Exchange. Each stock is given a weight of plus or minus one based on its 12-week price momentum, either upward or downward. The KIMM is the total of all the weights. Thus, a reading of +1000 says that the number of stocks with positive 12-week momentum is a plurality of +1000. That might be 2000 stocks with a plus rating and 1000 with a minus rating. The net is +1000. KIMM generally follows the market and is useful as an overbought/oversold intermediate-term oscillator. Generally, a bullish signal develops when the KIMM above the -1000 level from below, and a bearish signal develops when the KIMM declines below +1000 from above.