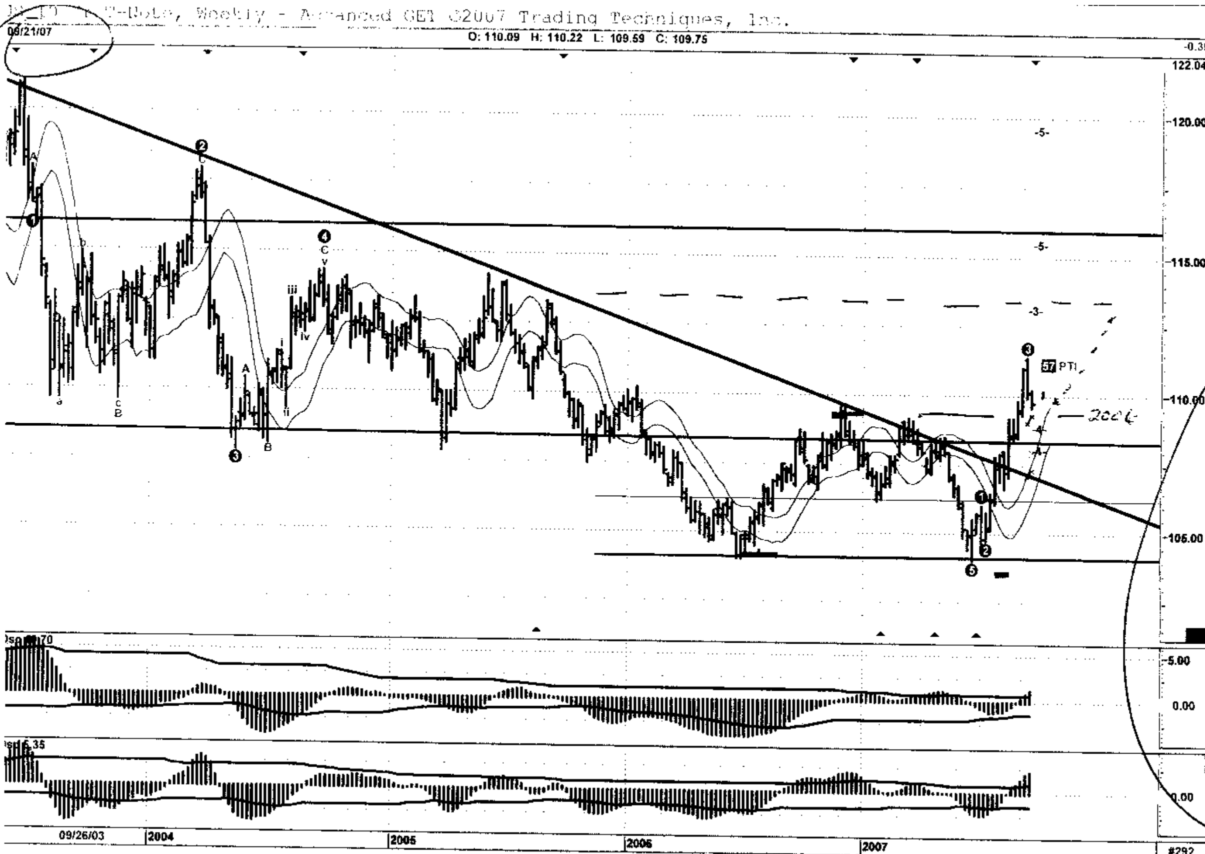
THE FULL HOUSE TRADER MONTHLY FORECAST

October, 2007 Edition
Part 2: Markets
Oct. 18, 2007

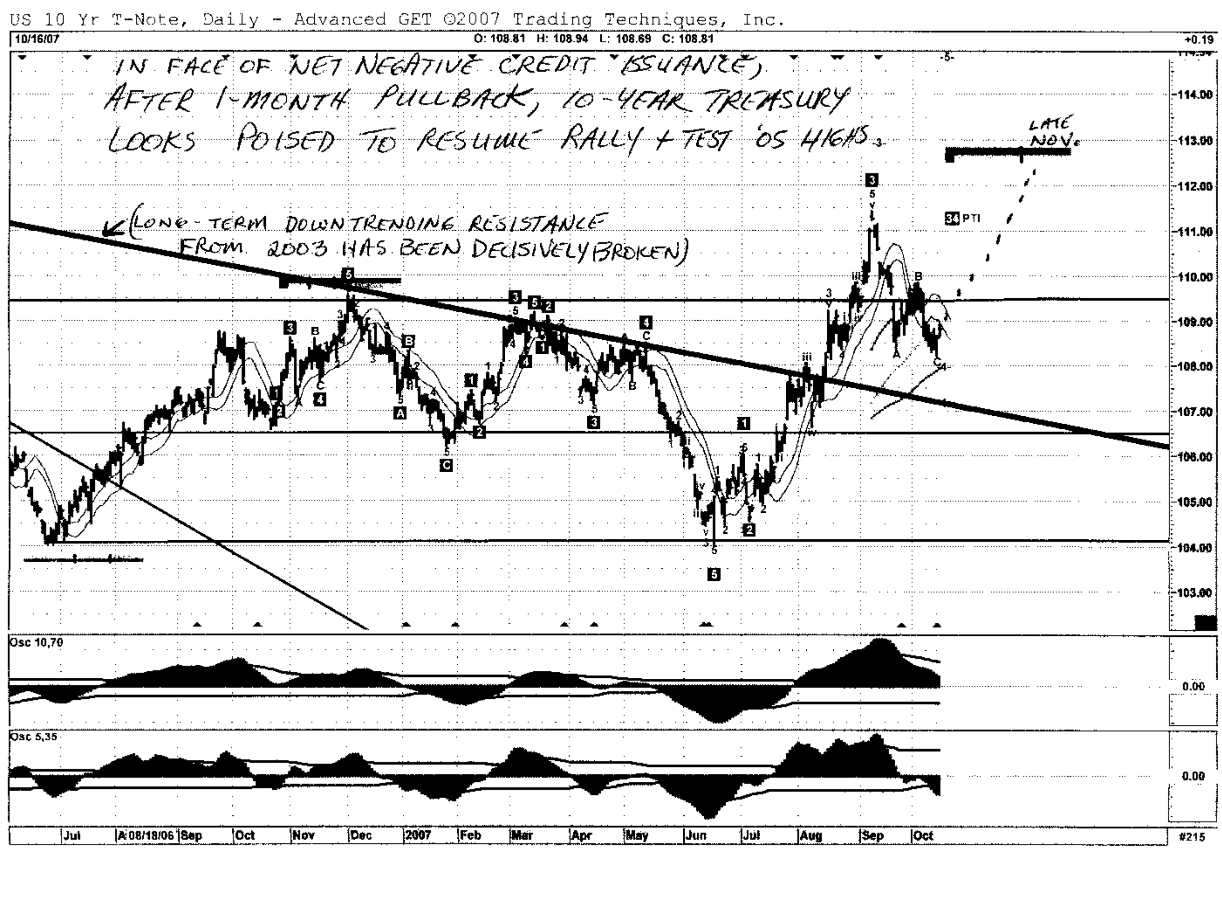
Bishop's Full House Trader



FROM SEPT: LOOKING FOR BOND RALLY TO THE '05 HIGH

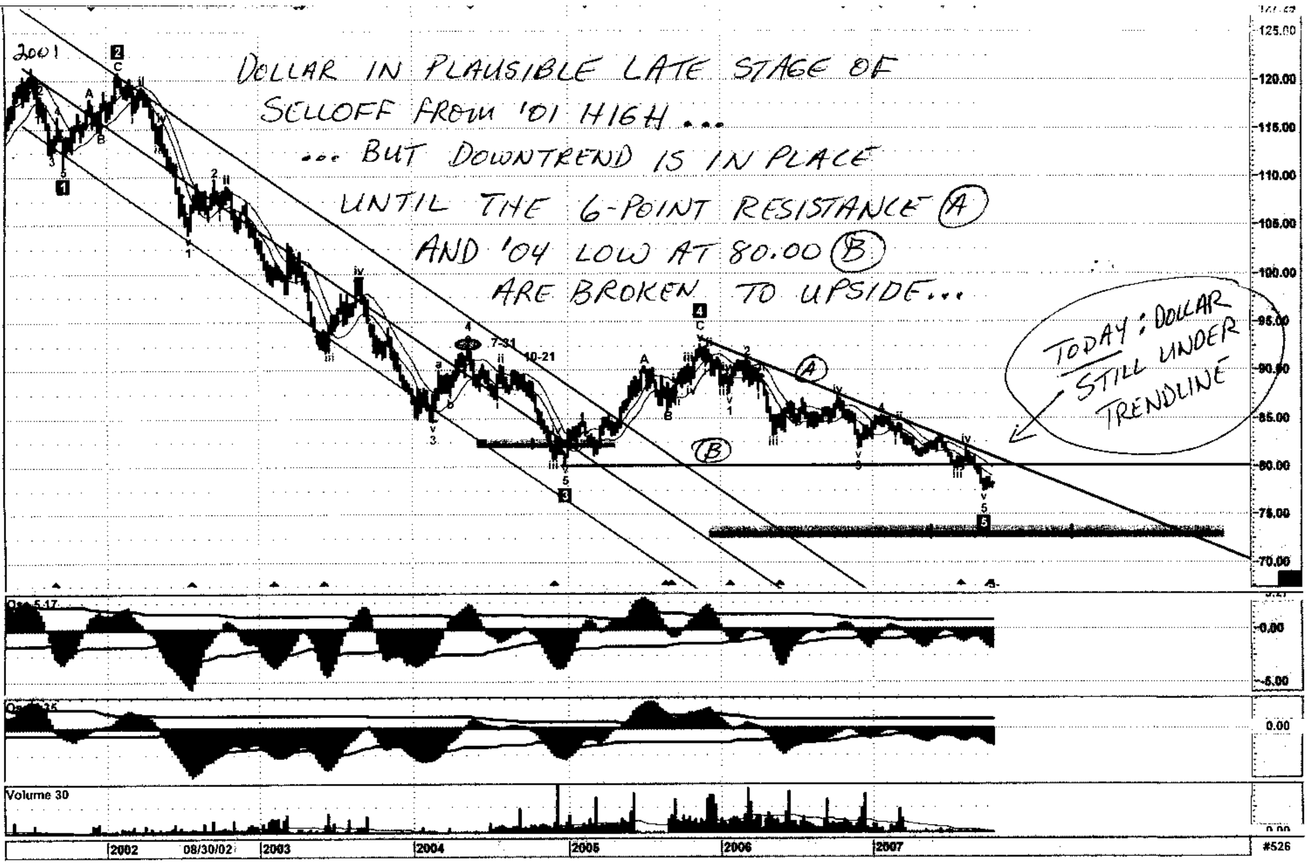
19

BOND BOTTOM IS CLEARLY IN & 2006 RESISTANCE IS BROKEN... FURTHER UPSIDE STILL LIKELY AFTER PULLBACK

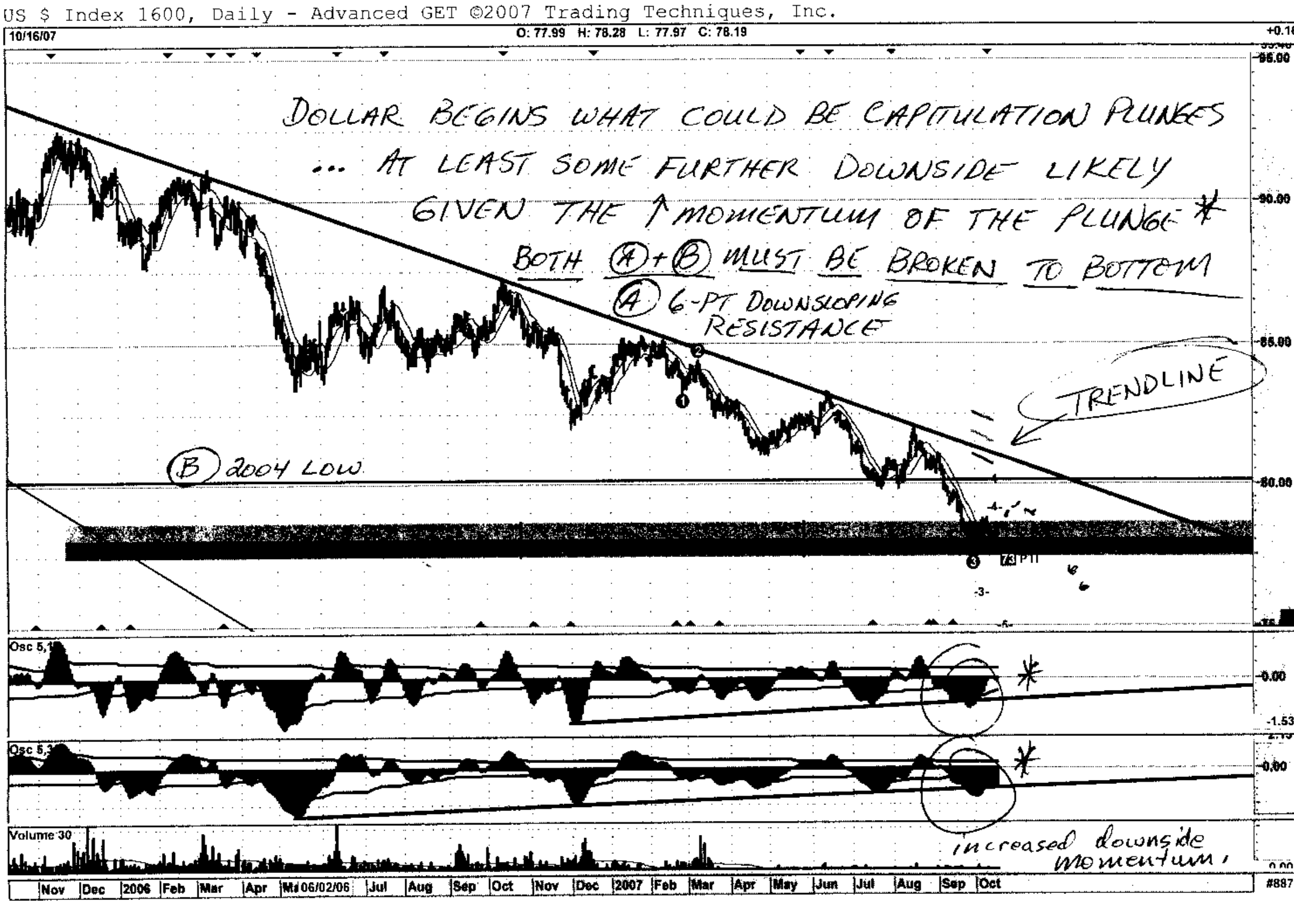


TODAY: STILL LOOKS ON TRACK.

M1



US $ Index 1600, Daily - Advanced GET ©2007 Trading Techniques, Inc.



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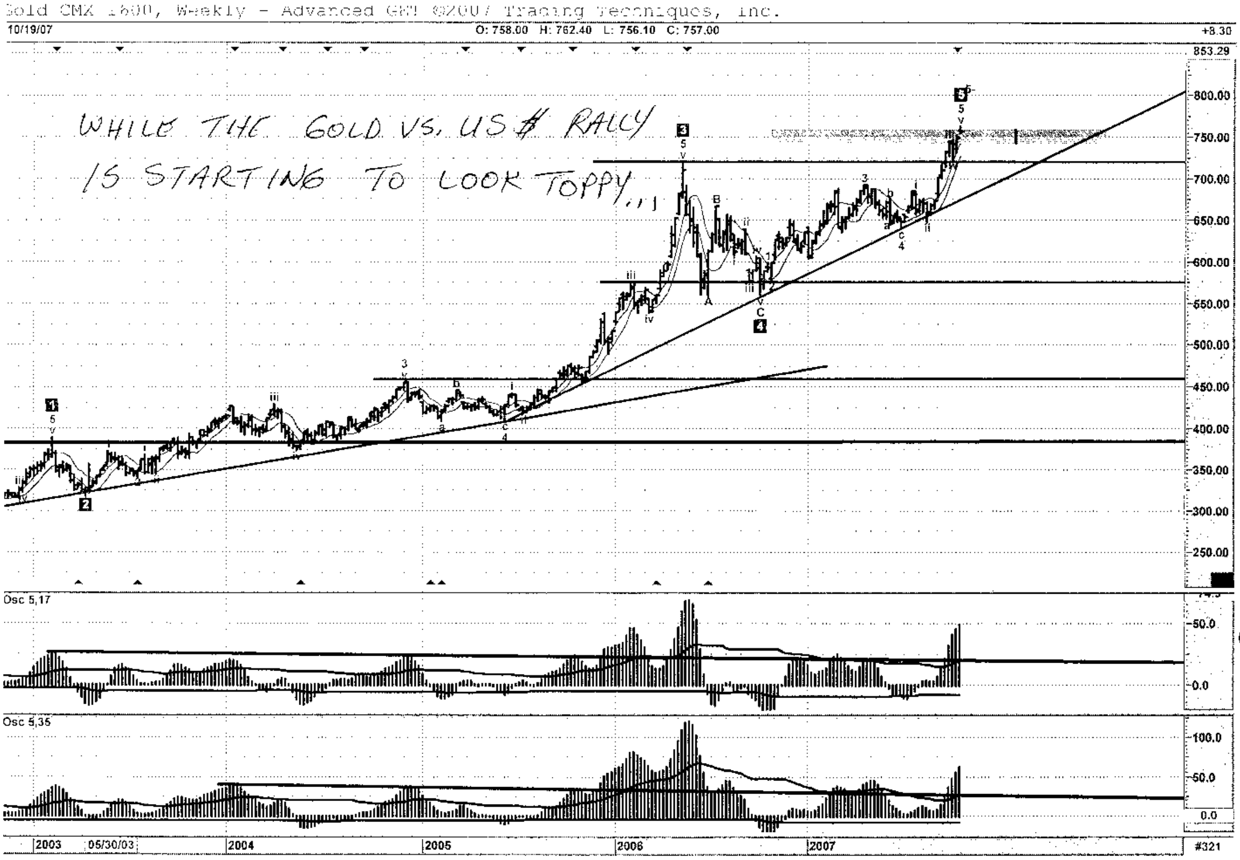
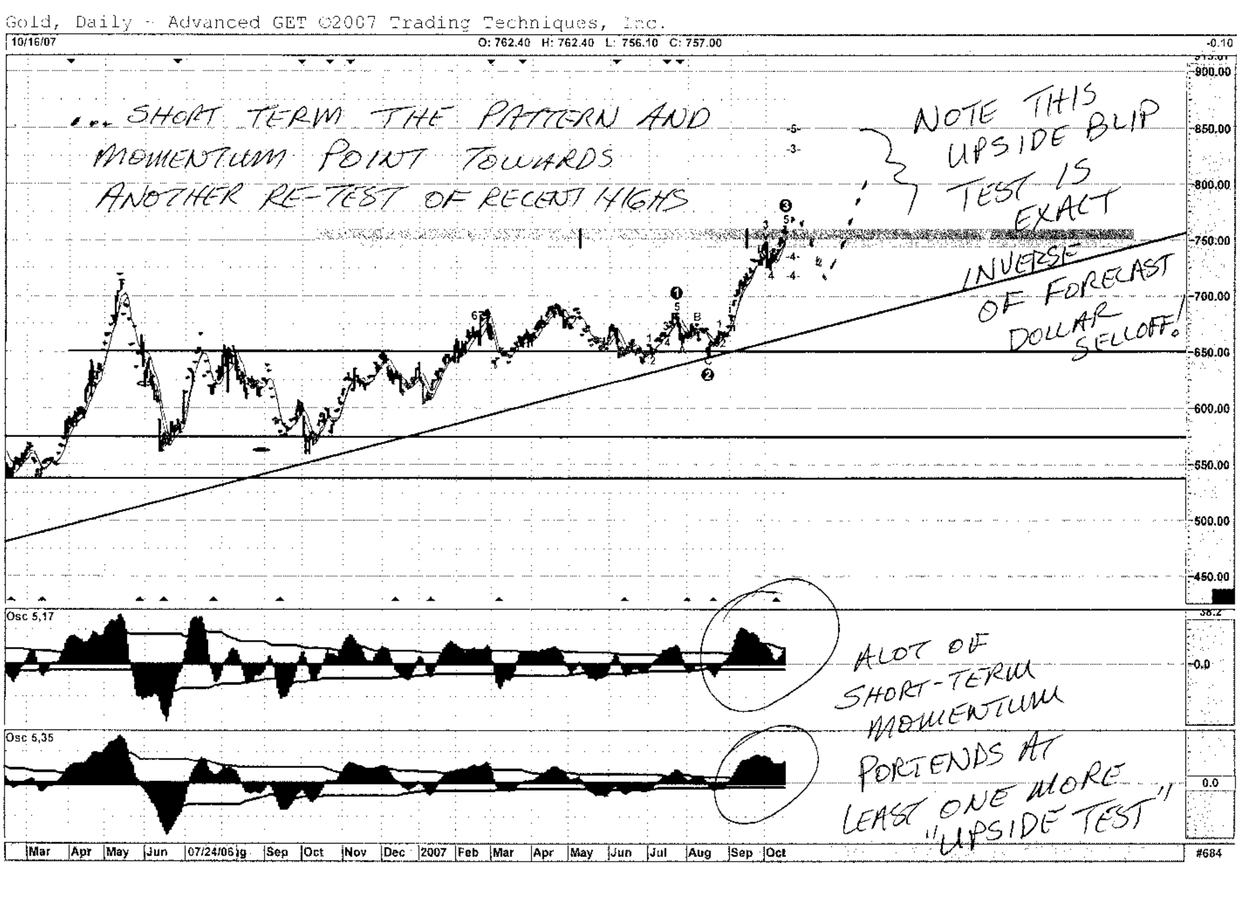


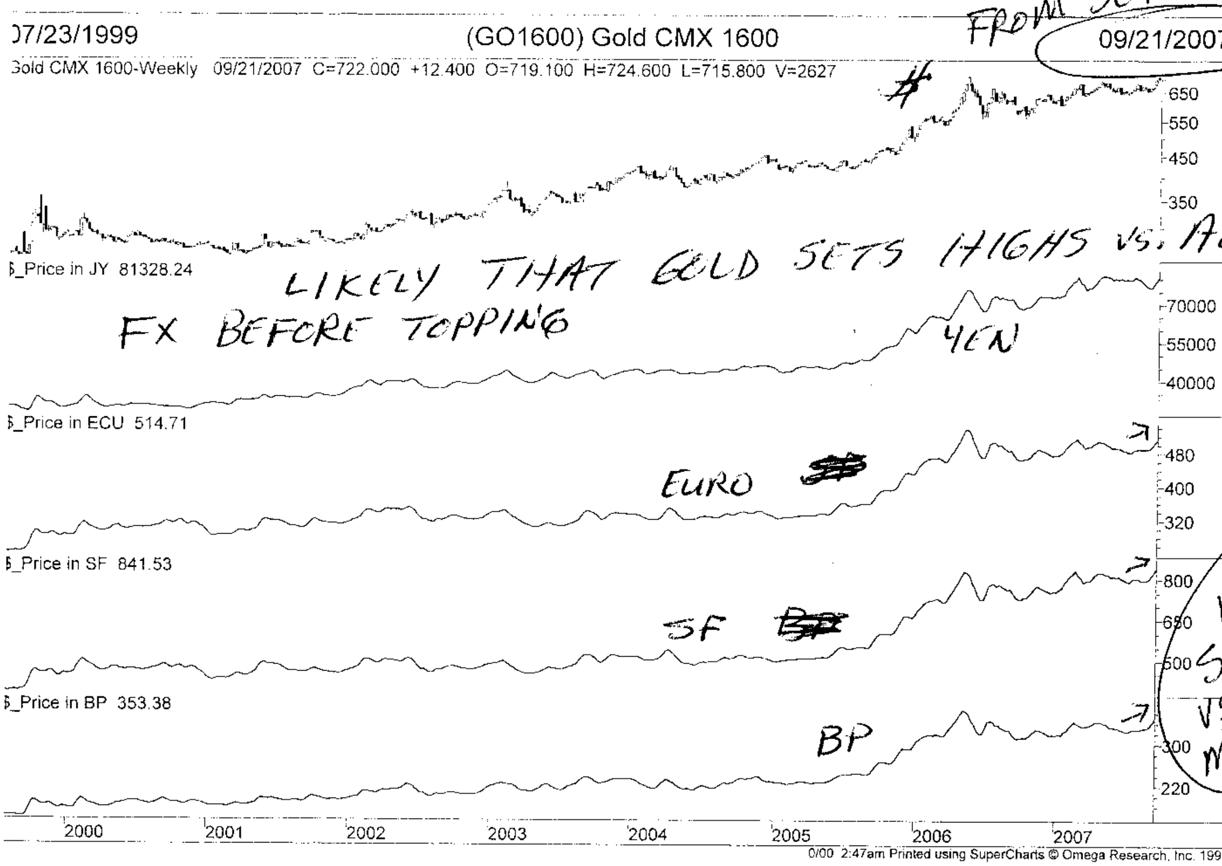
GOLD RALLY GETTING TIRED...

...ONE BLIP LEFT, TO MIRROR DROP IN DOLLAR...



M5

FROM SEPT:



LIKELY THAT GOLD SETS HIGHS VS. ALL MAJOR FX BEFORE TOPPING

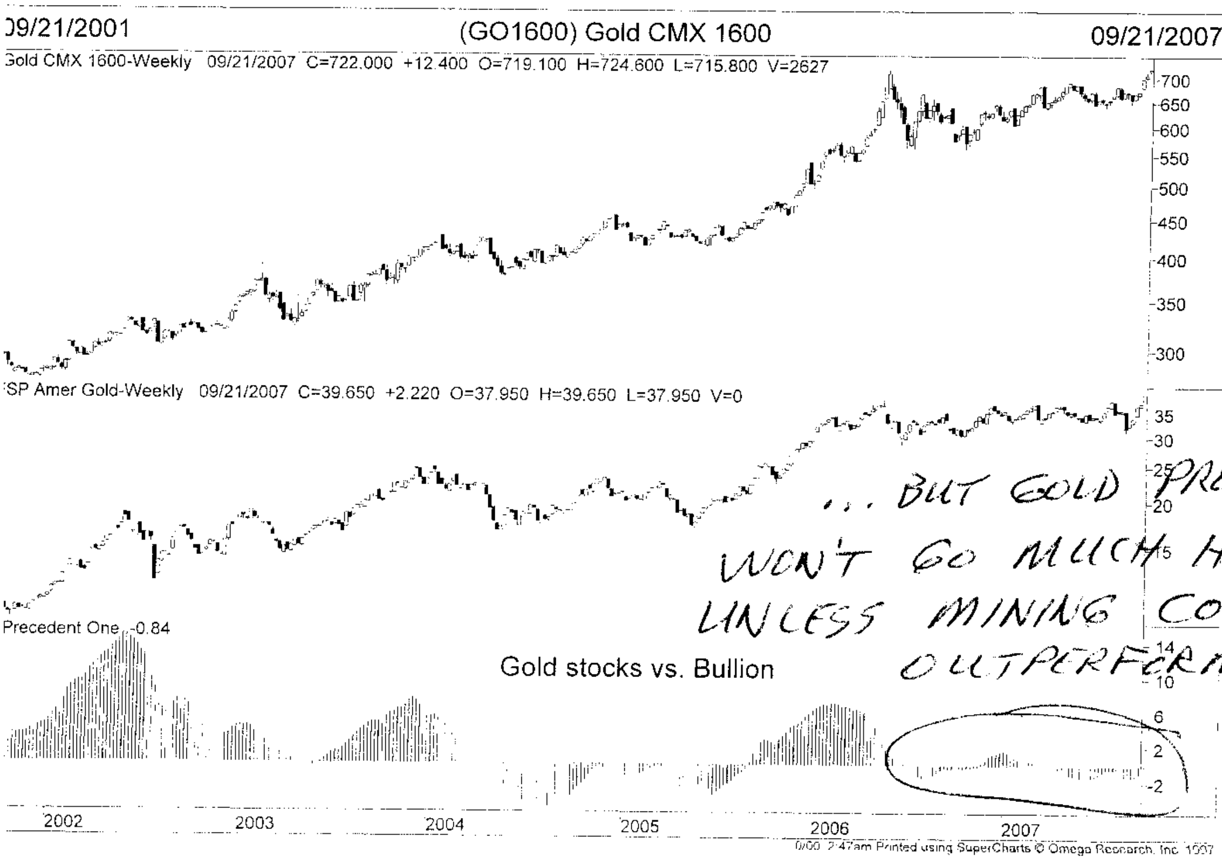
YEN

EURO ~~\$~~

SF ~~BP~~

BP

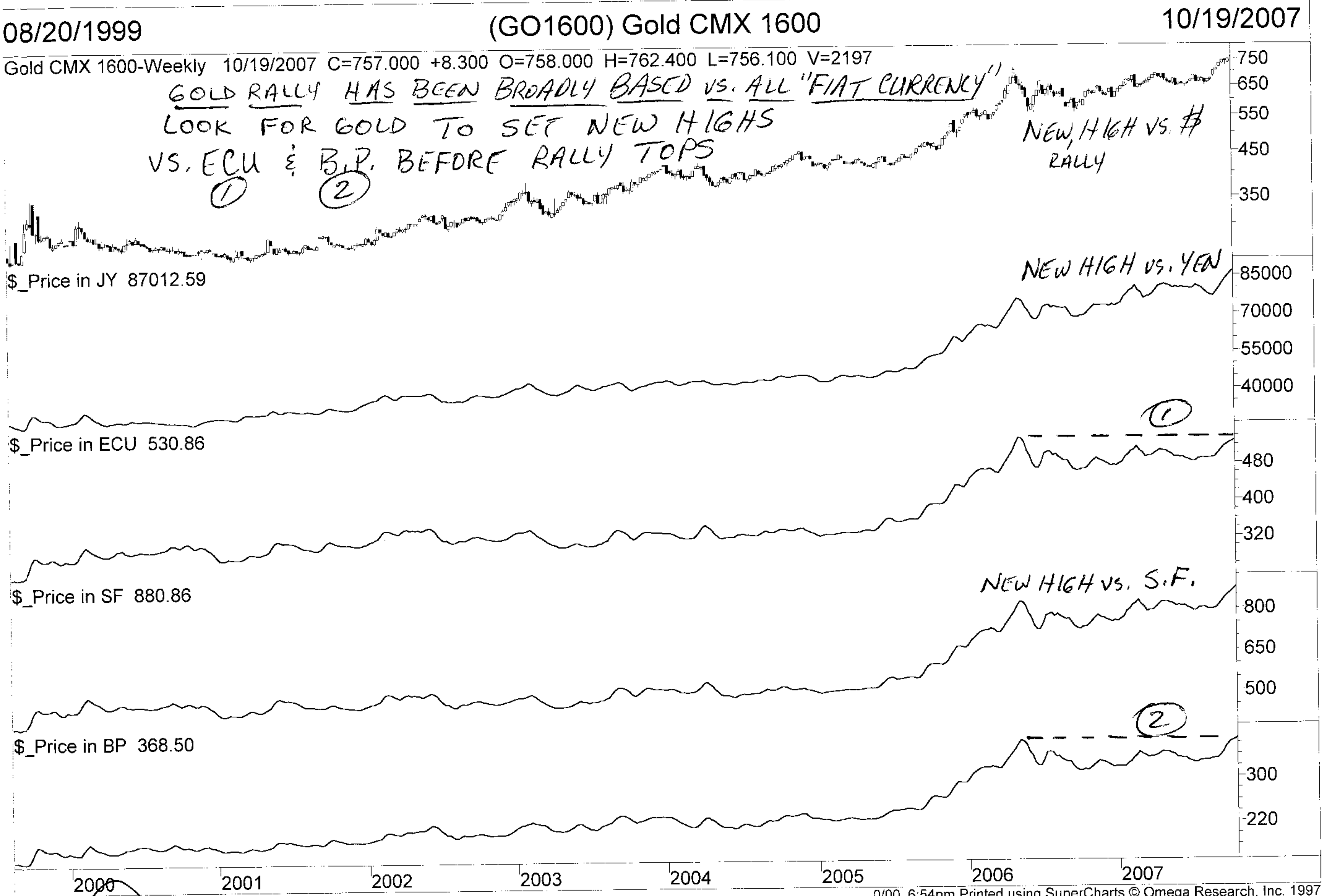
FROM SEPT! GOLD LIKELY TO SET HIGHS VS. ALL MAJOR FX.



... BUT GOLD PROBABLY WON'T GO MUCH HIGHER UNLESS MINING COS. OUTPERFORM...

M6

TODAY: GOLD HITTING HIGHS WORLDWIDE;



M7

IMF Chief Says Dollar Has Room to Fall

By Bob Davis

WASHINGTON—After a week of saying the dollar had fallen too far recently, International Monetary Fund chief Rodrigo de Rato now says the dollar has more room to fall over the next several years.

Over the "medium term," which is three to five years in IMF parlance, "we still see room for further depreciation," Mr. de Rato said. The euro, he said, is "very near" its equilibrium value.

Mr. de Rato first said the dollar had fallen too far last week in an interview with the Financial Times. He repeated that in Madrid and in a session with The Wall Street Journal. He said he was referring to the decline of the dollar compared with a "weighted" average of currencies over the past several years. The dollar gained slightly against the euro after his remarks.

Mr. de Rato's comments set off a series of meetings within the IMF as it struggled to get its message straight before Friday's meeting of finance ministers from the Group of Seven industrialized nations: Canada, France, Germany, Italy, Japan, the United Kingdom and the U.S. The alignment of global currencies is likely to be discussed in the wake of the global credit crunch and U.S. interest-rate cuts.

Mr. de Rato is especially under scrutiny. His remarks about the dollar being undervalued could look as if he were siding with European officials who worry that the strength of the euro, compared with the dollar, is undermining European exporters. Many in the Spanish media speculate that Mr. de Rato, a former Spanish economy minister who is resigning at the end of this month, is gearing up to run for prime minister. Mr. de Rato denies that he will seek office in Spain.

Rodrigo de Rato

At a breakfast with reporters yesterday, Mr. de Rato repeated his remarks that the dollar's drop had been "quite substantial." However, he then added his projection that the dollar still had room to fall. IMF officials say his remarks were meant to more accurately convey the fund's view of the dollar and didn't reflect any pressure from the U.S. Treasury or European finance ministries. "There's still some depreciation to come in the medium term," said the fund's chief economist, Simon Johnson.

Mr. de Rato's clarification underscores the difficulty that even experienced financial officials have in dealing with questions of currency. U.S. Treasury officials consistently say they favor a strong dollar, but they do nothing to defend the currency as it falls in value. They declined to comment on the issue.

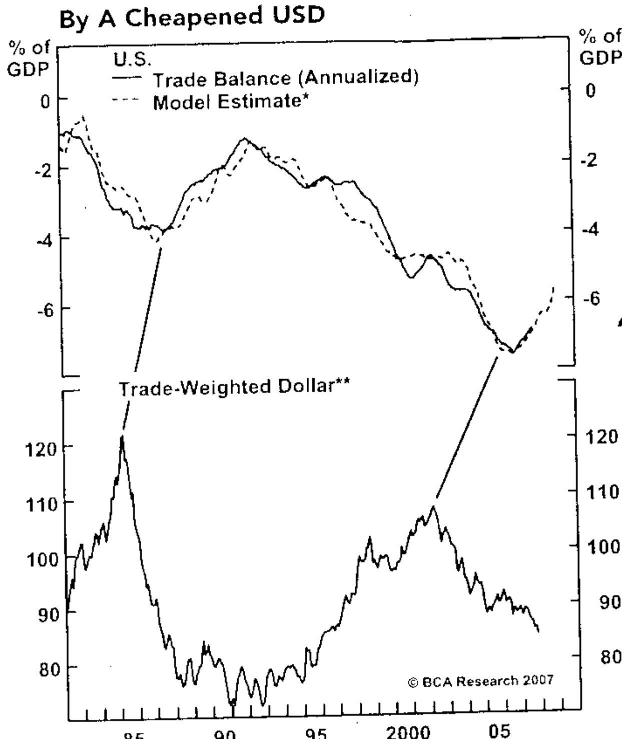
In effect, the U.S. government depends on a steady decline of the dollar to narrow the nation's current-account deficit. If that deficit remains too wide, many economists worry, it could ultimately lead to a crash in the dollar.

The U.S. and Europe also have been pushing China to let its currency rise in value against both the dollar and euro as a way to minimize "global imbalances" and give a lift to U.S. and European exporters. Mr. de Rato repeated the IMF's view that the yuan "should have more flexible movement," which he said was in China's interest because it would "allow for strong growth and strong domestic consumption."

—Joellen Perry contributed to this article.

CHART 10

U.S.: Trade Deficit Is Narrowed By A Cheapened USD



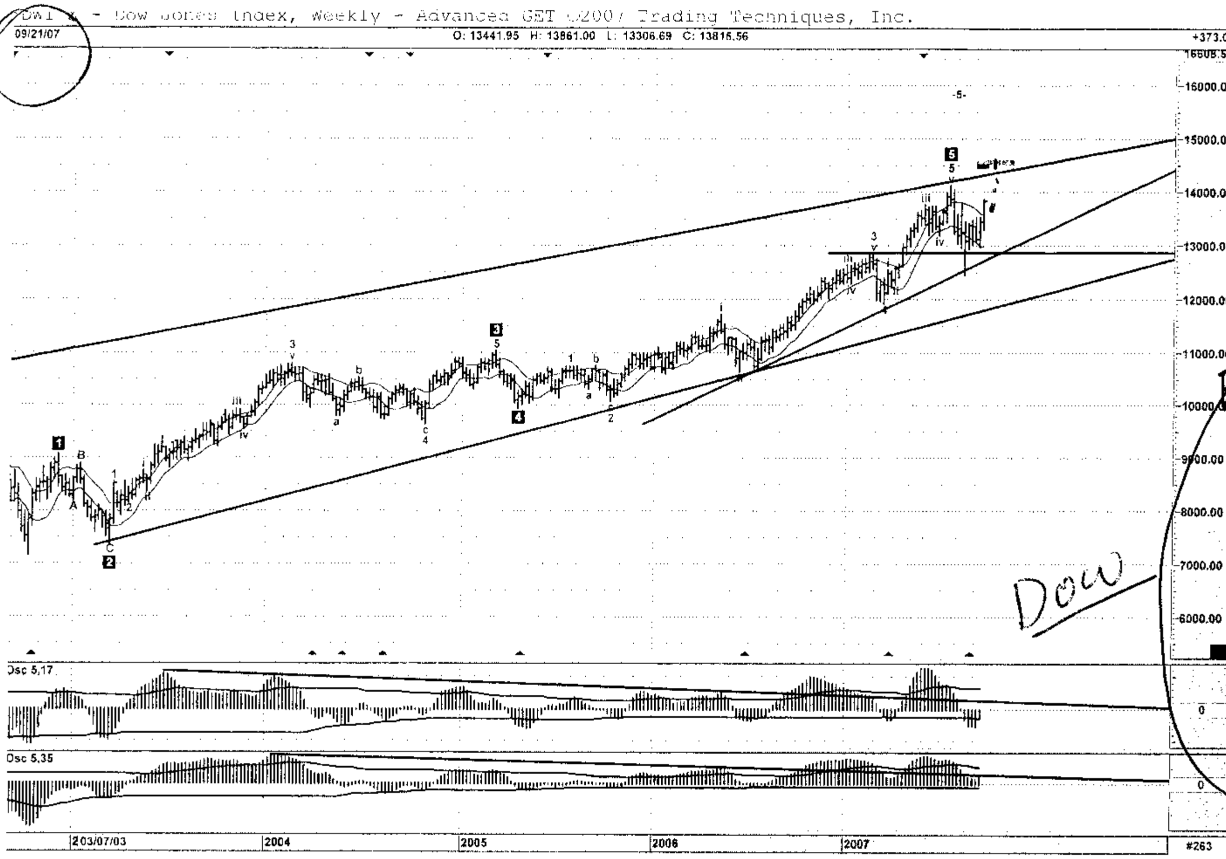
* Based on the U.S. dollar, relative domestic demand, relative price levels and relative interest rates.
** Source: J.P. Morgan Chase & Co.

TRADE BALANCE IMPROVES

M8

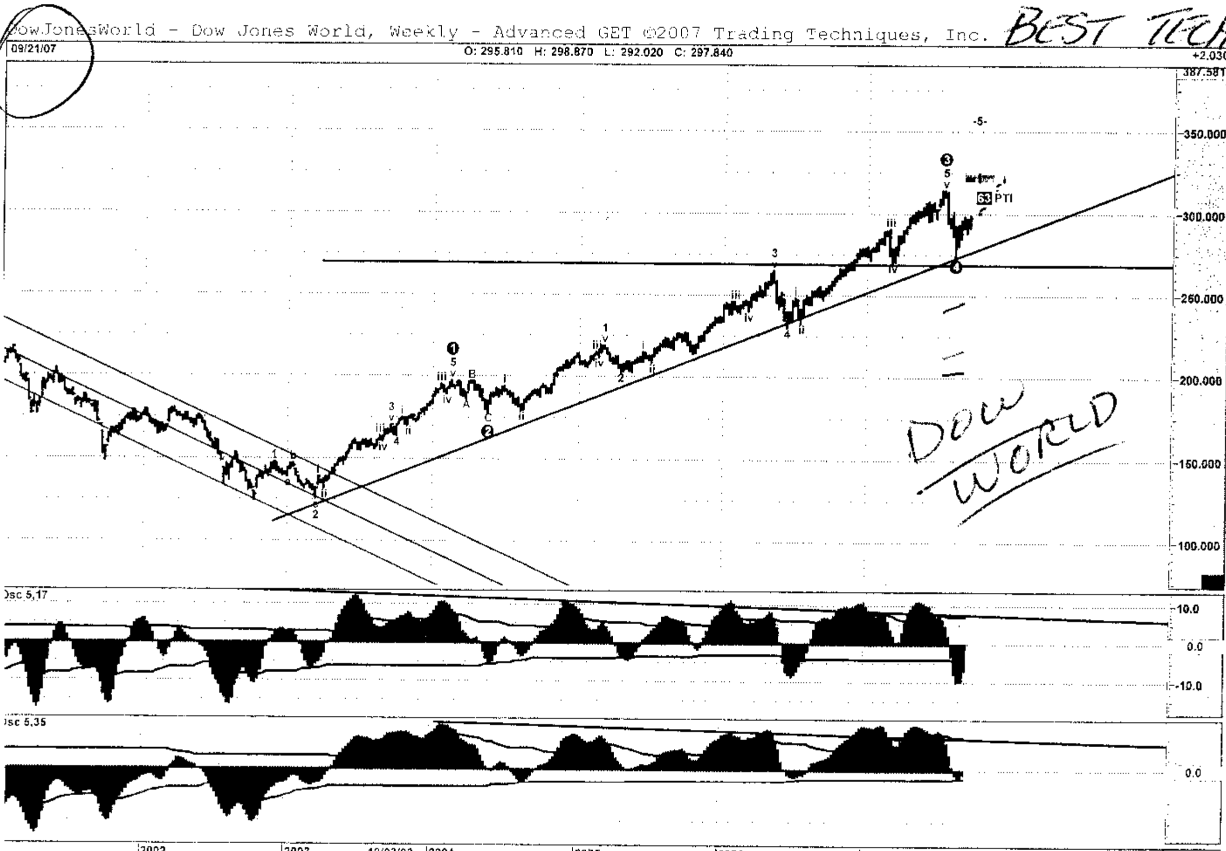
"AS DOLLAR FALLS...

...MAKING U.S. EXPORTS MORE COMPETITIVE... AND IMPROVING U.S. CORPORATE EARNINGS...



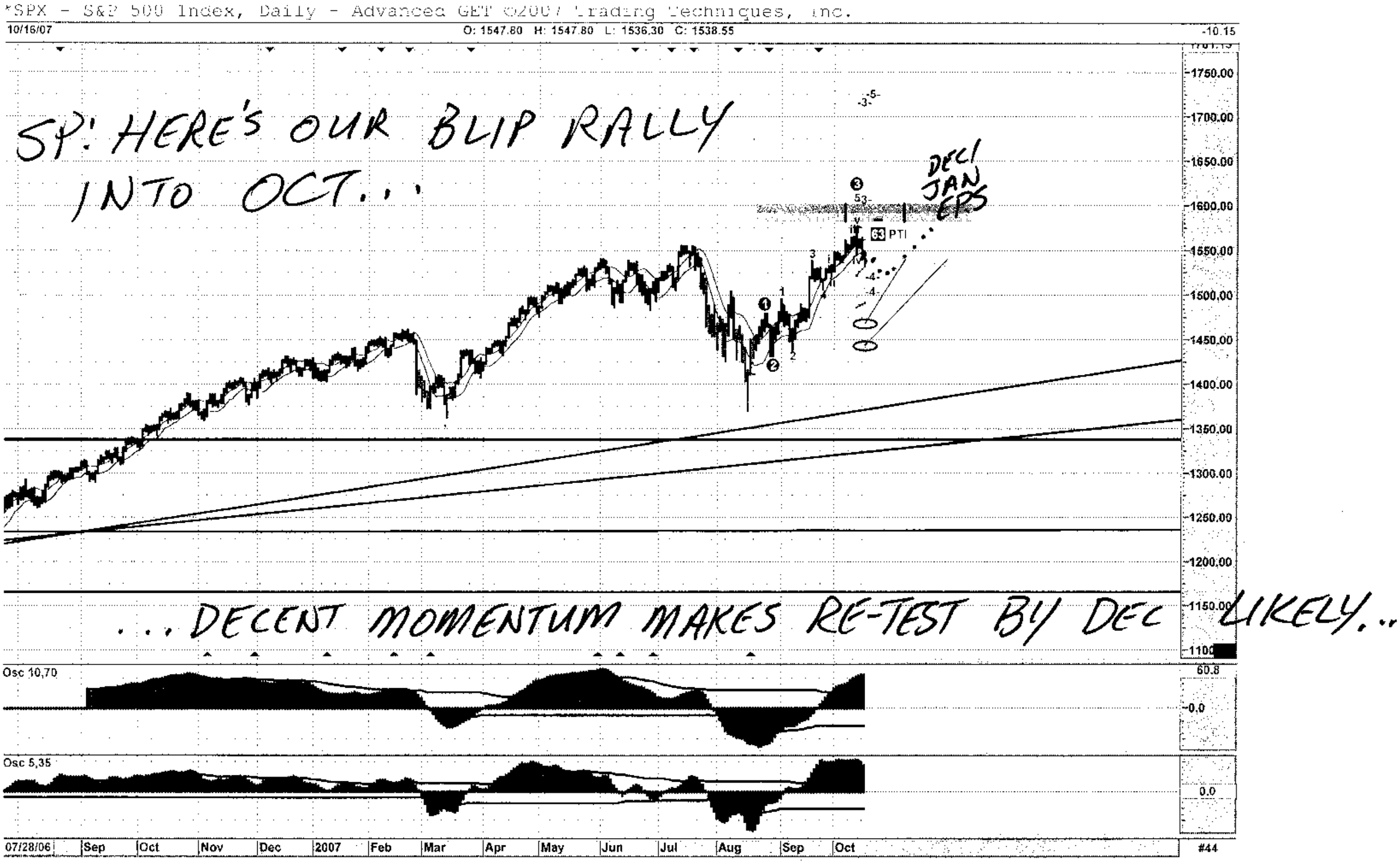
FROM SEP! LOOKING FOR S+P & DJ WORLD TO RALLY TO NEW HI IN OCT

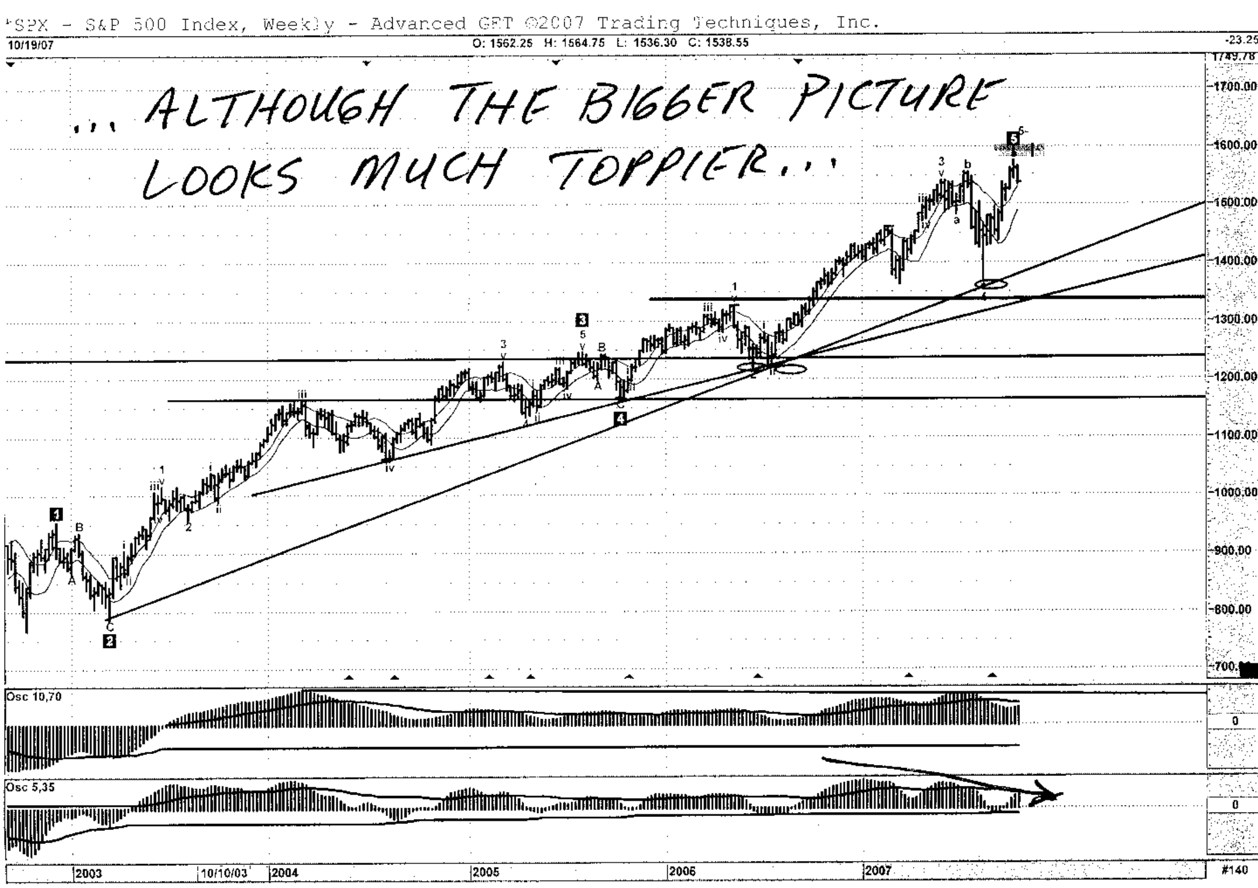
SHORT BLIP RALLY TO OCT NOW
BEST TECHNICAL READ



MG

IT WILL TAKE AWHILE FOR STOCK PATTERN CLARITY TO RE-EMERGE AFTER FED ACTIONS... OCT EPS WILL CLEAR THE PICTURE

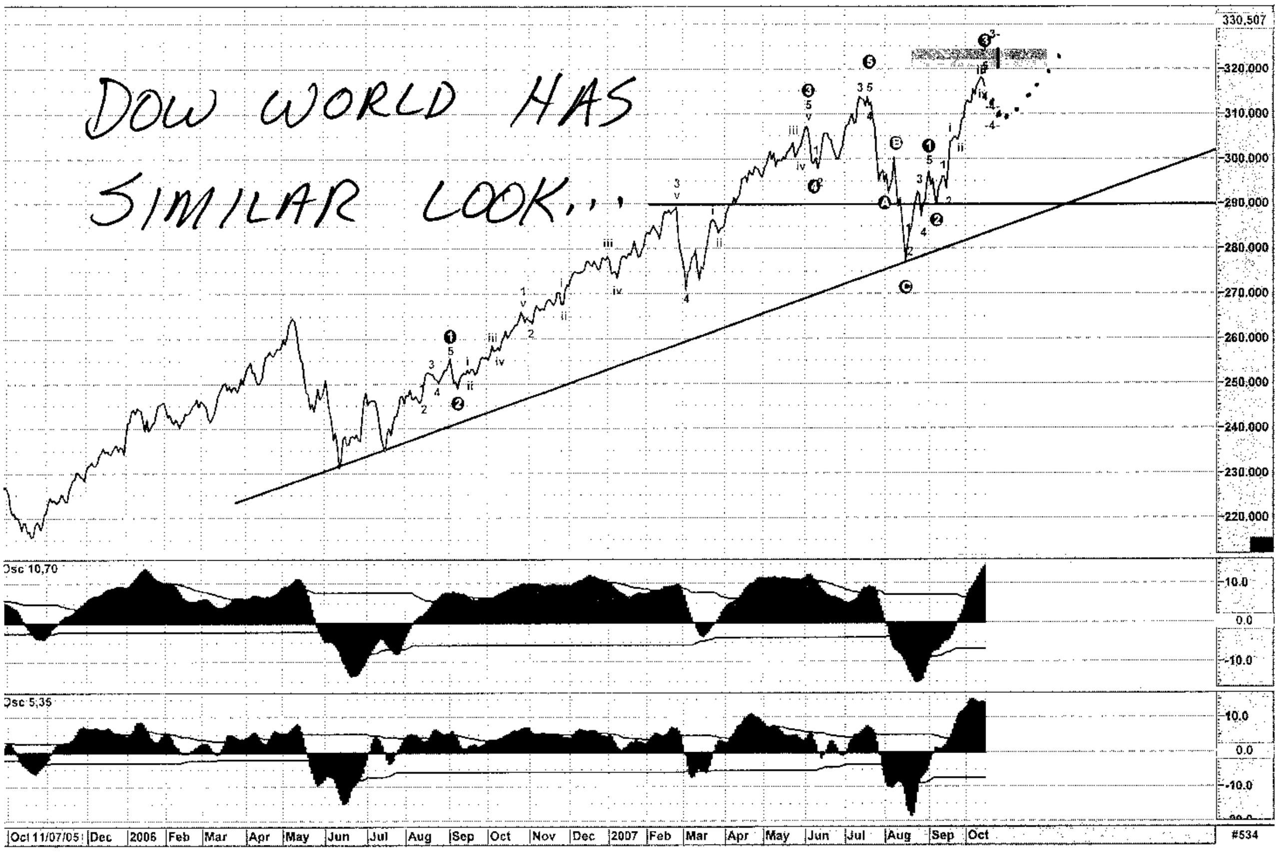

*SPX - S&P 500 Index, Daily - Advanced GET ©2007 Trading Techniques, Inc.
10/16/07
O: 1547.80 H: 1547.80 L: 1536.30 C: 1538.55
SP: HERE'S OUR BLIP RALLY INTO OCT...
DEC/JAN EPS
...DECENT MOMENTUM MAKES RE-TEST BY DEC LIKELY...
Osc 10,70
Osc 5,35
07/28/06 Sep Oct Nov Dec 2007 Feb Mar Apr May Jun Jul Aug Sep Oct
#44


*SPX - S&P 500 Index, Weekly - Advanced GET ©2007 Trading Techniques, Inc.
10/19/07
O: 1562.25 H: 1564.75 L: 1536.30 C: 1538.55
...ALTHOUGH THE BIGGER PICTURE LOOKS MUCH TOPPIER...
Osc 10,70
Osc 5,35
2003 10/10/03 2004 2005 2006 2007
#140

M10

DowJonesWorld - Dow Jones World, Daily - Advanced GET ©2007 Trading Techniques, Inc.

10/15/07 O: 317.740 H: 318.850 L: 315.200 C: 316.100 -1.640



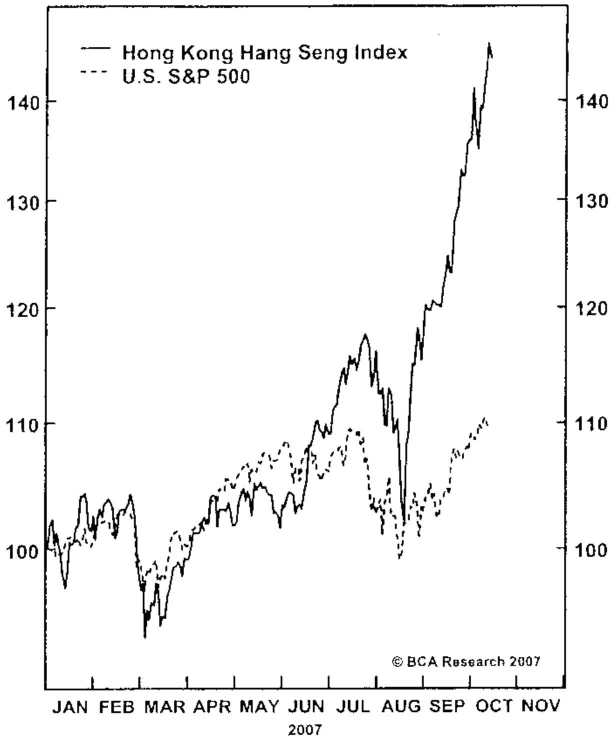
DowJonesWorld - Dow Jones World, Weekly - Advanced GET ©2007 Trading Techniques, Inc.

10/19/07 O: 317.740 H: 318.850 L: 315.200 C: 316.100 -1.640

M11

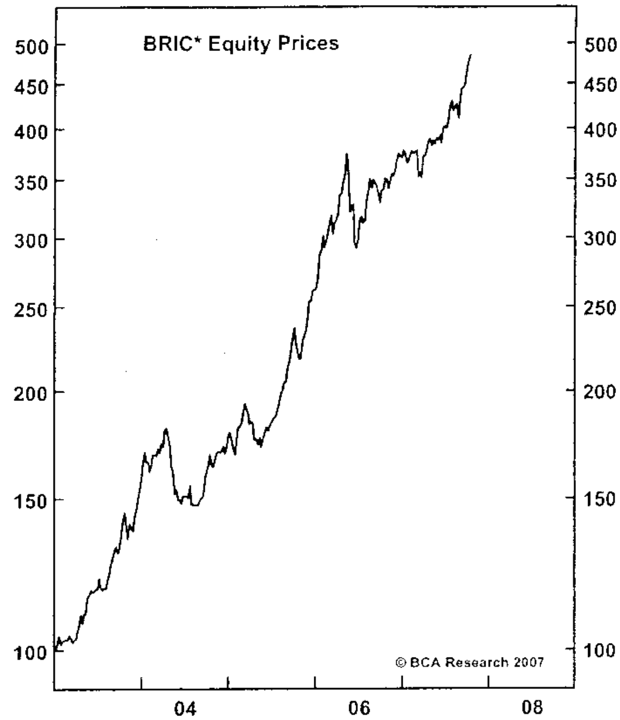
...WORLD INDICES RALLYING ON MAJOR PARABOLAS

CHART 1
Hong Kong Stocks: Going Parabolic



Note: Both series rebased to January 1, 2007 = 100.

CHART 2
BRIC Markets: Becoming Bubbly



* Brazil, Russia, India and China. Market-cap weighted, rebased to January = 100 and based on Datastream data.

result, the market has the best of both worlds: Easier money in the U.S. and stronger growth in China.

The last time Hong Kong experienced similar conditions was in the early 1990s. The net result was massive asset bubbles in stocks and real estate. Between 1991 and 1994 the stock market almost quadrupled and property prices almost tripled. Needless to say, the end of the bubbles were also terrifying, with share and real estate prices crumbling by 40% and 20%, respectively.

MOVING TO A BUBBLY ENVIRONMENT

Why do we care about the Hong Kong market? Several reasons: With a market capitalization of over US$700 billion and being the 14th largest market in the world, Hong Kong is an important market in its own right.

First, the credit market crisis this summer was the catalyst needed to compel asset prices into bubbly territory around the world. The key is the sudden reversal of policy expectations. Investors have collectively bet that the credit crisis has kick-started a reflation cycle, without hurting global growth too much. *

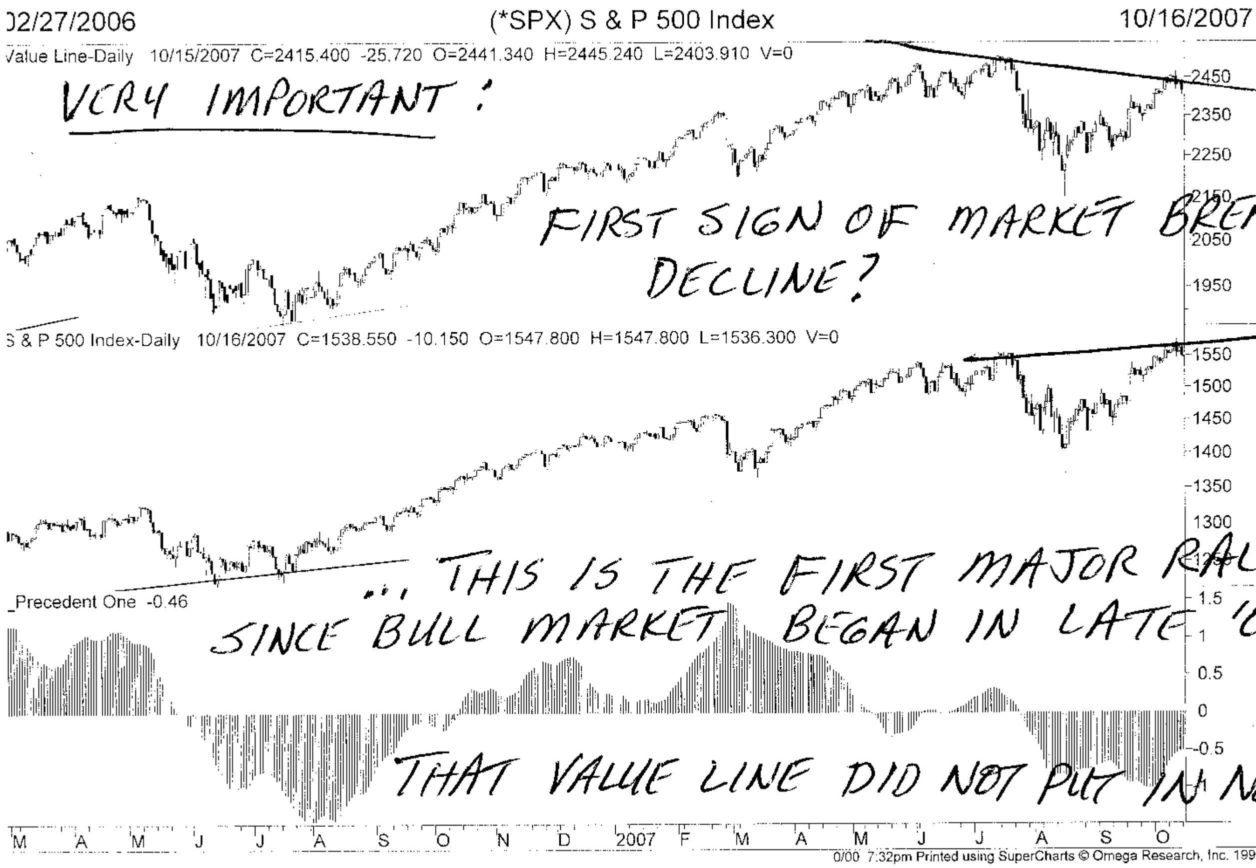
Of course, the pace of asset price inflation is different and, as always, mania forces almost always unfold in places where there are exciting growth stories and easy money. Hong Kong is a natural place to play both the China story and Fed policy, and thus a spot that is prone to building bubbles and manias.

Hong Kong is not the only places where share prices have risen exponentially. Stock prices in other key emerging-market countries have also made parabolic moves (**Chart 2**). With the cost of money falling, the hunt for growth and returns is re-intensifying.

M12

* ...FUELED BY INITIAL BULLISH REACTION TO FED CUTS

VERY IMPORTANT:



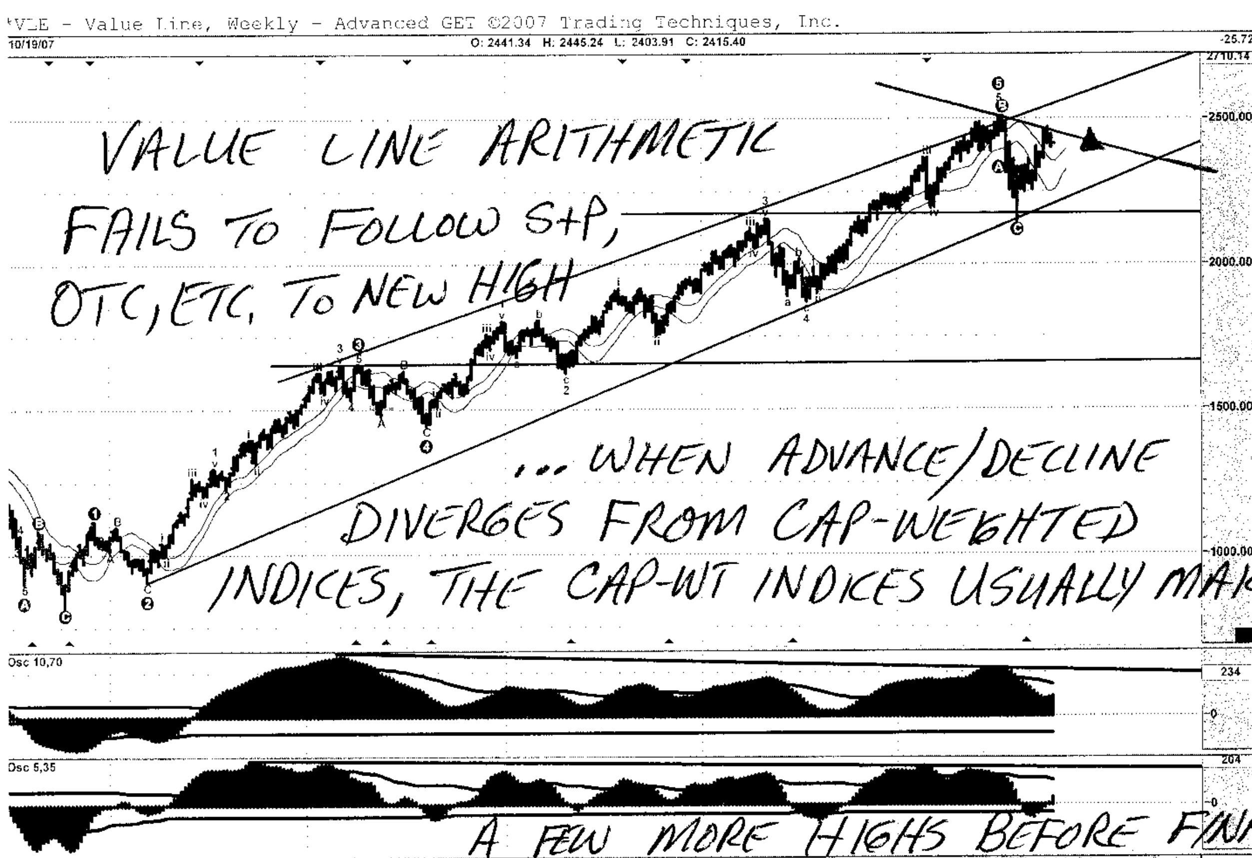
VALUE LINE

FIRST SIGN OF MARKET BREADTH DECLINE?

S+P

... THIS IS THE FIRST MAJOR RALLY SINCE BULL MARKET BEGAN IN LATE '02

THAT VALUE LINE DID NOT PUT IN NEW HIGH



VALUE LINE ARITHMETIC FAILS TO FOLLOW S+P, OTC, ETC, TO NEW HIGH

... WHEN ADVANCE/DECLINE DIVERGES FROM CAP-WEIGHTED INDICES, THE CAP-WT INDICES USUALLY MAKE A FEW MORE HIGHS BEFORE FINAL TOP...

M13

EARNINGS REALITY

LOOKING AT EARNINGS EXPECTATIONS... ROSY? CONSERVATIVE? ABOUT RIGHT?

By Justin Lahart

Giddy Bulls Might Try Dose of Realism

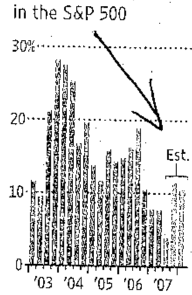
IT'S PUZZLING that stock investors have such a bright outlook these days, when the risks to the economy look so serious. One explanation: The bulls think they've got earnings growth on their side.

Notwithstanding **Citigroup**'s announcement yesterday that credit market troubles cost it $5.9 billion, fewer companies than usual have issued negative warnings about results as earnings season gets under way. As of Friday, 50 companies in the S&P 500 index had issued profit warnings, according to Thomson Financial. That's down from 98 companies this time last year.

ROSY SCENARIO? Fewer negative warnings on earnings than last year

When warnings are light, profit growth tends to surprise to the upside. Analysts are looking for third-quarter S&P 500 earnings to be up a paltry 3.8% versus the year-ago quarter, according to Thomson. But the light warnings season probably has some hoping for much better. Citigroup's warning could cut into that, depending on whether analysts decide to exclude its charges as "extraordinary."

Year-to-year earnings growth for companies in the S&P 500



Source: Thomson Financial

Looking beyond the recently completed quarter, expectations look almost giddy. Analysts are looking for profits to return to double-digit growth rates in the fourth quarter, according to Thomson, hitting 11.5% for S&P 500 companies when compared to a year earlier, and 12% in the first quarter of 2008.

Forecasting a return to double-digit earnings growth next quarter

Stock analysts have been mostly holding the line on earnings estimates going into next year even as economists have been trimming their economic forecasts.

One point for the bulls: Big U.S. companies are getting a boost from growth overseas. Seven years ago, **Coca-Cola**, long an international powerhouse, got 62% of its sales overseas, according to Merrill Lynch. Now 71% of its sales come from abroad. Over the same period, **3M**'s overseas sales have gone from 52% to 61% of total sales. **Intel**'s overseas sales have gone from 57% to 85% of total sales. The combination of a growing world economy and a weak dollar have had a pronounced effect.

Foreign earnings have been strong, thanks to good global economy and weak dollar

But is all of this bullishness really realistic? Rising raw materials costs and slowing productivity gains could put U.S. profit margins under pressure.

Moreover, the rest of the world may not be immune to a U.S. slowdown. Europe's economy is looking especially shaky, says Bank of America chief investment strategist Joseph Quinlan. He notes that recent European purchasing managers' reports point to a slowdown in manufacturing and estimates that half of the profits that U.S. companies garnered from their overseas operations came from Europe.

"The last thing the U.S. needs now is for its largest and most important overseas market—Europe—to wobble," he wrote in a recent note.

Strong Earnings May Rest On Consumers' Shoulders

EARNINGS GROWTH EXPECTATIONS also depend heavily on an unlikely sector: consumer discretionary stocks, which include auto makers, retailers, homebuilders, media companies.

Analysts are looking for earnings growth of 23% in consumer discretionary companies in the fourth quarter and 22% in year to come.

Consumer discretionary companies are among the most domestically focused, generating the bulk of their sales in the U.S. In the end, strong earnings growth could depend on U.S. consumers.

...but is it realistic to expect the U.S. Consumer to fuel near-term profit growth?

(M14)

Weak Earnings Interrupt Party For Blue Chips

Industrials Fall 85.84 As Bellwethers Falter; Google Buoys Nasdaq

By Peter A. McKay

As investors bid the stock market up to record heights, they appeared oblivious to the coming earnings season, which, by all expectations, was going to be weak. With expectations beginning to prove true, investors acted surprised and sold off stocks.

After hitting a record Tuesday, the Dow Jones Industrial Average fell 85.84 points, or 0.6%, to 14078.69, up 13% this year. Aluminum maker **Alcoa**, a Dow component that traditionally is the first to report earnings every quarter, tumbled 2.5% after announcing surprisingly weak third-quarter results following Tuesday's close. Alcoa's bad news was followed yesterday morning by earnings warnings from two big players in the energy sector, which has been a market stalwart for the past few years, and, after the close, by a high-profile retailer.

WEDNESDAY'S MARKETS

DJIA	14078.69	▼ 85.84
Nasdaq	2811.61	▲ 7.70
Oil/barrel	$81.30	▲ $1.04
10-year Treasury Price	Unch.	
Yield	4.649%	

Free updates at WSJMarkets.com

The bad earnings news, combined with word from **Boeing** that its highly anticipated Dreamliner aircraft would be delayed by six months, sent the blue-chip index down 155 points at its intraday low. Among the Dow's 30 components, Boeing was the biggest decliner in percentage terms, off 2.7%.

Energy-sector bellwethers **Chevron** and **Valero** both issued third-quarter profit warnings, citing tight refining margins amid record oil prices and retail gasoline prices that haven't kept pace. After yesterday's close, retailer **American Eagle Outfitters** announced weak September same-store sales and lowered its third-quarter profit forecast.

The broad Standard & Poor's 500-stock index, which also hit a record Tuesday, slipped 0.2%, or 2.68 points, to 1562.47, up 10.2% this year.

But the tech-stock-led Nasdaq Composite Index eked out a small gain, rising 0.3%, or 7.70 points, to 2811.61, its highest close since Jan. 30, 2001. It is up 16.4% in 2007, but still far below its

Weak Earnings Interrupt a Blue-Chip Party

Continued from page C1

which has been on a tear as analysts raised their target prices, gained $10.21, or 1.7%, to $625.39.

Overall, analysts expect quarterly profits at S&P 500 companies to grow about 0.8% for the third quarter, according to research firm Thomson Financial. Because companies often exceed expectations by a few percentage points, many analysts are expecting actual growth to come in around 3% or 4% once all the earnings reports are in hand—still a meager reading, less than half the pace of profit growth earlier in the year.

WEDNESDAY'S MARKETS

Many companies are likely to claim charges and other one-time items related to the third quarter's credit crunch—even if that explanation is dubious—says S&P strategist Sam Stovall. "I'm calling this a kitchen-sink quarter. As in: Companies are going to claim everything but the kitchen sink," Mr. Stovall says.

Rising energy prices also helped to sour investors' mood yesterday. A new Energy Department forecast for strong fourth-quarter energy demand worldwide pushed crude futures up $1.04, or 1.3%, to $81.30 a barrel, up 33.2% on the year at the New York Mercantile Exchange.

The next two trading sessions will see key economic data: jobless claims today and wholesale-inflation tomorrow.

In major U.S. market action:

Stocks and bonds were mixed. The 10-year note was unchanged, yielding 4.649%. The 30-year bond inched higher, up 1/32, to yield 4.863%.

The dollar was mixed. Against the Japanese currency, the dollar rose to 117.26 yen, from 117.15. The euro rose to $1.4147, compared with $1.4111.

71

Q3 EPS DEFINITELY WEAKER

Profits: The End Of Remarkable Run

Investors have consistently pointed to solid earnings growth as a reason to stick with stocks despite so much economic uncertainty the past few years. Now they can't point quite as emphatically.

Third-quarter earnings of companies in the S&P 500 are expected to decline by 0.2% from last year, according to Thomson Financial. That would be the first year-over-year earnings decline since the first quarter of 2002, when earnings fell 11.5%. Blame the summer's credit crunch, which squeezed earnings of Wall Street firms such as **Merrill Lynch** and **Citigroup**.

Investors are hoping the hit taken by the banks will be a one-time "kitchen sink" phenomenon. Analysts seem to feel the same way: Fourth-quarter earnings are expected to rise 10.6%.

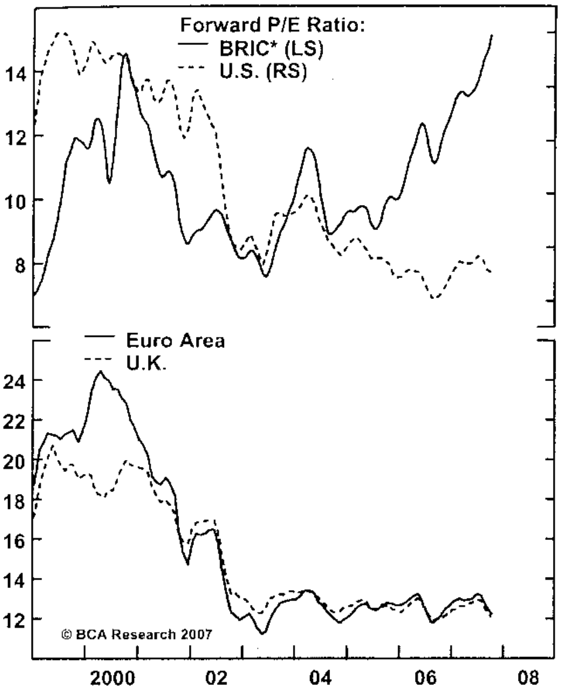
It is worth remembering what happened to home builders such as **KB Home** and **Lennar** late last year and early this year when they took big charges after writing down the value of land they held on their books as the housing market worsened. Expecting housing to stabilize, the builders often said the charges would be a one-time affair. More charges followed, and the downturn still hasn't ended.

IS A RETURN TO DOUBLE DIGIT EPS GROWTH REALISTIC FOR Q4??

MIB

ONE BOTTOM LINE: PE'S CAN EXPAND WHEN FED CUTS

CHART 4
Equity Multiples: An Historical Perspective



* Brazil, Russia, India and China. Market-cap weighted.
Note: All series are based on IBES data and smoothed.

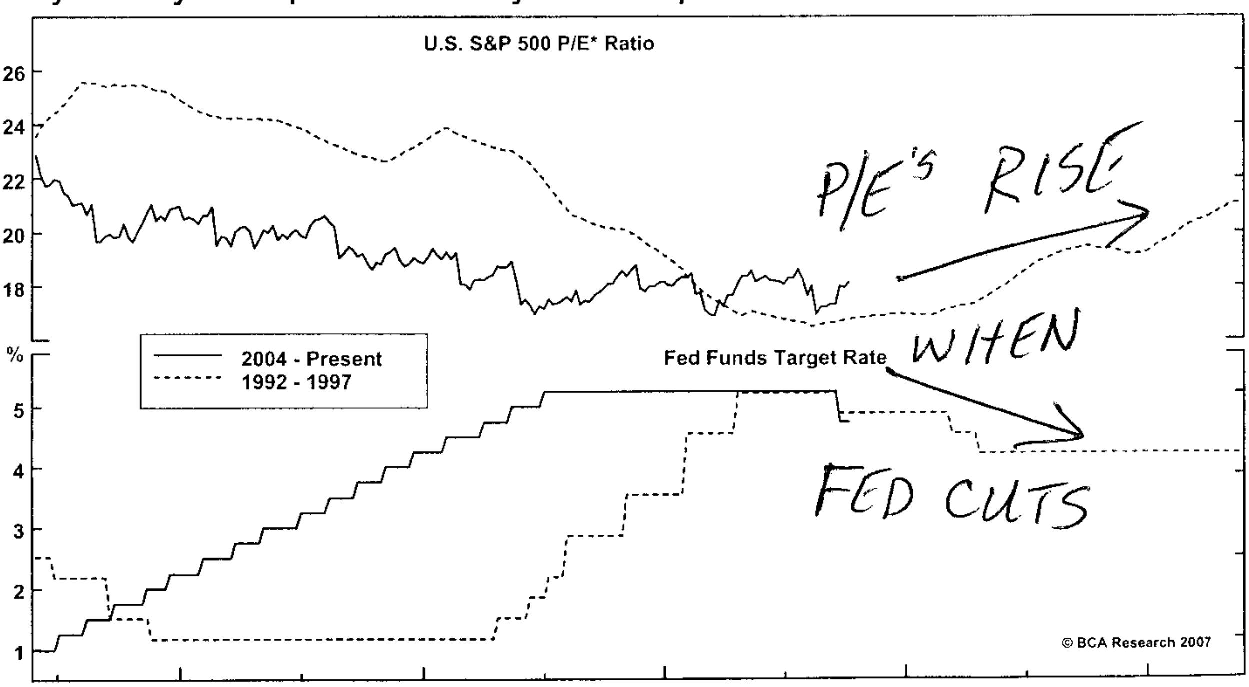
S&P 500 is trading at 15 times forward earnings. The comparable numbers are 12 for the euro area and for the U.K. and 16 for Japan.

With P/E ratios rising rapidly in the developing world and the Fed having already dropped rates, we suspect that equity markets in the G7 universe, particularly U.S. stocks, are headed for a new upleg. This is driven primarily by multiples expansion, lower interest rates, renewed investor greed and increasing retail participation.

How long this period of rising asset prices can or will last is anyone's guess. But the experience of the last decade is that when the Fed stops raising rates, multiples begin to rise quickly, as evidenced in **Chart 5**. Fortunately, we are still early in the game of multiples expansion in the G7 markets.

Moreover, **Chart 6** shows that the S&P 500 is fairly valued when compared with other competing

CHART 5
Cycle-On-Cycle Comparison: Fed Policy & P/E Multiples



* Shown Smoothed.
Note: All series are aligned horizontally to correspond with the beginning of the Fed easing.

M18

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M20

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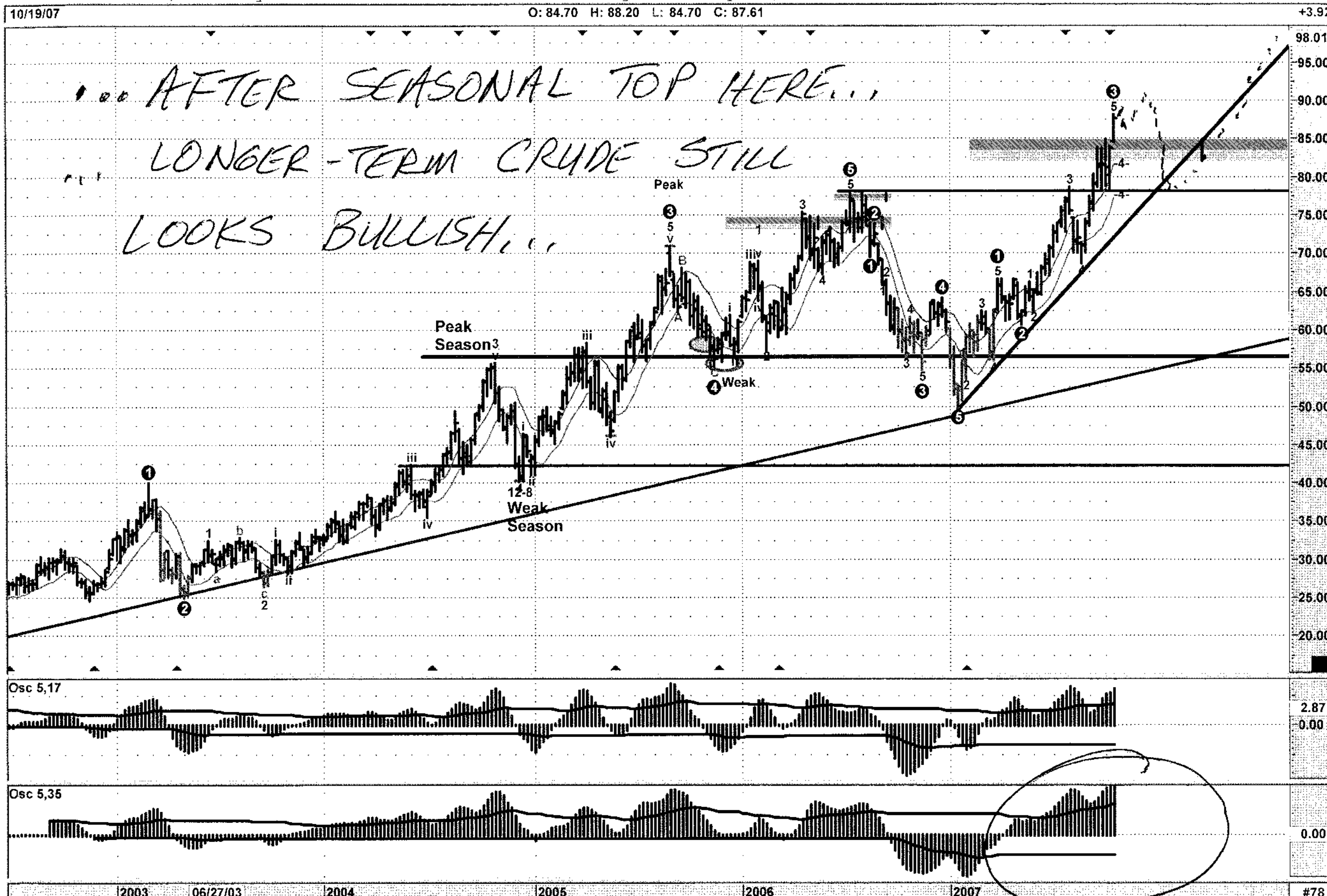

MZZ

ALOT OF MOMENTUM

FINAL NOTE:
DRASTIC CUTS IN MEDICARE BEGIN AS BABY-BOOM STARTS RETIRING... WE MUST CLOSE A $50 TRILLION SHORTFALL

Doctor sounds seniors' alarm

Former president of AMA warns of cuts in Medicare reimbursements

By Margaret Stafford
THE ASSOCIATED PRESS

KANSAS CITY, Mo. — Representatives of medical groups said Thursday that planned cuts in Medicare reimbursements to doctors would cause such financial hardship for physicians that it could become difficult or impossible for some people to get medical treatment.

Dr. William G. Plested says doctors hurt financially

Unless Congress intervenes, Medicare payments to physicians will be reduced 10 percent beginning Jan. 1, with the reductions increasing to 40 percent by 2016. The American Medical Association said a recent survey found that 77 percent of 8,955 physicians surveyed would limit the number of Medicare patients they treat if the 40 percent reduction occurs.

The cuts come when physicians' costs continue to rise. Many doctors already are curtailing the number of Medicare patients they see, or quitting practice altogether, Dr. William G. Plested, the immediate past president of the AMA, said Thursday at a news conference in Kansas City.

The proposed cuts in the next two years would cost Kansas physicians $140 million for the care of nearly 380,000 Medicare patients, the AMA said, while Missouri doctors would lose $290 million for caring for the state's 854,000 Medicare patients. If the reductions continue through

MEDICARE

Medicare: Sen. Roberts agrees with concerns

Continued from Page 1A

2016, Kansas would lose $2 billion and Missouri would lose $4.6 billion, the association said.

The AMA said the cuts also would hurt nearly 113,000 members of military families in Kansas and 148,000 in Missouri because their health insurance system is tied to Medicare.

The country already has a lack of primary care doctors, and the reductions will only make that worse, Plested said.

"It's simple, it's pure dollars and cents," Plested said. "You cannot go into rural Kansas, open a family practice after five years of medical school, and a quarter of a million dollars in debt, open an office and see patients. You can't do it. It doesn't pay."

Plested's visit was part of a national AMA campaign to urge Americans to ask their congressional representatives to cancel the Medicare cuts before January and to enact a minimum increase in reimbursements to cover the rising costs of providing care.

Sen. Pat Roberts, R-Kan., said in a statement that he agrees with the AMA's concerns.

"As a member of the Senate Finance Committee, I am committed to making sure Congress acts quickly to overturn these potentially devastating cuts to our Kansas doctors," Roberts said. "I have long been a champion of making sure we can allow our doctors and other practitioners to continue to provide care for Medicare patients."

Sen. Kit Bond, R-Mo., agreed, saying in a statement that the current Medicare payment formula for physicians is "unfair, unpredictable and must be reformed."

"I have voted to stop these cuts in the past and will continue to oppose Medicare physician cuts that compromise seniors' access to care," Bond said.

While acknowledging that Congress usually rescinds proposed Medicare cuts before they take effect, officials at the news conference said the yearly debate masks a deeper problem of finding doctors willing to provide care for increasing numbers of uninsured or underinsured patients.

And, they said, that problem is likely to get worse if doctors reduce their Medicare patients at the same time that baby boomers start reaching 65.

Dr. Charles W. Van Way III, president of the Missouri State Medical Association who is a surgeon at Truman Medical Center in Kansas City, said the emergency room there already is closed 30 percent of the time because it can't handle the patient load.

"The prospect of watching more patients drop out of care (and seek medical help at the emergency room) because the doc simply can't afford to take care of them is just appalling," Van Way said.

And Dr. Art Snow, a geriatric physician from Johnson County, Kan., said doctors who primarily treat the elderly already are having trouble keeping up with increased costs.

He said the AMA survey found that if the 40 percent cut is enacted in the next nine years, 72 percent of the physicians surveyed said they would discontinue treating patients at nursing homes.

"I think this is a very ominous sign of what may be coming for those of us who care for Medicare patients and the repercussions on these patients themselves," Snow said. "Who is going to care for them?"

M23