



Morning Comments December 7, 2009

Open at the High When There is Nothing Left to Buy

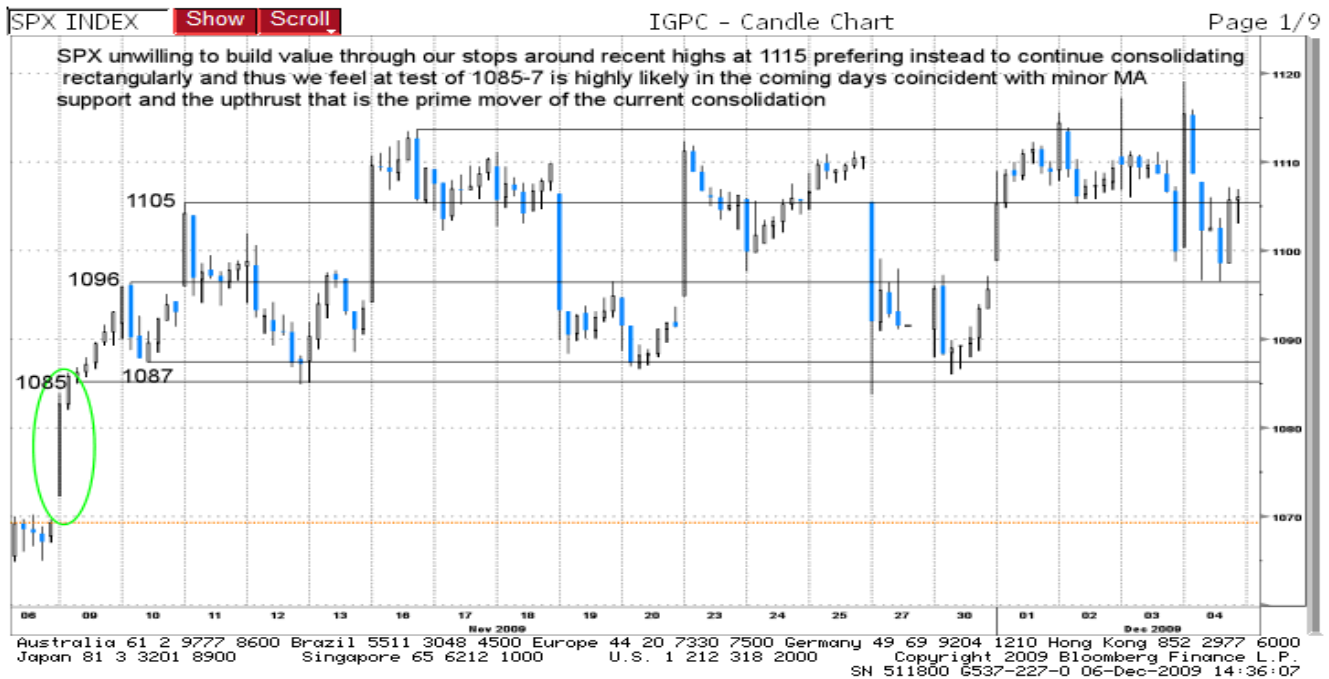
To be perfectly honest I felt quite uncomfortable with my short SPX call early Friday morning after the numbers were released. It's not often easy to discern where discipline ends and evasive action must be taken. As a rule I always wait for closing prices; the market has taught me this lesson the hard way over many years, but still I felt the pull of capitulation with such good numbers on the tape. Nonetheless, SPX prices began failing almost immediately so the market was kind in that respect. When I was a young trader we had lots of maxims and one liners we applied to market action – "open at the high when there is nothing left to buy," fits Friday.

Looking at the hourly chart below we can see that prices are describing a rectangular consolidation and thus a test of the lower boundary ~1085-7 is forecast. What was most interesting to me about Fridays action was the sharp pickup in equity linked product volumes. The action was obviously near term capitulative and served to strengthen the short trade we have been working on here. We have recently seen volumes come on repeatedly to create near term climaxes as you can see on the SPY daily below. This is the essence of distribution, but now a very clear line has been drawn, in my opinion, with the high volume failure at the highs. Stay short as prices are contained under 1115, press on sub 1085 closes, and look to ratchet down stops to 1105 when closing under 1096 for those with lesser risk tolerance. Increasingly, I believe the pain trade is down into year end as most have taken the other side of that trade in the belief that seasonal largess will carry the day.

Technical Analysis & Strategy

SPX 1105.98Y as of close 12/ 4

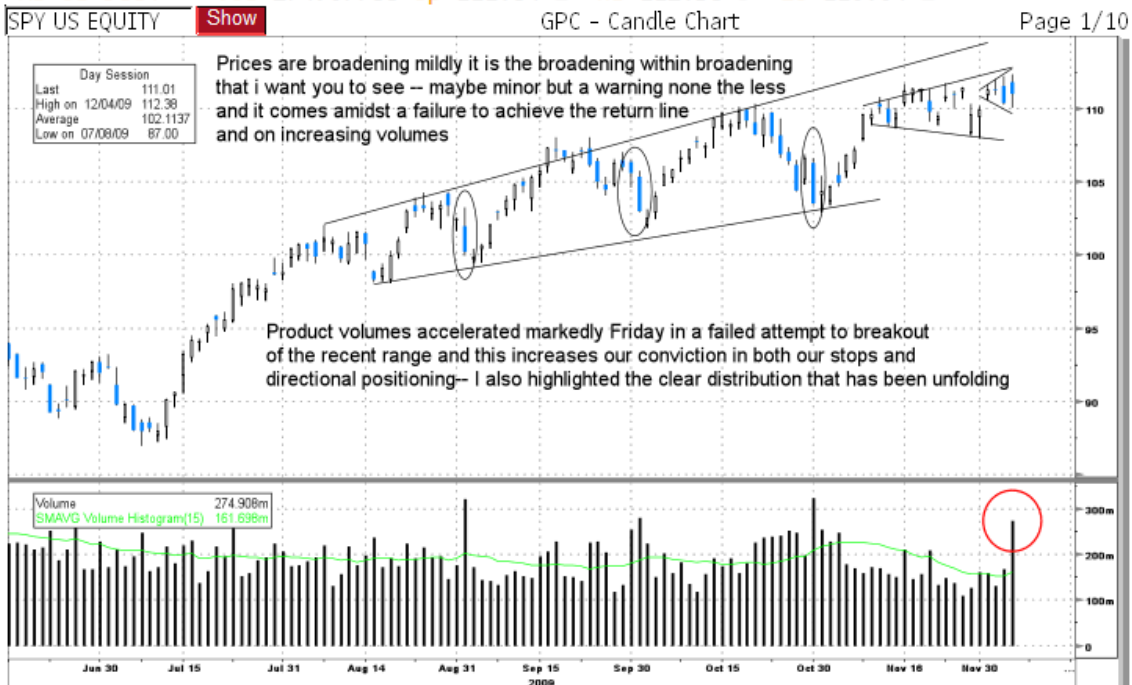
Index IGPC



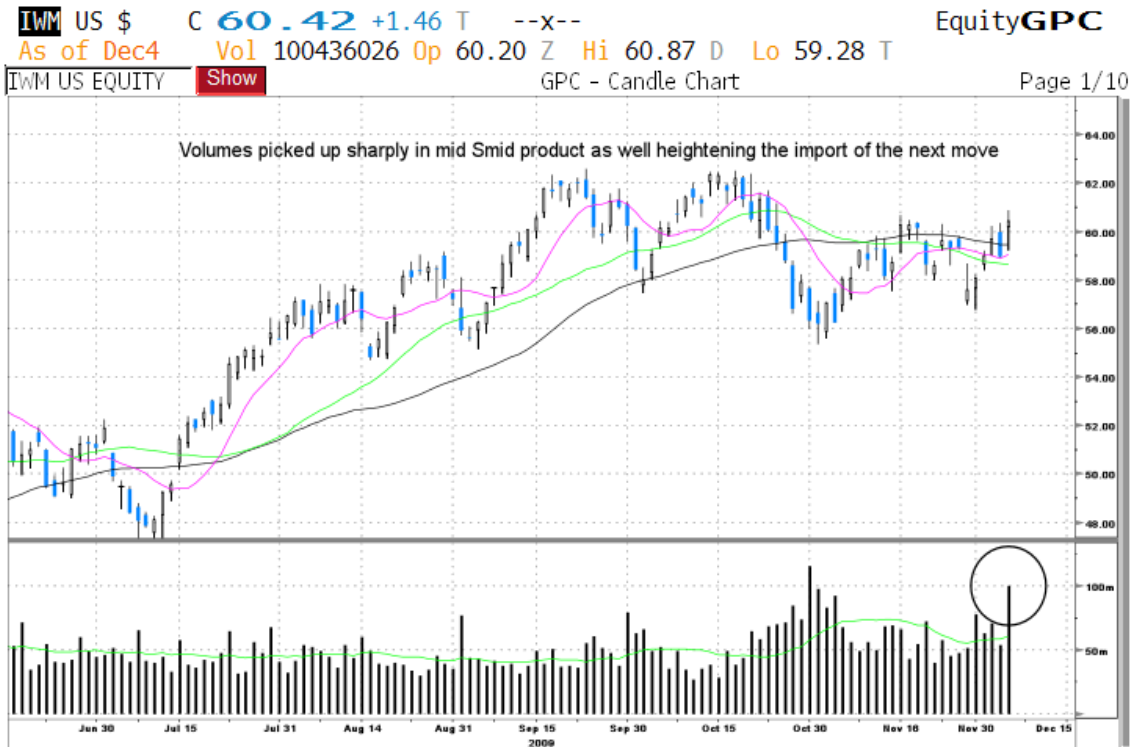
SPY US \$ C 111.01 +.63 P --x--

EquityGPC

As of Dec4 Vol 274907788 Op 111.84 Z Hi 112.38 D Lo 110.04 Z



Technical Analysis
& Strategy



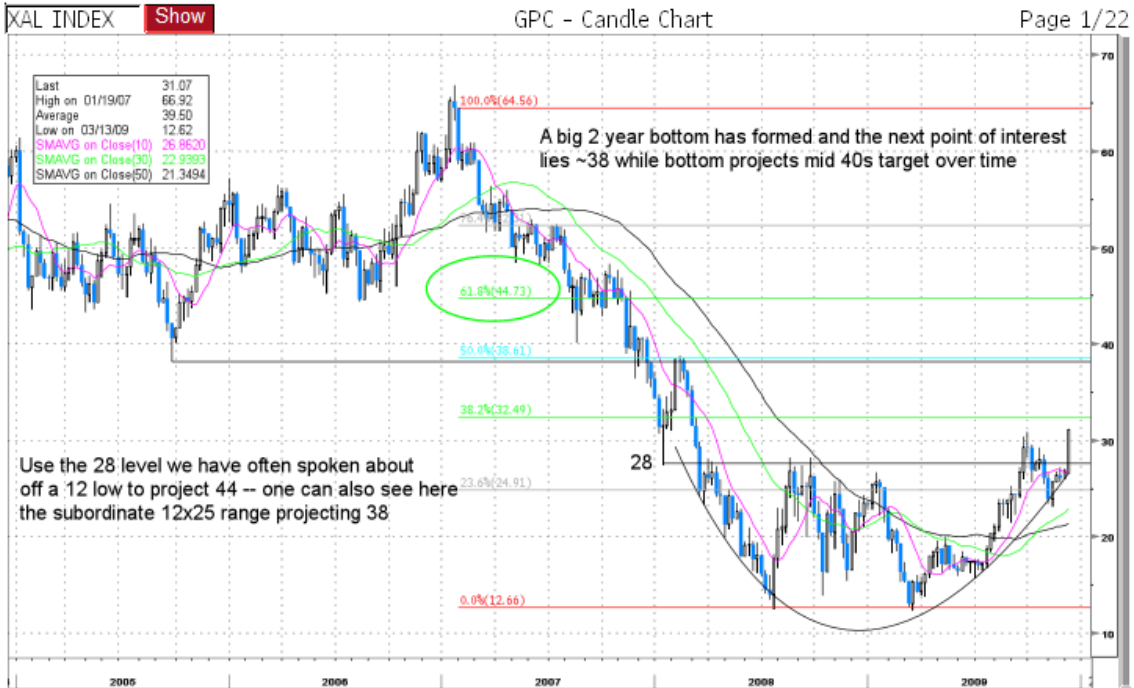
Technical Analysis & Strategy

I also wanted to put up some charts with respect to our airline long call given the recent sharp outperformance. I believe this is one of the biggest long term cyclical/secular trades on the board (and one of the riskiest) and it's coming along nicely. Prices are quite overbought and we expect shorts to try to cap upside here now. Those with short time frames/trading mentalities with respect to this volatile sector consider partial sales while longs need wait more favorable prices to press this up.



XAL 31.07Y as of close 12/ 4

Index **GPC**



Technical Analysis & Strategy

Lastly I want to put up TJX on the retail side as more evidence of topping is manifest. I find myself looking at the reverse of the action that served us so well on the long side all year when we repeatedly bought high volume earnings driven gaps up. Now we are faced with that phenomena going the other way, and while still in its infancy we expect it grow rather than abate.



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