



Blaze Tankersley, CFA CMT +1 212 480 1400
Senior Managing Director
btankersley@baycrestpartners.com

Equities / Derivatives Trading + 1 646 878 0005

Morning Comments January 7, 2009

Market Breadth has been quite bullish recently and the liquidity driven bid underlying the market has frustrated the fundamentalists which by are reckoning are short and wanting to get shorter. We follow the BPI (Bullish Percent Indexes) closely to ascertain the broad health and breadth of the market. In our comment of 10/7 we wrote;

“Technically many signs of panic and liquidation are on display with the put/call ratio up near all time high closing levels and the VIX closing at a life of index high. 13 new highs were recorded yesterday on the NYSE against 1973 new lows declining issues lead advancers by 11 to 1 even as declining volume swamped advancing volume 15 to 1. Our attention is drawn to the various bullish percent indexes as they have dropped to what are in some cases unprecedented levels. The Bullish Percent Index measures breadth and is expressed as the ratio of stocks currently on point and figure buy signals by the total number of stocks in the group or index being analyzed. For instance, the S&P energy sector BPI fell to zero yesterday indicating that not a single issue in the complex is on a buy signal. I cant recall ever seeing a zero reading before and a quick look back on the last 5 years of data I have in front of me across the 15 indexes tracked by John Murphy on stockcharts.com has no zero readings evident.”

Juxtaposition. Yesterday there were 3 new lows on the NYSE. The NYSE BPI rose to 67.9 in front of the classic overbought demarcation line at 70. The SPX, OEX, NDX and DJIA are all over 70 indicating an overbought condition has developed. (Interestingly, the energy sector which I referenced at zero in my 10/7 note (attached) is the second most overbought of sectors I follow with a BPI at 85 behind Industrials at 86. So now we are presented with an interesting situation, at the beginning of a major move markets will become necessarily overbought and this is a sign of strength. However we are in a primary bear market currently and so judging current action as a sign of strength as evidenced by overbought conditions is tantamount to declaring a new bull market has begun. I'll let each judge that for themselves. What is critical now is to understand that the market is forcing itself into a position of near term vulnerability. Massive moves in credit spreads and a collapse in the VIX corroborate this need to be wary now. Traders get nervous under ~920. Longer term accounts look to hedge up as prices fall with an eye on sub 902 to begin hedging and 885 as the full hedge/stop level. Let the market continue to rise as it will understanding that the working off of the current overbought condition is drawing nearer daily. Jobs number is in focus. The market may try to bid for an Obama inauguration as its ultimate catalyst to fail. We find it highly probable that a selloff occurs around the jobs number the market then gathers strength into the Obama event at that time setting up some negative divergence and then retrenching more powerfully only then potentially setting up a durable upward move.

[http://stockcharts.com/def/servlet/Favorites.CServlet?obj=msummary&cmd=show,iday\[Y\]&disp= SX A](http://stockcharts.com/def/servlet/Favorites.CServlet?obj=msummary&cmd=show,iday[Y]&disp= SX A)

Page down to BPI

The results presented should not and cannot be viewed as an indicator of future performance.
Charts courtesy of Bloomberg Finance L.P.

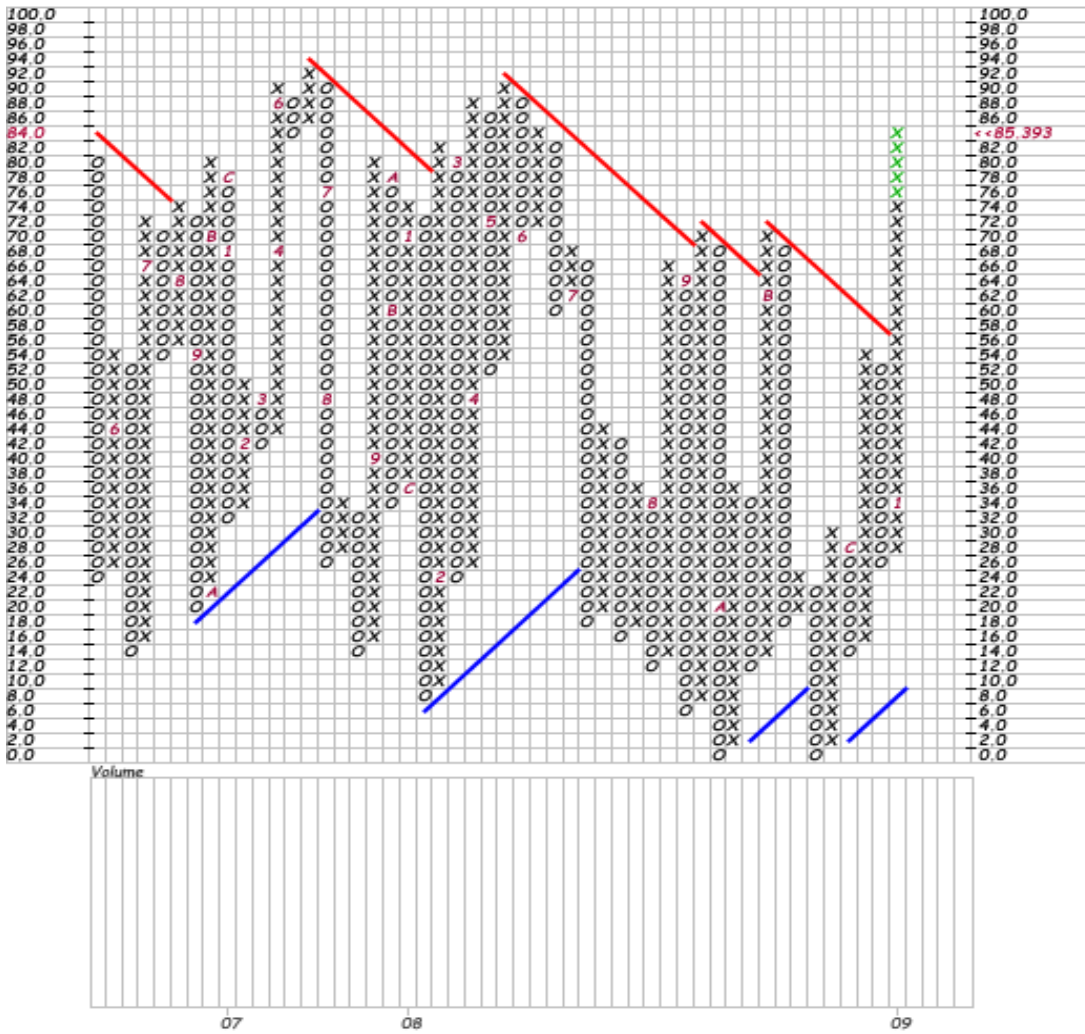
S&P Energy Sector Bullish Percent Index (EOD) (\$BPENER) INDX

06-Jan-2009, 16:00 ET, daily, O: 85.393, H: 85.393, L: 85.393, C: 85.393, Chg: +10.112 (13.43%)

Status Bull Confirmed on 02-Jan-2009

User-Defined, 2.0 pts/box 3 box reversal chart

© StockCharts.com



Important Disclosures

Analyst Certification - The author certifies that this research report accurately states his/her personal views about the subject securities, which are reflected in the substance of this report. The author certifies that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report. The research provided in this report is based on technical analysis provided by Bay Crest Partners LLC. Technical analysis is the study of price and volume and the interpretation of trading patterns associated with such studies in an attempt to project future price movements. The investments discussed in this report may not be suitable for all investors. Investors should use technical analysis as one input into formulating an investment opinion.

Potential Conflicts of Interest

Analysts employed by Bay Crest Partners LLC are compensated from revenues generated by the firm. Bay Crest Partners LLC generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, Bay Crest Partners LLC generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

Company Specific Disclosures

Bay Crest Partners LLC does not expect to receive or intend to seek compensation for investment banking services from any or all companies listed.

Additional Information

Please write to Bay Crest Partners LLC 40 Wall Street, 45th Floor, New York, NY 10005 Attention: Compliance Department.

Other Disclosures

This report is issued and approved by Bay Crest Partners LLC, a registered member of NYSE, FINRA, ARCA, ISE, NASDAQ, NFA. This report does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of Bay Crest Partners LLC. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances.

We recommend that investors independently evaluate particular investments and strategies. Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. Bay Crest Partners LLC accepts no liability for any loss arising from the use of information contained in this report. All information, opinions and statistical data contained in this report were obtained or derived from public sources believed to be reliable, but Bay Crest Partners LLC does not represent that any such information, opinion or statistical data is accurate or complete, and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice. Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. This report may provide addresses of, or contain hyperlinks to, Internet web sites. Bay Crest Partners LLC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

This report or any portion hereof may not be reprinted, sold, or redistributed without the written consent of Bay Crest Partners LLC.

Research referenced from outside sources should be considered the sole property of the provider and are referenced in courtesy.