



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

Equities / Derivatives Trading + 1 646 878 0005

Morning Comments January 8, 2009

We have been discussing for the last couple days our concerns over the low level of VIX and the aggressive move up for junk and high grade credit as factors arguing for some natural corrective action of recent bullish SPX pricing. Yesterday we showed the dramatic reversal from the October lows in the BPI (bullish percent indexes) that indicated an overbought condition was present. Today we wish to continue speaking a bit more about breadth and attach charts of the percentage of stocks trading above their respective 50 and 200 day moving averages. In the beginning of a durable move from a major low stocks will naturally tend to get overbought quickly. Therefore determining whether the current overbought condition is a bullish thing or a bearish thing is quite tricky. Is the ability of the market to get overbought quickly a sign of strength? The answer to that is, only if a new trend is getting underway. So is a new trend getting underway? Trend is described by the direction of price action and is easily seen in the shape and direction of various moving averages. Right now the 10 and 30 day moving averages for the SPX have flattened and turned up while the more important 50 day moving average has flattened from its recent down trend but has not yet turned up the 200 day moving average is no factor currently given its distance from current quotations. So we can say that the short term trend is trying to turn up while the intermediate term trend is neutral. We can also say that given that fact that ~80% of the stocks on the NYSE and in the SPX are trading above the 50 day moving average the propensity for the 50 day moving average to turn up has grown immensely from just a month or so ago when virtually no issues traded above. Bottom line – the more time spent building value and closing above the respective moving averages the stronger the market becomes. Expect the fighting to continue and take advantage of weakness around the moving averages to make long trades. Notice the conflux of support around the level we identified as 885 roughly the level were both the 30 and 50 day moving averages currently reside. Understand that those same buyers who had the power to take stocks to such overbought levels are not likely to fade easily as prices return towards their cost basis. Use spikes in VIX and pullbacks in junk corroborated by strength in Treasuries to get long trades on. Recognize that until the trend shows itself to be truly up via the moving averages pointing up it is really just a flat or transitioning market. Conversely building value and closing below 885 warn of refreshment to the primary bear trend. Trading below 855 leads to a retest of the lows.

One other thing I wanted to address this morning and that has come up in numerous conversations with customers recently is, who is the seller? Lets be honest, no real money just woke up over the last several weeks and said, “the economy doesn’t look so good all the sudden maybe we should sell some stock.” Those sellers have long since sold throwing whatever remained overboard in the climactic episodes of October 10 and November 20. So the potential seller then is the buyer of those episodes. Now presumably that buyer is fully aware of what he purchased and understands quite emphatically the dire straits we are in but has taken a calculated risk that he can accumulate shares in the mid 800s with expectations of better things to come. Bad 4Q results and poor FY09 guidance will not be enough to scare this buyer. It will take material fresh and unforeseen bad news to do that. The other way to break the accumulator down is over time. If enough time can pass without the market rising buyers will slowly tire and sell and the market will be free then to break to new lows.

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



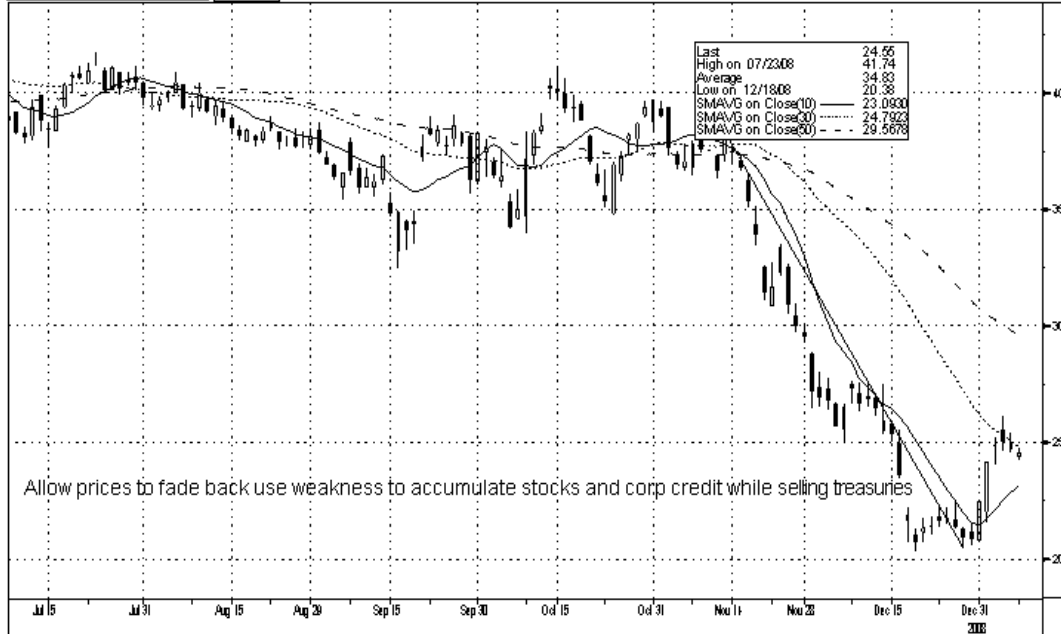
TNX ↑ 24.55 - .39 m
 At 9:18 Vol 0 Op 24.41 Hi 24.72 Lo 24.26 Prev 24.94

Index **GPC**

TNX INDEX Show

GPC - Candle Chart

Page 1/11



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2009 Bloomberg Finance L.P.
 08-Jan-2009 09:18:16

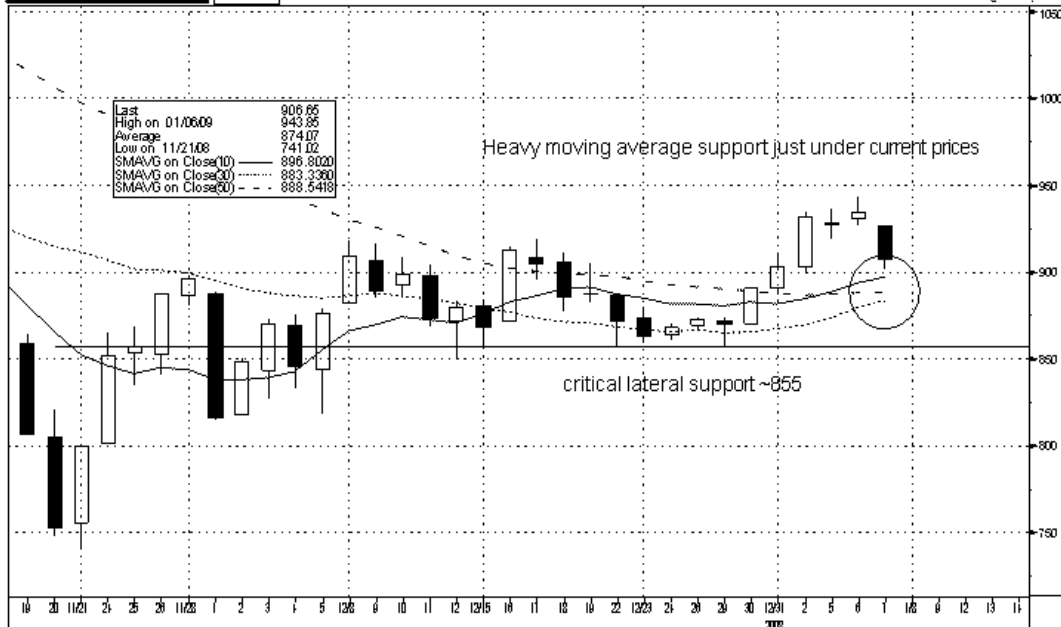
SPX 906.65Y as of close 1/ 7

Index **GPC**

SPX INDEX Show

GPC - Candle Chart

Page 1/11



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2009 Bloomberg Finance L.P.
 08-Jan-2009 09:22:03

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.