



Morning Comments January 11, 2010

Sector Rotation to Reign Supreme in 2010

I wanted to spend some time this morning making a few observations of the stock market in general. I do substantial custom analysis work for a number of our clients, and so I look at literally a hundred charts a week or more in great detail. I am struck now by the homogeneity across the market and the very clear message that's present. I see great numbers of stocks having largely met the implications of the bottoms that formed last year while continuing to trend strongly and many are extended. I see right now many stocks looking to take a third leg up. In my experience it is this third and final leg of advance that often gives rise to material corrective action, and I think we are embarking on that leg now. I want to throw up some charts below that illustrate this. I think the auto parts names are instructive in this respect as they are currently culminating what I envision as this final leg of advance prior to major consolidation. Industrial in general seem to exemplify this phenomena quite clearly but I see it in tech, materials, REITS, even banks all in various points of the cycle but progressing in the same fashion. This speaks to me of heightened necessity for identifying sector rotation to capture alpha and a market in the grips of momentum driven strategies and a willingness to sweep up laggards into this current cycle or phase of preferred activity. A few examples below I think are self explanatory but call me if you want to talk more about it.

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EquityGPC

ARM US \$ Market P **11.32**/--- 2x-- Prev 11.57

ARM US EQUITY Show

GPC - Candle Chart

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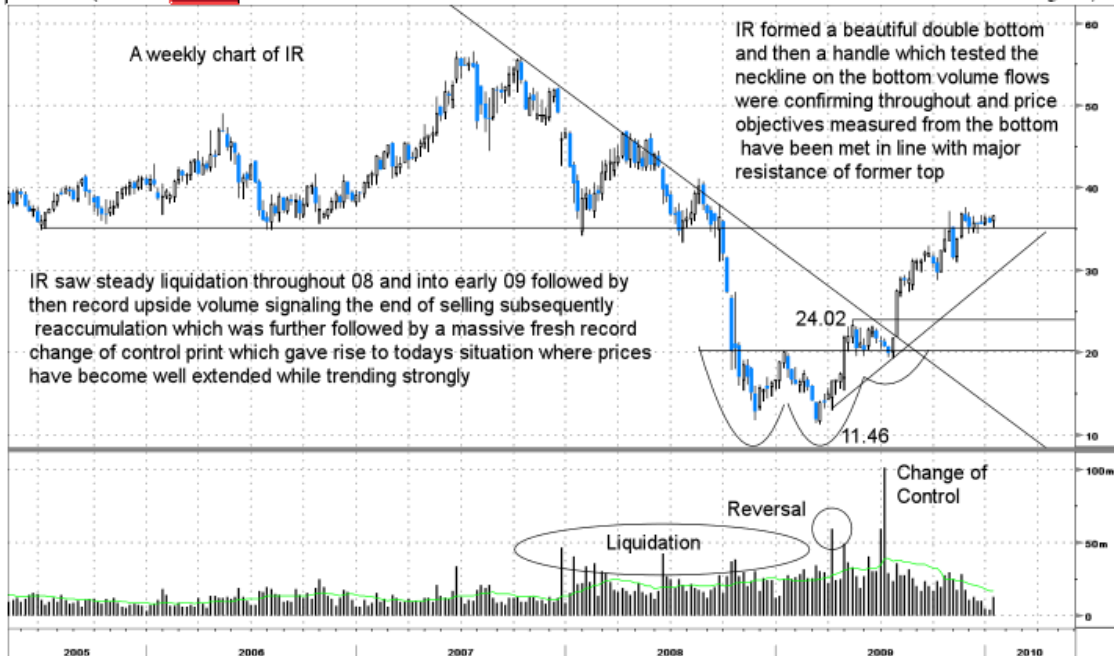
EquityGPC

IR US \$ Market P **36.75/37.61** P 1x2 Prev 36.61

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IR US \$ Market P **36.75/37.61**P 1x2 Prev 36.61

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EquityGPC

AMAT US \$ Market P **↑14.75/14.95**P 8x7 Vol 200 Prev 14.552

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Equity **GPC**

CAT US \$ Market P **60.57/60.94** P 2x1 Vol 700 Prev 60.34

CAT US EQUITY Hide GPC - Candle Chart Page 1/19

Range 01/12/09 - 01/11/10 Upper Candle Chart Mov. Avgs 10 30 50 Currency USD

Period Daily Lower Volume Mov. Avg 15 Events



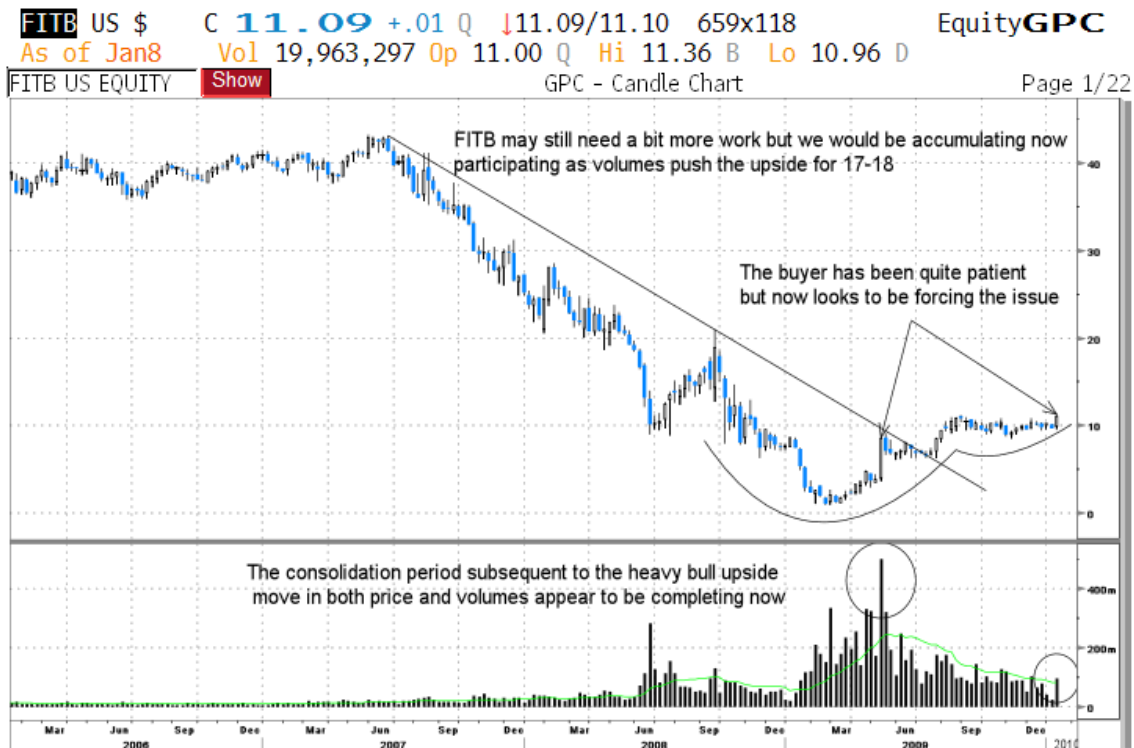
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So the stuff I talked about above has me thinking probably like a lot of people that we are setup for some variation of the consolidative stretch we had in the market in 04-05 once we get this last leg in place. I see no reason to think otherwise despite this perhaps being consensus. In fact I am some what ambivalent with respect to what happens to the market as a whole because in my opinion performance will be obtained through capitalizing on the heavy sector rotation that gives rise to a perhaps violent, but likely stagnant overall market. I have always been a believer in the market of stocks rather than the stock market so I am really excited about the opportunity. My analyst sent me this chart below the other day and I found it striking and thought provoking. This is a ratio of money market fund assets to SPX. Notice the level of support we have come into currently. The last period where the ratio began to base and where the markets are now is quite interesting is it not?



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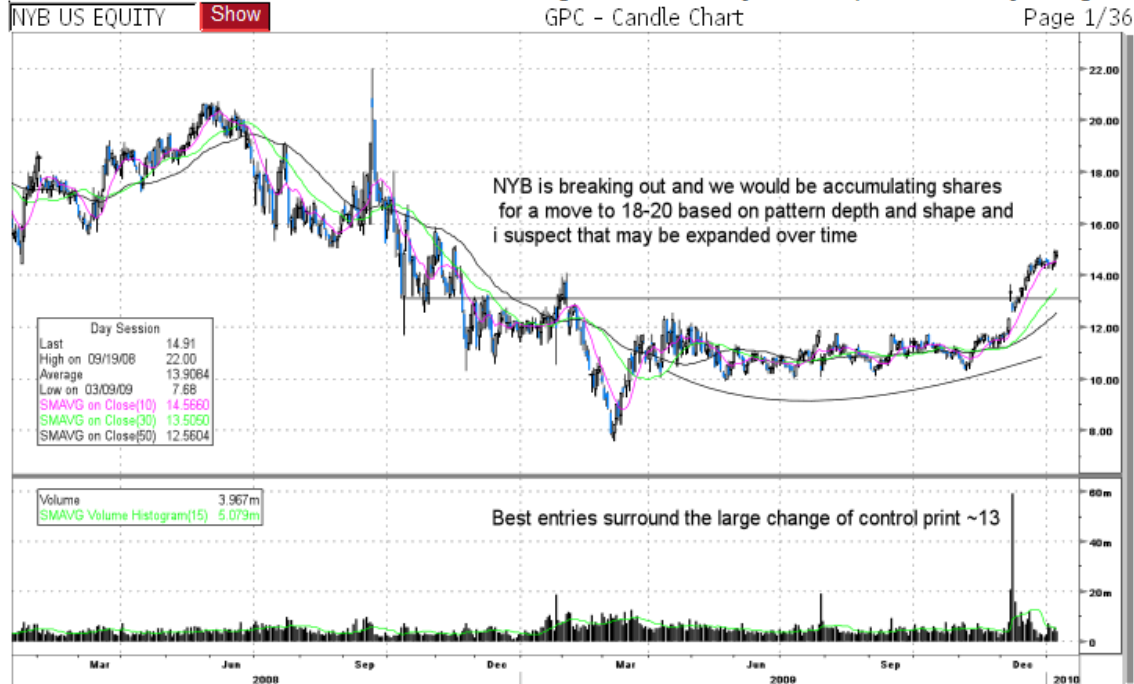
As my regular readers know, I strive to identify trades where I have the potential to earn multiples of my investment and where I feel that the risk has been washed out. This necessarily means taking risk that the crowd can't or won't take and where the perception of risk is quite elevated. I have been watching small regional bank shares for some time in anticipation of a bullish recommendation based on a resolution of the consolidations following the initial upside surges in volume and price that were manifest off the lows and occurred for the most part in May of last year. FITB and HBAN are two of the better chart examples of this. Last week's action tells me the time is come to begin putting this trade on and so I want to put on a basket of these and start accumulating. I have purposefully selected what many would deem the worst and lowest quality to get the most leverage I can although ultimately I am guided only by the charts. This is speculation and obviously many investors would consider these names very risky. By nature the perception of risk is greatest at bottoms, when in fact it is the lowest, and lowest at highs when in fact it is greatest. I have put together a basket of FITB, NYB, HBAN, KEY, and RF to express my view that it's time for these survivors to emerge from consolidation and begin to move up sharply over the next couple of quarters. I list them in order of conviction, but I do expect them to largely trade together so size them as if the basket were one stock. This recommendation follows the preceding commentary this morning on sector rotation etc. as a natural extension of those thoughts.



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EquityGPC

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HBAN US \$ C **4.22** -.07 Q ↓4.22/4.23 1,151x234 EquityGPC
 As of Jan8 Vol 29,869,532 Op 4.23 Z Hi 4.37 Q Lo 4.13 Z
 HBAN US EQUITY **Show** GPC - Candle Chart Page 1/22



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KEY US \$ C **6.50** +.11 N 6.50/6.50 2x1,629 Equity**MACD**
 As of Jan8 Vol 16,513,183 Op 6.35 T Hi 6.56 B Lo 6.34 P



RF US \$ C **6.18** +.01 N 6.18/6.19 302x6,703 Equity**GPC**
 As of Jan8 Vol 25,985,030 Op 6.15 T Hi 6.2899 D Lo 6.07 D



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