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Morning Comments March 20, 2009

SPX prices were halted at the 50dMA coincident with the downtrend line from the Jan highs, lateral resistance and the minor Fib 50% retrace level. We like a modest short position and as we have stated in the last couple of days we are not fooling around with the stops and in fact will be looking for the opportunity to bring the stops down quickly should the market follow through to the downside. As prices ratchet down we will look to adjust trailing stops to just over that 780 level given the chance.

My personal views which do not necessarily reflect the views of my team or the firm follow. I am a little bit nervous as you can probably tell from my tone. The last 2 days action was akin to a liquidity driven steamroller from my vantage point and that gives me pause. The incredibly violent moves in commodities and bonds paired up with huge moves in the junkiest bottom of the barrel equity names (at the darkest tip of the bottom think government owned issues which have absolutely no business in even being on the board and are up 2-5x in a few days) to crush the shorts. Now one of 2 things is on, either that was pretty much it because junk as a general rule tends to come up explosively in the climactic stages of a move or the market is signaling a much deeper willingness to begin believing again. On the bright side tech continues to perform well and restaurants and even some retail are really getting in the game now too even as big commodity moves squeeze up the old bubble leaders in resources. Credit and equity new issuance has picked up and M&A activity seems to be turning for the better. On the dark side the broad demand picture is as bad as ever and although the rate of deterioration has clearly slowed that doesn't translate to earnings rather a flattening of losses or some stabilization at very low levels. At some point near where we are in the cycle creative destruction should begin to manifest itself and we will see that the misfortunes of the many weak firms will generate improving prospects for the survivors and that's a good thing if the government doesn't do any more to prevent it (a big if as they embrace Japanese style zombie company favoring methods with nauseating willingness.)

Bottom line: I keep an open mind while I stick with the discipline and go with the trend which is bearish but with smaller commitments until the picture clears up.

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Charts courtesy of Bloomberg Finance L.P.

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