



## Morning Comments March 1, 2010

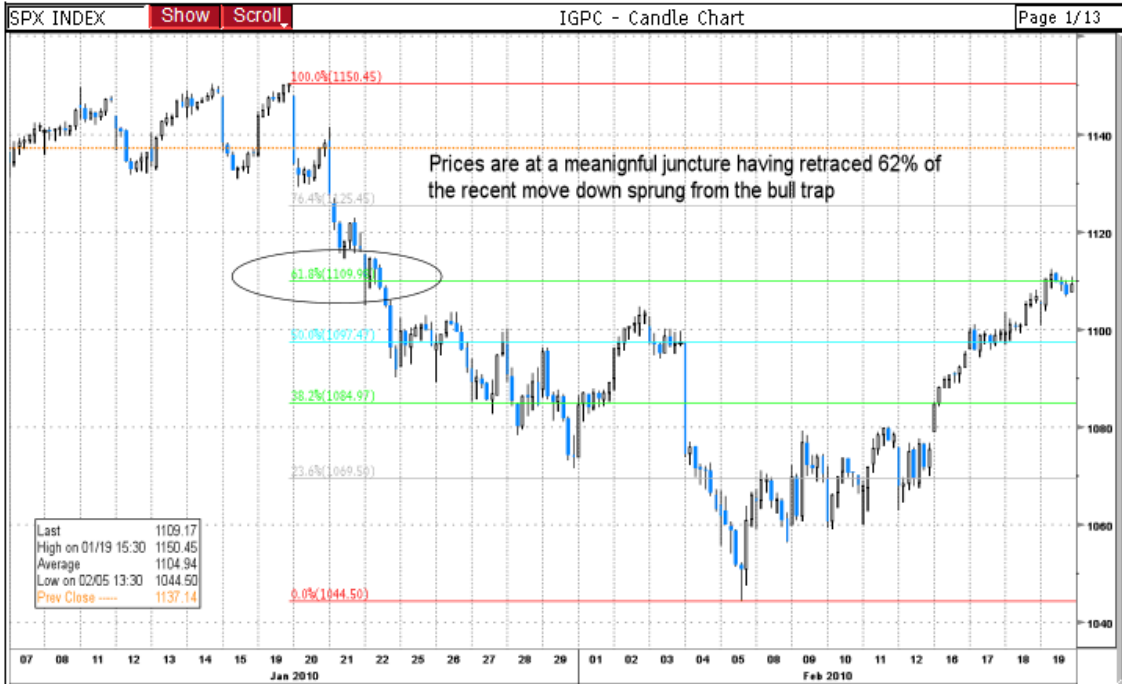
### The Near Term to be Decided Now

This is a revised version of the note that we first published back on Monday, February 22nd, 2010.

I haven't had a lot to say recently as markets have largely been playing out in line with our thinking here. In the fourth quarter of last year I had gotten very cautious on markets and moved to a fully hedged book in light of deteriorating momentum and clear signs of distribution. In early January we saw technical evidence suggesting a bout of seasonal weakness was likely into late February and early March. We had spoken then about the large number of stocks we saw completing third leg advances and meeting pattern projections thus setting up for meaningful corrective activity. In late January I had forecast the bull trap which developed in the SPX as targeting 1030-1040, and I underestimated the market's strength. Now we are at a meaningful juncture as SPX prices have recovered to retrace their recent declines to the Fibonacci 61.8% retracement of the down move from the highs. Our momentum indicators are in position for a potential refreshment now. We observed large numbers of fresh momentum buy signals last week with sell signals dropping quite sharply. For instance, by our count 323 MACD buy signals were generated in the SPX last week v. 102 the preceding week while fresh sell signals dropped to 9 from 43. Thus, given oscillator refreshment and the level of retracement being tested currently, we believe prices must quickly fail now or the weight of the evidence will shift towards the view that the recent corrective action is largely complete. Conversely, renewed downside now would not be expected to be contained in the context of previous bull trap projections should prices pivot down immediately and aggressively. We will stay hedged for now to see a bit more action and believe that building value and closing above the 1109 levels will signal fresh upside while sub 50 day moving average closes still favor a hedged approach.

SPX 1109.17Y as of close 2/19

Index IGPC



We have been seeing some real strength in tech names recently, particularly in network centric names, with stocks like NETL and FFIV breaking up of multi year bases in a continuation of the phenomena we had discussed frequently last year when discussing the likes of CREE and CHKP. Unlike busted resource or industrial names, which recovered from dramatic oversold conditions to claw back a bit of their losses from the bubble, many tech names are making 5-10 year highs as they are breaking out of powerful long term bases and demonstrating true strength, as opposed to bouncing. This is a juxtaposition for tech vis a vis the condition tech was in at the early part of this decade post its own bubble. I am going to recommend a small basket of tech names this morning with the belief we will be adding more as this notion of tech as producing bona fide strength is reinforced. I like accumulating RVBD, APKT, TKLC, VLTR, JDSU, and FNSR here.

# Technical Analysis & Strategy

**NETL** US \$ C **54.58** +.22 Q ↓54.50/54.58 11x20 Equity**GPC**  
 As of Feb19 Vol 653,637 Op 54.36 Q Hi 54.62 Q Lo 53.61 D



**RVBD** US \$ C **27.27** +.24 Q ↑27.25/27.27 2x59 Equity**GPC**  
 As of Feb19 Vol 1,389,228 Op 26.98 Q Hi 27.54 Z Lo 26.3101 D



Technical Analysis & Strategy

RVBD US \$ C **27.27** +.24 Q ↑27.25/27.27 2x59 EquityGPC  
 As of Feb19 Vol 1,389,228 Op 26.98 Q Hi 27.54 Z Lo 26.3101 D



APKT US \$ C **15.02** +.03 Q ↑15.04/15.05 2x63 EquityGPC  
 As of Feb19 Vol 635,873 Op 14.99 Q Hi 15.09 Q Lo 14.80 Q



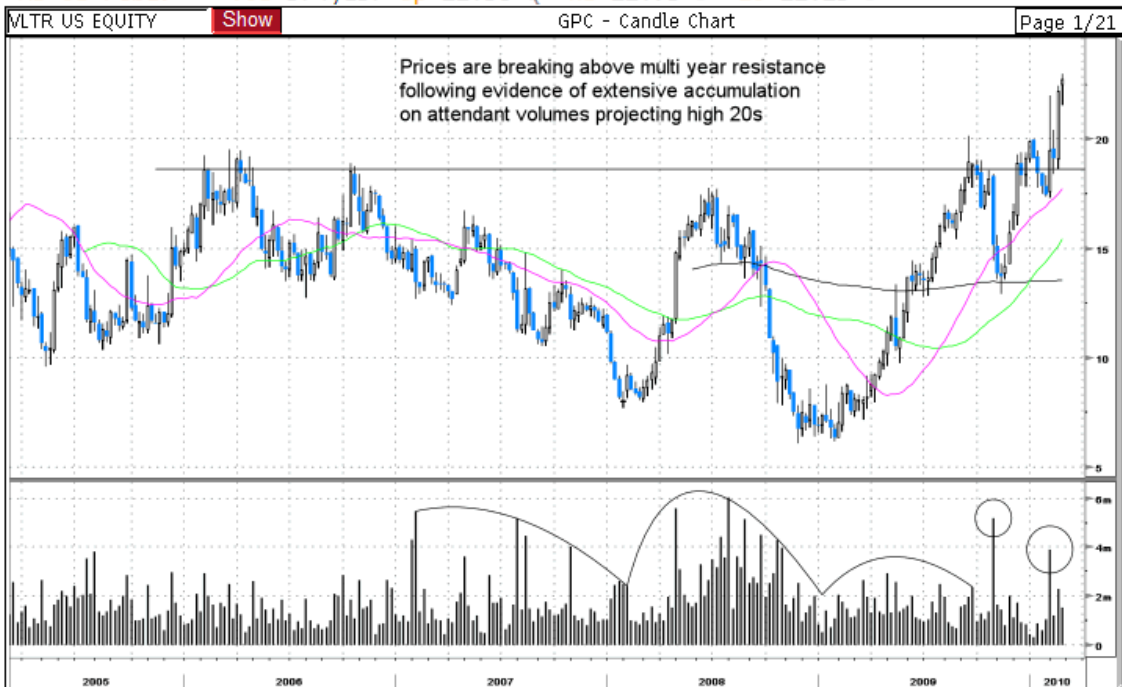


# Technical Analysis & Strategy

VLTR US \$ C **22.71** +.09 Q ↑22.67/22.71 23x27 EquityGPC  
 As of Feb19 Vol 374,157 Op 22.58 Q Hi 22.95 D Lo 22.25 D



VLTR US \$ C **22.71** +.09 Q ↑22.67/22.71 23x27 EquityGPC  
 As of Feb19 Vol 374,157 Op 22.58 Q Hi 22.95 D Lo 22.25 D



# Technical Analysis & Strategy

JDSU US \$ C **9.55** **-.02** Q ↑9.55/9.56 684x230 Equity**GPC**  
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JDSU US \$ C **9.55** **-.02** Q ↑9.55/9.56 684x230 Equity**RSI**  
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FNSR US \$ C **12.10** +.11 Q ↑12.08/12.09 17x11 EquityGPC  
 As of Feb19 Vol 662,804 Op 11.89 Q Hi 12.30 Q Lo 11.84 D



Another thing I wanted to update this morning as it relates specifically to the market, as much as I dislike involving the market in my stock calls, is the action in the regional banks we have been recommending long. Most of these shares are in a position where they can easily fail and put in another corrective leg down. This would likely carry prices through recent lows and down towards 200dMA support, as you can see on the charts of KRE and HBAN below. Notice how these are setup like the SPX right now. This further corrective action would have no real impact on my long call but rather would serve to make the process considerably more time consuming and painful in the near term though while presumably also increasing longer term health of the trade. These shares should also corroborate SPX direction at this point so worth keeping an eye on.

# Technical Analysis & Strategy

KRE US \$ C **24.04** +.09 P 23.83/--- 5x-- EquityGPC  
 As of Feb19 Vol 3,332,932 Op 23.85 P Hi 24.09 D Lo 23.79 P



HBAN US \$ C **4.85** +.13 Q ↑4.84/4.85 238x1,028 EquityGPC  
 As of Feb19 Vol 11,151,163 Op 4.72 Z Hi 4.85 B Lo 4.71 L



# Technical Analysis & Strategy

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