

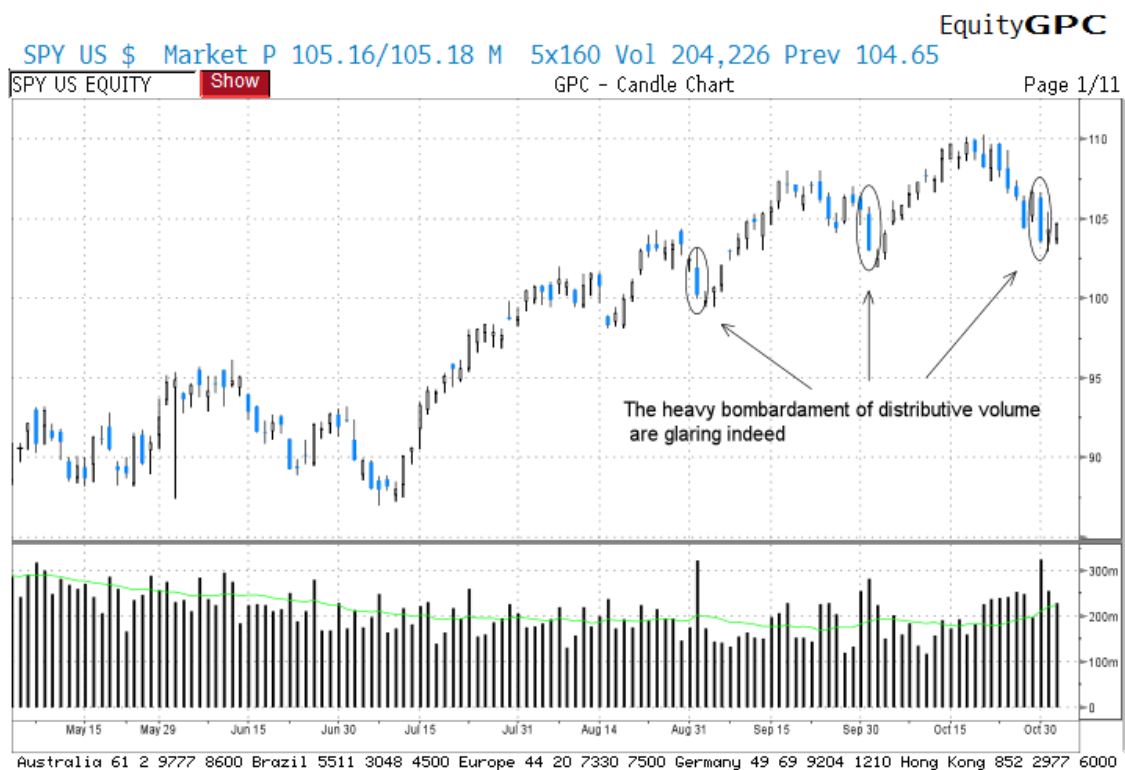


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Morning Comments November 4, 2009

Mind the Return Line

Equity market participants have been distributing shares quite heavily recently as prices have begun to broaden slightly. As we have stated previously we think this is quite natural behavior as large swaths of stocks have returned to the bottoms of the enormous patterns formed over the various long term tops which in most cases unfolded in the '05-'08 time frame. Again, I will put up a chart of CAT as the illustration for this although many fit the pattern, FDX being another good example but you get the picture. It is likely to take some considerable amount of time to absorb the overhead supply vested in multi year tops like these. Experience would tell us the supply will not be easy to overcome without considerable consolidation and even then some will likely never fully recover. I believe that this dynamic is giving rise to the distributive action we are seeing in the market currently and I forecast this dominating the action of the index for quite a while to come.



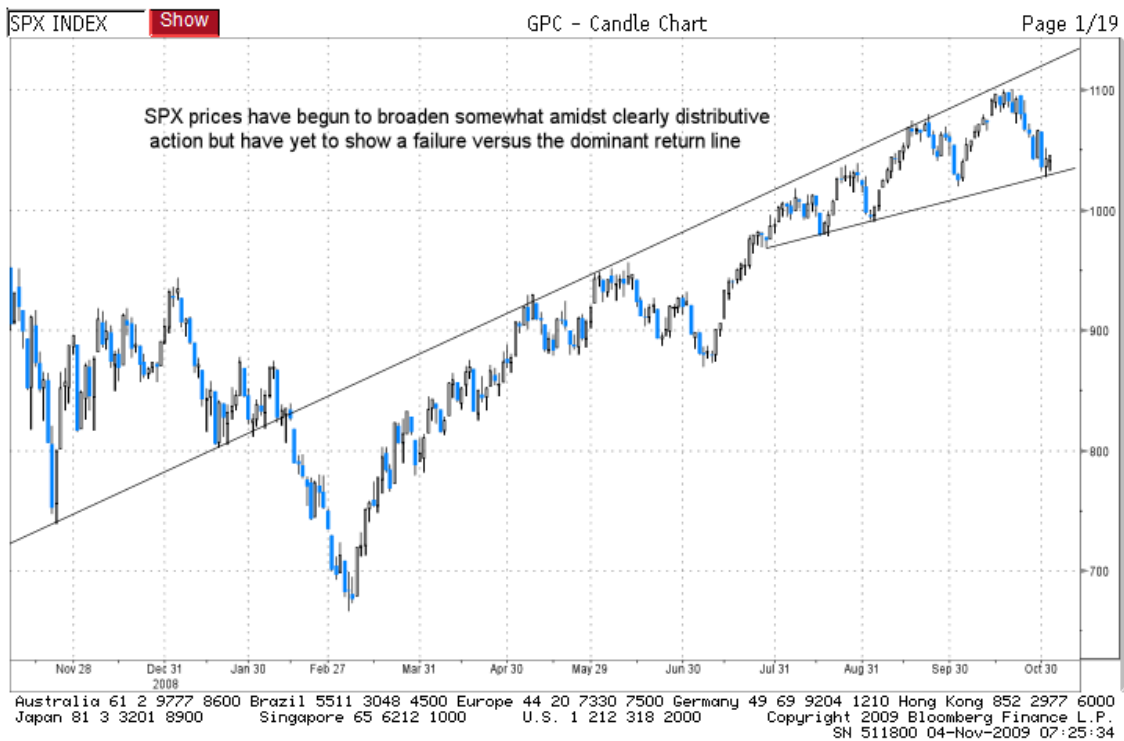
Technical Analysis & Strategy



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In the near term I am intrigued that prices have yet to show a failure to achieve the return line on each sell off and subsequent rally. Timing a playable decline for me right now will need the evidence of a failure to achieve this return line. I suspect the oscillator work is indicating that the timing of this may in fact be near, but I will be patient, watching for signs that prices will rally then roll from a lower level having failed to achieve the return line before adopting a more defensive posture. I would look for signs of failure in the mid 1060s as reason to believe this may be the case. Until it is clear to me the market is my enemy I will continue to evaluate each stock on its own technical and fundamental merits on a case by case basis. I have not had much in the way of shorts for most of this year, having played from the long side overwhelmingly, but I would characterize my current posture as one of heightened alert. Over the last couple of months a number of my longs have reached objectives and been disposed of, or have been stopped. Those longs I now hold I would characterize as being of a long term secular nature (i.e. Ford, airlines) having bona fide long term stories as opposed to plays on an oversold recovery that dominated throughout this year's market rise. I don't mind holding greater quantities of cash as long profits are taken due to the fact that I really don't know where to reinvest in equities yet, and it's not clear I need to be aggressively short at this point. For those who are compelled to play everyday or must bow to very short term performance goals I fear it's the worst of times.

SPX 1045.41Y as of close 11/ 3 Index **GPC**



Technical Analysis & Strategy

The short term rally back up into the mid 1060s or so is likely driven by the recent spurt in gold. SPX-Gold correlation has strengthened virtually every month this year and SPX prices are lagging the recent spike.

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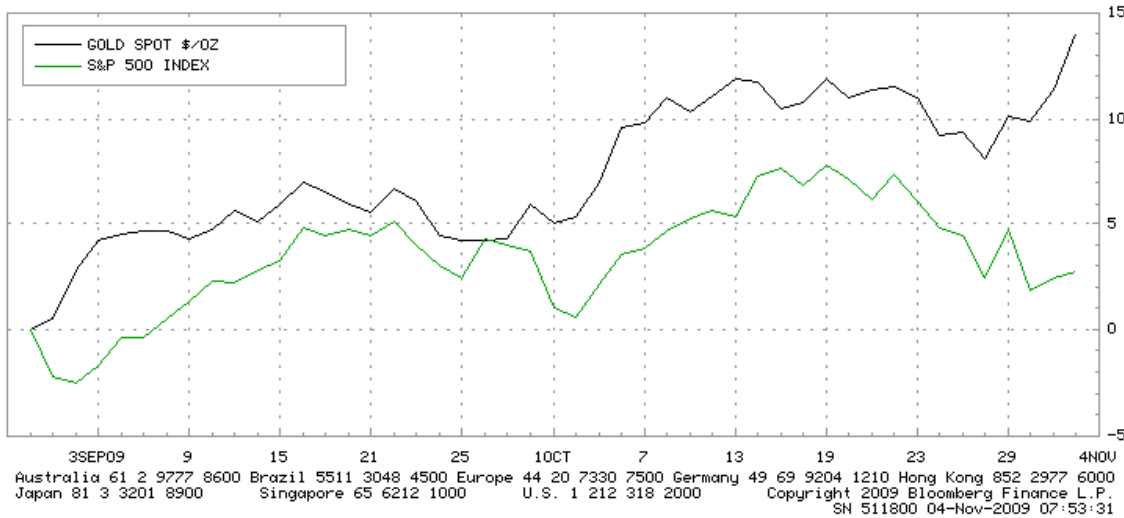
COMPARATIVE RETURNS

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Range 8/31/09 - 11/ 3/09 Period Daily 64 Day Period

Securities	Crcny	Prc Appr	Total Ret	Difference	Annual Eq
1 GOLDS Comdty	USD	14.00 %	14.00 %*	11.29 %	111.10 %
2 SPX Index	USD	2.43 %	2.71 %		16.48 %
3					

(* = No dividends or coupons)



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