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Morning Comments
October 13, 2009

I think traders were spooked yesterday by the valuation downgrade in BIDU. In my opinion this contributed heavily to the mounting weakness in Nasdaq over the day as fears of further valuation downgrades in other extended stocks have now given traders a reason to sell. The counterpoint is IBM; big, cheap, sporting a better PEG than BIDU and closing in on new all time highs. Rotation is afoot all around the market.



On 9/29 we had recommended accumulation of weakness in airline shares into last weeks releases of traffic data. The sector was hit hard by the UAUA offering right before the traffic numbers came out and despite the numbers showing some of the best results in at least a year prices have continued to be heavy while not rebounding as quickly or as sharply as we believed they would. We think that a mix of an extended market, higher crude, dollar angst and excess dealer inventory post recent offerings have conspired to make this so. That being said, we continue to recommend that both traders and investors be accumulating right now. We believe this sector has promise and potential of a secular nature, making it our favorite long term sector play and we see current action as the further unfolding of the basing process that leads to XAL prices multiples above current quotations. I am attaching a correlation matrix below that I think addresses near term noisy macro concerns handily.

Technical Analysis & Strategy

UAUA US \$ C **7.16** **-.04** Q **↑7.16/7.17** 101x474
 As of Oct12 Vol 7,799,322 Op 7.33 Z Hi 7.33 D Lo 7.05 D

EquityGPC



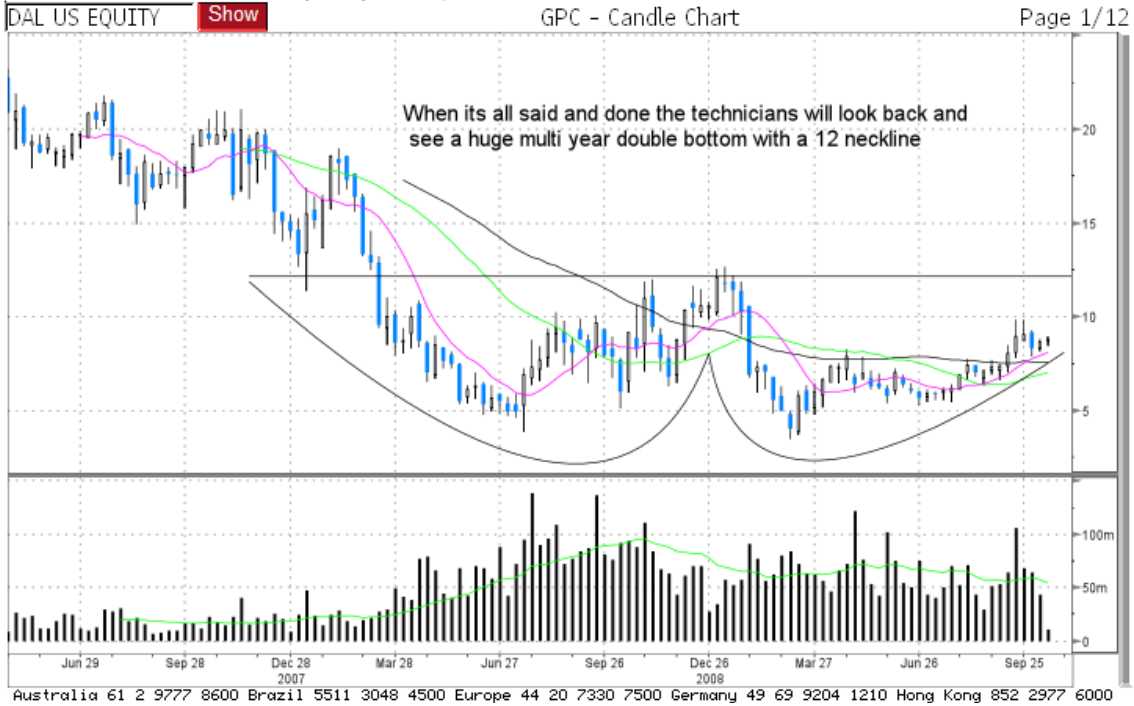
EquityGPC

As of Oct12 Vol 9,939,187 Op 8.74 T Hi 8.935 D Lo 8.57 C



Technical Analysis & Strategy

DAL US \$ C **8.90** +.23 N 8.90/8.91 21x6 Equity**GPC**
 As of Oct12 Vol 9,939,187 Op 8.74 T Hi 8.935 D Lo 8.57 C



XAL 27.75Y as of close 10/12 Index **GPC**



Technical Analysis & Strategy

<HELP> for explanation.

Currency**CORR**

1<GO> to Edit, 2<GO> for more options, <MENU> to return to correlation menu

1) Edit 2) Actions Add Matrix Short airlines

10/13/2008 - 10/13/2009 Daily Calculation Correlation Local CCY

<Filter> Correlation Matrix (9 Rows x 9 Columns)

Security	XAL	CL1	SPX	DXY	CAL	DAL	AMR	UAUA	JBLU
11) XAL	1.000	0.248	0.719	-0.221	0.875	0.884	0.840	0.884	0.843
12) DAL	0.884	0.184	0.553	-0.159	0.834	1.000	0.814	0.828	0.751
13) UAUA	0.884	0.105	0.521	-0.121	0.815	0.828	0.793	1.000	0.752
14) CAL	0.875	0.120	0.523	-0.102	1.000	0.834	0.823	0.815	0.737
15) JBLU	0.843	0.192	0.616	-0.233	0.737	0.751	0.723	0.752	1.000
16) AMR	0.840	0.060	0.453	-0.088	0.823	0.814	1.000	0.793	0.723
17) SPX	0.719	0.530	1.000	-0.339	0.523	0.553	0.453	0.521	0.616
18) CL1	0.248	1.000	0.530	-0.323	0.120	0.184	0.060	0.105	0.192
19) DXY	-0.221	-0.323	-0.339	1.000	-0.102	-0.159	-0.088	-0.121	-0.233

Color bands based on Statistical Significance: Most Significant Significant Less Significant Least Significant

Click on a security to view more options, or on a matrix value to view correlation and scatter charts.

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000

I want to quickly update a few things we have been recommending recently. We had taken out some longs in the defense space back on 9/29/09 on a purely technical basis and these have not performed to our expectations as we were quickly stopped out of RTN while longs in NOC and GD have lagged the market. I don't want to fool around too much here as I had expected a market leading show of strength from the DFI and the opposite has been forthcoming so we will be strict in stopping this trade should that occur. We are going to stick with NOC, using technical support at the 50 level for stops, and the pivot level at 64.80 as a stop for GD.

Technical Analysis & Strategy

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