



Morning Comments October 6, 2009

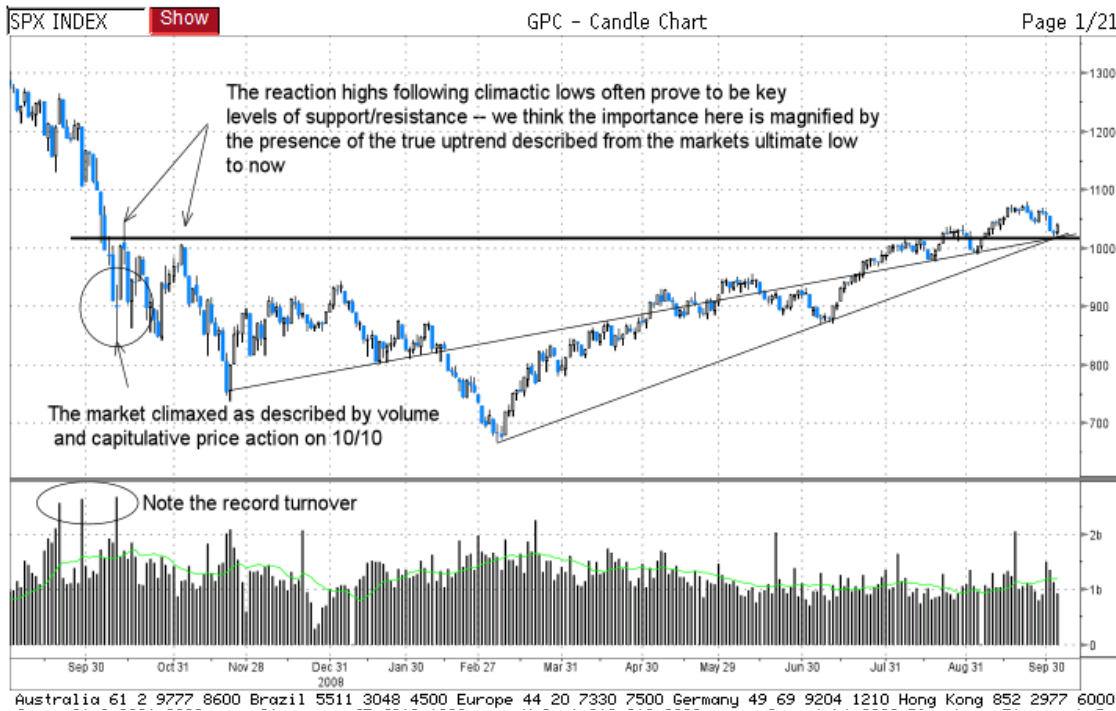
Technical Things Happen for Fundamental Reasons

I wanted to spend a moment speaking about general market conditions as I feel we are at a fairly critical juncture that likely sees the intermediate term direction decided. Recent market weakness appears to have stemmed in no small part from the weak durable goods number and subsequent weaker than expected ISM manufacturing index data. That the market turned on a better non-manufacturing index observation is as it should be, given the entirely lopsided weight services enjoy in our economy relative to the small amount of manufacturing we engage in. An economic trump card then has appeared just as the market tests a powerful level of support. Our mantra has always been, "Technical things happen for fundamental reasons," and the technical importance of current index price levels is increased by the observation of clear fundamental factor impact.

On October 10, 2008 most equity markets made climactic lows in terms of volume and price action, this is best described as the "internal" low or the point at which the majority capitulated. Subsequently, the actual bottom tick recorded the "external" low or the point at which most in hindsight call "the bottom." Generally, by the time the external low has been recorded, market leaders have already undergone significant accumulation and are in various stages of ascension. The highs set after a climactic low (reaction highs) act as pivotal resistance during the bottoming process often containing prices for extended periods of time while the market digests the climactic episode(s) and volume contracts from unsustainable levels. I understand the overcoming of these reaction highs to prove that the digestion process is complete, by which I mean all those willing (patient) sellers that defined the top of the market post climax have been satisfied at their preferred price level. Thus the level marking the reaction highs converts over time from resistance to support. Equity markets are testing the presumed support of these reaction highs at this very moment even as a number of large markets test their true uptrends and important moving average levels. With that long winded background as a base, suffice it to say that should these lows of the last couple of days fail around the aforementioned area of major support then I believe the market will be signaling extensive consolidation/retracement over at least an intermediate term time frame at a minimum. For now the market is innocent until proven guilty and the onus is on the bears to prove their case. I have no greater fear over longs than shorts at this point but this can change quickly

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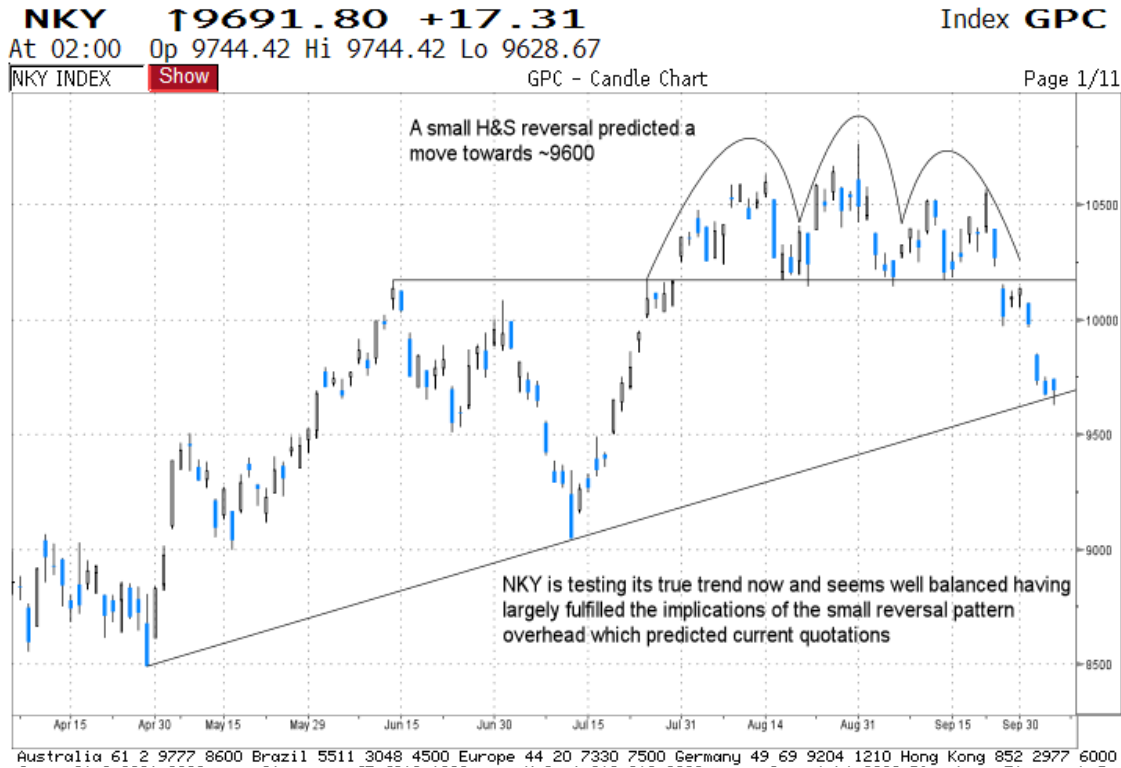
SPX 1040.46Y as of close 10/ 5



SX5E 2790.78Y as of close 10/ 5 Index GPC
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