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Technical Update January 20, 2009

• **SELL STRENGTH:** We continue to believe that the next major move is going to be lower and that last week's breakdown in equities was just the beginning – we are looking for the S&P 500 to reach the 650-700 area over the next few weeks.

We will be looking to sell into strength over the next few days should we get the opportunity (please see page 4 for details on levels). Otherwise, we will be aggressively short once we break the 815 support level.

• **TECHNICAL STRUCTURE:** The highest probability outcome is that we already started intermediate leg 5 on January 6th, and therefore we expect significantly more downside over the next few weeks. See page 3 & 4

• **RISK AVERSION:** We are looking for a continued pick-up in risk aversion over the next few weeks. We believe the VIX is going to be at significantly higher levels by the end of February. Also looking for new lows in the DollarYen and the EuroYen. See pages 5 & 7

• **GOLD:** We expect to see another major move lower in gold (coinciding with another move higher in the dollar) before the longer-term uptrend resumes. Our techniques point towards the 600-650 support area as a potential price objective. See page 7

• **U.S. DOLLAR:** We believe that we are on the verge of another explosive move higher in the dollar, which could coincide with a sharp increase in risk-aversion in the short-term. See page 8

• **EURO:** We expect to see the Euro continue to decline, and expect a new low over the next few weeks. Over the next few months, we think the Euro could head towards the 1.15 - 1.18 area. See page 9

The results presented should not and cannot be viewed as an indicator of future performance.
Charts courtesy of Bloomberg Finance L.P.

S&P 500

After analyzing the shorter-term substructures, we find it highly probable that we started intermediate leg 5 on January 6th.

Within leg 5, we just completed leg 1 (which also subdivided in 5 legs) at the intraday low last Thursday.

We are now completing corrective leg 2, which will be followed by leg 3 lower. Recall that leg 2's are usually sharp corrections (sharp move higher/bounce). Leg 3's usually represent the largest and most violent part of the move.

Our argument all along, has been that the secondary counter-trend rally from the November lows was just a corrective intermediate leg 4, and that once we started intermediate leg 5 to the downside, that would be the final leg lower, which would complete the large move lower from May 19th.

Once this final move lower is complete, we expect a major primary counter-trend rally in equities that will look and feel like we are starting a new primary bull market in equities.

S&P 500

See below for a 15min chart. We use this chart to illustrate how we think leg 1 of 5 played out ending with the intraday low on Thursday. Since then, we have seen corrective leg 2 unfold.

So how much higher will leg 2 take us? We used a number of techniques to calculate potential levels that represent good risk/rewards to initiate short positions.

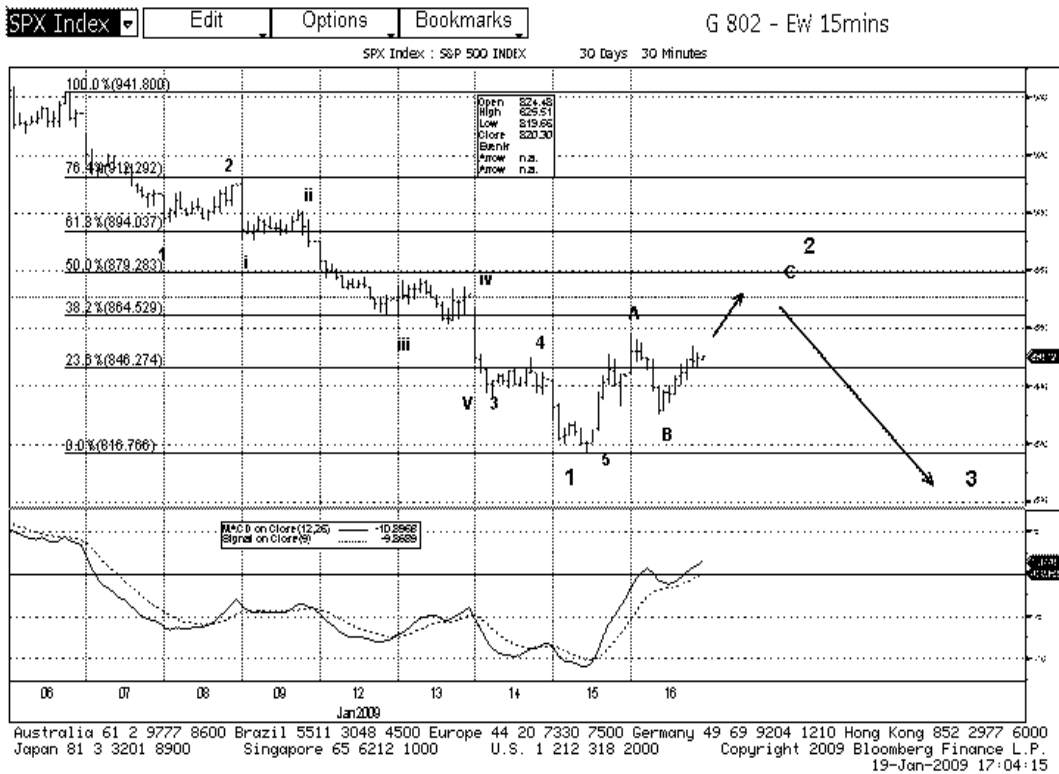
Fibonacci retracement levels: 865 and 895.

Elliott Wave targets for leg 2 based on Fibonacci Relationships: 871, 886, 896.

Open gap: 868-871

Bottom Line: Combining the above levels with known resistance levels, we think the most likely targets for leg 2 are 870, 885 (former pivot level), and 895. These levels represent good levels to initiate short positions with good risk-rewards. Stops can be placed just above 905 or just above 920 for structural shorts depending on your risk preference.

SPX 850.12Y as of close 1/16 Index G



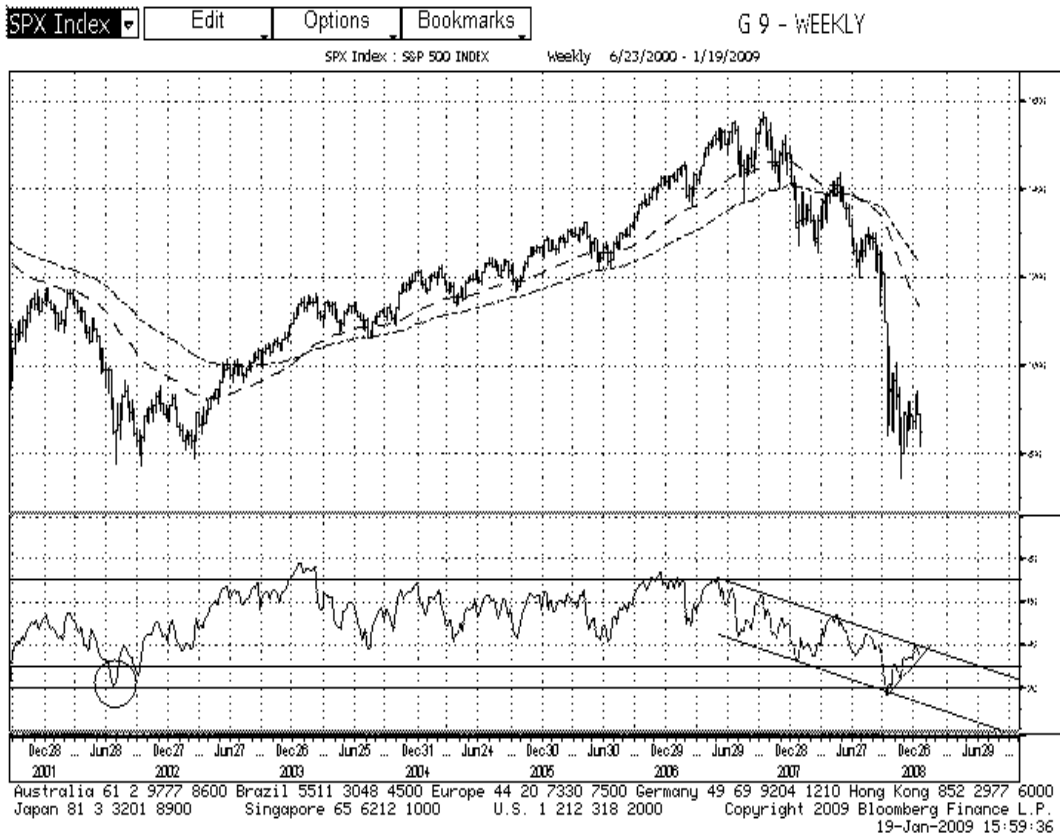
S&P 500

The next two charts are updates of charts that we included in our initial report.

We had pointed out that since mid '07 the weekly RSI (14) had traveled in a well defined trend-channel, and that we were once again approaching the upper part of the trend channel after the RSI reversed from the most oversold reading since July of '02.

The RSI has since turned lower, but notice that it has still not broken below the steep uptrend from when the RSI formed a bottom at the beginning of October, which will give us added confirmation that we can expect significant more downside.

SPX 850.12Y as of close 1/16 Index **G**



VIX

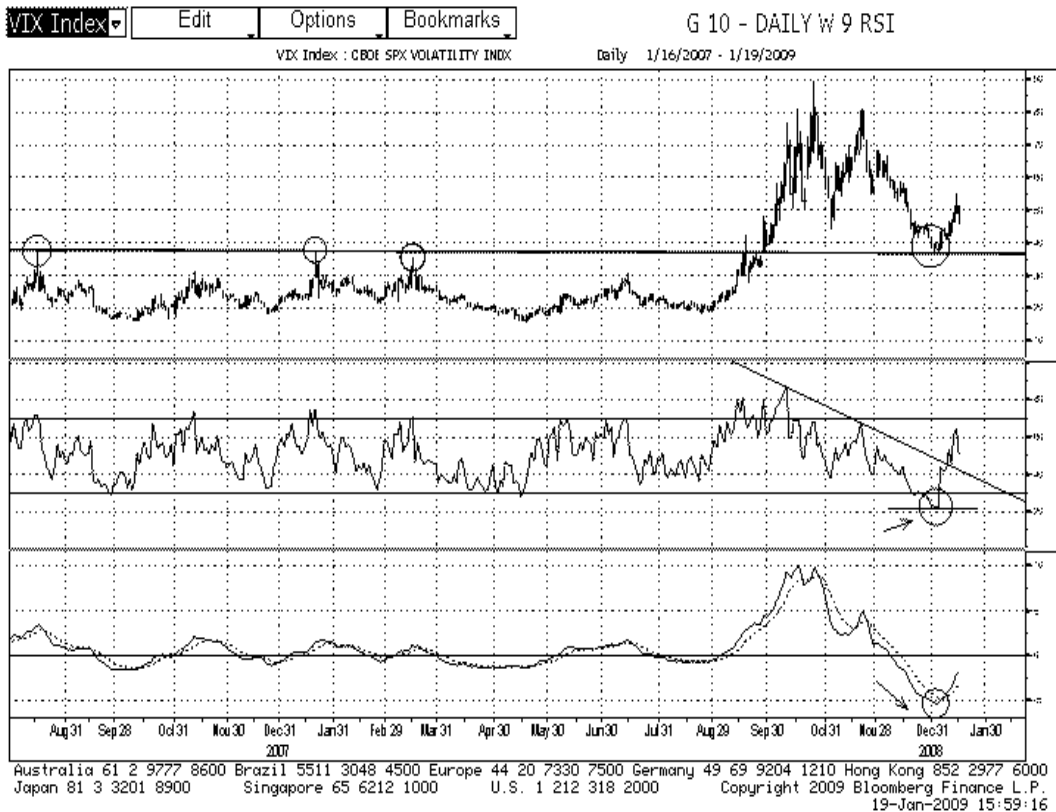
Bottom-Line: We think our initial targets were too conservative (original target was 58 - 63), and we now think the VIX can reach the 69.5 - 72 resistance area

We argued that the VIX index was telling us that we were getting close to a severe sell-off in equities, but we admit we were surprised by how quickly equities broke down!

The RSI was at an extreme level reaching the 20 level, which was the most extreme oversold reading in the past few years, and the MACD was starting to turn. As you can see from the chart below, the MACD gave you a confirmed “buy” momentum signal on Jan 8th, when the lines crossed. Furthermore, you can see that the VIX found support at the long-term pivot level that had proved to be significant resistance on three past occasions.

You may be asking why we aren’t looking for the VIX to make a new high if we believe the S&P will make a significant new low. Well, we think there is a good chance that the positive divergence we witnessed at the November lows (where VIX failed to confirm the new low in the equity markets and made a lower high), will continue to play out, and will set up the primary counter-trend rally in equities.

VIX 46.11Y as of close 1/16 Index G



GOLD

Bottom-Line: We believe that gold is heading towards the 600-650 longer-term support area before resuming its long-term uptrend! We find the risk/reward at these levels attractive with a stop just above the 900 level.

One can argue that Gold has been in a massive consolidation pattern over the last few months by looking at this longer-term weekly chart below, which is why we would place our stop above the 900 level.

A lot of our technical techniques corroborate the 600-650 scenario, and the fact that everyone is currently so bullish on gold increases our bearish conviction.

There is a rare but powerful negative reversal signal between RSI and price illustrated below. This technique allows us to calculate a price target, which in this case is 640, which happens to fall within the long-term support outlined above.



CURRENCIES

The DollarYen and EuroYen have had remarkable correlations with the S&P 500 for the past year. The Yen's strength has maintained a close correlation with levels of risk aversion during this financial crisis, and the rising risk aversion has caused the continued unwinding of carry trades. We expect the DollarYen to fall below the December lows, and for the EuroYen to also make new lows and fall below its late October lows.

This correlation can be seen in the correlation table below. The SPX column is sorted by correlation. You can see that the Yen, EuroYen, and the Aussie Dollar currency have the three best correlations.

<HELP> for explanation. ComdtyCORR
 1<GO> to Edit, 2<GO> for more options, <MENU> to return to correlation menu

1) Edit CURRENCIES

01/19/2008 - 01/19/2009 Daily Calculation Correlation Local CCY

<Filter> Correlation Matrix (10 Rows x 10 Columns)

Security	CHF	EUR	DXY	JPY	AUD	CAD	GOLDS	SPX ↑	EURJPY	CRY
11) SPX	0.175	0.198	-0.061	0.669	0.606	-0.557	0.022	1.000	0.663	0.310
12) JPY	0.462	-0.083	0.204	1.000	0.444	-0.355	-0.110	0.669	0.730	0.186
13) EURJPY	-0.192	0.620	-0.458	0.730	0.751	-0.668	0.295	0.663	1.000	0.471
14) AUD	-0.243	0.583	-0.502	0.444	1.000	-0.711	0.271	0.606	0.751	0.537
15) CRY	-0.306	0.481	-0.510	0.186	0.537	-0.531	0.506	0.310	0.471	1.000
16) EUR	-0.811	1.000	-0.905	-0.083	0.583	-0.570	0.557	0.198	0.620	0.481
17) CHF	1.000	-0.811	0.831	0.462	-0.243	0.267	-0.481	0.175	-0.192	-0.306
18) GOLDS	-0.481	0.557	-0.543	-0.110	0.271	-0.331	1.000	0.022	0.295	0.506
19) DXY	0.831	-0.905	1.000	0.204	-0.502	0.545	-0.543	-0.061	-0.458	-0.510
20) CAD	0.267	-0.570	0.545	-0.355	-0.711	1.000	-0.331	-0.557	-0.668	-0.531

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
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2009 Bloomberg Finance L.P.
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DOLLAR

It's our belief that the dollar formed a crucial intermediate bottom in mid '07 and we will continue to see the dollar continue to rise higher, and we expect the DXY to go above the November '07 peak.

The weekly chart below clearly shows how the long-term downtrend has been reversed. Furthermore, the recent sharp correction (which we think is a corrective leg 2) held the 50 support level in the RSI indicator. It also bounced off the 50 and 100 exponential weekly moving averages, and they crossed for the first time since '01, which is another technical bullish development for the Dollar.

From an Elliott Wave perspective, we think the rally from July '07 was leg 1, which ended in late November '07. We then had a sharp correction for leg 2, which retraced precisely 61.8% of the initial move. We should now be in leg 3, and we should soon see the most explosive move higher in the dollar over the next few weeks. Our stop level lies at 81.

DXY 84.722s as of close 1/19 **CurrencyG**



EURO

Below is a weekly chart. You can see that the Euro has broken the long-term trend-channel that was in place since '01. The vicious short-term counter-trend rally that started in mid-November, when the RSI was at the most extreme oversold reading over the last decade, helped alleviate those oversold conditions. Furthermore, this rally failed at the 61.8% retracement, which coincided with the 50 day moving average. RSI also failed at the 50 level, which is an important resistance level.

We believe we will see new lows in the Euro over the next few months and we expect to see the Euro head towards the 1.15 - 1.18 area. Our stop level resides at the 1.38 pivot level.

EURUSD ↑ **1.3072** +.0003 BGN 1.3070/1.3074 BG CurrencyG
 At 18:23 Op 1.3069 Hi 1.3077 Lo 1.3058 Close 1.3069 Value 1/21/09
 EURUSD BGN Currency Edit Options Bookmarks G 9 - WEEKLY
 EURUSD BGN Currency : EUR-USD X-RATE weekly 6/23/2000 - 1/19/2009



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