

Here are some updated thoughts on where we stand:

Bottom-Line: We remain confident that we can reach ~950 in the S&P 500 by the end of May. Last Thursday, we reached our short-term target of 850-855 (discussed in our last short-term update), so we expect to see at least a minor pullback from these resistance levels. Our preferred scenario is that we only get a shallow pullback to ~835-840 before we extend higher – should we break below 814 we will get a much deeper pullback.

We believe most participants continue to fight this rally, which increases our conviction that we have entered into a new technical paradigm in this bear market, and that we will likely keep surprising to the upside. There continues to be a lot of skepticism about this bear market rally shared by market experts and the financial press. Even the options market, where implied volatility on the SPX Index has been moving in the same direction as the index, suggests that option traders remain skeptical about this rally.

As we've stated before, we don't believe this is the beginning of a new primary bull market, and the potential for new lows in the back half of 2009 or during 2010, remains high. However, we do believe we are in the middle of a multi-month primary counter-trend rally (usually more powerful than the traditional bear market rally) that could take us significantly higher. Thus, the risk in our opinion continues to be to the upside, and we think that upside surprises will continue to be a theme over the next few weeks, as we have increasing confidence and increasing amounts of evidence that we have entered into a new paradigm technically.

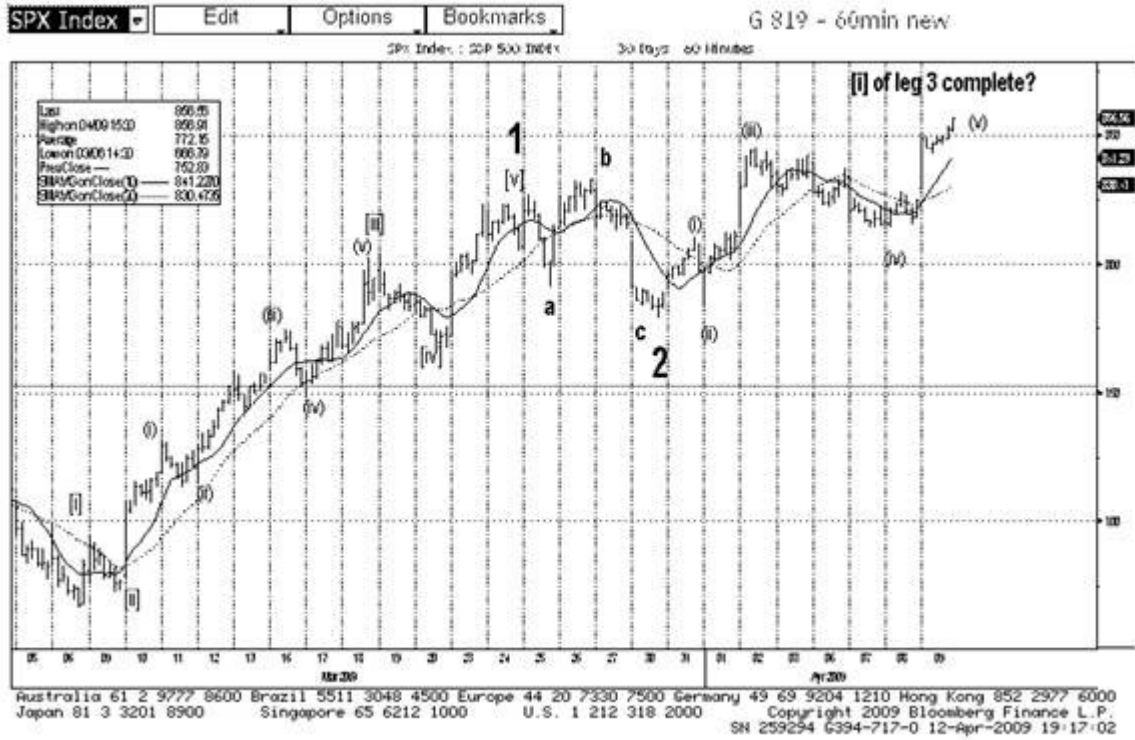
The VIX broke down from its range where it's been stuck in since the beginning of the year. Our derivatives team have told us that they believe the main reason why the VIX was subdued in this range (even while the S&P formed new lows) was because the majority of the street had/has the same position on, which is long volatility. Currently, there are more buyers of options than sellers (long gamma). We expect to see the VIX trend lower and head towards ~28-30 over the next few week. Furthermore, should everyone unwind their long volatility positions at the same time, this could exacerbate the move to the downside.

Given that we are presumably in the middle of the expected move from the March lows, we still have two potential short-term scenarios that still remain on the table. They both suggest a pullback is warranted at these levels (completed 5 legs higher from March 30th) and that we ultimately extend higher to reach our ~950 upside target over the next few weeks. The only question remains how deep of a pullback are we going to get? Our preferred scenario (scenario 1) is that the pullback is shallow and that we retrace to ~835-840 before exploding to the upside again - we cannot break below 814 for this scenario to remain true. Our alternate scenario (scenario 2) is that we have a much deeper pullback where a reasonable price target would be ~780-785 and we will get confirmation of this scenario if we break below 814.

Scenario 1

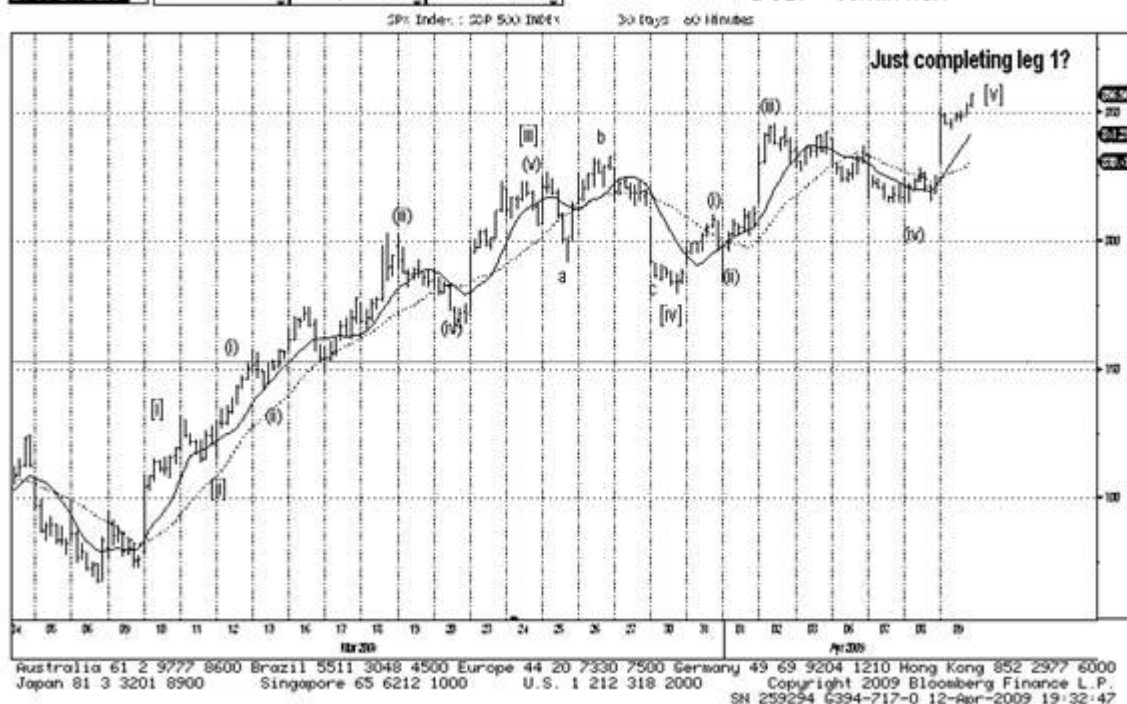
SPX 856.56Y as of close 4/ 9

Index G



Scenario 2 (Alternate Scenario)

SPX 856.56Y as of close 4/ 9 Index G
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