The goal of this product is to complement our intermediate-term technical outlooks with short-term actionable calls. In addition, we feel it's important to provide technical color and highlight technical developments as they arise, even if we do not make a call. This does not alter our intermediate and longer-term views.

SHORT-TERM UPDATE

We received a lot of calls over the past few days from our clients asking for updated thoughts on the recent price action. Given that today and tomorrow will be critical to determine the near-term direction of the stock market, we felt it was important to send out an update to provide some color on the recent action and to discuss a potential game plan.

Bottom-Line: Our intermediate call has been for a move to ~950 by the end of May but on April 20th we turned near-term defensive, thinking we could see a severe corrective period that could last for 2 to 3 weeks. So far, we have not seen the pullback that we expected but this scenario remains on the table (see below for new targets should we get a pullback) unless we breakout and close above 882-885 (see chart below) – today is also the last day of the month so one must be mindful of potential window dressing. Should we breakout and close above that resistance area, we will remove our hedges and we will no longer be positioned defensively.

What changes if we get a confirmed breakout by the end of this week? Two things: (1) market will likely rally into the end of next week and that could mark the end of the counter-trend rally (2) market will have a difficult time overcoming 908-912 if we don't see a bigger pullback now. See below for a more detailed analysis.

If we continue to rally into the end of next week, we believe this has very bearish implications over the intermediate term, and there would be a high likelihood that the counter-trend rally that started at the March lows is most likely over (a few weeks sooner than we had anticipated) at the end of next week. Therefore, in a perverse manner, should we continue to move higher over the next few days, without a larger pullback, that would most likely cap the upside of this primary counter-trend rally.

It is ironic that just a few weeks before our near-term defensive call on April 20th, we argued that people remained skeptical about the sustainability of this counter-trend rally – we argued that we had entered into a new paradigm in this bear market (that we would get a much larger counter-trend rally than we were used to in this bear market), and that we would likely keep surprising to the upside with retracements being shallow. Despite having said that, we are amazed at how resilient the market has been. We understand that we have seen a positive earnings cycle so far and that the price action has been bullish. Nevertheless, we are surprised that so far we haven't gotten a larger pullback after seeing so many of our indicators lining-up on April 20th suggesting that we would undergo a corrective period (and that we would see a temporary pick up in risk aversion) that would last two to three weeks. Should we confirm a breakout by the end of this week, then this corrective period was just a complex consolidation period that barely lasted two weeks.

We have a confluence of cycles coming due at the end of next week (6th, 7th, & 8th), which usually causes an inflection point in the markets. Our preferred scenario is that we would sell-off into the end of next week, and if that should occur, especially if we are around ~800-815, we will look to aggressively add to our long exposure.

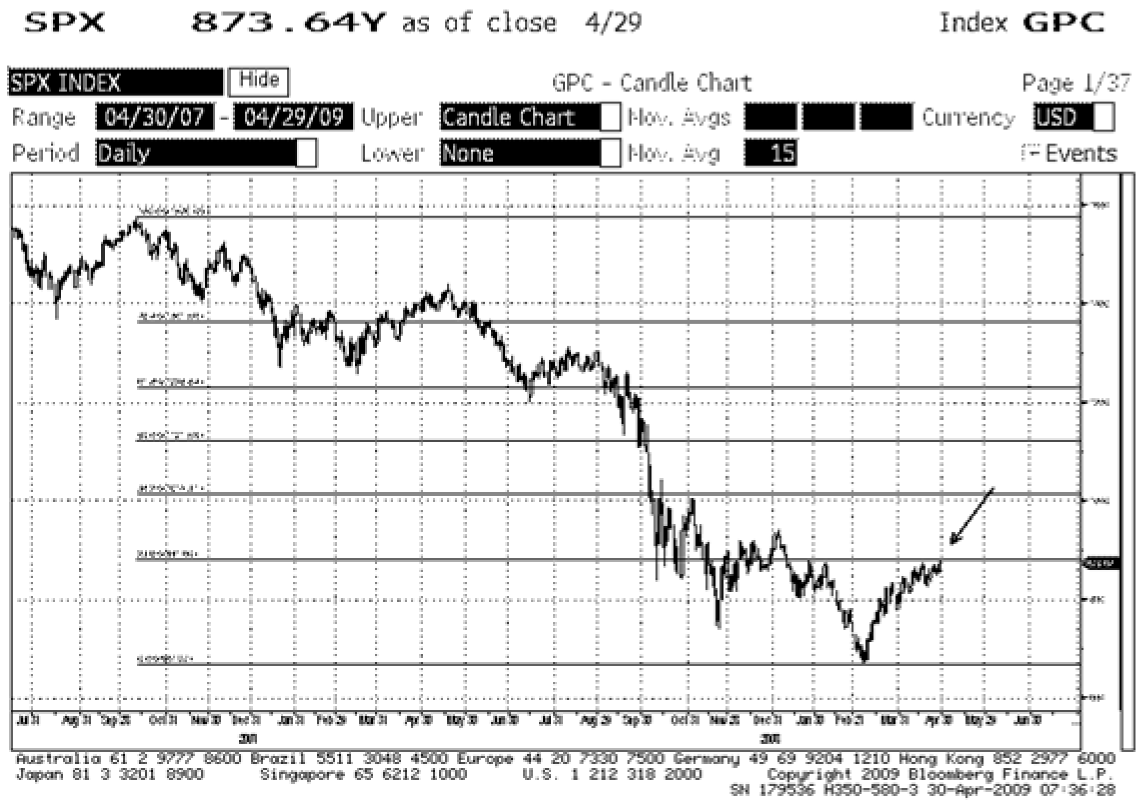
It is still possible that we pullback from these levels going into the end of next week (would be the 3rd leg of the correction) before heading higher once again. If we do get a pullback, the pullback will retrace to slightly higher levels than we had initially anticipated given the levels we are currently at. Instead of reaching the ~760-780, we find that the greatest likelihood is for a pullback to the ~800-815. There is a confluence of price targets that fall in that area using yesterdays intraday high, as the level for the top of leg 2 of this correction.

So what's the game plan? As we see it right now, should we rally into the end of next week, and we either find ourselves at the 908-912 area or around 950 we would be looking to short into that move. Should we finally get a pullback starting today or tomorrow and we sell-off into the end of next week, and we find ourselves in the ~800-815 area we will be looking to accumulate aggressively on weakness.

Lastly, we just want to discuss that there were several clues that the FX markets were giving us yesterday morning. The dollar (DXY Index) broke down below the near-term uptrend. The EuroYen bounced off the 100 day simple moving average, and formed a well defined technical reversal pattern. The AUDUSD, which has also had a remarkably high correlation with the S&P 500 over the last few months, also had a technical reversal pattern and has broken above the 200 day moving average (on the 4th attempt). All of these currencies have room to run to the upside. Lastly, copper also bounced off the 38.2% Fibonacci Retracement level and has room to run to the upside. We will continue to monitor these for any signs of a reversal. In fact, today we are so far seeing another reversal in the dollar and if it continues to move higher, then this could be a sign of renewed risk aversion. We are also keeping an eye on global indices especially the Asian indices, where the structures and substructures are very clear, and where we believe we are close to completing the 5th leg from the lows.

Daily Chart of S&P 500 – Fibonacci Retracement Levels of Entire Bear Market

Yesterday we failed at the first retracement level of the bear market since October of '07 at 882. We need to go above that level in cash and close above it to confirm a breakout.



Christian Bendixen, CMT
Director of Technical Research
Bay Crest Partners, LLC
40 Wall St. 45th Fl
New York, NY

Direct: (646) 878-0001
Trading:(646) 878-0005

Important Disclosures

Analyst Certification - The author certifies that this research report accurately states his/her personal views about the subject securities, which are reflected in the substance of this report. The author certifies that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report. The research provided in this report is based on technical analysis provided by Bay Crest Partners LLC. Technical analysis is the study of price and volume and the interpretation of trading patterns associated with such studies in an attempt to project future price movements. The investments discussed in this report may not be suitable for all investors. Investors should use technical analysis as one input into formulating an investment opinion.

Potential Conflicts of Interest

Analysts employed by Bay Crest Partners LLC are compensated from revenues generated by the firm. Bay Crest Partners LLC generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, Bay Crest Partners LLC generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

Company Specific Disclosures

Bay Crest Partners LLC does not expect to receive or intend to seek compensation for investment banking services from any or all companies listed.

Additional Information

Please write to Bay Crest Partners LLC 40 Wall Street, 45th Floor, New York, NY 10005 Attention: Compliance Department.

Other Disclosures