

Good Morning,

This is our first short-term update (see below). 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.

Going forward, you will only get these updates if you email me back. Thank you to those who have already replied.

SHORT-TERM UPDATE

Bottom-Line: We are closing out a portion of our short positions. We will not go outright long unless we go above 800, which opens the door to ~925-950 before we turn around again and head towards ~650. If we bounce to ~770-780, fail and then break below 735, we will head straight down to ~650.

Please let me know if you are interested in some options strategies to play these various scenarios.

We remain confident that we will reach our intermediate downside target of ~650 over the next few weeks/months. To us, the question is not whether we get to those levels, but how we get there?

Combining our work on technical structures with our traditional indicators, we firmly believe that there are only two scenarios left on the table, but it may take some time to get more clarity on which one is playing out. Both scenarios suggest we will get some sort of a bounce soon, so we would be reducing our risk exposure and covering a portion of our short positions.

Two Scenarios:

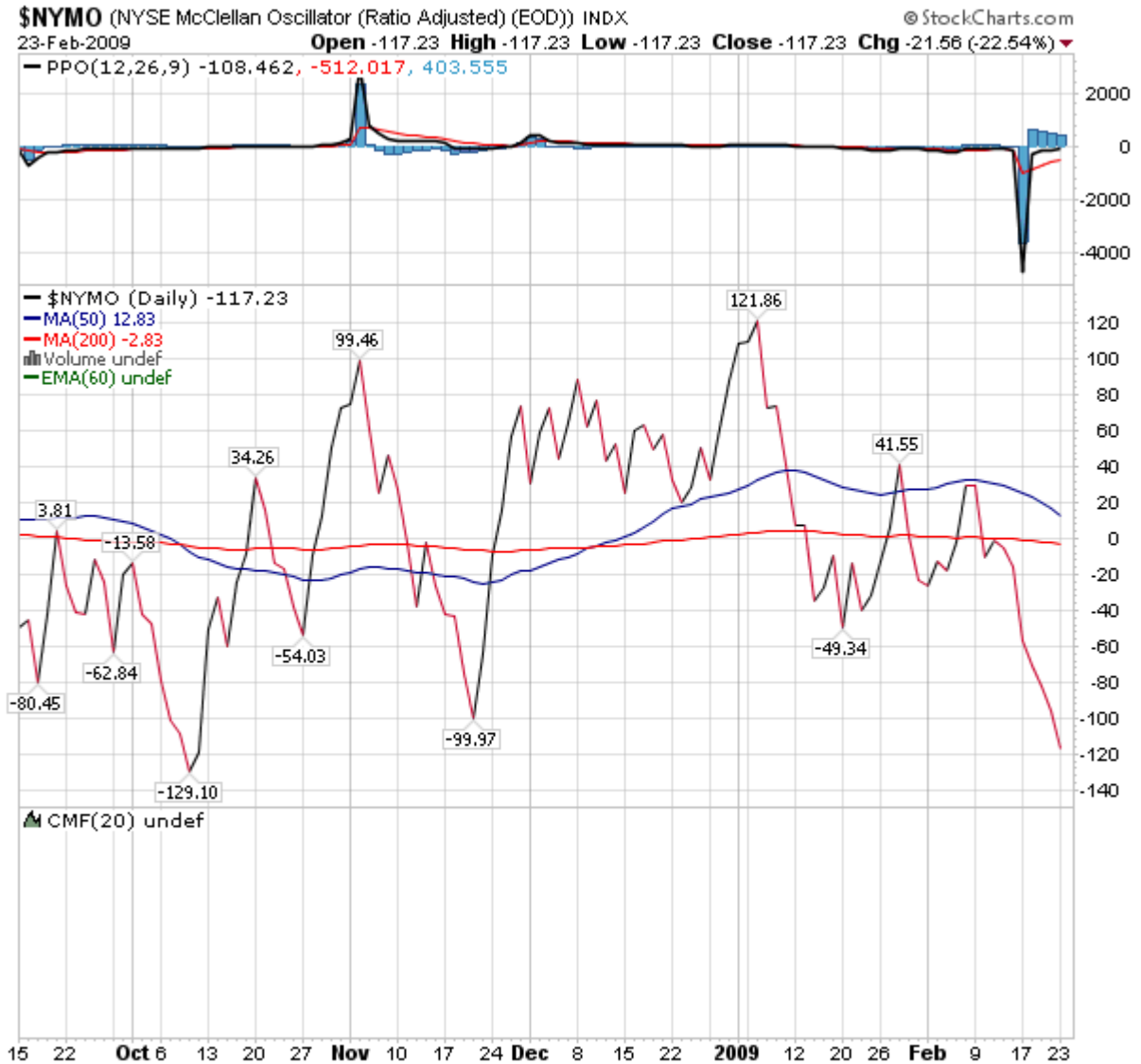
1-We just completed or are about to complete leg B of intermediate leg 4 which started on Jan 6th, and we are about to start leg C of 4 that could take us all the way up to ~925-950 before we turn around and head towards ~650 again. Within leg 4B, if leg a = leg c then we should hold the 735 level.

2-We just completed or are about to complete leg 3 of intermediate and final leg 5 which started on Jan 6th, and we get a small bounce for minor 4 of 5. This could take us to about 770-780 before we roll over again and break below 735.

Also, we have just had another confluence of Gann cycles line-up, similar to the ones we had on Feb 9th, which often cause an inflection point in the markets.

There are also a few traditional technical indicators that suggest we could get a bounce, but the one worth mentioning here is the McClellan oscillator. For those of you that are

not familiar with this oscillator, its goal is to measure the momentum of market breadth. When this oscillator moves below -100 it is considered oversold – yesterday we closed at -117. The last two times we closed at these levels we saw major short-term bottoms, namely on Oct 10th and Nov 20th of 2007.



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

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