



Special Short-Term Update February 1, 2010

We will publish our regularly scheduled weekly update on Wednesday morning.

On December 9th of 2009 we initiated a structural long on the US dollar and a structural short on the Euro as well as short-term trades on both currencies. Given that we are near our short-term targets we are closing out of those positions and taking profits, while maintaining our structural positions. We are also closing out of our short-term options strategies, which we initiated on January 20th.

Our short-term target was 81 for the Dollar (DXY Index) and 1.38 for the Euro. Our updated performance tracker is shown at the end of this report. We have realized a gain of 4.19% on the Dollar and 5.65% on the Euro. We realized gains of 70.59% on our short-term UUP options strategy, and 63.89% on our FXE strategy.

Last Tuesday, we updated our stance on the equity markets to Bearish from Neutral, and we argued that we are just seeing the beginning of a major multi-month (6-9 months) intermediate move lower, and our minimum downside target on the S&P 500 is 850-870.

We also wrote "We think the highest probability scenario is that we make one more swing low before finding short-term support in the 1075-1085 range, which should be followed by a bounce/corrective leg that retraces some of the initial move lower. The 1115-1125 represents a strong confluence of resistance, and the bounce should be capped at these levels."

If 1075 doesn't hold we could see a fast move to 1030-1040 with a number of stops being triggered below the 1075 support level. However, we think there is a good chance we get a bounce this week which should last 4 to 6 trading days. We maintain our structural short on the market. The way we are going to play for a potential bounce in the market is by going long the Materials sector for a few days. In our opinion, it is currently the most oversold sector after screening all the major sectors.

Only ~28% of names in that Materials sector are still trading above their 50 day moving average and ~20% of names have RSI's lower than 30 and are therefore exhibiting extremely oversold conditions. Thus, if we get a bounce in the markets, we think we can get the most outperformance from this sector over the next few days. We are also close to a critical pivot level and RSI is approaching a critical support level (see Chart 1). This sector is technically "broken" and should head lower over the next few months, but given how oversold it is in the short-term, we think it's a good bet for aggressive short-term traders.

New long position: XLB (Materials) – short term target of 33.2, stops at 29.2

We have also identified several put spread options strategies which will not hurt us should we get a bounce in equities this week, as well as some aggressive outright bearish options strategies. Please contact us for more information.

Technical Analysis & Strategy

Chart 1: XLB Daily with RSI

XLB US \$ C **30.14** **-.49** T 28.10/33.13 1x4 EquityG
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Active Positions for 2010

Symbol	Status	Position	Open Date	Cost Basis	Current Price	Timeframe	Target	Stop	Gain/Loss	Performance
DXY	Active	Long	12/9/2009	76.22	79.35	Intermediate	86.00	74.00	+3.13	+4.10%
EUR	Active	Short	12/9/2009	1.47	1.39	Intermediate	1.30	1.52	+0.08	+5.39%
GOLDS	Active	Long	12/17/2009	1,098.90	1,084.35	Short	1250.00	1,073.00	-14.55	-1.32%
JPY	Active	Long	12/17/2009	89.96	90.30	Short	100.00	87.00	+0.34	+0.38%
BKK	Active	Long	1/6/2010	45.23	46.54	Short	57.00	42.00	+1.31	+2.90%
SPX	Active	Short	1/26/2010	1,095.80	1,073.87	Short	860.00	1,135.00	+21.93	+2.00%

Active ETF Positions for 2010

Symbol	Status	Position	Open Date	Cost Basis	Current Price	Timeframe	Target	Stop	Gain/Loss	Performance
UUP	Active	Long	12/9/2009	22.56	23.45	Intermediate	24.97	22.00	+0.89	+3.95%
FXE	Active	Short	12/9/2009	146.99	138.39	Intermediate	125.00	151.75	+8.60	+5.85%
GLD	Active	Long	12/17/2009	107.34	105.96	Short	122.46	104.63	-1.38	-1.29%
FXV	Active	Short	12/17/2009	110.33	109.96	Short	100.00	113.00	+0.37	+0.34%
SPY	Active	Short	1/26/2010	109.34	107.39	Short	86.00	113.5	+1.95	+1.78%

Closed Positions for 2010

Symbol	Status	Position	Open Date	Cost Basis	Timeframe	Target	Close Date	Close Price	Gain/Loss	Performance
SOX	Stopped	Long	12/17/2009	344.61	Short	385.00	1/12/2009	360.00	+15.39	+4.47%
UTY	Stopped	Long	12/9/2009	412.74	Short	450.00	1/22/2010	402.00	-10.74	-2.60%
RUF	Stopped	Long	1/8/2010	10.40	Short	14.00	1/22/2010	9.54	-0.86	-8.27%
DXY	Closed	Long	12/9/2009	76.22	Short	81.00	2/1/2010	79.41	+3.19	+4.19%
EUR	Closed	Short	12/9/2009	1.47	Short	1.38	2/1/2010	1.39	+0.08	+5.65%

Active Options Positions for 2010

Option Symbol	Status	Underlying	Position	Open Date	Cost Basis	Current Closing Exit Price	Gain/Loss	Performance
June 143-130 Put Spread	Active	FXE	Long	1/20/2010	3.70	5.25	+1.55	+41.89%
March 109-100 Put Spread	Active	FXV	Long	1/20/2010	2.30	1.45	-0.85	-36.96%
June 23 Call	Active	UUP	Long	1/20/2010	0.65	0.84	+0.19	+29.23%

Closed Options Positions for 2010

Option Symbol	Status	Underlying	Position	Open Date	Cost Basis	Close Date	Closing Exit Price	Gain/Loss	Performance
March 143-138 Put Spread	Closed	FXE	Long	1/20/2010	1.80	2/1/2010	2.95	+1.15	+63.89%
March 23 Call	Closed	UUP	Long	1/20/2010	0.34	2/1/2010	0.58	+0.24	+70.59%

Technical Analysis & Strategy

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