



Weekly Market Update April 7, 2010

The Position Tracker section can be found at the end of this report and summarizes all of our positions

Summary:

The markets are telling us that inflationary pressures are building. The technicals/charts are telling us that its time to bet on outperformance by XLE (Energy) and OIH (Oil Services) over the next few months and we are initiating new longs in those sectors, and we will accumulate on any pullbacks to the bottom of their respective trading ranges (seen in charts). The recent breakout in crude now suggests we can reach 95-100.

We are initiating a new long position in Gold and new short positions in IEF (7-10 Year Treasury Bonds) and TLT (20+ Year Treasury Bonds) - we are betting that 10yr yields can reach 5-5.25% over the next few months.

With regards to the overall market, we remain neutral. We maintain our discipline and continue to wait for the next short-term sell-off/pullback to evaluate the price action and to determine if it warrants reversing our intermediate view.

We reiterate our short position on the Euro and our long position on the U.S. Dollar, which we initiated on Dec 9th, 2009. We also reiterate our belief that the Yen will depreciate further versus the U.S. Dollar over the next few months.

We continue to bet on relative underperformance by emerging markets (especially China) over the next few months, a bet that we made at the beginning of the year.

Intermediate thoughts/observations on Equities:

As we've said many times before, we avoid being dogmatic with our views and we are not afraid to change our views if the weight of the evidence suggests our initial assessment was wrong.

We don't deny that the probabilities have shifted towards a bullish intermediate scenario, and so the most likely outcome is for additional upside over the next few months. Nevertheless, we maintain our discipline and we continue to wait for the next sell-off to evaluate the price action to determine if it warrants reversing our intermediate view and before making an official market call.

Having said that we want to clarify a few things that we get asked about on a regular basis and make a few key observations:

1- We never chase performance and we always stick to our discipline. While it has been extremely painful to miss this move since Feb 5th, we closed our recommended short SPY position with a loss of ~2.3% when we broke above the critical 1112 pivot level.

2- We don't believe this is the beginning of a secular bull market, but simply the extension of a cyclical bull market. It is not uncommon to get a large reflective rally following a large sell-off. We still believe that we are years away from seeing the end of the secular bear market that began in 2000 (secular trends are decade long cycles).

Technical Analysis & Strategy

3- Despite anemic volumes, this rally continues to push onwards due to little or no selling pressure.

4- We initiated a long position in RUF Index/XHB (Homebuilders) on Jan 8th (Chart 1) but our stops were too tight and we were stopped out on Jan 22nd. We still believe we will reach our original target of 22 on XHB but we will not chase performance here (Chart 2). Similarly, we initiated a long position in BKX Index/XLF (Financials) on Jan 6th (Chart 3) and we were stopped out on Feb 4th and we are very close to reaching our original target of 57 on BKX (Chart 4) but keep in mind that we are seeing extreme overbought conditions on the weekly time frames.

Short-term thoughts/observations on Equities:

1- Despite historically extreme overbought conditions, the path of least resistance is higher, and the S&P is targeting the next resistance area of 1220-1250. (Charts 5-6)

2- Nevertheless, the market remains extremely vulnerable to a pullback at this juncture. For instance, the percentage of stocks on the S&P 500 trading above their 50 day moving average is at ~92.8%. (Chart 7)

3- A number of shorter-term indicators are showing bearish divergences at elevated levels, arguing that a sharp pullback is forthcoming. (Chart 8)

4- The first potential retracement target is the old resistance zone of 1150-1152. Once we can confirm the high for this leg since Feb 5th, we can calculate more precise price targets.

Energy Complex/Crude:

Our belief is that we remain in a secular bull market in commodities. Crude oil has broken out to new highs and the oscillators are confirming this bullish action with breakouts of their own (Chart 9). The longer term chart of crude shows a large base and subsequent consolidation which used the neckline as support (Chart 10). This base has scope to the 95-100 area where an area of congestion and likely resistance exists.

In light of our bullish outlook for crude oil we are taking bullish positions in OIH and XLE. Both have similar base and consolidation patterns as can be seen in the charts. Note that each is nearing the upper bound of their respective trading range, which we believe will be broken on upcoming tests due to positive oscillator and volume work. Our target zone for OIH is in the 152-160 area, and for XLE the 67-72 area. Our ideal strategy is to scale into positions as a return to the bottom bound of the trading ranges is not out of the question in the very near term (115 in OIH, and ~54 in XLE). We would subsequently increase aggressiveness on confirmed breakouts above respective resistance levels (131 in OIH, 60 in XLE). (Charts 11-15)

New long position: OIH (Oil Services) – target of 152-160

New long position: XLE (Energy) – target of 67-72

The other reason we believe we are making a sound bet on outperformance in these sectors is based on the traditional sector rotation model, which dictates how various sectors perform throughout the different phases of the business cycle.

The technology and consumer cyclical (consumer discretionary) sectors tend to outperform in the early stages of a cyclical bull market and that is followed by industrials and then we usually get outperformance by basic materials and energy, while the more defensive consumer staples and health care sectors often perform best at the final stages of a cyclical bull market.

Thus, despite the growing probability of a sell-off/pullback in the markets, we feel comfortable initiating longs in the energy space knowing that these are intermediate trades and with the belief that these will outperform the broader market over the next few months.

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Treasuries:

10yr yields are testing the resistance zone that has been in place since June '09. This also coincides with the 61.8% Fib level from the June '07 peak (Chart 16), and a break above this resistance has the potential to send yields higher in a rapid manner. Constructive momentum developments across several timeframes support a breakout (Charts 17-18). Using the multi-month consolidation as a guide, we believe 5-5.25% to be a viable target for 10yr yields.

A couple of weeks ago we saw 10 year swap spreads turn negative which was mainly attributed to hedging related activity related to new corporate issuance. After a sharp rebound (see USSP10 Index on Bloomberg) that lasted a few days, we are once again trading at negative swap spreads. A negative swap means that the Treasury yield is higher than the swap rate.

There appears to be a consensus view that this reflects growing concerns about sovereign risk but there is also an argument that because of the growing fiscal deficit as a percentage of GDP which causes major increases in supply of treasuries, this can be a driver of what is currently happening to swap spreads. We believe the latter argument and we don't see this changing anytime soon. Let's also remember that 30 year spreads have remained negative since November of 2008.

To capitalize on the expected rise in yields we will initiate a short position in TLT. Many of the bullish developments in 10 year yields are mirrored here. Sellers came on in force toward the end of March, and momentum looks bearish across various timeframes (Chart 19-20). Most importantly, price has begun to break down below key support, giving off a sell signal (Chart 21).

New short position: TLT (20+ Yr Treasuries) – target of 82.2. Stops at 91

A short position in IEF will also be initiated to play the rise in rates. Like 10 year yields, IEF is testing a critical support zone, and has already begun to break down on a weekly closing basis. Momentum is bearish on both the daily and weekly timeframes, which increases the probability of a breakdown (Charts 22-23).

New short position: IEF (7-10 Yr Treasuries) – target of 79.50. Stops at 90.5

Gold: We are initiating a long position on gold, as we have seen a number of bullish developments unfold on both the daily and weekly charts. A breakout above the 1150 level would confirm a bullish breakout from a tight consolidation period. Price appears to have recently broken out of a symmetrical triangle consolidation pattern after catching its uptrend line, and daily momentum held bullish support at the 40 level (Chart 24). This action builds on a late-'09 breakout from a head and shoulders continuation pattern. Weekly RSI remains in bullish territory above the 50 level (Chart 25). We believe there is favorable risk/reward at these levels.

Our long position will be initiated in GLD, but the same analysis used in gold applies.

New long position: GLD (Gold) – target of 130. Stops at 106

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	81.37	Intermediate	86.00	79.80	+5.15	+6.75%
EUR	Active	Short	12/9/2009	1.47	1.34	Intermediate	1.30	1.375	+0.13	+8.87%
JPY	Active	Long	12/17/2009	89.96	93.77	Short	100.00	87.00	+3.81	+4.24%

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	23.85	Intermediate	24.97	22.00	+1.29	+5.72%
FXE	Active	Short	12/9/2009	146.99	133.73	Intermediate	125.00	151.75	+13.26	+9.02%
FXI	Active	Short	12/17/2009	110.33	105.80	Short	100.00	113.00	+4.53	+4.11%
EEM	Active	Short	3/4/2010	40.15	43.74	Short	34.50	-	-1.31	-6.80%*
EWZ	Active	Short	3/4/2010	71.00	75.58	Short	60.00	-	-2.30	-4.41%*
FXI	Active	Short	3/4/2010	40.35	43.84	Short	33.50	-	-1.21	-6.59%*

*Hedged with SPY on 3/1/2010

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%
GOLDS	Stopped	Long	12/17/2009	1098.90	Short	1250.00	2/4/2010	1073.00	-25.90	-2.36%
BKX	Stopped	Long	1/6/2010	45.23	Short	57.00	2/4/2010	45.10	-0.13	-0.29%
SPX	Stopped	Short	1/26/2010	1,095.80	Short	860.00	3/1/2010	1,112.00	-16.20	-1.48%

Closed ETF Positions for 2010

Symbol	Status	Position	Open Date	Cost Basis	Timeframe	Target	Close Date	Close Price	Gain/Loss	Performance
XLB	Stopped	Long	2/1/2010	30.46	Short	33.20	2/4/2010	30.85	+0.39	+1.28%
SPY	Stopped	Short	1/26/2010	109.34	Short	86.00	3/1/2010	111.89	-2.55	-2.33%
FXI	Stopped	Short	2/5/2010	37.44	Short	33.50	3/1/2010	39.70	-2.26	-6.04%

Active Options Positions for 2010

Option Symbol	Status	Underlying	Position	Open Date	Cost Basis	Current Closing Price	Gain/Loss	Performance
September 105-95-85 Put Fly	Active	SPY	Long	2/3/2010	1.32	0.5	-0.82	-62.12%

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%
June 143-130 Put Spread	Closed	FXE	Long	1/20/2010	3.70	3/1/2010	6.90	+3.20	+86.49%
March 109-100 Put Spread	Closed	FXY	Long	1/20/2010	2.30	3/1/2010	0.20	-2.10	-91.30%
June 23 Call	Closed	UUP	Long	1/20/2010	0.65	3/1/2010	0.97	+0.32	+49.23%
March 37-34 1x2 Put Spread	Closed	FXI	Long	2/5/2010	0.30	3/1/2010	0.07	-0.23	-76.67%
March 110-100-90 Put Fly	Closed	SPY	Long	2/3/2010	0.42	3/22/2010	-0.00428	-0.42428	-101.02%

Technical Analysis & Strategy

Sector Updates

XLF (Financials) – Continues to push above its ~13.60-15.75 consolidation range, reaching new 52 week highs. RSI has crossed above the 70 level. Relative strength has broken above its neutral range, and continues to push higher.

XLE (Energy) – Rebounded after forming a hammer candlestick, and now moving to test resistance at ~60.75. RSI has broken above its downtrend. Relative strength has found support at a previous level.

OIH (Oil Services) – Has been moving in the ~111-133 range since September '09, and has bounced off of its uptrend line. RSI has found support at the 40 level. Relative strength has also rebounded off its own support.

XLI (Industrials) – Continues to reach fresh 52 week highs since regaining its broken uptrend. RSI is testing overbought conditions at the 70 level. Overall, has outperformed the market since March '09.

IYT (Transportation) – Consolidating in a tight range between ~78.25-80.25. RSI has pulled back from overbought conditions. Relative strength continues to test resistance.

XLY (Consumer Discretionary) – Has reached a new 52 week high, and continues to move along the broken uptrend from the March '09 low. RSI is moving in overbought territory. Relative strength has pushed to its highest level since early '07.

XLP (Consumer Staples) – Remains near the 76.4% Fibonacci retracement level. RSI has fallen back from resistance at the 70 level. Relative strength has stalled at, and has now fallen back from, previous resistance since breaking the March '09 downtrend; neutral since September '09.

XLB (Materials) – Continues to move in its tight upward channel, and is testing resistance at ~35.40. RSI remains above the 50 level. Relative strength has been neutral overall since August '09.

XME (Metals & Mining) – Testing resistance at its previous high. RSI bounced off the 50 level. Relative strength has stalled a bit, and has been wavering about its November '08 uptrend line.

PPH (Pharmaceuticals) – Has fallen back since breaking out of consolidation, and continues to test support at the broken resistance. RSI is testing the 50 level. Relative strength has been in a period of underperformance since February '09, and has slipped below November '09 support.

IBB (Biotech) – Held support at previous pivot high level since pulling back from all time highs. RSI has fallen from overbought levels. Overall, entered into a period of massive outperformance in summer of '08. More recently, relative strength has been trending upward, but continues to stall at resistance.

IYR (Real Estate) – Continues to push to new 52 week highs. RSI has once again crossed above 70 level. Broadly speaking, has been underperforming since early '07. Relative strength has broken above a key resistance level and is now finding support there.

XLK (Technology) – Continues to move in its tight rising channel and is testing resistance at ~23.40. RSI remains above the 50 level. Has outperformed overall since '07, and has found support since breaking the January '09 relative strength uptrend; neutral since February.

SMH (Semis) – Again testing resistance at the previous high at ~28.75. RSI continues to move above the 50 level. Relative strength has been neutral overall since September '09.

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XLU (Utilities) – Once again testing resistance at the broken April '09 uptrend line, after finding support at the 200 d sma. RSI has reclaimed the 50 level after finding minor pivot support. Has been underperforming since March '09, and is now testing previous support.

XRT (Retail) – Continues to push upward to fresh 52 week highs, and is approaching the broken March '09 uptrend. RSI remains overbought above the 70 level. Overall, has outperformed since November '08, and relative strength is at an all time high.

XHB (Homebuilders) – Has reached new 52 week highs, and held support at resistance of the broken trading range. RSI remains above 50, and has been in a gradual uptrend since November '08. Has been neutral overall since the start of '08 following a period of massive underperformance, and relative strength continues to test long term resistance.

Technical Analysis & Strategy

Chart 1: XHB Daily, as shown on 1/8/2010



Chart 2: XHB Daily, current



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Chart 3: BKX Daily, as shown on 1/5/2010



Chart 4: BKX Daily, current



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Chart 5: SPX Weekly with RSI & MACD

SPX 1189.44Y as of close 4/ 6

Index G



Chart 6: SPX 60 Minute

SPX 1189.44Y as of close 4/ 6

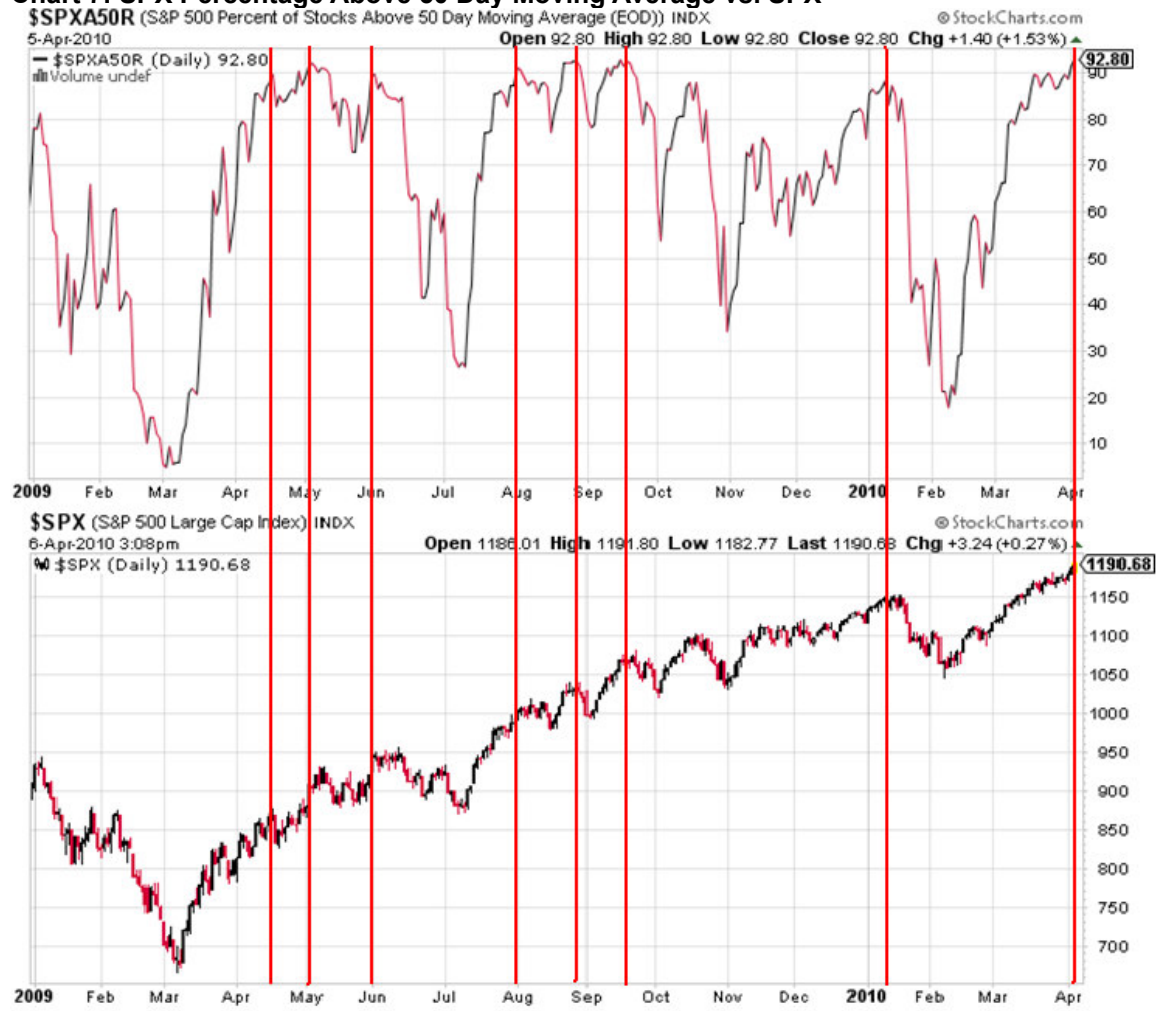
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Chart 7: SPX Percentage Above 50 Day Moving Average vs. SPX



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Chart 8: SPX Daily with 9 Day RSI

SPX 1189.44Y as of close 4/ 6 Index **G**

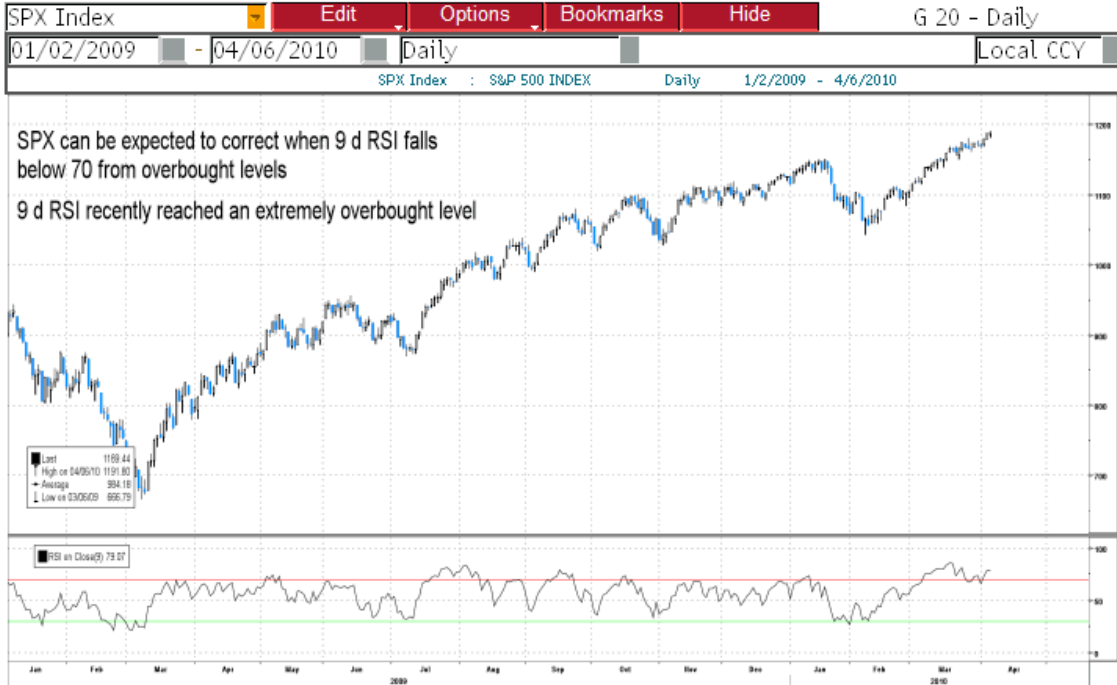


Chart 9: CLA (Crude) Daily with RSI & MACD

CL1 ↑ 86.77 +.15 S S 86.77/86.78 S ComdtyG
 DELAY 16:31 Vol 267,092 Op 86.80 Hi 87.09 Lo 86.13 Prev 86.62

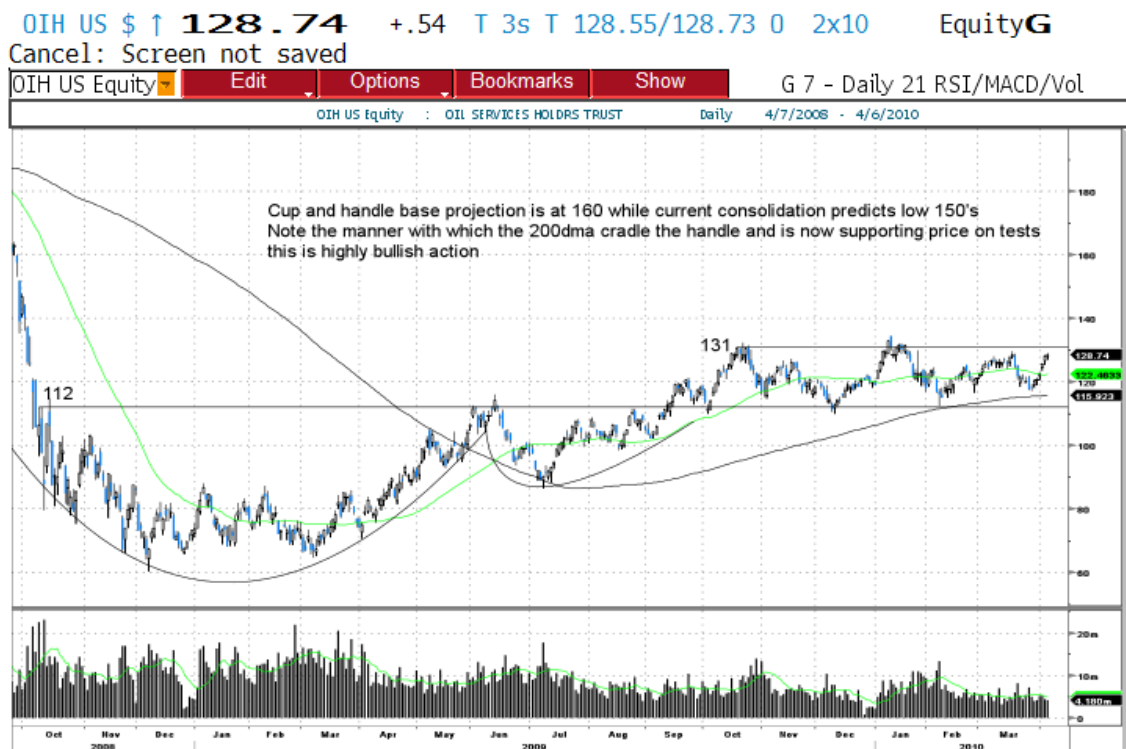


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Chart 10: CLA (Crude) Daily



Chart 11: OIH Daily



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Chart 12: OIH Weekly



Chart 13: XLE Daily



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Chart 14: XLE Daily 2

XLE US \$ ↓ **59.58** unch P 59.51/59.63P HERO/ 1x8 EquityGPC
 At 20:04 Vol 13,535,748 Op 59.50 T Hi 59.78 B Lo 59.26 L ValTrd 806.976m

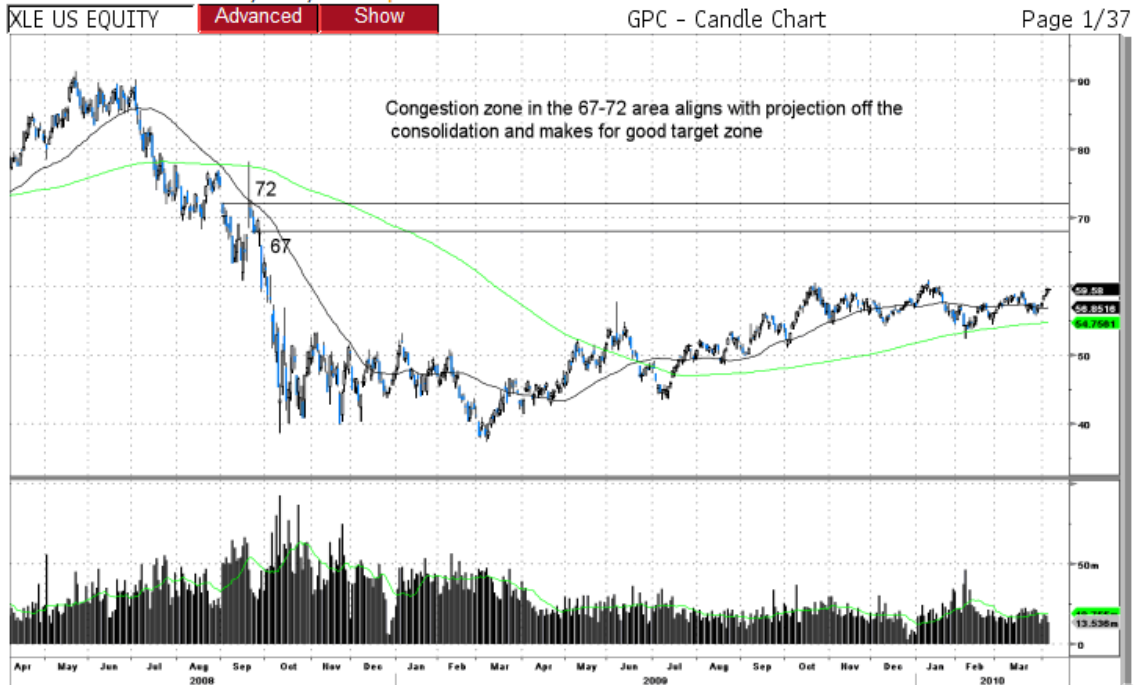


Chart 15: XLE Weekly with RSI & MACD

XLE US \$ ↓ **59.58** unch P 59.51/59.63P HERO/ 1x8 EquityG
 At 20:04 Vol 13,535,748 Op 59.50 T Hi 59.78 B Lo 59.26 L ValTrd 806.976m



Technical Analysis & Strategy

Chart 16: 10 Year Yields Weekly with RSI & MACD



Chart 17: 10 Year Yields Daily with RSI & MACD



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Chart 18: 10 Year Yields Monthly with RSI & MACD



Chart 19: TLT Daily



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Chart 20: TLT Daily with RSI & MACD



Chart 21: TLT Weekly with RSI & MACD



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Chart 22: IEF Daily with RSI & MACD



Chart 23: IEF Weekly with RSI & MACD



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Chart 24: Gold Daily with RSI & MACD

GOLDS 1134.20 - .10 UBZK 1133.20/1135.20 UB ComdtyG
 At 17:38 Op 1134.20 Hi 1134.50 Lo 1134.10



Chart 25: Gold Weekly with RSI & MACD

GOLDS 1134.20 - .10 UBZK 1133.20/1135.20 UB ComdtyG
 At 17:38 Op 1134.20 Hi 1134.50 Lo 1134.10



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