BAYCREST

Technical Analysis & Strategy

Christian Bendixen, CMT
Director of Technical Research
cbendixen@baycrestpartners.com
+1 (646) 878-0001

Weekly Market Update
December 3, 2009

Bottom-Line: Overall, we continue to maintain our neutral stance (we turned neutral from bullish on Oct 16th) on the markets given the deteriorating market internals. However, within that context, we argued on Nov 18th (SPX closed at 1110) for a short-term "correction", followed by one last move higher into year-end/early 2010 – our upside target remains 1160-1170.

We argued for a "correction" going into the beginning of Dec. So far it has unraveled for the most part through time instead of price - we are at the same levels we were at on Nov 18th. Therefore, one can argue that enough consolidation has taken place, and that we are on the verge of breaking out and beginning the final surge higher into year-end.

We initiated a few shorts on Nov 18th with the intention of covering those shorts and getting long at approximately 1060 at the beginning of Dec to play for the last surge higher. So, why don't we get long at these levels given our belief that, whether or not we get a small pullback, we are going to end up heading higher into year-end? We find the risk/reward for longs at current levels unfavorable in light of the deteriorating market internals. However, if we manage to pullback to the 1060-1080 range over the next few trading days, then we will most likely initiate long positions.

Given that we saw several failed breakouts over the last two trading days, we are keeping our short positions. However, we are mindful that enough time has passed for this "correction" to unfold, so we are tightening our stop levels. In the S&P 500, a confirmed breakout (closing price) above 1116 would confirm the end of the "correction".

At this stage, the structures are painting two potential scenarios. (1)- we are still missing the final "C" leg lower to approximately 1060 to complete this "correction" before another move higher into year-end. (2) – slightly more likely scenario is that we are on the verge of breaking out from a triangle/consolidation pattern that began on Nov 16th. This scenario is illustrated below in Chart 1.

The important resistance levels continue to be 10,500 (a level where the first wave up from March to June would be equal to this wave up from July to now) in the Dow and 1121 in the S&P 500 (50% retracement from the entire move from October of '07).

We have argued on several occasions that the market internals continue to deteriorate, and that we continue to advance on the strength of a narrowing base of rising stocks. The market has become increasingly defensive but once again, despite not boding well for the sustainability of the rally, it does not preclude the markets from going higher or staying at elevated levels into year-end.

The percent of NYSE stocks trading above their respective 50-dma continues to be lower than the highs seen from August till mid-October (see Chart 2), and roughly half of NYSE stocks are trading at least 10% below their YTD highs. Several sectors continue to deteriorate technically including Regional Banks, Energy, Semis, and Financials.

We think these markets are exhibiting several signs of "topping" price action and overall the trading range over the last couple of weeks reflect the markets nervousness at this stage of the game. There are several examples of non-confirmations that we illustrate in Charts 3 and 4.

Chart (3a) shows non-confirmation of new highs by the S&P 500 equal weighted index, which indicates that the recent rally was not a broad based rally, and can be attributed to the most heavily weighted stocks. There is also a clear divergence between the markets and the McClellan Summation Index, which is a bearish signal, shown in Chart (3b). Chart (3c) which tracks the number of new highs also suggests we are seeing less and less new highs and that momentum is waning. Chart (4a) illustrates another non-confirmation with advancers/decliners, once again telling us that this rally is not broad-based. Lastly, there is no confirmation from up-volume, as shown on chart (4b).

Although, we have not been stopped out of our short on utilities on a closing basis, we want to address the recent surge in utilities. The rising belief in sustained low treasury yields and a generally more defensive and yield driven market, have conspired to force utilities higher. We will address our thoughts on treasury yields in more detail on a separate report.

Our stops have been elected and we are closing our long position in the Dollar and our short on the Euro. The decline in the Dollar has been relentless and has failed at the 50 day moving average every time despite the bullish divergences that we are seeing with longer-term oscillators. The dollar held the 75 support level for several weeks, but the break below that level has now opened the door for the DXY to reach the 71-73 support area, which could coincide with another leg higher in equities and risky assets in general.

BKX (Financials) – Consolidating in a sideways fashion after breaking below uptrend. Oscillators confirmed breakdown, and we are now testing important resistance levels. Financials have underperformed the S&P since the end of August.

XOI (Energy) – Continues to find support from 50dma. Finding resistance at 38.2% Fibonacci retracement level of ~1100. Oscillators are holding above important support levels. Outperformed the S&P from August to early November, but has since underperformed.

OSX (Oil Services) – Showing signs of deterioration as price is slipping below the March uptrend line. Oscillators have also fallen below important support levels, suggesting weakness. In general, has outperformed the S&P since December '08, but pace has moderated since June, and has outright underperformed since late October.

IXI (Industrials) – Price continues to fight with resistance in the 275-280 area. A Bearish divergence in daily RSI still exists despite RSI breaking its downtrend. Relative performance versus S&P has been neutral overall since May.

IXR (Consumer Staples) – Broke above resistance at ~266 pivot level to continue March uptrend. New index high is not being confirmed by RSI, suggesting a weak technical uptrend. Has been underperforming the broader market since March.

IXB (Materials) – Broke above range between 300-338. Divergence with daily RSI. Has outperformed since end of October, but neutral performance since August.

DRG (Pharmaceuticals) – Broke above resistance at 300, continuing its March uptrend. Next resistance at 318. Overall since summer of '08 has been outperforming, and longer-term we expect this trend to continue.

BTK (Biotech) – Has reclaimed its 50dma, which it broke in late October. RSI is breaking out of its downward trend, and MACD is testing zero level resistance. Overall, entered into a period of massive out-performance in the summer of '08 and we expect that to continue longer-term.

DJR (Real Estate) – Has reclaimed its 50dma, but is once again finding resistance in the 175-179 area. Maintaining March uptrend. Broadly speaking, has been underperforming since early '07. Interestingly, the relative chart failed near the'07 pivot low and December '08 resistance, suggesting that we are entering another major period of intermediate underperformance by this sector.

NDX (Tech) – Bounced off of the 50dma. Broadly speaking, began a period of longer-term out-performance in 2007 and we expect that to continue in the longer term.

SOX (Semiconductors) – Continues to consolidate in a sideways fashion after breaking uptrend. RSI has moved back above 50, which is an important level. Has outperformed since end of 2008, but has been underperforming since beginning of September and has broken its relative strength trendline, which has bearish intermediate term implications.

UTY (Utilities) – Broke out above recent pivot high on high volume. Oscillators have been able to move back above pivotal "bullish/bearish" levels. Has been underperforming since beginning of '09 and broke below a major longer-term support level on the relative chart.

Active Short-Term Trading Ideas

Short SPX (S&P 500) with short-term target of 1060. Stops at 1116.

Short MID (S&P 400) with short-term target of 665. Stops at 712.

Short RTY (Russell 2000) with short-term target of 555. Stops at 608.

Short UTY (Utilities) with target of 340-345. Stops at 412.

Closed Short-Term Trading Ideas

Short IBOV (Brazil) had stop elected at the 65,500 level

Long DXY (Dollar) had stop elected at 75 level.

Short EURUSD (Euro) had stop elected at 1.505 level.

*Stops on a closing basis

Chart 1: 15 Minute S&P Chart

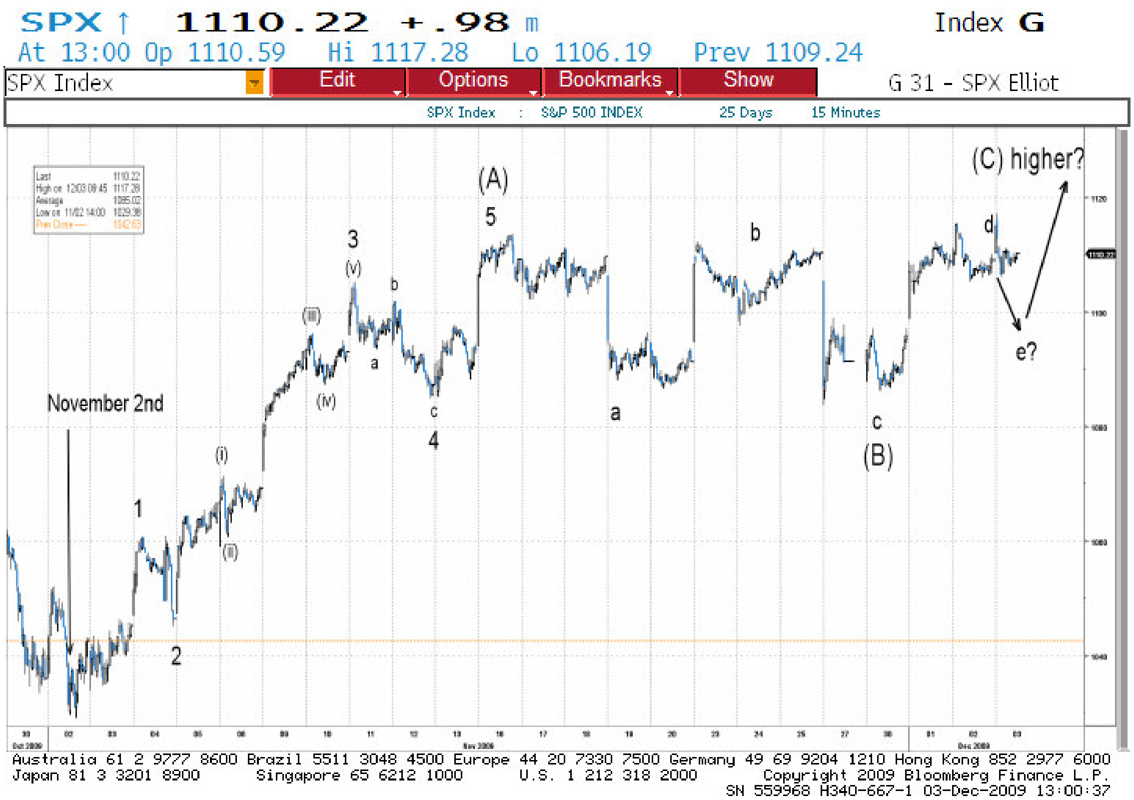


Chart 2: NYSE stocks above 50dma

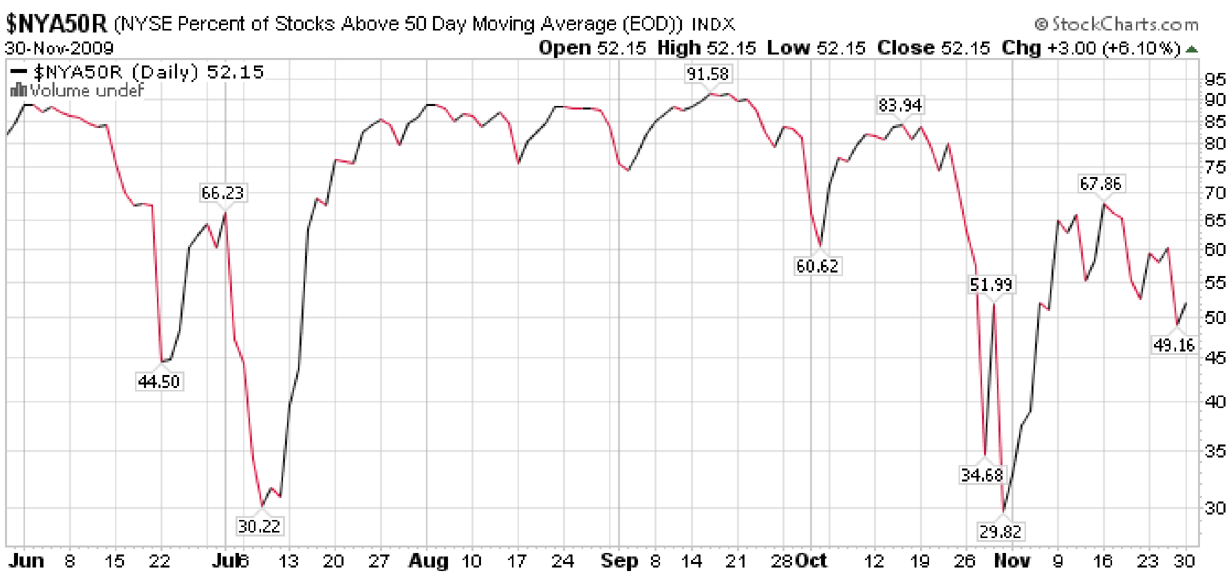
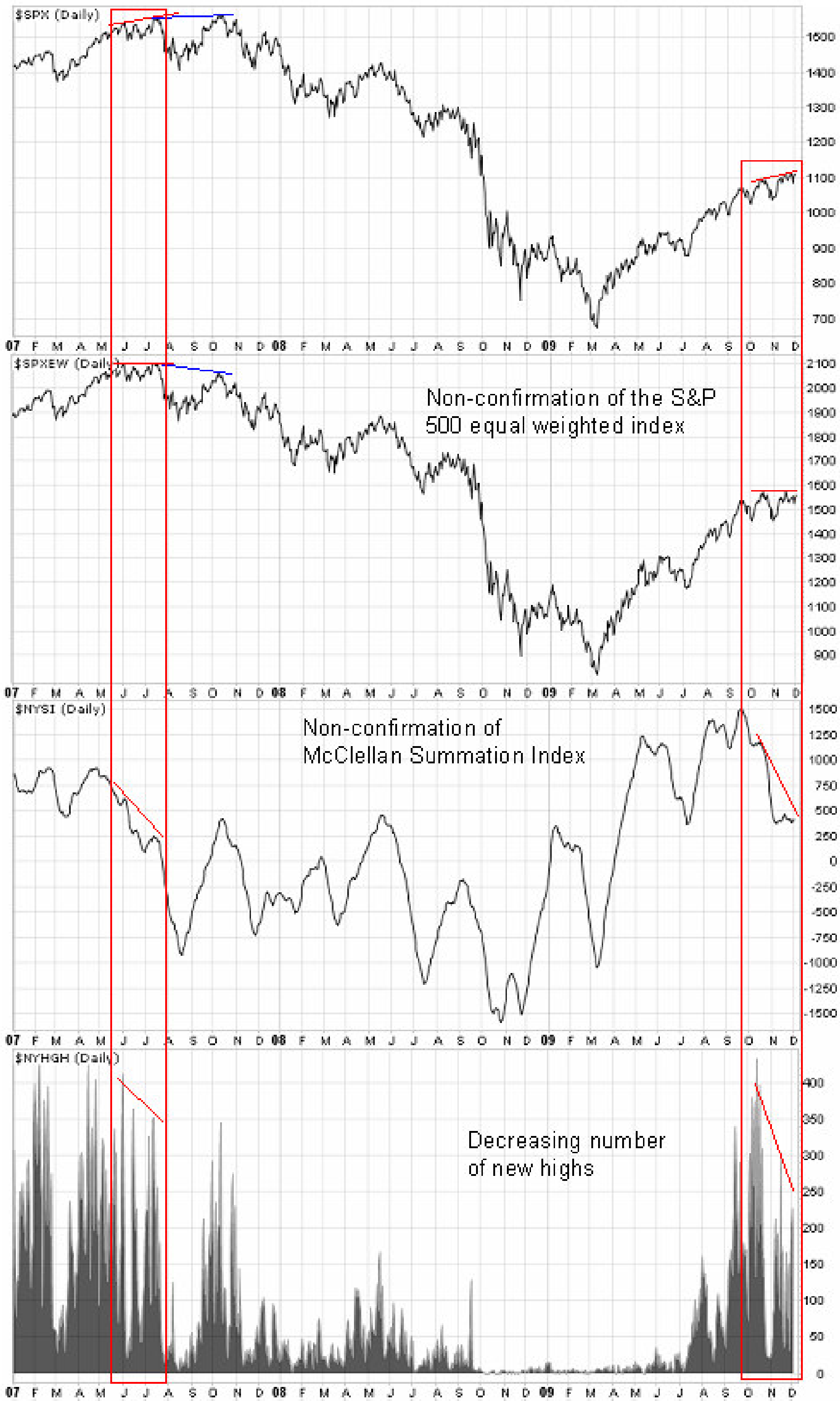


Chart 3

3a

3b

3c



Stockcharts.com

Chart 4

Stockcharts.com

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

This report is issued and approved by Bay Crest Partners LLC, a registered member of NYSE, FINRA, ARCA, ISE, NASDAQ, NFA. This report does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of Bay Crest Partners LLC. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. We recommend that investors independently evaluate particular investments and strategies. Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. Bay Crest Partners LLC accepts no liability for any loss arising from the use of information contained in this report. All information, opinions and statistical data contained in this report were obtained or derived from public sources believed to be reliable, but Bay Crest Partners LLC does not represent that any such information, opinion or statistical data is accurate or complete, and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice. Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. This report may provide addresses of, or contain hyperlinks to, Internet web sites. Bay Crest Partners LLC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

The information presented in this document is believed to be reliable. This document does not constitute an offer or solicitation to buy or sell. For accredited investors only. Options are not suitable for all investors. Please ensure that you have read the options risk disclosure document, accessible at http://www.optionsclearing.com/publications/risks/riskstoc.pdf

Price targets given in this report were obtained using technical analysis. Targets, support and resistance levels are based on previous price action and offer no guarantee of future performance.