



Weekly Market Update February 24, 2010

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

Bottom-Line: We maintain our bearish stance on equities. We reiterate our belief that the price action since Feb 5th was akin to a “corrective bounce” and volume had decreased as prices rose. We argue that yesterday’s sell-off was the beginning of a new leg lower. We are placing our stops just above the pivot high from two days ago, which stands at ~1112.

Yesterday morning we sent out an email to our clients to clarify a few things. We mentioned that we always need to close above a resistance level and build value above it for a couple of days for a breakout to occur given that “failed breakouts” are not uncommon. More importantly, we wrote that “after reviewing all the technical and fundamental ‘evidence’ at this juncture, we believe that it remains skewed towards a bearish outcome”.

We stick to our original forecast from the beginning of the year, which called for a peak in equities in Q1 followed by a sizable (25-30%) sell-off. Our minimum downside target over the next few months on the S&P 500 remains 850-870. We are also sticking with our bearish call on FXI (China). We maintain our structural long position on the U.S. Dollar and short position on the Euro (see Charts 4 & 5). We also continue to bet on the near-term depreciation of the Yen, and we reiterate our price target of 100 on the DollarYen.

Copper failed at the last Fibonacci retracement level and confirmed a short-term reversal/breakdown yesterday, and crude formed a bearish reversal candlestick pattern, which was also confirmed yesterday (see Charts 6 & 7). We also had an ‘inside day’ in the Dow and S&P two days ago, which was confirmed with a break below last Friday’s lows. China failed at critical resistance levels - SZCOMP failed and reversed from the 100 day sma, while SHCOMP failed and reversed from the 200 day sma.

Another major forecast (out of consensus call) we made at the beginning of the year for 2010, was for commodities and emerging markets to underperform on a relative basis as the dollar strengthens. We may be seeing the beginning of a multi-month underperformance by emerging markets and the fact that the market’s prior leaders have been underperforming lately will add to the markets struggles. Lastly, early last year several leading indicators had clearly reversed and were heading higher, which suggested it was safe to re-enter back into risky assets, but now these leading indicators are starting to roll again. For example, we appear to be topping in the Economic Cycle Research Institute (ECRI) leading indicator. For all these reasons, we remain bearish.

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 | 80.93 | Intermediate | 86.00 | 74.00 | +4.70 | +6.17% |
| EUR | Active | Short | 12/9/2009 | 1.47 | 1.35 | Intermediate | 1.30 | 1.52 | +0.12 | +8.13% |
| JPY | Active | Long | 12/17/2009 | 89.96 | 90.21 | Short | 100.00 | 87.00 | +0.25 | +0.28% |
| SPX | Active | Short | 1/26/2010 | 1,095.80 | 1,094.60 | Short | 860.00 | 1112.00* | +1.20 | +0.11% |

*SPX stop adjusted to 1112 from 1135

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 | 23.81 | Intermediate | 24.97 | 22.00 | +1.25 | +5.54% |
| FXE | Active | Short | 12/9/2009 | 146.99 | 134.75 | Intermediate | 125.00 | 151.75 | +12.24 | +8.33% |
| FXY | Active | Short | 12/17/2009 | 110.33 | 110.02 | Short | 100.00 | 113.00 | +0.31 | +0.28% |
| SPY | Active | Short | 1/26/2010 | 109.34 | 109.81 | Short | 86.00 | 111.20* | -0.47 | -0.43% |
| FXI | Active | Short | 2/5/2010 | 37.44 | 38.65 | Short | 33.50 | 39.70 | -1.21 | -3.23% |

*SPY stop adjusted to 111.20 from 113.50

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% |

Closed ETF Positions for 2010

| Symbol | Status | Position | Open Date | Cost Basis | Timeframe | IT 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% |

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 | 7.20 | +3.50 | +94.59% |
| March 109-100 Put Spread | Active | FXY | Long | 1/20/2010 | 2.30 | 0.75 | -1.55 | -67.39% |
| June 23 Call | Active | UUP | Long | 1/20/2010 | 0.65 | 1.01 | +0.36 | +55.38% |
| March 110-100-90 Put Fly | Active | SPY | Long | 2/3/2010 | 1.96 | 1.77 | -0.19 | -9.69% |
| September 105-95-85 Put Fly | Active | SPY | Long | 2/3/2010 | 1.32 | 1.13 | -0.19 | -14.39% |
| March 37-34 1x2 Put Spread | Active | FXI | Long | 2/5/2010 | 0.30 | 0.26 | -0.04 | -13.33% |

Technical Analysis & Strategy

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

Sector Updates

XLF (Financials) – Has reclaimed the ~14-15.50 consolidation range since finding support at ~13.70 and the 200 d sma. Daily RSI has crossed above 50 since bouncing off the 40 level. Relative strength has reversed its October '09 downtrend and is now holding at previous support.

XLE (Energy) – Has closed its gap up after meeting resistance resistance at the 100 d sma. RSI held previous support just under 40 and has found resistance around the 50 level. Overall, has been neutral for the better part of 2009 and into 2010.

OIH (Oil Services) – Has been moving in the ~110-133 range since September '09. Is finding resistance around the broken uptrend from the March '09 low. RSI struggles to hold above 50 after crossing above last week. Neutral performance overall since summer of '09.

XLI (Industrials) – Has broken above the 50 d sma, but struggles to reach the January high. RSI has broken above the 50 level. Overall, has outperformed the market since March '09.

XLP (Consumer Staples) – Has found resistance at the upper bound of the ~26.35-27.25 consolidation range. RSI has crossed above the 50 level. Looks to outperform as March '09 downtrend has been broken.

XLB (Materials) – Failed at resistance at the 50 d sma after rallying from the 200 d sma. RSI has found support at a previous level and continues to test 50. Relative strength continues its overall neutral movement since May '09.

XME (Metals & Mining) – Has reclaimed its March '09 uptrend, where it found intraday support. RSI remains above 50. Relative strength continues to test the broken uptrend from the November '08 low.

PPH (Pharmaceuticals) – Failed at resistance at the broken March '09 uptrend. RSI failed to break above the 50 level. Relative strength has been in a period of underperformance since February '09, and has recently stalled at previous resistance levels.

IBB (Biotech) – Continues to meet resistance around the broken November '09 uptrend. RSI remains above the 50 level. Overall, entered into a period of massive outperformance in summer of '08. More recently, relative strength has been trending upward since finding support and breaking out of September '09 downtrend.

IYR (Real Estate) – Has crossed above the 50 d sma where it currently finds support. RSI has crossed above the 50 level. Broadly speaking, has been underperforming since early '07. Relative strength has once again failed to break above late '08-'09 resistance.

XLK (Technology) – Has fallen below the 100 d sma after crossing briefly above. RSI remains below the 50 level. Has outperformed overall since '07, and has found support since breaking January '09 relative strength uptrend.

SMH (Semis) – Failed to cross above the broken March '09 uptrend. RSI has crossed below the 50 level after moving briefly above. Has been outperforming overall since late '08, but has failed to reach new highs in the new year.

XLU (Utilities) – Failed to move above resistance at the broken April '09 uptrend, and also failed at previous resistance at ~30.20 on an intraday basis. RSI found resistance at the 50 level. Relative strength has been neutral since November '09 and is currently testing previous support.

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RTH (Retail) – Has returned to the ~92.60-95.60 range after moving at a lower level for several weeks. RSI remains above the 50 level. Overall, has outperformed the S&P since January '08, but has been neutral since May '09.

XHB (Homebuilders) – Has been consolidating in the ~14.15-16.50 range since August '09, and has failed at the upper resistance. RSI has crossed above the 50 level. Has been neutral overall since the start of '08 following a period of massive underperformance, and relative strength is now testing long term resistance.

Technical Analysis & Strategy

Chart 1: SPX Daily with Exponential Moving Averages

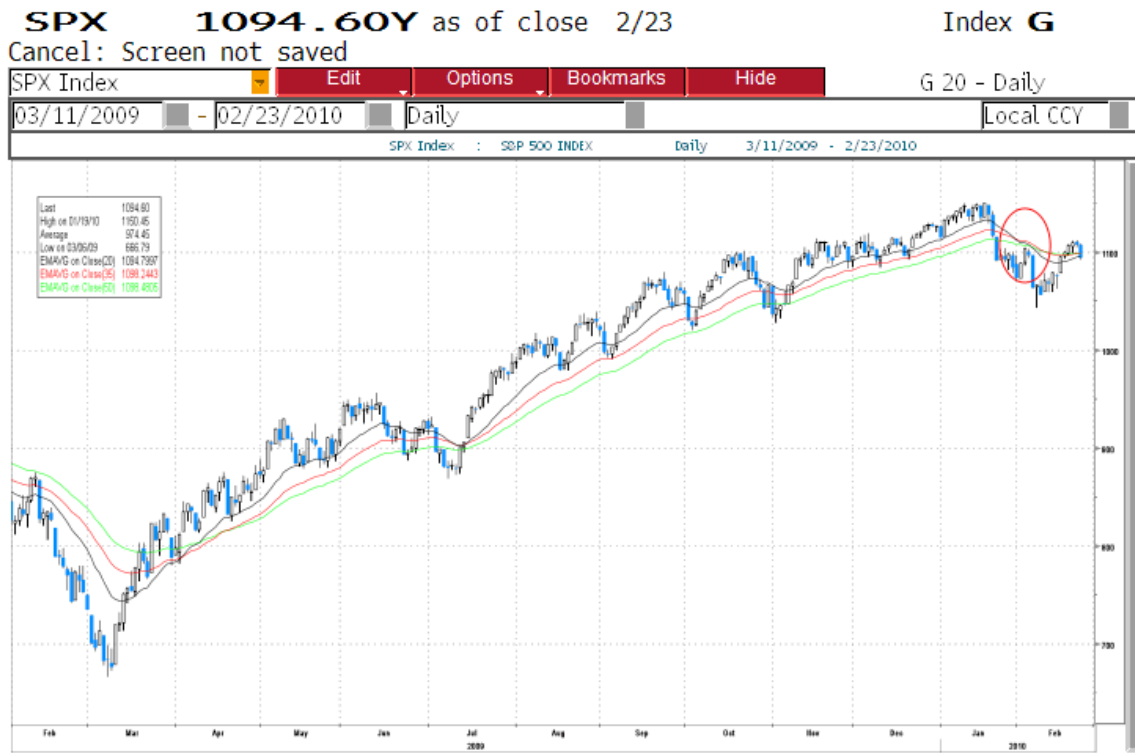
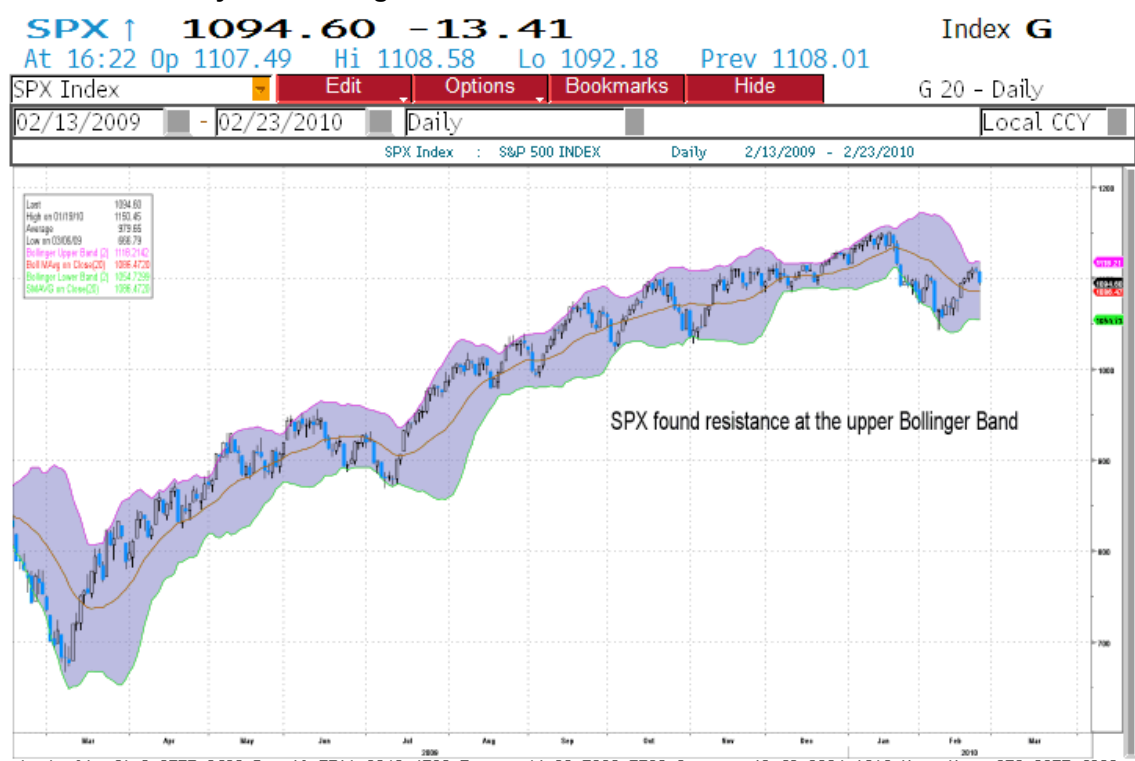


Chart 2: SPX Daily with Bollinger Bands



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Chart 3: SPX Weekly with RSI and MACD



Chart 4: DXY Daily with RSI



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Chart 5: EUR Daily with RSI

EUR ↓ 1.3509 - .0087 BGN 1.3508/1.3510 BGN CurncyG
 At 16:15 Op 1.3596 Hi 1.3692 Lo 1.3497 Close 1.3596 Value 2/25/10

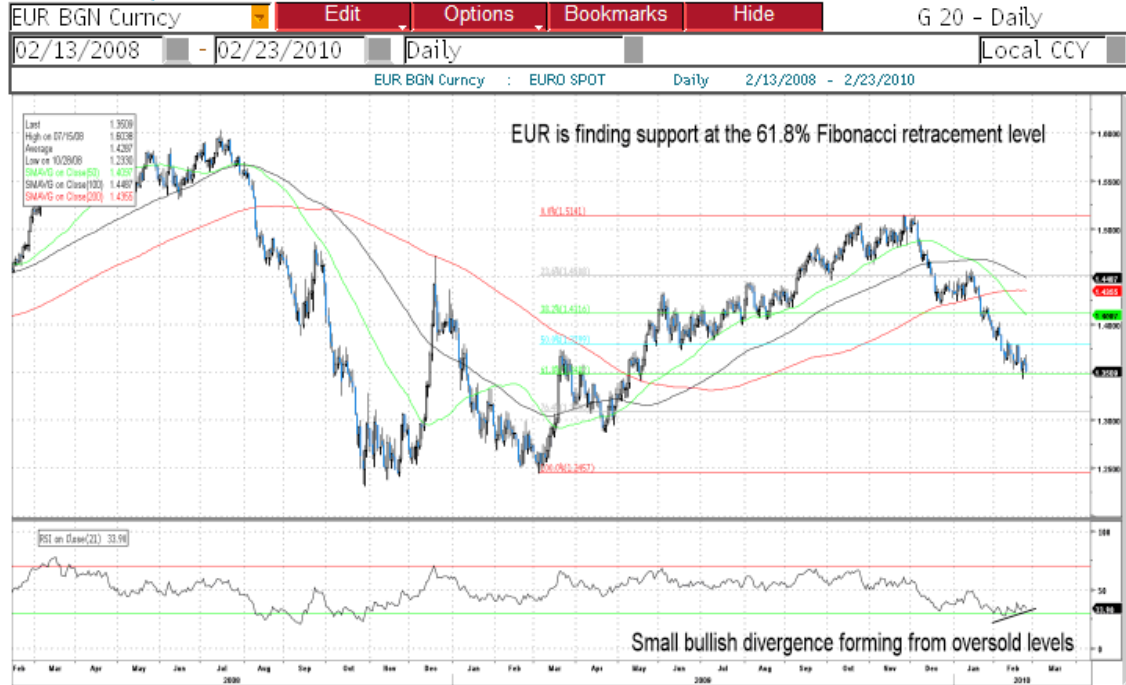


Chart 6: HGA Daily

HGK0 ↓ 323.20 -9.65 E 323.05/323.20 E ComdtyG
 DELAY 15:33 Vol 16,894 Op 331.95 Hi 336.50 Lo 321.10 Prev 332.85



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Chart 7: CLA Daily



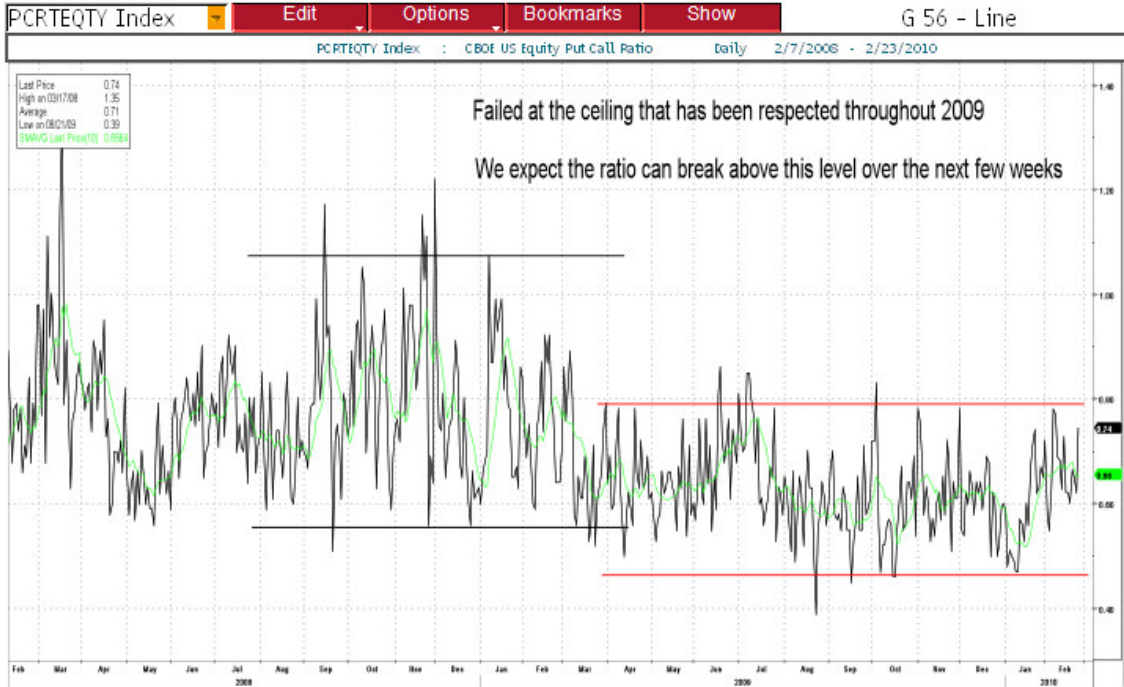
Chart 8: VIX Daily



Chart 9: CBOE Put/Call Ratio Daily

PCRTEQTY .74Y as of close 2/23

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Technical Analysis & Strategy

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