



Weekly Market Update January 27, 2010

The "Short-Term Trading Ideas" section can be found at the end of this report and summarizes all of our positions.

Bottom-Line: Yesterday morning, in case you missed it, we released a "Special Intermediate Market Update", where we updated our stance on the equity markets from Neutral to Bearish. We argue that we are seeing the beginning of a major multi-month (6-9 months) intermediate move lower. In our opinion, we have met the minimum requirements for a completed "cyclical bull market" from the March lows. We stick to our original forecast from the beginning of the year calling for a peak in equities in Q1 followed by a sizable (25-30%) sell-off. Let us know if you did not get that report.

There is strong evidence (discussed in yesterday's report) that the primary trend has changed and is once again down, and that last week's highs are most likely going to represent the peak for the year. Even when comparing the price substructures of the last few days versus the two major corrections that we saw in 2009, these price movements are much more powerful and "impulsive" leading us to believe that the intermediate move lower has begun. We initiated a structural short on the markets, one that we plan on maintaining for the next few months.

Our preferred short-term scenario was for one more swing low (good support at 1075-1080), followed by a bounce/corrective leg that retraces some of the initial move lower. We expect this bounce to be capped at 1115-1125.

We expect the VIX to head higher over the next few months with a minimum target of 40. Should the market give participants an opportunity to get long vol at lower levels we would recommend accumulating long vol positions at the 20-21 area. Activity in the options space suggests that market participants are becoming increasingly concerned about downside risk. Volatility skew has risen over the last few days, indicating a surge in demand for downside protection. It also suggests that market makers are charging a higher price to sell that protection.

We got stopped out of our long positions in Homebuilders and Utilities. We are maintaining our long position in the BKX (Banks) Index, which has been outperforming.

Our strategy since Mid-October of last year has been to identify sector trades that have a good risk-reward vis-à-vis the broader market since we believed we had another move higher to reach our minimum target of 1160-1170. Now that we have concluded that there is a high probability that we have started a major intermediate move lower, our strategy has changed. We now have exposure to the downside since we initiated a structural short on the market, but we are going to wait for more things to line up and for better setups to become more aggressive on the short-side. We are not going to be initiating any new long positions for the time being, except for occasional counter-trend shorter duration swing trades and potential pair trades where we find relative strength or non correlation arguments compelling.

My colleague Blaze Tankersley in a strategy report dated Jan 11th argued that correctly identifying sector rotation will become critical in 2010, and more importantly identified that regional banks were going to begin a period of outperformance. His top picks were FITB, NYB, HBAN, KEY, and RF in order of conviction. Please let us know if you would like a copy of this report. We can continue to make a compelling argument both fundamentally and technically that regional banks will continue to outperform over the next few months.

Technical Analysis & Strategy

We have been arguing that the dollar and equities would rally together for a few months, but that once the intermediate sell-off in equities gets underway, that it would be highly probable to see the inverse relationship between these two reassert itself. This is why we are comfortable maintaining our structural long position on the dollar, after having introduced a structural short on the market.

The dollar is currently finding resistance from the 200 day moving average and a breakout above this would lead to an “impulsive” surge higher in the dollar and would confirm a change in intermediate trend. We believe this is just the beginning of a major intermediate move higher in the dollar, one that will see the dollar rise above last year’s highs. We are also maintaining our structural short on the Euro, and our short on the Yen. We continue to bet on the continued depreciation of the Yen over the next few weeks despite the recent strength over the last few days. Our target on the DollarYen remains 100.

We are also keeping our long position in Gold for the time being, as our way to trade around/hedge our long stance on the dollar, but we understand that we have formed a lower high (after a classic corrective bounce/leg) so odds are high that Gold will head lower over the next few weeks. We will get out of this trade if we breach below the 1073 level.

We introduced a number of FX options strategies last week to play our views on the FX markets. The performance tracker below summarizes the results so far.

Technical Analysis & Strategy

Sector Updates

XLF (Financials) – Consolidating in ~14-15.50 range since September '09, and now testing support. Support is also near the 23.6% Fibonacci retracement level. Daily RSI has fallen below support at the 50 level. Relative strength has reversed its October '09 downtrend and is now holding at previous support.

XLE (Energy) – Continues to fall from 52 week high, and is now testing the 100 d sma. MACD is testing the zero level, and bearish divergence is evident. Relative strength has broken above its November downtrend after finding support. Overall, has been neutral for the better part of last year.

OIH (Oil Services) – Has fallen from 52 week high, and is finding support at ~121.25 and its 50 d sma. RSI has fallen below the 50 level from overbought levels. Has outperformed the S&P since late November '09, but is now testing its relative strength uptrend line. Neutral performance overall since summer of '09.

XLI (Industrials) – Has fallen from 52 week high, and is finding support at ~27.75. RSI has fallen below support at the 50 level from overbought levels. Overall, has outperformed the market since March '09.

XLP (Consumer Staples) – Testing support of its consolidation range between ~26.35-27.25, since finding resistance near the 76.4% Fibonacci retracement level and falling below the uptrend line from the March lows. MACD has broken below support at the zero level. Looks to resume March '09 underperformance trend after breaking below support.

XLB (Materials) – Has fallen from 52 week high, and has broken below the uptrend from the March '09 lows and previous support at ~31.85. MACD has fallen below the zero level. Relative strength continues to move in consolidation range after breaking briefly above.

PPH (Pharmaceuticals) – Has fallen from highest level since October '08, and has found support at previous consolidation area and its 50 d sma. RSI has fallen below 50 from overbought levels. Relative strength has been in a period of underperformance since February '09.

IBB (Biotech) – Has fallen from highest level since October '08. RSI has fallen below 50 from overbought levels, and bearish divergence is evident. 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 broken below uptrend line from the March '09 lows. RSI broken below support at the 50 level. Clear bearish divergences with oscillators. Broadly speaking, has been underperforming since early '07. Relative strength has once again failed to break above late '08-'09 resistance.

XLK (Technology) – Has broken below uptrend line from the March '09 lows. RSI has fallen below the 50 support level after reversing from overbought levels. Has outperformed since '07, but has recently broken below the January '09 relative strength uptrend.

SMH (Semis) – Has broken below uptrend line from the March '09 lows, and now finds resistance at the 100 d sma. MACD has crossed below zero. Clear bearish divergence is evident in the oscillators. Has been outperforming overall since late '08, but failed to reach new highs.

XLU (Utilities) – Has fallen below support at ~30.50, and is now testing uptrend line from the March '09 lows. RSI has broken below support at the 50 level. Relative strength has also dropped off since that time, and has been neutral since November '09.

RTH (Retail) – Has fallen below consolidation range between ~92.50-95.50. MACD has fallen below the zero level. Overall, has outperformed the S&P since January '08, but has been moving in sideways fashion since May '09.

Active Positions for 2010

Symbol	Status	Position	Open Date	Cost Basis	Current Price	ST Target	IT Target	Stop	Gain/Loss	Performance
DXY	Active	Long	12/9/2009	76.22	78.52	81.00	86.00	74.00	+2.29	+3.01%
EUR	Active	Short	12/9/2009	1.47	1.41	1.38	1.30	1.52	+0.06	+4.33%
GOLDS	Active	Long	12/17/2009	1,098.90	1,100.64	1250.00		1,068.00	+1.74	+0.16%
JPY	Active	Long	12/17/2009	89.96	89.50	100.00		87.00	-0.46	-0.51%
BKX	Active	Long	1/6/2010	45.23	45.38	57.00		42.00	+0.15	+0.33%
SPX	Active	Short	1/26/2010	1,095.80	1,092.17	860.00		1,135.00	+3.63	+0.33%

Active ETF Positions for 2010

Symbol	Status	Position	Open Date	Cost Basis	Current Price	ST Target	IT Target	Stop	Gain/Loss	Performance
UUP	Active	Long	12/9/2009	22.56	23.15	23.75	24.97	22.00	+0.59	+2.62%
FXE	Active	Short	12/9/2009	146.99	140.55	137.75	125.00	151.75	+6.44	+4.38%
GLD	Active	Long	12/17/2009	107.34	107.56	122.46		104.63	+0.22	+0.20%
FXV	Active	Short	12/17/2009	110.33	110.70	100.00		113.00	-0.37	-0.34%
SPY	Active	Short	1/26/2010	109.34	109.31	86.00		113.5	+0.03	+0.03%

Closed Positions for 2010

Symbol	Status	Position	Open Date	Cost Basis	ST Target	IT Target	Close Date	Close Price	Gain/Loss	Performance
SOX	Stopped	Long	12/17/2009	344.61	385.00		1/12/2009	360.00	+15.39	+4.47%
UTY	Stopped	Long	12/9/2009	412.74	450.00		1/22/2010	402.00	-10.74	-2.60%
RUF	Stopped	Long	1/8/2010	10.40	14.00		1/22/2010	9.54	-0.86	-8.27%

Active Options Positions for 2010

Option Symbol	Underlying	Position	Open Date	Cost Basis	Current Closing Exit Price	Gain/Loss	Performance
March 143-139 Put Spread	FXE	Long	1/20/2010	1.80	2.25	+0.45	+25.00%
June 143-130 Put Spread	FXE	Long	1/20/2010	3.70	4.25	+0.55	+14.86%
March 109-100 Put Spread	FXV	Long	1/20/2010	2.30	1.30	-1.00	-43.48%
March 23 Call	UUP	Long	1/20/2010	0.34	0.41	+0.07	+20.59%
June 23 Call	UUP	Long	1/20/2010	0.65	0.70	+0.05	+7.69%

Technical Analysis & Strategy

Chart 1: SPX Monthly with RSI

SPX 1096.78Y as of close 1/25

Index **G**

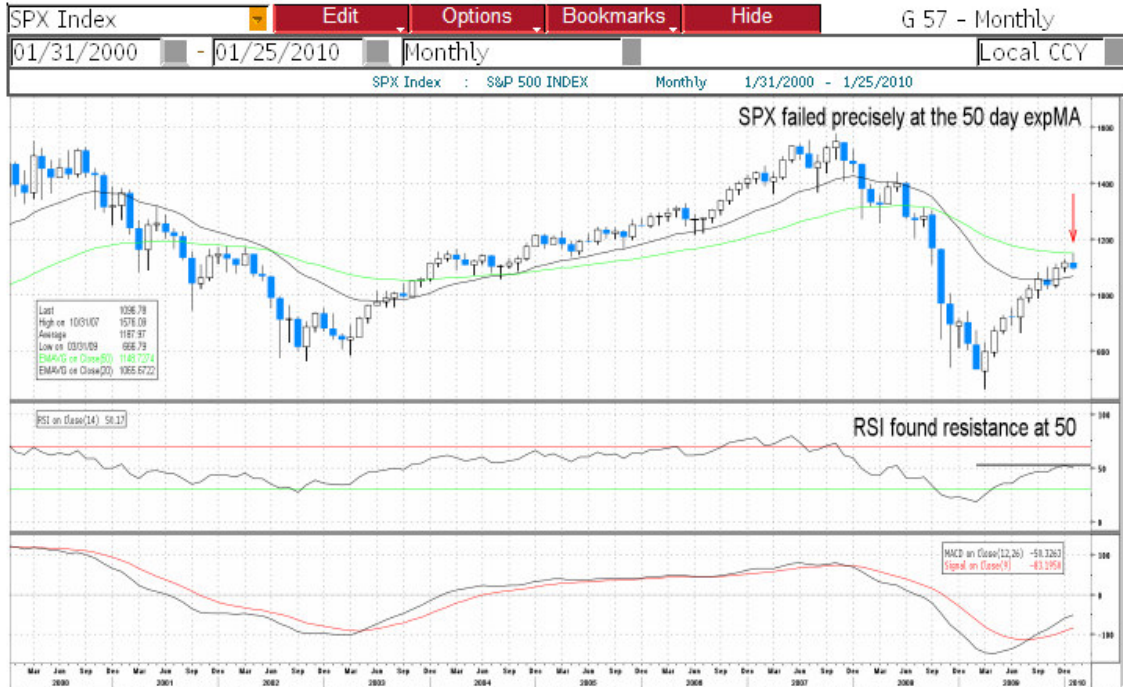
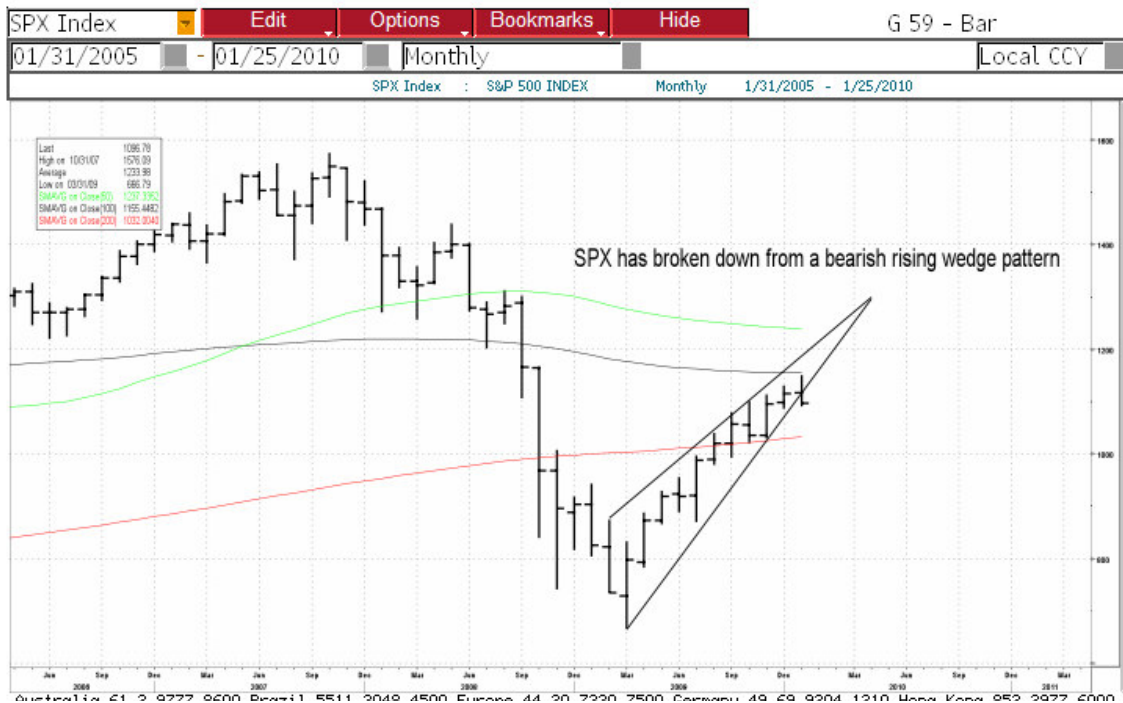


Chart 2: SPX Monthly Bar Chart

SPX 1096.78Y as of close 1/25

Index **G**



Technical Analysis & Strategy

Chart 3: SPX Weekly with RSI & MACD

SPX **1096.78Y** as of close 1/25 Index **G**



Chart 4: DXY Daily with RSI

DXY ↑ **78.478** - .029 Y / Currency **G**

At 20:06 Op 78.473 Hi 78.523 Lo 78.453 Y Prev 78.507



Technical Analysis & Strategy

Chart 5: DXY Daily



Technical Analysis & Strategy

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.

This report or any portion hereof may not be reprinted, sold, or redistributed without the written consent of Bay Crest Partners LLC.