



## Weekly Market Update March 10, 2010

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

**Bottom-Line:** While the consensus amongst equity strategists is for a move to approximately 1250 in the S&P 500 over the next few months, we are still not convinced, and we remain skeptical about the recent rise in equities. We recommend being market neutral over the next few trading days given that the outlook has become increasingly muddled over the past couple of weeks, but we remain skewed towards a bearish outcome.

**Equities:** Despite being proven wrong over the last few days, and being stopped out of our short position in the S&P 500 when this index closed above 1112 (we recommended a short on Jan 26<sup>th</sup> and closed that position with a loss of ~1.5%), we have simply not seen enough convincing evidence to completely abandon our intermediate bearish view on the equity markets, despite several sectors and secondary indices breaking out to new highs.

Unfortunately, the last few trading days have failed to clarify the intermediate outlook, contrary to what we believed would occur when we published our last weekly update. We avoid being dogmatic with our market views and we are not afraid to change our views if the weight of the evidence suggests our initial assessment was wrong, but the fact of the matter is that we continue to see 'corrective' price substructures combined with low volume up-days, and we continue to see evidence that the most heavily shorted stocks are the ones rallying the most.

A number of shorter-term technicals have lined up to suggest a sell-off/pullback is imminent but despite extreme short-term overbought conditions, the markets could continue to drift higher over the next few days. Nevertheless, the next 1 to 3 day sell-off that we see in the markets will provide us with a lot of important 'technical clues', and will help us clarify the intermediate outlook.

The scenario we are about to discuss is not intended to be a high conviction call, but it is a scenario that we have started to consider and a scenario that we should keep in mind, one that would result in a number of 'failed breakouts' just prior to a market peak.

It is entirely plausible that we are forming the final leg (started on Feb 5<sup>th</sup>) of an ending corrective pattern referred to as an 'expanding ending diagonal', which can result in marginal new highs before we see an exhaustion of the previous trend and a sharp reversal. If this were to unfold, it would help explain the anemic volume and the corrective price substructures from a technical perspective. Using multiple price projection techniques, we've arrived at the conclusion that this move cannot go beyond the 1158-1165 area. We closed at 1140 yesterday.

Several articles have hit the financial wires over the last few days highlighting how equity mutual fund managers have the smallest cash reserves since '07 with cash dropping to 3.6 percent of assets. The last time we were at these levels was in September of '07, which was just a few weeks before we saw a peak in equities.

It is intriguing to us how many similarities exist between the recent rise in equities and the final rally we witnessed in '07 that culminated with a peak in October. Similar to what occurred on Feb 5<sup>th</sup>, we saw a major intraday reversal on high volume on Aug 16<sup>th</sup> 2007 (capitulation) after weeks of heavy selling pressure and 'distribution'. The subsequent rally that ended in October of '07 did register marginal new highs but occurred on very light

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volume as well.

For all of these reasons, we remain skeptical about the recent rise in equities. We will refrain from initiating any new positions in equities until we get more clarity on the intermediate outlook and recommend being market neutral over the next few trading days. Nevertheless, we are maintaining our short positions in several emerging markets, as we continue to bet on relative underperformance by emerging markets over the next few months.

**Foreign Exchange:** We have maintained a structural long position on the dollar and a structural short on the Euro since Dec 9th of '09.

Last week, we argued there was an elevated risk of a stop-loss run higher over the short-term in the Euro, and we adjusted our trailing stops to protect our profits. The price action and substructures over the last few days however have led us to believe that we have been forming a typical consolidation pattern, one that will result in a break of support and a final sharp move lower before we see a larger counter-trend rally. Similarly, in the Dollar Index, we expect one more surge to the upside before we see a larger retracement.

We remain bullish on USDJPY betting that the Yen depreciates versus the dollar over the next few months. Notwithstanding the usual flight to quality should risky assets sell-off, we believe that the fundamentals and technicals continue to line up and we reiterate our 100 price target.

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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	80.57	Intermediate	86.00	79.80	+4.34	+5.70%
EUR	Active	Short	12/9/2009	1.47	1.36	Intermediate	1.30	1.375	+0.11	+7.51%
JPY	Active	Long	12/17/2009	89.96	89.97	Short	100.00	87.00	+0.01	+0.01%

### 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	23.66	Intermediate	24.97	22.00	+1.10	+4.88%
FXE	Active	Short	12/9/2009	146.99	135.71	Intermediate	125.00	151.75	+11.28	+7.67%
FXI	Active	Short	12/17/2009	110.33	110.23	Short	100.00	113.00	+0.10	+0.09%
EEM	Active	Short	3/4/2010	40.15	41.21	Short	34.50	42.00	-1.06	-2.64%
EWZ	Active	Short	3/4/2010	71.00	73.06	Short	60.00	74.20	-2.06	-2.90%
FXI	Active	Short	3/4/2010	40.35	41.41	Short	33.50	43.00	-1.06	-2.63%

### 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 Exit Price	Gain/Loss	Performance
March 110-100-90 Put Fly	Active	SPY	Long	2/3/2010	1.96	0.38	-1.58	-80.61%
September 105-95-85 Put Fly	Active	SPY	Long	2/3/2010	1.32	0.81	-0.51	-38.64%

### 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	FXI	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%

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### Sector Updates

**XLF (Financials)** – Continues to move in the ~13.60-15.45 consolidation range, and is now testing resistance. Daily RSI continues to move above the 50 level and is testing resistance of its own. Relative strength has reversed its October '09 downtrend. Has been neutral overall since January, and is now testing resistance of its congestion area.

**XLE (Energy)** – Has broken above short term resistance at 58.36, and found support at that level. RSI has pushed above resistance at the 50 level. Overall, has been neutral for the better part of 2009 and into 2010.

**OIH (Oil Services)** – Has been moving in the ~111-133 range since September '09. RSI found support at 50 and has moved above short term resistance; has been range-bound since March '09. Neutral performance overall since summer of '09.

**XLI (Industrials)** – Has moved to a new 52 week high, and is testing resistance at the broken uptrend from the March '09 low. RSI continues to move above the 50 level. Overall, has outperformed the market since March '09.

**XLY (Consumer Discretionary)** – Has broken above resistance at the 61.8% Fibonacci retracement level, and is testing resistance at the broken uptrend from the March '09 low. RSI has broken its August '09 downtrend and is testing overbought territory. Relative strength has pushed to its highest level since early '07.

**XLP (Consumer Staples)** – Has found resistance at the 76.4% Fibonacci retracement level since breaking above the ~25.75-27.30 trading range. RSI continues to move above the 50 level. Relative strength has stalled at previous resistance since breaking the March '09 downtrend.

**XLB (Materials)** – Broken above resistance at the 50 d sma. RSI continues to move above the 50 level. Relative strength has been neutral overall since August '09.

**XME (Metals & Mining)** – Continues to push upward in a tight rising channel, and is currently testing the bullish resistance line. RSI continues to move above 50 after finding support at that level. Relative strength looks to continue its November '08 outperformance after a brief stall.

**PPH (Pharmaceuticals)** – Continues to find resistance at the 50 d sma. RSI continues to find resistance at the 50 level. Relative strength has been in a period of underperformance since February '09, and has recently fallen below January support.

**IBB (Biotech)** – Continues to move upward, and is approaching its all time high last seen in August '08. RSI is now testing overbought levels. 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)** – Testing a fresh 52 week high. RSI continues to move above the 50 level. Broadly speaking, has been underperforming since early '07. Relative strength is testing a key resistance level.

**XLK (Technology)** – Broken above resistance at the 50 d sma. RSI continues to move above the 50 level. Has outperformed overall since '07, and has found support since breaking January '09 relative strength uptrend.

**SMH (Semis)** – Continues to test resistance at the broken March '09 uptrend. RSI has found support near the 50 level and continues above. Has been outperforming overall since late '08, but has failed to reach fresh highs in the new year.

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**XLU (Utilities)** – Has found resistance at the 50 d sma, which is attempting to cross below the 100 d sma. RSI has crossed above the 50 level. Relative strength has been neutral since November '09 and is currently testing previous support.

**XRT (Retail)** – Continues to push upward, and has crossed above the 76.4% Fibonacci retracement level. RSI has reached overbought levels. Overall, has outperformed since November '08, and relative strength is at an all time high.

**XHB (Homebuilders)** – Has broken out of the ~14.15-16.50 consolidation range, which has bound it since August '08. RSI continues 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 is now testing long term resistance.

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**Chart 1: SPX Monthly with RSI and MACD**



**Chart 2: SPX Weekly with RSI and MACD**



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**Chart 3: SPX Daily with 9 Day RSI**



**Chart 4: SPX Daily with 21 Day RSI and MACD**

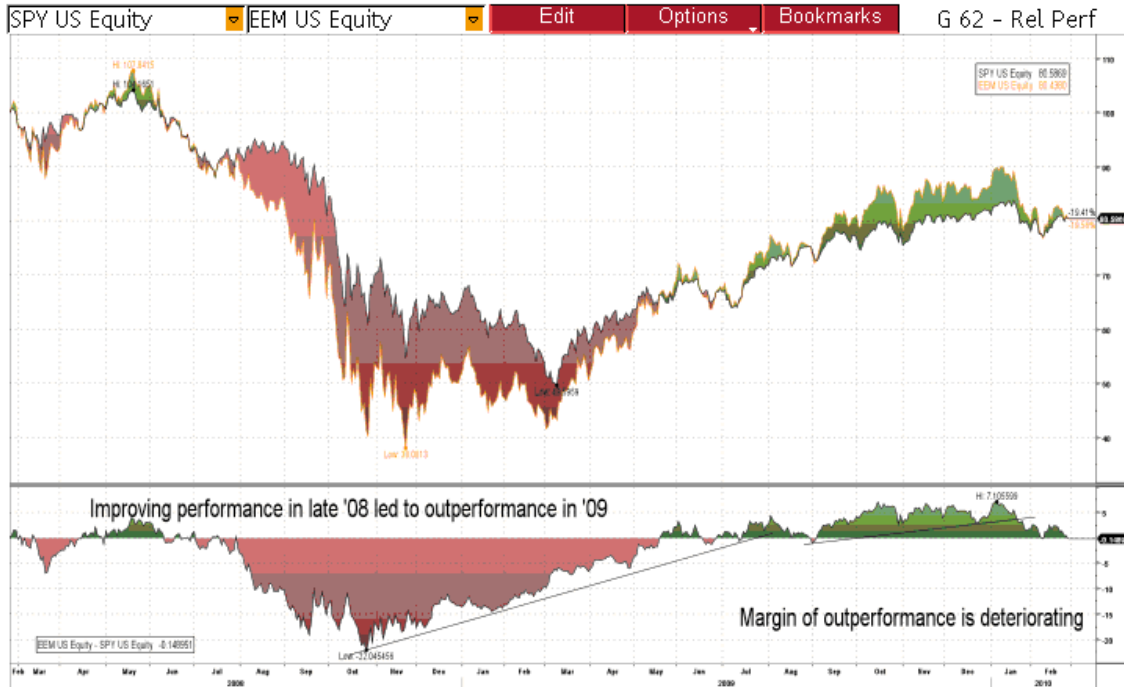


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**Chart 5: EEM vs. SPY Daily Nominal Performance**

<HELP> for explanation.

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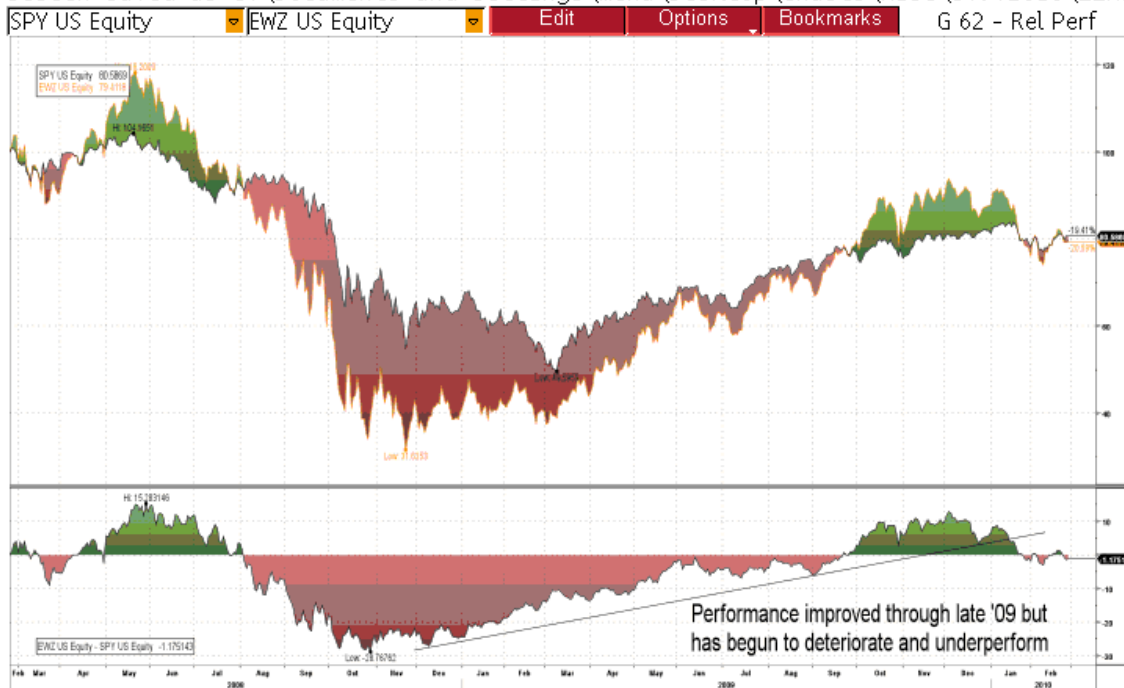


**Chart 6: EWZ vs. SPY Daily Nominal Performance**

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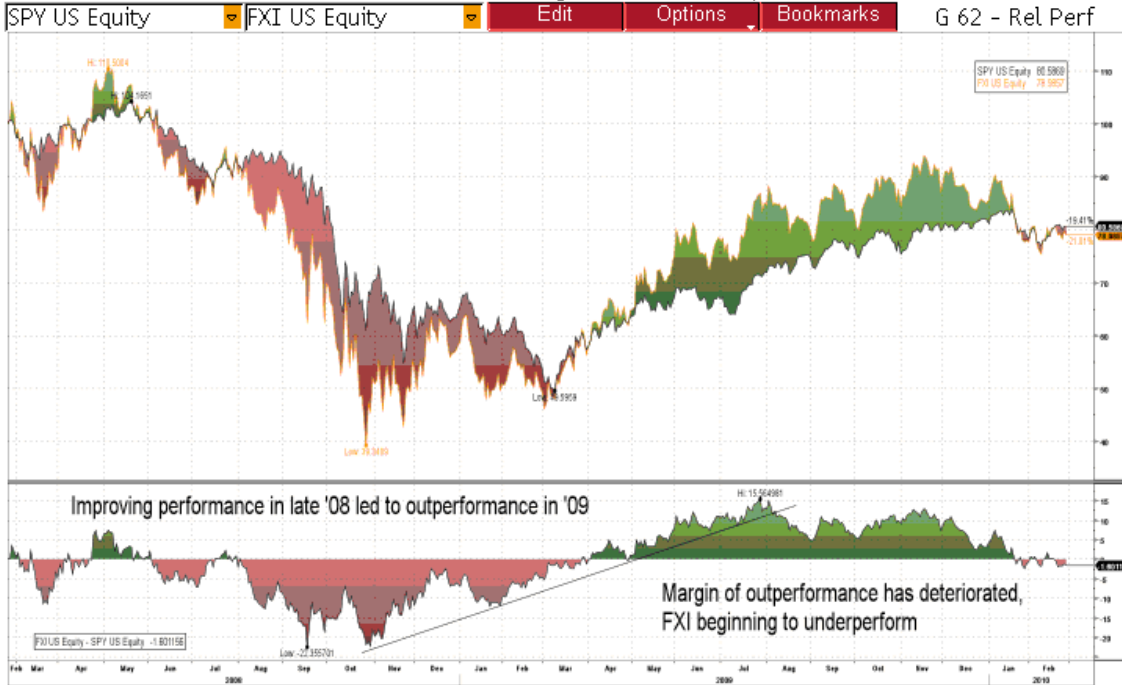
**Chart 7: FXI vs. SPY Daily Nominal Performance**

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