



Weekly Market Update March 3, 2010

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

Bottom-Line: After reviewing all of the technical and fundamental 'evidence' over the last few days, we believe that it remains skewed towards a bearish outcome over the next few weeks. We have reached the maximum point of indecision with regards to market direction, and we believe that the next 3-5 trading days will clarify the intermediate outlook.

Equities: As we pointed out in our update yesterday, despite being stopped out of our short SPY (S&P500) position on Monday (maintaining our disciplined approach to risk management), we maintain our bearish stance on U.S. and Chinese equities. We are looking to initiate a new short position over the next few days if the opportunity presents itself.

As we discussed yesterday, we are going to monitor the price action over the next few days to determine if the sell-off from Jan 15th to Feb 5th was just a correction or the beginning of a larger intermediate sell-off. We continue to believe that the move since Feb 5th is akin to a "corrective bounce" and that we will head lower over the next few weeks. We have seen little evidence of rising volume on up-days, strong market internals, and "impulsive" price substructures. Until we see this, we are going to maintain our bearish stance. A move above the confluence of resistance that exists between 1123 and 1133 would surprise us.

Not only has volume steadily decreased over the last few days, but Monday had the second lowest volume of the year. Furthermore, 14 of the 24 up-days that we have had since the beginning of the year have occurred on lower volume. We have also seen evidence that heavily shorted stocks have rallied more than average stocks over the last few days. Overall, there continues to be signs of major 'distribution' taking place in the equity markets.

Within the move since Feb 5th, the new highs that were registered this week occurred on waning momentum. There is a clear divergence between price and the MACD histogram, and this is not uncommon in the final substructures of a corrective move (see Chart 3).

The major market turns also tend to occur when there is a confluence of price and time setups. These major time relationships/cycles are based either on Gann techniques or simple Fibonacci time relationships. There is a confluence of cycles starting at the end of this week and lasting for a few days. We are also approaching the one year anniversary of the March '09 low.

Foreign Exchange: We remain bullish on USDJPY (betting that the Yen depreciates vs. the dollar over the next few months), which has failed twice at the 200 day sma since we initiated that position. 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.

The fundamental argument is straight forward. The Bank of Japan continues to be committed in pursuing quantitative easing. Also, rates are and should remain at 0% while the U.S. is already starting to pursue some exit strategies. From a technical standpoint, the longer-term bullish divergences continue to unfold and we already had a major "failed breakdown". We are also seeing shorter-term bullish divergences with our oscillators (see Charts 4 & 5).

Technical Analysis & Strategy

We have maintained a structural long position in the dollar and a structural short on the Euro since Dec 9th of 2009. When we first started arguing for the bottoming process of the Dollar in the fall of '09 there were less than 5% bulls being registered on the daily sentiment indices, while now we are reaching extreme bullish sentiment readings for the Dollar and extreme bearish readings for the Euro. Just a few days ago, a front page article in the WSJ highlighted how several large hedge funds were establishing large bearish bets on the Euro, and we just had another record week of futures traders placing big bets that the euro will continue to decline.

Technically, over the last few days, we have seen the Euro hold the 61.8% Fibonacci retracement level, which has become a major support area, while the dollar recently broke down from a short-term consolidation pattern. Furthermore, bullish divergences on the Euro are apparent with our oscillators on various time frames (see Chart 6). We conclude that there is a high risk of a stop-loss run higher over the short-term in the Euro, while we remain confident that the Euro will reach our minimum downside intermediate target of 1.3 over the next few weeks/months. We are using trailing stops to protect our profits against a potentially vicious short-term reversal (our trailing stops are 1.375 for the Euro and 79.8 for the DXY), while maintaining our intermediate bearish view on the Euro and bullish view on the Dollar.

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	80.33	Intermediate	86.00	79.80*	+4.11	+5.39%
EUR	Active	Short	12/9/2009	1.47	1.36	Intermediate	1.30	1.375**	+0.11	+7.29%
JPY	Active	Long	12/17/2009	89.96	88.75	Short	100.00	87.00	-1.21	-1.35%

* DXY trailing stop adjusted to 79.80 from 74

** EUR trailing stop adjusted to 1.375 from 1.520

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	23.65	Intermediate	24.97	22.00	+1.09	+4.83%
FXE	Active	Short	12/9/2009	146.99	135.82	Intermediate	125.00	151.75	+11.17	+7.60%
FXV	Active	Short	12/17/2009	110.33	111.83	Short	100.00	113.00	-1.50	-1.36%

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	0.98	-0.98	-50.00%
September 105-95-85 Put Fly	Active	SPY	Long	2/3/2010	1.32	0.91	-0.41	-31.06%

Closed Options Positions for 2010

Technical Analysis & Strategy

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	Active	FXI	Long	2/5/2010	0.30	3/1/2010	0.07	-0.23	-76.67%

Technical Analysis & Strategy

Sector Updates

XLF (Financials) – Continues to move in the ~13.70-15.50 consolidation range. Daily RSI continues to move above the 50 level. Relative strength has reversed its October '09 downtrend and has been neutral since January.

XLE (Energy) – Once again testing short term resistance at 58.36. RSI is also testing short term resistance just above 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 is testing short term resistance; has been range-bound since March '09. Neutral performance overall since summer of '09.

XLI (Industrials) – Has found support at the 50 d sma after breaking above, and is now moving to test its 52 week high. RSI continues to move above the 50 level. Overall, has outperformed the market since March '09.

XLY (Consumer Discretionary) – Has broken above resistance of the ~28.50-30.50 range, and is currently finding resistance at the 61.8% Fibonacci retracement level. RSI has broken its August '09 downtrend. Relative strength has pushed to its highest level since early '07.

XLP (Consumer Staples) – Has broken resistance of the ~25.75-27.30 trading range. RSI continues to move above the 50 level. Looks to outperform as March '09 downtrend has been broken.

XLB (Materials) – Testing resistance at the 50 d sma. RSI is moving further above the 50 level. Relative strength continues its overall neutral movement since May '09.

XME (Metals & Mining) – Has reclaimed its March '09 uptrend, and is now once again above the 50 d sma. 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) – Once again moving to test the 50 d sma after failing at resistance near the broken March '09 uptrend. RSI continues to find resistance at the 50 level. Relative strength has been in a period of underperformance since February '09, and has recently failed at resistance.

IBB (Biotech) – Gapped up after finding support near the 50 d sma, and is now at the highest level since August '08. RSI is moving further above 50. 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 resistance at ~46.70. 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) – Testing resistance at the 50 d sma. RSI has crossed above the 50 level. Has outperformed overall since '07, and has found support since breaking January '09 relative strength uptrend.

SMH (Semis) – Once again testing 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 new highs in the new year.

XLU (Utilities) – Small bounce off the 200 d sma since failing at resistance. RSI continues to find resistance at the 50 level. Relative strength has been neutral since November '09 and is currently testing previous support.

Technical Analysis & Strategy

XRT (Retail) – Has broken out of the multi-month trading range between ~34.40-37. RSI has broken above resistance and is now testing overbought levels. Overall, has outperformed since November '08, and relative strength is at an all time high.

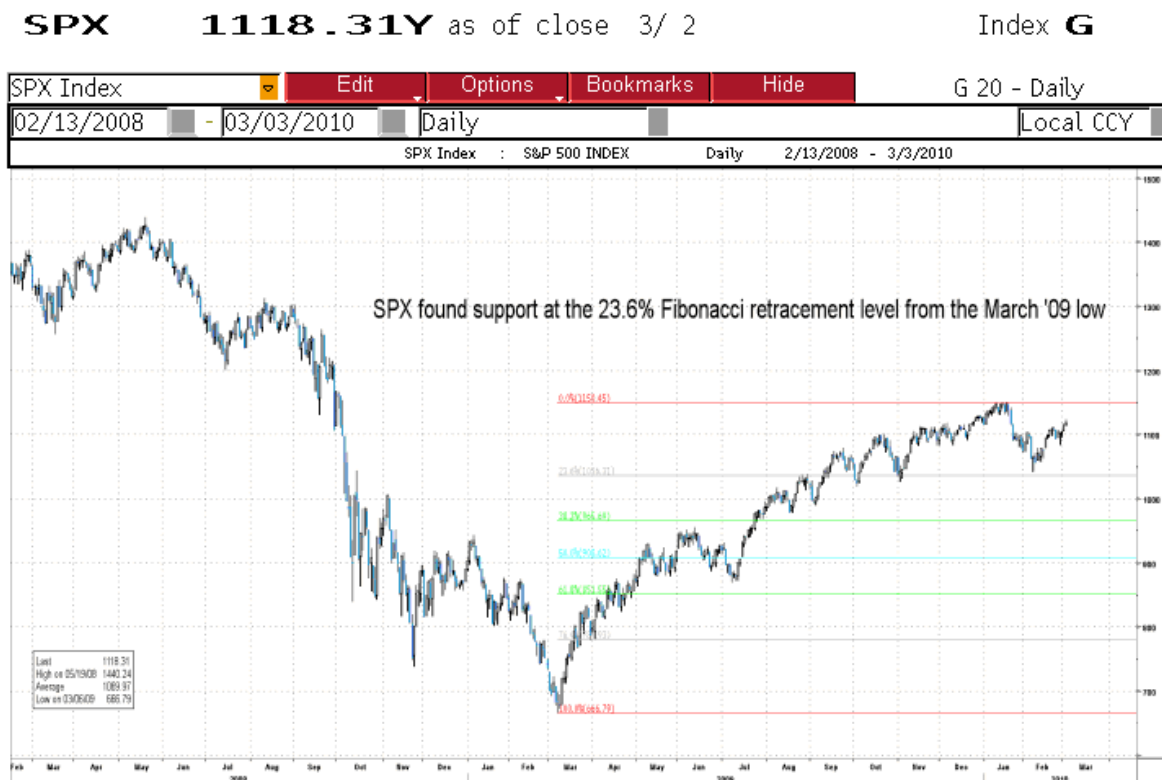
XHB (Homebuilders) – Has been consolidating in the ~14.15-16.50 range since August '09, and is once again moving to test resistance. RSI continues above 50, and has been in a gradual uptrend since November '08. Has been neutral overall since the start of '08 following a period of massive underperformance, and relative strength is now testing long term resistance.

Technical Analysis & Strategy

Chart 1: SPX Weekly with RSI & MACD



Chart 2a: SPX Daily



Technical Analysis & Strategy

Chart 2b: SPX Daily

SPX 1118.31Y as of close 3/2

Index G

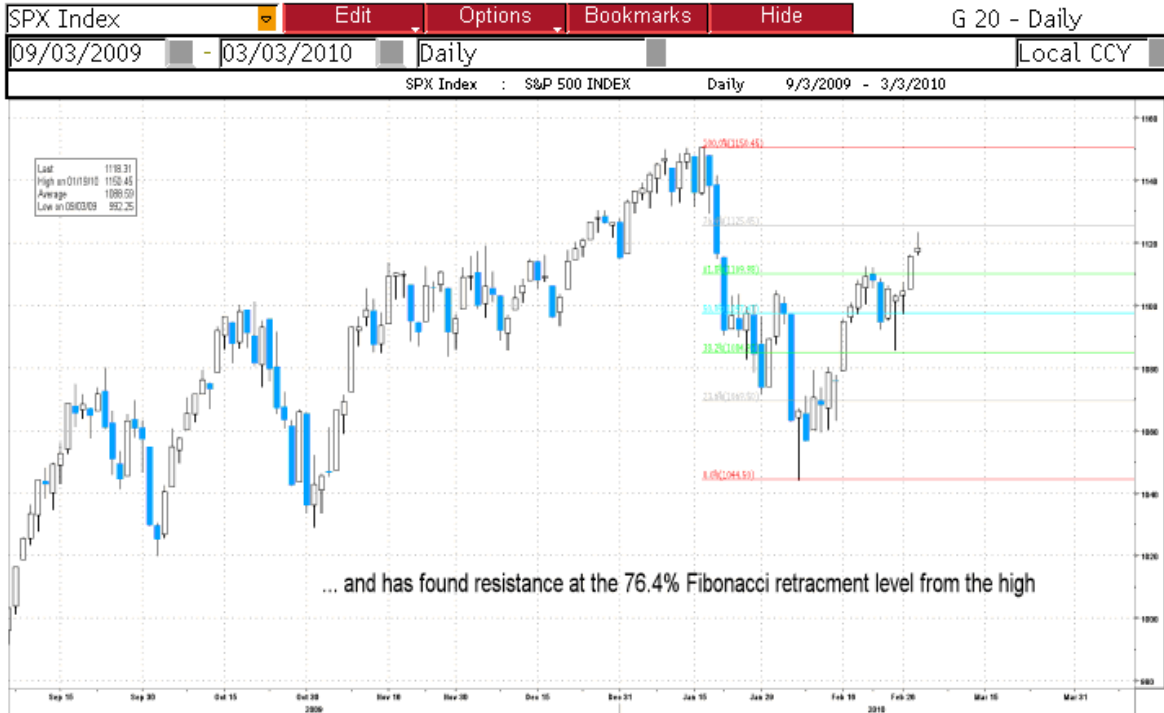


Chart 3: SPX Daily with MACD & Histogram

SPX 1118.31Y as of close 3/2

Index G



Technical Analysis & Strategy

Chart 4: JPY Daily



Chart 5: JPY Weekly with RSI & MACD



Technical Analysis & Strategy

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