



Weekly Market Update March 31, 2010

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

Bottom-Line: We remain market neutral. We maintain our discipline and continue to wait for the next short-term sell-off/pullback to evaluate the price action, to determine if it warrants reversing our intermediate view. We believe that the probability of a multi-day correction/pullback is growing rapidly. We reiterate our short position on the Euro and our long position on the U.S. Dollar. We also continue to argue that the Yen will depreciate further versus the U.S. Dollar. Lastly, we continue to bet on the relative underperformance by emerging markets over the next few months.

Equities: We believe the market is extremely vulnerable to a pullback at this juncture, and the probability of a short-term sell-off is growing rapidly. We have been waiting for a sell-off/pullback to evaluate the price action to get clarity on the intermediate outlook.

Ever since the market broke out to new highs, the S&P 500 has been targeting the next obvious resistance level of 1220-1250, and the path of least resistance continues to be higher (see Chart 1). We mentioned last week that we didn't see any clear opportunities to initiate new long opportunities and that we would wait for the next short-term sell-off/pullback to evaluate the price action.

If we assume that the intraday high from the 25th of March was the high for this leg of the up-move, then we have a few downside targets for the potential upcoming correction/pullback in the S&P 500. Our minimum retracement would be a move to the former resistance area of 1150-1152. If we break below that level, there is a confluence of retracement price targets suggesting 1125-1128 is a high probability area, and 1112-1115 would be another important level. Recall that the latter area was where we got stopped out of our original short position, and it still represents a critical technical pivot level in the markets.

Every week we sift through dozens of charts and indicators as we try to understand what the markets are telling us from a technical perspective and we include a number of them in our weekly report. However, this week we want to highlight two charts in particular.

The first one is a candlestick chart of the S&P 500 since early '09. Over the past few days, we have seen a tight range develop combined with weak intraday action where large intraday reversals have occurred on more than one day. We have also seen long wicks/shadows on the candlesticks and several dojis (we had a doji yesterday), which reflects indecision by market participants. On the chart, we highlighted other time periods that showed similarities to this type of price action over the past 12 months (see Chart 2). In every instance (except for late November) we saw a break of the range to the downside. At this juncture, a break of 1161 on the S&P 500 would 'confirm' a breakdown from the recent range.

The other chart we wanted to highlight this week is Chart 3 that shows the percent of stocks on the S&P 500 that are currently trading above their 50 day moving average. We are currently at ~88%. Over the past 12 months, we have seen a correction/sell-off in prices shortly after we reached these types of lofty short-term overbought levels.

Technical Analysis & Strategy

The most interesting observation when analyzing the implications of both of these charts, is that the only time in which we broke out higher from a tight range was when the percent of stocks above their 50day ma was fluctuating between 55 and 75%, unlike now where we currently stand at ~88%.

The most recent weekly Commitment of Traders (COT) report confirms, in our opinion, our recent suspicions that massive short-covering played a large part in explaining the aggressive move that we've seen since Feb 5th, and that we saw several large players capitulating (see Chart 4). The S&P large (x 250 contracts) speculative net positions saw the largest weekly short covering since they started reporting this data.

We are also seeing a few things line up when analyzing some of our traditional shorter-term indicators. We have reversed from an extreme overbought level in the RSI (9 day periodicity) indicator, and we are on the verge of confirming a cross below the traditional overbought level - we have seen a correction/pullback every time this has occurred since March of '09 (see Chart 5). Furthermore, looking at some of the shorter time frames, we broke below the upwards trend channel, clearly shown on a 60min chart (see Chart 6). Our shorter-term indicators are also exhibiting clear bearish divergences being formed between price and several oscillators. Lastly, we have seen several momentum sell signals being generated over the last few days on several short-term time frames (< 240min).

To wrap up our discussion on equities, we wanted to highlight that Blaze Tankersley, who is our Chief Market Strategist, and who has been long a number of stocks and sectors over the last few months, has decided that its time to de-risk and is closing out several long positions.

It is interesting to us that even when analyzing the market from a bottoms-up perspective, the market appears vulnerable to a pullback. Blaze pointed out in his note yesterday, that in several stocks the recent action has been climactic with volume confirming. He has closed out of his long recommendations on Disney (DIS) and Ford (F), both of which he had been recommending since early '09, just to note a few examples. Disney's recent price action is climactic, and he points out that Ford is clearly under heavy distribution at these levels, and that we could see a lengthy and painful period of consolidation before it starts to move higher again. Please let us know if you want to get on his distribution list.

Foreign Exchange: We continue to believe that the FX markets will present the most compelling trading opportunities over the next couple of years. We argue that exits from the global stabilization of the financial system will occur at different times, which will cause major currency movements as investors bet on interest rate differentials.

We reiterate our structural short position on the Euro and our structural long position on the U.S. Dollar.

With regards to the Euro, on March 10th, we wrote that the price action and substructures had led us to believe that we were forming a typical consolidation pattern, one that will result in a break of support in the Euro and a final sharp move lower before we see a larger counter-trend rally. We see enough evidence to suggest that we have in fact started the next leg lower in the Euro (leg higher in the U.S. Dollar) and we have not yet completed this leg – the recent snap back/bounce failed at the bottom of the previous consolidation range which is now acting as resistance (see Charts 7 & 8 for the Euro, Charts 9 & 10 for the Dollar). We still believe that we can reach our minimum intermediate downside target of 1.3 on the Euro.

Last week, we wrote “We are also becoming increasingly confident with our call that the Yen will continue to depreciate versus the U.S. Dollar. 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”.

We have been patient in our DollarYen position (which we initiated on 12/17/09), and this has paid off as it has broken above a confluence of resistance levels consisting of a key pivot level, the 200 day sma, and a fan line. It is currently consolidating in a pennant pattern, which suggests that we are on the verge of yet another impulsive move higher in our opinion (see Charts 11 & 12).

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	81.49	Intermediate	86.00	79.80	+5.27	+6.91%
EUR	Active	Short	12/9/2009	1.47	1.34	Intermediate	1.30	1.375	+0.13	+8.77%
JPY	Active	Long	12/17/2009	89.96	92.79	Short	100.00	87.00	+2.83	+3.15%

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	23.93	Intermediate	24.97	22.00	+1.37	+6.07%
FXE	Active	Short	12/9/2009	146.99	133.83	Intermediate	125.00	151.75	+13.16	+8.95%
FXI	Active	Short	12/17/2009	110.33	106.85	Short	100.00	113.00	+3.48	+3.15%
EEM	Active	Short	3/4/2010	40.15	42.00	Short	34.50	42.00	-1.21	-4.02%*
EWZ	Active	Short	3/4/2010	71.00	72.77	Short	60.00	74.20	-1.13	-2.01%*
FXI	Active	Short	3/4/2010	40.35	42.26	Short	33.50	43.00	-1.27	-4.14%*

*Hedged with SPY on 3/1/2010

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
September 105-95-85 Put Fly	Active	SPY	Long	2/3/2010	1.32	0.6	-0.72	-54.55%

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	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	Closed	FXI	Long	2/5/2010	0.30	3/1/2010	0.07	-0.23	-76.67%
March 110-100-90 Put Fly	Closed	SPY	Long	2/3/2010	0.42	3/22/2010	-0.00428	-0.42428	-101.02%

Technical Analysis & Strategy

Sector Updates

XLF (Financials) – Has broken above its ~13.60-15.75 consolidation range. Daily RSI has pulled back from the 70 level but remains above broken resistance. Relative strength has broken above its neutral range, and is now moving to test a new resistance level.

XLE (Energy) – Has crossed below support at the 50 and 100 d smas, which have become resistance. RSI has fallen below the 50 level and is now re-testing resistance there. Relative strength remains below its recent neutral range, and is testing resistance at the former support.

OIH (Oil Services) – Has been moving in the ~111-133 range since September '09, and has found resistance at the 100 d sma. RSI has fallen below the 50 level, but is now re-testing after bouncing off previous support. Relative strength has been neutral overall since summer of '09, and continues to test support.

XLI (Industrials) – Continues to reach fresh 52 week highs since regaining its broken uptrend. RSI is testing overbought conditions at the 70 level. Overall, has outperformed the market since March '09.

XLY (Consumer Discretionary) – Has reached a new 52 week high, and continues to test resistance at the broken uptrend from the March '09 low. RSI is moving in overbought territory. Relative strength has pushed to its highest level since early '07.

XLP (Consumer Staples) – Has found support at the 76.4% Fibonacci retracement level. RSI has fallen back from resistance at the 70 level. Relative strength has stalled at, and now fallen back from, previous resistance since breaking the March '09 downtrend.

XLB (Materials) – Continues to move in its tight upward channel. RSI remains above the 50 level. Relative strength has been neutral overall since August '09.

XME (Metals & Mining) – Continues to test resistance at its previous high. RSI remains above the 50 level. Relative strength has stalled a bit, and has been wavering about its November '08 uptrend line.

PPH (Pharmaceuticals) – Has fallen back since breaking out of consolidation, and is testing support at the broken resistance. RSI is testing the 50 level. Relative strength has been in a period of underperformance since February '09, and has slipped below November '09 support.

IBB (Biotech) – Testing support at previous pivot high level since pulling back from all time highs. RSI has fallen from overbought levels. Overall, entered into a period of massive outperformance in summer of '08. More recently, relative strength has been trending upward, but is stalling at resistance.

IYR (Real Estate) – Remains near its 52 week high. RSI has crossed below the 70 level. Broadly speaking, has been underperforming since early '07. Relative strength has broken above a key resistance level and is now finding support there.

XLK (Technology) – Continues to move in its tight rising channel. RSI remains above the 50 level. Has outperformed overall since '07, and has found support since breaking the January '09 relative strength uptrend; neutral since February.

SMH (Semis) – Pulled back from resistance at the previous high. RSI continues to move above the 50 level. Relative strength has been neutral overall since September '09.

XLU (Utilities) – Failed at resistance at the broken April '09 uptrend line, and found support at the 200 d sma. RSI has fallen below the 50 level, and is now testing resistance at that level. Has been underperforming since March '09, and relative strength has slipped to new lows.

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XRT (Retail) – Continues to push upward, and is approaching the broken March '09 uptrend. RSI is moving at overbought levels and testing support at the 70 level. Overall, has outperformed since November '08, and relative strength is at an all time high.

XHB (Homebuilders) – Continues to find support at the broken upper bound of the multi-month trading range. RSI remains 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 continues to test long term resistance.

Technical Analysis & Strategy

Chart 1: SPX Weekly with 9 Day RSI & MACD

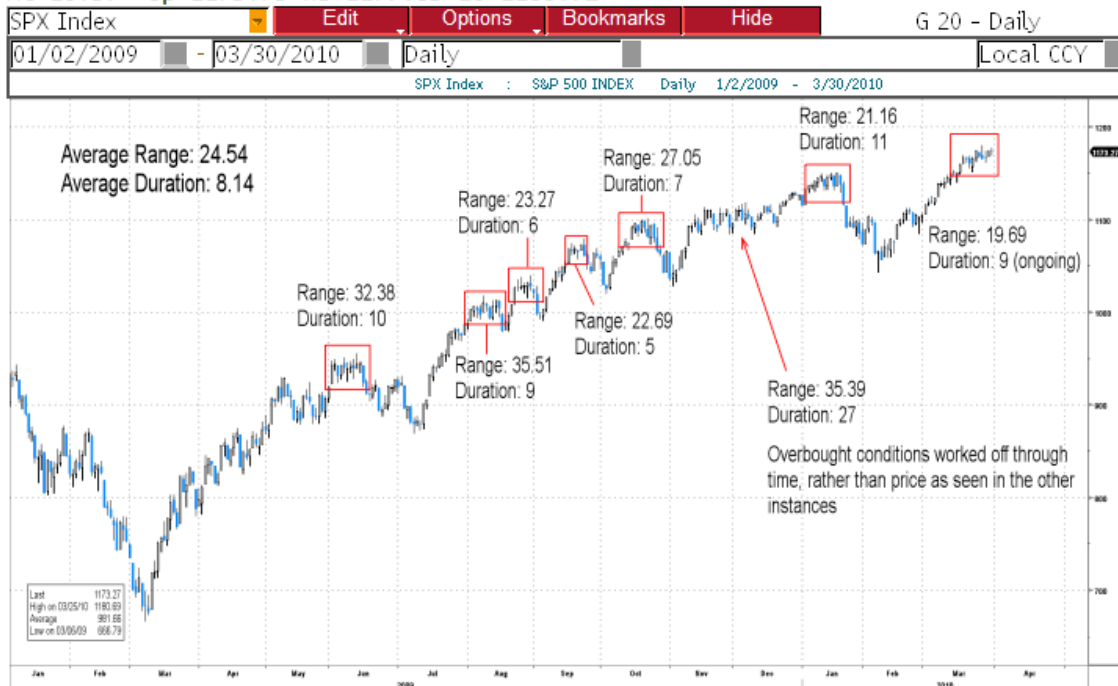
SPX 1173.27Y as of close 3/30 Index **G**



Chart 2: SPX Daily

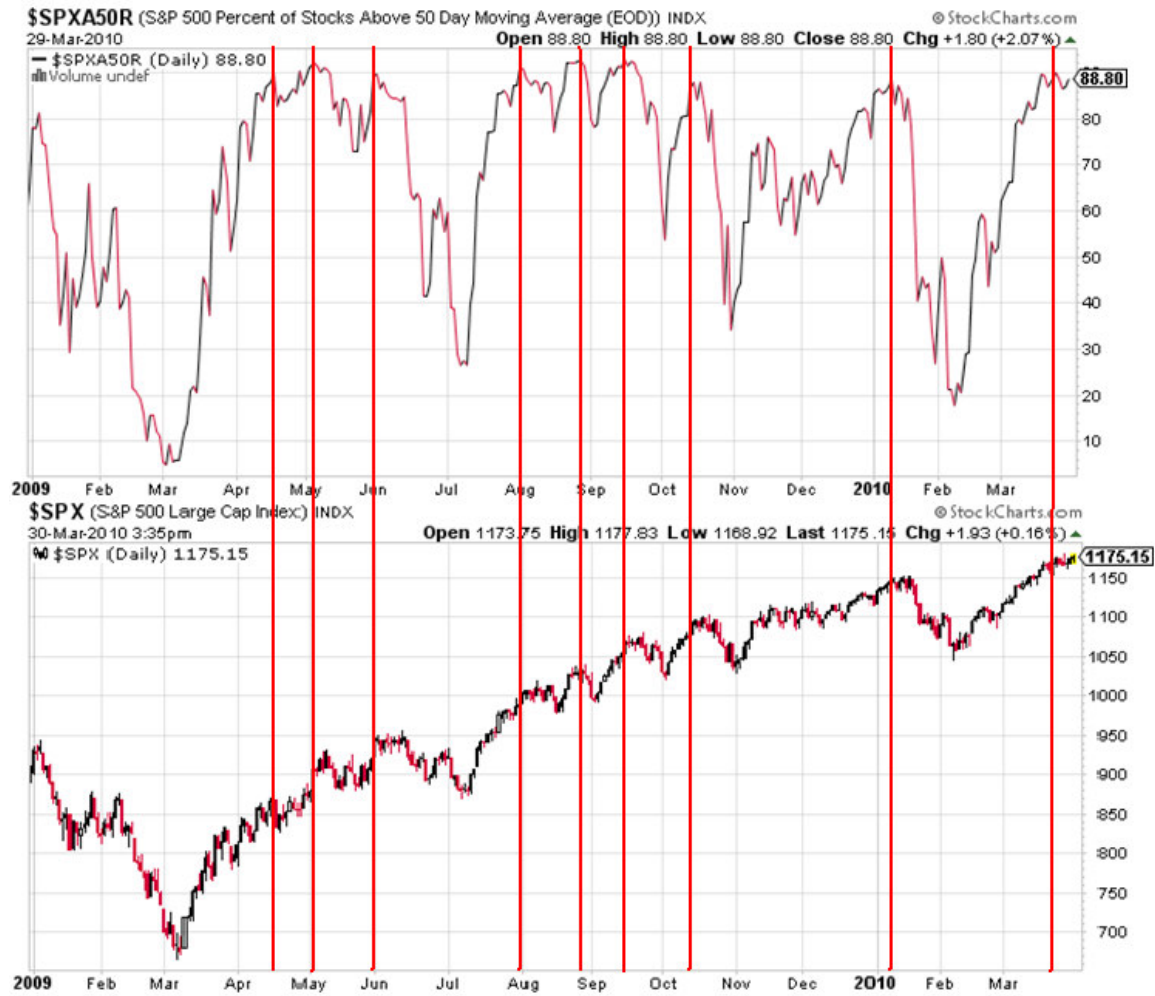
SPX ↑1173.27 +.05 1172.95/1173.67 Index **G**

At 16:59 Op 1173.75 Hi 1177.83 Lo 1168.92



Technical Analysis & Strategy

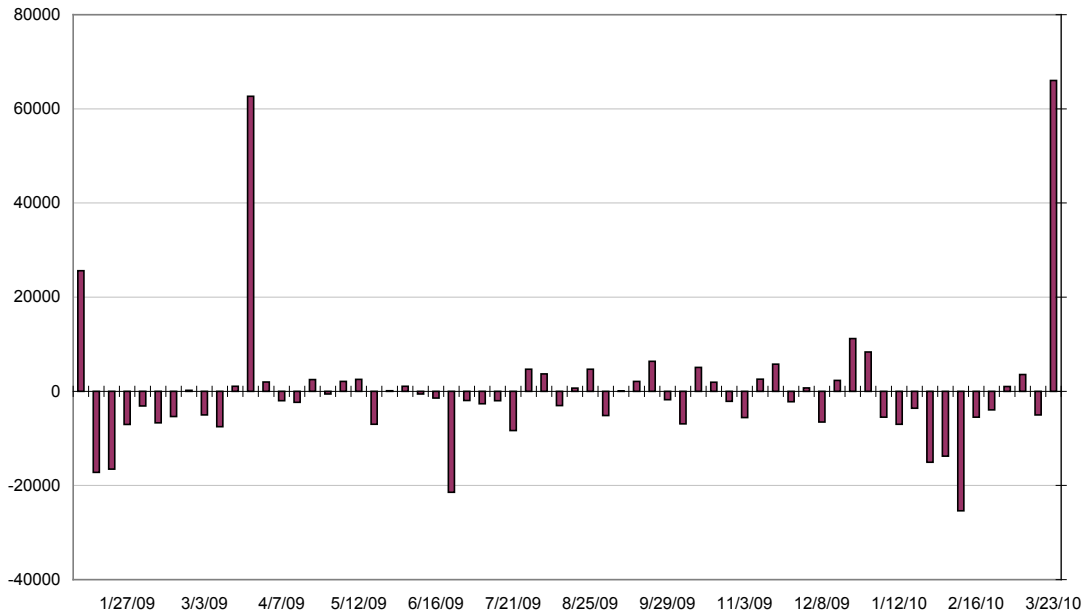
Chart 3: SPX Percentage Above 50 Day Moving Average vs. SPX



Technical Analysis & Strategy

Chart 4: Change in SPX Futures Commitment of Traders

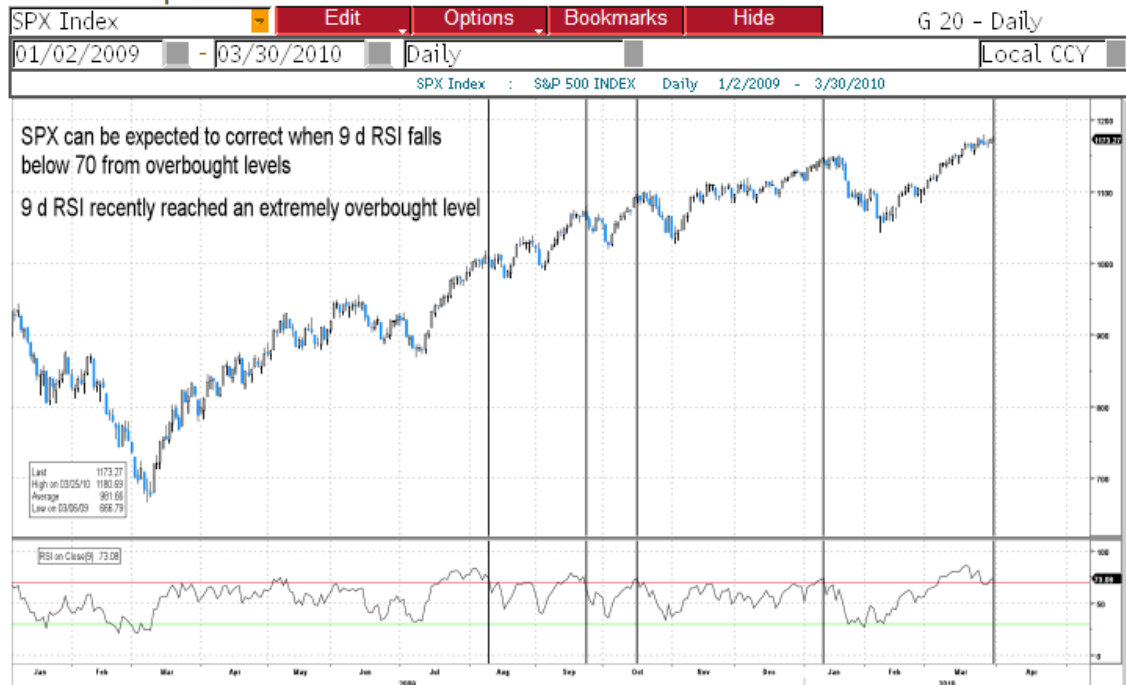
Change in Weekly Net S&P Large Speculative Positions



*Data from the US Commodity Futures Trading Commission

Chart 5: SPX Daily with 9 Day RSI

SPX ↑1173.27 +.05 1172.95/1173.67 Index **G**
 At 16:59 Op 1173.75 Hi 1177.83 Lo 1168.92



Technical Analysis & Strategy

Chart 6: SPX 60 Minutes



Chart 7: EUR Weekly with RSI & MACD



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Chart 8: EUR Daily with RSI



Chart 9: DXY Weekly with RSI & MACD



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Chart 10: DXY Daily with RSI



Chart 11: JPY Weekly with RSI & MACD



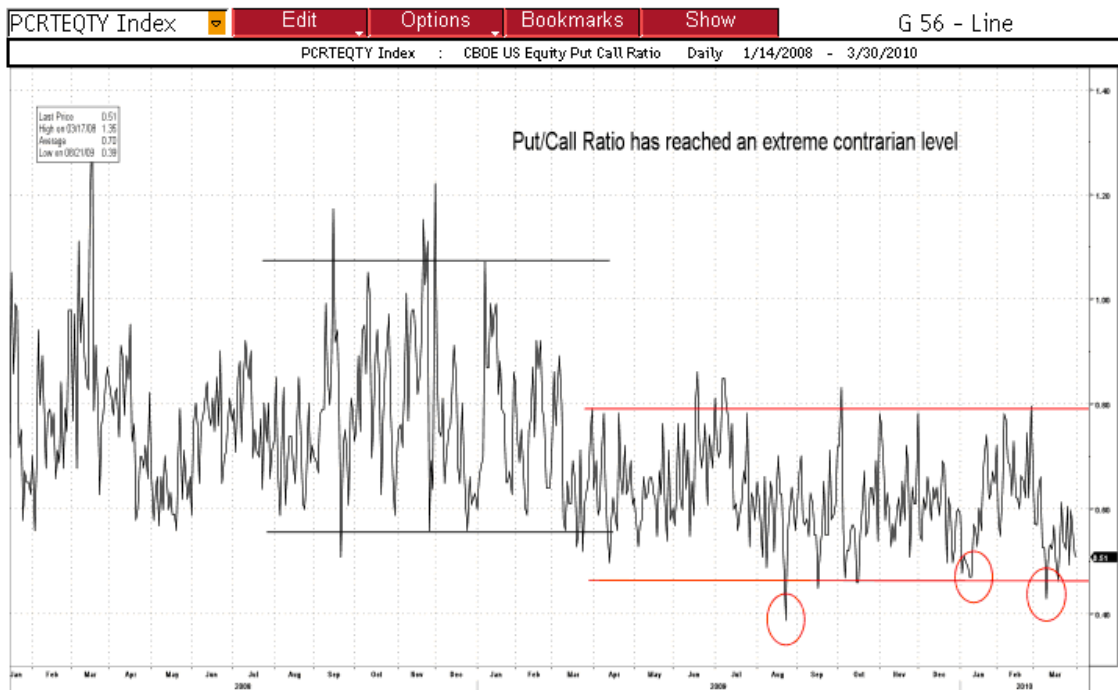
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Chart 12: JPY Daily



Chart 13: CBOE Put/Call Ratio Daily

PCRTEQTY .51Y as of close 3/30 Index G



Technical Analysis & Strategy

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