



Weekly Market Update November 12, 2009

As a reminder, we changed our stance on the equity markets from short-term bullish to neutral on October 16th near our 1100-1120 target area. We remain neutral.

We are mindful that higher highs are a possibility, but our suspicion is that that we will get another wave lower before we head higher again - two weeks ago we introduced two short-term targets of 1015 and then 920-930 and these will remain on the table unless we close above 1110.

Last week, we argued that we would get a "bounce" that would most likely be capped at ~1075-1085, and that odds were high that we would short a number of attractive candidates at those levels.

We decided on Monday not to initiate these positions given that the market breadth was strong (albeit on light volume) with the dollar retesting the lows. Patience and discipline are always important, but even more so now and we will inform our clients when we believe the timing is right.

We are staying neutral (we will initiate shorts when we get a "confirmation" of a short-term reversal) due to several reasons, namely:

(1) Narrowing leadership: Percentage of stocks on the NYSE above the 50 dma has recently bounced from an oversold level of 30 to about 65, which is a lower level than the range of 75-90 where it spent most of its time since August. This is a negative divergence as the equity markets test the highs.

(2) Over half of the S&P 500 components are more than 5% below the respective 2009 highs even though the index retested the highs.

(3) There is a clear divergence between the Value Line Arithmetic Index (equally weighted price index) and the Dow Jones Index for the first time since the March lows. Equally weighted indices are helpful in gaining an understanding of the market's technical structure due to their tendency to lead the market at tops.

(4) The current rally from Nov 2nd exhibited lower than average volume, and prior to that we witnessed heavy "distribution" across the board. Several names and sectors exhibited rising volume on declines.

(5) The Nasdaq 100 and the S&P 500 had "failed" breakouts yesterday while the Nasdaq composite failed short of its recent highs, and the Russell 2000 only made it back to its 50 day moving average (and continues to severely underperform). This underperformance by the Russell 2000 could be an early sign of some risk aversion coming back into the markets. The only index that closed at new highs was the Dow Jones.

(6) The dollar continues to vigorously defend the 75 support level. The rally in the stock market has been tied to the decline in the dollar for the most part, and so until this support level breaks we will assign higher odds to a short-term sell-off.

Technical Analysis & Strategy

Sector Observations:

BKX (Financials) – Confirmed break of its uptrend from the March lows and below an important pivot level. Found support at the 23.6% Fibonacci retracement level and is now testing overhead resistance. Bearish divergence with daily RSI continues to play out as RSI broke trend line and broke below 50 level, which is now acting as resistance. Financials have underperformed the S&P since the end of August.

XOI (Energy) – Has found support at its uptrend line and 50dma. RSI has found support at the 50 level. Testing resistance at the 38.2% Fibonacci retracement of the move lower from the May '08 high. Has greatly outperformed the S&P since mid of August.

OSX (Oil Services) – Found support at important 184 pivot level. Bearish divergence with daily RSI in context of uptrend. Has been outperforming broader index since August.

IXI (Industrials) – Trading in a range between 252 and critical pivot level at ~275 (intraday high from 10/14/08). Bearish divergence with daily RSI. Experienced a period of underperformance from 9/09 to 10/09, but is now rebounding in terms of relative strength.

IXR (Consumer Staples) – Testing major pivot level at ~266. Up-trend is intact. RSI broke its uptrend after reaching extreme overbought level (surpassed historical extremes in many cases) across various time frames including weekly and daily. Has been underperforming the broader market since March.

IXB (Materials) – Nearing test of trading range upper bound at ~338. Clear bearish divergence with daily oscillators. Has been underperforming since March.

DRG (Pharmaceuticals) – Maintaining uptrend from March low. Has been underperforming broader index since beginning of July – but overall since summer of '08 has been outperforming, and longer-term we expect this trend to continue.

BTK (Biotech) – Currently testing critical resistance level. Has room to the downside. RSI has rebounded off traditional support at the 35 level and is testing resistance in 50 area. Overall entered into a period of massive out-performance in the summer of '08 and we expect that to continue longer-term – since mid September has been underperforming the broader market.

DJR (Real Estate) – Currently undergoing a consolidation as price fights with a confluence of moving average resistance. Broadly speaking, has been underperforming since early '07 and more recently has underperformed since 09/22. Interestingly, the relative chart failed precisely at the low pivot level from '08, suggesting that we are entering another major period of intermediate underperformance by this sector.

NDX (Tech) – Testing a major resistance level at ~1780. Bearish divergence with daily RSI after having failed at critical overbought levels twice. Broadly speaking began a period of longer-term outperformance at the end of '07 and we expect that to continue in the longer-term.

SOX (Semiconductors) – Failed at the ~337 level, which is a level of long-term supply, and has now broken the uptrend from the March lows and broken below the 50 and 100 dma's for the firsts time since March. Currently testing an important pivot level around the 310 level. RSI has broken below the 50 support level. Has outperformed since end of last year, but has been underperforming since beginning of September and has broken its relative strength trend line, which has bearish intermediate term implications.

UTY (Utilities) – Current throwback rally is testing the uptrend line which should now act as resistance. Has been underperforming since beginning of '09 and broke below a major longer-term support level on the relative chart.

Chart 1: SPX Weekly with Oscillators

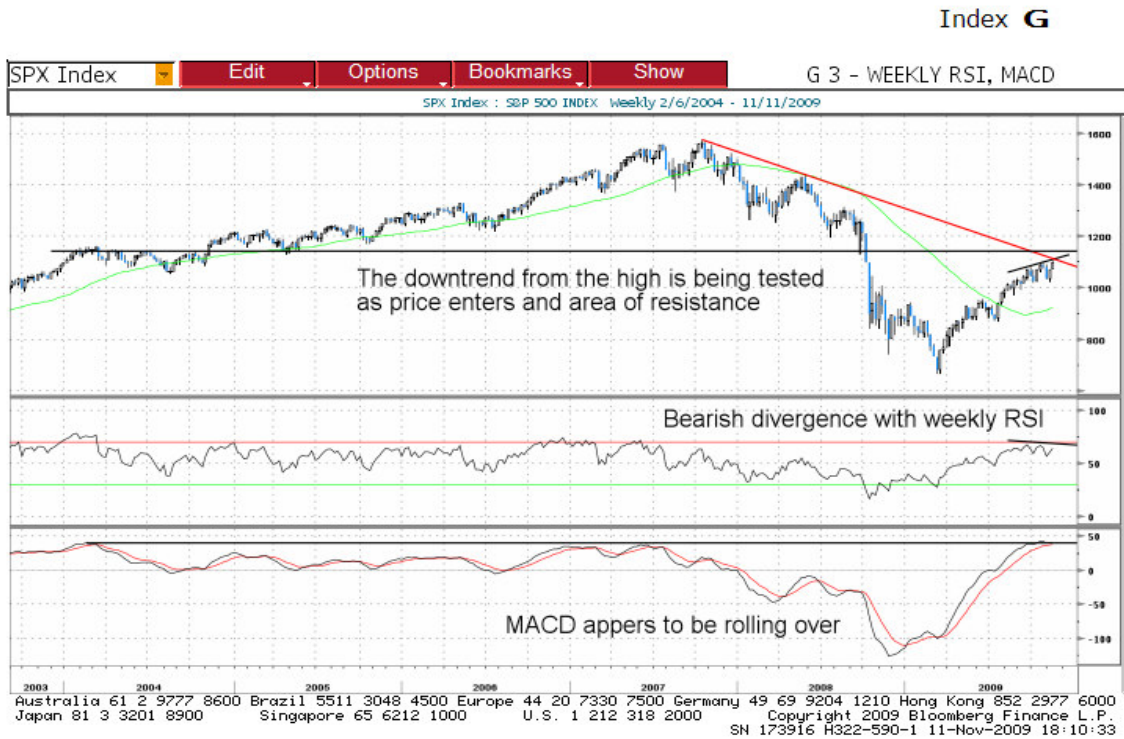


Chart 2: NYSE stocks above their 50dma

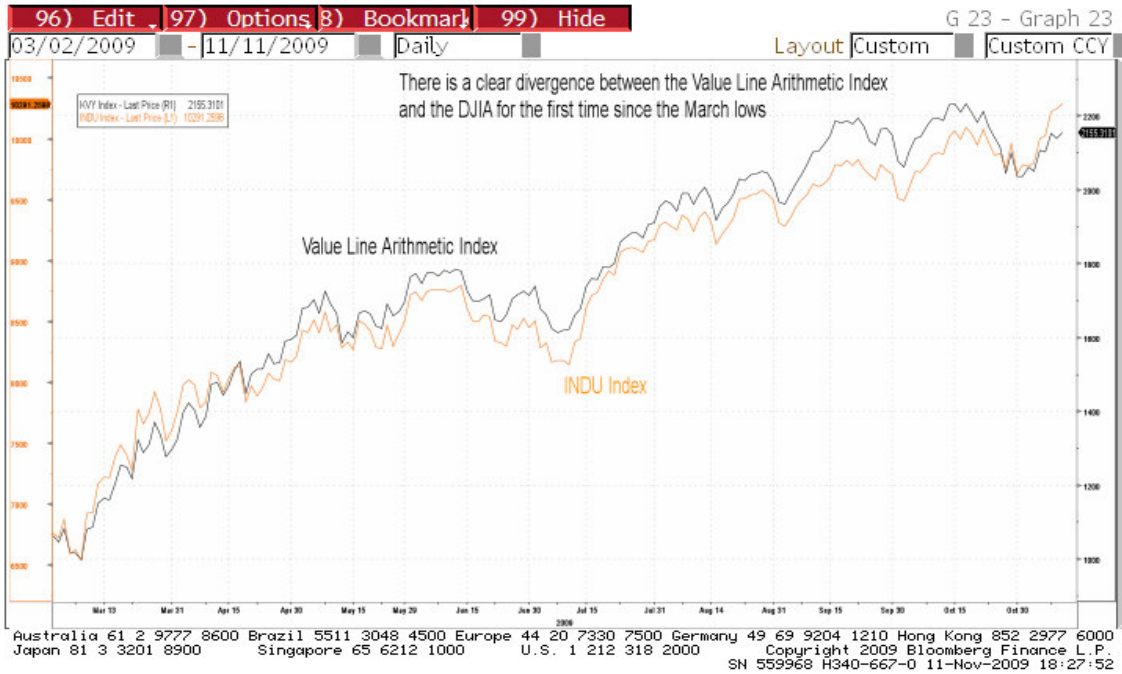


Technical Analysis & Strategy

Chart 3: INDU Index vs Value Line Arithmetic Index

<HELP> for explanation.

EquityG



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.