



Weekly Market Update November 18, 2009

Bottom-Line: Overall, we maintain our neutral stance (we turned neutral from bullish on October 16th) on the markets. For an aggressive short-term trade, we believe this is a good setup with a compelling risk/reward to initiate a counter-trend short. The move from Nov 2nd has important implications for the rest of the year/early 2010, and we now expect to head higher after a short-term sell-off. For our clients who believe we are heading higher going into year-end, we recommend waiting for a retracement to complete before increasing your exposure on the long side. We discuss this in greater detail below.

In light of the S&P closing above 1110, we are revising upwards our minimum downside targets from 1015 to 1060.

New short positions:

S&P 500: Minimum target is 1060, Stop at 1130. Our preferred area to short into strength is 1115-1120. Breaches of 1098 and 1085 would serve as confirmation.

S&P 400: Minimum target is 665, Stop at 720.

Russell 2000: Minimum target is 555, Stop at 615.

Equity Markets: We are at a critical short-term juncture both in terms of time and price. We are in the middle of a confluence of cycles (Nov 16-18), similar to the ones that made us change our outlook Oct 16th. The Dow has been leading as of late, and we find it interesting that 10500 is the level where the first wave up (March-June) would be equal to this wave up (July-Now). In the S&P we are also approaching a critical resistance level of 1121, which represents the 50% retracement from the entire move from October of '07.

See Chart 1. When we analyzed the sub-structures from the bottom on Nov 2nd, the most important conclusion that we arrived at was that it subdivided in 5 legs and not 3. This is important because our initial forecast was for a bounce to 1075-1085 in 3 waves (corrective waves always subdivide in 3 legs) and then another major leg lower. Since this is 5 legs, we now expect the market to head higher over the next few weeks into year-end/early 2010 (following a short-term sell-off). Our scenarios point towards a target of 1160-1170 by the end of the year.

We believe we are completing the final minute [V] peak (target is 1115-1120) for the substructures and we are on the verge of a short-term reversal, given that we are almost completing the final substructures of the 5th leg. We expect a sell-off possibly going into the end of Nov/beginning of Dec.

We continue to see signs that the markets continue to advance on the strength of a narrowing base of rising stocks. We would point out a market shift into large cap at the expense of small to mid cap stocks that continue to severely lag, which leads us to interpret that this market is increasingly defensive. This does not bode well for the sustainability of this rally, but does not preclude the markets from going higher or staying at elevated levels going into the end of this year. Furthermore, in the last few weeks, several key sectors have significantly underperformed such as financial, homebuilders, retailers, and semis. Furthermore, the percent of NYSE stocks trading above the 50 dma continues to be lower than the highs seen from August till mid-October. See Chart 2.

Technical Analysis & Strategy

Gold: Gold is reaching our minimum 1150 target that we introduced on Oct 6th, but as we discussed on Nov 4th, we now believe that the breakout above the consolidation that took place over the last 18 months has implications up to the 1300 level. After analyzing the price structure we are unsure if we are completing leg 3 or leg 5 for the “impulsive” move that began in mid-April, but in both cases, the sub-structures suggest we are close to a reversal. We suspect it’s the end of leg 3 so we expect a retracement back to 1020-1040 before heading higher once again.

10-year Yields: Our view on 10 year yields since the summer has been for a short-term move lower to ~2.5% before heading higher to above 4%. A couple of weeks ago we mentioned that we were very close to breaking above a critical level that would have removed our preferred scenario off the table, but we never did and we are now hovering right above a critical support level of 3.3%.

Technical Analysis & Strategy

BKX (Financials) – Confirmed break of its uptrend from the March lows after failing to break above resistance at 45. Support was found at the 23.6% Fibonacci retracement level of the move from the March low. Bearish divergence with daily RSI continues to play out as RSI finds resistance at 50. Financials have underperformed the S&P since the end of August.

XOI (Energy) – Continues to find support around 50dma. Resistance recently met at ~1105. Has pushed above the 38.2% Fibonacci retracement of the move lower from the May '08 high. Has greatly outperformed the S&P since mid August.

OSX (Oil Services) – Maintaining its March uptrend line and found support at the important 184 pivot level. Oscillators have been able to bounce off of their respective support levels. In general, has outperformed the S&P since December '08, but pace has moderated since June.

IXI (Industrials) – Broke above upper bound of 252-275 trading range. Bearish divergence in daily RSI has been negated as it broke its downtrend. Relative performance versus S&P has been strong since pivoting in early November, but has been flat overall since May.

IXR (Consumer Staples) – Broke above resistance at ~266 pivot level to continue March uptrend. New index high is not being confirmed by RSI, suggesting a weak technical uptrend. Has been underperforming the broader market since March, with a small rally since September.

IXB (Materials) – Broke above range between ~300~338. However, this creates a divergence with daily oscillators. Has recently been outperforming since end of October, but in neutral performance since August.

DRG (Pharmaceuticals) – Broke above resistance at 300, continuing its March uptrend. Bearish divergence in RSI as has failed to reach new high with price after dipping briefly below 50 in early November. 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) – Has found resistance at the 50dma, setting the stage for a lower high. RSI has crossed above 50, where it now finds support, but maintains its downward trend in place since July. 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) – Has reclaimed its 50dma, moving toward a second test of resistance at 179. Maintains March uptrend. Broadly speaking, has been underperforming since early '07 and more recently has underperformed since 09/22. Interestingly, the relative chart failed near the '07 pivot low and December '08 resistance, suggesting that we are entering another major period of intermediate underperformance by this sector.

NDX (Tech) – Broke above major resistance ~1780 as it maintains true trend line. Bearish divergence with daily RSI as struggling to reach higher high above ~66 after crossing briefly below 50. Broadly speaking, began a period of longer-term out-performance in 2007 and we expect that to continue in the longer term.

SOX (Semiconductors) – Attempting to regain footing and has reclaimed the 50 and 100dmAs. Found support around the 286 support level. RSI has moved back above 50, which is an important pivot level. Has outperformed since end of last year, but has been underperforming since beginning of September and has broken its relative strength line, which has bearish intermediate term implications.

UTY (Utilities) – Current throwback rally finding resistance along broken April uptrend line. Has been underperforming since beginning of '09 and broke below a major longer-term support level on the relative chart.

Technical Analysis & Strategy

Active Short-Term Trading Ideas

Short SPX (S&P 500) with short-term target of 1060. Stops at 1130.

Short MID (S&P 400) with short-term target of 665. Stops at 720.

Short RTY (Russell 2000) with short-term target of 555. Stops at 615.

Long DXY (Dollar) with short-term target of 81-82. Stops at 75.

Short EURUSD (Euro) with target of 1.38-1.4. Stops at 1.505.

Short UTY (Utilities) with target of 340-345. Stops at 412.

Closed Short-Term Trading Ideas

Short IBOV (Brazil) had stop elected at the 65,500 level

*Stops on a closing basis

Technical Analysis & Strategy

Chart 1: 15 Minute S&P Chart

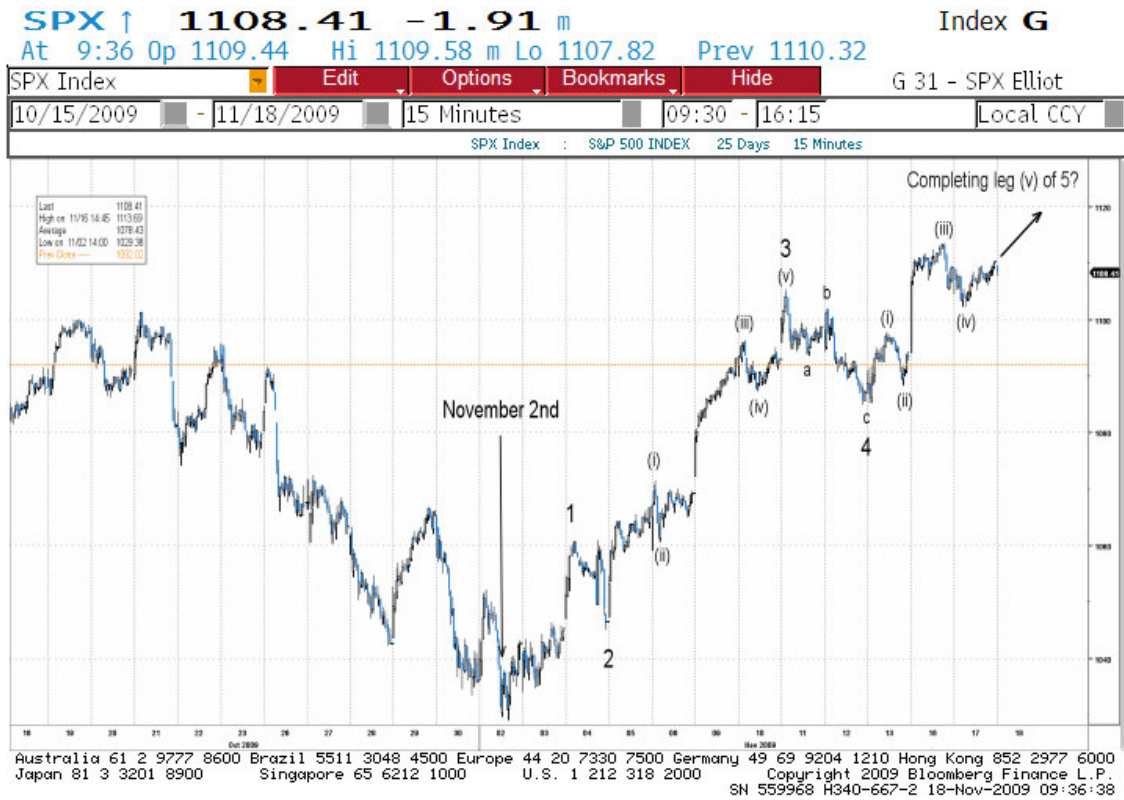


Chart 2: NYSE stocks above 50dma



Technical Analysis & Strategy

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