



Weekly Market Update November 25, 2009

Bottom-Line: Overall, we maintain our neutral stance on the markets. Our short-term call is for a sell-off to approximately 1060 (our minimum downside target) over the next few trading days, but we do believe that we have another move higher into the end of the year/early 2010 with a target of 1160-1170. We initiated a few shorts last week given an attractive setup with a compelling risk/reward (summarized below and in the Active Short-term Trading Ideas section).

Equity Markets: On Monday the Dow (which has assumed recent leadership) failed precisely at the level we pointed out last week, 10,500, which is the level where the first wave up (March-June) would be equal to the current wave up (July-now). Furthermore, in the S&P, 1121 represents the 50% retracement from the entire move from October of '07.

So far the correction that we called for on Nov 18th has been unraveling for the most part through time and not price, but the technical structure tells us we are most likely starting the "C" leg of the pullback. In other words, the move on Monday was just a bounce and we are going to get the next leg lower heading into next week, but keeping in mind that the seasonal pattern for the remainder of the week has a positive bias. Then, we should see the beginning of another move higher going into year end.

What caught our eye yesterday was the ~3.3% move lower in the VIX despite most indices closing down. We note that the VIX is now sitting at the 20 level again, an area that has attracted buyers of volatility in the past.

Last week we initiated shorts in light of the internal signs of weakness in the markets. On first glance it is easy to argue that an intermediate top has formed given all the deterioration and divergences that we are seeing, in addition to leadership becoming narrower and narrower (which doesn't bode well for the sustainability of this rally). Looking at the price structures, however, it does not appear that a top has been made. Therefore, we are approaching our shorts in a practical manner. If we do go to 1030-1060 we will cover our short positions in that area. If we break below 1027 then we have "confirmation" that we have more downside left.

Further evidence to support a short-term bearish move, is the fact that the crude broke below a range where it has been stuck for the last few weeks. Crude is now sitting on the 50-day moving average, and above an old resistance level (which should now act as support). Breaking down further will have negative implications for the equity markets.

10-year Yields: We continue to expect a move in 10 year yields to approx. 2.5%, while longer-term, we do believe we are going to head north of 5%. Yields are currently above a critical support level at 3.3%, but we expect to break this level in the near-term. Thus, we expect a surge in treasury prices.

Technical Analysis & Strategy

BKX (Financials) – Consolidating in a sideways fashion after breaking below uptrend from lows. Oscillators confirmed breakdown, and are now coming back in to test important resistance levels. Financials have underperformed the S&P since the end of August.

XOI (Energy) – Continues to find support around 50dma and uptrend from July low. Finding resistance at 38.2% Fibonacci retracement level of ~1100. Outperformed the S&P from August to early November, but has since underperformed.

OSX (Oil Services) – Maintaining its March uptrend line but recently made a lower high. 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 major pivot level at 275. Bearish divergence in daily RSI. Relative performance versus S&P 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.

IXB (Materials) – Broke above range between ~300~338, but is now consolidating around the 338 resistance. This also creates a divergence with daily RSI. Has outperformed since end of October, but neutral performance since August.

DRG (Pharmaceuticals) – Broke above resistance at 300, continuing its March uptrend. Next resistance at 318. Bearish divergence in RSI as it has failed to reach new high with price. 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) – Made a lower high after failing at 50dma resistance, and is now setting up for a second test. RSI maintains its downward trend, and MACD has fallen below the zero level where it is now finding resistance. Overall, entered into a period of massive out-performance in the summer of '08 and we expect that to continue longer-term – but since mid September has been underperforming the broader market.

DJR (Real Estate) – Has reclaimed its 50dma, but is once again finding resistance in the 175-179 area. Maintaining March uptrend. Broadly speaking, has been underperforming since early '07. 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 it has not made a 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) – Continues to consolidate in a sideways fashion. Found support around the 308 pivot level. RSI has moved back above 50, which is an important level. Has outperformed since end of 2008, but has been underperforming since beginning of September and has broken its relative strength trendline, which has bearish intermediate term implications.

UTY (Utilities) – Current throwback rally finding resistance along broken April uptrend line. Oscillators have been able to move back above pivotal “bullish/bearish” levels. 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

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