

MARKET PERSPECTIVES MORNING CALL

August 18, 2009

Monday Recap...

A nasty selloff in Asia overnight found its way to our shores on Monday morning as skittish traders dumped stocks. The recent defensive tone continued with the Dow (-2%) and S&P 500 (-2.43%) outperforming the riskier Nasdaq Composite (-2.75%) and Russell 2000 (-2.79%). Friday's downgrade of the "Risk" category to neutral (see right) was in response to risk averse money flows detected underneath the market. It will remain at neutral for the time being while the "Volatility" category remains negative. Volatility continues to revert to its mean which says that further weakness is likely. Stepping back from the emotion of today's trading it appears that the sellers still lack conviction. How can I say that on a day when the major indices were down 2 - 3%? After fireworks in the first ten minutes of trading, distribution was almost stopped in its tracks as the indices chopped mostly sideways the rest of the session. Monday's drop in volume on the NYSE and slight increase on the Nasdaq showed no evidence that major players were dumping stocks. In fact, volume on both exchanges came in below average. That tells me that we should see another push higher. Now is no time to panic. After this round of selling runs its course I am looking for solid bounce that carries into the month of September. Rallies as strong as this one do not die on below average selling volume.

Market Close August 17, 2009		
Index	Close	Change
Dow 30	9135.34	-186.06
S&P 500	979.73	-24.36
Nasdaq Composite	1930.84	-54.68
	NYSE	Nasdaq
Advances	343	465
Declines	2727	2184
Ratio	0.13	0.21
New Highs	18	8
New Lows	6	11

Market Metric	Reading
Internals	Bullish
Risk	Neutral
Short Term Trend	Bullish
Long Term Trend	Bullish
Volatility	Negative

Monday's top ETF performers once again reflected the negative market environment during the session. The dollar continued to be the beneficiary of safe haven buying, while inverse and bond ETFs saw solid inflows. Health care ETFs also outperformed in keeping with the defensive mindset of traders.

Top Ten ETFs by performance for August 17

SYMBOL	DESCRIPTION	% Change
PSQ	ProShares Short QQQ ETF	3.07%
SH	ProShares Short S&P500 ETF	2.59%
DOG	ProShares Short Trust Dow30	1.85%
IHF	iShares Dow Jones US Health Care Providers Index Fund ETF	1.51%
TLT	iShares Barclays 20+ Year Treasury Bond Fund	1.48%
IEF	iShares Barclays 7-10 Year Treasury Bond Fund	0.69%
UUP	PowerShares DB US Dollar Index Bullish Fund	0.60%
IYH	iShares Dow Jones US Healthcare Sector Index Fund ETF	-0.09%
BWX	SPDR Lehman International Treasury Bond Fund ETF	-0.29%
XLV	SPDRs Select Sector Health Care ETF	-0.39%

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Monday's bottom ten ETF performers saw a smattering of country ETFs along with materials and former high flyers. IYR continued its implosion as it is now down 10.07% from its August 7 high.

Bottom Ten ETFs by performance for August 17

SYMBOL	DESCRIPTION	% Change
RSX	Market Vectors Russia ETF	-6.61%
SLX	Market Vectors Steel ETF	-6.23%
EWY	iShares MSCI South Korea Index Fund ETF	-5.69%
KWT	Market Vectors Solar Energy ETF	-5.63%
PGJ	PowerShares Golden Dragon Halter USX China Portfolio ETF	-5.52%
KOL	Market Vectors Coal ETF	-5.34%
IYM	iShares Dow Jones US Basic Materials Index Fund ETF	-5.19%
IYR	iShares Dow Jones US Real Estate Index Fund ETF	-5.01%
GDX	Market Vectors Gold Miners ETF	-4.87%
KRE	Spdr Kbw Reg Banking Etf	-4.86%

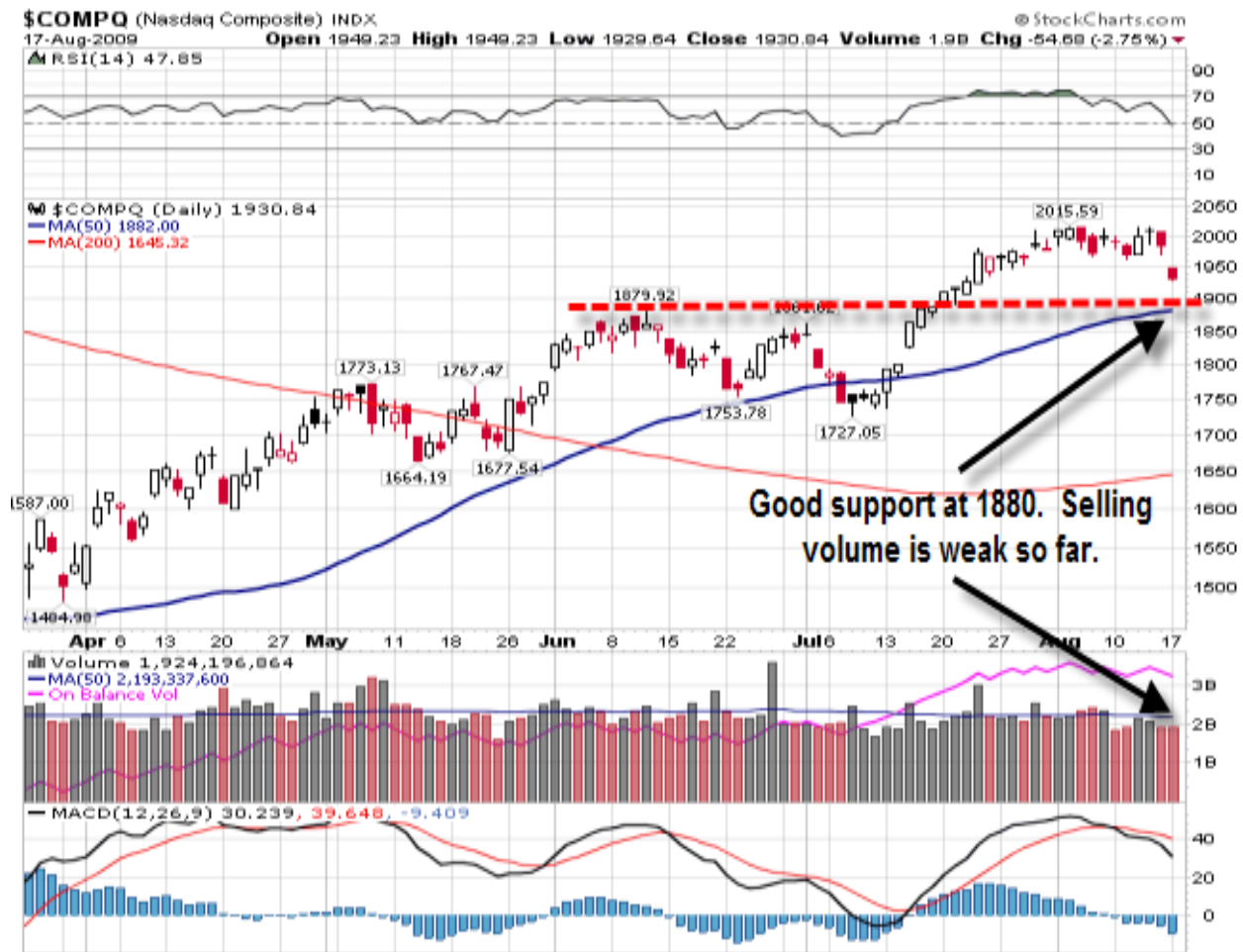
Gold continues to consolidate off of its February high. Even after today's selloff, gold remains in its pennant formation. Recent market weakness causing safe haven inflows into the dollar could put downward pressure on gold. We are, however, heading into the positive season for gold as various holidays throughout the world increase the demand for jewelry, but the real driver of any gold rallies will likely be debasement of the dollar. If the dollar rallies and the inflationary pressures of excess liquidity do not come to the forefront soon, gold could see a break lower. If gold breaks lower, look for support at around 850. If it breaks out of its pennant formation to the upside, we will see new highs this fall. Let gold break this pattern before committing to any new positions.



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Look for support to hold under the market. The indices finally broke their two week old ranges to the downside which sets up possible moves to the targets I talked about yesterday. Those levels are 8900 on the Dow, 960 on the S&P 500, and 1880 on the Nasdaq Composite. Monday's volume showed no real acceleration of selling, which builds the case for a reversal higher. Trust me, I am no perma bull. This liquidity driven rally has been based on *hope* for economic growth and euphoria that economic data and earnings have not been 'as bad as expected'. I still expect this market to hold up into September (based on Monday's discussion on T-Theory) which means that a serious, sustained break lower probably will not begin until then. Those of you who did not get Monday's *Morning Call* and would like one, simply reply to the e-mail that this was attached to and I will send it out to you right away. Monday's selloff is a warning of what is coming, however, as the liquidity spigot is being turned off in China.

The chart below of the Nasdaq Composite shows solid support in the 1880 area with the June 11 reactionary high at 1879.92 coming into play along with the 50 day moving average at 1882. The tepid volume on two days of selling says that this support level should hold if tested. The bears have not yet shown that they have enough fuel in the tank to send this market sharply lower.



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Model Portfolios Through 8/17/09

Country Model							
Symbol	Name	Purch Date	Purch Price	Close	Daily Return	WTD Return	MTD Return
EPP	iShares MSCI Pacific Ex-Japan Inc	8/3/2009	36.37	35.34	-2.75%	-2.75%	-2.83%
EWD	iShares MSCI Sweden Index Fund	8/3/2009	22.32	21.09	-4.40%	-4.40%	-5.51%
EWP	iShares MSCI Spain Index Fund E	8/3/2009	45.70	43.80	-4.16%	-4.16%	-4.16%
EWS	iShares MSCI Singapore Index Fu	8/3/2009	10.69	9.79	-4.39%	-4.39%	-8.42%
EWY	iShares MSCI South Korea Index I	8/3/2009	42.51	39.15	-5.69%	-5.69%	-7.90%
Cumulative					-4.28%	-4.28%	-5.79%

Sector Model							
Symbol	Name	Purch Date	Purch Price	Close	Daily Return	WTD Return	MTD Return
IAK	iShares Dow Jones Us Insurance I	8/3/2009	24.01	24.44	-3.25%	-3.25%	1.79%
IBB	iShares Nasdaq Biotechnology Ind	8/3/2009	79.16	75.19	-1.70%	-1.70%	-5.02%
IGW	iShares S&P GSTI Semiconductor	8/3/2009	42.80	40.70	-2.86%	-2.86%	-4.91%
IXG	iShares S&P Global Financials Se	8/3/2009	43.20	42.64	-4.09%	-4.09%	-1.30%
PXN	PowerShares Lux Nanotech Portfc	8/3/2009	10.17	9.54	-3.44%	-3.44%	-6.19%
Cumulative					-3.07%	-3.07%	-3.17%

Currency Model							
Symbol	Name	Purch Date	Purch Price	Close	Daily Return	WTD Return	MTD Return
FXA	Rydex Currency Shares Australian	8/3/2009	84.15	82.25	-0.99%	-0.99%	-2.26%
FXE	Rydex Currency Shares Euro Trus	8/3/2009	143.19	140.79	-0.75%	-0.75%	-1.68%
FXS	Rydex Currency Shares Swedish I	8/3/2009	140.80	136.71	-1.14%	-1.14%	-2.90%
Cumulative					-0.96%	-0.96%	-2.28%

Style/Index Model							
Symbol	Name	Purch Date	Purch Price	Close	Daily Return	WTD Return	MTD Return
QQQQ	PowerShares QQQQ Trust	8/3/2009	39.85	38.48	-2.90%	-2.90%	-3.44%
EEM	iShares MSCI Emerging Markets F	8/3/2009	36.74	34.32	-3.92%	-3.92%	-6.59%
Cumulative					-3.41%	-3.41%	-5.03%