

# MARKET PERSPECTIVES MORNING CALL

August 21, 2009

## Thursday Recap...

News of a pickup in mid-Atlantic manufacturing from the Philadelphia Federal Reserve offset a worse than expected initial jobless claims number to push the indices out to further gains. The Russell 2000 (+1.25%) and Nasdaq Composite (+1.01%) outperformed the S&P 500 (+1.09%) and the Dow (+0.76%), continuing the flow toward risk. There are some encouraging signs in the risk area, but not enough to pull the "Risk" category off of its **Neutral** rating. Volume was still under average which is no surprise for this time of year. The absence of sellers once again was noticeable, but for the third day in a row off of Monday's low, there was a change in leadership for the market as financials pulled the indices higher. Today had some interesting crosscurrents as both stocks and bonds were positive on the day. Some of that can be attributed to trader positioning ahead of Friday's options expiration. Our "Volatility" category has been upgraded from **Negative** to **Neutral** as the overextended price condition has been remedied by this recent consolidation period.

Market Close August 20, 2009		
Index	Close	Change
Dow 30	9350.05	70.89
S&P 500	1007.37	10.91
Nasdaq Composite	1989.22	19.98
	NYSE	Nasdaq
Advances	2221	1733
Declines	811	904
Ratio	2.74	1.92
New Highs	82	47
New Lows	1	5

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

**Thursday's top ETF performers were led by financials.** IYR and XLF saw solid inflows today as they are trying to regain the leadership status they enjoyed through the month of July. IYR has seen heavy selling of late, however, so its ability to once again become a market leader is very much in doubt. Two holdings in the country model (see below) made the list today as EWY and EWD put in solid performances.

## Top Ten ETFs by performance for August 20

SYMBOL	DESCRIPTION	% Change
IYR	iShares Dow Jones US Real Estate Index Fund ETF	4.06%
XLF	SPDRs Select Sector Financial ETF	2.59%
EWY	iShares MSCI South Korea Index Fund ETF	2.53%
BDH	HOLDERS Broadband ETF	2.52%
EWD	iShares MSCI Sweden Index Fund ETF	2.42%
IYG	iShares Dow Jones US Financial Services Index Fund ETF	2.37%
RSX	Market Vectors Russia ETF	2.32%
EWO	iShares MSCI Austria Index Fund ETF	2.23%
CUT	Claymore/Clear Global Timber Idx ETF	2.21%
TUR	iShares MSCI Turkey Investable Market Index Fund ETF	2.07%

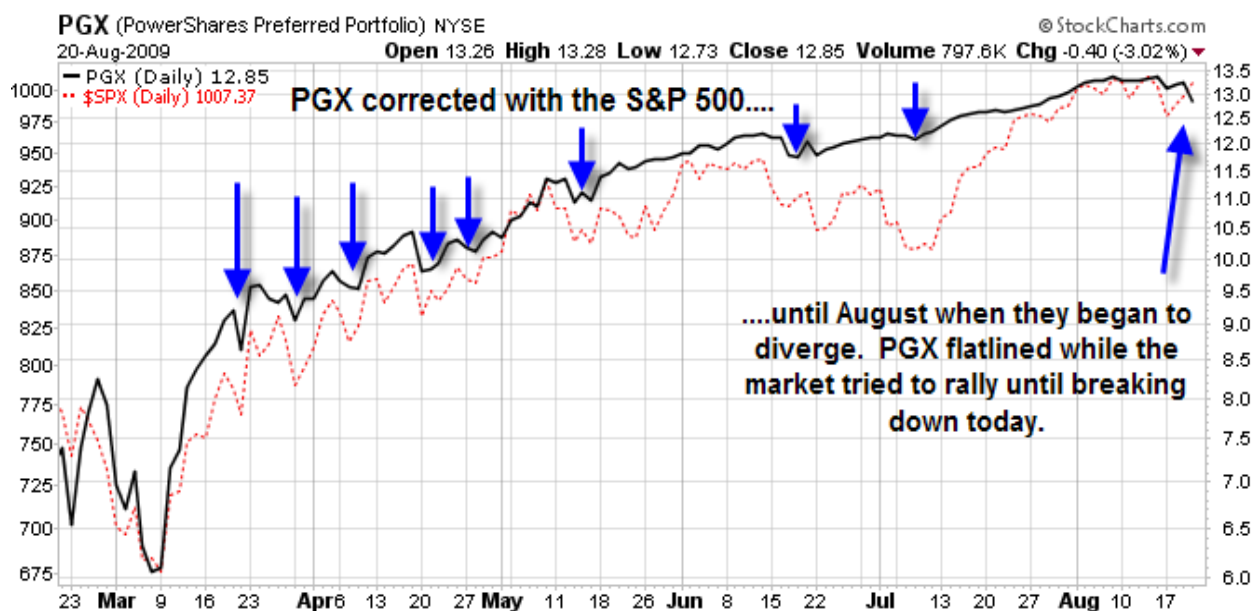
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**Thursday's bottom ETF performers list was dominated by commodity names.** Commodities were unable to get much of a bid in spite of a quiet session for the dollar. USO saw profit taking after its strong two day run while UNG broke down to a new all time low. PGX also made an appearance which is examined below.

### Bottom Ten ETFs by performance for August 20

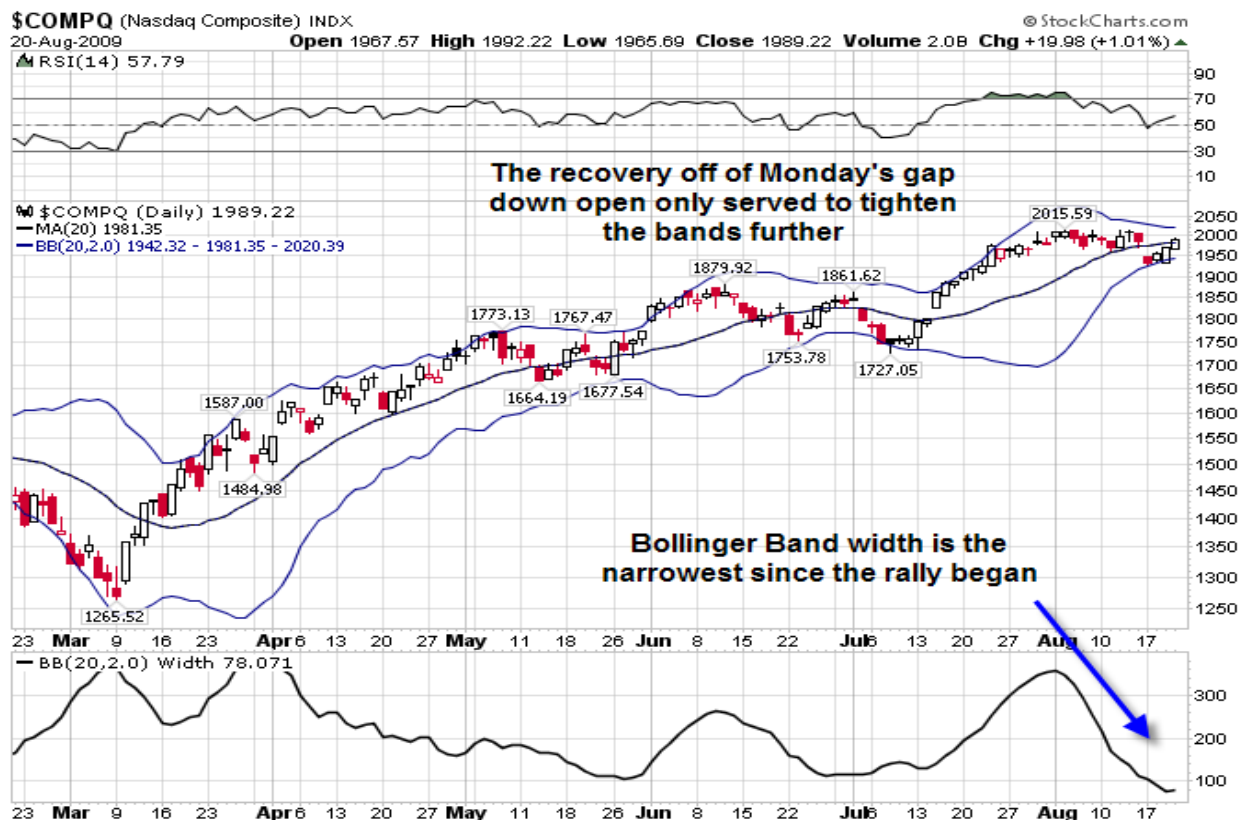
SYMBOL	DESCRIPTION	% Change
UNG	US Nat Gas FD ETF	-4.16%
SGG	iPath Dow Jones-AIG Sugar Total Return Sub-Index ETN	-3.77%
PGX	PowerShares Preferred Portfolio ETF	-3.02%
JJN	iPath Dow Jones-AIG Nickel Total Return Sub-IndexSM ETN	-2.54%
DBA	PowerShares DB Agriculture Fund ETF	-1.58%
JJA	iPath Dow Jones-AIG Agriculture Total Return Sub-IndexSM ETN	-1.53%
USO	United States Oil Fund LP	-1.18%
SH	ProShares Short S&P500 ETF	-1.08%
PSQ	ProShares Short QQQ ETF	-0.99%
DOG	ProShares Short Trust Dow30	-0.72%

**Today's breakdown in PGX is a concern.** PGX has shown solid strength ever since the March low as it has rallied almost lockstep with the S&P 500. The chart below shows how PGX corrected with equities and even outperformed as it was immune to the June – July correction in the S&P. Its behavior of late, however, has been a red flag. In the month of August, PGX has essentially flat lined while the S&P 500 has chopped near its high in repeated rally attempts. That slight divergence grew wider today as PGX headed south on what was clearly a positive day for equities. This is the type of behavior that deserves attention as it could be signaling that change is on the way for the market. Lately I have also been showing the breakdown in the HYG:IEF spread (high yield bonds vs. treasuries) as traders back away from risk on the interest rate side. These are the type of changes that illustrate shifts underneath the market that are capable of cracking the foundation of this almost six month old rally. The trend is still up, but these caution flags must be heeded.



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**The Bollinger Bands on the Nasdaq continue to tighten.** I first pointed this out in Wednesday's *Morning Call*, and the action of the last couple of sessions has caused the bands to tighten further. When the bands tighten, that shows very low volatility which usually occurs before big price moves in either direction as volatility reverts back to its mean. Given the weak effort put forth by sellers so far this week, this move could be to the upside. If an upside break does occur, it needs recognizable leadership from one or more sectors along with an increase in volume to show conviction on the part of the bulls. If neither of these accompany a break higher, we could be looking at the final push higher for this amazing rally before a serious correction occurs. September should be a very interesting month.



**Coming soon** – I will be publishing custom portfolios that will be managed using the model portfolios as a guide. The model portfolio selection process is completely automated and is updated once a month. The custom portfolios will include discretion to make intra month adjustments as warranted due to market risk and changes in trend.

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## Model Portfolios Through 8/20/09

Country Model							
Symbol	Name	Purch Date	Purch Price	Close	Daily Return	WTD Return	MTD Return
EPP	iShares MSCI Pacific Ex-Japan Ind	8/3/2009	36.37	36.23	0.25%	-0.30%	-0.38%
EWD	iShares MSCI Sweden Index Fund	8/3/2009	22.32	22.41	2.42%	1.59%	0.40%
EWP	iShares MSCI Spain Index Fund E	8/3/2009	45.70	45.52	1.43%	-0.39%	-0.39%
EWS	iShares MSCI Singapore Index Fur	8/3/2009	10.69	10.14	1.50%	-0.98%	-5.14%
EWY	iShares MSCI South Korea Index F	8/3/2009	42.51	41.68	2.53%	0.41%	-1.95%
<b>Cumulative</b>					<b>1.62%</b>	<b>0.06%</b>	<b>-1.51%</b>

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	25.28	0.92%	0.08%	5.29%
IBB	iShares Nasdaq Biotechnology Ind	8/3/2009	79.16	77.18	-0.46%	0.90%	-2.50%
IGW	iShares S&P GSTI Semiconductor	8/3/2009	42.80	42.10	0.79%	0.48%	-1.64%
IXG	iShares S&P Global Financials Sec	8/3/2009	43.20	44.31	1.82%	-0.34%	2.57%
PXN	PowerShares Lux Nanotech Portfo	8/3/2009	10.17	9.97	1.12%	0.91%	-1.97%
<b>Cumulative</b>					<b>0.83%</b>	<b>0.41%</b>	<b>0.31%</b>

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	83.30	0.35%	0.28%	-1.01%
FXE	Rydex Currency Shares Euro Trust	8/3/2009	143.19	142.50	0.18%	0.45%	-0.48%
FXS	Rydex Currency Shares Swedish K	8/3/2009	140.80	139.73	0.53%	1.05%	-0.76%
<b>Cumulative</b>					<b>0.35%</b>	<b>0.59%</b>	<b>-0.75%</b>

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	39.76	1.17%	0.33%	-0.23%
EEM	iShares MSCI Emerging Markets F	8/3/2009	36.74	35.77	1.73%	0.14%	-2.64%
<b>Cumulative</b>					<b>1.45%</b>	<b>0.23%</b>	<b>-1.44%</b>