

MARKET PERSPECTIVES MORNING CALL

August 25, 2009

Monday Recap...

The market tried to tack on further gains after Friday's rally, but profit takers had other ideas. The trade seemed orderly enough on the Nasdaq Composite as volume contracted from Friday. But the NYSE showed a distribution day as volume increased. Money flowed away from risk Monday as high yield bonds, small caps, and mid caps underperformed. The dollar held firm in the face of the morning rally attempt which was a clue that there were not sufficient flows into equities to keep the rally alive. At some point, if this economic recovery truly manifests itself, the dollar will rally alongside equities instead of simply being a place to park funds when anxiety runs high. For now the inverse relationship still stands, but if currency traders smell economic growth (i.e. higher interest rates), the carry trades will be unwound and the dollar will benefit. One has to wonder how much longer this rally in equities can go on with tech being dragged along for the ride. Semiconductors underperformed again today which is a concern, as that group made Monday's bottom ten list.

Market Close August 24, 2009		
Index	Close	Change
Dow 30	9509.28	3.32
S&P 500	1025.57	-0.56
Nasdaq Composite	2017.98	-2.92
	NYSE	Nasdaq
Advances	1543	1223
Declines	1474	2455
Ratio	1.05	0.50
New Highs	135	76
New Lows	0	5

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

Monday's top ETF performers were an interesting mix of commodity and country plays. This mix of names was intriguing given the relative stability of the dollar. UNG is heading into what is typically its strongest quarter. Could it be time for natural gas to finally break its downtrend? Before getting too excited, wait for UNG to at least take out short term resistance at 11.91.

Top Ten ETFs by performance for August 24

SYMBOL	DESCRIPTION	% Change
EWO	iShares MSCI Austria Index Fund ETF	3.16%
UNG	US Nat Gas FD ETF	3.00%
JJG	iPath Dow Jones-AIG Grains Total Return Sub-IndexSM ETN	2.80%
EWA	iShares MSCI Australia Index Fund ETF	2.15%
JJA	iPath Dow Jones-AIG Agriculture Total Return Sub-IndexSM ETN	1.84%
TLT	iShares Barclays 20+ Year Treasury Bond Fund	1.81%
EPP	iShares MSCI Pacific ex-Japan Index Fund ETF	1.60%
EWS	iShares MSCI Singapore Index Fund ETF	1.28%
XLE	SPDRs Select Sector Energy ETF	1.28%
IEZ	iShares Dow Jones US Oil Equipment & Services Index Fund ETF	1.24%

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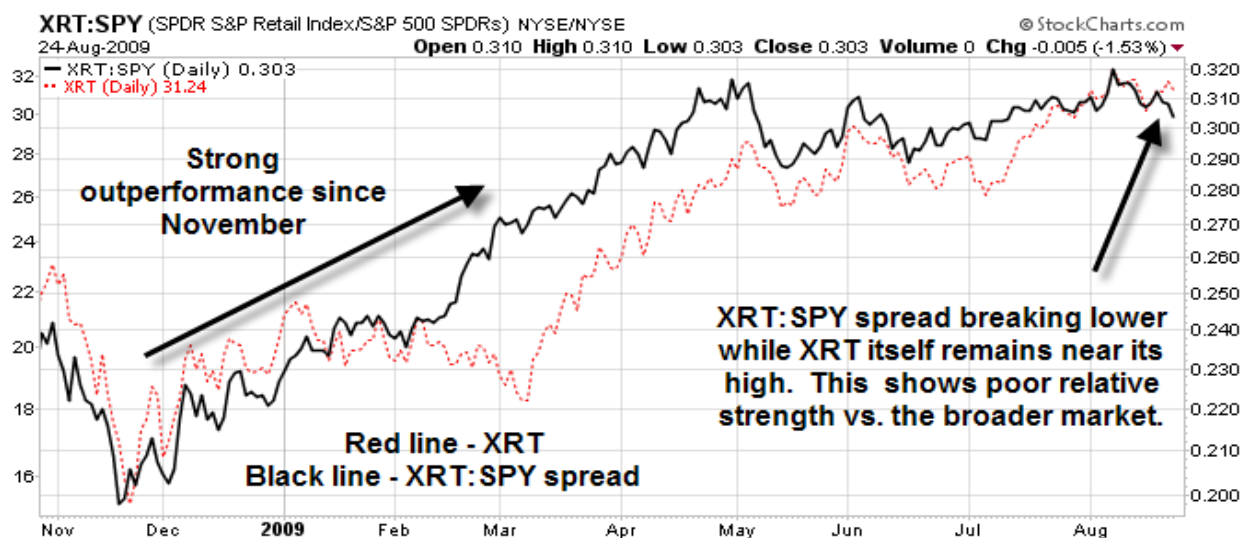
Monday's bottom ETF performers list was a mix of different sectors. Financials and gold underperformed today, while semiconductors continued their troubling underperformance.

Bottom Ten ETFs by performance for August 24

SYMBOL	DESCRIPTION	% Change
KRE	Spdr Kbw Reg Banking Etf	-2.41%
SCJ	iShares MSCI Japan Small Cap Index Fund ETF	-1.72%
XRT	SPDR S&P Retail ETF	-1.54%
GLD	SPDR Gold Trust	-1.40%
EWX	iShares MSCI Mexico Index Fund ETF	-1.22%
KWT	Market Vectors Solar Energy ETF	-1.17%
IYG	iShares Dow Jones US Financial Services Index Fund ETF	-1.10%
IGN	iShares S&P GSTI Networking Index Fund ETF	-1.06%
GDX	Market Vectors Gold Miners ETF	-1.04%
IGW	iShares S&P GSTI Semiconductor Index Fund ETF	-0.96%

Retail is showing signs of distribution. Retail (XRT) began outperforming the market in November of 2008, almost five months before the actual market bottom. Even as the broader market collapsed into the March 9 low, retail shares held firm and actually posted a higher low. Below is a spread chart which shows the strength of retail (XRT) vs. the broader market (SPY). When the black line is rising, retail is outperforming the broader market. When it is falling, it is underperforming the broader market. I have also plotted the price line of XRT itself as a reference, which is the red dashed line.

Notice how the spread topped in late April before rebounding and poking out to a new high in August. Since then, however, retail shares have undergone distribution vs. the broader market as the spread chart demonstrates. This is another former leader that is beginning to see cracks in its armor. Recently I have pointed out the relative weakness being shown by high yield bonds (HYG) and the breakdown in leadership by tech shares last June. This does not mean that it is time to begin selling equities, but we must remain on our toes here as money looks to be rotating out from another former leader. What sector will step up to show leadership if the flows continue to move away from retail? Given the selling pattern in Monday's action, financials may be the next group to struggle.



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Model Portfolios Through 8/24/09

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	36.84	1.60%	1.60%	1.29%
EWD	iShares MSCI Sweden Index Fund	8/3/2009	22.32	23.26	-0.64%	-0.64%	4.21%
EWP	iShares MSCI Spain Index Fund E	8/3/2009	45.70	46.84	0.06%	0.06%	2.49%
EWS	iShares MSCI Singapore Index Fur	8/3/2009	10.69	10.29	1.28%	1.28%	-3.74%
EWY	iShares MSCI South Korea Index F	8/3/2009	42.51	42.64	0.66%	0.66%	0.31%
Cumulative					0.59%	0.59%	0.88%

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	26.08	-0.11%	-0.11%	8.62%
IBB	iShares Nasdaq Biotechnology Ind	8/3/2009	79.16	78.30	0.57%	0.57%	-1.09%
IGW	iShares S&P GSTI Semiconductor	8/3/2009	42.80	42.48	-0.96%	-0.96%	-0.75%
IXG	iShares S&P Global Financials Sec	8/3/2009	43.20	45.18	-0.24%	-0.24%	4.58%
PXN	PowerShares Lux Nanotech Portfo	8/3/2009	10.17	10.35	1.17%	1.17%	1.77%
Cumulative					0.08%	0.08%	2.56%

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	83.88	0.52%	0.52%	-0.32%
FXE	Rydex Currency Shares Euro Trust	8/3/2009	143.19	142.85	-0.31%	-0.31%	-0.24%
FXS	Rydex Currency Shares Swedish K	8/3/2009	140.80	141.41	-0.55%	-0.55%	0.43%
Cumulative					-0.12%	-0.12%	-0.04%

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	40.25	-0.10%	-0.10%	1.00%
EEM	iShares MSCI Emerging Markets F	8/3/2009	36.74	36.47	0.44%	0.44%	-0.73%
Cumulative					0.17%	0.17%	0.13%