

MARKET PERSPECTIVES WEEKLY UPDATE

August 24, 2009

The Bulls Have Answered....

Monday's gap down open on skittishness over the economy along with a meltdown in the Shanghai Composite Index looked like it had the potential to initiate the first serious correction since the March bottom. The fact that sellers were washed out by 9:45am that day was something that I mentioned repeatedly last week as an indication that the market could be headed higher. An absence of sellers during Tuesday's bounce and on Wednesday's gap down open tilted things in the bulls' favor even further as sellers were virtual non participants. Could this simply be a product of the usually thin August trading period? That really doesn't matter. Friday's break to new highs was impressive. The trend is up and we need to go with it.

Weekly Market Close August 21, 2009		
Index	Close	Change
Dow 30	9505.96	184.56
S&P 500	1026.13	22.04
Nasdaq Composite	2020.90	35.38
	NYSE	Nasdaq
Advances	2161	1865
Declines	1017	1017
Adv/DecRatio	2.12	1.83
New Highs	157	31
New Lows	9	8

Higher Upside Targets Still Exist

One of the patterns that has been largely ignored amid all of the angst and doubt surrounding this rally is the upside targets produced by the head and shoulders bottom formation in the indices. These patterns were traced out in classic fashion as the market hit its November low, followed by the now famous March low, finally formed the right shoulder in July.

In the chart of the Dow on the next page, I have plotted the head & shoulders target as measured from the head to the neckline and projected higher. I have also plotted the major retracement levels of the October 2007 – March 2009 decline (the blue dashed lines labeled 50% and 61.8%). Finally, I have plotted resistance bands which are shaded in yellow. These bands are computed using Fibonacci numbers in conjunction with major highs and lows in the market.

Notice how the price broke through the first resistance band off of the March low after being turned away at the June high. After it broke through, it 'rested' on the top of the band in late July before mounting its next push higher in August. The fact that price rested on the top of the band validates that area as a resistance level now turned into support. Price then pulled back to within 73 points of the top end of the band on Monday before turning and heading higher. We now have the next resistance band coming into play in the 10,300 – 10,500 range. That range also contains the 50% retracement level which could trigger our first meaningful correction. After that we will see if the bulls have enough left in the tank to take the Dow to its upside target in the 11,500 area. One step at a time, but the next target is 10,300 – 10,500. All of the liquidity still sloshing around in the system needs to find a home.

With rates as low as they are in the fixed income arena, we can expect more flows into equities as traders and investors chase higher returns and are willing to take on the higher risk levels associated with it. Yes it is a long way up from here, but until we see signs to the contrary, the trend is up.

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Bonds Saw Strong Outflows on Friday

You will see in Monday's edition of *Morning Call* that the "Risk" category in the market metric section has been upgraded to **Positive**. One of the reasons for that is the heavy selling in bonds yesterday as money flowed toward risk and back into high yield bonds and equities. The chart of TLT below shows it topping again in the same area it did at the July low for equities. Yes it is still in a consolidation range, but its inability to break through that resistance is viewed as a short term negative. As long as investors are chasing risk in equities and higher yielding instruments, TLT and other treasury ETFs can be expected to languish.



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Weekly ETF Rankings

Rank	Symbol	Description	Last Week	Change
1	ITB	iShares DJ US Home Construct	2	1
2	IYR	iShares Dj Us Real Estate Sec	1	-1
3	IAK	iShares DJ US Insurance	4	1
4	XLF	Spdr Financial Sector	5	1
5	PXN	PowerShares Nanotech Portfolio	7	2
6	IXG	iShares S&P Global Financials	3	-3
7	IAT	iShares Dow Jones US Regional Banks	12	5
8	IYT	iShares Dow Jones Trans Avg In	6	-2
9	SLX	Market Vectors Steel Index Fun	11	2
10	IHI	iShares DJ Medical Devices	9	-1
11	XLB	Materials Select Sector Spdr	13	2
12	XRT	SPDR S&P Retail ETF	8	-4
13	IYJ	iShares Dow Jones US Industria	16	3
14	IGW	iShares Goldman Sachs Semicond	10	-4
15	SPY	Standard & Poors Dep Rec	18	3
16	IEZ	iShares Dow Jones US Oil Equip	34	18
17	SWH	Software Hlders Trust	15	-2
18	IXN	iShares S&P Global Technology	17	-1
19	IBB	iShares Nasdaq Biotechnology I	14	-5
20	MOO	Agribusiness ETF	19	-1
21	IYH	iShares Dow Jones US Healthcar	21	0
22	IXP	iShares S&P Global Telecommuni	20	-2
23	IAI	iShares DJ Broker Dealer Index	25	2
24	USO	United States Oil Fund ETF	27	3
25	IXJ	iShares S&P Global Healthcare	22	-3
26	XLU	Spdr Utilities Select	26	0
27	XLE	Spdr Energy Sector	33	6
28	BDH	Broadband HOLDERS ETF	30	2
29	HHH	Internet HOLDERS ETF	24	-5
30	ITA	iShares DJ US Aerospace & Def	32	2
31	XLP	Spdr Cnsmr Stpls Sector	29	-2
32	HYG	iShares IBoxx \$ High Yield Corp	28	-4
33	SEA	Claymore/Delta Global Shipping ETF	35	2
34	LQD	iShares Tr Gs \$ Investop Corp	31	-3
35	WMH	Wireless Holdrs Trust	37	2
36	SLV	iShares Silver Trust ETF	23	-13
37	TLT	iShares Tr Lehman 20+ Yr Trsy	41	4
38	IYZ	iShares Dj Us Telecom Sector	43	5
39	PHO	Power Shares Water Res Port	36	-3
40	DBA	PowerShares DB Agriculture Fun	42	2
41	GLD	StreetTRACKS Gold Shares ETF	38	-3
42	AGG	iShares Lehman Aggregate Bond	40	-2
43	IEF	iShares Lehman 7-10 Year Treas	44	1
44	PST	Proshrs Ult Shrt Lehman 7-10	45	1
45	TAN	Claymore/MAC Global Solar Ener	39	-6
46	TBT	Proshrs Ultra Short Lehman 20+	46	0
47	DOG	ProShares Short Dow30 ETF	48	1
48	PSQ	ProShares Short QQQ ETF	50	2
49	SH	ProShares Short S&P500 ETF	49	0
50	UNG	US Nat Gas FD ETF	47	-3

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Weekly Ranking Discussion

Last week we had 17 ETFs outperforming the SPY (the market proxy), and this week we have 15. That is an indication that money may be chasing a more narrowly focused group of sectors. IEZ was the big winner last week, jumping 18 slots up to number 16. SLV went from the penthouse to the outhouse as last week's biggest winner turned into this week's biggest loser, dropping 13 slots to number 36. Real estate related plays along with financials continue to dominate the top spots.

The Biggest Winner

IEZ (iShares Dow Jones U.S. Oil Equipment & Services) had the greatest jump this week, up 18 slots to number 16. It had a nice breakout over resistance at 37 on Friday as volume picked up to confirm. Overhead resistance now looms at 39.



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The Biggest Loser

SLV (iShares Silver Trust) gave back this week what it had gained in the prior week. SLV has put in a very sloppy, choppy performance of late while breaking its short term trend line off of its July 13 low. Momentum indicators are now showing that the rally attempt is not done for yet, but I would advise steering clear of this wild ride until the dust settles.

