MARKET PERSPECTIVES MORNING CALL

September 8, 2009

Cracks Are Forming….

Weekly Market Close September 4, 2009		
Index	Close	Change
Dow 30	9441.27	-102.93
S&P 500	1016.40	-12.53
Nasdaq Composite	2018.78	-9.99
	NYSE	Nasdaq
Advances	1208	1132
Declines	1968	1741
Ratio	0.61	0.65
New Highs	185	82
New Lows	4	25

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

Last Monday's 'Shanghai Surprise' put the market on the defensive for the week, but as I predicted in the September 1 *Morning Call*, the indices finished the week on a positive note with two respectable up days. Volume tailed off as the pre-holiday week wound down which is perfectly normal, but nevertheless there are storm clouds on the horizon for this rally. The 'Risk' category has been changed to Neutral as the rally in corporate bonds continued, but its relative strength vs. 7 – 10 year treasuries shows that more investors are opting for the safety of treasuries. High yield bonds also continue to languish vs. treasuries, which offsets the late week low volume outperformance by the Nasdaq Composite over the Dow and S&P. Recall that I have mentioned T-Theory many times over the last couple of weeks as a tool to give us a timeframe when to expect a turn in the market or at least a temporary end to this rally. That date is this Friday, September 11. This does not mean that we are to panic and dump long positions in anticipation of a reversal this week. What is does mean is that if we do get a reversal of some magnitude, it will carry more weight and allow us to pare back exposure with more confidence that the market is indeed headed lower. For now the trend remains up and must be respected.

Last Week's top ETF performers were led by precious metals and inverse names. Precious metals were bought with conviction this week as the range bound status of the dollar was ignored. There are many base metal and commodity names in the current bottom ten list, so one can assume that traders are expecting economic weakness and that gold was purchased as a 'safe haven'.

Weekly Top Ten ETFs by Performance

SYMBOL	DESCRIPTION	% Change
GDX	Market Vectors Gold Miners ETF	12.05%
SLV	iShares Silver Trust ETF	10.14%
EWT	iShares MSCI Taiwan Index Fund ETF	5.67%
GLD	SPDR Gold Trust	3.90%
EWY	iShares MSCI South Korea Index Fund ETF	2.24%
SH	ProShares Short S&P500 ETF	1.16%
DOG	ProShares Short Trust Dow30	1.01%
IYT	iShares Dow Jones Transportation Average Index Fund ETF	0.97%
EWA	iShares MSCI Australia Index Fund ETF	0.79%
EWM	iShares MSCI Malaysia Index Fund ETF	0.72%

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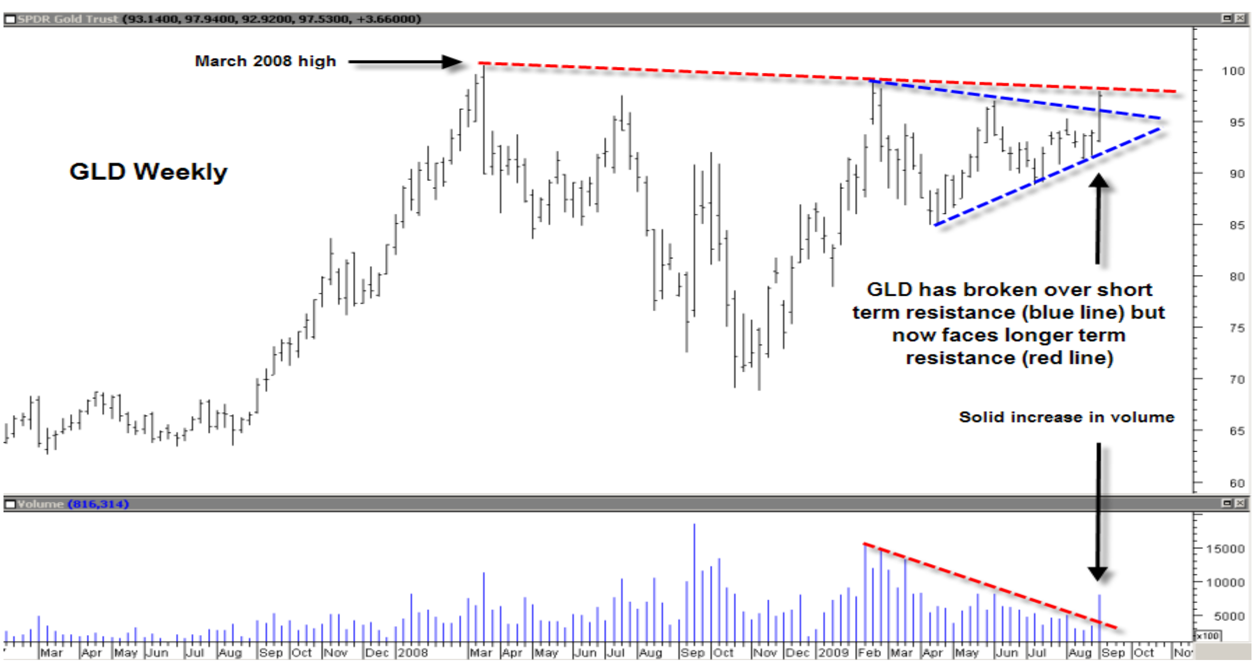
Last Week's bottom ETF performers were dominated by commodity and economic sensitive names. Energy, agriculture, and base metals all took nasty hits as traders began questioning the magnitude of the economic recovery that has been priced into the markets. This selling can not be attributed to dollar strength as its weekly stability made it a non factor.

Weekly Bottom Ten ETFs by Performance

SYMBOL	DESCRIPTION	% Change
UNG	US Nat Gas FD ETF	-14.29%
JJE	iPath Dow Jones-AIG Energy Total Return Sub-IndexSM ETN	-8.78%
SGG	iPath Dow Jones-AIG Sugar Total Return Sub-Index ETN	-8.71%
JJN	iPath Dow Jones-AIG Nickel Total Return Sub-IndexSM ETN	-7.55%
JJG	iPath Dow Jones-AIG Grains Total Return Sub-IndexSM ETN	-7.53%
DBA	PowerShares DB Agriculture Fund ETF	-7.01%
USO	United States Oil Fund LP	-6.72%
ITB	iShares Dow Jones US Home Construction Index Fund ETF	-5.79%
JJA	iPath Dow Jones-AIG Agriculture Total Return Sub-IndexSM ETN	-5.56%
IYR	iShares Dow Jones US Real Estate Index Fund ETF	-5.38%

GLD had an impressive week. Gold and silver managed to stage impressive rallies in spite of a stable, range bound dollar. The metals have had an inverse relationship with the dollar for so long that it is virtually a 'given' that the metals react primarily to moves in the greenback. The inverse relationship was broken from December 2008 – February 2009, however, as the dollar and gold rallied together during that period. That is a sign that gold is beginning to compete directly with the dollar for safe haven status. How on earth can the dollar be considered a safe haven when it is now a borrowed (shorted) currency in the carry trade? Investors can't have it both ways and the independent behavior in the metals is proving that out. The fact that gold rallied so strongly in spite of quiet trade in the dollar says gold is being accumulated for its own appeal and not just as a reactionary money flow. If the March 2008 high of 100.44 comes out, the next major upside target is 130.



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Weekly ETF Ranks

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

The weekly ETF ranks are showing a more defensive posture. There were advances across the board for bond ETFs as institutions appear to be getting more defensive. I have highlighted them in green in the list above. Higher quality bonds are the best advancers this week with AGG and IEF each advancing fifteen slots, TLT advancing fourteen slots, and LQD advancing twelve slots. US Healthcare (IYH) and consumer staples (XLP) also each jumped seven slots. This is the first time in weeks that bonds have jumped ahead of SPY (the broad market proxy) as LQD and TLT have been very strong, while AGG and IEF are not too far behind. This shift in fund flows is telling us that institutions are getting more defensive in anticipation of a pullback in equities.

Automated Models Through 9/4/09

Country Model							
Symbol	Name	Purch Date	Month Start	Close	Daily Return	Weekly Return	MTD Return
EWI	iShares MSCI Italy ETF	9/1/2009	20.31	18.97	1.72%	-6.60%	-6.60%
EWD	iShares MSCI Sweden Index Fund	8/3/2009	22.93	22.49	2.69%	-3.52%	-1.92%
EWP	iShares MSCI Spain Index Fund E	8/3/2009	47.76	47.22	2.45%	-1.13%	-1.13%
EWN	iShares MSCI Netherlands ETF	9/1/2009	18.36	18.38	1.88%	0.11%	0.11%
EWQ	iShares MSCI France ETF	9/1/2009	24.01	24.01	1.65%	0.00%	0.00%
Cumulative					**2.08%**	**-2.26%**	**-1.94%**

Sector Model							
Symbol	Name	Purch Date	Month Start	Close	Daily Return	Weekly Return	MTD Return
IAK	iShares Dow Jones US Insurance I	8/3/2009	26.64	25.80	0.19%	-3.37%	-3.15%
ITB	iShares Dow Jones US Home Con	9/1/2009	13.19	12.70	1.60%	-3.71%	-3.71%
IGW	iShares S&P GSTI Semiconductor	8/3/2009	43.44	43.99	2.59%	-0.20%	1.27%
IXG	iShares S&P Global Financials Sec	8/3/2009	45.74	45.37	2.32%	-1.58%	-0.81%
PXN	PowerShares Lux Nanotech Portfo	8/3/2009	10.26	10.43	2.66%	0.19%	1.66%
Cumulative					**1.87%**	**-1.75%**	**-0.98%**

Currency Model							
Symbol	Name	Purch Date	Month Start	Close	Daily Return	Weekly Return	MTD Return
FXA	Rydex Currency Shares Australian	8/3/2009	84.69	85.11	1.39%	0.91%	0.50%
FXE	Rydex Currency Shares Euro Trust	8/3/2009	143.29	142.96	0.37%	0.01%	-0.23%
FXS	Rydex Currency Shares Swedish K	8/3/2009	140.21	139.77	1.13%	-0.79%	-0.31%
Cumulative					**0.96%**	**0.04%**	**-0.02%**

Style/Index Model							
Symbol	Name	Purch Date	Month Start	Close	Daily Return	Weekly Return	MTD Return
XLF	SPDR Select Sector Financials	9/1/2009	14.59	14.22	1.14%	-2.54%	-2.54%
XHB	SPDR S&P Homebuilders	9/1/2009	15.48	15.08	1.96%	-2.58%	-2.58%
Cumulative					**1.55%**	**-2.56%**	**-2.56%**

MODEL PORTFOLIOS

CONSERVATIVE			HEDGED			AGGRESSIVE		
CORE			CORE			CORE		
10%	DVY	iShares Dow Sel Div	15%	MDY	Mid Cap SPDRS	15%	MDY	Mid Cap SPDRS
10%	SPY	S&P 500	15%	SPX	S&P 500	15%	IWM	iShares Russell 2000
10%	IWV	iShares Russell 3000						
SECTOR			SECTOR			SECTOR		
5%	XLF	Financial Sector SPDR	5%	XLF	Financial Sector SPDR	5%	XLF	Financial Sector SPDR
5%	IGW	iShares S&P GSTI Semi	5%	IGW	iShares S&P GSTI Semi	5%	IGW	iShares S&P GSTI Semi
5%	XRT	SPDR S&P Retail	5%	GDX	Mkt Vectors Gold Miners	5%	GDX	Mkt Vectors Gold Miners
						5%	IAK	iShares U.S. Insurance
INTERNATIONAL			INT/COUNTRY			INT/COUNTRY		
10%	EFA	iShares MSCI EAFE Index	5%	EWQ	iShares MSCI France ETF	5%	EWQ	iShares MSCI France ETF
			5%	EWT	iShares MSCI Taiwan	5%	EWT	iShares MSCI Taiwan
			10%	EFA	iShares MSCI EAFE Index	5%	EEM	iShares MSCI Emerging Mkt
						5%	EWS	iShares MSCI Singapore
COMMODITY			COMMODITY			COMMODITY		
10%	GLD	SPDR Gold Shares	10%	GLD	SPDR Gold Shares	10%	GLD	SPDR Gold Shares
						5%	SLV	iShares Silver Trust
FIXED INCOME			CURRENCIES/FIXED			CURRENCIES		
10%	AGG	iShares Lehman Agg Bond	5%	FXA	Rydex Currency/Australian D	5%	FXA	Rydex Currency/Australian D
10%	BWX	SPDR Lehman Intl Treas Bond	5%	FXE	Rydex Currency/Euro	5%	FXE	Rydex Currency/Euro
10%	IEF	iShares Lehman 7-10 Yr Treas	10%	SHY	iShares 1 - 3 Yr Treas			
CASH			CASH			CASH		
5%			5%			5%		

INTRODUCING THE NEW ETF PORTFOLIOS

This is the initial publication of the new ETF models. Position selection will be influenced by the automated models shown on page 4, with an element of discretion added to either bypass model selections or to add other positions that look strong. I have developed a conservative portfolio, a hedged portfolio, and an aggressive portfolio. **The conservative portfolio** will typically look for a 60 – 40 or 70 – 30 mix between fixed income and equities, with some exposure to sectors and broad international index positions. There will also be limited exposure to commodities and hard assets as conditions warrant for diversification purposes and profit opportunities. **The hedged portfolio** will hold slightly more aggressive positions and more concentrated weightings than the conservative portfolio, but will always have a hedge on to reduce day to day volatility. In up markets, that hedge will be primarily short term treasuries or cash, while in down markets, the hedge will consist of one or more inverse ETFs. The hedge will never be more than 25% of the portfolio. **The aggressive portfolio** will be a go anywhere, opportunity type of portfolio. From time to time it will be overweight in sectors that are outperforming while typically maintaining little or no fixed income exposure.

Each portfolio can have their equity exposure reduced to zero as conditions warrant. Those conditions are very rare, but these are actively managed, trend following portfolios, and if the trend is down it makes no sense to stay fully invested. Tracking will begin with Tuesday's opening prices. Should changes be warranted during the week, I will send out bulletins outlining the changes.