

MARKET PERSPECTIVES WEEKLY UPDATE

October 5, 2009

Sellers Are Not Going Away.....

The market is currently mired in its worst performance period since this rally began back in March. Seven of the last eight days have been to the downside, with volume coming in above average on six of the seven down days. Continued inflows were seen in the government bond ETFs along with defensive areas such as consumer staples and telecom (see ETF rankings below). The 'Risk' category remains at **Neutral** as money flows beneath the market are close to turning **Negative**, but not quite yet. The dollar continues to show signs of stability, but flows into the greenback during this weak period for equities remains unconvincing. The dollar's status as a safe haven is being threatened by gold, which held up quite well in spite of the choppy move higher in the dollar. I have said all along that this liquidity driven rally in equities will not end well, the only question is how far will it go? Sellers were a feisty bunch this past week and former leaders such as home builders, real estate, and basic materials have been sold hard. There is as of yet no sector that is stepping up to lead this market and as long as flows continue into defensive names, more weakness is expected. The new boldness of the bears is the catalyst for this week's portfolio changes found at the end of this week's edition. The hedged portfolio has put on an inverse position to reduce market volatility until a definitive trend emerges.

Last Week's top ETF performers were led energy and commodity related plays. Inverse index ETFs made the bottom of the list, while a solid performance by crude oil and selected materials ETFs brought inflows into the Brazil and Latin America ETFs.

Weekly Top Ten ETFs by Performance

SYMBOL	DESCRIPTION	% Change
USO	United States Oil Fund LP	5.50%
EWZ	iShares MSCI Brazil Index Fund ETF	3.05%
JJN	iPath Dow Jones-AIG Nickel Total Return Sub-IndexSM ETN	2.38%
ILF	iShares S&P Latin America 40 Index Fund ETF	2.35%
EWT	iShares MSCI Taiwan Index Fund ETF	2.12%
SGG	iPath Dow Jones-AIG Sugar Total Return Sub-Index ETN	2.02%
JJE	iPath Dow Jones-AIG Energy Total Return Sub-IndexSM ETN	1.95%
SH	ProShares Short S&P500 ETF	1.88%
DOG	ProShares Short Trust Dow30	1.87%
PSQ	ProShares Short QQQ ETF	1.86%

Weekly Market Close October 5, 2009		
Index	Close	Change
Dow 30	9487.67	-177.52
S&P 500	1025.21	-19.17
Nasdaq Composite	2048.11	-42.81
	NYSE	Nasdaq
Advances	947	827
Declines	2220	2068
Ratio	0.43	0.40
New Highs	476	228
New Lows	10	31

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

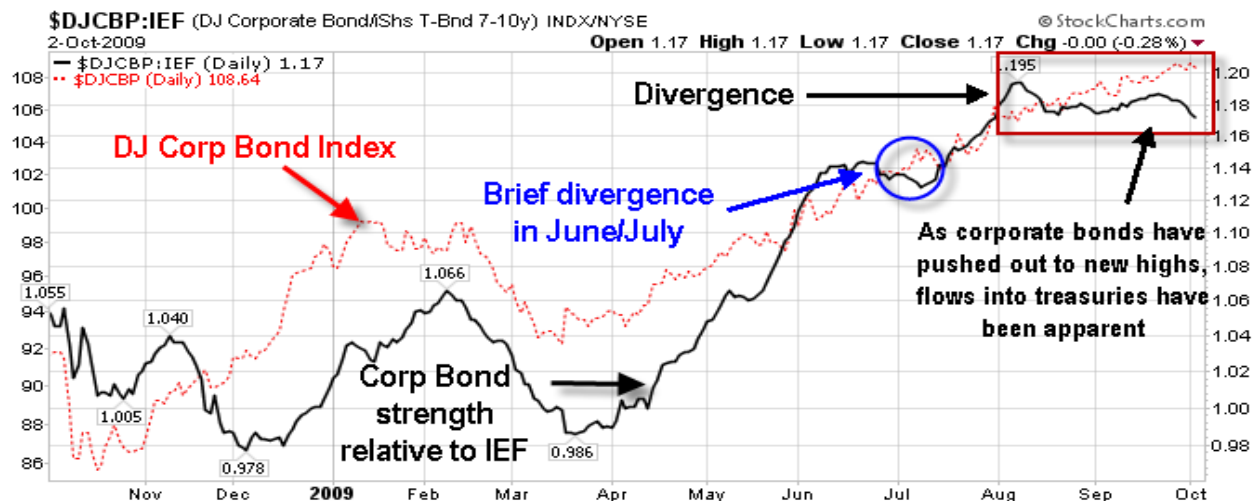
MARKET PERSPECTIVES WEEKLY UPDATE

Last Week's bottom ETF performers were dominated by former leaders. ITB and the very volatile solar energy ETF were the worst performers. Semiconductors continued to show weakness in what has become a troubling trend as selling is picking up steam in the market.

Weekly Bottom Ten ETFs by Performance

SYMBOL	DESCRIPTION	% Change
ITB	iShares Dow Jones US Home Construction Index Fund ETF	-7.02%
KWT	Market Vectors Solar Energy ETF	-6.82%
EWD	iShares MSCI Sweden Index Fund ETF	-4.85%
UNG	US Nat Gas FD ETF	-4.85%
SCJ	iShares MSCI Japan Small Cap Index Fund ETF	-4.77%
ITF	iShares S&P/TOPIX 150 Index Fund ETF	-4.70%
IGW	iShares S&P GSTI Semiconductor Index Fund ETF	-4.64%
PXN	PowerShares Lux Nanotech Portfolio ETF	-4.64%
EWJ	iShares MSCI Japan Index Fund ETF	-4.59%
PHO	PowerShares Water Resource Portfolio ETF	-4.35%

Corporate bonds are underperforming treasuries. Corporate bonds are a good proxy for how investors feel about the future prospects of U.S. corporations. If the outlook is positive, investors typically snap up corporate debt. The risk with corporate bonds is higher than treasuries, but so is the yield, so a positive economic outlook brings buyers in looking for a higher return. If the prospects for U.S. corporations are not as bright, higher inflows into treasuries are the result as investors assume a more defensive posture. In the chart below, the black line represents the Dow Jones Corporate Bond Index relative strength vs. IEF (intermediate term treasuries), while the red dashed line is the price of the Dow Jones Corporate Bond Index itself. When the black line is rising, corporate bonds are outperforming treasuries, and when the black line is falling, treasuries are outperforming corporate bonds. Notice how corporate bonds have rallied nicely off of the March low, and have seen inflows vs. treasuries as indicated by the rising black line. There was one brief period in June/July when corporate bonds rose (the red dashed line) but the black line fell, showing higher inflows into treasuries during that time as investors were more defensive. That situation was rectified and corporate bonds pushed out to new highs into October. Now take a look at the right side of the chart. Corporate bond inflows vs. treasuries has been weakening since August even as the corporate bond index itself has rallied, which shows investor aversion to risk. This is another signal that must be heeded, hence the changes to the portfolios below.



MARKET PERSPECTIVES WEEKLY UPDATE

Weekly ETF Ranks

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

MARKET PERSPECTIVES WEEKLY UPDATE

Defensive names are seeing inflows. XLP (consumer staples) and IYZ (telecom) each jumped 10 slots as the government bond ETFs (IEF and TLT) each continued to climb. High yield bonds (HYG), semiconductors (IGW), and nanotech (PXN) each saw solid drops as money continues to flow away from risk.

Automated Models Through 10/2/09

Country Model						
Symbol	Name	Purch Date	Month Start	Close	Weekly Return	MTD Return
EWI	iShares MSCI Italy ETF	9/1/2009	20.41	19.63	-3.82%	-3.82%
EWY	iShares MSCI South Korea Index F	8/3/2009	46.35	45.11	-2.68%	-2.68%
EWP	iShares MSCI Spain Index Fund E	10/1/2009	50.03	48.17	-3.72%	-3.72%
EWN	iShares MSCI Netherlands ETF	9/1/2009	20.04	19.21	-4.14%	-4.14%
EWQ	iShares MSCI France ETF	9/1/2009	25.97	24.73	-4.77%	-4.77%
Cumulative					-3.83%	-3.83%

Sector Model						
Symbol	Name	Purch Date	Month Start	Close	Weekly Return	MTD Return
IEZ	iShares Dow Jones US Oil Equipm	10/1/2009	41.11	39.15	-4.77%	-4.77%
SLV	iShares Silver Trust	10/1/2009	16.39	15.82	-3.48%	-3.48%
IYR	iShares Dow Jones Real Estate	10/1/2009	42.53	40.46	-9.67%	-4.87%
IXG	iShares S&P Global Financials Sec	8/3/2009	47.77	45.26	-5.25%	-5.25%
SLX	Market Vectors Steel ETF	10/1/2009	52.51	50.30	-4.21%	-4.21%
Cumulative					-5.50%	-4.52%

Currency Model						
Symbol	Name	Purch Date	Month Start	Close	Weekly Return	MTD Return
FXA	Rydex Currency Shares Australian	8/3/2009	88.15	86.38	-2.01%	-2.01%
FXE	Rydex Currency Shares Euro Trust	8/3/2009	146.23	145.59	-0.44%	-0.44%
FXS	Rydex Currency Shares Swedish K	8/3/2009	143.32	142.47	-0.59%	-0.59%
Cumulative					-1.02%	-1.02%

Style/Index Model						
Symbol	Name	Purch Date	Month Start	Close	Weekly Return	MTD Return
XLF	SPDR Select Sector Financials	9/1/2009	14.94	14.29	-4.35%	-4.35%
XRT	SPDR S&P Retail	10/1/2009	33.93	32.81	-3.30%	-3.30%
Cumulative					-3.83%	-3.83%

MARKET PERSPECTIVES WEEKLY UPDATE

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% SPY S&P 500	15% IWM iShares Russell 2000
10% IWW iShares Russell 3000	10% PSQ Inverse Nasdaq 100	
SECTOR	SECTOR	SECTOR
5% XLF Financial Sector SPDR	5% XLF Financial Sector SPDR	5% XLF Financial Sector SPDR
5% XRT SPDR S&P Retail	0% GDZ Mkt Vectors Gold Miners	0% GDZ 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
		0% 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 Bon	5% FXA Rydex Currency/Australian	5% FXA Rydex Currency/Australian D
10% BWX SPDR Lehman Intl Treas	5% FXE Rydex Currency/Euro	5% FXE Rydex Currency/Euro
10% IEF iShares Lehman 7-10 Yr T	10% SHY iShares 1 - 3 Yr Treas	10% TLT iShares Barclays 20+ Tr
CASH	CASH	CASH
10%	5%	10%

ETF PORTFOLIOS

Due to dollar stability and equity market weakness, sell GDZ in the hedged and aggressive portfolios. Buy a 10% position in PSQ for the hedged portfolio. Also sell EWS and buy a 10% position in TLT in the aggressive portfolio. Continue to hold the currency ETFs until dollar stability turns into a legitimate rally.

September Returns (from September 8)

Conservative +2.11%

Hedged +2.04%

Aggressive +2.50%