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Wealth Management Research **23 August 2010**

Technical Strategist

Technical Take

This Technical Strategist report aims to keep our readers abreast of key technical developments in various financial markets. The objective is to address the macro markets and identify upside potential and downside risks for these major financial markets. Some trends discussed will be shorter-term (cyclical) and thus relevant to traders and/or shorter-term investors. Other trends will be longer-term (secular), spanning many years and possibly numerous business cycles. We hope this technical discussion will address some of the key issues and concerns facing investors and traders today, opening the door for further discussions on specific financial markets. **All charts and data are sourced from Reuters and Bloomberg as of 20 August 2010.**

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US Equity Market

Two competing technical patterns have developed over the past year. A bearish 10-month head/shoulders top pattern suggests further intermediate-term technical weakness ahead and a bullish four-month head and shoulders bottom suggests a constructive near-term bottom is possible. However, neither of these two technical formations has been resolved as of yet. A convincing move above neckline resistance at 1,129-1,131 is necessary to confirm a technical breakout rendering upside targets to 1,150.45 or Jan 2010 high, near-term and then to 1,220-1,252, intermediate-term or a retest of Apr 2010 peak as well as the technical projection based on a confirmed four-month neckline breakout (120.32-point technical base). On the downside, repeated failed attempts to break out above 1,129-1,132 coupled with a violation below crucial support at 1,040-1,045 negates recent basing efforts and opens the door for a retest of the pivotal Jul 1st low at 1,010.91. To confirm a 10-month head/shoulders top pattern SPX still needs to decline below neckline support at 1,010-1,040. This breakdown then renders downside targets to 943-956 and then to 869-878. Under extreme panic-type scenario SPX can fall 208.89 points from 1,010.91 to a projected extreme low of 802. To negate an intermediate-term top, it is mandatory that SPX clear above key supply at 1,120-1,150 within the next 1-2 months.

Currency Market

A 20+ year head and shoulders top pattern remains intact. This suggests the US Dollar Index remains vulnerable for further longer-term technical weakness in the years ahead. However, the breakout above neckline support last year at 78.43-80.5 or 1991, 1992, 1995, and 2004 lows generated another strong technical rally that led to a retest of the mid-point of its long-term regression band near the high-80s to low-90s. However, as was the case in prior rallies, the US Dollar once again faded and reverted back to its primary downtrend.

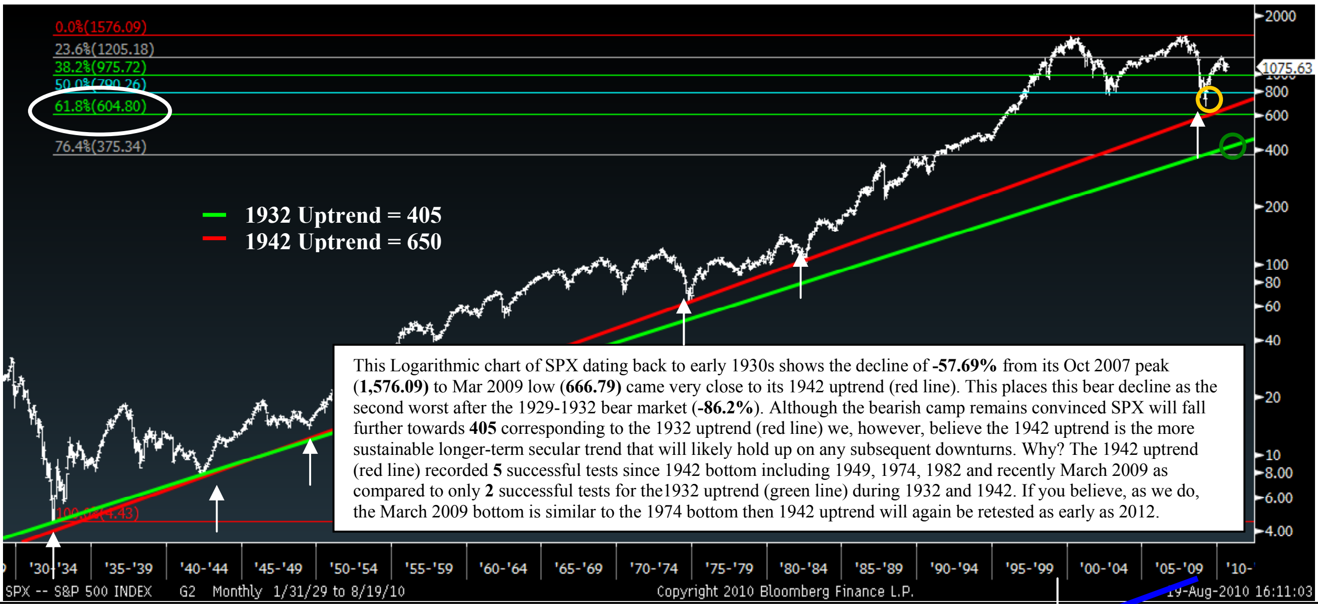
Technical Strategist

The lack of a follow-through on this recent strong surge reaffirms a third right shoulder at 88.80 or June 2010 high. A subsequent pullback over the past two months seems to have found key support at 79-80. The ability to maintain this support may set in motion a trading range scenario into the end of the year as the US Dollar Index is likely to be confined to a wide range between high-70s on the downside and the high-80s on the upside.

Fixed Income Market
A three-year head and shoulders bottom pattern on 10-year Treasury yields has recently been negated on a decline below 3.1%. This technical breakdown signals a crucial retest of next key support at 2.45%-2.5% corresponding to the March 2009 bottom and the extension of the 2007 downtrend and the 76.4% retracement of 2008-2010 rally. We believe an important battle may be developing and the outcome may decide the future directional trend of rates. A convincing break of support at 2.45% will likely trigger a decline towards the December 2008 bottom at 2.04%. However, a successful test of key support coupled with an oversold condition may trigger a technical oversold rally to its prior breakdown at 2.9%-3.1%. Our longer-term monthly regression study on 10-year Treasuries yields suggests the long-term secular downtrend still remains intact (i.e., disinflation and lower yields). However, yields have once again successfully bounced off the bottom of its regression band (1.81%) during late 2008 or during the height of the credit crisis. It has also moved above the mid-point of its band (3.12%) during the 1st quarter of 2010. Although rates tend to progress to the upper end of its regression range once it clears above the midpoint. However, this time around, it has suddenly reversed direction quickly falling back below its midpoint. In two previous occurrences (i.e., the Emerging Markets crisis of 1997-1998 and Tech/Telecom bubble of 2002-2003) rates also failed to follow through to the upside and soon fell towards the bottom of its range.

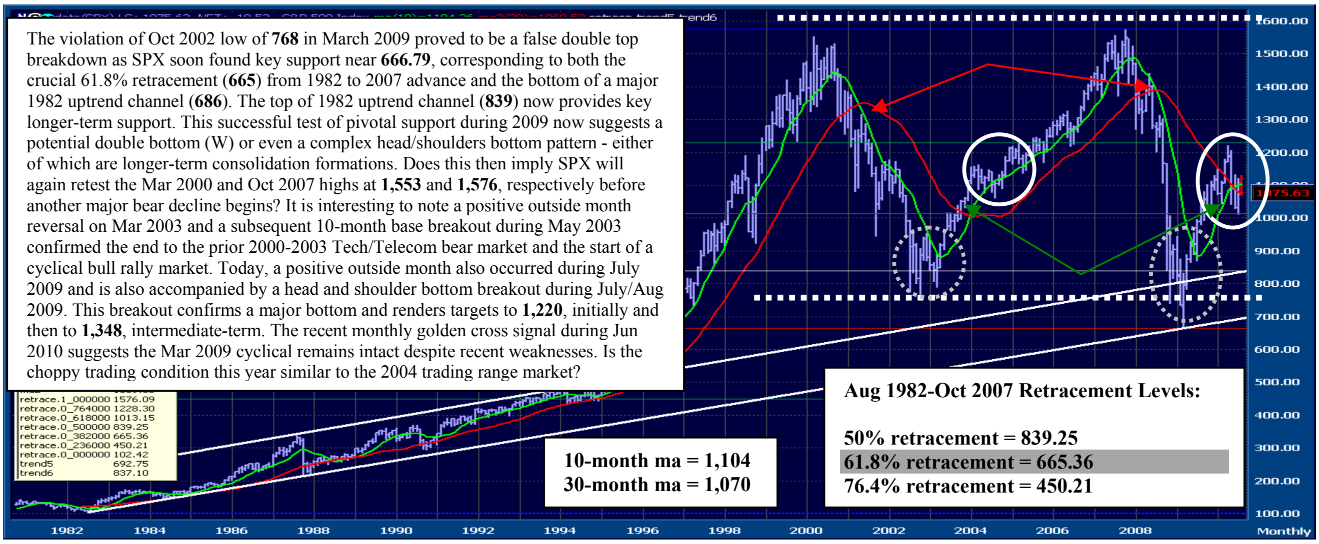
Commodities Market
It is interesting to note that some of the laggards from the prior year, such as Wheat, Live Cattle, and Lean Hogs, are now showing strong gains for the year. Is this a temporary condition or could this suggests the emergence of new leadership commodities. The strong YTD gains in precious metals including Gold, Silver and Platinum continue to suggest the longer-term structural bull trends are sustainable. On the downside, the speculative bubbles in Sugar and Corn are now transitioning into successful and constructive basing/recovery efforts. Natural Gas and Lumber continues to underperform peers.

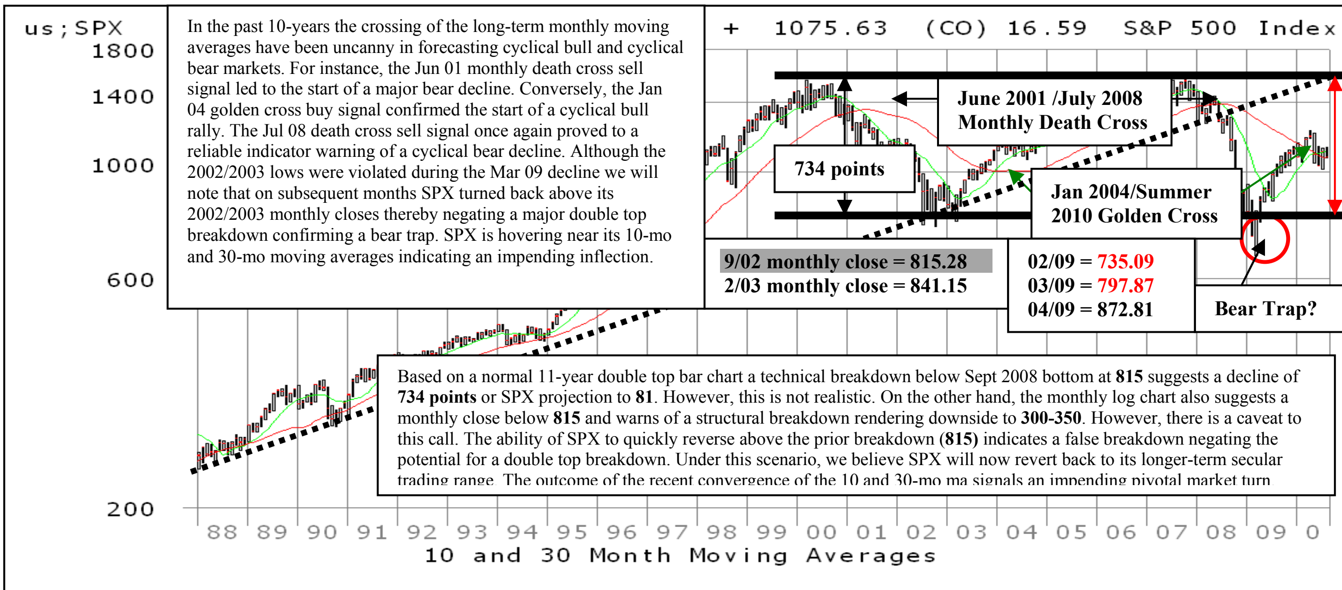
International Market
Our longer-term technical studies suggest that sustainable growth is possible in the Emerging Markets over the next several years (5-10 years). This structural bull call is supported by our monthly relative strength study that compares Emerging Markets against SPX Index. A recent monthly breakout in the relative strength chart signals the re-emergence of market leadership. The Indian equities market as represented by Bombay Sensitive 30 Index has also resumed its market leadership role within BRIC as evident by the recent ascending triangle pattern breakout. The Brazilian equities market or Bovespa Index also retains a leadership role within Emerging Markets as evident by a monthly golden cross buy signal last year and a potential three-year head/shoulders bottom accumulation type pattern.

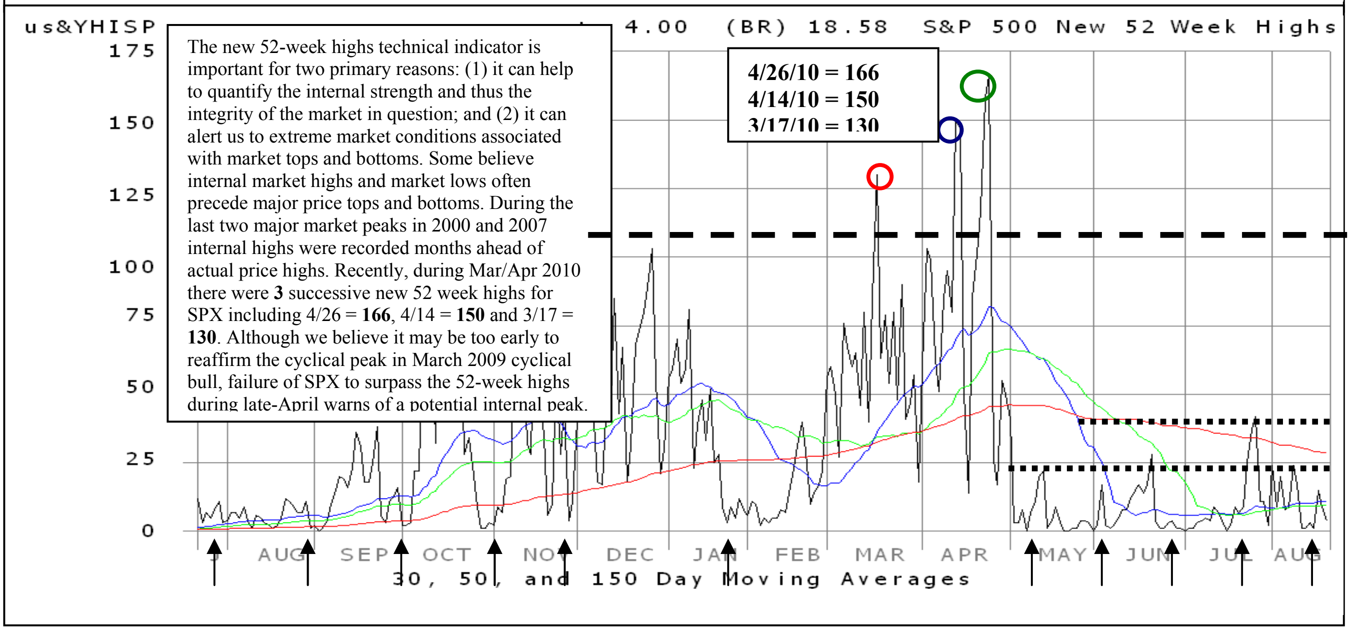

0.0%(1576.09)
23.6%(1205.18)
38.2%(975.72)
50.0%(790.26)
61.8%(604.80)
76.4%(375.34)
1932 Uptrend = 405
1942 Uptrend = 650
This Logarithmic chart of SPX dating back to early 1930s shows the decline of -57.69% from its Oct 2007 peak (1,576.09) to Mar 2009 low (666.79) came very close to its 1942 uptrend (red line). This places this bear decline as the second worst after the 1929-1932 bear market (-86.2%). Although the bearish camp remains convinced SPX will fall further towards 405 corresponding to the 1932 uptrend (red line) we, however, believe the 1942 uptrend is the more sustainable longer-term secular trend that will likely hold up on any subsequent downturns. Why? The 1942 uptrend (red line) recorded 5 successful tests since 1942 bottom including 1949, 1974, 1982 and recently March 2009 as compared to only 2 successful tests for the1932 uptrend (green line) during 1932 and 1942. If you believe, as we do, the March 2009 bottom is similar to the 1974 bottom then 1942 uptrend will again be retested as early as 2012.
1075.63
SPX -- S&P 500 INDEX G2 Monthly 1/31/29 to 8/19/10
Copyright 2010 Bloomberg Finance L.P.
19-Aug-2010 16:11:03

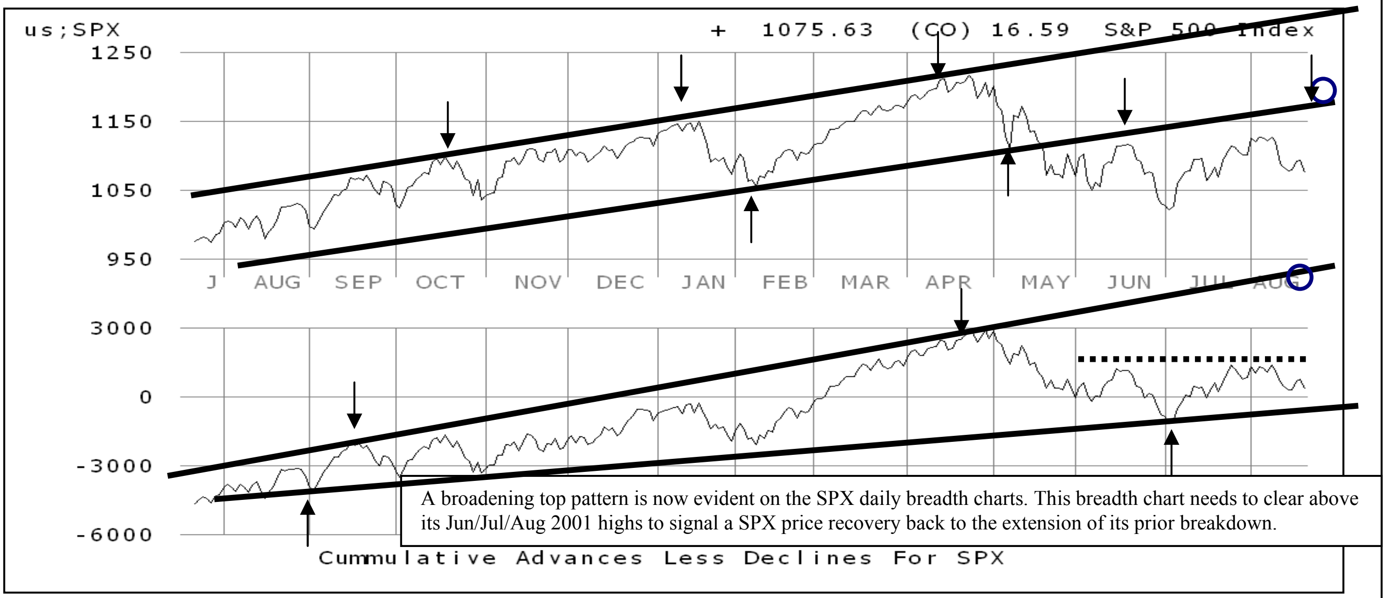

1075.63
The 1942 uptrend (white line) appears to be the dominant secular trend as this trend line is currently rising at a 40-45 degree angle, which we believe, is consistent with the longer-term growth (progression) of SPX. Over the past 68 years SPX has consistently moderated between the top and bottom of its channel. That is, rallies were repelled near the top of its uptrend channel (blue line) and declines were contained near the bottom of the channel (white line). Although the March 2009 low at 666.79 appears to be another important bottom it does not necessarily need to be retested. Rather, we suspect that as time passes the 1942 uptrend will also progress higher leading to a higher level than the 2009 low of t 666.79. Nonetheless, we are concerned that a broadening wedge (top) pattern still warns of challenging times ahead

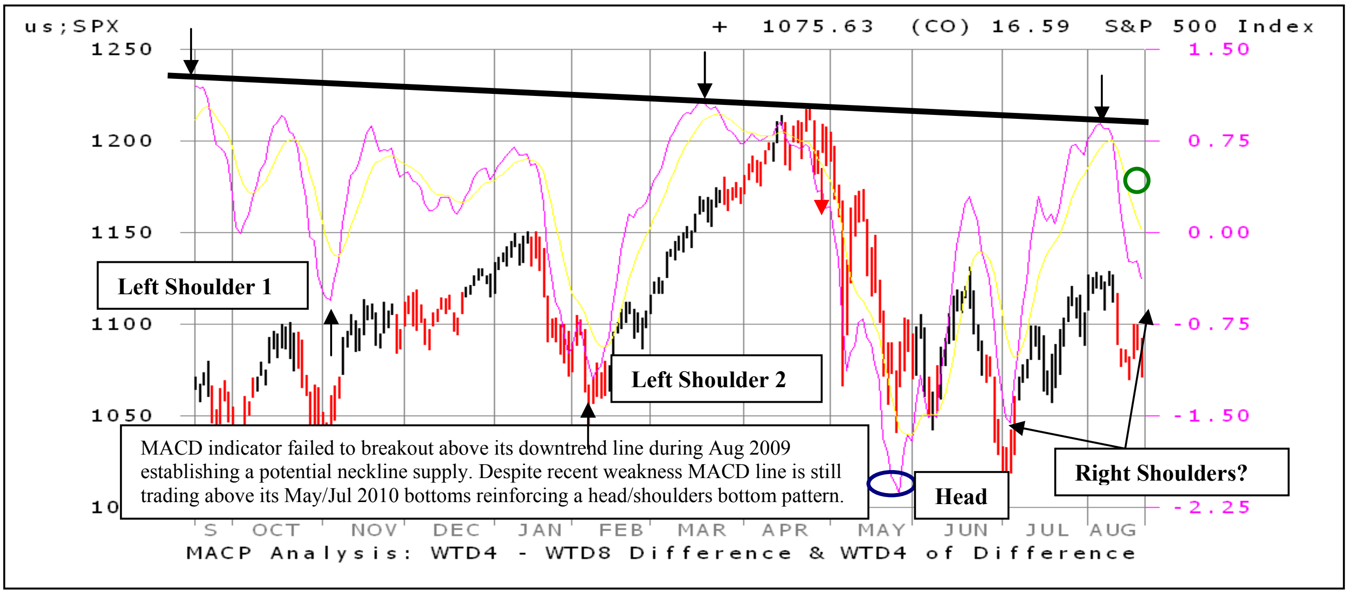

61.8% retracement (2000-2002) = 1,253
61.8% retracement (2007-2009) = 1,229
Although no two bear markets are alike we believe the striking similarities between 2007-2009 bear market and 2000-2002 bear market suggest the current recovery (cyclical bull rally) may also follow a similar path. Historically, after a major market advance or decline there is a tendency for the market in question to retest its crucial 50% to 61.8% retracements. Note the Oct 2002 cyclical bull rally began to slow as it nears its 50%-61.8% retracements at 1,163-1,253. In fact, SPX subsequently entered into high level consolidations during 2004, 2005 and 2006 before resuming the final leg of its cyclical bull rally achieving a major top during Oct 2007. Since SPX has quickly surpassed its 50% retracement at 1,121.44 and came within striking distance of its 61.8% retracement at 1,228.74 we can expect a high level consolidation before resumption of the cyclical bull

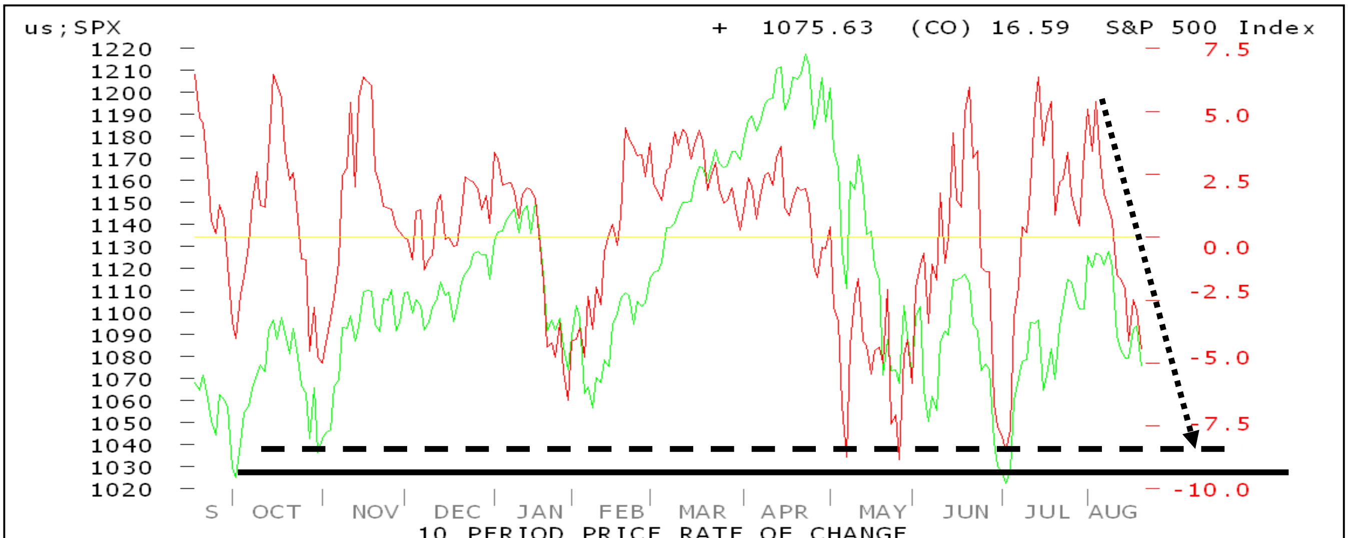

trend6
The violation of Oct 2002 low of **768** in March 2009 proved to be a false double top breakdown as SPX soon found key support near **666.79**, corresponding to both the crucial 61.8% retracement (**665**) from 1982 to 2007 advance and the bottom of a major 1982 uptrend channel (**686**). The top of 1982 uptrend channel (**839**) now provides key longer-term support. This successful test of pivotal support during 2009 now suggests a potential double bottom (W) or even a complex head/shoulders bottom pattern - either of which are longer-term consolidation formations. Does this then imply SPX will again retest the Mar 2000 and Oct 2007 highs at **1,553** and **1,576**, respectively before another major bear decline begins? It is interesting to note a positive outside month reversal on Mar 2003 and a subsequent 10-month base breakout during May 2003 confirmed the end to the prior 2000-2003 Tech/Telecom bear market and the start of a cyclical bull rally market. Today, a positive outside month also occurred during July 2009 and is also accompanied by a head and shoulder bottom breakout during July/Aug 2009. This breakout confirms a major bottom and renders targets to **1,220**, initially and then to **1,348**, intermediate-term. The recent monthly golden cross signal during Jun 2010 suggests the Mar 2009 cyclical remains intact despite recent weaknesses. Is the choppy trading condition this year similar to the 2004 trading range market?
retrace.1_000000 1576.09
retrace.0_764000 1228.30
retrace.0_618000 1013.15
retrace.0_500000 839.25
retrace.0_382000 665.36
retrace.0_236000 450.21
retrace.0_000000 102.42
trend5 692.75
trend6 837.10
10-month ma = 1,104
30-month ma = 1,070
Aug 1982-Oct 2007 Retracement Levels:
50% retracement = 839.25
61.8% retracement = 665.36
76.4% retracement = 450.21
1075.63
1600.00
1500.00
1400.00
1300.00
1200.00
1000.00
900.00
800.00
700.00
600.00
500.00
400.00
300.00
200.00
100.00
Monthly
1982 1984 1986 1988 1990 1992 1994 1996 1998 2000 2002 2004 2006 2008


us;SPX
1800
1400
1000
600
200
In the past 10-years the crossing of the long-term monthly moving averages have been uncanny in forecasting cyclical bull and cyclical bear markets. For instance, the Jun 01 monthly death cross sell signal led to the start of a major bear decline. Conversely, the Jan 04 golden cross buy signal confirmed the start of a cyclical bull rally. The Jul 08 death cross sell signal once again proved to a reliable indicator warning of a cyclical bear decline. Although the 2002/2003 lows were violated during the Mar 09 decline we will note that on subsequent months SPX turned back above its 2002/2003 monthly closes thereby negating a major double top breakdown confirming a bear trap. SPX is hovering near its 10-mo and 30-mo moving averages indicating an impending inflection.
+ 1075.63 (CO) 16.59 S&P 500 Index
June 2001 /July 2008
Monthly Death Cross
734 points
Jan 2004/Summer
2010 Golden Cross
9/02 monthly close = 815.28
2/03 monthly close = 841.15
02/09 = 735.09
03/09 = 797.87
04/09 = 872.81
Bear Trap?
Based on a normal 11-year double top bar chart a technical breakdown below Sept 2008 bottom at **815** suggests a decline of **734 points** or SPX projection to **81**. However, this is not realistic. On the other hand, the monthly log chart also suggests a monthly close below **815** and warns of a structural breakdown rendering downside to **300-350**. However, there is a caveat to this call. The ability of SPX to quickly reverse above the prior breakdown (**815**) indicates a false breakdown negating the potential for a double top breakdown. Under this scenario, we believe SPX will now revert back to its longer-term secular trading range. The outcome of the recent convergence of the 10 and 30-mo ma signals an impending pivotal market turn
88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 0
10 and 30 Month Moving Averages

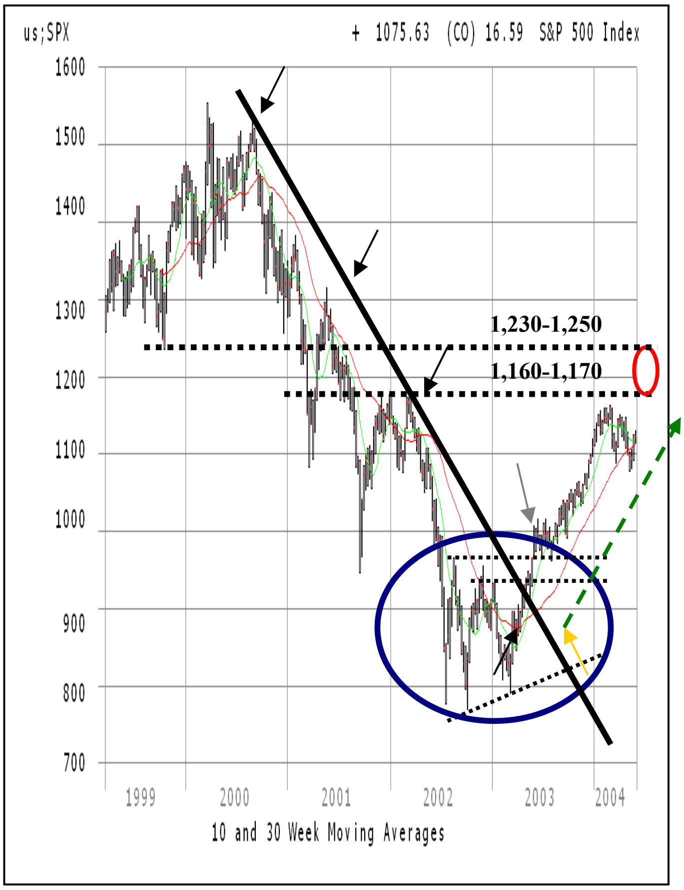

us&YHISP
175
150
125
100
75
50
25
0
The new 52-week highs technical indicator is important for two primary reasons: (1) it can help to quantify the internal strength and thus the integrity of the market in question; and (2) it can alert us to extreme market conditions associated with market tops and bottoms. Some believe internal market highs and market lows often precede major price tops and bottoms. During the last two major market peaks in 2000 and 2007 internal highs were recorded months ahead of actual price highs. Recently, during Mar/Apr 2010 there were **3** successive new 52 week highs for SPX including 4/26 = **166**, 4/14 = **150** and 3/17 = **130**. Although we believe it may be too early to reaffirm the cyclical peak in March 2009 cyclical bull, failure of SPX to surpass the 52-week highs during late-April warns of a potential internal peak.
4.00 (BR) 18.58 S&P 500 New 52 Week Highs
4/26/10 = 166
4/14/10 = 150
3/17/10 = 130
AUG SEP OCT NOV DEC JAN FEB MAR APR MAY JUN JUL AUG
30, 50, and 150 Day Moving Averages

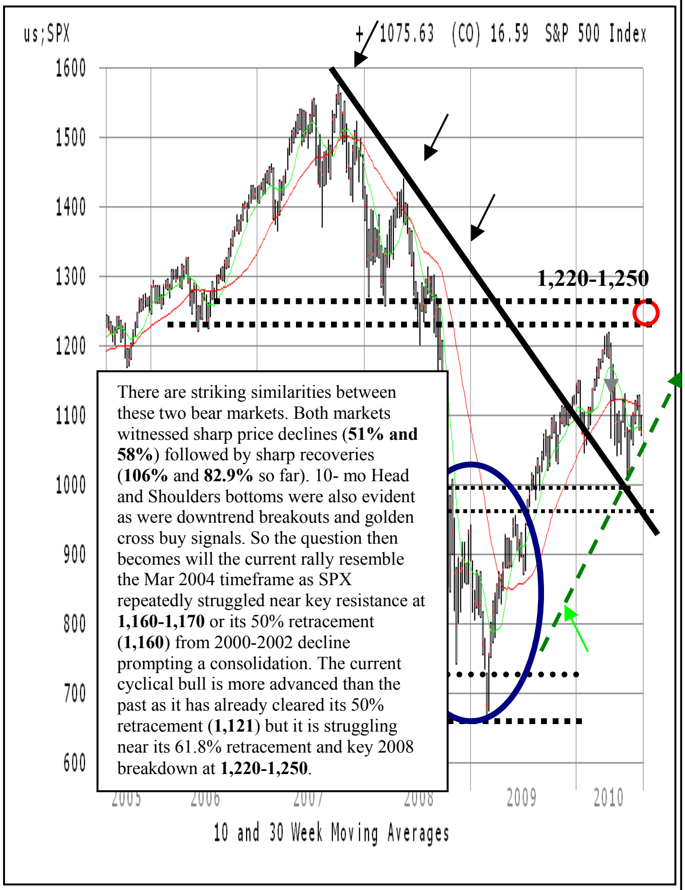


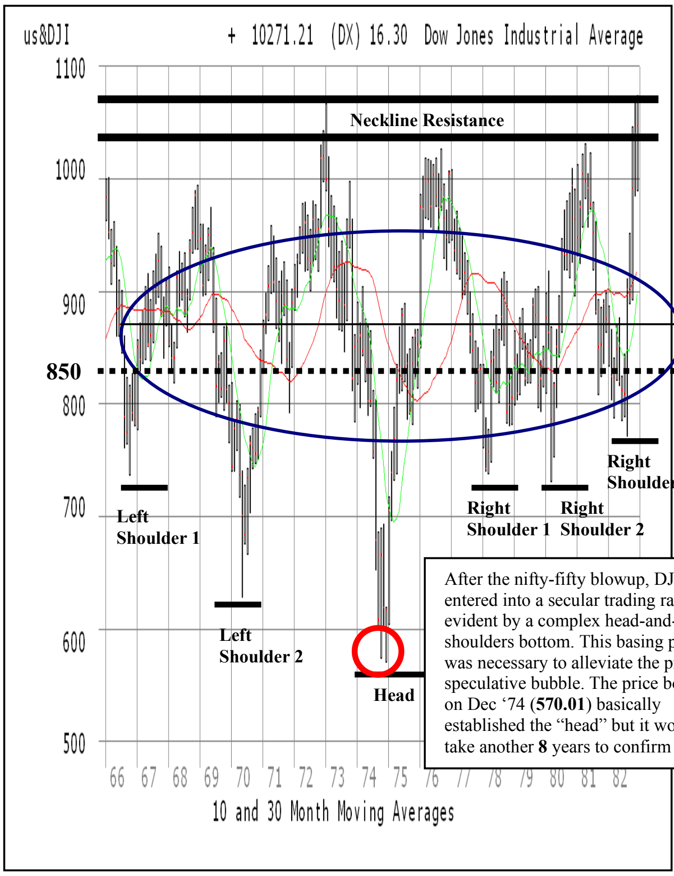


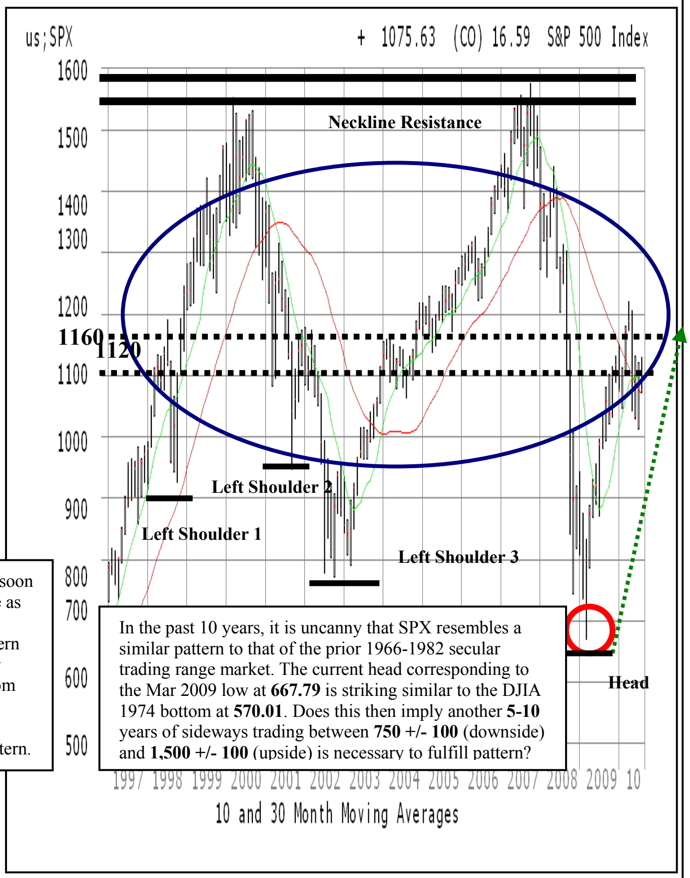


The rate of change (ROC) momentum has once again weakened after failing to clear above its Oct/Nov 2009 and Jun/Jul 2010 highs. It appears another retest of the May/July 2010 momentum lows is likely. This suggests the Apr-present correction has father to go before reaching a bottom.


us;SPX
+ 1075.63 (CO) 16.59 S&P 500 Index
1,230-1,250
1,160-1,170
1999 2000 2001 2002 2003 2004
10 and 30 Week Moving Averages


us;SPX
+ 1075.63 (CO) 16.59 S&P 500 Index
1,220-1,250
There are striking similarities between these two bear markets. Both markets witnessed sharp price declines (**51% and 58%**) followed by sharp recoveries (**106%** and **82.9%** so far). 10- mo Head and Shoulders bottoms were also evident as were downtrend breakouts and golden cross buy signals. So the question then becomes will the current rally resemble the Mar 2004 timeframe as SPX repeatedly struggled near key resistance at **1,160-1,170** or its 50% retracement (**1,160**) from 2000-2002 decline prompting a consolidation. The current cyclical bull is more advanced than the past as it has already cleared its 50% retracement (**1,121**) but it is struggling near its 61.8% retracement and key 2008 breakdown at **1,220-1,250**.
2009 2010
10 and 30 Week Moving Averages


us&DJI
+ 10271.21 (DX) 16.30 Dow Jones Industrial Average
Neckline Resistance
850
Left Shoulder 1
Left Shoulder 2
Head
Right Shoulder 1
Right Shoulder 2
Right Shoulder 3
After the nifty-fifty blowup, DJIA soon entered into a secular trading range as evident by a complex head-and-shoulders bottom. This basing pattern was necessary to alleviate the prior speculative bubble. The price bottom on Dec '74 (**570.01**) basically established the "head" but it would take another **8** years to confirm pattern.
10 and 30 Month Moving Averages


us;SPX
+ 1075.63 (CO) 16.59 S&P 500 Index
Neckline Resistance
1160
1120
Left Shoulder 1
Left Shoulder 2
Left Shoulder 3
Head
In the past 10 years, it is uncanny that SPX resembles a similar pattern to that of the prior 1966-1982 secular trading range market. The current head corresponding to the Mar 2009 low at **667.79** is striking similar to the DJIA 1974 bottom at **570.01**. Does this then imply another **5-10** years of sideways trading between **750 +/- 100** (downside) and **1,500 +/- 100** (upside) is necessary to fulfill pattern?
10 and 30 Month Moving Averages

Mid-term Election Year	SPX Yearly Returns	Intra - Year Corrections
1930	-28.5%	-44.3%
1934	-4.7%	-29.3%
1938	24.6%	-28.9%
1942	12.4%	-17.8%
1946	-11.9%	-26.7%
1950	21.7%	-14.0%
1954	45.0%	-4.4%
1958	38.1%	-4.4%
1962	-11.8%	-26.9%
1966	-13.1%	-22.2%
1970	0.1%	-25.9%
1974	-29.7%	-37.6%
1978	1.1%	-13.6%
1982	14.8%	-16.6%
1986	14.6%	-9.4%
1990	-6.6%	-19.9%
1994	-1.5%	-8.9%
1998	26.7%	-19.3%
2002	-23.4%	-33.8%
2006	13.6%	-7.7%
2010	???	???
Averages (20 years)	**4.1%**	**-20.6%**
1930-2009 (79 years)	**7.13% (ex div)**	**-21.89%**

Decennial Year (0)	SPX Yearly Returns	Intra-Year Corrections
1930	-28.5%	-44.3%
1940	-15.1%	-29.6%
1950	21.7%	-14.0%
1960	-3.0%	-11.5%
1970	0.1%	-25.9%
1980	25.8%	-17.1%
1990	-6.6%	-19.9%
2000	-10.1%	-17.2%
2010	???	???
Averages (8)	**-2.0%**	**-22.4%**

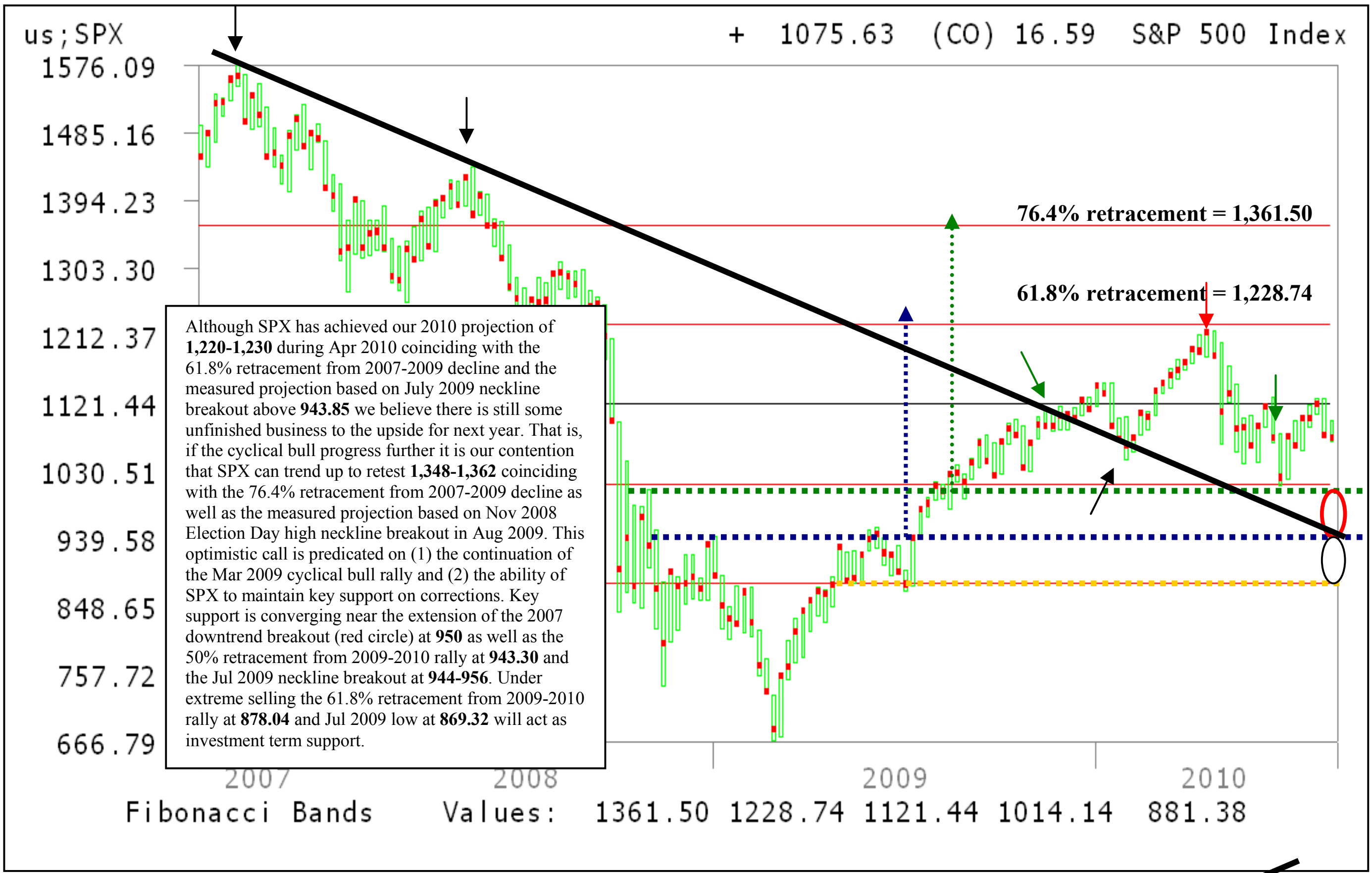
Decennial & Mid-term Elect	SPX Yearly Returns	Intra-Year Corrections
1930	-28.5%	-44.3%
1950	21.7%	-14.0%
1970	0.1%	-25.9%
1990	-6.6%	-19.9%
2010	???	???
Averages (4)	**-3.3%**	**-26.0%**

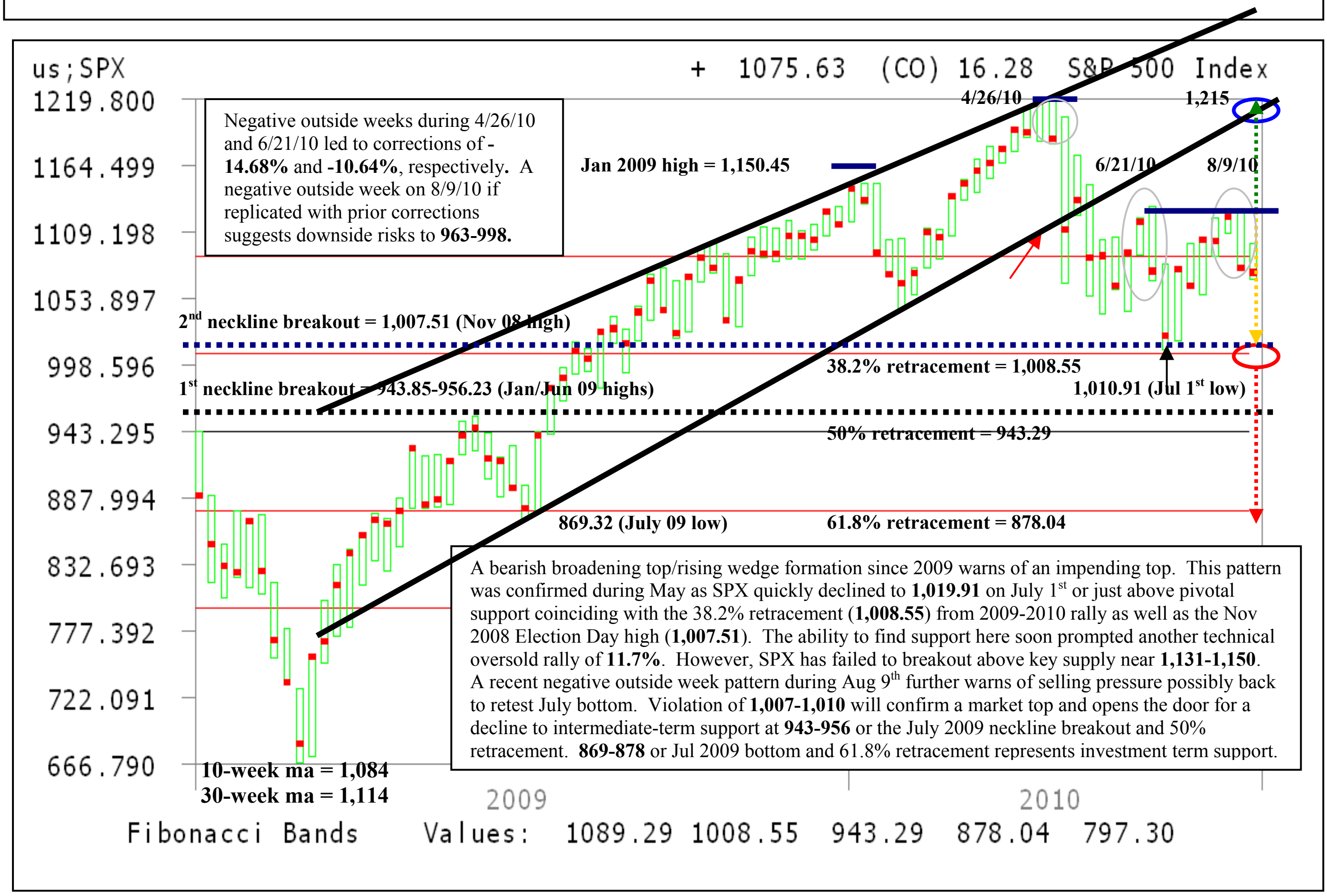
Decennial/Mid--term & Dn Jan	SPX Yearly Returns	Intra-Year Corrections
1970	0.1%	-25.9%
1990	-6.6%	-19.9%
2010	???	???
Averages (2)	**-3.3%**	**-22.9%**

*In years coinciding with Mid-term Election, Decennial Year, and down January SPX tends to suffer average declines of **15%-23%**. The silver lining to this call is every four years from the Mid-term Election year cycle low to the Pre-Election year high SPX also tends to appreciate on the average of **47.8%** over an average period of **15.5 months**.*

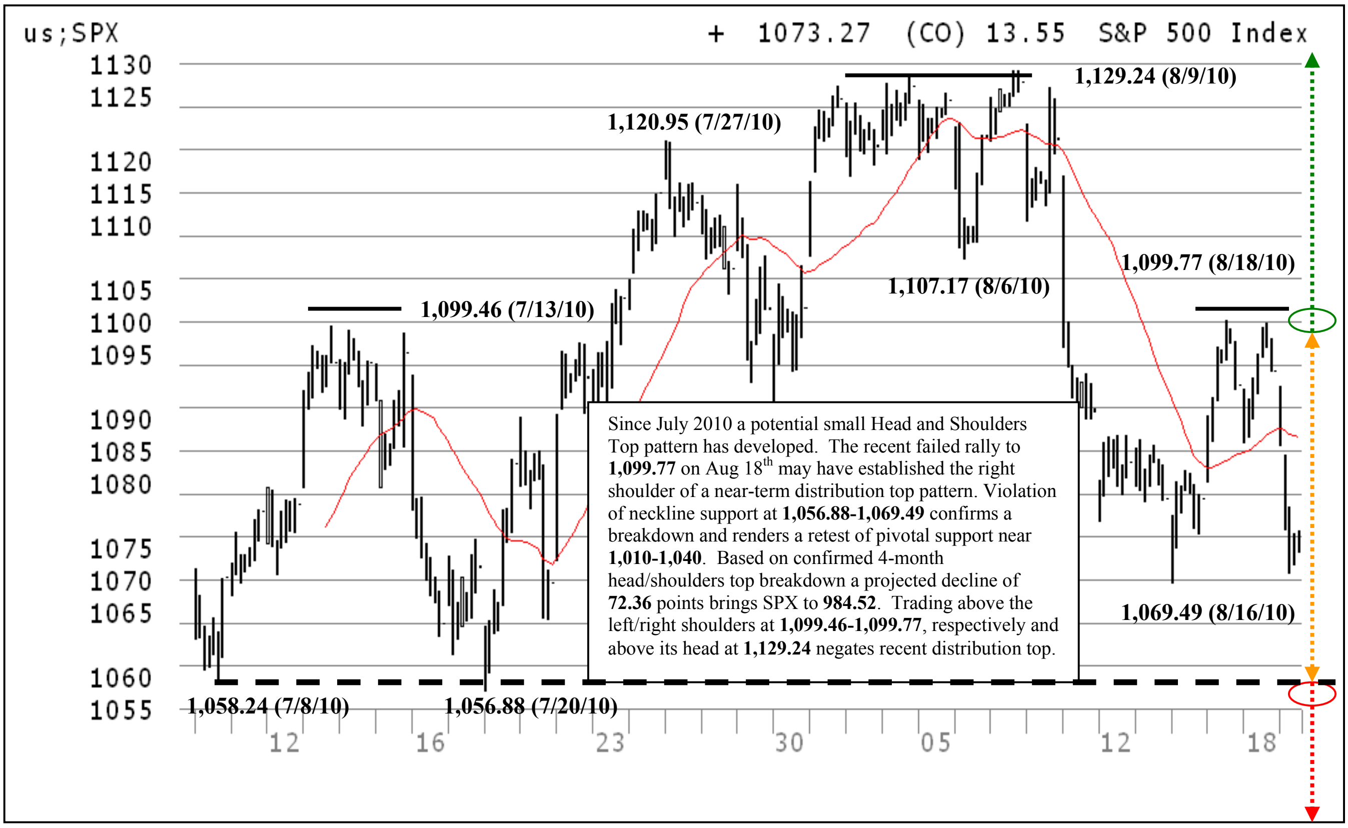
Mid-term Election low	DJIA Pre-Election Yr Hi	DJIA Gains low-hi / Year
Jul 1914	Dec 1915	89.6% / 87.1%
Jan 1918	Nov 1919	63.0% / 30.5%
Jan 1922	Mar 1923	34.1% / -3.3%
Mar1926	Dec 1927	49.7% / 28.8%
Dec 1930	Feb 1931	23.4% / -52.7%
Jul 1934	Nov 1935	73.6% / 38.5%
Mar 1938	Sep 1939	57.6% / -2.9%
Apr 1942	Jul 1943	56.9% / 13.8%
Oct1946	Jul 1947	14.5% / 2.2%
Jan 1950	Sep 1951	40.4% / 14.4%
Jan 1954	Dec 1955	74.5% / 20.8%
Feb 1958	Dec 1959	55.5% / 16.4%
Jun 1962	Dec 1963	43.2% / 17.0%
Oct 1966	Sep 1967	26.7% / 15.2%
May 1970	Apr 1971	50.6% / 6.1%
Dec 1974	Jul 1975	52.7% / 38.3%
Feb 1978	Oct 1979	21.0% / 4.2%
Aug 1982	Nov 1983	65.7% / 20.3%
Jan 1986	Aug 1987	81.2% / 2.3%
Oct 1990	Dec 1991	34.0% / 20.3%
Apr 1994	Dec 1995	45.2%/ 33.5%
Aug 1998	Dec 1999	52.5% / 25.2%
Oct 2002	Dec 2003	43.5% / 25.3%
Jan 2006	Oct 2007	1.26% / 6.43%
??? 2010	??? 2011	??? / ???
Avg. (24) May	**Sept (15.5 mo)**	**47.8% / 15.1%**

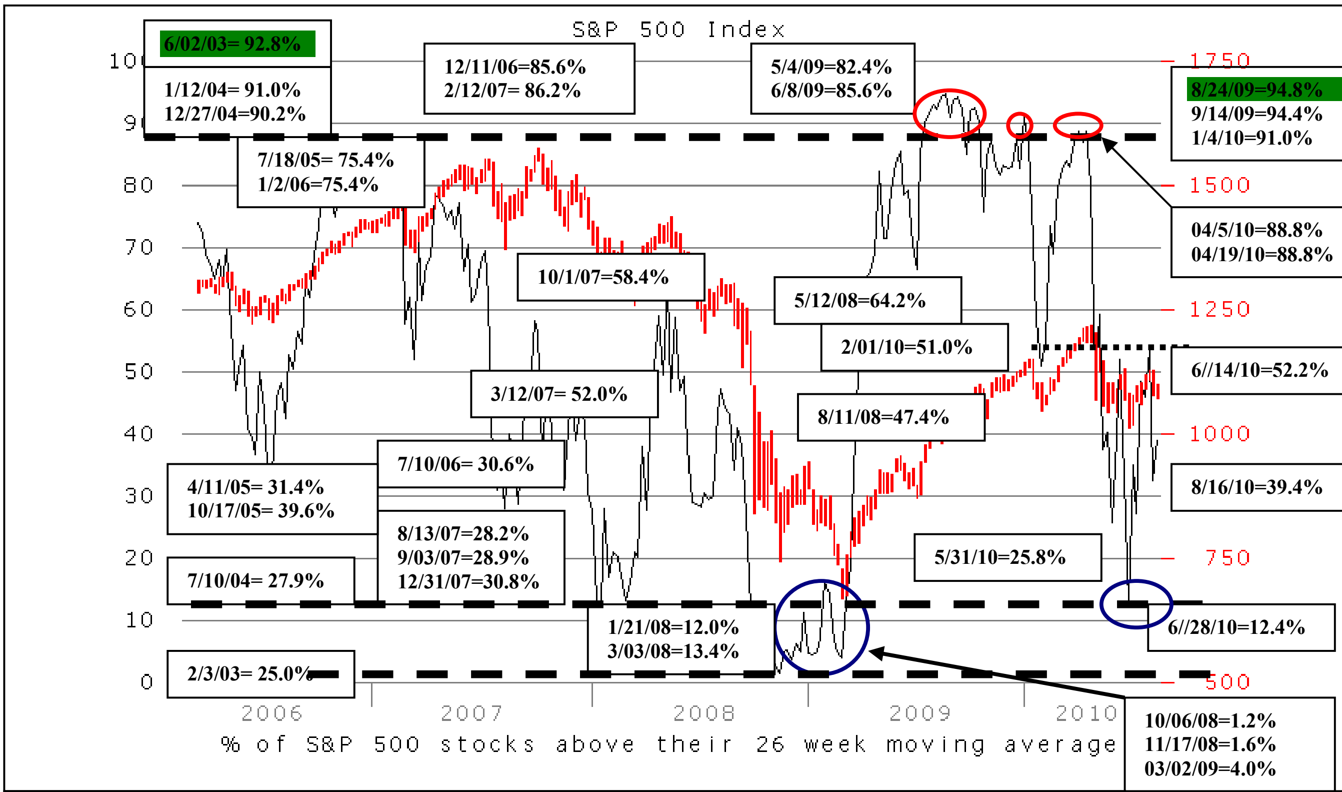
Down Jan	SPX Yr Returns	Jan Returns	Jan Close to low	Market Trend
1953	-6.6%	-0.7%	-13.9%	Bear
1956	2.6%	-3.6%	0.9%	Flat
1957	-14.3%	-4.2%	-12.8%	Bear
1960	-3.0%	-7.1%	-6.0%	Bear
1962	-11.8%	-3.8%	-24.0%	Bear
1968	7.7%	-4.4%	-4.9%	Cont. Bear
1969	-11.4%	-0.8%	-13.4%	Bear
1970	0.1%	-7.6%	-18.6%	Cont. Bear
1973	-17.4%	-1.7%	-20.6%	Bear
1974	-29.7%	-1.0%	-35.5%	Bear
1977	-11.5%	-5.1%	-11.1%	Bear
1978	1.1%	-6.2%	-2.6%	Cont. Bear
1981	-9.7%	-4.6%	-13.0%	Bear
1982	14.8%	-1.8%	-14.9%	Cont Bear
1984	1.4%	-0.9%	-9.5%	Flat
1990	-6.6%	-6.9%	-10.2%	Bear
1992	4.5%	-2.0%	-3.5%	Flat
2000	-10.1%	-5.1%	-9.3%	Bear
2002	-23.4%	-1.6%	-31.3%	Bear
2003	26.4%	-2.7%	-6.4%	Cont. Bear
2005	3.0%	-2.5%	-3.7%	Flat
2008	-38.5%	-6.1%	-46.3%	Bear
2009	23.46%	-9.4%	-28.6%	Cont. Bear
2010	???	-3.7%	???	???
Avg (24)	**-4.7%**	**-3.9%**	**-14.7%**	
24 Down January → 13 down Years and 10 up Years				


us;SPX
+ 1075.63 (CO) 16.59 S&P 500 Index
1576.09
1485.16
1394.23
1303.30
1212.37
1121.44
1030.51
939.58
848.65
757.72
666.79
76.4% retracement = 1,361.50
61.8% retracement = 1,228.74
Although SPX has achieved our 2010 projection of **1,220-1,230** during Apr 2010 coinciding with the 61.8% retracement from 2007-2009 decline and the measured projection based on July 2009 neckline breakout above **943.85** we believe there is still some unfinished business to the upside for next year. That is, if the cyclical bull progress further it is our contention that SPX can trend up to retest **1,348-1,362** coinciding with the 76.4% retracement from 2007-2009 decline as well as the measured projection based on Nov 2008 Election Day high neckline breakout in Aug 2009. This optimistic call is predicated on (1) the continuation of the Mar 2009 cyclical bull rally and (2) the ability of SPX to maintain key support on corrections. Key support is converging near the extension of the 2007 downtrend breakout (red circle) at **950** as well as the 50% retracement from 2009-2010 rally at **943.30** and the Jul 2009 neckline breakout at **944-956**. Under extreme selling the 61.8% retracement from 2009-2010 rally at **878.04** and Jul 2009 low at **869.32** will act as investment term support.
2007
2008
2009
2010
Fibonacci Bands Values: 1361.50 1228.74 1121.44 1014.14 881.38

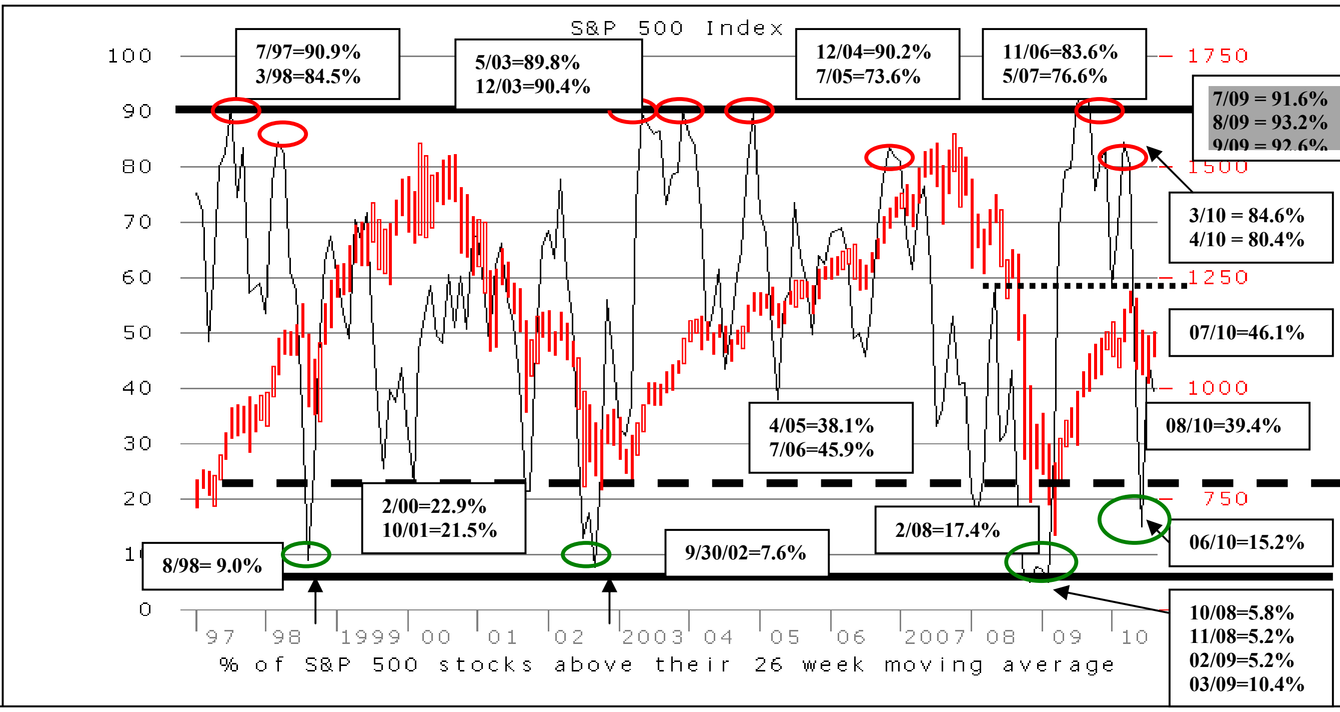

us;SPX
+ 1075.63 (CO) 16.28 S&P 500 Index
1219.800
1164.499
1109.198
1053.897
998.596
943.295
887.994
832.693
777.392
722.091
666.790
Negative outside weeks during 4/26/10 and 6/21/10 led to corrections of -**14.68%** and -**10.64%**, respectively. A negative outside week on 8/9/10 if replicated with prior corrections suggests downside risks to **963-998.**
4/26/10
1,215
Jan 2009 high = 1,150.45
6/21/10
8/9/10
2nd neckline breakout = 1,007.51 (Nov 08 high)
38.2% retracement = 1,008.55
1st neckline breakout = 943.85-956.23 (Jan/Jun 09 highs)
1,010.91 (Jul 1st low)
50% retracement = 943.29
869.32 (July 09 low)
61.8% retracement = 878.04
A bearish broadening top/rising wedge formation since 2009 warns of an impending top. This pattern was confirmed during May as SPX quickly declined to **1,019.91** on July 1st or just above pivotal support coinciding with the 38.2% retracement (**1,008.55**) from 2009-2010 rally as well as the Nov 2008 Election Day high (**1,007.51**). The ability to find support here soon prompted another technical oversold rally of **11.7%**. However, SPX has failed to breakout above key supply near **1,131-1,150**. A recent negative outside week pattern during Aug 9th further warns of selling pressure possibly back to retest July bottom. Violation of **1,007-1,010** will confirm a market top and opens the door for a decline to intermediate-term support at **943-956** or the July 2009 neckline breakout and 50% retracement. **869-878** or Jul 2009 bottom and 61.8% retracement represents investment term support.
10-week ma = 1,084
30-week ma = 1,114
2009
2010
Fibonacci Bands Values: 1089.29 1008.55 943.29 878.04 797.30


us;SPX
+ 1072.87 (CO) 13.59 S&P 500 Index
30-day ma = 1,098
50-day ma = 1,090
150-day ma = 1,119
200-day ma = 1,117
Head = 1,219.80 (4/26/10 high)
Left Shoulder = 1,150.45 (1/1910)
Right Shoulders = 1,131.23 and 1,129.24
5/25/10 low = 1,040.78
6/08/10 low = 1,042.17
7/20/10 low =1.056.88
2/5/10 low = 1,044.50
7/1/10 low = 1,010.91
11/2/09 low = 1,029.38
Breakdown below 1,040 → 1,007-1,011, 943-956, 869-878
Two competing technical patterns have developed in the past year. A bearish 10-month head/shoulders top pattern suggests further intermediate-term technical weakness and a bullish 4-month head and shoulders bottom suggests a constructive near-term bottom. However, neither of these two technical formations have been resolved as of yet. A convincing move above neckline resistance at 1,129-1,131 is necessary to confirm a base breakout rendering upside targets to 1,150.45 or Jan 2010 high, near-term and then to 1,220-1,252, intermediate-term or a retest of Apr 2010 peak as well as the projected target based on neckline breakout (120.32-point base). On the downside, repeated failed attempts to breakout above 1,129-1,132 coupled with a break below crucial support at 1,040-1,045 negates technical base and opens the door for a retest of Jul 1st low at 1,010.91. To confirm the 10-month head/shoulders top pattern SPX needs to fall below neckline support at 1,010-1,040. This breakdown then renders downside targets to 943-956 and then to 869-878. Under strong selling momentum SPX can fall 208.89 points from 1,010.91 breakdown to a projected target of 802. To negate an intermediate-term top it is mandatory that SPX clear above key supply at 1,120-1,150 as soon as possible.
1250
1200
1150
1100
1050
1000
950
900
850
J AUG SEP OCT NOV DEC JAN FEB MAR APR MAY JUN JUL AUG
30, 50, and 150 Day Moving Averages

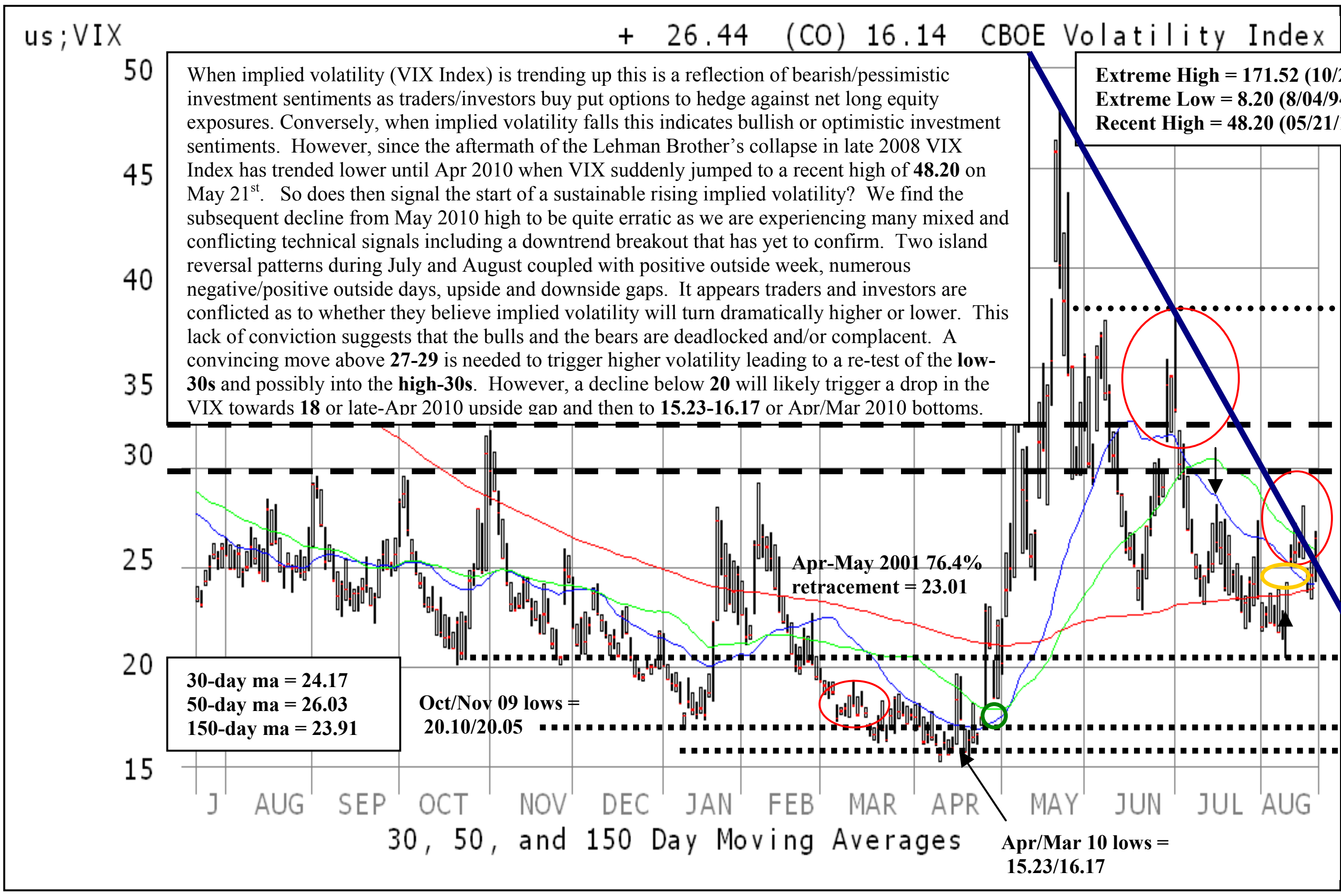

us;SPX
+ 1073.27 (CO) 13.55 S&P 500 Index
1,129.24 (8/9/10)
1,120.95 (7/27/10)
1,099.77 (8/18/10)
1,107.17 (8/6/10)
1,099.46 (7/13/10)
Since July 2010 a potential small Head and Shoulders Top pattern has developed. The recent failed rally to 1,099.77 on Aug 18th may have established the right shoulder of a near-term distribution top pattern. Violation of neckline support at 1,056.88-1,069.49 confirms a breakdown and renders a retest of pivotal support near 1,010-1,040. Based on confirmed 4-month head/shoulders top breakdown a projected decline of 72.36 points brings SPX to 984.52. Trading above the left/right shoulders at 1,099.46-1,099.77, respectively and above its head at 1,129.24 negates recent distribution top.
1,069.49 (8/16/10)
1,058.24 (7/8/10)
1,056.88 (7/20/10)
1130
1125
1120
1115
1110
1105
1100
1095
1090
1085
1080
1075
1070
1065
1060
1055
12 16 23 30 05 12 18

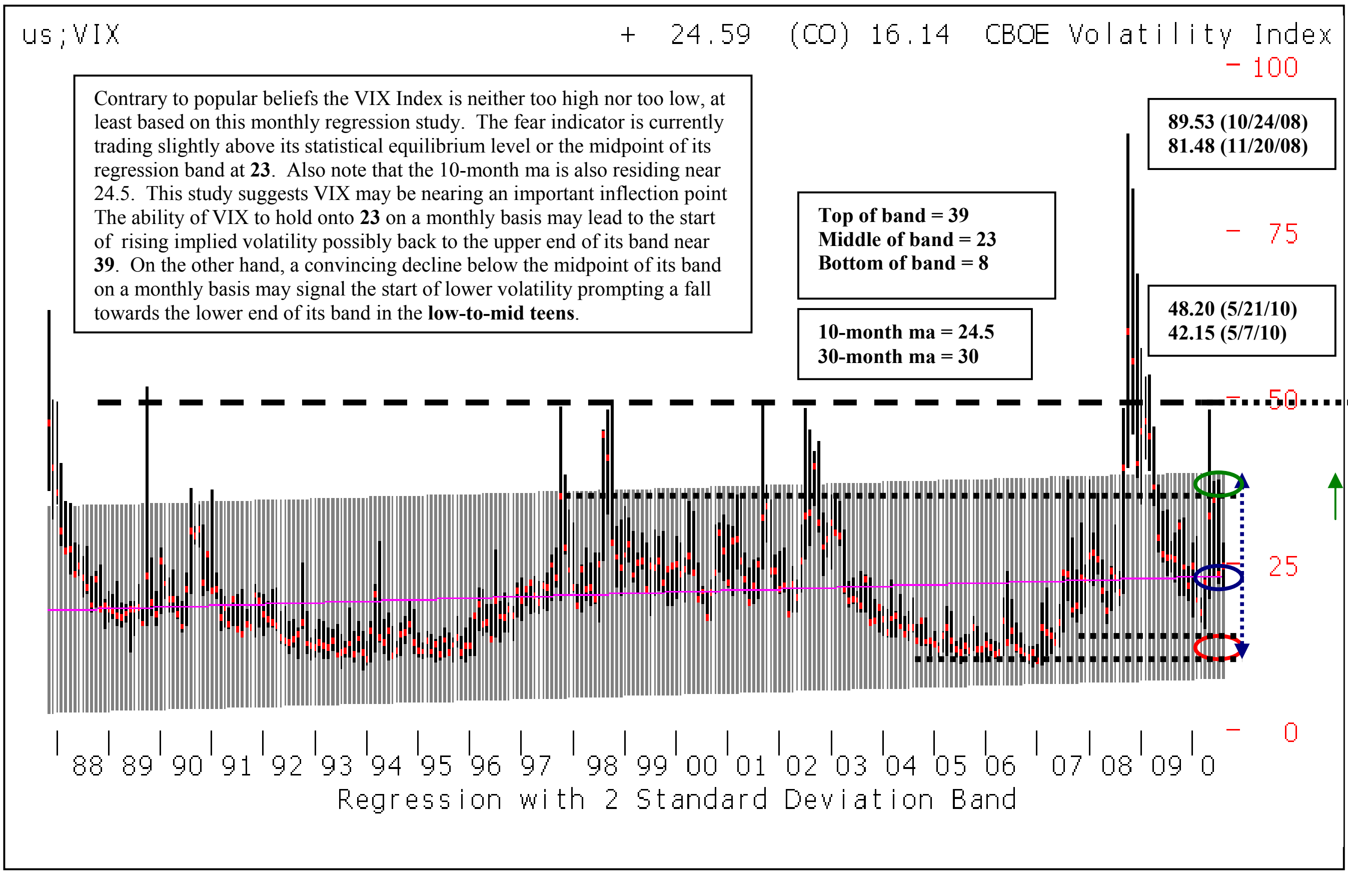


This overbought/oversold (OB/OS) indicator has successfully identified extreme bullish/bearish market conditions associated with previous market tops/bottoms. Major tops occur at **90.2%-92.8%** and bottoms at **25.0%- 31.4%**, and recently below **1%-13%**. However, it appears the 2007-2009 bear market is unlike any in recent memories and the subsequent recovery from Mar 2009 low to Apr 2010 high is also unlike any other prior rallies. However, this technical indicator is hinting that recent sharp rally in recent months is unsustainable as it has stalled near the **mid-50s** indicating the start of an extensive sideways trading range environment.

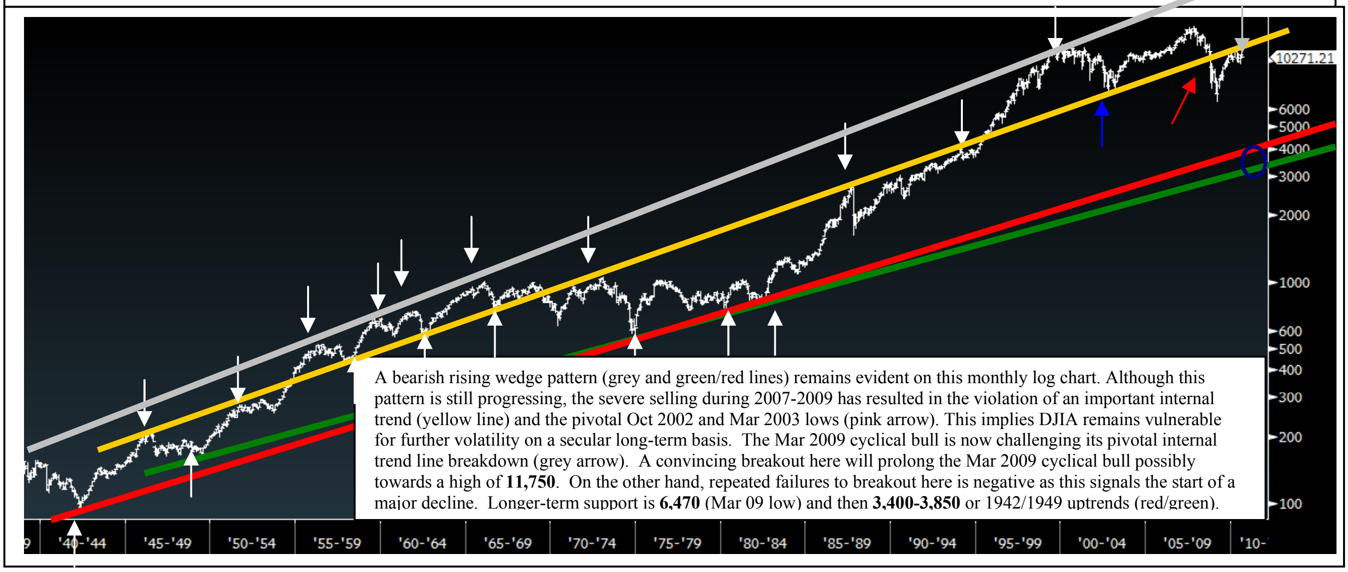


This monthly OB/OS technical indicator has also been reliable in identifying extreme levels associated with major market bottoms and tops. For example, during the emerging market crisis of the late 1990s, this indicator recorded an extreme reading of **9.0%** (8/98) just prior to the Emerging Market Oct 1998 market bottom. Also, during the Tech/Telecom bubble of 2000-2002, this indicator fell to an extreme low of **7.6%** on 9/30/02 ahead of the Oct 2002 bottom. The 2007-2009 bear market display technical signs of an internal low as evident by extreme reading of **5.2%-5.8%** during Oct/Nov 2008. A higher low pattern at **10.4%** on Mar 2009 led to sharp technical recovery placing the indicator at one of highest readings in years at **92.6-93.2%** on Aug/Sep 2009. The recent sudden and dramatic decline from the Aug/Sep 2009 peak (**low-90s**) to the recent Jun 2010 bottom at **15.2%** is strikingly y similar to the sharp drops during the 1998, 2002 and 2008 when the prior bear markets were nearing their end stages.


us;VIX + 26.44 (CO) 16.14 CBOE Volatility Index
When implied volatility (VIX Index) is trending up this is a reflection of bearish/pessimistic investment sentiments as traders/investors buy put options to hedge against net long equity exposures. Conversely, when implied volatility falls this indicates bullish or optimistic investment sentiments. However, since the aftermath of the Lehman Brother's collapse in late 2008 VIX Index has trended lower until Apr 2010 when VIX suddenly jumped to a recent high of **48.20** on May 21st. So does then signal the start of a sustainable rising implied volatility? We find the subsequent decline from May 2010 high to be quite erratic as we are experiencing many mixed and conflicting technical signals including a downtrend breakout that has yet to confirm. Two island reversal patterns during July and August coupled with positive outside week, numerous negative/positive outside days, upside and downside gaps. It appears traders and investors are conflicted as to whether they believe implied volatility will turn dramatically higher or lower. This lack of conviction suggests that the bulls and the bears are deadlocked and/or complacent. A convincing move above **27-29** is needed to trigger higher volatility leading to a re-test of the **low-30s** and possibly into the **high-30s**. However, a decline below **20** will likely trigger a drop in the VIX towards **18** or late-Apr 2010 upside gap and then to **15.23-16.17** or Apr/Mar 2010 bottoms.
Extreme High = 171.52 (10/20/87)
Extreme Low = 8.20 (8/04/94)
Recent High = 48.20 (05/21/10)
Apr-May 2001 76.4% retracement = 23.01
30-day ma = 24.17
50-day ma = 26.03
150-day ma = 23.91
Oct/Nov 09 lows = 20.10/20.05
Apr/Mar 10 lows = 15.23/16.17
50
45
40
35
30
25
20
15
J AUG SEP OCT NOV DEC JAN FEB MAR APR MAY JUN JUL AUG
30, 50, and 150 Day Moving Averages

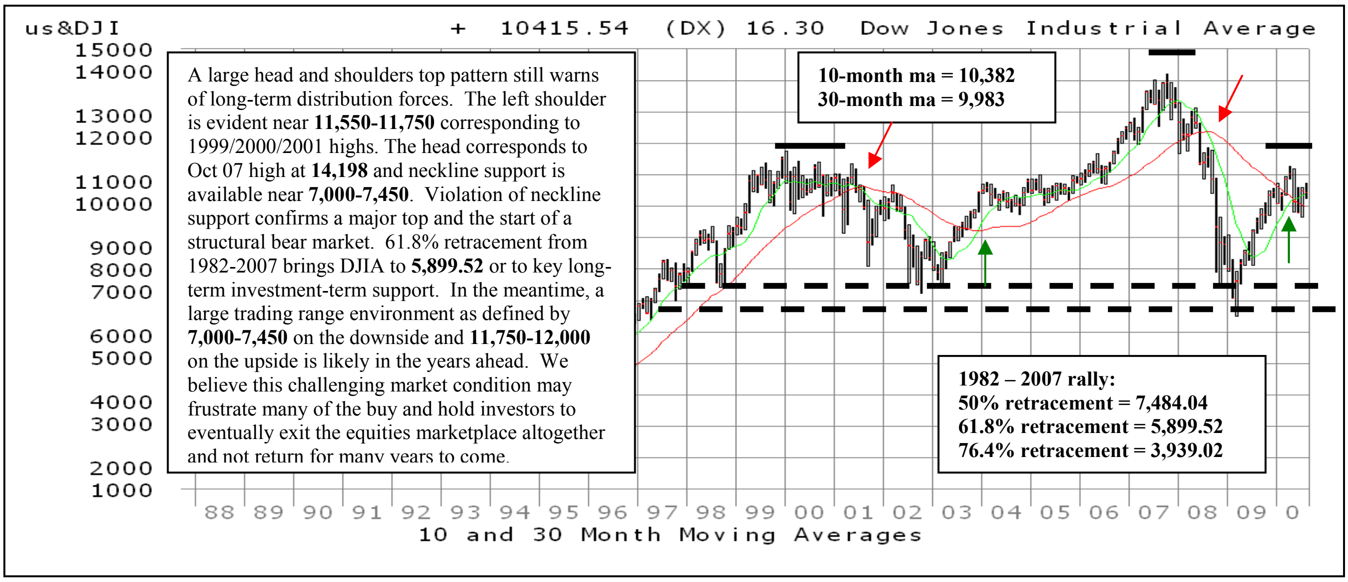

us;VIX + 24.59 (CO) 16.14 CBOE Volatility Index
Contrary to popular beliefs the VIX Index is neither too high nor too low, at least based on this monthly regression study. The fear indicator is currently trading slightly above its statistical equilibrium level or the midpoint of its regression band at **23**. Also note that the 10-month ma is also residing near 24.5. This study suggests VIX may be nearing an important inflection point The ability of VIX to hold onto **23** on a monthly basis may lead to the start of rising implied volatility possibly back to the upper end of its band near **39**. On the other hand, a convincing decline below the midpoint of its band on a monthly basis may signal the start of lower volatility prompting a fall towards the lower end of its band in the **low-to-mid teens**.
89.53 (10/24/08)
81.48 (11/20/08)
Top of band = 39
Middle of band = 23
Bottom of band = 8
10-month ma = 24.5
30-month ma = 30
48.20 (5/21/10)
42.15 (5/7/10)
100
75
50
25
0
88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 0
Regression with 2 Standard Deviation Band

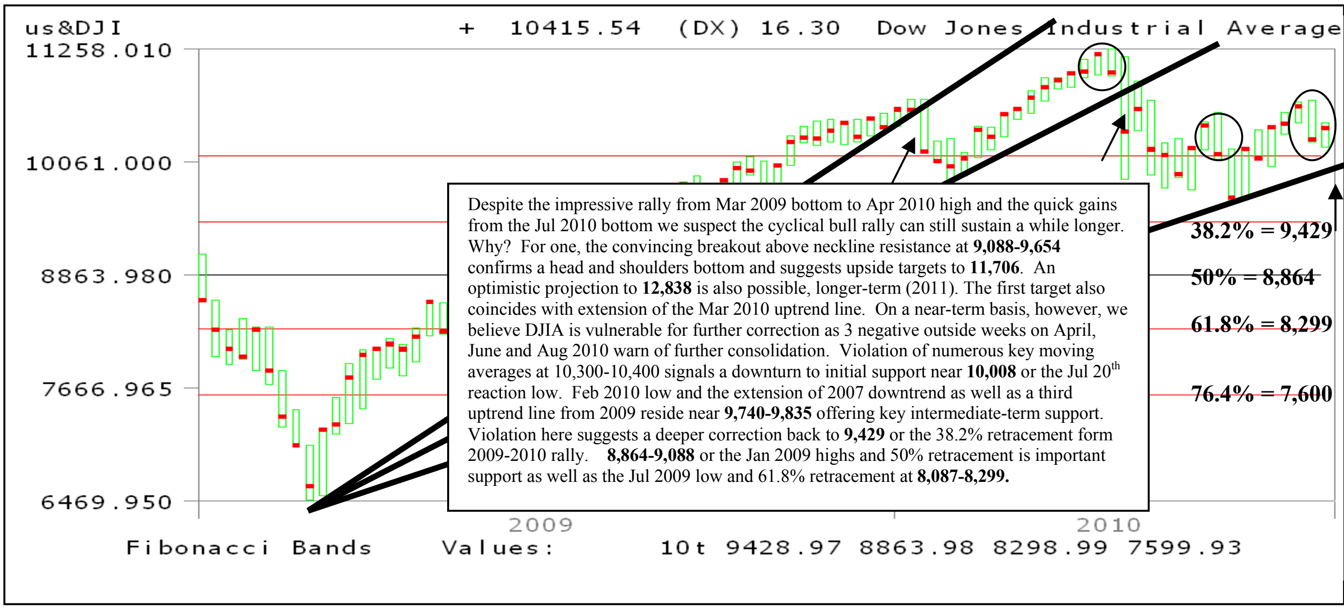
This monthly log chart dating back to 1929 first warned of a major top as early as 2008 as DJIA failed to hold onto its prior breakout near **11,000-11,250**. The selling accelerated as DJIA fell below the top of its 1932 uptrend channel at **10,500** (gold arrow) and proceeded down to the Oct 2002 low at **7,197.49**. Also note that the 50% retracement from 1932 to 2007 advance at **7,119.66** provided key support. Unfortunately DJIA could not hold onto this support zone and a sharp sell off developed that resulted in a low of **6,469.95** on 6 Mar 2009. Given the extreme oversold condition during Mar 2009 sell off an oversold technical rally occurred. The recent cyclical bull rally is again approaching the top of its long-term internal uptrend channel near **11,000** (green arrow). Failure to convincingly breakout here may solidify a right shoulder of a large head/shoulders top pattern. The 61.8% retracement from 1932 to 2007 advance or **5,449.15** (white circle) provides major support and then the 1932 uptrend at **3,900-3,950**.

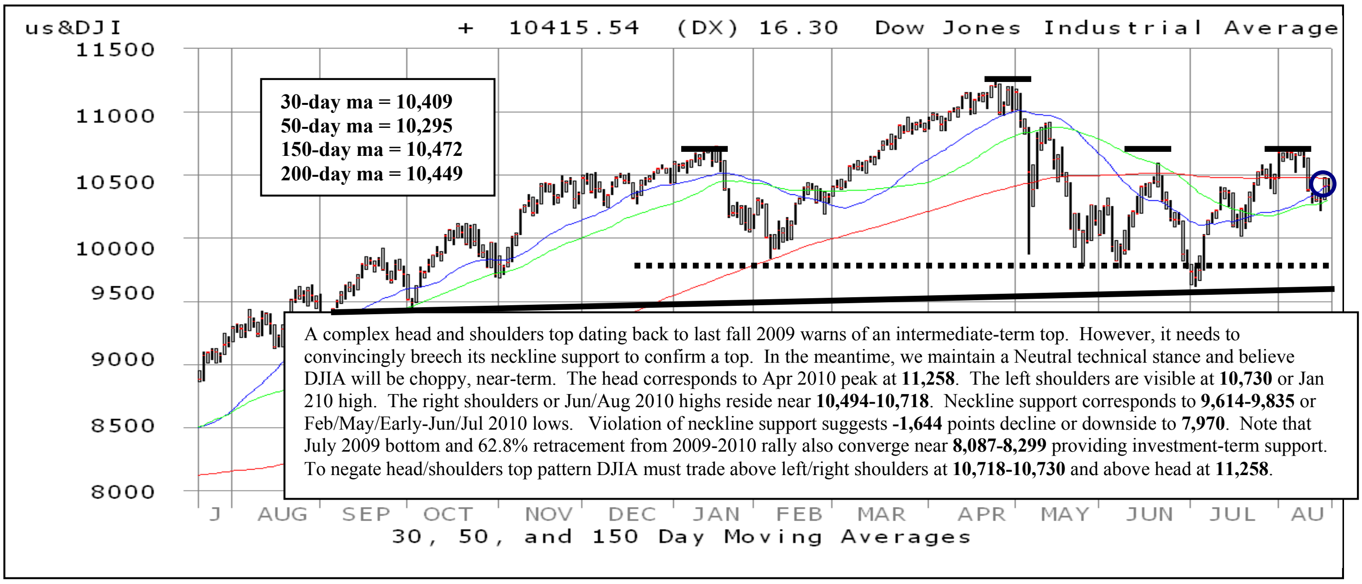


A bearish rising wedge pattern (grey and green/red lines) remains evident on this monthly log chart. Although this pattern is still progressing, the severe selling during 2007-2009 has resulted in the violation of an important internal trend (yellow line) and the pivotal Oct 2002 and Mar 2003 lows (pink arrow). This implies DJIA remains vulnerable for further volatility on a secular long-term basis. The Mar 2009 cyclical bull is now challenging its pivotal internal trend line breakdown (grey arrow). A convincing breakout here will prolong the Mar 2009 cyclical bull possibly towards a high of **11,750**. On the other hand, repeated failures to breakout here is negative as this signals the start of a major decline. Longer-term support is **6,470** (Mar 09 low) and then **3,400-3,850** or 1942/1949 uptrends (red/green).

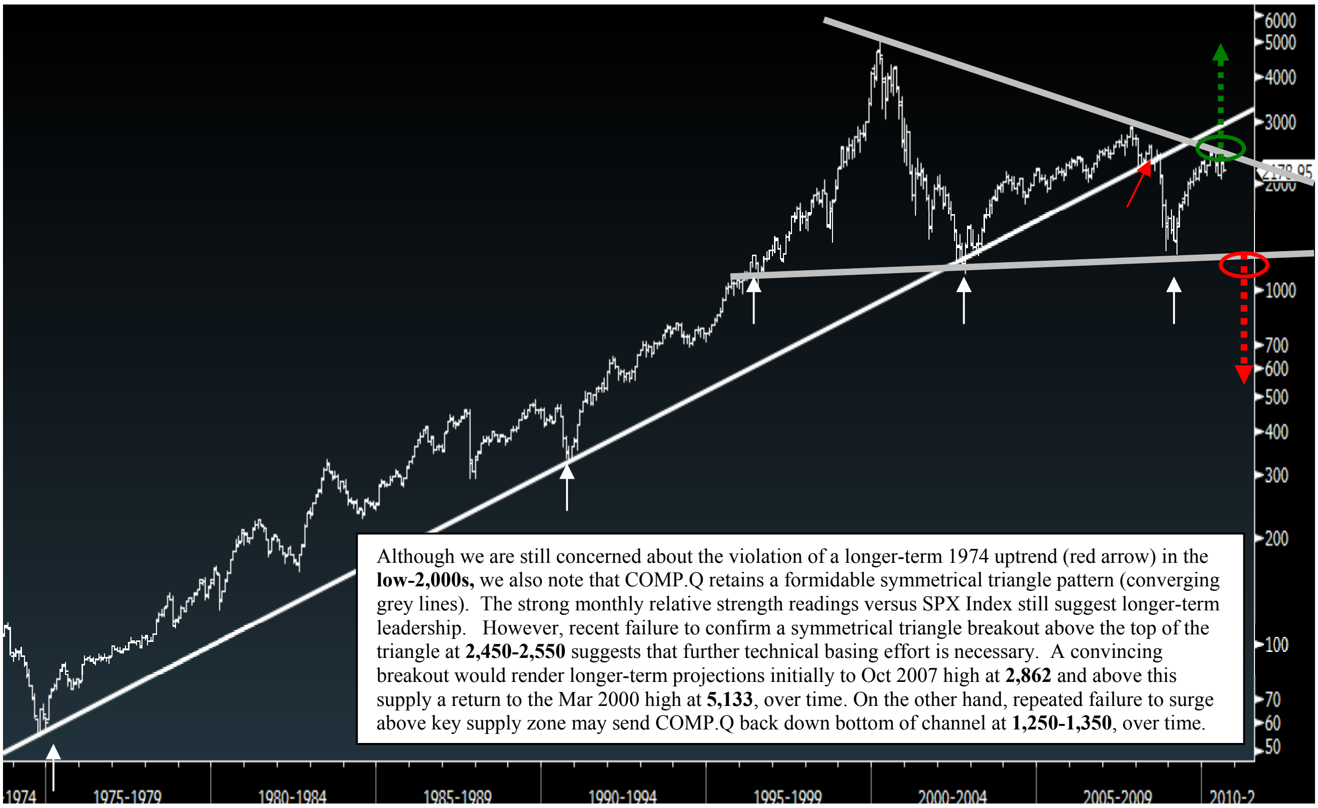
Similar to other key US stock indexes, DJIA has also rallied sharply from its Mar 2009 bottom. It has gained **74%** in the process but has stalled exactly at the 61.8% retracement of the 2009-2010 rally at **11,245.95**. Failure to breakout above key supply here coupled with a negative outside week during Apr 26th, June 21st and Aug 9th suggests a corrective phase that may extend further. Although DJIA may resume its cyclical bull run later in the year/early next year and trade to **11,750**, we are more concerned about the near-term outlook. We would not be surprise to see DJIA fall to the psychological barrier of **10,000**, near-term and possibly to **9,600-9,850** or the extension of 2007 downtrend breakout and Jul 2009 breakout under strong selling.

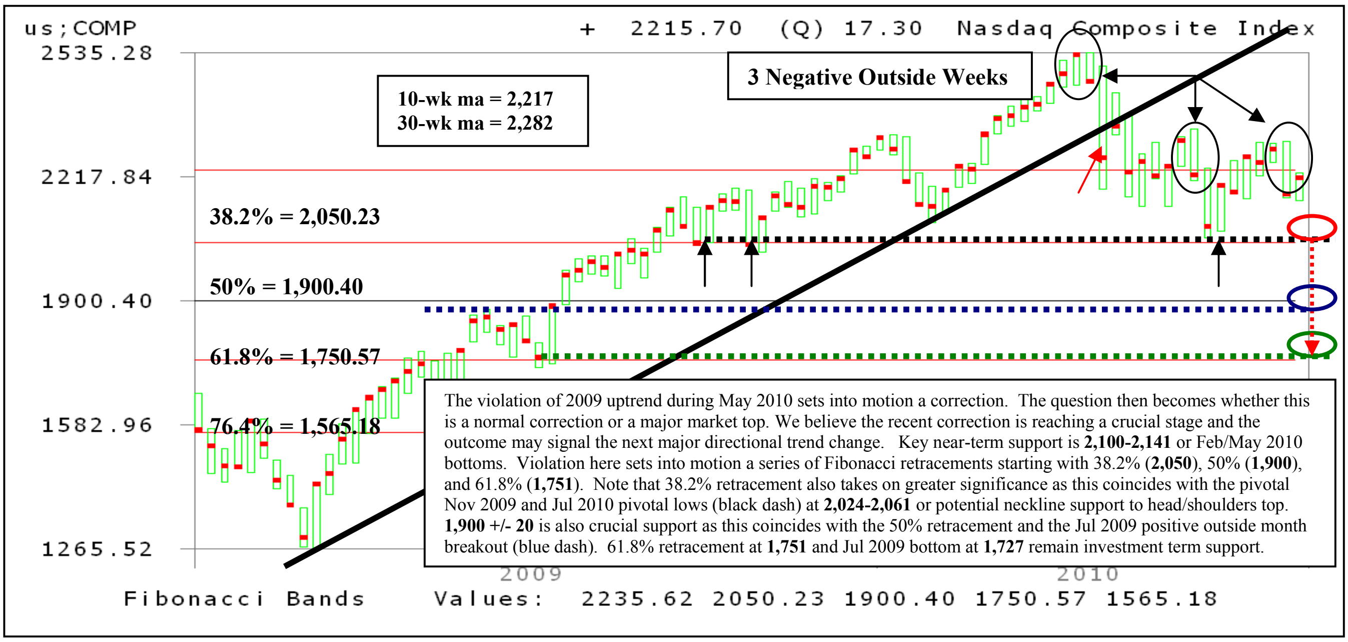

us&DJI + 10415.54 (DX) 16.30 Dow Jones Industrial Average
15000
14000
13000
12000
11000
10000
9000
8000
7000
6000
5000
4000
3000
2000
1000
A large head and shoulders top pattern still warns of long-term distribution forces. The left shoulder is evident near **11,550-11,750** corresponding to 1999/2000/2001 highs. The head corresponds to Oct 07 high at **14,198** and neckline support is available near **7,000-7,450**. Violation of neckline support confirms a major top and the start of a structural bear market. 61.8% retracement from 1982-2007 brings DJIA to **5,899.52** or to key long-term investment-term support. In the meantime, a large trading range environment as defined by **7,000-7,450** on the downside and **11,750-12,000** on the upside is likely in the years ahead. We believe this challenging market condition may frustrate many of the buy and hold investors to eventually exit the equities marketplace altogether and not return for many years to come.
10-month ma = 10,382
30-month ma = 9,983
1982 – 2007 rally:
50% retracement = 7,484.04
61.8% retracement = 5,899.52
76.4% retracement = 3,939.02
88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 0
10 and 30 Month Moving Averages

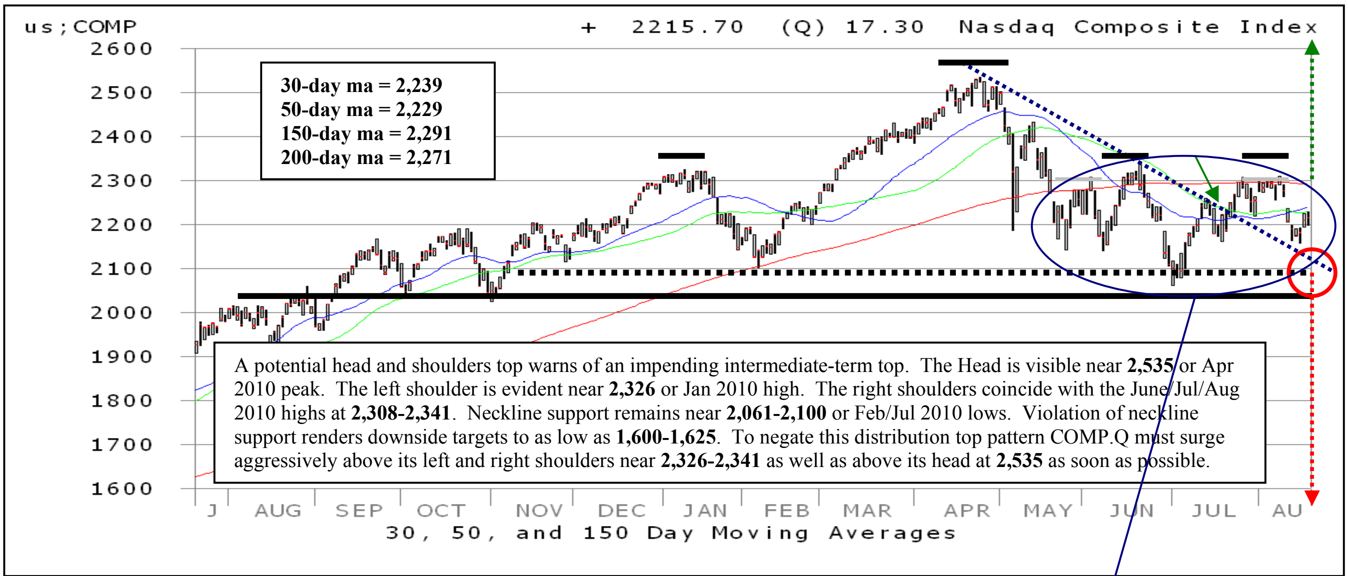

us&DJI + 10415.54 (DX) 16.30 Dow Jones Industrial Average
11258.010
10061.000
8863.980
7666.965
6469.950
Despite the impressive rally from Mar 2009 bottom to Apr 2010 high and the quick gains from the Jul 2010 bottom we suspect the cyclical bull rally can still sustain a while longer. Why? For one, the convincing breakout above neckline resistance at **9,088-9,654** confirms a head and shoulders bottom and suggests upside targets to **11,706**. An optimistic projection to **12,838** is also possible, longer-term (2011). The first target also coincides with extension of the Mar 2010 uptrend line. On a near-term basis, however, we believe DJIA is vulnerable for further correction as 3 negative outside weeks on April, June and Aug 2010 warn of further consolidation. Violation of numerous key moving averages at 10,300-10,400 signals a downturn to initial support near **10,008** or the Jul 20th reaction low. Feb 2010 low and the extension of 2007 downtrend as well as a third uptrend line from 2009 reside near **9,740-9,835** offering key intermediate-term support. Violation here suggests a deeper correction back to **9,429** or the 38.2% retracement form 2009-2010 rally. **8,864-9,088** or the Jan 2009 highs and 50% retracement is important support as well as the Jul 2009 low and 61.8% retracement at **8,087-8,299.**
38.2% = 9,429
50% = 8,864
61.8% = 8,299
76.4% = 7,600
2009
2010
Fibonacci Bands Values: 10t 9428.97 8863.98 8298.99 7599.93

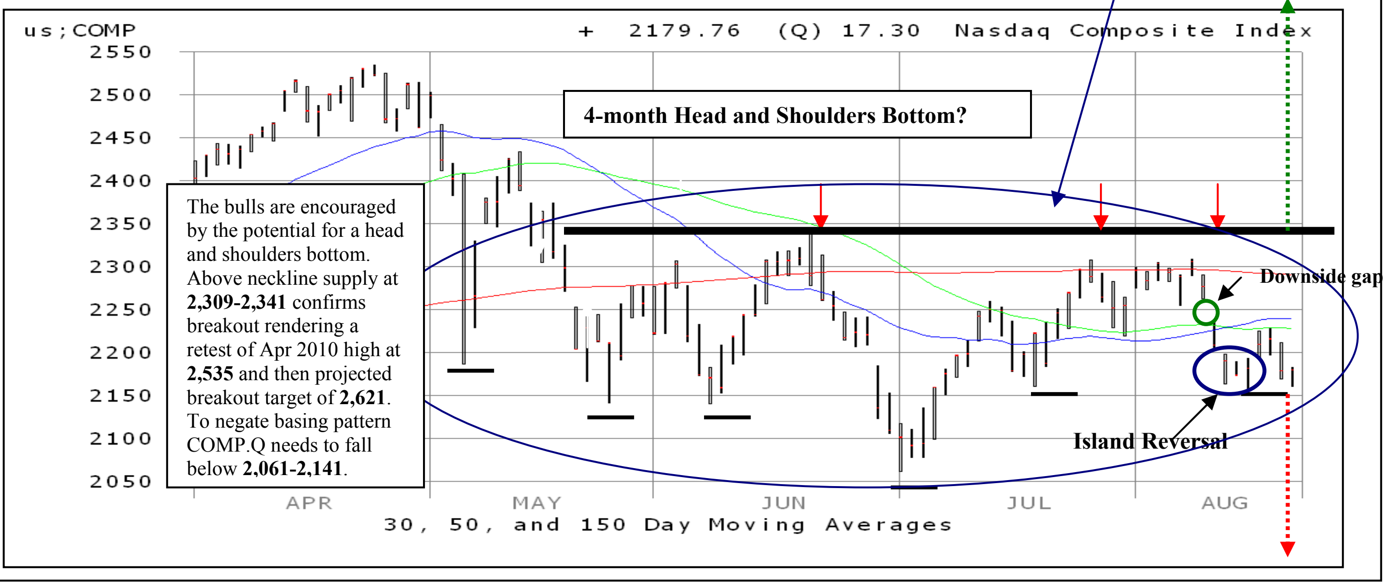

us&DJI + 10415.54 (DX) 16.30 Dow Jones Industrial Average
11500
11000
10500
10000
9500
9000
8500
8000
30-day ma = 10,409
50-day ma = 10,295
150-day ma = 10,472
200-day ma = 10,449
A complex head and shoulders top dating back to last fall 2009 warns of an intermediate-term top. However, it needs to convincingly breech its neckline support to confirm a top. In the meantime, we maintain a Neutral technical stance and believe DJIA will be choppy, near-term. The head corresponds to Apr 2010 peak at **11,258**. The left shoulders are visible at **10,730** or Jan 210 high. The right shoulders or Jun/Aug 2010 highs reside near **10,494-10,718**. Neckline support corresponds to **9,614-9,835** or Feb/May/Early-Jun/Jul 2010 lows. Violation of neckline support suggests **-1,644** points decline or downside to **7,970**. Note that July 2009 bottom and 62.8% retracement from 2009-2010 rally also converge near **8,087-8,299** providing investment-term support. To negate head/shoulders top pattern DJIA must trade above left/right shoulders at **10,718-10,730** and above head at **11,258**.
J AUG SEP OCT NOV DEC JAN FEB MAR APR MAY JUN JUL AU
30, 50, and 150 Day Moving Averages

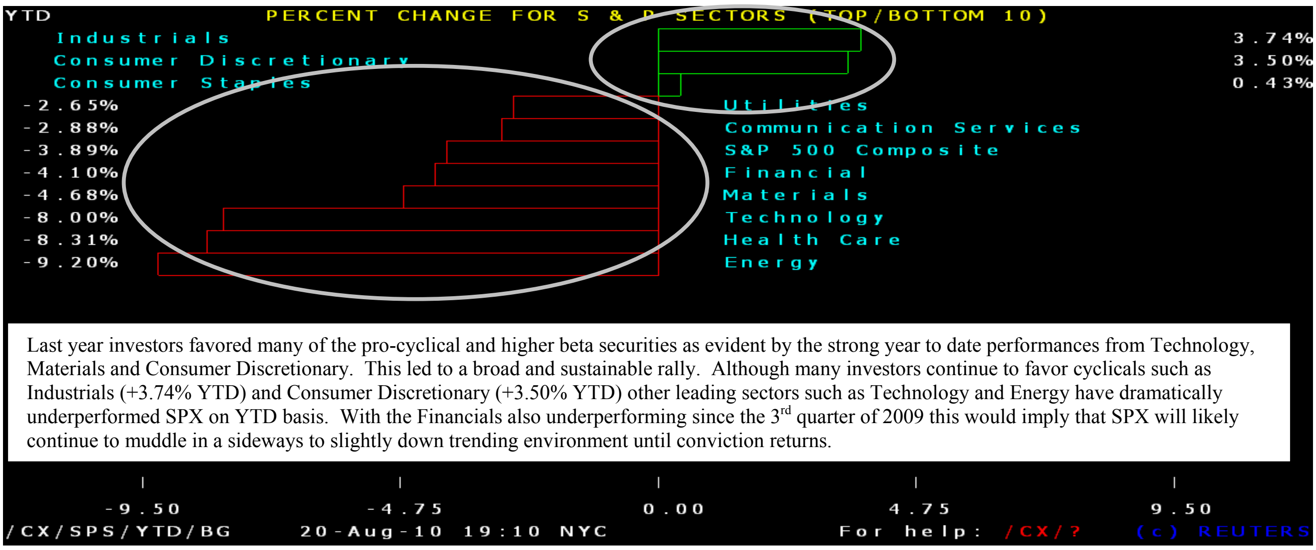

0.0%(5132.52)
23.6%(3934.19)
38.2%(3192.86)
50.0%(2593.70)
61.8%(1994.53)
76.4%(1253.20)
100.0%(54.87)
2178.95
6000
5000
4000
3000
2000
1000
700
600
500
400
300
200
100
70
60
50
1974
1975-1979
1980-1984
1985-1989
1990-1994
1995-1999
2000-2004
2005-2009
2010-2
Similar to other key indexes, NASDAQ Composite Index has also suffered a major technical breakdown as evident by the violation of its 1974 monthly log uptrend (pink arrow). The breeching of its 61.8% retracement (white circle) from 1974-2000 advance near **2,000** during 2008 downturn led to a test of major support at **1,253-1,108** (gold circle) or the Mar 2003 low, 76.4% retracement from 1974 to 2007 advance, 1996 uptrend and the Oct 2002 bottom. The ability to find support during Mar 2009 ignited a sharp rally which now appears to be stalling near the top of a large symmetrical triangle (white dash) and the extension of the longer-term 1974 uptrend (red line) at **2,450-2,550**. Repeated failures to breakout here signal another downturn. The bottom of the symmetrical triangle near **1,300-1,350** provides longer-term support. Failure to breakout may lead to a wide trading range between **1,250-1,350** and **2,500-2,550** for the next few years (5+ years).


6000
5000
4000
3000
2178.95
2000
1000
700
600
500
400
300
200
100
70
60
50
1974
1975-1979
1980-1984
1985-1989
1990-1994
1995-1999
2000-2004
2005-2009
2010-2
Although we are still concerned about the violation of a longer-term 1974 uptrend (red arrow) in the **low-2,000s,** we also note that COMP.Q retains a formidable symmetrical triangle pattern (converging grey lines). The strong monthly relative strength readings versus SPX Index still suggest longer-term leadership. However, recent failure to confirm a symmetrical triangle breakout above the top of the triangle at **2,450-2,550** suggests that further technical basing effort is necessary. A convincing breakout would render longer-term projections initially to Oct 2007 high at **2,862** and above this supply a return to the Mar 2000 high at **5,133**, over time. On the other hand, repeated failure to surge above key supply zone may send COMP.Q back down bottom of channel at **1,250-1,350**, over time.

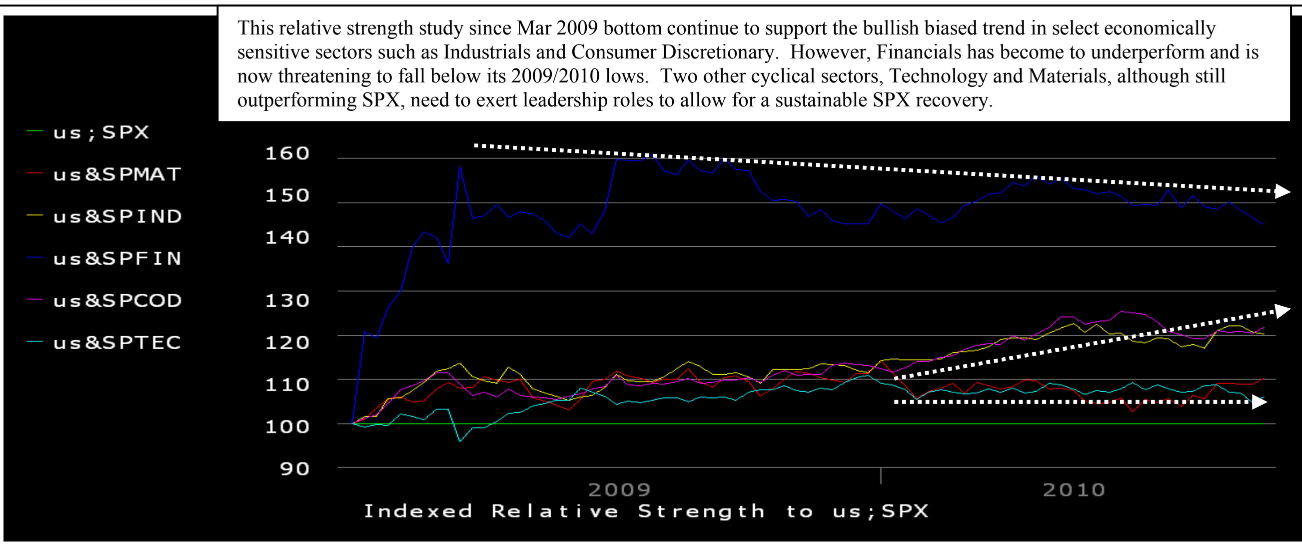

us;COMP + 2215.70 (Q) 17.30 Nasdaq Composite Index
2535.28
2217.84
1900.40
1582.96
1265.52
10-wk ma = 2,217
30-wk ma = 2,282
3 Negative Outside Weeks
38.2% = 2,050.23
50% = 1,900.40
61.8% = 1,750.57
76.4% = 1,565.18
The violation of 2009 uptrend during May 2010 sets into motion a correction. The question then becomes whether this is a normal correction or a major market top. We believe the recent correction is reaching a crucial stage and the outcome may signal the next major directional trend change. Key near-term support is 2,100-2,141 or Feb/May 2010 bottoms. Violation here sets into motion a series of Fibonacci retracements starting with 38.2% (2,050), 50% (1,900), and 61.8% (1,751). Note that 38.2% retracement also takes on greater significance as this coincides with the pivotal Nov 2009 and Jul 2010 pivotal lows (black dash) at 2,024-2,061 or potential neckline support to head/shoulders top. 1,900 +/- 20 is also crucial support as this coincides with the 50% retracement and the Jul 2009 positive outside month breakout (blue dash). 61.8% retracement at 1,751 and Jul 2009 bottom at 1,727 remain investment term support.
2009
2010
Fibonacci Bands Values: 2235.62 2050.23 1900.40 1750.57 1565.18


us;COMP + 2215.70 (Q) 17.30 Nasdaq Composite Index
2600
2500
2400
2300
2200
2100
2000
1900
1800
1700
1600
30-day ma = 2,239
50-day ma = 2,229
150-day ma = 2,291
200-day ma = 2,271
A potential head and shoulders top warns of an impending intermediate-term top. The Head is visible near 2,535 or Apr 2010 peak. The left shoulder is evident near 2,326 or Jan 2010 high. The right shoulders coincide with the June/Jul/Aug 2010 highs at 2,308-2,341. Neckline support remains near 2,061-2,100 or Feb/Jul 2010 lows. Violation of neckline support renders downside targets to as low as 1,600-1,625. To negate this distribution top pattern COMP.Q must surge aggressively above its left and right shoulders near 2,326-2,341 as well as above its head at 2,535 as soon as possible.
J AUG SEP OCT NOV DEC JAN FEB MAR APR MAY JUN JUL AU
30, 50, and 150 Day Moving Averages


us;COMP + 2179.76 (Q) 17.30 Nasdaq Composite Index
2550
2500
2450
2400
2350
2300
2250
2200
2150
2100
2050
4-month Head and Shoulders Bottom?
The bulls are encouraged by the potential for a head and shoulders bottom. Above neckline supply at 2,309-2,341 confirms breakout rendering a retest of Apr 2010 high at 2,535 and then projected breakout target of 2,621. To negate basing pattern COMP.Q needs to fall below 2,061-2,141.
Downside gap
Island Reversal
APR MAY JUN JUL AUG
30, 50, and 150 Day Moving Averages

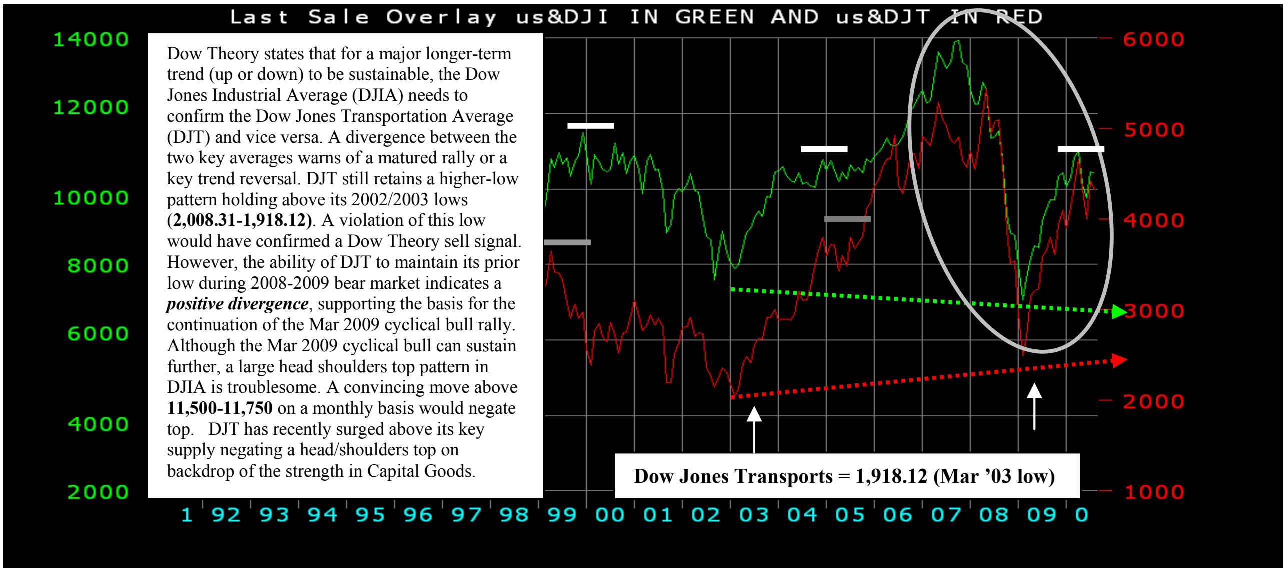


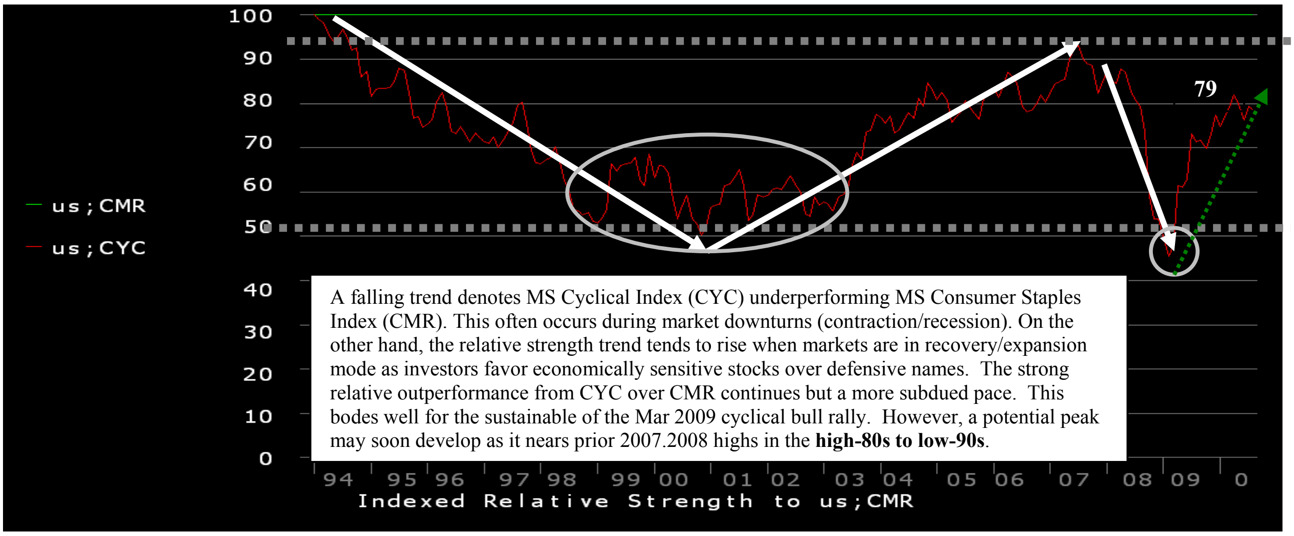
Last year investors favored many of the pro-cyclical and higher beta securities as evident by the strong year to date performances from Technology, Materials and Consumer Discretionary. This led to a broad and sustainable rally. Although many investors continue to favor cyclicals such as Industrials (+3.74% YTD) and Consumer Discretionary (+3.50% YTD) other leading sectors such as Technology and Energy have dramatically underperformed SPX on YTD basis. With the Financials also underperforming since the 3rd quarter of 2009 this would imply that SPX will likely continue to muddle in a sideways to slightly down trending environment until conviction returns.

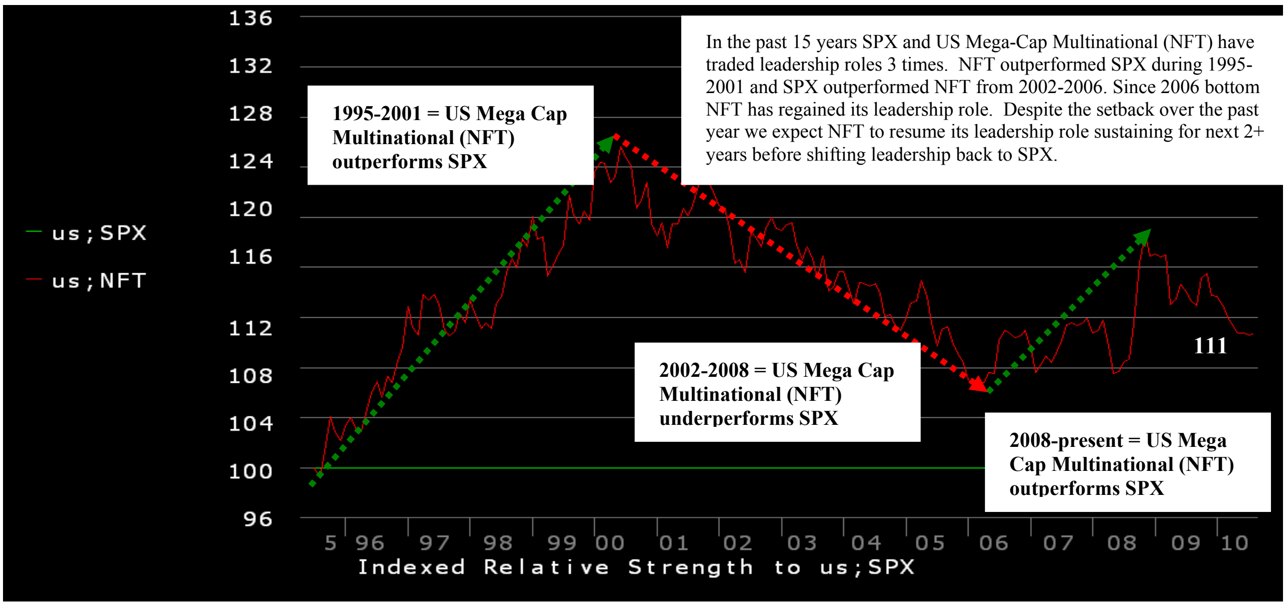


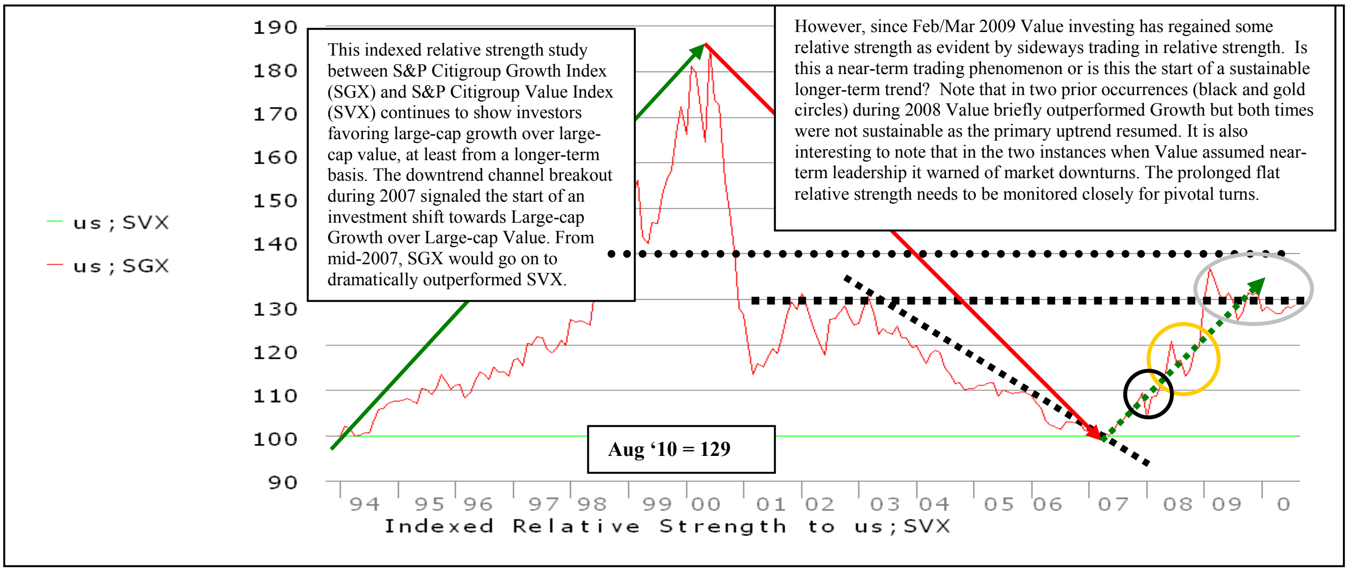
This relative strength study since Mar 2009 bottom continue to support the bullish biased trend in select economically sensitive sectors such as Industrials and Consumer Discretionary. However, Financials has become to underperform and is now threatening to fall below its 2009/2010 lows. Two other cyclical sectors, Technology and Materials, although still outperforming SPX, need to exert leadership roles to allow for a sustainable SPX recovery.

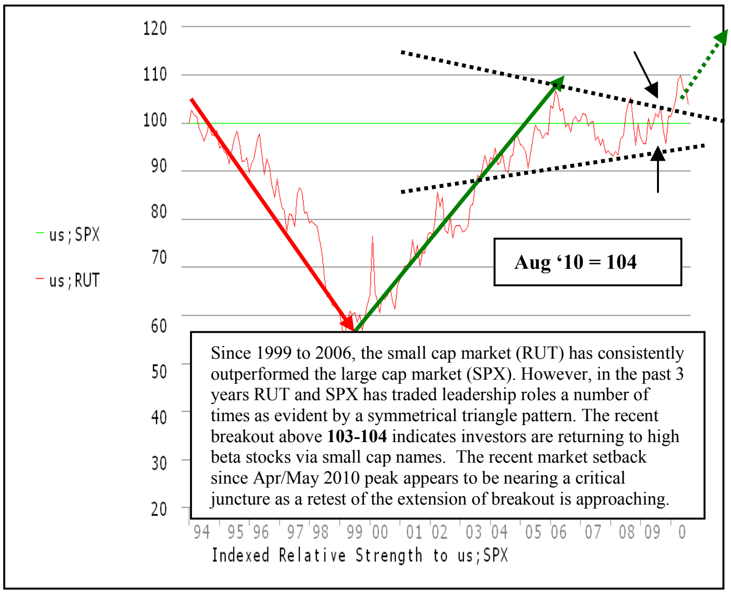
In a down markets, investors favor the relative safety of the defensive and lower beta sectors. Conversely, in a rising market investors tend to favor higher beta and economically sensitive sectors. Since Mar 2009 bottom many of the pro-cyclical sectors still retain leadership roles. However, the S&P defensive sectors are now showing signs of improvements over the past few months. Are these market laggards emerging as leaders or are they undergoing technical oversold rallies after selling off sharply for the better part of this year?

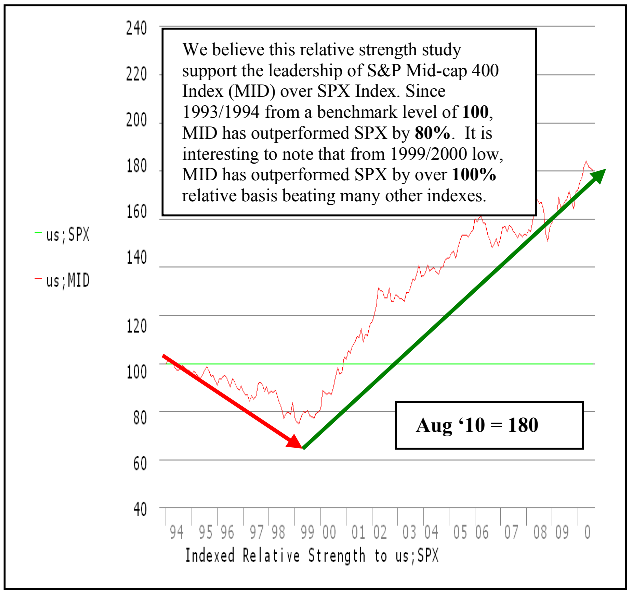

Last Sale Overlay us&DJI IN GREEN AND us&DJT IN RED
14000
12000
10000
8000
6000
4000
2000
6000
5000
4000
3000
2000
1000
Dow Theory states that for a major longer-term trend (up or down) to be sustainable, the Dow Jones Industrial Average (DJIA) needs to confirm the Dow Jones Transportation Average (DJT) and vice versa. A divergence between the two key averages warns of a matured rally or a key trend reversal. DJT still retains a higher-low pattern holding above its 2002/2003 lows (**2,008.31-1,918.12**). A violation of this low would have confirmed a Dow Theory sell signal. However, the ability of DJT to maintain its prior low during 2008-2009 bear market indicates a ***positive divergence***, supporting the basis for the continuation of the Mar 2009 cyclical bull rally. Although the Mar 2009 cyclical bull can sustain further, a large head shoulders top pattern in DJIA is troublesome. A convincing move above **11,500-11,750** on a monthly basis would negate top. DJT has recently surged above its key supply negating a head/shoulders top on backdrop of the strength in Capital Goods.
Dow Jones Transports = 1,918.12 (Mar '03 low)
1 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 0

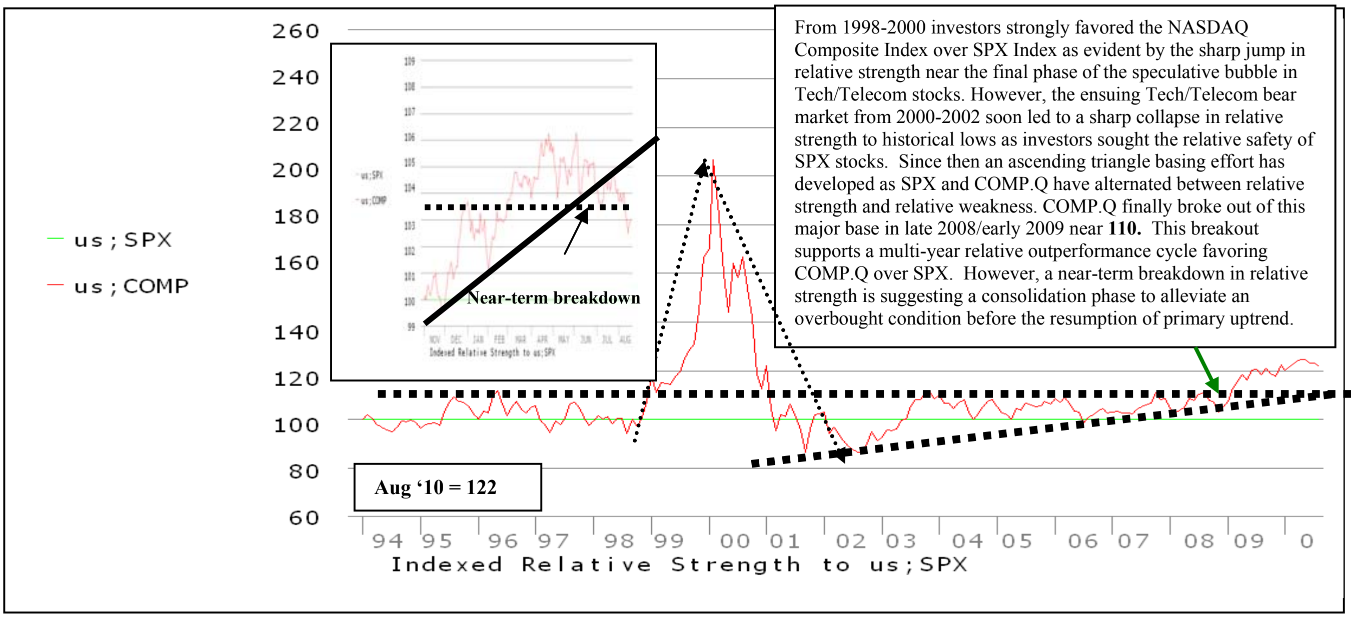

100
90
80
70
60
50
40
30
20
10
0
us;CMR
us;CYC
79
A falling trend denotes MS Cyclical Index (CYC) underperforming MS Consumer Staples Index (CMR). This often occurs during market downturns (contraction/recession). On the other hand, the relative strength trend tends to rise when markets are in recovery/expansion mode as investors favor economically sensitive stocks over defensive names. The strong relative outperformance from CYC over CMR continues but a more subdued pace. This bodes well for the sustainable of the Mar 2009 cyclical bull rally. However, a potential peak may soon develop as it nears prior 2007.2008 highs in the **high-80s to low-90s**.
94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 0
Indexed Relative Strength to us;CMR

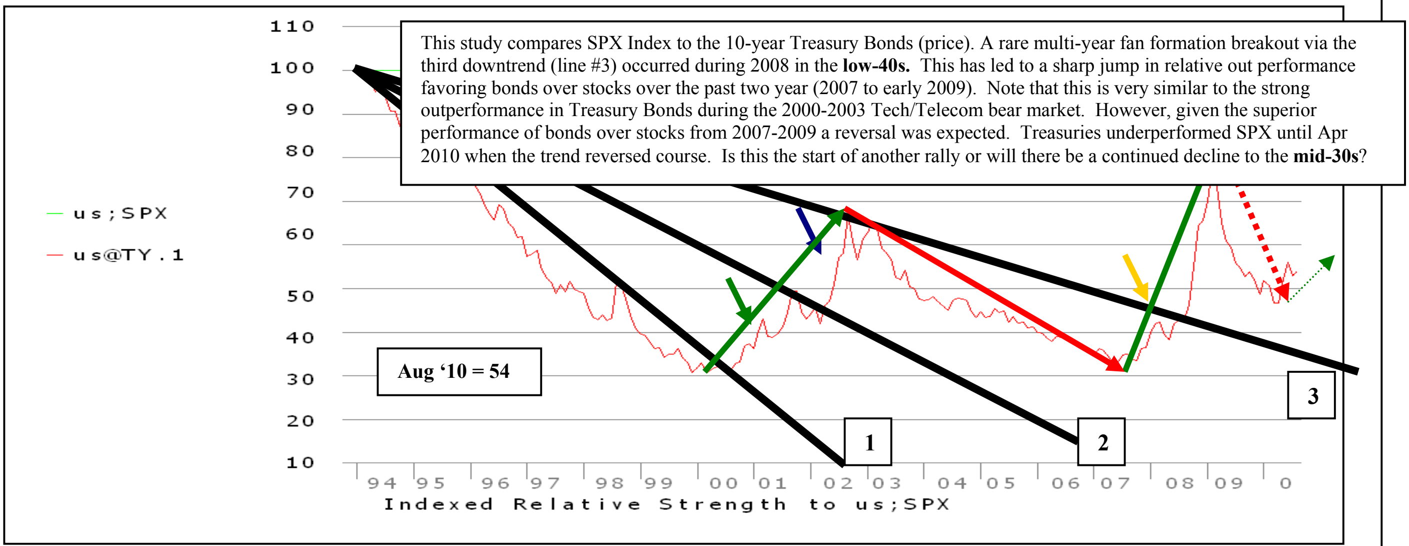

136
132
128
124
120
116
112
108
104
100
96
us;SPX
us;NFT
In the past 15 years SPX and US Mega-Cap Multinational (NFT) have traded leadership roles 3 times. NFT outperformed SPX during 1995-2001 and SPX outperformed NFT from 2002-2006. Since 2006 bottom NFT has regained its leadership role. Despite the setback over the past year we expect NFT to resume its leadership role sustaining for next 2+ years before shifting leadership back to SPX.
1995-2001 = US Mega Cap Multinational (NFT) outperforms SPX
2002-2008 = US Mega Cap Multinational (NFT) underperforms SPX
2008-present = US Mega Cap Multinational (NFT) outperforms SPX
111
5 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10
Indexed Relative Strength to us;SPX

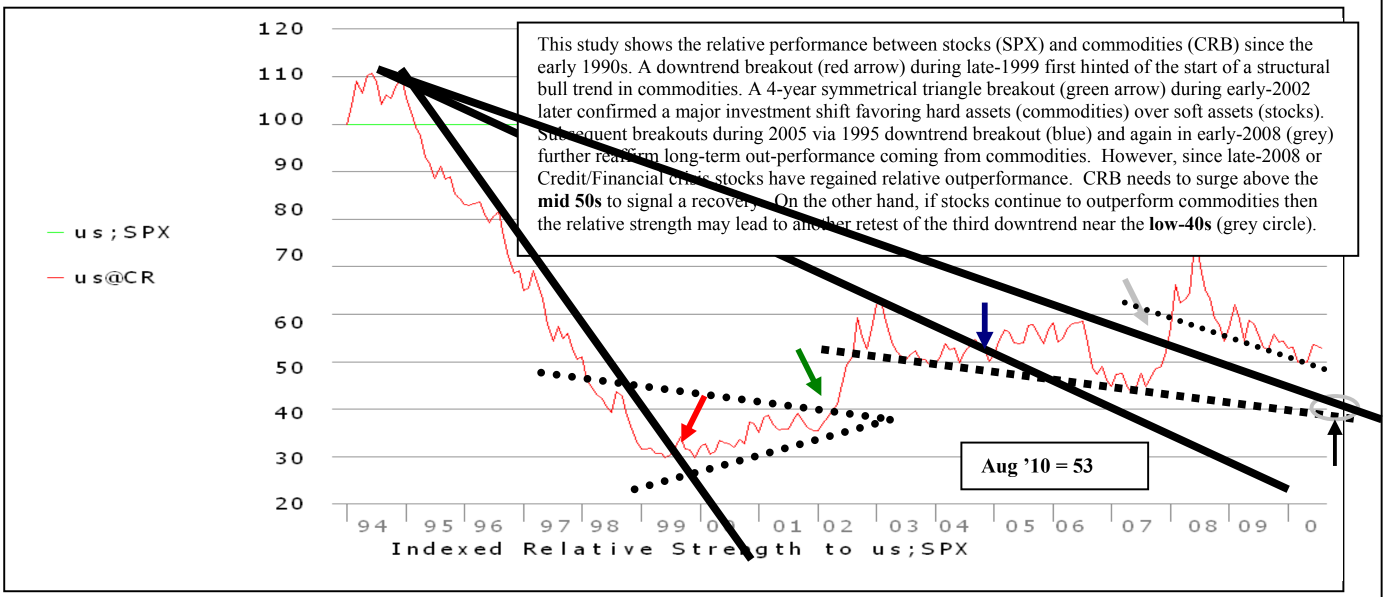

190
180
170
160
150
140
130
120
110
100
90
us ; SVX
us ; SGX
This indexed relative strength study between S&P Citigroup Growth Index (SGX) and S&P Citigroup Value Index (SVX) continues to show investors favoring large-cap growth over large-cap value, at least from a longer-term basis. The downtrend channel breakout during 2007 signaled the start of an investment shift towards Large-cap Growth over Large-cap Value. From mid-2007, SGX would go on to dramatically outperformed SVX.
However, since Feb/Mar 2009 Value investing has regained some relative strength as evident by sideways trading in relative strength. Is this a near-term trading phenomenon or is this the start of a sustainable longer-term trend? Note that in two prior occurrences (black and gold circles) during 2008 Value briefly outperformed Growth but both times were not sustainable as the primary uptrend resumed. It is also interesting to note that in the two instances when Value assumed near-term leadership it warned of market downturns. The prolonged flat relative strength needs to be monitored closely for pivotal turns.
Aug '10 = 129
94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 0
Indexed Relative Strength to us ; SVX

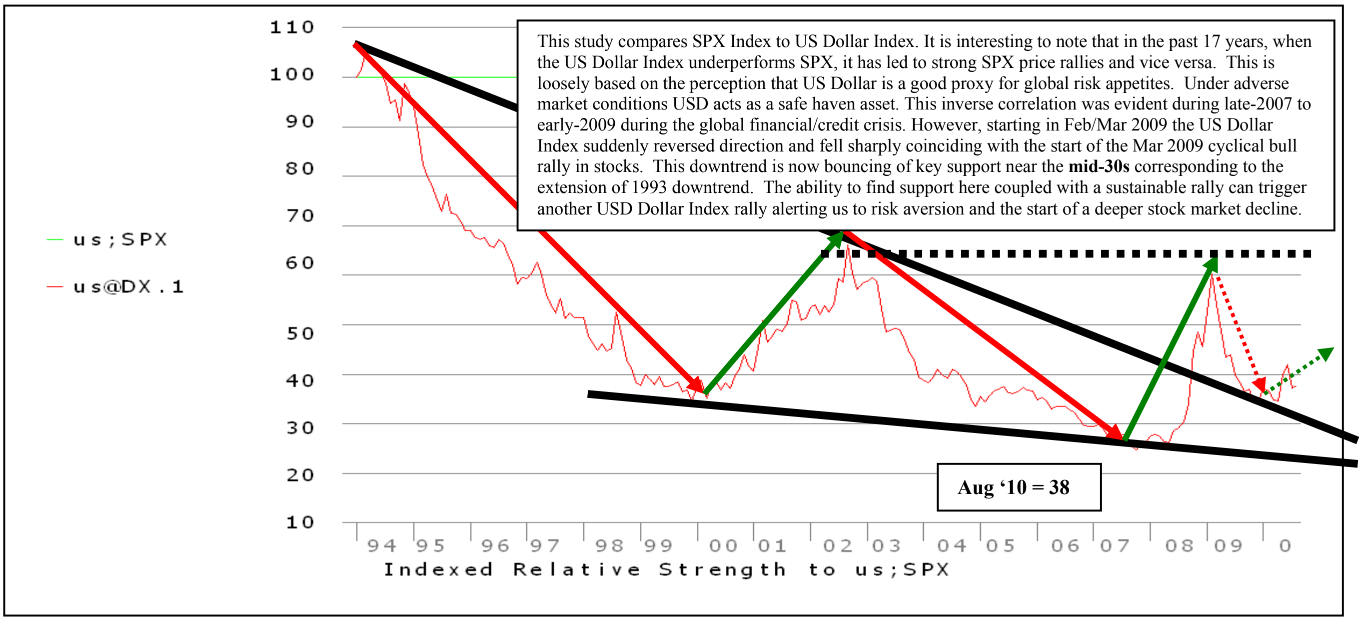

120
110
100
90
80
70
60
50
40
30
20
us ; SPX
us ; RUT
Aug '10 = 104
Since 1999 to 2006, the small cap market (RUT) has consistently outperformed the large cap market (SPX). However, in the past 3 years RUT and SPX has traded leadership roles a number of times as evident by a symmetrical triangle pattern. The recent breakout above **103-104** indicates investors are returning to high beta stocks via small cap names. The recent market setback since Apr/May 2010 peak appears to be nearing a critical juncture as a retest of the extension of breakout is approaching.
94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 0
Indexed Relative Strength to us ; SPX

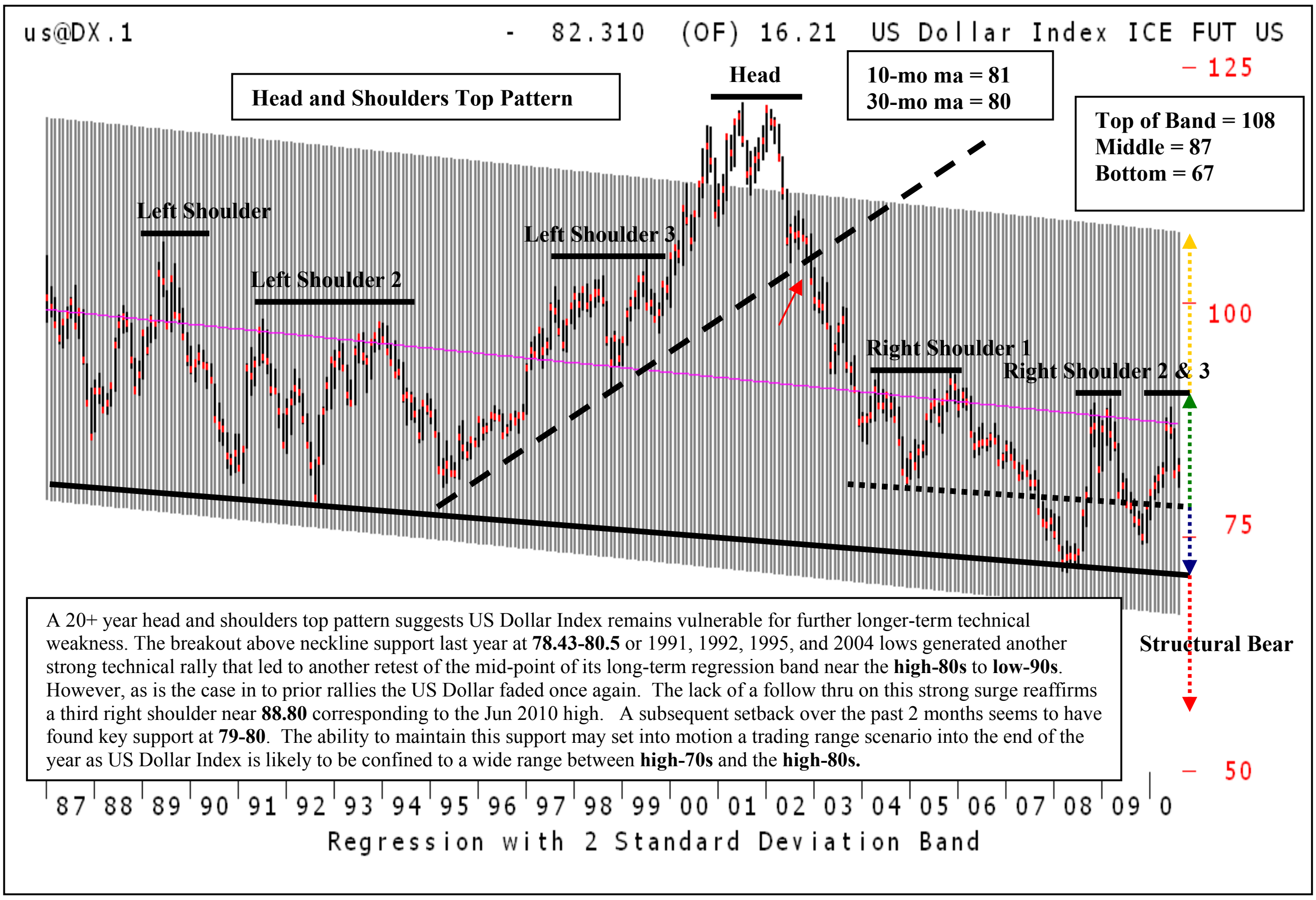

240
220
200
180
160
140
120
100
80
60
40
us ; SPX
us ; MID
We believe this relative strength study support the leadership of S&P Mid-cap 400 Index (MID) over SPX Index. Since 1993/1994 from a benchmark level of **100**, MID has outperformed SPX by **80%**. It is interesting to note that from 1999/2000 low, MID has outperformed SPX by over **100%** relative basis beating many other indexes.
Aug '10 = 180
94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 0
Indexed Relative Strength to us ; SPX

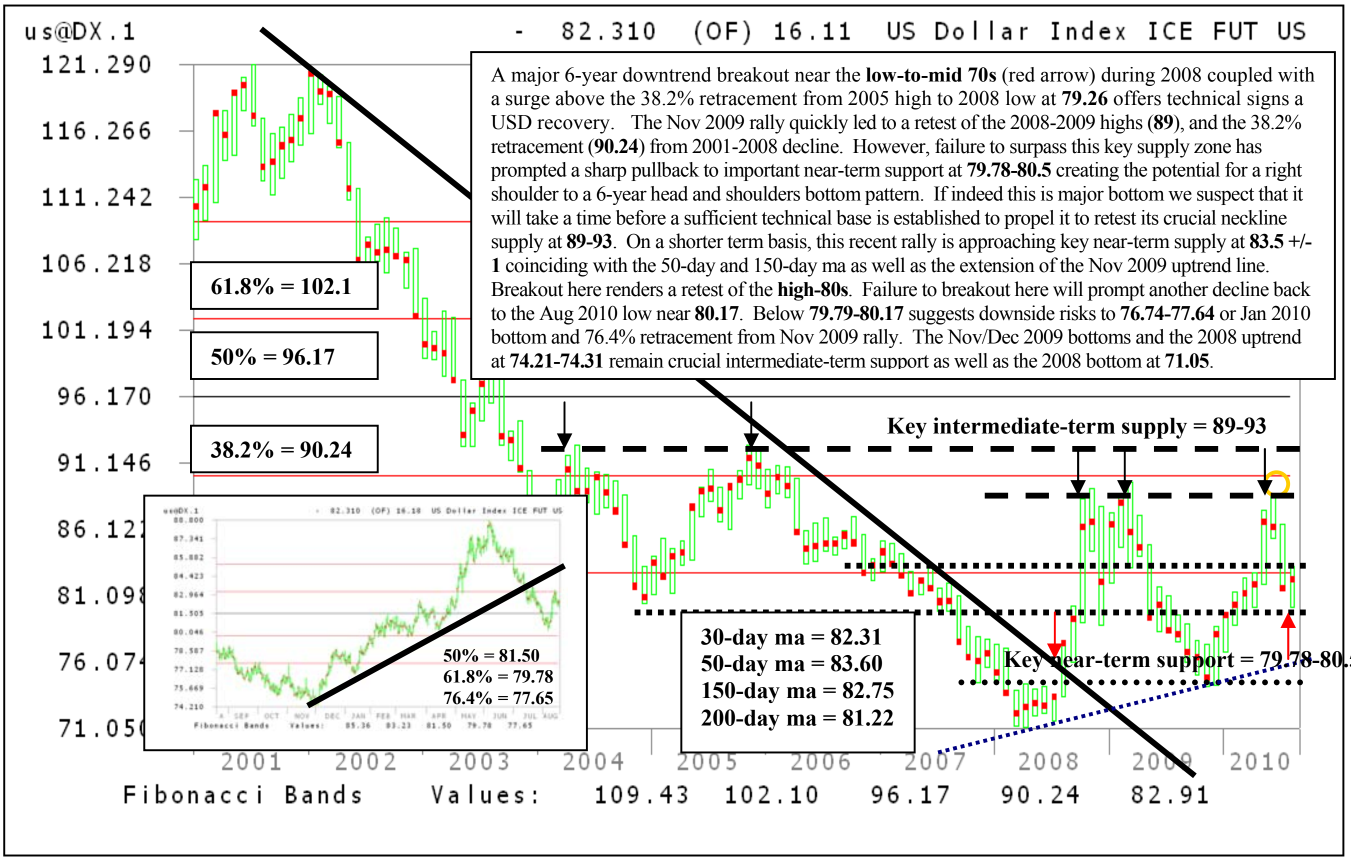

260
240
220
200
180
160
140
120
100
80
60
us ; SPX
us ; COMP
Near-term breakdown
From 1998-2000 investors strongly favored the NASDAQ Composite Index over SPX Index as evident by the sharp jump in relative strength near the final phase of the speculative bubble in Tech/Telecom stocks. However, the ensuing Tech/Telecom bear market from 2000-2002 soon led to a sharp collapse in relative strength to historical lows as investors sought the relative safety of SPX stocks. Since then an ascending triangle basing effort has developed as SPX and COMP.Q have alternated between relative strength and relative weakness. COMP.Q finally broke out of this major base in late 2008/early 2009 near **110.** This breakout supports a multi-year relative outperformance cycle favoring COMP.Q over SPX. However, a near-term breakdown in relative strength is suggesting a consolidation phase to alleviate an overbought condition before the resumption of primary uptrend.
Aug '10 = 122
94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 0
Indexed Relative Strength to us ; SPX

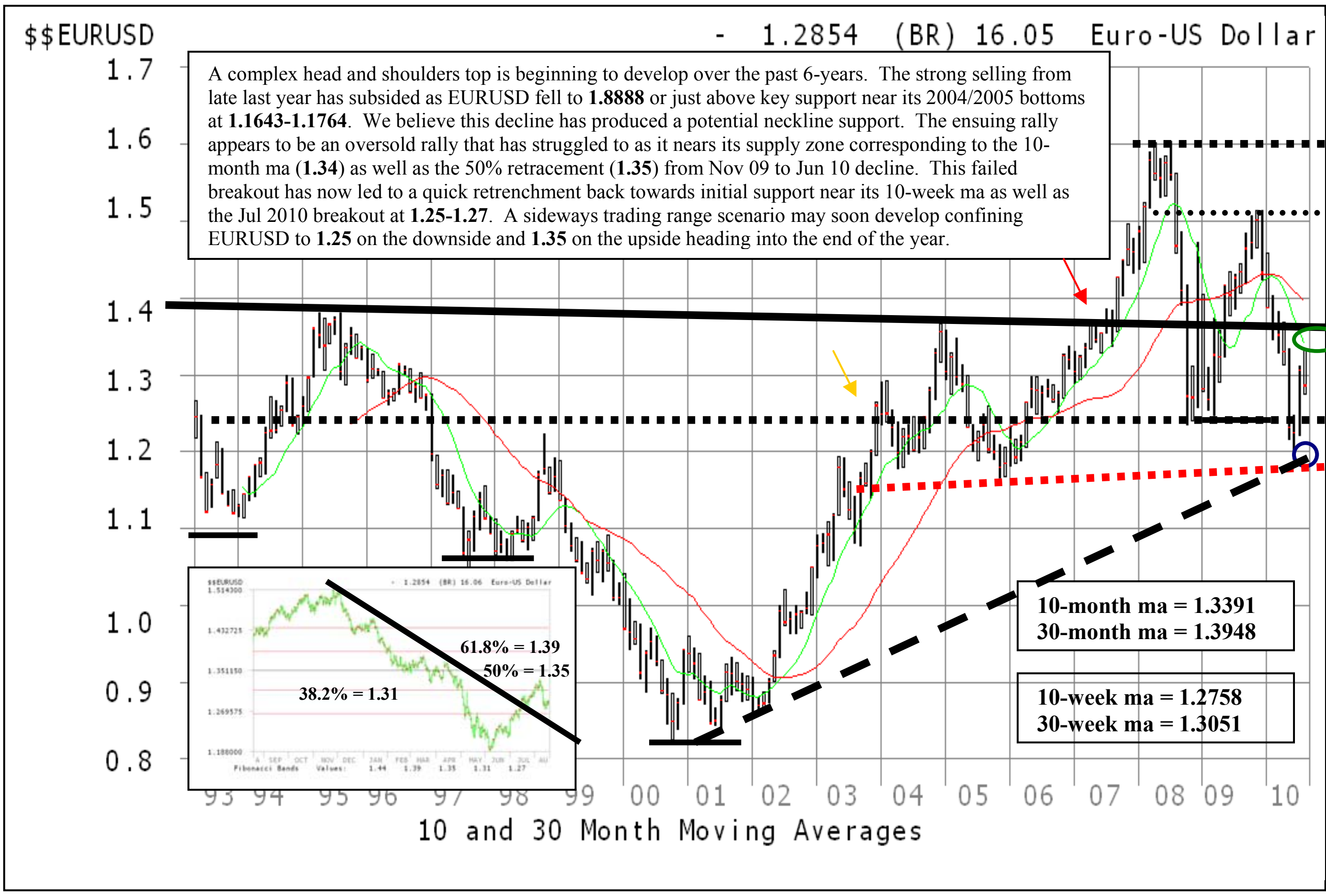

This study compares SPX Index to the 10-year Treasury Bonds (price). A rare multi-year fan formation breakout via the third downtrend (line #3) occurred during 2008 in the **low-40s.** This has led to a sharp jump in relative out performance favoring bonds over stocks over the past two year (2007 to early 2009). Note that this is very similar to the strong outperformance in Treasury Bonds during the 2000-2003 Tech/Telecom bear market. However, given the superior performance of bonds over stocks from 2007-2009 a reversal was expected. Treasuries underperformed SPX until Apr 2010 when the trend reversed course. Is this the start of another rally or will there be a continued decline to the **mid-30s**?
110
100
90
80
70
60
50
40
30
20
10
us;SPX
us@TY.1
Aug '10 = 54
1
2
3
94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 0
Indexed Relative Strength to us;SPX

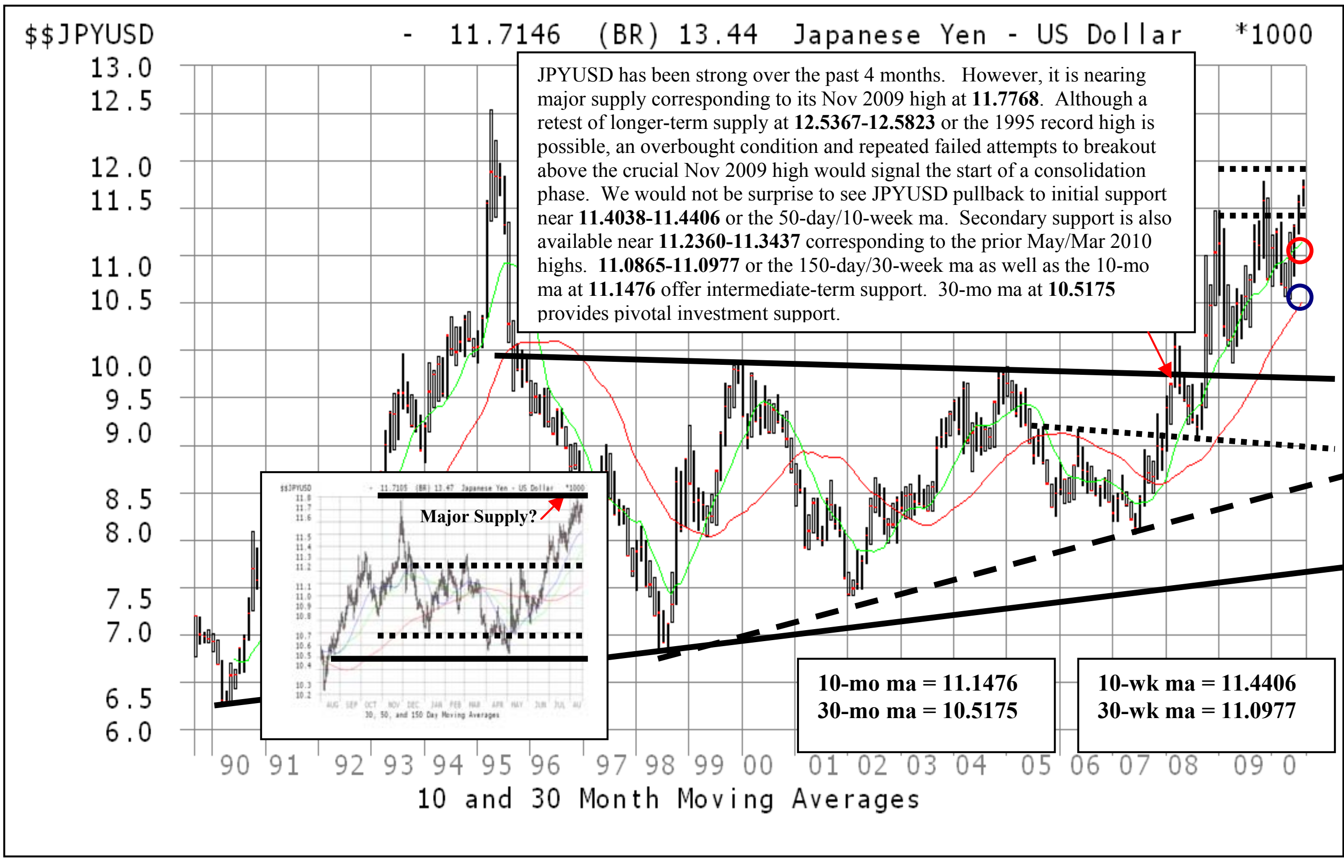

This study shows the relative performance between stocks (SPX) and commodities (CRB) since the early 1990s. A downtrend breakout (red arrow) during late-1999 first hinted of the start of a structural bull trend in commodities. A 4-year symmetrical triangle breakout (green arrow) during early-2002 later confirmed a major investment shift favoring hard assets (commodities) over soft assets (stocks). Subsequent breakouts during 2005 via 1995 downtrend breakout (blue) and again in early-2008 (grey) further reaffirm long-term out-performance coming from commodities. However, since late-2008 or Credit/Financial crisis stocks have regained relative outperformance. CRB needs to surge above the **mid 50s** to signal a recovery. On the other hand, if stocks continue to outperform commodities then the relative strength may lead to another retest of the third downtrend near the **low-40s** (grey circle).
120
110
100
90
80
70
60
50
40
30
20
us;SPX
us@CR
Aug '10 = 53
94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 0
Indexed Relative Strength to us;SPX

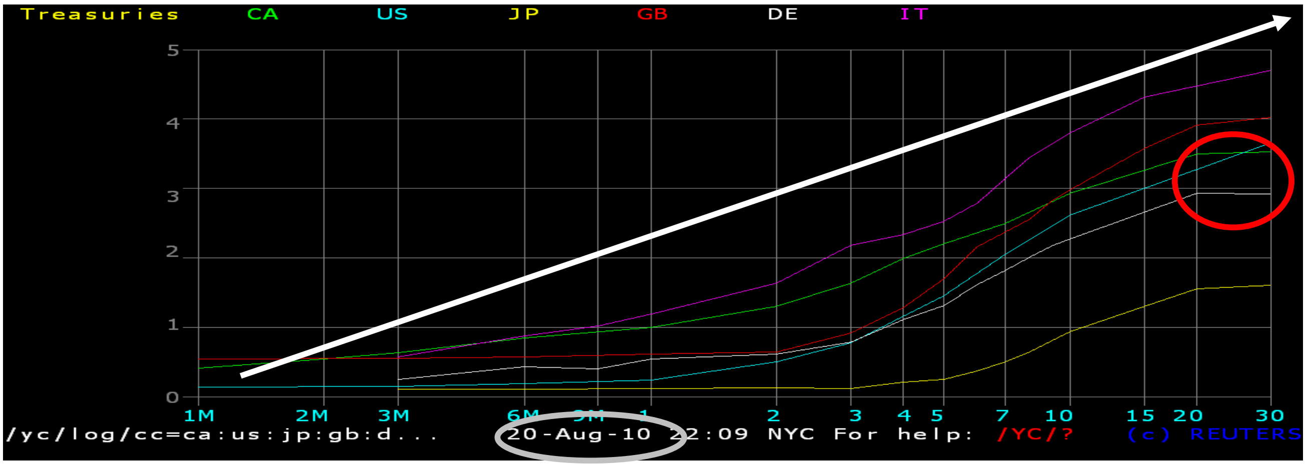

This study compares SPX Index to US Dollar Index. It is interesting to note that in the past 17 years, when the US Dollar Index underperforms SPX, it has led to strong SPX price rallies and vice versa. This is loosely based on the perception that US Dollar is a good proxy for global risk appetites. Under adverse market conditions USD acts as a safe haven asset. This inverse correlation was evident during late-2007 to early-2009 during the global financial/credit crisis. However, starting in Feb/Mar 2009 the US Dollar Index suddenly reversed direction and fell sharply coinciding with the start of the Mar 2009 cyclical bull rally in stocks. This downtrend is now bouncing of key support near the **mid-30s** corresponding to the extension of 1993 downtrend. The ability to find support here coupled with a sustainable rally can trigger another USD Dollar Index rally alerting us to risk aversion and the start of a deeper stock market decline.
110
100
90
80
70
60
50
40
30
20
10
us;SPX
us@DX.1
Aug '10 = 38
94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 0
Indexed Relative Strength to us;SPX


us@DX.1 - 82.310 (OF) 16.21 US Dollar Index ICE FUT US
Head and Shoulders Top Pattern
Head
10-mo ma = 81
30-mo ma = 80
Top of Band = 108
Middle = 87
Bottom = 67
Left Shoulder
Left Shoulder 2
Left Shoulder 3
Right Shoulder 1
Right Shoulder 2 & 3
Structural Bear
125
100
75
50
A 20+ year head and shoulders top pattern suggests US Dollar Index remains vulnerable for further longer-term technical weakness. The breakout above neckline support last year at **78.43-80.5** or 1991, 1992, 1995, and 2004 lows generated another strong technical rally that led to another retest of the mid-point of its long-term regression band near the **high-80s** to **low-90s**. However, as is the case in to prior rallies the US Dollar faded once again. The lack of a follow thru on this strong surge reaffirms a third right shoulder near **88.80** corresponding to the Jun 2010 high. A subsequent setback over the past 2 months seems to have found key support at **79-80**. The ability to maintain this support may set into motion a trading range scenario into the end of the year as US Dollar Index is likely to be confined to a wide range between **high-70s** and the **high-80s.**
87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 0
Regression with 2 Standard Deviation Band

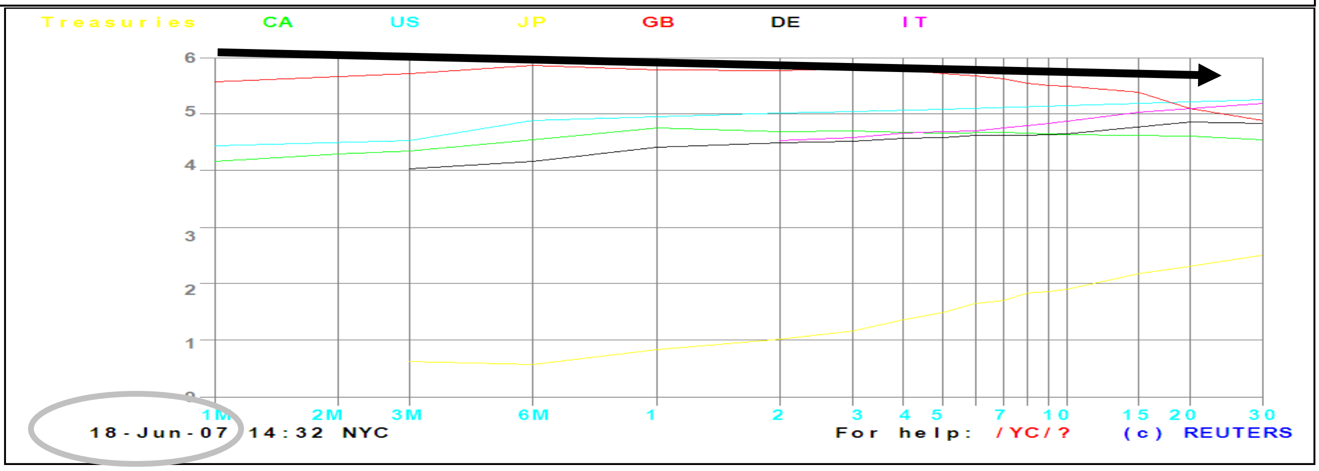

us@DX.1 - 82.310 (OF) 16.11 US Dollar Index ICE FUT US
121.290
116.266
111.242
106.218
101.194
96.170
91.146
86.12
81.09
76.07
71.05
61.8% = 102.1
50% = 96.17
38.2% = 90.24
A major 6-year downtrend breakout near the **low-to-mid 70s** (red arrow) during 2008 coupled with a surge above the 38.2% retracement from 2005 high to 2008 low at **79.26** offers technical signs a USD recovery. The Nov 2009 rally quickly led to a retest of the 2008-2009 highs (**89**), and the 38.2% retracement (**90.24**) from 2001-2008 decline. However, failure to surpass this key supply zone has prompted a sharp pullback to important near-term support at **79.78-80.5** creating the potential for a right shoulder to a 6-year head and shoulders bottom pattern. If indeed this is major bottom we suspect that it will take a time before a sufficient technical base is established to propel it to retest its crucial neckline supply at **89-93**. On a shorter term basis, this recent rally is approaching key near-term supply at **83.5 +/-1** coinciding with the 50-day and 150-day ma as well as the extension of the Nov 2009 uptrend line. Breakout here renders a retest of the **high-80s**. Failure to breakout here will prompt another decline back to the Aug 2010 low near **80.17**. Below **79.79-80.17** suggests downside risks to **76.74-77.64** or Jan 2010 bottom and 76.4% retracement from Nov 2009 rally. The Nov/Dec 2009 bottoms and the 2008 uptrend at **74.21-74.31** remain crucial intermediate-term support as well as the 2008 bottom at **71.05**.
Key intermediate-term supply = 89-93
50% = 81.50
61.8% = 79.78
76.4% = 77.65
30-day ma = 82.31
50-day ma = 83.60
150-day ma = 82.75
200-day ma = 81.22
Key near-term support = 79.78-80.5
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010
Fibonacci Bands Values: 109.43 102.10 96.17 90.24 82.91

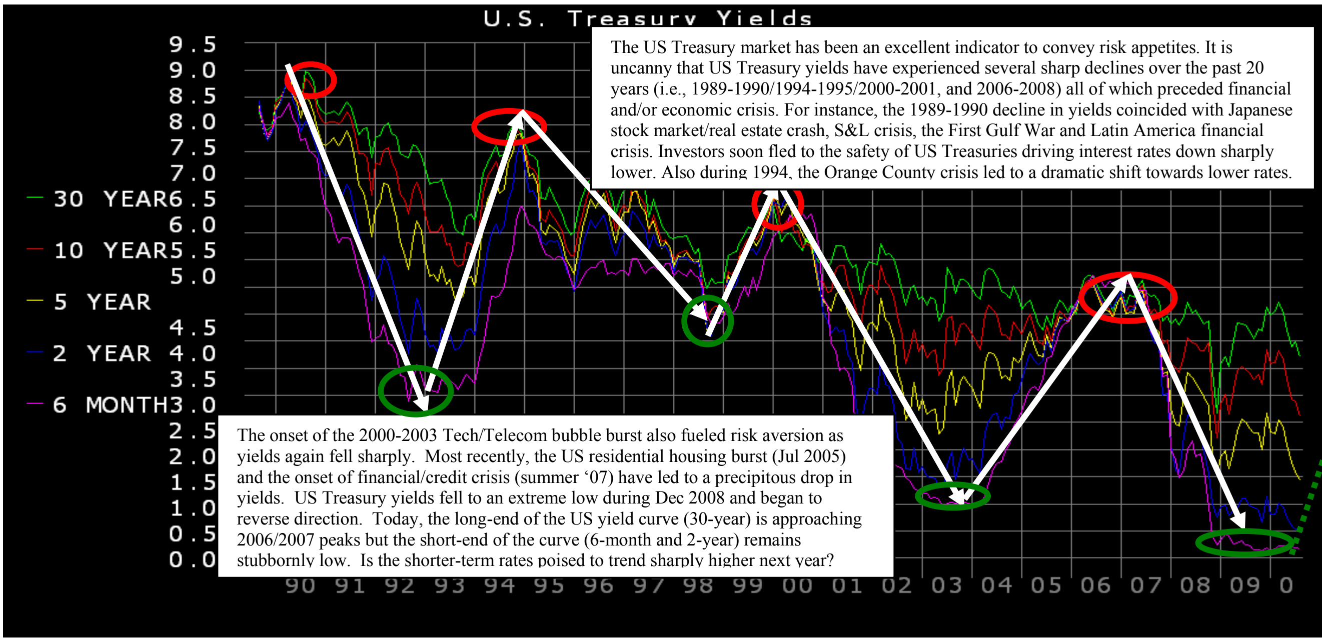

$$EURUSD - 1.2854 (BR) 16.05 Euro-US Dollar
A complex head and shoulders top is beginning to develop over the past 6-years. The strong selling from late last year has subsided as EURUSD fell to **1.8888** or just above key support near its 2004/2005 bottoms at **1.1643-1.1764**. We believe this decline has produced a potential neckline support. The ensuing rally appears to be an oversold rally that has struggled to as it nears its supply zone corresponding to the 10-month ma (**1.34**) as well as the 50% retracement (**1.35**) from Nov 09 to Jun 10 decline. This failed breakout has now led to a quick retrenchment back towards initial support near its 10-week ma as well as the Jul 2010 breakout at **1.25-1.27**. A sideways trading range scenario may soon develop confining EURUSD to **1.25** on the downside and **1.35** on the upside heading into the end of the year.
61.8% = 1.39
50% = 1.35
38.2% = 1.31
10-month ma = 1.3391
30-month ma = 1.3948
10-week ma = 1.2758
30-week ma = 1.3051
10 and 30 Month Moving Averages

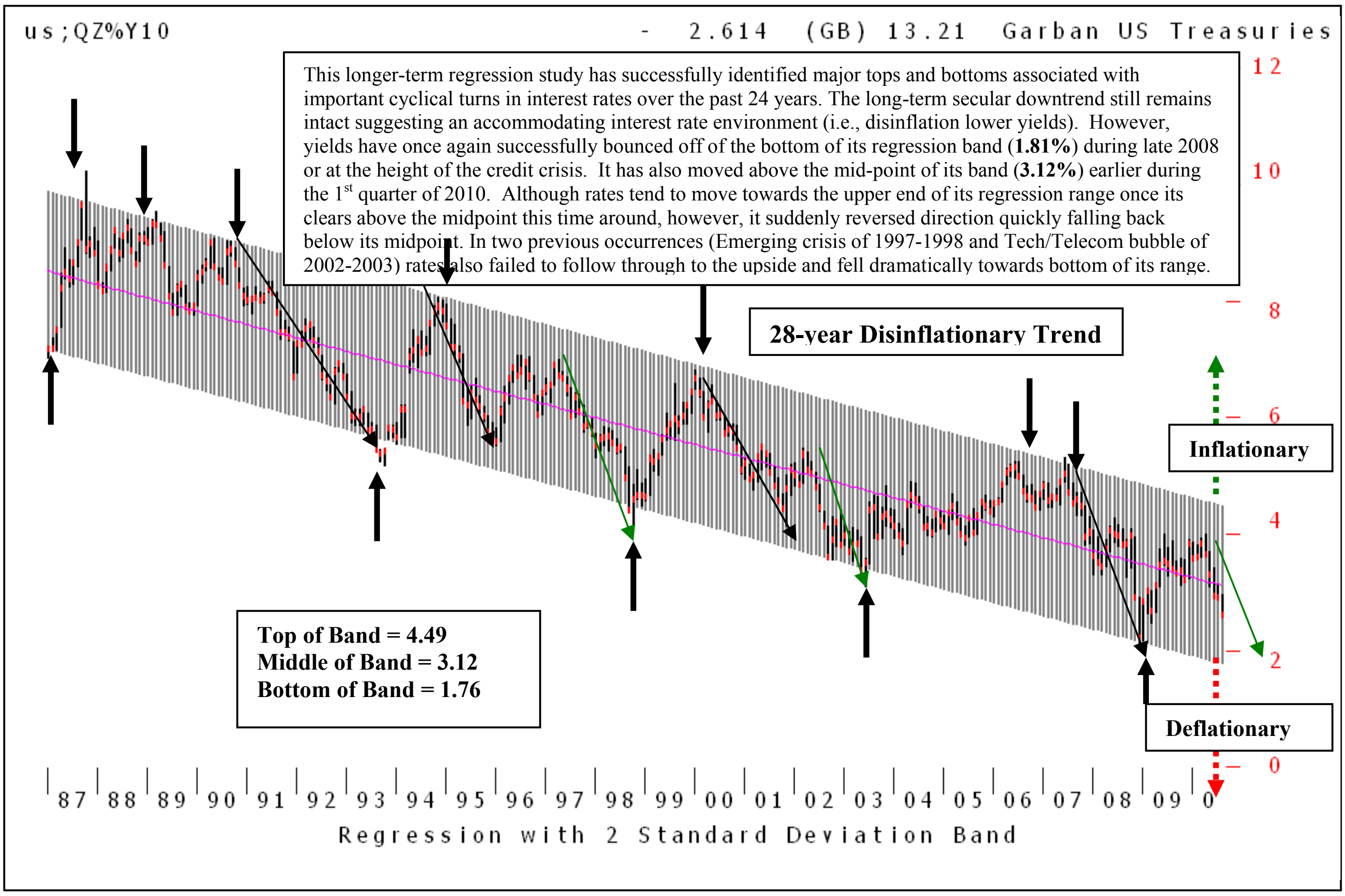

$$JPYUSD - 11.7146 (BR) 13.44 Japanese Yen - US Dollar *1000
JPYUSD has been strong over the past 4 months. However, it is nearing major supply corresponding to its Nov 2009 high at **11.7768**. Although a retest of longer-term supply at **12.5367-12.5823** or the 1995 record high is possible, an overbought condition and repeated failed attempts to breakout above the crucial Nov 2009 high would signal the start of a consolidation phase. We would not be surprise to see JPYUSD pullback to initial support near **11.4038-11.4406** or the 50-day/10-week ma. Secondary support is also available near **11.2360-11.3437** corresponding to the prior May/Mar 2010 highs. **11.0865-11.0977** or the 150-day/30-week ma as well as the 10-mo ma at **11.1476** offer intermediate-term support. 30-mo ma at **10.5175** provides pivotal investment support.
Major Supply?
10-mo ma = 11.1476
30-mo ma = 10.5175
10-wk ma = 11.4406
30-wk ma = 11.0977
10 and 30 Month Moving Averages

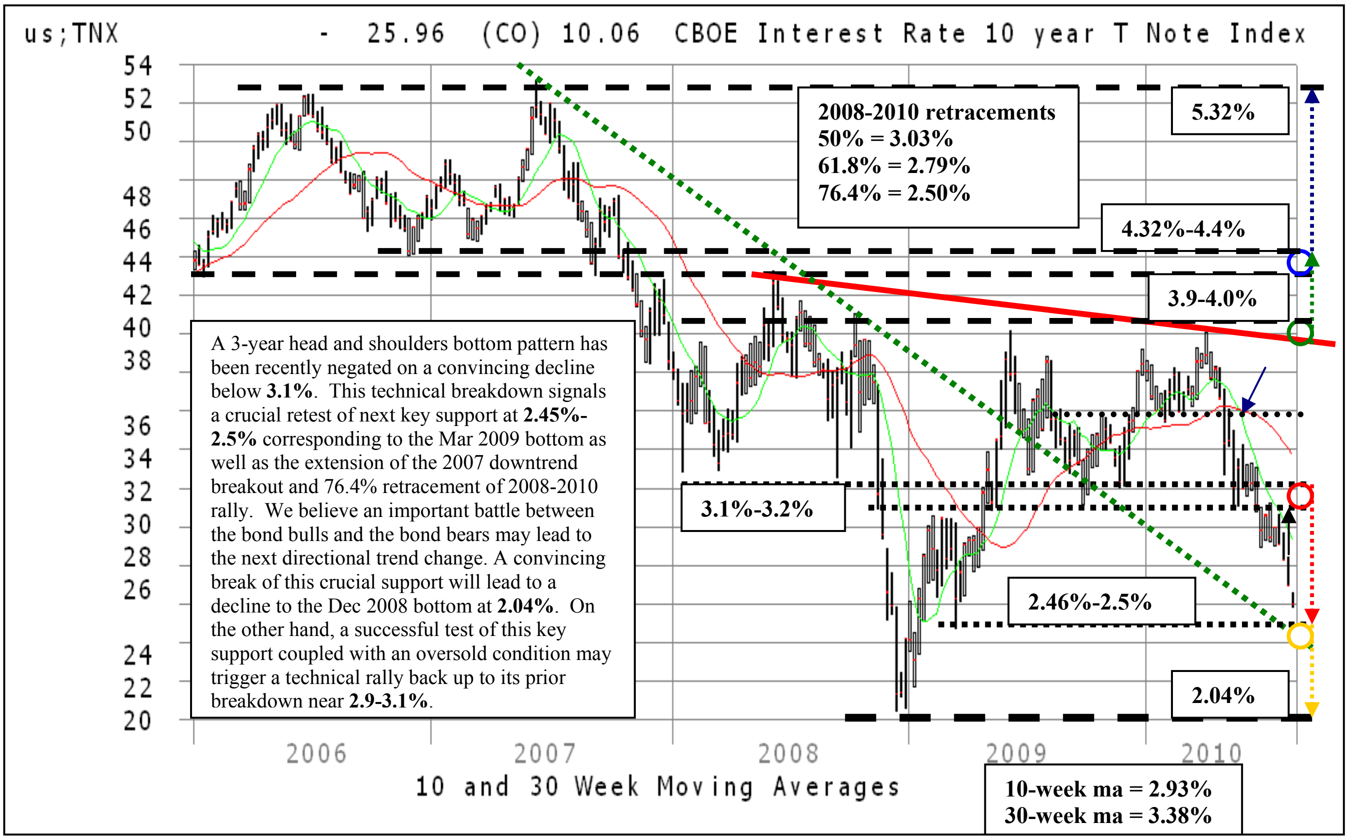


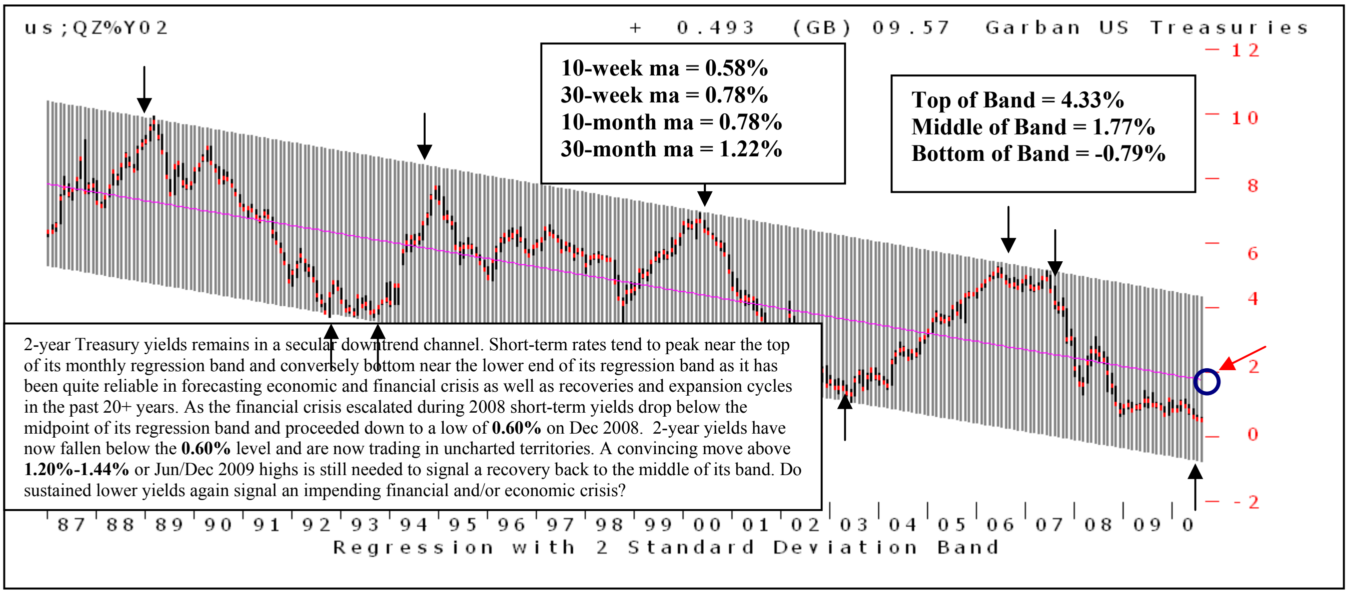
The above chart shows the yield curves for the G7 countries on 20 Aug 2010. The bottom chart is the snapshot of the same yield curve taken during 18 June 2007 or the start of the subprime/global credit/financial crisis. If you recall, the consensus view was for a continued global synchronized recovery. However, many G7 countries recorded flat to inverted yield curves. This indicated a less robust global outlook and warned of an impending global economic contraction. Today, there are some questioning the sustainability of the global economic recovery and others suggesting a double dip or worse a deflationary environment. However, the current global yield curve continues to show G7 countries with continued rising yield curves. This suggests the global stock/economic recovery may still be sustainable. If global yields begin to flatten along the long-end an economic recovery is nearing maturity.



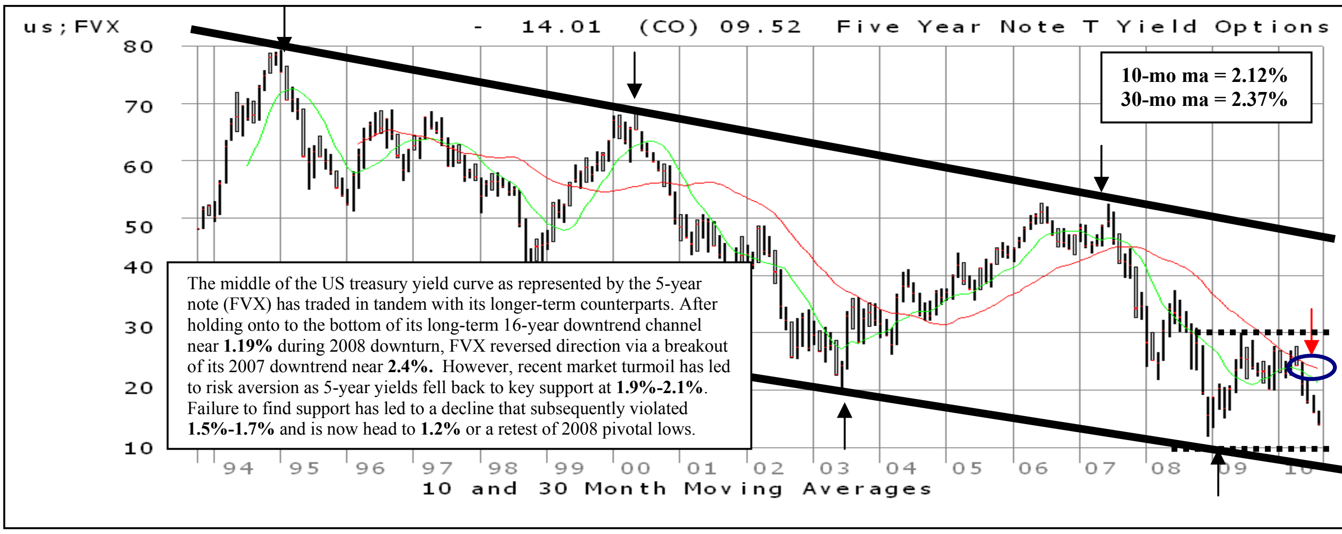



us;QZ%Y10 - 2.614 (GB) 13.21 Garban US Treasuries
This longer-term regression study has successfully identified major tops and bottoms associated with important cyclical turns in interest rates over the past 24 years. The long-term secular downtrend still remains intact suggesting an accommodating interest rate environment (i.e., disinflation lower yields). However, yields have once again successfully bounced off of the bottom of its regression band (**1.81%**) during late 2008 or at the height of the credit crisis. It has also moved above the mid-point of its band (**3.12%**) earlier during the 1st quarter of 2010. Although rates tend to move towards the upper end of its regression range once its clears above the midpoint this time around, however, it suddenly reversed direction quickly falling back below its midpoint. In two previous occurrences (Emerging crisis of 1997-1998 and Tech/Telecom bubble of 2002-2003) rates also failed to follow through to the upside and fell dramatically towards bottom of its range.
28-year Disinflationary Trend
Inflationary
Deflationary
Top of Band = 4.49
Middle of Band = 3.12
Bottom of Band = 1.76
12
10
8
6
4
2
0
87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 0
Regression with 2 Standard Deviation Band

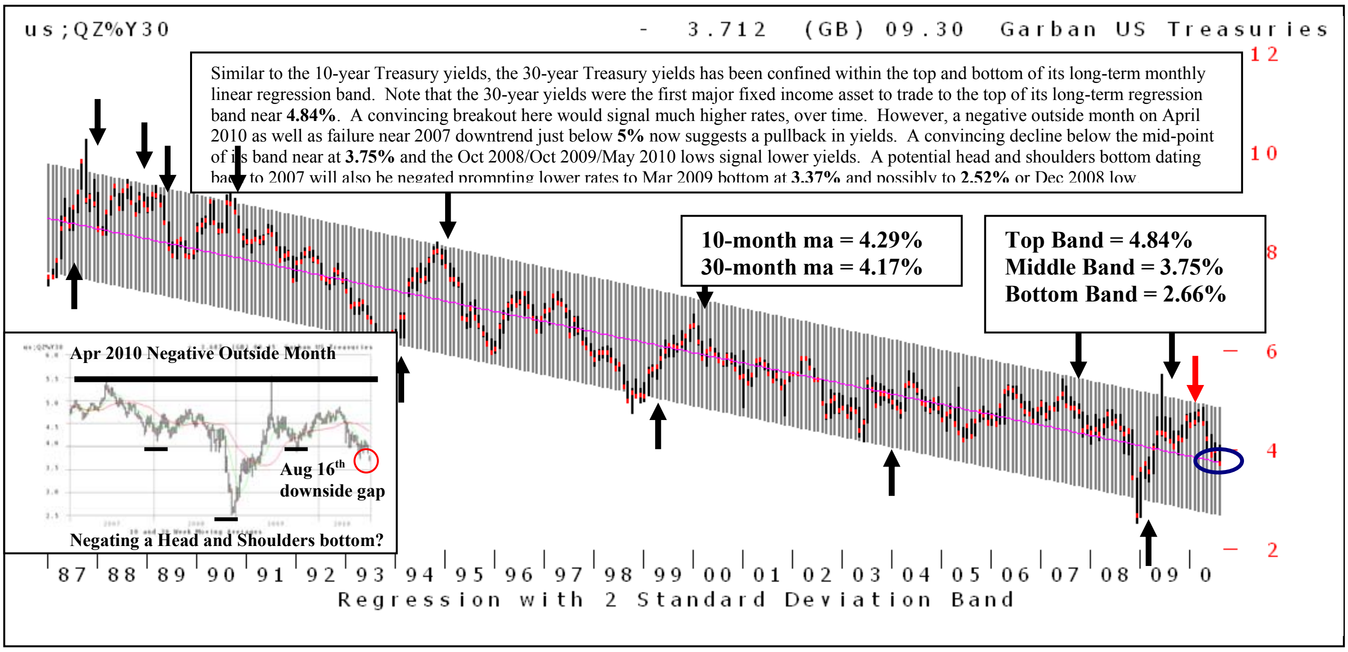

us;TNX - 25.96 (CO) 10.06 CBOE Interest Rate 10 year T Note Index
54
52
50
48
46
44
42
40
38
36
34
32
30
28
26
24
22
20
2008-2010 retracements
50% = 3.03%
61.8% = 2.79%
76.4% = 2.50%
5.32%
4.32%-4.4%
3.9-4.0%
3.1%-3.2%
2.46%-2.5%
2.04%
A 3-year head and shoulders bottom pattern has been recently negated on a convincing decline below **3.1%**. This technical breakdown signals a crucial retest of next key support at **2.45%-2.5%** corresponding to the Mar 2009 bottom as well as the extension of the 2007 downtrend breakout and 76.4% retracement of 2008-2010 rally. We believe an important battle between the bond bulls and the bond bears may lead to the next directional trend change. A convincing break of this crucial support will lead to a decline to the Dec 2008 bottom at **2.04%**. On the other hand, a successful test of this key support coupled with an oversold condition may trigger a technical rally back up to its prior breakdown near **2.9-3.1%**.
2006
2007
2008
2009
2010
10 and 30 Week Moving Averages
10-week ma = 2.93%
30-week ma = 3.38%



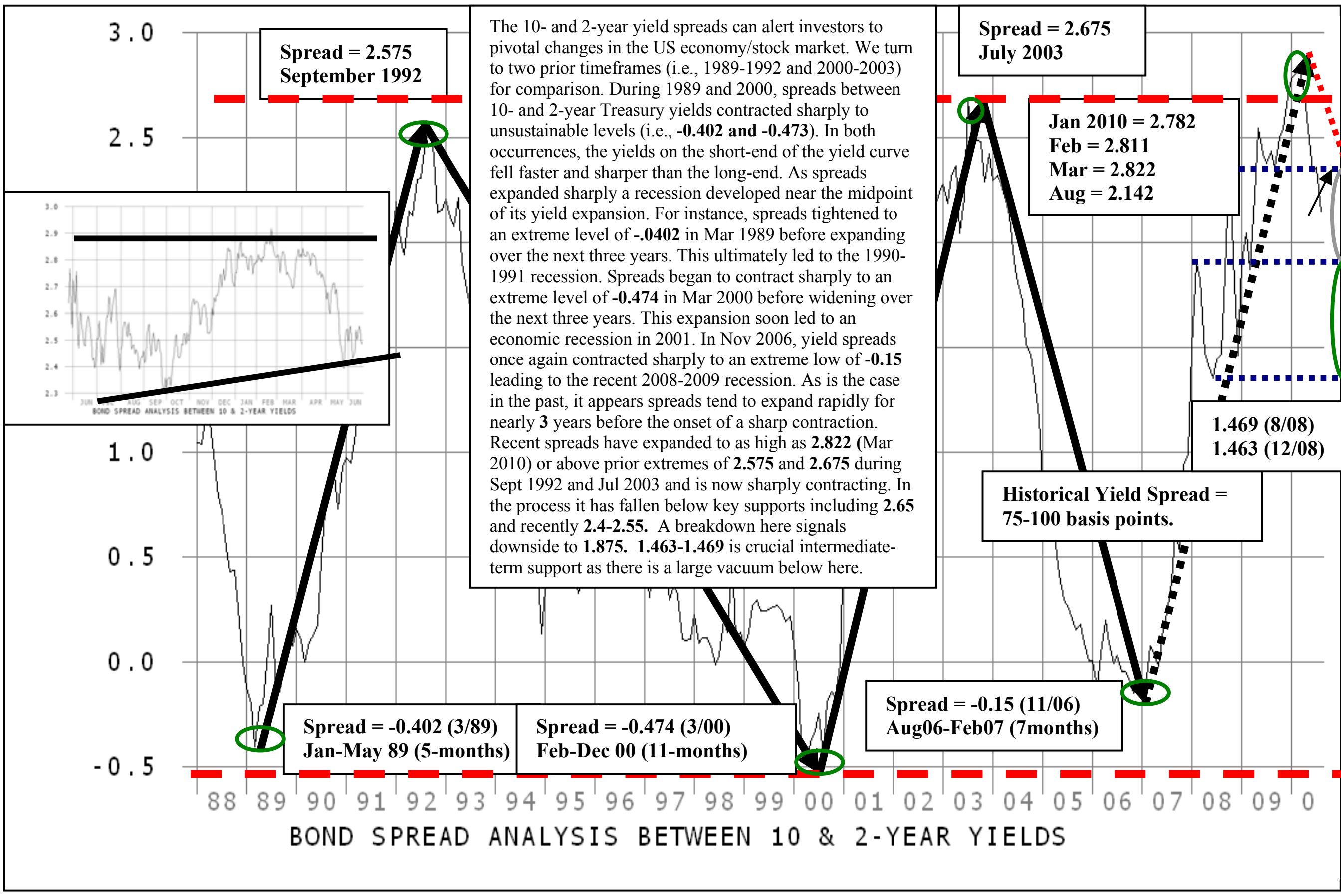
2-year Treasury yields remains in a secular downtrend channel. Short-term rates tend to peak near the top of its monthly regression band and conversely bottom near the lower end of its regression band as it has been quite reliable in forecasting economic and financial crisis as well as recoveries and expansion cycles in the past 20+ years. As the financial crisis escalated during 2008 short-term yields drop below the midpoint of its regression band and proceeded down to a low of **0.60%** on Dec 2008. 2-year yields have now fallen below the **0.60%** level and are now trading in uncharted territories. A convincing move above **1.20%-1.44%** or Jun/Dec 2009 highs is still needed to signal a recovery back to the middle of its band. Do sustained lower yields again signal an impending financial and/or economic crisis?



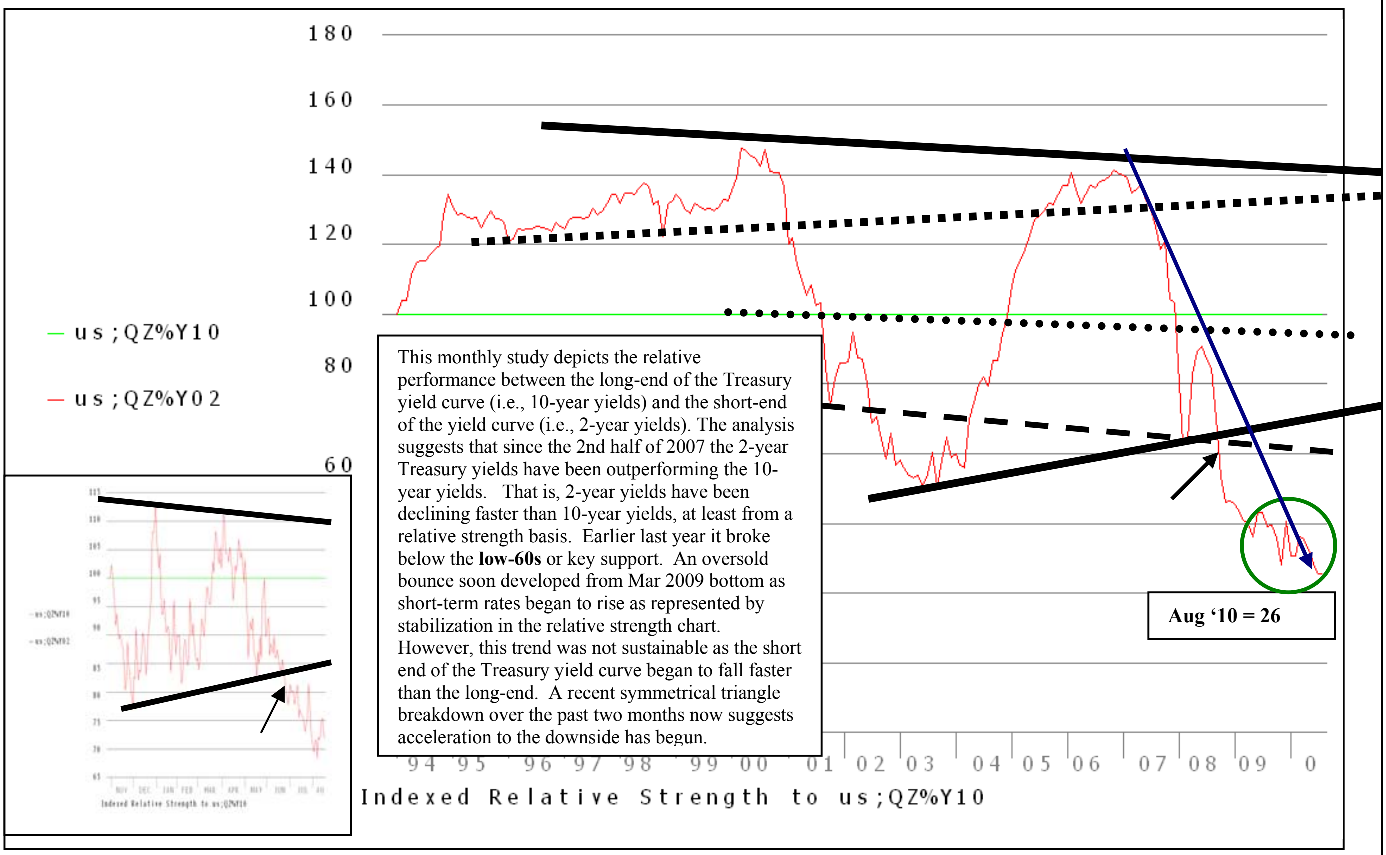
The middle of the US treasury yield curve as represented by the 5-year note (FVX) has traded in tandem with its longer-term counterparts. After holding onto to the bottom of its long-term 16-year downtrend channel near **1.19%** during 2008 downturn, FVX reversed direction via a breakout of its 2007 downtrend near **2.4%.** However, recent market turmoil has led to risk aversion as 5-year yields fell back to key support at **1.9%-2.1%**. Failure to find support has led to a decline that subsequently violated **1.5%-1.7%** and is now head to **1.2%** or a retest of 2008 pivotal lows.



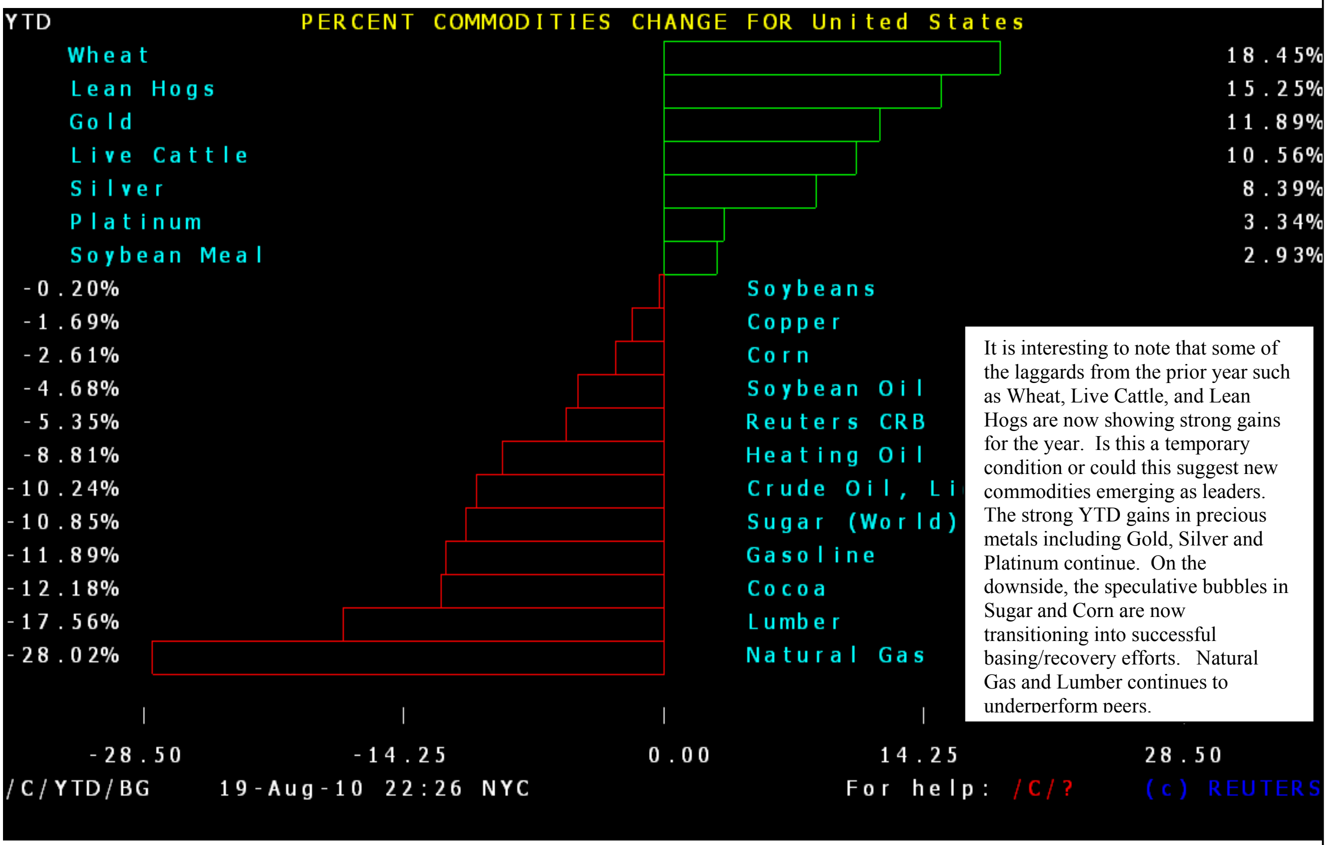
Similar to the 10-year Treasury yields, the 30-year Treasury yields has been confined within the top and bottom of its long-term monthly linear regression band. Note that the 30-year yields were the first major fixed income asset to trade to the top of its long-term regression band near **4.84%**. A convincing breakout here would signal much higher rates, over time. However, a negative outside month on April 2010 as well as failure near 2007 downtrend just below **5%** now suggests a pullback in yields. A convincing decline below the mid-point of its band near at **3.75%** and the Oct 2008/Oct 2009/May 2010 lows signal lower yields. A potential head and shoulders bottom dating back to 2007 will also be negated prompting lower rates to Mar 2009 bottom at **3.37%** and possibly to **2.52%** or Dec 2008 low

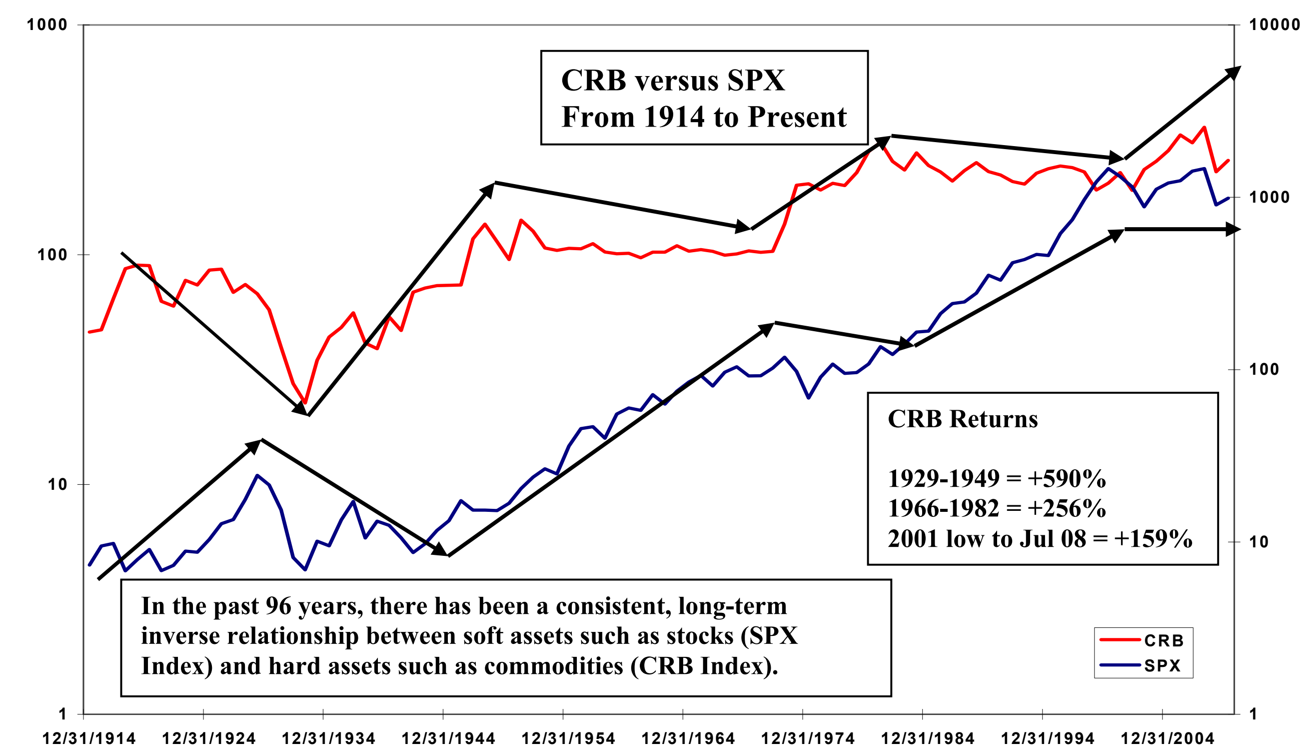


The 10- and 2-year yield spreads can alert investors to pivotal changes in the US economy/stock market. We turn to two prior timeframes (i.e., 1989-1992 and 2000-2003) for comparison. During 1989 and 2000, spreads between 10- and 2-year Treasury yields contracted sharply to unsustainable levels (i.e., **-0.402 and -0.473**). In both occurrences, the yields on the short-end of the yield curve fell faster and sharper than the long-end. As spreads expanded sharply a recession developed near the midpoint of its yield expansion. For instance, spreads tightened to an extreme level of **-.0402** in Mar 1989 before expanding over the next three years. This ultimately led to the 1990-1991 recession. Spreads began to contract sharply to an extreme level of **-0.474** in Mar 2000 before widening over the next three years. This expansion soon led to an economic recession in 2001. In Nov 2006, yield spreads once again contracted sharply to an extreme low of **-0.15** leading to the recent 2008-2009 recession. As is the case in the past, it appears spreads tend to expand rapidly for nearly **3** years before the onset of a sharp contraction. Recent spreads have expanded to as high as **2.822** (Mar 2010) or above prior extremes of **2.575** and **2.675** during Sept 1992 and Jul 2003 and is now sharply contracting. In the process it has fallen below key supports including **2.65** and recently **2.4-2.55.** A breakdown here signals downside to **1.875. 1.463-1.469** is crucial intermediate-term support as there is a large vacuum below here.

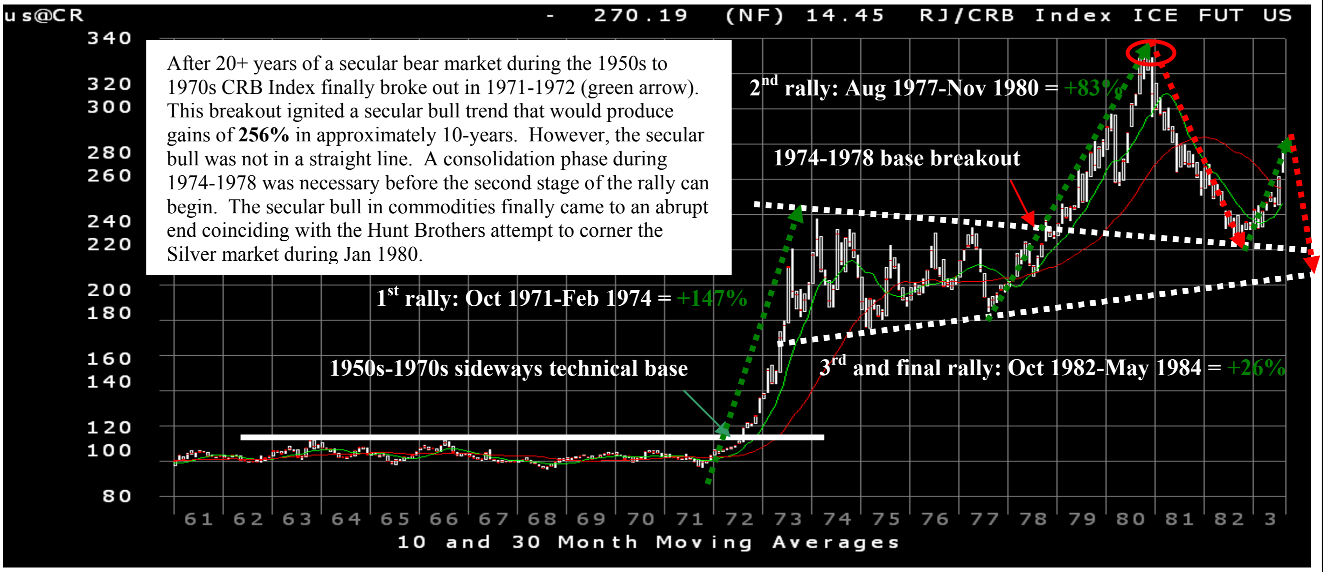


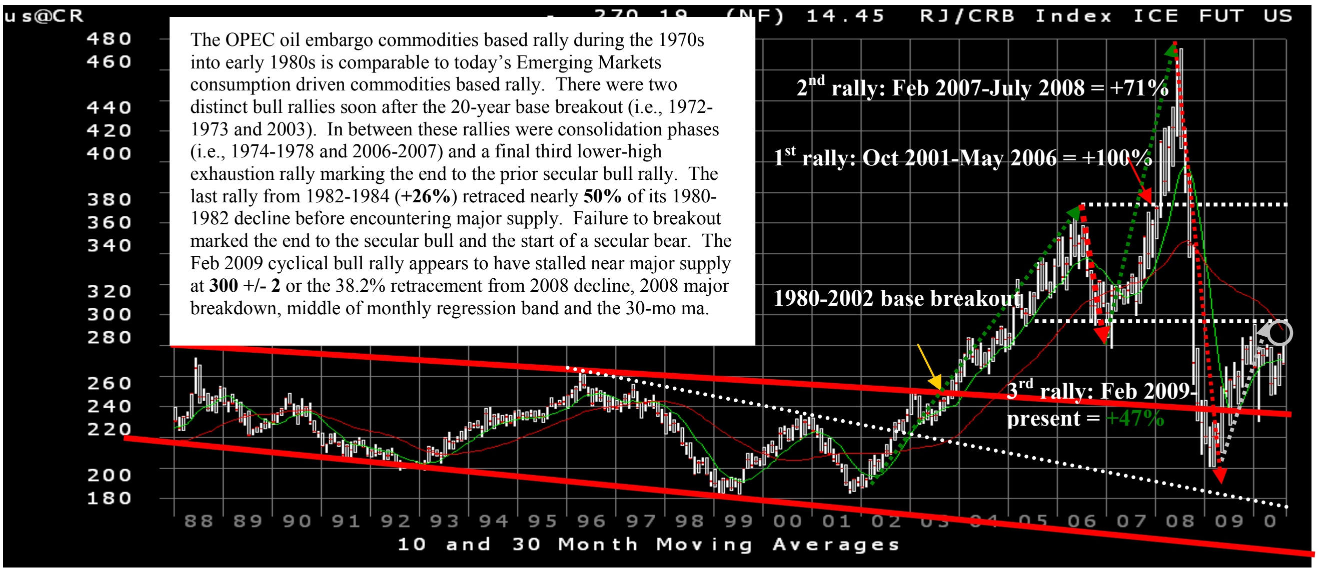
This monthly study depicts the relative performance between the long-end of the Treasury yield curve (i.e., 10-year yields) and the short-end of the yield curve (i.e., 2-year yields). The analysis suggests that since the 2nd half of 2007 the 2-year Treasury yields have been outperforming the 10-year yields. That is, 2-year yields have been declining faster than 10-year yields, at least from a relative strength basis. Earlier last year it broke below the **low-60s** or key support. An oversold bounce soon developed from Mar 2009 bottom as short-term rates began to rise as represented by stabilization in the relative strength chart. However, this trend was not sustainable as the short end of the Treasury yield curve began to fall faster than the long-end. A recent symmetrical triangle breakdown over the past two months now suggests acceleration to the downside has begun.

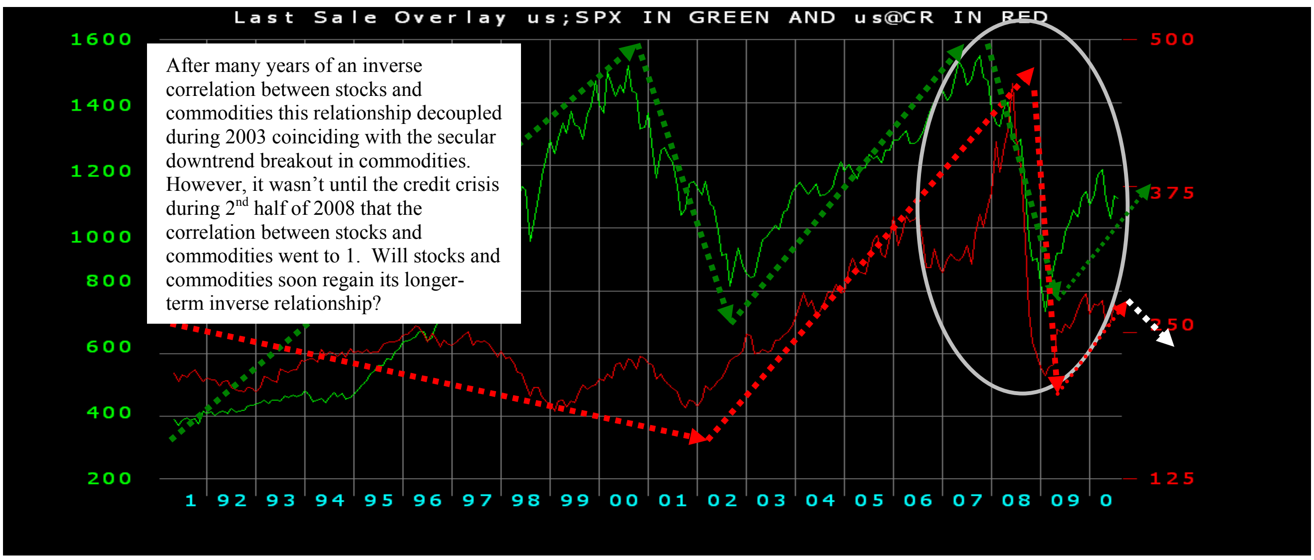


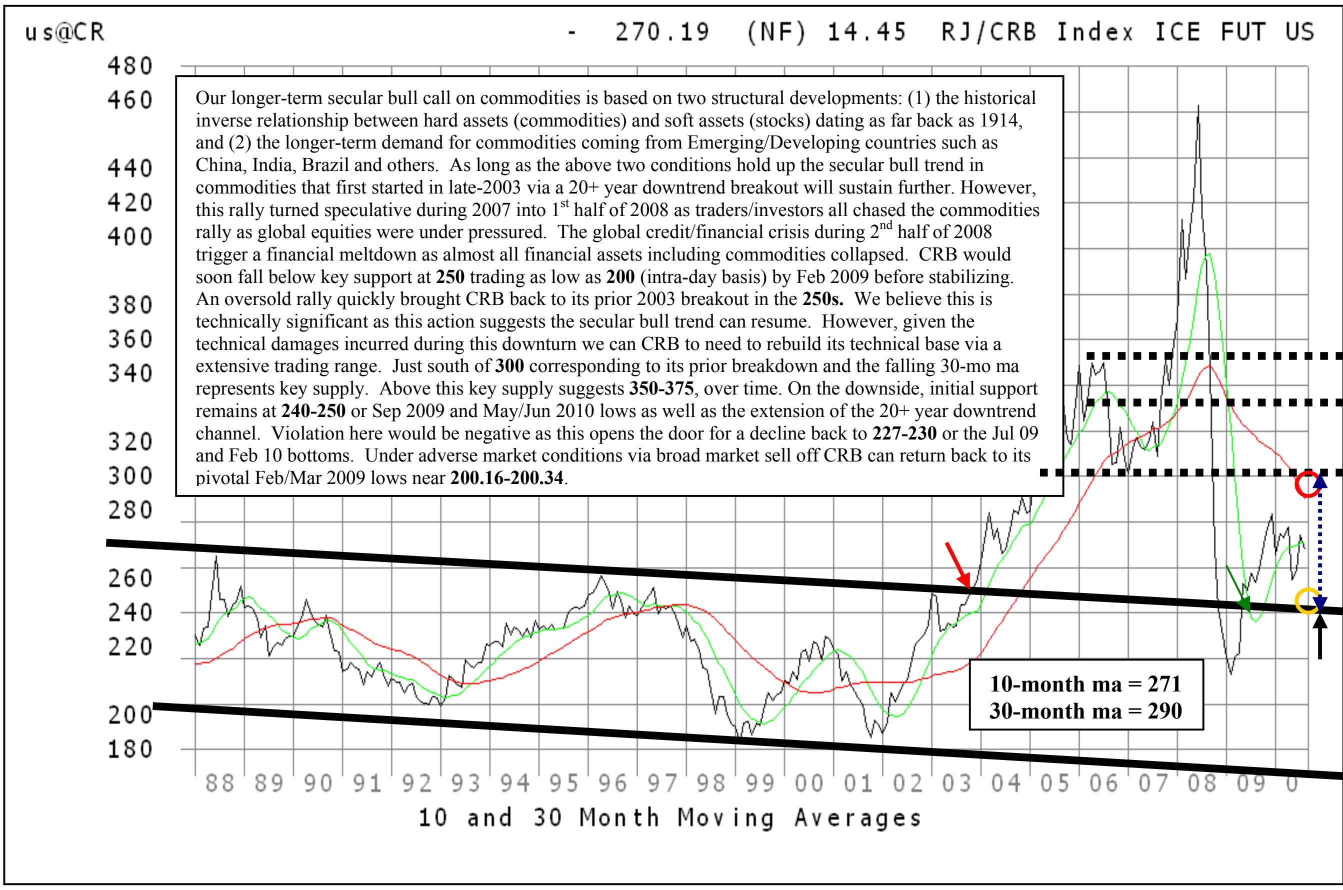


This long-term study shows a direct inverse relationship between soft assets (i.e., stocks) and hard assets (i.e., commodities) dating back to 1914. When equities enter into a long-term bear trend, commodities enter into a long-term bull trend and vice versa. Based on this long-term inverse relationship, we believe the current direct correlation is temporary. If you believe, as we do, that SPX (stocks) is at the midpoint of its long-term secular trading range that requires another **5-10** years of sideways trading before the next secular bull trend then CRB (commodities) will likely revert back to its long-term secular bull trend in the near future.

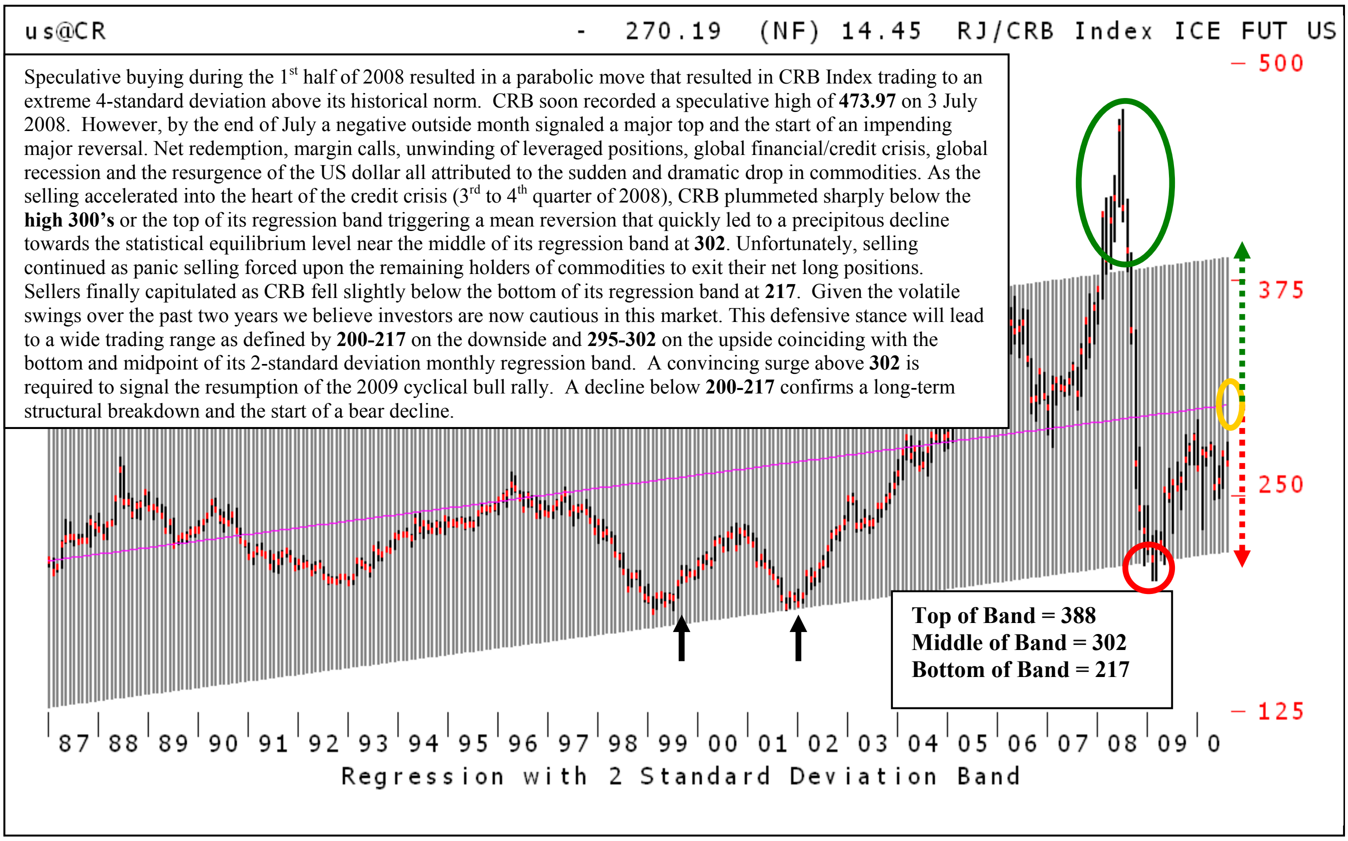

us@CR - 270.19 (NF) 14.45 RJ/CRB Index ICE FUT US
After 20+ years of a secular bear market during the 1950s to 1970s CRB Index finally broke out in 1971-1972 (green arrow). This breakout ignited a secular bull trend that would produce gains of **256%** in approximately 10-years. However, the secular bull was not in a straight line. A consolidation phase during 1974-1978 was necessary before the second stage of the rally can begin. The secular bull in commodities finally came to an abrupt end coinciding with the Hunt Brothers attempt to corner the Silver market during Jan 1980.
2nd rally: Aug 1977-Nov 1980 = +83%
1974-1978 base breakout
1st rally: Oct 1971-Feb 1974 = +147%
1950s-1970s sideways technical base
3rd and final rally: Oct 1982-May 1984 = +26%
10 and 30 Month Moving Averages


us@CR - 270.19 (NF) 14.45 RJ/CRB Index ICE FUT US
The OPEC oil embargo commodities based rally during the 1970s into early 1980s is comparable to today's Emerging Markets consumption driven commodities based rally. There were two distinct bull rallies soon after the 20-year base breakout (i.e., 1972-1973 and 2003). In between these rallies were consolidation phases (i.e., 1974-1978 and 2006-2007) and a final third lower-high exhaustion rally marking the end to the prior secular bull rally. The last rally from 1982-1984 (**+26%**) retraced nearly **50%** of its 1980-1982 decline before encountering major supply. Failure to breakout marked the end to the secular bull and the start of a secular bear. The Feb 2009 cyclical bull rally appears to have stalled near major supply at **300 +/- 2** or the 38.2% retracement from 2008 decline, 2008 major breakdown, middle of monthly regression band and the 30-mo ma.
2nd rally: Feb 2007-July 2008 = +71%
1st rally: Oct 2001-May 2006 = +100%
1980-2002 base breakout
3rd rally: Feb 2009-present = +47%
10 and 30 Month Moving Averages

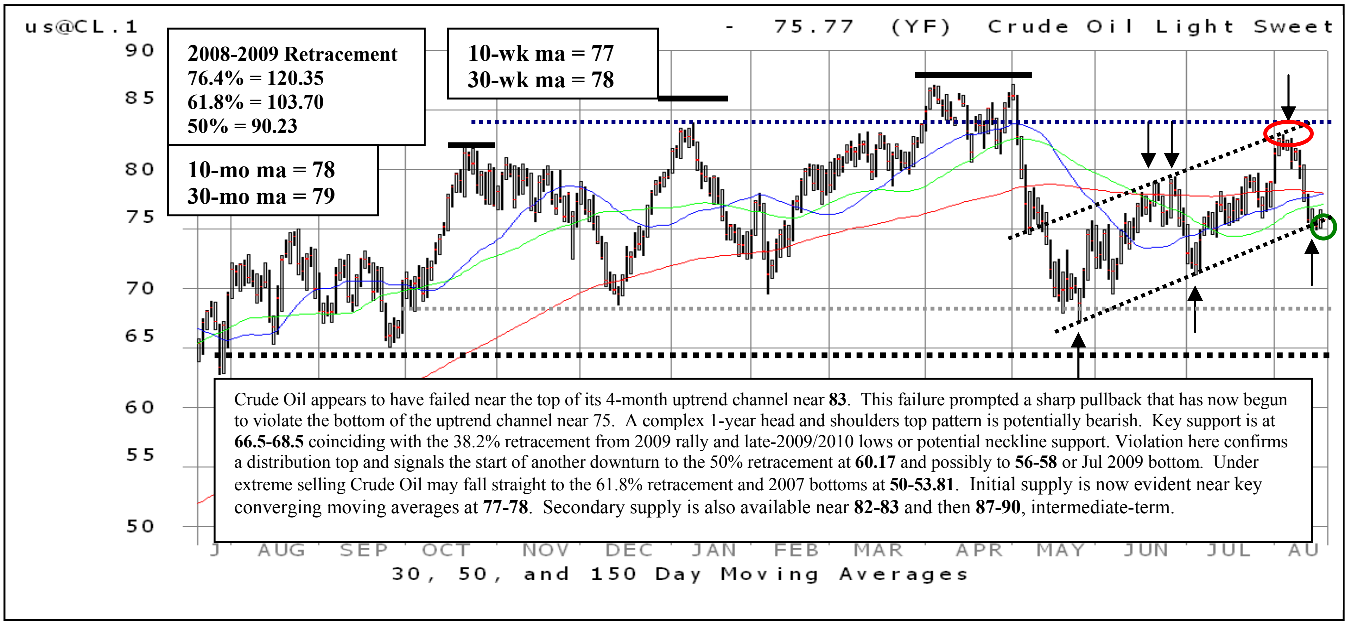

Last Sale Overlay us;SPX IN GREEN AND us@CR IN RED
After many years of an inverse correlation between stocks and commodities this relationship decoupled during 2003 coinciding with the secular downtrend breakout in commodities. However, it wasn't until the credit crisis during 2nd half of 2008 that the correlation between stocks and commodities went to 1. Will stocks and commodities soon regain its longer-term inverse relationship?

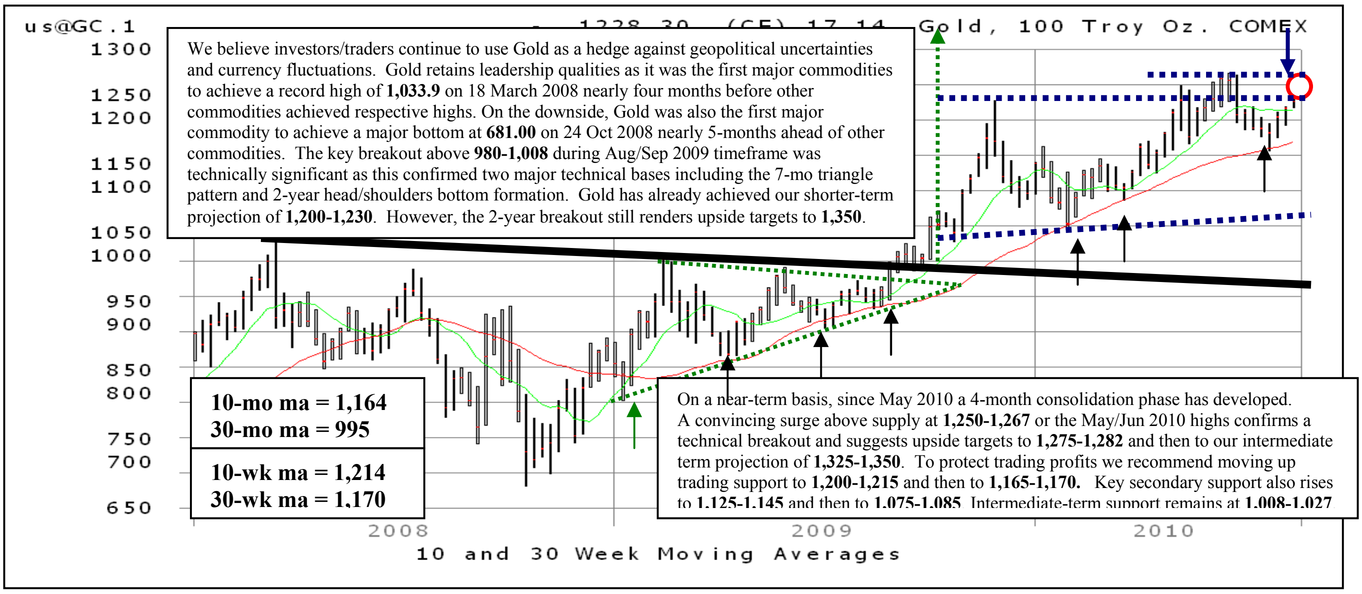


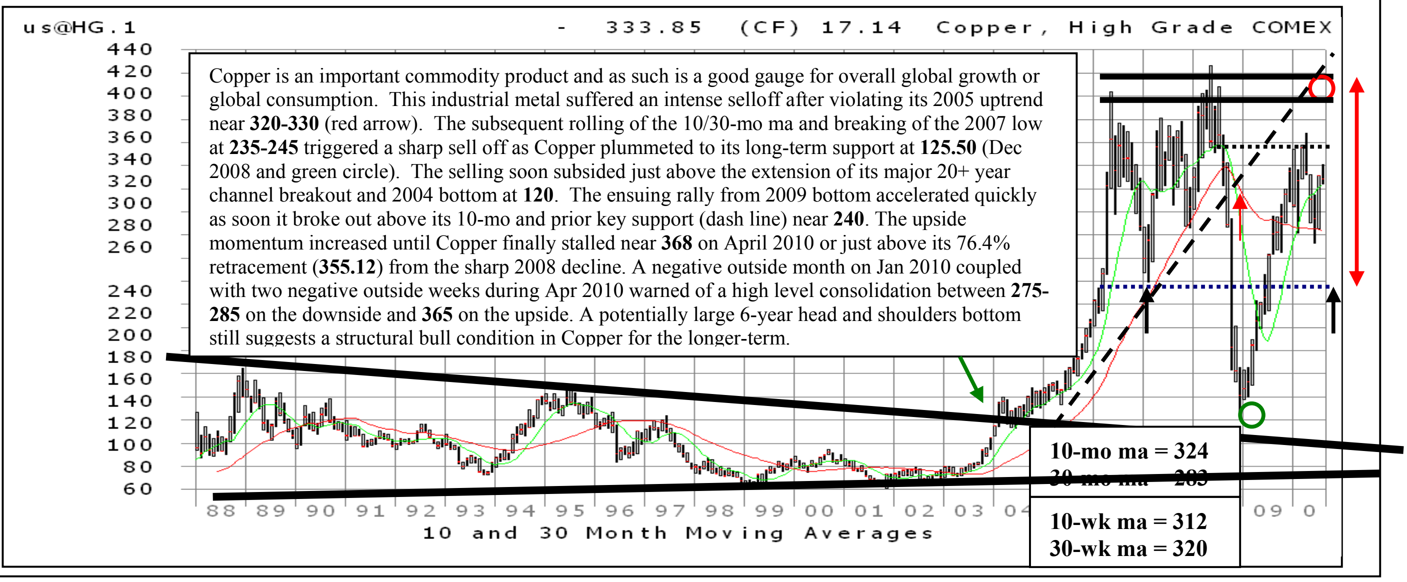
us@CR - 270.19 (NF) 14.45 RJ/CRB Index ICE FUT US
480
460
440
420
400
380
360
340
320
300
280
260
240
220
200
180
Our longer-term secular bull call on commodities is based on two structural developments: (1) the historical inverse relationship between hard assets (commodities) and soft assets (stocks) dating as far back as 1914, and (2) the longer-term demand for commodities coming from Emerging/Developing countries such as China, India, Brazil and others. As long as the above two conditions hold up the secular bull trend in commodities that first started in late-2003 via a 20+ year downtrend breakout will sustain further. However, this rally turned speculative during 2007 into 1st half of 2008 as traders/investors all chased the commodities rally as global equities were under pressured. The global credit/financial crisis during 2nd half of 2008 trigger a financial meltdown as almost all financial assets including commodities collapsed. CRB would soon fall below key support at **250** trading as low as **200** (intra-day basis) by Feb 2009 before stabilizing. An oversold rally quickly brought CRB back to its prior 2003 breakout in the **250s.** We believe this is technically significant as this action suggests the secular bull trend can resume. However, given the technical damages incurred during this downturn we can CRB to need to rebuild its technical base via a extensive trading range. Just south of **300** corresponding to its prior breakdown and the falling 30-mo ma represents key supply. Above this key supply suggests **350-375**, over time. On the downside, initial support remains at **240-250** or Sep 2009 and May/Jun 2010 lows as well as the extension of the 20+ year downtrend channel. Violation here would be negative as this opens the door for a decline back to **227-230** or the Jul 09 and Feb 10 bottoms. Under adverse market conditions via broad market sell off CRB can return back to its pivotal Feb/Mar 2009 lows near **200.16-200.34**.
10-month ma = 271
30-month ma = 290
88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 0
10 and 30 Month Moving Averages

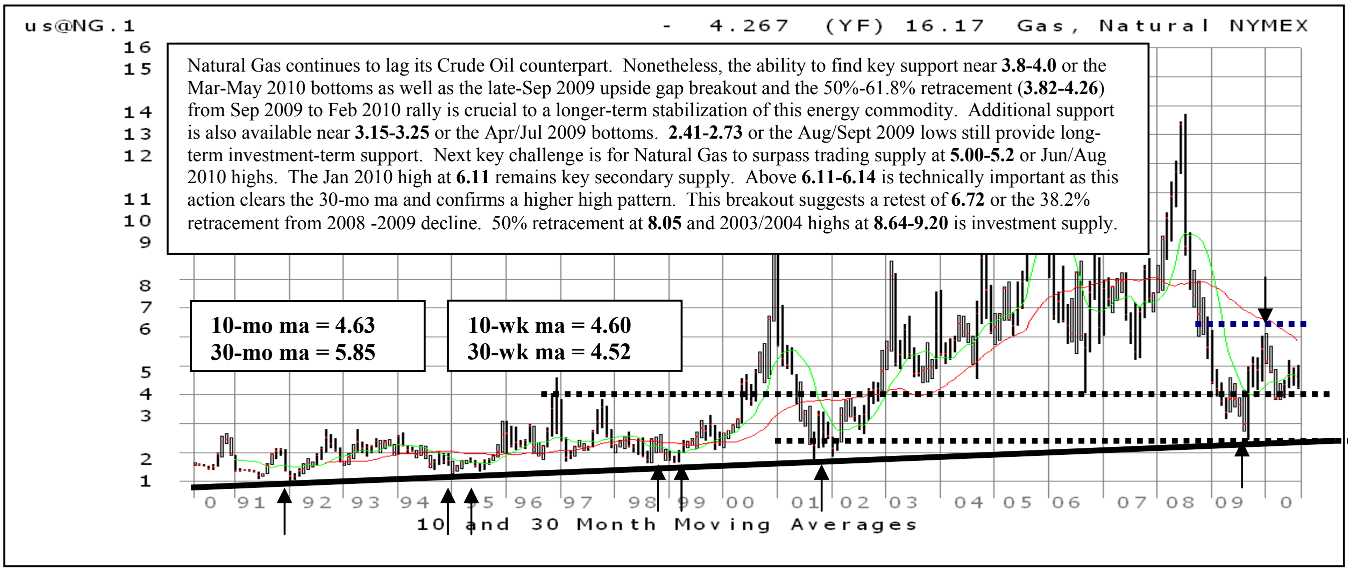


us@CR - 270.19 (NF) 14.45 RJ/CRB Index ICE FUT US
Speculative buying during the 1st half of 2008 resulted in a parabolic move that resulted in CRB Index trading to an extreme 4-standard deviation above its historical norm. CRB soon recorded a speculative high of **473.97** on 3 July 2008. However, by the end of July a negative outside month signaled a major top and the start of an impending major reversal. Net redemption, margin calls, unwinding of leveraged positions, global financial/credit crisis, global recession and the resurgence of the US dollar all attributed to the sudden and dramatic drop in commodities. As the selling accelerated into the heart of the credit crisis (3rd to 4th quarter of 2008), CRB plummeted sharply below the **high 300's** or the top of its regression band triggering a mean reversion that quickly led to a precipitous decline towards the statistical equilibrium level near the middle of its regression band at **302**. Unfortunately, selling continued as panic selling forced upon the remaining holders of commodities to exit their net long positions. Sellers finally capitulated as CRB fell slightly below the bottom of its regression band at **217**. Given the volatile swings over the past two years we believe investors are now cautious in this market. This defensive stance will lead to a wide trading range as defined by **200-217** on the downside and **295-302** on the upside coinciding with the bottom and midpoint of its 2-standard deviation monthly regression band. A convincing surge above **302** is required to signal the resumption of the 2009 cyclical bull rally. A decline below **200-217** confirms a long-term structural breakdown and the start of a bear decline.
500
375
250
125
Top of Band = 388
Middle of Band = 302
Bottom of Band = 217
87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 0
Regression with 2 Standard Deviation Band

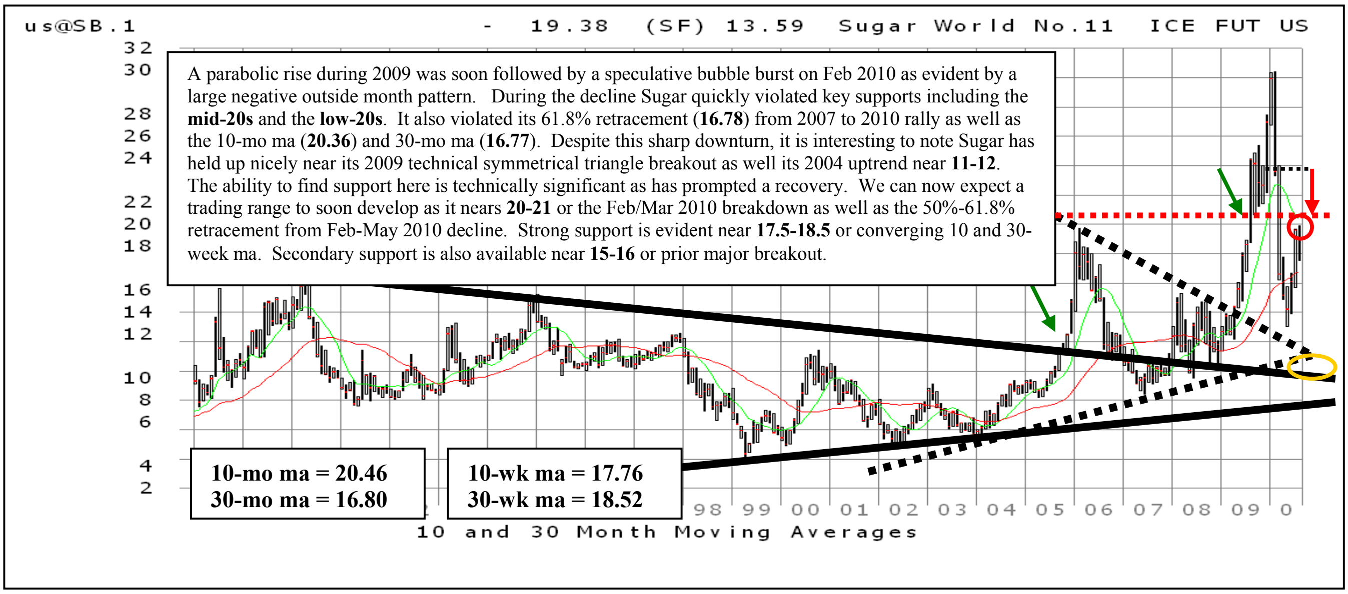

us@CL.1 - 75.77 (YF) Crude Oil Light Sweet
2008-2009 Retracement
76.4% = 120.35
61.8% = 103.70
50% = 90.23
10-wk ma = 77
30-wk ma = 78
10-mo ma = 78
30-mo ma = 79
Crude Oil appears to have failed near the top of its 4-month uptrend channel near **83**. This failure prompted a sharp pullback that has now begun to violate the bottom of the uptrend channel near 75. A complex 1-year head and shoulders top pattern is potentially bearish. Key support is at **66.5-68.5** coinciding with the 38.2% retracement from 2009 rally and late-2009/2010 lows or potential neckline support. Violation here confirms a distribution top and signals the start of another downturn to the 50% retracement at **60.17** and possibly to **56-58** or Jul 2009 bottom. Under extreme selling Crude Oil may fall straight to the 61.8% retracement and 2007 bottoms at **50-53.81**. Initial supply is now evident near key converging moving averages at **77-78**. Secondary supply is also available near **82-83** and then **87-90**, intermediate-term.
90
85
80
75
70
65
60
55
50
AUG SEP OCT NOV DEC JAN FEB MAR APR MAY JUN JUL AU
30, 50, and 150 Day Moving Averages


us@GC.1 Gold, 100 Troy Oz. COMEX
We believe investors/traders continue to use Gold as a hedge against geopolitical uncertainties and currency fluctuations. Gold retains leadership qualities as it was the first major commodities to achieve a record high of **1,033.9** on 18 March 2008 nearly four months before other commodities achieved respective highs. On the downside, Gold was also the first major commodity to achieve a major bottom at **681.00** on 24 Oct 2008 nearly 5-months ahead of other commodities. The key breakout above **980-1,008** during Aug/Sep 2009 timeframe was technically significant as this confirmed two major technical bases including the 7-mo triangle pattern and 2-year head/shoulders bottom formation. Gold has already achieved our shorter-term projection of **1,200-1,230**. However, the 2-year breakout still renders upside targets to **1,350**.
10-mo ma = 1,164
30-mo ma = 995
10-wk ma = 1,214
30-wk ma = 1,170
On a near-term basis, since May 2010 a 4-month consolidation phase has developed. A convincing surge above supply at **1,250-1,267** or the May/Jun 2010 highs confirms a technical breakout and suggests upside targets to **1,275-1,282** and then to our intermediate term projection of **1,325-1,350**. To protect trading profits we recommend moving up trading support to **1,200-1,215** and then to **1,165-1,170.** Key secondary support also rises to 1,125-1,145 and then to 1,075-1,085. Intermediate-term support remains at 1,008-1,027
1300
1250
1200
1150
1100
1050
1000
950
900
850
800
750
700
650
2008
2009
2010
10 and 30 Week Moving Averages

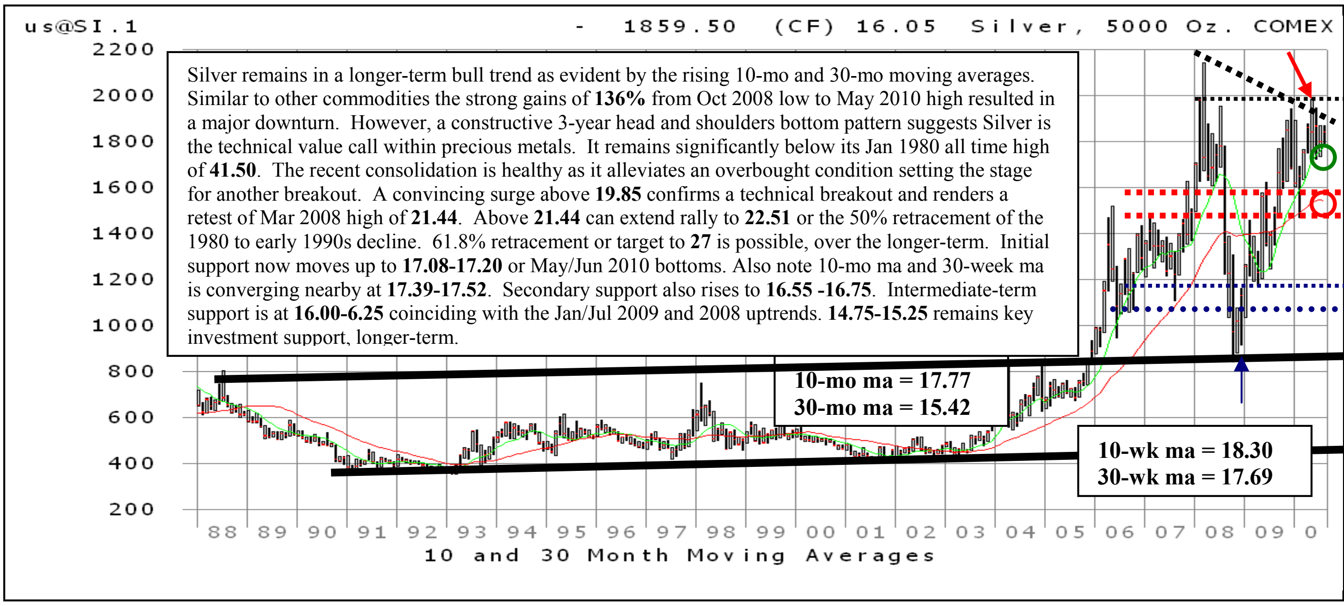

us@HG.1 - 333.85 (CF) 17.14 Copper, High Grade COMEX
Copper is an important commodity product and as such is a good gauge for overall global growth or global consumption. This industrial metal suffered an intense selloff after violating its 2005 uptrend near **320-330** (red arrow). The subsequent rolling of the 10/30-mo ma and breaking of the 2007 low at **235-245** triggered a sharp sell off as Copper plummeted to its long-term support at **125.50** (Dec 2008 and green circle). The selling soon subsided just above the extension of its major 20+ year channel breakout and 2004 bottom at **120**. The ensuing rally from 2009 bottom accelerated quickly as soon it broke out above its 10-mo and prior key support (dash line) near **240**. The upside momentum increased until Copper finally stalled near **368** on April 2010 or just above its 76.4% retracement (**355.12**) from the sharp 2008 decline. A negative outside month on Jan 2010 coupled with two negative outside weeks during Apr 2010 warned of a high level consolidation between **275-285** on the downside and **365** on the upside. A potentially large 6-year head and shoulders bottom still suggests a structural bull condition in Copper for the longer-term.
10-mo ma = 324
10-wk ma = 312
30-wk ma = 320
440
420
400
380
360
340
320
300
280
260
240
220
200
180
160
140
120
100
80
60
88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 09 0
10 and 30 Month Moving Averages



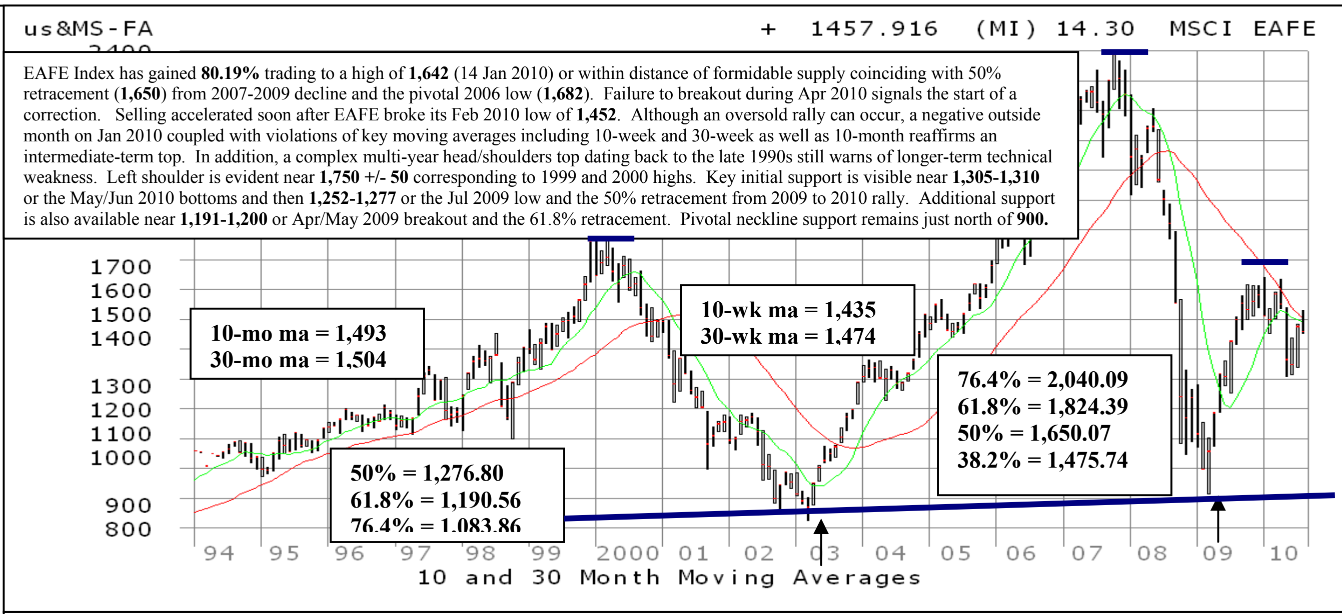
Natural Gas continues to lag its Crude Oil counterpart. Nonetheless, the ability to find key support near **3.8-4.0** or the Mar-May 2010 bottoms as well as the late-Sep 2009 upside gap breakout and the 50%-61.8% retracement (**3.82-4.26**) from Sep 2009 to Feb 2010 rally is crucial to a longer-term stabilization of this energy commodity. Additional support is also available near **3.15-3.25** or the Apr/Jul 2009 bottoms. **2.41-2.73** or the Aug/Sept 2009 lows still provide long-term investment-term support. Next key challenge is for Natural Gas to surpass trading supply at **5.00-5.2** or Jun/Aug 2010 highs. The Jan 2010 high at **6.11** remains key secondary supply. Above **6.11-6.14** is technically important as this action clears the 30-mo ma and confirms a higher high pattern. This breakout suggests a retest of **6.72** or the 38.2% retracement from 2008 -2009 decline. 50% retracement at **8.05** and 2003/2004 highs at **8.64-9.20** is investment supply.



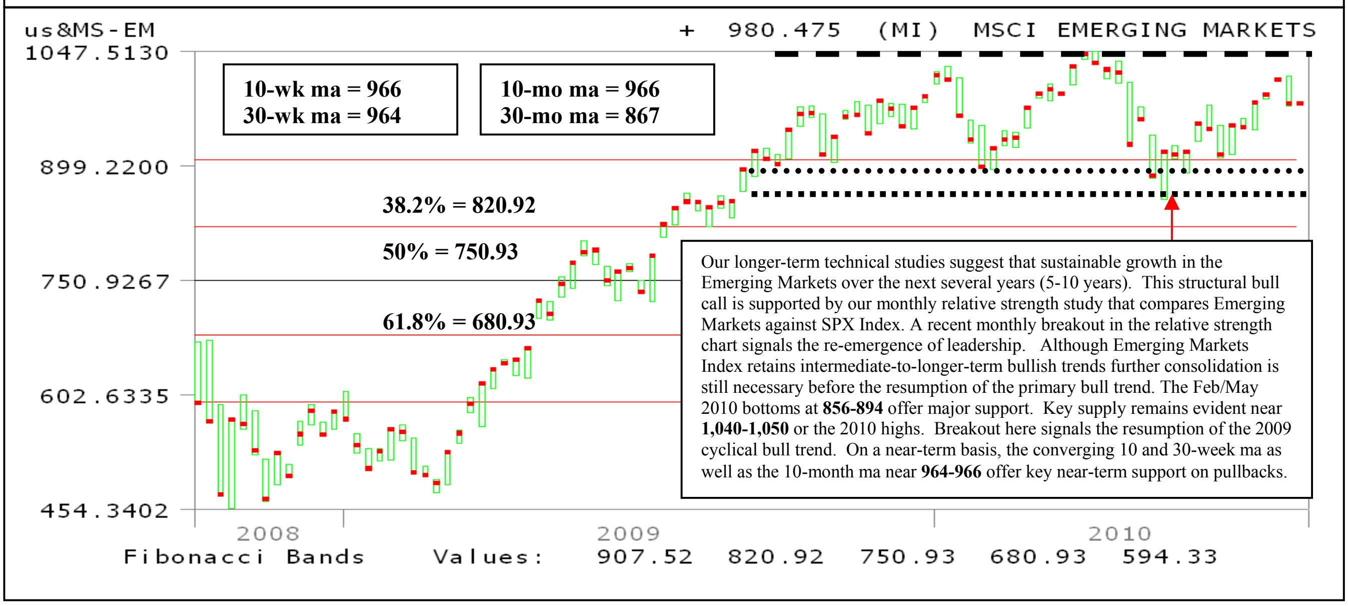
A parabolic rise during 2009 was soon followed by a speculative bubble burst on Feb 2010 as evident by a large negative outside month pattern. During the decline Sugar quickly violated key supports including the **mid-20s** and the **low-20s**. It also violated its 61.8% retracement (**16.78**) from 2007 to 2010 rally as well as the 10-mo ma (**20.36**) and 30-mo ma (**16.77**). Despite this sharp downturn, it is interesting to note Sugar has held up nicely near its 2009 technical symmetrical triangle breakout as well its 2004 uptrend near **11-12**. The ability to find support here is technically significant as has prompted a recovery. We can now expect a trading range to soon develop as it nears **20-21** or the Feb/Mar 2010 breakdown as well as the 50%-61.8% retracement from Feb-May 2010 decline. Strong support is evident near **17.5-18.5** or converging 10 and 30-week ma. Secondary support is also available near **15-16** or prior major breakout.

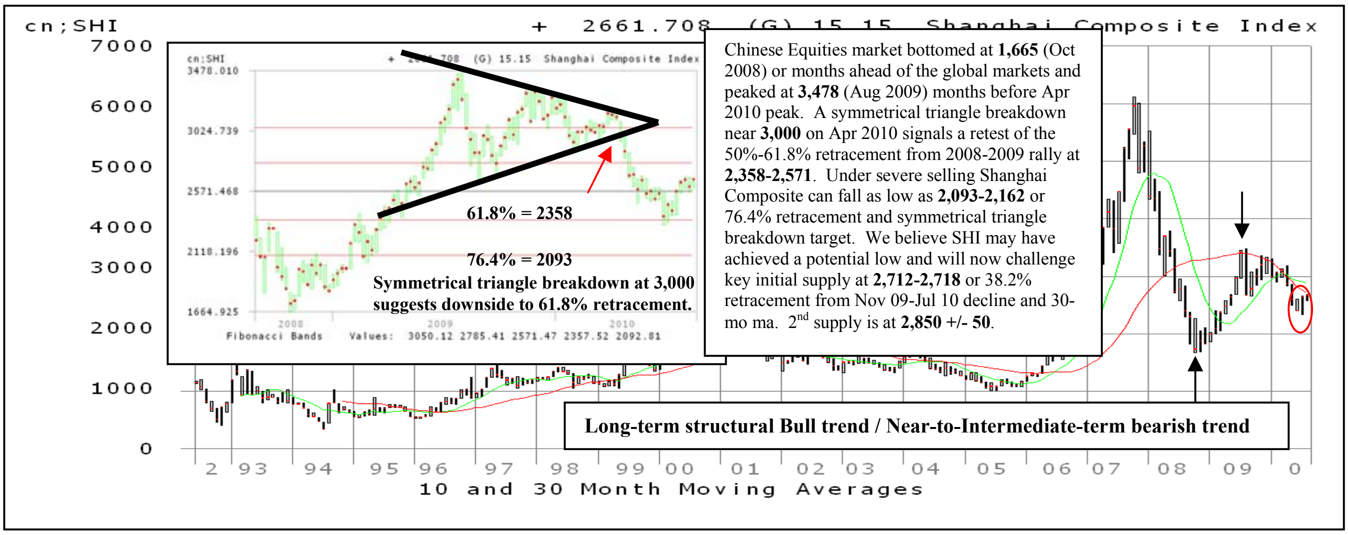


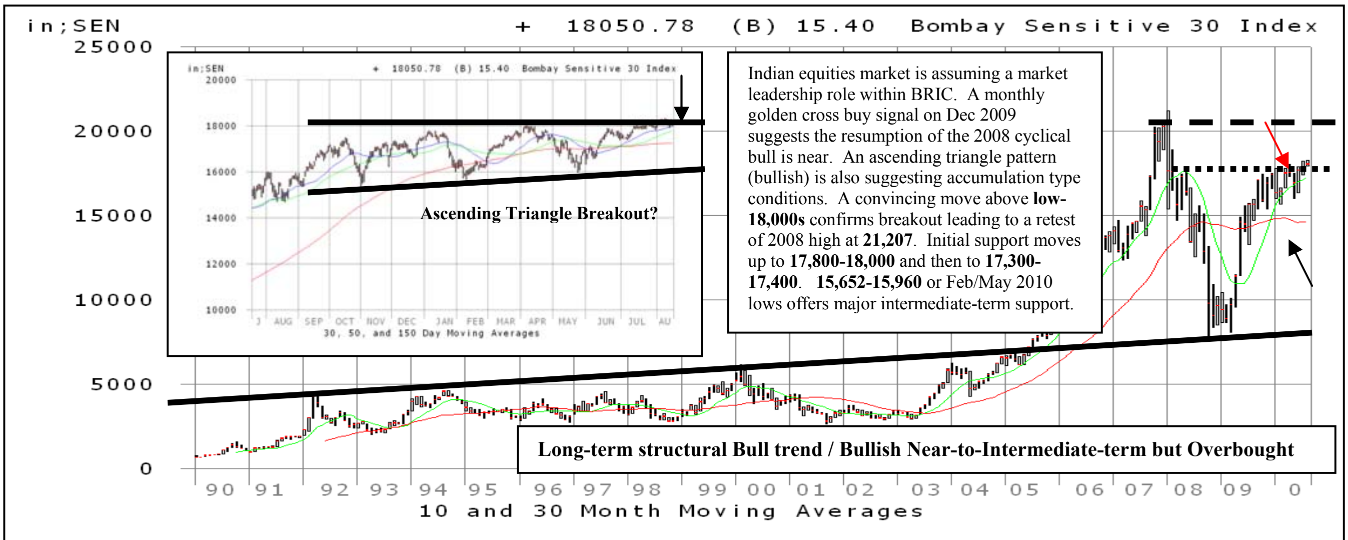
Silver remains in a longer-term bull trend as evident by the rising 10-mo and 30-mo moving averages. Similar to other commodities the strong gains of **136%** from Oct 2008 low to May 2010 high resulted in a major downturn. However, a constructive 3-year head and shoulders bottom pattern suggests Silver is the technical value call within precious metals. It remains significantly below its Jan 1980 all time high of **41.50**. The recent consolidation is healthy as it alleviates an overbought condition setting the stage for another breakout. A convincing surge above **19.85** confirms a technical breakout and renders a retest of Mar 2008 high of **21.44**. Above **21.44** can extend rally to **22.51** or the 50% retracement of the 1980 to early 1990s decline. 61.8% retracement or target to **27** is possible, over the longer-term. Initial support now moves up to **17.08-17.20** or May/Jun 2010 bottoms. Also note 10-mo ma and 30-week ma is converging nearby at **17.39-17.52**. Secondary support also rises to **16.55 -16.75**. Intermediate-term support is at **16.00-6.25** coinciding with the Jan/Jul 2009 and 2008 uptrends. **14.75-15.25** remains key investment support, longer-term.

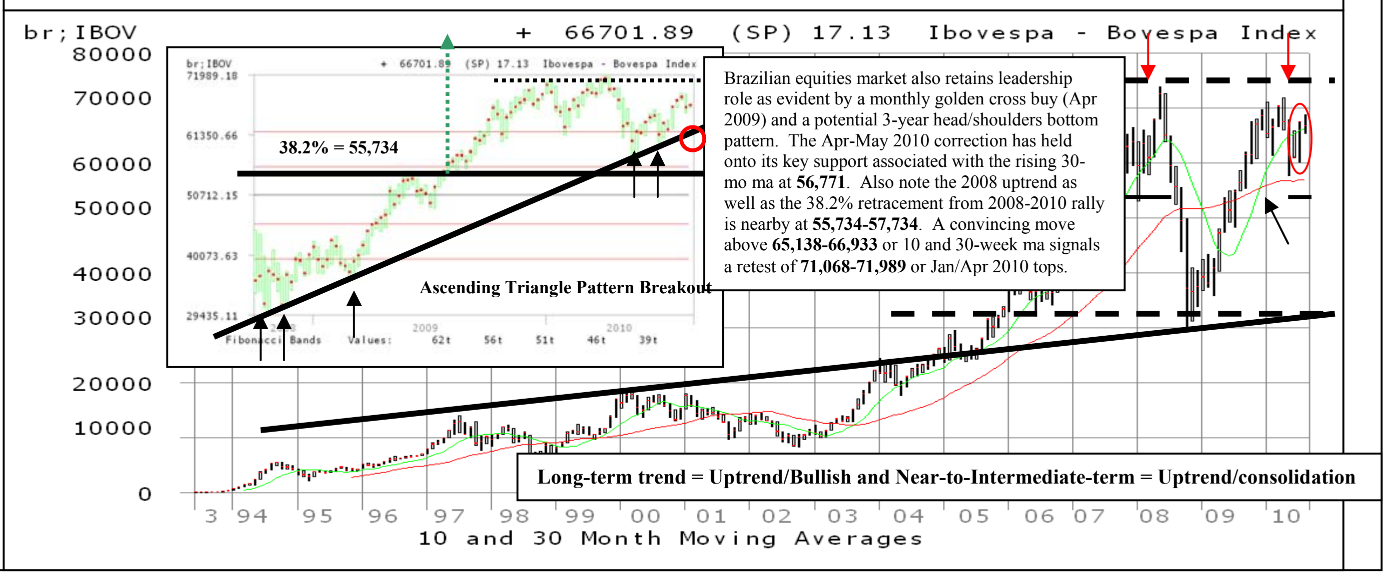

us&MS-FA + 1457.916 (MI) 14.30 MSCI EAFE
EAFE Index has gained **80.19%** trading to a high of **1,642** (14 Jan 2010) or within distance of formidable supply coinciding with 50% retracement (**1,650**) from 2007-2009 decline and the pivotal 2006 low (**1,682**). Failure to breakout during Apr 2010 signals the start of a correction. Selling accelerated soon after EAFE broke its Feb 2010 low of **1,452**. Although an oversold rally can occur, a negative outside month on Jan 2010 coupled with violations of key moving averages including 10-week and 30-week as well as 10-month reaffirms an intermediate-term top. In addition, a complex multi-year head/shoulders top dating back to the late 1990s still warns of longer-term technical weakness. Left shoulder is evident near **1,750 +/- 50** corresponding to 1999 and 2000 highs. Key initial support is visible near **1,305-1,310** or the May/Jun 2010 bottoms and then **1,252-1,277** or the Jul 2009 low and the 50% retracement from 2009 to 2010 rally. Additional support is also available near **1,191-1,200** or Apr/May 2009 breakout and the 61.8% retracement. Pivotal neckline support remains just north of **900.**
1700
1600
1500
1400
1300
1200
1100
1000
900
800
10-mo ma = 1,493
30-mo ma = 1,504
10-wk ma = 1,435
30-wk ma = 1,474
76.4% = 2,040.09
61.8% = 1,824.39
50% = 1,650.07
38.2% = 1,475.74
50% = 1,276.80
61.8% = 1,190.56
76.4% = 1,083.86
94 95 96 97 98 99 2000 01 02 03 04 05 06 07 08 09 10
10 and 30 Month Moving Averages


jp;N225 + 9196.67 (NK) Nikkei Stock Average 225
40000
38000
36000
34000
32000
30000
28000
26000
24000
22000
20000
18000
16000
14000
12000
10000
8000
6000
Nikkei 225 has lagged many of the major equity markets since 1989 top. The recent rally has now taken this benchmark Japanese index to key supply zone near **11,500-2,000** corresponding to an internal mid-1990s downtrend (gold dash), 38.2% retracement from 2007-2009 decline, 2002/2004 highs and potential right shoulder of a multi-year head/shoulders top pattern. A breakout here is technical important as this action negates a distribution top and signals the start of a sustainable intermediate-term recovery. Next key supply is then to 50% retracement at **12,648**. **13,982** or the 61.8% retracement represents longer-term investment term supply under strong buying. Failure to breakout signals another downturn to key support near the Jul/Nov 2009 bottoms at **9,050-9,076**. Under strong selling Nikkei 225 can fall back to its 2003/2008/2009 bottoms at **6,995-7,604**.
10-mo ma = 10,025
30-mo ma = 10,370
10-wk ma = 9,499
30-wk ma = 10,136
88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 0
10 and 30 Month Moving Averages


us&MS-EM + 980.475 (MI) MSCI EMERGING MARKETS
1047.5130
899.2200
750.9267
602.6335
454.3402
10-wk ma = 966
30-wk ma = 964
10-mo ma = 966
30-mo ma = 867
38.2% = 820.92
50% = 750.93
61.8% = 680.93
Our longer-term technical studies suggest that sustainable growth in the Emerging Markets over the next several years (5-10 years). This structural bull call is supported by our monthly relative strength study that compares Emerging Markets against SPX Index. A recent monthly breakout in the relative strength chart signals the re-emergence of leadership. Although Emerging Markets Index retains intermediate-to-longer-term bullish trends further consolidation is still necessary before the resumption of the primary bull trend. The Feb/May 2010 bottoms at **856-894** offer major support. Key supply remains evident near **1,040-1,050** or the 2010 highs. Breakout here signals the resumption of the 2009 cyclical bull trend. On a near-term basis, the converging 10 and 30-week ma as well as the 10-month ma near **964-966** offer key near-term support on pullbacks.
2008 2009 2010
Fibonacci Bands Values: 907.52 820.92 750.93 680.93 594.33


cn;SHI + 2661.708 (G) 15.15 Shanghai Composite Index
Chinese Equities market bottomed at 1,665 (Oct 2008) or months ahead of the global markets and peaked at 3,478 (Aug 2009) months before Apr 2010 peak. A symmetrical triangle breakdown near 3,000 on Apr 2010 signals a retest of the 50%-61.8% retracement from 2008-2009 rally at 2,358-2,571. Under severe selling Shanghai Composite can fall as low as 2,093-2,162 or 76.4% retracement and symmetrical triangle breakdown target. We believe SHI may have achieved a potential low and will now challenge key initial supply at 2,712-2,718 or 38.2% retracement from Nov 09-Jul 10 decline and 30-mo ma. 2nd supply is at 2,850 +/- 50.
61.8% = 2358
76.4% = 2093
Symmetrical triangle breakdown at 3,000 suggests downside to 61.8% retracement.
Long-term structural Bull trend / Near-to-Intermediate-term bearish trend
10 and 30 Month Moving Averages


in;SEN + 18050.78 (B) 15.40 Bombay Sensitive 30 Index
Indian equities market is assuming a market leadership role within BRIC. A monthly golden cross buy signal on Dec 2009 suggests the resumption of the 2008 cyclical bull is near. An ascending triangle pattern (bullish) is also suggesting accumulation type conditions. A convincing move above low-18,000s confirms breakout leading to a retest of 2008 high at 21,207. Initial support moves up to 17,800-18,000 and then to 17,300-17,400. 15,652-15,960 or Feb/May 2010 lows offers major intermediate-term support.
Ascending Triangle Breakout?
30, 50, and 150 Day Moving Averages
Long-term structural Bull trend / Bullish Near-to-Intermediate-term but Overbought
10 and 30 Month Moving Averages


br;IBOV + 66701.89 (SP) 17.13 Ibovespa - Bovespa Index
Brazilian equities market also retains leadership role as evident by a monthly golden cross buy (Apr 2009) and a potential 3-year head/shoulders bottom pattern. The Apr-May 2010 correction has held onto its key support associated with the rising 30-mo ma at 56,771. Also note the 2008 uptrend as well as the 38.2% retracement from 2008-2010 rally is nearby at 55,734-57,734. A convincing move above 65,138-66,933 or 10 and 30-week ma signals a retest of 71,068-71,989 or Jan/Apr 2010 tops.
38.2% = 55,734
Ascending Triangle Pattern Breakout
Long-term trend = Uptrend/Bullish and Near-to-Intermediate-term = Uptrend/consolidation
10 and 30 Month Moving Averages

Statement of Risk

Stock market returns are difficult to forecast because of fluctuations in the economy, investor psychology, geopolitical conditions and other important variables.

Appendix

Required Disclosures

Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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Appendix

Term / Abbreviation	Description / Definition
% +or- Moving Avg (DMA)	% +or- moving average is the percent above or below the moving average is used to help measure an overbought or oversold condition. It is calculated by taking the difference between the group price and its 30-week moving average, and then dividing by the 30-week moving average times 100. The percentage above or below the moving average is used to help measure an overbought or oversold condition and is a component of risk management.
Adjusted Relative Strength (ARS)	Number gives a 50% weighting to the 1-month relative strength, 30% to the 3-month, and 20% to the 6-month numbers to arrive at a single weighted number.
Base	A chart pattern marking a period of accumulation following a downtrend. The larger the base, the greater the upside potential following its completion. A base can take many forms.
Breakdown	A technical term indicating a downside resolution of a chart pattern. Its significance is determined by the same factors governing a breakout.
Breakout	A technical term indicating an upside resolution of a chart pattern. Breakouts can take many forms, and their degree of importance is determined by the significance of the chart pattern which preceded it.
Channel	A chart pattern comprised of two parallel trend lines, which form a trading band. Channels take the form of uptrend, downtrend and horizontal.
Downtrend Line	A trend line connecting successively lower peaks for a stock (or market). Its technical significance is determined by the same factors governing an uptrend line
FSR	Forecast Stock Return is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Gap	An open space in a chart created when a stock (or market) opens either higher than its highest level attained during the prior session (referred to as an upside chart gap) or lower than its lowest level reached during the prior day (called a downside chart gap).
Internal Trend Line	A single trend line connecting at least several high and low points for a stock (or market) over time.
Moving Average	A technical analysis tool designed to smooth out a stock's (or market's) shorter-term fluctuations to provide a better picture of an underlying trend. Many moving averages exist, but the 30-week moving average (also known as the 30-week line or 150 day line) is one of the most popular and respected in technical circles. It is calculated by totaling the latest 30 weekly (usually Friday closing) price levels and dividing by 30 to arrive at the average. Each week, the most recent week's figure is added to the total, and the price level from 30 weeks ago is subtracted – hence the term "moving." Please note that a breakout above or breakdown below this line does not, in and of itself, constitute a buy or sell signal.
MRA	Market Return Assumption is defined as the one-year local market interest rate plus 5% (a proxy for the equity risk premium and not a forecast).
Positive/Negative "Outside" Day	When one day's range (high and low) exceeds the prior day's range, and the stock (or market) in question closes near its daily peak, this is referred to as a positive "outside" day. A negative "outside" day would be recorded if the stock (or index) finished near its daily low after having a wider range than the prior session. The same rule can be applied on a weekly and monthly basis as well.
Relative Strength	Relative strength is a performance comparison between a sector, group, or stock and the S&P 500 Index over a specified time frame. Our time frame is often a one, three, and six month basis but does vary according to investment orientation.
RRD	Rating/Return Divergence is automatically appended to the rating when stock price movement has caused the prevailing rating to differ from that which would be assigned according to the rating system and will be removed when there is no longer a divergence, either through market movement or analyst intervention.
Support	An area where increased buying interest is likely to develop during a decline. These points, which can take several forms (minor, major, etc.) often provide downside protection for an issue in a primary uptrend, but only temporary relief to an issue in a primary uptrend, during which time many support levels are often broken.
Top	A chart pattern marking a period of distribution following an uptrend. The larger the top, the greater the downside potential following its completion. It, too, can take many forms.
"Uptrend Line"	A trend line connecting successively higher low points for a stock (or market). The longer this line is in force, and the points that occur along it, the greater its' technical significance.

Appendix

Stock Recommendation System

Analysts provide a relative rating, which is based on the stock's total return potential against the total estimated return of the appropriate sector benchmark over the next 12 months.

Industry Sector Relative Stock View	
Outperform (OUT)	Expected to outperform the sector benchmark over the next 12 months.
Marketperform (MKT)	Expected to perform in line with the sector benchmark over the next 12 months.
Underperform (UND)	Expected to underperform the sector benchmark over the next 12 months.

Under review
Upon special events that require further analysis, the stock rating may be flagged as "Under review" by the analyst.
Restricted
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Sector bellwethers, or stocks that are of high importance or relevance to the sector, that are not placed on either the outperform or underperform list (i.e., are not expected to either outperform or underperform the sector benchmark) will be classified as **marketperform**. Additionally, when stocks that are not deemed to be of high importance or relevance to the sector are not expected to outperform or underperform the sector benchmark, they will simply be removed from the lists and will not be assigned a WMR rating.

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Bullish	Well-defined, reliable up-trend, an increase in the rate of change (or strong momentum) and confirming technical indicators	Buy
Mod. Bullish	Positive overall trend, momentum and confirming technical indicators	Buy
Neutral	Trading range trend, a flat rate of change and confirming technical indicators	Hold
Mod. Bearish	Weakened trend, momentum and confirming technical indicators	Sell
Bearish	Negative trend, momentum and confirming technical indicators	Sell
N/A	Not enough historical data to make an evaluation.	N/A

Appendix

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Appendix

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