

# MARKET PERSPECTIVES WEEKLY UPDATE

November 16, 2009

## Ample Liquidity Fuels Market Advance

Last week's rally in the face of still high unemployment claims as well as sinking consumer sentiment shows that the gap between Wall Street and Main Street is widening. The Fed continues to artificially keep interest rates low in spite of the economic 'recovery' being celebrated by Wall Street. Money will continue to be cheap until job creation actually begins which means that this cheap money will continue to be funneled into equities. Make no mistake, the risk trade is looking sickly right now as equities take their trading cues off of the U.S. Dollar, not on the prospects of economic recovery. Don't believe me? Just take a look at the marked underperformance of small caps, semiconductors, and financials. Money is flowing into large blue chip multinational companies whose earnings are enhanced by a weak dollar, along with commodities. That bodes well for indices like the Dow and S&P 500 while the riskier indices underperform. It was interesting to also see the bond ETFs (IEF +0.52% and TLT +0.63%) gain on the week while equities marched higher, The only change to the Market Metric section this week is Trend Volatility changing from **Negative** to **Neutral**.

Weekly Market Close November 13, 2009		
Index	Close	Change
Dow 30	10270.47	247.05
S&P 500	1093.48	24.18
Nasdaq Composite	2167.88	55.44
	NYSE	Nasdaq
Advances	2030	1480
Declines	1146	1414
Ratio	1.77	1.05
New Highs	409	233
New Lows	12	95

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

**Last Week's top ETF performers were dominated by commodities and weak dollar plays.** Gold miners (GDX), steel (SLX), silver (SLV), industrials (XLI) and Latin American (ILF and EWZ) all made the list for the second week in a row. Russia (RSX), Mexico (EWW) and Australia (EWA) all made the list also as weak dollar plays.

## Weekly Top Ten ETFs by Performance

SYMBOL	DESCRIPTION	% Change
KWT	Market Vectors Solar Energy ETF	3.00%
GDX	Market Vectors Gold Miners ETF	2.77%
EWK	iShares MSCI Belgium Index Fund ETF	2.29%
SLX	Market Vectors Steel ETF	2.17%
EWA	iShares MSCI Australia Index Fund ETF	1.95%
RSX	Market Vectors Russia ETF	1.95%
EWW	iShares MSCI Mexico Index Fund ETF	1.94%
EWZ	iShares MSCI Brazil Index Fund ETF	1.93%
XLY	SPDRs Select Sector Consumer Discretionary ETF	1.75%
ILF	iShares S&P Latin America 40 Index Fund ETF	1.70%

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Last Week's bottom ETF performers were primarily inverse and financial names. Financials (XLF), preferreds (PGX), and high yield bonds (HYG) made this list which again does not bode well for economic growth prospects.

## Weekly Bottom Ten ETFs by Performance

SYMBOL	DESCRIPTION	% Change
UUP	PowerShares DB US Dollar Index Bullish Fund	-2.11%
PSQ	ProShares Short QQQ ETF	-0.85%
DOG	ProShares Short Trust Dow30	-0.74%
SGG	iPath Dow Jones-AIG Sugar Total Return Sub-Index ETN	-0.58%
SH	ProShares Short S&P500 ETF	-0.55%
PGX	PowerShares Preferred Portfolio ETF	-0.53%
IYG	iShares Dow Jones US Financial Services Index Fund ETF	-0.51%
USO	United States Oil Fund LP	-0.38%
HYG	iShares IBoxx \$ High Yield Corporate Bond ETF	-0.20%
XLF	SPDRs Select Sector Financial ETF	-0.20%

### Small Caps Breaking Down

As this market continues to push higher due to excess liquidity and a weak dollar, there are some disturbing risk attributes that are continuing to get worse. The biggest concern is the very weak performance of the Russell 2000 small cap index vs. the S&P 500. The chart below is a spread chart that I have used many times which is a great way to measure performance from one index to another. The black line is the spread (or relative strength) between the Russell 2000 and the S&P 500. I have also plotted the S&P 500 (the red dashed line) as a reference. When the black line is rising, small caps are outperforming the S&P 500 which is healthy for the market and shows that trader and investors are embracing risk. When the black line is falling, that shows that small caps are underperforming the S&P, which means that traders and investors are moving away from risk.

This picture is worth a thousand words as it shows a healthy advance off of the March low up until mid September. At that time, blue chips have benefited from the ample liquidity and weak dollar while small caps (a better risk measurement) have lagged badly as shown by the steep drop in the black line. It is situations like that that continue to call for a more cautious stance even as the Dow hits new highs.



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## Weekly ETF Ranks

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

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**Energy slips as staples remains strong.** Energy slipped in spite of firm energy prices. IEZ dropped eleven slots to a position of underperformance relative to the S&P 500 (SPY). Consumer staples (XLP - a defensive play) jumped up to number three this week in spite of last week's rally. This is another sign that this risk foundation for this rally is not very healthy.

### Automated Models For November

Country Model				YTD Return +14.66%		
Symbol	Name	Purch Date	Month Start	Close	Weekly Return	MTD Return
ILF	iShares S&P Latin America	11/2/2009	43.54	47.24	2.38%	8.50%
EPP	iShares MSCI Pacific Ex Japan	11/2/2009	40.03	42.70	3.99%	6.67%
EWL	iShares MSCI Switzerland	11/2/2009	21.38	22.28	2.01%	4.21%
EWM	iShares MSCI Malaysia ETF	11/2/2009	10.52	11.00	1.95%	4.56%
EWU	iShares MSCI UK Index ETF	11/2/2009	15.56	16.69	3.28%	7.26%
<b>Cumulative</b>					<b>2.72%</b>	<b>6.23%</b>

Sector Model				YTD Return +15.51%		
Symbol	Name	Purch Date	Month Start	Close	Weekly Return	MTD Return
IEZ	iShares Dow Jones US Oil Equipr	10/1/2009	41.11	43.04	0.82%	4.69%
SLV	iShares Silver Trust	10/1/2009	16.07	17.15	0.35%	6.72%
GLD	SPDR Gold Trust	11/2/2009	103.50	109.74	2.15%	6.03%
HHH	Internet HLDRs ETF	11/2/2009	53.38	57.87	3.69%	8.41%
XLE	SPDRs Sel Sec Energy	11/2/2009	55.64	57.27	0.33%	2.93%
<b>Cumulative</b>					<b>1.46%</b>	<b>5.74%</b>

Currency Model				YTD Return +11.26% No Divs Reinvest		
Symbol	Name	Purch Date	Month Start	Close	Weekly Return	MTD Return
BZF	WisdomTree Dreyfus Brazil Inc	11/2/2009	26.30	26.94	0.26%	2.43%
BNZ	WisdomTree Dreyfus New Zealan	11/2/2009	24.84	25.78	2.55%	3.78%
FXA	Rydex Currency Shares Australia	8/3/2009	90.20	93.54	1.84%	3.70%
<b>Cumulative</b>					<b>1.54%</b>	<b>3.30%</b>

Style/Index Model				YTD Return +18.46%		
Symbol	Name	Purch Date	Month Start	Close	Weekly Return	MTD Return
AGG	iShrs Barclays Agg Bond ETF	11/2/2009	104.55	104.90	0.51%	0.33%
LQD	iShrs iboxx Inv Corp Bond ETF	11/2/2009	105.33	106.01	0.66%	0.65%
<b>Cumulative</b>					<b>0.58%</b>	<b>0.49%</b>

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## MODEL PORTFOLIOS

CONSERVATIVE	HEDGED	AGGRESSIVE
<b>CORE</b>	<b>CORE</b>	<b>CORE</b>
10% DVY    iShares Dow Sel Div 10% SPY    S&P 500	15% MDY    Mid Cap SPDRS 15% SPY    S&P 500 10% PSQ    Inverse Nasdaq 100	15% MDY    Mid Cap SPDRS 10% RWM    ProShrs Short Russ 2000
<b>SECTOR</b>	<b>SECTOR</b>	<b>SECTOR</b>
5% XRT    SPDR S&P Retail		5% IAK    iShares U.S. Insurance 5% XLP    Consumer Staples
<b>INTERNATIONAL</b>	<b>INT/COUNTRY</b>	<b>INT/COUNTRY</b>
10% EFA    iShares MSCI EAFE Index	10% EFA    iShares MSCI EAFE Index	5% EEM    iShares MSCI Emerging Mkt 5% EWL    iShares Switzerland
<b>COMMODITY</b>	<b>COMMODITY</b>	<b>COMMODITY</b>
10% GLD    SPDR Gold Shares	15% GLD    SPDR Gold Shares	20% GLD    SPDR Gold Shares
<b>FIXED INCOME</b>	<b>CURRENCIES/FIXED</b>	<b>CURRENCIES</b>
10% AGG    iShares Lehman Agg Bon 10% BWX    SPDR Lehman Intl Treas 10% IEF    iShares Lehman 7-10 Yr T 10% LQD    iShrs iBoxx Corp Bd	5% FXA    Rydex Currency/Australian 5% FXE    Rydex Currency/Euro 10% SHY    iShares 1 - 3 Yr Treas	5% FXA    Rydex Currency/Australian D 5% FXE    Rydex Currency/Euro 5% FXS    Rydex Currency Swed Kro 10% TLT    iShares Barclays 20+ Tr
<b>CASH</b>	<b>CASH</b>	<b>CASH</b>
15%	15%	10%

### ETF PORTFOLIOS

No trades this week. Even though it is tempting to chase the liquidity trade and buy equities, the risk model is not supportive of such behavior. There is plenty of weak dollar exposure already in the hedged and aggressive portfolios. The inverse position hedges will remain in place to reduce expected volatility. The models will continue to have a more defensive posture until the risk model says it is ok to increase exposure.

### November Returns

Portfolio	Weekly	MTD
<b>Conservative</b>	<b>+1.33%</b>	<b>+2.98%</b>
<b>Hedged</b>	<b>+1.17%</b>	<b>+3.17%</b>
<b>Aggressive</b>	<b>+1.53%</b>	<b>+2.71%</b>