

**DECEMBER 21, 2009**

**Risk Appetite is Still Apparent**

The bulls continue to struggle in their attempts to take the market higher, yet the bears can do little to drive the indices seriously lower. The difference in performance by the blue chips vs. tech and small caps shows that investors still have an appetite for risk, yet this shift is occurring ‘under cover’ as blue chips are sold and money rotates to the riskier end of the spectrum. Since many reports and publications concentrate on the Dow and S&P 500 as the ‘headline’ indices, last week’s shift may not have been as evident to most as it should be. The outperformance by the Nasdaq Composite is shown in the box to the right. Add to that a 1.7% gain for the week in small caps and it is easy to see that even though the Dow lost 142 points last week, funds are not flowing out of the market. The Risk Flow Indicator (below) continued to move higher last week, even as equities were not able to break out to new highs. So while the market looks tired from a momentum standpoint, the money flows underneath the market are still supportive. The indices have been essentially range bound since mid November, with riskier consumer discretionary stocks outperforming more defensive consumer staples stocks. That dynamic says that the market is expecting the U.S. consumer to be able to spend more on ‘wants’ vs. ‘needs’ over the next few months. With that said, there is growing concern over the ratings cuts by S&P for Greece and Mexico this past week along with nagging concerns also over Britain’s financial and economic health. Add to that continuing rhetoric from China that they may not be willing buyers of U.S Treasuries in the future and it is evident that the investing backdrop is growing more interesting by the day. These developing international scenarios are negative, but they will take more time to develop as the world economies remain awash in liquidity. The Internals metric above remains on **Neutral** due to NYSE bullish percents still being on a sell signal, but strength in tech and small caps is carrying the overall load. Given the positive seasonals this time of year along with the solid money flows reflected in the RFI, firm equity prices are expected through the end of the year.

Weekly Market Close December 18, 2009		
Index	Close	Change
Dow 30	10328.89	-142.61
S&P 500	1102.47	-3.94
Nasdaq Composite	2211.69	21.38
	NYSE	Nasdaq
Advances	1732	1461
Declines	1442	1412
Ratio	1.20	1.03
New Highs	562	299
New Lows	13	80

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

**The Carry Trade Is Coming Under Pressure**

Much of the underperformance in the blue chips is tied to the stronger dollar. Carry trades are being unwound to cover short positions being pressured by the dollar’s advance. In the carry trade, dollars are sold short and the borrowed funds are invested elsewhere, with large pieces of the trade finding their way into large, liquid U.S multinational companies that stand to benefit from a weaker dollar. As the dollar rallies, these positions need to



be sold to offset the short dollar positions. If the dollar rallies further from here which appears likely, look for the blue chip indices to underperform tech and small caps.

**How Much Longer Will the Fed Be Able To Hold Interest Rates Down?**

With economic reports showing some growth along with mild inflationary pressures (the shocking November jobs report and the 1.8% increase in November PPI as examples), the Fed may have a difficult time continuing to justify its zero interest rate policy. Also consider the yield curve being at its steepest configuration in decades and it shows that the long end of the curve is looking for some sense of economic normalcy, while the short end is artificially depressed. Typically, the Fed does not begin to tighten until there is real evidence of jobs growth, but the fruit of their quantitative easing campaign may force them to act sooner instead of later. How equities react once the Fed begins to drain excess liquidity will give an indication as to how ‘real’ this rally has been and how sustainable it will be.

**Last Week’s top ETF performers list was mixed bag.** Energy ETFs (IEO, IEZ, JJE, and USO) were the beneficiaries of stronger energy prices due to inventory drawdowns and concern over the Iran/Iraq oil well conflict in Iraq. Natural gas (UNG) soared on a much larger drop in supplies than was anticipated.

**Weekly Top Ten ETFs by Performance**

SYMBOL	DESCRIPTION	% Change
UNG	US Nat Gas FD ETF	10.97%
SGG	iPath Dow Jones-AIG Sugar Total Return Sub-Index ETN	8.50%
IEO	iShares Dow Jones US Oil & Gas Exploration & Production Index Fund ETF	8.15%
JJE	iPath Dow Jones-AIG Energy Total Return Sub-IndexSM ETN	4.67%
IEZ	iShares Dow Jones US Oil Equipment & Services Index Fund ETF	3.73%
USO	United States Oil Fund LP	3.33%
KRE	Spdr Kbw Reg Banking Etf	3.16%
JJN	iPath Dow Jones-AIG Nickel Total Return Sub-IndexSM ETN	2.73%
KWT	Market Vectors Solar Energy ETF	2.71%
IGV	iShares S&P GSTI Software Index Fund ETF	2.56%

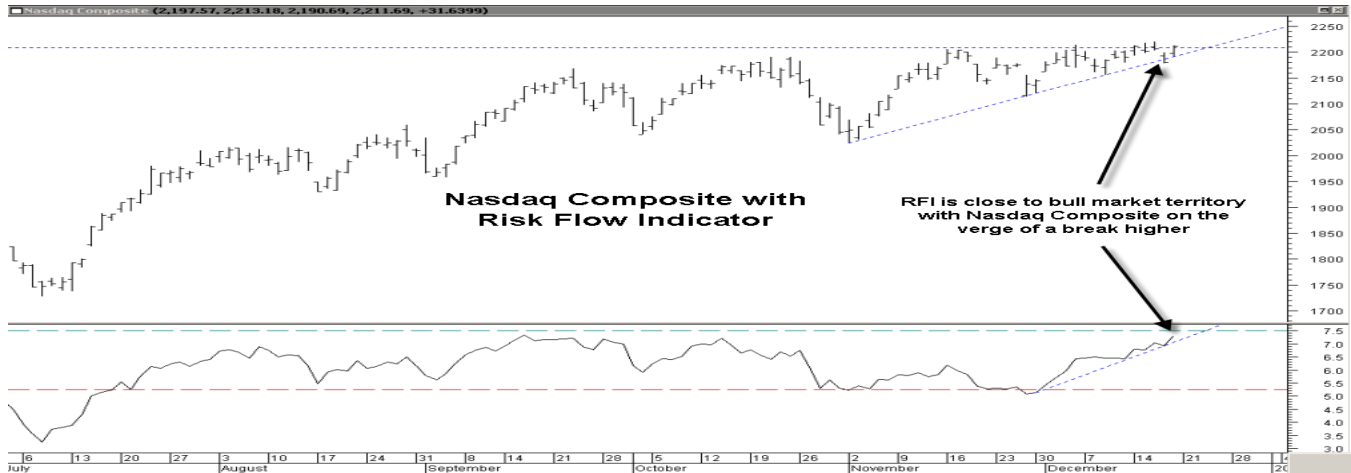
**Last Week’s bottom ETF performers were primarily weak dollar plays.** Continued strength in the dollar is causing more unwinding of weak dollar strategies. Emerging markets along with two European holdovers from last week (EWO and EWK) are suffering as positions are closed in those countries to cover dollar shorts as carry trades are unwound.

**Weekly Bottom Ten ETFs by Performance**

SYMBOL	DESCRIPTION	% Change
EWZ	iShares MSCI Brazil Index Fund ETF	-4.70%
ILF	iShares S&P Latin America 40 Index Fund ETF	-4.40%
EWH	iShares MSCI Hong Kong Index Fund ETF	-3.90%
EWD	iShares MSCI Sweden Index Fund ETF	-3.72%
EWO	iShares MSCI Austria Index Fund ETF	-3.54%
GDX	Market Vectors Gold Miners ETF	-3.20%
EWY	iShares MSCI South Korea Index Fund ETF	-3.10%
EWK	iShares MSCI Belgium Index Fund ETF	-3.05%
PSP	PowerShares Private Equity Portfolio ETF	-2.84%
XLP	SPDRs Select Sector Consumer Staples ETF	-2.81%



Even with concerns over the dollar and sovereign debt, the RFI says that risk is continuing to be embraced by investors. Concerns over Greece and Mexico which are causing dollar carry trades to be unwound could be like a ticking time bomb, but we do not yet know when it will explode, if it does at all. Recall that the RFI showed a marked drop before the Dubai debt debacle was announced, so risk aversion should become evident before major news hits the wires. The RFI is actually approaching the lower boundary of 'bull market territory' (the green dashed line), which is a level it has not seen since October of 2007.



**Which Way Will the NYSE Go?**

One of the reasons for the 'Market Internals' metric above remaining at neutral as that the NYSE Bullish Percent Index is still not flashing a buy signal. The other is a situation that is very interesting. Below is a chart of the percentage of NYSE stocks that are over their 50 day moving average (the black line). I have also plotted the NYSE Composite along with it, which is the red dashed line. Notice that since the March bottom, the percent of stocks over their 50 day moving average has peaked over 90. Currently, as the indices continue to flirt with new highs seemingly daily, the percent of stocks over their 50 day moving average on the NYSE is only at 63.37%. That says that either this rally phase is in trouble due to lack of participation, or that the indices are ready to break higher because there is room for more stocks to participate. Time will tell which point of view is correct, but for now, the RFI (above) says we will probably break higher from here.





**Weekly ETF Ranks**

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



**Inverse treasury plays continue their climb.** PST (26<sup>th</sup>) and TBT (12<sup>th</sup>) are continuing to climb in the weekly rankings, showing that we may be on the verge of higher interest rates regardless of what the Fed statement says. Semiconductors (IGW) continued their torrid pace of late, jumping 15 slots to number 2. Materials (XLB) got hammered on the stronger dollar, dropping 17 slots to number 37. Financials continue to languish near the bottom as XLF dropped one slot to number 47.

### December Automated Models

Country Model				YTD Return +11.86%		
Symbol	Name	Purch Date	Month Start	Close	Weekly Return	MTD Return
ILF	iShares S&P Latin America	11/2/2009	47.87	46.50	-4.40%	-2.86%
EPP	iShares MSCI Pacific Ex Japan	11/2/2009	41.85	40.74	-2.07%	-2.65%
EWJ	iShares MSCI Mexico	12/1/2009	48.76	49.55	-0.38%	1.62%
EWM	iShares MSCI Malaysia ETF	11/2/2009	10.86	10.69	-0.65%	-1.57%
EWU	iShares MSCI UK Index ETF	11/2/2009	16.27	16.04	-0.99%	-1.41%
<b>Cumulative</b>					<b>-1.71%</b>	<b>-1.39%</b>

Sector Model				YTD Return +13.40%		
Symbol	Name	Purch Date	Month Start	Close	Weekly Return	MTD Return
MOO	Market Vectors Agribusiness ETF	12/1/2009	43.32	43.17	-2.77%	-0.35%
SLV	iShares Silver Trust	10/1/2009	18.15	16.95	0.47%	-6.61%
GLD	SPDR Gold Trust	11/2/2009	115.64	108.95	-0.34%	-5.79%
HHH	Internet HLDRs ETF	11/2/2009	57.67	56.24	-1.82%	-2.48%
SLX	Market Vectors Steel ETF	12/1/2009	59.92	59.90	-0.18%	-0.03%
<b>Cumulative</b>					<b>-0.93%</b>	<b>-3.09%</b>

Currency Model				YTD Return +8.22% No Divs Reinvest		
Symbol	Name	Purch Date	Month Start	Close	Weekly Return	MTD Return
BZF	WisdomTree Dreyfus Brazil Inc	11/2/2009	26.43	26.18	-1.10%	-0.95%
FXM	Rydex Currency Shares Mexican F	12/1/2009	77.48	77.90	0.24%	0.54%
FXA	Rydex Currency Shares Australia	8/3/2009	90.00	89.19	-2.30%	-0.90%
<b>Cumulative</b>					<b>-1.06%</b>	<b>-0.44%</b>

Style/Index Model				YTD Return +22.15%		
Symbol	Name	Purch Date	Month Start	Close	Weekly Return	MTD Return
IYR	iShrs DJ US Real Estate	12/1/2009	43.76	45.61	1.74%	4.23%
LQD	iShrs iBoxx Inv Corp Bond ETF	11/2/2009	106.80	105.69	0.48%	-1.04%
<b>Cumulative</b>					<b>1.11%</b>	<b>1.56%</b>



## 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 10% IWW iShares Russell 3000	20% MDY Mid Cap SPDRS 15% SPY S&P 500	15% MDY Mid Cap SPDRS 15% IWM iShares Russell 2000 10% SPY S&P 500
<b>SECTOR</b>	<b>SECTOR</b>	<b>SECTOR</b>
5% IDU iShares DJ Utilities 5% IYT iShares DJ Transports 5% IYZ DJ US Telecom	5% IGW iShares Semiconductor 5% IDU iShares DJ Utilities 5% IYT iShares DJ Transports 5% IYZ DJ US Telecom	5% IGW iShares Semiconductor 5% SLX Market Vectors Steel 5% IYR iShares DJ Real Estate 5% IYZ DJ US Telecom
<b>INTERNATIONAL</b>	<b>INT/COUNTRY</b>	<b>INT/COUNTRY</b>
10% EFA iShares MSCI EAFE Index	10% EFA iShares MSCI EAFE Index	5% ILF iShares S&P Latin America 5% EEM iShares MSCI Emerging Mkt
<b>COMMODITY</b>	<b>COMMODITY</b>	<b>COMMODITY</b>
10% GLD SPDR Gold Shares	10% GLD SPDR Gold Shares	10% GLD SPDR Gold Shares
<b>FIXED INCOME</b>	<b>CURRENCIES/FIXED</b>	<b>CURRENCIES/FIXED</b>
5% HYG High Yield Bonds 10% LQD iShrs iBoxx Corp Bd 10% AGG iShares Lehman Agg Bond	5% FXM Rydex Currency Mex Peso 10% SHY iShares 1 - 3 Yr Treas <b>5% PST Ultra Short 7-10 Tr</b>	5% TBT Ultra Short Lehman 20+ 5% FXM Rydex Currency Mex Peso <b>5% PST Ultra Short 7-10 Tr</b>
<b>CASH</b>	<b>CASH</b>	<b>CASH</b>
5%	5%	5%

## ETF PORTFOLIOS

Strength in the dollar is a dynamic that could change the investment landscape over the foreseeable future. Excess country and currency plays were jettisoned last week. This week each portfolio will add a 5% position in PST from cash which is a hedge against rising interest rates. Last week's returns reflect the choppy trade that was encountered, but heavier weightings in small and mid caps served the Aggressive portfolio well.

### Portfolio Returns

Portfolio	Weekly	Dec
Conservative	-0.21%	-0.63%
Hedged	-0.02%	-0.33%
Aggressive	-0.04%	-1.48%