

Market Comments

August 10, 2009

SPX Surpasses 1000

The S&P 500 Index (SPX 1010.48) exceeded 1000 last week after an impressive month-long rally. The breakout above 1000 helped pave the way for Friday's 1.3% rally in response to the jobs data. However, a more important breakout occurred two weeks ago, when the SPX closed above key resistance at its January high for a second consecutive week. That breakout yielded a long-term target of 1220-1230 based on a confluence of resistance levels, including the 61.8% Fibonacci retracement of the October 2007-March 2009 downtrend. We expect the SPX to stair-step higher as it makes headway toward its target.

SPX Technicals	Trend	Momentum	OB/OS
S-T	Up	Positive	Overbought
I-T	Up	Positive	Overbought
L-T	Up	Neutral	Neutral

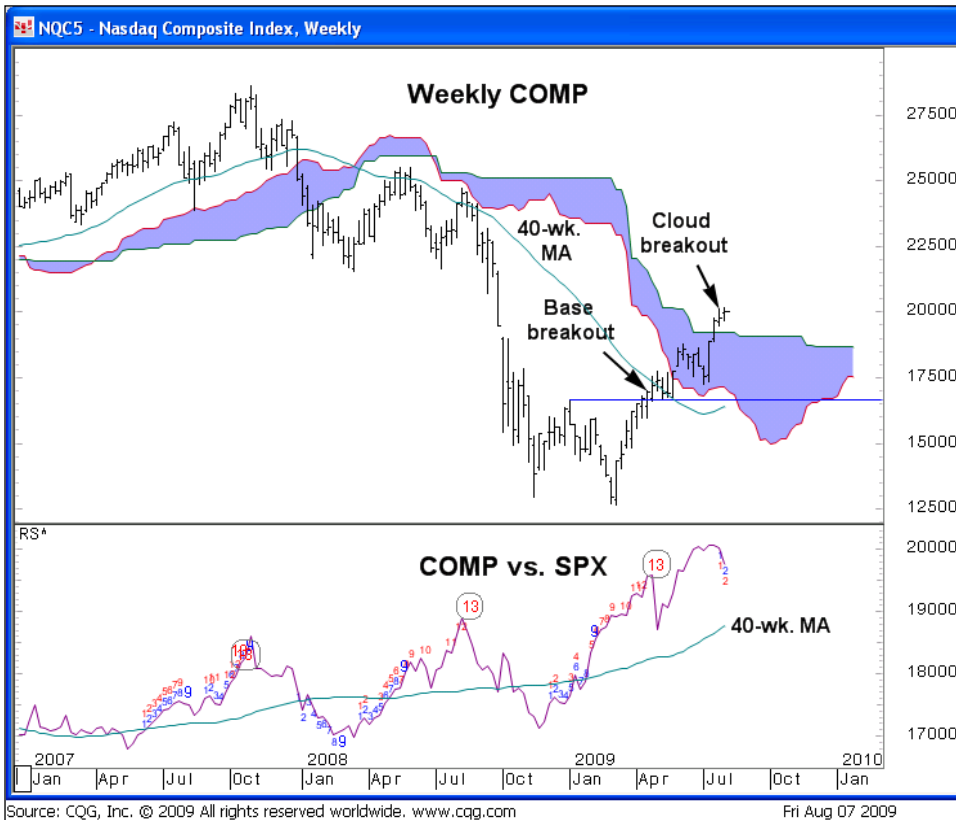
Source: MKM Partners

The next meaningful resistance on the chart is near 1090 based on the weekly cloud model. We believe this level will be tested over the intermediate-term. Momentum is positive from a short- and intermediate-term perspective per the daily and weekly MACD indicator. This is supportive of the uptrend, and suggests intermediate-term overbought conditions can be sustained without a major correction. However, we continue to believe a pullback could take the SPX back to former resistance near 944, at a minimum, for a better buying opportunity. A pullback would be constructive in that it would regulate the steep slope of the uptrend, improving the risk/reward profile for new long positions. We would use a pullback to add exposure.



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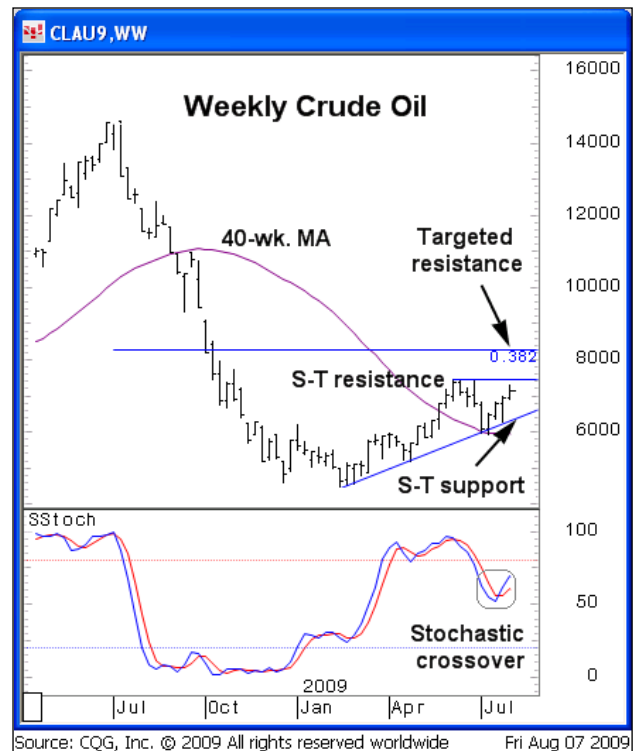


The Nasdaq Composite Index (COMP 2000.25) has been a leading indicator for the SPX. The COMP confirmed a base breakout in late April, more than three months before the SPX. In late July, the COMP confirmed a breakout above cloud-based resistance, suggesting the SPX will do the same by late October. The COMP has been a source of outperformance since the market bottomed last November, boosted by its exposure to the technology sector which has been one of the top performers since the recovery began. The recent loss of relative strength may persist, with the relative strength comparative of the COMP versus the SPX over-extended (still) based on the TD Combo™ model and the proximity of the 40-week (200-day) moving average.

CRUDE OIL & GOLD

The September crude oil futures (\$70.93/bbl.) remained firm last week, boosted by a 3.1% rally on Monday. Short-term overbought conditions may lead to further consolidation below the June-July highs, but we expect the intermediate-term uptrend line to remain intact as support. The crossover in the weekly stochastics is supportive of positive follow-through, suggesting our target in the low \$80s/bbl. is achievable over the intermediate-term. This target is derived from a 38.2% Fibonacci retracement of the July 2008-February 2009 downtrend, and we believe it may be conservative based on the width of the rounded base that is in place.

The December gold futures (\$959.50/oz.) stalled near resistance last week, preserving the downtrend line that defines the upper boundary of the triangle formation on the following page. A deeper pullback is likely this week given the downturn in the daily stochastics from overbought extremes. The uptrend line near \$925/oz. is initial support. Our weekly indicators remain supportive of a breakout from the triangle, but topy action in gold stocks raises a red flag in our opinion. [Last week](#), we updated our posture on the inversely-correlated Dollar Index (DXY).































































10-YEAR TREASURY YIELD

The 10-year Treasury yield (3.85%) rallied last week within its intermediate-term uptrend. The rally stopped out a short-term trend exhaustion signal based on the TD Sequential™ model. The crossover in the weekly stochastics at neutral levels is supportive of the upmove, suggesting a test of initial resistance near 4% is likely over the short-term. Support is defined by the intermediate-term uptrend line, but we do not expect it to be tested over the near-term because momentum still calls for further upside. A breakout to a new 52-week high would target secondary resistance near 4.3%.



SECTOR ETFs	S-T Relative Strength*	I-T Relative Strength*	Comment
Basic Materials (XLB)			Broke out on an absolute, but not a relative basis.
Coal (KOL)			Testing S-T resistance from a relative strength standpoint.
Precious Metals (GDX)			Range-bound relative to the SPX, with signs of trend exhaustion on an absolute basis.
Steel (SLX)			Consolidating within an I-T uptrend versus the SPX.
Consumer Discretionary (XLY)			In a S-T and L-T uptrend relative to the SPX.
Homebuilding (XHB)			Benefitting from an oversold bounce on a relative basis.
Retail (XRT)			Broke out to a new high relative to the SPX.
Consumer Staples (XLP)			Broke S-T support on a relative basis, having reversed its L-T uptrend versus the SPX.
Energy (XLE)			Testing important support versus the SPX.
Clean Energy (PBW)			Retesting uptrend relative to the SPX.
Oil & Gas E&P (XOP)			Upside to resistance within its relative strength uptrend.
Oil Services (OIH)			Showing signs of trend exhaustion on a relative strength basis.
Financials (XLF)			Broke out above resistance relative to the SPX, completing a turnaround.
Banks (KBE)			Approaching S-T resistance relative to the SPX.
Brokers (KCE)			At S-T resistance relative to the SPX, but in an I-T uptrend.
Insurance (KIE)			Broke out from an inverse head and shoulders pattern versus the broader market.
Regional Banks (KRE)			Still has room for a more impressive relative strength recovery rally.
REITs (IYR)			Broke out from an inverse head and shoulders pattern versus the broader market.

Healthcare (XLV)			Testing support on a relative strength basis.
Biotechs (IBB)			Room for S-T positive follow-through, but on the lookout for a lower high.
Drugs (PPH)			Still consolidating on a relative strength basis.
Industrials (XLI)			In a neutral triangle pattern relative to the SPX.
Aerospace & Defense (PPA)			Tested support on a relative basis successfully, but directionless from an I-T perspective.
Transports (IYT)			Established a higher low relative to the SPX.
Technology (XLK)			Still overbought from an absolute and relative standpoint.
Semis (SMH)			Into resistance within its inverse head and shoulders pattern.
Software (IGV)			Registered counter-trend signals versus the SPX on daily and weekly charts.
Telecom (IYZ)			Still has room for S-T downside follow-through, but turning around from a L-T perspective.
Utilities (XLU)			Retesting support and its L-T uptrend versus the SPX.

* Changes to our posture are in boldface.

Source: MKM Partners

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