Technical Analysis

Technical Outlook 2009

Global

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2009 …. We Expect the Start of 3 New Macro Trends

2008 was an unprecedented year in many ways. After such a meltdown in equities one intuitively expects a huge bounce if not even a bull market this year. Given the historical oversold condition and the average depth/duration of a cyclical bear market we in fact see equities setting a bear market low this year. However, although we are rather bullish for Q1, we favor the ultimate bear market low to materialize only in late Q3/early Q4, which is contrarian to the market consensus and implies that 2009 will again be a quite volatile year where timing remains critical to survive. Looking at the historically low basis and statistics, we nonetheless anticipate this year coming out substantially better than 2008. Reviewing 200 years of US stock market history suggests that after a down year of 15% and higher, there is a 70% likelihood of getting a positive year. Finally, on the inter-market side we see 2009 starting two further macro trends, as we see commodities and the bond market moving into an important bottom/top. Here are our key calls for 2009 ….

- H1 up/Q3 bearish!! In a historical context equity markets are extremely oversold, which basically suggests a strong mean reversion rally in 2009. Bottoming weekly indicators favor a sharp rally in Q1. Looking at the post presidential election year cycle, the rally could even expand into the early summer. However, on the long side, the performance for 2009 should be made in H1 as we expect equities to take another deep bath into the ultimate bear market low into early Q4. We see at least a re-test of the November lows. If the S&P-500 cannot hold 800 on a monthly closing basis we get more downside towards 670 to 630 as a worst case scenario. A Q4 market bottom should be the basis for the next cyclical bull market that we expect to unfold into 2010.
- We have so far no sign of a bottoming broader market, so we continue to favor large caps over small and mid caps. However, since we expect a bear market low in 2009, we wouldn’t be surprised to see second and third row stocks bottoming out earlier than large caps.
- Sector-wise we favor a comeback of early cyclicals. We are bullish on commodity sectors. Obviously, financials remain a key indicator and without improving financials we won’t see an improving market. Since we expect a bear market low in 2009 we should also see an important bottom in financials later this year. As a contrarian call we are cautious on defensives. We expect healthcare to disappoint on a 12-month basis.
- Structurally, the current cyclical bear market is just another part of a secular bear market pattern in which equities have been trading since the 2000 market peak. Following a cyclical recovery into 2010 we see more pain coming towards the middle of the next decade. Given the nominal returns, it will obviously be critical whether the re-inflation of the financial markets is successful. However, in real terms we will continue to lose money in equities, as we have since 2000. For EUR investors the US market remains a sell.
- In 2008, we expected a negative surprise in commodities. The correction was certainly much stronger than anticipated but the secular bull story isn’t over yet. We expect most commodities bottoming out between late Q1 and early summer, which implies H2 to be outright bullish for commodities. Furthermore, we see this year’s bottom as the basis for a new cyclical bull market lasting into 2011. For the next few years we are extremely bullish for gold and gold mines. We see oil re-testing its all-time highs in 2011, so we are bullish energy stocks.
- Of course, a new bull market in commodities has to be related with renewed weakness in US dollar and/or an inflationary macro environment. Following our cycles we see the US dollar resuming its secular bear market in 2009. A break of the March 08 lows in the trade-weighted dollar would be aggressively bearish.
- The mother of all bubbles is the bond market. We see the recent crash in yields as the final part of an exhaustive panic in the bond market. Our equity/bond momentum is on extreme oversold levels and suggests a shift from bonds back into equities this year. Structurally, we expect a major bond market top to materialize in 2009.

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It's all about Re-inflating the System…

As a consequence of the financial crisis and the number of external shocks financials markets had to deal with, extreme volatility, record high risk aversion, and a wave of de-leveraging that caused a deflationary shock. From a technical standpoint, 2008 will certainly get its place in the history books. We saw a new all-time high in the VIX index, various other volatility measures spiked to levels that were last seen during the depression in the 1930s. A new historic record in stocks hitting a new 52-week low at the NYSE further describes how extreme the meltdown of 2008 was.

The momentum and the extent of the loss is probably exactly the reason why most market participants intuitively see 2009 as a candidate for a huge recovery, if not even an outright bullish year. Keep in mind, with -38.4% the S&P-500 posted its 3rd worst year since 1800. And indeed, if we look at the market reflexes after such an extremely negative year, we had in most cases substantial bounces if not even the start of a new bull market in the following year. Since 1800, the S&P-500 experienced 20 years with a loss of 15% and higher. The record down year was 1931, where the US market lost 47% of its value. In 14 out of 20 cases the market managed a bullish following year with an average performance of some 22.3%. **So one key message for this year is that from a statistical standpoint alone we have a 70% likelihood that 2009 will end up as a positive if not even a bullish year**. Furthermore, if we look at extreme oversold long-term indicators, sentiment, and the liquidity that is waiting at the sidelines, we have some more arguments/contrarian indicators suggesting a big rally or generally an important market bottom in 2009. However, looking at the recent bounce, could it be that the 2007 bear market has already seen its low in November? We don't think so and we have some good reasons (see page 5 to 8) that prevent us from being too bullish too early. Tactically we are rather bullish for Q1 but the ultimate bear market low we favor to materialize only in late Q3/early Q4, which implies that 2009 will again be a quite volatile year.

Table 1.) S&P-500 Worst Performing Years Since 1800

	Performance	Performance 1 year later	CPI 1 year later (%)
1931	-47.0%	-15.2%	-10.3
1937	-38.6%	25.3%	-1.9
1907	-33.2%	37.4%	-3.6
1857	-31.0%	14.3%	-7.1
1917	-30.6%	16.4%	17.4
1854	-30.2%	1.5%	3.7
1974	-29.7%	31.5%	9.1
1930	-28.5%	-47.0%	-8.8
1920	-24.5%	7.4%	-10.7
2002	-23.4%	26.4%	2.3
1893	-20.0%	-2.5%	-3.7
1884	-18.8%	19.8%	0
1903	-18.4%	25.6%	0
1842	-18.1%	45.0%	-3.4
1876	-17.9%	-9.4%	0
1941	-17.9%	12.4%	10.7
1973	-17.4%	-29.7%	11
1814	-16.7%	2.7%	-12.7
1940	-15.3%	-17.9%	5
1932	-15.2%	46.6%	-5.1

However, we will get the most important consequences of this bear market on the macro side. The one million dollar question is will the central banks/authorities be successful in re-inflating the financial system/economies. The huge monetary and fiscal stimulus is something that technicians cannot ignore as this represents a massive external shock that can obviously have an impact on e.g., time cycles. Generally, our feeling is that the authorities are overshooting (do they have a choice?) and if so it is quite likely that this overshooting will plant the seed for several new macro trends in the financial markets. Today, we are still dealing with a deflationary shock and will probably get some more fallout this year. However, if we are correct with our inter-market assumptions and we connect the dots we get from our long-term cycles in the US dollar and commodities, a pattern of moving into an inflationary environment in the next few years emerges. The fall of one domino causes the fall of another domino. Whether it is deflation or inflation, the consequences will be extreme for equities, bonds, and commodities.

Obviously, if the central banks are not successful in re-inflating the system we are in a deflationary spiral similar to 1929 - 1932 where the US stock market posted four disastrous years in a row. On the other hand, a successful re-inflation will have the price of inflation. It is of course the most bullish scenario for equities, at least from a nominal standpoint. **Given the signals we are getting from our charts we believe in inflation, so we are bullish on equities for the next two if not even three years**. **The question for this year is when exactly to expect the ultimate low of the 2007 bear market**.

Furthermore, moving into inflation implies a quite bullish environment for commodities and, in particular, for gold. One of our key calls last year was to expect a huge overshooting into late Q1, followed by a longer lasting correction on the back of a bouncing dollar. This year we see gold moving into an 8-year cycle bottom and it is in our view the last major buying opportunity before gold moves into a vertical ascent into 2011/2012. Of course, since we are aggressively bullish gold we see gold mines as one of the key investments for the next few years. However, if all this proves to be correct we have another big problem. If we look at the bond market we can see the mother of all bubbles. The crash in yields of the last few weeks is a result of a classic panic and when there is panic in the market it is just a question of time before we see strong corrections and finally a trend change. We expect a top in the bond market this year.

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2009 - We Expect to See the Low of This Bear Market

The year 2008 was a debacle for equity markets, and after such a negative year it's not surprising that we have a broad discussion going on about when and where this bear market will see its end. Given the underlying macro themes, the differences between the bull camp and the bear camp cannot be more diverse. Of course, if the central banks fail to kick-start the financial systems it is likely to see another negative surprise in 2009, which is a point we have to at least take into account since it's not consensus. However, we have four good reasons to believe in a bear market bottom in 2009, although we see the ultimate market low to materialize only in late Q3/early Q4.

1) The aftermath of extreme down years ...

Momentum is one key variable of a price chart. If a market declines too strongly we usually see a counter-trend reaction although the bigger trend is probably still down. Call it the rubber band effect or the principle of mean reversion it is certainly one part of the explanation why a stock market very often shows a positive reaction after an aggressive down year. On page 2 (Table 1.) we have highlighted the phenomena. Since 1800, the S&P-500 experienced 20 years where the market posted a loss of 15% and higher. In 14 out of 20 cases the S&P-500 closed the following year in bullish territory and the average performance of some 22% was remarkable. Taking into account the ongoing macro discussion and excluding the deflationary spiral of the 1930s, it is interesting to see that we have no significant pattern where the performance of the following year is generally related to a deflationary or inflationary macro environment. So one key message for this year is that **if the world can prevent a deflationary spiral we have from a statistical standpoint a 70% likelihood that 2009 will end up as a positive if not even a bullish year, which is a bias we shouldn't ignore.**

Chart 1.) S&P-500 Monthly Chart with TT New Composite

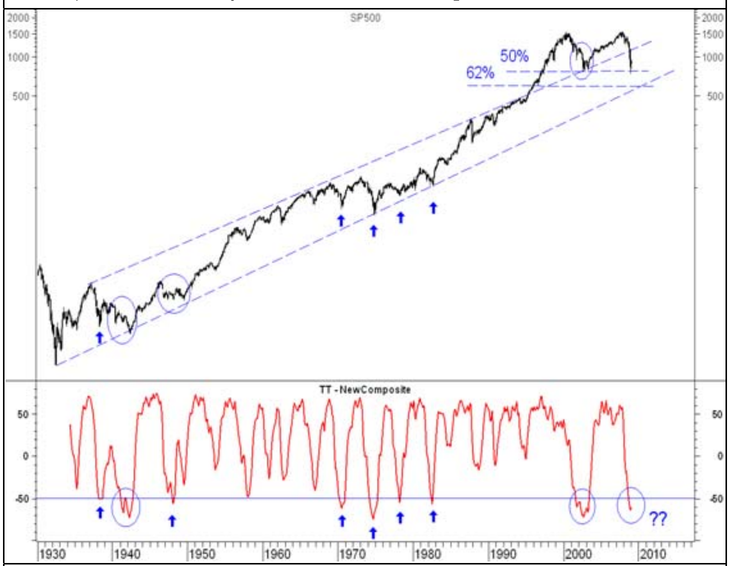
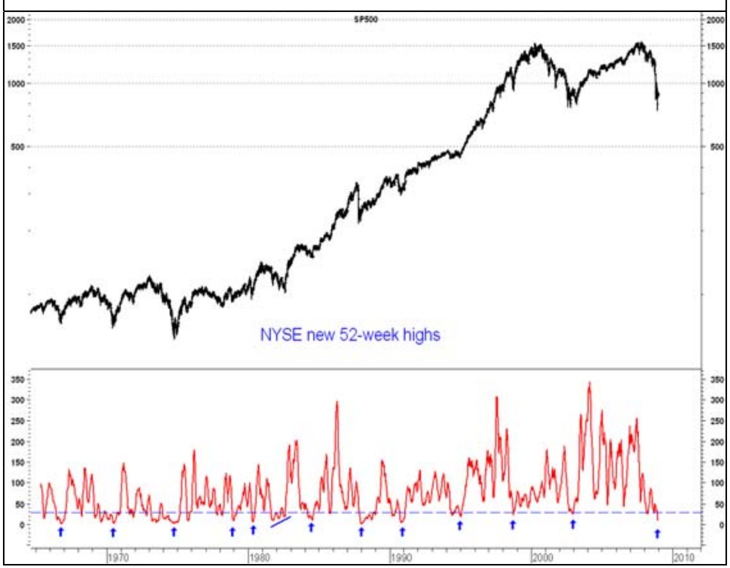


Chart 2.) S&P-500 Weekly Chart with 10 Week mov. of NYSE New 52-Week Highs



2) Indicators

Whether it's the classic monthly momentum or the TT New Composite (chart 2.) that includes 12 equally weighted price indicators, looking at the oversold readings in monthly price indicators or the oversold extremes in structural indicators such as the NYSE 52-week highs (chart 3.), we get further cyclical evidence of seeing a major market bottom in 2009. Generally, the 10-week smoothed version of the NYSE 52-week high indicator is a strategic market indicator that gives us quite good contrarian signals. A toppish market is very often signaled by a bearish divergence, whereas when we can register almost no new highs over a period of several weeks it is usually an indication that the US market is either near a bear market and/or at least in a long-term oversold position that should trigger a stronger counter-trend reaction. Conclusion: **All our monthly indicators are in contrarian buy territory**. The question now is whether we are in a longer lasting bottoming phase such as in the 1940s or 2002/2003 or if we see a more abrupt trend reversal that occurred in the 1970s? One point is, however, quite obvious: **after the 2008 meltdown we have seen the worst of this bear market, which supports our thesis that we are not too far away from a bear market low**.

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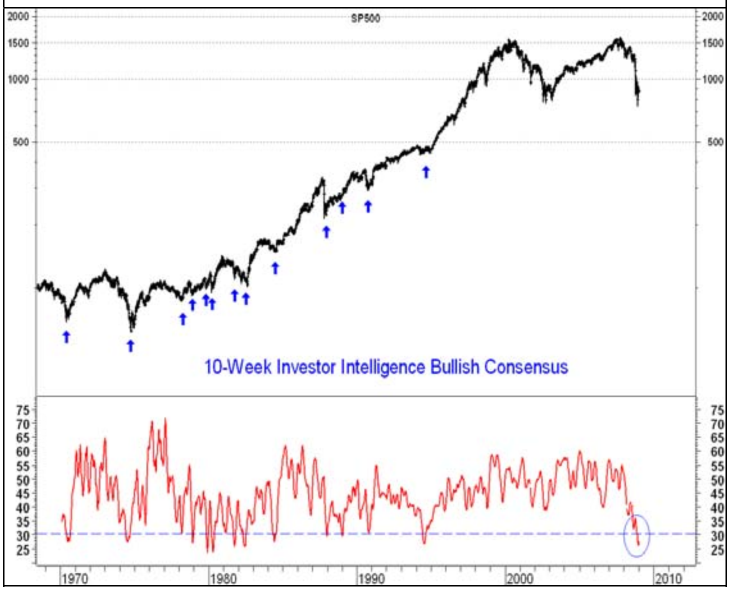
Chart 3.) S&P-500 Weekly With 10-Week Investor Intelligence Bullish Consensus



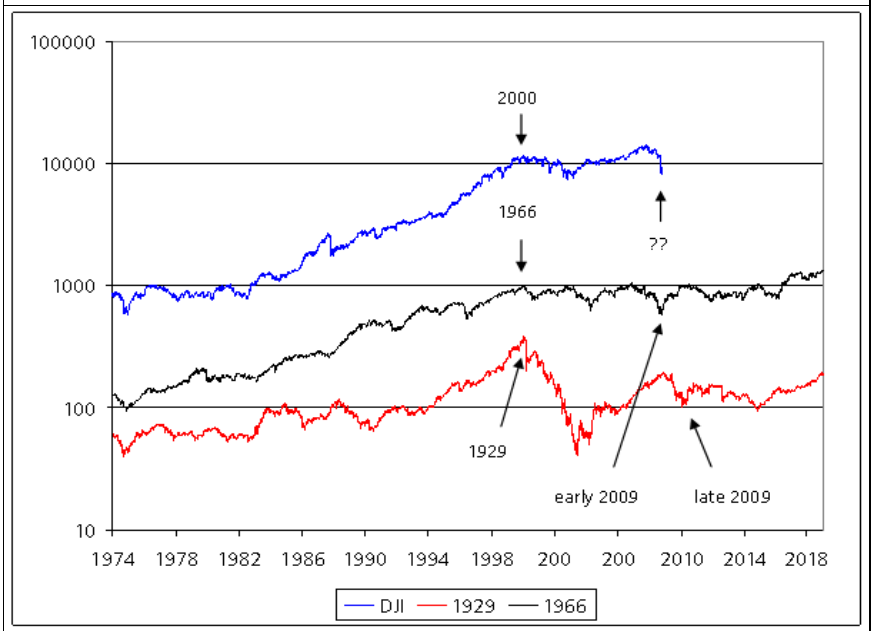
3) Sentiment

The decline into the October/November low was exhaustive in style. We have seen huge volume in cash and hedging instruments and all our survey and flow driven sentiment indicators were in contrarian buy territory. Although on the short-term basis the CBOE put/call ratio is already heading towards overbought readings (see chart 16.) we can see that strategic sentiment indicators (10-week Investor Intelligence Bullish Consensus) are still in contrarian buy territory. Whenever this indicator was around 30 the US stock market was near an important bottom. 1981 was the exception where it took the market another 12 months to form the ultimate bottom on which followed the biggest bull market in the financial history. Generally, if we look at the flow/liquidity side we get similar contrarian signals. Last year we saw record redemptions in the funds industry and as risk aversion is still pretty high we have most of the liquidity still getting parked at the sidelines or in bonds where the investors are factually paying the government to hold their money. All these factors are in our view contrarian indicators that have the potential to produce a positive surprise this year. Keep in mind, if we talk about the negative investors' sentiment we end up getting the same indication from economic indicators. Whether it's in the US or in Europe, most economic indicators are on 30 to 40 year lows. One can argue about the depth, the length and the shape of the bottom (V-shape or L) of the current recession, which is not the job of technicians - but it's quite likely that in 2009 we will see at least a bigger bounce in most of these economic indicators. The economic sentiment indicators (consumer sentiment), in particular, are highly correlated to the stock market, so this is just another point that suggests seeing at least a huge rally if not even the low of this bear market somewhere in 2009.

4) If the past is a guide to the future ...

We are not big fans of using chart overlays and chart similarities to explain or indicate the future. It is clear that due to the cyclical nature of the markets we can always find some patterns that look similar to each other. Keep in mind, the 20-week cycle or the 4-year cycle of today also existed some 30 or 60 years ago, which simply means that today and 30 years ago the market factually follows the same kind of cyclical rhythm and this will always produce some similarities. However, comparing bubble charts or bigger chart patterns of periods with a similar structural background and/or economic environment indeed makes some sense. For years we are telling our readers/clients that from a secular standpoint the equity world peaked out in 2000. In this context it is fascinating to see how similar secular bear market patterns are behaving if we compare the current secular bear market with the structural bear markets of 1929 - 1942 and 1966 – 1982. Again, we don't think it makes any sense to zoom down these charts on a micro basis and look for short-term timing points. However, in its bigger perspective, the current cyclical bear market looks pretty similar to the position of the bear markets of 1973/1974 and 1937/1938.

Chart 4.) Dow Jones Industrials Overlay With Structural Bear Markets 1966 and 1929



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Projecting these bear markets on the current time scale suggests seeing the US market to move into an important market bottom within the next 12 months. Whereas the 1973/74 pattern suggests an early 2009 bottom, we have the 1937/38 pattern giving us the indication of a bottom in later 2009 if not even early 2010. **The key message is that following these patterns it is highly likely to get a bear market low in 2009 and if so, this market bottom could be the basis of a cyclical bull market that lasts between 9 months and almost 2 years and could lift the market some 50% to 70%.**

So when is the Best Time to Buy?

Although we are rather bullish for Q1, from a tactical standpoint we have a few arguments that indicate seeing a potential bear market bottom only sometime later this year. Most importantly, even if we are wrong with our tactical timing and we get the ultimate low earlier this year we would expect at least a re-test of the November lows as part of a bigger bottoming process. With the position we are starting into 2009 we have yet no real evidence that the November low could have already marked the low of this bear market. Whether it's the broader market or the simple fact that so far we have no reliable price bottoms in place, all this suggests that the ultimate bear market low is still ahead of us. We expect at least a serious re-test of the November lows. If the S&P-500 cannot hold 800 on a monthly closing basis we will get more downside towards 670 to 630 as a worst case scenario.

How does a bear market bottom look?

A major market bottom usually needs to meet some requirements. Extreme sentiment, declining momentum (which produces the classic divergences/non-confirmations) and the classic bottoming patterns are characteristics that a major market bottom usually has. Generally, the chart is a function of price and time, and this is the theoretical explanation of why it usually takes some time to build a top/bottom. The longer and stronger the underlying trend is, the longer it usually takes to build a price top/bottom. It is the classic distributive phase that marks a bigger price top, whereas in a bottoming process we have the classic accumulation going on.

Table 2.) S&P-500 Major Market Bottoms

Year	Bottoming Phase (weeks)
1932	V-shape but re-test in 1933
1935	38
1938	13
1942	V-shape
1949	V-shape as part of a 3-years sideways pattern
1957	25
1958	44
1960	48
1962	19
1966	7
1970	13
1974	16
1978	12
1982	22
1984	9
1987	7
1990	6
1998	6
2002/2003	36

Regardless of when we finally see a low in 2009, in the current situation we can say that equity markets are still far away from having reliable price bottoms in place. Whether it is a Russell-2000, Nasdaq Composite or any other major index, so far we only have a V-Shape bottoms in place in all these headline indices. However, it is the classic price bottom that we usually see in most of the major market bottoms. Since 1932 the S&P-500 completed 19 major bottoms. We reviewed all these bases and found out that in 1942 we had only one clean V-shape bottom. What is the nature of a V-Shape bottom? Such a sharp reversal is always linked to a sudden and very sharp change in sentiment. In 1942 the bottom was obviously closely linked to the turning point in WWII of the Allies, which indeed marked a sharp change in the underlying environment. Do we have a sharp change in the underlying sentiment/environment today? In 1949, however, the US market experienced another kind of V-shape bottom but this reversal has to be seen in the context of a larger bottoming case as it was part of a 3-year sideways trading pattern. All other 17 price bottoms underwent a basing phase that lasted between 6 weeks and 11 months. This is very important information for us. **Translated into the current situation this tells us that there is a 94% likelihood of seeing at least a deep re-test of the November lows as part of a bear market bottom, regardless of whether we finally see this re-test in early Q1 or sometime later this year.**

Chart 5.) S&P-500 Weekly (1937 – 1944)

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Chart 6.) S&P-500 Weekly (1969 – 1976)

Chart 7.) Nasdaq Composite Daily

Is this a normal bear market?

Top to low, the S&P-500 has lost some 52% of its value in this bear market. Given the average loss of a cyclical bear market, one could indeed conclude that we have either already seen the low or that we have seen at least the worst of this bear market. However, maybe the real question is whether this bear market is an average bear market or probably an event that goes beyond that what the world has experienced in the last 60 to 70 years. Generally, in a secular bear market environment the average length of a cyclical bear was 21 months, posting an average loss of around 39%. Obviously, from a percentage point of view, at -52% the 2007 bear market is an above average bear market. However, if this financial/economic crisis really has something to do with a once in a century event, then it is quite likely that this bear market will last longer than only 11 months (October 2007 to November 2008), which would still be significantly below the average of a usual cyclical bear market.

What is the conclusion of all this? Given the extreme negative performance of 2008, the oversold extremes in long-term indicators and the market sentiment, **we think we have already seen the worst** of this bear market. **However, from a time perspective we simply do not believe that this bear market will end as a below average bear market**. Counting from the October 2007 peak, an average bear market should see its low in July 2009, so Q3 (or later) is a general timeframe that we should view as a potential target area for a final price bottom. **Given our findings about the still missing price bottom, we could either see a strong bounce into late Q1/early Q2 followed by a new decline into the ultimate low somewhere in Q3 or a several months lasting sideways trading range that could be completed in Q3 with a strong breakout to the upside.**

Table 3.) Duration Of a Cyclical Bear Market

	Average Length	Average Loss
Since 1900 the DJI experienced 21 cyclical bear markets (loss of more than 20%)	18.6 months	-36%
Secular bull market environment (7 out of 21 cyclical bear markets)	12.7 months	-31%
Secular bear market environment (14 out 21 cyclical bear markets)	21.5 months	-39%

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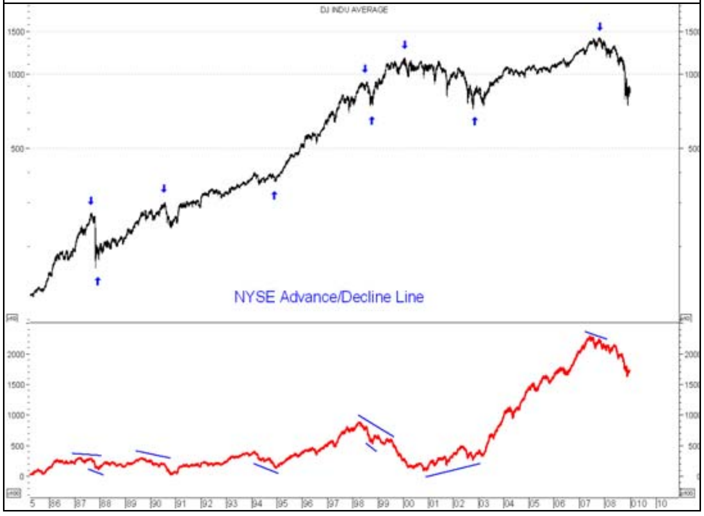
Market Breadth ... still no improving signals

The NYSE Advance/Decline line is a classic market breadth indicator. There is always discussion in the technical world about whether it makes sense to look at the NYSE Advance/Decline line, which includes closed-end funds that are behaving more like bonds or whether we should look at the pure S&P-500 Advance/Decline line. We are tracking both indicators as well as several other market breadth indicators and the NYSE Advance/Decline line has in our view lost none of its power in giving valuable insight about the internal stock market structure. Over the last 20 years most of the major market tops and bottoms have been accompanied by a bigger and/or longer lasting divergence in this indicator. It makes no difference which way the divergence between index and indicator finally comes out. The fact is that a non-confirmation between the Dow Jones Industrials and the NYSE Advance/Decline usually indicates that the market is moving into a major trend reversal. Currently we have nothing that would point to a divergence in this indicator, which for us is just another piece of evidence that it's still too early to call a bottom. However, since we expect this year to see a bear market bottom we wouldn't be surprised to see an improving market breadth as an early indicator somewhere later this year. So far we stick to our last year's call and continue to favor large caps versus small and mid caps but we will carefully watch whether we get improving signals from second and third row stocks. The negative view on small and mid caps is in our view too consensual, so we probably get a bit of a positive surprise in this area on a 12-month basis.

Chart 8.) Dow Jones Industrial with NYSE Advance/Decline Line



Time Cycles suggesting an important market bottom in H2!!

In our 2008 strategy we expected equity markets to move into a 2-year cycle bottom in late Q1/early Q2. In most markets the March low has been representing this cycle trough. Following the great track record of the presidential election year we actually believed in a stronger recovery in H2 followed by a second bear market leg into 2009/2010. However, we also made it clear that the March/July lows were absolutely pivotal in holding up this recovery scenario. We all know what happened. In early September the Nikkei broke its March bottom (chart 10.) and depending of whether it was a large cap or mid cap index, most EU and US headline indices broke their March/July lows. **In our mid September strategy call we clearly stated the consequence of this breakdown from a cyclical perspective and the conclusion from last September hasn't changed**. **Taking out a cycle trough automatically opens a new down cycle, so that the SOXX index, the Nikkei and other markets were automatically short biased into at least Q4 2009**. Following the 20-month cycle, we have a low projection for most markets between late Q3 and somewhere in deeper Q4. **So regardless of whether we get a stronger bounce in Q1 or if this bounce lasts into early summer, we would at least expect another strong down-leg into late Q3 and it should be the move into the ultimate bear market bottom.** Again, a chart is a function of time and price. A cycle low does not necessarily mean that we have to see a new significant low. In March 2000, the Swiss Market Index (chart 9.) confirmed its 20-month cycle trough after moving sideways for almost one year. However, the key message is that after a cycle trough we can usually expect a longer lasting rally. In 2008, the 20-month cycle completely failed, which is a very rare phenomena. **Since we expect 2009 to see a bear market low, it is quite likely that the next 20-month cycle trough will represent an important low and if so, it should be the basis for a new cyclical bull market.**

Chart 9.) Swiss Market Index Weekly Chart with 20-Month Cycle

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Chart 10.) Nikkei Index Monthly Chart with 20-Month Cycle

Chart 11.) Nasdaq Composite Monthly Chart

Conclusion

After the extreme meltdown of 2008, equity markets are starting on a very low basis into 2009. Following the signals that we are getting from oversold long-term indicators, sentiment and statistical implications, we expect 2009 to see an important market bottom as the basis for a cyclical bull market into 2010. The question is when will we get this bottom? If we put everything together, the most likely scenario we see is that after a Q1 rally and a generally better H1 we get another severe down-leg into the ultimate bottom in late Q3 or later in Q4. Support for our tactical timing strategy we get from the seasonal patterns of a post presidential election year and the general seasonality of equities.

The seasonal chart of a post presidential election year indicates a bullish trend in H1, whereas in Q3 we should see a stronger correction. Although we think that getting a hard rally into the summer or even into early Q3 would go too far; the post presidential election year seasonality and the best 6-month strategy suggests that at least Q1 should be quite bullish. Keep in mind, we usually see the best gains of the year from November into April, whereas the months of May to October have a quite negative track record. Since 1950, the US market has experienced only 14 years where this 6-month strategy has not worked, so we have a 75% likelihood that Q1, in particular, could be quite bullish for equity markets.

However, following our cyclical models and statistical aspects about the length of a bear market we favor a final market decline into Q3. On page 4 **we compared the current bear market with the bear market of 1937 to 1938**. **We see a lot of similarities in terms of patterns and wave structure**. In 1937 the US market (see chart 13.) imploded into a high momentum November low. From November into March the SPX traded sideways in a volatile manner before collapsing into the ultimate bear market low in April 1938. From an Elliot wave perspective this decline completed an impulsive wave 5 structure of a larger degree. Interesting enough, following the strong rally of H2, 1938 was finally a quite bullish year although it was the year the market set a cyclical bear market bottom. **This year could follow a quite similar path and it is in fact our favored scenario (chart 14.). After a set-back into February we expect more tactical upside into an early Q2 top followed by a final wash out into a Q4 bear market low**. Whether 2009 ends up as a bullish year depends on whether the market can hold the November lows and whether the market sees its low in late Q3 or only in deeper Q4. Generally, with the November low the SPX has tested a very important and obvious long-term support. It's the market bottom of 2002/2003 and it represents the 50% retracement of the move from 1932 to its all-time high from 2000/2007 (see chart 1.). If the S&P-500 cannot hold 800 on a monthly closing basis we get more downside towards 670 to 630 as a worst case scenario. Do we see a break of the November lows? We think yes, as we just have to take a look at the long-term structure of the Nasdaq (see chart 11.). In 2008 the Nasdaq Composite broke its

Chart 12.) Seasonal Chart Post Presidential Election Year

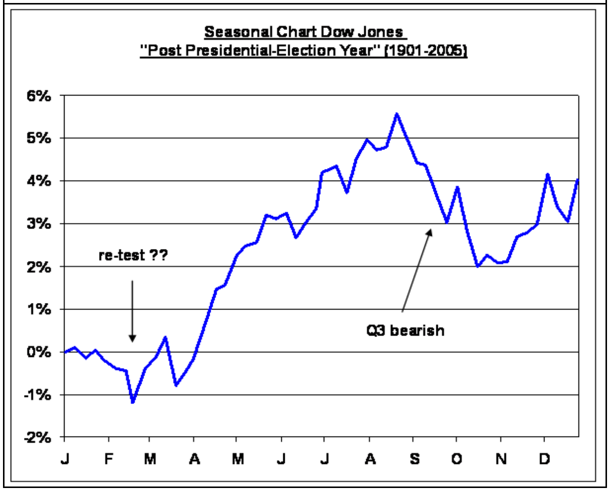

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Chart 13.) S&P-500 (1937 – 1938)

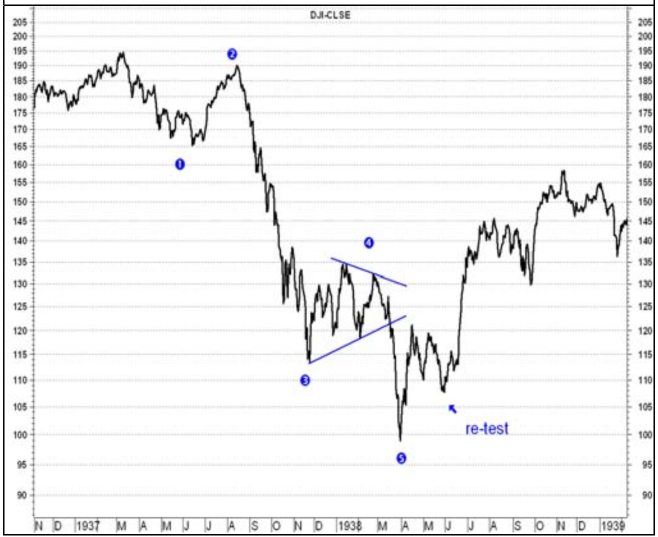


Chart 14.) S&P-500 Our Favored Scenario for 2009

Chart 15.) S&P-500 Daily with 10-Day NYSE Advance/Decline Ratio

Chart 16.) S&P-500 Daily Chart with 10-Day CBOE Put/Call Ratio

ultra long-term bull trend from 1978. As a next natural support we only have the bear market low of October 2002, which is still some way to go. Again, if we take into account that we so far have only a V-shape reversal in place (chart 7.) it is quite likely to get a final down test this year. If we furthermore look at the impulsive bearish overall structure of the Nasdaq we think that there's generally missing a final down wave (wave 5) that should mark at least a temporary new low. We can count one and one together. If the Nasdaq moves to the October 2002 lows it is quite likely that the S&P-500 will also break its November low, at least on a temporary basis. **However, although we expect another negative surprise into Q3, a potential year-end rally could nonetheless lift the market into positive territory, as the basis from which we are starting into 2009 is very low.**

Where could we be wrong? If we are wrong with our timing we think it is more likely to get an earlier market bottom instead of seeing this bear market moving on into 2010.

An alternative scenario is that we get a final down-test into early February as the last part of a bigger price bottom. **On a very short-term basis our sentiment and momentum indicators suggesting the US market to be moving into a bigger tactical top in early January.** The 10-day CBOE put/call ratio is approaching quite low readings and the 10-day NYSE advance/decline ratio is beginning to diverge against the new breakout in the SPX. In the past such a combination was always a trigger for a significant set-back. Given these signals we favor a set back into later January if not even early February as the basis of the next bigger rally into later Q1. With a re-break of 918 in the SPX we would sell/take profit and look for a re-entry below 850.

Technical Strategy Equities

The Structural Bear Continues ....

This year we expect the 2007 bear market to set a bottom. Given our macro strategy and inter-market analysis we see the financial markets moving into an inflationary period in the next few years. It means that from a nominal standpoint equities could see a quite aggressive rebound into 2010 and probably even into 2011. However, in which context do we have to see this potential rebound?

Generally, our structural picture on equity markets is unchanged. Since the market peak in 2000 US and European equities are trading in a secular bear market. If we talk about secular structures we are talking about patterns and time frames of 15 to 20 years, so a potential cyclical bull market into 2010/2011 would be in our view just another part of this secular bear market pattern. Our time projection for the end of this structural bear market is unchanged to that what we've been telling our clients over the last few years. We always pointed towards a secular bear market low somewhere in the middle of the next decade. In each decade the US stock market hit a major long-term bottom (chart 19.) within the first four years of the decade. This bottom was always the basis for a multi-year bull market if not even the start of a new secular bull market. We have no reason not to believe in the continuation of this decennial pattern. However, if this is correct we still have the risk of seeing another cyclical bear market in the period of 2012 to 2014.

What does this mean for the investors' long-term strategy? If we believe in inflation this should actually be bullish for equities. On chart 18 we can see the 1966 – 1982 secular bear market, which on the macro side was accompanied by high inflation. From a nominal standpoint this bear market was a pure sideways trading market with sharp cyclical swings. However, inflation adjusted the picture looks completely different. Inflation adjusted the Dow Jones Industrials (chart 17.) lost some 69% of its value. The same indication we get from the inflationary periods of 1941/1948 and 1915/1920. During the hyper inflation of 1915 to 1920 the Dow Jones Industrials rallied some 120%. Inflation adjusted the investor lost some 63% of its money. From 1941 to 1948 the DJI performed 41% whereas inflation adjusted the market was more or less flat. So if we are correct with our inflationary scenario we will nonetheless continue to lose money in equities, as we have since 2000 and which gets quite obvious as the inflation adjusted Dow Jones Industrial index has already broken its 2003 bear market low.

Chart 17.) Dow Jones Industrial (Nominally and Inflation Adjusted)

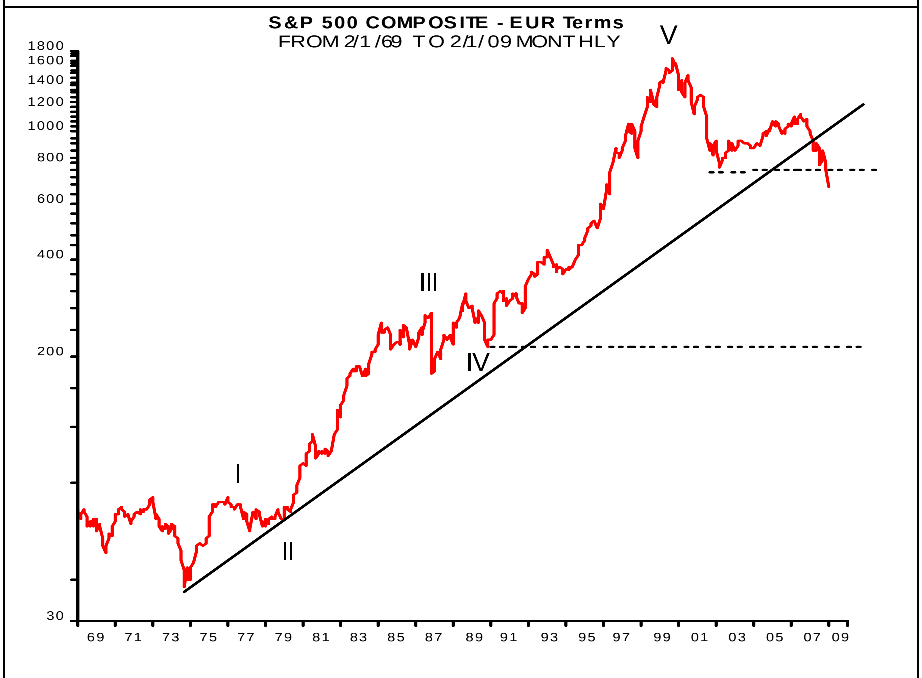
Chart 18.) Dow Jones Industrial (Nominally)

Technical Strategy Equities

Chart 19.) Dow Jones Industrial Index Monthly Chart

Finally, the inflation story is certainly pretty much linked to the dollar story. Generally, a new collapse of the US Dollar would be in our view the ultimate trigger for inflation (in the US). In this context it is interesting to take a look at the structure of the Euro denominated S&P-500. With the peak in 2000, the US stock market has completed a huge impulsive 5 wave structure that has started in 1974. It's fascinating that even on the lower degree the structure has a near perfect wave pattern/count. The key point is that despite the dollar bounce in 2008 the SPX has broken its ultra long-term bull trend from 1974. From an Elliott Wave perspective it's quite obvious that the SPX is undergoing a correction of a larger degree (a-b-c). Per theory this correction could lead the market back to the start of the last major bull wave, which would be the low of 1990 at around 200. Think the unthinkable ….this kind of meltdown can only be realistic if we see a huge dollar collapse. Conclusion: From a European investors standpoint we see the US market still as an outright sell.

Chart 20.) S&P-500 EURO Denominated



Technical Strategy Equities

We Are Bullish Miners and Energy ....

Which sector was a boom sector and which sector wasn't? Generally, boom sectors have never lead the next rally after the burst of a bubble. We have a lots of market participants believing that we have seen a bubble in the commodity sectors. We don't think so (see page 14 to 16) which is one of the main reasons why we favor a shining comeback of commodity sectors in 2009. The European Basic Resource sector has confirmed a quite important long-term support (chart 21.) and the relative patterns in oil and other cyclical sectors such as construction are quite constructive. Although it's likely to see another down-test in Q3 in these sectors we expect particularly the commodity related sectors to gradually outperform.

However, financials have undoubtedly seen a bubble top in 2007. Following our secular call on equities the banking industry has seen its peak for the time being. This is very important information as a sector usually needs more time to unwind a bubble than only 20 months (April 2007 to December 2008). Banks are starting quite strong into 2009 but we have so far no indication that a bigger bottom is in place. On the contrary: We think it's still too early to buy banks and we finally see a high correlation with our favored low projection for the overall market. If we are correct with our timing this suggests another down-leg in financials during the summer and into Q3. However, as we expect the overall market to set an important bear market bottom this year it's clear that the time for financials will also come.

Finally, keep an eye on the defensive sectors. Healthcare is about to test its 2001 relative top, the food sector is forming a potential head & shoulder formation relative to the Stoxx-600. These patterns are suspicious and as healthcare is an absolutely consensus long call for 2009 we think we have the basis for a contrarian call. Probably it's still too early to position short in healthcare and other defensive sectors. However, on a 12 month basis we are quite confident that healthcare will disappoint.

Chart 21.) DJS Basic Resource (.SXPP) Daily Chart

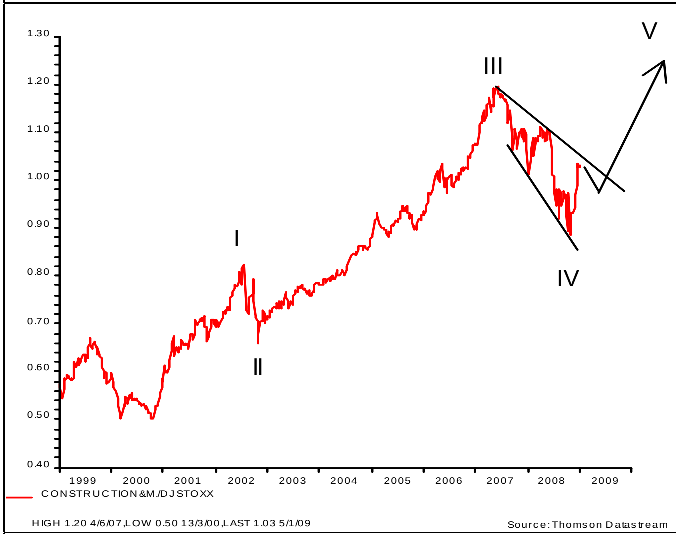
The December low in the basic resource sector has confirmed the 1992 uptrend at 215. Weekly indicators have generated a long signal, which is constructive and suggests more upside into deeper Q1. A potential January set back we would use to buy/add.

Chart 22.) DJS Oil & Gas (.SXEP) versus Stoxx-600 Daily Chart

From a relative standpoint oil stocks are forming a huge trend continuation breakout pattern since 2002. With the recent outperformance leg the sector failed at its key resistance. Probably we get another tactical set back during a potential Q1 bottoming process in crude oil (see page 16.) but at the latest in H2 we would expect a breakout in oil stocks and if so, it would be an aggressive long-term buy signal.

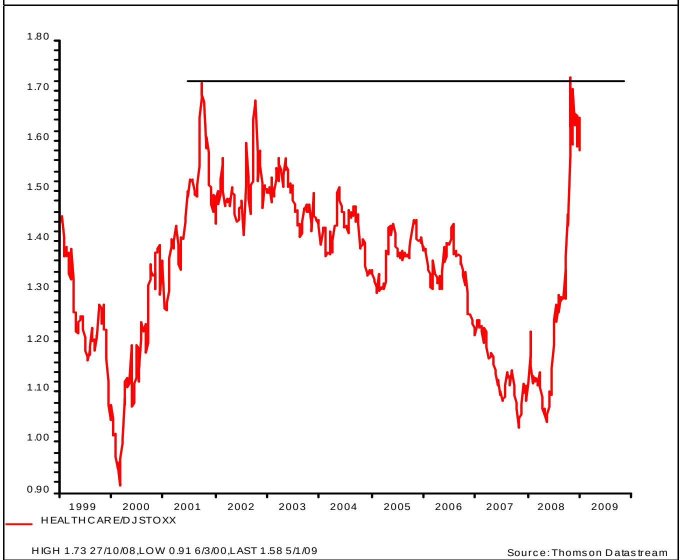
Technical Strategy Equities

Chart 23.) DJS Construction (.SXOP) versus Stoxx-600 Daily Chart



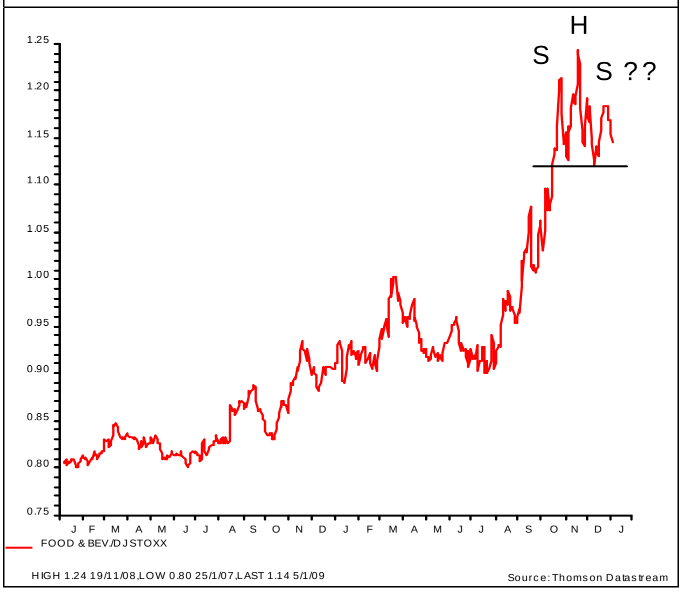
Tactically construction stocks have already turned long versus the market. However, the next bigger breakout is still missing, so that it is too early to be aggressively bullish on this cyclical sector. Nonetheless, the structure of the 2007/2008 relative correction is quite constructive. We expect a new major outperformance leg developing into 2010 and would buy construction into dips.

Chart 24.) DJS Healthcare (.SXDP) versus Stoxx-600 Daily Chart



Healthcare was one of our favored sectors last year. However, with the massive outperformance leg the sector looks quite overbought relative to the market. Furthermore, with the December top healthcare has tested its 2001 relative top, which is an important structural threshold. It remains to be seen whether we see a break of this level. If we look at the sentiment it strikes that healthcare is a consensus long call and this is in our view not a good basis for 2009.

Chart 25.) DJS Food & Beverage (.SX3P) versus Stoxx-600 Daily Chart



Keep an eye on the food sector. Relative to the Stoxx-600 we have a huge potential head & shoulder top formation forming. Given our overall Q1 bounce scenario we wouldn't be surprised to see this defensive sector generating a relative sell signal.

Technical Strategy Inter-Market Analysis

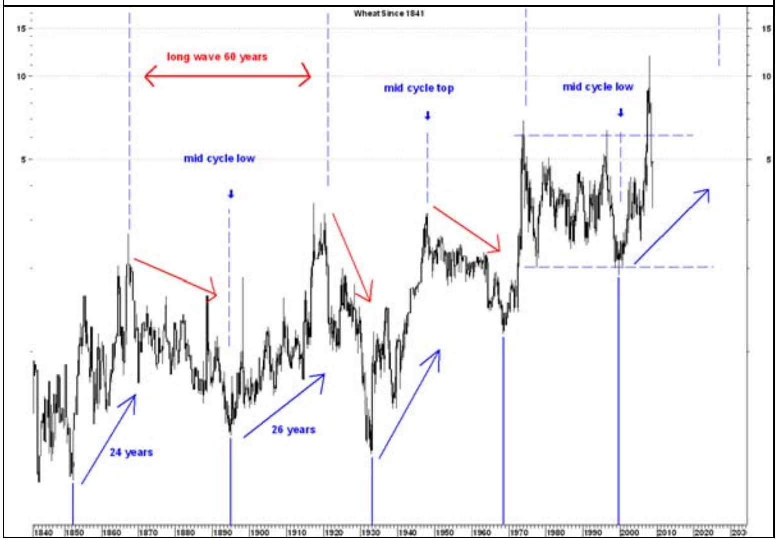
2009 ... The Start of a New Bull Market in Commodities

In 2008, it was one of our key calls to expect a negative surprise in commodities after overshooting into an H1 top. Weekly and monthly indicators were on extreme levels (chart 28.) which basically suggested a deeper correction. Of course, the correction we saw was by far stronger and lasted longer than anticipated. We actually believed in a sharp correction into Q3 and certainly not in a brutal bear market that finally retraced around 91% of the 1999/2007 bull market. On a momentum basis, last year's bear market was the strongest correction since 1873, so does this mean that the secular bull market story is over? If so, then the 1999/2007 bull market would have been the shortest secular bull market in history. Again, if we talk about secular structures we talk about trend patterns of around 15 to 20 years. If we look at the long-term structure of the CRB or the wheat chart from 1840 we can see that the last four secular bull markets lasted between 12 and 26 years. What we have to understand is that price swings in commodities are generally quite sharp. Look at the dramatic corrections of wheat in the 19th century. Wheat saw 50% declines although trading in a secular bull market trend. Last year was unprecedented so from a mean reversion standpoint alone we should see a huge bounce this year. However, given our macro scenario our bearish view on the US dollar and our long-term cycles, **we not only believe in a huge bounce, in 2009 we should see the start of a new major commodity bull market as one of the key macro trends for the next few years**. As overbought the CRB index was last year, as oversold it is today and this represents a great buying opportunity. From a cyclical standpoint we expect a new cyclical bull market moving into at least 2011 and for most commodities we see new all-time highs. Very important, from a structural standpoint we see this secular bull market to move deeply into the next decade. In 1999 the commodity spectrum passed a 30-year cycle trough. Regarding our long-term cycles we expect the next major turning point to be the 60-year cycle top somewhere in the late 2020s. This would obviously have a huge impact on inflation as well as on the bond market that we see moving into a 60-year cycle trough (see chart 35.).

Chart 26.) CRB Index Monthly Chart (1914 – 2008)

Conclusion: The meltdown of 2008 represents in our view a huge long-term buying opportunity in commodities and related sectors. However, from a leadership point of view we expect the next stage of this bull market to follow a more selective path. From a trend perspective we see base metals and oil underperforming, whereas gold, silver and grains should outperform. Our key call in July was to short oil versus gold. This relationship looks stretched short-term but we see this trend continuing over the next few years. On a tactical basis the current bounce is the start into a larger bottoming process. Most commodities should complete this bottom in late Q1. If this is correct it implies that particularly H2 should be outright bullish for the commodity spectrum, which also suggests commodity related sectors to be generally outperforming. We know that there is a broad discussion in the market of whether last years top in the commodities is a bubble top. If so, then we usually do not see direct strength coming back into the bubble sectors. Again, boom sectors have never lead the next rally after the burst of a bubble. However, the point is that we simply do not think that we have seen a bubble top. In the final part of a bubble chart we usually see parabolic excesses. Whether it is oil or gold, in both charts we so far haven't seen these parabolic moves. We would use any kind of dips in Q1 to buy commodity stocks.

Chart 27.) Wheat Monthly Chart (1840 – 2008)



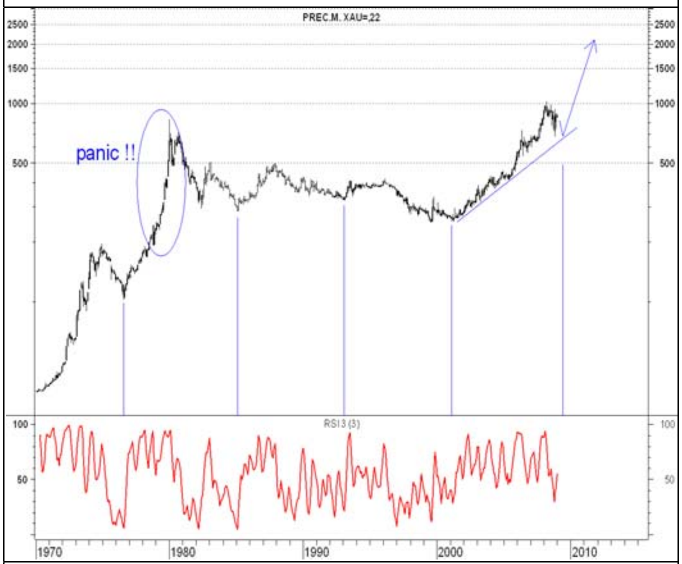
Technical Strategy — Inter-Market Analysis

Chart 28.) CRB Reuters Jeffries Index Weekly Chart

As overbought the CRB index was in July last year, as oversold it is today. We are starting on a record oversold position into 2009. This represents a huge buying opportunity.

From a chartist point of view the CRB index has re-tested the 1980 downtrend at 210. We expect this area to be the basis of a larger bottoming process.

Chart 29.) Gold Monthly Chart with 8-Year Cycle



Besides bonds and the Japanese Yen, gold was one of the safe havens in 2008. Relative to equities gold continues to strongly outperform and from a trend perspective we expect this relative relationship to continue over the next few years. On the contrary: From a cyclical standpoint we see gold moving into an 8-year cycle trough in H1. **If the current high price levels will be in fact the basis of the next bull market we can expect a quite aggressive move in gold over the next few years.** On a short-term basis our favored scenario is to see another tactical down-leg into later Q1 to complete the expected long-term cycle bottom. However, the surprise is generally on the upside so we would carefully watch the key resistance levels in gold. A break of last year's all-time high at $1040 would be aggressively bullish for gold and therefore also for gold mines. Keep in mind, during the October sell off we have see a huge decline in speculative long positioning to levels last seen in 2001/2002. Although got a bit of a bounce in speculative longs, from a sentiment standpoint current levels are still quite low which is in our view a bullish long-term set up for gold.

Chart 30.) XAU Monthly Chart

Gold mines have rallied hard during the recent weeks. After almost doubling its value it is not a big surprise that gold mines are quite overbought short-term. The XAU is approaching a quite strong resistance area, representing the broken 2000 bull trend and price resistance at 127. We expect a pull back during the next few weeks, so traders could take some profits, whereas investors should use dips to buy.

Technical Strategy Inter-Market Analysis

Chart 31.) Crude Oil Monthly Chart

Chart 32.) Crude Oil Seasonal Chart

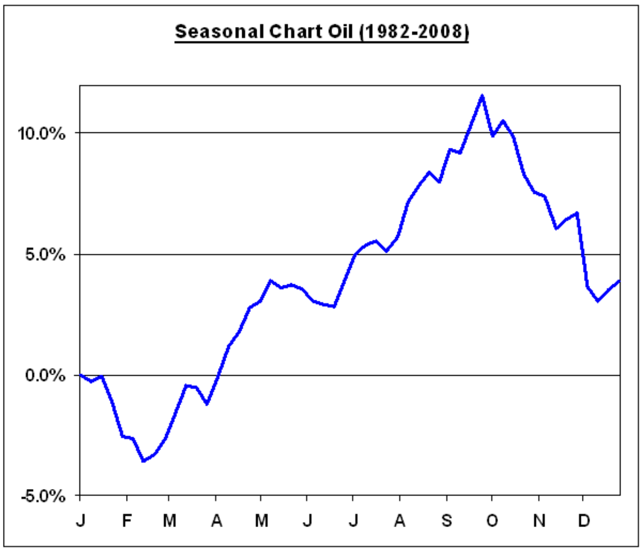
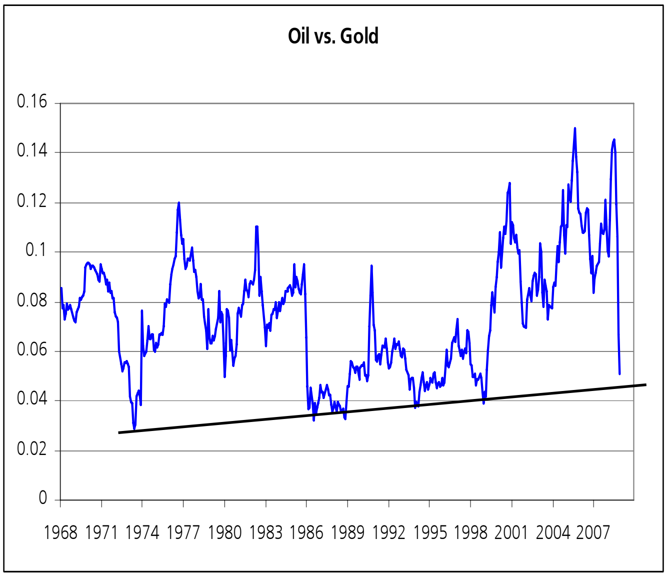


Chart 33.) Relative Spread Crude Oil versus Gold



The July/December bear market in crude oil was unprecedented. Although we expected oil to undergo a correction of a larger degree the bear wave clearly went beyond that what we have expected. However, from an Elliott wave perspective our long-term wave count has not changed. The July/October decline is in our view a sharp wave 4 correction of a larger degree that perfectly fits the rule of alternation after the wave 2 correction of 2000/2001 was a classic a-b-c correction pattern. **Prior to Christmas we highlighted that several commodities are pulling back to long-term support levels. In crude oil it is the level of $40 to $35 that has been confirmed and which we expect to be the basis for the next bull market**. Generally, if our wave count on oil is correct we can expect a final bull leg to develop over the next few years. From a cyclical perspective we expect this bull wave to peak out in 2011. However, one consequence of the recent sharp decline is that we cannot expect a massive new all time high. The more realistic scenario is to see “just” a re-test of the all time highs in 2011. How is this likely? Again, on a momentum basis last year’s break was extreme. Just from a normal volatility standpoint we can expect a retracement of some 50% of last years decline, which alone would justify a target of around $ 90 for crude. However, if we are correct with our long-term cyclical projections as well as our bearish US dollar call oil should start more than only a bounce this year.

Tactically we should **keep en eye on the seasonal factor of oil. Oil usually sets an important bottom in Q1 and the month of February is very often a low point in oil**. Again, a larger bottoming process would perfectly fit this seasonal chart, so **to go long oil into a Q1 low is one of our key calls for 2009**.

Finally, in July last year it was one of our key calls to short oil versus gold after oil failed to break its all time high against gold. From a trend perspective we stick to this call. However, **on a medium-term basis oil looks oversold versus gold and in this context it is interesting to see that the relative spread is approaching a massive and critical long-term support area at around 0.04**. If we are correct with our tactical scenario and we see a second test of the recent lows in oil in later in Q1 this could also suggest a test of the strategic relative support of 0.04 in the oil/gold spread. **However, it will be very interesting to see how this relationship develops later in 2009 and in particularly 2010. Obviously, on a medium-term basis we can see a bounce of oil versus gold. However, if the strategic support of 0.04 should not hold it would be another piece of evidence that gold is about to move into a vertical ascent into 2011.**

Technical Strategy Inter-Market Analysis

Panic in Bonds Suggests a Major Top Underway in 2009

Deflation or inflation? The impact on the bond market cannot be more diverse. Obviously, an ongoing deflationary environment would call per theory for a continued downtrend in yields. However, even if we see another one or two years of deflation we would see further downside in the US Long Bond as limited. If we look at the long-term Long Bond chart we can see that from a historical perspective yields are already on quite low levels. In the last 200 years the longer end of the US yield curve was only lower during the great depression of the 1930s and in WWII. However, it is clear that in an ongoing deflation we would have to deal with at least a longer time of lower interest rates. On the other hand we have the inflationary scenario and the impact on yields is also pretty obvious. In the 1970s the Long Bond moved from 6% to 14% within 10 years.

Conclusion: Given our inter-market charts and the long-term cycles on commodities **we in fact favor inflation to come back on the agenda within the next 12 months**. **The impact on the bond market would be dramatic as a potential reversal in yields could mark the ultimate trough of the 60-year cycle**. If this is correct, we could see this year as the start of a 10 to 20 year lasting bear market in bonds. Keep in mind, the mother of all bubbles is the bond market as we are in a debt bubble and this debt bubble gets even more inflated by all the administrative stimulus that we see in the US and Europe. From an investor standpoint **we see the bond market as an extremely crowded theme and following our cycles we favor a major top building in H1**. This also means that from an asset allocation point of view we would sell bonds against equities. Our bond/equity momentum is on extreme low readings.

Chart 34.) US Long Bonds Monthly Chart

The recent decline in yields had crash/panic character. Where we have panic in the market it is just a matter of time that we also get a bigger trend reversal, which alone is a reason to get cautious on bonds on a 12 months perspective.

Chart 35.) US Long Bond Yearly Chart with 30-Year Cycle

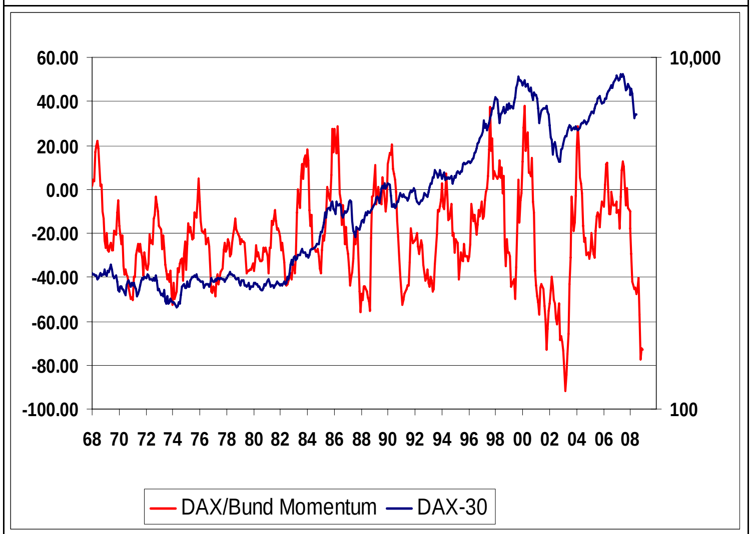
Given our long-term cyclical models as well as indicator constellations we see the recent panic as the potential blow off phase of the 30-year as well as the 60-year cycle in the Long Bond. If this is correct we are on the eve of a secular bear market in bonds.

Technical Strategy Inter-Market Analysis

Chart 36.) German 10-Year Bund Future Daily Chart

Looking at the daily chart we can see initial bearish divergences pointing to a set back in the next few weeks. However, a potential set back we would see as only the start into a major top out phase that should be completed by a final top in late Q2. If we are correct with our timing this suggests a bearish H2 and in particularly a quite bearish 2010 which fits our bullish equity strategy for next year.

Chart 37.) German DAX-30/10-Year Bund Momentum



The recent decline in yields had panic character. It is a mirror of the extreme risk aversion and the massive deflationary shock wave that we have seen during the recent weeks. However, given the style of the recent decline we see the bond market as a crowded theme. Our 12-month Equity/Bond momentum is on oversold extremes for US and European equities. **From an asset allocation point of view we sell bonds against equities.**

Technical Strategy Inter-Market Analysis

Chart 38.) Trade Weighted Dollar Index Monthly Chart

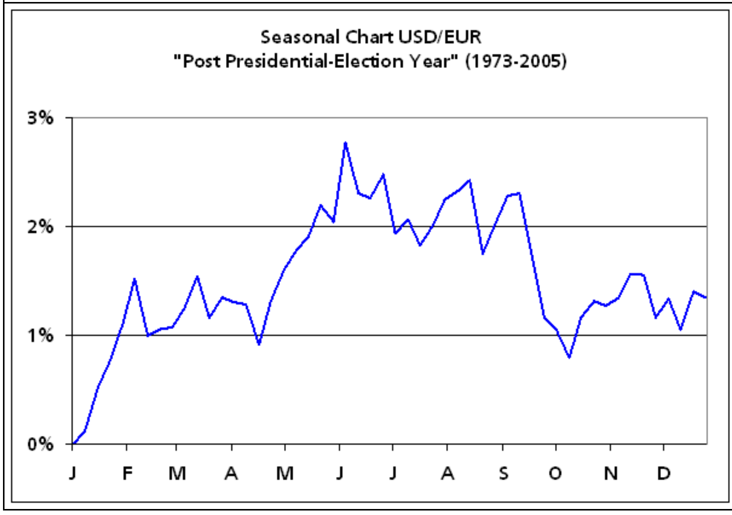
Last year it was one of our key calls to favor a stronger bounce in the US dollar. The pattern finally follows the 4-year cycle that we have running in the stock market as well as in the US dollar. **The last major peak in this cycle we saw in 2005, which basically implies to see the dollar running into its next major cycle top this year**. Do we have already seen the top? We doubt and we have two main reasons.

1) On a short-term basis the dollar sentiment is in our view a bit too bearish. Another re-test of the recent dollar highs would squeeze/wash out a lot of these bears and clear the way towards the ultimate dollar top.

2) **The USD/EUR seasonal chart of a post presidential election year indicates a stronger dollar in H1**, whereas H2 should be outright bearish. Whether we see dollar strength throughout H1 remains to be seen but what we in fact favor is at least another re-test of the recent dollar highs into late Q1. From an inter-market standpoint this is exactly the reason why we also favor another tactical down-leg in gold and other commodities into late Q1. **However, that what we expect to be a larger bottom in commodities should represent a major top in the US dollar. It should be the start of a new big dollar down leg into 2011. What a big surprise, 2011 is the major top projection we have for most commodities, so the dollar is factually the key variable of the whole game.**

A collapsing dollar would suggest a new strong bull market in commodities, which generally suggests inflation coming back on the agenda. However, inflation in conjunction with a collapsing dollar would imply pressure coming into the bond market. The US stock market remains a sell for EURO investors, whereas Sterling could see a comeback against the USD after last year's meltdown.

Chart 39.) USD/EUR Post Presidential Election Year Seasonal Chart



Technical Indicators: (Source: Pinnacle Data, Datastream, Market Maker) Charts: Metastock

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