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Market Background

There's been a lot of discussion over the few past months regarding the most prominent driver behind the market's recovery off the March lows. Certainly, part of what has helped has been the notion that the economy has avoided the absolute worst-case-scenario -- a notion that had looked to be a high-probability bet only a year ago. There's little doubt that the market was pricing in financial Armageddon last October, and that we saw a real bear-market capitulation this past February, so it makes sense that we saw a reactionary move to the upside when it became evident that the world wasn't coming to an end.

A lot of folks argue, however, that the biggest influence for the past nine months has been the tremendous liquidity that has been pumped into the financial system. Interest rates have been at extraordinarily low levels, but a lack of demand for loans, as well as a reluctance on the part of banks to do a lot of lending, has meant that that money has needed to find a home. It's found that home in equities.

Those factors have contributed to a run that, while at times seemed to be on the verge of breaking down, has consistently left market players poorly positioned. Accordingly, investors have been desperate to find a way to make sure their statements show that they've been along for the ride.

The action we saw after earnings season got under way a few weeks ago, meanwhile, has represented the most concerning bout of weakness that we've seen in nine months. Not only were there real signs that the character of this market was changing, with investors looking for any reason they could find to sell, in addition to the indices showing clear signs of institutional distribution amid clear technical divergences. There were also literally thousands of individual stock charts throughout the market that had plunged through key support levels on big volume.

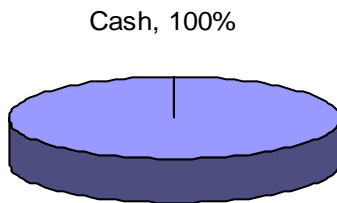
That, of course, has been the most difficult aspect of dealing with this market. Traditional means of navigating the market on a day-to-day basis have, at best, left market participants poorly positioned. But when you have a seemingly endless supply of money from governments eager to "stimulate" their economies, and no better place for that money to go than into equities, what results is a trump card that ensures those market players will continue to scramble for ways to keep up.

Try to keep up, they have. What started out as a quick oversold bounce on very light volume has turned into yet another surge to fresh highs which, in turn, has kept alive the pattern of dizzying spikes in both directions. The most frustrating thing in all of this is that the setups just aren't there on the long side. The pattern may be remarkably consistent, but the speed with which the market corrects and then recovers just hasn't provided the time for charts to develop prudent entry points. It's as if trading this market is solely dependent on being able to predict the vagaries of investor sentiment, rather than on the use of tried and true money-management techniques.

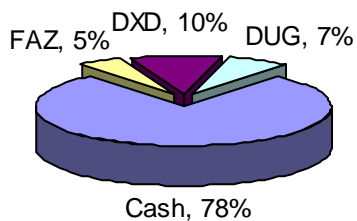
Plan of Attack

So, here we are again. We're seeing a market that's extended to the upside and a U.S. dollar -- which has seemed to dictate every tick in equities -- that's starting to move off another dip to fresh lows. Will the same pattern repeat? Will we see another round of heavy selling that makes it look as if this uptrend off March lows is again in danger of turning lower?

Current Long-Term Allocation



Current Short-Term Allocation



Certainly, there are several signs that the market might be due for another round of corrective action. On Wednesday, while the major indices were able to end the day with solid gains, the market reversed sharply after a strong start to the trading session pushed the **S&P 500** past its primary descending-resistance trendline. As I write this on Thursday, strength in the dollar, and a bearish reading on the weekly oil inventory report, look to be triggering some profit-taking.

Still, anticipating any action to the downside, no matter how strong the technical signals might be, has been a good way to end up getting squeezed. There's no doubt that the uptrend is still intact, and while the dip buyers have taken short vacations on occasion, they have yet to be met with any hint of failure.

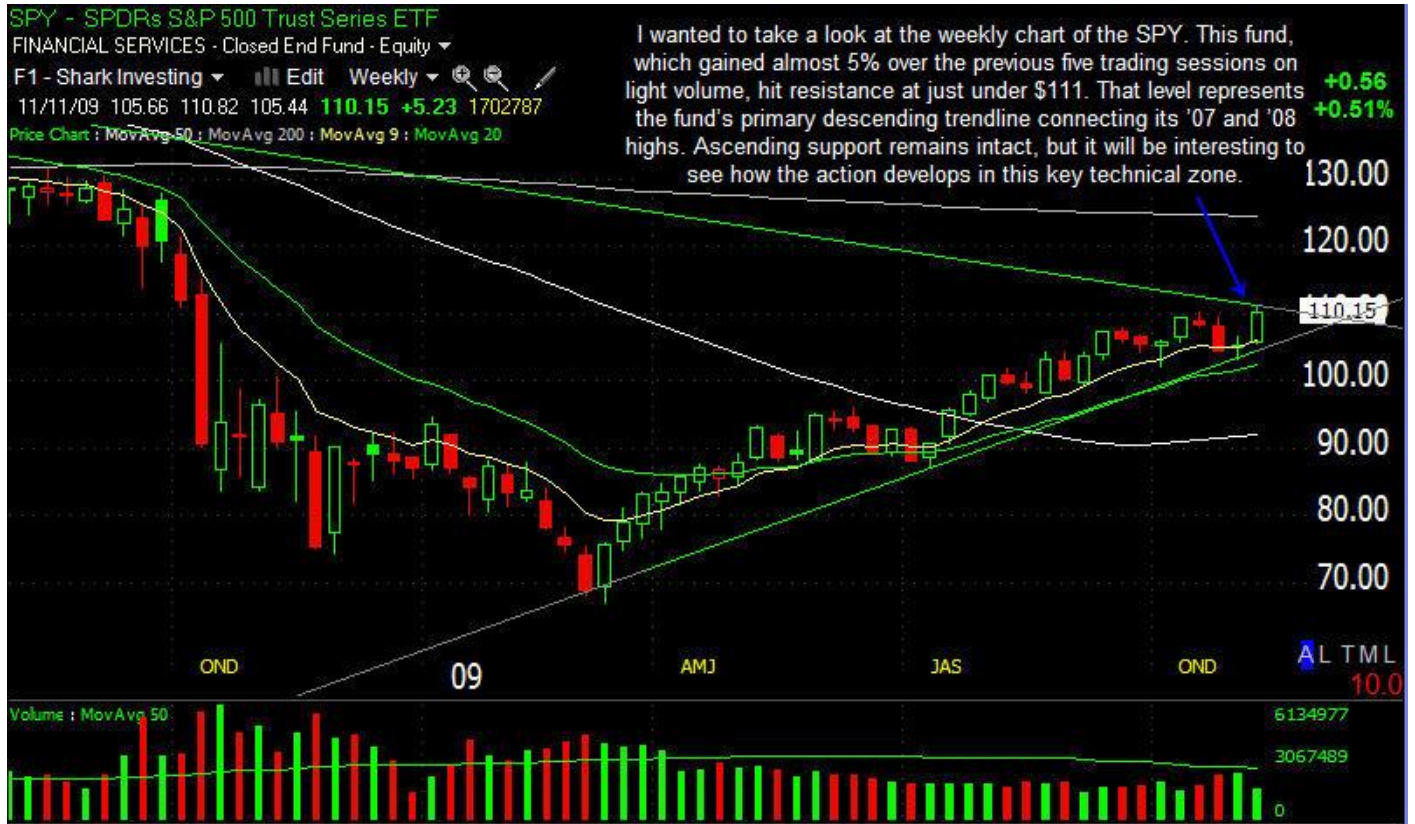
The market is extended, yes, but the same performance anxiety that dominated all summer long has again been evident over the past couple of weeks.

Existing Positions

- **ProShares UltraShort Dow 30 (DXD)**: Although it's moved again to fresh lows, the DXD is oversold at these levels. I suspect that it's due for some corrective action and, as such, I will be looking to shed this position on a move back to resistance.
- **Financial Bear 3X (FAZ)**: The FAZ has been moving lower over the past couple of weeks, and is again back in oversold territory. As I've been saying, though, I continue to find more potential shorts than longs in individual charts, and a good number of those are in the financial group. That sector has really underperformed recently, and as such, I'll give this position a bit more room to move.
- **ProShares UltraShort Oil & Gas (DUG)**: While it hasn't been hit quite as badly as my other inverse ETF position on this latest V-shape recovery, the DUG remains in an established downtrend. It's oversold at these levels, but with the **United States Oil Fund (USO)** having developed an interesting pennant near recent highs, I'll be keeping this position on a tighter leash.

ETF Watch

SPDRs S&P 500 Trust Series ETF (SPY)



ProShares UltraShort 20+ Year Treasury (TBT)



PowerShares DB Commodity Index Tracking ETF (DBC)



SPDR Select Sector HealthCare ETF (XLV)



Have a great weekend, and as always, stay on the lookout for my Allocation and Market Alerts.

James "Rev Shark" DePorre

MODEL PORTFOLIO

TRADING POSITIONS

Holding	Current Quote	Date Initiated	Allocation	# Shares	Cost Basis per Share	Current Value	\$ Gain/Loss	% Gain/Loss
ProShares UltraShort Oil & Gas (DUG)	\$12.87	7/17/09	TR -- 7%	378.79	\$18.50	\$4,875.03	-\$2,132.99	- 30.44%
ProShares UltraShort Dow 30 (DXD)	\$31.18	5/18/09	TR -- 10%	203.17	\$49.26	\$6,334.84	-\$3,673.18	- 36.70%
Financial Bear 3X (FAZ)	\$19.72	4/22/09	TR -- 5%	107.64	\$93.48	\$1,061.33	-\$3,948.34	- 78.90%
CASH Position			78.0%			\$80,245.33		

PERFORMANCE – Trading Positions

Original Cost	\$ 100,000.00	Performance results listed here reflect values of stocks as of the close of the most recently completed trading day, and take into account dividends paid, interest earned in the cash in the model portfolio (using the average money market rate compounded daily), and a model commission rate of \$8.00 per trade. Results are updated overnight (other than interest earned, which is updated monthly) and posted prior to the market open the following business day. The YTD Return figures reflect changes since the first trading day of the current year. The Total Average Return figures reflect changes since the model portfolio's inception 3/15/2007.
Current Value	\$92,510.83	
Total Average Return	-7.49%	
2009 YTD Return	-13.26%	

LONG-TERM POSITIONS*

Holding	Current Quote	Date Initiated	Allocation	# Shares	Cost Basis per Share	Current Value	\$ Gain/Loss	% Gain/Loss
--	--	--	--	--	--	--	--	--
CASH Position			100%					

* Please note: There are no long-term positions in the model portfolio at this time.

PERFORMANCE – Long-Term Positions

Original Cost	\$ 50,000.00	Performance results listed here reflect values of stocks as of the close of the most recently completed trading day, and take into account dividends paid, interest earned in the cash in the model portfolio (using the average money market rate compounded daily), and a model commission rate of \$8.00 per trade. Results are updated overnight (other than interest earned, which is updated monthly) and posted prior to the market open the following business day. The YTD Return figures reflect changes since the first trading day of the current year. The Total Average Return figures reflect changes since the model portfolio's inception 3/15/2007.
Current Value	\$ 50,838.51	
Total Average Return	1.68%	
2009 YTD Return	0.53%	

(The overall model portfolio performance continues on the next page)

OVERALL MODEL PORTFOLIO PERFORMANCE

Total Original Cost	\$ 150,000.00	Performance results listed here reflect values of stocks as of the close of the most recently completed trading day, and take into account dividends paid, interest earned in the cash in the model portfolio (using the average money market rate compounded daily), and a model commission rate of \$8.00 per trade. Results are updated overnight (other than interest earned, which is updated monthly) and posted prior to the market open the following business day. The YTD Return figures reflect changes since the first trading day of the current year. The Total Average Return figures reflect changes since the model portfolio's inception 3/15/2007.
Current Value	\$ 148,536.44	
Total Average Return	-0.98%	
2009 YTD Return	-7.56%	

S&P 500

	Date of Portfolio Inception	Open Level	Current Level	% Gain/Loss Since Portfolio Inception	2009 YTD Return
S&P 500 Index (SPX)	3/15/2007	1,386.95	1087.24	-21.61 %	20.37 %

At the time of publication, Mr. DePorre held no positions in the stocks mentioned.

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James “Rev Shark” DePorre is a self-taught trader who primarily trades for his own account from his home on Anna Maria Island, Fla. He also writes the “Trading Insights” blog for TheStreet.com, Inc.’s *RealMoney* premium subscription Web site. TheStreet.com, Inc. is a publisher and has registered as an investment adviser with the U.S. Securities and Exchange Commission.

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