

Bittles' Market Notes

Please refer to Appendix – Important Disclosures and Analyst Certification.

2009 Home Stretch

The equity markets marched higher last week supported by the premise the Fed will keep interest rates low, the economy will continue to improve and the November and December time frame will again prove friendly for stocks. The stock market also benefited from renewed weakness in the dollar as investors poured into large-cap stocks that enjoy a huge edge over small caps as the weak currency works in favor of global exporters. The result was new 2009 highs in the Dow Industrial, S&P 500 and NASDAQ 100 indices. Failing to make new highs last week include the Russell 2000 Index and the broad market as measured by the NYSE Advance/Decline line. Although the path of least resistance remains to the upside, it is important that the divergences do not persist as they can often be a leading indicator of technical problems three and six months out.

The investor sentiment indicators are mixed and rated neutral overall. The latest survey from the American Association of Individual Investors (AAII) shows a rise in bulls to 38% from 22% the previous week. The outright bears fell to 38% from 56%. The CBOE options statistics are mixed. The CBOE 10-day put/call ratio dropped to 92% from 97% the previous week but considering stocks have rallied the past two weeks this number is unusually high (75% is considered bearish and 95% bullish). The CBOE equity put/call ratio slipped to 57% from 66% the previous week (56% is considered bearish and 68% bullish). The CBOE Volatility Index fell to 23 from 24 the previous week and is considered neutral (21 is considered bearish and 30 bullish). The most recent report from Investors Intelligence, which tracks the recommendations of Wall Street letter writers, shows a drop in bulls to 44.4% from 48.3% and a rise in bears to 26.7% from 24.7%. The latest data on mutual fund cash shows fund managers are holding only 3.6% cash, one of the lowest readings in history.

The most significant economic reports last week were news that the trade deficit widened in September and consumer sentiment declined for the fourth time in five months. The trade deficit was a surprise given that despite the weak dollar the deficit widened with most of our major trading partners. The trade figures are expected to reduce third quarter GDP by 50 basis points. The plunge in consumer confidence is directly tied to the weak labor market. The fact is that job creation the past 10 years is negative for the first time in more than 50 years and that most of the gains this decade have been related to the abuse of credit from 2003 to 2007. The most important economic data to be released this week includes retail sales, inflation and the leading indicators for October and all should be friendly to the equity markets. Retail sales are expected to show year-over-year gains but last year's numbers were very weak and therefore easy to beat. The Producer Price Index (PPI) and the Consumer Price Index (CPI) are expected to show prices rose 0.6% and 0.2%, respectively. The Leading Indicators are expected to have risen for the seventh consecutive month. The bond market could be tested this week with the economy gaining strength and the dollar under attack, yields will be under pressure to rise. Nevertheless, we expect the yield on the benchmark 10-year Treasury note to vacillate between 3.25% and 3.75% into year-end.

Sector Strategies

No. 1 Information Technology = New highs for the NASDAQ 100 – Overweight/buy. Groups expected to outperform: IT Consulting, Computer Hardware, Internet Software & Services and Data Processing Services

No. 2 Consumer Discretionary = Strong RS – Marketweight/buy. Groups expected to outperform: Household Appliances, Education Services, Consumer Durables & Apparel and Specialty Stores

No. 3 Consumer Staples = Improving in RS – Underweight/buy. Groups expected to outperform: Soft Drinks, Personal Products and Retail Drug Stores

No. 4 Materials = Dollar remains oversold – Overweight/hold. Groups expected to outperform: Diversified Metals & Mining, Specialty Chemicals and Gold Mining

Bruce Bittles
Chief Investment Strategist
bbittles@rwbaird.com
615.341.7114

Morning Conference Call

November 16, 2009

No.5 Industrials = Improving RS – Marketweight/buy. Groups expected to outperform: Capital Goods, Environmental Services, Railroads, Construction & Engineering Services and Office Services

No. 6 Energy = Drop in RS despite weak dollar last week – Marketweight/hold. Groups expected to outperform: Oil & Gas Drilling, Oil & Gas Exploration & Production and Oil & Gas Integrated

No. 7 Financials = Earnings mixed. – Marketweight/hold. Groups expected to outperform: Insurance – Property & Casualty, Asset Management & Custody Banks.

No. 8 Health Care = Need RS Improvement – Marketweight/hold. Groups expected to outperform: Biotechnology, Health Care Equipment & Services and Pharmaceuticals

No.9 Telecom Services = Poor RS – Marketweight/hold. Group expected to outperform: Wireless

No. 10 Utilities = Declining RS – Underweight/hold. Groups expected to outperform: GAS Utilities, Electric Distributors

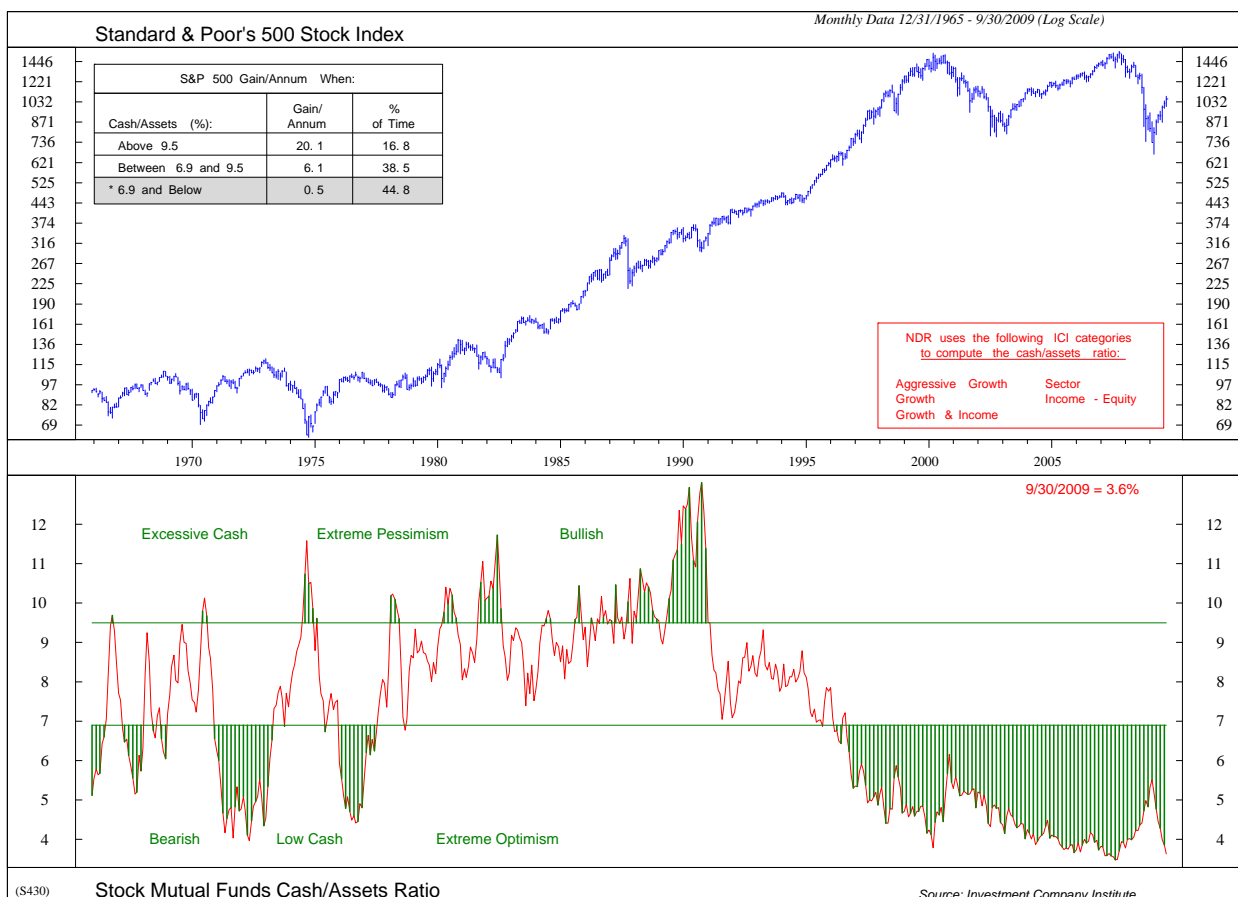
Market Overview

Stocks

Short-Term Trading range with risk to 1020 and reward to 1110 on the S&P 500
 Intermediate-Term Trading range with risk to 970 and reward to 1150 on the S&P 500
 Long-Term Major support at 875 on the S&P 500 – Reward to 1175 on the S&P 500
 Strongest Sectors Information Technology, Consumer Discretionary and Consumer Staples
 Leadership Mid-Cap and Growth

Economy

Fed Action Fed expected to hold steady course in first half of 2010
 Treasury Yields 10-year Treasury yield next six months 3.00% to 4.00%



©Copyright 2009 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved.
 See NDR Disclaimer at www.ndr.com/copyright.html . For data vendor disclaimers refer to www.ndr.com/vendorinfo/ .

Morning Conference Call

November 16, 2009

Appendix – Important Disclosures and Analyst Certification

Disclaimers

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST

The indices used in this report to measure and report performance of various sectors of the market are unmanaged and direct investment in indices is not available.

Baird is exempt from the requirement to hold an Australian financial services license. Baird is regulated by the United States Securities and Exchange Commission, FINRA, and various other self-regulatory organizations and those laws and regulations may differ from Australian laws. This report has been prepared in accordance with the laws and regulations governing United States broker-dealers and not Australian laws.

Copyright 2009 Robert W. Baird & Co. Incorporated

Other Disclosures

UK disclosure requirements for the purpose of distributing this research into the UK and other countries for which Robert W Baird Limited holds an ISD passport.

This report is for distribution into the United Kingdom only to persons who fall within Article 19 or Article 49(2) of the Financial Services and Markets Act 2000 (financial promotion) order 2001 being persons who are investment professionals and may not be distributed to private clients. Issued in the United Kingdom by Robert W Baird Limited, which has offices at Mint House 77 Mansell Street, London, E1 8AF, and is a company authorized and regulated by the Financial Services Authority. For the purposes of the Financial Services Authority requirements, this investment research report is classified as objective.

Robert W Baird Limited ("RWBL") is exempt from the requirement to hold an Australian financial services license. RWBL is regulated by the Financial Services Authority ("FSA") under UK laws and those laws may differ from Australian laws. This document has been prepared in accordance with FSA requirements and not Australian laws.