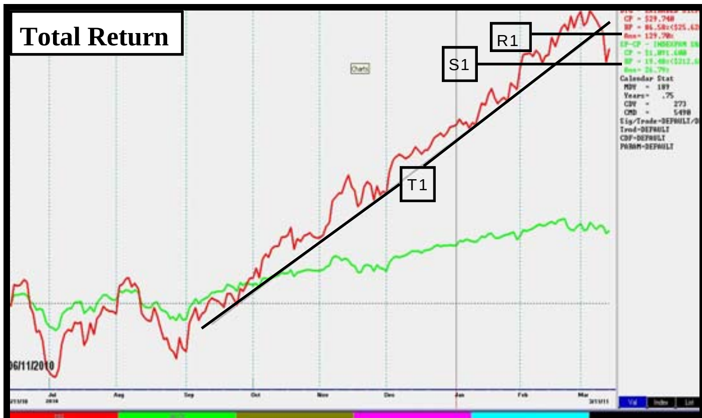
MARKET COMMENTARY



ProShares Ultra Oil & Gas (DIG) vs. S&P 500 (SP-CP)

Last week we were forced to sell our position in the ProShares Ultra Oil & Gas ETF (DIG). The chart at the left should help to illustrate more clearly what went into this decision. DIG had been performing exceptionally well especially when compared to the S&P 500. This would be in keeping with the recent turmoil in the Egypt and Libya in that we would expect to see continued high prices for energy.

In the chart T1 represents the Trend line which was advancing at an annualized rate of +350%. From the very peak to the point that DIG crosses T1 it declined 3.89% in 3 days. When a fund decisively crosses the trendline, it is time to sell. From T1 to S1 the fund dropped 8.4%, most of this coming on the opening which was down 6%.

Since the fund rebounded after making the low at S1, we have to wait and see if there is a new trend or if it has simply redefined and continued the existing trend. What is worrisome is that the rebound was very small in relation to the drop. As I write this, DIG is currently down another 1.0% which would put it close to the S1. If it breaks thru S1 or if it can not rise above R1 and make a new high, then this would be confirmation that the trend had changed. A new pattern of lower highs and lower lows would define a change from the previous trend.

Because this fund can be very volatile, I made the decision to dump it when it broke thru the trend line T1. Even though we took a loss, we live to trade another day without exposure to more significant losses. All of this seems to fly in the face of what the market should do; ie, unrest in th energy market should cause it to go up, but we must concentrate on what it is actually doing not what it should do.

I also feel the uncertainty brought on by the situation in Japan will have a short term effect however, I do not think this will be a lasting impact. If the market is looking for a reason to sell off and correct, this may just be the trigger. If so, then we will look for a new trend up that we can take advantage of.

NYPAX vs. S&P 500 (SP-CP)

This is a chart of the High Yield Bond fund NYPAX vs the S&P500. As you can see the HY Bonds have provided a steady return of 15% +/- with very low volatility. The apparent topping that is taking place in the S&P may turn into a down trend. If so the HY Bonds will surely follow but at a slower pace. As our holdings reach their stops as defined by a 50 day moving average, then we would sell them. We will just have to wait and see what develops over the next week or so. Until then I will maintain a defensive posture.

Hopefully these comments will help you understand our positions and any actions that may or may not take place in the coming weeks.

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