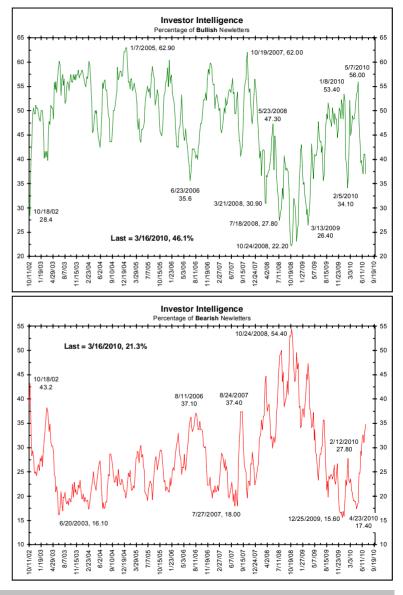


Is The Crowd Too Bearish?

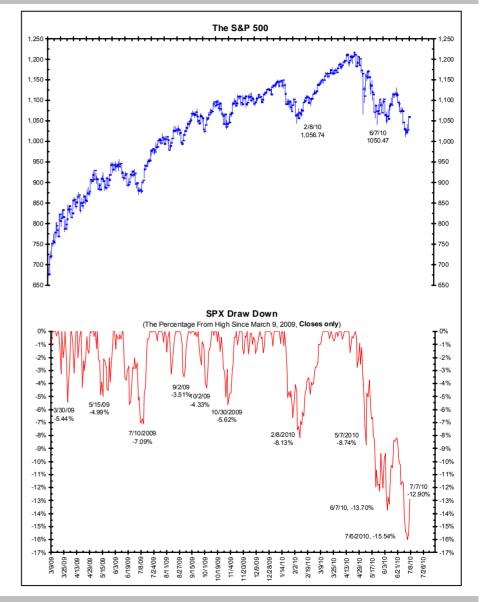
Was today's explosive rally a result of an oversold market or something more?

The chart to the right shows market sentiment via a survey of stock market newsletter writers by *Investor's Intelligence*. Given the 16% decline in stocks through last week, it is not surprising to see such high bearish opinion prevalent in the marketplace. If 2008 proved anything, investors can still become much more bearish before capitulating.



S&P 500 Drawdown

Prior to today's rally, the S&P 500 was 15.54% off the April 23 high. Now it is only 12.90% off this high.



Are U.S. Stocks Wildly Undervalued Given Earnings Estimates?

From A Recent Commentary

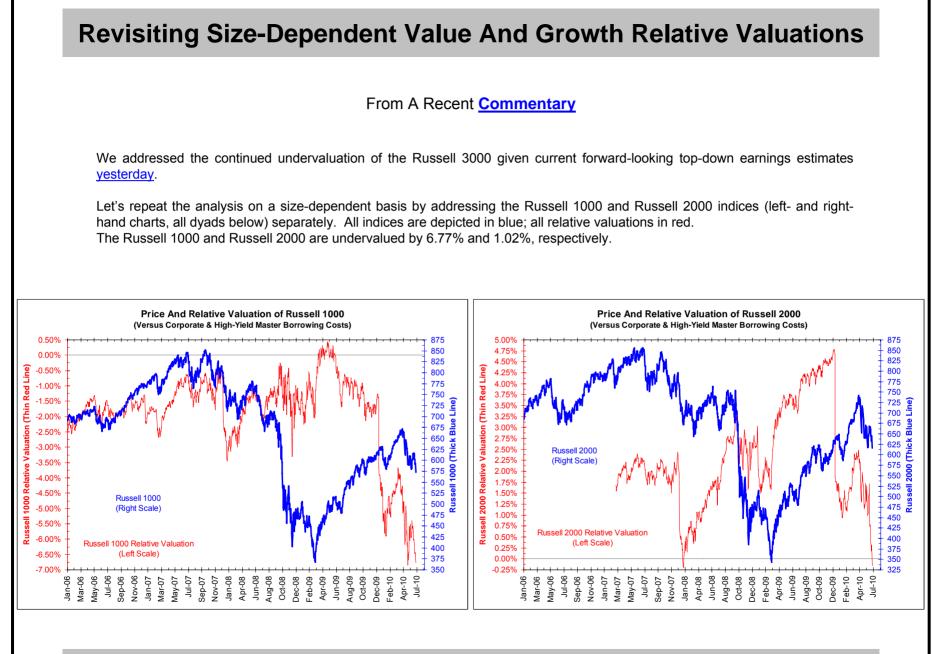
When we last updated this construct in March, we concluded the stage was being set for a bubble in U.S. equities given rising earnings estimates and continued stimulative monetary conditions. The bull market lasted another month before being derailed by a combination of events, the most prominent of which have been the European credit crisis and a turn toward restrictive policies in China.

Both the exuberant top-down earnings estimates for the U.S. remain, and with the Federal Reserve at least maintaining an accommodative stance, so, too, do the stimulative monetary conditions. Recent analyses of corporate yield curves and swap spreads, while not bullish, reveal remarkably little stress given equity performance, and nothing in the asset return differentiation map is remarkable save for the drive into U.S. Treasuries.

Price And Relative Valuation of Russell 3000 (Versus Corporate & High-Yield Master Borrowing Costs) 0.75% 925 900 0.25% Red Line) 875 850 -0.25% 825 -0.75% 800 lue Line) uation (Thin 775 -1.25% 750 -1.75% 725 sell 3000 (Thick B 700 -2.25% 675 Valu 650 -2.75% 625 Relative -3.25% 600 575 -3.75% 550 Russell 3000 3000 -4.25% Rus 525 (Right Scale) 500 -4.75% ussell 475 -5.25% 450 **Russell 3000 Relative Valuation** Ř 425 -5.75% (Left Scale) 400 -6 25% 375 Nov-06 Jan-08 Jun-08 Aug-08 Apr-09 Jun-09 Jul-10 Jan-06 Mar-06 May-06 Jul-06 Apr-08 Oct-08 Dec-08 ⁼eb-09 Aug-09 Dec-09 Feb-10 Apr-10 Sep-06 Sep-07 Nov-07 Oct-09 Jan-07 Mar-07 May-07 Jul-07 **Bianco Research, L.L.C**

For the week of July 7, 2010

As prices for U.S. equities (thick blue line) have fallen almost 14% since the end of April, the forward-looking top-down valuations therefor are compelling (thin red line). All an investor needs to do is believe those estimates.



Bianco Research, L.L.C

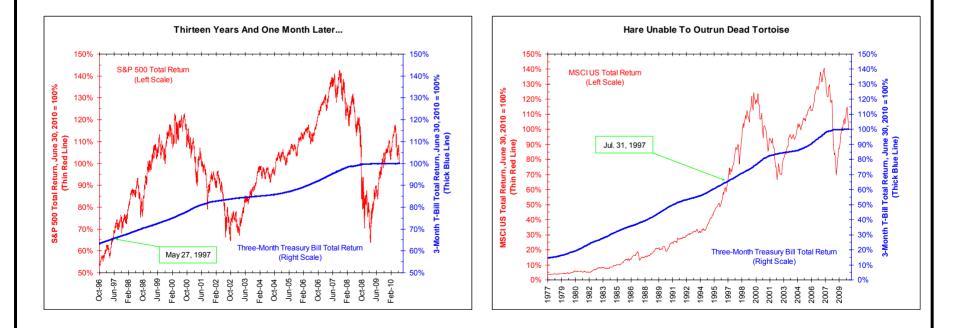
Revisiting S&P 500 & 3-Mth Treasury Bill Comparative Returns

From A Recent Market Facts

If we overlay the total return index for three-month Treasury bills on either a daily or a monthly basis (blue line, left- and right-hand chart, respectively), the comparison between equities and Treasury bills becomes grimmer. The S&P 500 has not outperformed three-month Treasuries since May 27, 1997, more than a month before the Thai baht crisis launched a series of what we today would consider trivial rescue attempts. The comparable date of equivalent performance for the MSCI index measured monthly is July 1997.

For those contemplating the view from a window-ledge, consider the average monthly return on three-month Treasuries since October 2008 has been 0.023%. That number is before taxes, inflation and the cost of e-mailing a statement to clients; regular postage is too expensive to use for in this context.

The hare of the U.S. stock market is struggling to beat the dead tortoise of three-month Treasuries.



Equities Still Correlated Positively To Higher Short-Term Yields

From A Recent Market Facts

	SPR	TU	Weighted		SPR	TU	Weighted
	Weight	Beta	Beta		Weight	Beta	Beta
Pharmaceuticals	5.35%	0.076	0.004	Other Diversified Financial Services	3.54%	0.176	0.00
Soft Drinks	2.16%	0.096	0.004	Diversified Banks	1.72%	0.134	0.00
Household Products	2.32%	0.088	0.002	Investment Banking & Brokerage	1.18%	0.145	0.00
lealthcare Equipment	192%	0.078	0.001	Regional Banks	156%	0.108	0.00
Packaged Foods	1.71%	0.077	0.001	Asset Management & Custodial Banks	1.14%	0.125	0.00
Electric Utilities	184%	0.061	0.001	Oil & Gas Equipment	153%	0.080	0.00
Typercenters & Superstores	1.19%	0.094	0.001	Oil & Gas Exploration	2.06%	0.058	0.00
ntegrated Telecommunications	2.32%	0.040	0.001	Life & Health Insurers	1.01%	0.111	0.00
Multiline Utilities	136%	0.066	0.001	Consumer Finance	0.79%	0.131	0.00
Biotech	1.41%	0.061	0.001	Retail REITs	0.50%	0.126	0.00
Говассо	133%	0.061	0.001	Industrial Conglomerates	2.05%	0.031	0.00
Aerospace & Defense	2.70%	0.027	0.001	Specialized REITs	0.69%	0.091	0.00
Restaurants	129%	0.056	0.001	Multiline Insurers	0.41%	0.147	0.00
Computer Hardware	3.48%	0.020	0.001	Steel	0.39%	0.129	0.00
Healthcare Services	0.88%	0.066	0.001	Construction & Farm Machinery	108%	0.045	0.00
Systems Software	3.00%	0.017	0.001	Specialized Finance	0.42%	0.098	0.00
Managed Health	0.88%	0.051	0.000	Residential REITs	0.35%	0.114	0.00
nternet Software & Services	1.65%	0.022	0.000	Office REITs	0.30%	0.115	0.00
Healthcare Distributors	0.47%	0.074	0.000	Diversified Metals & Mining	0.31%	0.113	0.00
Life Sciences Tools & Services	0.59%	0.055	0.000	Property & Casualty Insurers	2.10%	0.016	0.00
Drug Retailers	0.63%	0.051	0.000	Coal & Cons. Fuels	0.25%	0.129	0.00
Gold	0.26%	0.123	0.000	Construction & Engineering	0.31%	0.088	0.00
Data Processing & Outsourcing	134%	0.019	0.000	Diversified REITs	0.17%	0.132	0.00
Air Freight & Logistics	0.92%	0.023	0.000	Broadcast & Cable TV	0.22%	0.089	0.00
Environmental Services	0.35%	0.051	0.000	Oil & Gas Drilling	0.24%	0.080	0.00
General Merchandise Retailers	0.48%	0.035	0.000	Diversified Chemicals	0.82%	0.022	0.00
Food Retailers	0.30%	0.049	0.000	Thrifts & Mortgages	0.24%	0.076	0.00
Food Distributors	0.19%	0.071	0.000	Hotels	0.33%	0.055	0.00
nsurance Brokers	0.26%	0.042	0.000	Automobile Manufacturers	0.35%	0.052	0.00
Personal Products	0.21%	0.042	0.000	Oil & Gas Refining	0.18%	0.096	0.00
Healthcare Suppliers	0.12%	0.048	0.000	Oil & Gas Storage	0.34%	0.096	0.00
Education Services	0.18%	0.070	0.000	Industrial REITs	0.09%	0.050	0.00
Sas Utilities	0.16%	0.041	0.000	Industrial Machinery	1.09%	0.015	0.00
Brewers	0.41%	0.092	0.000	Homebuilding	0.17%	0.088	0.00
	0.07%	0.092	0.000		0.55%	0.088	0.00
Healthcare Facilities Distillers & Vintners	0.09%	0.030	0.000	Internet Retailers Apparel & Accessories	0.36%	0.025	0.00
Automotive Retailers	0.09%	0.080	0.000	Aluminum	0.36%	0.034	0.00
/l etal & Glass Containers Distributors	0.18%	0.023 0.045	0.000	Electrical Components & Equipment Apparel Retailers	0.66% 0.67%	0.017 0.017	0.00
		0.045	0.000				0.00
Reinsurance	0.10%			Department Stores	0.37%	0.023	0.00
Specialized Consumer Services	0.12% 0.08%	0.022 0.033	0.000	Auto Parts & Equipment	0.25%	0.033 0.018	0.00
Healthcare Technology				Semiconductor Equipment	0.42%		
Housewares & Specialty Stores	0.13% 0.13%	0.016 0.011	0.000	Specialty Stores	0.31%	0.021 0.041	0.00
Office Services & Supplies				Casinos & Gaming	0.16%		
Water Utilities	0.03%	0.050	0.000	Paper Products	0.16%	0.038	0.00
				Electrical Manufacturing Services	0.12%	0.033	0.00
				Tires & Rubber	0.03%	0.152	0.00
				Forest Products	0.09%	0.042	0.00
				Multisector Holdings	0.04%	0.080	0.00
				Motorcycle Manufacturers	0.05%	0.052	0.00
				Trucking	0.12%	0.019	0.00
				Commercial Printers	0.05%	0.034	0.00
				Home Furnishings	0.06%	0.019	0.00
				Consumer Electronics Marine	0.02% 0.03%	0.046 0.019	0.00
				Photo Products	0.03%	0.019	0.00
				Commodity Chemicals	0.01%	0.043	0.00
Subtotal:	44.89%		-2.41%	Subto tal:	32.59%		2.73

A total of 45 industry groups in the S&P 1500 accounting for 44.89% of market capitalization have a statistically significant negative relative performance beta to higher two-year note yields (left-hand cells). The net weighted beta is - 2.41%.

Fifty-seven groups accounting for 32.59% of the S&P 1500 have a statistically significant positive relative performance beta; the net weighted beta here is 2.73%. Many of these are financial issues (yellow shading) whose fall preceded and then coincided with the massive decline in short-term interest rates; we noted this first in January 2008.

The net contribution is 0.32%. Each 1% increase in two-year note yields, about 0.67 basis points at current levels, could be expected to lead to a 0.0032% increase in the S&P 1500, all else held equal.

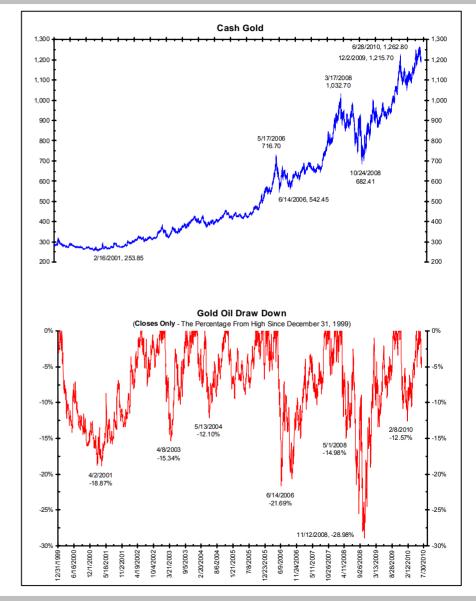
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Measuring Gold's Decline

Gold declined almost \$80 from its all-time high set last week. Some now wonder if the rally in gold is over.

As the bottom panel to the right shows, gold's decline was barely 5% from its previous high at its worst level. During the bull market that began in 2001, gold has decline more than 10% seven times and more than 15% five times.

Given this, on price action alone, we would say gold has not "broken down."

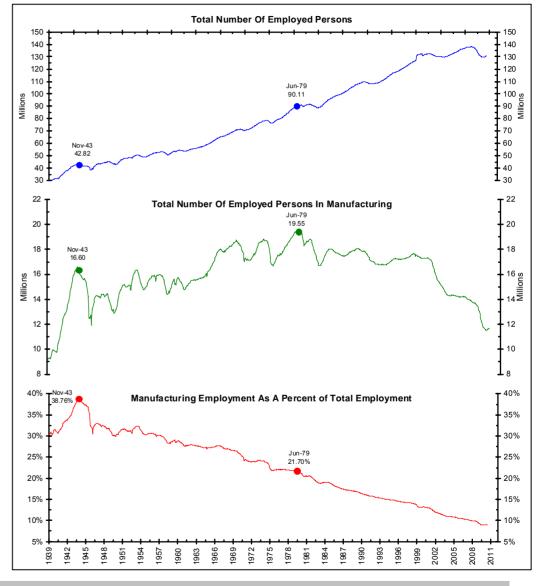


Manufacturing Jobs – Do They Matter Anymore?

From Our

Newsclips/Daily Market Commentary

All too often manufacturing jobs are stressed moreso than service sector jobs. This may have made sense many decades ago when manufacturing jobs accounted for nearly 40% of total employment, but today those jobs account for less than 9% of total employment. In fact, as the highlighted passage above points out, the service sector now employs more than five times the number of people as the manufacturing sector.



ISM Manufacturing Index' Reversal Not Deterministic



From A Recent Market Facts

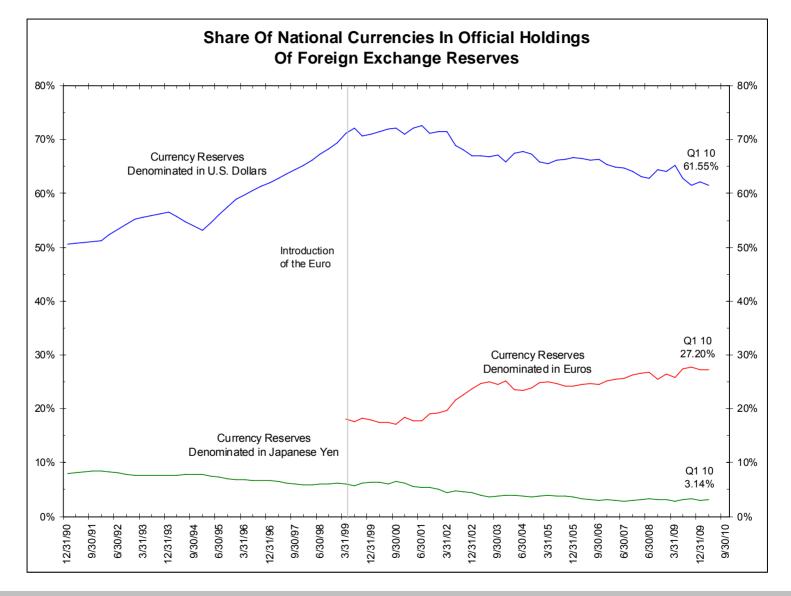
As a methodological note, while the manufacturing index extends back to 1948, the non-manufacturing index (thin red line) has only twelve years of history.

We should note the ISM manufacturing index peaked in May 2004 and declined irregularly into September 2008; the U.S. economy remained in an expansion phase between 2004:Q3 and 2007:Q3. The downturn in the index is not a single-stop indicator of expansion and contraction. Similarly, the index bottomed in December 2008, well before anyone has suggested the recession ended.

The non-manufacturing index, available only through May at the time of this writing, and the weighted-average combined index (hatched green line) have trended sideways since March. Similar divergences occurred between November 1999 and November 2000 and between June 2002 and February 2003.

Manufacturing can be stopped and restarted much more quickly than can non-manufacturing; the entire sector simply is more volatile and is increasingly linked to global, as opposed to national trends. The present V-shaped downturn is a matter of concern, but does not indicate a reprise of the credit-led downturn in 2008-2009.

Currency Reserves



Bianco Research, L.L.C

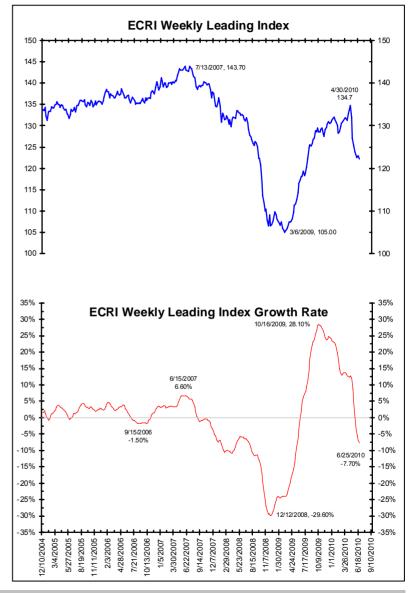
ECRI Falls Again

From Our Newsclips/Daily Market Commentary

Should We Care?

This index, which has been published every Friday for decades, is viewed as a very good leading indicator of future economic activity. However, it is not without its critics.

Bank of America panned this index in a June 22 <u>commentary</u>. As we further discussed in a <u>Market Facts</u> on Wednesday, although the ECRI is constructed of multiple components, one need look no further than last week's stock prices to get a general idea of where this index is heading. But, given its great reputation and track record, if the ECRI is telling us the economy is stumbling, we need to pay attention.



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Chances Of A Double Dip Recession

From Our Newsclips/Daily Commentary

ClevelandFed.org – <u>The Yield Curve, June 2010</u>

Since last month, the yield curve has dropped slightly. with both long and short rates ticking down. The difference between these rates, the slope of the yield curve, has achieved some notoriety as a simple forecaster of economic growth. The rule of thumb is that an inverted yield curve (short rates above long rates) indicates a recession in about a year, and yield curve inversions have preceded each of the last seven recessions (as defined by the NBER). In particular, the yield curve inverted in August 2006, a bit more than a vear before the current recession started in December 2007. There have been two notable false positives: an inversion in late 1966 and a very flat curve in late 1998. More generally, a flat curve indicates weak growth, and conversely, a steep curve indicates strong growth. One measure of slope, the spread between ten-year Treasury bonds and three-month Treasury bills, bears out this relation, particularly when real GDP growth is lagged a year to line up growth with the spread that predicts it.

The Probability of a U.S. Recession 12 Months Ahead 100% 100% Shaded Areas Are Recessions 90% 90% March 2001-80% 80% July 1990 → 70% 70% 60% 60% 1/2/2001 3/7/2007 53.83% 50% 50% 44 14% 6/9/1989 40% 36 45% 40% 30% 30% 20% 20% 10% 10% 10/24/1986 -10/9/1987 -9/26/1988 -9/12/1989 -8/27/1990 -8/13/1991 -7/29/1992 -7/15/1993 -5/15/1997 -5/1/1998 -4/16/1999 -3/30/2000 -2/20/1982 12/5/1983 6/30/1994 6/16/1995 5/30/1996 2/27/2002 2/12/2003 1/5/2006 1/10/2007 12/9/2008 1/24/2009 11/3/2010 1/20/1984 11/7/1985 3/14/2001 2/24/2007 1/14/2005 1/4/1982

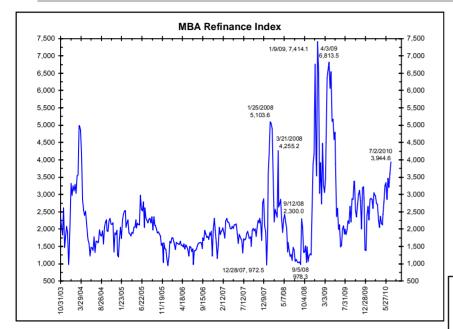
Comment

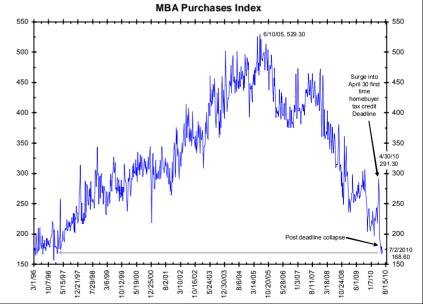
The chart above is calculated using the model mentioned in a July 2006 Federal Reserve paper. While the Cleveland Federal Reserve seems to have tweaked this model a bit for their own use, we still believe this to be a rather ineffective predictor of recessions for the time being. As we last pointed out roughly 6 months ago, we believe the yield curve has been rendered rather ineffective as an indicator of future recessions thanks to massive government intervention in the markets. The Federal Reserve itself has even gone as far as adding the following disclaimer to some of its research on the topic:

Of course, it might not be advisable to take these number quite so literally, for two reasons...First, this probability is itself subject to error, as is the case with all statistical estimates. Second, other researchers have postulated that the underlying determinants of the yield spread today are materially different from the determinants that generated yield spreads during prior decades. Differences could arise from changes in international capital flows and inflation expectations, for example. The bottom line is that yield curves contain important information for business cycle analysis, but, like other indicators, should be interpreted with caution.

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Refis Boom Again, Purchases Fall To New Lows





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R.I.P TALF

From Our Newsclips/Daily Market Commentary

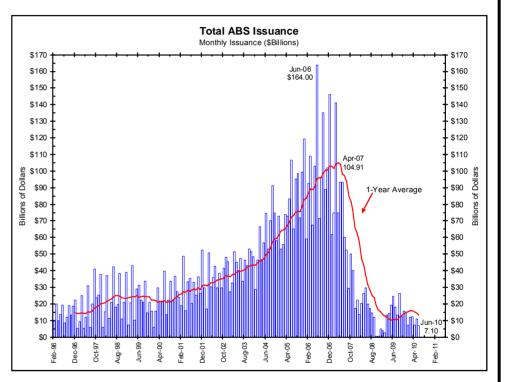
The Financial Times – <u>Talf retires as saviour of</u> <u>securitisation</u>

The Federal Reserve Bank of New York last year said attempts to revitalise the securitisation markets would depend on the success of its ambitious programme to tackle the dysfunctional market for commercial mortgage-backed securities (CMBS). The programme in question - the term asset-backed securities loan facility (Talf) – this week quietly came to an end after 15 months of service. Through Talf, the Fed lent money to investors like hedge funds on favourable terms so that they could buy securities backed by auto loans, credit cards and commercial mortgages...Talf, which formally ended on Wednesday, was flagged in the depths of the financial crisis as a potential \$1,000bn liquidity pump for securitised markets, which provided more than half of credit for US consumers and businesses before shutting down in 2008. In fact, only just over \$70bn was lent through Talf, with \$12bn going towards purchases of existing CMBS and just \$72m towards just one new issue.

Comment

Did the TALF work? See the following chart and make the call.

If ABS issuance is now stuck in the \$5 billion to \$10 billion range, it is no longer large enough to be a serious part of the financial landscape.



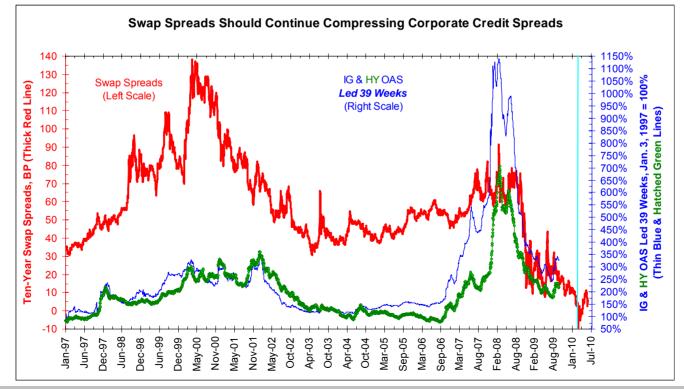
Swap Spreads Still Signaling Narrower Corp. Credit Spreads

From A Recent Market Facts

Ten-year <u>swap spreads</u> (thin red line) soon hit their lows and rebounded. Both investment-grade and high-yield credit spreads led 39 weeks (thin blue and hatched green lines) followed suit and rose through the Eurozone' credit problems.

If the long-observed 39-week lead time remains, the current turn lower in swap spreads should placed renewed downward pressure on corporate credit spreads.

Narrower swap spreads are consistent with both lower expectations of financial risk and with a lack of fear of interest rates moving higher. They also are consistent with a continued decline in realized fixed-income volatility; ten-year zero-coupon implied volatility hit its low for 2010 on Monday.



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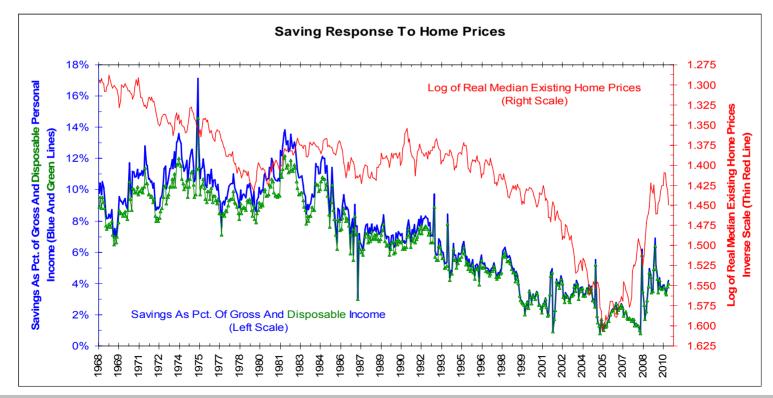
Savings Rates And Asset Prices During The Keynesian Thermidor

From A Recent Commentary

Housing

The housing market's contribution to savings is far less direct than previously. Artificially low interest rates, more than \$1.2 trillion in Federal Reserve MBS purchases, the aforementioned homebuyer tax credit, the inability of many otherwise creditworthy mortgagors to refinance or obtain new mortgages, the virtual cessation of mortgage equity withdrawals and a dizzying array of home foreclosure delay programs have left the housing market arguably overvalued. We must say, "arguably" as the answer to the question of what actual, market-clearing prices might have been or should be probably will remain unknown.

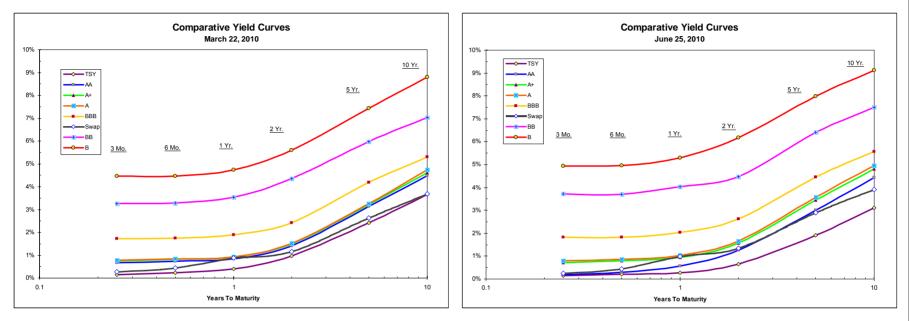
Still, the expected inverse relationship between savings rates and real housing prices as measured by the median constant-dollar price of existing homes (thin red line, inverse scale) as we have seen in the past for both housing and equities remains.



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Corporate Yield Curves After The Bull Run

From A Recent Special Report



We can compare the relative steepness of two yield curves by comparing their <u>forward rate ratios</u> across a segment of the yield curve, in this case the 2-10 year segment.

One message in the charts above is unmistakable: Corporate yield curves are flattening relative to the Treasury yield curve, a condition seen during both of the major bear markets of the past decade. These yield curve spreads are prone to V-shaped reversals both higher and lower and cannot be ignored.

This outlook is confirmed by high-yield markets, as measured by BB- and to a lesser extent B-rated markets (thick blue and thin red lines, right-hand chart).

Comparative Utility Yield Curves

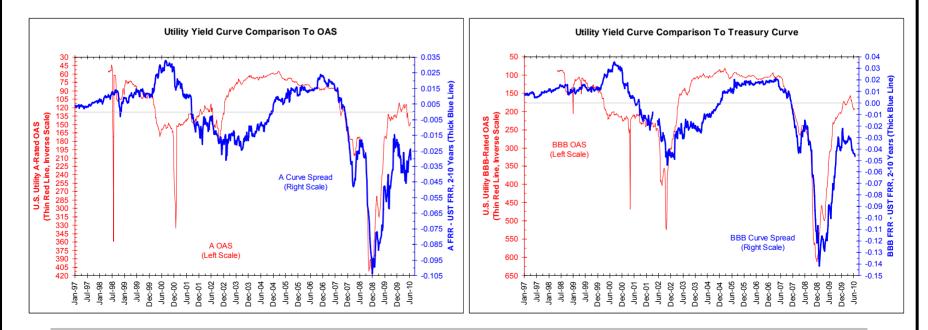
From A Recent Special Report

Yield Curve Spreads And OAS Levels

Next, we can compare the relative steepness of two yield curves by comparing their <u>forward rate ratios</u> across a segment of the yield curve, in this case the 2-10 year segment. The FRR2,10 spread for the A-rated issues (thick blue line, left-hand chart, following page) has encountered resistance below the breakdown points of July 2008 and November 2009. The yield curve spread for the BBB-rated issues against the Treasury FRR2,10 curve (thick blue line, right-hand chart) is now widening aggressively. Neither one of these developments is bullish for utilities and in the case of BBB-rated issues, the implications are negative.

This conclusion is confirmed by the OAS levels for these indices (thin red lines, inverse scale). Both the A- and BBB-rated OAS (left-hand chart) failed to narrow beneath their breakdown levels of August 2007.

The utility sector is not demonstrating intrinsic strength so much as it is demonstrating relative strength vis-à-vis the broad market.



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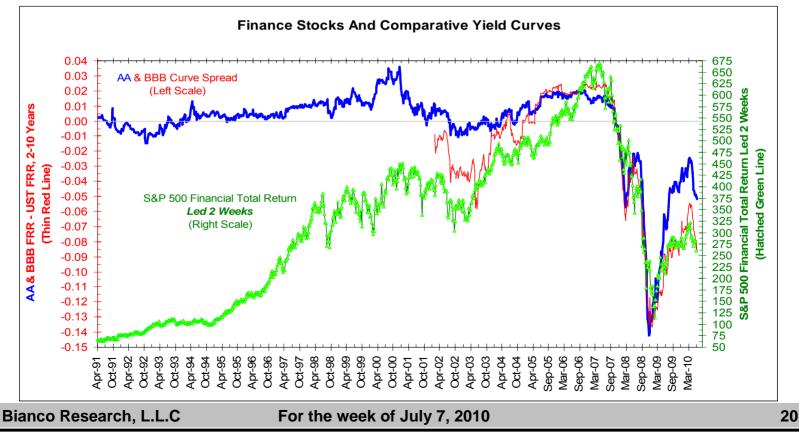
Comparative Financial Yield Curves Argue For Defensive Stance

From A Recent Special Report

The AA and BBB yield curve spreads (thick blue and thin red lines, respectively) lead the total return of the S&P 500 Financial index (hatched green line) by two weeks on average.

The current configuration for the sector is the worst it has been since just before the September 2008 financial crisis. This makes the entire sector vulnerable to one bad event or combination of events or to a continued negative reaction to the financial regulation legislation now underway in Washington.

As the world starts to back away from the stimulus programs so responsible for the financial sector's post-March 2009 recovery, the sector's reliance on those programs is exposed. A defensive posture in the sector is advised.



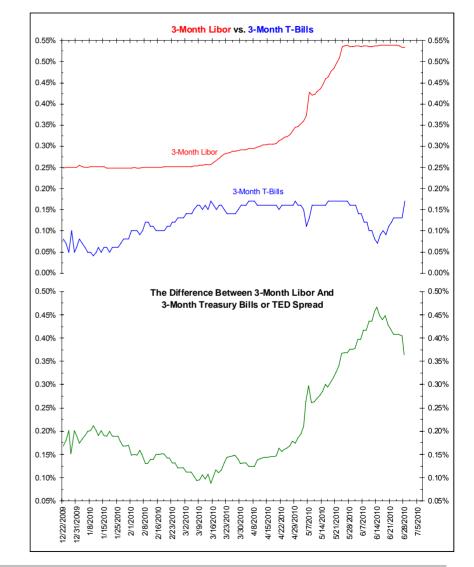
Does LIBOR Matter Anymore?

From A Recent Special Report

One interesting thing is happening with LIBOR. If you look at the LIBOR chart on the right of Page 11, then what it shows is that LIBOR has not been moving. It has been unchanged for the last 35 days.

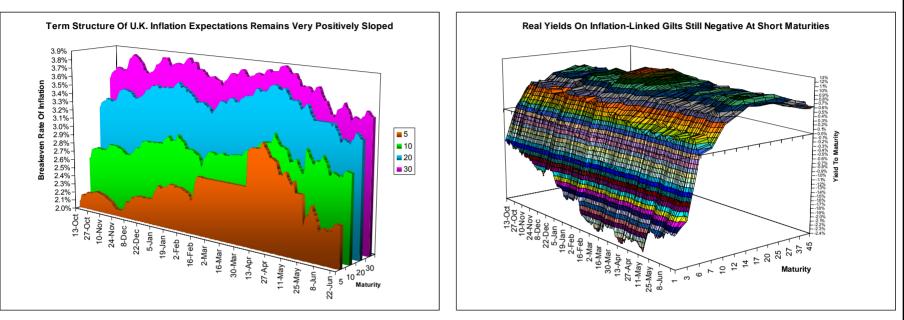
Now, I am in the conspiracy camp when it comes to LIBOR. I am in the conspiracy camp that this is somewhat of an invented number that -- just to say it bluntly to get the point across – the banks lie about. I am in that camp because, one, Citibank was caught doing exactly that in 2007 – lying about LIBOR. They were worried that if they showed that they had higher funding costs than everybody else, that they were kind of an outlier, that they were 10 basis points, five basis points, or 15 basis points higher than the next highest of the 16 reporting banks –

This is from our most recent conference call we had on July 1, 2010 (<u>handout</u>, <u>audio</u>, <u>webcast</u>, <u>transcript</u>)



U.K. Real Yields And Inflation Breakevens Revisited

From A Recent Market Facts



We last discussed real U.K. yields and inflation expectations in <u>November 2009</u>, just after the pound began to firm against the euro.

The term structure of inflation expectations remains very positively sloped (left-hand chart). Breakeven rates of inflation have declined since sovereign debt concerns in Europe began to increase in late April.

Real rates (right-hand chart) on inflation-linked Gilts are negative for both the 2.5% due August 23, 2011, and for the 2.5% due August 16, 2013. These negative real yields were seen in the U.S. during the depths of the credit crisis in late 2008. Like negative Treasurybill yields and negative long-term swap spreads, the presence of negative real yields is a sign of credit market stress and high levels of risk aversion.

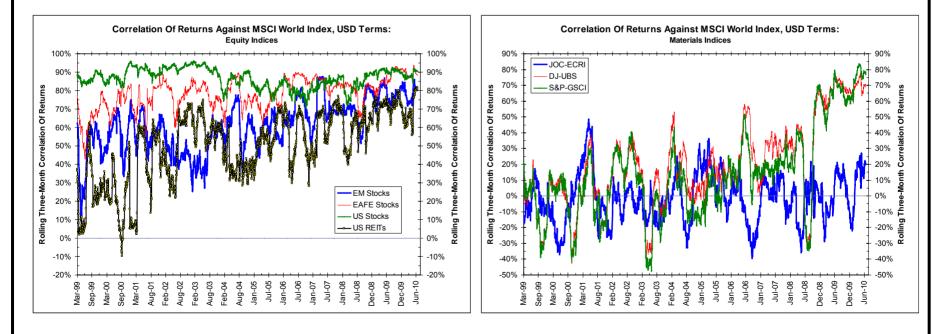
Asset Returns Differentiation At The G-20 Junction

From A Recent Market Facts

As in <u>May</u> we will use total returns in USD for all markets below except for the JOC-ECRI industrial materials index, for which no total return measure exists, and construct a set of three-month rolling correlations of returns against the MSCI World total return index expressed in USD terms. A post-November 2009 correlation matrix is presented at left.

The correlation of returns for U.S. REIT indices (blue black line, left-hand chart) increased since the April 26th high, but such was not the case for the Emerging Markets, EAFE or U.S. indices (blue, red and green lines, respectively, left-hand chart).

The S&P-GSCI and Dow Jones-UBS indices' correlation of returns remain below their April highs (green and red lines, righthand chart) as well.



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Partial Contribution Of 10-Yr Note Yields Decreasingly Positive For Equities

From A Recent Market Facts

A total of 41 industry groups in the S&P 1500 accounting for 44.2% of market capitalization have a statistically significant negative relative performance beta to ten-year Treasury yields (right-hand cells). The net weighted beta is -4.64%. These groups are concentrated in the consumer staples and healthcare sectors.

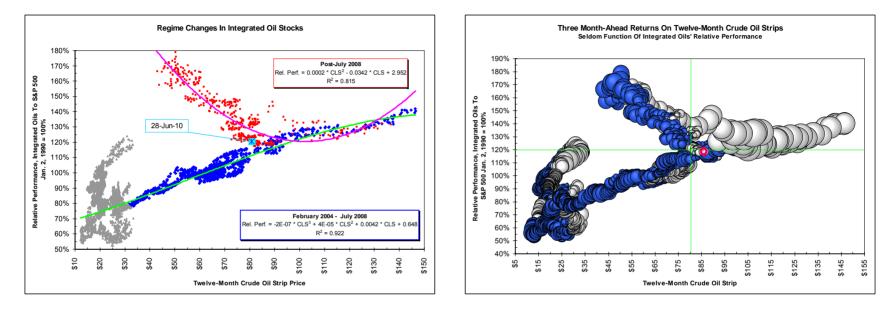
Fifty-five groups accounting for 36.98% of the S&P 1500 have a statistically significant positive relative performance beta (right-hand cells); the net weighted beta here is 5.14%. Here the impact is concentrated in the energy and financial (highlighted with mauve and yellow backgrounds, respectively) sectors.

The net contribution is 0.50%, as opposed to 0.73% in <u>March</u>. Each 1% gain in ten-year note yields, about 30 basis points at present, could be expected to lead to a 0.005% increase in the S&P 1500, all else held equal.

Andre Die Presentier 3.99% 0.22 0.000 Pharmaceuliciais 6.43% 0.82 0.000 Die Gestergunnent 153% 0.87 0.000 Schweiniger 2.33% 0.64 0.000 Die Gestergunnent 153% 0.87 0.000 Schweiniger 2.33% 0.64 0.000 Versittinger Banking & Brokenge 1.07% 0.23 0.000 Heathbrane Equipment 1.15% 0.177 0.000 Schweintwert Banking & Brokenge 1.07% 0.98 0.000 Heathbrane Equipment 1.15% 0.97 0.000 Heathbrane Equipment 1.15% 0.90 0.000 Schweintwert Banking & Brokenge 1.07% 0.98 0.000 Hoacentres 1.8% 0.68 0.000 Schweintwert Banking & Brokenge 1.03% 0.75% 0.031 0.000 Hoacentres 1.8% 0.68 0.000 Schweintwert Banking & Brokenge 1.03% 0.77% 0.099 0.001 Analysis & Die Banking & Die B		SPR	TY	Weighted		SPR	TY	Weighted
Nik Gas Explorment 153% 0.97 0.000 Noversine Banking & trokerage 120% 0.243 0.000 Noversine Banking & trokerage 120% 0.243 0.000 Nik Gas Explorment 195% 0.82 0.000 Nik Gas Explorment & Custodal Banks 195% 0.82 0.000 Nik Gas Explorment & Custodal Banks 195% 0.82 0.000 Nik Gas Explorment & Custodal Banks 195% 0.82 0.000 Nik Gas Explorment & Custodal Banks 195% 0.82 0.000 Nik Gas Explorment & Custodal Banks 195% 0.82 0.000 Integrated Tick Construction & Farm Machinery 105% 0.84 0.000 Construction & Farm Machinery 105% 0.28 0.001 Rel RETIS 0.95% 0.231 0.001 Advisor & Construction & Farm Machinery 0.95% 0.231 0.001 Advisor & Construction & Farm Machinery 0.95% 0.231 0.001 Advisor & Construction & Farm Machinery 0.95% 0.231 0.001 Advisor & Construction & Farm Machinery 0.95% 0.231 0.001 Advisor & Construction & Farm Machinery 0.95% 0.231 0.001 Distriction & Farm Machinery <t< th=""><th></th><th>Weight</th><th>Beta</th><th>Beta</th><th></th><th>Weight</th><th>Beta</th><th>Beta</th></t<>		Weight	Beta	Beta		Weight	Beta	Beta
Diversited Banka 174% 0.71 0.003 Soft Dinks 2.9% 0.72 0.00 Dilk Gas Exploration 180% 0.80 0.003 Packaget Foods 17.% 0.45 0.45 0.003 Packaget Foods 17.% 0.45 0.003 0.003 Packaget Foods 17.% 0.45 0.003 </td <td>Other Diversified Financial Services</td> <td>3.59%</td> <td>0.292</td> <td>0.010</td> <td>Pharmaceuticals</td> <td>5.43%</td> <td>0.162</td> <td>0.009</td>	Other Diversified Financial Services	3.59%	0.292	0.010	Pharmaceuticals	5.43%	0.162	0.009
eventment Banking & Brokenge 120% 0.243 0.003 Heatthcare Equipment 19% 0.47 0.00 Regional Banks 159% 0.52 0.003 Heatgrade Tile Communications 2.23% 0.66 0.000 Stast Management A Clustodial Banks 159% 0.52 0.002 Hitsgrade Tile Recommunications 2.23% 0.66 0.000 Changement Finance 0.87% 0.021 0.002 Electric Utiles 18% 0.68 0.000 die Å Healm Faure 100% 0.64 0.002 Totacco 13% 0.67 0.000 die Å Healm Faure 20% 0.231 0.001 Heatmearts Environs 2.43% 0.001 die Å Hank 0.57% 0.231 0.001 Heatmearts Environs 2.43% 0.021 0.035 0.011 Heatmearts Environs 2.43% 0.021 0.023 0.021 Heatmearts Environs 2.93% 0.023 0.001 Heatmearts Environs 2.93% 0.023 0.001 Heatmearts Environs 2.93% 0.026		153%	0.197	0.003	Household Products	2.33%	0.164	0.004
NA Gas Exploration 189% 0.80 0.80 Peckage Foods 177% 0.15 0.00 Naset Management & Custodial Banks 155% 0.88 0.000 Hypercenters & Superstores 18% 0.80 0.00 Statet Management & Custodial Banks 155% 0.88 0.000 Hypercenters & Superstores 18% 0.80 0.00 Statet Management & Custodial Banks 157% 0.08 0.000 Hypercenters & Superstores 18% 0.80 Statet Management & Custodial Banks 157% 0.081 0.000 Extech 142% 0.84 0.00 Statet Management & Custodial Banks 157% 0.031 0.000 Restaurants 128% 0.17 0.000 Statet Management & Custodial Banks 0.37% 0.031 0.001 Restaurants 128% 0.17 0.000 Statet States Maling 0.37% 0.284 0.001 Restaurants 2.85% 0.188 0.000 Vestified Matia & Mining 0.37% 0.226 0.001 Healthcare Services 0.88% 0.188 0.000 Vestified Chemicals 0.47% 0.226 0.020 0.001 Healthcare Services 0.89% 0.80 Specializer France 0.47% 0.	Diversified Banks	174%	0.171	0.003	Soft Drinks	2.16%	0.172	0.004
Regional Banks 159% 0.52 0.02 Integrated IR Scutodul Banks 157% 0.58 0.002 Sastel Management Ranace 0.87% 0.232 0.002 Electric Ulilies 188% 0.88 0.000 Life A Health Insurers 0.37% 0.384 0.002 Tobacco 135% 0.27 0.000 State Integrated IR Scate Machinery 0.84% 0.307 0.001 Tobacco 135% 0.27 0.000 State Integrated IR Scate Machinery 0.84% 0.307 0.001 Restaurants 2.28% 0.16 0.001 State Integrated IR Scate Machinery 0.84% 0.307 0.001 Restaurants 2.28% 0.17 0.000 State Integrated IR Scate Machinery 0.04% 0.001 Computer Harkwere 2.48% 0.020 0.001 State Integrated IR Scate Machinery 0.34% 0.221 0.001 Computer Harkwere 2.48% 0.000 Dorestified M tals & Mining 0.35% 0.221 0.001 Computer Harkwere 2.48% 0.001	Investment Banking & Brokerage	120%	0.243	0.003	Healthcare Equipment	195%	0.147	0.003
Asset Asset Mypercenters & Superstores 15% 0.00 0.00 Integrated Di & Gas 5.70% 0.031 0.002 Biotech 142% 0.54 0.000 Integrated Di & Gas 5.70% 0.031 0.002 Biotech 142% 0.54 0.000 Integrated Di & Gas 0.05% 0.23 0.001 Mutime Unities 140% 0.16 0.000 Stel 0.50% 0.231 0.001 Acrospace & Defense 2.69% 0.48 0.001 Stel 0.50% 0.231 0.001 Acrospace & Defense 2.69% 0.48 0.001 Mutime Insurer 0.49% 0.211 0.001 Acrospace & Defense 2.69% 0.48 0.001 Mutime Insurer 0.49% 0.211 0.001 Acrospace & Defense 2.69% 0.032 0.001 Mutime Insurer 0.43% 0.211 0.001 Internorssing & Outoruring 2.37% 0.264 0.001 Specialized Finence 0.43% 0.021		180%	0.160	0.003	Packaged Foods	171%	0.145	0.002
Sake Management & Custodial Banks 15% 0.08 0.02 Hypercenters & Superatores 15% 0.00 0.00 Integrated Ol & Gas 570% 0.031 0.002 Biotech 142% 0.04 0.00 Integrated Ol & Gas 570% 0.031 0.002 Biotech 142% 0.04 0.00 Construction & Farm Machney 108% 0.30 0.001 Mutiline 140% 0.18 0.000 Steal A RETS 0.50% 0.23 0.001 Acrospace & Defense 2.6% 0.48 0.00 Steal A RETS 0.50% 0.23 0.001 Acrospace & Defense 2.6% 0.48 0.00 Steal A RETS 0.50% 0.321 0.001 Acrospace & Defense 2.6% 0.48 0.00 Steal A RETS 0.35% 0.241 0.001 Acrospace & Defense 0.87% 0.026 0.001 Stead A RETS 0.35% 0.211 0.001 Acrospace & Defense 0.87% 0.086 0.001 Stead RETS	Regional Banks	159%	0.152	0.002	Integrated Telecommunications	2.32%	0.106	0.002
Consumer Finance 0.8 fs 0.232 0.002 Electric Utilities 18.8 fs 0.88 0.000 Life & Health Insurers 103% 0.54 0.002 Tobacco 13.5 % 0.57 0.000 Stell 0.38 fs 0.307 0.001 Restaurants 128% 0.17 0.000 Stell 0.38 fs 0.38 fs 0.001 Restaurants 128% 0.17 0.000 Stell REITS 0.07% 0.58 0.001 Healthcare Services 0.88% 0.18 0.001 Operating REITS 0.77% 0.58 0.001 Healthcare Services 0.88% 0.018 0.001 Operating REITS 0.78% 0.227 0.001 Dark Processing Software 2.77% 0.028 0.001 Operating REITS 0.48% 0.290 0.0301 Dark Processing Software 2.95% 0.043 0.001 Operating REITS 0.29% 0.205 0.001 Heathreas 0.95% 0.021 0.000 Dark Processing Software 2.		1.15%	0.198	0.002		1.18%	0.190	0.002
Uife Å Health Insurers 103% 0.84 0.007 Tobacco 135% 0.07 0.00 Stel 0.38% 0.307 0.001 Restaurants 128% 0.117 0.00 Stel 0.38% 0.307 0.001 Restaurants 128% 0.117 0.00 Specialized FEITs 0.70% 0.75% 0.231 0.001 Heatincere Services 0.88% 0.18 0.001 Multime Insurers 0.41% 0.227 0.001 Heatincere Services 0.84% 0.023 0.001 Specialized Finance 0.43% 0.211 0.011 Managed Health 0.27% 0.28 0.001 Specialized Finance 0.43% 0.211 0.011 Old Data Processing & Outsourcing 1.33% 0.048 0.001 Specialized Finance 0.45% 0.321 0.001 Heathicaze Distributors 0.47% 0.028 0.001 Residential REITS 0.35% 0.201 0.001 Heathicaze Distributors 0.47% 0.028 0.001 Residential REITS 0.35% 0.021 Internet Software & Sorvices 0.47% 0.026 0.001 Nortes Kinterinent 1.35% 0.038 0.001 Interes Software & Sorvice		0.81%	0.232	0.002		188%	0.108	0.002
Construction & Farm Machinery 108% 0.28 0.001 Multine Utilities 140% 0.1% 0.0% Stel 0.60% 0.231 0.001 Arestaurants 2.69% 0.048 0.001 Stell 0.07% 0.56 0.001 Arestaurants 2.69% 0.048 0.001 Multine Insures 0.47% 0.223 0.001 Computer Hardware 3.48% 0.023 0.001 Specialized Finance 0.37% 0.224 0.001 Managed Health 0.87% 0.085 0.001 Specialized Finance 0.37% 0.234 0.001 Managed Health 0.87% 0.080 0.001 Dotes Field 0.35% 0.201 0.001 Internet Software & Services 0.44% 0.000 0.025 0.032 0.001 Internet Software & Services 0.44% 0.030 0.001 Internet Software & Services 0.44% 0.030 0.001 Internet Software & Services 0.44% 0.030 0.001 Internet Software & Services 0.45% 0.026 <t< td=""><td>ntegrated Oil & Gas</td><td>5.70%</td><td>0.031</td><td>0.002</td><td>Biotech</td><td>142%</td><td>0.124</td><td>0.002</td></t<>	ntegrated Oil & Gas	5.70%	0.031	0.002	Biotech	142%	0.124	0.002
Stell O.38% O.307 O.001 Aerospace Science 2.89% O.177 O.003 Specialized REITs 0.70% 0.59 0.001 Heathcare Sevices 0.88% 0.18 0.001 Matchial Conjournates 0.03% 0.227 0.001 Computer Hardware 2.87% 0.028 0.001 Versified Metals Mining 0.37% 0.224 0.001 Managed Health 2.27% 0.024 0.001 Specialized Finance 0.43% 0.21 0.001 Managed Health 2.27% 0.245 0.001 Specialized Finance 0.43% 0.201 0.001 Hatternst Distributors 0.47% 0.28 0.001 Specialized Finance 0.39% 0.201 0.001 Hatternst Matchians 0.29% 0.003 0.001 Hatternst Matchians 0.29% 0.003 0.001 Matchians 0.29% 0.001 0.003 0.001 Advise Sciencies 0.59% 0.003 0.001 Matchians 0.29% 0.004 0.000 0.003 0.001	ife & Health Insurers	103%	0.164	0.002	Tobacco	135%	0.127	0.002
Stall RETs 0.50% 0.231 0.001 Aeropace & Defense 2.69% 0.048 0.001 Specialized RETs 0.70% 0.59 0.001 Heathcare Services 0.88% 0.028 0.001 Multime Insures 0.44% 0.227 0.001 Systems Sortiware 2.97% 0.028 0.001 Diversified Metals & Mining 0.34% 0.214 0.001 Systems Sortiware 2.97% 0.028 0.001 Specialized Finance 0.34% 0.224 0.001 Balar Processing & Outsourcing 1.33% 0.048 0.001 Dotat Kons Fuels 0.25% 0.352 0.001 Heatthcare Distributors 1.44% 0.036 0.001 Differ RETs 0.39% 0.201 0.001 Life Sciences 0.59% 0.002 0.003 0.001 Differ Retains 0.62% 0.046 0.000 0.003 0.001 Differ Retains 0.62% 0.046 0.000 Differ Retains 0.63% 0.001 Differ Retains 0.63% 0.000 Differ Retains<	Construction & Farm Machinery	108%	0.128	0.001	M ultiline Utilities	140%	0.116	0.002
Specialized FEITs 0.70% 0.59 0.001 Heathcare Services 0.84% 0.018 0.001 Autiline Insurers 0.47% 0.227 0.001 Computer Hardware 2.47% 0.028 0.001 Versified Metals Mining 0.37% 0.241 0.001 Condit Hardware 2.47% 0.028 0.001 Specialized Finance 0.43% 0.21 0.001 Managed Health 0.27% 0.243 0.001 Specialized Finance 0.43% 0.201 0.001 Hatthcare Distributors 0.47% 0.28 0.001 Specialized Finance 0.39% 0.201 0.001 Hitternet Species 0.59% 0.007 0.001 Viersified Charina 0.39% 0.201 0.001 Har Freight Logistics 0.59% 0.007 0.001 Viersified Machinery 1.98% 0.33 0.001 Freight Logistics 0.59% 0.064 0.005 Viersified Kells 0.35% 0.247 0.000 Freight Logistics 0.25% 0.006 0.000<			0.307			128%	0.117	0.00
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Construction & Engineering 0.3% 0.89 0.001 Life Sciences Tools & Services 0.69% 0.007 0.00 Diversified Chemicisals 0.80% 0.001 0.001 Preprint Registra 0.62% 0.004 0.000 Movies & Entertainment 133% 0.028 0.001 Drug Retailers 0.62% 0.004 0.000 Movies & Entertainment 0.33% 0.207 0.000 Insurance Brokers 0.26% 0.12 0.001 Di& Gas Scienze 0.34% 0.32 0.000 Fore Retailers 0.36% 0.084 0.000 Di& Gas Scienze 0.44% 0.32 0.000 Fore Retailers 0.36% 0.084 0.000 Direadida St Cable TV 0.22% 0.85 0.000 Education Services 0.9% 0.18 0.000 Notestial ETS 0.45% 0.422 0.000 Fore Retailers 0.4% 0.053 0.000 Numitum 0.25% 0.21 0.000 Brewers 0.07% 0.42% 0.000	Office REITs		0.206	0.001		164%	0.036	0.00
Diversified Chemicals 0.00% 0.071 0.001 Air Freight & Logistics 0.92% 0.043 0.00 Movies & Entertainment 138% 0.23% 0.207 0.000 Drug Retailers 0.62% 0.064 0.00 No vies & Entertainment 109% 0.044 0.000 Environmental Services 0.35% 0.026 0.000 No Sta Gas Drining 0.99% 0.217 0.000 Environmental Services 0.48% 0.000 0.000 Constraint Services 0.48% 0.000 0.000 Constraint Services 0.48% 0.000 0.000 Constraint Services 0.48% 0.000 0.000 0.000 Constraint Services 0.48% 0.000 Natresettaints 0.28% 0.18 0.000 Natresettaints 0.28% 0.001 0.000 Natresettaints 0.28%								0.00
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Dilà Gas Drilling 0.23% 0.207 0.000 Insurance Brokers 0.26% 0.23 0.00 Industrial Machinery 109% 0.044 0.000 Environmental Services 0.35% 0.084 0.000 Ià Gas Storage 0.34% 0.152 0.000 General Marchadise Retailers 0.46% 0.007 0.000 Diradcast & Cable TV 0.22% 0.85 0.000 General Marchadise Retailers 0.46% 0.057 0.000 Diversified REITs 0.07% 0.237 0.000 Food Distibutors 0.9% 0.16 0.000 Automobile Manufacturers 0.361 0.000 Personal Products 0.2% 0.42% 0.000 Aluminum 0.1% 0.294 0.000 Personal Products 0.2% 0.08 0.000 Aluminum 0.4% 0.622 0.000 Personal Products 0.2% 0.03 0.00 Aluminum 0.4% 0.623 0.000 Parle Actailers 0.0% 0.08 0.000 Aluminum								0.000
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					Total:	81.18%		0.50%

Integrated Oils' Relative Performance & Crude Oil Prices

From A Recent Market Facts



Let's map three month-ahead returns on twelve-month crude oil strip prices as a function of the relative performance of the Integrated Oil group and the strip prices themselves. Positive prospective crude oil returns are depicted with blue bubbles; negative prospective returns in white bubbles. The current values are marked with a green bombsight; the last datum, April 1, 2010, is highlighted with a magenta torus.

The April 1st observation was three weeks before the Deepwater Horizon drilling rig disaster; even with the negative news swirling about the industry, today's relative performance for the Integrated Oil group is essentially unchanged from that day; 12-month crude oil strip prices are 6.4% lower at present.

To-date, the U.S. Integrated Oil group (BP is not a member) has remained relatively unaffected by the disaster and by speculation regarding the future of deepwater drilling in U.S. waters. In addition, 12-month strip prices for West Texas Intermediate have remained within their 2010 range.

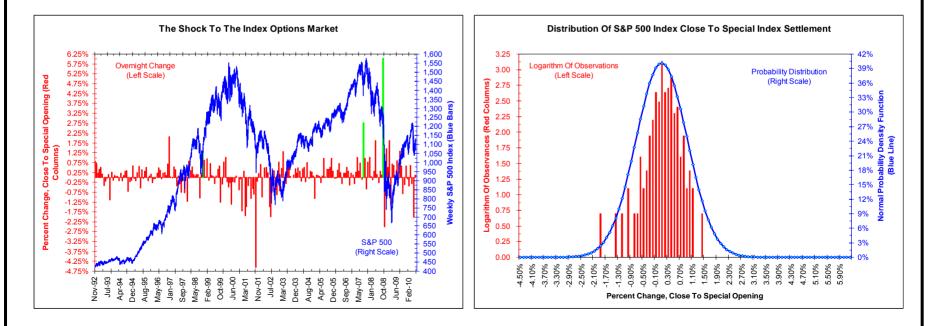
Revisiting Index Options Settlement's Risk

From A Recent Market Facts

We last visited <u>unusual activity</u> in the special settlement of index options following the massive opening gap of September 19, 2008. Index options based on the S&P 500 (blue bars, left-hand chart), cease trading on (generally) a Thursday afternoon and are priced against a special settlement index the following (generally) Friday morning. The special settlement is calculated from the opening prices of all 500 stocks in the index and their index weights. The close-to-special opening return (red columns) can be significant, but option traders know how to hedge all but the most extreme and unexpected risks.

The gap between the Thursday close and the Friday special opening that day was 6.03% (second green vertical column). The first green vertical column coincided with the August 17, 2007 pre-opening rate cut by the Federal Reserve.

We wonder what the official reaction would be if moves such as these were 1) negative and 2) the result of private trading activity. No, we really do not wonder; it is one of those truths we hold to be self-evident.



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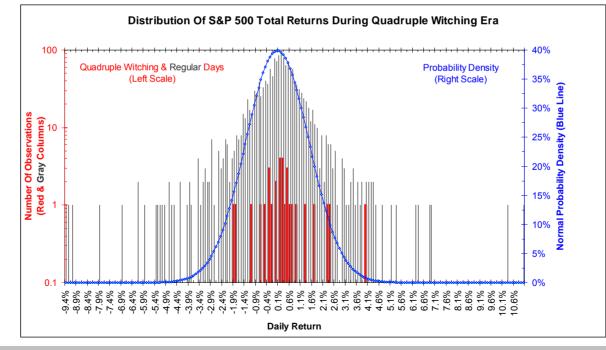
The Upside Bias Of Quadruple Witching Remains

From A Recent Market Facts

Traders looking for expiration-related entertainment had to wait for <u>those moments</u> when the Federal Reserve engaged in surprise rate-cuts (younger traders may need to be reminded these once were considered bullish) or when Congress decided to spend money it did not have to rescue the financial system from itself.

As before, we can calculate the daily returns on the S&P 500 total return series from December 20, 2002 onwards and create frequency histograms for the quadruple witching and regular days (red and gray columns, respectively). We see a positive skew in the quadruple witching days; the average return for the quadruple witching days of 0.297% has a positive skew of 0.927; the average return for all other days of 0.0287% has a negative skew, -0.304. We can be 78.5% confident the two distributions are different statistically.

The June 18, 2010 quadruple-witching expirations were the first in our new flash-crash era. It will be interesting to see how returns on the less-volatile (1.16% standard deviation of returns, as opposed to 1.42% σ on regular days) quadruple-witching days progress over time.



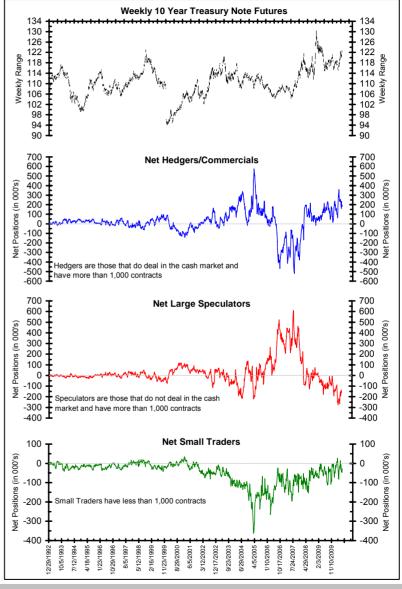
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10-Year Treasury Note Futures: No Trend-Followers Need Apply

From Our Latest Commitment Of Traders Update

Friday's Commitments of Traders data for 10-Year Treasury note futures showed Hedgers were net long 188,968 contracts on June 29. At the same time, Friday's report showed the Large Speculators were net short 161,338 contracts on June 29.

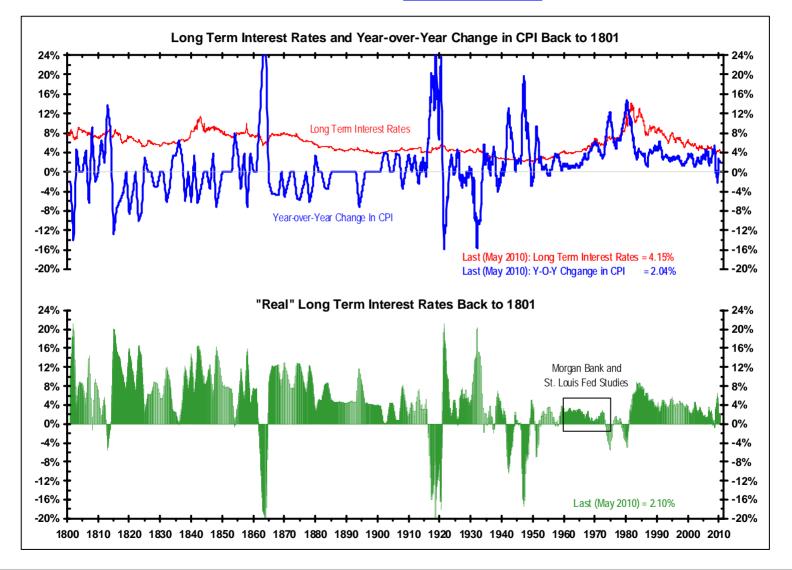
The Large Speculators have been busy covering their short positions. As yields have been doing nothing but moving lower for weeks, the real question remains why have they been net short?



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LT Interest Rates & YoY Change In CPI Back to 1801

From Our Collection of Long-Term Charts



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