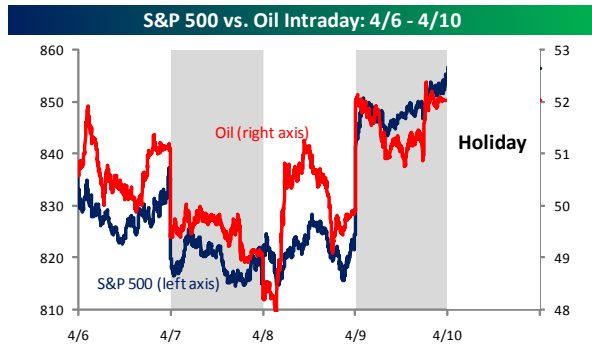


This Week In Review: Goldilocks and the Three Bears

Analyst Mike Mayo "reiterated his position Monday that banks' losses from loans, on a proportional basis, will surpass Great Depression-era levels." WSJ 4/7

"Meredith Whitney warns that the US recession will endure and that bank stocks should be avoided." Forbes 4/6

"When we look at the systemic financial system we're in -- and it affects every country in the world including Canada -- I think staying bearish is the route to go." Nouriel Roubini 4/7



After four weeks of gains, it looked like the bears were back in charge to start the week as three of the most notable bears on the Financial sector came out and reiterated their bearish outlooks. On Monday, the S&P 500 declined by 0.8%, followed by another decline of 2.4% on Tuesday. The declines were attributed to bearish comments from banking analyst Mike Mayo who initiated coverage on the sector at his new firm.

In his commentary Mayo said loan losses in the banking sector will exceed levels seen during the Great Depression. While we recognize that Mayo has been accurate on the sector, we were puzzled by the constant linkage between the markets declines and his research report. As shown in the table to the right, it's not like Mayo got more bearish on the sector. For the most part, his views were the same as they were when he was at Deutsche Bank.

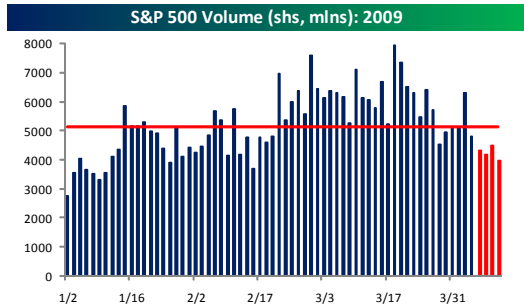
Michael Mayo Ratings				
Stock	Company	Rating at Calyon	Rating at DB	YTD % Chg
KEY	Keycorp	Sell	Sell	0.24
CMA	Comerica	Underprfm	Hold	-1.56
PNC	PNC Financial	Underprfm	Hold	-26.94
BBT	BB&T	Sell	Sell	-33.87
USB	US Bancorp	Sell	Sell	-36.15
WFC	Wells Fargo	Underprfm	Hold	-44.57
BAC	Bank of America	Underprfm	Hold	-46.02
STI	SunTrust	Sell	Hold	-53.22
C	Citigroup	Underprfm	Hold	-57.53
FITB	Fifth Third	Sell	Sell	-60.29

The more likely factor behind Monday and Tuesday's declines was the fact that the market was overbought. As we highlighted last week, 75% of the stocks in the S&P 500 were trading above their 50-day moving average, and in prior rallies over the last two years, once we got to these levels, the market pulled back. After practically a straight line gain of over 20%, the market needed a rest and investors were just looking for an excuse to take profits.

For investors who had missed out on the opportunity to get in the market, Monday and Tuesday provided a brief window, but it didn't last long. By Thursday, the S&P 500 was back at new rally highs after Wells Fargo (WFC) preannounced not only better than expected earnings, but record earnings! Imagine that, record earnings during the worst financial crisis in decades. The rally that began with banks saying they were profitable on an operating basis was resuscitated by another bank saying the same.

For every bank that has come out and said that they have actually been making money, there have been skeptics who complain about the quality of those earnings. One knock against the banks is that anybody can make money when the yield curve is this steep. If you can borrow money for free and lend out at a higher rate, how can you lose money? Sure, it's an accurate statement, but who cares? Are profits that come easily worth less than profits that you have to struggle for?

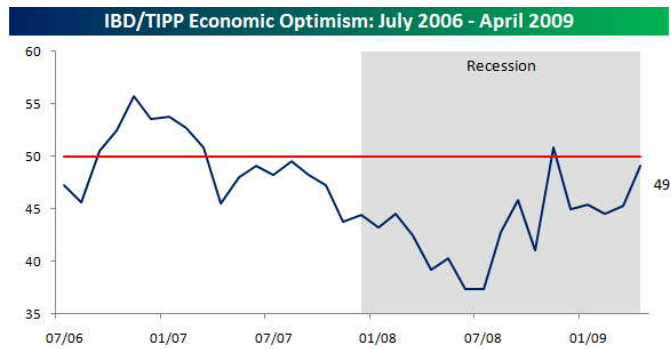
Besides the notable bearish analysts reiterating their negative outlooks and Wells Fargo's positive pre-announcement, given the Easter and Passover holidays, the week was generally quiet on the trading, economic, and earnings front. Every day this week, not only was volume weaker than the average for the year, but each day's turnover was among the lowest of the year.



We also got a break from the barrage of economic reports that we have seen in recent weeks. In fact, there were only four reports of note, and continuing the trend of the last several weeks, most of these reports came in better than expected. They still weren't necessarily good, but as long as we can continue to beat expectations, the market can continue to rally.

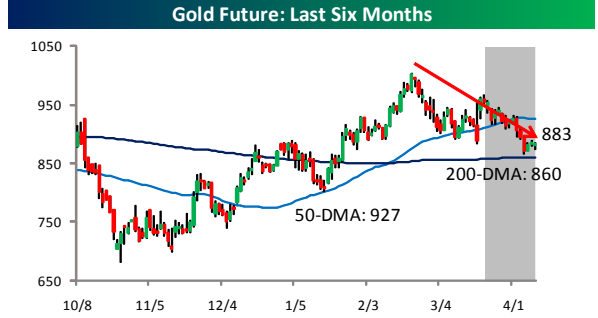
Date	Description	Actual	Estimate	Diff.
4/7	IBD/TIPP Economic Optimism	49.1	45.8	3.3
4/8	Wholesale Inventories	-1.5	-0.7	-0.8
4/9	Initial Jobless Claims	654	660	-6
4/9	Cont. Claims	5840	580	5260

Tuesday's report of the IBD/TIPP Index of Economic Optimism increased for the second month in a row and is now at its second highest level (49.10) since the start of the recession. Since the current level remains below 50, it still indicates that consumers are pessimistic on a net basis. However, compared to where this indicator was back in July, it has shown steady improvement.

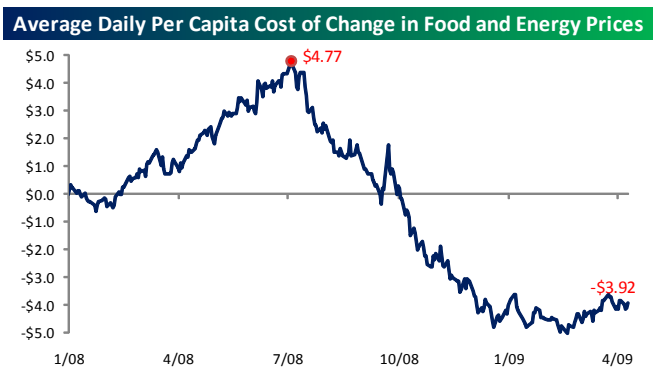


In Monday's *Wall Street Journal*, we also saw a positive headline on demand in the tech sector. In between the usual negative stories regarding the state of the newspaper industry, labor relations, or increased government regulation, on page B3 we saw that "PC Demand in China Is Rising, Lenovo Says". Granted, the negative headlines still outnumber the positives, but you have to start somewhere. Before things get better, they have to get less worse.

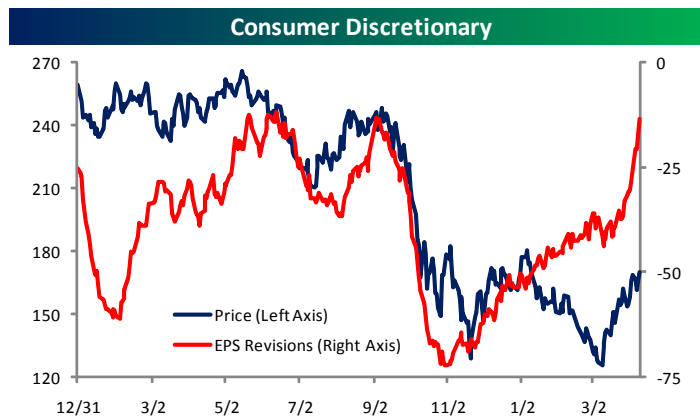
Given that the Federal government has trillion dollar deficits as far as the eye can see, and things are hardly normal in the credit markets, it's hard to believe that the price of gold has been so weak. Typically, gold does well when investors expect inflation. With a decline of over 10% in the last month, the price of gold is implying that investors aren't too worried about rising prices.



Our index of the change in commodity prices since the start of 2008 and its impact on consumers wallets shows a similar picture. Compared to prices at the start of 2008, the change in commodity prices is giving the average American a windfall of \$3.92 per day. While this doesn't sound like much, on an annualized basis, it works out to over \$1400 per year, and sure beats the \$4.77 tax we were seeing at this time last year.



No matter how bad the economy or the job picture is, when the average American goes from paying a 'commodity tax' of \$1,741 per year to getting a windfall of \$1,430 per year, the extra money in their pockets has to go somewhere. Judging by their recent performance, Consumer Discretionary stocks are benefitting, and analysts are starting to take notice. The chart below shows net earnings revisions (red lines) for the stocks in the S&P 1500 Consumer Discretionary sector compared to the price (blue) of the sector. As shown, net revisions in the sector are improving almost as fast as they deteriorated last Fall. While net revisions are still in negative territory, meaning more stocks are seeing their numbers cut versus raised, at this rate it's only a matter of time before it's the other way around.



A look at the three stocks seeing the most positive revisions also shows the improving state of the consumer. Within the S&P 1500, the three stocks that have seen the most positive revisions, meaning they are surprising analysts the most, are Darden Restaurants (DRI), Best Buy (BBY), and Brinker (EAT). While the consumer has been written out of the picture, the reality is that they have been going out to eat and buying new TVs, stereos, and computers.

Analyst Earnings Revisions By Sector - Last Month

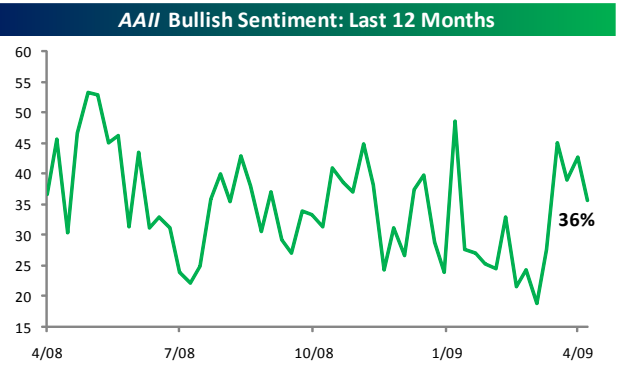
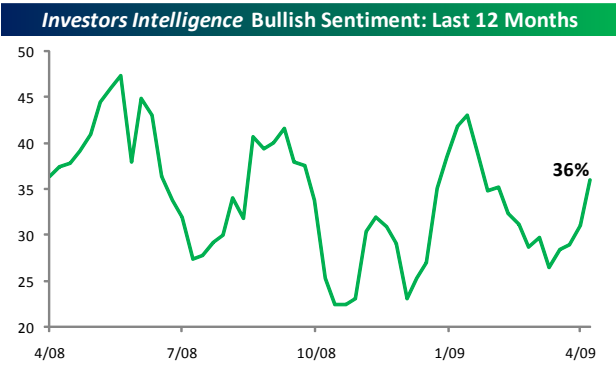
Sector	Net Estimate Revisions	Companies in Sector	Percentage of Companies	Most Positive Revisions	Most Negative Revisions
Cons. Discret.	-35	263	-13.3	DRI, BBY, EAT	URBN, WSM, CCL
Cons Staples	-11	77	-14.3	CAG, LO, CHD	WAG, STZ, SFD
Energy	-84	87	-96.6	SGY	SII, HAL, EOG
Financials	-127	261	-48.7	ICE, WDR, TRAD	DFS, SIVB, LNC
Health Care	-45	169	-26.6	WPI, CEPH, KG	CELG, CVD, MRX
Industrials	-112	216	-51.9	INSU, MINI, LMT	EMR, NSC, IR
Technology	-49	256	-19.1	GLW, INTC, WBSN	JNPR, PALM, TER
Materials	-43	85	-50.6	FCX, TXI, PTV	NUE, ARG, CMC
Telecom Svcs	1	15	6.7	AMT, VZ, WIN	T, Q, SVR
Utilities	-22	71	-31.0	WGL, PCG, SRE	AEP, EQT, POM
S&P 1500	-527	1500	-35.1	DRI, BBY, EAT	URBN, CELG, EMR

While investors have been questioning the sustainability of the rally, compared to other international markets, the S&P 500 isn't as extended as other country benchmarks. The table to the right is from Thursday's *B.I.G. Tips* report on country technicals. As shown, while the S&P 500 was 3.31% above its 50-day moving average, 16 of the 22 (73%) countries we looked at were trading further above their 50-day moving average than the US was.

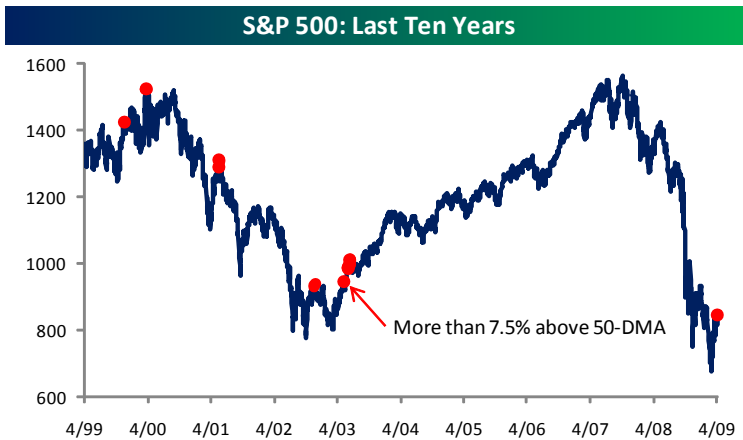
Country Indices

Country	ETF	YTD % Change	% From 50-DMA
Australia	EWA	-2.76	4.96
Brazil	EWZ	16.57	9.09
Canada	EWC	-1.90	4.15
China	FXI	28.92	5.94
France	EWQ	-9.80	2.30
Germany	EWG	-10.11	4.21
Hong Kong	EWH	0.61	10.27
India	INP	11.35	17.39
Italy	EWI	-12.42	3.67
Japan	EWJ	-2.99	9.39
Malaysia	EWM	3.55	3.13
Mexico	EWX	-7.80	7.56
Russia	RSX	20.37	24.39
Singapore	EWS	1.27	8.03
South Africa	EZA	-5.67	1.45
South Korea	EWY	12.24	9.24
Spain	EWP	-9.43	5.81
Sweden	EWD	6.07	7.57
Switzerland	EWL	-10.57	1.32
Taiwan	EWT	18.57	14.26
UK	EWU	-12.15	-1.07
US	SPY	-9.68	3.31

In last week's report, we noted that unlike prior rallies, sentiment wasn't improving by similar degrees to what we have seen in the past. Strategists are currently recommending that investors allocate 51.6% of their portfolios to stocks, which is a 12-year low. Surveys of investor sentiment are also showing that optimism is hardly the consensus. According to Investors Intelligence, only 36% of newsletter writers have embraced the rally so far. While individual investors were bullish last week, this week's survey from the *American Association of Individual Investors (AAII)* showed a sharp reversal, as even the hint of a sell-off earlier in the week sent the bulls heading for the hills.



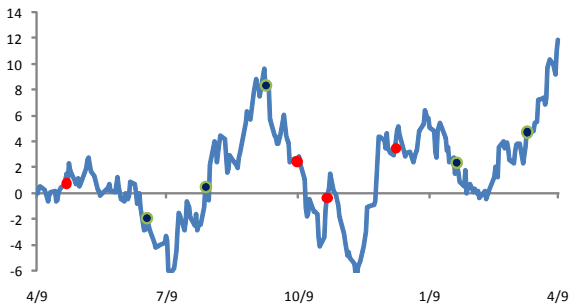
Heading into the close Thursday, the S&P 500 is closing out the week nearly 8% above its 50-day moving average. While this represents an extremely overbought level in the short-term, it is nice for a change to see extreme overbought levels as opposed to extreme oversold levels. However, as shown in the chart below, prior occurrences over the last ten years where the S&P 500 traded more than 7.5% above its 50-day moving average have mostly led to at least short-term pullbacks. The only time the market kept going was in June 2003. So unless this really is a new bull market, investors should expect at least a short-term pullback. Our advice would be to watch for support on any pullback. In the case of the S&P 500, levels to watch are the ten (790) and fifty (790) day moving averages.



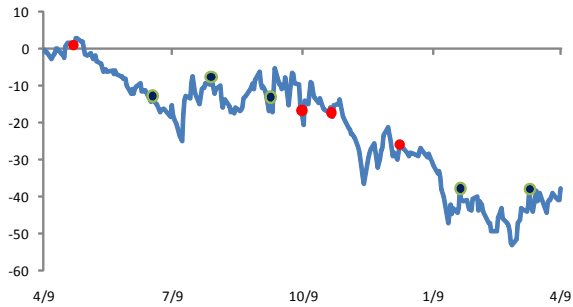
In addition to the overall market, it is important to watch how the market's leading sectors react on any pull-back. Last week we noted the importance of Consumer Discretionary, Materials, and Technology as they have led the market through thick and thin since the November 2008 lows. Below we highlight the relative strength of each of these sectors along with Financials over the last year. In the charts, rising lines indicate that the sector is outperforming, while declining lines indicate underperformance. We have also included dots to show each Fed meeting. Red dots indicate rate cuts while, black dots indicate no change in rates.

As shown, Consumer Discretionary and Technology have gone nearly parabolic in recent weeks. As a result, it wouldn't surprise us to see a pullback or at least a pause in the rally. Nothing can go straight up. So for investors with stocks in these sectors, we wouldn't chase at these levels, but would continue to hold on for the ride while exercising caution. Set stop prices, and if the stock hits that level, get out. There will always be other opportunities.

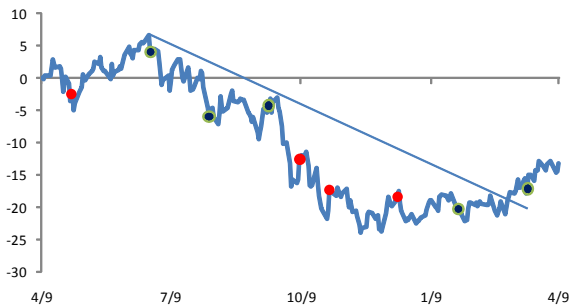
Consumer Discretionary vs. S&P 500



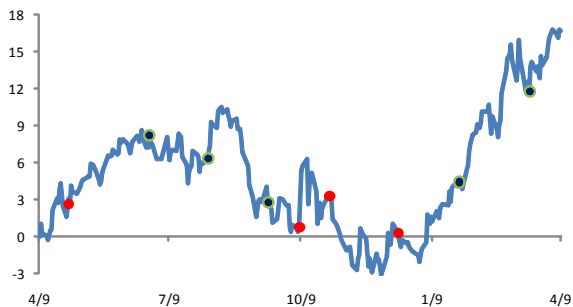
Financials vs. S&P 500



Materials vs. S&P 500

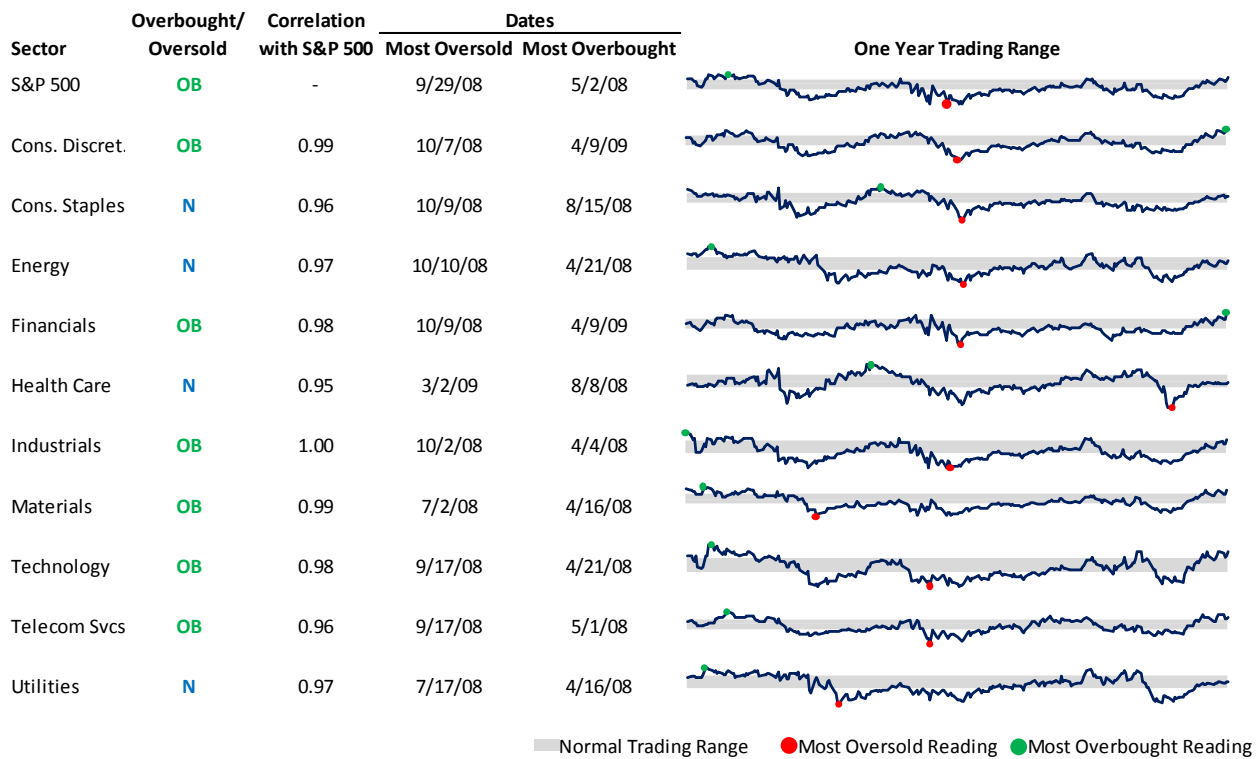


Technology vs. S&P 500



Even though it was a holiday shortened week, the number of sectors trading in overbought territory increased from five to six. In addition, both the Consumer Discretionary and Financial sectors are currently at their most overbought levels in a year. What a difference five weeks makes. It certainly feels good, but let's not forget how we felt in early March. Nobody should let themselves get in that position again, so take profits (or even losses) along the way, and enjoy the ride.


S&P 500 Sector Trading Ranges: 4/9/09



Bespoke Model Portfolio							
Stock	Company	Current Price	Portfolio Weight (%)	Entry Price	Stop Price	Date Added	% Change
Consumer Discret.			11.7				
FDO	Family Dollar	34.33	6.2	27.49	22.50	3/2/09	24.9
PZZA	Papa John's	25.17	5.6	22.20	18.10	3/2/09	13.4
Consumer Staples			14.1				
ADM	Archer-Daniels	25.85	4.8	22.64	15.75	11/21/08	14.2
MO	Altria Group	16.31	4.7	14.54	12.00	11/21/08	12.2
MKC	McCormick	28.93	4.7	31.12	27.50	3/2/09	-7.0
Energy			6.0				
CVX	Chevron Corp	69.23	6.0	58.56	53.50	3/2/09	18.2
Financials			12.4				
GS	Goldman Sachs	124.33	6.8	86.89	67.50	3/2/09	43.1
MA	MasterCard	172.46	5.6	151.40	131.00	3/2/09	13.9
Health Care			6.0				
CPSI	Comp. Program	34.49	6.0	26.91	22.75	3/2/09	28.2
Industrials			0.0				
Materials			5.6				
MOS	Mosaic	44.51	5.6	38.60	31.20	3/2/09	15.3
Technology			17.2				
AAPL	Apple	119.57	6.7	86.91	70.00	10/8/08	37.6
GOOG	Google	372.50	5.3	333.99	285.00	3/2/09	11.5
INTC	Intel Corp	15.98	5.2	13.65	10.75	11/11/08	17.1
Telecom Services			0.0				
Utilities			4.9				
WTR	Aqua America	19.04	4.9	18.35	15.60	3/2/09	3.8
ETFs			0.0				
Cash			22.1				

Performance (%):

	Since Inception ¹	YTD
S&P 500	-43.6	-5.2
Model Portfolio	-16.3	0.7
vs. S&P 500	27.2	5.9

 = New Position

¹ Bespoke's Model Portfolio began with an initial value of \$100,000 on 5/29/07.

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