

# High Touch Execution Specialist:

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## Global Economy

Global

First of all, to start, I would like to add some precision to yesterday piece, when I stated that due to poor performance and redemption fears, many HFs were curbing their trading activity and limiting their risk tolerance. After discussing the matter with a few HF clients, I realized that I omitted to mention the other group of smart guys who are willing to take advantage of the overall painful environment and who voluntarily exited the market since Mid August with no intention to re-enter the zone, in order to preserve their PnL. Redemptions are soaring but this only means capital is actively shifting to a better place and the stakes are high for the smarts who will be able to show performance in such an environment while being significantly under invested in the current times could be seen as a stroke of genius.

Macro

This sheds more light on the reason why the volumes have collapsed in both up or down sessions; it also reinforces my theory that HFs' add to the efficiency of the market, has also been impacted, offering an unexpected relief to Central Banks and EU members to (momentarily?) avoid another crisis.

Micro

With so many 'savvy' investors outside of the market, the terminal bears know they have less power to make their point and their dough, and are prepared to take their profits (or losses) quicker than originally thought. This also gives more credit to the bottom fishers and value investors despite all the remaining uncertainties.

Markets

Bottom fishing is more of a winning strategy at the moment - as I will highlight - than value investment especially because of the remaining uncertainties at the macro level, seen in the abnormally elevated levels of correlation. In other words, stocks are mainly moving in the same direction at the same time whether in the same sector, or not, because with the current systemic risks the fundamentals matter less.

Technical

Talking about bottom fishing, check out the charts below:

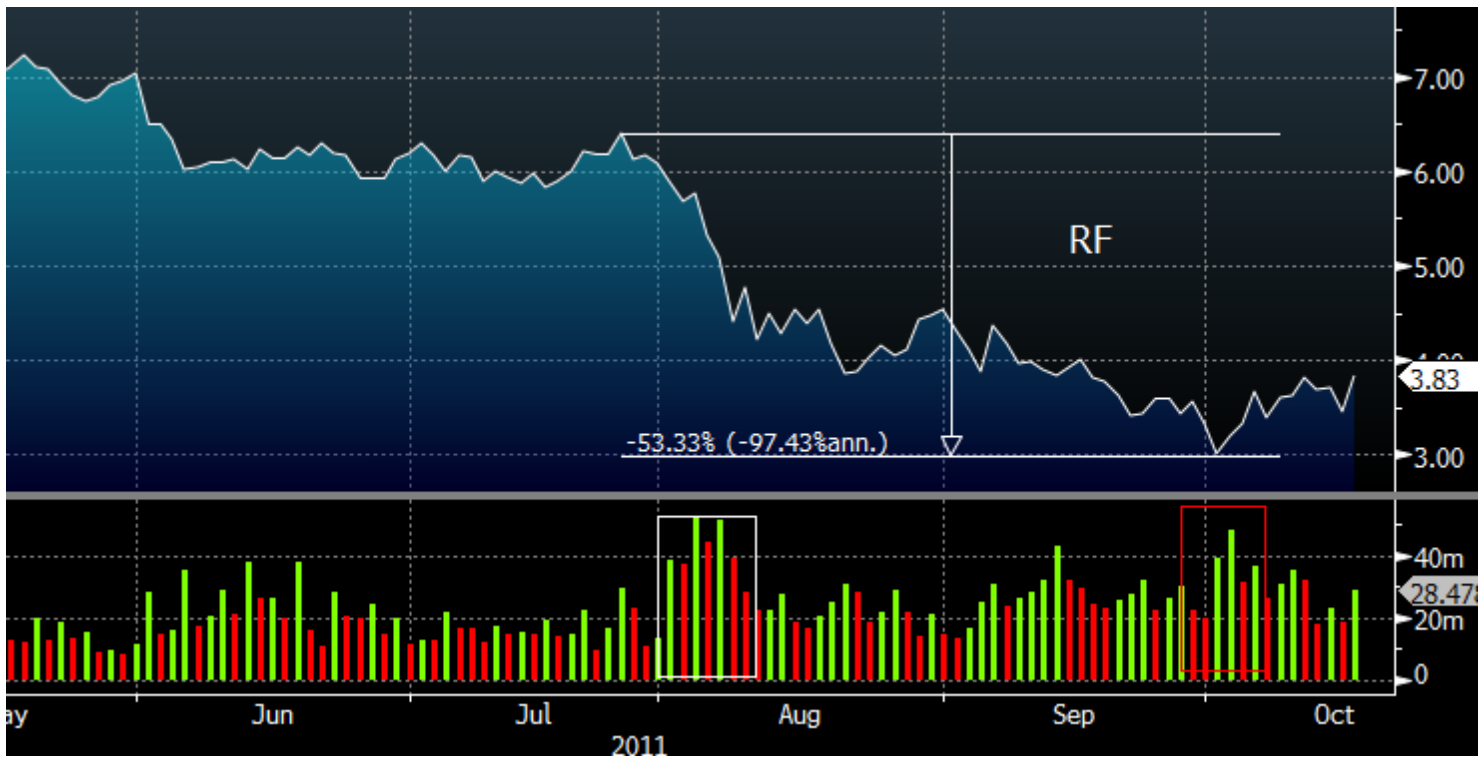
Tuesday S&P leading-lagging movers:

LEADING MOVERS					LAGGING MOVERS				
Security	Price	*%Chg†	*Indx pt	Volume	Security	Price	*%Chg†	*Indx pt	Volume
AKS UN	8.06	+12.73%	n.a.	1.87MLN	HSP UN	29.51	-21.01%	n.a.	2.70MLN
PHM UN	4.46	+11.22%	n.a.	2.26MLN	HOG UN	34.59	-7.04%	n.a.	1.51MLN
DHI UN	10.59	+11.01%	n.a.	3.55MLN	NFLX UW	111.74	-4.76%	n.a.	1.43MLN
RF UN	3.83	+10.69%	n.a.	3.13MLN	LO UN	111.64	-4.25%	n.a.	513483
STT UN	37.49	+10.69%	n.a.	3.07MLN	IBM UN	178.90	-4.12%	n.a.	2.90MLN
BAC UN	6.64	+10.12%	n.a.	47.00MLN	CVH UN	28.09	-3.80%	n.a.	1.47MLN
LEN UN	15.92	+9.27%	n.a.	2.19MLN	UNH UN	45.34	-2.70%	n.a.	4.42MLN
MS UN	16.63	+9.05%	n.a.	7.21MLN	WLP UN	64.06	-2.36%	n.a.	1.17MLN
GNW UN	6.09	+8.94%	n.a.	2.15MLN	FRX UN	31.47	-2.05%	n.a.	1.18MLN
SWK UN	60.99	+8.54%	n.a.	679318	AKAM UW	23.83	-1.53%	n.a.	1.90MLN
BK UN	19.77	+7.62%	n.a.	4.23MLN	YHOO UW	15.47	-1.46%	n.a.	7.33MLN
HST UN	12.90	+7.59%	n.a.	2.86MLN	ISRG UW	382.76	-1.36%	n.a.	219754
IPG UN	7.99	+7.39%	n.a.	3.01MLN	PM UN	66.31	-1.09%	n.a.	2.86MLN
GCI UN	10.72	+7.31%	n.a.	1.77MLN	NEM UN	65.50	-1.06%	n.a.	1.31MLN
GWV UN	166.30	+7.23%	n.a.	299512	AET UN	37.10	-1.04%	n.a.	1.60MLN
STI UN	19.38	+7.13%	n.a.	2.08MLN	CI UN	43.43	-.94%	n.a.	1.21MLN
PXD UN	79.19	+7.11%	n.a.	572291	HUM UN	73.56	-.89%	n.a.	469954
ZION UW	17.00	+6.99%	n.a.	1.35MLN	HAS UW	34.75	-.69%	n.a.	1.14MLN
C UN	29.88	+6.98%	n.a.	10.77MLN	COV UN	44.54	-.51%	n.a.	1.62MLN
QEP UN	33.13	+6.97%	n.a.	656652	PEG UN	33.03	-.51%	n.a.	988547





Volumes on the bounce are matching the one we had on the fast drop



... and sometimes volumes are even running higher on the bounce



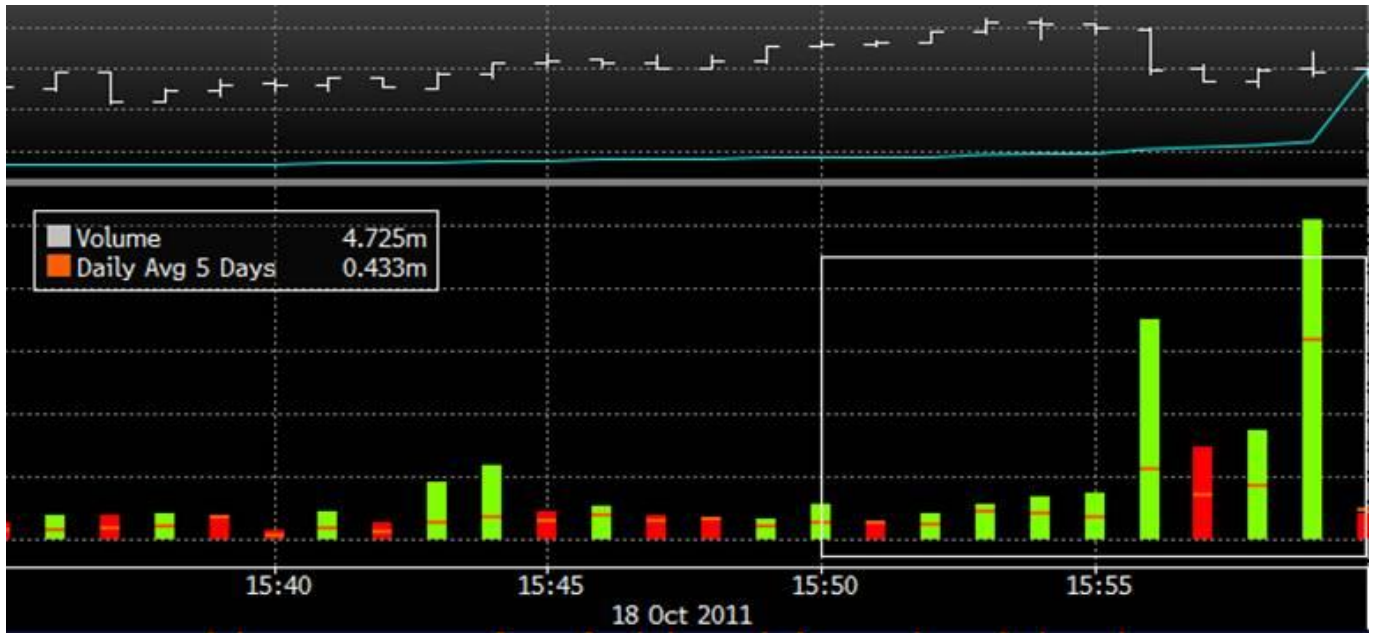
This is just a few examples, but I could expand it to a larger list of 'beaten' down stocks that would offer similar features. I won't debate the nature of those behind this bottom fishing today. In other words, if we are talking about real money with a long term investment horizon or dubious strategies that identify this combination of underperformance with more stringent limit risks AND lack of volume – there is a real opportunity to start a short squeeze!!!!

Another interesting chart to highlight the lack of real hedge investors - opposed to algorithms - currently affect the market:

This is an intraday chart of XLF - could use almost any of the large ETFs- for Tuesday:



Let's take a closer look to the final minutes of trading:



Now we can see that "investors" finally decided to get in the market between 15:56 and 15:59!!

Bear in mind NO NEWS came to explain this sudden desire to trade the market.

Maybe our investors were sleeping all day and woke up very late in the day, or, this is the new structure of the market with bigger participation of "hedgers" which have no real directional view on the market.

That is the characteristic of the current equity market, and will last until our leaders finally decide to move forward with something other than promises and lies. This also explains why so many people are getting confused in this market - and as I said yesterday, European officials are not helping...

This morning there were *FURTHER* leaked draft documents - don't waste a minute wondering who is leaking these - indicating that EFSF will be able to grant two types of precautionary credit lines. We also heard that the EFSF could repo bonds, therefore opening the door for private sector participation.

But at this point this is only speculation....

Have a great day

Lionel Mellul

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