



**HIGHLIGHTS:**

**Market Commentary: Kickback Rallies? Catch Those Trains out of Town.**

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- Can MSCI Brazil's Outperformance Resume?

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**MSCI Sector Rating Matrix; MSCI Sector Recommendations by Regions – Europe, Asia Pacific and The Americas**

- Sector Highlights within Regions (including Charts).

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- MSCI Pharmaceuticals & Biotechnology Upgraded to *Overweight*.
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**Louise Yamada, CMT**

[louise.yamada@lyadvisors.com](mailto:louise.yamada@lyadvisors.com)

**Jonathan T. Lin, CMT, CFA**

[jonathan.lin@lyadvisors.com](mailto:jonathan.lin@lyadvisors.com)

**Lori Altenburger**

[lori.altenburger@lyadvisors.com](mailto:lori.altenburger@lyadvisors.com)

**Noreen Lennon**

[noreen.lennon@lyadvisors.com](mailto:noreen.lennon@lyadvisors.com)

**Jeanne Crisci**

[jeanne.crisci@lyadvisors.com](mailto:jeanne.crisci@lyadvisors.com)

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### Market Commentary: Kickback Rallies? Catch Those Trains out of Town.

For many weeks, months, the Market Commentary section has carried words of warning as most major equity indices had been forming multi-year, structural tops, suggesting further downside risk, much of which has occurred in a majority of global markets.

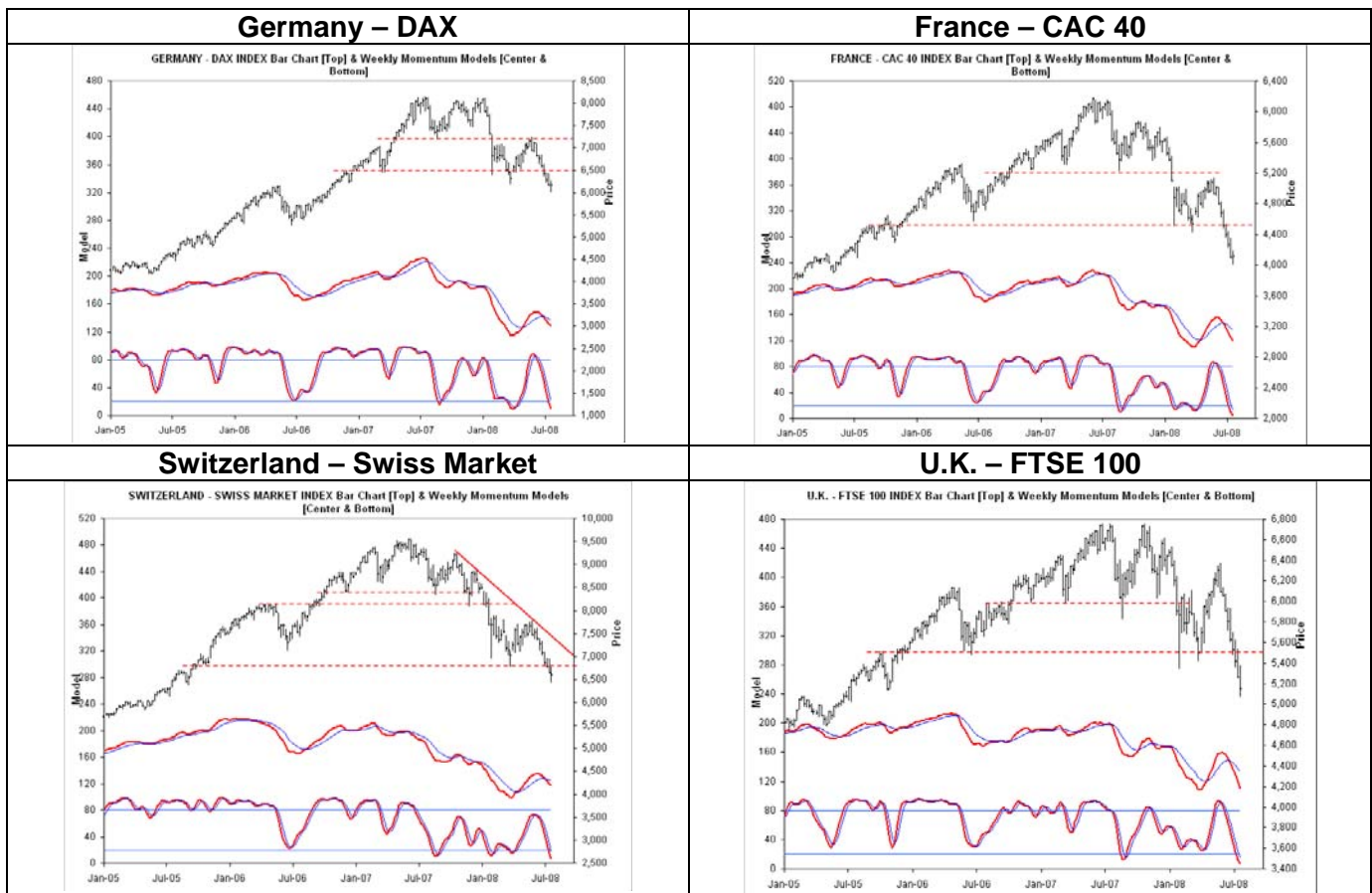
Over the past two days, many markets have rallied sharply. While impressive, we would classify these rallies as kickback rallies toward resistance, rather than structural reversals, since *weekly* (see Figure 1) and *monthly* momentum models remain weak across the board. In fact, even the *daily* models (not shown) have merely turned neutral thus far.

As witnessed through the 2000 – 02 global bear market, kickback rallies can be quite sharp, at times producing 10%, 20% or more gains within weeks. We also learn from prior bear market experiences that structural tops lead to structural declines, and that structural declines do not end without a structural (longer-term) repair process — a process that would require months, not just days, to complete.

We recommend that investors take advantage of these rallies and sell weaker stocks into strength, continuing to lighten equity market exposure. Rallies in Financials offer an opportunity to lighten; and the profit-taking surfacing in the Energy and Materials areas suggests the leaders are now entering corrective trends.

Jonathan T. Lin

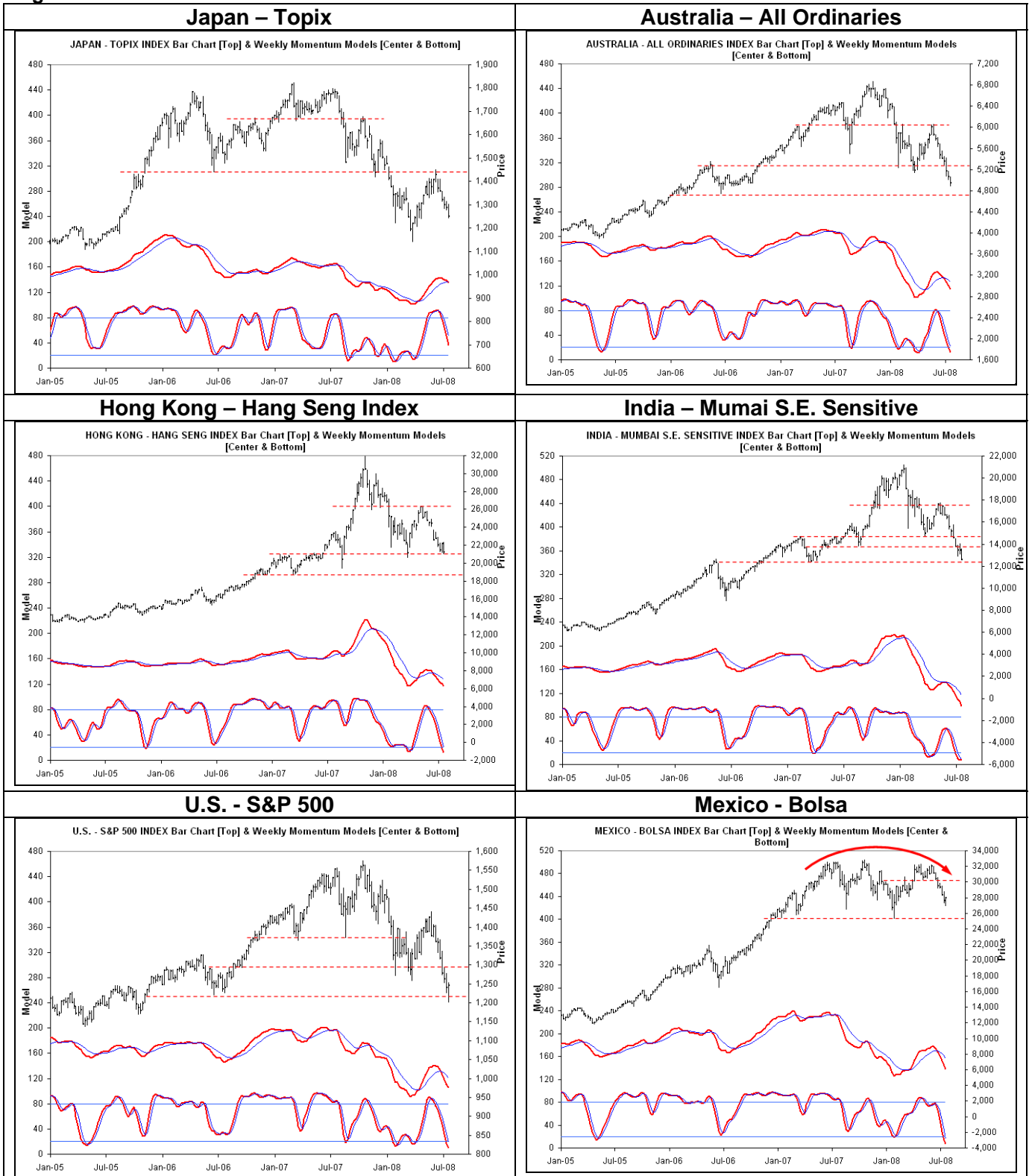
Figure 1. Germany, France, Switzerland, U.K., Japan, Australia, Hong Kong, India, S&P 500 and Mexico Bar Charts (Top), Weekly Momentum Models (Center & Bottom)



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Figure 1. continued.



Data source: Bloomberg

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## World Market Recommendations

### Market Rating Changes - Local Indices

Based on Technical Model Readings in Local Currency Terms on an Absolute Basis \*\*

Data through 7/16/08

|               | Buy | Hold                           | Sell  |
|---------------|-----|--------------------------------|---|
| EUROPE/AFRICA |     |                                | Belgium<br>Denmark<br>DJ Euro Stoxx 50<br>Finland<br>France<br>Germany<br>Ireland<br>Italy<br>Netherlands<br>→ <b>Norway</b><br>→ <b>Russia</b><br>Portugal<br>South Africa<br>Spain<br>Sweden<br>Switzerland<br>United Kingdom |
| ASIA/PACIFIC  |     | Japan (-)                      | Australia<br><b>China (+)</b><br>Hong Kong<br>India<br>Indonesia<br>Korea<br>Malaysia<br>Singapore<br>Taiwan  |
| AMERICAS      |     | United States (Nasdaq 100) (-) | Argentina<br>Brazil<br>→ <b>Canada</b><br>Mexico<br>United States (S&P 500)   |

← Designates Upgrade  
←← Double Upgrade

→ Designates Downgrade  
→→ Double Downgrade

(+) On Technical Upgrade Alert  
(-) On Technical Downgrade Alert

\*\* For the Local Indices Absolute Price studies only: Please note that Local Indices Absolute Price ratings are categorized as **Buy**, **Hold**, or **Sell** to better reflect the potential for absolute risk/reward. The rating schemes for all the other studies remain the same.

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## MSCI Developed Markets Recommendations

Based on MSCI Country Indices Relative to the MSCI World Index in Local Currency Terms

Data through 7/16/08

|               | Overweight | Market weight                           | Underweight  |
|---------------|------------|---|--|
| EUROPE/AFRICA |            | Denmark<br>United Kingdom               | Austria<br>Belgium<br>Finland<br>France<br>Germany (+)<br>Greece<br>Ireland<br>Italy<br>Netherlands<br>→ <b>Norway</b><br>Portugal<br>Spain<br>Sweden<br>Switzerland (+) |
| ASIA/PACIFIC  |            | Australia (-)<br>Japan (+)<br>Singapore | Hong Kong<br>New Zealand   |
| AMERICAS      | Canada (-) | United States (+)                       |  |

← Designates Upgrade      → Designates Downgrade      (+) On Technical Upgrade Alert  
 ←← Double Upgrade      →→ Double Downgrade      (-) On Technical Downgrade Alert

### MSCI U.S. on a “Technical Upgrade Alert,” But ...

**MSCI U.S.**, rated either **Overweight** or **Market weight** since late January 2008, is currently rated **Market weight** with a “technical upgrade alert” (TUA). Although still well within a definable absolute downtrend, the U.S. has been *going down less steeply* than most counterparts around the globe, to date.

MSCI U.S. is down 14.62% year-to-date, compared to the 21.29% decline in the MSCI World ex. U.S. index over the same period. In fact, on a year-to-date basis, U.S. is the *second-best performing* Developed market after Canada (-0.97%), the only **Overweight**-rated market, albeit with a “technical downgrade alert” (TDA). Year-to-date, the other major markets have suffered much greater damage: MSCI Japan, -16.04%; Singapore, -17.81%; U.K., -20.61%; Switzerland, -22.76%; Australia, -23.05%; Germany, -25.82%; France, -26.05%; Hong Kong, -27.92%; and Italy, -30.52%.

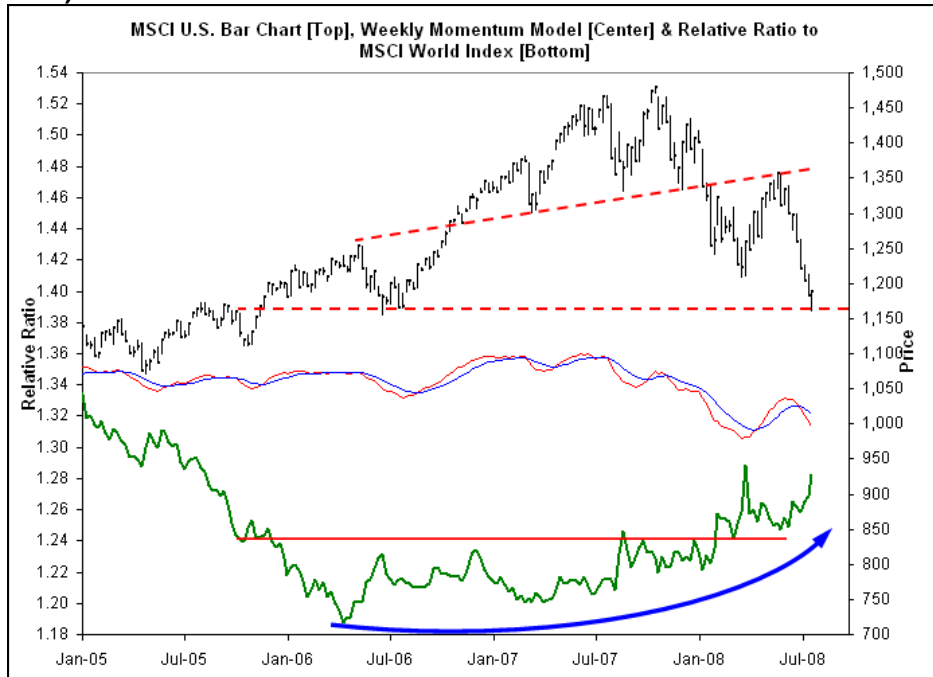
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With MSCI U.S. declining less than most counterparts, continuing RS strength has become evident for the U.S. Since April 2006, the RS plot has established a series of higher lows, tracing out a rounding bottom (see Figure 2), hence the positive RS rating. Should RS overtake the March 2008 high in the weeks ahead, a re-upgrade to **Overweight** would be warranted.

Nevertheless, the weekly momentum model on price has registered another *Sell* signal, thus absolute appreciation may prove harder to achieve. The deteriorating momentum suggests a likely test of the next support level, nearly 4% below the current level, while a two-year top in price allows for downside projection of a 13% further decline.

**Figure 2. MSCI U.S. Bar Chart (Top), Weekly Momentum Model (Center) & Relative Ratio to MSCI World Index (Free) (Bottom)**



Data source: Bloomberg

Readers need to bear in mind that the heretofore improvement in the U.S. market is on a *relative basis*. Therefore, only those who need to be fully invested in the equity market should consider increasing exposure in the U.S. market.

Additionally, rallies in the U.S. Financials and Consumer Discretionary sectors (which technically appear in structural declines) should be avoided when purchasing U.S. stocks. These two sectors have enjoyed sharp rallies of late (on July 16, 2008, S&P 500 Financials rallied 12.30%, and Consumer Discretionary gained 4.38%), which could still last for days to weeks. Investors should consider selling into strength stocks within these sectors, for which massive topping formations have suggested considerable further risk ahead, notwithstanding kickback rallies. (Please refer to the Market Commentary section for comments on short-term kickback rallies.)

*Jonathan T. Lin*

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## MSCI Emerging Markets Recommendations

Based on MSCI Country Indices Relative to the Emerging Markets Index (Free) In Local Currency Terms  
Data through 7/16/08

| Overweight        | Market weight       | Underweight        |
|-------------------|---------------------|--------------------|
| Argentina (-)     | Brazil              | <b>Hungary (+)</b> |
| Chile             | China               | India              |
| Czech Republic    | Colombia (+)        | Malaysia (+)       |
| Indonesia         | Egypt               | Philippines        |
| <b>Israel (-)</b> | Korea (-)           | Poland             |
| Russia (-)        | Mexico              | Taiwan             |
|                   | <b>Pakistan (-)</b> | <b>→ Thailand</b>  |
|                   | Peru                | Turkey             |
|                   | South Africa        |                    |

← Designates Upgrade      → Designates Downgrade      (+) On Technical Upgrade Alert  
 ↔ Double Upgrade      ↔ Double Downgrade      (-) On Technical Downgrade Alert

In addition to those noted in the table above, the following change was made to our MSCI Emerging Markets Recommendations technical ratings:

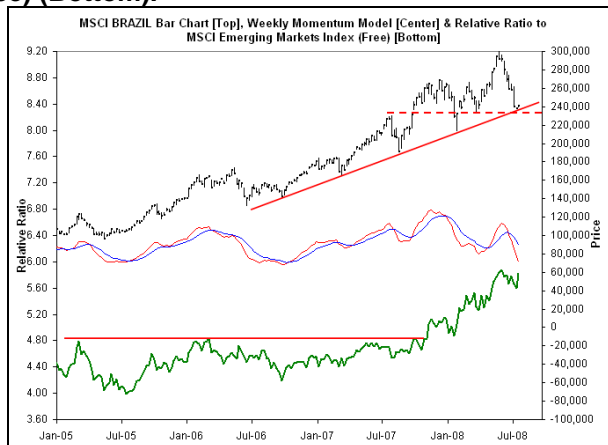
Egypt was taken off a “technical downgrade alert” (TDA).

### Can MSCI Brazil’s Outperformance Resume?

Over the past year, MSCI Brazil has markedly outperformed the benchmark, resulting in a rising RS plot that regularly set new record highs (see Figure 3). As such, the market has been rated either **Overweight** or **Market-weight** since September 19, 2007.

While the late May – early July decline in RS has kept Brazil rated a **Market weight**, the RS plot has reemerged to challenge the May 2008 high. Should RS manage to move above the May high, an upgrade to **Overweight** might be anticipated. However, more recently, the rising RS has again been more representative of “going down less,” rather than of absolute reward.

Figure 3 MSCI Brazil Bar Chart (Top), Weekly Momentum Model (Center) & Relative Ratio to MSCI Emerging Markets Index (Free) (Bottom).



Data source: Bloomberg

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The market price is now hovering above a one-year support level and the intersect of a two-year uptrend line; a violation of these would allow risk projections toward 11% and 20% below the current level. Continuing deterioration in the *weekly* momentum models suggests a high probability of an eventual support violation. Given the market's high participation in Energy and Materials, which are now under heavy profit-taking, the likelihood of further price attrition is rising.

Jonathan T. Lin

## MSCI Regional Recommendations

Recommendations Based on Relative Performance to the MSCI All Country World Index (Free) and Technical Momentum Models in Local Currency Terms

Data through 7/16/08

| Overweight                 | Market weight  | Underweight                                |
|----------------------------|--|--|
| Emerging Latin America (-) | Developed Pacific ex. Japan (-)<br>Emerging Europe/Middle East/Africa<br>Japan<br><b>North America (+)</b><br>United Kingdom | Developed Europe ex. U.K.<br>Emerging Asia |

← Designates Upgrade  
←← Double Upgrade

→ Designates Downgrade  
→→ Double Downgrade

(+) On Technical Upgrade Alert  
(-) On Technical Downgrade Alert

## MSCI Sector Recommendations

Recommendations Based on Relative Performance to the MSCI All Country World Index (Free) and Technical Momentum Models in Local Currency Terms

Data through 7/16/08

| Overweight | Market weight   | Underweight   |
|------------|---|---|
| Utilities  | <i>Consumer Staples</i> ←<br>→ <i>Energy</i><br>Health Care (+)<br><b>Information Technology (+)</b><br>→ <i>Materials</i><br>Telecommunications Services | Consumer Discretionary<br>Financials<br>Industrials |

← Designates Upgrade  
←← Double Upgrade

→ Designates Downgrade  
→→ Double Downgrade

(+) On Technical Upgrade Alert  
(-) On Technical Downgrade Alert

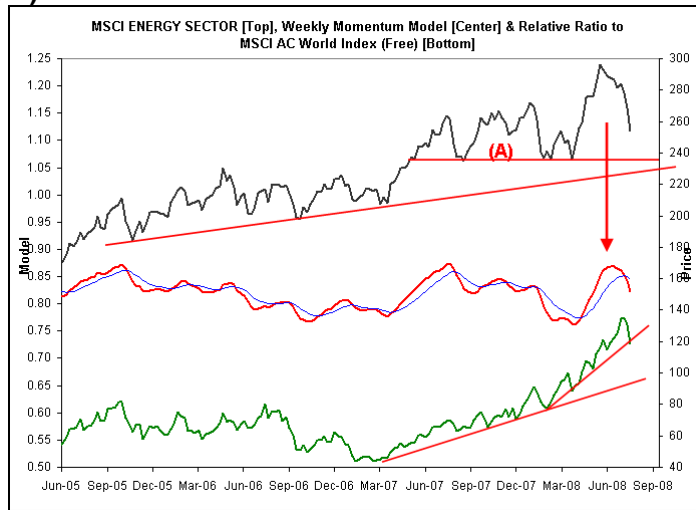
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**MSCI Energy Downgraded to *Market Weight*.**

Although the *long-term* RS trend for **MSCI Energy** remains intact, a *short-term* RS uptrend was violated; additionally, the *weekly* momentum model turned negative (*Sell*), also failing to make a new high with price (negative divergence), prompting a downgrade to **Market weight**. Price maintains a long-term uptrend, but near-term price may come back to test a year-long support line (see Figure 4, A). The intersect of support and uptrend in price constitutes an important support level that needs to hold.

**Figure 4. MSCI Energy Sector (Top), Weekly Momentum Model (Center) & Relative Ratio to MSCI AC World Index (Free) (Bottom)**

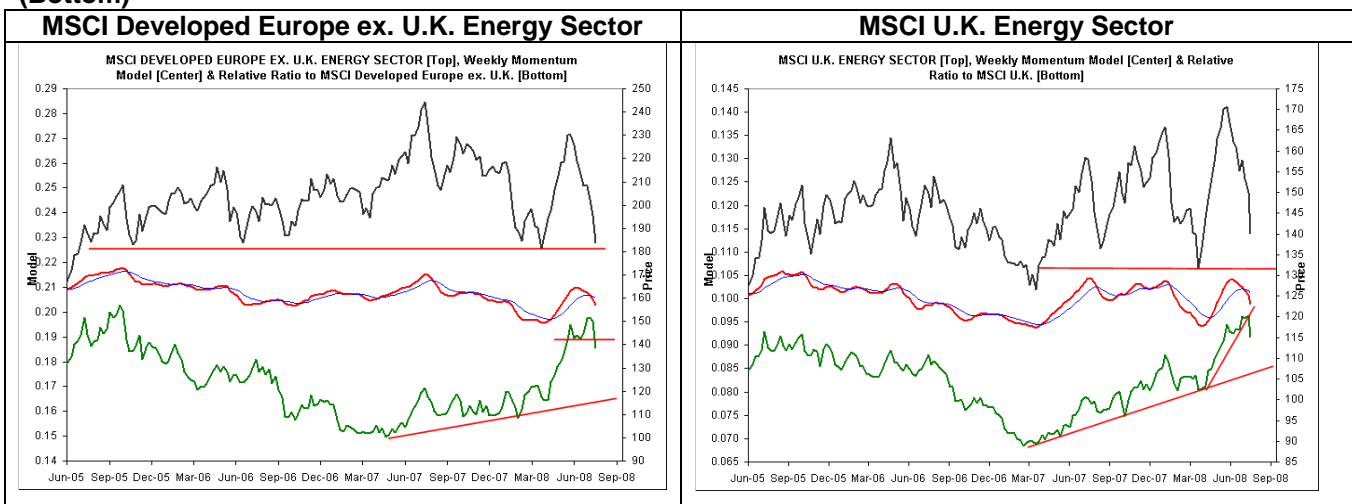


Data source: Bloomberg

Around the globe, MSCI Energy was downgraded to **Market weight** in four regions: **MSCI Developed Europe ex. U.K., United Kingdom, North America** and **Emerging Latin America**. These four regions' Energy sectors display similar profiles to MSCI Energy (see Figure 5), with momentum *Sell* signals, negative divergences and /or RS reversals. Profit taking has finally come into this heretofore leadership group. Positions should be adjusted accordingly.

Lori Altenburger

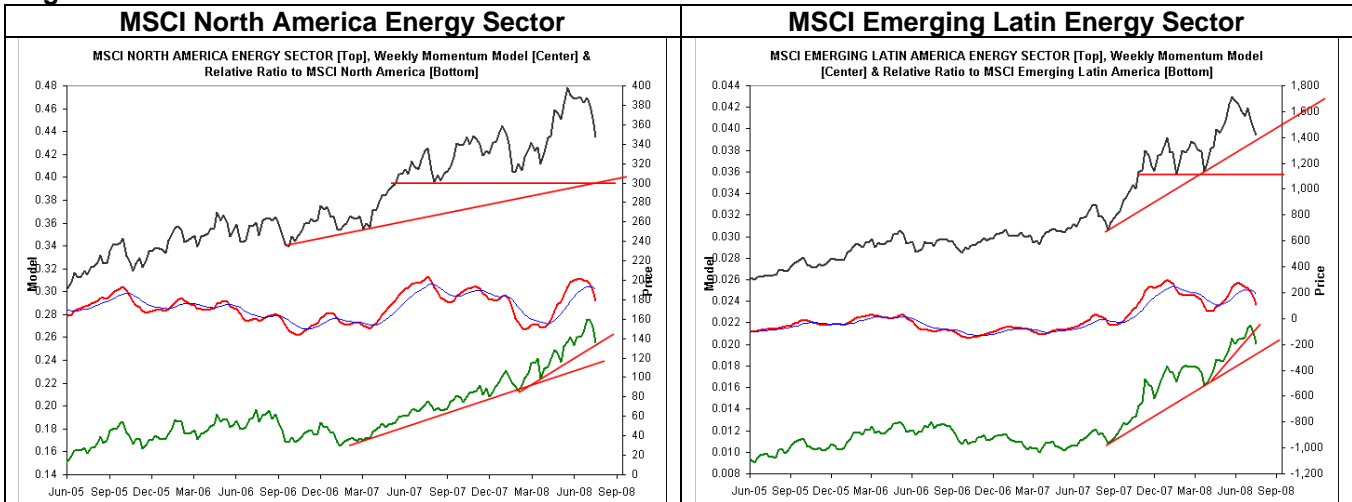
**Figure 5. Regional Energy Sectors (Top), Weekly Momentum Model (Center) and Relative Ratio to Region (Bottom)**



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Figure 5.



Data source: Bloomberg

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# MSCI Sector Rating Matrix by Region

| Country / Zone<br>Sector    | EUROPE / MIDDLE EAST / AFRICA |                |  | ASIA / PACIFIC                 |       |               | THE AMERICAS  |                           | AC World Sectors |
|-----------------------------|-------------------------------|----------------|--|--------------------------------|-------|---------------|---------------|---------------------------|------------------|
|                             | Developed Europe<br>ex. U.K.  | United Kingdom | Emerging<br>Europe/Middle<br>East/Africa | Developed Pacific<br>ex. Japan | Japan | Emerging Asia | North America | Emerging Latin<br>America |                  |
| Consumer Discretionary      | UW                            | UW             | UW                                       | UW                             | UW    | UW            | UW            | UW+                       | UW               |
| Consumer Staples            | UW                            | MW ↑           | MW                                       | MW-                            | MW    | OW            | MW            | MW ↑                      | MW ↑             |
| Energy                      | MW ↓                          | MW ↓           | OW-                                      | OW                             | MW    | MW+           | MW ↓          | MW ↓                      | MW ↓             |
| Financials                  | UW                            | UW             | UW+                                      | UW                             | MW    | UW            | UW            | MW-                       | UW               |
| Health Care                 | OW ↑                          | OW ↑           | MW                                       | OW-                            | MW    | OW            | MW+           | OW                        | MW+              |
| Industrials                 | MW                            | UW+            | UW+                                      | MW                             | MW    | UW            | UW            | UW                        | UW               |
| Information Technology      | MW ↑                          | MW             | MW                                       | MW                             | MW    | MW-           | MW            | MW                        | MW+              |
| Materials                   | MW                            | MW             | MW ↓                                     | OW                             | UW+   | MW            | OW            | MW                        | MW ↓             |
| Telecommunications Services | MW                            | MW             | UW+                                      | MW+                            | MW    | MW+           | UW            | UW+                       | MW               |
| Utilities                   | MW+                           | OW             | OW                                       | MW+                            | OW    | UW+           | OW            | OW                        | OW               |
| <b>AC World Regions</b>     | UW                            | MW             | MW                                       | MW-                            | MW    | UW            | MW+           | OW-                       |                  |

**OW:** Overweight; **MW:** Market-weight; **UW:** Underweight  
**+**: On Technical Upgrade Alert; **-**: On Technical Downgrade Alert  
**KEYS:** ↑ - Just Upgraded; ↓ - Just Downgraded;

This Matrix divides the MSCI universe into eight geographic regions, with one column corresponding to each: For the European and neighboring regions, the United Kingdom, Developed Europe excluding U.K., and Emerging Europe/MidEast/Africa; for the Asian/Pacific region, Japan, Developed Pacific excluding Japan, and Emerging Asia; and for the Americas, North America and Emerging Latin America.

Within each region’s column, the ten cells represent the ten regional sectors, which are measured against the region’s benchmark index, all in local currency terms. Each regional sector’s performance versus the regional benchmark is the basis of our relative ratio studies. (Please refer to the Sector Recommendations by Region section of this publication for these studies.)

The letters in each cell represent each regional sector’s rating: **OW** for **Overweight** (with a dark green background), **MW** for **Market weight** (amber background), and **UW** for **Underweight**. A plus sign (+) after the letters denotes a “Technical Upgrade Alert” for the sector, while a minus sign (-) indicates a “Technical Downgrade Alert.” An up arrow (↑) implies an actual recent upgrade; A down arrow (↓) means a recent downgrade.

The center portion of the matrix is 8 (regions) x 10 (sectors) in size. To the right of this main section is a column for the World sectors’ ratings versus the AC World (Free) index (as presented in the *Global Sectors Relative Ratings List* section), which is a summary of each sector’s standing across the regions.

The bottom row of the matrix shows each region’s rating versus the AC World (Free) benchmark. Unlike the rightmost column, however, this row has no summarizing property. For instance, an **Overweight** rating for Japan versus AC World has no bearing on Japanese sectors’ ratings, which are measured against MSCI Japan.

More than just a quick overview of the regional sector ratings, the Matrix can illustrate pockets of strength within the global investment universe. A higher concentration of green and amber boxes across the row indicates a more uniformly attractive sector, conveying more information than one sole **Overweight** rating for the World Financials can.

We hope that the readers will find the addition of the Regional Matrix helpful in their investment allocation decisions.

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## MSCI Sector Recommendations by Regions – Europe

Recommendations Based on Sector’s Relative Performance to the Respective MSCI Regional Index in Local Currency Terms  
Data through 7/16/08

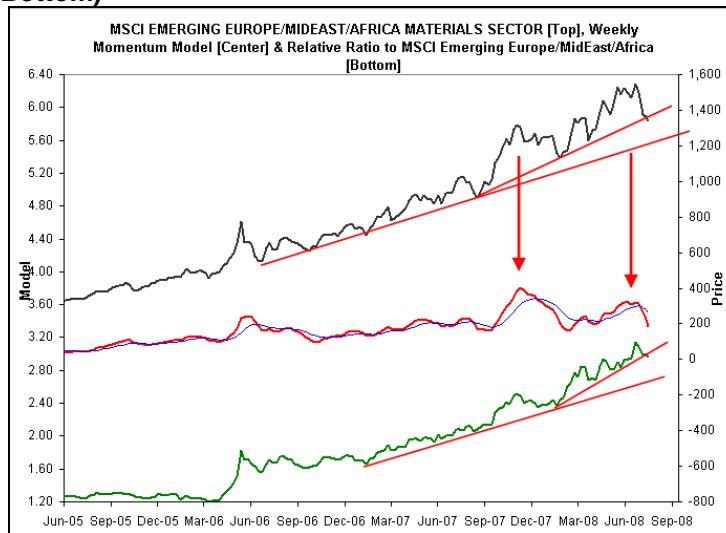
|                                    | Overweight                 | Market weight  | Underweight  |
|------------------------------------|----------------------------|--|--|
| Developed Europe ex. U.K.          | Health Care ←              | → Energy<br>Industrials<br>Information Technology ←<br>Materials<br>Telecommunications Services<br>Utilities (+) | Consumer Discretionary<br>Consumer Staples<br>Financials                                       |
| United Kingdom                     | Health Care ←<br>Utilities | → Energy<br>Information Technology<br>Materials<br>Telecommunications Services                                   | Consumer Discretionary<br>Financials<br>Industrials (+)  |
| Emerging Europe/Middle East/Africa | Energy (-)<br>Utilities    | Consumer Staples<br>Health Care<br>Information Technology<br>→ Materials   | Consumer Discretionary<br>Financials (+)<br>Industrials (+)<br>Telecommunications Services (+) |

← Designates Upgrade      → Designates Downgrade      (+) On Technical Upgrade Alert  
 ←← Double Upgrade      →→ Double Downgrade      (-) On Technical Downgrade Alert

### SECTOR HIGHLIGHT – EUROPE

MSCI Emerging Europe / Mideast / Africa Materials sector, rated **Overweight**, was downgraded to **Market weight** this week. Although price is still in a long-term uptrend, RS is breaking a shorter-term uptrend, and our *weekly* momentum model turned negative, leaving a negative divergence in place versus price, which achieved a new high relative to the December 2007 peaks (see Figure 6). Underperformance may continue over the near term, accompanied by further price attrition. Positions should be adjusted accordingly.

Figure 6. MSCI Sector (Top), Weekly Momentum Model (Center) & Relative Ratio to MSCI Emerging Europe/Mideast/Africa (Bottom)



Data source: Bloomberg

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## MSCI Sector Recommendations by Regions – Asia Pacific

Recommendations Based on Sector’s Relative Performance to the Respective MSCI Regional Index in Local Currency Terms

Data through 7/16/08

|                                    | Overweight                             | Market weight   | Underweight  |
|------------------------------------|--|---|--|
| <b>Developed Pacific ex. Japan</b> | Energy<br>Health Care (-)<br>Materials | Consumer Staples (-)<br>Industrials<br>Information Technology<br><b>Telecommunications Services (+)</b><br>Utilities (+)        | Consumer Discretionary<br>Financials                                 |
| <b>Japan</b>                       | Utilities                              | Consumer Staples<br>Energy<br>Financials<br>Health Care<br>Industrials<br>Information Technology<br>Telecommunications Services | Consumer Discretionary<br><b>Materials (+)</b>                       |
| <b>Emerging Asia</b>               | Consumer Staples<br>Health Care        | Energy (+)<br><b>Information Technology (-)</b><br>Materials<br><b>Telecommunications Services (+)</b>                          | Consumer Discretionary<br>Financials<br>Industrials<br>Utilities (+) |

← Designates Upgrade      → Designates Downgrade      (+) On Technical Upgrade Alert  
 ←← Double Upgrade      →→ Double Downgrade      (-) On Technical Downgrade Alert

In addition to those noted in the table above, the following changes were made to our MSCI Sector Recommendations by Region – Europe technical ratings:

In Japan, Energy was taken off a “technical upgrade alert” (TUA).

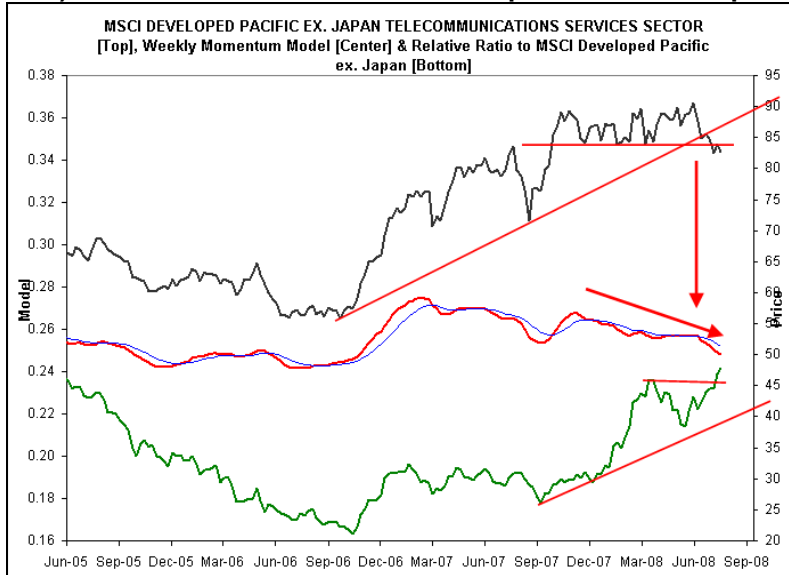
### SECTOR HIGHLIGHT – ASIA / PACIFIC

MSCI Developed Pacific ex. Japan **Telecommunications Services** sector, rated *Market weight*, was put on a TUA this week *due only* to RS breaking out to a multi-year high. *However*, the momentum model is on a *Sell* and has been declining versus price over the past year as might therefore be expected. The absolute price trend is breaking support, keeping us suspicious of any upside price potential. Thus, the RS high appears more indicative of *price going down less*, at least for the time being.

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Figure 7. MSCI Developed Pacific ex. Japan Telecommunications Services Sector (Top), Weekly Momentum Model (Center) and Relative Ratio to MSCI Developed Pacific ex. Japan (Bottom)



Data source: Bloomberg

## MSCI Sector Recommendations by Regions–The Americas

Recommendations Based on Sector’s Relative Performance to the Respective MSCI Regional Index in Local Currency Terms

Data through 7/16/08

|                        | Overweight               | Market weight   | Underweight  |
|------------------------|--------------------------|---|--|
| North America          | Materials<br>Utilities   | Consumer Staples<br>→ <b>Energy</b><br><b>Health Care (+)</b><br>Information Technology               | Consumer Discretionary<br>Financials<br>Industrials<br>Telecommunications Services         |
| Emerging Latin America | Health Care<br>Utilities | <b>Consumer Staples</b> ←<br>→ <b>Energy</b><br>Financials (-)<br>Information Technology<br>Materials | <b>Consumer Discretionary (+)</b><br>Industrials<br><b>Telecommunications Services (+)</b> |

← Designates Upgrade      → Designates Downgrade      (+) On Technical Upgrade Alert  
 ←← Double Upgrade      →→ Double Downgrade      (-) On Technical Downgrade Alert

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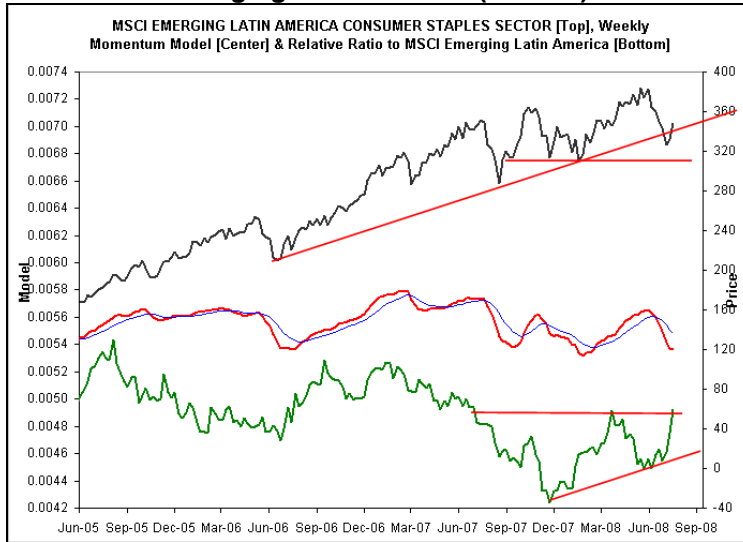
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## SECTOR HIGHLIGHT – THE AMERICAS

The **MSCI Emerging Latin America Consumer Staples** sector was upgraded to **Market weight** this week. RS broke out to a one-year high, and price, although briefly violating a two-year uptrend, has turned up at a higher low, thus far and is still holding above support. The *weekly momentum model* remains on a *Sell*, but may be trying to stabilize.

Lori Altenburger

**Figure 8. MSCI Emerging Latin America Consumer Staples Sector (Top), Weekly Momentum Model (Center) and Relative Ratio to MSCI Emerging Latin America (Bottom)**



Data source: Bloomberg

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## MSCI Industry Group Recommendations

Recommendations Based on Relative Performance to the MSCI All Country World Index (Free) and Technical Momentum Models in Local Currency Terms

Data through 7/16/08

| Overweight  | Market weight   | Underweight   |
|---|---|---|
| <b>Pharmaceuticals &amp; Biotechnology</b> ←<br>Utilities | → <b>Energy</b><br>Food & Staples Retailing (+)<br><b>Food Beverage &amp; Tobacco</b> ←<br>Health Care Equipment & Services<br>→ <b>Materials</b><br>Semiconductors & Semi. Equip. (-)<br>Software & Services (+)<br>Technology Hardware & Equipment<br>Telecommunications Services<br>Transportation | Automobiles & Components<br>Banks<br>Capital Goods<br>Commercial Services & Supplies (+)<br>Consumer Durables & Apparel<br>Consumer Services<br>Diversified Financials<br>Household & Personal Products (+)<br>Insurance<br>Media<br>Real Estate<br>Retailing |

|    |                    |    |                      |     |                              |
|----|--------------------|----|----------------------|-----|------------------------------|
| ←  | Designates Upgrade | →  | Designates Downgrade | (+) | On Technical Upgrade Alert   |
| ←← | Double Upgrade     | →→ | Double Downgrade     | (-) | On Technical Downgrade Alert |

In addition to those noted in the table above, the following changes were made to our MSCI Industry Groups Recommendations technical ratings:

Transportation was taken off a TUA.

### MSCI Pharmaceuticals & Biotechnology Upgraded to *Overweight*.

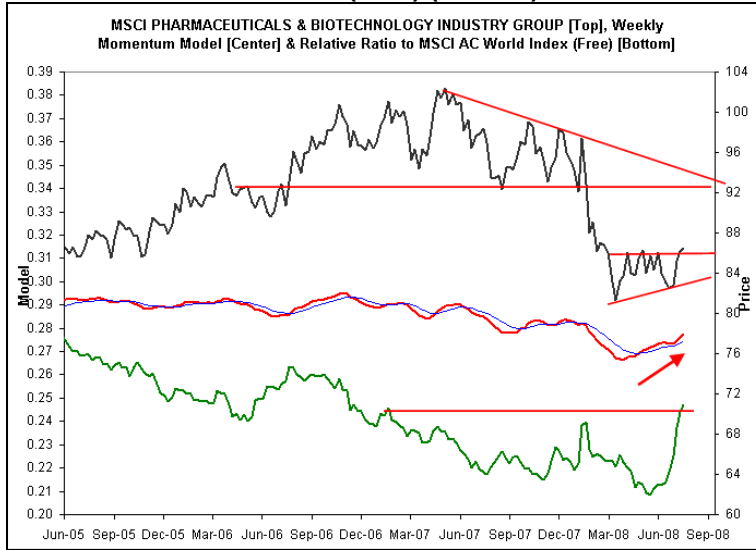
**MSCI Pharmaceuticals & Biotechnology** depicts an intriguing RS profile, just this week breaking out to a 1-½ year high! The weekly momentum model has turned positive and is rising; price is lifting through a minor base, stabilizing near term. Due to these technical improvements, we upgraded the group to **Overweight** this week. We would tread carefully, though, given the fact that the absolute price trend still remains in a long-term downtrend but could nevertheless rally into the next resistance level near 92. Nevertheless, this industry group may provide a defensive haven.

Lori Altenburger

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Figure 9. MSCI Pharmaceuticals & Biotechnology Industry Group (Top), Weekly Momentum Model (Center) & Relative Ratio to MSCI AC World Index (Free) (Bottom)



Data source: Bloomberg

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**LOUISE YAMADA TECHNICAL RESEARCH ADVISORS, LLC**  
**530 Fifth Avenue – 25<sup>th</sup> Floor**  
**New York, NY 10036**  
**(212) 944-6200**

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