

Market Musings

01/23/2009 After the Close



A mixed day to end the week.

4:34 p.m. EST 01/23/09

Issues	NYSE	Nasdaq	Alternext
Advancing	1,663	1,268	259
Declining	1,386	1,406	241
Unchanged	104	157	66
Total	3,153	2,831	566

Issues at	NYSE	Nasdaq	Alternext
New 52 Week High	2	5	1
New 52 Week Low	133	155	12

Share Volume	NYSE	Nasdaq	Alternext
Total	1,420,130,753	2,177,387,599	10,626,608
Advancing	935,358,970	1,629,808,610	6,826,200
Declining	476,676,713	508,083,948	2,633,608
Unchanged	8,095,070	39,495,041	1,166,800

The market opened gap down and spent the rest of the day trying to recover. At the close, only the DJIA remained in the red. Volume on both exchanges fell from Thursday. However, for the week, the markets lost about 2%. The following chart shows the damage for the ytd:

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Market Summary				
	12/31/08	1/23/09	Change	%
AMEX Comp	1397.53	1,361.92	-35.6	-2.5%
DJIA	8776.39	8,077.56	-698.8	-8.0%
HUI	302.41	304.03	1.6	0.5%
Nasdaq 100	1211.65	1,175.89	-35.8	-3.0%
Nasdaq Comp	1577.03	1,477.29	-99.7	-6.3%
NYSE Comp	5757.05	5,195.55	-561.5	-9.8%
Russell 2000	499.45	444.36	-55.1	-11.0%
S&P 400	538.28	501.40	-36.9	-6.9%
S&P 500	903.25	831.95	-71.3	-7.9%
S&P 600	268.73	235.42	-33.3	-12.4%

Bargain hunters were out in force and helped tech, energy and financial stocks to move higher. At the opening, losses of more than 2% were seen in most averages. Crude oil was up almost 25% in the last month. The U.S. dollar index appears to be struggling at a resistance level.



Geithner looks to be confirmed as Treasury Secretary. Goldman Sachs just upped their estimate for treasury debt issuance to \$2.5 trillion in FY 2009. Perhaps, the new Treasury

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Secretary will be begging the Chinese shortly to buy our debt at 6% rates for 2 years. Better be nice to the people with the gold.

There was a dearth of economic news today ... at least, a day of relief rather than another round of dismal results.

The HUI index has now doubled since its low of 150 back in October 2008. Today's price action was very positive. Gold moved back over \$900 today, a three week high. Guess the PPT was asleep.



Tomorrow, the Stock Selection Strategies workshop here in Dallas is sold-out and in the interest of time, today's Musings will be short. The same workshop will be held in Houston on February 13th. Seats are still available for that event.

We made no changes in the portfolios today. Have a nice weekend.

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Today's market action could have been worse.

Markets Diary				5:48 p.m. EST 01/22/09			
Issues	NYSE	Nasdaq	Alternext				
Advancing	691	692	190				
Declining	2,395	2,068	359				
Unchanged	81	126	63				
Total	3,167	2,886	612				
Issues at							
New 52 Week High	2	6	1				
New 52 Week Low	72	102	5				
Share Volume							
Total	1,544,799,138	2,298,947,090	9,452,745				
Advancing	339,313,768	393,297,148	3,325,000				
Declining	1,194,320,970	1,889,073,407	5,086,345				
Unchanged	11,164,400	16,576,535	1,041,400				

The market tried to recover in the afternoon after breaking the 8,000 level again on the DJIA but failed. Volume on the big board declined from yesterday while the NASDAQ was up. However, declining issues swamped advancing ones on both exchanges.

Economic news today did little for the market's mood. MBA's data for the Jan. 16 week were mixed, led by a 2.5 percent rise in the purchase applications index to 303.1 but including a 12.4 percent dip in the refinancing index. Housing starts fell 15.5% in December after a 15.1% drop in November. December was down 45% on a y/y basis. Permits continued to fall and are down 50.6% y/y. Another disturbing factor is that after 11 straight weeks of declining mortgage rates, FRE's primary mortgage market survey released today showed that 30 year fixed-rate mortgages averaged 5.12% this week, up from 4.96% a week ago. It would appear that the housing situation is still difficult.

Housing inventory as reported is about 10 months. **However, you have to understand that overall inventory is considerably higher ... (new homes + existing homes + REO-bank-owned homes + homes people want to sell but know they can't + coming walk away homes. That total is probably at least two years.**

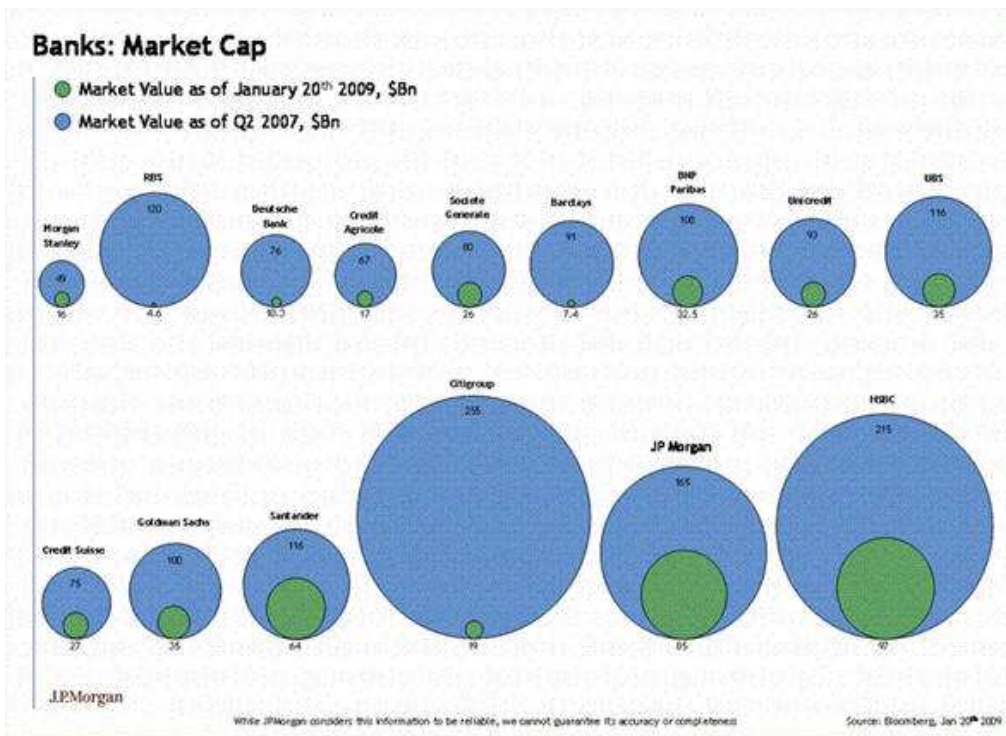
New jobless claims rose to the previous peak at 589,000 loses in the January 17th week and continuing claims rose even more bringing the total to 4.607 million, the highest level since the early 1980's. The continuing job losses along with those announced this

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week point to a very difficult January jobs report next month. Several states have now exhausted their state unemployment funds and are trekking to Washington to seek loans to continue the payouts.

By any measure, today's economic news should have the markets headed down ... but a rally appeared about noon from out-of-nowhere on no substantial news that finally ran of out steam about 2 p.m.

John Thain's exit from Bank of America following the huge unexpected loss and the expenditure of \$1.2 million on his office renovation might have been a pink slip ... will we ever know? Will Bank of America's CEO Lewis be next? Citi is also getting a new head ... sounds like musical chairs to me ... how about you? Do you wonder if any of the chief executives have a clue about what is happening to their company. The following chart from Bloomberg and JPM suggests that the current management of many financial institutions ought to be ousted by their shareholders.



I became a CEO first at age 26 and found that by working hard and trying to stay on top of the company, I was still often the last to learn of a major problem facing the company. Could the same thing be happening in these too-big-to-fail financial institutions?

Yesterday's uplift was helped by IBM's earnings report that was interesting and reports that several BAC executives and Jamie Dimon of JPM had purchased shares in their companies recently. Pardon me, but should anyone expect that these individuals know anything about stock prices when they were responsible for paying exorbitant prices for those recent acquisitions which have cost their shareholders billions in value.

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Jim Bianco noted the DJIA is outperforming other indices because Dow Jones won't replace stocks under \$10, which they are supposed to do. Because the DJIA is price weighted, the index moves 7.96 points for each point a DJIA stock moves. This limits the downside because C, GM, BAC and AA are under \$10. GE could be under \$10 soon.

Jim notes that if all four DJIA stocks under \$10 went to zero, the DJIA would lose only 157.1 points. If C, BAC, AXP and JPM went to zero, the DJIA would lose 332.13 points. If C, BAC, GM, AA, JPM, AXP and GE all went to zero, the DJIA would lose just 528.63 points.

As I have often said, you have to understand how the data is massaged before you can understand what the index is telling you.

The rhetoric of Treasury Secretary Nominee Geithner is interesting ... [calling for a strong U.S. dollar and proposing a \\$2 trillion dollar budget deficit](#). Somehow that does not seem possible to this old farmer ... and not only do the Chinese but a lot of other investors in U.S. bonds are worried about the safety of the purchasing power of the assets which they have salted away in those securities. Geithner's failure to pay taxes suggests that he has little respect for the laws of this nation. If he wins confirmation, it will say a lot about the ethics of Congress as well.

The LIBOR rate is down to 1.16% while the yield on the 10 year Treasury is headed higher at 2.58%. The U.S. dollar index was off 10 cents to close at 85.50. Crude oil ended slightly higher today.

A speech by the Swiss National Banks' Vice Chairman Hildebrand suggests that the Swiss franc will be debased rather than accepting any economic contraction in that country. Investors holding Swiss franc's as a hedge against the dollar should now consider switching to gold and/or the yen.

We made no changes in the portfolios today. However, we did shift some of our cash reserves into yen.

01/21/2009 After the Close



After yesterday, a nice bounce!

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Markets Diary		4:57 p.m. EST 01/21/09		
Issues	NYSE	Nasdaq	Alternext	
Advancing	2,462	2,037	303	
Declining	632	693	183	
Unchanged	64	116	61	
Total	3,158	2,846	547	
Issues at				
New 52 Week High	2	4	3	
New 52 Week Low	89	149	8	
Share Volume				
Total	1,739,401,727	2,133,538,107	12,838,256	
Advancing	1,548,864,377	1,857,316,622	8,542,140	
Declining	186,303,230	254,781,848	3,273,816	
Unchanged	4,234,120	21,439,637	1,022,300	

However, we did not recover yesterday's losses today. The indices are still lower than Friday. Volume on the Nasdaq was up about 10% while the NYSE was almost flat once again. Still advancing volume on both exchanges clearly was with the advancing issues and advancing shares as bargain hunters were out in force.

With the financials clearly oversold following yesterday's throw-out-the-bathwater mindset, they helped turn the market around. Northern Trust had higher results than forecast which helped their shares increase by 31%. However, I doubt if today's bounce will confirm that a bottom is in for the financial sector.

IBM also helped by reported higher-than-expected earnings. All 10 economic sectors finished higher as the bounce was evident throughout the market.

Retail sales data were mixed as Redbook posted a y/y change of 2.3% while the ICSC-Goldman Sach's only were down 1.8% y/y. However, the w/w ISCO was positive showing an increase of 1.1% on same store sales in the January 17th week ... a welcome change.

After yesterday's problems in England, Jim Rogers told Bloomberg Television: **"I would urge you to sell any sterling you might have. It's finished. I hate to say it, but I would not put any money in the UK."**

We made no changes in the portfolios today.

01/20/2009 After the Close

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Not a good start for Obama's stewardship.

Markets Diary			
6:05 p.m. EST 01/20/09			
Issues	NYSE	Nasdaq	Alternext
Advancing	310	403	186
Declining	2,822	2,395	383
Unchanged	57	103	53
Total	3,189	2,901	622
Issues at			
New 52 Week High	0	6	0
New 52 Week Low	116	146	11
Share Volume			
Total	1,695,927,770	1,996,363,559	12,661,019
Advancing	51,723,120	65,204,426	3,015,900
Declining	1,642,130,570	1,925,237,447	7,822,119
Unchanged	2,074,080	5,921,686	1,823,000

The markets started down at the open and ended the day near their lows. At least, the volume did not increase significantly. Thanks to the debacle at Royal Bank of Scotland with its \$40 billion loss and 70% drop in its market cap yesterday, the financials got creamed, and the long Treasury bonds sold off. State Street disclosed unrealized bond losses that may cause the world's largest money manager for institutions to raise capital and lost 50% of its market cap today.

Most investors attention may have been on the inauguration spectacle ... the most expensive in history by far ... but unlike Bush's previous inauguration ... there were almost no articles criticizing the spending despite the rough economy. The indices greeted the Obama Presidency with the worst inauguration stock market performance ever with the DJIA losing 4%, the S&P 500 falling 5.3%, and the NASDAQ tanking 5.8%. The NYSE Composite was down 6.1%. I guess you can blame it on President Bush but if the market is really a forward-looking filter, the future does not look good.

Up to now, President Obama has been able to use oratory to sway the voters ... today, reality will begin to seep into the consciousness of the public. The Congressional Budget Office increased its budget deficit projection to \$1.18 trillion for FY2009 and Goldman Sachs expects the U.S. Treasury to attempt to borrow a record \$2 trillion compared to \$892 billion in FY2008.

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Nouriel Roubini, the NYU Professor, is now suggesting that with U.S. financial losses headed toward \$3.6 trillion, the banking system is "effectively insolvent." Dr. Roubini makes a comment that should be obvious to most observers when the net required reserves of the Federal Reserve System were negative during most of 2008.

The money-center and bullion banks are in trouble. JPM's derivative book is simply unreal and with the State Street news, could both C and JPM be candidates for nationalization. Certainly, JPM's loss of 20.7% in today's trading has to be of concern to investors.



C's loss of 20% and a close at \$2.80 is certainly a major problem for most of its institutional shareholders. BAC closed just at \$5.10 today which puts it in serious trouble with institutional shareholders.



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The stock performance of major banks in 2009 during the first 20 days is simply frightening and the numbers after last year's drastic fall in value.

Bank of America -77%
Wells Fargo Bank -60%
Citigroup -39%
JP Morgan -58%
Barclays -42%
Deutsche Bank -52%

The FDIC closed two additional small banks on Friday. In 2008, 25 banks were seized by officials as opposed to 3 in 2007. Anyone want to bet on how many will go under this year?

You have to wonder when interest rates will start rising in earnest. Long-bonds are at historic lows and look like a shorting opportunity is here. South Korea's National Pension Service is looking to begin reducing its U.S. Treasury holdings.

The dollar, crude and gold both were higher in today's trading.

We sold our QQQQ's and SPY's in the Aggressive portfolio and went short shortly after the open today. We also closed our positions in MA and V. There were no other changes in the portfolios today.

01/19/2009

The markets were closed for Martin Luther King Holiday

01/16/2009 After the Close



A weak morning, afternoon rally but volume remained low.

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Markets Diary		6:10 p.m. EST 01/16/09		
Issues	NYSE	Nasdaq	Alternext	
Advancing	2,029	1,518	372	
Declining	1,065	1,226	210	
Unchanged	91	152	57	
Total	3,185	2,896	639	
Issues at				
New 52 Week High	4	6	6	
New 52 Week Low	37	54	11	
Share Volume				
Total	1,609,421,032	2,241,460,435	11,262,550	
Advancing	1,017,170,900	1,519,997,033	7,347,970	
Declining	574,209,012	643,006,795	2,951,080	
Unchanged	18,041,120	78,456,607	963,500	

Although advancing issues and volume dominated today's trading, it did not feel like a market that was about ready to lift out of the trading channel which we have been in for a few weeks. All of the major indices remain in the red for the year despite the results of the last two trading days.

Market Summary				
	12/31/08	1/16/09	Change	%
AMEX Comp	1397.53	1,383.19	-14.3	-1.0%
DJIA	8776.39	8,281.22	-495.2	-5.6%
HUI	302.41	274.81	-27.6	-9.1%
Nasdaq 100	1211.65	1,198.14	-13.5	-1.1%
Nasdaq Comp	1577.03	1,529.33	-47.7	-3.0%
NYSE Comp	5757.05	5,387.50	-369.5	-6.4%
Russell 2000	499.45	466.45	-33.0	-6.6%
S&P 400	538.28	516.75	-21.5	-4.0%
S&P 500	903.25	850.12	-53.1	-5.9%
S&P 600	268.73	247.89	-20.8	-7.8%

The Obama partisans in Congress are sure that a \$885 billion additional stimulus will reverse the deleveraging process and put the country firmly on the road to socialism. Of course, they are not concerned with adding \$2 trillion additional debt onto the backs of the taxpayers.

The entire bailout is nothing but stupidity and cronyism at work by individuals who have little faith in the capitalistic system. People that work hard, save, and read their contracts with banks and other financial institutions are getting royally shafted ... I am afraid that the republic is in deep trouble.

The government extended to Bank of America an additional \$138 billion which includes a cash payment of \$20 billion and loan guarantees \$118 billion. The company's dividend was lowered to \$.01 vs. \$32. The government's actions were taken to help the bank absorb loan losses associated with the Merrill acquisition, BoA CEO Lewis said it was in

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the best interest of the country and their shareholders to go forward with the original terms of the deal. **The bank announced that they lost \$1.79 billion in the fourth quarter which does not include a \$15.3 billion loss at Merrill.** Why aren't not the shareholders of Bank of America screaming for the heads of the bank and the board of directors. What happened to the concept of due diligence and responsibility?

The following charts of JPM, BAC and C should be a warning to every depositor and/or shareholder of these institutions.



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There were rumors heard on several blogs that BAC and C might be nationalized over the weekend or that a bank holiday might be imposed. Remember that Monday is a national bank holiday ... perhaps, obtaining a little extra cash in the next few hours would be prudent ... after all, going to the Obama inauguration is bound to be expensive.

Reduction of consumer spending helped the consumer price index to fall while industrial production took a bath. Falling energy prices enabled consumer sentiment to edge slightly higher.

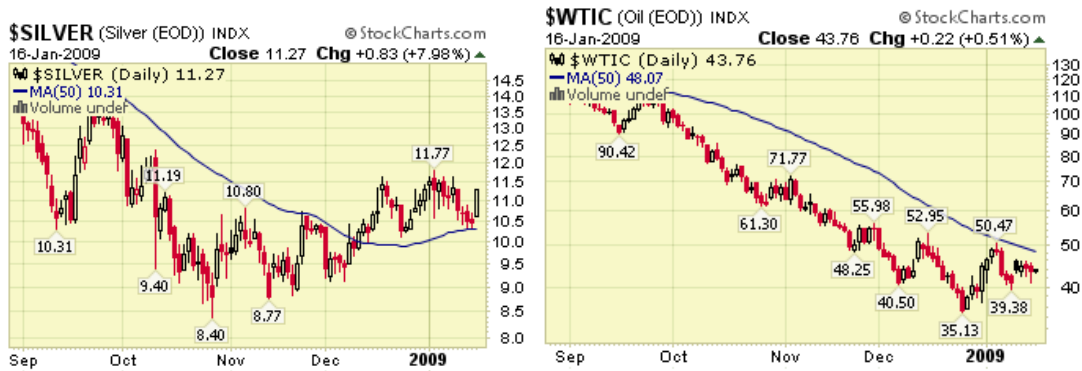
Foreign interests reduced their holdings of long-term U.S. securities in November by \$21.7 billion. The reductions were from both governments and individuals. Looks like the U.S. Treasury might be in a wee bit of trouble trying to finance over \$2 trillion of new debt in this fiscal year if foreign investors start liquidating their U.S. holdings.

Net capital inflows in November to the U.S. fell to \$56.8 billion from \$260.6 billion in October 2008.

The U.S. dollar index took a fall today dropping 50 cents. Gold moved higher closing at 842.70. Silver also moved up to 11.27. Crude oil was slightly higher today.



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We made no changes in the portfolios today. Have a great weekend!

Fred Richards
Strategic Investing

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Strategic Investing

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