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Market Musings

02/06/09 After the Close

Banking on the Stimulus package

Markets Diary 5:50 p.m. EST 02/06/09

Issues	NYSE	Nasdaq	Alternext
Advancing	2,558	2,056	359
Declining	550	695	182
Unchanged	71	155	86
Total	3,179	2,906	627
Issues at			
New 52 Week High	7	6	1
New 52 Week Low	24	49	5
Share Volume			
Total	1,609,358,119	2,412,473,147	10,429,888
Advancing	1,477,271,019	1,994,634,684	6,088,770
Declining	122,673,400	400,392,174	2,470,118
Unchanged	9,413,700	17,446,289	1,871,000

Investors hoped that the stimulus package might get to Obama's desk next week and moved the market higher according to the TV guru's. The dismal jobs report which the Ministry of Truth concocted and reported unemployment climbing to 7.6% (a 16 year high) failed to dispel investors hopes for the stimulus package revitalizing the economy. The amount of lost jobs by the Ministry of Truth was the largest in 34 years.

Or perhaps, today's upward market was simply short covering in advance of the announcement on Monday about the banks and the possible passage of the economic stimulus package. The NASDAQ moved into positive territory for the year today although volume on both the NYSE and NASDAQ dropped.

Of course, the $930 billion stimulus package contains less than 10% which might stimulate the economy this year according to the Congressional Budget Office. Let us call it for what it is ... **"pork and payoffs to the Democratic parties constituents."** National Public Radio suggested that earmarks were not in the package **... "I disagree the package is nothing but pork ... not earmarks."**

President Obama declared that “A failure to act and to act now will turn the financial crisis into catastrophe and guarantee a longer recession.” Does anyone in Congress actually believe that an extra $500 per individual or $1,000 per couple will make a real difference in consumer spending. The vast majority of the pork bill goes for expanded funding of various social programs and special interest groups resulting in more government employees. If you believe that the $930 billion is the last bailout, can I interest you in buying a land-bridge between Canada and Great Britain?

Well, optimism is well and good but the reality is that the economy is sinking fast and the past record of government interventions is less than encouraging. Politicians and bureaucrats are famous for doing something and forgetting about the "law of unintended consequences" which generally rears its head to thwart their plans.

Sweeping trillions of dollars of bad loans into a "bad bank" does not mean that the losses are not real. If the Treasury opts to "guarantee the losses" still is a bad remedy for taxpayers well-being. The Wall Street Journal carried an article today suggesting that the new bank bailout would cost only $2 trillion. Does anyone have a clue?

Roubini says $3.5 trillion and Fortune Magazine estimates $4 trillion ... There is still no real plan to resolve this crisis. Until the derivatives are settled and toxic assets written down to realistic values even if they are on the FED's books, the crisis will continue to fester and grow. **Washington just keeps throwing money at the perceived problem hoping to save their campaign contributors and expecting a different result this time ... that is the definition of "insanity."**

Either way, the Treasury response has left the management teams intact that were responsible for the mess ... rather than firing them and prosecuting them for fraud and malfeasance. There used to be a concept called "financial prudence and responsibility" for bankers and others entrusted with depositors funds. Perhaps, we need to return to that concept.

The Treasury will try to fund $67 billion next week ... and interest rates are moving higher in response to the impending offerings. In February, a total of $152 billion is expected to be auctioned. At what point, will the auctions fail ... stay tuned!

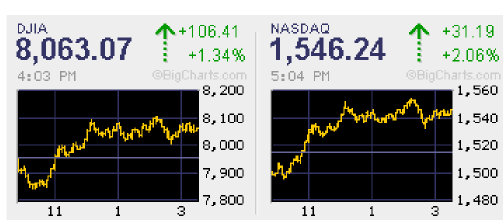
Or maybe, the FED will monetize the debt. Of course, the real question is whether the FED is solvent today. I would urge you to read and study the following article about the FED and irredeemable paper currency, e.g., your Federal Reserve notes ... **The Insolvency of the FED.**

Will the U. S. Treasury be able to finance all the upcoming debt? Since January 13th, the LIBOR rate has risen from a low of 1.09% to 1.26% today. The 10 year bond yield bottomed at 2.07% on December 17th and has now risen almost 90 basis points. Credit default spreads on U.S. debt have also increased as investors worry about inflation and the increasing amount of U.S. borrowing needs. Moreover, the average length of Treasury debt has fallen from 60-70 months in late 1980's and early 1990's to less than 48 months today. The bureaucrats at Treasury failed to take advantage of historic low interest rates to lengthen the average maturity of Treasury debt ... simply a terrible decision.

Interest rates continue to move higher as the yield on the 10 year Treasury note approaches 3%. The U.S. dollar fell after Japan intervened in the currency market yesterday and closed at 85.34.

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

02/05/09 After the Close



Riding a roller-coaster of indecision!

Markets Diary 5:50 p.m. EST 02/05/09

Issues	NYSE	Nasdaq	Alternext
Advancing	1,955	1,786	321
Declining	1,111	944	243
Unchanged	100	155	64
Total	3,166	2,885	628
Issues at			
New 52 Week High	4	4	2
New 52 Week Low	124	110	10
Share Volume			
Total	1,619,228,459	2,535,094,119	11,586,995
Advancing	1,168,485,730	2,112,258,725	6,651,300
Declining	429,222,829	405,428,674	3,979,885
Unchanged	21,519,900	17,406,720	955,810

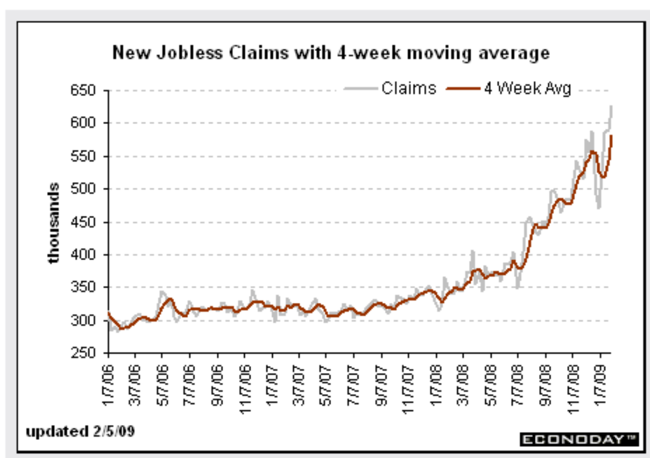
For once, higher volume helped the DJIA close above the 8,000 level. After opening down, the major indices started to rally and closed near their highs for the day. Financials helped as investors were hopeful that a bad bank might be forthcoming. It is obvious that they have little understanding of how the losses won't just go away.

Senator Dodd, the Chairman of the Senate Banking committee, illustrated his vast knowledge of the financial sector by suggesting that if the market-to-market was modified, banks hurt by write-downs could suddenly find profits. Accounting profits maybe but they would be illusory.

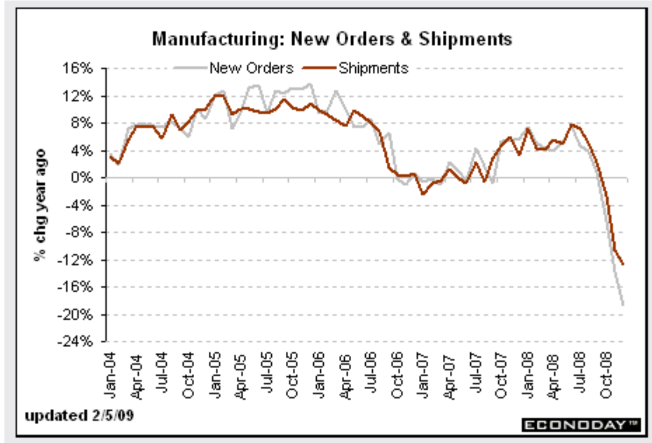
Geithner, the tax cheater, who could not get a job at the IRS but now is the head of the U.S. Treasury is expected to put forth a comprehensive plan to help restore the financial system next week. It is obvious that the current administration does not believe in capitalism and will simply try to sweep the mess under a rug funded by taxpayers. Moreover, the current administration as well as the Bush administration simply has no understanding of the wealth destruction they are unleashing. If you think the $3.5 trillion is all of the losses, you are an extreme optimist.

There is a new exemption you can now claim to avoid penalties if you have to pay penalties when you refile your IRS returns. It is the "Geithner exemption."

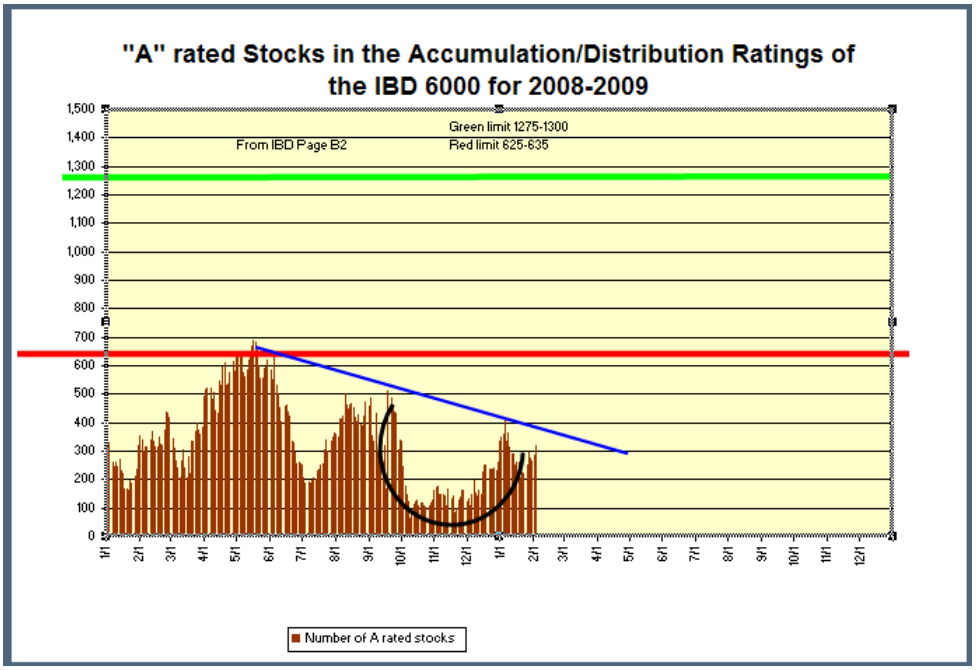
Weekly initial jobless claims were up for the fourth straight week, this time climbing 35,000 to 626,000 for the week ending Jan. 31. The number exceeded the 580,000 claims that were expected, and was the highest level since 1982. Continuing claims are the highest on record, up 20,000 in the Jan. 24 week to 4.788 million.



Factory orders continue to decline. New factory orders fell 3.9 percent in December following a downward revised 6.5 percent fall in November (-4.6 percent first reported). New orders for durable goods fell 3.0 percent in December, revised down from an advanced reading in last week's durable goods report of -2.6 percent.

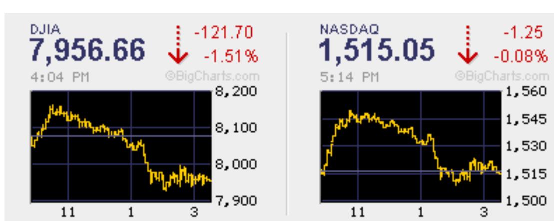


As noted yesterday, the major averages are trading in a relatively tight range. However, the number of A's in the IBD® 6000 database appear to be moving higher and you might even say that they are setting up a cup as shown below.



Since the A's are improving, we decided to add a few stocks to the **Aggressive, Conservative** and **Precious Metals** portfolios today.

02/04/09 After the Close



Undulating about the 8,000 level!

Markets Diary	NYSE	Nasdaq	Alternext
5:15 p.m. EST 02/04/09			
Issues			
Advancing	1,327	1,046	251
Declining	1,723	1,624	241
Unchanged	98	134	67
Total	3,148	2,804	559
Issues at			
New 52 Week High	3	7	2
New 52 Week Low	89	109	9
Share Volume			
Total	1,393,746,305	2,147,483,647	12,293,973
Advancing	564,172,860	1,382,539,604	7,175,260
Declining	821,023,445	849,030,490	4,058,913
Unchanged	8,550,000	30,607,772	1,059,800

The DJIA has moved up and down around the 8,000 level for a few days ... but never seems to make a decision as to its ultimate direction.

The economic news suggests a further decline in the economy during the first quarter 2009. Although the ISM non-manufacturing index rose to 42.9 vs. a revised 40.1 (40.6) in December all of the components remained in negative territory.

Today's MBA purchase index took a steep drop to 261.4 in the latest week suggesting that the pending home index euphoria might be wishful thinking. Also an increase in mortgage rates is also bound to disappoint buyers as well as the FED guru's and policy makers trying to pump life into the housing sector.

The financial sector took it on the chin again as BAC went under $5.00 today. Markopolos, a former money manager, testified before a House committee today and basically called the SEC an incompetent and lazy agency afraid to prosecute or investigate the major players in the financial sector. Its main enforcement actions are directed to minor players. He called for a total revamp of the investigative and regulatory agencies and a reduction of the number of lawyers in the regulatory process. Madoff only got caught because of the financial crisis which prevented him from raising more funds and when the money ran out, the jig was up.

Fitch pointed out today that credit card late payments hit all-time high levels in January according to its Credit Card Index.

The DJIA closed down today at 7,956 while BAC, AIG, GE and JPM all made new lows.

Both the Challenger Job-Cut report and the ADP Employment data suggests that layoffs are increasing which indicates that the January employment number will show a worsening picture. Challenger reported 241,749 layoffs in January (a seven year high) vs. 166,348 the previous month. ADP is looking for private payrolls to fall 522,000 in January versus a revised loss in December of 659,000.

Remember the old adage that he that owns the gold calls the shots. Reuters today had the following:

China, which holds the world's largest foreign exchange reserves, was estimated to have $1.7 trillion in U.S. investments at the end of 2008, including Treasuries and equities, according to a recent report.

China's U.S. portfolio holdings equal just under 40 percent of its gross domestic product, according to the Council of Foreign Relation's Center for Geoeconomic Studies.

Brad Setser and Arpana Pandey, who co-authored the report, wrote that China held close to $900 billion of Treasury bonds (including short-term bills) at the end of the fourth quarter. It also owned between $550-$600 billion of agency bonds, another $150 billion in corporate bonds, $40 billion in U.S. equities, as well as $40 billion in short-term deposits.

In developing the breakdown of holdings and the overall $1.7 trillion estimate, the authors compared the Chinese data on holdings of foreign assets with U.S. data on China's holdings of U.S. assets. Both data sources, however, tend to understate China's true reserves and purchases of U.S. assets.

So they adjusted China's data for "hidden reserves" and likewise adjusted the U.S. Treasury International Capital data for China's purchases through London and Hong Kong.

China's end-2008 currency reserves rose to $1.95 trillion, by far the largest stockpile of foreign exchange in the world.

We made no changes in the portfolios today.

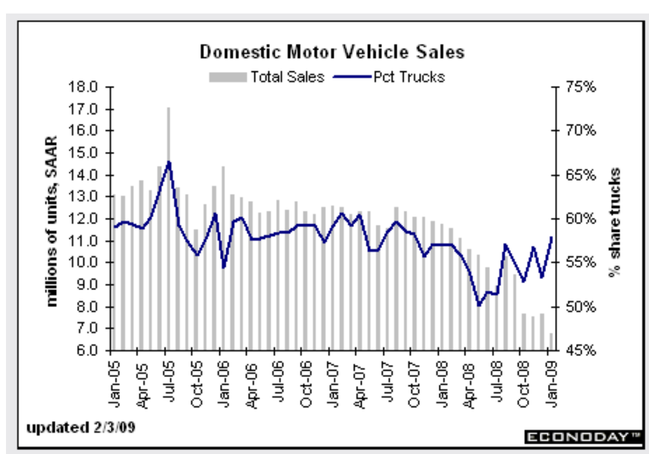
02/03/09 After the Close

The indices went up on slightly higher volume today.

Markets Diary 4:35 p.m. EST 02/03/09

Issues	NYSE	Nasdaq	Alternext
Advancing	1,841	1,524	300
Declining	1,166	1,146	205
Unchanged	117	148	74
Total	3,124	2,818	579
Issues at			
New 52 Week High	3	9	1
New 52 Week Low	90	111	10
Share Volume			
Total	1,354,026,901	2,103,303,306	9,272,266
Advancing	824,461,261	1,484,860,706	5,633,630
Declining	516,663,040	597,811,681	2,501,436
Unchanged	12,902,600	20,630,919	1,137,200

A disaster in January auto sales failed to keep today's market indices from moving higher. **Ford's** January sales declined approximately 40% year-over-year. **General Motors** reported a near 51% year-over-year drop in January sales. **Toyota** reported that January sales decreased more than 34% from the prior year. Overall sales is close to a 27-year low for the automobile industry.



With auto sales way down, it would look like the consumer is cutting back and the retail sales report due later this week should reflect that fact. The auto sales numbers were particularly disappointing as gasoline prices were lower and most auto manufacturers utilized heavy discounts and incentives to build traffic. Unit sales fell to a 6.8 million annual rate whereas two years ago, the industry was running at a 17 million annual pace.

The Treasury said that they expected to borrow $493 billion in the first quarter, exceeding the total stated cash deficit for FY 2008. Guess we can count on a $2 trillion stated cash deficit under Obama in FY 2009. So much for sound fiscal policy.

The Census Bureau estimated that 19 million homes in the U.S. were vacant at the end of 2008. Lower mortgage rates helped the pending home sales index rise 6.3% in January. The $3.3 trillion loss in value in the housing market in 2008 has left many home-owners in a upside-down condition. With jobs being lost at an increasing rate, (Macy's announced 7,000 jobs cuts today) those underwater will probably continue to walk away from their homes. Through December, over 60% of those mortgages that were reworked are back in foreclosure status.

Poor Arnold, California is now broke, halting $3.5 billion in payments. Wonder what state will be next as tax revenues continue to drop throughout the U.S. It is not just the states that are in trouble but cities, counties and tax-revenue districts. Muncipals might be the next sector to take a bath as citizens refuse or are unable to pay their taxes.

In the face of today's economic news, one has to wonder who orchestrated the afternoon rally to push the DJIA back over the 8,000 barrier. Perhaps, it was the Working Group on Capital Markets or otherwise known as the PPT that were the rally's conductor.

We made no changes in the portfolios today.

02/02/09 After the Close

Wandering in the Wilderness as the DJIA breaks down.

Markets Diary — 5:45 p.m. EST 02/02/09

Issues	NYSE	Nasdaq	Alternext
Advancing	1,383	1,486	261
Declining	1,694	1,278	298
Unchanged	86	128	62
Total	3,163	2,892	621
Issues at			
New 52 Week High	4	8	3
New 52 Week Low	132	138	9
Share Volume			
Total	1,319,654,778	1,997,020,351	11,115,742
Advancing	546,129,490	1,261,944,353	5,016,672
Declining	759,910,288	706,564,254	5,492,670
Unchanged	13,615,000	28,511,744	606,400

Volume dried up today as the market meandered up and down. The market ended mixed with the NASDAQ moving higher on a late rally. All indices were down shortly after the open by over 1% and managed to see-saw up and down throughout the day ... without any significant interest and/or direction. The DJIA tumbled below the 8,000 level thanks to GE's performance. How long GE can keep its AAA bond rating is questionable.

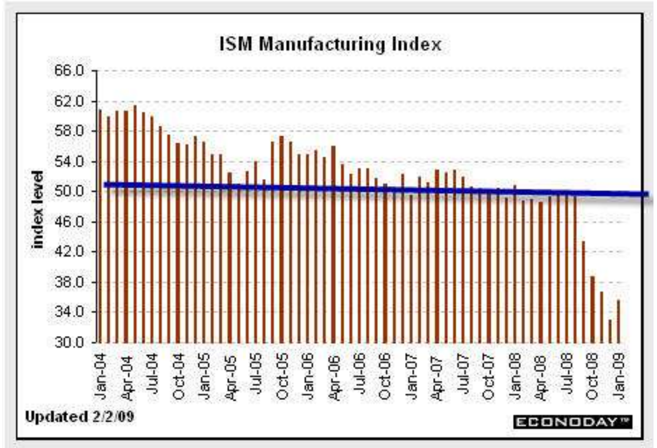
The NASDAQ performance was helped by MSFT moving higher for the day. The uncertainty over the bad bank proposal and the fate of the bailout package in the Senate were also causing investors to fret today. Even Goldman Sachs suggested that investors should buy put options on the S&P 500 index today citing lousy earning reports and a lack of confidence in Obama's stimulus package.

The bad bank proposal will not solve the lending crisis unless the government forces banks to make loans to entities that cannot repay the loans or are not likely to repay the loans. **In Barron's,** Lee Hoskins, former Cleveland Fed President, advocates allowing insolvent banks here and abroad to go under. "***Unless we stop the forbearance and dispose of the insolvent banks, the problems are only going to get***

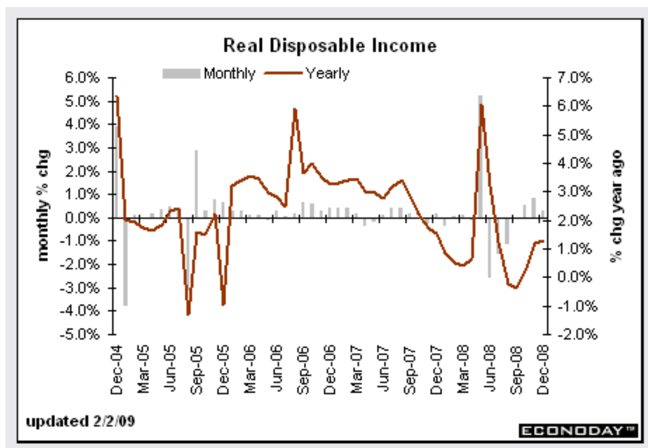
***worse*," says Hoskins.**

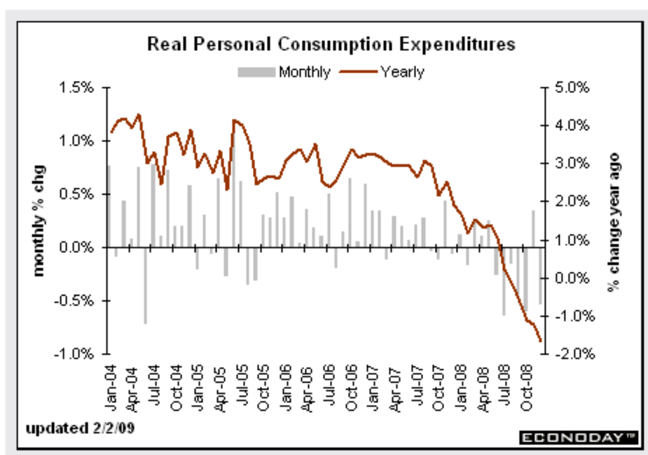
With not much economic news to digest, many investors headed the "Market in Correction" call by IBD®.

While the ISM Manufacturing was higher at 36.5 from 32.9 in December, 50 remains the diffusion indices line between growth and non-growth.



Real Disposable income decreased in December while Personal spending fell 1.0% in December with previous months being revised lower.





At the Dallas Investors Forum Saturday, I reiterated my call for the 10 year note to be at 6% prior to the end of the year. The bond guru from Argus Research agreed later with my call. Now Bloomberg this morning had the following:

Feb. 2 (Bloomberg) -- For the first time since 2007, Treasury investors are betting that inflation will accelerate.

The yield on 10-year notes exceeds the consumer price index by 2.72 percentage points, the most since December 2006. The gap between two- and 10-year rates widened at the fastest pace in a year last month as traders demanded more compensation for longer-term debt.

We made no changes in the portfolios today.

01/30/2009 After the Close

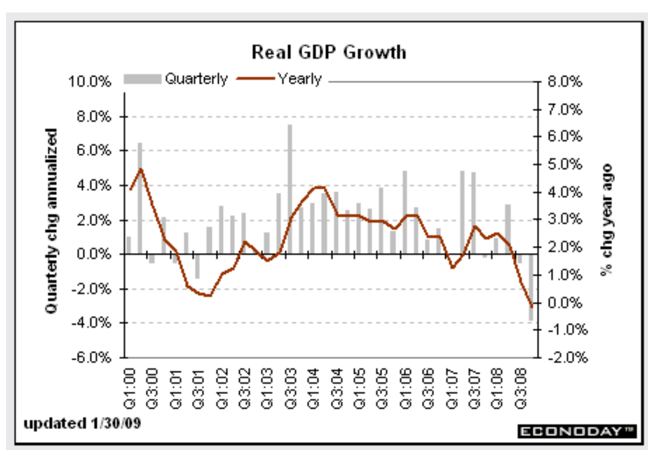
Ending January near the month lows . . . with distribution!

Markets Diary — 5:18 p.m. EST 01/30/09

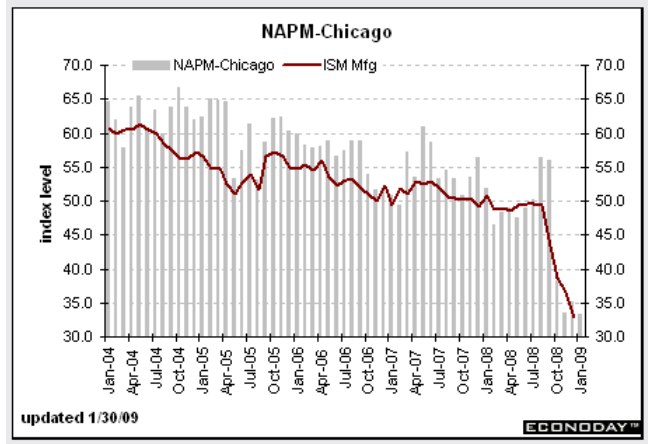
Issues	NYSE	Nasdaq	Alternext
Advancing	791	866	246
Declining	2,224	1,797	243
Unchanged	107	139	75
Total	3,122	2,802	564
Issues at			
New 52 Week High	7	3	6
New 52 Week Low	87	112	10
Share Volume			
Total	1,513,806,003	2,140,842,210	12,320,246
Advancing	208,527,173	408,515,893	5,986,430
Declining	1,293,049,630	1,702,541,391	4,687,116
Unchanged	12,229,200	29,784,926	1,646,700

Lousy economic moved the market lower as the pork in Obama's stimulus package began to also surface. And the U.S. voters thought that they were voting for change!

The worst GDP quarterly reading in 27 years helped the market to move lower and the data did not improve during the day. Look anywhere and you have to hope that 2009 finds a way to stop the downtrend.



Job losses continue to rise while the Chicago Purchasing Managers index continues to fall to the lowest level since 1982.



The employment cost index (ECI) rose in the 4th quarter putting pressure upon profits. While the consumer sentiment index was up slightly, the consumer faces wealth destruction, a reduced job market, declining housing prices, increased real estate taxes, tight credit and probably an economy falling into a depression mode. Into this mix is riding the monetary and financial authorities pushing out 0% interest to the banking institutions and inflating the money supply which will ultimately lead to at least stagflation and perhaps, hyper-inflation. **Even Morgan-Stanley now sees the possibility of hyper-inflation raising its head.**

LIBOR is now at 1.18% and the yield on the 10 year Treasury note is 2.85%, an increase from just over 2% in mid-December. Treasury bonds look to me like a good short. The continuing need for the U.S. Treasury to issue mega amounts of debt to finance the deficits will ensure that interest rates will increase. While the dollar rose in today's trading, so did gold, silver and crude oil.

We covered the QQQQ and SPY positions in the Aggressive portfolio today and went short. We probably should have stayed with the 8x20 signal before we made the previous trade .. oh, well, win some, lose some. In addition, we went long V in the Aggressive portfolio today.

Fred Richards
Strategic Investing

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Keep it Safe, Simple and Stay Focused!
Last updated - February 6, 2007