Market Musings

2/8/08 After the Close

A mixed market thanks to Amazon's buyback!

Markets Diary — 5:57 p.m. EST 02/08/08

Issues	NYSE	Nasdaq	Amex
Advancing	1,299	1,279	614
Declining	1,931	1,692	607
Unchanged	106	116	104
Total	3,336	3,087	1,325
Issues at			
New 52 Week High	26	16	19
New 52 Week Low	55	92	35
Share Volume			
Total	1,448,427,845	2,240,788,822	31,146,085
Advancing	513,704,135	1,451,044,285	15,386,250
Declining	921,947,310	726,377,132	13,962,935
Unchanged	12,776,400	63,367,405	1,796,900

The financial sector continued to move lower on rating concerns despite MBIA's $1 billion equity infusion. Amazon's buyback for $1 billion of its shares was thought to have helped move the technology sector higher in today's trading and create today's mixed market.

If you look at the major differences in the up and down volume between the NYSE and NASDAQ, you will see the effect of Amazon's decision. On both exchanges, the number of declining issues exceed those advancing not a good sign of health for the market.

January retail sales were not good. According to the NY Times article yesterday,

> "On Thursday, the nation's retailers turned in their worst January in almost four decades as high gas and food prices, a slumping housing market, tighter credit and a tougher job market pushed consumers to the edge.
>
> Sales at 43 retailers surveyed by the UBS-International Council of Shopping Centers rose just 0.5 percent in January, well below the original 1.5 percent forecast.
>
> Michael P. Niemira, chief economist at International Council of Shopping Centers said January's retail sales performance was the weakest for that month since at least 1970, when comparable records started."

The $168 billion stimulus package was passed and sent to the President. While it might help in the second half of the year, its impact on the current economic situation will turn out to be miniscule.

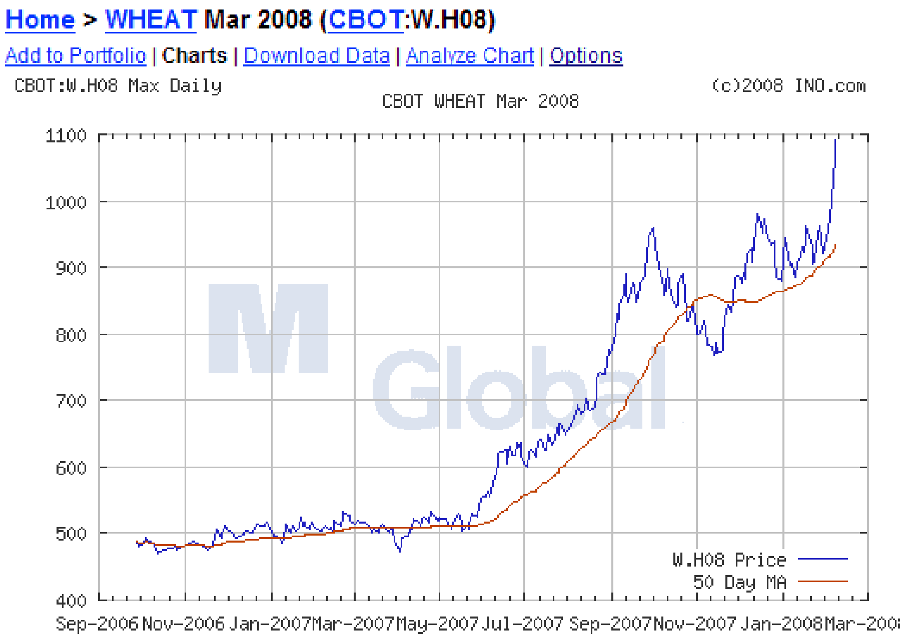
The politicians and FED's efforts to contain the financial mess and prevent a recession is doomed to failure. As we state many times when decisions are made on data which is incorrect, bad decisions with unintended consequences arise.

> First, the CPI data has been manipulated with seasonal and hedonic adjustments that it does not come close to representing the reality for most American citizens.
>
> Second, the FED's approach to trying to hold off a down-turn was too little and failed to recognize that the downturn really started during the middle of 2007, if not before.
>
> Third, Greenspan and the various regulatory agencies were unwilling to monitor the derivative markets and the result is not upon us.

Unwillingness to force the banking industry to write off loans and cleanse the system has damaged the credibility of Wall Street and the U.S. throughout the world. Yesterday's bond auction where indirect sales were only 10.7% could turn out to be the high level for the rest of the year as foreign investors and banks decide that yields are too low for the dollar risk.

The FED's attempt to reflate the economy by lowering interest rates will probably fail as bank's do not have the capital ratios to lend despite cash infusions and credit standards are being tightened across the board. These two factors become a two-edged sword that will cause more damage in the long-run than just flushing the bad loans off the books. It seems to me that when banks refuse to write-off their bad loans and hope that increased loan spreads and fees will assist them to skate the problem for the next few years. That is simply fraud.

Bread prices will be headed sharply higher. Wise housewives will fill their freezer space with bread as winter wheat was limit-up again today to a new all-time record price. Tthe price of wheat just passed ten dollars a bushel. Those Midwest radio announcers who tack on the spot prices for six or eight agricultural commodities at the end of each 30-minute news break will probably be just a little less reserved today.



Those investors with short positions in wheat are having a difficult time in exiting their positions as the limit-up days indicate. The problem is both a demand increase with a supply shortage facing consumers.

And it is not just in wheat as exports of corn and soybeans continue to reduce carry-over. U.S. consumers need to start doing a rain-dance and pray for good growing weather in the 2008 crop season. The U.S. drought monitor shown below shows a significant portion of California, Texas and the Southeast facing drought conditions going into the spring.

Market Musings by Fred Richards – February 8th, 2008

OPEC seems to be looking at moving to the Euro as the pricing mechanism for oil sales rather than the U.S. dollar. Also, OPEC may cut oil production to prevent the price of oil from falling below $80 per barrel.

The U.S. has to be considered to be the most gullible and easily hood-winked nation on earth as it puts up with the economic blackmail from the oil-producing countries in the Middle East. Here is an e-mail from Lewis McLain that just might explain some of the frustration of the U.S. public against its politicians as well as those who have benefited from our protection and treasure in the past.

> "I really don't get it. Why is it that the U.S. fights in Kuwait and in Iraq to enable them to produce oil to sell to us for $100+? Why wouldn't we send them a bill for about $1 trillion or more that doesn't make us any money; rather it would just reimburse us for the financial costs and be paid against our $9.2 trillion in debt, signficantly attributable to military spending and wars? Yes, I know, and doesn't even deal with the loss of lives we have sacrificed.
>
> Further, why would we tolerate spending our resources in Afghanistan when they are supplying 90% of the world's heroin and is funding terrorism against the U.S., not to mention profiting outrageously from the harmful addictions in our society?
>
> I count myself as a conservative and all that, but I really am having a problem with the U.S. spending money we don't have and then not expecting some kind of repayment for the financial outlays. In fact, an expectation of a 10x repayment would seem reasonable for the financial burdens we continue to take on. To heck with "peace dividends," what about a War Dividend?
>
> And as the Hemmingway character answers the question regarding how he went bankrupt (gradually ... then suddenly!), it is going to be painfully obvious how anaesthetized we have been when we start getting honest answers that are not cloaked in political humor."

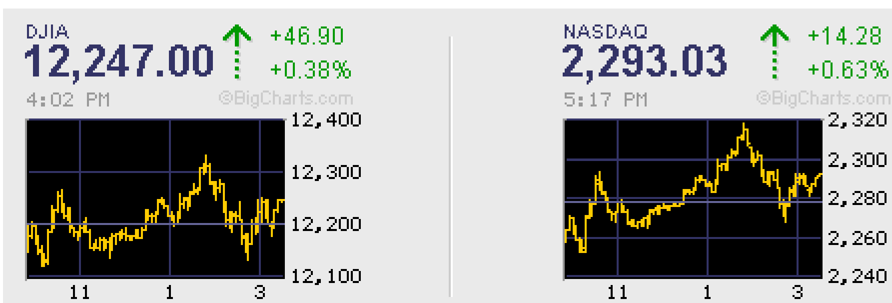
Lewis McLain certainly has a valid point ... too bad we don't have any politicians with backbone enough to change the current situation.

Gold had a good day today as it continued to recover from last week's drubbing in advance of the FOMC meeting. West Texas crude also moved higher in today's trading.

Platinum continued to move higher in record territory on strong demand. The CRB index also made another new record high in today's trading.

TNE was sold from the Conservative portfolio today as it passed its Action Point. The Conservative portfolio is not 100% in cash. There were no other changes in the portfolios today.

2/7/08 After the Close



From an oversold market to a rally on increasing volume!

Markets Diary 5:49 p.m. EST 02/07/08

Issues	**NYSE**	**Nasdaq**	**Amex**
Advancing	2,070	1,707	598
Declining	1,169	1,250	640
Unchanged	90	132	84
Total	3,329	3,089	1,322
Issues at			
New 52 Week High	13	9	6
New 52 Week Low	56	141	30
Share Volume			
Total	1,732,732,328	2,964,027,538	31,466,523
Advancing	1,106,780,908	1,937,236,768	17,954,423
Declining	618,964,720	966,200,271	12,675,100
Unchanged	6,986,700	60,590,499	837,000

Based upon today's jiggy trading pattern, investors should not get too excited about the market movement ... it may have been just another dead-cat bounce. The various indices are well below most resistance levels of note and until the markets are able to penetrate those levels, prudent investors should relax and find a good book on investing to read or reread.

The Bank of England lowered its key interest rate by 25 basis points to 5.25 percent this morning. The Bank previously had lowered its interest rate in December 2007. Although now lower by 50 basis points, the Bank still has the highest interest rate among G7 countries. The European Central Bank governing council kept its key interest rate at 4 percent for the ninth month. Hence, the rate differential between the FED and England narrowed slightly while the ECB did not.

New jobless claims topped 350K for the second week in a row and remained above the long-term channel that has existed since Katrina. The Ministry of Truth will probably now announce that the U.S. economy is facing a recession. Surprisingly, the data from John Williams shows that the recession started in the 3rd Qtr of 2007.

Here at the Money Show in Orlando, the mood of the speakers continues to be upbeat while a significant number of average investors appear to be concerned about the long-term outlook for the U.S.

The following quote from Mr. Buffet places the blame squarely where it belongs:

> The woes in the U.S. financial sector are "poetic justice" for bankers who designed and sold complex investments that have since gone sour, billionaire investor Warren Buffett said on Wednesday.'

The results of today's Treasury auction of $9 Billion of 30 year bonds should send chills up the spine of those advocating more interest rate cuts. For investor demand for the issue was lacking to say the least compared to previous auctions. In today's auction, indirect bidders, the class of investors that includes foreign central banks, bought 10.7 percent, the lowest on a new 30-year bond since the Treasury resumed sales of the maturity in February 2006 after an almost five-year hiatus.

After the lack of interest in today's bond auction, Treasury notes saw their yields rise as investors became concerned about the implications of a low coverage ratio and a major reduction in the appetite of foreigner's in U.S. bonds.

The reduction of our interest rates may well be causing foreign security buyers to wonder about the continued wisdom of purchasing U.S. instruments as the dollar continues to show signs of weakness. Stay tuned for more developments in the weeks ahead.

In today's trading, MA was sold from the Aggressive portfolio. There were no other changes in the portfolios.

2/6/08 After the Close

Another rally fizzled today and closed at the lows for the day!

Markets Diary — 5:33 p.m. EST 02/06/08

Issues	NYSE	Nasdaq	Amex
Advancing	1,168	1,056	475
Declining	1,952	1,895	741
Unchanged	102	113	81
Total	3,222	3,064	1,297
Issues at			
New 52 Week High	16	9	11
New 52 Week Low	39	101	28
Share Volume			
Total	1,546,283,381	2,474,051,244	39,914,668
Advancing	467,721,560	604,380,313	10,992,258
Declining	1,063,533,861	1,839,481,479	27,409,210
Unchanged	15,027,960	30,189,452	1,513,200

After an early morning rally attempt largely based upon hope that the market would have a bounce, bears returned to the selling side after lunch and the markets ended the day at their lows.

We spent the day traveling and listening to so-called world experts (people 50 miles from home) tell us their investing secrets … now if you believe that … still they are entitled to their opinion! After all, is that not what America stands for and what makes markets move up and down.

Today's economic news was not helpful to the bullish case for the economy.

Our Action Points triggered the sale of DRYS in the Aggressive portfolio and SMTS in the Conservative portfolio today. There were no other changes in the portfolios today.

2/4/08 After the Close

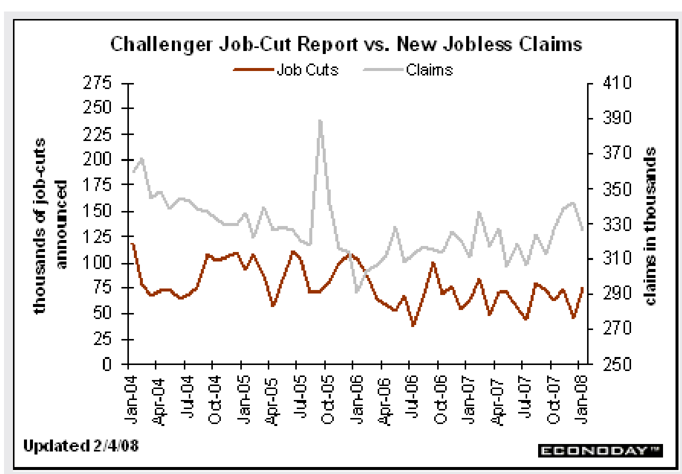
Going down on decreased volume … now that's different!

Markets Diary 5:46 p.m. EST 02/04/08

Issues	NYSE	Nasdaq	Amex
Advancing	1,313	1,247	553
Declining	1,953	1,677	685
Unchanged	87	140	78
Total	3,353	3,064	1,316
Issues at			
New 52 Week High	38	19	15
New 52 Week Low	13	33	28
Share Volume			
Total	1,357,668,112	2,050,279,717	32,091,753
Advancing	411,327,092	626,748,897	12,781,600
Declining	927,566,620	1,393,219,250	17,370,953
Unchanged	18,774,400	30,311,570	1,939,200

Volume disappeared in today's trading although declining volume was 2:1 higher than increasing volume. Surprisingly, the NYSE had more 52 week highs than new lows. Perhaps, you can find some stocks that are ready to break out by looking at the new 52 week high stocks.

The Challenger Job-Cut report showed an increased of about 30K in job layoffs for January over December. The financial sector accounted for 20% of the layoffs.



Market Musings by Fred Richards – February 8th, 2008

When one looks at the reported BLS employment data and the massive revisions in January alongside the report from ADP about employment numbers, one really has to question the credibility of the BLS numbers. I doubt if anyone at the BLS really has a handle on the real world out there. Would you rather bet on a sample of 25 million or 60 thousand for accuracy?

The factory order report showed December up 2.3% which was a variance from the weak ISM and Philadelphia manufacturing reported and wide declines in manufacturing payrolls during the period. No wonder the market has little sense of direction with data being out-of-whack.

As I've said many times, bad data, or politically-driven data, often leads to bad policy decisions.

The buyout of Harrahs for $27.8 billion by Apollo Management and Texas Pacific Groups is in trouble. Banks have $14 billion remaining to syndicate and are sitting on a sizeable loss. I wonder how many other private equity deals are in trouble.

The shutdown of mining production in South Africa sent platinum soaring to new levels above $1800 while the Gold Cartel smarting from the GATA ad drove gold down to $891 at one point today before it rallied to close at $904.

The agriculture commodity markets continue to stay high. Spot soybeans closed at their record high in today's trading.

We made no changes in the portfolios today.

2/1/08 After the Close

Microsoft bidding for Yahoo helped NASDAQ volume surge!

Markets Diary 5:07 p.m. EST 02/01/08

Issues	NYSE	Nasdaq	Amex
Advancing	2,503	1,998	877
Declining	649	947	405
Unchanged	85	125	79
Total	3,237	3,070	1,361
Issues at			
New 52 Week High	59	32	20
New 52 Week Low	13	58	20
Share Volume			
Total	1,788,519,733	3,102,061,875	41,019,412
Advancing	1,500,053,440	2,055,107,162	29,912,712
Declining	281,383,793	824,215,583	9,790,400
Unchanged	7,082,500	222,739,130	1,316,300

Stocks opened higher on the bid for Yahoo but then went south on the jobs data. Each news item moved the knee-jerky market. Still, the stock market's 1.2% gain today capped off a strong 4.9% gain for the week.

The jobs report raised fears of a downturn in the economy with nonfarm payrolls down 17,000 jobs on a seasonally adjusted basis according to the BLS. Still one must look beneath the data to understand the numbers. The birth/death rate adjustment for January subtracted 378k jobs because of changes to the series. Nonfarm private employment grew 130,000 from December 2007 to January of 2008 on a seasonally adjusted basis, according to the *ADP National Employment Report™*.

The ISM manufacturing index beat the consensus estimates and moved back into positive territory at 50.7 in January to 48.4 in December. When the index is below 50, a recessionary environment is indicated.

The final Consumer Sentiment reading for January was up one point to 75.5 but still quite low.

Markets Diary 5:45 p.m. EDT 04/11/08

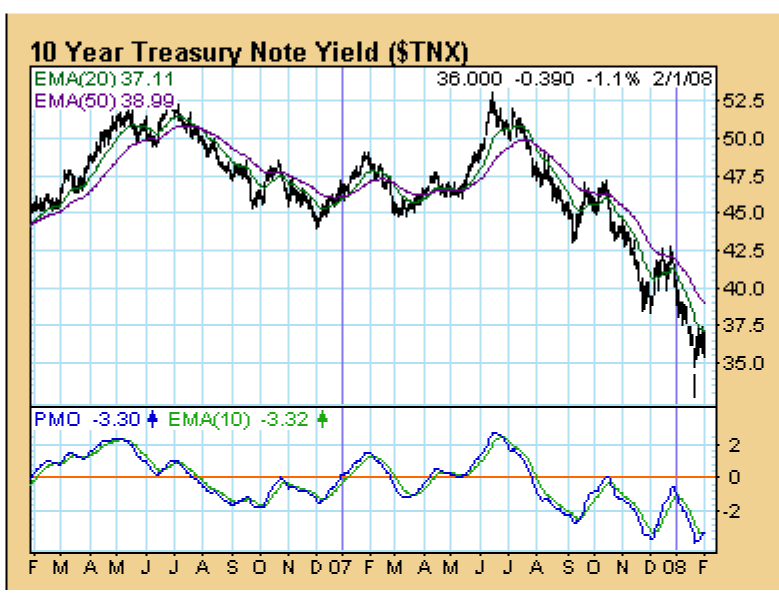
Issues	NYSE	Nasdaq	Amex
Advancing	674	612	404
Declining	2,481	2,291	792
Unchanged	77	142	97
Total	3,232	3,045	1,293
Issues at			
New 52 Week High	24	9	6
New 52 Week Low	50	106	27
Share Volume			
Total	1,261,211,175	1,873,907,978	25,943,465
Advancing	121,652,500	252,104,479	8,765,700
Declining	1,125,858,475	1,610,836,325	16,301,265
Unchanged	13,700,200	10,967,174	876,500

Construction spending continued to lose ground and is negative versus a year ago. That is not surprising considering the glut in homes and a weakening commercial real-estate market.

Construction and factory workers have been especially hard hit by the meltdown in housing, which has catapulted home foreclosures to record highs. Construction companies cut 27,000 jobs last month and have lost 284,000 since employment peaked in September 2006. Spending by private builders on housing projects last year plunged by a record 18.3 percent according to the Department of Commerce.

So clearly, the market advance is flying in the face of economic reports. Will it continue? I don't know but nimble investors could play the volatility in a positive fashion. Prudent investors should stay on the sidelines.

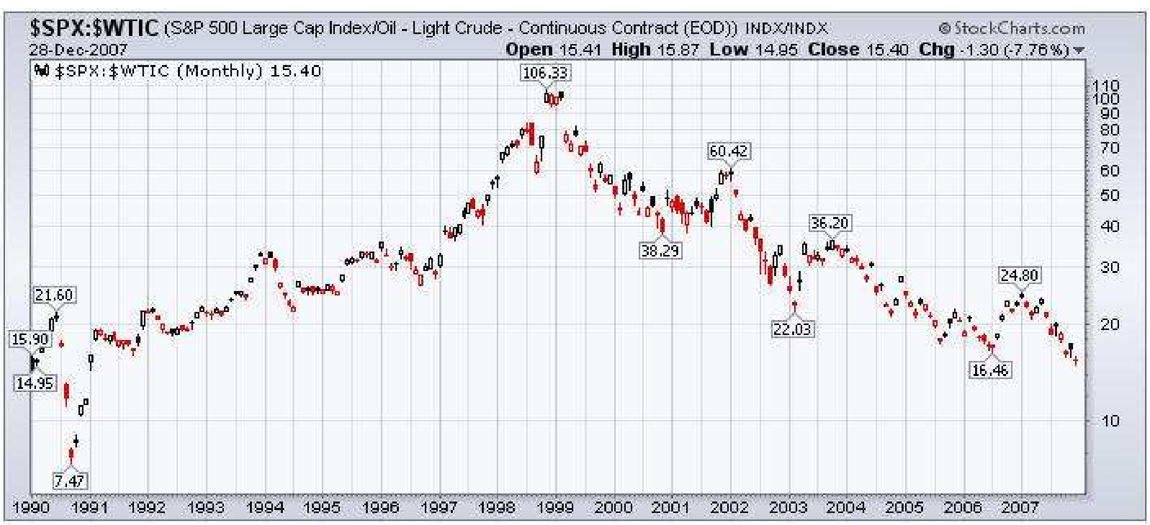
If the inflation rate is about 4% as the BLS suggested in December, buying ten year U.S. Treasury bonds at a 3.5% interest rate is clearly not a wise decision.



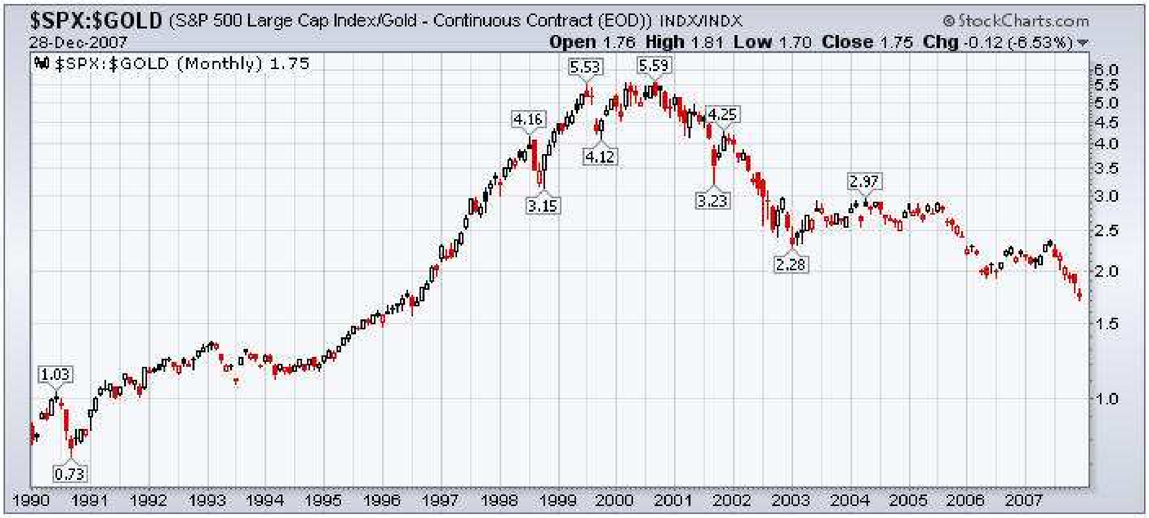
Moreover, if John Williams is correct and the real inflation rate is running at over 10% with the money supply growing in excess of 15% per year, buyers of those bonds are really making a poor decision based upon future purchasing power. As always, the real measurement of your success should be an improvement in your stand of living or purchasing power. It always behooves an investor to be cautious of his measuring stick.

At two meetings this week, the U.S. dollar was used to do the measurement. Take a look at the three charts of the S&P 500 shown below. The first chart is in U.S. dollars

The next chart plots the S&P 500 index in terms of oil. You get a somewhat different understanding of the index when studying the second chart as opposed to the chart above.



The last chart shows the S&P 500 index in terms of gold. It is similar to the second chart.



For those only worried about dollars as an indicator, the following chart from Carl Swenlin of Decision Point is somewhat cautionary about the future of the current rally. Clearly, the long-term uptrend has been broken and we have now rallied back to the neckline (horizontal redline). The market is now facing a significant amount of overhead resistance and if it fails to move through it, watch out below.

We have entered the market in the Aggressive portfolio. In the Conservative and Core portfolios, we have been very selective. With the increased level of volatility, prudent investors should be very cautious. There were no changes in the portfolios today.

Fred Richards
Strategic Investing

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