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Market Musings

02/13/2009 After the Close

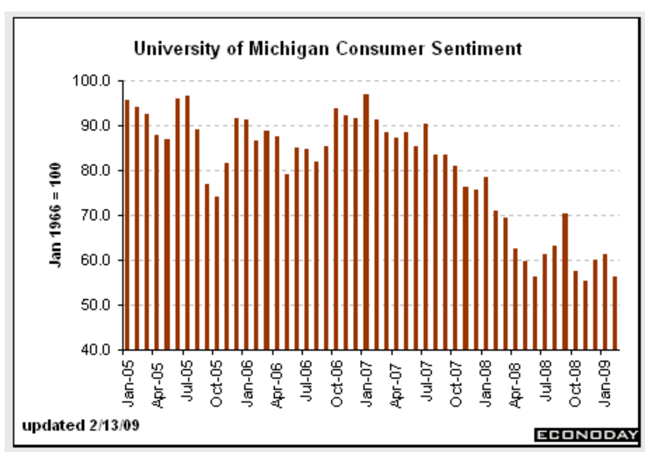
Unlike yesterday, a late swan dive put the indices down.

Markets Diary 5:51 p.m. EST 02/13/09

Issues	NYSE	Nasdaq	Alternext
Advancing	1,182	1,300	257
Declining	1,877	1,436	303
Unchanged	104	173	66
Total	3,163	2,909	626
Issues at			
New 52 Week High	3	9	5
New 52 Week Low	43	77	23
Share Volume			
Total	1,239,056,720	1,995,288,405	11,090,676
Advancing	359,117,660	827,764,752	4,497,346
Declining	868,012,110	1,156,735,473	5,120,930
Unchanged	11,926,950	10,788,180	1,472,400

With a three day holiday on the horizon, today's market volume was light preventing another distribution day from being added to the count. However, declining volume was certainly apparent in all markets.

The only piece of economic news was a lower consumer sentiment number in February (56.2 vs. 61.2 last month) from the University of Michigan.



Although the stimulus bill appears to be a certainty, there remains considerable doubt as to its effectiveness in changing the direction of the economy.

We made no changes in the portfolios today. Have a great Valentine's weekend. At least, Friday the 13th did not result in a market crash.

02/12/2009 After the Close

Another Three o'clock rally today!

Markets Diary 5:59 p.m. EST 02/12/09

Issues	NYSE	Nasdaq	Alternext
Advancing	1,422	1,368	229
Declining	1,625	1,312	304
Unchanged	116	178	73
Total	3,163	2,858	606
Issues at			
New 52 Week High	4	5	4
New 52 Week Low	118	121	14
Share Volume			
Total	1,479,123,819	2,445,540,304	11,844,999
Advancing	689,590,360	1,626,364,086	4,126,600
Declining	759,918,059	783,931,743	5,656,869
Unchanged	29,615,400	35,244,475	2,061,530

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Just as the indices were blowing through the day's low, another suspicious rally materialized out of the ether to push the markets to a split decision today. The rally began as Reuters carried the following reported rumor:

"The Obama Administration is creating a program to subsidize mortgage payments for at-risk homeowners."

Of course, over 50% of all loans that have been renegotiated since the mess started went back into foreclosure proceedings within six months of the renegotiation. Apparently, politicians don't understand that they can not repeal the law of economics and lack of income.

Today's economic news can only be painted as not encouraging. C**ontinuing claims hit a record high. Initial jobless claims fell 8,000 to 625,000 in the week ending February 7 vs. an upwardly revised 631,000 (626,000) the previous week.**

Retail sales are down on a y/y basis and only gasoline price increases at the pump enable January to show a 1% increase over a terrible December.

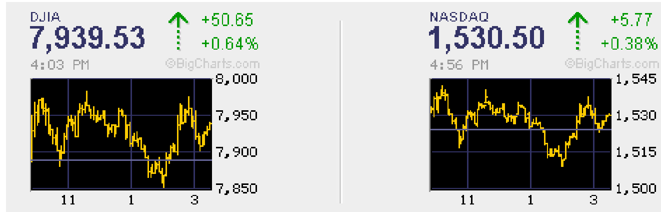
A $14 billion 30 year Treasury note auction had a pathetic 2.02 cover ratio for the 3.54% yielding bonds. A cynical observer might suggest that the glut of Treasury financings is beginning to show signs of a declining appetite for them.

We spent most of the day in meetings and driving to Houston where we are writing this before heading out to another meeting this evening.

The Congressional committee that ironed out the details between the House and Senate bills had some very interesting aspects. No republicans attended the conference hearings. Moreover, when all was said and done, the limitation on Wall Street bonuses had vanished from the bill. Do you like the new cooperation found on the Hill?

We made no changes in the portfolios today.

02/11/2009 After the Close



Up and down in search of a direction.

Markets Diary 4:55 p.m. EST 02/11/09

Issues	NYSE	Nasdaq	Alternext
Advancing	1,794	1,464	282
Declining	1,224	1,169	195
Unchanged	106	164	73
Total	3,124	2,797	550
Issues at			
New 52 Week High	3	4	6
New 52 Week Low	66	100	9
Share Volume			
Total	1,358,843,885	2,147,483,647	11,335,603
Advancing	894,583,335	864,174,363	7,622,803
Declining	432,290,220	1,305,658,151	2,498,100
Unchanged	31,970,330	90,083,397	1,214,700

Today's market action reminded me of a tourist caught in a maze .... trying to find a way out. When Senate and House conferee's agreed on the terms of a $780.5 billion economic stimulus plan (read pork spending), the market headed back into positive territory. However, the NASDAQ 100 failed to gain yesterday's close as volume fell as investors fretted about the future.

Wall Street CEO's faced a hostile Congress today but in the end, it failed to move the markets. The general reaction to yesterday's announcement by Treasury Secretary Geithner to the bank crisis continued to reverberate negatively throughout the world.

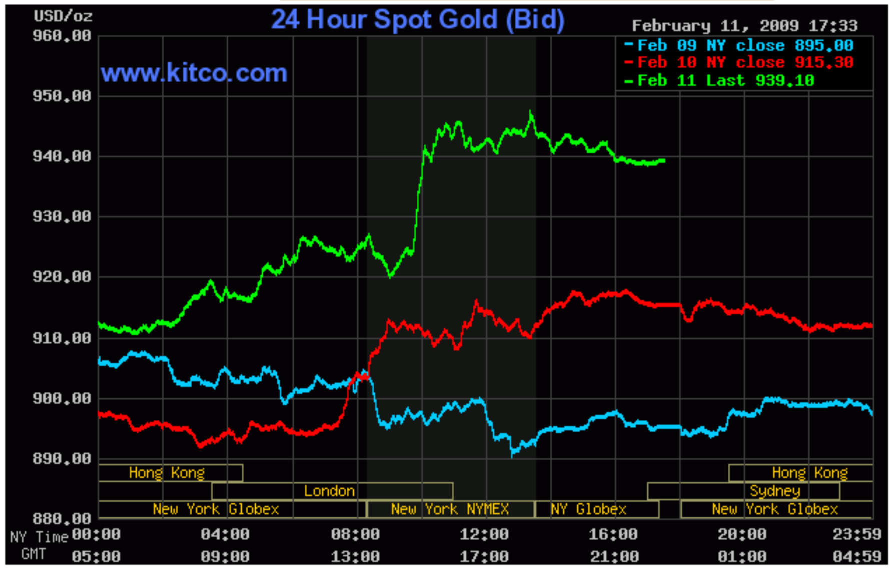
The Treasury's budget shortfall totaled $83.8 billion in January bringing the fiscal year-to-date shortfall to $569.0 billion and dwarfing the $89.0 billion total this time last year. Tax receipts are down steeply while outlays are on the increase (and are guaranteed to really increase when government stimulus begins to surge). TARP outlays, once again a center of dispute in Washington, totaled $37.8 billion vs. December's $55.0 billion.

The trade deficit rose to $39.9 billion in December vs. a revised $41.583 billion in November. The dollar rise helped reduced exports for the fifth consecutive month. The world economic slowdown continues to have an effect on world trade. Moreover, the trade deficit may well lead to a downward revision in 4th quarter GDP.

Chinese exports in 209 fell 17.5% y/y in January, the most in 13 years. It just might be that the Chinese economy is going to have trouble. Still, China holds $682 billion of U.S. Treasury debt and is expected to pressure Secretary of State Clinton to provide guarantees that the purchasing power of those notes will not be destroyed by "reckless policies of the government."

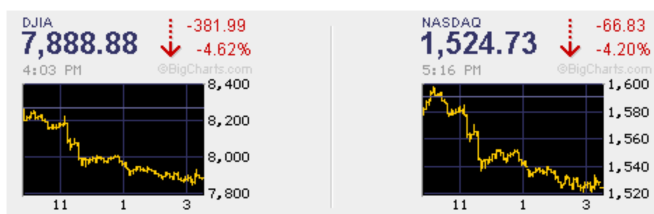
New home mortgage applications hit an 8 year low. The MBA index fell 24.5% in the latest week ending February 6th and is down 43.9% y/y.

The IMF confirmed plans to sell 409 tons of gold today at about 1:51 p.m EST today. The Chinese are probably dancing in the streets. Unlike previous attempts to push gold down, shortly after the announcement gold closed at its highest level in six months.



We sold ESI and NTCT from the Conservative portfolio today. There were no other changes. Until the turmoil about the stimulus package eases, we will probably stay mostly on the sidelines until a clearer direction is seen.

02/10/2009 After the Close



Investors listened to Obama, Bernanke and Geithner and sold.

Markets Diary 5:34 p.m. EST 02/10/09

Issues	NYSE	Nasdaq	Alternext
Advancing	470	481	178
Declining	2,621	2,203	352
Unchanged	65	137	59
Total	3,156	2,821	589
Issues at			
New 52 Week High	6	5	7
New 52 Week Low	63	82	16
Share Volume			
Total	1,757,219,908	2,147,483,647	12,601,385
Advancing	50,508,810	172,247,275	3,137,670
Declining	1,703,570,648	2,147,483,647	7,631,415
Unchanged	3,140,450	9,476,431	1,832,300

After some slight enthusiasm in the overnight markets, the markets failed to give the stimulus package and the revisions to the bank bailout plan significant support. Sometimes, it might be better if politicians of all persuasions simply kept quiet.

Volume picked up significantly as the day wore on and declining issues and volume dominated today's down market resulting in another distribution day for most indices. It was the largest loss since January 20th as investors dumped stocks after Geithner did not disclose any specifics about the Treasury's financial rescue plan. Guess the little bubble that had seen the previous three days move higher went flat.

The thrust of Geithner's program appears to be to encourage private investors to get back into the banking system. Apparently, the bureaucrats believe that a large amount of cash is on the sidelines and investors just need encouraging to get back into the game. Of course, many have been burned so badly that whatever they have left will not be risked.

Briefing.com had the following comments on the Geithner statement.

> The build up ahead of Treasury's financial rescue plan helped stocks climb more than 4% over the prior three sessions. Financial stocks climbed 11% during that time. Enthusiasm quickly turned to pessimism, though, when Treasury failed to provide clarity on how it will handle the toxic assets that are driving losses and write-downs on bank balance sheets. Recognition that this part of the plan has yet to be finalized creates an impression that Geithner still doesn't have a complete solution to the situation.
>
> Still, Geithner did indicate the bank recovery plan will help the flow of credit, strengthen banks, and provide aid for homeowners and small businesses. Treasury intends for institutions that need capital to access a new funding mechanism that uses Treasury funds as a bridge to private capital. Meanwhile, Treasury's investments will be placed in a Trust.
>
> Together with the Fed, FDIC, and private sector, Treasury will establish a public-private investment fund to provide capital and financing to help leverage private capital to get private markets working. There is a range of different structures for this program, but Treasury believes it should ultimately provide up to $1 trillion in financing capacity.
>
> The Federal Reserve Board announced it could expand the Term Asset-Backed Securities Loan Facility (TALF) to encompass other types of newly issued AAA-rated asset-backed securities, such as commercial mortgage-backed securities, private-label residential mortgage-backed securities. The date that the TALF will begin operations will be announced later this month.
>
> Disappointment in Treasury's plan left market participants disinterested in the Senate's $838 billion economic stimulus bill. The bill was passed midday, but it has been relegated since it aims to drive long-term economic growth, rather than provide a short-term lift.
>
> Federal Reserve Chairman Ben Bernanke's testimony to the Financial Services Committee provided some positive points, but did little to ease selling pressure. He stated extraordinary programs have improved market conditions and eased strains. He also indicated the U.S. remains well capitalized and the Fed will be able to offset any losses through eventual gains on asset sales.

Trying to fairly price the toxic assets remains a major problem for the banks, taxpayers and the Treasury. Removing mark-to-market pricing will not solve the problem.

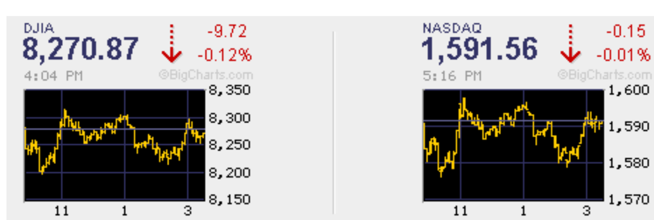
Steve Ballmer told a House Democrat retreat last Friday the following and I would agree:

- **"The hard truth is this, in my opinion…the private sector of our economy has borrowed too much money, businesses and consumers alike, fueled by a lot of different things, some notion that housing prices would go up forever, that you could borrow money cheaply…What we now have will be a fundamental economic reset…the economy is going to have to re-establish itself at a level of spending that reflects the real value of underlying assets before we can all start growing again at a healthy rate."**

The stimulus package passed by the Senate with the help of three Republicans now goes to a conference committee before heading for Obama's signature. Too bad, most of them had not read it nor understood the "law of unintended consequences" which will become apparent in time. The health care portion of the stimulus package is just one instance of something put into the package without any committee hearings and/or discussion. In effect, it provides a national medical records database and also will slow the development and use of new medications and technologies because they are driving up costs. Will people on retirement see their health-care become restricted as they grow older based upon a government schedule of payment.

We managed to close out some positions early today in the **Aggressive** and **Conservative** portfolios. We made no changes in the Precious Metals portfolio.

02/09/2009 After the Close



A slow day in the markets watching and waiting!

Markets Diary			5:29 p.m. EST 02/09/09
Issues	**NYSE**	**Nasdaq**	**Alternext**
Advancing	1,653	1,197	246
Declining	1,383	1,458	234
Unchanged	111	158	77
Total	3,147	2,813	557
Issues at			
New 52 Week High	4	10	6
New 52 Week Low	17	44	9
Share Volume			
Total	1,257,573,552	1,907,915,037	9,672,376
Advancing	671,499,522	965,059,117	4,610,800
Declining	563,207,620	912,460,307	3,374,776
Unchanged	22,866,410	30,395,613	1,686,800

Obama will raise fear in the public's mind tonight as he tries to push for a flawed spending bill. Notice that I refuse to call it a stimulus package for it is simply "pork spending unlike any other package in the history of the U.S."

When you can not win on the logic of the bill, Obama and his Democratic colleagues have reverted to using fear as their main reason to passing this terrible bill. Did you catch the full-page ad in many newspapers signed by economists throughout the country that do not agree that "all economists are in favor of this bill." Simply amazing!

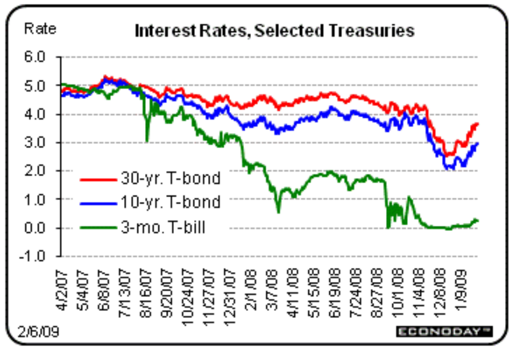
In fact, you know that the economic recovery bill is in trouble with Geithner, the Treasury Secretary, postponing the bank rescue plan which was slated to be announced today.

The Fed reported Friday consumer credit fell $6.6 billion in December. A decline of $3.5 billion was expected. The previous month was revised to a deeper decline of $11.0 billion, a record. This is the fourth consecutive monthly decline. Revolving credit, including credit cards fell $6.3 billion. Non-revolving debt, including auto loans, fell $.3 billion. **As the slowdown intensifies, consumers are reducing spending and trying to rebuild their balance sheets. While this is a positive for the consumer's balance sheet, it is a negative for GDP growth.**

As the magnitude of the Treasury refinancing requirements sunk in over the weekend, interest rates moved higher in today's trading while the dollar lost value. The question of where is the money going to be found to finance all the new spending as well as the refinancing of U.S. Treasuries is beginning to seep into bond investors consciousness.

The ten year Treasury moved above 3% today while the U.S. dollar index fell below $85. The rising cost of floating U.S. bonds must be particularly vexing to the bureaucrats as the economy sinks towards a severe recession and/or depression levels.

Obviously, bond investors want additional compensation for the increasing risk levels they perceive in U.S. bonds. With interest rates hovering near low levels in the 4th Qtr 2008, China, the Pacific tigers and the commodity powers are no longer amassing foreign reserves which stood at a record $7.6 trillion in late 2008. With their exports collapsing, they have sold $190 billion over the last 15 weeks. The spread between selected treasuries continues to widen as shown in the following chart.



Bloomberg carried a story last week that will have significant impact on agriculture prices in 2009: "China, the world's largest grain grower, said a three-month drought has hurt nearly 46% of the winter wheat crop in its major growing provinces and may slow the planting of other crops in spring. Dry conditions 'rarely seen in history' threaten about 139 million mu (23 million acres) of wheat in eight provinces including Henan and Anhui, the Office of State Flood Control and Drought Relief Headquarters said…"

First, it was David Rosenberg of Merrill Lynch, then UK Prime Minister Gordon Brown chimed in. Friday, Bil Gross of Pimco used the term. Now, in case, you failed to catch the news from the IMF this weekend, Dominique Strauss-Kahn, its chief, said the world's advanced economies — the U.S., Western Europe and Japan — are "already in depression," and that the IMF could slash its global growth forecasts further. The "worst cannot be ruled out," he said.

Guess the cat is out of the bag now ... wonder how Obama will address the economic fact tonight?

We made no changes in the portfolios today.

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.

Fred Richards
Strategic Investing

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Keep it Safe, Simple and Stay Focused!
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