



STRATEGIC INVESTING

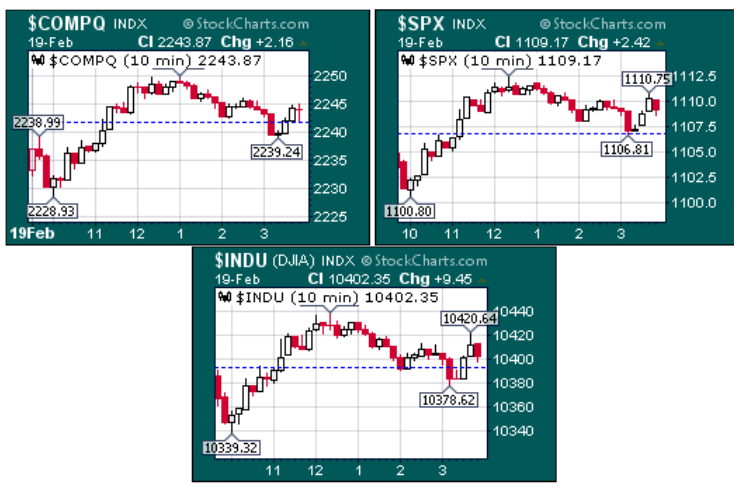
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02/19/2010 After the Close



Up four days in a row!

Markets Diary		4:34 p.m. EST 02/19/10		
Issues	NYSE	Nasdaq	Amex	
Advancing	1,793	1,385	216	
Declining	1,227	1,230	234	
Unchanged	122	143	50	
Total	3,142	2,758	500	
Issues at				
New 52 Week High	192	145	18	
New 52 Week Low	1	7	0	
Share Volume				
Total	1,120,899,565	2,132,951,614	13,524,002	
Advancing	620,746,005	1,052,043,788	5,380,130	
Declining	438,290,460	1,054,961,973	7,354,572	
Unchanged	61,863,100	25,945,853	789,300	

The market barely managed to stay in positive territory at the close. Volume was higher in today's trading but the indices failed to show an increase that would merit the follow-through day designation. Yet the major indices were up for four days in a row. After all, the FED only raised the discount rate, not the FED funds rate.

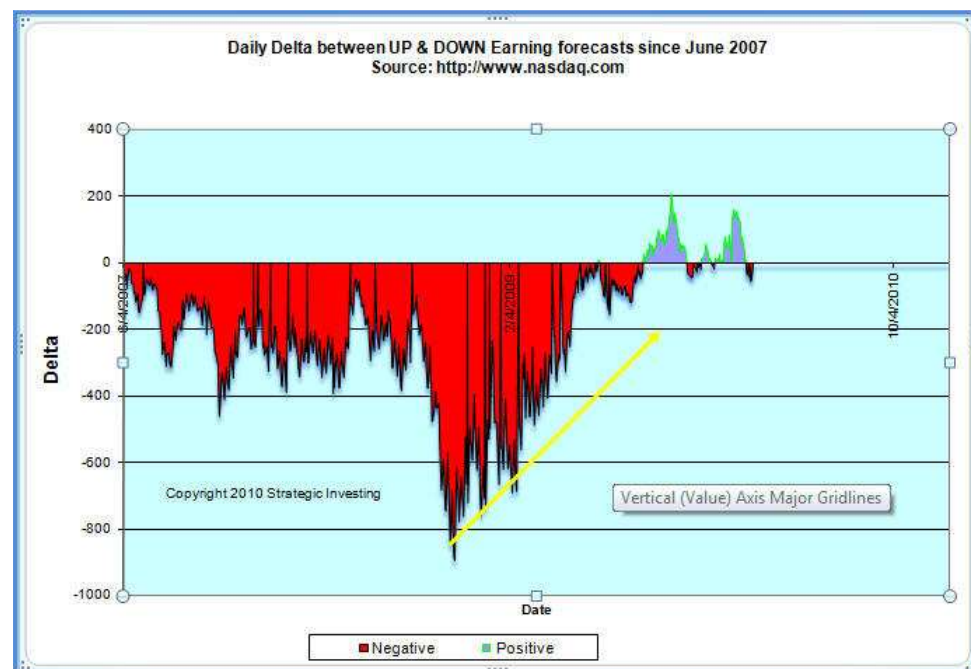
Economic News

The Ministry of Truth reported the CPI for January and the core rate fell for the first time in 28 years ... **really? Tim Iacono points out that the core rate decline might be due to a math problem following the MOT's revised weighting of the various categories.** CPI, however, rose 0.2% for the month and 2.7% y/y.

		Data displayed as m/m percent change					
Released on	Relative	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10
Released for	Importance	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10
CPI	100.0%	0.4%	0.2%	0.2%	0.2%	0.2%	0.2%
Food & Beverages	15.1%	0.0%	-0.1%	0.0%	0.1%	0.1%	0.2%
Housing	42.4%	0.0%	0.0%	0.1%	0.0%	0.0%	-0.3%
Apparel	3.8%	0.0%	0.2%	-0.3%	-0.3%	0.4%	-0.1%
Transportation	17.4%	1.9%	0.8%	0.9%	1.3%	0.7%	1.3%
Medical Care	6.2%	0.3%	0.4%	0.2%	0.3%	0.1%	0.5%
Recreation	5.6%	0.1%	-0.1%	-0.4%	-0.1%	-0.3%	-0.1%
Education & Comm.	6.0%	0.2%	0.1%	0.2%	0.0%	0.2%	0.3%
Other goods & Service	3.5%	0.1%	0.3%	0.2%	0.4%	0.2%	0.1%
Addendum							
CPI less food & energy	77.4%	0.1%	0.2%	0.2%	0.0%	0.1%	-0.1%
Energy	8.7%	3.7%	0.6%	0.6%	2.2%	0.8%	2.8%
Commodities	40.8%	0.6%	0.3%	0.3%	0.5%	0.3%	0.8%
Services	59.2%	0.2%	0.1%	0.2%	0.1%	0.1%	-0.2%

Data Source: Haver Analytics

Since June 2007, we have been tracking using data from the NASDAQ.com website, the difference between the number of company forecasts analysts have increased each data and those that have been decreased. The fact that in recent days, decreases have begun to show up suggests that the economy is not firing on all cylinders as shown in the chart.



Financial News

The discount rate increase yesterday was described as trying to get banks to stop borrowing at the FED window. So today, the FED added a POMO of about \$1 billion in Fannie and Freddie bonds. *Guess the left-hand does not keep in touch with the right-hand at the FED. Did Bernanke just try to bluff the markets about draining liquidity from the system and raising short-term rates? The raise in the discount is meaningless since the banks have the highest level of excess reserves in history at over \$1.1 trillion as of 12/31/09. Moreover, bank loans since that date have not been increasing.*

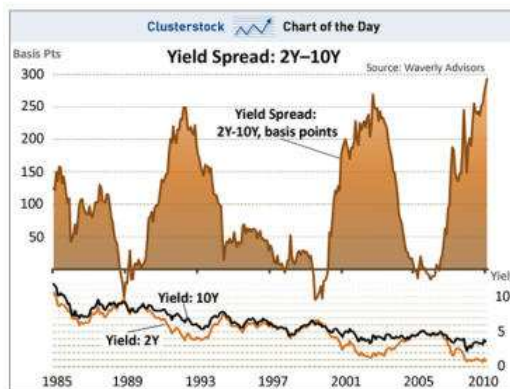
The possible bankruptcy of municipalities in the US could cause investors that have assumed that muni bonds are safe some heartburn in the near future. Investors have assumed that municipalities can increase taxes to cover shortfalls but that may no longer be the case.

The federal government tax receipts from withholdings and individual tax receipts remain a problem. Y/Y withholdings are down 13.1% and total individual tax receipts are down 16.8%. *Apparently, the economy is not recovering very fast, if, at all.*

From the Business Insider comes this somewhat shocking report re Citibank demand account changes:

Seen on a recent Citibank (C) statement: "Effective April 1, 2010, we reserve the right to require (7) days advance notice before permitting a withdrawal from all checking accounts. While we do not currently exercise this right and have not exercised it in the past, we are required by law to notify you of this change." Apparently, for now, this only applies in Texas.

The yield spread between the 2 year and the 10 year Treasury note has now expanded to the highest levels in recent history. Perhaps, the spread will begin to collapse in the near future and if short-term rates go up as Bernanke has indicated would happen as liquidity was removed, the bond market could get ugly.



Both the US dollar index (80.59) and gold (1119.30) closed higher today. The yield on the 10 year Treasury note fell to 3.78%. West Texas crude oil was higher at 80.21.





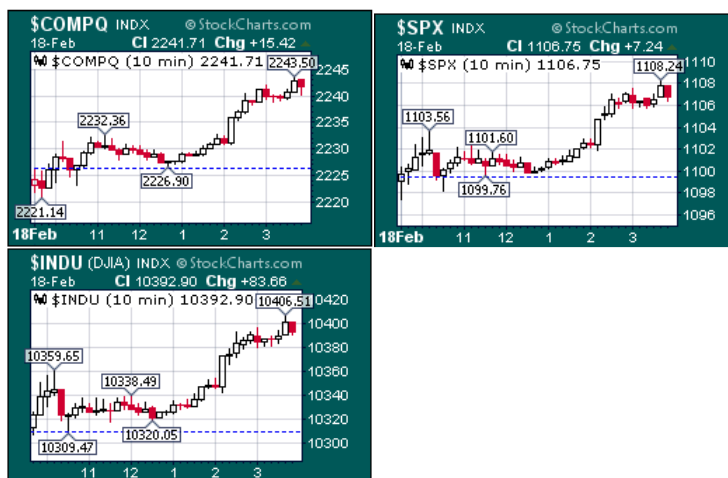
Portfolio Comments

In the Conservative portfolio, we went long the QQQQ and SPY as the 8x20 moving average crossovers turned positive.



There were no other changes in the portfolios.

02/18/2010 After the Close



Up again

Markets Diary		6:01 p.m. EST 02/18/10		
Issues	NYSE	Nasdaq	Amex	
Advancing	2,122	1,555	258	
Declining	956	1,080	221	
Unchanged	105	143	39	
Total	3,183	2,778	518	
Issues at				
New 52 Week High	177	93	10	
New 52 Week Low	1	7	1	
Share Volume				
Total	960,567,820	2,076,822,254	14,329,086	
Advancing	711,468,030	1,367,104,928	7,333,160	
Declining	237,641,590	629,518,263	6,310,126	
Unchanged	11,458,200	80,199,063	685,800	

The market was up once again on lower volume although advancing issues and volume were predominant. But we still have not record a follow-through day. Institutional interest appears to be weak. Perhaps, that might change tomorrow as the FED raise the discount rate by 25 bps today after the market closed. The FED's increase in the discount rate is aimed at reducing banks from depending upon the central bank for their funding.

Watch out for more tightening in the days ahead as quantitative easing is withdrawn. The FED is reported to have reversed the currency swaps with many central banks initiated at the peak of the financial melt-down.

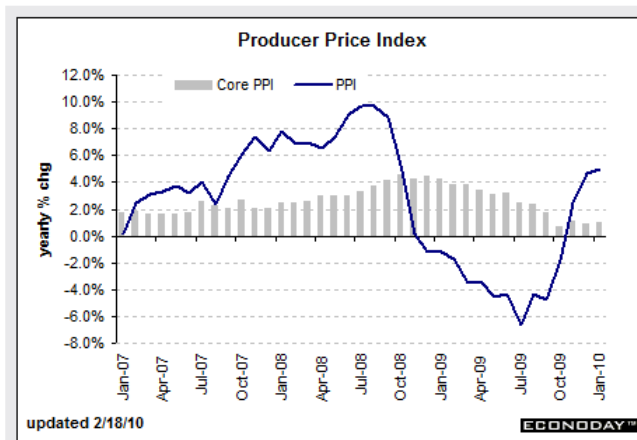
In immediate reaction, the dollar rose a full cent against the euro to \$1.3525 while short Treasury rates jumped including the 2-year which rose 5 basis points on the announcement to 0.93 percent. Commodities immediately fell with oil losing more than \$1 to \$78.50 and gold down \$10 to \$1,110.

Economic News

It should not have been a surprise that January saw the overall PPI increase by 1.4% after December's 0.4% rise. Energy costs helped move the PPI higher although increases occurred across the board as shown below.

		data displayed as monthly percent change					
Released on	Relative	Sep-10	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10
Released for	Importance	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10
PPI, Finished Goods	100.0	1.5	-0.5	0.4	1.5	0.4	1.4
Consumer goods	75.3	1.9	-0.6	0.7	1.9	0.5	1.8
Food (consumer)	20.2	0.3	0.0	1.5	0.5	1.3	0.4
Energy	20.1	6.2	-1.8	1.9	5.6	0.7	5.1
Nonfood, nonenergy (consumer)	34.9	0.3	-0.1	-0.4	0.6	0.1	0.4
Capital Equipment	24.7	0.3	-0.2	-0.5	0.4	-0.1	0.3
PPI less food & energy	59.7	0.3	-0.1	-0.5	0.5	0.0	0.3
PPI, Intermediate goods	100.0	1.7	0.0	0.6	1.2	0.6	1.7
less food & energy	75.1	0.6	0.5	0.2	0.3	0.5	0.5
PPI, Crude Materials	100.0	4.5	-2.2	6.1	5.1	0.8	9.6
less food & energy	17.5	7.4	2.0	2.3	-1.0	4.5	6.6

Data Source: Haver Analytics



Data Source: Haver Analytics

New jobless claims took a turn for the worse in the February 13th week increasing to 473,000 or about 33,000 higher than expected. The previous week was revised higher by 2,000. Continuing claims were unchanged at 4.65 million. It would appear that the recovery in jobs remains somewhat hazy. The number of people collecting benefits from all unemployment insurance programs is now at 11.7 million.

		Claim levels and changes in thousands					
Released on	Avg Level	1/14	1/21	1/28	2/4	2/11	2/18
Released for	in 2008	1/9	1/16	1/23	1/30	2/6	2/13
New claims	420	444	479	472	483	442	473
Weekly change	NA	11	35	-7	11	-41	31

Data Source: Haver Analytics

The leading economic indicators from the Conference Board decided to show a lower rate of growth in the January data. Maybe, this is a precursor to a double dip recession.

However, the Philadelphia Fed Survey showed an increase in the index to 17.6 from January's 15.2 level. New orders increased in January but that is generally typical of the beginning of the year.

	Data displayed as monthly level					
Released on	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10
Released for	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10
Philadelphia Fed Survey	10.5	11.8	18.8	22.5	15.2	17.6

Data Source: Haver Analytics

Wal-Mart reported that same store sales were disappointing falling 1.6% in the fourth quarter of 2009. US Bank lending continues in the doldrums. According to an article in the London Telegraph by Ambrose Evans-Pritchard, bank lending in the US has fallen at the fastest rate in history, raising concerns that the Federal Reserve may have jumped the gun by withdrawing emergency stimulus.

Financial News

The Treasury will auction \$126 billion in coupon debt next week. For the first four months of FY 2010, the deficit stands at \$460.96 billion versus \$395.69 billion last year. The Obama administration is forecasting a deficit in FY 2010 of \$1.6 trillion, or 10.6% of GDP. At this rate, the AAA rating could disappear at some future point.

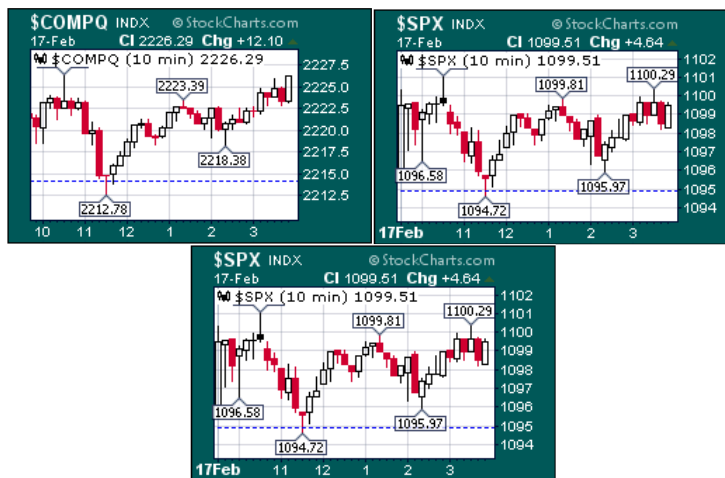
Look for major problems in the public employees' pensions and retirement benefits to begin making headlines. The Pew Center on the States released a report today indicating a total shortfall of at least \$1 trillion. Illinois is the worst offender among the states with only 54% of its obligations currently funded.

Interest on the 10 year Treasury note rose to 3.8% today causing the yield curve to increase. The Wall Street Journal reported that of the \$179 billion in stimulus funds paid out in 2009, \$112 billion went to state governments for school funding, Medicaid and unemployment-benefits, or to increase funding for programs such as food stamps.

Portfolio Comments

In the Aggressive portfolio, we added RAH today. There were no other changes in the portfolios.

02/17/2010 After the Close



Another up day

Markets Diary			
	5:41 p.m. EST 02/17/10		
Issues	NYSE	Nasdaq	Amex
Advancing	2,084	1,576	259
Declining	991	1,059	233
Unchanged	123	169	35
Total	3,198	2,804	527
Issues at			
New 52 Week High	146	113	18
New 52 Week Low	2	9	3
Share Volume			
Total	1,020,252,443	2,103,535,524	16,122,246
Advancing	679,020,863	1,335,168,375	6,127,836
Declining	330,647,570	682,194,619	8,769,110
Unchanged	10,584,010	86,172,530	1,225,300

The market continued higher although the volume did not impress. Today's percentage gain on the NASDAQ which did have slightly higher volume was significantly below that which determines a follow-through day (FTD). Advancing issues were dominant in today's trading but there was little conviction in the buying.

Some analysts are pointing at the large disparity in the new 52 week high/low ratio but forgetting that last February and March, the markets were tanking. Hence, I do not place much faith in the ratio as an indicator of an improving economy.

Economic News

Bank credit continues to contract. David Rosenberg at Gluskin Sheff reported that the overall decline in bank credit in 2010 is \$100 billion ... 16% annualized. Since the credit crisis began in 2007, over \$740 billion of bank credit has evaporated.

A lot of hot air was forthcoming from the investment commentators today with the release of the latest FED minutes showing that asset sales were discussed.

Hope springs eternal among home builders as they increased housing starts 2.8% to 591,000 annual units in January. That is only about 25% of the peak level in 2006. However, mortgage applications fell 2.1% in the latest week according to the MBA. Housingdoom.com reported that two different studies about future home prices were published this past week. One showed a 5% fall in 2010 and the other 40%. *I wonder which one is going to be more correct.*

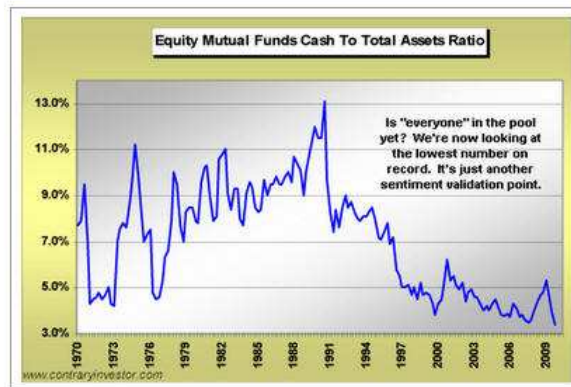
Import prices rose 1.4% in January over December. *OOPS! Of course, Paul Krugman, the Keynesian economist, continues to push the argument that inflation is the only answer to the current mess. Looks like inflation may be starting.*

Industrial production rose 0.9% in January much of which was attributed to inventory rebuilding as opposed to final demand. The cold weather help utilities to continue to post advances.

Unemployment is not just a problem in the US but in almost every industrialized country. Unemployment in the UK rose to its highest level since April 1997.

Financial News

As the VIX has dropped and the market moved higher, mutual funds have increased their equity positions and have lowered their cash levels to the levels seen in 2006. The argument that there is a lot of cash on the sidelines would appear to have developed a leak.



The federal budget was only \$42.6 billion in January according to the Treasury Department.

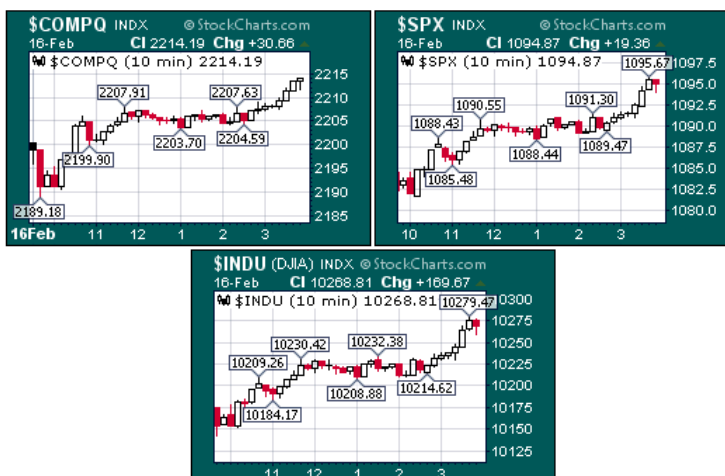
The US dollar index closed above 80 today at 80.41. The euro continue to weaken closing at 1.36 while both the pound and yen were also lower. The yield on the 10 year Treasury note rose to 3.74%. Crude oil moved higher.

Don't you find it interesting that gold gained 35% during 2009 while the World Gold Council reported that global gold demand dropped 11% in the same period. *Does that seem plausible? Guess it all depends upon upon your definition of demand.*

Portfolio Comments

We made no changes in the portfolios today. The A+190 screen which is the basis for the Conservative portfolio has found only two new stocks since January 1st of this year. Hence, the Conservative portfolios remains in cash.

02/16/2010 After the Close



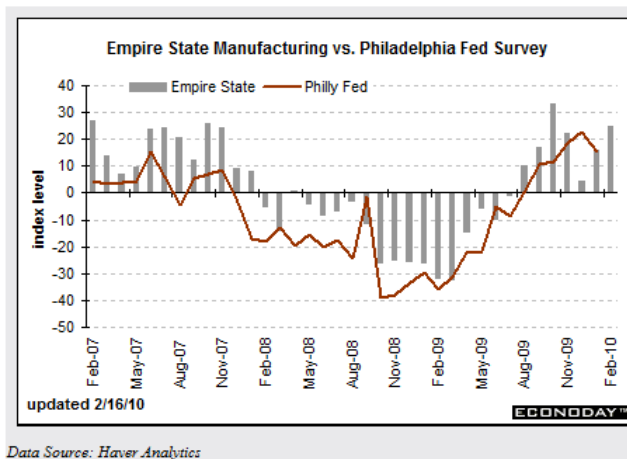
Started strong

Markets Diary			
	4:34 p.m. EST 02/16/10		
Issues	NYSE	Nasdaq	Amex
Advancing	2,526	1,923	314
Declining	511	755	150
Unchanged	112	122	36
Total	3,149	2,800	500
Issues at			
New 52 Week High	124	107	12
New 52 Week Low	4	8	4
Share Volume			
Total	1,081,301,687	2,033,588,133	15,987,954
Advancing	976,084,960	1,713,270,124	12,362,924
Declining	99,112,217	298,687,339	2,440,630
Unchanged	6,104,510	21,630,670	1,184,400

The holiday is over and investors were buying and the market had its best percentage performance in three months. However, volume was down from Friday's level so despite the gains, the market did not make a follow-through day (FTD).

Economic News

The Empire State manufacturing survey was positive jumping 9 points to 24.9.



The Treasury International Capital report showed foreign investors purchased \$63.3 billion of long-term securities in December versus \$126.4 billion in November. However, China's holdings of US Treasuries fell \$34.2 billion in the month to \$755.4 billion which makes Japan the largest holder at \$768.8 billion. China and Japan hold 42.2% of all foreign-owned Treasuries.

TransUnion, one of the major US credit bureaus, reported **mortgage delinquencies of 60 or more days rose for the 12th straight quarter, hitting a record high 6.89% in the 4th quarter of 2009.**

Financial News

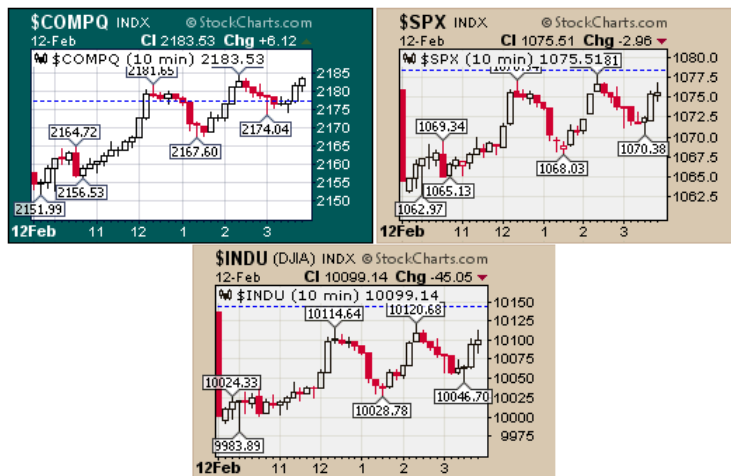
The disclosure of the swaps engineered by Goldman, Sachs for Greece has some regulators in Europe threatening a special audit investigation and possible ban of the firm in Europe.

The Wall Street Journal reported that the Seattle Home Loan Bank has filed 11 suites in King County Superior Court claiming that underwriters misled it about the quality of \$4 billion of mortgage-backed securities it bought during the housing boom. The banks include Bear Stearns, now owned by JPMorgan Chase, Goldman Sachs, Morgan Stanley and Countrywide, now owned by Bank of America. The Seattle FHLB is demanding that the banks repurchase the securities plus interest.

Portfolio Comments

With foreign markets moving higher, we decided to close **our short positions in the Aggressive portfolio this morning** and go long. There were no other changes in the portfolios.

02/12/2010 After the Close



Mixed and rebalanced?

Markets Diary			
	6:08 p.m. EST 02/12/10		
Issues	NYSE	Nasdaq	Amex
Advancing	1,622	1,573	241
Declining	1,415	1,070	227
Unchanged	111	137	47
Total	3,148	2,780	515
Issues at			
New 52 Week High	63	54	5
New 52 Week Low	7	17	4
Share Volume			
Total	1,426,814,029	2,256,618,427	16,774,136
Advancing	650,209,830	1,303,552,481	7,188,850
Declining	758,737,119	806,977,827	8,551,186
Unchanged	17,867,080	146,088,119	1,034,100

The wrath of nature struck Thursday evening ... snow, power and internet outages, trees damaged and we spent all day trying to get heat in the house and the car out of the driveway. We had the only gas range and the neighbors were happy to get hot water. It made the market seem unimportant as we were busy helping people cope with the all-time record snow storm for Dallas. It reminded me of Iowa winters.

For those with a chain-saw, it was a day to work and pile up the debris from the storm. The City of Richardson was going to have a trash holiday on President's Day (Monday) but decided in the interest of safety to mobilize all the sanitation workers to help with the cleanup.

Trading volume was up today but a large portion of it was the impact of index rebalancing thanks to the Berkshire Hathaway split. Advancing issues outnumbered declining issues although the major market indices closed mixed. The markets overcame a major sell-off at the opening but the advance failed to get the DJIA and S&P 500 into positive territory once during the day.

Economic News

Retail sales were reported as being higher in January by 0.5%. Inflation in gasoline and food prices accounted for 27% of the reported gain in monthly January retail sales. Since the MOT also adjusted November and December retail sales downward, the true impact of this report seems cloudy.

According to [ZeroHedge](#), **there is about as much reliability in the Commerce Department's data as in the unemployment data from the Bureau of Labor Statistics.**

For instance, the daily Gallup consumer polling shows a January decline of 5.8% over January 2009 and a 16.3% decline over December.

Once again, the GAAP-based financial statements of the U.S. Government were delayed. Originally scheduled for release on December 15th for the FY 2009 period, the new date is February 26th.

The preliminary February 2010 University of Michigan consumer sentiment data showed a decline from January's 74.4 to 73.7. Perhaps, it was just the weather causing the decline.

Financial News

The details of the supposed Greek assistance remains murky as the Germans continue to insist that they will not open their checkbook. The Germans are unwilling to extend financial aid "on legal grounds, on constitutional grounds and on principle". *Now that is somewhat refreshing to hear.*

Portfolio Comments

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



Fred Richards / Strategic Investing

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