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Market Musings

3/14/08 After the Close

Trying to put Humpty-Dumpty back on the wall ...

Markets Diary — 5:49 p.m. EDT 03/14/08

Issues	NYSE	Nasdaq	Amex
Advancing	530	656	339
Declining	2,656	2,278	924
Unchanged	62	113	86
Total	3,248	3,047	1,349
Issues at			
New 52 Week High	57	13	26
New 52 Week Low	286	226	88
Share Volume			
Total	1,853,442,743	2,520,671,197	40,668,841
Advancing	144,919,170	214,920,170	10,539,351
Declining	1,698,504,183	2,261,029,470	29,367,890
Unchanged	10,019,390	44,721,557	761,600

As we left Laramie, Wyoming this morning, we turned on our satellite radio to the Bloomberg channel and heard the announcement about the NY FED and JP Morgan Chase trying to salvage Bear Stearns. Just yesterday, we heard Bear Stearns stating that they had no liquidity problems. Oops!

We immediately pulled over to the side of the road, got the computer fired up using the AT&T air card and executed an order to close out our long positions in the Aggressive portfolio and to go short.

Technology sure has changed the world of investing since I first went to Wall Street in 1962. Of course, one of Wyoming's finest state troopers pulled up behind me as I was finishing up the transactions and wanted to know if I was having trouble. It took a few minutes to explain what the problem was since I was on the shoulder of the Interstate but all's well that ends well.

Today was a terrible weather day for traveling and for those long's in the market, it was not a fun time either. Let's see ... Thornburg Mortgage going bust, Carlyle Group letting a fund collapse, and now Bear Stearns trying to stay afloat through a 28 day reprieve via the FED's conduit, JPM. You have to wonder how many pieces will be broken before the challenge of putting Humpty-Dumpty back on the wall ... is abandoned for a solution that works.

The Ministry of Truth really insulted the intelligence of every citizen in the U.S. by printing today's CPI data as no change in either the headline or the core number for February. Or maybe they really believe that our dumbed-down public education system along with reality shows on TV have created a class of non-thinking citizens who will believe the MOT data.

The Bear Stearns mess started the sub-prime crisis when they let two of their funds collapse. I find it amazing that they hired Lazard to help them discover a way out of this mess. You really have to wonder about the management team at Bear Stearns. Now we have JPM and the FED trying to avert the run on Bear's liquidity as two major institutions have decided that Bear is not a viable counter-party in derivative trading and their large accounts are trying to move their funds and portfolios to another institution.

Was it not just yesterday that S&P stated that the worst was over ... and then Bear Stearns went to the FED and JPM for operating capital. You really have to wonder about the insight of people on Wall Street and the quality of the research being performed. Moreover, S&P failed to address the upcoming losses in many other categories of derivatives and securitizations such as SIV's and Credit Default Swaps (CDS).

One has to wonder about the wisdom of Alan Greenspan not wanting to increase the transparency of the derivative markets. It would appear that was not a wise decision. Of course, the leverage in all the financial products is now in the de-leverage process.

The September 30th report of derivatives issued by the Comptroller of the Currency did not even list Bear Stearns among the largest players.

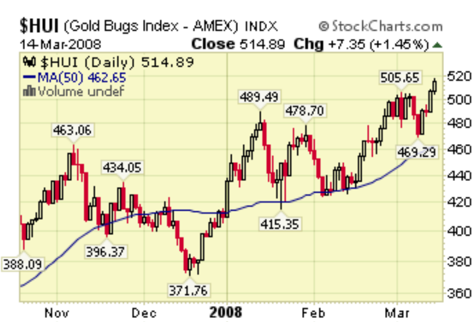
Apparently, the run on Northern Rock in England and now Bear Stearns has failed to cause our FED governors to really analyze the failure of the banking system. A further cut in interest rates next week will only accelerate the decline in the dollar.

The following from Jesse's Americaincafe states the problem facing the financial sector better than I can on short notice:

- The Fed is acting as 'lender of last resort' and saving Bear Stearns from insolvency.
- J.P. Morgan is acting as agent or a *conduit* for the Fed. They are not accepting the risk.
- Bear Stearns could not wait until March 27 when they would have had direct access to the new TSLF. The situation at Bear is so bad that no other bank on the Street would consider providing funding.
- The Fed stepped up in what can only be described as an extraordinary action not seen since the bank failures of the 1960's and 1930's.
- The Fed decided they could not allow Bear Stearns to go through even a managed, orderly failure because it would have set off a major chain reaction of counter-party risk failures that would have decimated Wall Street.
- The deceit and fraud will continue until stopped by an external regulatory force not controlled by special interests.

When net borrowed reserves remain negative at the FED and the repo pool is hitting near record highs, it is long past time to let the chips fall where they should. It might be painful to a few large banks but they took advantage of the rules Congress passed to assist low-income home-owners by letting credit worthiness go out the window.

The dollar traded at new lows against the yen for the past several years and at record lows against the Euro today. In a little-noticed move, the Chinese yuan also made a record high against the U.S. dollar today. **The U.S. dollar index made another all-time record low. Gold managed to break $1,000/oz. while crude was over $111.** A weaker dollar means higher inflation ... doesn't the FOMC understand the basics of economics in today's world. The Gold Bugs index made another new high although many of the junior precious metals stocks are still in the dumps.



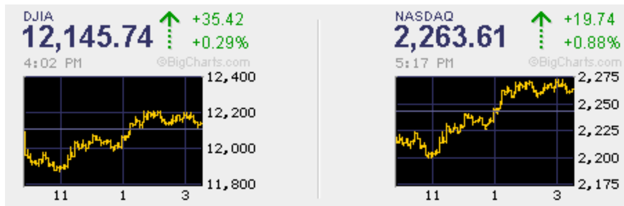
Retail sales yesterday were weaker than expected as consumers are cutting back discretionary spending to pay for necessities.

Consumer sentiment was basically unchanged from the earlier reading but the expected inflation component was up significantly as inflation pressures intrude upon consumer's consciousness.

We are now headed up to Seattle tomorrow from Boise and there will not be a Musings published on Monday evening due to travel and time constraints. We may get something out early Tuesday morning.

Have a great weekend.

3/13/08 After the Close



The market had another knee-jerk reaction to a dubious report and headed higher.

Markets Diary 5:50 p.m. EDT 03/13/08

Issues	NYSE	Nasdaq	Amex
Advancing	1,808	1,797	692
Declining	1,338	1,157	541
Unchanged	93	136	78
Total	3,239	3,090	1,311
Issues at			
New 52 Week High	45	12	28
New 52 Week Low	273	226	83
Share Volume			
Total	1,839,880,930	2,430,497,248	41,997,554
Advancing	1,116,832,410	1,575,970,480	27,120,754
Declining	711,535,260	836,064,303	13,972,500
Unchanged	11,513,260	18,462,465	904,300

The credible (?) S&P suggested that the major write-down of sub-prime is over ... The market rose from down over 238 points to close in positive territory. S&P said **"the magnitude of some write-downs is greater than any reasonable estimate of losses."** First Bernanke, then Paulson, and now the S&P .... someday, they might be correct but probably not in the near future.

S&P said write-downs could reach $285 billion, from the current level of $150 billion. The firm's forecast is much lower than some other estimates, including UBS. UBS said last month it expects firms will face more than $600 billion in write-downs.

Of course, there is about $1.2 trillion of sub-prime, Alt-A and no-doc loans out there. In Europe, Canada and the U.S., banks, insurance companies, pension funds and other financial institutions probably hold $600 billion of these securities. The big problem is where is the rest? If it is Japan as some believe, their fiscal year ends on March 31st and they are also facing a mark-to-market mandate. Perhaps, the yen will weaken when the magnitude of the sub-prime losses is disclosed.

The so-called gilt-edged Carlyle Group discovered the hard way about deleveraging when the assets of one of its subsidiaries was sold to meet margin calls. Since the pebble has started down the snow-covered mountain you have to wonder how long Carlyle will be able to avoid further problems.

One of the factors helping the yen strengthen in March each year is the repatriation of earnings from overseas holdings to improve domestic financial data.

The DJIA was down 238 points before the report surfaced ... perhaps, it was just a hope ... but the market turned around and shook off the jitters and volume increased in today's trading. Hope springs eternal in investors. Still new 52 week lows out-number substantially new 52 week highs. The bull has not returned.

The FED's infusion of $365 billion during the past week and $10 billion of POMO's along with an increase in the repo pool by over $40 billion to $297 billion as of today has not helped move the market significantly higher because the problems are systemic ... and deleveraging can not be reversed by more fiat currency. The problem is not liquidity ... it is that the bank's are basically insolvent and the FED is not willing to bit the bullet but hope to inflate the dollar to solve the problem.

There is some speculation that a major U.S. primary dealer is in trouble. The WSJ suggests that the victim might be Bear Stearns. More likely in my opinion, is either Citibank or JP Morgan Chase as the size of their derivative exposure is multiples of Bear Stearns and they are also holding a lot of private equity debt which has not been sold to date since the 1st and 2nd Qtr of 2007.

In economic news, February retail sales fell 0.6%, which fell short of the expected 0.2% rise. When excluding autos, sales fell by 0.2%, which missed the consensus estimate that called for a 0.2% increase.

Thanks to the FED, the dollar fell to new lows against the yen and Euro while gold traded over $1,000/oz. and most commodities were stronger.

We spent all day traveling so today will be short again. We made no changes in the portfolios. Tomorrow, we will leave Laramie, Wyoming early and try to drive carefully through the snow, rain and mix from here to Boise, Idaho and then on up to Seattle.

3/12/08 After the Close

And at the end of the day, the markets were under-water!

Markets Diary — 6:02 p.m. EDT 03/12/08

Issues	NYSE	Nasdaq	Amex
Advancing	1,195	1,272	577
Declining	2,000	1,672	655
Unchanged	59	125	95
Total	3,254	3,069	1,327
Issues at			
New 52 Week High	39	13	11
New 52 Week Low	112	132	62
Share Volume			
Total	1,560,442,127	2,082,271,265	29,299,264
Advancing	485,135,000	780,667,054	12,536,540
Declining	1,068,849,827	1,286,947,686	15,098,324
Unchanged	6,457,300	14,656,525	1,664,400

Although volume was lower, the fact that despite the FED's actions yesterday, the market was unable to stay make two up days in a row should raise the concern level at the FED. If you blame today's closing performance on just profit-taking, you must agree with the Goldman Sachs analyst who suggested that the market needs require a significantly higher amount of assistance than what has been done so far.

We spent most of the day traveling, gave a presentation on the overall market this evening here in Oklahoma City and have a hard day ahead tomorrow and the next day.

We made no changes in the portfolios today but have moved the hard stops on the longs in the Aggressive and Conservative portfolios to a 3% Stop rather than the customary 6%. We will only be able to check the market sparingly tomorrow so we have decided to be very prudent.

3/11/08 After the Close

A panic-stricken Helicopter Ben dropped $200 billion today into the markets!

Markets Diary			5:18 p.m. EDT 03/11/08
Issues	**NYSE**	**Nasdaq**	**Amex**
Advancing	2,647	2,165	865
Declining	535	767	428
Unchanged	51	102	87
Total	3,233	3,034	1,380
Issues at			
New 52 Week High	14	7	12
New 52 Week Low	177	277	103
Share Volume			
Total	1,945,671,537	2,452,359,971	51,705,665
Advancing	1,746,440,157	2,166,596,118	37,966,965
Declining	190,330,480	259,764,890	12,759,390
Unchanged	8,900,900	25,998,963	979,310

The FED has decided to help the dollar fall completely out of bed by the infusion of over $200 billion today into the system on top of the $140 billion dumped on Friday from the helicopter. The magnitude of the panic can be seen in the coordination of effort by other central banks trying to hold back the onrushing tide of financial panic.

Participating central banks include the Bank of Canada, the Bank of England, the European Central Bank and the Swiss National Bank. Note that all of these central banks have had to rescue members of their banking system from going under.

It should be obvious to anyone with any economic understanding that the financial system is wavering on the precipice. While the FED's action ignited the best rally since 2003 for the indices, remember that most rallies of this magnitude occur in a bear market.

While we did move swiftly to convert our shorts in the **Aggressive portfolio** to a long position shortly after the market opened, we will be willing to move back to the short side if the momentum is lost. We acknowledge that after three bad down days in a row, the FED's action was designed to stop the continued carnage but whether it will be able to change the basic economic problems in the world is open to question. After the euphoria wears off, we could easily return to a market in retreat.

Surprisingly to me when one looks at the total volume generating a rise of over 3.5% in the DJIA and NASDAQ, it was not significantly higher than the previous day. Also, take a look at the new 52 week lows which continued to eclipse the new 52 week highs. On the NYSE, there were 535 declining stocks and 177 of them made new 52 week lows. On the NASDAQ, there were 767 declining stocks and 277 of them made new 52 week lows. Obviously, there were some companies that did not participate in this over-sold rally.

From John Williams after yesterday's Musings went to press comes this information.

> The Federal Reserve's announcement Friday morning (March 7th) that it was increasing its term auction facility (TAF) for troubled banks to $100 billion, and that it additionally would offer a further $100 billion in term repos sent two important signals. First, the bank solvency crisis is intense and is deteriorating rapidly. Second, the Fed has revved up the currency printing presses (the electronic version as noted by Mr. Bernanke several years back) and will continue to create whatever money it has to create in order to prevent a systemic implosion.

And today, John Williams added:

> The Federal Reserve's announcement today (March 11th) that it will be providing an added $200 billion in liquidity to the system in a coordinated action with other central banks, on top of the $200 billion emergency funding announced by the Fed on Friday (March 7th), again highlights the depth of and the ongoing deterioration in the banking system's solvency crisis. The good news is the Fed will create whatever dollars it needs to keep the system from imploding. The bad news is the price that will be paid in higher inflation. Despite any relief rallies that seem to be taking place in the equity and dollar markets, the news here has horrendous implications for the dollar and inflation, corresponding positive implications for gold, and likely continued trouble for equities.

The panic at the FED can be seen as the 74 of 80 AAA-bonds in the ABX index were below investment grade. But now with the revised FED guidelines on collateral, it can all be dumped on the FED as collateral. Don't look now but you and I, not the bankers, are going to be stuck with the cost of the bonds through increased inflation.

But since most of the FED governors are either bureaucrats or academics, they fail to realize that the measures which they have implemented can only work if the problem is a lack of liquidity. It is not! The problem is solvency of the financial institutions.

Likewise, when companies and individuals find credit standards increased, living expense increasing, they tend to tighten their belts. As a result, increased liquidity does not get sopped up by the consumer through loans but feeds further inflation.

The US dollar rallied against the Euro and the yen following the FED's announcement. However, in after hours trading, the U.S. dollar began giving back some of those gains. Crude oil continued to move higher as did gold.

One immediate consequence of Bernanke's helicopter drops was reported this afternoon by Bloomberg:

> The risk of losses on U.S. Treasury notes exceeded German bunds for the first time **ever** amid investor concern the subprime mortgage crisis is sapping government reserves, credit-default swaps prices show.
>
> Contracts on 10-year Treasuries traded at a record 16 basis points earlier today, compared with 15 basis points on German government notes, according to data compiled by BNP Paribas SA. In July, U.S. credit-default swaps were at 1.6 basis points, compared with 2.5 basis points on bunds.

Yes, Mr. Bernanke and the rest of your Federal Reserve cohorts, keep on letting the dollar fall and we will soon need $10 for a gallon of gas.

Despite a falling dollar during January, the trade deficit rose to $58.2 billion from $57.8 billion in December. As I keep stating, if you don't have anything beside agricultural commodities and airplanes to sell, a falling dollar is not going to help the trade deficit much.

In the Conservative portfolio, we went long but will keep our fingers on the trigger to close out the position as soon as the momentum stalls. We also closed out the shorts in the ETF portfolio and went long.

We are off on our two week driving trip to Oklahoma City and the Pacific Northwest beginning tomorrow morning so the Musings may be late or not published due to travel conditions. Let us hope that we miss the winter storms.

3/10/08 After the Close

The indices have made new lows for the past three days!

Markets Diary — 5:33 p.m. EDT 03/10/08

Issues	NYSE	Nasdaq	Amex
Advancing	498	670	331
Declining	2,670	2,301	961
Unchanged	71	95	96
Total	3,239	3,066	1,388
Issues at			
New 52 Week High	8	5	24
New 52 Week Low	412	454	179
Share Volume			
Total	1,612,118,755	2,148,297,981	49,575,768
Advancing	166,432,650	368,723,592	10,880,780
Declining	1,435,394,415	1,749,939,202	37,146,128
Unchanged	10,291,690	29,635,187	1,548,860

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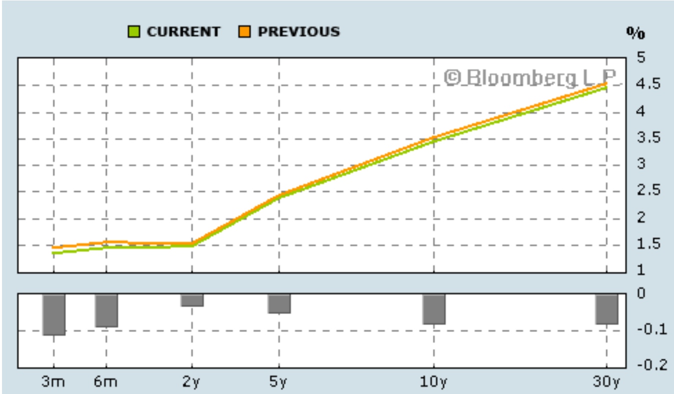
Volume was somewhat lower than Friday but the indices still managed to close at their lows for the day. New 52 week lows skyrocketed today while new 52 week highs almost disappeared. Since February 29th, the market indices have made new lows as shown by the pink data points in the following table.

2/29/2008	12266.39	1330.63	2271.48	686.18
3/3/2008	12258.90	1331.34	2258.60	684.22
3/4/2008	12213.80	1326.75	2260.28	680.98
3/5/2008	12254.99	1333.70	2272.81	683.74
3/6/2008	12040.39	1304.34	2220.50	662.78
3/7/2008	11893.69	1293.37	2212.49	660.11
3/10/2008	11740.15	1273.37	2169.34	643.97

Wall Street hopes for a 75 basis point cut in the fed funds rate was high and perhaps, even before the next FOMC meeting. But again, the only real beneficiaries of that cut will be the banks since lending criteria is increasing and the yield curve is widening all along the curve. At least, the inverted yield curve has abated. JP Morgan hopes that Wall Street is facing only a "systemic margin call" of $325 billion on just subprime mortgages. Unfortunately, they have not quantified the muni, GSE and credit card loan problems in that guess.



A report from London indicates that European banks face at least $68 billion more write-offs as the credit crisis continues. S&P, Fitch's and Moody's continue to downgrade the ratings of Alt-A tranches. In a interesting request, the President of MBIA requested that Fitch withdraw its ratings on MBIA as it might negatively impact their ability to continue. Such chutzpah!

The FED put an emergency $200 billion in to the banking system last week rather than cutting rates further .. simply amazing that they figured out that rate cuts are not working to stop the crisis. Net bank reserves at the FED continue to remain in negative territory suggesting that the system is in trouble.

Oil went above $108/barrel and the bad news for the financial sector continued to raise investors concern. Commodities appeared to be under pressure but gold and silver held up pretty well while the precious metals shares continued to weaken. The CRB index was volatile today but managed to end up higher.

However, commodity prices might not impact the FED's decision to lower interest rates and to allow the dollar to continue to fall. A bias toward growth rather than inflation is permeating the FED's decision ... thinking that a lower dollar might help exports.

Yet, since January 2002, the U.S. dollar index has fallen about 40% and can you detect a noticeable surge in any export category other than agricultural commodities and airplanes. The trade deficit continues to remain above $55 billion/month.

Carlyle Group is hoping to forestall the liquidation of about $16 billion in securities after missing margin calls on its $21.7 billion portfolio of residential mortgage-back bonds. It said that $5 billion in securities held as collateral had already been liquidated. Guess the margin clerks decided not to wait for any negotiations.

Blackstone Group, a private equity firm, reported $170 million in losses in the 4th Quarter due to write-downs in its portfolio and deterioration in the credit markets. Blackstone went public last June and hit an all-time low on the news. Since its IPO, the value of Blackstone has dropped by over 50%. Do you wonder when the lawyers will begin to circle over possible misrepresentations in the IPO prospectus?

A Barron's article this weeks questions whether Fannie Mae and Freddie Mac could continue to raise money unless the U.S. Treasury explicitly guaranteed their debt. Fannie even if it returns to profitable earnings in the near future will probably not earn enough to utilize the deferred tax assets that are a large portion of its net worth.

Certainly, the market is under a lot of pressure. Prudent investors should be seeking safety. We made no changes in the portfolios today.

3/7/08 After the Close

IBD® does not count distribution days when the Market is in a Correction!

Markets Diary — 5:16 p.m. EST 03/07/08

Issues	NYSE	Nasdaq	Amex
Advancing	1,138	1,111	401
Declining	1,996	1,801	899
Unchanged	88	125	82
Total	3,222	3,037	1,382
Issues at			
New 52 Week High	13	6	26
New 52 Week Low	381	426	148
Share Volume			
Total	1,693,874,462	2,384,209,372	56,861,974
Advancing	521,445,160	864,542,014	15,148,761
Declining	1,145,644,902	1,494,156,450	40,923,213
Unchanged	26,784,400	25,510,908	790,000

Today's employment report weighed heavily on the market. The FED announced a $40 billion increase in the Temporary Loan Facility (TAF) to help improve bank liquidity but investors are beginning to worry about funds created out of thin air. The FED, in a statement, said it planned to continue the auctions for at least six months, and would move to even larger auction amounts if needed. The TAF facility is free money below the inflation rate for the banks.

In a second step, the FED said it will make $100 billion available to a broad range of financial players through a series of separate transactions starting on Friday. Perhaps, the FED is planning on just monetizing all those trillions of defaulted debt called "mortgage backed securities."

With money supply increasing at rates which guarantee inflation and further deterioration of the U.S. currency, investors should be worried about the effect upon their long-term investment positions. The U.S. dollar index plunged to its lowest level today but a late rally found it closing up 9 cents on the day at 73.04, the second lowest close in history. Investors bailing out of stocks today drove the yield on the 10 year Treasury down to 3.54% as they sought a safe haven.

New 52 week lows, declining issues and declining volume were dominant again today. The major indices, NYSE, DJIA, S&P 500, NASDAQ and the Russell 2000 all undercut their previous lows today again. Technically speaking, the markets are not in good shape. The following table shows the market losses since the peak reached on October 9, 2007 ... just five months ago.

DATE	DJIA	S&P 500	NASDAQ	Russell 2000
10/9/2007	14164.53	1565.15	2803.91	845.72
3/7/2008	11893.69	1293.37	2212.49	660.11
Loss	2270.84	271.78	591.42	185.61
Percentage	16%	17%	21%	22%

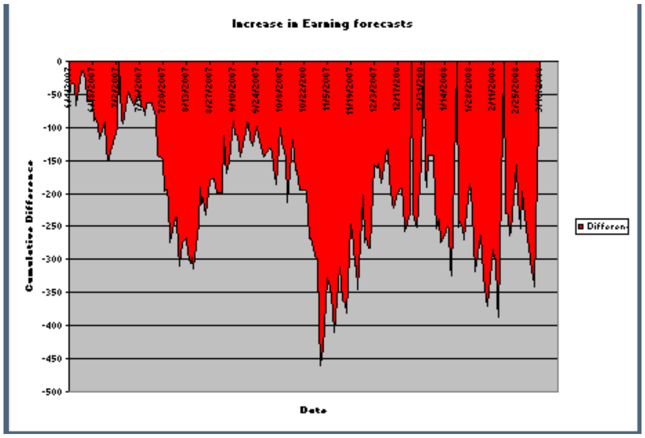
I think it goes without saying that the bear has returned! The markets are being manipulated and no one cares. The DOW was off 225 with ONE hour to go when the PPT sent in its HAIL MARY play again. The DOW soared 175 points without any feigned news this time before retreating to the close.

For the second month in a row, the BLS employment report showed net job losses ... in February of 69,000 on a seasonally adjusted basis. The Ministry of Truth also revised downward the previous two months data. By assuming that over 518,000 people were no longer looking for work, the unemployment rate fell from 4.9% to 4.8%. The MOT is playing with numbers again!

As you may know, I believe the non-seasonally adjusted BLS numbers provide more insight into the actual employment situation since there is a lot of jockey room in the seasonally-adjusted numbers. The following table shows the NSA data.

2007	Not Seasonally Adjusted		Jan		Feb
		Jan		Feb	
Civilian noninstitutional population		232616	-540	232809	193
	Civilian labor force	152828	-877	152503	325
	Participation rate	65.7		65.5	
	Employed	144607	-1727	144550	57
	Employment-population ratio	62.2		62.1	
	Unemployed	8221	850	7953	268
	Unemployment rate	5.4		5.2	
	Not in labor force	79788	337	80306	518
	Persons who currently want a job	4977	579	4689	288
	Source: BLS Reports. Table A-1, NSA data				

The future outlook for corporate profits also does not look good. Strategic Investing tracks data from NASDAQ on the number of companies reporting increases or decreases in their earnings forecasts according to financial analysts. Since June of 2007, there has not been one day when the number of increased earnings forecasts by analysts has been higher than the number of decreased earnings forecasts. This data does not bode well for corporate profits. The chart of the daily moving averages is shown below.



The Carlyle mess continues to build as additional banks served default notices and gave additional margin calls today. Carlyle Capital has begun to liquidate securities held in its $21.7 billion portfolio and the fund said Friday it was considering "all available options." Carlyle also said that lenders were selling off securities held as collateral. Carlyle is one of the world's largest private-equity firms with $76 billion in assets under management.

Spreads between US Treasuries and corporate bonds have approached their widest levels since 2002. Average investment-grade spreads had closed on Wednesday at 264 basis points over Treasuries, just 8 basis points shy of a record set on Oct. 10, 2002, a year of massive bankruptcies, according to Merrill Lynch data going back to December 1996. In the credit default swap market, the main investment-grade index rose about 19 basis points to a new record wide of about 184 basis points, while swaps on brokers' bonds rose about 30 basis points.

Commodities were sold today as investors were liquidating positions to meet margin calls. The CRB index dropped as did gold, silver and copper. Corn and soybeans were limit down today.

We made no changes in the portfolios today. Beginning next Wednesday, we will be traveling for about two weeks and the Musings may be delayed and short.

Fred Richards/Strategic Investing.

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