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Market Musings

3/20/08 After the Close

A follow-through day on nothing but the FED's extraordinary largesse in bailing out the financial system!

Markets Diary — 5:58 p.m. EDT 03/20/08

Issues	NYSE	Nasdaq	Amex
Advancing	2,350	1,969	684
Declining	852	989	519
Unchanged	64	110	97
Total	3,266	3,068	1,300
Issues at			
New 52 Week High	17	11	11
New 52 Week Low	132	209	65
Share Volume			
Total	2,715,654,701	2,702,768,614	65,131,511
Advancing	2,054,820,941	2,257,605,707	31,131,811
Declining	633,053,560	414,186,266	31,543,900
Unchanged	27,780,200	30,976,641	2,455,800

The economic news was not good. However, the markets were encouraged by the billions of fiat money the FED continues to throw into the abyss trying to keep the systemic failure from occurring.

It was interesting to note that the Investor's Business Daily has now called that the markets are now in a "confirmed rally" after today's close. Like the previous rally which failed, the circumstances surrounding this rally attempt appear to be less than stellar to this observer. During the eight days since the follow-through occurred, the FED has provided well over $600 billion of support to the markets either than increases in the money supply, the repo pools and POMO's.

As the FED swaps its AAA rated U.S. Treasury bonds for toxic paper and opens the discount window under the emergency powers of the 1933 act to not only banks but investment banks, it should be obvious to you that a profound shift has taken place in the fight to prevent banks from going under because of the massive derivative problem. The FED has decided to let the dollar weaken and inflation to increase. Of course, the numbers that the Ministry of Truth will report will understate inflation considerably.

The systemic solvency/liquidity crisis has intensified at an accelerating pace, with three major, emergency Federal Reserve actions seen in the eight days through Friday.

- On March 7th, the FED increased the Term Auction Facility (TAF) at the discount window for banks from $60 billion to $100 billion. It also promised another $100 billion in emergency funding in temporary repo's and banks could use otherwise illiquid mortgage-backed securities (MBS) as collateral.
- On March 12th, the FED created a Term Securities Lending Facility (TSLF) to lend up to $200 billion of Treasury securities to primary dealers on a term basis with MBS as collateral.
- On March 12th, the FED also increased its existing currency swap lines with the European Central Bank and the

Swiss National Bank.

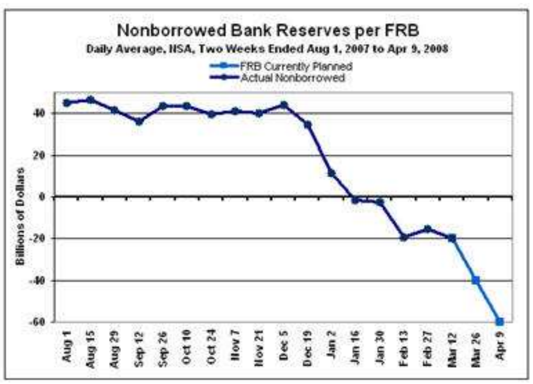
- On March 14th, the FED agreed to allow JPM Chase to use the discount window to bailout Bear Stears which appeared on the verge of collapse. They also decreased the discount rate by 25 bps to 3.25% on Sunday, March 16th, by 50 basis points in an very unusual move.
- Since March 17th, the FED has also materially increased the amount of POMO's issued.
- On March 17th, the FED added $12 billion in temporary repo's and later in the morning added another $17.99 billion in permanent repo's (POMO's). Then shortly, before noon, they added another $5 billion in POMO's. POMO's have about nine times the impact that REPO's do in boosting the system.
- On March 18th, the FED added $24.25 billion to the repo pool bringing it to a record level of $244.208 billion.
- On March 18th, the FED reduced the fed funds rate by 75 bps to 2.25%. The discount rate was also reduced to 2.5%.
- On March 19th, the FED added $7.25 billion to the repo pool keeping the total near record levels at $244.408. After 11 a.m., the FED added $14.999 billion in POMO's to bring the repo pool to all-time record levels.
- On March 20th, the FED added $29 billion in repo's bringing the total to $267.157 billion. In the afternoon, the FED added another $4.957 in POMO's to bring the total to a new record high of $272.114 billion.

Prior to accepting toxic paper as collateral, the FED only held about $865 billion in U.S. Treasuries. I wonder when the rating agencies will start to down-grade their credit.

Moreover, the above injections does not include the $165 billion stimulus package Congress and the President concocted earlier to prevent the recession from occurring. Now that most economists believe that we are in a recession, will the politicians add more money to the economy ... of course, it all just is paper money and will end up increasing inflation further.

John Williams of Shadow Government Statistics (SGS) has calculated that M3 in February grew at a 16.9% annual rate, the highest monthly growth rate ever for M3.

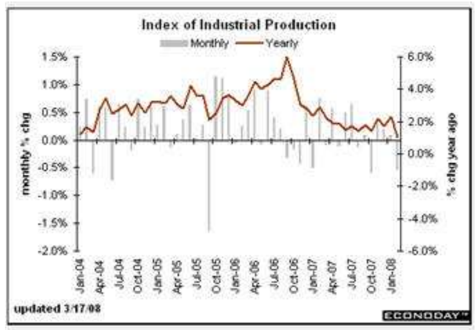
The results of all the FED's moves still has now moved the non-borrowed reserves at the FED back into positive territory as it continues to increase. The following chart from SGS shows the FED nightmare continues.



Yet since the follow-through day on March 11th, the $600 billion of support has hardly moved the market indices as shown in the following table. I am worried that this rally is also doomed to failure.

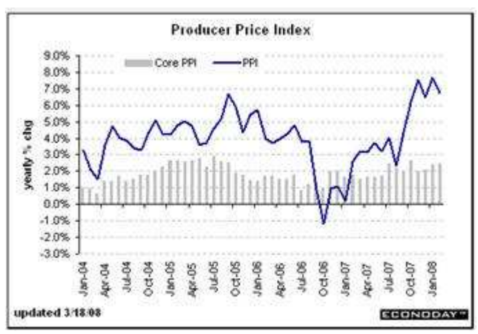
Date	DJIA	S&P 500	NASDAQ	Russell 2000
3/11/2008	12156.81	1320.65	2255.76	673.81
3/12/2008	12110.24	1308.77	2243.87	667.31
3/13/2008	12145.74	1315.48	2263.61	679.71
3/14/2008	11951.09	1288.14	2212.49	662.90
3/17/2008	11972.25	1276.60	2177.01	650.48
3/18/2008	12392.66	1330.74	2268.26	681.93
3/19/2008	12100.00	1298.42	2209.96	664.13
3/20/2008	12361.22	1329.51	2258.11	681.42
3/21/2008	12361.22	1329.51	2258.11	681.42
Change since				
3/11/2008	**204.41**	**8.86**	**2.35**	**7.61**
	1.7%	**0.7%**	**0.1%**	**1.1%**

Economic reports during the week failed to show significant strength. The index of industrial production was down by 0.5% in February 2008. Motor vehicles declined by 1.0%. During the past year, industrial production is essentially flat.

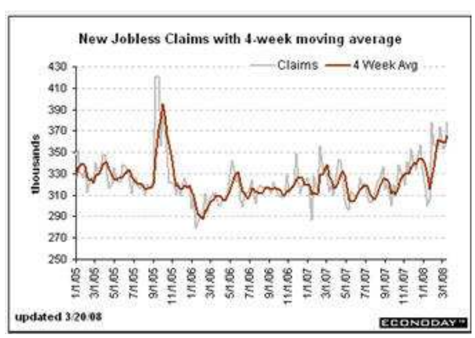


Housing continues to languish and permits dropped 7.8% in February. Housing starts remained slightly above the 1.0 million rate. Single family home starts continued to drop while multi-family units continued to increase.

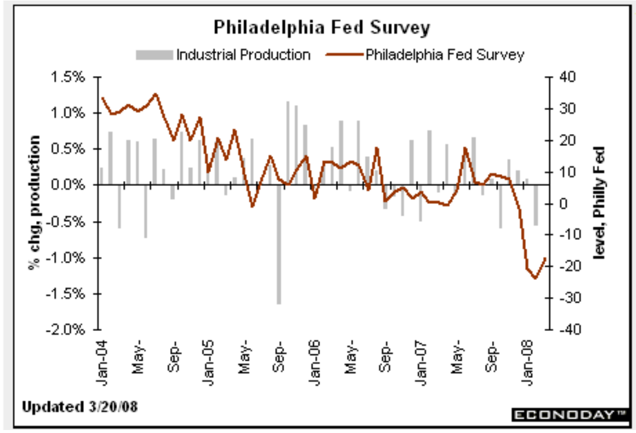
Unlike the CPI index last Friday which showed inflation flat, the PPI index continued to climb rising 0.3%. In fact, if the food component had not been negative, the rate would have been higher. Crude material PPI increased 3.7% in February.



New jobless claims were higher at 378,000 in the latest week. Continuing claims also increased to 2,865 million suggesting that employment is getting more difficult to find for laid-off workers.



When I heard somewhere in Utah, the Bloomberg report on the Philadelphia FED survey as a positive development and one that should help the markets move higher, I almost lost control of the automobile as I began laughing. A -17.4 reading is not good … in fact, it is terrible!



The Index of Leading Indicators from the Conference Board based upon February 2008 data showed a 0.3% decline and helped some economists tilt their forecasts towards a recession. It should be obvious that the leading indicators are based upon data that is already old ... so how can it be called a leading index. During the trip to the Pacific Northwest, it became very obvious as we drove by mall parking lots, and had no problems finding a motel room on short notice despite it being Spring Break and the week between Good Friday and Easter that the economy is in a recession!

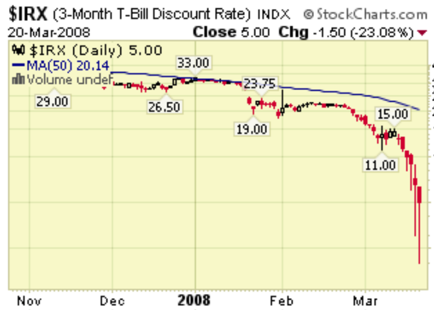
The FED has also been successful in taking down the price of commodities in the short-run during the past few days. It remains to be seen if the bear raid will help them reduce their short positions or just provide people overseas with another buying opportunity for gold and silver.

While prices of futures for gold and silver have taken a sizeable hit, go to your local gold and silver bullion dealer and try to buy some. The physical market is very tight. The recent market action is on paper ... not the physical metal.

Crude oil moved lower after posting record high prices during the week. West Texas crude still closed above $100/barrel. Copper was also sold heavily although inventories remain very high. Note, however, that the price of copper recovered on Thursday after falling below $350 during the day.

The soybean harvest in South America is underway and initial reports suggest that it will be a normal crop. With world soybean carry-over near dangerously low levels that is good news for many in China and Southeast Asia. In the U.S., input costs are now indicating that corn acres may revert to soybeans as soybeans are more profitable currently.

As the markets gyrated and the FED tried to save the banking system from its follies, interest rates in the U.S. continued to move lower well beyond the effect a 75 bps cut on Tuesday by the FOMC would be expected to generate. The 90 day Treasury bill is selling at the lowest level since the Eisenhower administration. The ten year Treasury note is yielding 3.33% at Thursday's close. Apparently, people have become very concerned about the safety of their capital and are foregoing yield.

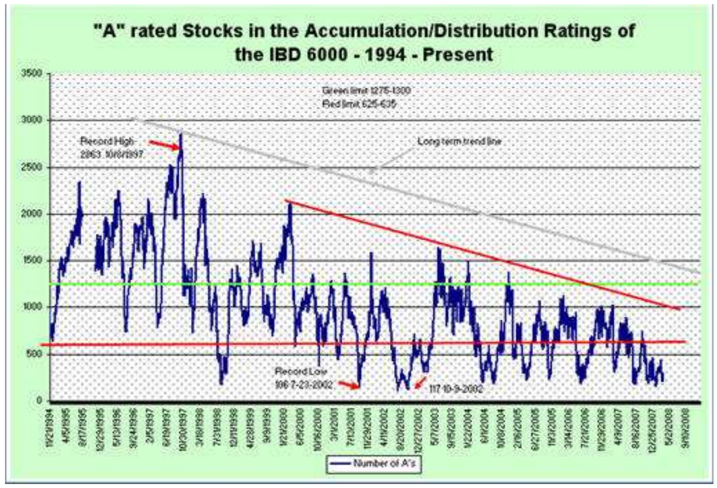


As an old mentor used to say, it is better to see for yourself than to take the word of someone in academia or the government!

Since Wednesday, March 12th, we have been away from the office and with only limited access to a computer. On Monday, our updates to our Action Points failed to execute so we took a considerable hit on Monday and Tuesday to the portfolio values. We finally connected with our trading accounts and discovered that we had been on a significant roller-coaster. On Thursday morning, we executed many trades shortly after the open so you should check the portfolios.

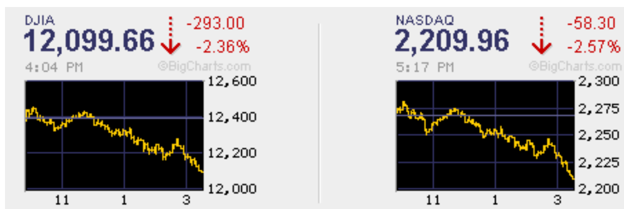
Despite all the roller-coaster moves of the past ten days, the Simple Timing Indicators (STI) remain definitely on the short side as shown in the following two graphs. They are not in agreement with the "confirmed rally" call made by Investor's Business Daily.

Certainly institutions and their black boxes dominate markets. If institutions can not find good stocks to buy, markets will have a difficult time in continuing to advance. The following chart of the "A" rated stocks in the Investor's Business Daily database suggests that the number of those stocks is near record lows. Until the number of "A" rated stocks begins to show strength, the current rally could have problems.



Although William J. O'Neil whose birthday is this weekend is now suggesting that the "Market is in a Confirmed Rally," I remain dubious because of the huge amounts of liquidity pumped into it. Black boxes may react positively to this liquidity but thinking investors should remain cautious.

3/19/08 After the Close



So much for the uplift from the rate cut and the VISA IPO!

Markets Diary 5:59 p.m. EDT 03/19/08

Issues	NYSE	Nasdaq	Amex
Advancing	941	881	419
Declining	2,254	2,076	816
Unchanged	71	119	104
Total	3,266	3,076	1,339
Issues at			
New 52 Week High	27	21	5
New 52 Week Low	109	150	64
Share Volume			
Total	1,967,111,542	2,274,708,847	39,181,242
Advancing	339,928,780	308,452,789	8,633,200
Declining	1,525,675,562	1,942,584,333	29,402,842
Unchanged	101,507,200	23,671,725	1,145,200

After being out of touch for about 36 hours since Monday, we have finally arrived through rain, snow and ice storms in Ogden, Utah after celebrating the 90th birthday of our remaining Uncle in Portland, Oregon.

We have discovered that our automatic stops which we thought were entered on Monday failed to execute. Iit points out the necessity to remain on top of the markets when chaotic conditions occur.

Early today, we heard Jim Rogers take both Chairman Bernanke and Secretary Paulson to the woodshed about their actions for the past six months. If you can find his comments which were on Bloomberg radio, you might want to pay close attention to them.

It is now 11:30 p.m. and we are going to head early in the morning back towards Dallas from here trying to make a funeral early Saturday.

The latest rate cut sure did not solve the bank credit issues nor did the funds the banks derived from selling shares in Visa.

Commodities were bashed heavily throughout the sector. The HUI index dropped over 6% today after being sold heavily yesterday. Gold has backed off of it highs. Both corn and soybeans were limit down as hedge funds began liquidating contracts.

The FED has pumped up the repo pool and issued more POMO's after 11 a.m. today which failed to keep the markets from moving lower. The dollar moved up from its record lows partially as a result of central bank intervention. The real key is that the 90 day T-bill has fallen to near record lows as people as suddenly worried about capital preservation rather than yield.

Yesterday's uplift has almost disappeared as more investors are beginning to see the futility of the FED's actions.

This weekend we hope to have a more detailed review of the week's happenings.

3/18/08 After the Close

The Musings were not published on Tuesday, March 18th.

3/17/08 After the Close

Bye, Bye ... Bear .... Bear, Stearns, that is!

Markets Diary 5:50 p.m. EDT 03/17/08

Issues	NYSE	Nasdaq	Amex
Advancing	545	729	264
Declining	2,654	2,234	981
Unchanged	59	122	67
Total	3,258	3,085	1,312
Issues at			
New 52 Week High	33	9	26
New 52 Week Low	759	477	218
Share Volume			
Total	1,992,727,969	2,348,469,699	42,510,755
Advancing	436,212,620	523,883,961	10,346,335
Declining	1,529,934,449	1,795,807,044	31,502,520
Unchanged	26,580,900	28,778,694	661,900

In less than a few hours, BSC fell from $30/share to $2/share as the FED tried to calm the markets ... but it was probably gasoline instead of water that was used and the carnage continued as investors throughout the world said ... the problem is not getting fixed ... who's next to fall!

JPM managed to show a price gain on the day and lifted the DJIA all by itself into positive territory. The rest of the Dow stocks and all the other indices were in negative territory as declining volume, declining shares and new 52 week lows all followed the foreign markets lower. **If anyone ever doubted that JPM was either an arm of the U.S. Treasury, or the U.S. Treasury, today's actions should dispel all doubts!**

Of course, playing with funny money is ok until people started asking for something of value ... the U.S. Treasuries held by the FED have been shrinking during the past few weeks.

The Visa IPO probably won't hit the market tomorrow and the FED will reduce interest rates further at their meeting tomorrow. The repo pool sat at $219 billion after today's normal addition but a $18 billion POMO and another $5 billion POMO were added during the keep the markets from plunging further. A POMO has about 7 times the effect as a temporary repo.

Despite the farcical CPI reading for February, the FED has let loose inflation and the dollar will continue to move south. Most agriculture commodities were limit down today as hedge funds and others were selling in an attempt to raise cash to meet margin calls. It is getting very interesting. The best place to be is out of the market with cash overseas or on the sidelines for prudent investors.

Tuesday morning ....

The markets overseas have moved higher in the hopes that the FED's actions over the past week will keep the financial markets from imploding.

Jim Rogers had an interesting take on the FED takeover of Bear:

> 'You know the reason they did it this way was because, if Bear Stearns had to declare bankruptcy, you'd

> realize that Bear Stearns paid out billions of dollars in bonuses in January - six weeks ago. If he let them go into bankruptcy, they all would have had to send back their bonuses. This is what they're doing, they're doing it so they don't have to give back their bonuses.'

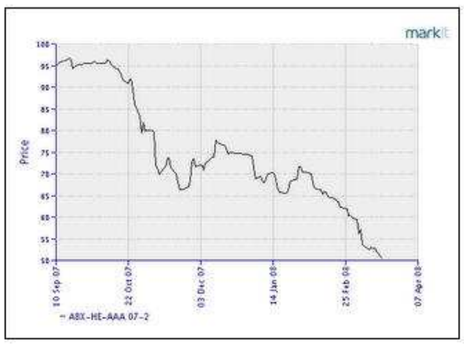
Yes, greed is still alive and the taxpayer gets stuck with the bill.

The real problem facing the FED is a lack of confidence. S&P economist, David Wyss, confirmed the firm's overall lack of credibility in my mind with the following statement yesterday about the FED's action plan:

> "It doesn't address the fundamental problems, which is that financial markets are just scared," said David Wyss, Standard & Poor's chief economist. "The Fed is trying, but they don't have a magic wand to wave and make everyone confident again."

The problem isn't that the market just happens to be scared and there is a major lack of confidence in financial instruments and their valuations. The fall of Bear's price from $30 to $2 in less than 24 hours points up the disparity between perception of value and reality when things go bust.

The ABX indices continue to deteriorate as shown in the following graph. And to think that originally, these securities were rated AAA. Is it any wonder that the rating agencies are suspect today?



The real problem is that it is scared for a reason: insolvency and defaults are spreading, all as a direct result of the United States living above its means for three decades. The FED's action in trying to shore up the markets is doomed to failure.

We made no changes in the portfolios today. Tomorrow we will be out of touch for most of the day and may not publish a report until sometime Wednesday. The FED will not take positive action and raise the interest rate but will continue to try to support the major banks with another rate decrease, possibly, of 100 basis points. If it does, watch for the U.S. to become the new carry trade currency.

When consumers decide to cut spending on discretionary items which is now happening, the increased loan requirements will further cause the economy to slow. We are now in at least a recession and probably have stagflation occurring. The U.S. could be entering a very difficult period if consumers find imports becoming more expensive and further decrease their spending.

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.

Fred Richards/Strategic Investing.

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