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Market Musings

04/09/2009 After the Close



Opened up and never looked back!

Markets Diary		6:02 p.m. EDT 04/09/09		
Issues	NYSE	Nasdaq	Alternext	
Advancing	2,744	2,325	387	
Declining	393	482	173	
Unchanged	49	120	70	
Total	3,186	2,927	630	
Issues at				
New 52 Week High	13	22	4	
New 52 Week Low	0	3	2	
Share Volume				
Total	1,824,011,138	2,153,588,821	14,388,862	
Advancing	1,699,968,308	1,961,292,337	10,084,952	
Declining	116,385,030	183,182,448	2,956,510	
Unchanged	7,657,800	9,114,036	1,347,400	

Wells Fargo's earnings were better than expected and Larry Summers suggested that the economy was getting better. As a result, investors jumped into the market today despite the three day holiday this weekend. The cautions from Nouriel Roubini and others failed to impress investors looking to not miss the rally.

Of course, one has to worry about the shrinkage of charge-offs in the quarter for Wells Fargo. Is \$23 billion in bad debt reserves large enough for Wells Fargo and its Wachovia loan portfolio? **If Wells Fargo had been required to use mark-to-market rules, the bank would actually have lost money in the first quarter.** Still Wells Fargo's announcement helped financial and bank stocks to move higher throughout the day.

The Philly Bank index jumped 20% today as shown in the following chart.

- » Daily Market Musings • Archive
- » Daily Stock Watch List • Archive
- » Technical Notes
- » Portfolio Review
- » Stock Selection in Down Markets
- » Selling Rules
- » Dow Jones Earnings
- » Gold Stocks
- » Homebuilders
- » Shorting Strategies
- » Foreign Bank Accounts
- » CRB Changes
- » Economic Indicators
- » Accumulation/Distribution Data
- » Portfolios
- » Aggressive
- » Conservative
- » Precious Metals
- » Renew Subscription



Since Warren Buffet's company owns 105% of Wells Fargo, he must be happy that FASB was forced to change the rules. The stench from the toxic assets continues!

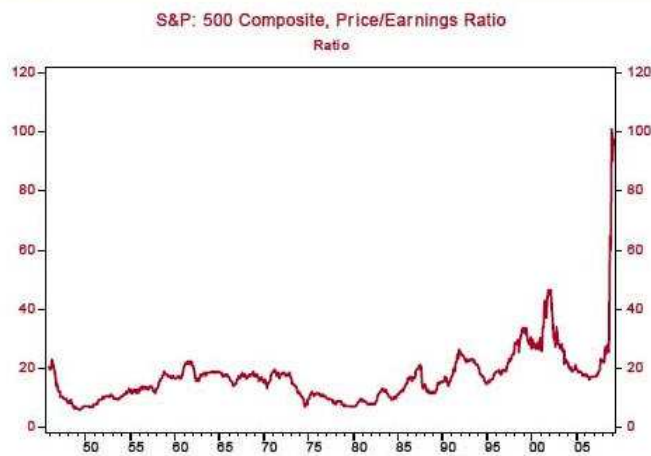
The change in "mark-to-market" accountings allows banks to hide all portfolio losses if the banks deem those losses as "temporary market dislocations."

It had to be a couple of bad days for Mr. Buffet. First, Moody's downgraded Berkshire Hathaway's bonds. Second, S&P is downgrading a large number of mortgage insurers. Third, with housing prices still dropping, the derivatives mess continues. Commercial and apartment landlords are seeing their vacancy rates increase as rising unemployment continues.

Martin Weiss suggests that JPMorgan Chase, Goldman Sachs, Citibank, Wells Fargo and More Than 1,800 Other Institutions Believed to Be at Risk of Failure Based on Fourth Quarter 2008 Data. The FDIC's "Problem List" of troubled banks includes 252 institutions with assets of \$159 billion. The updated review by Weiss Research, however, shows that 1,816 banks and thrifts are at risk of failure, with total assets of \$4.67 trillion, compared to 1,568 institutions, with \$2.32 trillion in total assets in prior quarter. Five large U.S. banks have credit exposure related to their derivatives trading that exceeds their capital, with four in particular — JPMorgan Chase, Goldman Sachs, HSBC Bank America and Citibank — taking especially large risks.

I am concerned that the market is still looking for a return to the good times and not really paying attention to the facts. While the S&P 500 plunged 57% from peak to trough, reported earnings fell even more ... 82%. As of today, the trailing p/e on reported earnings is over 100X, it is now at its all-time peak.

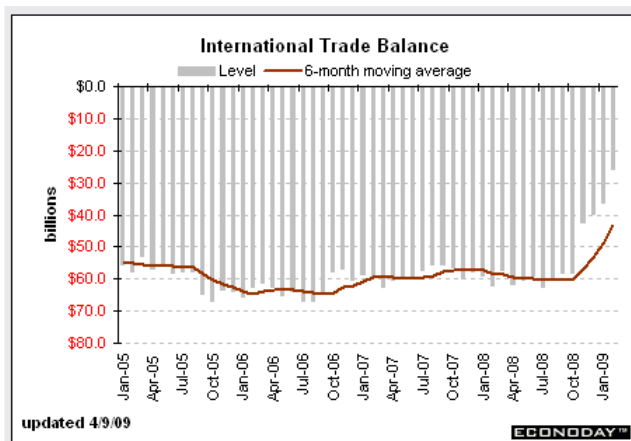
Did you know the P/E is 100x?



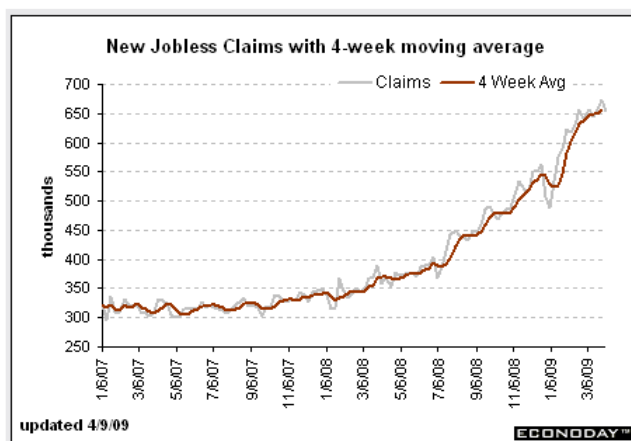
Source: Haver Analytics, Banc of America Securities-Merrill Lynch

As if a high P/E is not a problem, **Steve Eisman of FrontPoint Partners suggests that GE is currently hiding \$40-\$45 billion of embedded losses in the GE Capital portfolio.** You will find Henry Blodgett's article on GE most interesting ... take the time to digest it.

The trade deficit fell for the seventh straight month to \$25.9 billion in February (the smallest deficit since November 1999) as consumer demand slumped as did energy demand.



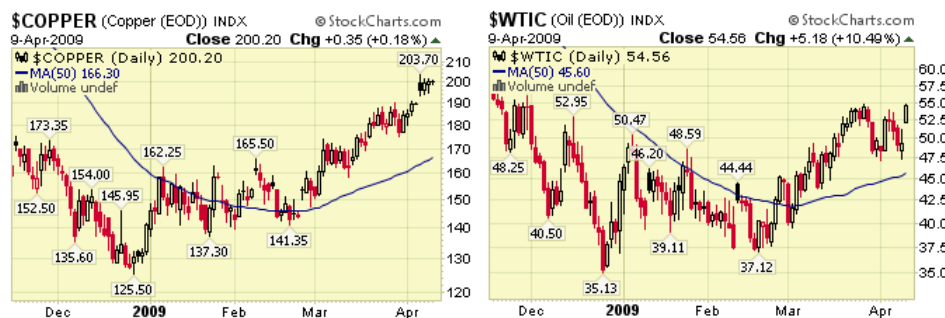
New jobless claims dropped 20,000 in the latest week but continuing claims rose 95,000 to a record 5.84 million. Continuing claims have now doubled since a year ago.



The yield on the 10 year Treasury note closed at 2.9%. The U.S. dollar index closed higher at 85.68.



Copper closed over 200 today 75 points above its December 2008 low. Copper has historically been a bell-weather for the economy. Crude oil rose over 10% today closing at 54.56/bbl.



We added to our positions in both the **Aggressive** and **Conservative** portfolios today. There were no changes in the Precious Metals portfolio.

Tomorrow is a market holiday so there will not be a Musings.

04/08/2009 After the Close



A roller coaster ride today.

Markets Diary		6:02 p.m. EDT 04/08/09		
Issues		NYSE	Nasdaq	Alternext
Advancing		2,272	1,962	300
Declining		792	754	183
Unchanged		79	134	115
Total		3,143	2,850	598
Issues at				
New 52 Week High		2	5	1
New 52 Week Low		5	4	3
Share Volume				
Total		1,312,583,420	1,832,724,100	11,202,572
Advancing		952,524,890	1,483,085,272	5,511,510
Declining		344,980,980	339,508,780	4,497,562
Unchanged		15,077,550	10,130,048	1,193,500

Today's opening was strong but quickly became a roller-coaster ride as the averages fluctuated until near the close when all the major averages ended positive for the day.

Apparently, now the life insurance companies are being thrown a supposed lifesaving ring. Of course, based upon the experience of many of the banks that are now seething about the conditions being imposed by the government and their reluctance to allow the repayment of the TARP money, the life insurance CEO's might want to reconsider grabbing that lifesaving ring.

The TALF auction is not finding significant takers. The FED only received \$1.7 billion in requests today, down from the \$4.7 billion in March. Industry groups are complaining about the low interest rates and the short 3 year limit on loans. It would appear that with the massive funding facing the Treasury, investors are balking at buying distressed securities at low interest rates. Could it be that the revised FASB rules are changing the environment?

Northern Trust reported that the largest state and municipal pension plans in the U.S lost 9% of their value in the first two months of 2009. In 2008, the plans lost 30% of their value leaving the funds significantly underfunded.

The SEC is moving at a snail's pace to restrict short sales and naked short selling. Of course, it would be helpful if Congress also reinstated the Glass-Steagall Act.

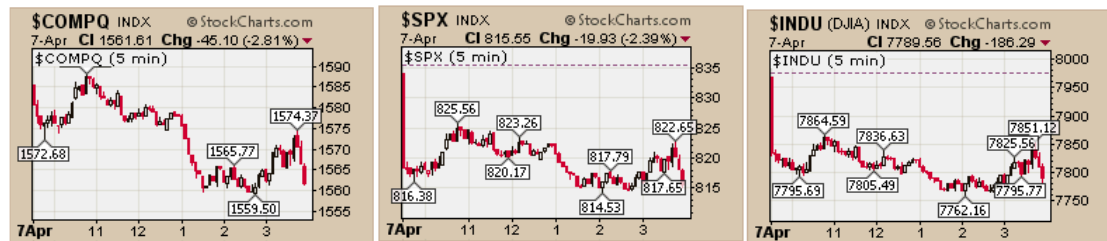
Today's economic reports were interesting. The MBA purchase application index increased as mortgage rates remained low but 78% of those applications were for refinancing existing mortgages. The housing supply remains a major problem. Pulte is trying to change the players in the housing market by acquiring Centex at a 38% premium over yesterday's close.

The drop in retail sales and consumer credit is affecting the wholesale trade data. Inventories at whole fell 1.5% in February, the biggest percentage drop in 17 years. Vacancies at U.S. malls and shopping centers rose to their highest levels in more than 10 years according to Reis, Inc. The vacancy rate also saw rents begin to fall from the prior quarter.

Alcoa reported a large loss in the first quarter. AA's loss was higher than expected as was Mosaic's (MOS) which also reported today. If the trend continues, the price/earnings level for the S&P 500 would look to be rich.

In the Conservative portfolio today, we sold SGP and TNDM. There were no other changes in the portfolios.

04/07/2009 After the Close



More profit taking?

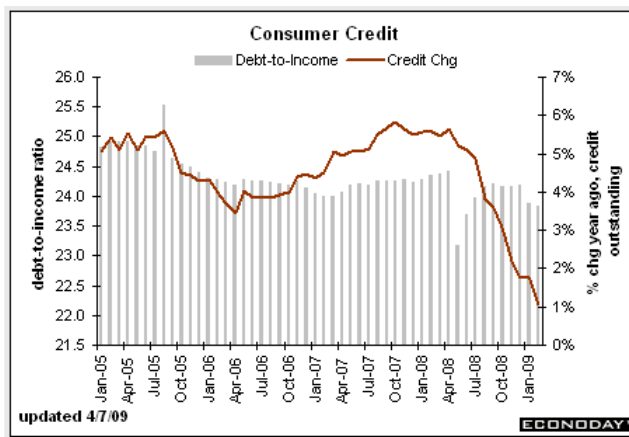
Markets Diary				5:54 p.m. EDT 04/07/09
Issues	NYSE	Nasdaq	Alternext	
Advancing	654	672	226	
Declining	2,391	2,051	301	
Unchanged	95	142	74	
Total	3,140	2,865	601	
Issues at				
New 52 Week High	1	4	4	
New 52 Week Low	6	12	6	
Share Volume				
Total	1,256,623,718	1,846,711,133	11,069,586	
Advancing	198,537,610	177,920,604	4,686,010	
Declining	1,048,292,708	1,584,007,598	5,444,076	
Unchanged	9,793,400	84,782,931	939,500	

Although today's indices ended up lower, at least, a distribution day did not occur. We have just arrived from driving Tucson to Dallas, 16 hours on the road and have updated the Watch List. After listening to Bloomberg radio during the day, we came to the conclusion that nothing much of interest occurred today.

When will interest rates start to head higher. The Treasury has a major problem. Goldman Sachs believes that the Treasury must raise and/or refinance \$3.25 trillion this fiscal year and the FED is only going to buy \$300 billion. I wonder who will buy the rest and at what interest rate?

The only consensus that I can see is that no one has any idea of when and/or if the economy will recover or if the TARP and other stimulus packages will provide the necessary spark to the economic engine.

The consumer reversed course in February and lowered the amount of outstanding credit. That is not good for the Obama administration but helps increase the consumer's balance sheet.



So since we made no changes in the portfolios today, we are closing and just glad to be back in Dallas.

04/06/2009 After the Close



Taking profits today?

Markets Diary		5:58 p.m. EDT 04/06/09		
Issues	NYSE	Nasdaq	Alternext	
Advancing	939	841	231	
Declining	2,117	1,900	311	
Unchanged	94	141	50	
Total	3,150	2,882	592	
Issues at				
New 52 Week High	0	13	5	
New 52 Week Low	3	5	2	
Share Volume				
Total	1,292,587,104	2,011,406,760	12,632,502	
Advancing	391,685,550	601,357,439	3,360,782	
Declining	890,301,854	1,379,106,809	8,335,520	
Unchanged	10,599,700	30,942,512	936,200	

Saturday evening we were privileged to attend the Richard Russell tribute in San Diego ... it was really an evening to remember for all that were able to attend. Richard Russell has now written the daily Dow Theory newsletter for 50 years. John Mauldin and his staff were responsible to making event a great success.

The markets had a four week rally and it was not unexpected that traders would take profits. The afternoon recovery suggests that the rally will continue tomorrow. The afternoon advance overcame the morning selling and nearly brought the indices to their opening data line. We are headed back to Dallas as the weather in Iowa is cold, wet and snowing.

The financial stocks led the early weakness and the breakup of the IBM/Sun deal probably did not help the early going trading today. Mike Mayo, a banking analyst, thinks that many problems still remain in the banking sector. Both May and George Soros basically are saying that the major banks in the U.S. are insolvent. What they are reluctant to state is that if the major banks are insolvent, the Federal Reserve System will collapse.

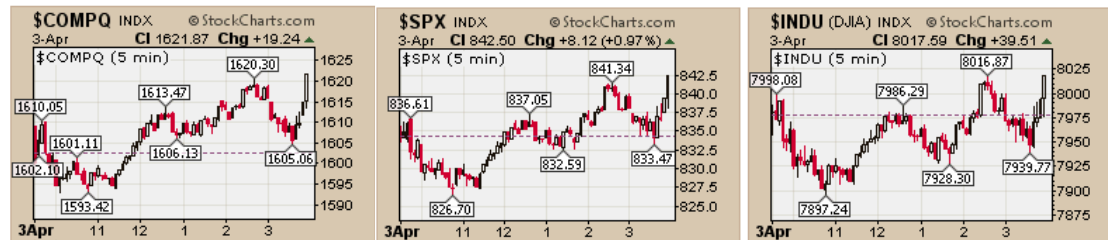
Changing the FASB rules will not change the facts that the toxic assets are junk. The recognition of the problem may be delayed but the stench remains. Somebody ought to point out to Geithner that the taxpayers

would like to get their TARP money back. If a bank wants to repay TARP money, the Treasury should not prevent it. Of course, if Geithner allows it, his ability to fire CEO's and set pay scales might be neutralized. It would appear to this observer that the repayment fracas is just about control and power.

The Fed began buying Treasuries and therein is the rub. The FED want to keep rates low while the Treasury is faced with selling huge amounts of bonds in the coming year and to successfully do so will require interest rates to increase.

After yesterday's meetings with two groups in Los Angeles, we are now in Tucson and about ready to close it down for the day. We made no changes in the portfolios today.

04/03/2009 After the Close



Ignoring the bad news!

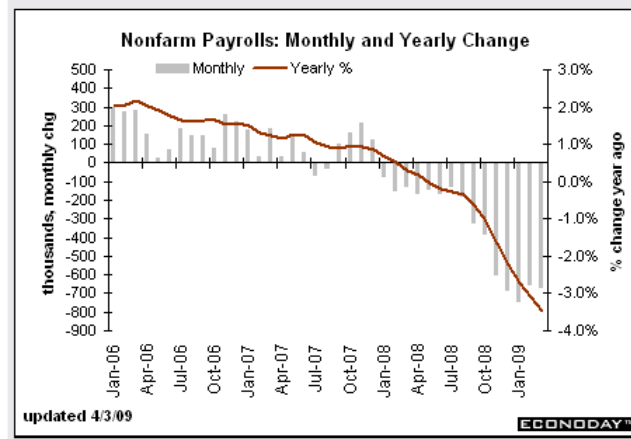
Markets Diary		5:58 p.m. EDT 04/03/09		
Issues	NYSE	Nasdaq	Alternext	
Advancing	2,106	1,662	285	
Declining	975	1,082	240	
Unchanged	93	158	71	
Total	3,174	2,902	596	
Issues at				
New 52 Week High	2	9	6	
New 52 Week Low	3	8	4	
Share Volume				
Total	1,475,329,566	2,114,370,492	11,594,232	
Advancing	1,151,579,626	1,490,831,488	5,342,640	
Declining	298,245,840	589,639,373	4,440,992	
Unchanged	25,504,100	33,899,631	1,810,600	

The jobs report was bad but the revisions were even worse. Still the market shrugged off the bad news and managed to end day at the highs for the day. The late rally that began after 3:30 p.m. EDT to push the major indices into new high territory going into another weekend sure looks suspicious to me.

The gains were all the more suspicious as overall volume fell substantially over yesterday. Still advancing issues and volume were dominant although the number of new 52 week highs fell. However, the number of stocks contained in the IBD 85/85 listing today surged and the A+190 list we maintain for the Stock Watch list had four new additions today. The stock watch list now contains eleven stocks for the highest total in at least three months.

The major economic news today was the jobs report. According to the Ministry of Truth, the March unemployment rate is now 8.5%, an increase of 0.4% since February. The reported level now stands at the highest level since November 1983. **Since the recession began in December '07, the Ministry of Truth is reporting that 5.133 million jobs have been lost, 2/3 which has occurred in the last five months.**

Of course, it is hard to believe any of the data since January showed a huge addition to the original numbers. **In each of the six most recent monthly payroll reports, the prior month's payroll level was revised lower.** The fudge factor (otherwise known as the birth/death rate adjustment) added 114,000 jobs to the March totals those are the Fuller Brush and Avon Calling jobs that are not otherwise accounted for. The trend of non-farm payrolls is shown in the following ugly chart.



The service-providing sector cut 375,000 jobs. In this sector, the largest job losses seen in professional & business services, down 133,000, and in trade & transportation, down 112,000. The goods-producing sector gave pink slips to 305,000-worse than February's losses of 285,000. In the latest month, manufacturing and construction fell by 161,000 and 126,000, respectively. Natural resources & mining dropped 18,000.

The BLS official unadjusted numbers make for interesting reading. The number of people in the civilian labor force actually increased by 924,000 while the number of employed only fell by 272,000 in March. The number of unemployed increased by 196,000 while the number of persons wanting a job actually decreased by 53,000. Now, of course, the seasonally adjusted data reported by the BLS and trumpeted in the media is something else.

MARCH 2009 JOBS REPORT

2009	Not Seasonally Adjusted	Jan		Feb		Mar	
		Jan	Feb	Jan	Feb	Jan	Feb
	Civilian noninstitutional population	234739	234913	234913	235086	235086	235086
	Civilian labor force	153445	152804	152804	153728	153728	153728
	Participation rate	65.4	65.4	65.4	65.4	65.4	65.4
	Employed	140436	140105	140105	139833	139833	139833
	Employment-population ratio	61	59.6	59.6	59.5	59.5	59.5
	Unemployed	13009	13699	13699	13895	13895	13895
	Unemployment rate	8.5	8.9	8.9	9.0	9.0	9.0
	Not in labor force	81293	81109	81109	81358	81358	81358
	Persons who currently want a job	5866	5588	5588	5535	5535	5535
	Source: BLS Reports. Table A-1, NSA data						

The other piece of sad news was in the ISM service report which also fell back in March. Many years ago when the idea of out-sourcing arose and many of my peers believed seriously that one could exist on a service-based economy, I disagreed. When a deleveraging process occurs, a few companies look to protect the jobs where there major investors live. However, the majority continue to look for the lowest cost source and as a result, service based jobs as well as manufacturing jobs are up for grabs. Clearly the decline in service based jobs is accelerating as shown in the chart.



We made no changes in the portfolios today.

Yesterday evening after driving to Phoenix from Las Cruces, NM, we spent a delightful evening with a group of subscribers and others in Phoenix. Today, I drove to San Diego and am looking forward to attending the Richard Russell tribute tomorrow evening.

- Fred Richards
Strategic Investing
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