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Market Musings

5/21/2010 After the Close

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The European Union continues ...

Markets Diary		5:35 p.m. EDT 05/21/10		
Issues	NYSE	Nasdaq	Amex	
Advancing	2,384	1,754	308	
Declining	745	952	176	
Unchanged	85	105	30	
Total	3,214	2,811	514	
Issues at				
New 52 Week High	11	10	3	
New 52 Week Low	102	142	16	
Share Volume				
Total	2,301,797,449	3,389,671,120	20,168,943	
Advancing	2,068,389,549	2,479,309,249	14,846,793	
Declining	222,787,200	827,448,996	4,352,300	
Unchanged	10,620,700	82,912,875	969,850	

The Germans voted Friday for the bailout package and the Euro went up. The markets used the news to stage a relief rally that failed to overcome much of the damage done during the week. How much of the uplift was caused by short-covering is hard to measure but with the weekend before us, it would be my opinion that a significant portion of today's volume was short-covering.

There is still no meaningful solution to the European problem of too much sovereign debt and economies that are either unwilling or unable to pare down their spending habits or increase taxation to solve the high debt to GDP ratios. Adding more debt only postpones the problem and makes the ultimate pain worse.

In the US, the FDIC said yesterday the FDIC's list of problem banks increased to 775 vs. 702 in the first quarter, with assets totaling \$431.0 billion vs. \$402.8 billion. As long as banks balance sheets continue to be saddled with problem loans, credit remains tight, a negative for economic growth. Moreover, that list is based upon the mark-to-fantasy GAAP rules which make a mockery out of accounting rules.

We made no changes in the portfolios today. We head back to Dallas on Sunday after a busy week here in London.

5/20/2010 After the Close



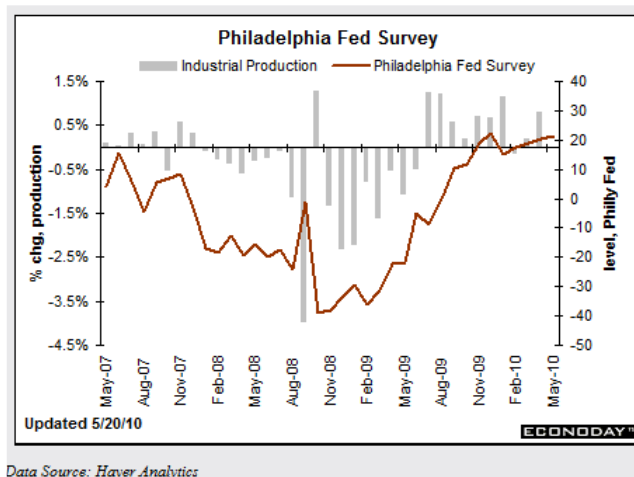
Will the European Union destruct?

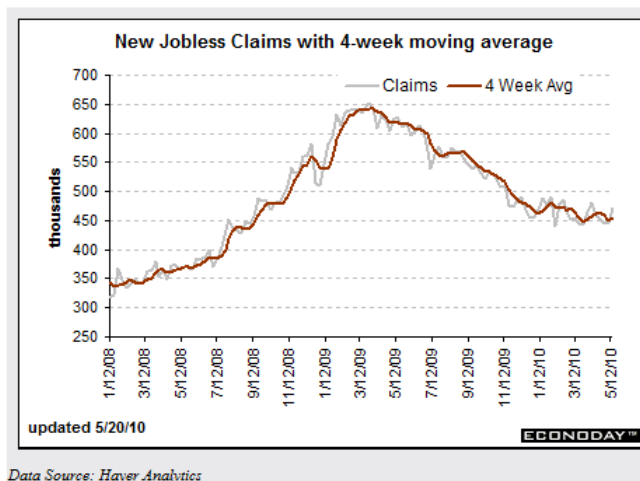
Markets Diary		5:49 p.m. EDT 05/20/10		
Issues	NYSE	Nasdaq	Amex	
Advancing	168	228	74	
Declining	3,015	2,554	420	
Unchanged	33	53	23	
Total	3,216	2,835	517	
Issues at				
New 52 Week High	7	10	5	
New 52 Week Low	98	163	20	
Share Volume				
Total	2,126,011,248	3,420,426,664	19,845,830	
Advancing	28,661,910	75,091,016	1,174,800	
Declining	2,096,936,838	3,258,820,933	18,631,430	
Unchanged	412,500	86,514,715	39,600	

The Germans vote tomorrow on the \$1 trillion bailout package and if they fail to approve it, it could mean the unwinding of the experiment. Yesterday's auction failure in Spain coupled with huge movements of currency into the U.S. and/or Switzerland suggest that fear is rising. Today the Japanese were reported to have intervened at least three times in the currency markets yesterday and I would expect that others did as well. You have to understand that the markets are being manipulated during this crisis and just one misstep could trigger a major problem that might make the sub-prime financial meltdown look puny.

Today was another distribution day with many getting hit with margin calls and tomorrow is options expiration which could further add pressure to the market. Declining volume and issues were definitely in control today.

While the Philly Fed data was positive for manufacturing, new jobless claims were higher than expected and the index of leading indicators fell... a mixed bag of economic news.





In this environment, only the most nimble should be in this market. All others are simply better off going to cash and letting the smoke clear.

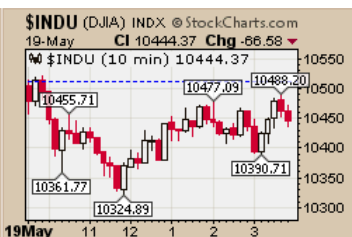
The US dollar index closed at 85.81. Gold continued downward closing below \$1200 at \$1182.60. Interest on the 10 year Treasury note was at 3.26% a drop of over 75 basis points in just three weeks. West Texas crude oil finished at \$70.06/bbl which is down over \$17/bbl in April.



We made no changes in the portfolios today.

Tomorrow should be a most interesting day here in London.

5/19/2010 After the Close



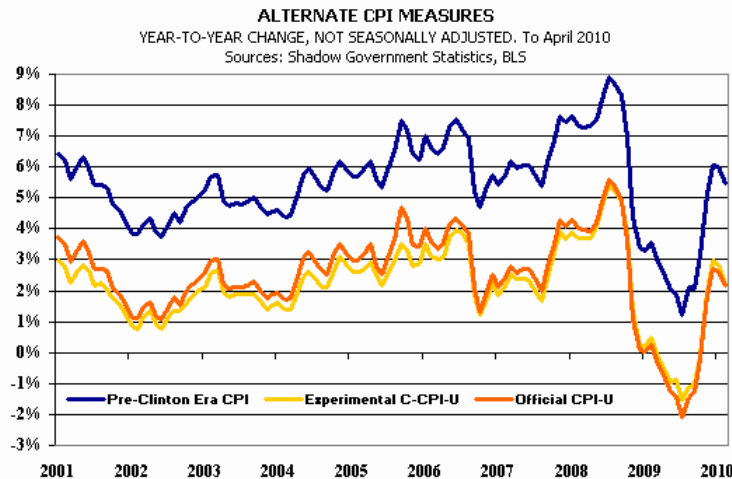
Closed in negative territory

Markets Diary		5:47 p.m. EDT 05/19/10		
Issues	NYSE	Nasdaq	Amex	
Advancing	683	654	114	
Declining	2,440	2,085	377	
Unchanged	62	89	25	
Total	3,185	2,828	516	
Issues at				
New 52 Week High	18	16	6	
New 52 Week Low	42	82	14	
Share Volume				
Total	1,631,091,247	2,646,168,387	19,614,495	
Advancing	555,897,257	662,930,629	2,116,200	
Declining	1,042,017,190	1,873,600,186	16,939,895	
Unchanged	33,176,800	109,637,572	558,400	

The markets attempted a rally but spent most of the day in negative territory where it closed. Volume increased again adding more distribution to the markets. Volatility continues to increase which can not be good for the average investor.

We were in meetings most of the day and unable to follow the markets today.

According to the Ministry of Truth, the CPI agrees with the PPI that inflation is contained. John Williams data at Shadow Government Statistics begs to differ.



From Bondsonline:

"Yesterday, Germany prohibited the naked short selling (seller does not borrow the asset for delivery) on European government bonds, 10 banks/insurers and related transactions in credit default swaps (CDS). The ban is in effect until March 31, '11. Other nations have failed to follow suit with a similar ban. The ban only affects transaction executed on the German exchanges. Whether the ban has any teeth without the support of other countries remains to be seen. Indeed European exchanges are lower on the ban. It is being carefully monitored to see if the European countries will be able to enforce austerity measures and get their fiscal houses in order. Clearly, lower growth is in store for this region for the foreseeable future. **Indeed, former Fed Chairman Paul Volcker said it will take "years" for economic balance to be reached in Europe.**"

Now if the Obama Administration would ban naked shorts as well and put Glass-Steagall back into effect, the shenanigans that created this financial mess might abate. Of course, it would help if some of the Wall Street partners at GS, Lehman and Bear Stearns as well as those at AIG, Freddie Mac and Fannie Mae might be viewed in court answering for their actions.

Yesterday's primaries were successful in removing from the Washington scene several incumbents. The voters do not seem to approve of the direction that the Obama Administration and the Democrat Party is taking. November should be most interesting.

Housing data appears to show that it was the government tax credits that kept the floor from dropping further. The expiration of second-round housing stimulus pulled sales into March and April at the very heavy expense of May. The Mortgage Bankers Association's purchase index plunged 27.1 percent in the May 14 week on top of the 9.5 percent plunge in the May 7 week to pull the index to its lowest level since 1997. What happens now?

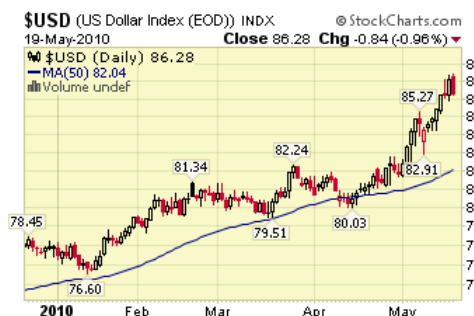
Spain was unable to sell enough bonds yesterday (it sold only €6.44 billion of the €8 billion offered) so it will

be unable to provide its share of the \$1 trillion. Will the Greek bailout be completed? It is beginning to appear doubtful. Karl Denninger has this to suggest as a solution:

"Germany has laid the groundwork, now Greece needs to deliver the "coup de grace" to Sarkozy and his butt-buddies in Brussels. Depart the Euro and at the same time declare by fiat all Euro-denominated Greek debt held by anyone who is not a Greek national (or a Greek-chartered bank holding said debt entirely within Greece) worthless. Such a unilateral action would instantaneously detonate a lot of banks in Europe and would put the ECB into an untenable position, as they have been accepting "repos" against Greek debt (along with direct purchases) without regard to actual credit quality. It would also free Greece from a debt it cannot pay, totaling some €300 billion."

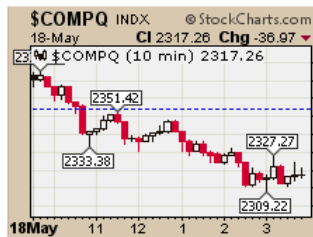
Perhaps, Merkel will lead the Germans out of the Eurozone and Greece will learn to live within its own resources.

Gold with a sizeable number of \$1200 calls outstanding remains under severe pressure and closed below that level today. The Euro firmed slightly and the U.S. dollar index was off, closing at 86.28. The yield on the 10 year Treasury note closed at 3.36 %. West Texas crude oil stopped its slide and closed higher at 72.90/bbl.



We made no changes in the portfolios today.

5/18/2010 After the Close



Another bad day in the markets

Markets Diary		5:47 p.m. EDT 05/18/10		
Issues	NYSE	Nasdaq	Amex	
Advancing	704	693	177	
Declining	2,408	2,031	294	
Unchanged	73	100	48	
Total	3,185	2,824	519	
Issues at				
New 52 Week High	44	56	9	
New 52 Week Low	16	41	7	
Share Volume				
Total	1,525,543,796	2,490,312,627	15,285,429	
Advancing	161,856,330	319,150,635	2,780,450	
Declining	1,353,665,066	2,023,392,629	11,749,979	
Unchanged	10,022,400	147,769,363	755,000	

The markets remain worried about the European situation and when a rumor surfaced that Germany might withdraw from the Eurozone the market moved lower. Volume increased to the downside in both shares traded and number of issues declining. It was not a good day to be long.

Shortly after the NY opening, we closed our longs in the SPY and QQQQ's in the Conservative portfolio. We also closed our long positions in those two stocks and went short in the Aggressive portfolio. In the Aggressive portfolio, we also shorted BAC, GS and WFC. There were no other changes in the portfolios.

Greece received some of the money promised by the Europeans today enabling them to meet the debt maturities due next week. However, it remains to be seen if the austerity measures will occur to change the culture of Greece. France's forcing of the German to get in line may backfire as it was suggested that Germany might decide to leave the Eurozone as soon as this weekend. Merkel's government is under serious pressure because of its capitulation to French President Sarkozy last week to agree to the \$1 trillion bailout proposal.

The US dollar and Treasury yields were the beneficiary of the rumors today.

It has been a long day here in London so will close and bid you all a better day for your portfolios tomorrow.

5/17/2010 After the Close



Down and up!

Markets Diary		5:54 p.m. EDT 05/17/10		
Issues	NYSE	Nasdaq	Amex	
Advancing	1,265	1,314	147	
Declining	1,862	1,412	335	
Unchanged	77	111	28	
Total	3,204	2,837	510	
Issues at				
New 52 Week High	30	41	4	
New 52 Week Low	25	56	3	
Share Volume				
Total	1,441,619,164	2,434,481,838	14,755,852	
Advancing	607,558,164	1,387,513,690	1,626,752	
Declining	822,507,660	967,532,262	12,211,700	
Unchanged	11,553,340	79,435,886	917,400	

The market today mirrored London's airspace ... down, up, down, up! It was a day where after looking like another bad day was happening, mysterious forces or perhaps, just bargain hunters, moved the major indices into positive ground by the close.

For the precious metals, it was a day when stops were hit and we were sold out of IAG and SLW due to Action Points while we were trying to recover from the trip over to London. There were no other changes in the portfolios today.

Will the European bailout do anything other than buy time? Probably not, in my view. Niall Ferguson, the Ascent of Money author and Harvard economics history professor, suggests that the bailout was only done to keep French and German banks from going under because of the Greek problem. **France and Germany hold huge amounts of bonds of Club Med (Greece, Portugal, Spain). What happens to the banks if any member of the club defaults?**

The Empire State manufacturing index fell to 19.11 in May vs. 31.86 the previous month. The optimists probably had a little heartburn when the Empire State data printed.

In a race to "safety" the U.S. has become the "GoTo" play. **Foreigners purchased a record \$140.5 billion of US securities in March.**

We finally made it to London after the London Airspace closures due to the Icelandic volcano. We are looking forward to the rest of the week after getting some rest. The flight was completely full and the delays and large number of children who were unruly and non-quiet did not help to make it a comfortable trip.

5/14/2010 After the Close



Bad day ...

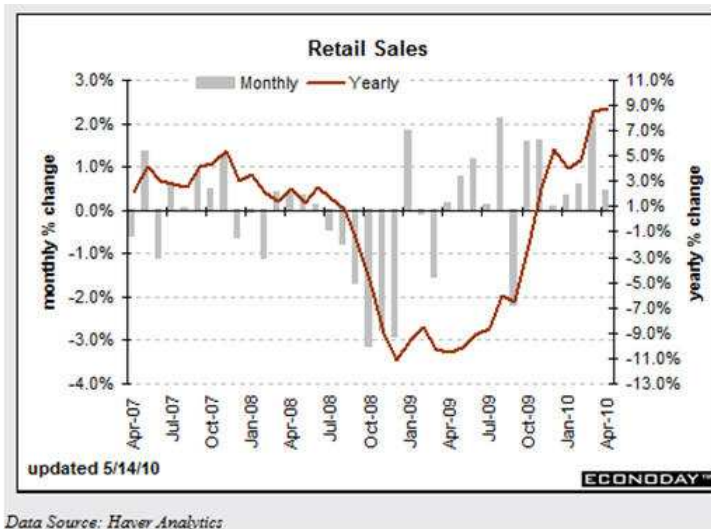
Markets Diary		5:45 p.m. EDT 05/14/10		
Issues	NYSE	Nasdaq	Amex	
Advancing	391	421	129	
Declining	2,749	2,312	362	
Unchanged	52	84	22	
Total	3,192	2,817	513	
Issues at				
New 52 Week High	20	27	7	
New 52 Week Low	22	29	3	
Share Volume				
Total	1,524,580,057	2,653,025,860	15,136,270	
Advancing	67,183,190	276,439,360	3,079,000	
Declining	1,454,893,767	2,297,870,946	11,899,160	
Unchanged	2,503,100	78,715,554	158,110	

The trillion dollar package the Eurozone is attempting to put together only moved the market about 200 points ... a trillion dollars is not worth what it used to be.

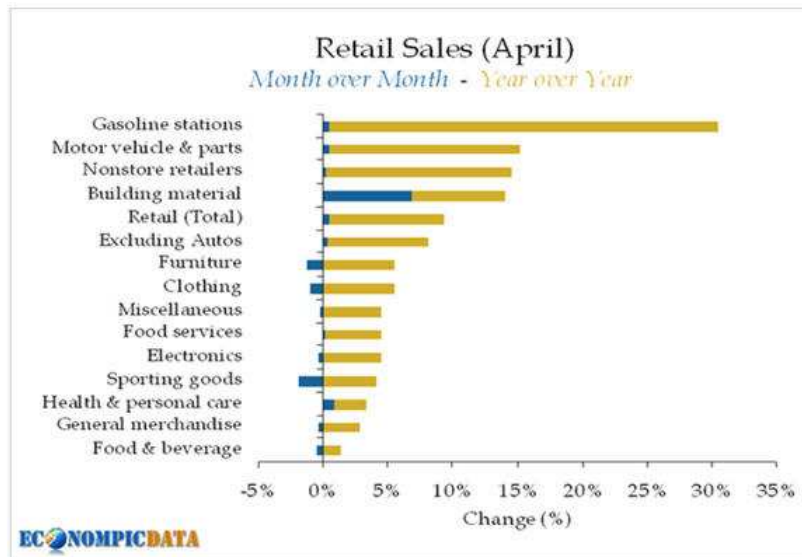
Today's action opened lower and could not generate much of a rally until the last so minutes when shorts covered. Declining shares and volume were definitely in control today.

Economic News

Retail sales in the U.S. were reported up 0.4% in April on a m/m basis. The report needs to be viewed in connection with the annual benchmark revision, published on April 30th, which revamped seasonal factors and encompassed detail from the 2008 economic census. The revisions were more significant in shifting monthly pattern that they were in altering annual levels. As a result, retail sales for April were statistically-insignificant according to John Williams of Shadow Government Statistics.



The following chart shows the month over month change by various sectors of retail sales in April as well as the year over year sales. Note the areas where inflation appears to be causing retail sales to flourish from distressed levels last year.



Industrial production in April 2010 was higher by 0.8% confirming a possible upturn in the manufacturing area.

Released on	2005	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10
Released for	Proportions	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10
Industrial Production	100.0%	0.2%	0.7%	0.7%	1.2%	-0.1%	0.2%	0.8%
Major Market Groups								
Consumer goods	29.7%	0.8%	0.0%	0.7%	1.7%	-1.3%	0.1%	0.2%
Business equipment	10.2%	0.8%	-0.3%	1.2%	1.5%	0.3%	1.1%	1.0%
Construction Supplies	4.5%	-1.8%	1.8%	-2.9%	1.4%	-0.6%	2.7%	2.8%
Major Industry Groups								
Manufacturing (non-NAICS)	76.4%	-0.1%	1.0%	-0.1%	1.1%	0.0%	1.1%	1.1%
Durables (NAICS)	42.9%	-0.2%	1.0%	0.0%	1.8%	-0.4%	1.6%	1.1%
Nondurables (NAICS)	33.5%	0.0%	1.0%	-0.3%	0.5%	0.3%	0.7%	1.0%
Mining (non-NAICS)	9.8%	-0.1%	1.9%	-1.6%	2.5%	1.9%	1.4%	1.4%
Utilities (non-NAICS)	9.5%	2.6%	-2.5%	7.7%	1.5%	-1.7%	-6.1%	-1.3%
Addendum								
Selected High Tech Industries	4.8%	1.2%	0.4%	1.1%	2.2%	2.5%	2.2%	0.9%
Motor Vehicles and parts	7.1%	-2.3%	2.3%	-0.4%	4.1%	-3.0%	1.9%	-2.2%
Capacity utilization rate	NA	70.8	71.4	71.9	72.8	72.8	73.1	73.7

Data Source: Haver Analytics

Financial News

How bad is the federal deficit when the Ministry of Truth is involved? Again according to John Williams:

"The rolling twelve-month "cash" deficit through April 2010 was \$1.413 trillion, up 28.0% from the \$1.104 trillion rolling deficit as of April 2009. The deficit for the fiscal year ended September 30, 2009 was \$1.416 trillion.

In contrast, gross federal debt, per Treasury reporting, stood at \$12.949 trillion as of April 30, 2010, up \$175.6 billion from March 31, 2010, and up by \$1.710 trillion from April 30, 2009. April 30, 2009 was up by \$1.861 trillion from the year before. In the last two years, gross federal debt has grown by 38.1% or \$3.571 trillion, against a "cash" deficit basis of just \$2.517 trillion. Such is **one of the wonders of a little gimmicked accounting.**"

The U.S., dollar moved higher today to close the week at its highest level since April 2009 at 86.23. West Texas crude oil fell to 75.61/bbl. The yield on the 10 year Treasury note dropped to 3.44%. Gold fluctuate widely today but managed to close at 1232.60/oz.



Portfolio comments

Action points saw us sell BUCY, CREE, TEN and NFLX from the Aggressive portfolio today. There were no other changes in the portfolios today.

Next week, we will be writing from London and the reports may be haphazard due to the time difference and our schedule.

• Fred Richards / Strategic Investing

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