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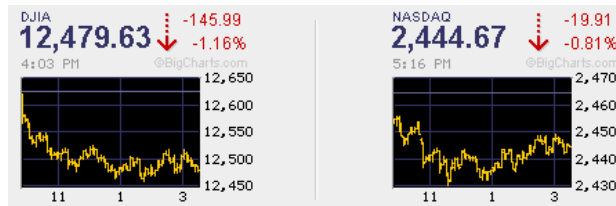
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Market Musings

5/23/2008 After the Close

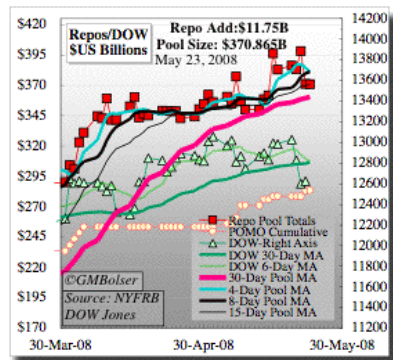


The bounce was a one-day wonder as the market continued to move lower.

Markets Diary		5:54 p.m. EDT 05/23/08		
Issues	NYSE	Nasdaq	Amex	
Advancing	861	881	434	
Declining	2,280	1,950	765	
Unchanged	98	153	75	
Total	3,239	2,984	1,274	
Issues at				
New 52 Week High	29	18	16	
New 52 Week Low	57	84	22	
Share Volume				
Total	1,104,537,207	1,694,176,409	25,031,547	
Advancing	179,557,677	428,848,982	10,988,920	
Declining	918,550,700	1,232,293,061	12,338,807	
Unchanged	6,428,830	33,034,366	1,703,820	

Overseas markets were lower and the U.S. markets started on a down-note and continued to move lower. The markets were lower for the week across the board. High crude prices along with a dismal existing housing report contributed to today's slide. The U.S. dollar index enjoyed its steepest weekly drop in the past two months.

During the past two months, the repo pool has held remarkably steady above \$345 billion and is currently at \$370 billion. Despite the huge influx of liquidity in the repo pool and other vehicles by the FED, the markets have hardly been able to gain traction. The action this week by the market moved IBD® to change its call to "Market in Correction."



Courtesy of Interventional Analysis

Since March 1st, the S&P 500 has increased less than 40 points despite the FED's huge injections into the economy. The NASDAQ Composite has increased by less than 180 points during the same time. But as the charts show, the rally that began with a follow thru day on March 20th is now over.



As consumers continue to fight higher food and energy costs, the high and mid-level retailers continue to lose ground. Wal-Mart, Costco, Sam's and BJ's are gaining market share.

Existing home sales in April fell 1.0% to 4.890 million units annualized. Year/year sales are down 17.5% and down 32.6% vs. the September '05. The inventory of unsold homes rose to a record 11.2 months. In an unusual bit of news, the median price went up. With foreclosures rising, tighter loan criteria and a labor market that is getting difficult, it might be some time before the housing mess returns to the median.

Trends							
Data displayed as levels in thousands							
Released on:	Percent	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08
Released for:	of Total	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08
Existing Home Sales	100%	5020	4910	4890	5030	4940	4890
Northeast	17.6%	890	840	800	890	910	870
Midwest	24.1%	1190	1160	1210	1240	1170	1100
South	39.7%	1990	1960	1950	1990	1920	1920
West	18.7%	950	950	930	920	940	1000

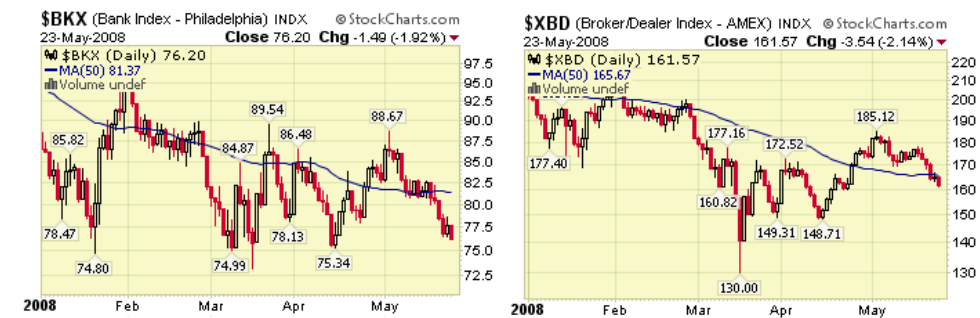
[For historical graphs of housing sales and inventory, click here.](#)

Of course, as housing inventory rises, prices will need to fall to clearing levels to move the inventory. **Reggie Middleton has done a masterful job in looking at what he calls the "Deep Doo-Doo Banks"**. He thinks that the following banks have major problems still facing them as of May 22nd.

- Wells Fargo - Popular Inc - SunTrust - KeyCorp - Synovus Financial Corp - Marshall & Ilsley - Associated Banc - First Charter - M&T Bank Corp - Huntington Bancshares - BB&T Corp - JPM Chase - U.S. Bancorp - Bank of America - Capital One - Nara Bancorp - Sandy Spring Bancorp - PNC - Harleysville National - CVB Financial - Glacier Bancorp - First Horizon - National City Corp - WAMU - Countrywide - Regions Financial Corp - Citigroup - Wachovia Corp - Zions Bancorp - TriCo Bancshares - Fifth Third Bancorp - Sovereign Bancorp

What might the bankruptcy of just one of those firms do to the financial system? What if half of them went under? I think a rationale person would have to be worried.

Clearly, the Philly Bank Index is approaching previous low levels. The AMEX Broker/Dealer Index is also in a firm downtrend as shown below.



Apparently, Middleton did not look at LEH, MER and GS. **David Einhorn took LEH's 1st quarter financials apart and basically accused them of accounting misstatements. Don't be surprised to see LEH go down shortly.**

Home equity loans or HELOC's are now raising questions. According to Dave from Denver,

If you assume that most of the ABS backed by home equity paper still lingering on bank balance sheets was the stuff underwritten in the last 2 years, then that paper has absolutely no value whatsoever, given that those loans were underwritten at the 100-125% LTV level and housing prices are down at least 20% in the last 2 years.

Be interesting to watch the BAC/CFC deal because CFC's balance sheet is riddled with HELOC paper that is WAY underwater.

Comptroller of the Currency John Dugan called upon lenders to increase capital and underwriting standards today.

"accelerating losses in the home equity business show the need to build reserves and to return to the stronger underwriting standards of past years.

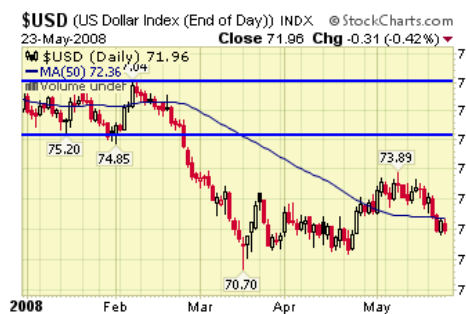
Home equity loans and lines of credit grew dramatically in recent years, more than doubling, to \$1.1 trillion, since 2002.

"But another contributing factor was perhaps not so obvious: liberalized underwriting standards.."

"Looked at in dollar terms, losses on all home equity loans, including HELOCs and junior home equity liens, rose from \$273 million in the first quarter of 2007 to almost \$2.4 billion in the first three months of 2008 – a nine-fold increase. And the largest home equity lenders are now saying that they expect losses to continue to escalate in 2008 and beyond."

Global corporate defaults this year have already surpassed last year's totals. S&P reported 28 defaults on \$18.9 billion of debt, compared with 22 last year and 30 in all of 2006, with U.S. companies responsible for all but one of the defaults.

The U.S. dollar index continues to deteriorate despite all the hoopla of the past couple of weeks that the dollar has turned up. The yield on the 10 year Treasury note dropped today to 3.83% although it remain well above its low set at the first of the month before the last FED rate cut.



Both gold and silver seem to be headed higher although Mike Bolser thinks the FED is trying to trap the gold bugs. Silver has made a power move up as the U.S. Treasury decided to limit sales of the Silver Eagles. Also, there seems to be consistent evidence that physical silver is in short supply while paper silver is growing.



The STI Indicators for the S&P 500 and the NASDAQ Composite are close to making a change from a positive signal to a negative one. I would expect the signal to change next week based upon the performance of the banking stocks this week. The IBD® Accumulation/Distribution data suggests that the number of A rated stocks may have peaked this week. If that is the case, then prudent investors should be scaling out of the market.

In the Conservative portfolio today, HES and LL were sold as they triggered their Action Points. There were no other changes in the portfolios.

5/22/2008 After the Close



The dead cat failed to bounce very high today!

Markets Diary			
	7:04 p.m. EDT 05/22/08		
Issues	NYSE	Nasdaq	Amex
Advancing	1,740	1,742	591
Declining	1,416	1,137	594
Unchanged	94	132	102
Total	3,250	3,011	1,287
Issues at			
New 52 Week High	39	29	32
New 52 Week Low	42	65	20
Share Volume			
Total	1,204,510,295	1,903,410,454	32,028,171
Advancing	656,561,475	1,283,352,373	15,716,051
Declining	537,232,370	587,198,406	14,760,020
Unchanged	10,716,450	32,859,675	1,552,100

This morning we decided to go short the financial swing stocks in the **Aggressive portfolio**. In addition, we went short a few high flyers in the Aggressive portfolio. Today's market at the opening looked like it might go higher but by the close, most indices were well off their intra-day highs. Volume was down although advancing issues out-numbered declining issues. It was a typical dead-cat bounce. If the economy continues to deteriorate, the top might be in for the latest rally.

Although crude oil topped \$135/bbl during the day, it closed off \$2.43 at 130.74. Yield on the 10 year Treasury note increased to 3.94%. Gold closed down \$10 at \$918.30/oz.

New jobless claims were lower by 9,000 to 365,000. However, there appears to be a widening disparity between the BLS data for employment/unemployment and the data provided by the individual states which report a month after the BLS data is out. Perhaps, the Ministry of Truth is massaging the numbers more than we expect.

The saga of Yahoo continues ... one director, Edward Koziel resigned today from the board and the company postponed its annual shareholder meeting from July 3rd to "somewhere around the end of July." **Memo to Jerry Yang, ... "Better accept MSFT's deal before then or get fired."**

The Ministry of Truth came out with its house price index today and they actually reported only a 3.1% decline in U.S. home prices from a year earlier. **Simply astonishing, it is:**

Declines in U.S. home prices accelerated in the first quarter, falling a record 1.7 percent from the end of 2007, according to a federal index.

The house price index of the Office of Federal Housing Enterprise Oversight that covers home purchases is also down a record 3.1 percent in the quarter from a year earlier.

You have to wonder if they are living on a different planet than the rest of us.

UBS AG, whose sub-prime losses are currently the largest reported, in a move to shore up its capital structure is trying to raise via a rights offering \$15.1 billion in capital at a 31% discount to the market. This new rights offering is in addition to the \$13 billion already injected in to the ailing bank.

Guess who are the investment banks handling the UBS AG offering. JPM, GS, and MS sold the toxic paper to UBS AG and now want to get fees for underwriting the rights offering. **Talk about getting paid both ways in a transaction ... smells to me. You have to wonder why UBS AG does not sue the sellers of the toxic paper for fraud.**

We also saw two stocks trigger their Action Points in the Conservative portfolio today. There were no other changes to the portfolios in today's trading.

5/21/2008 After the Close



Market in Correction.

Markets Diary			
	NYSE	Nasdaq	Amex
Issues			
Advancing	937	901	471
Declining	2,218	1,988	759
Unchanged	89	147	88
Total	3,244	3,036	1,318
Issues at			
New 52 Week High	150	46	59
New 52 Week Low	52	88	24
Share Volume			
Total	1,386,881,865	2,164,844,011	37,503,944
Advancing	242,298,970	350,079,827	18,293,099
Declining	1,137,378,195	1,790,936,071	18,429,145
Unchanged	7,204,700	23,828,113	781,700

For most of this bear market rally, I have said that it was built upon quicksand and today proved it and the markets took little time to begin to follow yesterday's dive.

Housing data showing purchase applications taking a dive coupled with crude oil over \$132/bbl and the FOMC minutes suggesting that inflation was a concern along with slowing growth managed to send the market down for the second straight day on heavy volume. Today added distribution days to both the NYSE indices as well as the NASDAQ. The Investor's Business Daily changed its call to "Market in Correction" this evening.

West Texas crude rose to \$129.02 and the U.S. dollar index fell below 72 to close at 71.93.



The CRB index continues to show strength closing at an all-time record high. Gold closed at 932.42 in NY, the highest level in a month. It seems incredible to me that the Ministry of Truth can issue the CPI and PPI reports in the face of rising energy and good prices as well as commercial metals. But then I have read Orwell's 1984 and not much surprises me anymore.



And now there is a report that billions of dollars of AAA ratings were erroneously issued by Moody's because of a "software glitch." Oh really, the correct statement should be GIGO (garbage in, garbage out).

According to Bloomberg,

Moody's Investors Service said it's conducting "a thorough review" after the Financial Times reported that a computer error was responsible for Aaa ratings being assigned to complex debt securities that slumped in value.

Banks obtained the highest grades in 2006 and 2007 for constant proportion debt obligations, funds sold in Europe that used borrowed money to speculate on an improvement in credit quality. The subprime crisis caused banks including UBS AG and ABN Amro Holding NV to unwind their CPDOs, triggering losses of as much as 90 percent for investors.

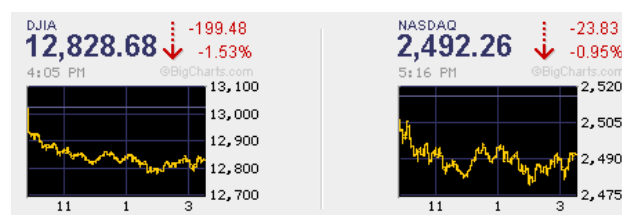
Some senior staff at Moody's were aware in early 2007 that CPDOs rated Aaa the previous year should have been ranked as many as four levels lower, the FT reported today, citing internal Moody's documents. **The firm adjusted some assumptions to avoid having to assign lower grades, the paper said.**

I wonder when the first lawsuit will be filed ... tomorrow morning, perhaps?

We were driving from Arizona to Dallas during the night and day and were very glad that our Action Points were actually hard stops as it saved us some anguish. The dollar fell while gold rose and the yield on the 10 year Treasury note increased.

The changes in the portfolios can be seen by clicking on the portfolios to the left. Although the Simple Timing Indicators (STI) both remain positive as of tonight, another day like today and a negative signal could well occur. The changes that occurred in the Daily Stock Watch List saw the majority of stocks hitting their Action Points. It was the greatest number of high-rated stocks hitting their Action Points in one day that I can recall.

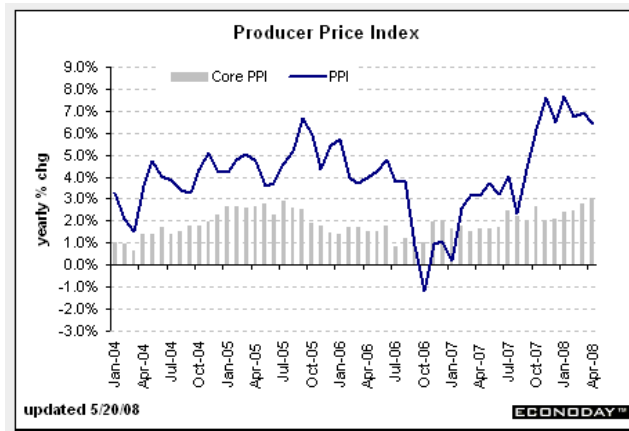
5/20/2008 After the Close



You can't fool all the people all the time!

Markets Diary			
6:02 p.m. EDT 05/20/08			
Issues	NYSE	Nasdaq	Amex
Advancing	1,119	1,135	514
Declining	2,052	1,746	678
Unchanged	88	149	102
Total	3,259	3,030	1,294
Issues at			
New 52 Week High	95	30	61
New 52 Week Low	41	76	16
Share Volume			
Total	1,234,852,934	1,991,049,874	31,585,174
Advancing	326,766,740	540,681,943	18,413,050
Declining	882,046,074	1,407,797,949	11,718,824
Unchanged	26,040,120	42,569,982	1,453,300

The Producer Price Index as reported was not terrible but when one looked into the details ... inflation is rearing its ugly head in a big way! Both the headline number and the core figure appear to have some temporary factors affecting April movement. Food came in flat while energy declined slightly. Now that is simply seasonal adjustment factors that do not reflect reality ... who does the Ministry of Truth think they are fooling?



With crude oil over \$129/bbl, the oil stocks continue to move higher including those names that are not exactly well-known. Is this a climax run for the oil stocks ... it would appear to be to this observer. Or will we see as the \$200/bbl in the near future as supply can not keep up with demand. \$200 is what you get when you don't have a national energy policy and you don't rein in both federal spending and trade deficits.

I spent some time listening to the EPA Administrator being grilled by a few politicians trying to make points about air pollution. Of course, those grilling him were not only Democrats but also Chairman Wexler represents the LAX area that has the worst pollution in the nation. After listening to the non-sense questions and the many times the same answer was given by the EPA Administrator, it became very apparent why many good people refuse to answer the call to public service. This grilling was politics at its very worst.

The DJIA was down over 240 points today before it recovered to only lose 199 points at the close. Still today's market action was enough to generate distribution counts for the NYSE, DJIA and S&P 500.

We are still headed back to Dallas and expect to arrive sometime late Wednesday. Outside temperature driving through Arizona today was 105 degrees F. We decided to take our break in Winslow, Arizona to catch up on our sleep and wait for the temperature to moderate.

We saw MA in the Conservative portfolio sold today as a result of our Action Point which was a hard stop as we are traveling.

5/19/2008 After the Close

Major Indexes		5:16 p.m. EDT 05/19/08		
	Last	Chg	% Chg	
DJ Industrials*	13028.16	41.36	0.32	
DJ Transportation Average*	5395.40	26.44	0.49	
DJ Utility Average*	521.88	6.07	1.18	
Nasdaq Composite*	2516.09	-12.76	-0.50	
Nasdaq 100*	2016.60	-14.67	-0.72	
S&P 500*	1426.63	1.28	0.09	

The Musings were not published due to travel and schedule constraints.

Markets Diary		6:00 p.m. EDT 05/19/08		
Issues	NYSE	Nasdaq	AMEX	
Advancing	1,479	1,222	652	
Declining	1,681	1,687	560	
Unchanged	111	133	79	
Total	3,271	3,042	1,291	
Issues at				
New 52 Week High	211	54	74	
New 52 Week Low	22	50	18	
Share Volume				
Total	1,144,851,724	2,228,641,275	28,488,234	
Advancing	579,765,474	845,541,819	16,385,724	
Declining	553,850,580	1,360,951,848	10,665,750	
Unchanged	11,235,670	22,147,608	1,436,760	

5/16/2008 After the Close

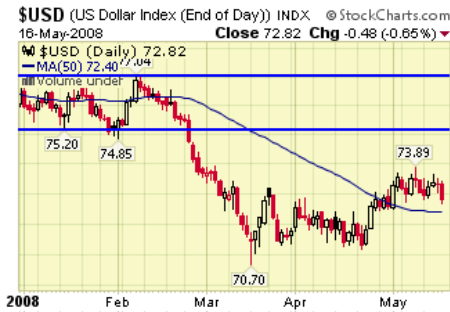


Other than the gold shares, we should have gone out and played!

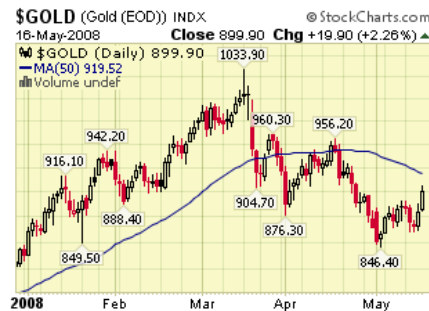
Markets Diary			
5:56 p.m. EDT 05/16/08			
Issues	NYSE	Nasdaq	Amex
Advancing	1,673	1,229	714
Declining	1,463	1,645	463
Unchanged	115	136	94
Total	3,251	3,010	1,271
Issues at			
New 52 Week High	187	51	63
New 52 Week Low	27	52	22
Share Volume			
Total	1,313,717,773	2,250,031,951	33,172,495
Advancing	614,342,043	1,118,116,771	19,677,700
Declining	662,552,330	1,097,245,795	12,655,095
Unchanged	36,823,400	34,669,385	839,700

Will IBD® consider today's action in the DJIA as a distribution day? Volume went up but the movement was hardly noticeable with the naked eye. Of course, it was options expiration day so the increase in volume might be attributed to that occurrence. In the afternoon, it almost felt like an invisible hand was guiding the market towards a positive close .. but alas, it was not to be. Still for the week, most indices showed a gain.

The U.S. dollar Index dropped to its lowest level this week closing at 72.82. The CRB Commodity Index was up by more than 1.0%. Gold showed strength -- closing \$20.50 higher at just over \$900 per ounce. You might even think that it has built a base from which to move higher.



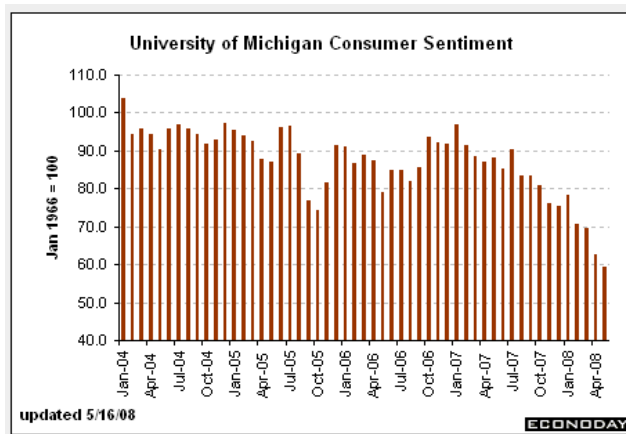
Crude hit a fresh all time record high of \$127.82 per barrel before closing at \$126.30 on the New York Mercantile Exchange. Oil is up almost 35% year-to-date.



Housing starts were higher than expected in April as weather enabled home builders to begin construction. Of course, the bulk of the increase came from apartment construction, not residential. However, permits which are indicative of future trends continued to fall by 5.4% over the previous month. Housing permits are down 40.9% since last April for the worst rate since 1991.



Consumer sentiment continues to weaken indicating that the consumer is not eager to visit the shopping malls. If the consumer represents 70% of GDP, it would appear that the economy is in trouble.



Home Equity lines (HELOC's) are quickly turning into another nightmare for banks. Every day we get information that another banking institution is backing out of the HELOC market and telling their customers that they will not allow draw-downs of the lines.

In the Aggressive portfolio, we bought CEL today. In the Precious Metals portfolio, we purchased AEM, CCJ, SLW and GSS. There were no other changes in the portfolios today.

Have a great weekend.

Fred Richards/Strategic Investing.

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