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STRATEGIC INVESTING

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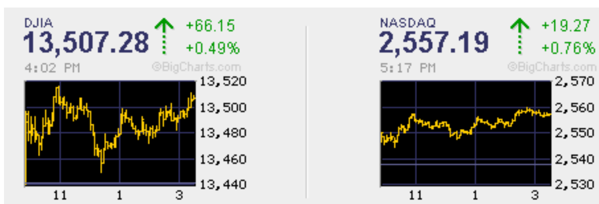
As we celebrate this Memorial Day Weekend, let us not forget those who gave the greatest gift of all to preserve this nation.

5/25/2007 After the Close



A bounce-up day to close the week.

ADVANCES & DECLINES	NYSE	AMEX	NASDAQ	BB
Advancing Issues	2,241 (67%)	770 (61%)	1,966 (62%)	740 (40%)
Declining Issues	983 (29%)	383 (30%)	1,052 (33%)	657 (35%)
Unchanged Issues	141 (4%)	107 (8%)	135 (4%)	471 (25%)
Total Issues	**3,365**	**1,260**	**3,153**	**1,868**
New Highs	**78**	**30**	**89**	**194**
New Lows	**31**	**13**	**67**	**216**
Up Volume	1,702,540,870 (73%)	341,058,331 (82%)	1,149,290,442 (73%)	197,552,474 (18%)
Down Volume	585,000,471 (25%)	68,391,327 (16%)	363,550,957 (23%)	247,547,082 (23%)
Unchanged Volume	29,656,359 (1%)	5,539,700 (1%)	57,689,656 (4%)	637,831,360 (59%)
Total Volume	**2,317,197,700[1]**	**414,989,358[1]**	**1,570,531,055[1]**	**1,082,930,916[1]**

During the past two weeks, we have seen the markets rally towards new all-time highs for the DJIA, and the S&P 500. The S&P 500, however, failed to make a new closing high of 1526 although it did push pass that level on an intra-day basis on Wednesday. Can we attribute the failure to make a new closing high on the fact that my trip to Alaska was interrupted on Tuesday when we headed home to Texas from Vancouver, B.C. to solve a couple of problems that had developed? Because of the travel time, there were no Musings during the first four days of this week. Oh, well, we will try again in July to resume the trip.

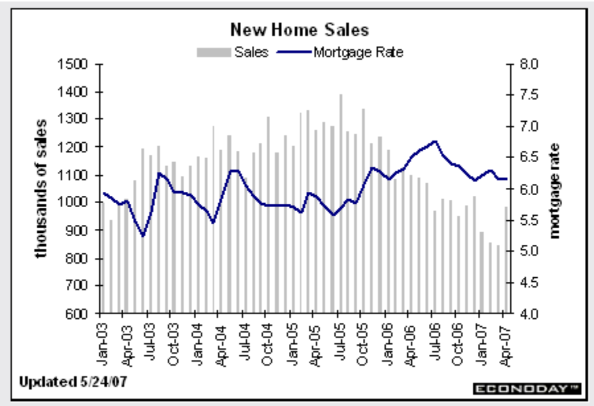
Courtesy of Daily Graphs Online®

The Thursday decline in the S&P 500 wiped out the gains of the previous six trading sessions and Friday with many traders out for the Memorial Day weekend was ripe for a bounce which occurred on lower volume. Nevertheless, if you look at the blue and red volume lines on the chart of the S&P 500 shown above, you will note that red predominated the last three days indicating that down volume continues to be a problem in this over-bought market.

On Wednesday, the MBA purchase index was up 1.3% for the week ending May 18th suggesting that housing might be near a bottom. However, the refinancing index jumped 1.9% in the same week despite an increase in mortgage rates which may indicate that consumers are trying to get the housing equity ATM going again as they are battered with increased inflation.

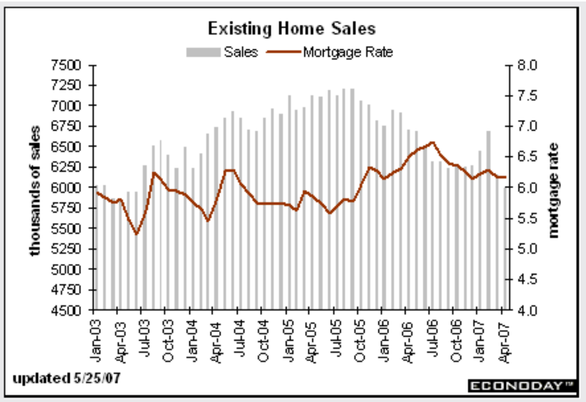
On Thursday, market guru's were trumpeting that the housing market had bottomed with gains in new home sales beating expectations. Of course, one of the things that never get reported about new home sales is the number of contracts that are canceled before closing. From the King Report:

> **The 16.2% jump in April sales, the biggest in 14 years (so that should've triggered warning bells), are due mostly to a 35% surge in '*homes not yet started'*. Completed home sales were virtually unchanged m/m (31k from 30k). Additionally about 2/3 of April sales were for homes priced under $300,000. The 'good' New Home Sales data is a flurry of pre-sales on low-priced spec houses. Yikes! The median new home price declined 10.9% y/y and a record 11.1% m/m in April to $229,000.**



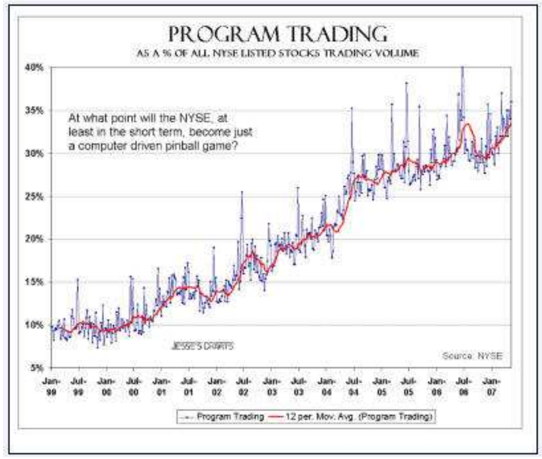
The real story in the NAHB survey number is that the median housing price is down 10% on a y/y basis. The implication for the mortgage market is that buyers with sub-prime and Alt-A mortgages are now underwater. With the banking system holding a 53% exposure to real estate loans and under reserved loans, a problem exists in the credit derivatives sector. Hedge funds with holdings of sub-prime and Alt-A mortgages could be in deep trouble.

Then, on Friday, sales of existing homes were dismal for April (off 2.6% over March and the lowest level since June 2003) suggesting that the market bottom in the housing market is still in the future. **The inventory of homes for sale grew 10.4 percent to 4.2 million units, which represents an 8.4 months' supply at the current sales pace.**



This market appears to be driven by future expectations and liquidity that enables private equity groups to make M&A deals at interesting mark-ups. Since history has proven that well over half of all mergers end without profits, one has to wonder what is different this time around. Stock buy-backs continue also to support the market as corporations are failing to find better investment opportunities for their cash.

Program trading continues to account for an increasing percentage of all trades on the NYSE as shown in the following graph.

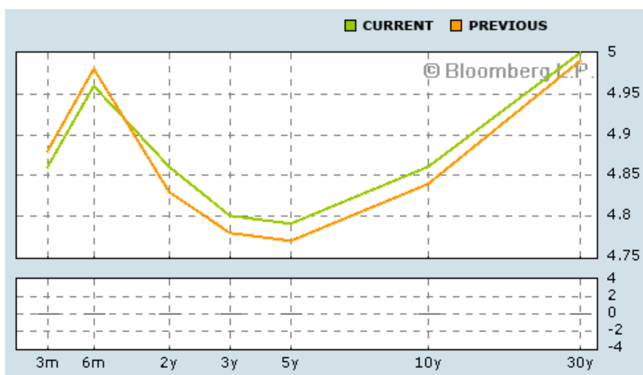


http://jessel.100megsfree3.com/ProgramTrade.gif

The Nobel prize winners at LTCM thought they had all the bases covered in their program trading but when the Soviet Union decided to dishonor their debt, they went kaput! One can only wonder what unexpected event will trigger the demise of some of these black boxes trading models. The only real question is not if, but when, that will occur.

The economy continues to struggle as April's durable goods orders improved 0.6% over March's 0.5% growth. Inventories, however, jumped also by 0.5% suggesting that companies were producing more products than the market could absorb. This was especially true in the auto industry where higher incentives were offered to move vehicles off dealer's lots.

The treasury yield curve remains inverted although during the past week, rates have increased at the mid and long end of the curve as shown below. As the curve narrows, the chances that the FED will be able to cut rates in the near future diminishes.



Treasury Yield Curve

Since the middle of May, rates on the 10 year Treasury note have increased from 4.75% to 4.86% on Friday.

The reluctance of the Chinese to allow the yuan to appreciate further has some interesting implications for both the bond and currency markets. As the Chinese move away from U.S. dollar holdings into equity deals and other forms of investments in commodities as well as other currencies, we can expect the U.S. dollar to come under further pressure and perhaps, interest rates to increase further.

With this week's discussions with the Chinese bearing no major relief in the yuan/dollar relationship, the dollar's strength that began in early May would appear to have run its course. I would expect to see the dollar index begin to return to the previous low and perhaps, move lower in the next few days or weeks.

Since the February meltdown in China, the Shanghai Composite index shown below has increased 55% in less than 90 days. Could the negative turn seen in the MACD chart suggest that we are in for another correction that might flow through all the world financial markets?

On Thursday morning, I decided to take the Aggressive portfolio to cash and sold both F and GM. An Action Point via a hard stop sold AVT from the Conservative portfolio on Thursday also. There were no other changes in the portfolios.

We hope that you are having a great Memorial Day weekend. And one needs to remember those words from Benjamin Franklin in 1787 ... **We have given you a republic, if you can keep it?**

Charts are courtesy of IBD®, Daily Graphs Online®, Halkin Services, Martin Capital, Kitco.com, GM Bolser, Stockcharts.com, Econoday, Prudent Bear and/or Big Charts.

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Keep it Safe, Simple and Stay Focused!
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