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Market Musings

6/27/2008 After the Close

The market continued to move independently of the PPT and the FED today!

Markets Diary 5:56 p.m. EDT 06/27/08

Issues	NYSE	Nasdaq	Amex
Advancing	1,187	1,175	473
Declining	1,994	1,748	732
Unchanged	74	127	69
Total	3,255	3,050	1,274
Issues at			
New 52 Week High	52	13	33
New 52 Week Low	492	320	106
Share Volume			
Total	1,955,245,602	3,148,082,660	121,193,229
Advancing	751,496,740	1,123,142,102	48,210,579
Declining	1,165,572,562	1,787,967,775	70,311,950
Unchanged	38,176,300	236,972,783	2,670,700

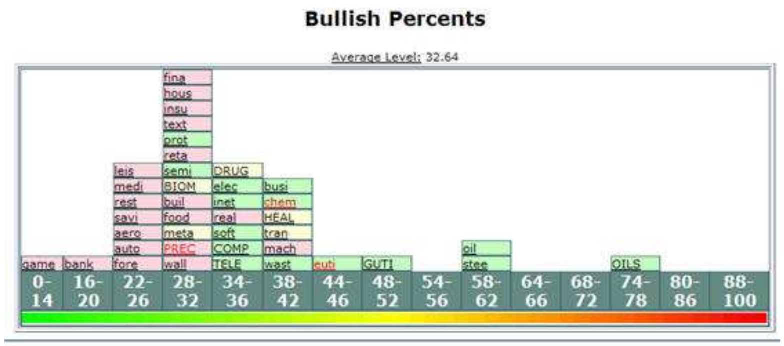
Despite a late afternoon rally, the carnage continued in the markets as even the purist were beginning to believe in a bear market. Listening to short radio bursts on Thursday and Friday confirmed my belief that perhaps the spin doctors were not able to overcome the real world's perception of the problems facing consumers and businesses throughout the world.

Did the market carnage on Thursday and Friday set the stage for capitulation and from here another rally would begin. In my opinion, I would be inclined to think that the breaking of support levels in the DJIA and the other indices would suggest that the market will move lower. While we might see a bounce the general policies that our politicians and the FED have followed for years are now in major trouble. Although the economists are reluctant to suggest that a recession is upon us ... all you have to do is look around you.

During the past ten days, the hotel/motels which I have stayed at were less than half full and last year, you had to make reservations in advance. Upscale and mid-level restaurants are complaining about lack of customers. Gas prices are forcing consumers to conserve gas and airlines are cutting flights. The downward spiral is in motion ... ignore it at your own peril.

The de-leveraging of the financial credit markets and the continued write-downs of assets by financial institutions have combined to increase the difficulty of raising sufficient capital to put a sound financial base under many banks and investment banks. Lending a major portion of the purchase price for illiquid Level 3 assets to get them off a bank's balance sheet is only another shell game. Eventually, it will blow up.

The market is taking no prisoners although oil-related stocks and steel have not begun to fall. The Dorsey Wright and Associates Sector Bell Curve shown below illustrates have quickly the market has deteriorated.



Courtesy of Dorsey Wright and Associates

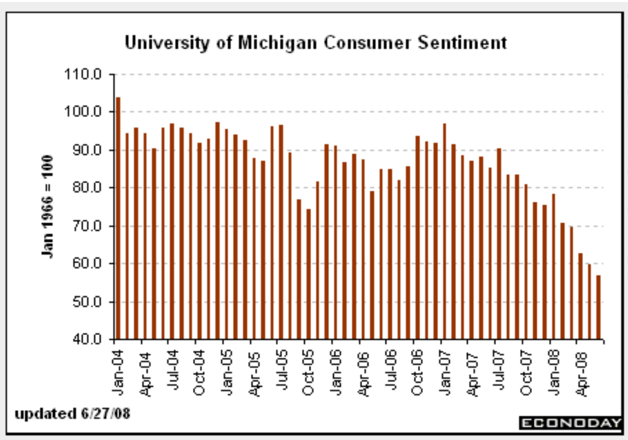
Financial analysts at many institutions are playing a game of "beggar thy competition." Have you notice how many financial stock analysts have been issuing downgrades on their competitors.

May personal income and spending numbers were impacted by the federal government rebate program so although both shows a M/M increase of 1.9% and 0.8%, do not look for it continuing in June. The big increase in disposable income is nothing but more deficit spending on the government's part. The increase in wages & sales was the the 2nd lowest in the last six months as shown below.

Trends

		data displayed as monthly percent changes					
Released on:	Percent	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08
Released for:	of Total	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08
Personal Income	100.0%	0.5%	0.2%	0.5%	0.3%	0.3%	1.9%
Wages & salaries	54.5%	0.5%	0.5%	0.4%	0.5%	-0.1%	0.3%
Disposable income	87.4%	0.5%	0.4%	0.5%	0.3%	0.4%	5.7%
Real disposable income	72.8%	0.2%	0.1%	0.3%	0.0%	0.1%	5.3%
Consumer Spending (nomin	100.0%	0.2%	0.5%	0.1%	0.5%	0.4%	0.8%
Durable goods	10.6%	-1.0%	-0.5%	0.3%	-0.8%	-0.3%	-0.2%
Nondurable goods	29.4%	0.2%	0.6%	-0.2%	1.1%	0.7%	1.2%
Services	60.0%	0.5%	0.6%	0.2%	0.5%	0.4%	0.7%
Consumer spending (real)	100.0%	-0.1%	0.2%	-0.1%	0.2%	0.2%	0.4%
Durable goods	14.7%	-0.8%	-0.6%	0.2%	-0.9%	0.0%	0.1%
Nondurable goods	28.7%	-0.4%	0.0%	-0.2%	0.8%	0.4%	0.4%
Services	56.8%	0.2%	0.4%	-0.1%	0.1%	0.1%	0.4%

The consumer sentiment index was the third lowest reading on record for the series at 56.4 and the series began in 1952. The drop was 3.4 points from May.



Data Source: Haver Analytics
Consensus Data Source: Market News International

The CRB index made another all-time record high today. Gold added another $16.20/oz to its price today closing at 931.30.

We made no changes in the portfolios today.

6/26/2008 After the Close

It was a bad reaction to the FED communiqué!

Markets Diary 6:03 p.m. EDT 06/26/08

Issues	NYSE	Nasdaq	AMEX
Advancing	473	609	386
Declining	2,742	2,329	831
Unchanged	52	106	82
Total	3,267	3,044	1,299
Issues at			
New 52 Week High	41	10	23
New 52 Week Low	409	267	92
Share Volume			
Total	1,517,809,913	2,252,842,892	31,525,996
Advancing	118,455,310	247,962,960	13,978,986
Declining	1,395,534,703	1,993,905,986	16,370,210
Unchanged	3,819,900	10,973,946	1,176,800

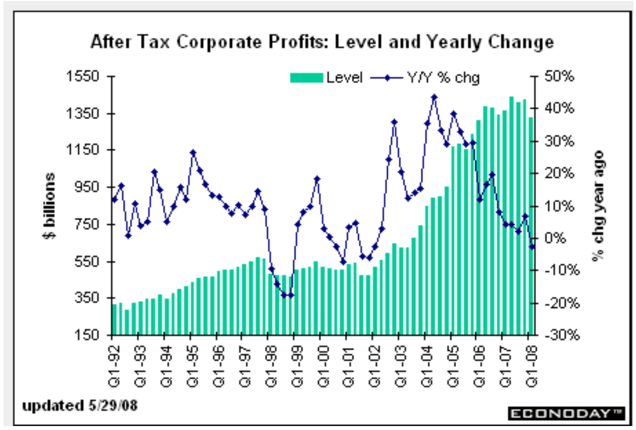
The market took a dive today as many factors were negative and investors finally said enough already!

The unreal GDP data was revised upward to 1% from 0.9% for the 1st Quarter 2008 with inflation at 2.7% vs 2.6% in the last report. Today even soccer moms knows that 2.7% inflation is not realistic. Finally, the Emperor had no clothes and the market headed south. If you look at the data, you will see that net exports (remember the falling dollar is supposed to increase exports) were at the lowest level in the last six quarters. Government spending continues to support the economy.

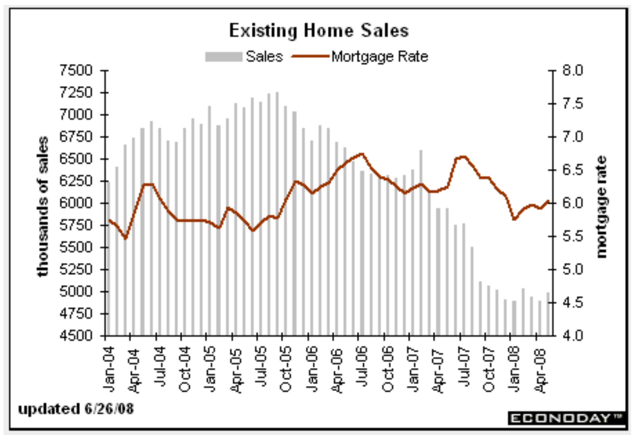
		Data displayed as quarterly percent change, annualized					
Released on:	Percent	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Released for:	of Total	Q4-06	Q1-07	Q2-07	Q3-07	Q4-07	Q1-08
GDP	100.0%	2.1%	0.6%	3.8%	4.9%	0.6%	1.0%
Consumption Exp.	71.3%	3.9%	3.7%	1.4%	2.8%	2.3%	1.1%
Business Fixed Inv.	11.7%	-1.4%	2.1%	11.0%	9.4%	6.0%	0.5%
Residential Inv.	4.6%	-17.2%	-16.3%	-11.8%	-20.5%	-25.2%	-24.5%
Inventories ($ bil 2000)	0.2%	$17.4	$0.1	$5.8	$30.6	-$18.3	-$19.6
Net Exports ($ bil 2000)	-5.2%	-$597.3	-$612.1	-$573.9	-$533.1	-$503.2	-$480.2
Exports	11.9%	14.3%	1.1%	7.5%	19.1%	6.5%	5.5%
Imports	17.0%	1.6%	3.9%	-2.7%	4.3%	-1.4%	-0.7%
Government	17.5%	3.5%	-0.5%	4.1%	3.8%	1.9%	2.1%
Final Sales	99.8%	3.5%	1.3%	3.6%	4.0%	2.4%	0.9%
GDP price index	NA	1.7%	4.2%	2.6%	1.0%	2.4%	2.7%

Did you catch Barclays Capital, in effect, suggesting that the Federal Reserve was incompetent with "negative credibility" and that most central banks have "zero credibility." Simply amazing!

Corporate profits continued to fall and were down 3.6% y/y in the 1st Quarter 2008. This is the first quarter of negative growth on a y/y basis since 2002. If corporate profits are going negative, the market will probably see a major impact.



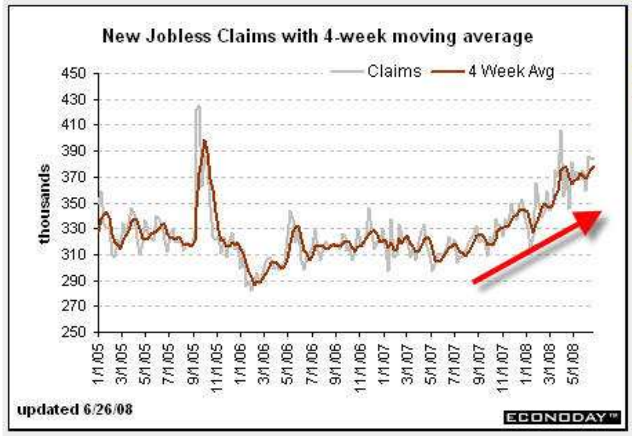
Sales of existing home increased by 2% in May to 4.99 million annual rate. Supply remained high at 10.8 months but down from 11.2 months in April. The data seemed somewhat suspect as median prices actually increased despite rising mortgage rates.



Data Source: Haver Analytics
Consensus Data Source: Market News International

The financial mess continues. Alt-A mortgages outstanding are roughly $1 trillion vs. roughly $450 billion for sub-prime. The definition of Alt-A borrowers, essentially, is that they are prime quality borrowers who decided to not disclose proof of income, sources of income, etc. As the Alt-A loans start to become delinquent, the financial institutions holding this loans will become holders of more toxic waste.

Jobless claims are elevated but not severely with initial claims unchanged in the June 21 week at 384,000 and continuing claims reversing the prior week's drop with an 82,000 rise to a four-year high of 3.139 million in data for the June 14 week.



Data Source: Haver Analytics
Consensus Data Source: Market News International

While the major indices took a bath, gold was up almost $40 in today's trading.

We made no changes in the portfolios today.

6/25/2008 After the Close

The market's enthusiasm with the FED had a short life today!

Markets Diary — 5:55 p.m. EDT 06/25/08

Issues	NYSE	Nasdaq	Amex
Advancing	2,220	1,849	676
Declining	951	1,034	503
Unchanged	89	157	101
Total	3,260	3,040	1,280
Issues at			
New 52 Week High	28	21	9
New 52 Week Low	121	157	51
Share Volume			
Total	1,396,731,512	2,113,965,666	31,864,685
Advancing	955,874,070	1,718,901,312	16,119,500
Declining	398,900,342	379,671,467	14,215,100
Unchanged	41,957,100	15,392,887	1,530,085

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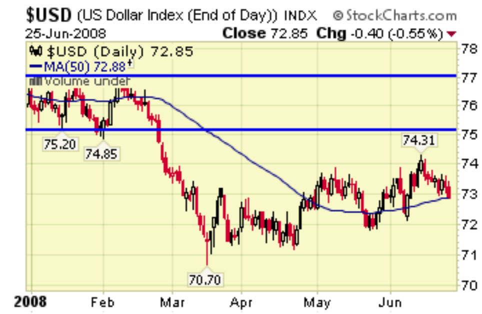
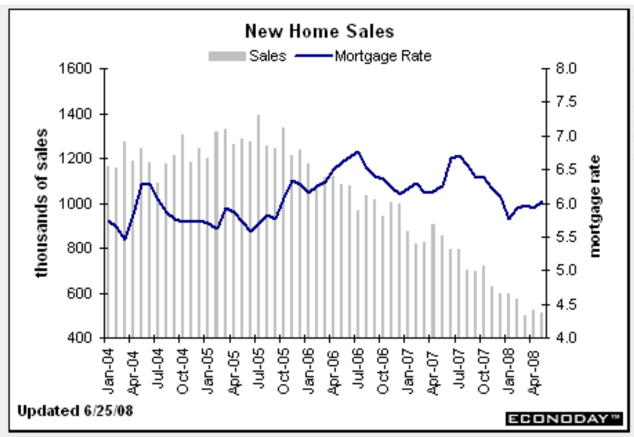
Even though today's advancing issues were greater than those declining, the selloff after the Fed announcement suggest that the market was not too pleased with the FED statement.

Although increasing crude oil inventories helped crude oil to move lower and the market head higher in the morning, the momentum shifted after the FED statement. West Texas crude was only down 13 cents and closed at $136.87/bbl. The U.S. dollar index closed below $73 at $72.85 following the FED announcement.



MBA's purchase index dropped 7.4 percent in the June 20 week to a very weak 333.4. The decline in new home sales was abated somewhat but it is still going down. The year-on-year decline remains in the 40 percent column at 40.3 percent. Inventory of new homes on the market rose to 10.9 months from 10.7 months. Prices are beginning to decline as the median price fell to $231,000, a 5.7% drop y/y.



Data Source: Haver Analytics
Consensus Data Source: Market News International

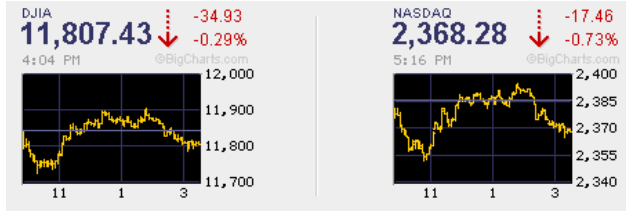
Durable goods orders in May failed to off hope as they stayed flat. Although new orders were flat but if you remove defense items, the durable order index was negative.

Released On:	Percent	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08
Released For:	of Total	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08
New Orders	100.0%	4.1%	-4.7%	1.1%	-0.2%	-1.0%	0.0%
less defense	95.1%	1.6%	-3.8%	0.3%	0.1%	-0.8%	-0.6%
Industry Groups							
Primary metals	9.5%	-0.4%	0.7%	1.4%	2.5%	2.8%	-1.3%
Fabricated Metals	12.7%	1.9%	-4.1%	0.3%	5.2%	-2.3%	0.1%
Machinery	13.6%	8.9%	-1.1%	-8.3%	8.5%	5.1%	-5.3%
Computers & electronic prod	12.7%	2.1%	-1.4%	1.5%	0.9%	-2.2%	2.0%
Electrical Equipment	4.9%	-0.4%	5.5%	2.5%	-18.8%	18.0%	1.5%
Transportation	29.3%	9.3%	-13.2%	7.2%	-5.1%	-8.3%	2.6%
Unfilled Orders	NA	2.3%	0.6%	1.2%	1.3%	0.7%	0.9%

We reinstituted our short position in LEH this morning in the Aggressive portfolio. There were no other changes in the portfolios.

We shall be traveling the next 72 hours and the Musings may be delayed. There will not be an update to the Watch List until sometime Saturday. Our portfolios will be operating with hard stops.

6/24/2008 After the Close



Economic news did not help the market today!

Markets Diary — 5:23 p.m. EDT 06/24/08

Issues	NYSE	Nasdaq	Amex
Advancing	970	779	425
Declining	2,172	2,089	789
Unchanged	90	136	70
Total	3,232	3,004	1,284
Issues at			
New 52 Week High	37	21	19
New 52 Week Low	399	333	104
Share Volume			
Total	1,339,629,680	2,200,788,055	31,925,267
Advancing	600,252,380	782,823,199	12,020,400
Declining	724,755,100	1,397,678,231	18,691,667
Unchanged	14,622,200	20,286,625	1,213,200

Falling home prices and consumer sentiment dropping to record lows set the stage for a market that could not stay in positive territory in advance of the FOMC announcement tomorrow.

Declining issues, new 52 week lows and down volume were the winners today (well, maybe that is the wrong word). The turmoil in the financial helped the market keep the losses moderate as they rebounded on speculation that Wachovia and UBS might find takeover partners. Of course, the announcement from Citigroup that probably 175,000 jobs in the financial sector would be lost in the next year as well as $1.25 trillion more in writedowns did not seem to have much impact on the speculators today.

Consumer confidence fell 13% to its lowest level since 1992. ICSC-UBS reports a 0.6 percent week-to-week decline in same-store chain sales for the June 21 week, evidence it said that consumers are being stingy with their federal tax rebates, two thirds of which have now been disbursed.

The S&P/Case Shiller index indicated that housings prices in the 20 major metropolitan areas dropped 15.3% since last May.

Commercial real-estate is about ready for a slide as **store closings mount throughout the economy** and many retailers are demanding reduced rentals.

Dow Chemical puts another 25% price hike on. While it might cause some demand destruction in the U.S., the rest of the world is still buying.

From the Wallstreetexaminer comes this:

> "There are a number of financial bottomless pits out there requiring “money to stay afloat” (translate: distressed Ponzi finance), but increasingly the appetite for this is just not there. Case in point is GMAC, the financial arm of GM, who is burning through cash like no tomorrow. Financing discussions are described as close calls."

GM is borrowing another $8 billion in working capital while it slashes production, and increases incentives with 0% interest for 72 months. I wonder if the majority of those vehicles will last 72 months. GMAC just managed to restructure $60 billion of its debt last month. The alternative was insolvency and the big banks, JPM & C, were afraid not to because of the problems that GMAC's insolvency might have triggered in their own loan portfolios.

Now according to housingwire.com, $60 billion isn't enough to save Residential Capital LLC:

> "Well, that didn’t take long. It’s not even been a month since the $60 billion bailout/refinancing effort was completed for Residential Capital LLC, the ailing mortgage lending arm tied to GMAC LLC, and already questions are being whispered over the company’s future."

The downgrade of MBIA has Bloomberg reporting that it needs to post $7.4 billion in new collateral. Oops!

Most state and local governments begin their fiscal years on July 1st. The reduction of sales tax collections and real estate tax collections will mean that layoffs and reduction in various programs are just ahead.

As we were out of the office most of today, we saw our Aggressive Portfolio short in LEH get covered this morning. There were no other changes in the portfolios today.

6/23/2008 After the Close

Was the DJIA guided to its no-change close today?

Markets Diary — 5:48 p.m. EDT 06/23/08

Issues	NYSE	Nasdaq	Amex
Advancing	1,086	844	461
Declining	2,139	2,049	743
Unchanged	59	139	96
Total	3,284	3,032	1,300
Issues at			
New 52 Week High	68	37	25
New 52 Week Low	320	244	75
Share Volume			
Total	1,082,433,199	1,883,602,861	26,630,624
Advancing	389,710,880	385,780,484	11,920,358
Declining	684,396,719	1,485,038,536	12,757,366
Unchanged	8,325,600	12,783,841	1,952,900

Was it just chance or were strings being pulled in today's close in both the DJIA and S&P 500 indices today? You have to admit that the close in both look somewhat suspicious.

Although the big board ended almost neutral, there was a major difference in the number of shares, issues and new 52 week lows (320) that declined during the day as opposed to those that rose. To me, this divergence might spell serious trouble in the next few days.

Crude oil was up and the financials again suffered a spate of bad news with Citigroup announcing a 10% layoff of investment banking positions. Of course, the FOMC meeting tomorrow and the announcement on Wednesday probably had a few investors skittish today. GM announced another production cutback for their trucks and SUV's. While OPEC made increase production by 200,000 bbls/day, the Nigerian stoppage cut 350,000 bbls/day from worldwide supply.

The ripples from the downgrade of MBIA and Ambac are getting bigger and bigger. According to CreditSights, "As much as $1.28 trillion of debt is covered by the so- called monolines citing data compiled by International Swaps and Derivatives Association. The downgrades that we have seen so far, numerous though they have been, have yet to scratch the surface of the potential downgrades that will ultimately be required," New York-based analysts **Brian Yelvington** and **Rob Haines** wrote in a report today.

The dollar's role as the reserve currency continues to weaken. Central bank chiefs of the Asian Clearing Union will begin in January 2009 to allow the Euro along with the dollar to be used for settlement of payments among member countries.

We made no changes in the portfolios today.

6/20/2008 After the Close

Spring ended with the markets sliding lower on large volume!

Markets Diary 5:52 p.m. EDT 06/20/08

Issues	NYSE	Nasdaq	Amex
Advancing	578	792	337
Declining	2,608	2,095	874
Unchanged	62	125	76
Total	3,248	3,012	1,287
Issues at			
New 52 Week High	40	26	18
New 52 Week Low	275	200	65
Share Volume			
Total	1,945,266,402	2,577,761,611	38,731,637
Advancing	271,737,680	378,667,392	11,102,217
Declining	1,666,164,822	2,179,414,365	26,594,920
Unchanged	7,363,900	19,679,854	1,034,500

Yesterday, the DJIA fell below 12,000 twice and with some assistance from the PPT recovered but today it sliced through 12,000 like a knife in hot butter and kept going.

Whether IBD® wants to count it as a distribution day or not, there was definitely selling by institutions today. They don't like to count distribution when the market is in correction. Of course, it was also quadruple options expiration day but from the opening, the tone of today's market was down. Declining issues, declining volume and new 52 week lows all swamped their counterparts in today's trading.

Yesterday there was some speculation about a double bottom forming in the S&P 500 by a couple of technicians. Well, after today, there probably is not much doubt that the double bottom has been pierced. Today's close at 1317.93 suggests that the next support level is 1272.66. Watch out for the falling rocks.

Was it just more pessimism about the financial mess or were rumors of increased tension in the Middle East to blame. Certainly, the reduction in auto production by Ford did not help. Nor did the placing of Ford, Chrysler and GM on negative credit watch by Standard & Poor's help. Also, the rating cut by S&P on Bank of America from hold to sell also weighed on today's action.

Citigroup announced further write-downs while rumors floated about Merrill Lynch having problems with its income statement also did not help. Moody's downgrade of MBIA and Ambac also is just another one of the death by a thousand cuts that the financial sector is receiving. Downgrading these two from Aaa is simply long overdue. The outlook for both companies is negative, due to uncertainty of their ongoing business plans.

The real crime though is that they should be placed in Chapter 7. Of course, that would cause a few of their interlocking shareholders and directors some degree of financial pain. And we all know that the Wall Street crowd is pretty good at looking after their own hides ... just not yours.

For once, there was little news of economic importance on today's agenda.

Both West Texas crude oil and the dollar fell today.

Although corn and soybeans were down the last two days, the CRB made another all-time record high.

In the Aggressive portfolio, we re-entered our shorts in GS and AIG which were covered yesterday by hard stops while we were out-of-pocket. There were no other changes in the portfolios today. The STI indicators remain negative so prudent investors should be extremely cautious at this point.

Have a great weekend. You might spend a portion of it reading my new '**Tis Only My Opinion! article** on whether the Federal Reserve has meet its mandate of "maximum employment, stable prices, and moderate long-term interest rates."

From one of my long-term readers comes this about the Opinion piece.

> **"Thank you very much for " Tis Only Your Opinion entitled "Has the Federal Reserve Bank Achieved Its Mandate" which I regard as the best summary of the history and recommendation than I have ever read.**
>
> **Congratulations!! Shalom, Donn"**

Fred Richards/Strategic Investing.

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