

STRATEGIC INVESTING

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- Daily Market Musings • Archive
- Daily Stock Watch List • Archive
- Weekly ETF List
- Technical Notes
- 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
- Core
- ETF
- Precious Metals
- Renew Subscription

Market Musings

7/20/2007 After the Close



Another distribution day ... is this market jittery or not?

ADVANCES & DECLINES				
	NYSE	AMEX	NASDAQ	BB
Advancing Issues	757 (23%)	399 (29%)	803 (26%)	660 (33%)
Declining Issues	2,462 (74%)	864 (63%)	2,219 (71%)	811 (41%)
Unchanged Issues	117 (4%)	98 (7%)	109 (3%)	515 (26%)
Total Issues	3,336	1,361	3,131	1,986
New Highs	125	64	106	209
New Lows	159	37	209	221
Up Volume	470,176,586 (13%)	100,805,519 (12%)	505,625,421 (21%)	174,109,611 (9%)
Down Volume	3,235,087,439 (86%)	764,410,277 (88%)	1,875,716,765 (78%)	431,710,438 (23%)
Unchanged Volume	40,518,750 (1%)	6,312,043 (1%)	12,823,537 (1%)	1,291,857,117 (68%)
Total Volume	3.745.782.775¹	871.527.839¹	2.394.165.723¹	1.897.677.166¹

Two of the past three days have shown substantial distribution. Down volume and declining issues were dominant on both the Big Board and the NASDAQ today.

It was not a good day for investors hoping for more earnings surprises to the upside. Google disappointed, Microsoft showed decent strength despite the Xbox \$1 Billion writeoff, Caterpillar failed to meet expectations and KB Home suggested that the housing bottom might not arrive until late 2008. Aren't you glad that there wasn't any more negative news today!

Guess that will give the FED time to print up enough money to replace the \$100 Billion or more that has been lost in the CDO market as the ABX indexes have cratered! A story in the financial media suggests that Goldman, Sachs and Lehman have over \$11 Billion of CDO instruments in their portfolios and can not find buyers for them. Oops. The sub-prime mess is beginning to snowball and with the rating agencies beginning to seriously downgrade many of the bonds, the ability of hedge funds and private equity capital to continue to rely upon low-interest debt to shower liquidity upon the financial system will become a problem. Already, we have seen some instances of private equity deals failing as the funds are just too expensive or require additional collateral.



China raised interest rates again hoping to cool off the runaway economy before inflation drives wages through the roof and exports become more competitive with other Southeastern Asian nations.

The yield on the 10 year Treasury note fell under 5% today as investors tried to dump junk bonds and get into Treasuries for safety. Guess they haven't learned that the Treasury note is basically also worthless as it is only fiat paper. The US dollar index dropped at one point this morning to 80.03 before recovering. Unless the FED intervenes, the dollar is probably headed lower in the near future..



Crude oil closed at 76.06 while natural gas rose to 6.80/mcf. Perhaps, natural gas is building a base at this level.

Gold moved to its highest close since mid-May at 683.00/oz. The usual sell-off in NY following the close the physical market in London has not occurred in the past three trading sessions. Silver bucked the trend and closed lower at 13.31/oz..



Despite lack luster performance by many of the junior and senior gold stocks, the Gold Bugs index (HUI) broke above its 370 resistance level today and could be headed to a test of the previous high since May 2001 of 401.69.



In the Conservative portfolio today, we sold CYNO on a violation of its Action Point. In the Precious Metals portfolio, we purchased IAG. There were no other changes in the portfolios today.

7/19/2007 After the Close



14,000 - on oxygen with lower volume!

ADVANCES & DECLINES				
	NYSE	AMEX	NASDAQ	BB
Advancing Issues	1,990 (60%)	811 (61%)	1,819 (58%)	745 (38%)
Declining Issues	1,216 (36%)	432 (32%)	1,177 (37%)	688 (36%)
Unchanged Issues	126 (4%)	93 (7%)	151 (5%)	503 (26%)
Total Issues	3,332	1,336	3,147	1,936
New Highs	257	141	208	209
New Lows	110	43	97	222
Up Volume	1,815,796,579 (58%)	438,782,956 (82%)	1,602,824,950 (71%)	1,530,335,879 (70%)
Down Volume	1,260,710,365 (40%)	90,509,581 (17%)	615,423,705 (27%)	357,415,625 (16%)
Unchanged Volume	69,019,992 (2%)	4,277,400 (1%)	25,042,938 (1%)	305,534,381 (14%)
Total Volume	3,145,526,936¹	533,569,937¹	2,243,291,593¹	2,193,285,885¹

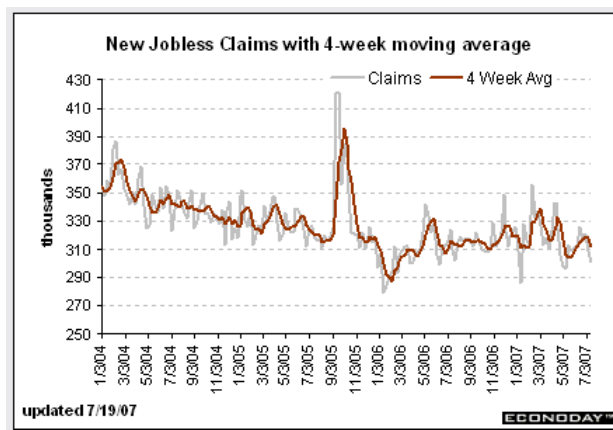
A higher open pushed the DJIA, NY Composite and the S&P 500 to new record highs with the NASDAQ making another six year high! The bulls were running but note that the volume was lower on both the Big Board and the NASDAQ today versus yesterday.

Today was the result of the smart money crowd pushing the market to the psychological barrier of 14,000 and managing to keep it there till the close although it had to rally almost 50 points in the last two hours. IBM posted its strongest quarter in five years. Other tech stocks showed up with minor problems, both Intel with margins under pressure and Yahoo about future guidance. AMD reported a \$600 million loss, the third straight quarter of losses as its game plan to cut costs took a toll on the bottom-line.

After the close, Microsoft reported sales above consensus projections and a 7.3% increase in profits despite a \$1 billion charge to fix faulty Xbox video-game consoles. Google's profit rose 28% but below analyst estimates which caused the stock to fall.

Today's market action is surprising to me. During the day, the number of stocks making the A+190 screen fell from 9 yesterday to 6 today as the market closed above 14,000. The total number of A-rated stocks using the Accumulation/Distribution ratings from the Investor's Business Daily continues to hover around the red zone which has usually suggested that investors should be taking money out of equity.

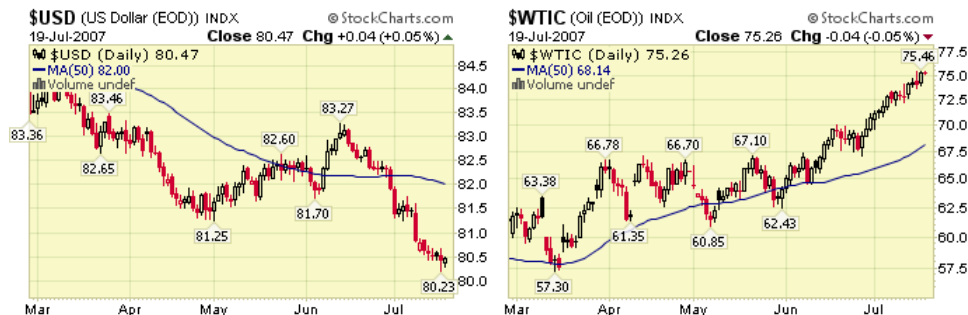
The U.S. leading indicators turned negative in June as building permits collapsed after being positive in May. The Philly FED survey of manufacturing slowed down today as orders were lower. It fell from 18.0 in May to 9.2 in July. New jobless claims however were only 301,000 which is the low end of the range which has existed for many months.



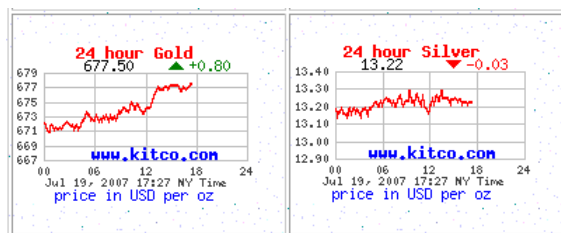
The FED's helicopter pilot, Ben Bernanke, estimated that the sub-prime mess could cost investors between \$50 - \$100 billion but did not accept any responsibility for the flood of liquidity that enabled a reduction of credit standards to generate the current mess. The fifth largest hedge fund manager in Australia, Basis Capital, appears doomed following the seizure of its portfolio by its creditors. **But remember, it is only paper money and we can just run the printing presses a couple of more days and everything will work out!**

Over 100 major U.S. lenders have now shut their doors thanks to the sub-prime mess and it is beginning to spill over into the Alt-A loans. CIT Home Lending took an unexpected loss of \$127 million in the 2nd Quarter and closed its doors yesterday.

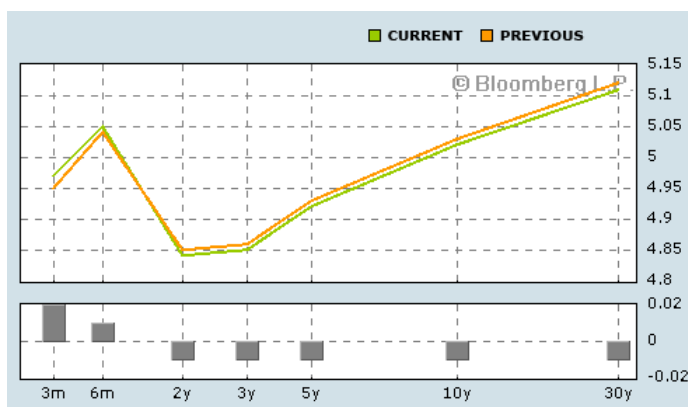
The US dollar fell to a new low against the Euro today although the US dollar index was slightly higher. The yen also fell to a near record low against the Euro and to the lowest in 16 years against the Australian dollar. West Texas crude eased but still closed at 75.26 today. **Perhaps, we should look for cars with excellent gas mileage to have increases in sales.**



Both gold and silver continued to move higher today.

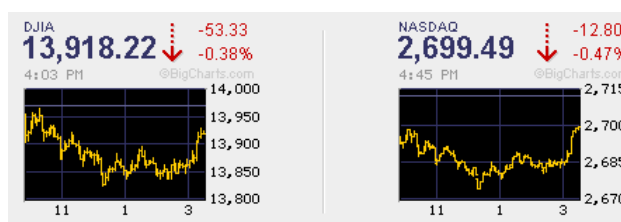


However, the yield curve in the US remained nearly stable.



We made no changes in the portfolios today.

7/18/2007 After the Close



Unable to hold 14,000 yesterday and today we had distribution!

ADVANCES & DECLINES				
	NYSE	AMEX	NASDAQ	BB
Advancing Issues	1,180 (35%)	483 (35%)	1,134 (36%)	619 (31%)
Declining Issues	2,033 (61%)	780 (57%)	1,894 (60%)	860 (44%)
Unchanged Issues	130 (4%)	109 (8%)	138 (4%)	492 (25%)
Total Issues	3,343	1,372	3,166	1,971
New Highs	125	43	106	219
New Lows	188	38	190	227
Up Volume	1,332,347,110 (38%)	172,446,626 (22%)	739,198,339 (33%)	1,613,858,432 (63%)
Down Volume	2,169,033,232 (61%)	591,705,688 (77%)	1,492,283,774 (66%)	550,454,189 (21%)
Unchanged Volume	50,227,290 (1%)	4,285,600 (1%)	25,900,945 (1%)	417,519,985 (16%)
Total Volume	3,551,607,632¹	768,437,914¹	2,257,383,058¹	2,581,832,606¹

After yesterday's close, Bear Stearns finally threw in the towel on the two hedge funds and told investors that they were zaput! The ABX decline of sub-prime interest rates which we discussed on Monday should also cause some more distress among hedge funds, and other institutions. I wonder how long it will take before investors start suing Moody's, S&P, and Fitch for taking too long to acknowledge the water in these bonds.

In today's economic news:

Even with multiple applications increasing, the index for new mortgage applications decreased again in July although refinancing applications jumped as mortgage rates dropped.

According to the Ministry of Truth, consumer price inflation in June was moderate increasing at only 0.2% which was down from May's 0.7% largely on a slowdown in energy prices which decreased 0.5%.

Housing permits fell 7.5% in June after rising 4.3% in May as major builders find their inventories and construction loan lines troublesome. Housing starts improved slightly, however, as weather helped builders in many areas of the country.

FED Chairman Bernanke's testimony before economically-challenged Congress members on the House Financial Services Committee suggested that GDP growth for 2007 needed to be revised lower, inflation was under control, the housing problem might worsen and interest rates would probably remain at the current level throughout the balance of 2007. And for that information, this academic former economic advisor to President's is paid how much? But what is even more disturbing is the lack of understanding by members of Congress about economics and the interplay of fiat currency and credibility.

Of course, the market did not take too kindly to the Bernanke's testimony by dropping over 148 points before slowly recovering to on ly down 112 at 3 p.m. EDT. At 3:45 p.m. a late rally caused the market to surge to only 53 down on the day. Was the rally bargain-hunters, or maybe the late surge was the Plunge Protection Team trying to prevent the market falling to lower levels.

The U.S. dollar index made another new low today closing at 80.43. Watch the 80 level for the dollar index as a major support level. Since early April 2006, the US dollar index has been unable to break above its 200 DMA which is a sign of weakness. Of course, there is one good thing with a falling dollar, the Chinese with over \$1.2 trillion of them have lost over \$100 billion during the past year. No wonder both China, Japan, and the Middle East oil cartel are interested in swapping paper for hard assets.

Yield on the 10 year Treasury bond dropped to close at 5.01% as the FED supplied funds to the market.



The Gold Bugs index had its best gains in months closing at 365.10. Gold rose to \$672 following Bernanke's comments and silver jumped above 13 cents/oz to close at 13.20 on the day in NY.



After sleeping on the possible problems facing the various investment banks and brokerages holding some of the sub-prime paper, we decided to reverse our positions this morning in the financial stocks in the Aggressive portfolio and go short. There were no other changes in the portfolios today.

7/17/2007 After the Close



Above 14,000 on intraday and a record close for the DJIA and the NASDAQ!

ADVANCES & DECLINES				
	NYSE	AMEX	NASDAQ	BB
Advancing Issues	1,343 (40%)	602 (44%)	1,556 (49%)	705 (35%)
Declining Issues	1,862 (56%)	642 (47%)	1,493 (47%)	807 (40%)
Unchanged Issues	126 (4%)	115 (8%)	139 (4%)	508 (25%)
Total Issues	3,331	1,359	3,188	2,020
New Highs	236	134	210	211
New Lows	117	45	105	247
Up Volume	1,207,345,890 (41%)	221,781,131 (42%)	1,406,982,361 (63%)	256,970,402 (19%)
Down Volume	1,727,606,339 (58%)	306,611,923 (57%)	774,319,481 (35%)	536,827,621 (40%)
Unchanged Volume	38,647,272 (1%)	5,297,950 (1%)	45,401,346 (2%)	544,858,779 (41%)
Total Volume	2,973,599,501¹	533,691,004¹	2,226,703,188¹	1,338,656,802¹

It only took 87 days for the DJIA to rise from 13,000 to 14,000. Simply amazing and the trumpets were sounding for the new record ... unfortunately, it could not hold 14,000 at the close falling down in the last hour from the peak.

We often talk about the measuring stick that should be used by most investors which is purchasing power and when the measuring stick is fiat currency, most people are unable to effectively judge purchasing power and particularly, in a country, where inflation is created by increasing the money supply. M3 is not running at 13% per year while GDP is only running at 2% or so. By definition, that is a 11% inflation rate.

Another way of measuring purchasing power is to measure it with that old stand-by ... gold. Admittedly gold is a managed currency but throughout history, it has stood as a storehouse of value. The following chart since 1990 of the relationship between the DJIA and Gold should help reduce some of the euphoria about a DJIA level near 14,000.



The Producer Price Index (PPI) showed a drop of 0.2% thanks to volatile food and energy costs. According to the BLS, gasoline prices dropped 3.9% in June, the biggest decline since a 13 percent plunge in January. **According to the EIA, gasoline prices are increasing in July.**

The cheerleaders from TV and the brokerage houses are trying to tell you that with the overall PPI thanks to food and energy dropping and good earnings from a few companies, all is right in the market. But take a look at the S&P 500 as well as the NYA Composite, both of which were in negative territory today.



Don't believe it ... look at the number of declining issues and the amount of down volume on the Big Board. Not everyone is going up and down volume both yesterday and today dominated that exchange. Eight of the twenty stocks with the highest volume today actually were

17-Jul-2007 (Tue) highest volume in US M

July 17, 2007 at 10:53 pm | In Most actives, Daily Close Information, I

20070717	20	HIGHEST	VOLUME	(Optionable	Stocks
SCODE	EXC	SEC	\$ UP	CLOSE	VOL \$ CHG%
SPY	AMEX	F04	-0.08	154.75	120547900 -0.05
INTC	NASD	T24	0.38	26.33	120192900 1.46
QQQQ	NASD		0.38	50.23	118229000 0.76
SUNW	NASD	T08	-0.05	5.29	81942200 -0.94
MSFT	NASD	T01	0.75	30.78	77419800 2.50
AMAT	NASD	T27	1.18	21.80	70868500 5.72
IWM	AMEX		0.09	84.57	56889200 0.11
GE	NYSE	G09	0.59	40.71	56544500 1.47
CHTR	NASD	S13	0.08	4.67	54613500 1.74
LYO	NYSE	B15	6.93	47.05	52796700 17.27
YHOO	NASD	T13	0.83	27.53	50646900 3.11
CSCO	NASD	T18	-0.16	29.73	37147700 -0.54
PFE	NYSE	H04	-0.12	25.96	35198800 -0.46
F	NYSE	C02	-0.13	8.73	33124900 -1.47
EMC	NYSE	T06	-0.11	19.02	30181800 -0.58
SIRI	NASD	S09	-0.01	3.17	29373500 -0.31
LSI	NYSE	T26	0.49	8.25	28595600 6.31
XLFF	AMEX		0.12	36.67	28387400 0.33
JNJ	NYSE	H04	-1.06	62.74	27566200 -1.66
negative on the day.	THX	NYSE	S24	0.19	21.12 26135100 0.91

The NAHB/Wells Fargo homebuilder sentiment index was also released today ... the lowest in 16 years. Guess the bottom is not in yet in the housing sector as foreclosures continue to show increases throughout the country. The July Housing Market index was a reported 24 vs. an expected 27 whereas June was reported as 28. Loans to developers are often made by regional banks based upon the perceived value of the real estate and for a period of 18-24 months. These construction loans are now getting close to becoming difficult for many regional banks to maintain via roll-over loans and it could easily force many lenders to begin to write down the land values and take write-offs according to today's WSJ..

Meanwhile, Bloomberg had a note today that Goldman, Sachs, JP Morgan and other Wall Street firms were holding \$11 Billion of loans and bonds which were to fund five leveraged buyouts over the past month as investors were unwilling to buy the high-yield debt. Of course, this is further shown by the ABX index discussed yesterday which is in the claws of a real bear market.

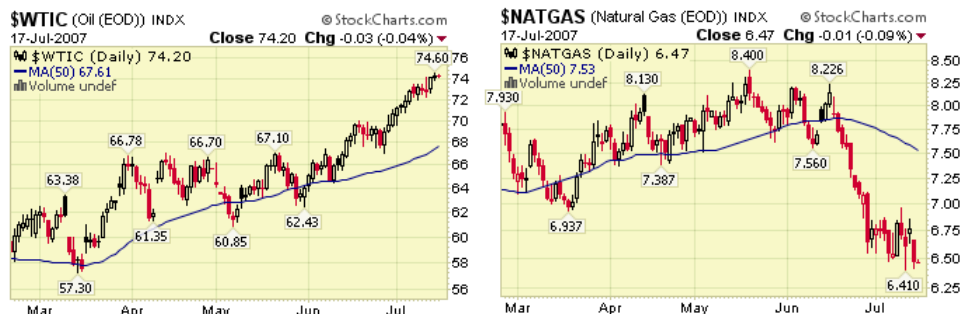
Yesterday's Empire State manufacturing index was higher than expected and along with today's June Industrial production report showing a 0.5% increase, some investors were swayed that the economy was improving. Still the July IBD/TIPP Economic Optimism survey continued to show another decline below May and was even below the consensus forecast.

Gold closed down at 664.78, silver fell to 12.92, the US dollar index was higher at 80.54, and the yield on the 10 year Treasury at the close rose to 5.08%. The Canadian dollar, or looney, hit a 30 year high against the dollar today at 96 cents before closing at 95.37 U.S. cents..

The price of West Texas crude (WTIC) managed to drop to 74.20 or 0.04% despite a report from Goldman, Sachs calling for \$95 oil in the near future. The fuel situation is becoming difficult in Iowa and the Democratic governor removed the restrictions on tanker driver hours so that fuel can be delivered to gas stations throughout the state. The shut-down of the Coffeyville, KS refinery along with maintenance problems at a couple of other Mid-west refineries and a pipeline pump station has made the transportation problems for crude oil products difficult.

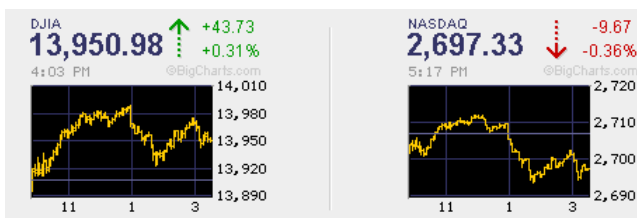
World-wide demand is growing faster than expected. Non-OPEC producers are unable to provide the extra supply many were expecting. Production from many fields in Non-OPEC countries continues to decline. The OPEC countries have only a limited amount of pumping capacity available. In fact, with production from the largest fields in the Mid-East now beginning to decline, the supply/demand equation will force crude oil prices higher. [For more information on supply/demand, click here.](#)

Natural gas continues to hover around the 6.40/mcf level as the effects of a mild June have reduced demand. However, as the summer weather begins to raise temperatures it will be difficult for the price of natural gas to stay at the current level.



In today's trading, we covered TOL when it went through its Action Point in the Aggressive portfolio. In the Conservative portfolio, we sold HDNG and GES as they were in negative territory and we did not like the way they were performing since we bought the two stocks. There were no other changes in the portfolios today.

7/16/2007 After the Close



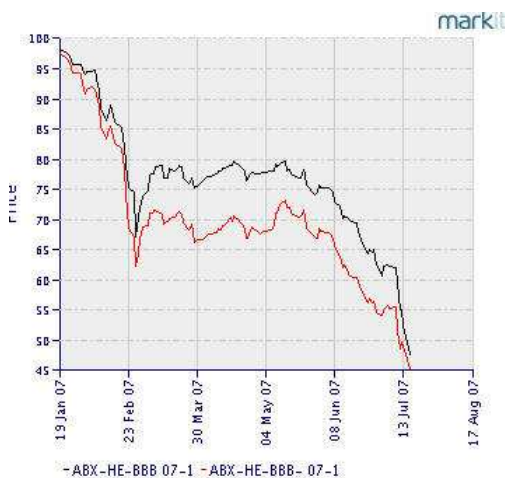
While marching towards 14,000, the DJIA saw its flanks drop away.

ADVANCES & DECLINES				
	NYSE	AMEX	NASDAQ	BB
Advancing Issues	1,037 (31%)	518 (38%)	1,033 (33%)	642 (32%)
Declining Issues	2,179 (65%)	759 (56%)	1,994 (63%)	860 (43%)
Unchanged Issues	131 (4%)	88 (6%)	130 (4%)	488 (25%)
Total Issues	3,347	1,365	3,157	1,990
New Highs	260	165	235	229
New Lows	110	50	89	227
Up Volume	942,124,968 (35%)	92,625,489 (18%)	699,571,795 (38%)	220,523,588 (15%)
Down Volume	1,732,328,183 (64%)	417,911,089 (81%)	1,052,484,069 (58%)	612,009,412 (42%)
Unchanged Volume	32,541,559 (1%)	3,247,760 (1%)	70,126,229 (4%)	619,983,437 (43%)
Total Volume	2.706.994.710¹	513.784.338¹	1.822.182.093¹	1.452.516.437¹

Down volume and declining issues carried the battle today despite the DJIA moving to within 18 points of 14,000. After the initial surge in the DJIA failed to breach the 14,000 level, a subsequent rally in the afternoon also failed to take out the previous high. It has taken only a little more than 3 months for the DJIA to move from 13,000 to near the 14,000 level, a powerful move.

There is an old concept of warfare that suggests that when an armies flanks weaken, the main force can be defeated. Perhaps, the failure of the other indices to move with the DJIA could be a warning sign to prudent investors.

Could this be a flight to quality as the sub-prime mess begins to unravel? The benchmark ABX subprime index tumbled to a record low today. The graph shown below suggests that some financial institutions are having a bit of a problem in their sub-prime portfolio valuations.



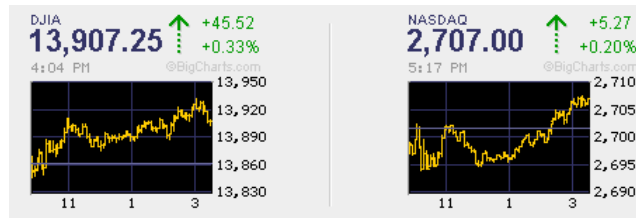
Crude oil (WTIC) managed to close up but natural gas fell to its lowest level in 90 days. In London, Brent crude made an 11 month high at \$78.40. Unleaded gas fell for the third day in a row.



The US dollar index dropped another five cents to close at 80.53 while the yield on the 10 year Treasury Note also fell to 5.04%.

After about 9:00 a.m.CDT, we were involved in meetings all day and were unable to watch the market. It is certainly frustrating to hear how the DJIA is making new highs from the media and then learn that all the other indices are down. However, we did sell AFSI from the Conservative portfolio as it breached its Action Point early today. Upon arriving back at the office after the close, we noted that the four stocks purchased in the Conservative portfolio on July 12th were all in the red. Depending upon tomorrow's opening trend, we may sell all four of these stocks.

7/13/2007 After the Close

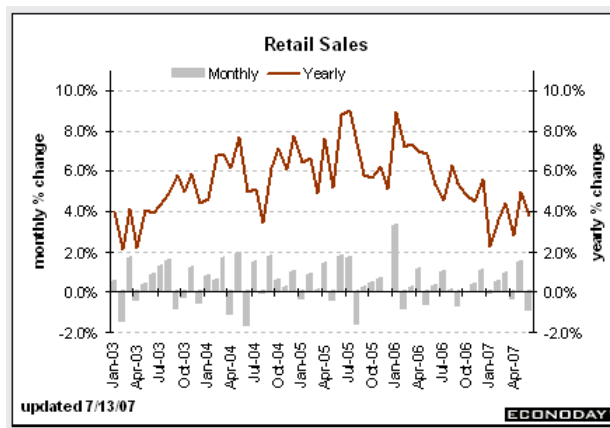


Despite reduced volume, the DJIA continued to march towards 14,000

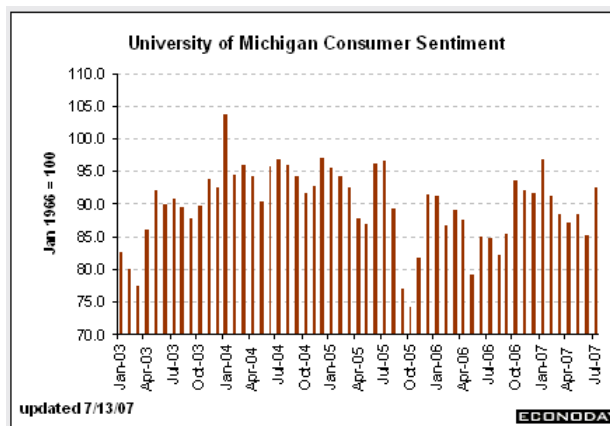
ADVANCES & DECLINES				
	NYSE	AMEX	NASDAQ	BB
Advancing Issues	1,667 (50%)	762 (56%)	1,408 (45%)	699 (36%)
Declining Issues	1,544 (46%)	493 (36%)	1,625 (51%)	707 (36%)
Unchanged Issues	125 (4%)	96 (7%)	130 (4%)	533 (27%)
Total Issues	3,336	1,351	3,163	1,939
New Highs	350	245	219	209
New Lows	90	50	77	216
Up Volume	1,613,682,011 (58%)	362,192,050 (77%)	946,140,210 (53%)	322,236,752 (21%)
Down Volume	1,084,560,262 (39%)	104,401,767 (22%)	835,074,930 (46%)	456,664,542 (29%)
Unchanged Volume	66,072,715 (2%)	3,957,388 (1%)	15,063,577 (1%)	773,690,411 (50%)
Total Volume	2.764.314.988¹	470.551.205¹	1.796.278.717¹	1.552.591.705¹

The Big Board and the NASDAQ ended in higher ground again today despite reduced volume. Up volume was in favor while on the NASDAQ more issues declined than went up. In particular, the stocks in our Aggressive and Conservative portfolios as well as those on the Stock Watch List also saw more going down than went up in today's trading.

Unlike the press that sounded yesterday about retail sales beating expectation (of course, those expectations had been reduced earlier in the month), there was little joy when June retail sales unexpectedly fell 0.9% following a 1.5% increase in May. Today's retail sales numbers were below the consensus forecast and the largest drop since August 2005. Auto sales, furniture and building materials all declined during the month.



Despite the decline in retail sales, the University of Michigan preliminary Consumer Sentiment survey for July showed a substantial increase from June as shown in the following chart: Traders used the better than expected sentiment numbers as fuel to keep pushing the market higher. Of course, the preliminary data is often revised in about 10 days and generally, the revisions have been on the down side.



There was little change in the US dollar index, oil, interest yields and many commodities in today's trading.

We made no changes in the portfolios today. The update on the gold market will be published tomorrow as will the update on the ETF's.

Our schedule this week has been seriously disrupted by travel, doctor's appointments, and family meetings. At least, our Georgia grandchildren have now returned home and both of us have a few days to recuperate before the next group of grandchildren from Redmond arrive next weekend.

Fred Richards
Strategic Investing

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Keep it Safe, Simple and Stay Focused!
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