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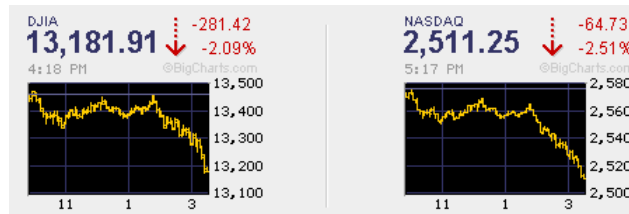


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Market Musings

8/3/2007 After the Close



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Do you wonder where the bottom is?

6:32 p.m. EDT 08/03/07

Markets Diary	NYSE	Nasdaq	Amex
Issues			
Advancing	548	598	321
Declining	2,802	2,445	847
Unchanged	68	109	81
Total	3,418	3,152	1,249
Issues at			
New 52 Week High	43	46	22
New 52 Week Low	350	357	74
Share Volume			
Total	2,045,991,790	2,508,725,696	41,005,262
Advancing	112,030,460	282,848,208	10,406,522
Declining	1,924,856,330	2,215,490,440	29,496,140
Unchanged	9,105,000	10,387,048	1,102,600

An unexpectedly weak jobs report and a shrinking ISM non-Mfg survey report sunk the market today. Apparently, the PPT was unable to sign up another Hail Mary passer! Declining issues and volume dominated as did the number of new lows. Today's market action voids the current rally attempt!

The drop from the previous all-time record high for various indices is shown in the following chart. Note that the Russell 2000 has fallen 11.7% since its all-time record high on 7/13/2007. However, the DJIA is off less than 6% since July 19th.

Changes in Market Indices since Record High				
Date	7/19/2007	7/13/2007		
	DJIA	S&P 500	NASDAQ	Russell
Record Closing High	14000.41	1553.08	2720.04	855.77
3-Aug	13181.91	1433.06	2511.25	755.42
Change	818.50	120.02	208.79	100.35
%	-5.8%	-7.7%	-7.7%	-11.7%

The following ten minute graph of the S&P 500 from Daily Graphs Online shows how the selling accelerated in the last hour of trading today to move the market to its lows. Contrast today's closing hour with the other day's of the week. Only the Hail Mary rally of Wednesday show consistent buying strength as the market rocketed up 200 points in the last 30 minutes. The rest of the week, selling increased as 4 p.m. EDT approached.



The jobs report unnerved many investors and professional's who continue to believe that the economy is moving ahead as the Ministry of Truth trumpets. Unfortunately, today's report may have showed the Ministry of Truth without any clothes. The following chart shows the seasonally adjusted employment numbers for the 1st seven months of 2007.

2007	Jan	Feb	Mar	Apr	May	Jun	Jul	Total
Household Data								
Employment, S.A	145957	145919	146254	145786	145943	146140	146110	
Change from Previous Month	31	-38	335	-468	157	197	-30	184
Birth/Death Adjustment	-175	118	128	317	203	156	26	773
								420%

Source: BLS Employment Reports
 Table A-1. Employment status of the civilian population by sex and age.
 Note: January 2005 had a major revision in the population controls.

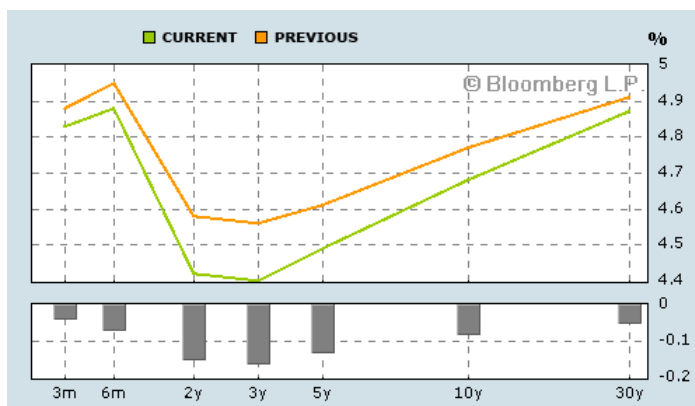
Since December, the Ministry of Truth is reporting total employment has increased by only **184,000 jobs**. However, the **Birth/Death Adjustment (a SWAG) has created 773,000 jobs** during the same period.

The STI indicators for both the NASDAQ and the S&P 500 are negative indicating the prudent investors should be in cash and those desiring to risk capital might consider short positions.





The U.S. dollar index went south today to close at 80.19. The yield on the 10 year Treasury fell to 4.7% as investors tried to rush into bonds driving yields lower. We are now back in an inverted yield curve.



August 3rd, 2007 Close

Gold bullion had its best day in a month and closed at \$684.40/oz. West Texas crude (WTIC), however, was down at the close to \$75.48/bbl.



We made no changes in the portfolios today.

8/2/2007 After the Close



Two Hail Mary rallies in a row! Was it just the PPT at work?

ADVANCES & DECLINES				
	NYSE	AMEX	NASDAQ	BB
Advancing Issues	2,132 (63%)	796 (59%)	1,718 (55%)	648 (34%)
Declining Issues	1,127 (34%)	448 (33%)	1,295 (41%)	742 (39%)
Unchanged Issues	102 (3%)	98 (7%)	124 (4%)	510 (27%)
Total Issues	3,361	1,342	3,137	1,900
New Highs	50	27	83	201
New Lows	221	53	196	249
Up Volume	2,574,060,852 (3484%)	725,273,677 (78%)	1,669,665,951 (66%)	235,772,141 (18%)
Down Volume	1,706,505,958 (2310%)	197,225,287 (21%)	845,176,754 (33%)	349,844,868 (27%)
Unchanged Volume	88,275,868 (119%)	8,994,015 (1%)	26,992,349 (1%)	694,951,495 (54%)
Total Volume	73,875,382¹	931,492,979¹	2,541,835,054¹	1,280,568,504¹

The market was up and down around yesterday's close until another PPT Hail Mary rally pushed the indices to a higher close after 2:30 p.m. EDT. Wonder if Paulsen can get Roger Staubach on his team?

The market news today was more of the same no real excitement for the economy! A few companies reported decent earnings but you have to wonder about the financial engineering games being played. You have to smile when you see GM and Ford's sales go south and yet, both companies report amazing earnings for the 2nd quarter. Hey, if sales go to zero in the 3rd quarter, maybe, they will be able to report even higher earnings. And they did this with a union contract up for negotiation shortly.

New jobless claims remained within the range of the last 24 months. Factory orders in June rose 0.6% and that was less than expected.

The fallout in sub-prime loans continues. Winstar Mortgage ceased operations today. Accredited Lending (LEND), a high-flyer the last two years, is also suffering and its sale to a private equity firm, Lone Star, will probably be negotiated at a lower price in the face of the drop in sub-prime values. American Home Mortgage (AHM) will cease operations tomorrow along with American Brokers Conduit, a subsidiary of AHM. Mike Perry, the President & CEO of IndyMac Bancorp (IMB), the 7th largest savings and loan and the 2nd largest independent mortgage lender in the nation, had this comment about the secondary finance market today.

"right now, other than the GSEs and Ginnie Mae ... the private secondary market is not functioning."

Now that is probably an honest assessment of the situation!

The dollar was lower while the yield on the 10 year Treasury remained near yesterday's close.

Shortly after the open and after a strong denial from Beazer Homes that they were ok, we carefully watched the homebuilder short positions in the Aggressive portfolio and decided to take a profit in the shorts for BZH, MTH, and DRH. There were no other changes in the portfolios today.

8/1/2007 After the Close



A 200 point rally in the last 30 minutes ... is the market ready to takeoff or was it just the PPT working?

ADVANCES & DECLINES				
	NYSE	AMEX	NASDAQ	BB
Advancing Issues	1,394 (42%)	488 (36%)	1,261 (40%)	507 (26%)
Declining Issues	1,889 (56%)	787 (58%)	1,809 (57%)	1,003 (51%)
Unchanged Issues	74 (2%)	89 (7%)	113 (4%)	463 (23%)
Total Issues	3,357	1,364	3,183	1,973
New Highs	32	39	61	204
New Lows	499	130	368	262
Up Volume	2,670,807,656 (278%)	1,019,885,678 (70%)	1,583,577,431 (53%)	157,197,581 (10%)
Down Volume	2,549,414,421 (265%)	420,823,400 (29%)	1,267,494,034 (42%)	1,023,438,122 (65%)
Unchanged Volume	36,550,903 (4%)	12,074,645 (1%)	157,814,656 (5%)	398,084,751 (25%)
Total Volume	961,805,684¹	1,452,783,723¹	3,008,886,121¹	1,578,720,454¹

Despite the 200 point rally in the last 30 minutes, the number of declining issues continue to be greater than advancing issues. The total volume number for the NYSE is not correct in the table above. Of course, we did get a reset of the count for a follow-through day today, so those investing optimists can stay busy. However, I would be somewhat concerned that today's last minute rally of almost 200 points in the last 30 minutes as having the tracks of the PPT and wise guys all over it.

The financial fall-out from the credit binge continues to claim victims. Bear Stearns suspended redemptions on an \$850 million Asset-Backed Securities fund as it filed bankruptcy for its first two hedge funds that went belly-up.. Caxton Associates, a \$12.5 Billion hedge fund, is receiving margin calls from its brokers, JPMorgan Chase and Goldman Sachs. Beazer Homes (BZH) one of the largest homebuilders had its line of credit cut in half. Another Australian bank, Macquarie Bank suggested that retail investors in two of its debt funds would face losses of at least 25%.

American International Group, the world's biggest insurer, told Bloomberg that its sub-prime losses could amount to \$2.3 billion. Now just two weeks ago, a large German bank said that its sub-prime exposure was manageable but today the CEO is gone and the parent company is scrambling to find funds to cover the losses. Does anyone dare to look at the extent of the losses in Fannie Mae, and Freddie Mac?

Yesterday, the bonds of Bear Stearns, Lehman Brothers, Merrill Lynch, and Goldman Sachs were trading at junk status. Oops ... perhaps, there is a problem on Wall Street. Of course, Treasury Secretary Paulson said in Beijing today that the market impact of the U.S. sub-prime mortgage fallout is largely contained and that the global economy is as strong as it has been in decades. Would someone check what he is smoking?

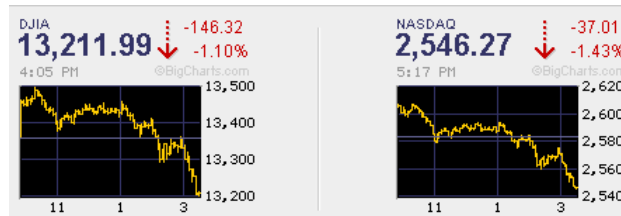
The MBA mortgage purchase index rose only 1.8% in the week ended July 27th compared to a 5% increase in the previous week. The index is down three consecutive weeks. Pending home sales were up 5% in June were May's revised 3.7%.

Other economic reports today were mixed. The July ISM Manufacturing report was 53.8 down from 56 in June. The July prices paid was 65 vs. 68 in June.

Automakers had a terrible month in July with GM posting a 19% sales drop. Ford's sales were off almost 17% while even Toyota saw a 3.5% drop its first decrease since August 2004. Chrysler posted an 8% drop. Only Nissan reported a gain of 6% but its trucks fell 10%.

We made no changes in the portfolios today. A major thunderstorm hit our area about 4 p.m. to day and dumped almost an inch of rain in less than 45 minutes along with a power outage. We now have the internet back up so will post this Musings late thanks to Mother Nature. Note: After we sent out today's Musings, we discovered that TNH had been sold in the Core portfolio today.

7/31/2007 After the Close

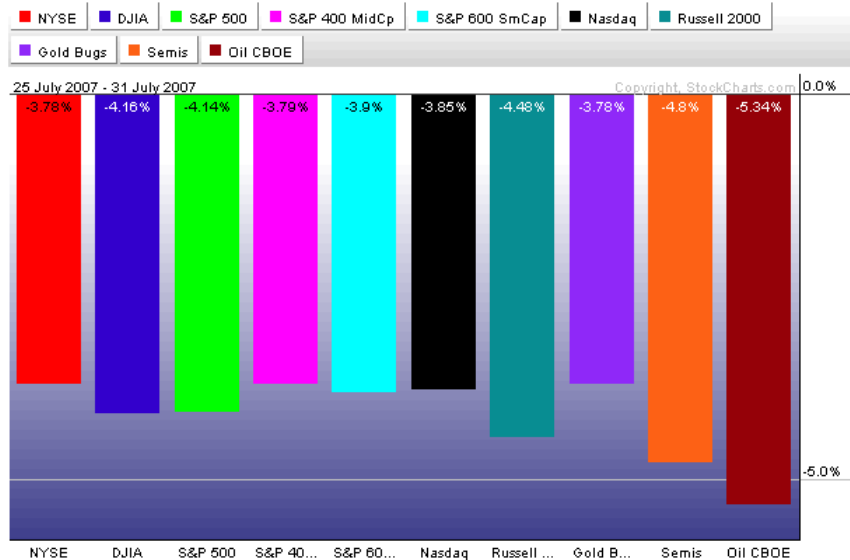


The cat that bounced yesterday found a hole in the floor and ended lower!

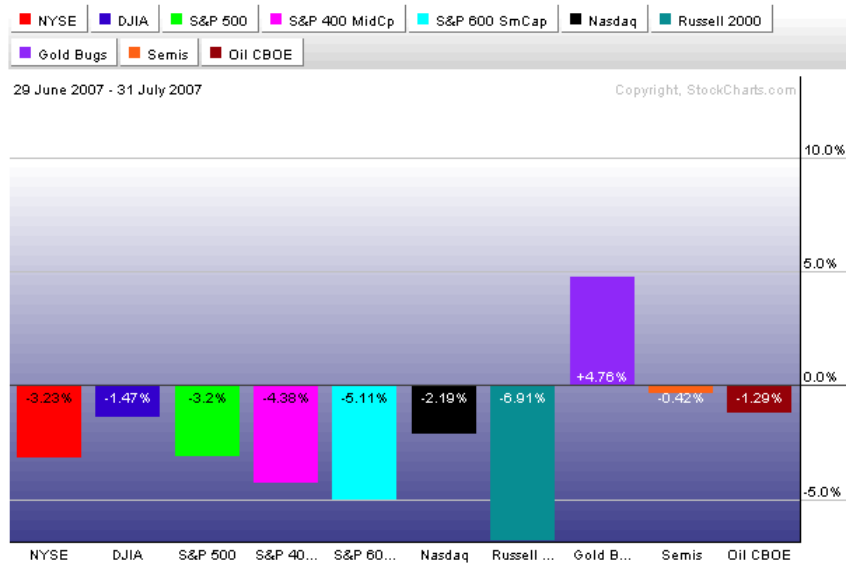
ADVANCES & DECLINES				
	NYSE	AMEX	NASDAQ	BB
Advancing Issues	1,415 (42%)	584 (42%)	1,248 (39%)	756 (38%)
Declining Issues	1,865 (55%)	698 (51%)	1,818 (57%)	740 (37%)
Unchanged Issues	82 (2%)	94 (7%)	112 (4%)	510 (25%)
Total Issues	3,362	1,376	3,178	2,006
New Highs	44	46	89	222
New Lows	363	69	294	248
Up Volume	979,921,952 (644%)	123,650,335 (11%)	873,002,958 (31%)	224,083,629 (19%)
Down Volume	3,444,832,523 (2262%)	975,696,480 (88%)	1,904,833,108 (68%)	215,224,503 (18%)
Unchanged Volume	22,491,057 (15%)	6,149,220 (1%)	40,251,928 (1%)	761,411,132 (63%)
Total Volume	152,278,236¹	1,105,496,035¹	2,818,087,994¹	1,200,719,264¹

Wonder if those smart guys that found bargains yesterday are still smiling this evening? At the open, the markets pushed higher for a few minutes largely on some economic news but then began to retreat and ended at the lows for the day. Shortly after the open the DJIA was up almost 140 points on the day. At the end, it was down 140 points for a 280 point swing on the day, high to close.

Downside volume predominated and you can add another distribution day to your counts. The following chart shows how bad the last five days of July was:



The performance of various indices is shown below for July 2007.



Crude broke new high ground today at \$78, and the sub-prime situation continues to fester as AMN (mentioned yesterday) may be a casualty of the "lack of transparency in the CDO tranches", or sub-prime mortgages. Sowood Capital Management said that it had suffered 50% losses in its portfolio this month and sold its assets to Citadel Investment Group. **What did Mr. Barnum say ... there was a fool born every minute!**

The drop in the markets is disturbing to me as today's trends came in the face of relatively good economic data outside of crude oil. Consumer confidence rose to 112.6 in July vs. 106 expected and a revised reading of 105.3 in June. But personal spending in June was rising at the slowest pace in nine months as consumers are finding their pocketbooks stretched thin.

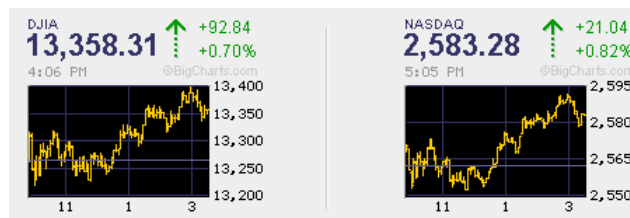
General Motors reported earnings that were better than expected and Murdoch may get to own Dow Jones. Of course, if he does, the Wall Street Journal will find its audience and usefulness somewhat changed in the next few months and years.

On the flip side, Alcatel-Lucent, the result of an \$11.6 billion merger last year, reported a \$803 million loss in the 2nd quarter. Clearly, the French culture does not merge with Lucent's. Oh, well, count this merger as another possible failure but one that made the investment banks a lot of money. The shareholders are the losers in this one.

The first two weeks of July were pretty good for many investors but then the party came to a screeching halt. Have we reached a bottom ... I don't know but until we get a follow-through day, I will remain short or in cash.

We made no changes in the portfolios today. Thanks to the Aggressive portfolio shorts, that portfolio is now up 32.5% for the year.

7/30/2007 After the Close



Did the Smart Guys find a few bargains today?

ADVANCES & DECLINES				
	NYSE	AMEX	NASDAQ	BB
Advancing Issues	2,067 (62%)	735 (54%)	1,715 (54%)	619 (32%)
Declining Issues	1,219 (36%)	552 (40%)	1,372 (43%)	844 (43%)
Unchanged Issues	70 (2%)	80 (6%)	96 (3%)	497 (25%)
Total Issues	3,356	1,367	3,183	1,960
New Highs	24	46	69	199
New Lows	431	83	314	245
Up Volume	3,049,402,307 (75%)	894,185,332 (90%)	1,602,429,424 (68%)	210,329,805 (14%)
Down Volume	1,004,290,169 (25%)	90,887,719 (9%)	754,470,042 (32%)	345,236,730 (23%)
Unchanged Volume	30,357,918 (1%)	3,101,000 (0%)	12,967,012 (1%)	954,364,319 (63%)
Total Volume	4,084,050,394¹	988,174,051¹	2,369,866,478¹	1,509,930,854¹



It was a nice little bounce for a dead cat today.

To see the real action in the market take a look at the number of new lows versus new highs despite the "smart guys" trying to pick up bargains. Also, the NASDAQ website reported the largest differential between decreased company earnings forecasts and increased company earnings forecasts in several months. Guess the "smart guys" were only trying to earn a few bucks on the bounce today.

Costs for credit swaps have increased substantially in the last two weeks as the sub-prime mess has risen to the conscious level of many participants. You really have to hand it to the MBA's and other financial guru's who believed that both sides of a derivative trade could book a profit because of the lack of transparency in the derivative markets. Hopefully, they will be able to find the guarantor of last resort if they remain in business.

Just two weeks ago, IKB Deutsche Industriebank AG stated that the subprime mortgage rout would not affect it. Today, the CEO resigned and it significantly lowered its earnings forecast as "massive uncertainty" in the markets threatens access to funding. Oops!

Home foreclosures during the 1st six months of 2007 were up 58% versus a year ago. Reuters suggested that fifty percent of mid-sized US concerns did not expect to add personnel during the next 12 months or may lay people off. American Home Mortgage Investment (AHM) wrote down its loan and security portfolios over the weekend and its banks demanded more collateral for their short-term loans. AHM failed to open for trading today. Since Friday, three more mortgage lenders have decided to close either voluntarily or by direction of their lenders. This brings the total to 105 since December 1st in the U.S.

The spin-off from the housing melt-down has now affected Black & Decker which makes locksets. The sub-prime mess has also seen John Devaney of United Capital Markets, an investor in subprime mortgages, put up his 147 foot yacht in Florida to raise capital. And Brunswick, a maker of boats among other recreational products, is citing higher interest rates, a weak housing market and rising prices for food, fuel and other essentials, as reasons for its failure to meet forecasts.

GMAC's quarterly earnings fell 63% in the second quarter of 2007 vs. 2006 and revenue fell 20%.

I am afraid that we have not seen the end of the problems in the financial arena. We may have just seen the beginning.

China expects its trade gap with the U.S. to widen according to another Reuters report that quoted a senior official.

We made no changes in the portfolios today. Over the weekend, we did update both the [Weekly ETF Watch List](#) as well as the [A's Have It!](#) note. Both can be accessed by clicking on the links.

7/27/2007 After the Close



Down 149, + 92, -226, +68, - 312, -208 = -735 for DJIA in six days Not a good market!

ADVANCES & DECLINES				
	NYSE	AMEX	NASDAQ	BB
Advancing Issues	1,042 (31%)	390 (29%)	890 (28%)	675 (34%)
Declining Issues	2,237 (67%)	857 (63%)	2,191 (69%)	797 (41%)
Unchanged Issues	82 (2%)	103 (8%)	89 (3%)	491 (25%)
Total Issues	3,361	1,350	3,170	1,963
New Highs	21	38	65	208
New Lows	405	101	297	249
Up Volume	864,342,983 (172%)	118,156,731 (9%)	520,948,458 (19%)	418,873,999 (25%)
Down Volume	3,893,534,362 (775%)	1,184,364,020 (91%)	2,248,895,577 (81%)	274,068,042 (16%)
Unchanged Volume	39,163,961 (8%)	3,285,300 (0%)	18,399,278 (1%)	995,232,001 (59%)
Total Volume	502,074,010¹	1,305,806,051¹	2,788,243,313¹	1,688,174,042¹

Despite an attempt at the open to move into higher territory, the downward momentum regained upper hand and the major indices all closed near their lows for the day and the week. It was the worst week in five years for the Dow and the S&P 500 despite the Ministry of Truth reporting that economic growth in the 2nd quarter of 2007 was the best in a year.

Declining issues and volumes across the market dominated once again. Additional private equity deals are rumored to have problems in raising funds to complete acquisitions. Bonds are now seeing a major re-pricing of risk and an unwinding of leverage. According to the Royal Bank of Scotland's Bob Janjuah, its chief credit strategist,

``The big risk in the coming weeks and months is that you get forced selling of credit with institutions, both from the hedge fund side and the bank side. The global economy is a debt-fueled, confidence-based scheme. All assets are and will be impacted."

In addition, Citigroup suggested that Fannie Mae and Freddie Mac could have another \$4.7 billion in unrealized losses tied to sub-prime loans. Goldman, Sachs on Wednesday noted to its clients via a note from its chief economist Jan Hatzius that the housing correction could be less than half over ... Oops!

The liquidity window is being closed tight as credit standards increase. In the latest figures, CDO obligations fell from \$42 Billion in June to only \$3 Billion in July according to Bloomberg this morning. Also, unless cash is used, equity investors are becoming convinced that debt-financed M&A and LBO's will become kaput.

As I have stated before, one of the major problems with derivatives is that in many cases it is often difficult to determine who is the last person responsible for the payment of the derivative since they have been cut and sliced so many ways. As the mark-to-model pricing for portfolios gives way to mark-to-market, the question as to who gets to swallow the losses and do they have enough equity to remain in business places many hedge funds, investment banks, and institutions with major impairments of their financial structure.

A forecast by economist Mark Zandi on MarketWatch yesterday cited "problems in the sub-prime mortgage market"

Home prices will fall 10% from the peak nationally, more in the bubble regions in California, Florida, Nevada, Arizona and Washington, D.C.

Home sales could bottom later this year, home construction could bottom early next year, and house prices could bottom late next year. It'll be 2010 before the housing market could be termed "normal."

About 17% of total mortgage debt is at risk, totaling about \$2.5 trillion in subprime, Alt-A and jumbo debt. About \$1.4 trillion is at serious risk of default. Investors will lose about \$113 billion as \$460 billion worth of mortgages default.

About 20% of the subprime loans written in the last half of 2006 will fail, with the peak of the defaults not coming until 2011. A "significant number" of these borrowers never made a single payment.

More than 2.5 million first mortgages will default this year and next year. Subprime borrowers will experience significant financial distress.

If Zandi is correct, perhaps, Mike Bolser's forecast of the DJIA hitting 8,000 before it starts up agains might also be correct. Stay tuned.

Oil moved above \$77/barrel in today's trading. The yield on the 10 year Treasury rose slightly to close at 4.78%. the US dollar index managed to end just shy of 81 at 80.98 today. Copper was hardly changed despite delivery notices in the past few days that were for 74% of the warehouse inventory of copper. Is that a squeeze or not?



The STI indicators for both the NASDAQ and S&P 500 have now turned negative confirming the IBD call for a "market in correction."

In trading today, we sold RIG and CAM from the Aggressive portfolio early this morning. In the Conservative portfolio, we also sold NOV to move to a 100% cash position in that portfolio. In the ETF portfolio, FXI was sold on an Action Point violation. In the Precious Metals portfolio, we sold 1/3 of our ECU position and SMXMF, AEM, GSS, SLW, and IAG. In addition, we shorted AEM at the same time we sold our long position.

We are late tonight with this Musings as more grandchildren have arrived and so the next week may be hit and/or miss as we sit mostly in cash or short in the portfolios waiting for the market to make a follow-through day. Hope you have a great weekend!

Fred Richards
Strategic Investing

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Keep it Safe, Simple and Stay Focused!
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