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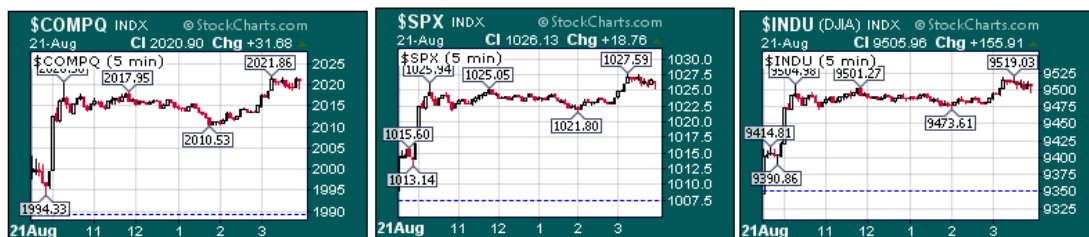
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Market Musings

08/21/2009 After the Close



The leaders lag!

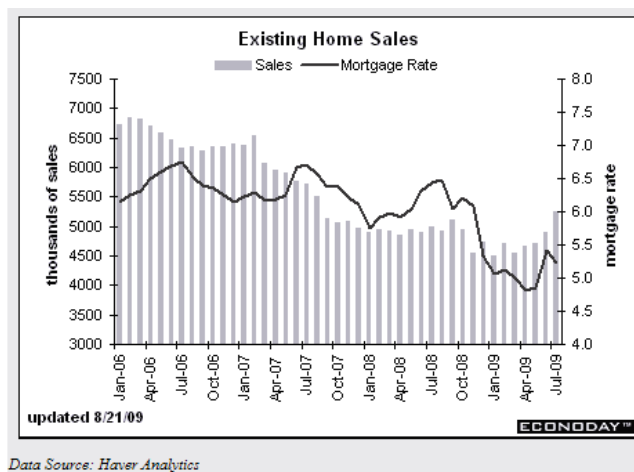
5:39 p.m. EDT 08/21/09

Issues	NYSE	Nasdaq	Alternext
Advancing	2,475	1,963	325
Declining	583	676	150
Unchanged	110	199	103
Total	3,168	2,838	578
Issues at			
New 52 Week High	95	66	7
New 52 Week Low	1	3	2
Share Volume			
Total	1,475,570,080	2,259,144,611	23,286,634
Advancing	1,366,958,700	1,844,297,960	17,716,640
Declining	94,948,310	391,835,720	4,007,714
Unchanged	13,663,070	23,010,931	1,562,280

The market continues to move higher as junk off the bottom (JOB) leads. Ask yourself, is that a sign of a healthy market or just an opportunity to speculate and hopefully, make a few bucks before the realization of what is happening in the economy sinks in?

Existing home sales were higher in July and Bernanke reported that the recession was nearly over. Now when was the last time that Bernanke was right. While existing home sales were higher largely as the result of new home buyers taking advantage of the tax credit, the inventory of existing homes for sales failed to show any decrease remaining at 9.4 months. Home prices remain headed downward losing 2.4% in July.

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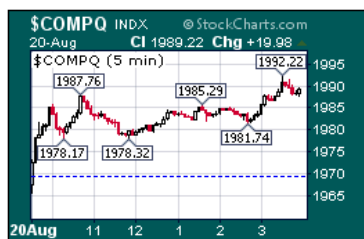


Crude oil ended near its highest level for the year Friday. The U.S. dollar index was down almost to 78. Gold climbed back over \$950 and the yield on the 10 year Treasury note closed at 3.55%.



Today, we covered our shorts in the Aggressive portfolio for QQQ and SPY and went long. There were no other changes in the portfolios today.

08/20/2009 After the Close



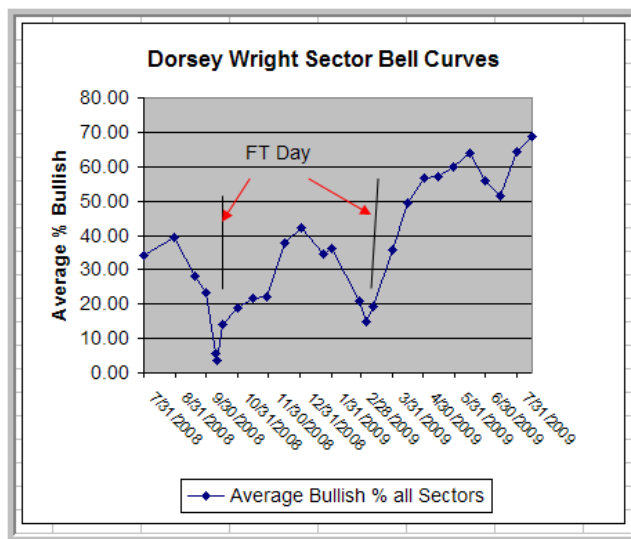
Up and up she goes!

Markets Diary				6:12 p.m. EDT 08/20/09
Issues	NYSE	Nasdaq	Alternext	
Advancing	2,228	1,726	301	
Declining	807	894	195	
Unchanged	125	201	70	
Total	3,160	2,821	566	
Issues at				
New 52 Week High	76	42	8	
New 52 Week Low	1	4	1	
Share Volume				
Total	1,046,322,092	1,958,471,712	23,275,619	
Advancing	875,166,400	1,349,159,601	11,293,919	
Declining	162,767,982	584,370,416	11,024,800	
Unchanged	8,387,710	44,941,695	956,900	

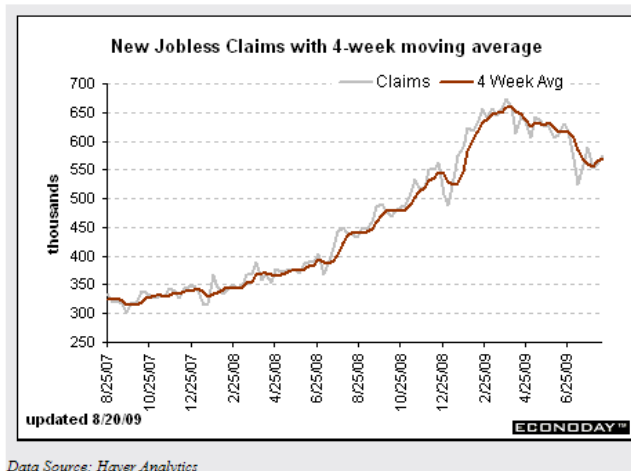
Despite higher new jobless claims, the market went higher ignoring the bad news. However, today's market does not appear to have created a follow through day. Perhaps, tomorrow's option expiration day will generate it or maybe not. Who knows?

However, with all the funny money floating around and if the FED decides to quit paying interest on all those billions of excess reserves, watch out as Hank Mulvihill says.

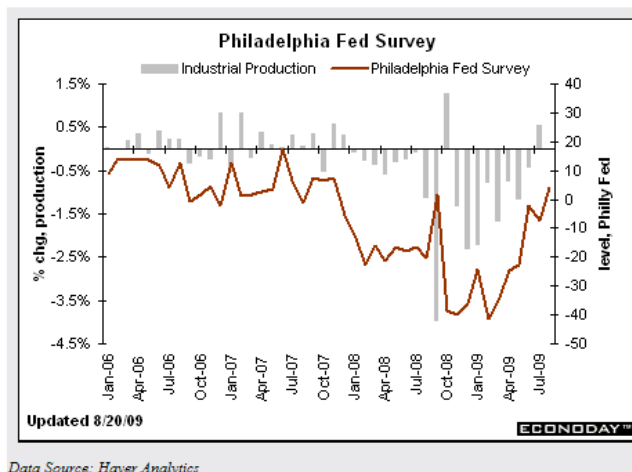
Still even at these levels, we are in seriously overbought territory. We did a brief analysis of the Dorsey Wright point and figure Sector Bell Curves for the last 18 months and two major recent rallies. It is obvious from the following chart that there is a material difference between the levels of the sector bell curves then and today.



The new jobless claims increase to 576,000, an increase of 18,000 over the previous week while continuing claims rose to 6.241 million.



The market digested the Philly Fed index pointing higher along with the report on the Index of Leading Indicators and moved higher. Perhaps, the inventory liquidation is over and the Philly and Empire State indices are pointing out that fact.



As we analyzed many of the 2nd quarter reports, we noted that while profits were somewhat higher than were expected by many financial analysts, the real concern for me was that revenues were not growing but cost controls and elimination of workers had combined to improve the profit picture. Now that is something that can not keep the economy healthy. At best, it is a short term fix.

Homes in distress are now at a record 13.54% and mortgage delinquencies continue to rise. The inventory of homes in foreclosure rose to 4.3% in 2nd quarter. With job losses continuing above 500,000 /week, does any sane person expect that mortgage problems will abate.

S&P reports that corporate defaults this year totaled 201 through August 12 vs. 126 for all of last year. The debt affected this year already totals \$453,100,000,000 vs. \$433,000,000,000 in '08. **The rate at which US high-yield issuers default on their obligations reached 9.4% in July according to S&P. The report underscores the challenges corporations are facing in this global slowdown.**

The Obama Administration has lowered its fiscal year '09 deficit to \$1,580,000,000,000 vs. the previous estimate of a deficit of \$1,842,000,000,000. The improvement is due to the abandonment of an emergency \$250,000,000,000 plan for the financial industry. **The deficit is still expected to total 11.2% of GDP, the largest level since '45.**

The Treasury has announced plans to auction \$207,000,000,000 of bills and notes in the coming few days after two weeks ago's \$250,000,000,000 auction. That is an annual rate of about \$5,000,000,000,000. That is the result of shortening the average maturity schedule and increasing the deficit.

In the Conservative portfolio today, we purchased FUQI, HMIN and STEC. These are the only three stocks which have made the A+190 screen and also are in one of the top 40 IBD industry groups. In the Aggressive portfolio today, we bought GMCR. There were no other changes in the portfolios today.

08/19/2009 After the Close



Another day over

Markets Diary				5:41 p.m. EDT 08/19/09
Issues	NYSE	Nasdaq	Alternext	
Advancing	1,847	1,669	274	
Declining	1,168	920	213	
Unchanged	131	232	88	
Total	3,146	2,821	575	
Issues at				
New 52 Week High	39	18	11	
New 52 Week Low	4	6	1	
Share Volume				
Total	988,254,865	1,977,759,962	21,626,857	
Advancing	578,874,760	1,388,161,627	7,414,510	
Declining	396,908,975	549,788,961	11,802,547	
Unchanged	12,471,130	39,809,374	2,409,800	

After an ugly open, the market moved steadily higher to close in positive territory. Rising oil prices were thought to be the catalyst for the sudden turnaround in share prices by some TV cheerleaders. After Monday's drubbing, we still have not fully recovered and with volume remaining on the low side, it would seem that institutional investors are taking a "wait and see" position.

Today's Musings are short due to meetings, a memorial service for a long-time friend and flying buddy as well as other conflicts.

Banco Bilbao Vizcaya Argentaria SA (BBVA), Spain's second-largest bank by market value, is apparently the winning(?) bidder for Guaranty Bank of Texas. The transaction should wipe out the FDIC insurance fund. Of course, the Treasury will be tapped for more funds and the FED will buy another printing press. You have to wonder when the day will come when all that paper will suddenly become as worthless as the toxic assets being still held on the books of the FED and those banks still standing.

Makes you begin to think that safe manufacturing companies might be the next growth industry.

Yesterday, the NASDAQ STI indicator turned negative and this morning we closed our longs in both the QQQQ's and SPY's in the Aggressive portfolio and went short the same two positions. There were no other changes in the portfolios today.

ANNOUNCEMENT: The Marina del Rey workshop has been moved to September 27th as my talk before the AAI-Los Angeles chapter has also been changed to September 26th due to a scheduling problem with the Skirball Center in Los Angeles.

08/18/2009 After the Close



Market recovered some of its losses.

Markets Diary				5:42 p.m. EDT 08/18/09
Issues	NYSE	Nasdaq	Alternext	
Advancing	2,426	1,939	354	
Declining	614	689	151	
Unchanged	118	199	75	
Total	3,158	2,827	580	
Issues at				
New 52 Week High	37	16	17	
New 52 Week Low	4	6	0	
Share Volume				
Total	991,012,246	1,749,422,863	27,039,220	
Advancing	833,604,986	1,422,606,438	20,726,720	
Declining	153,100,790	291,533,001	2,697,200	
Unchanged	4,306,470	35,283,424	3,615,300	

Was today's bounce anything other than a dead cat bounce? Although advancing shares and issues were

dominant today, the overall volume was below yesterdays level. It was obvious that a few investors were out seeking to take advantage of Monday's selloff. However, there was a decided lack of conviction. Financial stocks were higher by almost 2% in today's trading.

Economic news during the day did little to suggest that "green shoots" were growing. It would appear that there is little evidence of a pending upturn in economic activity despite the cheerleaders attempts to paint a rosy picture.

The action of the leaders on Monday caused the Investor's Business Daily to change its characterization of the market from "Market in Uptrend" to **"Market in Correction"** with even considering the normal in-between phrase of *"Market-under-Pressure."* **That should be enough for most investors to add a few doses of caution to their investment appetite.**

Retail sales according to the ICSC-Goldman same-store sales index fell 0.9% over the previous week as state sales tax holidays were over and heavy mark-downs were taken. The Redbook index showed August sales continuing to slow to a -4.5% y/y rate and that back-to-school sales were not encouraging.

Both Home Depot and Target reported lower revenues but higher profits. If sales revenues do not increase, the probability for increased growth remains dubious.

Housing starts were slightly lower in July by 1.0% with the biggest drop being in multi-family projects which dropped by 13.3%. Housing permits were also lower as shown in the following table. John Williams of Shadow Government Statistics call today's report an example of bottom-bouncing.

Data displayed as levels in thousands, SAAR							
Released on:	Percent	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09
Released for:	of total	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09
Housing Starts	100%	574	521	479	551	587	581
Single Family	73.6%	357	361	388	409	482	490
Multi Family	26.4%	217	160	91	142	105	91
Housing Permits	NA	550	511	498	518	570	560

Data Source: Haver Analytics

Lewis McLain did an analysis of the real demand for housing based upon population growth and concluded as I recall that somewhere under 550,000 annual units were required. Considering the overhand of both new and existing homes and the increasing vacancy rates, it might be some time before housing gets back on its feet. Likewise increasing credit standards will act to keep housing growth subdued.

Chris Martenson had a nice analysis of the problems facing the FDIC in an article entitled "The FDIC is Broke - Now What?" I like this line .. **"Take prudent action. Choose only high-rated banks, and keep cash out of the bank."** Perhaps, we should be looking at safe manufacturing companies as a growth industry.

According to a Bloomberg report, "Manhattan office sales came to a near standstill in the first half, with less than one-tenth the average number of transactions seen during the same period in the previous five years, CB Richard Ellis Group Inc. said. "

While the National Association of Home Builders/Wells Fargo activity index rose to 18 in August from 17 in July, it is basically only measuring foot traffic, not sales. Still it is an indication that some buyers are hopeful of being able to complete a transaction.

The PPI fell 0.9% in July with the core rate (ex-food & energy) declining 0.01%. For the year, PPI is down 6.8% if you can believe the Ministry of Truth's data.

Today's Musings is late due to preparation for this weekend's Stock Selection Strategies workshop here in Dallas. There are a few seats left and **today is the last day to register by going to the Upcoming Events page.**

We made no changes in the portfolios today.

08/17/2009 After the Close



The Far East started the slide

Markets Diary				5:58 p.m. EDT 08/17/09	
Issues	NYSE	Nasdaq	Alternext		
Advancing	343	465	117		
Declining	2,727	2,184	389		
Unchanged	85	153	78		
Total	3,155	2,802	584		
Issues at					
New 52 Week High	18	8	5		
New 52 Week Low	6	11	5		
Share Volume					
Total	1,218,104,735	1,924,196,741	19,238,787		
Advancing	75,387,670	143,008,170	2,453,700		
Declining	1,134,089,765	1,687,607,922	16,170,367		
Unchanged	8,627,300	93,580,649	614,720		

Today the market gapped down as it opened based upon slower Japan growth than expected and the Chinese steel and iron ore companies deciding to reduce price levels of iron ore by 35%. The wave of selling began in the Far East and continued to build throughout Europe. At one time, the Shanghai stock market was down almost 8% on the day and 17% in the last two weeks.

Was today's plunge just investors worrying about the economic rebound as last week's retail sales disappointment and lower consumer confidence levels might have raised caution flags for investors. It was another distribution day.

Commodity stocks and financial stocks bore the brunt of the selling but few were not affected by the widespread selling. The action of the market in the S&P 500 and DJIA was very suspicious to me. The SPX and DJIA basically flat-lined after the first five minutes. It would appear that suddenly buyers appeared and continued to keep the S&P from moving over 5 points after the initial wave of selling occurred. Was the "Working Committee and Capital Markets" keeping the U.S. market averages from falling further.

The major Far East exchanges (table below) all experienced greater losses today. The right-hand column shows that the losses in the Far East were about double the losses in the U.S. today. Perhaps, they do not have a plunge protection team!

China: Shanghai Composite*	2870.63	-176.34	-5.79
Hong Kong: Hang Seng*	20137.65	-755.68	-3.62
India: BSE Sensex*	14784.92	-626.71	-4.07
Japan: Nikkei 225*	10268.61	-328.72	-3.10

Today's action saw all ten major sectors finished lower. Investors will have to decide if this is a pullback from overbought territory or the beginning of a major selloff.

The market ignored improvements in the Empire State manufacturing index. The homebuilders housing market index was also slightly higher in August. Traffic counts of buyers is getting a little better but current buying remains in the doldrums.

The Treasury International Capital showed an increased in foreign purchases of U.S. securities. However, China's holdings of U.S. treasuries actually fell during the month to \$776.4 billion from May's \$801.5 billion. Japan reversed course and now holds \$711.8 billion of U.S. treasuries versus \$677.2 billion in May.

Today, we sold MWV from the Aggressive portfolio as it violated its Action Point. We also sold FUQI from the Conservative portfolio for the same reason. We are now 100% in cash in the Conservative portfolio. There were no other changes in the portfolios today.

08/14/2009 After the Close



The market went down today.

Markets Diary 5:35 p.m. EDT 08/14/09

Issues	NYSE	Nasdaq	Alternext
Advancing	879	564	180
Declining	2,171	2,054	297
Unchanged	105	186	94
Total	3,155	2,804	571

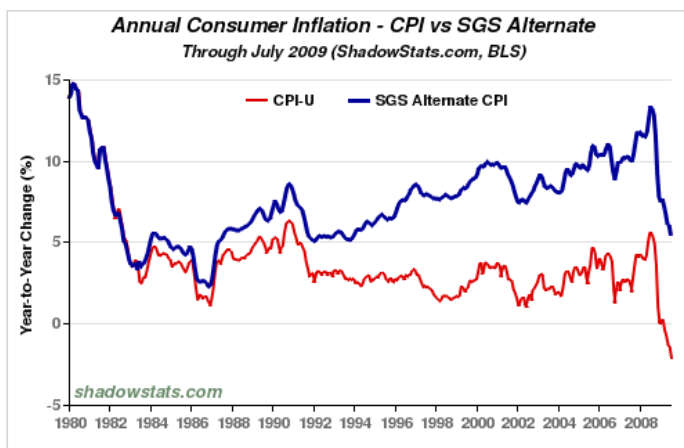
Issues at	NYSE	Nasdaq	Alternext
New 52 Week High	47	15	11
New 52 Week Low	2	1	1

Share Volume	NYSE	Nasdaq	Alternext
Total	1,093,170,771	1,923,414,485	18,984,140
Advancing	219,046,460	433,396,963	7,008,950
Declining	859,881,111	1,443,341,813	9,790,390
Unchanged	14,243,200	46,675,709	2,184,800

It was not a good day for the market and consumer confidence appeared to be waning. The stock market did not close higher for the 1st time in five weeks. Taken with yesterday's retail sales report, the enthusiasm about the recession turning into recovery was dealt a setback. Although industrial production showed a slight increase, investors were not too impressed as the "Cash for Clunkers" program was primarily responsible.

The NYSE, DJIA and the S&P 5000 posted distribution days today. Declining issues and volume were dominant in today's trading by substantial margins. The DJIA closed at 100 points above its intraday low. It was interesting that the rally began after all the commodity markets had closed on their lows for the week.

The Ministry of Truth reported July's CPI was down as lower gasoline prices were seen. For the year CPI was lower by 1.9% although core CPI was higher by 1.6%. John Williams of Shadowstats.com, however, points out that without changing the methodology, the true CPI remains a gain of 5.4% on a y/y basis.

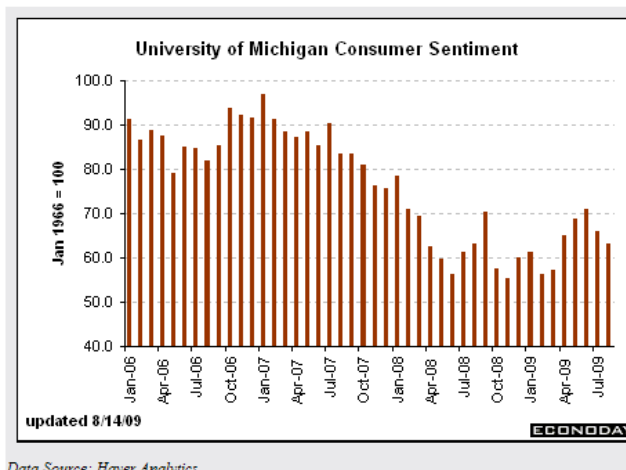


The Ministry of Truth also reported that industrial production was higher by 0.5% but the following table clearly shows that the motor vehicles category was mostly responsible for the increase.

Released on	2005	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09
Released for	Proportions	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09
Industrial Production	100.0%	-2.2%	-0.8%	-1.6%	-0.7%	-1.1%	-0.4%	0.5%
Major Market Groups								
Consumer goods	29.7%	-2.0%	0.1%	-0.2%	-0.6%	-1.0%	-0.5%	0.6%
Business equipment	10.2%	-4.2%	-1.9%	-3.2%	-1.9%	-2.1%	-0.6%	0.5%
Construction Supplies	4.5%	-3.7%	-1.5%	-2.4%	-1.3%	-0.1%	-0.4%	-0.1%
Major Industry Groups								
Manufacturing (non-NAICS)	76.4%	-2.7%	-0.1%	-1.6%	-0.6%	-1.0%	-0.6%	1.1%
Durables (NAICS)	42.9%	-5.2%	-1.2%	-2.4%	-0.8%	-2.0%	-0.7%	2.2%
Nondurables (NAICS)	33.5%	-0.3%	1.0%	-0.9%	-0.4%	-0.1%	-0.4%	-0.1%
Mining (non-NAICS)	9.8%	-0.6%	-1.4%	-2.5%	-2.7%	-1.2%	-1.0%	0.8%
Utilities (non-NAICS)	9.5%	0.2%	-4.5%	-0.3%	0.3%	-2.0%	0.9%	-2.4%
Addendum								
Selected High Tech Industries	4.8%	-0.3%	-2.3%	-0.3%	1.1%	-2.5%	0.0%	0.4%
Motor Vehicles and parts	7.1%	-26.0%	8.9%	1.7%	-1.1%	-7.7%	-2.4%	20.1%
Capacity utilization rate	NA	71.1	70.6	69.5	69.0	68.3	68.1	68.5

Data Source: Haver Analytics

The University of Michigan consumer sentiment was down for the second month in a row increasing concern that the consumer was only buying essential items.



Data Source: Haver Analytics

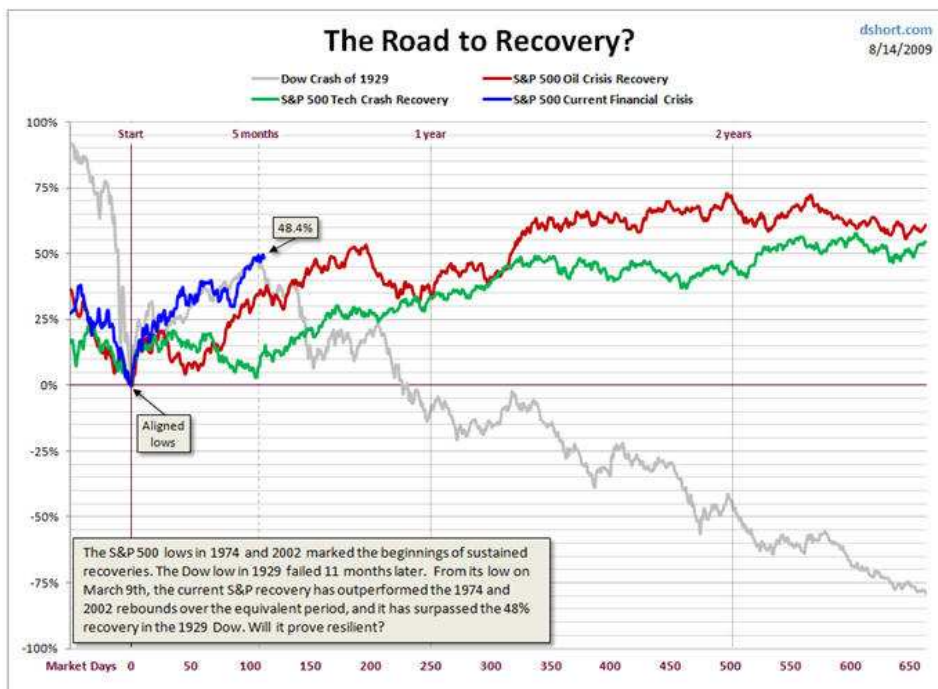
Bloomberg reported that more than 150 publicly traded U.S. lenders own nonperforming loans that equal 5 percent or more of their holdings, a level that former regulators say can wipe out a bank's equity and threaten its survival. The FDIC closed Dwelling House Savings and Loan in Pittsburgh, Pa today, Dwelling House was a very small bank with only \$13.4 million of assets.

However, it was also reported that BB&T had agreed with the FDIC to take over Colonial Bank in Florida which would be the largest bank failure in 2009. Colonial has about \$25 billion in assets. Colonial provided warehouse lending facilities to an estimated 70 Mortgage Companies.

Of course, the problem of the toxic assets still remains. Even the change in the FASB "mark-to-market" rule does not hide the fact that banks are allowed to lie about what their toxic assets are worth by pretending that they will never sell those toxic assets.

The two largest to fall are still left: CORUS and Guaranty, both of which have said they (as of last filing) have a **negative** Tier Capital Ratio, meaning that they are formally underwater and IMHO should have been seized months ago. Guess the FDIC is broke and needs to tap that \$500 billion Treasury line of credit.

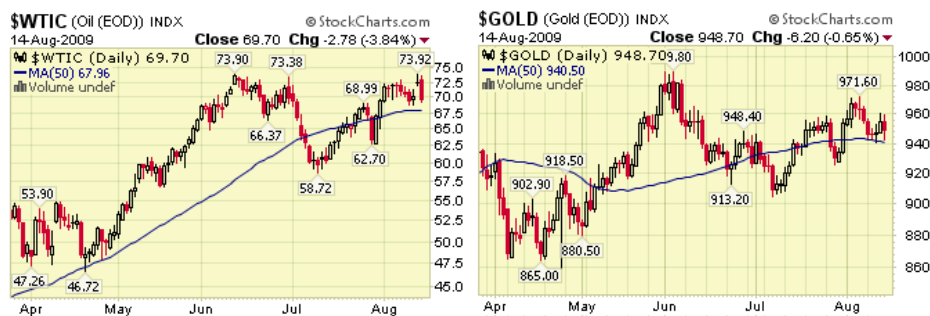
The following chart from dshort.com shows the almost perfect alignment to the 1929 crash. Although several pundits believe that this market more closely aligns with 1938, this chart is interesting.



Jim Willie's latest article "Pressure (Countdown) Toward Breakdown" had the following paragraph which is most interesting:

"For those looking to dismiss the rumors of a widely orchestrated plan to shut down the US banking system, for whatever stated or actual reasons, perhaps attention should be directed at the US Dept of Homeland Security (HSA) and the Federal Emergency Mgmt Agency (FEMA). Not only are they spanning the nation in making tentative preparations for a series of bank holidays, but they are working to enlist the police forces at the state and city level under the federal law enforcement system, in addition to the national hospital system. Anecdotal stories stream in from around the country, impossible to ignore. Who knows what legal grounds or unfolding events precede such a development? Watch a turf battle perhaps between HSA and the FBI. To be sure, tremendous stress is at work within US Govt agencies, ministries, and elsewhere. My focus is primarily on the financial impacts, never to be swayed by official stories and pronouncements. Mine is not a concern for overarching networks of power in control, but for breakdowns of the individual systems. Let the billionaires fight among themselves, as our role is to protect our own wealth and to avoid congames."

Most commodities were lower in today's trading. Crude oil fell below \$70/bbl. Gold was under pressure and closed below \$950/oz after bouncing off the \$940 resistance level.



We made no changes in the portfolios, The Simple Timing Indicators (STI) for the NASDAQ appear ready to give a negative signal next week. The S&P 500 STI signal is showing a similar pattern. This would suggest that prudent investors increase their awareness of the possibility that a correction might be forthcoming.

Reminder ... **The August 22 all day seminar in Dallas on Stock Selection Strategies still has room for a few more.**

• **Fred Richards**
Strategic Investing

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