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Market Musings

9/12/2008

Another day of lower volume and mixed results ending almost neutral.

Markets Diary — 5:58 p.m. EDT 09/12/08

Issues	NYSE	Nasdaq	AMEX
Advancing	1,788	1,375	704
Declining	1,422	1,459	466
Unchanged	72	149	76
Total	3,282	2,983	1,246
Issues at			
New 52 Week High	27	16	2
New 52 Week Low	192	106	71
Share Volume			
Total	1,301,438,273	1,975,681,283	26,228,458
Advancing	771,687,343	930,627,211	16,979,270
Declining	521,644,130	1,027,502,297	8,408,888
Unchanged	8,106,800	17,551,775	840,300

Today's market closed mixed as the PPT was unable to nudge all the indices to slightly above the unchanged market. You really have to wonder if all markets are being manipulated.

For example, crude oil was only higher by 31 cents despite the arrival of hurricane Ike which will affect some 70% of U.S. refining capacity. Of course, here in the Dallas area, most gas stations were selling regular today for at least ten cents higher than Monday and many stations had run out of regular gasoline.

Today's economic news was mixed as was the market. The Producer Price index was lower largely due to a decrease in crude oil while the preliminary Consumer Sentiment was higher reflecting the lower energy numbers. The sentiment number jumped from 63.0 in August to 73.1 in September for the biggest increase in nearly five years. However, retail sales continued to shrink for the second straight month and business inventories grew suggesting that a slowdown was ahead for the production segment.

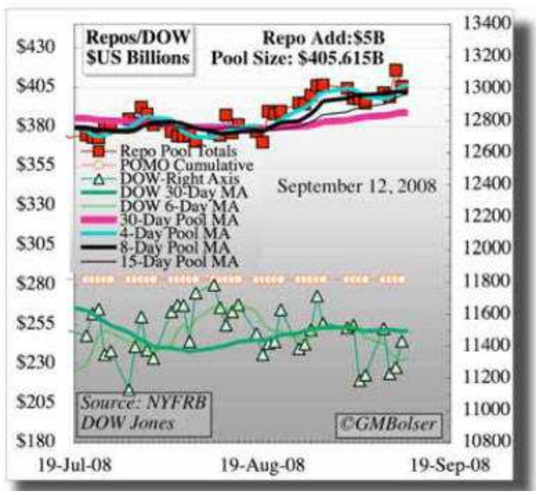
RealtyTrac reported that foreclosures rose 27% year/year in August to 303,900. This is the highest since record began being compiled in January '05. One in every 416 households is in foreclosures. California is leading the way. This is a major problem which adds unsold supply to the market and underscores the problems facing housing is unabated.

With Lehman probably gone, WAMU also on the ropes and AIG headed towards a meltdown, the financial world has changed dramatically during the past 14 months. At least, the FDIC had not closed another bank this week by 5 p.m. Friday. However, with the losses incurred to date, the capital base of the FDIC has fallen from about $52 billion to less than $38 billion. Moreover, most of their assets are in GSE paper and/or U.S. Treasuries. Wonder if they have been marked to market yet?

The major automakers, GM, Ford and Chrysler, are trying to get at the taxpayer trough to the tune of $25 billion. The U.S. under Bush, Paulsen and Bernanke have thrown in the towel and we have entered a socialist era where moral hazard holds sway.

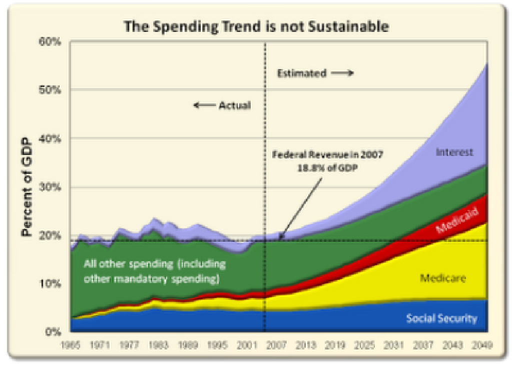
Remember all the hype about the temporary nature of borrowing from the Fed's discount window back last September. For six of the past eight weeks, the borrowing reached record levels and stood at $23.5 billion as of September 10. Three months earlier, the lending averaged just $779 million a week. The increasing use of the "temporary" funds could delay banks' disposing of their nonperforming assets and capital raising. Does anyone really believe that this borrowing will be temporary?

Mike Bolser of Interventional Analysis tracks the FED repo pool. In February of this year, the report rarely was over $200 billion. But in March of this year, the repo pool doubled in less than 30 days. Since then, it has remained near record levels. During the past 60 days, the repo pool has gradually continued to move higher and closed today at $405.615 billion, the second highest level in history.



Sean Maher had an article "Who's Going to Bailout the U.S. Government?" Here is an excerpt:

> **The CBO has just forecast a $500bn US fiscal deficit for 2009; the current US national debt is $9.3trn or 64% of GDP** and rising at a billion dollars a day. The CBO estimates a $2.3trn increase in national debt over the next decade, even before factoring in the GSE bailout (which will have to be consolidated in the national accounts). Interest payments are now the fourth largest Federal expenditure item; **mandatory items like Medicare are well over half the total spend** and this will grow rapidly as the dependency ratio rises (the number of social welfare beneficiaries to tax-paying workers). PIMCO among others (and how they must be smiling after mugging the US government on subordinated GSE debt, $1.7bn is a nice payday) **expect deficits to test $1trn within a few years**.
>
> The chart below from PerotCharts.com summarises the deteriorating medium term fiscal outlook; anybody buying a 30 year Treasury at these yields had better have their eyes wide open (and their heads tested?).



Source: Congressional Budget Office
December 2005, High spending outlook

After breaking the 80 level, the U.S. dollar index fell today to close down sharply. The massive intervention in both the commodity and currency markets orchestrated by the FED, the Bank of Japan and the European Central Bank is gradually becoming apparent to many traders. The fundamentals have not changed and in fact, in many cases, both here in the U.S. and overseas, the economic situation has deteriorated.

The disconnect between fiat prices for gold and silver and physical gold and silver continues to suggest that the fiat market is heading towards a major breakdown. The 2% rule continues in play in the pits despite there being no physical silver or gold to be had in most coin dealers.

We made no changes in the portfolios today. We spent today checking on relatives in the Houston area and taking steps even here in Dallas to reduce the hazards associated with Hurricane Ike. I find it simply amazing how 40% of the people living on Galveston Island remain there.

9/11/2008

The market was down at the open but managed to end higher.

Markets Diary			5:53 p.m. EDT 09/11/08
Issues	**NYSE**	**Nasdaq**	**Amex**
Advancing	1,433	1,303	496
Declining	1,781	1,563	696
Unchanged	71	126	65
Total	3,285	2,992	1,257
Issues at			
New 52 Week High	28	13	12
New 52 Week Low	499	210	205
Share Volume			
Total	1,445,454,662	2,279,388,026	30,745,808
Advancing	932,769,982	1,566,747,333	14,797,510
Declining	495,894,770	683,718,344	15,167,798
Unchanged	16,789,910	28,922,349	780,500

Although advancing volume was higher than declining volume, declining issues dominated on both the NYSE and NASDAQ. In addition, the number of new 52 week lows swamped their counterparts. For a market that was still afraid of its shadow, today's gains were not enough to make me believe that the bottom was in. Rather it was just another day of relief that another major hit had not surfaced.

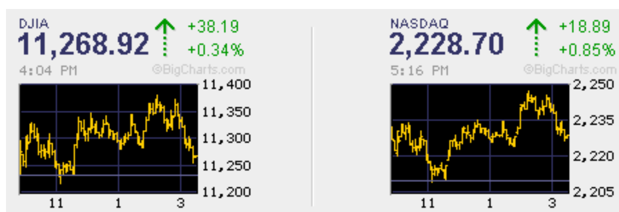
Declining oil and gold prices helped the markets move higher. However, the trade deficit for July of $62.2 billion was higher than July's $58.0 billion. New jobless claims declined 6,000 to 445,000 in the latest week. However, the labor market remains under pressure as continuing claims rose by more than 100,000 to 3.525 million.

Import prices declined 3.7% in August ... at least, there was some good news today.

Today the rumor mill had both the Federal Reserve and U.S. Treasury helping Lehman Brothers to find a home. Don't you find it somewhat ridiculous that a major investment bank is unable to sell itself. Just how bad are those assets.

We made no changes in the portfolios today.

9/10/2008



The market was like a dog chasing its shadow today ... much effort, little success.

Markets Diary			5:51 p.m. EDT 09/10/08
Issues	**NYSE**	**Nasdaq**	**Amex**
Advancing	1,725	1,623	573
Declining	1,454	1,236	588
Unchanged	106	133	95
Total	3,285	2,992	1,256
Issues at			
New 52 Week High	26	22	6
New 52 Week Low	322	169	165
Share Volume			
Total	1,544,795,606	2,261,055,637	31,529,439
Advancing	817,578,250	1,370,868,890	15,348,800
Declining	712,266,656	874,449,372	15,612,939
Unchanged	14,950,700	15,737,375	567,700

Volatility caused major swings in the financial stocks as Lehman's problems continue to weigh on the market. Still when the markets closed only new 52 week lows showed a significant difference in the internals. The problems surrounding that old venerable firm, Lehman Brothers, continues to swirl. I wonder what Mr. Szold would have to say about the management of Lehman today.

Lehman Brothers announced the largest loss in its 158 year history, a third quarter loss of $3.9 billion on $5.6 billion in writedowns. They also said they will cut its dividend, sell a majority stake in its asset management division and sell its real estate holdings. Lehman still needs to raise capital and will likely borrow directly through the Fed via its primary dealer credit facility (PDCF) as it attempts to raise capital. Where, oh where, did the old company lose its focus?

The Mortgage Bankers Association (MBA) said its application index rose 9.5% in the week ending September on declining mortgage rates. This is the third consecutive weekly gain although applications are down 24.4% year/year. Purchases rose 6.4% for its third weekly gain and are down 16.8% year/year. Refinancing rose 15.4% for its third weekly gain but are down 34.8% year/year. The thirty-year fixed mortgage rate fell 33 basis points to 6.06%.

Chuck Butler of Everbank in his Daily Pffenig today stated the case succinctly why the current rally is smoke and mirrors:

> "The Government's decision to bail out Fannie and Freddie and place them into conservatorship may shore up the mortgage meltdown in the short term... But to me, this is just another in the line of things the Fed and Treasury have done in an attempt to bring calm to the financial markets... (Bear Stearns, mortgage bill, money supply, low interest rates, and dollar intervention, stimulus checks, and more!) But, when you step back and look at all this, none of it, and I mean NONE of it had done anything to alleviate the pressures on rising home inventories, falling home prices, upside down mortgages, unemployment, the deteriorization of the financial markets (see the dead man walking list of banks that are in deep dookie) and that doesn't just mean banks... The major Brokerages are standing on the street corners with their hands out, begging for any sovereign wealth fund that might give them a capital infusion."

Karl Denniger is even more vocal about the current state of affairs than Butler. Here is a portion of his "Truth's":

> **The Truth** is that after 9/11 instead of allowing the market to correct **as you should have** and forcing all the bad debt **out of the system** you instead stood back and listened to George Bush tell us all to "go out and shop" and further stood back while Alan Greenspan ***intentionally inflated a housing bubble with the help of Fannie and Freddie, two agencies that then spent $200 million dollars bribing, er, lobbying, to allow them to provide the fuel for the most insane bubble economics in the history of mankind.***
>
> **The Truth** is that this whole scheme of bailout after bailout is escalating at **warp speed** in terms of its cost, and yet it is doing exactly one thing - preventing the stock market from correcting to a **sustainable** earnings level with financials making **honest money** instead of swindling municipalities on swaps (as has recently been uncovered in regards to Alabama and elsewhere) and similar "structured products" that are in fact nothing but a **gigantic scam**. Yet the first of these, Bear Stearns, was $29 billion and created a ramp job in the futures and stock market for a couple of months. This one has a price tag of **at least $100 billion and perhaps as much as $1 trillion according to Standard and Poors**, yet you were told (and told us!) that this was a $25 billion expense, according to the CBO. **You lied to us again and the price of these repeated "stick save" attempts for the markets is increasing at an exponential rate**.
>
> **The Truth** is that American **does not have the money for any of this crap.** The government doesn't have it and the people don't have it. ***We are going broke fast*** as our cost of living has, for most necessities such as food and fuel, ***doubled*** in the last two years. ***I just received notice that my electric bill will be increasing by 30% in three steps over the next six months.*** How the hell is someone on fixed income supposed to cover that? **These cost increases are a direct consequence of your actions**.
>
> **The Truth** is that Hank Paulson just spent **in five minutes** half of what it took us **four years** to spend in Iraq! Further, ***he spent it to bail out the Chinese and Japanese central banks and investors in foreign lands.*** You folks kvetch about the war and its cost, well, how about **economic warfare** waged by these people where we don't even bother to fight back - **we just give them all our damn money! How**

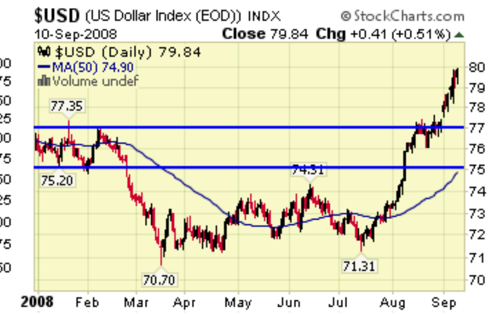
in the hell do you justify such an outrageous transfer of our wealth?

The Truth is that **all** of the money that could have been spent reforming health care, developing alternative energy and repairing our nations' infrastructure **was just blown on bailing out China and you are directly responsible for it!** You can **forget about** any of those programs you want in the next Congress - **the money is all gone**.

Unfortunately, for the MSM and the politicians, the real facts of economics are beginning to move out of the murky world of smoke and mirrors and through the blogs on the internet are reaching an ever-increasing audience which is finally beginning to understand the Big Picture and they do not like what they see.

The old gray lady of the MSM, the NY Times lost over 30,000 subscribers last month. Its stock has fallen 20% this year and Mexican billionaire Carlos Slim has acquired a 6.4% interest in the NYT which is the 3rd largest holding. Perhaps, Slim will be able to obtain a better return on his investment in the Grey Lady than his foray into COMPUSA did.

Fiat gold took a nose dive today and closed down over 40 points at 751.54. However, try buying any physical and you will find that there is none available. When will the divergence end? Meanwhile, the US dollar index managed to continue its uptrend closing at 79.84.

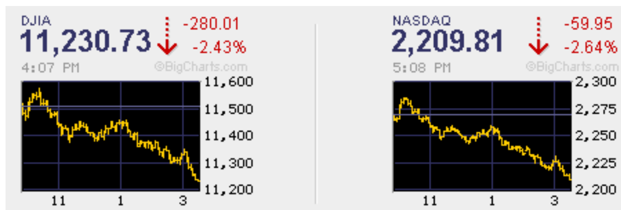


The old reliable precursor of economic growth, or recession, copper has fallen to $307.50/lb., a level not seen since January 2008. It would appear that economies throughout the world are beginning to feel the economic malaise.

With Hurricane Ike failing to strengthen significantly after passing Cuba, crude oil was relatively stable closing at $103.10/bbl despite OPEC cutting production. The yield on the 10 year Treasury note is now at 3.64% after the wild swings that occurred on Monday.

We made no changes in the portfolios today. Least we forget, tomorrow is the anniversary of September 11th and for many Americans, the War on Terror is fading in memory. Perhaps, it will take another event similar to that series of disasters for the country to wake up and discover that they need to take off their rose-colored glasses and view reality.

9/9/2008



So much for the relief rally!

Markets Diary 5:07 p.m. EDT 09/09/08

Issues	NYSE	Nasdaq	Amex
Advancing	379	535	277
Declining	2,793	2,314	901
Unchanged	64	100	72
Total	3,236	2,949	1,250
Issues at			
New 52 Week High	31	36	15
New 52 Week Low	311	196	230
Share Volume			
Total	1,688,205,673	2,587,505,586	40,748,271
Advancing	140,704,600	174,011,962	5,950,641
Declining	1,489,823,963	2,405,722,212	33,317,920
Unchanged	57,677,110	7,771,412	1,479,710

While the markets failed to achieve another distribution day, today's moves were decidedly in the wrong direction for those investors with a positive bias towards an upward trend. The S&P 500 fell 3.4%, ending the session at its lows, marking the largest one day percent decline since February 2007.

We have often noted that the substitution factor often affects things besides the CPI and other data sets. This evening, Fastenal was placed on the S&P 500 list instead of Fannie Mae. Perhaps, the threat of breaking the 1210 resistance level can be mitigated by this substitution.

Today's market breadth was decidedly negative with declining issues and volume far surpassing yesterday's numbers of advancing issues and volume.

The fallout from the FRE & FNM conservatorship will further increase fears about the inability and the need for finance firms to raise capital. Wells Fargo said that it will write-off $480 million in preferred securities of FNM and FRE. There will be more.

As of 12/31/2007, FNM had $16.9 billion of preferred stock and common stock with a book value of $29.5 billion. As of the same date, FRE had $14.1 billion of preferred stock and common stock with a book value of $12.6 billion. Of course, there will be major restatements to these figures based upon the fraudulent data discovered by Morgan Stanley.

Earlier this week, JPMorgan Chase (**JPM**) said the value of its GSE preferreds has been halved to $600 million this quarter and hinted it will take a charge on those assets when it reports third-quarter earnings.

Fannie and Freddie preferreds account for at least 32% of the tangible capital held by two regional banks—Gateway Financial Holdings and Midwest Banc Holdings—and 5% or more for a slew of others, according to an Aug. 25 report by Sam Caldwell, an analyst who covers regional banks for Keefe, Bruyette & Woods.

Moreover, the cost of protecting U.S. Treasury debt with credit default swaps (CDS) hit record highs on Tuesday amid concerns about the cost of a government bailout of FNM and FRE. Wonder when the rating agencies will start to worry about the US Treasury debt being rated AAA?

Will the Treasury action's in seizing FRE & FNM be upheld? As economists, analysts and politicians start to understand the implication of the conservatorship scheme, many are having second thoughts. Senator Dodd is particularly upset since Paulson told him a month ago that "he would never use the authority granted by the Congress to take over Fannie and Freddie." According to Dodd,

> "I got a call on Friday afternoon of last week, suggesting they were thinking about this, and picked up my Saturday morning paper to discover they had done it," he tells Renee Montagne of PBR. "I gather more people probably on Wall Street were aware of what was happening than those of us who set public policy."

Memo to Senator Dodd:

> "Will you believe him and/or Bernanke the next time they come to the Hill?"

The first lawsuit was filed today seeking an immediate injunction to prevent the takeover. Of course, even if court action is fast tracked, the delay could cause many institutions sitting on the brink of bankruptcy to fail without immediate action. Today's market action offset yesterday's knee-jerk rally.

But let us be specific. Congress passed legislation that enabled this problem to grow and fester and failed to provide the oversight necessary to prevent it. Many of the directors and officers of both FNM and FRE had extensive connections to the political arena and little direct knowledge of the GSE's business. Many members of Congress and various administrations took advantage of the below-cost loans made available to them either directly through the GSE's or through companies that sold their loans to the GSE's. There is plenty of blame both in Congress and Wall Street to go around.

The real estate mess continues as July pending home sale fell 3.2%, more than twice the expected decline. The large inventory of unsold new and existing homes does not tell the whole story. Many individuals that would like to sell are refraining from listing their homes under these market conditions. Also, bank foreclosures are often held by the bank and are not listed. Home prices will continue to be under pressure as foreclosures rise. The number of qualified buyers is also shrinking due to increased down payment requirements and credit scoring requirements.

Wholesale inventories rose 1.4% in July. A gain of .7% was expected. The previous month was revised from a gain of 1.1% to a gain of .9%. Durable inventories rose 1.6% led by a 2.3% gain in the auto sector. Nondurable inventories rose 1.1%. Sales fell .3% for its first decline since February.

Crude oil fell as did most of the commodities. Mining companies also had a poor showing today. The dollar index was down slightly while gold fell to $788.

We hear quite a bit about the moral hazard of bailing out Wall Street. **Christopher Grey had an article at Prudent Bearn with which I agree 100%.** I did find it interesting that he failed to ask for the FRE and FNM officers and directors to repay their bonuses while issuing financial reports that were fraudulent. Here is Grey's conclusion:

> Here are a few of specific suggestions that I think would be very helpful and send the right message to the country. Alan Greenspan should make a public apology and donate all of his book proceeds and speaking fees to a charity that helps families who have lost their homes in foreclosure. Ben Bernanke should immediately resign and recommend that Paul Volcker, the last successful Fed Chairman, take

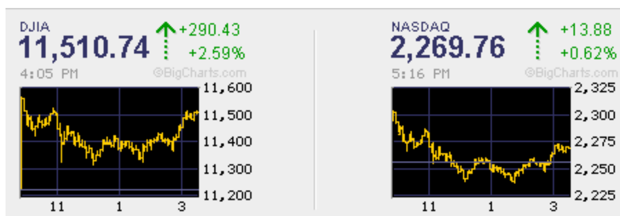
over his job. Stan O'Neal and Chuck Prince should return all of their severance packages to the shareholders of Merrill Lynch and Citibank. Dick Fuld, the CEO of Lehman Brothers, and Kerry Killinger, the CEO of Washington Mutual, should resign and accept no severance. I am not saying that any of these individuals are bad people. I do not know any of them personally, and I will give all of them the benefit of assuming that they are all wonderful people. However, I think they are all very high profile examples of people who made horrible errors in judgment and have failed to take responsibility for those errors. We cannot begin to heal our financial system until people at the top start setting an example for the rest of us. How can we ask a struggling family to keep making their mortgage payments instead of walking away if the people at the top who created the system that caused this mess do not take responsibility for what they did?

And if you think that the bailouts will stop with FNM and FRE, take another look. The auto industry is not looking to access $25 billion and would like to increase that to $50 billion so that the companies can make the investment in more efficient automobiles. Who is next ... Boeing?

The FDIC takeover of Silver State Bank in Henderson, Nevada was overlooked on last Friday. As of June 30, Silver STate had $2.0 of assets and $1.7 billion of deposits including $700 billion of brokered deposits. The FDIC will take a hit of $450 to $550 million against its capital position. This is getting to be an every Friday event.

We purchased DXPE in the Conservative portfolio today. There were no other changes in the portfolios.

9/8/2008



Anyone have faith in Paulsen now!

Markets Diary			5:15 p.m. EDT 09/08/08
Issues	**NYSE**	**Nasdaq**	**Amex**
Advancing	2,021	1,672	704
Declining	1,094	1,105	470
Unchanged	85	126	70
Total	3,200	2,903	1,244
Issues at			
New 52 Week High	119	191	23
New 52 Week Low	214	271	114
Share Volume			
Total	1,694,843,634	2,607,162,221	45,720,543
Advancing	1,082,144,984	1,252,015,594	29,440,370
Declining	609,855,850	1,327,287,025	15,535,673
Unchanged	2,842,800	27,859,602	744,500

Paulsen's credibility should be destroyed after this weekend. His previous comments about the credit mess being contained or that he would not need to use a bazooka to solve the mess at FNM and FRE were obviously bogus.

How investors can continue to listen to the hot air emanating from either Paulsen or Bernanke is a mystery to me. But then hope springs eternal for investors.

The current takeover, or bailout, scheme involving FNM and FRE, if it does not get derailed, means simply that the free market and the risks thereof simply do not exist anymore for most major organizations in the U.S.

Today's market action was simply relief that the FRE and FNM bonds would not go into default. Of course, the Chinese, Japanese and Russians along with Pimco with major exposures to those bonds have not been saddled with losses yet. However, don't think the situation is over.

After the initial surge that began in Asia, continued through Europe, the NY market opened and spent the rest of the day until about 3 PM EDT trying to not fall out of bed. The NASDAQ spent considerable time in negative territory today and the

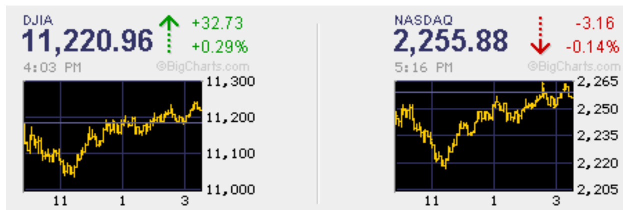
NASDAQ 100 actually ended in negative territory. I would not be surprised to learn that the rally in the late afternoon was helped by PPT intervention.

The takeover of FRE and FNM under the conservatorship scheme is nothing more than an attempt to keep the foreign holders of their bonds and the U.S. Treasury bonds from accelerating their selling of those instruments without causing a major run on the U.S. dollar.

While most economists were pleased with the takeover of FRE and FNM, it is still not a concluded transaction. In fact, the seizure of the two mortgage giants could well be in violation of both the Fourth and Fourteenth Amendment of the U.S. Constitution. If such a lawsuit is brought against illegal seizure, it would cause a major problem for the major bondholders as well as the regional banks which may well be in trouble as the value of their holdings of preferred stock is basically reduced to zero.

We made no changes in the portfolios today.

9/5/2008



The NYSE overcame its opening loss to close in positive territory despite lower volume.

Markets Diary — 5:32 p.m. EDT 09/05/08

Issues	NYSE	Nasdaq	Amex
Advancing	1,583	1,265	408
Declining	1,518	1,512	746
Unchanged	106	150	75
Total	3,207	2,927	1,229
Issues at			
New 52 Week High	13	7	15
New 52 Week Low	217	152	225
Share Volume			
Total	1,199,109,362	2,270,119,285	34,879,534
Advancing	714,176,680	1,092,966,485	18,042,310
Declining	477,589,772	1,161,560,183	16,135,974
Unchanged	7,342,910	15,592,617	701,250

Was today's positive close on the NYSE because of a bounce from oversold conditions or was it the PPT nudging the market to prevent four distribution days in a row? You be the judge.

Today's reversal began when the Dow Jones Financial index was slicing through the 50 day Moving Average. Suddenly, out of nowhere orders came flowing in to reverse the trend. And the decline was stemmed. Perhaps, the SEC might investigate where the orders came from and what news caused the influx of buy orders. Frankly, I don't buy the idea that it was bottom fishing and/or there suddenly was a flash that the financial sector was no longer under pressure.

In fact, the financial con game is just entering a new phase with lawsuits, criminal charges being filed and billions of dollars of settlements being agreed to by major Wall Street firms to prevent criminal filings. **Steven Pearlstein of the Washington Post detailed it in his article today which I suggest you read.** The question of trust and credibility or the lack thereof could spell significant problems for the Street in the months and years ahead. Listen to Pearlstein,

> Wall Street has become a fundamentally corrupt enterprise in which the motto is: "We'll do anything for a fee."
>
> I refer not to the narrow legal definition of "corrupt," but to the general instinct to mislead clients, double-cross and collude with counterparties,

> and pull the wool over the eyes of investors. It is the kind of corruption grounded in the attitude that it's all just a game in which the only rules are "buyer beware" and "heads I win, tails you lose." In a corrupt business culture like that of modern-day Wall Street, cynicism is rampant, candor and accountability are first casualties, and a man is measured by the size of his bonus rather than the depth of his integrity. It's not so much immoral as amoral.
>
> The tell-tale signs of this endemic corruption now litter the financial landscape.

Watching Bill Gross of PIMCO plead for a bailout of FRE and FNM caused my respect for him to diminish. It began when PIMCO, the world's largest bond fund, hired Easy Al Greenspan in May 2007 as a consultant. You have to wonder how much paper of those GSE's PIMCO has?

Moreover, after the close, both FNM and FRE took a nose-dive in the after hours market. The Wall Street Journal reported a series of meetings today between Federal Reserve Chairman Ben Bernanke, Treasury Secretary Henry Paulson, the chief executives of Fannie Mae and Freddie Mac and the companies' new regulator, the Federal Housing Finance Agency. Could the FED be ready to nationalize the two GSE's this weekend?

If the bailout of FRE and FNM does occur, it will not help the credit rating of U.S. Treasuries. And watch the US dollar start a freefall. The Ponzi scheme of fiat money is about to come apart.

Show me the good news in a 6.1% unemployment rate and eight straight months of declining employment! The BLS changed their seasonal adjustments to only yield a loss of 84,000 jobs in August. If the seasonal adjustment had not been modified, there would have been a loss of 123,000 jobs in the month. Moreover, the birth/death rate adjustment model added 125,000 jobs in August ... pure fudge factor.

If you can see positive trends in the attached table, please let me know. Moreover, revisions to overall payroll jobs in June and July were a net decrease of 58,000.

Trends

		data displayed as monthly change in thousands					
Released On:	Percent	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08
Released For:	of Total	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08
Payroll Employment	100.0%	-88	-67	-47	-100	-60	-84
Goods-producing industries	15.8%	-79	-109	-51	-86	-48	-57
Construction	5.4%	-39	-59	-38	-50	-20	-8
Manufacturing	9.9%	-46	-52	-21	-44	-38	-61
Service-providing industries	84.2%	-9	42	4	-14	-12	-27
Trade, Transportation & Utilities	19.5%	-27	-56	-45	-20	-39	-35
Information	2.2%	-3	-6	-5	-5	-9	-3
Financial Activities	6.0%	0	-2	-3	-13	-3	-3
Professional & Business Services	13.1%	-59	17	-49	-55	-17	-53
Education & Health Services	13.5%	44	48	63	71	51	55
Leisure & Hospitality	9.9%	16	14	-11	0	-5	-4
Government	16.2%	15	24	52	10	6	17
Other Key Indicators							
Unemployment Rate (level)		5.1	5.0	5.5	5.5	5.7	6.1
Labor force participation rate		66.0	66.0	66.2	66.1	66.1	66.1
Employment-population ratio		62.6	62.7	62.6	62.4	62.4	62.1
Hourly Earnings (monthly %)		0.3%	0.1%	0.3%	0.3%	0.4%	0.4%
Private workweek (level of hours)		33.8	33.8	33.7	33.7	33.7	33.7
Factory workweek (level of hours)		41.2	41.0	41.0	41.0	41.0	40.9
* Total will not add due to rounding or missing categories with small relative weights.							

As John Williams of Shadow Government Statistics puts it:

> The August 2008 seasonally-adjusted U.3 unemployment rate showed a statistically-significant increase to 6.05% +/- 0.23% from 5.68% in July. Unadjusted, U.3 increased to 6.1% in August, versus 6.0% in July. The broader U.6 unemployment rate jumped to an adjusted 10.7% (10.7% unadjusted) in August from 10.3% (10.8% unadjusted) in July. Refigured for the bulk of the "discouraged workers" defined away during the Clinton Administration, actual unemployment, as estimated by the SGS-Alternate

Unemployment measure, rose to about 14.7% in August, up from 14.3% in July.

The Beige Book (the blueprint for the upcoming FOMC meeting September 22) said that the economy was slow in most of the US. The residential real estate market remains soft, consumer spending is slow, wage pressures are moderate, price pressures remained despite the decline in commodity prices and (importantly) some areas are seeing a slowdown in exports.

Home foreclosures in the US rose to record highs in the second quarter according to the Morgage Bankers Association on Friday. The seasonally adjusted foreclosure starts rate, the percentage of loans that entered the foreclosure process during the April-June quarter, was 1.19 percent, up from 0.99 percent in the first three months of 2008 and 0.65 percent in the second quarter of 2007.

The U.S. mortgage delinquency rate of 6.41 percent was the highest since at least 1979, which was when the trade group began its current method of measuring failing home loans.

I find it somewhat interesting that with unemployment increasing for eight straight months, the data shown in the Beige Book which does not show the real data but Ministry of Truth data, and a GDP report which was up on the basis of a declining dollar and now the dollar is higher that the recession is not officially here.

As you know, the commodity markets have been under severe pressure while the U.S. dollar has enjoyed a rebound. **Don Coxe (the Bank of Montreal strategist) in his September 5th webcast explains the entire orchestrated and massive central bank intervention that caused the massive swing.** Take the time to listen.

Gold held $790 today, and the U.S. dollar index managed to close at 78.94. Crude oil fell to 107.70 while the yield on the 10 year US Treasury note increased to 3.66%.

It could be a very interesting weekend and Monday opening. Keep an eye on the overseas markets when they open.

We made no changes in the portfolios today.

IMPORTANT NOTICE

Effective September 15, 2008, we are raising the price for the Strategic Investing service for the first time since 2002. New subscriptions will be $240/year and renewals will be $180/year. We thank you for all your support.

Fred Richards/Strategic Investing.

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