

Home

Strategic Investing

Upcoming Events

Talks and Workshops

Subscribers Only

Login



**STRATEGIC INVESTING**  
A Service of Adrich Corporation

Strategic Investing focuses on stocks with increasing revenues and profits.  
KISS + SF!

- Daily Market Musings • Archive
- Daily Stock Watch List • SWL
- Archive
- Weekly ETF List • ETF Archive
- Technical Notes
  - Repurchase Rules and the Stock Watch List
  - Stock Selection in Down Markets
  - Selling Rules
  - Dow Jones Earnings
  - Gold Stocks
  - Homebuilders
  - Shorting Strategies
  - Foreign Bank Accounts
  - Portfolio Review
  - CRB Changes

- Economic Indicators
- Accumulation/Distribution Data
- Portfolios
  - Aggressive
  - Conservative
  - Core
  - ETF
  - Precious Metals
- Renew Subscription

>> Your subscription will expire in 1217 days on January 31, 2012 <<

**Market Musings**

9/26/2008



**Uncertainty continues ... NASDAQ counts a distribution day!**

Markets Diary		5:31 p.m. EDT 09/26/08		
Issues	NYSE	Nasdaq	Amex	
Advancing	1,042	1,173	341	
Declining	2,110	1,614	822	
Unchanged	73	122	60	
<b>Total</b>	<b>3,225</b>	<b>2,909</b>	<b>1,223</b>	
Issues at				
New 52 Week High	3	8	2	
New 52 Week Low	258	183	114	
Share Volume				
Total	1,188,291,626	2,000,565,483	39,020,648	
Advancing	466,746,396	924,700,042	20,583,100	
Declining	705,515,730	1,046,441,654	18,119,748	
Unchanged	16,029,500	29,423,787	317,800	

The largest bank failure in the U.S. happened yesterday evening. WAMU was swallowed by JPM who paid \$1.7 billion for the opportunity to write off \$31 billion in assets and gain market share.

**Washington Mutual is the biggest bank failure in US history.**

This is the largest bank failure by assets, \$307 billion vs. the '84 collapse of Continental Bank at \$40 billion. WaMu was seeing a large outflow of deposits, \$17 billion since September 16. JP Morgan assumed the banks deposits, loan portfolio and branches for \$1.9 billion meaning no tax payer money was used for the failure.

**JP Morgan had a \$10 billion stock sale today to aid in funding the purchase and associated write-downs resulting in dilution of present shareholders.**

Quite frankly, Buffet made a better deal ... put \$5 billion in 10% perpetual preferred stock of Goldman Sachs and within a few minutes made \$783 million.

Buffet certainly got a better deal than the WaMu CEO who walked away with \$20 million for 17 days on the job and wiping out his bond and equity shareholders.

Now Wachovia is looking at Citi as its merger partner. Both of those on weak banks according to Martin Weiss.

Noel Roubini says that the Paulsen plan is a disgrace ..... while Marc Faber suggests as well as Ken Ohmae that the salvage operation needs to be closer to \$5 trillion, not \$700 billion.

**You have to wonder if King Henry and Helicopter Ben have a clue.**

M2 and M3 have to be increasing thanks to all the shenanigans. Lending through the FED's discount window skyrocketed to \$262.3 billion on Wednesday because of new lending programs unveiled during the week. The primary

dealer credit facility for investment banks saw the heaviest increase in lending. It increased from \$59.2 billion to \$105.7 billion in a week.

According to Steven Sloan writing in the American Banker, the discount window borrowing has jumped to \$262 billion.

Commercial banks were also very active at the discount window. Loans to banks increased 17.7%, to \$39.9 billion, a new record.

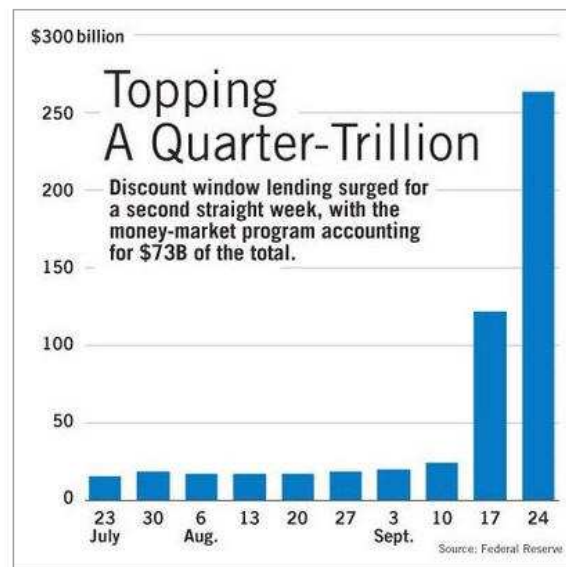
Meanwhile, the Fed issued loans to weak banks for the second week in a row. These loans increased 5.6%, to \$19 billion on Wednesday.

The Fed's efforts to backstop the market for money market mutual funds appears to have been met with initial success. The Fed said Friday it would lend against asset backed commercial paper held by the funds. It distributed \$72.7 billion by Wednesday.

The central bank also said American International Group Inc., the insurance giant the Fed bailed out on Sept. 16, drew \$44.6 billion of its \$85 billion government loan by Wednesday. A week earlier, the company had tapped \$28 billion of the loan.

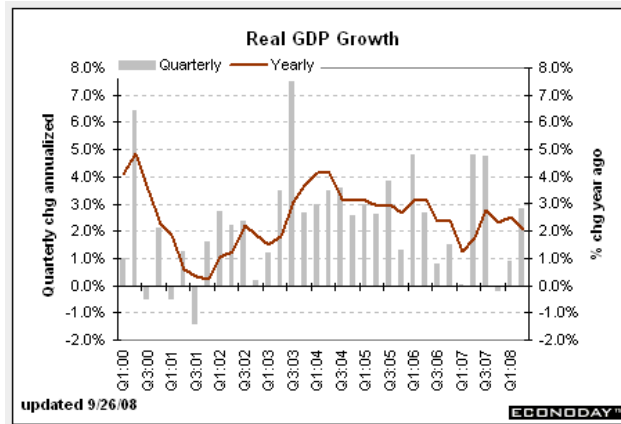
As the Fed continues to boost and widen its lending programs, concern has grown that too much of its balance sheet is being dedicated to helping banks survive the credit crunch. With these concerns in mind, the Fed grew its balance sheet by 22%, to \$1.2 trillion.

The Fed was helped in these efforts by the Treasury Department, which began a program earlier this month to sell Treasury bills and send the cash generated to the Federal Reserve Bank of New York. The central bank said it received \$159.8 billion from the Treasury through this program.

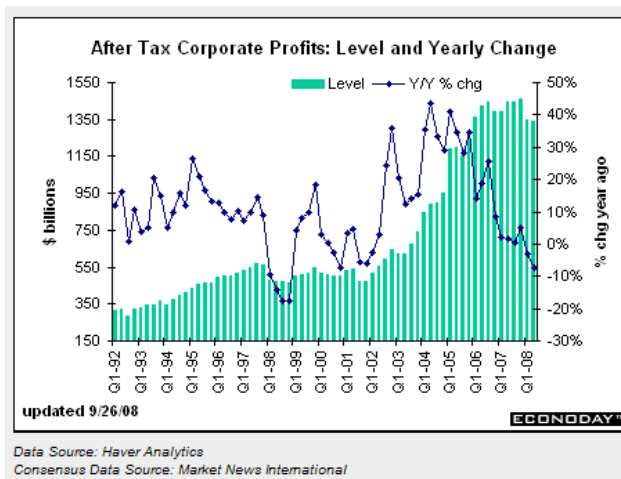


No wonder, Goldman Sachs and Morgan Stanley changed their business model. With these large increases in discount window lending is there really any need for a bailout package?

The second quarter GDP was revised downward to 2.8% from 3.3% and consumer sentiment slipped fell to 70.3 from the preliminary 73.1. Guess with the dollar higher in the 3rd quarter, GDP growth may be slowing further as net exports may be under pressure.



Corporate profits continued to shrink. In the 2nd Qtr, profits fell 7.1% on a y/y basis.



The clowns inside the Beltway continue to tussle over the bailout bill. Reminds me of a three ring Circus ... just trying to entertain the bozo's in the crowd while the fire burns the tent down.

Tonight the two major party candidates are set for the first debate. Guess I will take my grandchildren to the Friday night high school football game ... might be more enlightening than the debate.

While we were out having fun this afternoon with the grandkids, three stocks in the Precious Metals portfolio were sold when their Action Points were triggered. We made no other changes in the portfolios today.

Monday will be a travel day as we head to Iowa as harvest is beginning today. Soybeans in the first field are yielding slightly higher than initial estimates but down from last year. Corn harvest looks about three weeks away although frost is likely this weekend.

The Musings next week will be affected by our travel schedule. We will also be speaking in Oklahoma City on Thursday evening. It should be an interesting week. Have a great weekend.

**9/25/2008**



**Perhaps, it was a follow-through day!**

<b>Markets Diary</b>			
	4:54 p.m. EDT 09/25/08		
Issues	NYSE	Nasdaq	Amex
Advancing	2,265	1,664	673
Declining	885	1,145	489
Unchanged	71	130	63
<b>Total</b>	<b>3,221</b>	<b>2,939</b>	<b>1,225</b>
<b>Issues at</b>			
New 52 Week High	4	8	1
New 52 Week Low	114	123	77
<b>Share Volume</b>			
Total	1,207,506,952	1,889,289,806	51,488,709
Advancing	846,712,020	1,407,958,042	39,895,209
Declining	355,488,032	456,107,244	11,025,960
Unchanged	5,306,900	25,224,520	567,540

The hope springs eternal syndrome moved the markets higher despite a plethora of lousy data. The politicians are trying to do something ... anything ... and applying strings to the bailout package ... while letting the real cleanup to be handled by the next administration.

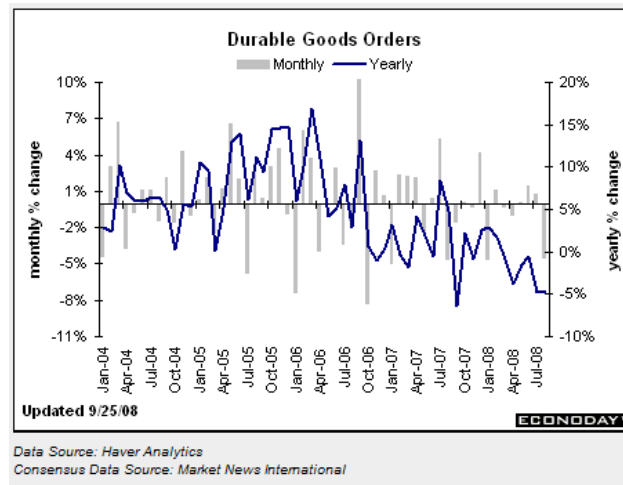
The performance of King Harry and Helicopter Ben as well as the GWB's discourse last night should have made the voters very concerned about the world in which they live. But like lemmings, they breathed a sigh of relief and are now marching right onto the road to massive inflation and a falling dollar. But no one ever said that the market was logical, only emotional.

Of course, it could not help that phone calls from constituents are not in favor of the bailout by a huge margin.

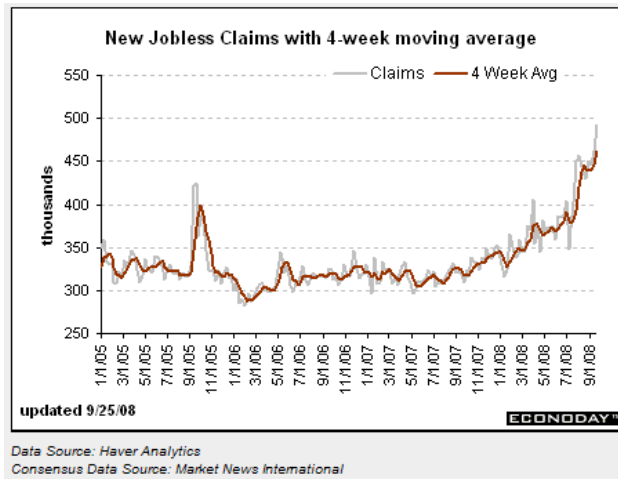
As expected when blackmailed, the money supply is being reduced ... we need to squeeze a few more banks into the FDIC to make the public concerned about the safety of their currency so that they will accept this plan to bailout the Saville suits that forgot about ultimate counter-party risk.

As we are headed to the airport, this will be short as will tomorrow's. Economic data was not encouraging. Crude oil also rose closing about \$108/bbl. GE lowered its outlook for the 3rd Qtr and fiscal 2008. Seems the economy is not as robust as many thought earlier this year.

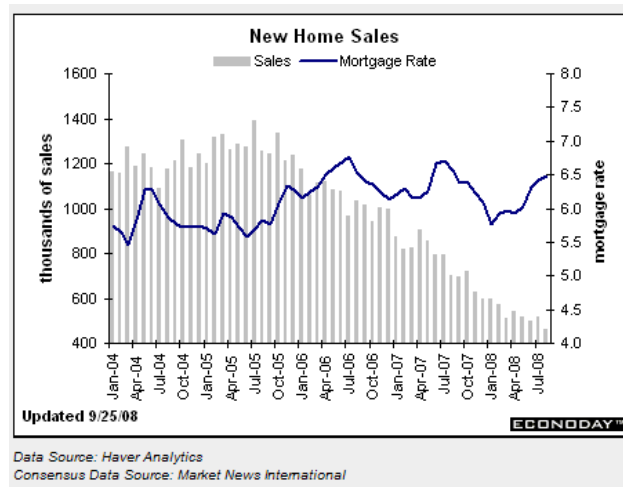
Durable goods fell 4.5% and if you take out defense orders, it was even worse ... down 5% in August.



New jobless claims climbed to 493,000 from 461,000. It would appear that unemployment has now moved to a higher level.



Just like existing home sales, new home sales continued to fall .... down 11.5% ... a drop of 60,000 from July to Augusts 460,000 new homes sold. Supply at the current sales rate rose from 10.3 months in July to 10.9 months -- one of the very highest readings in nearly 50 years of data.



Besides the \$65 trillion of CDS problems still to be faced, the U.S. is being pressured by its foreign debt holders to devise a solution that will prevent panic sales of US Treasury and GSE debt. Japan is the biggest owner of U.S. Treasury bills, holding \$593 billion, and China is second with \$519 billion. Asian countries together hold half of the \$2.67 trillion total held by foreign nations.

Today, according to a Reuters report, Chinese regulators have told domestic banks to stop interbank lending to U.S. financial institutions to prevent possible losses during the financial crisis, the South China Morning Post reported on Thursday.

[The Hong Kong newspaper cited unidentified industry sources as saying the instruction from the China Banking Regulatory Commission \(CBRC\) applied to interbank lending of all currencies to U.S. banks but not to banks from other countries.](#)

["The decree appears to be Beijing's first attempt to erect defences against the deepening U.S. financial meltdown after the mainland's major lenders reported billions of U.S. dollars in exposure to the credit crisis," the SCMP said.](#)

I hope that got your attention.

In the portfolios, we were tripped out of our shorts in the ETF portfolio and went long. In the gold portfolio, we also sold a few of our long positions as they tripped the Action Points. There were no other changes.

**9/24/2008**



### Dancing on tippy toes ... wanting for something to happen?

Markets Diary			
4:47 p.m. EDT 09/24/08			
Issues	NYSE	Nasdaq	Amex
Advancing	1,265	912	400
Declining	1,873	1,862	729
Unchanged	65	127	61
Total	3,203	2,901	1,190
Issues at			
New 52 Week High	6	6	3
New 52 Week Low	151	119	79
Share Volume			
Total	1,082,564,883	1,820,404,286	34,700,914
Advancing	425,217,253	1,096,228,647	15,457,850
Declining	650,931,230	698,119,956	18,603,464
Unchanged	6,416,400	26,055,683	639,600

Today's market volume was light and mixed as traders were trying to decide if the bailout plan was kaput or going to be passed modified by Congressional demands. It would appear that the chance for passage of the \$700 billion is dimming although a bailout of lesser dimension might survive.

As Senator Shelby said yesterday, "I think the secretary now realizes that what he sent up is not just going to be rubber-stamped."

New 52 week lows and declining issues were dominate today. On the NASDAQ advancing volume was greater than declining volume.

Bank of America's Washington lobbyist Ed Hill indicates the \$700 billion bill is unlikely to pass this week or next and if held today would fail by 128 votes in the House. Hill also indicated Congress is receiving calls from the electorate 10-1 against the bailout.

At lunch today, I overheard two separate groups of people discussing the bailout plan. While their knowledge of world economics and the FED was very light, both groups were grousing about the fat cats getting bailed out while their children and grandchildren would have the bill.

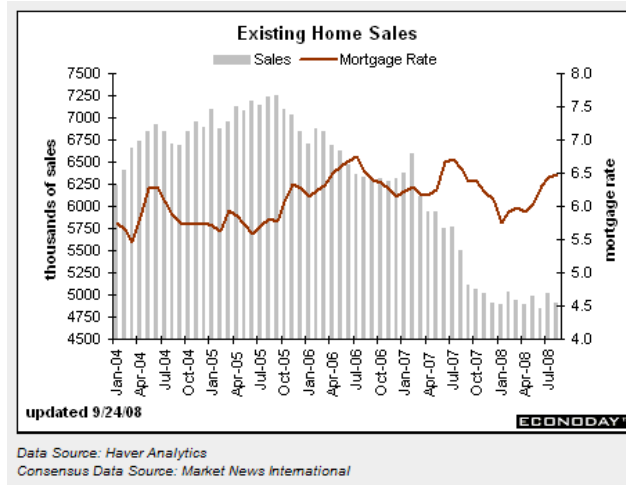
In today's testimony, a Senator asked about the \$62 trillion CDS derivative market and stated that failed institutions had massive exposure. She asked King Henry if he intended to buy any CDS derivatives using the \$700 billion fund.

**It was a classic moment as King Henry gulped. Here he was having a major problem convincing the committee that \$700 billion would solve the problem and someone mentions the real gorilla in the room.**

Warren Buffet was hailed as Goldman's angel by investing \$5 Billion in perpetual preferred stock and a 10% coupon via Berkshire Hathaway. Berkshire will also receive warrants at \$115/share to purchase \$5 Billion of GS common stock at anytime during the next five years. GS will also try to raise an additional \$5 Billion to meet the new capital requirements as a commercial bank in a public offering at \$123/share. Current shareholders will be diluted obviously. Of course, GS can now borrow a lot more funds from the FED.

The current bailout proposal by King Henry and Helicopter Ben is a situation which purports to buy distressed assets at close to their maturity value so that the banks can be increase their capital with taxpayer money is somewhat akin to Richard Whitney's attempt in 1929 to calm the markets by offering to buy a large block of U.S. Steel at above market prices. Whitney stopped the panic for a day. Maybe Buffet will calm the market for a couple. The problem remains a lack of transparency and solvency.

Increasing mortgage rates saw purchase application fall 10% during the latest week while refinancing applications were down 11.2%. Existing home sales fell 2.2 percent in August to a 4.910 million unit rate, but a rate still in line with this year's trend. Condo sales, at -8.2 percent, showed an unusually steep drop in the month with single-family sales down a less alarming but still sizable -1.4 percent.



The housing slump continues. Prices have been in nearly uninterrupted decline for two years, hit by swelling supply which is at 10.4 months. The August median existing home price is down 0.5% y/y to \$203,100.

Washington Mutual is about gone. S&P cut its bonds to 'CCC' today.

The hemorrhaging from money funds continued ... \$120.5 billion outflow last week. Taxable money market funds assets dropped \$91.4 billion to \$2.839 trillion. Tax-free money market funds fell \$29 billion to \$486.4 billion.

**Ameritrade has frozen any Money Market Funds which are in The Reserve series as the funds have refused to redeem shares as the funds have broken the buck.** A basic element of economics ... more risk comes with the potential for more reward ... a simple kindergarten concept ... but one many investors are now relearning the hard way.

The STI indicators remain strongly negative for both the NASDAQ and the S&P 500 despite the high volatility and swings which we have seen the past 10 days.

We made no changes in the portfolios today.

**9/23/2008**



**King Henry and Helicopter Ben went to the Hill ... trying to convince politicians ...**

Markets Diary			
	5:11 p.m. EDT 09/23/08		
Issues	NYSE	Nasdaq	Amex
Advancing	879	914	341
Declining	2,276	1,902	851
Unchanged	58	96	54
Total	3,213	2,912	1,246
Issues at			
New 52 Week High	5	8	5
New 52 Week Low	127	116	71
Share Volume			
Total	1,153,239,357	2,021,976,984	39,337,958
Advancing	268,779,550	534,421,946	9,908,000
Declining	877,211,397	1,462,034,095	28,765,958
Unchanged	7,248,410	25,520,943	664,000

And when it was over, the markets rallied but shortly investors understood that the proposed solution would have detrimental effects on their purchasing power. At the close, the markets were at, or near, their lows for the day, not a

good sign. Volatility remains relatively high ... the DJIA was up 100 early but ending down 161 for a 261 point swing on the day.

The obfuscation from the forked tongues is finally beginning to lift the fog from the battle field.

Bernanke said urgent action from Congress is required to stabilize the situation, or there may be "very serious consequences for our financial markets and for our economy."

Based upon Bernanke's track record over the past eighteen months, it would seem to me that his statement of "very serious consequences" might be as incorrect as "the situation is well-contained."

Whether Congress will see through the rhetoric and tell the people that were responsible for the credit mess to take the losses or not remains to be seen. Of course, many, if not most, politicians won't bite the hand that feeds them. It is only the taxpayer that will pay the real cost of Wall Street's excesses and lack of risk management.

Senator Dodd was concerned about the bailout plan.

*After reading this proposal, I can only conclude that it is not just our economy that is at risk, but our constitution as well."*

**What an astute observation, Senator Dodd!**

King John and Helicopter Ben will be back on the Hill tomorrow testifying before the House Financial Services Committee.

It seems unbelievable to me that the solution to the credit mess is being suggested by and to those individuals like Congress politicians and Wall Street alumni who instituted the problems to begin with and made money doing it!

Section three of the proposed Financial Crisis legislation designates financial institutions as financial agents of the Government ... which according to the pleadings of Barrick in the Blanchard lawsuit provides them automatically **"with sovereign immunity, and hence, immune from any criminal or civil action."**

Whether the loss of credibility that King John and Helicopter Ben have shed during the past few months and days with foreign investors will be enough to cause our politicians to become statesman and look to the future rather than tomorrow is still unknown. We are in the "rush to judgment" mode without looking at the "law of unintended consequences."

With unfunded liabilities over \$70 trillion and a stated cash debt of almost \$10 trillion, let's face it ... the U.S. Treasury is bankrupt. We also know that the FED is in the same boat when last week, it forced the Treasury to borrow money to lend to the FED so that it could meet its commitments. Since the first of the year, the FED began with assets of over \$900 billion and has committed more funds than it has. Despite the infusions of liquidity, the problem is simply one of a lack of transparency about asset value and solvency.

Despite the talk about financial meltdown and who's to blame. The root cause of this mess is simply that **mortgagees are unable to pay meet their payments** according to Wilbur Ross.

**"I am disturbed about the slippery slope that we have gotten into, where if you're stupid but really big the government will bail you out; if you're stupid but medium-sized, you die. That's going to encourage very bad behavior by very big institutions. I think that's a terrible pattern to set." Wilbur Ross said at Reuters Restructuring Summit. He sees a recession lasting at least a year... "The reason I think it will take that long is that none of these actions that have just been taken make it any easier for Middle America to meet their mortgage payments -- it doesn't address that whole problem, and that problem is what really caused this to begin with."**

No letup in housing prices. The Office of Federal Housing Enterprise Oversight house price index fell .6% in July. A decline of .2% was expected. The previous month was revised from an unchanged reading to a decline of .3%.

Crude dropped 2.3% to \$106.83 after spiking to \$130 yesterday. The Energy Information Administration confirmed that yesterday's rally in crude for October delivery, which saw prices spike as much as \$25.45 to \$130.00 per barrel, was due to short-covering or market manipulation. WTI closed at \$108.71 today. Gold was beaten back but rallied to close at \$891.90.



The U.S. dollar index managed to move higher but closed below the 77 resistance level at \$76.51. The yield on the 10 year Treasury not fell to 3.84% at today's close.



We made no changes in the portfolios today.

**9/22/2008**



**As details of the bailout plan were unveiled, the market became less giddy!**

Markets Diary			
	NYSE	Nasdaq	Amex
<b>Issues</b>			
Advancing	574	634	456
Declining	2,592	2,142	753
Unchanged	41	112	50
<b>Total</b>	<b>3,207</b>	<b>2,888</b>	<b>1,259</b>
<b>Issues at</b>			
New 52 Week High	13	22	5
New 52 Week Low	55	62	54
<b>Share Volume</b>			
Total	1,270,479,609	1,934,980,921	51,205,347
Advancing	215,124,480	272,214,064	16,839,500
Declining	1,050,880,839	1,644,798,517	33,580,947
Unchanged	4,474,290	17,968,340	784,900

The decisions of both Goldman Sachs and Morgan Stanley to seek protection as bank holding companies and forsake the investment banker model as well as the original and revised details to the bailout proposal unnerved many investors. The decision by GS and MS allows them more access to the FED's credit facilities. Guess that they were scraping the bottom of the barrel and needed to change the business model to feed higher on the food chain at the FED.

Say Goodbye to Wall Street ....

From the opening bell, the major indices head lower and closed at their lows for the day almost wiping out Friday's gains.

Today was expiration day in crude contracts and somebody was caught short as oil rockets higher. Don't look for it to

remain at the \$130 level. The dollar fell as details of the bailout plan were learned. Gold as well as agricultural commodities moved higher. Even huge buyback plans announced by Microsoft, Hewlett Packard, and Nike failed to stem the downward market movement.

Volume fell significantly but triple-witching on Friday also helped increase Friday's volume. If tomorrow continues south, look for a test of the previous bottoms this week.

The \$700 billion bailout can only be called a "blank-check raid on the U.S. Treasury. [The text of the original proposal can be read by clicking here.](#)

Section 8 of the proposal, in effect, allows the U.S. Treasury to do anything it wants ... and without any supervision, recourse, or review by any agency, legislative body or court of law." Section 8 says:

Decisions by the Secretary pursuant to the authority of this Act are non-reviewable and committed to agency discretion, and may not be reviewed by any court of law or any administrative agency.

The bill as originally offered in Section 6 gave the Secretary of the Treasury authority to purchase up to \$700 billion of mortgage-related assets at any one time. If any of the securities are resold, the Treasury can repurchase more mortgage-related assets. Initially, the bill was to only allow purchase of mortgage backed securities. Changes suggested by politicians and bankers today called for the inclusion of instruments such as car and student loans, credit-card debt and **any other troubled asset.**

**You have to wonder why we pay anyone to be a risk-manager if the government will take all the toxic waste.**

Section 10 of the bill increases the public debt to \$11.315 billion.

If you believe that the U.S. is a democratic republic, think again. The last few weeks should have blown that belief away.

According to Hank Mulvihill,

" We now live in a dictatorship dominated by the Federal Reserve which is majority-owned by non-U.S. banks. The power grab by the Federal Reserve is now complete.

The AIG takeover was the telling moment. That should have been done by the US Treasury, but it was not! Paulson has been completely outflanked. The Fed has now destroyed the brokerage and investment banking competition. Next to go: The SEC itself. And FINRA (formerly NASD), and perhaps the entire securities industry.

The Fed is owned by and enacts policies for the benefit of banks. The Fed will do everything it can to eliminate the non-bank financial system.

Of course, the Fed is majority owned by non-US banks.

The money is extracted from the US, and US citizens are left holding the debt. An entire nation of payers. Lovely if you are the landlord.

The Federal Reserve System. Meet the new boss. "

Although no one will probably heed my opinion, the best thing that can happen is that the bailout bill fails to be enacted into law. Let the free market sort out the players. Just a few quick changes will help:

- Eliminate FASB's mark-to-model requirements and the pressure comes off.
- Inter-relationships between various rating agencies and their interlocking directors and shareholders must be prohibited.
- The uptick rule on short-selling needs to be reinstated, and
- the T-3 rule needs to be enforced under heavy penalties on all stock transactions.

We made no changes in the portfolios today.

**9/19/2008**



**Huge volume at the open ... market up over 400 points then it drifted lower!**

<b>Markets Diary</b>			
	4:44 p.m. EDT 09/19/08		
<b>Issues</b>	<b>NYSE</b>	<b>Nasdaq</b>	<b>Amex</b>
Advancing	2,810	1,669	995
Declining	372	682	276
Unchanged	29	99	43
<b>Total</b>	<b>3,211</b>	<b>2,450</b>	<b>1,314</b>
<b>Issues at</b>			
New 52 Week High	134	190	13
New 52 Week Low	43	118	69
<b>Share Volume</b>			
<b>Total</b>	<b>2,989,206,985</b>	<b>3,828,619,799</b>	<b>117,469,166</b>
Advancing	2,554,757,425	2,870,252,297	92,575,746
Declining	422,309,860	915,683,695	24,275,520
Unchanged	12,139,700	42,683,807	617,900

Paulsen and Congress suggested a "bad bank" to rejuvenate the credit markets. Yesterday's jump of 400 points was followed by today's move upwards of a similar amount on large volume. But for the week, the DJIA still ended in negative territory.

Have we seen the bottom? Who knows ... the failure of today's market to close higher would suggest to me that some institutions are using the bounce to reduce exposure. While advancing issues and volume as well as new 52 week highs on the NYSE and NASDAQ swamped their counterparts, the inability to continue an advance after the strong emotionally charged opening suggests caution.

The proposed bad bank only transfers the losses from the shareholders and bondholders of institutions who should have understood the risk onto the already over-burdened taxpayer and the U.S. dollar. Just where are the FED and Treasury going to get the assets they are seeking to use. The bad bank could end up with over \$1 trillion of loans worth less than 35 cents on the dollar or less.

The FED's balance sheet had already been severely depleted prior to the takeover of FNM, FRE and AIG as shown in the following table. Note that the repurchase agreements and term auction credits were mostly toxic paper but were valued at par, not market value.

<b>Federal Reserve Holdings</b>			
in Millions of \$			
<b>Asset</b>	<b>1/2/2008</b>	<b>9/11/2008</b>	<b>Change</b>
<b>U.S. Treasuries</b>	740611	479762	-260849
<b>Repurchase Agreements</b>	39750	110821	71071
<b>Term Auction credits</b>	40000	150000	110000
<b>Other Loans</b>	5787	19891	14104
<b>Gold Stock</b>	11041	11041	0
<b>SDR Ctf's</b>	2200	2200	0
<b>Total</b>	<b>943805</b>	<b>940340</b>	<b>-3465</b>
<b>Source: <a href="http://www.federalreserve.gov/releases/h41">http://www.federalreserve.gov/releases/h41</a></b>			

Moreover, the Treasury has now started auctions to raise money for the FED in addition to its own debt requirements. At some point, investors and particularly those overseas are going to say ... no more. When an auction fails, the AAA rating is dead.

Can the FED fail ... the answer is not if, but when? All fiat currencies eventually disappear.

To hopefully stem withdrawals from money market funds which amounted to \$169 billion last week, the Treasury announced a plan today to insure up to \$50 billion in money-market fund investments at financial companies that pay a fee to participate in the program.

The FED also announced that they will buy short-term debt issued by Fannie Mae, Freddie Mac, and the Federal Home Loan Banks from investment banks. Apparently, the FED will buy \$69 billion of this debt.

The Exchange Stabilization Fund is the result of the theft from the American citizen of privately owned gold under the FDR administration and the subsequent gold stolen from the Japanese and Germans following WWII. Through the intervening years, it has never been audited ... who knows how much is really there.

But let's assume that the Treasury is correct when it says that it will use \$50 billion to cover any possible losses in the money market funds. With over \$3.3 trillion invested in money market funds in the U.S., the leverage of the ESF fund is only 66:1. Of course, that is somewhat lower than the current leverage in the FDIC which is about 158:1.

With the U.S. Treasury already holding special auctions to fund previous bailouts and increases in the repo pool and other lending facilities, where is the funds coming from as the deleveraging continues around the world. The balance

sheet of the FED is simply underwater with all of these commitments.

Of course, dumb me, the answer is simple ... the printing press and adding a few more zero's into the computer registers which will increase the money supply.

Sharp investors, however, ought to be more concerned about the purchasing power of their holdings going forward than ever before. Could we be looking at not only stagflation, but hyperinflation.

The world we live in has changed. If I were a cynic, I might believe that the current mess could have been solved months ago with a "bad bank." If it had been done, the tremendous carnage that now litters Wall Street and leaves only a very few alive would not have occurred.

Could the GS and JPM alumni have planned it this way many years ago to eliminate their competition and solidify their power base?

As Lord Acton said in 1887, "Power corrupts and absolute power corrupts absolutely."

Guess Paulsen failed to read the memo, "It is a solvency issue, not a liquidity problem!"

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.

u

**Keep it Safe, Simple and Stay Focused!**

Last updated - February 6, 2007