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Market Musings

10/3/2008

Watch out below ... the $850 Billion bailout passed and the markets took a nose-dive!

Markets Diary — 5:55 p.m. EDT 10/03/08

Issues	NYSE	Nasdaq	Amex
Advancing	1,130	814	422
Declining	2,073	2,070	731
Unchanged	65	108	82
Total	3,268	2,992	1,235
Issues at			
New 52 Week High	16	3	18
New 52 Week Low	678	398	262
Share Volume			
Total	1,406,564,684	2,505,834,833	39,797,012
Advancing	426,273,934	636,364,005	11,118,800
Declining	970,677,450	1,857,242,059	27,498,612
Unchanged	9,613,300	12,228,769	1,179,600

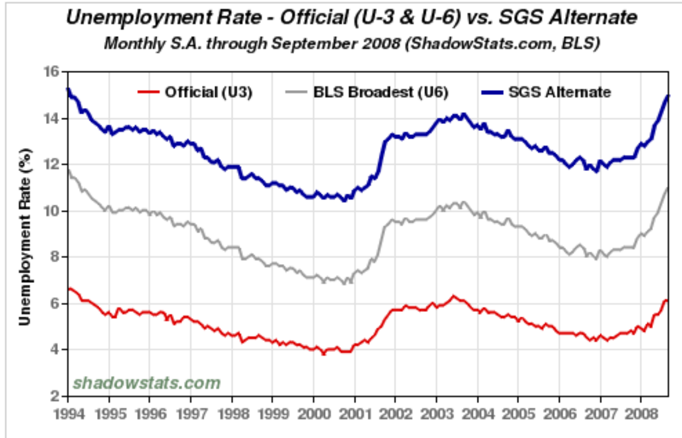
The addition of $100 billion to the Paulson demand along with the earmarks saw enough politicians turn their backs on their constituents and vote to pass the bailout bill. Unfortunately, the problem is not solved but it will allow banks to continue in business for a few more days.

When the bill passed in the House, the markets were higher for the day but immediately began to sell off. Several commentators pointed out that "traders then focused on disappointing economic news." What nonsense. They were selling the expectation of the bailout and trapping John Q Public. The economy continues to worsen and today's economic reports emphasized that fact. But all of this news was out before the vote ... since when did the professional trader forget to watch his news terminal.

The real problem is that the commercial paper market is frozen and until it begins to operate, nothing will change.

While advancing issues were almost double yesterday's level, new 52 week lows continued to show high levels. The NASDAQ definitely put in a distribution day and most indices undercut their previous lows including the DJIA, the S&P 500, the NASDAQ Composite and the Russell 2000.

The employment report from the Ministry of Truth reported a seasonally adjusted loss of 159,000 jobs in September, the ninth straight monthly reduction. Of course, the birth/death rate adjustment factor added 42,000 phantom jobs in September. The real loss was higher than reported. If that does not suggest a recession is here, nothing will.



The Ministry of Truth maintained the U3 unemployment rate at 6.1% by significantly reducing the number of workers in the labor force. Now where did they go?

Some traders were suggesting that the lousy jobs report would force the FED to cut interest rates. Of course, with the rates currently 2%, would any reduction matter? Moreover, would that be helpful to the widening interest rate spreads currently causing major concern between foreign investors and the U.S.

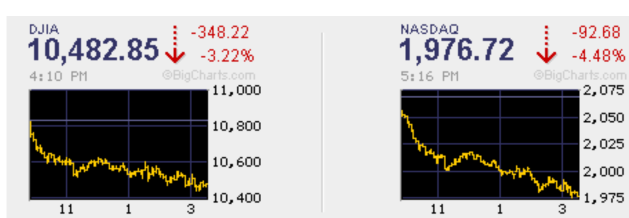
Today's market action was particularly interesting to me following the vote as was the case with the previous two votes on the bailout. Immediately after the vote the DJIA was up over 310 points and then the market went south. The DJIA closed down 157 points, a swing of 467 points from the day's peak. OOPS!

As we stated before, the big problem is the credit default swaps and those now-defaulted derivatives on FNM, FRE, LEH and WAMU are going to be facing settlement in October. The amount of contract outstanding that reference FNM and FRE are estimated to be nearly $500 billion. It could be very interesting.

If GE has to pay 10% interest to raise money and give up warrants to boot ... how can they be rated as AAA?

We made no changes in the portfolios today.

10/2/2008



Guess they did not like Paulson II and today's economic news!

Markets Diary			5:53 p.m. EDT 10/02/08
Issues	**NYSE**	**Nasdaq**	**AMEX**
Advancing	504	550	255
Declining	2,716	2,377	925
Unchanged	48	88	58
Total	3,268	3,015	1,238
Issues at			
New 52 Week High	10	2	17
New 52 Week Low	658	335	252
Share Volume			
Total	1,443,388,868	2,182,508,295	30,953,971
Advancing	159,824,138	96,119,512	5,462,701
Declining	1,275,477,930	2,081,921,516	25,038,470
Unchanged	8,086,800	4,467,267	452,800

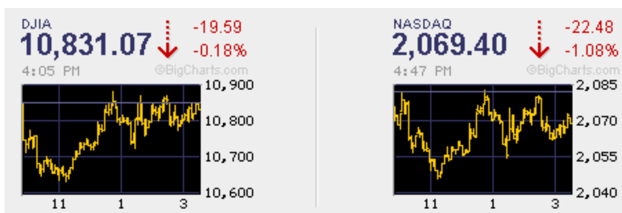
Tonight's Musings will be brief as our travel and speaking engagements have interacted to prevent much analysis. Suffice it to say, that it was not a good day.

Not even Warren Buffet could keep GE from losing ground today. And so it goes ... note the huge number of new 52 week lows on the exchanges ... that is not good.

If the commercial paper market does not begin to increase, the bailout won't work. As we drove to Oklahoma City today, the commentators would trying to say that Paulson II (the Senate version of the Bailout Bill) was needed to stimulate growth. What nonsense ... it is a desperate attempt to stave off collapse of the Federal Reserve System.

We made no changes in the portfolios today.

10/1/2008



Starting off a new quarter ... waiting for resolution!

Markets Diary			4:46 p.m. EDT 10/01/08
Issues	**NYSE**	**Nasdaq**	**Amex**
Advancing	1,564	982	550
Declining	1,592	1,780	612
Unchanged	53	112	66
Total	3,209	2,874	1,228
Issues at			
New 52 Week High	7	4	3
New 52 Week Low	208	151	121
Share Volume			
Total	1,369,828,671	1,946,283,907	35,046,941
Advancing	699,150,041	479,821,155	18,048,170
Declining	665,707,720	1,456,319,130	16,160,371
Unchanged	4,970,910	10,143,622	838,400

As the jockeying for position continues in the Senate, volume on the major markets dropped and the indices danced up and down with each rumor. Since the rhetoric of Monday did not sway the masses despite the admonition that unless the $700 billion Paulsen amended bill was passed, the sky would fall ... as I look out my office window, it is still there. I wonder if the Senate office phones are ringing in favor of the new bill ... of course, it has a couple of gimmicks like an increased FDIC guarantee and a fix on the AMT tax ... but it is still a band-aid where something akin to neurosurgery is required to fix the financial mess.

New 52 week lows predominated as earnings expectations continued to decline and the perception that a recession was near began to seep into investor's consciousness.

GE, the epitome of manufacturing success in year's past, has seen its foray into financial engineering negative affect its balance sheet as its stock price has fallen this year.

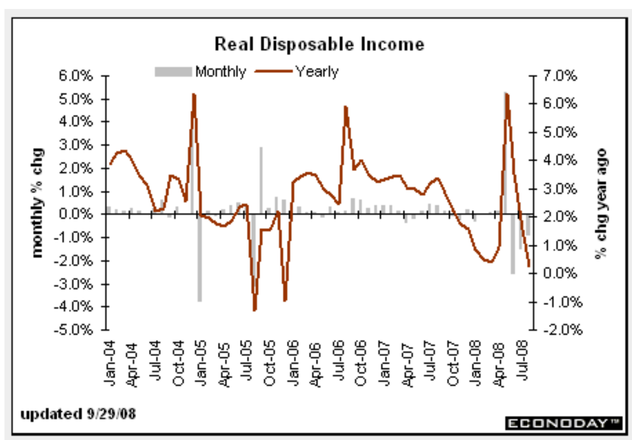
GE was having to tap its bank lines because it was unable to sell corporate paper and fund operations as its credit-default swaps climbed to new record highs of 740 basis points. GE last week suspended its stock buyback program to protect its dividend and its AAA credit rating. Its outstanding commercial paper has been slashed to $89 billion. But don't fear, Warren Buffet is riding to the rescue. According to Briefing.com:

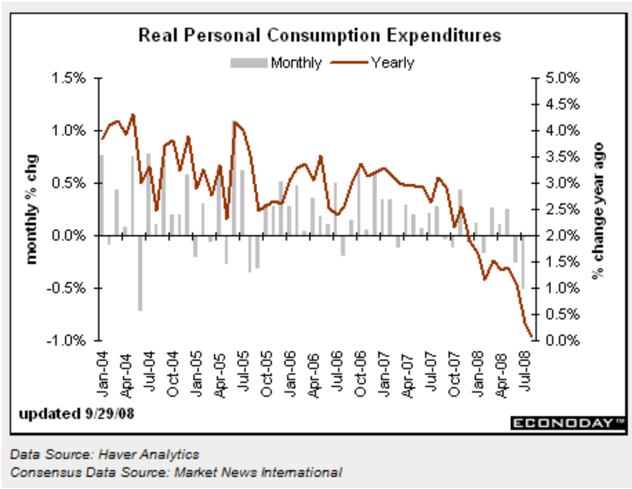
> GE announced late in the afternoon that it will raise at least $12 billion in a public common stock offering and is selling $3 billion in preferred stock yielding 10% to Warren Buffett's **Berkshire Hathaway** (BRK.A 135,600, +5,000). Berkshire will also get $3 billion in warrants, granting the option to purchase GE at $22.25 per share within the next five years. GE's move to shore up investor confidence came after its stock fell as much as 10% earlier in the session.

The angst over the bailout bill pushed investor's attention away from the lousy economic news which has flowed since Friday.

Citibank swallowed Wachovia and got the FDIC to help bankroll the transaction whereas JPM was not so lucky with WAMU on Friday. The FED continues to create funds out of thin air to hopefully forestall more failures in the banking sector both here and abroad with its swaps with foreign central banks rising to all-time record amounts.

Economic news this week has not been indicative of an economy that is rebounding. On Monday, personal income for August 2008 rebounded 0.5% after declining 0.6% in July. But year to date, real disposable income is barely positive. Real personal consumption expenditures were basically flat in August on a year to year basis. In the upcoming 3rd quarter of 2008, don't be surprised if consumer spending actually goes negative for the first time in 17 years.

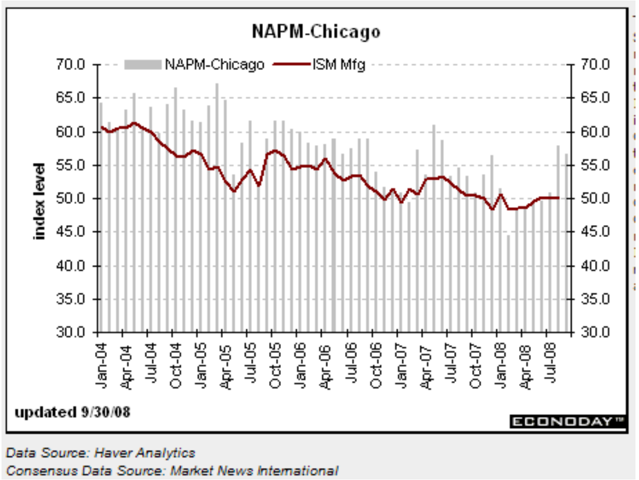




Data Source: Haver Analytics
Consensus Data Source: Market News International

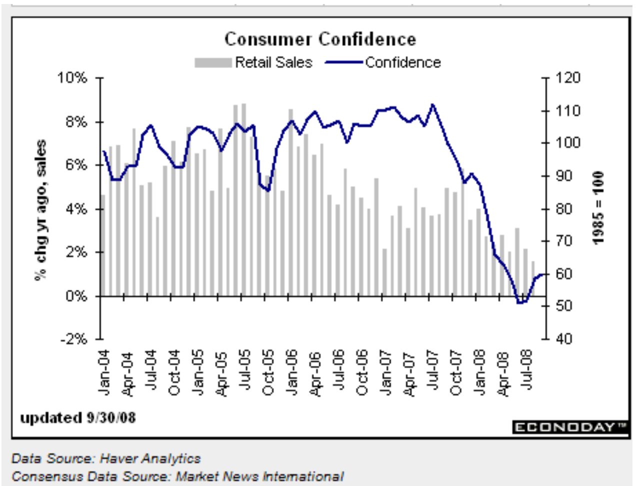
On Tuesday, retail sales were flat to down as reported by ICSC-Goldman and Redbook. The growth rate in both series showed declines in the latest week.

The NAPM-Chicago index posted a stable month as it dipped only to 56.7, the 2nd best reading since June 2007.



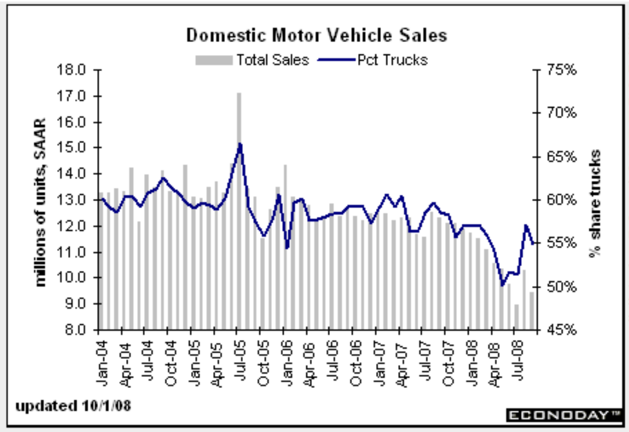
Data Source: Haver Analytics
Consensus Data Source: Market News International

Surprisingly with all the financial market turmoil, consumer confidence in September 2008 continued to edge up from record lows although expectations that jobs are in trouble was evident.



Data Source: Haver Analytics
Consensus Data Source: Market News International

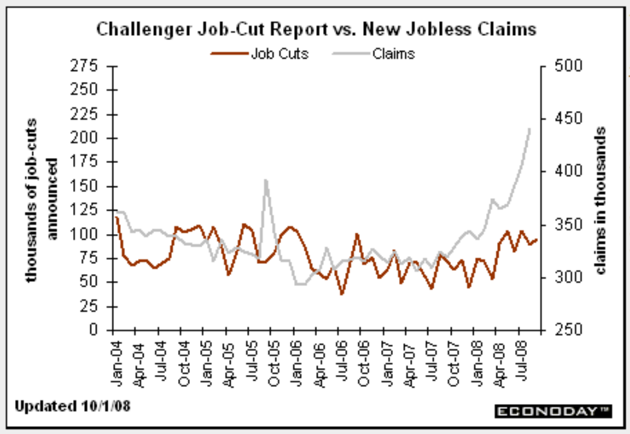
Today, the failure of employee pricing to halt auto sales became evident as domestic vehicle sales fell to the 9.4 million units. Ford's sales in September dropped only 35% from a year earlier while Honda reported a 24% drop.



Data Source: Haver Analytics
Consensus Data Source: Market News International

Although mortgage rates were little changed, mortgage application fell 11% in the latest week while refinancing applications plummeted 35%. Perhaps, it will be a while before the housing industry starts to recover.

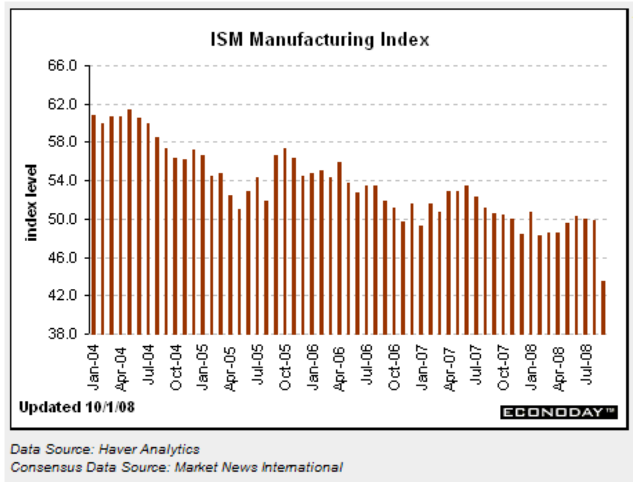
The Challenger Job-Cut report showed an increase in layoffs to 95,094 in September from 88,736 last month with few of the layoffs coming from the financial sector. Just wait until next month.



Data Source: Haver Analytics
Consensus Data Source: Market News International

The ADP national employment report is suggested that another 8,000 jobs will be lost in the September non farm private payroll report due on Friday.

The ISM manufacturing index was not in line with the NAPM-Chicago index. It was down more than 6 points in September to 43.5 from August's 49.9. New orders plunged in the report as did production. This was the lowest reading since October 2001 and the steepest drop in five years.



The last gloomy report was that construction spending for the year remains negative at 5.9% and outlays were basically unchanged in August from July's report.

While we expect the Senate to vote tonight on Version 2 of the Bailout Bill, many politicians and commentators hope that it will bring financial stability to the markets. Unfortunately, it may only create a temporary respite of at most a few weeks before the massive gorilla of credit-default swaps and ARM resets waltz into the room. The $700 billion band-aid won't fix a $65 trillion problem. It will, however, create further risks to the economy down the road by increasing the risk of stagflation and/or hyperinflation.

As we have stated many times ... fiat currencies always fail and when you make decisions based upon faulty data the result is often bad decisions.

In commodity trading, crude oil futures fell 2.0% to $98.61 per barrel and gasoline fell 3.7% to $2.37 per gallon. The government's weekly energy inventory report showed a larger than expected increase in crude inventories, and an unexpected increase in gasoline stockpiles.

The US dollar index was higher in today's trading while the yield on the 10 year Treasury note fell as investors were headed to safety.

We made no changes in the portfolios today.

9/30/2008

The markets rebounded as it was the end of the quarter!

Markets Diary			5:53 p.m. EDT 10/02/08
Issues	**NYSE**	**Nasdaq**	**AMEX**
Advancing	504	550	255
Declining	2,716	2,377	925
Unchanged	48	88	58
Total	3,268	3,015	1,238
Issues at			
New 52 Week High	10	2	17
New 52 Week Low	658	335	252
Share Volume			
Total	1,443,388,868	2,182,508,295	30,953,971
Advancing	159,824,138	96,119,512	5,462,701
Declining	1,275,477,930	2,081,921,516	25,038,470
Unchanged	8,086,800	4,467,267	452,800

As the London and German markets did not continue the slide from yesterday and the Far East, we decided to close out our short positions in the ETF portfolio and go long. After all, it was the end of the month and after Monday's debacle, fund managers would be trying to window-dress their quarter end results.

Today's bad news is that the FED pumped a few more billion of hot air into the markets. If the FED can just keep adding funds, why do they need a bailout?

Of course, it would still be a terrible quarter.

With soybean harvest delayed for another two days at least and corn harvest at least two weeks away since we have yet to have a killing frost in North Central Iowa, it was decided to head back to Dallas about noon. We arrived just after midnight after traveling another 926 miles on Tuesday.

It has been a long two days.

9/29/2008

Down 300+ points and then the bailout bill was defeated!

Markets Diary			5:53 p.m. EDT 09/29/08
Issues	**NYSE**	**Nasdaq**	**AMEX**
Advancing	160	422	194
Declining	3,113	2,558	1,062
Unchanged	16	82	45
Total	3,289	3,062	1,301
Issues at			
New 52 Week High	15	12	16
New 52 Week Low	1,170	593	417
Share Volume			
Total	1,863,268,200	2,826,595,908	53,672,415
Advancing	45,693,410	78,667,901	12,496,300
Declining	1,816,518,290	2,743,539,177	40,933,315
Unchanged	1,056,500	4,388,830	242,800

What had started out as a contest between the leadership and Congress over voters anger against bailout saw the Republican caucus run much longer than expected Sunday evening. As Sunday evening wore on, I began to have increasing doubts whether the bill would pass after a very tumultuous weekend.

We began driving to Iowa about 6 a.m. with hard stops in place on the ETF portfolio longs. Upon arriving in Iowa, we found that our stops had been activated and we had gone short on the ETF positions.

After the vote, many commentators were talking about the "sky was falling" scenario and most were worried that the economy was about to go into free fall. It finally got so bad that I had to turn the XM satellite radio off.

After the vote was counted, the markets headed south in panic mode. I guess that many investors were unaware that the problem was largely created by Congress and the Treasury over the years. It amazed me to think that any solution suggested by them would actually work.

As we pulled into Ft. Dodge after 8 p.m., we discovered that the computer program to load files to the internet was not working so we were unable to write the Musings on Monday. On Sunday, North Central Iowa received from 1 to 2 inches of rain which meant that soybean harvest would be further delayed. Today's mileage was 826 miles.

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
Total	3,225	2,909	1,223
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.

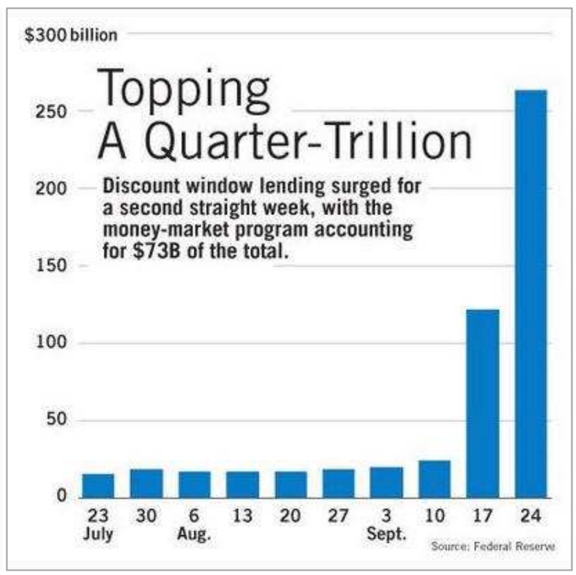
Noel Roubini says that the Paulsen plan is a disgrace ..... while Marc Faber suggests as well as Ken Ohmae that the salvage operation needs to be closer to $5 trillion, not $700 billion.

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.

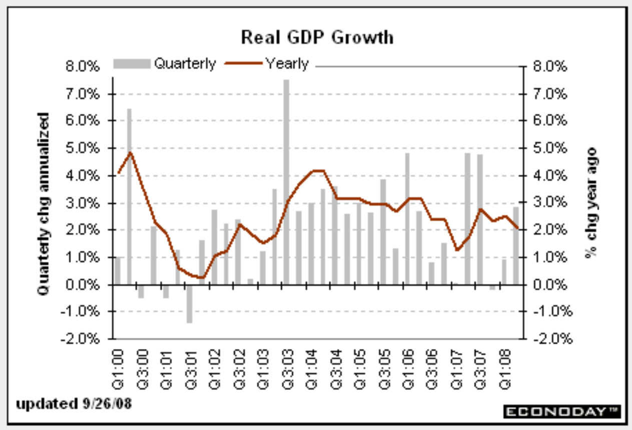
According to Steven Sloan writing in the American Banker, the discount window borrowing has jumped to $262 billion.

> 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 million 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.

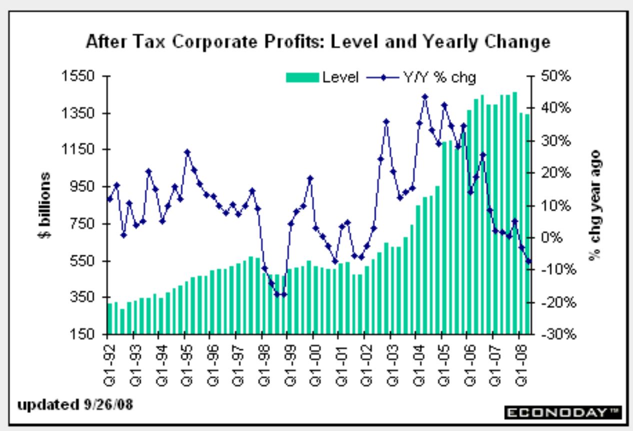


No wonder, Goldman Sachs and Morgan Stanley changed their business model. With these large increases in discount window lending is there really any need for a bailout package?

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.



Data Source: Haver Analytics
Consensus Data Source: Market News International

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.

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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