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  - Portfolio Review
  - Stock Selection in Down Markets
  - Selling Rules
  - Dow Jones Earnings
  - Gold Stocks
  - Homebuilders
  - Shorting Strategies
  - Foreign Bank Accounts
  - CRB Changes
- Economic Indicators
- Accumulation/Distribution Data
- Portfolios
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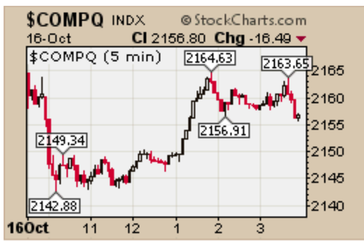
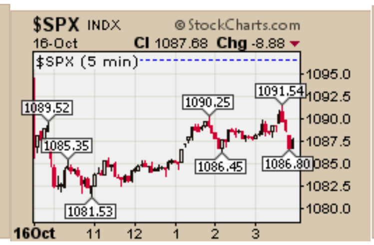
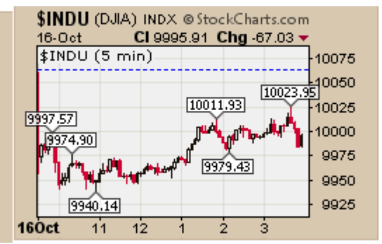
Market Musings

10/16/2009 After the Close







Stayed in negative territory all day!

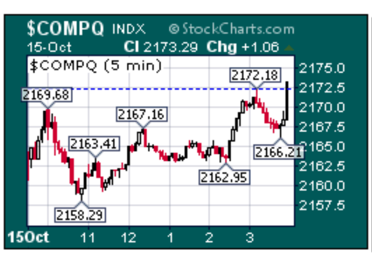
Markets Diary 5:52 p.m. EDT 10/16/09

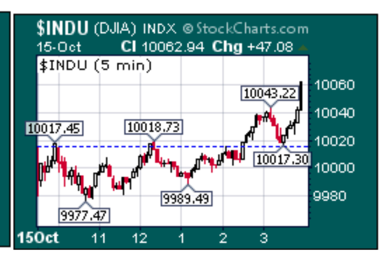
Issues	NYSE	Nasdaq	Amex
Advancing	1,047	818	261
Declining	1,973	1,808	254
Unchanged	128	197	59
Total	3,148	2,823	574
Issues at			
New 52 Week High	203	101	28
New 52 Week Low	3	4	3
Share Volume			
Total	1,386,361,841	2,209,950,178	25,014,283
Advancing	334,478,950	528,153,928	12,872,870
Declining	1,040,553,671	1,651,916,883	8,962,613
Unchanged	11,329,220	29,879,367	3,178,800

The energy sector failed to lift the markets into positive territory at the close today. As we mentioned last night, we will have a very short Musings today and expand this over the weekend due to time pressures.

We made no changes in the portfolios today.

10/15/2009 After the Close



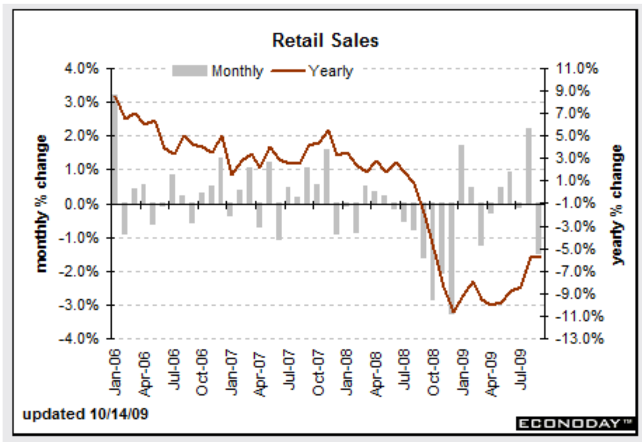


Making new highs again!

Markets Diary			5:44 p.m. EDT 10/15/09
Issues	**NYSE**	**Nasdaq**	**Amex**
Advancing	1,508	1,147	227
Declining	1,516	1,492	280
Unchanged	134	187	58
Total	3,158	2,826	565
Issues at			
New 52 Week High	387	161	24
New 52 Week Low	2	8	0
Share Volume			
Total	1,357,644,885	2,140,092,331	27,371,927
Advancing	692,967,195	883,831,292	11,587,850
Declining	623,236,890	1,201,966,006	14,274,077
Unchanged	41,440,800	54,295,033	1,510,000

The energy sector helped the indices to close in higher ground today. Problems with various servers were blamed on data problems which kept the closing prices in doubt today.

Yesterday saw retail sales showing a decline for September as cash for clunkers ended but not as drastic as some expected. It was down only 1.5% rather than the 2% expected. The y/y comparison is still down over 5.5%.



Data Source: Haver Analytics

Yesterday also saw MBA's purchase index fall 5.0 percent in the Oct. 9 week while the refinance index edged 0.1 percent lower. Refinancings made up 67.4 percent of all applications as homeowners rushed to lock in low rates. Mortgage rates moved up from near record lows with 30-year loans up 13 basis points to an average 5.02 percent.

The falling dollar is causing import prices to rise which will increase inflationary pressures. Petroleum prices in September fell 1.1%.

Released On:	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09
Released For:	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09
Export prices	0.5%	0.4%	1.0%	-0.3%	0.7%	-0.3%
Import prices	1.1%	1.7%	2.7%	-0.7%	1.6%	0.1%
Petroelum prices	10.1%	11.1%	17.2%	-2.5%	7.7%	-1.1%
Non oil imports	-0.2%	0.2%	0.1%	-0.2%	0.3%	0.4%

Data Source: Haver Analytics

Business inventories in August were down another 1.5% which autos causing much of the drop. However, in good news, the rate of decline seems to be moderating as shown in the following table. The declining inventory situation should provide some momentum to production levels in the near future. However, most retail stores with a large commitment to the holiday gift season probably have already gotten most of their orders in process.

		Data displayed as month/month % change					
Released On:	Percent	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09
Released For:	of Total	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09
Business Inventories	100.0%	-1.3%	-1.3%	-1.2%	-1.4%	-1.1%	-1.5%
Manufacturing	37.6%	-1.2%	-1.2%	-0.8%	-1.1%	-0.9%	-0.8%
Wholesale trade	29.2%	-1.8%	-1.3%	-1.2%	-2.1%	-1.6%	-1.3%
Retail trade	33.2%	-0.9%	-1.4%	-1.7%	-1.2%	-1.0%	-2.3%

Data Source: Haver Analytics

The FOMC released the minutes of its latest meeting and here is a summary of those minutes color-coded as to whether it is positive or negative for the economy.

FOMC Minutes - A Few Clues in Red and Green

October 14, 2009

September 23

Good and bad news mixed in, but no surprises.

(RED = Negative Views on Economy Green = Positive Views on Economy)

- Fed Members Said Employment Conditions `Remained Weak'
- FOMC Members Said Financial Markets `Broadly Positive'
- FOMC Members Said Housing Activity Rising, Prices Stabilized
- Fed Members Said Unemployment Unlikely To Fall `Appreciably'
- **Fed Members Expressed Uncertainty On Outlook Without Govt Aid**
- Many FOMC Members Said Consumers Likely To Remain Cautious
- Most FOMC Members Saw `Substantial' Labor Slack In Coming Years
- Many FOMC Members Raised Economic Projections For Second Half
- Most FOMC Members Thought An Economic Recovery Was Underway
- Many FOMC Members Said Recovery Likely To Be `Quite Restrained'
- FOMC: Overall Economic Activity Beginning To Pick Up
- FOMC Says Gradual Housing Sector Recovery Underway
- FOMC Discussed Need For Flexibility On Size Of Asset Purchases
- Some FOMC Members Favored Increasing Limit To MBS Purchases
- Fed Economists Saw Core Inflation Slowing Over Next Two Years
- Fed Economists Saw Unemployment Declining To 8% By End Of 2011
- Fed Economists Saw Unemployment Falling To 9.25% By End Of 2010
- A Few On FOMC Wanted To Slow Asset Purchases Over Longer Period
- Fed: Some FOMC Members Wanted To Taper Asset Purchases Quickly

Today, the September 2009 CPI report showed that overall CPI (+0.2%) slowed while the core rate was slightly higher from August (+0.2%). In effect, the CPI did not indicate any significant inflationary or deflationary pressures building in the economy.

There was, however, a significant difference between the Empire State manufacturing report and the Philadelphia FED survey as shown in the two tables below. Obviously, one is not correct and based upon the erratic behavior over time of the Empire report, I would expect that it is the incorrect data.

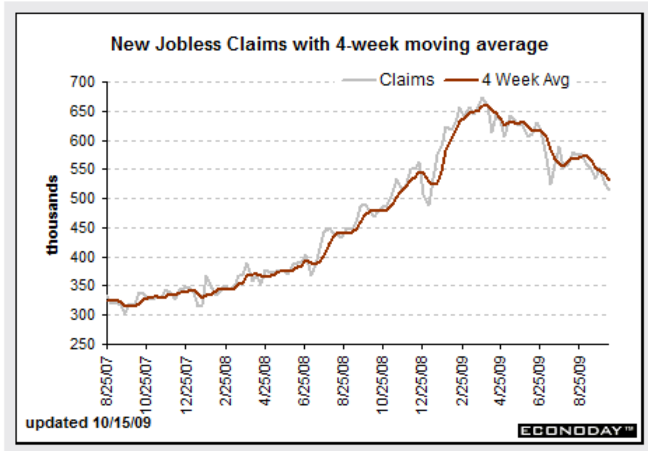
Released on:	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09
Released for:	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09
Empire State	-4.6	-9.4	-0.6	12.1	18.9	34.6

Data Source: Haver Analytics

	Data displayed as monthly level					
Released on	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09
Released for	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09
Philadelphia Fed Survey	-22.6	-2.2	-7.5	4.2	14.1	11.5

Data Source: Haver Analytics

While still over 500,000 again, the rate of new jobless claims continues to fall as the October 10th week dropped by 10,000 to 514,000. Continuing claims dropped below 6 million to only 5.992 in the September 26 week.



Data Source: Haver Analytics

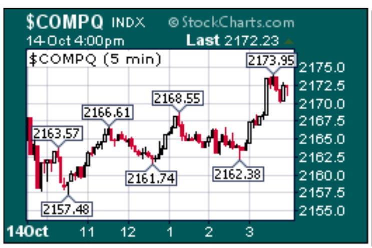
Storage levels for natural gas rose in the latest report despite the impact of colder than normal weather in the northern half of the U.S. Gasoline stocks were also lower in the latest week which helped boost oil prices to the $76/bbl level today.

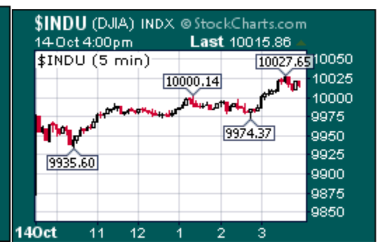
The FED's balance sheet rose another $54.7 Billion in the w/e October 14th and was largely due to a $70.7 increase in the holdings of mortgage-backed securities.

EJ violated its Action Point in the Aggressive Portfolio today and it was sold. There were no other changes in the portfolios today.

Tomorrow we will be at **a conference at SMU** all day so we will delay posting the Musings until sometime later this weekend.

10/14/2009 After the Close





Gapped higher on earnings!

Markets Diary — 5:50 p.m. EDT 10/14/09

Issues	NYSE	Nasdaq	Amex
Advancing	2,298	2,007	299
Declining	754	648	214
Unchanged	107	180	67
Total	3,159	2,835	580
Issues at			
New 52 Week High	462	236	44
New 52 Week Low	2	6	0
Share Volume			
Total	1,350,780,168	2,348,621,101	25,667,287
Advancing	1,176,437,588	1,848,281,484	11,811,987
Declining	165,006,220	381,610,186	12,302,500
Unchanged	9,336,360	118,729,431	1,552,800

JPM and INTC earnings were stronger than analysts expectations and the markets gapped up at the opening. After a brief respite in the early morning on economic news, the markets recovered and closed on higher volume near their highs for the day. In the days' action, several important resistance and psychological barriers were broken. The DJIA closed above 10,000 for the first time in months and most of the indices made new highs for the year.

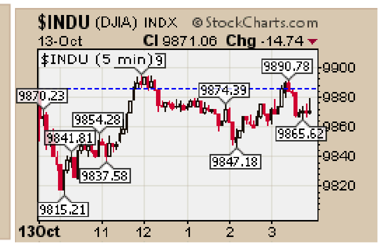
It was enough for the Investors' Business Daily® to change its market outlook to **"Confirmed uptrend**

resumes". Although the market action was excellent, it did not qualify as a 90% day for either advancing issues and/or advancing volume.

As we were busy for the day and gave a talk until late at night, today's Musings will be short.

We made no changes in the portfolios today.

10/13/2009 After the Close



Going Nowhere.

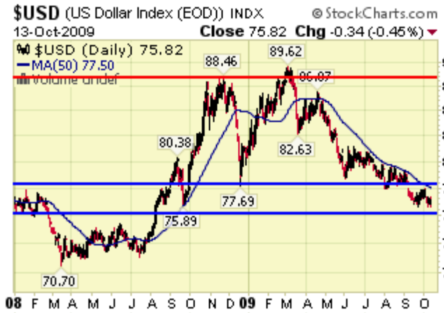
Markets Diary			5:36 p.m. EDT 10/13/09
Issues	**NYSE**	**Nasdaq**	**Amex**
Advancing	1,290	1,171	259
Declining	1,723	1,423	243
Unchanged	140	215	76
Total	3,153	2,809	578
Issues at			
New 52 Week High	156	94	23
New 52 Week Low	5	11	2
Share Volume			
Total	1,143,380,582	2,020,110,616	22,165,204
Advancing	459,552,142	1,180,620,156	13,587,210
Declining	641,028,320	794,206,884	5,229,344
Unchanged	42,800,120	45,283,576	3,348,650

Unable to breach the 1080 level on the S&P 500, the market vacillated around yesterday's close and ended mixed on the day despite higher volume.

Early winter weather helped boost the two retail sales reports for last week. The NPD Group, a leading market research company, has released the results of its annual survey of consumers' holiday spending intentions. The survey reveals that a greater percentage of consumers plan to spend less this holiday season compared with last year, with almost 50 percent of respondents saying that the state of the economy will have a significant effect on their holiday spending. Thirty percent of respondents indicated they plan to spend less this year, compared with 26 percent who indicated the same for holiday 2008. That is not good news for the holiday retail sales.

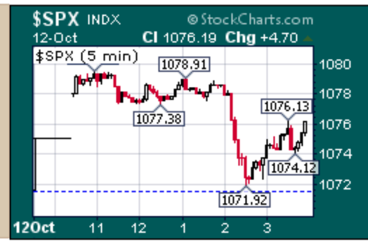
The economic news cupboard was bare today.

The dollar continued to slide south closing below 86 today. The yield on the 10 year Treasury closed at 3.31%. Gold was higher and closed at a new all-time record high.



We made no changes in the portfolios today.

10/12/2009 After the Close



Unable to hold morning gains.

Markets Diary — 6:01 p.m. EDT 10/12/09

Issues	NYSE	Nasdaq	Amex
Advancing	1,643	1,199	212
Declining	1,361	1,422	293
Unchanged	128	176	66
Total	3,132	2,797	571
Issues at			
New 52 Week High	397	200	34
New 52 Week Low	1	10	3
Share Volume			
Total	946,865,490	1,784,286,243	23,259,018
Advancing	627,039,670	917,186,722	10,411,708
Declining	301,111,310	850,518,596	9,368,410
Unchanged	18,714,510	16,580,925	3,478,900

After opening up, the markets sold off and ended mixed today. The Columbus Day holiday impacted trading today as volume was lower. After touching the day's low about 2:30 in the afternoon, the markets rose into the close. The S&P 500 was unable to move past its 2009 intraday high today and then began to fall.

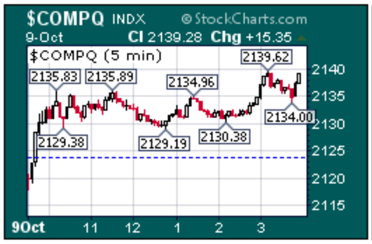
Is the recession really over or will commercial real estate cause problems in the financial sector that will lead to a decline in the markets and a double-dip recession? Dick Bove, a financial analyst, suggests that 60% of regional banks will probably post losses in the 3rd and 4th quarters. Perhaps, the FDIC will be working to get the U.S. Treasury to open up its cash box to pay all those depositors in the regional banks that will fail.

The increased amount of U.S. Treasury debt being sold to both finance the federal deficit and to refinance outstanding maturities has pushed the size of Treasury offering to record levels. One of the results is that the U.S. dollar has come under additional pressure. In fact, world central banks are now changing their allocations of new reserves away from the dollar at an accelerating pace. The dollar's 37% share of new reserves in the last quarter according to Bloomberg has fallen from about 63% in the last decade.

Gold closed at another all time record high while the U.S. dollar continued to slide.

We sold HMIN from the Conservative portfolio today as it violated its Action Point. There were no other changes in the portfolios today.

10/09/2009 After the Close



Up five days in a row!

Markets Diary 5:45 p.m. EDT 10/09/09

Issues	NYSE	Nasdaq	Amex
Advancing	1,829	1,784	238
Declining	1,188	825	272
Unchanged	132	203	56
Total	3,149	2,812	566
Issues at			
New 52 Week High	283	138	26
New 52 Week Low	6	7	2
Share Volume			
Total	990,035,966	1,936,851,366	20,152,094
Advancing	592,335,250	1,222,185,465	8,748,240
Declining	384,077,826	697,536,804	8,945,354
Unchanged	13,622,890	17,129,097	2,458,500

After opening down, the markets recovered to end at the highs for the year. The gain of about 4.5% was the best weekly performance since July. For equity investors, it was a good week.

The main piece of news today other than President Obama being given the Nobel Peace Prize (being nominated for the honor after only 11 days in office ... simply amazing), was that the trade deficit dropped again to $30.7 billion from $31.9 billion as exports rose and imports fell.

Data Source: Haver Analytics

John Williams of Shadow Government Statistics concurs with my comments yesterday on the federal deficit problem.

> **"GAAP-Based Federal Deficit Likely Hit $8.8 Trillion in 2009.** Based on an estimate by the Congressional Budget Office (CBO), the official federal deficit rose to roughly $1.41 trillion in 2009 (fiscal year-end September 30, 2009), up from $455 billion in 2008. Accounting gimmicks, introduced mid-fiscal year, knocked off roughly $500 billion of additional 2009 deficit reporting tied to the government's economic stimulus package.
>
> Gross federal debt in 2009 rose by $1.9 trillion to $11.9 trillion, having risen by $1 trillion in 2008.
>
> I estimate that GAAP-based accounting (generally accepted accounting principles), including annual changes in the net present value of unfunded liabilities (such as in Social Security and Medicare) will show an actual 2009 deficit of about $8.8 trillion, up from $5.1 trillion in 2008, with total federal obligations, including debt and net present value of unfunded liabilities at roughly $75 trillion. Such is more than five times the level of U.S. GDP. Taxes cannot be raised enough to balance spending. One-hundred percent taxation still would leave the U.S. fiscal condition in deficit. I'll also contend that the political establishment in Washington lacks the will to slash its programs by an amount necessary to contain the extreme excesses of spending. As was discussed in last year's *Hyperinflation Report* (and as will be reiterated in the pending update), it is this circumstance that assures the ultimate debasement of and hyperinflation in the U.S. dollar.

U.S. Government - Alternate Fiscal Deficit and Debt
Reported by U.S. Treasury
Dollars are in either billions or trillions, as indicated.
Sources: U.S. Treasury, Shadow Government Statistics.

Fiscal Year(1)	Formal Cash-Based Deficit ($Bil)	GAAP Ex-SS Etc. Deficit ($Bil)	GAAP With SS Etc. Deficit ($Tril)	GAAP Federal Negative Net Worth ($Tril)	Gross Federal Debt ($Tril)	Total(2) Federal Obligations (GAAP) ($Tril)
2009(3)	$1,409.0	$2,800.0	$8.8	$64.1	$11.9	$74.6
2008	454.8	1,009.1	5.1	59.3	10.0	65.5
2007	162.8	275.5	1.2(4)	54.3	9.0	59.8
2006	248.2	449.5	4.6	53.1	8.5	58.2
2005	318.5	760.2	3.5	48.5	7.9	53.3
2004	412.3	615.6	11.0(5)	45.0	7.4	49.5
2003	374.8	667.6	3.0	34.0	6.8	39.1
2002	157.8	364.5	1.5	31.0	6.2	35.4

(1) Fiscal year ended September 30th. (2) Includes gross federal debt, not just "public" debt. While the non-public debt is debt the government owes to itself for Social Security, etc., the obligations there are counted as "funded" and as such are part of total government obligations. (3) Except for the formal cash-based deficit (preliminary) and for the gross federal debt, which are government estimates, fiscal 2009 data are estimated by SGS. Please note that mid-year accounting redefinitions for TARP knocked off roughly $500 billion from the reported formal cash-based estimate. (4) On a consistent reporting basis, net of one-time changes in actuarial assumptions and accounting, SGS still estimates that the GAAP-based deficit for 2007 topped $4 trillion, with negative net worth of $57.1 trillion and total obligations of $59.8. So as to maintain consistency with the official GAAP statements, the "official" numbers are shown. (5) SGS estimates $3.4 trillion, excluding one-time unfunded setup costs of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (enacted December 2003). Again, in order to maintain consistency with the official GAAP statements, the "official" numbers are shown in the table for 2004. The 2009 GAAP statement is due for release in mid-December 2009. Link to the 2008 statements: **http://www.fms.treas.gov/fr/08frusg/08frusg.pdf** "

We also mentioned the problem with possible gold deliveries yesterday. **Here is a link to Rob Kirby's article on the matter.** If Kirby is correct, the physical gold and silver markets may end up creating problems for the derivatives players.

This morning as the market began to rebound, we purchased a few positions **in the Conservative portfolio.** There were no other changes in the portfolios today.

- **Fred Richards**

Strategic Investing

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Last updated - January 24, 2009

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