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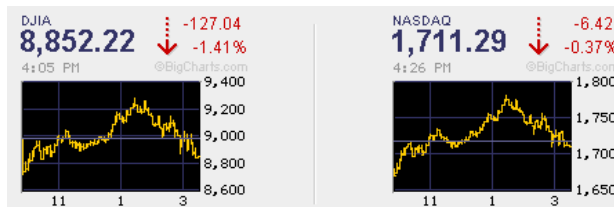
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Market Musings

10/17/2008



Slipping back to the dark side after the follow-through day!

Markets Diary				4:26 p.m. EDT 10/17/08
Issues	NYSE	Nasdaq	Amex	
Advancing	1,734	1,160	726	
Declining	1,373	1,580	409	
Unchanged	77	111	68	
Total	3,184	2,851	1,203	
Issues at				
New 52 Week High	3	4	2	
New 52 Week Low	91	120	80	
Share Volume				
Total	1,739,957,800	2,763,900,794	39,270,963	
Advancing	818,523,570	1,272,395,955	16,174,213	
Declining	913,464,200	1,469,422,180	20,469,350	
Unchanged	7,970,030	22,082,659	2,627,400	

After making yesterday's follow-through day on high volatility in the VIX, the market opening down and tried to rally until mid-afternoon when the gains began disappearing. The major indices all ended in negative territory for the day.

The following table says about all that needs to be said about the market this year ... it is not good!

Market Summary				
10/17/2008				
	10/17/08	12/31/07	Change	%
AMEX Comp	1421.65	2409.62	-987.97	-41.0%
DJIA	8852.22	13264.82	-4412.6	-33.3%
HUI	203.24	409.37	-206.13	-50.4%
Nasdaq 100	1311.72	2084.93	-773.21	-37.1%
Nasdaq Comp	1711.29	2652.28	-940.99	-35.5%
NYSE Comp	5948.8	9740.32	-3791.52	-38.9%
Russell 2000	526.43	760.20	-233.77	-30.8%
S&P 400	555.01	858.20	-303.19	-35.3%
S&P 500	940.55	1468.36	-527.81	-35.9%
S&P 600	282.33	395.14	-112.81	-28.5%

We made no changes in the portfolios today and we are headed to the airport ... so this is short. We may add to the Musings this weekend.

10/16/2008



Continued gyrations push the market to a follow-through day!

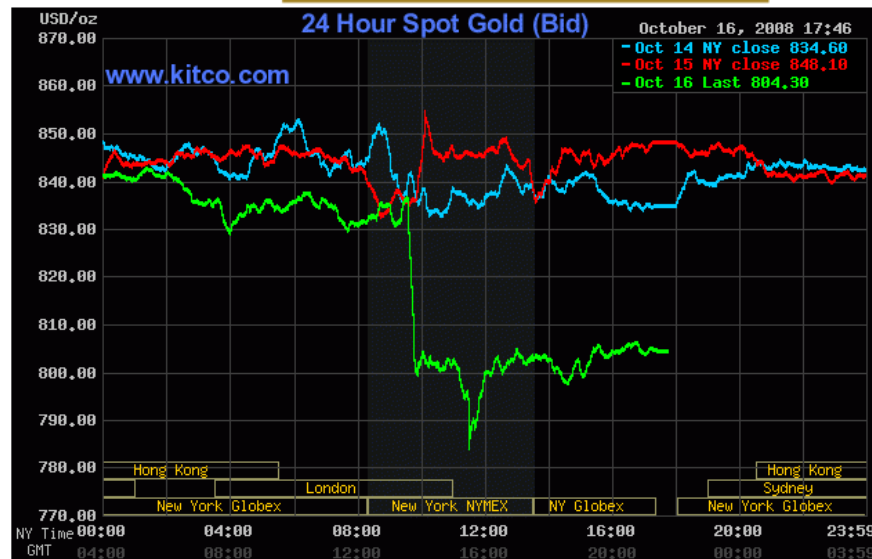
Markets Diary			
	NYSE	Nasdaq	Amex
Issues			
Advancing	2,195	1,862	558
Declining	954	905	592
Unchanged	54	88	56
Total	3,203	2,855	1,206
Issues at			
New 52 Week High	3	4	4
New 52 Week Low	465	400	177
Share Volume			
Total	1,999,413,282	3,354,913,830	45,749,352
Advancing	1,557,996,240	2,897,243,142	28,582,612
Declining	411,859,672	449,032,720	15,963,540
Unchanged	29,557,370	8,637,968	1,203,200

The market tested Friday's close which some might describe as a double bottom and then it moved higher. The spread between the high and low was 815 points or 9.5% today. Today's intraday low was 8197.67. That was still 315 points above the previous intraday low set on last Friday, October 10th.

Considering that it created a follow-through day in the face of lousy economic news on housing, terrible data in the Treasury International Capital report, more write-downs at Merrill, Lynch and Citigroup, hedge funds in trouble as investors reduced their positions by \$43 billion, industrial production falling the most in 34 years, and the Philadelphia FED data falling to -37.5 vs. 3.8 last month, perhaps, the market is saying that it is ready to move higher. Although initial jobless claims fell in the latest week, continuing claims rose to the highest level since June 2003. Thanks to energy, the CPI was basically flat ... although other sectors were slightly higher.

Advancing volume and issues were definitely in control in today's trading. Perhaps, in light of the data in the previous paragraph, the rumors of another emergency interest rate cut helped propel the market higher today. After hours earnings reports from GOOG, IBM and ISRG should help the market tomorrow at the open.

With crude falling below \$70/bbl during today's trading, airline stocks were higher. Paper Gold was particularly hard-hit today as it fell \$34/oz. to close at \$801.60. Can there be any doubt that the price of gold was not mashed by a huge sell order ... and they were not the least interested in getting a reasonable price for their holdings. My old mentor would classify today's gold price move as either stupidity on behalf of the seller, or market intervention on behalf of a sovereign nation. Not even a margin clerk will sell a position in the manner of today's gap down.



In light of the action of the Far Eastern and European markets yesterday, the only answer for today's movement higher

is that the PPT is out in force.

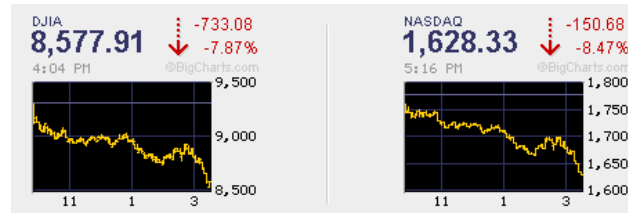
The real problem remains facing the financial system ... how to unwind all the rest of the \$1.4 quadrillion of derivatives that are out there and in danger of imploding. Will it be credit cards, auto loans or something else that causes the next crisis in the financial system. The derivative system has \$55 trillion in credit derivative swaps. The market is greater than the combined GDP of the world. Until it is cleaned up, the toxic problem remains.

Perhaps, you have noticed that with every new move on the part of the regulatory authorities, the markets go south.

Tomorrow's Musings will be published on Sunday.

We made no changes in the portfolios today.

10/15/2008



So much for the snap back rally!

Markets Diary		6:03 p.m. EDT 10/15/08		
Issues	NYSE	Nasdaq	Amex	
Advancing	340	422	256	
Declining	2,916	2,482	921	
Unchanged	28	88	51	
Total	3,284	2,992	1,228	
Issues at				
New 52 Week High	9	0	4	
New 52 Week Low	219	203	77	
Share Volume				
Total	1,637,960,929	2,549,690,671	33,958,967	
Advancing	36,053,560	70,640,117	5,957,500	
Declining	1,599,634,669	2,474,512,882	27,471,167	
Unchanged	2,272,700	4,537,672	530,300	

Only 130 points to go to get back to Friday's close. The volatility continues despite the best efforts of all the King's men and his serfs to put the market back together again.

Although the market was moving south, it began to accelerate during Bernanke's speech at the Economic Club of New York when he said that the economic recovery might not be immediate.

Nouriel Roubini went on record today calling for the worst recession in 40 years, U-3 unemployment rising to 9%, and a further decrease in home prices of 15%. He also suggested that the Treasury would need to double the \$250 million investment in banks and force lenders to eliminate dividends to save them from bankruptcy. He also suggested that the meltdown from the subprime mortgage market will be closer to \$3 trillion than his previous estimate of \$1 to \$2 trillion. Financial firms have so far reported only \$637 billion in losses, according to Bloomberg data.

There was no sector showing strength and the number of declining issues, new 52 week lows and declining volume crushed their counterparts. To state the obvious, there was no place to hide.

The Empire State Manufacturing index was terrible as it fell to a record low. The Baltic Dry Index continued to fall like a rock off the Empire State Building confirming that the world economy is not healthy. Retail sales for September were negative for the third month in a row as consumers pulled in their horns. Inventories in the sales pipeline at wholesale continued to move higher during August despite just-in-time procedures.

The tension in the credit markets over the Lehman CDS settlements continues as the insurers have two weeks from last Friday to pay up. A big question market is whether those hedge funds including Citadel will be able to do so or will go belly up.

With both Ford and GM on credit watch, the credit default swaps if they take bankruptcy could be the next derivatives disaster. It is thought that GM alone has at least \$1 trillion of credit default swaps on their auto loan portfolio. OOPS!

Insurance firms like Hartford Prudential Financial, Inc., and MetLife, Inc. are also seeing widening spreads on their credit default swaps. A Reuters article from October 3rd stated that MetLife credit default swaps are now trading on an upfront basis, which means buyers of protection against the default of MetLife bonds must make an upfront payment as

well as agreeing to periodic fees. Only companies seen as being in serious risk of failure trade on an upfront basis.

The insurance business has always been nothing more than a three card Monte game. It always surprised financial analysts to discover that the insurance sector had the largest number of bankruptcies per number of firms in the sector each year. While it might have just been the smaller companies that were involved, the current credit derivative situation may move those bankruptcy counts into the large companies.

Despite the FED rate cut last week, the 30 year fixed mortgage rate rose 49 basis points to 6.47%. Guess either the credit market remains in turmoil, or the lenders failed to get the message.

The bailout plan continues to show a higher price tag. The size of the bailout is becoming much larger than the \$700 billion King Henry originally requested. It has to make you wonder about the credibility of any of the numbers. Here is the new cost structure:

- \$250 billion of capital into banks
- Guarantee \$1.5 trillion in new senior debt issued by banks
- Insure \$500 billion in deposits in non-interest-bearing accounts (primarily business accounts)

Heck, in a little while, if this keeps up, the price tag could approach \$3 trillion. As I state many months ago, we still have the same players trying to find their way out of the mess using the same playbook that got them into it in the first place ... its the John Maynard Keynes philosophy that governments should spend money they don't have. When you have relatively low national debt levels and high exports, it might have worked when you were the world's major creditor. But today, it is different, the national debt level is approaching infinity if you include the all the political promises like Medicare, Medicaid and Social Security, the trade deficit is negative and you are now the world's largest debtor. Adding more debt just increases the eventual collapse although it does buy time for those few folks sitting in the power positions.

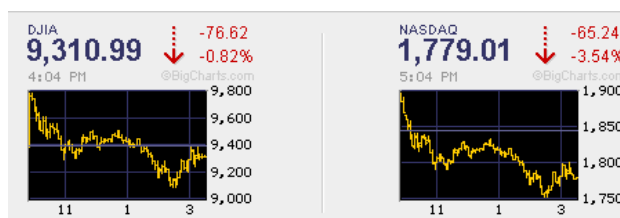
Or as Keynes said, "In time, we are all dead."

On January 1, 2008, the FED had a balance sheet footing of \$840 billion. Today, it stands at about twice that level and one FED watcher expects it to be over \$3 trillion by year's end. Now can inflation be far behind?

King Henry forced the nine largest banks to issue \$125 billion of preferred stock and warrants to the U.S. Treasury on Monday. Today, we have Helicopter Ben giving a speech in which he warns that the banking business may be concentrated in too few companies. It would appear that King Henry and Helicopter Ben are not on the same page today. Or maybe Bernanke did not get the memo.

We sold our long position in the ETF portfolio this morning and went short when it looked as if the market was not going to rally. There were no other changes in the portfolios today.

10/14/2008



Another one day rally despite the efforts of the FED and Treasury!

Markets Diary				5:06 p.m. EDT 10/14/08
Issues	NYSE	Nasdaq	Amex	
Advancing	1,729	889	768	
Declining	1,453	1,785	462	
Unchanged	39	82	49	
Total	3,221	2,756	1,279	
Issues at				
New 52 Week High	1	4	3	
New 52 Week Low	42	109	43	
Share Volume				
Total	1,878,516,211	2,892,084,280	55,251,580	
Advancing	848,824,421	453,162,113	26,067,870	
Declining	1,019,202,690	2,416,423,836	27,747,250	
Unchanged	10,489,100	22,498,331	1,436,460	

The market gapped up almost 400 points at the open but then began to drift lower for most of the day. A late afternoon rally brought the indices off their lows. The DJIA had a range of almost 700 points in today's trading as volatility continues to be high. In time, yesterday will be seen as just a relief rally from an extremely oversold condition.

The Treasury committed half of the \$250 billion it agreed to invest in banks to nine banks including Bank of America, Goldman Sachs, Merrill Lynch, State Street Corp., Bank of New York Mellon, Citigroup, JP Morgan Chase, Morgan Stanley and Wells Fargo. In addition, the FDIC will guarantee the newly issued unsecured debt from banks through June 30, 2012. Meaning that if a bank fails, holders of newly issued debt will be paid by the FDIC. The FDIC will now also fully guarantee all bank accounts until the end of 2009.

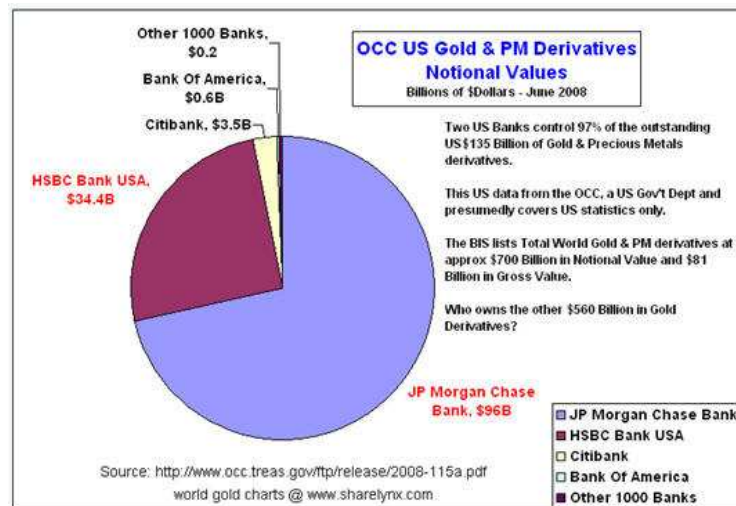
At least, these infusions are less costly, perhaps, than the Buffet and Mitsubishi deals. The Treasury will earn 5% for the first 5 years, 9% thereafter. After three years, the issues are callable and carry warrants equal to 15% of the preferred investment. I ask you again ... is this a transaction from a "AAA" rated company?

Despite all these moves by the FED, the U.S. Treasury and the FDIC, the market could not in the end close in positive territory.

The federal surplus for September, a tax payment month, was substantially less than expected, at \$45.7 billion vs. a much larger surplus last September of \$112.9 billion. The fiscal year 2008 deficit came in at a record \$454.8 billion vs. a much smaller deficit of \$161.5 billion in fiscal 2007. Treasury Secretary Paulson blamed the housing sector for the deterioration, citing the sector's impact on the capital markets and on economic growth.

Watch out for FY 2009 ... \$454.8 billion will seem miniscule. Of course, these figures are for the stated cash budget and not for the GAAP numbers which will be in the trillions.

The financial derivative problem remains to be solved. The following chart illustrates the major players. Don't you find it interesting that the largest exposure is JPM.

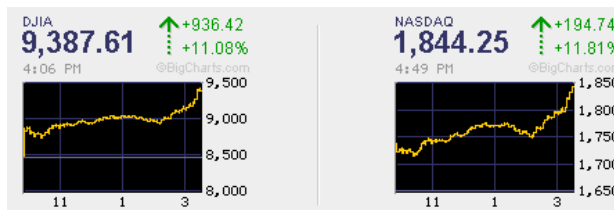


The threats of vast infusions of fiat money into the system is having an interesting effect upon the yield on the 10 year U.S. Treasury note. In after-hours trading, the yield continued higher than today's close shown below. The decline in the LIBOR rate also saw the US dollar index begin a retreat from its current high. Watch the 80 level closely. If it breaks that resistance line, it should return to the 70 level.



We made no changes in the portfolios today.

10/13/2008



It was a snap-back rally and I was wrong.

Markets Diary			
4:49 p.m. EDT 10/13/08			
Issues	NYSE	Nasdaq	Amex
Advancing	3,029	2,166	1,048
Declining	158	357	206
Unchanged	17	74	45
Total	3,204	2,597	1,299
Issues at			
New 52 Week High	1	1	55
New 52 Week Low	74	105	93
Share Volume			
Total	1,819,734,995	2,603,368,031	59,779,527
Advancing	1,726,193,995	2,507,364,477	51,977,017
Declining	91,270,800	85,829,952	7,229,700
Unchanged	2,270,200	10,173,602	572,810

When a market is deeply oversold and Helicopter Ben buys a few more printing presses and basically says, send me all your distressed paper and we will buy it at par ... market participants (I hesitate to call them investors anymore since that would imply performing due diligence) don't worry about the long-term effects of a massive increase in the money supply but look at the possibility that immediate pain relief might occur.

The FED's action in effect removes the Swap Limits ... Step right up ... the dollar is free! and will be worth even less before the FED is done. Just what is unlimited liquidity? **The logical answer is HYPERINFLATION!**

The S&P 500 scored its largest percentage increase in 68 years today. The Dow rose 936 points -- its largest point gain ever and largest percent gain since 1933. Of course, the banks and Treasury markets were closed today so the euphoria surrounding the debasement of the world's currencies might be short-lived.

The hype surrounding the possible intervention by governments into the financial markets all was viewed positively ... but just wait until after the bureaucrats get finished writing the rules and regulations which will cause the markets to flounder again. The real point is that the mess was created by Congress and its agencies and if you think they can provide the solution, you have not learned from history.

Morgan Stanley must have been on the rocks. Mitsubishi UFJ Financial got even more than Buffet demanded from Goldman Sachs. A 10% dividend is not worth a "AAA" rating but is close to junk.

More debt is not the solution. Those in charge believe that the problem is that banks are not lending enough. The reality is that banks have lent too much and to borrowers who could not repay! But the Treasury/FED is going to invest (?) \$250 billion of money it does not have into the banking system so that they can loan even more. There is panic everywhere!

The G-7 meeting was interesting and many participants posed for pictures. The FED's decision to flood the financial system with dollar to help back up foreign government efforts to restore confidence and to drive down money-market rates may temporarily help unfreeze the credit markets but the big problem of too much debt remains.

France, Germany, Spain and Austria are committing \$1.5 trillion dollars to guarantee bank loans and take stakes in lending as the central bankers react to the financial system travails. Britain took majority stakes in Royal Bank of Scotland Plc and HBOS Plc and has agreed to inject another \$63 billion into the banks. Guess the \$22 billion already sunk in RBS is gone. See everyone is in panic mode ... so why do you think the market headed higher ... when logic would tell you that massive inflation is headed into the system throughout the world.

The \$700 billion rescue plan is already in trouble as bailouts of AIG, FNM and FRE are likely to be more expensive than expected. The 2009 budget deficit could be \$2 trillion, or 12.5% of GDP, according to David Greenlaw, Morgan Stanley's chief economist. That is an increase of \$500 billion in just two weeks. OOPS!

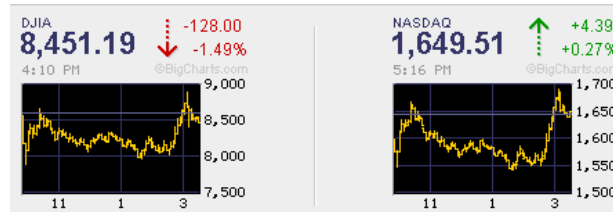
The real risk is that interest rates will begin to head north and with the huge increase in debt, there exists the real possibility that a Treasury auction might fail. If it happens, watch out!

Oil rose nearly \$4/barrel while gold fell more than \$10. The credit markets were closed.

Despite the decline in the price of gold and silver, the COMEX and CBT officials must be worried. The margin for a Comex silver contract has been upped to \$8100. The new margin for gold is \$7425.

With strong gains in the foreign markets this morning, we decided to close our short positions in the ETF portfolio and go long shortly before 10 a.m. EDT. There were no other changes in the portfolios today.

10/10/2008



Guided to a mixed close by the PPT fearing another down day.

Markets Diary		5:30 p.m. EDT 10/10/08		
Issues	NYSE	Nasdaq	Amex	
Advancing	1,122	1,356	297	
Declining	2,284	1,393	1,025	
Unchanged	40	89	52	
Total	3,446	2,838	1,374	
Issues at				
New 52 Week High	1	1	55	
New 52 Week Low	2,591	1,673	945	
Share Volume				
Total	2,948,037,736	4,184,474,265	82,956,772	
Advancing	1,169,455,170	1,663,211,026	26,393,610	
Declining	2,190,767,936	2,471,795,398	54,161,962	
Unchanged	33,947,552,998	49,467,841	2,401,200	

The afternoon rally saw the indices end mixed after spending most of the day underwater. It was a bad week for most investors as fear became contagious! Volatility continued unabated ... after gapping down 8% at the opening, the DJIA went from a low of 7,882 to a high of 8,901 ... a swing of 1,019! The PPT engineered another of its Hail Mary rallies in the afternoon but they were unable to keep the DJIA and S&P from ending underwater.

The following chart showing the 10 minute intra-day chart of the S&P 500 shows this week's market damage quite vividly.



Some of the selling pressure during the past two days resulted from massive margin calls on hedge funds and other professional traders. These calls were not issued because of market losses but rather a change in margin rates. Rates for broker dealers were raised from 15% to 35%. Hedge funds were also told that the high leverage ratios which they had been using were no longer acceptable. To meet these margin calls where hedge funds are holding illiquid securities required funds to sell whatever liquid equities that were available.

As if President George Bush does not have enough to do ... he went into the Rose Garden this morning for a totally meaningless pep talk to the citizens of the U.S. Bush attributed the market turmoil to "uncertainty and fear". After he was finished, the markets which had been rising decided to turn around.

In what must get an award for the week's most misleading statement, White House spokesman Tony Fratto said:

"There are absolutely no plans or discussions to interfere with the functioning of markets in the United States."

Simply amazing! So what do you call Paulson's plan to purchase bank stock and invest directly in commercial paper or buy equity in Fortune 1,000 companies.

The DJIA and S&P 500 closed at record lows as both declining issues, declining volume and new 52 week lows all attested to the carnage. The DJIA even dropped below 8,000 during the day ... not a good sign ... guess Mike Bolser should be congratulated for making that call almost a year ago.

An auction to determine the size of the settlement on Lehman credit-default swaps set a value of 8.625 cents on the dollar for the debt, according to Creditfixings.com, a Web site run by auction administrators Creditex Group Inc. and Markit Group Ltd. **The auction may lead to payments of more than \$270 billion**, BNP Paribas SA strategist Andrea Cicione in London said.

All the FED moves will increase deficit spending and Merrill, Lynch noted today that the stated cash deficit for FY 2009 might amount to \$2 trillion or 9% of expected GDP. You have to wonder if they can find buyers for that amount of additional debt and what will be the interest rate required?

According to Reuters, October 8, 2008:

Foreign central banks' holdings of U.S. Treasuries at the Fed **increased by \$24.443 billion** in the week ended Oct 8 to \$1.538 trillion.

Their holdings of agency securities fell.

Such holdings of these securities issued or guaranteed by Fannie Mae and Freddie Mac **dropped by \$24.439 billion** to \$944.802 billion in the week ended Oct 8.

This is the largest swing in one week in history. Guess foreign central banks don't quite believe that agencies are as good as Treasuries. And just before the G-7 meeting.

Another Reuters story today indicated that the credit crisis had shattered the U.S. consumers' faith in financial institutions, including a stunning loss of confidence in the Federal Reserve, and that the credit crisis is likely to trigger the biggest drop in consumer spending in more than three decades and a deep recession.

Wasn't it just last week that Jim Cramer was telling us to sell everything and raise all the money we needed for the next five years. Today, he was advising that "you must hold your nose and buy." Now Mr. Cramer is acting like a man unsure

of which side of the fire to be on.

To those looking for a rubber band, snap-back rally ... keep praying. However, it would appear to me that something has changed the structure ... too much debt and not enough income throughout the world to support the debt service. Finally, the illusion of prosperity and growth is being consumed by the knowledge that we have finally added enough straw to the fiat currency system that it may be ready to crumble.

When sovereign wealth starts tanking and talk grows that the largest debtor nation in the world may lose both its AAA debt rating and its reserve currency status, you should be concerned that we may not be able to paper over the mess with more debt. The FED's only way to salvation without going bankrupt is to add more debt. Now that is what has brought us to this place in the road.

It would appear that we might not snap-back but some other scenario might develop.

With oil prices for U.S. light crude declining to a one year low at \$78.61 before moving higher, the international trade deficit fell below \$60 billion in August. The British pound dropped to a five year low against the U.S. dollar. The rate at which banks lend dollars to each other (LIBOR) rose to 4.8% overnight.



Exports also fell as the U.S. dollar rose. Oil fell more than \$5 to under \$80 while WTIC ended at 83.87/barrel piercing another support level from February 2008. Gold dropped to close at 849.90, over \$60 on the day.



We sold HMY from the Precious Metals portfolio today. There were no other changes in the portfolios. The STI indicators remain negative. In running the Daily Graphs® filter for the Conservative portfolio today, we found no stocks that qualified for the third straight day. The number of "E" rated stocks according to the IBD® ratings made an all-time record high on Wednesday and probably exceed that number each of the last two days. The number of "A" rated stocks were at the lowest level this year and close to the all-time record level.

The market may be near a bottom but I do not expect a snap-back rally. Can you find any market sector or industry group with a 5% growth rate?

Fred Richards/Strategic Investing.

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Keep it Safe, Simple and Stay Focused!
Last updated - February 6, 2007