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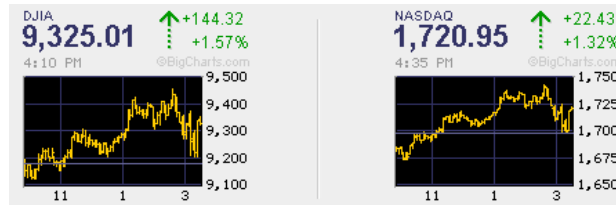
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Market Musing

10/31/2008



Closing the month on a up note!

Markets Diary			
	4:35 p.m. EDT 10/31/08		
Issues	NYSE	Nasdaq	Amex
Advancing	2,268	2,147	694
Declining	835	653	334
Unchanged	61	91	58
Total	3,164	2,891	1,086
Issues at			
New 52 Week High	3	5	4
New 52 Week Low	41	93	23
Share Volume			
Total	1,573,109,908	2,489,633,835	33,526,554
Advancing	1,167,598,308	1,457,565,172	21,032,954
Declining	401,466,400	1,012,413,747	11,045,400
Unchanged	4,045,200	19,654,916	1,448,200

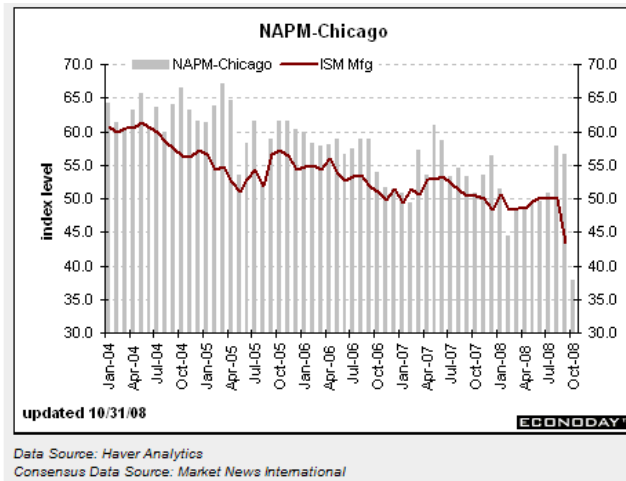
After the October carnage in the markets, have we seen the bottom? It appears that the market continues to hold up pretty well this week in the face of rather dismal economic news. Of course, if the market is going up just prior to the election, the Republican candidate has historically benefited. Or perhaps, it was a case of painting the month-end tape for mutual funds.

For the week, investors pushed stocks more than 10% higher, the best single-week advance in recent years. However, the stock market finished the month almost 17% lower, marking one of the worst monthly performances in decades.

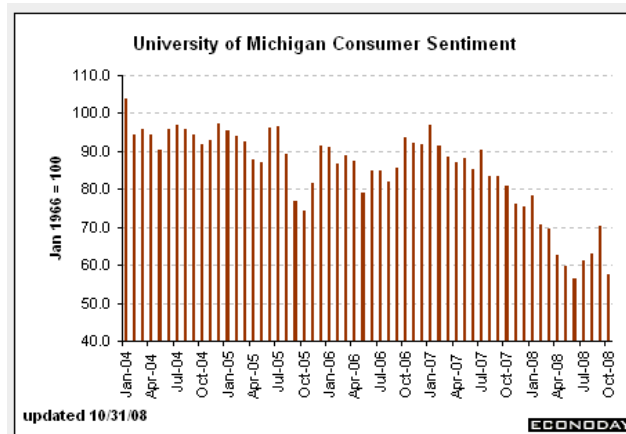
In an attempt to paper over the credit disaster, JPM has come up with a new strategy. It plans to modify terms on \$110 billion of mortgages and forgo foreclosure proceedings on all real-estate loans while the changes are implemented in the next 90 days. Now since bankers are bankers first and compassionate rarely, do you think that there might be an ulterior motive behind this move?

Overnight, Japan cut its rates to 0.30% while the sovereign debt of Argentina was also downgraded. The credit crisis continues to find new victims. Are the days of Keynesian economics numbered? It now takes \$5 of new debt to create a dollar of GDP in the U.S., clearly a daunting task.

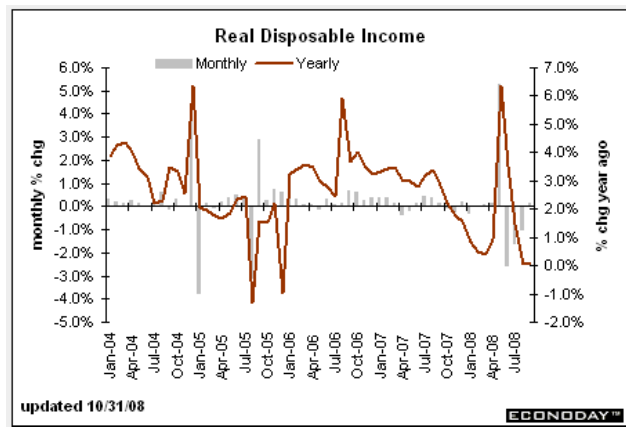
The FED and Treasury have pushed about \$2 trillion of new money into the system but the economic engine continues to look like the driver has his foot on the brake. **The Chicago Purchasing Managers survey in October fell to 37.8 vs. 56.7 the previous month.** A decline to 48.0 was expected. This is the lowest level since '01, the last recession.

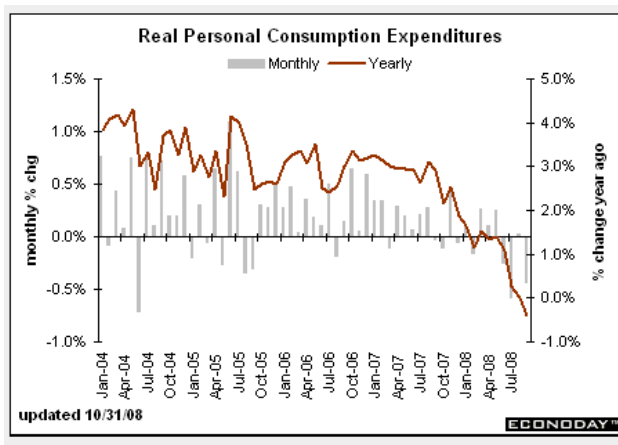


Consumer spending is falling, the U.S. savings rate is increasing and credit debt is continuing to climb, albeit, at a slower rate. Is this a function of stricter lending standards or a change in consumer attitudes. If it is not just a temporary situation, the national game plan will need to be changed. If consumer spending begins to drop as the saving percentage increases, GDP growth will continue to fall. Consumer sentiment in October reversed the previous three months of increases.

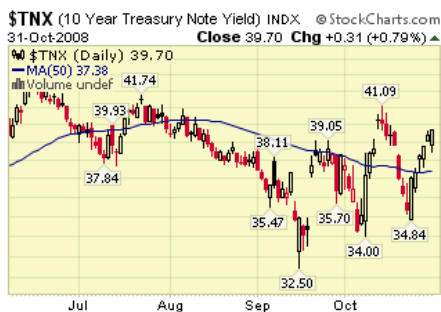


Personal income in September only showed a 0.2% increase while personal consumption expenditures dropped 0.3%. Real disposable income for the latest twelve months is basically flat while personal consumption expenditures has turned negative.





Despite this week's FED cuts, long-term rates including LIBOR are not falling. Yield on the 19 year Treasury note continued to move higher closing at almost 4%. Crude oil managed to close the month at \$64.80, a drop of over \$30 for the month.



The U.S. dollar index managed to close above \$85 while Gold saw a large decline to \$723.



We made no changes in the portfolios today. Have a great weekend Happy Halloween.

10/30/2008



Moving higher on lower volume.

Markets Diary			
5:08 p.m. EDT 10/30/08			
Issues	NYSE	Nasdaq	Amex
Advancing	2,510	2,076	677
Declining	574	669	367
Unchanged	52	99	66
Total	3,136	2,844	1,110
Issues at			
New 52 Week High	3	4	2
New 52 Week Low	53	150	26
Share Volume			
Total	1,375,789,213	2,551,900,730	41,105,832
Advancing	1,141,540,013	1,909,835,514	31,118,690
Declining	225,250,900	620,595,677	9,225,742
Unchanged	8,998,300	21,469,539	761,400

Despite the Commerce Department's estimate of 3rd Quarter GDP falling into negative territory, the market opened higher on the strength shown overseas and continued to stay in positive territory all day.

The consumer is having trouble. Consumer spending saw its first contraction in 17 years along with the largest decline in 28 years. Durable goods spending dropped at the sharpest rate in 50 years. If consumers are 70% of the economy, the economy is getting smaller. According to John Williams of Shadow Government Statistics, the Ministry of Truth is anything but truthful.

"U.S. Economy Is in a Severe Recession. With real retail sales, housing, nonfarm payrolls, new orders for durable goods and industrial production all showing quarterly and annual growth patterns never seen outside of a recession still in deterioration, GDP reporting eventually should show a string of quarterly contractions, with the recession dating back to fourth-quarter 2006, long before the exacerbation of the current systemic solvency crisis. "

Jobless claims remained unchanged at 479,000. Today American Express announced a 10% reduction in its labor force. Motorola also expects major layoffs in the near future. Recently, Hewlett Packard, Goldman Sachs, Whirlpool and Yahoo have announced layoffs of 5% to 19% of their staffs. Surprisingly, continued claims fell slightly in the latest week.

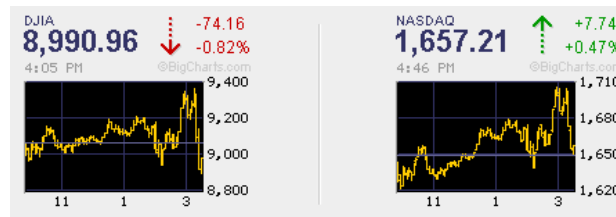
The FED continues to expand its credit swap facilities ... Brazil, Mexico, South Korea and Singapore were added to the list overnight. Who's next ... Samoa?

Despite the huge infusion of cash and the latest FED reduction in the fed funds rate, fixed mortgage rates were higher this week as the secondary mortgage market saw the average rate on a 30 year fixed mortgage move to 6.46% or 42 basis points higher than last week.

XOM reported the biggest US quarterly profit in history earning \$14.3 billion in the latest quarter. But with oil prices falling, look for XOM not to repeat in the 4th quarter as crude prices are significantly lower than during the 3rd quarter.

We made no changes in the portfolios today.

10/29/2008



In 13 minutes, a 450 point drop!

Markets Diary			
4:49 p.m. EDT 10/29/08			
Issues	NYSE	Nasdaq	Amex
Advancing	1,954	1,610	790
Declining	1,145	1,138	327
Unchanged	61	96	48
Total	3,160	2,844	1,165
Issues at			
New 52 Week High	4	1	16
New 52 Week Low	81	198	51
Share Volume			
Total	1,620,229,066	2,784,904,317	36,091,916
Advancing	856,953,436	1,251,555,728	23,218,096
Declining	757,837,300	1,507,364,415	12,176,620
Unchanged	5,438,330	25,984,174	697,200

The market players are really nervous these days. Despite the FED rate cut to 1% today, those last 13 minutes saw traders run for the hills causing the DJIA to drop 450 points as GE fell 5.5% after a Dow Jones headline about their 2009 earnings.



The market action of GE during the last 13 minutes shows the extreme volatility in this market. Advancing issues and volume were all positive today but the action in those last 13 minutes drove the DJIA and S&P 500 into negative territory today. All the other indices managed to hold in positive territory for the day as shown below.

Market Summary 10/29/2008			
	Today		
	Last Price	Change	%
AMEX Comp	1,428.19	2.58	0.2%
DJIA	8,990.96	74.16	-0.8%
HUI	195.09	22.40	13.0%
Nasdaq 100	1,302.12	4.55	0.4%
Nasdaq Comp	1,657.21	7.74	0.5%
NYSE Comp	5,774.90	41.45	0.7%
Russell 2000	490.88	8.33	1.7%
S&P 400	530.68	9.37	1.8%
S&P 500	930.09	10.42	-1.1%
S&P 600	264.10	5.46	2.1%

As most expected, the FED cut the fed funds rate to the level of Greenspan's folly ... 1%. According to the FED, the action was taken in light of falling consumer expenditures, business expenditures and industrial production. Financial market turmoil is likely to lead to further slowing as both businesses and consumers have difficulty in obtaining credit.

Do not the FED's justification bother you? What amount of pump priming will be required so that businesses and consumers will be able to obtain credit? According to today's action, it will have to be more. The rescue efforts will have to be financed with borrowed money.

In July 2008, the preliminary budget deficit for FY 2009 was about \$482 billion. Today, it would appear to be closer to \$2 trillion or about 4 times higher. More important with the nationalization of AIG, Fannie Mae, Freddie Mac and others and without another stimulus package, even \$2 trillion might not cover it. The U.S. in FY 2007 already borrowed to fund its trade and federal deficits about 80% of the world's savings. Does anyone have any idea where the money is going to be found?

But even if you go to negative interest rates, (and in reality, considering inflation, we are now below there), will there be reasons to borrow? When the problem is too much productive capacity and a large case of insolvency, you can not keep priming the pump.

Despite the FED's cut, the yield on the 10 year Treasury closed higher at 3.87% today. The yield on the 30 year Treasury also closed higher at 4.24%. It would appear that our creditors will demand higher rates in the future.



The auto industry is reducing models, plants, dealerships to reduce capacity and adjust to market level demand. Of course, GM and Chrysler are also trying to turn GMAC into a bank to obtain FED largesse. But if they do merge, there goes 45,000 jobs or more onto the unemployment rolls. Of course, the problem remains ... employee contracts that are too costly to compete with foreign manufacturers. Too much capacity for the demand is a major problem.

The same applies to housing, semiconductor chips, and a host of other industries.

The growth mantra has to change ... survival becomes important as the weight of debt and the inability to service it looms. The consumer which supplies 70% of GDP is struggling and even as the consumer cuts back and begins reducing the load of consumer debt, it further hastens the deleveraging.

Keynesian economics has now been stretched about to the maximum and the cracks of spending beyond one's means as an individual and sovereign nation are becoming critical. The time to pay the piper is close at hand. Gold and the HUI index both were higher today. The HUI index was higher by 12.97%.

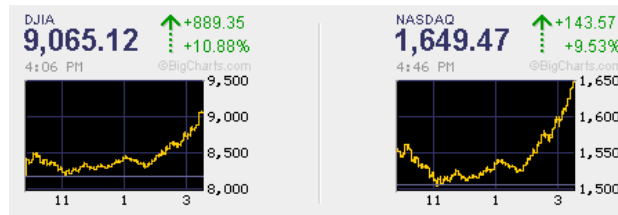


Most commodities and the CRB index were higher as the dollar headed lower by 2.7%. Crude oil rose and agricultural commodities like corn and soybeans benefited from a lower carry-over forecast from the USDA as crop yields were impacted this fall.



We sold MA from the Aggressive portfolio today. There were no other changes in the portfolios.

10/28/2008



The Bulls were winners today!

Markets Diary			
	4:46 p.m. EDT 10/28/08		
Issues	NYSE	Nasdaq	Amex
Advancing	2,504	1,934	699
Declining	624	862	415
Unchanged	49	106	62
Total	3,177	2,902	1,176
Issues at			
New 52 Week High	2	1	16
New 52 Week Low	673	609	223
Share Volume			
Total	1,733,477,346	2,768,555,016	40,949,068
Advancing	1,649,512,296	2,402,145,152	31,837,320
Declining	81,259,320	358,211,430	8,239,948
Unchanged	2,705,730	8,198,434	871,800

The overseas markets managed to stop their slide and began to move higher as many stock values were seen to be extremely oversold. At today's opening in the U.S., the markets were held down by weak retail sales and then a dismal consumer confidence reading from the Conference Board. However, by noon most indices remained in positive territory and the indices began the march into higher ground. At the close, the indices were at their highest levels for the day on increased volume.

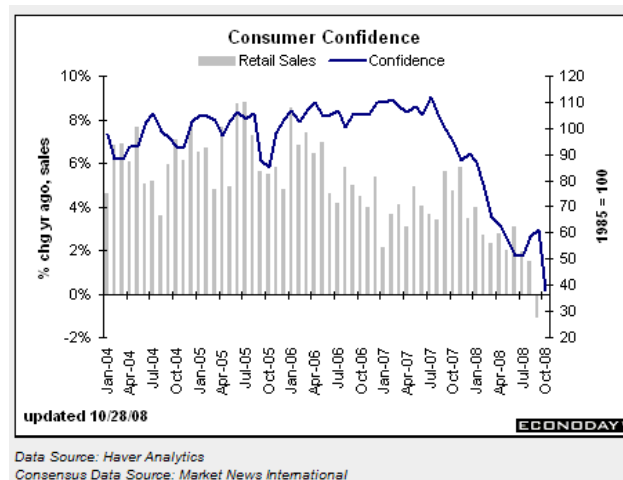
Was today's gains simply a result of bargain hunters and short covering or was it the PPT pushing the markets up in anticipation of tomorrow's FED decision. The Dow's 849 point move was the highest in history. We do live in amazing times.

Despite further declines in the price of crude, energy firms like OXY and VLO reported results greater than analysts expectations. Boeing also moved up as it reached a four year agreement with the machinist union ... but it has not been voted on by the striking workers yet.

The yen today saw a major reversal which was probably caused by intervention by the Japanese government trying to help its export trade while discussing lowering the internal interest rate to 0.25%. In one day, the yen went from 93 to 97 versus the U.S. dollar. Simply amazing! The law of supply and demand is being manipulated world-wide as nations try to jury-rig their currencies and export positions.

How long do you think it might take for the G-20 countries to come up with a new world currency scheme? The U.S. does not have the clout to broker it like Bretton Woods. Perhaps, China and Russia might but historically their ability to work together has not succeeded due to their own national interests. However, the old saw remains, "those that have the gold ... make the rules."

The Conference Boards consumer confidence index fell to a record low 38.0 in October vs. 61.4 the previous month.



The S&P/Case-Shiller 20 city home price index fell 1.03% in August vs. the previous month and is down 16.62% year/year. Prices are down 20.3% from the peak seen in July '06.

The FED's largesse and your tax money is leaking everywhere. The Korea Development Bank was approved to sell as much as \$830 million of commercial paper to the FED. Where does it stop?

While Iceland is raising interest rates to 18% to get an IMF injection, Great Britain is likely to drop its interest rates to zero to avoid a depression. Wonder how long the current government in Great Britain will survive?

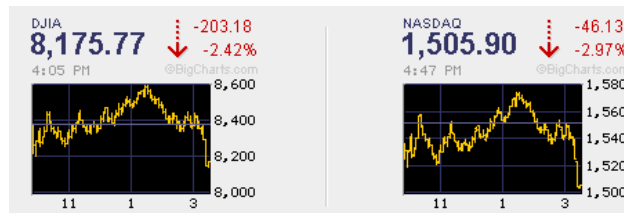
Of course, the survival of many hedge funds due to redemptions and margin calls is also imminent as the global economy contracts quickly. The shrinkage of the Baltic Dry Index during the past four months is simply extraordinary.



The dollar continues to lose its luster as a reserve currency. Now Russia and China are discussing ditching the dollar to settle trade transactions between them. In the end game, it won't matter much as all currencies are fiat.

We did make some changes in the Aggressive, Conservative and Core portfolios today as we felt the overseas buying would have some effect on the U.S. markets. Click on the portfolio links to the left to see the changes.

10/27/2008



Improving housing data could not overshadow a weak bond auction.

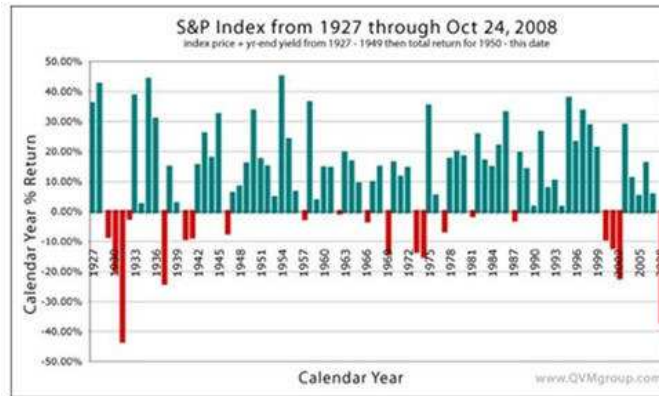
Markets Diary			
	NYSE	Nasdaq	Amex
Advancing	655	562	332
Declining	2,447	2,177	742
Unchanged	62	99	59
Total	3,164	2,838	1,133
Issues at			
New 52 Week High	2	1	10
New 52 Week Low	692	589	265
Share Volume			
Total	1,339,050,478	2,273,777,770	37,740,566
Advancing	155,372,170	516,561,273	5,772,350
Declining	1,178,303,788	1,739,816,526	31,381,416
Unchanged	5,374,520	17,399,971	586,800

Despite the overseas market slide, today the indices began to recover shortly after the open. But by day's end, the markets closed once again at their lowest level for the year ... that is two day's in a row. Not even a rise in sales of new

homes could offset the weak results of today's five year \$6 billion TIPS auction. With some \$58 billion still to auction in the near future, the Treasury may be forced to increase the rate.

Although volume was off, the market plunge in the last hour was rather dramatic. Despite the market action from the opening until the final plunge, declining issues, new 52 week lows and declining volume overwhelmed their counterparts today. Did the PPT finally give up in the last 45 minutes of today's market? It was a quick swift ride to the bottom.

The results for the year-to-date are very illuminating when viewed in a historical sense. The following chart shows the performance of the S&P 500 since 1927.



The FED began to use the commercial paper facility today. Will it help? If it does not, things will get worse shortly. Of course, the 3rd Qtr GDP is probably going to be negative as will the 4th Qtr. Regional banks will be getting \$31 billion in capital infusions from the Treasury.

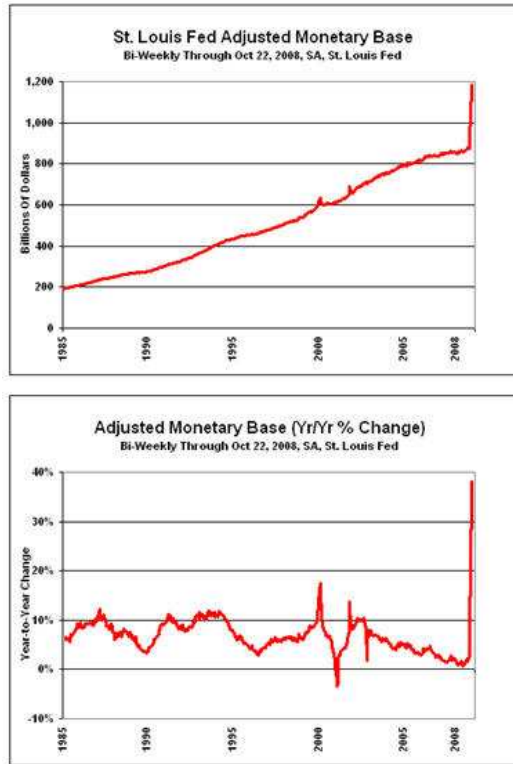
South Korea joined the herd and reduced its rates by 75 bps, a record move. The yen moved to a 13 year high against the dollar. Crude oil managed to slide further by 3.1% in today's trading but failed to move the markets higher

Forget the improvement in sales of new homes ... the data you saw was seasonally adjusted. If you used not seasonally adjusted data, new home sales decreased in September and inventories actually increased. New home sales represent only 7.5% of the market. In September, 442,000 existing homes were sold while only 36,000 new homes were sold. Median home prices, however, continue to fall on both existing and new homes. Median home prices have fallen 9.1% y/y.

The FOMC starts its two day meeting on Tuesday. The betting is for a 50 basis point drop in rates. Pretty soon, it will be lower than Greenspan's 1% level. But it won't do any good ... dropping rates does not help when the problem is solvency and the U.S. Treasury and the FED are both bankrupt.

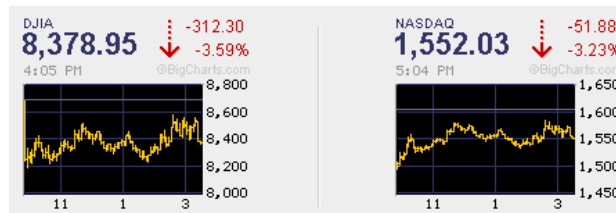
Nevertheless, both Ford, Chrysler and GM are looking for a handout from the government and the rating agencies are considering lower the ratings of their bonds.

The FED's moves have caused the monetary base to increase 38% this year. With King Henry and Helicopter Ben rushing from one credit crisis to another and dispensing huge sums of fiat currency, the eventual cost to the U. S. financial and economic system will be much higher inflation. The following charts prepared by John Williams of Shadow Government Statistics show the growth in the monetary base according to the St. Louis FED's data. The previous high growth rate was 28% in September 1939 as a prelude to World War II.



We made no changes in the portfolios today.

10/24/2008



Making new lows for the year for most indices!

Markets Diary			
	5:04 p.m. EDT 10/24/08		
Issues	NYSE	Nasdaq	Amex
Advancing	561	566	313
Declining	2,552	1,713	769
Unchanged	51	91	65
Total	3,164	2,370	1,147
Issues at			
New 52 Week High	4	1	12
New 52 Week Low	853	814	347
Share Volume			
Total	1,582,575,041	2,653,849,255	40,695,674
Advancing	224,501,640	489,909,856	9,358,214
Declining	1,354,587,101	2,147,478,725	29,994,560
Unchanged	3,486,300	16,460,674	1,342,900

The overseas markets were off sharply on recession and credit worries and the futures markets in the U.S. were signaling a bad opening. At least, the market did not go lower than the opening although most indices managed to put in new yearly lows.

By the strict definition, today does not count as distribution but I don't know what else you could call it. There were hardly any bargain hunters willing to step up to the plate.

In another move to prevent further carnage, the FED is considering making direct investments into insurance companies ... you know insurance companies are supposed to be conservative investors ... but apparently, they took on considerable amount of risk led on by the ratings given to various types of supposedly riskless securitized paper. It

always amazes me that many of today's portfolio managers have failed to remember that increased yields often mean increased risk and if a black swan event occurs, the possibility of being in trouble always should be a concern.

The world credit mess continues. Hungary, Belarus, the Ukraine and Iceland has joined Pakistan in requesting \$20 billion in emergency loans from the IMF. Step right up and get in line ... Who's next? Great Britain, Russia or the U.S.

Existing home sales increased 5.5% in September but home prices fell 5.7% in the month. **Of course, more than 35% of these sales are foreclosed or short sales.** The good news is that the supply also fell to 9.9 months in September from 10.6 months in August. But don't get too excited as we have noticed many homes in the Dallas area removing for sale signs ... how about where you live?

For the first time in 17 years, real consumer spending is on the decline on a quarterly basis. Even if crude oil is falling, gasoline inventories are increasing despite OPEC's threat to reduce production.

Shortfalls are almost anywhere you look. WAMU's CDS auction only brought 57 cents rather than the 62.65 cents expected. AIG is worried that the \$122.8 billion U.S. loan won't be enough. The FED reduced the Bear Stearns asset pool by \$2.7 billion. GE Capital is going to tap the FED CP facility.

The massive increase in U.S. debt is causing some analysts to predict that before the summer of 2009, the U.S. will default on its bonds and/or agency debt. They cite the following as factors:

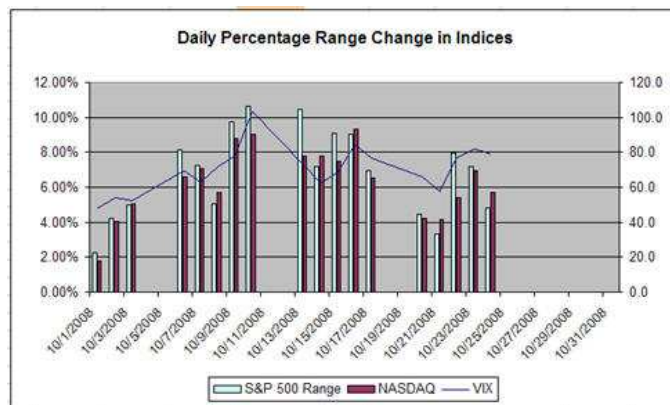
1. Upward trend of U.S. dollar is a direct and temporary consequence of the stock market collapse.
2. The Euro is a credible safe haven value alternative to the U.S. dollar.
3. The U.S. debt is growing out of control.
4. The collapse of the real U.S. economy prevents it from finding an alternative solution to the country's defaulting.
5. The growth in the money supply will cause massive inflation in the U.S. during 2009.

The meeting on November 20th of the G-20 members could be the beginning of the end of the U.S. dollar as the world's reserve currency. During the past two weeks, we have seen increased warnings from Russia, China, Middle Eastern and European leaders about the need to begin building a new international financial order. These warnings are concerned both with manipulation of currency and gold markets.

Remember those frozen auction rate securities. Deutsche Bank AG is offering to repurchase securities it sold in the U.S. via a Cayman Bank conduit. Wonder why?

Tonight as we ran the screen for the Conservative portfolio stock watch list, there were no stocks in the IBD database that met the criteria. The STI indicators for both the S&P 500 and the NASDAQ remain strongly negative. We have been working with some old methods of trying to decide if the bottom is in.

The premise is that as the VIX declines from elevated levels, the percentage range of the S&P 500 and the NASDAQ should form a downward slope. The following chart shows the result of those calculations since October 1st.



In looking at the graph, it would appear that the bottom may be getting somewhat closer.

We made no changes in the portfolios today. Have a nice weekend.

Fred Richards/Strategic Investing.

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