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# Market Musing

## 11/7/2008 After the Close



### Dismal jobs report ... but the market went up on lower volume.

Markets Diary — 5:47 p.m. EST 11/07/08

| Issues | NYSE | Nasdaq | Amex |
|---|---|---|---|
| Advancing | 2,167 | 1,780 | 455 |
| Declining | 981 | 1,066 | 379 |
| Unchanged | 85 | 126 | 66 |
| Total | 3,233 | 2,972 | 900 |
| **Issues at** | | | |
| New 52 Week High | 7 | 3 | 2 |
| New 52 Week Low | 113 | 157 | 18 |
| **Share Volume** | | | |
| Total | 1,219,324,208 | 1,897,312,890 | 16,962,434 |
| Advancing | 987,895,708 | 1,381,241,529 | 10,578,250 |
| Declining | 226,645,800 | 460,501,518 | 5,940,784 |
| Unchanged | 4,782,700 | 55,569,843 | 443,400 |

Unemployment jumped to 6.5% for October according to the Ministry of Truth. **Non-farm payrolls contracted 240,000 in October.** A decline of 200,000 was expected...but the number was better than the "whisper" expectations. **Revisions to the previous two months subtracted an additional 179,000 jobs. This is the tenth consecutive monthly decline with 1.179 million jobs having been lost this year.**

**The Ministry of Truth forgot to mention that the fudge factor added some 1.253 million jobs during the year. If you add the 1.179 million and maybe, 50% of the 1.253, the real loss is in the vicinity of 1.8 million jobs lost since December 31, 2008.**

The Pending Home Sales Index, a forward-looking indicator based on contracts signed in September, declined 4.6 percent to 89.2 from an upwardly revised reading of 93.5 in August, but is 1.6 percent higher than September 2007 when it stood at 87.8. There does not appear to be a bottom for the housing market.

Both GM and F are trying to convince Pelosi and Obama that they are deserving of a bailout. They both posted huge operating losses in the 3rd Qtr. The losses put both companies with capital approaching zero. Let's hope that someone comes to their senses before the capitalistic system goes kaput!

We were traveling most of the day so this will be short. The indices lost about 5% for the week despite today's bounce. If it feels like a dead-cat bounce, perhaps, it is. A test of the previous lows is in progress.

The next three weeks will find us on the road so that the Musings will be short and at the mercy of the travel gods as we head to England next week and back to NYC before heading to Seattle for Thanksgiving. Unfortunately, I could not find a bridge to England so all the trips will be on airplanes.

We made no changes in the portfolios today.

## 11/6/2008 After the Close



### Another ugly day for the markets!

Markets Diary — 6:05 p.m. EST 11/06/08

| Issues | NYSE | Nasdaq | Amex |
|---|---|---|---|
| Advancing | 549 | 632 | 274 |
| Declining | 2,651 | 2,238 | 674 |
| Unchanged | 47 | 105 | 52 |
| Total | 3,247 | 2,975 | 1,000 |
| **Issues at** | | | |
| New 52 Week High | 12 | 3 | 2 |
| New 52 Week Low | 133 | 163 | 23 |
| **Share Volume** | | | |
| Total | 1,511,318,099 | 2,377,574,567 | 24,045,081 |
| Advancing | 73,248,960 | 226,642,418 | 5,427,500 |
| Declining | 1,437,542,039 | 2,141,286,423 | 18,132,081 |
| Unchanged | 527,100 | 9,645,726 | 485,500 |

The NYSE, DOW and NASDAQ chalked up distribution days today as the markets continued the trend from yesterday, down, down, and down. The last two days is the worst two day decline on a percentage basis since October 1987.

*By any definition, this is a dangerous market.* ***With our Action Points being hit yesterday and today, we have mostly retreated to cash in our Strategic Investing portfolios.***

Declining issues and volume dominated and new 52 week lows have started to increase again. Bottom, bottom, where's the bottom?

Today's economic data continued to paint a picture of a deteriorating economy. Reuters reported retail sales data as follows:

> **(Reuters) - Retail chains posted the worst monthly sales data in this decade as consumers stunned by a financial crisis that has derailed the U.S. economy cut spending sharply in October.**

If the markets had any hope of moving up, it was quickly squashed when additional data crossed the wires:

- Jobless claims remained high with continuing jobless claims increasing 122,000 to 3.843 million (the highest level in 25 years),
- a small productivity improvement and
- a 10 point fall in the Monster Employment index

Each report pointed to an economy that was misfiring.

Even the IMF is now suggesting that the US economy will fall .07% in 2009 while Japan will only contract 0.2%. The IMF World Economic Outlook report suggested that:

> **"Markets have entered a vicious cycle of asset de-leveraging, price declines and investor redemptions...Global action to support financial markets and provide further fiscal stimulus and monetary easing can help limit the decline in world growth."**

The beggar thy neighbor cult remains alive and well. The Bank of England cut rates by 1.5% to 3% today while the ECB was a piker ... it cut rates only 0.5% to 3.25%. Not to be left behind, the Swiss central bank cut rates 50 bps to 2.0% in an unscheduled meeting today.

Although the LIBOR rate continues to move lower, when a system is facing insolvency ... the solution is not additional liquidity and that is what the FED and other central banks have been using. Yesterday's FED move to alter the formulas used to determine interest rates to be paid to depository institutions on required reserve balances and excess reserves would seem to suggest that **the entire banking system is broken according to FT.com.**

> *... it appears that the US Federal Reserve has given up on the idea of easing stress on interbank and wholesale lending and is resigned to being the central bank-come-market-maker of last, first and every resort... Ben Bernanke knows this scenario. It's not been admitted yet, but it's looking very much like a liquidity trap. Rates on T-bills are already precipitously close to zero....*
>
> *At its core, the Bernanke Twist is a direct effort to try and support prices; to stop destructive debt deflation. We*

*are in uncharted territory though. The Fed is not just trying to game the market in US government debt. It's trying to support the entire asset-backed debt market.*

*Which is particularly risky when the the Fed is effectively supporting those prices by positioning itself as a risk sump.*

*No wonder, as Krugman says, Fed officials are "nervous". This is an all-out gamble.*

On Monday, the Treasury Department announced that U.S government borrowing needs for the current quarter are expected to rise to a record $550 billion, following the $530 billion raised last quarter. Washington's burgeoning demand for borrowed money reflects the costs of financing various government bailouts, including the $700 billion financial rescue plan, as well as a federal budget deficit that has ballooned amid higher outlays and plunging tax receipts.

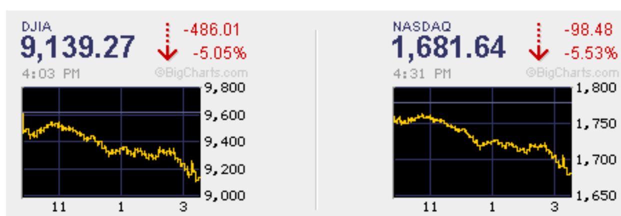
Crude oil appears to building a base between $60 and $70/barrel. Likewise the U.S. dollar index appears to be building a support level about $84. The U.S. Dollar index jumped 1.5% higher as European Central Bank President Jean-Claude Trichet noted that the economy in the region "weakened significantly." Ten-year Treasury bond yields were more-or-less unchanged at 3.7%.



However, despite the FED's rate cut last week, mortgage rates appear to be rising. Tomorrow, the October Employment report will be out. The October 2008 net birth/death rate adjustment will add 42,000 jobs to the total.

What will Friday's reports bring? The odds are that they will not be market friendly. Be prepared for a retest of the recent lows.

## 11/5/2008 - After the Close and the Election




## What Euphoria? Perhaps, reality has set in!

**Markets Diary** 4:31 p.m. EST 11/05/08

| Issues | NYSE | Nasdaq | Amex |
|---|---|---|---|
| Advancing | 603 | 534 | 323 |
| Declining | 2,490 | 2,232 | 561 |
| Unchanged | 54 | 98 | 64 |
| Total | 3,147 | 2,864 | 948 |
| **Issues at** | | | |
| New 52 Week High | 3 | 3 | 5 |
| New 52 Week Low | 26 | 82 | 12 |
| **Share Volume** | | | |
| Total | 1,309,413,604 | 2,186,681,198 | 25,711,703 |
| Advancing | 75,482,600 | 203,959,912 | 7,100,640 |
| Declining | 1,229,336,704 | 1,971,368,602 | 17,492,563 |
| Unchanged | 4,594,300 | 11,352,684 | 1,118,500 |

After the results of the election, today's market certainly failed to live up to a message of hope for the future. In fact, the market internals of advancing and declining position almost exactly flip-flopped between yesterday and today. Today's market action certainly must give pause to all the big spenders in the new administration.

The euphoria was quickly tempered by the realization that the job market is worsening with the ADP report showing a loss of 157,000 jobs in October. This is the largest decline since January 2004. The ISM service index also fell into negative growth at 44.4 in October as well.

Slowly, even the Ministry of Truth and their compliant Keynesian economists are beginning to see a recession in the numbers. Heck, some day they might even find one ... you know the old saying about a blind hog eventually finding a truffle in the forest.

It seems that the FED's rate moves are getting mixed results. Unlike short term funds, mortgage rates are moving higher ... perhaps, it is the risk factor or just the lack of available mortgage money as the FED's cash infusions are being used to paper over the balance sheet holes. Moreover, tighter lending standards and increased down payment requirements have reduced home loan application volume over 40% in the October 31 week on a y/y basis.

The Europeans and the U.S. have failed to develop a way to handle the CDS market. While it certainly is not a $55 trillion problem on a net basis, one of the major problems is that many of the counter-parties simply do not exist anymore.

The uncertainties facing investors are great. **Robert Shiller of the Case-Shiller index put it this way today:**

> "This is not a run of the mill recession that we are in. This is a crisis of confidence that we haven't seen since the Great Depression.
> ...
> Ultimately I think economic forecasting is more guess work than people realize. In times when you don't have a fundamental change, you can extrapolate curves, and people do that pretty well. But right now I don't trust extrapolation. It also - forecasting - depends on how the new government, how the new president, what he does, how he shapes confidence - and those are also unknowns at this point."

Obama faces some real hurdles ... and not the least is the fact that his rhetoric will face the reality of the sow's ear. His programs are likely to fail to meet the expectations of the Cleveland voter who was sure that a vote for Obama meant "free rent and free gas." Will the multitudes who voted for him continue to be there when it becomes apparent that the "change" does not meet their expectations.

The systemic financial crisis caused by deleveraging and too much world-wide capacity make the task facing the new administration almost impossible to overcome. Nevertheless, the politicians will continue to use the Keynesian playbook until the Treasury auction fails. And that's when the game ends.

The financial crisis began unwinding when the AAA ratings given by the rating agencies were thought to be as "save and secure" for sub-prime paper as for U.S. Treasuries. Of course, perhaps, they are right. For the US is just as unable to pay its $13 trillion of publicly-held debt owned by China, Japan, Russia, sovereign wealth funds, pension funds, insurance companies and investors, as sub-prime borrowers can pay the $1.3 trillion owed on sub-prime mortgages. OOPS!

The massive additions to the U.S. publicly-held debt in FY2009 should create major headaches for the debt markets. Originally projected at just over $500 billion, the consensus is now approaching $1 trillion for the FY 2009 deficit with some analysts suggesting $2 trillion is closer to the truth. The current level of U.S. publicly-held debt is at a point where to service it, it simply has to borrow more debt plus paying for all the new programs favored by Obama.

With the U.S., the major supporter of the IMF and bankrupt by almost any definition, the world economy is facing a major problem. In the last two weeks, the IMF has bailed out Iceland, Pakistan, Hungary and Ukraine. Will the U.S. be next? And, if so, what happens to the international financial system?

We made no changes in the portfolios today.

## Finally the Election is here - 11/4/2008 After the Close


**Was it just a relief rally that the campaign was over?**

| Markets Diary | | | 5:24 p.m. EST 11/04/08 |
|---|---|---|---|
| **Issues** | **NYSE** | **Nasdaq** | **Amex** |
| Advancing | 2,464 | 1,758 | 747 |
| Declining | 663 | 1,006 | 256 |
| Unchanged | 49 | 110 | 40 |
| Total | 3,176 | 2,874 | 1,043 |
| **Issues at** | | | |
| New 52 Week High | 5 | 11 | 1 |
| New 52 Week Low | 21 | 66 | 19 |
| **Share Volume** | | | |
| Total | 1,309,249,668 | 2,355,017,616 | 33,213,543 |
| Advancing | 1,145,313,568 | 1,928,505,476 | 26,506,633 |
| Declining | 162,468,310 | 409,891,411 | 6,003,810 |
| Unchanged | 1,467,790 | 16,620,729 | 703,100 |

As voters made their way to the polls to select a new leader and various other politicians to positions of leadership, the market moved higher as credit markets showed some improvement and there were positive surprises in financial earnings.

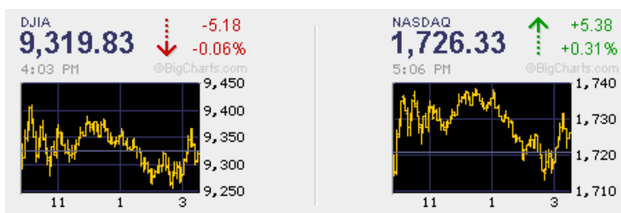
Clearly, the advancing issues and volume were dominant in today's trading. However, overall volume remained relatively weak compared to the past two weeks. The line outside of Treasury for handouts keeps growing ... but forcing banks to lend is more difficult.

Commodities including oil were higher as the dollar shaved 1.8% off its price. The TED spread fell another 18 basis point to 2.24%. Factory orders fell 2.5% in September whereas 0.8% was expected. Could the sudden increase in the price of gold along with the decrease in the yield of the 10 year Treasury today be early warning of another financial bomb surfacing?

We reversed the sale of Visa yesterday in the Aggressive portfolio and added MasterCard and DE also. There were no other changes in the portfolios today.

Today's Musing is short as we get ready to settle down after dinner and watch the Mavericks play the Spurs on TV. I am afraid that my blood pressure can not stand anymore of the breathless excitement after two years of which candidate will win. It leaves me with great sadness that out of 330 million people, neither party could find a better candidate than McCain and Obama.

## 11/3/2008




## A mixed market close as the election cycle peaks!

| Markets Diary | | | 5:06 p.m. EST 11/03/08 |
|---|---|---|---|
| **Issues** | **NYSE** | **Nasdaq** | **Amex** |
| Advancing | 1,748 | 1,509 | 572 |
| Declining | 1,346 | 1,234 | 367 |
| Unchanged | 71 | 127 | 76 |
| Total | 3,165 | 2,870 | 1,015 |
| **Issues at** | | | |
| New 52 Week High | 6 | 10 | 4 |
| New 52 Week Low | 13 | 51 | 20 |
| **Share Volume** | | | |
| Total | 1,017,759,564 | 1,838,517,083 | 21,659,073 |
| Advancing | 494,053,994 | 929,308,516 | 12,715,480 |
| Declining | 517,808,070 | 885,365,597 | 8,454,693 |
| Unchanged | 5,897,500 | 23,842,970 | 488,900 |

As the election comes to the finish line, the markets tended to mark time and ignored today's economic news. Volume was light as investors were unwilling to take major positions despite many pollster's declaring an Obama sweep.

Despite the rash of bad news, dismal auto sales figures, a further 0.3% decline in construction spending and manufacturing contracting the most since 1982, the market ended almost unchanged. Last week's FED cut to 1% will not help. Despite the FED's pushing money into the system, the real problem is that all that largesse has gone to shore up holes in the bank's balance sheets and not to increase lending.

Many bankers are hoping that the economy will recover before all the write-downs see daylight. However, the odds do not look good ... what really needs to occur is that the system needs to be purged before it becomes too late. The derivatives book must be cleaned up and opened up to transparency and if it takes a few banks down, so be it.

Chase is following JPM's lead on loan modifications. Of course, if they modify the loans ... perhaps, they won't have to write them down as much.

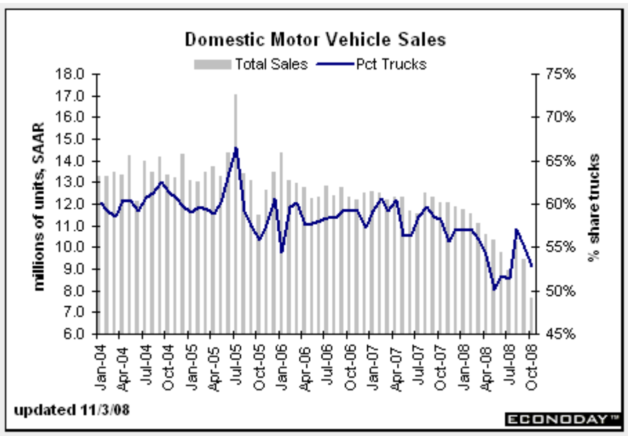
Perhaps, banks are now caught between a rock and a hard place. If they don't take the FED's money, will they be seen as "troubled." Of course, it is unwieldy to suppose that as many as 1,800 publicly held institutions could apply for government investments in coming weeks ... thousands more private banks could also apply according to a Treasury spokeswoman Sunday. Socialism ... here we come!

To say that the bottom is in is laughable. Of course, fear and panic are just beginning. From Mr. Mortgage Lender comes the following:

> A good friend who specializes in distressed real estate assets such as notes and REO just bought 27 second mortgages with a face value of $2,153,400 for $2400 - that's **TWO THOUSAND FOUR HUNDRED DOLLARS**.
>
> He does a lot of business with the bank seller and this package was in addition to a 12 unit REO package he bought for 36 cents on the new appraised value. Even though this is an exceptional deal, it is not too far off of the 5 cents on the dollar that Bernanke testified about when selling TARP to the House.
>
> None of the first mortgages ahead of these seconds have a Notice-of-Default against them. Two of the seconds totaling $54,275 are current, paying on time.
>
> The most interesting is a $540k second in Jersey Shore. The home was purchased for $1.8 million with the first mortgage being $800k. The current appraised value is $1.2 million. My friend can actually foreclose on the property and make a killing or just offer the owner a buy out of $50k on the $540k second, make a 2000% return and get the other 26 notes for free.
>
> I wonder at what level the banks holding hundreds of billions of these have delinquent home equity loans valued?

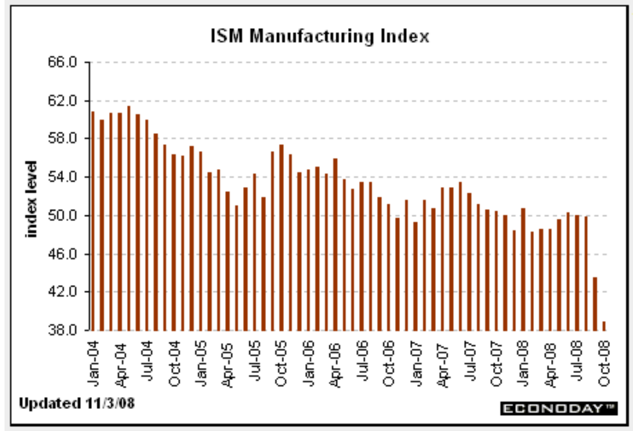
The TARP will result in stupid deals just like the RFC did with the savings and loan crisis? Oh, ye, of little faith will deserve whatever you get!

GM was down 45%, Ford car sales were down 27% while trucks were off 30%, Toyota cars were off 15% but trucks were off 34% which Honda's trucks sales slumped 29%. Clearly, it was not a good month.



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

The ISM Manufacturing index almost fell off the chart plunging to a low 38.9 reading which was last seen 26 years ago.

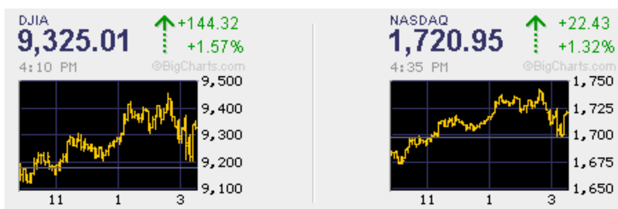



Yes, all is well in Wall Street ... Goldman is going to pay $7 Billion in bonuses after taking FED money. However, you have to wonder about Morgan Stanley ... rumor has it they are cancelling their year end parties.

Many charities are also having a difficult time as the federal takeover of FNM and FRE are unsure of continued support from the mortgage companies this year.

We sold Visa from the Aggressive portfolio today as it passed its Action Point. There were no other changes in the portfolios.

### 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 |

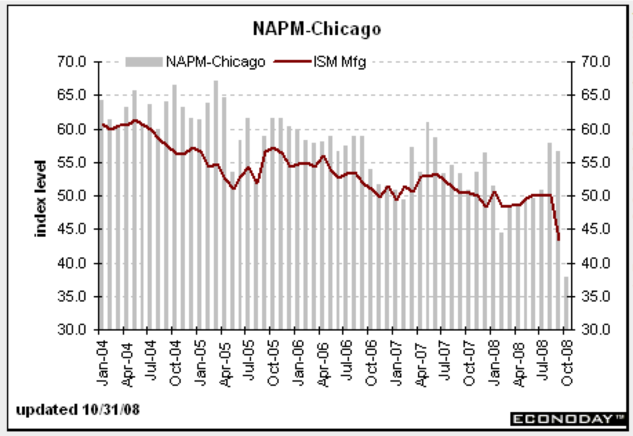
After the October carnage in the markets, have we seen the bottom? It appears that the market continues to hold up pretty well this week in the face of rather dismal economic news. Of course, if the market is going up just prior to the election, the Republican candidate has historically benefited. Or 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?

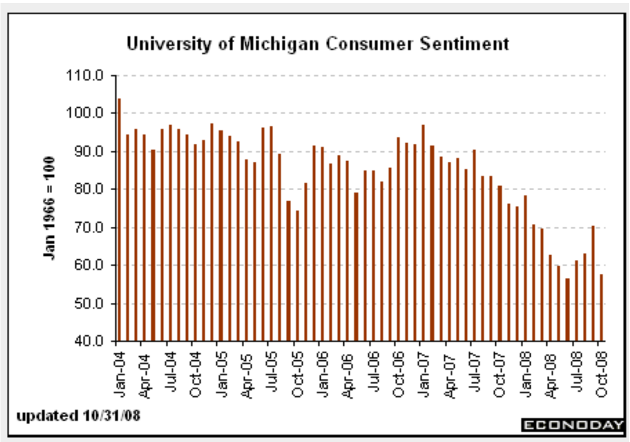
Overnight, Japan cut its rates to 0.30% while the sovereign debt of Argentina was also downgraded. The credit crisis continues to find new victims. Are the days of Keynesian economics numbered? It now takes $5 of new debt to create a dollar of GDP in the U.S., clearly a daunting task.

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.

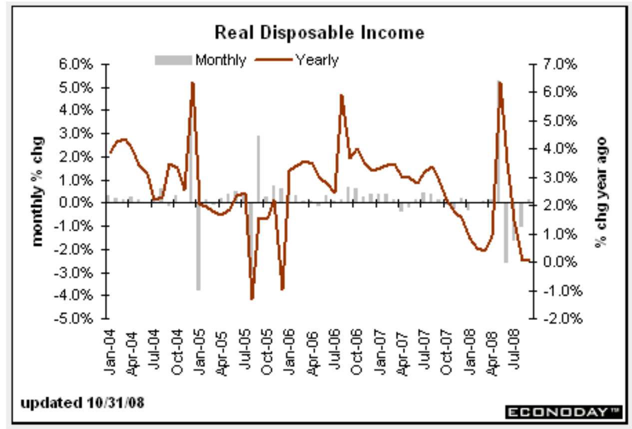


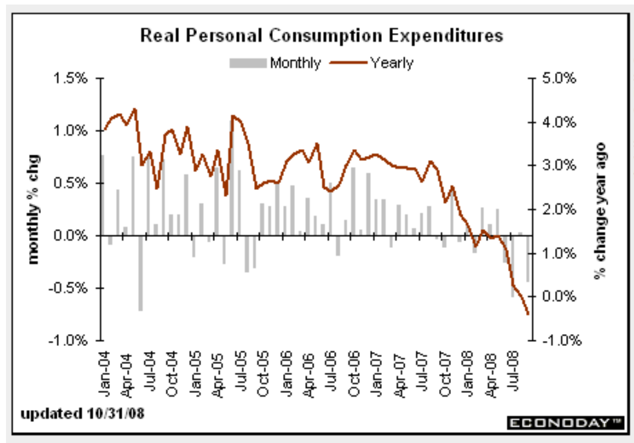

Data Source: Haver Analytics
Consensus Data Source: Market News International

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.

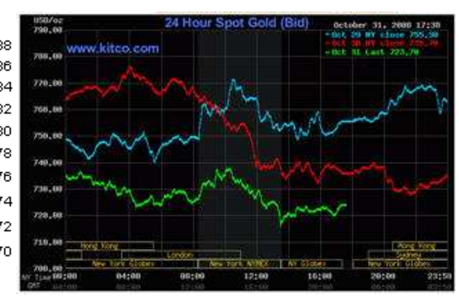



Despite this week's FED cuts, long-term rates including LIBOR are not falling. Yield on the 19 year Treasury note continued to move higher closing at almost 4%. Crude oil managed to close the month at $64.80, a drop of over $30 for the month.



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.

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