

Market Musings

01/02/2009 After the Close



The O.E.R. is underway!

Markets Diary			
5:10 p.m. EST 01/02/09			
Issues	NYSE	Nasdaq	Amex
Advancing	2,590	2,030	435
Declining	512	736	101
Unchanged	58	88	44
Total	3,160	2,854	580
Issues at			
New 52 Week High	11	16	2
New 52 Week Low	3	14	2
Share Volume			
Total	1,046,760,877	1,466,412,136	13,971,152
Advancing	920,695,517	1,325,316,488	10,249,042
Declining	118,335,610	129,343,434	2,037,410
Unchanged	7,729,750	11,752,214	1,684,700

The market moved ahead despite economic news and lower volume as the Obama Enthusiasm Rally (O.E.R.) continued. It would seem that it is all just hope and when the big hitters return from their vacations on Monday, will it continue? I forgot that most of them were Obama supporters so it very well might.

The ISM manufacturing index in December fell to 32.4 vs. 36.2 the previous month, its lowest level since June '80. Who cares we don't manufacture much of anything anymore!

The European zone manufacturing index also fell to 33.9 in December from 35.6 last month, the lowest level since the index began in 1998.

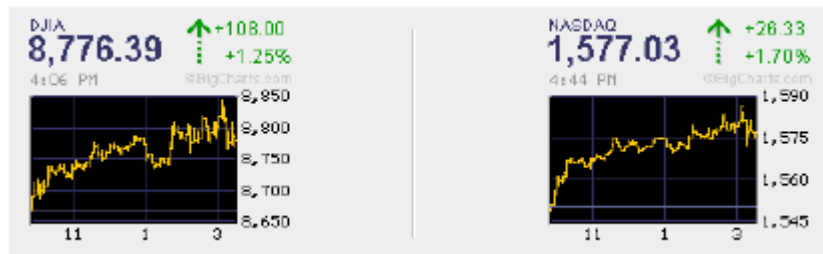
Market Musings by Fred Richards – January 2nd, 2009

The dollar rose against the yen while crude moved higher as concerns about the Middle East rose.

Trying to take advantage of the O.E.R. and get the three Strategic Investing portfolios off to a good start, we added to the **Aggressive**, **Conservative** and **Precious Metals** portfolios today. The initial Action Point was set at 3% below the purchase point.

It might look good to see a positive year to date comparison for most indices but are you fooling yourself? We will begin a trip to Las Vegas and California on Monday. As a result, the Musings may be short and delayed depending upon weather, meetings and other interruptions.

12/31/2008 After the Close



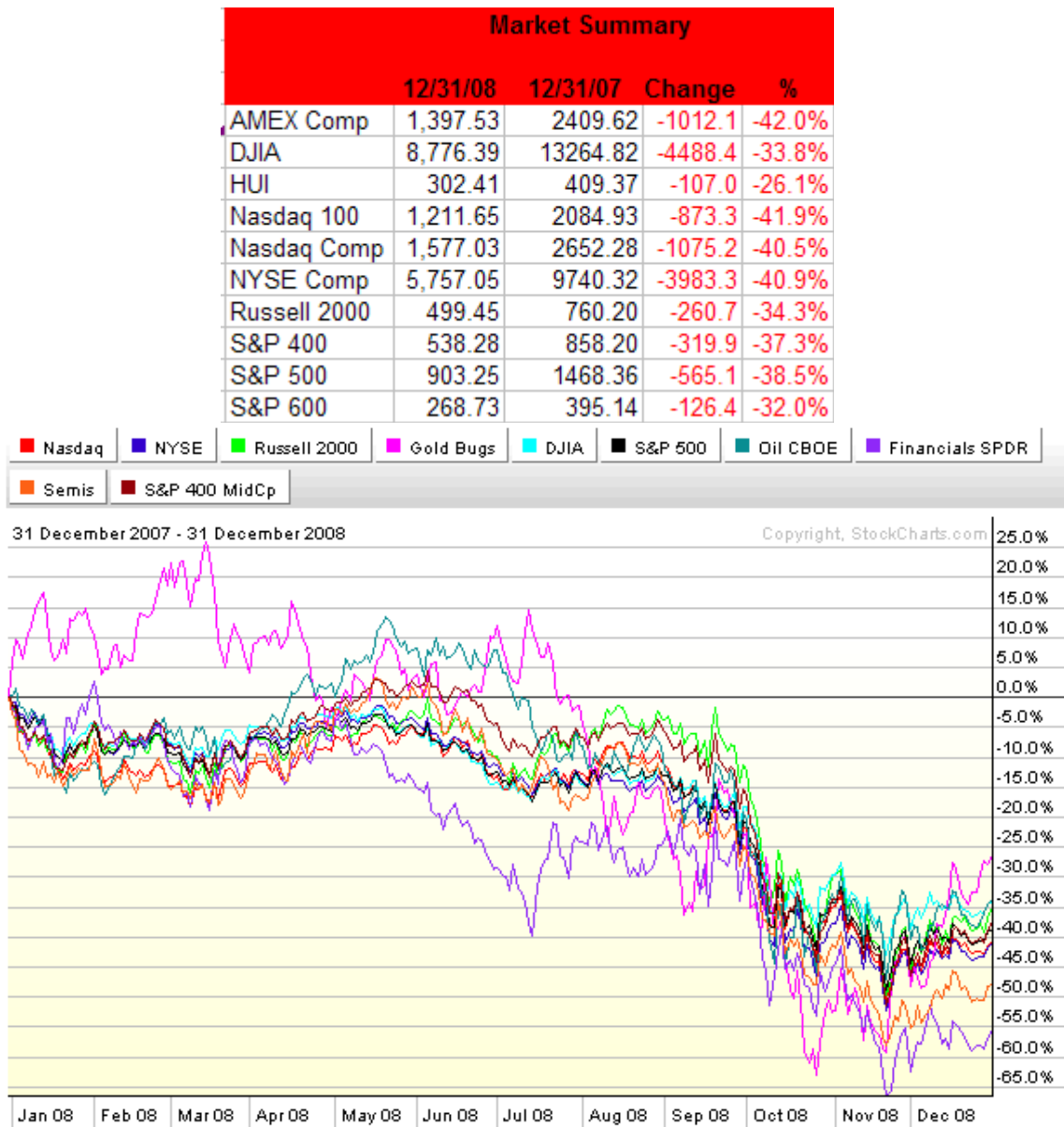
The Obama Expectation Rally started early!

Markets Diary			
	4:44 p.m. EST 12/31/08		
Issues	NYSE	Nasdaq	Amex
Advancing	2,651	2,193	401
Declining	491	676	171
Unchanged	81	132	55
Total	3,203	3,001	627
Issues at			
New 52 Week High	16	21	5
New 52 Week Low	16	72	33
Share Volume			
Total	1,312,203,066	1,596,709,306	21,744,901
Advancing	1,010,114,756	1,256,127,774	15,207,091
Declining	230,161,890	308,222,457	4,137,710
Unchanged	71,926,420	36,359,105	2,400,100

The market began where it closed on Tuesday and continued to move higher as the new year was just around the corner and after the celebrations, the year-to-date gains/loss fields would suddenly look a lot better!

To put 2008 in proper perspective, the following table illustrates the carnage which the financial crisis caused in many of the major indices. If your portfolio only lost 10% this past year, pat yourself on the back and thank your lucky stars.

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The financials spider, XLF, suffered almost a 55% loss during the year while the gold bugs index, HUI, was down about 27%. The year was not a good one for most professional money managers and their funds. Individual investors that are not burdened with the requirement to stay invested a major portion of their portfolio could have gone to cash and avoided a lot of worry.

With mortgage rates continuing to fall, purchase applications in the week ending December 26 rose 1.4%. The refi index held steady after rising in previous weeks as mortgage rates tumbled indicating that consumers are once again trying to use their home equity as a ready source of cash.

On the jobless front, new jobless claims dropped to only 492,000 in the week ended December 27th. Of course, continuing claims rose 140,000 to 4.506 million, the highest level since 1982.

Apparently, the green-shade crowd at the Treasury Department have a hard time adding up large numbers. According to the Wall Street Journal:

"The Treasury Department has committed nearly \$10 billion more than the \$350 billion Congress

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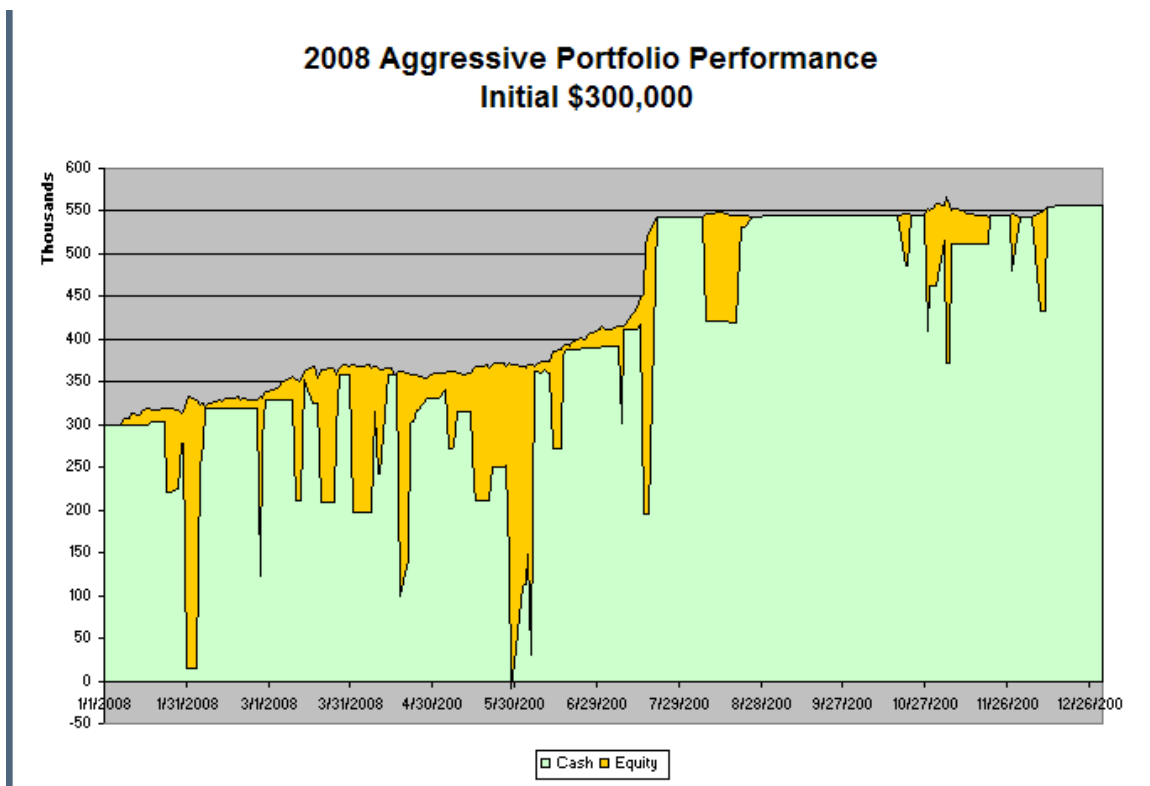
has authorized to date for the financial-sector rescue package, which could constrain how the incoming Obama administration deploys the rest of the fund.

Treasury's announcement Monday that it is directing \$6 billion to auto-finance company GMAC LLC brought to \$358.4 billion the total funds from the Troubled Asset Relief Program that have been pledged to a variety of programs and guarantees. That suggests Treasury is tapping into the second half of the \$700 billion set aside in October before it has been released by Congress."

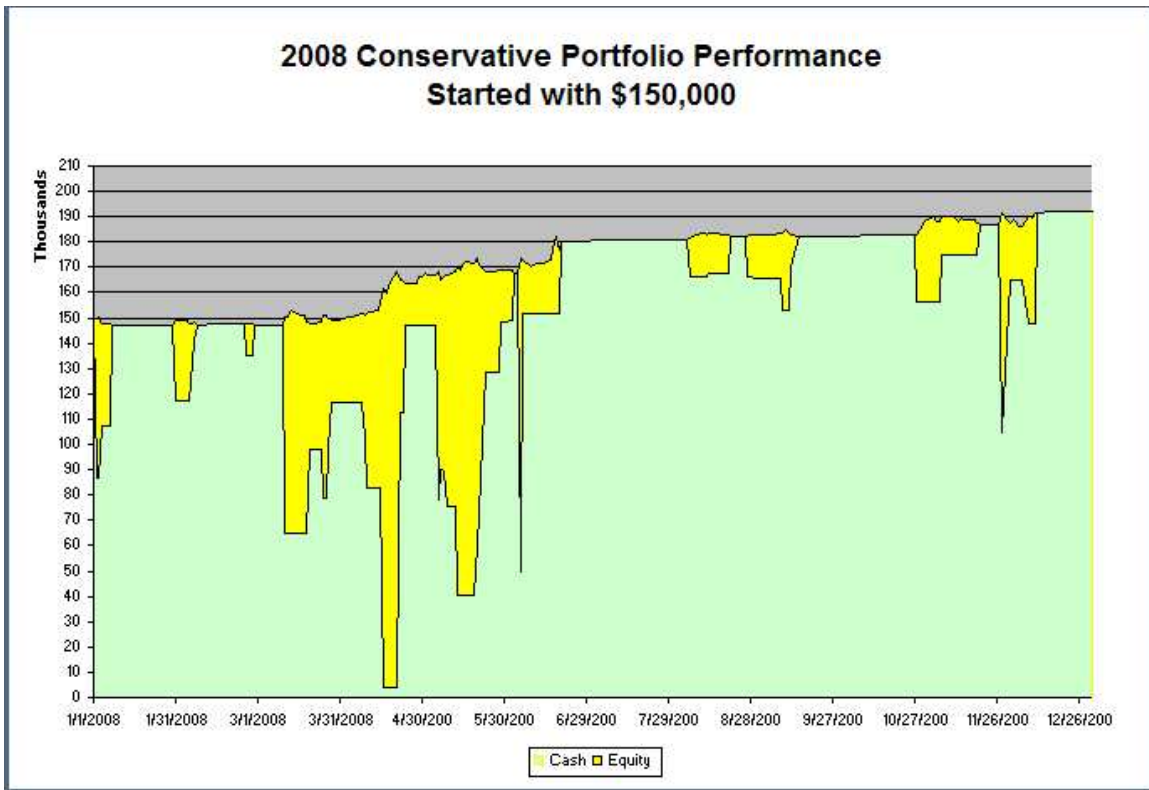
Bloomberg summarizes 2008 ...

"It has been a year of record misery: the largest bankruptcy, bank failure and Ponzi scheme in U.S. history; \$720 billion in write-downs and losses by financial institutions; \$30.1 trillion in market valuation wiped out."

For many, I would agree but the Strategic Investing portfolios did ok. We made no changes in the portfolios today. The day by day performance during 2008 of the Aggressive (+85.4%) and Conservative (+28.0%) portfolios as well as their holdings of cash are shown in the following two charts.

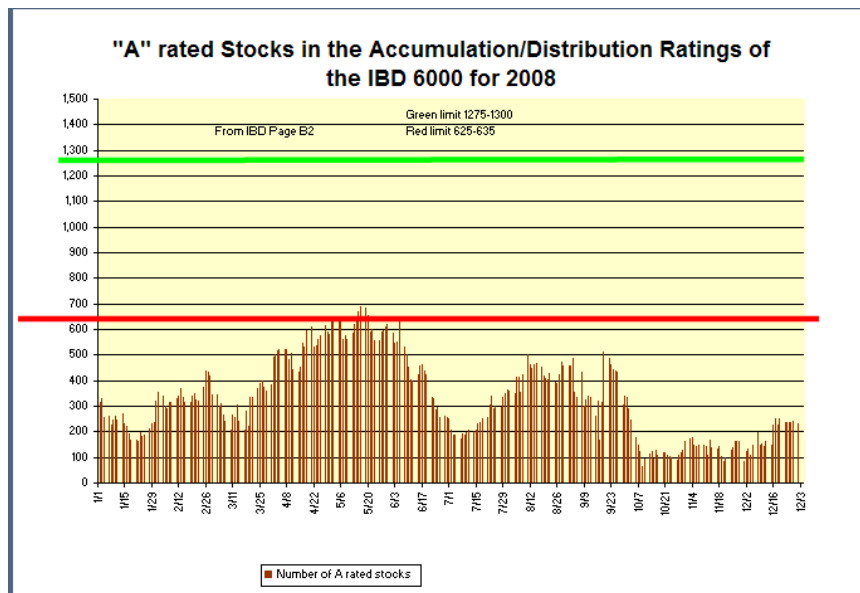


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As one of my mentors used to say, when the fish aren't biting, stay out of the stream! I guess that pretty well summarizes our outlook for 2008.

Our major asset allocation determinant is the number of A's in the IBD Accumulation/Distribution ratings as shown in the following chart.



Data source: Investor's Business Daily. Used with permission.

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As you can see, the A's barely got above the red zone once during the year and set new all time record low levels during the 4th quarter of 2008. With institution buying greatly diminished, it was very difficult to find stocks that merited purchasing.

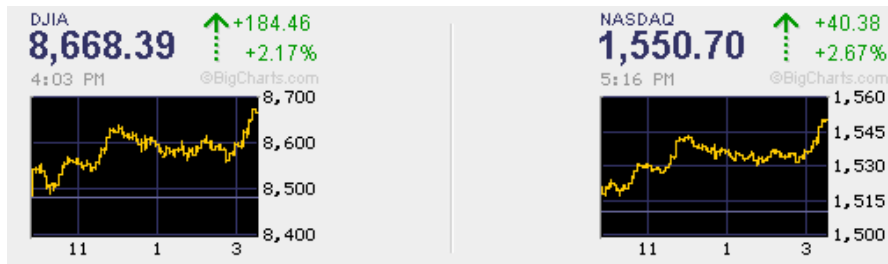
During 2008, there were only a total of 111 different stocks that made the list out of the approximately 8,000 in the IBD 6000 database. Seventeen stocks made the list more than once.

We made no changes in the portfolios today. While we did not add the currency gains to the portfolios, during the year, our movement of the free cash reserves to yen and Swiss francs and then 100% to yen garnered over \$65,000 of purchasing power during the year on the entire Strategic Investing portfolios. The following table shows the yearly performance.

2008 Strategic Investing Portfolio Performance				
Portfolio	1/1/2008	12/31/2008	Gain/Loss	%
Aggressive	\$ 300,000.00	\$ 556,258.00	\$ 256,258.00	85.4%
Conservative	\$ 150,000.00	\$ 191,992.00	\$ 41,992.00	28.0%
Core	\$ 150,000.00	\$ 138,956.00	\$ (11,044.00)	-7.4%
ETF	\$ 150,000.00	\$ 187,905.00	\$ 37,905.00	25.3%
Precious Metals	\$ 300,000.00	\$ 306,498.00	\$ 6,498.00	2.2%
Total	\$ 1,050,000.00	\$ 1,381,609.00	\$ 331,609.00	31.6%
Add Currency		\$ 65,504.00		
Grand Total	\$ 1,050,000.00	\$ 1,447,113.00	\$ 397,113.00	37.8%

We trust that you will have a great NEW YEAR!

12/30/2008



Tax selling abates and market goes up.

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Markets Diary		5:51 p.m. EST 12/30/08		
Issues	NYSE	Nasdaq	AMEX	
Advancing	2,596	2,001	377	
Declining	581	922	252	
Unchanged	58	124	54	
Total	3,235	3,047	683	
Issues at				
New 52 Week High	9	10	2	
New 52 Week Low	31	126	27	
Share Volume				
Total	943,013,357	1,402,466,352	18,440,744	
Advancing	849,703,170	1,061,500,503	8,651,334	
Declining	88,838,357	318,360,601	7,708,410	
Unchanged	4,471,830	22,605,248	2,081,000	

IBD[®] called yesterday despite the low volume a distribution day. According to their definition, it was but I feel that until tax selling is over or some economic event pushes volume closer to the 50 day moving average, any movement in the last few trading days should be looked at with caution.

Despite economic news that was less than encouraging, the markets ended higher and on increased volume. There was a wide swing in the number of issues advancing from yesterday as investors began looking for beaten-down values.

Retail sales as reported by both the ICSC-Goldman Store sales index and Redbook confirmed that December sales were curtailed by consumers with late shoppers failing to make up the weakness seen earlier in the month. Of course, if you were an optimistic, you might want to blame the lousy weather in most of the northern U.S. for lousy after Christmas sales. According to the International Council of Shopping Centers, it was the weakest holiday shopping season since 1970, perhaps, even longer.

The Case-Shiller data of home prices continued to show a decline ... 2.2% in October alone over September and 18% y/y. It would appear that the housing bottom remains out of view.

The Chicago NAPM purchasing index remained at depressed levels with the lack of buyers being highlighted in the report.

Released on	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
Released for	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
NAPM-Chicago	50.8	57.9	56.7	37.8	33.8	34.1

Data Source: Haver Analytics

The decline in U.S. production is not as bad as that experienced by Japan, Korea and Taiwan. China is probably also suffering as its power output has declined 24.9% over the last six months. The collapse in industrial output in Asia indicates that the current downturn is far worse than that seen in 1997-1998.

Declining energy prices helped the Consumer Confidence data to bounce higher in November. However, the December data suggests that pessimism is returning.

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Released on	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
Released for	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
Consumer confidence	51.9	58.5	61.4	38.8	44.7	38.0
Difference from a year ago	-60.0	-47.1	-38.1	-56.4	-43.1	-52.6

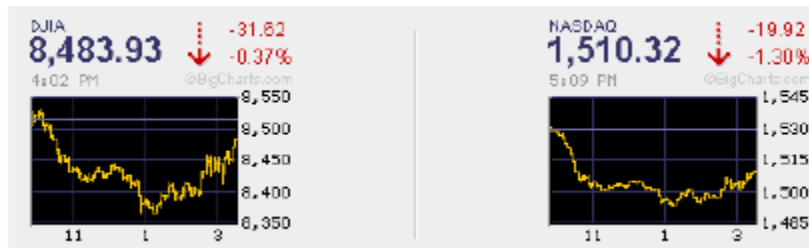
Data Source: Haver Analytics

We made no changes in the portfolios today.

We will be restructuring the portfolios in 2009. [To learn more, click here.](#)

There are very few seats left for the Strategic Investing Workshop in Marina del Rey on January 10th. The early bird price is only valid through December 31st. [For more information, click here.](#)

12/29/2008



Volume increased as the indices fell.

Markets Diary			
	5:09 p.m. EST 12/29/08		
Issues	NYSE	Nasdaq	Amex
Advancing	1,162	791	264
Declining	1,950	2,045	310
Unchanged	78	103	50
Total	3,190	2,939	624
Issues at			
New 52 Week High	4	4	4
New 52 Week Low	48	121	23
Share Volume			
Total	877,079,599	1,214,745,271	14,776,843
Advancing	283,088,290	305,369,931	7,756,053
Declining	584,618,739	862,172,918	5,582,790
Unchanged	9,372,570	27,202,424	1,436,000

Was it just tax-selling ... I hesitate to call it a distribution day. There was little economic news. Manufacturing in the Midwest in November fell to its lowest level in 12 years according to the Chicago Federal Reserve.

Most of the attention was on the resumption of hostilities between Israel and Hamas with the dollar being sold and oil going higher. In the afternoon, the market began to rally reducing the loss significantly. Declining issues and volume were dominant again today. Retail sales after Christmas was extremely weak. We visited several malls on Saturday and Sunday and about the only place with any customers was

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Cabelo's, a sporting goods store, and we have seen it busier at the beginning of hunting season.

Crude oil was up nearly 12% in overnight trading but cut those gains in half by the NY Close.



The U.S. dollar index fell below 80 today before recovering. The LIBOR rate closed at 1.46%. The yield on the 10 year Treasury note was a generous (?) 2.1%. A \$27 billion sale of 6-month bills today was sold at 0.25%. Now why doesn't the U.S. Treasury try to lock in these low rates for 30 years. Failure to do so is simply stupidity! Of course, any investor that buys them at this level should be also concerned about the reduction of principal when rates return back to more normal levels.



A **Bloomberg report** on December 25th quoting Akio Mikuni president of the rating agency Mikuni & Co. provides a possible way out of the current mess. While he speaks particularly with respect to Japan, his suggestions can be implemented by other countries which have a major dependence on US for its exports and are heavily invested in US treasuries.

Mikuni says:

1. Japan should waive or write-off US Treasury holdings as it is likely that US government will find it extremely difficult to service them. Given the size of its budget deficit and the potential amount of borrowing it needs to do will put tremendous pressure on the dollar, which he sees at 50 to 60 Yen if such measures are not taken.
2. Japan also should invest in the infrastructure, roads and bridges that the US plans to help

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create jobs and support personal spending. Such an 'out of the box approach' is only likely to save countries like Japan which are dependent on US consumers. In this sense it is a current sacrifice to protect the long term interest of the Japanese economy.

This sounds very interesting and if implemented could be **challenging for Japan** (it has \$976.9 billion in foreign-exchange reserves). China may be better placed, but given the political angle this may not be possible. The US, it appears, has to be 'doled out' while its government is busy "bailing out"! Watch out, as any such move may bring life back to the markets.

We made no changes in the portfolios today.

12/26/2008 After the Close



Tepid volume today but the markets managed to end higher.

Markets Diary				5:27 p.m. EST 12/26/08
Issues	NYSE	Nasdaq	Amex	
Advancing	2,284	1,652	310	
Declining	772	1,086	206	
Unchanged	94	133	68	
Total	3,150	2,871	582	
Issues at				
New 52 Week High	4	3	3	
New 52 Week Low	28	71	24	
Share Volume				
Total	516,539,463	600,469,908	10,459,352	
Advancing	368,470,300	317,636,732	5,592,052	
Declining	137,553,073	258,501,158	3,374,600	
Unchanged	10,516,090	24,332,018	1,492,700	

The markets should have closed today as well as yesterday as interest was practically non-existent and without the impact of any earth-shattering news, today's action could be disregarded.

Retailers, particularly, high-end sellers had a terrible last-minute sales rush confirming that the Christmas selling season will see the demise of many stores. MasterCard reported that total retail sales, ex auto's, fell 5.5% y/y in November and 8% in December through December 24th. Last minute Christmas shopper failed to materialize, as traffic last weekend fell 27% y/y, with sales down 5.3%, according to ShopperTrak RCT Corp.

This morning, we managed to visit several local shopping malls and were not impressed with the number of shoppers looking for bargains nor exchanges. Perhaps, it really was a disaster for many merchants.

GMAC was approved as a bank holding company by the Federal Reserve.

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Most commodities were quiet and traded in a narrow range with the exception of gold which rose in the last 45 minutes to close at \$870 well above previous resistance of \$850. Gold is now \$200 off the lows in this correction.

Goldman Sachs has changed from being a massive short seller to now being long gold in the Tokyo market.

We made no changes in the portfolios today._

Fred Richards
Strategic Investing

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