

Market Musings

2/15/08 After the Close

Markets Diary		5:45 p.m. EDT 04/11/08		
Issues	NYSE	Nasdaq	Amex	
Advancing	674	612	404	
Declining	2,481	2,291	792	
Unchanged	77	142	97	
Total	3,232	3,045	1,293	
Issues at				
New 52 Week High	24	9	6	
New 52 Week Low	50	106	27	
Share Volume				
Total	1,261,211,175	1,873,907,978	25,943,465	
Advancing	121,652,500	252,104,479	8,765,700	
Declining	1,125,858,475	1,610,836,325	16,301,265	
Unchanged	13,700,200	10,967,174	876,500	

Options expiration day and the professionals jiggled the markets at the close!



The sad state of the "free market" in the U.S. is seen in this email posted on a securities board this afternoon.

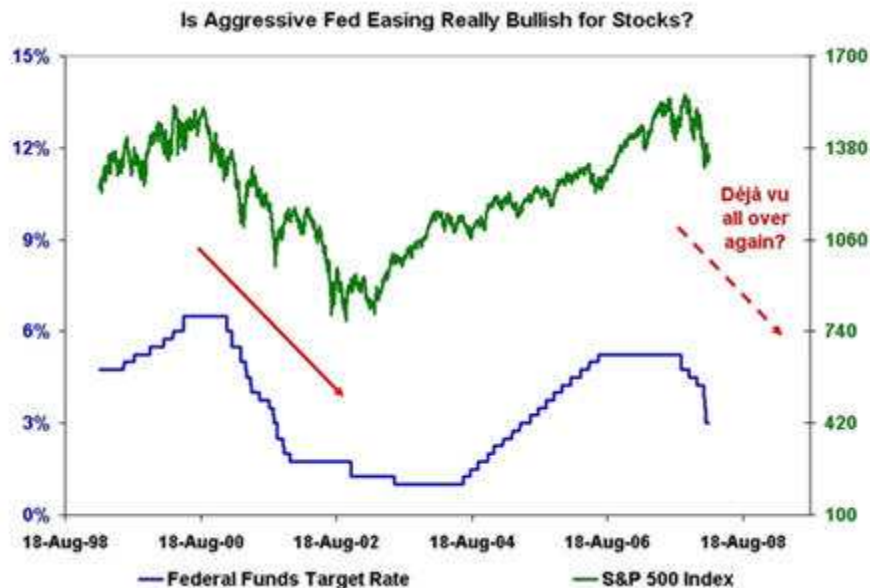
“Was watching my position on TWM (via RUT). As if someone rang a bell at 3pm sharp, you could see the index rally straight up to 700 while IWM rallied straight up to about \$69.75. In both cases the numbers are right where big numbers of futures and options will expire worthless (so the market makers keep their premium). Remarkable thing to watch - you would think the volumes on these would be too large for people to "fix" and yet it is as visible as the nose on your face when you watch it in real time.”

Market Musings by Fred Richards – February 15th, 2008

Maybe someday individual investors will really understand that the markets are rigged against them not only by the government using the PPT, etc., but also by the options players. Caveat emptor! You must understand the concept of "painting the tape."

Today was a great example of a market that was managed to a close. Note that new 52 week lows dominated the board while on the NASDAQ down volume was more than double up volume yet the index was down only 0.46% on the day. Over on the NYSE, although the number of declining issues was great as was declining volume, the disparity in volume was not significant. Today was a mixed market as the S&P 500 managed to close in positive territory.

Bernanke and Paulson testified before Congress this week and suggested that more easing of rates would be forthcoming perhaps a 100 bps reduction before the next FOMC meeting. Obviously, they have yet to learn that rate cutting won't solve the problem and historically, rate cuts are not good for the markets in recent cycles as shown in the following chart. As rates are cut, the S&P 500 has gone down and the inverse is true. **Oh, well, Bernanke is still using a 70 year-old playbook that fails to understand the difference between a creditor nation and a debtor nation along with the realization by an increasing number of investors around the world that fiat currencies end up bankrupt.**

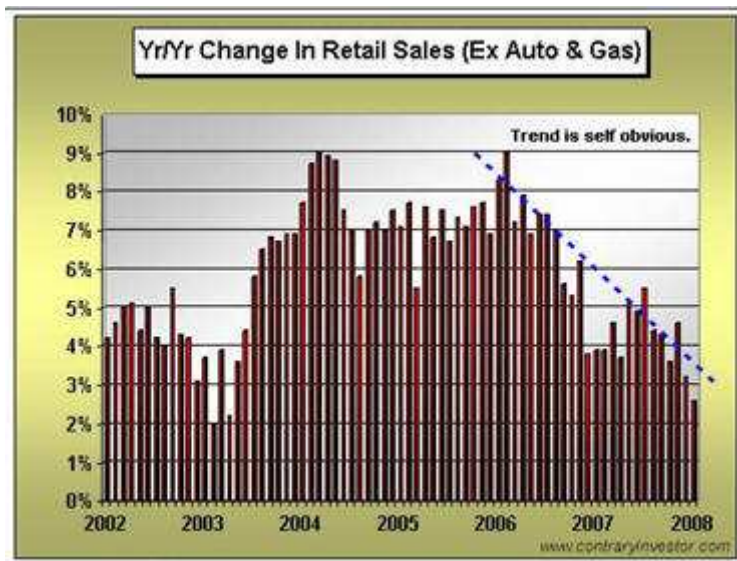


Economic news was not encouraging. During the week, increases in retail sales were ballyhooed as a sign that a recession was not imminent. Of course, a detailed look inside the report shows something very different. [Brian Pretti writing in FinancialSenseOnline](#) had the following chart showing some interesting facets of the retail sales picture on a year to year basis:

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Component of Retail Sales	Year/Year Change
Motor Vehicles and Parts	(0.1)
Furniture and Home Furnishings	(4.3)
Electronics and Appliances	(1.6)
Building Materials	(4.8)
Food and Beverage	5.7
Clothing	(0.1)
Genl. Merchandise	2.4
Food Services and Dining Establishments	4.4
Gasoline	23.0

Pretti observes that the report speaks to a noticeably weakening U.S. consumer. Removing auto & gas sales from the retail data shows a significant decrease since early 2006 in retail sales as shown in the following chart.

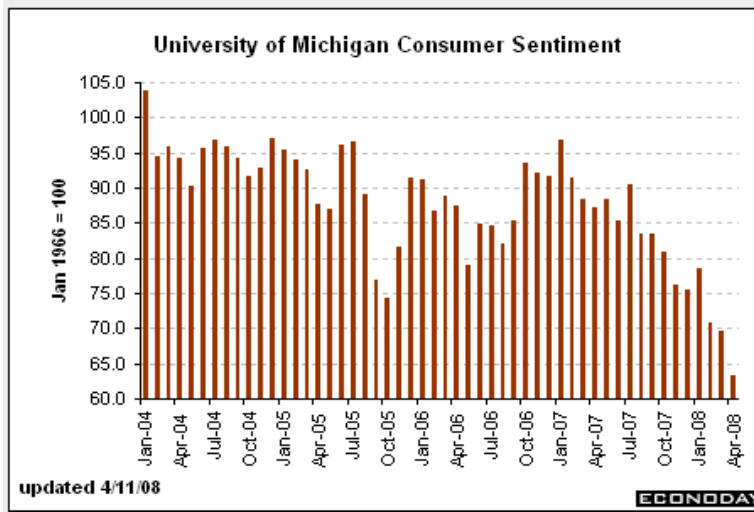


The Empire State manufacturing index fell to -11.7 in February from 9.0 in January 2008. Most of the weakness was in new orders and price pressure continue to increase.

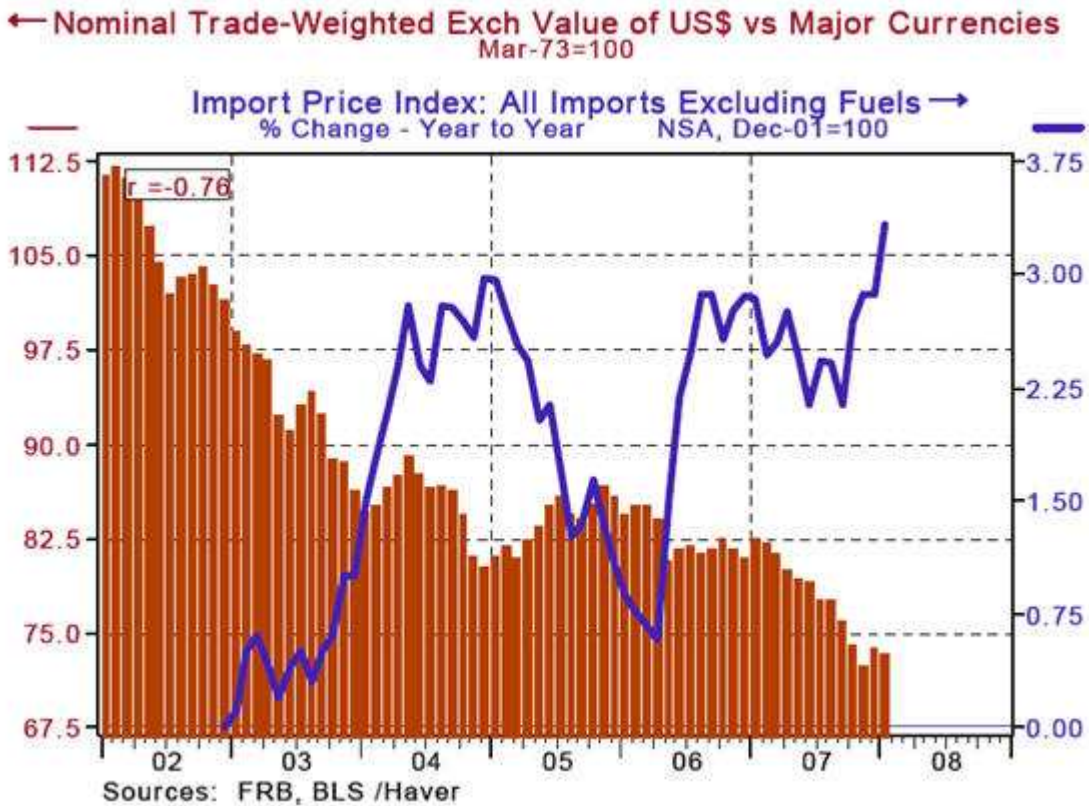


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The import price index was higher by 1.7% in January making the annual increase 13.7%, the highest in 25 years.



The impact of a declining U.S. dollar on the increase in import prices is clearly shown in the following chart. A declining dollar always ends up increasing inflation of imported goods and since the U.S. has become a service economy, it is axiomatic that overall inflation increases with a declining dollar.



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The Treasury International Capital report showed a **48% decline in the net foreign purchases of U.S. securities in December 2007** to \$56.5 billion from \$90.09 billion in November. Total net capital inflows fell to \$60.4 billion in December from \$150.8 billion in November. As the dollar continues its descent, the Fed has to be concerned about the continued willingness of foreigner's to subsidize our twin deficits.

Then to make the investors nervous, the preliminary University of Michigan consumer sentiment index dropped from 78.4 in January to 69.6. This is the lowest reading since the 1991 recession.



The following chart from JessesCrossroadsCafe shows the Sentiment index versus the S&P 500. Note the sharp correlation between the index and the S&P 500 deflated by the price of gold.



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The Economic Cycle Research Institute, a New York-based independent forecasting group, said its Weekly Leading Index inched down to 133.4 in the week of Feb. 8 from 133.5 in the prior week. This index is now at recession-area levels not seen since November 2001.

Yet, despite all this "good" news, the financial stocks led a recovery in the afternoon to enable the indices to close mixed on options expiration day. The chart of the financial index (\$XFI) details the upward trajectory of the financials after 2 p.m.



And the financial stocks rose despite a report from UBS that global banks may be at risk for an additional \$203 billion in write downs as the bond insurance crisis is likely to get worse. And then Bank of American had this to opine:

The meltdown in the US subprime real-estate market has led to a global loss of 7.7 trillion dollars in stock-market value since October, a report by Bank of America showed Thursday.

The crisis, which has spread beyond US shores to banks and other sectors worldwide, is "one of the most vicious in financial history," according to Bank of America chief market strategist Joseph Quinlan.

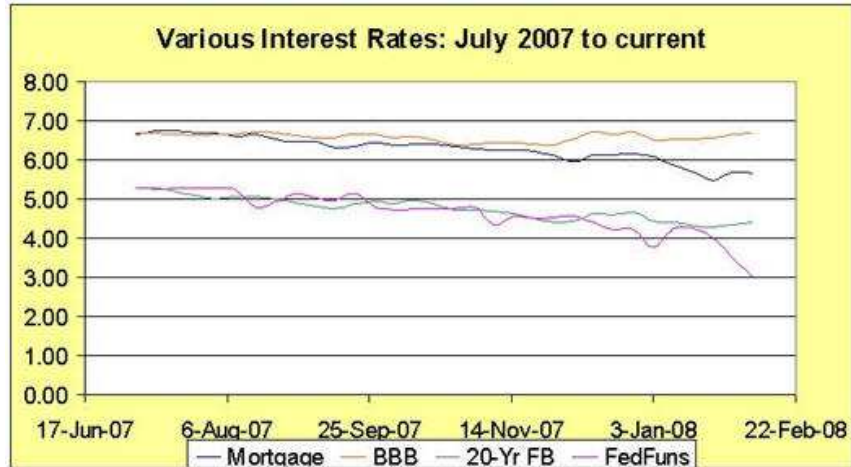
The losses were also greater than those suffered after the September 11, 2001, terror attacks, the Asian financial crisis starting in 1997, Argentina's default on its debt in 2001 and the 1994 Mexican peso crisis.

"It could take months or even years before Wall Street and others get a handle on the true cost of the US subprime meltdown and the attendant global credit crunch," Quinlan said.

The failure of the auction market this week has moved long-term rates higher and increased the spread between U.S. Treasuries and corporate debt. Junk bond yields have risen during the past few days as investment banks and banking institutions have refused to commit capital to the auction market. The large amount of unsold private equity bonds hangs over the bond markets and we may see more banks walking away from deals. The break-up penalties may be significantly less than the loss on the bonds themselves.

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The trend of various interest rates the last eight months is illustrated in the chart below. Note that although the Fed funds rate has decreased the rates of the others have failed to keep pace showing that the spreads in interest rates are increasing with junk bond spreads increasing the most. We are definitely in a new era as the concept of risk becomes apparent to investors.



The US dollar index closed down today at 76.04. West Texas crude oil was slightly lower at 95.68 but still closed at the second highest price in the past five weeks. The CRB index was down slightly but also closed at the second highest price in history. Platinum charged above \$2000 and closed in record high territory at \$2078.



5:54 p.m. EDT 04/14/08

Markets Diary			
Issues	NYSE	Nasdaq	Amex
Advancing	1,261	1,071	466
Declining	1,879	1,843	723
Unchanged	93	143	87
Total	3,233	3,057	1,276

Issues at			
New 52 Week High	49	11	16
New 52 Week Low	87	143	33

Share Volume			
Total	1,173,620,325	1,592,443,526	24,942,106
Advancing	433,413,840	499,145,865	10,287,706
Declining	726,598,445	1,078,977,184	11,831,300
Unchanged	13,608,040	14,320,477	2,823,100

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Prudent investors must be shaking their heads in amazement at the actions of the stock market. We continue to remain short in the Aggressive and ETF portfolios and in cash in the Conservative and Precious Metals portfolios. We made no changes in the portfolios today.

2/14/08 After the Close



Tw was not a good day as they gave yesterday almost all back!

5:26 p.m. EST 02/14/08			
Markets Diary	NYSE	Nasdaq	Amex
Issues			
Advancing	684	754	445
Declining	2,463	2,109	778
Unchanged	72	114	72
Total	3,219	2,977	1,295
Issues at			
New 52 Week High	34	29	16
New 52 Week Low	56	90	36
Share Volume			
Total	1,400,976,808	2,279,062,044	36,227,060
Advancing	238,358,540	454,115,969	8,551,710
Declining	1,157,575,968	1,801,623,334	26,714,050
Unchanged	5,042,300	23,322,741	961,300

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Yesterday's follow-through day ran into rough weather today as the markets opened down and closed near their lows for the day. Declining issues and volume over-whelmed their counterparts in both the NYSE and NASDAQ. At the close, almost all of yesterday's gains had vanished. In fact, the Russell 2000 undercut Tuesday's close.

The Ministry of Truth spoke today and indicated that recession was near and that downside risks to the economy were evident and the FED might have to reduce interest rates further. Bernanke suggested in his Senate Banking Committee testimony that more write-downs might be required in the financial companies. Gee, what a piece of clarity.

FGIC owned by the Blackstone Group LP and PMI Group Inc. lost its AAA rating today at Moody's falling to A3 ... can MBIA and Ambac be far behind. The rating decline should add some pressure to the bond market tomorrow.

According to The Bond Buyer, broker-dealers are facing major difficulties in the bond market:

Auctions of municipal auction-rate securities totaling as much as \$10 billion in par value have failed since Monday. ... Over the past three weeks, Wall Street's biggest banks have seen their auctions fail, including, Piper Jaffrey & Co., Stifel Nicolaus & Co., Goldman Sachs, JP Morgan, Citi, Morgan Stanley, Bank of America, Merrill Lynch & Co., Wachovia Bank NA, and UBS. Just yesterday six of the banks saw failed auctions.

Now the financial stress is getting very serious when muni's can not attract a bid.

Bloomberg also carried a story today about Nuveen and Oppenheimer relative to the auction failures. Unless you want to get depressed, do not go to the link.

New jobless claims were 348K versus 357K the week earlier. The December trade deficit fell to \$58.8 Billion from \$63.1 Billion in November.

And at a time when more transparency is needed, the Bush Administration is shutting down due to "budgetary constraints," effective March 1, the following site:



Sounds to me like they are trying to hide the numbers again ... just like M3 ...

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Platinum made a new record high for the 11th day straight closing at \$1998. Crude oil was up \$219 to \$95.46, Minneapolis wheat went to \$18.53. Sugar went over \$13 while corn and soybeans had move higher. As a result, the CRB made an all-time high.



The U.S. dollar index fell a quarter to close at 76.15. Interest on the 10 year Treasury note rose to 3.82% following yesterday's auction failures. Treasury sold \$13 Billion of 10 year notes at a 3.62% rate today and \$9 Billion of 4.4% 30 year notes.

Despite yesterday's follow-through day, today showed distribution in the major indices and particularly in the Russell 2000. With the importance of the failed muni auctions just beginning to permeate through the financial world this rally attempt made be stopped in its tracks.

We made no changes in the portfolios today.

2/13/08 After the Close

5:08 p.m. EDT 04/15/08			
Markets Diary	NYSE	Nasdaq	Amex
Issues			
Advancing	1,856	1,537	606
Declining	1,261	1,321	539
Unchanged	98	161	93
Total	3,215	3,019	1,238
Issues at			
New 52 Week High	64	18	27
New 52 Week Low	75	173	24
Share Volume			
Total	1,234,086,592	1,899,297,097	25,830,884
Advancing	784,784,342	1,095,860,838	16,264,050
Declining	418,240,450	773,561,894	7,818,634
Unchanged	31,061,800	29,874,365	1,748,200

Did NASDAQ give us a Follow-thru day today!

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Markets Diary		5:52 p.m. EST 02/13/08		
Issues	NYSE	Nasdaq	Amex	
Advancing	2,168	2,187	768	
Declining	1,102	814	481	
Unchanged	68	107	82	
Total	3,338	3,108	1,331	
Issues at				
New 52 Week High	31	17	14	
New 52 Week Low	35	58	38	
Share Volume				
Total	1,411,292,792	2,184,489,783	29,983,454	
Advancing	1,086,628,432	1,930,742,917	18,106,054	
Declining	314,101,360	241,355,424	9,225,700	
Unchanged	10,563,000	12,391,442	2,651,700	

The question about today's NASDAQ action being a follow-through day brings up the grey area of William O'Neil's definition. Here is The answer from the Investor's Business Daily Bill O'Neil Archives follows:

Ideally, a follow-through rally confirmation occurs on a day when the index's volume is both higher than the previous session and higher than over the past 50-days. If volume turns out to be higher than the prior session but lower than the average, you probably want to get back into the market cautiously. The key is to view follow-throughs (or distribution days for that matter) within the context of the technical and fundamental characteristics of the market and leading stocks.

Today's NASDAQ volume was both lower than yesterday's and below the 50 day moving average. Hence, it is questionable if today generated a follow-through day. But as we always say, hope springs eternal at IBD and they have now **officially called the NASDAQ action as a follow-through day.**

Today we saw a decline in the overall volume for both the NYSE and NASDAQ compared to yesterday despite the averages moving higher. Advancing volume did swamp declining volume.

Although retail sales were slightly higher the increase was mostly in good and energy.

President Bush signed the \$168 billion economic stimulus package that will provide tax rebates beginning in early May to about 130 million Americans.

The financial system mess continues ... now we are seeing turmoil in the Muni's as over 100 municipal auctions yesterday failed to attract bids during the past few days. According to Bloomberg,

A wave of bonds sold by U.S. municipal borrowers with rates set through periodic auctions failed to attract enough buyers in recent days as banks including Goldman Sachs Group Inc. and Citigroup Inc. that run the bidding wouldn't commit their own capital to the debt.

Rates on \$100 million of bonds sold by the Port Authority of New York and New Jersey, with

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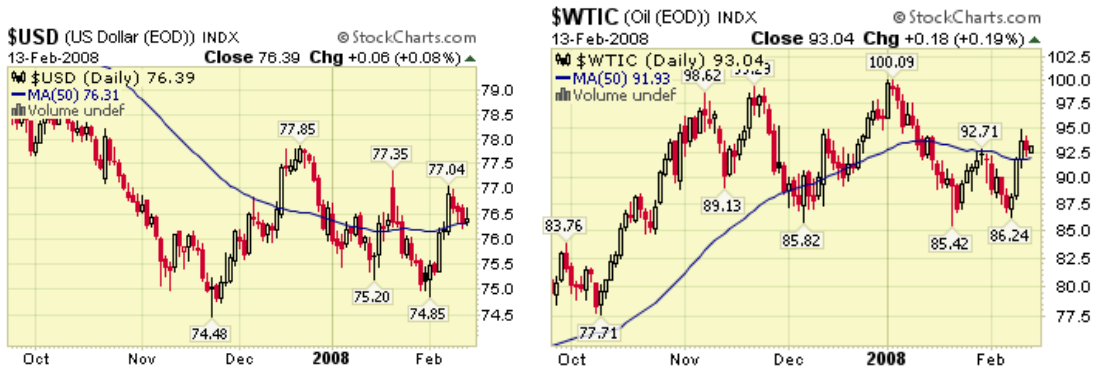
bidding run by Goldman, soared to 20 percent yesterday from 4.3 percent a week ago, according to data compiled by Bloomberg. There are approximately \$265 billion outstanding of these municipals.

Negative non-borrowed reserves at the FED and now municipal bonds failing to attract a bid ... it is getting scary in the banking world.

In Germany, BayernLB, one of Germany's largest state banks, revealed that the sub-prime mess will cost it \$2.9 billion. People are discovering that risk and high rates go hand-in-hand.

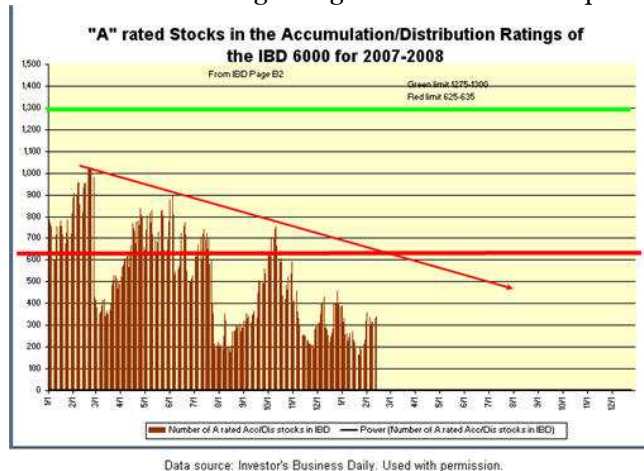
At the end of March, the Japanese banks will have to face the sub-prime problem and it could be a whopper.

The dollar moved slightly higher today as did crude oil.



Iran announced that its Iranian Oil Bourse will open next Sunday and act as a trading platform for oil, petrochemical and gas products. Settlement will be in the Iranian rial. One more dagger in the role of the the dollar as the world's currency appears.

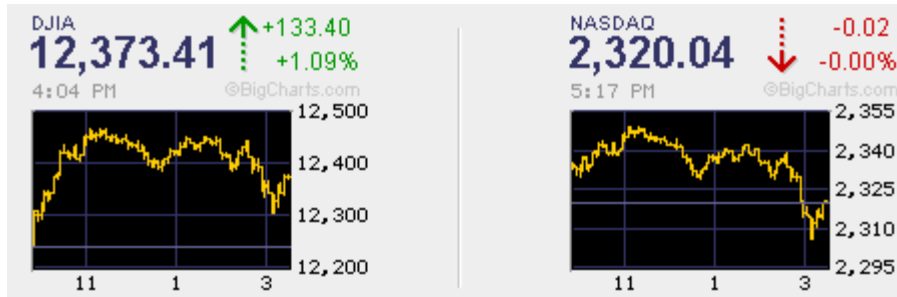
We have seen the STI indicator for the S&P 500 move to neutral in the past four trading sessions while the NASDAQ STI indicator remains negative. The number of A's in the Investor's Business Daily Accumulation/Distribution ratings are moving higher but remain well below the red zone where prudent investors should be beginning to move back into equities as shown below.



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The market's movement today added to the feeling that a positive turn might be ahead. However, we made no changes in the portfolios today.

2/12/08 After the Close



A mixed market on increased volume.



Warren Buffet made an offer to reinsure municipal's from the monoline insurers and the market rallied. However, his offer was not immediately accepted by MBIA and ABK. Of course, Buffet's offer failed to address the serious problems in the loan portfolio's and municipals rarely default because of the ability to increase taxes. As the old man used to say ... "such an offer ... is good for one party!" Buffet's offer made a grab for the best assets on the monoline books and left those companies further in jeopardy still holding their toxic CDO's.

The extent of the housing drop was highlighted by the MASCO earnings and guidance. Masco said that it expects consumer spending to decline further this year and for existing home sales to continue falling.

Volume rose in today's trading. However, advancing volume predominated on the NYSE while declining volume was greater on the NASDAQ.

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There was some hope that homeowners facing foreclosure would get an extra 30 days to workout a repayment plan according to an announcement from Paulson of the Treasury in conjunction with six large lenders. What is really amazing to me is that the six large lenders are either insolvent now or close to it. They remain in business only because of the failure of the public to understand accounting.

I am waiting for the Northern Rock problem now costing the English government \$100 billion to cause the Brown government to fall. It should not be long.

Could a run occur here on one of the big six banks? I look for it to happen in the next few months and probably Citibank will be the first. If anyone can explain why they had to pay 22% for \$18 billion of capital rather than getting it from the FED at 4%, I would like to hear it. After all, the FED must have refused to open the discount window to them.

Of course, the housing industry is bottoming ... don't believe it. D. H. Horton is now offering discounts of up to 50% on unsold inventory homes in Southern California. Wonder if those who bought the homes at full-price will get a discount?

GM reported a swing of \$1.7 billion in losses in the fourth quarter from 2006 to 2007. In 2006, GM earned \$950 million in profits while they reported a \$722 million loss this year. And it could have been worse as they had a \$1.6 billion tax benefit applied to the loss.

GM moved to eliminate its union workers by offering buyouts to all 74,000 North American union workers. Guess they won't want to call the move "union-busting." Of course, the wage/benefits are much higher in the U.S. All manufacturing of automobiles will probably move overseas in the next decade as a 'benefit' from globalization.

The Microsoft/Yahoo deal will probably move ahead. Yahoo is eliminating 1,000 employees which was announced in late January before the merger. Prior to the Microsoft bid, Yahoo's stock was down over 40% from its October high. Jerry Yang who replaced Terry Semel last June has not been able to move the company forward. With no white knight surfacing, Yahoo is probably done.

Banks from Germany and France are finding it difficult to raise capital to shore up their balance sheets. Societe Generale smarting from its supposed losses from a rogue trader is offering its shares at a 40% discount from the market to entice buyers. Sounds like the 22% interest rate that Citibank had to cough up to the Middle Eastern sovereign bank was not a bad deal afterall .

The fear of uncertainty continues as the banks refuse to mark their assets to market and continue to use Tier2 and Tier3 loan valuations. Bank of America analysts said on Bloomberg today that:

'Citigroup Inc. and seven other top investment banks may need to write down at least \$15.1 billion on unsold loans and bonds for leveraged buyouts in their first quarter earnings.'

With interest rates headed lower and Libor rates falling, the FED and the ECB have accepted bad collateral to restore liquidity. The real problem facing the markets is not the printing press but

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whether institutions are solvent, accounting is transparent and people have confidence in the data.

A growing economy is one that adds people to the payrolls and opens additional stores. From the Wall Street Examiner comes this listing of the number of retail stores being closed.

Announcements over the last couple months include Movie Gallery closing another 400 stores; Charming Shoppes closing 150 stores and cutting expansion plans by 50%; Starbucks closing 100 stores and slowing expansion plans by 34%; Ann Taylor shuttering 117 stores and slowing store growth; Boston Market evaluating its real estate opportunities; Buffet Holdings sorting out its underperformers; Sprint Nextel closing 125 stores and 4,000 distribution points; Cost Plus World Market closing 18 stores; Liz Claiborne closing 54 Sigrid Olsen stores; New York & Company axing the Jasmine Sola brand and its 32 stores; Ethan Allen closing 12 stores; PacSun closing all of its 173 demo stores; and Talbots exiting its kids and men's lines through closure of 78 stores.

Others include Rite Aid exiting Nevada by closing 28 stores; Macy's closing nine stores; Krispy Kreme expecting many franchisees to close stores; Kirkland's Home likely closing 130 stores; CompUSA's remaining 103 stores being disposed of; Rent-A-Center closing 280 stores; Sofa Express closing 44 stores in bankruptcy; 84 Lumber closing 12 stores; Home Depot closings some call centers; Levitz Furniture disposing of 76 stores in bankruptcy; Pep Boys closing 31 stores; Lifetime Brands closing 30 stores; Big A Drugs liquidating its 21 stores; and more.

However, we are told by the Commerce Department that retail sales are not in trouble. During my visit to Orlando last week, I drove through several shopping areas and was struck by the number of empty stores and parking lots. In a Target store, they only had two cash registers open at 1 p.m. on Saturday of the 24 in the building.

Of course, the problem escalates as retail volume decreases, sales tax revenues fall. As home prices decline, real estate taxes will go down. State and local governments will find their budgets in the red. The economy is not looking too healthy.

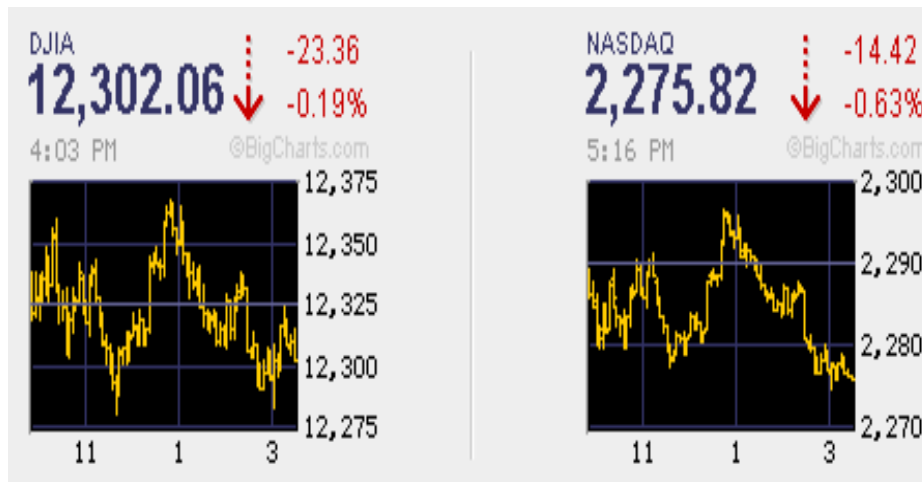
Copper continues to move higher as LME stocks fall. Both NYMEX and COMEX will increase margins on copper trades tomorrow.

We made no changes in the portfolios today.

2/11/08 After the Close



An up day on lower volume despite AIG's accounting disclosure.



The uncertainty surrounding the valuation of billions, if not trillions, of dollars in portfolios around the world keeps investors nervous. AIG suffered a material loss on Monday following a revelation that it still has been unable to determine the cumulative decline in the fair value of the super senior credit default portfolio of AIG Financial Products Corp. and AIG Trading Corp., and their subsidiaries.

What AIG does know is that the cumulative decline in valuation, net of cash flow diversion features, stood at \$5.2 billion as of Nov. 30 versus just \$352 million at the end of September. You have to wonder about all the insurance companies, pension funds and financial institutions ... are they solvent?

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Bankers' write-downs	
Merrill Lynch	\$20.5 bln
Citigroup	\$20.1 bln
UBS	\$13.7 bln
Morgan Stanley	\$10.3 bln
Bank of America	\$9.4 bln
HSBC	\$3.4 bln
Deutsche Bank	\$3.1 bln
Barclays	\$2.7 bln
Royal Bank of Scotland	\$2.6 bln
Credit Agricole	\$2.3 bln
Bear Stearns	\$1.9 bln
Credit Suisse	\$1.9 bln
JP Morgan Chase	\$1.6 bln
Goldman Sachs	\$1.5 bln
Wachovia Bank	\$1.1 bln
Lehman Bros.	\$0.8 bln
Total:	\$96.9 bln

Data: Companies, since Q3 2007 * Est.



Today's market action in AIG showed extremely high volume and drove the price below long-term support. Based upon the previous write-offs and comments, you should be very concerned about the AIG situation as a precursor to other write-offs in the mortgage and CDO arena.

It is not just mortgages that are wrecking havoc with bank's balance sheets with the announced write-offs shown in the table. According to MarketWatch,

"The story of this quarter is consumer loans," said Zach Gast, an analyst at The Center for Financial Research and Analysis, a unit of RiskMetrics Group.

Until the middle of last year, consumer loan losses were held in check as house prices climbed, allowing borrowers refinance mortgages or take out home-equity loans and use the cash to pay off credit card bills and auto loans.

But as the subprime-fueled credit crisis erupted in August, such activity ground to a halt. Since then, credit card and auto loan delinquencies have begun to rise and will probably deteriorate further, Gast said.

"The surprise is that that it took this long for the consumer to start struggling," he added. The delinquency rate on banks' consumer loans, which include credit cards and auto loans, rose to almost 2.5% during the third quarter, from less than 2% at the start of 2007, according to CFRA data. Gast expects that to rise in the fourth quarter and keep climbing in 2008.

"Recent signs of economic weakness could lead to deterioration in other loan classes that have so far held up well, such as commercial, non-residential components of commercial real estate and credit cards," John McDonald, an analyst at Banc of America Securities, said this week.

As loan losses climb, banks will have to put more money into reserves. Such provisioning will whittle away at banks' capital, adding another strain to the big write-downs that investors are already expecting.

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As the write-downs keep coming, the big question is will the banks and other financial institutions be able to find enough new capital either here in the U.S. or from foreign sources to prevent a system failure. Simply printing more paper by the FED will not solve the problem.

Yahoo's board turned down a \$31/share offer from Microsoft saying that it undervalued the company. Now that is simply amazing ... before the Yahoo offer, it was selling below \$19/share. A look at the Yahoo chart below makes you wonder what the board members were smoking when they turned down the Microsoft offer. One has to wonder if their stockholders would agree based upon the stock performance of the last two years.



Over the weekend, the G-7 ministers gave the IMF the authority to sell all of its \$92 billion of gold. However, the U.S. Congress must approve the sale before it can occur. Seems that the central banks are looking for physical gold as their stocks have been depleted. Gold production worldwide is declining and the recent power problem in South Africa has not helped.

If Congress approves the deal, those eligible to bid included members of the London Bullion Market Association (both market makers and ordinary members), and central banks and other international monetary institutions holding gold accounts at the Bank of England. Hence, the sale will enable the central banks to keep playing their game of holding down the price of gold. But when the \$92 billion is sold, the game is up. Wonder how long that will take?

Gordon Brown sold England's gold at the lowest price in the last few years and now he is advocating again the sale of the IMF gold. You have to wonder about the intelligence of those in the fiat money camp. Guess they did not learn from the various hyper-inflation scenarios of the last century.

The freeze on Venezuelan assets by a British court on behalf of Exxon Mobil helped oil move to a high for the last month. Bloomberg reported that "Venezuelan President Hugo Chavez threatened to halt oil shipments to the U.S. and fight an `economic war' in retaliation for Exxon Mobil Corp.'s bid to freeze the country's oil assets overseas."

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Oil closed at \$93.60. The U.S. dollar index closed down six cents at 76.56. The yield on the 10 year Treasury note fell to 3.62%. Gold despite the IMF news closed higher at 923.61.



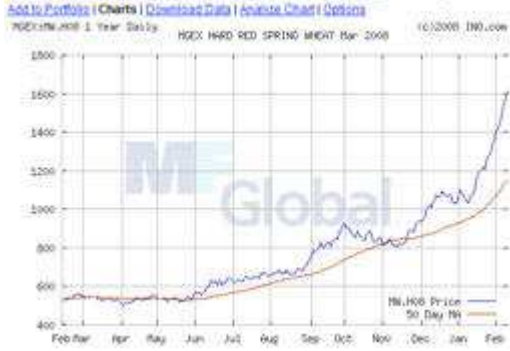
The real winners for the day though were platinum and silver which made new record highs.



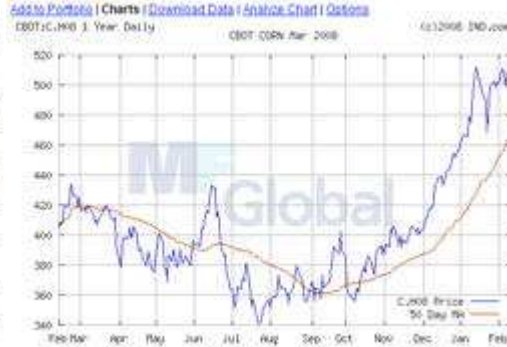
Wheat in Minneapolis continued its charge into new high ground rising limit up at \$16.13 per bushel. Corn for March delivery traded above \$5 in Chicago. Soybeans jumped remained above \$13 again today. Copper continued its recent upward move and closed at 353.95.

Market Musings by Fred Richards – February 15th, 2008

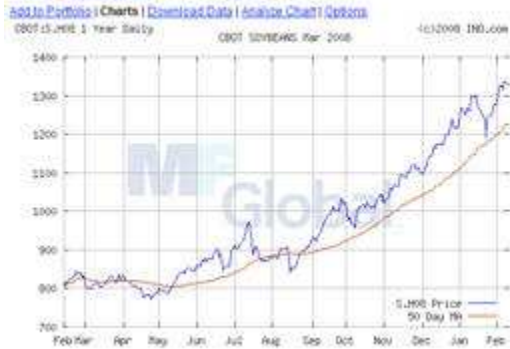
Home > **HARD RED SPRING WHEAT Mar 2008 (MGEX:MW.H08)**



Home > **CORN Mar 2008 (CBOT:C.H08)**



Home > **SOYBEANS Mar 2008 (CBOT:S.H08)**



It would appear that inflation is moving higher and with the FED considering further interest rate cuts the dollar could well begin another drop.

We made no changes in the portfolios today.

2/8/08 After the Close



A mixed market thanks to Amazon's buyback!

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Markets Diary		5:57 p.m. EST 02/08/08		
Issues	NYSE	Nasdaq	Amex	
Advancing	1,299	1,279	614	
Declining	1,931	1,692	607	
Unchanged	106	116	104	
Total	3,336	3,087	1,325	
Issues at				
New 52 Week High	26	16	19	
New 52 Week Low	55	92	35	
Share Volume				
Total	1,448,427,845	2,240,788,822	31,146,085	
Advancing	513,704,135	1,451,044,285	15,386,250	
Declining	921,947,310	726,377,132	13,962,935	
Unchanged	12,776,400	63,367,405	1,796,900	

The financial sector continued to move lower on rating concerns despite MBIA's \$1 billion equity infusion. Amazon's buyback for \$1 billion of its shares was thought to have helped move the technology sector higher in today's trading and create today's mixed market.

If you look at the major differences in the up and down volume between the NYSE and NASDAQ, you will see the effect of Amazon's decision. On both exchanges, the number of declining issues exceed those advancing not a good sign of health for the market.

January retail sales were not good. According to the NY Times article yesterday,

"On Thursday, the nation's retailers turned in their worst January in almost four decades as high gas and food prices, a slumping housing market, tighter credit and a tougher job market pushed consumers to the edge.

Sales at 43 retailers surveyed by the UBS-International Council of Shopping Centers rose just 0.5 percent in January, well below the original 1.5 percent forecast.

Michael P. Niemira, chief economist at International Council of Shopping Centers said January's retail sales performance was the weakest for that month since at least 1970, when comparable records started."

The \$168 billion stimulus package was passed and sent to the President. While it might help in the second half of the year, its impact on the current economic situation will turn out to be miniscule.

The politicians and FED's efforts to contain the financial mess and prevent a recession is doomed to failure. As we state many times when decisions are made on data which is incorrect, bad decisions with unintended consequences arise.

First, the CPI data has been manipulated with seasonal and hedonic adjustments that it does not come close to representing the reality for most American citizens.

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Second, the FED's approach to trying to hold off a down-turn was too little and failed to recognize that the downturn really started during the middle of 2007, if not before.

Third, Greenspan and the various regulatory agencies were unwilling to monitor the derivative markets and the result is not upon us.

Unwillingness to force the banking industry to write off loans and cleanse the system has damaged the credibility of Wall Street and the U.S. throughout the world. Yesterday's bond auction where indirect sales were only 10.7% could turn out to be the high level for the rest of the year as foreign investors and banks decide that yields are too low for the dollar risk.

The FED's attempt to reflate the economy by lowering interest rates will probably fail as bank's do not have the capital ratios to lend despite cash infusions and credit standards are being tightened across the board. These two factors become a two-edged sword that will cause more damage in the long-run than just flushing the bad loans off the books. It seems to me that when banks refuse to write-off their bad loans and hope that increased loan spreads and fees will assist them to skate the problem for the next few years. That is simply fraud.

Bread prices will be headed sharply higher. Wise housewives will fill their freezer space with bread as winter wheat was limit-up again today to a new all-time record price. Tthe price of wheat just passed ten dollars a bushel. Those Midwest radio announcers who tack on the spot prices for six or eight agricultural commodities at the end of each 30-minute news break will probably be just a little less reserved today.

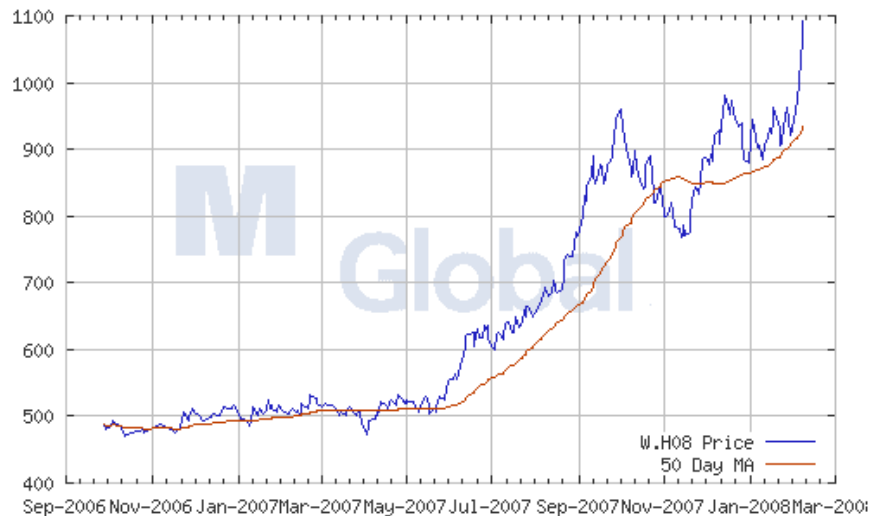
[Home](#) > [WHEAT Mar 2008 \(CBOT:W.H08\)](#)

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CBOT:W.H08 Max Daily

CBOT WHEAT Mar 2008

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Those investors with short positions in wheat are having a difficult time in exiting their positions as the limit-up days indicate. The problem is both a demand increase with a supply shortage facing consumers.

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And it is not just in wheat as exports of corn and soybeans continue to reduce carry-over. U.S. consumers need to start doing a rain-dance and pray for good growing weather in the 2008 crop season. The U.S. drought monitor shown below shows a significant portion of California, Texas and the Southeast facing drought conditions going into the spring.



OPEC seems to be looking at moving to the Euro as the pricing mechanism for oil sales rather than the U.S. dollar. Also, OPEC may cut oil production to prevent the price of oil from falling below \$80 per barrel.

The U.S. has to be considered to be the most gullible and easily hood-winked nation on earth as it puts up with the economic blackmail from the oil-producing countries in the Middle East. Here is an e-mail from Lewis McLain that just might explain some of the frustration of the U.S. public against its politicians as well as those who have benefited from our protection and treasure in the past.

"I really don't get it. Why is it that the U.S. fights in Kuwait and in Iraq to enable them to produce oil to sell to us for \$100+? Why wouldn't we send them a bill for about \$1 trillion or more that doesn't make us any money; rather it would just reimburse us for the financial costs and be paid against our \$9.2 trillion in debt, significantly attributable to military spending and wars? Yes, I know, and doesn't even deal with the loss of lives we have sacrificed.

Further, why would we tolerate spending our resources in Afghanistan when they are supplying 90% of the world's heroin and is funding terrorism against the U.S., not to mention profiting outrageously from the harmful addictions in our society?

I count myself as a conservative and all that, but I really am having a problem with the U.S. spending money we don't have and then not expecting some kind of repayment for the financial outlays. In fact, an expectation of a 10x repayment would seem reasonable

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for the financial burdens we continue to take on. To heck with "peace dividends," what about a War Dividend?

And as the Hemmingway character answers the question regarding how he went bankrupt (gradually ... then suddenly!), it is going to be painfully obvious how anaesthetized we have been when we start getting honest answers that are not cloaked in political humor."

Lewis McLain certainly has a valid point ... too bad we don't have any politicians with backbone enough to change the current situation.

Gold had a good day today as it continued to recover from last week's drubbing in advance of the FOMC meeting. West Texas crude also moved higher in today's trading.



Platinum continued to move higher in record territory on strong demand. The CRB index also made another new record high in today's trading.



TNE was sold from the Conservative portfolio today as it passed its Action Point. The Conservative portfolio is not 100% in cash. There were no other changes in the portfolios today.

Fred
Strategic Investing

Richards

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This issue of Market Musings is a feature of the Strategic Investing website. It is for the education of our subscribers and does not constitute a recommendation to buy or sell any particular security.

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