Home | Strategic Investing | Upcoming Events | Talks and Workshops | Subscribers Only | Adrich Corporation | Login

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Daily Market Musings • Archive
Daily Stock Watch List • Archive
Weekly ETF List
Technical Notes
Stock Selection in Down Markets
Selling Rules
Dow Jones Earnings
Gold Stocks
Homebuilders
Shorting Strategies
Foreign Bank Accounts
CRB Changes
Economic Indicators
Accumulation/Distribution Data
Portfolios
Aggressive
Conservative
Core
ETF
Precious Metals
Renew Subscription

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Market Musings

8/24/2007 After the Close

Let's have a chicken in every pot and while we are asking, how about a new home and a new car for everyone!

Markets Diary — 5:33 p.m. EDT 08/24/07

Issues	NYSE	Nasdaq	Amex
Advancing	2,595	2,062	787
Declining	735	925	377
Unchanged	73	119	67
Total	3,403	3,106	1,231
Issues at			
New 52 Week High	26	32	18
New 52 Week Low	27	56	35
Share Volume			
Total	1,188,115,810	1,670,857,647	31,568,702
Advancing	1,013,024,170	1,348,407,451	23,634,402
Declining	168,370,740	292,390,684	7,264,100
Unchanged	6,720,900	30,059,512	670,200

The calls for assistance from Wall Street, mortgage lenders and automobile manufacturer's remind me of the depression era slogans of **"a chicken in every pot!"**

Since it is only fiat money, who cares ... just give every one another few hundred thousand per citizen and everything will be ok ... Sure! ... Wonder if anyone understands about hyper-inflation inside the beltway!

But today, without a care in the world, the market decided that the band-aids were working and the problem of a financially impaired mortgage and commercial paper market was on the way to recovery and the markets went straight up throughout the day.

Durable goods orders in July rose 5.9% with gains reported in every sector except electrical equipment by the Ministry of Truth. There does seem to be a slight disconnect though between the durable goods report and the reduction of sales guidance by several of the major producers of durable goods. Oh, well, don't let that worry the investor.

New home sales in July 2007 provided another boost to today's markets as it was up 2.8% from the June level. Of course, with the major builders providing extra incentives to close deals, there were still sweet-heart deals available in July from mortgage lenders. But August may well be a different story as lending standards have increased and 136 mortgage lenders are now out of business or withdrawn from the market.

Although advancing issues outnumbered declining issues by a wide margin, there was little conviction in the upward movement in the market as total volume receded. The Simple Timing Indicator (STI) shown in the charts below are both negative for the NASDAQ and the S&P 500. Also both indices are below there 50 day moving averages.

The U.S. dollar index continued to lose ground and closed at 80.68. The yield on the 10 year Treasury note continued to hold in the 4.64% area.

After failing to show much strength during the market sell-off of the last three weeks, gold and silver appear to have begun to strengthen.

We made no changes in the portfolios today. Updates to the technical notes on the Accumulation/Distribution ratings and the Weekly ETF list were posted to the website today.

Have a great weekend.

8/23/2007 After the Close

Despite more infusions by central banks, the credit markets remain apprehensive!

Markets Diary 5:18 p.m. EDT 08/23/07

Issues	NYSE	Nasdaq	Amex
Advancing	1,670	1,194	662
Declining	1,646	1,834	537
Unchanged	91	110	97
Total	3,407	3,138	1,296
Issues at			
New 52 Week High	14	29	17
New 52 Week Low	26	57	25
Share Volume			
Total	1,376,330,740	1,658,756,129	35,289,079
Advancing	635,721,530	698,620,360	15,728,119
Declining	721,108,310	930,748,217	18,091,460
Unchanged	19,500,900	29,387,552	1,469,500

The FED added another $17.5 billion today. The ECU added $54.2 billion of 90 day loans to its lending facility. But all the central banks are doing is pumping up monetary inflation. Russia's central bank pumped $6.6 billion as banks were required to make tax payments and foreign investors were exiting the country.

It won't be too long before it begins to show up in the cost of living. When central banks can create money out of thin air by simply adding digits in the computers, the true value of purchasing power is destroyed.

Today we saw declining volume begin to show strength and only movements near the close kept the indices from showing larger losses on the day. Obviously the PPT was on the job today.

During the S&L crisis of the mid 1980's, many of the banks that bailed out the savings and loan associations were subsequently devoured by larger sharks. Could Bank of America's move on Countrywide be another mistake? I wonder which Bank of America executive will take the fall for this investment. The big problem is that Countrywide offered to repurchase mortgages if they were not good. Do you think that Bank of America is on the hook for all these buy-backs?

The credit problem which started in the sub-prime market has now expanded throughout the system and has also caused major problems in the commercial paper market. Private equity deals are now in trouble ... Home Depot's sale of it commercial lumber business may fail to close and KKR postponed a $1.25 Billion refinancing due to market conditions.

Outstanding U.S. commercial paper fell 4.2 percent, the biggest weekly drop in at least seven years, as investors fled asset-backed debt and opted for the safety of Treasuries. Coventree Inc., Canada's biggest non-bank issuer of asset-backed commercial paper, said it couldn't sell any of the $399 million in debt that matured yesterday. OOPS!

Pimco's Bill Gross is urging the government to bail out the U.S. homeowner. Why not, it is only electrons ... give everyone a free home!

And then maybe the government can find jobs for the 40,000 mortgage company employees that have lost theirs in the last few months of which 25,000 were in August. This month's employment report should be interesting.

We made no changes in the portfolios today.

8/22/2007 After the Close

August 22nd does not meet the follow-through definition of at least a 2% increase in one of the major indices.

Markets Diary 5:28 p.m. EDT 08/22/07

Issues	NYSE	Nasdaq	Amex
Advancing	2,708	2,078	886
Declining	658	913	360
Unchanged	62	127	63
Total	3,428	3,118	1,309
Issues at			
New 52 Week High	15	35	11
New 52 Week Low	31	61	33
Share Volume			
Total	1,450,172,400	1,867,563,615	39,753,922
Advancing	1,208,924,070	1,465,658,037	29,709,262
Declining	232,342,030	339,352,602	9,254,360
Unchanged	8,906,300	62,552,976	790,300

The HUI index did have a 2% increase but it is not considered to be one of the major indices. Prudent investors should continue to build their watch lists rather than jump back into the market right now.

Today's Musings will be short as we have contracted a sinus infection that has kept us under the weather.

As I have watched the market today, I note that the news appears to be contrary to the market's direction. On the financial side, there are some major players that have went to their banking connections to borrow on their behalf at the discount window. What we are seeing is just more band-aids being applied to a major problem in the housing and mortgage arena. According to a Reuters report today,

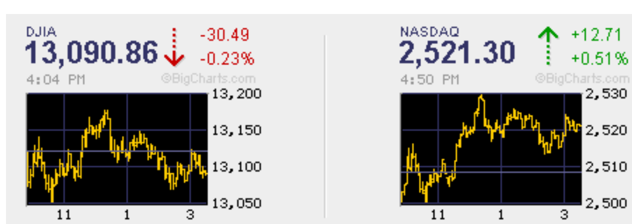
> **U.S. banks' non-current real estate loans rose for the fifth consecutive quarter to a total $66.9 billion at the end of the second quarter, the FDIC said. That was up 36 percent from one year ago and up 10.6 percent from the end of the first quarter, the FDIC said.**
>
> **Rising U.S. home foreclosures and problems in the subprime mortgage market have spilled into broader financial markets in recent weeks.**

To shore up the mortgage market, Reuters also mentioned a report from FRB Research that ***"$150 to $250 billion of permanent capital is needed to normalize pricing in the depressed market for mortgage-backed securities."***

Now that is what I would call an obvious statement. The real question is whether the injection of central bank reserves will begin to ramp up real inflation.

We made no changes in the portfolios today.

8/21/2007 After the Close



Today, the market was looking for a direction and ended mixed.

Markets Diary			4:49 p.m. EDT 08/21/07
Issues	**NYSE**	**Nasdaq**	**Amex**
Advancing	2,028	1,554	723
Declining	1,327	1,446	477
Unchanged	73	133	80
Total	3,428	3,133	1,280
Issues at			
New 52 Week High	12	18	14
New 52 Week Low	58	76	40
Share Volume			
Total	1,351,218,760	1,723,928,280	33,559,899
Advancing	789,696,200	1,009,134,881	17,922,265
Declining	553,349,360	689,948,957	13,453,834
Unchanged	8,173,200	24,844,442	2,183,800

Prior to today's opening, Treasury Secretary Paulson stated on CNBC that "***The Working Group on Financial Markets"*** has been re-energized.

For those who don't understand, Paulsen stated that the Plunge Protection Team is alive and well and working to keep his cohorts in the banking and investment banking sectors from going broke! By monetizing the bad loans held by his cohorts, the investor and taxpayer will shortly be seeing inflation moving higher and the value of your dollar depreciating!

The Wall Street pundits and politicians who have denied the existence of the Plunge Protection Team and its friends will now have to become believers in the fact that the U.S. financial markets are managed and not free!

And that statement includes bonds, equities, derivatives and commodities. Better face the fact, the U.S. is a world power only because of its military prowess ... the economic engine is broke.

Since transparency is opaque, the real question is what firm and/or banks got bailed out?

So will the markets hold here and start to rally. Probably not for long as the major problems caused by resetting ARM's, the toxic waste of the CDO's held by foreign institutions, and the shut-down of mortgage lending will continue to cause structural problems for the fiat currency of the U.S.

The U.S. Treasury raised $32 billion in a four-week auction today at a discount rate of 4.75 but with only a 1.11 cover ratio, the lowest since July 2001. Yesterday, the 30 day Treasury bill closed at 2.95% as investors rushed out of equities. The T-Bill and bond markets are really under pressure . . . and the funding of longer-term bills and notes could be difficult. Those investors hoping for a decrease in the fed funds rate just might be surprised if the bid-to-cover ratio does not increase between now and the next FOMC meeting.

> Early this afternoon and following the meeting between Secretary Paulsen, Federal Reserve Chairman Bernanke and Senate Finance Committee Chairman Christopher Dodd, Richmond Federal Reserve President Jeffery Lacker spoke, **clearly stating that the Federal Reserve would not cut interest rates for the sole purpose of steadying the financial markets.**

Foreclosures jumped 93 percent y/y in July 2007. It rose 9% from June 2007 according to RealtyTrac Inc. Five states, California, Florida, Michigan, Ohio and Georgia accounted for ore than half of the nation's total foreclosure filings..

The turmoil in the wholesale and retail lending sectors has seen a surge in layoffs announced in the past few days. Job cuts by real estate and construction firms totaled 21,620, more than twice the number for all of 2006 so far this year. Over 10,000 additional job cuts were announced within the last week which are not included in the above numbers.

With Hurricane Dean belting Mexico with little damage to off-shore production, crude oil slipped below $70 today although it closed at $70.38. The U.S. dollar index was slightly higher and closed at 81.48.

We made no changes in the portfolios today..

8/20/2007 After the Close

The euphoria from the FED's discount rate cut subsided today!

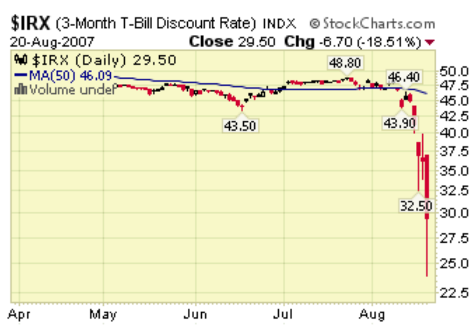
Markets Diary — 6:39 p.m. EDT 08/20/07

Issues	NYSE	Nasdaq	Amex
Advancing	2,017	1,568	733
Declining	1,327	1,482	482
Unchanged	91	110	77
Total	3,435	3,160	1,292
Issues at			
New 52 Week High	10	19	7
New 52 Week Low	55	63	48
Share Volume			
Total	1,535,209,860	1,664,863,606	37,589,973
Advancing	817,622,920	970,704,392	19,567,673
Declining	701,116,440	666,122,529	17,370,500
Unchanged	16,470,500	28,036,685	651,800

Although the Asian and European markets were up today, the U.S. markets opened higher but then began a slow drift into lower territory before moving higher after 2 p.m. EDT.

We returned to the office this morning after coffee to find the markets drifting into negative territory. The Federal Reserve only added $3.5 billion to the repo pool which caused it to fall slightly to $145.7 billion. We noticed that the long positions in our Aggressive portfolio were beginning to drift lower. **With a rather substantial profit in those stocks since Thursday, we decide to close out the positions and place the Aggressive portfolio in cash.**

The drop in 3 month bill rates was astounding today. Thirty day Treasury bills fell nearly 1-1/2 points from late Friday to their lowest level since December 2004. **This was the largest one-day drop in yield on T-bills since 1987.** Obviously, investors are searching for a way to reduce their exposure to equities in the short-term when a drop of this magnitude occurs. The exposure of many money-market funds to the credit problem is beginning to surface. Many funds are not insured and to make higher rates of return have invested portions of their funds in riskier investments such as commercial paper and even, in some instances, sub-prime loans. Prudent investors should take heed.



With Countrywide placing ad's in newspapers that they were not in financial trouble, we decided that perhaps we should see how bad the situation was. Over the weekend, fourteen more mortgage lenders according to the **Implode-O-Meter website** had decided to either reduce their staffs or go out of business. Since December 1st of last year, there were now 129 companies that have ceased operations.

After the close, both Countrywide and First Magnus, the two largest mortgage lenders, both announced staff cutbacks. Perhaps, Countrywide is feeling the heat. Thornberg Financial which specialized in jumbo mortgages sold its portfolio at a $930 million loss today and announced that it would restructure its operations.

The afternoon rally managed to bring the NASDAQ and DJIA indices into positive territory although the S&P 500 remained negative. The STI indicator for both the S&P 500 and the NASDAQ remain negative despite the upward move of the last two trading days. Prudent investors should be careful.

Although the index of leading indicators showed a positive movement in July, it should be noted that those indicators which move the index higher in July are now showing negative trends. Many Wall Street analysts and cheerleaders including the widely-respected Susan Berge were out over the weekend suggesting that investors should take advantage of "buying opportunities."

For now, I will be content to wait and see what trend develops. Until we have another follow-through day, we won't get too excited.

With the hurricane season upon us, we saw crude oil fall as the track appears to have veered away from many off-shore platforms. Natural gas also took a tumble in today's trading.

The U.S. dollar index was less volatile in today's trading and closed at 81.38. Meanwhile, interest on the 10 year Treasury note fell to 4.634% as investors moved towards safety.

Other than those changes in the Aggressive portfolio noted above, there were no changes in the other portfolios today.

8/17/2007 After the Close

The FED cut the discount rate to banks by 50 bps and the market went up!

Markets Diary — 5:18 p.m. EDT 08/17/07

Issues	NYSE	Nasdaq	Amex
Advancing	2,976	2,044	953
Declining	431	858	302
Unchanged	31	100	62
Total	3,438	3,002	1,317
Issues at			
New 52 Week High	25	44	9
New 52 Week Low	117	136	87
Share Volume			
Total	2,478,409,040	2,580,906,295	46,193,773
Advancing	2,243,885,220	2,276,902,743	34,407,453
Declining	230,522,020	280,708,542	11,116,420
Unchanged	4,001,800	23,295,010	669,900

There is a difference between the fed funds rate and the discount rate. The discount rate (now 5.75% is the rate at which banks and certain other institutions can borrow from the FED. The fed funds rate at 5.25% is the interest rate that banks charge each other for the use of

Federal funds on overnight loans. Before today's change, the following table shows the differences between the prime rate, fed funds rate and the discount rate.

Prime rate, fed funds, COFI **Updated 8/15/2007**

Click on the links below to find a fuller explanation of the term.

	This week	Month ago	Year ago
WSJ Prime Rate	8.25	8.25	8.25
Federal Discount Rate	6.25	6.25	6.25
Fed Funds Rate	5.25	5.25	5.25

In announcing the rate cut, the FED cited the following according to a tape report ... :

> ***Fed cuts primary discount rate by 50bp to 5.75%; federal funds target remains 5.25%***
> **The FOMC says the downside risks to growth have increased appreciably and that the Fed says it is prepared to act as needed to mitigate the adverse effects on the economy. The FOMC says the financial conditions have deteriorated and could restrain economic growth. The Fed calls the reduction in the discount rate a temporary change.**

The market surged almost 300 points at the opening on the news of the cut in the discount rate. But what does it really mean ... there has been very little borrowing at the discount rate at the FED despite the tightness in the credit market. The real impact of this cut is basically "zip," or "nada." I wonder which major bank and/or investment bank the Fed was trying to save ... maybe, Countrywide Financial? The Action Point in the Aggressive portfolio for CFC had us cover our short position this morning.

To me, we are still only seeing the symptoms from the over-aggressive credit expansion coming home to roost. Take a good hard look at the economic numbers in the coming days and weeks before you get too excited about getting back into this market. The discount rate cut was the FED's initial attempt at containing the fall-out from the sub-prime mess which has spread far beyond the CDO arena. However, the FED's move failed to stop asset-backed commercial paper yields going higher.

> Yields on asset-backed commercial paper rated A1, the second-highest at Standard & Poor's, and maturing the next day rose 39 basis points to 6.01 percent, the highest since January 2001, according to data compiled by Bloomberg. The increase is also the biggest since September 2001.

Yesterday, we closed out our shorts in the Aggressive portfolio in the bank stocks and went long. Sometimes, it is better to be lucky than good. With the discount rate cut, the bank index gapped up and most of the bank stocks were higher. Still the interest yield on the 10 year Treasury note rose and close up at 4.67% today.

During the past eight days, we have seen substantial infusions of money by central banks into the system. For the most part, the source of those infusions were simply adding electrons to the computer data. However, in the last week, foreign central banks did sell $22.15 billion in U.S. Treasury debt according to Federal Reserve data and Reuters today. Still foreign central banks still hold $1.224 Trillion of U.S. Treasuries.

The extent of the capital infusions during the past week can be seen in the following table. The table only shows amounts shown on government websites and does not include operations that were not disclosed.

Currency Infustions

in Billions of US $

Bank	8/8/2007	8/9/2007	8/10/2007	8/13/2007	8/14/2007	8/15/2007	8/16/2007	8/17/2007	Total
ECB		$130.6	$83.6	$65.0					$279.2
US FED		$24.0	$38.0	$2.0	$7.0	$0.0	$17.0	$6.0	$64.0
Japan			$8.5	$5.1			$3.5	$10.6	$13.6
Philippines									$0.0
Australia			$4.2					$3.0	$4.2
India		$11.0							$11.0
Malaysia									$0.0
Canada			$1.6					$1.4	$1.6
Norway		$7.8							$7.8
Swiss			$1.7						$1.7
Total		$173.4	$137.6	$72.1					$383.1
US Treasury									
Debt	$8,941.9	$8,969.8	$8,968.6	$8,969.9	$8,974.1	$8,965.1	$8,967.8	$8,980.2	
Change		$27.9	-$1.2	$1.3	$4.2	-$9.0	$2.7	$12.4	$28.0

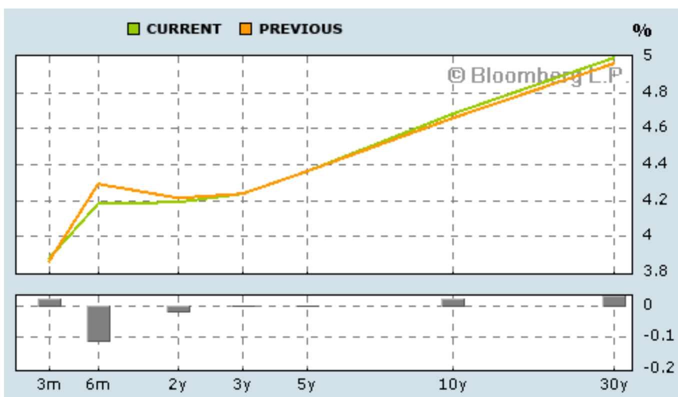
Source: http://www.treasurydirect.gov/NP/NPGateway

Note:

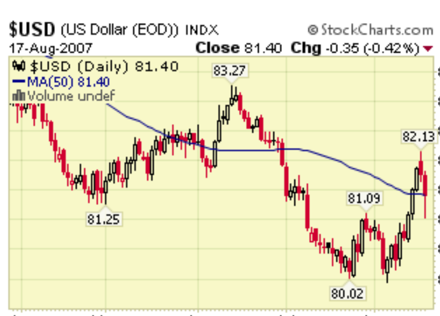
1. US Treasury debt is above debt limit of $8,965.0 on both Thursday and Friday.
2. Since 7-31, US Treasury debt has increased over $60 Billion.
3. Infusions are only what is officially reported.
4. Philippines & Malaysia are reported to have intervened but no data available.
5. FED is accepting Mortgage Backed Securities (MBS) as well as Treasuries for repo's.

As the table shows, central banks have added over $410 billion in reserves to the system in the last week which is an amount greater than was supplied following 9/11. And the markets actually ended lower at the end of this week than the close of last week ... sounds to be that things are far from being contained.

Yields on the short maturities continue to fall with the 90 day T-Bill at 3.88% while the yield curve remains inverted. The three month bill is now almost 200 points below the FED funds rate!



The US dollar dropped against the Euro today for the first time this week and weakened against 14 of 16 major currencies today. The US dollar index was lower today after the FED's cut in the discount rate. As the yen carry trade begins to unwind, the yen has appreciated substantially against the U.S. dollar as shown below.



While the Wall Street cheerleaders are happy that the market was higher today, prudent investors might just want to sit on the sidelines, build their watch lists, and wait until we get confirmation that the market is headed higher and that the economy is not sputtering. Yesterday was the first day for counting a rally attempt but remember that not all follow-through days generate good rallies. The last one was a case in point.

The University of Michigan consumer sentiment suggests that the consumer is concerned about the economy. Perhaps, investors should also take heed.

Fred Richards
Strategic Investing

Last updated - June 28, 2007

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