
FLASH REPORT DIGEST

Week of April 6, 2009

MON, APR 06, 2009 2:34 PM - LOW VOLUME DECLINE DAY

Good Afternoon,

We have been sitting in the trading turret swatting flies as this has been one slow down day.

Volume is way below average and we are expecting a rally at the close. The old rule...never short a quiet market may prove to be a good rule as we think any spurt of up volume will take stocks higher.

Back after the close.

MON, APR 06, 2009 4:45 PM - PDF ATTACHED

Good Afternoon,

Well we got a little rally out of the close but not much to write home about. Volume was very light the action today was very listless so we do not read much into it.

The TBT trade was a little bit more active and we closed up at the \$45.84 level.

If we move above \$46.50 tomorrow, we suggest moving stops up to break even and see how this one develops. Like we said last week, we are not expecting the "big kahuna" trade here that we have been writing about for months. We are expecting a trade similar to the last TBT trade where we made 24 percent in it and got stopped out. But who knows.

We have attached a FLASH PDF with some interesting thoughts on the stock market. We have one more to follow.

[See Attached PDF](#)

MON, APR 06, 2009 5:32 PM - MON, APR 06, 2009 5:32 PM

Good evening,

The point of these 2 PDFs tonight is to simply compare past cyclical bear markets with where we are today.

It still amazes us that so many people today declare the recession over and a new historic leg up in stocks is here."The bear market is over". "The bottom is in". Jim Cramer last week declared the "depression is over" and to race out and buy as much stock as you can.

Now maybe these mavens will be right. Who is to say? But we like to go back in market history and give us a glimpse as to how past markets have fared and search out an common characteristics shared by these 3 previous secular bears markets. By doing this, we can get some historical perspective on past bottoming action and indicators.

We do not pick bottoms. We have said this time and time again. We'll let Cramer do that. It is our job to assess risk. We look at past markets to give us a time line to assess risk.

Since it is Opening Day, we will use baseball as an analogy. We know there are 9 innings in a game. Sometimes there will be more. But on average, there is nine. If the Cubs are down 9 to 2 in the third, we know there is a decent chance they can come back because there are still six innings left. Plenty of game for those old Cubs! The risk of them losing is less in the third inning as compared to them being down 9-2 in the bottom of the ninth.

And speaking of the Cubs, the proof that Black Swan events do occur is shown by their World Series record as well.

The same with stocks. If the average secular bear market takes 190 months to get to the ultimate low, and we are in month 108 of this one, we can say that there is a decent chance that over the next 82 months, a new price low will occur. There is plenty of game left! If we are in month 188 and that old March low has just been made, we can say that there is a great chance we have seen the low and indeed, a new great bull market is upon us. **We would have far more confidence recommending an aggressive "buy and hold" strategy in that scenario than the one we are in now.**

Again with baseball, we are only in the 5th inning of this average secular bear market.

This is just an example of how we analyze data and construct the odds that the mavens are going to be right. At this point, we say the risk of making massive purchases of stocks is still very risky and the odds of stocks making new lows are still pretty good.

Characteristics of the Bear.

We can say that all three had 5 waves. The 1929 market had a triangle pattern to it but did not start the next big bull market until 5 waves were in.

Most bear markets retraced at least 70 percent of the previous bull move up and the all experienced losses of at least 66 percent from top to bottom.

All secular bear markets experienced P/E ratios in single digits at some point before a recovery began. We can say now, that none of these characteristics have showed up yet in this current market. So for all of these analysts to come out of the woodwork over the past few weeks and declare that the bottom is in, is hard for us to reason.

As we know, all markets are different and some bear markets take on different patterns and wave structures. We realize this and it is a big part of our theory of market behavior.

But with the economic history that has been made already in this relatively short bear market life, we are hard pressed to believe that this decline will end with a whimper.

While we believe we are clearly in the 3rd wave down, and in all probability over half way through this bear market, we also know that we have 2 waves left. One up and one down.

We are not prepared in the least to declare this bear dead and we do not advise you at all to run out and buy stocks.

There will be plenty of trading opportunities ahead of us for as these charts all show, markets bottom in fits and starts...in waves... and not in a straight line. Therefore, we believe many rallies and declines lie ahead and all of them are profit opportunities.

We will try and keep you on the right path. It is our sole mission to help you understand the markets as well as help you make more money from them. We will continue along that goal.

Have a good night.....enjoy the big game tonight.

[See Attached PDF](#)

TUE, APR 07, 2009 4:26 PM - SOCIONOMICS: A NEW ECONOMIC TOOL AND CONSUMER CREDIT.

The new study of socionomics states that in any society, trends in the stock market, economy and culture change due to the fluctuations in the mass or social mood of the citizens.

Positive social trends-such as unity, peace and tolerance-are prevalent in bull markets, while negative social expressions like anger, divisiveness and conflict, dominate in bear markets.

According to socionomics, the stock market is the LEADING indicator of social change and is governed by the wave principal.

In our view, economics is a rear-view mirror (it tells us what has already happened) and socionomics is a windshield (it tells us what's ahead).

The study of socionomics shows us that bull markets lean toward inclusive behavior while bear markets lean toward division. Bull markets have an appetite for togetherness, herd mentalities and thinking. This explains why bubbles occur near the end of bull markets. A sense of togetherness forms and the social fabric becomes dominated by money and "things". People flip homes and buy bigger ones to impress. New cars and more expensive vacations. Everyone is buying dot.com stocks and so will I. Everyone is getting rich in real estate and so will I. We all belong to the same club, eat at the same restaurants, invest in the same mutual funds and watch the same television shows. But most important, we all feel rich, and start to believe we are invincible.

When the inevitable bear market comes along, we all look to blame anyone but ourselves. "They" did that to us and "that company" lied or "that fund" took on too much risk. Bear markets divide society and a nice and cozy lifestyle becomes cold and ugly. Politics becomes ugly and protectionism raises its ugly head. Optimism evaporates. Bear markets and wars go hand in hand as global and regional tensions build as more and more money is lost. Trust is also lost in bear markets. Trust between people, trust within companies and commerce and trust between governments.

We have and are studying socionomics and we find it brilliant. We believe the stock market is a leading indicator of the coming social mood and obviously, we are predicting a very tough road ahead.

Yesterday, we provided data that concluded that this bear market bottom may be years away. How this translates in socioeconomic terms, is that somewhere between six and eight years from now when we are near the bear market lows, you are going to see a lot of anger expressed in different ways throughout society.

We think that all of this financial carnage is just a window into what will be going on society wide in the months and years ahead.

You must be prepared for these changes and not be surprised by them.

Demonstrations will become more violent against corporations and governments. Capitalism itself will be come under fire from the most unexpected sources. And all of the rules we believed in and based investment decisions on will no longer work.

Things will become more violent and volatile as financial losses escalate and it becomes clear that all of these government programs are not working.

We are prepared for it and are ready to operate within this environment. You should too. You can complain about it, but the most important thing is to accept it and the new rules that go along with it and then profit from it.

Consumer Credit.

Consumer credit took a huge fall in February . Economists were expecting a drop of \$3 billion for the month and it actually fell \$7.5 billion.

Our first reaction is why do we pay any attention whatsoever to economists and their expectations. Will they ever be right again? They continue to "under-perform" and yet when one of them says the "recession is over" or "banks look undervalued" we hang on very word. Most traditional financial services economists have been wrong for years operating under a model that is 70 years old. Basing investment or business decisions on any of their forecasts is dangerous.

We also think that this huge drop in consumer credit was not caused by consumer's decisions. We think it is being forced on consumers by credit card companies and banks.

A story on Bloomberg says this is proof that the American consumer is not seeking credit and making a conscious decision not to use credit for purchases. **We disagree.**

We think that credit is being pulled from consumers and they have no choice but not to put things on credit because they can't. They have no room left on their credit cards. They have no credit now and they won't get

any new credit lines for years to come. This is why we think this recession will turn much worse and last far longer than anyone thinks.

There is a huge difference between electing not to charge things and not being able to. You can elect to not get in a car with a stranger as compared to being forced into a car with a stranger. In this example, there is an obvious different mindset between a positive thought process and experience and a negative one.

When consumers choose not to charge items and go further in debt, it is a positive proactive experience. They may be making a tough hard decision but it is one they ultimately believe will result in a good positive thing happening in the future.

But when consumers are denied making the choice, when the choice is made for them by an authority figure and there are no options but denial, it becomes a negative experience and adds to the negative attitude winding it's way through the economy.

We hear everyday stories of consumers being denied credit or having credit revoked or interest rates pushed to obscenely high levels causing these people to simply not be able to buy anything on credit.

Both of these actions result in the economic statistic reported today, the decrease in consumer credit. But the reasons why it decreased, in our view, makes all the difference in the world in terms of the social mood of the country and the chance that we can recover anytime soon from this economic mess.

WED, APR 08, 2009 9:04 AM - LIFE INSURANCE COMPANIES ELIGIBLE FOR TARP MONEY

Good Morning,

Well our suspicions were warranted as last week we commented on Life Insurance and Annuity Companies watching their stocks fall in some cases over 90 percent (Lincoln National Corp). We thought these stock charts looked so similar to the charts of bank stocks last year that there had to be major problems within this industry.

Today these fears have been confirmed as the U.S Government is reportedly ready to extend bailout funds through the TARP program to life-insurance companies.

The official announcement should come from the Treasury in the next few days. There is over \$130 billion left in the TARP fund.

Theses life insurance companies have suffered big losses this year. They have also made outrageous promises to buyers of some of their investment products. For example, the Variable Annuity product that gives holders all the upside of the stock market but insures against losses in stocks has got to be killing these companies with stocks down over 50 percent from the highs.

Again this is an excellent example of a Black Swan event in that some of the smartest financial minds in the country failed to even think about. They never imagined that real estate could fall in value like it has (banks and insurance companies) but that stocks might experience a severe bear market as a result (insurance companies).

Insurance giants got double whammied in that they have always been big owners of real estate but over the last 15 years have pegged a good deal of their future growth to the financial markets.

And now they need TARP money to stay alive.

We have always thought that most of these crazy financial products that have been introduced over the last 15 years by investment and insurance companies are basically junk . They just don't make a lot of sense, most are hard to understand, most do not offer any financial advantage to the buyers and most are very expensive.

And to boot, we'll bet that a vast majority of these products failed to beat their benchmark index in both short term and long term performance measures.

Hopefully the lucky life insurers who take this TARP money know what they are getting into. You may as well book your airline ticket to Washington to have a nice chat on national TV with Rep. Barney Frank and his friends because they do not take to kindly to companies who take TARP money hosting parties and weekends for their clients, sponsoring sporting events and sending their top producers to Hawaii on incentive trips. Nor do they like

bonuses or salaries over \$200,000. Insurance companies may want to read a story from Bloomberg. The headline "Congressional Panel suggests Firing Managers, Liquidating Banks" may strike some fear in your heart.

The story goes on to say that a congressional panel overseeing the U.S. financial rescue plan suggested that getting rid of top executives and liquidating problem banks may be a better way to solve this crisis.

But our favorite part...and one that we have been writing about since we started...is that this panel also suggested that the Treasury may be "relying on too rosy an economic scenario to guide it's \$700 billion bailout" and declared the results so far as "mixed".

The head of the panel, Harvard Law School Professor Elizabeth Warren wrote, "All successful efforts to address bank crisis have involved the combination of moving aside failed management and getting control of the process of valuing bank balance sheets."

Our advice to any life insurance company is simple. Don't take the money.

WED, APR 08, 2009 9:17 AM –TBT UNDER PRESSURE

A quick note.

Seeing the 30 year bonds rallying big time and hearing that the FED is in buying bonds as part of their quantitative easing program.

This will be interesting...very interesting to see how far they can push the market and what happens to it after the buying spree ends.

We are watching

WED, APR 08, 2009 9:45 AM - 10 WAYS TO AVOID THE BLACK SWAN

Good Morning,

My favorite author and economist, Nassim Taleb, the author of The Black Swan wrote a list of 10 ways to avoid the Black Swan in the Financial Times today. here is his list.

We are taping this on the wall of the trading turret right next to my picture of the Black Swan.

- 1.) What is fragile should break early while it is still small.
- 2.) No socialization of losses and privatization of gains.
- 3.) People who were driving a school bus blindfolded (and crashed it) should never be given a new bus.
- 4.) Do not let someone making an "incentive" bonus manage a nuclear plant-or your financial risks.
- 5.) Counter-balance complexity with simplicity.
- 6.) Do not give children sticks of dynamite, even if they come with a warning.
- 7.) Only Ponzi schemes should depend on confidence. Governments should never need to "restore confidence."
- 8.) Do not give an addict more drugs if he has withdrawal pains.
- 9.) Citizens should not depend on financial assets or fallible "expert" advice for their retirement.
- 10.) Make an omelet with the broken eggs.

THU, APR 09, 2009 11:09 AM - THE MARKET RALLIES ON GOOD BANK NEWS AND A NEW BLACK SWAN?

Good Morning,

The New York Times reported this morning that all 10 major banks have appeared to pass their "stress test" and most are in better shape than any one thought. After this story ran, Wells Fargo came out with a new earnings outlook that beat previous estimates by 300 percent.

They also said that it would be a record revenue quarter and that Wachovia really added to the bottom line.

We feel like we have been had!!!!

If 100% of the banks passed this very strict stress test and Wachovia, which was basically forced to merge with Wells Fargo are all in such fantastic shape and driving record earnings, why did we have to put all of that money into them in the first place?

What happened to Chris Dodd and Barney Frank and Hank Paulsen and all of them warning us that these banks were not only in danger of failure, but could bring the country with them as they slide to oblivion.

This is just incredible news! The banks were in decent shape after all and have turned the corner. They didn't need all this TARP money after all. And the record stimulus package that was just passed and the deficit busting new budget that is about to, we don't really need that either.

But wait, the money has already gone out and been appropriated. We do know one thing and that is Congress will never give back money that has already been appropriated. So the money will still be spent, deficits will still skyrocket **but the difference may be that all of this will happen within a growing robust business cycle.**

Black Swans are not just related to stock market crashes. By definition they are unforeseen events and the reaction to them.

Think about how many people are bullish the economy right now. Not many that we read.

So who is to say that the Black Swan event in the next year may be the economy wasn't nearly as bad as what everyone thought and that all of this global stimulus money put into the system in 2009 wasn't necessary.

And because Congress and the Administrations of Bush and Obama bought into Bernanke and Paulsen and Geuthner's BS, the unintended consequence of this will be 20% inflation and interest rates. Maybe the final chapter of this crisis will be that we massively inflated the economy at exactly the worst moment. Like pouring gasoline into a fire and doing it because we thought there was water in the can.

This scenario points to one thing and that is massive inflation. If in fact (and we do not believe a word of it) but if indeed these banks are all OK and the economy is truly turning as is the stock market, then the bond bubble popping has begun.

The TBTs are up almost 2% today as the bond market reacts in a negative way to the good news. The reason bonds are selling off today we think, is simply an asset allocation play where managers are selling bonds to buy stocks. Although most of the commodities are up here with the Rogers Index (symbol RJI) up over 2.5 percent as well as oil we do not think any inflation play has started.....yet.

We do not think that this negative bond reaction has anything to do with inflation scares. We think that comes later. This is just a bet being made by asset managers that the top is in for bonds and the bottom is in for stocks. They do not want a 3.6 percent yield for 30 years if they can make 10 percent in stocks today.

We also wonder though what this will do to the coming Treasury auctions. If U.S asset managers don't want low yielding bonds, what about the rest of the world? We have a record amount of 10 year bonds being auctioned today so we will be watching closely.

We also want to point out that these types of stock rallies...we were up over 200 points already...have a tendency to fade as the day goes on. We have had many many bank rallies over the past year only to see them rise and then fall back to new lows. So we are looking at this rally in the same light.

The Aussie software is still giving pattern projections into the 875 to 903 level in the S&P 500 and the 8600 to 8800 level in the DOW with high ratings on the current zig-zag pattern. So we are not surprised by the strength as we have been looking for higher prices since last month and telling DXD buyers to wait and be patient. Wave B up needs to unfold so let it.

But remember, that the Aussie is then looking for a hard break down after we achieve these levels. So this is just a trade to the upside.

The bulls are running rampant as over 60 percent of advisors are bullish right now. And we expect that number to climb.

By the time we get a sell signal it will be very hard to pull the trigger because of the amount of bullishness out there. Just as it was very hard to sell in the fall of 2007 at the top. But usually those make the best trades. When everyone is telling you are nuts and the bottom is in, is usually when you are right. Lone wolf stuff. Get to the other side of the street stuff. Remember that and be strong.

We just don't buy into all this good news on the banks simply because we just do not trust them. As we have said before "the Ministry of Truth" has been working overtime and the banks, since really being owned by the government, are a part of that now.

All of the economic rescue bills have been passed and the money sent out. The Ministry doesn't have to paint a bleak picture anymore because they have what they want. When they need more money for the next bail out (commercial real estate?) they will go into overdrive telling us this industry is too big to fail and if we don't save them the whole economy will collapse. Congress will vote "yes" money will be spent and then it will be "shiny happy people" time.

So keep your head down and follow the charts and the technicals. They don't lie and they will keep you focused on the trend and nothing more. The sooner you learn to ignore the news and propaganda and actually fade it, trade against it, the more profitable you will be.

Eventually wave B will end and wave c will begin. Our objective is to be short going into wave c.

FRI, APR 10, 2009 10:08 AM - AUSSIE UPDATE

Good Morning,

First off, we hope all enjoy this holiday weekend.

We are in today hanging out in the voodoo shack putting the Aussie through it's paces and we are seeing no real changes in the pattern.

The only thing we can report is that this B wave is looking like it wants to extend higher. The Aussie has targets now in the 875 to 902 area which was there before but has just expanded it's upper target box to the 929 price range. **The rating is 687 for this move so we need to respect this forecast.**

Remember, the great thing about the Aussie software is that it is dynamic and not static. That means that it's targets will change as the market does. If it senses an extension of a wave, meaning that prices moved beyond expectations, the software will recalculate targets using similar past patterns. So while we have this move targeted, it can always change.

That is why the most effective way of trading the Aussie software is taking positions and using trailing stops to take you out. Simply because you have no idea how far a market can go, you do not want to lose massive gains for a small one.

The bigger picture still looks the same as well with the zig-zag pattern intact. After this B wave ends, we will go into wave C down and their projections here are in the 648 to 607 price range with a 926 rating.

We will worry about that wave when it comes. Right now it looks to us that this rally will continue.