
FLASH REPORT DIGEST

Week of April 20, 2009

MON, APR 20, 2009 9:15 AM - GERMANY GOVERNMENT AGREES TO CREATE SEVERAL "BAD BANKS"

Good Morning,

Some interesting news from Germany in that a news story just coming across our wires is reporting the German government has agreed, in principle, to create several "bad banks" instead of one large financial institution for the entire sector to deal with the deteriorating banking situation in that country.

German Chancellor Angela Merkel will lead the negotiations along with her German Finance Minister and the Chairman of the Bundesbank.

This announcement on the heels that the German recession has deepened as the economy shrunk by 5.3 percent and business confidence fell to the lowest level in 26 years.

We find this announcement interesting in that Germany has decided to go ahead with the "good bank, bad bank" policy that was rejected here in the U.S. by Treasury Secretary Geithner.

This may be a first indication that the rest of the world was serious at G20 earlier this month, when not only could they agree on specific solutions to the banking crisis but Germany and France indicated they would do what they felt was right within their countries to help their specific banking sector.

Now Germany has announced a different path than the U.S. We will be keeping an eye on this and with interest, see how it unfolds.

MON, APR 20, 2009 11:32 AM - STOCKS UNDER PRESSURE, CITI'S EARNINGS AND THE STRESS TEST RESULTS

Good Morning,

Sitting in the trading turret this morning with Queen and David Bowie's song "Under Pressure" blaring through the speakers as we watch the market move down over 223 points.

Most of the pressure is from the banks, but the Commercial Real Estate sector as well as Life Insurers are getting smoked as well.

We read all weekend about Citigroup's big profit last Friday and all we can say is "what a crock!!!"

We do not trade in individual stocks anymore mainly because we can not figure out earnings. And this Citibank earnings report is a great example of why the sophisticated trader needs to steer clear of individual stocks right now and just trade the indexes.

We think it was a stroke of luck for the banks that the FASB rescinded mark-to market accounting just before first quarter earnings were released. Isn't that special??

Citi declared a \$2.5 billion gain from an accounting rule that allows firms to record a gain from a decline in it's bonds. The assumption is a firm can buy back the bonds at a profit. This an absurd rule that has nothing to do with the operation of the bank and yet it accounted for \$2.5 billion in profit!

In looking at Citi specifically, March trading profits swung from a \$6.8 billion loss to a \$3.8 billion gain. This is a direct result from FASB accounting changes. Citi also took a decline in interest expenses from \$16.5 billion last year to \$7.7 billion this year. Again FASB induced.

Goldman retained it's "sell" on Citi saying that it's credit losses are growing at a rapid rate. They are saying much more capital equity is needed.

We agree. It is almost a given that the government will convert the preferred shares to common so it will be very important to see what form of additional capital is given.

The FED and Treasury have guaranteed \$306 billion of Citi's assets already and they have injected \$45 billion in preferred and converting preferred to common is the last option left to them.

Citi has over \$2 trillion of assets and probably over \$3 trillion if you add in all of the off balance sheet assets and all of these values are down anywhere between 10 and 20 percent. That means Citi may need up to an additional \$300 to 500 billion in capital or more than has already been awarded. To us, it looks like the FED is simply rearranging the deck chairs on the Titanic.

STRESS TEST RESULTS COMING

Our good friend Ken in Illinois makes a great point in saying that all of the banks are in a lose-lose situation when it comes to the upcoming stress test results. If the stress test comes out great for all of them, then any new government support will end and from this point on, they are on their own.

In looking at Citigroups financial condition, it looks to us like they will need a huge amount of additional capital to stay alive and yet, if their stress test comes out AOK, what does that mean for that bank? The stress test result does not mean that \$300 billion will suddenly become available. Where will they get the billions they need to recapitalize if not from the Congress or taxpayers.

Most analysts will see through these stress test results in about 10 seconds and proclaim them a sham. What will that do in the public's confidence in government actions and programs. How will that affect investor psychology?

And if the stress tests come out terrible and it shows that 16 of the 19 banks are basically insolvent, what will that do to the markets and more importantly, what steps will President Obama and his team take to recapitalize these failing banks? Or will they let them fail?

Or will he decide to keep them alive, as Japan did, and we will have "zombie" banks lending money to "zombie" companies turning the US into a "zombie" economy.

And if President Obama is faced with major bank failures at the same time he is forcing GM into bankruptcy, how will the world view U.S. policy and more importantly the U.S economy and quality of it's debt?

And any new stimulus or bail-out money needed as a result of bad stress tests will just add on to an already parabolic deficit total.

So Ken is right. This may be a lose-lose situation for the banks and Citibank releasing these bogus earnings may be the worst thing they could have done, weeks before the results of the stress test are in.

If the stress tests come out bad, it may prove to be a fatal blow to a good number of banks. If they come out good, knowing what we know about Citi's bleak outlook, it may prove a fatal blow to the credibility of the government itself in that the stress test may look like nothing more than a bogus political operation.

AS THESE STRESS TEST RESULTS GET NEARER, THE MARKET GETS MORE NERVOUS. THAT IS WHAT THE DECLINE IN STOCKS IS ALL ABOUT TODAY. MON, APR 20, 2009 6:07 PM - THE AUSSIE COUNT

Good Evening,

We have had numerous requests for an update on the Aussie wave count so we have been in the Voodoo Shack all afternoon going through the various patterns and counts. Here are the details.

At the end of February we advised closing all short positions and to be on the lookout for a rally. Besides a flurry of oversold technical indicators, the Aussie software was telling us that the decline was getting long in the tooth. We also pointed out how bearish the public and traders had become noting specifically Investors Intelligence readings nearing historic rally levels and more specifically the Daily Sentiment Index reading which measured the bulls at only 2%, the lowest reading in it's history.

We were early in our call by a week, and after the turn we said, never again would we doubt the Aussie software in it's warning of an impending turn.

Today the market dropped almost 300 points and readers are emailing and calling wanting to know if this is the major turn lower that we have been warning about.

Remember, we feel that this rally has just been a B wave, a corrective wave in an ongoing bear market.

Since the S&P500 was still in the high 600s, the Aussie software was looking at target areas in the 875 to 902 area for the end of this B wave. On Thursday, we hit 875.63 which just barely nipped the bottom of that target square.

The software though had been "impressed" with the magnitude of the move and early last week, moved its targets a little higher, keeping the 902 area in tact but moving the top end up to the 927 price zone. We wrote in a FLASH that the software is a dynamic beast in that it will move target zones higher if it senses that current waves are extending and therefore extends its targets as well.

We have also written that the way to trade this software is to establish positions and then use stops to take you out because you never know where the top is and things in this market can change so quickly both up and down.

If you were long this market since the high 600s and you were stopped out today in the mid 800s, it was a great trade. Today's action probably stopped out most of the long trading positions and so now it is time to determine whether it is time to short the market or if this is simply a minor move down to correct the previous 6 week rally and the market will eventually move higher and eventually get to that 902 level.

We have broken down from a diagonal triangle and have taken out key areas today on the charts. Diagonal triangles almost always retrace down to their origins which in this case is the 780 level on the S&P500 and the 7450 area in the DOW. This is where we think the market is headed short term.

If you wish to play the downside, we would recommend buying short Index ETFs on any rally tomorrow. This down move has plenty of room to go so take advantage of rallies and enter short positions at that time.

The Aussie software is starting to doubt this rally's potential and is starting to signal that a turn may be at hand. Why?

Last week, it was projecting a move to 902 with a pattern rating of 632. Remember, a pattern rating over 175 is considered a tradable rating and anything above 300 is considered very reliable. On Thursday, the rating moved lower to 450 and Friday, it was lowered again to 288.

At the close today, the pattern rating dropped all the way down to 136. Therefore, we can not consider this pattern reliable and it puts into very realistic doubt, a move up to 902.

And even more important, if we do move higher over the next few sessions and the rating does not move back over the 175 level, it presents an excellent opportunity to short the market. This is what we will key on in the next few sessions.

Again, this is a great lesson on how to trade ETFs. It is impossible to get in at the exact bottoms or tops. Our goal is always to let a pattern develop and then enter, have a great price point to establish stops and move these stops as the market moves in our favor. The market will then take us out when it moves to trigger the stops.

Therefore, our strategy is take the middle out of the move and try and make consistent profits from the middle of the moves as compared to guessing tops and bottoms.

The Aussie longer term projection is still in tact but its price targets have been moved substantially higher than before. While the rating for a decent move lower is still high at 393, it is down considerably from the 1200 rating of two weeks ago.

And the price projections now come in at 711 to 670 on the S&P 500, in essence not making new lows on this move but almost forming a retest "flat" correction instead of a full fledged "impulse" move lower. At any rate, this is a long way away and we shall see how it develops.

One last note in that the Daily Sentiment reading which was 2% bulls at the bottom has now turned to 66% bulls, the highest reading since December 2007 so bullish sentiment has reached pretty high levels. We want to be on the other side of the street...right?

STRATEGY

For now, we would go short on any rally and use stops to get out. We think we can move lower, down to the origin of the diagonal triangle in the 780 area (a 6% drop) and then we will have to see how this pattern is shaping up. **The Aussie software pattern confidence has eroded for the 902 target using this present price formation and we will have to see what it picks up as we head to the 780 level.**

One thing to remember, when you can not discern a true pattern, when there is overlapping and just "garbage" patterns on the charts, it means you are in a correction. This is what we see now. Therefore, we can NOT say we have entered a new impulse wave lower until we see more action. One day does NOT make an Elliott wave pattern.

We can say we are still correcting so we have to assume we are still in this B wave moving higher as far as the big picture goes. Therefore, this short term trade to short stocks on any rally is just that and please, please, please, make sure stops are in if you enter the trade.

Let's see how tomorrow shapes up.

TUE, APR 21, 2009 1:59 PM - CITIGROUPS AND THE BLINDFOLDED BUS DRIVER

Good Afternoon,

Many people ask me why I am so bearish on the long term economic future of this country. There are many reasons but today nothing serves as a better example than what transpired at the annual meeting of Citigroup.

Today, shareholders voted to re-elect all previous directors. By a 90 percent margin, the same people that wrecked the company, that turned a blind eye to the risk being built up within, that encouraged reckless lending and massive speculation, were allowed to continue to guide that bank.

If I was a Citigroup shareholder, not only would I be outraged, I would also be ashamed.

The stock is up almost 10 percent on the "good news". I'm sure the executive party room at Tavern on the Green is already reserved and the champagne will flow tonight.

Where is the outrage! I was running on the treadmill and CNBC was on and the 4 noon permabulls were giddy that their "good friends" had a chance to resurrect the once great company.

We are so bearish because we live in a country where there seems to be no consequences to your actions. People who wreck a company and cause millions of shareholders to lose life fortunes ought to pay a price for their bad judgement. It was a stacked vote I am sure as major holders of the stock voted with their buddies and the 100 share holder once again had no say in any of this, or didn't bother to vote at all.

We are so bearish because people never seem to learn. We are in a mode now where reality is not politically correct. We only want to hear what we want to hear. You can not learn in this environment. You can only wish and hope.

What else can we say.....

A blindfolded school bus driver had a full load as he pulled out of the school. Obviously, down the road an accident occurred that he never saw coming. The future of this country, your kids or grandkids were on that bus. The driver had a responsibility to drive safety and keep your kids safe.

The accident killed and badly injured some of the kids on the bus. Some walked away unhurt. **The driver didn't have a scratch.**

During the investigation, the driver continued to draw a paycheck and live a normal life.

After the investigation, in which the government found the driver negligent because he was wearing a blindfold, the driver asked to be reinstated. He wanted another chance to make up for what had happened before.

The government didn't want to get involved so they said that if the parents of the kids on that fateful bus voted to give him another chance, they would abide by their decision. They wanted the shareholders to have the final say.

The parents cast their vote and decided by a 90% margin to let the man drive another school bus.

The driver was very happy and the new bus was loaded. He got in the drivers seat and put on his blindfold and started on his way.

Do we think there is another Black Swan out there? You betcha!

WED, APR 22, 2009 9:46 AM - STOCKS....WAIT AND WATCH

Good Morning,

The Aussie software is telling us that it can not discern tradable patterns. And our own proprietary technical indicators are saying this market still has room on the upside .After looking at all of our tools, we still think there is more upside ahead.

The time frames, as well as the retracement levels just are not right for us to think that this B wave up is over.

Wave A of this bear market started 18 months ago. It moved down 861 S&P points and ended last month. We are now in Wave B of this pattern which is a corrective move back up. Most B waves retrace 38 to 50 percent of the down move meaning that this B wave should at a minimum retrace 327 points. The bottom of the S&P move was 666 so we should look for at least a move to 993 on the S&P 500. Today we stand at 853.

The Aussie software has no confidence in this up pattern as it's rating moved below 175 so for us, it is in no man's land right now. It is telling us that it can not identify a solid short term pattern to hang a forecast on. It still has price target areas in the 907 to 927 range but because of the low pattern rating we can not trade on these projections.

Remember, we have said numerous times that when you have overlapping "garbage" patterns all over the place and the patterns are impossible to count, then you are in a corrective wave. We are still in that wave and even with the big decline on Monday, we have overlapping again with the 127 point move up yesterday along with today's 60 point up move.

So basically, we can wipe out any bearishness from the Monday drop, because we have overlapped waves once again with yesterday and today's action and we are right back in the pea soup.

Therefore, we have to look at old fashioned wave relationships to guide us. We need to look at the 38% retrace rule as well as time.

B waves do not correct 17 month declines in 6 weeks. They just don't. A normal correction should be about 1/3 of the time as well as price. So we should be looking for a 5 month rally, not a 6 week rally.

If we put this all together, the "ideal" B wave should take the S&P500 near the 1000 mark and it should peak sometime in August.

Remember B Waves breakdown internally into 3 sub-waves, wave a, b and c. We Think now, that wave a up is in. We are in a wave b correction of some kind now and wave c up lies ahead. This c wave within the Major Wave B should be the strongest wave up and should last the longest.

B wave personalities are ones of "fooler waves". They fool the public that things are getting back to normal or even getting better and then Wave C comes in and the real devastation begins.

Therefore, we should see rampant bullishness on the part of the public at the top of the B wave. Economists should be telling us the bottom is in. Stock Analysts should be telling us that the bottom is in. And the public should be wanting to buy stocks again.

A sign for us that the B wave is topping would be a clear asset allocation play where we see money coming out of bonds (bond prices dropping and the TBT price rising) and moving into stocks. That would tell us that the public truly is getting very bullish stocks.

We don't see this happening as of yet, so sentiment is still not where we would like it for a B wave top.

CONCLUSION

We just think the sidelines are the best place to be right now as this wave count is just a mess. Even the Aussie software is having a tough time counting it. We think after looking at all of the evidence that it is way too early to say that Wave B is in and we are now headed lower in Wave C. Until we see some impulsive patterns develop, and the overlapping patterns end, we must assume we are still in the corrective up wave higher.

There are many other markets to trade while we wait for stocks to give us a decent pattern to trade. The TBT trade is developing into a decent pattern as is some energy plays. We are most bearish on bonds and still think that is the market in the future that will offer the most reward.

We fully expect that stocks will start to develop tradable patterns soon. We just need to be patient in letting them develop and not feel like we have to be long or short all the time.

The best thing to do now is to wait and watch.

WED, APR 22, 2009 10:38 AM - BANK STRESS TEST DETAILS

Good Morning,

From Bloomberg, we are picking up some details on the Bank Stress Tests whose results will be made public May 4th.

It seems that one of the key criteria of this test is to plug in "worst case scenario" numbers into economic figures such as GDP and unemployment.

Bloomberg is reporting that the FED used a 10% unemployment rate as it's "worst case scenario" number and by using this number, the majority of banks passed the test.

Our independent research is still looking for unemployment to hit 11 to 13% as a consensus level.

Bloomberg punched in a 12% unemployment number into the Bank Of America and Wells Fargo stress test scenario.

At 10% unemployment, Bank of America would pass the stress test and have enough capital to survive. At a 12% unemployment rate, they would run out of capital in the first quarter of 2010. Wells Fargo would pass at 10% and run out of capital in the 1st quarter of 2011.

So once again, the government is using assumptions that in our view are way to rosy. I mean if we were doing the stress test, we would use a 15% 2010 unemployment rate as our worst case and maybe even more.

Black Swan events are once again being ignored. Models are only as good as the info put into them. Garbage in....garbage out.

As my good friend Fred in Rhode Island puts it, if he has to hear one more person or firm talk about their "model" he will go insane!

If unemployment hits 15% by next year, all of the banks will be insolvent. Period. If it hits 10.1%, the stress test "model" will be obsolete and the stress test results null and void.

The expectations of the public and the markets after the stress test results are released on May 4th, will be that all is well, that they all passed the test.

This is the exact same thing that happened with all of the "models" used in 2006 and 2007 saying housing prices could never go down more than 10%. Or mortgage defaults would max out at a 1.7% default rate. People relaxed. Traders kept buying never expecting a Black Swan event to envelop them.

The same set-up will occur on May 4th. Einstein defined insanity as doing the same thing over and over again and expecting different results.

Enough said.

BTW England just raised the top income tax rate to 50% from 43%. Remember our rule...England is first, then the US follows months later.

WED, APR 22, 2009 4:34 PM - REAL ESTATE IS AGAIN RAISING A RED FLAG.

Good Afternoon,

Some sobering news today on the mortgage and real estate front especially the news that the 41 year old CFO of Freddie Mac reportedly hung himself in his basement. This is such a terrible thing and unfortunately we are hearing them on a more frequent basis. In Chicago a couple of months ago a young trader committed suicide over trading losses.

As we have said, as these economic conditions deteriorate, so does the social mood of the country and sometimes to extreme levels.

We can only pray for these peoples souls and their families.

Yesterday both Freddie and Fannie came out with the news that defaults were on the rise as borrowers blamed it on lower income. The most disturbing thing is that delinquencies among the most creditworthy homeowners rose 50 percent in a month as borrowers said drops in income or too much debt caused them to fall behind.

The number of so called prime borrowers at least 60 days behind on their mortgages owned or guaranteed by Freddie and Fannie, rose to 743,686 in January from 497,131 in December and is almost double the total for October.

We have been writing about this for over a year and our good friend Curt in Illinois (who has been dead-on in his warnings to us for almost 2 years) is saying that the worst is yet to come. After looking at this data, it appears he is right on again.

These types of numbers leave no doubt in our minds that second quarter write offs for the banks will be much larger than people think. It also appears that the mortgage problems are now moving "up the food chain." Fannie and Freddie are confirming that even the most creditworthy homeowners are now struggling.

And you also know how we have been writing about the coming collapse in consumer spending due to the huge defaults we have seen coming in the credit card industry.

Yesterday, Capital One posted a \$112 million first quarter loss on increasing loan losses. They said their estimates of \$8.6 BILLION for 2009 unpaid loans (yes BILLION!!!) was TOO LOW and their 8.4% charge off rate for U.S. credit cards was above it's forecast of 8.1% (THEY SHOULD READ OUR FLASH REPORTS!!) Capital One is now expecting the charge-off rate to exceed 10% in coming months.

Today Paul McCulley from PIMCO called commercial real estate mortgages "broken" and are now going to experience "a bust of sorts on the commercial side." CNN reported that malls are "shedding stores at record pace." Vacancy rates at strip malls, neighborhood markets and community centers are accelerating as retailers, especially the small ones go out of business.

In just the first quarter of 2009, retail tenants at these centers have vacated 8.7 million square feet of commercial space. That exceeds the 8.6 million square feet of retail space that was vacated in all of 2008.

The real estate red flags are out again. Given yesterday's data from Freddie and Fannie, we think anyone proclaiming that residential real estate has bottomed is way too early on that call. We think if the high end markets is just starting to cave in, that will bring a brand new round of foreclosures and defaults and this will be in the sector of the market that everyone thought was immune.

The same people and analysts who told us housing prices couldn't fall 10%, and then told us the housing crisis would be contained to the sub-prime sector, and then told us that the middle and upper real estate sectors were

immune are now telling us we have bottomed, in the face of news that the middle and upper markets are starting to get whacked.

These are the same analysts who said commercial would be OK. One analysts from a major brokerage firm that we will not divulge the name of, wrote last year in a favorite quote category, **that all one had to do was look at the skyline of Chicago and see how many cranes were up to know that commercial was going to stay strong.** This is why commission rates are so high at firms like his, so you can pay his expensive salary for cutting edge analysis like this!!

Again timing is everything in this game but we think that when Wave C is close at hand, the real estate sector may be the one that leads the charge lower.

TIDBIT

Forget about American Idol and Dancing with the Stars! It was announced today that Speaker of the House **Nancy Pelosi plans to pursue a Congressional probe of Wall Street** that will be patterned after the Pecora Hearings of 1933 that investigated the 1929 Stock Market Crash.

If you think watching the CEOs of the auto companies testify in front of Congress was fun, wait until we see the best of Wall Street try to explain to the Speaker why they are responsible for the 50% drop in stocks last year.

This will be a hoot and the speeches and politically-inspired accusations will be one for the record books.

Have a great evening!

THU, APR 23, 2009 3:18 PM - FED'S QUANTITATIVE EASING SO FAR.

Good Afternoon,

The FED announced at it's March 18th meeting that it would start a quantitative easing program aimed at keeping interest rates low. They announced a \$300 billion buyback program of all maturities of Treasuries. On the day of that announcement, Treasuries experienced one of the best days ever as yields on the 10 year Note dropped over .50 % in an afternoon and the 30 year Bond yield fell almost .60 % **On March 25th they started their repurchase programs and since then, have been an active participant in the Treasury market.** As of today, they have bought \$67 billion or 22% of their stated allotment.

One of the major reasons to buy back their own debt, was to use this quantitative easing to hold down interest rates. With the invisible hand of the government being close by to only buy Treasuries, it keeps traders on edge always knowing that a decline in price (therefore a rise in yield) can always be met by the government coming in and buying in a pretty serious way. Long term trends are expected to be far and few as long as the government has bullets left in their gun to disrupt the markets.

So with almost 25 % of the governments money already used up in purchasing bonds and holding the line on yields, let's see how it has worked. We will be looking at yields on the announcement day (March 18), the first day of buying (March 25) and today.

	March 18 th	March 25	Today
10 Year Note Yield	2.46%	2.77%	2.92%
30 Year Bond Yield	3.57%	3.71%	3.79%

So far, the result of this program is not what the government expected. Yields have gone up, not down. We think one conclusion is that the supply of bonds is overwhelming the demand even with the government coming in a pledging to be a big buyer. We think supply will continue to grow and if yields stay at these low levels and the stock market continues to outperform bonds, **the re-asset allocation FROM bonds TO stocks will continue to raise yields despite government efforts. We think this is just starting to occur as stocks outperform bonds over the last 6 weeks.**

Given the huge supply coming, the other clear conclusion is that the government is going to need a lot more money to influence the yields. We have a suspicion that before they run out of money, the program will be doubled to \$600 billion or more.

Maybe that will do the trick.

THU, APR 23, 2009 3:45 PM - BULLISHNESS IS GROWING

Good Afternoon,

State Street Global Advisors is custodian for over \$12 trillion in assets. The company is reporting that U.S. equity buying by the public in its funds is at its highest level in 12 years. They say that "monthly flows into U.S. stocks are in the 98th percentile."

The Daily Sentiment Index that we look at, which showed 2% of the traders bullish at the bottom on March 5th, is now all the way up to 72% and is as high as it was in July 2007 when the DOW was at 13,500. The American Association of Individual Investors has the people bearish at only 35%, a new 14 week low.

So bullishness is definitely growing. In the beginning of a sustained rally, this indicator can be a fooler. The "crowd" can be right for a while so this investor sentiment is not a buy or sell signal on its own.

But combined with other indicators, it can be a powerful contrary indicator that can be used to confirm other more powerful technical indicators.

This is just to let you know that this piece of the Wave C puzzle is coming into place and by the time the market hits the top of wave B, we expect bullishness to be at a fever pitch.

FRI, APR 24, 2009 11:02 AM - SHORT THE MARKET

Good Morning,

We are at the level in the DXD's that we talked about, the \$54.50 area which we feel is a good area to buy the DXD. We know we are going against the grain here but this price area that needs to be explored.

If buying the DXDs we are wrong on this short term trade if they trade under \$53, so we would put our stop just under this level.

Our target price on the upside is the \$58 area.

This is a short term trade. As we said a couple of days ago, we have no clue about market direction here since we have so many cross currents and not a highly rated count on the Aussie software.

But this \$54.50 area is interesting and we are willing to take a stab here.

\$52.90 stop loss.

FRI, APR 24, 2009 2:03 PM - LOOKS LIKE BANKS PASS THE STRESS TEST

Good Afternoon,

We think we are going to get stopped out on our DXD. This market is just powering ahead on word that the stress test for banks went very well.

The Fed announced that the majority of banks involved in the test are not only very well capitalized but "overly capitalized" and the market is eating it up.

I wouldn't be surprised to see stocks lift off another 100 points on the close and we end up having a 300 point up day on the news.

Banks may be over capitalized or may not be but that is not what is important right now.

What is important is that the public believes it and we have a full fledged bull run on our hands and the public and traders believe the banks are fine and they are committing a huge amount of money to this market.

Stock fever is back!!!! Catch it!!!!

FRI, APR 24, 2009 3:09 PM – TBT TRADE AND THE STRESS TEST RESULTS

A Quick Note:

In looking over the press release from the FED, our first conclusion is that this TBT trade could prove to be more profitable than we think.

It appears the FED is saying that they believe that true independent capital stabilization of the banks may not occur until 2011. We think that means that they will have to continue to support the credit markets as well as some of the "iffy" banks until that time frame. We also think this is terrible news for any bank wanting to repay TARP money because from our view, it means they may not say yes for a few more years. Bank employees can expect Uncle Sam to grab an office in your facility for at minimum the next couple of years.

This means there will be much more money flowing out of the government and much bigger deficits ahead and that is not good for bonds. Remember the Harvard study we wrote about 6 months ago that concluded that deficits go up by over 75% in an economic crisis as compared to a recession. This means not only record deficits but record bond offerings.

Just as a stock falls hard when it creates more shares and it's financials become diluted, we think the same happens here. The more supply of bonds, the farther they will fall in price.

It's time to forget about stocks for a while and build up your shorts in the TBT and PST.

The TBT is trading up over \$47.55 (we got long at \$45), up over 2.5% today. The 10 year yield closed the week at a yield of 2.996% basically right at the magic 3% FED target level.

Again the higher stocks go, the higher yields will climb and the higher the price of the TBT.

Out of all the markets, the stress test may help the traders short bonds the most.

A great commodity trader and author, Stanley Kroll (we have written about Stanley in the past) used to launch what he called "campaigns" in putting on massive positions in a commodity market when he smelled a big move coming.

He would start small on his initial positions and then add on more as the prices went in his direction. He would be patient and follow his rules to the letter.

If he was long oil, he would buy initially at \$45 and then as the prices went higher and broke out on the charts through a previous resistance price zone, he would buy more. And when it did it again, he would buy more. This is what commodity traders call pyramiding.

He would hardly ever dollar cost average down and when he did, he said he was breaking his own rule. He always loved to buy into strength and sell into weakness.

Sometimes Kroll's "campaigns" would last for 2 years, constantly adding to his positions until he controlled a huge amount of contracts.

And every single buy was in the money.

Then when he felt the move was about done, he would start to unwind them all. He is legendary in how much money he made trading. He lived on a boat docked off the Hudson River and after his campaigns, he would sail off for months and then return to trade again when his batteries recharged.

Stanley Kroll did his homework.

He worked hard analyzing the markets. He was a technician as well as a fundamentalist but more important he stayed with a position when he thought he was right and added to it only when it went his way and then pressed it when he really thought he was right and the trend was accelerating in his direction.

We feel being short bonds and being long commodities could turn into a Stanley Kroll trade. WE think this initial buy of the TBT may be the beginning of a "campaign". We feel being long or short stocks will not turn into a Kroll trade. We think all that stocks will provide us now, is shorter term trades.

Eventually when this crisis ends some trader will make a fortune following Kroll's strategy shorting bonds and being long commodities.

CLOSE: Looks like we had a little sell-off on the close and our DXD trade did not get stopped out. As a matter of fact, it closed up 30 cents. Wow, what to do with all that profit!!!!

I think I'll go out and buy a beer for my good friend Todd....50 years old this weekend!!

Have a great weekend.

FRI, APR 24, 2009 3:56 PM – PAKISTAN

One Last Note:

With all of this focus on these silly stress test press releases, is anyone getting uncomfortable with what is happening in Pakistan as the Taliban continues to take city after city in that country and have reached the southern outskirts of Pakistan's major port city of Karachi.

We are reading reports of panic and curfews. Remember Karachi is very important as the start of the U.S NATO military supply chain ferrying the bulk of supplies for western forces in Afghanistan.

The government and military are holding high level strategy sessions in Islamabad talking about their ability to block the expanding Talibanization within the country.

Why are we watching this?

We feel very uncomfortable with the possibility of the Taliban controlling Pakistan and their NUCLEAR arsenal. Gold has been rising in response to this crisis as more people become acutely aware of the gravity of this situation.

After reading a number of reports from sources in Pakistan, we think something big could happen this weekend. As we speak, major clashes and gun fire are breaking out in that main port city of Karachi.

Keep an eye on this over the weekend. Maybe cooler heads will prevail.