
FLASH REPORT DIGEST

Week of May 4, 2009

MON, MAY 04, 2009 9:20 AM - BANKS SURGING HIGHER

Good Morning,

This morning on Bloomberg, well known bank analyst Dick Bove was interviewed about the coming results of the bank stress test.

Bove, one of the best bank analysts around and one who is very bullish a small number of banks said that the stress test was the worst conceived idea EVER put in place by the U.S Treasury. He said it absolutely makes no sense and that the results from it will be skewed and anyone will be able to read whatever they want after they are released.

Basically, if you are bullish banks, you will view the results bullish and if bearish banks, you will read the results as bearish.

Bove said that it is very dangerous to buy bank stocks ahead of the report due to the skewed results and that he would steer clear until after they have been released.

So the number one bank analyst says to steer clear of the banks and so what do you think the bank stocks are doing today?

They are screaming higher taking the whole market with them. Every single bank stock is soaring, most of the group up over 6% and the market is up 170 points plus.

U.S. Home sales also came out up 3.2% which was much higher than expected good news abounds.

The market is not only ignoring bad news, it is now ignoring experts who have been dead on in the analysis.

Remember our view of B waves. By the time this B wave up is over, there will be a record number of bulls on both the stock market and economy. We are not there yet, but the evidence will mount the more days we have like this.

As news and experts are ignored, wheels are set in motion for a big final stock push higher and a topping of the B wave.

The Aussie is still targeting 902 to 927 on the S&P 500 and even though the rating crept back over 220 over the weekend, which means it is gaining a little more confidence in the count, it is still under the old level of 600. The point here is that the software still thinks this is an important area to look at and so we will continue to monitor prices as we get into it.

More later.

MON, MAY 04, 2009 4:28 PM - AUSSIE UPDATE

Good Afternoon,

On February 20, we covered all of our shorts, DXD and TWM positions because of how we were interpreting our Aussie Elliott wave software patterns. In going back and rereading our FLASH REPORTS from then, we talked at length about Elliott patterns and to expect a very robust rally to take place in the coming Wave B of the move. The S&P 500 closed that day at 770.

We missed the bottom by a couple of weeks and we really didn't recommend long positions until the second week of March, again a couple of weeks late. On March 31 we confirmed, again from our pattern interpretations on our software, that the 916 price level on the S&P 500 and the 8669 level on the DOW were the first projections to come up as a termination point on this rally. The S&P 500 closed on March 31 at 797 and the DOW at 7608.

On April 9, on a FLASH, we wrote how the pattern ratings on the Aussie were very high and they had an S&P 500 target box of 875 to 902. The S&P 500 closed at 856.

On April 20, we were getting indications from the Aussie software that this rally was looking tired. The pattern rating dropped below 175 and that is a signal to exit. We recommended moving up stops and I'm sure everyone was stopped out on the big 270 point drop that day.

Since then, the software was continued to target the 902 to 927 level on the S&P 500 even though it was not a tradable signal since the pattern rating was still too low to act.

Over the weekend, the rating moved up over the 220 area, but our other technical indicators are all flashing a "sell" at this point so we have not taken any action.

So where do we sit now after this huge up move today?

AUSSIE COUNT.

The Aussie is still forecasting a move into the 907 to 939 area with a possible extension into the 971 target zone. This is a new pattern where the software is saying that we are in the minor UP "c" wave of major UP Wave B. This "c" wave is labeled a "diagonal" C wave which can be powerful, which obviously it has been.

Diagonal waves moving up are very bearish. But they MUST break down below their trend-line to issue a signal. The last diagonal wave that broke down through its trend line was the April 20, 290 point drop in the DOW. But there was no follow through the following trading days and the signal was negated. We are now in another diagonal wave and once again, if we break below the trend-line, which is at roughly 880 on the S&P (we closed at 907) we will have another quick, sharp break.

But as of now, it will not be major down wave C yet.

We are going to stay with the Aussie here and are looking for the target areas, one of which was passed through today. Therefore, the next area is 927. Robert Prechter, who is the "Godfather" of Elliott Wave Theory and still writes tremendous research reports is very bearish on stocks and the economy over the next 5 years. We wrote about Prechter covering his S&P 500 shorts that he held since 2007 last March in a FLASH.

Prechter is saying, as we are that we are in wave B higher and he thinks the S&P 500 can move all the way up to 1000 to 1015. His reasoning is that historically, B waves end near previous 4th waves tops. The previous 4th wave topped out on November 4th at 1007.51. This is where Prechter thinks we should land and where this B wave tops out.

All we can say is that if stops would not have been hit on April 20th, or if you are still long the market now, let your stops take you out. If you are not long, then do nothing here. Be patient and wait for the turn.

I do believe we are due for a decent decline soon. We are getting a good deal of negative technical formations and non confirmation of many of our technical indicators.

But you can not, and we can not stress this enough, run out and short a market like this that is so strong and is still in a powerful up trend. You must wait, let it start the down wave pattern and then short it. Make it commit to the downside and sell into the weakness. If you short it here, and the extended Aussie target of 979 proves to be the real target, that is a long way from 907. **Be patient and wait.**

MON, MAY 04, 2009 5:04 PM - TAX INCREASES ARE INFLATIONARY.

Good Afternoon,

Just a quick note on President Obama's proposal to tax corporations "off shore" profits. I'm sure it will be a hot topic on all the talk shows.

First off, countries around the world are running huge deficits and this is a typical, unoriginal reaction to this deficit problem. With the size of our projected deficits, corporations as well as individuals would need to be taxed at 175% of income to come to a balance. So obviously, increasing taxes will not matter in the least.

The President is talking about gaining over \$210 billion in extra taxes over 10 years. In comparison, The Harvard University report we highlight months back said that historically during financial crisis', deficits increase on average 75% as compared to where they were when the crises started. The CBO estimates that the nation would be forced to borrow \$9.3 trillion over the next decade. Harvard estimates put it closer to \$17 trillion. Which ever it is, \$210 billion ain't much of a dent.

But the President's proposal will have an effect on Americans but not what he expected. It will add more inflation to the economy for all of us. Corporations are not going to pay higher taxes without us paying higher prices. As soon as the new tax law kicks in, they will raise prices to offset their taxes. It is a no brainer.

Remember last summer with gas at \$5 bucks a gallon and oil over \$125 a barrel headed to \$140? How long did it take business to start adding on a "fuel surcharge" to any of your bills. From the garbage bill to the cleaners coming to pick up your laundry, from Best Buy delivering the new big screen TV to the landscapers cutting your lawn, every business passed through their "added" gasoline costs to you.

YOU paid for gasoline going up, not the business. So you filled your car at \$5 bucks a gallon and you also helped filled the garbage truck as well!

The same thing will happen here. Caterpillar will raise prices on their front end loaders and Procter and Gamble will raise the price of soap. **We will pay for their tax increase.**

What most people do not understand (except for Big Wave Readers!!) is that business will always pass through costs to the consumer. So while the President talks about these companies not paying the fair share, what he should really be saying is that you and are going to pay it for them, whenever we buy their products.

So now our federal taxes, and our capital gains taxes and out state and local taxes and our real estate taxes are all going up and now we can add on higher prices as well, all in the name of tax fairness.

And you can add this new "government program" into the inflationary argument. Prices are already going higher, now there is a another reason added to the pile.

We are now thinking that commodities will be the best performing asset class over the next 10 years. Every single government new economic program or tax loophole erased or stimulus bill passed is inflationary. We were thinking this weekend that what ever the government does, it will cause inflation. Think about it for a minute.

As we have said before, the historic amount of money being budgeted on this side of the crisis will result in historically high inflation figures as well as interest rates on the other side of it. We recommend all readers start building small ETF positions **ON THE NEXT DECENT PRICE CORRECTION DOWN (in other words, let prices come down a ways and then buy lower)** in metals (JJC Copper, GLD, Gold UYM Basic Materials), short bonds (PST and TBT), agricultural commodities (DBA and COW), Crude Oil (USO), natural gas (UNG) and in a general index (RJI, Rogers Commodity Index).

We think all of these asset classes will outperform stocks over the next few years and should be a major part of your portfolio (make sure and discuss your risk profile with your financial advisor as well as making sure they understand the concept and investment strategy). Inflation is coming. It's just a question of when and to what degree.

TUE, MAY 05, 2009 8:55 AM –STOPPED OUT ON TBT

Good Morning,

We had a tight stop in the TBT and were stopped out at 49.75 this morning for a quick 11% gain. We had recommended buying the TBT on April 3 at \$44.40 level.

We are a little miffed that we got hit because we think this trade still has some room to run to the upside but we play by the rules and this was the stop area we had in place.

The Aussie software still has a target in the \$53 to \$54 price area.

WED, MAY 06, 2009 1:26 PM – STRESS TEST RESULTS ARE COMING OUT NOW

Good Afternoon,

The leaks have erupted into a flood! It seems every 10 minutes or so, more companies are coming out with stress tests results. MetLife just announced they will need no new capital. The stock is soaring. GMAC just reported they will need \$10 billion in new capital. JP Morgan says they do not need any new capital. We think by the end of the day, most of the 19 companies will have leaked the results to the press, especially the ones who do not need any new capital.

The stress test is a complete sham in our view so we really do not care about the results. The market obviously cares deeply. The rules have been changed so many times and now the consequences of needing capital are changing as well.

Two months ago, the Treasury said that companies would need to raise additional capital within 30 days of the stress test results being made public. Today we are hearing that all they need to do is come up with a plan to raise the capital in 30 days and the actual capital doesn't have to be raised until 6 months from now.

The government is hoping that the economy recovers by year end and that even if the banks failed the stress test in May, economic recovery by December will make the results a moot point. Banks will have regained earnings power by then and therefore ratios will improve as will the GDP and unemployment rate.

It's sort of like you taking a stress test on the treadmill and failing it. Your Doc comes in and says you failed the stress test, you have a blockage but don't worry about it, we will hold off on doing anything until Christmas. Basically "Doctor Geithner" is advising the banks in the same manner. Maybe your blockage will go away. Maybe drugs and diet can shrink it. Hopefully things will get better and by December all will be well. There is that word again...."hopefully".

Frankly, these test are so flawed that if I ran a bank, I wouldn't believe the results either.

The stock market loves the results leaked so far as we are on the highs of the day, up over 80 points and looking to launch higher as we write.

It is amazing, as B waves always are, how quickly market sentiment changes from bearish to bullish. It took over 14 months of downside action in stocks to turn the crowd decisively bearish but it only took 7 weeks for the crowd to turn hopeful and bullish not just on stocks, but also on the economy.

The public has turned to hope and this phase can be very powerful within a B wave. It can turn a B wave into almost a non-correcting wave where the markets correct by going sideways and simply marking time as compared to moving lower in price and showing a definitive A-B-C wave pattern. This B wave is marking time during it's corrections and not moving lower in price.

Therefore, it is proving a very tough market to short and the bulls are in still in control.

And speaking of bulls, the commodity markets are all poised to break out over their 200 day moving averages which could mark the beginning of the "accumulation phase" in these markets.

The Rogers Index (RJI) is up 2.6% today, the grain markets (DBA) are up on average 1.4%, oil (USO) is up 4.4%, natural gas (UNG) is up 7.6% and copper (JJC) is up 5.8%. These markets are telling us that traders are betting that the economy has bottomed and are believing the bottom is in. The only problem we have is that while they are bidding up commodity prices across the board today, the bonds are really not confirming the rise.

The dollar is virtually unchanged and bond yields are flat to down so while commodities move higher, bonds and the dollar are flat. That is not a common occurrence.

So it looks like the B wave is still in tact as the markets continue to react to only good news and investor sentiment turns to hope from fear. The B wave is staying true to form.

QUICK NOTE: The preliminary unemployment report, the ADP reading of the jobless situation in America came out this morning very bullish for the economy as it showed job losses of 450,000 while everyone was expecting a

minus 650,000 as it was released before the market opened. This totally reversed a lower expected open and gave bulls a fresh round of evidence of an economic bottom.

We think the huge rise in commodities today on PERCEIVED economic strength is just a sneak preview of how these markets will react when the economy has actually bottomed. We still believe the best asset class to hold over the next few years will be commodities, not stocks.

WED, MAY 06, 2009 5:04 PM - AUSSIE UPDATE AND OPTIMISM HAS RETURNED! (PDF CHART ATTACHED.)

Good Afternoon,

The market continues to fly higher as this B wave is really developing into one for the ages. And what is most important to an Elliottician that the higher this first "A" wave goes within this a-b-c major "B" wave, the higher the c wave has to travel so the relationship of wave a equaling wave c comes to pass.

There are always exceptions to the rules, but most of the time in a 3 wave correction, wave "a" = wave "c" in terms of price relationship. So if wave "a" ended today in the S&P 500, it would have run almost 254 points or an astonishing 38% from the bottom at 666. **Wave "b" within this rising major B wave should correct at least 20% of wave "a" but the most common correction is 38%.** So if we assume wave "b" corrects 38% it would move the S&P down to the 824 level.

Wave "c" = wave "a" so that means we would have to add 254 points on to the 824 level which gives us a back of the envelope wave "c" target of 1078 on the S&P 500.

So we may be a long way away from a top here and frankly any decline over 20% should probably be bought for the ride up over 1000.

This is traditional Elliott equations but we wanted to see what the Aussie had to say about this. So we hopped into the VooDoo shack and here is the analysis.

The S&P500 rating has moved up to 468 and the targets are up as well, now showing 936 to 968. The diagonal triangle we spoke of earlier in the week has been violated to the UPSIDE and Elliotticians call that an "overthrow".

Overthrows are temporary patterns in which prices break out of a diagonal triangle in this case to the upside only to return to the rising top trend-line and do it rather quickly. They then breakthrough the downside and once through the bottom of the lower diagonal and decline with vigor. Whether this happens in this case, remains to be seen.

As long as the Aussie has a high rating on this move and a higher target, we are going to stay with the long side argument here. However, be forewarned that we are not bullish. **We are not with the crowd and that crowd is starting to get big.**

As of tonight, trade-futures .com has just released their traders sentiment numbers and they are now sitting at 80%, just 8% shy of the record high set in October 2007, days before the Halloween all-time high in the averages. We have moved from a record low 2% reading set just 2 months ago, to 80% today.

The Aussie looks higher and we have to respect it's findings. We can say tonight, that when we see a turn lower and this wave B move is over, we will have in place one of the most important ingredients for a considerable move lower **and that is a record number of bulls on one side of the street.**

One side note, has anyone had it besides me with the term "green shoots" describing the economic scenario? Now we hear the chief economist of Goldman Sachs is describing the economy "not as green shoots, but I see golden daffodils!!". Of course back in June of 2008, this same guy on Bloomberg told his listening audience that housing had bottomed, stocks were a fantastic buy due to the oversold nature of the market and GDP would hold steady and then rise toward the end of 2008. So should we listen to him?

THU, MAY 07, 2009 8:28 AM - COMMODITIES UP BIG PREMARKET

Good Morning,

Just a quick note to let you know that commodities across the board are up big premarket.

The buying is across the board throughout the world. Oil is nearing \$60 a barrel and metals, grains, natural gas are all called much higher.

The bond yields are also rising and we are even more "jacked" that we got stopped out of the TBT trade. It is trading over \$51 this morning on it's way to the \$53 to 54 area that the Aussie targeted 5 weeks ago.

Stocks will open higher as well with the DOW Futures showing a gain of 70 points.

But the big news is commodities and we will see as the day rolls on if the gains hold.

One point we want to make here. We have written about this before and we do not know one person who agrees with us so be forewarned.

We look at the price of oil as a measure of the strength of the global economy. Back when oil was rising last spring and summer, we wrote in these FLASH REPORTS that to us, it was a sign that the world economy was still OK in that there was huge demand for oil. Now maybe the last \$30 a barrel was the speculators piling in but the move from \$50 to \$110 was true demand. In July as oil started to tank and people were cheering it we warned "be careful for what you wish" **because we took the huge drop as an economic warning.**

Demand was falling on top of speculators hitting the road and that caused a major panic in the oil pits. BUT, after the speculators left, oil continued to drop and it has fallen ever since.

Over the past couple of months it has bottomed and moved sideways telling us that the global economy had somewhat stabilized and was making some progress. Today we see oil close to breaking out over the \$60 area and it is sending a sign that maybe, the global economy has in fact bottomed and demand may be a small part of the rise. Copper prices as well are staging the same kind of move.

We are keeping an eye on crude as well as copper for signs of demand. We think Asian economies will start to move up way before the U.S. and Europe will be last. China, Asia and India will be where demand starts and we will be watching the import numbers there.

Crude is overbought here so we fully expect corrections within the trend. But we have highlighted key levels and if prices stay above them during these corrections and then move higher through old resistance, creating a "stair-step pattern" on the charts, we could be in for not only higher crude prices as well as gasoline prices at the pump, but we could also be looking at a reawakening of the Asian and Indian economies.

FRI, MAY 08, 2009 9:01 AM - UNEMPLOYMENT NUMBERS WAY BETTER THAN EXPECTED AND THE MARKET RACES HIGHER

Good Morning,

Well, just we thought, stocks are on fire this morning once again as this rally pushes higher and higher. The DOW is up almost 150 points and the bank index is up almost 4% as analysts believe the economy has in fact turned.

I don't know if any of you watched business TV last night but I did and every business network, CNBC, Bloomberg, CNBC International and FOX obviously were focused on the bank stress test and I did not see one analyst, not one including Marc Faber, the author of the Gloom, Boom and Doom newsletter that was bearish the economy. 100% were bullish and "giddy" bullish.

As we said before, the stress test was a non event for us. It came out exactly as "leaked" over the last week so this type of market reaction today is not because of the stress tests results.

We think the employment report, which came out better than expected, is a better explanation of why stocks are higher on the open. Again analysts are only focusing on good news and they truly believe the bottom is in for stocks and the economy.

We think by next week, the number of bullish traders that we look at, which was 80% at the beginning of this week will be over 90% next week especially given the news. So if we can get that number over 90% and near the Aussie targets of 950 to 980 that they are still looking at, we could be near the top of the B wave sooner than we thought.

Commodities are also rising sharply this morning and bond yields are once again higher so the "inflation" play continues.

We will watch with interest today.

FRI, MAY 08, 2009 10:02 AM - CHINA FEARS A BOND CRISIS.

Good Morning,

Interesting article in the U.K. Telegraph about the bond markets and China.

We have written before that China is getting very worried about the U.S. debt issue as well as the value of the dollar. The Premier of China in Davos Switzerland earlier this year even made some comments about how worried he was that the U.S. could continue to back its bonds given the rising deficits in this country.

Yesterday the following story was written in the U.K. Telegraph.

"China fears bond crisis as it slams quantitative easing. (Remember quantitative easing is the process where a government literally prints money to buy back its own debt...thus it is very inflationary down the road) **China has given its clearest warning to date that emergency monetary stimulus by Western governments risks setting off worldwide inflation and undermining global bond markets..**

"A policy mistake made by some major central bank may bring inflation risks to the whole world, said the People's Central Bank in its quarterly report."

"As more and more economies are adopting unconventional monetary policies, such as quantitative easing, major currencies devaluation risks may rise. The bank fears a big consolidation in the bond markets, and is clearly anxious that interest yields will surge as western states try to exit their quantitative easing experiment."

"Simon Derrick, currency chief at the Bank of New York Mellon said the report is the latest sign that China is losing patience with the U.S. and aims to diversify part of its \$1.95 trillion foreign reserves away from U.S Treasuries and other dollar securities."

We have written how since announcing quantitative easing in March, bond yields have done nothing but go higher, the exact opposite effect that the FED was hoping for.

We constantly hear that China will continue to buy our bonds and have no plans to endorse the concept to remove the dollar as the world's currency as some are proposing.

We are reading more and more to simply advise that we wouldn't be too sure about those statements. And if that starts to occur, the dollar is headed much lower and bond yields much higher.