
**January 27, 2008**

**9:48 PM EST**

## Inside this issue



## Chatty Kathy Makes Me Laugh

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**Although I have a lot to cover tonight, I want to share a quick story from the weekend. 2008 may be on the depressing side for the bulls so far, but I got a good laugh from my daughter in Vermont on Saturday.**

**After a nice family lunch in the little town of Wilmington, my daughter decided she want to go to tubing on the mountain. For those non skier folks, tubing is where they devote a small slope to people riding a chairlift and sliding down on giant inner tubes. They create several lanes with bumps and jumps, and you end up going fairly fast by the time you hit bottom.**

**Extremely excited, we went to the ticket window, but were told the sessions were all sold out. Undeterred, I flashed my season pass and offered the ticket seller some extra money to help us out. It was just not happening. If you know any four year olds, accepting rejection is not one of their strong points! And this time was no exception as my daughter dropped her head and was upset.**

**We walked around the base area, watching the snowboarders do tricks in the Super Half Pipe like the Olympians do. Unimpressed, she walked through the snow to watch the skiers fly down the race course. Realizing that only tubing was going to suffice, I told her we could walk over and watch the tubers zoom down.**
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**As we got closer to the hill, I was surprised to see that it really wasn't that crowded at all. What the heck, I thought; who will really know or care! So I grabbed two inner tubes and set us up at the top of the lane. My inquisitive youngster asked me how we could tube without a ticket. Not knowing what to say, I simply told her that my friend was the owner and he said we could go.**

**And down she went at top speed, spinning round and round over each of the giant bumps, finishing by leaping into the air with the teenager at the bottom catching her! I quickly followed her down in similar fashion to find my little "Chatty Kathy" and the staffer grinning ear to ear.**

**As he helped me off the snow, he began to laugh, along with my daughter. I asked him what was so funny and he began to shake his head. "When I lifted your daughter out of the tube, she couldn't wait to scream out, 'My Daddy didn't buy no tickets! We sneaked out here!!"**

**Eyes and mouth wide open, I was the deer in the headlines. Busted! Laughing along, I explained that we tried to buy tickets and even offered a tip to help us. So we just decided to walk over. The nice guy said that my daughter was so cute telling the truth it didn't matter. Rejecting a tip, they let us tube until closing, having a good laugh each and every time down.**

**In the best and worst times, I can always count on one of the kids to lighten the mood!**

## Thank You Ben... I think?!?!

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**Let's turn our attention to the financial markets and one of the more volatile weeks we have seen this decade. Last week, I gave ample warning of what was coming down the pike when trading opened on Tuesday after the Asian collapse the day before. If you read that piece, http://www.investfortomorrow.com/newsletter/CurrentStreet$marts20080121.pdf you noticed my little rant against the Federal Reserve and Ben Bernanke who have acted like Rip Van Winkle for far too long.**

**It's now almost a week later and the world is a different place. Let's spend some time reviewing what happened and I'll offer my usual "timid" comments. The Fed, which will be holding a two day meeting this week, is as good a place as any to begin. As you know, I have been very critical of Bernanke & Co. this year for being reactive rather than proactive.**

**In my last update, I discussed how the yield on the two year treasury note was more than two full percentage points below the Federal Funds Rate, a level that**
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**indicated the Fed was WAY behind the curve. The financial markets have been literally begging Ben B. and the blind mice to cut rates dramatically, but their collective heads have been stuck in the sand.**

**After the Asian markets collapsed last Sunday night, followed by the European markets on Monday with our system closed for M.L. King Day, Bernanke et al held an emergency conference call to immediately lower interest rates by 3/4%. I wonder if Ben read my last email before he began that meeting? That was the largest rate cut ever and first emergency Fed Funds chop since 9/11. Prior to that, Greenspan did similar inter meeting cuts in January 2001 and during the 1998 Russian debt default crisis.**

**Was the Fed responding to the financial markets on the brink of collapse last week or did Rip Van Bernanke suddenly wake up to an economy on shakier ground that he was willing to admit to Congress just the other week?**

**This is one of the few times I am actually going to give full credit to Ben Bernanke for doing a good job, albeit very late. A 3/4% rate cut was a tremendous start in playing catch up to where the bond market is currently trading. Now the Fed is only about 1.25% behind the curve!**

**On Thursday, Societe Generale revealed that a "rogue" trader lost more than $7B in fraudulent trades. Into the panic and despair on Monday, SocGen unwound those trades, exacerbating the near waterfall decline in worldwide equity prices. Probably the "happiest" person in that mess was Brian Hunter, who previously held #1 spot for most trading losses, almost single handedly orchestrating the collapse of hedge fund Amaranth in the middle of 2006.**

**Getting back to the Fed, I find it completely amazing that the media and pundits are now asking if Bernanke was "duped" into lowering rates by the SocGen disaster. As if somehow the markets (and economy) were not already on the verge of breaking. What's wrong with people? Not only did Bernanke finally act responsibly, but their job is FAR from done! Rates need to come down a whole lot more folks!**

## The Final Low is not Here

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**We head into the new week with stock market volatility at some of the highest levels this decade. After last Tuesday's "surprise" rate cut, stocks faired ok that day, closing well off their lows that day, but not in positive territory. Wednesday saw despondent action early in the day thanks to Apple Computer's "dire" earnings forecast, followed by one of the most violent reversals we have seen in a long, long time.**
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**The S&P 500 and Nasdaq 100 rallied more than 5% from low to high. That's 5% in ONE day on near record levels of volume on the two big exchanges. Many of the popular exchange traded funds, ETFs, did see all time high volume during the wildly emotional affair. Almost all of the put/call option ratios were at or close to extreme readings, signaling a close to universal belief that stocks were going much lower. Since these are contrarian in nature, that's another sign of a washout in the market.**

**What had been beaten down the most, banks, lenders, real estate, homebuilders and retail, rallied very sharply, no doubt exaggerated by short sellers scrambling for cover along with some real buying from "vanilla" players. Interestingly, for the most part, these groups did not succumb to the most recent decline and saw the bulk of their selling end in early January.**

**By the time the stock market opened on Friday with the good earnings news from Microsoft, the popular averages had rallied roughly 9% from their lows earlier in the week. Or, too far, too fast. In the strongest environments, we would have seen a close lower than the open, but nothing too damaging. But we all know that this is anything but a strong market as buyers stepped away, allowing sellers to dominate most of the day.**

**How many people really wanted to go home for the weekend owning a ton of stocks?**

**This week, we have the State of the Union speech on Monday night, followed by a two day Fed on Tuesday and Wednesday, the preliminary GDP report and the "all important" employment numbers to end the week. Oh yeah, let's not forget the plethora of earnings that are also due out! This is going to be another wild week!**

**After Thursday's action, my thought process was for continued upside into the President's speech and then some more selling after the Fed released its announcement at 2:15 PM on Wednesday. But after Friday's poor showing, I am probably a day off. Right now, the market is pricing in another 1/2% rate cut by the Fed, down from another 3/4% last week.**

**Although I fully endorse another 1/2%, it's more likely that Bernanke will be more measured and only give us 1/4% at best, disappointing the masses. That could cause another quick bout of selling for a few days, but represent a pretty good buying opportunity. While I am not sure if the lows we saw last week will be breached after the Fed, I feel pretty good that a 2-3 week rally is in the offing, regardless of where stocks are ultimately headed.**

**The final low is probably a month or two away, but we should see some very tradable action from here until there.**

**I am going to cut it off right here and spend some time with my wife. (8 weeks and counting!) I could keep writing for another few hours, but that would ensure that**

**no one reads to the end!  I've got a lot more to say so you may see another email or two hit your inbox this week.**

## Refer a Friend

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**Our firm and this newsletter continues to grow mostly from your referrals.  If you know anyone who is interested in securing their retirement, planning for it or just plain worried about it, please send them here.  As always, thanks for thinking of us with your circle of family and friends.**

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