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Is Someone In The Wrong Bed?

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**When I wrote about our family in the "adjustment phase" with the littlest guy's arrival, I was really only referring to the human element. After all, I didn't even think our cats would have their own issues. The other morning, as I was passing through the family room on the way to the kitchen to get the kids' morning milk, I noticed the bassinet was moving a little.**

**Since it was pretty early, I knew the baby wasn't in there yet, so who was? As I walked over and lifted my head up to take a peek, there he was. Our little cat Opus was lying on his back, with a small baby doll between his paws, moving from side to side. I only wish he would have stayed in there long enough to get the camera!**

**So it's not only the adults and kids getting used to the new baby and "controlled" chaos in the house. Can't the same be said about the financial markets? Not adjusting to our new baby, but rather the vastly changing fundamental back drop since the fall.**

**It's had to deal with the sub prime crisis, housing bust, mortgage mess, energy spike, credit crunch and Bear Stearns calamity to name but a few! And this has been in a relatively short period of time.**

## **Much Higher Prices Still On Tap For Q2**

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Since the lows back in January, my message has been the same. The preferred scenario was for a rally into February and another decline into the first half of March that would likely be the result of a financial crisis like we saw at previous major bottoms like Long Term Capital, Orange County and the S&L Crisis.

After that, a very significant rally should unfold throughout the second quarter. Nothing so far has changed my opinion. We've seen multiple attempts by the stock market to initiate liftoff, but none have blasted through the trading range established by the February highs and January and March lows, yet.

I believe that will all change this quarter, as I've been discussing for a few months. As I write this, the popular indices are once again pressing against the upper end of the range. The healthiest thing would be for stocks to immediately pull back again for a few days, likely the result of the big employment report on Friday and then mount an all out assault through the February highs as earnings season kicks off shortly.

Even if we are mired in long-term bear market, which I am still not ready to agree to yet, as I've said, I continue to believe the Dow will rally back to unchanged on the year above 13,000. The best case is that we are in the process of launching a new bull market, a la 1987, 1990 and 1998, which should carry the Dow towards 14,000 in 2008.

Yes, earnings will stink and the economic reports are bleak and energy is obscenely high and the credit crisis just continues along. But the stock is the single best discounting mechanism in the world and always looks 6-9 months down the road.

The headlines were still pretty good last summer and fall while stocks began to unravel, anticipating what was coming down the pike. Just like they did in 1988, 1990/1991 and 1998. By the time you feel like the worst is behind us and begin to smile, stocks will be 20-30% higher then they were at the January and March lows.

I don't want to rehash all the reasons again why I believe the stock market will at least continue to rally this quarter, but as I explained several times since mid January, leadership is one of the most important indicators of market direction.

Simply put, markets cannot support a rally without certain key groups

leading the way. Financials and tech are the two most vital, but do not both have to lead. From last March to the July peak, tech led the way, while the financials barely moved. But as the semiconductors put in a massive top during Q3 2007, the financials could not step up and resume leadership, resulting in multiple collapses leading to the January low.

During the first quarter's turmoil, leadership shifted to energy, gold and materials, exactly what you don't want to see. Now, with the possible birth of a new bull market, we are seeing brand new leadership from transportation, tech, retail and yes, the homebuilders! It makes you scratch your head, doesn't it?

How can the transports lead with energy at all time highs? And with consumer confidence, sentiment and expectations at multi year lows, why are people buying the retail group? And housing stocks? How can that be? We are in the midst of the greatest bust of the modern era!

As I mentioned above and many times over the years, all this information is out and in the public domain. No secrets. But the stock market is looking down the road when all these Fed rate cuts will begin to work their way into the economy. Housing doesn't have to go back up; it just needs to stabilize.

I remember in 2005 when the homebuilding stocks began to peak as the real estate market hummed along. It was uniformly accepted that it was just a pull back that should be bought. The problem wasn't about an upcoming bust with Wall Street running their securitization machines 24/7. The problem, if you can believe it now, was that the builders may actually run out of land!

WOW... did people drink the Kool Aid!

One of the smartest guys I know in the business kept warning me about a collapse in the real estate market when things were booming at epic proportions. While it certainly felt like a bubble, I really had no idea when and how it would get pricked. Unfortunately, I was not short the stocks on the way down, but I did heed his warning and never got caught up in that rat race at all. Something I will never forget. (nor will he let me!)

And now, with cancellation rates well above 50, 60 and even 70%, just a lessening of the bad news has been enough to send this group up 50% since their January lows. I have no idea when real estate bottoms. Maybe it is now. I don't know. It's way outside my area of expertise. I'll watch the way the homebuilder group trades and let them tell me.

But I really don't believe it's about to fall off a cliff the rest of 2008 like some doomsdayers are predicting. Sure home prices can decline some more in the

worst areas, but the odds do favor a market that scrapes along the bottom for a while as buyers and sellers find a new level of equilibrium. Some refer to this as a hockey stick bottom since prices essentially go straight down and then curve to run along the floor for a while.

In Short

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As it's late and I want to wrap up, I still have 8 topics listed next to me that will have to wait for the next issue. The stock market continues to trade well with earnings season about to start and the biggest economic report of the month only hours away.

Should the market react negatively and sell off hard at the open, I would expect that to be more of a buying opportunity than selling one. If the news is interpreted as bullish and the rally continues with a large up opening, I would expect that to be more of a short-term selling opportunity than buying one.

The Dow has tacked on roughly 1000 points since the lows and another few hundred on good news should signal some digestion next week before heading much higher. Keep an eye on sector leadership and total volume for more short-term clues.

A few issues ago, I mentioned what a great opportunity I saw developing in the stock market, especially with our own strategies. At that time, I offered you the chance to try us out at no charge. What I did not anticipate was the high volume of questions I received since then.

So, I am going to do a little Q&A in the next issue, built from the emails and calls I got. In the meantime, feel free to call or email any other questions or comments about my offer to manage your money at no charge as a trial.

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