

## INSIDE THIS ISSUE:

<b>OCTOBER RECAP</b>	<b>4</b>
<b>IMPORTANT NOTES</b>	<b>6</b>
<b>ECONOMICS</b>	<b>7</b>
<b>AMERICA'S LOST DECADE</b>	<b>16</b>
<b>GE: LOOK OUT BELOW</b>	<b>23</b>
<b>TOO BIG TO PERSIST</b>	<b>24</b>
<b>DOLLAR</b>	<b>27</b>
<b>GOLD</b>	<b>29</b>
<b>CHINA</b>	<b>31</b>
<b>BRAZIL</b>	<b>34</b>
<b>INDIA</b>	<b>35</b>
<b>FUTURE OF HEALTHCARE</b>	<b>36</b>
<b>AMERICA'S HEALTHCARE SOLUTION</b>	<b>38</b>
<b>SECURITIES UPDATE</b>	<b>42</b>
<b>MARKET FORECAST</b>	<b>57</b>
<b>A FEW NOTES ABOUT ETFS</b>	<b>63</b>

**GREED DESTROYS GAINS AND CREATES LOSSES**

Whenever an investor profits from an investment by 20% or more within 6 months or less, they should always re-examine whether to take profits. Obviously, this consideration becomes more important with a shorter duration.

But simply selling a stock because it returned 20% makes no sense and is treating the investment process like a roulette wheel.

Investors must have a systematic method to evaluate their investments from both a risk and opportunity perspective.

Generally speaking, all stocks go up and down in a cycle that usually leads to long-term capital appreciation. So if investors are able to time their exit and entry onto stocks they will reduce volatility, lower cost basis, and improve the risk adjusted returns.

Many investors find it difficult to sell a stock when it has increased in price because they are afraid that it will keep going up.

But if you have developed a systematic and consistent method for determining when to buy and sell securities based

on technical analysis, market psychology, economics and fundamental analysis, then you have done your job and will be able to minimize investment risk.

The investment management process is not about receiving the highest possible gain in a stock over a specific time period. Rather, it's about optimizing the risk-reward ratio.

It is far more important to minimize losses than it is to receive gains. Depending upon the relative amount of activity an investor wishes to pursue, effective asset and risk management strategies can be created to suit each one's needs.

For instance, there are tax-efficient strategies, income strategies, low market risk strategies such as market neutral, and many others.

Regardless of their investment objectives, investors must learn to modify their strategies to reflect the current and future expected economic and market conditions. Only by doing this will they achieve optimal risk-return characteristics in their portfolio.

## ECONOMICS: WHAT RECOVERY?

On October 29th, Q3 GDP was reported at a positive 3.5%. This represented the first positive growth in 2009. However, I view this data as ridiculous. In my view, there was no real growth in Q3. Yet, upon the release of GDP, after a 4-day stretch of market declines, the DJIA soared by 210 points, erasing most of the 199-point decline of the week.

Folks, let me give you a lesson on market psychology. You see, the consensus estimate for Q3 GDP was 3.3%. The market sell-off in advance of the numbers was merely a way for institutions to secure some easy money when the GDP was reported. This is how much of these economic indicators are handled by the market.

There would have been a rally even if the GDP came in at 3.3%. The only way the market would have declined is if the numbers missed the consensus. It's kind of like an "expect the worst" mentality, then reward the market when the numbers are reported. It's really a simple game that you won't ever hear anyone mention.

As for the relevance of the GDP data, let me first remind you that GDP data is highly inaccurate, and is subject to up to five years of revisions. That means we may not know what the current GDP data is with accuracy until 2014.

Recall that GDP factors in government spending, including the stimulus outlays, the entitlements outlays, the wars in Iraq and Afghanistan, as well as all of those government jobs being created/wasted by Washington.

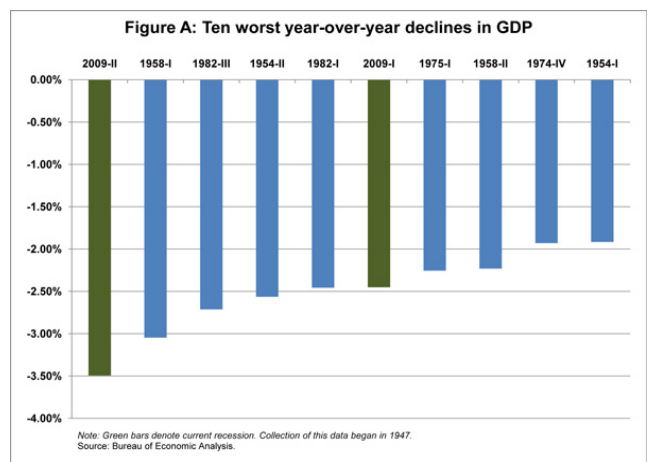
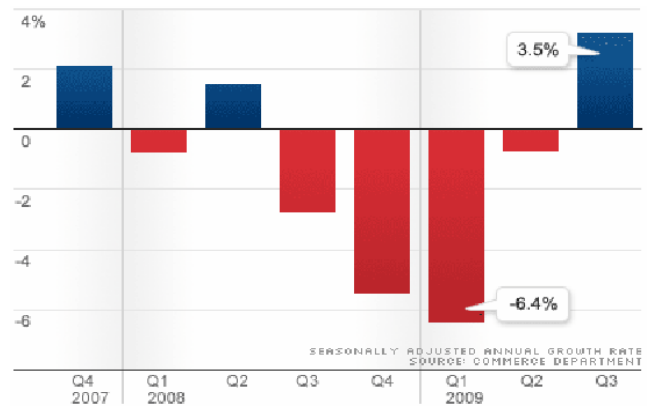
In addition to serving as a gauge of economic health, the GDP is taken as the status quo measure of living standards. Thus, we need to consider by what amount living standards have improved.

While spending for Medicare, Medicaid and Social Security certainly contributes to living standards, there has been no improvement in standards because the cost-of-living adjustments have been frozen for Social Security, while any increases in Medicare and Medicaid have been trounced by

the healthcare inflation. As an example, for 2009, health insurance premiums have increased by 8%, yet Washington claims there is deflation?

Just ask yourself if you think the economy is growing. How is the job market? Is it getting better or worse? What about the real estate market? What about consumer spending?

Even Washington admits the Cash for Clunkers tax subsidy was a big contributor to economic activity. According to Edmunds.com, this \$3 billion program cost taxpayers \$24,000 per car since the program contributed an increase in sales of 125,000 vehicles that not would have been sold otherwise.



## ECONOMICS: WHAT RECOVERY?

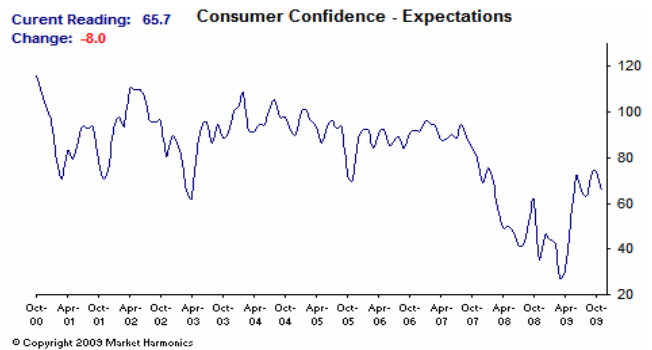
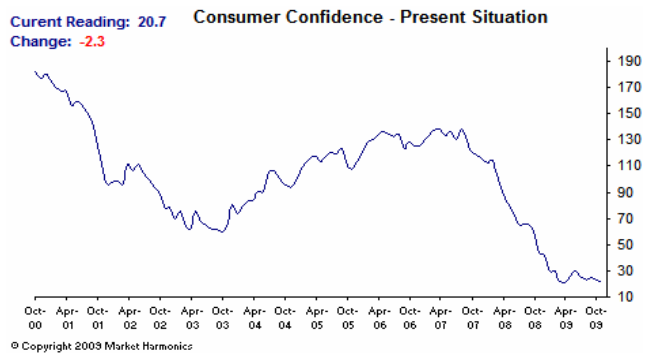
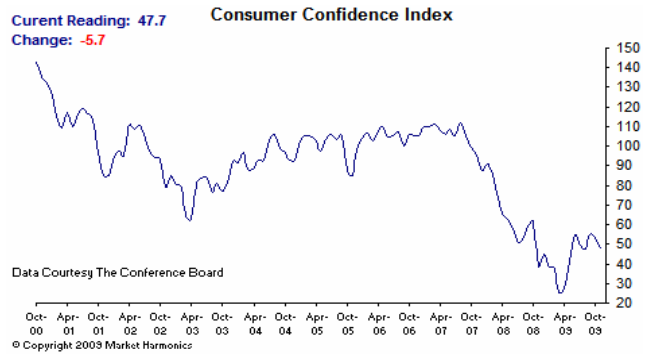
Unlike Washington's ridiculous and oversimplified definition of a recession, the National Bureau of Economic Research (NBER) defines a recession as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales."

The previous record-long post-war recessions occurred in 1973 and 1981, each lasting 16 months. The current recession is the longest in post-war history at 23 months and counting, so it should be compared with those during the 1930s because we are indeed in a depression. Keeping the comparison in the post-war era is a subtle way the media and officials are denying a depression.

On October 27th, The Conference Board released its monthly Consumer Confidence Index. With a reading of 47.7 for October, this represented its lowest mark since May 2009. Consensus estimates expected a reading of 53.1. Still, the latest reading is a far cry from the lows made in February, at 25.3. Note that a reading above 90 implies the economy is healthy, while readings above 100 indicate very strong economic growth.

The Conference Board stated, "Consumers also remain quite pessimistic about their future earnings, a sentiment that will likely constrain spending during the holidays."

The Consumer Confidence Survey is based on a representative sample of 5,000 U.S. households. The monthly survey is conducted for The Conference Board by TNS. It asks participants how they feel about current business and employment conditions as well as business, employment and income conditions over the next six months. The Present Situation survey is a sub index that measures overall consumer sentiments toward the present economic situation and is used to derive (about 40% of) the Consumer Confidence Index. Participants are asked if they feel that current business conditions are good, bad or normal, and if they feel that current employment conditions are plentiful, not so plentiful or hard to get. The Expectations Index is a sub-index that measures overall consumer sentiments toward the short-term (6-month) future economic situation, and is used to derive (about 60% of) the Consumer Confidence Index.



### Post World War II recessions

Nov. 1948 - Oct. 1949	11 months
Jul. 1953 - May 1954	10 months
Aug. 1957 - Apr. 1958	8 months
Apr. 1960 - Feb. 1961	10 months
Dec. 1969 - Nov. 1970	11 months
Nov. 1973 - Mar. 1975	16 months
Jan. 1980 - Jul. 1980	6 months
Jul. 1981 - Nov. 1982	16 months
Jul. 1990 - Mar. 1991	8 months
Mar. 2001 - Nov. 2001	8 months
Dec. 2007 - Oct. 2009 (???)	23 months (???)

SOURCE: NATIONAL BUREAU OF ECONOMIC RESEARCH

## ECONOMICS: WHAT RECOVERY?

Although the number of job losses has decreased, hundreds of thousands of jobs are still being lost each month. Furthermore, more unemployed Americans have dropped out of the job market and are not counted in the official unemployment numbers (U-3). Finally, more unemployed workers are staying unemployed over a longer period.

An accurate assessment of the employment picture involves much more than looking at the number of jobs being lost. In the end, it's about getting people back to work. And as I have detailed in previous issues, that isn't going to happen for a long time. Millions of jobs are never coming back. Even The Conference Board reported that it expects to see a declining business climate, fewer jobs and lower salaries.

The biggest source of job creation is in healthcare, education and the government. As I have alluded to in the past (and I discuss in [America's Healthcare Solution](#)), the healthcare bubble is swelling to dangerous levels. We already see early warning signs of an implosion.

As the next chart shows, while home values have appeared to have bottomed, they are still down on average by over 30% nationwide since late 2006 (Note that the housing chart illustrates a year-over-year change in housing prices). This is important because it has to do with the wealth effect, similar to that created by a rising stock market, whereby an increase in net worth on paper encourages consumers to spend more.

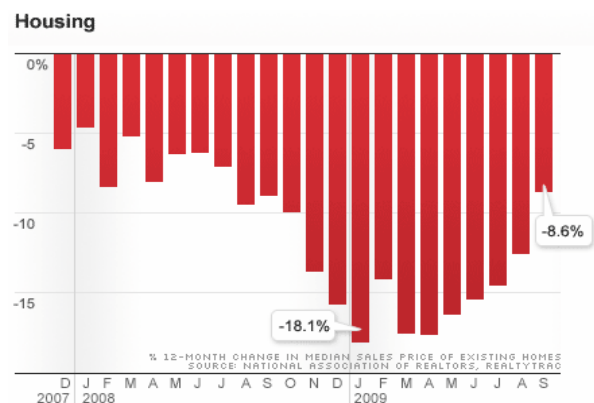
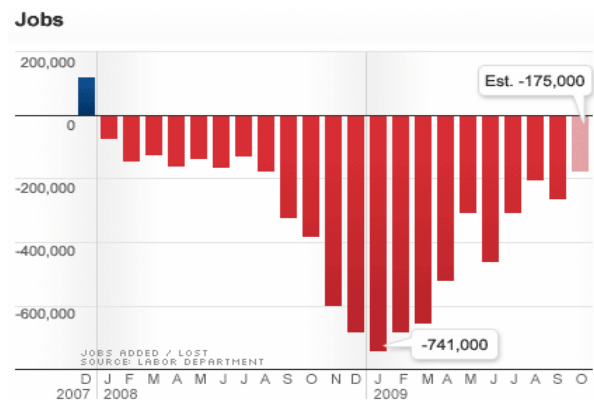
Since the recession there have been nearly 7 million foreclosures despite numerous attempts by Washington to prop up the housing market, such as the foreclosure moratoriums imposed in 2008 by Fannie Mae and Freddie Mac and many banks, the Recovery Act's first-time homebuyers tax credit, the various programs to delay foreclosure, and the increased loan-to-value home equity lines of credit/refinancing being offered by Fannie and Freddie, now at 125% LTV.

As the data shows, even the government's actions to delay foreclosures have not helped much, as

most homeowners have eventually been foreclosed on. Many are now estimating an additional 7 million foreclosures over the next few years. As those of you who read my two books written in 2006 will recall I estimated 12 to 14 million foreclosures due to the correction of the real estate bubble.

If you think the real estate market is mounting a real recovery, you have not seen all of the data. Foreclosure event sponsors state their business continues to increase. And in some cases, there are no bidders for homes starting at just a few thousand dollars.

Why is this? Because the smart investors realize that you have holding costs for real estate, such as property taxes and homeowner's insurance, not to mention the costs of repair/restoration. And if you aren't able to find renters, or buyers, you could be stuck with a lame duck.



## ECONOMICS: WHAT RECOVERY?

When we look at the inflation picture, the ridiculous nature of Washington's economic propaganda really surfaces. As you can see from the first chart, according to government estimates, we have been in a deflationary mode since December 2008. You will recall this was after the collapse of the commodities bubble.

Yet, since the beginning of 2009, prices for food, energy and healthcare have soared. So why does Washington keep reporting deflation?

Unless you are one of few who have benefited from the Clunkers and first-time home tax credit, you can imagine the expected \$1.85 trillion budget deficit for 2009 as well as the trillions of taxpayer dollars for the various bailouts and stimulus plans certainly has not contributed to deflation; just the opposite.

So why does Washington report deflation? There are several reasons for this. But there are two main reasons. First, Washington is hell bent on keeping interest rates low. The second reason is because Washington wants to minimize cost of living adjustments for entitlements as a way to rip taxpayers off.

So why does Washington want to keep rates low? First, it is thought that this will encourage consumer spending. Second, it is thought to help the real estate market for new homebuyers and home refinancings. Remember that the huge avalanche of Alt-A mortgage resets is due in 2010 and 2011. Third, it will help the stock market. Finally, Washington wants to help the banks make money in a manner that is an insult to the free market system.

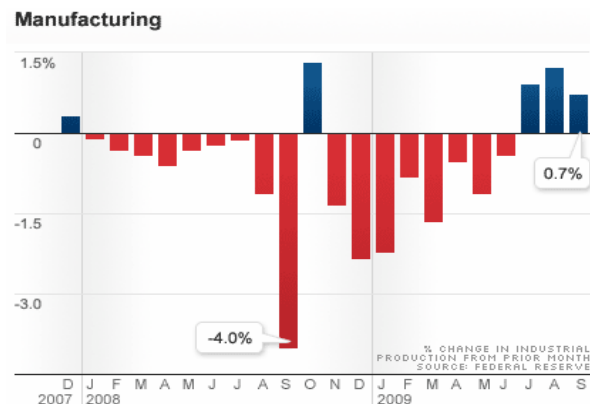
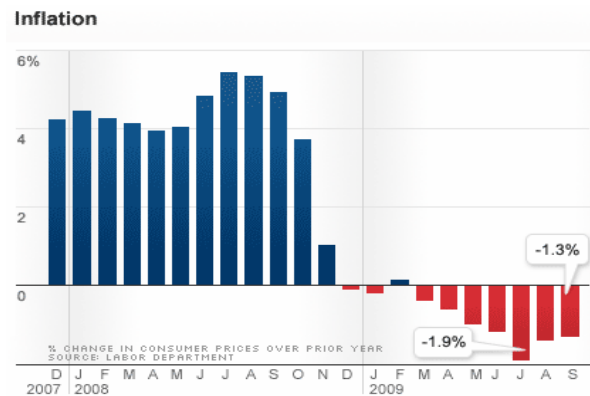
Deflation soared to record highs of 3% (or -3% inflation) during 1949. In contrast, inflation hit a record high of nearly 15% in March 1980. This led to soaring short-term interest rates of nearly 20% thereafter.

In the next chart you can see that while manufacturing has increased over the past three months, this represents only a small upswing from the 17

of 18 previous month-contraction. Moreover, I do not view manufacturing as a significant part of the U.S. economy.

America has a service economy and has for two decades now. The problem is that it is much more difficult to track exactly what is going on in this economy due to outsourcing. But it is also difficult to track what is going on even in the manufacturing segment of the economy because it too has a significant outsourcing component.

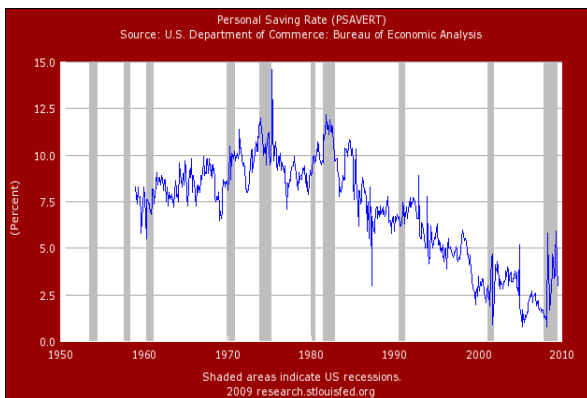
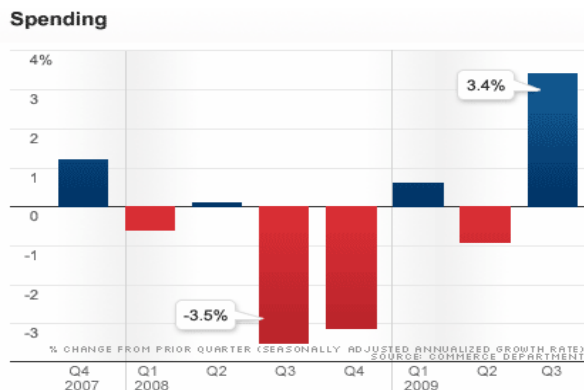
Meanwhile, capacity utilization is running only at around 70%, which is 11 percentage points below the average. What this means is there will be more lay-offs and no new manufacturing jobs. Most of these lay-offs will be permanent as a result of not only the persistence of a weak economy, but also due to the effects of free trade which have been accelerated by the current meltdown, just as occurred in the dotcom meltdown.



## ECONOMICS: WHAT RECOVERY?

Next we look at consumer spending. As you can imagine, the current boost in consumer spending was largely aided by Washington's various subsidies for auto and home purchases.

On October 7th, consumer credit was reported to have fallen for the seventh consecutive month. As I have discussed in previous issues, consumers realize the problems ahead for the economy despite the propaganda of a recovery. As a result, they have boosted savings. In just over a year, the consumer household savings rate flip-flopped from a negative 1% to around 6%. But in the past month, savings have taken a plunge down to about 3.5%.



But there is more to this slowdown in spending. The biggest banks are not lending money. Meanwhile, Fitch's Prime Credit Card Chargeoff Index rose to its highest level in 25 years at 11.52%.

As the unemployment rate continues to rise, many households have tapped into their credit cards due to insufficient emergency funds. As you might recall, I predicted these events would occur in [America's Financial Apocalypse](#) (a shift to savings and surviving on credit cards).

For many of the nation's unemployed, credit cards simply haven't provided sufficient funds. For some, the soaring credit card interest rates and other rising fees levied by the criminal banking industry have served as a detriment to credit card spending. Others have had their accounts closed for little or no reason, and without warning.

As a result, about 46% of those who lost their job in 2008 took a cash distribution from their 401(k) plan according to Hewitt Associates. But this comes with a steep price in terms of early withdrawal penalties from the IRS if the funds are not returned in a short period.

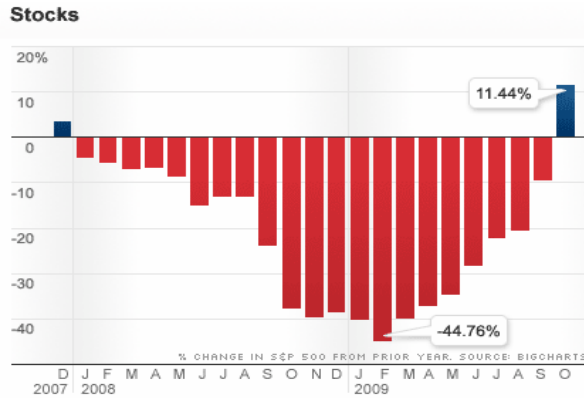
Based upon the data, I would not expect to see a robust Christmas season, regardless how aggressive retailers discount items. On the other hand, I do think the holiday season will come in a bit better than last year—the worst season since the Commerce Department began collecting data in 1967—but only because there is no shock effect as there was in late 2008.

It appears as if analysts are expecting holiday sales to be flat relative to last season. Surely they cannot be that dense. I would view this as a tactic to understate more realistic forecasts as a way to further prop up the stock market when "greater-than-expected" numbers come in.

Now let's take a look at the stock market. In 2008, the S&P 500 fell by 44.8%, marking the largest one-year decline ever. In the first quarter of 2009, the market dropped by another ~ 30%, then mounted a very strong rally of ~ 55%.

In total, for 2009, the stock market is up by about 12%. But this has not created any type of wealth effect because the rally has only delayed the massive bleeding of a few months ago. But Washington's Band-Aids cannot last much longer.

## AMERICA'S LOST DECADE?



Furthermore, despite the strong rally since the market made its lows in early March, I can guarantee you that most retirement plans are down significantly lower than the market indexes, not only due to the fees charged by mutual funds, but also due to the inherent weakness and limitations of mutual funds during bear markets.

Now, let's have a look at the government's finances. In April of this year, for the first time ever, the U.S. government ran out of money and had to raise the debt ceiling again, enabling it to borrow more money to pay its bills.

In the past, the federal government has been boosted by the April IRS tax revenues, allowing it to go a few more months before running out of money.

But with the current economic meltdown, the 8 million layoffs since November 2007 has led to lower tax revenues. Combined with massive expenditures to pay for bonuses for banking and Wall Street executives, bailouts for an irresponsible and largely useless auto industry that lives on moral hazard, and cars and homes for selected individuals (only first-time homebuyers are eligible for the \$8000 tax credit, and not everyone has a "clunker" or has a need for a new car), Washington's financial situation collapsed even after tax day.

Based on current estimates, it appears that President Obama will run up nearly \$2 trillion in budget deficits for 2009. In addition, because much of

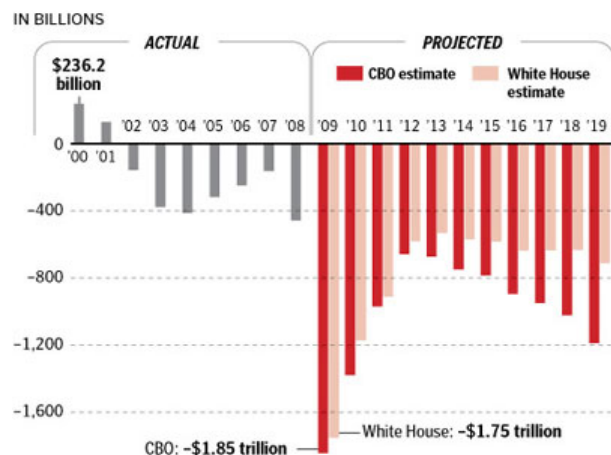
the stimulus will not be dispersed for a few years, and due to the continued trade deficit, as well as the mounting liabilities for entitlements and interest on the national debt, massive annual deficits will persist throughout the next decade. My own estimates are considerably larger.

Of course, republican hacks have made this a political issue, without bothering to remind you that it was President Bush who set a precedent for bailouts and useless stimulus plans.

The fact is that it matters not who is in the White House. The best interests of working-class Americans have been neglected for many years. This isn't going to change without a drastic movement from the masses. But this is unlikely to occur since most Americans have been brainwashed by a media industry that is controlled by corporations and political interests whose loyalty lies with Israel.

As I have mentioned in the past, these Tea Party protests serve only as the latest ploy to garner support for republicans. In fact, I view the ridiculous nature of these events as a reflection of the hidden controlled opposition movement in America.

As you can imagine, the decline in sales, income, property and other tax revenues has also hit cities and states very hard. This has resulted in budget deficits for most cities and all but two states.



## AMERICA'S LOST DECADE?

Incidentally, Canada is expected to lead the G7 out of the economic meltdown, with an estimated 3.1% GDP for 2010 according to recent upward revisions from the IMF.

Already, forty-eight states are projecting budget shortfalls up to \$163 billion in 2010 and at least \$350 billion through 2011. For the first quarter of 2009, state tax revenue was down by 11.8% from the same period in 2008, the sharpest decline on record. Unlike the federal government, states are legally required to balance their budgets.

### Medicaid and the Economy

During an economic downturn, unemployment rises and puts upward pressure on Medicaid. As individuals lose employer sponsored insurance and incomes decline, Medicaid enrollment and therefore spending increase.

At the same time, increases in unemployment have a negative impact on revenues making it more difficult for states to pay their share of Medicaid spending increases.

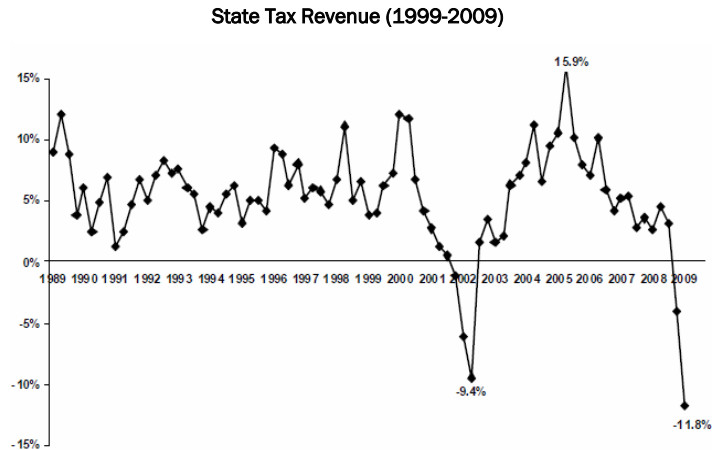
Although recent data partly supports that the recession is coming to an end, improvements in unemployment rates and Medicaid enrollment will lag behind improvements in other economic indicators. Therefore, pressures on state budgets are expected to persist in state fiscal year 2010 and into 2011. This is the best-case scenario.

### Recovery and Reinvestment Act of 2009

In an effort to boost an ailing economy, Congress enacted and President Obama signed the American Recovery and Reinvestment Act (ARRA) on February 17, 2009. The ARRA was expected to cost \$787 billion, included significant funding for healthcare and state fiscal relief.

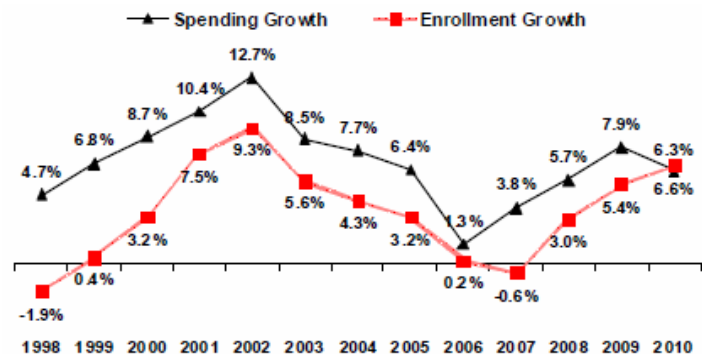
Specifically, the Act included an estimated \$87 billion for a temporary increase in the federal share of Medicaid costs from October 2008 through December 2010. These funds

have been used to address overall state budget and Medicaid budget shortfalls, avoid cuts to providers, benefits and eligibility, and help support increased Medicaid enrollment.



Source: Percent change in quarterly state tax revenue, US Census Bureau.

### Percentage Change in Medicaid Spending and Enrollment (FY 1998- FY 2010)



NOTE: Enrollment percentage changes from June to June of each year. Spending growth percentage changes in state fiscal year. SOURCE: Enrollment Data for 1998-2006: *Medicaid Enrollment in 50 States*, KCMU. Spending Data from KCMU Analysis of CMS Form 64 Data for Historic Medicaid Growth Rates. FY 2009 and FY 2010 data based on KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, September 2009.

I could make a strong case that America has already experienced a lost decade since 2000. In fact, I implicitly made this ascertain in AFA. As certain as I was this depression would materialize, I am equally certain America will be looking ahead to another lost decade. In fact, if only an additional decade is lost, I would welcome this consequence with open arms.

## AMERICA'S LOST DECADE

Has the Recovery Act helped? It has helped keep poverty numbers lower than without. It has also provided emergency funds for food banks and other assistance programs.

The Center on Budget and Policy Priorities examined the effects of seven recovery act provisions. (expansion of unemployment insurance, tax credits for working families, nutrition assistance benefits, the one-time payment to Social Security beneficiaries, veterans and beneficiaries of the Supplemental Security Income program). It determined that this aid prevented 6.2 million Americans from slipping into poverty (including 2.4 million children), while reducing the severity of impoverished conditions for 33 million additional Americans. Note that this study used an alternative definition of poverty that counts non-cash benefits as income.

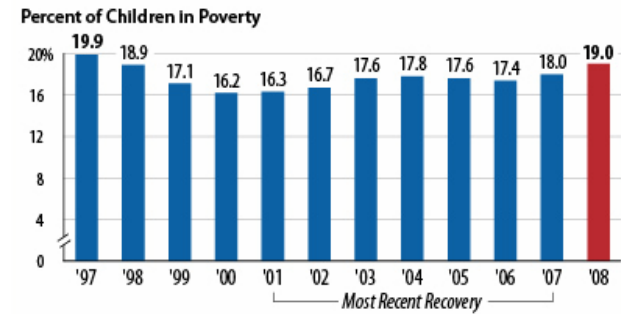
If one is to accept the traditional dog-and-pony metrics used by Washington economists and related individuals, including groups that adhere to these ideas, the previous "economic expansion" dates back from late 2001 to December 2007.

As the CBPP reports, poverty continued to rise during and after the 2001 recession and failed regress back to prerecession levels, "representing one of the worst periods for poverty reduction of any economic recovery in decades."

As I detailed in AFA and has been confirmed by numerous non-partisan, unbiased think tanks before and since, the monetary gains resulting from the previous economic expansion were disproportionately distributed to Americans at the highest income levels. According to Piketty and Saez, the top 1% of households received two-thirds of the growth in national income during this post-2001 recovery period. This represents the most distorted allocation of incomes than any other economic expansion since the "roaring 20s" pre-depressionary period.

Since the trend of declining employer-based health insurance began in 2001, nearly 7 million Americans have lost health insurance. According

Child Poverty Rate Reaches Highest Since 1997



Source: Census Bureau

cbpp.org

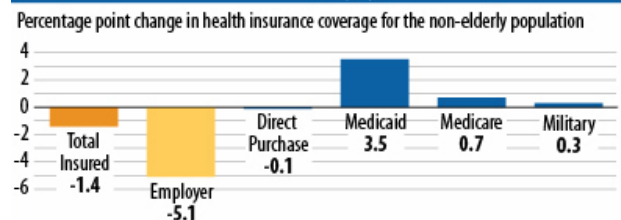
to 2008 Census data, 15.4% or more than 46 million Americans lacked health insurance.

The Congressional Budget Office has estimated that 54 million Americans will lack health insurance by 2019, but these estimates represent hopes and dreams based on my own analysis. I expect this number to be reached by 2013 without any type of healthcare reform.

The Recovery Act has also helped temper the losses in employer-based health insurance. First, it has provided a temporary subsidy for COBRA, making it more affordable, although still impossible to afford for those without any job prospects.

Second, the Recovery Act allocated \$87 billion to states to help fund Medicaid. According to numerous estimates, more than 6 million Americans have been added to Medicaid since the recession.

Change in Health Insurance Coverage by Type of Coverage, 2001 to 2008



Source: Census Bureau

cbpp.org

## AMERICA'S LOST DECADE

In September, the U.S. Census released some very discouraging data that paints an ugly picture for the “recovery.” The results are summarized as follows:

- 1) Poverty Increased
- 2) Median Household Income Fell
- 3) Employer-based health coverage declined

In 2008, the median household income declined by 3.6% (adjusted for inflation). This represents the largest single-year decline on record. In addition, the median wage is now at levels seen in 1997.

When you consider the fact that Washington has understated inflation, it should be easy to realize the full severity of the decline in median wages.

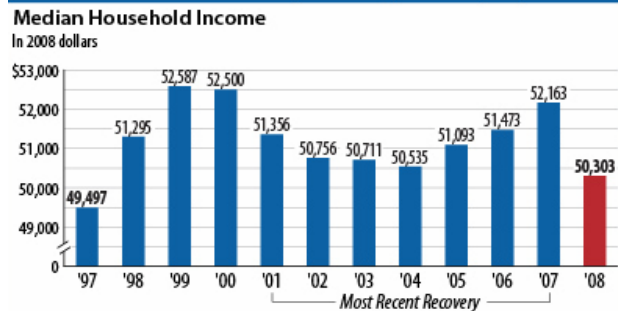
Furthermore, since this data was taken when the recession had yet to hit bottom, it is clear that the results will be worse when the Census Bureau issues its report in 2010 for the previous reporting year.

According to official U.S. Census data, in the past two recessions, the unemployment rate continued to rise for 15 to 19 months after the official end of the recession. This finding highlights my previously stated expectations for the employment situation.

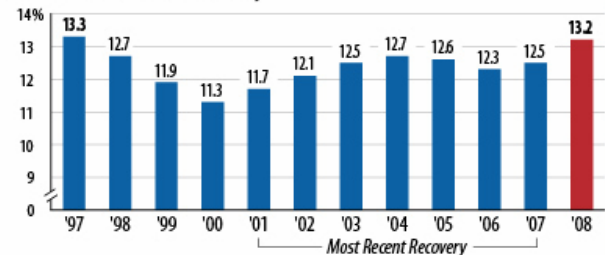
At best, things are going to stay ugly for quite a few years. My estimates place things in a much more dire scenario.

Some estimates state that the President's Recovery Act has helped save nearly 700,000 jobs. I disagree with these conclusions. But even if it is true, you should note that the number of jobs saved due to the Recovery Act was less than the 741,000 jobs lost in just the month of January of this year, when job losses peaked. This represented the highest number of job losses in 60 years.

**Median Income Falls to Lowest Level, and Poverty Rises to Highest, Since 1997**



**Percent of Americans in Poverty**



Source: Census Bureau

cbpp.org

While the Recovery Act has helped millions avoid poverty, it simply has not provided enough support.

In 2007 the percentage of Americans living in poverty was 12.5%. Following the initial effects of the economic meltdown, by 2008, 13.2% or nearly 40 million Americans had fallen into poverty. This is the highest percentage since 1997.

Note, as discussed in [America's Financial Apocalypse](#), Washington's definition of poverty is very outdated and makes ridiculous assumptions.

In my estimates, even prior to the current recession, far more Americans were in poverty than the figures reported. If more realistic adjustments for poverty were made, it likely that up to 70 million Americans are currently living in Poverty.

## AMERICA'S LOST DECADE?

So the question surfaces...has running the currency printing presses in overdrive and accumulating record levels of federal debt been worth the results? Absolutely not.

Beyond this clearly disastrous situation, I am furthermore troubled knowing with a high degree of certainty that there will be several more stimulus plans by Washington over the next few years, regardless who is in office. I discussed this in previous issues.

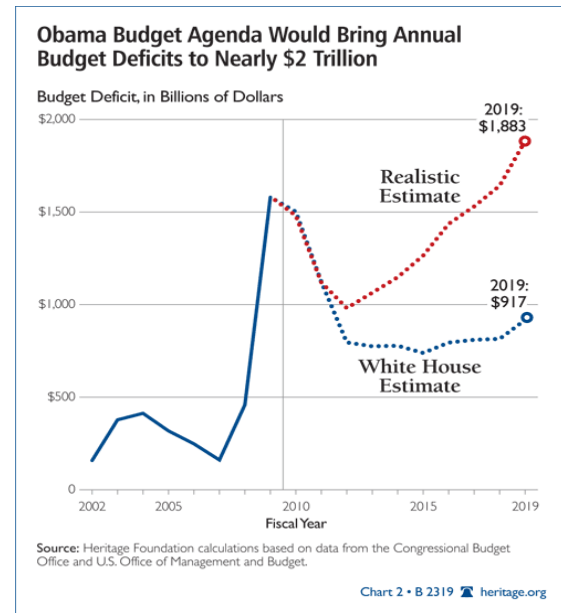
The problem is two-fold. First, very few in Washington have a real sense of what is truly needed. I can state with confidence that not one single politician in Congress has a clue as to how bad things are and what the solutions are.

The problem is that the few individuals connected to Washington who actually understand the solutions, also have no influence. Furthermore, I am not aware of anyone who both understands the full severity of the economic meltdown as well as the solutions.

While many are now coming out stating doom, they are merely jumping on the band wagon. Others who understand the severity and future risks have not provided real solutions.

Much of the severity of a catastrophe is based on how it is handled. If handled well, many of the most severe effects can be mitigated. We have not seen any mitigation of this crisis.

First, Bernanke denied the presence of a real estate bubble. Next, he stated it would not be severe nor would it spill over into the overall economy. U.S. Treasury Secretary Henry Paulson and other White House officials followed with these ridiculous predictions. Finally, Obama's Treasury Secretary Geithner and Obama himself continue to state they did not think things would be so bad. Are we supposed to take that as an excuse for failure? Why don't they just assume things are miserable so they won't come back later giving excuses that they miscalculated?



How can these men, entrusted with such a great responsibility miss what I myself knew was obvious two years earlier? Such a blatant mistake must not go unpunished. These men belong in prison.

As I detailed in AFA and in several articles since then, a good bulk of the solution is to restructure free trade so that America rests on a more equitable playing field. This would be the biggest driver of jobs; quality jobs.

The few in Washington who realize this are unwilling to budge because it would affect U.S. corporations, who continue to export every job they can to the nations offering the lowest cost of labor.

And if you think the outsourcing situation is bad now, keep in mind that the dollar has been on a multi-year declining trend. As you will recall, a weak dollar tends to not only boost U.S. exports, but due to similar cost dynamics it also tends to keep jobs on U.S. soil. Therefore, when the dollar regains strength on a more long-term basis (and this will occur eventually), it will pose as just another force pressuring the exportation of jobs overseas.

## AMERICA'S LOST DECADE?

With the national debt approaching \$12 trillion, no real improvements in the financial train wreck, foreclosures and job losses with no end in sight, a massive healthcare crisis that is unlikely to be reformed adequately, consumer spending coming to a halt, you can be assured of many things over the next several years:

- 1) Several more stimulus packages
- 2) Soaring consumer loan defaults
- 3) Several million additional foreclosures
- 4) Further significant downside in the U.S. stock market
- 5) Acceleration of employer-sponsored health insurance losses
- 6) Continuation of healthcare inflation
- 7) A deepening of the entitlement crisis
- 8) A period of excessive inflation over an extended period, or else massive inflation that will be countered by soaring interest rates
- 9) A long period of stagnant consumer spending

I cannot say for certain how the Fed will handle the inevitable inflation problem. But they should be prepared to raise interest rates by very large amounts very rapidly to reduce inflationary forces. But just as inflation can stall an economy, so too can high interest rates.

I do not know when the Fed will respond to inflationary pressures. If my guess is correct, based on my read on the Fed, I would expect interest rates to begin increasing by mid-2010, with large increases in 2011.

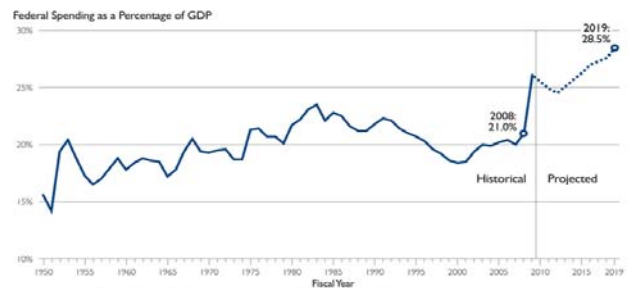
In the last issue, I discussed one manner by which to hedge against inflation, but there are several other methods. In future issues, I will discuss these other methods in detail.

### Obama Budget Agenda Would Drive the Publicly Held Debt to Nearly 100 Percent of GDP



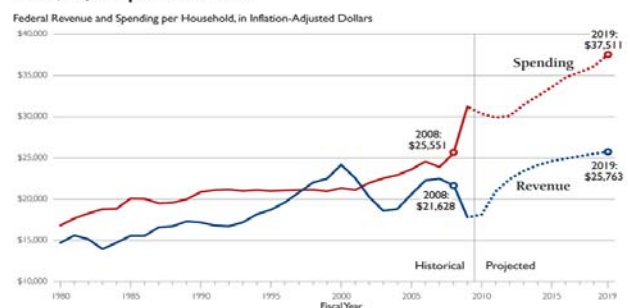
Source: Heritage Foundation calculations based on data from the Congressional Budget Office and U.S. Office of Management and Budget. Chart 1 • B 2319 • heritage.org

### Federal Spending Is Projected to Reach a Peacetime Record of 28.5 Percent of GDP



Source: Heritage Foundation calculations based on data from the Congressional Budget Office and U.S. Office of Management and Budget. Chart 3 • B 2319 • heritage.org

### President's Budget Agenda Would Push Federal Spending Past \$37,000 per Household



Source: Heritage Foundation calculations based on data from the Congressional Budget Office and U.S. Office of Management and Budget. Chart 4 • ArticleName • heritage.org

## AMERICA'S LOST DECADE?

The Congressional Budget Office has reported its most recent estimates for public debt through 2035 based on two scenarios. The debt is reported as a percentage of GDP so as to compare historical periods.

As you can see from the first chart, the highest period of debt occurred shortly after WWII due to the enormous war-time spending combined, with a drop-off in GDP as the result of a decline in demand for war-related items.

Prior to that period, the U.S. amassed another debt bubble due to WWI. Thereafter, a greater bubble occurred due to the spending in the roaring 20s, which manifest after the depression smashed the GDP for many years.

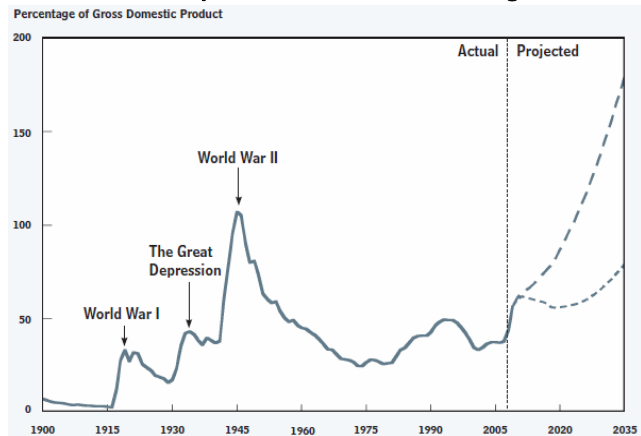
Current debt levels have not been this high since 1945. But the debt is expected to remain high over the next decade as a reflection of annual budget deficits previously mentioned. Then around 2025, the debt begins to soar. By 2030, the CBO estimates one scenario for debt will soar past that record highs made in 1945.

So why is the debt expected to soar after 2025? The answer can be expressed by two words. Mandatory payments—entitlements and the interest on the national debt. As those who read AFA know, I detailed the catastrophic nature of what former U.S. Comptroller General David Walker has labeled, the “entitlement tsunami.”

But what about the lower debt estimate? Ah yes. As much of an improvement as it appears, you will note that it is still expected to soar past current levels. Moreover, these conservative estimates assume a number of radical cuts to entitlements, massive tax increases and other things that will continue to reduce America’s living standards indefinitely.

For those of you with children, I suggest you think long and hard prior to advising them on what career they should pursue. For those who choose to let their kids decide on their own accord, you need to let them know what’s going on.

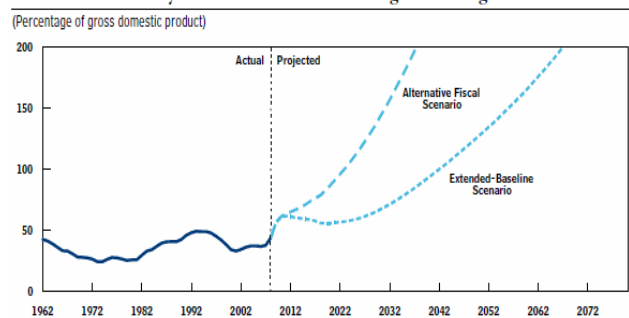
**Federal Debt Held by the Public Under CBO's Two Budget Scenarios**



I’m in no position to be giving career counseling advice, but neither are professional career counselors, because I can assure you they have no idea what is going on. Like most people, they tend to look at the short-term picture.

I will offer one piece of advice. You might want to encourage your children to spend some time studying overseas so they will have a better perspective, and perhaps as a way to let them decide where they want to live because I can assure you that American living standards have fallen a couple of notches permanently. And this is the best case scenario.

**Federal Debt Held by the Public Under CBO's Long-Term Budget Scenarios**



Source: Congressional Budget Office.

Note: The extended-baseline scenario adheres closely to current law, following CBO's 10-year baseline budget projections from 2009 to 2019 and then extending the baseline concept for the rest of the projection period. The alternative fiscal scenario deviates from CBO's baseline projections, beginning in 2010, by incorporating some changes in policy that are widely expected to occur and that policymakers have regularly made in the past.

## DOLLAR

Over the past few months, my forecasts have been for a continued decline in the dollar, for both short and intermediate-term. As you can see, these forecasts have been spot on.

I see continued downside for the dollar, especially since it has broken through technical support in August. While the dollar is likely to demonstrate the typical upward retracements, I feel it will continue to make lower lows and lower highs.

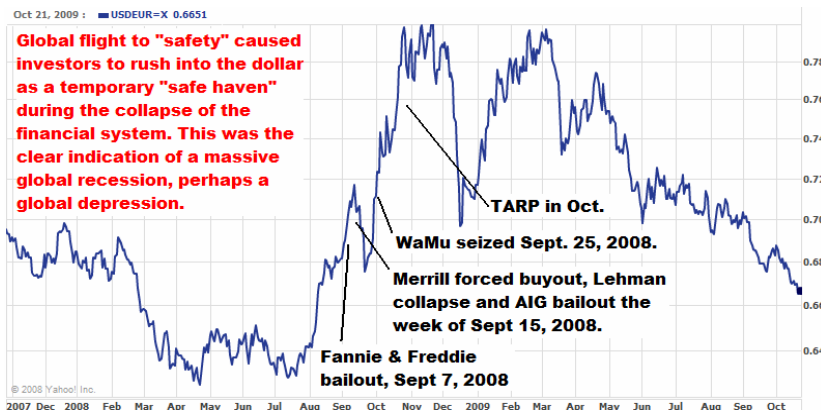
Notice the following two charts are dated October 19th and 21st. I wanted to get an early jump-start on the newsletter so I created a few charts to show you what to expect in the short-term. I wanted to prompt readers of my forecast for the dollar to approach the previous record lows made in early 2008.

As you can see from the first chart, the dollar has trended downward ever since the beginning of the dotcom collapse.

Notably, towards the end of 2008, when the flight to safety caused the dollar to soar, it did not attain levels thought to represent a reversal in trend. As such, the long-term trend in the dollar remains down.

In the second chart, I have labeled the key events responsible for the flight to safety. In the caption, you can see that I warn that the dollar is poised to continue its free-fall now that the support has been broken.

On the following page, you can see this more clearly, as I have since shown an updated chart illustrating how the dollar has broken through a significant level of support.



You can trace the course of the dollar since the start of the recession. Interestingly, there appears to be more downward momentum pushing the dollar lower, than that which led to the lows in the Spring of 2008. Moreover, for whatever it is worth, there is no technical support to prevent a re-test of the lows made in April 2008.

## DOLLAR

As you can see from the chart to the left, I have drawn rough intermediate-term support lines. The thickness of the lines represents the relative strength of each line.

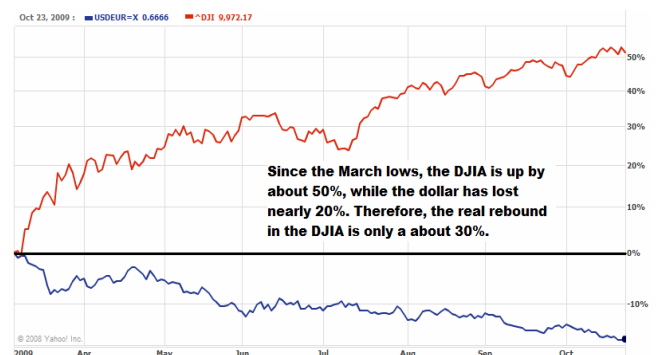
Thus, as you can see, now that the dollar has clearly broken through the top support line, there is very little resistance down to the 0.65 area. But even the support line running across the 0.64 range is rather weak. Thus, the dollar is likely to continue its descent over the intermediate term.

What about the short-term? There is a possibility that the dollar will continue its rebound after the previous sell-off. However, if I had to guess, I would expect the next move to be down (although it is absolutely impossible for anyone to make a definitive prediction with certainty). This merely represents my best guess. What is more important is to focus on data that has higher probability—namely the long-term and intermediate-term trends, mentioned previously.

Let's now take a look at the performance of the dollar since the March 2009 lows in the stock market. This is illustrated in the second and third charts.

As the last chart shows, since making the lows in March, the DJIA has rallied by as high as 50%, while the dollar has declined by nearly 20%. Because the DJIA is priced in U.S. dollars, this means that the gains made by the DJIA are actually around 30% net, unadjusted for inflation. I mention this because it is important to track the course of the dollar and the DJIA when either has made a large move because it gives you a better idea what is going on.

As I have stated in the past, the ONLY reason why I even pay attention to the dollar is to help me gauge the economy and sometimes to help assess investor psychology. In addition, as I have stated in the past, I do not trade currencies nor do I recommend anyone do so, as I consider it highly speculative. I also want to tell you that most currency “analysts” have no idea what they are talking about because they view things from such a narrow perspective. Currency trading was created for institutions and corporations to hedge foreign transactions, not for trading without holding underlying assets. Sadly, online websites and boiler room shops have advertised currency trading as a way to make a fortune. The only people making a fortune are those spreading these lies.



## CHINA

As you can see, I have shown the short to Intermediate term trading band for FXI. The charts were analyzed on Oct. 29. Since then, the markets have sold off. FXI closed at \$41.64 (afterhours) on October 30. As you can see, that price is very close to the lower resistance line on the first chart. Therefore, this MIGHT represent a good entry point for a short-term trade. It will mainly depend on the overall market direction.

In the past I have cautioned investors who did not already have positions in FXI and other Chinese securities. I continue with these cautions.

Technical/charting is only one piece of the puzzle. We must also look at the fundamentals. As you may know, China's GDP has been over 9% for nearly two decades, and was in the double digits for several years prior to the global meltdown.

After slipping to a GDP growth of 6.1% for Q1, China has rebounded rather quickly, registering a

Q2 GDP of 7.9% and most recently a Q3 of 8.9%. According to IMF estimates, China's GDP will be 9% in 2010. The sum average GDP of the emerging markets is expected to come in at 4.7%. In contrast, the IMF expects only 1.5% growth in the U.S., 1.7% in Japan, 0.2% in the UK, and -0.3% in Europe.

As of the beginning of this year, China surpassed Germany to become the world's third largest economy. Soon, China will surpass Japan. Over the next decade, it is unlikely America's economy will grow by more than 2% annually. You should note that a real recovery in the U.S. will require annual growth rates averaging in excess of 5% by my estimates in order to neutral the previous economic damage. In contrast, it would appear as if China will average more than 10% growth over the next decade.

**Short to Intermediate-term**

Oct 28, 2009 : ■ FXI 42.19



FXI continues to make new year-highs, but as the green trend line illustrates, it could be topping out in the intermediate-term. In order for the bullish sign to continue, FXI will need to reach the \$46 level in the coming weeks. It has fairly good support in the \$34-\$38 range. Any sell-off into the low end of this range would be strong reason to suspect intermediate to longer-term trend reversal.

**Longer-term**

Oct 28, 2009 : ■ FXI 42.19



The two red lines illustrate a rough level of intermediate-term resistance for FXI, crossing through the ~\$43-\$48 range. Since July, FXI has been gradually trying to force its way through this strong resistance range. Impressively, it has made higher highs and higher lows while etching into the bottom resistance level. As you can see, this gap has been filled, but it must break through the gap and hold for a sufficient duration to confirm what would represent an extremely bullish indicator. If FXI breaks through the upper end of the resistance, it is likely to soar in coming months.

## CHINA

China's course through the global meltdown was late and of short duration. As you will recall, China's economy only began to show signs of recession in late 2008, just after the correction of the commodities bubble. In just a couple of months, millions of Chinese factory workers were without jobs due to plunging export trade. In part, China's own stimulus package of nearly \$600 has helped its rebound.

After "suffering" a GDP growth of 6.1% in the first quarter of 2009, China's has clearly rebounded. Note that during the same period, the U.S. economy was being butchered with a -6.4% GDP.

China's impressive growth has helped many of America's battered corporations, which without this boost in activity would be headed down the road to bankruptcy. Notably, companies like Caterpillar, which in my opinion, faced a significant risk of bankruptcy due to its high debt is for now, out of the woods.

For some, like GM, of course it's a bit late. Still, China represents the only bright spot for U.S. auto makers. In fact, I wouldn't be surprised if China purchases Volvo from Ford. Already, one Chinese auto maker has invested in Volvo as a way to help Ford's hemorrhaging balance sheet. I am certain that Volvo will be sold in the near future; the question is to who.

The prospects for soaring auto sales in China by U.S. auto makers is not because these companies make such great cars.

The reason is because the auto market in China is already the world's largest, although its still very new.

I find it quite impressive that, unlike that of the U.S., China's stimulus plan has actually done what was promised. Of course, China did not face the same level of devastation as in the U.S.

China's \$600 billion stimulus has provided capital for its infrastructural build-out, spurred bank lending for construction and consumer spending (which has fueled its real estate boom).

China allocated \$124 billion of this package as a first installment for a national healthcare system. The Chinese government has specifically stated that these funds are intended to provide healthcare as a "public service" to the people.

This represents a huge victory for Chinese consumers and the Chinese economy, as it represents the first time ever the government has defined healthcare as a public service, or as an essential right of the people. Already, the WHO has applauded these efforts.

When the People's Republic of China was created in 1949, the government provided over 90% of the medical expenses urban residents. Meanwhile, those living in rural regions were provided with completely free healthcare. In the 1978, China began experimenting with market-based economic reforms. Part of these reforms essentially converted government-run healthcare to market-based healthcare.

What was the result?

The same as seen in U.S. healthcare. Hospitals began running up costs using a variety of methods as a way to generate needed funding.

Of course, most hospitals were still not-for-profit, so the extent of waste and fraud was much lower than seen in America's healthcare system.

Still, many of the effects were the same—the growing unaffordability of basic medical services. This became especially true of China's rural population, which have a much lower income than urban workers.

With a revolution in healthcare now in place, China expects more than 90% of its 1.3 billion population to be covered by basic medical insurance by 2011. While the details have not been released, there is no doubt that this program will be very costly. But it will offer Chinese something that most every other nation in the world has other than America; affordable healthcare and the piece of mind that comes with it.

## CHINA

Although domestic consumption comprises only a small part of China's export-centric economy, retail sales soared by more than 15% over the first three quarters of 2009. It would appear as if things are back to normal in China.

Yet, there is evidence of several bubbles forming in China. The banks have made loans abundant for consumers, and this has done well to catalyze the business sector. But it has also helped create a real estate bubble.

The current economic boom in China has caused its bank regulator to take some measures to discourage the pace of lending. While many of America's billionaires have suffered hits to their net worth, most of China's billionaires have actually made more money since 2008.

Today, China has largest number of billionaires outside of the United States, with 130, versus 359 in the U.S. But note that I said "known" billionaires. It is likely this number is even higher due to less transparency in the public eye as well as the perceived notion that many of China's wealth elite do not want the public attention that so many American counterparts lust over.

Where has this newly-founded wealth in China come from? In large part, working-class Americans.

However, China is approaching the point of diminishing returns with its current export-driven economy. Without a change in overall economic strategy, I would not expect double-digit growth for more than 4 or 5 more years. In order to achieve double-digit growth beyond 2014, China will need to advance towards the next phase of economic growth—building its own branded goods and services for the world-wide market. The only way it can accomplish this is by foreign direct investments.

China has learned the lessons of investing in America the hard way. Moreover, with an artificially depressed currency, this further diminishes China's wealth. So rather than investment in U.S. banks, China is now using its trade surplus gold mine to buy foreign companies or large stakes.

But these investments are by no means random, nor are they viewed exclusively on the basis of expected ROI. Instead, China is specifically targeting companies that will bolster it's economy. You might imagine what types of companies these would be.

If you read [America's Financial Apocalypse](#), you know that the only limit to China's growth is having an abundant access to commodities—raw materials. You might also recall that I mentioned China's multibillion dollar pipeline project to Alberta, Canada to tap into the Canadian Oil Sands.

But still, this is not expected to quench China's thirst for crude oil. In 2009, one of China's oil powerhouses, CNOOC entered into several oil licensing deals all across Africa with the intent to seize a good deal of the continent's oil production. A few months ago, China Development bank provided a \$10 billion loan to the Brazilian oil giant Petrobras (one of the only pure oil stocks I like, although not at current levels) to fund a deep water oil exploration project.

Rather than loose more money by investing in America's scandalous investment markets, China's sovereign wealth fund (CIC) recently spent nearly \$2 billion for an 11% ownership position in an oil and gas company in Kazakhstan, as well as a 15% stake in the Noble Group, a commodities trading company based in Hong Kong.

With more than \$2 trillion in U.S. dollar trade surpluses, China is positioned to grow it's economic engine through buying assets in companies it needs to fuel its growth. The only problem is that its own efforts to suppress the value of its currency now serves as a hindrance for extracting more value from its investment capital.

A stronger Yuan would increase the purchasing power of Chinese funds, but it would also hamper Chinese exports. Thus, China must find a delicate balance for this transition. Despite the uncertainties, it is likely that China will become the world's largest economy within the decade. Those who believe in the China growth story should consider building a position in FXI when weakness arises.

## BRAZIL

While certainly not growing as fast as China or India, I personally like the future investment prospects of Brazil even more so than China for a variety of reasons; mainly because it has only begun its wave of massive growth.

As discussed a couple of months ago, Brazil's number one trading partner is now China, while the U.S. has been shuttled into second place. Why has trade soared with China? Remember, Brazil is rich in natural resources, specifically oil. In short, Brazil is one of many nations that has what China needs—oil. But it's also an agricultural powerhouse, as well as a cheap source of labor.

Unlike Brazil, China will have restricted growth down the road unless it changes several laws. One such law concerns business and property ownership, which is largely restricted for foreigners. On the other hand, Brazil permits business and property ownership, as do most other nations looking to capture the benefits of foreign investment.

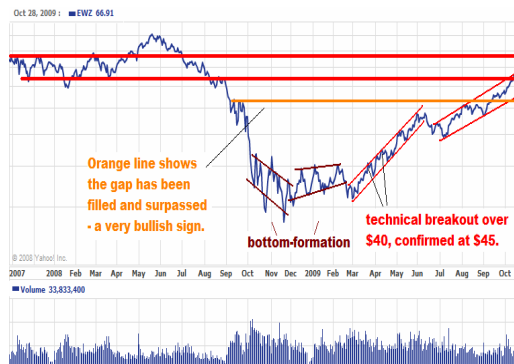
As the first chart shows, the Chinese and Brazilian stock markets have trounced the DJIA since the March lows. Since September alone, Brazil's ETF (EWZ) has soared by more than 50%!

The second chart shows some trend lines that highlight key technical data. The top red trend line has been drawn to reflect the intermediate-term upper resistance. Since September, this resistance has been violated with very strong momentum. As a result, I have drawn an additional resistance line (green).

But as you can see, it has also violated this. This is a VERY bullish indicator. Currently, EWZ has sold off along with the world markets and now lies right at the second red line. This represents the intermediate support level. Notice that the first (top) red line intersects the second red line at the current price. This adds to the support of the current price.

In conclusion, based on this information alone, the chances of going long and making a nice short to intermediate-term trade appear to be high. If the DJIA rebounds from here, short-term traders are likely to do much better.

But once again, all of this will depend on the direction of the DJIA. The last chart better details the bullish trend of the Brazilian stock market, EWZ.

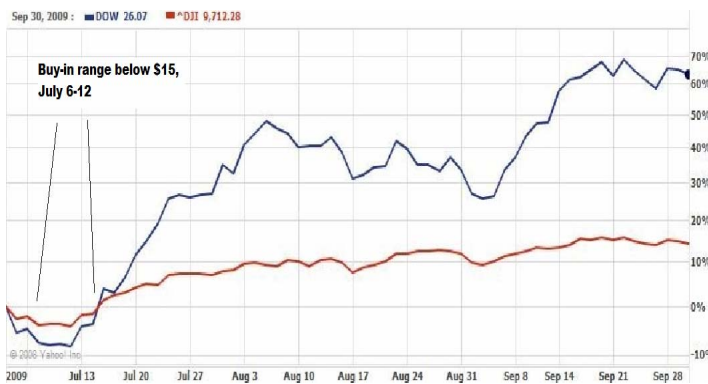
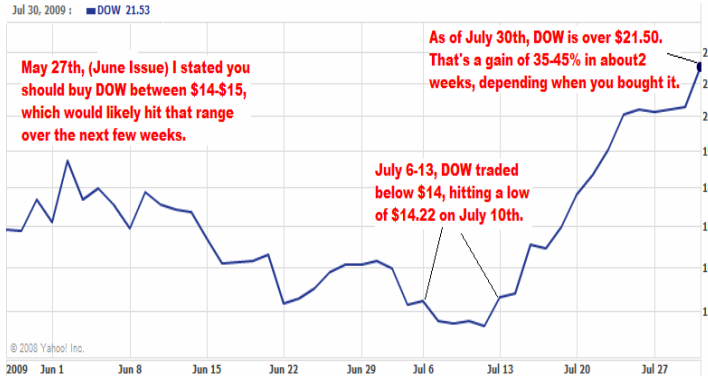


EWZ has filled the long-term gap and has broken through it - a very bullish sign. If it can hold above \$62 over the next 3-4 weeks, this breakthrough will have been definitely confirmed.

The two red lines show the upper and lower long-term resistance lines. As you can see, EWZ recently breached the bottom line in the low \$70s and has since retreated.

EWZ is even more bullish than FXI because, while both have made similar progress towards the long-term resistance trend line, this feat is more difficult for EWZ.

## SECURITIES UPDATE: DOW



The first chart shows a summary of my June alert for Dow Chemical (DOW) where I stated that a good time to buy DOW would be in the \$14-\$15 range.

At the time, DOW was around \$18. I expected DOW to reach this preferred range in the next few weeks, which it did as you can see from the chart.

The second chart illustrates the performance since then versus the DJIA.

The third chart is from the October newsletter. I show the areas of support and resistance. I close by stating my expectations for a sell-off down to the low 20s.

### October Newsletter (released Oct. 5)

I have discussed Dow Chemical many times for several months. In particular, I correctly predicted a sell-off from \$18 to below \$15, whereby I signaled a buy in the June issue.

Soon after, DOW declined from \$18 to as low as \$14.25 (est.). It remained below \$15 for several days. Thereafter, it soared to a recent high of over \$27.

On Friday, October 2nd, DOW closed at \$23.63, correcting from the huge September performance. On September 29th, when DOW was above \$26, I ran the following charting analysis (below). In short, I saw a good possibility for a decline to the low 20s. Thus far, this has held.

Notice I have identified a pattern of price movements. If this holds, the \$20 range should be retested in the short-term. Short-term traders might want to act on this.

Currently, I am looking for a decline to the \$20 range before considering a partial position. I currently do not see a breakdown in price to the mid-teens (the last trend line) unless the market corrects down to the lower limit of intermediate-term support (i.e. 8800-9000 range).

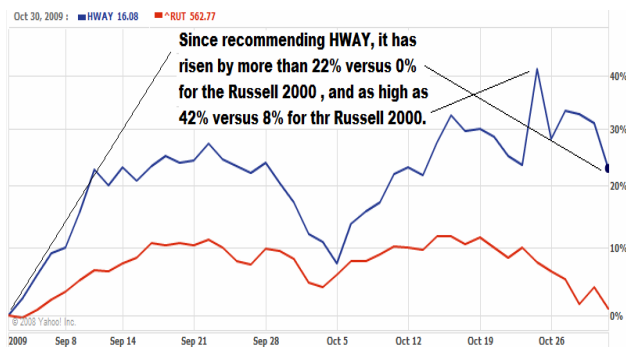
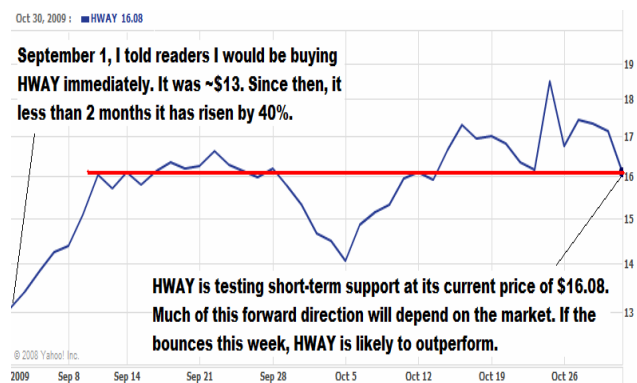
## SECURITIES UPDATE: HWAY

The first chart is a summary of the technical picture for HWAY. Note this chart was from the last issue because the technical picture remains unchanged.

The next two charts summarize the performance of HWAY since it was first profiled in September.

The final chart shows possibilities of the short- to intermediate-term trading range. As you can see, this range places a high probability of price movement within the \$12.80 to \$17.90 range, with a larger emphasis on the lower half of this range based upon current market expectations.

Of course there are other variables that could alter these probabilities, such as large market movements or material events in the healthcare industry or from within HWAY itself.



## MARKET FORECAST

I wanted to go over a brief technical analysis of the Dow to show you some possibilities.

Note that there are many other variables to consider which I do not have the time to get into, such as market sentiment, market valuation, macroeconomic data, future earnings expectations and geopolitical events – all of which will impact the market's movements. So you should not take this analysis as something set in stone.

Furthermore, because things change on a daily basis, the variables involved in making these forecasts are also subject to change.

I mention this because most investors, overemphasize technical analysis without bothering to factor in several key variables.

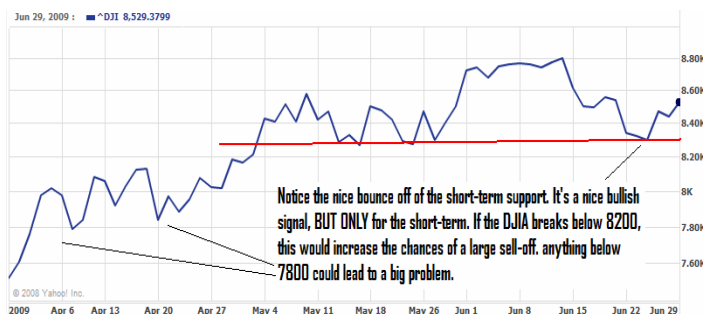
This is why very few are able to accurately and consistently forecast market direction.

Instead, they look at volatility indices like the VIX, VXN and others without realizing these are coincident indicators. Therefore, these highly overrated indicators are generally useless for forecasting future market direction. They're more important for determining investor sentiment, since most investors seem to think they are relevant for future direction.

If you run across someone who thinks you can use these indicators to forecast market direction, you have identified an amateur.

Shockingly, there are many professionals who run large funds that rely on these indicators.

First, I present a summary of the market forecasting analysis I made in June (July newsletter).



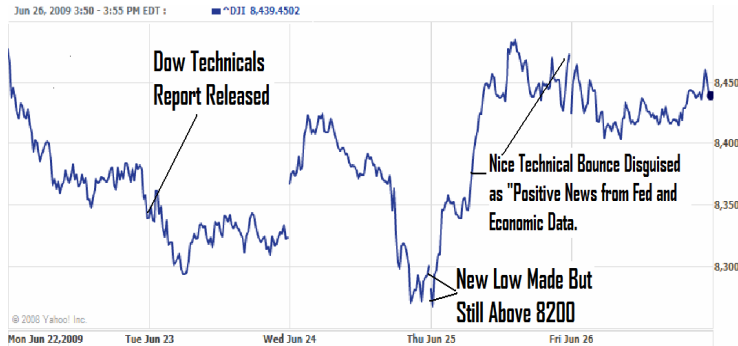
### Released June 22, 2009 (Special Report: technical Analysis of the Dow)

“It appears to have topped out at the lower end of resistance around 8800, falling just 200 pts short of my lower-end forecast, but still well within the general premise of my forecast that the Dow would rise from 8000-8200 and encounter resistance around 9000-9200, where it would sell-off. The question is where it's headed now that it has sold off to the 8300 range.”

**Released June 22, 2009**—“First, understand that the Dow has made significant progress in having held above the 8000 range for about 2 months. This has strengthened the possibility that the low made in March was “the” low, for at least a year or two. Note, I said “strengthen the possibility.” Even if this turns out to be the case, that does not mean a new low cannot be made down the road. Based upon several variables, it is certainly a possibility.

Do not let the financial media fool you into attaching significance to a “low” because they will imply or directly state this means a new bull market has formed. I am confident we will not see a real bull market for many years.”

## MARKET FORECAST



Released July 2, 2009

"As you will recall, I placed a good probability of the Dow hitting the 9000-9200 range and selling off thereafter. Because no one has a crystal ball and many of the variables that have led me to this forecast can change on a daily basis, we must follow things closely and make modifications when we see that things have changed.

The good news is that the Dow reached the 8800 level and has held the 8300+ level for some time now. This bodes well for a short to intermediate bullish posture.

More importantly, it increases the chances that that 6500 level reached a few months ago represented the bottom. Although it's impossible to make this call right now, if I had to I would say that it is likely that the bottom has been reached at least for now."

Released August 2, 2009

"I would not at all be surprised to see the Dow head towards the next resistance level around of 10,500 by year's end. Of course, this would also depend upon economic data. The point is that current investor sentiment is exaggerating data, so we won't need great news to move the market higher; just decent news or no really bad news."

**"As it turns out, investor sentiment has been shifted by the propaganda blitz from the media, Fed and hacks.** As you will recall, I placed a good probability of the Dow hitting the 9000-9200 range and selling off thereafter. I discussed this for two months.

Because no one has a crystal ball and many of the variables that led me to this forecast can change on a daily basis, we must follow things closely and make modifications when we see that things have changed.

Currently, it is clear to me that the propaganda wave has kicked in and is likely to push the market up significantly further over the next several months. But again, no one has a crystal ball and things can change in a flash. There are some things you should look for to help determine the likelihood of this continued move.

## MARKET FORECAST

In the September newsletter, I summarized the trend analysis of the DJIA presented in August (first chart), followed by the updated chart (second chart).

As you can see, the slope of the trend (green arrow) advanced since the previous month.

In July, I alluded to the propaganda campaign by Washington and the media. It was then that I recognized this would continue to fuel the market rally for some time. I continued explaining this in August and September.

In a special report released on September 20, I warned of a market correction due to the premature advancement of the market.

I further revised my year-end market forecast, from 10,500 (released in August) to 10,200.



### September 20, 2009 Special Report

“Those of you who have been following me for some time realize I issued my first market buy signal at Dow 6500. In July, I also raised my ceiling from Dow 9200 to Dow 10,500 on August 1<sup>st</sup>, over the next few months.

As you know, I feel there is potentially more upside to the market by year’s end. HOWEVER, the large run-up in the month of September is quite concerning.

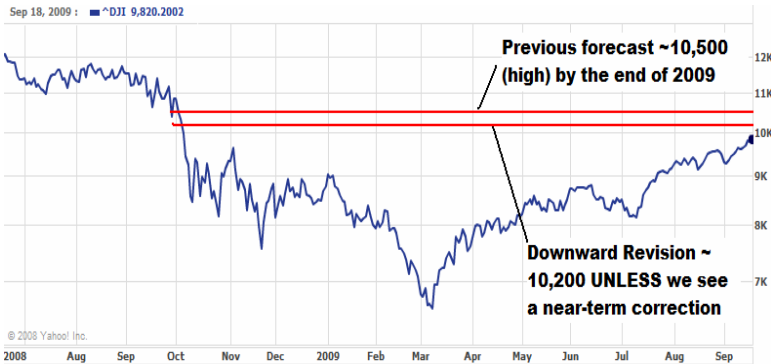
After having crossed the 9800 mark on Friday, I feel there is a good chance of a rather sizable correction anytime between the next few days and the next few weeks.

The higher the market rises over the next several days, the higher the probabilities of a correction. The first installment of this correction could easily send the DJIA down to the 9200-9300 range.

Alternatively, without such a correction, I would revise my market forecast downward through the end of 2009 to the 10,200 range. With a correction, it is difficult to say whether the 10,200 market will be reached by year’s end. It all depends on the size of the correction (if it occurs), how fast it occurs, when it occurs, and events thereafter.

What that means is that there are more than three months remaining with only small upside relative to the move made over the past few months. Given that we have not made it through September, October or the window dressing in November, I see growing market risk. In short, the risk-reward is shifting to favor cash.

# MARKET FORECAST



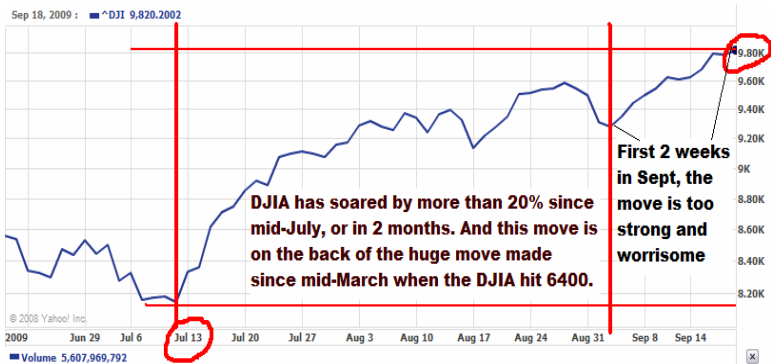
## September 20, 2009

“Rather than focus on further potential upside, those of you who have made recent profits should consider whether it might be a good idea to take at least some of this money off of the table.

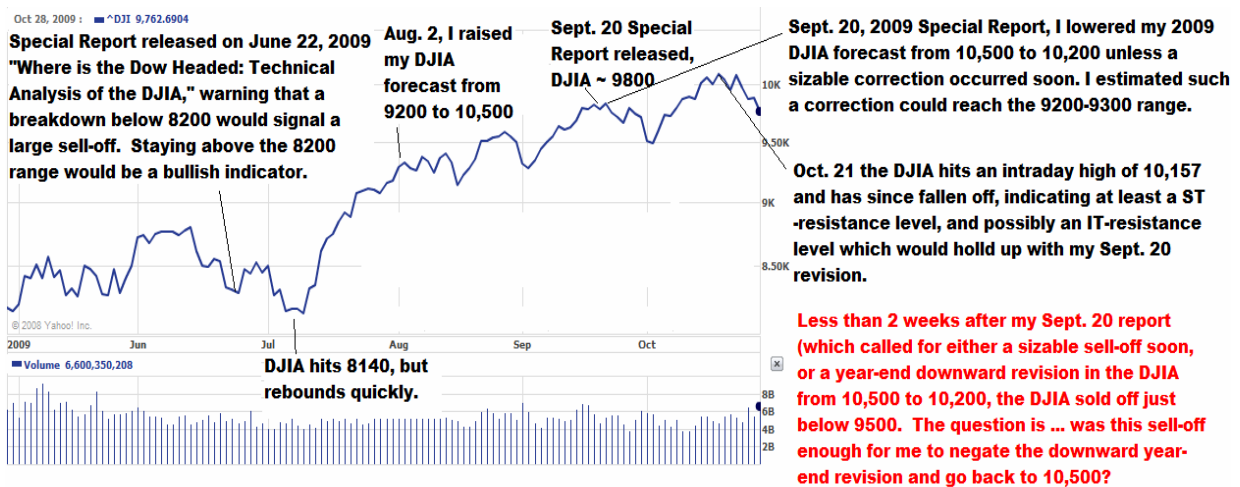
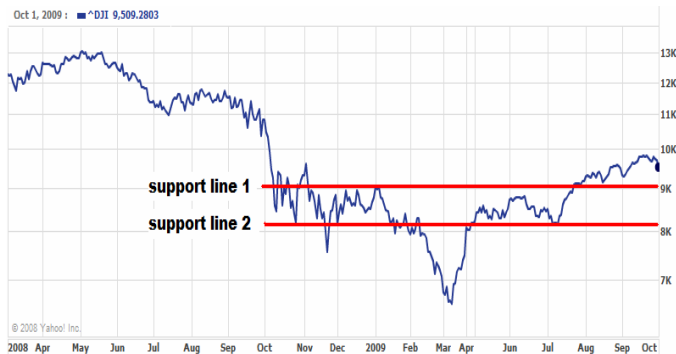
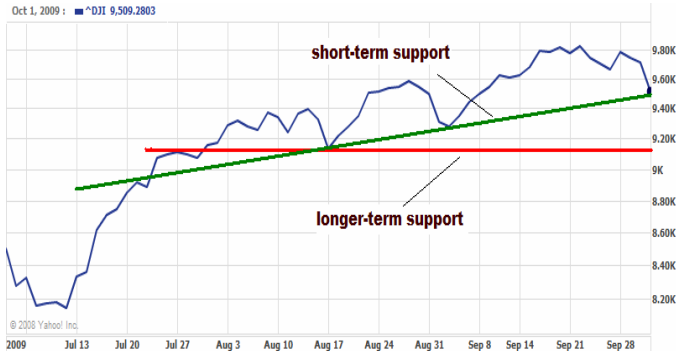
I plan to be in majority cash next week. I am already about 50% cash so I will not have to sell much. My personal goal is to get to 70-75% cash soon.

There are a few ways to do this. You can sell your winners, sell your losers, sell your non-movers (stocks with very small gains or losses) or you can do a combination of these, selling partial positions or selling full positions for some and partial positions for others.

Others might want to selling covered calls on positions to generate income.”



# MARKET FORECAST



In the October issue, I also showed some support lines for the DJIA (the first chart). At the time this chart was generated, you can see the DJIA was testing this short-term support. Since then, it bounced off it and soared.

In the second chart, I also showed two longer-term support lines. The first coincides with the bottom red line from the first chart.

These two support lines represent a very strong region of support for the DJIA. Any breakdown to the 8200-8300 range would indicate the high probability of retesting the March 6400 lows in the DJIA. A Break down below this level would almost assure it.

The final chart below illustrates a summary of my market forecast over the past several months.

## MARKET FORECAST

The first chart shows an updated analysis of approximate support lines for the short to intermediate-term period.

As you can see from the second chart, the DJIA is currently testing a short-term support region. While this is not a strong region of support, any bounce off of this level could deliver nice short-term gains. Thus, you should first analyze the market activity this week prior to assessing whether a short-term trade would be advised.

The next chart shows a longer-term analysis of the DJIA. As noted in the chart, the DJIA will need to rebound off of current levels. Otherwise, it faces the risk of a sell-off in the ensuing weeks—first down to the 9000 range (shown in the last chart) and then POSSIBLY down to the 8300 to 8600 range.

As you will recall, the DJIA recently reached 10,154, just short of my 10,200 target year-end target. In the last chart from the previous page, I posed the question whether the recent sell-off down to the 9500 region was sufficient for my condition required to maintain my previous 10,500 year-end forecast.

I cannot say for sure right now. However, what I will say is that there is more downside risk going into 2010, given current market levels, based upon my expectations for the economy.

Therefore, wise investors will not try to top out their gains further. They will continue to remain in the cash-raising mode, as I discussed in the last issue.

Many of you might consider raising as much cash as possible and not messing with the stock market throughout the rest of the year. It is impossible for me to tell you what you should do because I do not know your situation. That is why you should work with a registered financial adviser.

