Steeplechase Investments

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Sound as a dollar? Not hardly! Our currency has been under siege for quite some time now. The USA is being given away for bargain basement prices. Could any of us ever imagine this scenario? The Fed has been exhibiting their true colors, YELLOW, not referring to China, nor to gold, but to their lack of true SPINE! Fed chairman Bernanke has allowed himself to be bullied by Wall Street and the Bush administration. There has been absolutely no,none,nada leadership shown by the Fed. They have strictly been reactive when they need to be proactive. They are supposed to be and independent organization, the watchdog for inflation. They have been anything but! All their financial engineering has created a bigger mess. Instead of reducing the threat of inflation, they have multiplied it. Since they started lowering rates in their haphazard way, gold has rallied viciously, oil the same. Normal conforming mortgage rates (not the sub-prime sort) have gone from 5.59% to 6.29%. Jumbo loans have essentially remained the same at around 6.9% since June. Home equity loans (the new super credit card for the masses) have risen from 7.69% to 8.05%. So, what is going on behind the scenes is dreadful at best. The Fed's infusion of money into the system has been all about fluff. It smacks of election year shenanigans. The next major shoe to drop will be the middle class walking away from their atrocious credit card balances. The average balance is somewhere around $7,500 to $10,000. We don't hear any thing from Congress or the Fed or the Bush administration about the usurious rates hovering around 20%. The normal person would be in the same fix, no worse, I assume by borrowing money from a juice loan thug.

There is volatility everywhere you look. USA foreclosures have risen 93% year over year. The 3 month T-bill rate dropped from 4.95% to 2.70% in two weeks! With all the Fed's "gerryrigging", we are still heading inexorably toward recession, if we are not already there. The S&P/Case-Shiller real estate index dove a record 6.7% versus a year earlier in 10 major cities in the last month. Their research has revealed that USA real estate has fallen by a trillion dollars and they foresee that number tripling in the next 3-5 years. They predict losses of another 35% in the next few years in Florida, California, Arizona and Nevada. "Bubbles" always end badly and it surely seems this one has a ways to go.

So, in regards to the stock market, has all this horrible news been discounted? Not likely. If that was the case, the market would not have ended the year so close to record highs. I believe, in the short term, the path of least resistance is DOWN for the market. I do not think it has fully factored in the ubiquitous inflation problem. The Dow Jones fell 4.5% in the 4th quarter,which was the first 4th quarter loss in 10 years for the venerable average.

Our portfolios have been in a defensive mode, a capital preservation mode and will stay that way until the dust settles. Of the 23 or so equities we own,18 pay handsome dividends. 13 are showing major accumulation (buying) by insiders.

On a positive note, the market is undervalued. It is a liquidity driven market and there is a lot of liquidity sloshing around the world. Foreign buyers view the American market as extremely undervalued. Election years are usually bullish. The Fed lowering rates is usually bullish. The market is not exhibiting any kind of froth, which is usually bullish. One caveat: October through May is usually bullish and it has been anything but! Also, it would be much more appealing if there was more fear out there. To date, there has been more complacency than fear. Who knows, maybe people are just numb from everything that has been transpiring. I would expect some sort of snap back rally next week as we approach 12,400 on the Dow. It will probably be short-lived though. I would like to see a bottom put in somewhere in the 11,800 range. If we could get down there, we could look to have some very solid, long acting market years. This hovering in trading ranges does nothing for our pocketbooks. Most recently, fear has begun to rear its head ,which is a welcome sight indeed.

With such a depressing backdrop, one would think the market has no chance to redeem itself. Just the opposite is usually the case! Bad news comes out at bottoms, not tops !

Ed