STOCK MARKET REPORT

January 29, 2012

The Week That Was!

The passing minute is every man's equal possession but what has once gone by is not ours.

- Marcus Aurelius

If you are following the news the whole week was about Davos, a rich man's insider trading ring if there ever was one, and the Fed's FOMC statement that turned a few markets on their respective ear. Davos reminds me of the old days during Teddy Roosevelt's presidency and he decided that he would start breaking up large trusts before Wall Street could take over the country. He went after the match trust, the steel trust, the sugar trust and many more that often had interlocking directors. This allowed them to discuss many businesses and collude in an effort to limit competition. You often found the Vanderbilt's, Morgan's, Rockefeller's and Merriman's all together for a "board meeting" that had little to do with the company they were supposedly discussing.

Although Roosevelt did his best to limit this type of collusion the wealthy simply found another way to communicate. I guess it was supposed to be a coincidence that they had their private railroad cars parked on a siding at West Palm Beach and all ended up playing golf at the Breakers together. They called it a “vacation”. Davos is the modern day Breakers and it’s where the wealthy get together to discuss the world’s economy, and supposedly the Bernanke’s of the world are there to give them some input. I suspect it’s really the other way around. Although Rothschild doesn’t go to Davos I’m sure he has a couple of his minions lurking in the shadows. You can rest assured that any real decisions made in Davos will never see the light of day.

Then we had the Fed’s FOMC statement where they declared that “easy money” would remain the name of the game until well into 2014! That rattled more than a few cages and turned a few markets around including gold, the dollar and the bond. Richmond Fed chief Jeffrey Lacker, who was the only voting member that dissented from Wednesday’s vote by the Federal Open Market Committee to keep rates at low levels through the end of 2014, said he didn’t see the need to keep rates unchanged for that long. Rates were held by the Fed’s policy panel at a range of 0% to 0.25%, the lowest in the history of the U.S. central bank. “I dissented because I do not believe economic conditions are likely to warrant an exceptionally low federal funds rate for so long,” he said in a statement. “I expect that as economic expansion continues, even if only at a moderate pace, the federal funds rate will need to rise in order to prevent the emergence of inflationary pressures. “This increase in interest rates is likely to be necessary before late 2014.”

Earlier that same day, the Commerce Department reported that the U.S. economy grew at a 2.8% clip in the fourth quarter, the fastest rate of growth since the second quarter of 2010. Lacker also said that with the new rate forecasts the Fed delivered, the statement accompanying the FOMC's policy decision shouldn't also address them. "Statements about the future path of interest rates are inherently forecasts and are therefore better addressed in the [statement of economic projections] than in [the] policy statement," he said. Dissents have been commonplace over the last six months.

The last rotation of FOMC members had three so-called hawks — the Dallas Fed's Richard Fisher, the Philadelphia Fed's Charles Plosser and the Minneapolis Fed's Narayana Kocherlakota — who also didn't like the idea of tying a rate to a particular date. *A different member, Charles Evans of the Chicago Fed, dissented on the grounds that Fed policy was too strict*. But Federal Reserve Chairman Ben Bernanke continues to control the majority. ***At a press conference on Wednesday, he said further easing measures are possible, and some analysts say additional bond purchases by the Fed could come as early as March.*** Bernanke also acknowledged that the central bank could raise rates before the end of 2014 if conditions merit.

Back in the real world I see that problems continue to plague Europe. U.S. ratings agency Fitch says it is downgrading the credit ratings for five European nations including leading economic heavyweights Italy and Spain. The agency on

Friday lowered credit ratings for the five nations by one notch and placed a negative outlook on all of them, as well as on Ireland. Those nations downgraded included Belgium, Cyprus, Italy, Slovenia and Spain. Italy went down to A-credit rating while Spain was downgraded to A. Ireland's BBB+ rating was affirmed but it also received a negative outlook. Fitch Ratings blamed the revisions on "the marked deterioration in the economic outlook" in Europe and "the absence of a credible financial firewall against contagion and self-fulfilling liquidity crises."

Meanwhile the Greek saga continues as everyone waits for word that a restructuring deal has been done. Expectations that Greece and private creditors will reach agreement on a plan to cut the nation's debt load were on the rise Friday as talks were set to continue in Athens. Once again hopes were buoyed after Olli Rehn, the European Union's economic and monetary affairs commissioner, said a deal could be reached soon, possibly by the weekend. He made the remarks at the World Economic Forum in Davos, Switzerland. Greece has once again dominated headlines surrounding the euro-zone debt crisis as negotiations have dragged on amid fears that even a planned 50% write down of the debt held by banks and private creditors won't be enough to put the country's massive debt pile on a sustainable footing.

With all that's happening we saw some real turnarounds in the markets this week, and that is especially true with the US dollar and gold. After losing ground on Monday the dollar rallied on Tuesday and looked like it was going to stage a big gain on Wednesday, then the Fed FOMC statement came out and everything changed as you can see here:

Once the comments came out the dollar began to fall and it never stopped until Friday's closing bell. Wednesday ended up being a key ***downsidereversal***[1] and Friday capped off the fall with a close at 79.01 and well below what I considered to be critical support at 79.45.

CONTRACT	**SUPPORT**	**RESISTANCE**
March US$	*78.64*	*79.45*
	78.28	*79.86*
	77.84	*80.79*

I believe that what took place with the US dollar on Wednesday, Thursday and Friday is confirmation that the greenback has in fact topped. It is also confirmation that the market is beginning to price in more quantitative easing and that seemed to be implied in the Fed statement. I also believe that the move by China and its trading partners away from the dollar to settle trade accounts will accelerate, and I would not be surprised if oil was priced in some other currency by the end of the year. Recently the Fed gave the European Union US $600 billion to keep their banks afloat and without international trade in dollars, it will be hard to find people willing to hold a fiat paper that looses value on a regular basis.

With the dollar on the decline and no discernable plan to solve problems within the EU, I think the only fiat currency that will benefit over the short and medium term will be the Swiss Franc. I believe the March Swiss Franc has now

[1] A downside reversal occurs when you first move up above the previous day's intraday high and then fall to close below the previous day's intraday low. Often such an event is an indication of a change in direction.

bottomed and it will turn up regardless of what the Swiss central bank does. Take a look at the recent movement in the Franc:

As most of you know I held Francs for years and then got out some months back, but now I have established a small long position from 1.0745 and I will stay long Francs unless I see a lower low. Will there be intervention? Of course and it may slow the rise, but it will not stop the rise.

The real winners coming from the Fed's misguided policy are gold and silver. After posting a modest gain on Monday gold looked like it was running out of gas and Wednesday morning made a lower low for the week as you can see below:

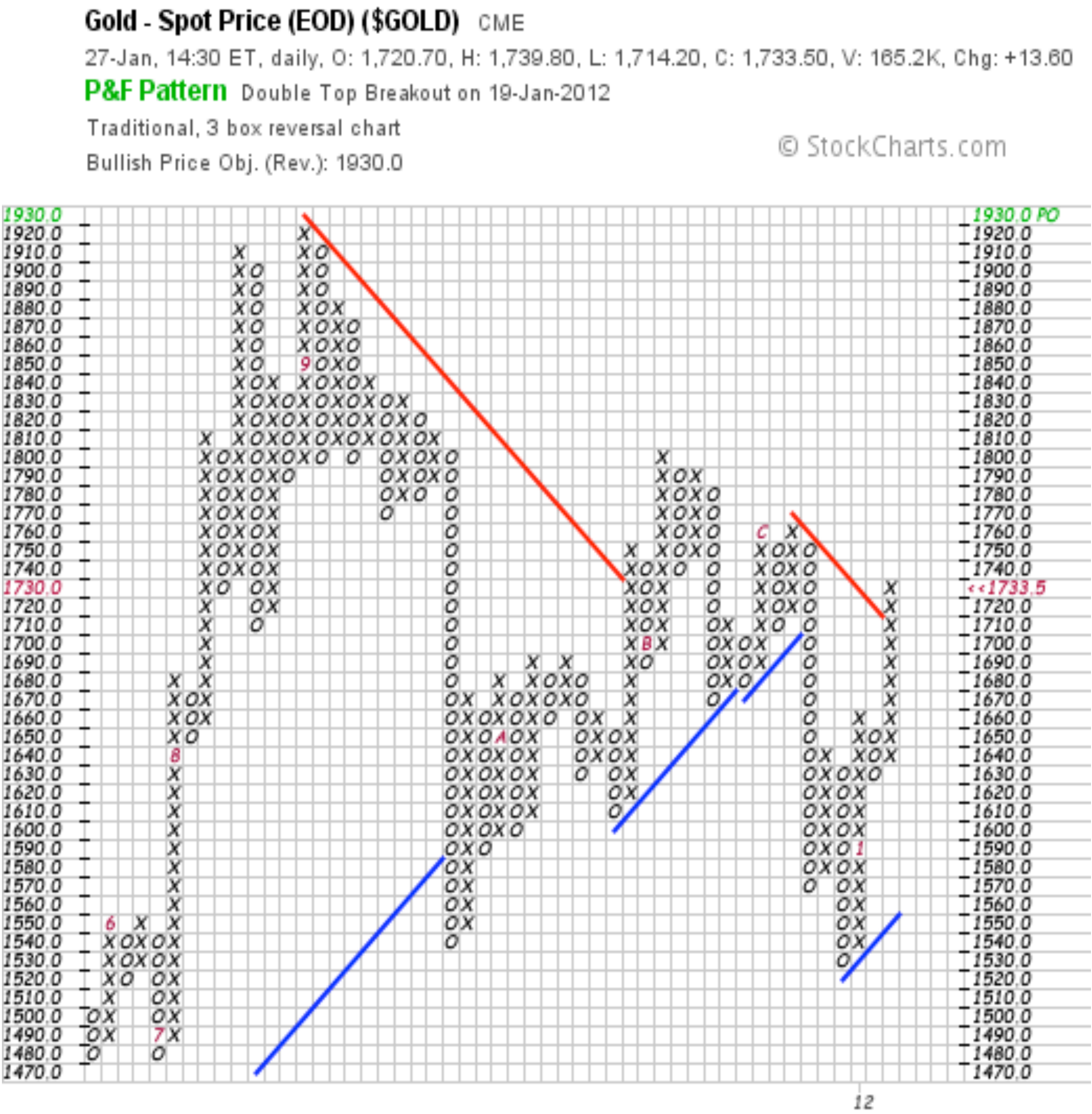
Then out came the FOMC statement and up it went, ending the Wednesday session with an ***upside reversal*** and a bullish buy signal. Gold continued higher on Thursday and Friday and ended the week at 1,733.50 with a clear breakout to the upside!

CONTRACT	SUPPORT	RESISTANCE
Feb US$	*1,698.6*	*1, 735.9*
	1,676.7	*1,771.2*
	1,665.2	*1,724.8*

Now that we have the Fed's pledge to maintain an easy money policy well into 2014 at the very least, and we have the IMF pushing hard for the ECB to expand its balance sheet, you can understand why we see the upward pressure on gold's price. This together with the breakout we saw late in the week tells me that we've seen the bottom and now both gold and silver will work their respective ways higher and that will prove to be a major event.

When gold bottomed at 1,523.90 on December 29th it marked the beginning of the third phase in a bull market that began way back in 2001 with a retest of the 1999 bottom. The entrance of the general public into the gold market will mark this third phase. The only thing I can liken it to is the public entering the NASDAQ craze and driving it from 1,492 in 1998 to 5,048 two years later. The general public right now has little or no knowledge that gold exists but they will become aware and it won't take as long as most think. I have a price target of 4,500.00 and I am convinced that we'll reach that target by mid-2014. Of course there will be reactions along the way but they will be shallow (10% to 12%) compared to previous reactions (17.5% to 25%) and shorter in time. By comparison silver will see a minimum of 165.00 and could go much higher, and will more than likely be a bit more volatile

Finally I recognize that gold is now extremely overbought but I have to admit that I don't care. Given everything that I



have seen, and the fact that gold's Point & Figure chart sports a bullish price target of 1,930.00, there is nothing that can pry gold from my hand. What's more I will continue to add on every time I see a reasonable dip, and the same holds true for silver.

If any market puzzles me it's the stock market. The second I read the Fed's FOMC minutes I immediately thought to myself that the Dow would explode for two hundred to four hundred points over two sessions. I though I would see a challenge of 13,000 at the very least, but as you can see here I was wrong:

The Dow actually lost ground for the week, down +/- 60 points, and turned gains into losses on both Thursday and Friday. ***What's more the Dow has so far been unable to close above the April 29th closing high of 12,810 and I think that is significant, especially since stocks are overbought.***

Then we have the relationship between the Dow and the Transports. Last week the Dow was headed higher while the

Transports fell and this week the Dow was falling while the Transports rallied. Friday was a perfect example as the Dow fell 74 points and yet the Transports rallied 42 points. Strange behavior indeed!

I've been watching the divergence between the Dow and Transport with some interest all year long. ***You'll see that the Transports made an all-time closing high back in July while the Dow was still +/- 1,500 shy of its all-time closing high!*** That's a major non-confirmation in my book and together with the Dow's failure to make a higher closing high this week, in spite of the Fed's proclamation, I have to wonder if we are not baring witness to the beginning of the end. I am neither long nor short stocks and I would not buy this market even if I thought it was heading higher. I am not a believer in the "greater fool" philosophy of stock speculation. ***I buy when I know that real value exists and I sell when I know that something is grossly overvalued. I believe the Dow is grossly overvalued so I will sell it short at some point.*** Maybe soon!

Finally, I continue to watch commodities since everyone expects inflation do to the loose money policies at large in the world. While there has been some improvement in grains and oil they haven't made new higher highs, and others like sugar have already started to give back recent gains. You would think that with all the declarations coming out from the Fed, the IMF and the EU that commodities prices would be soaring, and yet they are not. ***Another point of concern is the continued deterioration in the Baltic Dry Index as you can see here:***

Chart created with NeoTicker EOD © 1998-2007 TickQuest Inc.

This week the BDI continued to tumble and finished Friday's session at 753 and just a breath away from the horrible 2008 lows. Without a doubt the BDI is extremely oversold but as the world economy drags on at an even slower pace, it's hard to imagine what could push it higher.

CONCLUSION

As I've mentioned in previous articles, Mr. Bernanke is an acknowledged expert with respect to the Great Depression. The recent economic weakness is providing Chairman Bernanke with the cover to maintain an "extended period" of easy money policy for the FED while at the same time keeping the inflation hawks at bay. Mr. Bernanke has studied the events of 1937 well and he knows it was the year that the FED and U.S. Treasury combining to make a grave error by reining in fiscal spending while removing liquidity from the financial system. Those twin errors have been attributed as bringing about a severe recession that prolonged the pains of the "Great Depression." Mr. Bernanke has sworn that would not happen on his watch.

Unfortunately for Mr. Bernanke one things is proper policy and the other thing is ***timing***. There's more than one way to screw up a one-car parade and in my opinion Mr. Bernanke has found a way. ***Yes, quantitative easing is a wonderful tool, but not when it's applied too little and too late***. He's the bad doctor administering chemotherapy to a dead cancer patient. This idea of gradual easing is simply bad policy. Aside from that we've experienced "easing" for decades, as the bloated money supply will attest to. Then there is the gross error of his application of policy. ***He gave trillions to a few institutions while the general public continued to suffer. In a consumption driven society the consumers, i.e. you and I, are the one's who create***

growth and we never saw a dime. So it shouldn't come as a surprise that after US $5 trillion goes down the rat hole, we don't have any growth!

Helicopter Ben should have lived up to his name and sent a check for US $10,000.00 to every living man, woman and child in the US. They would have paid down debt and they would have consumed. He should have thrown the Citibank's and the Bank of America's to the wolves. The American consumer would have deposited his US $10,000.00 in his local bank and life would have gone on just fine. Instead the US consumer has once again given up on saving and is now maxing out his credit cards. We know how that ends. ***Jobs are not going to be created, they government will not reduce debt, and deflation will not go away. Bernanke will now choose the only option left to him; he will destroy the dollar and what's left of your wealth.***

Don't expect justice because you won't find any. The baseball player, Barry Bonds, apparently didn't tell Congress the truth so they are going to send him to jail. Goldman Sachs Lloyd Blankfein lied threw his teeth to Congress and he gets a bonus! That's the only justice, Wall Street style, you are going to get. If you go to the streets to protest, you'll be labeled a terrorist and sent to Guantanamo. No habeas corpus, no lawyer, no trial, no nothing! What can you do about it? The first thing you can do is to buy as much gold as you can carry, then you secure it, and then you raise hell knowing full well that you'll pay a hefty price for your actions. If enough people do it, just maybe you'll see some real constructive change in the US.

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January 29, 2012
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