The CJ Investment Newsletter

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Another Head-fake?

Purpose

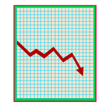
The *CJ* Investment Newsletter deals with the entire spectrum of securities investing, including cash (money market funds), bonds, equities and options. It will evaluate the overall investing environment and then discuss the relative allocations of these asset types, as well as strategies to implement within them. Essentially, it reflects what I'm actually doing with my clients.

These letters are not sent "cold." Either I know you or someone you know gave me your name. Yes, this letter *is* a sales tool. It communicates how I apply my investment strategies, so that you can decide, without any sales pressure, if my thinking is compatible with how you want your money invested. If you're not already a client, I would like to discuss your *becoming* a client. Please call me for more information.

However, that's not its only purpose. Even if you never become a client, if you want this information, I want you to have it – for a while, anyway. My hope is that providing this information and teaching you what I think is important when investing may help you. Please contact me if you have any questions or comments. I'd love to hear your reaction to my letter.

The CJ Growth Strategy (back page) has been an ongoing aggressive growth model portfolio since 1/98. Its results continue to be tracked herein.

Quick Look

Market	**Next Expected Move**
?	

- The recovery of the stock market since early March, 2009 appears to be turning down. Is this another head-fake? Or are we now beginning the next bear market leg?
- The specter of socialism darkens the mood of Americans and their opinions of Washington politicians. Rightfully.
- The Fed, despite its lies to the public, continues to destroy the US$. Will economic laws temporarily prevent its destruction?

Another Head-fake?

The last two weeks of October would appear, with the exception of Thursday the 29th, to be a definite indication of a market rally that was exhausted and turning down. On Thursday, among other things, I heard on CNBC that someone announced that the 'recession was over.' While, for the sake of our citizens and our country, I hope they're right, I have my doubts. Regardless, it was enough to get a lot of investors "off the fence" and invest in the markets – for ONE day. On Friday the 30th, the entire gain from Thursday was

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> *"The inherent vice of capitalism is the unequal sharing of the blessings. The inherent blessing of socialism is the equal sharing of misery."* – Winston Churchill

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erased, plus more.

As I was updating and reviewing my array of economic and technical indicators, something of a pattern emerged.

First, October went strongly up in all the major indices until about the 19th or 20th. Then, all the indices headed down, pretty much daily (except for Thursday the 29th, above) through the end of the month. The declines near the end of the month pretty much took out any October gains and many indices finished the month with losses.

For the most part, these losses did not create a lower low in the indices, although the notable exceptions were the RUT (Russell 2000), TRAN, COMP and UTIL (Dow Utilities). A lower low is indicative of the beginnings of a downward trend. This is significant because of the "Generals and Soldiers" hypothesis and because of the individual significance of the TRAN and UTIL.

The RUT and COMP consist of (generally) the smaller publicly traded companies. The adage goes, "First the soldiers fall, then the generals." The smaller, presumably weaker, "soldier" companies will be sold first. As the bear trend continues, the stronger, more liquid, "generals" fall.

The TRAN (Dow Transports) move most of the freight moved in the US. Rails, trucks and airlines make up the TRAN. If the lower low means they're falling, investors are not seeing a profitable future in moving freight. Not a good foreshadowing for the entire economy.

The UTIL (Dow Utilities) consist of the largest utilities in the US and the index is dominated by electric utilities, although some of these companies provide other utilities also. These are most often bought as "long-term" holds for their dependable dividends and a small amount of capital appreciation. If a lower low indicated a bearish trend here, it says these companies are no longer expected to perform as described above. Again, not a positive indicator.

Reviewing the Commitments of Traders data from Barrons for gold, silver and oil indicates, at least temporarily, that these commodities have "topped out" and will likely decline in value in the near future. How long and deep the price decline will be, I, for one, can't tell. But, declines in commodity prices, especially these three, are generally indicative of a recessionary environment, not an economic expansion, unless they're indicating the retracement of an overblown run-up due to excess demand. Not likely.

As my readers know, I've been amazed and somewhat stunned by the power and scope of this rally, especially since I believe it to be a bear market rally. As I've stated in past *CJ's*, this bear market has broken all kinds of "rules" in the way it's played out, both on the decline and in this rally. It's possible this is simply another "head-fake" on the way to more market gains.

So far, the rally has not retraced 50% of the original decline (DJI 10725), so, using George Schaefer's famous 50% principle, it is more likely we retest the lows than the highs. The most famous Dow Theorist in the world, Richard Russell still considers this a bear market rally. John Mauldin, as we described last month, believes the underlying economy is extremely weak and does not support the existing market run-up. I'm also continuing to be bearish. We should see soon whether this rally has run its course. We are much better positioned to survive a new bear market leg than those that jumped back into this market.

The Real Plans?

Despite the statements made to the public and to the congress, Obama's financial team (Bernanke, Geithner, Romer and Summers) is doing nothing to rein in future inflation and problems caused by excessive treasury debt, money creation and debt monetizing. In harsher terms, they are not only being irresponsible and dangerous, they're lying to the country about their actions. This means that either Obama is ignorant about what their actions mean or their actions are in accordance with his (NOT "transparent") actual plans.

While proclaiming themselves as responsible leaders, Obama's financial team has continued to increase the monetary base, free reserves and adjusted reserves to all time highs. Adjusted reserves are now greater than 50% of the size of the monetary base. Monetary velocity and multipliers are all at or near all-time lows.

We are running deficits at the greatest rate of all time to service debt and to make transfer payments – welfare of all types. Welfare does NOT stimulate economic demand. It merely shifts demand from the rightful earners of the money to the recipients. Overall demand does not increase and the capital markets are diminished, making capital for new economic projects less available. Less economic growth; less job growth.

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Asset Allocation Percentages
CJ Current Suggested Ranges

Dow Theory Market Phase: **BEAR**
Appropriate Current Allocation: **DEFENSIVE**

Asset Class	Conser-vative	Aggres-sive
Money Market Funds	70-10%	55- 5%
Long Positions:		
Bonds & Bond Funds	30-60%	40-60%
RD Stocks	0-10%	0-10%
Growth Stocks	0%	0%
Gold Equities/Funds	0-20%	10-30%
Bear Market Funds	0- 10%	5-20%
Aggressive Positions:		
Shorts and/or Options	0%	0- 5%

Notes:
Income generating portfolios may not conform to the above guidelines. If income is the primary purpose of a portfolio, income needs are met *first*, then other allocations are made.

Up to 50% of bond/bond fund positions should be in international (non-US) bonds. Such bonds will provide higher interest paid on the face due to the additional *perceived* risk of foreign bonds, as well as providing hedging gains as the dollar declines against foreign currencies due to Fed monetary policies.

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Our trading partners have been complaining for months and now are beginning to "dump" US$ into the forex markets in order to avoid taking all the losses they will incur in their US$ reserves as our officials continue to act recklessly with the US$. If we don't get our money supply under control soon, it would be like stopping an avalanche to keep the US$ from collapsing and taking the economy with it. They may have already gone too far; no one really knows.

I can't believe all of Obama's team is ignorant of the real effects their policies will have on America. That would make me the smartest economist in America and we all know that isn't true. If we assume these brilliant, educated people know what they're doing, why would they risk the utter collapse of the US$ and, therefore, our economy – perhaps even the world's economy?

Knowing all this, the president and both houses of congress are still pushing to control health care in America – somewhere between 15 – 20% of our economy. On debt, because there's no money to pay for it and no economic growth prospects that even come reasonably close to financing it. Are they insane? What other explanation could there be?

Remember Obama talking about "fundamental change" in America during and after the campaign? Remember how his administration "had to" take over the greater parts of both the financial and automotive industries of America? "Had to?" No.

One of the greatest revelations I've ever had as a broker/investor was the realization in late 2000 that Alan Greenspan was NOT making decisions in the best interest of the country. This once competent economist turned his back on everything he believed in to become "Sir Alan," the widely acclaimed. His actions were a huge part of the economic woes we are dealing with now, maybe even the majority part. Once I stopped believing in Greenspan, I started investing a lot differently and for the better of both our clients and ourselves. Can a cadre of committed ideologues really be planning "fundamental change?"

From a recent Richard Russell daily posting: "I admit it, I was hopeful and even enthusiastic about Barack Obama as president. Man, was I wrong. Obama is an out-and-out socialist. His object is to tax the wealthy up the ying-yang, and spread the money to the masses. In this process, the middle class (what is left of it) will be destroyed. Obama would like the entire US economy to be turned over to government control.

"Despite the current hard times, most Americans prefer the capitalist, free enterprise system. Slowly, it's dawning on the US population that they've elected a true socialist, a president who wants the government to take over the nation and its business and its economy. I said it repeatedly (*only recently – CJ*), and I'll say it again, US opinion will turn against Obama. He's a guaranteed one-term president." You have to understand how much it hurt Russell to admit this, given the passion with which he hated Bush.

God help us if that's their real plans. But, it does beg the question of what rights do we, as Americans, have to hold our leaders responsible to us other than through the election process? Obama promised "transparency" but, so far, has shown us little of that. How much "fundamental" damage can be done in 4 years by a committed ideologue president that has both houses of congress behind him? Let's pray that the only thing we have to fear is, indeed, fear itself.