

Everyone Loves Lucy

As a famous Cuban once said to a famous redhead, you've got some splainin' to do. So here goes: As 2006 began it seemed that nothing could stop the market; breaking through the barrier of 11,000 was a certainty, natural gas prices had plummeted on a warmer than usual winter, the Federal Reserve minutes were interpreted to mean only two more rate increases, and everyone was a agog over GOOG (\$427.50 as of 1/23/06). Those were the main headlines, and those headlines were driving the market.

Unfortunately, the headlines under the surface; Iran reinstating nuclear operations, oil staying at \$65 per barrel, and high flyers reporting earnings shortfalls, set the stage for a wee bit of concern. Enter Japan and Livedoor. Livedoor is a stock traded on the Mothers Board, an exchange for 150 new companies that allow them to waive many of the requirements that are used on the Nikkei. The CEO pulled an Enron, and was found out by the Japanese equivalent of the SEC. This started a run on the Nikkei that started with a 6% drop in one day. Honestly now, do you really believe that one company that doesn't even trade on the Nikkei can create that kind of stampede? Do you really believe that two blue chips missing their earnings created a 200 point drop on Friday 1/20/06/? In both instances it could be because the underlying price structure is rotten. Who's the culprit? The Federal Reserve.

Once again, the Fed has erred on the side of too restrictive a policy and even though the minutes were saying they were going to stop raising rates, various fed officials said au contraire, it's not over yet. Some earnings misses by a few high profile tech stocks, potential \$3 to \$4 gasoline, a possible Iranian/UN confrontation, the Nikkei meltdown, and rising interest rates, and you have a recipe for a very slippery slope. The first week of January seems to be a fond memory. When will we get aggressive again on the long side? Watch the Fed, they'll be the catalyst.

Lucy usually wailed and Ricky frowned during her splainin' session. But not this time. Because Lucy has a boatful of cash, and that put a smile on Ricky's face, and mine too.

Till next time,

Bill

Securities offered through First Allied Securities, Inc. MEMBER: NASD/SIPC

Email sent through the internet is not secure. Do not use email to send us confidential information such as credit card numbers, changes of address, PIN numbers, passwords or other important information. Do not email orders to buy or sell securities, transfer funds, or send time sensitive instructions. First Allied will not accept such orders or instructions. This email is not an official trade confirmation for transactions executed for your account. Your e-mail message is not private in that it is subject to review by the firm, its officers, agents and employees.