

In God We Trust, All Others Pay Cash

Once upon a time, my mother, father, brother, sister and I were traveling by car to New York City to spend Thanksgiving with my grandparents. We stopped at a station for gas and soda. I noticed a sign hanging over the front door: "In God We Trust, All Others Pay Cash." Even though I was only nine years old, that sign definitely caught my attention. So I asked the gas station attendant what it meant. He said: "Son, sometimes cash is king. Sometimes it's not credit, or promises, or good intentions. It's only the cold hard cash that counts." I never forgot those words.

Currently, according to a recent report by CNBC, mutual funds have the lowest amount of cash in their portfolios, 4%, that they've had in many years. This is important because for markets to continue rising, new amounts of cash have to be continually infused. If there is no cash, then in order to buy a new stock, you must sell an old one. That creates a spinning effect, which is why the market has stayed in a narrow trading range.

Foreign investors have been a large component of the growth in recent years. However, a recent poll by Barron's has shown a reluctance of foreign investors to invest in our markets due to the uncertainty of our political situation, and the distrust they have of our current administration.

Foreigners not happy, mutual funds without cash, what's an optimistic market bull to do? Maybe head for the sidelines and wait for the inevitable. In spite of good intentions, promises, or analysts guarantees, I still remember that old sign on the way to New York City. That's why I like cash. Cash is king.

Till next time,

Bill

P.S. - Why am I so negative on the homebuilders? A few numbers from Barron's: *"The cost of risk adjustable financing can be devastating. Consider a typical \$250,000 three-year adjustable rate mortgage with a 2% rate-hike cap. If the monthly payment is now \$1,123, then after the first adjustment, the new monthly payment is \$1,419. After the second adjustment, the monthly payment is \$1,748, a \$625 per month increase."* That's \$7,500 more per year just to maintain the same mortgage. If you think high gas prices are biting the consumer, consider the cost of mortgage adjustments. **More:** 32.6% of new mortgages and home equity loans in 2005 were interest only, up from 0.6% in 2000. **More, more:** 43% of first time home buyers in 2005 put no money down. **Even more:** 15.2% of 2005 buyers owe at least 10% more than their homes are worth. **Did we say more?** 10% of all homeowners with mortgages have no equity in their homes. **Are you ready for the best "more"?** \$2.7 trillion in loans will adjust to higher rates in 2006 and 2007. Gotta love the homebuilders! (Maybe a very hard landing.)

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.