

## Back in the Saddle Again

For the past several months, I have been quietly observing a phenomenon that has perplexed many. That is, the total disregard by the stock market to events, which at other times, would be a recipe for disaster.

First, housing. The show-biz types continue to proclaim that we are at the bottom of the housing problem. They say it's contained, and it will have no effect on the consumer, or the economy. Yet, foreclosures are running toward 1929 levels. Mortgage re-sets will be over a trillion dollars in the next twelve months, and the rules to obtain a mortgage have been re-written, leaving many people out in the cold. Oh well, they can rent. In addition, as interest rates go up, adjustable rates continue to take money out of the consumer's pocket. Most recently, the collapse of Bear Stearns hedge funds, a major player in the mortgage market, has shaken Wall Street. I'm reminded of the cockroach theory. When there is one, there is usually more. Could the collapse of the Bear Stearns hedge funds be the start of more problems ahead?

Next, rising interest rates. All of the world's central banks are raising interest rates to try and slow inflation. Show-biz types would have you believe that there is no inflation, and that rising interest rates will have no effect. And so far, on the market, it hasn't. If you include energy and food, then inflation has risen between 7 % to 11% over the past six months. I don't know about you, but I eat everyday, and I fill-up my car a lot more than I buy a dishwasher or a house. Inflation is real, and is having an impact on the consumer's pocketbook. But the market continues to ignore it.

Energy. Last year when prices at the pump were falling to levels of \$2 per gallon, the show-biz types were hailing this event as significant, as though we had gotten a tax cut. It would keep more money in people's pockets for other spending. Great. However, now that gas prices are back above \$3, and \$4 is probably the next stop, the same pundits, the same show-biz types, say it doesn't matter, it's not significant.

Three significant events, any of which should sink the market, but so far, *and I add so far*, has not. Housing, interest rates, and energy have been born by the market extremely well. But ignoring these problems doesn't make them go away. In fact, if not dealt with, could ultimately result in events of 2000, 1987, or even 1929 proportion.

Having a few long-positions in the market is OK, but my position continues to be heavy cash, guarantees, and short the home-builders. After all, the show-biz type captain thought the Titanic had just bumped the iceberg, no problem.

Till next time,

Bill

P.S. – If you have short positions in the homebuilding stocks, I would suggest you look at the January account statement for pricing, and compare it to now. I think you will be pleasantly surprised.

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.