

PRIVATE WEALTH ADVISORY

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Special Update: Market Collapse and Buying BZQ

Dear Subscribers,

Today's market action was bad... VERY bad from a technical standpoint. The S&P 500 took out its previous January low of 1,076 with CONVICTION. The next lines of support are 1,040 (the November low) and then 1,020 (the October low).



Thus it is highly likely that the “bounce” I was forecasting for stocks has already ended. Indeed, looking at today's action it's clear that the bounce most likely ended on Tuesday and that we're now into the REAL action for this correction. Thus, this next leg down will probably take us to the November low, if not the October low in the next week or so.

The issue of sovereign debt default has taken hold of the markets. Europe is selling off across the board. Even Credit Default Swaps (bets on a potential default) on the US have jumped dramatically.

We also see that the unemployment situation in the US is not improving. And from a legal front, former Bank of America CEO Ken Lewis is being charged with civil fraud. And he's calling Ben Bernanke and Hank Paulson to the stand as witnesses. There is

actually the potential for jail time here. And who knows what might come out under oath: it's possible Bernanke or Paulson might find themselves in VERY hot water (of course given the total failure at enacting any real reform in the financial sector I may be just hopelessly naïve here).

Regardless, my primary point is that investors are SCARED that real trouble is afoot. It's as though the whole world suddenly woke up and realized the very issue that I've been talking about for months: that this crisis is NOWHERE near over. I often warned that when the various market props were removed and sentiment changed that we'd get a VIOLENT reversal. The market has now proven me right.

Correction or Crisis?

If you'll recall, in our last issue of *Private Wealth Advisory* published Wednesday February 3 2010, I said that I thought we were in a normal 10% correction. I also said that the likelihood of a full-blown Crisis starting now was 10-15%. However, in light of today's action and the situations developing abroad, I think the probability of a Crisis starting now has gone up significantly to perhaps 20-30%.

Again, I DO NOT think the CRISIS has hit yet. But the case that it *might* be HAS strengthened considerably. We'll simply have to watch how the market performs going forward. If we see the S&P 500 slice through the November lows (1,040 on the S&P 500) without any bullish divergences or indication of a bounce, then the Crisis is in fact here and we'll be opening our "Coming Crisis" trades: at that point the S&P 500 could easily go to 900 or even 800 in short order.

We'll simply have to watch and see.

In the meantime, I am issuing a buy on our **UltraShort Brazil ETF (BZQ)**. Brazil's stock market came totally unhinged today, cutting through its support line like a knife through paper.

EWZ (Brazil iShares) NYSE

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4 Feb-2010 O 66.32 H 66.42 L 63.51 C 63.72 V 32.3M Chg -4.04 (-5.96%) ▼



The next lines of support are 60, then 55 and ultimately 47.5. I expect we'll be going to 55 in short order, especially if the Dollar index breaks above 80.

Bear in mind, we may see a small bounce in the market in the next few days (most likely on Monday with the usual Monday mania), but ultimately the trend for emerging markets is now down in a serious way. And Brazil, a commodity heavy economy, is ripe to collapse the most as the Dollar strengthens.

Action to take: Buy the UltraShort Brazil ETF (BZQ).

I continue to watch the markets closely and will issue updates as needed. But for now, we're well positioned for greater gains from our "Correction Now" portfolio as the market continues downward. And IF (again a BIG IF) the Crisis is about to start, we've got our "Coming Crisis" portfolio on deck.

Good Investing!

Graham Summers