

PRIVATE WEALTH ADVISORY

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Portfolio Update: SKF and TWM

Dear Subscribers,

I've seen numerous explanations for why the market is rallying yesterday and today. Among the various claims are:

- Bets on the economy improving
- Bullishness from Obama's financial reform

None of these reasons are correct. The economy is NOT improving as even a cursory review of year-over-year retail, housing starts, industrial production, and unemployment show. Indeed, FedEx just posted earnings WAY below expectations with its CEO citing "extremely difficult" economic circumstances as the cause.

Secondly, Obama's reforms for the financial system fail to address the key issues that brought us to this situation in the first place. They also concentrate even more power in the hands of the Federal Reserve and the Treasury: two financial bodies that are already spending trillions in tax payer money without any kind of oversight. This is hardly a reason to feel better about the market, especially when you consider that most Americans were against the bailouts.

No, the real reason stocks are rallying is because today is options expiration day. Wall Street traders and institutional investors are doing performance "gaming," pushing stocks up so they can close out their options positions at a gain. It's a monthly occurrence, taking place on the third Friday of the month.

With trading volume falling to a trickle, the big boys (Goldman, Morgan Stanley, et al) are able to throw the market any which way they like to lock in short-term gains. They've been doing precisely this yesterday and today. And it's hit our two shorts, **the UltraShort Russell 2000 ProShares (TWM) and the UltraShort Financials ProShares (SKF)**.

But I am not selling...

The fundamentals behind both positions continue to hold true. Financials are unbelievably overbought and ripe for a correction. Similarly, microcaps (the Russell 2000) need to correct a solid 10%, having come way to far way to fast.

On top of this, the rally in stocks is getting weaker and weaker, continuing on lower and lower volume. This is a perfect set-up for a serious correction. Indeed, we may actually

see another Crash similar to the one of October 2008 at some point in the next 3-4 months. When and if that happens both of our shorts will record HUGE gains.

So I am not selling either position. As I write, we're still up 2% on both of them. And I expect we'll be seeing much larger gains next week when stocks continue to roll over as the fundamentals dictate.

So hold on to these two positions for now.

Good Investing!

Graham Summers