PRIVATE WEALTH ADVISORY

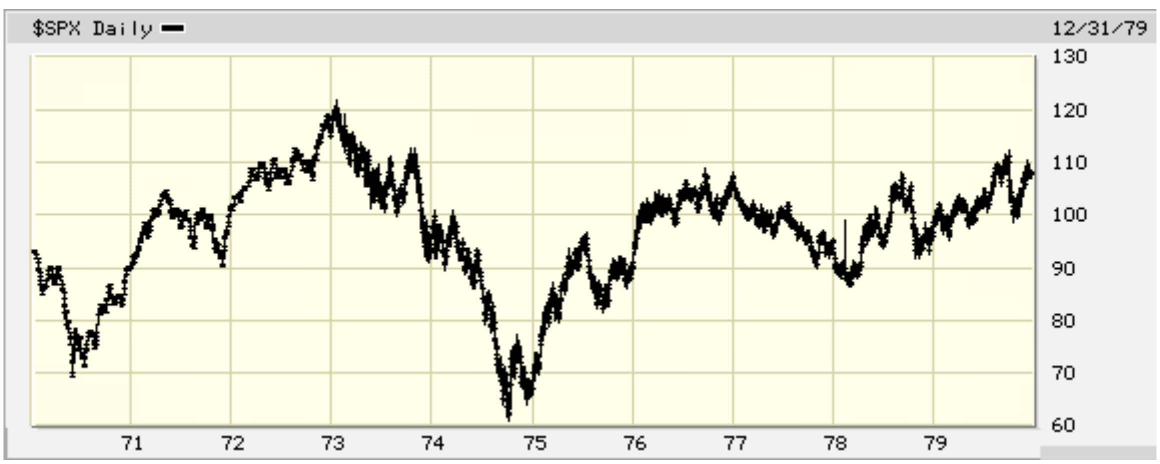
AN OMNISANS RESEARCH PUBLICATION NOVEMBER 4, 2009

REAL Wealth vs. Dollar Debasement

Before we get into this week's issue I would like to remind everyone that there is a 20-page Special Update on the Crash posted on the *Private Wealth Advisory* website. You can access it at the bottom of www.gainspainscapital.com/pwa.html or you can download it in PDF form at www.gainspainscapital.com/crash.pdf

Now, on to this week's issue!!!

As I have stated numerous times on these pages, MOST of the gains coming from stocks in 2009 were the result of the dollar losing value. Investors, like politicians, tend to be "short-term" thinkers and consequently they see stocks as an inflation hedge. A quick glance at a chart of the S&P 500 in the '70s, (the last period of serious inflation for the US) proves this theory (stocks as inflation hedges) as a load of bunk.



As you can see, stocks staged some massive rallies and collapses in the '70s, but largely traded sideways. Those who were able to time the Collapse did quite well. However, for most investors, unless you were investing in gold, stocks were largely a pointless bet in **nominal** terms.

However, in **REAL** terms, those who invested in stocks LOST considerable money for the decade: with stocks roughly break-even but inflation in the double digits, anyone who sat in stocks ended up losing a considerable amount of purchasing power.

On that note, I find the above chart of stocks' performance during the '70s to be of GREAT interest because it is eerily similar to the S&P 500's chart for the 2000s:

As was the case in the '70s, stocks rallied AND fell from 1998-2008… but largely anyone involved in "buy and hold" investing didn't make a dime. The reason for the similarities between the '70s and '00s chart is simple: the '00s were ALSO a period of great inflation (although it was hidden by a massive credit bubble). Indeed, between 2000 and 2008, the Dollar lost 40% of its value. That's a staggering amount of currency debasement.

Put bluntly, virtually ALL of stocks' gains from the last ten years can be attributed to the US Dollar losing value. In REAL terms (measured against Gold), stocks have actually LOST 80% of their value since the Tech Crash as the below chart shows:

The above chart CLEARLY shows that stocks are not a good inflation hedge: when you price the S&P 500 in gold, instead of dollars, the losses from investing in stocks since 2000 have been ENORMOUS.

This also puts the nail in the coffin of the "new bull market" hypothesis floating around the mainstream media. Indeed, from a technical perspective, the S&P 500 (priced in gold) has been in a decided BEAR market since 2000: as you can see, the weekly chart of the S&P 500 (priced in gold) fell below its 50-ema in 2001 and has YET to break above it.

Here's a close-up of the daily chart for the S&P 500's rally started in March 2009 (priced in gold). As you can see, stocks were totally REJECTED by the 200-ema and 50-ema in September. They've since failed to remain above these levels several times.

Put another way, this latest stock rally which everyone proclaims is incredible because stocks rose 50% is not nearly as impressive when you account for Dollar devaluation. I hope this analysis is not getting too "out there" for you. The main points I'm trying to make are:

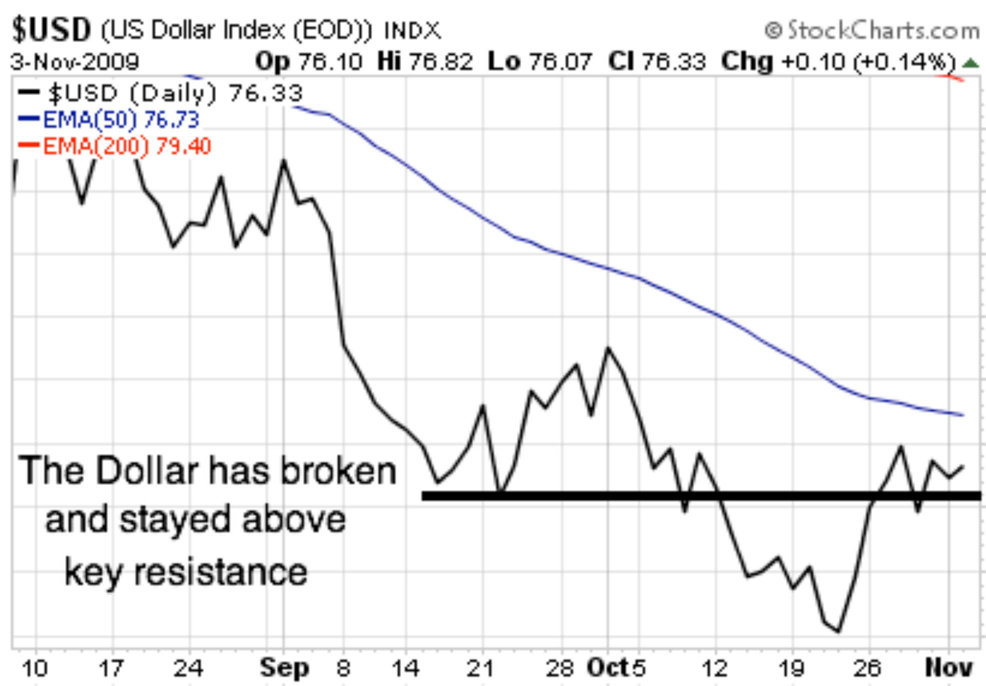
1) Stocks have NOT generated REAL wealth for ten years
2) The stock rally started in March 2009 is MOSTLY about dollar devaluation, NOT real gains
3) Stocks (priced in gold) have JUST hit a major point of downward resistance. Any break below this level (meaning gold continues to rally or stocks continue to fall) forecasts a MAJOR collapse in stocks is HERE and we are likely to see a re-test of the March lows

This final point is key. Stocks have largely rallied due to the Dollar falling. But gold has rallied EVEN farther. **If this trend does not reverse, then we're going to see a MAJOR full-scale collapse in stocks: which is what I've been forecasting for months.**

You can see this clearly when you take note of the well defined trading range stocks have formed relative to gold since August. As the below chart shows, we've just bounced off the lower end of the trading range (meaning gold is higher relative to stocks). If stocks don't bounce or gold doesn't correct, then we're in for a real DROP in stocks.

So what's something that would hit stocks and TOTALLY CRUSH gold?
How about a US Dollar rally?

With 98% of the world bearish on the Dollar, the US currency is THE most hated investment on the planet. For that reason, it's also the most likely to stage a surprise rally (an event that would most certainly kick stocks AND gold in the teeth). Indeed, few people seem to have noticed that the US Dollar recently began what now looks like a new leg UP last week.



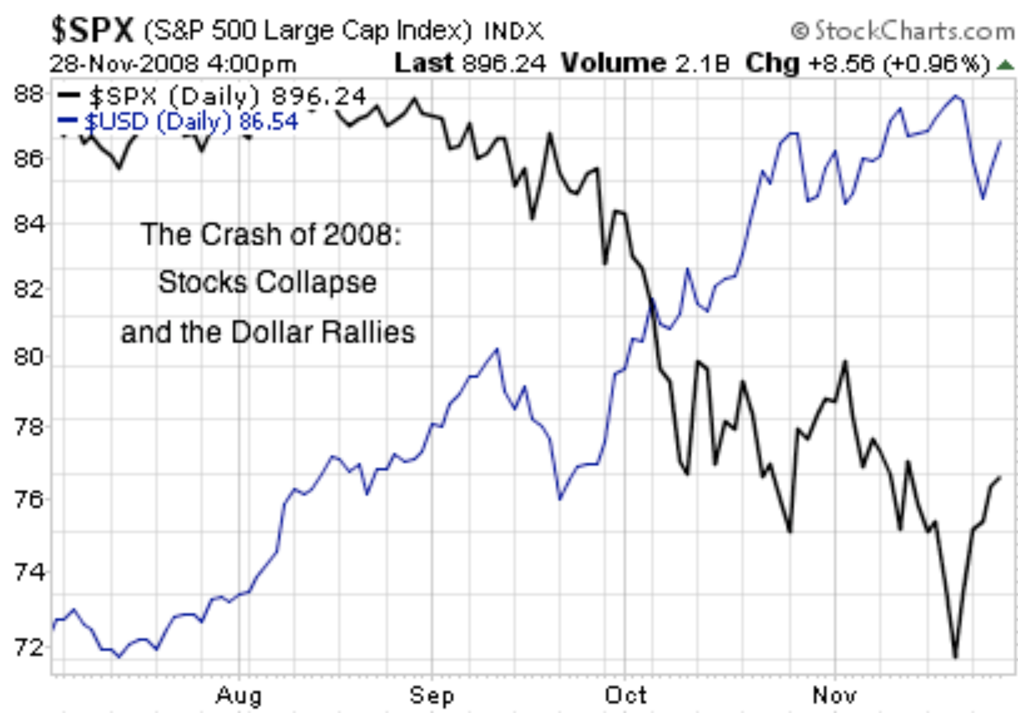
As you can see, the US currency has managed to break above 76 (a point of MAJOR resistance level) and stayed there. **This is a major development for a currency that has largely been trending down, down, DOWN for more than nine months now.**

We've already seen the Dollar stage one test of its 50-ema (76.73) yesterday (Tuesday). **If the Dollar BREAKS this level, then we're witnessing a genuine reversal which would absolutely KILL stocks and gold (both of which have rallied hard based on dollar devaluation.**

I'll be watching the US currency closely in the coming weeks as this COULD very well be the signal that the next leg down for the Market Crash has begun. As I've stated numerous times, Crashes or major market Collapses occur in three stages:

1) The initial drop
2) The bounce
3) The REAL fireworks

Currently we are in move #2 (the bounce). But I want to point out that move #1 (the initial drop) **WAS caused by the Dollar's recent strength**. This makes me inclined to believe that the REAL fireworks (due within the next few weeks) will be the result of a Dollar rally (similar to the Crash of 2008).



The below chart indicates we could be repeating this pattern in 2009: Dollar up, stocks DOWN:

It is still a little early to tell… **but I think it's a high possibility**. If this is the case we will be going LONG dollars in the near future. However, in the meantime, I want to re-affirm the fact that the Crash HAS begun and that the market's latest action is move #2.

To recap last weekend's Special Report on the Crash, the S&P 500 HAS BROKEN its rising bearish wedge pattern: this is a confirmed "Sell" signal and indicates that the Crash has begun.

Move #1 (the initial drop) occurred October 19-30 and took stocks down 5%. We are now in move #2 (the bounce). The reason I believe this is a bounce and NOT a renewed rally is because the S&P 500 has hit a new lower and is failing to hit a new high. **Indeed, all we need now is a break to a new multi-month low (1,025 hit on October 2) and we've got move #3: the REAL fireworks.**

I also want to point out what happened today. The Federal Reserve announced it would keep interest rates at 0-0.25% for an "extended period" (a move that SHOULD have been stock positive) and **yet stocks promptly REVERSED falling to close the day at break-even.** Indeed, the S&P 500 was turned away at 1,060, a key point of resistance, and then promptly collapsed:

This confirms that the primary upward momentum of the rally started March 2009 has been broken and that the bulls are no longer in control of the market.

To recap, stocks are on a confirmed SELL and the Crash has begun. We've already seen move #1 (the initial drop) and are now in move #2 (the bounce). Whenever move #2 ends, move #3 will (the REAL fireworks) will begin. We've already opened four trades in anticipation of this (see the portfolio below). We've got another three trades "On Deck" waiting for confirmed signals before we buy them.

They are:

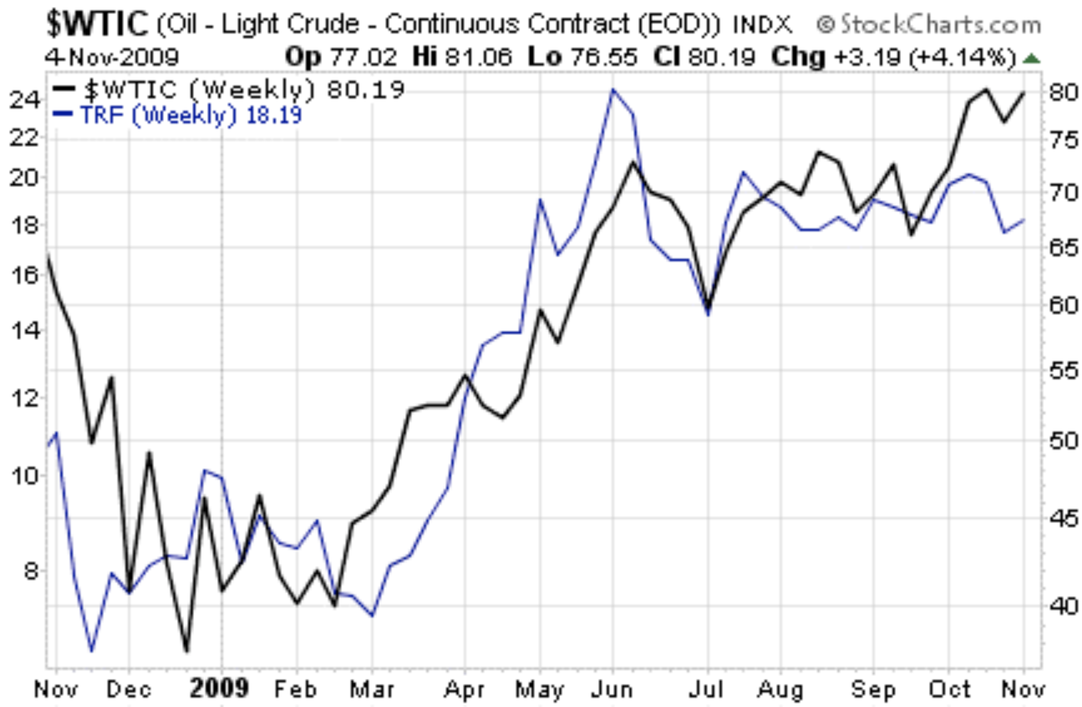
1) **The UltraShort Financials ETF (SKF)**
2) **Shorting Saks (SKS)**
3) **The UltraShort China ETF (FXP)**
4) **The UltraShort Long-Term Treasuries ETF (TBT)**

This week, I'm adding 1 more trade to our "On Deck" portfolio.

"On Deck" Trade #5: Short Russia

Russia's stock market AND economy are ALL about one thing: OIL.

Indeed, even a brief glance at the Russia ETF (TRF) compared to the price of oil shows the two trading in lock-step:



However, most recently a strange divergence has begun: Oil (black line) has charged higher… but Russian stocks (blue line) have lagged behind.

This is a serious divergence and hints that Russian stocks may be on the verge of a SERIOUS breakdown. On that note, the Russian ETF (TRF) has begun forming a triangle pattern: a pattern that occurs when stocks trade sideways in an increasingly tighter range.

Triangle patterns can break either up or down. But when they do, the move tends to be intense. And looking at the above chart, the Russian ETF (TRF) looks as though it may have *just* broken the pattern to the downside.

The next line of support is $16. If TRF breaks below that, then TRF is primed for a REAL collapse. At that point, I'd recommend shorting the Russian ETF (TRF).

However, right this minute, it's still too early to enter this trade, so I am adding it to our "On Deck" portfolio: trades we will make when we receive a Confirmed Sell signal from them.

DO NOT SHORT THIS POSITION JUST YET. WAIT FOR ME TO ISSUE A CONFIRMED SELL FIRST.

I continued to scour the market for additional trades. But with four open positions (three of which are already up) and five "ON DECK" we've already got a decent line-up to profit from when move #3 (the REAL fireworks) begins and stocks stage a REAL collapse.

Judging from the charts, I expect we'll see this within the next few days, if not the next week or two. Stocks SHOULD have rallied hard today after the Fed's announcement. The fact they didn't (and that they failed to break key resistance levels) indicates that the upward momentum is broken and the bulls have lost control.

It’s now only a matter of time before move #3 begins. I’ll alert you as soon as it does.

Thank you again for your interest in *Private Wealth Advisory*. If anything changes in the next week, I’ll send out an update. Otherwise, you’ll next hear from me next Wedneday (November 11) after the market’s close: 4:00PM ET.

Until then…

Good Investing!

Graham Summers

OPEN POSITIONS (where we’re invested now)					
Company	**Symbol**	**Buy Date**	**Buy Price**	**Current Price**	**Gain/ Loss**
Ultrashort Russell 2000	TWM	11/2/09	$31.74	$32.10	1%
Ultrashort Nasdaq	QID	11/2/09	$24.13	$23.76	-2%
Ultrashort Semiconductors	SSG	11/2/09	$26.00	$26.26	1%
SHORT Bank ETF	KBE	11/2/09	$21.13	$20.68	2%

ON DECK PORTFOLIO: TRADES THAT NEED OFFICIAL “SELL” SIGNALS		
Company	**Symbol**	**What We Will Do**
Saks	SKS	Go Short
UltraShort China	FXP	Buy
UltraShort Financials	SKF	Buy
UltraShort Long-Term Bonds	TBT	Buy
Russian ETF	TRF	Go Short