PRIVATE WEALTH ADVISORY
AN OMNISANS RESEARCH PUBLICATION JUNE 3, 2009

The End of the Beginning

The financial media, abuzz with talk of "green shoots" and renewed "bull markets" has completely missed the fact that this latest rally has fallen completely in line with historic trends.

Indeed, there have been three March financial crises/ bottoms and subsequent interventions in the last 100 years—1907, 1929, and 1980. And while the ones intervening changed— JP Morgan in 1907, Herbert Hoover in 1929, and Jimmy Carter in 1980— the effects of the interventions were always the same: the intervention marked a temporary bottom followed by a brief two to three month rally, then a very ugly fall (literally and seasonally).

We saw this very trend play out again last year following the Bear Stearns intervention: stocks rallied into the summer and then came unraveled.

The first half of 2008…

Now, the SECOND half…

Now, here's the first half of 2009 thus far:

The similarities between 1H08 and 1H09 are striking. Both followed March crisis/ interventions (Bear Stearns and Market Crash/ Obama's Stimulus), both were initially dominated by short covering, both were lead by the previously worst performing sectors (financial), and both weakened in May.

Aside from the March Crisis/ summer rally pattern, there are seasonal trends to consider. There is also a seasonal effect. According to the Ned Davis (NDR) database, had you invested $10,000 in the S&P 500 every May 1st starting in 1950 and sold October 31 of the same year, your initial position would only be worth $10,026 today. Put another way, by investing only from May through October, a $10,000 stake invested in 1950 would have only made $26 in 57 years.

In contrast, $10,000 invested in the S&P 500 on November 1st and sold April 30th would have grown to $372,890. Out of 58 years, you would have had 45 positive and only 13 negative.

Thus, we have two powerful trends (seasonal and crisis specific) playing against the market today. It's also worth noting just how overbought this market it. According to David Rosenberg (former Chief Economist for Merrill Lynch and one of the few big name economists who gets it right), not once in the last 60 years has the S&P 500 surged more than 40% prior to a recession ending. Instead, when the S&P 500 rallied 40%+ or more, the US was usually not only no longer out of recession but was nine months into recovery mode.

Now, the current consensus is that this recession will end in September 2009. If this consensus is correct (it isn't as I'll explain in a moment) then this 40+% rally puts the market where it should be trading in May 2010: a full year from today based on the rosiest economic view possible.

Unfortunately for the goldilocks crowd, the US economy is actually worsening dramatically. The year-over-year declines in industrial production, retail sales, and payroll employment are all the worst since the shutdown of war production from WWII. So we are beyond recession territory and entering full-blown depression mode (an economic contraction of 10% of more).

So we have an extremely overbought market, pricing in a full economic recovery a year in advance, heading into the worst performing season of the year, and following a historic trend (March intervention, summer rally, 3Q disaster) to perfection.

This has the making of an incredible short-sale. And we're playing it by shorting the very sector that has led this rally: financials.

As of the end of April, financials and consumer discretionary stocks had accounted for 50% of market gains. These two sectors combined account for less than 1/5 of the S&P 500… yet they have driven HALF of its gains for this market rally. That is simply astounding.

Financials in particular have exploded higher, rallying nearly 100% from their March low until mid-May. However, since that time, the sector has stagnated, failing to reach a new high. Indeed, the financials ETF is forming a triangle pattern, squeezed between its 50- and 200- day moving averages. The fact it failed to break above the 200-DMA is a sign that this rally has lost steam.

This has the classic hallmarks of a bear market rally: it was led by the worst performing sectors, rallied dramatically (bull markets don't move 40% in three months), and was dominated by short-covering: during two weeks in May, over $2.9 billion worth of financial shorts were covered in the Russell 3000 alone.

Looks to me like Financials are ready to roll over. The time to short Financial stocks is here. And we're doing it with the **UltraShort Financial ProShares ETF (SKF).**

SKF returns two times the inverse of the Dow Jones US Financials Index. Put another way, if financials stocks fall 5%, the fund makes 10%. If financials fall 10% the fund makes 20% and so on.

The fund is exposed to financial stocks across the board, including the large banks. Altogether, 35% of its portfolio is in banks, 30% in general financials, 17% in non-life insurance, 11% in real estate, and more. It's diverse and gives us broad exposure to the entire financial sector. So a black swan or time bomb in any of these guys could show us some really solid profits.

Action to take: Buy the UltraShort Financial ProShares ETF (SKF).

Overall, stocks are showing signs of a slowdown. Commodities led this rally upwards, so it's highly likely we'll see a retrenchment in both hard assets and equities in the next few weeks. It may be nearing the time to close out some of our inflation hedges all of which are currently up.

I’ll send out an update when it’s time to take our profits in these. Otherwise you’ll hear from me next Wednesday. Until then…

Good Investing!

Graham Summers

Portfolio

Company	**Symbol**	**Buy Date**	**Buy Price**	**Current Price**	**Gain/ Loss**
Gold ETF	GLD	5/6/09	$89.54	$94.41	5%
Gold Miner’s ETF	GDX	5/6/09	$36.86	$43.74	SOLD
Rogers Agri ETN	RJA	5/6/09	$7.62	$7.97	5%
Lehman 20-year+	TBT	5/6/09	$50.11	$53.99	8%
DB Base Metals	BDD	7/27/09	$7.11	$7.72	9%
UltraShort Financials	SKF	6/3/09	$42.18	NEW	BUY