

It MAY BE A No-Brainer ...

by Valerie Holcomb

Dear Advisory Client,

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2009 is already shaping up to be yet another year when almost all analysts and investors get the markets dead wrong, again.

But, we were *not* a part of it in 2008 and we *will not* be a part of it in 2009. *I plan on being on the right side of the markets.*

To do so, however, we must...

Keep the Following Three Thoughts Ever Present in our Mind.

First, we can't have a biased understanding of economic history. For instance, instead of harping on how similar today's events are to the Great Depression, we need to look at how different things are today.

Let me put this point into one of my favorite statements:

Yes, history does repeat itself. BUT IT ALMOST NEVER DUPLICATES ITSELF.

Understanding the truth to that statement, and we'll automatically have one of the greatest edges over the markets, ever: **An open mind.**

And that will be especially true this year, in a year that I've already labeled as being "The Year of the Trap."

Second, we do not want to let ourselves get caught up in herd-like behavior. Running with the herd almost never makes you *lasting* money. To the contrary, it is — and will always be — the single biggest and most common mistake investors make, and it will cost you loads of money and missed opportunities.

Also recognize that herding behavior occurs both at market tops and at market bottoms!

Third, keep in mind the fact that markets always have a way of healing themselves, no matter what governments do or don't do to try and right them.

The key is to understand what that healing process is ... when and why the market is choosing that path ... and the underlying forces that are driving it.

Helping you understand this is a big part of my job. So I'm going to outline some vital forces at work right now. I believe that if we follow them carefully while keeping the aforementioned tips in mind — 2009 could easily turn into one of our most profitable years, ever!

The Two Vital Forces At Work Right Now...

**Force #1 —
Historic Oversold Conditions In Almost All Markets:**

Please don't misunderstand me as I don't want to sound like I'm underestimating the train wreck the economy is in. To be sure, it's the worst financial crisis and stock market environment since the Great Depression. And by many measures, it's even worse...

- We have the most oversold conditions ever in almost all major stock indexes.
- We have the most historic oversold conditions on record in almost all natural resources.
- We have precipitous record declines in nearly every economic indicator ever tracked, from housing ... to unemployment ... to industrial production. You name it.

And nearly everyone agrees that there are **more** losses to come myself, included.

But the markets are never straightforward with you. In fact, their predominant behavior mode is to separate the majority of people from the majority of their money. And they largely do that by stoking the flames of conventional wisdom and emotion.

For instance, how often do you hear the saying: "It's going to get worse before it gets better?" That statement is everywhere today. On the morning and nightly news, on virtually every TV and radio talk show, in almost every financial newsletter on the planet.

But it's the markets' job to turn that conventional wisdom inside out. So the more accurate and more profitable statement is this...

"It's going to get better before it gets any worse."

That's how human behavior works. It's the ebb and flow of human nature. And it's why — even though this depression is going to last for years — *we could be about to see one of the most powerful stock market rallies ever.*

The force behind it that will provide the fuel: Some of the most deeply oversold conditions markets have ever experienced. Deeply oversold conditions can lead to massive, surprising, *out-of-the-blue rallies*. Four historical precedents to consider...

#1: The 1974-75 recessions —

A 45% collapse in the Dow, in just two years' time, led to the most oversold conditions since the Great Depression. Meanwhile, freshly and entirely cut loose from the gold standard, the Federal Reserve cranked up the printing machine like crazy.

What happened next? ***The Dow turned back up in early '75, rallying more than 75% by Sept. '76, even while slow economic growth lasted for another two years.***

Commodities followed suit, with many hitting new record highs in the late 1970s.

#2: The 1990-92 recessions —

Stocks once again got hammered, largely due to the S&L crisis. Most analysts again claimed that, at best, a recession would last years; while others proclaimed the U.S. economy was on the doorsteps of another Great Depression.

What happened next? The most oversold conditions since the 1974-75 recession led to a massive rally, with the Dow soaring 40% from 2,365 to 3,310 in just over two years — even though the underlying fundamental economic indicators did not turn back up until late 1996.

#3: The Long Term Capital Management derivatives disaster of 1998, and the 1997-98 Russian and Asian financial crises — Dub, The Russian Confusion and the Asian contagion.

The apocalyptic warnings were coming out everywhere.

Once again, almost all markets traded were quickly and deeply thrown into panic oversold conditions, forcing most investors to sell precisely at the bottom.

Yet just one short year later, by 1999, stocks were at or reaching new record highs!

#4: The 1929 Stock Market Crash —

Even that 23% loss in the Dow during the crash of October 1929 was followed by a massive 48% rally between the Dow's November 1929 low and April 1930, *when stocks turned lower again.*

My point: Things just may get better before they get worse!

That may be especially true today because we don't have the same monetary system we had in the 1930s. It's entirely different ... It's designed to inflate away problems.

That's not to say problems can't occur. Indeed, they can. But in the end, without a gold standard, debasing money and inflating asset prices look like they are already baked into the cake.

Force #2 —

The Bursting Bond Market Bubble:

It is my job to continuously be watching and staying attune to what is going on around us because even in a horrible economy, bubbles grow. So where is the bubble now? I believe it may be in the bond market.

Investors all over the world have been flocking to U.S. Government bonds, running for cover from failing banks, collapsing real estate prices, and plunging stocks and commodities. They think bonds — are king.

But it's just another bubble, and that bubble **IS** bursting now.

Why? Because the U.S. government is flat broke ... and it is soon going to go begging hat in hand to borrow *trillions.*

After the House passed the Stimulus Bill on Friday, Lou Ping, China Banking Regulatory Commission said, "We hate you guys. Once you start issuing \$1 trillion - \$2 trillion...We know the dollar is going to depreciate. So we hate you guys...But there is nothing much we can do. But don't expect us to rescue any more of your banks because we don't trust your bookkeeping."

Without one shred of doubt in my mind, whatsoever, the most dangerous and riskiest market on the planet right now is the U. S. Government bond market. It's a bubble that is bursting ... that may collapse completely ... and if that happen it will send giant shock waves throughout the world.

But it will also signal that the re-inflation phase is taking root. How?



U.S. government debt has almost doubled since November, soaring by at least \$9.7 trillion in IOUs.

Because savvy investors will be pulling their money out of the bond market, which we have already done, and that capital has to go somewhere.

So the question then becomes: Where will the money go?

- Real estate? Yes, some of it will go into the residential property market, helping to start stabilize prices. But I don't believe that's where most of the money will go.
- Under the mattress? Some, yes, for alleged safety. But savvy investors — those who know currency devaluation and reflation of assets are in the cards — won't be parking their money in the mattress, even if banks fail.
- Foreign economies? Yes, some of the money will go there, helping to set the bottom in foreign equities that I've been telling you about.
- Government-sponsored programs, like the expanded TALF program Treasury Secretary Geithner just announced, meant to remove bad assets from troubled banks that will in turn be put up for grabs to the private sector?

YES, that's going to be an area where *Billionaire's* put large amounts of capital. After all, why not buy assets where your downside risk is covered by the government, where losses are guaranteed? But this is not for the Little Guy.

- To commodities and natural resources? *Absolutely*. In my opinion, in addition to stocks and government-sponsored programs, natural resources are going to be a huge beneficiary of capital flight out of bonds this year. Why? Because ...

A) Natural resources have *intrinsic* value. They may go down in price from time to time, but over the long haul, they historically rise in price, as a result of the currency devaluation process. For instance, just consider oil — even at its current price of around \$42 a barrel — it's still 300% higher than it was just nine years ago.

B) The supplies of natural resources, even oil, are finite and in long-term declines. The surges you are seeing in supplies of some commodities are merely short-term.

So, let's keep an open mind,

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Sources: Larry Edelson Money & Markets, www.moneyandmarkets.com

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