Hello Everyone,

Before I get to my letter today take a look at the following articles from this weekend:

- **Friday failure.** Regulators closed Bank of Wyoming, Thermopolis, Wyoming on Friday, marking the 53rd bank failure of the year. The closure is expected to cost the FDIC $27M.
- **Airlines face credit crunch, bankruptcies.** The U.S. airline industry could see a wave of bankruptcy filings by the winter if conditions don't improve. Facing a steep drop in travel demand and a difficult lending environment, all five of the largest hub-and-spoke carriers (American Airlines (AMR), Delta (DAL), United Airlines (UAUA), Continental (CAL) and US Airways (LCC< /a>)) are expected to report Q2 losses when they report earnings this week and next. Discount carriers like Southwest Airlines (LUV) and JetBlue (JBLU) are doing moderately better than their larger peers, but Southwest is the only U.S. airline left with an investment-grade credit rating and Moody's has negative outlooks on eight of the nine largest carriers. Premarket: UAUA -6.1% (7:00 ET).
- **BoA tries to duck $4B gov't fee.** Bank of America (BAC) is trying to avoid paying a hefty fee to the U.S. government for guarantees against losses at Merrill Lynch. Bank executives argue the rescue agreement was never signed and the funding never used, but regulators contend the company benefited from implied U.S. backing on $118B of Merrill Lynch assets and are trying to collect at least part of the $4B fee.
- **CIT warns of failure ripple effect.** Lender CIT Group (CIT), which has been unable to get the FDIC to guarantee its debt, has warned its collapse would jeopardize the future of 760 manufacturing clients and 'precipitate a crisis' for as many as 30,000 retailers. The comments came from internal documents making the case for CIT's importance to the U.S. economy and followed the company's decision to hire a law firm to prepare for a possible bankruptcy filing, though CIT is also working on a plan to ease its liquidity crunch. CIT's bonds and stock have fallen in recent days (shares -17.7% on Friday) over concerns about its financial position, and Fitch Ratings thinks the company could default as soon as April when a $2.1B credit line matures.
- **U.S., UBS ask for more time.** The U.S. government and UBS (UBS) jointly asked the court for a stay in their closely-watched trial over tax evasion. The two sides had been set to meet in court at 9am this morning, but asked that the trial be postponed until August 3 to allow the Swiss and U.S. government to continue negotiations. In a separate court filing yesterday, the Justice Department said it's prepared to step up its legal fight against UBS, but didn't detail what penalties it might impose aside from unspecified 'monetary sanctions.'

Now tell me, do these articles give you confidence that things are getting better?

More about this later now on to my article for today:

In the short-term, the price of gold appears ready for a possible sharp pullback. This will definitely open up some excellent buying opportunities because my long-term outlook is as bullish as ever.

Remember, no market moves higher in a straight line, and corrections are healthy. We've seen them over and over during this long-term bull market in gold, and we're sure to see them along the road going forward.

The bottom line is there are plenty of forces in play that will surely send the price of gold to new record highs.

One major force that will propel gold higher is the talk of another stimulus package. It sounds like our government is getting ready to throw a lot more money at the economy and you can be sure that is bullish for gold.

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The political theater played out in Washington is so predictable. First, Vice President Joe Biden comes out and says **"the economy was worse than we thought."**

Then an advisor to President Obama comes out to say that **the U.S. needs a second stimulus package.** While saying this, the advisor slips in the aside that the budget shortfall is "likely to be worse" than the equivalent of 12 percent of gross domestic product that the administration forecast for 2009 and the 8 percent to 9 percent it projected for next year.

Here's what I and many financial analyst think…

1. The White House has known that America's economic crisis is much worse than it has publicly admitted.

2. They also knew that the $787 billion stimulus package, as big as it was, wasn't big enough to fix the problem.

3. So they have been feeding us the bad news slice by slice, like salami.

4. Biden's "gaffe" was the latest slice of the salami, setting us up for ...

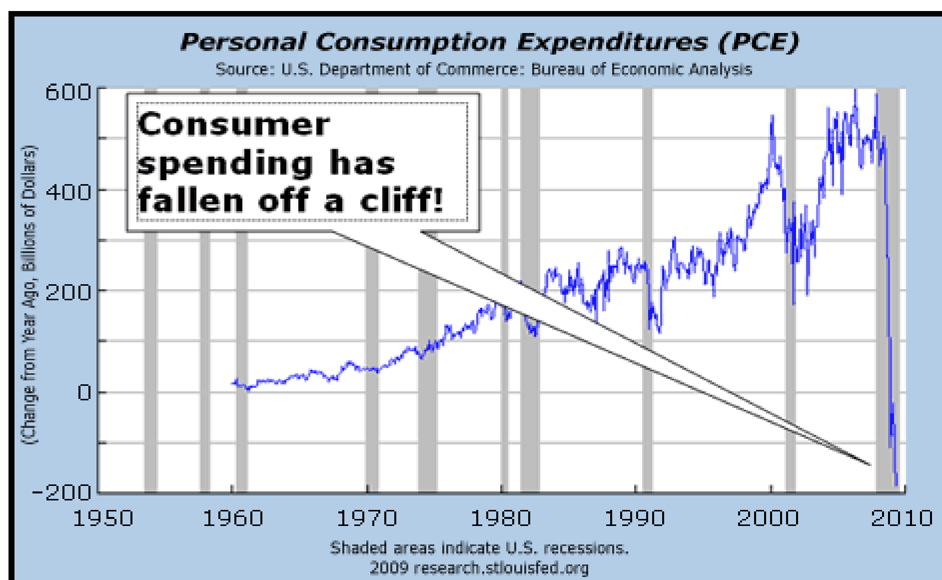
5. Obama's advisor, Laura Tyson, to come out and say that we need a second stimulus package. But really it is the third; President Bush gave us the first one in February, 2008.

I believe we will have another stimulus package — a BIG one. I expect that to be finalized, oh ... probably around October. That's a guess, so don't hold me to it.

But Washington needs the money to start the gears moving to get people to work way in advance of the 2010 elections.

Also, they hope by then, that the global economy will recover.

I think they may be wrong about a 2010 recovery, but I can see why they're so scared says Sean Brodrick of Money and Markets.



Source: St. Louis Fed

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About 70 percent of America's economy is consumer spending, and as you can see from this chart, consumer spending is falling off a cliff. We've seen consumers pull in their horns in previous recessions (marked in gray on the chart) but nothing like this.

The problem according to Sean is that consumers are in debt up to their eyeballs. Household debt peaked at $13.9 trillion last year. Consumers have since lowered debt levels by $100 billion, which sounds like a lot, except that brings total consumer debt levels down to $13.8 trillion.

Meanwhile, consumers are feeling a LOT poorer. The implosion of the housing and stock markets has destroyed more than $12 trillion in wealth since 2007.

Consumers might spend more if they weren't worried about losing their jobs. We probably won't see consumer spending improve until the unemployment rate improves. Let's see how that is doing...

Source: Bureau of Labor Statistics

The U.S. unemployment rate rose to the highest in almost 26 years in June. Payrolls fell by 467,000 last month, meaning June was even worse than May.

And that's just the measured unemployment rate, which excludes all sorts of people — folks who have abandoned their job searches, or are part-time because they can't find full-time work, and other "marginal" workers. If you add those people in, the real unemployment rate is closer to 18.7 percent.

In fact, according to data from the Economic Policy Institute, the United States has lost the equivalent of every job created in the past nine years. That's every job since the last year of the dot-com bubble, and the real estate and consumer boom that followed — gone!

You can see why the politicians are getting nervous. So what do you think the chances are of a new, BIGGER, stimulus package? Analysts think the odds are pretty darned good.

The markets will rally in advance of the second stimulus package being passed. Since recent history shows us that the dollar goes down when the markets go up, I'd expect the same thing to happen this time.

Guess what else goes up when the dollar goes down? That's right — gold! Take a look at this chart...

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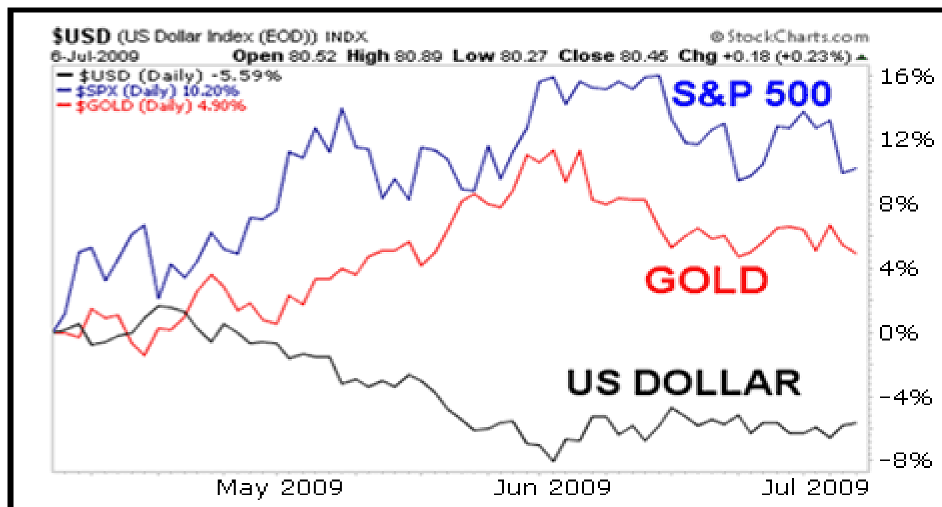

Source: StockCharts.com

Gold is priced in dollars, so the more dollars the Treasury creates, the better investment gold looks to be.

And if the White House rolls out a second, BIGGER stimulus package the way I think it will, that's going to be a lot more dollars flooding into the system. Gold is probably going to get a lot more expensive.

This is in addition to all the other forces that should drive gold higher — forces I told you about last week — surging investor demand, shrinking mine supply and more!

So, I think we bought gold at a good time. We may see gold go down a bit more — gold stocks often decline in July. But that sets up a great buying opportunity.

Dollar is rising in the short-term, but...

The Dollar has enjoyed a pretty good couple of weeks, sending gold and silver lower, but precious metals are probably near an important bottom — and with other forces in their favor, they could soon springboard through overhead resistance. So we do not want to get out of gold even though it has caused our portfolio's to go down temporarily.

I have added DGZ which will counter gold for now but we are going to continue to hold our gold position for the longer term.

Val, Shari and Brian
Cascade Financial Group

Source: Sean Brodrick, Money and Markets

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Note to Clients:

Some of you have asked about the move from FDLXX (Fidelity U.S. Treasury Money Market) which was paying very little interest to FCASH Money Market or FSLXX, Fidelity Select Money Market both of which are paying more interest. (Rest assured that there were NO LOSSES in any of these funds.) Although banks are closing at an alarming rate 4 more last week, I do not see the extreme danger we were in at the beginning of 2009 in the banking industry. Don't get me wrong; if I wasn't able to move 100% of your money into the U.S. Treasury Money Market in a matter of minutes, I would not be making this move. Believe me; banks are still in a lot of trouble based on the closings we have seen to date.

Hi everyone,

I really hope that you all are having a wonderful summer. I just got back from Lake Leelanau where I was vacationing with my 3 sisters and lots of family. I believe that there were over 35 of us this year.

Shari and I are rested and ready to take on the second half of this year. Our goal is very much in tack; to earn up to 7% this year on your portfolios.

The following is an update on our investment strategy and how the first half of 2009 has went:

As I have explained in my last two emails, I do not want our gold positions to stop-out. I realize that we have loss some value in these positions, but these losses are only temporary. I regard our positions in gold and silver as core holdings; which means I want to hold on to them for the long-term because of all the reasons I have stated in my previous two emails.

We have seen gold up to the 940 level this week. However I did decide to short our gold position recently by adding DGZ when gold hit a daily and weekly sell signal. I am expecting a short term downdraft in gold to as low as $808 by the end of July. Long-term is still very bullish. The reason for the reaction here in gold over the last couple of days is anticipation of inflation coupled with some rather robust earnings numbers from companies like Goldman Sachs. And short term sentiment, believing that inflation is going to come roaring back...it is, but we're not quite there yet.

I would be wrong on gold on the short term if we see a close back above $949 an ounce level. I don't expect that to happen. Short of that, gold remains in a short term bear mode with a one month 3-4 week decline coming up that could be very sharp and very surprising to a lot of people. Our position in DGZ will counter this expected down-trend and keep our values intact.

Long term everything remains good for a major move to the upside in gold once this short term cyclical downturn is out of the way. If there is any change I will let you know via my emails.

We got some good action Wednesday in the market because the PPI (producer price index) released by the government for the month of June came out higher than expected. Surprising the market is up .7% which is quite a hefty jump that's consistent with my longer term views that inflation will come roaring back. However, on the short term basis most of that .7% increase is due to the rally that we saw over the last couple months in gasoline and oil prices. Nevertheless, it's caused a sharp reaction in the markets.

The key level to watch was DOW reaching 8450. The DOW above 8450 will mean that the rally that I've been projecting into the summer months possibly even into September should continue.

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Since, we did hit this level on the DOW that signaled us to reduce our exposure to BEARX which is an inverse S&P 500 fund. We sold half of this fund to allow our portfolios to go up with the market. Note: Fidelity doesn't charge you a fee to buy or to sell BEARX.

We are seeing a lot of choppy action in from oil. It dropped down around $58 a barrel which led us to buy DUG; this is an inverse oil fund, and like gold, oil is rallying again up $1.30 to about $61, very, very, choppy.

We're also seeing some choppy action in some of the other natural recourse markets, but no major trend changes there, either on the long term which remains positive or on the short term which remains choppy to lower even dropping as low as $50. So we will hold on to our DUG position for now which will protect our portfolio if oil does head back down to lower levels.

These are shaping up to be some great trading markets, but we must exercise caution. I believe there is going to be some weird swings. There is no change in the intermediate or longer term trends; I believe the market will be up more than down.

Now for the first half of 2009:

I think Jon Markman, MSN Money explains it best from his article "Why hope (or fear) is a bad bet now"
Thanks to the manifested "green shoots" I don't think any analyst has had a clear picture of what is going on any more.

Take a look at the trading in the year's first half. The headline numbers don't look too bad: The S&P 500 Index was up 2%, while the Dow Jones industrials were down 3%. That's about as flat as you can get. But real results are much different because of the violence of the down move in February Jon says," when so many despairing bulls sold at a loss, never to buy back, and the violence of the up move in March, when many scornful bears shorted and were crushed".

Those market gods are so devious sometimes Jon continues. You see their game, right? Most of the green-shoots crowd waited way too long to come around to that point of view and therefore managed to catch only a sliver of the rebound around May, according to New York Stock Exchange trading-volume data. And most of the weed-killing crowd has bad-mouthed the recovery so much that they have likewise had depressed results. It's as if all the hopes and fears of a generation are being buried in the same unmarked grave.

Wal-Mart is a great example of the sort of stock that has beat up both the green-shooters and the weed killers. Bears knew coming into this year that consumers are in a world of hurt would primarily shop at discount stores, so they thought it would be clever to go long Wal-Mart shares and short-sell high-end retailers such as Coach. Meanwhile, bulls believed that middle-class tax rebates, handouts from the government's Making Work Pay program and jobless benefits would be spent at Wal-Mart on necessities. This made Wal-Mart a pick everyone could believe in.

But whenever an idea is agreed upon by virtually everyone, its way too good to be true; lacking a surprise effect, it's useless. Plus both sides were blind to some painful trouble facing the U.S. stock market's second-largest company. Wal-Mart came into 2009 hoping for expansion internationally but has had to face up to abysmal failures in Germany, South Korea and Hong Kong, and much-slower-than-expected expansion elsewhere in China. Plus Wal-Mart appears to be negatively leveraged to every business reform initiative of the Obama administration, as many of the proposed labor, health care and carbon emission laws will pull profits directly from the

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anti-union retailing giant's bottom line. Shares are down 12% in 2009, one of the worst results in the major indexes.

Meanwhile, froufrou retailers like leather goods maker Coach and yoga apparel maker Lulu lemon Athletica were sold so hard in the spring -- under the assumption that the consumer was dead -- that they became terribly under owned. They were anything but a consensus pick. And as a result, true contrarians were able to rush into the void to buy cheap shares, more than doubling the value of each

Blame the bad math I mentioned on Analysts at Trim Tabs Research reported last week (.pdf file) that the government's Bureau of Economic Analysis is painting a wildly inaccurate picture of the health of U.S. consumers. The statistics agency reported that personal savings as a percentage of personal disposable income was a stunning 6.9% in May, the highest since December 1993. That's about 7 percentage points above the rate of 2008, and it suggested a new era of frugality.

Ha -- you knew that couldn't be right. Trim Tabs' analysis, which is based on real-time income tax deposits rather than mathematical models, suggests that the real savings rate is a lousy 0.9%, not 6.9%. This is bad news for both optimists and pessimists, which fits my both-sides-lose theory to a T. It shows that consumers are in much worse shape than government statistics suggest and therefore have little money available to make house payments or pay for yoga gear bought on credit.

How did the government get it wrong? According to Trim Tabs, two temporary factors lifted the savings rate: Social Security recipients got one-time payments of $250 in May as part of the stimulus package, while another huge chunk of money went to welfare recipients. Strip out those anomalies, and the savings rate drops to 4.8%. Meanwhile, Trim Tabs' analysis of daily Treasury Department data suggests that the government models -- which are based on lagging Quarterly Census of Employment and Wages data from last year and thus have not been updated to reflect the true impact of the recession -- greatly overestimate wages, salaries and dividend income. Using live data and backing out one-time payments, the analysts conclude the real savings rate is less than 1%.

To be more specific, using its outdated model, the Bureau of Economic Analysis reported in May that personal income had risen 0.3% year over year despite the worst recession and employment crash in 70 years. That's craziness.

Trim Tabs' model, using real-time data, shows that personal income fell 3.6% year over year in May while salaries and wages sank 4.8%. That's much more believable. The bureau won't catch up to what's really happening in the economy until its data is updated through the first quarter of this year, and then it'll likely show a big drop.

If Trim Tabs is right -- and I trust its work -- then a key reason for a lot of the green shoots showing up is bad mathematical modeling, not positive data. Yet this is not a win for either side. To the extent that green-shooters are relying on Bureau of Economic Analysis data for their optimism about the future, they're wrong now. But to the extent that bears will rely on bureau data in the future, they'll also be wrong. Everybody loses, which is just the way the market devils like it.

Optimism over government assistance is colliding with reality most vividly in the housing market. Southern California real-estate analyst Gary Watts, who earned a reputation as "Scary

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Gary" because of dire predictions that panned out two decades ago, told an industry trade group in Orange County last month that low home prices and mortgage rates are not enough to turn around that region's benighted market because they're outweighed by shrinking access to credit and lower wages.

According to an account in the Orange County Register, Watts said the core problem is that lack of move-up buyers. While demand for homes selling for $500,000 is hot, sellers of those homes no longer have any equity. He said that they end up with nothing to invest in a bigger house, so sales of more-expensive homes are dead in the water. That has led to price wars, longer times on the market and more foreclosures for upper-income area residents at a time when adjustable-rate mortgages, called option ARMs, are also resetting at the highest rate in the past five years. In short, don't expect these people to buy a lot of yoga gear this fall. The bottom line is that both optimistic and pessimistic investors -- the contrarians and the anti-contrarian contrarians -- need to retain a healthy skepticism for the data that they are using for their arguments. That sounds like a recipe for a headache.

Talk to you soon,

Val, Shari and Brian
Cascade Financial Group

Source: Jon Markman, MSN Money

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