

Hi Everyone,

Gold started to correct this pass week. It tried to break through the \$959 an ounce that I suggested was a very stiff resistance in my last couple of emails. It did hold at the \$959 level and since, in just two days dropped \$27 dollars an ounce to \$932 level Wednesday night. It looks like the correction on short-term bases has started and that it could be pretty sharp. I feel that we may see gold drop to the low \$900s and possibly even as low as \$800 dollars an ounce. We did hedge our position in gold by using the inverse ETF fund DGZ so no worries there.

Oil got up to \$68-\$69 dollars a barrel and then it started pulling back down to the \$65 dollar level so we will be selling our inverse fund DUG as I think the threat of lower oil is probably over. We will continue to see some backing and filling in the oil markets but I believe the real worry is over and oil should continue to move higher over the next 10 months reaching the \$95 to probably \$100 per barrel early next year. I think we will have lots of opportunities on the long-side of energy stocks and our PSE fund should do real well; especially with it paying an annual dividend 10.4%.

The Dow now shows some real opportunities with it closing above the 9100 mark. I think that if the Dow can close above 9051 today that would be a healthy signal for us to put more money into the markets. Please recognize that this does not mean I think the bear market in stocks is over, it doesn't; but it does mean that this rally has legs and that we could quite easily see Dow10,000 by late September – October. It does not rule out short-term corrections but it certainly would be a good sign for the stock market and the economy. It will show that the economy, in the sense, is taking a breather from being so sickly and might recover for a little bit. I certainly hope so for the benefit of everybody.

International Funds are giving us even more opportunities. Take a look at these numbers: The improvements, in many cases due to their government stimulus, make your eyes bug out: India's government is expecting between 6.25% and 7.75% growth this year. Global vehicle sales are up 21% in the past seven months; steel production is up 15%; China's electricity production is up 14%; Korean GDP is up 9.7%; Japanese exports are up 20%; and Taiwan export orders are up 45% and industrial production is up 50% in the past five months. It's not just Asia, either: French consumer spending is up 3.4% in the past four months; Canadian retail sales are up 2.5% in the past five months; the Brazilian unemployment rate has fallen to 7.9% from 8.6%; and the Mexican unemployment rate has fallen to 5.7% from 6.2%.

This is not a trivial travelogue. These countries' companies are buying more Caterpillar and Cisco equipment, organizing their sales databases with Oracle Software and charging purchases on MasterCard. Last summer, I wrote an email stating that we could see a worldwide disaster. Now the opposite seems likely, as the U.S. with its negative 1% GDP for the second quarter has an opportunity to follow the rest of the world out of recession.

Now that unprecedented levels of worldwide fiscal and monetary stimulus have blunted the credit crisis and parried the recession, companies are doing well enough to beat analysts' panic-inspired earnings expectations. And those improvements in stock prices and

the tone of hopefulness are likely to make consumers more optimistic, and thus more likely to spend in the third and fourth quarters of this year.

I am not calling for a rip-roaring move higher, but with so many investors still on the sidelines, still paralyzed with disbelief and anxiety over thinking that they have missed the initial move; Seth Karman one of Boston's investment managers says "we are seeing the pressure not to lose being replaced with the pressure not to miss out." I think we can probably count on an advance for the rest of the year even if it's punctuated with more 10% to 15% corrections such as the one just seen in June.

If you think this is impossible; well perhaps you didn't know that right smack in the middle of the Great Depression – with unemployment over 20%, a debate raging over government's debts from the New Deal and GDP growth anemic – the Dow Jones industrials rose 300% over the four years from July 1932 to January 1937. That's more than three times the move from 2003 to 2007. So I guess we will just have to wait and see.

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## Watch the Banks

### Hi Everyone,

The 2007 market decline began during Halloween week. It began with the comments made by Meredith Whitney, then a relatively unknown analyst at CIBC Oppenheimer.

First the market slid and then it really blew up over the fear of a financial meltdown. We had that meltdown, and then it was countered by the actions of the Fed and Uncle Sam.

The current rally began in March of this year in a misguided reaction to the some what skewed stress tests and the pending changes in accounting rules to enable banks to make their books appear better than they probably were. Then the rally petered out, the Dow slid 10%, technical analysts were pounding the table about how we are going to retest the lows, and Meredith Whitney spoke once more.

What she said was that Goldman Sachs would beat Wall Street's earnings forecast, and that many other banks would do fine during the rest of the year. But, she went on to say that there would be problems in 2010, as earnings and asset deterioration became prominent again, thanks, in part, to the unemployment she saw rising to 13%.

The market decided to be selective and listened to the first part of Whitney's comment, but not the second -- ergo, the current sharp pop up in financial stocks lifting the entire market with them.

So, what's the moral of this story?

Going forward, we need to continue to watch the banks to determine the direction of the overall market. I'm not a market timer, I stick to fundamentals, but all of us in some ways and to some extent time the market as we make buy and sell decisions.

The point to take away from this discussion is: When the banks begin to roll over, they will take the market with them.

## SHORT-TERM MARKET OUTLOOK

The market's bias to the upside may appear to be running out of steam, **but it is not**. It's struggling on light volume to punch through a very tough technical ceiling. If that doesn't happen then the S&P 500 could start a slow and steady descent. If it does punch through the S&P **could rise another 10%-15%**.

A great many professional money managers have only dabbled in this trading rally and they're bound to be getting itchy. I believe they're increasingly taking a bullish view of the market and getting more involved.

Further, the charts, volume (and my gut) tell me that the market will continue up slowly in August and spike after Labor Day. Then we'll enter the perilous month of October.

## **CONCLUSION**

I would urge everyone to be slower to leap to conclusion that all is well and be more open-minded about the potential economic and financial road maps, keeping in mind the forces at work in the background.

For the short term we will continue to trade a market that wants to go up. While keeping a wary eye on bank performance and how Wall Street views that performance. Ultimately, as the banks go so goes the market.

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