Exceptional Bear Market Letter

September 2, 2009

Follow the Smart Money

Whenever the there's doubt about the direction of the Market, there is no better rule than to *follow the smart money*. Who is the smart money? For one corporate insiders, they know what's really going on, cumulatively corporate insiders are never wrong, especially when the results are this skewed.

According to Trim Tabs, the ratio of insider selling to buying in August was a record *30.7 to 1.* In total insiders sold $6.3bn of stock versus $210m of total buys. Barron's which also keeps track of insider transactions listed nearly 55:1 sales just two weeks ago. I remember when I started on Wall Street in 1982 just before the great Bull Run; buys to sells were only 20:1, now we're 50% more in reverse. *Obviously insiders don't believe in the green shoots.*

The Bond Market is Always right

The next rule of thumb is when the consensus of the Bond Market runs contrary to the stock market, the bond Market is ***always*** right. That's because the bond market is far bigger than the stock market. Unlike equities which can be manipulated by the Fed through futures, the Fed gave up on trying to control the Bond Market long ago.

How is it then, that bond yields have been falling everywhere even as signs of the economic recovery mount? Low government bond yields seem to be telling us that this *recovery is unsustainable*, and once fiscal and monetary stimulus wear off, it's back to deflation and low growth or worse, economic contraction. This makes sense with the dollar about to surge; even low bond yields will pay off handsomely as the dollar's purchasing power increases dramatically.

China likely to lead the Global Crash

Of all Markets, China, displays the largest *Diagonal II.* A *Diag II indicates the* beginning of a plunge, usually in the range of five times the 3rd wave of the Diagonal. Subtracting from the high, such a calculation brings us to negative territory in FXI, the China index

ETF. It likely means a Crash to near zero. The Chinese being new comers to capital markets tend to more to the herding instinct than investors in mature markets.

Bottom line, we have been victims of the Fed's Market Manipulation and propaganda. In an attempt to ease the pain brought on by deflation, they have infused the economy with pain killers *(easy money)* which eased the pain temporarily, but will greatly aggravate the Depression ahead and prolong its eventual recovery. You may have noticed that recently the purchase of these futures seems to coincide with the Fed's pet projects, so it appears that the investing public is giving its approval. It's Shameful! How is it that all the government bailouts surged last week, some like AIG 37% in one week, whihc has a negative book value, right after the announcement of the government's huge profit from the bail out of Citibank. Compared to the Fed Chairman's crimes, Bernard Madoff's *ponzi* scheme will seem pale by comparison.

Regards,

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"Opportunistically timed investments that maximize wealth"