



DT Analysis SAC

Ignacio Merino 636
Santa Cruz
Miraflores, Peru

Phone:001-51-56-973-5599
001-51-19-280-8796
Email:ebo@dowtheoryanalysis.com
Website: www.dowtheoryanalysis.com

DAILY REPORT (12/17/08) *The Great American Dream*

For whatever reason I haven't been able to get into the Christmas spirit this year, or last year either for that matter. When you see things headed from bad to worse, and no one seems to pay attention, it's hard to be cheerful. I knew in late October 2007 that the Dow had put in a significant top and we had more than likely seen the end of a twenty-five year bull market. The Fed had finally run out of bubbles, we would plumb into the financial depths, and wealth would change hands. I find no joy from coming to that conclusion, even if part of that wealth happens to fall my way. There are a lot of people who are losing their houses, their IRA's, their cars, and just about all they have because they were caught up in the great American lie. In case if you are interested, the great American lie is that you can get something for nothing, and you can do it every day. The great American lie replaced the great American dream sometime in the early 60's and the nation has been in decline ever since. Hippies came out of the first realization the dream was dead; then came the yuppies. God only knows what will come next.

People like Alan Greenspan, Hank Paulson, Jack Welch from GE, and Bernard L. Madoff helped to kill the dream. Welch built an empire on derivatives and the wheels are coming off, but he was smart enough to

retire before that happened. He also was smart enough to get a nice book deal. None of these folks could have gotten away with it though if the system hadn't been compromised beforehand. The SEC, the Justice Department, the ratings agencies, and the Federal Reserve were all created and filled with financial hookers in order to ensure the fraud would be successfully perpetrated on the hapless American public. In defense of the con men, the public was hapless by choice. A deteriorating health care and educational system made sure of that.

Mr. Madoff is the perfect example of what is going on in today's world. I guess you have to take your hat off to a man that can con the world out of US \$50 billion. It is so outrageous that I can't even begin to comprehend his act, and I am not alone. The market watchdog, the SEC, couldn't comprehend it either and apparently never even bothered to check. Now I have no doubt that they'll do everything in their power to make this "old news" as soon as possible. Today the Massachusetts Secretary of State, William Galvin, was on Bloomberg expressing his displeasure with what he called the slowness of the SEC. He better get used to it because the SEC will not assist him in any way, shape, or form when it comes to protecting the public interest.

On the economic side the news was all bad as we saw the worst CPI figure, a -1.7%, since 1932! What's more the housing starts declined 18.9% to 650,000 and that is the nastiest decline in fifty years. Meanwhile all the idiots on the financial networks are "waiting for the Fed rate decision" as if that will change something. Everybody is already assuming a rate cut of fifty bases points, so the real interest will be directed toward the Fed statement. It's three paragraphs and will include little or nothing of intelligence for the simple reason there is nothing they can do to change things. I suspect we'll eventually see a zero rate, and maybe even negative, but it will not change the economy. The consumer is toast, companies are cutting back, and demand will continue to fall. Everybody says that the Fed is going to pull out all the stops, but when you are at zero how many stops do you have left. The Fed should have gone to zero nine months ago, but Bernanke fell asleep at the switch and now there is nothing left to do but suffer.

The Fed did cut rates to .25 from 1% and issued a strong statement with respect to the buying of Treasuries and mortgage backed securities in the open market. This might be nice for stocks over the very short run, but it is a killer for the US dollar. The March US dollar contract is down a very big



1.69 at 81.39 and one should remember that it was above 87.00 just last week. This is a significant decline and you no longer have to ask if we are in a new bull market for the greenback. The proper question to ask now is how far and how fast the dollar will fall. Jim Rodgers was on Bloomberg this morning and said the dollar is probably destined to disappear altogether. Below I have posted the relevant Fibonacci numbers:

SUPPORT

RESISTANCE

US\$

80.91
79.78
78.72

81.68
83.01
83.60

It is obvious to me that the Fed has now openly discarded any possibility of trying to save the dollar and that could well lead to a stampede out of dollars and into something better, like gold. Finally, note below how the P

US Dollar Index (EOD) (\$USD) INDX

15-Dec-2008, 16:00 ET, daily, O: 82.623, H: 82.703, L: 81.983, C: 82.139, Chg: -1.422 (-1.70%)

P&F Pattern Bullish Signal Reversed on 15-Dec-2008

Traditional, 3 box reversal chart

Prelim. Bearish Price Obj. (Rev.): 75.0

© StockCharts.com



& F chart for the dollar index now has a bearish price target of 75.00. Over the very short run, I suspect we'll see some sort of intervention tonight or tomorrow in order to create the illusion all is well, but the decline will continue and has the potential to become quite ugly.

Gold on the other hand is reacting nicely as the February contract is trading up 16.00 at 852.50 after failed attempts to push it down earlier today. It is now trading close to the old historical high that I have mentioned for the last week and looks quite good here, so I will not comment that much. The

SUPPORT RESISTANCE

<i>GOLD</i>	824.00	848.10
	818.00	866.50
	809.30	883.40

one thing that looks even better than gold are the gold stocks themselves and it seems to me that they are actually leading gold higher. Last week I said that I was making an investment in five companies (BVN, GG, GSS, RGLD, and SLW) and many of you followed me. Now I will wait for a re-



action and then add on. As you can see in the chart above, the HUI has now posted a major break out to the upside and that is quite bullish. Remember that the HUI has a bullish price target of 420.00, so we have a lot of upside potential.

[A little housekeeping: both Christmas and New Years fall during the middle of the week. My last report will go out on Monday night Dec.22nd and I will not send another until Sunday night Dec. 28th. Likewise nothing will be published on Dec. 31st or Jan. 1st.]

ebo@dtanalysis.com
Dow Theory Analysis SAC
Dec. 16, 2008

More on Madoff from Barron's and again I ask you what they do in the SEC to justify their salaries:

UP AND DOWN WALL STREET DAILY

Funds of Funds: Madoff's Victims or Enablers?
By RANDALL W. FORSYTH

The pros who get paid to separate sheep from goats get slaughtered in scam.

IS EVERYBODY WHO LOST MONEY with Madoff truly a "victim?" Or should they have known better, especially while they were getting returns that were too good and too consistent to be true? I'm not talking about the scores of relatively unsophisticated but well-to-do investors who were dazzled by the reputation of Bernard Madoff, the accused mastermind of the biggest scam of all time, an alleged \$50 billion Ponzi scheme. They felt lucky to get back past the velvet rope to join the exclusive club of millionaires whose money grew month-in, month-out while tended by the secretive Madoff.

Nor do I refer to the charitable organizations whose good works will now go undone because they trusted Madoff with their endowments. Already, some charities whose money was invested with him have had to let employees go, just in time for the holidays.

No, it is the supposedly sophisticated investors who channeled money to Madoff who should be held to task. Investors placed money with big banks and funds of funds to do the kind of research and due diligence that they were not able to do on their own. For that, they paid these intermediaries fat fees -- and for what? To be fleeced along with the naïve investors who just went along blindly based on Madoff's reputation.

But some of Madoff's investors didn't care how he generated his returns -- as long as he continued to churn out a percent or so a month, without the volatility of the stock market.

Paul Kedrosky quotes a colleague on his Infectious Greed blog (paul.kedrosky.com):

"While many dopey investors in Madoff's funds thought he was actually running a 'split strike option' strategy (and most of those people had no idea what that meant), most of the smart investors didn't. They just thought he was using the trading order flow from his securities firm to run a lucrative insider-trading operation, and they were happy to get a piece of it."

While goofy, Kedrosky continues, that makes more sense than believing "any even marginally clueful investor" bought into a strategy that most knew couldn't work as he claimed. These wise guys are really mad now they find they're not in with the scammers, but among the scamees!

That may be way too cynical to explain all the investments by big, prestigious European banks. But it is difficult to figure how so many funds of funds -- whose very job is to separate the sheep from the goats -- could have been taken in. And it is even more astounding what they got paid to do it. Bloomberg News estimates Fairfield Greenwich Group, which had invested with Madoff for almost 20 years, would have pocketed about \$135 million for sending clients funds to the now-disgraced financier.

Maxam Capital Management sold a fund that was invested solely with Madoff. Sandra Manzke, the head of Maxam, told the Wall Street Journal she was "wiped out."

Indeed, not only was Madoff inflating his returns, he effectively was boosting those of the entire hedge-fund industry. The Credit Suisse/Tremont index of hedge funds actually fell 4.15% in November, a sharp downward revision from the small 0.71% drop originally reported for the month. CS/Tremont wrote down to zero three funds exposed to Madoff -- Kingate Global Fund, Fairfield Sentry and Rye Select Broad Marke -- which sent the equity-market-neutral-strategy group down 40% for the month, from an originally reported gain of 0.85%.

A long-time professional in hedge-fund operations shakes wonders how Madoff could have attracted money, not from little, old ladies in Palm Beach, but from fund-of-fund pros.

As reported, Madoff used a tiny, unknown accountant for audits while his own market-making firm handled trading and operations, including custody. That was the supposed attraction to the supposed wise guys: Madoff could front-run his customers' orders, something he has denied in the past.

"I couldn't get dollar one if we didn't have, if not a Big Four, then top five, six or seven, accounting firm. And I would have to clear through a prime broker," this pro explains. How Madoff was able to attract vast sums of professional money, without those prerequisites, remains among the thousands to be answered in this burgeoning case.

Besides the devastating impact on the actual losers, Madoff's scheme surely will further undermine confidence.

Just as the American public has been disabused of the notion that house prices only go up, they already were becoming increasingly wary of investing in assets such as equities. Risk aversion is palpable with Treasury bills hovering near zero percent. One broker says the only thing his clients want these days are short-term prerefunded municipal bonds backed by U.S. governments held in escrow.

Fear is understandable for unsophisticated investors who lost money in Madoff's scam. That professionals were taken in is incomprehensible.

Comments: randall.forsyth@barrons.com