



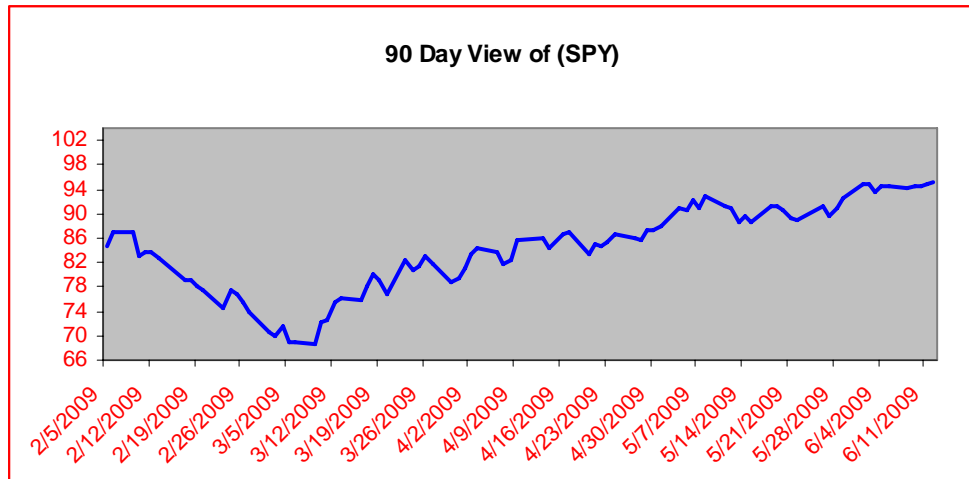
# FINANCIAL INSIGHTS

WATCHING THE  
MARKETS CLOSLEY.  
SO YOU DON'T  
HAVE TO.

A newsletter from James Horton Private Money Management

## Market Review for Week Ending 6-12-09

Last week the market went nowhere. For the past ten days of trading the market has now been spinning in place. There was a funny moment in the market last week when stocks popped higher because a retail report was released that suggested retail sales were up. However once the report was examined closer it became clear that the reason retail sales were higher was the jump in gasoline prices. It reminded me of a story I once read about a group of futures traders in New York who were trading corn futures. The price of corn was increasing because there was a drought in the corn-belt. Traders had made a lot of money and were anxious to lock in profits. All of a sudden a trader looked outside and saw that it was raining. All at once everybody started to sell their futures contracts based on the belief that the drought was over and corn prices would fall. Once all of the selling was done and prices had plummeted the traders all realized they were in New York and not the corn-belt and the rain drops they saw had nothing at all to do with the drought.



This weekend I spent some time writing down what I thought was the positives and negatives for this economy.

On the negative side I came up with the following.

- . California is less than fifty days from declaring bankruptcy
- . gasoline is up seventeen cents in the last two weeks
- . political tensions in Iran and North Korea are increasing
- . thirty-year mortgage rates have risen 15% in the past month
- . oil has increased in price 100% since February

- . unemployment is approaching ten percent and likely to stay there
- . most union workers will be receiving pay cuts
- . most cities, towns, and states are in severe budget deficits
- . losses in real estate and stocks have reduced consumer net worth to 2004 levels
- . swine flu is now a pandemic
- . U.S. is flirting with fiscal disaster
- . escalating cost of health insurance is crippling business

On the positive side I came up with the following.

- . stock market is up

This certainly is not a very balanced list and I am confident I could come up with many more negatives but I am not so sure I can come up with many more positives. On the surface this might all make tremendous sense because history teaches us that the stock market rises when things look bleakest. However if you look back at history the rise in the stock market was always eventually followed by significant improving fundamentals. Personally I am struggling to see how that could happen this time.

A significant difference between now and history is the composition of large money managers. Historically most money that was invested by large money managers was through mutual funds and they were buy and hold investors. This is no longer true today. There is now significant money controlled by money managers who think nothing of buying today and selling soon after. From what I am reading, even money managers of large pension funds, are adding a trading component to their philosophy. Diversification among asset classes, once considered the Holy Grail for large pension funds, is now considered insufficient and dangerous. Going forward I suspect that diversification for these large money managers will mean diversification among asset classes AND diversification among investment approaches. If mutual funds ever join this bandwagon the level of volatility for investments will escalate. Bottom line is that a rising market may not mean the “smart money” is getting in to stay!

I do not know if trading will become prevalent as we move forward but if so I am properly prepared. I have spent the last ten years of my life watching the markets tick by tick and learning all I could about the art and science of trading. There is no substitute for being “present” when it comes to understanding the market and very few money managers have paid their dues.

Turning to the markets I feel strongly this up-trend is about to be challenged. As I have mentioned in the last few weeks neither transportation stocks nor long-term averages have yet to give me a clear signal. Because I feel the odds favor this market falling from these levels for appropriate accounts I have invested about 20% in an investment that will increase in value if the market falls. Last time I did this it was because I was concerned about the market making new lows and escalating down quickly. This is not my concern today, but it would sure be nice if we could profit from a moderate retreat in prices. As always, I will continue to watch the markets closely *so you don't have to.*

