MONEY, MARKETS & MILESTONES

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Suppose This Happened In Your Country!

"Christmas is the time when kids tell Santa what they want and adults pay for it. Deficits are when adults tell government what they want and their kids pay for it."
-Richard Lamm

"Ninety eight percent of the adults in this country are decent, hardworking, honest Americans. It's the other lousy two percent that get all the publicity. But then, we elected them."
-Lily Tomlin

"Talk is cheap – except when Congress does it."
-Cullen Hightower

"You're approved."
-Loan officers nationwide, circa 2003-2007.

INTRODUCTION

Looking at any popular newspaper or watching at any news report it would seem that the economies of the world are once again bouncing back to growth. Since March 2009, stock markets around the world have rallied. News headlines are now declaring that the recession is over and that central banks, especially the Federal Reserve, did a good job at combating the crisis.

Mr. Bernanke himself, sitting in his Bubble Laboratory, contended that monetary stimulus during the past decade did not contribute to the credit and housing bubble. Of course, nothing could be further from the truth, but people carefully celebrate the signs of economic growth.

People have opinions about everything – especially things they know nothing about. The media, on the other hand, is misinterpreting facts, because it is responding to the public's unending appetite for sensational news. In today's age, there is good information, bad information and information so imbecilic that it practically cries out of euthanasia.

Instead of forming our view of the world based on news, we think that it is important to travel the world and to see other countries and societies in one's own eyes and with an open mind. Newspapers, after all, are in the business of selling news. Traveling allows one to see other countries more authentically. Currently, one of yours truly is packing his gear again to visit Thailand and its neighbor countries for some two months (cold Finnish winter contributed to the choice of destination). Since investing and reading is our business, it doesn't matter all that much where we reside. Not to worry, though, the next MMM

report will be published shortly after arrival at home.

Today many of our clients are asking us whether the crisis is over. In our opinion, the people that are touting the economic recovery now have not sufficiently considered that market movements are very violent and more often than not unpredictable. In addition, in all markets some systematic risk always exists. People tend to develop a bias towards optimism. Property dealers tend to be optimistic about property, art dealers about art, and equity fund managers about equities. The likelihood that people will at some point be too optimistic is therefore very high. The same goes for fund managers – and also, as we now know, to financial companies that use high leverage. One day conditions change radically and leverage works in reverse. The reason why so many investors fail is because they have a very narrow focus, they are dangerously impatient and greedy, and they are overly confident that their view of the future movement of assets is correct. They have a strong bias towards one asset class and are therefore not properly diversified.

Perhaps it is this people's tendency to develop a bias towards optimism that makes them believe that a so called healthy recovery has begun. There is no need to become overly optimistic, but there is also no reason to become alarmed about what you're about to read. **Let's take a look at certain things we would like to consider so that our readers can make 2010 the best so far!**

Let's take a look at the US housing market. In September 2008, US mortgage resets hit $35 billion that month (see Figure 1), which was the time the financial crisis hit. When people could not afford to refinance and began to default, the stock market and banking industry crashed. In the summer of 2009 mortgage resets were significantly lower at around $15 billion a month. This is when some optimist pundits began to see that the economy was getting better. Many of these people were the same who were able to completely miss the formation of a massive credit bubble right in front of their noses. One of these gentlemen was Mr. Bernanke, who in May 2007 thought that subprime problems were very unlikely to spill to other sectors of the economy. Nobody gets it all, but sometimes you cannot blame economic models (or the lack of their ability to take everything into account). Instead of creating more complex mathematical models, modern economics would greatly benefit from simple common sense! It doesn't take a rocket scientist to see that the reason house mortgage defaults looked better in the summer of 2009 was because there were 57% less mortgage resets.

We find it notable that by late 2011 the resets will climb to nearly $40 billion a month. In normal times, when a mortgage comes due, refinancing is a simple process, but these are not normal times. In fact, it would not surprise us to see a new crash in the housing market. Under this scenario, the crisis would not be over for quite some time. The first wave of the housing crisis came from subprime defaults. The second wave will touch more solid home owners. **Since 40% of Americans own more than one home, we cannot be overly optimistic about the US housing market**. All signs point to the fact that more consumer defaults are on the way. It could be 2012 before the housing market starts to calm down.

In 2005, according to Fed Chairman Alan Greenspan, home equity extraction amounted to as much as 7% of disposable income in 2004, or the equivalent of 5% of GDP. **It is worth noticing that JP Morgan made a decent profit just recently, but losses occurred due to credit card debt. This makes us very concerned. The fact is that for the average American, the time for using their house as an ATM is over**.

This logically implies that retailers and retail real estate is in trouble. Now that consumption has declined meaningfully, shopping centers and malls are emptying as shopkeepers close their doors. Note that commercial real estate rents are in the decline and cap rates are on the way up. Since rental income greatly affects the value of commercial real estate (a vacant space may be half the price of an occupied one) and vacancies are increasing,

collateral values are taking a bad beating. What about refinancing possibilities? In the US and Europe the need for commercial real estate refinancing is a staggering 2 trillion EUR (USD 2.83 trillion respectively) before 2013! The fact is that refinancing costs have gone up remarkably. The truth is that all vectors are pulling towards a gloomy direction. **Therefore we think that it is not an exaggeration but in fact a very high probability that commercial real estate in the US is heading to a crash.** This will be a big shoe to drop!

Still, that is not what concerns us the most.

Once less favorable economic conditions took place in 2008, the private sector has acted rationally in terms of boosting savings rate and reducing borrowings. But the government doesn't like that so through fiscal deficits and monetization it creates another credit bubble over the credit bubble of the private sector. Total credit as a percentage of the GDP continues to grow. So, while the banking sector has already started to reduce its debt load, by and large consumers and governments are yet to start this process. This will slow down economic recovery.

By the way, a good read about this subject is a book called "*The Corruption of Capitalism – A strategy to rebalance the global economy and restore sustainable growth"* by Richard Duncan, who is the best-selling author of *The Dollar Crisis.*

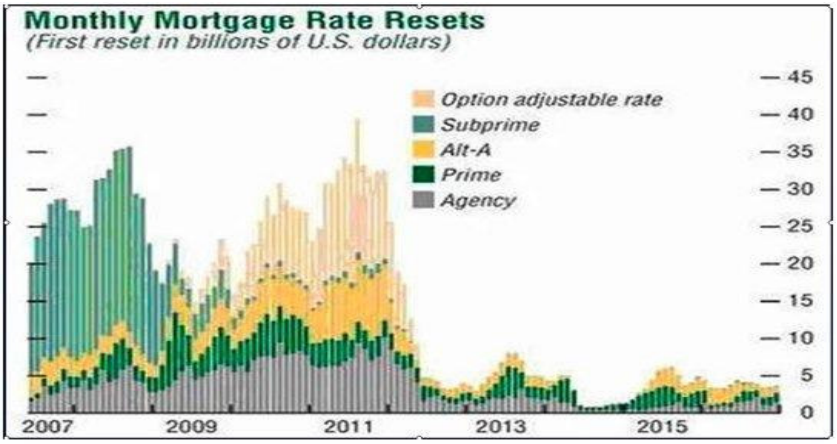


Figure 1: Monthy mortgage rate resets (billions). Source: Credit Suisse

As we have previously continuously pointed out, it was excessive credit and excessive leverage that caused the crisis in the first place. It is amazing that the current policy makers are under the belief that superimposing another credit bubble on top of the one that we have now would somehow miraculously solve the problem. But the current economic dream team is doing just that. Perhaps the US policy makers believe that the current credit problem will not feel nearly as bad as 20% inflation! Such logic is very perverse, but then again, it should come as no surprise from people who have already proven themselves resourceful idiots.

It is very much the same as if you tried to wake refresh a sleeping drunkard by forcing him to drink another bottle of whiskey. He might wake up and drink it, but eventually he will pass out and not wake up for a very long time – or perhaps at all. The economy might revive, but further down the road, perhaps in five years time, colossal problems start to arise.

To understand where we are heading, it helps to understand how we got here. It all starts with disproportionate credit creation, which leads to excessive leverage. Asset markets are going up simply because asset markets are going up. There is an eloquent symmetry in it all: people with no sense buy things of no value. A typical phenomenon of speculation for capital gains becomes rampant. Eventually the trend reverses and the private sector, namely the banking sector, goes bust. This happened in 2008. The government comes and bails it out. Interest rate is lowered close to zero.

The government then has massive deficits and enjoys very low interest rates. **No matter what Mr. Obama's plans are, the deficit will be above a trillion dollars as far as eye can see**. At present, interest to pay the government debt is low. The US government can issue Treasury bonds at virtually 0.2%.

Eventually, though, the Fed chairman will arrive at the point where he has to increase short-term interest rates. Presently, the US annual interest costs are around 12% of the government's tax revenue. **When interest rates go up, the interest payments on the government debt will increase very rapidly**. The burden to bear the debt will become dramatically heavy. It is not out of question to see interest costs could go to 30-50% within ten years.

Felix Zulauf of Zulauf Asset Management in Zug, Switzerland commented: "*Once you go above 30%, you are done. You go into default or your currency breaks down and your system collapses. The problem you will run into first is a dramatic increase in individual tax rates. You'll see much bigger wealth-redistribution programs than you can believe.*"

Mr. Zulauf put is just right. When interest rates are rise substantially, the government has three sources of money: taxes, more debt or printing. Substantial tax raises in the US seem very likely, but it is not enough to solve the problem. Raising taxes too high also has significant negative consequences to the economy. **When interest to the debt can no longer be paid, there is nothing else to do but to monetize**. There is no other way out than the Zimbabwean way – print, print and print!

Eventually, this will lead to very high inflation rates and a weak dollar. Printed money flows into something you can't print like gold and silver and other currencies where you have a more disciplined approach to monetary policies. Inflation can be very high even in high-interest-rate-environment. For example, if inflation rate is at 20% and interest rate is at 10%, the economy is of course experiencing significant inflation in real terms. Such environment would change the rules of money in the society, for instance saving money is out of question and unproductive debt would go bad in no time. High inflation shifts wealth to the rich and polarizes the working middle class. It takes away from those that save and give to those that are in debt. Many in the working class cannot pay if interest rates are at double-digit levels. For the very same reason they cannot save anything. They will simply be wiped out. Such is the explanation behind the mystery – the financial murder of the middle class.

Excessive money printing and debasing of the dollar would most likely result in the US defaulting on its debt within 10 years. This is the reason why we are not confident about Treasuries on the long term. Bonds could be in for a rebound near term, but eventually investors should look for exit opportunities in Treasuries.

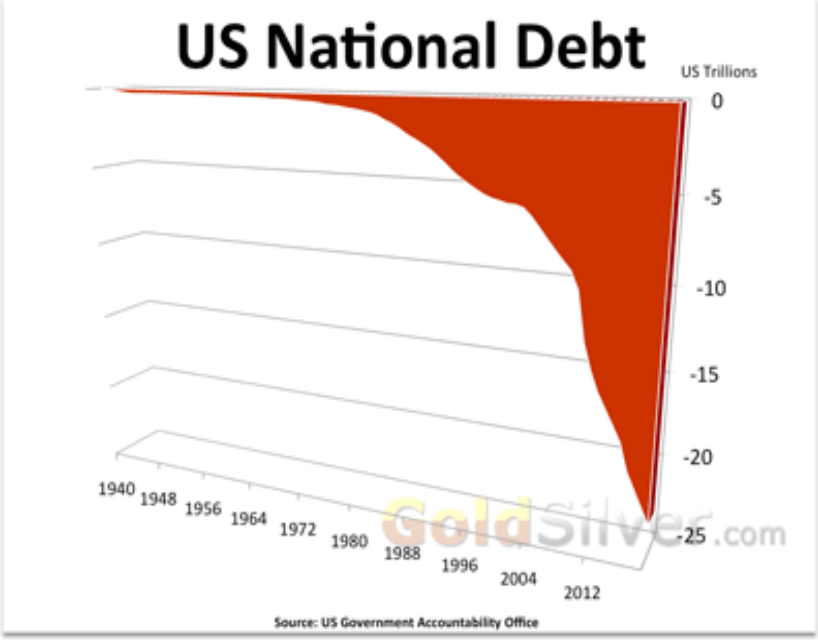
Now, the US is not the only country which could face this fate. Japan is on the same boat as well. In case we have not sufficiently depressed our readers enough, Europe has its candidates as well. We believe that the countries more likely to blow up are the PIIGS: Portugal, Ireland, Italy, Greece and Spain. One or more of them will likely default in the next couple of years. Under a pessimistic scenario, this could mean the death of Euro. It seems very likely that the next 10 years will bring about a complete financial disaster, massive redistribution of wealth and the end of our

capitalistic system as we now know it.

It is not out of question that the governments will at some point try to distract the public focus to outside events. A classic way to do that is to engage in war. In the modern age, it is not difficult for the US to find enemies around the world. A possible scenario would be that Israel and the US may attack Iran. Israel will not tolerate Iran developing nuclear power, even if Iran claims it is for peaceful purposes. If there is an attack, oil prices will go through the roof.

There will be pressure in oil prices anyway as oil will encounter new strong demand from China and India. Oil prices would rise regardless if Americans can afford it or not. There hasn't been any major new oil discoveries made in decades and in any case the Mr. Bernanke's money printing will surely outpace the discovery of new oil fields.

Volatile and highly inflationary economic times create potentially very lucrative investment opportunities. Still, the investment environment could be extremely tricky. Passive investment strategies are more likely to lead to substandard results since money printing orgies and fiscal stimulus packages will most likely lead to a fast rotation of inflating and deflating sectors. This makes life for investors rather difficult. As always, every black cloud has a silver lining and we will observe



potential investment opportunities later in this report.

It should be clear that the same causes that led us to current results will not save us from future consequences. We should at least be open to new possibilities to revitalize the economy. **Probably the best medicine in the long term would be to cut government expenditures and slash taxes at the same time**. This would allow the more dynamic private sector to expand at the expense of the largely unproductive government sector. The remaining government employees would be much more effective and unproductive people would be forced into more productive occupations. We are well aware that cutting government spending and taxes sounds like an economic death wish to Keynesian economists. But we are under the view that **the US has lost out in its competitive position relative to the rest of the world over the last 30 years**, so a new approach to economic and monetary policy would be a sound idea (although it will not happen under the present policy makers). Even a flat tax would make more sense but that isn't acceptable because half the IRS would have to be dismissed.

As a side note, as Finns, we also observe how the Finnish policy makers discuss revitalizing the economy. Labor minister Ms. Sinnemäki of The Green League of Finland proposes higher taxes for self employed entrepreneurs, who are already heavily taxed and according to recent studies put in some 30-40% work hours and do not enjoy vacations or tangible sick leave benefits. Ms. Sinnemäki comments that entrepreneurs get tax-free dividends. She apparently has not taken Economics 101 to understand that Finnish entrepreneurs do pay taxes – often in the form of double-taxation. Also, small and medium sized entrepreneurs employ most Finnish workers in the private sector. But such things are merely marginalities to her.

Ms. Sinnemäki (who lives in a commune apartment in Helsinki) was asked how she will encourage Finnish entrepreneurship and thus ease deteriorating unemployment problem. She was under the view that higher taxes would allow entrepreneurs to offset more expenses. Personally we think that she is a natural disaster to hit the Ministry of Labor – of no lesser quantity than the recent Haiti catastrophe. Perhaps she should be advised to take her medicine more frequently or change the molecule of her pills. **It seems that idiotism is a universal governmental phenomenon and is certainly not a handicap in politics.**

In a recent email to us, Brian Tracy commented that the single most important thing to do in America right now is to encourage entrepreneurship. We think this applies to Europe as well. Of course, as always, there are other options – one of them being a complete impoverishment of great nations!

Figure 4, S&P 500 index Source: StockFinder

INVESTMENT OBSERVATIONS

As many of you know, bull markets typically proceed in three stages. During the first stage of run, prices recover from bear market's ridiculous lows. This is caused not by improved economic environment but the fact that prices have been hammered down to the cellar, no questions asked, and they bounce off like a football pushed under water and released. The second stage reflects the improvement in the real economy. Market movement is fueled by better earnings and brighter future outlooks. During the third stage of the bull market, prices rise due to rampant speculation and there is only so much room for real economy facts. That is the time when everyone is in and the party train is going on with full throttle.

Presently, at least yours truly experiences some considerable difficulties figuring out the stage we are at in at the moment. However, the real question is what happens between the stages? Typically we can expect to enjoy some kind of a price break, which can really get nasty if you are not prepared for it. We could easily see corrections of 30-50% of the up-movement. Movements of that magnitude can offer very juicy opportunities to accumulate equity – or they can drive the joy out of life totally.

Now might be a good time to tighten stops on long trades and start looking for some short positions to balance out long trades. We are well aware that that many of our dear readers have already balanced their portfolios and are ready to take the market as it is. As always, we are observing trends and not making any accurate forecasts for the future. It is best to be prepared to ride the market either way.

However, this is not an indefinite indication that the market is correcting any time soon. The market may continue to go up out of inertia for a surprisingly long time, especially in the age hot money printers (we do not give names but one of them is bald, has a beard and flies a helicopter). Trying to see the future is difficult per se, but it is very hard to say how long the effects of liquidity stimulus will last in the markets. Still, it looks increasingly obvious that the end of the sugar high is nigh.

Figure 5, S&P 500 Relative Average True Range Source: StockFinder

As investors and traders, we need to keep our memory sharp and look back from time to time to keep an accurate perspective. Year 2009 was a memorable story of gloom and boom. No doubt it offered nice double-digit returns. At the same time, **it is healthy to remember that the S&P 500 has barely managed to climb more than half way up to the levels it was before the meltdown started.**

During the liquidity-driven rally, the relative average true range of the S&P 500 has shrunk to historic lows. We have no doubt that this is calm before the storm. Even thought we find the markets harder to predict than ever, one thing looks increasingly likely. Volatility will return to the markets one way or the other.

Volatility has a tendency to increase during major market moves and tops. It is our view that we are at the very end of the road. Basically, volatility will come back to markets in one way or the other. It is remarkable that relative ATR is at its lows at the same time as VIX is not even close to its historical lows. What this implies is that some part of the crowd is aware of the possibility of a correction and they are ready to pay for that risk – even if the ATR is at its bottom, signaling extremely low volatility!

Now, the consensus is, of course, that stocks will continue to go up and correct somewhat between April and July, before going up another 5-20 points. In the past, we have noticed that if most people are confident that something will happen, they are wrong. This makes us become more confident that the correction might play itself out sooner than the consensus thinks. **However, we should like to point out that while it is difficult to predict the market in any environment (for reasons we have already outlined earlier in this report), it is even more difficult when money is being printed 247/7.**

Let us have a look at some leading stocks to find possible clues. Stocks like AAPL, AMZN, GOOG, GS and RIMM have been such a big players and enjoyed spectacular gains since the March bottom**. These stocks share one thing common – all of them have lost their steam.** There are a lot of momentum players in financial relationship with these stocks. Many of them are not likely to base their investment decision on the belief that fundamentals have improved, but they are simply jumping into a moving train and riding it as long as it has steam. **This will lead us to an edge, where these same momentum players might push the market off the cliff. Remember, drops usually occur when nobody is expecting it.**

In order to get a better picture, we have chosen to spend a couple of minutes of our readers' precious time to look at some major indexes. To make matters simple, we have chosen certain ETF's, which are relatively easy to approach. These ETF's tell us basically the same story. There was a horrible nightmare and an absolutely unbelievable run up after realizing that the monster did not eat us alive – yet.

Figure 6, CBOE Market Volatility Index Source: StockFinder

We should like to point out that the last two bear markets had similar kind of positions on the S&P 500 chat. However, they unfolded in somehow different ways. In 2004, the index topped some 50%, which was a seriously overbought condition. This time it is different in a sense that we have overshot the 50% level. Also, other indicators are not flashing red to signal strongly overbought conditions. At the moment the S&P 500 is looking for the price level at which it topped out temporarily in 2004. Even though we have some conflict in the indicators it would be beneficial to have your eyes on the level that was important in 2001, 2002, 2004 and 2005.

Figure 7, AAPL Source: TeleChart

Apple has been one of the leaders during the recovery rally in 2009. Since October 2009, it has signaled some exhaustion. The stock is resting in the support area. This will resolve itself one way or the other.

In order to explain this matter a little further, this is an area where advances could get rather difficult and stay rather small. Markets tend to develop some sort of correction when they face 2004 correction bottomed at 1,060 area. Like then, this time should that area can be an attractive place to start looking for some trades on the long side. (if and

when we manage to get there somehow). However, we are not here to predict correction but merely pointing out probabilities and possibilities.

We continue to believe that another leg down is coming. The upcoming correction is not likely to lead us to new lows, but it should make serious investors wonder if stocks really are a good long-term buy and hold bets.

What could be the trigger to the correction? It could be technical weakness, expanding commercial real estate problems, PIIGS or perhaps serial Austrian bank defaults. To put things in a perspective, Austrian banks have a considerable emerging-market financial exposure, which exceeds 200 billion EUR, while the GDP of Austria is around 260 billion EUR. It wouldn't surprise us to see the financial crisis provide a shock or two before it finally goes away (or, as we previously pointed out, transforms into a new kind of time bomb in the form of sovereign debt).

Based on last year's spectacular stock performance it might be tempting to believe that the passive buy and hold strategy is back. It may be so. But we really do not think so. Instead, the up-coming investment environment is likely to show inflating and deflating asset classes, which calls for a rapid rotation of funds and makes an investor's life quite difficult (even if one is sitting under a palm tree reading the new MMM Report in Thailand).

Figure 8, AMZN Source: TeleChart

Amazon shows full scale lack of participation. It has been trading inside the trading range since the beginning of November. We will see if the underlying deterioration will continue or if the stock is ready to bounce from the support.

Figure 9, GS Source: TeleChart

The former leader is sliding after October highs. GS is showing weakness and signaling that some follow through to the downside may be coming.

Let us have a look at **bonds**. While US Treasury bonds could rebound in 2010 after a rather difficult year of 2009, investors need to be wary of Treasuries down the road. It is highly likely that a long-term low of the interest rate cycle was touched at the end of 2008. We would certainly elect a short position on US long-term Treasury bonds. On the long run we believe that equities will outperform bonds both in US and European markets.

Next, we should like to comment **wheat**, which has raised some questions to us among our readers lately. It is fair to say that investors should stay away from wheat ETFs due to their high rollover costs of future contracts. A better idea might be to buy stocks in companies with farm land. Potash companies, as mentioned in the November 2009 MMM Report is also a sound idea. These are something we prefer to accumulate on pullbacks.

The fact that **gold** has broken out above $1,000 and that has held above it for months has opened a new era for the yellow metal. It reminds a little of the Dow. In the past, the 1,000 level for Dow was called the "graveyard in the sky". Every time the index climbed up to that level the bull market turned into a bear market. That level held for more than a decade.

Figure 10, RIMM Source: TeleChart

Research In Motion looks like a technically broken stock. RIMM needs to clear out the double top at 86, if it is to continue its march higher. At this point the stock is on a downward-biased sideways trend.

Figure 11, GOOG Source: TeleChart

Google has slipped trough its 22 day moving average and 50 day (not showing on the chart). The stock is still in up trend but struggling. Google looks vulnerable.

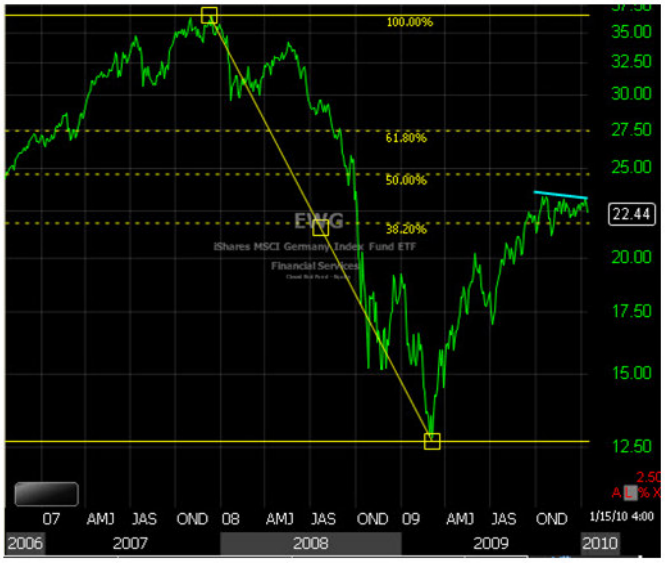


Figure 12, Germany Index ETF Source: StockFinder

The Index ETF has managed to recover just above 38.2% the Fibonacci line and is struggling to continue its move up. Is it looking down? It seems to have lost its steam.

Figure 13, France Index ETF Source: StockFinder

The index ETF has met resistance at the 50% Fibonacci and is struggling to continue its move upwards. Consolidation has been going on for several months. . Consolidation have been going on several months.

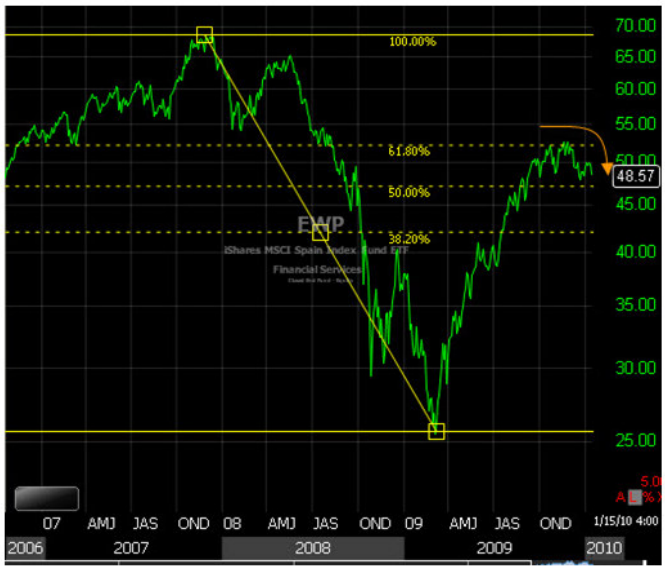


Figure 14, Spain Index ETF Source: StockFinder

The run up from the lows of March 2009 has been substantial. However, the 61.8% Fibonacci area has been rejected several times, and this ETF is looking for support from lower levels.

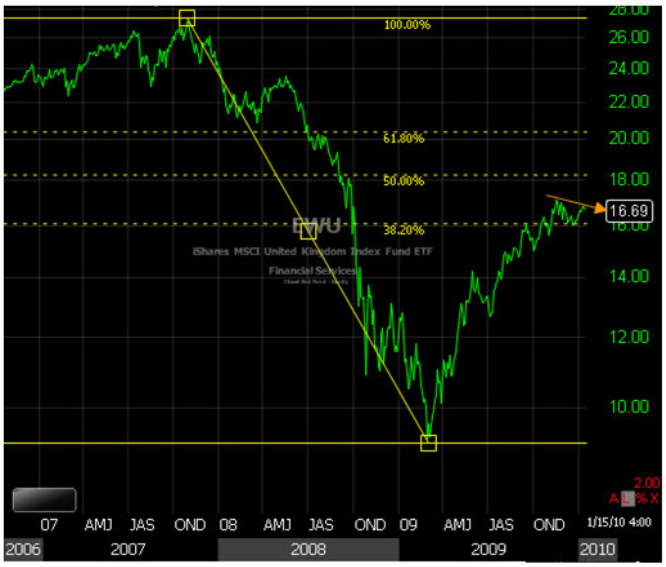


Figure 15, UK Index ETF Source: StockFinder

The index ETF has barely managed to climb above the 38.2% Fibonacci area. The ETF has formed lower highs and showed some lack of steam.

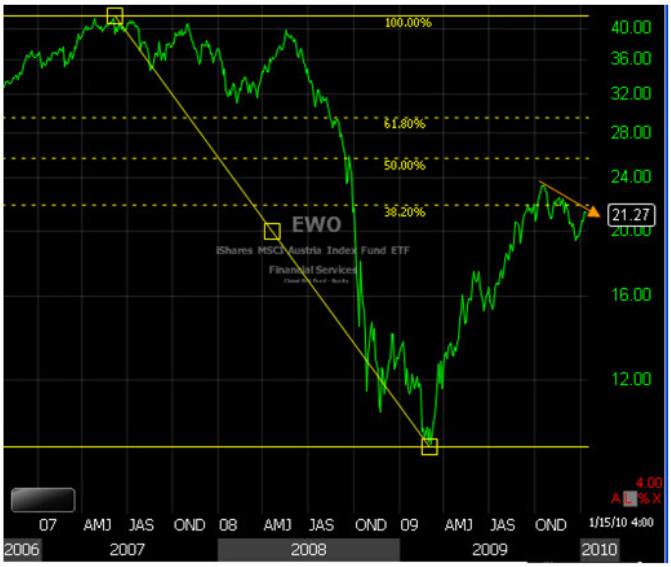


Figure 16, Austria Index ETF Source: StockFinder

The Austrian index ETF is showing clear lack of commitment. Does this indicate that the exposure to Euro countries with debt issues will take its toll?

Figure 17, Japan Index ETF Source: StockFinder

Japanese markets have met resistance at the 38.2% retreatment level. Should it push up from here, the movement might get legs.

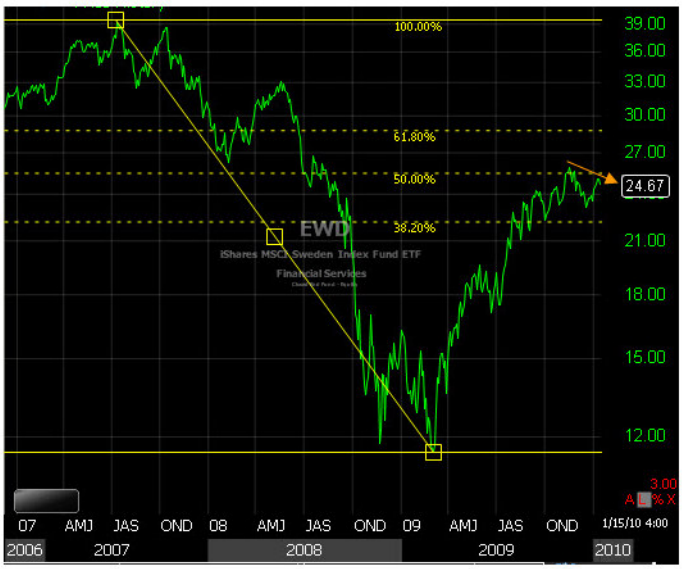


Figure 18, Swedish Index ETF Source: StockFinder

A lower high signals movement to trading range. At least the upward movement has stalled after hitting the 50% retreatment level.

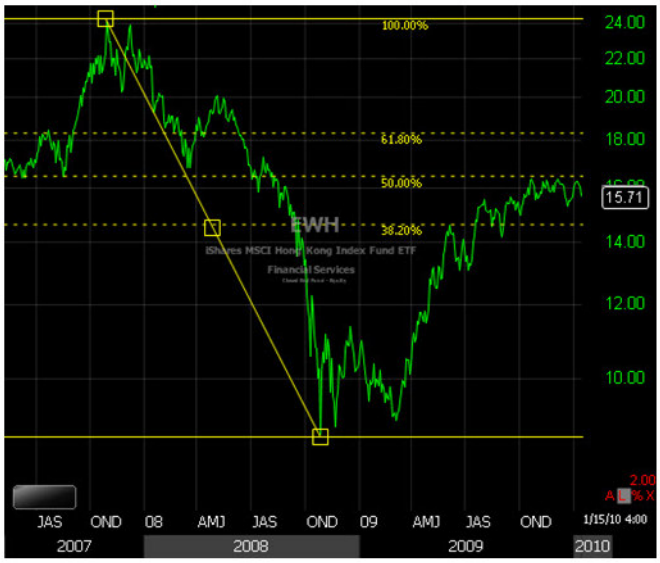


Figure 19, Hong Kong Index ETF Source: StockFinder

EWH is facing some serious resistance at the 50% retracement level and has turned into a sideways move. The uptrend seems to continue.

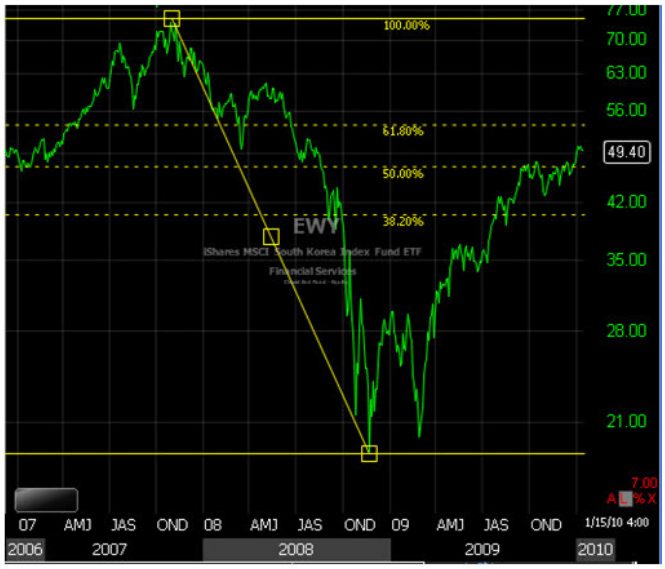


Figure 20, South Korea Index ETF Source: StockFinder

The penetration of the 50% retracement zone has given some new steam to EWY.

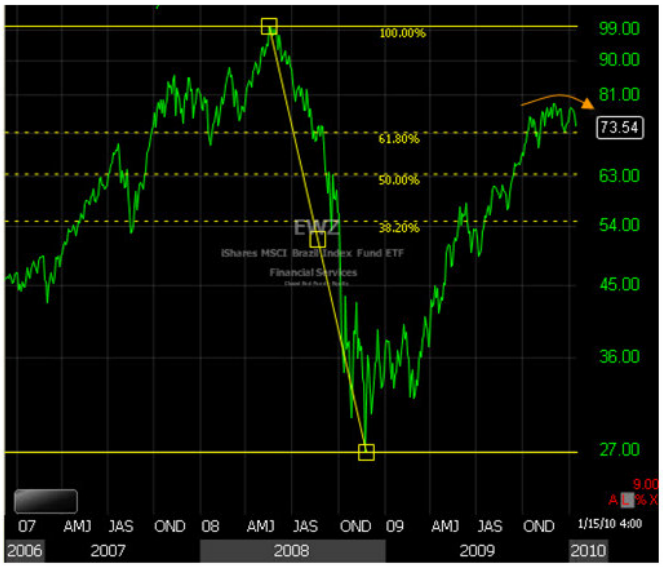


Figure 21, Brazil Index ETF Source: StockFinder

Brazil index ETF makes us seriously consider short side opportunities. The slide from 99 to 27 and the climb back to 73 is such a remarkable move that a pullback is not unreasonable.

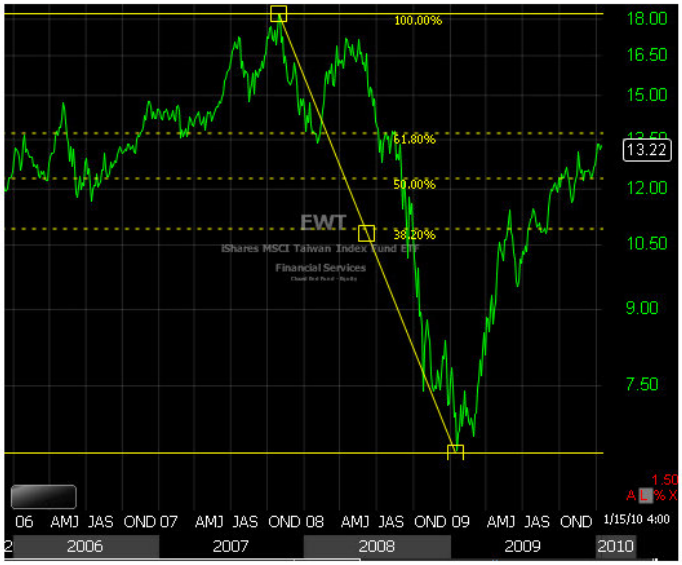


Figure 22, Taiwan Index ETF Source: StockFinder

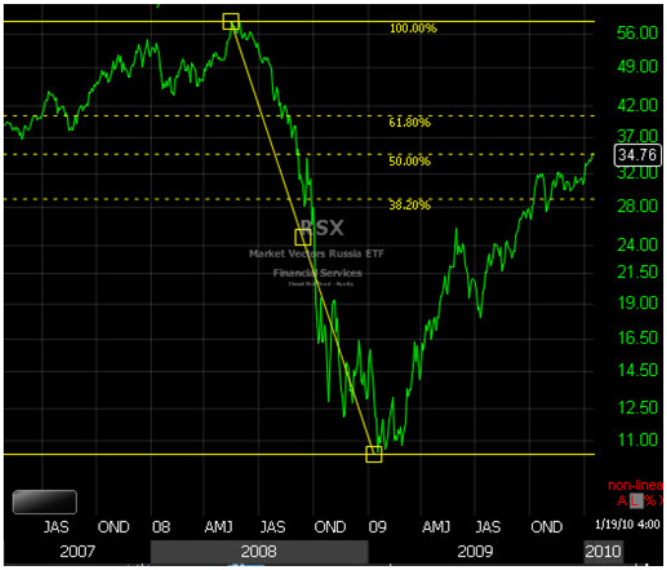


Figure 23, Russia Index ETF Source: StockFinder

Figure 24, Singapore Index ETF Source: StockFinder

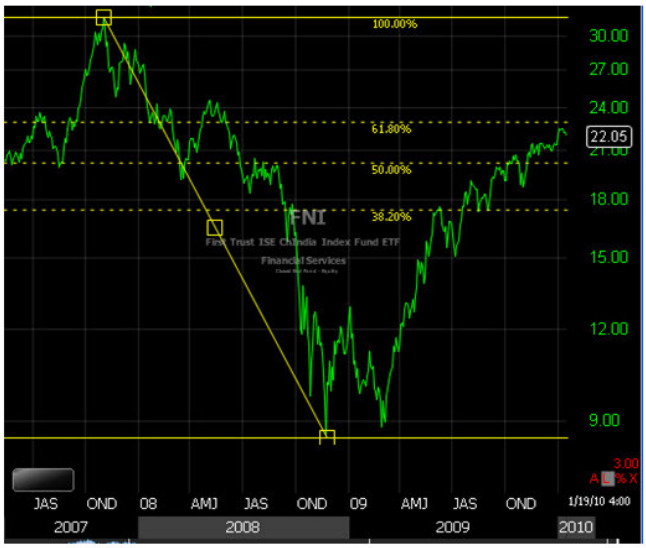


Figure 25, India Index ETF Source: StockFinder

Figure 24, Singapore Index ETF Source: StockFinder

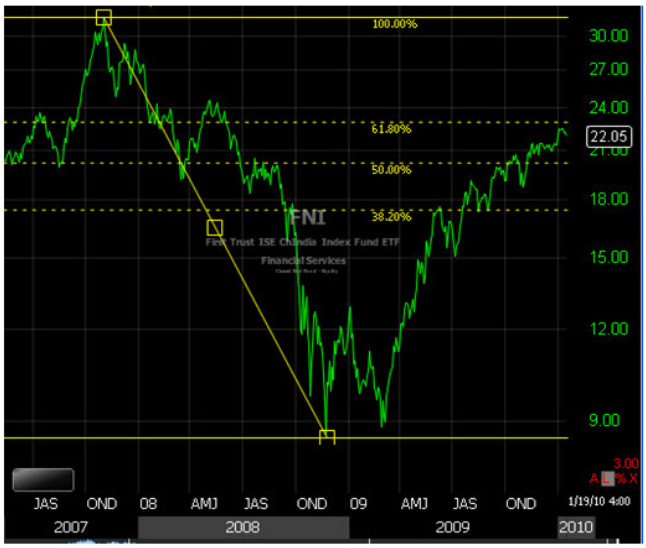


Figure 25, India Index ETF Source: StockFinder

What happened when the Dow finally broke above 1,000 level and held there for several months? Well, it never looked back again. A pullback towards or even below the 26-week EMA will be a good time to look for the next big purchase in gold.

Our initial short term price target of $1,250 for gold was left only a bit shy in 2009. We have to admit that the correction thereafter after was a bit heftier than we expected. Volatility in the gold markets has increased significantly. It seems that the markets are likely to stay volatile for some time.

However, gold chart still looks more bullish than bearish to me. Combined with the heavy money creation, this probably will offer us some good moves. Under such vigorous monetization, we would rather own gold than dollars.

The $1,070 level, which was close to the 26-week EMA, has been successfully tested for support. In the November 2009 issue we discussed gold climbing north to $1,500. Although that did not yet happen, we continue to believe that the next up-leg may well reach that area. In order to reach this before the summer, gold should stay above the $1,100 support area and adopt a resistance level around US$1,145 - US$1,160 within the next few weeks. In case we get the next up-leg somewhere between March and mid May, we expect a correction period, even though our long-term view on gold is still bullish.

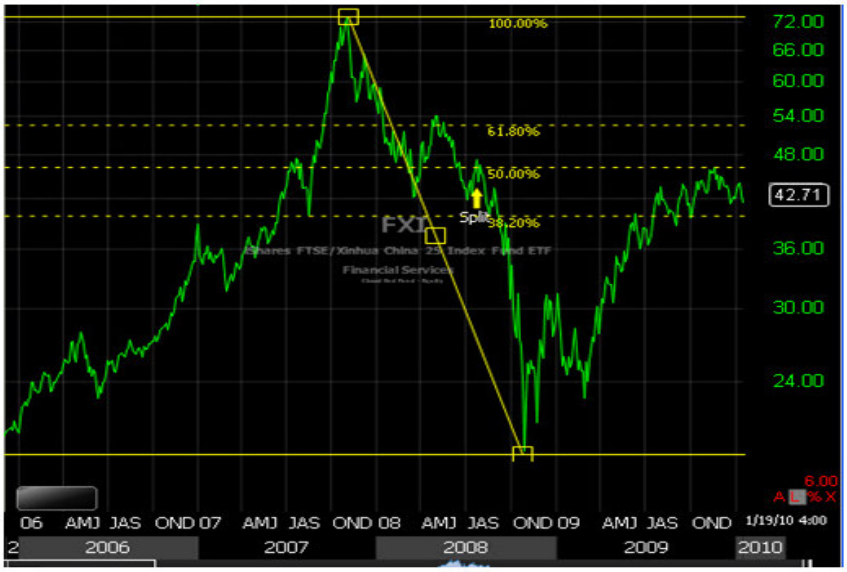


Figure 26, China 25 Index ETF Source: StockFinder

China ETF signals some weakness. The uptrend is still in act, but its breaking down through 38.2% zone would seed serious seeds of doubt.

Figure 229, DJ-30 Weekly Chart Source: StockFinder

Now, if gold falls clearly under $1,050, it may very well test $1,000 area before looking significantly higher again. Either way, we expect a very bouncy ride. Daily movements of $50-100 are possible. Short-term moves are hard to predict and trade, so those of you who decide to play the gold game please be patient and protect your profits as well as capital during the stormy season.

As to **silver**, our long-term view has not changed. We continue to expect silver to outperform gold during the next couple of years. We prefer to participate on silver plays during dips. Silver is likely to show off high volatility and some juicy big moves. It will remind you of trying to ride a bull, which really tries to get you out of its back. Short-term moves of silver will follow quite closely the maneuvers of gold.

Let us spend a brief moment on a **simple strategy**. Undoubtedly, many of our frequent readers have already become familiar with it, but we think it is simple and worth repeating here. We have used this simple **market direction tool** now and then.

Draw two exponential moving averages on the weekly chart. Most of the time, we use 40-week and 20-week EMAs. The rule is to be long when the shorter EMA is above the longer one and take money off the table when they cross. Aggressive investors may want to switch to shorting at the cross point. Now, this tool works better with additional technical analysis, but it is typical that most long entries (in addition to the cross point) are either multiple week bottoms or inverse head and shoulders patterns. One way to improve the performance is to be alert if the price penetrates one of the EMA's. Most of the time, we need to have a different entry criteria than the exit criteria.

We urge you to give this strategy a try, even though most of our readers are very well familiar with much more sophisticated models. This strategy is so simple that Matias' 2-year-old daughter can point out when to be long and when to be short (she also knows how to press the print button – what a promising young central banker prodigy!)

The mind-itching thing is that this strategy is one of the simplest ones, which have outperformed most long-only funds in the world. We consider that remarkable. We have genuine

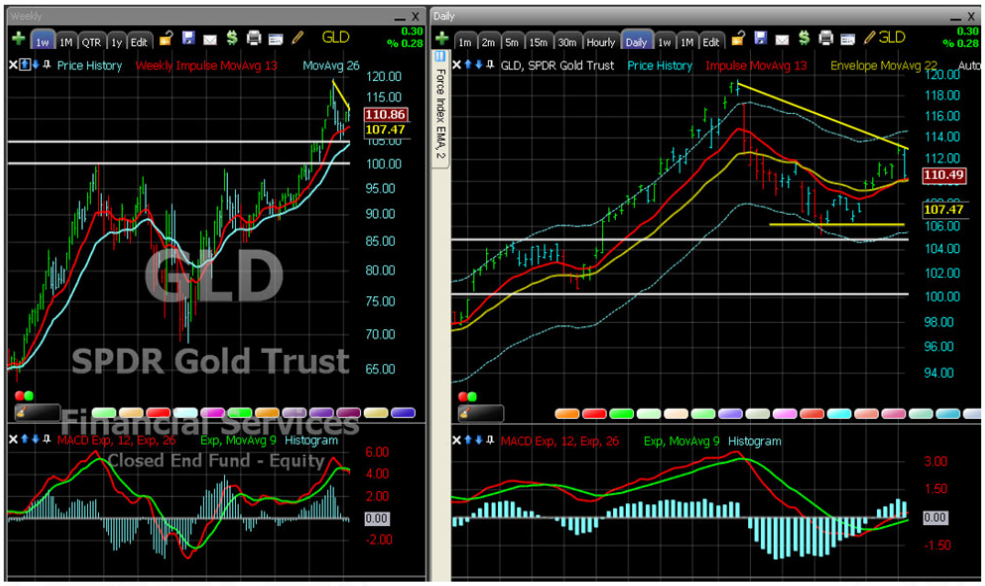


Figure 27, SPDR Gold Trust ETF Weekly and Gold Daily Charts

Source: StockFinder

sympathy for our fund manager readers. We are fully aware that most of you do not have the luxurious possibility to be all cash or be short. You are tightly handcuffed to be long no matter what. It is no easy task. Yours truly thinks that there is something bizarre about that too. It's like driving full speed on a crowded street, even though one knows that is not a good idea.

Some stocks we are looking for to accumulate in our portfolio are Market Vectors Junior Gold Miners ETF (**GDXJ: NYSE**) and Zhongpin Inc. (**HOGS: Nasdaq**). If you should decide to participate in these, be patient to find a suitable entry point. As always, this is not a recommendation. Do your own research.

In conclusion, we are very cautious at the moment and watch our equity positions extremely carefully. We are under the view that nobody will blame you for taking some money off the table to make a better entry in case the expected correction occurs. It looks clear to us that the short-term upside potential is very limited at the moment. Perhaps it is wise to turn eyes on possible short candidates to balance longs. There are plenty of stocks, which show a serious lack of steam and weakness.

As a final point, as many of you know, we are posting videos whenever we feel we have something to say (and we cannot wait until it's time to write the next MMM Report). You can find our new videos on YouTube by subscribing to "Vagabond Investors" or becoming a fan of "Money, Markets & Milestones" on **Facebook**. Either way will lead you to our comments on the market and the economy.

We suppose it is fair to say that one should be prepared for a humpy ride in 2010. It will be a completely different story from 2009. Let's make it the best of times!

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