Private Wealth Advisory

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Falling Like a BRIC

Before launching into this week's issue I wanted to remind all of you that we have closed out our UltraShort China ETF (FXP) position. I sent out an update on January 28, 2010 before the market opened urging you to close this trade. We did so at a 15% profit: not a bad one-month return given the volatility of this market. If any of you have not yet closed out this position, please do so now.

Action to take: Sell the UltraShort China ETF (FXP) if you have not already done so.

I fully expect we shall be revisiting FXP at some point in the near future once the market begins its next leg down. But in the meantime, we're out.

Now, on to this week's issue.

The market continues to be dominated by several key trends. They are:

1) Sharp stock rallies on Mondays (20 out of the last 22 Mondays have been sharp up days)
2) Stocks exploding higher on Monday's open before treading water the remainder of the day
3) Extremely low volume on up days with heavy volume on down days
4) Former leaders now lagging (financials, real estate, etc)

These trends have been in place for months. However, the context in which they occur (the Big Picture) has changed. Indeed, from a larger perspective, the seismic shift I've been talking about since December 2009 continues to gain momentum (for those of you who are new to *Private Wealth Advisory* I suggest you read the last 4-5 issues to get an idea of what I'm talking about here).

This seismic shift involves the re-emergence of what I call "Market Forces" (deflation). As I've been writing about for weeks now, the market has been sequentially dominated by two market trends over the last three years. The Deflation trend took hold from October 2007 to March 2009. The Government Intervention trend (re-flation) dominated from March 2009 to roughly November/ December 2009.

We are now witnessing a gradual shift back to Market Forces again. Indeed, the signs are already there. They are:

1) Talk of Government Stimulus/ Bailouts, as well as actual Stimulus injections themselves producing less and less upwards impact on the market

2) A flight to safety occurring (Short-term Treasuries yields hitting 0% or even going negative and a US Dollar rally)
3) Increased weakness in the stock and commodity markets

Regarding #1, Obama and pals have already announced multiple new Stimulus efforts ($100 billion for jobs). The market didn't do anything in response. Heck, even the re-appointment of Ben "Print Our Way to Prosperity" Bernanke failed to put a floor under the stock market. If the re-appointment of the chief architect of the stock market rally since March 2009 doesn't send stocks into the stratosphere, then you KNOW that the Government's Intervention forces are weakening dramatically in terms of impact (we'll address the current stock market bounce in a few minutes).

Regarding item #2 the Flight to Safety, short-term US Treasuries have exploded higher anytime the stock market shows signs of breaking down. We saw this in late October 2009. And it happened again in December 2009.

Remember, there is NO way for the US to EVER pay back its current debts. So the only reason Treasuries would rally is on a flight to safety (the US can always print money, thereby at least insuring the return OF your money as opposed to a return ON your money).

With that in mind, those spikes in the 2-year Treasury in late October and late December were major red flags that all is not well in the financial markets. In fact, in both October AND December we saw short-term Treasury yields go negative meaning that demand was so high that investors were willing to lose money (not earn ANY yield) just for the sake of having their cash parked with Uncle Sam (insuring at least the return OF capital given that the US can always just print Dollars).

Similarly, the Dollar rally begun in December has continued into January breaking above key resistance at 78 and 79.

This is a major breakout and sets the stage for greater moves to the upside. The next hurdle for the Greenback to clear will be 80. And it will be a MAJOR one (notice how much time the Dollar took to break below this level earlier this year.)

Finally, regarding #3 "Increased weakness in the stock and commodity markets" we have just seen stocks suffer a massive decline. Indeed, the damage done to the market rally from a technical perspective has been severe.

The Bull is Broken… Time to Get Off

For starters, no matter how you look at it, the uptrend that has kept this market going has been violated. I've drawn the two most logical lines for this uptrend. One of them goes from April 2009 to the present. The other focuses on the line maintained since August after the brief correction and massive rally of July. As you can see, BOTH have been broken.

The picture is equally bearish when we add the 50-DMA and 200-DMAs.

As you can see, the S&P 500 has broken cleanly below its 50-DMA. This has only really happened once since March 2009 (that was in July). Of course, at that time the market managed to ramp higher from there and resume its upward slope. However, back then:

1) The Fed's juicing of the markets still had a huge impact (a 14% rally in one month)
2) Bullishness had not yet reached the extremes of today
3) Institutions were still willing to go long on stocks

Today, we are in a very different place in terms of sentiment. The Dollar is rallying. Short-term Treasuries are yielding 0% (meaning a flight to safety/ risk trade is underway). The Fed's juicing of the markets no longer has the same effects (stocks struggled to move even 4% from November to the January highs). And, finally, large players are no longer playing the market to the long-side as evinced by the weak volume on up days.

Thus, we are in a very different market today than we were back in July '09. With this in mind, the violation of the 50-DMA is a serious break of the market's upward momentum. And the 50-DMA (1,113) will now act as serious resistance to the upside. The Bulls must reclaim this level if they have any hope of seeing another real rally.

On a final technical note, this recent correction saw the S&P 500 slice through 1,090, a line that has served as major support in the past few months. Indeed, the S&P 500 bounced off of this level no less that six times since November. The fact the market broke this support with little difficulty during this latest correction is very ominous.

So, to recap, today we see that the market has:

1) Broken its uptrend lines of both the last 6 and 10 months
2) Broken below its 50-DMA (major support for much of the rally)
3) Broken below major support (1,090 on the S&P 500)

Like I said, the technical damage of this correction has been severe. The fact that we've seen this occur in just two weeks is even more jarring. On a final note, I also would like to add that historically, years in which stocks end January down tend to be down years for the market as a whole.

The Coming Crash: Sooner or Later?

On that note, I fully believe we shall see another Crisis hit the markets within the next 12 months. Here are the likely catalysts I see at this time:

1) Sovereign Debt Defaults (Greece, Dubai, Ireland, Spain, UK, Portugal, Italy, or even the US if a debt auction fails)
2) Israel/ Iran
3) Mortgage rate resets (the next major wave is this year)
4) Commercial real estate (this seems too widely known to come out of left field… but who knows)
5) Some kind of increased threat of regulation or actual regulation being imposed on the US Banks (look at what even the mere threat produced)

6) An end to High Frequency Trading Programs (these account for 50-70% of the market volume today)
7) Other issues

Truthfully, any one of these could occur at any time, kicking off another Crisis. **However, I do not think we are at that point yet.** Remember, it took a year for the Market to enter the first round of the Crisis after its all-time peak (October 2007). The issues that ultimately caused the Crash of 2008 were all present in late 2007, but it took nearly 12 months before investors really began to panic.

Similarly, we will likely see a decent window of time between the market's latest peak (January 2010) and the next round of the Crisis (the next Crash/ Collapse). The reason for this is that it will take time for investor sentiment to change to a more bearish tone. Look at the latest correction: stocks went into the red for 2010 and wiped out three months' worth of gains in two weeks and it barely dented investors' bullish enthusiasm.

In simple terms, with bullishness back at 2007 levels it will take time for sentiment to change enough for the market to really come unhinged.

However, I DO NOT think it will take a full year this time. Having already weathered two Crashes in the last 10 years, the notion of "Crashes or Big Losses" is still in the back of the average investor's mind (this is evident in the fact that mutual funds continue to see investors pull their money despite a market rally of 60+%). It will not take nearly as long for Joe Investor to get into a panic this time around.

My closest guess is that the next Crisis will unfold sometime in the second half of 2010. Given the debt issues, lack of reform, and leverage in the system today, I put the likelihood of this in the ballpark of 70-80%.

However, if, and this is a big IF, the market enters a kind of "fast and furious" period now triggered by any number of factors (the ones I listed above) we COULD see the Collapse/ Crisis start sooner. I put the likelihood of this around 10-15%.

We will simply have to wait and see what happens. But my primary point is that there are plenty of potential black swans that could hit the market at any time, speeding up the Crisis timeline. Any break below 1,000 on the S&P 500 is a signal that the DARK times are back.

So if we're not in a Crisis now, where are we?

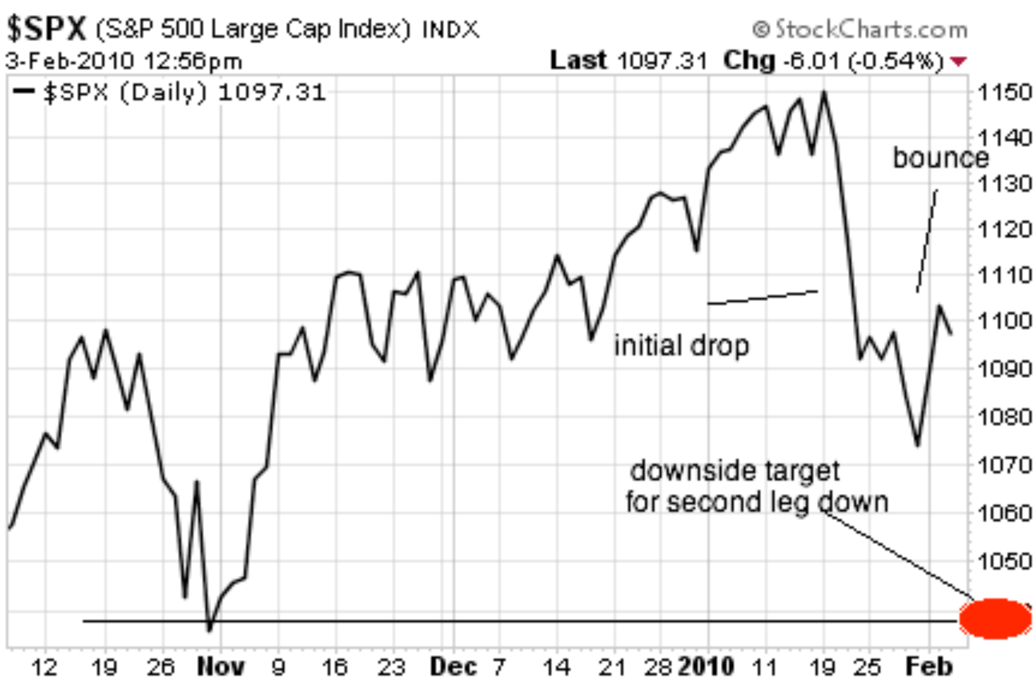
Where the Market is Today

I believe that right this moment the market is simply staging a normal 10% correction. As I've written extensively, stocks never go straight down. Rather, we typically see an initial drop, a bounce, and then the remainder of the correction.

The market action from January 19 to the 31 was the initial drop. We are now in the bounce stage which I expect will last into late this week or early next week.

Bounces themselves tend to involve several moves. The first leg up of the bounce was last Friday through Tuesday of this week. We are now seeing a brief correction in the bounce. The final leg up in the bounce will likely start tomorrow or Friday. My upside target for the bounce is 1,120 or so on the S&P 500.

Once the bounce is complete the correction should begin again in earnest. At that point we should see a sharp sell-off pushing the S&P 500 down to 1,035-1,040 (the next major support once the S&P sliced through 1,090).



For that reason we continue to hold our UltraShort ETFs. They are:

- The UltraShort Russell 2000 (TWM)
- The UltraShort Nasdaq (QID)
- The UltraShort Financials (SKF)

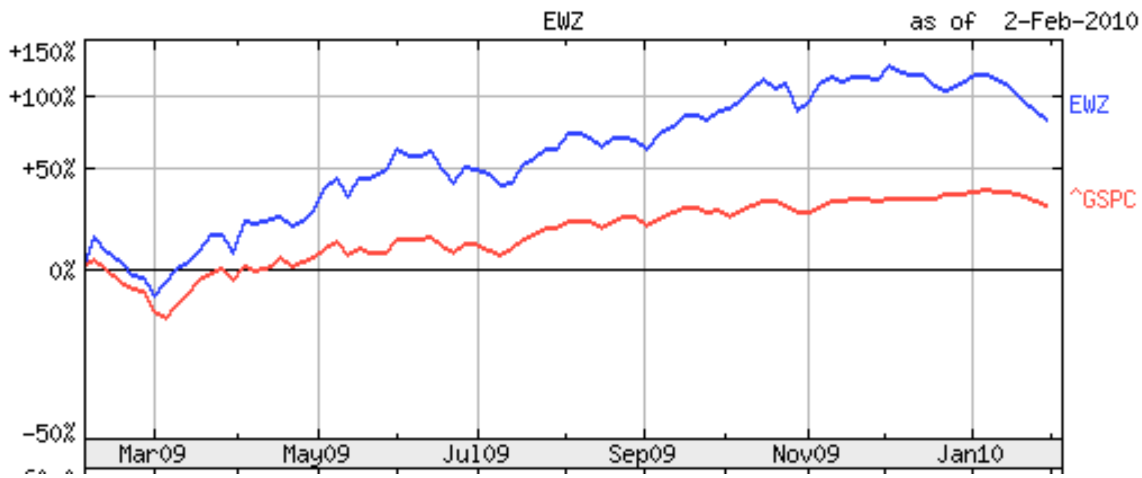
We are also short Saks (SKS), an individual stock.

I intend to keep these positions in our portfolio until the correction completes. This should be mid- to late- February. At that point we will likely close out all of them at a profit.

I may enter some additional shorts in our "Correction Now" portfolio when the next leg down comes. So be on the look out for potential updates early next week. In particular, I am looking to short Brazil: the most vulnerable of the BRIC (Brazil, Russia, India, China) countries.

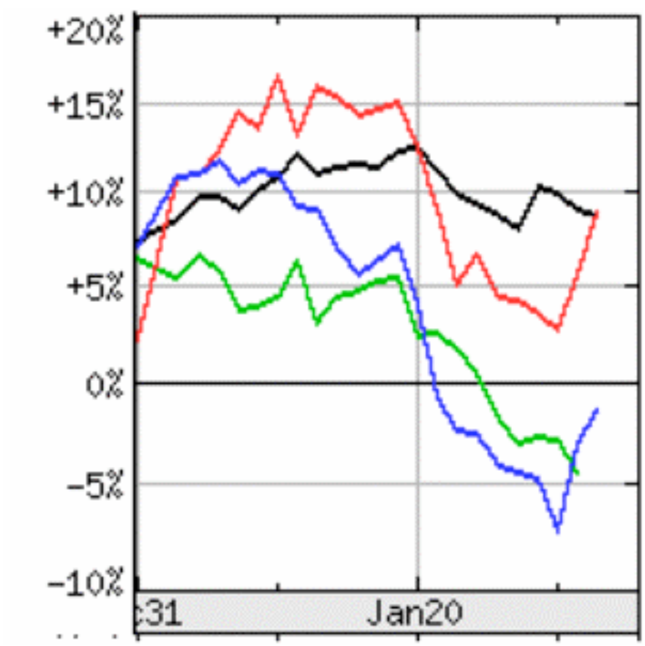
Our Next Trade

Indeed, while stocks in the US are up some 60-70% since their March 2009 lows, Brazil's stock market has absolutely exploded, more than doubling over the same time period.



Enthusiasm surrounding the country couldn't be higher. Brazilian bonds have received three investment grade ratings from the rating agencies in the last two years. On top of this, the country is set to host the 2014 World Cup and the 2016 Summer Olympics. Literally the entire world has bet that Brazil will experience a massive influx of capital as a result of these scenarios.

The bigger the rally, the greater the potential fall. The following chart depicts the performance of Brazil (blue), Russia (red), India (black) and China (green) during the correction of the last few weeks of January. As you can see, Brazil (blue) fell the hardest the fastest:



To give you an idea of how serious this correction was, consider that the Brazil ETF (EWZ) fell significantly below its 50-DMA for the first time in nearly a year:

I would also like to point out that the 50-DMA is now curling over and heading towards the 200-DMA. This indicates that EWZ's upward momentum has stalled. Indeed, this latest correction took EWZ right to its initial support (65) where it bounced. I fully expect the next leg down will see EWZ breaking below 65 and falling to 60 or even 55: the next lines of support.

We will be playing Brazil's collapse with the UltraShort Brazil ETF (BZQ)

BZQ returns 2X the inverse of the MSCI Brazil ETF. So it Brazil falls 5%, BZQ returns 10%. If Brazil falls 20%, BZQ returns 40%.

I wish to stress here that we ARE NOT buying this trade just yet. Instead I am adding it to our watch list for our "Correction Now" Portfolio. But I fully expect to issue a buy on this trade within the next 10 trading days when stocks begin their next leg down. So be on the look out for an update sometime early next week.

Why the Dollar, While Flawed, Is Not Going Away Anytime Soon

On a final note, I want to address some of the allegations put forth against the Dollar by numerous pundits. I note all over the financial media that there are quite a few individuals claiming the Dollar will soon suffer a major devaluation or is set to collapse at any moment.

These claims are extremely naïve, not because the Dollar isn't a flawed currency (it definitely is) but because investments are ALL relative, meaning that each one exists and moves relative to the others. IF (and it's a HUGE IF) the Dollar were to implode by 20% there would be trillions of dollars worth of capital looking for a new home.

Where would it go?

China: where the Government simply makes its economic data up (though it is of course a creditor nation)?

Switzerland: where even the Government admits its largest banks are on life support from the US (not to mention the entire economy is roughly the same size as New Jersey's)?

Europe: where the currency will likely not exist due to the fact that multiple countries are insolvent and the more solvent ones don't want to foot their bills?

What about Japan: where the Government has thrown everything it has for decades at the market and FAILED to produce a recovery (not to mention the HUGE issue of age demographics and debt)?

There really are no alternatives at this time. Maybe five years down the road. But not anytime soon.

Also, remember that no other country wishes to see its currency appreciate too far relative to the Dollar. We've already seen the Swiss Government actively depreciate its own currency, as have the Japanese and of course the Chinese who refuse to let their currency appreciate at all against the Greenback.

This of course leaves Gold, which is, of course, ultimately a currency. But given that it has thus far FAILED to act as a safe haven (see 2008 as well as its recent performance) the likelihood of it being treated as such in the near future is slim.

I wish to be blunt here: long-term I DO think the Dollar could potentially undergo a SERIOUS devaluation (as do ALL paper currencies). At that point, Gold will be much, MUCH higher than it is now. However, in the near to intermediate term (next few years), barring some kind of systemic failure there are simply no REAL alternatives for a reserve currency. This WILL change eventually. But in the meantime, the Dollar is the safe haven/ currency of choice.

With that in mind, the Euro is looking worse and worse.

PIIGS Cannot Fly

Europe is beset by the economic problems coming from Portugal, Italy, Ireland, Greece, and Spain. This wouldn't be a deal-breaker if it weren't for the fact that several of the more solvent countries (most notably Germany) are against bailing their less solvent counterparts out.

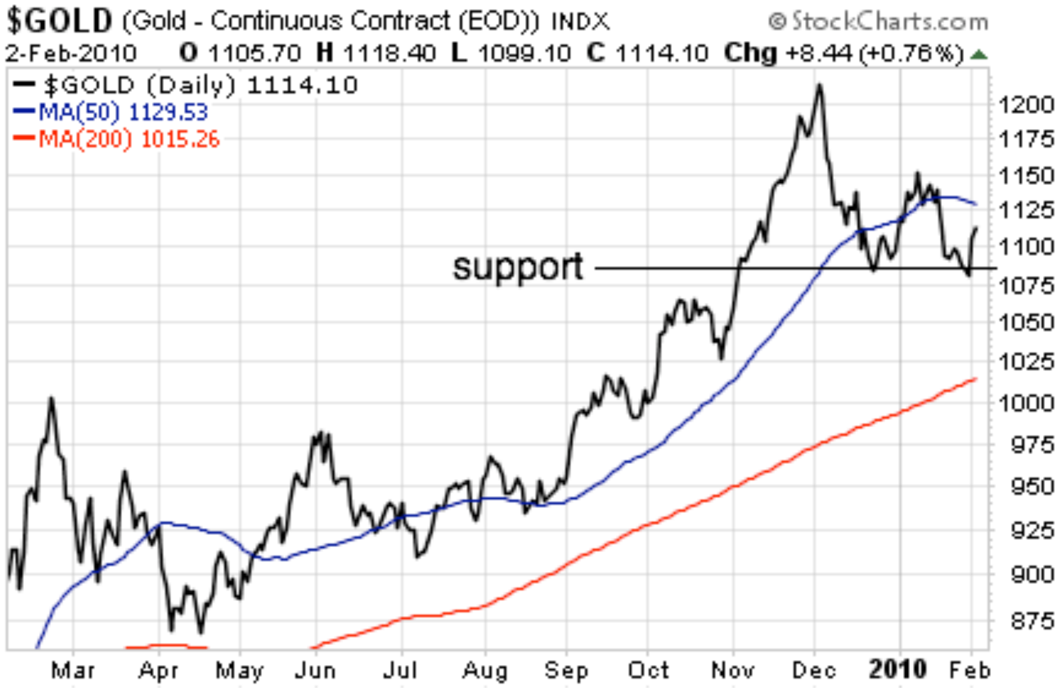
Consequently, the Euro has fallen off a cliff:

As you can see, the Euro has sliced through both its 50-DMA and its 200-DMA without much resistance. Other lines of support (142.5) haven't done much to stop the carnage. And it now looks like the Euro index is heading towards 137.5 if not 135. Indeed, barring some kind of bailout for Greece we could potentially even see the Euro at 130.

We're already set to profit from this with the **UltraShort Euro ETF (EUO).** If you have not already bought this yet, feel free to do so now. We're already up 2% since I issued a buy last week. And there are plenty of more gains to come.

Which brings us to Gold.

Gold hung on to support at $1,076 or so bouncing hard from that level. The 50-DMA (1,129) now stands as resistance and the Gold bugs will need to push the precious metal above that level and keep it there if Gold is going to launch another real leg up.



I remain bearish on Gold as the Dollar rally continues to gain strength. Indeed, I think that in the near to intermediate term we could easily see Gold drop to test the 200-DMA at 1,015. The precious metal has come too far too fast in the last 12 months and we're due for a shakedown that would result in many of the speculators selling. A drop to test the 200-DMA would bring the metal to a sounder base from which to begin its next sustained leg up.

With that in mind, we remain short Gold via the **UltraShort Gold ETF (GLL).** If you have not already bought this trade, feel free to do so at this time.

I expect to hold this position a month or so. However, if the Dollar rally really takes off, I expect Gold to fall a lot farther a lot sooner. Whenever it does, we'll take out profits.

That wraps up this week's issue. I have not yet completed my report on Agricultural Plays (which I mentioned a month ago) largely due to my inability to get ahold of the requisite number of experts/ industry insiders.

Agriculture, more than any other sector requires expert insights because you are dealing with weather patterns and a whole slew of other factors that don't affect most investments. For this reason, I've been trying to track down farmers, analysts, and others to flesh out my ideas on the agricultural sector. The fundamentals are extremely bullish long-term, but I have not yet gotten enough research/ specific investments picked out to issue formal recommendations. Rest assured that as soon as I do, I'll issue a Special Update to all of you.

Also, if any of you know or are in contact with those who work in the agricultural sector, please drop me a line at graham@gainspainscapital.com. I'd love to pick their brains.

On a final note, the first issue of my political/ social/ economic newsletter is almost finished. If you would like a free complimentary subscription to this, drop me a line at the above email and I'll add you to the list. Once this goes live, an annual subscription will cost $99. But I'm happy to offer any of your who write in requesting one before its first publication a FREE one year subscription with my compliments.

I will also have some other very exiting announcements to make soon. But right now it is too early. Just know that I've got some very big plans for 2010. And you'll be the first to hear about all of them in the coming weeks.

Good Investing!

Graham Summers

CORRECTION NOW PORTFOLIO					
Company	**Symbol**	**Buy Date**	**Buy/Short Price**	**Current Price**	**Gain/ Loss**
Ultrashort Russell 2000	TWM	11/2/09	$31.74	$26.00	-18%
Ultrashort Nasdaq	QID	11/2/09	$24.13	$20.36	-15%
SHORT SAKS	SKS	11/11/09	$6.30	$6.74	-7%
UltraShort Financials	SKF	12/9/09	$25.23	$24.12	-4%
US Dollar Bull ETF	UUP	12/22/09	$23.16	$23.39	1%
UltraShort China	**FXP**	**12/23/09**	**$8.58**	**$9.84 (SOLD 1/29/10))**	**15% (SOLD)**
UltraShort Gold	GLL	1/26/10	$10.29	$9.94	-3%
UltraShort Euro	EUO	1/26/10	$19.29	$19.77	2%

Watchlist: Positions We Are About to Open	
Company	**Symbol**
UltraShort Brazil	BZQ

Coming Crisis Portfolio: Positions We Will Buy When the Next Crisis Hits		
Investment	**Symbol**	**Reasons to buy when the Crisis hits**
UltraShort Emerging Markets ETF	EEV	Sovereign debt default, end of liquidity rally, capital withdrawals on flight to safety
UltraShort Russell 2000	TWM	The WORST index in the US, comprised of junk and unprofitable companies
UltraShort Real Estate	SRS	Second wave of mortgage rate resets, continued increase in defaults in housing, r
UltraShort Materials	SMN	Complete and utter disconnect from economic realities.

Kicking the Can Portfolio: Government Favorites	
Company	**Symbol**
Haven’t found any yet.	N/A