Q2 2010 Market Commentary (Excerpt)

August 6, 2010 S&P500 Index 1121

"Fear" as measured by the value of the Volatility Index is ***LOWER NOW*** than at the 2007 market peak and momentum buying (buying what is "hot" / going up), has never been more in favor as wildly optimistic economic recovery "expectations" for the next 2-3 years are being talked about with increasing "certainty". Yet, the daily volume of stock traded is at the lowest levels since the 1990's and retail investor participation is almost non-existent. Unless volume and participation increase soon, any meaningful selling could end this rally and quickly wipe out the gains since February.

If the trend of the past year holds, then we are likely to be very close to a short-term top, for now. With the Dow near 11000 and the S&P500 near 1200, we can expect some more buying this week into the options expiration (usually the peak for the market) and then I believe that unless Corporate earnings reports are truly spectacular, we will likely see a post-earnings market selloff similar to what we saw in July and October 2009 and most recently in January 2010."

Indeed, this is ALMOST EXACTLY what happened!

The stock and commodities markets peaked simultaneously on April 26 at the SPX 1220 level, amidst great market optimism, calls for S&P1500 within one year (a 23% advance!) and large job creation and hiring. What we got instead was the BP Oil spill, an expansion of the Greek Bond Market crisis spreading to Spain, Portugal, Ireland and Hungary, and renewed job LOSSES. The first part of the selloff was violent, culminating in the terrifying "Flash Crash" on May 6th, when the ***SPX CRASHED 6% IN FOUR MINUTES*** (after previously dropping 4% earlier in the day) and then rebounding ***THE SAME 6% IN THE FOLLOWING FOUR MINUTES! In that insane 8 minute period, many large multinational companies saw a drop (and then rebound) of 20%-30% or more in their stock prices!***

In the space of only 8 weeks, we went from extreme euphoria and global economic boom, to views of a return to deflation and depression and possible global economic collapse. Many commodities sold off 30% of more in just these 2 months, with Sugar, Cocoa, Natural Gas, Copper collapsing; and Crude Oil and Gasoline falling more than 20%! Even more striking was the complete panic that hit the Energy Services stocks during this time. While only BP and a few other companies were directly impacted by the possible liability of the oil spill, the entire sector was sold off by almost 35%!!!

It mattered not that these companies are exceptionally profitable TODAY, and will continue to be in the future. The "herd" mentality of the large financial institutions caused a stampede to sell these companies indiscriminately as well as the rest of the stock market, and while it used to take many months and sometimes years to get such a massive market move, now it routinely happens in a few weeks OR LESS!

For those clients that have my firm ***ACTIVELY MANAGE*** their accounts, we were able to take advantage of the euphoria and then the subsequent panic, first by selling some investments ***BEFORE*** the large market drop (preserving and saving investment capital), and then by buying and adding to Energy stock positions during the market panic and ***BEFORE*** the market rally (profiting handsomely on the ensuing rally).

Look for commodity prices and commodities stocks (Materials, Energy, Energy Services, Miners) to continue to rise as money rotates out of homebuilders, healthcare and consumer stocks. If money rotates back into financial stocks, the market indices will move up swiftly since financial stocks make up the largest weighting in these indices. At some point the US Dollar will likely have an extended rally against the Euro again. If and when that happens, we may face another sharp market selloff. For now, the most important factor will be the Federal Reserve meeting on August 10th. What the

“Fed” says and does, may be the catalyst for a sustainable market rally above SPX 1150 or selloff down to 1080 or below. Longer term, watch for a buildup of tensions between Iran and Israel over Iran’s secret nuclear weapons program and the possibility of Iran attempting to use its submarines to close the Strait of Hormuz to oil shipments, which could cause a war.

I close with what I wrote on April 10th:

“Short-Medium term opportunities abound but you must be swift to take advantage of them. Please call me to review your portfolio and to discuss how we might be able to take make the most of these rapidly changing market conditions.”