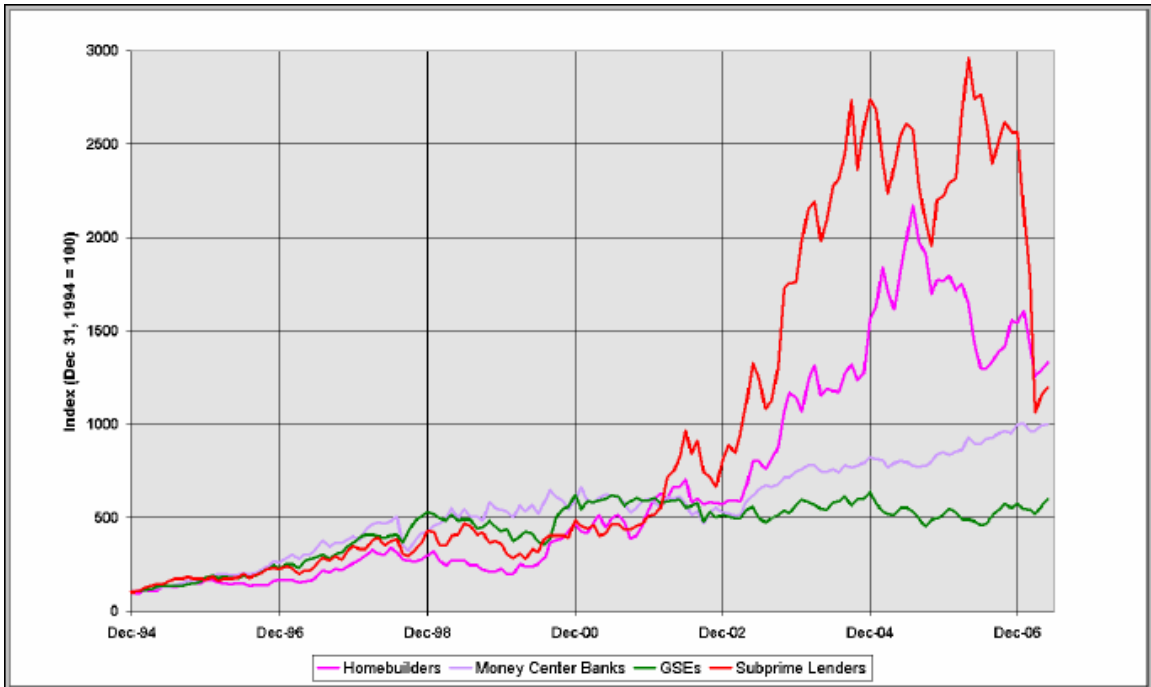


IS THE TOP IN NOW? 07.09.2007

Approximately 45% of last year's earnings of the S&P 500 came from financial earnings. This includes banks of various types, as well as the financial arms of such multinational companies as GMAC, GE, and others. A good deal of this 45% comes from trading in secondary markets. This type of income is a zero sum game in the long run. When markets trend upward, all can be winners; likewise, when markets trend downward, all can be losers. Of course, most of the time it's a little of both. The overall trend determines net gains or net losses. The point is that these are not "organic" gains in the sense of building and selling a product or service. As we have mentioned many times previously, the economy since the recession of 2001 has been strong in financial areas of profit as opposed to old fashioned buy and sell, save and invest activities.

The reason for revisiting this subject is the recent volatility appearing in both the bond and stock markets. This volatility indicates that market participants are beginning to question the existing Goldilocks rosy scenario. Undoubtedly, the Bear Stearns hedge fund blowup is bringing this paradigm into question. If the bond market continues to weaken (if interest rates continue to move upward), the stock market is sure to follow downward with a vengeance. Debt levels are mounting daily, and finally—at last—lenders are beginning to say no! The feel of the markets suggests something major may be in the works. Only time will tell, but caution seems to make sense.

Please note the following chart taken from Marc Faber's web site, www.gloomboomdoom.com. Homebuilders and sub prime lenders are in serious retreat. Money center banks and government-sponsored enterprises may be next. These stocks, along with the investment bankers index (brokerage stocks), have been weak for six months or longer. All does not appear to be well with the driving forces behind the five-year-plus expansion. It will probably spread.



Taken from Gloomboomdoom.com