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Bernanke Getting The Bowels Of The System Working

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**May you live in interesting times. Boy, does that apply to the current financial market climate! No sooner did I have a nice outline all set for this email than Bailout Ben & The Boys come to the rescue again, making that content moot for now.**

**I was extremely critical of the Bernanke Fed as they were asleep at the switch late last year, but I completely applaud, endorse and support their moves since January 22. (Not that Ben Bernanke really cares what the heck I think!)**

**This is the most creative and unconventional Fed I can remember, not relying solely on monetary policy. As longtime floor veteran Art Cashin of UBS has said many times, the Fed needed to get blood to the right muscles. And it has been doing that for the past few weeks by aggressively attacking the heart of the problem.**

**I remember the 1992 presidential election when Bill Clinton brilliantly used the slogan, "It's the economy, stupid". I may not have voted for him, but it was a very smart move. In 2008, that slogan would be, "it's the credit market...". Those of you who have a more advanced knowledge of the financial markets understand that the credit market has completely and unequivocally seized up as questionable loans, bank writedowns, etc. have forced a total forced deleveraging of the entire debt system.**

**In short, almost NO BUSINESS has been transacted for weeks and months with financial institutions seeing less and less value in the instrument they held, forcing a death spiral of selling into a vacuum which led to lower prices and more selling.**

**Thankfully, the Fed finally recognized this and began to attack the problem by providing more than \$100 billion of liquidity into the system to try and get things working again. That was a good start, but the markets weren't satisfied.**

**This morning, a \$200 billion plan was unveiled that also had the buy in from the European Central Bank and Bank of Japan, which has sorely been missing. In short, the Fed was going to buy better quality mortgage backed securities and sell Treasury bills in return for 28 days to help inject liquidity into the system and shore up balance sheets.**

**While 28 days may not seem like much, it's a temporary reprieve that gets the bowels of the system moving again. If this works, the Fed can come back and offer a similar or extended plan next month. There is so much more to this, but I'd rather not bore you with details since I want to get to the stock market. There are some good pieces written about this on Yahoo and Marketwatch.**

## **F\*R\*E\*E Money Management? Are You KIDDING?**

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Now that I have your attention, I ask you to please read on. I'll get to that headline in a few minutes.

Since the January panic bottom, I have pointed to the first two weeks of March over and over as the time at which we should see a successful retest of those lows. (You can visit the website for archived issues to read more.) That's normal, expected and healthy. Over the past few weeks, I described how it was going to look with a slow and steady grind lower until we hit those previous levels.

And by Monday's close, the Nasdaq 100 and Russell 2000 exceeded their January lows, while the Dow and S&P 500 only did so on a closing basis. To be fair, if you asked me 24 hours ago if that was the ultimate low of of lows, I would have said no. But what a difference a day makes!

The past week saw relentless selling pressure across the board, but nothing that would have qualified as a panic event like October 1998. Almost every short-term measure I look at was screaming that a major low was imminent.

In today's terms, "imminent" could mean anywhere from 0-5% lower and in this case, it was 0%.

Every single option related indicator I watch was giving buy signals. All of the sentiment survey related measures flashed buys. The various indicators using advancing and declining issues as well as up and down volume were historically stretched. Price in itself had seen four straight down months, and even in the worst bear markets, a relief rally was due.

I could go on and on and on. Buying by corporate insiders, one of the better intermediate-term signals has been screaming buy since late January. And the news backdrop simply could not have been worse. It was a non stop barrage of the scariest, most negative headlines since at least 1990, if not the past 30 years.

All that was missing was a spark to get the fire going.

Folks, this is the kind of background that has launched new bull markets! I have written about it before and it bears repeating again. The worst case scenario is that we remain in a bear market, but still rally AT LEAST 10% by summer before seeing more on the downside.

The best case scenario is that we are on the verge of launching a new bull market and close 2008 in the black. Before you start shaking your head and suggesting I seek medical attention, I urge you to look at similar periods in 1987 and 1990. I won't even include 1998 since that led to one of the great bull runs of all-time.

In 1987, as you know, the market crashed on October 19, rallied for a few weeks and then slowly and steadily grinded lower to the same level on December 4. Headline news focused on the coming depression, as that's what happened in the 1930s after the Great Crash of '29.

A year after the crash in 1987, the S&P 500 was up more than 30% as the majority of investors kept very high levels of cash on hand and disavowed the rally until 1989.

As you've read many times here, 1990 offers some very valid fundamental comparisons with the current credit crisis very similar to the S&L crisis back then. Stocks have declined in similar amplitudes and the headlines have been eerily alike.

I keep a library of covers for Barrons, BusinessWeek, Time, Newsweek and US News and World Report back to the 1980s. Do these cover stories seem familiar? The first column is the headline, followed by the description and

source.

How High Can Oil Prices Climb?	???????	Barrons
So This is What a Recession Feels Like!	Guys out of jobs	Barrons
Just How Bearish are the big boys?	Elephant	Barrons
Agony at JP Morgan	CEO	Business Week
Apple Computer	New Team, New Plan	Business Week
Bush League	Bush and Co.struggling	Newsweek
Is GE Cruisin for a Bruisin'	GE lightbulb	Barrons
Can American Still Compete	GM factory	Time
The New Face of Recession	down arrows	Business Week
Beyond Recession: the Death of Growth	Chart that goes through the floor	Barrons
Riding Out the Recession	A boat about to go over waterfall	Newsweek

Every single one fits today's environment! But folks, those were the headlines in September and October 1990 as the stock market was establishing a bottom and surged more than 30% over the next 12 months and MUCH more after that!

In the throes of the worst banking crisis since the 1930s and the U.S. on the verge of going to war to repel Iraq from Kuwait and the economy about to fall off a cliff, the stock market somehow launched one of the greatest bull markets EVER.

If you are waiting until the headlines become rosier to invest, I wish you well in your investing endeavors. History has proved time and time again that the BEST opportunities come when you think it either cannot get any worse or get any better! Then go opposite your emotions.

Next week, the major brokerage firms report earnings, and it's going to be UGLY! Of course, Bernanke & Co. will cut rates by at least another 1/2%, but you should expect a whole lot more terrible earnings news from corporate America. And I am sure investors will forget all about today and sell into the abyss.

Was today the ultimate lows of all lows never to be seen again like December 1987 and October 1990? I really don't know. But if you ask me what the risk/reward is, I think the S&P can decline 5% from here in the short-term and rally 10-30% from here over the intermediate and long-term.

You make your own decision, but I think we are in the zone of one of the great buying opportunities this decade. And I want you to be able to participate.

In fact, without even debating this or weighing the pros and cons, I am going to offer F*R*E*E MONEY MANAGEMENT for ALL new accounts opened in the next 30 days. I will waive 100% of my investment advisor fees until July. No strings attached. The money is in your name with 24/7 acces and you can withdraw it at any time for any reason without penalty.

How's that?

All you need to do is hit reply to get the conversation started or pick up the phone and call me directly at 203.389.3553.

And feel free to forward this to your friends and families.

Summing It Up

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**Today was such an emotional affair. When markets get so stretched, they tend to snap back in violent fashion like we saw. Volume was heavy and the**

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## To Your Financial Success,



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