

STOCKWORLDWEEKLY

THE EXECUTIVE'S SUMMARY | OF THE GLOBAL MARKETS

Dow Jones	12,512 (-0.7%)
S&P 500	1,333 (-0.4%)
NASDAQ	2,803 (-0.9%)
NYSE	8,358 (-0.2%)
Russell 2000	829 (-0.8%)
Oil	100.18 (+0.8%)
Gold	1,514 (+1.3%)

THIS WEEK'S NEWSLETTER:

MONDAY MARKET MADNESS

Arrest of IMF Director dominates news

TUESDAY - TESTING OUR REFERENCE LEVELS (AS PREDICTED!)

Hewlett-Packard lowers earnings and revenue forecasts

WHICH WAY WEDNESDAY - PROBABLY DOWN

Wheat, corn and other grains soar as Mississippi River floods

THURSDAY THOUGHT - DON'T TAX OIL COMPANIES - NATIONALIZE THEM!

By their own admission, oil companies are overcharging the public

FRIDAY - IT'S THE END OF THE WORLD AS WE KNOW IT

...and we feel fine!

THE WEEK AHEAD

On Saturday, May 14, the International Monetary Fund's (IMF) Managing Director Dominique Strauss-Kahn **was arrested on board Air France Flight 23, moments before the plane was scheduled to takeoff for Paris.** In a whirlwind of ignominy, Mr. Strauss-Kahn was charged with sexually assaulting a maid who worked at the Sofitel Hotel in New York, where he had been staying. Charges included **attempted rape and unlawful imprisonment.** Strauss-Kahn was denied bail, remanded to the custody of the New York City Department of Correction, and detained in protective custody at the jail on Rikers Island. He quickly retained famed attorney Benjamin Brafman, known for having represented Michael Jackson and Sean Combs, as his defense counsel.

On Wednesday, May 18, **Strauss-Kahn resigned as head of the IMF.** On Thursday, May 19, over the objections of prosecutors, he was granted bail of \$1 million on conditions that included house arrest in a New York apartment under armed guard. Strauss-Kahn had been a leading candidate in the upcoming French 2012 Presidential elections. According to reports of a "curiously premonitory" interview in Libération newspaper, Mr. Strauss-Kahn had anticipated a scenario involving false accusations from political opponents. This of course incited conspiracy theories suggesting that Strauss-Kahn was set up:

"In the then off-the-record discussion on April 28, the International Monetary Fund chief said he could imagine a scenario where he was framed for a rape he did not commit.

"The 62-year old was clearly worried about receiving "low blows" from allies of President Nicolas Sarkozy, whom a series of polls suggested prior to the scandal he would beat in next years' elections should he run.

"Mr Strauss-Kahn then said there were three obstacles to his election: "Money (he is vastly wealthy), women and my Judaism." Starting with the female question, the former Socialist finance minister said: "Yes, I love women, et alors?" (Dominique Strauss-Kahn conspiracy theories mount)

Strauss-Kahn's arrest came at a critical time for the European Union, as [European Central Bank \(ECB\) officials dismissed proposals for "cutting Greece any more slack" on its debt repayments](#). The ECB has taken the position that Athens must persevere with its rescue plan, even though it may not be enough. On Tuesday, top European financial officials broke an unspoken taboo and *"acknowledged for the first time that Greece may have to restructure its debt."* ([Stark: ECB would reject Greek bonds after restructuring](#))

In Greece, [violence has been escalating during protests](#) and the general public is growing increasingly cynical. A survey conducted by Public Issue shows that the population is deeply unhappy with its leadership, with the IMF, the EU and the ECB. A significant minority (33%) openly favors some form of "revolution." Seventy-four percent of the public had a negative opinion of Dominique Strauss-Kahn *before* he was arrested on sexual assault charges. ([Public Poll: 75% Greeks Negative on IMF, 33% Favors Changes through 'Revolution'](#))

Meanwhile, throughout Spain, protestors marched and pitched tents in defiance of a government ban against public demonstrations before an upcoming election on Sunday, May 22. People expressed outrage over budget cuts, bank bailouts, an unresponsive political system, inflation and lack of jobs. Unemployment is a serious problem in Spain; the collapse of the debt-driven property boom led to an overall unemployment rate of 21%. Among young people, the unemployment rate is a staggering 45%. ([Spaniards Protest in Madrid Against Austerity](#))

Protestors denounced Spain's two political parties as being ["selfish and useless"](#) in their dealing with the economic crisis. Ramon Cotarelo, professor of political science at Complutense University in Madrid, described the situation as being *"the culmination of a mix of woes,"* including frustration with politicians and contagion from the Arab countries. As in the Middle East and North Africa, rapid-fire communications over the internet facilitated the protests. *"Suddenly there is a spark and everything explodes... Crowds that have packed Puerta del Sol this week have pledged to stay there until after*

the elections this weekend." The protesting in Madrid, Barcelona, Granada, Valencia and other cities is expected to continue. ([Spaniards defy ban to demonstrate in Madrid](#))

The U.S. housing market was also in the news. [New residential housing starts in April were down nearly 24% year-over-year](#) (compared to April 2010). A survey of homeowners and renters found that 54% don't expect a recovery for at least three years. Only 15%



expect a turnaround by the end of next year. According to CoreLogic Inc, a real estate information firm in California, home prices will come under additional pressure as more homes in foreclosure are added to the inventory of unsold homes. ([U.S. Housing May Not Recover Until 2014: Survey](#))

This spring's Mississippi River floods are among the largest in the last century, rivaling the major floods of 1927 and 1993. The Morganza Spillway was opened in an attempt to mitigate flood damage in Baton Rouge and New Orleans, resulting in the deliberate flooding of 4,600 square miles of rural areas in Louisiana. The river crested on Thursday at a record 57.1 feet, 14 feet above flood level. It is expected to remain above flood stage until mid-June, putting additional strain on levees that could still breach. ([Worst seems over at one flood front line - but not the other](#))

The floods are expected to cause billions of Dollars of damage. Farms alone could take a \$2Bn hit from the flooding, affecting not only the local economy, but also food prices generally. Shipping has also been disrupted. The Coast Guard closed a stretch of the river for much of Tuesday, and additional interruptions are expected. Authorities are trying to balance the needs of shippers against the possibility of crumbling levees. ([Flooding hinders shipping on Mississippi River](#))

Moving on to last week's adventures in the stock market, Phil mentioned three simple option trades for the \$25K virtual portfolio (\$25KP). In \$25KP, Phil added 20 UUP June \$22 calls for \$0.13 (still at \$0.13), 10 USO June \$39 puts for \$1.28 (still at \$1.28) and 10 EDZ June \$20 calls for \$1.00 (still at \$1.00). These option trades haven't moved and are worth a look for next week. The \$25KP was up to \$33,633 at the end of week 15, up 34% year to date.

Last week, we reviewed a number of [Pharmboy's trades](#) mentioned in previous newsletters, including trades on MRK, GXDX, IMGN, BIIB and MNTA. This week, we're adding to our review two companies that Pharmboy still likes at current prices.

In the [February 27, 2011, issue of Stock World Weekly \(SWW\)](#), Pharmboy discussed OPKO Health (OPK) as a speculative biotech play. In March, OPKO announced [plans to raise \\$100 million in a secondary stock offering](#). This briefly knocked the stock down to \$3.50, and the shares have been trading [around \\$3.80](#) since. As noted in "[OPKO - Sick or Dead?](#)" we continue to like the company. CEO Dr. Phillip Frost continues to buy shares. On May 20, 2011, Dr. Frost bought another 35,454 shares, for \$134,725. (See the insider buying chart at [Insider Cow](#)).

Discussing another company prone to [insider buying](#), [Cerus Corp.](#), Pharmboy writes: "Cerus (CERS) was an [original pick on March 27](#). It has since fallen back to a sweet spot. Cerus makes the Intercept system which is designed to inactivate blood-borne pathogens in donated blood components intended for transfusion. It markets INTERCEPT for platelets and plasma primarily in Europe, the Russian Federation, and the Middle East. The company is also developing an INTERCEPT Blood System for red blood cells, designed to inactivate blood-borne pathogens in donated red blood cells. Below \$3.00, the stock is relatively inexpensive. Insiders have been buying shares recently between \$2.50 and \$2.95. I believe the stock has nothing but upside in its future."

Monday Market Madness



Stocks were down on Monday, as concerns about the European debt crisis and weak U.S. economic reports weighed on the markets. The May Empire State manufacturing survey showed the general business conditions index fell 10 points, from 21.7 in the prior month to 11.9 (20 had been expected).

5/16/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,548	1,329	2,782	8,337	823
PREVIOUS	12,596	1,338	2,828	8,372	836
% CHANGE	-0.38	-0.62	-1.63	-0.42	-1.53

Monday's headlines were dominated by the story of International Monetary Fund (IMF) Director General Dominique Strauss-Kahn being arrested in New York on charges of sexual assault. Dominique Strauss-Kahn's arrest cast a pall over the Eurozone. The French media especially speculated that Strauss-Kahn was the victim of a setup. Meanwhile, the Greek debt crisis kept grinding on. Pimco's Bill Gross warned that, *"At some point the can cannot be kicked down the road any further...ultimately debt holders will have to bear some of the burden as well."* (Bill Gross Says Greece Insolvent, Top Candidate for Default)

Bloomberg reported that analysts were lowering their expectations for European earnings growth. Joost van Leenders, strategist at BNP Paribas Investment Partners in Amsterdam, declared, *"You have a strong Euro, an aggressive central bank, slow growth and of course the government bond crisis. We are negative on Europe."* (Profit Estimates Fall Most Since '09 as Europe Bull Run Ages)

The situation at Fukushima continued to deteriorate, and while the ongoing crisis is not discussed extensively in the news, we believe it is very important. Trouble at Fukushima directly affects Japan, the third largest

"Goldman Sachs (which would never attempt to manipulate the markets) sent the Asian markets sharply lower Monday morning by lowering their ratings on Japanese and Korean equities. Perhaps they just read my weekend post on Japan and figured they'd better catch up." - Phil

economy in the world. It consequently affects the global economy as well.

Arnie Gundersen of Fairewinds Associates is an energy advisor with 39-years of nuclear power engineering experience. He released a video on May 13 expressing his concerns about the severity of the situation at the Fukushima Dai-ichi nuclear reactor complex. He reported, *"The situation continues to worsen...all the reactors are continuing to emit radiation. TEPCO needs a cohesive plan and international support to protect against world-wide contamination."*

On Monday, the government of Ibaraki Prefecture ordered the towns of Daigo and Sakai to halt exports of green tea leaves. Recent testing found the tea leaves to be contaminated with excessive levels of cesium. The Ministry of Health, Labor and Welfare ordered Tokyo and 13 prefectures in northeastern and eastern Japan to ramp up efforts to monitor radiation levels in tea, freshwater fish and bamboo shoots. (Radioactive substance detected in green tea leaves in Ibaraki towns)

For a discussion of the ramifications of Japan's nuclear crisis, see last Sunday's article, *"Weekend Reading - The Good, the Bad and Fukushima"* which covers the impact of Fukushima on Japan and the global economy.

Tuesday - Testing our Reference Levels (as predicted!)



The stock market opened sharply lower on Tuesday. Shares of Hewlett-Packard tumbled 7% after the company lowered its earnings and revenue forecasts. Hewlett-Packard reported its *“revised outlook for the third quarter and the full year fiscal 2011 reflects an expected near-term impact from the Japan earthquake and related events, continued softness in sales of consumer PC’s, and reduced operating profit expectations for Services.”* Stocks recovered from early losses to end the day mixed, as the U.S. Dollar pulled back from a high of 75.7 to a low of 75.3 at the end of trading.

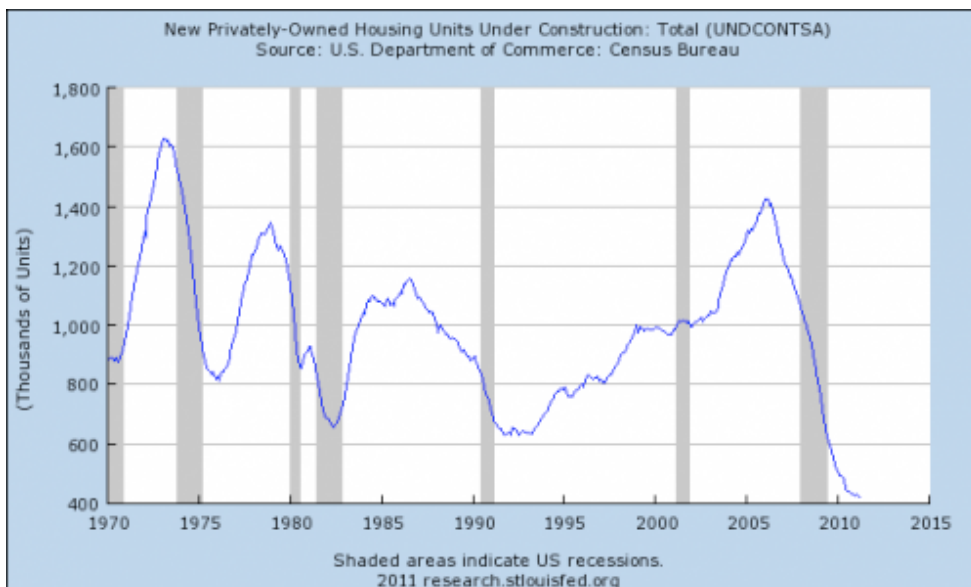
5/17/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,480	1,329	2,783	8,333	820
PREVIOUS	12,548	1,329	2,782	8,337	823
% CHANGE	-0.54	-0.04	+0.02	-0.04	-0.37

The five indexes we track failed their 2.5% levels, even with the super fake last-minute rise in the Nasdaq before the markets closed. (See this week’s charts on Friday’s page.)

“We’re very well positioned for this dip so let’s just sit back and relax and see what sticks. Bad news aside, our plan was to complete our M pattern, consolidate into expirations on Friday and then hopefully move back up. The sloppy M’s are a concern and if we can’t hold those bases - there’s another 5% down before we test any serious support!” - Phil

Released in the morning, April’s Industrial Production report showed overall industrial production was unchanged from March, surprising to the downside due to a large drop in auto assemblies. The Federal Reserve reported that *output of motor vehicles and parts fell 8.9%, after increasing 3.6% in March*, largely due to supply chain disruptions caused by the March earthquake and tsunami in Japan.

The new residential construction report for April was released and showed that privately-owned housing starts in April were at a seasonally adjusted annual rate of 523,000. This is 10.6% below the revised March estimate of 585,000 and 23.9% below the revised April 2010 rate of 687,000 units.



Commenting on Tuesday’s dismal economic reports, Phil wrote, *“There’s certainly no improvement in the data... A lot of it relates to housing which, to use the proper economic term - SUCKS!”*

Which Way Wednesday - Probably Down



The markets rose steadily all day Wednesday. The release of the latest FOMC minutes reassured investors that the Fed is unlikely to tighten monetary policy any time soon. Oil climbed over \$100 a barrel, as the financial media circulated the [weekly EIA Petroleum Status Report's](#) headline which stated crude supplies are down -0.015M barrels, versus consensus of +0.7M.

5/18/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,560	1,341	2,815	8,407	833
PREVIOUS	12,480	1,329	2,783	8,333	820
% CHANGE	+0.65	+0.88	+1.14	+0.89	+1.60

Wheat prices [jumped by 53 cents to \\$8.17 per bushel](#), threatening to put more pressure on consumers worldwide, particularly those in the Middle East and North Africa (MENA). Wet weather in the U.S., compounded by flooding on the Mississippi River, contributed to the rising prices. Russia, Germany and France are experiencing dry conditions that may also affect wheat production in those countries. Considering the social unrest already prevalent in MENA, the impact of higher food prices in the near future could be severe. According to the World Bank, the Arab world buys about one-third of all the traded wheat in the world, with Egypt being the world's leading wheat importer. [\(Cost of eating spikes for the Arab world\)](#)

“Actually it's funny, I FELT bearish all day but we had the long DIA, the long IWM, DE, DOW, ACI and YRCW (as bullish positions) with USO, UUP, NFLX, QQQ and VIX plays on the bear side (with the early DIA put that never triggered as we held the line). That's pretty well balanced with the upside momentum plays done and the Qs still on. No wonder I felt so busy!” - Phil



This week's INDU vs. UUP (Dollar proxy) chart (above) shows the inverse relationship between the Dollar and the Dow remains a prevailing trend.

Phil noted, “as fast as your equities move up in price, Benny and Timmy will print more Dollars and they'll keep it going for as long as they can because, when they stop - where are the Dollars going to come from when you want to cash in your “valuable” shares and commodities? Certainly the bottom consumers don't have any and the top 1% are busy giving \$60Bn worth of funny money to Glencore - a commodity IPO that marks the height of insanity if ever there was one.”

Glencore is the world's largest diversified commodities trader. It trades materials such as coal, oil and metals. Its \$11Bn IPO was on Wednesday and it is scheduled to be admitted to the London Stock Exchange on May 24. “Brilliant plan really. The Investment Banks ramp up commodity prices, triple the “value” of Glencore, and then take it public so they can remove \$60Bn dollars from circulation (taking a \$6Bn fee plus warrants). These dollars are now invested in the hopes that commodity prices will go even higher, making that \$60Bn near worthless. It's very much like the builders and REITs which the retail schmucks were being herded into at the top of the last rally. Oh yeah - and Ethanol! - case closed... - Phil

Thursday Thought - Don't Tax Oil Companies - Nationalize them!



Business-oriented social networking site LinkedIn went public on Thursday, making headlines as it shot up 108% in its first day of trading. Shares went from \$45 to a high of \$115, before pulling back to \$93.86. Jim Cramer referred to the IPO as *"outrageously overvalued and preposterous,"* calling it the most 'ridiculous' IPO since TheGlobe.com and CBS MarketWatch. By making just a sliver of the company available to the markets, promoters created an artificial frenzy for the shares. Agreeing with Cramer, which we don't often do, *"it's a toxic way to price, it's a terrible thing to do."*

5/19/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,605	1,344	2,823	8,428	835
PREVIOUS	12,560	1,341	2,815	8,407	833
% CHANGE	+0.35	+0.22	+0.28	+0.25	+0.24

Last week, Exxon's CEO Rex Tillerson testified to Congress that *the price of oil - based purely on supply and demand - should be in the \$60 to \$70 a barrel range.* Robert Lenzer at Forbes reported, *"The reason [oil is] above \$100 a barrel, Tillerson explained, is due to the oil majors using futures contracts to lock in current high prices, and speculation that is engineered by the high-frequency trading of quantitative hedge funds.*

"That was just one of the stunning revelations made during the Senate hearing on tax subsidies to the oil industry - which featured the 6 most powerful CEOs - BP, Shell, Chevron, Conoco-Phillips and Exxon-Mobil - all sitting like ducks in a row giving the stiff-arm to pressing unfriendly inquiries from a host of Democratic Senators. The formal showdown between Big Oil and Big Politics was enormously revealing theater about just how selfish and narrow-minded cash-rich industry can be when called upon to do their patriotic duty in balancing the budget. Ouch!!!"

Phil expressed his outrage over Tillerson's comments in Thursday's article, writing, *"Clearly there is no shortage of oil. The U.S. has 1.75Bn barrels of oil in storage, enough to offset over 500 days worth of imports from Africa and the Middle East, even if that supply were completely cut off. Nonetheless, oil shot up from \$95 on Tuesday to \$101 this morning, costing US consumers an additional \$112M per day..."*

One of the problems with the oil companies overcharging consumers by hundreds of billions of Dollars every year, is that this money is extracted from already-stretched consumers, who then have less to spend on everything else. Phil wrapped up the article concluding that the energy industry is too entrenched and too powerful to be reformed. Therefore, the only option left is to nationalize it.

“Profits from extra high oil prices are being stolen from every business owner in America because when money is stolen from people at the gas station - they don't have it to spend when they walk into our stores!

"The effect on GDP is even worse because that money is being removed from the bottom of the chain and being spent on a consumable item of no lasting value (we literally buy it and burn it up). Had my customer not overpaid \$45 for gas that week, he might have spent \$49 for my newsletter, and then I might have taken that \$49 and gone out for pizza. Kim, my waitress, would have had \$5 more to spend tomorrow at the club, and Mina, the owner, would have had \$30 to buy some more bread. The baker would have had \$20 to buy some wheat and flower, and maybe go out for some pizza himself. OR - my customer could have burned that \$45 driving back and forth to work. What do you think is better for our nation's economy?" - Phil

Friday - It's the End of the World As We Know It

The Dollar rallied from a low of 75 in the morning to 75.6 at the end of the day. Stocks headed down. Gap, Inc. (GPS) [reported a 23% decline in Q1 profits](#), and cited higher sourcing costs and fallout from Japan's disaster as reasons. Rising costs of cotton and other commodities essential to the clothing business were also factors. Gap Inc. is running on slender margins and cannot afford to see those margins compressed any further. Shares of GPS traded down 13% on the news.

5/20/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,512	1,333	2,803	8,358	829
PREVIOUS	12,605	1,344	2,823	8,428	835
% CHANGE	-0.74	-0.82	-0.71	-0.84	-0.73

Harold Camping, an 89-year old [retired civil engineer turned Christian preacher](#) predicted the "end of the world" would be this Saturday, May 21. For whatever reason, this particular prediction made it into the mainstream media, and was the subject of widespread discussion. If you're reading this issue, it's a safe assume Mr. Camping was wrong. The doom-mongers out there can all go back to worrying about the upcoming Mayan Apocalypse scheduled for December 21, 2012.

The U.S. Dollar gained against the Euro after Fitch ratings issued another downgrade for Greece's debt. "Fitch Ratings on Friday said it

downgraded Greece's credit rating to B-plus from BB+ [four notches below investment grade] and placed its ratings on Rating Watch Negative, citing the scale of the challenge facing the country as it attempts to secure solvency and lay the foundations of an economic recovery. Risks have risen as the country must undertake further austerity measures in order to meet its deficit goals." ([Fitch downgrades Greece to B-plus from BB-plus](#))

The downgrade of Greece came on the heels of worries about the viability of Spanish debt and massive and growing protests throughout Spain. People are protesting against a regime of banks, business and politicians they perceive as corrupt. "Maribel," a 21-year old who declined to give a last name, said the demonstrations are not about politics: "*It's (about) change. We are fed up with the L'Oreals, McDonald's, Coca-Cola. We are not anti-system, the system is anti-us, and you don't know how to stop us.*" (In Spain, protesters rally a battered nation)

TEPCO President [Masataka Shimizu](#) resigned after the company announced a loss of ¥1.25Tn (\$15Bn) in the aftermath of the Fukushima nuclear crisis. This was the biggest loss ever recorded for a non-financial Japanese company. Japan's Prime Minister Naoto Kan and other lawmakers have sharply criticized TEPCO's management, with Kan at one point demanding company executives explain "*what the Hell is going on?*"

Since March 11, TEPCO has lost ¥2.9Tn in market capitalization and, according to Bank of America Merrill Lynch, the costs for the disaster may reach ¥11Tn. Radiation leaks from the crippled Fukushima nuclear plant have forced the evacuation of about 50,000 families in the region, and the situation is still out of control.

Multiple companies are dealing with problems caused by interruptions in the supply of critical

“We just went through a month of earnings and NOTHING moved the market but the Dollar. So, if the Dollar is the sole catalyst, then we don't have to listen to all this BS about growth or jobs or p/e ratios at the moment, we just have to think about where the Dollar will end up.” - Phil

parts from Japan. For example, Taiwan vendor Thinking Electronic, a manufacturer of protective components for power supplies, has reportedly landed new orders from Apple Inc. Apple had previously purchased the components from Japan-based Murata, but it was forced to seek alternative suppliers in the aftermath of the March disaster. (*Thinking shipping protective components to Apple, say sources*)

Japanese auto manufacturers Nissan and Honda are both struggling with persistent shortages of parts. Honda's Chief Financial Officer, Fumihiko Ike, told reporters *"We want to move up our schedule for returning to normal, but that depends on the supply of parts. But we are seeing recovery speed up in those supplies."* Toyota announced that it is on track to have U.S. supplies of their best-selling Prius models up to 70% of normal by June.

Friday's Levels

5/20/11	Dow	S&P	NAS	NYSE	Russell
FRIDAY	12512	1333	2803	8358	829
5% LEVEL	12801	1365	2877	8694	856
4% LEVEL	12688	1352	2850	8611	848
2.5% LEVEL	12505	1333	2808	8487	835
1.25% LEVEL	12353	1317	2774	8384	825
MUST HOLD	12200	1300	2740	8280	815



The Week Ahead

The resignation of International Monetary Fund (IMF) Director Dominique Strauss-Kahn in the wake of his arrest in New York came at a very bad time for Europe. Preserving the European Union has been one of Mr. Strauss-Kahn's highest priorities. He used his formidable diplomatic skills to cajole and persuade European leaders to commit to politically difficult but necessary reforms, while attempting to manage a widespread debt crisis. Eswar Prasad, a senior fellow at the Brookings Institution in Washington remarked, *"The presumption was that with Strauss-Kahn at the helm, the IMF would continue to support Europe. Now, with Strauss-Kahn gone, that proposition becomes a little dubious."* ([How the Strauss-Kahn Case Damages Europe](#))

On Friday, May 20, Greek Prime Minister George Papandreou gave a [televised speech](#) where he announced plans to boost revenues and slash state spending even further. Greece has already been pursuing [widely unpopular austerity programs](#) for the past year as part of a €110Bn package of bailout loans from the IMF and the Eurozone. Unfortunately, the unpopular austerity programs are pushing the public to its breaking point.

Rising violence and runaway crime are turning Athens into a "boiling cauldron," with many citizens hesitant to leave their homes. Even mayor Giorgos Kaminis said he felt unsafe walking the streets at night. *"The Image of Athens is deplorable. Not since the German occupation of Greece during the Second World War has Athens been in such a dreadful state. It is a reflection not only of the economic crisis but of many years of inadequate policing and other policies."* ([Eurozone Crisis: The Greek Tragedy](#))

Greece was not alone in being downgraded. On Friday, [Standard & Poor's Ratings Services](#)

[downgraded its outlook on Italian debt to negative and said its debt rating was at risk.](#) The negative outlook implies a one-in-three chance that Italy's ratings could be lowered within 24 months. S&P stated, *"Italy's current growth prospects are weak, and the political commitment for productivity-enhancing reforms appears to be faltering. Potential political gridlock could contribute to fiscal slippage. As a result, we believe Italy's prospects for reducing its general government debt have diminished."*

Nicola Borri, professor of economics at Rome's Luiss University, observed, *"Italy's economy is not growing because it has not undertaken structural reforms, and this lack of growth could make it difficult for the country to meet its commitments in the medium to long-term. They're not saying we're like Greece and Portugal now...but we need to reform or there will be trouble down the line."* ([Italy Outlook Revised to Negative by S&P, Prompting Vow of Faster Reforms](#))

The Italian Treasury responded with a press release on Saturday "absolutely" ruling out the risk of political gridlock and assuring that Italy would keep its financial commitments. *"With regard to the economy, the government has initiated and will intensify its reforms; in regard to the budget, a phase of measures are in advanced preparation in order to balance the budget by 2014."*

Commenting on the troubles in the EU, Mish Shedlock wrote, *"When Greece defaults and when Spain or Italy gets in serious trouble, the Euro will come under even more pressure. Notice I said 'when' not if. The Euro-Zone economy is on the edge of a cliff and it will not take much to send it over the edge."* ([S&P Revises Italy's Credit Outlook to Negative; Italy Heads for Recession; Expect ECB to Hold Rates](#))

The story of Europe is not all bad news. Germany is enjoying strong growth, according to the IMF. *"The proficiency of its industry, along with a sizable, internationally-coordinated fiscal stimulus and financial-sector stabilization measures, helped Germany establish a recovery... The German economy and employment are above levels before the onset of the Great Recession, an achievement realized by only a few advanced economies. Considerable optimism prevails."* (IMF Says German Economy Could Grow More Than 3% This Year)

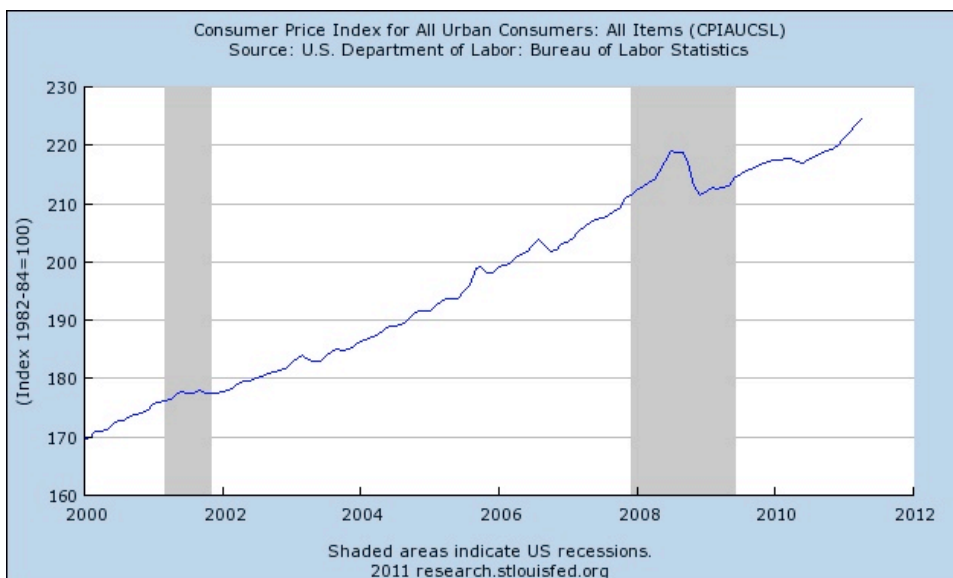
Inflation continues to be a major problem around the globe. Food price inflation has been one of the primary triggers for the protests and riots across the Middle East and North Africa. China has been struggling with rampant inflation for months now. And price inflation has been cited as one of the primary complaints among participants in this week's massive protests in Spain.

Inflation is also causing problems closer to home. On May 19, The Senior Citizens League (TSCL) released a report showing that seniors have lost almost one-third of their buying power since 2000, according to the Annual Survey of Senior Costs. "In most years, seniors receive a small increase in their Social

Security checks, intended to help them keep up with the costs of inflation. But since 2000, the Social Security Cost of Living Adjustment (COLA) has increased just 31 percent, while typical senior expenses have jumped 73 percent, more than twice as fast." (Seniors Have Lost 32 Percent of Their Buying Power Since 2000)

Lee Adler discussed last week's market action and the impending end of QE2: *"The markets responded as expected to this week's light Treasury supply, which included a hefty paydown on Thursday along with the usual dose of POMO [permanent open market operations]. Stocks sold off Monday under the pressure of settling \$72 billion in new notes and bonds, but then they recovered as POMO and \$10 billion in Treasury paydowns put cash back in the pockets of the market's movers and shakers. As usual, they deployed some of it into stocks."*

"However, there was a fly in the ointment of this week's light Treasury schedule. The evidence suggests that the foreign central banks ran away from the auctions. If this is the reversal of their short term buying cycle, it should depress the performance of the markets in the weeks ahead..."



"The supply bogeyman will return at the end of the month, with \$61 billion of new notes and TIPS settling on May 31. That will be an interesting challenge for the market. Once again, how that is handled should give us a preview of things to come when the Fed's POMO pause begins in July. I have a hunch it won't be pretty. (Lee Adler at Wall Street Examiner, "What goes around, comes around")"

Commenting on Friday's weak market behavior, Lee wrote, *"Friday was an interesting day, but for bears to take control there must be follow through... The market now sits right on a major trendline. If it is decisively broken, a bigger decline could lie ahead after the end of POMO. POMO should still allow for an intermittent bid to prop the market for the next 5-6 weeks. Then it's on its own for awhile. That should be ugly."* (Subscription material from [Lee Adler's Wall Street Examiner](#))

On Saturday, May 21, Pharmboy posted an interesting tutorial on antibodies used in medicine at [Phil's Stock World](#), highlighting the biotechnology company [Micromet Inc. \(MITI\)](#). Micromet is involved in developing and commercializing antibodies for the treatment of cancer, conditions involving inflammation, and autoimmune diseases. Its pipeline includes both conventional monoclonal antibodies and novel antibodies generated with its proprietary BiTE antibody technology. As a biotech play for the week, Pharmboy likes buying a small amount of stock and selling a November \$7.50 call and November \$5.00 put for \$1 or better. He notes, "This is not as good as the entry last week, but still within our striking range." (For each 100 shares of stock, Pharmboy typically sells one call and one put. He generally takes only small, partial positions, and does have shares of many of the companies he writes about in this newsletter and at [Phil's Stock World](#).)



“It is better to pick stocks and sectors you plan to become an expert in, and learn those like the back of your hand... It's OK to have a long-term portfolio that is full of very low basis stocks you intend to hold forever and rarely touch AND a short-term portfolio with 10-20 positions, but once you get past 20 active positions, it begins to be a problem - and that's for experienced traders.

If you wait patiently, many opportunities will arise. You can track 100 stocks (hopefully only a couple of sectors) and try to know enough about them that you know when they are good values and when they are bad values. It's always good to start with 10 stocks you LOVE and then, naturally, you should end up learning quite a bit of their top five competitors. That's 50 stocks right there.

For example, I know virtually nothing about Biotech. I understand the workings of Big Pharma, and I'm comfortable with PFE, BMY, MRK because one drug doesn't really make or break them. It's more of an overall business view with Big Pharma companies. I used to be comfortable with companies like DNA and GENZ because they were not do-or-die based on a single drug. Pharmboy's understanding is outside my expertise. But once in a while, a company like DNDN comes along and I take the time to understand it, because DNDN was such a good STOCK to trade. I just don't have the time, or the background, to follow the whole sector. Any time I decide to play a biotech (very rarely), I generally play it like a casino bet or a horse race where I got a tip - very hedged and not too much!

Recognize your limitations and, in fact, embrace them. They mark what you can and cannot do. That's the first step to being a better investor - figuring out what investments you actually understand and are comfortable with, and which ones you are not.” - Phil

Next Week's Economic Calendar

Monday 23	Tuesday 24	Wednesday 25	Thursday 26	Friday 27
8:30 AM: Chicago Fed National Activity Index	7:45 AM: ICSC-Goldman Store Sales	7:00 AM: MBA Purchase Applications	8:30 AM: GDP	8:30 AM: Personal Income and Outlays
11:00 AM: 4-Week Bill Announcement	8:55 AM: Redbook	8:30 AM: Durable Goods Orders	8:30 AM: Jobless Claims	9:55 AM: Consumer Sentiment
11:30 AM: 3-Month Bill Auction	10:00 AM: New Home Sales	10:00 AM: FHFA House Price Index	8:30 AM: Corporate Profits	10:00 AM: Pending Home Sales Index
11:30 AM: 6-Month Bill Auction	10:00 AM: Richmond Fed Manufacturing Index	10:30 AM: EIA Petroleum Status Report	10:30 AM: EIA Natural Gas Report	
	11:30 AM: 4-Week Bill Auction	1:00 PM: 5-Year Note Auction	11:00 AM: 3-Month, 6-Month and 52-Week Bill Announcements	
	1:00 PM: 2-Year Note Auction		1:00 PM: 7-Year Note Auction	
			4:30 PM: Fed Balance Sheet	
			4:30 PM: Money Supply	
POMO DAY (\$6Bn - \$8Bn)	POMO DAY (\$5Bn - \$7Bn)	POMO DAY (\$4Bn - \$6Bn)	POMO DAY (\$5Bn - \$7Bn)	NO POMO TODAY

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