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Event Horizons

Global Economy, Markets and Central Banks

Is our nation being torn apart by inequality, a disappearing middle class and a lack of opportunity? Ron Haskins questioned this premise in [Washington Post](#) recently. In looking at total income flowing to the different quintiles of society, he commented,

"A second common mistake is ignoring the contribution of government benefits to income. Our federal income tax system sends billions of dollars to poor and low-income households, substantially increasing their income and taking a bite out of inequality. Households in the top 1 percent pay about 40 percent of federal income taxes, and the top 10 percent pays nearly 75 percent.

"Put another way, the federal income tax system directly transfers billions in cash from the top to the bottom. Programs for poor and low-income families, including food stamps, the earned-income tax credit, Head Start and Pell Grants, annually transfer more than \$900 billion in cash and other benefits to the poor and near-poor." ([The myth of the disappearing middle class](#))

Oddly, he uses government entitlements to the poor to prove a notion that the economy is not quite as impaired as inequality complainers are alleging.

Countering Ron's argument, [Jared Bernstein](#) wrote: "[Ron's] argument is framed as 'the myth of the disappearing middle class.' That's a canard. Most living standards analysts, including Ron in this piece (!), think of the middle class as some chunk in the middle of the income distribution -- say the middle fifth or some variation there in (e.g., 40th to 80th percentile) -- which of course cannot by definition 'disappear.' ..."

There will always be people earning wages and living lives somewhere in between poverty and riches. The argument is really that the "wage and income growth of middle class workers and families has been weakening" and the middle class is being squeezed. Jared continued:

"How does that square with Ron's findings? He cites research much like that of the Congressional Budget Office on family income trends, noting that middle class income (the middle fifth of the income scale) "grew by nearly 40 percent" 1979-2007(CBO analysis shows 35%... these trends include the effect of taxes, transfer payments, and the value of employer provided health care).

First of all, 35% over 28 years is 1.1% per year, over a period when productivity grew at twice that rate (up 72%, or 2% per year). There's no reason to expect middle class incomes to grow at the rate of productivity

"Gambling: The sure way of getting nothing for something."

Wilson Mizner

Middle Class

The term "middle class" is first attested in James Bradshaw's 1745 pamphlet *Scheme to prevent running Irish Wools to France*. The term has had several, sometimes contradictory, meanings. It was once defined by exception as an intermediate social class between the nobility and the peasantry of Europe. While the nobility owned the countryside, and the peasantry worked the countryside, a new bourgeoisie (literally "town-dwellers") arose around mercantile functions in the city. Another definition equated the middle class to the original meaning of capitalist: someone with so much capital that they could rival nobles. In fact, to be a capital-owning millionaire was the essential criterion of the middle class in the industrial revolution. In France, the middle classes helped drive the French Revolution.

The modern sociological usage of the term "middle class", however, dates to the 1911 UK Registrar-General's report, in which the statistician T.H.C. Stevenson identified the middle class as that falling between the upper class and the working class. Included as belonging to the middle class are professionals, managers, and senior civil servants. The chief defining characteristic of membership in the middle class is possession of significant human capital.

Within capitalism, middle class initially referred to the bourgeoisie and petite bourgeoisie. However, with the immiserisation and proletarianisation of much of the petit bourgeois world, and the growth of finance capitalism, middle class came to refer to the combination of labour aristocracy, professionals and white collar workers.

Source: Wikipedia.com

year in and year out, though they did so for a few decades in the post-war years. But this persistent divergence is important context that should not be left out...

To understand the middle class squeeze, you've got to look at wages and hours. Census data reveal the amazing fact that the median earnings of full-time male workers were almost exactly the same in real terms in 1979 as in 2010: in real 2010 dollars, 1979: \$47,621; 2010: \$47,715. How could that possibly not be relevant in an article about middle class well-being?" ([The Myth of the Myth of the Disappearing Middle Class](#))

Charles Hugh Smith examined taxes, income and fairness in *The Problem with "Tax The Rich": It Won't Work*, he wrote,

"By heavily taxing earned income, the system extracts the highest taxes from the most productive citizens, leaving the less-productive with essentially no income taxes and the super-wealthy with the huge tax break offered to capital gains and other unearned income...

"As I noted in [Tyranny of the Majority, Corporate Welfare and Complicity \(April 9, 2010\)](#): 'In essence, this is a vote-buying scheme by the Status Quo: the top 1% control the policies of the State in alliance with the State's own Elites, and together they buy the complicity of the bottom 60% to passively accept their dominance.'

"In other words, the bottom 60% are recipients of Central State largesse and the top 1% who 'own' the political and thus the taxation process limit their taxes by favoring unearned income (what they collect from sales of securities, stock options, rents, etc.). Thus the productive quintile (top wage earners) pay the highest tax rates and most of the taxes.

"It's a partnership of 'Tyranny of the Majority' and 'Outsized Influence of Elites.' If the political status quo alienates the majority by making them pay more taxes, they risk losing power in the next election. If they alienate the top 1% who fund their multi-million-dollar campaigns, then they will also lose power. So they heap the tax burden on those 'rich' who are actually earning their money rather than clipping coupons."

Michael Snyder explained in [Economic Failure: 58 Percent Of The Jobs Being Created Are Low Paying Jobs](#) (excerpt follows):

"According to a report that has just been released by the National Employment Law Project, 58 percent of the jobs that have been created since the end of the recession have been low paying jobs. So exactly what is a low paying job? Well, the National Employment Law Project defines it as a job with an hourly wage between \$7.69 and \$13.83. But of course you can't pay a mortgage or support a family on \$13.83 an hour. Even if you got full-time hours the entire year, you would make less than \$28,000 on an annual basis. The federal poverty level for a family of five is \$27,010.

"Most of these new jobs are not paying enough to support a middle class lifestyle. This represents an economic failure on a fundamental level. Our economy is producing very few good jobs that enable people to be able to raise families and live the American Dream. The ranks of "the working poor" are exploding and the number of Americans that are dependent on the government is sitting at an [all-time record](#). Sadly, if current trends continue things are going to get a lot worse.

"The truth is that there has been a fundamental cultural change in our economy. Workers are no longer valued. They are viewed as expensive liabilities that should be disposed of as rapidly as possible once their usefulness has ended.

"There is very little loyalty to workers these days, and most big corporations do not really care about the quality of the lives of their workers. The number of companies offering health insurance to their workers continues to decline (and thanks to Obamacare that decline is accelerating even further), and the number of companies offering pension plans to their workers continues to decrease as well...

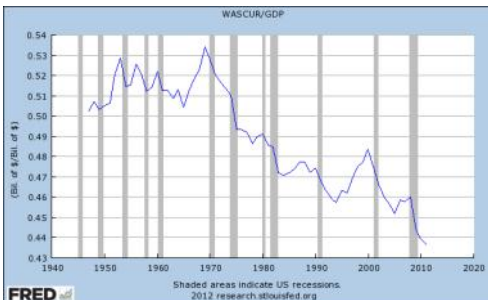
"Corporate profits have been setting all-time records in recent years....

"Meanwhile, wages as a percentage of the economy are at an all-time low....

Michael argues that the data reflects a fundamental cultural shift: employer companies no longer care about their workers

(Click on charts to enlarge)

and millions of good jobs have been outsourced. He attributes the changes to an emerging one world economy. "The big corporations no longer need American workers to make stuff. They can just close up shop and move their facilities to the other side of the globe where it is legal to pay slave labor wages to very desperate workers.



"And now there is greatly increased competition for the jobs that we still have in this country because so many of our jobs have disappeared..."

Michael concluded that the middle class [will continue to decline](#) and American families will [get poorer](#). We are transitioning from an employment economy to an ownership economy. ([Economic Failure: 58 Percent Of The Jobs Being Created Are Low Paying Jobs](#))

Thus, the middle class is not "disappearing." This group is weakening, burdened by cultural changes that arguably benefit the poorest while rewarding the very, very wealthiest. A new study showed that real median household income [fell almost 5 percent](#) since the last recession. "The rich are getting richer, and the poor really are getting poorer... Americans are earning less today on average than they were when the Great Recession, which began in December 2007, ended in June 2009. Using Census Bureau data, economists Gordon Green and John Coder determined that real median household income has actually fallen by 4.8% since the recession's end.

Even more surprisingly, they found that the decline since June 2009 was larger than the 2.6 percent decline that occurred during the recession. Adding them together, Green and Coder conclude that average household income has fallen 7.2% since December 2007." ([Average U.S. Household Has Lost 5% in Annual Income Since Economic "Recovery" Began](#))

While household income has declined, the cost of living continues to rise (regardless of spurious government claims to the contrary). As jobs available in the lower wage ranges increase, numbers of the "working poor" will also increase, and the "middle" will be forced down to lower levels.

Our analysis of the economy should not be confused with our analysis of the stock market. We are acknowledging a disconnect and trying to keep pace with market forces. Market forces are no longer tightly connected with economic well-being. As [Bruce Krasting](#) wrote,

"I spoke with a guy who runs a fund (with a couple of bucks of mine) this weekend. He was happy as can be. His fund's performance has past the upside mark, so he's getting a free 20% of any additional gains. Like all equity guys, he's bullish for the rest of the year. His thinking is that common stocks of companies with good balance sheets, positive cash flow, and buying back stock have much more upside to them. Google at 800+ is in the cards, according to him.

"He made one interesting observation. He believes that equity prices have decoupled from the business cycle. Stocks can do well when the broad economy is struggling and government financing is in ruin.

"That sounds crazy to me. But it is exactly the status quo today. Stocks are at four year highs, while government financing (globally) is in the toilet, and about to be flushed. His justification for the optimistic outlook for equities was: *'Who in their right mind would buy any government bonds today?'*

"We shall see if the decoupling of stocks and the broad economy/public sector financing continues, but you can't argue with what the guy says. Bernanke and the other central banks have converted the debt mar-

Middle Class in Marxism

In Marxism, which defines social classes according to their relationship with the means of production, the "middle class" is said to be the class below the ruling class and above the proletariat in the Marxist social schema. Marxist writers have used the term in two distinct but related ways. In the first sense it is used for the bourgeoisie, the urban merchant and professional class that stood between the aristocracy and the proletariat in the Marxist model. However, in modern developed countries, the bourgeoisie is taken to be the class that owns and controls the means of production, and is thus considered the ruling class in capitalist societies. As such, some Marxist writers specify the petite bourgeoisie – owners of small property who may not employ wage labor – as the "middle class" between the ruling and working classes. Marx himself regarded this version of the "middle class" as becoming merged with the working classes. The fact that recent decades have seen a large section of small businessmen (shopkeepers, restaurants) replaced by wage-workers (in supermarkets or chains of restaurants) has led most marxists to theorize an expansion of the working class at the expense of the middle class.

Source: [Wikipedia.com](#)

(Click on charts to enlarge)

Hedge Fund

A hedge fund is an investment fund that can undertake a wider range of investment and trading activities than other funds, but which is generally only open to certain types of investors specified by regulators. These investors are typically institutions, such as pension funds, university endowments and foundations, or high-net-worth individuals, who are considered to have the knowledge or resources to understand the nature of the funds. As a class, hedge funds invest in a diverse range of assets, but they most commonly trade liquid securities on public markets. They also employ a wide variety of investment strategies, and make use of techniques such as short selling and leverage.

Hedge funds are typically open-ended, meaning that investors can invest and withdraw money at regular, specified intervals. The value of an investment in a hedge fund is calculated as a share of the fund's net asset value, meaning that increases and decreases in the value of the fund's investment assets (and fund expenses) are directly reflected in the amount an investor can later withdraw.

Most hedge fund investment strategies aim to achieve a positive return on investment whether markets are rising or falling. Hedge fund managers typically invest their own money in the fund they manage, which serves to align their interests with investors in the fund. A hedge fund typically pays its investment manager a management fee, which is a percentage of the assets of the fund, and a performance fee if the fund's net asset value increases during the year. Some hedge funds have a net asset value of several billion dollars. As of 2009, hedge funds represented 1.1% of the total funds and assets held by financial institutions. As of April 2012, the estimated size of the global hedge fund industry was US\$2.13 trillion.

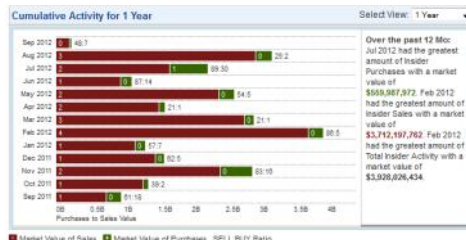
Source: Wikipedia.com

ket into a very unlovable asset class. There is no return on the bonds; there is credit and yield risk. Bonds are a total downside story at this point.” ([On Sub-Zero and Decoupling](#))

Not all funds have done as well as the one run by Bruce's friend. This year has been less than stellar for those investing in retirement 'funds,' as they are underperforming the market. Those funds charge investors anywhere from 0.5% up to 3% in fees....

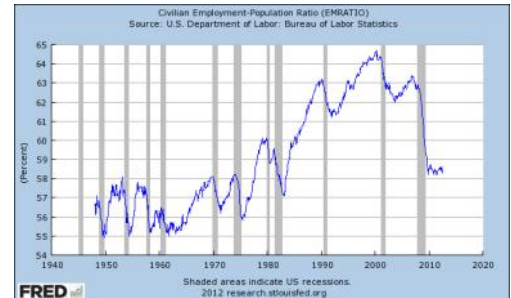


The other issues that investment funds are having right now are redemptions. This is one of the most hated rallies, as the stock market and economic realities have decoupled. Interestingly, insiders continue to sell at a record pace ([CNBC graph below](#)), and investors pulled \$3.7B from funds during the last week of August ([CNN](#)).



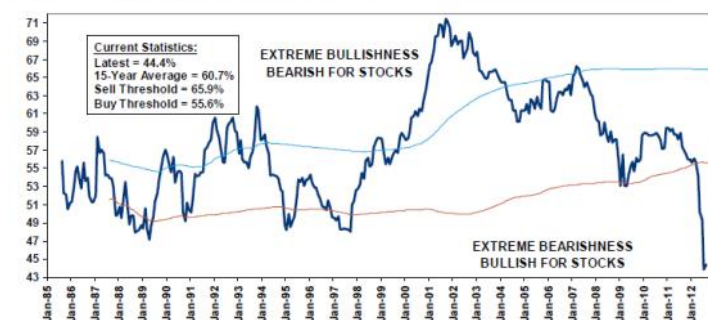
The government continues to run a deficit, tax receipts are dwindling (lower wage jobs don't yield as much in taxes), corporations are not paying in as much due to favorable tax rates, and people are still leveraged to

the hilt. After three "jobless recoveries" in the last twenty years, NYT's Hedrick Smith suggests it's time to [take a lesson from Henry Ford](#). History has proven Ford's virtuous circle to be effective, and if business managers "give the middle class a better share of the nation's economic gains...the economy will grow faster." But as we have noted, this is not happening...



Across the Atlantic, the ECB President Draghi claimed the ECB would buy unlimited amounts of bonds of up to three years maturity issued by countries requesting a bailout. These countries will be required to fulfill strict domestic policy conditions. The Bundesbank and many influential conservative groups in Germany have protested and are hoping the German Constitutional Court decides that the [European Stability Mechanism \(ESM\)](#), the eurozone's permanent rescue fund, is unconstitutional on September 12. Der Spiegel magazine's online poll showed 54 percent of Germans want the Court to block the ESM. This move coincided with an increase in the value of the EURO relative to the US Dollar, and strength in the equities markets.

Sell Side Consensus Indicator (as of 31 August 2012)



Source: BofA Merrill Lynch Global Research US Equity Strategy

(Click on charts to enlarge)

Market-Moving Forces

1. [US Aug PMI Manufacturing](#) rose to 51.5 vs 51.4 in July. Output 51.9 vs. 51.7 in July. New Orders 51.9 vs. 51.0 in July. Employment 52.4 vs. 52.7 in July. ([PR](#))
2. [Aug ISM Manufacturing Index](#): 49.6 vs. 50.0 consensus and 49.8 prior. Prices index 54.0 vs. 39.5 prior. Employment 51.6 vs. 52.0. Inventories 53.0 vs. 49.0. New orders 47.1 vs. 48.0.
3. [July Construction Spending](#): **-0.9%**, vs. +0.4% expected, +0.4% prior.
4. FedEx ([FDX](#)) **slashed** its FQ1 earnings forecast to \$1.37-\$1.43/share from an earlier estimate of \$1.45-\$1.60. "Weakness in the global economy constrained revenue growth at FedEx Express more than expected in earlier guidance."
5. [Aug ISM Non-Manufacturing Index](#): 53.7 vs. 53.0 expected and 52.6 prior (readings greater than 50 denote expansion). Prices index rose to 64.3 from 54.9. Employment rose to 53.8 from 49.3. New orders fell to 53.7 from 54.3.
6. [Initial Jobless Claims](#): 365,000 vs. 370,000 consensus, 377,000 prior revised (prior week 374,000). Continuing claims -6,000 at 3.32 million.
7. [Aug ADP Jobs Report](#): +201K vs. +149K consensus, 163K prior.
8. [MBA Mortgage Applications](#): -2.5% vs. -4.3% last week.
9. [August Nonfarm Payrolls](#): **+96,000** vs. consensus +125,000, prior +141,000 (revised from 163,000). Unemployment rate **8.1%** vs. consensus 8.3%, 8.3% previous. The drop was due to a sharp decline in the labor force. The labor force participation rate fell to 63.5% from 63.7% in July and from 64.1% a year ago. Average workweek was unchanged at 34.4 hours. 2.6 million people are counted as "marginally attached" to the labor force, unchanged from a year ago. As has been the trend for several months, government employment is a net negative, falling 7,000 in August after decline by 21,000 in July.

ADP

In 1949 Henry Taub founded Automatic Payrolls, Inc. as a manual payroll processing business. In 1957, the company changed its name to Automatic Data Processing, Inc. (ADP), and began using punched card machines, check printing machines, and mainframe computers. ADP went public in 1961 with 300 clients, 125 employees and revenues of approximately \$400,000.

From 1985 onward, ADP's annual revenues exceeded the \$1 billion mark, with paychecks processed for about 10% of the U.S. workforce. In the 1990s ADP began acting as a professional employer organization (PEO). Around this time, the company acquired Autonom, a German company, Kerridge Computer Co. Ltd., a dealer management systems (DMS) provider to auto dealers in the UK, and the payroll and human resource services company, GSI, headquartered in Paris.

In 2007, the ADP Brokerage Service Group was spun off to form Broadridge Financial Solutions, Inc. (NYSE: BR), removing about \$2 billion from ADP's total yearly revenue. ADP was distributing one share of Broadridge common stock for every four shares of ADP common stock held by shareholders of record as of the close of business on March 23, 2007. ADP is sponsor of the ADP National Employment Report as well as the ADP Small Business Report.

Source: [Wikipedia.com](https://en.wikipedia.org/wiki/Automatic_Data_Processing)

Currency Market

The foreign exchange market (forex, FX, or currency market) is a form of exchange for the global decentralized trading of international currencies. Financial centers around the world function as anchors of trading between a wide range of different types of buyers and sellers around the clock, with the exception of weekends. The foreign exchange market determines the relative values of different currencies.

The foreign exchange market assists international trade and investment by enabling currency conversion. For example, it permits a business in the United States to import goods from the European Union member states especially Eurozone members and pay Euros, even though its income is in United States dollars. It also supports direct speculation in the value of currencies, and the carry trade, speculation based on the interest rate differential between two currencies.

In a typical foreign exchange transaction, a party purchases some quantity of one currency by paying some quantity of another currency. The modern foreign exchange market began forming during the 1970s after three decades of government restrictions on foreign exchange transactions (the Bretton Woods system of monetary management established the rules for commercial and financial relations among the world's major industrial states after World War II), when countries gradually switched to floating exchange rates from the previous exchange rate regime, which remained fixed as per the Bretton Woods system.

Source: Wikipedia.com

(Click on charts to enlarge)

Spring-heeled Jack

Spring-heeled Jack is a character in English folklore of the Victorian era who was known for his startling jumps. The first claimed sighting of Spring-heeled Jack was in 1837. Later sightings were reported all over England and were especially prevalent in suburban London, the Midlands and Scotland.

Source: Wikipedia.com

Charting the Universe

Bullish Breaks

Courtesy of Springheel Jack. Springheel Jack's charts can be followed on a daily basis at his website, Channels & Patterns.

The test of the 1440 area pivot on the S&P 500 (SPX) that has seemed likely for weeks is now occurring. SPX closed at 1438 on Friday. I described two alternative outcomes of this test on August 19: a very bearish strong reversal, or a very bullish break above the 1440-50 area (read here):

I've posted several charts supporting a bearish outcome of this test during the last few weeks, but the overall bear case has taken a pounding over the last few days. The bullish case has strengthened considerably.

The downtrend on EURUSD (Euro down, USD up) and the uptrend on USD (US Dollar) were broken with confidence on Friday. EURUSD broke its declining channel; USD broke below its main rising support trendline. Below is the USD daily chart showing the break. Similar breaks below support during the last five years have led to trends continuing in the direction of the break and lasting several months (not shown):



Another bullish sign on Friday was copper breaking declining resistance from the 2011 highs. The 32 year chart below right that copper is still at nosebleed levels historically, but further upside seems likely and the case for a large H&S pattern forming is weakening.

I posted the MSWorld chart (equity markets of the world, without the US) a few weeks ago showing a fully formed H&S, and the declining channel from the 2011 high that would need to hold to maintain a bearish outlook. That declining channel has been broken and retested (below), and I expect a move

to retest the 2012 highs. I am looking for a retest of the 2011 highs in the 1850 area also. The MSWorld chart is now distinctly bullish:



A bullish outcome is never guaranteed, and it depends – in the long run – on the predicted actions of the world's central banks, the perceived results of their interference with so-called natural market forces (a myth), and ultimately on the actual results of their activities.

The European Central Bank is willing to “print money” as needed, and that was interpreted as bullish for the Euro and bearish for the US Dollar. With a large European QE push in progress, an argument could be made that it should weaken the Euro, but instead it is strengthening it now.

From a technical standpoint the odds have shifted towards a break up through 1440/50 resistance on SPX. If that happens, a test of the 2007 highs is likely to follow.

Short term, however, SPX is very overbought, trading well above its daily bollinger bands. A short term high below 1470 is likely, followed by a retracement and test in the 1400 to 1420 areas. I think that test would be a buying opportunity.



Trends crush reason and other follies

Courtesy of Allan Harris of [Allan Trends](#)

This past week saw an acceleration of trends that have been churning throughout the summer. Market indices, precious metals, commodities and financial and technology sectors all were up strongly in the four trading sessions post-Labor Day. Thursday was a blockbuster day in the markets. Why?

FRB; ECH; QE3; Obama; Romney; Bernanke; unemployment; inflation; deflation; cycles; astrology. Flipping a coin.....we should never have to explain the “why” of any market action, least of all price movement in the direction of the dominant trend.

Once established and identified, price moves don’t have to be steep, impulsive or perfect to be profitable, they only need be in the direction of the prevailing trend.

“Buy things that have gone up on the theory that they will continue to go up; short things that have gone down on the theory that they will continue to go down.” *Sebastian Mallaby, More Money Than God: Hedge Funds and The Making of a New Elite, New York, Penguin Press, 2010*

Below are three charts representing some very basic concepts for using this service and profiting in the market. The first might be the most important. It is a price chart of SPX with a trend-line that is calculated by the same algorithm that is applied to all of our stock indexes and growth stocks. The trend-line is rising because the market is rising. We all expect financial Armageddon. Until the trend-line reverses, Armageddon is on the bench.



SPX Daily Trend Model

The second chart, XIV, shows the status of our VXX Daily Trend Model which goes long XIV when VXX is on a Sell Signal. I post it repeatedly to remind everyone of how profitable the VXX Daily Trend Model can be without any complicated strategies involving leverage, contango, backwardation or whatever inefficiencies are perceived by the market seers. As with the SPX model, it is a simple directional trend-line generated by a mathematical formula: It's algebra, not geometry.



XIV & Linear Trend Regression Channel

The third chart is the SLV Weekly Trend Model that went LONG at the close on Friday. As I have been hinting at for the past few weeks, this is one of the two significant reversals that could lead us to a grand slam home run in the precious metals.



For more, click [here](#).

[Click here for a risk free trial to Allan's standard service \(\\$100/mo.\)](#) Allan's premium service (which includes the standard service) is for more active traders [click here for a risk free trial](#).

Contango

Contango is the market condition wherein the price of a forward or futures contract is trading above the expected spot price at contract maturity. The futures or forward curve would typically be upward sloping (i.e. "normal"), since contracts for further dates would typically trade at even higher prices. (The curves in question plot market prices for various contracts at different maturities—cf. term structure of interest rates)

A contango is normal for a non-perishable commodity that has a cost of carry. Such costs include warehousing fees and interest forgone on money tied up, less income from leasing out the commodity if possible (e.g. gold). For perishable commodities, price differences between near and far delivery are not a contango. Different delivery dates are in effect entirely different commodities in this case, since fresh eggs today will not still be fresh in 6 months' time, 90-day treasury bills will have matured, etc.

The opposite market condition to contango is known as backwardation.

Source: [Wikipedia.com](#)

(Click on charts to enlarge)

Sector Exploration - Precious Metals

SPDR Gold Trust (GLD)

Range 167.23 - 168.13
 52 week 148.28 - 182.12
 Open 167.84
 Vol. 1.85M
 Mkt cap 69.39B
 P/E 13.81
 Div/yield -
 EPS 12.11
 Shares 414.80M
 Beta 0.13
 Inst. own 44%

SPDR Gold Trust (ETF)

([GLD](#), \$167.29)

By Pharmboy

Our virtual portfolio is hedged and largely bullish going into next week. My premise is that if the Fed and ECB are buying bonds (more QE), then gold should trade higher. Allan noted (p. 7) that he would be getting more bullish on GLD if his weekly signal turned long. Currently, the signal on the daily chart is long, while the signal on the weekly chart hasn't turned up yet. (The weekly signal will reverse to long if GLD rises above \$172.65. It is currently \$168.44. See Allan's table.)

Our portfolio is positioned with ABX and FCX, so those should do well with an uptick in gold as well.

I like buying 100 shares of GLD (\$168.44) for the [virtual portfolio](#), and selling 1 January 2013 \$170 call for around \$7.25.



Disclosure: MarketShadow writers may own stocks discussed in this section and may buy or sell these stocks at will, with no notice, in the future. Click on this [link](#) for the Market Shadow's [Virtual Portfolio](#).

Portfolio

AVEO Pharmaceuticals (AVEO)								
August 6, 2012	Stock	Long-Term	200		\$9.85	\$9.79	-\$12.00	-0.61%
August 6, 2012	Jan 13 Call	Long-Term	-2	10	\$1.75	\$1.30	\$90.00	25.71%
August 6, 2012	Jan 13 Put	Long-Term	-2	10	\$2.00	\$1.75	\$50.00	12.50%
BioMarin (BMRN)								
August 13, 2012	Jan 13 BCS	Long-Term	1	35/45	\$3.85	\$3.85	\$0.00	0.00%
August 13, 2012	Jan 13 Put	Long-Term	-1	30	\$2.00	\$2.30	-\$30.00	-15.00%
Columbus McKinnon Corporation (CMCO)								
August 13, 2012	Mar 13 Put	Long-Term	-1	12.5	\$1.00	\$0.75	\$0.25	25.00%
Potash (POT)								
August 26, 2012	Stock	Long-Term	100		\$41.56	\$42.99	\$143.00	3.44%
August 26, 2012	Jan 14 Call	Long-Term	-1	40	\$7.20	\$6.95	\$25.00	3.47%
August 26, 2012	Jan 14 Put	Long-Term	-1	35	\$4.05	\$4.20	-\$15.00	-3.70%
Dole Foods (DOLE)								
August 26, 2012	Stock	Long-Term	200		\$12.96	\$12.94	-\$4.00	-0.15%
August 26, 2012	Jan 13 Call	Long-Term	-2	15	\$0.95	\$0.85	\$20.00	10.53%
August 26, 2012	Jan 13 Put	Long-Term	-2	12.5	\$1.55	\$1.50	\$10.00	3.23%
EXELON Corp (EXC)								
Sept 2, 2012	Stock	Long-Term	100		\$36.47	\$35.70	-\$77.00	-2.11%
Sept 2, 2012	Jan 14 Call	Long-Term	-1		\$3.30	\$3.30	\$0.00	0.00%
Sept 2, 2012	Jan 14 Put	Long-Term	-1		\$3.90	\$3.90	\$0.00	0.00%
Totals							\$2,509.25	8.05%

(Click on charts to enlarge)

Glimpse of the Future

Next week should be an exciting week. Goldman Sachs's Stuart Kaiser is looking for a big sell-off in stocks sometime in the next 10 days. He thinks the ECB Governing Council and the Fed will both disappoint. The ECB Governing Council is meeting Thursday and it is expected to embark on dramatic measures. The Fed is meeting on September 12 and 13 and is expected to announce another round of quantitative easing. Mr. Kaiser is predicting a disappointment-induced selloff, but our technical analyses writers Springheel Jack and Allan Trends are seeing bullish signs in the charts.

Regarding the potential Fed action next week, Bruce Krasting discussed Ben Bernanke's options: [On Sub-Zero and Decoupling](#)

Bernanke has to do something this week. Most pundits are suggesting it will be more LSAPs (Quantitative Easing). I have trouble with this scenario. To be of any benefit, a new QE would have to be for \$600Bn. If QE3 were to be only a paltry \$200Bn, it would be received very poorly. I don't see Ben shooting off a pop-gun this week. He would be better off doing nothing, than something that will fall flat. I think he knows that.

There is also the issue that there is no justification for more QE right now. We are not in an emergency, stocks are at four year highs and there really are negatives to a policy of perpetual ZIRP. Also, a big splashy QE would be perceived as being very Pro-Obama. Taking sides in a national election is not something the Fed really wants to do. Republicans tend to have very long memories.

Data and Events

Mon, September 3	Tue, Sep 4	Wed, Sep 5	Thu, Sep 6	Fri, Sep 7	Legend
Japan GDP (Q2) Sunday / 1.0%	Japan Machine Tools Orders (YoY) 02:00 / 39.4	Euro-Zone EU Details of Banking Union 0:00 AM	Switzerland SNB Rate Decision 3:30 AM / 0.0%	China Actual FDI Friday / -5.8%	Credit Market
Japan Trade Balance Sunday / -¥439.5B	Great Britain Visible Trade Balance 4:30 AM / -£9000	Germany CPI (YoY) 2:00 AM / 2.0%	US Initial Jobless Claims 8:30 AM / 370K	Japan Industrial Production 0:30 AM	
China Industrial Production Sunday / 9.0%	US Trade Balance 8:30 AM / -\$44.20B	Germany ESM High Court Ruling 4:00 AM	US PPI Ex Food & Energy 8:30 AM / 2.6%	Euro-Zone CPI Core 5:00 AM / 1.7%	
China Trade Balance Monday / \$19.50B	4-Week Bill Auction 11:30 AM	Great Britain Unemployment Rate 4:30 AM / 8.0%	US PPI 8:30 AM / 1.5%	Euro-Zone CPI 5:00 AM / 2.6%	Equities Market
Japan Consumer Confidence 01:00 / 39.4	3-Year Note Auction 1:00 PM	Euro-Zone Industrial Production 5:00 AM / -3.3%	EIA Natural Gas Report 10:30 AM	US Advance Retail Sales 8:30 AM / 0.7%	
Euro-Zone Sentix Investor Confidence 4:30 AM / -30.5	Japan Machine Orders (YoY) 7:50 PM / -3.6%	EIA Petroleum Status Report 10:30 AM	30-Year Bond Auction 11:30 AM	US CPI Ex Food & Energy 8:30 AM / 2.0%	Energy
3-Month Bill Auction 11:30 AM	Japan Tertiary Industry Index 7:50 PM / -0.5%	10-Year Note Auction 1:00 PM	US Fed Rate Decision 12:30 PM	US CPI 8:30 AM / 1.6%	
6-Month Bill Auction 11:30 AM	Australia Westpac Consumer Confidence 8:30 PM		US Fed Releases Projections of Economy 2:00 PM	US Industrial Production 9:15 AM / 0.1%	International
US Consumer Credit 3:00 PM / \$9.10B			US Fed Bernanke Press Conference 2:15 PM	US Manufacturing Production 9:15 AM	
Australia NAB Business Confidence 9:30 PM				US U. of Michigan Confidence 9:55 AM / 74	Fed Speak
				US Fed Lockhart Speaks 1:00 PM	

Extending the ZIRP language for another few years is idiotic. It is a promise that can't and won't be met. It also has zero value to the current economy. Extending the language is a ho-hummer that will accomplish nothing other than to demonstrate that the Fed is out of arrows.

That gets us to changes in the overnight deposit rate (IOER). Currently at a 1/4%, it could be cut in half to 1/8. This seemingly insignificant change would actually have profound effects. [I wrote about this recently](#), but much more importantly, so did Jon Hilsenrath of the Wall Street Journal. [His thoughts from Friday night on the IOER](#):

Another possibility, which is more controversial internally and might not happen, is a small reduction in the 0.25% interest rate that the Fed pays banks for reserves held at the central bank.

If you believe (as I do) that Jon's words are scripted by Bernanke, you could read through this sentence and conclude:

A) Ben has told Jon that a cut in the IOER will be discussed and voted on next week...

B) The words, "might not happen", could also be read as "might happen". A cut in the IOER is (at least) 50-50 if you read through Jon's words.

Three and six month T-Bills are now .10 and .13 respectively. Post an 1/8th cut in the IOER they would be -.03bp and 0.00bp. Does that matter? I think it would be a very big deal indeed.

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