



STOCKWORLDWEEKLY

THE EXECUTIVE'S SUMMARY | OF THE GLOBAL MARKETS

Dow Jones	12,638 (-1.5%)
S&P 500	1,340 (-1.8%)
NASDAQ	2,828 (-1.6%)
NYSE	8,426 (-2.8%)
Russell 2000	833 (-2.7%)
Oil	97.86 (-14.0%)
Gold	1,491 (-4.6%)

THIS WEEK'S NEWSLETTER:

MONDAY MARKET MOVEMENT - BIN LADEN DEAD BUT WHAT ABOUT THE TERROR PREMIUM?

Weak Dollar distorts prices, spurs global inflation

TECHNICAL TUESDAY - TRADING AT THE DOLLARS MERCY

Commodities down as margins increased on silver contracts

WHICH WAY WEDNESDAY - NEW WATCH LEVELS

ISM Non-Manufacturing Report rattles markets

THOUGHTFUL THURSDAY - WHAT'S OUR MONEY WORTH?

European Central Bank leaves rates unchanged

TGIF - WILL A POOR JOBS REPORT BOOST THE MARKETS

Dollar pops as alternatives appear less appealing

THE WEEK AHEAD

On the evening of Sunday, May 1, President Obama announced that a team of United States special forces killed terrorist leader Osama bin Laden in a private compound, less than a mile from a large Pakistani military base and military academy in the city of Abbottabad. The news was cheered by billions of people worldwide. World leaders, including the Italian Premier Berlusconi, French President Sarkozy and Israeli Prime Minister Benjamin Netanyahu congratulated the U.S. on its successful operation.

As a twist to conventional beliefs about Osama bin Laden's cave-dwelling whereabouts, reports that he had been living in the massive compound for a long time prompted several members of Congress to reproach the Pakistani government for lacking either competence or loyalty. Threatening to cut off additional financial support, Representative Allen West (R-FL) said that unless the U.S. gets a clear explanation of what Pakistani officials knew about bin Laden, "*all aid from American taxpayers to this nation needs to cease.*" And Representative Ted Poe (R-TX) remarked, "*It seems like Pakistan might be playing both sides, and they have a lot of explaining to do.*"

According to the New York Times, Pakistani officials provided details of a "tense discussion" with "an American envoy who traveled to Pakistan on Monday," as well as the growing suspicion among United States intelligence and diplomatic officials that someone in Pakistan's secret intelligence agency knew of Bin Laden's location, and helped shield him. "*Obama administration officials have stopped short of accusing the Pakistani government – either privately or publicly – of complicity in the hiding of Bin Laden in the years after the Sept. 11 attacks on the World Trade Center and the Pentagon. One senior administration official privately acknowledged that the administration sees its relationship with Pakistan as too crucial to risk a wholesale break...*" (Probing Link to Bin Laden, U.S. Tells Pakistan to Name Agents)

In spite of our government's surprise, the idea of Bin Laden living a comfy villa in Pakistan was not entirely new. In 2008, Christiane Amanpour asserted as much on television. Commenting on the clip, Jason Linkins wrote in the Huffington Post, "*Not to make too much of this, but it's interesting to dredge up the transcript of the October 3, 2008 edition of HBO's 'Real Time With Bill Maher.'*" On that show,

panelist *Christiane Amanpour*, who was then the chief international correspondent at CNN, alluded to a source who had suggested that bin Laden had stashed himself in a "nice comfortable villa" in Pakistan. Unfortunately, 'Real Time' is a freewheeling, rambunctious panel show, so whatever significance the moment had was somewhat lost amid all the crosstalk." Even so, we can't say no one had a heads up.

News of Osama bin Laden's death was one of the few pieces of good news for Americans this week. On Wednesday, the Automatic Data Processing (ADP) National Employment Report missed expectations. There was an increase of only 179,000 jobs in April, down 28,000 from the increase of 207,000 jobs in March. Thursday's Initial Jobless Claims report showed claims exploding to 474,000 for the week ending April 30. This exceeded consensus expectations of 410,000, and was 43,000 higher than the previous week's revised figure of 431,000.

In a turn around on Friday, the Bureau of Labor Statistics (BLS) released a positive employment

situation report for April. Non-farm payroll employment was up by 244,000 versus the 185,000 expected. This was the biggest monthly gain since February, 2006. The same report showed unemployment edging higher to 9.0%. Logically, with increasing hiring, unemployment should be decreasing, not increasing.

Mish Shedlock tackled the disparity: *"On the surface, this was the third consecutive solid jobs report, not as measured by the typical recovery, but the best back-to-back reports we have seen for years. The Payroll Survey Establishment Data showed employment up by 244,000. At that pace of hiring, the unemployment number would ordinarily drop, but not fast. Instead, the unemployment rate ticked up."*

"The reason is beneath the surface, employment fell by 190,000 according to the Household Survey. According to the Household Survey, the number of unemployed rose by 205,000. Another 131,000 dropped out of the labor force or the unemployment rate would have been even higher."



"Which survey to believe? It is hard to say on one month's data. However, during a recovery the household survey is supposed to lead... Were it not for people dropping out of the labor force, the unemployment rate would be well over 11%. As I said, the report looks good on the surface, it does not look good if you poke around in the details." (BLS Jobs Report: Nonfarm Payroll Headline Number Looks Good, Beneath the Surface, Awful)

While weak employment numbers provided narrative for the stock market's poor performance, the Dollar took care of the real work in

bringing the markets down. After bouncing between 72.8 and 73.2 during the first half of the week, the Dollar blasted off on Thursday and Friday, zooming all the way from 72.8 to 74.0 after the [European Central Bank \(ECB\)](#) decided not to raise interest rates.

Coincident with the Dollar's newly found strength, stocks fell, commodities were mercilessly pummeled, and oil was knocked down 9.3% on Thursday. Gold dropped to \$1,483, and silver plummeted to a low of \$34.54, down 29% from last week's high. CME group Inc, which owns both the Comex and the Nymex, had imposed five increases in margin requirements for silver contracts since April 25, and this ignited wholesale selling of silver as traders scrambled to raise cash to cover the new margin requirements. According to Bloomberg, *"Before the increases, margins were about 5% of the value of a futures contract, which is for 5,000 ounces. After the plunge in prices, the cost after May 9 would be about 12% of a contract, using today's settlement."* ([Silver Investors Dump Bets After Exchange Boosts Margins 84%](#))

[Lee Adler at Wall Street Examiner](#) surmised *"this week we had a little dollar short squeeze. Players needed dollars to pay off margin loans. Probably temporary. If the dollar rallies, it means the short squeeze is getting worse."*

We wrote in [Stock World Weekly on April 10, 2011](#), *"The Dollar continued its descent, falling 1.6% for the week, from Monday's high of 76.1 down to Friday's low of 74.9. The failure of the*

Inside Member's Chat:

At 9:58 am Tuesday, May 2, Phil posted: *"USO May \$45 puts at .95 are a nice way to play a drop back to reality."*

The USO May \$45 puts closed the week at \$6.30 for an 663% gain.

““THEY’ have been pounding the Dollar to keep the markets up because, at these prices, even \$8Bn worth of daily POMO [permanent open market operations] isn’t enough to keep things floating. For that, they needed their puppets to come out and dis the Dollar. They floated rumors and got mainstream media “analysts” to get on TV and say anything to force a technical breakdown in the Dollar. The problem with that game is, failing a technical breakdown, the Dollar can end up forming a technical base. As the EU’s “guarantee” to raise interest rates was weighing on the Dollar, Trichet not doing so (Thursday) took a major weight off. The BOE held dovish too, and no one thinks the BOJ will tighten. And China simply isn’t big enough (in money supply) to have any real effect on global markets. So now, the weak Dollar story is based on our debt, the debt ceiling, and Ben’s printing press. Without QE3 and with some agreement on the debt ceiling, the Dollar bears will be sitting on a one-legged stool.” - Phil

76 level concerns us, but with Bernanke signaling his intention to end quantitative easing (QE) in June, we think the Dollar is ready to rebound, and feel it is unlikely that the 72 level will fail to provide support."

So far, the bounce in the Dollar this week is supporting our outlook. The USO puts we bought on Tuesday also benefitted as the Dollar's strength helped lower oil prices, or margin calls helped buoy up the Dollar (details in box on left).

Pharmboy had recently highlighted Genoptix Medical Laboratory (GXDX) in SWW on [January 16](#). We wrote, *"Pharmboy likes the Aug 2011 \$17.5/22.5 bull call spread for \$2.25. The spread pays a maximum of \$5 if GXDX closes at or above \$22.50 on expiration. He is pairing this with the sale of Aug 2011 \$17.5 puts for \$1.25."* GXDX was bought out shortly thereafter by Novartis and this trade, entered for \$1.25 net, was closed out for \$5.00. Belated kudos to Pharmboy.

Monday Market Movement - Bin Laden Dead but What About the Terror Premium?



News of Osama bin Laden's death helped to lift the markets in early trading, but the initial excitement quickly faded. The Dollar held up and the markets ended the day relatively flat.

5/2/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,807	1,361	2,864	8,650	855
PREVIOUS	12,811	1,364	2,874	8,671	865
% CHANGE	-0.02	-0.18	-0.33	-0.25	-1.22

The Fed's policy of quantitative easing (QE) and its effect on the U.S. Dollar is increasingly drawing criticism by the international financial media. A weakened Dollar leads to our exporting inflation to other countries, with the result being higher prices of goods priced in Dollars throughout the world. On April 30, the London Telegraph wrote, *"Last week, Ben Bernanke suggested that the US base interest rate will stay close to zero for an 'extended period'. It's been there since December 2008..."*

"Bernanke also pledged to do whatever is required to keep America's economic recovery on track - confirming that the second programme of 'quantitative easing', or QE2, would be completed. These two related announcements - the 'reprieve' and the 'sugar rush' - sent Wall Street into renewed spasms of synthetic joy."

"In the real world, US growth is slowing sharply. Annualized GDP rose just 1.8pc during the first three months of 2011, down from 3.1pc the quarter before. America remains mired in sovereign, commercial and household debt... So the Fed will keep on 'printing' virtual money - at least for now. By the end of June, it will have purchased \$600bn (£363bn) of longer-term Treasuries, with the US government effectively buying its own debt

from funds created ex nihilo. That's on top of the original \$1,750bn (£1,048bn) QE scheme, launched in late 2008." (America's reckless money-printing could put the world back into crisis)

“People who tell you a weak dollar is good for the markets are not just lying to you, they're treating you like you are an idiot. A weak dollar affects the PRICE of a stock (in Dollars), not its value - but the Financial Terrorists on CNBC and other media outlets count on the fact that you can't tell the difference.” - Phil

Tensions in North Africa and the Middle East continued. On Monday, crowds in Tripoli attacked British and Italian embassies after Libya disclosed that an allied airstrike killed one of Gaddafi's sons, and three of his grandchildren.

In Syria, violence escalated in a vicious cycle of demonstrations as government forces attacked and killed protesters. Syrian President Assad's regime has resorted to using heavy weapons against its people, including the use of tanks and artillery against rebels in the city of Deraa, in a desperate attempt to retain control of the nation. Alain Juppe, the French foreign minister, added his voice to the growing clamor of international condemnation. On Europe 1 radio, Mr. Juppe said: *"If the regime perseveres down this path, it will fall, one day or another, but it will fall. Today there is this great hope for freedom and democracy. You must take this into account and putting it down by firing live rounds in to crowds is unacceptable, whichever country does it."* (Syria offers 'amnesty' after mass arrests)

Technical Tuesday - Trading at the Dollar's Mercy



The stock market was generally down on Tuesday. Commodity prices fell sharply, with oil falling 2.1% to \$111.10. Precious metals also traded lower. NYSE losers outnumbered gainers by more than two to one.

5/3/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,806	1,357	2,842	8,585	844
PREVIOUS	12,807	1,361	2,864	8,650	855
% CHANGE	-0.01	-0.18	-0.33	-0.25	-1.22

Understanding the difference between price and value is useful in helping to avoid the pitfalls of investing in an inflationary environment. Commenting on our eroding Dollar and the distortions and speculative bubbles in the marketplace, Phil wrote, "Our currency is weak, weak, weak - collapsing, one might say. Dollar-denominated assets, like stocks and commodities, are rising in PRICE (not value) to keep up with the Dollar's decline. Interestingly (horribly), our homes are NOT rising in price at all."

Presenting a chart of the Russell 2000 (next page), Phil wrote, "I've done a simple exercise of adjusting the Russell for the 20% drop in the Dollar since March, 2009, and

I've run the Fibonacci levels off the adjusted bottom and that gives me a 50% (recovery) line on the RUT of 720, which is still above our Breakout 1 level on the 5% Rule (725). We can feel comfortable with that as a good support/resistance line. From there, we get 864 as the Dollar-adjusted top for this channel on the 5% Rule, and that's right where we topped out." (We use the 5% rule to ignore spikes down and concentrate on consolidations.)

"Looking for a 20% retrace of the run from 720 brings us back to 835 on the Russell, so we'll be looking for that as a pullback line. Most technical systems do not account for currency fluctuations, so these are not likely to be strong resistance points. However, they give us a clearer picture of what's really happening in the markets. It doesn't matter if your stock is up 100% in a currency that is declining by 30%... A Dollar recovery is the enemy of a PRICE rally so be very careful out there!"

“

The recent run-up in silver, and subsequent loss of support, led Phil to suggest buying a cheap out-of-the money put on AGO (ProShares Ultra Silver):

"AGQ has a mile to fall if Silver can't hold \$43.50 and it doesn't hurt to offer \$1 for something like the June \$150 puts, not that AGO will get that low, but a \$50 drop in AGQ can send that put up 3 or 4x."

[The chart to the left shows that AGQ dropped sharply from approximately \$240 on Wednesday down to \$186.56 on Friday.]





Which Way Wednesday - New Watch Levels

A disappointing jobs report from Automatic Data Processing (ADP), and a [weak April ISM Non-Manufacturing report](#), sent the stock market lower. NYSE decliners outnumbered advancers nearly three to one. Commodities such as oil, gold, silver and copper dropped as well.

5/4/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,720	1,347	2,828	8,507	833
PREVIOUS	12,806	1,357	2,842	8,585	844
% CHANGE	-0.68	-0.70	-0.47	-0.91	-1.29

A declining Dollar presents a challenge when analyzing a stock market that is denominated in... declining Dollars. When we adjust the [charts](#) to compensate for the Dollar's weakness, we quickly see that the bullish breakout wasn't so bullish. The falling value of the Dollar has been powering the recent rally, but on Wednesday, we reached a point where we are only getting a flat market open from a one-day 0.6% drop in the Dollar, and this is not a good sign.

Bloomberg reported *"Service industries in the U.S. expanded in April at the slowest pace in eight months as higher fuel prices prompted companies to cut back."* Signs that high gasoline prices are *"blunting purchases of other goods and services"* hurt stocks and helped Treasuries.

"Employment in the services industry fell to a seven-month low, indicating increased corporate costs may be restraining hiring, one reason why the Federal Reserve last week said it would maintain record monetary stimulus. Tim Quinlan, an economist at Wells Fargo Securities LLC in Charlotte, North Carolina said, 'It's another sign that we're losing momentum more broadly in this recovery. Businesses are still concerned

“ Thoughts on the Dollar

The U.S. Dollar does not have a constant value, but stocks and commodities are measured in Dollars.

"Think in terms of the Dollar being a variable in valuing stocks - not a fixed item."

"It is still ALL about the Dollar - that pathetic measuring stick of slipping US solvency that has dropped 20% since the market bottomed in March of 2009. This is not a complicated premise - we are simply going to remove the falling dollar's effect from our technical analysis and see where the dollar-adjusted ranges put the stock market. Our top concern for U.S. equities at this time is that a rising Dollar will adjust stocks right back to where they should be - as much as 20% lower." - Phil

about pricing power." ([U.S. ISM Services Index Fell to Eight-Month Low in April](#))

In a CNBC report on the Osama bin Laden story, trader Steve Cortes, founder of Veracruz, LLC, expressed his belief that the Dollar is primed to rally based on the military might of the U.S. Cortes observed, *"History shows us that the country with the strongest military is always the reserve currency, I think the ability of those heroes, of SEAL Team 6, to project power globally shows us that U.S. military is uncontested in its dominance and I think the currency will re-assert accordingly."* ([Halftime: Did US Special Forces Just Rescue the Dollar?](#))

Thoughtful Thursday - What's Our Money Worth?

Thursday was another down day for equities, as the Dollar rallied in the aftermath of European Central Bank (ECB) President Jean-Claude Trichet's **unexpectedly dovish comments regarding keeping interest rates the same for the Euro**. A dismal **Initial Jobless Claims report** contributed to the sour mood, and the drop in commodities continued, with oil plummeting 9.34% to close the day at \$99.04.

5/5/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,586	1,335	2,815	8,397	829
PREVIOUS	12,720	1,347	2,828	8,507	833
% CHANGE	-1.08	-0.90	-0.49	-1.28	-0.44

The powerful response to the ECB's decision to do nothing shows how stretched expectations had become that the ECB would be pursuing a hawkish position on inflation by raising rates. (Raising interest rates would push the value of the Euro up relative to the Dollar.) In a press conference, **ECB President Jean-Claude Trichet remarked**, *"With interest rates across the entire maturity spectrum remaining low, and monetary policy stance still accommodative, we'll continue to monitor very closely developments with respect to upside risks to price stability."* The ECB appeared to be signaling its

intention to pause for a while before implementing any further interest rate hikes.

What is the value of a Dollar? All world currencies are "fiat" currencies. They are not backed by anything tangible, such as precious metals. This makes determining an actual "value" for a given currency challenging, as value is relative, and dependent on multiple, changeable factors. Whatever concerns people may have about the U.S. Dollar, the fact remains that Japan, China and Europe are in no better shape than the U.S. Thursday's announcement by the European Central Bank helped point that out.

Meanwhile, price inflation continues to be disconcerting, and higher food prices are no longer just a problem for other countries. For example, Kraft Foods Inc, the world's second largest food company, announced on Thursday that it was lowering its full-year earnings forecast because of the loss of the Starbucks distribution business and because of surging commodity costs.

Other food and beverage companies, including Sara Lee and Kellogg, have raised prices on many products as they attempt to deal with rising input costs for commodities such as wheat, corn and coffee. (**Kraft Cuts Full-Year Profit Forecast, Citing Starbucks Loss**)



The inverse correlation between the Dow and the Dollar continued in the pattern of "when the Dollar pops, the market drops." (See the INDU versus UUP chart to the left.) As we can see from the chart, while the correlation is not absolute from day to day, the prevailing trend is clear. Should the Dollar continue to rise, the resulting direction of the markets should be obvious if the pattern holds up.

TGIF - Will A Poor Jobs Report Boost the Markets

The Dollar continued to climb on Friday, powering up to 74.9 in the late afternoon, as rumors that [Greece is considering leaving the European Union](#) helped strengthen the Dollar against the Euro. The markets were also up for the day, as traders were encouraged by the higher than expected April Non-farm Payroll report.

5/6/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,638	1,340	2,828	8,426	833
PREVIOUS	12,586	1,335	2,815	8,397	829
% CHANGE	+0.43	+0.37	+0.46	+0.34	+0.49

Spiegel Online reported that Grecian Prime Minister George Papandreou was seriously considering having Greece abandon the Euro and reintroduce its own currency. This story was soon [refuted by an official press release from the Grecian Ministry of Finance that vehemently denied the story](#). *"An article published today concerning the possible exit of Greece from the Eurozone is not only completely untrue but also written with incomprehensible flippancy despite repeated denials by the Greek Government as well as other EU Member States. Such articles are not only provocative but also highly irresponsible as they undermine Greece's efforts and those of the Eurozone and serve only the interests of speculators."*

On Tuesday, Phil wrote, *"a 20% retrace of the run from 720 brings us back to 835 on the Russell, so we'll be looking for that as a pullback line."* Sure enough, we got our pullback this week, and the RUT closed the week at 833.

This week was very good for our aggressive [\\$25K portfolio](#) (our [\\$25,000](#) to [\\$100,000](#) portfolio). The downturn in the markets allowed us to close a number of positions at a

Friday's Levels

5/6/11	Dow	S&P	NAS	NYSE	Russell
FRIDAY CLOSE	12638	1340	2828	8426	833
UP 100% (RUT 133%)	12938	1332	2530	8362	800
MAJOR BREAKOUT LEVELS	12000	1300	2750	8250	800
BREAKOUT LEVEL 2 (MUST HOLD)	11600	1260	2675	7935	800
BREAKOUT LEVEL 1	11500	1220	2600	7750	725



profit. The end of the week net balance in the \$25KP is \$35,636, a gain of 42% since the beginning of February. *"We've got a pretty good mix remaining and, now that we have some cash in our pockets again, we can make some earnings plays. Currently, we are aggressively long off of yesterday's drop with our naked FAS call and our oil longs."* (Phil)

“Notice though, that despite the ‘big sell-off’ this week, we did not crack any of our 100% levels... That is NOT a sell-off, that is a bounce off the resistance at the 100% lines.” - Phil

The Week Ahead

Intel (INTC) is one of our favorite technology companies. We discussed why we were bullish on the stock in the [April 3, 2011 issue of Stock World Weekly](#). At the time, INTC was trading in the \$20 range. Intel has done well since then, closing this week at \$23.25. While Intel has been slow to get into the fast-growing tablet computer market, it is well positioned to use its manufacturing and technological leadership to move aggressively into this area, and we expect that it will.

On Thursday, [Intel announced](#) that it will begin high-volume manufacturing of chips using the world's first "three dimensional" transistor, based upon a vertical "fin" structure that allows for a much more efficient gating effect. Intel Senior vice president Bill Holt commented, "The gains these transistors provide are really unprecedented" and we agree. The new technology, called "Tri-Gate," produces transistors that operate at lower voltages, consume 50% less power, and leak less current, while also providing improved switching characteristics.

This advance will make it possible for the next generation of computer chips to run cooler, use less power (extending battery life for portable devices), run faster, and generally perform better. It also makes it possible for Moore's law (twice as many transistors every 24

months) to operate for at least another two years. While the technology was first announced back in 2002, it has taken this long to develop it to where it could be put into full production. The first chips using this technology are scheduled to be released early in 2012. ([Intel Announces '3D' Transistor Technology - Moore's Law Extended](#))

Mark Bohr, an Intel senior fellow, noted, *"We've never achieved that kind of performance gain on any previous technology."* Bohr also estimated that it will be at least three more years before competitors will be able to begin manufacturing 3D transistors in production level volumes. This announcement promises to be the beginning of an exciting new chapter in the story of Intel and we continue to believe Intel is a good long term investment. ([Next Intel Chips Will Have the World's First '3D' Transistors](#))

This week's announcement of the death of Osama bin Laden prompted author and journalist Nomi Prins to remind us that killing Osama does nothing to mitigate our economic woes. [She wrote](#), *"while all the Osama drama was unfolding, the Treasury Department issued another plea for raising the debt ceiling, aka supporting its pro-bank policy. It went something like this: We need to borrow more to pay social security obligations and not default on our debt, so other countries won't question our ability to manage an economy (as if that hasn't already happened) and we won't have to pay more to borrow more. If we don't - you know what'll happen - yep, another financial crisis."*

"The actual quote was: 'The debt limit is the total amount of money that the United States government is authorized to borrow to meet its existing legal obligations, including Social Security and Medicare benefits, military



salaries, interest on the national debt, tax refunds, and other payments.'

"Though technically correct, omitting the fact that our leaders chose to float the financial system on such an unprecedented scale with no obvious Main Street benefits - hence the massive and quick debt increase - continues to show an aversion to reality...

"Hitting the debt ceiling isn't about spending gone haywire because the Social Security and Medicaid buckets are too small for the people that rely on these programs; it's about the big-ticket items - like recently, bailouts. Here are some terms and numbers, intentionally blurred by those that control them...

"The total US debt is a combination of two things: the public debt (the amount of securities the Treasury issues in order to borrow money from international or national investors) and intragovernmental holdings (the amount of borrowing done from funds like the Social Security trust fund). Public debt is always higher.

"As of April 30, 2011 - the public debt stood at \$9.63 trillion dollars and intragovernmental debt at \$4.6trillion (68% and 32% respectively of the total debt of \$14.24 trillion vs. a debt ceiling, or cap, of \$14.294 trillion).

"In April 2007, public debt was \$4.97 trillion, intragovernmental was \$3.78 trillion (57% and 43% of the total debt). The debt cap was \$8.965 trillion.

"Basically, what all these numbers show is that public debt has **nearly doubled** since before the big bailout, while intragovernmental debt has increased **just 15%**. Some (like Geithner, Bernanke, etc.) may argue that this balloon in public debt was required to save our economy, though there's little evidence of it doing anything but cheaply

floating our financial system, not least because **nearly half of the additional \$4.4 trillion of public debt that was created is stashed at the Fed as either excess reserves, QE1, or QE2.**" (Can't blame economic policy on Osama)

Lee Adler at the Wall Street Examiner (subscription edition) presented his take on the market's drop last week and his expectations for the week ahead:

"I also suspect that this selloff was not an accident, that it was possibly orchestrated by the Fed acting behind the scenes. The surge in commodities was becoming an enormous problem for them. Bernanke said at his press conference that there was nothing the Fed could do about it. That was a preposterous statement and it should have rung bells. While the Fed did not overtly 'do anything about it,' there's no way that this is just the invisible hand of the market at work, in my view.

"The question now is whether the Fed will be able to control or mitigate the process on the downside. I have my doubts. Markets can be manipulated up to a point. When they become unstable, the reactions can become self-feeding and uncontrollable. The powers that be may find that there are unintended consequences. This is where I would hope that technical analysis will come in handy.

[...]

"Next week, the auction calendar will be big, but the new supply [of Treasuries] won't settle until Monday, May 16. Thursday will again see a paydown of \$16-18 billion. By the following Monday, enough POMO would have built up along with the cash that wasn't deployed this week, and the Treasury paydown cash, to handle the new supply. After that, supply will recede again, and POMO will continue to flow. This is not a bearish liquidity outlook. That should limit the negative effects of the silver and crude oil crashes."

At least one volatile region to watch next week is Libya. Reuters reported that, "*Libyan government forces destroyed four fuel storage tanks and set several others ablaze in rebel-held Misrata, dealing a blow to the port city's ability to withstand a government siege, rebels said on Saturday.*"

Zero Hedge commented, "And so the badly thought out experiment to supply Libyan rebels with a central bank, to be used to fund an 'alternative' fuel industry comes to a prompt and fiery end."

"Not surprisingly, this fits in perfectly with the assumption first postulated by Zero Hedge that Gaddafi will destroy his entire oil infrastructure before letting it fall into 'enemy' hands. This likely marks the end of the Libyan rebellion and will force NATO to launch a land offensive or suffer a crushing blow to its already shaky reputation as globocop, especially now that the US is in theory at least, out of the air campaign against Gaddafi." (So Much For Libyan Rebel Oil Exports: Gaddafi Forces Destroy Last Fuel Tanks Under Rebel Control; NATO Land Offensive Now Unavoidable; see also, "Libya: All About Oil, or All About Banking?" by Ellen Brown.)

Pharmboy provides a trade idea this week. He likes Ariad Pharmaceuticals (ARIA), a biopharmaceutical company that focuses on "the discovery, development, and commercialization of small-molecule drugs for the treatment of cancer... The company's lead cancer product candidate, ridaforolimus, is being studied in multiple clinical trials in patients with various types of cancers, including sarcomas, breast cancer, prostate cancer, non-small cell lung cancer, and endometrial cancer." Merck recently took over the development of ridaforolimus from Ariad, and the companies are preparing a New Drug Application for the Food and Drug Administration for the treatment of sarcomas. Pharmboy believes, "the drug works!"

“The Dollar held 74.75 and, of course, the point is that once you get people to consider the fact that the EU is not very stable - then people start moving money away anyhow - that's how they killed BSC and LEH back in '08 - they weren't insolvent but the rumor alone was enough to put them into meetings and denials etc. that made them look bad. Then people got nervous and, suddenly, they were actually in trouble. Again, with a Fiat money system, none of these bankers really have any assets and the same goes for nations - you can take anyone down with a well-coordinated attack.” - Phil

Ariad also has several other interesting investigational drugs in its pipeline, including AP24534, a pan BCR-ABL inhibitor, which is in Phase I clinical trials for the treatment of chronic myeloid leukemia, acute myeloid leukemia, and other hematologic cancers.

Pharmboy "likes playing the company conservatively for the summer, and potentially garnering an additional 20% by buying the stock around \$8.50, selling the August \$9 calls for \$0.90 or better, and selling the August \$8 puts for \$0.80 or better (\$1.70 or better combined). The company is a good long term hold."

Another biotechnology company that Pharmboy likes is Cerus Corporation (CERS). Pharmboy wrote on April 4, 2011, "At \$2.79, the stock is relatively inexpensive. Insiders were buying last month between \$2.59 and \$2.70, and it is my belief that the stock has significant upside potential." The stock has gone down slightly and is now trading at \$2.71. Pharmboy thinks it is still a good long term investment.

Next Week's Economic Calendar

Monday 9	Tuesday 10	Wednesday 11	Thursday 12	Friday 13
11:00 AM: 4-Week Bill Announcement	7:30 AM: NFIB Small Business Optimism Index	7:00 AM: MBA Purchase Applications	8:30 AM: Producer Price Index	8:30 AM: Consumer Price Index
11:30 AM: 3-Month Bill Auction	7:45 AM: ICSC-Goldman Store Sales	8:30 AM: International Trade	8:30 AM: Retail Sales	9:55 AM: Consumer Sentiment
11:30 AM: 6-Month Bill Auction	8:30 AM: Import and Export Prices	10:30 AM: EIA Petroleum Status Report	8:30 AM: Jobless Claims	
	8:55 AM: Redbook	1:00 PM: 10-Year Note Auction	10:00 AM: Business Inventories	
	10:00 AM: Wholesale Trade	2:00 PM: Treasury Budget	10:30 AM: EIA Natural Gas Report	
	11:30 AM: 4-Week Bill Auction		11:00 AM: 3-Month, 6-Month Bill and 10-Yr TIPS announcement	
	1:00 PM: 3-Year Note Auction		1:00 PM: 30-Year Bond Auction	
		New POMO schedule announced 2PM	4:30 PM: Fed Balance Sheet and Money Supply	
POMO DAY (\$6Bn - \$8Bn)	POMO DAY (\$5Bn - \$7Bn)	POMO DAY (\$6Bn - \$8Bn)	No POMO scheduled as of 5/8	No POMO scheduled as of 5/8

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