CRAWFORD Perspectives

October 8, 2007 Vol. 07/10

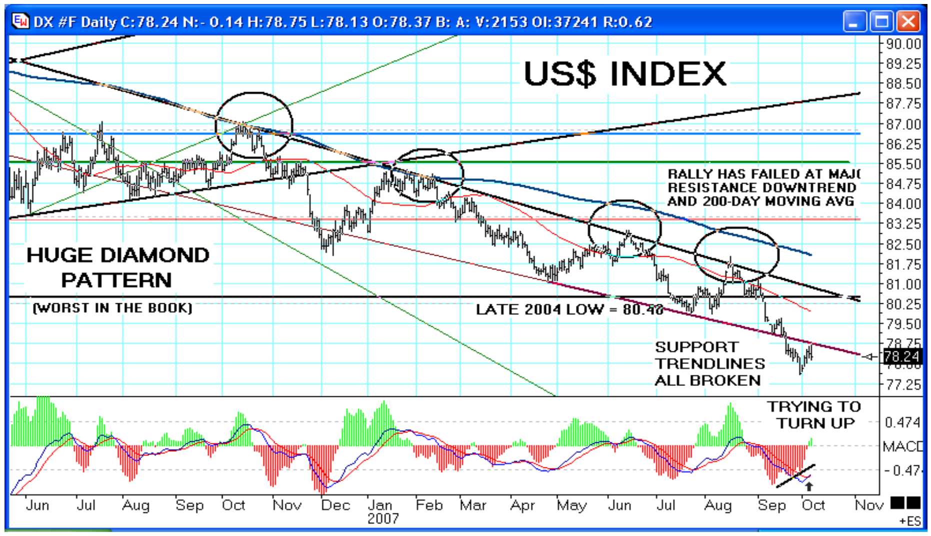
NOT OUT OF THE WOODS YET?!

We were stopped out of our Major Index positions on the close of September 18 (DJIA) and 19th (S&P500) as detailed in Vital Signs box (below). We are surprised that, in the absence of any final solution to the myriad of financial & economic problems visiting plagues on "all our houses" (so to speak), that stocks so powered up as to completely recover from a very reasonable correction.

Particularly in view of negative announcements and write-downs, $5.5 Billion (you know, REAL money) by Merrill Lynch, $3.4B by UBS, $3.3B by Citigroup, $3.1B by Deutsche Bank, $2.4B by Morgan Stanley (this little by the firm voted most likely to go under from derivatives), $1.5B by Goldman Sachs (what did they know that these others didn't?), and $0.7B by Lehman and Bear Stearns.

So, all this bad news is greeted with glee by those who say: "Well, they're fixing it!" Do you think that was IT for the final chapter? There remain few bids for Bonds rated less than AAA and Central Banks are continuing to Pour Forth that healing balm, Cold Hard Cash, which they whipped up for us in their basements. Why not? Heck, it doesn't cost Them anything!

As you can see from the chart at right, everyone who has shorted the US Dollar in the last few years, now has a profit, many sport substantial profits. Since April 2001 we have recommended Gold, Oil, Metals and the Bonds and currencies of nations with ASSETS in the ground! That has paid off in spades. We have remained Short US$ and Long Interest Rates!



We have not been so perspicacious/lucky with equity markets since the Bradley Model called the precise days of the October 2002 and March 2003 bottoms. It has been impossible for us to entertain long positions with major indices yielding under 2% dividends! In the old days, it was good strategy to Buy Indices yielding 6% and Sell when they drop to 3%. They have traded under the extremes of 2% most of the last few years.

Wall Street likes to tell you that stocks are 'undervalued', but they make comparisons over time periods that show the best light to sell to customers. Admittedly, it has been a very long time since the worst case scenarios forced large corrections in their 'models'. The firms doing the write-downs mentioned earlier have just now begun to realize that the parameters change with the Long Cycle 'Seasons'. It is only partially in jest that we mention that ubiquity of Overweight Americans may be reflective of the onset of Kondratieff Winter! If you don't know what that means, Google it! May have a 'V' instead of 'FF'.

Technically, stock markets are becoming overbought near term, and could easily top out now or continue up into the Bradley Top Date of 17-19 October. Charts are rising into a probable 'wedge' (negative) pattern and Volume is not currently supporting much of an active continuation. The 19th is also the date, on average, that begins some level of sell-off most quarters since 1915! **<u>CP will re-institute 100% Shorts on Option Expiry close on the 19th on both DJIA and S&P500 indices. SHORT also if DJIA declines to 13,940 &/or SPX to 1527. Use 3% stops on all positions. 14,360 vs. DJIA 1572 SPX!</u>**

The next Bradley lows are November 28 and December 2. We will re-evaluate these positions to cover or double up in the November 5 issue. There is a good chance we will be Buyers on that 'double bottom' if not before.

Although September has been the worst month for stocks in recent history, and especially in the years ending with (7), statistics give us probabilities and any one event does not 'have' to do anything. Certainly, this September was an anomaly, but not out of bounds of the probabilities.

In that spirit, we report the findings of Peter Eliades of www.StockmarketCycles.com who noticed that from October 3rd to 12th, 7 of these 11 occurrences in the years ending in '7' have dropped over 5% (over 700 DJIA points in today's market), and the average drop to November 8 on a closing basis is over 14%. Only one instance of these 11 showed a rally and it was only 1.7%.

<u>Come as our guest to The Wealth Expo Oct. 19-21 NYC at the Javits Conf Center. Arch will speak on 19th at 6pm.</u>

VITAL SIGNS

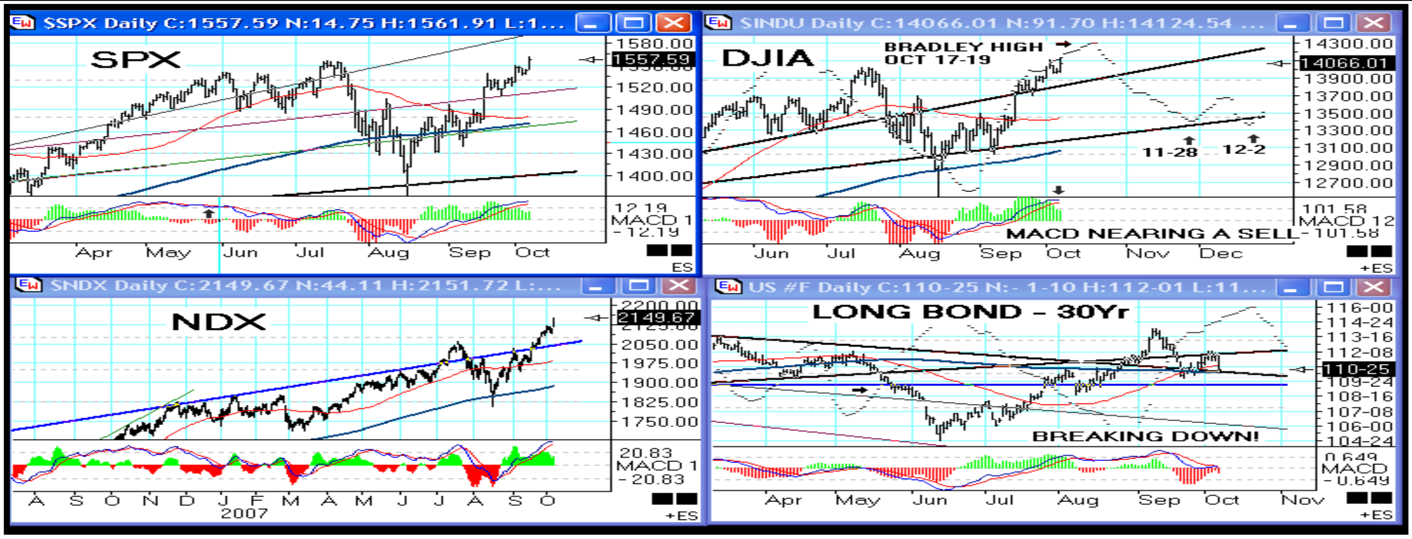
<u>DJIA positions Stopped 13,739.39 close on Sept 18</u>
<u>S&P500 Stopped 1529.03 close on Sept 19</u>

(S&P500 Short @ 1482.66 on 26 July–STOP @ 1527.14)
(DJIA Short @ 13,265.47 on 27 July-STOP=13,663)

<u>SHORT NEW 100% Positions on Close Oct 19</u>
<u>On BOTH DJIA and S&P500 with 3% STOPS</u>

<u>SHORT 100% in addition on DJIA drop to 13,940</u>
<u>And/or 1527 SPX. Place 3% STOPS on all!</u>

<u>ALL OUR STOPS ARE CLOSE ONLY!!</u>



RISING WEDGE PATTERNS FORMING COULD LIMIT NEAR-TERM PROGRESS?!

VOLUME INDICATIONS (NOT SHOWN) ARE NOT CONDUSIVE TO CONTINUATION; MACDs NARROWING

Charts pictured above show ($SPX) S&P500 Cash Index, ($INDU) Dow Jones Industrial Average, ($NDX) NASDAQ 100 (not COMPosite), and (US #F) 30-Year T-BOND (Constant Contract Price).

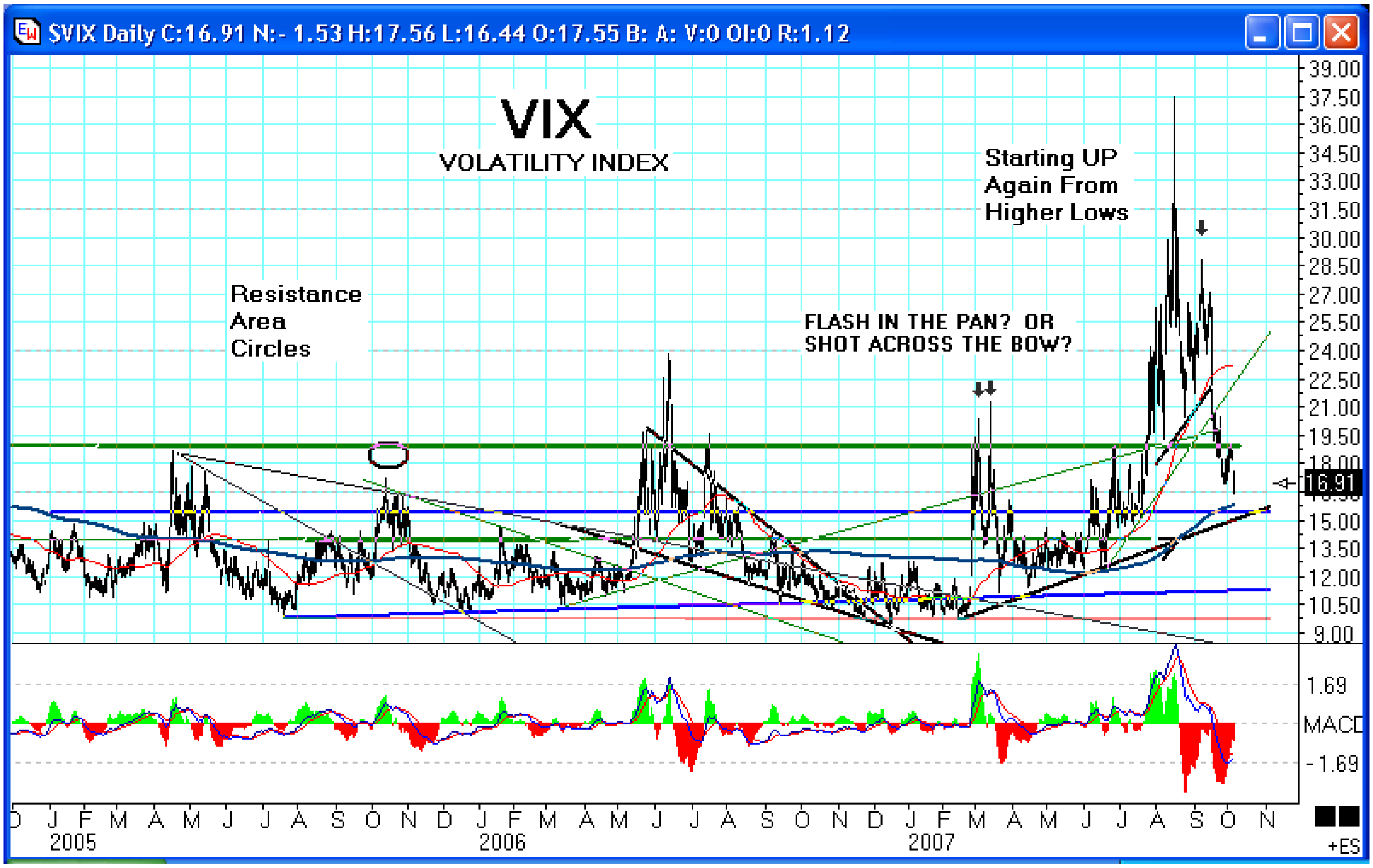
All the widely followed major indices, S&P500, Dow Industrials, and NASDAQ100 (NDX) have surpassed previous highs, with DJIA and S&P reaching All-Time Highs! The NDX, far from old highs, has broken above minor Fibonacci Ratio resistance and is in a favorable seasonality. We mentioned in previous editions that "…the action over the last five weeks could be developing a Head-and-Shoulders type bottom pattern. To prove that case, Indices must turn up very soon and break above recent rally highs." They have been able to prove that case with alacrity!

All the major stock indices have extended themselves far above their various Moving Averages and deserve some form of 'resting' consolidation, even if they are able to rise again near year-end. The price extensions are tending towards overbought extremes. They could be peaking now, as several colleagues have mentioned this week, or may continue into the BRADLEY Model top indicated for October 17-19. We wrote earlier that the average calendar Quarter has at least a minor rally high on or about the 17th to 19th day, as companies with good earnings tend to report by then and laggards seem to have more unpleasant earnings surprises.

The ASTRONOMIC ACTIVITY calendar last month had this entry: "SEP 7 = Another highly explosive day – perhaps the Most explosive as Mars squares the coming eclipse point and Pluto changes direction." It appears now that the Israeli air raid against Syria (September 6) was more significant than previously thought. A shipment labeled "cement" from North Korea is now suspected of containing fissionable (nuclear) materials, and the air strike was designed to delay or prevent the Syrians from moving forward on creation of nuclear bomb potentials. The silence regarding this intrusion on all sides is keeping the world intelligence community a bit on edge concerning possible extrapolations of hostilities.

The whole region is 'edgy' over US and Israeli military build-up over recent months which may culminate with massive bombing raids and possible ground-based aggression involving Iran and Syria in particular. Are we waiting for another "false-flag" incident here at home to justify such hostile action? With Mars going into retrograde motion November 15, and Sun in Scorpio (often associated with sneak attacks) from October 23, there is limited time to start and complete a satisfactory military operation of such magnitude.

There is a further rumor floating around that the current administration ordered the US Air Force to move missiles with nuclear warheads over to this super-heated region… and They Refused! If true, such insubordination at these high levels is accurate, what does it mean for a continuation of our policy of peaceful changes of democratic governments through popular choice? One of my favorite books is ***The Yankee and Cowboy War*** by Carl Oglesby, Berkley Medallion Books (1976). It explains "The struggle between the Old Money of the eastern seaboard and the New Millionaires of the west." which includes the JFK assassination and the deposing of Nixon. Putting it all together, it names names, dates & places in such a way that "…the strange and savage history of our era makes terrifying sense." Is this WAR of "coup and counter-coup" about to break out into the open once more? How many people and lies and dollars will it take to suppress the truth this time? Our government does whatever it wishes and is no longer responsive to the will of the people. Will the truth come out too late? Will any of the clowns running for public office make the slightest bit of difference? We think the trap is about to be sprung!



VIX IS ONE OF FEW CLEARLY LONG TERM NEGATIVE INDICATORS!

Having spent the last few years in a long base at relatively low levels, the CBOE Option Volatility Index gave a clear warning of the dangers that have been building over recent months. The VIX chart (above) gave very strong hints of this market decline very early, as it was making a series of higher lows from February through June (see thick black line at bottom right). So VIX made three higher lows in August, and finally broke down from that trend in the later weeks of September.

We believe the February-June (heavy black) line of support will hold around the 15 level, with the help of the 200-Day Moving Average, now about 15½. The MACD Indicator (lower chart section) has become deeply oversold as it was deeply overbought, with the second dip holding above the previous low, and the lower (blue) line turning back up. These are technical positives but anything can happen. If it does hold in the 14.5-15.5 area and turns higher above 20 again, a very forceful long term bearish (negative for stocks) signal will be achieved. At REAL lows in stocks, VIX readings have exceeded the mid-50's!

"The worrisome thing is that even as the FED courts inflation by lowering the Fed Funds rate a half point, its action may not succeed in unclogging the credit markets. Investors could remain reluctant to lend money for leveraged buyout schemes or 'special investment vehicles' that are ways for hedge funds and financial institutions to borrow money in the commercial paper market and use the proceeds to invest on margin without having to disclose the leverage on their balance sheets. Moving the appearance of risk off the balance sheet without removing the actual risk sounds to me vaguely reminiscent of what Enron was doing."

"If those who hold cash remain too suspicious of borrowers to lend, even lower rates will not help. This is what happened in Japan during the 1990's. Despite near-zero interest rates, domestic borrowers in Japan could not borrow from banks because even at zero interest, the underlying business fundamentals did not justify borrowing. The result was called 'pushing on a string'—lots of effort by the central bank but no effect on the economy. Instead, foreign borrowers (hedge funds) took advantage of low Japanese interest rates to invest in higher-rate countries, which is called the yen carry trade."

SYSTEMS & FORECASTS by Gerald Appel & son, Dr. Marvin Appel at www.systemsandforecasts.com

Crawford Perspectives has been very HOT on both **GOLD** and **OIL,** both in the sense of 'going up' and in the sense of making correct calls in both directions. Both have now risen to the tops of their trend channel lines, **GOLD** at 747.20 vs. Dec contract and **OIL** at 80.86 with recent highs at 83.65 (not shown – very much same chart pattern as the Gold).

<u>We would consider a short-term sale near current levels with the plan to buy back on October 29 when Jupiter sextiles (60 deg) Neptune and selling once more on Nov 12.</u>

A break above 760 on Dec. Gold or 83.65 on Oil could be the beginning of another round of hyperinflation related to Central Bank money creation. That is not our highest probability scenario just now. They may require some further sideways or somewhat lower consolidation phase for now. Prefer small counter-trend positional Shorts into October 29th.

As for **GOLD** we said in the July 9 CP letter: "We are **<u>Buyers</u>** on an upward break of **<u>663</u>**!... We think it more likely to gap above this first area to the old high at 732 on the 'current contract' chart (above). **<u>Intermediate & Long-term holders should Raise our current Stoploss order to Sell at 677 on up to 722 until further notice.</u>**

US DOLLAR Index has smashed all remaining support levels and is dropping down from below critical 80.00-80.48 band. We think that another strong short-covering rally is far less likely at present. Closed Friday at 78.24 after trading below the mid-77 range (see chart page 1) We are closely watching the **Yen** for signs that the "Carry Trade" is beginning to unravel. It has for now consolidated below an important trendline, emasculating the positive breakout for the present.

ASTRONOMIC ACTIVITY

OCT 1-3 = Counter trend rally could spark markets and bring some hope, even into the 8th.
OCT 8 = Venus leaves the Speculative fun sign of Leo, taking the good times with it, entering Virgo emphasizing women's health care issues.
OCT 9 = Jupiter square Uranus will likely bring more bankruptcy announcements and other disappointing overnight News!
OCT 11 = Begins with the New Moon at 17 ½ Libra (2 men are arrested) and ends with Mercury Retrograde (old comrades rejoice).
OCT 16-19 = Markets could have sharp rises this period ending with a Peak on Options Expiry Friday.
OCT 22-25 = Markets much worse! Mixed but emotional on Friday, the 26th. Could go either way.
OCT 29-31 = We could see retracement lows in Gold, Oil & general Commodities.
NOV 1 = Quarter Moon & other nasties at market close = emotional turmoil over possible news.
NOV 5-6 = Really BAD Days! The news is worse again.
NOV 8-9 = Venus enters favorable Libra on the 8th & New Moon on the 9th could turn things around – Many changes of trend.
NOV 12 = Back to short term highs on Inflation Hedges!

ATTENTION: The CP newsletters are usually mailed 1st Monday. Next will be Monday, November 5!