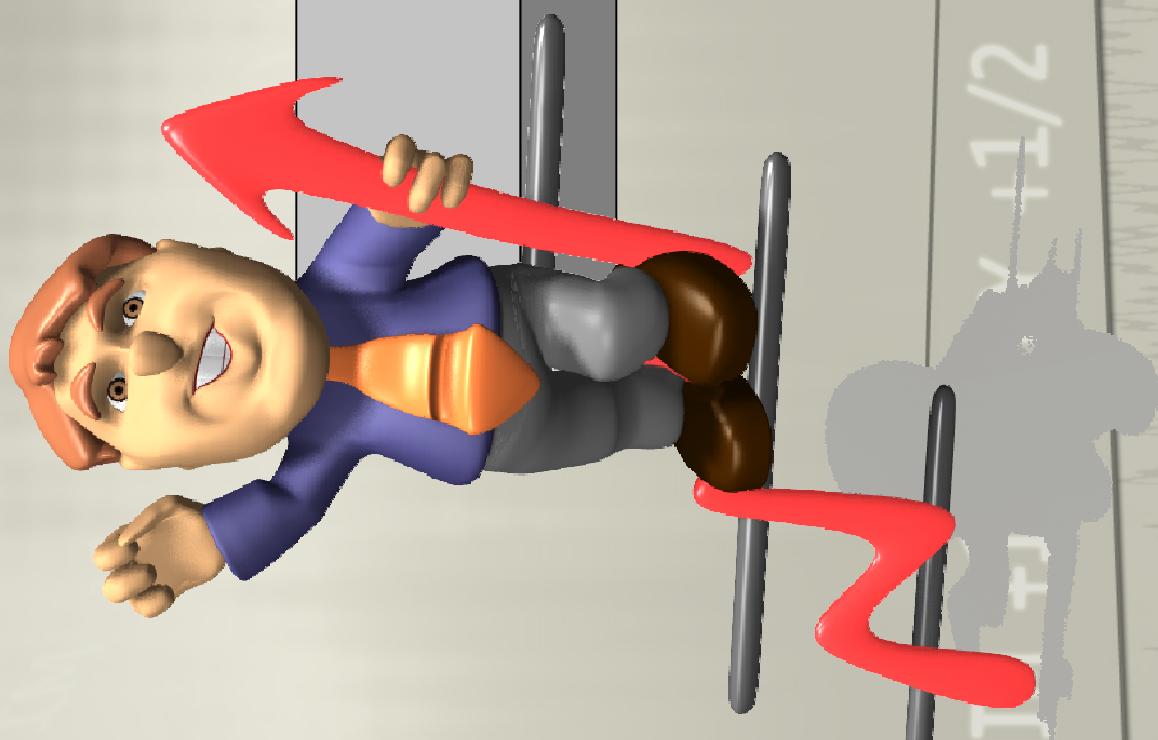


# **Outlook 2009**

**Dallas Investors Forum**

**January 3, 2009**

**Fred Richards**



ANALYSTS  
+1/2 MOQE -2 TMGA +3 GRPC -1/4

# Disclaimer

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The author and/or speaker has attempted to verify all information but does not take any responsibility for any action which a member of any audience (both in person or in a subsequent venue) makes of the information which is presented herein.

Results obtained in prior years are no guarantee of results either this year or in the future.

**You and you alone are responsible for any decisions you make based upon the information obtained during the course of this presentation.**

Fred Richards.



**2009 was a Bad  
Year for Many  
Investors!**



# IBD® and Fred's Take

## MARKET PULSE

Friday's action:  
Stocks score big gains in  
lighter volume

Current outlook:

Market in confirmed rally

Distribution days

4 for Dow, 3 for S&P 500, 2  
for Nasdaq, NYSE composite  
in past few weeks

Leaders up in volume:

NCI <sup>NET</sup> Elflir Systems <sup>FIR</sup>

AeroVironment <sup>AERV</sup>

AECOM Technology <sup>AECM</sup>

BP Prudhoe Bay Royalty Trust <sup>BPT</sup>

Leaders down in volume:

Monro Muffler <sup>MRC</sup>

California Water Service <sup>CWT</sup>

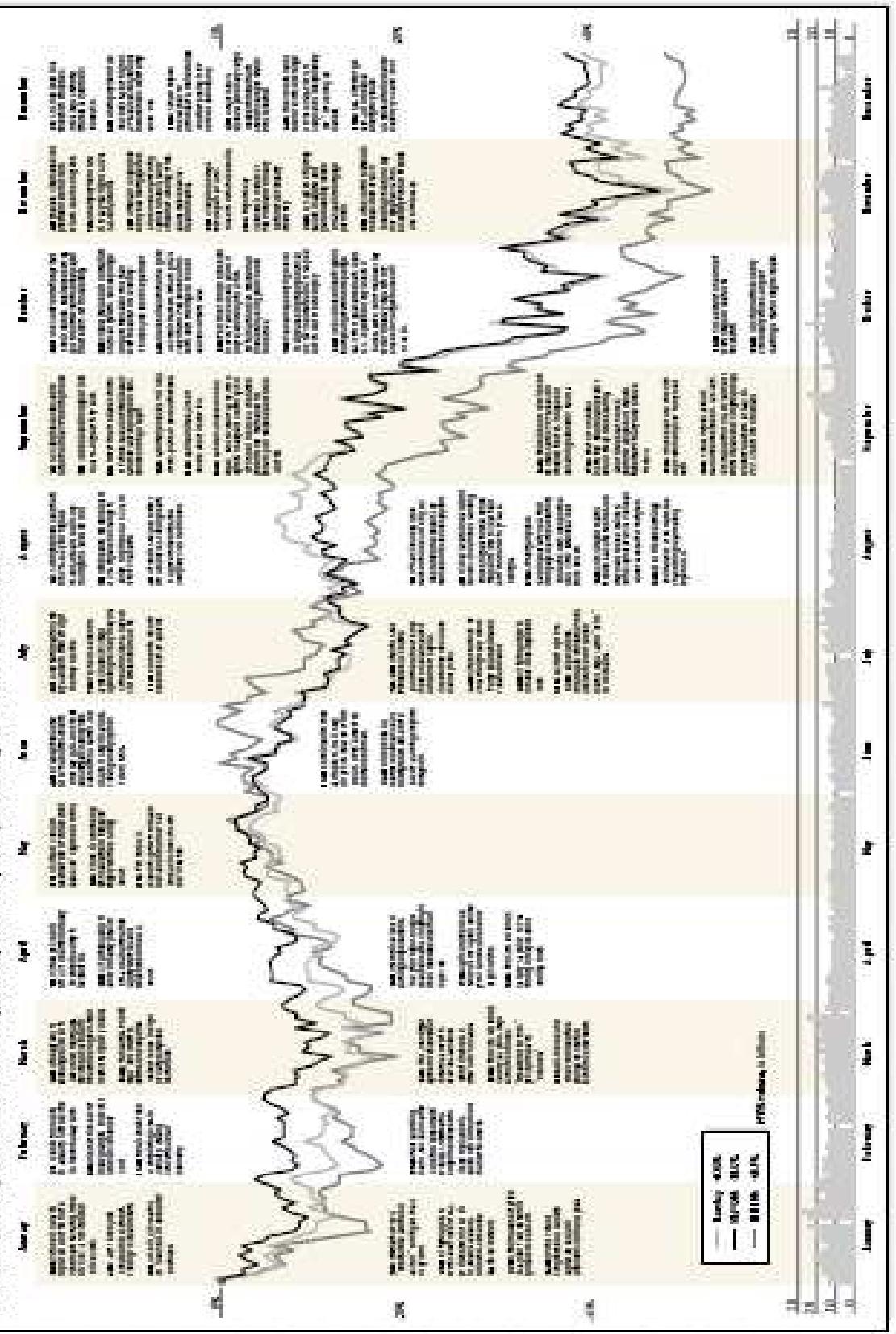
- Economy in recession w/stagflation showing
- Good stocks hard to find
- America on Sale. Job losses increasing.
- Fed Funds 0.25% or lower
- As foreigner's sell US bonds, look for higher rates.
- The Bailouts will provide only temporary relief
- Derivative mess still unfolding
- As Libor spread decreases, US \$ will fall.

Data source: Investor's Business Daily. Used with permission.

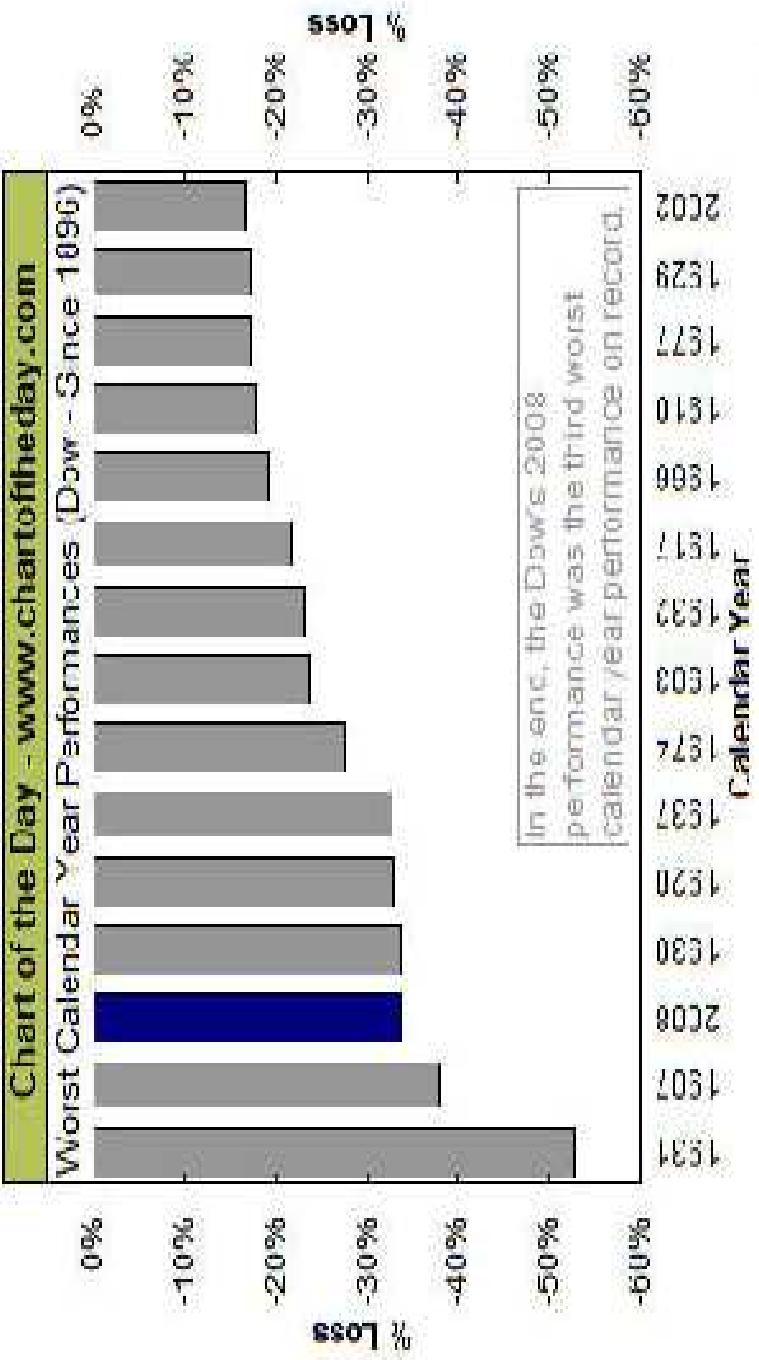


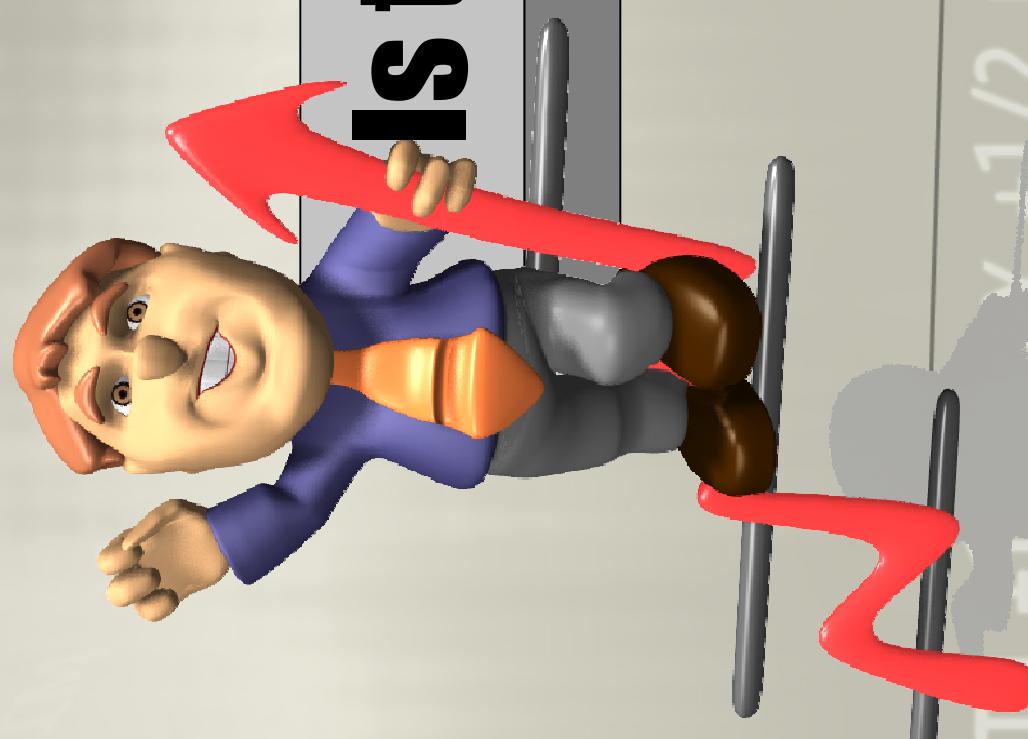
## 2008: A Horrendous Plunge For The Stock Market

Last year of the decade saw record falls in Wall Street, as the market suffered its worst losses since 1931's 30% fall in value.



# 2008 DOW WAS 3rd WORST LOSS year





# Is the bottom here?

Perhaps, Yes ... perhaps No.

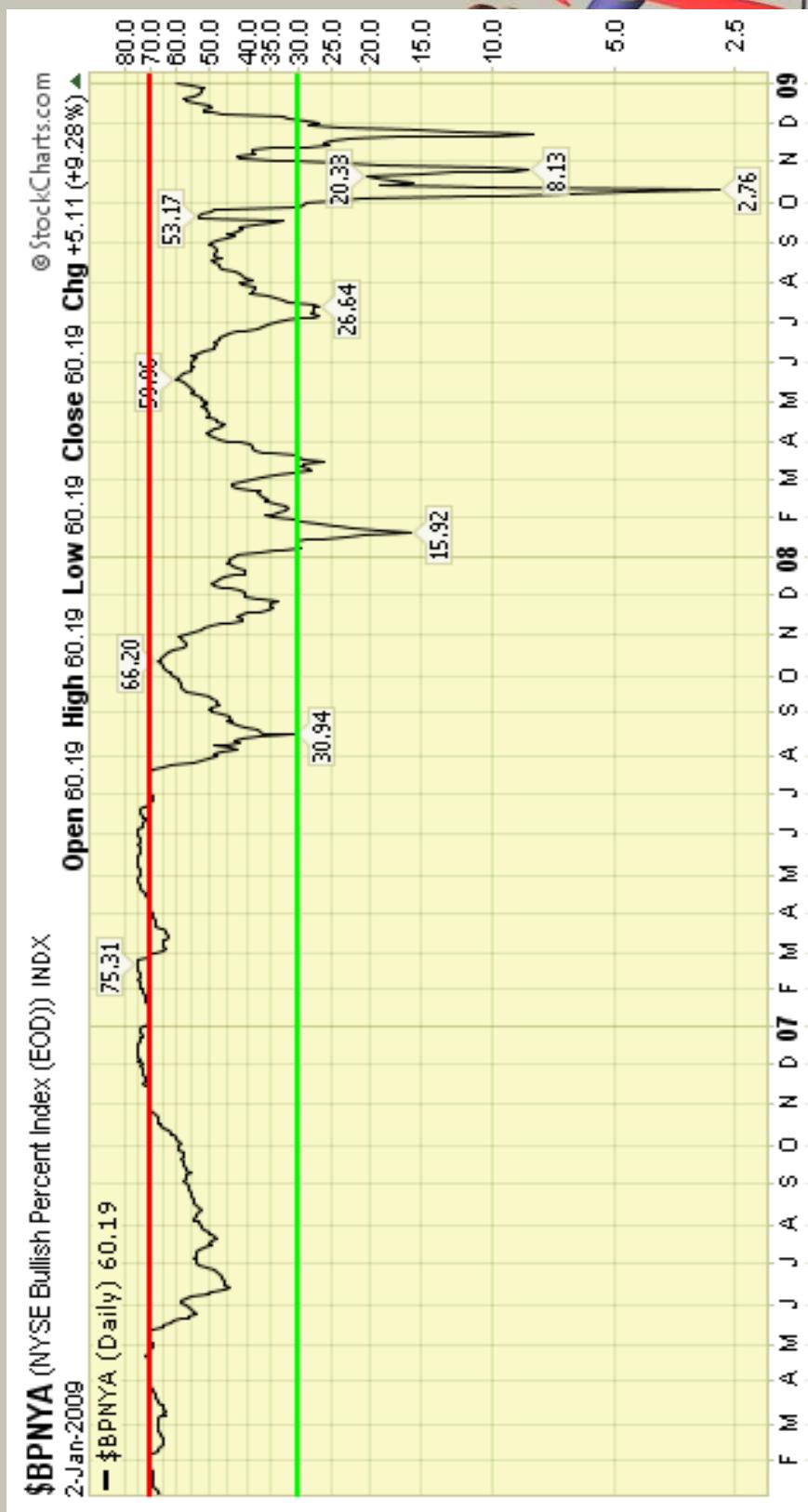
1/2 MOQE -2 TMGA +3 GRPC -1/4  
ANT

# Momentum Indicators

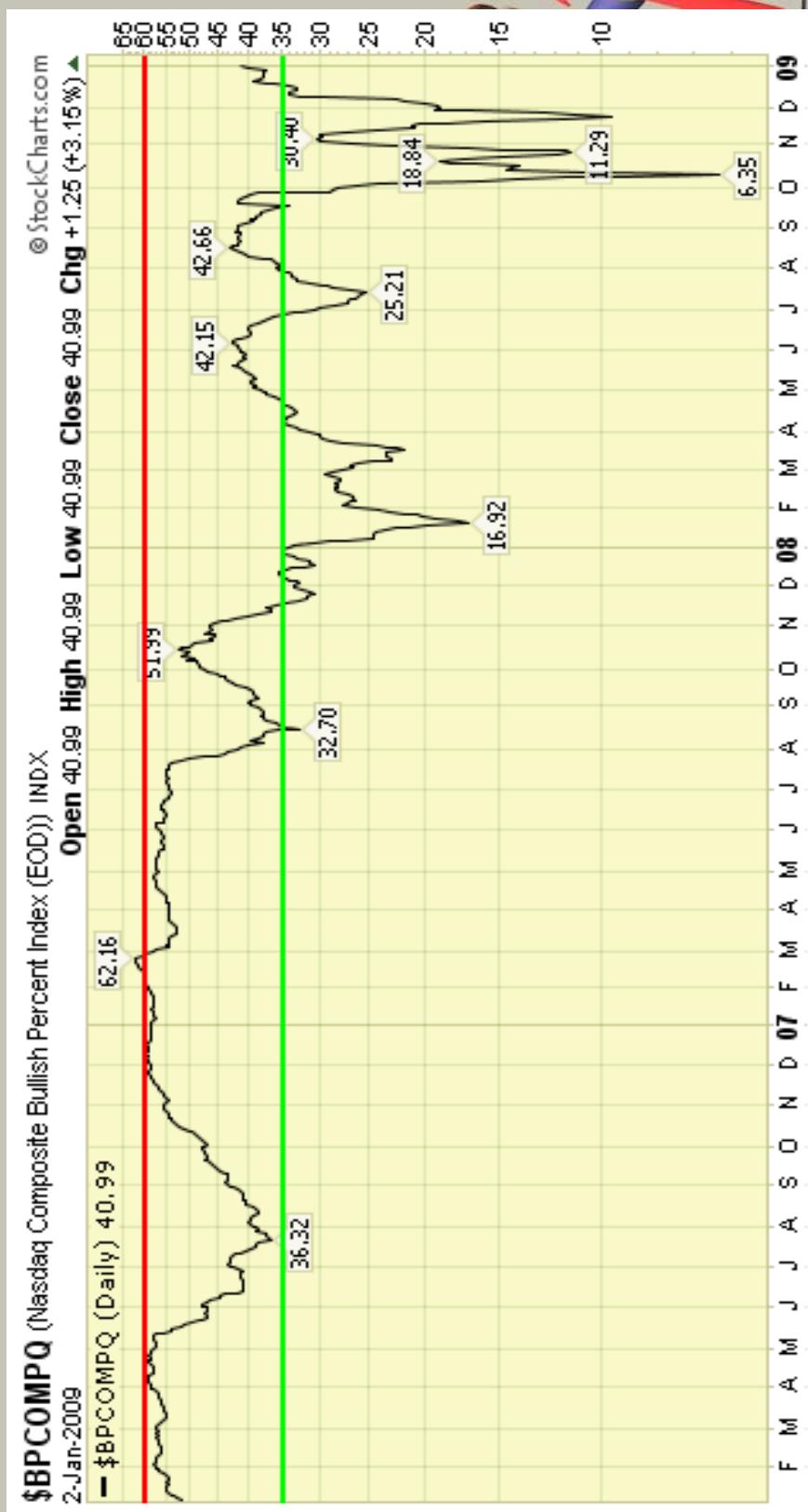
- Number of A's in IBD®
- Accumulate/Distribution ratings
- Bullish Percent
- Percentage above 50 & 200 DMA
- Simple Timing Indicator – 8x20 MA
- Sector Change in Direction



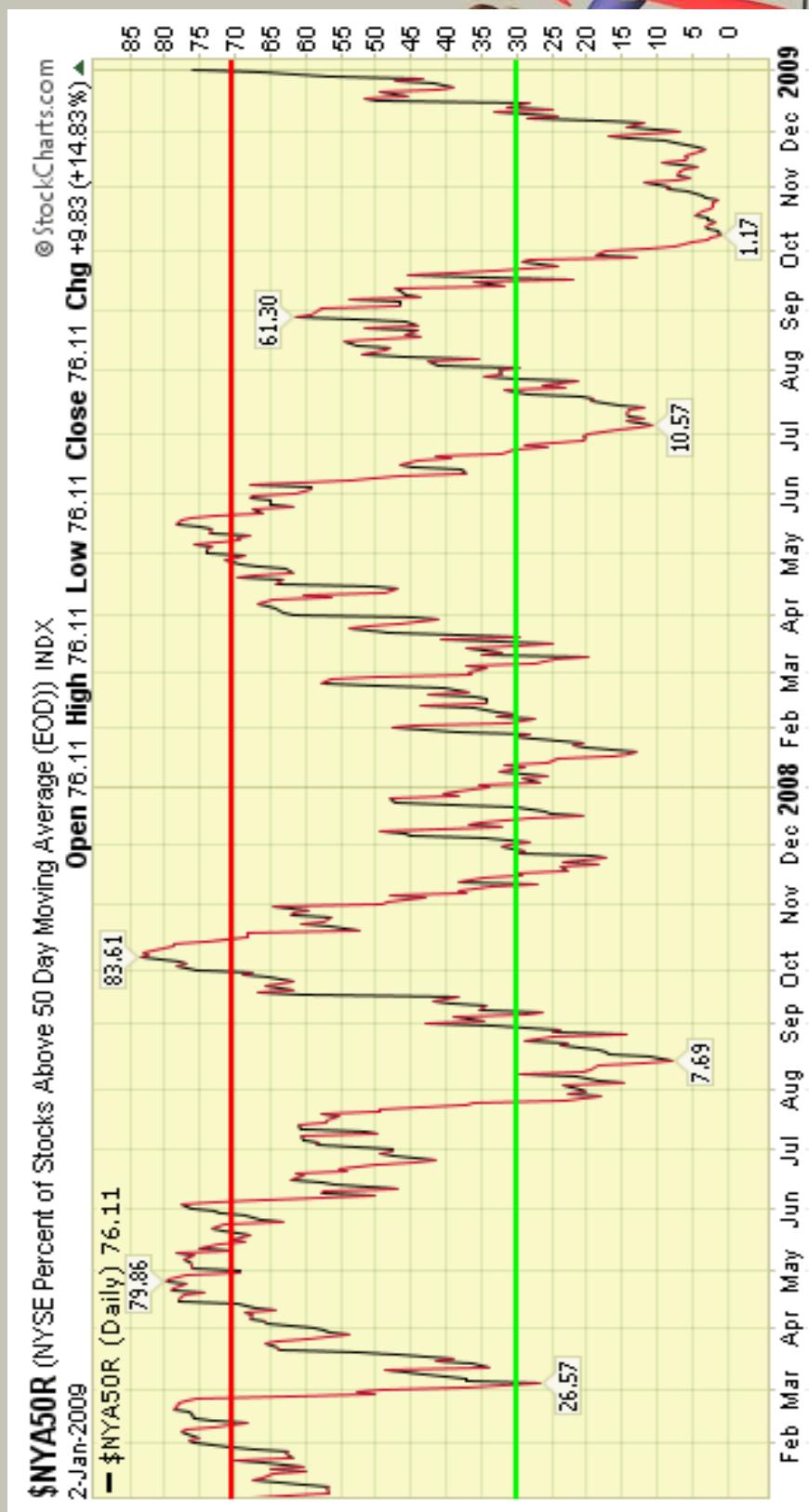
# \$BPNYA – Bullish Percent



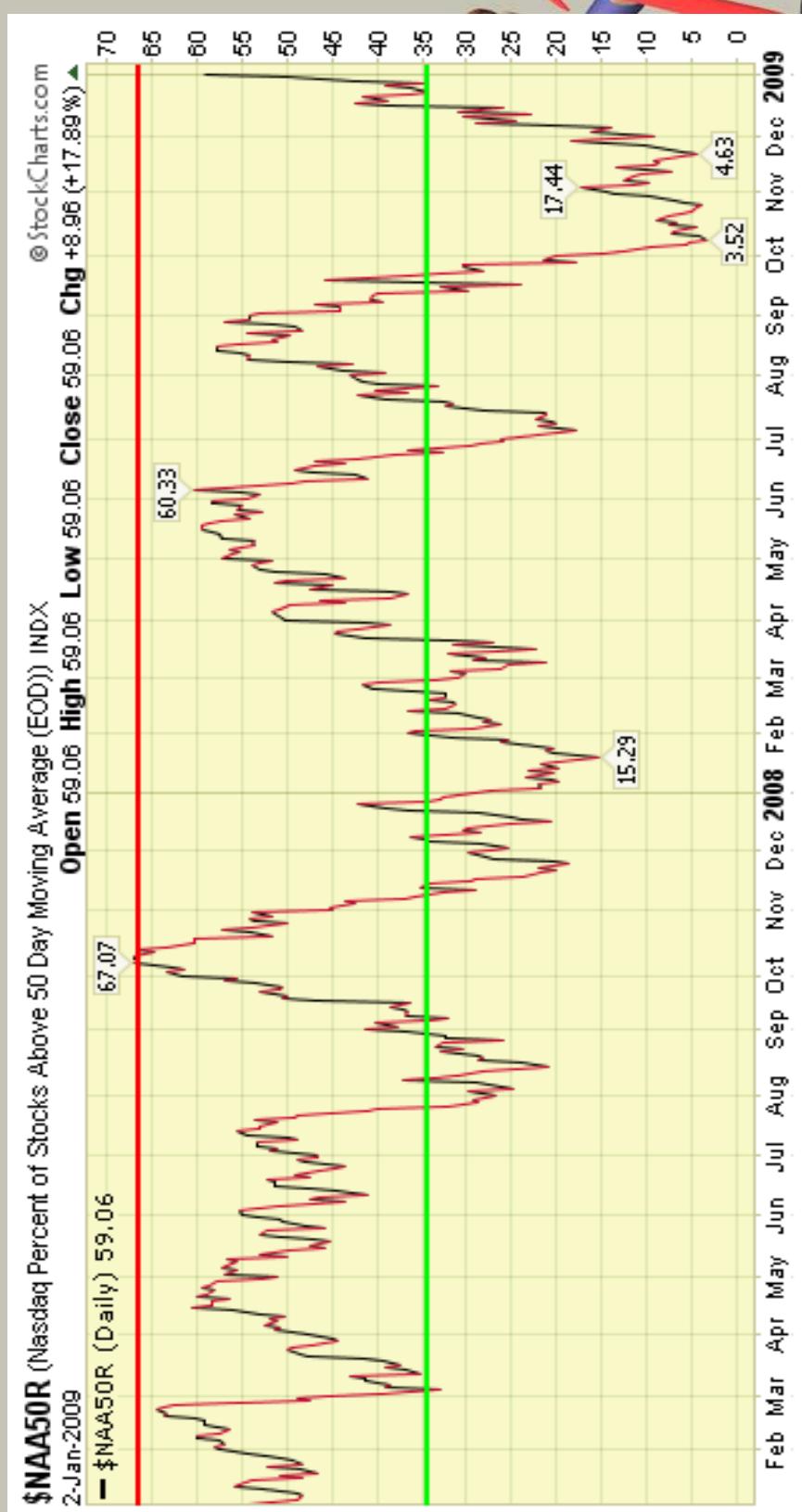
# \$BPCOMPQ- Bullish %



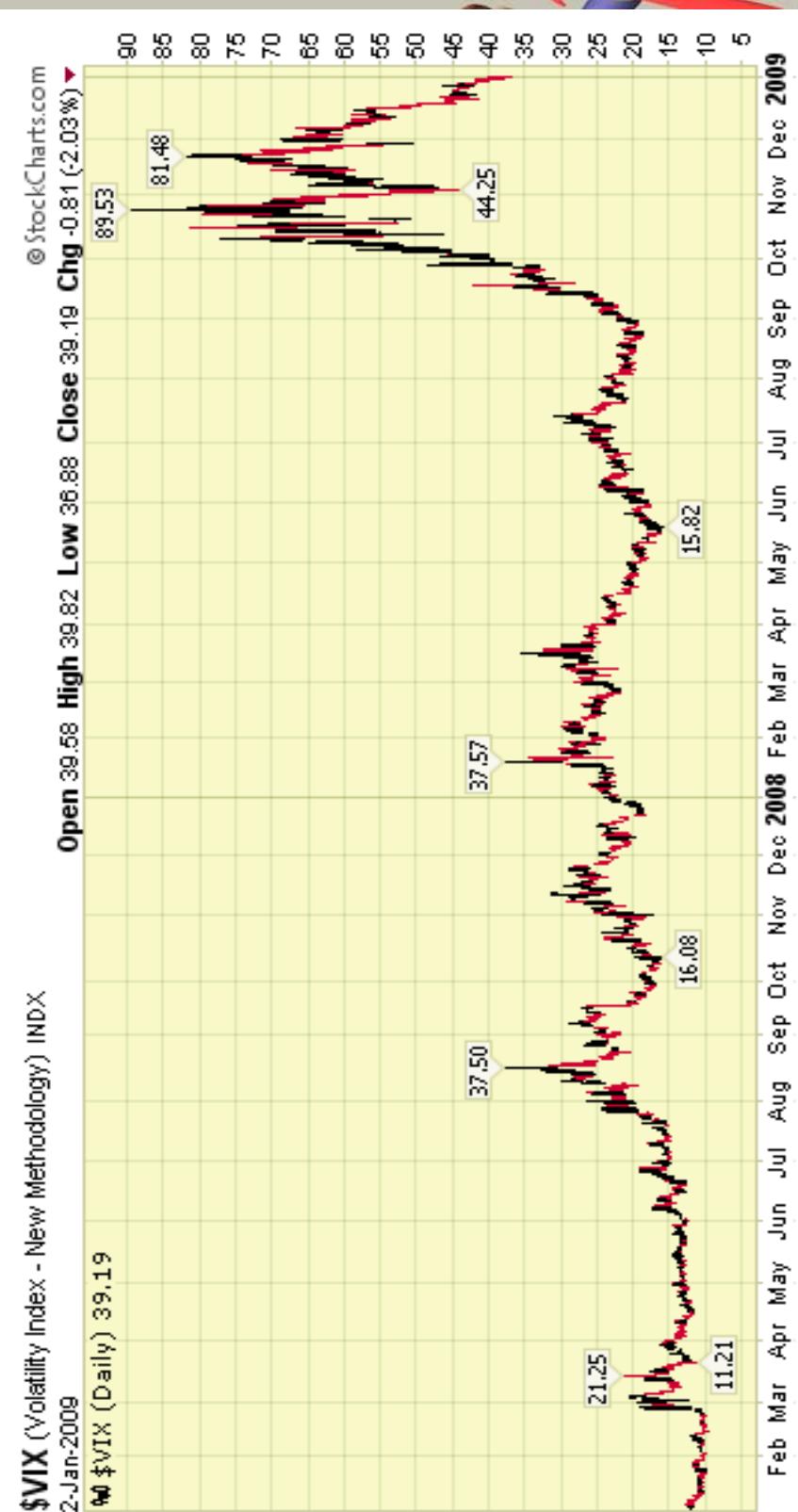
# NYSE - % above 50 DMA



# NASDAQ % above 50 DMA



# VIX



# **Following Sector Movements**

- **IBD® 197 Sectors**
- **Dorsey Wright movements**

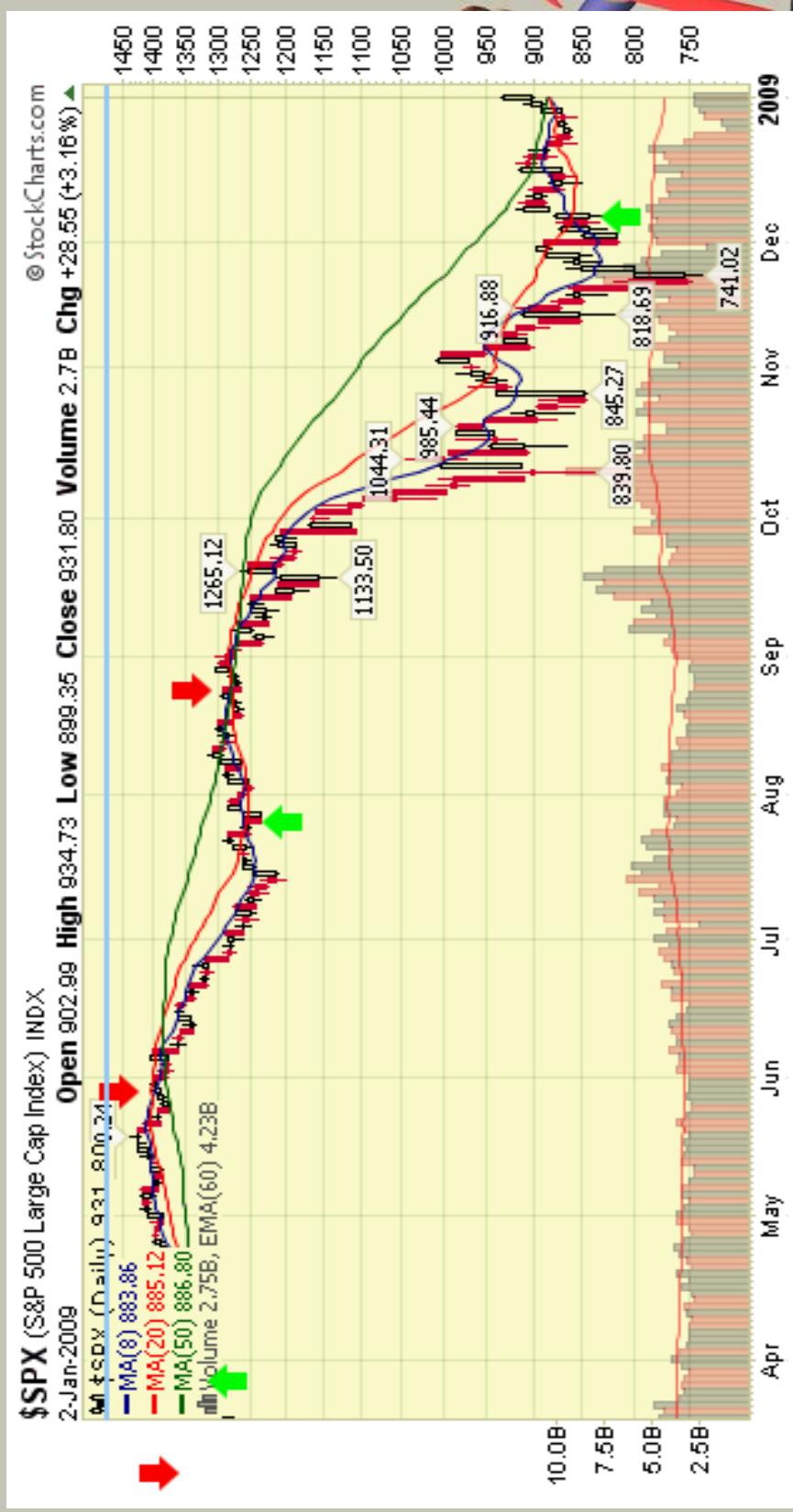


# Simple Timing Indicator

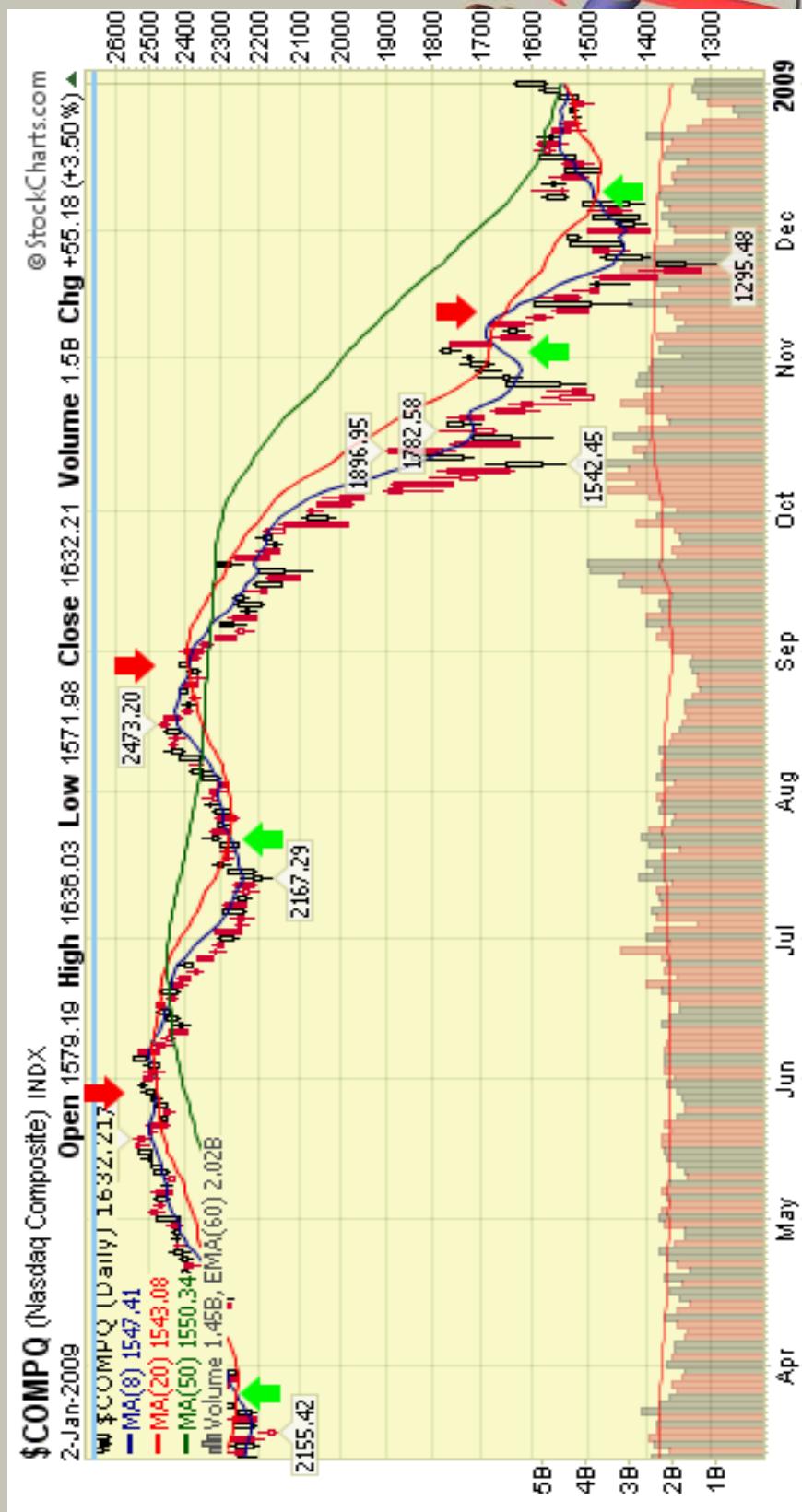
- If you are really satisfied with 80% of a move.
- Use the SPX and NASDAQ as timers
- For long positions
  - When the 8 day is above the 20 day, buy
  - When the 8 day is below the 20 day, sell
- For short positions, just the opposite



# S&P 500



# NASDAQ



# The STI rules

- Buy or go short the day after the signal is generated.
- You are playing Market Momentum
- Ah, Grasshopper, you want more ...



**December 31, 2008**

## Bullish Percents

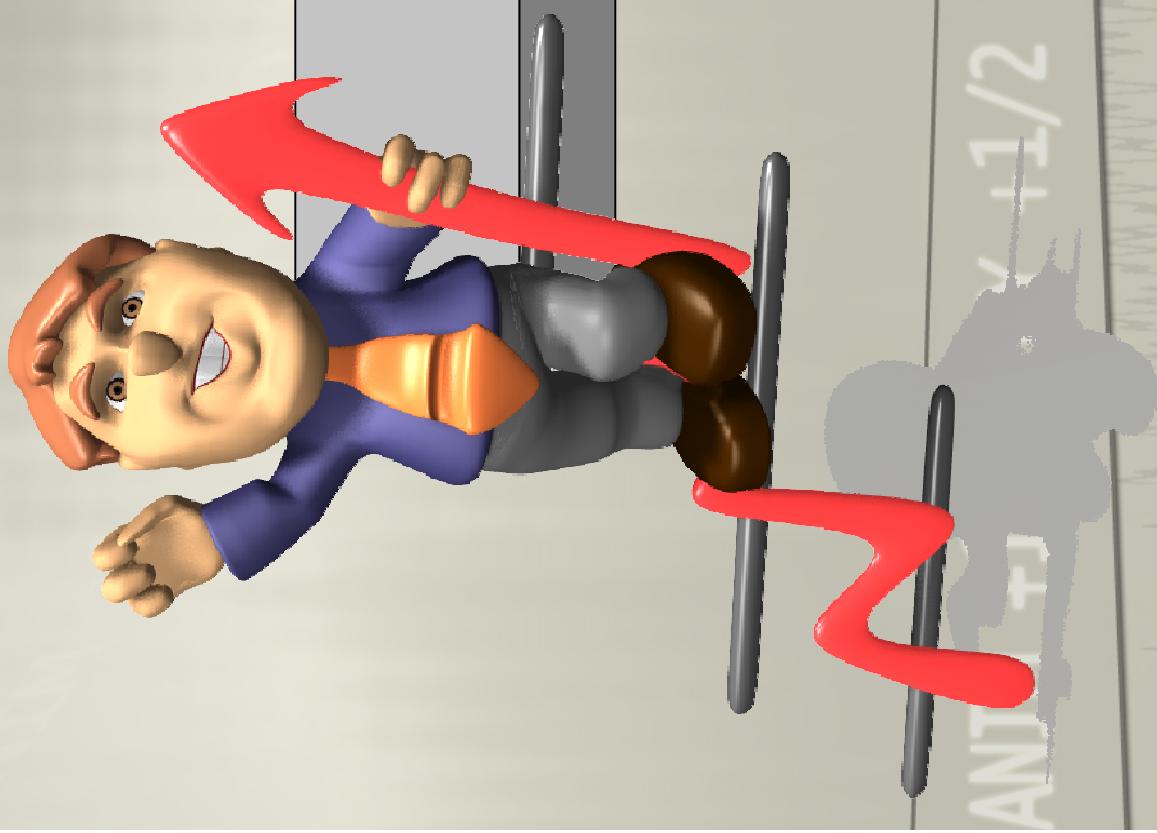
Average Level: 42.07

12/31/2008

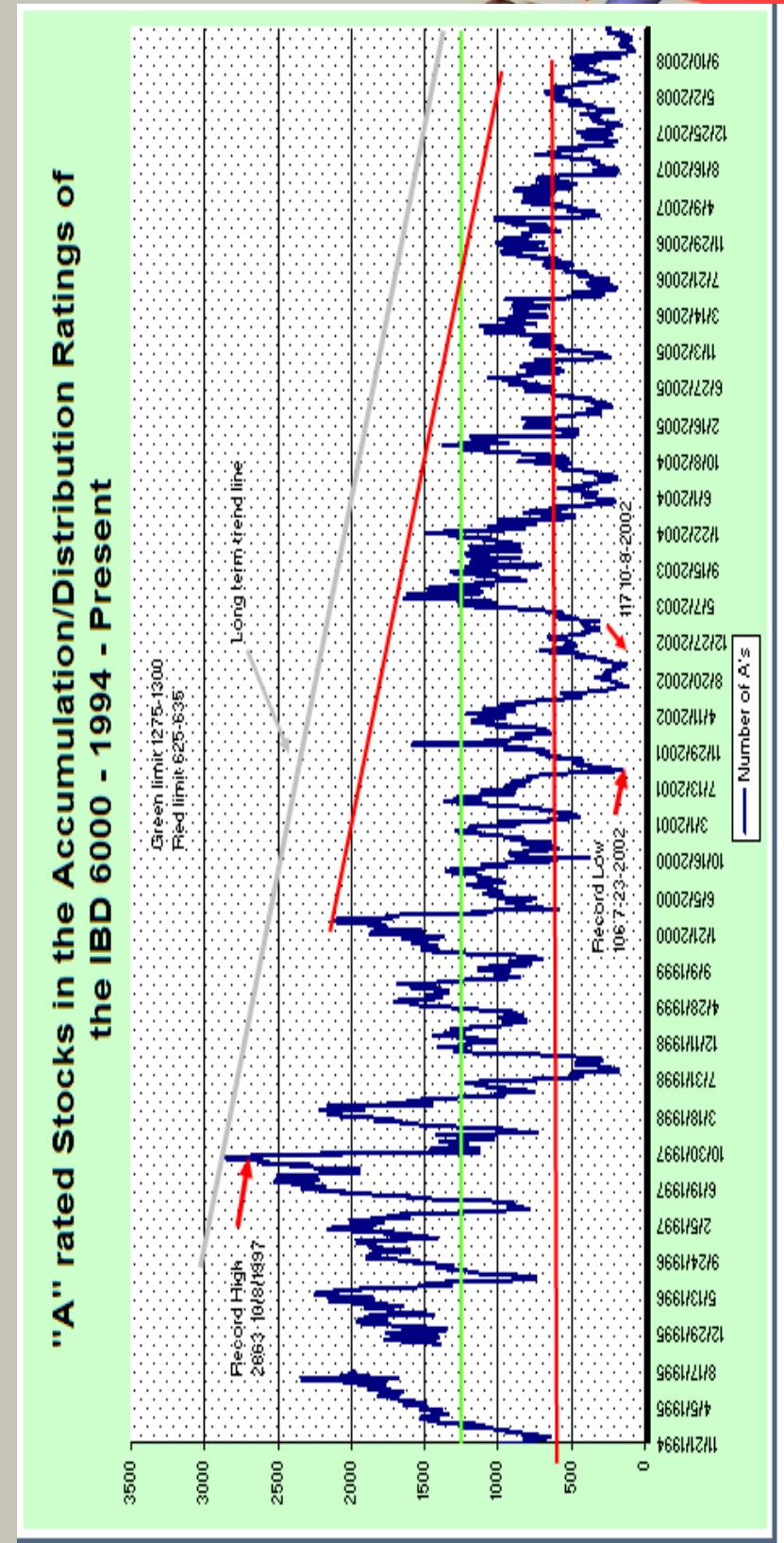
**12/31/2008**

# Using the Tools

**Investor's Business Daily®  
Daily Graphs Online® and  
The Custom Screen Wizard**



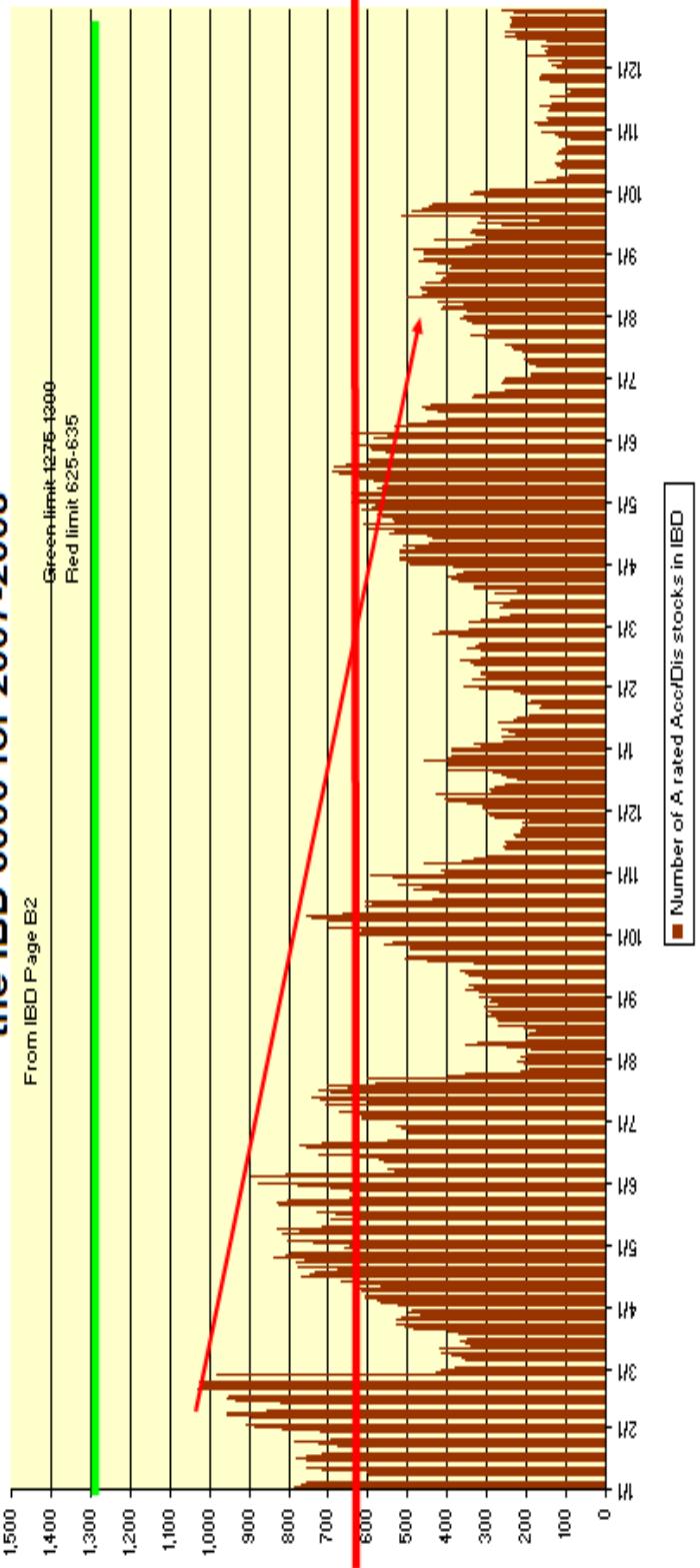
# Downward trend still intact



Data source: Investor's Business Daily. Used with permission.

# 2007-2008 Data

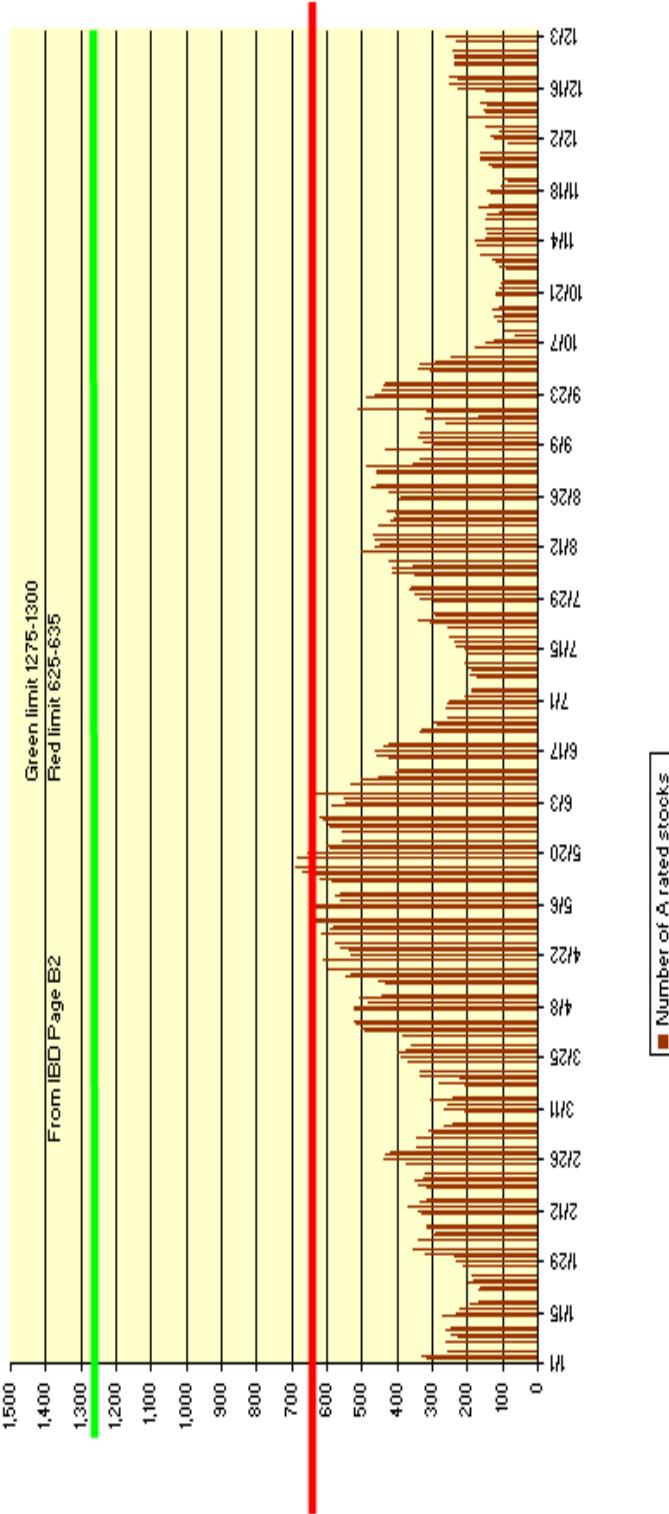
"A" rated Stocks in the Accumulation/Distribution Ratings of the IBD 6000 for 2007-2008



Data source: Investor's Business Daily. Used with permission.

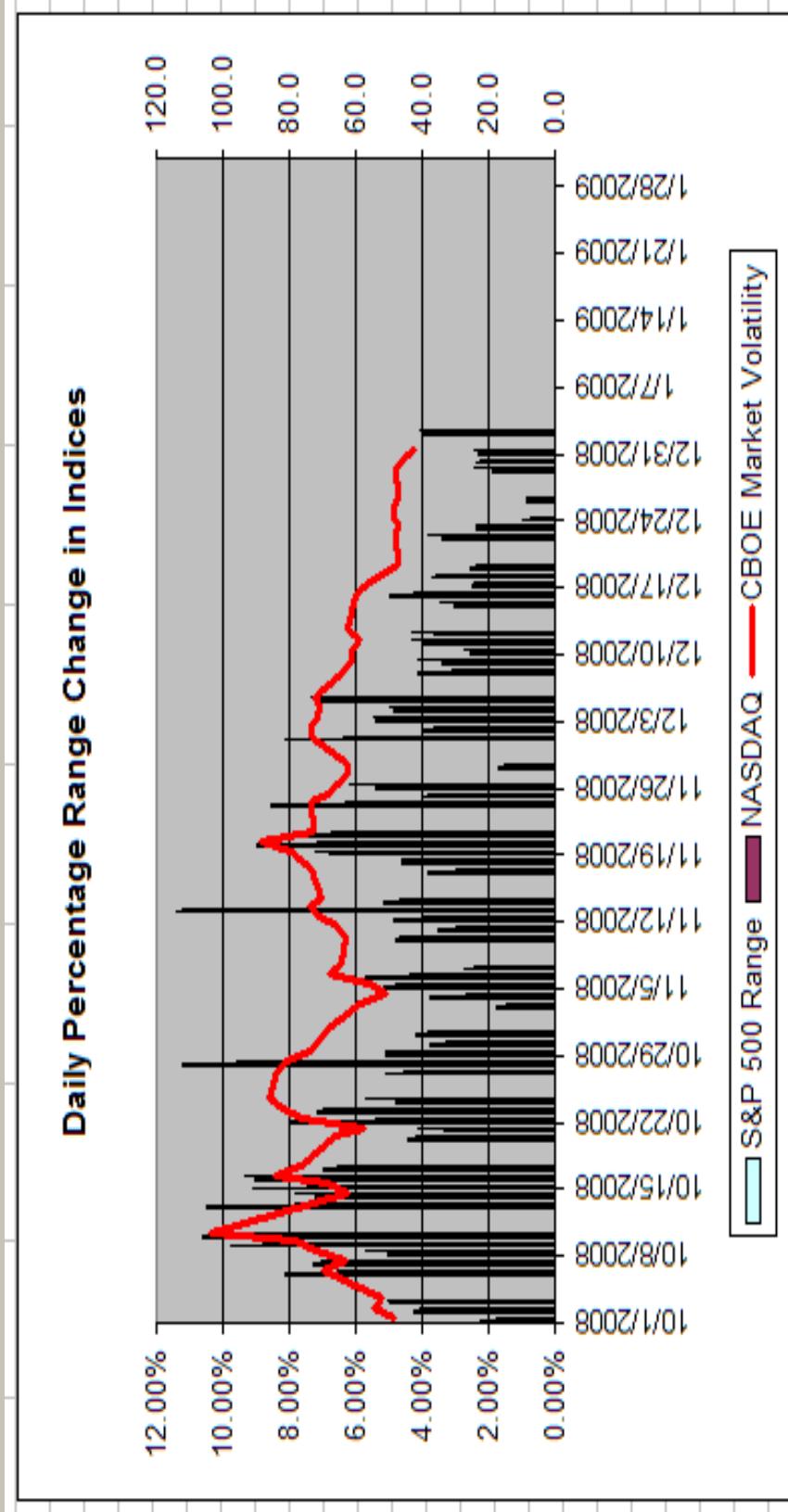
# The A'S

**"A" rated Stocks in the Accumulation/Distribution Ratings of the IBD 6000 for 2008**

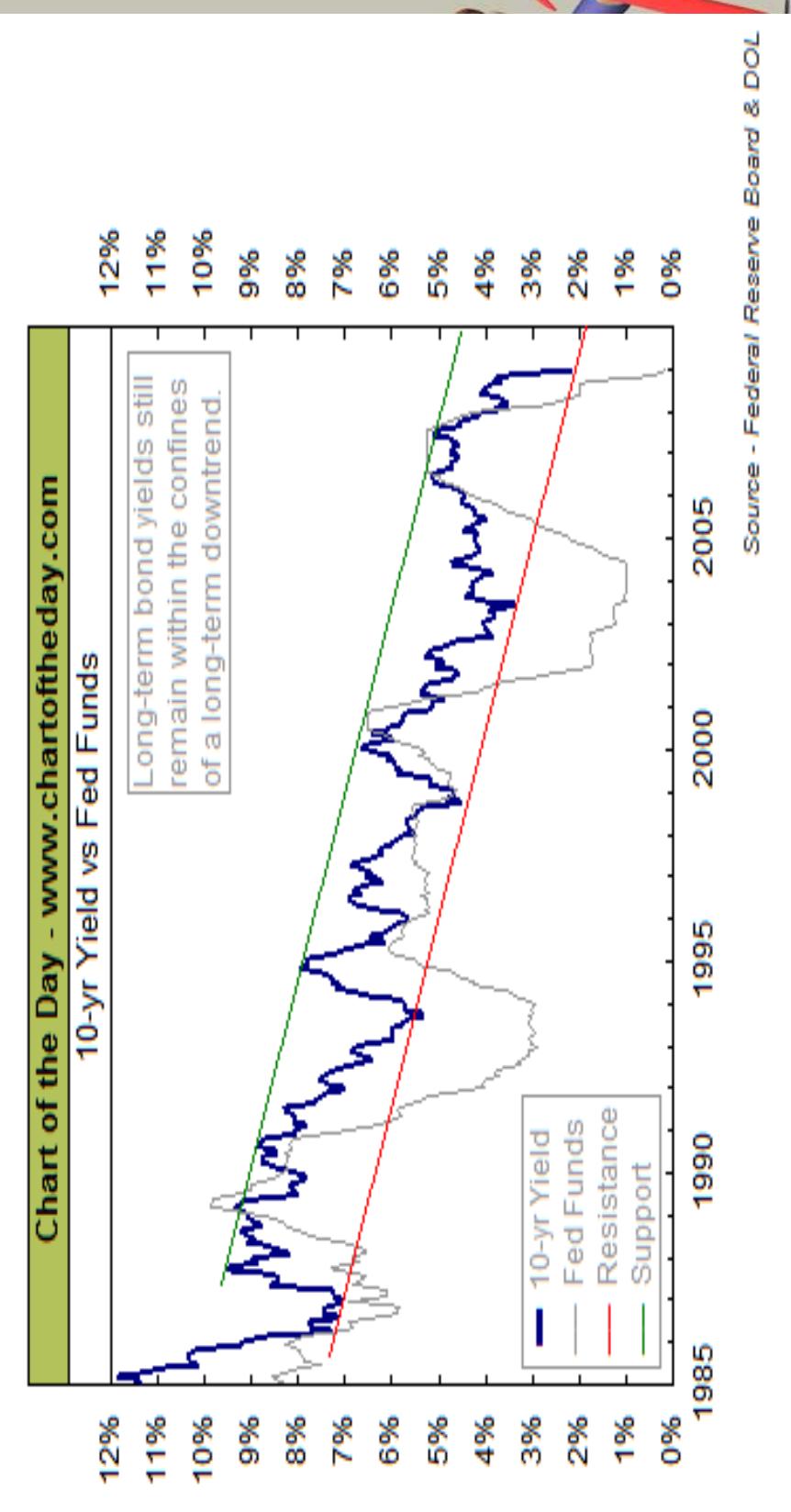


Data source: Investor's Business Daily. Used with permission.

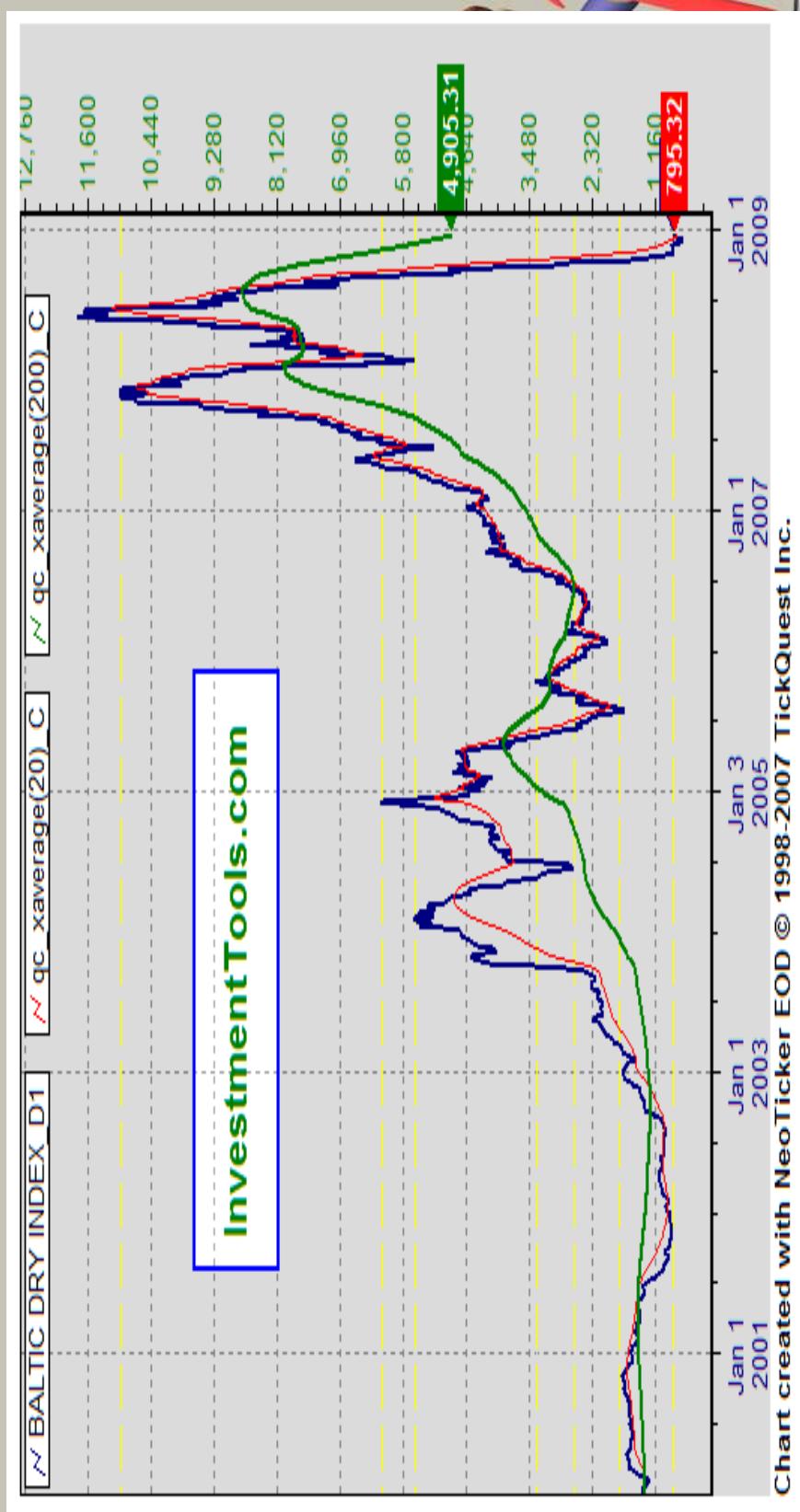
# Have we seen the market bottom?



# How low can rates go?



# Baltic Dry Index



**Are you convinced?**

**THAT HOPE SPRINGS  
ENDERNAL IN INVESTOR'S  
MINDS?**



# Is the bottom in?

- Or have we just seen the beginning of the Obama Expectation Rally?
- What will happen when it fizzles?
- Systemic Bear Markets last 17 years on average.
- The tech bubble burst in 2000



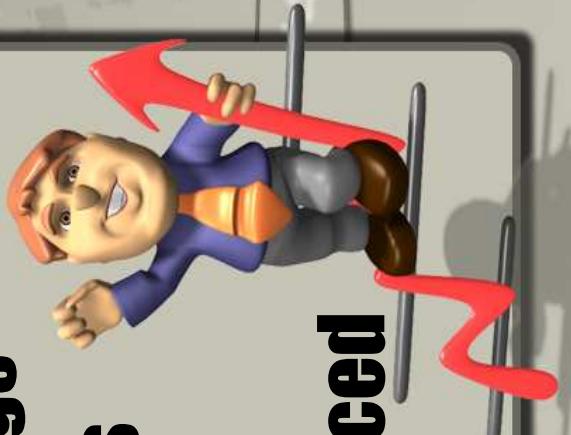
# **Problems Ahead**

- Financial Mess continues
- Middle East Tensions
- Recession/Stagflation throughout world
- Lack of Savings
- Uncertainty about viability of markets
- Global warming hysteria

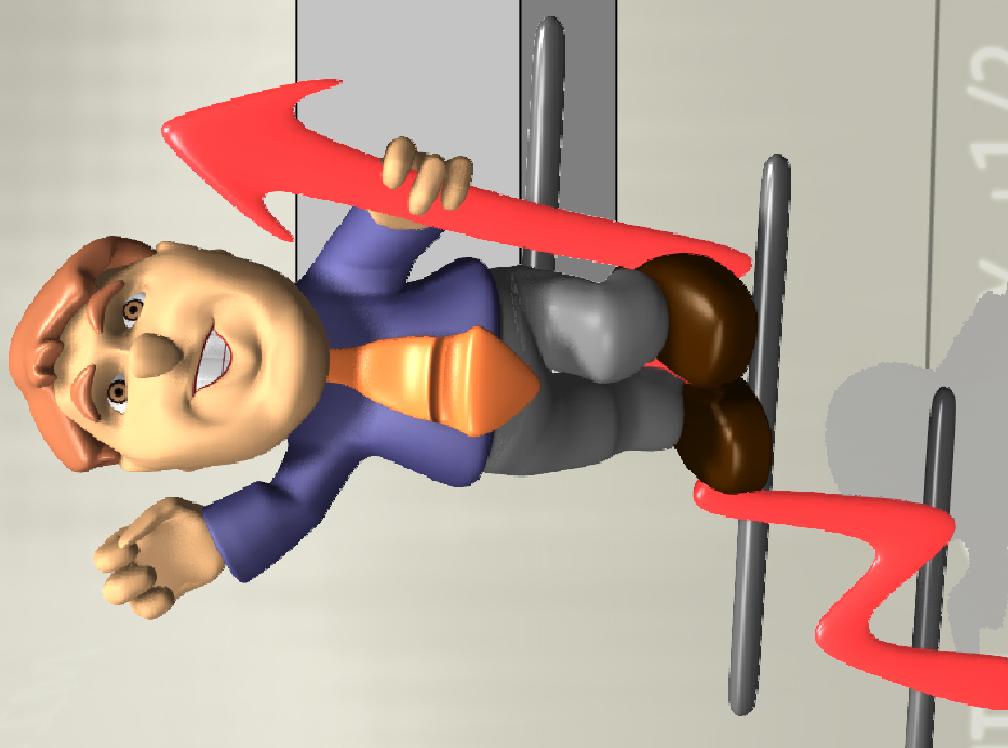


# **Problems you can not solve**

- Demographics around the world.
- Failure of Keynesian theory
- Deleveraging where debt consumes equity
- Economic Cycle and the Four Turnings
- Clash of tribal warfare and religions
- Changes in location for innovation
- Sovereigns with high debt will be faced with increasing fiat currency risks.



~~ANT~~ +1/2 MOQE -2 TMGA +3 GRPC -1/4



Thau

Delegierung



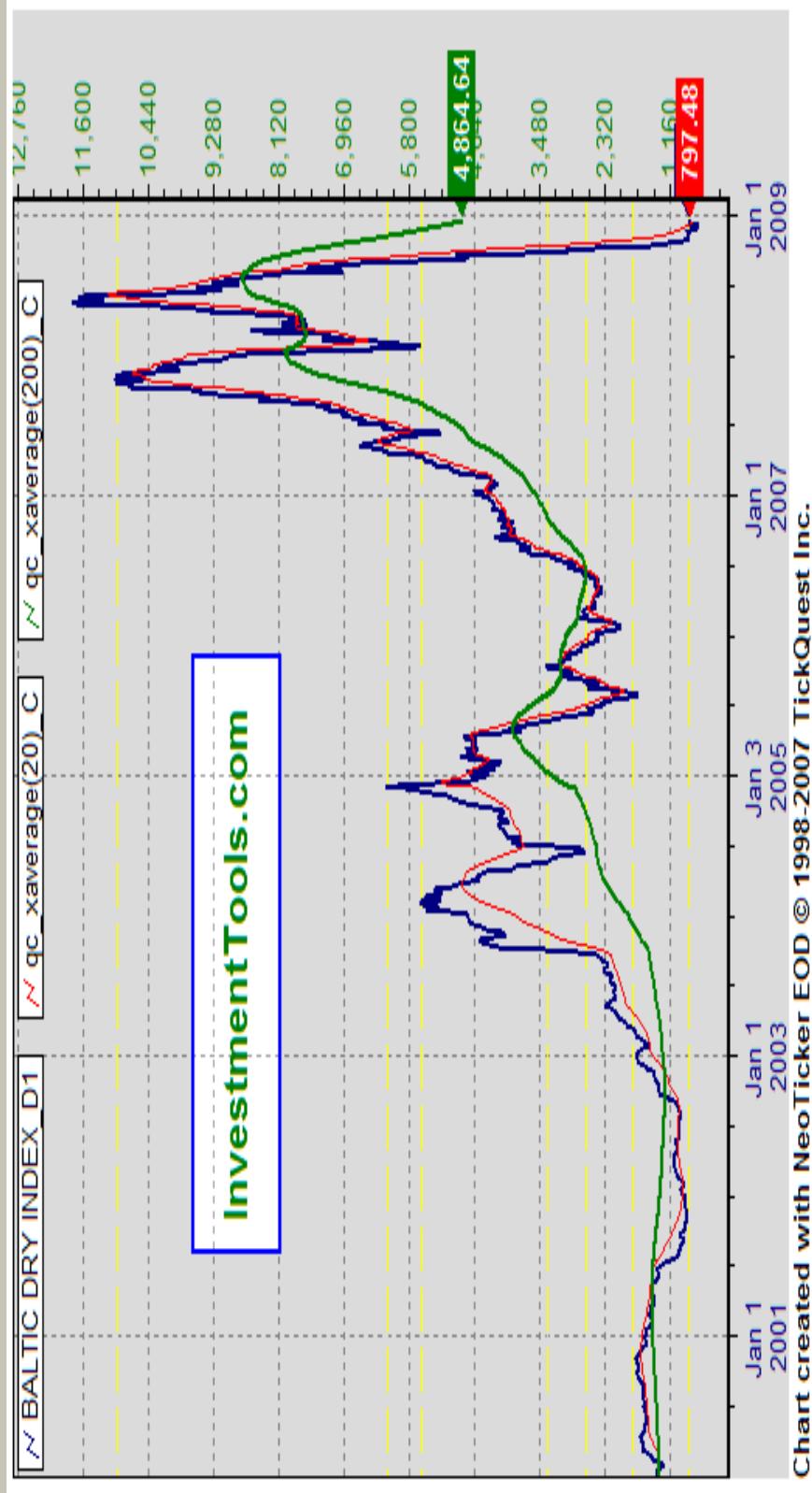
A

# What's the Big Picture

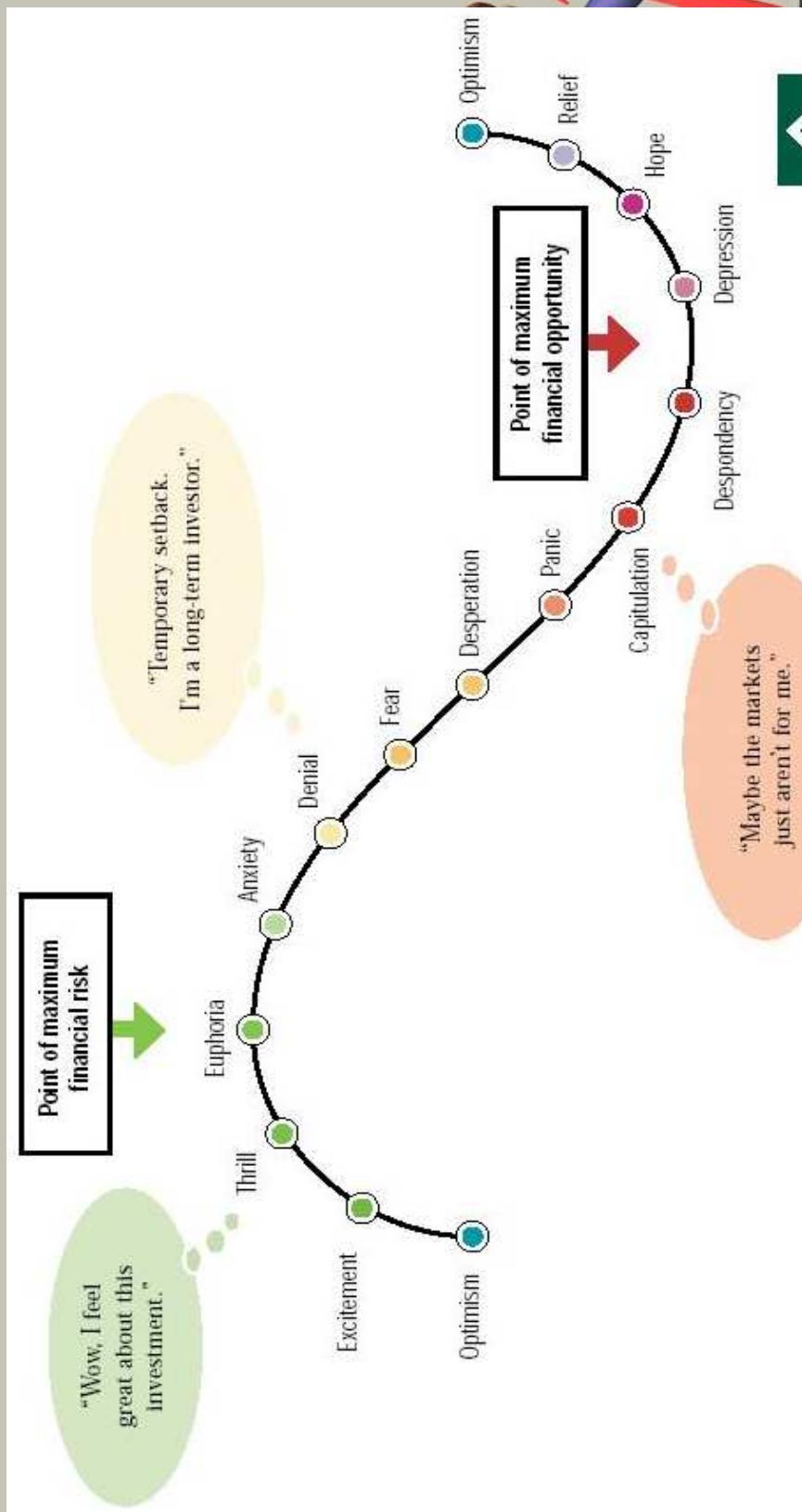


A

# World Economic Activity



# Where are we?



# Question

- Which group is most responsible for our current mess?
- Wall Street
- Investors
- Government
- Federal Reserve
- Lawyers
- Voters



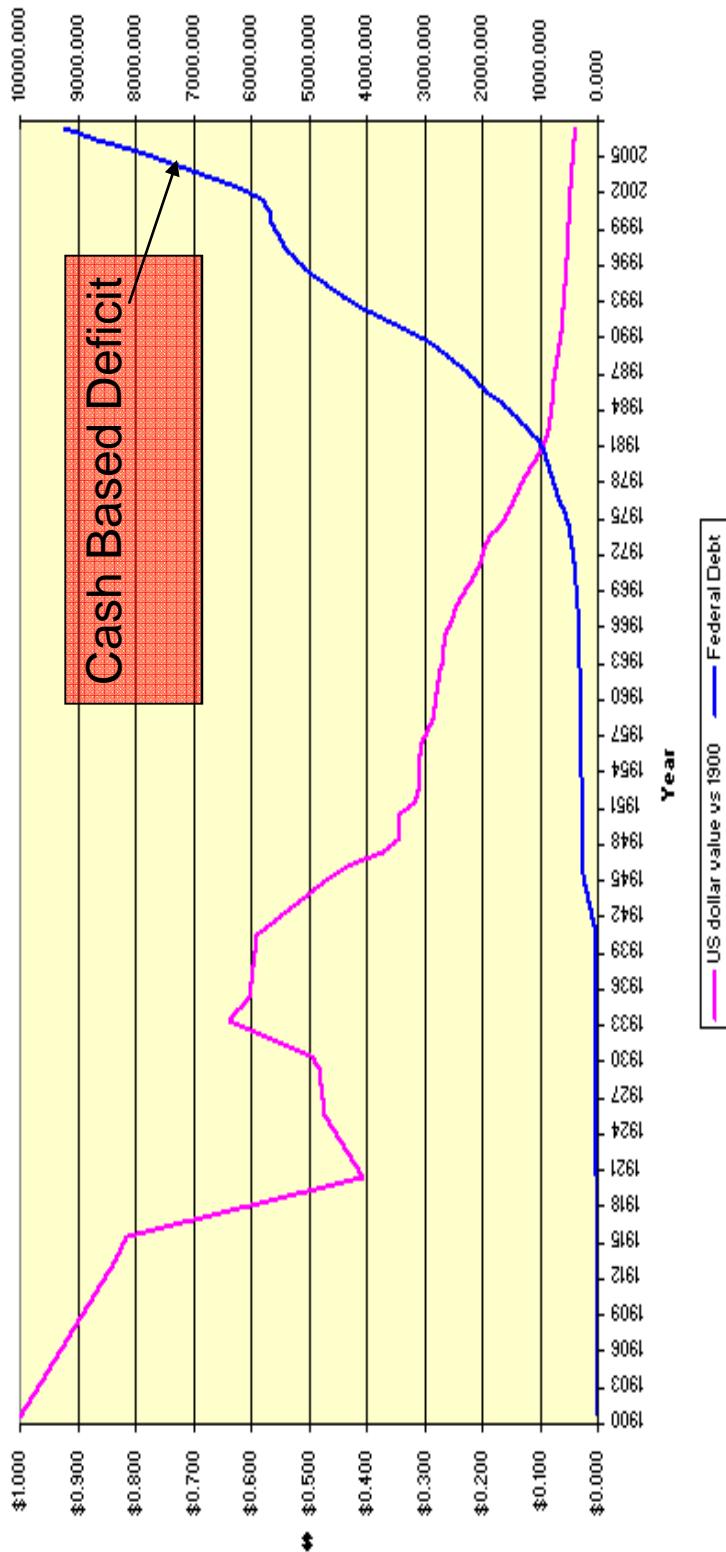
# The Federal Reserve

Blame them for everything!



# US \$ vs. US Debt

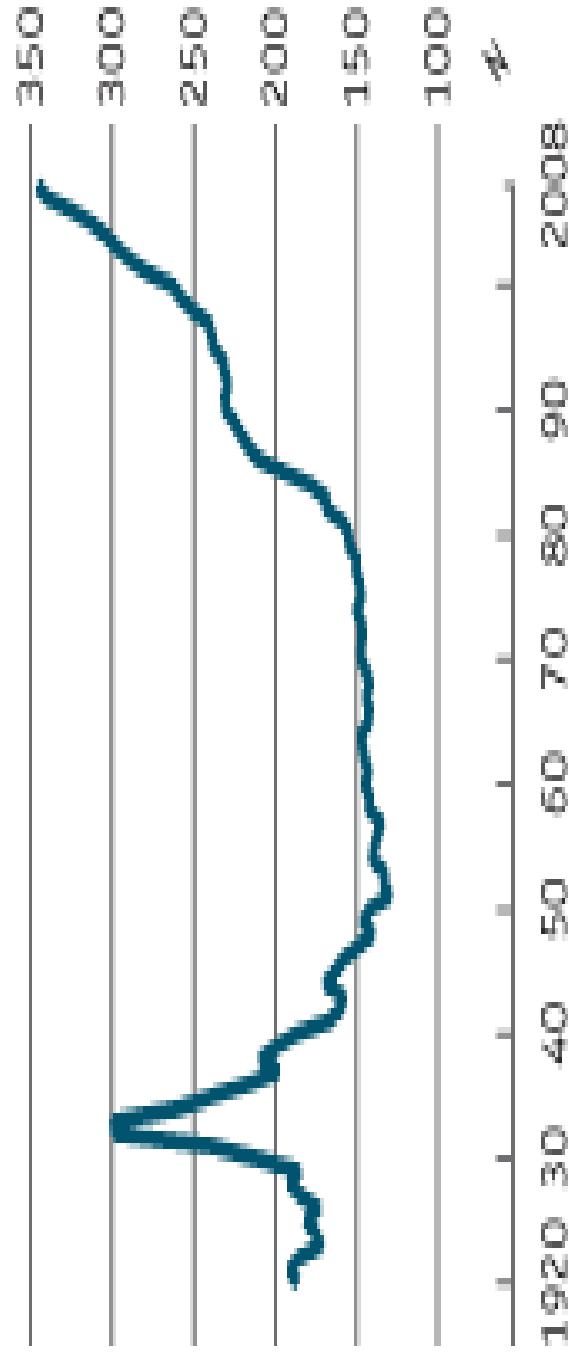
US \$ Currency Value and Outstanding US Federal Debt



# US Debt as % of GDP

In hock

US total debt as % of GDP



Sources: Morgan Stanley; Federal Reserve; BEA

# **FY 2008 ended Sept. 30th**

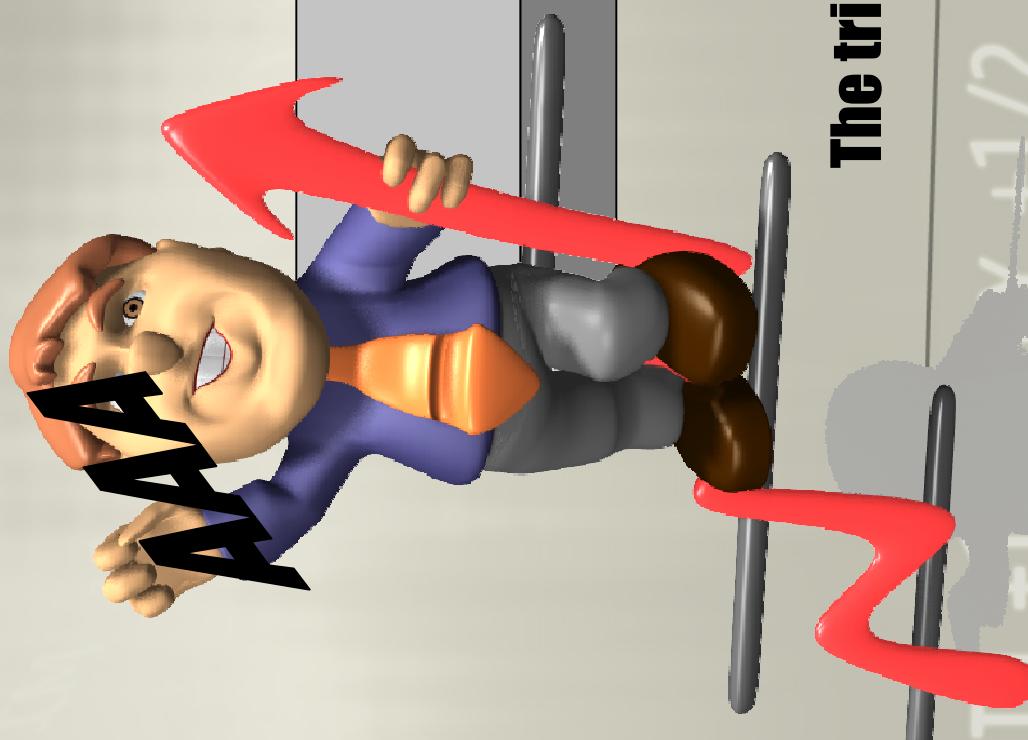
- **Cash based deficit \$454.8 B**
- **GAAP based deficit \$1,009.1 B**
- **GAAP with Social Security and Medicare \$5,100 billion**
- **Over 10 times Cash based deficit**
- **Gross Federal Debt is over \$66 trillion and contingent liabilities is over \$100 trillion.**



The triple A rating of the U.S. is in danger of becoming a Baa security.

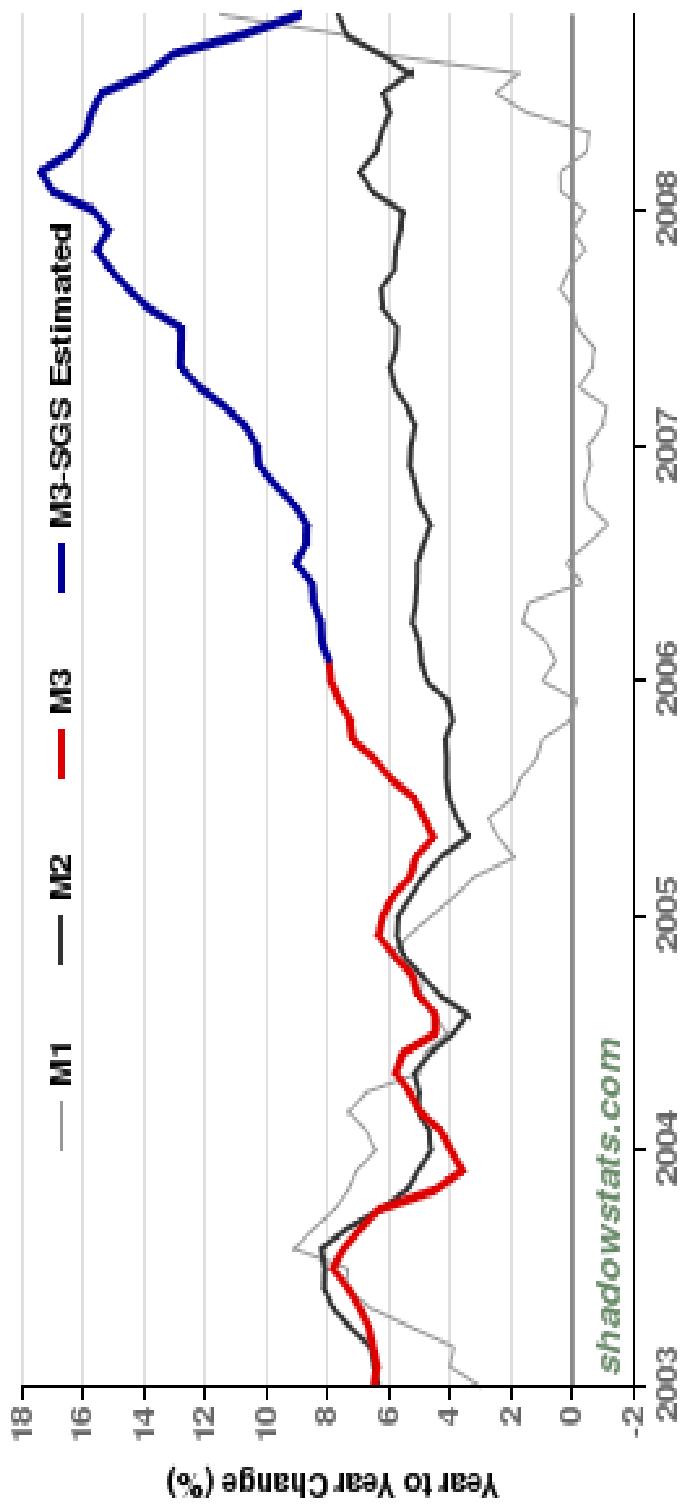
NOLLOBENE!

Baa

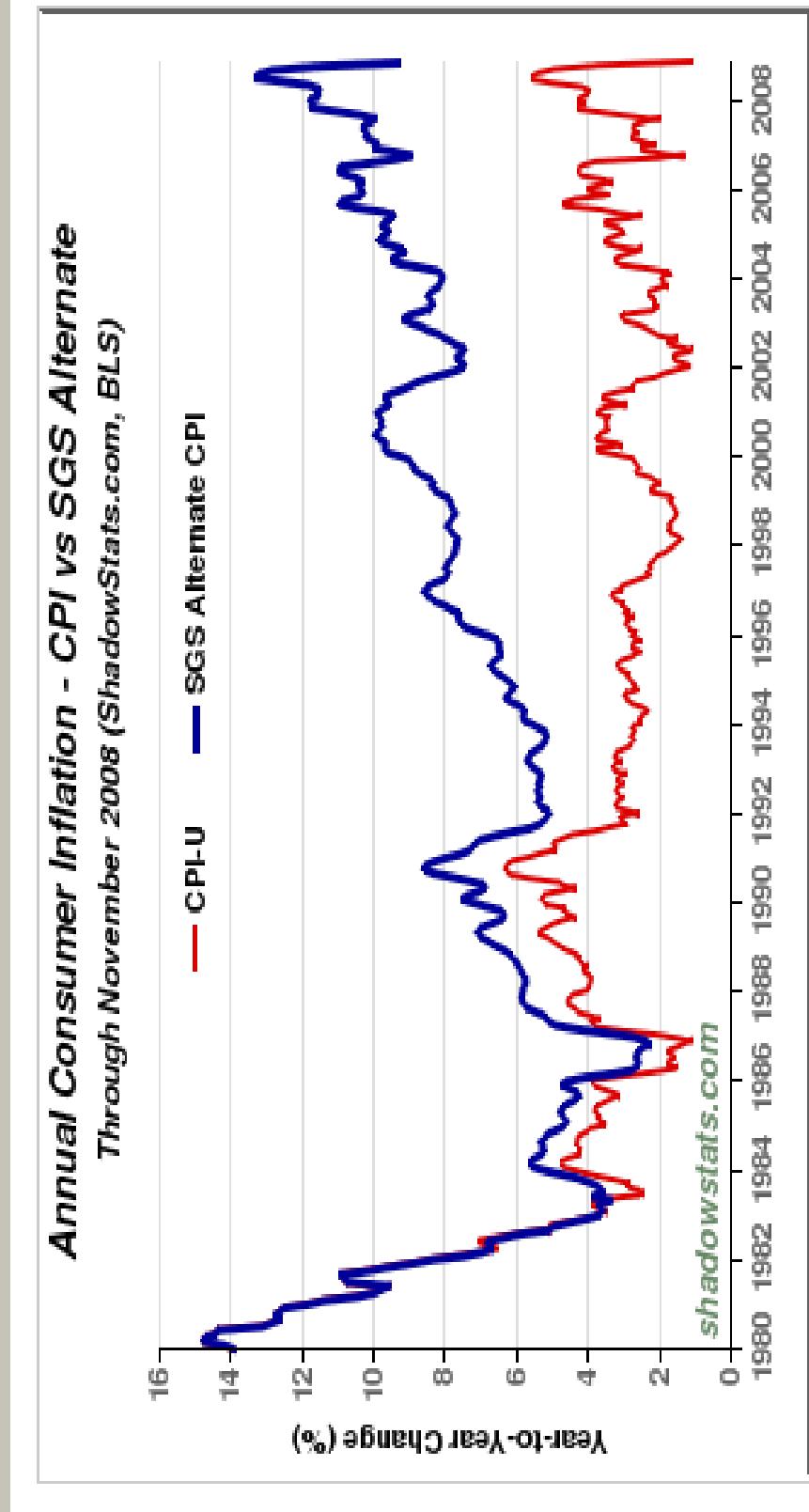


# Money Supply

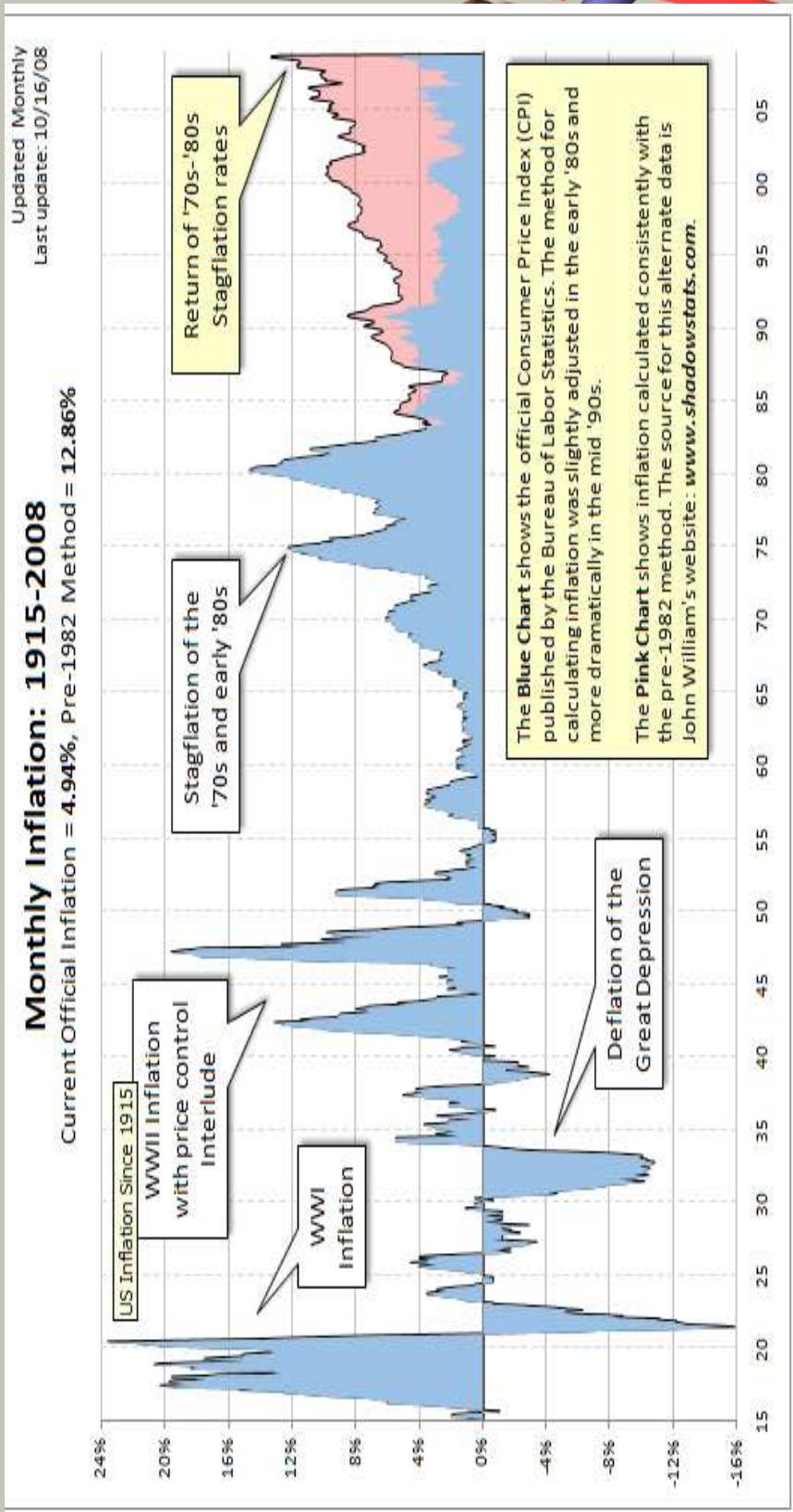
*Annual U.S. Money Supply Growth - SGS M-3 Continuation  
Monthly Average through November 2008 (ShadowStats.com, FRB)*



# Who benefits from a low CPI?

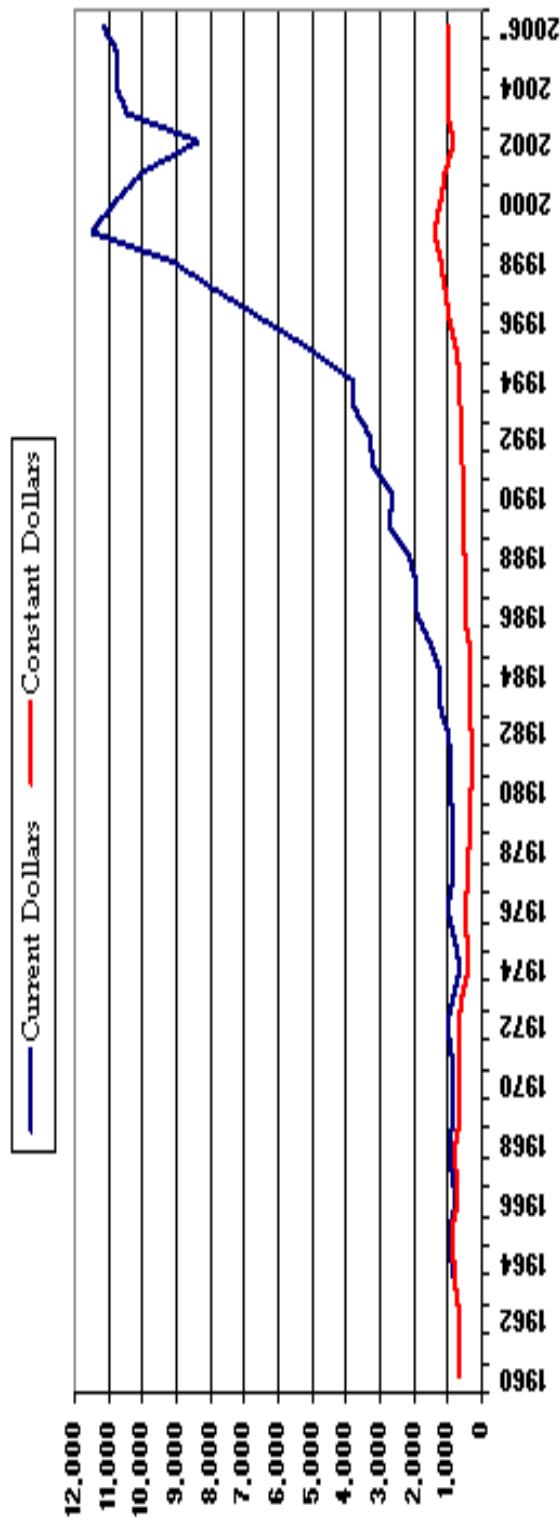


# Politicians are thieves!



# Rose-colored glasses?

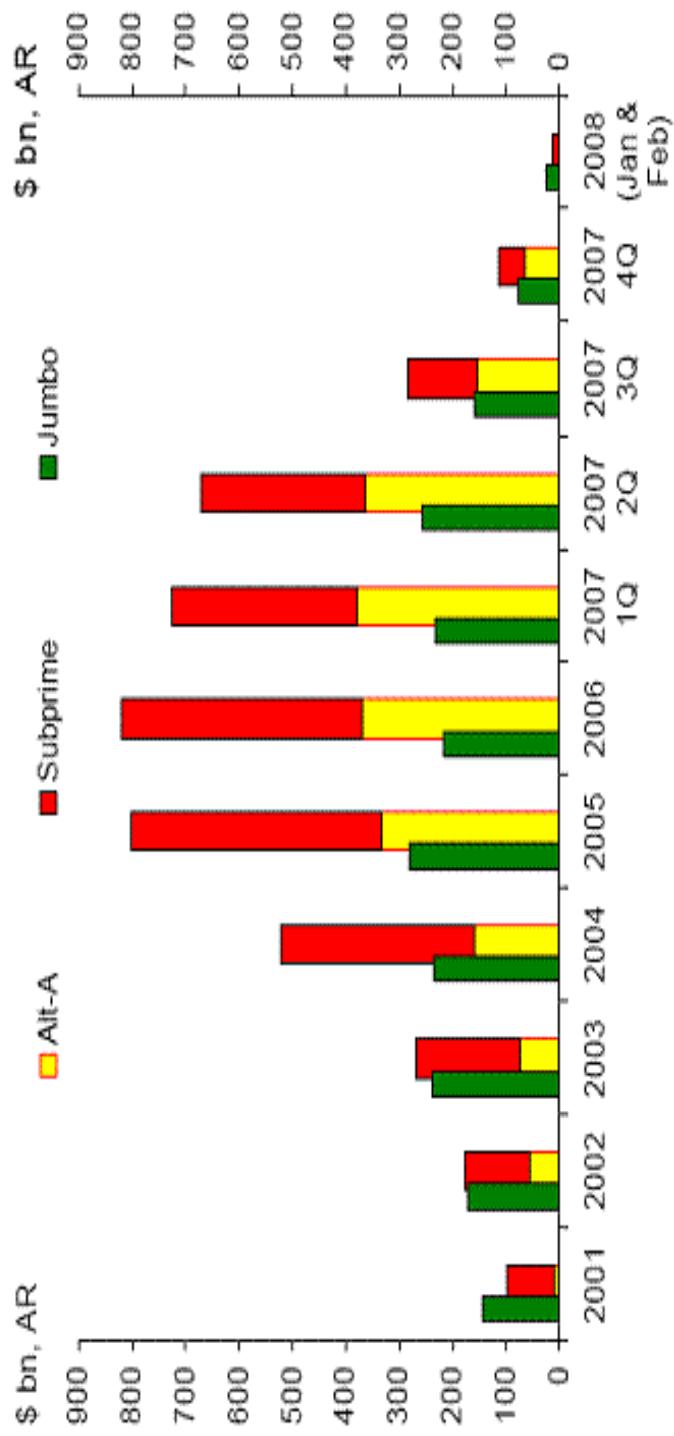
Year-End DJIA - Current vs. Constant Dollar  
Deflated to December 1960 Dollars Using SGS Standard CPI  
(\*2006 as of June 30. Sources: SGS, Dow Jones & Co., BLS)



<http://www.shadowstats.com/cgi-bin/sgs/article/id=865>

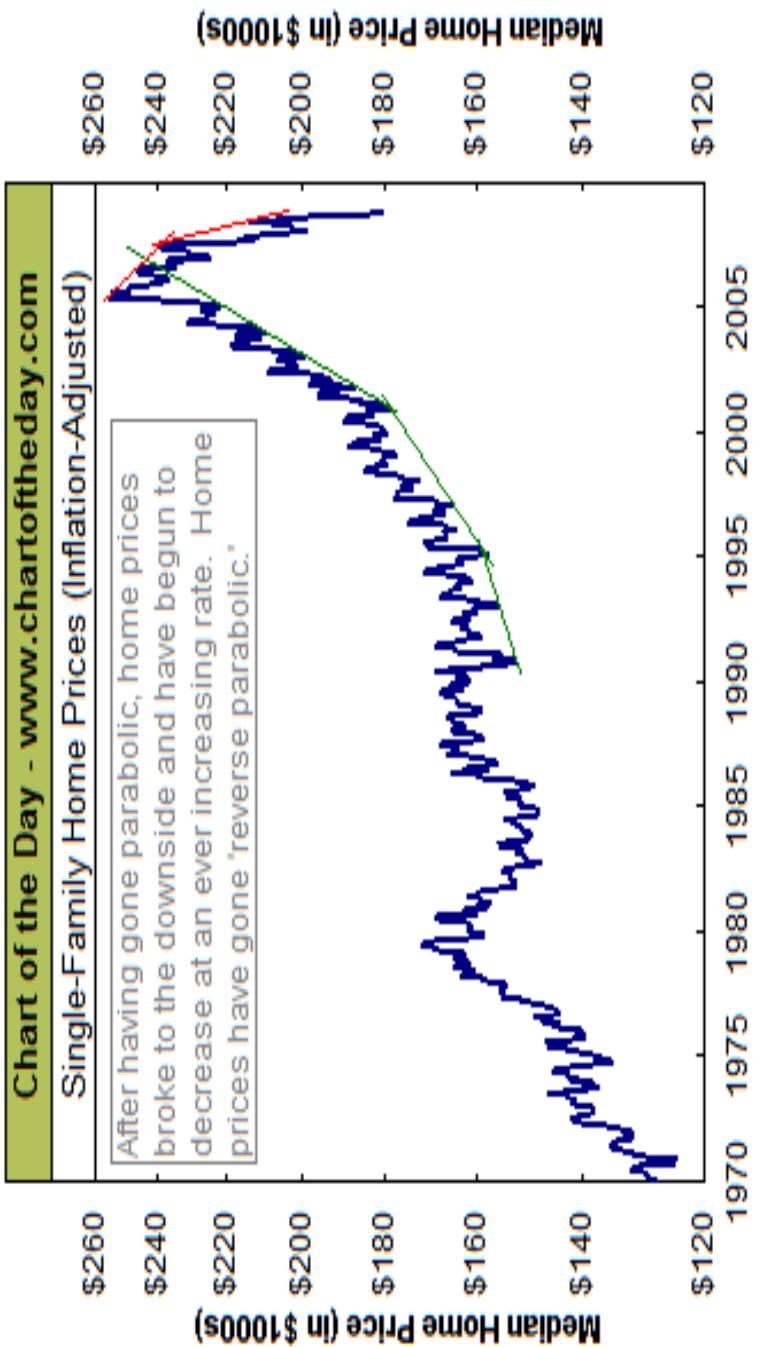
# The lack of funding ...

**Securitized mortgage lending has disappeared**

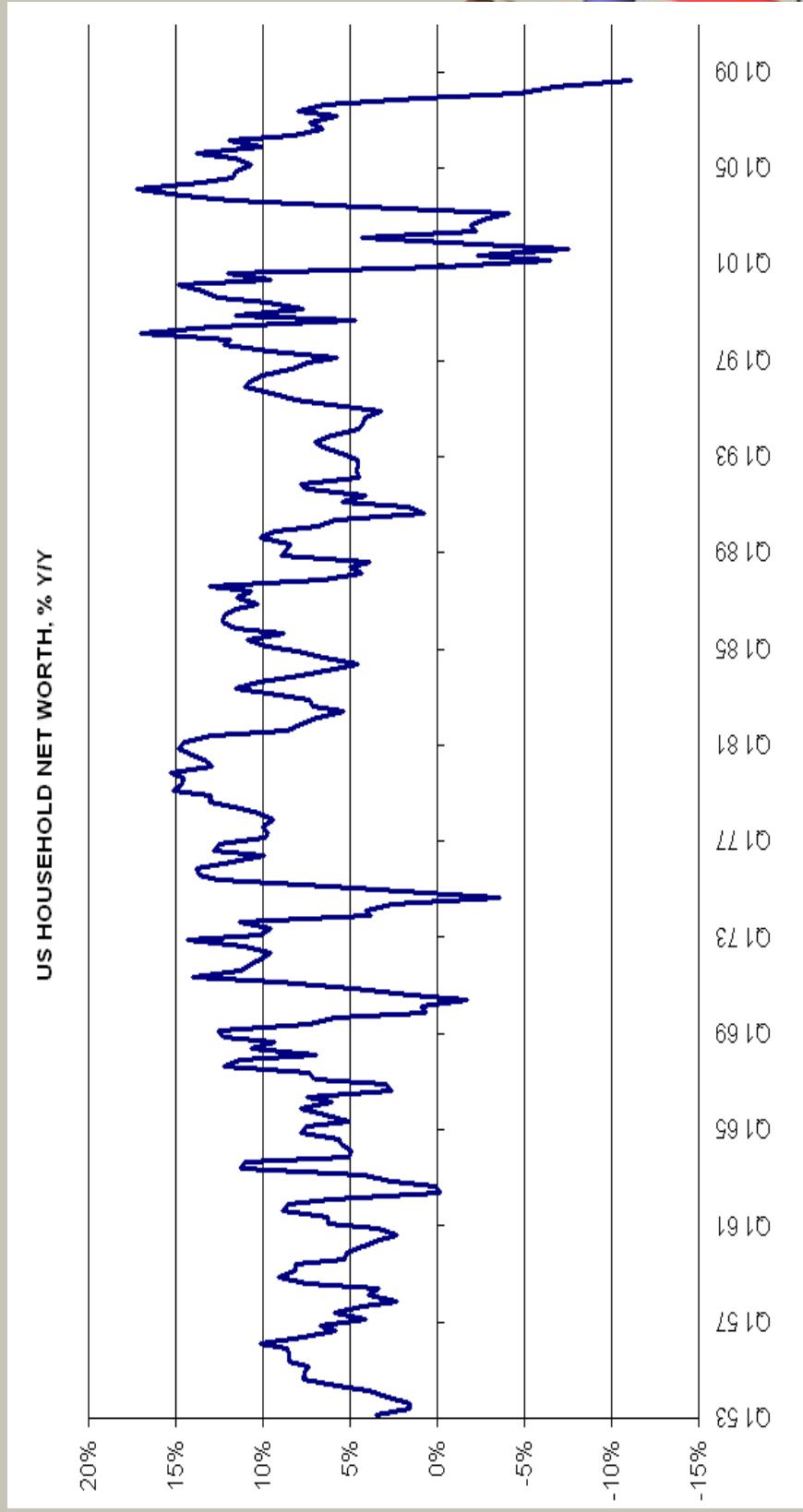


Source: MBA, DB Global Markets Research

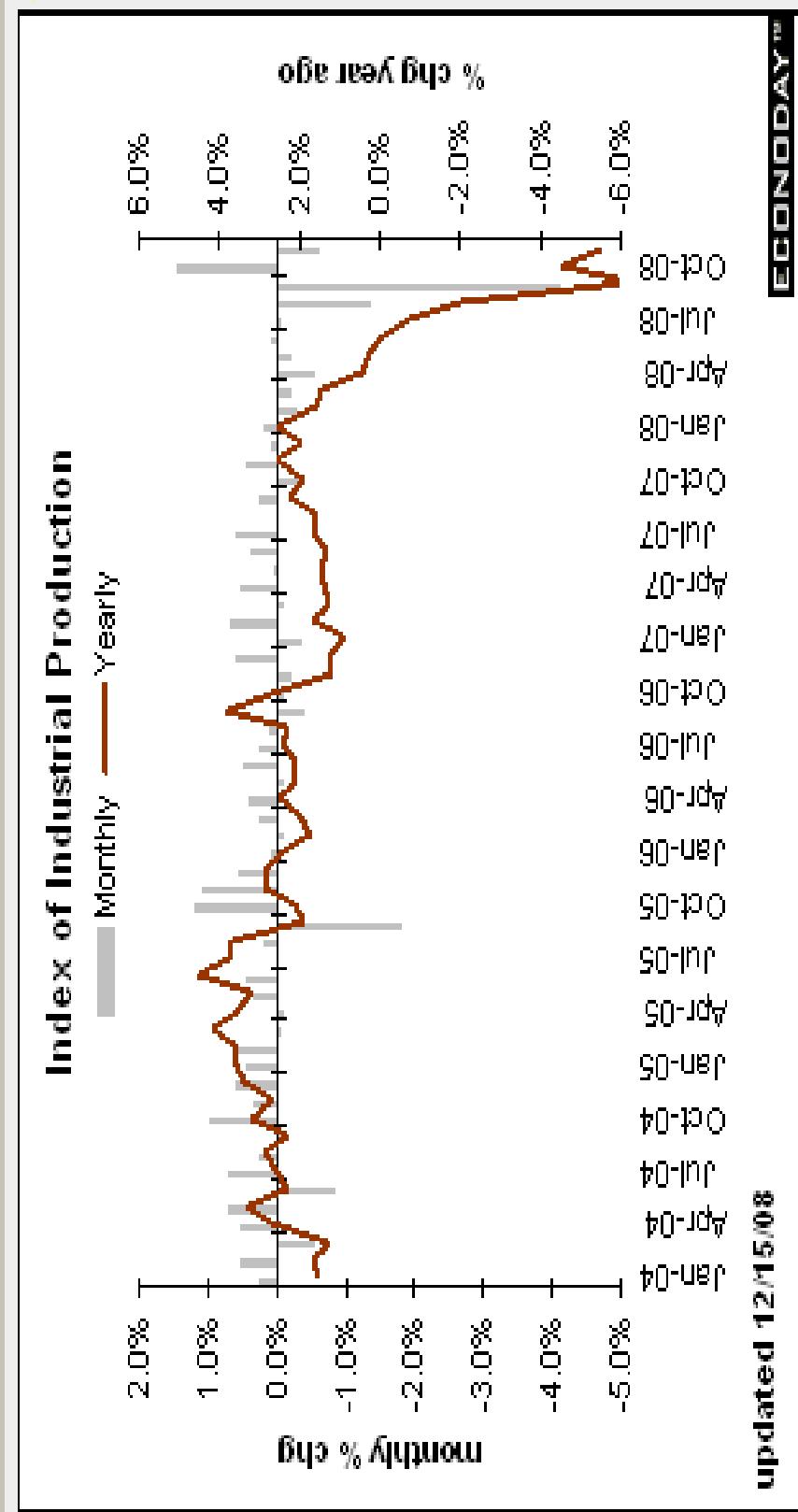
# Home Prices falling



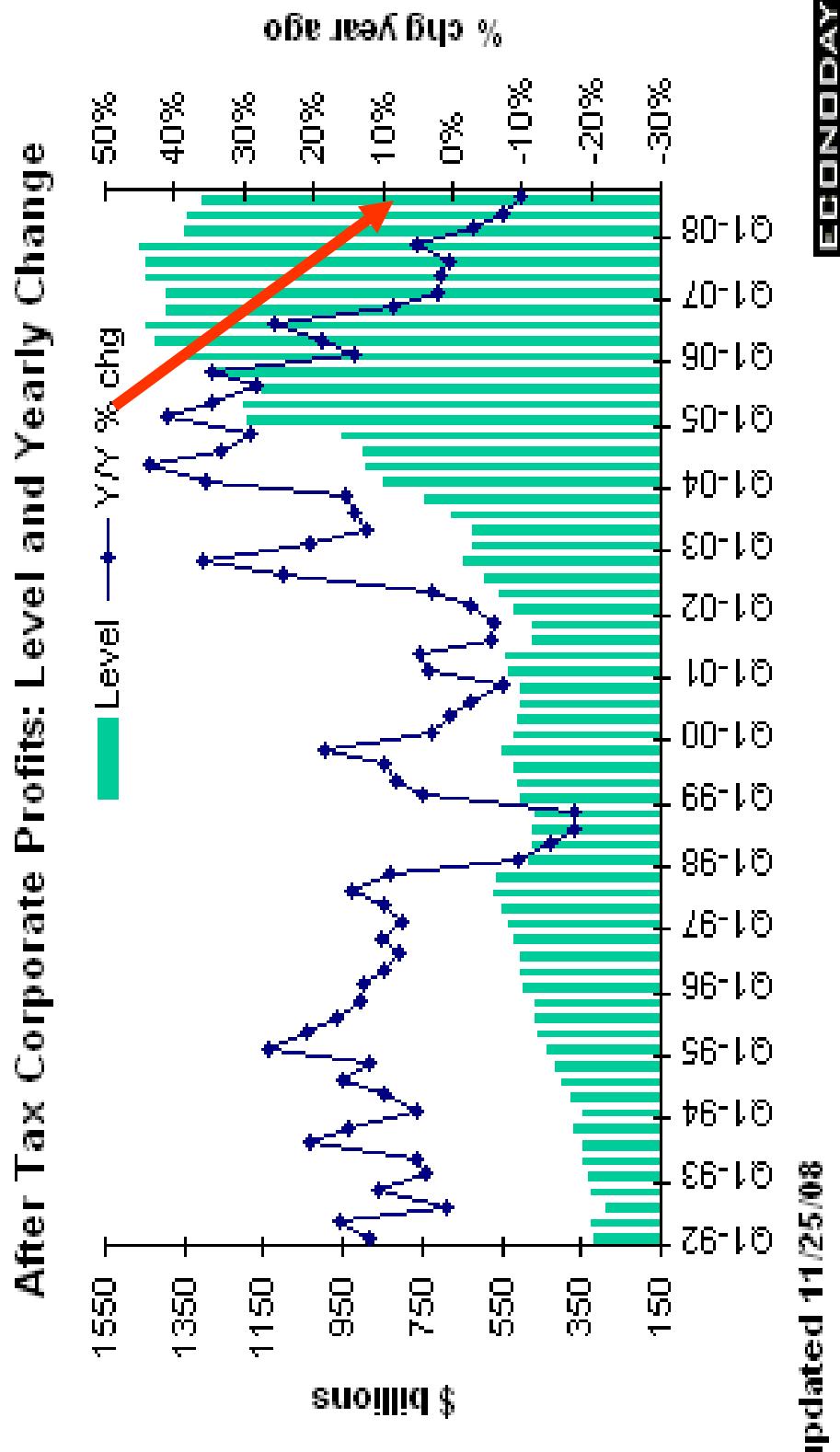
# Household Net Worth



# Industrial Production negative

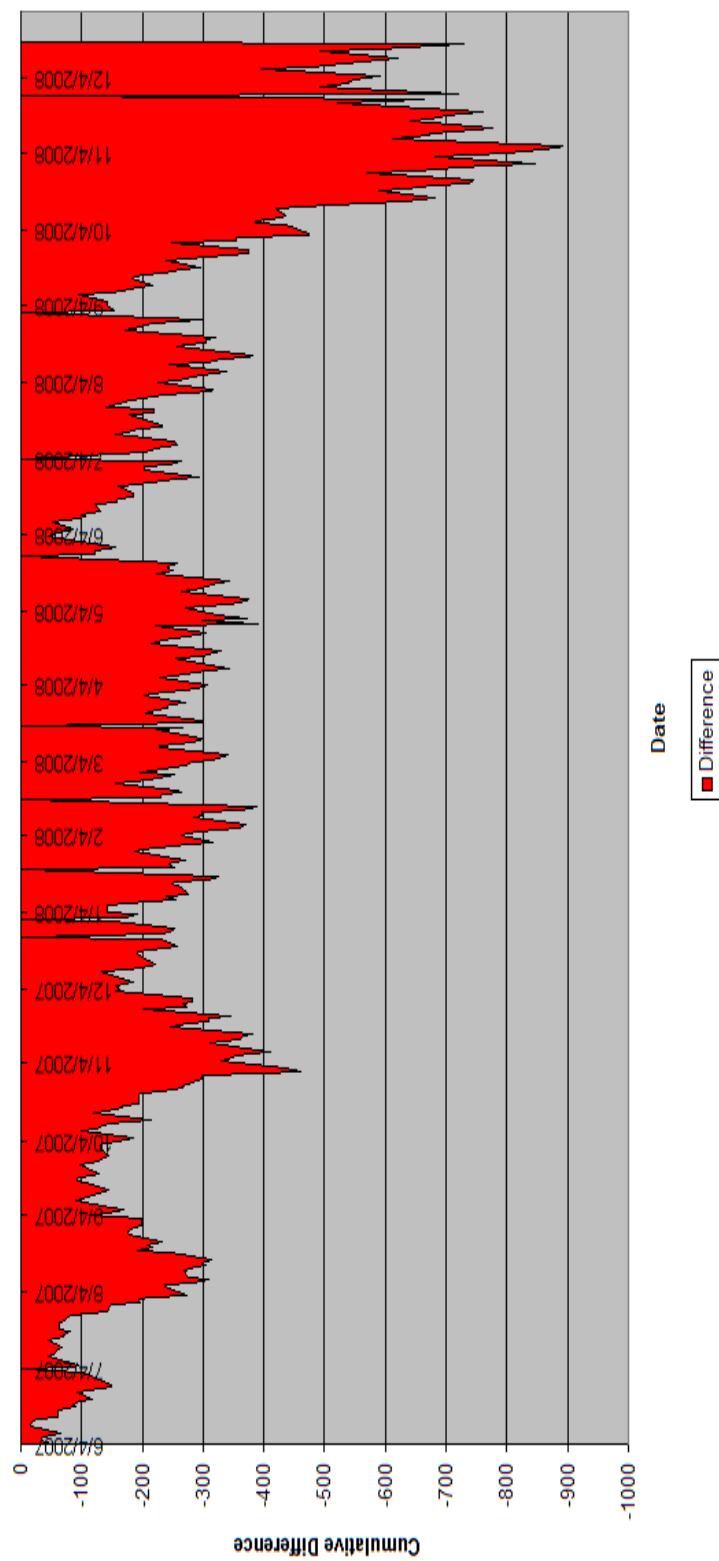


# Nonresidential Drudgery falling



# Watch the trend ...

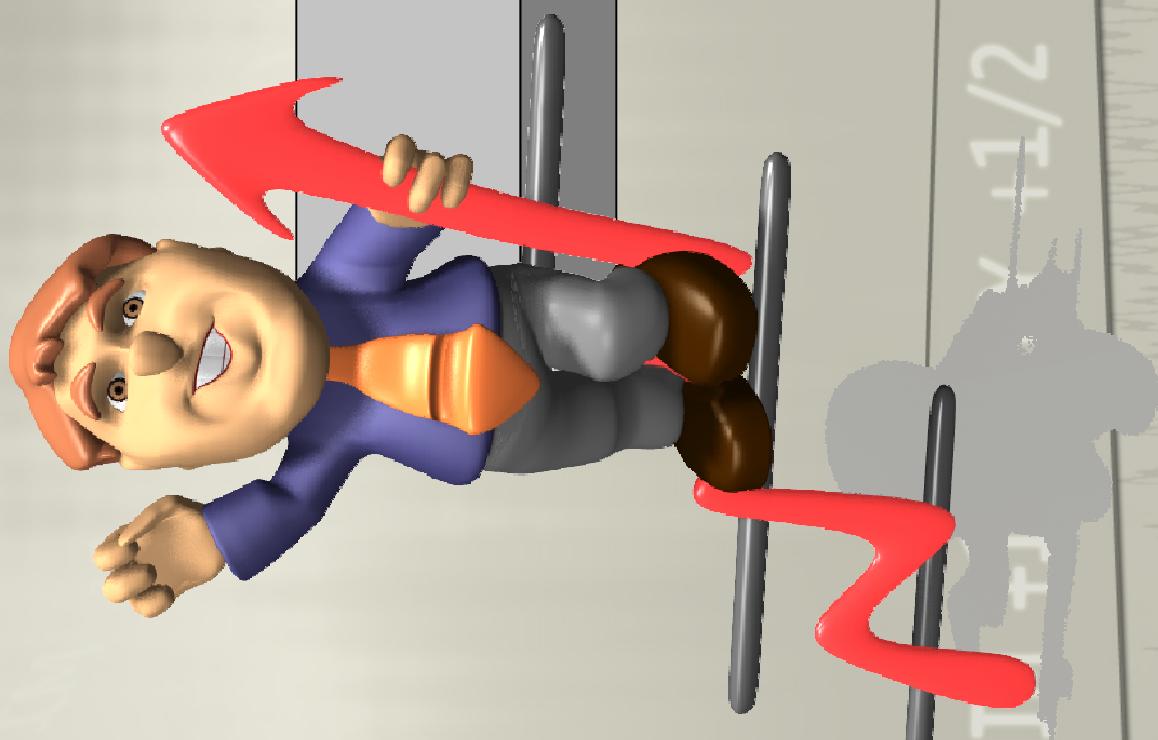
Daily Delta between UP & DOWN Earning forecasts since June 2007  
Source: <http://www.nasdaq.com>



# The Gorilla in the Room

RANK	BANK NAME	STATE	ASSETS	TOTAL	DERIVATIVES
1	JPMORGAN CHASE BANK NA	OH	\$1,378,466	\$91,287,215	
2	BANK OF AMERICA NA	NC	1,327,429	39,671,792	
3	CITIBANK NATIONAL ASSN	NY	1,228,445	37,132,353	
4	WACHOVIA BANK NATIONAL ASSN	NC	670,639	4,447,446	
5	HSBC BANK USA NATIONAL ASSN	DE	177,466	4,063,104	
TOP 5 COMMERCIAL BANKS & TCS WITH DERIVATIVES			\$4,782,447	\$176,601,911	
OTHER COMMERCIAL BANKS & TCS WITH DERIVATIVES			5,147,933	5,531,522	
TOTAL FOR COMMERCIAL BANKS & TCS WITH DERIVATIVES			9,930,380	182,135,432	

# Energy Policy

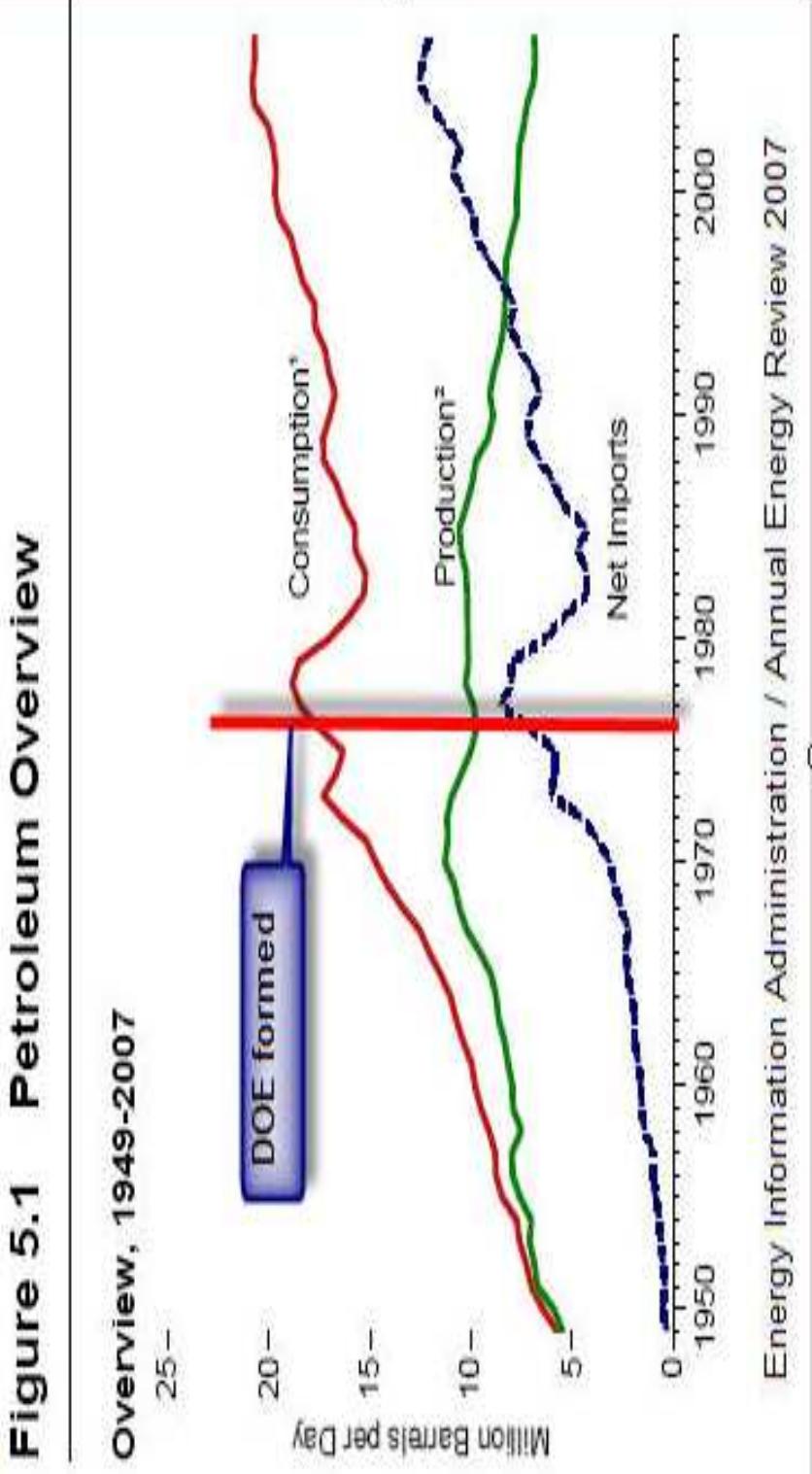


1/2 MOQE -2 TMGA +3 GRPC -1/4  
ANT

# Petroleum Trends

**Figure 5.1 Petroleum Overview**

Overview, 1949-2007

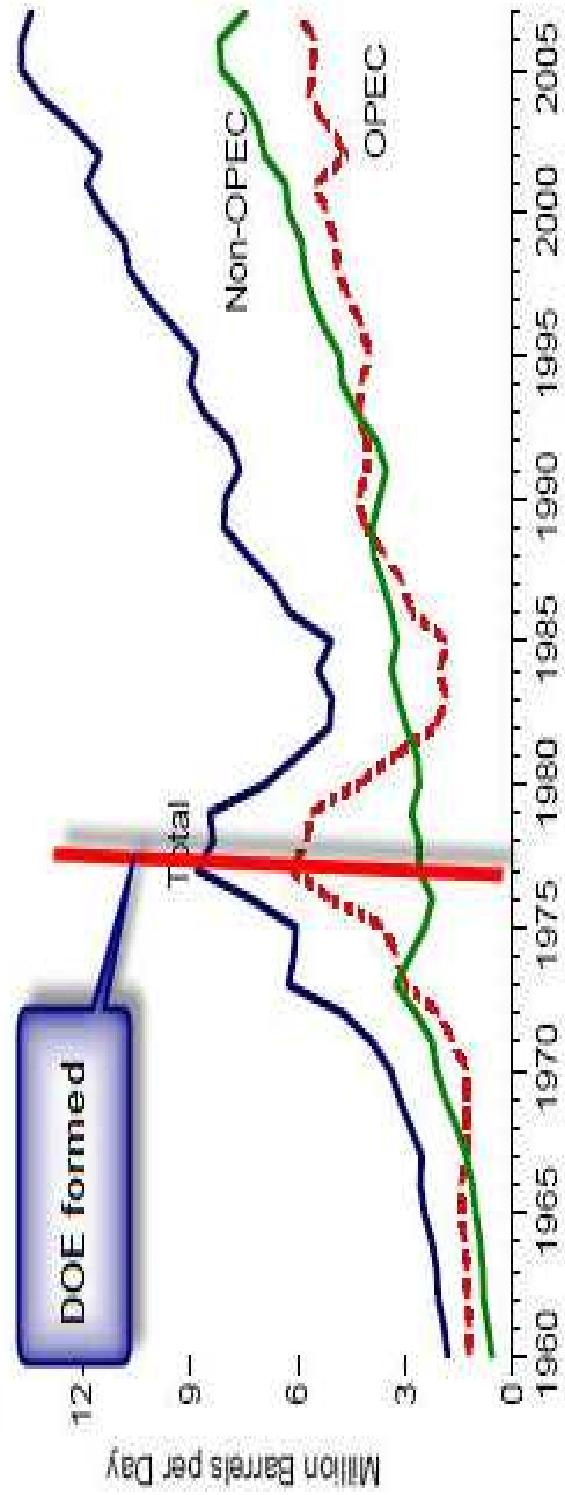


Source: Energy Information Administration / Annual Energy Review 2007

# Imports by Region

**Figure 5.4 Petroleum Imports by Country of Origin**

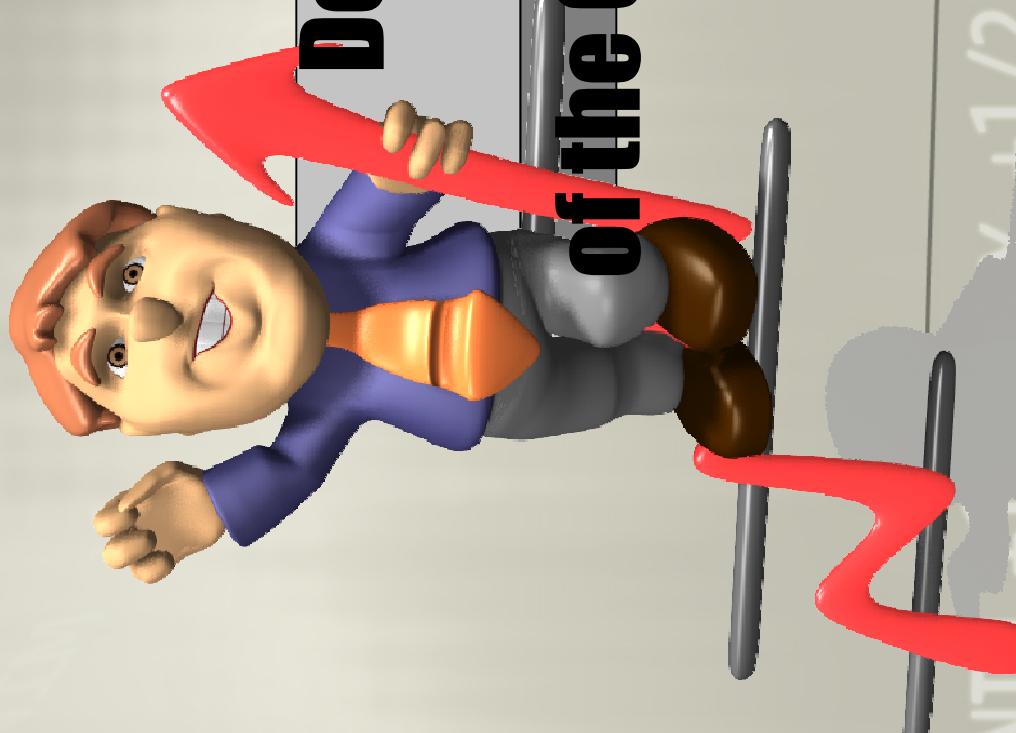
Total, OPEC, and Non-OPEC, 1960-2007



Energy Information Administration / Annual Energy Review 2007

are from a talk by

**Dr. Leonidas P. Drollas,  
Deputy Director and Chief  
Economist  
of the Centre for Global Energy  
Studies**

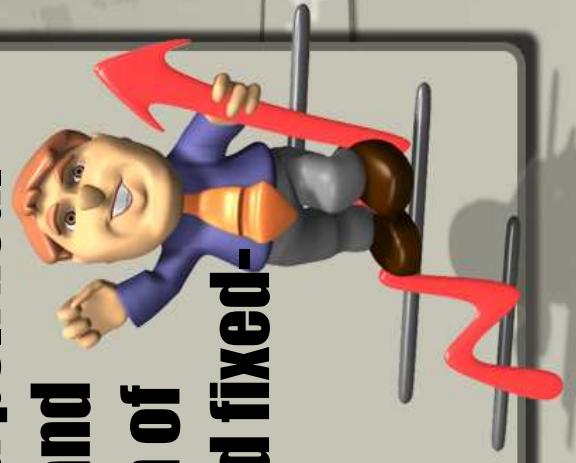


in London on December 3, 2008

ANTARES

# What determines the price of oil?

- In the short run : spot oil prices are driven by the imbalance between desired and actual inventory cover, while futures prices are heavily influenced by news about oil inventories, demand/supply, OPEC's output and its spare capacity, and political developments. Oil is also a commodity and attracts attention as an alternative form of investment, competing with equities and fixed-income assets. Spot and futures prices constantly interact.



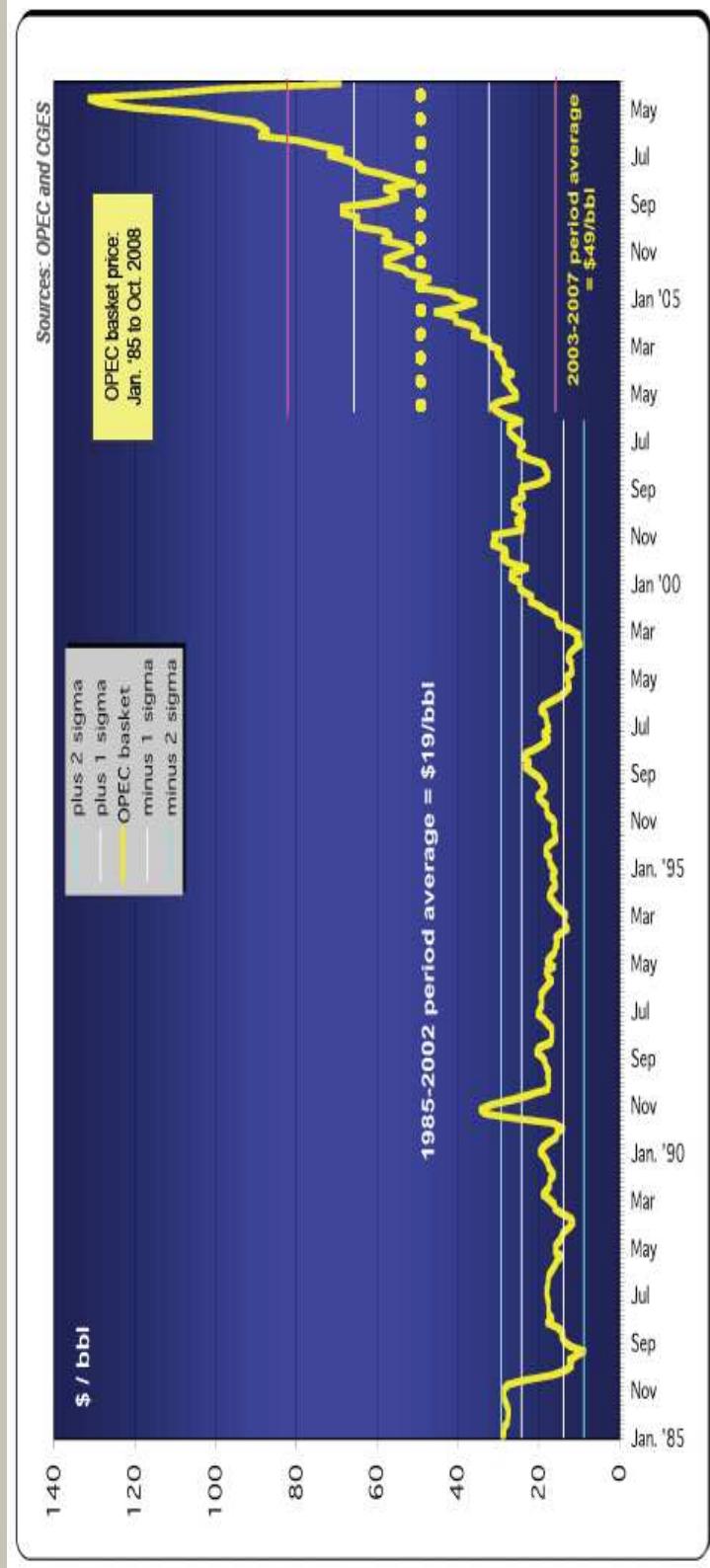
- In the medium term : oil prices are driven by oil demand, the world's spare capacity, the non-OPEC countries' oil reserves position and their production, and OPEC's investment intentions and oil price targets. It is said that prices in the medium term revert to the mean.



- In the long run : costs of supply have a big influence on oil prices in the long term. These in turn are affected by discoveries, gross additions to reserves, depletion rates, access to reserves, technological advances, investment in productive capacity, OPEC's policies, and trends in oil demand and non-OPEC supplies.



# Reversion to the mean, perhaps, but which one?



It is highly improbable that the oil price will revert to its 1985-2002 average of \$19/bbl. The question is whether it will revert to the 2003-07 mean of \$49/bbl, which represents the average price of oil over the period during which oil demand grew strongly and non-OPEC supplies started to falter. Notice the marked increase in volatility in the latter period.

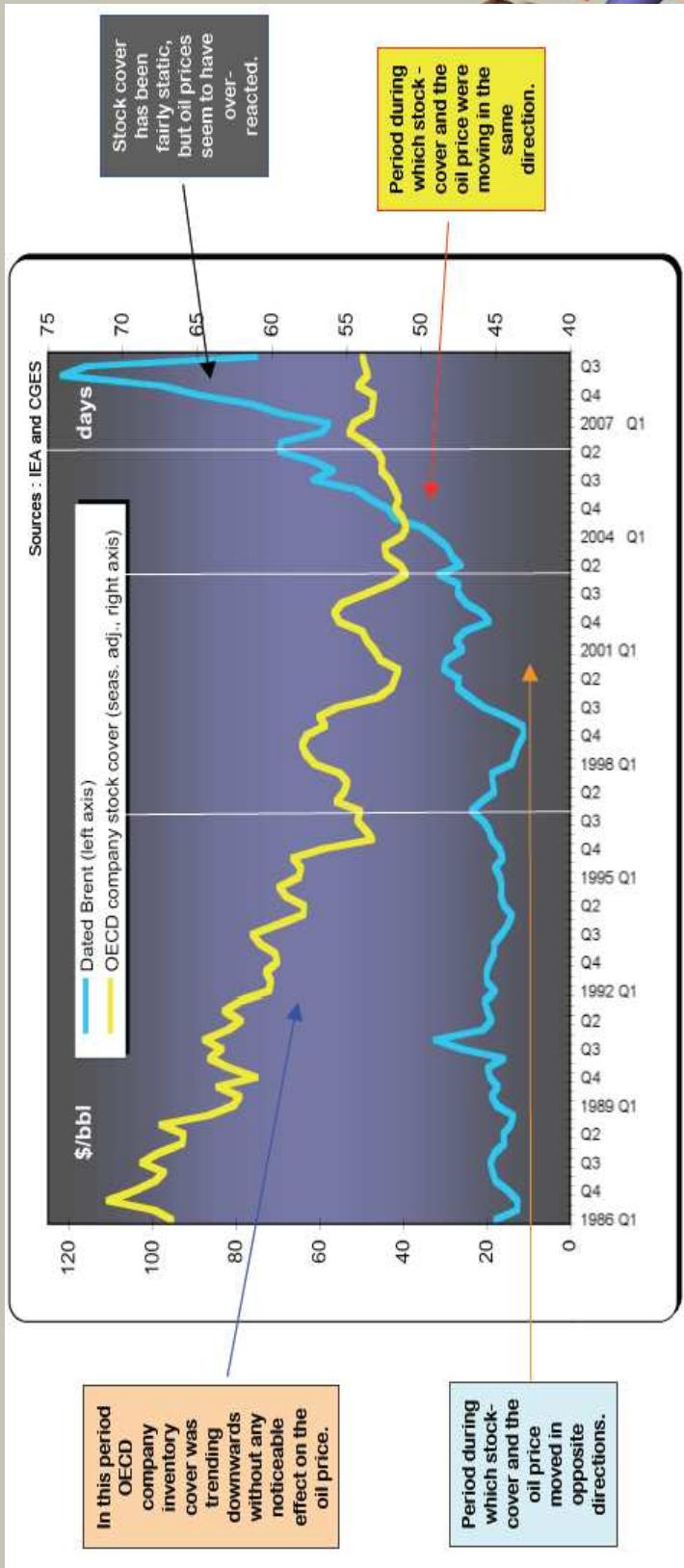
# Oil demand growth is at an end ... for the moment

	2004 tbpd	2005 tbpd	2006 tbpd	2007 tbpd	2008 tbpd
<b>OECD</b>	<b>670</b>	<b>340</b>	<b>- 240</b>	<b>- 430</b>	<b>- 1420</b>
<b>of which USA</b>	<b>350</b>	<b>70</b>	<b>120</b>	<b>150</b>	<b>- 1000</b>
<b>Non-OECD</b>	<b>1210</b>	<b>750</b>	<b>690</b>	<b>930</b>	<b>920</b>
<b>Former CPEs</b>	<b>1010</b>	<b>340</b>	<b>690</b>	<b>390</b>	<b>330</b>
<b>of which China*</b>	<b>900</b>	<b>270</b>	<b>520</b>	<b>325</b>	<b>300</b>
<b>GRAND TOTAL</b>	<b>2890</b>	<b>1430</b>	<b>1140</b>	<b>890</b>	<b>- 170</b>

\* Includes large inventory builds in 2004.

Note that the trend rate of growth of oil demand since 1986 has been 1.6% per annum. Below trend oil demand growth of 1.4% and 1.0% in 2006 and 2007 respectively — despite continuing strong economic growth — suggests that high oil prices dampened down the rate of oil demand growth. In 2008, an expected economic slowdown, in conjunction with high oil prices, will take oil demand into negative territory.

# OECD stock cover and oil prices



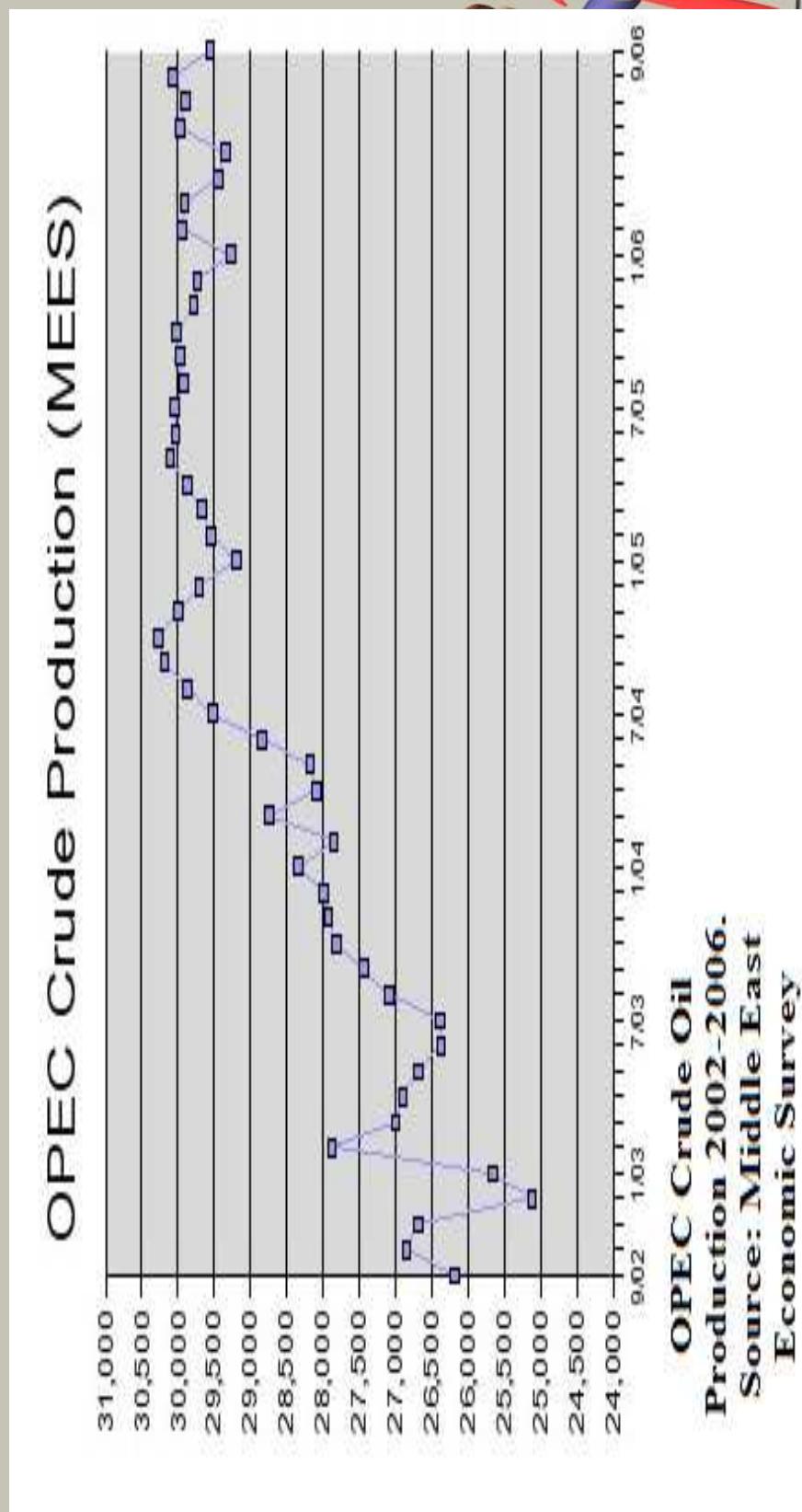
Between 3Q96 and 2Q03 oil prices seemed to be the mirror image of OECD company inventory cover, rising when cover was low and falling when cover was high. From 2Q03 onwards forward cover rose from 51 days to 55 days, yet oil prices rose relentlessly, except for two episodes of price weakness (4Q05 and 4Q06-1Q07), both associated with rises in inventory cover. Since 1Q07 OECD company stock cover has not changed much and yet oil prices have soared and then tumbled.

# OPEC Reserves?

*Declared reserves with suspicious increases in bold purple (in billions of barrels) from Colin Campbell, SunWorld, 80-95*

<u>Year</u>	<u>Abu Dhabi</u>	<u>Dubai</u>	<u>Iran</u>	<u>Iraq</u>	<u>Kuwait</u>	<u>Saudi Arabia</u>	<u>Venezuela</u>
1980	28.00	1.40	58.00	31.00	65.40	163.35	17.87
1981	29.00	1.40	57.50	30.00	65.90	165.00	17.95
1982	30.60	1.27	57.00	29.70	64.48	164.60	20.30
1983	30.51	1.44	55.31	<b>41.00</b>	64.23	162.40	21.50
1984	30.40	1.44	51.00	43.00	63.90	166.00	24.85
1985	30.50	1.44	48.50	44.50	<b>90.00</b>	169.00	25.85
1986	31.00	1.40	47.88	44.11	89.77	168.80	25.59
1987	31.00	1.35	48.80	47.10	91.92	166.57	25.00
1988	<b>92.21</b>	<b>4.00</b>	<b>92.85</b>	<b>100.00</b>	91.92	166.98	<b>56.30</b>
1989	92.20	4.00	92.85	100.00	91.92	169.97	58.08
1990	92.20	4.00	93.00	100.00	95.00	<b>258.00</b>	59.00
1991	92.20	4.00	93.00	100.00	94.00	258.00	59.00
1992	92.20	4.00	93.00	100.00	94.00	258.00	62.70
2004	92.20	4.00	<b>132.00</b>	115.00	99.00	259.00	78.00

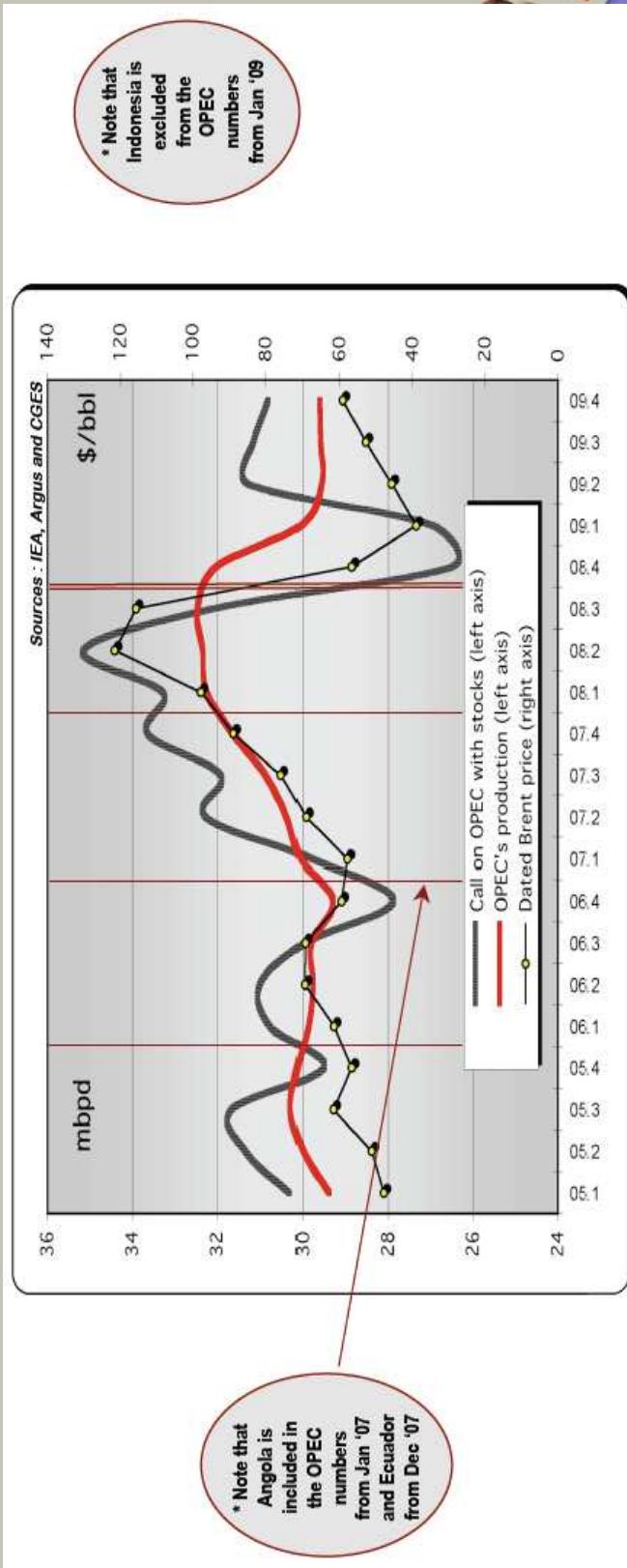
# OPEC Production



# OPEC's new quotas and the required cuts

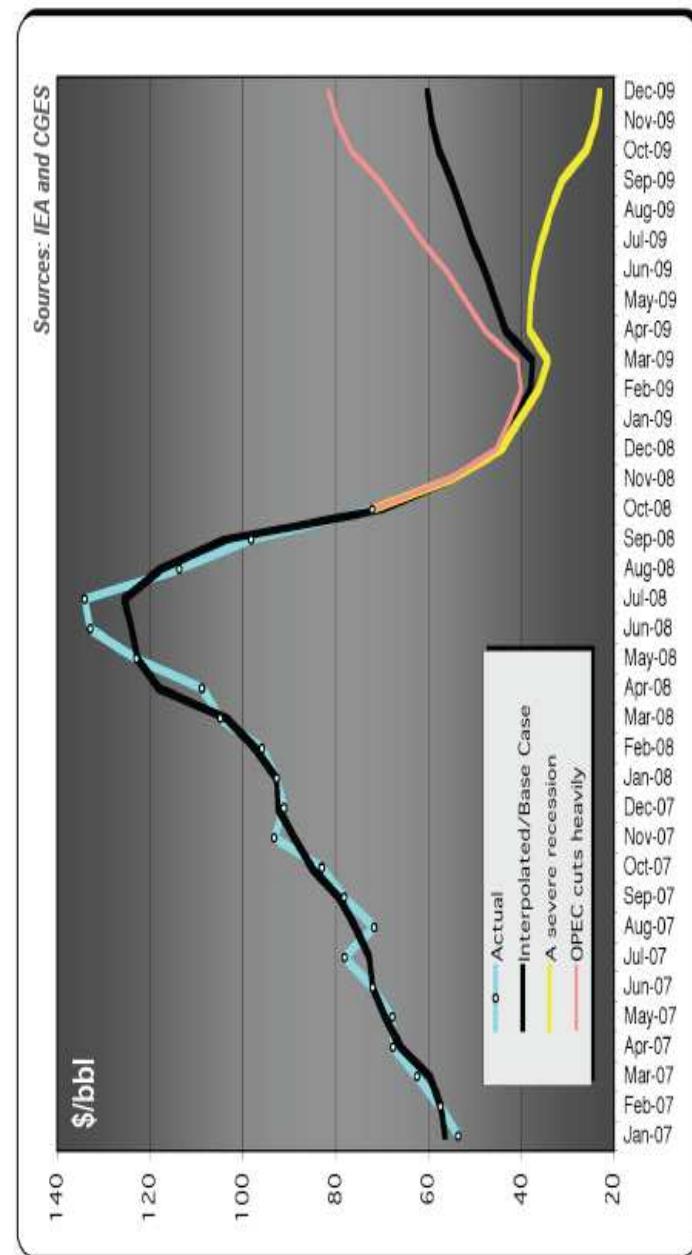
	Quotas Oct-08 tbd	Production Nov-08 tbd	Required cuts with new quotas tbd	Sustainable capacity 4Q08 tbd	Excess capacity tbd	Excess capacity %
Saudi Arabia	8477	8932	-455	11500	2568	70
Iraq	-	-	-	2600	100	3
Iran	3618	3900	-282	4000	218	6
Kuwait	2399	2482	-83	2700	300	8
U.A.E.	2433	2450	-17	2750	50	1
Qatar	785	830	-45	880	75	2
Libya	1623	1725	-102	1800	90	2
Algeria	1286	1360	-74	1450	210	6
Nigeria	2050	1890	160	2100	50	1
Venezuela	2341	2350	-9	2400	20	1
Angola	1801	1900	-99	1920	3	0
Ecuador	493	507	-14	510	1018	3684
Total	27308	28326	-	34610	100	

# Oil price prospects until the end of 2009



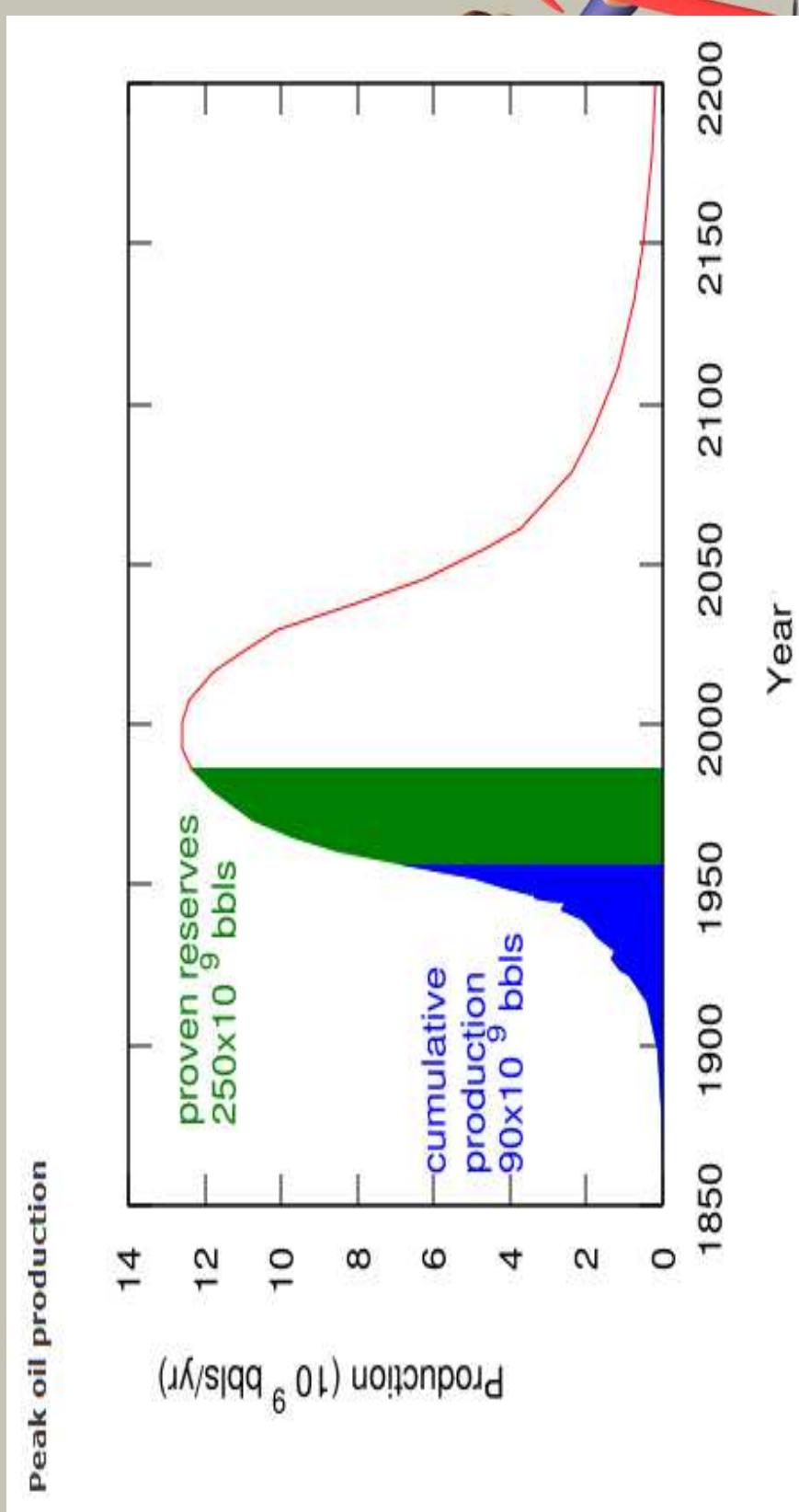
The key to the oil price lies in the call on OPEC (including desired stocks) versus OPEC's output. Angola's figures distorted the picture for 2007, but the key feature of the year was a significant tightening of the oil market, with the call on OPEC exceeding OPEC's production for almost the whole of 2007. This continued into 2008, peaking in 2Q08, but since then the call on OPEC (with stocks) has fallen dramatically, requiring output cuts from OPEC in the 1st and 2nd quarters of 2009 to slow down and eventually reverse the oil price decline. The CGES view is based on a global economic slowdown in 2008 and 2009.

# Oil price scenarios: 2008-9



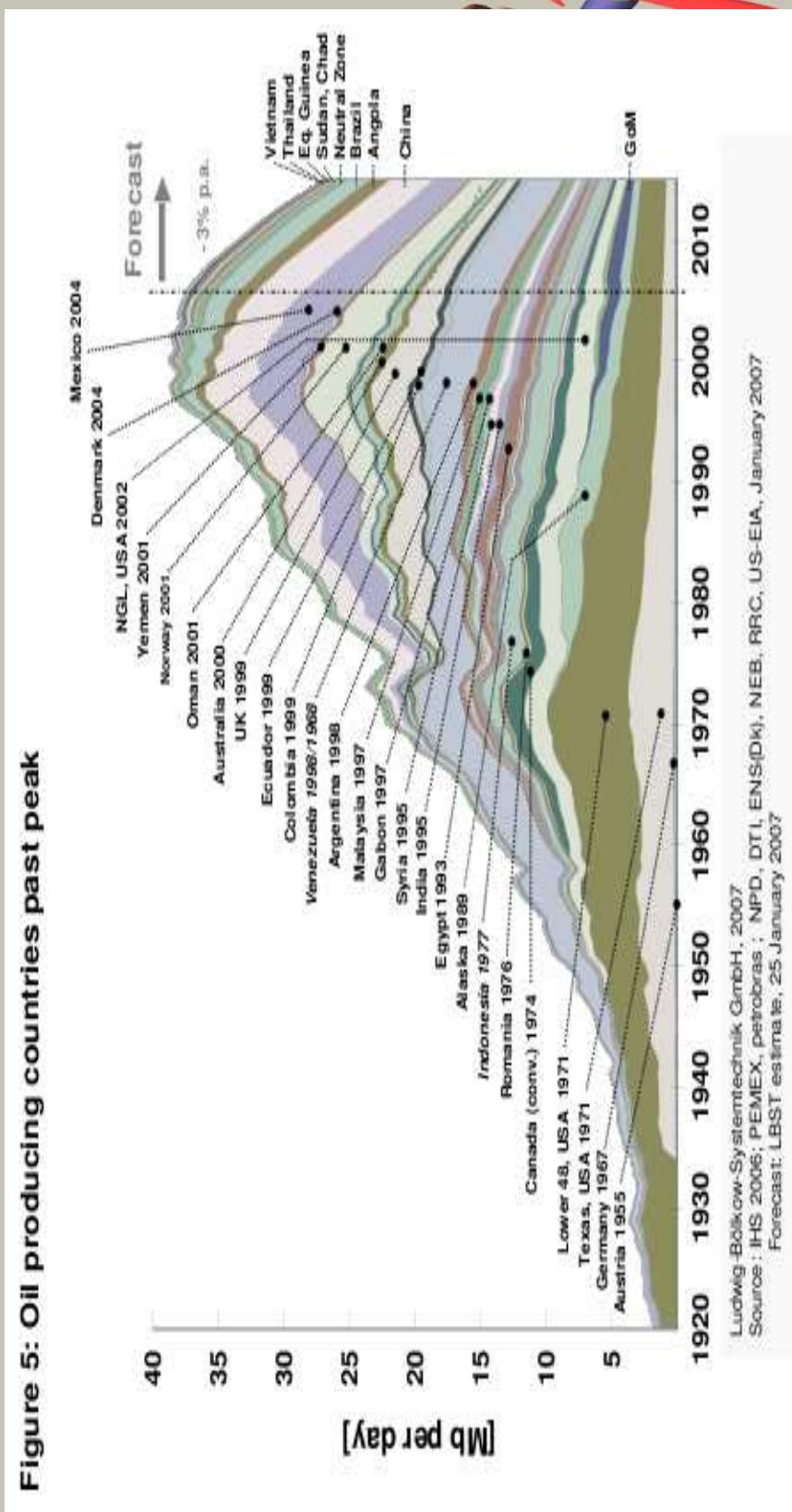
The world is heading into recession and oil demand will decline in 2009, causing stocks to build and the price of oil to stay below \$50/bbl despite OPEC cuts that reach 1.5 mbpd below current levels by the middle of next year. To keep the oil price from gathering downward momentum beyond \$40/bbl and eventually guide it above \$80/bbl by the end of 2009 OPEC needs to cut its output beyond the 1.5 mbpd that it agreed upon in October 2008.

# Hubbert's Peak Oil Curve



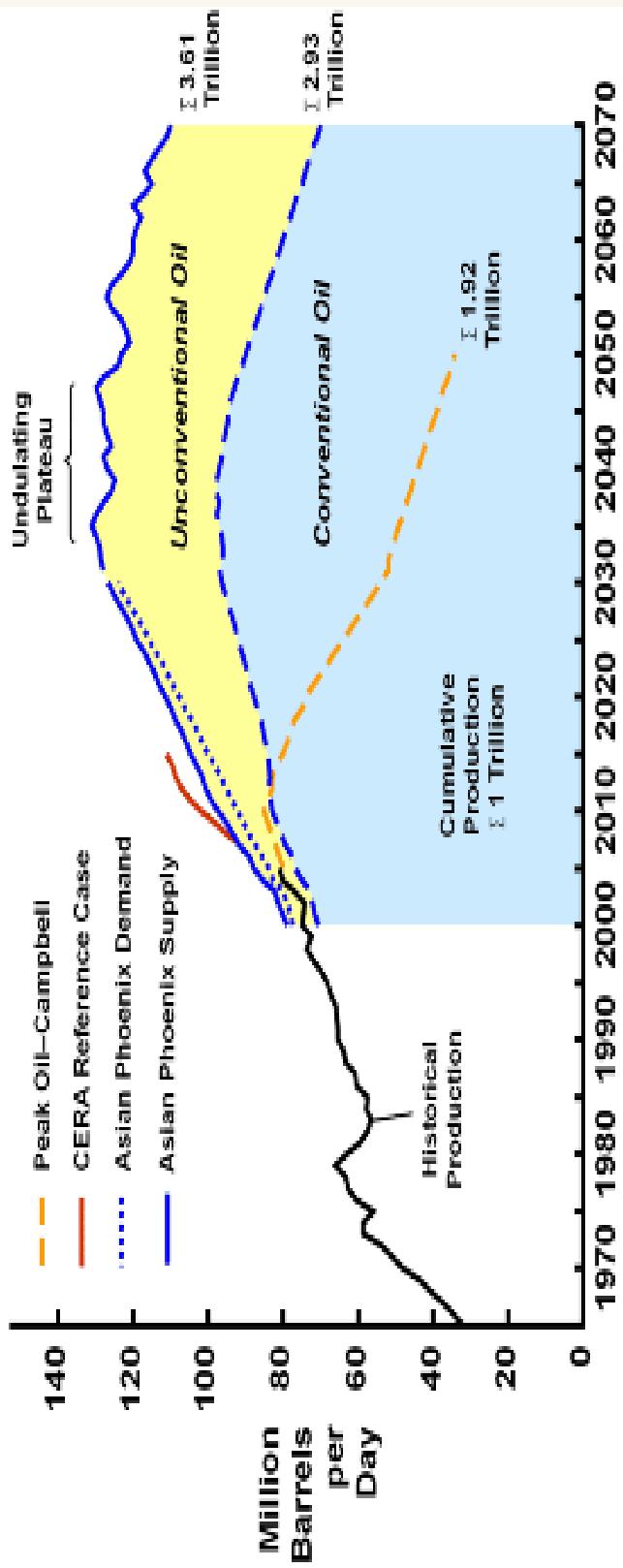
# Oil producing countries past peak

Figure 5: Oil producing countries past peak



# CERA 2006 Study

**Figure 1**  
**Undulating Plateau versus Peak Oil**



Source: Cambridge Energy Research Associates.  
600307-9

# Electricity by Fuel Type

- Coal is dominant
- Burning natural gas is a bad idea
- Solar & Renewables are costly
- Nuclear is the answer

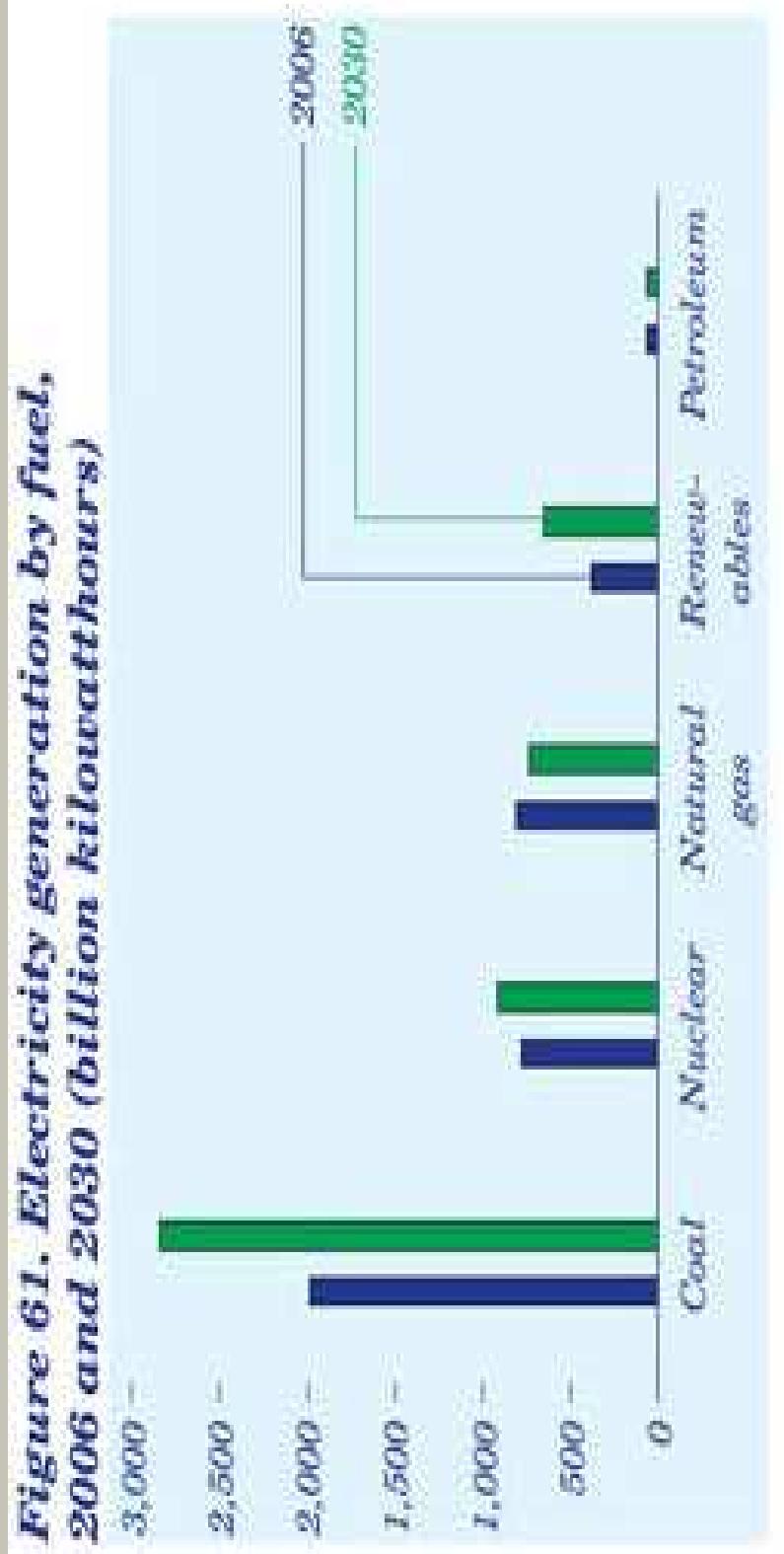
Electricity Net Generation 2007		
Plant Type	B KWH	%
Coal	1965.1	51.3%
Petroleum	56.6	1.5%
Natural Gas	584.8	15.3%
Other Gases	0.1	0.0%
Total Fossil Fuels	2706.6	70.7%
Nuclear	806.5	21.1%
Hydro Electric Pumped	-7	-0.2%
Conventional Hydro	246	6.4%
Wood Biomass	8.4	0.2%
Waste Biomass	13.1	0.3%
Geothermal	14.8	0.4%
Solar/PV	0.6	0.0%
Wind	32.1	0.8%
Total Renewables	315.1	8.2%
Other	5.3	0.1%
Total	3827.5	100.0%

<http://www.eia.doe.gov/aer/ptb0802c.html>



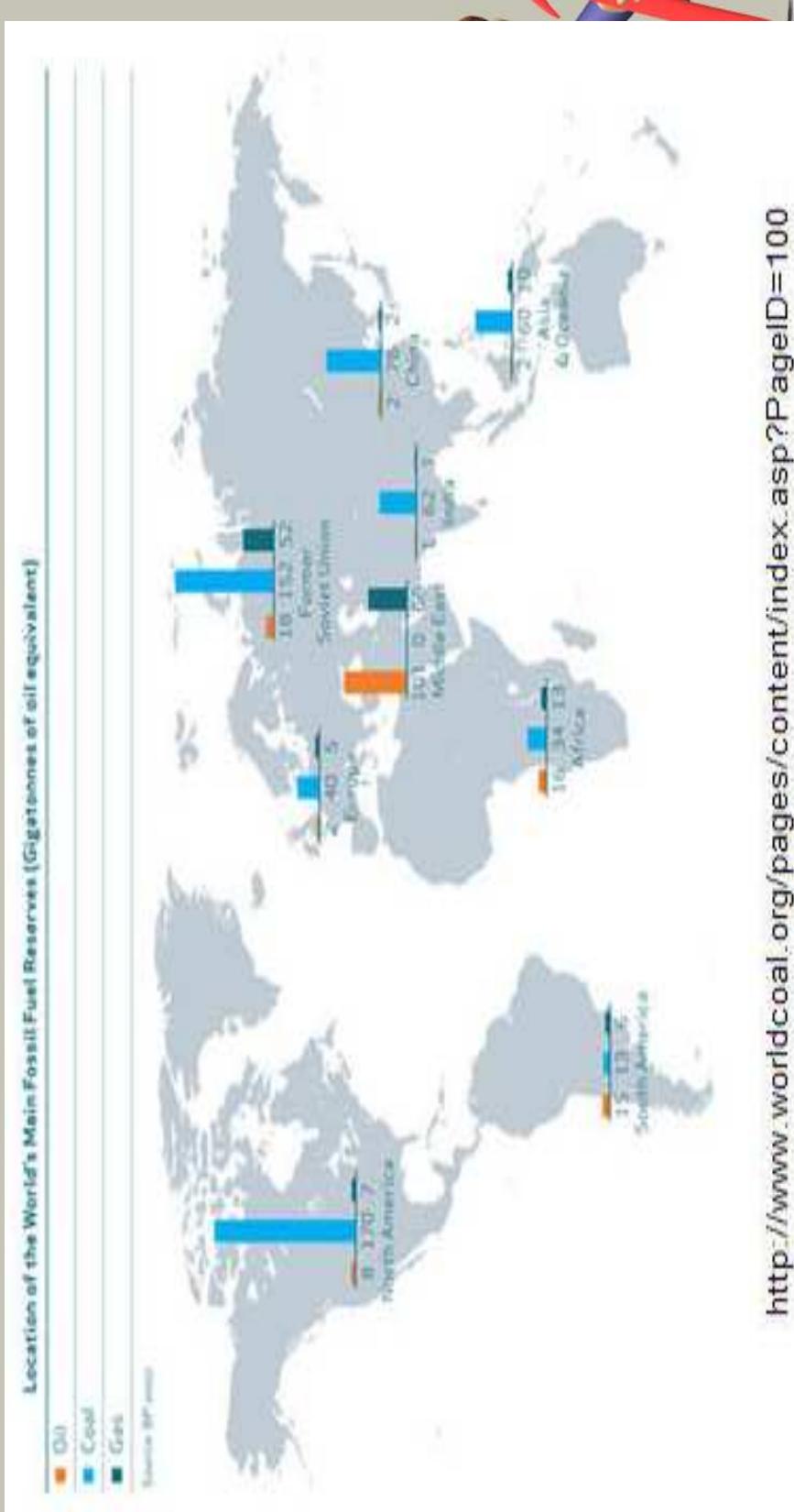
# Electricity generation by Fuel Type

*Figure 61. Electricity generation by fuel, 2006 and 2030 (billion kilowatthours)*



<http://www.eia.doe.gov/iaf94/electricity.html>

# World Fossil Fuel Reserves



<http://www.worldcoal.org/pages/content/index.asp?PageID=100>

# Bakken Shale

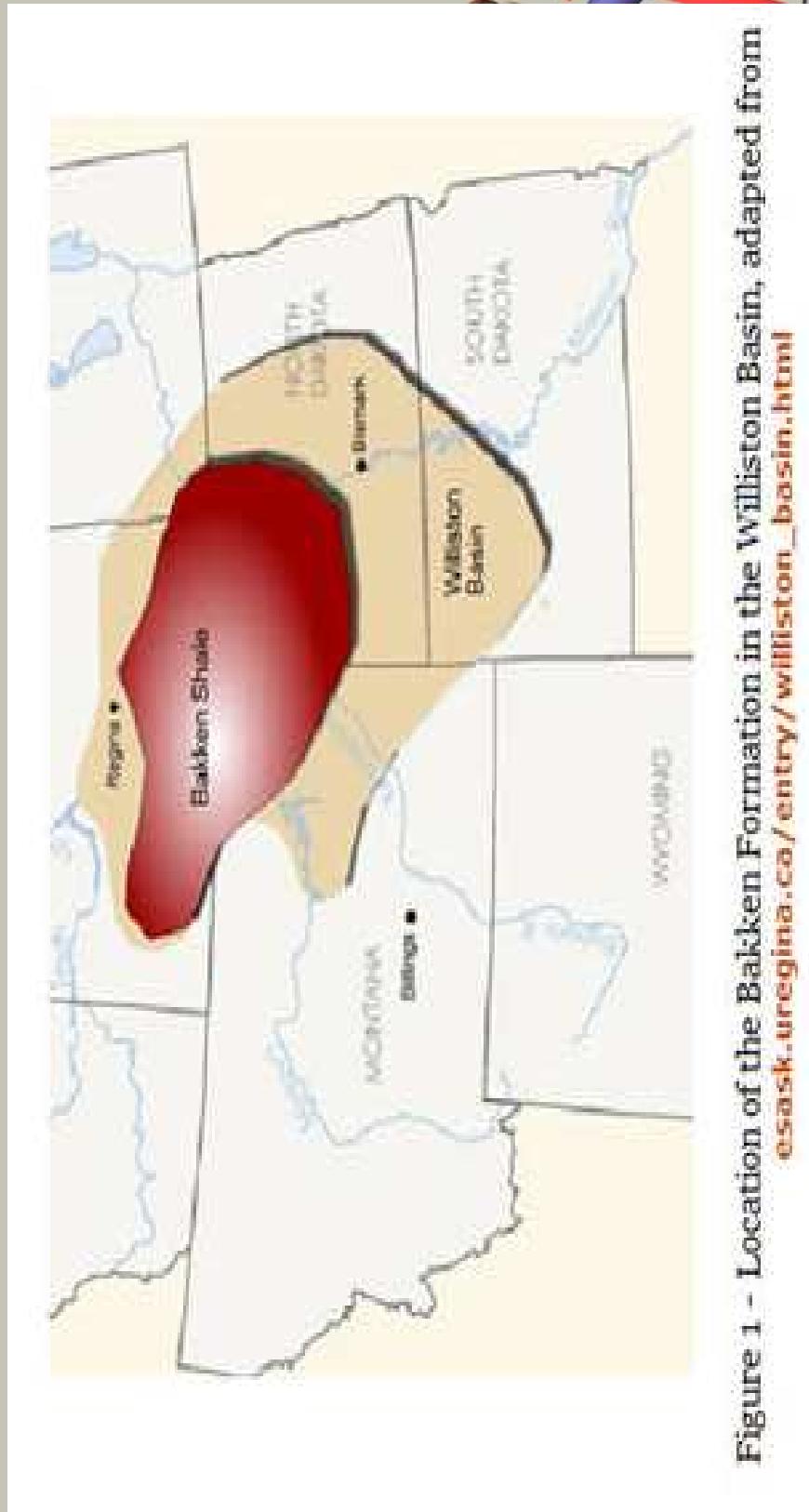


Figure 1 - Location of the Bakken Formation in the Williston Basin, adapted from [esask.uregina.ca/entry/williston\\_basin.html](http://esask.uregina.ca/entry/williston_basin.html)

# **It is obvious that**

- A complete integrated energy policy needs to be implemented in the interests of national security and the environment to meet the needs of the economy!
- But frankly, I don't think it will happen because of the various special interest groups jockeying for power.



# Immediate solutions

- Build small, standardized nuclear energy plants for power generation
- Divert coal to gasification production
- Drill off-shore, Alaska, and continental US
- Stop using natural gas for power generation
- Take all cars over 10 years old off roads
- Replace with auto's having 25 mph
- Eliminate tariff on Brazilian ethanol



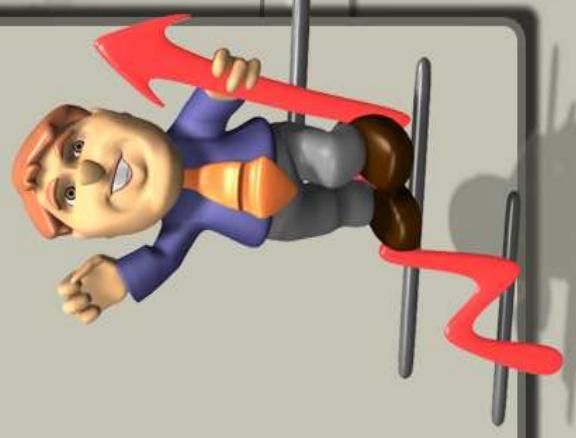
# The Greatest Loss from the Financial Crisis was:

The collapse of trust between people and institutions on a world-wide scale.



# **Areas of Concern**

- **Education & Literacy**
- **International Trade & Capital Flows**
- **Foreign Policy & Foreign Aid**
- **Currency Problems**
- **Infrastructure Requirements**
- **Consumer spending vs. saving**
- **Taxation**
- **Hysteria over Global Warming**



# Other Macro Concerns

- Demographics
- Immigration
- North American Union
- Lack of Transparency



# Conclusion

- The economy is still headed down
- Helicopter Ben and King Henry will soon be out but will it make any difference?
- International tensions will continue to increase
- World is beset by overcapacity
- The dollar is in trouble
- \$2 Trillion Fed deficit + \$600 Billion Trade deficit



# Observations

- The world has not decoupled
- China is slowing but hold massive reserves
- Watch the Baltic Dry Index for clues about economic rebounding
- The financial crisis is not over
- Cash and hard assets will prove to be necessary for survival
- Could we have inflation and deflation at the same time?



## **But remember**

- Optimists make more money than Pessimists!
- Be prudent, let the momentum start before taking risks
- The middle 80% of a move is o.k.
- There will always be opportunities ... they just may be harder to find.



# **When will the economy recover?**

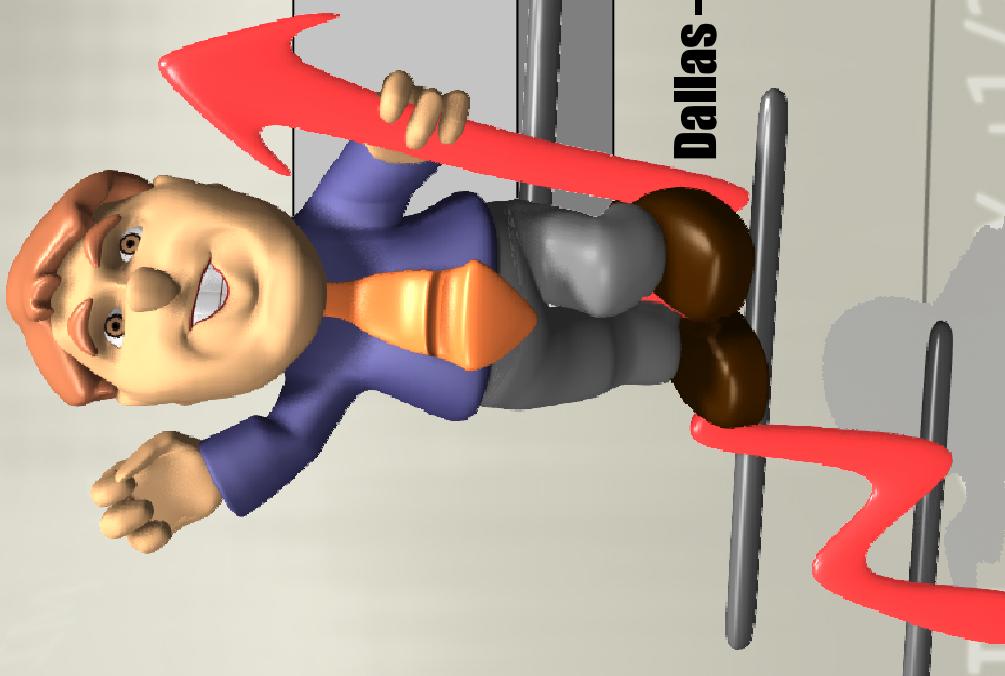
- Who knows
- But the market may be starting another rally in a bear market ... till 2017
- The STI, A'S, and other indicators are moving off of historic lows
- But if you invest, be sure you don't forget to watch your Action Points.
- Greed and lack of discipline are killers.



# Upcoming Events

DIF – January 3<sup>rd</sup> ... Outlook 2009 – A Look Ahead

**Dallas – Stock Selection Strategies – January 24 8-11 a.m.**  
**Early Registration \$250 After January 1st \$350**  
Go to [www.stratinv.net](http://www.stratinv.net) and Uncoming Events to  
**Register – Seating Limited**



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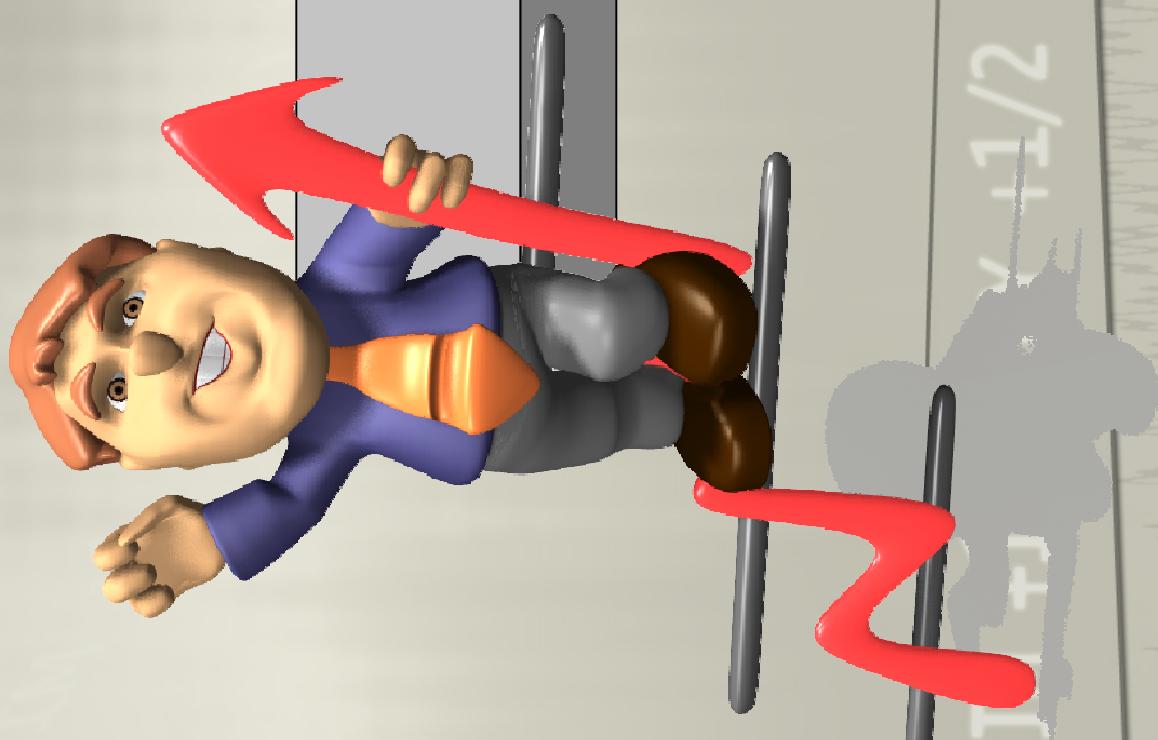
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# Any Questions?

Thanks



# Transition Page



ANTM +1 FCTRY +1/2 MOQE -2 TMGA +3 GRPC -1/4

# Elements Page

