

Outside The
Beltstreet

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This Issue

A Call to Reason	1
Solomon and Gandhi	1
Technicals: Breadth and Dow Theory	2
Parabolic Real Estate	2
BEA Deficit Numbers	3
Buffett	3
Fannie Mae Speculative? Again?	4

Special
points of
interest:

- Real Estate Chart
- Elliot Wave—An Alternate Count
- Jobs and the Trade Deficit
- Fed Governor Poole

A Call to Reason:

If you had told me a year ago, how we as human beings would be in such incredible denial of the huge issues facing our markets, I would not have believed it. Dr. Kurt Richebacher continues to astound me when I consider, at age 86, his enormous grasp of global economics and his ability to articulate his thoughts so powerfully. He stated recently, "Confidence is good. But overconfidence or false confidence has been the key cause of every severe economic and financial crisis." I am confused and concerned by the extreme denial in both individual and institutional investors. The headlines continue to warn us, something is drastically wrong, but the drums of conventional wisdom continue on. Solomon was right:

"There is **no remembrance of former things**, nor will there be any remembrance of things that are to come by those who will come after...What is crooked cannot be made straight, and what is lacking cannot be counted."

So **why** is there **no remembrance of former things**, like the market declines just five years ago!

Perhaps it is the enormous emotional pain of facing the world in front of us and what brought us to this juncture. As we face the future many things in our current definition of "comfort" will likely change. We must address our systems shortcomings and even be willing to talk about our faults. By nature, this is difficult. For a nation with a great heritage, it is extremely difficult.

You may be saying, "but I can't change the world." This is exactly my point. Since neither you nor I can change the variables of history that are already set in motion, we **must** come to grips with our fears, learn all we can from our past, and look forward to our future.

Last week I was talking with a gentleman, Gary Lantta, from David Tice and Associates. Tice and his firm have a name that has already gone down in market history. Unlike the mass information of buy and hold, Tice was giving warnings in the late 1990's of the historical speculation in the markets. He was not praised at the time. In fact he took a lot of criticism.

Gary left me with a great quote by Mahatma Gandhi that we must remember if we are going to go outside of the conventional wisdom and seek to protect our capital or that of the institutions we represent.

"First they ignore you, then they laugh at you, then they fight you, then you win."

Since December 23, 2004, a great deal of technical information has been signaling another major juncture in the markets. The longer you are in denial, as 2005 and 2006 unfold, the more you will jeopardize the capital that you have been made steward of today. On the other hand, the more you learn and make tough decisions today, the better off the capital under your stewardship will be. Based on history, I fear very few will choose "the road less traveled."

Another major juncture in history

Over the next two pages, I will demonstrate why denial of the truth of a historical bear market could prove extremely costly in the next 12-24 months.

1. Look at this parabolic spike in real estate. Is this an investment market or a casino?



2. The first three days of 2005 were the worst breadth in US stock market history going all the way back to 1926, when this data became available. The second worst three days occurred in 1932. In 1932 the Dow fell roughly fifty percent between January and early July. The July low marked the bottom of the greatest bear market in history.

(Peter Eliades' [Stockmarket Cycles](#) as quoted by Richard Russell's daily column on the [Dow Theory Letters](#) website on January 6, 2005.)

3. The oldest trading system, Dow Theory, has noted the topping of the Dow Jones Transportation Average (DJTA) over the last 5 years (yes that was **5 years**). After the January 2000 top of the Dow Jones Industrial Average (DJIA) the Dow has failed to set new highs while the Transports have continued to set new highs. Dow Theory calls this non-confirmation, and non-confirmation signals a reversal in the directions of the markets. Something interesting has happened today. The DJIA is down 4% between December 23 and January 21st and the DJTA is down 8.3% during the same period. As I finish this newsletter the DJIA broke below its December 2004 high of 10,440. This lower low on the Dow from December and lower low on the Transports from December, constitutes a Dow Theory confirmation. Dow Theory has given a signal, and that signal is that the markets are headed down. This signal, based on history, would say that we are back in a bear market. Will this time in history be different? Does a 100 year old timing theory even hold water today? You make your own decision. Me, I would not ignore this flashing red light.

More Reasons for Juncture

Beginning of Bear (Wave I Down)		
	Date	Level
Dow Jones Industrial	1/14/2000	11,722
NASDAQ Composite	3/10/2000	5,048
Last Major Low (Wave II Up)		
	Date	Level
Dow Jones Industrial	10/9/2002	7,286
NASDAQ Composite	10/9/2002	1,114
1st view of a Wave 5 top EARLY 2004 Highs (Start of Wave III Down)		
	Date	Level
Dow Jones Industrial	2/19/2004	10,753
NASDAQ Composite	1/26/2004	2,153
2nd view-Wave 5 top Highs of 2004 (Start of Wave III Down)		
	Date	Level
Dow Jones Industrial	12/23/2004	10,827
NASDAQ Composite	12/30/2004	2,178



Texas sunset in the Fall.

Photo by: Grant Wakefield

“I’m having a hard time finding things to buy, if that says anything about the market.”

**Warren Buffett,
January 19th, 2005
Yahoo News**

4. December saw the 4th straight month of 100,000 plus layoffs announced.

(Source– Challenger, Gray and Christmas) (Personal note– For my clients, family members, and friends who are currently looking for work, my prayers are with you. This is one of the hardest sources to report on during this period in history.)

5. A Trade Deficit of 51 billion in September, 55 billion in October, then 60 billion in November. These are the largest trade deficits in US History. From the looks of the chart to the right taken from the Bureau of Economic Analysis on January 12th, 2005, this problem looks to continue.

(More details can be attained at www.bea.gov)



Feel free to send any question you may have to: doug@genadv.com

What does overpriced mean?

Back in the Special Edition Pictures newsletter (9/04), we placed a chart of Fannie Mae and asked the question, "Can it stay at current levels?" Interestingly, today I read an article by Bill Deener of the Dallas Morning News who, apparently in response to the melt-off of E-Bay yesterday (1/20/05), wanted to remind readers that "These dramatic sell-offs should serve as a reminder to investors that fast-growing, high-priced technology stocks are dangerous." While I would agree with the fact that they are dangerous, the reader could conclude older, more established companies, like Merck or Fannie Mae, are exempt from this risk. Those stalwarts certainly are not on the list of "fast-growing, high-priced technology stocks," and yet the risk to institutions and individuals who hold such "strong" companies are just as great if not greater. If you need another opinion on Fannie Mae, let me encourage you to go to <http://stlouisfeds.org>, and read the spine-tlingling words that Fed Governor William Poole spoke to the St. Louis Society of Financial Analysts on January 13th, 2005.

Consider this brief excerpt from his speech:

"In my speech to the OFHEO conference almost two years ago, I emphasized the risk of systemic, world-wide financial crisis should either Fannie Mae or Freddie Mac become insolvent. The argument was the same as that stated so clearly by Richard Posner in his recent *Wall Street Journal* op-ed article on the Indian Ocean tsunami. Posner writes:

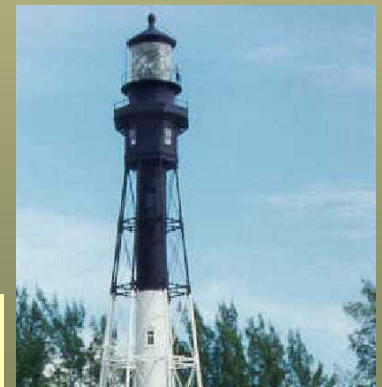
The Indian Ocean tsunami illustrates a type of disaster to which policy makers pay too little attention—a disaster that has a very low or unknown probability of occurring, but if it does occur creates enormous losses. ... The fact that a catastrophe is very unlikely to occur is not a rational justification for ignoring the risk of its occurrence."

Right now, if you do not have the knowledge, as millions of individual and institutional investors do not have, or the insights to make educated investment decisions about profiting from declining markets, let me strongly encourage you to just be in cash. DO NOT WORRY ABOUT MISSING THE GOOD DAYS AT THIS POINT IN HISTORY!

Generations Advisors

Suite 950
3010 LBJ Freeway
Dallas, Texas 75234

Phone: 972-488-3080 (800-488-2084)
Fax: 972-488-3079
E-mail: doug@genadv.com



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