

STOCK WORLD WEEKLY

THE EXECUTIVE'S SUMMARY | OF THE GLOBAL MARKETS

Dow Jones	12,130 (-2.1%)
S&P 500	1,320 (-1.7%)
NASDAQ	2781 (-1.9%)
NYSE	8,378 (-1.5%)
Russell 2000	822 (-1.4%)
Oil	98.25 (+9.2%)
Gold	1,409 (+1.5%)

THIS WEEK'S NEWSLETTER:

MONDAY MARKET MOVEMENT - EQUITIES RISING ON "RIVERS OF BLOOD"

US Markets closed for Presidents' Day

TESTY TUESDAY - DROP 'TILL THEY PROP

Markets drop as oil prices skyrocket

WILL WE HOLD IT WEDNESDAY - DOUBLES IN TROUBLE

The Dollar begins to lose some of its "safe haven" appeal

TECHNICAL THURSDAY - THE NEEDLE AND THE DAMAGE DONE

Are the markets becoming addicted to POMO?

FUGGEDABOUTIT FRIDAY - DIP? I DIDN'T SEE NO DIP?

Markets rebound from lows but still down for the week

THE WEEK AHEAD

We have been warning that the Federal Reserve's tireless efforts to inflate the money supply were devaluing the Dollar and driving up prices of commodities and equities. This week, the consequences reverberated loudly and angrily around the world. Even equities felt some pain as investors woke up to the specter of global price inflation.

George Melloan examined the interplay between the current round of quantitative easing (QE2), a weakening Dollar, price inflation, and international turmoil ([The Federal Reserve Is Causing Turmoil Abroad, WSJ](#)). The connection is simple: pursuant to QE2's permanent open market operations (POMO), the Fed buys Treasuries from Primary Dealers such as JP Morgan and Goldman Sachs. The Fed's buying government debt may also be called "monetizing debt." Money created from these purchases devalues the Dollar and finds its way into equities and commodities, driving up prices.

Regimes that have been grudgingly tolerated by their populations for decades are suddenly being confronted by unhappy masses that are struggling just to afford food. Many people are openly revolting. However, as [George Melloan noted](#), "*Probably few of the protesters in the streets connect their economic travail to Washington. But central bankers do. They complain, most recently at last week's G-20 meeting in Paris, that the U.S. is exporting inflation.*"

Popular revolts, beginning in Tunisia and Egypt, are spreading across the globe. In Libya, Muammar al-Gaddafi's regime may be the next to be toppled. Gaddafi has taken a hard-line stand in an attempt to keep power, and he has not hesitated to use military weaponry against civilians demonstrating against his regime. Eyewitnesses have reported [seeing warplanes and helicopters bombing neighborhoods in Tripoli](#). [TIME reported](#) on Friday, "*As more and more cities join the ranks of 'Free Libya,' Tripoli is increasingly the theater for what looks to be Muammar Gaddafi's last stand. Almost on cue, anti-regime forces, reportedly bearing arms taken from arsenals and swelled by the ranks of defecting soldiers, are bringing the battle to the capital from the so-called liberated zones. And for their part, thousands of residents of the capital took to the streets ... The regime's troops responded by opening fire.*"

Gaddafi also threatened to blow up oil pipelines and attack the oil production infrastructure of Libya in attempts to persuade dissidents that if he is ousted, he will destroy the economy and plunge the country into chaos.

Libya is a major oil producing country, with the largest oil reserves in Africa, producing nearly 1.8 million barrels a day in 2010. Removing Libya's oil supply from the global markets would cause oil prices to climb, if demand stayed the same. Bank of America Merrill Lynch announced on Thursday that it expected to see Libyan oil production "shut down completely" for a "prolonged period." This spiked oil prices to highs not seen since 2008. Higher fuel costs would stress consumers, directly and indirectly. It would also hinder any nascent economic recovery.

Meanwhile, the Federal Reserve is continuing its current QE2 schedule via POMO. It pumped \$20Bn into the financial system this week. There is already talk of a following round of quantitative easing. As protests break out around the world, and higher food and oil prices threaten our economic recovery, the Fed is in a difficult situation. As discussed in last week's *Stock World Weekly*, its only means for "growing" the U.S. economy is wreaking havoc on other countries. As we export inflation, other countries will import it back to us - an economic equivalent of karma.

Other countries are openly blaming the Fed's policies for their economic troubles. Ben Bernanke has rejected their complaints, calling them "unfair" because "emerging markets have all the tools they need to address excess demand in those countries."

But Bernanke's denial is a big baloney sandwich because the U.S. Dollar represents about 60% of all the money in the world, and most world trade is denominated in U.S. Dollars. As the Dollar supply increases, so does the price of commodities. "In accounts of the political unrest sweeping through the Middle East, one factor, inflation, deserves more attention. Nothing can be more demoralizing to people at the low end of the income scale—where great masses in that region reside—than increases in the cost of basic necessities like food and fuel. It brings them out into the streets to protest government policies, especially in places where mass protests are the only means available to shake the existing power structure." (George Melloan, WSJ)

We have been watching the 100% levels on the five indexes we track (Dow, S&P, Nasdaq, NYSE and Russell 2000) since the February 13, 2011 issue of *Stock World Weekly*. We used these levels as signals for turning more bullish as we adjusted our allocation to 20% bullish, 15% bearish and 65% in cash.



Considering that we have had a 100% run up in equities since the market bottomed in March of 2009, a pullback like the one this week was well overdue and not surprising. Quoting Phil, "How silly would it be NOT to have a pullback off a 100% run?"

This week's correction gave us some great trading opportunities. In spite of our concerns about the global economy and the fundamentals of the stock market, the Fed's money printing ways are keeping us cautiously bullish, if only on an artificial and technical basis.

Monday Market Movement - Equities Rising on “Rivers of Blood”



The U.S. stock markets were closed on Monday in observance of Presidents' Day.

Ongoing rioting in the Middle East reached a fever pitch in Libya this week as the regime of Muammar al-Gaddafi tottered in the wake of massive protests. Hundreds were reported to have been killed by forces loyal to the regime, although accurate numbers are extremely difficult to obtain. There are reports of 230 killed and another 30 critically injured in just one military action in Benghazi. On Monday, two Libyan Air Force colonels refused orders to drop bombs on protestors and instead flew their fighter jets to Malta and defected.

In Bahrain, protests continued in the face of deadly opposition as the government released a statement saying that seven people had died during the protests, and 25 remained hospitalized. Protests in Bahrain are notable because this is a country with a high Human Development Index, religious tolerance, substantial personal freedom, and a significant middle class. Even so, its population rose in opposition to government forces and exploded into open conflict.

The inflationary tide unleashed by Bennie and The Fed is becoming a larger problem than many governments can handle. Some governments are taking conciliatory measures even before significant protesting breaks out. For example, the King of Saudi Arabia ordered a \$37Bn handout to lower and middle income people to help offset inflation. Others are embarking upon preemptive strikes to stop protests before they begin.

In China, authorities are trying to keep social unrest under control and are taking

major steps to head off a so-called “Jasmine Revolution” that has gained support among dissidents. Activists attempted to rally against the current system of one-party rule and encouraged people to publicly demonstrate and “seek freedom and democracy.”

Authorities responded by taking top Chinese human rights activists into custody, shutting off phone and internet service to others, and sending hundreds of police officers to planned protest sites to intimidate potential protestors. At Beijing's Wangfujing shopping district, at least two protestors were taken away by police, one for cursing and one for shouting “I want food to eat,” a phrase Chinese activists instructed protestors to shout. (Arrests after “Jasmine Revolution” call in China)

Asia Pacific News reported that large police contingents were planted at designated protest spots in Shanghai, Harbin, Guangzhou and Chengdu. “I don't think the call to protest was serious, no one really intended to protest because there are too many police...By taking this so seriously, police are showing how concerned they are that the Jasmine Revolution could influence China's social stability.” (Human rights lawyer Li Jinsong, quoted by AFP.)

Thus, in China, inflationary and social pressures, and the people's growing desire for democracy, are meeting with the government's notorious willingness to suppress any dissent.

These events set the stage for the stock market to uncharacteristically tumble on Tuesday.

Testy Tuesday - Drop 'Till They Prop'



The markets dropped dramatically on Tuesday. Turbulence in Libya drove oil prices higher and investors reacted to its potential impact on the global economy. The markets had their worst day in weeks as declining stocks outnumbered advancing stocks by six to one.

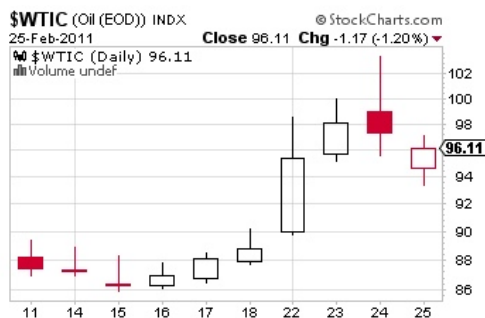
2/22/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,213	1,315	2,756	8,311	813
PREVIOUS	12,391	1,343	2,834	8,508	834
% CHANGE	-1.44	-2.05	-2.74	-2.32	-2.51

Oil traders reported that Libya had declared "force majeure" on shipments from some ports. This declaration frees companies that contracted with Libya for oil from delivering on their contractual obligations due to circumstances beyond their control. According to trade sources, "Operations at Libyan oil ports were disrupted by a lack of communications as the revolt against Libyan leader Muammar Gaddafi continued." (Libya puts force majeure on some fuel exports-sources)

The price of oil spiked up sharply, up 6.15% to \$95.23, as rapidly escalating violence in Libya knocked out at least half of the country's oil production, according to industry executives. (Libyan Shutdowns fuel oil surge)

Libya is the first OPEC country to be affected by the crisis that began in Tunisia and spread to Egypt, Bahrain, Yemen and elsewhere. Concerns that other oil exporting countries would get caught up in the swelling tide of popular revolt rocked the markets. Protests broke out in Iran as activists opposing the Ahmadinejad regime took to the streets, inspired by the wave of uprisings sweeping the region. More demonstrations are planned.

Thousands of protestors in Iraq gathered in Liberation Square to express their grievances about corruption and repression, while Iraqi security forces launched a campaign of intimidation and threats of violence. Like Libya, Iraq is a major oil exporter, and if its oil production is disrupted, the impact on oil prices could be substantial. As you can see from the charts below, prices of oil and oil



stocks reacted very positively to the bad news.

Last Sunday, Phil posted five energy trade ideas which are discussed in the inset box to the right. (Charts of the underlying stocks are on the previous page.) The trades were designed to take advantage of selling option premium while benefiting from a bullish performance. These trades have done rather well this week.

We were well positioned to take advantage of Tuesday's tumbling market. Phil emailed a trade alert on Monday morning based on shorting the Dow futures: *"If you think you are too long this morning (and I REALLY hope no one who subscribes here is), then the Dow futures can be shorted at 12,350 or lower as that's about where we got that moronic stick on Friday. So we can assume the action above that level was fake, Fake, FAKE. We need to watch our 100% levels of: Dow 12,938, S&P 1,332, Nasdaq 2,530, NYSE 8,362 and Russell 800 (100% was 685). But, of course, it's hard to determine anything from what goes on in the futures."*

Phil followed up on this idea on Tuesday, writing: *"Actually, I'm feeling double super good about this particular drop as yesterday's Member Alert had the very well-timed pick to play the Dow futures short on the 12,350 line. We already got a nice, fat 100-point drop below 12,250 this morning and, at \$5 per point per contract - that's a nice cushion!"*

As the markets wound down for the day, the VIX had gone back up to 20.95. Phil commented, *"We are BACK IN BUSINESS!"* An increase in market volatility gives us better prices for the options we sell, so this is great news.

Inside Member's Chat:

Tusca asked Phil: *"Which smaller US and Canadian oil companies (or drillers) are likely to be acquisition targets for domestic or international majors?"*

Oil/Tusca - Scott [of Sabrient] likes DVN as one of Sabrient's top five risers. It has been ramping up in price but is still an attractive value if oil prices hold up. I'm more comfortable with a setup to buy it cheaper, selling the 2013 \$75 puts for \$7.60, buying the \$80/100 bull call spread, for \$11.20 for net \$3.60 on the \$20 spread that's \$8 in the money.

ECA is not bad either, having a mix of gas and oil. At \$30.97, it makes a nice buy/write, selling the 2013 \$30 puts and calls for \$9 for a net \$21.97/25.96 entry. (For more on buy/writes and "net \$21.97/25.96" terminology, [click here.](#))

NFX is similar to ECA. I like the Oil & Gas guys because low natural gas prices are dragging their oil valuations down while everything else is running wild. The Jan \$50/65 bull call spread for \$11 can be offset with the sale of the 2013 \$60 puts at \$8 for net \$3 on a 100% in the money \$15 spread and about \$14 in margin plus the cash.

XEC is much more gassy than oily. It's a solid company and small enough to be acquired easily. The 2013 \$100/125 bull call spread is just \$13 and you can sell the 2013 \$90 puts for \$10 with the stock at \$114.62, so that's net \$3 for a spread that's \$14 in the money and about \$18 in margin. We'll get a 20% discount if the stock is put to us so it's a very fair way to play.

UPL is also gassy and it just missed its Q. It's a good pickup assuming it holds the 200 dma at \$45. Thanks to the sharp dive, we can sell 2013 \$40 puts for \$4.50 and buy the Jan \$35/50 bull call spread for \$8.75, for net \$4.25 on the \$15 spread that's \$10 in the money with \$8 in premium on the long puts.

Will We Hold It Wednesday - Doubles in Trouble

Stocks declined again on Wednesday. Deepening chaos in Libya pushed NYMEX crude higher, breaking \$100 a barrel before pulling back to end the day at \$98.44. Brent crude went up to \$111.

2/23/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,106	1,307	2,723	8,293	800
PREVIOUS	12,213	1,315	2,756	8,311	813
% CHANGE	-0.88	-0.61	-1.21	-0.40	-1.64

Over the weekend Phil posted an in-depth article titled [“Fibonacci Rules - Sometimes, the Old Ways Are the Best!”](#) which covers the significance of Fibonacci numbers and how they help determine support and resistance levels. These levels are useful in making trading decisions. We are watching our 100% levels (Dow 12,938, S&P 1,332, Nasdaq 2,530, NYSE 8,362), and our target for the Russell 2000 is 800 (100% was 685). As of Wednesday, only the Nasdaq and the Russell were holding those levels.

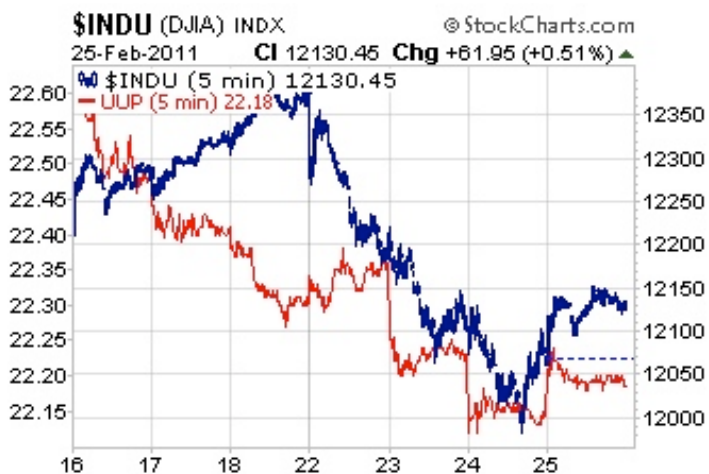
The U.S. Dollar and U.S. Treasuries have traditionally been considered safe, low risk investments. There has been a consistent pattern of “when the Dollar pops, the markets drop,” that we have been charting. This week, however, the Dollar declined and the prevailing pattern of the Dollar moving

inversely to the markets broke down. (See the chart of the INDU versus UUP, a Dollar proxy, below.)

Considering the extreme turmoil presented by current events in Asia and the Middle East, it might seem that the U.S. Dollar should be gaining popularity. No such luck this week, as the Dollar lost it’s appeal as a safe haven. Both the markets and the Dollar dropped in tandem most of the week, though both recovered somewhat at the end of the week.

Wednesday’s 5-Year Treasury auction didn’t go very well, as Zero Hedge reported *“That we could have such a weak auction in a day when risk is surging, is a stunner. Have gold and silver finally become the widely accepted new risk avoidance products, instead of the USD and the UST? If so, that is a far bigger revolution than anything happening in the Maghreb now.”* ([Very Weak 5 Year Auction Raises Speculation That Neither US Dollar nor Treasuries Are Flight To Safety Any Longer.](#))

The National Associations of Realtor’s (NAR) Existing Home Sales report on Wednesday showed an increase in sales of 2.7% in January. Median prices, however, fell to a nine-year low. This news was followed on Thursday with the U.S. Commerce Department’s report showing a one month decline of 12.6% in NEW Home Sales in January, compared to December. There was also an 18.6% decline compared to January, 2010. However, early 2010 sales were inflated by the home buyer tax credit that expired last April. News also came out indicating that the housing crash may have been more severe than initially thought, as the NAR is now examining the possibility that it over-counted U.S. home sales since 2007.



Technical Thursday - The Needle and the Damage Done

Thursday was a turbulent day for the markets. Indexes were down most of the day before recovering in the afternoon and ending with mixed results. Oil continued to rise but pulled back in the afternoon as **unconfirmed rumors that Muammar al-Gaddafi had been assassinated** hit the wires. Those rumors were disproven after the markets closed.

2/24/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,069	1,306	2,738	8,276	804
PREVIOUS	12,106	1,307	2,723	8,293	800
% CHANGE	-0.31	-0.10	+0.55	-0.20	+0.57

Phil discussed the impact of quantitative easing on the U.S. stock market, using the analogy of a heroin addict suffering from withdrawals to describe how the stock market, addicted to Bernanke's "easy money," crashes hard when it doesn't get its "fix" of POMO Dollars. Just like a heroin addict who suddenly gets his hands on the drug, everything seems wonderful...until the heroin wears off and it's time for the next injection.

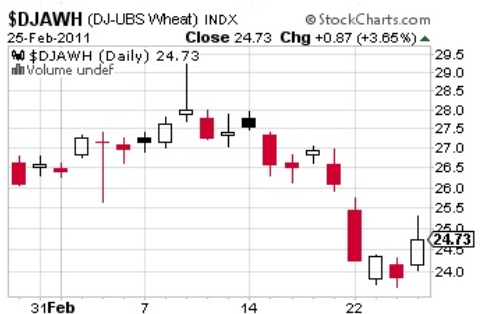
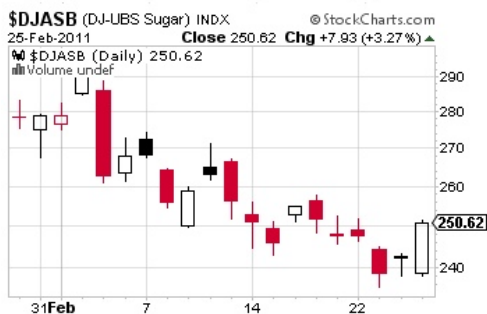
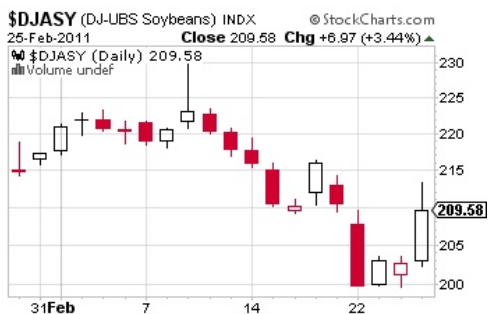
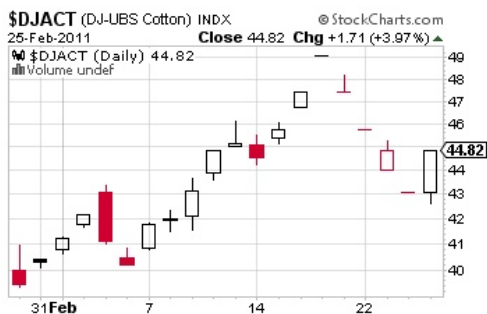
Commodities pulled back from their recent highs as the speculative fervor ran headlong into reality. (See the charts of cotton, soybeans, sugar and wheat below.) End users are becoming less able or unwilling to pay current prices and are cutting back on demand. *"Inflation is starting to slow China's mighty export machine, as buyers from Western multinational companies balk at higher prices and have cut back their planned spring shipments across the Pacific."* (Inflation in China May Limit U.S. Trade Deficit)

The U.S. Dollar continued to drop from Tuesday's high of 78.2 to a low on Friday of 77. Phil wrote, *"We need to hold that 77 line, otherwise there will be no holding back runaway commodity prices. It's a cycle that feeds on itself. Commodity prices rise, the Fed prints money, the Banksters use the money to buy more commodities, and the Fed prints more money. The World loses faith in the validity of the fake money (since foreigners are not that stupid) and commodity prices rise relative to the Dollar, making the IBanks rich. The Fed then prints more money to "help" and gives it to the IBanks which*

(surprise) buy more commodities. Just yesterday CNBC found someone to say oil would hit \$220 a barrel.

Really? You know we're at a top when those guys come out of the woodwork."

As it turned out, the Dollar rebounded off the 77 line on Friday, recovering modestly to end the week at 77.2.



Fuggedaboutit Friday - Dip? I Didn't See No Dip?

Investors came back into the stock market on Friday as oil prices retreated from Thursday's highs and the [Reuter's/University of Michigan Consumer Sentiment index](#) reported an increase from January's 75.1 to 77.5 while the [Bloomberg \(Formerly ABC News\) Weekly Consumer Comfort Index](#) showed an improvement to -39.2 from last week's -43.4 (The index goes from -100 to +100, with 0 indicating a completely neutral bias in consumer sentiment.) Friday was also a POMO day, with \$7.24Bn in Outright Coupon Purchases accepted by the Fed.

2/25/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,130	1,320	2,781	8,378	822
PREVIOUS	12,069	1,306	2,738	8,276	804
% CHANGE	+0.51	+1.06	+1.58	+1.23	+2.21

With all the bad news we have been reading, and numerous factors that would normally make a persuasive bearish argument for the stock market, the Federal Reserve's continuing program of quantitative easing has created a situation where we have to simply say "Fuggedaboutit!" The prevailing wisdom of "Just Buy the F'ing Dips" continues to make sense in this environment - that is, it does until it doesn't.

While we are cautiously becoming more bullish, it is very important to remember that there is no rush to buy. As the five indexes we track (Dow, S&P, Nasdaq, NYSE and Russell 2000) began to break above our breakout targets, we began to roll into a more bullish position while remaining "cashy and cautious." Why do we do this?

So that we have cash to make plays like this one, which Phil posted in Thursday's Morning Alert to Members: *"I'm going to cut commentary short to say PCLN March \$445 puts are \$8.50 and were \$40 yesterday. Figure half of that was earnings premium and the puts are still down a*

“It's OK to be bullish but you have to know how to slap on the defenses when it all hits the fan. Don't stand there like a deer in the headlights when the market moves against you. This reminds me of two oldie but goody articles written by Option Sage and me back in the Summer of 2007, when the markets were rocky and Sage wrote: *'Don't Just Stand There, Do Something'* to which my counterpoint the next day was *'Don't Just Do Something, Stand There.'* Members will recognize both techniques can be used simultaneously as we navigate these very choppy market waters and, if you haven't read them before - now is a perfect time to get a feel for our core philosophies.” - Phil

ton, so it's not unreasonable to play them expecting to get back to \$12. You can hedge it by selling the NEXT WEEKLY \$450 puts at \$4.50 in whole or in part, but I'd go for the naked puts at the moment.” This trade idea netted a 41% gain by 11:15 am, and is a good example of a “hit and run” play that can be made with the cash kept handy by being “cashy and cautious.”

We have been making trades in Phil's “\$25KP” (\$25,000 to \$100,000) portfolio, which was started on January 31 and is now up \$2,531 to \$27,531 for a gain of over 10% in under a month. Pharmboy's spreadsheet of this portfolio is here. One of our favorite ways to grow our profits is by selling options, and when the VIX goes up, so does the premium in the options that we sell to other people. As Phil explained,

“For example, we can get paid \$1.55 to promise to buy CSCO for \$17.50 in January. CSCO is \$18.40 now, so buying it for \$17.50, less

the \$1.55 we are being paid now to promise to buy it (we sell a Jan \$17.50 put) nets out to paying \$15.95 to buy CSCO. That's 13.3% less than it costs now. Even better, the net margin on this transaction (according to ThinkorSwim) is \$2.75. Even if you allocate 50% margin to the possibility of owning CSCO at \$15.95, that's still \$1.55 paid on \$8 (50% of \$15.95), which is 19.37% in 10 months and you get paid in full as long as CSCO doesn't GO DOWN 90 cents. Getting paid 20% if a stock doesn't go down 5% - BRILLIANT!

"I was invited to speak to an investing group last month and it was amazing to me how few people utilize even the simplest of hedging strategies like this to enhance their portfolio performance. If you REALLY want to be a long-term owner of CSCO - what is the downside? If you were going to buy it now and buy more if it

Inside Member's Chat:

Tusca asked Phil: *"Are you still advising about 65% cash position going into the weekend?"*

65% cash/Tusca - Oh yes! We need to get over ALL 5 of our 100% lines before getting gung-ho bullish, so it's short-term trades with cash until then. Your short-term trades can lean bullish of course but you really don't want to tie up too much cash when we could wake up Monday to \$120 oil or riots in London or Paris or maybe even Detroit or Chicago. New Jersey teachers sound ready to riot. I met with some yesterday and Governor Christie is looking to cut another \$1Bn off the school budgets (after cutting \$1Bn last year) WHILE OFFERING NEW VOUCHERS so poor people can pay for rich kids to go to private schools!

got cheaper (dollar cost averaging), why not skip a step and just buy it cheaper now? That, in a very brief nutshell, is what we try to teach people at PSW. You don't have to be the sucker buying premium and watching time eat away your positions. You can be the guy selling premium and taking worry-free vacations."

The spike in oil prices was a major story this week, as the price of oil has far-reaching effects the global economy. Commodities, and in particular grains, took a hit but recovered somewhat on Friday. *"Some of the very large hedge fund-type traders were lightening up on grain since last week and were aggressive sellers lightening up for the early part of this week -- until today, really,"* said Terry Roggensack of commodity research firm The Hightower Report. *May wheat prices settled Friday's trading session at \$8.11 ¼ a bushel, up 3.7% and May corn settled at \$7.22 a bushel, up 3.7%. Soybeans for May delivery closed at \$13.75 a bushel, up 3.4%. The surge in wheat and corn prices were based on strong fundamentals, but soybeans were merely rebounding in sympathy."* (Grains Rise on Calmer Oil Prices)

While speculators may be jumping back into commodities and driving prices up again, we can't help but notice how cotton fell 19%, from \$210 to \$170 this week, hitting limit down two days in a row, before rebounding to \$191.34. Drops like this are a good example of Phil's "Roach Motel Theory" of commodity trading. Speculators check in but they can't check out.

This week, the impact of POMO, and the resulting debasing of the Dollar, helped the price of cotton and other commodity prices to partially recover. It is a good idea to be aware of the fundamental factors in play. This is true even during times when overriding factors like quantitative easing muddy the investing picture.

The Week Ahead

On Saturday, February 27, the Security Council of the United Nations (UN) voted unanimously to institute sanctions on Libya, including travel bans and freezing the assets of Muammar al-Gaddafi and others associated with his regime. Protests have dragged into their twelfth day, and protestors refuse to yield in the face of utterly horrific retaliation by Gaddafi's loyal forces. U.S. ambassador to the UN, Susan Rice said, *"When atrocities are committed against innocents, the international community must act with one voice - and tonight it has."*

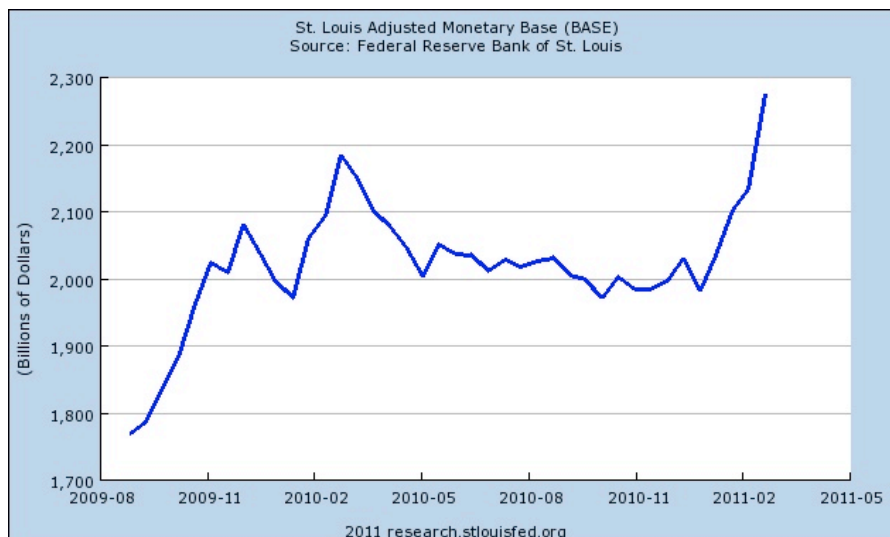
The Telegraph reported over the weekend that Gaddafi apparently made good on his threats to trigger a civil war, using irregular forces largely composed of hired mercenaries to launch a counterattack against protesters. *"Anywhere we go there is danger,"* said one woman, a 28-year-old mother of four who asked not to be named. *"All we want is food and fresh water for our children but it is impossible to find. Security is the only concern of the authorities."*

An accurate report of the death toll is impossible to obtain at this time, but on Wednesday, Italy's Foreign Minister, Franco Frattini said, *"We believe that the estimates of about 1,000 are credible."* The situation in Libya has deteriorated since then. Multiple stories coming in from all over the country have cited dozens to

hundreds of casualties in each city. It appears that Libya has slipped into the abyss of complete social breakdown and civil war.

This is just one example of the tide of popular unrest that has been unleashed in the wake of the Federal Reserve's and other central banks' inflationary policies. The chart below shows the U.S. Adjusted Monetary Base increasing from \$1.75Tn in 2009, to \$2.0Tn in 2010, and now nearing \$2.3Tn, an increase of \$300Bn in just two months! This represents an increase of 35% in less than 18 months. (The U.S. Monetary Base is the total amount of currency that is circulating in the hands of the public or in the commercial bank deposits held in reserves of member banks of the Federal Reserve System.)

Another revolt of a more peaceful nature took place in Ireland. The long-dominant Fianna Fail party was brutally rejected by Irish voters, taking just 15.1% of the vote and losing 58 seats in Parliament. Opposition party Fine Gael won 36% of the vote, and is expected to form a coalition government with Labour, their traditional partner and winner of 20.5% of the vote. Leaders of both Fine Gael and Labour have both promised that they will renegotiate the EU-IMF austerity program and force financial investors to shoulder some of the bank debts that are currently being paid by taxpayers.



Meanwhile, in the United States, conflict between public labor and Republican leaders is now spreading in the wake of a standoff between Wisconsin public Union members and Republican Governor Scott Walker. Protestors in other states are demonstrating in sympathy. Thousands of people marched in support of Wisconsin's Union protestors in Indiana and Ohio. In Ohio, so many Union activists arrived at the Statehouse that police locked the doors.

In these stories and more, there is a common theme being expressed. All over the world, in countries as far apart and diverse as Egypt and Vietnam, Ireland and Libya, Bahrain and the United States, people are standing up and saying “No more concessions, no more cutbacks, no more bailouts, no more austerity, no more!”

The irresistible forces unleashed by the global financial crisis have run headlong into the immovable objects of popular dissent and disgust. People are fed up with corruption and financial shenanigans, and there is little doubt that regardless of the outcome, things are going to get mighty interesting.

We are continuing to monitor our must hold levels, especially our 100% lines. As of now, the five indexes we track are all above their “Major Breakout Levels” and three are above the 100% levels. If all five indexes break above the 100%

levels, we will revisit our current allocation of 20% bullish, 15% bearish and 65% cash.

On Saturday, Phil posted an in-depth article titled “[Warren Buffett’s Secret to Making 100% a Year.](#)” He wrote, “*Did Warren Buffett make this money swinging for the fences? Not at all. In 45 years, Berkshire only returned more than 20% half the time (22). Like we do, Warren Buffet aims to make 20% a year - anything above that is just gravy.*” The article discusses our investing approach and methods, and is highly recommended reading.

This week’s long trade idea comes from Pharmboy. As a speculative play in the biotech field, Pharmboy likes the healthcare company OPKO Health, Inc. (OPK). OPKO is involved in discovering, developing and commercializing pharmaceutical products, vaccines, medical devices, and diagnostic and imaging technologies. The company seeks to address medical needs in the areas of oncology, infectious diseases, and neurological disorders. Recently, insiders have been buying shares and now own about 60% of the float. Kathy Shwiff in the WSJ [reported](#): “Phillip Frost, chairman and chief executive of Opko Health Inc., sharply escalated his purchases of the health-care company’s shares last month, and another insider bought shares too.” Dr. Frost is a former dermatologist and billionaire who has built up and sold other pharmaceutical companies. He was chairman of Ivax Corp, which was bought by Teva Pharmaceutical Industries Ltd., and he is now Chairman of Teva. An Opko spokeswoman said Dr. Frost is constantly buying shares, which reflects “his tremendous confidence in the company.” (Opko CEO Adds to Buying, WSJ)

According to Pharmboy: “*With the recent pull back in the stock, it is time to consider an initial 1/4 round of shares under \$4.50. Options are lightly traded, but the September \$5 Puts seem to be a favorite, so selling a 1/4 entry (\$1.20 or better) might be good for another round of stock if it gets put to you. This is a small cap stock, and no more than 3-5% of a portfolio should be dedicated to these types of companies.*”

Watching Must Hold Levels

2/27/11	Dow	S&P	NAS	NYSE	Russell
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



For another trade idea, we revisited the [virtual portfolio of Dark Horse Hedge \(DHH\)](#). DHH is a joint effort between [Sabrient](#) and [Phil's Stock World](#). Long and short positions are selected based on Sabrient's ratings and, in many cases, Phil's option strategies are used to enter positions.

[DHH shorted Green Mountain Coffee Roasters \(GMCR\) on October 21, 2010.](#) Since then, GMCR has run up from \$31.55 to 41.57. Because Sabrient's ratings are based on fundamental analyses, the stock climbing nearly 25% doesn't change its "Strong Sell" rating. If anything, it provides more reason to believe the stock is overvalued. Moreover, the SEC is informally investigating the company's accounting practices and several former employees are suing it.

In a recent article about GMCR, Herb Greenberg wrote: *"Usually I ignore reporting on lawsuits because anybody can say anything in a lawsuit. But a class action lawsuit filed earlier this week against Green Mountain included allegations from several former employees of Green Mountain and its fulfillment partner, M. Block & Sons, that, in the very least, should raise eyebrows."* (Read more here: [Former Employees Make Allegations Against Green Mountain.](#))

With the stock significantly higher than DHH's initial entry, we still think it is overvalued, and if the virtual DHH portfolio wasn't already short, it might proceed to short GMCR now.

Next Week's Economic Calendar

Monday 28	Tuesday 1	Wednesday 2	Thursday 3	Friday 4
8:30 AM: Personal Income and Outlays	7:45 AM: ICSC-Goldman Store Sales	7:00 AM: MBA Purchase Applications	8:30 AM: Jobless Claims	8:30 AM: Employment Situation
9:45 AM: Chicago PMI	8:55 AM: Redbook	7:30 AM: Challenger Job-Cut Report	8:30 AM: Productivity and Costs	10:00 AM: Factory Orders
10:00 AM: Pending Home Sales Index	10:00 AM: ISM Mfg Index	8:15 AM: ADP Employment Report	9:00 AM: 3-Year and 10-Year Note Announcements	3:00 PM: Treasury STRIPS
11:00 AM: 4-Week Bill Announcement	10:00 AM: Construction Spending	10:00 AM: Ben Bernanke Speaks	10:00 AM: ISM Non-Mfg Index	
11:30 AM: 3-Month and 6-Month Bill Auctions	11:30 AM: 4-Week Bill Auction	10:30 AM: EIA Petroleum Status Report	11:00 AM: 3-Month and 6-Month Bill Announcements	
3:00 PM: Farm Prices	No time given: Motor Vehicle Sales	2:00 PM: Beige Book	4:30 PM: Fed Balance Sheet	
POMO DAY (\$5Bn - \$7Bn)	POMO DAY (\$1.5Bn - \$2.5Bn)	POMO DAY (\$5Bn - \$7Bn)	POMO DAY (\$6Bn - \$8Bn)	POMO DAY (\$1Bn - \$2Bn)

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