STOCK WORLD WEEKLY
THE EXECUTIVE'S SUMMARY | OF THE GLOBAL MARKETS

Dow Jones	12,170	(+0.3%)
S&P 500	1,321	(+0.1%)
NASDAQ	2,785	(+0.1%)
NYSE	8,413	(+0.4%)
Russell 2000	825	(+0.4%)
Oil	104.59	(+6.5%)
Gold	1429	(+1.4%)

THIS WEEK'S NEWSLETTER:

Forward, backward, inward, outward
Come and join the chase!
Nothing could be drier
Than a jolly caucus-race!

- Jolly Caucus Race

The recent activity of the markets reminds us of the "Jolly Caucus Race" lyric from the old Disney classic "Alice in Wonderland." With the indexes bouncing up and down, and the Dow vacillating between 12,000 to 12,350 in the last three weeks, it is better to be "rangish" and cashy than bullish or bearish.

Accordingly, we have been discussing trade ideas with our Members that go in all directions, "Backward, forward, outward, inward, bottom to top." We started our $25,000 to $100,000 virtual portfolio (aka "$25KP") on January 31 and it is up almost 20% to $29,961 as of Friday, Mar 4. The reason this portfolio is doing so well is because we take advantage of moves in both directions and stay flexible, with cash ready to put into new opportunities.

During this recent choppy period, the biggest news in the financial world has been the price inflation that has been reverberating around the world. Runaway food prices provided the spark that touched off long-simmering resentments throughout the Middle East and North Africa. Once ignited, popular revolt led to the overthrow of the Tunisian and Egyptian regimes. It is now threatening to topple Gaddafi's regime in Libya. The crisis in Libya and the resulting slowdown in oil production has caused oil prices to jump to over $100 a barrel this week.

Amidst the action, the Al-Jazeera news network has been making headlines lately due to its excellent coverage from the epicenter of the turmoil in the Middle East and North Africa. Al-Jezeera's director-general, Wadah Khanfar, gave a TED talk on the sweeping change affecting the area. He began with a summary of the prevailing mindset in the region, which Khanfar described as a "sense of paralysis and inferiority," largely due to the negative affect of authoritarian regimes being in power for so long.

One hallmark of authoritarian regimes is the willingness to spend great sums of money and resources on "security" forces such as military and police. For example, Khanfar pointed out that Tunisia spent billions of dollars on its security and police infrastructure, yet the Tunisian government collapsed once people were willing to take to the streets and publicly demand a change.

A major factor facilitating the efforts of the people to organize and effect change in their governments is the new level of communication made possible by technology and the internet. As Khanfar opined, *"The internet and connectivity has created a new mindset"* and *"all of the old canards were deployed trying to keep the people divided and confused... Fortunately, people now cannot be deceived. The regimes have lost the power of deception."* Khanfar sees this wave of change in a very positive light. He continued, *"The youth have organized themselves into groups and councils...they are guarding the transformation and trying to put it on track to protect the values of democracy, but also to make it reasonable and rational. In my opinion, these people are much more wise than not only the political elite, but even the intellectual elite, even opposition leaders including political parties. At this point in time, the youth of the Arab world are much more wise and capable of creating change than the old political, cultural, and ideological regimes."*

Beyond the borders of the Arab world, demonstrations are being organized in countries such as Greece, Spain, India and even the United States, where outbreaks of labor unrest are occurring in the Midwest. The common theme among protesters is economic distress, caused either by austerity measures due to unmanageable debts, or by inflation driving up prices and making basic staples unaffordable for a majority of people. Individual cases share same basic complaint: "We cannot make do with any less, we cannot pay any more, we have reached our limit."

Deaf to widespread outcries of economic hardship, Federal Reserve Chairman Ben Bernanke testified before the Senate Banking Committee and when confronted with concerns about rising energy and commodity prices, Bernanke stubbornly insisted that inflation is not a problem. He maintained that higher energy prices might cause, at most, *"A temporary and relatively modest increase"* in U.S. consumer prices. He said rising global demand for raw materials together with supply constraints are largely responsible for recent price increases. He cannot or will not connect the dots between the Fed's program of quantitative easing--"money printing"--and higher prices. We have covered this extensively in previous issues of Stock World Weekly.

Phil commented on Bernanke's testimony in one word - a popular substitute for male bovine excrement that rhymes with "full hit." Phil then summarized the whole farce as being *"so ridiculous that I can't even bring myself to comment on it anymore."*

Monday Morning - The Calm Before the Storm

Monday, the last day of February, was a modest day up for the markets. New York Fed President William Dudley gave a lecture at New York University's Stern School of Business where he argued that the economy has "improved considerably." Oil prices backed down from recent highs after Saudi Arabia pledged to cover any supply disruption at risk from Libya.

2/28/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,228	1,327	2,782	8,439	823
PREVIOUS	12,130	1,320	2,781	8,378	822
% CHANGE	+0.79	+0.56	+0.04	+0.72	+0.18

The price of oil has been a central story in the financial press, with the tensions in Egypt and Libya pushing oil prices to highs not seen in years. The crisis is causing different problems in the region, and different reactions. For example, the Saudi Arabian stock market has plummeted recently, with the Tadawul All Share Index dropping nearly 20% from February 12 to March 2.

Conflict in Libya escalated as rebels faced off against government forces in multiple cities, with the key oil port of Marsa El Brega coming under intense attack as irregular civilian militia forces defended the city from Gaddafi loyalists.

Shokri Ghanem, Chairman of Libya's National Oil Corp., told Reuters that supply reductions to world markets will drive the price of oil to more than $130 a barrel by next month if problems persist. In the Reuters interview, Ghanem said oil output had fallen to 700,000-750,000 barrels per day (bpd) from 1.6 million bpd, following the departure of thousands of foreigners who work for Libya's energy industry. (Libyan Oil Official warns of $130 Crude; Gaddafi Forces Capture Eastern Oil Plant)

Multiple trade ideas were discussed in Member's Chat on Monday, including one based on DIA puts and another based on TNA calls. Both trades hit our 20% gain targets and were closed out. Details are in the inset box below.

Inside Member's Chat:

At 10:50 am Phil posted: "DIA $120 puts at $0.88 are a good way to play a quick failure on the 12,220 line (very tight stops) if we go back below. Just a momentum trade looking for $1."

At 12:56 Yodi asked Phil: *"Very strange movements on TNA... Even the DOW is up 75 points (but) IWM and TNA are down now. Shouldn't they be running with the DOW?"*

TNA/Yodi – The problem is the ultra callers have a high internal VIX so when you sell them and the market drops and the VIX rises, you don't gain much ground at first.

Re: TNA – Chart looks like an exaggerated version of the RUT to me. It is down a bit more than the RUT at the moment so, since we hit our goal on the DIA puts, it could be fun to grab the TNA $84 calls at $3.30, which were $4.80 this morning – looking for a bounce. A 10% risk down to $3 would be the way to play, or use the 817 line on the RUT as a sign to get out. Making 20% would be $3.90ish so that should be goal for the 2:30 stick rup up. Done with DIA $120 puts at $1.06, of course.

At 4:01 Manimal wrote, *"TNA! Nice trade Phil - out @$3.90. I'm going to go reward myself with a $4 cup of joe on the corner of 50th and 2nd."*

Testy Tuesday - 1,333 or Bust - Again!

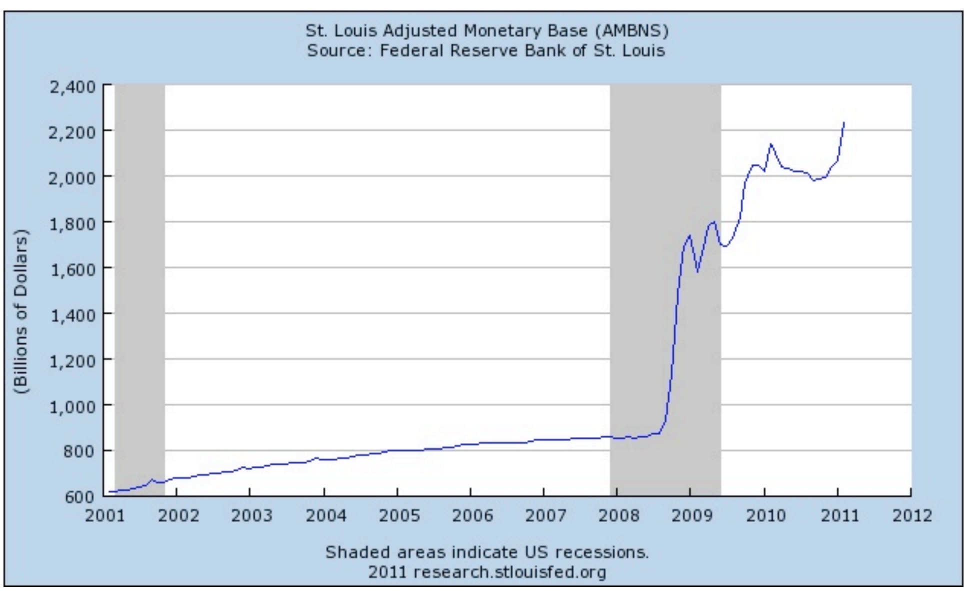
The first of the month has been a solid win for the markets for the last seven months in a row, but that streak was broken Tuesday. Turmoil in Libya and worries about the stability of Saudi Arabia helped drive the price of oil up over $100 a barrel. Concerns about the impact of higher oil prices on the global economy weighed heavily on the markets.

3/1/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,058	1,306	2,737	8,316	807
PREVIOUS	12,226	1,327	2,782	8,439	823
% CHANGE	-1.39	-1.59	-1.61	-1.45	-1.99

We have been repeatedly critical of the Fed's policy of quantitative easing (QE). The Fed has been pursuing QE since late 2008 and is now in its second round, "QE2." With this policy, the Fed has increased the U.S. monetary base (see chart below), debased the Dollar, and set the inevitable wheels of inflation in motion.

Bernanke's testimony before the Senate Banking Committee on Tuesday focused primarily on unemployment and inflation. Bernanke stated his position that inflation in the U.S. is "low." He testified, *"Inflation has declined, on balance, since the onset of the financial crisis, reflecting high levels of resource slack and stable longer-term inflation expectations. Indeed, over the 12 months ending in January, prices for all of the goods and services consumed by households (as measured by the price index for personal consumption expenditures (PCE)) increased by only 1.2 percent, down from 2.5 percent in the year-earlier period."*

Bernanke then declared, *"Although overall inflation is low, since summer we have seen significant increases in some highly visible prices, including those of gasoline and other commodities. Notably, in the past few weeks, concerns about unrest in the Middle East and North Africa and the possible effects on global oil supplies have led oil and gasoline prices to rise further. More broadly, the increases in commodity prices in recent months have largely reflected* ***rising global demand for raw materials, particularly in some fast-growing emerging market economies, coupled with constraints on global supply in some cases****. Commodity prices have risen significantly in terms of all major currencies, suggesting that changes in the foreign exchange value of the dollar are unlikely to have been an important driver of the increases seen in recent months."*



Bernanke is conveniently overlooking that the U.S. Dollar represents about 60% of all the money in the world. However, we are hardly surprised by this oversight, as Bernanke appears to be quite willing to distort the facts. As David Fry pointed out: *"Bernanke gave his senate testimony and mostly lied his way through it. I've given up trying to be ambivalent about this since the lying and spin should upset everyone. The 'core rate' nonsense is a manipulated smoke and mirrors diversion from the truth. Inflation is rising and we see it in our real daily experience."*

Bullish or bearish, we come up with trade ideas all the time. Regarding Monday's TNA / DIA trade ideas, Phil wrote, *"People ask us what kind of trade ideas we put up in chat – that's a pretty good example of our day trades. Of course, the day trades get all the attention because they are the fun ones. However, we advocate keeping the vast majority of a portfolio in long-term, well-hedged positions that you don't have to worry about. This leaves us free to hang out and chat and make a little money playing with our cash."*

One idea was suggested by Phil based on the QQQQ Weekly $56 calls. The results of this trade idea are in the inset box to the right and the chart below.

Inside Member's Chat:

At 1:50 pm Tuesday Phil posted: *"Nas testing that 2,750 line - if we're going to hold, this better be the spot... Oops, so much for that! QQQQ Weekly $56 calls are $1.24 so just .20 premium is fair enough to play for the stick (end of day run up). 2,750 is the on/off line and there's a penny spread so almost as good as the futures to play off that line."*

At 2:44 PM Phil followed up with: *"QQQQ at $56.82 and that has the Weekly $56 calls down to $1.07 and that's a good enough price to risk overnight."*

How did this work out? On Wednesday the following Members posted:

DClark: Out of QQQQ for 35%. Thank you Phil.

Manimal: Phil – Great call on the QQQQ's yesterday! Out of AAPL weekly puts as well with a nice gain. Cha-ching.

champ87: Great call on QQQQ!! Out with 42% gain. Thank you!

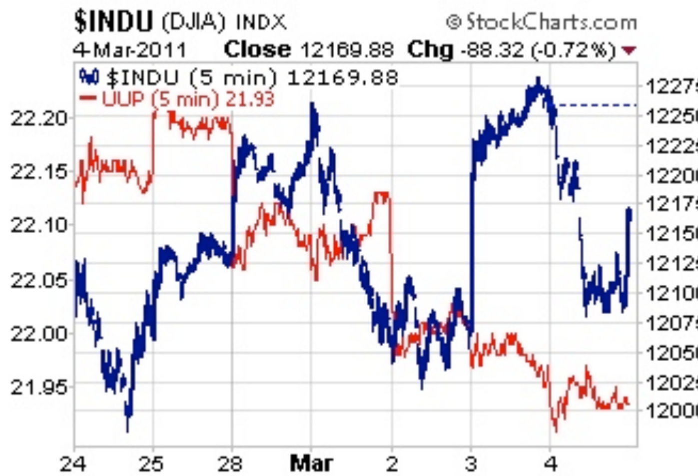
Wacky Wednesday - $100 Oil Equals No Inflation Says Bernanke

The markets managed to close slighly higher for the day while the Dollar dropped sharply, falling from 77.1 to 76.6 in the span of a few hours. As our INDU versus UUP (Dollar proxy) chart shows, the Dollar gapped down before the markets opened (chart on right). The Dow moved sideways, and oil ended the day up 2.72% to $102.34.

3/2/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,066	1,308	2,748	8,339	811
PREVIOUS	12,058	1,306	2,737	8,316	807
% CHANGE	+0.07	+0.16	+0.39	+0.28	+0.47

The Federal Reserved released the Beige Book on Wednesday. We have included this in a bonus section at the end of this week's newsletter, along with Phil's colorful commentary. The word "inflation" was not used once in the entire report, although the word "increases" was used eleven times, in the context of "price increases" and "cost increases." Ironically, this report, which so scrupulously managed to avoid mentioning inflation even once, came out on a day when oil topped out over $102 a barrel.

Ben Bernanke made a second appearance on Capitol Hill this week. His testimony on Tuesday that inflation is "low" was quickly challenged by Representative Ron Paul on Wednesday. Paul said that economists he follows believe consumer prices are rising at an annual rate of 9%, and the money supply is rising at an annual rate of 24%. *"I would suggest that we still have a lot of inflation in the system and it is going to get much worse... Inflation is exploding and interest rates are going to go up and we are going to have one heck of a problem in the*



future." (House Republicans rip into Fed chief Bernanke)

The crisis in Libya escalated on Wednesday, as the Gaddafi regime ordered airstrikes on rebel forces in Marsa el-Brega, where an Al-Jazeera journalist got video footage and a still photo of one of the attacks. Al-Jazeera's Tony Birtley reported, *"This doesn't seem to have been a full fledged assault, more like a probing attack, but it shows that Gaddafi's forces are strong. They can strike at will, and the Libyan leader shows no sign of giving up. Quite the contrary, he's hitting back."* As of the end of the week, rebel forces remained in control of the key oil port of Marsa el-Brega. While reliable reports are difficult to obtain, it appears the conflict has already produced thousands of casualties and there is little hope it will end soon.

Private-sector employment increased by 217,000 from January to February on a seasonally adjusted basis according to the latest ADP National Employment Report. This didn't have much effect on the markets as concerns about rapidly rising oil prices weighed on traders.

Forward Thursday - Nothing Could Be Drier than a Jolly Caucus Race!

Stocks powered higher Thursday, as a drop in initial jobless claims to 368,000 versus a consensus estimate of 400,000 fueled investors expectations of a good Non-Farm payroll report on Friday. Oil prices dropped on news of a possible peace deal being brokered by the Arab League. Oil ended down 0.34% to $101.88. The Dollar dropped from a high of 76.8 to close at 76.5.

3/3/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,258	1,331	2,799	8,465	829
PREVIOUS	12,066	1,308	2,748	8,339	811
% CHANGE	+1.59	+1.72	+1.84	+1.52	+2.22

European Central Bank President Jean-Claude Trichet gave a press conference on Thursday where he clearly pointed out his concern about inflation: *"The information which has become available since our meeting on 3 February 2011 indicates a rise in inflation, largely reflecting higher commodity prices. The economic analysis indicates that risks to the outlook for price developments are on the upside, while the underlying pace of monetary expansion remains moderate. Recent economic data confirm that the underlying momentum of economic activity in the euro area remains positive; however, uncertainty remains elevated. The current very accommodative stance of monetary policy lends considerable support to economic activity. It is essential that the recent rise in inflation does not give rise to broad-based inflationary pressures over the medium term. Strong vigilance is warranted with a view to containing upside risks to price stability."*

The phrase "strong vigilance" was interpreted by multiple analysts as code language for "upcoming rate hike at the next meeting." This strengthened the Euro, as investors concerned about the value of their currency being eroded by inflation were reassured by Trichet's comments that the European Central Bank would take a hawkish position on inflation. This is in sharp contrast to the accommodative policies of the Federal Reserve. The Fed is not only failing to signal any willingness to combat inflation, it even denies inflation exists. The result is clearly shown by the Euro vs. Dollar chart below, which shows the relative value of each currency over the last three weeks.

Commenting on price inflation, Phil wrote, *"Despite Ben's Jedi Mind Tricks ("this is not the inflation you are looking for"), those of us who are not "weak-minded" Congresspeople can clearly see that the price of everything is moving higher so let's not get all excited about the 6% rise in the S&P corresponding with a 6% drop in the value of our currency. Unless you are 100% invested in the stock market, you are losing out to the inflation Bernanke denies three times – even after inflation has risen. So we are thrilled that our dip buying of the last few days is paying off so well, so quickly, but we'll be taking this opportunity to once again "get cashy" into the weekend and press a few bearish bets – just in case 1,333 fails us again and the market takes us, once more, into the breach."*

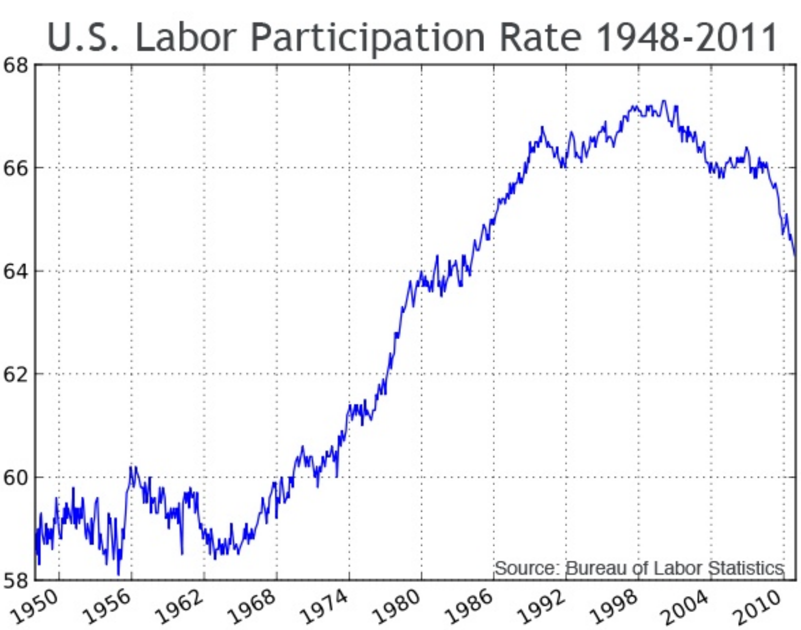
Friday's Market Blow - Jobs or No Jobs?

The markets were lower on Friday. Oil climbed to $104.59 at the close as Gaddafi continued to cling to power in Libya, and rebel forces battled government loyalists in multiple cities. Loyalists wrested control of Zawiyah (near Tripoli) away from the rebels, but were unable to recapture the port city and critical oil terminal Marsa el-Brega.

3/4/11	Dow	S&P	NAS	NYSE	RUT
TODAY	12,170	1,321	2,785	8,413	825
PREVIOUS	12,258	1,331	2,799	8,465	829
% CHANGE	-0.72	-0.74	-0.50	-0.62	-0.47

Non-Farm Payroll numbers came out Friday and showed 192,000 new jobs were created in February versus expectations of 196,000. The unemployment rate was little changed at 8.9%. Both the civilian labor force participation rate, at 64.2%, and the employment-population ratio, at 58.4%, were unchanged.

The chart below shows that the civilian labor force participation rate peaked between 1998 and 2000, and has since dropped off sharply. The U-6 "Total Unemployed" number is the broadest measure used by the Bureau of Labor Statistics in measuring employment. In February, U-6 was 16.7%. That is, 16.7% of the workforce is either unemployed, employed part time for economic reasons, or marginally attached to the labor force. This is a very high number historically.



Inside Member's Chat:

At 10:05 am Phil posted: *"DIA $120.75 puts, now .84, are still my favorites, happy to hold those over the weekend if they don't get over $1.15 today."*

At 12:47 Phil wrote: *"Woo hoo on those DIA puts! $1.50! Obviously a .20 trailing stop is now prudent."*

The DIA March 2011 120.75 puts went to a high of $1.64 before pulling back to end Friday at $1.22.

Phil talked about his reasons for feeling more bearish about the markets: *"For one thing, we like to go bearish when the market is testing the top of its channel as there is generally a higher probability that it will drop rather than pop back over.*

"Secondly, it's not just the Federal Reserve that is in denial, but the commodity speculators, the equity investors and even the bond investors. They ALL believe they are going to get paid while MATH says that's not even remotely possible."

The Week Ahead

After all the activity this week, we find ourselves looking ahead with exactly the same unbroken levels we were looking at last week (below). The Dow and the S&P have failed to break above and stay above their 100% lines. We maintain our previous position that based on a technical reading of the market, it could keep going higher, while based on fundamentals, we find many reasons to be cautious. We are therefore staying "cashy" and trying to take advantage of opportunities that present themselves to us.

Michael Snyder, author of the blog "Economic Collapse," wrote a disturbing piece summarizing the Fed's monetary policy of holding interest rates near zero and continuing QE2:

Watching Must Hold Levels

3/6/11	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

"The truth is that the entire world is still trying to recover from the last financial crisis. The Federal Reserve is pumping massive quantities of dollars into the U.S. economy in an attempt to stimulate it back to life, but so far it is not working too well.

"The rest of the world does not appreciate all of this 'money printing" and the inflation that this is causing is beginning to create massive imbalances on global financial markets.

"The world is starting to lose faith in the U.S. dollar. Right now, approximately 85% of all foreign-exchange transactions in the world involve the U.S. dollar. Not only that, 60% of all the currency reserves in the world are in U.S. dollars. With the U.S. dollar rapidly becoming less stable, many are now wondering if it should continue to be used as the reserve currency of the world.

"The truth is that if the U.S. dollar falls, it is going to create a tremendous amount of financial chaos in almost every nation on the globe.

"Unfortunately, as I have written about so many times previously, the U.S. economy is dying. The U.S. government is absolutely drowning in debt, and leaders all over the planet are calling for the establishment of a new global reserve currency." (Wars, Rumors Of Wars, Skyrocketing Oil Prices And Global Economic Chaos - Why Is All Of This Happening?)

Dollar devaluation and widespread price inflation may be unintended consequences of the Fed's monetary policies, though some may argue the Fed's actions are designed to push for a one world economy. Either way, the consequences are not good for the majority of people.

One dissenter from Bernanke's policies is Kansas City Federal Reserve Bank President, Thomas Hoenig. Hoenig reiterated his preference for raising the federal funds rate to 1% on Wednesday: "*'I would get off the zero.' Said Hoenig, who no longer has a vote on the policy-setting FOMC and is retiring from the Fed this October. 'Do you know any market that functions well at zero?'*" Hoenig has also been critical of the QE2 program. *"Most recently, the Fed's accommodative monetary policy has contributed to global demand for commodities — and the concomitant rise in prices."* (Fed's Hoenig: Recalibrate Mon Pol To Be In Synch W/ Recovery)

In his weekly newsletter, John Mauldin notes that the U.S. economy appears to be doing better by standard measures and asks "Are Booming Economies Good for the Markets?" He finds that assumption is not supported by previous trends. Mauldin also discovers that a strong economy **with doubling gas prices** has been negative for equity markets. Quoting an article from GaveKal, Mauldin writes:

"'The important question instead is whether booming growth is always good for equity markets. And on that, the data is frankly mixed. Indeed, while strong growth usually leads to higher earnings (good news), it also typically leads to a tighter liquidity environment...Still, periods of strong economic growth do not always equate to tremendous stock market performance over the following six months. Equity markets struggle all the more if, while growth is booming, oil prices suddenly surge...a high price of oil further drains excess liquidity from financial markets and typically generates large misallocations of capital

> *"I wanted to give an overview of how the markets can look good but not actually BE good. It's important to get the perspective of the WHOLE economy - not just the part that we swim around in. What do I care if a pound of coffee is $4 or $8 or $12? We buy one every couple of weeks. On the other hand, when I think about it - the difference between $4 and $12 is a whole hour of take-home pay for most people. That's 1/80th of their total salary gobbled up by an increase of $8 in the price of coffee.*
>
> *How do we think this is sustainable? A tank of gas every two weeks is another $16 ABOVE what some people usually spend. That's another 2/80th of their wages down the tubes. What's wrong with OUR bullish premise as these prices mount up is that EVERYONE thinks they are going to pass through price increases while NO ONE thinks they will be absorbing wage increases. EVEN if the Fed is printing money like mad, it isn't giving it to the people who ultimately need to pay those prices. The Fed is giving it to us. Then we are pumping it into speculative commodities and we misinterpret the rise in commodities and equities for economic health. Thus we put even more money into "what's working" without stopping to think where all this PROJECTED growth money is going to come from.*
>
> *That's the bearish premise - those goods and services that need to be sold in bulk (e.g. cotton, copper, corn, wheat and oil) will ultimately collapse under their own weight because we are certainly not increasing the workforce by 15% to pay for the 15% rise in costs. And we aren't raising wages by 15% to pay for the 15% rise in costs. MATHEMATICALLY, it is not possible to sustain these speculative prices. They are an illusion based on a fantasy that is being pushed on you by the top 0.01% to get you to dig into your 65% cash position and take all those worthless contracts off their hands before it all hits the fan - AGAIN!"* - Phil

(moving money from the pockets of Western consumers to those of Ahmadinejad, Chavez and Gaddafi is not really a good long-term use of capital)... ***The most dangerous periods for equity markets are typically periods of strong economic activity combined with rapidly rising oil prices****.'"*

David Rosenberg of Gluskin Sheff expressed similar thoughts on the relationship between rising oil prices and the stock market: *"There have been only five times in the past 70 years when [oil prices have doubled] within a two-year time frame... Of the five instances cited above, all but one involved a recession for the U.S. economy and that was in 2005 during the height of the credit and housing boom, which acted as a huge offset. But oil prices did keep rising and managed to outlast the euphoria in credit and residential real estate, so the recession may have been delayed at the peak of the 'growth rate' in the oil price, but it was not derailed as history shows."*

Evaluating the historical data on the subject, John Mauldin concludes, *"As both GaveKal and Rosenberg note, a doubling in the oil price is not good for markets... As I wrote a few weeks ago, we are entering a period where recessions are likely to be more frequent and markets more volatile. These are not times for normal buy-and-hold strategies."* (Are Booming Economies Good for the Markets?)

Considering the turmoil that has been unleashed in the wake of civil unrest and the outbreak of open conflict in Libya, and the resulting affect on oil prices, imagine how much damage would be caused to the global economy by similar events happening in Saudi Arabia. On Saturday, March 5, the Interior Ministry of Saudi Arabia announced a ban on all protest rallies and marches following recent anti-government protests in the kingdom's east. The UK Independent reported that the ruling House of Saud has deployed security forces, possibly numbering as many as 10,000, into the oil-rich north-eastern provinces.

Keep in mind that while Libya produces roughly 1.5 million barrels of oil a day, Saudi Arabia produces over six times that amount, roughly 9.7 million barrels a day. Should Saudi Arabian oil production be disrupted, the consequences for the global economy would be enormous, and the price of oil would undoubtedly go up considerably.

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This week's new trade idea comes from Pharmboy who writes, "Delcath Systems (DCTH) is a small biotech headquartered in New York. It produces targeted delivery systems for chemotherapeutics. Its Delcath PHP (percutaneous hepatic perfusion) system isolates the liver from the rest of the circulatory system and delivers a high dose of melphalan hydrochloride directly to the liver." This system is being advanced for the treatment of melanoma that has metastized to the liver. The stock recently took a dive because the FDA issued a 'refuse to file' letter on DCTH's 505(b)(2) application.

Pharmboy continues "A 505(b)(2) application is used by companies to save time and money when they are trying to gain approval for new formulations or uses of older, already approved drugs. DCTH attempted to go this route. There is another shot at one of its goals with the EU CE mark due sometime in June or July. Additional data is due out in Q2 for the PHP system in several other types of cancer. Knowing the stakes are high, I like an easy play of the September $6/11 bull call spread for $1.20, combined with selling the September $6 put for $1.35. That is a net $0.15 credit on the $5 spread!"

Special Bonus Supplement - Wednesday's Beige Book and Commentary

Editor's Note: Below is Wednesday's Beige Book as released by the Fed on March 2. Phil uses colors in the text of the minutes to indicate what he sees as positive (green) and negative (red) for the economy. Phil's comments (blue) appear in this section in quotes and bold Italics.

> ***Beige Book Summary - Keep in mind these are anecdotal reports given to the Fed from various regional contacts and then they spin it as best they can so you have to filter out a lot of BS to get through this report but the report is pretty good - I can tell that in the first glance and the markets should like it. Generally, green is good, red is bad and purple is me pointing out couching language:***

Reports from the twelve Federal Reserve Districts indicated that **overall economic activity continued to expand at a modest to moderate pace in January and early February**. Both Kansas City and San Francisco noted that their economies expanded further. Boston and Philadelphia cited conditions as improving. New York, Cleveland, Richmond, Atlanta, and St. Louis described activity as **modestly improving**, while Minneapolis and Dallas experienced **moderate growth**. Chicago reported that although there was an increase in activity, it was at a pace **not quite as strong** as during the previous reporting period.

> ***Other than Chicago then, growth really coming back. That's very good.***

Retail sales increased in all Districts, **except Richmond and Atlanta**, **although Boston, New York, Philadelphia, Atlanta, and Kansas City noted that severe snowstorms had a negative impact on merchant activity**. Retail inventory levels were described as desirable in New York, Cleveland, Dallas, and San Francisco. Tourism improved in Richmond, Atlanta, and San Francisco, **while New York and Kansas City noted a slowdown in activity as hotel occupancy rates declined**. **Some** Districts reported a **slight increase** in the level of residential real estate activity, although **all Districts maintained that the overall level of home sales and construction remained low**. Several Districts indicated improvements in commercial real estate sales and leasing activity, including Boston, Richmond, Chicago, Kansas City, Dallas, and San Francisco. **Most reports characterized nonresidential construction as weak**.

All Districts, except St. Louis, experienced solid growth in manufacturing production, and new orders improved for Philadelphia, Atlanta, Chicago, Kansas City, and San Francisco. Most regions observed an increase in non-financial services. Boston, Philadelphia, and San Francisco reported that sales advanced for services related to information technology, while Kansas City noted softer sales of IT services.

> ***Not so bad and not so bad is great for the market as it's not good enough for the Fed to stop making FREE MONEY.***

Changes in loan demand were mixed across Districts, with Richmond, Dallas, and San Francisco experiencing increased loan demand and Kansas City noting a decrease. **Lending standards remained tight across most Districts**. Labor markets **modestly improved** across the country. Boston, Richmond, and Chicago reported more permanent job placements occurring in the market, while Atlanta businesses reported a continued preference for hiring temporary workers rather than permanent workers. Several Districts described an increase in demand for staffing services, especially for high-skilled IT positions. **Adverse weather conditions continued to hamper agricultural production in many Districts**, but **strong prices helped producers of cotton, corn, soybeans, wheat, poultry, hogs and cattle**. Energy production expanded or remained stable, according to reporting Districts.

Non-wage input costs increased for manufacturers and retailers in most Districts. Manufacturers, **in a number of Districts** reported having g**reater ability to pass through higher input costs to customers**. Retailers in **some Districts** mentioned they had **implemented price increases or were anticipating such action in the next few months**. Homebuilders in Cleveland and Atlanta had **limited ability** to pass through cost increases to buyers. **Most** reporting Districts noted continued **strong agricultural commodity prices**. **Wage pressures remained minimal across all Districts**; although Philadelphia, Dallas, and San Francisco noted that most wage increases were for workers with specialized skills.

> “ ***"Non-wage input costs"??? Wow, whatever you do, don't call it inflation! Notice the Fed is joyous that the non-inflationary, non-wage input costs are being passed onto the consumers. It's a Festivus miracle! What the Fed is doing here is ENCOURAGING people to raise prices and DISCOURAGING the need to give raises. Manufacturers can't raise prices unless everyone does it and everyone can't collude to do it so they need a middleman, like the Fed to give the signal and then they can all jack up their prices together. You say potato, I say racketeering…***

Consumer Spending and Tourism

Retail spending strengthened compared with a year ago across all Districts except Richmond and Atlanta, where sales were reported to have softened modestly. **Boston, New York, Philadelphia, Atlanta, Kansas City, and Dallas commented that severe winter weather in January had a negative impact on retail activity**. New York, Chicago, and San Francisco observed that consumers are still responding to promotions and discounting. Meanwhile, Cleveland noted that some of their low- to mid-market segments are still struggling. **Some** Districts observed an increase in discretionary spending; luxury and big-ticket item sales increased in Cleveland, Chicago, and San Francisco. Inventories were at desired levels in New York, Cleveland, Dallas, and San Francisco, while contacts in St. Louis had mixed views about their inventory levels. Boston and Atlanta reported tight inventory management. **The outlook among all Districts was for a modest increase in retail activity**.

Automobile sales increased compared with a year earlier in most Districts. Chicago and

Dallas observed that auto sales held steady, while Kansas City's contacts said sales softened because of inclement weather but expected them to rebound in the near future. Cleveland and Chicago noted increased availability of auto financing, and Cleveland reported an increase in leasing activity. Philadelphia, St. Louis, Kansas City, and Dallas indicated that vehicle inventories were at appropriate levels for the current sales rate, while inventories were mixed in Cleveland and lean in New York and San Francisco. **All Districts conveyed optimistic outlooks among their auto contacts**.

Tourism reports improved in the Richmond, Atlanta, and San Francisco Districts. Atlanta observed a strong increase in international visitors. Kansas City noted a slowdown in tourism amid severe weather but added that ski resorts benefited from the snowfall. N**ew York reported a larger-than-usual seasonal slowdown in tourism with decreases in hotel occupancy rates and Broadway theater attendance**, although the level of activity remained fairly high.

> "***Strange about NY tourism but we saw yesterday a very strong improvement in auto sales. You have to be careful here as retail sales includes gas sales and the Fed loves to count those gas sales as a positive as well as sales by the energy producers - even while they choke the life out of the consumers.***

Real Estate and Construction

Recent activity in residential real estate varied, but **overall sales and construction remained at low levels across all Districts**. The Richmond, Atlanta, and Chicago Districts reported a **slight** improvement in the level of recent activity, while Boston noted that activity was mixed across New England. New York described the housing market as stable with **some pockets of improvement**. Demand was unchanged according to reports from the San Francisco District. Philadelphia, Kansas City, and Dallas described recent activity as sluggish, and St. Louis noted sales continued to decline. **Construction activity was described as flat or down by Cleveland, Atlanta, Minneapolis, and Kansas City**. Philadelphia and Atlanta contacts **attributed weaker buyer traffic in January to inclement weather**, and Philadelphia noted a pickup in early February. Richmond, Kansas City, and Dallas also indicated an increase in buyer traffic. Reports on home prices were mixed. **Atlanta and Kansas City observed persistent downward price pressure**. Home prices continued to fall according to Philadelphia reports, but mainly at the high-end of the market. Cleveland and Chicago contacts described prices as little changed. The **outlook** for residential sales and construction improved marginally, although activity is expected to remain at low levels. Kansas City contacts **anticipate** a **seasonal** surge in sales activity this spring. Atlanta, Dallas and San Francisco also **expect modest** improvement, while little to no sales growth is expected among Philadelphia contacts. A **slight** uptick is expected in Chicago and San Francisco construction.

Commercial real estate activity **showed signs of gaining traction according to a number** of District reports. **Boston, Chicago and Dallas reported that commercial real estate activity improved overall, while Richmond, Kansas City, and San Francisco noted increases in leasing activity**. Kansas City described the market as stabilizing, while Philadelphia and Minneapolis reported that markets were flat overall, and **New York described conditions as "slack" and St. Louis as "soft."** **Nonresidential construction remained weak according to most accounts**. **The Boston, Philadelphia, Atlanta, Chicago, St. Louis, and Dallas Districts reported weak levels of construction** activity, while Chicago noted a **slight** pickup. Cleveland District contractors cited increasing inquiries, and unexpected growth in commercial construction was noted in the Minneapolis District. Overall, contacts anticipate a slow recovery in commercial real estate markets.

> ***Keep this in mind when listening to the punditry - the commercial construction that is "improving" is RESIDENTIAL construction. This is not about business activity improving - it's about so many people who can no longer afford to live in homes that they have to build new apartments to house them all. There is NOTHING positive about that!***

Manufacturing

Reports from eleven of the twelve Reserve Banks indicated that manufacturing activity improved since the previous report, while St. Louis attributed a decline in manufacturing activity to several factory closings. **Cleveland, Atlanta, Minneapolis, and Kansas City noted solid expansion in production**, but Chicago observed a more moderate rise in output than in its last report. Cleveland, Atlanta, and Minneapolis indicated that adverse weather conditions temporarily disrupted production. Philadelphia and Atlanta noticed that a **higher percentage of contacts indicated** that production levels would increase in the near term. Boston, Cleveland, Kansas City, and Dallas also described the manufacturing **outlook** as optimistic.

Philadelphia, Atlanta, Chicago, Kansas City, and San Francisco reported more rapid improvement in factory orders. Chicago cited steel, automotive, and heavy equipment manufacturing as sources for significant new orders growth, while Dallas noted that orders for high-tech goods had accelerated. Philadelphia and Atlanta suggested that increases in orders were more broad-based. Cleveland and Richmond observed that orders were increasing at the same pace as in their previous report. **Demand from abroad, particularly Asia, was cited by several Districts as a driving force in new orders**.

> ***Benefits of our weak dollar policy!***

Nonfinancial Services

Districts reporting on nonfinancial services noted increased activity. Philadelphia, Richmond, Minneapolis, and Dallas observed **rising demand for general professional business services**, with several reports singling out accounting firms. Dallas noted that much of this rise in demand for accounting services was related to consulting and transactional work. **Several Districts also cited increased demand for healthcare, insurance, and legal services**. The New York District, while reporting that legal hiring had picked up a bit, observed that it was from very low levels. St. Louis reported overall strength in business services, although **contacts in government services and religious organizations announced plans to decrease**

operations and lay off workers. San Francisco also saw improved demand for consumer and business services, but countered that providers of healthcare, legal, and accounting services reported that demand remained largely flat. Information technology and telecommunication providers experienced increases in sales, according to the Boston, Philadelphia, and San Francisco Districts. Kansas City observed softer sales by IT firms, especially those tied to federal stimulus spending, but noted that activity generated by data centers and e-commerce were characterized as strong.

Transportation services firms in the Cleveland, Atlanta, and Kansas City Districts reported an increase in shipments. Cleveland contacts hinted at the possibility of hiring more drivers but also expressed concern over the tightening of the labor pool. Transportation firms in several Districts expressed concerns over rising fuel costs.

> *Only in several districts? Well, overall this is a pretty good section. People are buying stuff and shipping is picking up. Remember - 90% of the people still have jobs and retail already dropped 10% so this kind of recovery is "normal" - just don't read too much into it.*

Banking and Financial Services

Loan demand varied across District and loan category. Richmond, Dallas, and San Francisco noted improvements in overall loan demand, while Kansas City observed a decrease. Demand for residential real estate loans increased in Philadelphia, Atlanta, and Dallas but was weaker in New York, Cleveland, St. Louis, and Kansas City. The New York, Philadelphia, Richmond, Chicago, and San Francisco Districts reported improvements in commercial loan applications. The Dallas District experienced mixed commercial loan demand, while St. Louis noted that demand was unchanged to weaker. Cleveland reported business loan applications were beginning to pickup but demand for consumer loans remained soft. The Philadelphia District expected little change in loan volume as consumers remained reluctant to borrow.

Most Districts reported that credit standards were unchanged to tighter. Kansas City reported standards were unchanged for all types of loans. New York noted some tightening of commercial loan standards but little change in the standards for residential mortgages or consumer loans. The Atlanta District reported increased standards for residential mortgage loans. St. Louis indicated standards had tightened somewhat for commercial mortgages, but were unchanged for C&I loans, and were unchanged to somewhat tighter for residential mortgages. San Francisco noted relatively restrictive standards for both consumer and commercial loans.

Community bankers in the Chicago and Dallas Districts cited increased competition for C&I lending from large banks. Atlanta noted improvements in credit conditions for all loan segments except those related to residential construction and real estate. Cleveland, Richmond, Chicago, Kansas City, and Dallas indicated steady to improving credit quality, and New York reported steady to lower delinquency rates. San Francisco reported that venture capital financing was improving with increased investor interest and IPO activity.

> *That's all good stuff. When there's an early-stage recovery, this is what we want to see - money waiting to be loaned out and looking for opportunities. Unfortunately, it's also an early sign of inflation pressure building up in the financials as that money can burst out like a damn breaking if the Fed doesn't soak it back up in time (doubtful).*

Agriculture and Natural Resources

Adverse weather conditions continued to hamper agricultural production in many areas. Extremely cold and/or dry conditions negatively affected crops or livestock in the Richmond, Atlanta, and Dallas Districts. Kansas City also reported poor growing conditions. St. Louis described mixed results for production in many crops, but large increases in rice and cotton production were noted. Most reporting Districts noted continued **strong commodity prices were benefitting producers of cotton, corn, soybeans, wheat, poultry, hogs and cattle** while there are also **some** reports of rising input prices, particularly in fertilizer and feed prices. San Francisco observed some boost in **export sales for timber companies**.

> *Too bad we don't have a rain forest – I'll bet we could sell out!*

Energy activity expanded or remained stable since the last report. Kansas City and Dallas noted strong drilling activity, while Cleveland and Atlanta reported a decline in permit issuance. In the Atlanta District, **drilling activity remained below pre-Gulf of Mexico oil spill levels**, although up slightly since October 2010. Coal production remained above year-ago levels in the St. Louis and Kansas City Districts and held steady according to Cleveland. Kansas City reported that oil and gas production increased, while Cleveland noted that production held steady. San Francisco reported that **global demand supported oil extraction**, while Minneapolis experienced stable oil exploration.

Prices and Labor Markets

Manufacturing and retail contacts across Districts reported rising input costs. **Manufacturers in many Districts conveyed that they were passing through higher input costs to customers or planned to do so in the near future**. Homebuilders in the Cleveland and Atlanta Districts noted rising material costs, but a**cknowledged little ability to pass through the costs to buyers**. Retailers in **some** Districts mentioned they had implemented price increases or **were anticipating such action in the next few months**. **There is little evidence of wage pressures across Districts**. Wages remained steady in the Boston, Philadelphia, Cleveland, Kansas City, and Dallas Districts, while moderate wage pressures were reported in the Chicago, Minneapolis and San Francisco Districts. Philadelphia, Dallas, and San Francisco noted that most wage increases were for workers with specialized skills.

Labor market conditions continued to strengthen modestly, with all Districts reporting some degree of improvement. **The Boston, Cleveland, Minneapolis, and Dallas Districts cited noticeable improvements in the manufacturing sector, and the Boston and Cleveland Districts also observed increased labor demand in the healthcare and medical sectors**. New York reported little or no hiring in the manufacturing sector, although their factory contacts **planned** on increasing hiring in the coming months. The Boston, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, and Dallas Districts received **optimistic** reports from staffing agencies. Dallas said that staffing firms experienced continued strong demand, particularly for high-skilled IT positions. The Cleveland District staffing contacts noted **some** growth in the number of new job openings, with vacancies concentrated in healthcare, manufacturing, and professional business services. Chicago reported that **a large staffing** firm reported solid growth in billable hours for both industrial and for office and clerical positions, as well as increases in both temporary-to-permanent job transitions and direct hiring of permanent employees. **Boston, Richmond, and Chicago noted increases in the conversion of temporary to permanent hires and permanent job placements**, while contacts in the Atlanta District reported a preference for hiring temporary staff. Employers in the Boston District reported **difficulty in finding qualified candidates for high-skilled jobs**. Despite the improvement in most labor markets, **some Districts such as New York, St. Louis, Minneapolis and Dallas also noted layoffs in the region**.

"Overall, a better report than last time but there are certainly mixed indicators here, especially regarding who will and will not be able to pass through higher input costs. Inflation is real and undeniable - no matter what the Fed calls it and that is going to lead to a very uneven recovery.

This shouldn't bother us as the last BBook was Jan 12th and we were at 1,270 on the S&P at the time so a nice 5% run since then. This is pretty much more of the same with wages low and prices going higher (if they can ram them through) so Goooooooooooooooo Business!

Next Week's Economic Calendar

Monday 7	Tuesday 8	Wednesday 9	Thursday 10	Friday 11
8:00 AM: Dennis Lockhart Speaks	7:30 AM: NFIB Small Business Optimism Index	7:00 AM: MBA Purchase Applications	8:30 AM: International Trade	8:30 AM: Retail Sales
11:00 AM: 4-Week Bill Announcement	7:45 AM: ICSC-Goldman Store Sales	10:00 AM: Wholesale Trade	8:30 AM: Jobless Claims	9:55 AM: Consumer Sentiment
11:30 AM: 3-Month Bill Auction	8:55 AM: Redbook	10:30 AM: EIA Petroleum Status Report	10:30 AM: EIA Natural Gas Report	10:00 AM: Business Inventories
11:30 AM: 6-Month Bill Auction	11:30 AM: 4-Week Bill Auction	1:00 PM: 10-Year Note Auction	2:00 PM: Treasury Budget	
3:00 PM: Consumer Credit	11:30 AM: 52-Week Bill Auction		4:30 PM: Fed Balance Sheet and Money Supply	
	1:00 PM: 3-Year note Auction		2:00 PM: New York Fed Announces New POMO Schedule	
POMO DAY ($5Bn - $7Bn)	**POMO DAY ($6Bn - $8Bn)**	**POMO DAY ($5Bn - $7Bn)**	**NO POMO SCHEDULED AS OF 3/6/11**	**NO POMO SCHEDULED AS OF 3/6/11**