Ag Financial Strategies

Managing risk by following trends.

And he cast a thunderbolt into their midst.
And they scattered in all directions.
All except for one.
The one who observes.

9/17/09

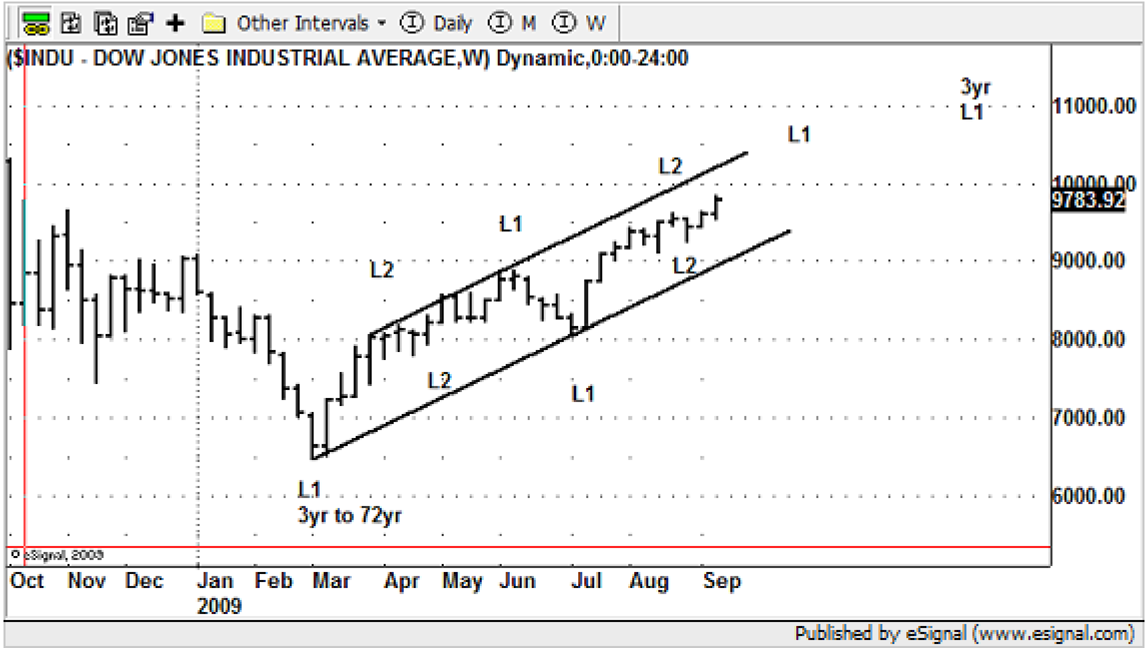
Stocks

The stock market collapsed this decade from multi -decadal cycle trend top into related bottom that was placed as of low of 2009 for the DOW and related US indexes and earlier for other indexes and more so for non US stocks. The implication is that a buy of a life time has been seen but not without risk in that a second chance for such a trend bottom is due late 2010 through 2011. At this time the best model forecast calls for current bull market to last into early 2010 and I like an objective of 10,236 and “what if” model scripts allow for as high as over 12,000.

I recall a fishing trip to Canada when I was flying in the co-pilot seat of a small plane and looking at a map that showed we were in the region of “Inhospitable”, at a time when we encountered a thunderstorm and lost radio and navigation input. The pilot informed me not to be concerned as we were of highest altitude achieved by the type of plane and that “ the more altitude the greater the safety” in that there was more distance and time to glide and in order to locate a landing zone of greater odds of success. He did state it would be acceptable to pray that the wings remained intact and his tone of voice changed when he learned that we could not pick up a AM or FM radio station of a town to use as a navigation point. None the less we dropped below the clouds watching for other aircraft as they may not have known we were present and we were pleased to see the runway off to one side with no planes in the air space. It turned out the airport manager knew we were due and held back flights just in case we were coming in without radio and it turned out the airport and entire town was down as for electricity from a severe storm. And airport emergency generator was not working.

The higher the stock market indexes rally the greater the odds the afore mentioned decline will only be a a correction of still larger trends that will some day lead to a new record high. To use the altitude as analogy the more distance to decline the greater the odds the economy will continue to recover and the market to remove bullish excess while under valuation levels will increase.

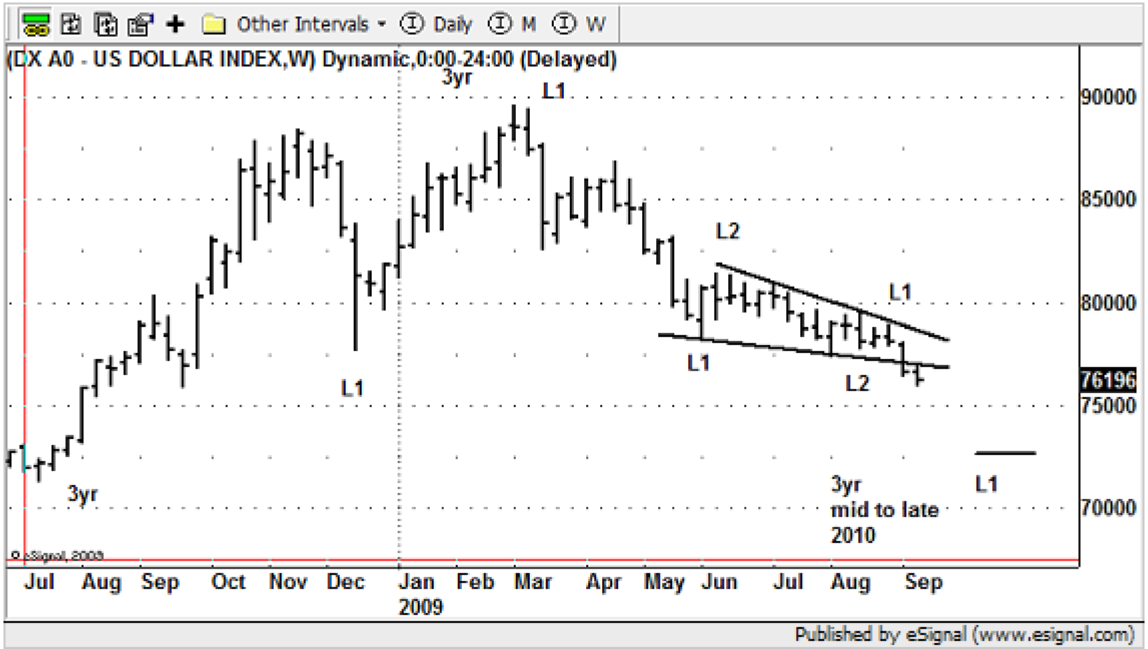
In late 2008, the long term business cycle models were used to buy Brazil stocks (now +83%), China (+61%), Russia (+96%) and US (Dow related leveraged +35%). The US Dow position was early and of sizable risk but left intact while a 2009 related purchase of Russell 2000 was better timed and of better performance (leveraged +58%). **A purchase of ETF of India was missed due to a limit at too low of a price. The one that got away. She who wears vibrant garment, at dawn, dances at the edge of a calm blue crystal lake.**



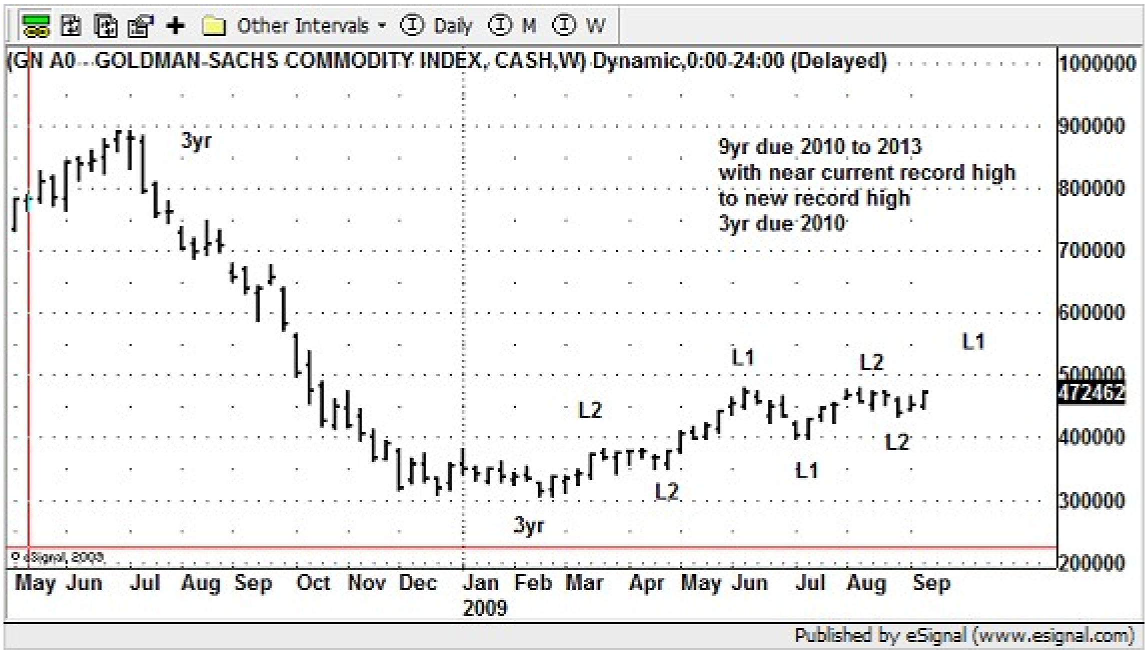
In July the models called a L1 intermediate intra year trend in place and offered a bullish forecast into October to December but with a minor intermediate L2 down trend to cause a correction late August into September. The models assume the correction took place and the trend is up into latter half October to some time November. A delayed bottom for L2 is allowed into end of September to early October, so there is risk of early call but current trend characteristic is one of a running correction which is a sign of a strong market. A running correction is more of a phase of slowing down than outright correction and when complete the pace of trend can increase and even to point of high volatility. The research suggests stocks will not be over valued on a cyclical basis until October or later and the 10,236 is feasible. In fact at current momentum, I question if this value which was calculated from a ratio of 1930s bull market trends and with a Fibonacci method, is high enough to cap this year's bull market. This term of over valuation is only applicable to the type of trend and long term over valuation is unlikely to be seen until early 2010. And so one should be cautious of overbought technical indicators ahead of cyclical over valuation as the indicators are more likely an indication of strong demand than a bearish overbought status. It may be said the same for fundamental based opinion.

Economy

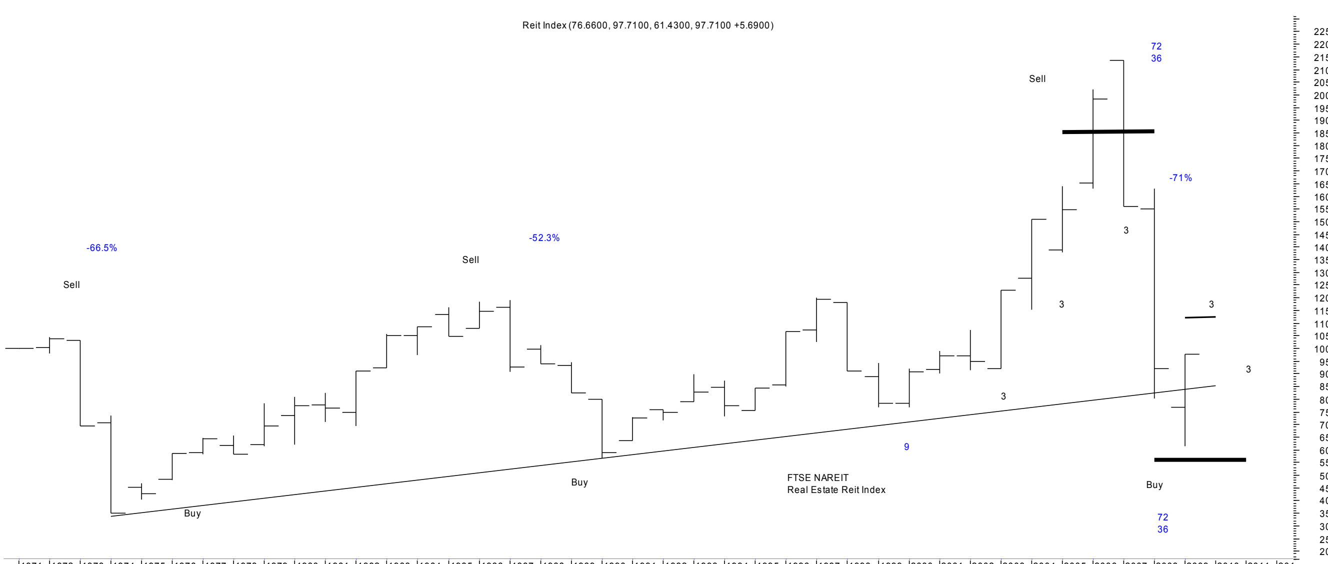
The Eco Trend indicator with ISM Manufacture index as input called an end to the recession as of July. A forecast had been made for a turn latter half of year and the August rating was the right number. There is risk of early call and even if a boom cycle has begun it can take a few years to achieve the threshold when true economic boom performance can be considered. This indicator shows the recession began in February 2008 and came to a end July 2009. The ISM manufacture index moved to 50 and above to suggest net growth and in terms of recession a sign of recovery.



Dollar- The stock market correctly understands the positive implications of a lower dollar but only because it is the season or cyclical time to do so. Pressure and potential was built within the down trending triangle from June through August that was a moment of reflection at time of L2 to L1 model trend rally shown on chart. Truncated performance was poor performance and the violation this month is in line with model forecast that the L1, the most important intra year intermediate trend is down and into latter half October to November. And the larger long term trend of the 3yr business cycle (similar to Kitchin of Schumpeter's models?) should trend lower into mid to late 2010. There is potential for a mini collapse in the dollar now into October. And if such an exponential move occurs then odds increase for slower pace decline for early 2010 with evolution into a base building trading range into the 3yr business cycle. This suggests the most bearish performance can occur 2009 rather than 2010 despite a major low to be placed in 2010. Any thing less is a sign the market saves some of the 3yr bear market potential for early to mid 2010. Evidence of model skill is a FOREX account that was up 30% for 2009.



Commodities
A 3yr business cycle peaked in 2008 and bottomed in 2009 for the Goldman Sachs commodity index. Individual commodities like soybeans bottomed in late 2008, oil in early 2009 and some were as late as this month for say corn and natural gas. There is potential for 27% increase for this index for 2010. Evidence of model skill was from a basket of commodities biased toward agriculture and energy with a little less than 90% of the time with net growth or no more than one standard deviation of draw down and for a selected group of model trends.



Real Estate

The long term opinion of the models for real estate including the FTSE NAREIT reit index was correct for a significant business cycle top late this decade. The models now assume the bear market is over and like the forecasts for stocks, commodities and the economy a bull market is underway into early 2010 perhaps later.

Summary-

For the next 6 to 9 months, I expect bullish and positive correlation performance for stocks, commodities, real estate (commercial questionable), GDP and although intra year inflation can be of large spike higher and more so if commodity based, yearly inflation is not expected to increase by large amount and so interest rates are expected to remain low. The boom/bust cycle has probably turned to boom but may be of slow development at first although rate of change indicators may state other wise but the boom trend of the cycle will last into 2015 to 2020.

Past performance is not necessarily indicative of future result.