"The Pavich Perspective"
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March 1st, 2011

"Oscar Acknowledges Wall St. Shortcomings?"

and "Can Price Of Oil Stop Bulls In Their Tracks?"

Wall Street showed up on the Hollywood stage this week with the film "Inside Job", an expose of all the layers and players in the financial/credit crisis, winning the Oscar for Best Feature Documentary. The film's maker Charles Ferguson first comment while accepting the award was condemnation for those in charge that it has been three years since the crisis unfolded and not one financial executive has ended up in jail. What frustrates me is that few of the players, including public servants, agreed to be interviewed for the picture. Apparently the fox is hen house watching.

As I have mentioned before the point of this letter is to enlighten non-professional investment folk about how the sausage is made on Wall Street, with the help of Washington and the financial media. Mr. Ferguson interestingly also adds academia as an accessory to the process in the movie. Regarding the crisis what I find most Main Street people get is that the Wall Street elite put our financial system in jeopardy with other people's money and then with the cloak of "too big to fail" walked away from the carnage relatively unscathed. And to top it off they are now insisting they are deserving of similar out sized bonuses they commanded pre-crisis. The phrase "they got us coming and going" is an understatement with the way these few individuals made boo-koo bucks while we took the risk.

The lack of knowledge of several key data points by the people running the show was never more blatant than the forcing of Lehman into bankruptcy (purportedly because the Feds, ex Goldman guys, did not like the Lehman leadership). This move caused Lehman's London office to freeze all assets and trading complicating the situation. The movie asserts that they were unaware of this aspect of British bankruptcy law, I guess nobody bothered to check? It makes me a little woozy to think that these were the guys who determined policies that inevitably caused the crisis, they were in charge of cleaning it up, and now they are in charge of creating new regulations so that it won't happen again. ***Hello!***

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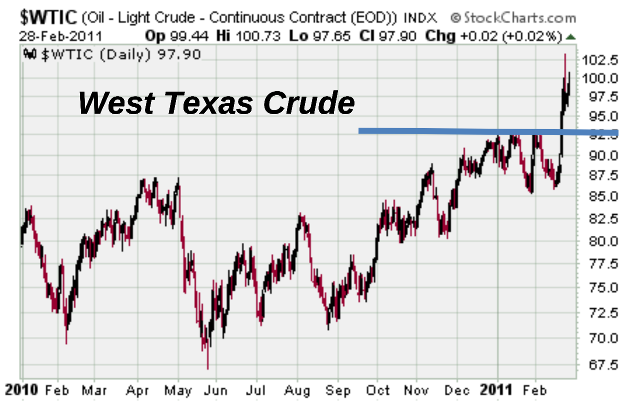
Many of the events that led to the crisis go back to the Reagan years with the Bushes and Clinton having a distinct role in the process. I wrote a couple of weeks ago about how unintended consequences often play a role in multi-faceted situations, here's one: the drive to increase home ownership in the Clinton era led to the lowering of mortgage standards and the so called "liar loans" which were a key piece in the meltdown. I still remember Bush 2 crowing about the increase in home ownership under his leadership in 2006. Funny how it is not something he now regards fondly in his legacy.

The film appears to (I have not seen it in its entirety, out on DVD next week) connect dots within a very tangled web in chronological fashion. This is the type of information that can assist in making better investment decisions (at the very least asking better questions) and a more informed voting process. Knowledge is a key weapon in fighting corruption and this movie brings several salient points together that should enlighten most non-professional investors and also anger them extensively. Holding the politicians' feet to the fire, and hence the banksters, is just about the only way to level the playing field on Wall Street. This movie is a source of information that could ramp up the learning curve for many.

Price of Oil Challenges Bulls?

For the last couple of months I have been wondering what would be the catalyst to initiate a relatively overdue correction in stocks. The European sovereign debt issue and its subsequent riots, state budgets in deep disarray and its riots, nagging unemployment, and run of the mill geopolitical events (North Korea attacking South Korea and regime change in Egypt) were barely speed bumps for the galloping bull. It took the people of Libya, apparently inspired by Egypt and Tunisia, to challenge one of the world's more dysfunctional individuals let alone leader, Muammar Qaddafi who shut down Libya's oil production.

That supply, only 2% of world production, had the price of oil up over $15 a barrel in short order. As I write this a local SD newscast reported that the price of gas in the county jumped 20 cents over the weekend. Some are predicting that the price of gas will be up over $5 by Memorial Day this year. With the volatility of geopolitical events most experts will tell you that it is impossible to get a clear handle on the trajectory of oil prices in both the short term and long term. How many more Mideast countries will want regime change making for a tinder box with a shorter and shorter fuse?



The rising price of oil is akin to an added tax on the consumer with not much benefit in return. The sluggish recovery, which appears to be gaining traction with several encouraging economic reports, could be derailed by rising fuel costs. The chart of West Texas Intermediate Crude appears to be heading in that direction with a decided breakout to new highs last week. From a technical (chart reading) perspective a solid break to new highs like this often leads to higher prices. I have to wonder how many times recently has President Obama done a Rosanne Roseannadanna and said "If it's not one thing it's another!"

Obviously the stock market is not going to be a fan of that possibility and last week stocks showed their worst back to back daily performance since August. Previously I wrote that when the next correction comes it is hard to imagine that it would be significant considering the constructive nature and length of the rally (don't forget recent econ numbers). A persistent drain from the consumer's pocketbook at the pumps could make for a steeper, scarier pullback than I initially thought. How defensive do you get with your equities portfolio when you have to consider the geo-politics of the situation? Good question.

To the left is a chart of the 30 Year US Treasury bond. While stocks have had their way for the last six months, government bonds have been a source of funds that fueled their rally. The 30 Year was down nearly 15% in that period which is easily one of the more wicked corrections for this asset class I have seen. This occurred while the Fed's Quantitative Easing strategy has had them ***buying*** Treasuries. The fear of a strong recovery and subsequent inflation are the purported reasons for the selloff in these bonds. Last week the down trend was clearly broken (blue line) increasing the possibility of a rally in T-bonds. This dovetails with a potential correction in stocks as a flight to safety trade returns to the investment landscape for the first time since last summer.

A couple of other factors that could make this correction steeper than most think is the high level of bullishness (just turn on CNBC for five minutes), which is often a contrarian indicator, many short sellers are absent because of market strength (weaker bounces when they do cover in a selloff), and the possibility of a Flash Crash repeat. Cautiousness has not paid off for several months and maybe this is the way for Mr. Market to put us right where he wants us? Nah he'd never do that,

Did You Know

***Failing To Foreclose?* -** It takes a lending institution 507 days on average to foreclose on a non-paying loan today. This means a homeowner that has stopped making mortgage payments after today (2/28/11) could, on average, live in his/her home until 7/19/12 (i.e., a year from this summer) before the lending institution would foreclose on the property and remove the non-paying homeowner. At the end of 2008, 8% of mortgages had at least 1-payment past due and another 3% of mortgages were in the foreclosure process. At the end of 2009, 10% of mortgages had at least 1-payment past due and another 5% of mortgages were in the foreclosure process. At the end of 2010, 9% of mortgages had at least 1-payment past due and another 5% of mortgages were in the foreclosure process (source: Mortgage Bankers Association).

Final Thought

"There is nothing more uncertain on Wall Street than next week"- *Louis Rukeyser*

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Isn't it springtime when bears usually arise from hibernation?

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Remember, everything I said could be wrong; the market seems to always have the last say. I also realize I tend to make up words, just to let you know that I know. If you would like to be removed from this service reply with UNSUBSCRIBE. If you know anyone who would like to receive this weekly commentary, please also reply. Names will never be sold or used for spam purposes.