Welcome to Moospeak, the weekly commentary. Club members who, despite a secret interest in growing their own investments, are annoyed by the actual economic, political and financial realities implicit in that endeavor may choose to avoid the pro-investor opinions expressed on this page.

Bummers and Partisans

Washington, DC-- Back in World War II, partisans were at the forefront of the fight against totalitarianism. They holed up in the mountains, the forests, the ghettos (or wherever) and did everything they could to weaken tyranny's stranglehold on Europe, including giving their lives. Whether they fought Stalin or Hitler, they were the only resistance inside their own countries for almost five years-- until the allies finally regained a foothold on the continent. They were on their own. They were hunted, and they became heroes.

But that was "The Greatest Generation", as Tom Brokaw called it.

Of course, my generation, the Boomers, have been dedicated to demonstrating how Americans can go from champs to chumps in one lifetime for as long as I can remember. As such, we've become living proof that for every grand generational action there is an equal and opposite disappointing generational reaction.

To the extent that we boomers are often considered bummers when compared to our parents, it is my observation that this is not so much because of who we are, but because of what we have come to expect. Our parents expected nothing, had to fight for everything, and in doing so, stood up for one another. We expect everything, look out for number one, and fight for nothing. There is no need. We grew up amid plenty.

Life for us is pass-fail, and the grades aren't given out until you're in the ground and nobody cares. Until then, everyone is a winner. We award trophies for participation to our kids with the same motherly pride that we award two years of free income to our unemployed, and twenty years of free income and medical care to geezers like me. Why argue over anything? Life is not a zero-sum game when there is enough for everybody. And everybody is us.

Right before the NFL season opener this Thursday, while I was trying to finalize my fantasy football line-up for the weekend, the President of the United States announced his new government plan to create more jobs. Well, semi-new. Turned out to be a redux of the Pelosi stimulus plan-- some temporary tax cuts for labor here, some permanent tax hikes for capital there, bailout money for bankrupt state governments, and another pile of cash for the public sector unions. In several cases, he would extend programs that already exist, but are slated to expire at yearend.

The idea, it seems, is to implement a hodgepodge of temporary policies that failed in 2009, 2010, and 2011, but only spend half the money, and thus expect a better result. Understanding that there may be pesky doubters (like me) -- the President also made another call for an end to the partisanship in Washington. (In his own unique nod to bi-partisanship, he stipulated that his plan was an "all or nothing" proposition.)

The President has made several calls for bi-partisanship in the past few months, ever since additional Republicans were suddenly sighted in the capital early this year. And the polls seem to indicate that he is on-target, at least with the bi-partisan thing. A majority of Americans report that they would like to see Congress begin to work together and accomplish something constructive.
Kumbaya…

Along with bi-partisanship, separate polls show that a majority also favors smaller more fiscally sound government. Now I’ve lived in this town for forty-odd years (very odd, if you ask me). I was even a political appointee for six of those years. If both those polls are correct, this is one of those times when the majority of Americans, bless their little I’m-okay-you’re-okay hearts, have no earthly idea how things work around here.

Among politicians, partisanship is a universal and real process. Bi-partisanship is a theoretical concept that politicians place in the minds of naive voters when the partisan process has momentarily failed them. It is both a blame-shifting mechanism and a diversionary tactic. It gets voters to focus on the political process rather than the hoped-for result. In actual practice, bi-partisanship is rarer than the unicorn.

Even the biggest government programs had absolutely nothing to do with Congress and the President reaching across the aisle to accomplish something constructive. The income tax? The Federal Reserve? Social Security? Medicare and Medicaid? National healthcare? In every case, one party (guess which one) controlled the White House, the Senate, and the House. Every one of those programs was the result of an entirely partisan process, not bi-partisan deliberation.

Not until partisan politics is up to its ass in alligators, does it ever call for bi-partisan help to drain the swamp. And even then, it doesn’t really want the help, it just wants to share responsibility for the swamp.

The American political system is comprised of two major parties. One desperately wants bigger government at all costs, and the other is occasionally okay with that. Neither wants smaller government. We know this because it is never discussed. (Spending “cuts” are not actually cuts, just reductions in the annual increases that are automatically built into every budget. Tax cuts are no longer referred to as such, but as “spending increases”.)

That cozy system worked well enough back in the 60’s when government was 10% of the economy. Now that partisan politics has put government on a trajectory to become 30% of economy in the next few years, while simultaneously going bankrupt, however, voters have begun to get nervous. They know partisanship got us into this mess, and many are looking for bi-partisan ways to drain the swamp.

Problem is, American bi-partisanship, even when occasionally observed in the wild, does not reverse the partisan trend toward larger and more intrusive government. If anything, it enables it. Voters concerned about the size, the scope, and the cost of government began to realize that before the last election cycle. Their solution is highly partisan, because that is the only way to counteract the equally partisan, but more established, forces that would grow government indefinitely.

It may not be boomer-cool to say this, but when it comes to smaller, more fiscally-responsible government, bi-partisanship is not the answer. Another election is.
MOOSECALLS-- September 9, 2011

Index Moose provides deeper insights into the current state of global financial markets than simply the best place to put your money.

The Author's Take on the Latest Signal

"This thing, what is it in itself, in its own constitution? What is its substance and material? And what its causal nature (or form)? And what is it doing in the world? And how long does it subsist?"
--Marcus Aurelius, 167 AD

<table>
<thead>
<tr>
<th>Weekly Close</th>
<th>Latest Signal</th>
<th>End Date</th>
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<tbody>
<tr>
<td>09/09/2011</td>
<td>HOLD Gold (GLD)</td>
<td>09/18/2011</td>
</tr>
</tbody>
</table>

(In this section of the Moose Calls newsletter, the author discusses his thinking on the validity and duration of the current signal. This may be a good thing or a bad thing, as the signal is more aggressive and has often proven itself a better predictor of the future than its somewhat skittish author with his more moderate risk profile.)

Short and Crazy

Things did get crazy during this holiday-shortened week, as predicted. If stocks weren't gapping up on the open, they were gapping down. Same with gold. The Moose holds gold for another week, even though its price slipped a little this week. Still, it is up eight of the last ten weeks and doing much better than equities over that period.

Equities looked like 2008 all over again this week, with the VIX bumping 40 and 300 point Dow swings. Stocks are not for the feint of heart. Friday saw a 300 Dow point drop after the President's job speech, amid European debt fears, and ahead of terror rumors on the tenth anniversary of 9/11.

The markets' main problems emanated from Europe, which remains in very deep doo-doo. On the positive side, the German court (as expected) declared that a German bailout of another country is constitutional. On the negative side, after Greece, the list of bailout candidates is "too big to bail". That may be why the German political will to save euro-deadbeats is fading fast, even as the euro has begun to plunge.

That plunge generated the European news that most impacted gold this week-- the Swiss decision to intervene in the currency markets to stop the franc's relentless appreciation against the Euro. The Swiss franc, like gold, has been a safe haven for months. Switzerland is not in the Eurozone, so the franc has been looking better and better since the Eurozone's debt crisis began. This week, however, worried that a stronger franc will weaken Swiss exports and cause a recession, the central bank basically fixed the Swiss exchange rate at 1.2 francs to the euro.

That turned the "safe haven" world on its ear, as money suddenly fled the Swiss franc and Euro for the oft-maligned US Dollar and a few other currencies. As the Dollar strengthened, it pressured the dollar price of gold, and prompted more investor interest in US bonds.

That may be a short term "revaluation" phenomena, however. As global trade slows, governments have been prone to weaken their currencies to maintain exports. Such "competitive devaluations" are good for gold longer term. Tying a strong currency to a weak one, like the Chinese, and now the Swiss have done, makes hard assets like gold more attractive in those markets than they would be otherwise. With negative real interest rates on cash and bonds, gold
has become an alternative form of money again-- a form that no government can devalue. Every central bank may have its currency in "a race to the bottom", but gold stands its ground.

Faith in gold may not be rising as quickly as faith in government is falling, but either way, the gap is widening. More than anything else, that is why the price of gold is strong. How high can gold go? How bad can government get…?

**Weekly Market Review-- September 9, 2011**

**Monday**, The US markets were closed for Labor Day.

**Tuesday**, an unexpected improvement in the US ISM Services Index for August, didn't keep US stocks from falling in the first trading session following the Labor Day weekend. Eurozone debt concerns prevailed. Treasuries were mostly higher, but gold prices finished off, as did crude oil. Meanwhile, the US dollar was higher as the Swiss National Bank devalued the franc by fixing it to the euro. Overseas, Asian markets finished mostly lower, while European markets were mixed. The S&P ended down -0.7%.

**Wednesday**, US equity markets snapped a string of three-consecutive losing sessions, on the heels of a strong rebound in Europe. A German court allowed eurozone bailouts, easing sovereign debt concerns. Treasuries were mostly lower, despite a drop in mortgage applications, and a very beige report on US economic conditions in the Fed Beige Book. Crude oil prices were solidly higher, as the US dollar slipped, but gold prices traded much lower. Overseas, Asian markets moved solidly higher following some favorable economic reports in the region. The S&P 500 finished up (+2.9%).

**Thursday**, US stocks dropped on an unexpected rise in US jobless claims and on the reluctance of the ECB to signal easier money to help quell the eurozone debt crisis. Federal Reserve Chairman Ben Bernanke's speech in which no mention of QE3 was made, sealed it. That, along with a much larger-than-forecasted narrowing of the US trade deficit, pushed Treasuries higher. Gold and crude oil prices were higher, along with the US dollar. Overseas, Asia finished mixed, while European stocks were higher, having closed before Bernanke spoke. The S&P dropped -1.1%.

**Friday**, US equity markets tanked, dragged down by a late-day sell-off in European stocks, an uninspiring $447 billion job plan by President Obama Thursday night, and weekend terrorist threats in NYC and DC. Treasuries erased early losses and finished higher on a larger-than-expected increase in July wholesale inventories. Gold and oil prices were lower, while the US dollar moved higher. Elsewhere overseas, the Asian equity markets finished mostly lower even as inflation data out of China was favorable. The S&P 500 lost -2.7%.
The week was ugly for everyone, except those who are resigned to getting the negative real yield implicit in T-bonds. US long bonds (+0.9%) were the only bright spot in a volatile week. Offshore equities took the brunt of the selling, with Europe (-7.0%) leading the world lower as its debt situation deteriorates. Equities in Latin America (-4.7%), Japan (-3.9%), and Pacific ex-Japan (-3.2%) also took major hits. US large caps (-1.6%) and small caps (-1.4%) were better, but still down considerably.

Thanks to Euro fears, commodities (-1.1%), including gold (-1.4%) were down on a much stronger US dollar (+3.8%). Oil (+0.6%) bucked the broader commodity trend, but it has been in a trading range a few dollars either side of $85 a barrel (WTI) lately, and stayed there.

See below for the model's details.

Weekly Market Table-- at the close September 9, 2011

<table>
<thead>
<tr>
<th>RANK</th>
<th>CI</th>
<th>ASSET</th>
<th>Overall Technical Trend (change)</th>
<th>TS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>85</td>
<td>Gold Bullion (GLD)</td>
<td>very bullish (-)</td>
<td>+92</td>
</tr>
<tr>
<td>2</td>
<td>86</td>
<td>Long Zero-Coupon Treasury Bonds (BTTRX)</td>
<td>very bullish (+)</td>
<td>+93</td>
</tr>
<tr>
<td>3</td>
<td>--</td>
<td>Cash-- MMF or three-month T-bills</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>4</td>
<td>45</td>
<td>Pacific ex-Japan Equity Index (EPP)</td>
<td>bearish (-)</td>
<td>-52</td>
</tr>
<tr>
<td>5</td>
<td>41</td>
<td>US Large-cap Equity Index (SPY)</td>
<td>bearish (-)</td>
<td>-73</td>
</tr>
<tr>
<td>6</td>
<td>36</td>
<td>Japan Equity Index (EWJ)</td>
<td>very bearish (-)</td>
<td>-94</td>
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<tr>
<td>7</td>
<td>32</td>
<td>US Small-cap Equity Index (IWM)</td>
<td>very bearish (-)</td>
<td>-75</td>
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<tr>
<td>8</td>
<td>32</td>
<td>Latin America Equity Index (ILF)</td>
<td>bearish (-)</td>
<td>-65</td>
</tr>
<tr>
<td>9</td>
<td>18</td>
<td>Europe 350 Equity Index (IEV)</td>
<td>very bearish (-)</td>
<td>-87</td>
</tr>
</tbody>
</table>

Other Considerations

| Fed Check (what the Fed ought to do) | cut (+) | 1.10 |
| Impact of interest rates on US Equities | very bearish (-) | -88 |
| Impact of Volatility on US Equities | bearish (-) | -62 |
| Impact of the US $ on Foreign Equities and Gold | bullish (-) | +55 |
| Commodity Inflation Trend | neutral (+) | +17 |
| Crude Oil Price Trend | bearish (+) | -69 |

*CI is the "confidence index" measuring the model's overall confidence in the asset. It combines the relative strength (rank), the technical strength (TS), and the Fed Check. For more information, see the Club FAQs. (+)= bullish improvement this week. (-) = more bearish this week.*
**Assumptions & Perceptions-- September 9, 2011**

**Global Economy**

<table>
<thead>
<tr>
<th>Assumptions-- Global Economy</th>
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<tbody>
<tr>
<td>JUL 1-- World economic expansion in the second half of 2011 is expected to slow to about 3.6%. Emerging markets will again set the pace, while developed countries slog along at a more sedate rate. China, India, and Brazil should lead the emerging group, while the newly industrialized Asian countries lead the developed region. The US is showing increasing weakness, but the weakest developed region is still expected to be the Eurozone, due to continuing financial turbulence.</td>
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<tr>
<td>Sovereign debt concerns in Europe, and inflation worries in the emerging world have led to tighter lending conditions, declining business and consumer confidence, abrupt changes in relative exchange rates, and an overall slowdown in growth. Given trade and financial linkages, the ultimate effect could be substantially lower global demand. While the March 2011 earthquake in Japan has lowered global output in the short term, the recovery effort could be a positive for global demand for goods and services in the second half.</td>
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<thead>
<tr>
<th>Current Perceptions-- Global Economy</th>
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<tr>
<td>The global outlook slipped this week. The US is considerably weaker than previously thought. Despite two years of quantitative easing and massive deficit spending, job growth is nil this month, and productivity is negative. The US outlook is for below trend growth into mid-2013. Offshore, emerging markets have been tightening monetary policy for months now, making it less likely that they will lead the global recovery anytime soon. In Europe, the sovereign debt crisis is percolating. The latest Greek &quot;solution&quot; has unraveled and debt problems in Spain, Italy, and France, are lurking. German confidence is waning. In Asia, China continues to brake its economy, as inflation fears persist. In Japan, after the quake, tsunami, and radiation leak, recession returned. Japan has intervened on behalf of the Yen to protect Japanese exports, but the Yen is up--and Japan's recovery is stalling. Oil, a proxy for world economic activity, is looking a bearish. WTI crude is still above $85 this week, but well off its $113 April peak.</td>
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**U.S. Economy**

<table>
<thead>
<tr>
<th>Assumptions-- US Economy</th>
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<tbody>
<tr>
<td>JUL 1-- The pace of recovery in output and employment is slowing, and a weak second half is looking more likely. Household spending is still increasing gradually, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is slowing and manufacturing is slipping, in part because a partial shut-down in the Japanese auto industry after the quake is affecting parts availability. Investment in nonresidential structures continues to be weak, and housing starts continue to be depressed. Employers are still adding to payrolls, but more reluctantly.</td>
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<table>
<thead>
<tr>
<th>Current Perceptions-- US Economy</th>
</tr>
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<tbody>
<tr>
<td>The good: AUG ISM Services (53.3) better than expected. JUL US Trade Deficit (-44.3B) better than expected.</td>
</tr>
<tr>
<td>The bad: JUL wholesale inventories (0.8%) grew more than expected.</td>
</tr>
<tr>
<td>The ugly: Initial weekly jobless claims (414K) worse than expected, and still well above expansionary levels. Continuing claims (3.72M) flat this week, and still above 3.5 million. AUG unemployment rate at 9.1%. U-6 unemployment 16.1% vs 16.4% a year ago.</td>
</tr>
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</table>
## The Fed

**Assumptions-- The Fed**

JUL 1-- Federal Reserve policy is now neutral, but at a very accommodative level. It ended its second round of quantitative easing (QE2) June 30, has no immediate plans for a QE3, and is maintaining the target range for the federal funds rate steady at 0 to 1/4 percent. It anticipates that economic conditions are likely to warrant exceptionally low levels for the federal funds rate for at least another “two or three FOMC meetings” (12 to 18 weeks). The Fed is also maintaining its existing policy of reinvesting principal payments from its securities holdings. The Fed Check concurs that Fed policy should be neutral— neither increasing nor decreasing system liquidity.

**Current Perceptions-- The Fed**

The Fed Check (1.10) is still in rate cut mode this week, suggesting QE3 is needed, though the Fed remains non-committal. QE2 expired at the end of June, putting the Fed in a neutral stance. The Fed recently promised zero interest rates into 2013, but absent a QE3, there will be no new purchases of US Treasuries (but the Fed will roll over Treasuries in its portfolio instead of liquidating them as they mature.) LIBOR (0.34%) rose a tick this week. The T-Bill yield (0.01%) was down, holding the 3-month LiBOR/T-Bill spread to 33 basis points, the top of its 15-33 basis point range in 2011. (The spread had been coming down since peaking in October 2008 at 453, but has risen this summer as the European debt crisis has heated up. A wider spread suggests tighter bank-to-bank credit, and a more nervous banking system.)

## Inflation

**Assumptions-- Inflation**

JUL 1-- U.S. inflation picked up in the first half due to increases in the price of energy and other commodities. That is expected to be temporary, according to the Fed, which is forecasting that, long term, inflation should drop to a level consistent with maximum employment and price stability. The latest (May) CPI is rising at a 3.6% annual rate. That’s above the Fed’s comfort zone, and the hottest since the 2007 CPI hit 4.1%, its worst showing since the late 1990’s. The Fed’s latest long term projected consumer inflation rate, however, is 1.9%.

**Current Perceptions-- Inflation**

Headline US inflation picked up in July after a respite in June. It has filtered through to less volatile core (ex food and energy) measures of late, but that should be temporary. Global inflation, however, rooted in rising commodity prices, is still problematic in some countries, and may have begun to be imported into the US.

- JUL core consumer prices (+0.2%) warming. JUL consumer prices (+0.5%) hot.
- JUL core producer prices (+0.4%) warm. JUL producer prices (+0.2%) warming.
- JUL export prices (+0.2%) warming. JUL import prices (+0.2%) warming.
- JUL annual PCE (+2.8%), warm. JUL annual core PCE (+1.6%) warming.
- Q2 employment cost index (+0.7%). warming up.
- Q2 GDP deflator (+2.4%) revised up and very hot.
- Q2 unit labor costs (+3.3%) revised up and hot.

## U.S. Dollar

**Assumptions-- The U.S. Dollar**

JUL 1-- The Dollar index is down in 2011, with most of the decline occurring in Q1. The low for the year came in late April, after which a choppy market ensued amid the ebb and flow of sovereign debt concerns in Europe. The second half outlook is for a generally weaker Dollar with continued volatility.

Lately, the Dollar has only done well on sovereign debt fear abroad. The June 2010 Dollar high,
during the European sovereign debt crisis, basically matched its highs in 2008 and 2009 at the height of the global financial crisis. After the ECB “kicked the can down the road” in Greece and stabilized that situation in June 2010, the Dollar began to fall making new lows. When the debt crisis resurfaced again in May 2011, the Dollar rallied, but got nowhere near it’s 2010 high. The European debt crisis, then is having a diminishing impact on Dollar bullishness as investors realize that the ECB will do anything necessary to avoid a Eurozone default. Moreover, wars and geopolitical strife usually buoy the US Dollar, but the recent UN-incursion into Libya along with unrest in Tunisia, Egypt, Bahrain, Syria, Yemen, and Saudi Arabia have had only a muted effect. Even a 9.0 earthquake in Japan, followed by a tsunami, followed by a nuclear meltdown, did not induce a flight to the Dollar in early 2011. A 2.4 trillion dollar Fed balance sheet and trillion dollar plus deficits for another decade are clear signals that the US plans to monetize its debt and inflate its way out of its fiscal problems. US government policies over the last two years—from the stimulus that wasn’t, to socialized medicine, to financial regulation—are all expected to raise the cost of labor and capital, making US investment less attractive and job creation and growth less likely— inducing less and less faith in the Dollar.

Current Perceptions-- The U.S. Dollar
The Dollar index (+3.8%) spiked up this week on Euro fears, but remains bearish— a tailwind for gold, oil, and some offshore investments. Currencies were mixed against the Dollar. The Swiss Franc (+10.7%) plunged on the government’s declaration of a fixed exchange rate with the Euro, and took everything else down with it. The Euro (-3.7%), the British pound (-2.1%), the Aussie dollar (-1.8%), the Canadian Dollar (-1.2%), and the Japanese Yen (-0.8%) all fell. The greenback’s price is up slightly over the last 13 weeks (+3%), and down over 52 weeks (-8%). The Dollar is mixed against the Euro, Yen, Swiss Franc, Aussie Dollar, Pound Sterling, and Canadian Dollar (see table below).

Commodities
Assumptions-- Commodities
JUL 1—Commodities were very bullish early in 2011, peaking in April, but they began to retreat after several emerging economies found it necessary to raise interest rates to quell inflation in food and energy. Commodity prices were down 7% in Q2, but largely unchanged in the first half. They are nevertheless up 32% in the past year.

The bearish case: With emerging markets slowing, the US ending QE2, and Japan stumbling out of recession, demand for raw materials is falling. Moreover, sovereign debt fears in Europe strengthen the Dollar vis a vis the Euro, hurting commodities, which are priced in Dollars. The bullish case: The weakening global economy is only transitory, emerging markets are still growing at 6-9%. European debt fears are overblown, as the ECB will do anything and everything to avoid a sovereign default. Meanwhile, the long-term outlook for the Dollar is decidedly down through 2012.

Current Perceptions-- Commodities
Commodity prices (-1.1%) fell, on a much stronger dollar (+3.8%). Oil prices (+0.6%) however, bucked the greenback. Debt fears in Europe, emerging market tightening, steeper margin requirements imposed by commodity exchanges, and a slowdown in global growth have kept commodity prices in check. The bearish dollar has been the one bullish factor. That could change if the euro continues to tank. The overall trend in commodities is now neutral. Commodities are down over 13 weeks (-4%), but up over 52 weeks (+21%). The overall trend in USO is bearish this week. Its price is down over the last 13 weeks (-13%), but flat over 52 weeks (+0%).
### Gold Bullion

**Assumptions-- Gold Bullion**

JUL 1-- Gold, is up in the first half of 2011. It peaked in April, however, along with commodities in general, and has been range-bound since. Traditionally, gold exhibits clear seasonal patterns. It is strongest from August through February and weaker March through July. The seasonal outlook then, in for a pick-up in gold price late in Q3, going into Q4.

The bearish case: Rising interest rates in places like India, China, and Brazil are weighing on the inflation-demand for gold. The bullish case: Given the global rise in fiat money, an anti-Dollar US administration, and the systemic uncertainties that exist, gold may still be the most attractive store of value long term. Moreover, the recent global reflation effort has led not only to food and energy inflation, but to internal strife. That has made gold more attractive, and the major trading currencies less so, inducing central banks to diversify their reserve holdings with gold.

### Current Perceptions-- Gold Bullion

Gold (-1.4%) fell this week on a surging Dollar (+3.8%). It is up 8 of the last 10 weeks, but hasn’t entirely erased the two-day 10% correction it suffered two weeks ago. At #1 in the model GLD’s overall technical trend is still very bullish. Its price is up over the last 13 weeks (+21%), and up over 52 weeks (+48%). Bullion recently peaked above $1900, but it closed at $1858 this week. The global rise in fiat money, an anti-Dollar US administration, and the systemic uncertainties that exist still make gold the most attractive store of value long term.

### US Long Treasury Bonds

**Assumptions-- US Long Treasury Bonds**

Assumptions JUL 1-- Long Treasury bonds are slightly bullish entering Q3 2011. They were up 3% in the second quarter, but are virtually unchanged over the past 12 months. Treasury bonds have been a question mark since the fall of 2010, when the Fed announced its second round of quantitative easing—the purchase of an additional 600 billion in Treasury debt through June 2011. As Q3 opens, the Fed has officially wrapped up QE2. It will continue to roll over those Treasury securities it has already purchased as they mature, but it is no longer adding new money.

The bullish case: The Obama administration’s effort to redirect private capital to traditionally less efficient public uses stunts economic growth. The US economy is thus showing signs of slowing, and the Fed is waving off QE3 as it is winding down QE2. (When it wound down QE1, first by ending its purchases of US Treasuries; then by ending all swap agreements with foreign central banks; then by raising the discount rate; then by ending new mortgage bond purchases, bonds rallied during the first three quarters of 2010. Investors expected and got a weaker economy, leading to QE2.) Europe’s sovereign debt crisis also made US bonds look relatively attractive in 2010, when compared to a collapsing global financial system. That crisis has been delayed for the moment, but is ongoing. The bearish case: The Fed's exit as a major T-bond buyer will reduce the demand for new paper considerably, depressing the price. Inflation has begun to pick up in the US, and although the Fed considers that to be temporary, it may be underestimating the danger. The Obama administration’s five trillion in U.S. government expenditure in his first two years, most of it financed by new debt, will increase the supply of debt going to market, pushing rates higher and prices lower. The ECB has concluded round two of the Greek bailout, stabilizing the debt situation in Europe-- exhibiting its resolve to avert debt default at any cost.

### Current Perceptions-- US Long Treasury Bonds

U.S. 25y+ Long Bonds (+0.9%) rose again this week. They have been positive in 17 of the last 20 weeks. Positive bonds reflect a bet on economic weakness. It has coincided with the end of QE2, as the Fed formally exited the Treasury market June 30, and lately with debt concerns in
Europe. The overall technical trend in Long Treasury prices is very bullish. The price is up over the last 13 weeks (+18%), and up over 52-weeks (+17%). The 10-year yield fell 8 bps to 1.92% this week. Cash yields, meanwhile, were down a tick at 0.01%. That flattened the 3M-10Y-yield curve to 191 basis points. Medium term, the yield curve trend is still flattening and the median yield falling. That indicates that growth and/or inflation prospects are declining-- favoring bonds over stocks.

**U.S. Large Cap Stocks**

**Assumptions-- US Large Cap Stocks**

| JUL 1-- US large-cap stocks were up in the first half of 2011, but strongest in Q1. Stocks are neutral to slightly bullish entering the third quarter. The S&P is nearer the top of its 2011 trading range (roughly 1260-1360) than the bottom. SPY is up 31% in 12 months, but up only about 1% in Q2. The bearish case: Large caps might be over-extended. Despite an eight-week slide in May and June, the S&P has not corrected 10% or more since July 2010. Secondly, the end of QE2 signals a less accommodative Fed—even as the Fed has forecast a weaker US second half. Thirdly, European sovereign debt problems, though stabilized for the moment, are still lurking. The bullish case: As the Fed repairs balance sheets under the "new normal" (QE1 and QE2), stocks have put together back-to-back 25% years. If things start looking weak again, QE3 can be expected. The Bush tax cuts and the Obama spending hikes both also look safe through 2012. The Dollar is sinking long term, which is good for the US export sector and for large cap multi-nationals with offshore income. Finally, with bonds yielding a negative real return, investors are considering large-cap, or dividend paying stocks, to fill their income needs. |

**Current Perceptions-- US Large Cap Stocks**

| U.S. large caps (-1.6%) were down this week. The steep August retreat has settled into a range bounded by the August low and the bounce off that low retracing about 50% of the total drop. This week ended near the bottom of that range. Everyone seems to be holding their breath for a possible QE3 announcement at the next Fed meeting in September. Still, SPY is in the model's #5 slot, now behind Asia, but ahead of US small caps. Large caps are less attractive than cash. Volatility rose this week, and the VIX is bearish for stocks. The overall technical trend in large cap stocks (SPY) remains very bearish. Its price is down over the last 13 weeks (-9%), but still up over 52 weeks (+4%). |

**U.S. Small Cap Stocks**

**Assumptions-- US Small Cap Stocks**

| JUL 1-- US small-cap stocks were up in the first half of 2011, but weakened in Q2. Small cap stocks are neutral to slightly bullish entering the third quarter and nearer the top of their 2011 trading range than the bottom. IWM is up 34% in 12 months, but were down about 2% in Q2. The bearish case: Small caps might be over-extended. Despite an eight-week slide in May and June, the small cap index has not corrected 10% or more since July 2010. Secondly, the end of QE2 signals a less accommodative Fed—even as the Fed has forecast a weaker US second half. Thirdly, European sovereign debt problems, though stabilized for the moment, are still lurking. The bullish case: As the Fed repairs balance sheets under the "new normal" (QE1 and QE2), stocks have put together back-to-back 25% years. If things start looking weak again, QE3 can be expected. The Bush tax cuts and the Obama spending hikes both also look safe through 2012. The Dollar is sinking long term, which is good for the US export sector. That is better for large cap multi-nationals with direct offshore income, but it indirectly helps those who supply multi-nationals as well. Many of those are smaller firms. |

**Current Perceptions-- US Small Cap Stocks**

| U.S. small caps (-1.4%) had another poor week. IWM is down 14% in 13 weeks, the most of any asset in the model. It is at number 7 in the model, end is very bearish-- far less attractive than cash. Small caps are underperforming large caps as economic growth has begun to slow, the |
Dollar weakens, and real bond yields are negative, pushing income investors toward dividend producing stocks. Small caps, like large caps, have been overshadowed by bonds and gold since mid-April. Small caps are down over the last 13 weeks (-14%), and flat over 52 weeks (+1%).

**European Large Cap Stocks**

**Assumptions-- European Large Cap Stocks**

JUL 1-- European stocks, are neutral entering Q3. The region was flat in the second quarter, but is up 34% in the past year. The bearish case: Equities have flagged since 2010 due to Europe's sovereign debt crisis. There is a lingering fear that unresolved sovereign debt issues in Spain, Portugal, Ireland, and Italy could take down the region's banking system. This weighs on the Europe 350 Index, in which financial institutions predominate. The bullish case: While there is a sense that the problems in Europe have not been solved, but only kicked down the road, by brokering two Greek bail-out deals, the European Central Bank has shown that it can and will avoid potential defaults. They will continue to stabilize the situation as long as need be.

**Current Perceptions-- European Large Cap Stocks**

European stocks (-7.0%) were hammered this week, as euro debt crisis pessimism increased. A US decision to sue several European banks last week did not help sentiment. It continues to be all about government, not markets. Greece is coming undone, and a third bailout plan is floundering. A German court this week cleared the legal path for a bailout, but the political path is increasingly twisted. Things could get messier. The euro is now neutral vs. the Dollar, and waning. The overall technical trend in European stocks (IEV) remains very bearish this week, and it holds at #9 in the model. IEV is less attractive than cash (paying 0.01%). Its price is down over the last 13 weeks (-22%), and over 52 weeks (-10%).

**Japanese Stocks**

**Assumptions-- Japanese Stocks**

JUL 1-- Japanese equities, are slightly bearish entering Q3. The market was up 2% in the second quarter, and is up 13% in the past year. The bearish case: Japan had the fastest appreciating equity market in 2011, until a 9.0 earthquake and tsunami led to a sell-off in stocks, and a stronger Yen, as a reverse carry-trade kicked in to pay for recovery. A stronger Yen hurts the export economy. In addition, Japan was economically weak before the quake. The BOJ had already announced near zero interest rates until "price stability is in sight," and that it would purchase up to 5 trillion yen ($60 billion) in various assets to help foster economic growth by slowing a surging yen. The bullish case: The G-7 stepped in to help lower the Yen and assist Japanese exports, a lion's share of GDP, and the Japanese government has pledged whatever spending necessary to get the country back on its feet. Moreover, the new government has abandoned failed government spending programs, due to the country's extremely high debt to GDP ratio and is now stimulating growth through the private sector-- including a lower corporate tax rate to stimulate job creation and capital investment.

**Current Perceptions-- Japanese Stocks**

Japanese stocks (-3.9%) were down big this week. The quake, tsunami, and subsequent nuclear meltdown are in the rear view mirror, and the recovery from the subsequent recession was gaining steam. The Yen is up vs. the Dollar in 2011, however, making new highs despite Japanese and G-7 intervention, and hurting Japan's export economy. The Swiss franc's devaluation this week puts added upward pressure on the Yen as a remaining "safe haven" currency. China, a key driver of trade in the region, continues to tighten and slow its own economy. The overall technical trend in Japanese equities (EWJ) is very bearish this week, and it drops to #6 in the model-- still less attractive than cash. Its price is now down over the last 13 weeks (-8%), and flat over 52 weeks (-6%).
Latin American Stocks

Assumptions-- Latin American Stocks

JUL 1-- Latin American equities, are bearish entering Q3. The region was down 4% in the second quarter, but is up 24% in the past year. The problem has been that the Latin region is a big supplier of raw materials (minerals, metals, and oil) to China. Latin equities began to lose steam in 2010, as China began to tighten credit in the second half. **The bearish case:** China continues to brake its economy and the US is slowing, dampening the region's export economy. Meanwhile, commodity inflation has hit Latin America— particularly in food and energy. In Brazil, surging consumer inflation pushed interest rates to 11.25%, amid calls for fiscal austerity. Chinese tightening, meanwhile, slowed Chilean mining exports, but not before its demand exacerbated inflation there as well. Only Mexico, in fact, seems to have skirted current Latin hyper-inflation fear. **The bullish case:** Chinese tightening is nearing an end, and slower global growth to date should reduce Latin inflation pressures and allow interest rates there to stabilize. Japanese recovery spending is expected to benefit the region somewhat. Lastly, a weaker dollar will help Dollar investors in Latin equities.

Current Perceptions-- Latin American Stocks

Latin American equities (-4.7%) lost a bunch this week. A stronger dollar (+3.8%), dumped the commodity index (-1.1%), but not oil prices (+0.6%). Among the equity indices in this model, the LA40 has been rock bottom over 52 weeks until Europe caught up this week. Latin America is down (-12%) over 13 weeks, and down (-7%) over 52-weeks. ILF's overall technical trend is bearish and deteriorating. At #7 in the model, it's a less attractive alternative than cash.

Pacific ex-Japan Stocks

Assumptions-- Pacific ex-Japan Stocks

JUL 1--Pacific ex-Japan equities, enter Q3 2011 slightly bearish. The region was down 2% in the second quarter, but is up 34% in the past year. **The bearish case:** The Pacific region lost steam in 2010 as China began to tighten credit in the second half. It was further weakened by reduced Japanese demand after the March earthquake. The inflation threat persists in some economies— particularly in food and energy— and is a major constraint. Several governments have joined China in raising rates. **The bullish case:** Japanese recovery spending is expected to buoy the region. Entering Q3, the dollar is still weak, supporting commodity prices. That improves the resource-rich region’s export earnings from raw materials and improves Asian bank profitability. Should China revalue the Yuan upward, as promised, commodities would benefit even more, as would materials exporters, (and the financiers thereof).

Current Perceptions-- Pacific ex-Japan Stocks

Pacific ex-Japan equities (-3.2%) got smacked around this week as well. The region’s index is heavily represented by commodity producers and financials, and both had difficulties this week. The inflation news out of China was not bad (for them), but it came after another round of tightening. The debt news out of Europe, meanwhile, heated up, and it was Asia’s first chance to react to US regulators suing 17 US and foreign banks. Higher commodity inflation in the region has been forcing rate increases that threaten regional demand. As a result, the overall technical trend in Pacific ex-Japan equities (EPP) is bearish this week. It is at #4 in the model, and is less attractive than cash. Its price is lower over the last 13 weeks (-10%), but flat over 52 weeks (-1%).
### Carry-Trade Corner-- at the close September 9, 2011

<table>
<thead>
<tr>
<th>Currency vs. Dollar</th>
<th>Overall Technical Trend (Change)</th>
<th>TS</th>
<th>Medium Term Implications for non-Dollar investors</th>
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</thead>
<tbody>
<tr>
<td>Euro (FXE)</td>
<td>neutral (-)</td>
<td>+23</td>
<td>Euro investors match the $ Moose</td>
</tr>
<tr>
<td>Yen (FXY)</td>
<td>bullish (-)</td>
<td>+74</td>
<td>Yen investors under-perform the $ Moose</td>
</tr>
<tr>
<td>Australian $ (FXA)</td>
<td>slightly bullish (-)</td>
<td>+38</td>
<td>Aussie $ investors under-perform the $ Moose</td>
</tr>
<tr>
<td>GB Pound (FXB)</td>
<td>neutral (-)</td>
<td>+8</td>
<td>Sterling investors match the $ Moose</td>
</tr>
<tr>
<td>Canadian $ (FXC)</td>
<td>slightly bearish(-)</td>
<td>-27</td>
<td>Canadian $ investors out-perform the $ Moose</td>
</tr>
</tbody>
</table>

Non-Dollar investors who want to maximize their profits using the Moose should incorporate a "carry-trade" currency strategy into the decision, making it a two-step process. First, decide whether it’s a good time to switch to US Dollars, then use the Moose to identify the best place to put those Dollars. (Generally, if one’s currency is weakening against the Dollar, non-Dollar investors in the Moose will outperform.) This table is intended to give non-Dollar investors an additional clue as to whether following the Moose might work for them. It may not be right every time-- as the currency markets can be volatile, and government intervention can make them even more so-- but more information is probably better than less.

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