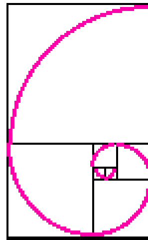


Sand Spring Advisors LLC

Tops 11-Weeks Apart
&
Macro Regime Shifts or Lack Thereof

by,

Barclay T. Leib

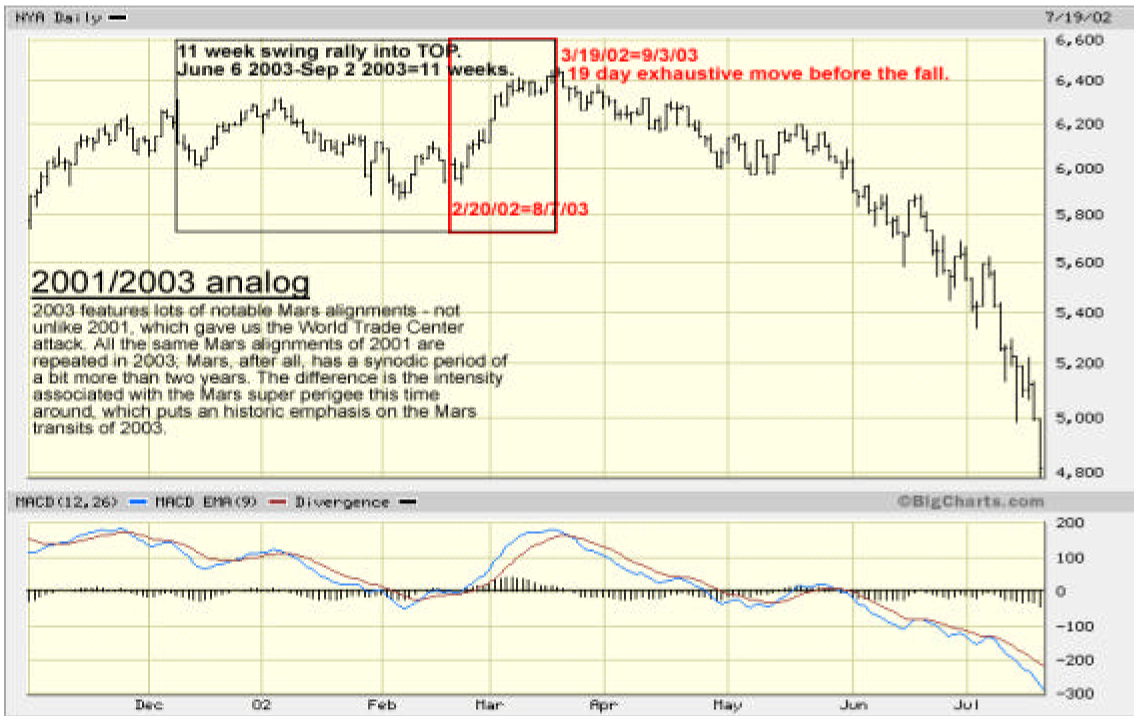
September 7, 2003

As I start writing this on Friday, September 5th, the NASDAQ indices just finished 7 days straight up, and are experiencing something of a reversal today. On a weekly basis, all the U.S. equity indices made a momentum high back on June 6th and now appear to be making a higher secondary peak 11 weeks later.

To some this may sound a bit crazy and somewhat reminiscent of being at an Atlantic City craps table, but past market guru Marty Armstrong once espoused to me that "Bull markets tend to end with daily and weekly bar counts that show either patterns of 7, 11, or 21. Conversely, bear markets more often go down in clusters of 6 or 13." I can well remember him in his PEI offices counting bars with his fingers on his Future Source terminal. More often than not, if I thought a top was in on a given day, he'd say: "No, it's only 19 days up. Bull moves either take 7, 11, or 21 days, so we need to be patient till the 21st day." As I now remember back to those days, he was usually right.

In the current instance, Sand Spring reader and ace technician, Dimitri Chalvasiotis has brought to our attention a most interesting possible analog comparison between the equity top in March 2002 and our current market action. This has also caused me to think back a bit to some of Armstrong's bar pattern beliefs.

As shown in the analog chart below provided by Dimitri, the broader averages spent 11 weeks between their initial "momentum" peak in December 2001 (post the October and November 2001 ultimately misplaced rally) and what Dimitri terms "an exhaustion peak" on March 19, 2002. On the last surge of this move, it took 19 days before reaching the final secondary high.



In potential analog fashion, the week just past also marks 11 weeks post the major equity index momentum highs of June 6th that then digressed into a lackluster choppy summer. In his graph Dimitri points to a final 19-days swing move higher, and compares this to a potentially similar 19 days between Aug 7th and Sept. 3rd. For some reason, he starts his count from Aug 7th. To our eye, Aug 8th actually represented the last swing low of late summer. Counting 19 trading days up from Aug 8th (not including Aug 8th itself) the reversal day we find for a perfect analog to Dec 2001-March 2002 happens to be Friday September 5th 2003 -- the nasty downside reversal day currently transpiring.

But then again, our mind also harkens back to Marty Armstrong, who if he were sitting by my side might well once again say: “No, we should still look for 21 trading days up.” Such a day count will of course be this coming Tuesday, September 9th. Numerologists may note that if one takes the WTC date of 9-11-01 and add the numbers together, it equals 21. So too does 9-09-03 -- another oddly coincidental harmonic.

The Fibonacci lines drawn above also suggest just a tad more room on the upside of the NASDAQ 100 – perhaps to around 1385 or so -- before an irritating and potentially huge A-B-C pattern is completed from all the way back in October 2002.

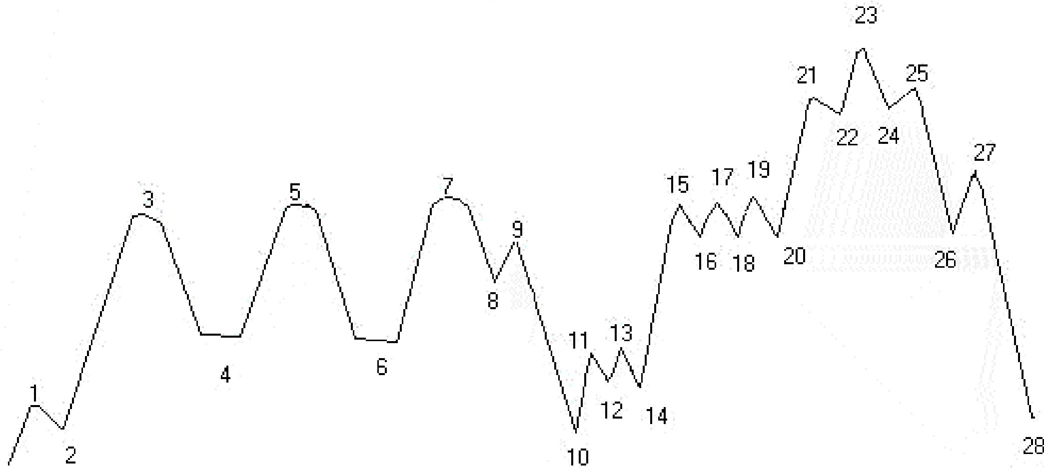
Of some note, September 8-9th is also the cycle window that market technicians Sherman and Tom McClellan (www.mcoccillator.com) have been targeting for a top. One piece of their analysis that we post below (sent to us by a friend, and hoping that the McClellan folks won’t mind the publicity in a one-time poach) is a rolling calculation of the number of up days in the NASDAQ over the past 40 days. Interestingly, this also shows a very similar pattern of divergence between the current rally period and Dimitri’s Dec’01-Mar’02 analog period. Of yet further note, the same pattern of divergence also existed at the Dec 1999-March 2000 NASDAQ all-time high topping formation.

Source: The McClellan Market Report

Meanwhile, from an astro perspective, 9/11/03 is of course when a Bradley Cycle shift was due to hit (discussed in our July letter) that was supposed to be a low. That cycle clearly and irritatingly appears to have completely inverted. According to Arch Crawford, the average high date of the fall months for equity indices also happens to be September 5th, and he currently sees negative astro-alignments on September 10-11th that he believes could prove particularly difficult. Of course, much of the devastation previously forecast by Crawford for the Mars perigee in August and earlier in the summer resulted in little, so please take these astro thoughts – as always – as just a potentially confirming tool to good technical analysis.

Lastly, our 8.6-month PEI Cycle that has been hitting high-to-high quite nicely (at least until the last cycle date in late July) also would still be suggestive for a market downswing between now and early December. Many readers have also written in asking whether the current S&P chart formation doesn’t resemble George Lindsay’s “Three Peaks and a Domed Top

Formation" (see our January 14, 2000 article with this title under the Earlier Articles section of www.Sandspring.com). It certainly does. While under this interpretation, an extension up to 1060 on the S&P in the "Dome" formation remains possible, Point 21 & 22 in Lindsay terms may have just been set in place this past week.



In any case, at this point, we're going to simply go out on a limb and say that Sep 5th - Sep 11th window should be "the top" to the entire equity rally period that started back in October 2002. If it is not, 1060 would remain a secondary possibility. We'd likely be crying a bit by that latter level and perhaps have few subscribers left listening to us, but personally we would also be doubling our already established short positions should such a high level be touched.

Perhaps some will think that our continued bearishness is becoming a bit like the "boy who cried wolf." Many will point toward strong corporate profits (particularly emanating out of Asia) and the currently ideal environment of low interest rates and strong fiscal spending that should fuel a rather standard cyclical recovery. Per these folks, the recent strong rebounds particularly in the Japanese Nikkei and other Asian markets seem to be leading the way toward a normal global business spending recovery. And some argue that the fact that the dollar went up instead of down during the continued August weakness in global bond markets is indicative of a new "regime shift" into a strong equity, weak bond, and strong dollar world.

In general, we don't buy into this regime shift argument, although to date, we have been hurt by our disbelief.

The bottom line between bullish and bearish views likely comes down to one question: Is Alan Greenspan slowly losing control of the economy and will his policy levers continue to work? Certainly we must believe that Mr. Greenspan was somewhat taken aback by how sensitive the markets were to two seemingly minor events of June-July: first, his 25-basis point interest rate cut instead of 50 bps, and then second, his early July testimony that any extraordinary measures by the Fed to buy longer-dated treasuries were not needed quite yet. The bond market reacted apoplectically to these relatively minor pronouncements like a drug addict suddenly forced to go cold turkey. We do not believe that the manner in which this transpired is a good sign for those arguing that the downmove in bonds was prompted by a normal cyclical recovery.

More recently, we have seen Treasury Secretary Snow trying to jawbone the Chinese into a Remimbi revaluation. The basic argument here is that the Chinese are just too damn competitive for U.S. industry to prosper, so please help us out a bit and make the Chinese currency stronger and thus China's exported goods less competitive to the U.S.

Yet by the time Mr. Snow came to Japan with much the same argument against currency exchange controls, the Japanese gave him a slap in the face by immediately engaging in the mostly publicly visible and vigorous intervention that they have made all year against yen strength.

Mr. Snow's current efforts remind us a bit of another Treasury Secretary – Jim Baker. Despite Mr. Baker's Princeton Woodrow Wilson School roots (to which I have some affection having graduated from that institution as well), I believe that Mr. Baker largely can be blamed for unsuccessfully trying to manipulate the world economy and helping to precipitate many of the global economic imbalances that exist in the world today. Here's the flow of actions that lead to that belief:

• **Sep. 1985:** The U.S. has massive trade deficit problem, and Baker arranges Plaza Accord to drive the dollar lower and "fix the problem." But the subsequent significant dollar decline does not improve the trade deficit. Instead, it keeps growing.

• **1986-1987:** Frustrated by not having put a dent in the trade deficit situation, Baker encourages the Japanese to lower their interest rates and lower trade barriers so as to spur demand for U.S. goods and fix the trade imbalance in a different manner. Grudgingly, the Japanese lower their rates and reduce some (but not enough) trade barriers. Yet instead of fixing the intended

problem of the U.S. trade deficit, an unintended consequence transpires: The low Japanese rates create a massive speculative bubble in the Nikkei and Japanese property bubble into 1989.

- **Oct 1987:** When Germans complain that dollar has fallen too far, Baker basically tells them "tough luck." This results in a banner *New York Times* headline on Sunday, Oct 18, 1987 that read something to the effect of: "Baker Tells Germans Weak Dollar Here To Stay." Stocks, already very shaky the prior week, proceeded to crash the next morning. The Fed was then forced to flood the system with liquidity.

Post the above events, the economic world has never been quite the same. Markets, a bit like a junkie on drugs, have been on a continuous and wondrous cheap money "trip." Equities and property – both representing real assets – have risen, largely financed by credit kept artificially cheap for an extended period of time (yes, we are at heart very partial to the Austrian school of economic theory). But American prosperity has been somewhat of an illusion, as the international purchasing power of the dollar has continued to decline and the U.S. trade deficit has done nothing but worsen.

Moving on to the Greenspan era, the pace of this cheap money trip was stepped up a notch in October 1998, when on two occasions *with less than an hour to go in the U.S. equity market trading day*, Greenspan cut rates aggressively and unexpectedly. These are the two rate cuts for which Northern Trust economist Paul Kasriel specifically cannot forgive Greenspan. In conversations that I have had in the past with Kasriel, he has said: "These cuts were unnecessary at the time. The LTCM crisis was already over. Greenspan went too far at that time by giving the markets more stimulus than was necessary. The fact that he made these cuts toward the end of the trading day indicates to me that he was specifically targeting to drive the equity markets higher – to give himself an added cushion of psychological safety -- and to ensure through strong equity market performance that a full recovery of consumer confidence would take hold."

Greenspan, of course, thereby unwittingly helped fuel the 1999-2000 tech-telecom bubble. Yet despite this mistake, he has continued to use similar tactics throughout 2001-2003 – notably with less and less immediate success. Quite simply, the economic patient that Greenspan has been treating is no longer reacting to his medicine as it used to – just as the overuse of antibiotics becomes less and less effective to the human body over time. Greenspan's ability to perpetuate prosperity has slowly waned. And by trying to fix the malaise created by the 1999-2000 tech-telecom meltdown with further doses of monetary stimulus, he has helped create yet another bubble in mortgage debt.

At present, it is hard to tell what the exact "prick" that shifts current complacent sentiment will be. As recently espoused on our website, if Elliott Spitzer is not careful, it could come from his newly announced investigation into mutual fund/market timer conflicts of interest (that could serve to dash consumer confidence in all large mutual funds and banks). It obviously could also come from a renewed attack by Al-Qaida as George Bush moves toward a vital election year. Or perhaps a financial accident of some sort related to mortgage derivatives is still brewing chez Freddie and Fannie and Wall Street banks still holding an amazing amount of exposure to the mortgage market. Just one of these events growing in magnitude is really all that is needed to make the U.S. bond market decline in June-July look in retrospect like a mere warning shot across the U.S. economic bow.

A Moment to European Banking & Basel Capital Adequacy Rules

As we recently discussed in a web-based article, we also believe that despite the October 2002-August 2003 period of global economic bounce, the European banking system remains particularly fragile. In a very similar fashion as Japan's banking problems of the 1990's resulted from the excessive Japanese lending practices of the 1987-1989 boom years (spurred on by Mr.

Baker), European banks now hold underwater loans to corporates who borrowed money at low European interest rates in 1998-2000 and went hog-wild buying into direct cross-border investments in the U.S.

As we originally wrote in an October 1, 2000 article entitled "M&A Currency Imbalances," Ray Dalio of Bridgewater Associates had the following to say about these flows as they were transpiring:

> **Dalio:** "Recently, there has been a major step up in leverage, and particularly in M&A activity. The stock market has gone up while individual household sectors have been sellers. We estimate that 60% of the stock market gains are attributed to company purchases of other companies or of their own stock. What we have seen in the last 18 months in M&A is heavily debt financed, particularly European purchases of American business. Because of that, there is a greater sensitivity to a rate change. If you have twice as much debt, and you raise interest rates by 1%, it has twice the impact than if you had half-as much debt, and you raised interest rates by 1%. So not only do you have the speculative element, but because of these equity merger activities, a tightening of Fed policy [or general backup in fixed income markets] will have a greater sensitivity and impact.
>
> **BTL: Is the corporate proclivity to repurchase stock and finance with debt going to end up as a fiasco sometime?**
>
> **Dalio:** It is creating very large asset-liability mismanagement, particularly when it exists between countries. European purchases of American companies have not been on a currency-hedged basis. Systematically through history there has been a tendency for companies to borrow wherever interest rates are lowest, particularly if that currency has been weak. People say, 'I'm going to borrow in this trashy currency that goes down all the time, and I'm going to pay a lower interest rate.' This has probably been the basis of more debt problems than any other single factor. We're setting ourselves up maybe to a riskier situation that could prove problematic -- maybe not right away, but likely a few years from now….
>
> [This problem really starts] in Euroland, where so much of the recent U.S. financing is coming from. We have a negative household savings rate here in the U.S. We have companies borrowing foreign money to buy other businesses here. These flows are abnormal and literally not sustainable. You can't have German M&A purchases equal to 8-10% of their GDP each year. Germans have gone bezerk -- they're on a buying binge. When I look at the history of institutions that have gotten into asset-liability mismatches because they're local interest rate is low, and they bought into businesses because of this, that history has not turned out to be very pleasurable.

Few of the problems created by this past go-go era have gone away. Instead, they continue to gestate behind the scenes, with companies likely Vivendi continuing to struggle under the massive pile of debt it created during this era, and the bankers who facilitated such debt still sweating bullets about these exposures.

In the meantime, illiquid cross-share holdings are almost as prevalent in Europe as they once were in Japan, and share values have of course declined since the 1999 days of excess. European pension funding issues for major corporations and banks alike are also non-trivial and in some cases, far worse than in the U.S.

Moving to the issue of bank liquidity and capital adequacy, banks (particularly European ones) have hit more and more tight capital situations in the past two years. The reaction has been to complain that Basel I capital adequacy rules are poor and overly restrictive. Basel II proposals (due for implementation between 2003 and 2006) are thus currently on the planning board to basically allow large multi-national banks to take a more flexible approach to measuring capital adequacy. These rules will build in the added value of portfolio diversification effects and allow banks to follow a number of different potential paths to internally measure and report risk. But Basel II is still quite vague, complex, and some distance off from full implementation.

Of course, the original Basel I accord, implemented some 15 years ago, never did work particularly well. Despite the many somewhat arbitrary restrictions of Basel I that bankers bemoan today, it still did not prevented significant banking crises from continuing to emerge. As recently explained in an article on www.RiskCenter.com: "Since the 1970s, there have been more than 100 episodes of systemic banking crises in 93 countries, with the frequency and severity of the crises increasing in the last 15 years."

That same article goes on to explain all the flaws with the Basel I accord -- including its help in actually precipitating he 1997 Asian crisis (highlighted in bold):

> [Basel I] turned out to be a project with very costly unintended consequences. First, among the shortcomings of the Accord, one must include the use of arbitrary risk categories and arbitrary weights that bear no relation to default rates, which incorrectly assumes that all assets within one category are equally risky or that one type of asset is, for instance, 100 percent riskier than another.
>
> Second, the risk assessment methodology is flawed in that it assumes that a portfolio's total risk is equal to the sum of the risks of the individual assets in the portfolio. No account is taken of portfolio effects that can greatly reduce the overall risk of a portfolio, or the size of the portfolio, which can greatly influence its total risk profile.
>
> Third, the accord gives preferential treatment to government securities. That means that banks need not hold any capital against those securities, if issued by OECD countries, or less capital than against loans to corporate borrowers, if issued by non-OECD countries. But as the sovereign defaults of Russia in the summer of 1998 and Argentina in early 2002 show, government debt is not a risk-free investment. Nor is a loan to many developing countries safer than a loan to a "Blue Chip" company.
>
> Finally, the existence of risk categories that create a divergence between economic risks and measures of regulatory capital has led to widespread regulatory capital arbitrage—that is, the assumption of greater economic risks without an increase in regulatory capital requirements.
>
> In sum, Basel I, already adopted by more than 100 countries, failed to achieve its main goal and may have made the international financial system less, not more, stable. **Indeed, it is widely acknowledged that assigning a 20 percent weight to short-term bank lending (as opposed to the 100 percent that lending to most private nonblank institutions carries) led to an increase in lending to Asian banks, which in turn contributed to the Asian crisis of 1997–98. Sixty percent of the $380 billion in international bank lending to Asia at the end of 1997 had a maturity of one year or less.**

We offer all of this simply as a way to say that Basel I certainly has not helped prevent banking crises in the past, and remains seriously flawed at present. And when the central bankers finally implement Basel II, more useful banking standards may or may not result. It might even allow banks too much flexibility. The same www.RiskCenter.com article continues:

> Basel II will add a new charge for operational risk and allow some banks to use their internal risk-measurement models to determine capital costs. Under the advanced Internal Ratings-Based (IRB) approach, banks supply their estimates of the probability of default, exposure at default, loss given default, and maturity to come up with the risk weight associated with a particular asset.
>
> That option, however, could turn into a regulatory nightmare, even in industrialized countries for at least three reasons.
>
> First, although banks are in a better position than regulators to estimate their risk exposure, giving them that option presents them with obvious conflicts of interest when the government acts as the ultimate guarantor of deposits. Will bank managers under those conditions knowingly or unknowingly underestimate the riskiness of their assets to lower their regulatory capital charges?

> Or will banks use one of the IRB approaches only to discover that their capital charges are significantly higher under that approach than under the standardized approach, as one of the quantitative studies conducted by the Basel Committee on Banking Supervision revealed, and then switch to the latter, because doing so will lower capital charges? They would certainly have an incentive to do so.
>
> Finally, how expensive is it going to be to implement the systems necessary to use the IRB approaches, not just for banks but also for the regulators that will have to determine whether those systems are appropriate or not? And will the benefits, in terms of lower capital charges, from the banks' perspective, and a more stable financial system, from the regulators' (and taxpayers') perspective, justify the costs? Preliminary results do not provide much hope for optimism.

Overall, given all these open questions, and the prior silliness of 1999-2000 lending excesses still weighing on Europe, we believe that it is impudent to simply dismiss the potential for a major European banking crisis at some point in the next few years. Exactly when and for what precise cause such a crisis may come to the surface, we cannot say. But the potential seriousness of this situation is certainly underestimated in today's popular media coverage.

A Word on Gold & the Consumer

Many of our readers are not inclined to short-selling, and for these subscribers, we endeavor to make mention over time of stocks and sectors that still stand a good chance to rally – despite our macro bearish views.

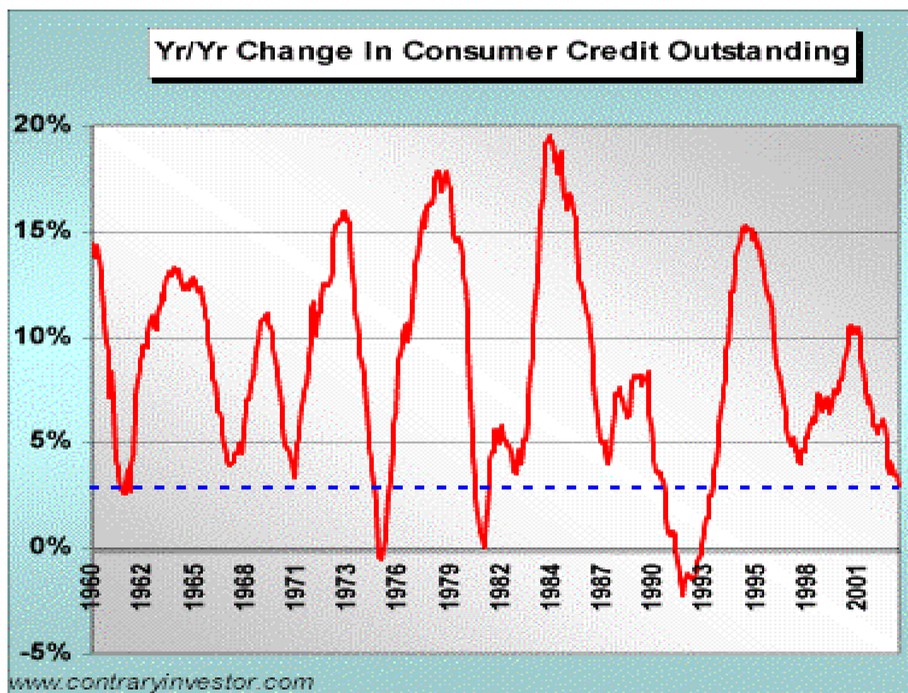
In 2000-2001, we repeatedly suggested various gold stocks, and we certainly remain friendly overall to gold in the long term. Yet per recent stats from the CFTC, the percentage of speculative longs on gold are now at levels last seen when gold was above $700 back in 1980, and Market Vane's Bullish Consensus reading has swung to 84 as of Friday. These are warning signs not to chase to yellow metal -- nor stocks related to it -- right now.

Overall, as the economy slips and slides along in what we consider a "stagflationary" manner, the capital markets are likely to continue going from periods where everyone is focused on debt deflationary forces (May-June 2003) to other periods where inflationary fears of imminent economic recovery and an overly accommodative Fed come to the fore (July-August 2003), before swinging back again in the other direction. As opposed to sustainable "regime shifts," these periods are likely to be ones of simple human psychology "over-anticipating" a definitive answer to a very messy situation, and putting an over-emphasis on a just a few data points that happen to come along suggestive of one outcome as opposed to another.

Gold notably performed poorly during the debt deflationary focus of the early summer, and then perked up in the late summer as the market's focus shifted more towards inflationary expectations. But this pendulum of market focus can, and likely will, swing back again in the other direction.

Of some note, people are currently paying little attention to trends in consumer spending despite the fact that in July consumer credit outstanding actually declined. As discussed recently at www.ContraryInvestor.com , this is highly unusual behavior for a supposedly recovering economy:

> [This decline in consumer credit] might not sound like a big deal, and one or two data points do not make a trend, but do you know how many times this has occurred on a month over month basis during the last ten years? Three, including last month {July 2003]. Looking back across many decades, contractions in consumer credit outstanding have only really occurred at significant recessionary troughs…It's clear that in historical post recessionary periods it has spiked higher as the forces of pent up consumer demand were unleashed on a more broadly recovering economy. As for this cycle, there largely is no pent up demand to be expressed as we move forward."



Of course, some may argue that the mortgage refi boom of June could have caused part of this July phenomenon as increased mortgage debt helped pay down consumer debt, but whether this was the case or not, another problem emerges: **The mortgage refi boom itself (and the significant added support that it has offered to the consumer over time) is now largely finished.**

Per analysis from the Mortgage Bankers Association as collated by New York-based Horizon Research Group: "The mortgage refinancing index declined by 14.9% in the week ended August 15, 2003. The mortgage applications index has declined by 33.9% from the same period one year ago." Total mortgage origination for 2003 is estimated to eventually total $3.2 trillion, of which refinancings will have been $2.1 trillion. But with now higher interest rates and expectations for economic recovery, the Mortgage Bankers Association now forecasts that mortgage refinancing activity will fall back to historical norms of only $430 billion in 2004. This leads the Horizon folks to ask: "How [can] a decline in refinance activity from $2.1 trillion to merely $430 billion over the course of one year…fail to exert a negative influence upon consumer purchasing power? [This is particularly concerning since] it is universally accepted that this has been the primary engine of consumer spending power in past years."

We believe that all of this is only just starting to show up in a more prudent pace of consumer spending, and has yet to be reflected in corporate profitability estimates.

Horizon also astutely notes that the summer's horrific decline in major fixed income markets cannot be viewed benignly in a vacuum. Someone has lost a lot of money. They write: "The U.S. National Debt totals in excess of $6.7 trillion, and there exist trillions of dollars of mortgage backed securities, agency debt, conventional corporate debt as well as derivatives based upon these instruments. The bond market has experienced its worst losses in a quarter century. Many financial institutions own this paper on a leveraged basis. Yet, none have announced the existence of losses. It is reasonable to believe and perhaps even reasonable to assert that some entities have experienced severe losses that must soon be announced."

Third quarter profitability numbers (and possible pre-announcements thereto) will shortly let us know. With the above concerns strongly in the back of our minds, by mid-October we

should truly see whether corporate profits can stay as strong as most people currently expect. We believe disappointment is likely – particularly in the financial sector.

And what if an Al Qaida event were to spook the consumer into yet further prudence? All of a sudden the current market focus on inflation could easily swing back to a renewed focus on deflationary forces. If and when such occurs, and for whatever cause -- terrorist or otherwise -- the copper market will collapse, and gold will soften – at least temporarily. So on a trading basis, we are not buyers of gold or gold stocks right now.

Power Generation & Distribution Fever

Instead, let us mention on the bullish side this month one stock situation also brought to our attention by Horizon Research and written up by them in a December 2002 report. They have generously given us permission to discuss this stock here. The stock is CenterPoint Energy (CNP-NYSE)-- a Texas-based power transmission and distribution company that made a number of misplaced forays into fields such as cable television and emerging market electric utilities in the 1990s when known first as Houston Industries and later as Reliant Energy. As a result of these forays, the company also built up a tremendous amount of debt. But post energy market deregulation in Texas, and some badly needed bridge financing in late 2002 by Berkshire Hathaway and CSFB, CenterPoint Energy now appears on the path back toward financial health.

Part of this process has been to split itself into a number of different entities. A non-regulated portion of the company was first split off into Reliant Resources. This got rid of a chunk of debt. Then in January 2003, CenterPoint Energy spun off to shareholders 19% of its non-regulated energy generation company Texas Genco. This was done in order to establish a public valuation for these assets with an eye toward a "2004 true-up" of stranded power generation costs from the State of Texas. On the back of strong demand for energy generation, Texas Genco has since soared from a distribution price near $8 to over $25, paying a 4% dividend, and currently carrying a market capitalization of $2 billion and a P/E of 24-1.

Yet CenterPoint, which still owns 81% of Texas Genco, also runs many other energy businesses including a natural gas business. It is the largest electric utility company in the Houston area and most of Texas. CNP itself earned $1.20 over the last year (or $367 million *net* of debt service costs), and pays a 4.5% dividend. CenterPoint also owns $300 million worth of AOL/Time Warner shares left over from a past cable television joint venture. Yet CNP carries a total market capitalization of only $2.7 billion and a P/E of only 8.5. Something would seem a bit out of whack here – even after one considers that CNP has a total of $10 billion in debt that the company must work to pay down over time. This is a profitable entity, and despite CNP being on credit watch by some of the rating agencies, the capital markets were recently most receptive to CNP's issuance of $1.5 billion in mortgage and convertible debt that in turn allowed the company to reduce more expensive bank credit facilities.

Looking forward from here into 2004, and as odd as it may sound, CenterPoint's old subsidiary, Reliant Resources has an option to buy Texas Genco from CenterPoint at a strike price equal to the average daily closing price of Texas Genco for the 30 days prior to January 9, 2004 plus a control premium of up to 10%. Per the Horizon report: "If Reliant Resources does not exercise the Texas Genco option, CenterPoint Energy will consider other alternatives for exiting the electric generation business, probably through divestiture. Since Reliant Resources is in worse financial condition than its former parent, the latter seems the more likely outcome." But in some form or another, the monetization of Texas Genco is likely, and once monetized, the cash received will serve to further reduce debt servicing costs to CenterPoint, and thereby expand earnings margins to this already profitable utility.

Post the East Coast blackout of August, power distribution and transmission is also, of course, a hot new topic and could be most beneficial to CenterPoint over time. One might easily imagine some sort of government incentive program being established to foster and encourage electrical distribution grid modernization.

Further discussion of CNP is beyond the normal scope of this monthly letter and the space available to us. We offer it simply to show that we are "not always bearish on everything," and as a situation that readers may want to investigate further.

We also quite like the look of CenterPoint's chart pattern that suggests a possible upside Fibonacci upside target near $16.52. This would be just under a 38% retracement of the dramatic slide in this stock from over $41 to $4.33 that was experienced by CenterPoint in 2001-2002 when fears of a debt implosion and possible bankruptcy ruled.

Technically we would only become concerned with this stock should CNP price to fall below its 200-day moving average. This moving average, depicted in red below, is currently near $7.70.

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