Sand Spring Advisors LLC

Expectations for 2010

by,

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Each year at this time we try to sit down and lay out something of a roadmap in our mind for the year to come.

2010 started with a mini-pi cycle January 6/7, 2010, and the most stretched market around at that moment in time was arguably: copper. It hit a high exactly in that window of time and has subsequently been sliding lower. Equities (particularly the Emerging Market variety) have also left something of a reversal over January's first two weeks.

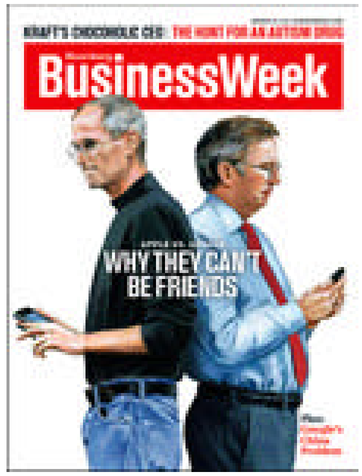
Sentiment numbers bullish equities have recently been quite extreme, as have call volumes relative to put volumes, while the VIX Volatility index has slipped to new lows.

All of this is suggestive of a major market top in development. The happier spirits that began back on 3-6-09 (3+6+9=18, Hebrew number of completion) may easily have come to an end on 1-7-10 (1+7+10 =18 --- another moment of potential completion).

We also face such anecdotal evidence that back in December *Time* magazine named Ben Bernanke their "Person of the Year" for 2009 -- which in contrarian fashion may easily mean that he is about to fall from grace and popularity in 2010.

Appearances by Federal Reserve Board chairmen on the cover of major magazines have indeed marked major turning points in the past. As pointed out by market analyst Paul Montgomery, Paul Volcker was on the cover of *Time* in 1982 in a negative light right when one should have been aggressively buying both stocks and bonds. He appeared again more favorably on the cover of *Newsweek* in March 1986 as the "second most powerful man in America" – only to see the bond market start to misbehave in early 1987 which led in turn to the eventual equity market Crash of 1987.

Add to this the fact that the NASDAQ was such a huge winner in 2009 that *Business Week* recently placed Apple and Google CEOs on its cover, and you have yet another anecdotal sign that a top in tech is either already established or at least nearby.



In this latter regard, one is reminded perhaps of the April 1987 cover of *Business Week* featuring Bill Gates of Microsoft – and April 1987 was certainly not a good moment to buy that stock or the tech market in general. Indeed, this prior cover also lines up with the recent Bloomberg headline concerning the lopsidedness of 2009/2010 sentiment stats: “Pessimism about U.S. stocks among newsletter writers fell to its lowest level since April 1987, six months before the equity market crash known as Black Monday.”

Meanwhile, just look at how the XLK Tech ETF has fared in early January – despite all the hype of the S&P & DJIA making marginal new highs during this same period:

On a 5-minute basis, 21.90 is our first target here. 18.65-19.90 is a second more intermediate-term target region of support on this ETF, while we see no possibility of a rally beyond 24.55 -- even if the recent decline were to only be a sloppy 4th wave before a possible final ascent in the XLK later in the first Quarter.

Another ETF that appears strikingly overbought to our eye is the IWP Russell Mid-Cap Growth ETF where we spy stiff overhead resistance near 46.55-47.15 both on a fractal basis and from the 200-week moving average just above this ETF's steep ascent.

With time, we see two downside targets in the IWP: 38.14; followed by a tradable bounce, and then potentially 32.87 later on.

Within our aforementioned bearish view of copper, a 2010 path such as the one below would be easily possible basis the March Comex Copper futures, with a similar looking picture for the DBB Deutsche Bank Base Metals ETF:

HG #F - COPPER - HIGH GRADE,W) Dynamic,0:00-24:00 (Delayed)
Comex Copper - weekly
(first contract)
312
241.7
198.4
GET RSI(13,8,3)
Published by eSignal (www.esignal.com)

DBB - POWERSHARES DB BASE METALS FUND,D) Dynamic
DBB - Base Metals ETF (daily)
20.89
19.41
19
17.40
14.04
GET RSI(13,8,3)
Published by eSignal (www.esignal.com)

All of this is suggestive of a difficult retracement year in 2010 where as much as a half to two-thirds of the 2009 advance is eventually given back – maybe initially in a slow grudging manner (Jan-March), but with some acceleration lower mid-year. Bernanke and Geitner will fall from popularity, as will Obama, and mid-term Congressional elections in November should end up being an acrimonious and difficult period.

Astrologically, this view generally matches those of Arch Crawford who writes of 2010:

> "The year ahead appears to us to contain the most powerful planetary alignments in centuries, not just decades….It is our fervent desire and hope that the extreme energies released upon the Earth this year will lead to an evolutionary leap in human consciousness. The concern, [however], is that they are rattling the fabric of our familiar universe, unraveling the 'strings' that have held together the internal, external, and geopolitical appearance of our daily lives."

While Crawford does not expect deep retracements until after mid-March, and maybe as late as May (with the possibility of marginal new highs in between now and early March), he admits that markets have lost their forward motion in the short-term and there may be a substantive dip first. Then, after money gets put to work into the spring IRA funding season, the real period of stress per Crawford is late July-early August. He writes further:

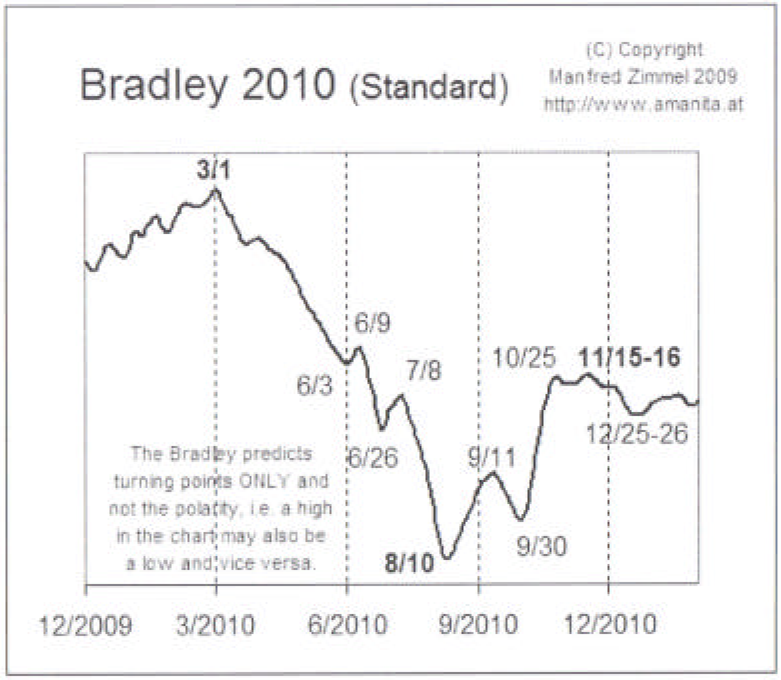
> "We will do everything but guarantee you that stocks will crash worldwide within three months of August 1st (that is between May 1 and November 1). Late July to early August is the point of greatest exactitude of the general "meanness." During that period, Mars will conjoin Saturn, both opposing Jupiter conjoining Saturn,…Pluto will form a square angle to all four, making a T-Square pattern of extreme animosity."

We are not astro experts here at Sand Spring, but we do know that Pluto rules taxes and leverage. It is the bill collector planet. Saturn rules government, boundaries, rules, and laws; while Mars is typically associated with war. Overall, in simplistic terms, Jupiter, which rules capitalism, growth, and expansion, is effectively attached to Saturn (or government), which is also being impacted by war. The whole pattern is occurring within the more major and longer-term dour period of Pluto being in Capricorn. Per *WallStreetWeather.net*:

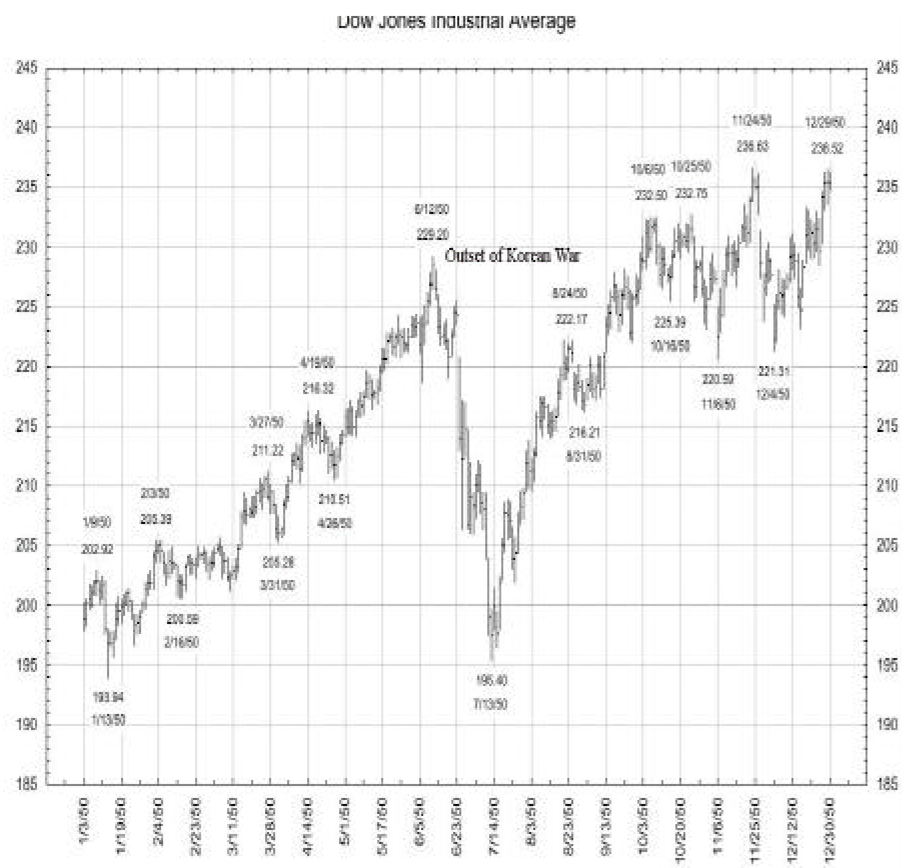
> "Pluto last sojourned in Capricorn from 1762-1778. Frustrated by being controlled and taxed by a government an ocean away, the American colonists declared their independence from Great Britain. Within the next seven years, America may have a second revolution that comes from within."

Overall- it might be safe to expect a societal food fight brewing in 2010/2011 on U.S. tax policy! Indeed, watch out in particular for problems and revolts when local states and municipalities try to balance their budgets with proposed higher taxes. At some point, we may be looking at a "Boston Tea Party II" type of environment.

Crawford's general view also lines up with the general Bradley astro Siderograph (as produced by www.Anamita.com in the chart below) which calls for significant turning points on March 1, 2010 and August 10, 2010 – and is suggestive of a decline in between (albeit direction is less significant with Bradley analysis than the turning point dates themselves).



We also know that for some reason, years ending in "0" also tend to be difficult ones. As detailed in the *Stock Trader's Almanac*, 65% of years ending in 0 have been down affairs, inclusive of the last occurrence in 2000. 2010 is also the "Year of the metal Tiger" within the Chinese calendar, the last of which was 1950. While 1950 was overall an up year, it was not without a mid-year swan dive lower that came with the outset of the Korean War.

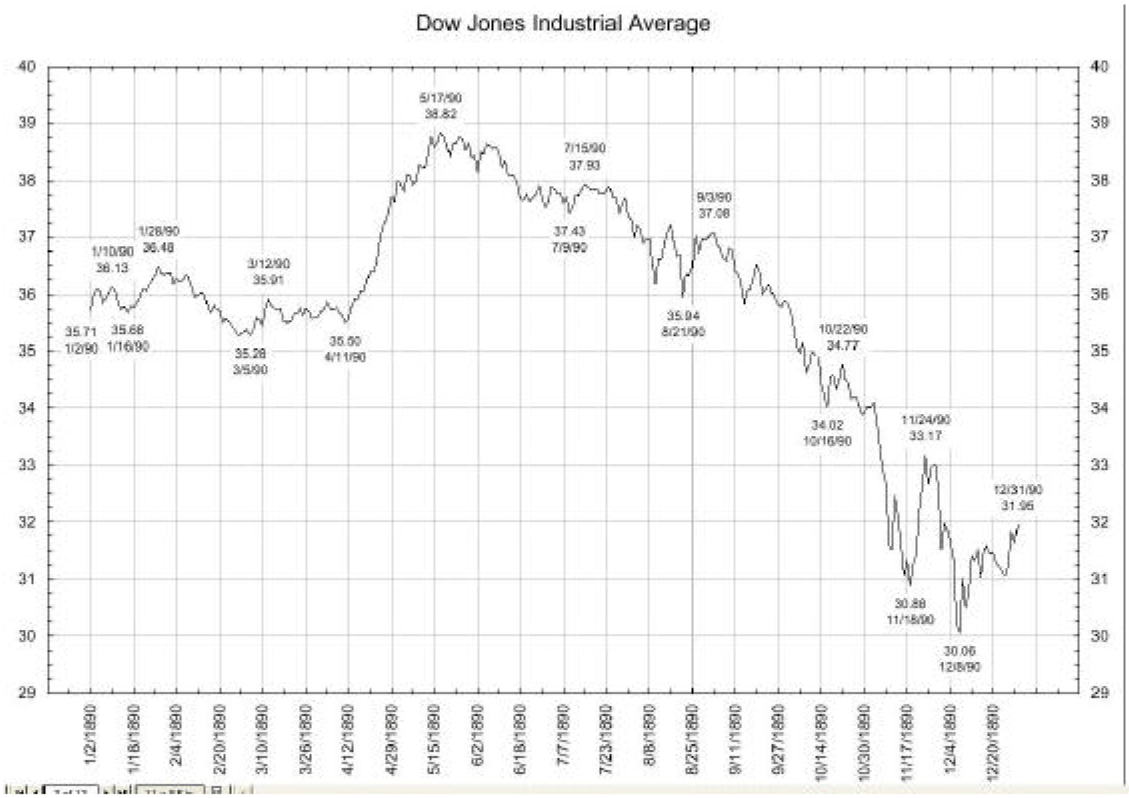


Source: TheChartStore.com

In a similar analog fashion, could the middle of 2010 bring an Israeli-Iranian conflict? We note with interest the view of *Stratfor.com* that:

> "The Israelis have said that unless the Americans can halt Iran's nuclear activities (whether through the use of "crippling sanctions" or military action, [or presumably other diplomacy]), they will have no choice but to launch a military strike of their own to neutralize the program. The year 2010 will be about Israel attempting to force a conflict, the Americans attempting to avoid it, the Iranians preparing for it, and the Russians manipulating all sides to make sure that a resolution to the standoff does not come too soon."

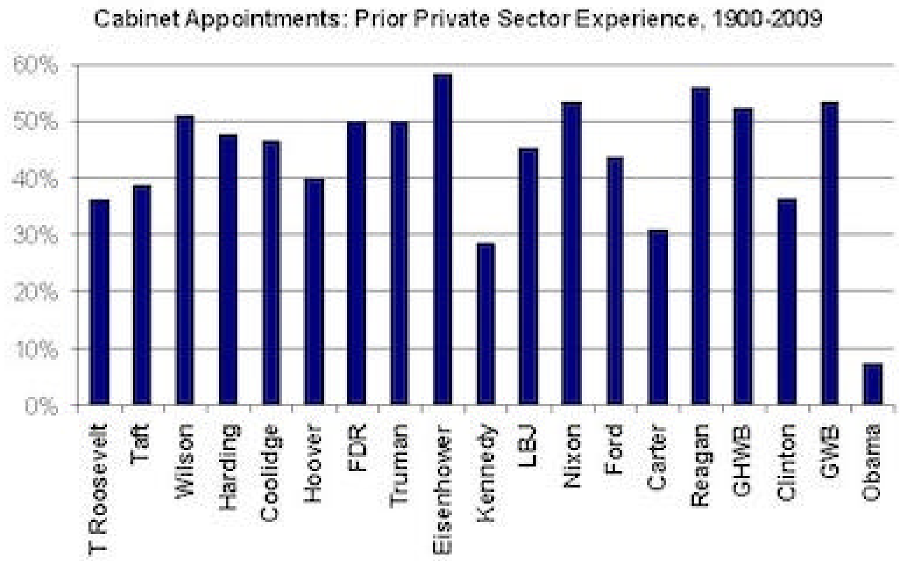
60-years prior to 1950, another "metal Tiger year" on the Chinese calendar was 1890 – also a nasty affair marked by increased government antitrust backlashes against big business. The Sherman Antitrust Act passed in 1890, as did the McKinley Tariff of 1890 which raised the tax on foreign products to a peacetime high of over 48%.



Source: TheChartStore.com

If history were to rhyme across this Chinese calendar cycle, will President Obama show his true populist stripes and come down hard on large American corporations over the next few years? Will calls for protectionism and increased tariffs against foreign goods increase?

The fact that President Obama starts with a cabinet that is filled more with career politicians and academics rather than real business people might suggest some business policy blunders could easily follow. (See the chart below.)



We also know that after 10-years of sideways to down equity markets, bullish optimism about America is only just starting to wane. This reminds us of the length of time it took gold bulls to fully capitulate after gold's 1980 top. Despite horrific price action for gold between 1980 and 1990, gold bulls still held out hope for a rebound in the metal's popularity. At $360 in 1990, gold was arguably pretty cheap. The first Gulf War in late 1990-1991 then saw Gold make a 20% vault higher from around $360 to approximately $430. Many (including this author) hoped the bottom was in – that the worst was over. After all, gold had by that time already gone down for a decade and been cut in half in its quoted dollar price, and even more in inflation-adjusted / currency-adjusted terms. But only then – between 1991 and extending all the way out to 1999 -- did the real period of "fear and loathing and disgust" of gold investments start, Gold languished (with a mild downward bias) between 430 and 350 for all of this time. It was like watching paint dry.

In a similar vein, we now stand with a NASDAQ that has effectively gone down for 10-years and stands at less than half its 2000 high. But might it not take all the way to our pi cycle low due in October 2015 to bring real fear, loathing, and capitulation to equity investing? How many equity bulls really understand and admit the following facts TODAY?

> "According to the International Monetary Fund, the United States began the century producing 32 percent of the world's gross domestic product. We ended the decade producing 24 percent. No nation in modern history, save for the late Soviet Union, has seen so precipitous a decline in relative power in a single decade.
>
> The United States began the century with a budget surplus. We ended with a deficit of 10 percent of gross domestic product, which will be repeated in 2010. Where the economy was at full employment in 2000, 10 percent of the labor force is out of work today and another 7 percent is underemployed or has given up looking for a job.
> Between one-fourth and one-third of all U.S. manufacturing jobs have disappeared in 10 years, the fruits of a free-trade ideology that has proven anything but free for this country. Our future is being outsourced -- to China.
>
> While the median income of American families was stagnant, the national debt doubled.
>
> The dollar lost half its value against the euro. Once the most self-sufficient republic in history, which produced 96 percent of all it consumed, the U.S.A. is almost as dependent

on foreign nations today for manufactured goods, and the loans to pay for them, as we were in the early years of the republic."

Source: A Decade of Self-Delusion, by Pat Robertson, Dec 29, 2009

It is our prediction that circa October 2015, those currently bullish the equity market will finally have been worn down, and will more readily admit to the above fundamental situation of deteriorating American economic leadership – a situation which already exists today, but which is not widely recognized or acknowledged by the average American. This latter October 2015 window may easily be the time to load up on stocks, <u>but we first have to traverse another 5.7 years to get there.</u> Along the way, based off our pi cycles, we expect a June 2011 low of some magnitude, followed by an August 2013 high (together with a slightly late solar sunspot maximum around that time, and relatively strong GDP growth), and then the point of real sentiment capitulation in early Oct 2015. Dec 2017 would then turn into another significant high – 17.2-years after the early Jan-Mar 2000 dot.com high. January 26, 2020 will then be a low and begin to usher back more benign buy-and-hold years (Kondratieff "springtime" in his longer-term cycle – some 55 years after the 1965 momentum high in real-dollars of the DJIA). A major new high out in 2034-2035 will then beckon.

So there is our broad-brush view. While back in February 2001 we wrote in our article *Measuring Financial Time: The Magic of Pi*, that after 2000-2008 dour period, the 8.6-year period between late 2008 and 2015 might be an earnings growth period weighed down by inflation (an "Alexander type 2" situation in the context of that article), now that we are within this window of time, it honestly feels like it first could be an uglier low growth period with elements of both monetary inflation by global governments and yet leverage deflation by a previously overstretched general public. The government wants to try to perpetuate the way things used to be, but Pluto in Capricorn promises instead a day of reckoning when debts must be paid or otherwise settled/written off. Over forty years of monetary excess have led to an end-game that will be extremely stressful to now resolve.

In a way this leads us to want to be short everything: stocks, bonds, and commodities – at least until June 2011. Summer 2010 through summer 2011 appears – per our various methodologies -- to be the most stressful period. Only from June 2011 onwards will it likely be a more favorable environment for stocks and commodities, but even then, the capitulation low in public sentiment toward equities may linger until early October 2015.

But the average person still has a hard time investing from the short side. It is almost counter-intuitive to the nature of many people. It also runs the risk of government money printing that sends the nominal prices of assets higher even while the real value of assets may be falling.

It is thus potentially useful to try to identify at least a few "stores of value" to be long. Many people have focused on gold, but to be honest, we saw gold as having amazing value as an investment back at $360 in 2001, but now some 8.6-years+ later, we feel less compelled to remain long of it at $1130. Gold is a "crowded trade" with too many hubris-laden managers such as John Paulson involved in it. Speculators could too easily be flushed out at some point, and when gold falls in a trap-door fashion, it can really fall fast. Given our bearish view on copper, we just don't trust it.

Energy investing might be another area that many investors naturally flock towards with theories of Peak Oil as their backstop. I am indeed sympathetic to such a view at least on a longer-term basis, but after an already strong rebound in this space since late 2008, I don't find it particularly compelling to chase energy stocks higher at this point either.

Instead, our desired "inflation-hedge long side investment" has to be more obscure and less obvious.

Investing in global water infrastructure and purification is one possibility. So too is investing in companies that will benefit from a redo of America's electrical energy grid. Investing long the agricultural and live cattle sectors may also be a way to play the forthcoming relative strength of foreign wealth, and demand by emerging countries for more food – particularly in the protein sector.

These are just a few areas where we feel the wind will truly "be at our back" longer-term.

In the water infrastructure space, CDZI is one controversial but potentially explosive owner of underground water resources in southern California. Given the right bureaucratic path over time, we could see CDZI reaching a price of around $29 someday compared to its current $11 price tag. The company is owned in part by smart distressed players Lampe Conway & Co,

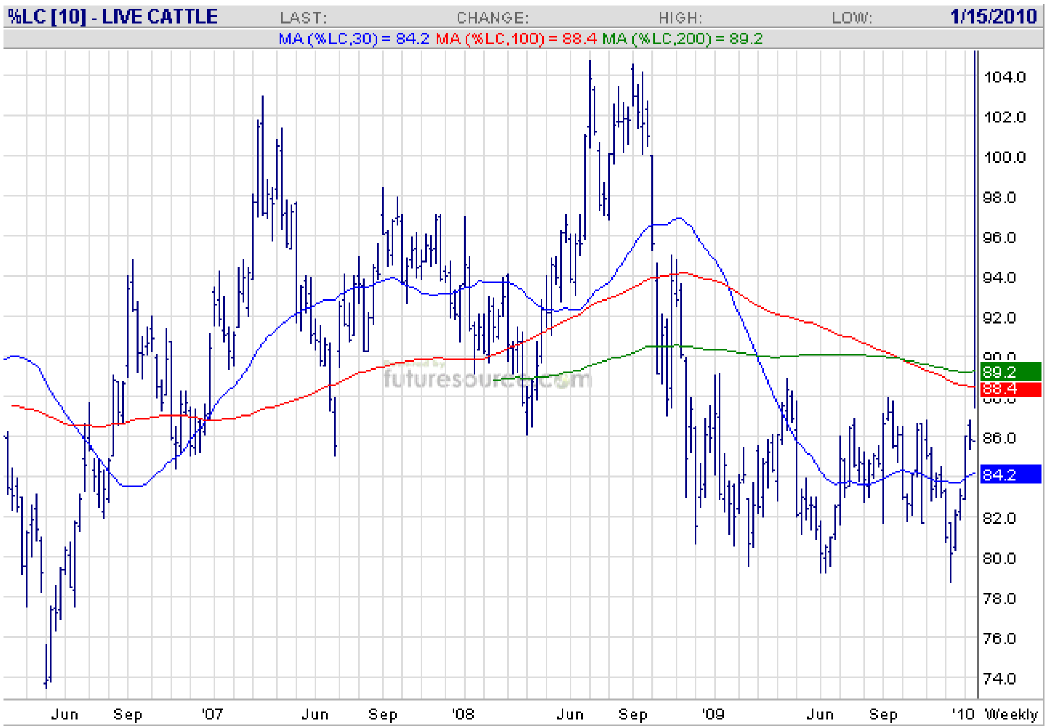
The DBA Deutsche Bank Ag ETF has recently had a hard time surmounting the $27 level, but a few closes above that level would likely open up a run higher. A target of 30 and then 32.55 are both easily possible.

Within the electricity grid infrastructure space, we like the chart pattern of MYRG which a friend pointed out as also having a potentially bullish fundamental story. $25.25 is our fractal target here.

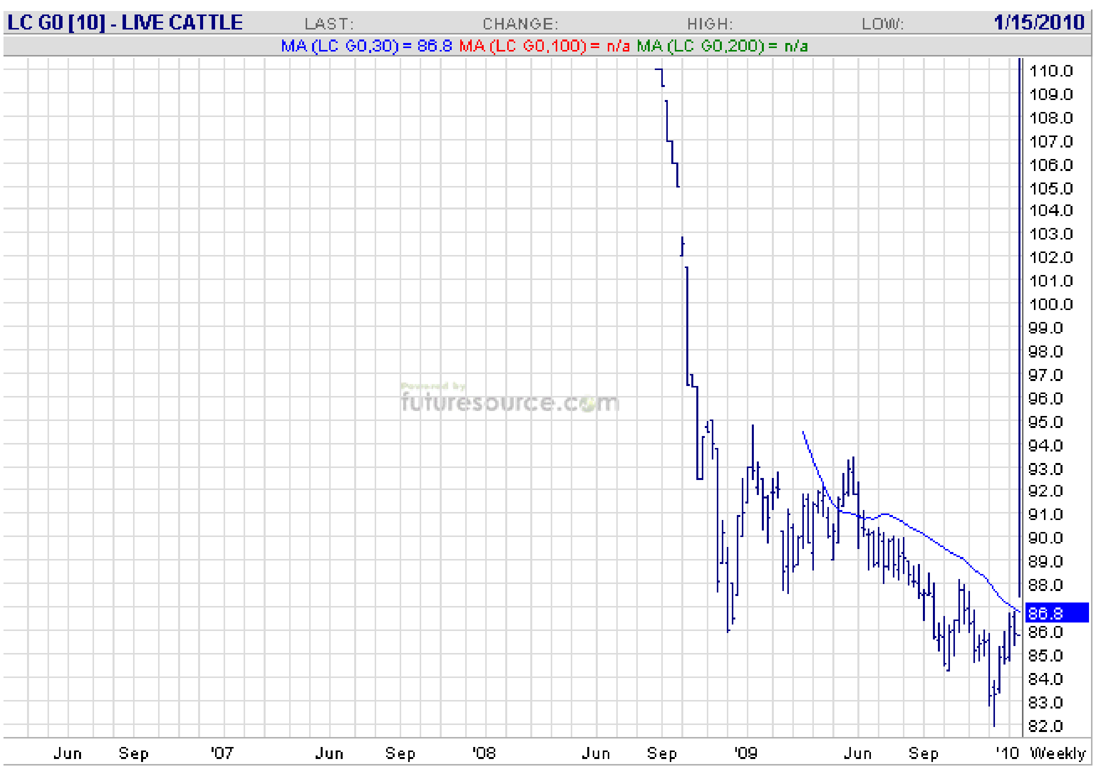
While we would not rush out and buy agricultural sprinkler company Lindsay Manufacturing (LNN) right here, pullbacks to around 38.55 might easily yield a low risk buying point with a $64 Fibonacci price target over time.

Meanwhile, we like the general bottoming formation of Live Cattle which might easily be a longer-term play on increased global protein demand.

Live Cattle – Daily



Live Cattle – Weekly



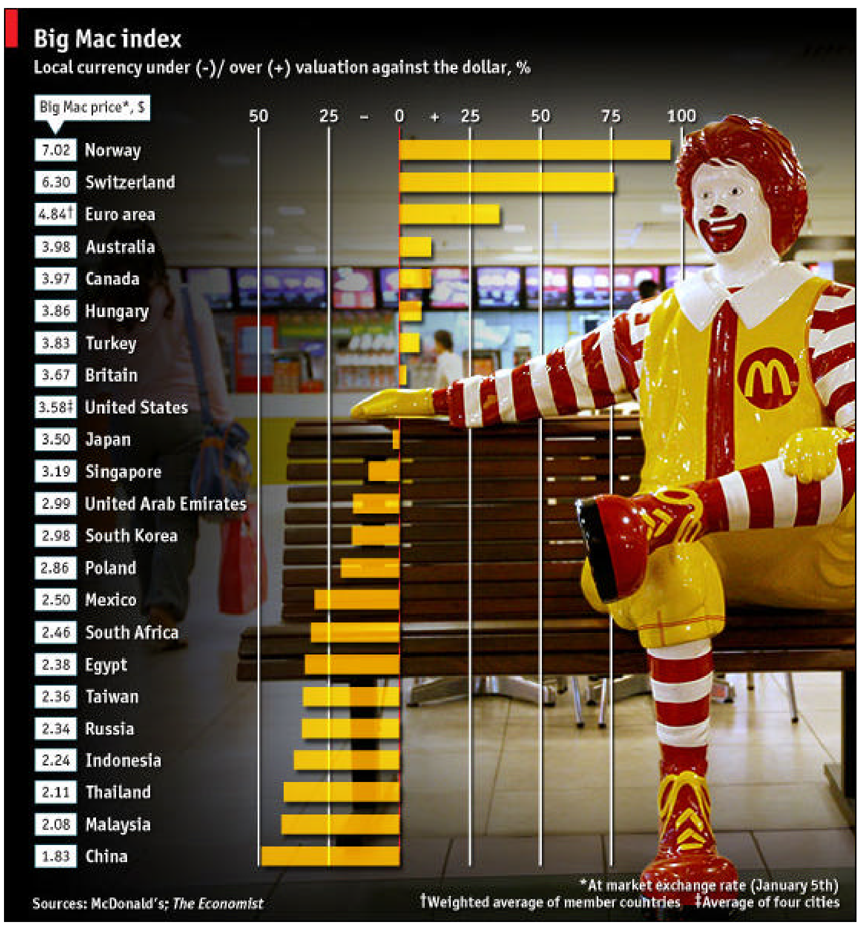
A few good cows may easily offer a better store of value than a few ounces of gold. The former are at least edible in a real global crisis!

Lastly, at about the time we finish most newsletters, some client voice in the back of our head starts saying: "But you haven't mentioned the dollar. What do you think of the currency markets?"

The dollar is indeed a tricky one in the current push-pull environment – fundamentally over-owned globally and thus subject to sale; constantly debased by our governmental policies; but at the same time, somewhat cheap on a purchasing-power-parity basis – at least compared to Europe. As we peruse this space, we find ourselves drawn to want to be short the Australian dollar, long the Chinese renminbi, and potentially short EUR/JPY (where we spy a potential double fractal missing low around 108.19). Short EUR/SGD may also hold similar appeal.

The AUD view fits our negative copper view; the Chinese renminbi represents an asymmetric bet that the Chinese will eventually allow their currency to appreciate as a tool to reign in inflationary pressures; and Euroyen may work if pressures continue to build on the fringe of Europe (i.e. Greece, etc.) for the Euro to fly apart.

Looked at another way, being short the euro-renminbi cross or the euro-Singapore dollar cross would certainly fit with the "Big Mac Theory" of purchasing power parity coming back into line. When we last checked in the *Economist* (see table below), a Big Mac in euro currency terms was wildly over-priced compared to a Big Mac in Chinese renminbi terms.



As Pluto transits Capricorn, this purchasing-power-parity divergence needs to at long last re-calibrate itself.

Sand Spring Advisors will endeavor to update our views on a timely basis as the year progresses.

Send us your comments at information@Sandspring.com.

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