

February 10, 2007 Review

Summary

The following is quoted directly from Bill Fleckenstein in the Daily Rap 2/8/07 (a subscription daily newsletter I read religiously and highly recommend):

Today's troubles started after the close yesterday, when New Century announced that their financials were basically no good¹ and that they hadn't been properly accounting for loans that might be put back to them. In addition, and more importantly, HSBC, which is thought to be a good operator, announced after a board meeting that they were going to take their mortgage loan-loss reserves from \$8.8 billion and change to \$10.6 billion and change. The disconcerting conclusion reached by HSBC is described by today's Wall Street Journal, in a story titled *In Home-Lending Push, Banks Misjudged Risk*: "**Its systems for screening subprime borrowers and for assessing the default risk they posed were flawed. Many of those loans have soured, sometimes quickly. The percentage of HSBC mortgages more than 60 days past due is climbing.**"² Fraud by borrowers has been higher than expected." I encourage everyone to read this article, and another one in the Journal titled "Mortgage Refinancing Gets Tougher." **In reading these articles carefully, I think you will realize that we are at a major inflection point.**

<https://www.fleckensteincapital.com/dailyrap.aspx>

I've written since last spring about the connection between the housing finance rot and the huge leverage/derivative problem (**and, in full disclosure, inaccurately predicted a more immediate negative equity market reaction as a result**). Now that a major lender, which monitors its own exposure, has recognized a significant flaw in the way it was assessing default risk, what do you think the chances are that the speculators with little or no experience in the industry have gotten it right? My guess is not much of a chance. We are now about to see if all the faith that has been placed in complex derivatives spreading risk and sheltering the financial markets was well placed or whether those derivatives will instead lead to a falling-domino-like negative chain reaction. My money is on the later.

We will see and probably will see faster than most would like . . .

Credit

- Subprime mortgage lender NEW CENTURY FINANCIAL CORP.'s counterparty credit rating was cut to "BB-" from "BB" by Standard & Poor's amid concerns that delinquent loans will erode earnings, S&P said. The "junk" counterparty rating, a measure of the company's financial strength, may be cut again, S&P said in a statement. New Century, one of the biggest lenders to borrowers with tarnished credit, on Wednesday said it would restate financial results for the first nine months of 2006. The Irvine, California-based company has also been forced to repurchase more bad loans as delinquencies surged, S&P said. "Net charge-offs have been rising, and there has been a significant acceleration of loan repurchases that were sold with recourse," S&P's Adam Rosengarten said in the

statement. "This situation creates the potential for higher credit losses and lower profitability."

- Feb. 5 (Bloomberg) -- The revival of 30-year Treasury bonds, beloved as much by the most sophisticated speculators as the soberest investors during four U.S. presidencies, is proving to be a bust. Demand for the so-called long bond is fading as trading contracts, the Federal Reserve shows no signs of cutting interest rates and the government prepares to sell more of its longest- maturity debt. In the past two months, the bond has lost 4.86 percent, compared with a 1.02 percent decline for the Treasury market, according to data compiled by Merrill Lynch & Co. Trading in U.S. debt slowed 5 percent last year, the first decline since at least 2000, according to Federal Reserve data. Yields on 30-year bonds are rising as the government prepares to sell \$9 billion of them this week. Many investors anticipated nothing but gains when the Treasury auctioned the bonds for the first time in five years last February at a record low yield of 4.53 percent. "The long bond has lost some of its cachet," said Gary Pollack, head of fixed-income trading at Deutsche Bank AG's Private Wealth Management unit in New York, which oversees about \$12 billion. Pollack said the yield on the bonds doesn't justify the risk that rates may rise. The yield on the bond maturing in February 2036, fell 5 basis points last week to 4.92 percent after touching a 10-month high of 5 percent on Jan. 29. It was little changed today. Long Bond Disappoints as Treasury Prepares Auction
<http://www.bloomberg.com/apps/news?pid=20601109&sid=aJo2ygvdwWJ0&refer=home>

Commercial Real Estate

Commodities

- Feb 9 - The inventory data released this week, especially for natural gas, was good news for the industry, as supplies last week dove by 224 billion cubic feet, the biggest drop in more than two years. Cold weather finally had users cranking up their furnaces, a fact that moved prices higher. Oil prices also climbed, moving back to \$60 a barrel. This week also brought reports from a Goldman Sachs economist that average oil prices this year are likely to surpass those in 2006. The markets have shown that energy price predictions one way or the other can't be counted on, but that view -- based on production that is lagging demand -- shows that lower prices are certainly not the consensus view.
<http://www.bullmarket.com/>
- Feb 8 - Well in a nutshell crude oil opened higher and then drifted lower until the end of the day when suddenly the market took off like a shot. Oil rallied over \$2. The building bullish factors could no longer be ignored and the buyer came in droves. A refinery fire at the Elk Hills Crude field in Taft, California. They announced they have lost 95% of production and no timetable for restarting. Tack onto that more problems in Iran and fighting between Israel and Lebanon and suddenly \$50 oil looks like a distant memory. On top of all that natural gas inventories showed a draw down in supply and likely that is going to be more and more as cold weather persists and supplies dwindle.
- Feb 5 - As the Kiplinger organization notes, 'By 2030, figure on world oil consumption in the neighborhood of 118 million barrels a day, **up 40%** from today... So no let up in global competition for reliable supplies of oil, natural gas and coal as discoveries of new

sources come less frequently.' We urge you think about long-life oil reserves (50+ years worth of reserves)." Indeed, there are only two long-life reserves that I know of left on the planet, the Orinoco Tar Sands in Venezuela that are likely to be nationalized by Chavez and the Alberta Tar Sands in Canada. Currently the world consumes more than 30 billion barrels of oil per year. However, over the past few decades my firm has been discovering only 9 billion barrels per year. Plainly, discovery rates are falling; **a fact reiterated by most of the major oil companies, who admit they can't replace the reserves they are draining.** As the populations of China and India increasingly enter the 21st century, we can only see the demand for crude oil rising. Consequently, when the permanent production peak occurs in the next few years, prices have nowhere to go but up, consistent with our mantra, "The era of cheap oil is over." Jeff Saut
<http://www.minyanville.com/articles/index.php?a=12094>

Currency

- Feb. 5 (Bloomberg) -- Joao de Matos, whose travel agency has been a fixture in Manhattan's Little Brazil neighborhood since the 1970s, stared at a chart showing a surge in Brazil's currency against the dollar and fretted about his business. "There's nothing I can do," said de Matos, punching numbers into a calculator to determine how much to raise prices on tour packages to Rio de Janeiro. "Brazil used to be a cheap place. It isn't any more." As de Matos, 59, watched, the real strengthened as much as 1.1 percent on Feb. 1, its biggest rally since September. The gain is the latest spurt in a four-year, 69 percent advance that made it the world's best-performing currency against the dollar. This year, the real has risen against every one of 70 currencies tracked by Bloomberg except Iceland's krona. A boom in exports of orange juice, sugar, coffee, soybeans and iron ore, as well as interest rates at 12.9 percent, are luring investors to the real. The currency ended last week at 2.105 per dollar, near its highest level since May. **Real Makes Brazil U.S. Dollar World Beater, Haven for Capital**
<http://www.bloomberg.com/apps/news?pid=20601109&sid=aduhExm26rv&refer=home>

Diversification

Derivatives

- Feb. 8 (Bloomberg) -- The perceived risk of owning low-rated subprime mortgage bonds surged today after the two largest U.S. lenders reported growing problems stemming from the loans, an index of credit-default swaps suggests. An index used to create swaps based on 20 BBB- rated bonds sold in the second half of 2006 and consisting of home loans to the riskiest borrowers fell 2.3 percent to about 88.5 today, the lowest since it was created Jan. 18, according to Deutsche Bank AG. The so-called ABX index was down 10 percent before today. HSBC Holdings Plc, the world's third-largest bank, late yesterday said more of its U.S. home mortgages were going bad than it expected. Irvine, California-based New Century Financial Corp. said it would post a fourth-quarter loss, restate other 2006 earnings lower and make fewer loans this year. "People are observing that New

Century and HSBC are saying that their loan performance is worse than expected and translating that into a broader statement," said Andrew Chow, who manages \$6 billion in asset-backed bonds and their derivatives at SCM Advisors LLC in San Francisco.

Implied premiums for bid prices mean investors must pay about \$775,000 per year to protect \$10 million of bonds, according to Deutsche Bank. Dealers set premiums on the contracts at \$389,000 when launching it last month. Countrywide Financial Corp., Lehman Brothers Holdings Inc. and RBS Greenwich Capital Markets Inc. last year underwrote the most "home equity" asset-backed securities, which are mainly subprime mortgage bonds, according to newsletter Inside MBS & ABS. **Subprime Mortgage Bond Risk Surges, Credit-Swap Index Suggests**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=avxemW08upao&refer=home>

- Feb. 6 (Bloomberg) -- Credit derivatives, the fastest-growing business on Wall Street, are squeezing returns for bondholders to an all-time low. Contracts that protect investors against defaults are being sold in record numbers and then bundled into securities known as collateralized debt obligations. CDOs are driving down the cost to protect against non-payment so much that even the government of Argentina, which reneged on \$95 billion of debt five years ago, is paying less than ever to borrow. "CDOs are changing the economics of investing in corporate bonds," said Lorenzo Isla, head of structured credit research at Barclays Capital in London. "By expanding the investor base for corporate credit risk, **they compress the spreads available to corporate bond investors.**" Bondholders have halved the amount they charge high-risk companies in the past four years to a record-low 2.6 percentage points on average over U.S. Treasury notes, according to data compiled by Merrill Lynch & Co. Investment-grade securities produced the worst returns since 2001 for fund managers from Deutsche Bank AG to Vanguard Group, Bloomberg data show. CDOs that invest in derivatives of investment-grade bonds return as much as 12 percent a year, three times more than the yields on the underlying notes, according to data compiled by Barclays Capital. Falling costs for credit-default swaps drive yields lower as investors exploit gaps between the two markets by buying bonds. Etienne Gorgeon, who manages 5 billion euros at Fortis Investment Management in Paris, says he bought Swedish phone company TeliaSonera AB's bonds in September when the cost of insurance against default declined. Gorgeon says he's earning about 4.31 percent a year from the bonds, even after buying credit-default swaps to hedge against risk of non-payment. The return compares with a yield of 4.09 percent on similar-maturity government debt. **"It's like a free lunch," says Gorgeon. "You're immune to default."** [This is the best two sentence summary of the attitude pervading the Street that I have seen. Many are trading as if there is no risk, which in fact creates a great deal of risk. The clock ticks on.] **Regulators worry that derivatives are distorting the assessment of risks in the debt market.** The Basel Switzerland-based Bank for International Settlements, which has monitored markets for central banks since the 1930s, says credit derivatives are too new to have been tested in a crisis. "People can't know what risks they've taken on," Bank of England Deputy Governor John Gieve told U.K. lawmakers last week. Financial markets need to return to "adequate risk pricing," Bundesbank chief Axel Weber, who is also a European Central Bank council member, said in an interview in Davos, Switzerland. Borrowing costs have tumbled even for companies whose credit quality has deteriorated. Akron, Ohio-based Goodyear Tire &

Rubber Co. is getting its cheapest rates on bonds. Moody's Investors Service and S&P cut the company's ratings to junk from investment grade in 2002 on concern about slowing sales. Junk bonds are ranked below Baa3 by Moody's and BBB- by S&P. Goodyear's \$400 million of 9 percent bonds due July 2015 now yield 287 basis points more than similar maturity government debt. **The spread is less than the 288 basis points the company paid to sell \$650 million of 7.857 percent 10-year bonds in 2001, when it still had investment-grade ratings. CDO Surge Squeezes Deutsche Bank, Vanguard Bond Funds**

<http://www.bloomberg.com/apps/news?pid=20601109&sid=ab.Ld5DC2sb0&refer=exclusive>

Earnings

- Feb 6 - National Semiconductor (NSM \$23) warned it sees a 3Q sequential decline in revenues of 14%-15% versus an earlier forecast of an 8%-11% drop. National Semiconductor blamed lower-than-expected shipments of display products and weaker sales to the Asia Pacific region. The company left its gross margin forecast unchanged.

Housing

- Feb. 8 (Bloomberg) -- Toll Brothers Inc., the largest U.S. luxury home builder, reported a 33 percent plunge in first- quarter orders and said expenses to reduce land holdings may almost triple. Orders declined to 1,027 units and homebuilding revenue slid 19 percent to \$1.09 billion in the three months ended Jan. 31, Horsham, Pennsylvania-based Toll said today in a preliminary earnings statement. The shares fell as much as 5.4 percent, the worst decline since August. Toll, a seller of houses that cost three times the national median, said land writedowns will be as much as \$160 million after an earlier forecast of \$60 million. While the charge is less than builders including Pulte Homes Inc., Chief Executive Officer Robert Toll said he's abandoning parcels ``because some deals don't make sense under current market conditions." ``It still shows that demand is weak, especially at the high end of the market," John Tomlinson, an analyst at Majestic Research in New York, said in an interview. Orders tumbled the most in the West, defined by the company as California, Arizona, Colorado and Nevada, where contracts slid 65 percent. The best-performing region was the North, which includes states such as Massachusetts, Illinois, New York, New Jersey, where orders dropped 8 percent. **Toll's Orders Plunge, Forecasts Larger Land Writedown**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aZZNk4JEzaBc&refer=home>
- Feb. 7 (Bloomberg) -- Brian Tuttle owns so much land that he paid \$3.6 million to get rid of 125 acres ready for development in the middle of Florida's Palm Beach County. ``In 2005, I was a brain surgeon, and in 2006, I was a moron," said Tuttle, who walked away from his deposit on the land rather than lose even more money buying it and building homes on it. ``The only good news is that I'm not alone." The worst housing slump in 16 years made a lot of smart money vanish. D.R. Horton Inc., Pulte Homes Inc., Lennar Corp., Centex Corp. and Toll Brothers Inc., the five biggest U.S. homebuilders, said plummeting land prices cost them a combined \$1.47 billion in the fourth quarter. Builders paid more for land during the boom because home prices were rising, too. They

didn't realize speculators were pumping up demand by buying houses to sell quickly. When prices reached a point where speculators quit buying, homebuilders were forced to abandon so much property they helped create a glut that drove down land prices more than 9 percent last year, according to data compiled by New York-based research firm Real Capital Analytics Inc. "Homebuilders allowed their own enthusiasm for price increases on houses to affect their decisions on what they would pay for land," said Mike Inselmann, president of Metrostudy, a real estate research firm in Houston. The decline in land values reveals the role short-term buyers played in the housing boom, when the median U.S. home price rose to \$276,000 last June from \$177,000 in February 2001. Industry executives, including Toll Brothers Chief Executive Officer Robert Toll, estimated that about a quarter of their houses were bought by people interested only in flipping them -- buying and selling quickly rather than moving in. **Toll, Centex, Lennar Join 'Moron' Speculators in Land Grab Bust**

<http://www.bloomberg.com/apps/news?pid=20601109&sid=aA90FVv3DDrY&refer=exclusive>

- Feb 4 - Orange County [CA] property owners are skipping their property tax bills in growing numbers. Fresh stats from the county's tax collector show that a sharp uptick in tardy payments that we saw for the December 2005 tax installment was no fluke. This past December's deadline was missed by 53,880 taxpayers owing on \$111 million, 25 percent more tardy dollars than the previous year. It means that 5.32 percent of the slightly more than \$2 billion tax dollars due went unpaid. Late bills haven't taken that big of a slice from the tax pie since 1996. The two-year surge in late payments is a turnabout from years of falling delinquencies that paralleled the county's hot housing market. Increasing frequency of tax delinquencies fits a pattern seen elsewhere in the now chilled housing market: Some folks simply can't afford their property. Last year, market watcher DataQuick found that bankers sent out 5,865 notices of mortgage defaults to O.C. property owners, 88 percent more than the year before. It was the largest year for these notices – the first official step toward foreclosure – since 1999. The local economy still churns out new jobs. So you can eliminate unemployment as a key culprit in the late payment surge. I'd blame some shoppers' appetite for homes exceeding the girth of their budgets. **Late property taxes grow Share of skipped payments at highest level since 1996** http://www.ocregister.com/ocregister/money/columns/article_1564034.php

Housing Finance

- In late 2005 Velma Vardiman, now 34, was diagnosed with a rare skin cancer that forced her to quit her secretarial job and go on Social Security disability. To pay off hospital and other bills, she refinanced a \$45,000, 30-year, 7.37% fixed-rate mortgage on her St. Louis area home. But in a lawsuit pending in federal court against mortgage broker St. Louis Financial, and a subsidiary of JPMorgan Chase & Co. that lent the money, she claims she learned only after closing that she had signed for an adjustable loan that could go as high as 13.95% after just two years. She also claims she wasn't told that her new lower payment didn't include \$150 in monthly taxes and insurance, as her old one did. "I'm mad at myself, I was too trusting," laments Vardiman, who now faces foreclosure. St. Louis

Financial and Chase deny any liability or misconduct, but did they have the duty to steer Vardiman away from the adjustable loan? Probably not under current laws, which, while they to some degree limit fees and prepayment penalties to prevent gouging, don't impose any fiduciary obligation of the lender to the borrower. But as mortgage defaults rise, the new Congress and several state legislatures are contemplating enactments that would require mortgage brokers and lenders to make sure a loan is "suitable" for a borrower--just as stock brokers have to make sure an investment is suitable for a client. Your loan officer would be required to ask a series of detailed questions about things like your financial goals and your tax status. And if the loan was inappropriate, the lender would be open to a lawsuit--and even a prison term. "If something like this were to pass, it would dramatically change business models, just because of the litigation risk," says Kurt Pfothauer, chief lobbyist for the Mortgage Bankers Association. Example: Lenders could face liability for pushing balloon mortgages to retirees living on a fixed income, or for committing debt-laden borrowers to loans with monthly payments that exclude taxes and insurance. A Tennessee law that took effect in January, for instance, prevents lenders from refinancing a mortgage that's less than 30 months old unless the refi "provides a reasonable benefit" to the borrower. No telling what a jury will consider reasonable. The law also caps fees on certain loans and requires warning stickers on nontraditional mortgages (like interest-only mortgages). **[Regulation increases costs and decreases availability. While politically popular, this restriction and increased cost will accelerate problems in the area not fix any of them. It is also inevitable that politicians will flock to this area and bad law will result]. As defaults rise, politicians are angling to meddle in the loan-writing business.** http://members.forbes.com/forbes/2007/0226/040_print.html

- Feb. 8 (Bloomberg) -- Shares of U.S. mortgage lenders plunged after New Century Financial Corp. and HSBC Holdings Plc said losses from bad home loans are piling up faster than they expected. The stock of Irvine, California-based New Century fell \$9.08, or 30 percent, to \$21.08 at 1:04 p.m. in New York Stock Exchange composite trading, the biggest decline since October 1998. Accredited Home Lenders Holding Co. lost as much as 11 percent, Novastar Financial Inc. tumbled as much as 14 percent and American Home Mortgage Investment Corp. slid 8.7 percent. Both New Century and HSBC blamed rising defaults on so-called subprime loans they made to borrowers who had little credit history or heavy debt loads. Defaults on subprime loans increased nationwide last year as competition and a slower housing market prompted lenders to lower their standards and give mortgages to borrowers who couldn't make their monthly payments. "It's kind of a watershed moment where the magnitude of the problems really is starting to come to the surface," said Brian Horey, general partner at Aurelian Partners LP in New York, which has sold short shares of New Century. "If you could fog a mirror, you could get a loan." New Century, the second-largest subprime lender, said late yesterday it probably lost money in the last quarter and will need to restate 2006 earnings, and the company won't make as many loans this year as it had previously forecast. Wider Impact HSBC, the world's third-largest bank by market value, announced a management shakeup today after setting aside \$1.76 billion more than analysts estimated to cover bad loans in 2006. Shares of the London-based bank fell as much as 2.6 percent, the most in eight months. Shares dropped as much as 10 percent at Fremont General Corp. and 14 percent at Fieldstone Investment Corp. The damage spread to stocks of other companies including

H&R Block Inc., which is trying to sell its Option One home lending unit. The shares fell as much as 3.6 percent. Washington Mutual Inc., the nation's biggest thrift, lost as much as 2.8 percent. Countrywide Financial Corp. and IndyMac Bancorp Inc., ranked No. 1 and No. 2 among independent mortgage lenders, shed as much as 4 percent. **Among subprime loans, delinquencies of more than 90 days plus foreclosures and seized properties are at their highest level in at least six years**, according to a Friedman Billings Ramsey Group report. Home Lenders Plunge as More Subprime Mortgages Sour <http://www.bloomberg.com/apps/news?pid=20601087&sid=aCL4Qhgqe8WE&refer=home>

- Feb 8 - Shares of New Century Financial (NEW \$30), the second-largest subprime mortgage lender in the U.S., are taking a beating after the company unexpectedly reported that it expects a 4Q loss versus the consensus estimate of a profit of \$1.06 per share. New Century also said it will delay its full 4Q report, which was due out today, to an undetermined date, and it will restate the prior three quarters' profits lower. The company added that it sees 2007 loan production down 20% versus an earlier forecast of unchanged, amid tighter credit standards in response to higher default rates.³
- Feb 6 - . I continue to hear the subprime carnage is accelerating. Several of these firms are believed to be close to shutting their doors.´ Doug Kass The Street.com http://www.thestreet.com/_htmlrmd/markets/activetraderupdate/10336957.html

Macro Economic

- **Feb 8** Wholesale inventories in December 2006 were \$393.8 billion, down 0.5% from November 2006 but up 8.6% from December 2005. Sales were \$337.1 billion, up 1.8% from the previous month and up 8.6% from the previous year. <http://www.economicindicators.gov>
- Feb. 7 (Bloomberg) -- U.S. worker productivity grew at the fastest rate in almost a year last quarter and labor costs rose at a slower pace, suggesting wages may pose less of an inflation threat. The 3 percent gain in productivity, a measure of how much an employee produces for each hour of work, followed a revised 0.1 percent decline in the third quarter, the Labor Department said today in Washington. A measure of labor costs increased 1.7 percent after rising 3.2 percent. **[It's all good news right?]** <http://www.bloomberg.com/apps/news?pid=20601103&sid=akGEqFbGcudE&refer=news>
- Monday is budget day in Washington, and to mark the occasion, President Bush is expected to send to Congress a pro-growth, low-tax document with some eye-popping numbers. Buried within it, according to a senior Democrat, will be a \$784 billion item--for national defense. That'll be the figure everyone focuses on and that will be the President's biggest problem. **Bush's Burgeoning Budget** http://www.forbes.com/2007/02/02/bush-budget-debut-biz-wash-cx_bw_0205budget_print.html
- **[I am not trying to inject myself into the war debate. I just simply thought this number interesting particularly in light of the dramatic increase in debt during the same period.**

The bottom line is that the government continues to spend much more money than it takes in and that will have to be addressed at some point.] **Feb 4 - The Cost of the Iraq War: Can You Say \$1,000,000,000,000?** Feb. 4, 2007 — - The price tag for the Iraq War is now estimated at \$700 billion in direct costs and perhaps twice that much when indirect expenditures are included. Cost estimates vary -- Nobel Prize-winning economist Joseph Stiglitz puts the total cost at more than \$2 trillion -- but let's be conservative and say it's only \$1 trillion (in today's dollars). As a number of other commentators have recently written, this number -- a 1 followed by 12 zeroes -- can be put into perspective in various ways. Given how large the war looms, it doesn't hurt to repeat this simple exercise with other examples and in other ways.

<http://www.abcnews.go.com/Technology/print?id=2844304>

- Feb. 4 (Bloomberg) -- U.K. vets have begun to slaughter more than 150,000 turkeys to stem an outbreak of the deadly H5N1 strain of avian influenza at a farm in the east of England, Britain's first recorded case of the disease in poultry. Vets worked all night gassing birds at the farm in Holton, Suffolk, with carcasses being sent by lorry to an incineration plant in Staffordshire, central England, said a spokeswoman for the Department for Environment, Food and Rural Affairs by telephone. The cull is aimed at stamping out the disease before it has a chance to mutate into a form that's more deadly or infectious for humans. The H5N1 virus has infected at least 270 people worldwide since 2003, killing 164 of them, according to Jan. 29 figures from the World Health Organization. **U.K. Vets Kill Turkeys to Stem Lethal Bird Flu Spread** [have not seen this in the news lately]

http://www.bloomberg.com/apps/news?pid=20601087&sid=aQ_oAcP3P8LM&refer=home

Retail

- January brought a cold shoulder to many specialty retailers, with stale merchandise and inventory-clearing discounts dragging down sales at several big chains. In her monthly sales preview, independent retail analyst Jennifer Black said that while the mid-month northeast cold snap was helping to clear winter merchandise that was slow to sell during the December holiday season, specialty stores like Hot Topic, Ann Taylor Stores and Gap have been hindered in their efforts to get merchandise off the shelves by drab styles or heavy discounting. Black forecasts a drop in same-store sales of 5% to 7% at Ann Taylor Stores from January 2005, thanks to a merchandise assortment she dubbed "not exciting." She's predicting a fall of 6% to 8% at Hot Topic, and a flat-to slightly negative month for Abercrombie & Fitch. She reserved her harshest assessment for Gap where the apparel, she believes, is generally in line with current tastes but is simply less compelling than the competition. "The shopping experience continues to be dull," Black says of Gap, which just had its senior debt rating cut by Moody's. Sales results aren't expected to be bad everywhere, however. Black projects a solid 9% to 11% jump in same-store sales at American Eagle Outfitters, fueled by lots of December gift card sales. Limited Brands also stands to show a positive month, thanks mainly to a successful semi-annual sale at Victoria's Secret. And at upscale chain Nordstrom, strong merchandise and a minimal need for discounting figures to keep profit margins high and comp sales at double-digit

growth this month, according to Black. "We believe Nordstrom stole the show, and we are expecting amazing results," she says. http://www.forbes.com/2007/02/06/gap-retail-sales-markets-equity-cx_tvr_0206markets10_print.html

- **Wal-Mart** (WMT) said Saturday that same-store sales increased 2.2% in January, topping its own forecast. The Bentonville, Ark. retailing giant had predicted 1% to 2% growth for the five week period that ended Friday. January's increase appears to mark something of a rebound from a recent string of poor monthly same-store results. But Wal-Mart's latest fiscal year, which ended Jan. 31, is shaping up to have the lowest same-store sales increase in the 27 years the company has reported the statistic, *The Wall Street Journal* noted.

Retirement

Risk

- Hedge funds took more than a quarter of all asset management revenues last year as high fees and strong sales boosted income, according to research from Merrill Lynch. Merrill estimated that hedge funds accounted for 28% of the fund management industry's revenues last year, up from 20% in 2005, even though they manage a tiny portion of total assets. The figures help explain the rush by big investment banks to buy stakes in hedge fund management companies. [why is this in the risk section? Because the entities making the big bucks are also the entities extending the credit that allows these major revenue sources to lever up.] <http://www.financialnews-us.com/?contentid=1047139332&page=uspressdigest>
- Feb. 5 (Bloomberg) -- Red Kite Metals, part of a \$1 billion hedge fund run by RK Capital Management LLP, lost about 30 percent in January as metals prices tumbled, said two investors in the fund. The slump followed a 9.4 percent decline in copper last month, said one of the investors, who declined to be identified because details of the fund's performance are confidential. David Lilley, a London-based partner who on Jan. 20 said he was bullish on copper, would neither confirm nor deny the loss in an e-mail today. RK Capital, co-founded two years ago by Michael Farmer, was one of the best-performing commodity funds in 2006 as prices for copper, zinc and related metals surged, the result of expanding economies in Asia. Copper and zinc sank on Feb. 2 on concern Red Kite investors would demand their money, forcing the hedge fund to sell contracts to raise cash and driving prices even lower. "Size is important in commodity markets," said Kimberly Tara, chief executive officer of Geneva-based FourWinds Capital Management, which invests in commodity funds. "If your assets are large in relation to the markets you trade in, you have to take big positions. Those positions then become transparent and expose you to larger risks in the market." **Red Kite Fund Lost 30% on Metals Bet in January,** <http://www.bloomberg.com/apps/news?pid=20601087&sid=atRvmtfqfvo0&refer=home>

Savings Rate

Tech

Wall Street

- Commodities expert **Jim Rogers** is the latest prophet of doom with dire predictions for both the private equity and hedge fund industries. Speaking to Australian journalists, Rogers expects there will be a "gigantic shakeout" in private equity as the current cycle comes to an end. **"There is too much money, they are paying too high prices and they are leveraging themselves too much."** He went on: "Next time we have a bear market, it's isn't going to be fun for anybody" – even for his own baby, the commodities market. This is probably not what the Aussies want to hear, especially with the current upsurge in p.e. investment Down Under. He had a few choice words for hedge funds as well. "Right now we have 25,000 to 30,000 hedge funds around the world," Rogers noted. "We don't have that many smart 29-year-olds in the world," and lest there be skeptics among the crowd, he insisted, **"I assure you, we're going to see a lot more blow ups."** Which for some won't be a bad thing. Rogers says the survivors will pick up bargains in the fallout. "Some of these guys are going to come apart at the seam," he said, **"I don't know who's got what positions in what, but I know when some of them start blowing up, it's going to have huge ramifications."** Still, he doesn't believe it will affect investments in commodities, even there is a temporary change in buying habits
<http://www.dailyyii.com/article.asp?ArticleID=1234181&LS=EMS119438>
- Feb 7 The Securities and Exchange Commission has begun a broad examination into whether Wall Street bank employees are leaking information about big trades to favored clients, like hedge funds, in an effort to curry favour with those clients, executives at Wall Street banks said. The inquiry, these people said, seems aimed at determining how pervasive insider trading, or the illegal use of market-moving nonpublic information, may be on Wall Street. But the latest SEC investigation appears to have a new twist: Rather than examine whether a bank is trading ahead of its own client by using knowledge of the customer's trade, the scope of the investigation will allow regulators to see if banks tip their valued customers who then go trade at another bank, making the paper trail harder to detect. <http://www.financialnews-us.com/?contentid=1047147066&page=uspressdigest>
- Feb 5 Interestingly, the DJIA has now gone 140 trading sessions without so much as a 2% decline for its longest such skein is some 47 years. Not to be outdone, the S&P 500's 1.4% January-jump made it eight months in a row on the upside and that feat has occurred only 10 other times since 1926. Jeff Saut
<http://www.minyanville.com/articles/index.php?a=12094>
- Feb. 6 (Bloomberg) -- The U.S. Securities and Exchange Commission opened a review of how Wall Street handles confidential information, asking 10 top securities firms for all their stock-trading records for the last two weeks of September. The examination is aimed at determining whether details about trades big enough to push a stock price up or down had been leaked to other traders, Lori Richards, director of the SEC's office of compliance inspections and examinations, said today in an interview. The review appears to be the first to target a specific period of time for a group of the biggest firms, and is

focusing on brokerages that cater to big trading customers such as hedge funds to find evidence of insider trading, Richards said. She declined to name the firms. The New York Times reported earlier today that they include Merrill Lynch & Co., Morgan Stanley, UBS AG and Deutsche Bank AG. **SEC Opens Review of Market-Moving Stock Trading at 10 Firms**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aYjFe0ICe1KE&refer=home>

- Feb 6 - State Street plans to buy Investors Financial Services for \$4.5 billion in stock to become a big player in the hedge-fund realm. While analysts have a mixed feeling about the story, some interesting patterns are being recognized by the smart investors. Every bear market starts with a burst in the bubble of Merger and Acquisition. This one will be no different. The Wall Street merger mania hit a new high today when media sources revealed that State Street plans to buy Investors Financial Services for \$4.5 billion.
<http://www.indiadaily.com/editorial/15450.asp>
- Investing is, when you get down to the basement of it, a competitive undertaking. If you do what everyone else does, you will get the same returns as everyone else. In order to get better returns, you have to do things differently. Investment gurus seem to be favored, in this regard, by their own originality and quirky self-reliance. "Sometimes right, Sometimes Wrong," they say. "But never in Doubt." Taken together, they are probably the most independent and contrary professional class in the world. And this contrariness, alone, seems to put them at odds with the great mass of lumpen investors, allowing them to make more - or, often less - than the common results. By contrast, what seems to doom the average investor is the same mushy quality that seems to be ruining the whole country. He will wait in line - without a word of protest - while guards frisk girl scouts and old ladies for dangerous weapons. If the mob is large enough, he can't wait to be a part of it...and fears being isolated from it. And he will believe any line of guff - no matter how fantastic - as long as everyone else falls for it also. Dow 36,000? House prices always go up? I.O. Neg Am mortgage? A man who follows a newsletter guru has no guarantee of making money; but a man who follows this great mass of conventional investors is practically guaranteed that he will not. Bill Bonner DR
<http://www.dailyreckoning.com/>

Article of the week:

UM EMBA

Leverage effect in real life:

- Fitch Ratings said it may cut its ratings for LEAR CORP., citing the auto parts supplier's announcement that a company affiliated with activist investor Carl Icahn has offered to buy it. Fitch said in a statement that it is "concerned that as part of an acquisition, the amount of Lear's total debt could potentially increase, resulting in reduced liquidity and greater default risk." Fitch said it may cut Lear's 'B' issuer default and senior unsecured debt ratings, which are five steps below investment-grade.(Reuters 04:07 PM ET 02/05/2007)

- Free cash flow in real life:

From the Columbia Investment Management Conference in New York last Friday: The accomplished money managers in attendance reiterated the importance of these classic investing guidelines:

1. Estimate future free cash flow as accurately as possible
2. Don't overpay for this stream of future cash flow
3. Only invest in companies with proven management teams
4. Always question the investing public's view toward a stock or an asset class.

- The Russell 3000 index (one with which I was unfamiliar)

Feb 7 - The Russell 3000 Index, continuing its steady ascent, hit an intraday high of 845.42 this morning and is primed to break its record high close of 844.78 set seven years ago. The index, which represents approximately 98% of the U.S. market with the strongest focus on the "Materials & Processing," and "Auto & Transportation" sectors, **is currently up 2.77% year-to-date and 2.74% over the past seven years.** [think about this re stats about the long term benefit of sitting in stocks] "The U.S. equity market -- best reflected by the Russell 3000 -- is starting to fire on both pistons," said Stephen Wood, senior portfolio strategist, according to a statement. "Since the summer of 2006, growth and large caps have started to re-assert market participation and we think this has become a more stable, broad-based rally."

Never done this before:

The following is an email I received through Forbes. I include it only because I think it covers a number of themes I believe in. I do not subscribe to this service, can't recommend it, and only include it since the themes are generally those I believe in.

From: Forbes Newsletters [newsletters@forbes.com]

Sent: Tuesday, February 06, 2007 9:51 AM

To: mkeliher@keliherconsulting.com

Subject: Oil & Gold - Slam Dunk Investing for Income and Capital Gains



February 6, 2007

Have You Done This Well Since the Dot Com Crash?

Φ0B7	Valero	+42.8%
Φ0B7	Peyto Energy	+100.2%
Φ0B7	Primewest Energy	+23.5%
Φ0B7	Frontier Oil	+106.6%
Φ0B7	Baytex Energy	+111.7%
Φ0B7	Enerplus	+148.4%
Φ0B7	Agnico Eagle	+210.5%
Φ0B7	U.S. Gold Corporation	+175.8%
Φ0B7	Bema Gold	+385.8%
Φ0B7	ASA	+103.2%
Φ0B7	Yamana Gold	+301.3%
Φ0B7	Laramide Res.	+52.8%

(As of January 2007)

See what Curt's loyal subscribers are saying about *Professional Timing Service*:

"Just a note of appreciation for the great job you are doing. Not only has your timing been on the money, your stock picks have been superb, to

THE MOST IMPORTANT ADVICE I HAVE GIVEN IN OVER 20 YEARS

... what lies ahead for Canadian trusts, gold, silver, stocks, and bonds.

First: BUY OIL – A RIDICULOUS IDEA? Hardly!

Dear Investor:

A few of years ago when oil was trading at \$16.00 to \$20.00 a barrel, I pointed out the ground floor investment opportunity developing in oil. We openly recommended Enerplus Resources (ERF-NYSE) in our publications. It was trading at \$17.00 or less then and was paying a dividend of about 1.25% - MONTHLY. That amounted to 15% a year.

Crude has settled back to \$59, even after the recent energy trust crash caused by Canada's ill-thought proposal to tax the trusts. Enerplus is still trading at \$44.00, up over 135% from our original recommendation. Enerplus's distributions continue to move higher over time, and subscribers are getting a whopping 25.8% on their original purchases.

Enerplus is still a great buy if you pay the right price. We have had the trusts on hold until the dust settled over the Canadian Finance Minister's October announcement. However, in the December issue of *Professional Timing Service*, we put them back on our recommended buy list with specific "low risk" prices that you should pay for each one.

Crude oil is currently extremely oversold, and our strongest technical tools are poised to trigger significant long-term buy signals. Crude typically puts in its seasonal low early in the year as well. Bottom line, the worst is behind us. It is time to hang on tight to the oil companies you have, and you should consider buying more at our targeted buy prices.

Opportunity #1 - An exceptional second chance to buy

say nothing of the "hand holding" that is so important with the volatility one encounters with precious metals and energy."

--M.B. 7/25/06

"I think your newsletter is the best. I subscribe to several newsletters and I've been thinking about canceling them and just using yours."

--J.K. 4/20/06

"Thanks for such a well written update. Puts the big picture in a very concise perspective."

--T.W. 4/19/06

"I just wanted to say how much I value your service and thank you for all of your recommendations over the past years. Our portfolio was up over 35% in total for the year 2005 and is currently up over 50% in total through this month."

--A.M. 3/6/06

"Many thanks for your help and concern. I cannot thank you enough for leading me to gold and oil. Priceless, invaluable guidance. My deepest appreciation."

--M.F. 3/12/03

"I have been a very satisfied subscriber since I signed up in October,

Canadian energy trusts.

The first of four major opportunities facing us right now - which is also the biggest money-making opportunity I have seen since crude oil was \$20.00 - is to take advantage of the recent major correction in crude oil and in the Canadian energy trusts and do some buying. You may be skeptical about this - as investors were when we told them to "mortgage the house and buy stocks" in the spring of 1982. Nevertheless, here it is.

Despite the recent price decline, oil and natural gas are on their way to significantly higher levels in 2007. Nothing has changed concerning the fundamentals for crude and natural gas.

** Geopolitical instability will continue to get worse in the Middle East as the Bush administration continues to confront our oil-producing enemies with his "stay the course" strategy. The Democrats will let the GOP self-destruct with their confrontational foreign policy, setting the stage for the 2008 elections.

** Oil production will continue to decline in major oil fields in Saudi Arabia, Kuwait, Mexico, and the North Sea.

** Iran's nuclear ambitions will eventually be confronted with sanctions, setting the stage for military intervention as early as next summer.

** Oil supplies will shrink more than any unlikely drop in global demand during 2007. Asian economies are shifting from being export driven to being driven by internal domestic demand. Any slowdown in American demand will likely be offset by increasing power with Asia's consumers.

** The US dollar appears to have broken its year long up move, and it is headed significantly lower. Since oil is bought and sold in U.S. dollars, the lower the value of the dollar, the higher the price of crude oil.

I expect to see crude move significantly over \$80.00 within the next 12 months and natural gas to triple from its recent lows ... but due to the recent decline in Canadian Energy trusts, you can buy select oil and gas producers that pay up to 18% or more in dividends - and they pay monthly. It doesn't get better

2002. Your bi-monthly reports are especially helpful. I sat up last night and reread all the reports that began in early October and was struck with your accuracy."
--R.B. 3/25/03

"Thank you very much for your answer (to my question). I know you must be a very busy man and really appreciate the time you take."
--M.M. 10/26/05

About Curtis Hesler:

Curtis Hesler has published Professional Timing Service since 1978. He began his trading career when he was 17 years old and has traded virtually every market at one time or another. He is described as cautious and successful. Curtis has taught quantitative business courses on the university level and has published a weekly newspaper column covering financial topics. You will often see Professional Timing Service quoted by other advisors and in the media.

than that ... but time is running out. The opportunity to nail down generous yields in the energy sector is closing.

There are many reasons to invest now in oil and gas. I have mentioned some of the fundamental reasons already. However, the correction in oil and gas prices since topping out last year has left us with very bullish technical signals in today's market.

Natural gas has fallen back to its long-term base, and our favorite natural gas model has set up its next key buy signal. Our forecasting work indicates that the next move in gas will take it to new, all-time highs, but there is still time to purchase select natural gas producers that pay giant dividends. These stocks stand to at least double over the next 24 months.

Now that the 2006 technical corrections are ending, I have no doubt that we will see crude oil at new highs during 2007. Yet the Canadian Energy trusts are being priced today as if crude was \$30 rather than \$60. **It is like a half price sale.**

Yes, the Canadians intend to tax distributions, and these yields could be diminished - that is, if the tax were to go into effect today. However, the tax is not slated to go into effect until 2011.

In the meantime, the value of the trust's assets in the ground will be increasing significantly as oil and gas prices increase. The value to the Canadian dollar will appreciate as the U.S. dollar declines, and the distributions will, in all likelihood, increase substantially as the prices of oil and gas appreciate over the next four years. Now is the time to pick up some extraordinary bargains that all but amount to dividend-paying options on the future price of energy.

Each subscriber will receive our recent report on the Canadian energy trust situation, "[Investing In Energy - Canadian Trusts and Beyond.](#)" This report details our outlook for the Canadian trusts - what to do now and beyond 2011. It discusses our current buying strategy as well as our future strategy as to when you should sell the trusts. It addresses what alternatives you should consider, including other non-Canadian, income-generating opportunities. The most recent addition to our income recommendations is a Norwegian company that pays a decent 18% dividend.

What about alternative energy? There simply isn't time for solar, hydrogen, windmills, hybrid cars, etc. to come to the

rescue. There is no substitute for oil. We are at the point where the rubber hits the road, and the only rationing mechanism for whoever gets the available supply will be higher prices.

The oil bears are counting on a major recession in China to dampen world demand for crude oil. This just isn't going to happen. The best that we can look forward to is for their economy to cool from white hot to red hot. China is massively building up their military. They are awash in dollars, which they are converting to raw materials. Their middle class is exploding, and the forecast is that they will reach 600 million souls by the end of this decade (compared to a total population in the U.S. of about 290 million.) Consequently, their energy appetite will expand exponentially. In September 2006, they imported 24% more oil than they did in September 2005. China's energy appetite may be close to insatiable.

[Subscribe today and get your income on track!](#)

Why not give yourself Professional Timing today? With your subscription to Professional Timing Service, you will have access to our latest special report on oil and the Canadian trusts: **["Investing In Energy - Canadian Trusts And Beyond."](#)** You'll discover just what an extraordinary opportunity is at hand. You will learn about my three favorite energy stocks that will provide you with a generous monthly income as well as give you a position to exploit higher energy prices and the further erosion of the U.S. dollar. We are at the last, best buying opportunity you will see in energy, either in stocks or the commodities - perhaps forever. Subscribe today and find out where the best opportunities lie before the next big move begins.

[Click here now to subscribe to Professional Timing Service and receive your FREE reports, along with twice monthly updates.](#)

Opportunity #2 - Don't invest in bonds.

What sort of opportunity is that, you say? It is an opportunity to save yourself from losses and find yourself with money invested that is paying sub par returns and is falling in value. If you want liquidity, put it in 3-month T-bills at 4.93%. Compare

that with the yield on the 30-year Treasury bond of 4.78%. The risk is not worth the difference in yield. The risk of a long-term commitment is simply not worth it.

Subscribe now and you will receive a special report on buying T-bills. You will learn how to buy T-bills and other U.S. Treasuries in the world's most secure investment account and pay absolutely no fees or commissions with a minimum account of \$1,000.

[Fixed income investors tell us that this report alone is worth the price of their subscription.](#)

Opportunity #3 - Get the heck out of the stock market.

This may seem like a negative opportunity, but it's no less important than the advice to stay out of bonds.

With the exception of a few select resource-advantaged issues (which we will point out), it is time to take profits in stocks and other financial assets. The stock market's prospects are downright ugly.

Evidence? Consider that after the discount rate has been raised to 6%, 6 of the last 7 bear markets have followed. The average decline was -41% ... and they say no one rings a bell.

You can learn more about the stock market's long-term prospects. [Subscribe today](#) and you will get our recent study entitled "[Cashing In On The Next Stock Market Collapse.](#)" This report will orient you to where the stock market is currently in its long cycle, as well as where it is going over the next several years. You will learn about the irreversible causes of the next stock market debacle that are in effect right now, as well as several technical indicators that will signal the beginning of the next decline. Don't get caught by the bear.

Being in the right sector is 85% of investment success, and we are currently recommending stocks and specific mutual funds that you can hold and profit from, even in a bear market. Energy stocks are my #1 recommendation, and the updated special report "**Investing In Energy - Canadian Trusts and Beyond,**" which you will receive with your subscription. It

includes three energy stocks poised to explode on the up side. There is specific advice on why you should not sell Canadian energy trusts and exactly what and at what price you should be buying today.

The Canadian tax proposal pushed the Canadian trusts to their lows, but there is simply nothing negative in the fundamentals for oil. These companies are operating just as they always have been. They continue pumping oil and gas every day, sending you the proceeds. I think you can even buy our old friend Enerplus if you pay the right price, and there is a year-end opportunity coming up that our report will tell you about. Professional Timing will tell you exactly which trusts we like and specifically what we think you should pay for them.

"Glad to renew. Of all my newsletters, yours has been the most accurate. Good job. I always enjoy your comments."

--Dr. R.B. 6/6/05

[Isn't it time you gave yourself Professional Timing? Subscribe today and get your free reports by clicking here now!](#)

The 4th investment opportunity is gold ... and even better yet, silver.

The correction from the May high in gold at \$740 gave us an extraordinary opportunity last summer and fall to accumulate mining shares that are truly undervalued. They are ones that remain undiscovered in the mainstream investment community.

The most underbelieved asset class today is precious metals, but the metals are starting to gain serious investor attention once again. The next major move is just beginning. Once the current move gains momentum, gold and silver will be popular cocktail conversation - just like in 1979 after prices broke out of a similar "enchanted triangle" formation (as it has this past November).

In 1979, gold doubled from about \$220 to \$440, and it then fell back over the span of several weeks. The correction produced a triangle with the lows basing at \$365, but with the highs successively declining. When prices broke out, gold quickly

moved to all-time highs of \$875 in January 1980.

Recently - from October 2004 to April 2006 - gold doubled again, moving from about \$365 to a high last May at about \$740. This move then corrected over several weeks, trimming 24% off the highs. The recent correction has resulted in the same triangle that we saw in 1979. It has a base at \$560 and successively lower highs. Prices broke out to the up side in November 2006 – déjà vu 1979.

As is detailed in our new gold study, [“Last Chance Gold Bargains,”](#) which you will receive with your subscription, “enchanted triangles” forecast a dynamic doubling of the price of gold once the breakout occurs. The latest triangle has been broken, and time is running short on picking up gold bargains anywhere near \$600 gold and \$13 silver.

We have just introduced a new junior gold stock that sells for just over \$1.00 on our buy-and-hold list. The appreciation potential is as great as we experienced with our recommendation to buy Yamana (AUY-AMEX) when it was only \$2.90 in April 2005. Yes, Yamana is still a buy, but only at our specified buy price. Paying the right price is important in order to manage risk.

Fundamentally, gold and silver couldn't be more bullish. In late November last year, the U.S. dollar took a serious turn for the worse. In a matter of a few weeks, it suddenly collapsed over 5%, from 86.50 to lows at 82.00. An oversold rally has pushed the dollar back to 84.00, but the long-term down trend is about to resume. I expect the U.S. Dollar Index will fall from its current level of 84.00 to 60.00 over the next couple of years. I could easily be overly optimistic since 40.00 is not out of the question. The important aspect is that as the dollar falls, precious metals will rise in price. That is cast in stone.

China is building an oil reserve; and to come up to speed with the rest of the central banking world, it is estimated they will also need to purchase 2,000 to 3,000 tons of gold. The price of gold is dependent on several factors discussed in our classic booklet "The Great Asset Shift To Tangibles," which all subscribers receive. Although the mainstream has not warmed up to the metals yet, they are in the early stages of the third great gold bull market of the last 100 years. The first was from 1929 to 1932 where we saw the price of the average mining stock increase 650%. In the second, from 1969 to 1980, the typical mining stock appreciated by 1,000%.

The third secular bull market in gold is under way (it's far from over), yet the Philadelphia Gold and Silver Index (XAU) has but barely begun to perform. You will likely see the XAU appreciate another 400% by 2008.

We are constantly reviewing which precious metal stocks offer the best reward potential, and we are discussing them in the ***Professional Timing*** newsletters.

I tell subscribers exactly what they should pay for each stock I recommend. Paying attention to purchase price is a major factor in managing risk. The junior mining stocks beat buying call options 100 to 1 for both safety and profit potential. With your subscription to Professional Timing Service, you will learn how to exploit the new paradigm of commodity-related investments.

[Subscribe now](#) and you will receive my highly acclaimed report "**Last Chance Gold Bargains.**" Learn why crude oil selling at \$59 a barrel virtually guarantees \$880/oz. gold. Learn to use and keep a powerful indicator to tell you when to buy and when to sell precious mining stocks. This simple, but effective, indicator last issued a buy for gold stocks on May 23, 2005. We will alert subscribers when it issues its next sell; but in 30 seconds a day, you can keep this simple and powerful model on your own.

This booklet also includes another model that you can follow as infrequently as monthly. With this simple technique, you will learn how to determine whether you should stay in commodity or commodity-driven assets, or if it is time to sell out. These two simple techniques alone will put you one step closer to being your own adviser.

[Subscribe now and read "Last Chance Gold Bargains," FREE to subscribers.](#)

"What a wonderful newsletter! My investments have done well with very little effort on my part. Professional Timing has done the work for me."

--J.S.S. 6/22/04

OIL AND GOLD: ARE YOU READY FOR THE NEXT MOVE?

We are not on the ground floor any longer, but the recent corrections in crude oil, natural gas, coal, silver, gold, and especially the Canadian Energy trusts have served up a rare second-floor opportunity to establish sound investment positions in anticipation of the next bull leg in metals and energy.

Successful, professional investors know that they must buy low and take advantage of cyclical periods of profit-taking. The next step is patience. Warren Buffett, perhaps the most successful investor of all time, once said, "There is someone sitting in the shade right now because someone planted a tree a long time ago." However, if you are bringing in 15% to 18% a year in annual dividends paid monthly, it makes the wait all that easier.

Why not take this opportunity to give yourself Professional Timing?

"My hat is off to you. I don't believe there is another analyst existing that has a handle on gold bullion and the stocks like you do. You have achieved all the downside buy targets that I hold (8 gold stocks), and the action of the bullion is just about perfect."

--M.D. 4/13/04

"I like several letters that I take, but what is unique about yours is that you tell us not only what to expect in the future, but what to do right now."

--D.B. 5/28/05

What you will receive with your subscription to Professional Timing Service:

- Φ0B7 Monthly newsletter and mid-monthly updates.
- Φ0B7 E-mailed mid-weekly updates on Tuesday and Thursday.
- Φ0B7 Exclusive access to our "Special Reports" folder to keep you up to date as market conditions change.
- Φ0B7 Objective, buy and sell signals for individual stocks.
- Φ0B7 Signals telling you when to be in and out of gold funds, including the Rydex Precious Metal Fund.
- Φ0B7 Income-producing energy investments that put the dollar to work for you rather than against you.
- Φ0B7 Sane and sensible information that will assist

you in managing your financial future.

Every subscriber will have access absolutely free to "**The Great Asset Shift To Tangibles.**" You will learn why tangible assets, including oil and precious metals, offer the best reward potential over the next several years and how you can exploit this change in the investment climate.

Each monthly letter includes our updated list of what stocks to buy now and what price you should pay for them.

Subscribe today and you can immediately gain access to all of the ProTiming Special Reports including "**Buying T-Bills Cost Free,**" "**Cashing in on the Next Stock Market Collapse,**" as well as "**Investing In Energy - Canadian Trusts and Beyond.**" You will discover how to exploit the rising energy prices for generous for income and capital gains. "**Last Chance Gold Bargains**" will give you a firm grip on the gold market. As well as discovering our projections for gold and silver through the balance of this year, you will find out how to keep a simple indicator, taking less than 30 seconds a day, to time your purchases and sales of gold shares.

Why not take time right now and give yourself Professional Timing? [Click here.](#)

Sincerely,

Curtis Hesler

Editor, Professional Timing Service

P.S. If you don't absolutely love **Professional Timing Service**, just cancel and receive a refund on the balance of your subscription term.* No questions asked. To start your subscription to **Professional Timing Service** and to get your free bonus reports, [click here now.](#)

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¹ New Century Financial Corporation (NYSE: NEW), a real estate investment trust (REIT), today announced that it will restate its consolidated financial results for the quarters ended March 31, June 30 and September 30, 2006 to correct errors the company discovered in its application of generally accepted accounting principles regarding the company's allowance for loan repurchase losses.

The company establishes an allowance for repurchase losses on loans sold, which is a reserve for expenses and losses that may be incurred by the company due to the potential repurchase of loans resulting from early-payment defaults by the underlying borrowers or based on alleged violations of representations and warranties in connection with the sale of these loans. When the company repurchases loans, it adds the repurchased loans to its balance sheet as mortgage loans held for sale at their estimated fair values, and reduces the repurchase reserve by the amount the repurchase prices exceed the fair values. During the second and third quarters of 2006, the company's accounting policies incorrectly applied Statement of Financial Accounting Standards No. 140 – Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities. Specifically, the company did not include the expected discount upon disposition of loans when estimating its allowance for loan repurchase losses.

In addition, the company's methodology for estimating the volume of repurchase claims to be included in the repurchase reserve calculation did not properly consider, in each of the first three quarters of 2006, the growing volume of repurchase claims outstanding that resulted from the increasing pace of repurchase requests that occurred in 2006, compounded by the increasing length of time between the whole loan sales and the receipt and processing of the repurchase request.

Importantly, the foregoing adjustments are generally non-cash in nature. Moreover, the company had cash and liquidity in excess of \$350 million at December 31, 2006.

Although the company's full review of the legal, accounting and tax impact of the restatements is ongoing, at this time the company expects that, once restated, its net earnings for each of the first three quarters of 2006 will be reduced.

In light of the pending restatements, the company's previously filed condensed consolidated financial statements for the quarters ended March 31, June 30 and September 30, 2006 and all earnings-related press releases for those periods should no longer be relied upon. The company expects to file amended Quarterly Reports on Form 10-Q for the quarters ended March 31, June 30 and September 30, 2006 as soon as practicable, with a goal to file by March 1, 2007. The company also expects that the errors leading to these restatements constitute material weaknesses in its internal control over financial reporting for the year ended December 31, 2006. However, the company has taken significant steps to remediate these weaknesses and anticipates remediating them as soon as practicable.

The company's fourth quarter and full-year 2006 earnings announcement, originally scheduled for February 8, 2007, has been postponed to an undetermined future date, which will follow the company's filing of its amended Quarterly Reports on Form 10-Q for the quarters ended March 31, June 30 and September 30, 2006.

And on developments in the fourth quarter:

The increasing industry trend of early-payment defaults and, consequently, loan repurchases intensified in the fourth quarter of 2006. The company continued to observe this increased trend in its early-payment default experience in the fourth quarter, and the volume of repurchased loans and repurchase claims remains high.

In addition, the company currently expects to record a fair value adjustment to its residual interests to reflect revised prepayment, loss and discount rate assumptions with respect to the loans underlying these residual interests, based on indicative market data. While the company is still determining the magnitude of these adjustments to its fourth quarter 2006 results, the company expects the combined impact of the foregoing to result in a net loss for that period.

² HSBC Says Bad-Loan Charges to Exceed Analysts' Estimates by 20%

By Christine Harper

Feb. 7 (Bloomberg) -- HSBC Holdings Plc, Europe's biggest bank, said it's increasing loan-loss provisions for 2006 because mortgages to risky borrowers in the U.S. are going bad faster than the company expected only two months ago.

Provisions will be 20 percent higher than the \$8.8 billion that analysts now estimate, London-based HSBC said in an e-mailed statement.

"It is clear that the level of loan-impairment provisions to be accounted for as at the end of 2006 in respect of Mortgage Services operations will be higher than is reflected in current market estimates," the bank said in the statement.

HSBC, the world's No. 3 bank by market value after New York-based Citigroup Inc. and Charlotte, North Carolina-based Bank of America Corp., bought Household International Inc. for \$15.5 billion in 2003. The purchase of the Prospect Heights, Illinois-based company, a lender to consumers with lower-than-average credit ratings, left HSBC more vulnerable a slowdown in house price growth.

³ NEW YORK, Feb 7 (Reuters) - New Century Financial Corp., the No. 2 U.S. subprime mortgage lender, on Wednesday projected an unexpected fourth-quarter loss and said it expects to restate each of the previous three quarters' earnings lower, sending its shares down more than 17 percent.

The Irvine, California-based company became the latest U.S. specialist in making loans to people with weaker credit histories to warn of poorer results as home sales and prices decline, and defaults increase.

New Century also delayed reporting quarterly results to an undetermined date from Feb. 8. The company is organized as a real estate investment trust.

Analysts polled by Reuters Estimates on average expected New Century to post a fourth-quarter profit of \$1.06 per share.

New Century made \$13.8 billion of subprime loans from July to September, trailing only Wells Fargo Home Mortgage's \$23 billion, according to National Mortgage News.

HSBC Holdings Plc, which runs the No. 3 U.S. subprime lender, separately said on Wednesday that rising U.S. mortgage loan defaults will push overall loan losses higher than analysts on average had expected.

Chief Executive Brad Morrice said New Century is suffering from rising early-payment defaults and lowered demand for loans that it sells into the secondary market.

He also said New Century expects to make 20 percent fewer loans in 2007 than the \$59.8 billion it made in 2006, compared with its prior forecast for no year-over-year change.

New Century said the restatement results from its not having set aside enough money to buy back subprime loans that went bad.

It said investors should not rely on results being restated, and that it hopes to file amended quarterly reports by March 1.

"I ask for your patience in allowing us to continue our review," Morrice said on a conference call for analysts and investors, in which he took no questions.

New Century also said it had more than \$350 million of cash and equivalents on hand as of Dec. 31, 2006.

Another sizable California-based subprime lender, Agoura Hills' Ownit Mortgage Solutions Inc., filed for bankruptcy protection in December.

Angelo Mozilo, chief executive of Countrywide Financial Corp. , last week said problems in the subprime sector are "accelerating." Countrywide is the largest overall U.S. mortgage lender, but ranks fourth in subprime lending.