

April 4, 2009



Clients,

Performance and Allocation

Our overall annual rate of return of -18% last quarter was about half the loss of the Russell 3000 which came in at -39%. While a loss is never satisfactory, for a generally aggressive approach to do twice as well as the market during a down market is better than can be expected. Usually aggressive approaches try to beat the market going up, and do well to match the market coming down. Of course in hindsight, we now see that returns would have been dramatically improved by being out of the market from last July through February.

From the table below you can see that we are 43% in cash and gold. Most of the Singles portfolio is in TBT, the ultra-short ETF anticipating a rise in 20+ year Treasury rates to attract capital for the stimulus. Most of the Megatrends portfolio is in an ultra ETF that shorts the euro against the dollar, in anticipation of further problems of European bank loans extended to Eastern Europe.

Strategy	Portfolio	Percent
Cash		20%
Rationale	Gold	23%
	Intl (Brazil ETF)	2%
	Resource Scarcity	11%
	Uranium	1%
	Singles	8%
	Total	46%
Statistical	Monthly 11-07	15%
	Industry Weekly	4%
	Total	18%
Tested Source	Income	9%
	Megatrends	6%
	Total	16%
Total		100%

The financial press has had some very critical articles about ultra or leveraged Exchange Traded Funds (ETFs). My analysis is that the primary danger is in a protracted and steep bear market. A very balanced and specific article was in the *Journal of Indexes* and is available at www.indexuniverse.com/publications/journalofindexes/articles/146-marc.

An alternative to mutual funds.

Market and Economic Perspectives - with Behavioral Finance

The immediate prospects for stocks are better than for the economy. Even on stocks, we are not out of the woods with the financials, and the market is not going to rise unabated without the financials. I'm balancing some limited short-term plays, to take advantage of market swings, while anchoring with some defensive positions such as cash and gold. The energy, natural resources and shipping are longer-term positions to catch the rising prices for things that are real, tangible and likely to be in short supply. The commodities turned up about two weeks before the equities. I think they will continue to lead.

The April 2 meeting in London will have significant long-term implications that won't be known immediately, since the real work and decisions are behind closed doors. News events usually produce a market that bounces up and down awhile based on innuendos, with the final trend moving opposite the initial thrust.

Jason Goepfert at www.Sentimentrader.com, (a valued daily resource), recently published a chart showing overlays of the last eight or nine times the market reached a three-year low and then recovered dramatically for a month. What happened next was a rather uniform plateau or correction for a month or so before the market moved higher. If I reach in a bag and successively pull out nine oranges, that doesn't mean the next time it won't be a tennis ball. But the odds are it will be an orange. Based on that data and perception of a pattern, I'm expecting April to likely be flat or down before markets continue moving up.

So I'm now wearing this lens of expecting a short-term correction. One of the reflective insights I have learned from recent events is that it is hard to both see and trust the immediate data in front of me. Even the trends often don't become apparent until later. I can trust the patterns as they emerge, but patterns are something different in that they are what I overlay or use to interpret the data. If the prices move contrary to what I expect, it is easy to discount or not even see the trend or movements. Markets could keep edging up and I could keep what is in cash in cash thinking that

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the correction is eminent. To be able to act upon what is happening, I have to give it permission to go where it is going (As if the market needs my permission!). Part of that permission-giving is to have some kind of context or rationale that tells me “Okay, this is what is going on. That makes sense.” It is hard to act on just facts. Of course with data mining, it doesn’t have to make sense other than it makes sense to trust that what has reliably happened in the past will repeat.

Another reflection. My brother once told me on a bike ride that a definition of a professional is someone who gets paid regardless of the results.

While my returns do affect my compensation, it is true that the amount of work and diligence doesn’t always correlate with rates of return, especially in the short-term. With so much based on probabilities, sometimes the best decisions produce contrary results. So it takes patience. One reassurance is that if I look over performance charts of the last seven years and see that while the blue and red lines now meet, if there is more space with the blue line above the red line, it is likely to continue that way.

Thanks for your trust.

Lee
