
Get Ready

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First, so that the remainder of these comments are not misinterpreted, what we've referred to as "Phase Three" will likely be part of our economic climate for some time... a loss of confidence in the broader levels of debt, derivatives, and counter-party trust in the most senior levels of commerce and government. Coincident with that comes a likely deflationary environment of credit liquidation...selling stuff and paying down the debt. We've discussed this often, no further comment here.

That's the big story, but all good stories have subplots, and this market is no exception. We'd commented previously that there was a political aspect to this year's stock market, and still firmly believe that. The rise of Barack Obama is one of the great political accomplishments of all time in terms of its crafted blueprint, strategic management, and colossal media funding – which is not to diminish the personal accomplishment as well.

Free markets anticipate and reflect the future better than any other known mechanism. From that comes the old trader's adage: Initiate the trade on the rumor and exit the trade on the news. Over the course of this year, an Obama presidency has increasingly been discounted. Rightly or wrongly, some interpretation of an anti-corporate and negative tax environment, for those with invested wealth and business assets, is naturally being acted upon in advance of the election. It is but a part of these decreases in the valuation of business enterprises, but at this rate, the expectations for a leveling of the wealth under a Reid/Pelosi/Obama political scenario may be fully accomplished by the end of the Bush term! If expectations and pre-election polling indications turn out to be wrong, that would be a twist.

We expect an inflection point. This discounting process may change in coming days. Another drop, perhaps into the 7000s and between now and Halloween, could thus represent an opportunity to buy stocks.

Someone just fell out of their chair.

Yes, get ready, it will be time to buy stocks.

The market will be sufficiently oversold, sentiment will be sufficiently desperate, and any positive expectations will be sufficiently washed out to provide the first significant bear market rally of the year. Bear market rallies can be wonders to behold. A rally back up above 9500 is quite possible and solid

attempts at 10,000 are worth considering, but a Dow Jones Industrial Average above 10,500 does not seem to be a realistic goal. Still, such a rebound can produce meaningful moves in select stocks and we can assess the outlook from there if it happens.

In our March 3rd report, we suggested the market would drop in the near-term and then stage a recovery rally, even though the market was likely to eventually move lower later in the year. What we are suggesting now is somewhat similar. The horror of Halloween will be followed by an easing of the uncertainties of some subplots, the election will be behind us, the Holidays and a new year are approaching, and a lot of bad news has already been built in to the valuations of business enterprises.

Our current view is to treat it as a rally within a “bear market.”

We are thinking in terms of tactical investment, not strategic... a cyclical move, not secular.

Some trades.

Not to be confused with buy, lean back, and wait.

You may call or email me with your perspective on the prospect of making some stock purchases. We have underweighted stocks in portfolios for some time, relative to a normal longer term strategic mix of stocks and bonds or cash, and we have thoughts about how best to navigate this environment for each client. This is a volatile environment though, and the prospect of making some tactical trades during such volatility may not appeal to everyone.

Gold has been mentioned by a number of clients this year, and for several reasons we've held off on any investment in gold. We did make some quick trades in the January/February timeframe, but have done nothing since then. However, if/as the price moves under \$680, this is a conversation we are more interested in having with you as well.

-Brian

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