STOCK WORLD WEEKLY

THE EXECUTIVE'S SUMMARY | OF THE GLOBAL MARKETS

Dow Jones	11,509	(+4.7%)
S&P 500	1,216	(+5.3%)
NASDAQ	2,622	(+6.2%)
NYSE	7,348	(+4.3%)
Russell 2000	714	(+5.9%)
Oil	$87.98	(+0.7%)
Gold	1,810	(-2.5%)

THIS WEEK'S NEWSLETTER:

MONDAY MELTDOWN - GLOBAL EDITION
Pervasive gloom inspires Phil to turn bullish on Monday

TESTY TUESDAY - NAVIGATING THE GLOBAL RUMOR MILL
BNP Paribas refutes WSJ rumor, to little effect

WILL WE HOLD IT WEDNESDAY - RUSSELL 700 EDITION
Euro banks take steps to ensure access to Dollars

THRILLING THURSDAY - S&P 1,200 OR BUST (AGAIN)
Merkel, Sarkozy and Papandreou announce yet another agreement

FOLLOW-THROUGH FRIDAY - OUT OF GAS OR ON THE LAUNCH PAD?
The week ends with a rally

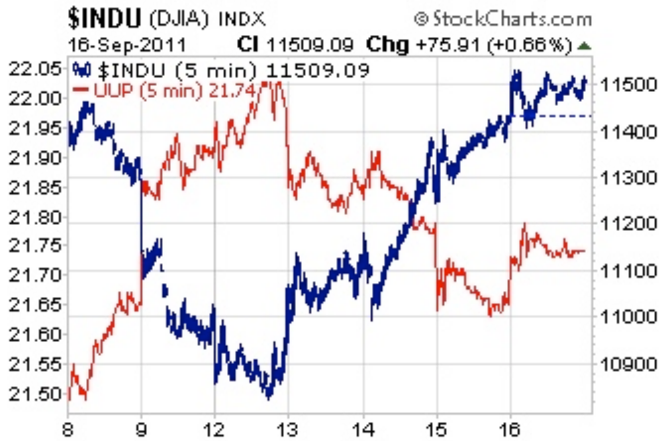
THE WEEK AHEAD

The stock market was driven by three major influences this week: the ongoing European "Black Debt" saga, the Dollar, and rumors galore. The rumor that lifted the markets out of their initial funk on Monday was that China would be buying Italian debt. Discussing the double-edge sword of Chinese investments, Chinese Briefing reported, *"Debt-ridden European countries are longing for China's purchase of their public debt despite fears that the country has motivations of a 'reverse colonization' of Europe. Nowadays the message 'the Chinese are coming' can often help governments trapped in financial crisis press public refinancing needs and shore up creditworthiness.*

"As for China, it is reported that the country – whose US$3.2 trillion in foreign exchange reserves still have a heavy reliance on the U.S. dollar – is seeking more diversification and is increasing its holdings of the Euro." (Concerns Grow over China's Presence in Europe) The notion that white knight China was riding to the rescue of Italy fizzled out on Tuesday, when it turned out the rumor was based upon preliminary discussions that were unlikely to pan out.

On Wednesday, U.S. Treasury Secretary Tim Geithner asserted, *"There is no chance that the major countries of Europe will let their institutions be at risk in the eyes of the market."* (But the Greek government one-year bonds are yielding over 110%.) Geithner pointed out that German Chancellor Angela Merkel has publicly stated "We are not going to have a Lehman Brothers," referring to Lehman's notorious implosion that exacerbated the financial crisis of 2008. (Geithner: Europe will not be a 'Lehman Brothers')

After a three-way conference between Chancellor Merkel, French President Nicholas Sarkozy and Greek Prime Minister George Papandreou on Thursday, Mrs. Merkel's spokesman proclaimed: "German Chancellor Angela Merkel and French President Nicolas Sarkozy are convinced that Greece's future is within the euro zone." (Merkel, Sarkozy: Greece Belongs in Currency Bloc) Also on Thursday, the Governing Council of the European Central Bank (ECB) announced its decision, *"in coordination with the Federal Reserve, the Bank of England, the Bank of Japan and the Swiss National Bank, to conduct three US dollar liquidity-providing operations with a maturity of approximately three months covering the end of the year. These operations will be conducted in addition to the*



ongoing weekly seven-day operations announced on 10 May 2010."

Are these operations "in addition to ongoing weekly seven-day operations" announced in May? Karl Denninger, The Market Ticker, thought not. He wrote: *"You knew they would do it, right?*

"'The 17-nation currency [Euro] rallied as the ECB said it will coordinate with the Federal Reserve and other central banks to offer three separate three-month loans to ensure euro-area banks have enough of the U.S. currency through the end of the year...'

"Wait a second...this isn't actually new! Remember, The Fed previously (like more than a year ago) announced these swap lines and more-recently announced their extension. So not only is this not new, it's not news!

"But the market is up big on the non-news news. Why? Because it appears banks are still going to be able to lie about asset values - for a little while longer." (Oh Look! More Accounting Fraud!)

John Mauldin had different take on Central Banks' actions. He wrote, *"The Fed is not lending to European banks or even to the various national central banks. Its customer is the ECB, which will deposit euros with the Fed to get access to dollars. Making the safe assumption that the Fed knows how to hedge currency risk (fairly easy), the only risk is if the ECB and the euro somehow ceased to exist. And these are swap lines. This is not a new concept; it has been authorized since May, 2010. The real difference is that previously it has been used only for loans with 7-day maturity, and now that is extended to 3 months. This gives the ECB the ability to lend dollars for 3 months, which they must think will entice US money-market funds back into at least short-term commercial paper. (Just stay one step ahead of the ECB and the Fed, and your loan is "safe." We will see how enticing this is.)*

By Zero Hedge, From A Trader's Diary...

Ever wonder what a page in the daily diary of a "sophisticated" institutional trader looks like? Wonder no more. This is currently making the rounds...

Dear Diary:

7.00 – 8.00 Mkt rallies on Chinese Buying Italian Bonds – But they weren't!

8.00 – 9.00 Mkt Crashes as Greek Electricity/Tax Office Strikes & therefore default looms.

9.00 – 11.00 Mkt moves sideways to down as BNP in WSJ says that nobody will lend them $'s and nobody likes them. – But then they deny it!

11.30 – 12.30 Mkt rallies like crazy because Sarko & Merkel to make an announcement – except nobody knows what that the announcement is for.

12.40 – 12.50 Mkt Crashes because they're not going to make announcement

12.56 Figure out how to explain to a child that 'yes dear, there's a lot of clever people who think very hard & make very bright decisions in the stock market business!' (h/t zeropower)

"Now, this is not without costs. It is effectively another round of QE, although theoretically less permanent than the last rounds, as the swap lines have a finite and rather short-term end." (Twist and Shout?)

According to Bloomberg, "the premium European banks pay to borrow in dollars through the swaps markets decreased after the ECB lending announcement... 'It's an attempt by the central banks to make sure there's enough liquidity so the markets don't freeze,' said Carl Forcheski, a director on the corporate currency sales desk at Societe Generale SA in New York.

Thus, the world's largest banks rang the liquidity bell, jointly ensuring that EU banks would have access to as many Dollars as needed. This was well-received by the stock market. In response, the Dollar traded lower, and that popped the markets as the inverse relationship between the Dollar and the Dow remained strong most of this week (previous page).

The result, for now, is that Greece's dreaded appointment with the Ghost of Default Future has been postponed. The cycle of austerity, protests, bondholder angst, and threats of default, followed by another round of bailouts, continues. It's becoming the perverse status quo, an endless Kabuki theater of creditors and debtors with the same players coming and going, saying the same lines over and over. On the bright side of this mess, the fairly predictable sequence of events: panic, followed by bailout, followed by euphoria, followed by panic, creates a fertile environment to make profitable trades.

Back in the U.S., this week saw a mixed bag of economic reports. On Thursday, the Department of Labor released a report showing that initial jobless claims came in at 428,000, higher than last week's revised number by 11,000 claims. The 4-week moving average increased by 4,000 from the previous week's revised average of 415,500 to 419,500. According to the U.S. Census Bureau, one in six Americans, 46.2 million people, are living in poverty. Median household income in 2010 was down 2.3% to $49,455 from 2009. (Record poverty last year as household income dips) As of 2009, the poverty level was defined as income, before taxes, of $21,756 for a family of four. (Wiki - Poverty Level)

Through all the doom and gloom, the U.S. Economy showed several positive signs. Thursday's industrial production report came in at +0.2%, reflecting positive growth for the fourth straight month. Consumer spending held up surprisingly well, with the ICSC-Goldman Store Sales report showing a year-over-year increase of 3.3%, and a week-over-week increase of 1.3% for the week ending September 10.

With a working premise that the stock market indexes are trading within certain ranges, and with next week's FOMC meeting widely expected to produce "easing," perhaps of the money-printing kind, Phil flipped cautiously bullish at the beginning of the week during the early selloff. The market traded steadily higher for the rest of the week.

PSW FLASHBACK:

Netflix (NFLX, $155.19)

"We already had shorter-term aggressively bearish bets from the week NFLX hit $300 (July 11), which did great. This spread is technically still in progress but the Jan $270/210 bear put spread is already $59 out of $60 and the $325 calls are down to $0.30 so net $58.70 now off a $1 credit is a gain of 5,970% on cash in just over 2 months. That's not bad, and there's certainly no sense in letting it ride for 3 more months to make another 130%.

"It's kind of funny when you realize you can't be bothered to make another 130% of your original investment in 3 months, isn't it?" - Phil, PSW 9/16/11

One stock we have been bearish on, regardless of the rest of the market, is Netflix (NFLX, $155.19). Netflix suffered a major blow on Thursday, when it opened 15% lower at $176.73, after closing at $208.71 the day before. It continued dropping on Friday. Netflix had instituted a price hike earlier this fall, and now admits "the higher costs are turning off more customers than it expected." It cut its third-quarter U.S. subscriber projections from 25 million to 24 million. (Netflix Cuts Its Guidance by One Million Subscribers) Karl Denninger, who has also been bearish on Netflix, commented, *"Well, today they finally admitted that the 'growth' numbers they've been pimping for the last year or so were, how shall we say, a bit too optimistic, and bang - the stock drops 18%. This, on the back of the previous losses, now takes us down roughly 40% from the top."* (How's Your NFLX Long Working?) (See inset box to the left.)

SWW FLASHBACK: August 7, 2011

"For those who are more adventurous, I like selling the September $9 ARIA puts for $1.10 or better." - Pharmboy

Aria closed $10.22 on Friday, and the September $9 puts expired worthless, for a $1.10 gain.

Monday Meltdown - Global Edition

The European "Black Debt" crisis panicked the financial markets Monday morning, as fears that the Greek government would default on its debt obligations drove yields on the Greek one-year bond to over 110%. Yields ballooning that high ARE a de-facto default, because the bond market is saying that the likelihood of the bonds being repaid is somewhere from vanishingly slim to none. This news, combined with fears that French banks might be downgraded, gave traders a bad case of the jitters. The NYSE invoked Rule 48 to help subdue the stock market. ("Rule 48 is invoked to speed up and smooth trading at the market open when exceptionally high volatility is expected." - Reuters)

> *"We were a bit bearish on Friday, but short-term bearish for the weekend (expecting this morning's dip as a follow-through from Friday). We have faith that our 10% lines will hold for our major indexes and that the NYSE and Russell will hold their early August lows. If we're wrong, we have a very large list of longer-term puts we are working on (see Range Trading, Part 2 for update)."* - Phil

John Nyaradi described the prevailing pessimism in his update: *"Europe and Asia declined sharply on news that Greece default risk now stands at 98%, in spite of President Papandreou's promises of even greater austerity. The financial markets don't see a happy outcome to the Grecian drama as yield on the Greek one year bond exceeded 100% and Portugal, Italy and France all saw pricing on their Credit Default Swaps reach record levels. Rumors of a downgrade of French banks...added to the gloom and certainly the German banks can't feel comfortable with $14 Billion in Greek bonds and 53% of their population opposing more aid to the ailing country. The Euro (FXE) didn't like the news as it plumbed new six month lows."* (Global Financial Markets Near Breaking Point)

> *"TERRIBLE monsters are hiding under our beds - and they have CANDY! That's what all this nonsense begins to sound like after a while. What we need to do is think about what is motivating the storytellers as we digest all this information. On the whole, it's all just BS anyway. We continue to track the number one factor currently moving the stock market in Stock World Weekly and that's the Dollar!"* - Phil

Contrary to the prevailing mood, Phil was bullish when the Dow and S&P both opened down over 1.1%. He wrote, *"My job is to find the opportunity and if I thought there was big money to be made on the short side, I'd be all for it, but ALL analysts are idiots sometimes – even [John] Mauldin and even me, and these market extremes bring out the stupidest in everybody."* There was a big "stick save" at the close. As John Nyaradi noted, *"U.S. markets rallied in the last half hour, adding roughly 2% in the last thirty minutes of trade on news or rumor that China was going to buy Italian bonds and help out the beleaguered 'boot.'"* The Financial Times reported an "anonymous" source saying China would be buying significant quantities of Italian bonds and investing in strategic companies. (FT Reports Rumor of Chinese Negotiation to Buy Italian Debt - S&P Jumps 10 points) The rumors gained traction among traders, and the Dow and S&P closed up around 0.7%. The Nasdaq climbed 1.5%. At the end of the day, Phil wrote in Member Chat, *"This market is just ridiculous at this point – jumping up and down 100 points because China will or won't buy $8Bn worth of bonds in a $60,000Bn global economy. People are just out of their minds…"*

Testy Tuesday - Navigating the Global Rumor Mill

The Wall Street Journal ran an article which began by quoting "a bank executive for BNP Paribas, who declines to be named," saying "*We can no longer borrow dollars. U.S. money-market funds are not lending to us anymore, since we don't have access to dollars anymore, we're creating a market in euros. This is a first... We hope it will work, otherwise the downward spiral will be hell. We will no longer be trusted at all and no one will lend to us anymore.*" (The Trouble With French Banks)

BNP Paribas immediately responded to this stunning statement with a press release categorically denying their inability to access U.S. Dollars. It confirmed that it is "fully able to obtain USD funding in the normal course of business, either directly or through swaps." Reuters reported that shares in both BNP Paribas and Society Generale dropped sharply Tuesday morning on concerns about their liquidity and access to short-term funding. BNP Paribas fell as much as 10% before rebounding. (French banks shares slide on liquidity concerns)

Phil took a cynical view of the WSJ article, speculating, "*Perhaps, Rupert isn't done unwinding his Euro short position yet. Maybe that's why he taps the Director of the Conservative French Institute for Economic and Fiscal Research, Nick Lecaussin - a man who Iconomie calls "France's Worst Enemy" to write about high-level but anonymous sources at BNP who tell him the Bank can't access Dollars anymore - a ridiculous statement that was immediately denied by the Bank but - TOO LATE - the Damage is done.*"

> "*It's hard to get worked up about this stuff now - this is OLD news, and it's the same debt and the same crisis we had 18 months ago. S&P 1,050 was the bottom then and again in June, as we talked about Greece again, and then the next Spring as the revolutions I predicted the year before began breaking out in the Middle East and we had another nice dip, but that time to 1,250. Now we're at 1,150 and I don't see why it shouldn't hold - things are the same, not worse. This is about the right range for the markets with an UNSOLVED crisis. If they 'fix' it, we're good for a 10% move up, at least.*" - Phil

We were watching our Big Chart (see Friday's page) to see if the indexes would hold the -5% lines, for the Dow and Nasdaq, and then hit 1173 on the S&P. Tuesday's article ended with a trade idea: "*If the S&P breaks over 1,173, then the TNA (Direxion Small Cap Bull 3x) Sept $40/43 bull call spread at $1.30 becomes an interesting play, and that can be offset by the sale of the RUT Sept $610 puts for $1.22. That's a net $0.08 on the $3 spread. The Russell is currently at 680 so it would take a 10% drop in the RUT by Friday for those puts to take a loss so that's the bet with a massive upside bonus.*"

The Dow finished up 0.4%, the S&P climbed 0.9% and the Nasdaq rose 1.4%. The Dow and S&P ended very close to our -5% levels, while the NYSE and RUT were near our -10% levels. Best of all, the S&P broke above 1,173 during the day, giving a green light to the bullish TNA / RUT trade idea which did very well. On Wednesday, this trade yield a total net value of $1.25, a gain of 1,462% since Tuesday.

Will We Hold It Wednesday - Russell 700 Watch

Early Wednesday, Reuters reported that Treasury Secretary Timothy Geithner would attend a meeting of EU finance ministers in Poland on Friday, his second trip to Europe in a week. (He had met with his EU colleagues at a G7 meeting last weekend.) This was welcome news to market participants, presumably suggesting that European finance ministers were willing to consider a more dovish monetary policy, backing away from their traditionally hawkish posture towards inflation. (International alarm over euro zone crisis grows)

In other news, Reuters reported that European Commission President Jose Manuel Barroso announced that the Commission would "soon present options on how the euro zone might issue bonds jointly." This may have boosted investor spirits, and the markets opened on a positive note. However, as Reuters reminded readers, *"Germany remains adamantly opposed to debt that would be jointly issued and underwritten by all 17 members of the currency bloc. A ruling by Germany's top court last week has made it virtually impossible for Berlin to sign up to joint euro bonds even if it wanted to..."* News that Moody's had downgraded Credit Agricole's long-term ratings to Aa2 and Societe Generale's long-term rating to Aa3 was also shrugged off by the markets.

Inside Member's Chat

The markets stumbled after the open, leading some to worry it might fall farther.

At 9:49 am Phil wrote, *"Be very careful here – like last week, we are in that unpredictable middle of the range where things could go either way. The Dollar at the 77.50 line is key but when the 3am trade is working, it usually means the bots are aiming higher for the day. It's also been a long time since we had a good stick. If they are going to pop the markets, today would be a good day for it. We'll be looking for more upside trades if the RUT gets over the magic mark."*

At 10:34 am, after the markets had fallen to the day's lows, Phil followed up. *"This feels flushy to me. Be careful not to fall in love with the bear side!"* This was spot on, as the markets turned around and finished with solid gains.

The crisis in Europe intensified as European banks took steps to obtain U.S. Dollars for loans to U.S. customers, and some nervous corporate clients began shopping for loans from banks outside the Eurozone. According to the Wall Street Journal, *"Tensions in the 17-nation euro zone are increasing despite attempts by central banks to pump badly needed dollars into the region, as U.S. sources have shrunk. On Wednesday, the European Central Bank said two banks had tapped it for $575 million, only the second time in six months the ECB has doled out dollar funding. The names of banks that tap the ECB are kept confidential."* (Europe Lending Woes Deepen)

The stock market ended on a higher note, with the Dow rising 1.4%, and the S&P and Nasdaq up 1.5%.

Thrilling Thursday - S&P 1,200 or Bust (again)

The Governing Council of the European Central Bank (ECB) announced early Thursday that it *"has decided, in coordination with the Federal Reserve, the Bank of England, the Bank of Japan and the Swiss National Bank, to conduct three US dollar liquidity-providing operations with a maturity of approximately three months covering the end of the year. These operations will be conducted in addition to the ongoing weekly seven-day operations announced on 10 May 2010."*

This news, combined with the statement from Chancellor Merkel, French President Nicholas Sarkozy and Greek Prime Minister George Papandreou that, "Greece's future is within the euro zone" led to a strong market rally. The markets shrugged off a disappointing jobs report and a report from the U.S. Census Bureau that the number of people living in poverty has sharply risen. (Almost 1 in 6 Americans living below poverty line) Conversely, the Dollar opened lower and traded lower all day.

Not everyone was persuaded that the actions of the EU powers will save the day. Peter Tchir of TF Market Advisors wrote, *"Nothing that has been said or done this week goes against the view that Europe is preparing for Greece to default... After yesterdays conference call they said that Greece would remain in the Euro. They never said Greece wouldn't default. That conference call was as likely to be scripting out the roles for the next few weeks to control the default and arrange post default financing for Greece. The language was not that strong and I don't believe their words were chosen by accident.*

"If Greece defaults the first obvious panic will be how do the European banks get funding, especially in dollars. Well, that question has been answered. The mechanism to avert short term liquidity problems after Greece defaults is now in place...

"They are going to let Greece default, try and contain the aftermath, and then get focused on some other serious issues." (Policy Makers May Just Be Positioning for a Greek Default)

The day ended with the Dow and S&P up around 1.7%, and the Nasdaq up 1.5%. Skepticism aside, market participants seemed encouraged by the actions of the central bankers in agreeing to provide liquidity to the markets.

> *"Although the Global situation hasn't changed a bit, we find ourselves still pretty bullish. But we will keep pushing up our levels (as planned) as we make progress. We are ready to flip bearish at the drop of a hat (we only have to buy back our bullish offsets to be instantly way more bearish). We'll certainly be angling to hedge back near neutral into the weekend. Next week is going to be a real thrill-ride as Greece boils over in the EU this weekend and Bernanke steps up to the plate on Wednesday.*
>
> *The key to today is getting the Dollar below that 77 line - if we can do that, the S&P should have no trouble taking back 1,200."* - Phil

Inside Member's Chat

Celeste wrote, *"I think the banksters would want to paint a gloomy market picture before the QE3 decision, don't you? I almost expect them to tank the market which is really sad."*

Phil replied, "That's what they've been doing all week. I think we'd be much higher if not for the relentless negative news flow, of which only about half of it is true."

Follow-Through Friday - Out of Gas or On the Launch Pad?

Stocks rallied out of the gate on Friday morning, as market participants decided that the Eurozone would hold together for at least a little while longer. The five indexes we track were in the black from the opening bell. Phil wrote, *"Europe is drifting up around 1% this morning and at 9:55 we have University of Michigan Consumer Sentiment numbers, which are likely to suck. If we can get past those and the EU close, we can hope to finish at the week's highs."*

Jeff Cox at Marketwatch commented on the curious euphoria being demonstrated by the markets. *"Despite a long-term picture in Europe that appears to be as unsettled as ever, investors will take any bit of good news and run with it. That's been the message from a succession of trading days in which even the whisper of resolution the the European sovereign debt problem - a conference call among policy makers, another bailout installment for Greece - sees the market go higher."* (Are Investors Taking Debt Crisis in Europe Too Lightly?)

Treasury Secretary Timothy Geithner spoke to his colleagues at a closed meeting of Eurozone Finance Minsters in Poland, where he reportedly warned European leaders against "loose talk" about the divisions between them over how to solve the debt crisis. Geithner declared that publicly airing these divisions was very damaging. He added, "governments and central banks need to take out the catastrophic risk to markets."

Geithner's admonishments about ending divisions created more tensions. Austria's Finance Minister Maria Fekter said, "I found it peculiar that even though the Americans have significantly worse fundamental (economic) data than the eurozone, that they tell us what we should do." (Geithner warns EU against infighting over Greece)

> *"We went risk-on on in a big way on Monday, as we bet on the manipulators to manipulate (seemed like a reasonable premise). Today is the day we take those profits off the table and use some of them to hedge for the weekend. I laid out the trade ideas from our Monday and Tuesday morning posts on Wednesday and it now looks like FXE will finish above $37 for the full 1,100% gain so we're off to a good start already!"* - Phil

Yves Smith of Naked Capitalism also expressed disbelief at the response of the markets to the continuing drama being played out: *"Watching reenactments of scenes from the global financial crisis is a very peculiar experience indeed. The opening by the Fed of currency swap lines to allow the ECB and other central banks to extend dollar funding to Eurobanks was seen as an extreme measure the first time around, a sign of how close to the abyss the financial system had come. This time, allegedly because the powers that be acted before things got quite so dire, bank stocks rallied impressively.*

Similarly, the media treated this move as just another episode in the ongoing Perils of Pauline drama running on the other side of the Atlantic... Now narrowly, the jaundiced media response and the market bounce both make sense. The Eurodrama has gone so many chapters that it's easy to get rescue *fatigue."* (The Fed Bails Out Eurobanks Yet Again)

Some market commentators believe there is no way Greece will be bailed out, and that it is time the world acknowledged this. Jamie Robertson, a Presenter at BBC World News, claimed *"There may be a few people who still believe Greece will not default on its debt, but my suspicion is most of them also believe elephants can fly and the woods are populated by pixies."*

The markets ended higher, with the Dow and S&P up around 0.6%, and the Nasdaq up over 0.8% for the day. After the markets closed, Phil wrote, *"What a great week that was! Congrats to all the bulls - let's hope the Fed doesn't fumble the ball next week."*

Friday's Levels

9/16/11	Dow	S&P	NAS	NYSE	Russell
FRIDAY	11509	1216	2622	7348	714
10% UP	12749	1359	2863	8653	851
5% UP	12170	1297	2733	8259	813
MUST HOLD	11590	1235	2603	7866	774
5% DOWN	11011	1173	2473	7473	735
10% DOWN	10431	1112	2343	7079	697

The Week Ahead

This week's agreement between the leading central bankers to ensure liquidity for the Eurozone, and the joint announcement from Merkel, Sarkozy and Papandreou that Greece will stay within the Eurozone, helped boost investor sentiments. The question remains whether anything has really been resolved by these actions besides the usual can-kicking. We are confident that the bandaid-like measures being announced this week will do little to stop the infectious spread of fiscal contagion.

As David Fry observed *"I couldn't say how many 'fixes' we've had over the past two years, but there have been plenty. Each has proven ephemeral, but each new effort has become more assertive. This current plan now comes with wide global support. We have to remember these governments have skin in the game for their own economies. BRIC countries have plenty of 'stuff' to export to a healthy euro zone so they'll be supportive. Bernanke is also determined to be a player rumored to be adding $100 billion in aid to Europeans. Also in support were the ECB, the SNB, the BOJ and the BOE. I guess you could say; 'it takes a village,' eh?*

"They may be just buying time since the European populace is addicted to big government programs and benefits. What will happen if EU countries in trouble don't play ball? Many will oppose austerity demands with violence if necessary making things impossible for politicians. Expect more troubles down the road." (Hooked On European Bailouts)

Of course, Europe is not alone in its economic woes. The U.S. also struggling with a weak economy, notable for a stubbornly high unemployment rate, low workforce participation, a growing number of people who have been unemployed for a very long time, and record numbers of people needing food stamps. Other manifestations of a bad economy include the newly favored pastime of Dumpster Diving (for food), according to Michael Snyder. We could go on, but see Michael's website, Economic Collapse for many more dismal statistics.

> *"As an investor, you need to be a scientist, not a philosopher. You can have a hypothesis, which you prove or disprove by gathering hard evidence. You have to be willing to discard a broken theory, not fight for it!"* - Phil

Bloomberg reported, "The Thomson Reuters/University of Michigan preliminary index of consumer sentiment climbed to 57.8 this month from 55.7 in August. The median estimate of economists surveyed by Bloomberg News called for a reading of 57. **The group's measure of consumer expectations six months from now dropped to the lowest level since May 1980.**" According the Financial Times, the index generally falls between 90 and 100 in a strong economy. (US consumer sentiment edges up in September)

This week's grim report on the number of U.S. citizens currently living in poverty will certainly weigh heavily on the minds of Fed members at next week's FOMC meeting. Expectations are running high that the Fed will do something to help stimulate the economy. The outcome, which remains to be seen, will very likely move the stock market significantly, one way or the other.

Discussing the possibilities, David Rosenberg wrote, *"The consensus view that the Fed is going to stop at 'Operation Twist' may be in for a surprise. It may end up doing much, **much** more. And this may be one of the reasons why the stock market is starting to rally (a classic 50%+ retracement, which always occur after the first 20% down-leg in a cyclical bear market would imply a test of 1,250 on the S&P 500 at the very least). Hedge funds do not want to be short ahead of next week's FOMC meeting, and who can blame them?"*

What might the Fed do? David suggested several options, including simply buying more bonds (QE3) eliminating interest paid to commercial banks (to spur lending) or even purchasing foreign securities (killing two birds with one stone by supporting Europe while weakening the Dollar). *"It seems that Bernanke, if he wants the market to rally, is going to have to come out with a surprise next Wednesday. If he doesn't, then expect a big selloff."* (Forget Operation Twist: Rosenberg Says Bernanke Will Shock Everyone With What Is About To Come)

We've been working with the premise that bearish sentiments are overdone, and financials are one sector in which bearish sentiments are overwhelming. On Thursday, Phil wrote, *"If you are a technical trader who believes stocks have no actual value, then I'm not going to try to convince you that Financials are ridiculously cheap other than to point out that Financials earned one-third of all the Corporate Income in the US, yet they are valued at less than 15% of the S&P... I'm not betting on (financials) to win the race, I'm just betting they make it around the track without dropping dead…"* We've included, in the inset box to the right, a trade idea from Friday's Member's Chat where Phil discussed AGNC, a REIT that is paying a 19.6% dividend.

We have a trade idea this week from Pharmboy, who wrote, *"I am looking at companies that have safety for income portfolios at reasonable prices. AstraZeneca (AZN, $44.91) has a 5.3% dividend yield, a solid pipeline, steady revenues, and a forward P/E of about 7. I like buying the stock here, and, for those interested in lowering their cost via selling options premium, I like selling the January 2013 $40 calls and puts for $11.50 combined. That results in a buy/write price of ~$33.40/$36.70. It's simple and shouldn't need managing for some time.*

(Editors' note: If 100 shares of AZN are bought for $44.90 and 1 put and 1 call are both sold for $11.50 combined, that reduces the cost to $33.40. If AZN is trading above $40 at expiration, the stock will be called away and the put will expire worthless. The gain will be $6.60 on an investment of $33.40, or 20%. If the stock is below $40, it will be "put" to the person who sold the Jan. 2013 $40 put, for $40, so the new cost, an average of the first 100 shares at $33.40 and the second 100 shares at $40, will be ($33.40 + $40)/2 or $36.70.)

We head into the coming week "cashy" and cautious, neutral to slightly bullish. All eyes will be on the upcoming FOMC meeting and announcement on Wednesday, September 21.

> *"When you wake up in the morning and are not sure if you want the market to go up or down, because you have some exciting gains to look forward to in either direction – you are well-balanced!"* - Phil

Inside Member's Chat, Friday afternoon:

L4 asked Phil *"I would like to sell 20 each Oct 22 AGNC $26 puts for $0.55. I would net $1100 credit and be on the hook for 2000 shares if AGNC breeches $26 at a 14% discount from the current price of $29.72. What do you think?"*

Phil replied *"Sure, I like AGNC and that's a great entry price, but why not sell Jan $27 puts for $2 for a net $25 entry and just pay one commission and collect $4,000 or, maybe be happy with collecting $2,000 and seeing how that goes as you have the flexibility to roll to 2x the March whatevers if you have to, for a MUCH lower entry as your worst case. It's better, over the long haul, to make half as much with a very strong fallback position because, on occasion, you WILL need those fallback positions."*

AGNC was at $29.54 at the close on Friday.

Next Week's Economic Calendar

Monday 19	Tuesday 20	Wednesday 21	Thursday 22	Friday 23
10:00 AM: Housing Market Index	7:45 AM: ICSC-Goldman Store Sales	7:00 AM: MBA Purchase Applications	8:30 AM: Jobless Claims	
11:00 AM: 4-Week Bill Announcement	8:30 AM: Housing Starts	10:00 AM: Existing Home Sales	9:45 AM: Bloomberg Consumer Confidence Index	
11:30 AM: 3-Month and 6-Month Bill Auctions	8:55 AM: Redbook	10:30 AM: EIA Petroleum Status Report	10:00 AM: FHFA House Price Index and Leading Indicators	
	11:30 AM: 4-Week Bill Auction	2:15 PM: FOMC Meeting Announcement	10:30 AM: EIA Natural Gas Report	
	11:30 AM: 52-Week Bill Auction		11:00 AM: 3-Month and 6-Month Bill Announcements	
			11:00 AM: 2-Year, 5-Year, 7-Year Note Announcements	
			1:00 PM: 10-Year TIPS Auction	
			4:30 PM: Fed Balance Sheet and Money Supply	