

## **08' Review & 09' Outlook**

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**By: Matthew Bradbard**

The real estate slowdown, credit crunch, deleveraging and overall lack of confidence around the globe became an infection that nearly brought the international economies to a halt. The largest bankruptcy case ever, Lehman Brothers, has come and gone after 158 years of business. Bear Stearns and Washington Mutual, two of the largest savings and loan organizations, are no longer. Headlines that once seemed implausible became a reality in 2008; a year which most are happy to see in their rear view mirror. It was obvious that times were challenging in a year when investors such as Warren Buffet and Harvard University Endowment incurred serious losses.

The wild gyrations in commodities last year were a brutal reminder of how volatile and unpredictable this market can be, as prices went up the first part of the year before the #\$\$% hit the fan and there was an about face the second half of the year. Commodities were not alone; real estate, equities, credit markets, and currencies around the globe suffered defeats. The real problem was there was no place to hide. The lack of confidence and volatility only accentuated the problem. Commodities started 08' strong with a weak dollar and strong forecasts for never ending growth out of emerging markets namely China and India. These 2 emerging economies were, are, and will remain the driving force in the commodity markets for the foreseeable future. The list of markets that hit record highs last year is not a short one; crude oil, natural gas, heating oil, gasoline, soybeans, corn, wheat, gold, platinum, and palladium, just to name a few.

Agriculture benefitted from adverse weather in Russia, Australia, and Argentina, in addition to an insatiable demand from emerging markets and severe flooding in the Midwest. Severe power outages in South Africa hurt production in some metals. Energies rose early on the expectation that the emerging markets' appetite was infinite in combination with rampant speculation. That was not enough to counteract the drop off in demand, rally in the dollar, and with speculators running for the exits and funds deleveraging, we saw prices fall even quicker than they rose.

As the credit crisis worsened the prices of all assets plunged as investors "delevered." The demand for basic materials all but dried up as the financial crises spread and tipped the world economy into a recession. The decoupling effect projected by economists that some markets would go unaffected has obviously been proven wrong. We have seen dramatic moves by central banks with many new "creative tools" being implemented. Prices of commodities have come down to more realistic levels, however this is a cycle and now with credit being tough to come by and some commodities below the cost of production, if and when we see demand accelerate, prices will rise again. Will it be at the rampant pace we saw last year? Doubtful. Liquidity remains a problem with fewer players and tighter credit. We do have some ideas which will be outlined later in this piece. To start, I will focus on what happened in 08' and what, as investors, we should take away from the most challenging year I have experienced in my career. It boils down to being diversified, employing risk management, not being greedy, not being emotionally attached to your positions, (in other words marry your soul mate NOT a market), and having both a plan and trading it! These are just a few of the rules to help guide you in trading. It is important to have rules, if you don't like these rules make your own and abide by them. I have seen many people, much smarter than I, this past year lose a lot of money. Wealth they had built up over many decades, lost in just a matter of months. Don't get me started on PONZI schemes or Madoff. I am just speaking about not cutting losses & not taking profits; disciplined money management. Everyone makes mistakes (me included), but as long as we learn from these mistakes we are not damned to repeat them. There may not be another year like 08' for another generation, but if 09' is half as dire, we as investors cannot climb into a hole and ignore what the markets are telling us.

### **Major happenings in 2008 - in no particular order:**

- Societe Generale's Jerome Kerviel cost the bank more than \$7 billion in unauthorized trades – seems small compared to Madoff but should've served as a wake up call for all institutions and regulators
- Exxon Mobil reported record earnings; the largest annual profit in US corporate history - thanks to soaring energy pricing

- US gasoline refiners cut production to the lowest level (during the February time of year) since 03' as high prices started to effect demand - Wholesale prices moved up an additional 50% over the following few months.
- Crude oil finished over \$100 for the first time- not knowing better we thought we were nearing a top...not even close.
- Fidel Castro stepped down as Cuba's president after nearly 50 years- I think they grow sugar.
- Elliott Spitzer, a real man of integrity, resigned as governor of N.Y. after a run in with a prostitute- as opposed to policing Wall Street maybe he should just join Wall Street
- Gold traded above \$1000 for the first time ever- if we do get hyperinflation will \$1000 gold be like \$100 crude?
- The US dollar fell below seven yuan for the first time in more than a decade- China really could be in the driver's seat wielding there powers as a global force to be reckoned with.
- Corn prices were forecasted to stay near record levels for the foreseeable future amid a shrinking crop and growing demand- prices were at \$6 when this assessment was made, proceeded to go to \$8 and then back to \$3; so much for that.
- Consumer sentiment hit a 28 year low which should've meant that it was time to buy - when it hits a 3 decade high I'll be selling. Contrarian because most people lose.
- Treasuries experienced their worst selloff in months as investors pondered about inflation (End of May) - most commodities top with in the next 60 days and fall off...so what inflation?
- The average US price of gasoline hit \$4/gallon for the first time ever- thank the "Big 3" for their forward thinking and SUV's- I know I get 14 miles a gallon in mine.
- InBev put in a bid for Anheuser Busch – no longer the maker of "America's beer".
- Barack Obama becomes the first major presidential candidate to reject taxpayer financing- home of the free, land of the brave.
- Midwest storms and flooding were the worst in 15 years - but a case of buy the rumor sell the fact as ideal growing conditions follow for corn and soybeans.
- China opens the Olympics with a mix of tradition and technology but the stories I've heard about preparation and selection were down right strange.
- Obama chose Biden as a running mate- I guess I just don't follow politics because who is Joe Biden?
- John McCain chose Tina Fey, a Saturday Night Live performer, for his running mate. -Have not heard from McCain in a while, is he still alive?
- Hurricane Ike rips thru the Caribbean but the US was mostly unscathed- in 09' we doubt we will be so lucky (orange juice, cotton, natural gas).
- Seven years have passed since September 11<sup>th</sup>- We expect the "infidels" to make another attempt on US soil.
- Merrill Lynch closed its doors as did Lehman- talk about tradition and Wall Street changing.
- SEC banned investors from making short bets on certain equities, and foreign countries followed their lead- My understanding was they are to police the industry not tell me what I can and cannot trade.
- Morgan Stanley and Goldman Sachs were converted into traditional bank-holding companies. - Independent brokerage firms are a thing of the past.
- Crude moves \$16.37 in one trading session- how much does it cost for a trip to Vegas to enter the World poker tour?
- Warren Buffet puts \$5 Billion into Goldman Sachs but is it because he likes the idea or because \$5 Billion is like \$5 dollars to him and he was trying to instill some confidence.
- President Bush signs into law a \$700 Billion plan to rescue the US financial system (the largest government intervention ever) - this is only the beginning.
- The Fed lent money directly to corporations as opposed to ailing banks- when was the last time we did this...you got it the Great Depression.
- A coordinated cut in rates by the world's central banks – the honeymoon was short-lived but may have been necessary to tell people they are all on the same page, "there is a problem".
- Within a week this was followed by the largest 1 day point gain in the Dow ever.
- OPEC cut output, the largest single reduction in almost 8 years, and oil still went down - more drastic measures are needed and will follow.
- October ended as the worst month in stocks in 10 years as oil got creamed - falling 33% to end its worst month in history.
- Obama is elected president – he ran on the "Change" ticket and I hope he's true to that because we need it.
- Apparently investors frowned upon a Democrat as we experienced the biggest 2 day sell-off since 87' losing 930 points in the Dow in 2 days.
- Japan's economy slipped into a recession- there will be more to follow.
- A new economic team was introduced- some familiar faces but under new direction as Bernanke and Paulsen are less visible.

- Terrorist attacks in Mumbai killed more than 150 people- we live in dangerous times so take it day by day.
- The recession became official in our homeland- thanks for the update, talk about a lagging indicator, my 7 year old nephew knew 6 months ago.
- OJ Simpson is sentenced to 9 years in prison for stealing sports memorabilia, some of which was his own. - But Madoff can steal \$50 Billion and still stay in the penthouse?
- NFP showed a loss of 500,000 jobs in 1 month, the largest monthly drop in 34 years as unemployment jumped to a 15 year high.
- Treasury sold four week notes at 0% for the first time ever-I guess zero is better than a loss
- Bush visited the Middle East and there is now talk of a US withdrawal in 2011- I'll believe it when I see it.
- The Fed cut its target rate to historic lows, between 0 and ¼, and will be implementing whatever "tools" necessary to keep the system afloat- talk about a blank check.
- OPEC cut production again by 2.2 million barrels a day and this time the market might actually believe the cartel because oil looks to set an interim bottom.
- Mortgage rates fell to their lowest level in almost 40 years - which is still necessary to help the failing housing market.
- The government lent GM and Chrysler \$17.4 billion which I can assume will be written off when they go to bankruptcy later this year. – And a plan to be more financially sound was given a March deadline; what about the last 50 years?
- Israel and Hamas were - and still are - exchanging missile attacks with both parties on the offensive and not looking to back down, could this situation become more escalated? We shall see by the end of January with the new Administration.

There were many more than just these events, however later generations will read their history books and see these as the highlights.

**Find the attached document or scroll below illustrating the highs, lows, open and closes for the major commodities. In our 2009 outlook we will put the open and our expected trading ranges.**

As the 2008 chapter closes and we begin to write 2009's we must ask, what lies in store for us this year?

## 2009 Outlook:

For investors that have been sidelined or haven't taken part in the first run up in commodities we think you will be given a second chance. Perhaps the minority but we think we will start to see trends turn up again sooner than most. In fact some markets are currently at the lowest levels in several years. We are not big lumber traders but we are approaching levels not seen since 1985, sugar prices are 75% off record highs, energy, metals', and agriculture prices have been cut in half over the last 6 months.

Volatility will continue to persist into 09' as the global economy comes to terms with present conditions. As of this posting the outlook for the economy is poor but the freefall in commodities that has recently taken place has brought a number of commodities back to sensible levels. The insatiable demand, tight supplies and level of speculative interest may not return at an unbridled pace but we do believe it will return. The drastically lower pricing we see, virtually commodity wide, should reduce some commodity production and with the lack of credit for new financing on exploration, mining, and growth when the demand returns it should be a self fulfilling prophecy feeding on itself.

Before we see any substantial recovery we will need to see a measure of confidence return to the financial markets, the pace of the slowdown, and perhaps a clearer picture globally of how big this contraction will be. All these questions will need to be answered before we return to 08' levels. Although the recent crises have in some instances caused a supply glut; what we see in other commodities is a far more frightening picture where supplies still remain tight and there has been very little demand construction to date, *i.e.* some of the food commodities. (More detail below)

Typically we make trading decisions governed by supply and demand but those laws have been put on the back burner as deflation for the time being is in the driver's seat. The dilemma is that when we look at where commodities are in the first month of 09' we find that a number of commodities are already at a deflated price. We are even seeing a number of commodities trade near or below the cost of production. This to us is when you look to buy because (if you have enough patience) cycles should correct; whether it be by farmers planting less cotton or sugar or perhaps exploring for less natural gas. History shows a commodity rarely stays below its cost of production for an extended time frame.

This new year will be more of a traders' market as opposed to sitting in positions for extended periods. A successful trader will need to apply fundamental research, technical research, pay attention to seasonal tendencies, examine correlations commodity to commodity, and most importantly be flexible with their positions. By this I mean perhaps scale back your position size because of the volatility, trade both futures and options, and use hedging strategies. All of this we will implement in our ideas which we encourage investors to follow in our weekly commentary or [daily blog](#).

Once an interim bottom is reached in Q1 and Q2 for a variety of commodities we feel we will start the next leg up. This is a historic cycle in commodities and we believe we are only in the 4<sup>th</sup> or 5<sup>th</sup> inning. Many commodities hit record highs in 08' followed by 50-75% price declines. The huge fluctuations that seemed to happen overnight bring the prospect of sudden paradigm shifts. Speculators, hedgers, and producers need to recognize that with this comes excellent opportunity but much more risk. While it is unlikely that we will encounter the same type of swings this year one will need to bring their best game to be successful marketing, hedging, or speculating this calendar year. The good news is more investors are trading commodities which are quickly becoming a critical component of the global economic system and a necessary asset in your portfolio.

We are looking forward to 09' and see many opportunities that we'll outline here. For further explanation and to keep up on an evolving basis follow our Weekly commentaries and on our blog's Daily thought at [www.mbwealth.com](http://www.mbwealth.com). Feel free to visit and give us feedback; we are always eager to see what other traders and investors are doing.

**Agriculture:** As we enter January we need to address two issues. One, the mood of the market as to any shift in farmer thinking on how many acres of each crop they intend to plant. Two, we will follow the weather in Brazil and Argentina as they enter their key growing months of January and February. If weather continues dry through January, China will begin to overbook US soybeans to fill the hole in production out of South America. In 08' soybeans staged a rally to all time highs and while we do expect higher ground from here it is unlikely we'll see over \$15/bushell in 09'. Without the adverse weather we are currently experiencing in S. America soybeans would not be where they are today, \$10/10.50. The bear market in crude should continue to pressure beans affecting the profitability in biodiesel which in turn should lower the cost of fertilizer and fuel. This should make soybean production profitable at lower levels. The only problem with this theory is that the cost of inputs does not seem to be coming down at the same pace as the product and regardless if dry weather continues in Brazil and Argentina the US will need to plant more soybeans to make up for their shortfall. We see soybeans bottoming between \$7.50 and \$8.00 in Q1 and then trending higher eventually making their way back to \$13. Corn saw the greatest rally in history last year taking prices almost \$2.50 beyond its previous record high. The fundamentals seem to be in place for prices to stay at historically elevated levels. We expect to see a range between \$3.50 to \$7.00 with the lows being made in Q1, a trade to \$5 in the spring and then a potential re-test of \$7 come summer if we have supply problems. The "low stocks to usage" ratio cannot be ignored even with the existing demand destruction. Wheat experienced one of the biggest rallies in history last year moving to unheard of levels. Farmers around the globe quickly came together to take advantage of higher prices and it appears we will have a dramatic jump in production. That is what I love about commodities, extremes generally don't last. The story this year will be what type of demand we see. Although significantly better than last year the "stocks to usage" ratio made a modest recovery off its 6 decade low. We are not convinced wheat is done going down and seeing that the average price for CBOT wheat over the last 5 years is close to half the current level we would not be shocked to see a test of \$4 before we see a rebound. On the upside we could see \$7/\$7.50 but much more than that would mean we've encountered more weather problems. One potential idea we are currently positioned in with clients is long KCBOT/short CBOT.

**Softs:** We have been touting for months now that this sector is our favorite sector for 09' and those of you who have not listened we suggest you start paying attention as these 5 markets offer profound opportunities. We have had a world surplus in sugar for the last 2 years and for 08-09 there is expected to be a world deficit. The last time we saw a deficit prices traded near 20 cents/lb., currently prices are at 12.50 cent/lb. Recent news out of Brazil and India which are 2 of the biggest players in sugar has also been supportive. We are expecting 9.50/10.00 cents to act as the floor and a move back to 16.00/17.00; this move seems reasonable between now and October. Demand remains strong for coffee and with Brazil having an off year a bull market may be brewing. A low should be made in Q1 as traders digest the 08-09 crop and start to anticipate what is to come of the 09-10 crop season. Strong support comes in at \$1.02/1.05 and on a move thru \$1.25 we should see some more interest taking prices back to the mid 140's and potentially higher. Bull call spreads would be our recommendation. I like chocolate and apparently I am not the only one as cocoa is slightly higher ytd in 09' and one of the best performers in 08' gaining over 30%. Turmoil in Ghana and the Ivory Coast, whether it is adverse weather or political instability, has of late been the driving force. A wise trader told me to monitor the US dollar and the British pound when trading cocoa. Overlay those charts with cocoa and you would be amazed. We see a range of 2200 where you should be a buyer and 3000 where we would recommend being a seller. There will come a day to be a bull in cotton but for now we expect prices to drift lower. So far we have been largely

positioned on the sidelines waiting for lower prices and watching the market slowly inch higher. In tough economic times cotton has generally moved lower so, given the current environment, we are still sticking to our guns and remaining content as a buyer in the 30's. The price most likely will need to trade higher to compete for acreage or else the US may price itself out of the cotton market. If you chose to buy cotton at any time we would look to take it off between 60.00/65.00. Of course living in Florida, which behind Brazil is orange country, we have an opinion on fcoj. Since its peak in early 07' prices have come down 65% and on trading strictly off the charts load up on oj, this is one of the best looking charts on a monthly, weekly and daily basis. Prices are nearing support and are extremely oversold. This combined on extreme cold weather, fund buying, dollar weakness or anything else that could propel prices thru the 40 day moving average we may get some momentum traders to get oj moving higher. A buy anywhere near 70 is warranted and on the upside we would look to keep long exposure thru Q2 looking for at least \$1 potentially more.

**Metals:** Gold was one of the few commodities that was able to hold its own in the face of an historic correction in commodities that left few unscathed. The Fed is going to continue to pump all kinds of money into the economy and it won't help. This money will not get to corporations or the consumer. There is an extreme shortage of physical gold and gold has historically been a classic hedge against inflation so \$1200 or greater would seem attainable this year. If at any point this year we start to see the light at the end of the tunnel, I still wouldn't say that things are back to normal. However if they do get better look out because we might be going higher. The amount of trees that have been chopped down to print paper is vast and with the stimuli injected into the system as well as reductions in interest rates we may be setting the course for the most extreme inflationary set up in history. Over the last few years central banks have been liquidating their holdings, gold producers have been lifting their hedges, and with the introduction of multiple ETF's and investment choices interest in gold is building. We expect to see 1 more washout some time in Q1 taking prices below or near \$750 which should be bought. On the upside we are looking at \$1200; although we reserve the right to adjust that higher in a few months depending on circumstances. Silver is our favorite trade and is currently our largest bullish play for clients. We are expecting big things and can present a compelling argument why all investors should have 5% of their portfolios positioned in silver looking for a major move higher over the next 12-18 months. Just to name a few the gold:silver ratio which for 3 decades has been around 20:1 is currently at 75:1. This means one of 3 scenarios; silver is too low, gold is too high or this ratio does not matter anymore, you decide. If the US dollar moves down (which we're expecting the second part of the year) it should be supportive as well as if oil moves higher it should be silver supportive. Silver prices have declined 65% from their highs and may have moved down too much. It is rumored a couple big players manipulated the market during the deleveraging process that we just experienced; currently being investigated by the CFTC. We see the bottom between \$8/8.50 being made early this year and we expect to see \$12/12.50 in Q1 a set back and then a push to \$14 by the middle of the year and closer to \$18 by years end. The same report we wrote in November 08' entitled "HI-HO silver" which explains the trade is still applicable.

**Energies:** If you would have told me we were going to get a correction from \$148 I would've agreed with you but to say 6 months later prices would be near \$35 or 75% lower; I would've never guessed. If you did congratulations you are the minority. Where do we go from here? We are searching for clues or signs to when oil will find a bottom; output will surely shrink sharply the first half of the year but when will demand pick up? Whether the catalyst is OPEC cuts, turmoil in oil producing regions, an unseasonably cold winter, or an active hurricane season we expect oil to make its way to \$75 at some point in this calendar year. We see the bottom somewhere between \$25 and \$30. Gasoline at the pump has been cut in half while at the wholesale level prices have fallen 70%, riddle me that? We are a buyer of longer dated option contracts for clients on a 15-20% pullback in prices. We expect the lows to be made simultaneously with oil sometime in Q1 between 75/85 cents. We are confident prices will find their way back to \$1.50 a gallon and if oil trades above \$60 at some point this year we may see wholesale prices make a run at \$2/gallon. The key here will be how the new administration handles alternative fuel sources; not that they will come on line immediately but we feel the psychology will drive this market. If we do not learn from our past misfortunes and continue along the path we will quickly see the bull market in fuel return. It used to be that oil was the dog and heating oil was the tail but at times in 08' the tail certainly wagged the dog as heating was a market leader. Will this year be different? With heating oil stocks coming off record lows last year on an extended cold winter and a great deal of usage we could be in for sticker shock once again. Pay attention to the refinery runs, which seem to be low to date, and if we are able to build inventories. We are torn on whether the recent January low at \$1.20 is the low or will we test \$1 before we get a bounce; stay tuned. On the upside once we do establish a bottom in energies we would expect to see prices attempt a move to \$2.50. If this were to happen we would expect that move to happen by the end of Q2. Natural gas was briefly trading below \$5, levels not seen since September 06'. We are incapable of calling a bottom as our crystal ball is broken but we would be a buyer on a move closer to \$4; a buyer with both hands. Prices to date have come down virtually 70% and are currently below the cost of production. If the cold weather persists we would expect the industrial and retail usage to jump at least moderately and help kick start a move higher. Once a low is made over the next 60 days we should not see that level again this year. While being bullish on natural gas has not been easy ytd we think those who stick to their guns and maintain this attitude thru the first part of this year will be handsomely

rewarded. Even a 50% correction from the recent high/low puts prices back over \$8; from here that is \$32,000 per futures contract. Check please.

**Currencies:** The US dollar was up on the year which we feel was for the wrong reasons. It was not because things were so rosy in the US but rather that things were so terrible elsewhere. An unprecedented financial meltdown launched the dollar on its sharpest rally against many major currencies in decades. In past times of extreme financial stress investors sought refuge in the world's reserve currency. As the race to zero continues look not for what currency is good but at which currencies are worse; everything is relative with FX this year. Pay attention to the US dollar as all currencies with the exception of the yen should have an inverse relationship. The yen and dollar so far this year have benefitted from the risk aversion trade and investors unwinding their bets which were previously placed with borrowed dollars or yen. Although considered the path of least resistance we expect the dollar strength to fade as long as prices remain above 85.50. We are not dollar bulls but apparently they're out there and we need to respect that. The yen should do the opposite of the stock market so speculate accordingly depending on your take. The pound and euro have weakened and should weaken more, the Kiwi, Loonie and Aussie are 3 commodity currencies that are closer to a bottom than most think; again our opinion. Now for some trading ranges where to be a buyer and where to be seller: The Euro could go to 1.15/1.20 only because Trichet is behind the curve and his currency will suffer, on the upside we see significant resistance at 1.48 if we can even muster that. The Swissie could be the sleeper in 09' and if it can be bought closer to 80.00 you should be a buyer. On the upside we expect to see an attempt at par in Q3 or Q4. Assuming an entry at 80.00 a move to par would represent a \$25,000 move per contract. In the Aussie we have been recommending clients to get long from current levels but we may be too early, time will tell. We expect a move to 74.00 in coming months and if things get going in commodities again we wouldn't rule out 80.00. The yen should stay above par unless we get a serious rally in the stock market as well as we think you could see 125.00 if we see a few more shoes drop (*nationalization of banks, significant jump in unemployment, failure of big 3, etc.*). These projections for the yen are only for the first 6 months of the year because we have mixed feelings on whether we will stage a recovery the second part of the year. The fact that many economists are calling for it I think makes it unlikely. The movement of the Loonie will be governed by the direction of metals and oil; with an expected washout in the not to distant futures we would be a buyer on a break to .7300-.7500 and look for that to be the low for the year. On the upside we think the .9000 area is about the top. With interest rates as low as they have ever been (and most likely heading lower) we cannot make a strong bullish case at this point. The British pound recently hit a 7 1/2 yr low against the dollar and we expect there is more downside to come as their banking sector may be worse off than here in the U.S. They share the same housing blowup and the credit crunch has not eased their pain. We have seen prices come off 30% and we very well could see them make their way to prices not seen in a 1/4 century within the next few months. This would only be an additional 7% move lower. We feel it necessary to point out even if we are right with our assessment this will not happen in a straight line and over the course of the year there will be both long and short opportunities. In fact currently we are positioned long with clients simply looking for a bounce back to 1.4250 in March. The Kiwi is a buy as long as prices stay above 50.00 and we would suggest once long sitting on our hands looking for a move back to 60.00 before mid-year if not sooner. We still see a healthy spread with interest rates and even if this spread narrows the Bank of NZD should keep rates a premium to most.

**Financials:** Right now we are looking for a bounce as investors think that the new administration will cure everything. In the weeks to months down the road they will figure out that although the change is welcome there is no immediate fix. We will have more pain and stocks should ultimately head lower before we see any sustained bullish movement. Albeit a bear rally we could see a 20% advance or more which should be used to trade for speculators. Retail investors that have held on should view this as an opportunity to unload some of those stocks that they may be sitting on for the next 5 years for fear of taking a loss. Although I trade predominantly commodities most of the investors I deal with have more experience in stocks. Why I bring this up, is due to the countless years that investors in equities have told me they buy and hold; for years that may have worked but the game has changed and now you must be more active and more nimble. I am not advocating day trading but simply falling asleep at the wheel and checking quarterly will not work in this environment. Diversification will be key across different sectors, broad asset classes and perhaps even trading different time frames throughout your portfolio. For the Dow we expect a high of 10,200 and a low of 6,000 with the market finishing down on the year which means below 8750. For the S&P 500 expect a high of 1075 and a low of 625 with a negative year as well; meaning come December 31<sup>st</sup>, 2009 we should be under 900. For the first time since 1941 the 10-yr return on the S&P 500 is negative. This will be a stock pickers market and the days of buying and holding are dead. With so many unanswered questions it is extremely difficult to predict what the right move may be. As investors we are in uncharted waters and making up the rules as we go.

We expect Treasuries to come under pressure shortly seeing that the Federal Reserve has slashed its target rate to effectively zero and has been forced to do the unthinkable in hopes of jumpstarting the economy. The dilemma lies in what is worse the cure or the disease? Unemployment will if not reach double digits but will come close. The Fed's balance sheet will continue to balloon. The debate may continue on whether we are experiencing deflation or inflation

but the real issue is what is necessary to repair the system. There is a complete lack of trust and transparency, the TARP money does not appear to be reaching the right people, *i.e.* distressed businesses, troubled real estate owners, small business owners. Instead a blank check has again found its way to the same people and institutions that caused the problems we now face. Bottom line, I do not know who would tie up their money in government bonds for 5, 10, or 30 years to make 1-4%. Honestly if you factor in the potential fiat risk and inflation over an extended period of time you're paying the government to hold your money. Yes, it is better than losing money in the varied instruments that have cost investors trillions of investment dollars in 08' but I have always been under the impression that we look for an investment to make money not for an investment to just "not lose money". There most likely has been too much publicity on shorting bonds causing too many people to pile on that trade; so if you are not already in you are most likely late. However one of the best trades I think we may see in our generation is shorting the short end of the yield curve; Euro dollar. No it is not the currency and this instrument is extremely liquid, has a reasonable margin, inexpensive options, you can buy an exorbitant amount of time, and has a defined risk even when trading futures. If I have peaked your interests look for our special "Euro-dollar" report next week. In terms of trading ranges 30-yr bonds are a sell above 140'00 and we could see 116'00-118'00. Sell 10-yr notes near 130'00 and on the downside we are expecting 114'00.

**Livestock:** As the economy faltered it appears carnivores have become herbivores as the price of cattle has dropped some 30% from its summer 08' highs. Fundamentally, the cattle market remains bullish as month after month we have seen fewer placements. If not for the pressure from speculative selling in the stock market and very real concerns about the economic woes here and abroad prices would've possibly been a lot higher than current. The global slowdown is taking its toll on US exports but the question is how far along we have come and if things will get better or worse from here. Collapsing meat exports and a stronger dollar (which made US exports more expensive as the demand was falling) added fuel to the fire. High feed costs and the lack of profitability caused a major drop in placements. We think over the next few months the demand weakness and slowdown in exports will be fully priced into the markets, if it isn't already, and the supply tightness may begin to support prices. In fact the lower 80.00/82.00 should serve as a good value zone to start accumulating longs. Keep a close eye on the dollar, exports, and the direction of grains to govern how you should be positioned. Currently we are long August live cattle/ short April feeder cattle looking for the spread to narrow. From cows to pigs, the market for lean hogs is in the process of absorbing a large supply as well as the total lack of exports. The dollar again was an issue as the total collapse of confidence of buyers. Pork production was up in 08' vs. 07' but this only became an issue when demand disappeared. With Russia and Mexico taking a break from buying pork because distress in their local economies the US has absorbed a hefty supply. Production should slow in Q1 and if demand comes back we are friendly to April and June hogs; in fact we are positioned with calls in April and have clients long June already. We are looking for a low to be made very soon if not already and a slow climb into the middle of 09'. For April we expect a range between 62.00 and 74.00 and in June a low of 75.00 and high of 87.00.

## **Conclusion:**

There is no quick fix, it most likely will take several years to work through the effects of the housing and credit bubbles. The recovery could be a jobless recovery but in the next 12-18 months we will recover. The only thing that will heal the situation is time. Despite the over whelming clouds of pessimism there are still a lot of good things in the US and around the globe. We have outlined a number of opportunities that we expect to see in commodities within the next few months. Even when times are dire significant opportunities will present themselves where the risk to reward dynamic makes sense. The key will be identifying the inherent risk that you are comfortable taking. The true turning point which will vary depending on the individual commodity will be when the demand picks back up. At some point we should see the global slowdown revert back to a more normalized market and start to see a recovery. This market does not lend itself to simply buying and holding but will be more of a traders market.

Bottom line is due to the sheer amount of financial stimulus that the US government and governments abroad are providing inflation is capable of coming back just as quickly as it disappeared. The test of time has shown that commodities has tended to be one of the best performing asset classes during times of inflation. We have given a variety of trade ideas and I am imagining some may agree but many may disagree with our assessments; but this is what makes a market. Swim against the tide. Do things differently than others because remember most people lose money and if you do the same as most you will lose money too.

For specific strategies contact us via e-mail <http://www.mbwealth.com> or telephone at (888) 920-9997 / 954-929-9997. For the most part investors reading this analysis want to be more hands on, however we suggest taking a look at our managed futures section and consider diversifying further via [CTA's with proven track records.](#)

For a better view of the chart, click on it.

COMMODITY	OPEN	CLOSE	HIGH	LOW	CHANGE IN 2008	CURRENT
<b>ENERGIES</b>						
CRUDE	96.05	44.6	147.27	32.4	-53.57%	43.15
HEATING OIL	2.66	1.41	4.16	1.19	-46.99%	1.34
RBOB	2.5	1.01	3.63	0.785	-59.60%	1.08
NAT GAS	7.57	5.62	13.7	5.21	-25.76%	4.65
<b>METALS</b>						
GOLD	848.7	883.6	1014.6	681	4.11%	858
SILVER	15.17	11.27	21.19	8.78	-25.71%	11.39
PALLADIUM	365.05	186.65	595.1	157.75	-48.87%	178.3
PLATINUM	1529.9	936.2	2251.1	761.8	-38.81%	932
COPPER	3.05	1.4	4.27	1.25	-54.10%	1.38
<b>CURRENCIES</b>						
EURO	1.4682	1.3921	1.5984	1.2395	-5.18%	1.3000
SWISS	0.8917	0.9364	1.0164	0.8145	5.01%	0.8677
AUSSIE	0.8777	0.6997	0.977	0.603	-20.28%	0.6561
YEN	0.9038	1.1029	1.1476	0.8793	22.03%	1.1236
LOONIE	1.0122	0.8224	1.029	0.7704	-18.75%	0.7976
CABLE	1.9774	1.4557	2.0385	1.4382	-26.38%	1.3865
KIWI	0.7683	0.5826	0.818	0.5253	-24.17%	0.5263
DOLLAR	76.75	82.15	89.25	70.81	7.04%	86.15
<b>GRAINS</b>						
CORN	4.6	4.07	7.625	2.9	-11.52%	387 1/2
SOYBEANS	12.3	9.7225	16.6	7.77	-20.96%	1012
BEAN OIL	49.5	33.29	70.65	28.07	-32.75%	33.53
BEAN MEAL	338	301	455	237	-10.95%	318.2
CHI WHEAT	8.95	6.1075	13.00	4.55	-31.76%	566 3/4
KC WHEAT	9.17	6.3	13.8475	4.8975	-31.30%	598
OATS	3.1075	2.1	4.55	1.845	-32.42%	213
RICE	1395	1534	2446	1285	9.96%	1269 1/2
<b>DEBT</b>						
30-YR	116'13	138'02	142'21	109'07	18.61%	129'30
10-YR	113'12	115'24	130'20	111'14	2.10%	124'05
5-YR	110'10	121'00	122'18	109'08	10.60%	119'04
EURO-DOLLAR	95.42	98.755	98.765	95.3175	3.50%	98.815
<b>SOFTS</b>						
COCOA	2028	2665	3385	1867	31.41%	2588
SUGAR	10.89	11.81	15.07	9.44	8.45%	12.45
COTTON	68.01	49.02	91.38	36.7	-27.92%	49
FCOJ	1.49	0.6855	1.52	0.671	-53.99%	0.745
COFFEE	1.36	1.1205	1.696	1.016	-17.61%	1.192
LUMBER	233.9	169.4	270.3	163.7	-27.58%	157.8
<b>LIVESTOCK</b>						
LIVE CATTLE	0.966	0.84475	1.047	0.8065	-12.55%	0.8228
FEEDER CATTLE	1.0455	0.9405	1.165	0.8545	-10.04%	0.9348
LEAN HOGS	0.5735	0.60875	0.90	0.539	6.15%	0.5965
PORK BELLIES	0.857	0.87375	1.00225	0.607	1.95%	0.8200
<b>INDICES</b>						
DOW	13325	8727	13345	7445	-34.51%	8092
S&P	1478	900	1483	739	-39.11%	824
NASDAQ 100	2111	1213	2117	1018	-42.54%	1169
CCI	476.86	363.06	615.04	322.53	-23.86%	357.93
VIX	22.58	40	89.53	15.82	77.15%	47.29

\*Assuming open 1/2/8 and close 12/31/08

\*\*Assuming current as of 12/09

\*\*\*Assuming Continuation charts

Risk Disclosure: The risk of loss in trading commodity futures and options can be substantial. Before trading MB Wealth recommends that you should carefully consider your financial position to determine if commodity trading is appropriate for you. All funds committed should be purely risk capital. Past performance is no guarantee of future trading results. There are no guarantees of market outcome stated, everything stated above are our opinions. Calculations of profit and loss have not factored in commissions and fees.