

These are just two among an essentially infinite number of scenarios. While the market's recent decline comes as absolutely no surprise to me, the fact that we topped right below the high at the beginning of the year and below the 200 day moving average strikes me as a little too convenient. It may be that I am trying to get too cute with my analysis, I still see at least some potential for a new high on the S&P, one not so obvious to the majority of participants. A break above the January high of 943.85 as well as the 200 dma would get all the vulgar 'technicians' excited that a new bull market has been 'confirmed'. This would be a great opportunity for the big, smart money to distribute massive amounts of stock to dumbass momentum traders and confounded short sellers.

The last time the S&P traded at 962 was Wednesday, November 5, 2008, the day after the US Election. The index opened at a high of 1001.84 that day and dropped as low as 949.86, before closing at 952.77.

Regardless of my precise 962 figure, I think that day's range makes a very compelling target for the market. It would be the perfect area for what everybody is calling the Hope Rally to culminate.

If your intention has been to short Stocks to profit from the next bear phase, I do hope that you took advantage of the irrational strength in so many issues these past weeks. I have highlighted some opportunities in these pages, and at the moment all my suggestions should be showing a profit if acted upon. This is the advantage of taking action in a timely manner, because now that it suddenly cool again to be a bear, a lot of traders will be trying to chase stocks lower. They might get lucky, the market may just collapse without an intervening bounce. But just as likely the market will respond with a major whipsaw. I think that most of the symbols that I have suggested shorting have seen their tops, but there is a distinct possibility that a retest, or near retest, of those highs is in the cards. I don't know that for sure, but given that possibility, I am glad that most of my short selling suggestions were issued when each security was trading very near its high.

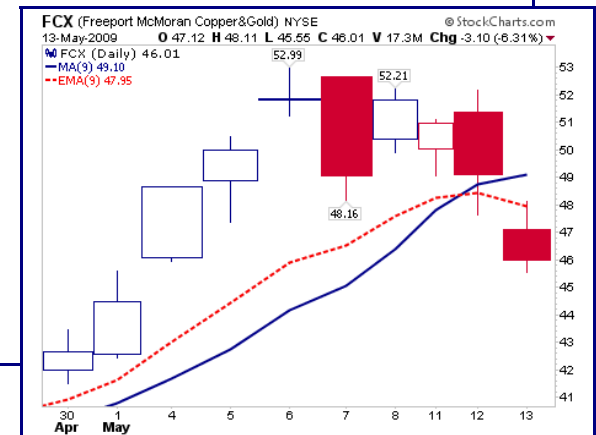
Take Freeport McMoran (FCX) for example. Last Wednesday morning I wrote the following note:

Well here we are and FCX is right at 50. Is this the time to short? Could be, or at least pretty close. The price is rising into what should be a stiff resistance zone amid a declining trend in volume. At 50 the share price is right in the middle of its trading range in 2006. 50 may have been a legit price when copper was trading above \$3, but it seems a little rich these days.

*In this market you just never know, but I think the chances are strong that FCX is looking to top in the near future. 51.21 is the .3247 retrace target, considering that Copper itself hit a wall at its .3247 target last month, this ratio could very well impede FCX from further advance. **I look for FCX to decline to at least 35 or perhaps 30.***

FCX opened later that morning at 51.82 and quickly raced up to a high of 52.99. The low of the day was 51.23, the close 51.85. Pretty classic gap-up-climax-doji-whatever top.

Now unless you are strictly a short-term trader, I don't see any reason to cover at 46, 45 or even 40. But is it safe to *initiate* a short position here in the mid-40s? I am not so sure. It depends really on how much upside you are willing to risk. I do not have a particularly pellucid read



on the situation, but I don't really see why FCX couldn't get a brief bounce back above 50. If that were to happen then I would probably view it as another shorting opportunity. So if you want to short this one, but haven't yet, your options are to short at 46 (or where ever) and risk the trade going against you 10 percent or even more, or you can 'hope' the price does retrace back up there so you can sell at what should be a lower risk opportunity. Neither of the options are nearly as attractive as having sold above 50 to begin with.

In any event, my 35 to 30 downside target for FCX remains, but the timing and trajectory are fairly murky.

Random Observations

GDX hit another new high before reversing lower yesterday. Of the fund's top 20 holdings, eight touched new year-to-date highs yesterday.* Three of those new highs were from the fund's Silver contingent, and I notice the list does not include any of the big names that I tend to keep track of. A number of individual Gold

Stocks have formed potential head and shoulders patterns, and practically all the symbols I've looked at this morning have been in a declining volume trend since at least February.

I will try to highlight some of the individual stocks another time, but for today I think it is enough to notice the deteriorating situation in GDX.

Volume climaxed during the February high, followed by lower volume on the March high. Volume broke out of its downtrend yesterday, but since that was on a reversal, the uptick in volume could be considered a bad thing.

I also notice that the Gold Miners Bullish Percent Index is only up to 74 now, well below the 87 percent of Miners with bullish price objectives back in late March. To me this seems like a pretty



* GOLD, BVN, IAG, GFI, SLW, PAAS, SSRI, and SA

Too early to say for sure, but I see some chance that this ratio is now forming a top.

In the Currency markets the Nippy continues to strengthen, while the Dollar is showing more signs making a turn. I do not expect JPY to stay strong for that long, but it looks like the market still has this view of the currency as some sort of anti-liquidity safe-haven. So we wait patiently for that dynamic to break down. They say that markets discount the future, but as often as not we find them reliving the past.

Regards,

Kyle Ledbetter Lucas

Equal-Weight Currency Indexes

USD: 98.63

JPY: 93.38

EUR: 96.32

GBP: 103.69

CHF: 94.38

CAD: 103.03

AUD: 108.15

XAU: 103.75

XAG: 119.62