

# ***Bert Dohmen's*** **SMARTER TRADER™**

---

*The Premier Advisory for Active Traders*

**Issue 140- 08, September 11, 2008**

(Last SMARTER TRADER sent 9/10/08)

## **MY VIEW:**

Two firms are trading as if they are about to go of business, i.e. bankruptcy: Lehman (LEH) and Washington Mutual (WM). The former has been trying to get a capital infusion for several months, but no one apparently wants to step up to the plate. Imagine, here is one of the leading Wall Street firms which has made living for 100 year or more raising capital for others. Obviously, if they couldn't get the money by now, they can't.

Yesterday we wrote about Lehman: *"Now that the wolves are at the door, why would anyone want to pay a decent price, even if they wanted the firm? All they have to do is wait till the stock goes to \$1."*

In July, the WSJ wrote that the firm had \$161 billion in "Level 2 assets". These assets are very difficult to value. And it has \$41.3 billion of totally illiquid "Level 3 assets" which are impossible to value. My guess is that Level 2 should be written down by at least 20% and Level 3 by 50%. But even that is much too generous. That would imply \$50 billion in write-offs which would be impossible to raise in the form of new capital. The firm seems to be ready for the junk heap of Wall Street history.

Wall Street created this debacle and now is a victim of it. That's poetic justice. Of course, in the end every American, and billions of people around the world will suffer because of it.

WAMU is a story of complete mismanagement. The CEO was just fired after 18 years on the job. He wouldn't have gone if the company were salvageable. Therefore, in my view the firm is toast, or will be taken over, wiping out shareholders.

Listening to all the cheerful bulls every day dispensing their free "bull", I hear "but the economy is not in a recession, and things aren't as bad as the bears say." That reminds me of the story of someone who falls off of the Empire State building. As he passes the 30<sup>th</sup> floor, he says, "so far, so good." Yes, but the landing is painful.

Once those two are done, attention will focus on Morgan Stanley (MS). The question then becomes, will Goldman Sachs be the only survivor amongst the investment banks?

And then it come General Motors, Ford and Chrysler. Does anyone really think they can survive?

One guest on TV today said that "we are in a correction, and at some time in the future, the market will go up." Wow! And they waste valuable TV time for that.

Symbol	Last	Change
<a href="#">Dow</a>	11,433.71	↑164.79 (1.46%)
<a href="#">Nasdaq</a>	2,258.22	↑29.52 (1.32%)
<a href="#">S&amp;P 500</a>	1,249.05	↑17.01 (1.38%)
<a href="#">10-Yr Bond</a>	3.6220%	↓0.0190
<a href="#">NYSE Volume</a>	6,953,021,000	
<a href="#">Nasdaq Volume</a>	2,324,410,000	

	NYSE	NASDAQ
Advances	1,533 (44%)	1,307 (44%)
Declines	1,899 (54%)	1,565 (52%)
Unchanged	76 (2%)	119 (4%)
Up Volume		1,597 (69%)
Down Volume		698 (30%)
Unch. Volume		29 (1%)
New Hi's	26	31
New Lo's	458	274

The stock market was like a roller coaster, from down over 150 points on the DJI to up 165 at the close. Is it meaningful? I don't see anything that would say so. Volume was once again very heavy, with almost 7 billion shares on the NYSE stocks.

However, the internal numbers were negative today, which is amazing on a day that the DJI has a gain of 165 points. For example, advancing issues on the NYSE and the NASDAQ were 20% fewer than decliners.

Furthermore, the number of stocks making new 12-month lows hit a new multi-month high. That means that many stocks are sinking even while the blue chips rallied.

A number of our dependable indicators are on well confirmed sell signals. That would make a meaningful rally very difficult. Some of our shorter term indicators have turned over and are now on sell signals, still far from levels which would signal the start of a good upmove.

One thing is a really glaring divergence between the major indices since the July 15 bottom and many of our indicators. The indicators barely moved up at all, once again confirming that it was merely a short covering rally. Now the markets are ready to stage a more significant decline.

Even while the vast majority of guests on national financial TV have been advising to go "bargain hunting" for the last 18 months, credit spreads continue to widen. That means that the yield on junk bonds, or BAA bonds, continue to rise faster than those on Treasuries. You don't

want to buy stocks as long as this trend stays in effect. And short term rates, as measured by the very important, international LIBOR rate, continues to rise, even this week when mortgage rates declined in the U.S. All of this means that money is going to safety.

### **CURRENT POSITIONS—SHORT SALES:**

Over all, our positions had a good day. They were helped by the short in Lehman, which was down another 40%. We would hold all short positions.

AIG (AIG)—

ADTRAN (ADTN)—

FIRST FED FINANCIAL (FED)—

LEHMAN BROS (LEH)— closed at 4.22, with an intraday low of 3.79. Just 4 days ago it had an intraday high of 17.79. The "long term investors" are bleeding to death. By Monday, it should be below \$1.

LEGG MASON (LM)—

FMC CORP (FMC)—

VM WARE (VWM)—

MEMC ELECTRONIC MAT (WFR)—

YINGLI GREEN (YGE)—

CNX GAS (CXG)—

New Subscribers: We would initiate new short positions in the stocks above.

### **CONCLUSION:**

Yesterday, we wrote that "the charts and technicals look very poor." Well, they still do, even after today's rally.

Lehman needs to find a solution for its problem by Monday morning. The CEO reportedly is burning up the phone lines looking for a marriage partner, or just an old fashioned buyout. But no one seems to be in the mood.

The Fed is probably involved at this point, at least to offer some encouragement. The CEO is said to be on the board of the Fed of NY. That's a cozy relationship. But a solution for LEH probably would be in the form of a complete buyout, wiping out the shareholders. Why would anyone give the shareholders anything? A resolution for LEH will not resolve the much bigger

problems in the financial system. Therefore, it will not produce a big rally. The credit markets are contracting, and that's the major problem.

Greetings,

Bert Dohmen

**IMPORTANT NOTE:** Because we have been publishing this service much more frequently than what was promised, some subscribers may think that this is a daily service. Actually, the original goal of the service is to publish only when there is a recommendation to buy or to sell something. We would like to adhere more to this goal in the future. Therefore, when there is nothing to do, and there are no important events, please don't expect a new issue. That way we can preserve our time and energy for analyzing new, potential opportunities, rather than just repeating what happened in the markets on a boring day.

\*\*\*\*\*

**NOW THERE IS AN EASIER WAY TO RENEW YOUR SUBSCRIPTION:**

If you have encountered problems renewing your subscription on the subscribers web page, NOW you can renew your subscription by going to our website's HOME PAGE: [www.dohmencapital.com](http://www.dohmencapital.com) and clicking on the "RENEW NOW" button, located at the bottom of the left side navigation menu.

\*\*\*\*\*

**IMPORTANT:**

We have created a new page in the "subscribers only" section of our website for recent "Charts". Just click on the "CHARTS" button to access them. We will be updating and posting new charts periodically. We hope you take advantage of this new feature!

\*\*\*\*\*

**IMPORTANT NOTE:** After you have read or printed the service from our website, BE SURE TO CLICK ON THE 'LOG OUT' BUTTON. If you do not, then you may have difficulty getting back in, and may receive error messages, such as 'your subscription has expired.'

---

**WHAT "AREA" MEANS IN SMARTE TRADER:**

When I give advice to buy or sell in certain price area, I do it so that not all of our orders are sitting at exactly the same price. By "area", I mean a range. Our rules of thumb are as follows:

[< than \$15] = ± 0.25;    [< than \$30] = ± 0.50;    [< than \$50] = ± 0.75;    [< than \$100] = ± \$1.00;    [> than \$100] ± \$1.50.

---

#### CONFIDENTIAL AND PROPRIETARY

The unauthorized disclosure or interception of email is a federal crime. This email is intended only for the use of those to whom it is addressed and may contain information that is privileged, confidential and exempt from disclosure under the law. Do not distribute or copy it. Note: Bert Dohmen's SMARTER TRADER and the computer file which contains it, are protected by US copyright laws and international copyright agreements. All rights are reserved. The service and its content are for personal use of the subscriber only. Copying or retransmission of this report, except with written permission, are strictly prohibited. You may not, under any conditions, retransmit or send this report or any portion thereof, by any means, to any other location within or outside your company. Financial planners or investment professionals who wish to use the service for their clients' portfolios should inquire about a site license or multiple subscription discounts. All commentary is provided for educational purposes only. Information contained in this service is NOT a solicitation to buy any security. This material is based upon information we consider reliable. However, we do not represent that it is accurate or complete, and that it should be relied upon.