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Key Views, Overview,...

...Equities *Quo Vadis?*, Antipathy Abides, The Fiddler's Notion

Key Views

- As is to be expected, ironies continue to abound in the current disorderly market and economic situation. We have already covered the degree to which the DJIA dropping below the hefty 10,000 area congestion and 'big penny' psychological support's natural Tolerance at the 9,708 October 2004 pre-election low is a verdict on the Bush Legacy (such as it may be.) Yet, as noted in the *CAPITAL MARKETS OBSERVER* IV-15 Preview sent yesterday, any recovery will not mean much unless it succeeds in Negating the 10,500 DOWN Acceleration, a tendency also apparent in other equity markets. It has been the nature of this bear trend to respond only temporarily to rescue attempts and central bank actions. The best summary of that is from Financial Times' John Authers, as we noted in *CAPITAL MARKETS OBSERVER* IV-12 (September 18th, reattached here), and that should also be kept in mind for any short term rebound on central bank action today.
- Another slight ironic aside is that the typo-corrected version of our *Weekly Overview* sent on Sunday was to correct the estimate for the Reserve Bank of Australia rate cut that we ostensibly misstated as 6.00%, only to see it actually come forth with a bigger than expected cut yesterday morning than the 6.50% which was expected ... to 6.00%.
- Additional ironic twists abound in the past several days leading up to central bank coordinated easing this morning. Some move by the central banks was foreshadowed (and even noted in the press) from the extensive pressure that was building for them to 'do something' about the current market and economic debacle. However, any of the communication right up through yesterday (other than the RBA larger than expected easing and statement, attached for your ease of review) was not indicative of any immediate action. After the ECB 'no action' last Thursday and seemingly neutral press conference, in Mr. Bernanke's speech yesterday he actually spoke on how to keep a floor on the effective Fed Funds rate (revisited below); it was no surprise equity markets reacted with extreme disappointment yesterday and today. As one wag put it this morning, we would have loved to have been the proverbial fly on the wall at the meeting were Monsieur Trichet was convinced to go along with coordinated easing. And thank goodness for that; as only a coordinated move would do. Of course, the further irony may well be easing base rates still does nothing to free up credit markets that are so essential to any restoration of confidence in the economies and equities.
- A further ironic note: in spite of going along with the global move, the ECB could not help but mention the importance of restraining inflation expectations. The statement from both it and the Fed are attached, with links to others in the ECB version.

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- As to the response of the markets, as noted in yesterday's *Preview* any slippage well below 9,700 puts the DJIA below previous sustained trend support from the December 1974 low, and would also be the market's verdict on whatever might remain of the legacy (such as it may be) of Mr. Bush's second term. The DJIA (which we hasten to add is the most resilient sister at this point) would also be back into an entire lower historic trading range; next significant supports are not until the interim 9,350-00, with more major support at 9,000-8,850 (from back in 2001-2003.) However, those are just the next interim supports in that broad range that includes most of the weaker activity from the Dot.Com Bust bear market. That means the low end of the range is actually down at the 2002-2003 lows in the 7,400-7,200 area, with the broader trend support across a major 'super-cycle' correction not until the 5,800-5,400 range. While that may seem nothing less than an alarmist or even bizarre statement to some observers, we do not make up the regression analyses (major oscillations around mean trends) that have served us so well.
- It is in the nature of things that once a market breaks a significant resistance or support it tends to proceed to the next major level. Certainly all of the bulls were very happy that the DJIA pushing above 12,000 on the way up allowed for a move to at least the low to mid 13,000 area. From as far back as last summer we noted that the DJIA 12,000 area (including a Tolerance down to the Dot.Com Bubble high at 11,750) was critical support, below which a drop back to the 10,000-9,700 major lower support was possible. While quite a few folks found that prospect fairly incredible, here we are. If the current downswing in the DJIA should remain below trend support in the 9,700 area, the low end of the previous range at the October 2002 lows in the 7,200 area is actually a very reasonable target, and not even the broadest long-term bull trend support.
- Due to the DJIA DOWN Acceleration below the 10,500 area, the pace at which the trend unfolds from here may astound even quite a few seasoned observers (as indeed already seems to be the case.) However, it is in the intrinsic nature of bear markets to drop quickly in any event, and the acceleration out of the overall downtrend since last October's highs reinforces the failure of the trend support from December 1974 lows.
- As to the machinations in Washington DC, they were also thoroughly (and sadly) reverting back to a less than effective influence. While there seemed to be some shift in administration sentiment during the effort to get the US Treasury MBS rescue plan passed, recent communication (from even as early as last Friday morning before the plan was approved by the House) had reverted to previously failed 'free market' ideologue sentiment from the White House on down. Along with many others we had noted that this approach and massive liquidity injections were exercises in futility without attendant grassroots, Main Street foreclosure mitigation assistance that was finally passed in July as Congress' Hope for Homeowners Act. Yet there has been no serious focus on rapid implementation of that plan, and along with some other informed sources (noted below) we see that it now may be 'too little too late', albeit still worth attempting in any event.
- As we have already mentioned the broad strokes of the DJIA technical projections, and revisit those in [Equities Quo Vadis?](#) discussion below (which we also already previewed yesterday), there will be no extensive further discussion of that here. However, the technical implications of the further trend in the DJIA will also remain the prime mover that sets the overall trend, if not the short-term tone at times, for the other equities. Therefore, we will be listing the other equities technical levels without major review of the indications from which they are derived. The exception is our indication of the DOWN Acceleration levels commensurate with DJIA 10,500 failure this week.

- The December S&P 500 future DOWNS Acceleration was on the opening of Monday's pit trading on a gap lower below the 1,100 area, which has a Tolerance back to last week's close at 1,108. Interim violated supports (now resistances) between today's Close and that resistance are 1,015, heftier congestion at 1,050-68 (including the August 2004 1,060 pre-election low), and further heavy congestion at 1,085-90. Lower supports are the somewhat heavy congestion into 959 area (the mid-2002 through mid-2003 congestion which is the top of basing pattern from that period), the 940 UP Break from late May 2003, and the internal lower congestion areas in the basing range at 900, 870, 840, 810-00, and the October 2002 low at 767.50. Similar resistances and supports for the December NASDAQ 100 future relative to the 1500 area DOWNS Acceleration are heavy congestion above the market at the 1,400 area, and again at 1,465-75, and amazingly enough the market not actually having closed below the August 2004 pre-election low at 1,302, even though it traded below 1,300 yesterday. Below that the market is in a series of lower ranges with supports not until 1,200-1,180, the 1,157 December 2002 high of the bounce, and 1,100, 1,015-00, the 940 area, 860, and the 797 October 2002 low.
- We have noted previous that European stock indices leading the way down of late pointed up the heightened risk factors facing all of these markets. The banking crisis spilling over into Europe and the UK last week saw the DAX drop below 6,000 and 5,875 but only drop below 5,735 at the top of this week. However, that also saw it sharply below the bottom of its own intermediate-term downward channel (not the broader channel from the highs late last year) in the 5,500 area. Even though that is only an intermediate-term channel, the DOWNS Acceleration is as telling due to its extreme extension this week. Due to the more aggressive downtrend in Europe since the first of the year, the bottom of the overall downward channel is at 4,880 this week (and as a sign of its aggressive downward slope down to 4,840 next week), where the market has managed to hold so far. That still leaves interim resistances at 5,250-80 and 5,425 between current levels and the important 5,500 area. In addition to 4840 the actual lower congestion is at the 4,725 area, 4,640, 4,450, and the really hefty lower congestion levels not until the 4,175 area. Similar tendencies are even more so apparent in the FTSE that has exhibited DOWNS Acceleration from the 4900 area that it had already traded well below last week. And that is from its more gradual (as compared to the DAX) overall downward channel from last October's highs. Higher resistances are 4,600, 4,670-80, 4,780, and 4,880. Lower supports are the 4,270 level the market washed out below yesterday prior to recovering, and not again until the 4,100, 4,000-3,950, 3,800, low 3,600, 3,475 areas, and ultimately the March 2003 3,277.50 low.
- As we had noted for some time, the obvious problems in Japan had left the NIKKEI obliterating its own (rather more depressed) basing action in the 12,000 area from back in March and only rallying back to that area over the past several weeks, no apparent ability to post a weekly Close back above that level. Lower support at the 11,620 mid-March low as well as major lower support back at the 10,500 low end of the 2004 extended trading range tested have both now been seriously violated. The more aggressive bear trend in the NIKKEI (much as in the DAX) means that it has also only neared the bottom of its major downward channel in the 8,800 area this week. Yet it has also exhibited DOWNS Acceleration below 11,200, reinforcing higher resistances. The lower supports if 8,800 should fall by the wayside are the weekly gap back at 8,385 (from back in May 2003), 8,000 area, and the April 2003 major low at 7,600. Given the circumstances that is actually not very far below current levels, and failure well below it would indicate the potential for the market to fall to the long-term basing line that is down in the 4,000 area.

- Of course, the long dated fixed income has responded well to this equities weakness, and has had more definitive countervailing swings in the past couple of weeks up until the past couple of days. Yet, as we have noted more than a few times previous, the extended 'govvies' bid well into negative real yield territory was based upon the fear that other credits were almost all suspect (except for the very most highly rated.) While we had felt previous that the long dated government bond bid would only become more suspect once it was apparent that the equities might be bottoming (and the other credits might become more liquid and attractive), the government bond markets have not acted very well in the past couple of days even with equities still weak; especially the T-note. The December T-note future was retesting resistance in the 118-00 area as recently as yesterday morning, prior to announcements on US Treasury refinancing operations. Dropping sharply yesterday and following through into this morning finds it back down testing important support at 114-16/-00, below which a drop to the 112-00/111-20 support is likely. Yet the more important historic support from the overall 2005-2007 trading range only begins at 110-00/109-16, and every two points down to the 2006-2007 lows in the 104-00 area. Once again, that seems a radical thought in light of our expectation that equities will continue to trend lower. However, even during the recent full-blown panic selloffs in equities, costs of recent rescues, bailouts and liquidity operations, as well as anticipation of upside down recessionary fiscal calculus are coming home to roost.
- The Bund is experiencing similar tendencies, albeit in a more subdued manner from a less extended technical level than T-notes. After overrunning resistance in the 115.00-.30 area as well as the 116.00-.30 area, it failed to sustain itself this week above higher resistance into the 117.00-.50 area, even leaving a daily DOWN Closing Price Reversal from Tuesday's 117.28 Close (Tolerance to 117.40) on yesterday sharp selloff. That leaves the Bund back into support at 116.00-115.70, with even more important trends support into the 115.00-114.70 area (daily MA 18, heftier congestion, and arbiter of whether daily MACD remains UP), below which another swing down to the 113.00-112.50 area might be necessary to stabilize the market once again. Lower supports remain at the 111.50, 110.50 and 109.5 major double bottom from summer 2006 into summer 2007.
- . Similar tendencies apply to December Gilt in spite of its massive premium to the now expired September contract. As noted previous, that significant premium was a big 'tell' that the long ends were all likely to moreso remain in extended bull trends for the interim unless equities performed far better, and that worked until the past couple of sessions. The higher interim resistances at which the Gilt is still attempting to maintain its bid are the 112.57 January continuation high and multiple recent trading highs in the 113.05-.32 range that it fell back below yesterday after trading modestly above 114.00 the previous couple of sessions. If it succeeds in somehow keeping the bid, extended resistances above that are not until 114.50 and every half-point up from there to the June 2003 all time high at 116.58. However, if it should slip back below the 112.50 area, lower supports remain the 111.30 congestion and major weekly down trendline (across the January 2006 all-time high and January 2008 112.57 high) UP Break, and 110.00 and 109.00 areas.
- Technical levels for short money forwards remain geared to March 2009 contracts, and were already shifting markedly in the wake of the equities weakness that increased the strong rationale for the major base rate easing (in spite of the inflation pressures) that finally came to fruition with yesterday's coordinated central bank half-point rate cut. Predictably, response in futures was inversely proportional to the degree of anticipation which they had shown previous to the event, with the Eurodollar not really responding much at all due to its understanding the greatest pressure previous was on the Fed.

- The March Eurodollar fell back markedly below the 97.175 early May high resistance (with a Tolerance to 97.20) Wendy Paulson MBS rescue plan was announced back in mid September, falling sharply back down to the 96.75 area support prior to a sharp recovery when the plan was looking tenuous later in the month. While erratic during last week's equity market recovery from the Monday low, the Eurodollar ultimately pushed back above the early May high once it was apparent that even House passage of the rescue plan last Friday was not going to be enough to stem a bearish tide in the equity markets. No surprises then that it managed to push back above resistance in the 97.71 area that restrained the market several weeks ago before settling back in around that area. Having already tested next higher resistance in the 97.85 area, that leaves extended resistance at the 97.95-98.00 gap and congestion area, and 98.135 March contract high.
- Short Sterling had similarly pushed above key resistance at 94.65 and 94.85-.90 as well prior to stalling at next resistance into 95.17 prior to experiencing the same sort of short-term weakness when the Paulson plan was announced several weeks ago. Yet even at that it managed to hold on against the previously violated resistance in the 94.55-.50 area, and exploded back above 95.17 in the wake of the coordinated central bank easing, as nothing more than the 25 basis point easing we had noted on Monday was expected this week. Reflecting both that is prize move and the prospect of further rate cuts, the March Short Sterling pushed dramatically above the previous contract high congestion early this year in the 95.65-.71 area, and will likely hold against on any initial setbacks. Lower congestion areas from earlier this year likely to provide secondary support include 95.55, 95.28-.22 (which includes a daily chart gap from the opening this week), and that 95.17 area once again. Yet, it is likely that it takes some significant sense of basing in the equities to get Short Sterling back down to that sort of level.
- Due to the previous recalcitrance of the ECB, the March Euribor absolutely exploded through near-term resistance levels at 95.25 and again at 95.45-.50 on the coordinated central bank surprise rate cut yesterday. That the DAX is the western economies' weak sister had already fomented some strength in the Euribor in spite of ECB recalcitrance, yet nothing that foreshadowed the capitulation by Monsieur Trichet & Co. Already above additional heavy congestion at 95.55-.60, next resistance at 95.75 and the 96.00 area were significantly overrun (and are now near-term supports) on the swing back to the early year contract high congestion in the 96.70-96.775.
- Extensive foreign exchange projections are very different than the somewhat unified strong US dollar trend mentioned previous, as there are quite a few country specific implications of the current panicky environment. That includes the significant strength of the Japanese yen in light of the massive liquidation of speculative positions fomented by a reversal of previous carry trade funding. That finally provides vindication to those we had rightfully characterized previous as "Carry Trade Cassandra's" now that a real crisis has finally fomented forced repatriation that they had erroneously expected on the more modest trend corrections previous. That said, it is once again equities weakness driving yen strength, and not vice versa. However, the obvious debacle in the previous 'last man standing' Australian dollar is another offshoot of the bursting of the previously bulletproof Commodity Bull Bubble. Once again it is no surprise that the 'Aussie' should suffer the most after having benefited so greatly from the sustained commodity boom; and that is in spite of its full point easing this week still leaving a significant premium to the Japanese base rate. None of that now matters.

- The cross-rate indications are so extensive and massively distended at this point that they deserve separate analysis that we will be providing tomorrow. For right now we will be sticking with the also quite extended swings of the US dollar against other currencies, which obviously includes strength against the weak sisters of Europe and especially Australia, and slippage against the strong sister Japanese yen. Other than the extreme influence of the manic carry trade repatriation, the latter is somewhat of a joke when one considers the relative state of the Japanese economy to even the now obviously weakening US, as any extended US recession can only be bad for Japan as well.
- As to the technical perspectives and what they tell us about the trend, the previous stall out into resistance at US Dollar Index .8000-.8100 brought a reaction all the way back down to support in the .7600 area prior to the recent recovery right back up into that resistance area. Of course, as all of the most extreme action by the other currencies gets averaged out in the index, there is still a question of whether the US Dollar Index will indeed put on a major extension above the early September .8038 high, or will need to swing back down to support in the .7900 area at a minimum. If it can exceed resistance by any degree, the next significant levels are not until .8250 and the low .8300 area. Lower supports back below .7900 are .7780-50, .7700, the .7600 support held on the reaction two weeks ago, and the .7530 UP Break out of the long-term downward weekly channel (from the last major reaction high at .9263 back in November 2005.)
- On another note regarding one of the weaker sisters, it is interesting that EUR/USD violating supports at 1.5000-1.4850 in August was especially important due to there not being any further support below it until the 1.4540 Objective. Yet, the low end of the previous trading range below 1.5300 area May-June lows was not until the 1.4300 area. The rightful implication that we expressed previous was that a weekly Close below the 1.4540 Objective for even a retest of low 1.4300 area would be more bearish (i.e. bullish for the buck) than it appears due to overrunning the mid 1.4500 Objective. As such, the early September drop to the 1.4000-1.3850 was not a big surprise, and the failure on the big bounce it up to 1.5000-1.4850 was also thoroughly predictable. Now that the market has violated 1.4000-1.3850 as well, interim support is in the 1.3600 area, yet with the next major support not until the 1.3350-00 area and 1.3000-1.2850.
- Of course, the real shocker was the AUD/USD dropped below the .7900 area fomenting a spill not just to interim supports at .7650 or the .7300 area, but an outright rout straight through the March 2006 .7000 area low. Also temporarily trading below the .6775 June 2004 low prior to recovering shows just how much damage the Commodity Bust unwind of even reduced levels of carry trade financing is creating to the benefit of the yen.
- Equivalent trends for the other major US dollar indications have key levels at:
 GBP/USD: RES: 1.75; 1.7650; 1.8000-1.8100 SUPP: 1.7100-1.7050; 1.66; 1.5600-1.5450
 USD/JPY: RES: 100.50-00; 102.50; 103.80-50; 105-106 SUPP: 99.00-98.50; 95.75
 USD/CHF: RES: 1.13; 1.14; 1.16; 1.1850-1.1900 SUPP: 1.1000-50; 1.0860; 1.0600-25; 1.05
 USD/CAD: RES: 1.1500-60; 1.17; 1.1850-80; 1.1975 SUPP: 1.13; 1.10; 1.0865-1.0920
- While November Crude Oil is again below congestion and Fibonacci support in the 100.00-98.50 area, it has also held major support into the 86.00 area Fibonacci levels and December-February lows. Much below that 78.00, 75.00 or lower levels might be seen.

Overview

There is so very much to say in Overview this week that it is hard to know where to begin, other than the obvious implication of the US House of Representatives decision to proceed with the massive financial rescue package not really helping the near-term psychology to any degree at all.

While the powers-that-be had duly warned that it was not a panacea which would indeed improve the credit or equity markets in the near-term, the rather shocking drop into a more accelerated bear trend from the top of this week leaves the obvious question **Equities Quo Vadis?** We explore that at length below. As we already foreshadowed that in both the **Key Views** above and the preview that was sent yesterday, we will simply leave that extensive review of the technical and associated psychological aspects of the equities trend for your appreciation in that topical discussion.

Of course, there are good reasons that the equity markets do not find any of the official machinations very impressive at present.

Equities Quo Vadis?

Welcome to the equity trend equivalent of the Battle of Armageddon.

In addition to Monday's psychological view on the importance the DJIA 9,708 October 2004 pre-election low being a significant trend support, there is an additional point which it accentuates that deserves review: the major US stock indices (DJIA, S&P 500 and NASDAQ 100) dropped out the bottom of their major downward channels yesterday (from the major cycle highs last year).

These 'return line' projections are important because they are supposed to be delimiters of the downside trend, where markets are supposed to base out in the near term if the trend momentum is to remain as previous.

That is in large measure due to economic 'experts' from many normally respected realms not seeming to be able to provide the key to greater confidence. While we will revisit that broader institutional failure soon, one of the most glaring failures is from the administration's approach to the core problem underlying the rest of our woes, and an attitude which can only be described as **Antipathy Abides**.

As we shall also review in **The Fiddler's Notion** this week that this is creating a huge demand for funds from the public purse to do no more than offset losses that are the symptoms of the core problem we have noted for some time. Even though the day-to-day announcements should leave any informed observers concerned about the size of the expenditures (as well as the obviously major insertion of government control into previous 'free market' activity), the scope of them does deserve specific sardonic derision that we are more than happy to provide in '**Uncle Sam Wants YOU(R MONEY)**'.

The downside violation of the channel bottom 'return line' is indicative of DOWN 'Acceleration' of the current trend, with all that connotes. As such, the key support at the psychologically important DJIA 9,708 October 2004 low is a sort of 'last ditch' for any near term attempt of the equities to stem that DOWN Acceleration. That faceoff between the current aggressive down trend's accelerated 'irresistible force' and lower strong trend support 'immovable object' represents a sort of equity price trend Battle of Armageddon.

Of note, the specific price levels from which the current downside acceleration attempt have occurred are DJIA 10,500, S&P 500 at 1,100 and NASDAQ 100 at 1,500.

It can still be reversed (“Negated”) by a sustained recovery back above those levels. All of those are important previous supports that have only been violated in very recent activity. Yet, they are also quite some way above the current levels in markets that have demonstrated little ability to sustain near term rallies for more than several days since the return from the summer holidays.

The impressive short term recovery from Monday’s lows notwithstanding, unless the US equities can stabilize back above those higher levels, the downside acceleration will continue to present real risks of further losses; and those will only intensify if there are any sustained Closes below key supports like DJIA 9,708. While we noted yesterday that the next relevant DJIA levels were at the 9,350-00 interim support and more major 9,000-8,850 area support (from back in 2001-2003), even the latter is still only an interim level within the broad view.

In fact, a general failure below the 9,700 area would put the DJIA back into an entire lower range, the low end of which is back to the mid-low 7,000 area October 2002-March 2003 Dot.Com Bust bear market lows. That likely sounds positively outrageous to more than a few folks.

Yet, the two aspects we require for a cogent analysis are seemingly in order; even if that does include typical use of ‘Perverse Trend Logic.’ As we have cited previous, the investigative wisdom from Conan-Doyle’s Sherlock Holmes especially holds true in the most volatile situations as well: (From ‘The Sign of Four’) "...when you have eliminated the impossible, whatever remains, however improbable, must be the truth."

In the first instance, quite a few folks consider the root cause of the recent combined Housing & Credit Bubble was overly accommodative monetary policy that Mr. Greenspan implemented between 2003 and 2004.

As we have noted previous, we do not necessarily agree that he is the primary culprit, as he was in good measure offsetting unduly restrictive ECB monetary policy (sound familiar?) Yet, if that was indeed the beginning of the excess which Mr. Greenspan did not mop up into 2005, then if the deleveraging is to continue in an aggressive fashion, there is a fundamental ‘rationale’ (rather than a formal analysis) which supports the equity market going back from whence the overall rally began.

The technical projections support that dynamic as well. Some time ago the Short View column in the Financial Times noted that London City University’s Cass Business School published research that showed “Fibonacci retracement objectives” as useful specific price support or resistance were "...a complete waste of time."

The interesting bit of that (article attached), on which the FT received no small number of pointed responses (from us among others), is that seasoned practitioners do not even attempt to use the Fibonacci ratio retracements (the ‘Fibs’) as any sort of fine line projection of support or resistance. They are moreso a general guide to the nature of a retracement, with the various percentage reactions representing different sorts of trend corrections.

Aside from any ‘approximate’ support or resistance indications, that can be useful regarding which technical systems and methods might be most effective in a particular phase.

We shall leave aside for a moment that the Dot.Com Bust bear trend DJIA low at 7,197.50 was less than 100 points (1.5%) below the Fibonacci 0.382 retracement of the super-cycle move from the July 1932 low (40.50) to the January 2000 high (which we shall revisit shortly.) In general the Cass study was right that these are not very effective fine line projections.

That is why the best analysts who employ them also only use the Fibs on the longer term swings. As with markets in general and most forms of analysis and projection, the short term price movement tends to be highly irregular, and as such less than amenable to any sort of meaningful technical or fundamental analysis.

Yet, in the long view, the current retracements for the DJIA are instructive. The Fibonacci 0.618 retracement of the entire trend from the October 2002 low in the 7,200 area to last October's highs is roughly 9,850, further reinforcing the importance of the long-term trend support slightly above the 9,708 October 2004 pre-election low.

The rule of thumb is that the Fibonacci 0.618 retracement is the 'last-ditch' retracement prior to the reversal of the entire trend back to the levels at which it began; in case down to the previous low in the 7,200 area.

On recent form, that would be similar to the DJIA July failure below the 11,500 Fibonacci 0.618 retracement of the move from 9,708 up to the 14,198 highs setting the stage for the market to drop back down to 9,708 which we have just witnessed.

On another perspective, there is a tendency for markets to move out of established ranges as part of extending their trend, and a tendency once back into previous ranges to swing back to the extreme opposite end of the range.

From as far back as last summer we noted that the DJIA 12,000 area (including a Tolerance down to the Dot.Com Bubble high at 11,750) was critical support, below which a drop back to the 10,000-9,700 major lower support was possible. While quite a few folks found that prospect fairly incredible, here we are.

If the current downswing in the DJIA should break the congestion support in the 9,700 area, the low end of the previous range is indeed back to the October 2002 lows in the 7,200 area. While there are quite a few congestion, Fibonacci and oscillator supports along the way, the 7,400-7,200 area (2002-2003 lows) is indeed the ultimate lower support.

And how would that fit in with the long-term Fibonacci retracement psychology? To answer that we will once again concentrate on the super-cycle trend correction, which involves using the calculations from the July 1932 low. While some may once again feel that is far too extreme a view, violation of the major up channel trend support from the December 1974 low that a failure below the 9700 area would represent requires a step back to incorporate a full historic perspective once again.

While the Fib 0.382 retracement (i.e. 38.2%) of the swing from 1932 to last year's all-time high is around the 8,800 area (reinforcing that major congestion support), the Fibonacci halfway (0.50 or specifically 50%) retracement is in the low 7,100 area. That both amply reinforces the case for a failure of the 9,700 support leading to a full retracement to the bottom of the range from back in 2002-2003, and correlates very well to the previous congestion from sharp reactions (on the Asian and Russian Crises) back into the mid-low 7,000 area during the mid-late 1990's major bull move. It all kind of adds up.

It is all a matter of perspective. It is easy enough to hope that psychological and technical support as major as that 10,000-9700 range might be able to hold. Yet, confirmation of a successful near-term bottom always requires that the next higher intermediate-term resistance is convincingly 'Negated' by sustained price activity back above it.

On the overall trend form, the DJIA failed to reverse any of the critical trend failures since it dropped back below 13,700 late last July. The September 2007 surprise half point easing by the Fed failed to sustain it back above 14,000; the combined January emergency rate cut and Bear Stearns rescue back in mid-March were not enough push it back above critical resistance in the 13,000-100 area (as highlighted back in April and May) after holding 11,750 more or less; the ostensible rescue and subsequent conservatorship for the GSE's was not enough push it back above 11,750, and that has led in even shorter order than previous to the current drop to the 10,000-9,700 area. All of which was noted in John Authers' FT Long View that is attached.

As such, this has been a classic primary trend evolution on the downside, with only temporary (if at times substantial) corrections to obvious resistance levels. As noted in the discussion of the latest negative technical indications, the most recent of the evolved resistances is the current major DOWN Acceleration below the 10,500 bottom ('return line') of the overall downward channel from last October's 14,198 all-time high. Even if it were to slip back below 10,500 for a secondary test of the 10,000-9,700 area later, sustained improvement above 10,500 in the near term might be enough to leave the overall downside momentum defused; in which case a subsequent test of 10,000-9,700 might still hold. Just possibly.

Antipathy Abides

We have no intrinsic reason that we are not in favor of the US Treasury Department approach to attempting to address the US housing crisis. As we noted as far back as early this year (*CMO IV-3*, January 30th), "While we wish his program well, if HOPE NOW does not meet Mr. Paulson's expectations a bit further into this year, there may not be much choice but to grasp the nettle of direct borrower-at-risk support."

The larger than expected easing from the Reserve Bank of Australia, other central banks' activity and especially the Federal Reserve move to reliquify the commercial paper market in recent days indicates the powers-that-be are now employing every possible alternative to prevent further financial problems. The equity market accelerated downtrend is both an indication and partial cause of that.

While the potential for significantly more negative activity might be reversed on a substantial enough of a recovery, as always, we are sticking to our technical guns. We can only become less bearish if we see the proof in the proverbial pudding; and that requires sustained DJIA price activity back above the 10,500 area in the near term to defuse the current aggressive DOWN Acceleration.

Anything less than that will leave the key 9,700 area support vulnerable, even if any near-term price activity provides hope to the less well-oriented by showing modest improvement back above the 10,000 area. Too many false bottoms have left a rightful air of skepticism which only a definitive market recovery can now mitigate.

While not quite of biblical proportions, this does indeed seem a battle between the financial forces of Light and Darkness; and the current lack of a systemic solution that eases credit leaves Darkness with the edge. Welcome to Armageddon.

Yet, we see no set shift in the administration or Fed position. Revisiting that increasingly important area, we had been impressed of late with the degree to which Congress and seemingly even some administration prime movers have come to understand at-risk borrower relief (already passed in July and signed by Mr. Bush) is a necessary Main Street adjunct to the rescue plan. That said, the administration is now recalcitrant.

Interesting then that there was no mention of at-risk borrower relief in Treasury Under Secretary David McCormick's remarks (attached for your interest) at a Wharton conference Friday morning, and a seeming reversion to wanting to rely on Treasury's obviously less than adequate HOPE NOW program. Note the specific view (in first paragraph of the 'Actions to Mitigate...' section), "...as we seek to minimize the impact of the housing correction on the economy, we must avoid impeding its progress. The sooner we turn the corner on housing, the sooner we will see home values stabilize, the sooner we will see more people buying homes, ..."

President Bush held a press conference today where he also visited the issue of the problems with home foreclosures and the complexity of the mortgage backed securities market. Yet, when discussing what was being done for the homeowners that would also ultimately be good for housing, he also reverted to discussion of the Hope Now program.

That is (possibly) a breathtakingly benighted perspective at this moment. That sort of view is at least in part why Congress had no qualms about not supporting rescue plans. There seems to be no capacity to acknowledge the obvious reality that if that program had been adequate, the current situation would not be so dire.

With last week's data showing home prices dropping approximately 16% per year, maybe it's time to remind the residual over-the-top 'free market' ideologues at Treasury and even at 1600 Pennsylvania Avenue of something: That both their Mr. Paulson and Mr. Bernanke admitted some time ago that this is not a 'normal' market (and quickly dropped it when they realized implications for their preferred approach.)

As we noted for clients back in June and subsequent "...(*while*) buried deep inside other topics in lengthy speeches, it is becoming very much more apparent in the wake of the last couple of months' US housing indications that it is a primary point (*which Messrs. Paulson and Bernanke have specifically noted*): Lower house prices should be an incentive to buy, increasing demand. However, *sharply* lower home prices that do not seem to be stabilizing are a disincentive to buy." (Or now extend mortgage finance.)

After all we've been through, and given the obvious attractions for getting Treasury's rescue plan approved and funded (including the residual benefit of the government being able to effect streamlined adjustment of mortgage specs), there is still no mention of rapid implementation of Congress' Hope for Homeowners at-risk borrower relief.

Which also has another, more than somewhat troubling, implication. The Treasury is preparing to hold reverse auctions that will leave the American taxpayer with a financial interest in a major number of homes with at-risk mortgages. (The number of which are accelerating; the last US Mortgage Bankers Association Quarterly Delinquency and Foreclosure Report tells us that will soon include many more 'prime' ARM loans.) Is Treasury at the same time hewing to its previous notion that house prices falling at an accelerated rate is a good thing? That it is the only way to restore the market to health? And by extension that these folks (who should know better, as has so often been the case in the causes of the crisis) do not understand the implications for consumers and general confidence? Is Treasury putting US taxpayers into a major holding that it is satisfied may continue to fall sharply to a baseline mark-to-market value?

Kind of an interesting dynamic, isn't it? In fact, it seems so bizarre, we are allowing we may have misinterpreted what seems to be an obvious implication of repeated statements from the administration. All the more reason that in addition to more focus on the Hope for Homeowners program, we would like to see some financial reporters investigate all this. Especially now that Treasury has a major pile of taxpayer cash, if housing values continue to decline at the current pace, even \$700 billion may not be a big enough 'bazooka' (with due respect for Mr. Paulson's rightful move on the long-overdue conservatorship for the GSE's.)

(As to the next panacea of 'softening' mark-to-market in lieu of holder 'estimates' of eventual value at sale, investors and auditors have signaled it is unacceptable. While an attractive near term expedient, it likely adds even more toxins to investment psychology, and further erodes any remaining confidence. Mr. Bernanke's constructive noises notwithstanding, 'mark-to-maturity' will not likely provide confidence in equity holdings the way it just might do for the housing debt market.)

On a metaphorical level, the US economy (and by extension the global economy) were heavily addicted to easy credit. The sharpness of the current deleveraging (withdrawal) is an extreme form of the 'cold turkey' cure. The continuing US housing debacle is the equivalent of a massive seizure that is bordering on giving the addict a heart attack. Might it be time (actually a bit past time) to inquire to of Dr. Treasury whether some bit of at-risk borrower relief (Methadone) might be in order to stabilize the patient, even if that slows the eventual return to full health? Or should we just continue to figure whatever doesn't kill the patient will only make him stronger, risking his untimely demise?

In practical terms Treasury and the Fed were likely right to avoid direct at-risk borrower assistance when home prices were still elevated last year or even into early this year. Yet, with the recent sustained sharp drop in home values that they also repeatedly tell us is the core problem (soon to turn worse due to 'prime' ARM foreclosure initiations), the situation seems to have moved well beyond that.

We are very interested to see any opinion the leaders of the financial press and economic analysis communities may have on the administration's continuing aversion to employing all of the tools at its disposal. That's in spite of occasional lip service for at-risk borrower relief while Messrs. Paulson and Bernanke were pleading for cash with which to meet the MBS margin call.

Anticipating the objection of any 'free market' purists who do not want to reward 'bad decisions' by individual home buyers, it is now no secret whatsoever that this crisis is in good measure a step child of many years of extensive government intervention in the US housing market, and lack of effective regulation (which includes the timely enforcement missing in recent years.) Mr. Paulson also made no mention of at-risk borrower relief in lengthy remarks yesterday (attached for you review.)

This is a heck of time for the government to get 'religion' on free market ideology that withholds support from Main Street when it (including both political parties, the regulators and the Fed) was happy to encourage (or at the very least allow) the excesses on the way up. Yet the scariest bit may be a Tuesday morning comment by the estimable Mohamed El-Erian of major bond fund managers PIMCO. In spite of PIMCO's previous call for it, he feels we are beyond housing help being a cure. Uh-oh.

The Fiddler on the Roof is part of eastern European folklore. His essence was beautifully captured in the late nineteenth century book by Sholem Aleichem, *Tevye the Dairyman*. Yet, the popular name taken by the musical production is based on the quasi-cubist painting by Marc Chagall. 'The Fiddler' is a metaphor for survival in an uncertain world that is very apt for capital markets participants at all times; especially during the more volatile, erratic phases. As luck would have it, about ten years ago I came across a unique, purple palette print of him. My wife was extremely hesitant to even allow the green-faced man in the house. He ended up on my office wall. I now realize this is just as it was meant to be, as he looks over my shoulder in the rear view mirror on my computer monitor. The Fiddler's NotionSM is devoted to observations on risk that may not correlate with some of the typically market trend oriented factors in our other analysis. It is fitting that one involved in such a risky pursuit is looking over my shoulder. Whether or not you like to think about it, he is likely looking over yours as well. So welcome up to the rooftops, where you can share the Fiddler's perspective.

Uncle Sam Wants YOU(R MONEY)

There was a ubiquitous military recruiting advertisement in the US when we were younger that was seen on quite a few street level vertical placards that were two feet wide by four feet high.

A bust of an iconic image of Uncle Sam was all decked out in Stars and Stripes top hat and waistcoat, and matching bow tie. It was a very slim personage, and that alone speaks volumes of the degree to which this was another time in America. Should that sort of image be used today we imagine the ACLU (American Civil Liberties Union) would be suing the government on behalf of some fat persons' league for discrimination and emotional duress.

Uncle Sam's bony index finger was pointing out from a clenched fist with a stern gaze above it, and a by-line below announcing, "Uncle Sam Wants YOU." Of course, that was the call to arms that was meant to inspire red-blooded young Americans to join the Army and fight against the Communist threat, and it worked rather well. How long the current cash call from loyal Americans will be well regarded seems significantly more problematic.

As became glaringly apparent during the recent MBS rescue plan imbroglio, at least part of the reason for the dissatisfaction is in the previous topical discussion on antipathy by the administration and Fed toward the things that would help Average Joe.

Knock-on effects extend from the obvious fiscal problems that were already apparent in states like Arizona and Michigan, and now include a \$7 billion assistance request from California. Even considering that the MBS rescue plan \$700 billion will be used to purchase securities with underlying assets that have some intrinsic value, there is the recent revelation another \$37 billion is to be spent on failed insurance giant AIG. It will bring that total to well above the \$100 billion that each increment now seems to cost; that's in addition to the obscene amounts in 'liquidity operations' applied by the Fed.

As the late, great Illinois Senator Everett Dirksen allegedly once quipped, "A billion here, a billion there, and pretty soon you're talking real money." We wonder how he'd feel about, "A *trillion* here, a *trillion* there, and pretty soon you're talking real money." Indeed; and the bonds are starting to 'get it.'

We look forward to providing further comments as the situation warrants, and hope you have found these perspectives helpful.

-Rohr
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