

Market Wrap Feb. 3, 2012

Unless a credit event occurs in Europe, it is likely that the ongoing uptrend in risky assets will continue for several more weeks. Looking at various data points, it is worth noting that approximately 70% of the stocks on the NYSE are above the 200-day moving average, the 3-month LIBOR has declined to 53bps, new 52-week highs are significantly greater than the 52-week lows and the NYSE Advance/Decline Line has climbed to a new high! Last but not least, the world's reserve currency is weakening and this suggests that risk aversion is over for now.

Turning to specific stock markets, it is notable that all the major US indices are trading above the 200-day moving average and the vast majority of the international indices have also climbed above that critical level. This is a positive development which indicates that the ongoing global rally has legs.

I suppose traders figure that although the situation with the Euro zone is difficult, the world won't come to an end and everyone will go on and continue to do what they're doing. This is bad news for 'experts' that peddle fear and for the people just sitting on the sidelines waiting for the world to end. The amount of false 'end of the financial world' scenarios I have read on the internet are too numerous to count. Unfortunately many people buy into this. We have bull markets and bear markets, we have good times and bad times, we have crisis and crisis management. Since I have been alive, the world has never ended.

Over in the energy complex, NYMEX crude is trading below US\$100 per barrel and this low-growth environment reduces the probability of a massive rally. In any event, should the US Dollar continue to weaken, it is conceivable that the price of oil will continue to drift higher. Elsewhere, it is interesting to note that uranium is still in a base building period and long-term investors can consider buying into the related mining stocks. I'm watching the sector but have not committed to making any purchases into the World Trends Capital core portfolio just yet.

In the metals camp, Dr. Copper is currently flirting with its 200-day moving average and its next move will tell us a lot about the future of economic activity. With US interest rates at near zero for at least another 3 years and a massive European bailout on the horizon, I'm moderately positive about copper's outlook. Turning to precious metals, gold bugs will be delighted to know that the price of the yellow metal is back above the 200-day moving average and its downtrend has been negated. After all, Mr. Bernanke is the gold bug's best friend and as long as he is in charge of the monetary levers, you can be sure that the world's reserve currency will continue its southbound journey.

When observing the currency market, we cannot help but feel that the rally in the US Dollar is over for now. Unsurprisingly, the Australian Dollar is leading the way and the Canadian Dollar

is approaching parity. As long as the US Dollar remains in a downtrend, these currencies will continue to advance and over in the developing world. However, when Israel fires that first rocket into an Iranian nuclear facility, we will be long dollars again.

The dollar is 16% stronger verse the world currencies today than it was in July of 2008 when we were all told "get out of the dollar!" Ideology is not strategy. The point is, although government balance sheets have grown and we are another 4 trillion in debt, you have to actually pay attention to what is going on in the markets instead of relying on what you think might happen.

Have a great weekend!

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