



POTOMAC
STRATEGIC INVESTMENT SYSTEMS

CAPITOL MARKET REVIEW

In This Issue: Negative News Gnaws at Stocks...Europe Issues a Statement on No-Agreement...Geo-Politics and US Budget not Constructive...Eun versus Il

At The Close: SPX 1205 US10Y 1.80% Gold \$ 93.69 Oil \$ 1592 Dec. 19, 2011

Nothing new on the tape moved Asia or Europe. Therefore, US stocks and bonds opened the day in the absence of any external catalysts. Initially, stocks opened higher, with bonds and commodities stable.

The feel-good session for the bulls lasted an hour. Stocks peaked at 10:30 am then began to sell-off (albeit on low volume,) as major US banks all suddenly dropped. The upcoming Basel accords were said to be the culprit. Citibank shed over 4%. BankAmerica is now trading below \$5.00, losing nearly 5% on the day. Goldman Sachs lost 2.5%. Morgan Stanley dropped over 5%. JP Morgan, said to be in better shape than either Citibank or BankAmerica still lost almost 4%. These are very serious single-day losses. And annual losses for the major US banks are now in the 20% range.

Then as European markets closed, policymakers were again on the wires with nothing positive to report. Statements on the tape again signaled nothing approaching a plan or an agreement was forthcoming.

The US political world offered no support, further cementing Wall Street's view that only Washingtonians understand the hidden benefits of gridlock. Bond market vigilantes were the only investors supportive of the Republican House view that caution should be exercised when further cutting taxes to already strained federal entitlement programs. Nothing on the investment newswires indicates that any campaign took a position regarding how a full-year payroll tax holiday could be funded. However, several Street services noted that Ron Paul is gaining momentum in the Iowa polls even as most DC based pundits continue to predict a Romney/Gingrich battle.

Some global macro services grew cautious due to the sudden death of Kim Jong Il and the ascension of his twenty-eight year old third son, Kim Jong Eun. CMR sides with the early view that Kim Jong Il's unexpected death presents a challenge China's ability to keep North Korea relatively stable. Fears in the diplomatic world are that in an effort to prove his power, an inexperienced Kim Jong Eun could be tempted to either conduct nuclear tests or position North Korea's military in a provocative manner. The US has tried both carrot and stick with no avail and other than closely monitoring the situation The Administration had nothing of importance to say.

As US markets closed, stocks were near their lows. US Treasuries were sporting even lower yields, (as global investors sought the safety of both the US Dollar and Uncle Sam's IOU's.) And commodities signaled a slowing global economy. Talk of a Santa Claus rally is now almost non-existent. The SP 500 index is basically flat on the year with only a few trading days left. However, the flat level of the index belies the intense volatility of the nation's leading 500 public companies as nearly a half dozen times, US stock prices faced the precipice of sell-offs reminiscent of 2008. Without trillions in artificial federal fiscal and monetary support, assets valuations remain precarious.