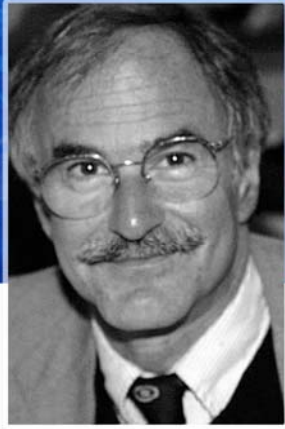


The PAD System Report



Daniel Seiver

March Update March 16, 2009

S+P 500 754 DJ 7217

COULD IT BE?

The stock market may have hit bottom. Although we could certainly go back and test the lows at Dow 6500, the level of pessimism, fear, and disgust suggests we are awfully close. The news has been horrible, which is also true at a bottom. The VL MAP in print hit 185%, which is among the highest on record. That tells us that stocks are really cheap.

The Obama administration now has programs to deal with the housing bust, the financial debacle, and the deep recession. They may all be flawed, but they should still help. We still think the economy could hit bottom by the end of the year, and the stock market should lead that bottom by 6-9 months.

The red ink to be spilled by the Federal government may be necessary, but it is truly staggering in quantity. Thus we also want to keep our bet against long-term Treasuries. We will change the bet, however, and add our first ETF to the PAD Portfolio, to replace our mutual fund **Rydex Inverse Long Government Bond Investor** (RYJUX). The ETF is **Ultrashort Lehman 20+ year Treasury** (NYSE-TBT), and it has double leverage, meaning that we can make the same bet with half the funds. (Of course, if we are wrong, we will lose twice as much.) This switch will free up funds to buy three other stocks which look excellent under the PAD rules: **Bard (C.R.)**, (NYSE-BCR) **Johnson & Johnson** (NYSE-JNJ), and old

PAD favorite **Sigma Aldrich** (NDQ-SIAL). All are well-ranked for year-ahead performance with lots of 3-5 year appreciation potential, good financial strength, and clear earnings outlooks. We will discuss all three fully in the next regular issue of the PAD System Report.

At the same time, we will do a little portfolio housecleaning too: We will sell all of our **Aflac** (AFL), where the picture is especially cloudy. The company may have as much as \$8 billion in hybrid preferred stock issued by foreign banks. Value Line has lowered the year-ahead performance ranking to "4," and cut financial strength sharply. Time to take our lumps. Sell. (We still like the duck, though.)

On Assignment (ASGN) has collapsed in price this year, and we suspect it is because the weak job market, which is still getting much weaker, is going to impact earnings more than the company is forecasting. Since it now looks like unemployment could keep rising through much of 2010, we will take our losses now. Sell.

RECOMMENDATION: Sell all of RYJUX at market; Sell all of AFL at market; Sell all of ASGN at market. Buy 400 shares TBT at market; Buy 100 shares BCR at market; Buy 150 JNJ at market; Buy 200 shares SIAL at market. (3/16/09 7 PM PST)

WWW.PADSYSTEMREPORT.COM: subscribers can renew online, and check the status of their subscription. Subscribers also have access to back issues and the current issue in PDF format. The subscribers-only blog has been regularly updated to keep you current on our latest thinking between market letters. We have recently added a regularly updated PAD portfolio Excel spreadsheet, which summarizes short-term rankings and 3-5 year appreciation potentials for all PAD portfolio stocks.

Note: New subscribers baffled by the details of the PAD System should purchase a copy of Daniel Seiver's *Outsmarting Wall Street* (3rd edition, Probus/McGraw Hill, 1994). This book contains a full discussion of the PAD System and all of its rules. Although out of print, it is regularly available on Amazon.com for \$5 -\$10, shipping included. A number of public libraries also have copies.