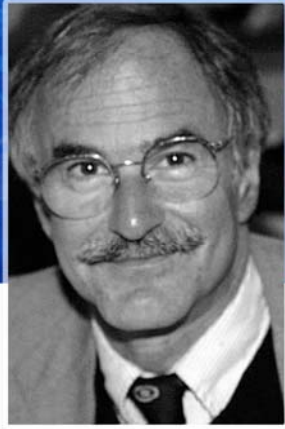


# The PAD System Report



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S+P 500 1216 DJ 11235

## VL MAP AT 45%

The market has pushed through 11,000 in a remarkably steady rally from the February low. We still worry that a correction of 10% could come at any time. The decline in VL MAP to 45% this week is another warning sign that valuations are beginning to get stretched, although we do not see any of the bullish sentiment extremes normally evident at major market tops. The general public, which seems to be always wrong at key market turning points, is not pouring money into stock mutual funds. Nor is there the buzz in everyday conversations about the stock market. The last bear, and the halting recovery in the economy, have kept a lid on naïve optimism, which is of course good for the stock market.

Greece continues to hog the international headlines, and we expect that the EU-IMF bailout will not be enough to prevent some kind of default or restructuring. The specter of sovereign default will keep financial markets on edge for many months. The Goldman Sachs v. SEC battle should provide entertaining stories for financial gossipers, but, ironically, its only real economic effect will be to push much-needed financial reform through Congress. Perhaps it is not illegal to create and sell a synthetic CDO designed to fail, but it is hard to explain why this kind of activity does the real economy any good. The key economic role of the financial sector should be financial

intermediation, moving funds from savers to investors who can create real wealth for all of us. Derivatives have their place in a modern economy, but with financial reform, that place should be in the sunshine where all can see, and maybe even a few can understand. And if financial reform requires derivative positions to have reserves held against them, even the mighty Warren Buffett may have to comply. And financial reform also requires a strong and independent government agency to protect consumers from dangerous financial products. Existing regulators have been laughably lax and unconscionably late in policing this marketplace.

There are still a few MP-C companies which meet or are close to meeting the 100% rule at current prices: **American Medical Systems** (NDQ-AMMD), **Celgene** (NDQ-CELG), **FEI Company** (NDQ-FEIC), **Martek** (NDQ-MATK), **Ormat** (NYS-ORA), **Taiwan Semi** (NYS-TSM), and **Stryker** (NYS-SYK). On the other hand, **Polycom** (NDQ-PLCM) is closing in on the low end of its 3-5 year appreciation potential at 35. We will sell 185.95 shares, reducing our holding to 200 shares.

**RECOMMENDATION:** The VL MAP is firmly in the SELL range at 45%. Time to raise cash reserves a bit: Sell 185.95 shares of Polycom at market. (4/26/10 10:00 AM PST)