Last weekend, my wife and I decided to take the kids on a little nature hike to the top of Sleeping Giant mountain near our house. They call it a mountain, but it's really more like a glorified hill! We packed a picnic lunch, some bottled water, a few treats for the kids and of course, the first aid kit. If you've ever been to the "The Giant", you know that maps aren't necessary since it's well marked and so small. The weather was beautiful and our plan was to hike for an hour or two in the morning to the summit, have lunch, head back to our car and go home for our little guy's nap. The perfect day!

We drove to the parking lot and my wife and I loaded up the knapsacks. The kids were really excited. If you haven't been to Sleeping Giant, they have a trail system that's marked with colors for difficulty. We chose the easy route and off we went. My daughter went crazy as she saw dog after dog, and of course, we had to stop and pet each one on our way to the summit.

After about an hour, the kids began to peter out before we saw the top. We pressed on and could see the little peak from the trail, but the easy route we were on was going to take longer. There was a quicker path, but it was much steeper and after some debate we decided to stay the course and not want risk injury to the kids. The last 15 minutes to the summit felt like 15 hours as the kids were tired and cranky, and my wife and I continued debating whether or not to turn back.

Very long story made only long, we hit the peak, chowed down our food and quickly headed down as the kids became very unhappy campers! While we were very happy to see the bottom and the car, we were even happier to get home!

If you've read this far, you are no doubt wondering if I have changed careers or just simply lost my mind. Why did I bring this up in the first place? When I sat down on Tuesday to write this after doing some overtime market analysis, I didn't want to just overdose you with technical jargon or bore you to delete. I thought our little family hike had a lot of relevance to the stock market right now, and I wanted to share.

Since March, most of what I have written about focused on my forecast for immediate new highs in the stock market in melt up like fashion. When the headlines were filled with sub prime mortgage woes spilling over to prime and China on the verge of imploding, our models turned very strong and your portfolio went to 100% invested, skewed towards the indexes and sectors that would benefit from the parabolic move we saw coming. That was the plan, just like the one my family made before leaving. The perfect day = the perfect bottom.

It's now two months later, the major indexes and sectors are dramatically higher and our models, while still positive, have weakened substantially, just like my kids did after about an hour. Both on our hike and with the stock market, the top was and is in sight, but the real question was whether to turn back or plow ahead. Good questions, but sticking with a well thought out plan usually is rewarded.

This week, a number of short-term "currents" have surfaced, clouding the picture on the way to the final peak. As I said earlier, while our models remain positive on the stock market, they are much weaker than they were in March and April. Last week, I discussed the disconnect between the large caps, Dow and S&P, and the broad market, S&P 400, Russell 2000 and NDX. I am pleased to see that the resolution was an upside surge in the latter as your portfolio was positioned for.

The major indexes have now been short-term overbought for several days. Three days in a row, we have seen intra day downside reversals as the S&P 500 attempted to close at all time highs. This is something we've talked about before, a flood of sell orders as the S&P finally hits a new high.

For the first time since the March low, we are seeing new highs in the major indexes with momentum waning. This is called a divergence and usually leads to some weakness. Also, a few of the sentiment indicators I follow are starting to show the professionals uneasiness at these high levels.

Put all of this together and you get the makings of a very short-term pull back to refresh the market for another assault higher in June. The intermediate-term landscape remains positive and a few of our indicators will look very constructive if the market pauses or dips here.

Until proven otherwise, I am still watching the 1987 comparison that I first discussed in March. That aligns to a July/August stock market top, but keep in mind that markets tend to rhyme more than repeat. In 1987, the last leg higher was fueled almost solely by takeover speculation and we certainly have that present today with private equity. I found it interesting that China is investing $3-4 billion with the Blackstone Group. This typifies the rage in private equity as well as a work around for the Chinese to own U.S. companies. Neither one has long-term bullish implications.

Finally, if the market does, in fact, build towards a significant peak this summer, I believe it's too early to forecast the magnitude of the decline. There are too many factors between now and then, such as how high the top is and which technical indicators do not confirm that final peak. In short, I am comfortable in saying that the higher we go by summer, the more we decline in the fall.

It's been a good quarter so far and I am ecstatic with how our strategies are performing. I assume you are as well! It's not going to be a straight up move forever, like we are experiencing, but let's enjoy it while we can! Some gains should be given back, but I am very confident our models will continue to sniff out the significant corrections and protect your portfolio.

I was recently asked why our sector strategy at Rydex was so strong for essentially three straight quarters. Year to date, it's up more than 11% according to our model account. I wish I had a reasonably intelligent answer, but I don't. It's our most successful strategy and a core holding for many clients. Historically, it has a very nice, smooth appreciation line, while the challenging periods are quick and sharp.

If this strategy is not in your portfolio mix, let's talk about making so! We should be reviewing your allocation on an ongoing basis.

Thank you for your confidence and trust, and please don't hesitate to contact me directly with any questions, comments or referrals!

All Good Trades,

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