June 17, 2007

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Short-term market update

In our previous update, we left off with the odds heavily favoring another stock market dip of 1-3%, and that's exactly what we saw in the major indexes. With another surge of fresh money coming in this month, we used the close on June 7 and open on June 8 to invest those amounts.

While the NASDAQ 100, our most over weighted index, did run to new highs, the rest of the major indexes have not, yet, and I am not convinced the next surge higher is upon us right here. Recent volume patterns on the New York Stock Exchange and NASDAQ, along with some mildly negative seasonal trends and short-term overbought status lead me to favor some sideways consolidation or another 1-3% dip over the next week.

For only 1-3%, we will remain fully invested and not try to get too "cute" since our intermediate-term bullish stance is unchanged. If you are more of trader, then 1-3% is a tradable move and you might consider a more defensive position.

Keep in mind that we have the Fed meeting coming up on the 27th and 28th and I expect investors to be very nervous leading up to the decision to keep interest rates unchanged. Volatility will continue to be the theme with the next leg higher to begin shortly. As both investment models are still positive and the path of least resistance higher, I fully expect all major indexes to score repeated new highs during July in almost melt up fashion!

"Sell in May and go away"

A few people asked me about the "sell in May and go away" adage recently. As I see it, that investment philosophy has not worked in too many years to even count. For those of you not familiar with it, the strategy dictates a cash position from the first week of May until the first week of November and a fully invested stock market position at all other times. Although it's a catchy phrase, it leaves much to be desired as an investment strategy.

The Bill Gross bottom

A week ago this past Thursday, bond market guru Bill Gross from PIMCO came out and supposedly changed his outlook for the first time in 25 years to bear. I say "supposedly" because I find it just too hard to believe that Mr. Gross turned bond bull in 1982 and never wavered or changed his public position since.

For those of you that recall, 1994 was the single worst bond market year of our lifetime and many bond indexes lost more than 20%. If Mr. Gross and his firm remained bond bull that whole period along with the 1999 bond market collapse, he certainly does not deserve the title as the King of the bond market as many call him.

Who could survive being so wrong during some of the worst declines in history and still retain "guru" status? I wonder how his millions of clients reacted.

I bring this up, not to poke fun at Bill Gross, although how can I resist, but to discuss a trading opportunity. I remember Mr. Gross in late 2002 calling for the Dow to further erode to 5000 and thought that was crazy. For the record, the Dow has never been lower from that day. It's not Bill Gross' fault he was "chosen". But as Bill Parcells said of Tony Romo last year, "let's not get the anointing oil out just yet".

I believe Mr. Gross and his firm, PIMCO, made his call so public to give it the desperately needed marketing shot it craved since the stock market rally began. The problem for him and other "gurus" is that markets have a "funny" way of proving those people wrong, almost immediately.

There have been dozens of high profile "gurus" over the years and it's simply amazing how wrong they were proven so quickly. From Joe Granville and Henry Kaufman disavowing the greatest stock market bottom of our lives in 1982 to Bob Prechter calling for depression immediately after the 1987 crash to Elaine Garzarelli turning bearish on July 23rd, 1996 to Ralph Acampora and Abby Cohen and countless others years later, the stock and bond markets made fools of them like the flick of a switch.

Each expert was very successful in their field and very hot at the time. I have a tremendous amount of respect for all of their work and many of them did not ask for or want the notoriety. But boy, the market really can be cruel!

In the case of Bill Gross turning negative, I immediately went on the prowl for any sign of a bond market reversal. To be fair to Bill, bonds did continue their decline for another two days before bottoming and reversing last Wednesday, June 13. That was the day to take a long position in bonds with a reasonable stop below your entry price to protect you.

I do expect bonds to rally further this week before heading lower to retest the lows in late June or early July. For now, this is a short-term trade until we see evidence of otherwise.

15 Days until launch

I have tried to diligently answer the barrage of questions I received after my recent email regarding the launch of our Developed and Emerging Market strategies. I am going to try to send a few emails this week outlining more details that will hopefully answer everyone's questions, but yes, I really am offering the first quarter without any management fee!

Both strategies are going to run at TD Ameritrade, home of the $10 trade, until we settle on a new custodian for all clients. Each strategy will seek to own the top two countries in their respective universe, very similar to our highly successful Relative Strength Sector Program. Some of our analysis actually indicates that these two may be even better!

It's getting late and as usual, I did not have enough time to complete my comments. I did try to do some writing early this morning, but my son wanted to play on the new Jungle Jim my wife had to buy and who can resist a two year old tugging on my shirt to come play outside? It was definitely more fun than staining our deck, which is taking me a lifetime to complete!

And now, after watching the exciting carnage at Oakmont with Angel Cabrera posting a score that Tiger Woods could not match, I am going to watch the rest of the Yankees return to dominance as they try to take the series from the Mets.

New logo

Lastly, a few of you asked what happened to the logo project. After months of procrastination and toiling, here is the final version. Thanks to everyone who contributed their opinion, especially Brad C. and Laura T. for their expertise. The gift certificate winners were Ann R. and Larry C. Here is the new logo below.

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Thanks again for your emails and support! Please be sure and contact me directly with any questions or comments.

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