July 23, 2007

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As usual I have lots of stuff to say, but not enough time or space. It's a good problem to have and much better than the flip side, which is writer's block. That's no fun at all!

I really appreciate all of the emails after the last issue about my golf "woes". It's great to know that you read what I write and have your own opinions. Keep them coming!

This summer, my daughter has taken a sudden interest in accompanying me to the driving range. Could I have a prodigy on my hands that will win millions on the LPGA tour and take care of her good ole dad in his twilight years? I can only hope!

When we get to the range, she insists on using my irons and refuses any and all attempts at instruction. Every time I try to offer advice, she puts her hands on her hips and barks, "Dad, be quiet. I'm hitting".

When she turned four last week, my parents gave her a set of junior clubs and her reaction after opening the gift was, "Dad, come on. Take my clubs in the car. I wanna pwactice".

Performance - an area where complacency is not rewarded

Before I get in to discussing our models and the current market, I want to bring up performance. This is an area where I have found an enormous amount of complacency among investors. Many people spend more time shopping for cheap gas than evaluating their investment returns and their financial advisors.

To begin with, if you work with an advisor, you should be receiving quarterly performance reports to properly evaluate your portfolio. If you are not seeing these, that's problem number 1. If you manage your own portfolio, use a simple Excel spreadsheet and monitor your progress.

I don't want to complicate the issue right now and discuss the different ways to evaluate performance, but in the simplest terms, you should be making money during bull markets like we have been in since 2003.

I urge you to take a few minutes over the weekend and see where you stand in 2007. Then go back to 2006 and 2005 and so on. It's not that difficult. Investors as a group are very lazy and for some reason, accept mediocrity. They think that everyone must be doing as poorly as they are, and therefore it's ok to do nothing.

Let me tell you... it's NOT ok!

When I meet with new folks, it's an interview process in both directions. They are deciding if they want to work with me and vice versa. I am not interested in managing money for investors with unrealistic expectations or are too short-term oriented.

If you haven't accepted this yet, investing is a marathon, not a sprint. "Hot" money comes and goes, but those with proven, time-tested strategies are the ones who make money in all climates.

I believe investment managers should be evaluated after the first year, three years and five years to make sure you are on target to meet your goals and objectives. Of course, when conditions dictate, there should be interim evaluations.

Longtime readers know we publish our performance quarterly as is the industry standard, but I "usually" don't get too high or low based on one quarter. From the press release we sent out last week, you saw another quarter of outstanding gains.

Our Gold program soared more than 11% after almost 5% in the first quarter.

Our aggressive Short-Term Nasdaq program earned more than 9% after about 2% in the first quarter, more than 13% the quarter before that and 7% before that! That's roughly 36% over the past 12 months!

Finally, as I know you are growing tired of this path, our flagship Rydex Sector program made more than 5% in the second quarter after earning similar numbers in the first quarter and fourth quarter of last year. Talk about consistency!

And to answer the skeptics' question before it's asked, of course we have down quarters! The Rydex Sector program did lose more than 8% one quarter about a year ago. That was one of the times I pounded and pounded on the table for folks to add money to their accounts, as successful investors do when a proven, time-tested strategy goes "on sale".

The point of this never ending chat is to please stay on top of your investments. Don't be complacent and assume no one is making because you are not. I am happy to talk with you, either in person or by phone to help evaluate your current strategies or discuss new ones.

As usual, I am now ready to talk stock market and this email is getting a "bit" long winded. I guess you can be thankful you don't have to sit next to me on a cross country plane trip with no escape!

Risk now outweighs reward

We had a very important development over the past week. After having been long and strong since the March bottom, one of our investment models turned negative and we made wholesale changes to the portfolios. Sell Dow 14,000!

We believe risk now far outweighs reward in the U.S. stock market and clients are positioned accordingly. As you know, we are very good about following our models until proven otherwise.

It's too early to tell the magnitude of the decline we see coming or even exactly when, but for what it's worth, my sense is that we will not see a collapse, if at all, until after Labor day unless sentiment becomes a lot more frothy than it is right now.

That's the only thing really holding up the market; people are just not bullish enough or have enough invested to cause a double digit, waterfall decline.

Two serious concerns

There are two big concerns for stocks right now. First, the financials as a whole are closer to the March lows than the highs. Since they are always considered to be leadership, the market is missing a large driver.

Second, the farther the rally has gone, the narrower it's become. With each successive poke to new highs, less and less stocks and sectors are participating as can be seen in the new high list published in Barrons and the Wall Street Journal.

For those with charting software, just watch the NYSE advance/decline line to see the glaring divergence. With the explosion in new ETF products, I like to plot the S&P 500 (SPY) versus the equal weighted S&P 500 (RSP). In the final stages of a bull markets, SPY usually outperforms RSP in a big way, another measure of narrowness.

If you are with me at this point, you really deserve credit, or a medal! I appreciate you reading this far and hope you got at least something out of it.

Charting tidbit

Here's a small tidbit as my thanks. If you like to actively watch the market, keep an eye on these key levels.

Dow - 13,600

S&P 500 - 1521

NDX - 1985

They represent what's known as gaps on a price chart. Those are spots where the market closed at one level and opened significantly higher the next day, leaving a open area. Sooner than later, the market should "fill" those gaps and begin to move higher again, if the uptrend is to remain intact.

If those areas are breached and closed below on a daily and then weekly basis, the stock market should continue much lower in the near term.

Finally, the regulators like me to add...Please note that strategy results portrayed above reflect an actual account from Theta Investment Research. The information given is historic and should not be taken as an indication of future performance. Investment return and account value will vary so that at any given time an account may have a gain or a loss. Market volatility can significantly impact short-term performance. Results of an investment made today may differ substantially from the performance shown. The possibility of loss always exists.

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