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When The Bungee Cord Snaps

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Over the July 4th holiday weekend, it has become a tradition to head to Stratton Vermont with three other families. With a house full of kids all under 8, there's certainly a lot of activity! Thankfully, there's also a lot of food and drinks for the adults!!

Last Friday, we all drove over to Bromley Mountain so the kids could visit the Thrill Zone with the water slide, alpine slide and a host of other outdoor motorless "rides". At the end of the day, my daughter just had to put on a harness for the Bungee Trampoline. You stand on the trampoline with a bungee cord attached to both sides of the harness as the staff member slings you repeatedly into the air off the trampoline.

We watched hundreds of kids do this all day with some more fearless than others. After some brief trepidation, my daughter implored the teen age girl running the ride to send her as high as she could. And it sounded fine with me as I searched for the camera.

That was until I watched in horror as one of the bungee cords snapped, flying into the crowd but thankfully not injuring anyone. My daughter was sent flying over to one side as the other bungee cord remained unbroken. She was not hurt, as a hidden safety cord became taught, stopping her from moving a lot.

And she had no idea anything was wrong!

The teenagers running the ride quickly made sure she was ok and attached a new bungee cord. My daughter not only refused to stop jumping, but begged to be launched even higher! To have that reckless abandon!! She was lucky that I was with her and not her mom because there's no way my wife would have allowed her to continue.

What's completely missing in the stock market today is that reckless abandon. It's the exact opposite right now, isn't it?. Given a choice of risking 5% for a potential 10% gain, very few investors would take that risk. The market has become extremely risk averse, more so than at any time during my 20 year career. One year ago, if you asked investors if they would risk 5% to make 5%, the overwhelming answer would have been yes! That was as the Dow was first crossing 14,000.

What an enormous difference 52 weeks makes!

I remember our models turning negative last summer and taking a lot of heat for raising cash and establishing short positions. It was almost as if investors wanted to use the bungee trampoline with no spotter and no extra safety cords in the rarified air of Dow 14,000.

Not many people thought that a very powerful bear market was about to begin and last well into 2008 with 20%+ declines across the board. And to be fair, while our models perfectly forecasted that period, they did not indicate we would be in for the carnage we have seen since the bull market peaked last July. And I didn't either.

Today, the Dow and S&P 500 sit close to the lows for the year, while the Nasdaq, midcaps and small caps remain well above the March and January lows. Are we to believe the former with another collapse on the horizon, or the latter that's just giving back a healthy amount of the rally since March?

Before you answer that yourself, let me add that the Dow and S&P 500 have very heavy weightings in the financials, which is why the usually more "conservative" indices have been beaten and battered almost to oblivion.

And for market historians, we saw very similar behavior in March 2003 when the Dow and S&P were hit much harder than the rest as the bear market was ending after two history making bouts of selling in July and October 2002. If this scenario has any validity now, we should be in the process of completing a bottom over the next week.

It seems like I've been saying the same thing for three weeks, and I probably have. It reminds of the endless car rides as I kid when my brother and I would pester my father even before we got on the Merritt Parkway, just a few miles away. "Hey Dad,

are we there yet?"

The market is trying to wrap up the decline that began way back on May 19. It's just taking a lot longer and going a lot deeper than I thought it would. Hey Market, are we there yet?

Another indication that stocks are in the final throes of the decline comes from leadership. Just like we saw in January, the leadership groups held up until the very end and then had dramatic, waterfall declines. You can go to Yahoo Finance, Google Finance or MSN and pull up charts of XLE, OIH, XME, MOO, SLX, or GEX to graphically see exactly what I mean. It's the classic case of selling what you can, not what you want!

**If you've never used one of the free sites and want some direction, call me at 203.389.3553 or email [paul@investfortomorrow.com](mailto:paul@investfortomorrow.com).**

## **Down 20%... Must Mean Bear Market Is Here**

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Have you noticed how fixated the media is on declaring a bear market at the 20% decline threshold? Barrons ran their cover with a giant growling bear. USA Today had several headline stories discussing how this bear may get a lot worse. And CNBC continues to show "Breaking News" or "Alert" each time the Dow or S&P cross above or below the 20% decline area, signaling a bear market!

I have never been able to understand how it helps to declare a bear market after a 20% loss in a major index. Are they suggesting that it's some magical number and investors should rebalance their portfolios in response?

History will show, in my opinion, that the bear market began in July 2007 as the Dow breached the 14,000. That was when the majority of stocks made their peaks. Now, at that time, it was difficult to predict the ensuing demise, unless you have been calling for it all along and missed the ride up.

I like to use price and several long-term averages to CONFIRM a bear market is in place. I wait until long-term averages are declining and the current price of the index is below those lines.

Is it perfect? Absolutely not! Sometimes, during the really vicious bull market corrections, like July to October 1998 (20%), the confirmation appears after much of the damage has been done. But it does do a great job when a bear market evolves into years, like 2000 - 2002 and 1973 - 1974 and 1977.

When price is no longer below a declining average, the market is moving into a trading

range. And then finally a bull market is confirmed when price is above a rising long-term average.

I just do not understand how why anyone thinks it's helpful to arbitrarily choose 20% as the "be all, end all" threshold for a bear market. And we're supposed to wait until prices rally 20% on the upside before declaring a bull market?

If you would like help setting up your chart or using a free website to watch this, just drop me an email by hitting reply or call me in the office at 203.389.3553.

Watch For "Phishy" Emails From The IRS

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This is the first, in what I hope will be a series of articles by guest authors from other industries to provide tips in their fields of expertise. Please feel free to email me at [paul@investfortomorrow.com](mailto:paul@investfortomorrow.com) if you have suggestions on future topics. Enjoy!

Hello everyone and thank you Paul for the opportunity to share some tax news with many of your readers. I thought I would start my first piece with some information about me so that you could get to know who I am.

As a CPA here in Woodbridge I have been practicing for about 32 years, ever since I graduated cum laude from Syracuse University way back in 1976. That's right it was our country's bi-centennial year. I have just been elected to serve on the Syracuse University Alumni Association Board of Directors.

I began my career with Arthur Andersen but left them after 11 years which was back in 1987, way before their unjustified demise. Yes there were mistakes made by a few members of the Firm but not more than the mistakes made by some members of the other Big 8 (at the time) now the Big 4. I then moved to a regional firm in New Rochelle New York for three years prior to starting my own practice on July 3, 1990. Again, I know, it is another date near the anniversary of our country. I then merged my practice in 1992 with another sole practitioner and bought him out in early 1998 and acquired another small practice in the later part of 1998.

Community service wise I am the founder and past president of the Fairfield County Chapter of MADD and I am a past president of the Trumbull Rotary Club of which I am still involved. Additionally, I serve on the Board of Directors of USA Bank (publicly traded) and serve as chairman of their audit committee.

My practice is focused on high net worth individuals and closely held business.

I thought in my first writing I would talk a little bit about the internet and the Internal Revenue Service (IRS). There have been more than a few scams occurring recently on the internet. These scammers are so sophisticated that they can create an email that you may perceive as to being an official correspondence from the IRS. The emails have the IRS logo on them and say something like "Your return was reviewed and you are entitled to a refund." (Kind of like the community chest cards in the game Monopoly.) Then they tell you to click on the link below and answer a few questions for purposes of verification." They ask for birth dates, social security numbers and

addresses. Then BINGO, they got you and your personal credit is violated and the whole experience becomes a nightmare.

Please keep in mind that the IRS:

1. would not send out an unsolicited email to a taxpayer and
2. presently, the IRS does not communicate to taxpayers through the email.

So be careful when reading your email for all sorts of viruses and phony emails, especially from the IRS. If you have any further doubts, do not hesitate to contact your tax advisor/preparer with the suspicious email or you can contact me directly.

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### **Using Mozilla's Firefox As Your Internet Browser**

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Here is a really interesting article from the USA Today's Edward C. Baig on using Mozilla's Firefox web browser instead of Internet Explorer. For more information, please go to www.usatoday.com and search for his name.

Even if you're an active Web surfer you probably don't pay much attention to the browser you are using. By default, you likely employ Microsoft's Internet Explorer on a Windows machine, if only because Internet Explorer sits right there on your desktop. The Apple crowd typically sticks with Safari.

Still, many of us in recent years have been drawn to a feature-rich browser called Firefox from the non-profit Mozilla organization. This week Mozilla released a speedy and more secure new version called Firefox 3.

I've generally had a very good experience testing Firefox 3 on Windows PCs and Macs. (It also works on Linux.) It's snappier than Internet Explorer and uses less memory. I had no trouble migrating from Firefox 2. And Mozilla claims Firefox 3 has more than 15,000 improvements, though I'll have to take their word for it because most of the action is under the hood.

Why go to the trouble of switching browsers? Through the years, Microsoft has been slow to innovate. Guess that comes with owning a monopoly share. It was late to the party with such features as tabbed browsing, which lets you keep multiple browser windows open at the same time. (The feature is there now.)

And for a while anyway, Internet Explorer seemed to have more gaping holes than Swiss cheese, though to be fair it's gotten a lot more secure in recent iterations. Still, the door was left wide open for more nimble rivals, including Apple's Safari (which now also works on Windows), Norway's Opera and, of course, Firefox.

I've long appreciated the "restore previous session feature" in Firefox, which opens the tabs and windows from your previous session should the browser unexpectedly crash. A Firefox pop-up blocker arrived early on. A built-in spell-checker is another core feature.

As "open source" software - meaning the code is open to all programmers - Firefox is also extremely customizable. Some 5,000 add-on programs have been made available, though not all of them are ready for version 3. I was unable to load Google Send to Phone for Firefox because as a pop-up window warned, "It does not provide secure updates." Mozilla said about 75% of the most-used add-ons were compatible with Firefox 3 in the days leading up to the launch; most of your favorites should catch up quickly.

Firefox 3 is less of a hog on system resources than its predecessor or Internet Explorer. I opened a dozen popular sites in Firefox on a Vista machine and opened the same ones with Microsoft's browser. Firefox used a lot less memory.

Let's take a closer look at the latest version of the Mozilla browser.

·Easy navigation. Arguably the most useful new feature is the "Smart Location Bar," aka, the "Awesome Bar." Start typing and Firefox serves up a drop-down list of possible cyberdestinations based on sites you've already visited, bookmarked or tagged. It learns as you go. The words you type appear in bold, making it a cinch to find an appropriate match if there is one. Typing "Ru" brought up listings of sites I visited after Tim Russert died.

Firefox makes intelligent (and usually correct) guesses when you enter text. You won't always have to type in a complete Web address. When I typed "Mets" and pressed enter, I was transported to the official site of my favorite ball club. When I typed "onion," I was taken to the Onion humor site. On Internet Explorer, typing "Mets" and "onion" took me to search pages instead.

Bookmarking is also a breeze. A star icon appears to the right of the Web address in the location bar. Click the star once to save the location as a bookmark. Or double-click the star to tag and save the site to a particular location.

And you can click on a new Most Visited folder to check out the sites you hang out at most often, one of the available "smart bookmark folders."

·Security. You were warned in Firefox 2, and for that matter Internet Explorer, when coming upon a "phishing" site. These bogus sites try ripping you off by masquerading as real financial (or other) institutions. With Firefox 3, Mozilla broadens the alarm to include sites that attempt to attack your machine with viruses, spyware or other "malware." A pop-up appears with a "get me out of here" button; you can also click for an explanation of why the site is blocked.

Clicking on a tiny icon to the left of the location bar lets you determine if a site you are visiting is legit.

Mozilla's rivals aren't standing still. Opera just released its own new version with features that keep bookmarks and notes synchronized between the desktop browser and one on your cellphone. Microsoft is readying a new version of Internet Explorer, and the bet is Apple is doing the same with Safari. And the Flock "social browser"

(which is built on top of Firefox technology) is in trials with a new test version of its own. The way it's going, you may even start paying more attention to the browser that you are using.

Friends And Family Plan

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Finally, as you know, our firm and this newsletter continues to grow mostly from your referrals. If you know anyone who is interested in securing their retirement, planning for it or just plain worried about it, please send them here. As always, thanks for thinking of us with your circle of family and friends.

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