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## **Volatility Records Have Been Michael Phelps'ed**

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Back in January, one of the strongest convictions I had for 2008 was that overall volatility was going to continue to be extreme. I wish I had the same conviction that stocks would get mauled in January! But it wasn't to be. So far this year, we've Michael Phelps'ed (rewritten) the record books on volatility!

I remember so many of the pundits calling for the "summer doldrums" to begin in late spring and last until September. When they all line up in one direction, you are pretty much assured it's not going to play out that way. And speaking of the "summer doldrums", it's one of the great misnomers in the market.

Just look at the past three as a sample...

- **Summer of 2008** was volatile as we saw a waterfall decline into mid July.
- **Summer of 2007** was crazy as the credit crisis began. Bear Stearns had major hedge fund blowups and Bernanke was forced to cut rates.
- **Summer of 2006** saw the end of a healthy bull market correction in July as commodities imploded and there was a conflict between Israel and Hamas.

I can go farther and farther back to prove that "summer doldrums" are the exception, not the rule, but you'll have to trust me from here.

This week is one of the lightest volume weeks of the year, but that should not be confused with light movement. Although the "major players" as a whole won't be back full time until September 8, I doubt the financial markets are

going to sit tight and wait. With fewer players around, we are likely to see faster, whippy moves in both directions.

In 1998, if you recall, during the final week of August, we saw one of the most volatile weeks in decades as the Russian debt default came to a head. That led to a 7% mini crash on August 31. So any time, you hear about what "always" happens, make sure to keep your guard up for the opposite occurring!

In a recent update, I briefly touched on my forecast that energy and metals were making an imminent low and should move higher for at least a few weeks, if not longer. I echoed that sentiment on CNBC last week, [Click Here to Listen](#).

Unfortunately, I do not think the rally is over yet. Oil ran very hard all the way to \$147 and then equally as hard to \$112. If oil truly peaked and began a bear market, it should still rally to at least \$125 in the short-term before heading lower again. Even a move into the \$130s could be considered "normal" before rolling over towards the century mark.

In short, the faster and more severe the rally, the more likely it is to fail before heating season begins. But a potential collapse in energy isn't all roses. If I am correct and the ultimate peak has been seen, we should be in store for a failing rally and then a much more severe leg down below \$100 per barrel in oil.

While it does sound good on the surface, in all likelihood, the next large decline will be caused by global demand falling off the cliff with sputtering economies around the world. That doesn't sound so good. It will take almost a perfect storm to see energy prices collapse, while the world "simply" slows down to low growth.

As far as the stock market goes, I haven't had much to write about lately and will keep these comments brief until after Labor Day. The rally off of the July bottom has been a bit on the underwhelming side, given how much the decline actually was, especially on the Dow and S&P 500. It should have been more, but maybe I am too picky.

We've focused almost all index investments on the mid caps, Nasdaq, small caps and foreign so we've seen more strength, but not as much as I originally thought. Stocks are in a position where they should begin to see some higher closes over the next few sessions. Any other behavior would be cause for concern and a more active approach should be taken.

After the August inflation numbers were released, showing another surge in top line inflation, an astute reader asked me why the bond market wasn't reacting more negatively. After all, inflation is the worst enemy of bonds as it erodes prices as investors demand higher yields to compensate.

Rather than offer my take here, I'd like to give you a chance to think about it and email me your opinion. Just hit REPLY and start typing. I promise not to share your name unless you want me to!

That's it for now. Time to hit send, watch Hard Knocks on HBO and get ready for the kids' first day of school in the morning.

I am continually amazed by my 5 year old daughter. Today was Kindergarten orientation and all four classes of kids with their parents and teachers crammed into a courtyard before moving to the classrooms. My wife and I saw dozens of kids clinging to their parents legs, but our daughter was the "little" social butterfly. She bopped from friend to friend, making sure everyone was as excited as she was to go inside.

And at the end of orientation, her teacher told my wife that while most of the kids were very timid, not wanting to go into the classroom, our bundle of energy boldly marched in, sat down and wanted to get to work!

Enjoy the rest of the week and have a safe and fun holiday weekend!

## Reader Comments

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**Last week's article on energy, Energy Crisis... Grande Finale, drew more replies than any Street\$mart's issue I have ever written. I decided to publish a few comments to spur on more thoughts.**

Paul, Pickens' plan is a good start. Eventually, we need to use that clean wind power to produce hydrogen for fuel cell uses. That would be the cleanest. The problem is that right now hydrogen costs 20X the amount to produce per energy unit than gas, and we use carbon polluters to get the conversion energy. To get hydrogen in the quantities that we would need, we would have to have a large amount of clean energy production. Also, hydrogen will require a huge amount of capital to change the delivery logistics.

Some people are touting the conversion to methanol to fuel vehicles, as it has a lower flash point than gas, can use the same (or similar) delivery logistics that are now in place, and fits the problem better than ethanol. You wouldn't get as many miles per gallon (need bigger fuel tanks), but it would be a lot cheaper than today's gas, and would work us towards being energy independent.

One problem is that everyone is focusing on vehicles. What about heating and cooling our living and work spaces? If we can cut down on the heating and cooling costs and raise efficiencies, we wouldn't have the winter heating oil spikes, and the summer electric brown outs.....The power plants wouldn't use so much

oil, and we wouldn't have to build so many new plants.

There should be a mandate for all new building construction to use geothermal heat pumps for all heating and cooling needs. The EPA says that this is THE most efficient way to heat and cool a structure. All buildings sit on a patch of earth which can be used as a heat transfer medium. It is free, like the wind. The start up costs are higher because you have to put in a well field or series of ground loops, but because the heat transfer is so efficient, there is little strain on the system, and the system lasts for 25-30 years. You can heat and cool a 3000 square foot house in NH or MN for about \$50/month.

It is ironic that "Mr. Environment" Al Gore uses an inefficient and expensive gas system in his TN house, while the "oil man and energy ogre" G.W. Bush uses 3 geothermal heat pumps to heat and cool his Crawford, TX ranch house. I am not a Bush fan, but this is one case where he knew what he was doing.....

Mike

Hi Paul: I've always read what you've sent my way, and have enjoyed it all; however, I disagree with the 'essence' of your finale.

Fact: There can never be a solution when there are always more problems; therefore, we must prepare for warring nations to stop fighting for control of energy, real estate and the various critical corporate service sectors...now that WATER dominates our global necessity.

Fact: Global warming is real; the new oil, diamonds and gold will be water. Turning ocean/salt water into useable farming and especially drinking water will be more important than oil in 25-30 years. After the U.S. and Canada team-up to solve the water problem, oil will flow forever. We will have cars that run on something other than oil, and it will be kept a secret for 20-25 years until the oil barons are sold on the idea that their tyranny has shifted. That's when the world crisis REALLY begins and your Finale is justified, but in a different form.

Fact: China will have a civil war because the U.S. will use the CIA to start one; if not, U.S. dominance will be taken over by the Chinese in due time. The world may be flat from a travel, intellectual and financial perspective, but not from a religious one; hence, warring nation will always lift up sword against warring nation...forever and always. It's been that way and will never-EVER change; because...only some special people have control. Welcome to the 21st century's Twilight Zone...within 15 years we will see major coastal towns

and cities wiped off of the map, just like Al Gore suggested will happen. Having been to the Columbia Icefields in Canada's Banff to Jasper National Park trek, it is without question the most depressing and eye-awakening experience. The earth is fragile and we are a faltering people. And that is the good news; the bad news is that major cities will be experiencing water rationing when reservoirs disappear and bottled water will go from \$.60/bottle to \$50.00/bottle in our lifetime...much more than the price of gas. Canada and Russia could be the richest nations in the world after they decide how much water and oil rights to sell.

Fact: That will be the news you speak of when your adult grandchildren are sitting at your Passover Table, while you're explaining to them how there once were places called Manhattan, Provincetown, Bermuda and Key West.

Jeff

## **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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