



October 23, 2008

9:53 PM EDT

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October 17 Has Come And Gone, So Now What?

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I love October! It's one of my favorite months. We have peak foliage in Connecticut, Halloween cool nights and beautiful days. Both college and pro football are in full swing with many of the rivalries heating up. And we have the World Series, one of the great events of the year, even without my Yankees. Could anyone in their right mind have predicted the Phillies would play the Devil Rays? What an interesting match up.

Oh yeah... October has seen more stock market bottoms, more bear market lows than any other month of the year.

Over the past month or so, I have been discussing the magical date of October 17 for a stock market low, right? Well, not exactly, but somehow my commentary was interpreted into this key, random date.

What I had said all along was that given rate a descent in such a short period of time, the likely window for a stock market bottom was during the first two full weeks of October. And certainly by the 17th, which was options expiration, a day when I felt mutual funds would get the bulk of their selling done by since their fiscal years end on October 31.

The morning of October 10 provided enough fireworks to indicate that stocks were either going to zero or in the final throes of the greatest bout of capitulation during the modern investing era. Can you guess which outcome occurred?

On that day, we saw record volume on the New York Stock Exchange, record volume on the NASDAQ, record ETF volume in the SPY and QQQQ. The most stocks ever hit new 52 weeks lows on the New York and NASDAQ on October 10 to go along with so many other records. This followed a pattern of historic readings that began to take as the 4th quarter began.

So now that we generally got that right, all is well in the world and markets? Again, not exactly. October 17 may have passed but as I've said time and time again, the only magic bulle for capitalism is time. So much damage has been done to the global financial system, it's going to take a long while to repair.

I'm glad I procrastinated this week in getting this issue out. My original thesis called for two possible stock market scenarios to unfold. And frankly, I wasn't sure which one we would see. Thankfully, the market tipped its hand so I can focus on the path I believe we are on.

With the continuing record intra day, day to day and week to week volatility, the likelihood of a simple stock market bottom was pretty small. There are so many crosscurrents, with mutual funds ending their fiscal year, hedge fund experiencing another bout of record investor redemptions, forced deleveraging and investor margin calls that a complex low was all but guaranteed.

And hasn't the stock market obliged?

Since October 10, we have already seen two attempts to revisit the lows on the 16th and 23rd. So far, they have been successful, but don't start celebrating just yet! This bottom is not going to be easy or comfortable for either the bulls or the bears.

You can and should expect multiple attempts and assaults by the bears in the coming days and weeks to force another round of panic selling. So let me be crystal clear.

I firmly believe that the lows we saw on October 10 will be viewed as the date when the majority of stocks saw their darkest day of 2008.

Before Thanksgiving, we may see one or two more retests of the intra day lows of October 10, but I do not believe the bears will be able to make much headway for more than a day or so. Rather, we should see a quick panic lower that reverses itself as sellers get exhausted and real buying begins to come in. And I expect to be right there buying as well.

Record volatility is going to continue, but on one of these rallies that's become so "easy" to sell (of course, with the benefit of hindsight), the bears will be out of ammunition and the bulls are going to unleash a torrent of buying power, the likes of which have never been seen before!

For those of you looking for a clue to this event unfolding, keep an eye on the 90 day treasury bill closing a day and week at 1.50% or higher. With the recent lows around 0, and current rate around 1.00% a move higher towards the Fed Funds Rate will mean the credit markets are getting markedly better and investors are willing to assume some risk again.

The other common indicator to watch is the Volatility Index (VIX) closing under 45, which should show the current storm has passed and a more "normal" trading pattern is emerging. Both of these indicators are available on even the free financial sites like Yahoo, MSN, Marketwatch, etc.

## **Stock Market Says Obama To Be President**

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When I came into the business in 1988, one of the first research projects I did was to track the performance of stocks in the days and weeks leading up to the Presidential election. Since my dad taught me around the dinner table in the 1970s, the stock market usually discounts an event before it actually happens.

Could the stock market predict national elections? I was fairly certain it could with a decent degree of accuracy. And my research definitely proved the hypothesis with a statistically significant accuracy rate, something my friend Tom McClellan greatly expanded on over the years. Generally speaking, if stocks fall apart before the election, the incumbent party usually loses.

To be clear, just because the Dow or S&P 500 exhibits a certain move before the election doesn't mean someone is a lock. Some years, the polls are so skewed to one side that the edge the stock market gives is overwhelmed.

In 2004, I put out a piece in late October calling for George Bush to win reelection. In 2000, with stocks collapsing all of September and the first half of October before rebounding sharply, I predicted that Bush would beat Gore by a slim margin. And in 1996, with the bull market roaring ahead, Clinton was a shoe-in to beat Bob Dole.

What does the stock market tell us today? Unless at least Dow 10,000 is immediately regained, Barack Obama will be voted in as our next President.

Upcoming CNBC Appearance

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I am going to be interviewed live this Monday, October 27, on CNBC at 11:05am edt, no doubt about the current state of the financial markets.

## **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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