
**November 19, 2008**

**9:30 PM EST**

## Inside this issue



## Will The Carnage Ever End?

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I had this nice neat article written on Monday that detailed two very different paths that the stock market could take the rest of the month. But since I procrastinated, the market already tipped its hand, thereby eliminating the bullish track.

The bearish track, which we are clearly on, calls for a market that accelerates lower right into another panic that tries to hammer out yet another low. I think it's going to be the most complex low we've seen in the modern investing era as this is the most significant and dramatic global decline in decades.

Will it be the ultimate low for all time? Like 1974 and 1982? That's way too early to tell. We need to see a rally that actually takes hold and lasts more than a few days or weeks. We need volume, the horsepower of the market, to increase with brand new leadership emerging. This is going take some time for confirmation.

Now here is where you can start to disagree with me. Until proven otherwise, I continue to believe that the outright panic we saw on October 10 and the days leading up to it will be the internal or momentum low for the stock market. That's the day when the most stocks made 52 week lows and downside velocity was at its worst.
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But that certainly does not mean that the major indices cannot go lower. Sometimes, one to two months after the momentum bottom, we see stocks make a secondary bottom at lower levels before beginning a major march higher. I believe we are in that secondary bottom process right now.

While a snapback rally is possible any time stocks close at their lows of the day, it will likely be very short-lived and lead to final low of 2008, somewhere between 7000 and 7700 on the Dow. From there, we should see a vicious and sharp rally of 1500 - 2000 Dow points.

No one said this was going to be easy...

The investing climate continues to be the most challenging period in almost 80 years. As I've discussed since the summer of 2007, volatility is going to remain at extreme levels and that's difficult for a lot of people to experience. And to be totally candid, even I did not expect anywhere near the level of volatility we have seen.

The overwhelming urge is to take one's money and hide it in the mattress. While that would make you feel better in the short-term, emotional decisions are almost always proven wrong in the financial markets. Investing can be a very lonely game, although the loneliness is much easier to tolerate in good markets! Please feel free to call or email with any questions, comments or if you just need a sounding board for a portfolio decision.

## Let's Put Our Cash In The Mattress

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12-18 months ago, it was fairly easy to discuss investment strategies with folks. They listened to our overall philosophy and then asked questions about the methodology of each strategy. Some didn't even question that far.

No one really wanted to keep money in the bank or money market funds or other "safe" instruments. They wanted the opportunity to make money in the financial markets. And who could blame them? With stocks at or near all time highs, their friends were gloating about the latest "get rich quick in the market" plan.

Fast forward to now. Oh what a difference a year or so makes! The stock market has been roughly cut in half with the bond market not far behind. The carnage has been widespread and all over the news. You can't turn the tv on, read the paper or open an internet browser without hearing about the global market collapse or coming depression.

Investors with cash on hand have become more reluctant to consider investing now than at any time in my 21 years in the business, no matter what the strategy. That makes NO SENSE!

Human emotion and psychology are so powerful when it comes to investing money. It's the exact opposite of say, retail. If I told you WalMart and Target were having a 50% off sale this weekend, could you line up fast enough to buy as much as possible? But if you heard that prices had just risen 50%, how many would want to buy?
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In the financial markets, many people have the opposite approach. They only buy when prices have already rallied, but run for the hills after a major decline. Many have told me that they like to wait until the news gets better. But folks, history has shown time and time again that the financial markets are greatest discounting mechanism.

What's happening today, market wise, is seen economically 6-9 months down the road. That's one of the reasons I expect the economy to do much worse during the first half of 2009. Stocks are and have been a free fall since September, which translates into roughly the first half of 2009 for the economy.

For those of you, like me, with nothing better to do at night, go look at the old price charts from 1929 to 1942 during the Great Depression. Stocks peaked in 1929, crashed, rallied into 1931 and then the real debacle took hold right to the bottom in 1932, almost 90% off the peak!

But that was THE ultimate low of all-time lows! The Great Depression was just beginning, but the stock never came close to that level again, let alone breach it during the worst economy in the history of the world!

People waited and waited and waited for the news to get better to invest again. But it didn't. Yet stocks seesawed back and forth with an upward bias right into our involvement in World War II. That was another reason to sit on the sidelines. By the time the war officially ended, a new, multi decade bull market had already launched and investors were forced to chase stocks higher.

The bottom line in all this is that if you have investable cash on the sidelines, it's time to consider strategies that fit your risk tolerance and time horizon. I didn't say to just throw it all in stocks today, but you should invest it in a strategy consistent with your goals.

And if you haven't learned this in 2008, a "well diversified portfolio of quality stocks and bonds" that we are constantly spoon fed, is not a winning strategy unless we know that a bull market will endure. In other words, it's great a few times a decade, but fails an equal amount of times.

Strategy diversification is the key to successful investing, not just buying "good stocks and bonds".

Please give some serious thought to what I am saying. 50% declines in the financial markets are extremely rare. And depending on your need for the funds, they have never failed to produce results.

Call me directly at 203.389.3553 or hit reply to begin a discussion on how I can help you achieve success in your portfolio!

## Global Asset Allocation

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Several years ago, a hedge fund hired me to manage a portfolio, partially with our own strategies and to develop a specific ones for them. They gave me the Yale endowment fund as their model to create a program that looks at every major aspect of the global financial markets. Stocks and bonds are fine, in their opinion, but they wanted exposure to all asset classes.

With the help of two people a whole lot smarter than me (and arguably two of the brightest people on earth), Mike O. and Thor H., we came up with a strategy that looks at the global financial system from the top down. It's now known as the Global Asset Allocation Program (GAA) and it's made up entirely of exchange traded funds.

It was and still is very entertaining to listen to them argue, using words and terms that require a computer to understand. Anything and everything from who is more intelligent to Starbucks versus Dunkin Donuts coffee and important things like solving the world's energy crisis.

This strategy seeks to position for intermediate-term moves in U.S. equities, international equities, commodities, currencies, real estate, fixed income and private equity. It performed very well for the hedge fund and has been in our own strategy lineup this year. (Heritage Strategies)

It does not own all assets listed above at all times, but rather looks at various relationships and constructs a portfolio with risk/reward in mind. In a runaway bull market, it will almost certainly lag, while in severe bear markets, it should perform well since so many different assets can be purchased. This year, for example, it has had almost no exposure to stocks, but that would have hurt had a long lasting rally taken hold.

Since runaway bull and bear markets are the exception, not the rule, this strategy is designed to shine during those other times. It's also tailor made for folks who want exposure to the whole financial system, not just stocks and bonds.

We are running this strategy exclusively at RFS (Fidelity's platform) with an absolute bare minimum of $100,000. Anything less and you are hurting yourself with execution costs and our ability to construct the proper portfolio.

Many of you have already had discussions with me to see if this fits in your portfolio. I welcome the opportunity to explain it in more detail for those of you interested. If nothing else, I guarantee you will learn something from the discussion. Simply hit reply or call me at 203.389.3553.
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## Mandatory IRA Distributions

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We are now in the season where many investors with IRAs must take their annual distributions. This applies to people 70 and over in age as well as those with inherited IRAs. If you fall under either category and have an IRA with us, please contact us regarding your mandatory distribution. Don't wait until the last minute!

## 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.

http://www.investfortomorrow.com/newsletter.asp

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**To Your Financial Success,**

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