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Some Personal Comments For The New Year

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Welcome to 2009! Thank you for putting up with me for another year with left out words, grammar and spelling mistakes. I hope everyone had a very enjoyable and restful holiday season.

I was fortunate enough to spend a lot of time with my wife and three kids in one of my favorite places on earth, Vermont. Long time readers know how strong my passion is for skiing, some say addiction! And I got plenty of time on the hill over the holidays. I think we saw every conceivable weather condition, which, of course, I had to ski in. Sun, snow, rain, wind, fog, warmth, bitter cold. That about covers it.

My batteries are about as charged as they can get! Although sometimes, with our own three kids and another three to five kids from friends' families, it was like a zoo on steroids, especially on the 31st. Hopefully, you had a safe and fun New Year's. I actually fell asleep at 10:30 since I wrongly assumed that everyone else was, only to find empty champagne and wines bottles in the morning.

But I had the last laugh as the first to arrive at the mountain on New Year's Day at 7:30 for an epic day on the empty hill. Maybe the -30 to -40 degree windchills had something to do with it?

I always find it interesting how many people get excited to turn the page to a new year. It's almost as if something magical is beginning. The book gets closed and we kind of get a fresh start. I think it's one of those things many of us subscribe to in order to feel good. And there's nothing wrong with that!

I want to wish you the happiest, healthiest and most prosperous and peaceful year of your life.

I have never been a big fan of resolutions since I usually say the same things all the time; to be the best father, husband, son and friend I can be. The rest of the stuff is just window dressing.

Since my daughter (our oldest) first slept in a bed, it's a habit to kiss her and then the boys good night right before I go to sleep. After several years of this, I still get little chills that my wife and I somehow created three beautiful and wonderful kids.

So if I had to add a resolution, it would be to never take things for granted.

When it comes to the financial markets, stocks, bonds, commodities and currencies don't understand or care about the calendar. And neither do economic reports. They just roll on to the next day.

2008 was a very difficult year for so many people in so many ways. I have often written here that it was the most challenging year in my 21 year career. And that is not just performance driven. We had strategies that made 20%+, broke even and lost 20%+. So it's not as though our clients were bludgeoned like the market was across the board.

It was very painful to hear so many horror stories from mostly older folks losing 40 and 50% of their net worth and being discarded like yesterday's trash or ignored by their financial advisors. That's just plain wrong. I am FAR from perfect, as my family and friends like to often point out.

But, I can unequivocally state that no call goes unreturned, no emailed unreplied and no requests to meet ignored. In good times, our profession makes a lot of money and it's just not that difficult. In challenging times, we typically make less and it seems like a never ending bout of stress and anxiety. The bottom line is that if your advisor, myself included, isn't giving you the kind of service you expect, speak up! It's your hard earned money. You are the client. I work for you!

## **Change In Character For The Stock Market**

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As the markets head into 2009, they pretty much picked up where 2008 ended; stocks and corporate bonds are moving higher with government bonds in the early stages of a decline. Longer-term, my thoughts are the same for the stock market. October 10 was a watershed day, the likes of which may not be seen again for decades.

Yes, that's a pretty bold statement. I know. But that was the most significant momentum or internal low we've seen in the modern investing era. The crash of 1987 was dramatic, but remember, it was really only one day. October 10 was the final flush of weeks and months of selling. It was the day where we saw the culmination of the strongest downside velocity in price, volume, advances and declines, up and down volume, new highs and lows, and on and on and on.

But as we saw in November, that doesn't mean it was the final bottom. Several times the price levels from October 10 were revisited later in October and then fully broken, temporarily, in November. And interestingly enough, the November low just managed to exceed the levels seen at the bottom of the 2000 - 2002 bear market before reversing higher on a dime. This is similar to what was seen with the 1970 and 1974 bear market lows.

Will history repeat itself? It's rare to see an exact repeat, but it certainly does rhyme and that wouldn't surprise me at all.

The question now is whether stocks are in the early stages of something big or the latter stages of yet another failing bear market rally. As I've said before, until proven otherwise, we must assume it's the latter and be more careful.

But, we are now seeing a significant change in character for the market that we haven't seen since 2007. While not new, buying by corporate insiders remains at very lofty levels, signifying confidence that their own companies are soon to turn around.

Stocks have seen a steady and strong mini stampede for the past six weeks, the likes of which are typically not seen during bear market rallies. Market leadership, especially technology, is very constructive, indicating an early stage appetite for risk.

As I mentioned last month during the latest barrage of bad news, stocks have rallied and taken the news well rather than accelerate to the downside. Weak market openings and strong closes, which is bullish behavior, has become prevalent. The exact opposite was seen during most of 2008.

The credit crisis, while far from over, has started to abate as world's central banks have unclogged the LIBOR market and banks are now lending to each other. The Fed and Treasury have thrown everything, including the kitchen sink, at the financial markets because they know what the lack of action would certainly lead to.

We are now seeing the single greatest tsunami of money into the system in history. While that will lead to some unintended consequences down the road, Bernanke & Co. clearly realize, as I have written about for years, that deflation is a much more difficult problem to fix than inflation.

All you need to do is look at what happened in Japan during the 1990s with lack of Bank of Japan action and government complacency to support that idea. We all know what happened during the 1930s!

Now don't get me wrong. I do not believe the economy is suddenly going to turn around and everything will be hunky dory. As I've said since this mess first began in mid 2007, the only panacea is time. It's going to take a long while to heal the wounds caused by years and years of over leveraging by institutions and consumers, financial

shenanigans and the clear lack of proper oversight.

It feels so much worse than the recessions of 2001-2002, 1991-1992, 1984, 1981-1982 and the various ones in the 70s for two main reasons. First, we are all so plugged in to the media that it's difficult to blink without hearing about the crisis. Long before it began to actually affect Main Street, people felt it psychologically and started bracing themselves, even though their bottom lines were not impacted yet. That just elongated the negativity.

Second, and more importantly, this recession has a deflationary backdrop, something we've really only seen in Japan in the 1990s and the U.S. in the 1930s. We have grown accustomed, if that's the right word, to recessions based in inflationary issues. This is something different, more painful and longer lasting.

We're seeing the biggest asset for most, our homes, go down in price month after month after month. Real wages, not only haven't grown; they've been coming down. In a deflationary environment, consumers put off spending as they feel prices will only be lower in the future, which feeds on itself.

To sum it all up, while the deflationary economy is nowhere near recovery mode, the stock market has its best opportunity for more than a failing bear market rally in over 16 months.

The January Indicators

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There have been many studies done regarding early January and full month stock market performance offering predictive power on the entire year. Yale & Jeff Hirsch and their excellent annual publication, Stock Trader's Almanac, continue to track these two phenomenon.

Their first system is an "early warning" indicator and tracks the stock market's performance over the first five trading days, which ended today. The Hirsch's found that 86% of the time, an up first five days leads to an up year for the S&P 500. After today's action, we have an up "early warning".

Next we have the January Barometer that says as goes January, so goes the year. This simply means that if the S&P 500 is up in January, the whole year should be up. The Hirschs' found that since 1950, it has a 91% accuracy rate.

Detractors, which I was initially, argue that many times, stocks see outsized gains in January that skew the results. If we don't know whether or not to be bullish on the year until February 1, then doesn't it make sense to strip out January's return? I think

so.

Without doing a scientific study, I found that only two years since 1950 affect the overall study. Those were 1987 and 1994 where January accounted for more than 100% of the total return for the year. Even so, that still gives us a roughly 88% accuracy rate. Not bad!

I'll do a follow up on this in a few weeks when the month ends.

## **Good Bye High Energy Prices**

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Last month, I briefly touched on something I've given a lot of thought to during the past year, our exposure to the potentially devastating effects of surging energy prices. In some states, oil companies have price caps or fixed pricing, but that only applies to heating oil and with a maximum duration of one year.

So I've had my thinking cap on trying to come up with a strategy that would have the effect of hedging gas, oil or natural gas prices. With the destruction of energy prices since July, it's now time to initiate this strategy for clients with prices down so much.

For those of you thinking that I am creating a consortium to buy oil at a discount, you're wrong. That wouldn't help hedge longer-term price moves, just get us slightly lower prices.

What I intend on doing is structuring a portfolio in a client's name that I would oversee to hedge either gas, oil, natural gas or all over a given time period. And the money would be totally liquid and able to withdrawn at any time!

All you need to do is schedule a brief call to answer a few questions and get the ball rolling.

As I mentioned in my last update, I am offering this service to all clients without any management fees or strings attached. I plan on using the same strategy as you for my family.

Just reply to this email or call me at 203.389.3553 to schedule a 10 minute call.

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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## To Your Financial Success,



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