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Inside this issue

Less Cake, More Wine

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After receiving a few funny comments, like "lay off the cake porky" from my story about eating an entire cake a few weeks ago, I had to share the latest. The kids made another cake the other day, this time a pink one in the shape of Barbie to celebrate my wife's birthday. Those of you worried about me gaining weight will be happy to know that I barely ate any. The pink frosting was even too sweet for me! Instead, we celebrated by opening some very good wine, our last bottle of 1999 Plumpjack cab with my in-laws and aunt whom we affectionately call "Tonto".

There are many unconventional ways to gauge the markets, economy, etc. Just after 9/11, my wife and I were married and planned a two week honeymoon, first in California and then on a cruise leaving from Tahiti. While in Napa Valley, we added our name to dozens of mailing lists for very small production and highly sought after local wines. Most of the time, we were told that we would be placed on the waiting list and should expect to hear back anywhere from 5 to 25 years later. Talk about supply and demand!

Over the past few years, we were notified that our name had come off the waiting list from a small few wineries. It was still hard to believe that all these people on "the list" were buying so much wine as the economy weakened.
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But in 2009, that's all dramatically changed! Over the past few weeks, we have been notified by more than 10 wineries that our name has gone from the waiting list to "the list". I am trying to imagine just how many people canceled their purchases in the fourth quarter of 2008 to get my name so quickly up the waiting list. And the sheer number of places I have heard from is unbelievable.

While this is far from scientific, I do believe it's a microcosm of the economy and it continues to confirm what we've been discussing since Lehman Brothers declared bankruptcy last September, forcing a giant ripple affect across the global scene. The economy's weakness was accelerating into a plunge where the worst reports were yet to come during the first half of 2009.

Of late, I've heard from many clients, business associates and friends who explain just how tough it is for them, with business survival their main priority. This is certainly a lot worse than the recession of 01-02 and now on par with that of the early 1990s. I expect the economy to worsen through spring and compare to other more serious recessions from the early 1980s and 1970s.

Before you go bury your head (and portfolio) in the sand (buying treasury bills), in every crisis there lies opportunity. And this time is no different! You may feel good in the very short-term, but quarters and years worth of returns can be made in very short periods of time with the right strategies.

More on the economy and comparisons to other periods next week.

Investor Sentiment Follow Up

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After last week's issue, I received a few emails calling me a perma bull or blindly bullish, something I find very funny since it wasn't that long ago when people said I was always bearish. My unabashed bullishness was in the context of investment prospects across asset classes, long and shorts and time horizons, not that the Dow will be seeing 14,000 any time soon.

I consider myself a perma opportunist more than anything else, looking for opportunities to make money in any market. While that sounds so easy, it's much easier said than done. Every market has risk, but some are more treacherous than others.

The point of my article on investor sentiment was that it's become too popular to hide in bomb shelters without any strategy for re-engaging. These are amazing times in the markets, where fortunes will be made (and many lost already) by those who have their hand on the pulse and not afraid to take action.

Our **strategies** almost always have varying degrees of cash equivalents. And that's the primary reason why we outperformed by such an enormous margin in 2008.

But I always, always, always have a plan. Sometimes it's successful and other times
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not. It may be trite, but investors don't plan to fail; they fail to plan. Let's say you sold your entire portfolio in the fourth quarter of 2008, like many investors did, and bought CDs or money markets. What's your investment plan moving forward? How do you intend on re-engaging?

"I don't know" isn't a valid plan or strategy. Saying that you're never going to invest again is just plain foolish. Now maybe you're a more basic investor who has a portfolio that's 70% stocks and 30% bonds. Without judging its merits, maybe you've decided that you plan on investing half of your portfolio when the market declines another 10% or half of your portfolio when it rallies at least 15%. I may not agree with it, but at least you're not flying blind.

On the flip side, there are plenty of folks either steering their own ship or working with an advisor who have taken zero action since the bear market began in mid 2007. I can't tell you how many times I've heard the phrase "sitting tight for now" over the past 19 months.

Sorry, but that's not a strategy either. And let me be straight. Just because you may have been proactive, doesn't mean it worked! Some folks did take action, but their action didn't result in something positive.

As has been the case a lot lately, the family went to a little kids' birthday party this morning, which is great because I love birthday cake! I usually get bombarded with questions and opinions about the markets and economy.

I got into a discussion with a doctor friend and a retired businessman about the future course of stocks. The first question I always get is when will the market get back to normal. What is "normal", I usually reply. Then I hear something like, "you know, back making money like it always does". The words "always does" is kinda scary since the market and "always" don't dance well together.

We were very spoiled for most of the 1980s and 1990s with outsized investment returns approaching 20% annualized, although this decade has been a disaster for buy and hope investors. I fondly recall meeting a private pilot, one of the nicest guys you'll ever meet from Virginia Beach in 2001.

He wanted to give me some money to run for him. We talked about risk tolerance and time horizon and asset mix, which he was generally very agreeable across the board. I then asked him what kind of returns he was looking for.

He response was "about 8-10%", which seemed reasonable. Until he threw in "a month". I said, "you're looking for 8-10% a month?!?!" As much as I wanted to work with him, that was beyond unrealistic. Even if I thought I could deliver, which I couldn't, can you imagine the risk that needed to be taken for those types of returns?

Anyway, back to the birthday party chatter, similar to what I've mentioned before, I don't think the stock market is going to return to the "easy" decades of the 80s and 90s any time soon. Sure, we'll see some hair raising, near vertical rallies and even some eye popping annual returns. But that should be in the context of generally more muted times.

If you're looking to buy some "quality" mutual funds, whatever that means now, to secure your retirement, I think you'll end up with failure. Successful investors will be those with exposure to different strategies in stocks and bonds and a blend of different asset classes.

Please give all of this some thought. It's vital to plan ahead. And feel free to hit reply and ask for help or just call me directly at 203.389.3553.

Dow 7000 Or 10,000?

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In the **last issue**, I wrote a somewhat sarcastic article about the magic behind Dow 8000. Since the initial break of that level, the Dow has grinded its way lower without leading to a trap door crash or end of the financial world as we know it. We did that all by ourselves, long before Dow 8000 was close to being seen again.

During my last **CNBC segment**, I did my best to talk out of both sides of my mouth when it came to my upside and downside targets. My analysis still indicates that the Dow should see at least 10,000 sometime in 2009, while a move just below 7000 as the next significant bottom develops in March or April would not be out of the question.

And nothing has changed that opinion of late. Each successive move lower since the watershed October 10 bottom has come with less and less conviction and velocity. Sector leadership, volume patterns and the number of stocks making new highs and lows have been constructive during rallies. As has been discussed many times before, buying into weakness and selling into strength remains the chosen strategy until proven otherwise.

About the only major disappointment for the bulls of late has been the inability for the rally to better the January high after February 21. If you recall, most bear market rallies tend to peter out within three months of beginning. So the first sign that something dramatic has changed would have been a move higher than the January peak after February 21. Since stocks rolled over long before February 21 and are nowhere near their early January levels, that day is likely to be a while off.

Coming in to the new week, the bears are clearly in control, but need to assert that force early. With the major indices very oversold, it won't take much to reverse the
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short-term trend and spark a rally.

Rumors about Citi and Bank of America being quasi nationalized change from hour to hour. One minute, we hear from Senator Dodd that it may be considered. The next we hear from the two companies that they are sufficiently capitalized and one is essentially profitable. It's enough to make you as ill as the companies really are!

Would nationalization lead to a waterfall like opening, -5 to -10% that wraps up any short and intermediate-term decline and sparks a major rally? Or would we see a giant higher opening on the hope that the financial crisis was coming to an end?

From talking to peers in the industry, this issue alone is one of the reasons why so many traders do not want heavy exposure on either side of the market over a weekend. There can just as easily be a huge open up or down based on the government's actions.

The End Of The Line For Gold

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Also during my last CNBC interview, I was asked my opinion on gold, to which I answered that I thought it would peak in the next few days to few weeks and decline sharply. That opinion not only hasn't changed, it's become stronger.

While I don't think gold and silver have reached bubble esque levels, they have gone too far, too fast and enjoy way too much optimism from the general public. Just pick up the phone or surf the net for gold coin dealers and see what kind of premium you have to pay over the actual value to buy coins. It's as high as I've ever seen.

Look at prime time tv commercials and you'll find one for gold that also aired on the most expensive day in history, Super Bowl 2009. Turn on any of the business channels and you can see how many gold interviews are bullish versus bearish. In fact, I can't recall more than one or two negative comments on gold in weeks, if not longer.

At the little kiddie birthday party this morning, two older guys only wanted to talk about their gold investment and how it's going to double or triple in the next year. Investment advisors I often exchange ideas with told me they recently bought gold for client portfolios, something they've either never done or haven't done in ages.

The popularity of the gold exchange traded fund, GLD, has reached into the stratosphere as measured by what's outstanding and the amount of gold it is supposed to represent. I say "supposed to represent" because GLD now ranks in the top 10 globally of gold holders, on par with many central banks, but no one seems to be able to conclusively verify that gold. More on this down the road should investors want to
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take delivery or the government does an audit.

I could continue on, but I think you get the message. Bullish sentiment on gold is now at nosebleed levels, yet the gold and silver mining stock indices that I trade in our **Short-Term Gold Program** are almost 50% below their 2008 highs, something considered to be a non-confirmation.

For full disclosure, as of this writing, our gold exposure has been reduced to 0%. The strategy had a very successful 2008, up much more than 20%, coming off a 30%+ year in 2007, so I'm clearly not a perma bear in the metal. (Please see important disclosure information beneath my signature)

I think a strategy that involves being short gold and long energy has more promise over the coming months than those late to the party in gold and hoping for much higher prices. Gold looks like it's in the process of peaking and should head significantly lower before long.

CNBC

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I am going to be on CNBC on March 20th between 8:00pm and 8:20pm and again on April 23rd at 5:30am.

You can view most of the past segments by clicking below.

Media Appearances

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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