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Inside this issue

Misguided Hope

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You'll be happy to know, or maybe not, that I am NOT going to bash Tim Geithner in this edition. I'll let him speak for himself on the various Sunday morning programs. He doing enough damage on his own so I won't throw gas on the fire.

I received an email asking me why I keep calling the possible stabilization or slight uptick in the economy, "misguided hope". If you saw my segment on ABC in CT, (click here and scroll down to the picture) you know that I am not a huge fan of government stimulus. In theory, it sounds great as jobs are created at the foundation level of the economy and that leads to a trickle up and out of activity.

The problem is that Congress gets in the way of the "in theory" part and does its best to screw it up with pork and other self serving, self interested items. And it's both parties. If Congress would stop engineering every move based on their 15 minutes of fame and next reelection bid, the country would be much better off!

So why don't I think the stimulus will work? To begin with, there's only $48 billion of
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shovel ready projects. That's it. For a bill that was supposed to be heavy on infrastructure spending and New Deal like, this is a complete disappointment. $48B out of $800B?

The plan extends unemployment benefits, increases food stamps and welfare payments. While that may be needed, it's hardly stimulative to the economy to create jobs. The same can be said for the $21B spent on COBRA subsidies and money allocated to weatherize low income homes. These don't build the foundation of our economy; they're more like handouts. Once they exhaust themselves, we're right back to square one.

By far, the most aggravating item in the government's misguided attempt to help the economy is a bit more obscure. I read it, didn't believe it and read it again. Congress allocated $7B to bring broadband internet to rural areas. Yes, I am serious. $7 billion dollars so that people living in far reaching parts of our country can surf the internet faster.

So someone decided that broadband access has now become a necessity instead of a luxury. How can this be? I'd like to ask every single person who voted for this how faster internet access in northern Maine and North Dakota to instant message, retrieve emails, shop on Amazon, and who knows what else will somehow stimulate our economy and create jobs!

Am I reading this incorrectly or is there something sorely wrong with our system if this can happen? In our house, we have broadband access through our cable tv. If times were tough, you better believe I would cut that back. It's a luxury to have that at home, certainly not a right of passage. Broadband access to rural areas? That says it all.

NO. The stimulus plan isn't going to work long-term, just like last year's ill fated plan to send checks directly to households didn't work for more than a few months, at best. Each plan gets bigger and bigger, so you can expect another one in early to mid 2010 for more than $1T.

We need to attack the economic problems from the ground up. But the government is not doing that. We were sold a bad bill of goods that for $800B, the country's infrastructure was going to be rebuilt on such a grand scale that FDR would have been proud. I'm sorry, but that plan isn't going to work.

Is Greed Back?

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I could easily just copy and paste the last few editions' comment regarding the stock market, since most of them still apply today. We saw the truly historic event last October. We'll call that the epic earthquake with aftershocks seen in November and again in March.
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As with most earthquakes, people become terrified that it's only the beginning and the "Big One" is close by. Each aftershock gets more and more people worried as they continue refortifying their homes and stocking up on supplies. But then the quakes stop for that cycle. Yet people still sit nervously awaiting the next one that doesn't come.

That analogy pretty much sums up the financial markets over the past year or so. We saw a significant bottom in March, what I've described all year as where we should see the biggest rally of 2009. So far, nothing has changed that opinion. I believe the markets remain in the first stage of what should be at least a three stage rally.

While we have some confirmation already that this rally is different from any we've seen over the past 18 months, the next important hurdle comes in June. You see, bear market rallies tend to die out in 12 weeks or less, no matter how strong the advance. Given that this move began on March 6, if we see still higher prices into mid or late June, we know that yet another thing has changed in the behavior of the stock market. For the record, I do believe that will happen.

The market is continuing its pattern of weaker openings and strong closes, something very different from the past 12 months. Bad news is being shrugged off and bought, another good sign. Leadership is pretty much across the board, but what fell the most is bouncing the most, for now. I expect this to change dramatically from May on.

So over the intermediate-term, I have no change in my analysis from the past two months. The shorter-term is a different story. In the last edition, I thought stocks had gotten a bit overdone and were due for the pause that refreshes, a view I still hold today. I was clearly wrong and early on that take, but it's a stronger opinion today.

Stage two of the major rally should be a pullback/correction to digest the massive move we've seen off the March lows. I liken it to one of those enormous holiday meals with your family. You eat, drink, eat some more and then want to explode. But the food is so good that after you loosen your pants and digest, you go back for more and then take home leftovers.

For the most part, my investing personality has been to buy into weakness and sell into strength. It's treated my clients well over the years, although there is no single strategy that's foolproof or without challenge. The odds favored some pause earlier in April and do again now.

Based on how quickly sentiment has gone from panic and despondency to exuberance in the options market, along with the sheer magnitude of the rally and general feeling that Uncle Sam has saved the day, I expect to see a temporary peak in stocks over the coming week, which should lead to the first meaningful (more than two days) pullback since the March bottom over the next 2-4 weeks.

Gold & Oil

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As far as gold goes, I remain negative since the $990 level with lower prices ahead over the intermediate-term. But the shorter-term is just beginning to look a little brighter. While it's still early, there's chance for an opportunity to set up some time next week, although I do not believe it will morp into anything more than a short-term bounce in an ongoing downtrend.

Longer-term, once this major decline ends somewhere between $600 and $750, the stage could be set for a push to all time highs above $1000 and beyond. There's a long way between now and then to assess entry and exit points.

As I've mentioned before, I remain concerned that energy is about to run to the upside. Whether it's already started or needs one more decline during spring, the next rally in oil should be the biggest one since the bubble burst last July.

Just like it bothered me when I saw predictions to $200 a barrel last summer and mass public hysteria, I am almost as concerned now that no one is worried any more. There was a front page article in the USA Today saying that there's no way summer gas prices would significantly rise given the glut of supply in the market. I recall opposite articles last summer calling for $6 to $10 a gallon gas.

While I don't think we will return to last summer's parabolic prices any time soon, very few folks are prepared to see gas at $3 or more during the summer season, something I think has a high probability of occurring. And can you imagine what higher energy costs could do to economic recovery attempts? All the "easy" money that the government is throwing around won't mitigate the affects of the phantom tax that a rise in energy has on consumer spending.

Look Out A-Rod!

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Today, some clients were in for portfolio reviews and they asked if everything was ok with my family. I thought that was an odd question since it was asked as if they knew something was wrong. I told them that everything was great. The boys just turned 1 and 4 and we had more than a few celebrations. When I asked why they thought something was wrong, my clients commented that I usually tell a story or two about the family, but haven't in a while. When I thought about it, I guess I've had so many passionate topics lately that I just dove right in to each edition.

As I mentioned above, my baby just turned 1 and with that, the usual antics of his very own birthday cake to tear up. Although tentative at first, he devoured both the cake and ice cream sections with ease, like any good Schatz would!

My older son turned 4 last week, making him "eligible" for T ball, something he has had almost no exposure to. So yesterday the whole family went to his first practice. Seven very little 4 and 5 year olds more concerned about the helicopters flying overhead than putting their baseball gloves on the correct hands!

The epitome of the session came after both fielding and batting practice, which had my laughing on the ground. My son stepped up to the plate, hit a ground ball and was told to run the bases. He rounded first with my encouragement and headed for second, turned like a gazelle and ran to third.

At that point, proud Papa nodded his head in approval. As he past third base and headed home, some foreign force took over and his body ran straight back to first base. I tried waving my hands and arms, along with the other parents, imploring him to run to home plate. But no, first base it was. I said, "buddy, what are you doing? you're supposed to go over there". My 4 year old son turned to me and said "Dad, I want to be on the base near you. Go Ankees! (his word for Yankees)"

I guess baseball scholarship is out of the question. A Rod, you can relax, for now...

Upcoming CNBC

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I am going to be on CNBC Worldwide on April 23rd and May 26th at 5:30am.

I will also be on CNBC's The Call on April 30th at 11:30am.

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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