July 9, 2009

5:52 PM EDT

Inside this issue

Random Personal Comments

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For whatever reason, there are a lot of links in this issue to click on if you so choose. I think we set a link record for Street$marts!

If you turned on CNBC to watch my segment on Monday, the answer is NO. I am neither the President of the United States nor the leader of Russia. My name is not Obama and it isn't Medvedev. As has been the case several times over the past two years, the President decided that his words were important than mine and I was bumped.

I guess I can live with the leader of the free world having some preemptory power, although my kids still can't understand why daddy wasn't one. In any case, I am scheduled to be CNBC's The Call again this Friday at 11:30am.

Speaking of my kids, they went above and beyond for Father's Day. Besides the tangible gifts, which are always nice, they created an awesome video set to the music
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of one of favorite bands. You can click here if you want to see. **Father's Day**

In the last issue I asked you for a quick favor to answer a few short and easy questions for an upcoming article on governmental involvement that should appear last this month. If you haven't clicked, please take 30 seconds to do so. I appreciate it!

Click here for QUICK survey

Finally, as I am following the title of "random comments", the latest issue of Rolling Stone has been the talk of the trading floors and desks for the past few weeks. And no, it's not about how big Hannah Montana has become or the life and death of Michael Jackson. Rather, it's a conspiracy theory based piece about Goldman Sachs. Whether you totally buy it as gospel or easily dismiss it as trash, it's entertaining nonetheless.

Goldman Sachs conspiracy

Good Bye Gains

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It's really amazing how short-term focused the country has become. Ever since Bernanke talked about the "green shoots" he saw sprouting up from the economic rubble, economists, money managers, investors and the average Joe have all twisted and turned with every passing governmental release.

As the trend turned from decisively negative to the "less worse" I've spoken about for a while, hope and optimism became too widespread. Now, after one less than stellar employment report, talk has turned to "green weeds". It's really incredible that it took us decades to get into the pickle we are in, yet somehow we should emerge from it over a period of a few months with lots of governmental intervention.

In any case, I began using the phrase, "the world has forever changed" back in January 2008 and that still applies today. I talked about time being the best cure for what ails us. And I still believe that today. There has NEVER been an economic challenge the U.S. hasn't emerged from. We have a perfect track record! And we will emerge from this, just like we have every single other time in history. But patience is required!

Since we last spoke, stocks have pretty much remained in their multi month trading range and now rest at the bottom of that zone. As I write this, the S&P 500 is back to the level last seen at the end of April, wiping away all of May and June's advance. At the same time, market internals have deteriorated and investors are becoming more pessimistic, as you would expect.
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You're probably thinking, "Is the rally over? Are we on the verge of collapse again?" My two cents is definitely no. This is all normal and healthy behavior, so far. The best and most recent example is the 2002-2003 went stocks were transitioning from a serious bear market to neutral and then new bull market.

From March to mid June 2003, we saw the major indices in strong rally mode, just like this year. And then they just seemed to slowly die for two months. During that period, market internals weakened substantially and many folks saw a double dip recession coming with much lower prices for stocks ahead.

But after that period of digestion following the huge meal (rally), the stock market resumed its bull run straight through to January 2004. Now, I don't want you to think that all markets repeat. Because they don't. They often like to rhyme. And the foundation of the financial system is much different today than it was in 2003, but human emotion doesn't change. It's the same as it was yesterday, last week, last month, last year, last decade and last century.

While the similarities to the 2003 period remain, for now, you can also make valid comparisons to 1938, 1932 and even back to 1906-'07. They all offer a guide, but it gets dangerous when we get too close and use them as a GPS.

The bottom line is that the stock is now digesting the meal it had from March to mid June. When it' ready to eat again, sometime between now and the end of August, I fully expect another leg of the rally to see at least Dow 9000. As I discussed before, that rally will likely be much more selective than the previous "rising tide lifting all ships", meaning that certain sectors will lead the market higher, while others tread water or actually decline.

If the market is heading much, much higher this quarter, the recent pullback should be over now or close to it, a scenario that isn't at the top of my list yet. Rather, we should see some more downside this month and maybe into August where the Dow could revisit as low as the 7700 area, but that's getting ahead of ourselves. Let's see what sentiment looks like in a week for a better idea.

Gold Bugs Have It Wrong... Still

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For such a short-term vehicle like commodities, I sure do have some unwavering, longer-term opinions. As has been the case since early March at $990, I remain firmly negative on gold. It's interesting how many people hit reply and argue with that position versus how few are so emotional about the equity market.

Not a single comment I've made over the past few months has changed. Gold peaked in March 2008, long before the Fed's printing presses went into 24/7 overdrive. Yet
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with all that "fresh" money here and globally, literally almost $10 TRILLION, gold couldn't even rally.

All those hyperinflationists need to take a step back and realize they are wrong. And please don't tell me if we see inflation in 2012 or beyond that you were eventually right. That doesn't cut it. That's like me calling for a short-term pullback in late April and saying I was right when it didn't begin until mid June. Sorry, but no way.

IF gold takes out its March 2008 peak, I will be the first one to say I was flat out wrong. Until then, gold should continue to grind its way lower into the $800s this month. Could we see rallies? Of course! Nothing goes in a straight line, but strength should be used to sell, not buy, until proven otherwise.

The $865 level is widely watched and key to close beneath for the real unraveling to begin. I would not be surprised to see that price breached temporarily and a fast and sharp rally to ensue. We'll see since we've got some time before that level is seen. Once we get there, it will confirm much lower price projections for 2009.

As I've written about many times over the past 18 months, DEFLATION is the killer we should all be worried about, not inflation. I would venture to say that Bernanke et al would actually celebrate signs of inflation in this credit decimated economy!

And I think that's the point gold bugs, conspiracy theorists and hyperinflationists don't understand. Tens of billions of dollars have been vaporized from the credit markets since the summer of 2007. Yet the Fed has "only" replaced somewhere around $5 trillion. They may be printing money at warp speed, but they have a LONG way to go to repeat the Weimar Republic or Zimbabwe.

(For full disclosure, we can and often do trade the long side of gold stocks when conditions warrant)

As for energy, which I consistently called higher since early March, that view changed in the last issue to neutral, just before the recent plunge. This is one area where I don't have strong conviction right now. It had a great run and then big decline, so I am taking a wait and see approach to where it stabilizes before offering any forecast.

On the treasury bond and dollar side, as with gold, it certainly paid to go opposite the crowd. As it seemed like everyone was negative on bonds and the US dollar with all the money being printed and huge deficits on the horizon, I remained in the unpopular camp and was positive. (over the years I've have grown accustomed to this!)

Bonds have had a fantastic run of late and the time is growing near to lighten up. But the dollar is a different story. This is one asset that should be accumulated into any weakness, even if it revisits the low from last quarter. And once it exceeds the June highs, I think it will accelerate to the upside, just as gold sees an historic collapse.

Finally, the creation and use of commodity exchange traded funds (ETFs) is finally coming under much needed scrutiny. While I think they are wonderful products, it's definitely a case of caveat emptor, or buyer beware. Investors MUST understand what they are buying and how these products operate or their portfolios may suffer perilous consequences.

Please feel free to hit reply with your questions or call me directly in the office at 203.389.3553, whether you are a client, interested reader or even a competitor. They are not all created equal and I've heard horror stories of folks being right on the market call, but losing money!

FYI, I was quoted in a piece on commodities in today's Connecticut Post. [Click here for the article]

Something to Consider

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A client recently forwarded me the following email that has been making the rounds online. If nothing else, it makes you think and consider what the trend has been over the past year and change. Assuming it creates some commentary, for or against, you can click on the following link and add your anonymous comments.

[Click to add your comments]

An economics professor at a local college made a statement that he had never failed a single student before but had once failed an entire class.

That class had insisted that socialism worked and that no one would be poor and no one would be rich, a great equalizer.

The professor then said, "OK, we will have an experiment in this class on socialism. All grades would be averaged and everyone would receive the same grade so no one would fail and no one would receive an A.

After the first test, the grades were averaged and everyone got a B.

The students who studied hard were upset and the students who studied little were happy.

As the second test rolled around, the students who studied little had studied even less and the ones who studied hard decided they wanted a free ride too so they studied little.

The second test average was a D! No one was happy.
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When the 3rd test rolled around, the average was an F.

The scores never increased as bickering, blame and name-calling all resulted in hard feelings and no one would study for the benefit of anyone else.

All failed, to their great surprise, and the professor told them that socialism would also ultimately fail because when the reward is great, the effort to succeed is great but when government takes all the reward away, no one will try or want to succeed.

"You cannot legislate the poor into freedom by legislating the wealthy out of freedom. What one person receives without working for, another person must work for without receiving. The government cannot give to anybody anything that the government does not first take from somebody else. When half of the people get the idea that they do not have to work because the other half is going to take care of them, and when the other half gets the idea that it does no good to work because somebody else is going to get what they work for,that my dear friend, is about the end of any nation. You cannot multiply wealth by dividing it."
~~~~ Dr. Adrian Rogers, 1931

Upcoming TV Appearances

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CNBC's The Call - July 10 at 11:10am

WTNH's (ABC) Good Morning CT - July 18 at 7:25am

CNBC's Worldwide Exchange - August 6 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

You can also forward this email to family and friends by hitting the "forward email" hotlink at the bottom of this email.
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