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The Money Magician

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FYI, I am going to be on CNBC's Worldwide Exchange this Thursday, August 6 from 5:30am to 5:50am. Getting up at 4:00am is very tough for me, but the folks at CNBC usually give me a good deal of time to make my case for whatever discussion we have, which is well worth the short-term inconvenience!

You can have really bad days, but if you watch one of those Youtube videos with the baby/toddler that just can't stop laughing, it's contagious! As someone who loves to laugh, I often turn to my kids when I have one of those days.

Earlier this week, my daughter (6) who is cut 100% from my mold, had a play date with one of her chattier and curious friends. They get along so well since my daughter loves to get into everyone else's business as well! On the way back from visiting me in the office, my wife overheard their conversation, which I had to share.

**Friend:** What does your daddy do for a job?  
**Daughter:** he makes money for people  
**Friend:** how?  
**Daughter:** you give him a dollar and then he gives you back like a hundred dollars  
**Friend:** no way!  
**Daughter:** Once, I gave him two pennies and he gave me back a quarter!  
**Friend:** Wow, so he's like a magician  
**Daughter:** yeah, he's a money magician

I guess that's better than being called a bozo! And boy, if I could only achieve those returns!!

Last issue's piece on the survey results from GM drew a lot of responses. Interestingly, no one called me names! One person who replied offered the following book as a follow up for me to read. Unfortunately, I am not a big book reader. I listen to plenty of books in the car

to and from Boston and New York, but when I am home, I usually read trade publications or am glued to my laptop at night.

The next book I plan on reading is Joe Torre's story about his tenure as New York Yankees manager. So, I'll put this book in line after that. It is called "How Capitalism Saved America" by Thomas Dilorenzo. If you read it first, please let me know your thoughts.

## **Standing O To Eating Bananas**

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Several years ago, it must have been around 2003 or 2004, a few analysts came out with some very dire predictions regarding our economy. Since we we recently came out of a very shallow recession following 9/11 and housing was booming, their forecasts were easily dismissed as is the norm.

Fast forward to 2007 and 2008, those folks turned out to be spot on. Whether you want to give credit to Roubini or Taleb or Schiff for being first or most vocal, it doesn't matter. I remember back as a soon-to-be rookie in 1987 when Prechter and Garzarelli were predicting impending doom for the stock market. What's really interesting about all these great calls throughout history; those folks almost always miss the next turn by sticking with their position too long.

In 1987, Prechter was hailed as the next great one, but then stayed negative for the better part of 20 years. Garzarelli's reign was short lived as well with a string of bad calls in the 90s. This business is tough enough without being annoited king or queen, but the market is especially tough on the most visible figures. Think Abby Cohen from

Goldman from 2000 - 2002. OUCH!

Anyway, after a great call, we usually see a great miss. Months ago, I wrote that in all likelihood, Roubini, Taleb and Schiff would remain very negative long after we saw a turn. And that's exactly what we're seeing. Roubini has probably gained the most fame for his call. And I was somewhat surprised to hear him late last week calling for the end of the recession.

This is a far cry from his comments during the first and second quarters where he stated that the economy would fall much farther and the markets were not close to being done going down. It's almost as if a switch was turned on and he said to himself, "OK Nouriel, I clearly swung and missed enough times. Let's turn positive and ignore all the "facts" I've been giving on why more pain was ahead."

It's the classic example of why it's so much more difficult to pull the trigger and manage money versus simply writing a newsletter or doing research. Prechter's outfit, Elliott Wave International, correctly called the bear market, but they had been negative for so long, sooner or later they were bound to be right. And close to the bottom, they actually did give warnings about a major rally on the horizon.

But once again, in the newsletter business, you can simply flip a switch and pretend the past never happened. In Prechter's case, they were waiting for one more decline towards the end of March that never came. But mid to late April, they acknowledged the rally had started but have remained short-term negative ever since, looking for the elusive deeper decline. As a letter writer, many folks just ignore their mistakes and pick with a clean slate each issue. There's no real report card, like a performance report!

Anyway, I digress. The point of this article was to discuss how few folks who got the last big turn correctly, follow up with another good call. Forecasting the financial markets is a tough business by itself. But once you become a hailed guru, the market has a nasty habit of turning you into a monkey sooner thereafter. I do like bananas, but I'd rather fly under the radar!

Forecast Summary

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To summarize my position before the comments:

Stocks remain positive, having hit our first target of 9000. Although we should see a short-term peak this week, nothing has changed to alter Dow 10,000 sometime later this year.

Treasury bonds also remain positive, but just began their big move. I expect them to be a leading performer this month or so, but doubt the rally can last for months.

Gold has remained stubbornly in a trading range since early March. Its pattern of higher lows and lower highs must end sooner than later by default. I still expect gold to resolve itself to the downside in 2009.

Energy has been in a trading range the past few months, but that looks like it's about to end.

The dollar is currently bottoming and on the verge of a major upside reversal this month.

Roughly a month ago, I compared the current stock market to that of 2003 when the last bear market was ending. The recent rally from the March low behaved much like the rally off the March 2003 trough, showing little pull back or weakness for several months. Then, like we all do after a huge meal, there is a period of digestion before consuming food again.

With stocks breaking out late last month, the comparison to 2003 continues. That roadmap would see the current market run almost unfettered to year-end, something that seems remote right now. It's something we'll keep an eye on, just like the comparisons to 1938, 1932 and 1906-07.

As far as the treasury bond market goes, I do love just how unloved this area is. All we hear about is how much money the Fed is printing and how large out budget deficits are going to be in the years. Oh yeah, and my favorite, how the Chinese are going to stop buying our debt. That last one really cracks me up!

I've mentioned it several times before, but it's still a classic. In the early 1990s, everyone was so worried that the Japanese would stop buying our debt and takeover California. Little did we know, but we should have sold them the whole state! Let them go worry about how to save this sinking ship.

Folks, the Japanese didn't stop buying our bonds and nor will the Chinese. While we likely have seen a major, major peak in bond prices (low in bond yields), I am not concerned that treasuries are going to see a giant collapse. For now, with sentiment still so negative and price action constructive, there should be some significant gains this quarter.

Turning to the dollar, it's hard to find any asset with more negativity surrounding it, even worse than treasury bonds. With price finally breaking below its 2009 low, I don't how many people are left to sell. This makes it very vulnerable to a powerful and emotional reversal before in the next week or so. While our Global Asset Allocation strategy remains long the euro, we are dancing very close to the door!

For comments on gold, I might as well just say "ditto" and move on. Nothing has changed since we first turned negative around \$1000 in late February/early March. As you know, I totally think the hyperinflationary argument is bogus and do not see gold exploding higher here. I think there is a better chance of deflation than runaway inflation with \$52T in credit being vaporized, not to mention the lack of banks leveraging their assets to loan money.

But as I've mentioned before, our Short-Term Gold Program can and does take long positions as conditions warrant. And our last trade was certainly a good one, as we were able to take a nice bite out of the recent strength.

After being positive on energy from early March to mid June, I've been confidently neutral ever since. Way to take a stand, right? It's tough when you feel the odds are the same for a big move in both directions. Energy is approaching an important line in the sand, but is also overbought and in need of a rest.

Should oil be able to close above \$74 for a few days, it would really "energize" the bulls' case. However, a move above \$74 that immediately fails would likely see a fast move towards the \$60 level where the bears have control. While price action sides with the bulls, my forecast for a strong dollar is clearly bearish for the commodity sector. As a consumer of energy, my preferred path is the downward one!

That's it for now. I rushed the end to spend some time with my wife watching Shark Week on Discovery. What a fascinating special.

If you're on vacation or about to start one, enjoy and stay safe!

## **Investment Quotes/Adages To Live By**

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"When in doubt, get out!"

"If it's obvious, it's obviously wrong."

-Joe Granville

"It's ok to be wrong, but it's not ok to stay wrong."

"This time is different."

"The markets require the patience of a dozen men."

-Robert Rhea

"Luck is the residue of effort."

"The most bullish thing a market can do is go up in the face of bad news."

"The most bearish thing a market can do is go down in the face of good news."

"The market can remain irrational far longer than you can remain solvent."

"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 27 at 11:30am

CNBC's Worldwide Exchange - August 6 at 5:30am

WTNH (ABC in CT) Good Morning CT - August 30 at 7:25am

CNBC's Worldwide Exchange - September 15 at 5:30am

CNBC's Worldwide Exchange - October 20 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.

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