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Inside this issue

5% Return... In ONE Day

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It's been one very quiet August for the financial markets compared to the past few years. I have been working on a two part piece entitled, What I Learned on my Summer Vacation, so this edition is going to be short by my standards. Had gold not spiked yesterday and my inbox full of questions and comments, I probably would have sent nothing and waited until next week.

Last Saturday night, my wife and I were on our way to one of our favorite places, The Place in Guilford CT where you sit outside on tree stumps, BYOB, and eat fresh food cooked on a very large, open fire pit. Since they only take cash and I don't carry any, I had to make sure we had enough. Figuring we needed another $20, I asked my 6 year old daughter to borrow the $20 she made selling lemonade.

Her response? "Sure Daddy, but I want $23 back tomorrow!"

And we argued for 5 minutes, more out of principle than anything else. She finally agreed to $21. 5% ain't bad for a one day return! My family laughed and said, like
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father, like daughter.

So the calendar turned to September, the kids are back in school and there's a lot of talk about how we are now in the worst month for stocks. That is all true. October has been the scariest month (and also where very good bottoms have been seen), but September holds the record for overall worst performance.

And every time we see a big, one day decline, like Tuesday, the media trots out all of the bad stats regarding the terrible month of September. It's like Jason or Freddy Krueger are going to maul the market a month before Halloween!

Although I don't think the selling from Tuesday is over for good, I also don't think we are on the precipice of a collapse either. You can certainly argue that short-term sentiment has become too bullish, happy, excited, exuberant. But that can be easily fixed with a fast and sharp decline.

I talk about sentiment, not only because the surveys show it, but also some things I've experienced lately. You may recall the story of the shoe shine boys in 1928 giving out stock tips to the financiers. Legendary Wall Street figure, Bernard Baruch, talked about it when he sold all of his stocks early. You may also remember it from the book **Reminiscences of a Stock Operator**.

Last Friday, I went to New Jersey for my **CNBC segment**. The guy that drove me down was very quiet the whole way until he figured out what I did for a living. Then he began to pepper me with questions about stocks. But it wasn't just any stock. He was deeply interested, curious and very long AIG, Citi, Fannie and Freddie.

If you haven't been reading the volume hit parade lately (and why would you since it's so boring), it reads like a government bailout list with all of the cheapies regularly dominating the list. I've heard all the talk about manipulation and conspiracies so no need to email me!

Anyway, the driver opines that these stocks are all good buys (especially since he and his friends just bought them) and will easily double or triple this year! He didn't much care for my comment that AIG wasn't worth the tank of gas for the ride or that I didn't see Citi surviving in its current form for more than a year or so.

When I gave him a few large cap names to follow, he laughed and asked why he would buy a stock that could only go up 20%. While it's not the shoe shine boy giving tips, it certainly an indication of people craving risk after the market has rallied, very typical behavior. And those folks are often "punished" before the next leg of a major rally begins.

I am definitely NOT as bullish as I have been right now. But I am not worried about an imminent collapse. I guess I am pathetically neutral. Stocks are oversold in the short-term and can support a little rally here. Failure to do so would cause me to worry a little that a more meaningful peak was just seen.

In a perfect world, which we rarely see, stocks should hang in and rally for another week or two before the line in the sand gets drawn. We may even see multiple attempts at a correction in late September and mid to late October before the usual fourth quarter low is established.

My friend, affectionately called Moondog, sent me an interesting article about the real estate market and which cities may be ripe for more carnage. I am not sure I agree, but thought it was worth sharing. You can click on the link below.

ARTICLE

The Shiny Metal Surges... $2000 Next?

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Before commenting on gold, not much has changed in my thoughts on the other assets I've written about over the past month or so. We correctly turned positive on treasury bonds and they have seen a really nice rally to the point of being back to neutral again. There should be additional upside after a good pause that refreshes.

Our neutral stance on energy is now negative into any rally. The bulls had the perfect set up to really run oil higher and failed. We should see lower prices in the coming weeks and maybe months, especially if the dollar strengthens as I believe it will.

The dollar has been scraping along the bottom since late May and continues to do so today. I had thought we'd be seeing much higher prices by now, but they should still be coming as it looks like the buck is building a much more significant low. Even a quick and sharp move below the recent lows won't cause much to change longer-term as sentiment is about as negative as it ever gets here. That's an almost sure sign of an impending reversal.

Turning to the yellow metal, it's ABSOLUTELY AMAZING what a one day move can do! Just think about it. Gold has been mired in a range all year between roughly $850 and $1000. As the year has dragged on, the range has become tighter and tighter, called a triangle, which usually leads to a big move, sometimes in both directions! And Wednesday was a big move!

But only after one day? The whole world is enamored with the metal? As if the entire landscape suddenly changed? I can't wait to see the sentiment surveys next week. It would be shocking if we don't see extreme levels of bullishness among the usually
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wrong crowd.

In any case, I have been negative since late February when we last saw $990 and, overall, I remain negative today. While much longer-term, I can rationalize $1500, $2000 and even $2500, I think the set up for that comes from much lower prices. Yesterday's surge was not due to a collapsing dollar or something fundamental, not that it matters. It looks like a huge buyer or two were trying to get in at any price, which caused all of the momentum folks to pike on today. But that's even relevant.

Here is where I set myself up for future egg on face. I do NOT believe this is the beginning of a whole other leg higher in gold, contrary to popular opinion. This looks like the last gasp by the bulls in vertical fashion, as is often seen near important peaks.

There are always important cycle dates on traders' calendars and I've seen anywhere from September 8-11 for a gold peak. Frankly, I don't know if this little rally ends tomorrow or next week, but I do think it's over much sooner than later. It's possible that the metal runs up to $1010 or even a bit higher in short order before the game ends.

As an aside, if the rally in gold is the very first signs of inflation (something I don't believe), one Ben S. Bernanke will light up a big, fat cigar and open his best bottle of wine to celebrate. For the single biggest disaster he and his fellow Fed heads worry about, deflation, will have been stomped out.

My 6 year old daughter can fix inflation. That's easy. But it would take the work of the entire global system to stave off deflation. Just ask our friends in Japan how their market and economy has fared since 1989.

And for those of you who somehow think I have an economic benefit to remain negative on gold, I am sorry to disappoint you, but our **Short-Term Gold Program** has more assets than any other strategy we employ. The more volatility, the more opportunities. So big moves in both directions is just what we like to see. I am simply calling it like I see it, always. And you are always welcome to question or comment either by hitting REPLY or calling me directly at 203.389.3553. Differing opinions is what makes markets!

Investment Quotes/Adages To Live By

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"When in doubt, get out!"

"If it's obvious, it's obviously wrong."
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-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 stay irrational longer than you can stay solvent."

-John Maynard Keyes

"Government is best which governs least" - Thomas Jefferson

"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

"Bear markets seem to be divided into three phases: the first being the abandonment of hopes upon which the final uprush of the preceding bull market was predicted; the second, the reflection of decreased earnings power and reduction of dividends, and the third representing distressed liquidation of securities which must be sold to meet living expenses. Each of these phases seems to be divided by a secondary reaction which is often erroneously assumed to be the beginning of a bull market." - Robert Rhea via Tim Woods

"Free enterprise is a rough and competitive game. Nobody too big to fail. Nobody too small to succeed. It is a hell of a lot better than government control." - Ronald Reagan via Dan Kennedy

"A government big enough to give you everything you want is big enough to take everything you have." - Gerald Ford via Dan Kennedy

Upcoming TV Appearances

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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

CNBC's Worldwide Exchange - November 25 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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