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What Would YOU Do If The Market Crashed Today?

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As I mentioned earlier this week, I want to thank Barrons for reprinting an article from my last issue both in print and **ONLINE**. There are many, many excellent sources for financial information and it's truly humbling to be included from time to time.

I also want to formally welcome a large group of new friends this week who presumably came Barrons and CNBC. It's nice to have you and I hope you get something out of this newsletter from time to time. I'll warn you up front that I am prone to typos and left out words sometimes. I have many shortcomings and one of them is that I am a crummy proofreader, but I like to get my information out asap. My very good friend, Wayne, stays on top of this and likes to email over my errors as a "learning tool". (smile)

This past Tuesday, I did CNBC's International Exchange at 5:30am, like a I regularly do. It's a lot of fun as they allow me plenty of time in two separate segments to make my case and have some good discussion. Anyway, I usually leave my house at 4:30am for the 45 minute drive to Stamford where the studio is, giving me 15 minutes to relax and get situated. That's been the case ever since I started doing this show.

As with many things in life, we all settle into a pattern and expect an outcome. As I hit exit 23 on I-95 in CT, a sea of red brake lights greeted me with traffic grinding to a halt. I don't know much, but this could not be good! As I watched the clock tick minute by minute by minute without moving 10 feet, reality was setting in that I would not make the 5:30 show and I did not have anyone's phone number to call. That's when I began to sweat!

Finally, traffic started moving and I saw the reason. Those ever hard working construction crews took their sweet time removing the various obstacles before rush hour and the police decided to close the road to help them out! As I hit the left lane, I am pretty sure I broke the land speed record getting down to the Stamford exit at 5:30 when my cell rang wanting to know if I overslept!

With a few miles of local roads to navigate at warp speed, I now know what it's like to drive in that race around the streets of Monaco. As I exited the elevator to the studio, in full sweat and out of breath, the tech shoved my earpiece in, jammed a mic on and pushed me into my chair, just in time for my first segment, which you can see by clicking [HERE](#). The second one down is the first one I did.

I bring up this story not because you are the least bit interested in something that happened while you were asleep and had no impact on your life, but because it epitomizes the need to always have a back up plan. I'm sure you've heard the expression, "Plan for the worst, but hope for the best".

In this case, something I've been doing for a long time has become easily taken for granted. I never even thought what happened was a possibility at 5am. But you can bet I've now programmed a whole host of CNBC folks' phone numbers in my phone. And next time, I will absolutely check construction before I get in the car.

I am often fascinated at the comments I get when I ask investors where they were during the stock market crash of 1987 and how they reacted. I can't tell you how many people said they were traveling or out of touch and felt helpless. My response to them is always, "what would you have done had you been sitting in my office watching it?"

It's the PROACTIVE investor who has the good decision making skills. History has shown countless times that reacting emotionally after an event is seldom a successful strategy. Think of all the folks who sold right after the crash because of the

widespread fear and panic that we were headed for another Great Depression like in the 1930s.

If you didn't have a strategy in place before the crash occurred, how would you have helped your own cause by sitting here and watching it unfold? Like the traffic I hit on 95, everyone should have some plans in place in case our plans go awry. If stocks sold off or rallied 25% tomorrow, think about what you would do and ignore the headlines screaming across your screen.

There is never a perfect solution, but I know for my own money, I couldn't begin to sell fast enough on a 25% rally or start to buy fast enough during a 25% crash. From there, we begin our plan again.

## **The Correction Is Here**

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It was a rather uninteresting week or so in the markets since all the hype surrounding Dow 10,000 surfaced. Never one to shy away from an opinion or forecast, I think I've properly beaten the proverbial dead horse, but you are welcome to read about it again by clicking, [HERE](#) if you so choose or by scrolling down to a blog I wrote for the New Haven Register.

And not much has changed in my thinking since mid September. The market has pretty much cooperated with the roadmap I've laid out for weakness into late September, followed by the final rally to a peak by the 16th, which was options expiration week. Technically, the S&P 500 saw its highest level, so far, on the 21st, but there has to be some margin for error!

It looks like we are now in the midst of the initial leg down from the highs, which tends to be the mildest since it just looks like the last few bull market pullbacks. "Buy the dip" bulls will continue committing money into weakness, but the bears don't yet have temerity to do any damage yet. In all likelihood, we will see a failing rally at some point in the next few weeks where the real damage begins if that's the scenario that plays out.

I expect all of the major indices, both foreign and domestic and most of the major sectors to take it on the chin once the selling waves really start hitting. As I mentioned several times before, both here and [In The Media](#), the decline looks to be your garden variety correction, 7-17% or 700 to 1700 Dow points, that eventually will allow a reloading of the boat for a run to at least Dow 10,500 to 11,000 in early 2010.

For our work and investment models, it's not the type of decline we are willing to cavalierly sit through. Various action has been taken and we continue to monitor the markets and our strategies on a continuous basis. We may or may not be wrong with

this forecast, but we don't get complacent or lazy. If the market continues cooperating, we should find some good opportunities to buy by Thanksgiving. However, if we are proven wrong as does occur more times than I'd like, we will adapt and adjust as conditions warrant to be best serve you, our clients.

Before wrapping up this section, let me answer a common question that keeps popping up. What did we see in the markets that made our models give warnings?

First, a few trading cycles topped out in mid October. Second, options expiration week, generally follows the previous trend of market with a reversal afterwards. Third, one of my favorite quotes from the quote section below, "the most bearish thing a market can do is go down in the face of good news", is really starting to apply today.

We saw much better than expected earnings from Intel, Apple, JP Morgan, Microsoft and Amazon, but the market hasn't been able to sustain any rally. Emotional, large up openings have been great places to sell, very much out of character since the rally began in March.

Sector leadership, the lifeblood of a bull run began to show tiny cracks in early October, but is now showing some large holes as semiconductors, telecom, and networkers are all rolling over in tech land. With the homebuilders exhibiting smart money selling for a few months and biotech, transports, industrials and materials all underperforming and rolling over, there's not much left to hold stocks up.

Indices like the Dow, S&P 500 and NASDAQ have remained strong and firm, while their internal measures, like the advance/decline line, up/down volume and new high/lows continue to weaken. Volume, the horsepower of the market's engine, is not and has not expanded during the last leg of the rally, showing less enthusiasm and power for more short-term upside.

Finally, as I've discussed before, sentiment remains way too positive here as measured from both the professional and individual investor surveys as well as in the options pits where small time traders are usually wrong at market peaks and troughs.

This should be the largest correction since the rally began in March, but it should not signal THE end. Right now, it looks like 7-17% on the downside from the peak and that range will depend on how investors react to the weakness. I would imagine that this wraps up by Thanksgiving, but in all fairness, it's too early to tell. I may still be wrong about a decline.

Feel free to email by hitting REPLY or call the office at 203.389.3553 with any questions or comments.

Deflation: The REAL Boogeyman to Fear

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The following article was written for the New Haven Register's financial blog, which I contribute to on a weekly basis. Please click on the link below to read.

## **Deflation: The REAL Boogeyman to Fear**

### **The Dow at 10,000: Is It Time to Celebrate?**

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The Dow at 10,000: Is It Time to Celebrate?

The Harry Truman Way

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The following has made its way around the internet, but I don't who the author was to give proper attribution. One of my wiser friends forwarded it to me again and it's a great reminder of just how much things have changed in the world in about half a century. Of course, certain things have to be different today, but others obviously don't.

*"Harry Truman was a different kind of President. He probably made as many, or more important decisions regarding our nation's history as any of the other 42 Presidents preceding him. However, a measure of his greatness may rest on what he did after he left the White House.*

*The only asset he had when he died was the house he lived in, which was in Independence Missouri. His wife had inherited the house from her mother and father and other than their years in the White House, they lived their entire lives there.*

*When he retired from office in 1952, his income was a U.S. Army pension reported to have been \$13,507.72 a year. Congress, noting that he was paying for his stamps and personally licking them, granted him an 'allowance' and, later, a retroactive pension of \$25,000 per year..*

*After President Eisenhower was inaugurated, Harry and Bess drove home to Missouri by themselves. There was no Secret Service following them.*

*When offered corporate positions at large salaries, he declined, stating, "You don't*

*want me. You want the office of the President, and that doesn't belong to me. It belongs to the American people and it's not for sale."*

*Even later, on May 6, 1971, when Congress was preparing to award him the Medal of Honour on his 87th birthday, he refused to accept it, writing, "I don't consider that I have done anything which should be the reason for any award, Congressional or otherwise."*

*As president he paid for all of his own travel expenses and food.*

*Modern politicians have found a new level of success in cashing in on the Presidency, resulting in untold wealth. Today, many in Congress also have found a way to become quite wealthy while enjoying the fruits of their offices. Political offices are now for sale. (sic. Illinois )*

*Good old Harry Truman was correct when he observed, 'My choices in life were either to be a piano player in a whore house or a politician. And to tell the truth, there's hardly any difference!'*

## **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 stay irrational longer than you can stay solvent."

-John Maynard Keyes

"Government is best which governs least" - Thomas Jefferson

Inflation is the one form of taxation that can be imposed without legislation.

-Milton Friedman

"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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CNBC's Worldwide Exchange - October 20 at 5:30am

WTNH's (ABC in CT) Good Morning CT - November 22 at 7:25am

CNBC's Worldwide Exchange - November 25 at 5:30am

CNBC's Worldwide Exchange - December 24 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.

To Your Financial Success,



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