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Stimulus Doesn't Work

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Most of you will be happy to know that this issue may be a bit shorter than usual. I hadn't planned on writing today, but there are a few items I wanted to touch on with the markets and otherwise so here we are!

For those who caught last week's [\*\*CNBC Segment\*\*](#), I thought it was one of the more enjoyable discussions I've done on the network. There was ample time given to make a point and enough time to move into other areas, all within the framework of our views. If you had opinions to the contrary, feel free to share.

On a personal note, I was fortunate enough to get invited to game 4 on Sunday of the World Series by my brother, a diehard Philly fan. (Thanks Rob) I am lifelong Yankee who used to take the subway in NY after work and scalp a ticket in 1992 and 1993 when the team baring drew 20,000 per game. \$20 bought me a premium seat, hotdog and adult beverage in those days!

Knowing how rabid Philly fans are, I was really surprised by how quiet the stadium

was. Except for a select few moments, it didn't seem like home field advantage was that significant. But the cheesesteaks are addicting enough to drive the three hours each way just for food! Having experienced all of the major hotspots, Jim's may be number on my list. But it's like deciding between a Rolls Royce or a Bentley. Or should I ski Snowbird or Alta. Or Aruba or Barbados for you warm weather fans!

Anyway, my 6 year old daughter called during the game to ask where I was before she got into bed. When I told her I was in Philadelphia, a place she never heard of, and she heard the chatter around me, she wanted to know what language they spoke in that place!

Getting back to less personal and more pertinent items, the following USA Today article struck me as very interesting. [Stimulus Report](#)

As you know from earlier comments, I was very much against the \$787B government stimulus as I was when stimulus checks were sent out in May 2008. And this article only reinforces why I believe that most stimulus is a complete and utter waste of taxpayer money. It doesn't do what it's intended to! If we want to make additional welfare payments or expand education, let's just call it and sell that way. Stimulus is supposed to stimulate the economy and create REAL and sustainable job growth. Why can't the folks in Washington understand that?

We've got problems that simply cannot be fixed by government spending and intervention. And they are long-term issues without a painless solution. We are going to have to pick our poison and embark on a tough and rough journey to avoid our economy falling deeper than it did in Q1 of this year.

I'll have a lot more to say on this topic in future issues, but that article caught my eye and I wanted to vent.

## **Time To Rally**

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In my [Blog Posting](#) last week, I explained the terminology I used for declines and laid out the foundation for the rest of the decline. Let me follow up on that discussion with some direct comments. First, as I mentioned, we are now in the throes of the largest decline since the bull run began in March. Since it's not 10%, yet, we'll call it a pullback within an uptrend, for now.

So far, the market is behaving exactly how it's supposed to, having just completed the first leg down to the low on Monday. From here, stocks are "supposed" to stage a rally, one that I believe will ultimately fail to exceed the peak we saw last month and rollover to below the low we saw on Monday. The smaller the rally, the more concerned I would be about the downside.

It's rare that any market moves in a straight line without pause. And the few that do, often see extremely sharp reversals soon thereafter, a la energy in the summer of 2008. The first wave of the current decline from October 21 to November 2 ended up with some very short-term oversold readings. In other words, the market went down too far, too fast and needed a pause to refresh the energy for further declines.

IF the market is to remain on the exact same trajectory as we've seen since March, the whole decline is over at roughly 7% and we are going right back to new highs for 2009. You shouldn't be surprised that I do not believe this is the case. Rather, the first leg down was serious enough in price, advances/declines and up/down volume to generate a stretched rubber band that needs to snapback first. Additionally, far too many sectors, which we gauge for overall market leadership, went from behaving with a bit of caution to outright poorly and no other groups have exhibited constructive enough behavior to take over.

In the end, it all adds up to what should be a short-term rally that rolls over sooner rather than later and exceeds the bottom we saw on Monday. Timing wise, I think we are looking at what will be called a correction (10%+) to end in late November to early December, just in time for the Santa Claus Rally to begin!

As far as price destruction, we've already hit the best case scenario I laid out at 7%. It certainly looks like the major indices want to head below the lows they made in early October, Dow 9500 and S&P 1020. From there, I imagine the major indices would revisit the old highs they made in June, roughly Dow 8800 and S&P 955. And remember, the final stage of a correction is when we see the greatest downside velocity.

Investors have been hiding in certain stocks like Apple, Google, Amazon, Bidu and JP Morgan. So before the decline is over, we should see a brief but very sharp downside move in the glory stocks, while other stocks resist further weakness and begin to behave well. But we can talk more about all this next week or the week after once the rally I think begins now will end.

As always, feel free to email by hitting REPLY or call the office at 203.389.3553 with any questions or comments.

Politics Does Matter In Investing

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Last night's gubernatorial elections in New Jersey and Virginia, and mayoral election in New York City, won by the Republicans, certainly clouds the air for incumbents everywhere. It's fascinating that President Obama campaigned so hard for Corzine with so little results from the folks who elected him (youth and first time voters) just one year earlier.

I actually thought John Corzine would have been a very qualified and competent Secretary of the Treasury, worlds better than Tim Geithner! In Michael Bloomberg's case, the margin of victory was slim, given that he spent tens of millions of dollars more than his opponent.

Democrats lost NJ for the first time in 12 years and the 44 years it took the Democrats to win Virginia in a presidential election have gone by the weigh side. Pundits will spend the next month arguing if this was a repudiation of the Obama administration, anti incumbent mentality or just plain, ole local unhappiness.

I'm not smart enough to know which it was, but the market certainly is and we can look for clues over the coming days, weeks and months to indicate which way sentiment is pointing for the all important mid-term elections in 12 months.

And while on the subject, NOTHING has been more important to forecasting major stock market bottoms than the mid-term Congressional elections. Whether there is something really to it or just coincidental, we saw MAJOR stock market lows in the 2nd half of 1982, 1986, 1990, 1994, 1998, 2002 and 2006, although none of which was specifically politically related.

## **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 Keynes

"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 The Call - November 18 at 11:10am

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>

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