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Dubai Default... Crisis Part II Or Overreaction

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Welcome back from Thanksgiving! I hope it was a great day for you!! Mine went pretty much as planned with eating being the overwhelming activity on the day and night. My mother served an all time meal following the mid afternoon cocktail hour warm up. I am getting smarter in my old age as I wore extra big pants and a loose shirt to prevent any premature discomfort before I properly stuffed myself beyond belief. I tend to go light on the carbs early on so as to not fill up on emptier calories, although I did open a 2006 Kosta Browne Pinot Noir that was one of the best I've ever had.

While the U.S. enjoyed the big Thanksgiving feast and the Cowboys put a licking on the Raiders, the rest of the world was dealing with the latest shoe to drop in the financial crisis. It should come as no surprise that Dubai World is having problems servicing their massive debt. I remember reading an article in late 2006 that 25% of the entire world's construction cranes were on the ground in Dubai. 25%!!!

Talk about a bubble that was easy to spot and was almost guaranteed to implode. In my "Shockers of 2008" piece, I forecasted the end of the great Dubai experiment. It

wasn't too difficult, especially after a good friend said he was opening an office there since it was becoming the financial capital of the earth. That was one of my better calls in '08 to balance against two horrendous ones where I forecasted a new bull market beginning. I am just starting to work on some shockers for 2010, which should be out next month.

Anyway, I do not believe the Dubai news is the beginning of a new chapter in the crisis, just the same old story regurgitated in a different part of the world. It has the feel of a remnant or outlier more than anything else. And if it was so terrible to threaten their financial system or economy, I believe the powers that be in Abu Dhabi would use part of their \$500B war chest to do an AIG.

Sometimes, it's better to be lucky than good. Last Wednesday morning before the Dubai news broke, I did CNBC's International Exchange as I do on a monthly basis. ([See Clip Here](#)) Part of my comments focused on a stock market pullback after Thanksgiving. I just didn't think it would literally start with a Thanksgiving Day collapse around the globe and end early Friday morning! Thank you to the folks at CNBC for making that segment into a story on their website.

Since Friday morning, stocks have been in strong rally mode that, frankly, has me torn. With such powerfully poor internals on the holiday shortened trading day, there should be more weakness to follow. But this week has shown very positive seasonal tendencies to make it more interesting.

There's been lots of concern lately that the small cap Russell 2000 and mid cap S&P 400 have severely lagged the large cap Dow Jones and S&P 500. While true, that kind of divergence (all indices not confirming each other's move) can exist for weeks, months and even quarters before it ends up mattering. And I am not worried about it yet. It's just sending a message that liquidity is not as strong as it once was and should be monitored.

In short, the Dubai "revelation" is old news and should not impact the markets much longer than a week or so, if at all. Too much bullish market sentiment still bothers me, but time is running out in 2009 for the bears to do much damage.

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

## **The Coming FDIC Crisis**

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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 to read.

The Coming FDIC Crisis

How Do You Spell Bubble? G-O-L-D

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Gold and the dollar have been headline news in the financial world for the past few months. Since the metal and most commodities are priced in dollars, they tend to have a strong inverse relationship that has strengthened since the financial crisis began in 2007.

Back in February at \$990 and many times throughout the summer, I discussed my negative stance on gold for a variety of reasons, not limited to the fact that deflation was the real enemy and inflation would not be a problem any time soon.

Additionally, far too many investors were becoming almost giddy on the metal's prospects at the same time that smart money was positioning for weakness. Historically, those are some of the ingredients that lead to a substantial pullback, even if the ultimate path is higher.

While gold was being favored around the world, the U.S. dollar became a pariah as mounting trillion dollar budget deficits as far as the eye can see and a 24/7 printing press was certain to equal continued devaluation. But as I saw it, that was the stuff that bottoms are made of. When absolutely no one wants to own something. And I was wrong.

So here we are, with the same evidence of an impending decline for months and all we've seen are higher and higher prices with fewer and more shallow pullbacks.

Does this pattern at all seem familiar?

It should! It's the same behavior we saw with oil in 2008, housing and mortgage derivatives 2006, technology in 2000 and dotcoms in 1999. It's called a BUBBLE and one is definitely developing in gold.

The thing about bubbles is that they are incredible to ride, but NEVER end well. The steeper the incline, the steeper the decline. Remember when crude oil went from \$50 to \$147? And then from \$147 to \$34 even faster?

The best thing gold can do now to preserve its bull market would be to digest its enormous gains over a period of months, sawtoothing its way to the \$1000 area before resuming the upward climb in mid 2010. But if we don't see much weakness between now and January, the odds favor an even more powerful, parabolic acceleration to a

final peak in 2010 that would likely see \$100 move in one day towards the end.

I'll have more on this in coming issues, but it's getting late and I need to wrap it up.

Long time readers know that we run the [Short-Term Gold Program](#) as part of our strategy offerings to clients. Contrary to its name, this strategy is NOT a direction play on gold or inflation. Rather, it's short-term strategy that basically buys into weakness and sells into strength in a very volatile sector. Thankfully, the way the strategy operates, we've been successful at limiting the downside, while allowing for upside appreciation.

Based on client and prospect demand for a strategy that's linked more to gold, we launched the Intermediate-Term Gold Program at the end of September, based on 20 years of research. If you are interested in learning more about either program, please hit REPLY or call me directly at 203.389.3553.

## The Spin Cycle

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This article has nothing to do about the markets or investing. It's something I've always had on my list and decided to give it shot this week after the Tiger Woods incident.

Spin is one of the great skills to possess in a 24/7 news cycle. It's really becoming amazing to see how various news events play out in the public. During the bear markets of 2000 - 2002 and 2007 - 2009, the mutual fund and brokerage community spun the story as great buying opportunities after the first 5% decline all the way. And when prices began to rise and rise afterwards, the story became "look how well stocks are doing", advising investors to keep on buyin'!

We saw the same thing from the real estate community. As prices rose strongly in 2005 and 2006, ads focused on unprecedented gains that could be yours by buying your slice of the American dream! I laughed every time I asked realtors how business was. It was "fabulous"! And absence higher mortgage rates, the party would go on and on. That was until the bubble burst and almost every real estate market collapsed in unprecedented fashion, without higher rates to blame.

As soon as prices began to slide, the ads implored people to buy with "some of the most favorable prices in years". Obviously, they became more and more and more favorable! I figured it would be time to buy when all of the realtors admitted how poor business was, something that hasn't happened yet.

When new presidents are elected, they have a habit of a really lowering the economic expectation bar to ant like levels. The spin usually involves a comparison to the Great Depression so voters knows just how bad of a situation the incoming president

inherited as they enter their term. Carter did it with Ford. Reagan did it with Carter. Clinton did it with Bush I. W did it with Clinton. And Obama did it with W.

I went back and read some of the interviews and speeches from first year presidents and it's fairly amazing that the commentary is almost uniform. Whether the spin doctor was Carville, Rove or Axelrod, the messages are the same. We inherited a disaster.

When I get on Obama's case for continuing to blame W for all that ails the world, it's no different than when Reagan blamed Carter for everything. It's the easiest excuse in the world and the one that many people buy into during the first year or so of a new presidency. But it's not a four year excuse for a new president's failures.

Reagan got lucky that Volcker was in the process of taming inflation early on and the great bull market launched in 1982. Clinton was lucky that he took office as the country was emerging from the S&L Crisis and recession, not to mention Greenspan raising rates early enough in 94 to be forgotten by the 96 election. W Bush had luck when took office as the dotcom bubble already exploded, the recession was starting and the new bull market began in October 2002, two years before the next election.

So far, Obama has been lucky that he took office as the economy and bear market were hitting their lows, giving him a "lifetime" of three and half years to get the country straightened out. And for all our sakes, I hope he is successful! But as with his predecessors, it's time to stop spinning and blaming what's already happened and start looking forward.

It's seems like in the celebrity world, there's always an incident, always a crisis, always something for the media to blow out of proportion. From my cheap seat view, it seems like the successful celebrity outcomes are the ones where the truth and/or an apology is the immediate response.

Just think of what would have happened had Martha Stewart just admitted what she did and not lied about it. Look at all those politicians who got caught in sexual scandals. The ones who came clean right away had the chance to rebuild their careers, while the others were forced to resign.

Steroids. I think about Bonds and Clemens and McGwire constantly denying usage, and having that Scarlet Letter follow them everywhere. Yet Andy Pettite and A Rod to a lesser degree came clean, apologized and were able to move on.

I wonder what would have happened had Pete Rose admitted his gambling right away, rather than vociferously denying it for years and years. Or if Bill Clinton just came out and said, "Hey, I made a mistake with another woman and I am deeply sorry".

The Tiger Woods incident is the perfect example today. Had he just given police a statement right away, instead of hiding behind closed doors with his managers, pr team and spin doctors, the news cycle would have washed this away after a day or three.

But now, as details continue to leak out, along with his silence, it's pretty clear he and his wife had a Thanksgiving night blow out over the National Enquirer story alleging an affair with a New York hostess. And it's also in the realm of reality that she went at him with a golf club as he fled the house, crashing his SUV into the fire hydrant and tree. The spin, calling her courageous for knocking out the window with a golf club, was as incredulous as aliens abducting Angelina Jolie.

The spin doctors first move is the most important, but it certainly seems to me that coming clean right away, short-term pain, far outweighs the gamble and ending up with a long-term disaster.

At this point, I probably rambled too long and away from the topic. Thanks for reading this far on a very non investment related topic.

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 Worldwide Exchange - December 24 at 5:30am

CNBC's Worldwide Exchange - January 28 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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