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Inside this issue

Filet Mignon for Everyone

Hang in Bulls... Bears Almost Done

The January Indicators Update

Dow 13,000 by July 4th?

Investment Quotes To Live By

Upcoming TV Appearances

Friends And Family Plan

Filet Mignon for Everyone

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FYI, I'll be on CNBC two mornings next week participating on Squawk Box and International Exchange. Please scroll down for dates and times.

It's been another event filled week in the financial markets, political front and Schatz house. Last Saturday night, my vote for a sandwich and salad dinner was overruled 4-1 by the Japanese Hibachi supporters. In the full spirit of democracy, off we went. Although my 6 year old will try and eat almost every single kind of adult food, my 4 year old limits his intake to pretty much PB&J, chicken nuggets, pizza, yogurt and cereal. The only reason my 4 and 2 year olds wanted to do Hibachi was because of the show that the chef put on.

As the chef prepared the various portions of the meal and put them on our plates, we convinced my 4 year old son that the chef was also the master cook at McDonalds during the day. As my son's eyes got wide open and jaw hit the table, the chef flung a small piece of broccoli at his mouth, missing by millimeters.
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From there, my son agreed to try a tiny piece of everything the master man from McDonalds made. When my filet mignon came, I figured he would finally balk, hating all kinds of beef. But when I told him it was special chicken nuggets, he not only tried it, but continued to eat my entire portion! And now, all he keeps asking for is the special chicken nugget...

As we all know, the moral of the story is to keep an open mind and try new things. The mid to late 1980s and 1990s were all about asset allocation between stocks and bonds with the emphasis on the former. With eye popping returns, the Modern Portfolio Theorists had no problem bumping chests and high fiving almost every year.

But that period was an anomaly, not the norm, brought about by a seminal change in technology. Going back to 1900, the only other decade the looked similar was the 1920s and we all know what happened after that. The past decade was brutally harsh for the average investor and follower of Modern Portfolio Theory. It simply did not work, just like it didn't in the 1970s and early 1980s.

My two cents is that asset diversification is not enough. So what if you own 100 different stocks and 40 different corporate bonds. In years 2001, 2002 and the harshest of all, 2008, you will probably get hurt worse than you should.

The successful new economy investor should keep an open mind and try new things. I believe in strategy diversification along with asset class diversification. While it's not the Holy Grail, I firmly believe that most would be far better off.

Hang in Bulls... Bears Almost Done

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Lately, the stock market has been acting like a yo-yo. I've talked about a normal and healthy pullback of 4-7% to refresh the bull run and that's basically where we are as I type this, down 7% from the January peak. As you would expect, the news flow has become worse the lower the market has gone, so far culminating in today's 268 Dow point hit with tomorrow's "all important" monthly employment number certain to add more volatility to the equation.

With the wounds of 2008 still trying to heal, investors are forgetting that big declines like today come closer to the end of the move than the beginning. This type of decline is more apt to be seen during a bull run than long, drawn out bear market. Think about pushing a snowball down a hill. It is has the greatest speed and size the instant before it hits the bottom, much like the stock market.

Last week, I offered,
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"I can easily make a case that stocks should see a brief rally now, followed by one more bout of weakness that takes the S&P 500 below Friday's (1/29) low and towards the 1050 area, before the real liftoff takes place."

So far, that scenario seems to be playing out, although I certainly wish I was sitting in all cash, not just a portion. But I fully expect to invest that money in the coming days or weeks into weakness towards 1050 on the S&P 500 and below 9900 on the Dow. Nothing has changed my opinion that the stock market should establish a low this quarter and launch much higher into spring and summer with Dow 11,500 as my first target.

The January Indicators Update

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Late last year, I wrote an article about the various year-end strategies, like the January Effect, and new year indicators, like the January Barometer and Early Warning System. Now that January is over, let's review the last two that have some predictive powers for 2010.

The January Barometer was created by Yale Hirsch in 1972 in his annual book, Stock Traders Almanac, and essentially says that as goes January, so goes the whole year. According to Yale (and now his son Jeff), there have only been 6 major errors since 1950 with 2009 being one of them. January was down last year. Besides those 6, there have been a number of +4% to -4% years that the Hirsch's conveniently do not include in the accuracy calculations.

Detractors often point to these +4% to -4% years as well as the fact the research includes the January performance in its full year calculations when investors can't take advantage of the indicators until after January ends. A more robust system would use January's data but start the performance clock on February 1 for 11 months.

But overall, the January Barometer has done a decent job at predicting the year. And after last year's miss, the odds favor it being correct this year, (January was down -3.70%) which falls in the line with my own forecast for a **best case scenario** of very low single digit returns.

The other Hirsch indicator in January focuses on the first five days, called the Early Warning System. As you might guess, as goes the first five days of January, so goes the rest of the year. This indicator tends to work much better in up years than down ones with only a handful of full fledged misses since 1950. It correctly called 2009 and is also predicting an up year in 2010, which conflicts with the January Barometer.
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Taking this one step further, there have been 17 years where the two indicators did not agree. The January Barometer was correct 9, Early Warning 6 and two flat years. That's not the overwhelming answer I was hoping for, but it is what it is. These indicators are also not something I would base my portfolio decisions on, but they are, nonetheless, interesting to keep an eye on.

Dow 13,000 by July 4th?

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

Dow 13,000 by July 4th?

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

"The problem with socialism is that, sooner or later, you run out of other people's money." - Margaret Thatcher via Casey Research

Upcoming TV Appearances

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CNBC's Squawk Box - February 10 at 6:10am
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CNBC's Worldwide Exchange - February 11 at 5:30am

CNBC's The Call - February 18 at 11:10am

CNBC's Worldwide Exchange - March 16 at 5:30am

CNBC's Worldwide Exchange - April 27 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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