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Inside this issue

The Death of the Consumer

Last weekend, I did something I rarely do and do not enjoy doing, clothes shopping. It's been roughly a decade since I bought my last stash of dress shirts and I was in dire need of replenishment. For those of you who know how picky I am regarding my clothes, even my Gap jeans and tee shirts, buying new shirts is a giant pain in the rear end.

Anyway, I visited my favorite clothing store, Mitchells, which is located in a wealthy section of CT towards New York. Much to my surprise, the store was packed with real buyers; so busy that I had to wait 30 minutes for the salesman who usually helps me. When he finally got to me, he explained how fast business went from being in the toilet to being very robust.

He said that his regular clientele went from spending $100 to almost $0 and back to $90 over the past few years. While they weren't throwing money around willy nilly as in the past, they hadn't spent in a while and were clearly looking to upgrade their wardrobe.

Before you conclude that it's just the supposed well-to-do folks back to their pre 2008 spending patterns, I next visited the mall in Milford CT to drop my wife, daughter and her friend off for a movie and spend some quality time with my little guy walking around and eating. Shockingly, there were very few parking spaces available. It was super packed, like holiday time.

And when we went inside, stores were jammed with consumers holding shopping bags with lines at the registers. This really threw a curveball at me. I flat out did not expect such behavior. But it does explain some things to me. As you know, I believe that the markets trade ahead of the fundamentals, anywhere from 3 to 9 months.

We've all heard and seen the death of the consumer, given how insanely high the "real" unemployment rate is, lack of capital available and poor prospects for job growth. But someone forgot to tell the consumer discretionary, retail and leisure stocks, as they have not been aligned with the news. Those groups have been among the strongest, right from the March 2009 bottom, July 2009 bottom and most recently, the February 2010 bottom.

This is the classic case of how reading the headlines can really be detrimental to your investment success. When our sector model first flashed the leisure group as a buy, I winced in dissatisfaction. It just didn't make sense and I figured it would end up as a dud. I have been happily wrong to the benefit of clients in that investment program. As I've mentioned so many times before, I'd much rather be wrong and make money than the opposite!

Finally, the next article was my weekly blog contribution to the **New Haven Register's financial blog**. It was based on the survey I originally posted here that many of you took and I reported on a few weeks ago. I posted the same survey on the blog and compared those results with yours. It's an interesting read.

Listen Up Congress. The Survey Says...

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

Listen Up Congress. The Survey Says...

Stock Market Not Done Making New Highs

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As I mentioned last week (and in early April and in late March), the stock market was due for a much needed, expected and healthy pause to digest the large gains seen since the early February low. This rally has been one of the most unrelenting of all time, in that we have barely seen even a 2% decline since it began almost 11 weeks ago.

Interestingly, as I did some eyeball research, this type of behavior has often preceded some of the scariest elevator shaft type declines in history. The crashes of 1987 and 1998 come to mind. But that doesn't mean that all periods like this do lead to collapses. Following the bottom in June/July 2006, stocks ran in straight line fashion all the way February 2007 before the first real pullback set in.

For the second time this month, stocks took it majorly on the chin as Goldman Sachs was front and center in the media. This time though, you would have to blame the never ending problems and negotiations with Greece's financial situation more than anything domestic.

Option players, mutual fund money flows and sentiment surveys remain at extreme levels, which historically has presaged stock market corrections. But as I've mentioned for almost a year, I don't think the real trouble will be here for a few more months. My now longstanding target of Dow 11,500 to 13,000 between Memorial Day and Labor Day remains in place and I do not believe we've seen the final Dow peak.

The trend I discussed last week of new quarter weakness in stocks certainly hit today (4/27), but unless there is follow through weakness, that trend will be ending. I also remain relatively bullish on commodities as I talked about before.

The treasury bond opportunity I mentioned in early and mid April continues to be a big winner with those bonds in the midst of their largest rally of 2010. Like most other short-term rallies, especially those that become very profitable, the time is quickly approaching to step aside and ring the register. As awful as the Euro looks, that may be the next spot for a good risk/reward opportunity before long.

Finally, in this newsletter and in my New Haven Register blog, I've referenced the very constructive behavior in gold since mid March. The shiny yellow metal continues to act well, much to my delight, as it climbs the wall on the back to $1200 this quarter.

That's a lot of information for one issue. As always, please feel free to contact me directly by hitting REPLY or calling the office at 203.389.3553 with your questions or comments.

Goldman in the Crosshairs Again

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As I sit here, wasting time watching the Senate grill four Goldman Sachs current and former employees regarding their roles and Goldman's role in the SEC complaint, it further supports your opinion, 90%, that Congress is doing a poor job. We already have the SEC involved in the matter, having brought a civil action against Goldman Sachs.
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Like so many hearings before, Roger Clemens, the auto executives, Hank Paulson and Bernanke to name a few, what ever really comes from these grandstanding shows? What good do they do? And how much of OUR money is being wasted on them?

Politically, they all make perfect sense as our politicians use their air time for reelection fodder. If any of them bothered to review the hearing, they would learn that the vast majority of panel members haven't the slightest clue what was going on. Some can't even distinguish between selling and selling short (a play on lower prices), while others can't get their arms around the difference between an agency transaction (riskless based on earning commissions) and a principal transaction (house takes a position in the trade/deal).

I love it when some of these Congressmen raise their voices and lecture those testifying, as if Congress has all of the answers. I laughed when some Senators today tried to blame the whole financial crisis on Wall Street. They should look in the mirror before casting such aspersions. Half the country was to blame for what took 30 years to build and yet all of a sudden, it's all Goldman Sachs' fault? It's absurd.

Again, as I mentioned last week, I don't ever want to accused of defending Goldman or anyone else who broke the law or lacked required transparency and disclosure. If they broke the rules that existed at that time, they should be justly punished. But let's not rewrite the rules today and hold people accountable in hindsight.

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."
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"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

"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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WTNH's (ABC in CT) Good Morning CT - May 16 at 7:35am

CNBC's Worldwide Exchange - May 18 at 5:30am

CNBC's Worldwide Exchange - June 29 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.

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