June 30, 2010

10:45 PM EDT

Inside this issue

Another Hole-In-One

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First and most importantly, Laura , I want to wish you a very enjoyable and safe July 4th weekend! Let's hope the weather cooperates and we all get some time to do what makes us truly happy. For me, it looks like lots of time with the family, eating, swimming, laughing and maybe a few adult beverages.

Those of you who just couldn't stand the suspense of not knowing the fate of my duct taped flip flips can finally rest. I had a feeling my kids would take Ben Bernanke-like, immediate action and they did. Two gift wrapped boxes of new flip flops awaited me with a few other

personalized items as I sat down for breakfast on Father's Day.

And staying with the family theme for a minute, it continues to amaze me how true it is that the best things in life are free (or just about). Last weekend, my oldest son (5), asked me if we could have some father/son time and play mini golf. So my wife took the other kids for dinner and my son and I hit **the links**.

He loved being able to choose the color of our golf balls and then direct me to the first
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tee. As pure luck would have it, he smashed his ball down the astro-turf, ricocheting around before dropping right into the hole. As he watched it go in, almost in slow motion, I saw his little mouth begin to widen, along with his eyes before his jaw hit the ground and his eyes were bugged out in total disbelief.

"DAD! I got a hole-in-one!! Just like you did in Florida!!!"

Instant success.

We played the next 17 holes briskly with my son leading the way. Somehow, the little bugger managed another hole-in-one on one of those holes where you hit it in the first hole and it goes through a tunnel, down a hill and on to another green with another hole. I laughed when he raced down the hill to watch his ball come out of the tube.

The night wasn't complete without the requisite pizza across the street and some funny 5 year old conversation before heading back over for our ice cream dessert. As we got in the car to head home, my son suggested we stop at the driving range so I could hit a bucket of balls (and he could applaud). Nothing beats hearing your son tell you, "Thanks Dad. That was the BEST night!"

Market on the Precipice

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In the last issue, I wrote, *"*

I have become a bit less enthusiastic about the very short-term prospects for stocks and commodities". That was followed up with two paragraphs in my **blog contribution**

(http://fiscallyfitnhr.blogspot.com/2010/06/lets-not-forget-dead.html)

"I have been generally positive on the intermediate-term prospects for stocks into the summer. And while I still have that lean, our investment models quickly raised cautionary flags last week, leading me to do a lot of head scratching.

After 22 years in the business, I've learned that it's much better to miss part of a rally than lose money and remain exposed. So we heeded our models' warnings and significantly raised cash in excess of 50% around Dow 10,400 and S&P 1116. The market certainly does not have the "feel" of imminent collapse and frankly, I don't think we will see much more than a routine 3-6% pullback from the highs before we launch another leg higher next month. Nonetheless, I have to temper my overall enthusiasm temporarily as we wait for the dust to settle."

First, I am extremely glad I followed my investment discipline and raised so much cash. Most of our strategies have been sitting with cash levels between 50% and 100% since this recent pullback began on June 21. The others have treasury bond hedges, which have typically moved in the opposite direction of stocks over the past
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few years, or are invested in very low volatility instruments.

I am also glad that I shared my concern with you before the real carnage began. If we are not managing all or a portion of your portfolio, hopefully you took some action on your end. If you would like to open a discussion about our investment programs, please hit REPLY or call me directly at 203.389.3553.

On the flip side, I am not so happy that I didn't give my investment models a lot more weight in my writings and pounded the table a little harder. I guess I got a little complacent myself.

Just like the historical tell tale, bull market ending signs were not present at the April peak, we did not see a plethora of warnings at the June high. But there sure has been a lot of bottoming indications in May and June. The market is clearly evolving and changing its stripes just enough to fool the masses. It's irrelevant, but I blame decimalization, electronic trading and the less price sensitive, foreign player.

Anyway, the bears are in total control of the markets right now, as most of the major indices have knifed through critical areas and are down 8-10% since the June 21, Yuan led, euphoric opening. That followed a curious, pre G20 announcement by the Chinese that they were going to loosen the reigns and let their currency float a bit more.

In simple terms, long is wrong, for now, as the market tries to clean up this latest decline. With the crosscurrents of the annual Russell 2000 index rebalance, quarterly S&P 500 rebalance, month and quarter end behind us, the market will shift its focus to Fridays always important employment report, Q2 earnings season and vitally important forward guidance as Alcoa kicks off with its report on July 12.

The best thing the stock market can do now would be to see more weakness on Thursday, followed by a really bad report and opening on Friday. That "should" be enough to create some real panic, trigger stop loss orders and margin calls, which usually cleans out the sellers.

The worst thing for the bulls would be a snapback day, where the market opens much higher than it closed and runs up for a few days. That almost always leads to another leg down and elongates the whole bottoming process.

My quick review of market sectors doesn't show many in constructive patterns. Far too many are behaving worse than the indices and that's not promising over the intermediate-term unless it becomes a case of so bad, it's good. I don't think we're there yet.

If you're looking for the ray of hope, high yield (junk), investment grade and government bonds are all bucking the negative trend in stocks, something they did not do during the 2008 collapse. I've written about deflation many times here and in the blog, and that's why treasury bonds and the U.S. dollar are performing so well. But that doesn't explain the positive behavior of the other bond sectors.

Politicians Run Amuck... AGAIN

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Earlier this year, I published my **Top 9 Tips for the Successful Investor in 2010**. (http://www.investfortomorrow.com/2010media_WTNH.asp) Number 6 on the list was "Beware of politicians run amuck". In my wildest nightmares, I never thought it was going to be this bad by both parties. Can someone tell me what the heck in going on in Carolina politics?

It's certainly not a new story, but what was **Bob Etheridge** thinking about when he tussled with two college students who were asking him if he supported President Obama's agenda? Has he lost his mind? It wasn't too long ago when Rep. Joe Wilson screamed "liar!" during Obama's speech on healthcare reform.

But the winner for the truly unbelievable and insane award goes to Alvin Greene. Whether you are democrat, republican or independent, please watch this **John Stewart** (http://www.thedailyshow.com/watch/mon-june-14-2010/alvin-greene-wins-south-carolina-primary) segment if you really want to laugh.

My plan was to spend the rest of this issue on the financial reform bill that was supposed to have been by Congress by now. But Harry Reid came out and said the Senate would not vote until after the July 4th holiday. No doubt in my mind that the dems are having trouble lining up 100% of their own support, let along the few repubs they need to get it passed. It's simply amazing that after Massachusetts elects a republican replacement for Ted Kennedy's lifelong democrat seat, Scott Brown instantly becomes a power broker as he straddles the left/right fence in the Senate.

Let's hope Obama sticks by his word that he will not sign any bill that had to be altered to favor a certain group in any one Congress person's constituency (Blanche Lincoln from Arkansas). Did we not learn from the disgusting backroom deals on healthcare reform with the Cornhusker Kickback (Ben Nelson) and Louisiana Purchase (Mary Landrieu)? And it's not just the dems. The repubs had their fair share of reprehensible, self serving behavior when they controlled Congress.

Anyway, from what I've read about the bill since I don't know any one person who has read the entire 1800 page document, my initial reaction is that something is better than nothing, but it's far, far from perfect. Congress didn't fix enough of the real problems, yet had no problem using the crisis as an excuse to mettle in areas that were fine the way they were.

I am outraged that NOT A SINGLE THING was done to address one of the main drivers of the entire crisis, Fannie Mae and Freddie Mac. The tab has grown to $500B and counting and far from over. Two years, we were told by Hank Paulson that $100B would likely be all that was needed. I said at the time, this bailout would end up costing the taxpayer at least $1 trillion. And if someone as dumb as me could see
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that, I am sure the really smart folks knew it too, but figured they would just pull the wool over our eyes, as usual.

I also don't think "too big to fail" was put to rest, or even close. Yes, the FDIC has "new" powers to wind down non bank institutions, but does anyone really believe that it's going to work? That somehow, if Goldman or Morgan Stanley are on the precipice of failure, the government (either party, pick your poison) won't step in for another bailout?

The unpopular bottom line here folks is that capitalism is prone to long periods of boom and spectacular busts. The longer the boom, the greedier we become, the fatter the system gets. And finally, the bloated system blows up to cleanse itself back to fertile ground. Just like what happens during a forest fire. It's a fact of the capitalist system.

Our last gargantuan crisis may have been the Great Depression, but those folks also dealt with a banking crisis in 1903-1904 and again in 1907, which paved the way for 20 years of fantastic market growth. By the time WWII ended two depressions, the economic and financial market ground was so fertile, so drenched in nutrients that we had 30 sensational years to enjoy. The same will come from this crisis, but the ground isn't ready yet for planting.

I'll have more detailed comments on financial reform in the next issue when we are sure what bill is actually being passed.

Upcoming TV Appearances

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CNBC's Worldwide Exchange - June 23 at 5:30am

CNBC's Squawk on the Street - July 7 at 9:35am

CNBC's The Call - July 12th at 11:10am

CNBC's Worldwide Exchange - July 27 at 5:30am

CNBC's Worldwide Exchange - August 26 at 5:30am

You can view most of the past segments by clicking below.

Media Appearances
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(http://www.investfortomorrow.com/InMedia.asp)

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
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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

"Diversification alone is no longer sufficient to temper risk... You need something more to manage risk well."

- Mohamed El-Erian

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.

Sign Up Here

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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