August 9, 2010

3:14 PM EDT

Inside this issue

Long and Strong is Mr. Market

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Lots of interesting media segments lately, which I will probably write an article about in the next few weeks. I think the website is up to date, so feel free to click on **In The Media** to view.

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

For more than a year, I've been writing about the potential for this bull run to see its peak between Memorial Day and Labor Day of 2010 somewhere between Dow 11,500 and 13,000 with the possibility of another recession (double dip or whatever you want to call it) in 2011. After the May/June correction, which I underestimated the severity of, several folks have asked if my forecast has changed.

I think some people thought the 15%+ correction could have been what I was looking for later this year, while others asked if the April high was THE peak. In short, it's more the latter. Price MAY have seen its high, but I still believe, worst case, the stock market has more explosive upside action left in the coming few weeks or so.
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Interestingly, as I mentioned in the previous issue, **Does the Bull have Legs? Let's Ask Mr. Market**, the cummulative total of stocks going up and down on a daily basis is currently making a new high, unusual for a market that is trying to peak. While it may be because of how many issues are interest rate based, I've learned the hard way not to so easily dismiss these things. We can ALWAYS find a reason not to believe something.

Also a bit puzzling is the behavior of junk bonds, which are also making new highs. This sector usually sees weakness BEFORE the overall stock market does as liquidity tends to dry up before the final high in stocks. Like any other curious period, we'll take one day at a time and assess our portfolios as needed. For now, it was an incredibly strong July and August is picking up right where last month left off.

Sector and sub sector behavior is very positive with a slew looking for further gains this month. Semiconductors, software, telecom, networkers, internet, banks, financials, real estate, leisure, healthcare, biotech, staples, utilities, transports, industrials, materials and energy to name more than a few.

Emerging markets have also taken a leadership role with almost every single country on our watchlist behaving very well. With our Emerging Markets Program owning Thailand, Turkey and Indonesia, I am more than nervous as this area corrects hard and fast when the buyers step away, something that's getting overdue.

So for now, any pullback in stocks can be bought until proven otherwise with the path of least resistance to the upside. Any negative reaction to the Fed's announcement at 2:15pm on Tuesday should be short-lived within a few days and higher prices seen soon thereafter.

Why the Sad Face?

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With all seeming so positive and constructive, why am I worried? First, as you know, I ALWAYS worry about the markets. The better they do, the more I worry! The markets and economy have been riding the liquidity wave, rather tsunami, for 18 months without the private sector backfilling and replacing public money. That's NEVER been good longer-term!

Take a peak at this article on the unemployment rate. I think we all know that the government's numbers do not accurately reflect how bad it is now, but they also don't reflect how good it gets during boom times.
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What's the REAL Unemployment Rate?

(http://www.dailyfinance.com/story/careers/what-is-the-real-unemployment-rate/19556146/)

As you may remember from January comments and last year, I am extremely concerned about the municipal bond area, given how bad it is on the state and local finance level. Obama & Co. quietly bailed out many states with the ill-conceived stimulus bill, but that only duct taped the serious problems for another day. Take a look at where each state stands. **State Budget Gaps**
(http://s.wsj.net/public/resources/documents/st_STATEBUDGET100414_20100414.html)

I continue to believe a real muni bond crisis is possible and brewing in the next few years that would make Orange County in 1994 seem like a trip to Disney.

Financial Regulation Follow Up

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As I mentioned in the **last issue**, the Obama administration is holding a special conference to deal with the disaster at Fannie Mae and Freddie Mac on August 17. That's the great news. The worrisome news is that a rumor was floated on Friday that one possible outcome could be partial principal forgiveness for those with mortgages under water. In simple terms, that would reward folks who took more risk and got into trouble at the expense of those who played it conservatively.

Judging by what Barney Frank recently said, I expect the implicit government guarantees to be removed in either one fell swoop, or staggered over a period of a few years. From there, it's likely that the two behemoths would be broken up in some fashion into smaller entities which could not jeopardize the housing market or financial system if they failed.

I also want to mention another piece of the bill that makes perfect sense to me and I wholeheartedly support. It's placing the fiduciary standard on ALL financial advisors. Although aggressively fought with enormous lobbying dollars by the major wirehouses, like Merrill Lynch, UBS and Citi, the law of the land will now force brokers to act in the same capacity as registered investment advisors (RIAs) by placing their clients' interests ahead of their own.

(For full disclosure and transparency, I am an independent, fee only registered investment advisor or RIA. The only way I get paid is by my clients. I do not sell financial or insurance products and do not collect commissions of any kind.)

I am sure many of you always assumed all financial advisors were the same, but that was far from true. The change in the law further protects you and increases the duty to which advisors must act. For decades, only RIAs were required by law to put their clients' best interests ahead of their own. As long as the investment was considered "suitable", a broker was free to sell it, regardless of size of commission earned, expense ratios or possibly performance.
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Fiduciaries, on the other hand, are supposed to sit side by side with their clients without obvious conflicts of interest. Plainly put, fiduciaries are supposed to do right by their clients are have been held to a much higher standard than brokers. With the passage of this legislation, the rest of the industry, more than 90%, will be now held to the fiduciary standard, a huge win for individual investors!

Don't get me wrong. There is nothing bad about doing business with a broker as long as all of the details are transparent and properly disclosed in plain English. As a client, you should know and understand exactly what you are buying, the fees, expenses, commissions and any penalties. There are plenty of brokers who do it the right way, but also a good number who look out for themselves first.

Upcoming TV Appearances

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CNBC's Squawk on the Street - August 3rd at 9:35am

CNBC's The Call - August 9th at 11:00am

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

CNBC's Worldwide Exchange - September 28 at 5:30am

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

Media Appearances

(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 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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