November 8, 2010

2:45 PM EST

Inside this issue

All Is Well

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After Friday's CNBC appearance (http://www.investfortomorrow.com/InMedia.asp), which was just posted, I was invited on Squawk on the Street this Tuesday, 11/9, at 9:35am for their Technical Tuesday segment to discuss where the markets are headed. Given what I said about the dollar last week, we'll hopefully have some time to discuss that more tomorrow along with the impact on the other markets.

A client called the other day to ask how my family was doing. After thanking him for asking, I inquired why he suddenly called. He answered that since I haven't written any stories about the kids lately, he wanted to make sure everything was ok! So, all is well.

We've had some rather difficult issues with the house we are renting, but the kids have been champs and went overboard at Halloween. My favorite was the dad who had a camp fire going in front of his house. Kids were toasting marshmallows, making smores and getting candy, while he offered adult beverages to the parents. Now that's a good trick or treat host!

My original intent was to offer some election analysis and how it fit in with the markets over the short, intermediate and long-term. Given how long this issue is, I'll come back to that next week.
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If It's Obvious... It's Obviously Wrong

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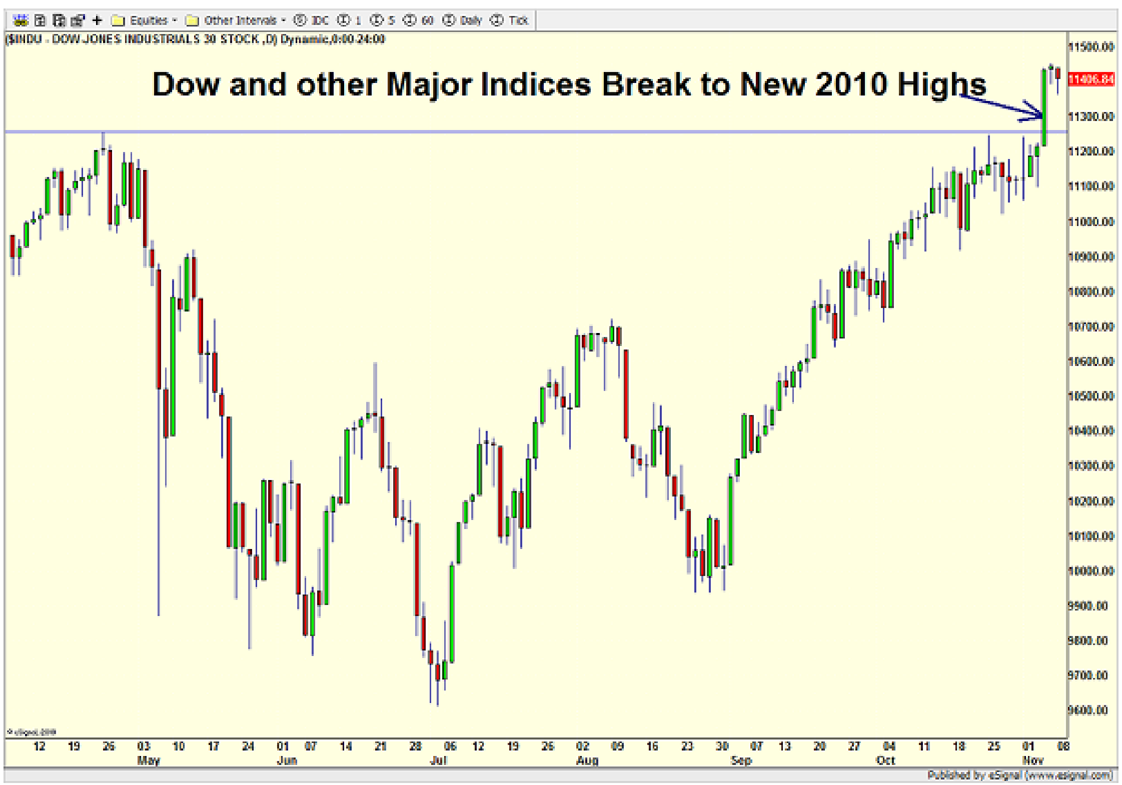
In my special election update, I discussed the three big events for the markets last week, election, Fed and jobs report. The market's reaction to the election could not have been more expected. As I mentioned, a Republican takeover of the House with at least 60 seats and headway in the Senate was fully baked in the cake. That's why stocks did almost nothing.

Bernanke & Company also gave the markets exactly what they were looking for with another round of quantitative easing to the tune of $600B. Say what you want about this Fed, but they have done an excellent job of telegraphing their moves well in advance and making sure not to disappoint the markets. In typical Fed day fashion, stocks were quiet in the morning and saw a brief surge in volatility before modestly rallying into the close.

The surprise of the week came on "no news" Thursday when most of the major markets surged higher with the Dow, S&P 500, S&P Mid Cap, Nasdaq and Dow Transports all scoring breakouts to new 2010 highs. Only the lonely Russell 2000 index of small caps remains below its April high.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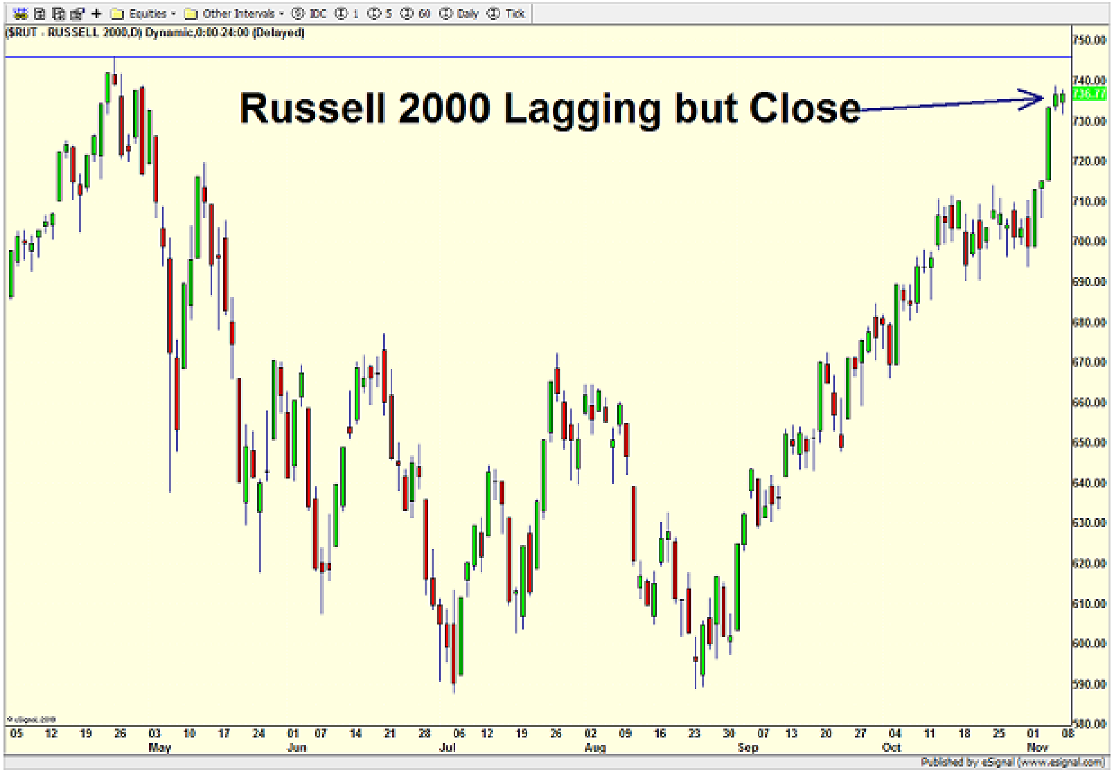

Since mid October, I've been concerned that the rally from where we committed so much money at the July bottom was getting a bit ahead of itself. Not so much where we would pull the ripcord, but enough that should warrant a short-term pullback to digest those gains. With so many bears becoming bulls, a surge in call buying by option traders and sentiment surveys showing a bit too much excitement, taking some chips off the table seemed like a good plan.

So far, the market hasn't cared. After last week's price action and heavy news flow, it's pretty hard to find many folks negative on the stock market with most of the major indices at new 2010 highs and the Fed committed to pumping another $600B into the markets. If their first round of QE with $1.25T was any indication, the old adage of "don't fight the Fed" should be wise to follow.

But the skeptic in me still worries. It's getting too easy. No one is worried anymore. Just buy stocks, commodities and high yield bonds. Sell the dollar and treasuries. It's a lay up! History (and Joe Granville)has taught me when it's obvious... it's obviously wrong.

That's why I started pounding the table to buy the dollar last week. There are NO bulls left. Everyone is bullish on the Euro and bearish the greenback. That's the exact opposite of what we saw in late May.

Everyone seems to be embracing this new world financial order. Quantitative easing is supposed to help the economy but flooding the system with more and more money, which in turn lowers interest rates and helps banks, corporations and consumers.

I don't know about you, but besides helping fuel the financial markets, I don't see the positive economic effects that QE is intended. Money in the system isn't the problem. Banks have more than a trillion dollars sitting at the Fed earning peanuts, while corporations are also sitting on more than a trillion in cash, unwilling to spend and invest.

Summing it all up, although the major stock indices, sectors and high yield bonds have all broken out to new 2010 highs and everyone is partying like it's 1999, I am not willing to imbibe any more beverages. We have plenty on the table, but less than the maximum we had during July, August, September and half of October.

The most bullish thing stocks could do right now would be a sideways digestion for at least a week to wind up for another move higher. I think it would be constructive to see an orderly pullback of 2-4%. Much more than that would indicate that the recent breakdown was false and sharply lower prices could ensue. As I mentioned last week, I would be very surprised to see stock breakout and explode higher without a pause. I think that would be dangerous and perhaps even a terminal move.

Bernanke's Fed Manipulating the Markets

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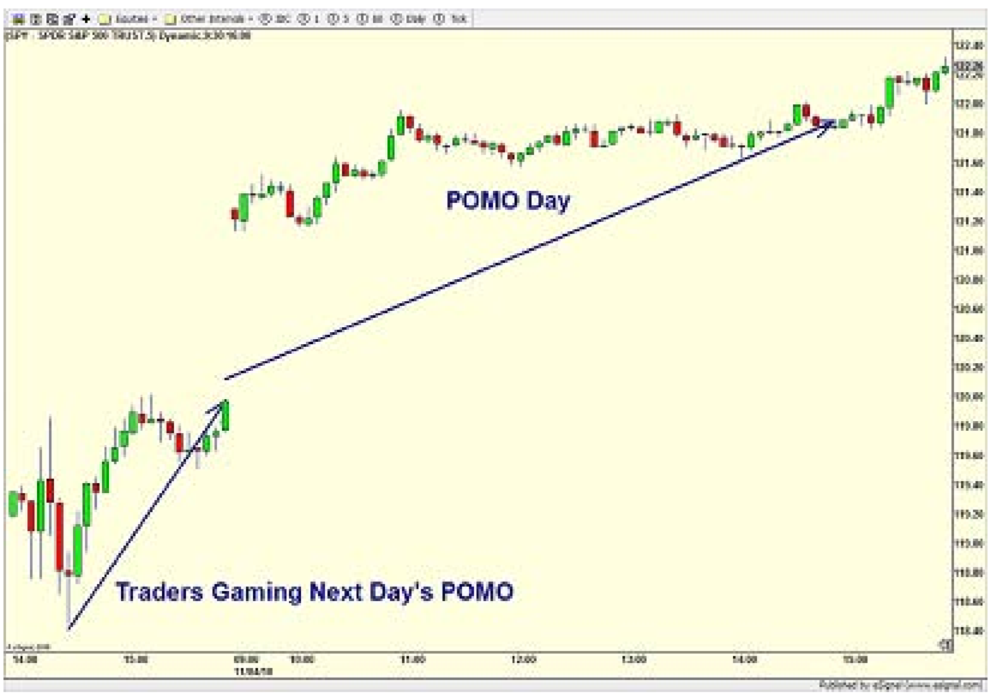
Over the past few weeks, I have received several emails and calls regarding the Fed's "rigging" of the markets with their Permanent Open Market Operations (POMO). You can Google the term and read several blogs from some really smart folks quantifying this recently discovered bullish phenomenom. The chart below is one of the best examples of a POMO day.



As long as I have been in the business, I have heard plenty of conspiracy theories about the Fed and the government controlling the markets. Over the past few years, it's been Goldman Sachs taking TARP money and using it to manipulate various markets. It makes for a great Tom Clancy novel!

On the surface, although it's dark and sexy to speculate about, I don't give it much credibility. I think most of us have read or heard about the infamous President's Working Group on Financial Markets, better know as the "plunge protection team" (PPT), which was created by Ronald Reagan's executive order following the crash of 1987.
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The PPT was supposed to prevent another crash, but too many people translated that into the government becoming the buyer of last resort during all market declines. We had a pretty nasty bear market in 1990 (-24%), and one TWICE as bad from 2000 - 2002.

The mother of all modern day bear markets from 2007 - 2009 (-57%).

Anyway, back to POMO, in short, the New York Fed PUBLICLY releases their trading schedule ahead of time along with that kind of purchases they are going to do. These POMO days have been incredibly bullish or lacking any bearish tones whatsoever.

My good friend, John McClure, and I trade emails during POMO days, each of us egging the other on in a friendly wager to see if the trend continues or not. John just pointed out to me that 17 of the last 18 POMO days have been even or positive. Those returns sound almost Madoff like!

Today, 11/8, is the last POMO day of the schedule with more to be announced this week. As you can imagine, as the market detects such an "easy" trade, traders begin to game the trade by buying during the last hour or two the day before POMO day. I'll be very interested to see how the market reacts when we see the first really bad POMO day.

So... IF this PPT really had power, why didn't it stop those declines from occuring when it "supposedly" stopped others in 1994, 1996, 1997, 2004, 2006?

Don't Count on History Repeating

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[Don't Count on History Repeating with the Election](http://www.investfortomorrow.com/PressRel.asp)

(http://www.investfortomorrow.com/PressRel.asp)
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Upcoming Appearances

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CNBC's The Call - November 5 at 11:05am

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

CNBC's The Call - November 24 at 11:05am

CNBC's Worldwide Exchange - November 29 at 5:30am

CNBC's Worldwide Exchange - December 7 at 5:30am

WRG's World Cup of Trading ETFs - December 13 at 9:45am

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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