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Last Chance for Market Pullback in 2010

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I hope everyone had a great Thanksgiving and you are in full holiday season mode now. I did my part to stimulate the economy on Black Friday by spending 20 minutes buying clothes online at J. Crew, Eddie Bauer and Banana Republic. Kinda like carpet bombing during wartime, I will buy everything I can click on in my size, only to return the vast majority over the next week or so. I just couldn't resist the bargains!

Our house is all abuzz and that's likely to last right into the New Year. Our neighbors across the street have constructed one of the most detailed and intricate Christmas light system (with music to boot) that I have ever seen. The kids love sitting on the front porch watching, listening and laughing as so many cars literally stop in the middle of the road to enjoy the performance.

Thankfully for all us skiers, Mother Nature is cooperating nicely, not only in the northeast with cold, but all throughout the mountain west with some of the best early skiing ever. As I bragged about Old Man Winter with a client today, he quickly reminded me how many folks would like to hit me over the head with an icicle or my skis for encouraging such weather! But remember, as I told him, I provide much needed balance here, like a good political system (as you will read below). And during the summer I root for a cool season when the masses are so happy with the heat.

I only have some brief market comments this week since not a ton has changed lately.

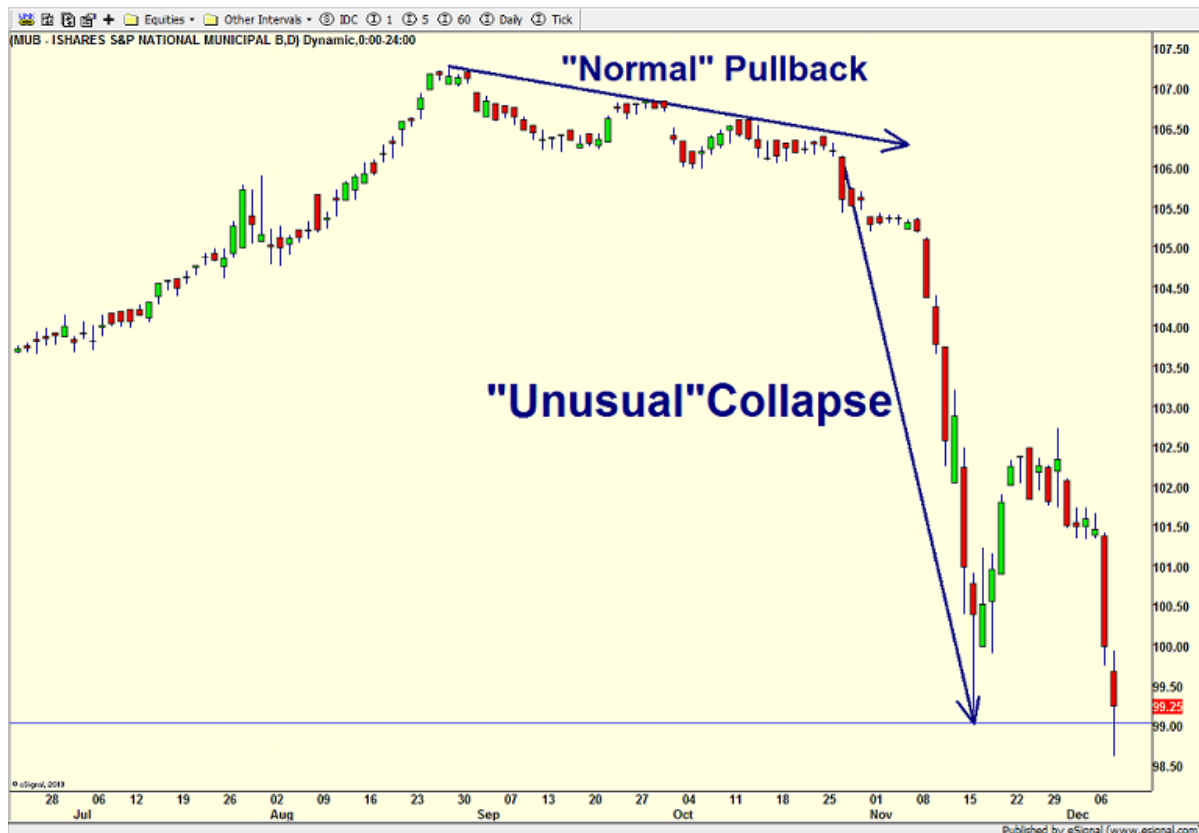
As you already know, I have been wrongly looking for a pullback to refresh the market for another leg higher into at least year-end, if not longer. This has been based mostly on worrisomely frothy sentiment readings from a variety of key market players.

Sentiment surveys from newsletter writers as well as individual investors had become overly bullish. Small lot option traders had given up hedging the downside and positioned themselves for higher prices. Corporate insiders have been selling their companies' stock at record levels. And the stock market had come a very long way in fairly short order without anything more than a quick 4% pause.

So far, the masses have been correct and I have not. Lately, the high yield bond sector has gone from market leader to laggard. The number of stock sectors making new 2010 highs stands at 55%, significantly lower than the April 2010, January 2010 and October 2009 peaks. But these are more intermediate-term concerns that could be rectified by the market.

In the short-term, the cash we invested in the market near the lows last month was just moved back to cash to bank more profits in what has been a very good year to date. Given all the negatives I've pointed out, it's still bullish that stocks have barely hiccuped. IF we are going to see a tradable pullback before year-end, it should be directly in front of us and wrap up by the 20th at the very latest. If not, we'll revisit this theme in the New Year.

FYI, the municipal bond crisis I have mentioned before is not abating, at least in the bellwether exchange traded fund, MUB as you can see in the chart below. Maybe it's just the last shakeout before a much bigger rally, but I do not like it one bit!



## Bernanke on 60 Minutes

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Last night, for the second time in 18 months Fed chairman Ben Bernanke appeared on CBS' [60 Minutes](#). What a dramatic and impressive shift in Fed policy to have the most powerful central banker on earth sell his story to the world on network television. Or a cynic could say that things must be incredibly bad economically for Bernanke to degrade the hallowed institution of the Federal Reserve so much by having to subject himself to common media interviews.

Only time will tell which is true, but it gives me a good feeling that Bernanke is comfortable coming down from the ivory tower and sharing, something his predecessors would never have done. It's still unconscionable to me Alan Greenspan has the nerve to continually defend his actions as Fed chair.

Long time readers know that I have NEVER been a Greenspan fan, even during the booming economic times. After all, his first action upon taking office in 1987 was to immediately drain liquidity, greatly contributing to the stock market crash that year. While he is lauded for always providing liquidity and saving the world during the 9/11 tragedy, Long Term Capital debacle and Asian currency crisis, his reactive, not proactive behavior was symptomatic of the problem, not the solution!

Anyway, I found Bernanke's interview with 60 Minutes very interesting and informative. Although his choice of words were supposed to exude control and confidence, he seemed fidgety, nervous and a little uncomfortable, not the pillar of strength we are used to seeing combat Congress several times a year.

To be unfairly picky, it was hard not to notice that little twitch or lip quiver during the interview. So called body language experts have pointed out a lack of total conviction in his forecast and opinion. He often shook his head no when talking about a positive topic and this supposedly meant he really didn't believe what he was saying.

My takeaway just confirmed what I have believed since January 2008. Ben Bernanke and his supporters are, have been and will always be more concerned about deflation over inflation. He absolutely refuses to let another depression befall our economy.

As I continue to believe and have written here more times than I can count, if the Fed could engineer some real inflation with money velocity, wage growth and increased industrial capacity utilization along with higher consumer prices, it would truly be mission accomplished. As Bernanke hinted and I firmly believe, my 7 year old daughter could combat inflation. It's just not that difficult! Deflation is the economic killer without a known cure.

Food and energy prices may have risen dramatically, which hurts consumers, but we don't have any wage growth. Capacity utilization remains elevated, but still at recession levels. There is lackluster money velocity from the banks as they continue to hoard cash at the Fed, not to mention the record levels of cash on corporate balance sheets. As I've said for three years here, there is no worrisome inflation now or in the foreseeable future.

Bernanke should be commended for doing his homework. His detractors point to over the horizon inflation with his appetite for creating money. But Bernanke was quick to point out that our supply of currency has not increased with quantitative easing. In fact,

M1 (liquid currency) is actually declining year over year.

When the Fed "prints money" to buy treasury bonds, they are buying them from Uncle Sam to keep interest rates low, in hopes of spurring on economic growth. They do not desire to throw \$100 bills from helicopters as Bernanke famously wrote about in a paper regarding cures for the Great Depressions. (Hence the name Helicopter Ben)

## Kudos President Obama

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The White House announced a major deal today by reaching a compromise with the GOP. In case you haven't heard, all tax cuts will be extended two years. Unemployment benefits, set to expire for millions at the end of the month, will be extended for 13 months. All Americans' payroll taxes will be reduced by 2 percentage points in 2011. And the estate (death) tax was chopped significantly.

On the surface, I know this is a good deal all around. Why you ask? First, because President Obama behaved in a very passive aggressive manner in defense of the agreement. He was angry and seethed venom at the republicans for having to compromise his morals on this. At the same time, he seemingly lashed out at his liberal base for their idealism. Whether scripted or impromptu, I thought that was brilliant.

Both Leaders Pelosi and Reid (and a large cadre of their followers) sharply criticized the White House for capitulating and threatened to not support the measure. [Keith Olbermann](#), controversial anchor of MSNBC, was appalled and outraged, devoting the last 10 minutes of his program to scolding Obama like a misbehaved school boy.

As you might have guessed, I am not a fan of Mr. Olbermann, but I tune in during controversial events to get the far left's opinion. In this case, he did not disappoint! You can judge for yourself after watching, but besides some of the obvious drivel, I can't understand how calling a group "traitorous" for supporting tax cuts is real journalism. So am I a "traitor" for believing in lower taxes and small government?

The tone was a little better from the other side of aisle, but the end result was the same. Many in the GOP publicly questioned if they could vote for such a bill, but few took the emotional road their opponents chose. Frankly, I think that was very well orchestrated to say little and act like business as usual. Where was McConnell and Boehner?

As I said, I believe this amounts to a solid bipartisan compromise and it's probably a good deal because neither side is thrilled with it. Each side gets something they want, but also some things they are dead set against. Although I don't love certain aspects of it, in the end, I can support it because it gets government working together and helps the economy and the American people.

You will likely hear rants and rage from both sides in the coming days as they pander to the media on how their side is giving too much. And some tweaks may be needed to garner more favor. But at the end of the day, it's hard to believe that enough lawmakers won't vote for this. Playing political chicken, in my opinion, just won't be tolerated by voters in a teetering economy, not to mention the financial markets, which have priced in a deal getting done. Put your mini crash helmets on if this falls through!

Upcoming Appearances

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

CNBC's The Call - December 14 at 11:05am

CNBC's Squawk on the Street - December 21 at 9:35am

CNBC's Worldwide Exchange - December 23 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

"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

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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To Your Financial Success,



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