February 7, 2011

2:31PM EST

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Inside this issue

Spoon Update

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In **last week's edition**, I shared the story about my kids taking all of the spoons and turning their pajamas inside out due to a snow day superstition. This week, I thought turnabout was fair play. So when forecasters initially called for some light snow and mix Monday night into Tuesday morning, I had to fight back, for all parents in the northeast with kids who have been out of school more than in school this year!

What did I do, you ask? I hid all of the spoons so my kids couldn't find them! And when I woke up in the morning to head to New York, there was no snow storm and no snow day! HA!!

As I just mentioned, I spent last Tuesday in New York. It began with a CNBC interview and moved on to a visit with the folks at Yahoo. They have an online "show" called Tech Ticker that is taped from the NASDAQ
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Market Site in Times Square. From there, they create articles that go along with the segments to use on Yahoo Finance.

One of my media relationships recently started producing the show and she invited me in to discuss my Top 15 Shockers list. We spoke for about 25 minutes and they broke the interview up into three segments which you can click on below.

Emerging Markets On The Brink

Political Shockers

Economy Not Seeing "Normal" Recovery

What I found so "shocking", is the number of emails I have received this week. As you know from ready my annual list, these are not predictions or anything highly likely to occur. It's a fun take on what is possible, not probable. Hillary taking over for Joe? Possible? Sure. Dan Quayle could come back run for president. That's possible as well, just not very likely.

In 23 years in the business, I don't ever recall receiving so many polarized comments, as if we were managing money according to this list. Sadly, there were more than a few that attacked me personally, my business and my religion. Will it keep me up at night? Nope. But it's just another example of how our behavior has so drastically changed for the worse with the advancement in technology. Behavior like this from some would never have taken place with face to face or telephonic communication.

But with the bad, came some good as well! I met some truly nice and educated folks, one of whom invited me on his radio show this weekend. The details are below in the media section and I will try and post the discussion on the website next week.

After my Yahoo visit, I finished up my day speaking at the **Rydex** meeting, which focused on equal weighted exchange traded funds (ETFs), instruments I have long been a strong proponent of using in client portfolios. As I left the reception to catch the train home, I saw one of those flowing chocolate fountains where you dip fruit and junk food in to. Not being able to resist the urge, I stuck six marshmallows on a stick, drenched them in the warm, rich, milk chocolate flow and squished them between several graham crackers. Nirvana...

So Bad, They Are Actually Good

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I haven't written an article about the treasury bond market in a while, probably because it's been in a very strong downtrend without overwhelming negative sentiment to help turn the tide. That's all changing now.

Since the summer, treasury bond prices have imploded 14%, and yields have exploded higher by roughly 38%. (Remember, in the bond market, price and yields go in opposite directions) Those are historically enormous moves in a such a short period of time, especially since the Fed is supposed to be buying up all those bonds in hopes of keeping interest rates low to help the still crippled housing market

Just like with stocks, commodities and real estate, it's amazing how many people are positive near peaks and negative near bottoms. Market sentiment is usually polarized. So if 100% is the absolute highest number of bulls and 0% is the lowest number of bulls, you can certainly become very interested at extremes above 90% and below 10%.

Would you personally rather buy when almost everyone is bullish or no one is bullish?

Long time readers already know that I am very contrarian in my thinking. Of our nine **investment strategies**, the majority seek to buy weakness and sell strength, more commonly known in the industry as mean reversion.

Usually, when we are buying into some type of decline, the number of investors with a positive outlook on the investment falls substantially, hence the selling and someone to sell to us. And when we attempt to sell into strength, there are hopefully a vast majority of investors positive, hence all the buying to drive the security up and someone to buy from us. If it was only so easy!

Below is a weekly chart of the 30 year treasury bond. You can see the two times over the past two years when the number of bulls was at least 95%. While it didn't exactly pinpoint THE high, it was fairly close and the turnaround wasn't too far off. It takes a substantial rally to turn that many investors bullish and get their money invested. So who is left to buy?

You can see in both cases, treasury bonds fell very hard soon thereafter. During the second half of 2009 and early 2010, bonds stayed in a wide trading range that was supported three times by less than 10% of
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investors positive. Finally, a spark ignited the rally to suck in all that money and register 95%+ bulls at the right.

The chart below has been dialed down to a daily timeframe and you can see the preponderance of bulls on the far left and subsequent (and current) powerful downtrend that brings us to today. Just earlier this week, the number of investors (actually futures traders) sank to under 10%. This does not mean that bonds must immediately rally. As we saw above, it can be the beginning of a trading range. But history does show that the downside should be limited and the risk/reward now favors the upside.

As I said on **[CNBC's The Call]** this past week, treasury bonds are the most unloved investment right now and something that deserves consideration for at least a trade. Maybe this is a major bottom or it's still out there after a rally. It's too early to say. Wouldn't it be interesting if treasury bonds saw a significant low just as Bernanke & Co. ended their purchases?

Upcoming Appearances

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WTTB's Lighthouse Retirement Hour - February 12 at 12:15pm

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

CNBC's The Call - March 9 at 11:05am

CNBC's Squawk on the Street - March 15 at 9:35am

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