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Inside this issue

Uplifting to Upchucking

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I love watching 60 Minutes. It's the only news magazine show I watch. And I find their three weekly segments so interesting and diverse. While I certainly don't always agree with their liberal lean, I also don't believe they do hatchet jobs like we sometimes see from the left and right on other networks.

Anyway, in a world that can sometimes be really, really dark, every now and then you find a true feel good story. During the steroid era, there have been few feel good stories in baseball. But this one transcends it all. It is not about baseball. Take 10 minutes out of your day and watch this incredible human being's story. **60 Minutes Segment**

Turning from the truly uplifting to the utterly contentious, there is yet
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another battle brewing in Washington. Usually when interviewed I answer that all the political nonsense is a non event for the markets. But this war is different. And I don't think it's going away anytime soon.

Republicans have done an excellent job of keeping the debt debate front and center. Long time readers know where I stand fiscally and now the showdown is here. We have simply run out of painless solutions. Something is definitely going to get done, but we all should be careful what we wish for. While it may seem logical and necessary on paper, it is going to hurt in reality!

Boehner, Cantor and Ryan are making 2011 and 2012 all about our spiraling debt problem and have the full court press going on Obama and the Democrats to engage in the discussion. No matter which side you personally sit on, I think everyone agrees that we have a serious spending problem. We had one under Bush II. We had one when Republicans controlled Congress. We had one when Democrats owned Congress. And we have one now under Obama. Playing the blame game is a waste of time and distracting from the issue. Does it really matter at this point?

As investors, we care and should care because the two solutions currently being offered will have very different and real impact on the markets. Paul Ryan's plan is all about attacking spending and restructuring entitlements, while it seems like Obama's plan combines spending cuts with tax increases or tax restructuring, but generally leaves entitlements alone.

Right now, I gotta say that it's great both sides are attempting to address the issue. I have long said in these pages that we need to cut at least $100B a year for the next 10 years out of the federal budget. Combined with modest growth, that should get our house in order, but maybe I am not being hawkish enough?

As I have said before, I applaud Obama for commissioning the Simpson/Bowles team to work on a bipartisan solution. The mistake was not agreeing to abide by their findings by both parties in advance. Did anyone really believe they would come back with a plan that both parties immediately endorsed?

What's worse is that both parties are cherry picking the findings for ideas they side with. So let me get this straight? Democrats agree with half and Republicans agree with the other half, but neither side aggrees with the overall plan? Well THAT sounds like a pretty good compromised solution!

I am a small government, low tax, pro business, deregulation believer. In Barrons over the weekend, they had an article showing how outrageously high our corporate tax rate is. But at the same time, GE paid ZERO in corporate tax last year. We need to simplify and restructure our tax rates so companies domicile here for lower tax rates, but not have hundreds of loopholes.

Although I do side with Paul Ryan's plan, I would absolutely compromise some on the tax side to get a deal done. Give a little, get a little. It's the only way anything is going to pass! Given that only 60% or so actually pay income taxes in this country, it certainly opens the door for some broadening across all groups with fewer tax brackets, lower taxes and much less in deductions and credits.

I think I will leave it there for today. I don't want to solve all of our problems in one issue! (that was a joke)

Intermediate-Term View

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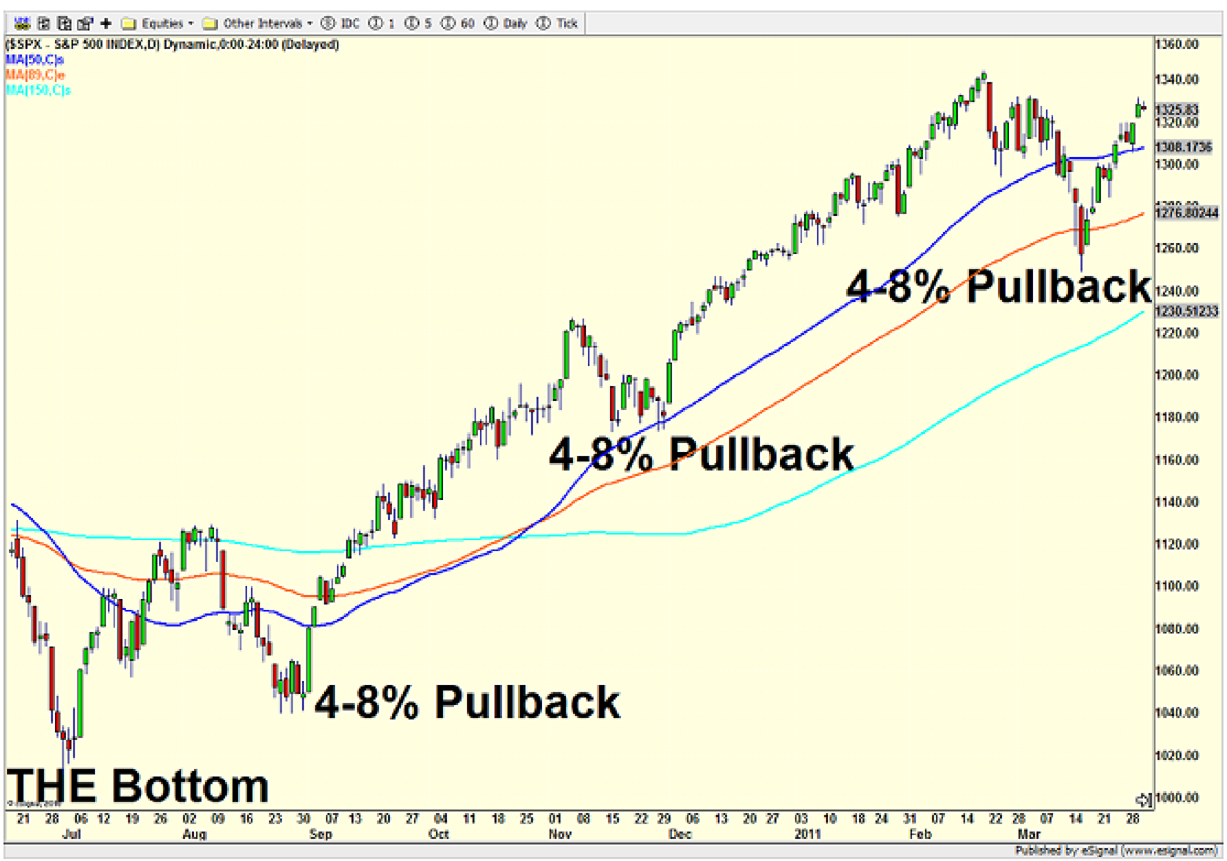
Over the first three months of 2011, the S&P 500 gained 5.40%, certainly not too shabby. For the third time since the 17% correction ended in July 2010, we saw a healthy, needed and somewhat expected 4-8% pullback as you can see from the chart below. These digestive periods have followed very strong rallies that needed a pause to refresh, much like after eating an enormous meal. The brief bouts of weakness allowed the market to rest, re-gather itself and shakeout the weakest investors, which is necessary to begin a new leg higher.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At the risk of getting too technical, you can also see the dark blue line, which represents that average price of the last 50 days, orange line, which is 89 days and light blue line, which is 150 days. The November 2010 4-8% pullback kissed the dark blue line. The March 2011 4-8% pullback visited the orange line. The natural progression calls for the next significant decline, which could begin later this quarter, to come down and say hello to the light blue line, significantly below current levels but rising every day.

The bull market turned two in early March and continues to surf a tsunami of liquidity perpetuated by Ben Bernanke & Co. The Fed's quantitative easing part II of buying U.S. Treasury bonds did not change, but that is scheduled to conclude in June. Interestingly, the only real period where the Fed wasn't pumping a torrent of money into the system was last spring, which coincided with a 17% correction!

As I've mentioned before, there will be unintended consequences and benefits from all of the Fed's actions. A powerful bull market in stocks and bonds have made most people very happy, but far less are enjoying the reflation of commodities with energy prices soaring day after day, week after week and month after month.

The closer we get to what I see as a potentially bull market ending period, mid May to mid June, the more volatility should increase and more cracks should appear in the foundation of the markets. We are already seeing pathetic volume and some more significant technical damage to a few of the major indices.

I am keenly watching the performance of junk bonds and the small cap stocks for signs of liquidity leaving as well as sector leadership during rallies. I am concerned that two key sectors, banks and semiconductors, do not behave well, but I also don't want to jump ship before it's really necessary. Sometimes, the market will fool the masses and right itself on a dime and soar to new highs. That's what makes certain periods much more difficult than others, especially those in aging bull markets.

Bubble Forming

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One of the recurring articles has been about investment bubbles, how difficult they are to confirm and even tougher to profit from. We've talked about cotton and sugar and coffee and gold. And maybe next week, we'll do a review and see where they all stand.

Today, I want to share some very brief thoughts and pictures of silver.
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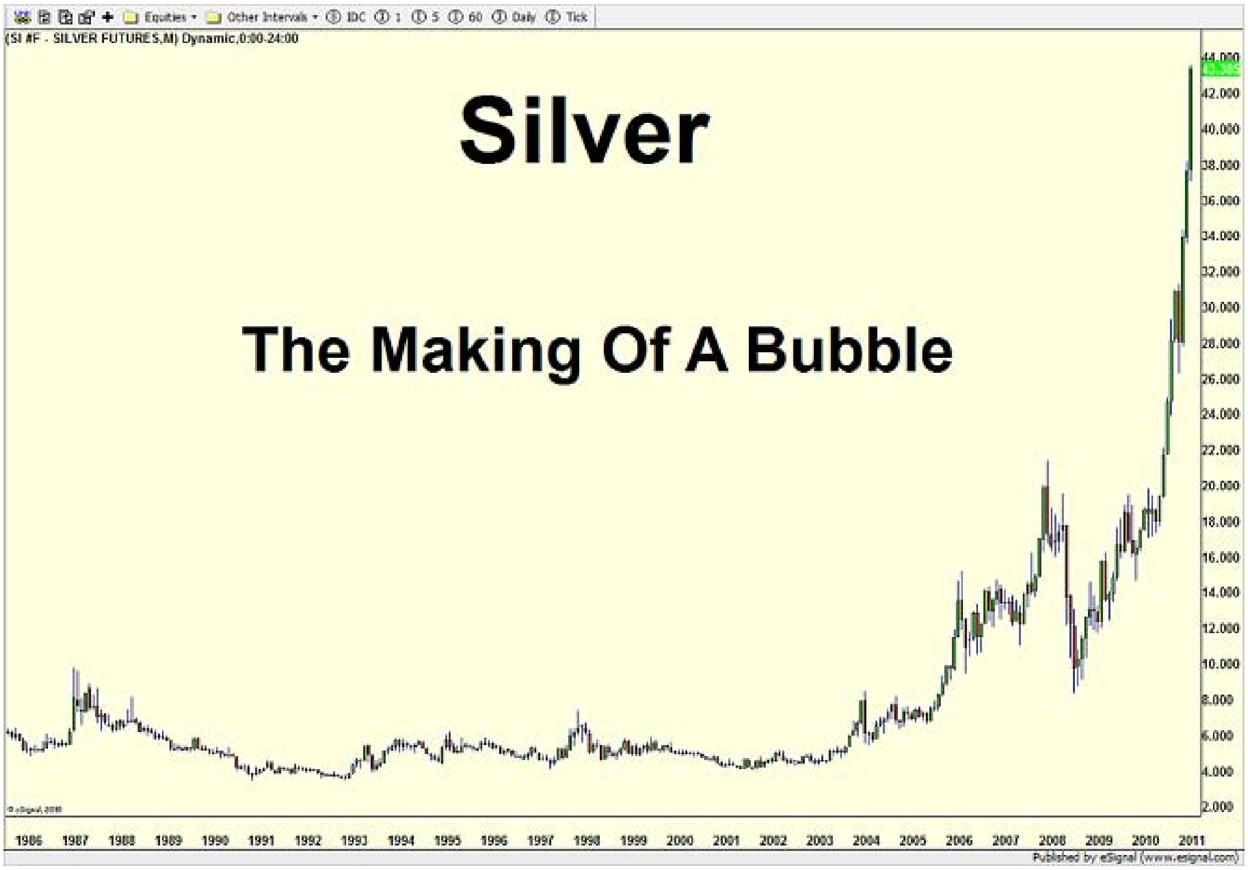
From $26 to $43 an ounce, what do you think?

How about the chart below with a longer term view? From $18 to $43. Bubble?

And now, from the 2008 bottom. What do you think?

Bubbles don't appear overnight. They require a confluence of fuel, a perfect storm if you will. As I have mentioned many times, commodities behave the opposite of stocks. They tend to make long, multi year bottoms that scrape along, while their peaks are very violent, emotional affairs. How is the chart below for a long-term bottom? 1986 to 2002!



I will pick up here again next week, but suffice it say that silver is clearly exhibiting bubble behavior. Whenever it ends, right here or another 100% higher, it's going to be a disaster!

Any questions or comments? Just hit REPLY and I will get back to you in a timely fashion.

Upcoming Appearances

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CNBC's Worldwide Exchange - May 9 at 5:30am

CNBC's Squawk on the Street - May 17 at 9:35am
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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.
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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

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