May 27, 2011

2:47 PM EDT

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Inside this issue

Mark Haines

FYI, I will be on CNBC's Squawk on the Street on Tuesday, May 31, at 9:35am. But it won't be the same Squawk on the Street as it has been for many years. It will be my first appearance since the shocking passing of CNBC legend Mark Haines.

I want to say goodbye to one of the true pioneers in business television who passed away suddenly this week at the far too young age of 65. From his FNN days in LA to the CNBC merger to the host of Squawk Box to creating all of the popularly used on air nicknames to his final spot hosting from 9am to 11am, Mark Haines was all about the viewer, the investor.

Never shy or intimidated by a guest, Mark would not hesitate to call you out on the carpet, challenge your view and force you to defend your position.

With his unique eating habits and flair for the sometimes dramatic, Mark Haines was one of the faces of the network. You can Google some of his more interesting moments, like cutting his tie in half, donning an Army helmet during the Dotcom collapse and calling for a stock market bottom in March 2009.

When I started marketing to the media to build my profile in the mid 1990s, one of my long-term goals was to be interviewed as the stock market opened by Mark Haines. That may not seem significant to some, but to me, being questioned by The Man was a huge deal. Thankfully, I achieved that goal several years ago and have enjoyed every tough interview with Mark ever since, especially the one where he challenged my view about using different analysis in deflationary times versus inflationary times.

I never met Mark Haines in person, but he is someone who has been part of my business life for decades and will be sorely missed. The Haines family requests that in lieu of flowers, donations be directed to Autism Speaks (autismspeaks.org). May he rest in peace...

New Highs in Sight for the Stock Market

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The first three weeks of May were tough on the stock market as well as several of our 9 strategies that had commodity exposure. As has been my theme since the big bottom in July 2010, we have seen rolling pullbacks (defined as declines less than 10%) of 4-8%. In all likelihood, the stock market just completed its fifth pullback since July 2010.

Short-term, the evidence points strongly to the bullish case. The NYSE advance/decline line recently made new highs and that is suggestive of another new high in the major indices in June. Frothy (excessively positive) newsletter sentiment has done a 180 and now shows historic levels of writers looking for a correction, a clearly bullish sign. The recent selling wave, especially in the NASDAQ, produced extreme levels of a washed out (oversold) market to go along with option traders scrambling to establish protective positions. All this and the average price of the past 89 days has contained the last four pullbacks.

This supports a bullish outcome for the short-term and the month of June. We should see another run to new highs.

But all is not hunk dory beyond that. As I have been discussing all year, Bernanke & Company's QE2 is ending in June and I don't think we will see QE3 until 2012 at the earliest. That removes a huge source of much needed liquidity for the markets. Think about what happens when a drug addict is denied his fix cold turkey. It ain't pretty!
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The last time QE ended, stocks rallied for a month and then promptly corrected 17%. In preparation for a possible correction, I am watch key DNA markers over the coming weeks. Underperformance by the junk bond market, fewer sectors making new highs with the market, not all of the major indices confirming, a weakening advance/decline line with market new highs, risk asset underperformance and frothy sentiment.

I'll be looking for any of those signs during the June rally. We have already seen emerging markets peak twice in April, the early signs of the high yield market rolling over along with staples, utilities and healthcare taking over leadership. None of that bodes well looking out a few quarters. In the 3rd quarter, I expect the major indices to knife through their 89 day moving averages and at least test the 150, if not 200 day moving averages.

I will have MUCH more to say on this topic in June. In the meantime, make sure you have some type of plan in place for your own portfolio, in bull and bear runs!

As always, please don't hesitate to contact me directly by hitting REPLY or calling the office at 203.389.3553.

Have a very safe and enjoyable Memorial Day weekend! Thank you to all those who have served and defended our great country!!

Inflation? I Spit in your Face!

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With so much attention paid to commodity inflation lately, I thought a good item to discuss inflation in general.

Longtime readers have known that since 2007, I have been in the deflation camp, not believing for a minute that serious, structural and systemic inflation was anywhere in our immediate future. And I still share that view today. Comparing this period to that of the 1970s, or Argentina, Zimbabwe or the Weimar Republic is just plain absurd in my opinion.

YES, we have commodity inflation. I agree! But I side with Ben Bernanke that it is more transitory than structural. Real inflationary problems usually have certain DNA markers, such as money velocity in the financial system. Essentially, that means banks take in money and create many, many more dollars from that single dollar. Today, we still see record amount of cash held
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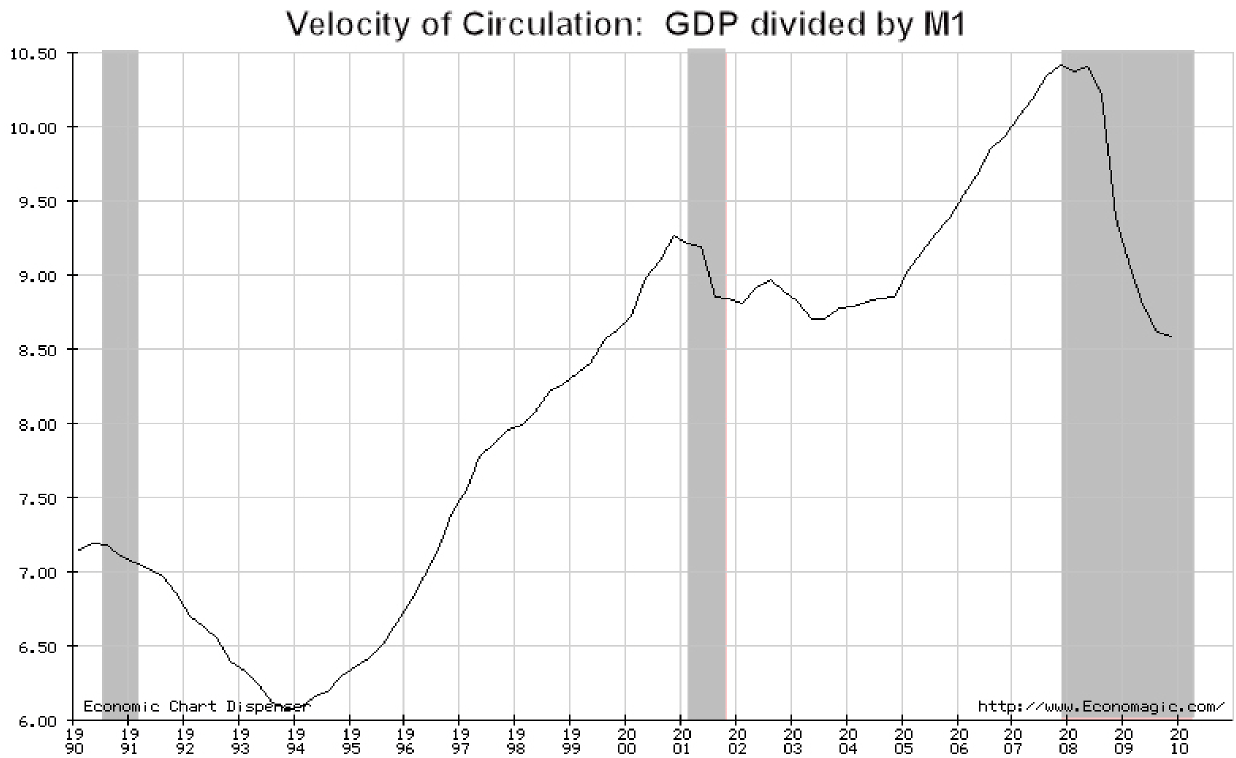
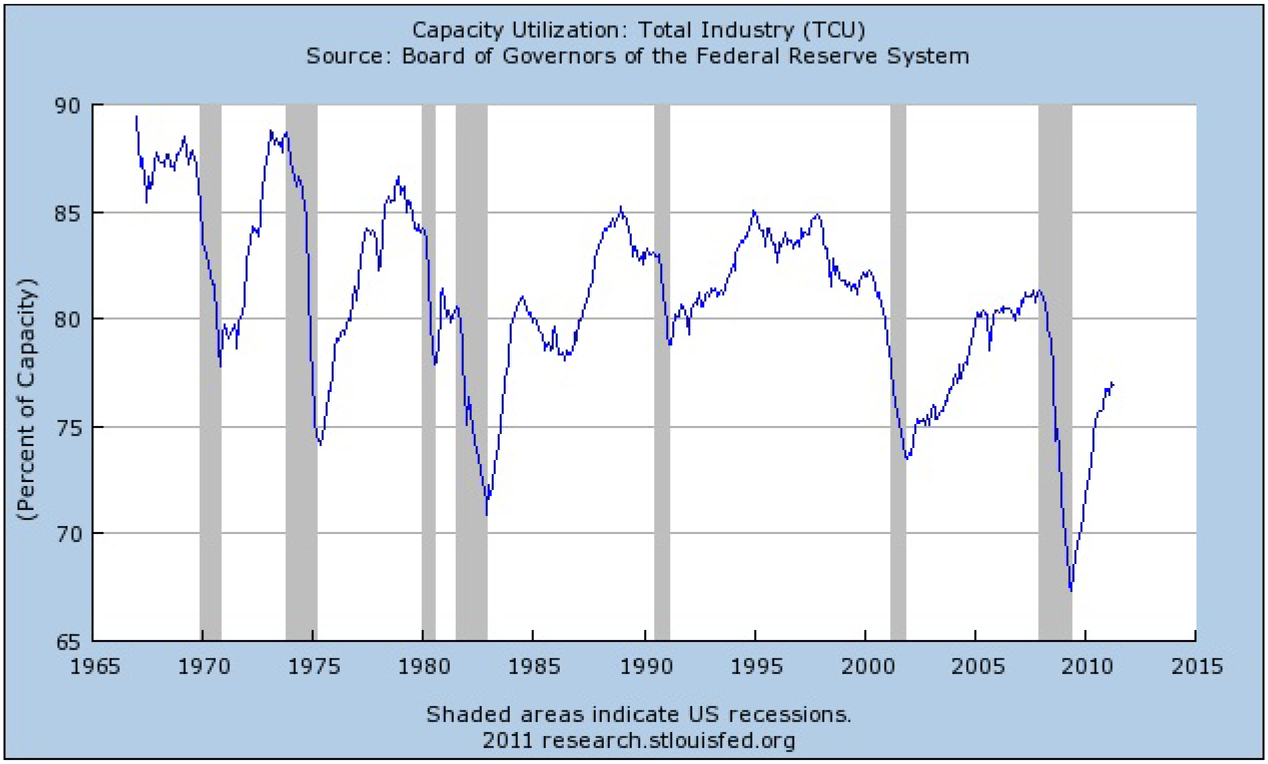
at the Fed on behalf of the banks. Add to that, more than $1T on corporate balance sheets and you can easily conclude that companies are in no rush to deploy their capital. In other words, a dollar is worth more tomorrow than it is today. That's the opposite of inflation where a buck is worth more today than tomorrow!



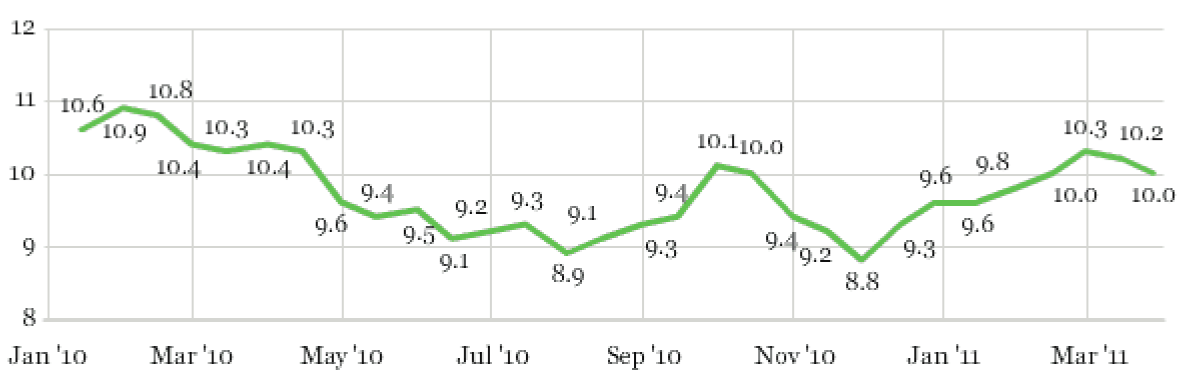
Other systemic items include capacity utilization. While those numbers have climbed from almost depressionary levels below 70, they are nowhere near the 85%+ that would be worrisome as you can see from the St. Louis Fed graph below.



Look out of your window at the housing and job market. With housing stable at best and the average person's largest asset, you would be hard pressed to offer that there is even the slightest of inflation here. And the employment picture, while much better than in the heat of the crisis, continues to show more than 9% of the workforce unemployed, 10% if you trust the Gallup poll below.

Gallup's U.S. Unemployment Rate, 2010-2011

30-day averages^; not seasonally adjusted

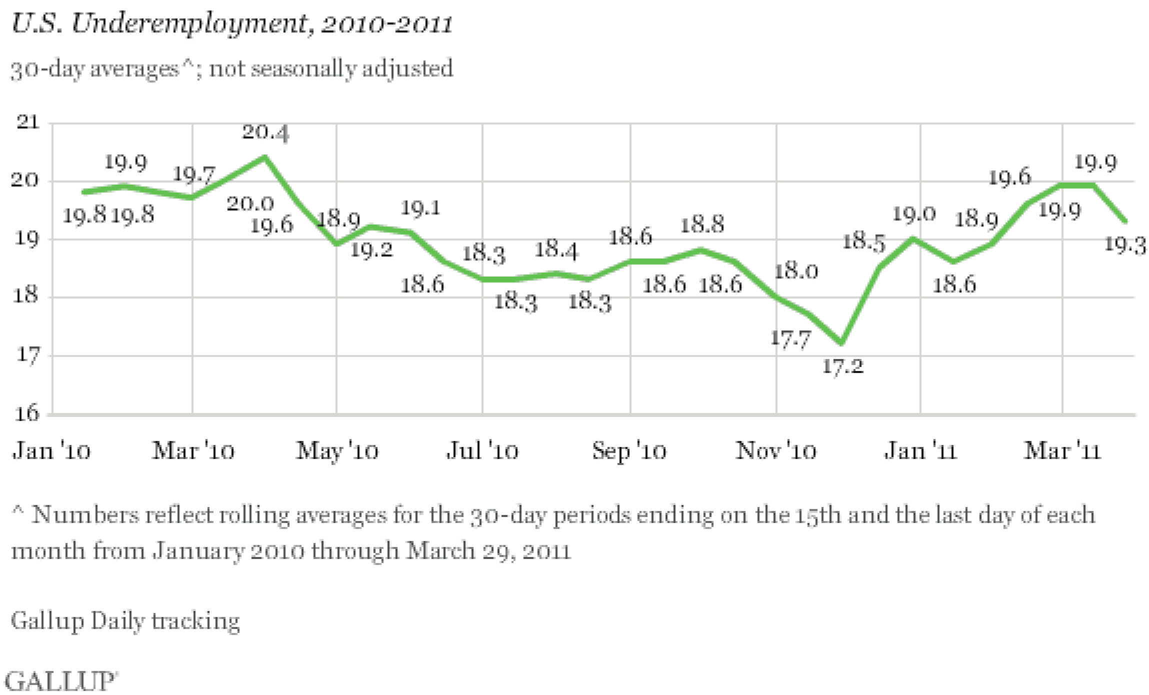


^ Numbers reflect rolling averages for the 30-day periods ending on the 15th and the last day of each month from January 2010 through March 29, 2011

Gallup Daily tracking

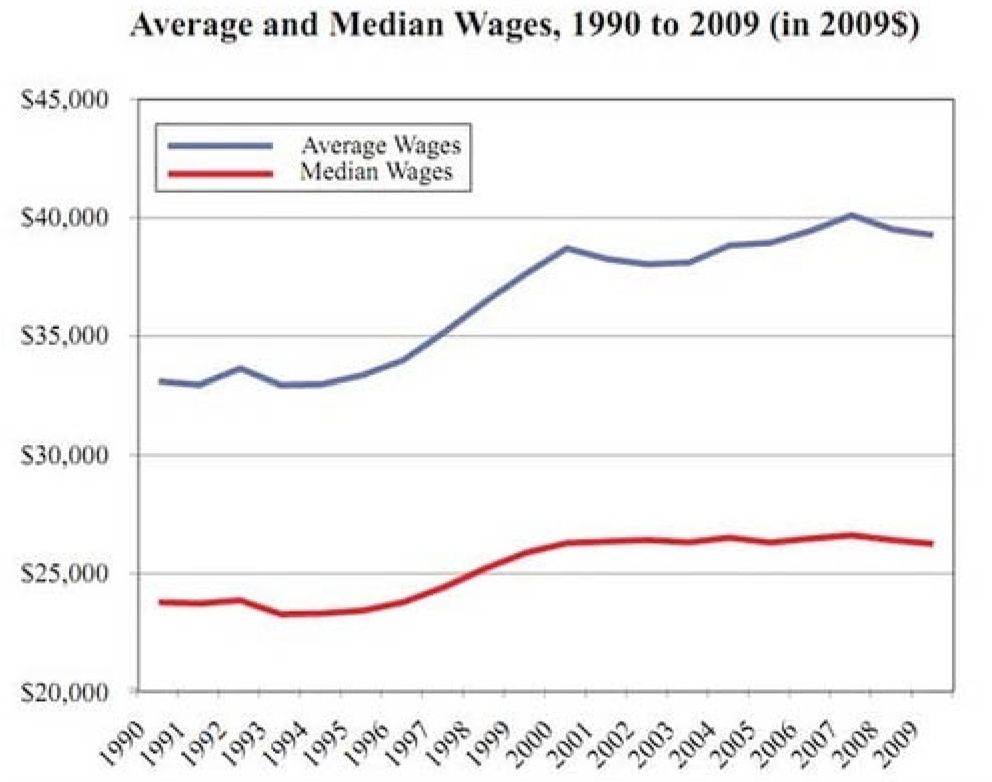
GALLUP

But digging a little deeper, the "real" unemployment rate, taking into account the underemployed and discouraged (U6) is almost 20%, according to Gallup. I am not sure anyone can use this data to support the inflation argument.



Turning to one of the most important measures of systemic inflation, wages and wage growth, you can see below further evidence that supports my thesis that structural inflation is not a problem. Think about what happens when everyone makes more money than last year and the year before. Most people spend it! More dollars chasing the same number of goods and services. So prices rise. When wages fall or stay flat, like they have most of the past 11 years, you have fewer or the same dollars chasing the same number of goods and services. Prices stay flat or fall.

The red line below clearly shows that median wages haven't really moved since the late 1990s! That somewhat scary! More than a decade since the masses had any kind of wage growth. While we haven't had any problematic inflation, the roughly 3% we have had, considered healthy and normal, means that over 10 years, the median worker earns 30% less.



Remember, inflation is measured by price changes on year over year basis. If oil goes up 100% in 2011 and remains at that same level in 2012, inflation is actually 0% in 2012 even though prices are high. It's the year over year change that signals inflation.

In the end, while it is painful at the pump and at the grocery store, I do not believe that consumer commodity inflation is here to stay and will be a long-term, systemic problem.

Upcoming Appearances

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CNBC's Squawk on the Street - May 31 at 9:35am

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

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

Media Appearances

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