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Inside this issue

Father's Day... A Great American Holiday

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I hope everyone had a great Father's Day! Being the father of three, how could it be anything but a great day!! I played golf with my brother and parents in the morning, stupidly allowing my dad to play the senior tees while getting a shot a hole and watching him make 8 pars to win all the money.

I was allowed to lounge on the couch all afternoon watching the incredible performance by Rory McIlroy in the U.S. Open. Although I root for Rory more than Tiger, I don't think he is the next Tiger Woods. Tiger has generational talent, like Jack Nicklaus before him. Athletes like Michael Jordan and Wayne Gretzky and Tom Brady. They transcend the game. Just my two cents for another rainy day here!

Father's Day ended with my parents and my wife's parents and aunt, along with my kids at our house for a BBQ. And just when I had all of the
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food on the grill, of course, the whole left side of the grill craps out. Why couldn't that happen when I was just grilling a burger or dog for me?

My kids got me some much needed golf shorts as my waistline no longer wants to fit in the old shorts. They also each made me something in school, another mug, poem and special illustrated book along with another mousepad with a picture of them. All in all, an awesome day!

Last week, I spend some time with the folks at Yahoo! in New York taping two segments for their Yahoo Finance show Breakout. What a great time! The first segment pretty much spells out my view of the stock market. Bull Market or Bust (http://finance.yahoo.com/blogs/breakout/bull-market-bust-134922757.html)

If that segment wasn't controversial enough, the second segment, Bye Bye Euro (http://finance.yahoo.com/blogs/breakout/u-must-choose-austerity-irrelevance-fund-manager-155215227.html)is about my long-term view that the Euro currency will cease to exist in the next 10 to 20 years. As I have mentioned before, it's all about the "haves and the have nots". While North Carolina may want to help save South Dakota, it's very difficult for the country of Germany to want to bailout Ireland or Spain or Portugal.

I am interested in your thoughts on the segments. Please hit REPLY and let me know.

Stocks Still Poised for Rally, but...

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From my seat, the stock market certainly hasn't been easy lately. The decline from the April peak certainly pushed the envelope of the normal, routine and healthy 4-8% pullback, but so far, that's exactly what it has been, 8% from high to low. I certainly did not think it would get to 8% and perhaps I have been a bit too complacent about it. But like I have done my whole career, I follow our models and the evidence at hand. As long time readers know, I am not always correct, but think we get it right much more than wrong.
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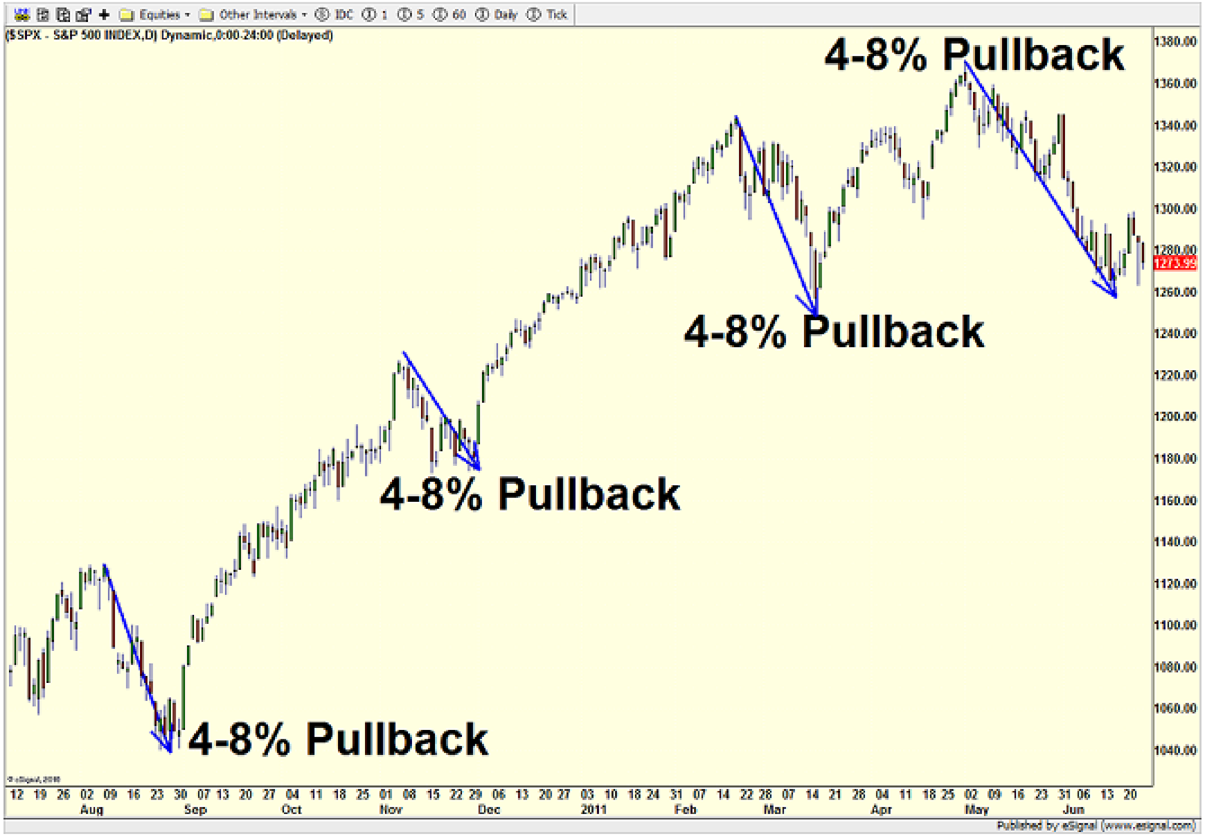

Over the past few weeks, stocks haven't declined that much, 1-2%, but the headlines continue to make it feel like the economy and markets are falling off the cliff. I think it's all part of a more complex bottoming process, which is usually required the deeper a decline goes. Between Greece and jobs and the debt ceiling and housing and QEII ending, it's tough to read the news. I would argue that if things are really as bad as the news suggests, stocks should be down a whole lot more than 8%.

As most of you know, we use technical and quantitative inputs in our work as opposed to fundamental inputs. The stock market is now more oversold than it has been since the bull market began in 2009, even more so than during last spring's 17% correction.

Some of you may argue that we are no longer in a bull market and that's why the oversold readings don't matter as much. Given that the number of stocks advancing and declining (a/d line) hit an all time high in April along with junk bonds, that would be highly unusual. Even if that's the case, which I am not willing to concede on June 24, there is still supposed to be at least a failing rally.

My premise has been that from this decline, we will learn what kind of market lies ahead for the second half of 2011 based on the quality of the next rally. Which indices and sectors are leading and lagging. Is there broad participation? How do junk bonds and small caps, barometers of liquidity, behave?

At this point, we have a whole host of indicators pointing to some kind of low forming. The number of stocks advancing and declining on a daily basis is very washed out, too much selling too quickly. Most of the derivative indicators, like the McClellan Oscillator, are saying the same thing.

Volatility has increased dramatically from very low levels. Usually, it pauses or reverses after such a rise. According to AMG, investors have drained incredibly large amounts of money from equity mutual funds recently. At the same time, option traders on a variety of exchanges are becoming very defensive. Small option traders, usually mom & pop traders, have gone from exuberant to despondency in just a few weeks.

On an intra day basis, we are seeing rolling large blocks of liquidation hitting extreme levels where rallies often begin. On the flip side, buying by corporate insiders has increased substantially and they are usually not wrong for very long. Add it all together and you get the recipe for a good stock market rally.

If you read my daily Facebook and/or Twitter posts, which you can sign up for by clicking on the links at the beginning of this issue, you know that while I continue to look for the bottom, I have not been happy with price action. The strongest markets usually see weak openings that rally to close near the highs of the day.

After a 6% or 8% pullback with the slew of indicators pointing to a low, we should be seeing more constructive price action with at least some upside follow through. Maybe Thursday was the beginning, but I am not liking Friday's action so far today.

SO much attention has been paid to the level of 1250 on the S&P 500 (the March tsunami low), I was hoping for a quick plunge through that level to shake out the final bulls. Twice, price came closer, but no cigar so far. In a perfect world, price dives through 1250 for a day or so and causes more selling that makes headlines, only to see the bulls step up to reverse the trend and start a powerful that rally to trap the bears. We'll see if that happens over the coming days or if 1250 will have to wait until the next decline begins.

On the surface, I believe a break of 1250 is more constructive for a longer and more meaningful rally than if the rally has already begun or is about to begin. A rally from here will leave some unanswered questions about what's next, but we can cross that bridge if and when we get there.

That's a lot of more technical talk so if you have any questions or comments or simply want to discuss portfolio strategy or your current holdings, please hit REPLY or call me directly at 203.389.3553.

More Ramblings on the Debt Crisis

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I have been asked a lot about the upcoming debt ceiling "crisis", how it would affect the markets and if we should position differently. Maybe I am too complacent, but at this point I do not believe there is anything serious brewing. I firmly believe that it's just another game of political chicken and someone will blink. Or maybe both sides blink. But I do not think that Congress gets to the point where they vote down a rise in the debt ceiling. That's an untenable position for a politician.

As an aside, I have heard several unconfirmed reports that it is unconstitutional to default on our debt. If that's true, I am sure the lawyers have lined up their cases. From my seat, the politicians will probably go to the 11th hour and then make a deal.

There have so many Opinion pieces written about what to do about our debt and budget deficit. I have written much about this before, so I don't have a lot of new info. I firmly believe this has to be a bi-partisan solution. Congress cannot cut too much too quickly or we will end up in recession very soon. They can't do nothing because at this rate, there will be a debt crisis.

I believe we need to cut $100B - $150B every year for at least the next decade. While that could stymie growth a bit and make us look more like Europe, there would be a light at the end of the tunnel. If we get a little luck, organic growth would increase tax receipts and help even more.

Michael Boskin, former chairman of the council of economic advisors under Bush I, wrote a good piece last week in the Wall Street Journal regarding budget cuts and tax increases. The vast majority of the time (I think he put the number at 75%), tax increases do not lead to increased tax receipts, something I have long believed. Boskin opines that a workable ratio is $4 or $5 in budget cuts for every $1 in tax increases. I think that could be politically tenable and a decent bi-partisan solution.

I also believe that we are in dire need of tax reform. We desperately need to simplify the tax code. Broadening our tax base is a good start. Maybe that's a euphemism for a tax increase, something I have a hard time swallowing, but I don't think so. Our system is broken and needs repair. When some making ten million dollars is paying less tax than someone making what is now considered "rich", $250,000, something is really wrong.

Let's get rid of the absurd deductions that only the truly rich can take advantage of because they can afford the expensive lawyers to find
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loopholes. At the same time, we can actually cut the number of tax brackets and tax rates. With the energy and agricultural sectors booming like never before, I have a hard time swallowing tax breaks and worse, subsidies. But with lobbyists running Washington, that's a tall order to correct.

In this country it's still amazing that only about HALF actually pay income taxes. Yes, that's correct. Roughly 50% of Americans pay income tax. At the same time, given what you read in the media, you would think that the lower income earners are footing the bill for everyone else. It's simply not true. The ever shrinking, but much needed, middle class bears the brunt. When the middle class starts to grow again, you will know that our economy and country has embarked on another multi decade run of prosperity.

Upcoming Appearances

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CNBC's Squawk on the Street - July 5 at 9:35am

CNBC's Worldwide Exchange - July 13 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

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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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