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## Inside this issue

[Well Done President Obama](#)

[Bear Market/Recession Survey](#)

[Post Crash Update](#)

[Upcoming TV Appearances](#)

[Investment Quotes To Live By](#)

[Friends And Family Plan](#)

## Well Done President Obama

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Many of you know how much our family loves Vermont. We spend a lot of time there during the winter and visit now and then in the other seasons. The devastation from Hurricane Irene is beyond words. I described my town in CT as if a nuclear bomb hit, but that's nothing compared to what happened up north.

Bridges gone. Roads washed away. Village commercial districts turned into roaring rivers and lakes. You can Google Wilmington, Newfane, Killington and many other small towns to see pictures that just leave you speechless and shaking your head. It's so bad that the National Guard had to airlift in food, water and medical supplies to communities left stranded. Making matters worse, many folks had no flood insurance and no health coverage. Their lives are in ruins and it's truly tragic.

We have not been to Vermont since Irene struck, but friends up there have kept us updated on the relief efforts with the local school acting as a shelter for displaced families and one of the ski lodges housing the National Guard. Those less affected have been coming out of the woodwork to help the less fortunate in a true show of community. If you are interested in helping, even with just a few dollars, here is the link to [Wilmington Flood Relief](http://www.wilmingtonvtfloodrelief.com/) (<http://www.wilmingtonvtfloodrelief.com/>). Thanks.

The other night, President Obama made an unusual non State of the Union address from Congress. As long time readers know, I am not a fan of the president, for full disclosure. But to hear that certain members of Congress boycotted is beyond disrespectful. It's distasteful and embarrassing. Whether they disagree with the politics is not the issue; the office of the president deserves the utmost respect.

I found Obama's speech to be the best one he has ever given with much of the political rhetoric checked at the door. I thought he offered the right much of what they have asked for over time, creating an interesting quandary to oppose. Of course, over the coming week or two, I am sure both sides will sit down and begin to negotiate the details, which is where this will bog down.

I have seen several economists analyze what is being called the jobs program and potential increases to GDP seem to fall in the 1.50% range along with about a million jobs. That's very encouraging over the short-term and something Obama desperately needs before the election next year. But long-term, I do not believe it will solve what ails us. I have long written that the U.S. is out of painless solutions and most of us feel that right now in our lives.

It took us decades to leverage up (borrow money) and most believe it takes at least one third of the time to deleverage and repair our balance sheets. The U.S. will get through this; there is no doubt in my mind, just like it did after the 1930s. On the other side, I believe we will see very fertile grounds for a multi decade period of economic and market prosperity and bliss for all to enjoy. But it is going to take some time and much needed patience to get to that point.

Fed chief Ben Bernanke spoke the other day in Minnesota and besides his canned remarks, which were very similar to his Jackson Hole speech last month, attendees were permitted to ask questions. When the moderator got to the last question (and I paraphrase), he asked the chairman what he thought about Paul Giamatti's portrayal of Bernanke in the HBO movie, *Too Big To Fail*, which was Andrew Ross Sorkin's supposedly non fictional account of the 2008 collapse. Ben cracked a small smile and said that he hadn't seen the movie and didn't need to, he lived through it firsthand! Pretty good for the usually stoic Bernanke.

FYI, I will be on CNBC's Worldwide Exchange on Monday the 12th from

5:35am to 5:55am.

## Bear Market/Recession Survey

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In the previous issue, I included a link to very quick survey, which you can still see [here](#). I asked two very simple questions. First, did a new bear market just begin? I guess I should have qualified that with my definition. 32% of you said yes, while 68% said no. As you would expect, the vast majority of comments came from the "yes" crowd and here is a sampling.

*The market has already discounted future reductions in EPS. The economy has slowed, but if you look at the Industrial Production Index, the 1/12 rate of change is still in positive territory as of the latest data of July at 3.7% above the same month prior year. The 1/12 rate-of-change is slowing and is about half it's peak of plus 7.7% in June 2010, but the decrease has leveled off (in fact slightly increased) since May 2011. The August numbers will be interesting, but could be skewed by the Hurricane.*

*We have been in a bear market since 2000. We did have a bear rally for a few years and then a return of the bear in 2008 and another bear rally till now. We are about to enter another bear market pullback that I believe will last a lot longer than we think. Since we have governments all over the world in financial trouble, this is a mess that socialistic has created and I don't think that any of the governments have what it takes to figure out how to fix their economies. This is going to take a long time to fix and it is going to be a rough market for a long time.*

*I think we are still in a longer-term cyclical bear.*

*We are in a secular bear that began early this century.*

*I think the markets will be volatile for sometime.*

*Cyclical bear*

*Dow theory sell signal, 50 day MA crossing below 200 day MA and 200 day MA sloping downward*

*It depends on the outcome of Europe, but most likely yes*

*Question number two simply asked if the economy was in recession. Interestingly, 55% asked yes, while 45% said no. Given the first question's answers, I would have thought they would be close. As with the first question, here is a sampling of the comments.*

*Everybody is waiting for the chance to get this turkey out of office. You*

*can't hire because you can't predict the costs of employment. I think we will have 14 months of watchful waiting.*

*I'm not really sure but it sure feels like it*

*...but it sure feels like one!*

*I believe we have been in a recession a lot longer than most economists believe. This is going to take a lot of time to fix this one as we have shipped our jobs overseas to lower cost countries. These jobs are not coming back and we need to figure out how to have real job creation in this country. Make belief government jobs are not real jobs. Obama has no idea how to fix this and I don't believe that very many other politicians do either. In order to create jobs, we must figure out how to reduce the cost of those new jobs by either lowering the minimum wage, stop the government roadblocks, stop government intrusion in business and allow companies to move to lower cost states to reduce costs. Obama won't let that happen. He favors the union worker and union organizations.*

*Its a big country. There are areas that are doing well and others that are struggling. A lot of this answer depends upon where you are. Empty store fronts, closed restaurants, empty offices, etc. are everywhere.*

*Are in a slow growth period--company earnings remain high--current administration does not do the kinds of things that promote the private sector economy, big government and redistribution of wealth and getting reelected are more important to this crew then the economy*

*Pockets yes. Take NH with an unemployment rate of 5.5%. Hardly a recession. Cal. Yes etc.*

*Stagnating. I don't know the official parameters for a recession but I can count the number of shop windows boarded up in our towns and cities - recovery from whatever we are in doesn't look promising.*

*I think the economy is in recession even though the markets don't seem to care based on performance, despite the recent several week downturn. I have a feeling sometime over the next 2-3 years the dow will drop below 5,000 with profound panic.*

*Probable in 2012*

*but not as bad as two years ago*

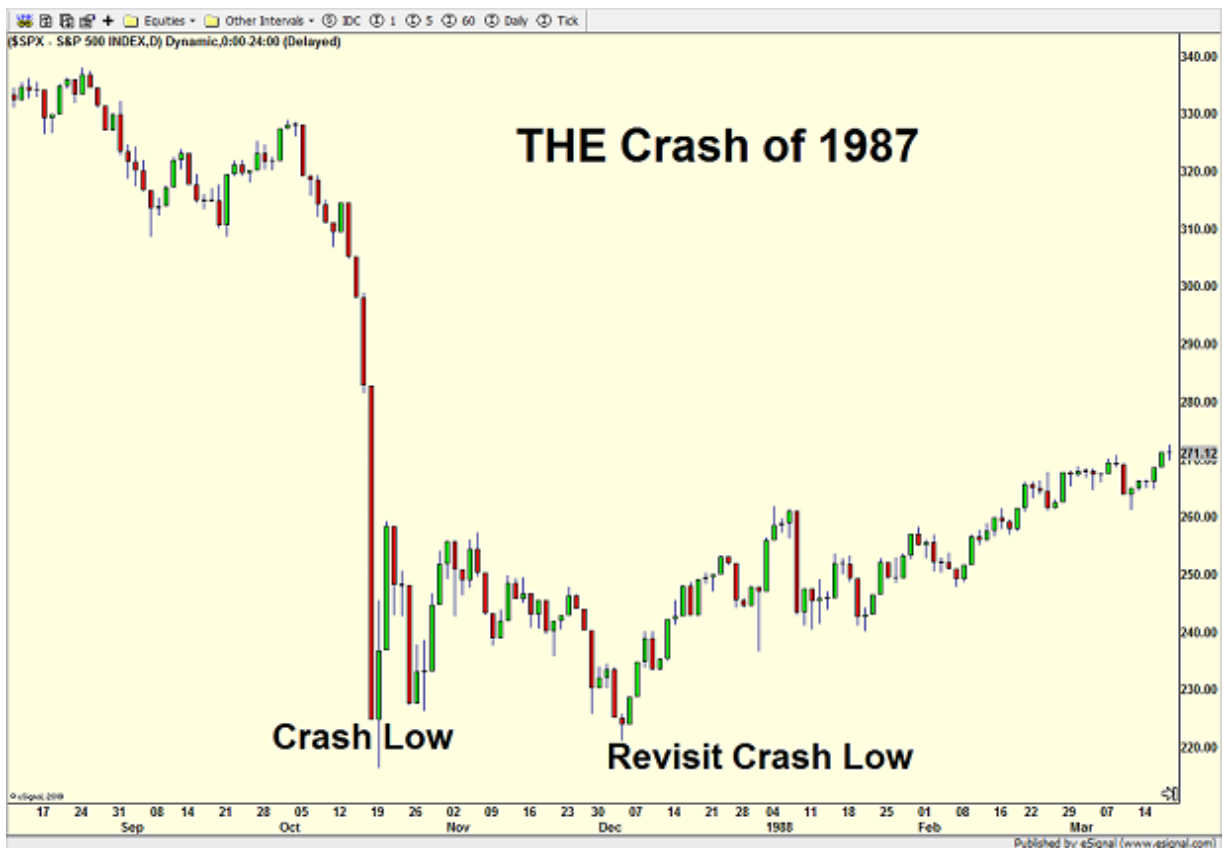
*market marches to it's own drum; often doing the opposite of what I would expect. I'm surprised its doing as well as it is with the lack of promise that I see in the future of our country at this point. Jobs will not come from thin air - we need to go back to manufacturing product or real foodstuff to sell (instead of paying farmers not to plant), etc,etc.*

## Post Crash Update

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The theme from the past two issues remains the same; stocks continue to digest from the mini crash seen in early August like other periods in 1987, 1998 and January 2008. Once volatility expanded to such an extreme degree in early August, history said that it would likely continue for some time. My thinking has been at least through October and so far, nothing suggests anything less. The almost daily string of 100+ point moves in the Dow has become the norm with something like 19 of the past 24 days.

Until something really changes my thinking, I will continue to include 1987, 1998, 2008 and the current charts to show the comparisons.





Although the three events are not exactly identical, nothing is in the markets, they happen to rhyme very nicely with a crash, rally and revisit in the big picture. Sometimes we saw immediate revisits of the crash low.

The few times over the past 40 years where we saw crashes and no successful revisits, the stock market had entered a bear market.



When stocks could not follow through to the upside last week (the most recent big green bar on the chart above) I ruled out the scenario for more strength into mid September followed by less downside in October.

In the chart below, I have updated the technical pattern that turned out to be most correct, the head and shoulders top. Technicians take the distance from the top of the head to the neckline and double it to predict the ultimate target. In the case below, the downside target was met during the early August mini crash and the pattern became fulfilled or completed. There is no follow up. It's over.

I have also added light blue lines to show what the most bearish folks believe. That is, the period from the mini crash low in early August until the recent peak was a digestive period that marks the halfway point in the decline. Their belief is that the decline from July to early August will be matched over the coming few months.

The one scenario I still do not see unfolding is that the market remains in a trading range between 1100 and 1250 for several months. I will continue to update this article in each issue and as evidence suggests something else might be in play or a scenario is ruled out.



In the short-term, the bears took charge on Thursday and really pounded on the bulls to the end the week. More weakness should follow on Monday morning that could spill over into Tuesday before the bulls muster a stand. The news flow continues to be horrid with almost hourly rumors of the Eurozone falling apart. At some point this month, the tug of war between the bulls and bears will likely end and a more sustained move will begin. But as I mentioned above and in previous issues, the uncomfortable, unnerving and unsettling volatility is here for a while longer.

Please don't hesitate to hit REPLY or call me directly in the office to discuss any of this in more detail.

## Upcoming Appearances

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CNBC's Worldwide Exchange - September 12 at 5:35am

World Cup of Trading ETFs - November 15 - 16, West Palm Beach FL

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](#)

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## To Your Financial Success,



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