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4:43 PM EDT

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Inside this issue

Third Party Option

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My apologies for not getting this edition out sooner. End of month and quarter are always a busier time here and this was coupled with two family members requiring some brief hospitalization. But all is well! I wish I could say the same about our elected officials in Washington who seem intent on doing as little as possible on America's behalf. The whole thing has and continues to make me ill.

The ground is becoming more and more fertile for a centrist third party, but unfortunately, I think we are another recession or crisis away from that becoming a distinct possibility. From my seat, it would have to come from a very wealthy politician who is moderate and willing to spend his/her own dough.
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The only one who seems viable at this point is Michael Bloomberg. He clearly has billions of dollars, isn't afraid to spend it and certainly qualifies as a centrist politician. And his presidential candidacy would send shivers and shock waves through the democrat and republican parties. Again, I don't think it is imminent, but does seem interesting down the road for 2016.

2016 is also the election when many of the more moderate republicans have been bandied about as candidates. Chris Christie, Mitch Daniels, Marco Rubio. It makes you wonder if one of them would break away from the party to join Bloomberg. Oh the possible scenarios!

Don't You Just Love It When a Plan Comes Together

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It's pretty amazing when markets follow a previous pattern in history that rhyme's nicely with today and allows us to use similar events in the past to forecast the future. Since the mini crash in early August, I have included update after update of the possible scenarios that could unfold. The most likely one, which I have shown for six weeks, compared the current market with that of 1987, 1998 and early 2008. The charts are below and they haven't changed.

In each case, there was some type of waterfall decline, culminating in the "crash low", which was on record volume. From there in all three cases, the market embarked on a multi week rally before rolling over again to revisit the crash low price level. Best case, prices closed at just a new low, but we usually saw a quick "woosh" lower that one day when traders and investors threw in the towel and panic sold, also called capitulation, when prices did not stop at the previous crash low.

The good news is that once that final "woosh" lower was seen, prices bounced back that same day to close the day nowhere near the low. And then the bulls came roaring back to life and the rally began.

It may have taken a while and tested our mettle, but finally, the end of the period came in early October and the bulls did exactly what they were supposed to do! I think I was pretty clear in my recent Squawk Box segment what I thought the fourth quarter would look like.
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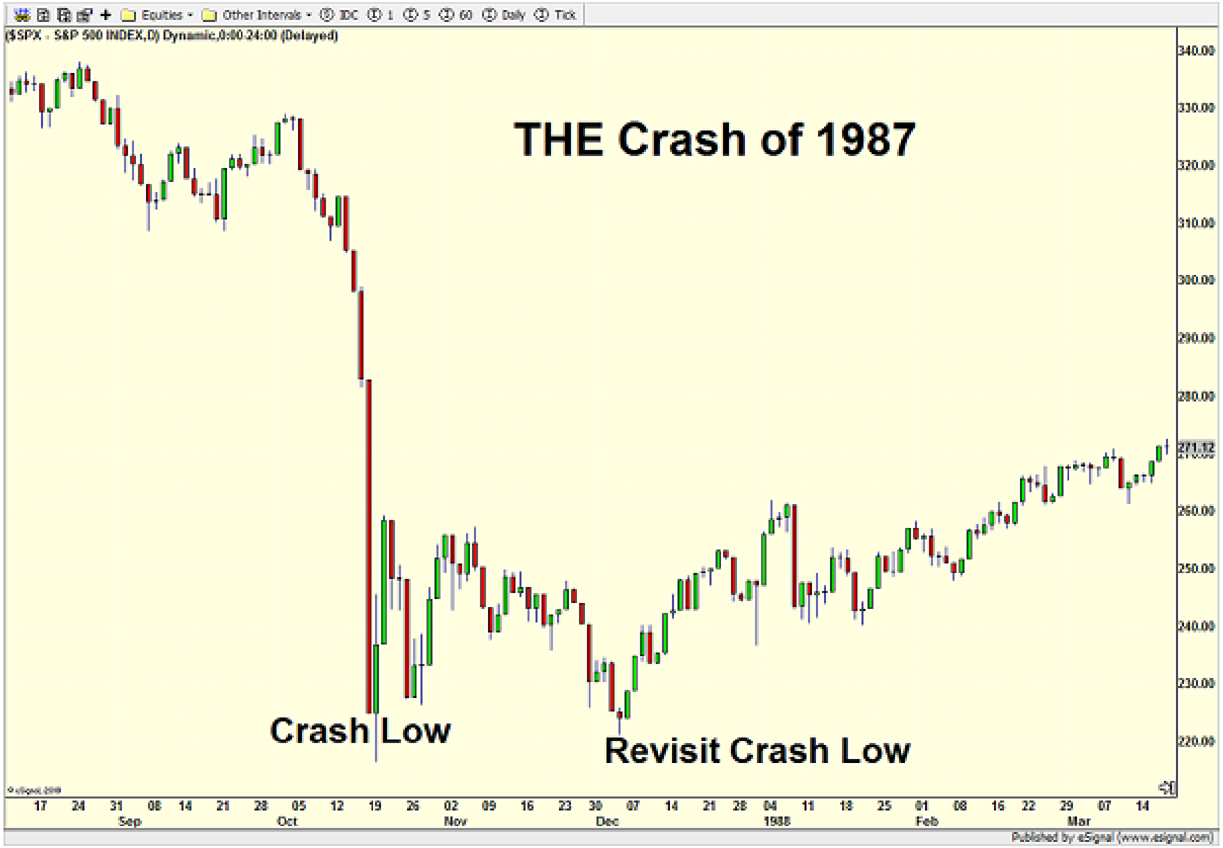
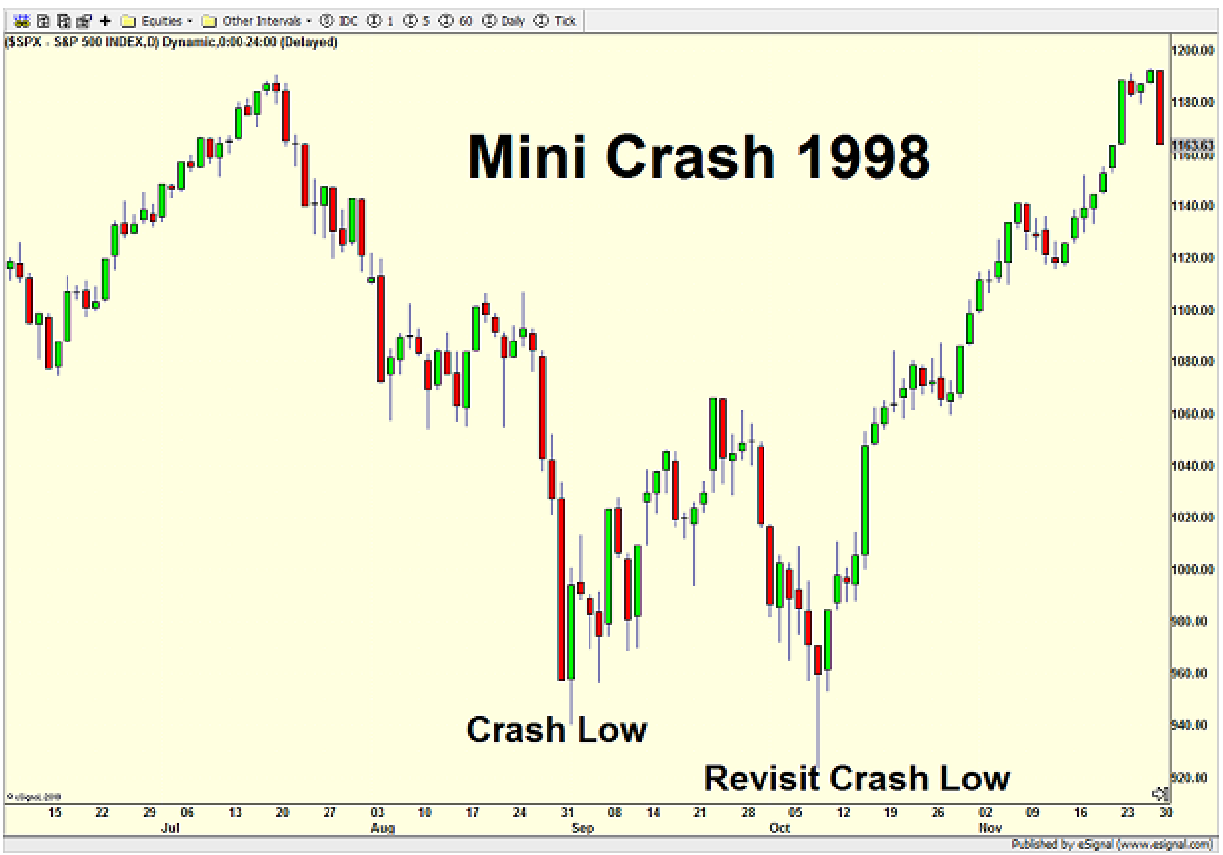


($SPX - S&P 500 INDEX,D) Dynamic,0:00-24:00 (Delayed)
THE Crash of 1987
Crash Low
Revisit Crash Low
Published by eSignal (www.esignal.com)



($SPX - S&P 500 INDEX,D) Dynamic,0:00-24:00 (Delayed)
Mini Crash 1998
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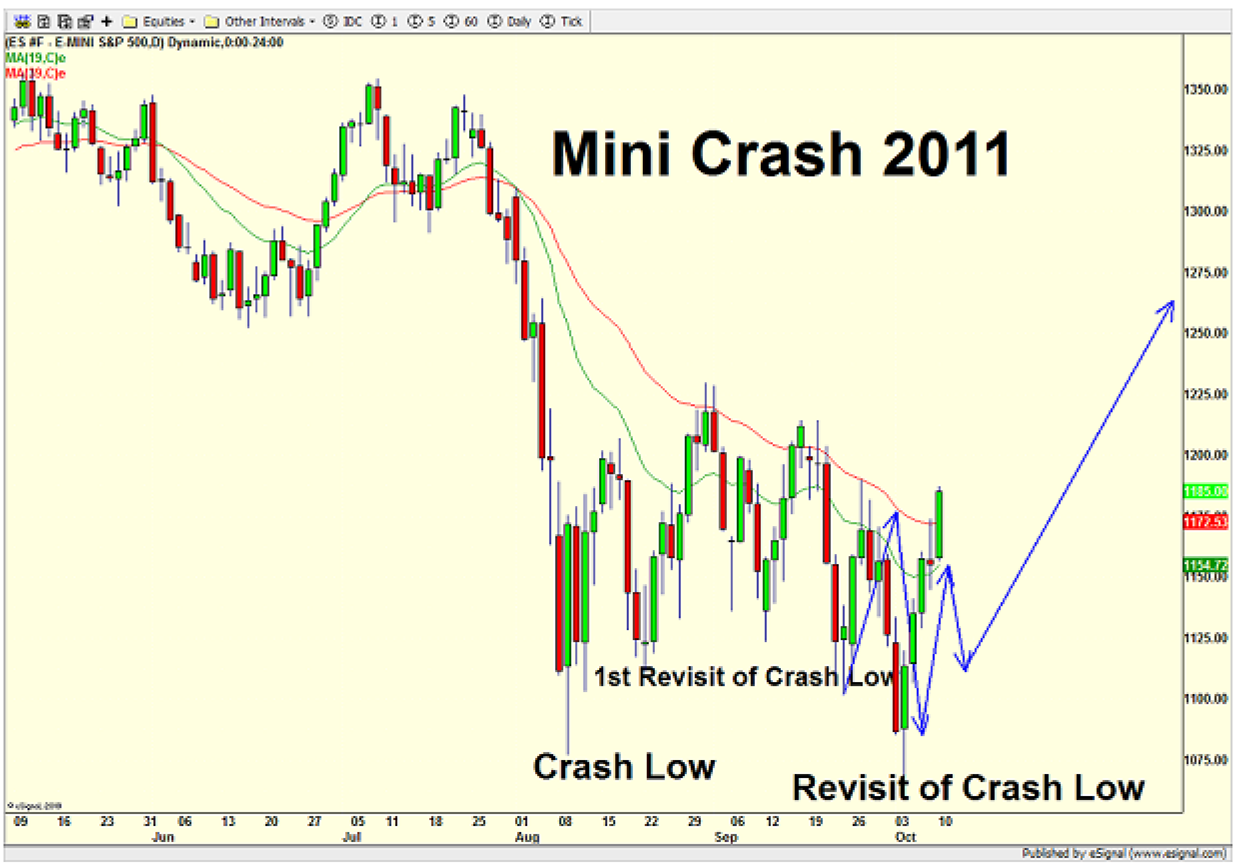

Now that the stock has finally gotten past the eight week tug-o-war between bulls and bears, what's next? If you look at 1987, 1998 and 2008, it looks to me as though 1998 was too strong to continue today. I think the 1987 and early 2008 periods are more likely to play out over the short-term with two steps up and one step back.

Getting back to the 2011 chart above and the action in early October when the final revisit was seen, a few things became very evident. First, volume on the revisit was much less than the crash period, a sign of waning momentum. Second, unlike the crash period, not all sectors participated on the downside in early October, another non confirming sign.

Third, and I won't go into a lot of technical detail, an enormous number of indicators were much stronger in early October at slightly lower prices in the market than they were during the crash period. That is a classic sign of waning momentum and possible reversal to the upside. Frankly, although I definitely got it wrong during the early August crash, this was an easy pattern and bottom to call ahead of time and in real time.

Now that stocks have rallied from literally THE low back towards the upper end of the range, what's next? Europe remains a problem and I think there will be a selling opportunity when they finally announce the rescue plan later this quarter.

In the short-term, stocks have come very far, very fast with all sectors and most asset classes enjoying the ride. That's exactly what happens at significant bottoms. They don't give investors a chance to catch their breathe and buy. The train leaves the station and the market makes it uncomfortable to invest on the way up.

Financials began to give clues they were done going down and actually started to lead. That's one group that should be watched along with high yield bonds. The real test comes if and when the major indices approach their August peak. I would imagine the first try will fail, but there should be another effort and if that's successful, it will likely lead to another leg higher late this year or early in 2012.

If any of this does not make sense, please don't hesitate to hit REPLY or call me directly in the office to discuss.

Recession or No?

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You can't read a newspaper or magazine or turn on a news station or visit a business website without the constant debate over whether or not we are in or headed into recession. Both sides have dug in their heels just like our friends in Washington on the political side. As you know, I am not an economist. That's way above my pay grade!

Usually, I let the markets tell me what is going to happen economically.
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But the stock market, too, has been wrong sometimes as well. The old joke is that the stock market has predicted 12 out of the last 4 recessions, meaning that stocks often give warnings that do not turn out to be recessions. From my seat, I would rather get too many warnings than none at all.

Longtime readers know that since the crisis abated in 2009, I thought we would be in for years of below trend (a nice way of saying stodgy or mediocre) growth. Deleveraging can be a painful process and if you add in some austerity from the public sector (government), the potential GDP numbers won't set the world on fire. In short, I thought we would see rolling periods of 2-3% growth sprinkled in with some 0% to slightly negative numbers as the U.S. works its way through the healing process over a period of years. And I continue to believe that's going to be the case.

Over the past few months, chatter has really increased that the economy was tipping back into recession. In "normal" times, there are certain DNA markers that signal trouble ahead. No recession has ever started without four straight months of negative readings from the Index of Leading Indicators. We haven't even had one yet.

The Fed usually becomes more restrictive and raises rates. At the same time, the yield curve usually inverts. When the yield curve inverts, that means that short-term interest rates move above long-term rates and choke off economic growth. That's what we began to see in 2006. But neither of those are even close to present today and I cannot find any recession ever beginning with the Fed being so accommodative as it is today. The problem with my comment is that we don't have a useful comparison to the 1930s.

On the flip side, there was a widely read article in the New York Times talking about the excellent work done by the Economic Cycle Research Institute (ECRI) who purports to have accurately predicted every recession over the past 15 years without error. They believe the U.S. is either already in recession or about to enter one. The article is interesting and deserves a read.

Adding to ECRI's dismal forecast is a piece put out by HSBC where they discuss on page two how each time year over year GDP growth declines under 2%, the U.S. sees a recession. So we have very strong indicators on both sides of the argument.

Based on the behavior of the stock market and which sectors are leading and lagging, it doesn't look like the U.S. is headed for a severe recession. There are so many stocks in the retail and discretionary space that are acting very, very well and that's not usually what we see before the economy falls off the cliff.

To me, it seems like if there is a recession, it already began and by the time it's officially declared, it will close to over or over. If we do not see a recession declared, I think we all know that the economy still doesn't feel great, no matter what statistics indicate. We are in a period of slow and "sloggy" growth as the U.S. works its way through the great debt unwind.

Corporations' balance sheets are in excellent shape and the consumer has gone from spending more than they make (negative savings rate) to finally saving some money and repairing their own balance sheets. Consumer savings has a negative impact on the economy and markets, but it will eventually help launch the next great multi-decade period of economic and market bliss and prosperity.

Upcoming Appearances

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CNBC's Squawk Box - October 3 at 6:10am

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

"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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