May 10, 2012

11:03 PM EST

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Inside this issue

Don't Fly with Me!

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Greetings from 37,000 feet as I make my way back home from Atlanta where I attended two annual conferences, attended some fantastic presentations, saw old friends, clients and prospective clients. With so much going on, about the only thing I lacked was sleep! I am usually one of the first to arrive in the meeting room in the morning and one of the last to head to bed late at night, making the most out of every possible minute on the road.

Two sessions that I particularly enjoyed were about the macro or big picture environment. Chuck Stucke who is a big shot at multi 100 billion dollar shop Guggenheim Partners gave a terrific presentation on how the next 10 years should not look anything like the last 10. While he wasn't an "all systems go" guy, he made very convincing arguments that the markets should reward investors over the coming years and that many of the current fears are already priced in the markets. Frank Barbera from Sierra Investments, on the other hand, believes the global economy and markets are past the point of no return and heading to hell in a hand basket. He sees a depression unfolding where guns, ammo, bottled water and
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canned goods are the best investments. While both made passionate cases, I tend to side more with Chuck. The world may look like an awful place right now, but so much is already known and priced in. It's when things look too good where I become a big worry wart.

Longtime readers know that somehow I continue to experience some of the most terrifying flights. And while this trip was nowhere close to my Houston one in 2010, it was anything but quiet. On the flight down, the pilot spent the first 30-40 minutes sharply accelerating and then throttling back to where it felt like the plane was stopping. To make matters worse, after we took off, he never communicated with the passengers to let us know anything about the flight at all. And after the first 30 minutes, we bumped and chopped all the way down to Atlanta, causing me to firmly grip the armrests, digging my nails in and counting down until we landed. I think my fingers were sore for a few days!

And now, with an hour left in flight and bumping our way along (side note: we landed in fog and overshot the runaway a bit with the pilot putting us down hard before bouncing and stopping), I am so eager to get home and extremely excited to see my family. While I am sure they all miss me, I imagine my wife may be doing a little counting of her own, having endured three kids with a stomach bug, multiple tee ball, baseball and softball games, dance, math club and probably a few play dates. And all this without the use of a washer or dryer since both of ours died a few weeks ago and replacing them has been an utter nightmare. But that's a story for a different day.

In the last issue, I asked you to take 30 seconds and answer a few simple questions. I will be sharing the results next week. If you haven't had a chance, here is the **survey** again. (http://www.surveymonkey.com/s/YPK7VS3)
One question I did not ask was about the name of this newsletter. Every year, I toy with changing the name and banner graphic. This year I am debating Invest For Tomorrow Insights and Invest For Tomorrow Perspectives. I would greatly appreciate your input by clicking on the link and telling me what you think.
Street$smarts Name
(http://www.surveymonkey.com/s/LNRQKRT)
Finally, I am going to be on Fox Business on Friday, May 11 at 1:20pm discussing some short-term paths and perhaps a look at my long-term scenario.
If you enjoy these newsletters and want to read some shorter updates more frequently, don't forget to opt in when you get an email from me about the new Vestory platform we were recently accepted on.

Uncle Sam Practicing Austerity

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With Mitt Romney all but securing the republican nomination, the "real" campaign season is upon us. I guess that's good and bad with the election getting closer and more interesting, but all the nonsense comes front and center as well. Like all presidential elections, there's so much at stake and I expect the markets to ebb and flow with the opinion polls as we head out of the conventions over the summer. And between now and then, the Supreme Court is likely to rule on the full or partial constitutionality of ObamaCare. So there won't be too many dull periods the rest of 2012! I am sticking with Shocker #16, which I made in **Top 17 Shockers for 2012**
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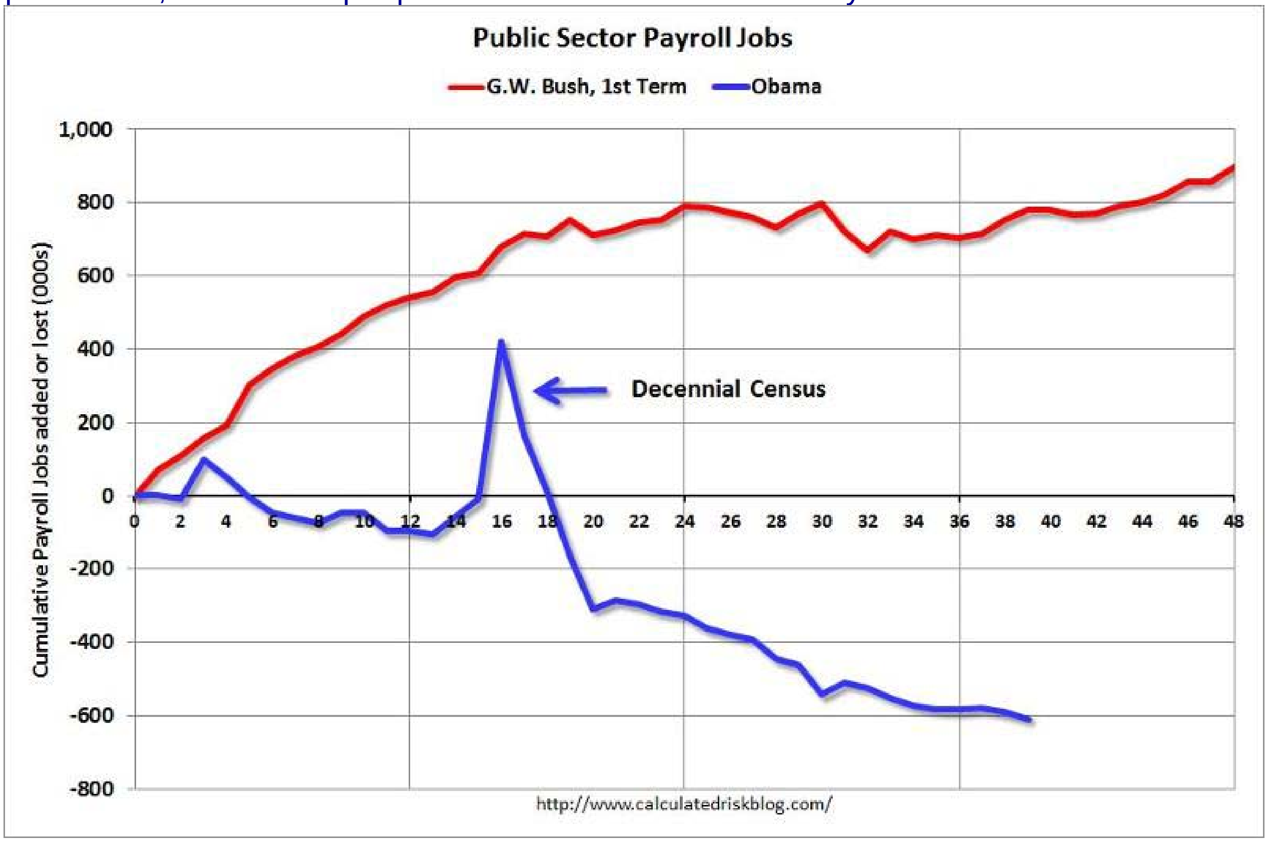
regarding Congress and the Presidency.
While somewhat on the topic of politics, I think the news from the **Mayor of LA** was particularly interesting in that it continues a theme we are seeing all over the country, shrinking government by laying off municipal and government workers. Look at the chart below from the folks at Calculated Risk. If I covered the presidents, I bet most people would label it the other way.



Under Bush, public sector payrolls grew and grew, but the exact opposite is happening under Obama. Before you hit reply and yell at me like some of you like to do, I think we all know that the president doesn't control the public sector. And I would guess that much more than 50% of the jobs in the public sector are at the state and local levels. So no, Barack Obama isn't acting against his party and for sure, George Bush did not all of sudden become the FDR of his generation.
The chart does illustrate how state and local governments are finally getting their fiscal acts together and making ends meet. And I think trend will continue and spill over into the Federal ranks.
The first Friday of each month, the government reports non-farm payrolls and we see how many net new jobs were created, the details and what the various unemployment rates are.
For the past 6-9 months as net new jobs in the private sector have improved significantly, the amount of workers on government payrolls has declined substantially. I can be cavalier and say that it's all good news as private sector hiring is much more additive to the economy than pubic sector hiring. But that ignores the thousands of people who are being let go because of budget cuts. While I believe that long-term, this is the right direction to head (smaller government), that comes at a short-term price of slower growth. Remember, to begin to get our fiscal house in order, we can cut spending or increase revenue or a combination of both. Frankly, as long time readers know, I think the combination of both is the best compromise and what the majority of Americans would vote for if given the opportunity.

And that segue's nicely into the final piece I want to share here. David Stockman was budget director under Ronald Reagan and was given credit for much of the economic success enjoyed during that administration. Last summer, during the debt ceiling fiasco, Mr. Stockman offered his own research on the proper ratio of spending cuts to revenue increases over the long-term to achieve fiscal balance and economic stability. That was $4 in cuts for every $1 in revenue increases, which was similar to one of the bipartisan debt commissions.
But as we all learned, something happened on the way to political compromise; the politicians (from BOTH sides) got in the way. Anyway, after 8 years of the Bush administration's runaway spending and 3.5 years of the Obama administration taking spending to an even higher level, David Stockman has become very soured on our political system, economy and markets. It's just one man's opinion, but I thought it was interesting enough to share the **David Stockman Interview**.

Market Pullback is Here

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In the previous issue, **What Keeps Me Up at Night**, I described a scenario where stocks would spend some much needed time pulling back in a very healthy manner. Using the Dow, here is the chart and path from the issue.

Since then as you can see below, the stock market pretty much obliged the roadmap. At this point, I think stocks are getting closer to some sort of bottom and one path can be seen in purple. I chose to use the Dow because it has been the strongest index since the pullback began in March. In early May, it was also the only major index to score new 2012 highs. The S&P 500, S&P 400, Russell 2000 and NASDAQ 100 all rallied with the Dow, but fell far short of eclipsing their April peaks. That's a glaring warning sign.
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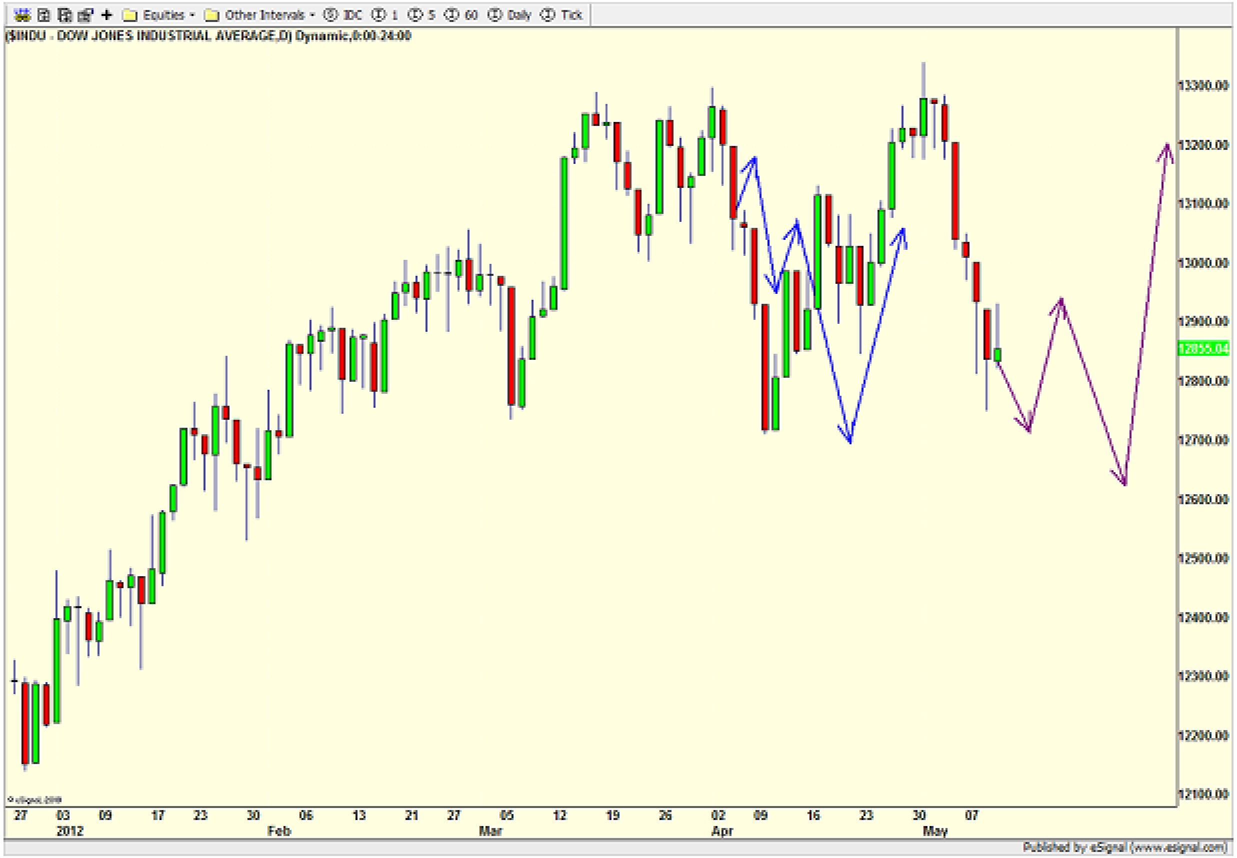

If the bull market is still alive and healthy, the stock market should see a good low this quarter with a summer rally taking the indices to new 2012 highs and possibly higher. High yield bonds, what I keep referring to as the canary in the coal mine, are behaving very well and need to continue that path. Should they begin to underperform and turn lower, I would become concerned.

Additionally, small and mid cap stocks, which have lagged for two months, need to get their acts together and lead once the pullback ends. Absence their leadership, I would become concerned. And the semiconductor stocks, long the driver of the tech sector, have been one of the worst performing sectors since the market peak. They really need to turn tail and march higher with the market after the pullback ends. If they don't, I would become concerned.

So there you have three key things to watch after the pullback ends and the next rally begins.

If you have a 401K or other investment accounts and want to discuss how to best position, please don't hesitate to call me directly at 203.389.3553 or hit "reply" to this email.

Upcoming Appearances

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Fox Business' Markets Now - May 11 at 1:20pm

ET NOW's Trading Calls - May 13 at 10:30pm

UMASS Dartmouth 2nd Half Class - May 16 at 2:30pm
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(if you are that area and would like to come, please hit reply and I will put you in touch with the person in charge.)

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
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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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