June 23, 2013

10:24 PM EST

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Inside this issue

It's Always About Family!

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Let me start with a few media items. I am going to be on CNBC's Squawk on the Street on June 24 at 10:00am with of one of favorite analysts, Richard Bernstein. I have a lot of respect for Richard in that he has never been afraid to be bearish when his indicators dictated, even while chief market strategist at Mother Merrill for so many years.

On Tuesday, June 25 at 1:00pm, I am going to be on Fox Business' Markets Now. I expect both interviews to focus on the markets' reaction to the Fed and China as well as how deep the current stock market pullback will go and where it's headed over the summer.
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Last week, I had a spirited discussion with the folks on Squawk Box regarding the Fed and you can see that **Here**. (http://www.investfortomorrow.com/InMedia.asp) While I like being on the same side of an argument as Joe Kernen, it's almost more fun going against him! If you scroll down that page, there are a number of Yahoo Finance pieces I did last month when I was in New York.

What a crazy busy time of year for all those with kids. Between tee ball, baseball, softball, school ending and graduation parties, there's little non work time for much else, certainly no time to work on my golf game. Usually by this time of the year, I am in mid season form, but now my game is just plain crummy. That would normally bother me to no end, but when I see my five year old finally start connecting on softly pitches balls, I am beyond proud and quickly forget about chasing that stupid little white ball around!

Keeping on the family theme but going in a different direction, I was totally fascinated by this story and wanted to share. It has zero to do with anything I have ever shared, but it's worth a read. I heard about these people after the horrific Christmas tsunami in 2004. **Tribal Nation Refusing to Embrace Modern Times**

Finally, also on the family theme, but on a sad note, a few weeks ago, my friend and client, John, passed away in Rhode Island. He had been ill for a while but I always thought he would somehow beat it, no matter how many times he told me it was impossible. This was a man who never, ever complained and always found humor during the toughest moments. He and his wife had such a great relationship, always together as each other's best friend and companion and I truly enjoyed my time with them.

Those of you who know me well know that I do not do funerals well at all. I have always found them to be uncomfortable. John's was my first Catholic mass at a funeral and I did learn a lot although I would much rather have been celebrating with the family than mourning his passing. The priest ended the service so eloquently by saying "John lived well; he laughed often and he loved much". I will miss you my friend. Rest in peace...

Buy Bonds

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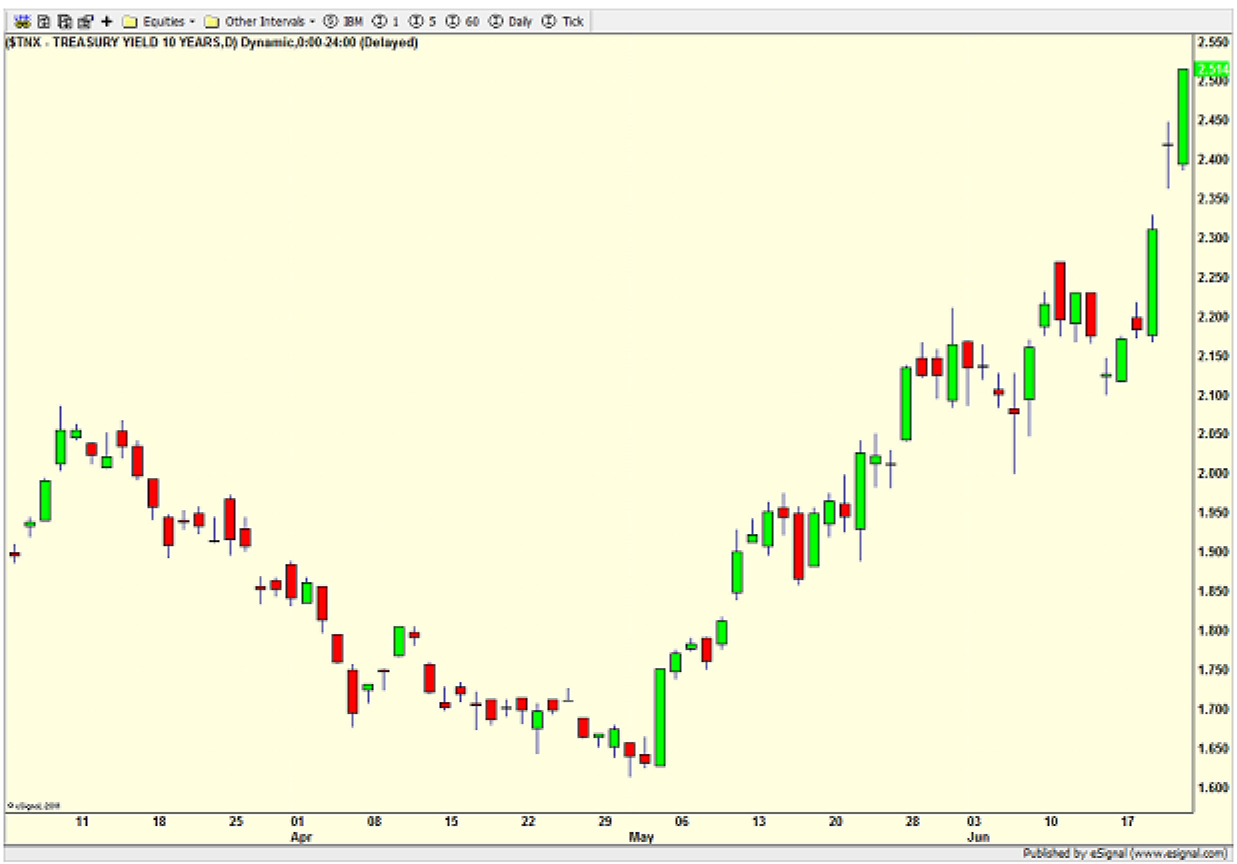
For the past month, the bond market has seen some of its worst carnage since 1994 for those who remember that frustrating and challenging year. Yields are up more than 50% on the ten year note (see chart below) and when bond mutual fund investors get their June statements, I think they will be shocked at how much money they lost in such a short period of time. The secular bull market that began in 1981 has been incredibly kind to bond investors and they are not at all accustomed to what's going on now. By the way, the ten year note is the instrument used to price long-term, fixed rate mortgages.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It's no secret that a 32 year old bull market is living on the edge, but I can't tell you how many people have called for its demise since the mid 1990s. At some point, these folks will end up being right. For those who have heard one of my presentations over the past year, one of my favorite modules is what I call "The Greatest Decimation of Wealth of All Time... Coming to a Bond Mutual Fund Near You". At some point down the road I will write a lengthier piece about that.

After 32 years, investors who are holding bond mutual funds in IRAs, 401Ks and personal accounts better have some active strategy to help them get out because what's lies ahead is downright UGLY! If there was ever a time to hire a professional money manager with the ability to move out and in of that market, NOW is that time! (Shameless plug for firms like mine)

Looking at the chart below, yields on the ten year note appear to be building a foundation over the past two years. That's very different from other periods when rates rose temporarily. In those case, yields just went straight up in a short period of time. The current case looks to be a bit more serious and over the longer-term, targets to the 3.50% to 4% area. Such a move would not be kind to mortgage rates nor the economy!

Now that I have laid out this really negative scenario, let me throw some cold water on that. Yes, yields have risen dramatically, but I think they are close to topping out in the short-term. The move has almost gone too far too fast and it seems like sentiment has shifted to excessively negative. Over the coming days or week, I would not be surprised at all if we saw rates begin to come down a bit with a decent rally in the bond market.

Careful Getting Too Negative Here

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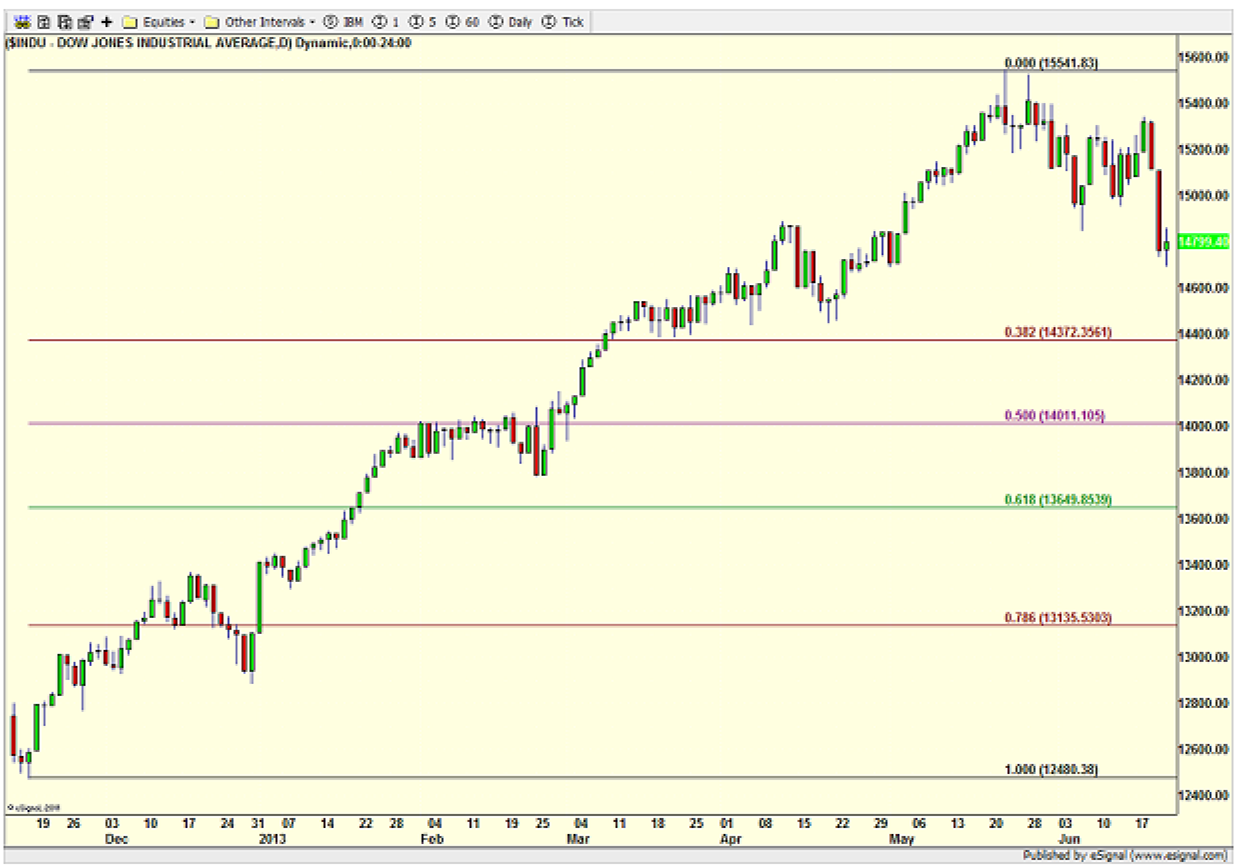
Given the almost total lack of volatility in 2013, the past two days have seemed pretty wild. But in reality, they fall well within historical norms for price movement. Remember, 350 Dow points isn't as big of a deal at 15,000 as it was at 10,000 or 8,000. As I write this, the major indices are down 3.5% to 6% on a closing basis and maybe another percent or so on an intra-day basis. So far, this is just another routine and "healthy" 4-8% pullback.

The popular question this week has been "should you buy the dips". As I will say next week on CNBC and Fox Business, "yes, but". Yes, I think the bull market is still alive although wounded, but I wouldn't run out and load the boat just yet. That time will come either with some stabilization around current levels or another shot to the downside over the coming few weeks or so.

So where do I think the Dow could correct to? At this point, I think 10% from the highs is the max, which is roughly 14,000. That level represents a 50% retracement of the rally that began in November as you can see below. It will also be a popular technical moving average (200 day) in another week or so.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But remember, the 14,000 area is the maximum decline I see at this point. Stocks may not get there. It was just a few weeks ago when almost everyone was falling over themselves trying to buy on any 1% decline and praying for more weakness to deploy capital. Now, after some misconstrued comments from Ben Bernanke, it seems like the bulls are all running for cover and the bears are beginning to celebrate like it's 2008 all over again. I would caution against such a negative outlook just yet...

Bernanke's Successor

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First President Obama says that Ben Bernanke has stayed on longer than he planned. Then he slaps him upside the head by saying that he has stayed longer than he was supposed. And when given the opportunity to walk that comment back, the president not only declines but also doesn't give Bernanke any real ringing endorsement. All very interesting to say the least!

Federal Reserve Vice Chair, Janet Yellen, is the odds on favorite to succeed Bernanke next year and what the market is discounting. Other names being floated are former Treasury Secretaries Tim Geithner and Larry Summers, Christina Romer and Roger Ferguson, none of which are favored by the markets. Long time readers know how little I think of Geithner (disaster would be a complement), but given his desire to be with his family in New York, I doubt that he is a serious candidate. From my seat (and others) Summers is an arrogant, condescending bully who does not play nicely in the sandbox with others. It also seems like he wants the job too much.

I believe that choosing the right Fed chief depends on the economic environment. During strong times, the markets favor more of a hawk who has laser focus on inflation. During crisis times and the aftermath like today, markets are more comfortable with a dove who is obsessed with fighting off deflation. Yellen falls in the latter camp, even more so than Bernanke.

As I have said more times than I can count since 2008, I am thankful every day that Ben Bernanke and Hank Paulson were in charge during the market crisis. I may not have fundamentally agreed with all of their actions, but I firmly believe that they successfully fought off another depression. They may have been late in realizing the contagion and gravity of the crisis, but once they did, it was all hands on deck. Not to be melodramatic, but I sincerely believed they saved what is left of the free market financial system around the world.
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Gold Gets Smacked Down

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When I left off last month, gold had just crashed and started the typical snap back from that panic low as you can see on the chart below. Crash lows are very emotional and driven by many external factors. In this case as I previously mentioned, it certainly had the smell of massive selling by one or several very large holders of the metal, possibly even a foreign central bank.

When we left off with gold, the metal had already achieved our first target, revisited the April and low and was about to begin a rally to our second target in the $1540 area. I wasn't sure if the bottom would hold, but the odds certainly favored that outcome.

"It's too early to say whether or not they will be successful, but the odds are in their favor. The longer the rally lasts without rolling over, the higher the likelihood the second target at $1540 will be achieved during the third quarter."

I then spelled out the risk/reward ratio of $1540 on the upside and $1320 on the downside. At that time, with gold at $1370, it was clearly in the bulls' favor.

Fast forward to today as you can see below and there is a much different story. The rally petered out very quickly and once gold broke below the light blue line
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and both the April and May bottoms, it was as if a trap door opened. Heavy panic selling ensued. I have heard all kinds of global central bank conspiracy theories, JP Morgan and Goldman Sachs manipulation, etc., but the bottom line is that sellers overwhelmed buyers and we are where we are. Rumors make for good media and speculation, but price does NOT lie. Personally, I did not believe this scenario would unfold so I can either act like Wall Street and just say that I was early or be truthful and say that I was wrong. Boy, being early sounds so much better, but the fact of the matter is that I was wrong.

Unless the metal quickly regains the $1350 level, we are most likely looking at further selling and even more record setting negative sentiment before a sustainable rally can begin.

If you are looking for possible downside targets, one way is to look at the big two day decline in mid April and add that on to two days ago when the light blue line was breached. That forecasts about $1150. Another way is take the height of the price movement between the light blue lines and that says roughly $1240. So for now, we will watch gold closely for signs of stabilization and even more negative sentiment before believing that a sustainable rally is set to begin.

Upcoming Appearances

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CNBC's Squawk on the Street - June 24 at 10:00am

Fox Business' Markets Now - June 25 at 1:00pm

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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"The only easy day was yesterday."
- The U.S. Marines

"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.

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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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