July 18, 2013

12:29 PM EST

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Inside this issue

Economy Still Plodding Along

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The last month has been busy on many fronts, but especially on the media side. I did two nice pieces on CNBC which can seen on the main page of our **In the Media** section(http://www.investfortomorrow.com/InMedia.asp). Fox Business was next and that interview can be viewed at http://video.foxbusiness.com/v/2506211035001/markets-stabilizedfor-now/.

The whole investment world must have been on vacation during the week of July 4th as I was invited on The Nightly Business Report for the first time to discuss my outlook for earnings. It hasn't changed for a long while in that companies are beating on the bottom line but struggling to grow revenues (top line). They are doing it with cost cutting, productivity increases and very targeted cost increases. And that's exactly what we are seeing so far this quarter. As I have said many times, I think this all changes on the other side of the next recession.
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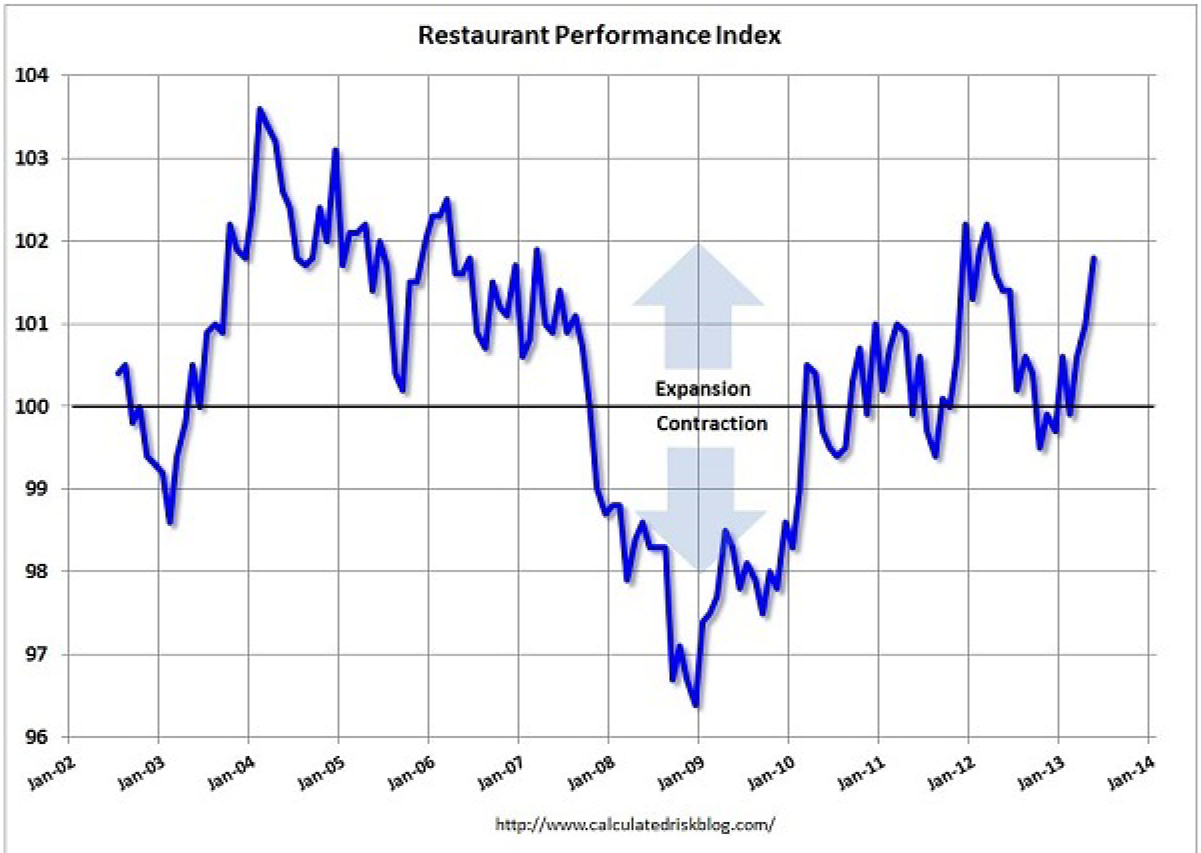
Here is the link. http://nbr.com/2013/07/01/nightly-business-report-july-1-2013/.

There were also nice quotes in the USA Today as well as Investment News that can be viewed on our In the Media section as you scroll down. Next week I head to New York to visit with my friends at Yahoo Finance as well as being in studio at Fox Business on Thursday, July 25th, at 1:00pm.

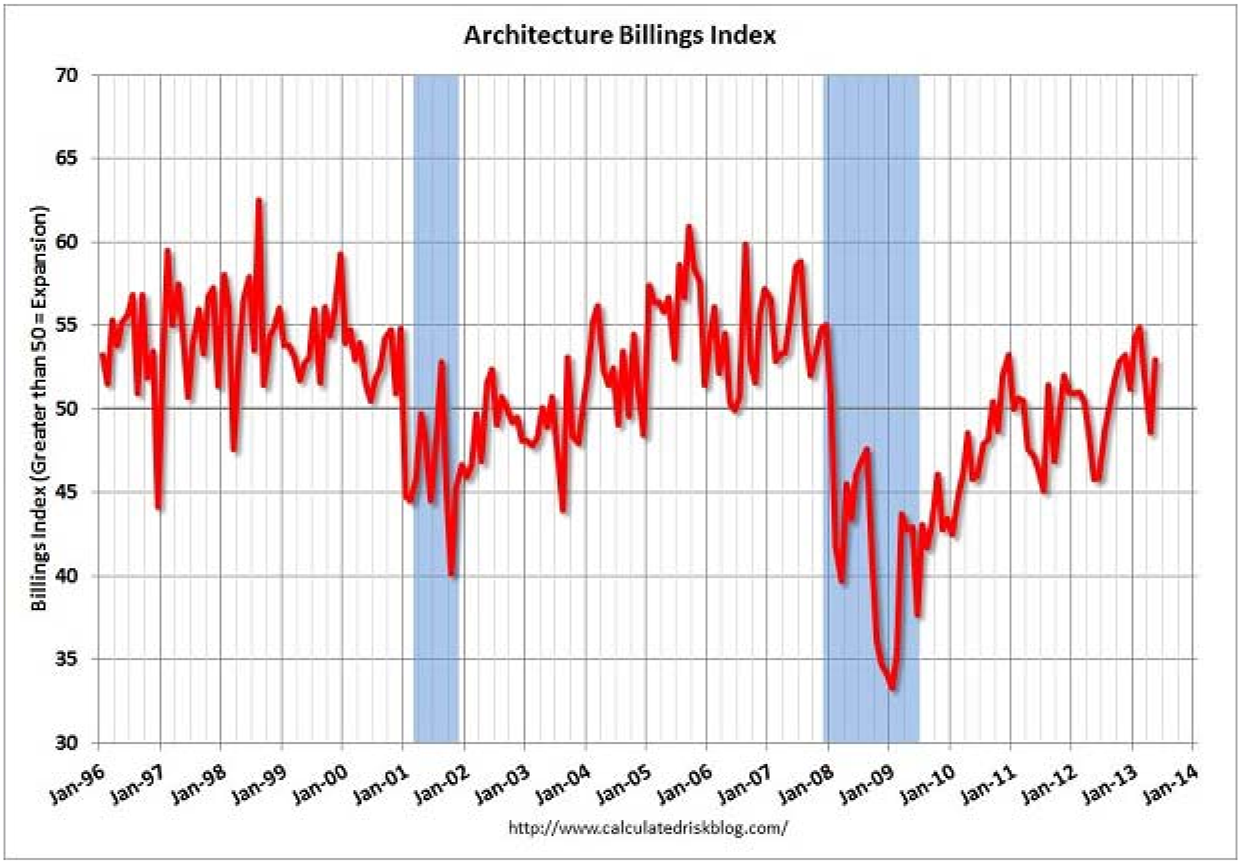
In between newsletter editions, I post a fair amount of information on our blog. You can find that at http://investfortomorrowblog.com. If I am correct, you can also subscribe to the RSS feed and receive automatic updates.

Economically, as you know, my views haven't changed since 2009. We are living the "typical" post financial crisis recovery with sub par growth and stubbornly high unemployment that sometimes teases on the upside and terrifies on the downside. Until we get to the other side of the next recession, I believe it will continue this way.

I often share two of my favorite and off the beaten path indicators to look for clues as to the direction of the economy. They are both very volatile but target different groups. The Restaurant Performance Index (below) is very much how middle America behaves. From the depths in 2009, it took an awful lot of time and energy just to get back to the neutral reading of 100. As you can see now, it has been very strong this year and I would not become concerned until it hit 99 again.



The other indicator I enjoy watching is the Architecture Billings Index which gives us an idea of the commercial market. Currently in rally mode, I expect that to continue at least until the clowns in Washington start posturing about the debt ceiling again. I would not be too concerned until we see a reading under 46.



Several years ago I wrote that at some point I thought the government would start targeting large IRAs and 401Ks. As you know this was recently seen in the budget the Obama administration released. I have heard from folks who said that it will never pass or we should go ahead and do this as the "rich" have too much money anyway. To me those are both dangerous comments. The government has always encouraged financial independence and saving for retirement. This latest proposal is scarey to say the least not only for what it is at face value, but also in my opinion that once we accept this, it is only a matter of time before the large IRA and 401K surtax hits. Barrons does a much better job of articulating the proposal than I ever could.

President Obama Thinks Your IRA Is Too Big

Finally, the article below was a big topic of conversation after it appeared in a Sunday New York Times and certainly worth a read if you haven't seen it.

The $2.7 Trillion Medical Bill

1987 or 1995

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For the past six months when asked about my outlook for 2013 I replied that I thought it would be a front loaded year with all or close to all of the gains during the first half of the year. I have and continue to compare it to 1987 without a one day stock market crash. Others have predicted that 2013 will look more like 1995, the single greatest investing year of the modern era. Now that would make me (and you) really happy! This will be interesting and fun to follow over the coming months.

Let's take a walk down memory lane and examine the years before 1987 and 1995 and the present. We will start with 1986, 1994 and 2012. As you can see below, 1986 blasted off right out of the gate, went into a trading range during the middle and then closed near the peak for the year.

1994 is next and this was a very different year with Alan Greenspan and the Fed surprising the markets by raising interest rates in February. That led to a 10% correction, the first one since 1990. The stock market saw three more declines in June, November and December, culminating in Orange County's municipal bond default after Thanksgiving. Although the major indices only lost a few percent that year, it was an horrific year in the bond market with investor sentiment as negative as you typically see after a bear market.
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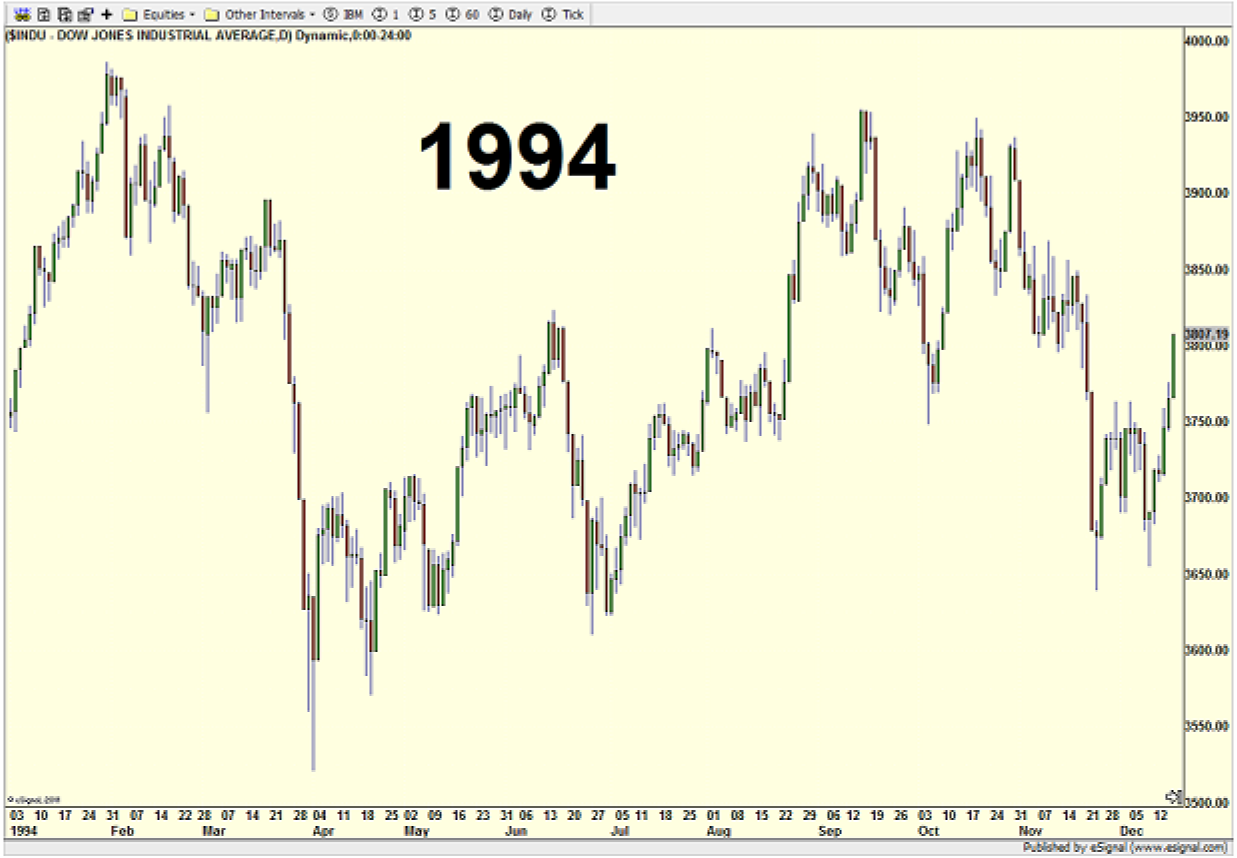

2012 is below with strength right out of the box followed by a correction in May that led to a melt up in stocks before pre-election jitters took the wind out of the sails into Election Day. The usual year-end rallied ensued. Overall, 2012 was a good year for stocks returning 13%, but ending the year with anxiety over the Fiscal Cliff.

While 2012 was not nearly as strong as 1986, it had similar investor sentiment points and nowhere near the negativity associated with 1994. On the surface, it looks like 2012 fell right between 1994 and 1986.

Below you can see the first nine months of 1987 and 1995. In both cases stocks took off as the year began, paused, and then took off again.


($INDU - DOW JONES INDUSTRIAL AVERAGE,D) Dynamic,0:00-24:00
1987
Published by eSignal (www.esignal.com)


($INDU - DOW JONES INDUSTRIAL AVERAGE,D) Dynamic,0:00-24:00
1995
Published by eSignal (www.esignal.com)

Here is 2013 year-to-date, which looks like the average of both years so far.

Now is where 1987 and 1995 begin to diverge. Again, I absolutely do not believe we are going to see a stock market crash like we did in '87, but the pieces are beginning to line up for the largest correction since 2011. The next two charts put it all together best. You can see three distinct almost vertical rallies in 1986-1987 culminating with an August peak and disaster thereafter. In 1994-1995 we see the year long challenging period and the relentless bull run.


($INDU - DOW JONES INDUSTRIAL AVERAGE,D) Dynamic,0:00-24:00
1986-1987
2800.00
2700.00
2600.00
2500.00
2400.00
2300.00
2200.00
2100.00
2015.30
1900.00
1800.00
1700.00
1600.00
1500.00
1400.00
1300.00
Sep Oct Nov Dec 1986 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 1987 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 1988
Published by eSignal (www.esignal.com)


($INDU - DOW JONES INDUSTRIAL AVERAGE,D) Dynamic,0:00-24:00
1995
1994
5300.00
5200.00
5117.10
5000.00
4900.00
4800.00
4700.00
4600.00
4500.00
4400.00
4300.00
4200.00
4100.00
4000.00
3900.00
3800.00
3700.00
3600.00
3500.00
Sep Oct Nov Dec 1994 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 1995 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
Published by eSignal (www.esignal.com)

Today (below), we are somewhere in the middle so far price wise. Alan Greenspan and the Fed were one of the main driving forces behind the collapse in 1987 along with computerized trading and Washington put its foot in it mouth. Is today that much different if Bernanke & Co. start the unwinding process at one of their next two meetings? In my view the only question for the stock market is if it is peaking right now or will there be a 4-8% pullback first followed by a final run to all time highs.

If you are concerned about portfolio or the scenarios I laid out and want to have a more detailed discussion, please hit REPLY or call me directly at 203.389.3553.

Gold Continues Bearish Pattern... For Now

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When we last left off with the gold market (and the chart below), I offered that *"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."*
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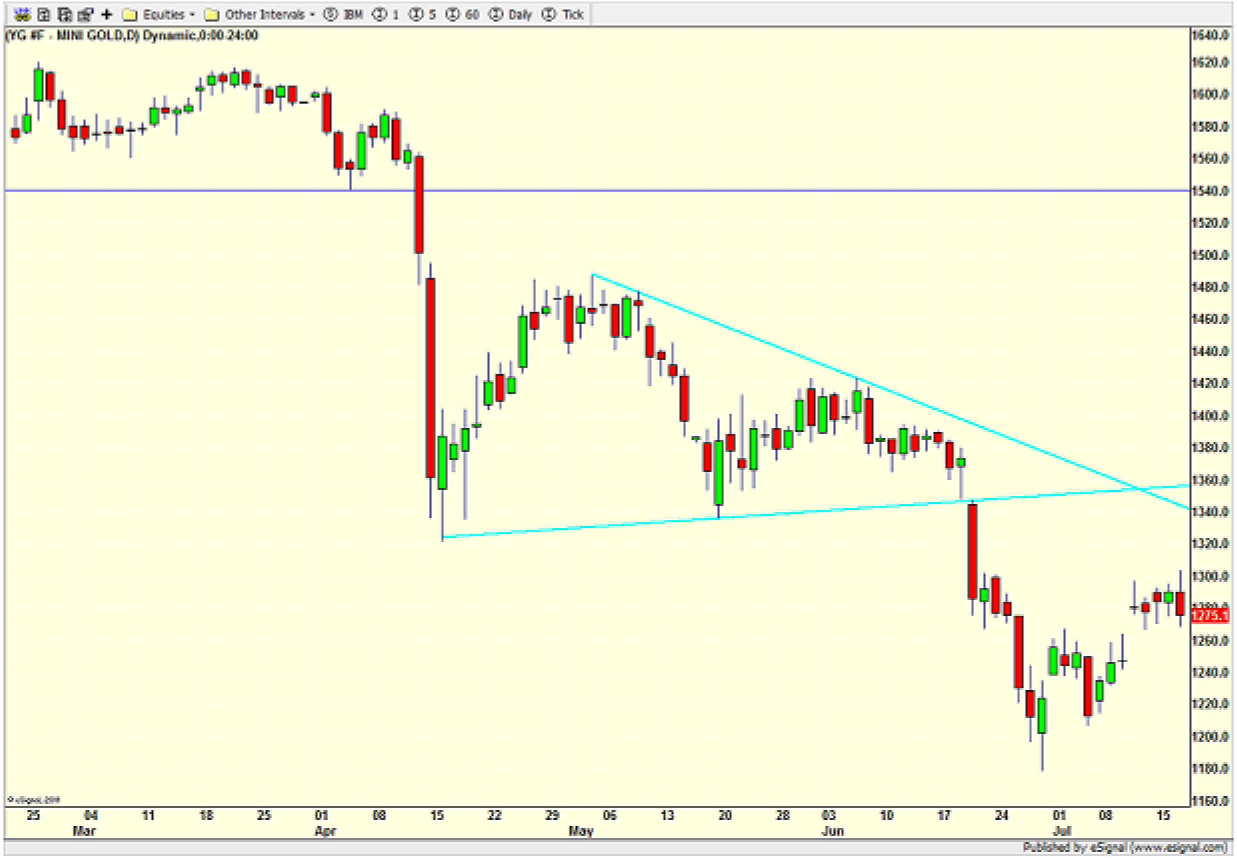
Gold continued its collapse from the time I hit the send button at $1292 all the way down to $1179 a week later. From $1179, it rallied all the way back to $1303 this morning before Ben Bernanke testified before Congress as you can see below.



In this market I usually mention possible upside and down targets. If the current rally peters out, which it is trying to right now, $1150 and then $1087 are logical downside lines in the sand based on technical measures. On the flip side, there are a host of upside zones which should be watched over time, $1350, $1480 and $1540. Since my view hasn't changed that gold remains in a secular bull market, but cyclical bear market, I do believe that all upside targets will be achieved and that the ultimate peak will be above $2000.

Taking a view beyond the short-term, we continue to see record setting levels of negativity, surpassing those seen when gold was $250. What that means is that smart money is and has been accumulating gold on the way down as the dumb money has been selling. So the dumb money has been right and the smart money has been wrong, something that is unlikely to continue. At some point sooner than later gold is going to hammer out a major bottom and rally strongly and not stop, trapping the bears and inflicting pain.

Upcoming Appearances

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Yahoo Finance Breakout - July 25
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Fox Business' Markets Now - July 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.
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-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
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email" hotlink at the bottom of this email.

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