August 12, 2013

4:44 PM EST

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Inside this issue

How Could Anyone Blow Off Jackson Hole in August?

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It certainly feels like August. There hasn't been much global news. Emails come back with the vacation auto responder. Back to school sales are popping up and the NFL pre-season schedule has begun. Go Cowboys! Over the weekend, thanks to the amazing invention called the DVR, I was able to watch every minute of the PGA Championship without commercial interruption. With the help of the mute button, I was also able to enjoy the broadcast without listening to the various announcers drone on about Tiger Woods tying his shoe, opening a bottle of water and taking a sip, getting in to his courtesy car and of course, his ongoing relationship with Lindsey Vonn.

To this Woods detractor (always have been) I absolutely cannot stand when they constantly gush over his shots that almost everyone else on tour can now hit. I laughed when I saw online that he "respectfully declined to be
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interviewed". What a jerk. He gets a pass for that, but when someone else does it, the media comes down on them like a ton of bricks.

The bottom line is that the guy hasn't won a major championship since 2009 and has been reduced to being an excellent golfer just like about a dozen others. He is no longer the invincible Tiger Woods that won tournaments by just showing up and striking fear in the hearts and minds of fellow competitors when they were paired with him. Okay. Enough of my rant...

On the lighter side, my wife emailed me a conversation she had the other day with my 8 year old son after they came home from camp. My son apparently ran in the house and stormed upstairs. Teri waited a few minutes and then went up to speak with him.

Ry: I'm not playing with D (5 year old brother) anymore. He's so annoying.

Teri: Ry, you just need to have patience with him. He is only 5 and it takes him a while to catch up to you.

Ry: I can't. He takes away all of my patience. Great. Now I have none left for the rest of the day.

Teri: Take a deep breath and go for a walk. You'll see one day when you have kids. Sometimes it's hard and you have to learn how to have patience and block it out.

Ry: Oh, I'm not dealing with that. Their mom will stay home and deal with them. I'll be busy with the stock market.

Speaking of the stock market, after a very strong first three weeks of July, the market has quieted down a bit and has been essentially going sideways. That's certainly not unusual, especially for August when there is a dearth of news and catalysts. The Dow Jones Industrials have been weaker than the other major indices which is usually not a warning sign of major weakness ahead. I don't know who said it, but there is an old adage on Wall Street to never short a dull market. That means it's easy for investors to turn negative because of the lack of action, but that's not the right reason to do so. Here were my thoughts on CNBC's Closing Bell last week. **CNBC Interview**
(http://www.investfortomorrow.com/InMedia.asp)

I believe that longer-term, the stock market is building towards a significant peak, but not necessarily the end of the bull market. There should be a 10-20% correction coming later this year or early next. The short-term looks like it could support another rally to new highs this month or a deeper, but mild pullback first. It's almost a toss up.

All eyes are very focused on the Fed as the September meeting looms as possible Taper Part I of the $85B a month in bond purchases. The Fed's annual retreat in Jackson Hole Wyoming August 22-24 would normally be high on our anxiety level, but it seems like the "A" team is staying home and the "B" team is attending. Bernanke isn't going. His ECB counterpart, Mario Draghi won't be there and neither will the Bank of England head honcho. And according to the WSJ, only three of the seven Fed Governors will be in attendance. Talk about diminishing an event! If you have been to Jackson, you know how incredibly beautiful it is in the winter as well as the summer. In August they have warm, non humid days and very comfortable, cool nights. Why wouldn't the global Fed Heads want to spend an all expense paid vacation at The Four Seasons?

I will have more on the turnover at the Fed in coming issues. Given the size of the balance sheet, money printing and how divided the Fed currently is, the composition of the incoming Fed may be the most important of all time, something I don't say lightly. The opportunity for major mistakes will increase...

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.

Canaries Breathing Well Overall

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I haven't done a canaries in the coal mine update in a while, but with the major market indices hitting fresh highs last week, it's time to check if any are dead. Remember, canaries in the coal mine are only useful at bull market peaks and bear market troughs. In other words, they are very helpful at spotting beginnings and endings of bull markets, but not much in between. They are so important because they usually give ample warning that a bull market is living on borrowed time as the canaries begin to die.

Let's start with the major indices as they should all be in new high or fresh highs for 2013 territory. The Dow is first and you can see the all time from last week on the right side of the chart.
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The S&P 500 (very large companies) is next and it, too, hit all time highs last week.

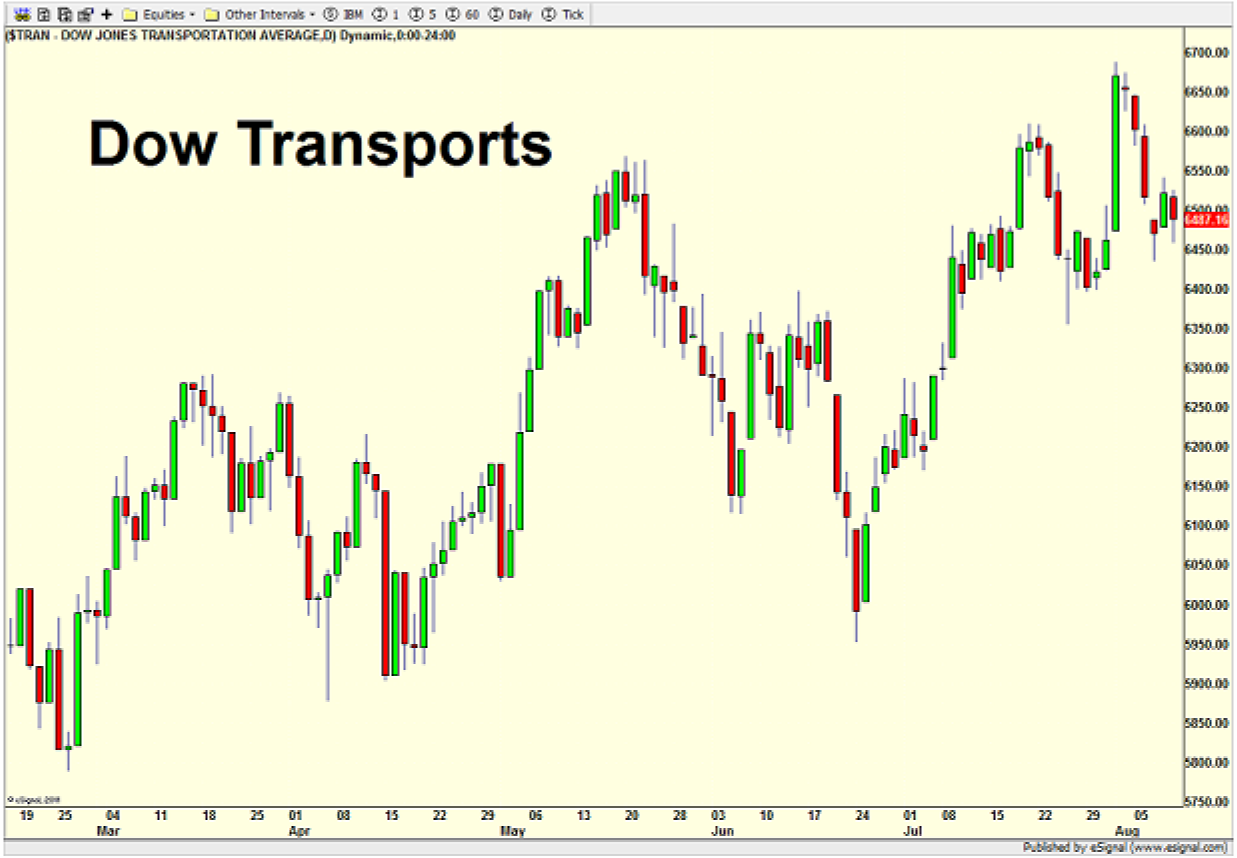
The S&P 400 (medium size companies) is below and it is in line with the first two from above. The S&P 400 is usually the big leader during the mid stages of the bull market as many companies in this index experience their glory years or growth and financial stability.

The Russell 2000 (small companies) is next it saw all time highs last week. This has been the index leader since the June 24 low and pretty much entire bull market from 2009. There have been a few warning signs along the way, but they keep repairing themselves to health.

The technology laden NASDAQ 100 is the final major index and it has done a remarkable job at playing catch up, not only in the very short-term (since mid July) but also over the past year or so.

In summary, all major stock market indices recently saw fresh highs indicating that the bull market is not close to ending.

The Dow Jones Transportation Index is below and this serves two purposes. First, it's a minor index after we look at the major ones. Second, old school Dow Theory offers that the Dow Industrials and Transports should be in sync during major rallies and declines to confirm the long-term trend. At bull market peaks like 2007 and 2000, we usually see one index fail to confirm the other's price move. In other words, if this bull market were ending, we would either see the Industrials or Transports fail to make their final price peaks together. At this point, that's not the case.

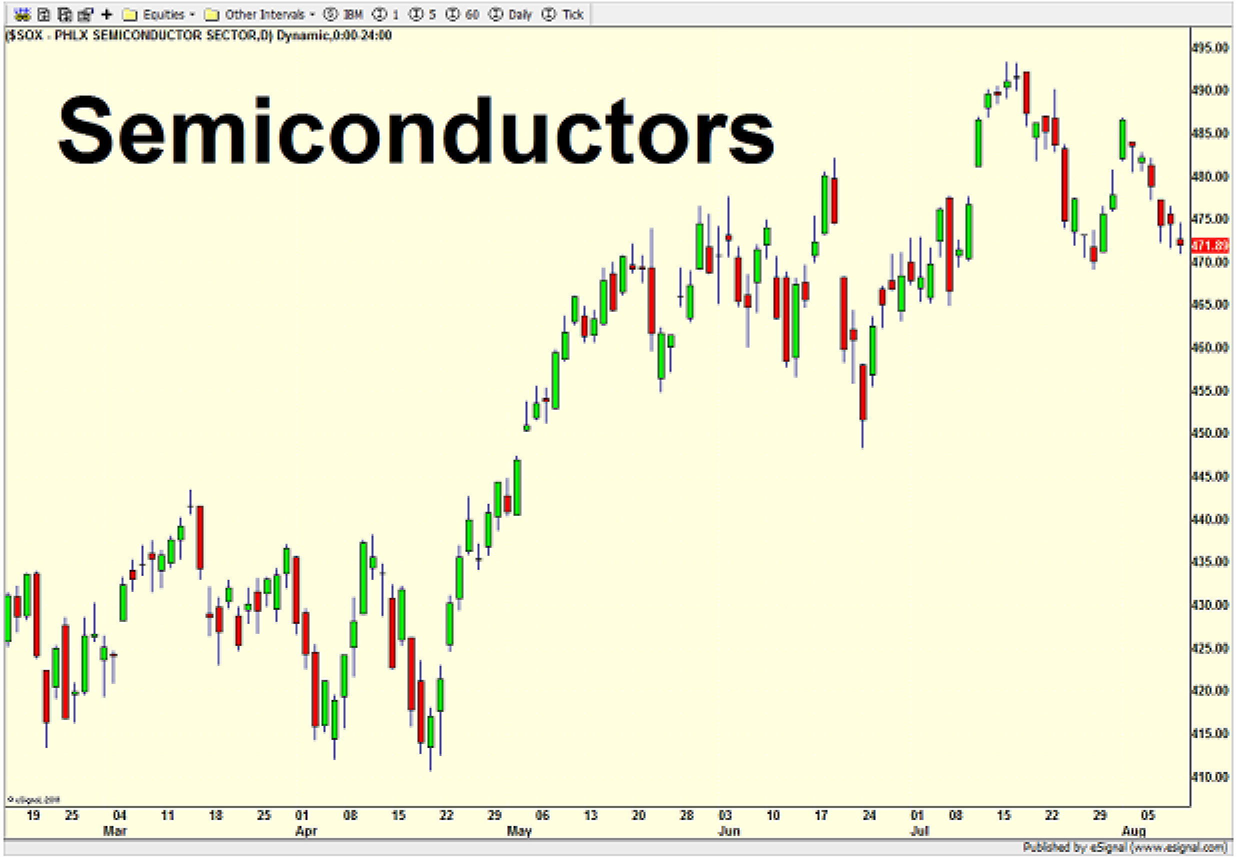


Turning to the bellwether sectors, the banks continue to lead and see new highs on each successive push higher in the stock market. This is healthy action. On a separate note as I mentioned on CNBC's Closing Bell last week, the banks remain one of the most unloved sectors in the market in spite of their huge price gains and leadership role. I am not a fundamental researcher, but if investors can look past the major players like J.P. Morgan, Citi and Wells Fargo where new government regulation may present some head winds, the regional banks and small banks may present some good opportunities, especially if a mergers and acquisitions wave begins.

With overall sentiment towards the banks negative, this group should continue its leadership role and be a good buy candidate after market declines.

The semiconductors present a much different picture. They are so vitally important because of their leadership in the technology sector and technology's leadership in the overall stock market. The semis not only are a long-term canary, but also have some good predictive power for intermediate-term moves, something that would make a good article for the next issue.

I have to admit that this group can be a bit frustrating at times because it gives more warnings than any other canary and the only warning that really matters for the end of a bull market is the final one. As you can see below, the semis did NOT see fresh highs last week and their price is already creeping back into the range we saw during May and June. This is not good behavior and bears watching closely.



The New Stock Exchange cumulative advance/decline line is next. For newer readers, this simply represents the number of stocks that go up and down each day totaled over time. I have found it to be an excellent barometer of liquidity and overall market health even though its warnings can range from a few months to almost two years as we saw in the spring of 1998. Detractors will point to the number of non operating companies that litter the NYSE, but that's exactly why I find this indicator so useful. Those non common stocks are typically closed end bond funds (CEFs) that are acutely sensitive to interest rates. The combination of common stocks and CEFs has proven to be a valuable long-term indicator when the major stock market indices march higher without the NYSE A/D line.

From the chart below, we see twin peaks in May and July, a very mild warning with price going much higher, but nothing that indicates impending doom. This is another canary that should be closely watched now.

Finally, let's take a peak at high yield (junk) bonds as depicted by the PIMCO High Yield Fund. You can use any of the major funds or the ETFs. I just choose PIMCO because it is a very large fund with a long track record. Junk bonds are so important because they are acutely sensitive to ripples in the liquidity stream as well as the economy. They are at the bottom of the credit hierarchy and money typically flows out of the sector at the first sign of economic trouble or decrease in liquidity.

You can see how the fund made its high in May and sold off dramatically into June. What is unusual is that this decline occurred without stocks cratering. In fact, high yield bonds saw more carnage than stocks. And as stocks vaulted higher in July and August, the high yield sector could barely muster a rally to get back half of what it lost. This canary appears to be dead for this cycle. If junk bonds rollover again and we the PIMCO fund in the mid 9.40s, I think that will spell at least some short-term trouble for stocks.

In summary, the canaries are generally healthy with only one dead (high yield) and maybe two on heightened observation (semiconductors and NYSE A/D line). Before this bull market ends, I expect to see many more canaries on the dead list.

If you would like to discuss how your portfolio is acting now or could behave if more canaries bit the dust, please contact me directly by hitting REPLY or calling the office at 203.389.3553.

Annual Credit Report Check

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Credit reports are used by lenders, rental agencies, potential employers and even to qualify you for some volunteer positions, so it's important to make certain your credit is as clean as possible. Checking your credit report is also one way to find out if you are a victim of identity theft.

You can order your free annual credit report

- online at www.annualcreditreport.com,
- by calling 877-322-8228,
- or by completing the Annual Credit Report Request Form (available online at www.annualcreditreport.com) and mailing it to: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.
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www.annualcreditreport.com is the only authorized source for your free annual credit report from the three nationwide consumer reporting companies, so don't fall for marketing pitches from other organizations offering to provide you with a free credit report. Those offers typically come with strings attached. When you contact the site, request credit reports from all three of the major credit bureaus - TransUnion, Experian and Equifax.

If there are any inaccuracies on your report, talk with a representative of the credit bureau immediately and find out what needs to be done to correct the information. But don't stop there. If you suspect identity theft, request that the consumer credit reporting companies place "fraud alerts" in your file to let potential creditors and others know that you may be a victim of identity theft.

A fraud alert can make it more difficult for someone to get credit in your name because it tells creditors to follow certain procedures to protect you. It also may delay your ability to obtain credit. File an identity theft report with your local police at once. Notify any creditors you don't recognize that there is a problem with the account.

Under federal law, you are also entitled to a free report if you are denied an application for credit, insurance, or employment. You must ask for the report within 60 days of receiving notice of the action. You're also entitled to one free report a year if you're unemployed and plan to look for a job within 60 days; if you're on welfare; or if your report is inaccurate because of fraud, including identity theft. Otherwise, a consumer reporting company may charge you for another copy of your report within a 12-month period.

In 2005, the Fair and Accurate Credit Transactions Act (FACT Act), took effect, enabling consumers -- by contacting a single number, Web site or address -- to request their credit reports from the three major credit bureaus at no charge once a year. We recommend everyone make a habit of doing so every year.

Upcoming Appearances

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Yahoo Finance Breakout - October 29, 2013

Fox Business' Markets Now - October 29 at 1:00pm

You can view most of the past segments by clicking below.

Media Appearances

(http://www.investfortomorrow.com/InMedia.asp)
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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
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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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