November 20, 2013

4:39 PM EST

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Inside this issue

The Usual Hodgepodge

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It has been one of those months where deadline after deadline after deadline keeps popping up. I keep waiting to come up for air and take a breath, but it doesn't seem to be happening. I think next week will be devoted to catching up and cleaning up. We have so many exciting things going on here at Heritage that I look forward to sharing over the coming months.

I recently hired Renee O'Connell and many of you have spoken with her on the phone. I certainly understand my limitations and know when I need help. She has been nothing short of Superwoman, tackling project after project and pushing me along. If you call the office, don't be shy. Please introduce yourself to her. I am sure she will be speaking with many of you over the next few months with year-end and tax items.

What I thought would be a quieter time around the house has certainly not ended up that way. It's been the usual chaos with the addition of my daughter
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and I stepping up our support of the UCONN Lady Huskies basketball team. If you haven't followed, it's been one heck of a start to the season, especially considering the team lost their two small forwards and one All American to injury during the trouncing of then #3 Stanford. Our calendars have December 17 circled for the showdown of the year against #2 Duke.

It has also been a sad few weeks as two of my high school classmates passed away. My class was only 104 kids and I knew them all very well. I am only 47 so for 5 classmates to be gone already seems awfully high. This week, I lost my friend Lauren Farber whom I have known since I was three to brain cancer. She was always one of the smartest, nicest and prettiest girl in school. May she rest in peace.

Turning to the markets which is usually in a separate article below, the Dow hit my 16,000 target this week and to be crystal clear, I do not believe the bull is over. HOWEVER, as I have mentioned in social media, market sentiment has become very frothy, meaning there are too many people with positive views. In fact, the level of bullishness is at rally killing levels, but not bull market killing levels.

Stocks are in dire need of a 2-8% pullback to restore some level of nervousness. Given how favorable this time of year for the markets, it is going to be interesting to see if we see weakness now or not until the New Year. The longer it takes and the higher the market goes, the larger the decline historically. If stocks go another 5-7 weeks without a decline, I would begin to argue for a full fledged correction of 10-15%, something we haven't seen since Q3 of 2011.

Bonds and gold have weakened substantially more than I thought and are both at risk of completing a failed rally. If so, that would usher in several very negative scenarios into 2014. On the flip side, my short, intermediate and long-term very positive forecast on the dollar remains in place and correct for now. As we head in to 2014, it will be time for the bulls to really step up and get the bull market recognized by the masses.

Finally, we all know how powerful the credit reporting industry is with Experian, Transunion and Equifax. But have you ever thought about what happens when you find an error on your credit report? Good luck trying to fix it! Even if it is beyond obviously wrong.

Click on the link below to see what 60 Minutes uncovered. You won't believe it! **Credit Reporting Nightmares**

Don't forget to check our blog for intra-issue updates. www.Investfortomorrowblog.com.

Twitter, Facebook and other "HOT" IPOs

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Two weeks ago, Twitter began trading in one of most highly anticipated IPOs in years, very similar to Facebook. You can view my very negative initial comments here. http://investfortomorrowblog.com/archives/826. Given the history of previous social media IPOs and the fact that so many people simply do not learn from history, I thought it was worthwhile to share this piece I wrote on the blog.

Right after Twitter came public, I did a Fox Business interview that you can access **HERE** or http://bit.ly/1jl78Od that focused on Twitter as well as the implications for the stock market.

When visiting a 401K client the other day, I was amazed at how many of the older participants approaching retirement were interested and asking questions about Twitter's stock. These are the same people who have balanced portfolios because they have lower risk tolerances than standard equity investors.

The conversations usually start like this. "My friend said...", followed by, "He/she always tells me how much money he/she made in..."

To me, that's usually the clue to do the exact opposite. When people brag about their winners and never discuss their losers, I have found that the tips they give rarely pan out and are often disasters.

"Hot" IPOs like Twitter and Facebook are usually very emotional and as I have discussed over and over, emotion in investing can have a very detrimental impact on your portfolio! I went back and found similar IPOs to show you what transpired over the coming few months. The results should not be surprising.

Facebook had all kinds of problems right out of the gate and you are welcome to search the archives on the blog for my very opinionated view. As you can see, it was almost straight downhill for four months before THE bottom was hit.


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LinkedIN is next and similar to Facebook, there was immediate and significant weakness before a good low was seen.

Just like with LinkedIN, Groupon experienced the ole buyer's remorse right from the start with the first meaningful trough coming about a month later.

Yelp bucked the trend somewhat with only a shallow initial pullback, but the stock didn't escape the carnage as you can over the first three months.

Zynga was just like the others with an immediate month long decline to a good trading low.

Google is below and this is certainly not a social media company like the others. But at the time, it was an incredibly hot IPO. It was also during a very different investing climate back in 2005 with vastly different results. It does not belong in the group above, but I figured I would answer the question before it was asked.

The moral of the story is that most times, investors are rewarded by having patience with hot IPOs. Personally, I would rather be late and pay up than be early and lose a lot of money.

Notable but not a "Happy" 5th Anniversary

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This fall marks the 5th anniversary of the longest and most accommodating spell of monetary policy in the history of the United States, with the federal funds rate about as low as it can be - 0.25% annually.

Whether the anniversary is a cause for celebration or concern is a question of benefit. For retirees and savers, there's little to celebrate. Low interest rates have devastated many retirement plans, forced individuals into riskier investments to try to maintain the earning power of their savings, and inadvertently spurred a dramatic increase in investment fraud.
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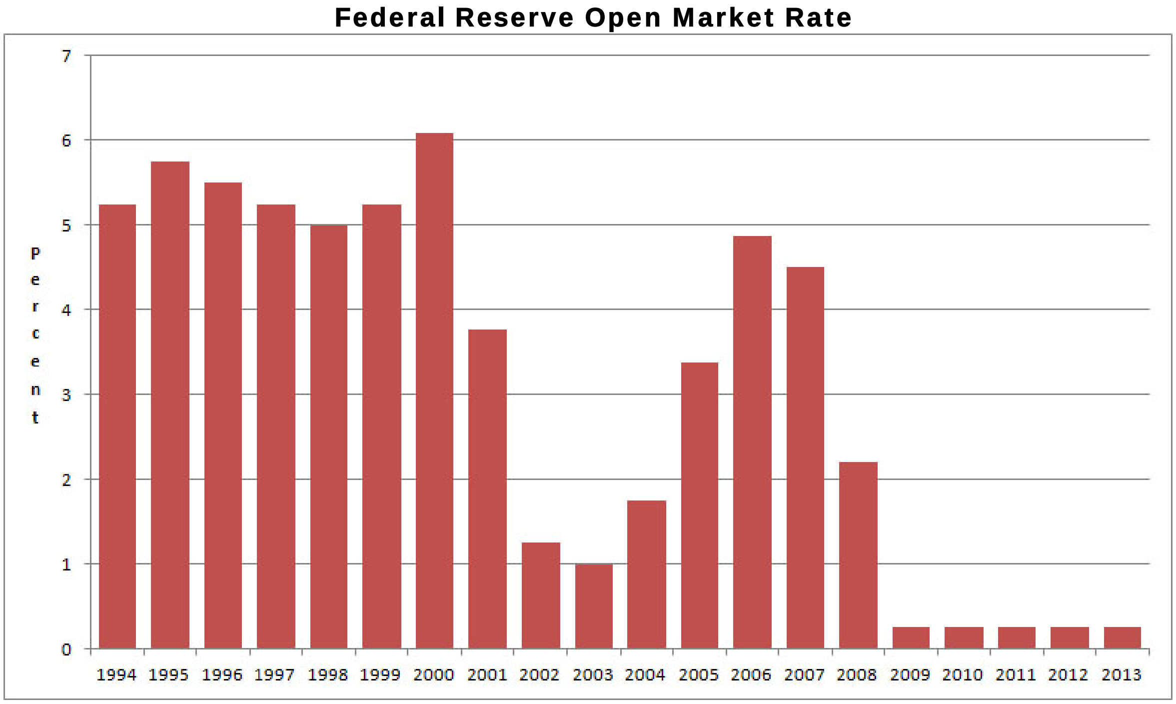
For stock investors, the anniversary looks quite a bit better. From the end of 2008 through Octobert 2013, the S&P 500 had risen 100%. Low interest rates also produced record returns for bond investors over the last five years. But the length of time the low rates have been in effect signals vulnerability for these gains.

American economist Hyman Minsky pointed out that the problem is stability leads to instability. The longer a condition or trend exists, the more systems, individuals and businesses adapt to the condition, producing unstable financial arrangements. Thus, says Minsky, the longer the period of stability, the higher the potential risk for even greater instability when market participants must change their behavior.



Given that everything tends to return to the mean, that presents a further problem because today's rates are so far out of whack with historical data. For the last 20 years, the Federal Reserve Open Market Rate has averaged 3.7%. That is almost 15 times the current rate.

While individuals and businesses may intuitively grasp that rates can and will move higher, that doesn't always appear to be the case for government entities. Higher rates will have a dramatic effect on the cost of government borrowing, putting more pressure on revenue generation or in the case of the federal government, printing money to cover interest payments. Upping tax collections inevitably depresses economic activity because consumers and businesses have less to spend, while printing money leads to inflation and its painful side effects.

The temptation is to simply keep rates at their artificially low level and avoid the pain, something that I believe has to be done through the next recession.

But then we come back to Minsky's theorem - the longer the period of stability, the higher the potential risk for even greater instability. It should be an interesting five years ahead.

Upcoming Appearances

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Yahoo Finance Breakout - December 4, 2013

Fox Business' Markets Now - November 20 at 1:00pm

Fox Business' Markets Now - December 4 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.

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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