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## Inside this issue



## Starting off 2014 on the Right Foot

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Yesterday, I had the privilege of delivering my **Top 5 Tips for Financial Fitness in 2014** on Fox 61's morning show. If you click on the link, they show my entire big list of 16, which will be edited and updated in a report I create every January. I say "privilege" because the producer essentially allows me to write the segment and steer it in the direction I think benefits the most viewers. This is something I really enjoy doing and would love to do it more often, but the local networks don't have much interest in financial segments.

With the New Year off and running, my 2014 Fearless Forecast is overdue along with my Top Shockers report. They are both basically done, but need some fine tuning with charts which I hope to do over the weekend and early next week.

For the first time since 2006, I actually saw a movie in a movie theater. Teri and I hit up American Hustle and I guess we are two of the very few who thought it was only good not great. I left thinking that I would have been just fine waiting
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for it to come out On Demand.

Last weekend, one of my ski buddies had his annual MLK Weekend party to celebrate his birthday a few weeks late. That's my friend's birthday not Dr. King's, but I guess it's more like dual celebration! One of his friend's brought a copy of The Wolf of Wall Street, the movie I really wanted to see in the theater instead of American Hustle. I had to stop watching after 45 minutes because the movie was funny and outrageous (and partially not believable) I wanted to see it on the big, big screen. I came across this article and while I am not sure it's 100% genuine, it was interesting nonetheless.

**Wolf of Wall Street's Daughter Responds**

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

## Stocks Continue to Decline as Expected

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Since the start of the year, I have been very cautious on the stock market, primarily due to market sentiment being at rally killing levels along with finally losing the tailwind of the positive calendar effects. The risk/reward looked so unfavorable that we took across the board action in many of our portfolios raising cash to even 100% in some cases, levels not seen since 2012.

On average the major indices have gone nowhere for the past month with the Dow being the weakest and the Nasdaq 100 being the strongest. Over the past two days, the stock market has fallen with a slew of international news and earnings being blamed. That's only partially true. If stocks were emerging from a low, they would have ignored the "bad" news and powered higher. Stocks were looking for an excuse to pullback and they got it.

My target has been for a 5-10% decline, the largest since 2012, and that's still the case. I reference the lows hit in December when the Fed announced the taper as price levels to watch in a general sense.

While the carnage has been real this week, market internals remain very solid and should lead to much higher prices after the weakness ends. I remain steadfast in my belief that while the bull market is old and wrinkly it is very much alive. The DNA markers we typically see when a bull market ends are simply not there at this time and they will take weeks, months or even quarters to appear.

For now, the short-term decline continues and we will begin looking for signs of a bottom at the -5% mark.

## Goldman Sachs and the "Curious" Biotech Downgrade

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I like to take things at face value. It's makes life so much easier that way! But every once in a while, and probably more so in this business, some things just make you go "hmmmmmmmmm...". Two weeks ago, Goldman Sachs issued a very public call on the biotech sector. If it was almost anyone else, you would shrug your shoulders and move on. However, with Goldman, I sometimes take the "curious" stance, rightly or wrongly so.

Goldman downgraded biotech as it digested a series of all-time highs. While it wouldn't have been the place I would have downgraded a group, it's certainly their prerogative. Curiously, that day saw biotechs' lowest close of 2014 and a breakdown from the pattern which presumably caused some stops to be hit and more selling. But the very next day, the sector began a 9 day, 10% nearly vertical rally.

So the question that begs to be asked is, did Goldman downgrade to force stock from weak hands to strong hands before the big rally? OR, did Goldman just make an embarrassing bad call in the short-term?

I will let you decide...

## Missing the Best & Worst... Active Management

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There are a number of reasons to be wary of the financial markets in 2014, from the difficult economic and political decisions facing the President and Congress to the potential of the U.S. economy stalling, violence in the Middle East, and economic uncertainty in Europe and China. Add in the presidential cycle, where stocks have historically performed worse in the second year of a president's term, and a conservative investment posture looks even more attractive.

Except when it doesn't.

The problem with taking a too conservative approach to investing in 2014 is the loss of opportunity. For the financial markets, the last decade has been one of underwhelming returns on an historic basis. Many retirement plans are underfunded, goals have been postponed, and quality of life reduced in response to economic concerns. If there is an opportunity for investment gains, the conservative investor is likely to miss those gains... keeping in mind that reverse is also true, a conservative posture may avoid losses.

Markets are not always logical, nor do they necessarily meet expectations. The number of highly paid and highly respected market analysts who have been 100% wrong increase each year.

All of which adds up to the reason we believe an active approach to investing is essential. Active investment management is the effort to identify and invest in sectors of the market that are increasing in value and to avoid investments that are losing value. A typical active investment approach relies on quantitative and technical analysis - looking at what the market is actually doing at the moment versus expectations or forecasts. An active investment strategy cannot guarantee profitability. Not every buy or sell decision will be on the right side of the trade. But active management is the only investment approach that allows the investor to react to current market action to limit losses or position assets to strive to take advantage of rising trends.
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The common argument against active investment management is the "Miss the Best" analysis. In this rebuttal of the active management advantages, the critic points out that there has never been a perfect investment approach and that by taking an active approach to the market the investor runs the risk of "missing the best days of the market," resulting in a significant reduction in returns.

What "missing the best" proponents carefully overlook is the power of "missing the worst." The table below shows what the impact would have been of missing the 10, 20 or 40 best, worst, and both the best and worst days over the last 25 years.

**Impact on Average Annual Return**
**S&P 500 - 25 Years Ending Dec. 31, 2012**
**Average Annual Return 7.26%**

| | Miss the Best | Miss the Worst | Miss Both Best and Worst |
|---|---|---|---|
| 10 days | 3.54% | 9.74% | 7.03% |
| 20 days | 1.60% | 14.63% | 7.50% |
| 40 days | (1.59%) | 18.31% | 7.76% |

*Source: Hepburn Capital Management 2012 Study. The S&P 500 is an index and as such cannot be invested in directly.*

Keep in mind this is a hypothetical example. Statistically, missing only the best or worst days of the market is virtually impossible. In fact, because the best days tend to closely follow the worst days, sometimes occurring back to back, a likely scenario is that an investor would miss both the best and worst days. Which isn't a bad thing based on the hypothetical returns. Missing both the best and worst days outperforms a buy-and-hold position with significantly less volatility/risk. However, there is a lot more to the market's ability to produce gains than a limited number of days. The goal of active management is to make certain investors are participating in upward trends, the longer the better.

What is perhaps most important about an active management approach is its focus on minimizing losses should the market turn against a position. By having the ability to respond to market declines, portfolios can leave the shelter of conservative, low-return investments and take on more risk in uncertain markets.

With that said, the active management approach needs to be the right one. That means speaking with us to understand how investment decisions are made, when a defensive posture results and the potential for drawdowns (fancy word for losses) in the portfolio. While the goal of an active investment approach is always to return alpha - excess return over the market or benchmark - its ability to limit risk is crucial in the uncertain markets ahead in 2014.

## Upcoming Appearances

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WVIT (Fox61 in CT) - January 23 around 9:30am

The Second Half - May 15 9:30am - 11:30am (live class. contact me for details)

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, 1984

"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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