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Inside this issue

See You Soon Ben... Welcome Ms. Yellen

As the calendar turns to February, we say good bye to a man I believe has been the greatest Fed chair of all time, Ben Bernanke, who joins the Washington think tank The Brookings Institute. I won't rehash the last 8 years and the dozens of articles I have written, but after being late to the party, I believe Ben Bernanke, Hank Paulson and their minyans saved the global financial system from complete collapse. And I willing to argue that point until the day I die.

Long ago, I did forecast that Janet Yellen would succeed Helicopter Ben and Ms. Yellen is now firmly in charge. I doubt much changes although as I have written about since last May, I remain 100% against any taper whatsoever! It's the wrong move at the wrong time for the economy and markets.

I am in the process of finishing an article about the various little or not so little crisis that seem to hit incoming Fed chairs. I will post that on investfortomorrowblog.com soon. And speaking of the blog, I have become very active during the week with short posts and I invite you to bookmark the site and visit it daily. Hopefully, we will set up an email service that notifies you whenever something has been posted.

For those of you planning on making **2013 retirement plan contributions**, I urge you to take advantage of the weakness in the markets, although not in our strategies, and do so much sooner than later. I just finished doing mine and eagerly await the opportunity to deploy that cash along with the rest of my cash during this quarter. Please do not delay and wait until the last minute!

My travels around the country continue this quarter and I am scheduled to be in San Francisco and LA along with my usual local visits to New York, Rhode Island and Boston. If you are in any of those areas and would like to grab coffee, a meal or an adult beverage, please email me.

Finally, as Mother Nature has not been kind to commuters, schools and parents this winter, what a great time for **The Perfect Nap**.

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

Stocks Continue to Decline as Expected Part II

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The pullback in stocks is gaining steam once again and that's a good thing for my scenario. Having been negative since the beginning of the year and taking appropriate action in our portfolios, I am just starting to see the early stages of fear and a little panic that usually leads to a low.

Very bullish sentiment readings during Q4 2013 are what led to this decline, no matter you hear in the media about the emerging markets. I still find it laughable that professionals actually stated publicly that our almighty Fed should or might consider not adding to the taper because stocks declined 5% or that the Turkish Lira was under siege. Talk about laughing out loud!

Getting back to the decline at hand, downside targets are developing as you can see from the rather busy chart below of the S&P 500. Be forewarned, this may get a little technical.

1 - You can see the first decline labeled "impulse move", which is a fancy way of saying that the uptrend changed with some strong selling.

2 - A period of digestion usually follows which marks a temporary stopping point before another decline or equal or greater magnitude ensues, which we are seeing today.

3 - The target of that decline is the 1700 area on the S&P 500, which is also the average price of the last 200 trading days, a very popular and widely watched line.

4 - Just above that area is a horizontal line marking the last high in the S&P 500 before the last
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pullback, another area where buyers could come in.

Stocks are getting closer and closer to an area where an intermediate-term rally can occur. In the short-term, snap back rallies like we saw last Thursday, can and will occur at any time and as early as Tuesday. If you are a bull, those days are not constructive, contrary to what you hear from the pundits. The market is better off seeing a sharp down opening with some firming during the day and into the close.

If your portfolio isn't performing as you expect or would like an independent evaluation, please hit reply or call me directly at 203.389.3553.

Longer-Term Canaries Pretty Quiet

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It's been a while since I last updated this column, but it's not because I am lazy! There simply haven't been enough changes in the data to warrant an update. The rally through year-end was very powerful and almost all areas we in gear to the upside. And even today, while there may be a few warnings, we don't have bull market ending conditions in place. That potential climate seems to be months, if not quarters, or more away.

Let's start with the indices and the Dow. All was well right into year-end and then something began to go wrong in a small way. The Dow has now given back all of the gains achieved since the last Fed meeting in mid December.
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The S&P 500 is next and you can see it was a touch stronger than the Dow to begin 2014.

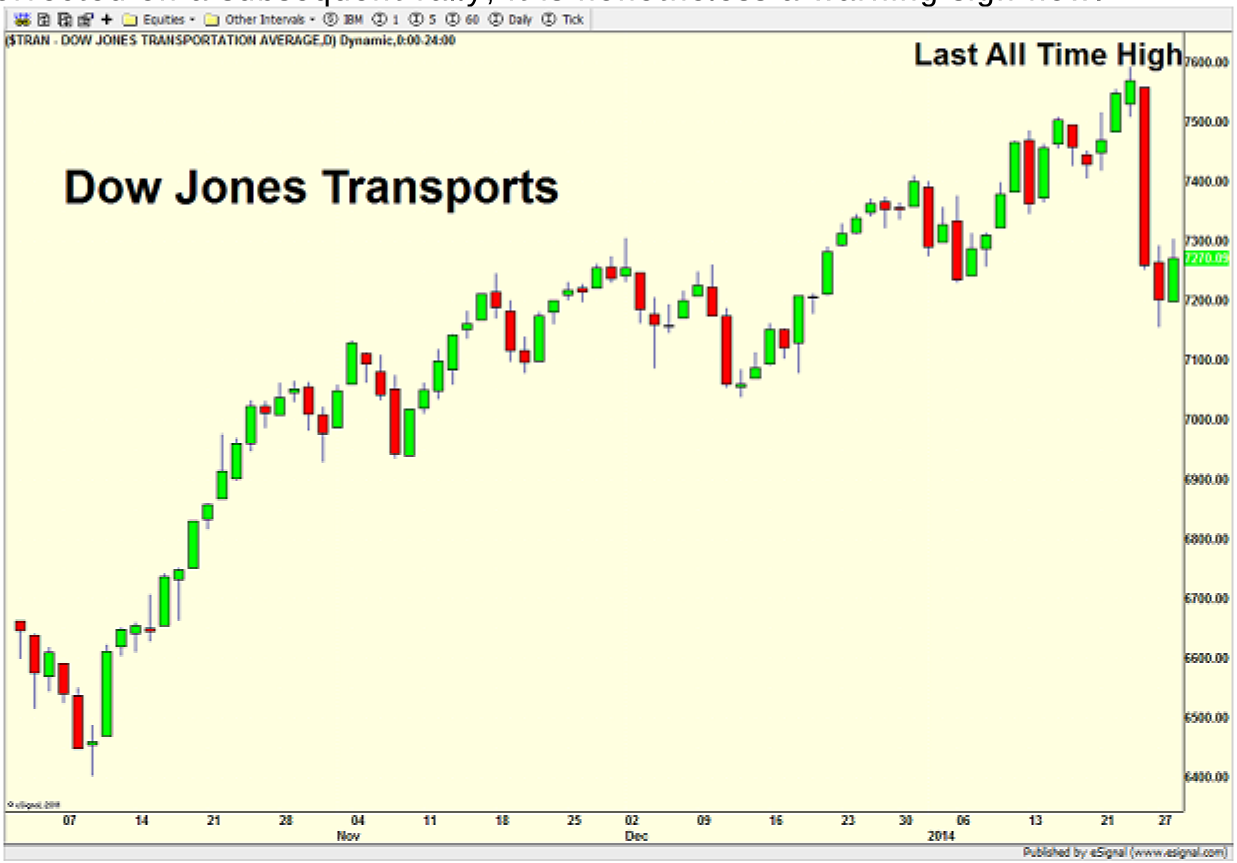
Turning to the S&P 400 Mid Cap below, a very different picture emerges as all time highs were seen last week.

Next is the Russell 2000 Small Cap and just like the S&P 400 above, this index hit all time highs last week unlike the Dow and S&P 500.

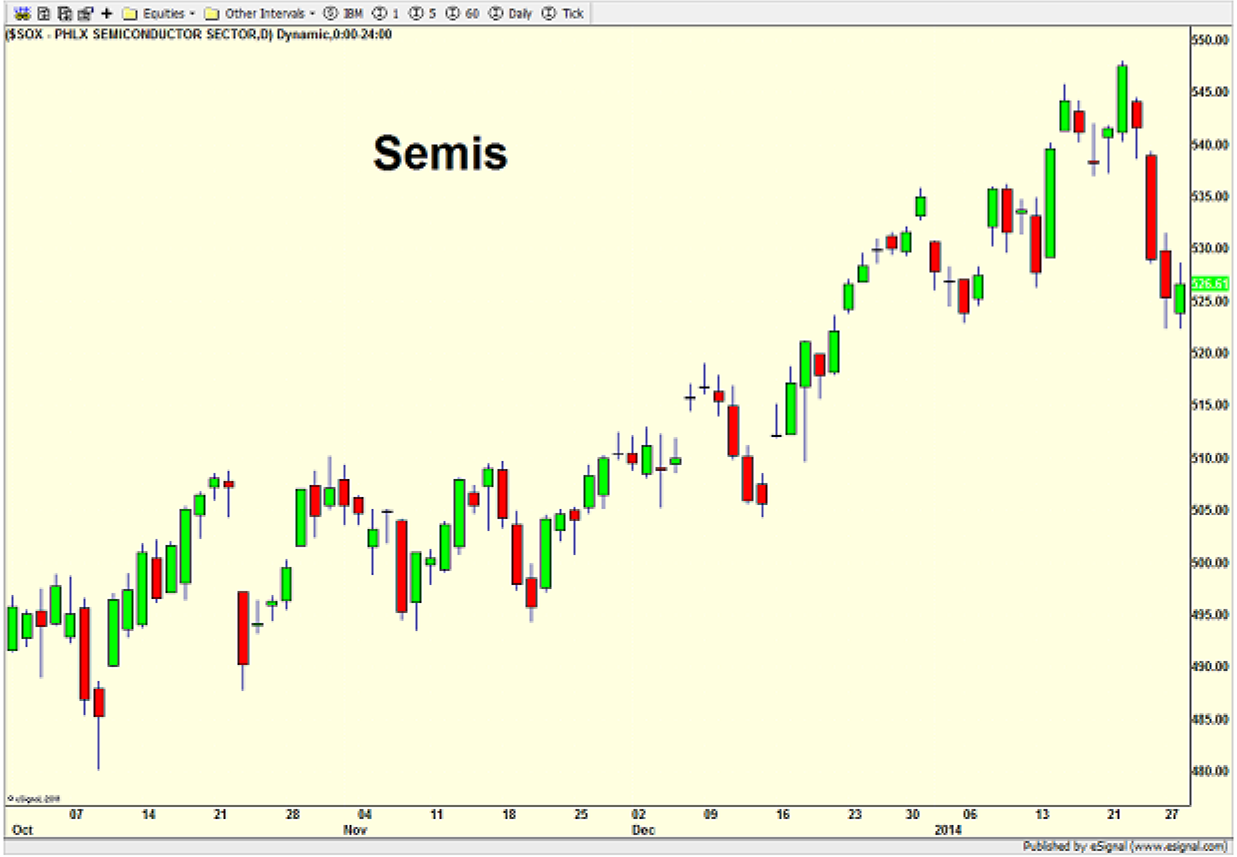
Finally, the Nasdaq 100 is below and it looks very similar to the previous two indices except that it's all time still remains from the Dotcom Bubble in March 2000.

Looking at all of the major indices, we have two small warning signs from the large cap space.

Moving to the key stock market sectors, we can see the Dow Jones Transports and its recent all time high last week. On the surface, that is very good action, but traditional Dow Theory would call a non-confirmation or divergence since the Dow Jones Industrials did not also see all time highs. While this can easily be corrected on a subsequent rally, it is nonetheless a warning sign now.



The semiconductors are below and they look very similar to most of the other charts with the last major high seen last week. This group is so crucial to the health of a bull market because historically, as go the semis so goes technology. And as goes tech so goes the market.



Banks are last in the sector space and they have really kicked it into high gear since the October bottom. It's hard to argue with their leadership or that of the semis.

Another way to graphically see the underlying strength in the stock market is through the New York Stock Exchange Cumulative Advance/Decline Line which simply tallies the number the stocks going up and down on a given day and adds them to the previous day's total. As you can see below, the NYSE A/D Line just recently made another all time high, which is not something we typically see at major market peaks.

Lastly, let's turn to the high yield (junk) bond sector, which is one of the primary canaries we watch. Junk bonds are among the riskiest and most volatile in the fixed income area and are definitely among the most sensitive to ripples in the liquidity stream. After being left for dead during the second quarter of 2013, they did a complete 180 and slowly and steadily marched back to all time highs, surprising many people, including me! It's going to take another mini cycle before high yield warns again.

Summing it all up, the bull market is old, but alive and basically well. We have a few yellow lights from the Dow Jones Industrials lagging, but that can and may be corrected during the first few months of 2014.

Upcoming Appearances

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

DMI Regional Meeting - February 13 11:00am

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)
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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 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
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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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