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Summer Flying By

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I am headed to New York City this Thursday for client meetings and media interviews. My first stop is a visit with the good folks at Yahoo Finance where we will likely create three videos that will be posted on their site under the Breakout section. I am also scheduled to be on Fox Business' Money with Melissa Francis between 2 and 3 PM. If and when I get the exact time, I will forward along. Since her days co-hosting CNBC's Morning Call, Melissa has always been one of my favorite anchors and I am very excited to join her for a market discussion.

It seems like at least four or five times a year, I begin this section with "I cannot believe it's 'blank" time of year already." Right now, I can't believe it's already mid August. Where did summer go? My grandmother always tells me that the older you get, the faster time flies by, especially when you have kids. One day, she predicts, I will wake up and ask where my life went and how did I get to be so old. My grandmother is always right about life things and most other things as well!

Summer has been crazy busy at home as well as the office. All three kids have had their fair share of camp experience and now having just been informed of their teachers, school is just around the corner. Teri and I have done a bunch of family days, including some with the kids' friends in tow.

A few weeks ago, as peach season began in CT, the family plus one headed to our favorite
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farm, **Lyman Orchards**, and scored 30 pounds of primarily white peaches plus another 5 pounds of blueberries. While eating fruit off the vine is always fun, the little guy in the blue tee shirt below went into stealth mode, sneaking around the orchards, hiding behind trees and bushes as he bombarded his older sibling and parents with peaches and blueberries! Apple season officially started so I am sure there will be many more visits to Lymans before long.

Last weekend, the five of us hit up mini golf with the winner choosing the ice cream venue. Surprisingly, I did not win and was not happy about it! But with a visit to**Rich Farm** for the freshest ice cream in huge variety just down the street, it wasn't hard to get over my mini golf loss.

Finally, do NOT click on this video unless you are ready to laugh out loud! It is really, really funny!

Hysterical Video

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

Reading the Short-Term Tea Leaves

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Over the past few weeks, I have been very active on**www.investfortomorrowblog.com**, posting mostly shorter-term comments regarding the recent pullback and anticipated bounce I started to see coming last week.

I try to add comments during the week when I have a few minutes and there is something to say, which has been very easy of late. If you would like to be notified when a new blog piece has been posted, please sign up here, **http://www.investfortomorrow.com/BlogAlerts.asp**.

To reiterate a comment I think I have made each and every week for at least three years, the bull market may be old and wrinkly, but it's not dead. It continues to be the most disavowed and hated bull market of the modern investing era and that's why it will live on. On an almost daily basis, another "market professional" comes out of the woodwork on why stocks should not be at these levels.

Several good friends of mine in the industry have been calling for a 20% decline since early 2012. They tell me that the stock market is manipulated and is heading for doom. Those are the same people who when on the correct side of the market, tell me that it's all just the normal functions of the capitalist system. To me, it all sounds like sour grapes and rationalizing a wrong position. I have been wrong many times in my 25 year career and will be wrong many more times before all is said and done. It's okay to be wrong, but it's not okay to ignore the evidence and stay wrong.

Given my long-term view, that doesn't mean that the stock market won't pullback or correct from time to time. It's been just about three years since the last full fledged 10%+ correction which ended up being roughly 20%. Stocks are long overdue for significant downside, but that doesn't mean it will happen tomorrow. I have been in the pullback (4-8%) camp for several weeks and remain there today.

At this point I see three possible scenarios for stocks over the coming months, two of which can be seen below. The first one is labeled "bullish scenario" as it has the current bounce running out of steam sooner than later, followed by a decline that exceeds last week's low by a small margin into the "cushion zone".

The "cushion zone" is an area where the market spent most of its time between mid February and late May recharges its batteries for that powerful spring rally to all time highs. On the way back down, it's also the area where stocks should find some cushion as if someone leaped off a ledge and into a giant mattress. That zone should cushion the market's fall and start a new rally to all time highs next month.
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On the other hand, the chart below is the "bearish scenario" which has the stock market actually rallying further than the "bullish scenario" in the very short-term, but stopping before hitting new highs. From there, stocks roll over again, similar to the path we saw in 2011, falling more than 10% and through the "cushion zone".

The good news is that we won't have to wait long to eliminate one of the aforementioned scenarios. There is a third path that is also possible, but I won't fully flesh that out for now.

Is your portfolio properly positioned this year? If you are not sure, don't hesitate to hit REPLY or call the office to schedule a meeting, call or Skype.

Canaries in the Coal Mine Part I

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With the markets finally showing some volatility, let's review the major indices to see if they are all in sync or giving any warning signs. For newer readers, the healthiest markets have all of the major indices behaving together, meaning that they should score highs together.

Starting with the first chart of the Dow, you can see that the last major high was made in mid July. One chart below that, S&P 500, the high was made about a week later, but still in the same area.

Moving on to the S&P 400, there is obviously a warning sign as that last major high was seen in late June. Furthermore, when the Dow and S&P 500 made all
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time highs in July, the S&P 400 was significantly below its high.

Moving down to the Russell 2000, it is almost a mirror image of the S&P 400. This gives us another warning sign and canary not breathing so well.

The NASDAQ 100 is next on the list and it's price pattern looks like a stronger version of the S&P 500.

Finally, you can see the Dow Transports which traditional Dow Theory followers use to make sure it is in line with the Dow Industrials, which it is. People sometimes get caught up in the weeds by worrying about the industrials peaking a week before or after the transports. This is by no means an exact science.

Dow Theory warnings signs are very easily identified on a chart without counting days or weeks. There is always some separation between major peaks and valleys on the two indices. The problem isn't the lack of identification; it's the fact that the warning signs can come within weeks, months, quarters or sometimes more than a year of the final bull market high. This is one canary that would not be classified as timely.

To sum it all up where we are today, there are two small warning signs from the S&P 400 and Russell 2000, the likes of which are not uncommon during aging bull markets. I do not believe we have seen or are close to seeing the final high of the bull market that began in March 2009.


($SPX - S&P 500 INDEX,D) Dynamic,0:00-24:00 (Delayed)
S&P 500
Published by eSignal (www.esignal.com)


($MID - S&P 400 MID CAP,D) Dynamic,0:00-24:00 (Delayed)
S&P 400
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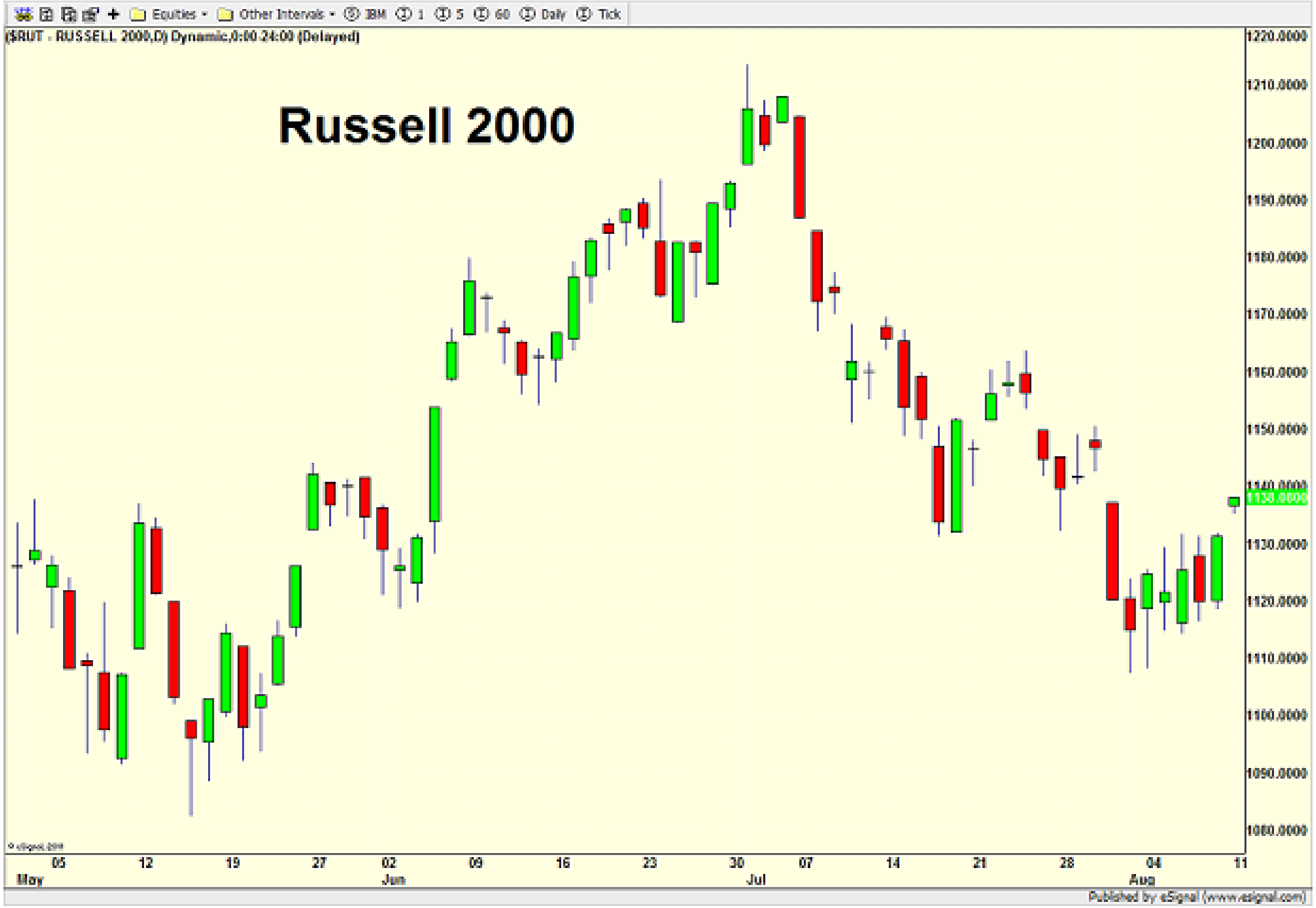
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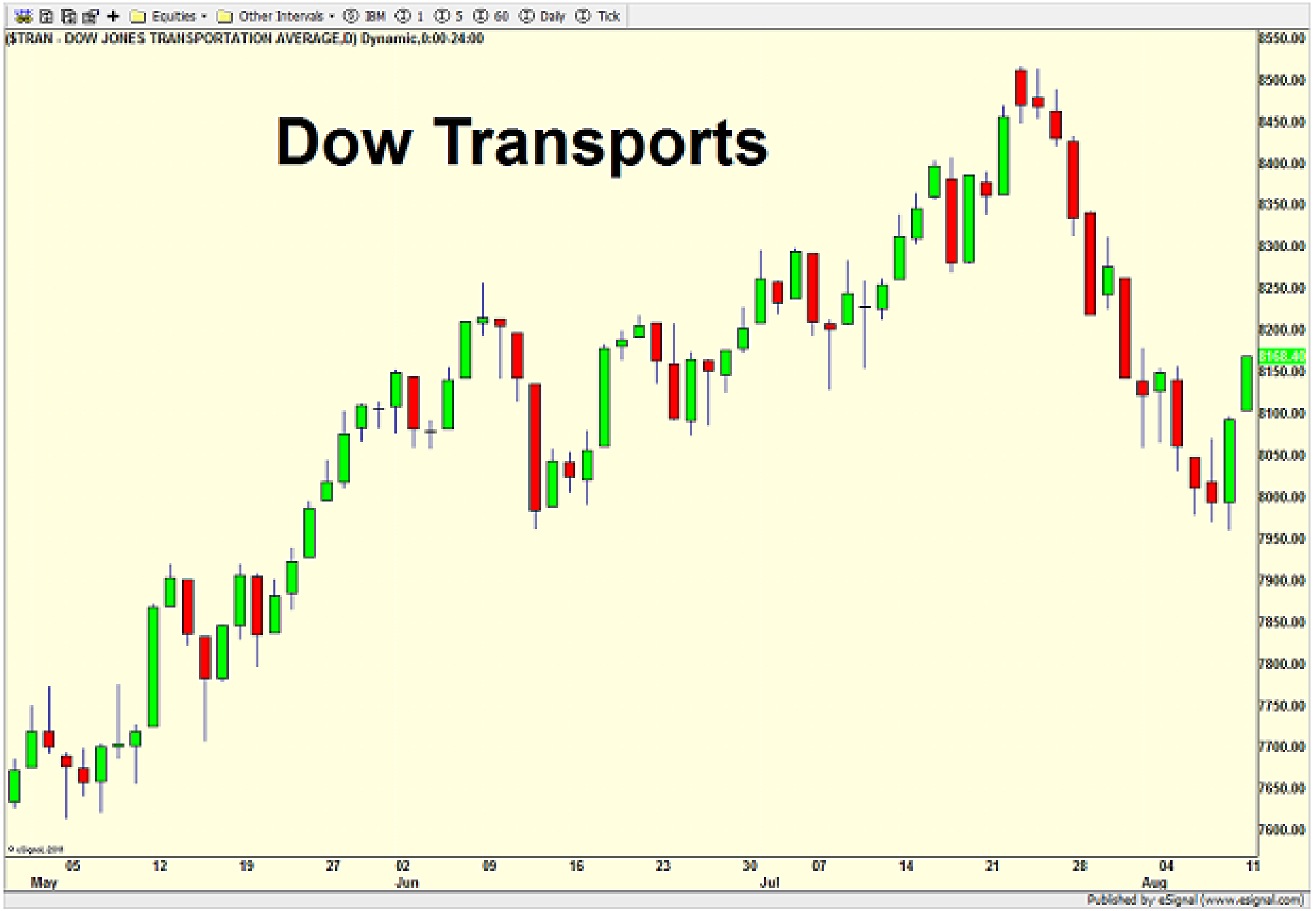

What is Your Real Risk Tolerance

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At the start of an investment advisory relationship, one of the questions we typically ask our clients is "How much risk are you willing to take?" Your answer may be in terms of percent of portfolio losses, dollar amounts, loss of initial capital or a score from a risk assessment questionnaire. That information, combined with more concrete data, such as years until you will need to withdraw your funds and how much money you have saved to date, is used to establish a risk weighted investment plan we believe will allow you to have the money you need, when you need it. Equally important, it has to result in a portfolio you are willing to hold through good markets and bad.

The problem is that risk "tolerance" is relative.

When you first answered the question, a number of factors influenced your response from current market conditions to your mood, prior investing experience, your sex and marital status, how you view your current level of financial security, job security and more.

With the exception typically of your sex, everything else is subject to change. In positive markets, people tend to be more willing to take on risk, assuming that
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losses can be quickly recovered. When markets turn down, risk tolerance changes. Behavioral finance has proven that losses have a greater emotional impact that gains and can distort risk tolerance by making an individual (1) less willing to incur additional losses or (2) willing to take on greater risk to make up for lost portfolio value.

Mood is particularly volatile and can be influenced by the media, personal events, and even your perception of whether or not the country is headed in the right direction. Divorce, illness, death of a love one, dissatisfaction with one's work and other factors impact your willingness to take risks.

With that said, risk is a part of investing. While an active investment approach strives to manage risk and limit drawdowns (fancy word for losses), there will be times when your portfolio loses value or seems to plateau. While we can make no assurances as to the future performance of your portfolio, often these times are precisely when you don't want to abandon the investment approach.

There is also the question of whether or not you need to take risk. Sometimes we get locked in to a mental risk tolerance level that is actually higher than it needs to be. If you have sufficient savings to fund your needs with low-risk assets, perhaps there is no need to have a higher risk tolerance level in your portfolio.

To make certain risk levels in your portfolio match your risk capacity, we ask that you call and speak with us. We need to know if there are changes in your life that necessitate changes in your portfolio, and if at any time you are not comfortable with your portfolio and how it is invested. And, we appreciate the opportunity to explain our investment strategy and its current performance. Our goal is a long-term relationship with you. Communication is a key part of that relationship.

Upcoming Appearances

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Yahoo Finance's Breakout - August 14

Fox Business' Money with Melissa Francis - August 14 at 2:30pm

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 reflection of decreased earnings power and reduction of dividends, and the third representing distressed
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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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