August 25, 2014
9:12 AM EST

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Inside this issue

Yahoo, Fox Business & CNBC

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Greetings as we head into the unofficial last week of summer. In the northeast, I keep waiting and waiting for the traditional summer heat wave to hit, but thankfully, it never came. It's been a very comfortable summer in Connecticut without much rain.

As we return from the Labor Day weekend, I am scheduled to be on CNBC's Squawk Box on September 2nd at 6:25am.

After I finished up the previous issue of Street$marts I was headed to New York City for client meetings and a heavy dose of media at Yahoo Finance and Fox Business. The three Yahoo segments I did created the usual controversial stir and instead of just listing the urls here, I am going to write short articles in the next issue with an update of my thesis on each of the topics.

My extended time on Fox Business' Money with Melissa Francis went way too
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quickly. Talk about fast paced and the need to think on my feet. I think we covered 10 story topics in five minutes full of good information with a dose of comedic banter. Since her days co-hosting on CNBC Melissa has always been one of my favorites anchors. She has no problem calling me out when I give my opinion which she frequently does, but she also lets me answer without interrupting. Additionally, Melissa is one highly intelligent person and very witty who can pretty much speak off the cuff on a wide range of topics.

I was watching a bunch of old 60 Minutes episodes last week and want to share a fascinating one that will spark lots of disagreement from the far left and far right politicians on how to deal with the homeless problem.

http://www.cbsnews.com/news/housing-homeless-can-save-money/

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

Canaries in the Coal Mine Part II

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In last week's **Street$marts** I covered the major stock market index part of the Canaries in the Coal Mine column. The end result was that the Russell 2000 and S&P 400 were giving minor warnings signs, but nothing that would be considered serious. Today's column analyzes the key sectors and indicators.

Having looked at the Dow Transports last week and finding no issues, let's turn to the banks and semiconductors. The first chart is that of the stock market represented by the S&P 500. Then we will compare the two key sectors to the stock market to see if we have any warnings of bad behavior.
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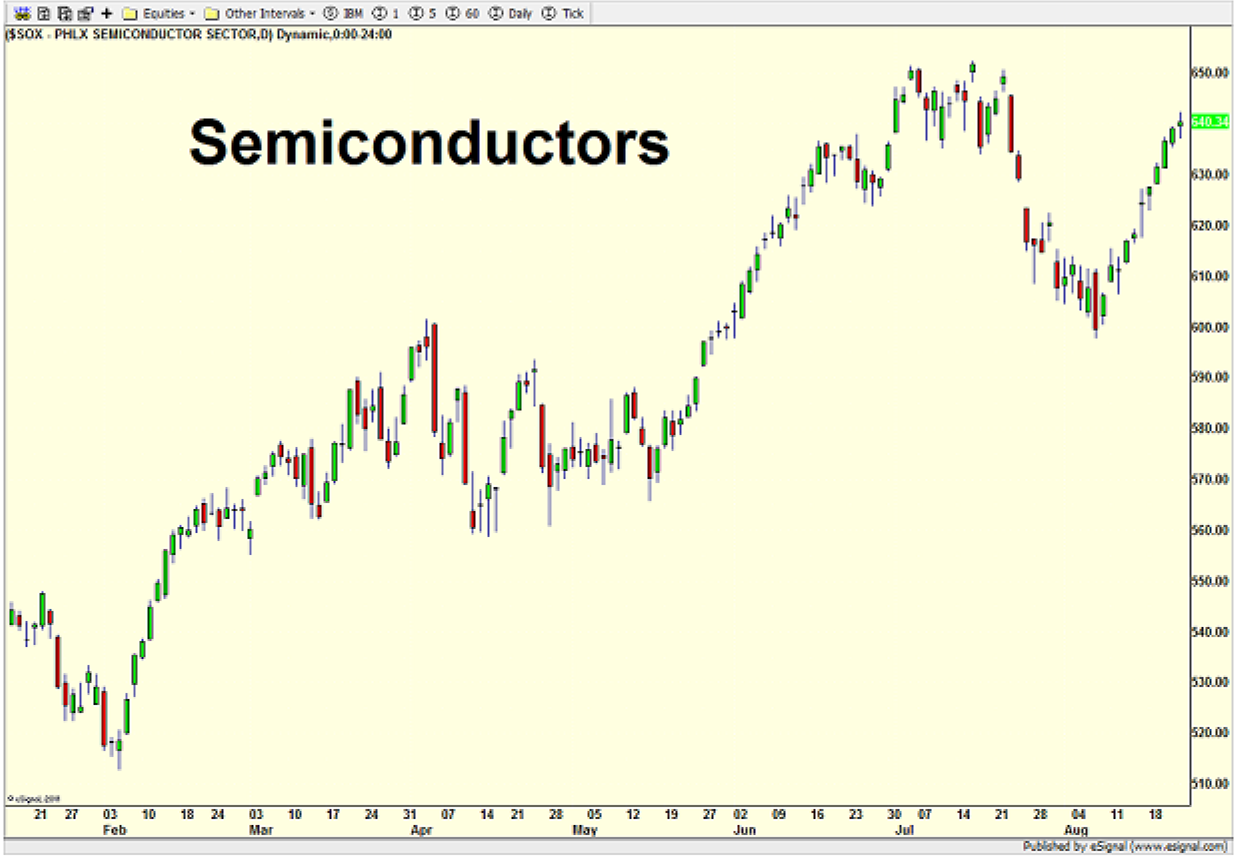
The next chart below is that of the banks, which are a very important canary for the long-term health of the bull market. Recall that the banks were in steady decline for most of 2011 leading up to the stock market's July peak and subsequent 20% decline. Additionally, when the last bull market peak was seen in 2007, the banks had already been in a bear market and raising major red flags for many months. This is a very important index to watch!

Unlike the S&P 500, the banks stopped going up in March and have yet to even revisit those levels. This is a significant caution sign. Should the banks decline again and breach levels seen earlier this year, that would be viewed as a major warning for the end of the bull market.

Next on the list are the semiconductors. This group tends to be among the most volatile and sometimes harder to read. The semis are key because of their status in the technology food chain. As go the semis, so goes the tech sector. As goes the tech sector, so goes the stock market over the long-term.

Generally speaking, the semis peaked with the S&P 500 last month and are only a few days away from confirming the S&P 500's all time high this week. Some would view this as a short-term negative, but I will fully expect the semis to step and make fresh 2014 highs, alleviating any possible warning sign.



The high yield or junk bond sector is typically one of the earliest canaries to die before the bull market ends. Junk bonds have the lowest credit ratings and often feel the slightest ripples in liquidity changes in the market as well as the economy. I view their behavior as ultra important!

High yield tend to trend very well, meaning that their price price typically goes in the same direction for longer periods of time until the trend stops. That's also called being linear. You don't see a lot of fits and starts in this area.

Below you can see the chart of the Metro West High Yield Bond Fund, a position we currently own and is representative of the sector. Through early July, the high yield sector confirmed all of the positive moves in the stock market as you can see from the first chart. However, July was not a kind month for junk bonds as they went into straight line decline. Somewhat uncharacteristically, they turned on a dime and have been rallying ever since along with the stock market. Currently, they are only a day or two away from fresh highs and any warning signs have been put to rest.

Finally, below we have the cumulative NYSE advance/decline line, which is a fancy term for a running total of the number of stocks going up and down each day on the New York Stock Exchange. Just like with every other canary, we are looking for times when this indicator diverges from the behavior in the stock market. The NYSE A/D line measures participation and underlying health in stocks.

As with the high yield sector above, the NYSE A/D line has been even stronger than the S&P 500 for almost all of 2014 and just scored yet another all time high on the far right of the chart. Almost every time a bull market ends, the NYSE A/D line peaks weeks, months, quarters and sometimes more than a year before the stock market does, giving us ample warning to take action. Right now, the light is nothing but green.

To sum up the canaries right now, the banks are the only real problem so the bull market should live on for months and quarters more. This does not, however, insulate stocks from a full fledged 10% correction, but even that seems farther away.

Keep an Eye on Off the Beaten Path Economic Indicators

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Long time readers know that I rarely follow the masses and their indicators regarding the markets and certainly not the economy as they are almost always wrong. While I am aware of the conventional economic indicators, I tend to gravitate towards the ones that are off the beaten path.

Before I get to two of my favorites below, let me review my thesis on the economy. As the banking sector began to come under pressure in early 2007, I moved into the deflation over inflation camp, putting any significant inflationary scenario on the back burner for several years.

As the global economy collapsed in 2008 under the weight of the financial crisis it became even more apparent that inflation was so much farther down the road than most realized. Looking at history, post financial crisis recoveries were not like other recoveries. Post financial crisis economies saw stubbornly high unemployment with growth that could never reach "escape velocity". It teased and occasionally tantalized on the upside, but long-term trend growth was not seen again until the other side of the next recession. In other words, it took TWO recessions to fully recover from a financial crisis where debt, in many forms, needed to be unwound over a decade.
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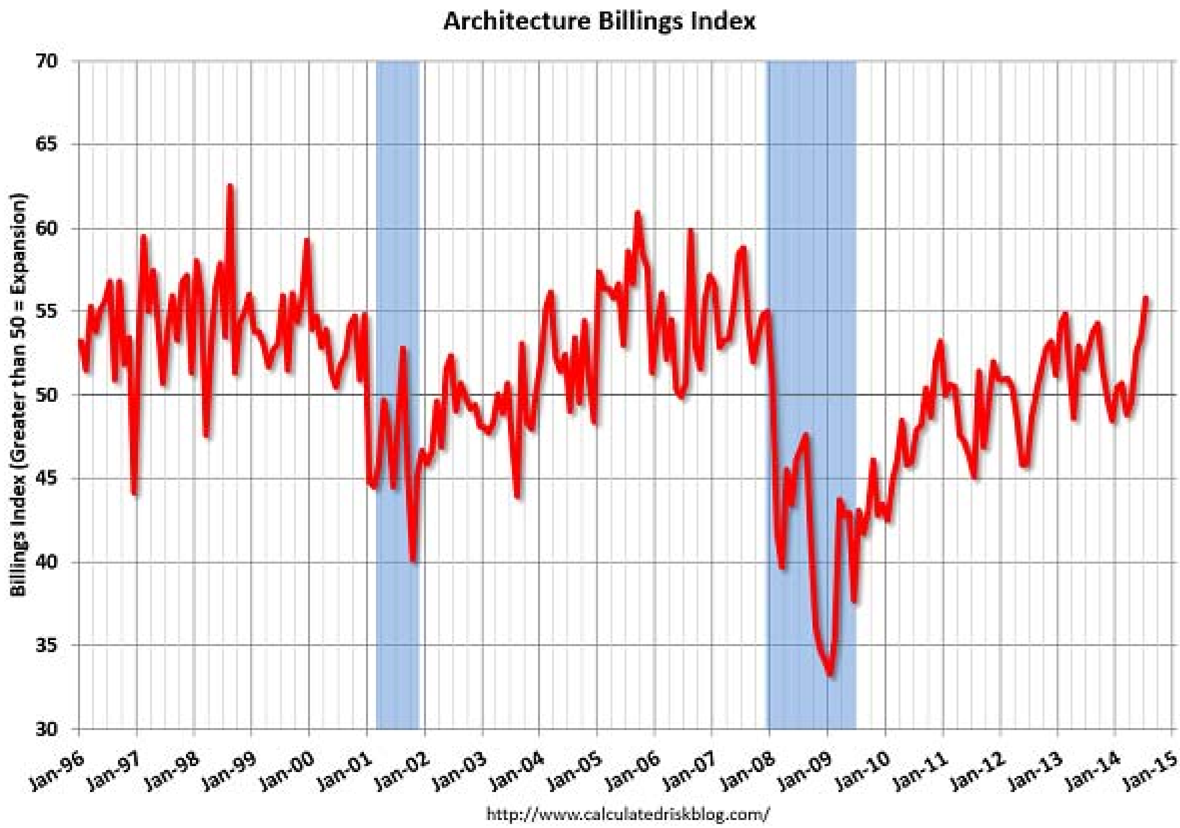
So far,our economy survived the Great Recession but we are still waiting to get to the other side of the next recession which should be a mild one.

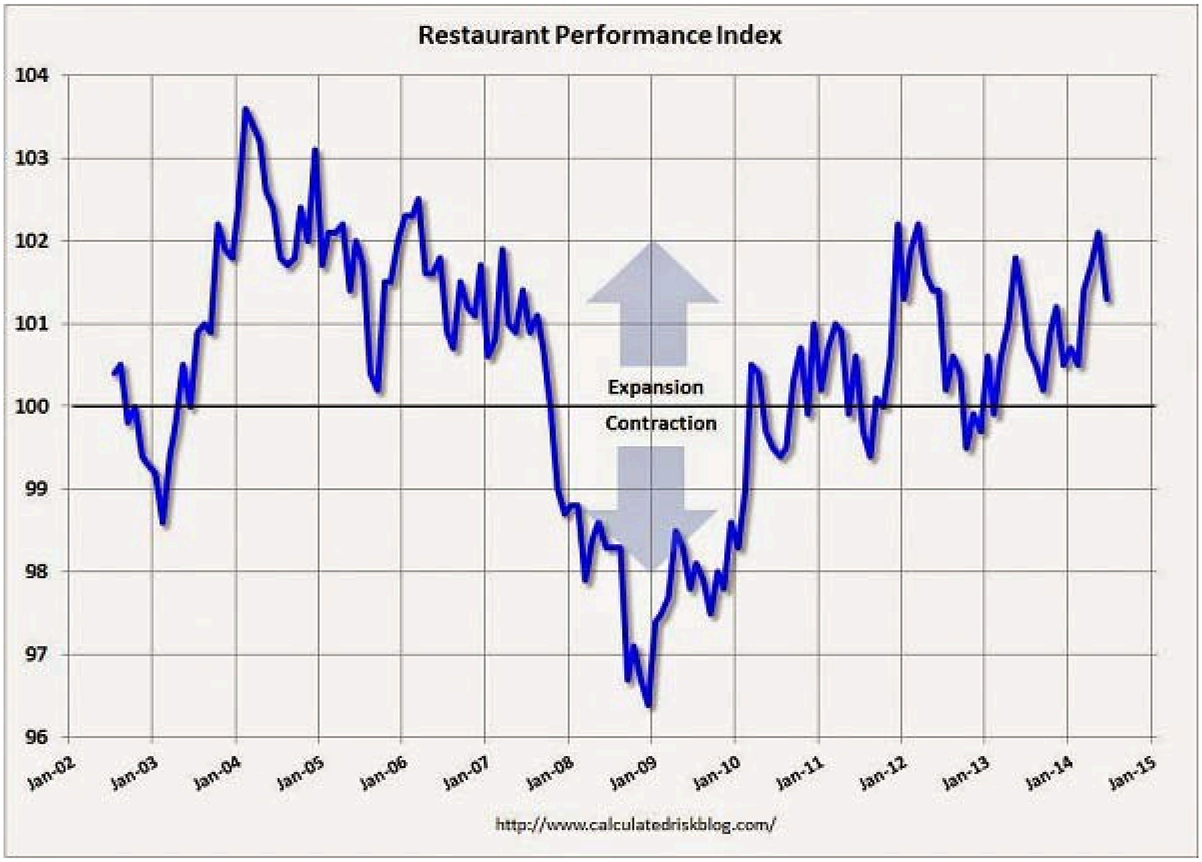
Getting back to two of my favorite off the beaten path indicators, the ABI is first below. On a monthly basis architects are asked if their non residential billings have increased, decreased or remained the same from the previous month. The data are scored with 50 being a neutral reading.

For most of the time since the recession ended, the ABI has oscillated between 45 and 55, showing an economy that just couldn't get back to "normal". Only this past month have we seen any type of encouraging behavior, but that needs to continue for several months or more.



Below you can see the Restaurant Performance Index (RPI) which measures the health of the restaurant industry. In turn, the index measures how the average family's financial health is as they will spend more in good times and cut back on eating out early in a recession.

The RPI hasn't struggled as much as the ABI which is what you would expect as the consumer came back stronger than the commercial side with the consumer discretionary sector leading the stock market in 2009, 2010, 2011, 2012 and 2013. The RPI is pretty much giving the same message as it has since late 2011, growth is good, but not great.



All in all, these two off the beaten path economic indicators point to a decent, but not overwhelmingly strong economy. The good news is that they are not giving any early warning signals just yet.

Upcoming Appearances

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CNBC's Squawk Box - September 2nd at 6:25am

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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