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Joe Kernen, Halloween Prep and UCONN

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This past week, I was on CNBC's Squawk Box chatting with Joe Kernen. Over the years, I have been on with Joe dozens and dozens of time and we almost always agree. That is, except when it comes to the Fed and money printing where we are squarely at odds. In 2010 I told Joe that the Fed's balance sheet was going to "approach $5 trillion" to which he laughed at me and thought I was crazy. Now I may be crazy, but I was also very right on that call!

The actual discussion lasted 5 minutes, but for some reason the video on their site only includes about 90 seconds and missed the meaty part. I will try to load on our website from the DVR. Here is the segment to view. **http://video.cnbc.com/gallery/?video=3000310974&play=1** I

With school, sports, lessons, etc. in full swing, the kids started thinking about Halloween. After multiple stints as Batman and other characters, I want to be
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Robo Knight this year to complement my youngest son's Power Ranger character. The problem is that I cannot find a Robo Knight costume. Anyone have an idea? Wasting no time, the kids already dressed the dog up so she is ready for the big day.

This past Monday, I took my daughter (or maybe the other way around) to see Team USA play Team Canada in women's basketball. As expected, it was a rout. Longtime readers know that my daughter is the single biggest UCONN women's basketball fan on earth. She even knows their favorite toothpaste and mothers' maiden name! Half way into the second quarter, out of the corner of my eye, a line of women came in and sat behind us. It was the current UCONN women's team minus the players playing in the game. My daughter was in heaven, nirvana! During the course of the game, she had the team autograph her basketball and take pictures with her.

I am not sure if anything can top that for her, but at the end of the game, our neighbors secured us floor passes to mingle with the teams. And mingle she did. Anyone and everyone who came out was accosted by a Schatz for a picture and autograph. I asked my daughter which person she was most excited to meet and she surprised me by saying that it was Coach Geno! The best players on earth all in one place and her highlight was the coach. She also wanted to let Geno know that she expects an undefeated season and national championship. Oh yeah, and that she expects to be playing for him in 7 years.

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

Most Negative Seasonal Period is Here

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For the past three weeks, both here and on**www.investfortomorrowblog.com** I have written about the need for a short-term pullback in stocks. I have been and remain positive on the intermediate and long-term view for the stock market. Remember, pullbacks can come by stocks going sideways for a period of time or by price declining enough to entice buyers back in. In the major indices we saw a split pullback with the Dow, S&P 500 and NASDAQ 100 going sideways while the S&P 400 and Russell 2000 declines 2.65% - 3.70%. The former indices are now sitting at fresh highs and the pullback clearly ended this past Monday.

Let me be clear; I remain positive over the intermediate and long-term. However, before you assume that stocks are going to rocket higher from here, which they may, there are still a few hurdles to overcome in the seasonality department. This week, the markets bullishly digested the Fed meeting, Janet Yellen's news conference and the Scottish vote to leave the United Kingdom.

Alibaba came public on Friday with an article devoted below. Like previous very high profile public offerings with stocks at or close to new highs, the bears came out of the woodwork last week, predicting the perfect end of the bull market on "Baba Day". While I completely disagree with that assessment, the stock market has entered the most negative seasonal period of the year which sounds a lot worse than it actually is.

From Friday's up opening through September 30, no other calendar period is as negative historically than right now. But before you jump into that super bear camp, realize than seasonal trends or seasonality are nothing more than a headwind or tailwind. Markets do not reverse course simply because of
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seasonality. It just helps add a little energy.

Besides the specific calendar challenges, there is also an added negative that follows the September expiration of options and futures which occurred on Friday. That trend shows a headwind most of this week, but particularly earlier in the week. Finally, with stocks rallying into the Fed statement as well as after it, there is another little trend I call the "Fed Hangover" which indicates some very short-term weakness this week.

How is all this research best used? From my seat since I remain positive over the intermediate and long-term, I think it will be very instructive to see how the stock market performs through month end. If stocks can hang in and only see another mild pullback, worst case, that would reinforce the bullish case and set the stage for a run to Dow 18,000 in the fourth quarter.

Bless Their Heart, the Fed is Trying But...

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It was interesting how the much anticipated statement was viewed as dovish or sympathetic to stimulus and lower rates as the phrase "considerable period" was included. Yet Yellen's press conference was viewed more hawkishly or more aggressive to raising rates as she passed out a chart that allowed investors to create a runway for rate hikes beginning in Q1 or Q2 2015 with eventual Fed Funds rate of 1.375% by the end of 2015. That means that once the Fed starts to hike rates, they are likely to do so at every meeting until they are "normalized" with the possibility of 0.50% increase at one meeting.

If you have been reading this letter, follow me on Twitter or watch my TV segments, you already know that I am in 100% disagreement with the Fed. I think they are completely wrong, especially Richard Fisher, Charles Plosser and non voting Jeff Lacker. I find those three central bankers to be among
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dangerous as they continue to be wrong at every juncture, including favoring interest rate increases just as Lehman was failing and the whole system was on the verge of collapse. Had they been in the majority at the Fed in 2008, I believe the entire financial system would have imploded with a global depression following suit. In layman's terms, major companies like IBM and WalMart would not have been able to make payroll as banks would not trust one another to send funds.

Anyway, as I have written about over and over and over, our economy is recovering as expected and as I forecast from a financial crisis. Recoveries from these conditions are unlike those from typical recessions. It usually takes two recessions to return GDP growth to "average" or trend. Post financial crisis recoveries tease and tantalize on the upside, but end up frustrating on the downside. It's running or swimming with weights tied to you. Eventually, we will have another recession, probably in the next few years. When that ends, economic growth should really accelerate; inflation will rise and the Fed will need to become hawkish with interest rates finally rising to competitive levels. Until then, the Fed should continue to leave rates alone and buy more mortgage backed and treasury bonds.

Alibaba - No Bubble to Me

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With the Fed meeting, press conference and Scotland out of the way, markets turned to Alibaba's initial public offering (IPO) to close a very busy week. Looking at possibly a record $20+ billion IPO, the money had to come from somewhere. And judging by tech stocks behavior over the past week or so, it certainly looked like institutional investors were paring back holdings to pay for Alibaba.

The hugely anticipated IPO priced last night at $68 and promptly opened today at $92.70. You would think the exuberance could be felt across individual investor land, but I saw one poll that showed 75% of Americans had no idea what Alibaba was.

Uncharacteristically, I went out for lunch with a good friend today at a local popular spot. He asked what was new in the investment world, to which I replied "Alibaba!" He said, "Ali what?" My friend said he never heard of the company nor was familiar with this hot offering. This all made me very curious, so I emailed a list of random people to ask what they knew about Alibaba. Only 20% knew anything about it. Not a single one knew they were going public today. No one really cared.

Of course, my "research" is anything but scientific or academically meaningful, but it's very hard for me to buy the notion of a massive bubble in stocks, tech or IPOs when the average person in my universe hasn't a clue. When the last tech bubble hit in 1999-2000, I couldn't go to the gym, the golf course or even the
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supermarket without someone asking me about a tech stock or giving me a tip.

Today and for the most part over the past few years, on a 9:1 ratio, comments from friends who are not clients fall in the disbelief camp. Most disavow the bull market and some outright hate it. More than likely the haters are also probably sitting on a lot of cash wishing they were invested.

The disavow camp typically asks questions like, "how can the Dow be at 17,000?" or "isn't this all smoke and mirrors from the Fed?" The bottom line is that it really doesn't matter. Price is the final arbiter. Disavowing the bull market from 6500 to 17,000 because the Fed is operating in uncharted waters is a poor investing strategy. People forget that after stocks collapsed 89% from 1929 to 1932, they "bounced" more than 400% with the government's very heavy hand in the mix.

Upcoming Appearances

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Second Half class at U. of Mass. Dartmouth - October 29th 9:30am - 11:30am (email 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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