October 7, 2014

5:21 PM EST

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Media Day, Shopping and 40+ Years of Friendship

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Tomorrow (Wednesday) I am excited to head to New York City for a day full of media (and a tiny bit of shopping). My first stop is with the good folks at Yahoo Finance to create two or three segments on what's hot now. I know for sure we will do one on market bubbles which should be controversial and interesting. I imagine there will be one about the bull market or Fed and then one on the hot story of the day. It's always a good time to visit Jeff Macke.

From there I head to the New York Stock Exchange for a 3:45pm interview on CNBC's Closing Bell. After all these years, I am still wowed when I visit the floor. Finally, I am thrilled to join Fox Business' Making Money with Charles Payne for a whole hour from 6pm to 7pm. Sometime in between, I hope to buy a suit which I am told that I desperately need.
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I am a creature of habit and crummy shopper. It takes me a long time to buy new things. I conduct never ending research and testing as my ski and golf friends tell me, but I keep things forever. When it comes to clothes, I tend to wait until the garment is many years passed its life expectancy before taking action. Yet when I finally do, I usually buy a lot at once in all different colors. Hopefully, I can find a classic suit while doing my usual walk all over town.

As longtime readers know, for 40 out of the 48 years of my life, I have lived in the New Haven community. I have lifelong friends and very deep roots. Friends move away and always come back and visit. I am one of the constants. Last week, one of my oldest and dearest friends in the world came home for a visit with her husband and daughter. That's the one with the green hair thingy. Together with a woman I went nursery school with 45 years ago and her husband whom I went to Camp Laurelwood with throughout the 1970s and our kids, we enjoyed a great evening at **Pepe's Pizza**, one of the greatest pizza places on earth.

To close this section, here is a great article on the **Biggest Retirement Regrets**

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

Short-Term Picture Remains Murky... History Says No Collapse

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In the **last issue** we left off with the most negatively seasonal period of the year for stocks, coupled with strongly negative trends post the Fed meeting and September
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options expiration. And let's not forget that the market worried about the Scottish vote and Alibaba as well. From that edition until now, the widely watched S&P 500 has pulled back 2.5% while the broader market indices are down much more. I would not call that an overpowering market or ringing endorsement for the bulls.

The short-term picture remains murky for the next few weeks, but looking out beyond that, markets should regain their solid footing and march higher later this quarter. October has a reputation of being a bad month for stocks. Most people recall the great crash of 1929, crash of 1987, mini crash of 1989, crash of 1997, crash of 1998 and Lehman collapse of 2008, which all occurred in October. Keep in mind that some macro news event usually was given the credit (or blame) for causing the decline, isn't that always the case? In a vacuum, October looks like a very scary month, but that would be a big mistake!

Taking a wider view, you realize that in almost every case above, stocks were already in decline before October began. The month actually acted as an accelerator rather than an initiator. Furthermore, October was most often a turning point for stocks in that declines continued into October, bottomed mid to late month and then a significant rally began. You would be hard pressed to find many examples of times when October did not see at least an interim low.

Given that stocks peaked last month, I went back and researched how the market behaved in the fourth quarter after a new high in September. The results may surprise you!

Since the bull market began in 2009, the only significant Q4 decline was in 2012, -8%, or 1/5 times(20%).

Since 2000, besides 2012, 2007 was the only other year. The Dow peaked in October and declined 11%. That's 2/14 or 14% of the time.

There were no Q4 declines from a September or October peak in all of the 1990s! Read that line over again.

1989 saw the mini crash of 9% from an October peak and 1980 had a very unusual 10% from a November peak.

Since 1980, there five significant Q4 declines from a high or just 15% of the time.

So here we are on October 7, having seen a September new high peak heading into Q4. **History says there is a 15% chance of 8-11% decline from the September Dow high of 17,280. If this is one of those times, the Dow is looking at a possible downside range of 15,379 to 15,898. Anything else on the downside would be a 35+ year precedent setter.**

Alibaba Like Twitter, Facebook and other "HOT" IPOs

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"Hot" IPOs like Alibaba, Twitter and Facebook are usually very emotional, much anticipated and huge financial media events. As I have discussed over and over, emotion in investing can have a very detrimental impact on your portfolio! I went back and found similar, much anticipated, "hot" IPOs to show you what transpired over the coming few months. The results should not be surprising.

Twitter really bucked the trend over the past few years. While it initially dropped 20% from its $50 first day high, that set off a very powerful rally of almost 100% to $75 before seeing the customary 60% IPO collapse to $30. End result: investors were mostly better off waiting than buying right away.

Facebook had all kinds of problems right out of the gate and you are welcome to search the archives on the blog for my very opinionated view. As you can see, it was almost straight downhill for four months before THE bottom was hit. End result: investors were absolutely better off waiting than buying right away.
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LinkedIN is next and similar to Facebook, there was immediate and significant weakness before a good low was seen. End result: It was basically a toss up.

Just like with LinkedIN, Groupon experienced the ole buyer's remorse right from the start with the first meaningful trough coming about a month later. End result: investors were better off waiting than buying right away.

Yelp bucked the trend somewhat with only a shallow initial pullback, but the stock didn't escape the carnage as you can over the first three months. End result: investors were better off waiting than buying right away.

Zynga was just like the others with an immediate month long decline to a good trading low. End result: investors were better off buying sooner than later.

Google is below and this is certainly not a social media company like the others. But at the time, it was an incredibly hot IPO. It was also during a very different investing climate back in 2005 with vastly different results. It does not belong in the group above, but I figured I would answer the question before it was asked. End result: investors were rewarded almost immediately.

The moral of the story is that most of the time, investors are rewarded by having patience with hot IPOs. Personally, I would rather be late and pay up than be early and lose a lot of money.

Upcoming Appearances

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Yahoo Finance's Breakout - October 8th

CNBC's Closing Bell - October 8th at 3:45pm

Fox Business' Making Money with Charles Payne - October 8th 6:00pm - 7:00pm

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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