November 16, 2014

9:12 AM EST

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Inside this issue

Moderate Chop

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This letter is going to print longer than usual as there are lots of charts below.

I am going to be on CNBC's Squawk Box this Monday (17th) at 6:10 am with Becky and Andrew. Joe is on vacation so I won't be able to go back at him about making fun of my Dow 18,000 forecast earlier this year, but it's still a lot of fun to join the crew.

On Tuesday, I will be in New York all day with client meetings as well as spending some time with the good folks at Yahoo Finance creating two or three timely (and usually controversial) segments. In the 2:00 hour, I will be on Fox Business' Money with Melissa Francis. I really enjoy that show as it's very fast paced and the topics are all over the map. Melissa has always been one of my favorite anchors although she never tosses me softball questions!

Last week on Fox Business' Making Money with Charles Payne, the show was very lively and energetic as it was the first show after the election results. The folks at Fox are always very hospitable, but on that day, it felt like I was standing in the middle of the winning locker room of the Super Bowl. You can click **HERE** and scroll down to see each segment.

I spent this past week in Dallas and Houston with partner and client meetings as well as an
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industry conference. When I travel, I try to pack every waking moment with business and then get home as fast as I can. This trip was no different. Long time readers know that I don't have much luck with smooth flights and the trip to Dallas was no different.

The first 45 minutes of the flight was so smooth that I actually said to myself, "WOW, this is finally going to be a gentle flight." As soon as I thought that, I felt a true sense of worry as I probably just jinxed myself. 15 minutes later, that was confirmed as the flight hit "moderate chop" as the pilot called it. By "moderate", he meant that beverage service had to be suspended along with trips to the bathroom as I tightened my seat belt more and more with each wave of turbulence. It felt like the plane rolled left and then right and then diagonally up and down for the next 40 minutes. I shudder to think what "strong" or "severe" chop would feel like!

Finally, it stopped after my heart rate hit 180 beats per minute and thoughts of never seeing my kids again crept into my mind. Now I know that turbulence is nothing to really worry about, but that doesn't matter. In golf, we say that "feel isn't real." Pilots tell me the same thing, but after literally flying millions of miles in my life, something inside of me changed after I got married and turbulence bothers me to no end. I went from loving to fly to hating it. Good thing my flight travels just started and I have six months left. Not!

I am ending this section with a recent picture of myself with one of the most respected and long tenured anchors in the business channel business, CNBC's Bill Griffeth from the floor of the New York Stock Exchange. Like Sue Herera from their FNN days, Bill sticks to reporting the facts and respectfully challenges guests' comments without trying to be reporter and expert commentator. I always enjoy my time with him, especially because he is short like me!

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

Canaries Breathing Well

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With stocks soaring to new highs over the past few weeks, it's a very appropriate time to see how the canaries are faring and if any have died. Remember, the more "dead" canaries, the more likely the bull market will follow suit. This is very long-term analysis and not helpful for much other than end of bull market warnings.

Let's start with the Dow Industrials below and it's great to see a clear and decisive all-time high right now, coming on the heels of a false move in October that breached the levels we saw in August. This fake out caught a lot of investors off guard, which has been and is causing them to scramble to buy at higher levels, making me very happy!


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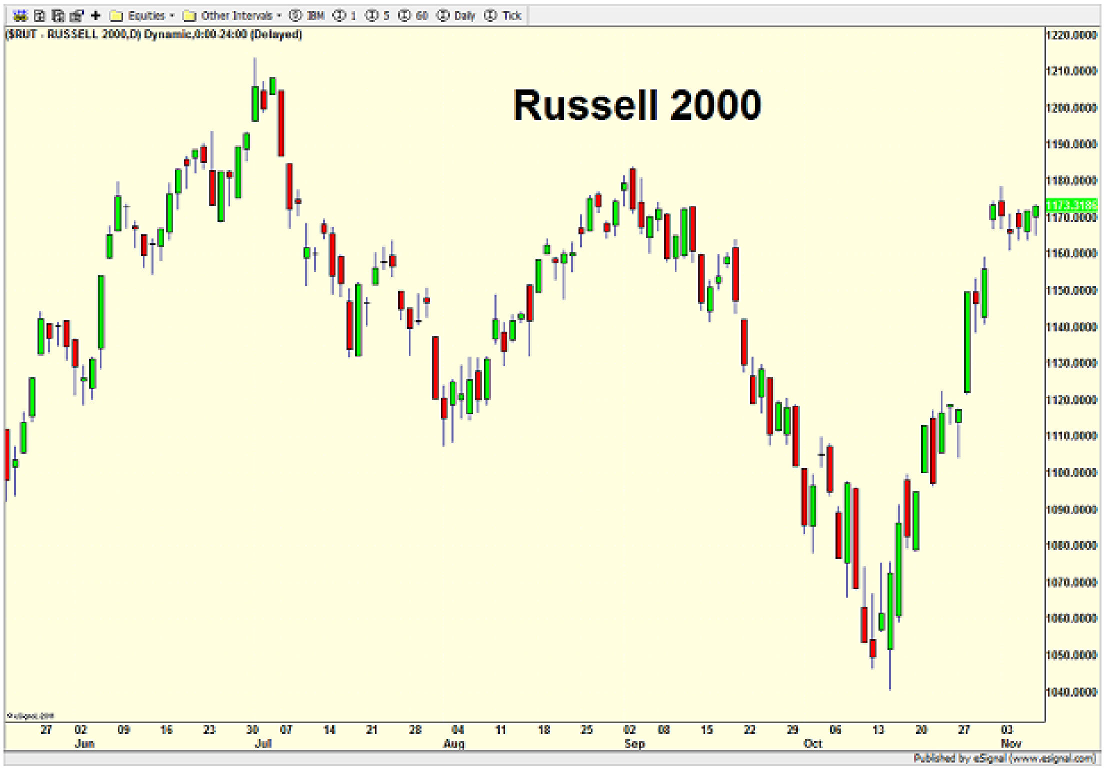
The S&P 500 is below and it looks exactly like the Dow Jones Industrials above. So far, we have two very alive canaries.

The first caution sign comes with the S&P 400 mid caps below. They peaked on the left hand side of the chart back in June and continue to see lower highs and lower lows. That is not the definition of healthy. However, they are only a few percent away from all-time highs, which would negate this warning, something I do think will happen shortly.

The small cap Russell 2000 is next and there clearly has been a problem since late June with a 14% total decline that has not fully recovered. A 5% rally would cure this problem, but that's not as easy as the S&P 400 has it. I won't label this a "dead canary", but it's certainly one with breathing problems.



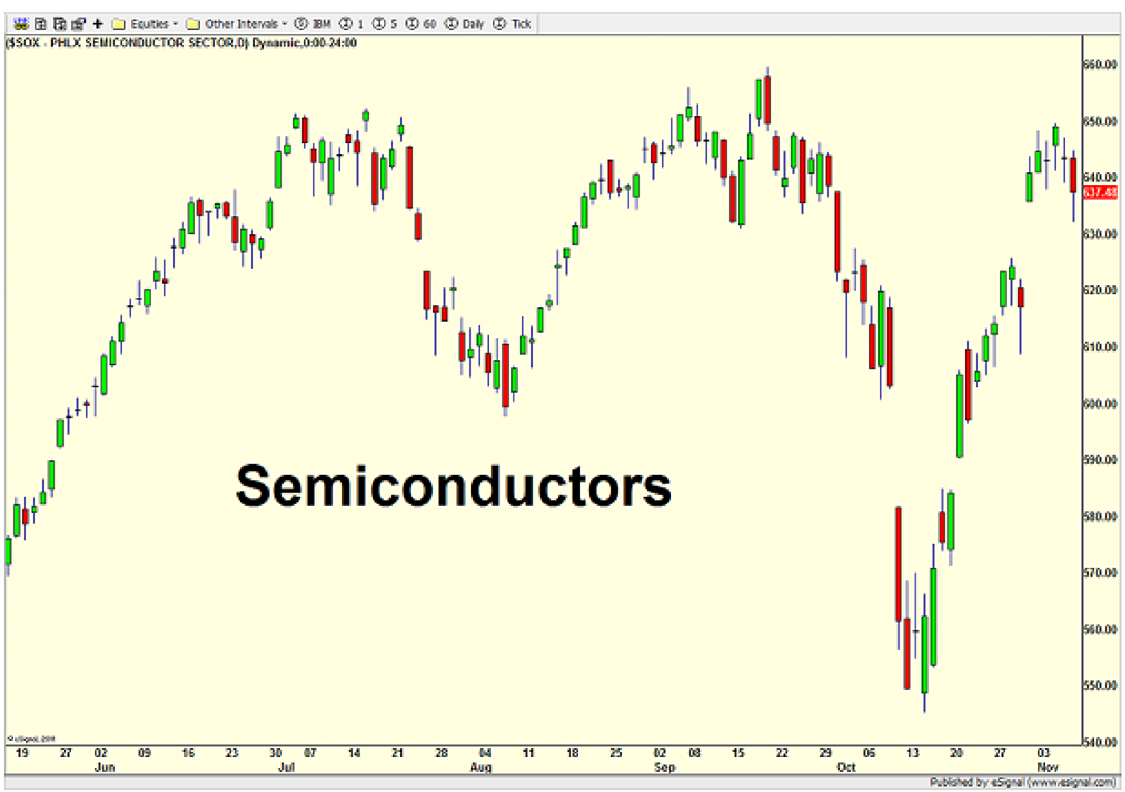
Let's turn to the technology laden NASDAQ 100 where you can see "all systems go" with fresh highs right now. This index looks like it's wound up and ready to move sharply higher before long, even if it sees some minor weakness first.

Summarizing the major stock market indices above, for a 5+ year old bull market, they look surprisingly spry!

The Dow Transports are next and they look exactly like the Dow Industrials and S&P 500 with fresh all-time highs right now.

Turning to the two "key" sectors we watch, banks are only a few percent from fresh highs and they should get there before long after frustrating me over the past year or so with their inability to lead during rallies.

Semiconductors are below and this is one area I have always viewed as critical for the long-term health of a bull market. Historically, as go the semis, so goes tech. And as goes tech so goes the broad stock market. Semis peaked in September and now reside a few percent below that peak. They looks strongly positioned to see fresh highs before long.



Below you can see the cumulative New York Stock Exchange advance/decline line which is a fancy word for how all of the stocks on the NYSE are behaving in sum total, not just the biggest ones. Almost every single bull market dies after a warning from this indicator. What we want to see is the chart below looking like the Dow and S&P 500 which it is not right now. The line below MUST make a fresh high in order to avoid killing a very important canary. It's not that far away, but action this week has also not been positive.

High yield or junk bonds are another very important canary and they are next below. Because junk bonds feel every ripple in the liquidity stream, economic weakness often manifests itself in this group first. High yield bonds usually "die" long before the bull market does so it's often a very telling sign in advance. Keep in mind, however, that this group also gives false warning signs like it did when then Fed Chair Ben Bernanke caused the "Taper Tantrum" in May 2013.

Right now, junk bonds are not at fresh highs, but close enough to correct before long. My concern is that since mid October this group has only upticked when stocks experienced very strong days. Normal or healthier behavior would see high yield add a little here and there on a daily basis during stock market rallies.

For a 5+ year old bull market, the canaries remain alive and mostly well, which fits into my own scenario for the bull to live on into 2015 with Dow 18,000 next on the list. Once 18,000 is reached, possible scenarios open up for 20,000, 23,000 and even higher. But let's take one hurdle at a time and manage this in the present.

Checking in on the Forecast

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A month ago as the stock market was being labeled as "in collapse", I wrote about the bottom being formed and offered **two scenarios** for the market to follow. Of course, both scenarios were generally bullish, each ending at new highs, but the length of time varied. Below you can see that same chart updated with market action over the last three weeks.
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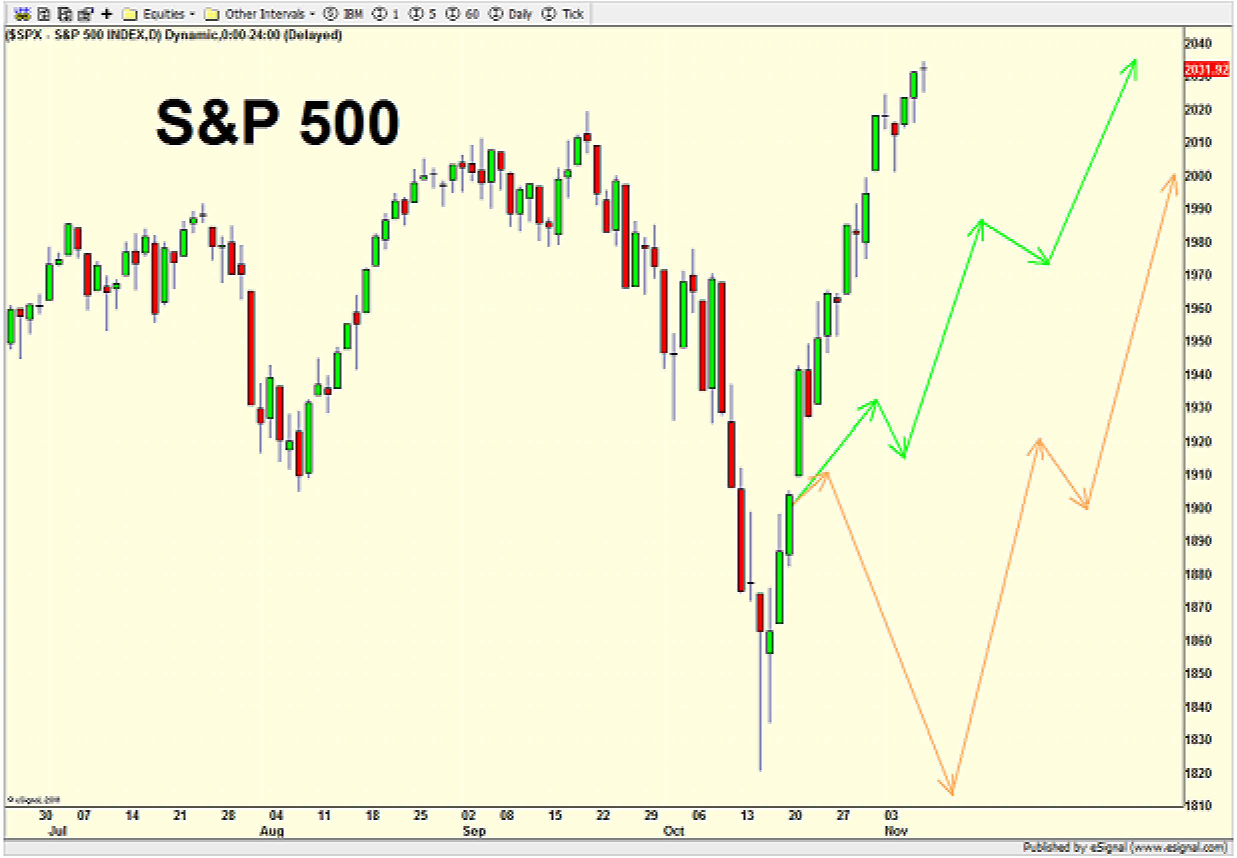

In short, the stock market responded even more bullishly than my very bullish forecast with all time highs being achieved in a matter of weeks from what was being called "the end of the bull market" and a "total game changer of a decline".

Today, the Dow, S&P 500 and Nasdaq 100 are behaving very well with fresh highs occurring on an almost daily basis. The S&P 400 and Russell 2000, however, are lagging and need to step up sooner than later or risk will once again grow for a 4-8% pullback.

As I have said ad nauseam for several years, the bull market remains alive. It is old by historical standards, but bull markets do not die from old age. They die from a host of other factors, usually including mistakes made.

When you see a vertical rally like what's been happening since mid October with so many caught off guard, some profit taking is naturally to be expected. However, with so many on the outside looking in, especially with the sprint to year-end, any weakness should be temporary and short-lived. Until proven otherwise, dips are buying opportunities.

Upcoming Appearances

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CNBC's Squawk Box - November 17 @ 6:10am

Yahoo Finance's Breakout - November 18th

Fox Business' Money with Melissa Francis - November 18th 2:00pm

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
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"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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