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Inside this issue

Stocks Quiet into December

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Historically, this is a quiet week for the markets with an upward bias. In other words, stocks usually drift higher without much fanfare. The market looks a little tired, but reaction may have to wait until after the country stuffs itself with food, football and fun. To begin the new week after the holiday, stocks usually experience a headwind where mild weakness is seen. Of course, since early 2012 most of the negatives suggested by history have been thrown out of the window in one of the most powerful bull runs ever.

As you know, my thesis hasn't really changed in several years. The bull market is old and wrinkly, but still very much alive. Until investors stop selling into each and every single digit pullback and act like the sky is really falling, the bull market should live on. The pattern of investors waiting for a pullback during a strong rally to buy, only to see that decline and sell instead of buy has been commonplace since early 2012.
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When investors finally start buying any and all weakness as well as strength I will begin to get much more concerned about the end of the bull market.

Last week, I did a full Canaries in the Coal Mine article that indicated some caution flags, but nothing really serious. Since then, stocks have continued to rally, but two of the warning signs have become more severe, high yield bonds and the New York Stock Exchange Advance/Decline line. I don't take these lightly and will be watching very closely over the coming few weeks. Because markets are in the home stretch for 2014 and so many hedge and mutual funds are trailing their benchmarks, a significant decline is very unlikely as managers will use any slight weakness at all to play the performance catch up game into year-end.

Japan Printing Money Like our Fed... on Steroids 10X

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This article is a follow up to emails I received after my segment on CNBC's Squawk Box last week regarding the unexpected news from Japan. Here is the link. **Japan in Recession... Who Cares**

Japan has been in the news of late with the unexpectedly poor economic report indicating their economy has fallen back into recession. As I discussed last week on CNBC as well as Yahoo Finance, it really doesn't matter at this stage. Japan has embarked on the greatest financial experiment of all time and they will just forge ahead with more and more quantitative easing or QE. In layman's terms, that means the Bank of Japan is printing money to buy assets.

This tactic is not new there nor is it here, but Abenomics as it is referred to after their Prime Minister, Shinzo Abe, takes what our Fed has done and puts it on steroids, to a factor of 10. Abe is committed to printing and printing and then printing some more. And when that's done, guess what? They will buy more ink and print again.

The Japanese are going to print money until either their economy awakens from its multi-decade slumber or the bond vigilantes push back and force interest rates higher. That's going to be a big problem for the vigilantes because the Bank of Japan has essentially become the entire government bond market in Japan. It's often said tongue in cheek, but never fight with the guy who owns his own currency printing press.
The end result in Japan, which is years away, will be fascinating. In a country that does not want or really allow immigration, demographics are so upside down that the youth cannot support the aging population. It has been the most widely predicted and anticipated disaster for decades, but now the rubber is meeting the road, hence the massive QE or money printing.
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So far, the biggest mistake the Japanese made was to raise the consumption tax from 5% to 8% in hopes of raising money to combat sharply lower tax receipts. That's always a tactic that makes me go "hmmmm" with incredulity. Although I am never really in favor of raising taxes, there is a time to do it and a time to certainly not do it. It's pretty clear that governments should not raise taxes or balance budgets during challenging economic times. That's when stimulus is needed most. The Abe government shot itself in the foot by allowing political opposition to win the tax increase. They printed money on the one hand and took it away with the other. That's just plain stupid in my opinion.

News this week out of Japan that phase two of the consumption tax increase has been shelved with the poor economic report. No kidding?!?!

Japan's economy is in an untenable position. Unless they open their borders or remilitarize, both very unlikely, their hopes to end 25 years of economic malaise rests solely in Abenomics and massive amounts of money printing. The world is watching; history is being made; and economic textbooks will be written on the outcome.

What to Do With All That Cash

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Charlie Munger, vice-chairman of Berkshire Hathaway Corporation, once said, "It takes character to sit there with all that cash and do nothing. But I didn't get where I am by going after mediocre opportunities." At the end of June 2014, Berkshire Hathaway was sitting on $55 billion in cash, with nowhere the company was willing to invest it. And unlike the hundreds or perhaps thousands of hedge and mutual funds playing performance catch up, Berkshire's stock has had a very big year. But even if the stock was not having a good year, Buffet ad Munger have always resisted short-term shareholder pressure to juice the stock.

Munger and Warren Buffett have focused on holding a limited number of positions in their portfolio, allowing them to intimately understand their investments and influence the direction of the companies. But that also limits the potential deals available to the investment company and its managers..

For investors, small can actually be better than big in many circumstances. There's a nimbleness and ability to take advantage of innovative emerging businesses and small opportunities that disappears when the required size of the investment increases. Peter Lynch excelled at managing Fidelity Magellan, until the fund became too large and began to move markets when it took or sold a position.
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The California Public Employees' Retirement System (Calpers) is the largest U.S. public pension plan with nearly $300 billion in holdings, but has had trouble managing its investment risk. During the financial crisis of 2008-2009, assets dropped in excess of 36% to $165 billion. Now Calpers is looking at ways to reduce its risk by exiting investment areas such as commodities and hedge funds. But when you look at the numbers, those are relatively small elements of the portfolio at less than 1% and 1.5%.

Small investors really do have the edge in some aspects of investing.

Upcoming Appearances

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Fox Business' Making Money with Charles Payne - Dec 9th 6:00-7:00 PM

Fox Business' Making Money with Charles Payne - Dec 15th 6:00-7:00 PM

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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