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Good to See You Mr. Trump

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I am going to be on Fox Business' Making Money with Charles Payne on St. Patty's Day from 6-7 pm. Why I scheduled media in New York City on that day is beyond me. I must have been out of my mind!

Last week I was in Phoenix and LA for mostly business with a small dose of pleasure mixed in to visit with some old childhood friends. Contrary to the weather in CT, Arizona was sunny and dry in the low 80s and it was great to spend quality time with clients and friends. After my meeting in LA ended on Wednesday afternoon, the group headed to Trump National Los Angeles for some golf. As we prepared our carts and teams to tee off, none other than The Donald drove up to greet us with his freshly colored long blond hair under his baseball hat.
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Right out of The Apprentice, The Donald said, "Welcome everyone. You're in for a fabulous day. I've built the best golf course in California and you're all going to have a fantastic experience with the most beautiful views anywhere."

After the first hole, I had to respectfully agree. It's 18 holes built on land enough for 14 holes. The views are spectacular on every hole, but good shots are not only unrewarded sometimes, but actually penalized. And I played well! Some guys in my group probably lost more than a dozen balls.

For those of you who have followed my travel tales over the years and the nightmarish flights I end up on, you will be happy to know of the six flights I took, only my final one into Hartford had any turbulence of significance. When we landed, I actually celebrated that I broke the string of bad trips... that was until one of my bags never arrived at the baggage claim. This hasn't happened to me in years, but the nice folks at Southwest were beyond accommodating, offering me money to buy clothes if needed and promising to locate my bag quickly. Just like the woman said, she called me on my drive home to let me know that human incompetence led to my bag staying in Chicago and I would have it on my front steps by morning. When I woke up, it was waiting for me.

This week, the markets begin with increased volatility from the past two weeks. If you read our blog, you know that I view this as yet another routine, regular and healthy 4-8% pullback that can be bought for more all-time highs next quarter. The same weakness that has popped up frequently since 2012.

The Federal Reserve Open Market Committee meets this week and the expectation is for rates to remain the same with perhaps removal of one of two more dovish words in the statement before Chair Yellen heads to the podium for the press conference. Although oil has collapsed, the Dollar is very strong and the global economy remains weak, it is likely that the Fed makes a huge blunder by raising interest rates later this year.

I will close this piece with an article I found on Twitter this morning.

Five Signs that a Restaurant Might Make You Sick

http://www.cheatsheet.com/personal-finance/5-warning-signs-that-a-restaurant-might-make-you-sick.html/

Don't forget to check our blog for intra-issue updates.

www.Investfortomorrowblog.com

NASDAQ 5000. Bubble or is This Time Different?

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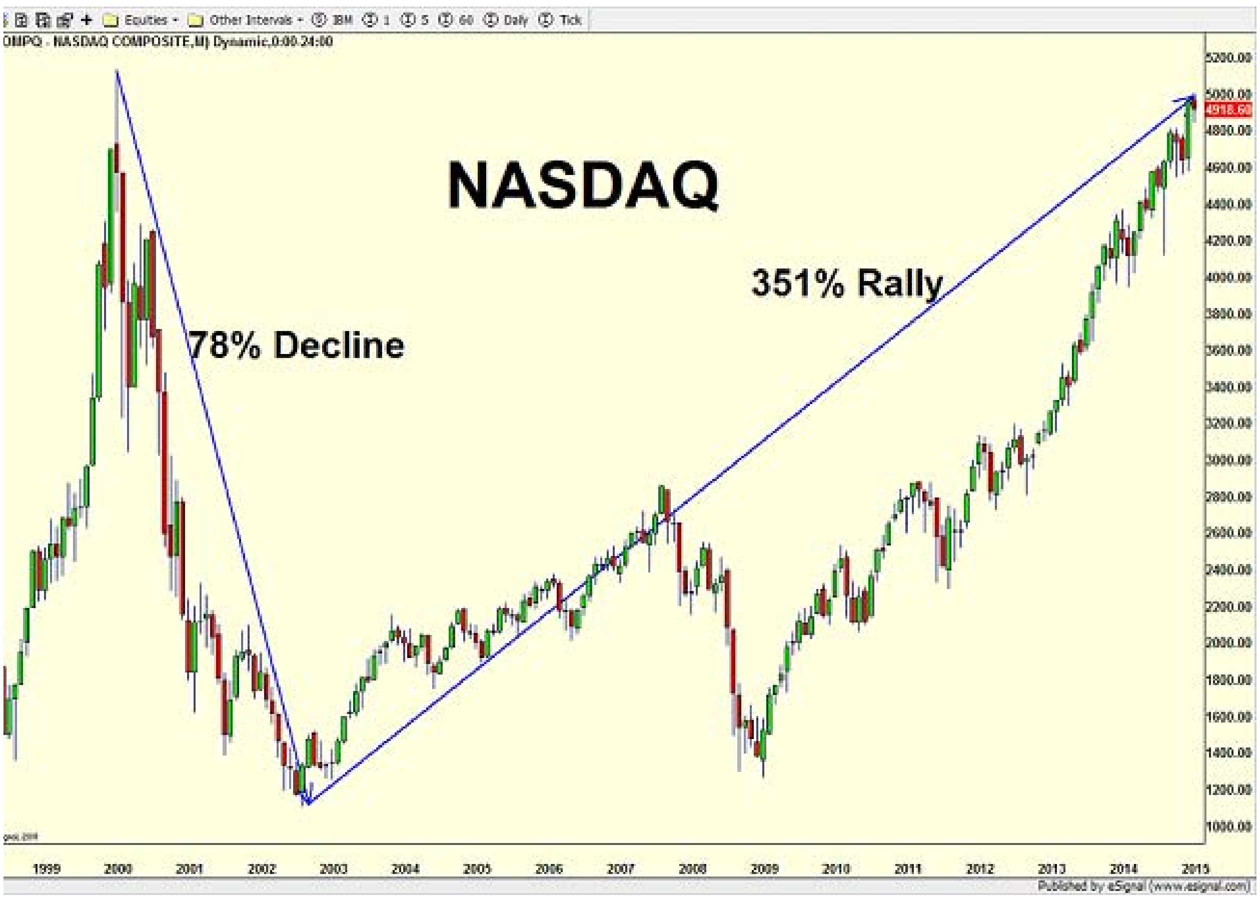
Almost 15 years to the day after the NASDAQ last closed above 5000, the index finally breached that level again, albeit for only one close, so far. That means that if you invested in the NASDAQ in March 2000, it took you 15 years just to get back to break even, which doesn't sound like such a great investment. Between then and now, the NASDAQ lost 78% to its October 2002 bottom and rallied 351% to its recent high. That's a lot of volatility for sure!



While the close above 5000 was just another round number to the bulls, bears from all walks of life came out of the woodwork warning of the same demise that befell the index when the Dotcom bubble burst in 2000. Even Mark Cuban with similar arrogance and pomposity of Donald Trump shouted on all the major business channels about the new NASDAQ bubble. Cuban did later walk that back a bit, claiming he meant in the private markets not the publicly traded ones.
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So, is this time really different? Or is the NASDAQ in a bubble that's about to burst?

Longtime readers know how I feel about the market in general and the NASDAQ isn't much different. First of all, with a 15 year return of 0%, how can anyone really get excited that it's a bubble or excessive? Yes, I know we can start the study from October 2002 and end up with a wildly different result, but no one is arguing that the NASDAQ has gone parabolic. That's just silly.

Looking at some routine fundamental data, analysts often use price to earnings ratio to compare stocks or indexes at different times in history. This number divides the price of a stock or index by the earnings and tells us how much it costs fort $1 of earnings. While this data is easy to obtain on most stocks it is very inconsistent on the NASDAQ going back. At the peak in 2000, I saw as low as 30 times earnings to as high as 200 times earnings. Today, the number 21, at least 50% away from the lowest estimates and worlds away from the insanely high ones.

Yale professor Robert Shiller's unique cyclically adjusted (CAPE) ratio was an all time high 44 in 2000, but 25 today. Another measure of valuation is the price to book ratio which price divided by the book value. In 2000, it stood at 5.1 while today it's almost half at 2.6.

On a non-scientific sentiment front, individual investors were falling over themselves trying to buy the next great Dotcom company. Day traders became heroes and were featured in the Wall Street Journal, Bloomberg and CNBC. People were quitting jobs to day trade a few hours a day for multiples more money. I remember getting stock tips from my trainer at the gym. An old golf buddy's wife came screaming on to the driving range that they were making millions and should retire to do this full time. My former doctor fired me as his advisor at the end of 1999 for not embracing the new paradigm. He said I didn't get it anymore. There was a new kind of investing and I was being left behind.

Wall Street Internet analysts like Henry Blodgett and Mary Meeker became rock stars. Ryan Jacobs launched an Internet mutual fund and became a celebrity. Investors were told to ignore earnings and just focus on "eyeballs". Not only did most of the technology initial public offerings (IPOs) not make money, many of them didn't even have revenues!

Finally, the NASDAQ index melted up 278% from October 1998 to March 2000, the absolute epitome of a parabolic, bubble'esque advance. The best price move I can find of late saw the index jump 78% from November 2012 to March

2015.

As has been the case since early 2012, the bears have been completely misguided. They continue to believe in their conspiracy theories or manipulation by the global central banks or aliens landing at the NYSE and taking over. Bull markets form when it's darkest with fear and despair abound. They continue to rise on optimism and eventually die on greed and exuberance. It's very hard to make the case that death is imminent.

One day, the bears will be right and scream from the rooftops that they were just early. But we all know that they were just plain wrong for too long.

Apple Added to the Dow But All is Not Well

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After many years of speculation and a healthy 7 for 1 stock split to boot, the folks at Dow Jones finally added Apple into the venerable Dow Jones Industrial Average effective the close on March 18. This had to be one of the worst kept secrets on Wall Street for years. As I mentioned in my 2015 Fearless Forecast, I thought this would happen in 2015. There were no excuses left not to add the tech giant and bellwether. In two days, Apple will be in and AT&T will be tossed to the curb.

Does this really matter for the Dow?

Yes it does in a big way. Unlike the S&P 500 which is weighted by market capitalization or value of the company, the Dow is uniquely weighted by price with a divisor. In the simplest of terms that means that a $30 stock stock going up $1 has the exact same impact as a $200 stock going up by $1, which doesn't make a whole lot of intuitive sense. Apple and Visa typically rise or fall several dollars each day, but lower priced stocks like AT&T almost never see that kind of price movement.

In short and without getting too technical, as of the last Dow Jones Industrial Average change in 2013, a $1 move in a component stock equals 6.42 Dow points. Now, imagine what the impact will be when Apple joins and AT&T leaves. You can expect more volatility in both directions. In a bull market, the more expensive stocks can juice the index to much higher highs. In reverse, the index can suffer mightily during a bear market.

Before the Apple bulls start popping champagne corks to celebrate, entree into the Dow may not be all candy and dancing elephants. History shows some perverse results with companies leaving the index far outperforming those
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joining the index. And who could forget Dow Jones adding Microsoft and Intel in late 1999, just as the Dotcom bubble was about to burst.

Since 1991, stocks added to the Dow had a median 12 month return of 12%, but an average return of 6%. Stocks removed from the Dow saw returns more than 25% better than those added and even better of late although my research had a few holes for the stocks leaving the index.

In short, Apple bulls would be best served to expect increased volatility and a period of intermediate-term underperformance from being added to the prestigious Dow Jones Industrial Average.

Cash Levels at "Alarmingly" Low Levels

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As I mentioned in my 2015 Fearless Forecast, I view the bull market as being in the fourth quarter if this was a football game. While there is still a lot of game to be played, energy levels aren't what they were in the first quarter and a few players have some injuries. And, the game could go overtime. It takes months and quarters and sometimes years for a bull market to peter out. The warning signs don't all come at once, but usually over a long period of time. Today, the very early signs are low cash levels starting to appear. Investable cash is the Gatorade or fuel for bull markets to last. Of course, this can change since there is almost always several trillion dollars in money market funds.

My friend Jason Goepfert of Sentimentrader.com recently posted some good charts on his site regarding this topic. Cash available in margin accounts is at historically low levels. The same can be said about retail money market fund levels. The very volatile Rydex money market fund has seen assets dwindle as has pension fund cash levels. Finally, cash allocations by Wall Street strategists and individual members of the American Assoc. of Individual Investors have gone to almost 0%.

In a vacuum, the average person would or should be very concerned about the perceived lack of cash available to fuel the market higher. But the skeptical analysis may offer a slightly different take. With interest rates at historically low levels I believe that the average person is not using the cash equivalent like they used to. They have migrated away from CDs and money market funds for investments with at least a little yield. Now, you can push back that behavior like that is a sign of additional risk taking which is late stage bull market, but I don't completely agree that it leads to the immediate end. When the Fed wrongly raises rates later this year and into 2016 we will know with better certainty if investors move back to more traditional cash equivalents.
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Upcoming Appearances

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Fox Business' Making Money with Charles Payne - March 17th 6:00 - 7:00 PM

Fox Business' Making Money with Charles Payne - March 23rd 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

"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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