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Inside this issue

Meeting Dana Perino

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Last month, I did the Making Money with Charles Payne show a few times on Fox Business and there were definitely some interesting topics, both market related and other. While they don't always archive some of the really spirited discussions, here is an interesting one on buying IPOs (initial public offerings) as well as the potential for a "bubble", the single most overused word in the investing lexicon!

http://www.investfortomorrow.com/InMediaVideoFBN.asp?idfb=30

Another segment dealt with the millennials FINALLY engaging in 401K savings and investing. While the panel universally endorsed, I had a different view.

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The highlight of my visits to Fox Business was without a doubt getting to meet and chat with Dana Perino. She was Bush's press secretary from 2007 - 2009
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and a regular on Fox ever since. A nicer woman you could not find. I thought she was incredibly humble, genuine, sincere and fun to speak with. Self admittedly, she knew nothing about investing or the markets.

Finally, I share one of my favorite off the beaten path economic indicators and a direct beneficiary of lower gas prices. It's also an indicator to refute the nasty GDP report last week which I write about below. This is mom, pop and kids eating out. It's still in an uptrend and climbing. Looks nothing like what we typically see right before recession.

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

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Short-Term Headwinds

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For the past few months I have tempered my otherwise very positive short, intermediate and long-term outlook with some short-term concerns. While few of the issues were potentially bull market ending, they, nonetheless, continue today and don't seem to be abating anytime soon.

I am all about risk versus reward. How much must I risk to make a dollar of return. Right now, it looks like stocks have roughly 4-5% of upside and 8% of potential downside, not exactly the best set up. As such, for the first time in a while, we have raised cash levels in many strategies. Should Friday's employment report spur on a rally, I think it is best used as a pruning opportunity rather than a fresh buy. That time will come.

Most of the same ills that have plagued the stock market for months remain the same. Sentiment from newsletter writers as well as individual investors shows too much optimism and allocations to stocks. Option traders have been positioning for much higher prices and they usually wrong.

The New York Stock Exchange advance/decline line which is a broad measure of market health did not see new highs when the market did last month. The Dow Jones Transportation Index has been essentially been in a downtrend all year, creating a Dow Theory divergence or non-confirmation as I have written
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about here and on [www.investfortomorrowblog.com.](http://www.investfortomorrowblog.com)

Price action as it relates to volume has not been strong, meaning that when stocks rally and close near their highs for the day, it has been without much conviction. Adding on to that as you can see from the chart below, almost every push to new highs with the exception of the February rally has been met with some mild selling, not exactly the pillar of confidence and strength you would like to see.

The stock market can repair itself a number of ways over the summer. The easiest would be a routine and healthy pullback of 5-8% that builds up sufficient pessimism to launch the next rally. Another way would see stocks continue in this same frustrating pattern for a few more months to shake out the nervous investors.

Before you assume I turned into a bear, please keep in mind that I absolutely do not believe the ultimate bull market peak has been seen. Dow 20,000 remains my next target after the market gets passed this period of uncertainty which can last a few more weeks to a few months.

Don't Buy the Negative Hype Over the GDP Report

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Last Friday, the government reported that Q1 economic output contracted by 0.70%. To the casual observer, that smells awfully close to the accepted definition of recession, two straight quarters of negative GDP growth. Stocks barely reacted on Friday and I attribute the weakness to geopolitical news in Europe not this report.

The first quarter has been the worst for GDP growth as far back as the eye can see. The government's seasonally adjusted data needs to be seasonally adjusted again. They are flat out doing a horrible job! This contraction was actually better than the -0.90% expected and due to the tough winter in the eastern U.S. along with very poor trade data. In my view, you can almost completely dismiss the report as an anomaly.

I am anything but an economist. I do believe, however, that Q2 economic output is going come back very strong compared to Q1 in the 2-3% range and Q3 should be equally as strong. "Strong" may not be the best word, but I think you get my drift.

For further proof of no recession besides the stock market just yawning, look no further than the consumer discretionary sector in the chart below which is but a whisker from ALL-TIME HIGHS. If the horsepower of our economy, the consumer, is this strong, it is so unlikely to see a "normal" recession without some external shock.
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Recall that before our last recession in 2008, the consumer discretionary sector was already in collapse three months before the stock market peak as you can see in the chart below.

Sell in May and Go Away

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With my short-term outlook less than rosy, this next article may be timely. One of the more popular sayings in investing is Sell in May and Go Away. In essence, that means investors should sell stocks at the outset of May which traditionally begins the historically weaker period until November before buying them back. May itself hasn't exactly been a kind month for stocks although 2015 certainly bucked that trend.

Since 1950, the S&P 500 has gained more than 13% on an annualized basis between November and April, but less than 2% between May and October. Recall that The crash of 1987, Iraq invading Kuwait in 1990, Russian debt default, Long-Term Capital, Dotcom meltdown, Enron, and Lehman's collapse all occurred in the May to October period.

The big question is, "should we sell in May and go away" now?

My first thought was not to sell if the stock market was already in a sustained uptrend. Intuitively, that made sense. That was, until I saw that the crash of 1987, 1990 bear market, Russian debt default and on and on all began with an uptrending market in May.

Next, I researched not selling in May during pre-presidential election years, which are the strongest historically. In 2011, stocks plummeted almost 20%. 1999 saw a 10% correction. And then there was the crash. Another idea down the drain.

What I concluded was that while selling from May through October may have historical significance, it is not a strong investment strategy and one to blindly follow each and every year. I think that many of the weakest May through October periods showed enough internal market warnings to at least put you on guard for a possible decline.

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

"A little bit at a time adds up to a lot in no time"

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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