February 17, 2016

3:31 PM EST

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Inside this issue

Tropical -22 Weather

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I am scheduled to be on WTIC's (Fox61 in CT) on Thursday morning between 9:05 and 9:30 am offering some last minute tax tips. Thanks to my friend, Joel Sachs, for his advice.

Last week as my flight landed on Thursday (more on that below), Fox Business' Making Money with Charles Payne was looking to get the old gang market back together as the stock market was under severe pressure. Unfortunately, there was no way I could get home to change and make it to NYC by 5pm. Thankfully, PBS in Hartford accommodated so after driving faster than may be legally permitted, I got home, showered (no one ever feels clean after flying), changed and drove faster than may be legally permitted back to Hartford for the show. The one clip they posted online is below. After the election, I am hopeful that the show will return to its market and economic topic based format where I have at least a bit of relevancy.
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http://video.foxbusiness.com/v/4751179736001/strategies-for-enduring-the-rocky-market/?#sp=show-clips

What a crazy weather week it has been in New England. Last Sunday, the summit temp was -22 at Mount Snow with the winds blowing 35+ mph. On Tuesday, the thermometer hit 45 with heavy rain. That's a 67 degree swing in just two days!!

While the cold moved into the northeast last week, I was in sunny and warm Florida for meetings and a quick visit with my almost 98 year old grandmother and my obviously much younger aunt. The only problem was that someone forgot to tell Mother Nature. I think I saw some sun, but for Floridians, it was anything but warm. One morning, I went to breakfast with my grandmother and aunt who were both dressed like I do in Vermont. Full length down jackets, turtle necks, sweaters, etc. And they were dressed like everyone else except me in my jeans and tee shirt. The temp was in the low 50s.

My first two days were spent exclusively indoors, but the picture below was the view I had from the meeting room. It felt tropical even though it was cool and I was inside all day.

Speaking of tropical, at lunch on day two, I decided that I couldn't visit Florida in the middle of winter without at least partaking in one of those "foo foo" drinks to accompany my grouper tacos.

After those meetings ended, and a meal with my grandmother and aunt, I reconnected with a woman whom I last saw in 1978 at **Camp Laurelwood**. I expected to see her the following, but she never returned and moved from New York. I found her while she was briefly on Facebook and then we texted as we tried to find time meet for the past year when I was in Florida. It finally worked out and I knew exactly who she was when I walked into the bar, only 38 years later! If nothing else, Facebook has allowed me to reconnect with so many people from childhood and a number of them have become readers of this letter. When I am in California next month, I will likely meet up with another group of camp friends from yesteryear.

To end my trip to the "sunny" south, I was fortunate enough to spend some qualify time with some of my favorite folks from Boca and Miami Beach. Great food, fun and friends! As my travels are soon to take me to CA, IN, MD and FL again, please let me know if you would like to grab coffee, a meal or a drink.

As I mention from time to time, in between Street$marts issues I am often very active on **www.Investfortomorrowblog.com**, especially when market are volatile like now. If you would like to be notified when a new posting has been made, please see this link.
http://www.investfortomorrow.com/BlogAlerts.asp

Double Bottom, Island Reversal and Other Technical Tidbits

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Last week, right as stocks were attempting to form this last bottom, I penned a blog posting, **http://investfortomorrowblog.com/archives/2130**, calling for the low in stocks along with peaks in gold, bonds and the yen. Click on the link for reasons why I made that forecast. So far, so good as the call seems to be spot on. It's nice when the markets cooperate once in a while!

Last week's action is so crucially critical for a variety of reasons for both bulls and bears. First, let's discuss the bullish side which I reside on for now.

Technical analysts refer to last week's bottom as a double bottom along with an island reversal. A double bottom is when stocks establish a low, which was the January internal or momentum low where most of the damage is done and then revisit or retest that price area some time later. Others sometimes call this a "W" bottom.

In any case, using the Dow or S&P 500, January was the first low point, followed by a two week rally and last Thursday was the second low point at roughly the same level as January. You can forecast a minimum upside projection from this behavior by doubling the magnitude of the first rally, which was from 1812 to 1947, 135 points or 7.5%. That puts the upside target on the rally to 270 points from the bottom or 15%. In the case of the S&P 500, we are looking at 2080 area. On the Dow, that's about 17,500. The key confirmation of this rally doesn't occur until the index closes above where the first rally ended, 1947 and 16,511 for the S&P 500 and Dow respectively.
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On the surface, the chart above has significant bullish implications into spring with one major caveat to be discussed below. Additionally, as I mentioned above, the major indices saw an imperfect island reversal last Wednesday, Thursday and Friday where the stock market gapped down on Thursday right below the blue arrow on the chart below and then gapped up on Friday just to the right of the blue arrow. These opening gaps create a void in between Wednesday's close and Friday's open. That's the island reversal and it can have strong upside implications with one important caveat which I will discuss below.

My friend and data miner par excellence, Jason Goepfert from sentimentrader.com, did some heavy lifting on old island reversals in stocks that include at least 1% opening gaps which occur from 52 week lows. There certainly aren't many and five occurred during the second half of 2008 with all failing. Something to consider. The five that occurred over time hit at the bottom in 2009 and September 2001. December 2000 worked for five weeks. August 1990 was early, but turned out well over time. October 1987 came the day after the crash.

We have two powerful technical signs that stocks have hit bottom, for now. Although I am usually pounding the table to buy after such a decline, I am seeing some longer-term signs of concern which I will address.

Caveats, Concerns and Caution

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In the articles above, I offered some fairly strong evidence to support the bullish case, something I have had an easy time doing since late 2008 during bouts of weakness. Unlike most of the previous declines in stocks, the past two months seem a little different.

After the August correction and mini-crash, the evidence suggested a rally and then revisiting of the August 24 low 4-8 weeks down the road. Check. From the October low, the evidence suggested a Q4 rally with historical average of roughly 10%. Kinda check. After that, fresh all-time highs should be seen in the major indices. No check.
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The August/October bottom had all the classic signs of a bull market low leading to a new leg higher in the market. If all was well and the bull market was remotely healthy, the August/October lows shouldn't have been seen again in 2016. The Q1 2016 decline not only saw the Dow, S&P 500, S&P 400 and NASDAQ 100 revisit and somewhat breach those levels, but the Russell 2000 is significantly below those levels. This is unusual behavior to say the least.

The good news is that there is a very definite line in the sand for bulls and bears. Just because action has been very atypical doesn't mean we should just negative and go hide in a bunker. However, at this point, with a clear bottom in, the major indices should not close below the lowest point of last week for more than a day or so. Should that happen, a much different and more negative scenario is at play.

Below you can see what I am referring to using the S&P 500, but it's the same for all of the major indices. The line is clear. A real breach of that line on a closing basis could cause some trap door, technical selling of at least 1000 Dow points.

Aside from the price action in the major indices, I am also concerned about the lack of healthy leadership in stocks. Banks have been downright ugly. Semis and consumer discretionary are behaving like this index counterparts. Transports are the only key sector which has been leading, but they had been declining since late 2014 so even a short-term pause isn't surprising.

What has been leading?

Consumer staples and utilities for the most part along with gold stocks, not exactly the bastion of strength normally seen. Very recently, industrials and materials have stepped up nicely as the dollar has come under pressure.

Finally, a familiar topic of worry for a while has been the action in the high yield (junk) bond sector. Yes, you can dismiss it as being primarily from energy, metals and mining, but my 27 years doing this has taught me the hard way not discount activity by removing instruments. I do believe as I have offered in my 2016 Fearless Forecast that junk bonds are going to see one of those once in a decade bottoms later this year and I am really looking forward to that opportunity!

Gold, Bonds, Yen All Point to a Top

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As I already mentioned, along with the evidence of stocks reaching a bottom, there were signs that gold, bonds and the Japanese Yen were peaking. For some reason, gold has always had an enormous following and whenever it rallies, these "gold bugs" come out of the woodwork like roaches espousing the virtues of owning gold.

I guess why I take a negative view of this group is that no matter what's going on, they always believe it's a good time to own gold. On the way to $1900 in 2011 after the metal rose from the mid $200s, gold bulls were everywhere and dominated the financial channels with ads to buy the metal.

From $1900, gold collapsed to $1050 and all I heard the whole way down was to buy more gold at cheaper prices. Gold has no intrinsic value and it doesn't pay dividends. I do not believe it is meant to be bought and held. It has one of the worst long-term track records of any asset class on earth. And all this is coming from someone who has two investment strategies dedicated to the gold and silver mining stocks.

Anyway, gold has seen a nearly vertical rise this year as you can see below. Last Thursday saw an historic surge in volume in the gold ETF, GLD. That day looked like panic buying which usually spells the end of the rally.
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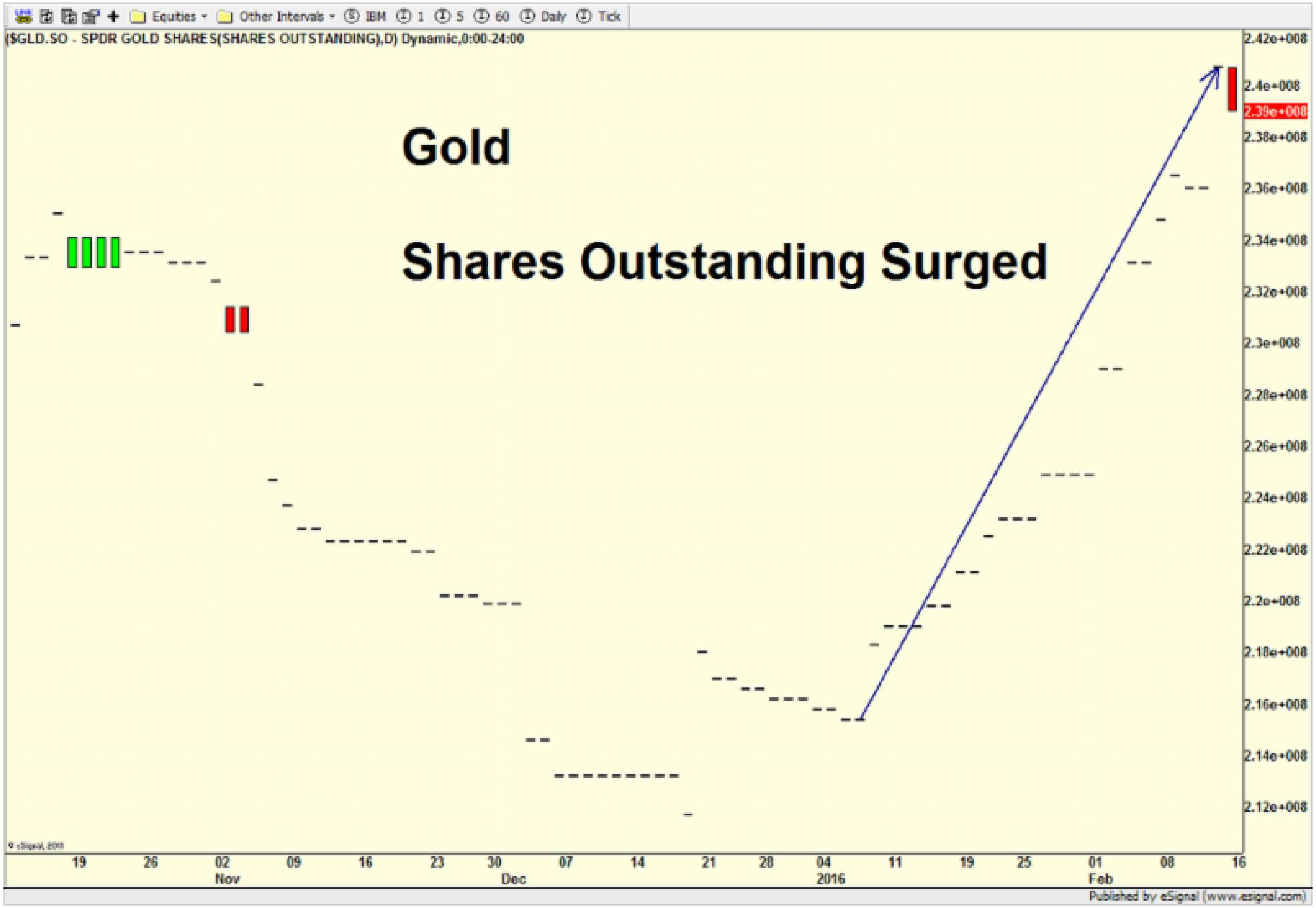
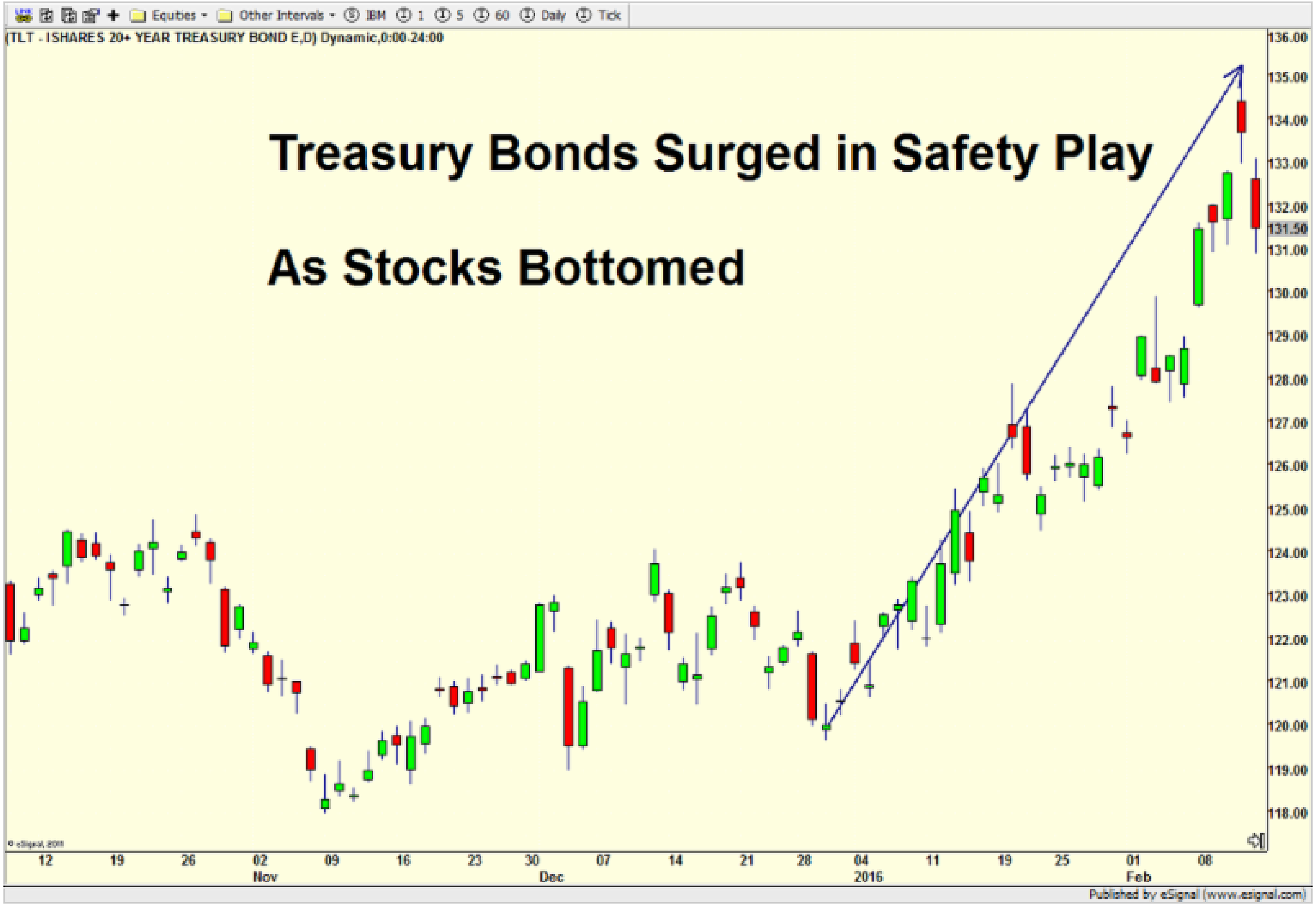
Additionally, look at the surge in the number of shares outstanding below right into the Thursday peak. People were falling over themselves trying to buy gold. That typically does not bode well over the intermediate-term.



Treasury bonds are below followed by the Japanese Yen. Both of these asset classes have risen dramatically since late 2015 as investors flocked to them in a flight to "safety". There is nothing wrong with seeking greener pastures until it becomes a play by the masses and widely accepted. Like gold, the moves turned into almost vertical affairs which means a peak was likely coming.


Equities
Other Intervals
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5
60
Daily
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Treasury Bonds Surged in Safety Play
As Stocks Bottomed
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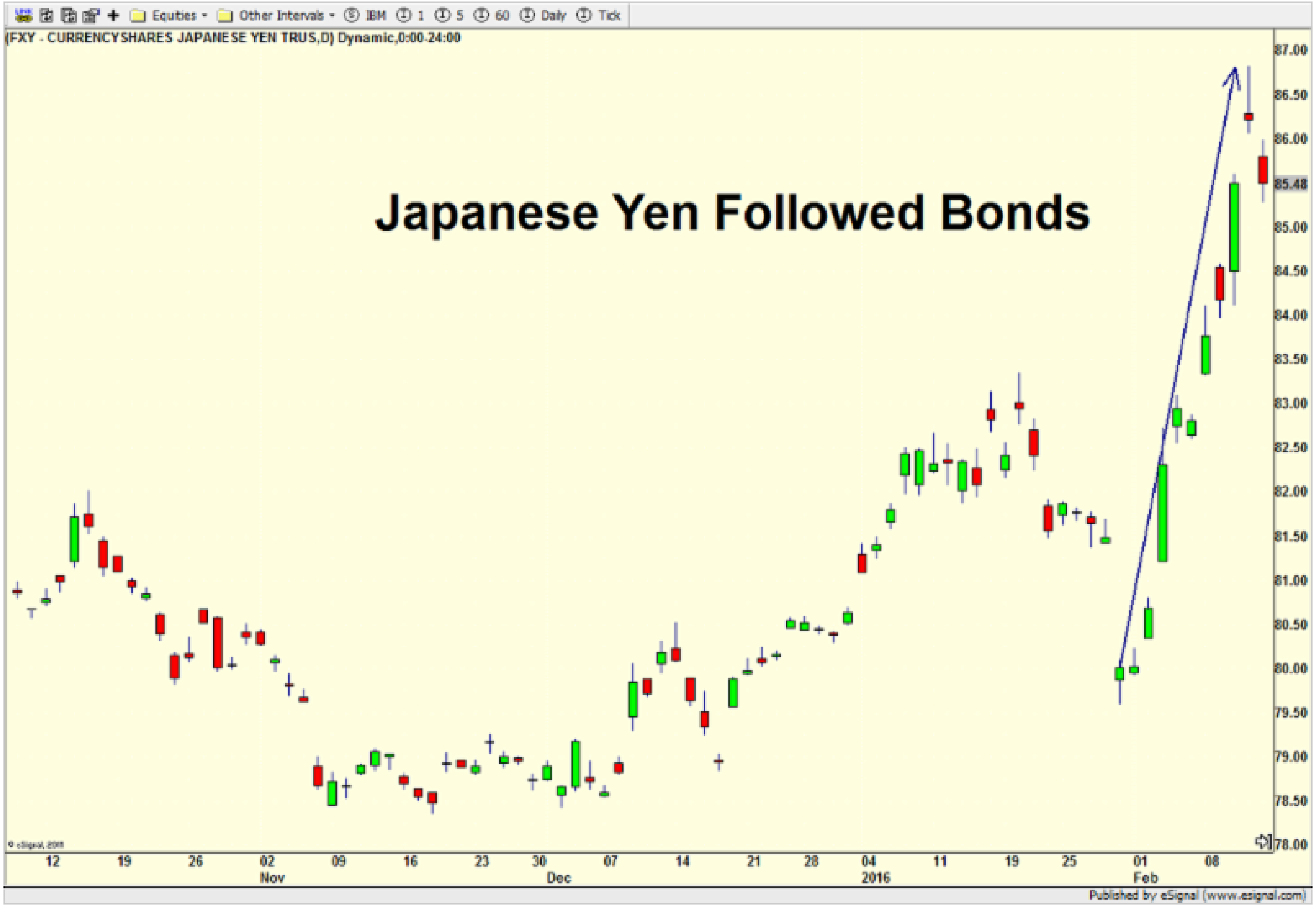

2008 Analog and Breadth Thrust Still Indicating Up

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In the previous issue, http://www.investfortomorrow.com/newsletter/CurrentStreet$marts20160205.pdf, as well as on the blog, I discussed "panic buying" which was seen at the end of January and how the meaning had changed since 2007 from an immediate rally that never looked back to one where an immediate pullback was seen first if not outright failure. Given what we have seen over the past three weeks, the current situation now looks very similar to 2010 and 2011 and is supposed to lead to higher prices.
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Additionally, all year I have been discussing how the price analog looks very similar to 2008 although I also opined that the similarities would break apart sooner than later which seems to be occurring now. You can see below that although the big picture still looks similar but compressed, the very short-term analog has started to break apart.

Upcoming Appearances

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WTIC (Fox61 in CT) - February 18th

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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"In God we trust, all others bring data."
- The Elements of Statistical Learning

"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

"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

"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"

To Your Financial Success,

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