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Inside this issue

Facebook Knew; I Certainly Didn't!

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I saw the social media giant, Snapchat, is seeking to go public with a projected valuation of $25 billion. My kids use this app and I know enough to be dangerous, but don't have much use for it personally. I remember in 2013 when Facebook offered to buy the company for $3 billion and Snapchat turned them down. I thought they were a bunch of complete idiots for rejecting $3 billion in cash. I figured the next offer would be after the social media space imploded to the tune of $300 million. Boy was I wrong. And only by $22 billion!

I remember making similar comments during the Dotcom boom as I just didn't understand the whole "eyeballs over earnings". While I am not sure this is different over the long-term, it does seem like a few people learned from the Dotcom mistakes.

Speaking of mistakes, as I watched the Vice-Presidential debate this week, I just shook my head as Tim Kaine tried to weasel his way around the question of being safer from terrorism today versus eight years ago. I don't know anyone, democrat, republican or independent who believes they are safer now than eight years ago. That's just a fact of the world we live in, whether you are an Obama supporter or detractor.
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Senator Kaine was flat out wrong and it just wasn't his night as Mike Pence won the debate on most counts. Pence, who had the herculean task of not answering or commenting on the many Trump faux pas and feet in mouth, was very, cool and collected as he danced, sidestepped and changed the subject without contradicting his boss. He almost seemed presidential. I would be very surprised if we don't see Pence running in 2020 should Hillary continue on her path to victory in 2016. This is not my personal preference or fact less opinion, it's just what I see in the markets.

If you scroll down, there is an article on the first presidential debate which was originally posted on **www.investfortomorrowblog.com.** My comments have not changed. Trump needs record voter turnout and a stock market below 18,000 to have a chance at winning if history is any guide. Should the bull market reassert itself and see new all-time highs later this month or early November, the incumbent party will be the victor according to history.

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

Stock Market Index Canaries Alive and Singing

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For the past month, four of the five major indices have been in pullback mode after three of the five spent the previous month digesting gains from the huge post-BREXIT rally. While that theme continues today, I think the market is getting closer to resuming its uptrend with the Dow heading to 19,000. For more short-term comments, I invite you to check out our blog at **www.investfortomorrowblog.com.**

Turning to the purpose of this article, I am going to first go through the major indices in the context of canaries in the coal mine to see what kind of shape they are in for the long-term. Then we will look at the four key sectors before finishing up with the NYSE A/D Line and high yield bonds.

For those new to my semi-regular canaries in the coal mine pieces, it's my way to gauge the health of the bull market over the long-term. The stock market has corrected, 10%, 15% and even 20% without warnings from the canaries, but the canaries have always caught big bear markets. When we saw 10-20% bull market corrections, the canaries just tell us that the bull market isn't over and to expect new highs at some point. This was the case during the 10-20% corrections in 2010, 2011, 2015 and 2016. And they were right each time.

The canaries did a very good job of warning about 2000 as well as 2008, however, keep in mind that they may give a few false warnings before the real one hits. It's not a trading system and it really only matters when certain indicators are making new highs while others aren't. I typically combine this with some really big picture indicators, like margin debt and sentiment, to fully gauge whether stocks are healthy or warning of a new bear market.

With all that said, let's look at the major stock market indices. The Dow Industrials are first and you can see that along with the S&P 500 in the second chart, both saw their most recent highs in August.
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The S&P 400 mid cap is next and it scored its most recent high in September which is good because this index usually peaks before the Dow and S&P 500 or coincidentally.

Below you can see the Russell 2000 which made a high with the S&P 400 in August and a slightly higher high last month, underscoring the market's comfort level with risk in the small caps. The Russell usually peaks well before the Dow and S&P 500 as a new bear market begins.

Finally, the tech laden NASDAQ 100 is below and it just hit its most recent high last week. This is very supportive of the bulls over the long-term as this index is a leading bellwether

With the NASDAQ and small caps leading the major indices, the bull market is alive and well and not close to ending, regardless of what happens over the next day, week or month.

Sector Canaries Still Strong

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Moving to the four key stock market sectors from the indices I don't see as strong a sign, but it's definitely not a weak one yet. The bellwether for technology, semiconductors, is first and you can clearly see a sector that is "large and in charge" or "long and strong" to use some trading desk rhymes. This is very bullish long-term.
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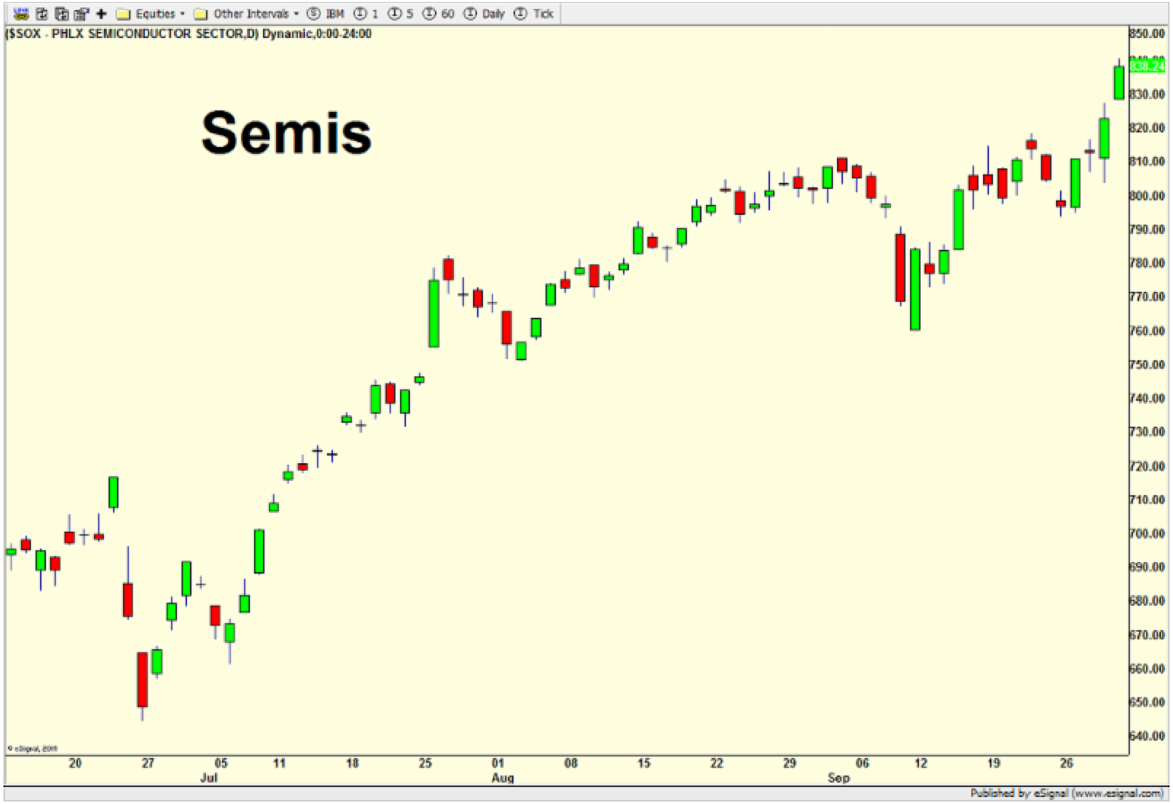
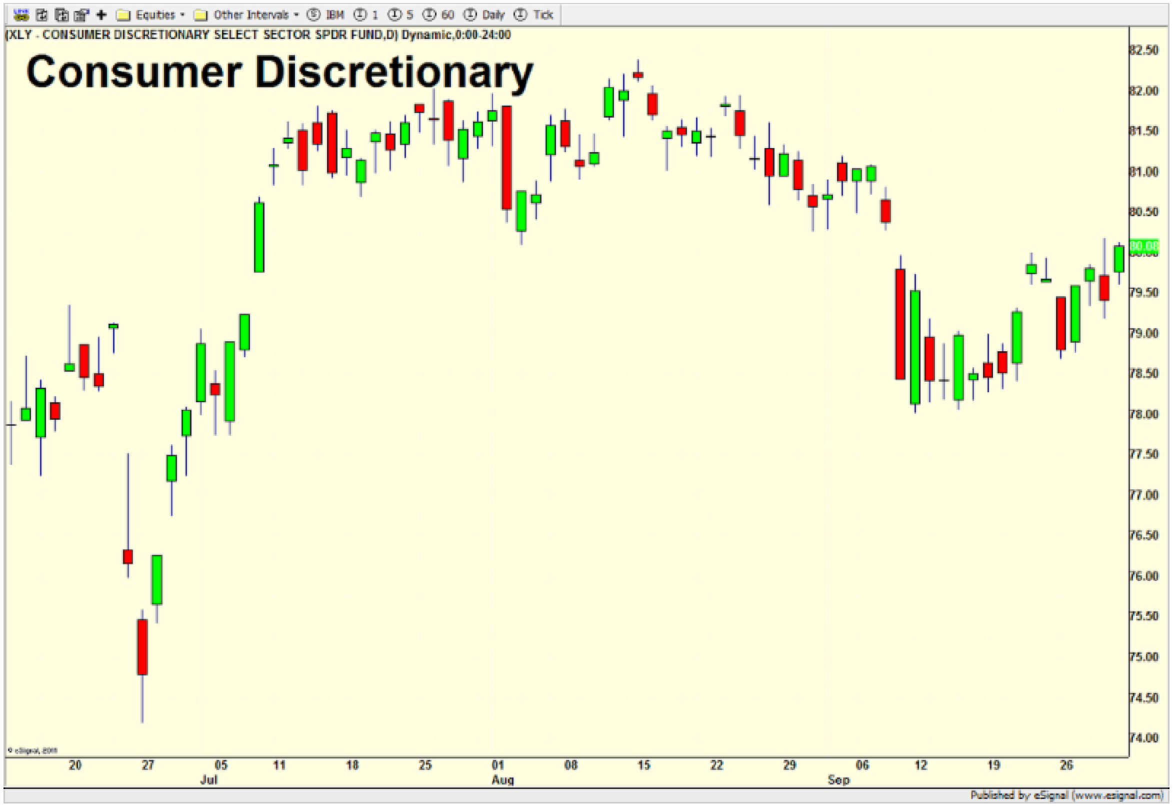


Banks are next and contrary to popular belief, rumors of their demise have been greatly exaggerated. Quite simply, the banks do not look bad here and would look outright powerful when they close above their September peak which they are on track to do.

The transports are below and while a longer-term chart would show a sector 20% below its bull market peak from 2014, the here and now looks wound up and ready to break out to the upside. There is sufficient energy built up in this group that could help lead the stock market on its next leg higher to 19,000.

Finally, consumer discretionary is below and I would have to rate it neutral at best. It has some work to do to regain a healthy grade.



The good news for the bulls is that none of the sector canaries are dead or on life support.

Two Key Canaries Very Alive & Powerful

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Updating the two, and perhaps, most important charts from last week, we can first see the New York Stock Exchange Advance/Decline Line which measures participation in rallies and declines. Before a bear market hits, you will almost always see this line peak well before price does. In other words, the troops were dying in a battle but the officers survived until the bitter end. In today's case, this indicator still very powerfully supports the bulls.
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Finally, high yield bonds are below where I am using the PIMCO High Yield Fund as a proxy for the sector. It just hit a fresh high. Just like the NYSE A/D Line, junk bonds almost always peak well before the major indices.

If I had to rely on just a few canaries, these two would be at the top of my list. Right now, both a very supportive of the bullish case and higher prices before the bull market finally ends. Keep in mind that while every bear market typically begins with these two canaries dying, they will sometimes give false warnings and then come back from the dead.

Presidential Debate was Painful

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The happiest moment of my Monday evening was when Lester Holt said, "that concludes the first of three presidential debates". Talk about painful. I was SO thankful that I had picture in picture so I could also watch an incredibly entertaining football game between the Atlanta Falcons and New Orleans Saints. High scoring and lots of action.

I thought Trump started off so well and I actually naively thought that it was going to be a real debate about policy. Silly me! It devolved into a reality show on both sides. While the #TrumpWon hashtag is all the rage on Twitter this morning and supposedly the polls called Donald the winner, I thought Clinton won but nothing overwhelming.

Trump had her on the ropes with her emails and nothing to show for herself after decades in government. She hit him good with his tax returns and all the personal nonsense. Trump clearly did not prepare enough and Hillary's overly rehearsed one liners were mostly bad. Trump should have stuck to Clinton's open wounds and not let up. Emails, Benghazi, immigration, higher taxes, ObamaCare, Foundation, etc. And what was that sniffling?

Clinton should stop arguing and let Trump rant. He digs his own holes. Tax returns, helping those who need it most, business bankruptcies, etc. What was that cord running down her back into that box? A mic? Hidden earpiece? Medical device?
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Trump once again attacked Janet Yellen and the Fed for being political, as if they want Hillary to win. More nonsense. Without any factual base, I would surmise that the Fed is probably skewed slightly right of center and I 100% believe they do what they really think is right for our country. You don't have to agree with them, but I don't think there is any hidden political agenda. Fed Governor Lael Brainard is the exception as she has made three public donations to the Clintons. Brainard clearly has an agenda to get Hillary elected so Lael can either succeed Yellen at the Fed or Jack Lew at Treasury.

Additionally, Trump continued to attack the Fed for propping up the markets with low interest rates and creating the biggest bubble ever. I find that to be 90% bunk. As you know, "bubble" is the most overused word in investing today. Everyone in my ever growing clown parade of doomsdayers, Soros, Druckenmiller, Icahn, Zell, Fink, Gundlach, Gross, Faber, Auth, Faber, Yusko, Singer and Donald Trump continuously use the word bubble and it's absurd. Bubble equals greed. Mom & Pop clamoring for a certain investment. I would like to know what is being clamored for right now? And no, it's not bonds. People don't buy bonds because of greed. If anything, they buy them out of intense fear.

And to repeat a statement I have made more than a dozen times already, the markets really don't care who wins the White House. By that, I mean that the market celebrates or pouts in a range of -5% to +5%, which is a just a bit outside the normal historic range. On the surface, Hillary means more business as usual and the same slow, uneven and frustrating growth. Wall Street is fine with that. Donald is clearly a wildcard, but I believe it's mostly bark and no bite as he would have to work with Congress. Wall Street would eventually warm to that.

I do think that a sweep of the Oval and Congress by the left would be the worst of all scenarios for the markets as gridlock would be gone and the government could actually get something done. While it may be counterintuitive, the markets like gridlock and don't like when things can get done and change.

Finally, I do think that career politicians and bureaucrats are terrified by the thought of a Trump victory as their ability to buy their way (in one way or another) to those cushy posts will be all but gone. DC corruption would be in for some trouble. That's why so many of the GOP are supporting Hillary. The devil you know. Take care of yourself first. Those comments can easily be extended to the mainstream media as well who overwhelmingly support Clinton.

The bottom line from my perspective is that I can't believe anyone changed their minds from that one debate.

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."
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"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"

To Your Financial Success,

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