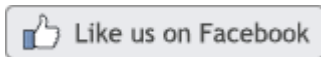




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Trying to Unplug

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It's been a while since I wrote a full Street\$Marts and I know I need to get back to doing this on a regular basis. For the first time in I can't remember when, I feel like I am somewhat caught up on all open items. It's been a crazy year with the passing of my dad, the bar mitzvah of my oldest son and a heavy travel schedule through May 1. Now that all that is behind me, I was able to use May as catch up month as well as planning for the next 7 months, including the initial stages of a major office renovation over the winter.

I am usually very good about replying to calls, emails and texts. Sometimes people think I response too quickly and I should unplug a little more. That's something I have worked on this year, especially for a few hours each evening, if only to watch some TV or grab a 15 minute nap after dinner.

Many of you know that this time of year is Little League baseball and that I have coached all of my kids. With the little guy turning 10 I know I only have a few years left before he ages out and I am relegated to stands to cheer. With my middle child at bar mitzvah age, many Saturdays in April, May and June are spent at these events.



So what does a crazy busy weekend in the Schatz house look like this time of year? On Friday, I raced out of the office at 4:30 to change and pick up the little guy for our baseball game. By the time I showered and had dinner, it was already 9:30.

On Saturday, I was at synagogue at 7:45am to help a family organize the pictures before their daughter's big day. Sprinting home to shower and put a suit on, I got back to synagogue by 10am for the service. At 1pm, after a quick bite following the service, I again raced home to change for baseball practice which went until 3pm. Then, with the little guy in tow, we attended a birthday party for one of his friends until 5. Racing home yet again, I showered and zoomed to an 80th birthday party with my wife for a close friend. At 9:15 we left the birthday party and headed to the bat mitzvah party where one son was already to celebrate until 11:30.

On Sunday, the little guy had a double header baseball game for a different team which meant getting up at 6:30am and out the door by 7. At 1:30pm, I returned

home and fell asleep for an hour before dropping the little guy off at a friend's and then going to hit some golf balls. With my wife and daughter in New York for the day and night, the boys and I joined my mom for dinner before getting home at 7:30 for the night. Toggling between the NBA finals which I really hate and a repeat of Jurassic World, I was in bed and asleep from an exhausting weekend much earlier than expected.

So, my apologies for not being as responsive as I normally am if you called, emailed or texted. With bar/bat mitzvah season over for us and baseball in playoff mode, life should begin to slow down a lot over the coming two weeks. That is, until my daughter's travel softball season cranks up again. But until then, what will I do with all this newfound time?!?!?

Please remember that while I haven't sent a full blown update in a while, I am always very active on the blog.

You can sign up to receive notifications when a new blog has been posted here.

<http://www.investfortomorrow.com/BlogAlerts.asp>

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

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## **Major Stock Market Index Canaries All Alive & Well**

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Canaries in the coal mine is always a vitally important issue for me to write as it speaks to the long-term, especially when it comes to the risk of a bear market. In 2018, since stocks corrected 12% in February, I have boldly, firmly and confidently stated on CNBC, on Fox Business, on Yahoo Finance, on all local stations in CT and almost every week on the blog that the bull market which began in March 2009 remains alive and well, albeit somewhat old and wrinkly. Stocks would recover from Dow 23,500 and head to 27,000 in Q3 with 30,000 not out of the question this year.

<https://www.cnbc.com/video/2018/02/08/dow-plunges-over-600-points.html?play=1>

<https://www.cnbc.com/video/2018/04/02/weve-got-more-downside-before-we-hit-all-time-highs-says-expert.html?play=1>

While pundit after pundit offered very differing opinions, sometimes challenging my "perma bull" stance, I refused to cede any ground. Bull markets have never, ever ended with the behavior seen at the last all-time high on January 26, 2018. Of course, I could be wrong, a precedent set and have egg and losses all over my face. However, the odds would say that is a long shot.

As an aside, I always chuckle when people label me "perma bull" or "perma bear". If anything, I am a perma opportunist, using the data at hand to guide me. For years, one of my friend's fathers who sells financial and insurance products for Ameriprise would always tell me that I was too negative. He would tell me to just buy "good stuff" and don't worry. That "good stuff" were those high flying Dotcom stocks and the years were 1999-2001.

Back to the canaries. For newer readers, this issue is only relevant and valuable to gauge whether a bull market is in jeopardy of ending. As such, prices must be at new highs or rolled over from new highs. Canaries say absolutely nothing 5%, 10%, 15% or even 20% bull market declines. This analysis will not be useful in forecasting those declines.

With all of that out of the way, let's dive in. The canaries issue is full of charts so it will print a lot longer than any normal issue with a lot less text from me. The idea behind canaries in the coal mine is that bull markets do not die all at once. It's a process. Canaries begin to die long before the public realizes that a bear market is coming, sometimes as long as 24 months in advance. It puts on warning and cautions us against taking on even more risk.

Let's start with the five major stock market indices. At bull market peaks, we would not see all indices scoring new highs together. One, two or even three indices would fall short. Below, you can see that all five major indices scored all-time highs in sync in January. That is very strong behavior and absolutely not what you would normally see at the end of a bull market.







Sector Canaries All Breathing Nicely

Let's turn to the next group of canaries and see how our sectors were doing at the January peak. First, I am repeating the Dow Industrials with the Dow Transports right below it to show Dow Theory which says that these two indices should be making highs together or a warning is sent. While both indices saw all-time highs in January, you may observe that they were on the same day or even week. That would not be a warning or cause for concern unless more time elapsed in between.



Seeing that the Dow Transports did make an all-time high in January, let's turn to the other key sector canaries. As you can see below, the banks, semiconductors and consumer discretionary all made new highs in January. Again, this is absolutely not the type of behavior typically seen at the end of bull markets.





Outside the Box Canaries Singing

The final group of canaries don't anything in common. I just grouped them together to avoid having three more small canaries. Let's start with high yield (junk) bonds which I write about very often on the blog. I like to use one of the exchange traded funds (ETF) ones as well as one from the mutual fund space.

Right below, you can see JNK which is one of the two major high yield bond ETFs. It peaked in early January. Just below that chart, you will find PHYDX which is a PIMCO's giant high yield mutual fund. It, too, peaked in early January which is technically not so bad, however I am very concerned about the depth of the decline that ensued and high yield's inability to rally very much since. While I do think high yield will rally this month and into Q3, I believe there is a good chance that the January peak for this all-important canary could mark the bull market high. If that's the case, the stock market will have lost an important canary for quarters or perhaps even years to come.



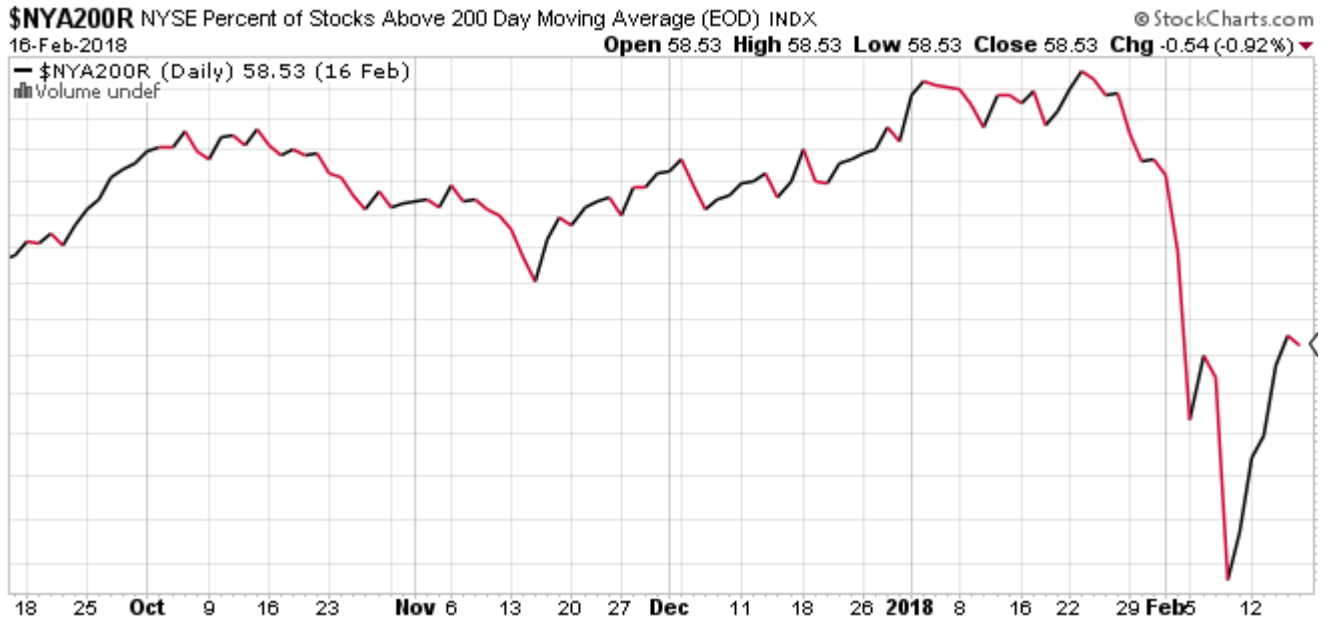


The New York Stock Exchange Advance/Decline Line (NYAD) is next and it is important because it shows the levels of participation in the bull market rally. 90% of all bull markets deaths show a NYAD canary that was dead at least three months before prices started to roll over. In other words, the NYAD is a very good leading indicator that will sometimes give false warnings, but rarely fail to warn. It usually pays to watch for times when stocks are making new highs and this indicator is not.

Below you can see that at the January peak, the NYAD was scoring fresh new highs. As has been the theme of this whole issue, this is absolutely not the type of behavior usually seen at bull market peaks.



Finally, somewhat similar to the NYAD, we look at the percent of stocks above their average price of the last 200 days. Bull market typically end with significant weakness beneath the surface over the long-term. That means the line below should be going down well before price see their final highs and the number should certainly be less than 60%. At the January stock market peak, 75% of stocks were trading above their 200 day long-term trend.



Summing it all up, as has been the case during every single stock market pullback and correction since the bull market launched in March 2009, the bearish pundits have been dead wrong. The preponderance of the evidence strongly suggests new highs for the stock market which I have been forecasting all year, above Dow 27,000. I still have an upside projection to Dow 30,000.

Investment Quotes/Adages To Live By

"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

"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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