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## **Paul For President**

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Last Saturday morning, I took a break from my outdoor, around the house project to take my 5 year old daughter to tee ball. If you're keeping score at home, the project I budgeted one day for is now on day 12, but thankfully, we're coming down the home stretch.

I can't tell you how many times, I took a deep breathe and thought what an idiot I was for doing this basically alone, although my wife did pitch in for a spell and the two older kids had a ball throwing seed and then a product called Mainly Mulch around.

After watching the tee ball game, I realized two very important things. First was that, although my daughter has more power than the boys, I shouldn't hold my breathe for a baseball scholarship. And second, after the game while playing pepper with my in-laws, I discovered my mother in-law has a baseball swing that rivals A Rod! And hits it just as hard and far!

Last issue, I spelled out my roadmap for the economy, which wasn't all that rosy, although it wasn't cataclysmic either. Rather, it involved lots of fits and starts, backing and filling, but nothing close to what we've experienced over the past 25 years.

And your many emails were interesting to read and digest. I just want to dispel one assumption and comment on another. My economic views are not politically based. Frankly, if one party can better manage the situation, so be it. Right now, I don't think either party is up to the task!

I spent some time, why I have no idea, researching the assumptions made in the government's 10 year deficit forecasts. Barring an absolute miracle, I have a better chance of becoming president than those forecasts do of being accurate.

First, they predicated are GDP growth rates exceeding 3%. While that may happen for a quarter or two, I don't see any way that our economy will grow like it did previously without the "steroids" we provided. Second, it's assumed that inflation will stay tame for many years to come. That's possible. I'll give them that.

Next, interest rates need to remain at low levels for years to come. Possible? Sure. Highly likely? I would doubt it. Finally, none of the forecasts take into account the trillions the government is going to spend on healthcare, let alone the social security fix.

So it's not hard to understand why I have serious doubts about taming our out of control budget deficits over the coming decade. We could get lucky and grow the economy so the percent of GDP becomes smaller. But more than likely, all of our taxes are going up, up, up.

## **Do We Call This A Bull Or Bear Market?**

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Several times during the bear market, I've discussed some pretty easy to understand research that often says the landscape is changing. The vast majority of bear market rallies peter out in 12 weeks or less. This has basically held true during all of the bears in the modern investing era.

As I described in the last issue, with the last bottom occurring in early March, a new high for the current rally above May 8 would mean that further confirmation of something different since July 2007 is happening. That's been confirmed without much surprise.

Do we call this a bull market? Are we still in a bear market? Does it even really matter? I'll go with choice #3. They are just names. I think it's more important to

have market conditions dictate where we are.

For example, when price is above the long-term trend and the long-term trend is rising, that's the most positive condition possible. Conversely, when price is below the long-term trend and that trend is falling, that's the most negative condition. Currently, we are somewhere in between, but have improved from the worst state.

**If you have opinions or comments that agree or disagree with this piece or any in this issue, feel free to contact me by either hitting "reply" or calling the office at 203.389.3553.**

## **Beware The Coiled Snake**

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For the past three months, our take has basically been the same. Over the intermediate-term, Dow 9000+ should be achieved by the end of summer before any real trouble sets in. And so far, the market has done nothing wrong to indicate anything more than a short-term pullback to refresh.

On the flip side, we've been much more cautious over the short-term for way too long. It's been the dead wrong position and frustrating. When I first entered the business in 1988, I was told that it was ok to be wrong, but not ok to stay wrong. I need to remind myself of that! Although I'd rather be taken to task for being too conservative and preserving capital than being too aggressive and risking it!

As I mentioned above, the stock market hasn't done anything really wrong, yet, to indicate serious trouble. While you can certainly say that it's come a long way very quickly, that's not predictive of trouble ahead. Sector leadership has been good, but you can easily argue that volume isn't expanding like it should during initial legs of a new bull market.

The move over the past month feels more like a sellers strike than buying stampede, but maybe I am being too critical. We just have to wait to see how stocks behave during the next pullback. Each move higher of late has been accompanied by poorer internal figures, like the number of issues advancing and declining as well as the volume associated with them. But that condition can persist for some time and continue to worsen before succumbing.

For now, the path of least resistance is up and that won't change until the Dow closes below roughly 8550, although 8200 is a much more important level. For the past 7 trading days, the market seems to be in an equilibrium state, not venturing too far above or below 8700. In technical terms, we are seeing a coil, like a snake about to strike its prey. The snake gets all wound up and then BANG! It attacks in grand fashion.

Tomorrow, Thursday the 11th or Friday at the latest, should see an end to the coil with the largest move in almost two weeks. With the trend still up, the odds favor a continuation higher to 9000, but it's something I would stake my life on. A move to the downside would certainly be out of character for this market and be cause for more concern.

## **Taking The Unpopular Side All Around**

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I love having conversations with gold bugs. There's no more passionate investment group than these folks. When times are good, gold is the answer because, inevitably, inflation rises as the economy overheats. When crisis hits, gold acts as a safe haven. So there are few times when it doesn't make sense to own gold, according to this group.

But their arguments are so full of passion and they really do believe what they espouse, it's great to engage the discussion. Rarely have I seen more gold bugs out of the woodwork than this year. I gauge that by sentiment surveys showing excessive optimism, positive news stories and interviews on gold and the number of inquiries for our own [Short-Term Gold Program](#).

It's been no secret here or from the many [TV interviews](#) this year that we've been negative on gold since late February. (For full disclosure, we can and often do trade the long side of gold stocks when conditions warrant) With all of the horrific financial news over the past year, the trillions of dollars being "printed" by the government and the "guarantee" of much higher inflation in front of us, isn't it obvious that gold is the right place to be?

Before I ever came into the business in 1988, I studied the work of Joe Granville. (His books can be found on Amazon) Besides being the all time great master showman of the industry and once able to move the market with his words, he was a man of simplicity. I am reminded of one of his famous expressions that I need to ingrain in my brain.

### **If it's obvious... it's obviously wrong.**

By that, Joe meant that when the masses are all lined up in the same direction for an event, they will be proven wrong. If it seems too easy, it likely is.

Last weekend, the Belmont Stakes took place. The only horse races I watch each year are the Kentucky Derby, Preakness and Belmont Stakes. That's like only watching the Super Bowl or World Series. Every year, I root for a Triple Crown winner and almost every year, I walk away disappointed. I still remember the youngster, Stevie Cauthen, riding Affirmed in 1978 to victory as well as Seattle Slew just one year earlier.

This year, something truly unique and historic happened. The Triple Crown became about the jockey, Calvin Borel, not the horse. Borel rode Mine That Bird to victory in the Derby, but changed horses and rode Rachel Alexander to the win at the Preakness. So when the Belmont came around, the story was Borel's possible Triple Crown, not a horse's, something that's never happened before.

What I found really interesting was the deluge of media requests he received the two weeks prior to the race, including a stint on Letterman. I saw a sea of people outside the various studios begging for his autograph. Calvin Borel was instantly a star! And his horse was the overwhelming favorite to win the race.

While I was definitely rooting for Borel and his horse to win last weekend, I turned to some friends and said it just wasn't going to happen. It seemed all too obvious. It reminded me of the Orlando Magic/Cleveland Cavalier NBA series earlier this month. Everyone was expecting the same outcome. It was just too easy.

And that's the current sentiment with gold. It's easy money. Everyone knows what's going on and there's nothing on the horizon to change that. It's simply amazing to me that gold isn't already \$2000 an ounce. Is something up?

In fact, gold peaked way back in March 2008, long before the financial and economic death spiral was in full swing. So if gold couldn't go up during the perfect storm, what does that say about it's future prospects? You be the judge.

Last issue, I talked about how I felt gold was being held up by the dollar's weakness, something that looked to be ending imminently. Without the tailwind of a weak dollar (gold and all other commodities are priced in dollars), gold should succumb to much lower prices sooner than later.

The bottom I was looking for in the US dollar arrived on June 3, right about the time that sentiment surveys were showing more than 90% negativity! After a four day rally, the dollar is taking a quick pause, before heading to higher levels this month. So if I am positive on the dollar... that means I think the British Pound and Euro are heading lower, possibly MUCH lower, but we'll cross that bridge later.

I am often asked how I can possibly be positive when the government is printing money at an historic pace, thereby devaluing the dollar. First, everything is relative. While strong currencies are usually found in stable and growing economies, this is more about it being "less bad" here than elsewhere.

Additionally, when everyone is lined up one way, in this case to the negative side, who is left to get on board? The number of investors positive on the dollar is less than 10%! That's extreme and usually means a rally isn't far off. Like I mentioned above, when something is obvious, it's obviously wrong!

The non scientific icing on the cake was a conversation I had with a member of the media last week. I was doing some pre interview prep and the woman asked for my best short-term idea. I said it would be either to buy the dollar or short the euro.

It's very rare to be argued with, but in this case, she actually laughed at me. I mean, I'm used to it from my friends and family, but a perfect stranger? She then listed all the reasons why the dollar could not and would not rally. I responded by asking her, if you know that and I know that, then doesn't most of the free world know that? And if that's the case, who is left to invest that way?

Isn't that another case of something being too obvious?

Only time will tell, but I wouldn't be so quick to hop on that bandwagon just yet.

And while we're on the subject of nonconformist investing, is there anyone left who actually thinks that buying treasury bonds is a good idea? Just like the dollar, recent sentiment surveys show fewer than 10% believe that bonds are going to rally. This is down from 90% just a few months ago!

And it's the same argument as the dollar. Uncle Sam is printing money like there is no tomorrow. We're going to run trillion dollar deficits as far as the eye can see. The Chinese don't want our paper anymore. The U.S.'s pristine AAA rating is in jeopardy of being downgraded. Yada, yada, yada.

It's all just too easy. If it's so obvious to all investors, who is left to sell? I don't buy it. I think treasury bonds are in the early stages of bottoming for a minimum short-term rally. We'll see what it can morph into once it gets going.

So now, we have 90%+ people positive on gold, count me as negative. 90%+ are negative on the US dollar and treasury bonds; I am positive. I feel like a salty, old curmudgeon.

Before I finish this contrarian piece, I want to comment on energy, an area I've been positive on since late February. I can't tell you how many times I mentioned my concern that no one else was worried about energy spiking again. In fact, as I quoted a few months ago, there was even a few newspaper headlines calling for much lower energy prices into the summer. What a bell ringer for higher prices!

While the weak dollar essentially kept gold afloat, you can really see what it did to oil. Since the dollar's peak in early March, oil has risen almost 100%! That's a dramatic move that few were prepared for. And to be fair, although I was absolutely correct on energy, even I did not envision such a huge move so quickly.

But with the dollar trying to hammer out a more significant low, it's hard to believe that oil will keep up this pace. It hasn't done anything wrong yet to get me cautious, but I would expect that to change by July 4th. Let's hope I am right and oil begins the topping process sooner than later!

I received a few nice emails (for a change) thanking me for creating the energy hedging strategy so close to the bottom. Sometimes, it's better to be lucky than good! But it's more important that people were actually helped by this. And those of you who wrote to me about an ulterior motive, I'm sorry to disappoint you, but we don't make any money from this strategy. None. The only fee the clients pay is what the brokerage firm charges to execute a transaction, something we do not share in.

## **Upcoming TV Appearances**

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CNBC's Reports - June 19 at 8:05pm

CNBC's Worldwide - June 30 at 5:30am

You can view most of the past segments by clicking below.

## **Media Appearances**

### **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.

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