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## **Overwhelming Response About Reform**

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FYI, I am scheduled to be on CNBC's The Call tomorrow (Friday the 25th) at 11:05am. You can see the full list towards the end of the newsletter.

Last week's outside the box article on [healthcare reform](#) drew more responses than any article I have ever written in my 21 years in the business, which seems pretty dramatic at first blush. That's a fact. As I thought more about it, I realized that I have more readers than I've ever had in 21 years and the chosen method of response, email, has only been dominant for about a decade. So, controversial and polarizing issues SHOULD elicit powerful replies now and even more so in the future.

I chose some excerpts from the emails I received and reprinted them below if you are interested in reading what others feel about this issue. I will likely do the same in the next issue. What impressed me was how much thought, detail and emotion went into the 100s of replies so far.

It's interesting that it's another two weeks later, the president spent his Sunday doing a dog and pony show on the morning news programs, but we're even farther away from any reform. While the market isn't always right, it's certainly done an admirable job, so far, of telling us that no meaningful or expensive healthcare plan is imminent. Rather than listening to the various congressmen's useless sound bites, just keep on eye on healthcare stocks to let you know where we are headed.

## Significant Correction On The Horizon

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Turning back to the financial markets, it's been a relatively quiet few weeks as the major stock indices continued their rallies that began just before Labor Day. That's the good news. What concerns me is that we are getting closer to the end of September to mid October timeframe where I saw the best chance for the first real correction, not just mild pullback, since the big rally began in March.

Overall, I have remained intermediate-term positive since March and while I incorrectly waffled a few times on the short-term, it's now time to become more cautious. So far, nothing has changed to make me believe another scenario is unfolding, but we'll cross that bridge if and when we get there.

Typically, market peaks before corrections see certain behavior. Some people call it the internal/external top, while others refer to it as the momentum/price top. Either way, we usually see stocks run up with everything looking perfect into the first high, which likely was the past week.

After that, the indices see the same normal and routine pullback that's been happening since the major rally began. I would argue that we're seeing that weakness right now. Just as the masses begin to turn very negative as sentiment turns to the rally being over, the stock market tries for one last gasp rally attempt that fails to really ignite price higher.

Volume, the horsepower of the market is usually light during that rally and not all of the major indices get on track together. But the real confirmation is that the number of stocks and sectors participating in the rally is very narrow, meaning the generals and officers are leading the charge into battle, but the troops decided to stay home and watch the Yankees or the NFL on Sunday. Without the support of the troops, the officers are overrun and the battle is lost.

Adding fuel to that fire, we've seen market sentiment (the number of investors positive or negative) really skewed to the positive side, meaning that the masses were/are expecting higher prices. While sentiment can always become even more positive or negative, it only needs the smallest spark to ignite a reversal in the opposite direction.

**For now, stocks are in a pullback that should wrap up in the coming week or so. From there, I would expect another rally attempt into mid October as earnings season begins. The quality of that rally will dictate if more selling is on the way and possibly how much, but right now, I am in the camp of a significant correction, 7-17% or 700-1700 Dow points if that's your index of choice by early November.**

As far as other asset classes go, my opinions remain the same. I have clearly been early on the dollar, but I think it will pan out just fine as the smart money has now loaded up the truck to the long side, looking for higher prices. Yes, all you gold bugs, that means I am still negative on the yellow metal and have been since February at \$990. The risk remains to the downside and rallies should be sold not bought.

The neutral stance for the past few months on energy remains, but I'd certainly like to see some weakness here as gold declines. If my dollar call is correct, that would put an awful lot of pressure on oil. I'll have more comments on these asset classes in the next issue.

Stay tuned and feel free to email by hitting REPLY or call the office at 203.389.3553 with any questions or comments.

## **Does The Market Know We're In A Recession?**

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The following article was written for the [New Haven Register's financial blog](#), which I will be contributing to at least weekly.

It's no secret that the U.S. and most of the world has been in a recession since late 2007, although so many people have felt the pain long before it "officially" began. The National Bureau of Economic Research (NBER), a non profit group from Cambridge MA, is the official scorekeeper of recessions and expansions and use various objective and subjective methods to declare the start and finish.

Most analysts keep it simple and use two consecutive quarters of negative gross domestic product (GDP) growth as the line in the sand for recession. The problem here has been that by the time a recession has been triggered, it's usually close to being over. That was until the tsunami of 2008, which will go down as one of longest economic downturns in history!

So enough with the textbook info, most people want to know why the stock market has rallied so hard in the face of horrific employment numbers and an economy that keeps shrinking! I can give you the easy one line answer and then offer some details. The simplest reason is that the stock market is one of the greatest discounting mechanisms in the entire financial system. By discounting, I am not talking about something in a retail store that's offered at 20% off.

Rather, the behavior of the stock market today is signaling economic activity three to

nine months down the road. In this case, although the reports remained dire in March and April, the stock market rallied because it was snuffing out that things were about to become a lot less worse than they have been. And that would eventually lead to some kind of recovery.

Let me give you some more examples. In October 2007, the market made its all time high above 14,000 and then promptly collapsed 16.50% to 11,700 by mid January 2008. During that three month stretch, corporate earnings and economic numbers continued to show good growth, coming in as or better than expected. A significant rally began again in March 2008, following the Bear Stearns rescue and the economic effects of that rally showed up in the June/July period.

Following Lehman's vaporization in September 2008, the stock market fell off cliff, losing more than 20% in one week, yet the economic numbers did not severely worsen for three to four months. My all time favorite example of why you should watch the stock market's behavior over what news is actually being reported takes us all the way back to 1990 when Iraq invaded Kuwait.

The economy was already shows very early signs of weakening with inflation ticking up and the S&L Crisis becoming front and center. Saddam Hussein was the catalyst that actually pushed it over the edge. Oil spiked to over \$40, which at that time was viewed as deeply recessionary. Another \$20, it was thought, would throw us into another depression! I guess those analysts wouldn't still be employed today with that mentality.

Anyway, stocks sold off very hard, losing more than 20%, from July to October 1990, while the economic reports just began to weaken. From that historic bottom in October 1990 with the recession deepening, banks going out of business on a weekly basis and the U.S. about to begin its first war since Vietnam, the stock market took off like a rocket ship, soaring more than 30% by the time the recession was officially declared over in April 1991.

The stock market almost always looks ahead at economic activity three to nine months down the road. If you are basing your investing decisions on the economic or earnings news of the day, you will usually find yourself chasing your tail. Remember, what's being reported today is already in our rear view mirror. It's where we've been. Imagine driving your car to the supermarket and only looking in that rear view mirror. Not a pretty outcome, right?

The stock market hammered out that historic bottom this past March, not because the landscape was getting better at that time, but because it saw a light at the end of the tunnel three to nine months down the road. Stocks typically begin to rally around the time where the recession is at its worst and the fewest people expect it. It does its best to confound the masses, so as investors, we should always expect the unexpected and look ahead.

And please remember that every wiggle in the stock market will not translate into economic movements down the road. I am talking about the big picture, the macro moves, if you will. The ones that last months and quarters, not days and weeks.

If your philosophy has been to wait until the economic reports signal a recession or expansion, you may be making investment decisions at precisely the wrong time. The reasons for the beginning of a bull or bear market are irrelevant. If you must have rational explanations for things, the stock market is a tough place to make money

unless you have the unique ability to invest with hindsight! To quote John Maynard Keyes, "The stock market can stay irrational longer than you can stay solvent".

## **YOUR Comments On Healthcare Reform**

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"People should live a healthier life. Let's be proactive for a change instead for waiting for the problem to arise. We need more education on nutrition... Smoking should be outlawed as it's now one of the single biggest healthcare expenses... Obesity is out of control in this country and that needs to change."

"Paul, I think you're completely nuts." (Thanks Jeff)

"We must cover every single American. Period. No matter what the cost."

"Congress needs to "eat their own cooking" not only on healthcare, but on Social Security, and Medicare as well. Those people that marched in DC last weekend are only the tip of the iceberg....."

" I don't think they (congress) should take over a Carvel stand."

"We do need health care reform, but why so drastic and expensive... My fingers are crossed that the expensive "Public Option" is dead on arrival. My feedback from clients, friends and relatives is that this approach to Healthcare Reform will substantially BALLOON the Deficit.

Congress should definitely EAT the same cooking as it's constituents. We know this will never happen. As a disabled American Veteran I visit the VA 2-3 times a year and I must say the VA people I deal with run a very efficient and professional program. With government agencies this the exception and not the rule (unfortunately)."

"I think President Obama is in a position where he can't do anything, the election era of 'Yes we can', only works when people are prepared to believe it, people only believe it when they are going to benefit, I believe Americans know it won't ever happen because it's not affordable ergo not practice, he's been put onto such a high peddle-stool that he can't possibly do anything, he can't bring the troops home from the middle east, he can't touch education, religion and I think that after he was sworn in he wanted to get straight on with business, mainly through media and public pressure, and that's when he picked up getting involved with the financial crisis, but I believe even he would know that the credit crisis is one of those things that you don't want your legacy to be about, especially looking at how the war on terror became Bush's. So he moved onto health care, because to begin with it was a good idea, 'start now we might get it done by the end of the first term' and I think he knows he's not going to win this."

"I agree with you regarding a public option. I deal with State, local & Federal

government agencies on a daily basis. I am astounded the lack of efficiency and know if I ran my practice the way they run their departments that I would be out of business. I'm a firm believer that patients need to have skin in the game regarding health care cost. They are often led test to test blindly without questioning the cost or the need for the test. There is no competition regarding pricing for medical services. Healthcare is one of the only industries I am aware of where the economics of supply and demand don't apply."

## **Investment Quotes/Adages To Live By**

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"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, 1931

"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 via Tim Woods

"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

## **Upcoming TV Appearances**

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CNBC's The Call - September 25 at 11:05am

CNBC's Worldwide Exchange - October 20 at 5:30am

WTNH's (ABC in CT) Good Morning CT - November 22 at 7:25am

CNBC's Worldwide Exchange - November 25 at 5:30am

CNBC's Worldwide Exchange - December 24 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.

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

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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