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## **Inside this issue**

[Short-Term Market Weakness Equals More Gains Ahead](#)

[Enough is Enough with the Banks, Mr. President](#)

[Healthcare Stocks Laugh at Reform](#)

[Obama May Be Down, But NOT Out](#)

[Investment Quotes To Live By](#)

[Upcoming TV Appearances](#)

[Friends And Family Plan](#)

## **Short-Term Market Weakness Equals More Gains Ahead**

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So many comments... so little time. It's been a very eventful start to 2010 on both the political and market front with no change in sight. Although stocks put in a very nice first week showing, there was little in the way of follow through and quickly pulled back roughly 5% last week as a "sell the news" mentality hit many of the earnings announcements along with the political sabre rattling.

Making money in this business or not losing money sometimes boils down to being in the right place at the right time, no matter how hard you work or how strongly you feel about a position. As I've shared many times, there's nothing wrong with a little luck. Additionally, I'd MUCH rather make money for clients than be right on my analysis. I would be perfectly happy being wrong all the time, but having my clients make money week in and week out, month in and month out and quarter in and quarter out.

There should be sign that says "Successful Investors... Please Check Ego and Pride at the Door".

Those of you who turned on CNBC's Special Report last Thursday night after my email did not see me on tv. The "Schatz Jinx" continued as I was canceled as I got in the car to head to the studio. Lucky I am not paranoid or I would think people were out to get me! If you're awake, I am going to be on CNBC's International Exchange this Thursday, the 28th between 5:40 and 5:55am, a bit shorter than usual due to the events in Davos Switzerland this week. I also just got invited back to Squawk Box on February 3 at 6:10am.

Speaking of CNBC, when I was last on (January 14) and not preempted or canceled, I was asked about the market during [The Segment](#). In a case of better to be lucky than good, I called for a 4-7% market decline over the next 6 weeks that would set the stage for sharply higher prices into the summer. With last week's drubbing, we've pretty much satisfied the mid point of the weakness, but I can easily make a case that stocks should see a brief rally now, followed by one more bout of weakness that takes the S&P 500 below Friday's low and towards the 1050 area, before the real liftoff takes place.

***Coming in the next issue...***

The countdown to Tim Geithner's resignation.

**Enough is Enough with the Banks, Mr. President**

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I am often asked why I comment on politics in a financial market newsletter. The answer is simple; the two are forever linked as the majority of bear markets start with some political mistake(s). In my [Top 9 Tips for Successful Investors](#), #6 was to beware of politicians run amuck. Although 2010 is very young, the folks in Washington have already exceeded their quota in this department and seem have a taste to keep going.

One of the all time memorable lines in modern day presidential politics was Bush I's "READ MY LIPS. NO NEW TAXES". And then he went on to raise taxes and lose his reelection bid to Bill Clinton's "It's the economy stupid". I don't think the Obama camp learned much from that valuable lesson as campaign promises and sound bites have fallen by the wayside with the pledge to air Congressional healthcare reform debate on CSPAN long forgotten.

But that's really nothing compared to the constant barrage against the banks. Now, I am no defender of the financial institutions that almost toppled the greatest financial system and economy on earth, but the administration and Mr. Obama haven't done their homework. Lowering themselves to school yard bullies serves the country and financial system no good. Take the high road Mr. President and focus on a nascent economic recovery that only needs a slight push to fall over again into recession.

Punitively attacking the banks at this stage is going to hurt much more than it helps. To begin with, the \$90B tax on the banks that took TARP is completely and utterly absurd. Certain

institutions were forced to take the money under Hank Paulson. They've paid the government back in full, with interest and warrants.

So why should we punish them to the tune of \$1B - \$2B a year in added taxes, fees or surcharges? That makes no sense. Especially since we all know they will simply pass that on to the people who can afford it least, lower income earners. Additionally, if banks weren't lending before, they certainly won't increase lending and risk more capital with this hanging over their heads.

And to the banks that haven't been able to repay TARP, the government is just saddling them with more future liabilities. Who is really being helped here?

If you want to punish all those responsible for the crisis, how about Congress' broadening out of Jimmy Carter's Community and Reinvestment Act under Bill Clinton? How about Alan Greenspan for keeping rates too low and denying that bubbles even existed? How about the Bush Administration for allowing five investment banks to take on 40-1 leverage? How about the rating agencies for giving A, AA and AAA ratings to paper that can politely be called junk? How about Barney Frank and Chris Dodd? The list goes on and on and on.

The banks screwed up. No doubt about it. In so many ways. But going after them like this is bad for capitalism, bad for the financial markets, bad for the economy and bad for investors. Where is the penalty for GM, GMAC, AIG, Fannie and Freddie who were all bailed out by the government?

And just when you thought the rhetoric was calming down, Barack Obama goes on the offensive again. This time, they want to prohibit banks from owning hedge funds, private equity firms and engaging in proprietary trading (trading for their own account). As if this somehow would have prevented the crisis in 2007, 2008 and 2009. FYI, these prohibitions would have done nothing to prevent or mitigate the financial crisis.

All we are going to do is put the U.S. banks at a competitive disadvantage to their European and Asian counterparts.

Instead, what we really do need is the framework for an organized unwind of troubled institutions that are deemed "too big to fail". I don't believe in limiting the size of an institution. If I am Jamie Dimon, CEO of JP Morgan, what do I do when I am getting close to some arbitrary asset or size number that the government deems too big? Stop doing business? Sell pieces of the company? This all creates a disincentive for success.

We need to use and expand what has worked over the past century, the FDIC. That entity should be charged with placing other financial institutions into receivership for an orderly dismantling. I can tell you this. If Sheila Bair, head of the FDIC, was given that responsibility, I do not believe the U.S. taxpayer would be on the hook for some \$180B in AIG rescue. No matter what we do, the end result isn't going to be pretty, but the constant and endless stream of bailouts at any cost must end.

## Healthcare Stocks Laugh at Reform

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The following article was written for the New Haven Register's financial blog, [Fi\\$cally Fit](#), which I contribute to on a weekly basis. Please click on the link to read.

[Healthcare Stocks Laugh at Reform](#)

## Obama May Be Down, But NOT Out

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In the third and most shocking outcome since Obama's trouncing of John McCain, Scott Brown, a republican state legislator, handily defeated Martha Coakley for the late Ted Kennedy's Senate seat in MA. This is on the heels of two governorships in NJ and VA going to the republicans so close to the democrats sweeping victory in November 2008. Some are calling this the most important election ever or in the last X years, but that's a bit overboard for my taste. It's certainly a continuation of the anti-incumbent sentiment that's been popular since the financial crisis hit full steam in early 2008.

While the republicans have been celebrating like it was 1994 all over again, someone should remind them that they still are well outnumbered in both houses of Congress, at least for now. What's clear to me is that voters threw the republicans out in 2008 for becoming the party of spending and fiscal irresponsibility and seem to be doing the same to democrats now.

Everyone seems to want some type of healthcare reform, myself included, but no one wants higher taxes, added government spending or partisan politics. So the \$64,000 question is, can both sides come together and work through a series of small compromises before November? While I'd like to say that I'm optimistic, the Congressional track record doesn't favor such an outcome in an election year. The closer we get to November the less legislating and more campaigning Congress will do.

If you look back over history, the stock market tends to perform the best with no party dominance. You can be cynical and call it gridlock where nothing gets done or you can view it as the ultimate in bipartisan politics. After Bill Clinton's victory over Bush I, he immediately tried to get healthcare reform done in a partisan manner. After that failed and the Gingrich led revolution in 1994, Clinton moved toward the middle, worked with Congress and presided over one of the great bull markets of all time.

It's way too early to call for a 2010 republican takeover of Congress. And let's remember that Barack Obama led one of the all time great presidential campaigns. After huge losses in NJ and VA and now Scott Brown taking what was once considered to be a lifetime democrat seat, I wouldn't count Mr. Obama out just yet. This may be the wake up call Bill Clinton got in 1994, but

without the pain of losing Congress. I fully expect Obama, Axelrod and the democrats to regroup and come out fighting to hold their majority in Congress with all kinds of programs and promises to add jobs, stimulate the economy and help the middle class. The question is, will the American people buy into it a second time?

## **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

"The problem with socialism is that, sooner or later, you run out of other people's money." - Margaret Thatcher via Casey Research

## **Upcoming TV Appearances**

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CNBC's Worldwide Exchange - January 28 at 5:30am

CNBC's Squawk Box - February 3 at 6:10am

CNBC's Worldwide Exchange - February 11 at 5:30am

CNBC's Worldwide Exchange - March 16 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>

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## To Your Financial Success,



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