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I Have Never Been Pregnant, But...

Welcome to Street\$marts 2012! Let's start off with the most important comment. I want to wish you and your family a year filled with good health, happiness, peace and prosperity. Yes, I know. That seems like a tall order for these times, but I am very optimistic over the long-term. We will discuss that and much, much more in future issues.

I hope you had an enjoyable and safe holiday season as we put 2011 to bed. The Schatz family spent some time in Vermont over the holidays "enjoying" what is being described as the worst Christmas week in anyone's memory. I know Mother Nature is being mean when I hear that the Lake Tahoe ski resorts saw their first snowless December since the 1800s. And that's an area which can see 200-300 inches by January 1 in some years. The Weather Channel kept running segments on

"Where's the Snow?" It's a great question! Where is it???

I know most of you are very happy with the mild and snowless winter so far, especially after how brutal last winter was. And to be fair, I am not complaining about using less oil or not having to plow the driveway yet. With skiing being anything but good, our family spent a lot of time together. And I mean A LOT! Thankfully, there were friends in the same boat so we had plenty of home cooked meals and adult beverages with friends, played games and "encouraged" our kids to read over their school vacation.

FYI, I am scheduled to be on CNBC's Squawk Box on Thursday, January 12 at 6:10am. If you miss that segment, I try to post all archived media opportunities [HERE](#). If you scroll down, you will see two interviews I did this week, one with ET NOW, an Indian business channel about my outlook for the US and European economies and one about BankAmerica addressing its poorly performing mortgages.

As I come back to finishing this issue, I had very high hopes when I started it last week. But those were dashed on Sunday when my lower back, just below my belt line and to the left of my spine went into acute spasm and I fell to the ground in agony while fixing a screen. I don't know what it's like to be pregnant (and hopefully never will), but that episode on Sunday was the single most painful thing I can recall. Before you start typing the "getting old" jokes, my lower back has given me trouble since my early 20s, but you are right; I am clearly getting older!

My back issues come and go a few times a year and I have learned to stretch twice a day and strengthen it. Usually, the trigger is my incredibly heavy ski boots and skis. But this time, I think it might have been lugging 40 pound bags of salt into the basement or perhaps it was trying to move fully stocked bedroom furniture away from the walls without shoes on. In any case, it's my own fault and I am now trying to right the ship by not staying seated too long.

Looking ahead to future issues, I am finishing up the Fearless Forecast 2012, Top Tips 2012 along with my annual shockers for the upcoming year. Those will come out after we wrap up month, quarter and year-end accounting for our strategies. It's busy here and I like that a whole better than the alternative. You the old adage, "how do you get something done?" Just give it to a busy person. I operate much better with a very full plate than when I have time to procrastinate!

This quarter, I have quick business trips planned to Boston twice, Houston, San Antonio and Miami. If you are in any of those

neighborhoods and want to meet up for coffee or a meal, just let me know!

A Look at the Seasonal Trends

I love the December to January period in the stock market. There are so many simple, historical trends to follow and it's fun to see where they all end up. When I first got into the business, I was taught about the traditional year-end rally. But frankly, that could be any advance from any low.

Digging a little deeper, I noticed that most years, the stock market tends to pull back in late November to mid December and launch its rally about 75% of the time. Certain years, the rally doesn't come and that's a topic for next December. From 2007 to 2011, this trend has been hitting although 2011 was the most difficult to spot ahead of time. All five years saw gains averaging more than 2%.

Another trend (and a bit odd) that we saw work well in 2011 was for semiconductors to decline in early December and then catch fire around the 16th of the month. The last five days of the year used to be like shooting fish in a barrel, especially for the small cap Russell 2000 index. It almost always rallied and almost always led the other major indices.

But something happened to change all that in 2001. The only thing that sticks out is going from fractions to decimals in stock prices. Since 2011, the last five days of the year have been up the same amount of time as down with 2008 being the only really good end to a year. And that five day trend led to another, that being the leadership of the first five days of the new year. Typically, whatever led during the last five days of the year, lagged the first week of the new year and vice versa.

Another five day trend discovered by Yale Hirsch of Stock Trader's Almanac fame is called the Early Warning System. It says that you can predict how the entire year will end up based on the first five trading days of the year. When the first five days are up as we are seeing right now, there is an 87% probability that the whole year will be up. But when the first five are down, the results are about the same as a coin flip.

This Early Warning System dovetails nicely into Hirsch's other system that predicts the whole year based on the month of January. Skeptics will often point out that these two barometers are not measured from the end of January or the from the start of the sixth day, but rather using data that is already in the books and therefore a head start. In any case, all of these trends are interesting and good to know and

watch, but hardly the sole basis to invest your portfolio.

Turning to the stock market, the bulls have done a really nice job since the Santa Claus rally began on December 20 with only a day here or there for the bears to make any headway at all. The longer this continues, the more positive the intermediate-term becomes.

As we closed 2011, I wrote that I was skeptical the bulls could continue without a good pause to refresh or pullback. So far, they have proved me wrong and the window of opportunity for weakness is slowly closing. I wasn't looking then and I am not looking now for a significant decline, just something to put a little fear back in stocks. I still believe that bout of weakness is ahead of us, but it should be contained to something manageable on the downside.

Over the intermediate-term, as I mentioned in the last issue, the odds still favor and call for a move above the highs we saw in May of 2011 before a real correction sets in. That's 1370 on the S&P 500 and 12,900 on the Dow. As I continue to observe, both the high yield (junk) bond market and advance/decline line (number of stocks rising and falling each day added up) are at or near all time highs. That's important because it shows how much liquidity (money) remains in the system. Typically, before markets rollover for large declines, we see liquidity begin to dry up, not always, but most of the time.

As always, if any of this does not make sense or you would like more details, please don't hesitate to hit REPLY or call me directly in the office to discuss.

Upcoming Appearances

ET NOW's Trading Calls - January 8 at 9:30pm

CNBC's Squawk Box - January 12 at 6:10am

CNBC's Worldwide Exchange - January 19 at 5:35am & 5:50am

CNBC's Worldwide Exchange - February 15 at 5:35am & 5:50am

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

[Media Appearances](#)

<http://www.investfortomorrow.com/InMedia.asp>)

Investment Quotes/Adages To Live By

"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

"Diversification alone is no longer sufficient to temper risk... You need something more to manage risk well."

- Mohamed El-Erian

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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