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## Inside this issue

[Protective Instincts](#)

[Short-Term Offering Few Clues](#)

[Is Inflation Inevitable in Europe?](#)

[Another Canary in the Coal Mine](#)

[Upcoming TV Appearances](#)

[Investment Quotes To Live By](#)

## Protective Instincts

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If you have seen one of the great movies of the past 15 years, The Blind Side, you know about protective instincts. Michael Oher, whose life the film was based on, scored incredibly low on almost all academic test measures, in the single digits if I recall properly. But one area he was truly exceptional was in protective instincts, both on and off the football field. Oher was a left tackle on the football team and if you are a right handed quarterback, your blind side is protected by the left tackle. It is one of the most important and difficult positions in football.

I saw these pictures the other day of a lioness attacking a croc to protect her young. Talk about protective instinct! [Lioness and her cubs](#)

The other weekend I took the boys to the pool we belong to in town. We have many friends there and I can always find someone to chat with. I usually camp out a few chair rows from the front near the shallow end where my four year old hangs out as he learns to swim on his own. The 7 year old is an excellent swimmer and doesn't need much supervision.

Late in the afternoon I decided to sit down and read. Both kids were in the pool and there were lifeguards everywhere. I never worry. I stood up to stick my nose into someone else's conversation about all that was wrong with our little town's politics, a favorite local topic.

There were dozens of kids playing on the steps and in the shallow end with my son. For some reason I turned to locate him on the steps precisely at the moment I needed to. What I saw literally freaked me out.

It was my four year old son about 8 feet from the side and steps, unable to stand or tread water. His little face was just about covered with water. From there, all I really recall is flying over the rows of chairs and jumping over the sea of little ones by the stairs to grab my son from going down.

He cried for a minute, cleared his mouth and throat from the water and calmed down. Fearing that he would not so quickly go back into the water, I kept him in the pool so at least he left with a better feeling than minutes before.

Where was the lifeguard you ask? She was sitting in a chair about 12 feet away chomping on watermelon. And even after all the commotion with me jumping in and other parents huddling around, she barely moved. But all is well and my four year old son is now starting to float on his own.

## **Short-Term Offering Few Clues**

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One year ago, the stock market began to roll over in earnest as the debt ceiling debate raged on. Then S&P downgraded the debt of the United States and the sovereign debt crisis in Europe really accelerated, especially in Greece. And this was all on the heels of QEII ending in June 2011.

What a difference a year makes! Today, Congress actually acted in advance and is going to pass a short-term spending bill to keep the government going. While Europe is certainly not stable, it is also not falling off of a cliff and the ECB is much more dovish than in the past. And I think we all know that QEIII is right around the corner either today or next month or later this year. Whether you agree or not, like it or not, it's coming. And as has been my opinion for several years, I believe QEIII, IV and V will happen with the Fed's balance sheet approaching \$5T.

Turning to the markets, as you know, I continue to view the stock market as trading range bound with the June low and the April peak serving as cushions above and below. By cushions, I mean that these levels are not strong like concrete, but soft like a mattress, plus or minus a percent or so.

If you look at the chart below, you can see over the past 5 weeks that the market has had three brief and sharp rallies and declines. The most recent rally of three days last week was based on news from the European Central Bank's boss, Mario Draghi, that he will do whatever it takes to keep the Euro currency intact. What a bold and remarkable statement! While the Germans have become a bit less dogmatic in their stance on austerity, I would love to have been a fly on the wall at the Bundesbank when that news came out as it's hard to believe at this point that the Germans will support what will ultimately take place. And that is the creation of trillions and trillions of Euros. More on this later in the letter and certainly in future editions.



Getting back to the chart above, you can see two paths I have drawn in from here. The green one is the more bullish scenario, while the red one is more negative. Remember, these are just short-term thoughts and should

not be very consequential over the coming months and quarters. If we are going to see more upside, I think it is coming immediately, as in this afternoon and on Thursday and Friday based on news from the Fed and ECB regarding more money printing.

Should the news not be what the market expects, we could certainly see another short-term decline like the others of 3-6% before the next rally begins. As you already know, I almost always have an opinion on which way things play out, but here I really don't. I think it's crapshoot and whatever move we see over the coming week will be reversed soon thereafter. So I am happy sitting back and seeing what the reaction is and the quality of the move before offering more commentary.

If you have a 401K or other investment accounts and want to discuss how to best position, please don't hesitate to call me directly at 203.389.3553 or hit "reply" to this email.

## **Is Inflation Inevitable for Europe?**

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It seems inevitable that to save the Euro the members of the European Common Market will ultimately resort to the one fix-all countries have overwhelming used to deal with excessive debt - inflate it away. Austerity measures are all well and good to control the source of the problem, excess government spending. But austerity tends to bring with it economic slowdown, limiting government revenues and the ability to repay debt. Add inflation and the picture changes with new winners and losers.

Debt is a clearly denominated number. A \$500,000 debt stays a \$500,000 debt. With 15% inflation, however, in five years that debt is cut in half in terms of real value. In theory, inflation contributes to rising government revenues as wages increase to maintain buying power of the individual. Sales taxes increase as the prices of goods increase. Values of real assets increase, as well as capital gains taxes when those properties are sold. In fact, under inflation virtually everything is potentially increasing in price with the exception of prior debts. The result is more money (albeit money with less value) to pay down old debts. This is good news for borrowers, but disaster for lenders, whose assets are steadily losing value.

There's also the problem that inflation's impacts rarely occur evenly across a population.

The segment hardest hit by inflation tends to be the middle class and individuals living on a fixed income, such as retirees. The poor typically have little wealth to lose while the rich are often able to get their wealth

into investments not adversely impacted by inflation.

*"By a continuing process of inflation, government can confiscate, secretly and unobserved, an important part of the wealth of their citizens."*

-John Maynard Keynes,  
*Economic Consequences of Peace*

To date, Germany has held out against the printing of Euros to create inflation, which carries very bitter memories for the country. Inflation was at its worst in Germany in the second half of 1923, when prices rose more than fivefold each week. The social turmoil that accompanied the hyperinflation set the stage for the rise of Adolph Hitler, but it virtually eliminated all debts that existed prior to 1921. The value of German mortgages in 1913 measured in U.S. dollars was about \$10 billion; in late 1923 these mortgages were worth only one U.S. penny.\*

\* *A Case of Inflation* by Robert Schenk,  
<http://ingrimayne.com/econ/EconomicCatastrophe/HyperInflation.html>

## **Another Canary in the Coal Mine**

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In the past few issues, I talked about some key things to watch for the market to tip its hand on an intermediate-term move. Leadership from the S&P Mid Cap 400. The ability of the Dow Jones Transportation index to break out to the upside. And the always important canary in the coal mine, junk bonds. Nothing has changed on those three fronts to offer any more clues.

Another canary in the coal mine is one of my all time favorite groups to watch for future market direction, the semiconductor group. Semis usually lead the technology sector and tech typically leads the market. So action in this group is always important to watch.

Below is a chart of the semiconductor group and you can see times this year where they led and lagged. Although you see they led stocks during the first three months, a short-term clue of change came when they pulled back in February while the overall stock market did not. While they managed to squeak out one more rally, their ensuing decline was a big one along with the overall market.



In July, the semis made a lower low than we saw in June and that is certainly not a healthy sign as the stock market was nowhere similar levels as you can see in the previous article. Recently, the semis have rallied smartly from the July bottom, but REALLY need to kick it into high gear. If they don't, I think this will lend more credibility to another market correction later this quarter.

### Upcoming Appearances

ET NOW's Trading Calls - August 9th at 10:30pm

Fox Business' Markets Now - August 15th at 1:00pm

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.

**[Sign Up Here](#)**

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## To Your Financial Success,



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