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## On to the Next Crisis

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FYI, this letter will print on the long side because the next article is full of charts. Before I get into a rant about Washington, DC that is not George, I want to share a very short and random conversation my four year old son had with my wife on the way to school last week.

Teri: So D, can you believe you are going to be 5 years old soon?  
D: Yep. I going to be 5 and then a Grampa. And then I am going to die.

I think he may have missed a few steps in between, but after hearing about several deaths in our family and friends' family with grandparents, that's how he processed it all.

Turning to our friends in Congress, first we had the d\*e\*b\*t ceiling debate in 2011. Then we had the election. Then the Fiscal Cliff. And now the

d\*e\*b\*t ceiling again. If history is any indication, the sad reality is that Congress will not act until one second before midnight and the media will shove it down our throats 24/7, creating even more economic and financial market anxiety. I think we all know that the d\*e\*b\*t ceiling is going to be raised. It has been raised for every single president since we first began borrowing money. We also know that whichever party is not in power will kick and scream like then Senator Obama did in 2006 with the following condensed quote:

*"The fact that we are here today to debate raising America's d\*e\*b\*t limit is a sign of leadership failure. It is a sign that the U.S. Government can't pay its own bills. It is a sign that we now depend on ongoing financial assistance from foreign countries to finance our Government's reckless fiscal policies. ... Increasing America's debt weakens us domestically and internationally. Leadership means that "the buck stops here." Instead, Washington is shifting the burden of b\*a\*d choices today onto the backs of our children and grandchildren. America has a d\*e\*b\*t problem and a failure of leadership. Americans deserve better."*

If you just read that quote without attribution, to me, it sounds like any republican in Congress. It's interesting or amazing or even funny that our two political parties both sound alike depending on if they are in the majority or minority of a repeating issue.

I have no doubt the d\*e\*b\*t ceiling will be raised, and sadly, I do not believe the "deal" will put us on any better a sound fiscal footing than than one that bypassed the fiscal cliff. I just cannot get over what a horrible piece of legislation that was. \$1 in spending cuts for every \$47 in increased tax revenue? What a FAR cry from how economists from both sides view as balanced, anywhere from 2:1 to 5:1 cuts to taxes.

And even if you agreed for the 47:1 ratio, how on earth did Congress allow the continuation of pork projects like tax incentives to build NASCAR tracks, subsidies for Puerto Rican and Virgin Islands rum makers, tax credits for Hollywood and on and on. Here are two articles I found from what most people would consider to be liberal sources so this is not right wing political bashing.

**[From NASCAR to rum, the 10 weirdest parts of the 'fiscal cliff' bill](#)**  
**['Fiscal Cliff' Deal Also Doles Out Millions for Hollywood, Railroads, Rum Producers](#)**

This country does not have a revenue problem; we have a spending problem. Yes, taxes are going up and will likely go up in the future because compromise has to be reached. I get that. But my gosh, if we taxed the \$250,000 and above crowd at 100%, we could fund the government for about 43 days. And if Congress and the president didn't raise the income number from \$250,000 to \$450,000, we would only be talking about

enough revenue to fund the government for six days! This is insane!!  
If you missed my Fox Business segment on the Fiscal Cliff resolution, you can find it [HERE](#). You may not agree, but if nothing else, it is entertaining.

On a similar front, I was invited on CNBC's Fast Money for the first time earlier this week as the "bear" regarding Apple. I was somewhat surprised when they called because my initial negative call on Apple was from last summer and I did not send any kind of meaningful update to spark interest. You can watch the short version of the interview [HERE](#) and the full segment [HERE](#).

For those interested, nothing in my forecast on Apple has changed. The stock is stretched to the downside and should be close to a bounce, but certainly not the end of its bear market. This week's low around \$483 should be seen again sooner than later. I think at some point, the stock will rally \$100 or so and folks will believe THE bottom is in. I don't think so. Right now, this just continues to look like a huge unwind of one of the most popular positions held of all time by investors.

## **Taking Stock Over the Intermediate-Term**

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As we begin 2013, let's take a look at the major equity indices and see if there are any canaries in the coal mine at the index level. First is the Dow and you can see the current price remains below the levels seen at its high in 2012 on the left side of the chart.



Next we have the S&P 500 below and you can see that the current price is testing the 2012 highs on the left side of the chart. I fully expect these levels to be exceeded sooner than later.



The S&P 400 Mid Cap Index is next and this bellwether went from being the laggard during the second half of 2012 to the leading index right now, which usually bodes well for the stock market overall.



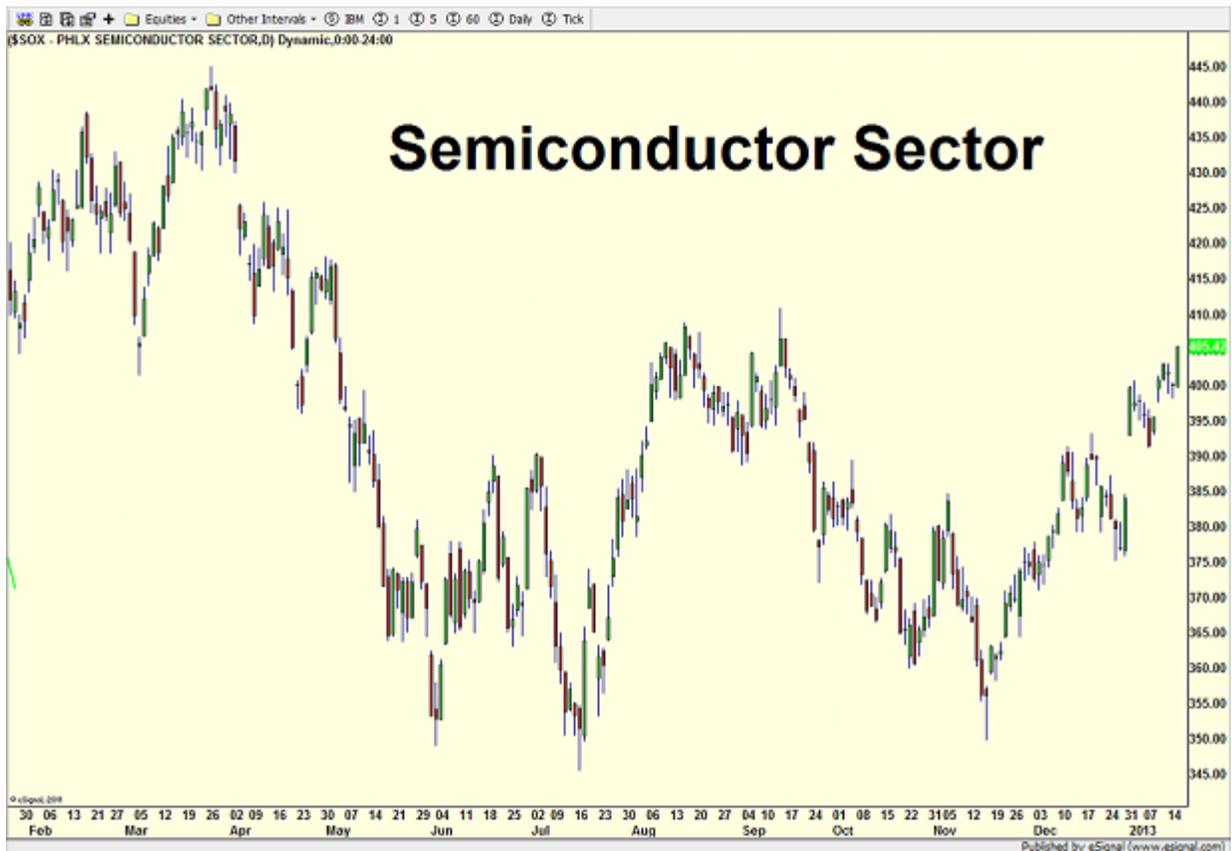
Very quietly, the Russell 2000 Index below has not only eclipsed its 2012 peak seen on the left side of the chart, but is now sitting at an all time high. This speaks volumes about the liquidity in the system and also bodes well for the stock market overall. Typically, before a bull market ends, the S&P 400 or Russell 2000 will not confirm the final peak with their large cap brethren (Dow and/or S&P 500).



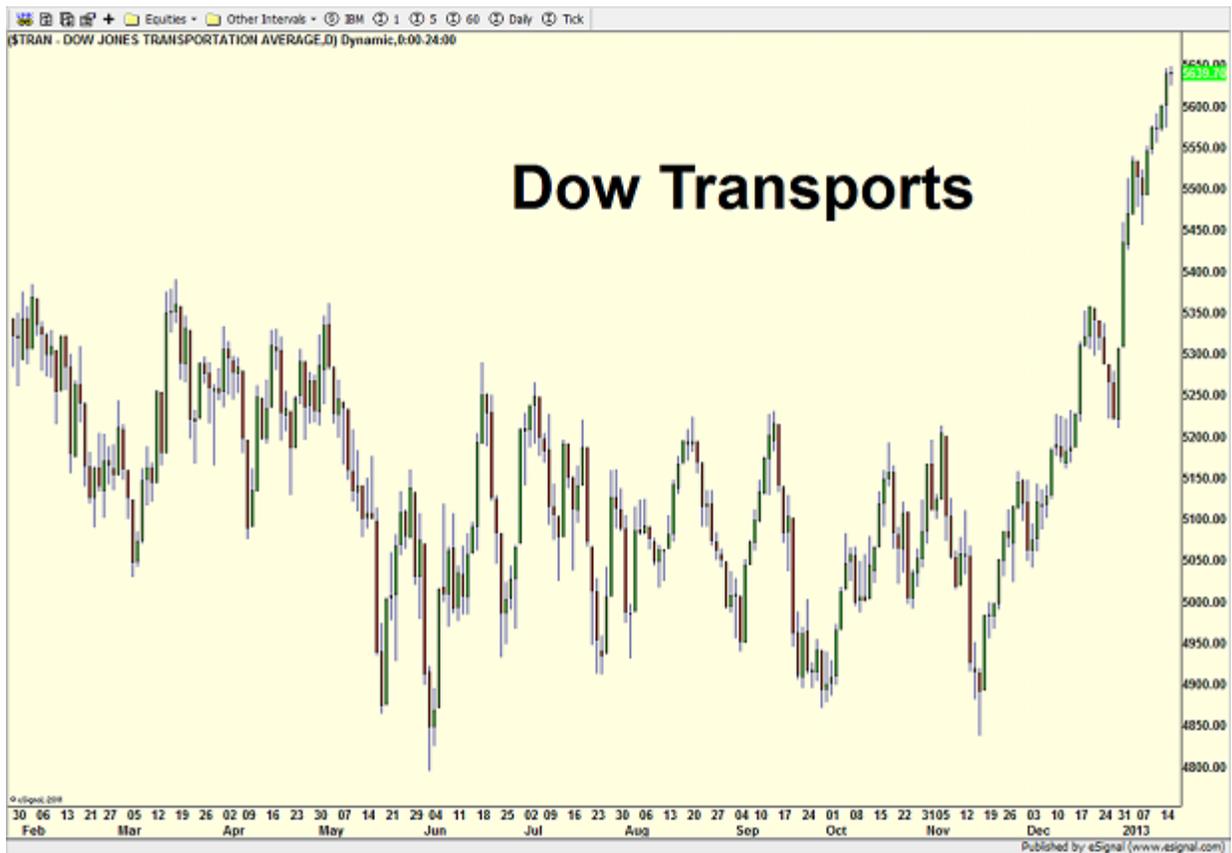
Turning to the NASDAQ and its key index, the NASDAQ 100, we see a worrisome picture below as the current price is nowhere near its 2012 peak on the left side of the chart. Since this index is laden with technology and tech is usually a market leader, we have one canary that is sick in the coal mine.



While on the major technology index, the semiconductors below are often viewed as the bellwether for tech overall. When I got into the business in 1988, I was taught that as go the semis, so goes tech; and as goes tech, so goes the stock market. I guess 2012 was one of the exceptions as the semis peaked early and did not behave well again until after the November low. That did not seem to adversely impact the stock market. Since November, the semis have acted fine, but are still not taking a leadership role.



The Dow Jones Transports are next and this one really surprised me. Having been an almost dead canary since mid 2011, the transportation sector got off the mat at the November 2012 bottom and has screamed higher ever since. This is yet another index whose performance bodes well for the overall stock market.



Finally, I included the banks, which have not only behaved well, but have led and eclipsed their 2012 peak by a wide margin. This also bodes well for the overall stock market.



Where does all this us?

It's a good sign that the primary indices, Dow and S&P 500, are slightly lagging the more aggressive and liquidity sensitive indices. I fully expect all major indices, except maybe the NASDAQ 100, to exceed their 2012 highs as well as see all time highs during the first half of 2013.

On the sector front, while the financials languished for a few years, tech led the way. Now we see the opposite and it's still okay with just that one fly in the ointment. The New York Stock Exchange advance/decline line, which is a cumulative measure of the number of stocks going up and down each day continues to charge into all time high territory. The same can be said of high yield (junk) bonds, another indicator of market liquidity.

All in all, as was the case in 2012, declines can continue to bought with the expectation for further gains during the first part of 2013.

**Can Spending Money Create Money?**

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Foul cankering rust the hidden treasure frets,  
 But gold that's put to use more gold begets.  
 ~William Shakespeare, Venus and Adonis, 1593

The multiplier effect is often used to justify the expansion of social

programs. For example, according to Agriculture Secretary Tom Vilsack, food stamps are an "economic stimulus" in that "every dollar of benefits generates \$1.84 in the economy in terms of economic activity."

So here's our challenge to you...work your way through the thought process of the multiplier effect and let us know if it makes sense to you.

(1) \$1 is taken from your paycheck in taxes and given to another individual in the form of food stamps (or borrowed in which case interest must be paid every month, reducing the value of the \$1).

(2) That individual purchases food transferring the \$1 to the store.

(3) The grocer takes the \$1, pays 50¢ to the food producer, 45¢ to salaries and overhead, and from the remaining 5¢ pays 2¢ in taxes and 3¢ to the shareholders. But it still adds up to \$1, just moved around.

The problem is that somewhere along the line, value has to be created, not just churned if the expenditure of \$1 is to have a 1.85 times effect. In a barter economy you create new value by growing crops or building products from raw materials for which others are willing to trade their goods and labor. In a cash economy, new money comes into existence through debt. Money can be created by governments through debt instruments by issuing bonds, IOU's offered for sale. A bank can loan out a multiple of the amount it has on deposit, thereby creating virtual money. But simply spending money cannot create money.

## Upcoming Appearances

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Fox Business' Markets Now - February 3rd 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

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"The only easy day was yesterday."

- The U.S. Marines

"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](#)

You can also forward this email to family and friends by hitting the "forward email" hotlink at the bottom of this email.

## To Your Financial Success,



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