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Annie Finds a "Different" Friend

I am about to be scheduled for CNBC's Squawk on the Street for Wednesday, 10/23, time to be determined.

In the previous issue, [Raise the Debt Ceiling Now... Politics 24/7](#), after going a full year without praising or even discussing Annie, I go all out with a story and pictures, etc. In fact, my wife won't take a picture of the kids without including Annie in the fold. So what does Murphy do with his law?

That very evening as we were locking up and letting Annie go out for the last time that night, she walks outside and sees a little critter eating crab apples about 20 feet from the house. From the other room I hear Teri scream, "NOOOOO! Annie come!!!", as the critter turned its body from facing Annie to

facing the woods.

I hear this and fly across the house into the mud room to literally be stopped in my tracks by the strongest, most foul odor that instantly made my eyes tear. Annie got skunked. Foaming at the mouth and crying, Annie sought comfort from Teri as I ran to Google to figure out what to do.

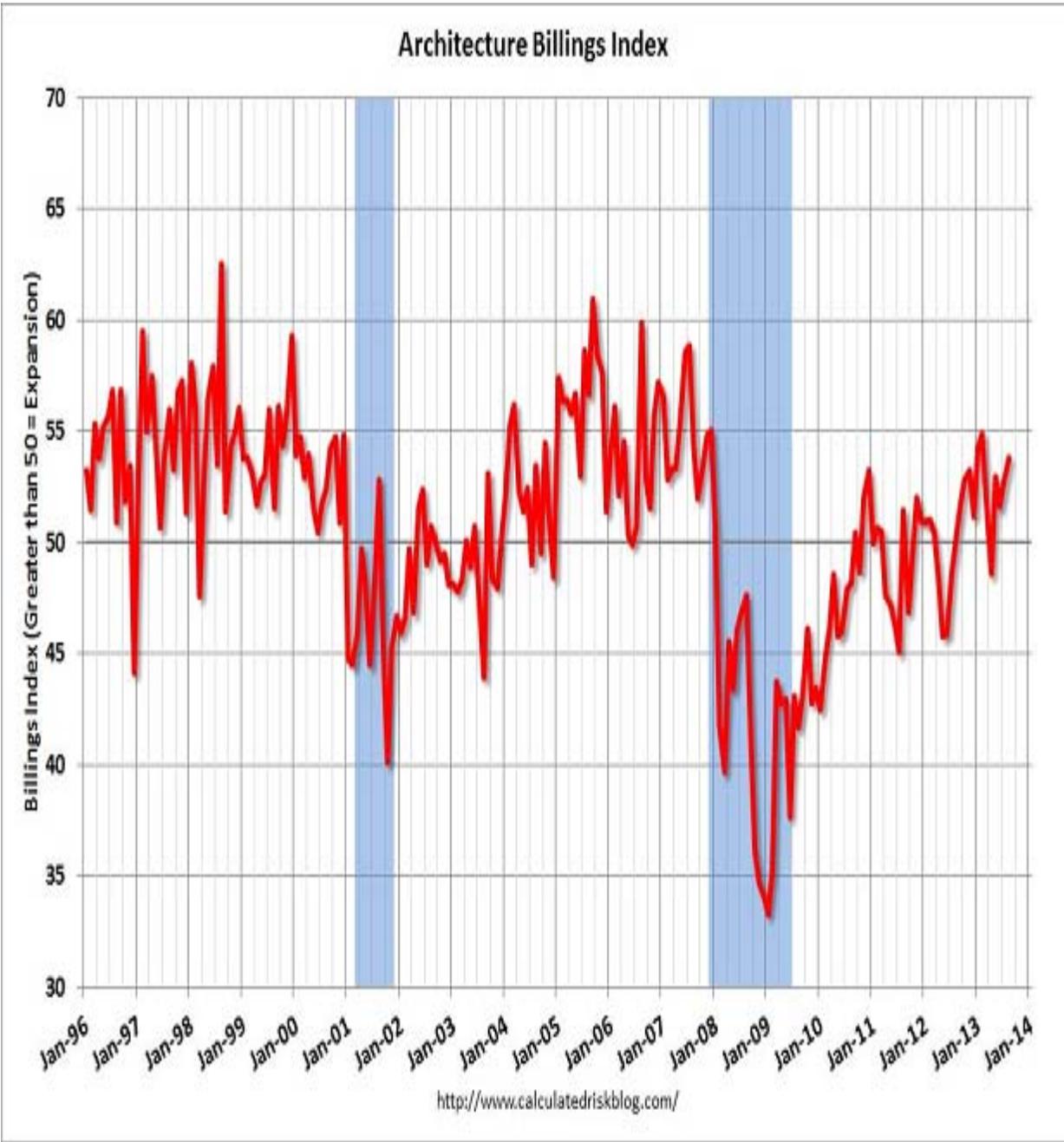
Thankfully, there was so much consistent and seemingly quality info that began with a paste of hydrogen peroxide, baking soda and Dawn liquid. But someone still had to hold the dog and continually rinse her with the cold water. And again thankfully, that wasn't going to be me! Being the good husband that I am, I volunteered to hit Stop & Shop for additional supplies. I hoped that the trip would occupy enough time for Teri to finish the job and I could go to bed.

Not exactly...

While Annie smelled a thousand times better than a few hours earlier, she wasn't back to normal and our mud room was uninhabitable. We dumped a bag of charcoal in two tubs to help soak up the smell, threw baking soda all over the mud room carpet and put bowls of vinegar in every room in the house. It took a while, but I think we are back to normal, or as normal as the Schatz ever gets.

I was planning on doing a full Canaries in the Coal Mine update today, but I am going to wait until next week as the markets are moving and it looks like it's changing for the better.

Below is one of my favorite and often shared outside the box economic indicators. It sheds light on the activity of architects who are a leading indicator of future commercial building projects. 50 is basically neutral and the long-term range is 45-55. This indicator continues to support my long held opinion that our economy remains in a very typical, post financial crisis recovery that tantalized and teases on the upside and stresses on the downside periodically. In short, things are "fine".



Don't forget to check our blog for intra-issue updates.
www.investfortomorrowblog.com.

Gold at Another Crossroad

I haven't written about gold in a while, probably because it's been so darn frustrating. And if you ask my thoughts on the metal, they will vary greatly depending on the time horizon. Long, long-term, I believe the secular bull market that began in 2001 is alive, but gold is currently in a cyclical bear market that began in mid 2011 and could last until we elect a new president in 2016 or it could end in short order. It's just too early to tell.

Looking at the chart below (click on it to enlarge), it certainly seems like the metal is trying to hammer out a base for a sustained rally. This pattern began in April and continues today. Those of you who use technical analysis and like to look for chart patterns may be inclined to call this an inverted head and shoulders bottom, which it does look like on the surface. However, Edwards & Magee beg differ in that they do not believe these kinds of patterns are valid on commodities or indices where volume isn't a true representation like it is with a stock.

In any case, whether or not it's a valid inverted head and shoulders or just a consolidation waiting for a spark, the bulls in gold appear to making yet another stand as long as this week's low is not closed below. You can see the following in my notes on the chart as well as these comments.

- 1 - The downtrend line in dark blue is more than \$100 away, which is a good rally no matter what.
- 2 - If and when it breaks above that line, there is a very real possibility of an additional \$100+ rally.
- 3 - This week's low is the lowest point on the chart after THE bottom in June.
- 4 - If the bears take out this week's low selling should really accelerate.



The bottom line is that the bulls have an opportunity here with a good risk/reward ratio. If they are wrong, the risk is definable.

What an Embarrassing Mess

I don't even want to begin to count the hours wasted in DC on the shutdown and debt ceiling let alone what it did to innocent Americans, our economy and our focus as a nation. Yet our elected officials from both parties are celebrating like they won the World Series?!?! What an embarrassing mess.

White House staffers were quoted as saying they were "winning". Speaker Boehner said they "fought the good fight". I am glad our elected officials in DC treated this debacle as either a game or a war. How ridiculous that these are people who are supposed to be representing the electorate and serve OUR best interests, not theirs.

And in the end, all the country got was a 3-4 month reprieve before this starts again. The GOP better look long and hard before attempting this nonsense without a real plan. I said this when the government first shutdown and now I am even more convinced. If the republicans had simply raised the debt ceiling through the next election without conditions, they could have dug their little heels in on almost any of the other issues without being demonized. President Obama could no longer be Chicken Little with his scare tactics and maybe, just maybe, the two parties could have reached some kind of Reagan/O'Neill compromise.

As we approach the next joke of a deadline, it will be interesting to see how the GOP position themselves since they lost what little credibility they had left when they caved in and received nothing in return this week.

I have written about scenarios like this before regarding the markets and except for the time I was wrong in 2011, it usually pays to ignore the nonsense in DC and the chest puffing on TV. In this instance as with the fiscal cliff and sequestration, I felt very strongly that the markets would ignore the news. One of the confirming reasons was because all of the media interviews I have done focused solely on the negative outcome, even going so far as to doubt the bullish case. That's unusual.

Stocks and bonds continue to act very well and there should much more to come this year and into next. I have been salivating to buy treasury and quality corporate bonds and I think the bottom has been hammered in for the rest of 2013. For full disclosure we are long and have been long high yield bonds for some time.

Can Spending Money Create Money?

*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

CNBC's Squawk on the Street - October 23 at am.

Yahoo Finance Breakout - November 13, 2013

Fox Business' Markets Now - November 14 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

"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

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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