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Green Shoots, Green Shoots!

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FYI, I am scheduled to be on CNBC Reports this Friday night sometime between 8:05pm and 8:40pm.

This issue was written in two parts. The first three articles earlier this week, while the fourth was completed just now. Sorry for any confusion.

It's hard to watch any financial program or read anything about the economy without the words "green shoots" appearing somewhere in the article or segment. I'm not sure if Bernanke was the very first to use it this year on 60 Minutes or Bill Gross or some other maven, but it describes the beginning stages of a recovery and growth. In plant terms, first we see a sprout and then it blossoms.

If you've read the past few issues, you already know about my gardening woes and never ending project. With all the rain and soothing temperatures for growing, green

shoots are sprouting up all around my property! What a pleasing and proud moment to see the topsoil and hay colors start to give way to the green of new grass. And the kids think it's the greatest thing in the world!

Over the past few months, the fate of the auto industry has become the talk of Main Street. I like to use my kids' tee ball games as forums to get opinions on the markets, government, programs, etc. from parents. While it may not be the perfect scientific sample, I think it's probably representative of our political base with roughly 60% democrat and 40% republican.

The comments over the past month have been fascinating, not at all what I expected. Instead of discussing them here, I decided it would be more interesting, constructive and fun to create a very short and easy anonymous survey to see where you stand. I will report back on my findings later this month.

## [Click here for QUICK survey](#)

### **Bull-Bear Part Deux**

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Last issue, I briefly touched on the bull versus bear market label. My conclusion was that it was pointless to put a name on a market condition. What good does it serve? The media wait until the stock market declines 20% before calling it a bear market. But since most declines stop around the 20% mark, how does that help us invest more wisely?

Over the past 15 months, we've experienced three rallies of roughly 20%. Should we assume that three bull markets began? During the 1930s, 20% rallies were the NORM not the exception. That's because when you decline 89%, the bounce backs are extreme.

To me, someone who isn't that smart, it seems like the easiest way to describe the market's condition is to use it's long-term average versus the current price. Here's what I wrote last week:

"when price is above the long-term trend and the long-term trend is rising, that's the most positive condition possible. Conversely, when price is below the long-term trend and that trend is falling, that's the most negative condition. Currently, we are somewhere in between, but have improved from the worst state."

You don't need a PhD in Applied Mathematics to find a number that is representative of the longer-term trend. Some folks use 150 or 200 or 250 days. Others convert that to

weeks. The larger the number, the less volatile your results will be, but also the later the condition will change.

To give an example, let's use 150 days, which is a widely followed number. This trend has been going down since late 2007, roughly when the bear market began. And except for a few instances, price has remained below that average ever since.

That was until late April when price finally moved decisively above it. And over the past month, the 150 day moving average has flattened out, yet another sign that the market's behavior has changed.

Hindsight is 20/20 and it's really easy in retrospect to find the right number. Whether you use 150 or 250, the point is to be consistent and recognize change. There were many times where I'd like to kick myself for overlooking the simplest indicators!

As always, feel free to hit REPLY or call me directly at 203.389.3553 with any questions or comments.

Snake Bit

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Stock market wise, there's really nothing new to report. Our Dow 9000+ target remains. Depending how this current pullback unfolds and where the next rally begins, we'll talk about a more specific timetable and target later.

As I mentioned last time, the market has done nothing wrong over the intermediate-term to send up any serious warning flags. Yes, the rally has become more selective and volume isn't wonderful and folks are a little too giddy, but all this is easily corrected with a short-term pullback like we're seeing. The kind of pullback I thought we were going to see in late April and in May.

When you have an opinion that doesn't change, it's more than likely that at some point you will be correct. But there's no way I view this pullback as vindication for an obviously early and wrong forecast of some short-term trouble. Anyway, stocks are in the midst of digesting their gains and should have further to go. That's healthy and normal and should lead to higher prices over the summer.

Finally, last week, I talked about how the market was coiled up like a snake about to attack its prey in grand fashion. Often times, we see the market move in one direction, sucking all the late comers money in, only to quickly reverse and head in the other direction.

That appears to be the case as we saw a big move higher on the 11th with lower prices ever since. As I write this, the market is back to the lower end of the trading range with an important test over the coming few days. Any more weakness will likely accelerate the selling towards a better buying opportunity near Dow 8200.

## Still Unpopular

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Before I dive into the discussion, my opinions on gold, treasury bonds, the US dollar and energy remain the same. As has been written over and over, we have been negative on gold and positive on energy for the past three plus months.

Lately, with so much negativity surrounding treasury bonds and the US dollar, we've become very positive and appear to have nailed the bottom, so far. Not only is the argument about the Fed printing its way out of this mess getting very old and played, but the actual news doesn't even support the claim for runaway inflation. So actually, gold, the dollar and bonds are all tied together right now.

To reiterate, gold made its all time highs in March 2008; yes, that's right, more than a full year ago. Clearly, if rampant inflation was on our horizon with the printing presses running 24/7 for 8-12 months, gold should be close to \$2000, not the \$936 where it currently sits.

When I see sentiment survey showing 90%+ bulls, TV commercials extolling the virtues of owning bullion and positive story after positive story in the media, it shows me a very crowded and popular trade, exactly the place I want to avoid. As I mentioned last week, there can and will be short-term opportunities, but longer-term, we remain negative and expect much lower prices this year.

(For full disclosure, we can and often do trade the long side of gold stocks when conditions warrant)

The same argument, in reverse, can be made about the US dollar. Everyone has said it was doomed with the never ending supply of money being printed. But remember, during deflationary times, as I've mentioned many times, money seeks the most stable and secure currency. Until proven otherwise, and in spite of the international jawboning, the US dollar remains the world's reserve currency.

Turning to treasury bonds, the most obvious instrument to avoid by the masses due to an endless stream of supply coming to market with a finite amount of demand, it's similar to the US dollar. Right at the recent lows, the number of bulls was less than 10%. Talk about the unloved!

Both the dollar and bonds bottomed together and have risen nicely lately. For now, weakness should be bought as higher prices are likely to be seen over the next 2-4 weeks. Keep your eyes out for more stories about Weimar Republic or Zimbabwean type hyperinflation consuming our country. That kind of wrong way rhetoric will only propel the dollar and treasury bond market higher over the short-term.

Wheelbarrows full of money to buy groceries? PLEASE! It's beyond absurd!!

I purposely left the energy market for last, as I wanted to separate it from the others. When we turned positive here three months ago, I honestly did not believe crude oil would double so quickly. But along the way, as I shared with everyone, I became very concerned that few people were worried about another spike in oil prices.

In fact, USA Today ran a headline about the apparent glut of gas and how prices would fall into the summer driving season. Couple the complacent public with the spring weakness in the dollar and you have the makings for at least a temporary boom in energy, which is what we've seen.

Where are we now? If the dollar regains the strength I believe it will, that would not bode well for oil. Sentiment wise, the masses are certainly a lot more concerned about energy than they were just a month ago. And good ole Goldman Sachs recently issued a forecast for \$100+ oil before long. This was the same company that called for \$200+ oil right near the peak last summer, so they're not exactly playing a strong hand.

But so far, oil hasn't done anything wrong to indicate more than a short-term pullback. Before it accelerates to the downside, it should. And although "hope" is one of the single worst words in investing, I do hope oil starts to misbehave this month so we all get some much needed relief! I'll move my position to strongly neutral for now.

Upcoming TV Appearances

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CNBC's Reports - June 19 at 8:05pm

CNBC's Worldwide - June 30 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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