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A Little Help Mother Nature!

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Let's start off with the most important thing. I want to wish you and your family a very happy, healthy and safe holiday week!

Last week, I spent some time with my friends and partners at Flexible Plan Investments outside of Detroit, a city I have not visited in many, many years. What surprised me the most was how friendly everyone was. It felt like I was in the south with southern hospitality except for the accents missing and warmer weather. What a stark contrast from New York City where everyone is in a hurry, mostly going nowhere, and good luck finding folks to help you when you need it.

Earlier this week, my wife and I separately had business in the Philly area.

So for the first time ever, we went together for work. Of course, I got stuck driving both ways. When we got to our hotel late Monday night, my wife, as usual, checked the cleanliness of the room as well as for any unwanted visitors in the bed.

Unfortunately, not only was the room and bed not clean, but I found another form of life crawling on the TV. When I smashed it with a tissue, my wife wanted to know what I was doing and why I had the tissue crushed in my fist. Unable to find a quick story, I had to inform her that we had a friendly little roach in the room. Before I could even flush the little guy down the toilet, our bags were packed up, my wife was dialing the phone and off we went to The Westin where the Heavenly Bed awaited.

Hopefully, our luck is a little better as we head to Vermont tonight for the holidays. Mother Nature is not cooperating as she gave the Green Mountain state a good dose of the unfrozen type of precipitation last night and today. That's a far cry from last weekend where we had almost mid winter conditions with fantastic coverage and bumps to boot!



As it's December 21, 2012 and the world is supposed to end, besides putting on my favorite outfit, grabbing some excellent wine and scotch for

later tonight with some comfort food, I thought the weather forecast below was cute.



## Y2K Here We Come

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Not much has changed regarding my market outlook even though stocks were hit with the ugly stick today after the House couldn't muster the votes to pass their bill. Stocks historically do not peak during the latter half of December except for maybe 2008 and I will go with the trend that higher prices are still in order before we see a serious correction in 2013.

I have long studied seasonal tendencies in the market and December to early January is my favorite time of year since the trends seem to be the strongest, over the shortest period of time and easiest to play. One that I am watching right now is for the stock market to put in at least a short-term low just before or just after options expiration, which is today. Given today's weakness, there should be an opportunity very soon.

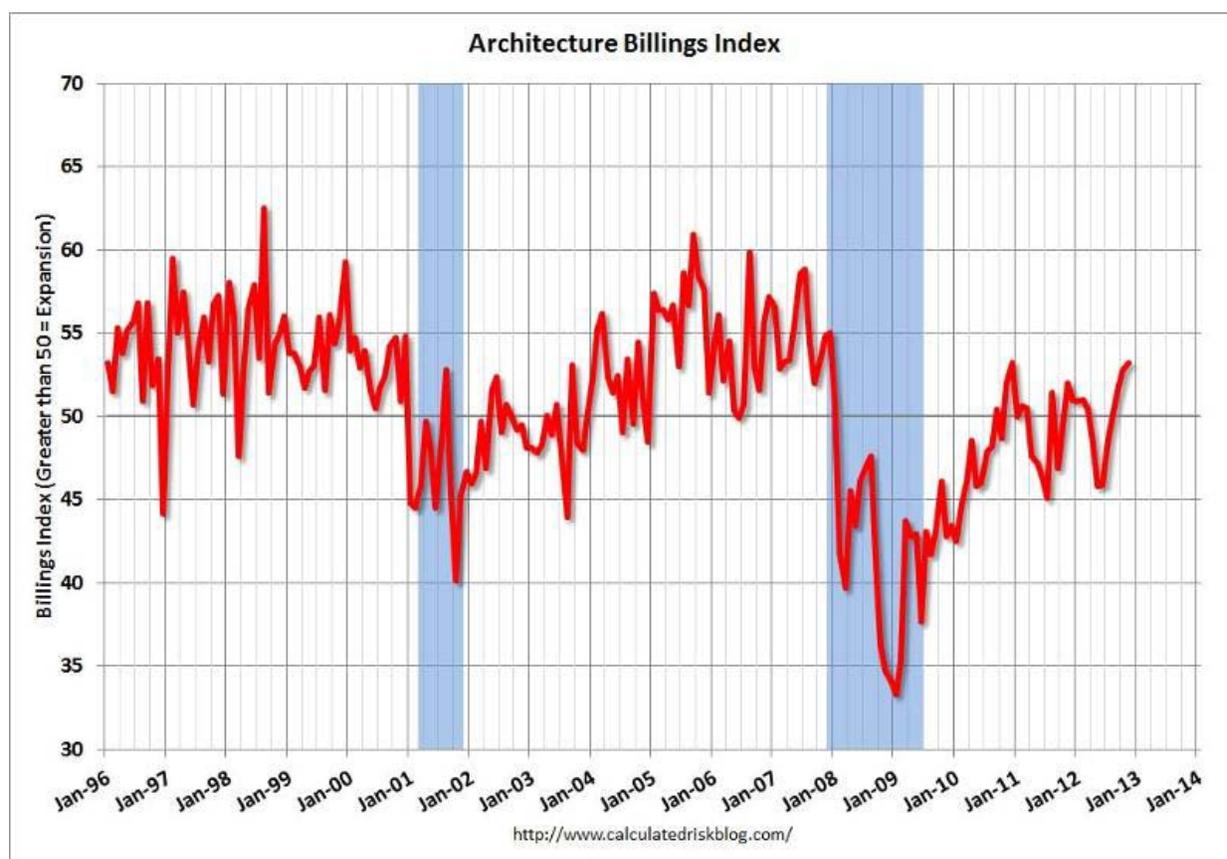
But let's not forget the old adage, "If Santa Claus should fail to call, bears may come to Broad and Wall." The stock market is "supposed" to rally over the last five trading days of the year. If it doesn't the trend says that next year will be a difficult one.

There are so many crosscurrents right now with month end, quarter end and year end all just a week away, quadruple options expiration today and the "dreaded" fiscal cliff, still the most over-hyped event since Y2K. You almost have to laugh because we have so many clowns in DC running our

country; people who would rather spend their time pandering for the cameras than sitting down at the table to hammer out a deal we all know ends up occurring sooner or later. Taxes are going up; spending will be cut; and there will be some type of entitlement reform.

As I continue to say, THERE IS NO CLIFF! The economy is not going to collapse on January 1 without a deal. Rather, we have a fiscal mountain in front of us that we will begin scaling in January. At some point later in 2013, our energy to climb that mountain will diminish and eventually we will fall down and roll to the bottom. But again, that's down the road, not immediately.

Speaking of the economy, the Architectural Billings Index below has been strong of late, running counter to the Restaurant Performance Index from [this issue](#). Given that these two unusual economic indicators gauge very different parts of the economy, I won't become very concerned until they are both in synch to the downside.



If you haven't had a good portfolio check up in a while, or just want an unbiased eye to take a peek, please call me at 203.389.3553 or reply to this email.

## Tax Strategies for the Fiscal Cliff

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As a taxpayer, you are facing what is perhaps an unprecedented set of circumstances - the expiration of the tax rates enacted in 2001, the expiration of more than 150 tax provisions and a tax increase of more than \$500 billion overall - that could result in a much higher tax liability when you file your next return.

If Congress and the President do not make changes, the combined effect could result in an average tax hike of around \$3,500 per household for up to 90% of Americans. We want to inform you of possible tax increases and loss of tax benefits that could negatively impact your finances. We encourage you to contact us to start planning now - there may be some steps (as mentioned below) you can take immediately to soften the impact on your bottom line.

We have come to the edge of a "fiscal cliff," as it is being called, because of several events that will have an impact all at once:

- Tax cuts enacted during the Bush Administration are set to expire at year-end.
- A new 3.8% Medicare surtax on some investment income will become effective Jan. 1, 2013.
- A 2% reduction in the payroll taxes that fund Social Security expires on Dec. 31, 2012.
- Changes to some itemized deductions could increase the rate on ordinary income to an effective rate that is as much as 44.6% for some taxpayers.
- A possible increase on long-term capital gains could push rates from 15% to 20% and the rate on qualified dividends could jump to an effective 44.6% from 15% today.
- A rise in the estate tax rate to 55% from 35% and a cut in the exclusion amount for what is subject to estate taxes to \$1 million from \$5.12 million.
- A reduction in the Alternative Minimum Tax Exemption will impact tens of millions of taxpayers.
- Potential across-the-board budget cuts in both defense and non-defense spending.

Prepare for the Worst Case Scenario - Reduce Your Liability

In light of the looming potential tax law changes, you may want to consider the following:

- Review your mix of investments as capital gains rates might increase as well as income tax rates. If your portfolio includes significant long-term capital gains, should you take advantage of the lower rates in 2012?
- Moving into tax deferred or federally non-taxable investments like municipal bonds.
- Lowering your net investment income or modified adjusted gross income if you may be subject to the 3.8% surtax on certain passive income of individuals, trusts and estates.
- Gifting to family members now to avoid the confusion from the estate tax issues. If you'd like the beneficiaries of your will to avoid a possible spike in estate tax, you can give them up to \$13,000 a year tax free right now. Sharing the wealth now may also make it possible to reduce the value of your overall estate so that little or none of it is subject to estate taxes when your beneficiaries inherit it.
- Accelerating ordinary income into 2012. If you have flexibility on when you can receive payments of income before year end, consider that they may be subject to lower taxes than in 2013. Another option may be to convert a traditional IRA to a Roth IRA this year, if a conversion otherwise makes sense. Or reverse a conversion if it has not benefited your IRA accounts to have made the conversion.
- Deferring expenses into 2013 but take care not to violate accounting method rules.
- Delaying some contributions. If you always make year-end donations to favorite charities, consider putting them off until January 2013 so they can offset the higher tax rates that may come into play then. If you have securities that have appreciated in value, consider donating them to charities to avoid potential new taxes on dividends.

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## Apple Getting Sweet?

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For a long while, as you know, I have been fairly negative on Apple the stock, forecasting a possible 50% to 70% decline by the time the next bear market in stocks ends. It's not about their products or management, although losing Steve Jobs is definitely a major negative, or any accounting irregularities. As my kids tell me, Apple's products are incredible. Rather, this is purely sentiment call.

Apple has become a cult stock ingrained into our investing fiber. From a crisis low of roughly \$78 to 2012 high around \$700, this stock soared into rarified air in fairly short order. It's the stock everyone is supposed to own according to the masses. Over the past year, whenever I offer a contrarian forecast, people scoff at the notion that their beloved Apple could decline for more than a few days or week. After media appearances where I forecast massive losses ahead, people post nasty comments about me online.

Apple has become the classic story stock of which there is at least one in every single bull market over the past 100 years. Google, AOL, Yahoo, IBM, GE, Exxon, Chevron, RCA, Xerox, GM, Avon, Navistar and on and on.

Can you guess the ONE thing they all have in common?

Ensuing bear markets decimated them 30%, 40%, 50%, 60%, 70% and even 80%! Now, some of those story stocks did recover, like Google, but not to the degree of the previous bull market. In most cases, the companies matured and their best rates of ascent were long gone.

I have heard all the nonsense about Apple's price to earnings ratio being modestly at 12 and it's actually severely undervalued. You know what I say? So what! Go look at the P/Es of the banks and homebuilders in 2006 as they hummed along. They were mostly SINGLE DIGITS! How did that work out for them?

Before you stop reading and think this is all just another hatchet job on Apple, stay with me please. While my forecast remains for a massive decline in Apple before the next bear market ends, Apple just hit my initial downside target of \$500 yesterday. Why does that matter?

For the first time since June, Apple looks like it is in a position to rally smartly from its \$519 close yesterday. At its worst, we saw a 28% decline from \$700 to \$500. Recouping half that would not be out of the question if the overall stock market remains stable. On the flip side, Apple is not "supposed" to close below \$500. If it does, the short-term bullish scenario is out the window and selling will likely accelerate to the downside. That does

offer a favorable risk/reward ratio though.



Some of you continue to ask why I focus so much energy on Apple. Simply put, it has such outsized weightings in the major indices like the S&P 500 and NASDAQ 100. As we saw over the summer, it can literally carry the market on its back.

For full disclosure and transparency, I do not directly own any shares of Apple. My exposure both personally and professionally is in positions we currently hold in the major indices like the S&P 500 and NASDAQ 100.

## Upcoming Appearances

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I hope to appear on December 22nd after the world ends on December 21st

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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To Your Financial Success,



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