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## Government Going After Retirement Accounts

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This issue will print on the long side because of the number of charts in the next section. I wrote the canaries article on Sunday night and it does not have yesterday's stock market plunge in the charts. But it doesn't really matter since the conclusion was for a pause to refresh or healthy, normal and routine 4-8% pullback. Gold and other global commodities are in the midst of an elevator shaft type of decline. I will have a separate piece about them shortly.

The events in Boston are all of the adjectives one can find to describe, horrific, cowardly, shocking, unsettling, unnerving, terrifying, etc. My thoughts and prayers go out to all those affected. Some years ago, I used to commute to Boston two to three days per week for work with a hedge fund in the Back Bay area. I walked that finish line area hundreds of times and my boss held a party right there. Yesterday, his son was two doors down from the explosion and walked away unscathed.

From Oklahoma City to 9-11 to Newtown and all of the other despicable and unconscionable attacks, they are all impossible to understand to the rational and normal person. They shake our feeling of safety and plant very uncomfortable seeds in our minds. Whether it's a foreign or domestic enemy, the country usually reacts and tries to find ways to prevent this from happening again. But

deranged cowards are always one step ahead and that's very difficult to accept. Switching gears, I want to offer a few comments on the budget that was recently proposed by the government. After the debacle in 2008 and presidential election of Barack Obama, I thought that over the coming years, the government would seek unusual means to increase revenue.

One controversial topic I wrote and spoke about several times was the sacred cow of retirement plans. Given how much of a mess our entitlement programs were and are and would likely be, and the desperate need for money, I believed that at some point the government would try to cap retirement accounts and then come after high value accounts with some type of tax.

In the recently unveiled budget, it certainly seems like a cap was proposed by limiting the amount of guaranteed income if the account was converted to an annuity. While I do not think this will pass, it was definitely a trial balloon being floated for future negotiations. And given how income streams from annuities are moving targets, that makes this specific proposal dead on arrival in my opinion. Unfortunately, this appears to be just the beginning of what I believe will lead to an eventual surtax on retirement accounts in excess of some number north of a million or two.

Finally, to end this section on a lighter note, here are two articles that I found interesting having nothing to do with the government, economy, markets or tragedies!

[25 Unusual Things to Put in the Dishwasher](#)  
[Odd Uses for Dryer Sheets](#)

## **A Few Canaries on Life Support**

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With the stock market running almost straight up, and my comments less than fully enthusiastic lately, it's an excellent time to update the canaries in the coal mine. Let's see if any have died...

First, we will look at the major stock market indices. The healthiest of bull markets see the five majors in gear together. As a bull market nears the end or a significant correction, it is normal for one or more of the majors not to confirm the final peak with the others.

As you can see below, the Dow Jones Industrials hit 2013 and all time highs last week, a good sign.



Next is the S&P 500 which also saw fresh 2013 and all time highs last week, another good sign.



The S&P 400 Mid Cap Index is below and many believe that it's the most important of the major indices because it contains the next great power stocks. It, too, just hit new 2013 and all time highs.



The Russell 2000 Small Cap Index is next, but a different story is being told. The small caps, long a canary for liquidity, have not joined the party and are sending a warning signal.



The NASDAQ 100, dominated by technology heavyweights, is below and although it just hit a new high for 2013, it remains below its 2012 peak and still almost 50% lower than the all time highs in 2000. But it's the recent action that is a bit of a concern.



Turning to the Dow Transports, old time Dow Theorists, contend that the Dow Jones Industrials must be in sync with the Transports. As with the five major indices, it is typical to see the Transports and Industrials diverge at major highs and lows. Below is another warning sign as the Transports did not confirm the last two peaks in the Industrials.



Turning to the key or bellwether sectors, it is often said that as go the semis, so goes technology. And as goes tech, so goes the stock market. Like the Transports, the semis are flashing a cautionary sign as they are not confirming 2013 action in the overall stock market.



While the banks have enjoyed a sensational run in 2013, they saw a deep pullback to end the first quarter and have failed to recover enough to repair the damage, another warning sign.



Below you can see the cumulative New York Stock Exchange Advance/Decline line, another canary for liquidity. Simply put, it tells us the number of stocks going up and down on a given day that we transfer into a cumulative line. Before any bull market ends we normally see this indicator go down while the major indices continue to rally. In other words, fewer and fewer stocks participate in the rally until there are none left and it dies. Currently, the bull market remains alive albeit tired.



Finally, let's look at the high yield (junk) bond market for another indication of liquidity. These kinds of companies typically represent the riskiest pool of the bond market, which is why they pay the highest interest rates. They sit at the bottom of the credit food chain and are incredibly sensitive to ripples in the economy as these companies struggle. So when junk bonds are performing well and leading, liquidity is typically very strong. When they begin to diverge from the major indices, it is an early warning sign of a trend change. After some concerning weeks earlier in 2013, the high yield area sprung to life to confirm the new highs seen elsewhere.



All in all, there are more warning signs for stocks than we have seen since the middle of 2011, right before a major 18% correction. But it would be premature to call an end to the bull market. The stock market is extended and in desperate need of a pause to refresh or 4-8% pullback. To repair itself, the pause can mean sideways, choppy action for several weeks to months or price can decline to rebuild the wall of worry and allow the market to catch its breath.

I would begin to get interested in buying again if the Dow broke beneath 14,400 without seeing a lot of damage elsewhere. As I said on CNBC and Fox Business, 15,000 looks like a good ceiling with 13,700 as the floor.

Please feel free to contact me directly by hitting reply to this email or calling the office at 203.389.3553 if your portfolio is not behaving the way you would like or if only to bounce an idea off me.

## Making Better Decisions Requires Accepting Change

At 48, Jeff Bezos, founder of Amazon, is one of the world's richest men, with a net worth in excess of \$32 billion. Yet, he continues to seek out new investments, looking for people who are "right a lot."

According to Bezos, these are people who often changed their minds. Based on his observations, the smartest people are constantly revising their understanding, reconsidering a problem they thought they'd already solved. They're open to new points of view, new information, new ideas, contradictions, and challenges to their own way of thinking[1].

The people who are wrong most of the time, says Bezos, are those who are obsessed with details that only support one point of view; they don't see the

issue from multiple angles. Behavioralists call this cognitive filtering, in which, to reduce dissonance or stress, we unconsciously filter out facts that don't agree with our preconceived ideas.

How do you open your mind to change? Start by altering your routines, challenging your perception of "me." Routines tend to be grooves in our lives. The more we do something the same way, the more ingrained that pattern becomes and the harder it is to change. Then you need to change the stories you tell yourself as to who you are. Our identities are in the stories we tell ourselves about ourselves. To encourage a change in who we are, our openness to new ideas or new patterns of behavior, we need to identify emotionally with a version of ourselves that is open to change.

Sounds like psycho babble? Perhaps, but the story has much greater selling power than facts and figures.

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[1] "Jeff Bezos: People Who Are Right Are People That Change Their Mind A Lot," by Jay Yarow | Business Insider, Oct. 19, 2012- <http://www.businessinsider.com/jeff-bezos-on-people-who-are-right-2012-10#ixzz2CJrbyKi8>

## 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

## To Your Financial Success,



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