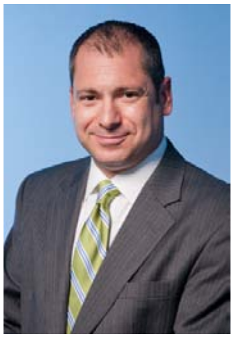
CLiENTFIRST
Strategy, Inc.



Written by Mitchell O. Goldberg
ClientFirst Strategy, Inc.
August 17, 2011
For immediate distribution

Recently quoted in the media… TODAY.. Click Link below to read…

http://today.msnbc.msn.com/id/44061613/ns/today-money/t/markets-tank-financial-planners-advise-calm/

Yes…the big…ultimate…secular…ginormous…key theme is still in place.

Here is my strategy for down markets…how you can take back control and improve your upside potential.

As far as I can tell, global financial markets are doing what they've always done…go up…go down…smoke scared investors out of stocks…the market goes back up…the same big successful investors make even more money the next time around…over and over and over. So, what's their strategy?

The key is to fully absorb the notion that investing is a never ending process of upgrading one's investments. In a rip-roaring up market, most everything seems worthwhile holding onto. But in a heart-wrenching sell off, it becomes much more clear which investments are worth holding onto and which ones need replacing. If the stock market has a big drop, like the ones we experienced on August 4th, 8th, and 10th, everything gets hit. But in the rallies that followed each drop, some stocks barely recovered while others went up a lot, measured by either percentage gains or by points gained. The strategy follows that the ones that barely recovered (or that didn't recover at all) are the ones that need to be replaced. These are the ones that the money managers and hedge funds won't buy. The "read" on them is that they lack the qualities that investors are willing to pay for. The stocks that turn back up most are the ones that possess the qualities (could include earnings momentum, revenue growth, or strong balance sheet) that investors want to pay up for. **Many successful investors use this strategy to upgrade their portfolios during down markets.** More to the point, it usually isn't worthwhile to wait for the slackers to recover before replacing them. These slackers tend to perform poorly for lengthy periods of time, even when they become value stocks. Remember, a value stock (often described as undervalued) needs a catalyst to attract investor attention, which is why they can languish for years. This is also known as a "value trap". But I digress.

The recent retreat in global stock indices and extreme volatility opens old wounds, especially from late 2007 through March of 2009. I have seen all the comparisons to those market conditions of 1929, 1937, 1987, 1990, 1998, 2001, and most recently, 2008. The policy mistakes in both monetary and fiscal policy from those era's are well documented. **Each downturn is perceived worse than all those before it; that this one really is "it"…the one drop that cannot be overcome.**

The 2011 summer swoon is the result of 1 thing in particular; that the recent slowdown in the U.S. economy that started this past spring isn't really as "transient" as investors had originally thought. Now, the concern is a double dip recession. **The S&P downgrade, the inflation in China, the drop in U.S. manufacturing activity, Euro debt crisis, partisan fighting in D.C., computer driven trading; these are all contributors to the pessimistic environment, but when we boil it all down, it is all about how long and deep the slowdown in the economy will last.**

Am I bullish?

There are 2 parts of our private sector economy today…just like always…consumer America and corporate America. I remain bullish on Corporate America; resoundingly so. In particular, U.S. based companies that can continue to cut costs in the developed world (W. Europe, U.S., and Japan) and reinvest in developing markets. Yes, I realize that this is being repeated often in financial media, but this is a theme I have been writing about for the last 2.5+ years and I continue to endorse it.

If we are indeed heading into a recession, corporate America has never been in better shape. Corporate balance sheets have Trillions of Dollars on them, earnings have never been stronger, domestic banks are in much stronger financial position than 3 years ago, and yet, investor psychology is low by all measures. This is reason enough to be bullish, but yes, there is more…please read on (CNBC).

Are we becoming more like the Chinese or are the Chinese becoming more like us?

1. As I read the earnings reports…Wal-Mart, John Deere, Staples, Nike…it is very clear that multinational companies are beating earnings due to overseas sales. And it is across the board from cyclical to growth sectors. This is proof positive that not only is the international growth story continuing, it is actually accelerating.

Want more proof? China has been tapping the breaks on its economy due to worries over inflation. Yet inflation there still persists. **I can only surmise that this is because the rapidly rising middle class there continues to buy into the American way, which is our biggest export.** Once consumers go from bicycles to cars…from no phone service to smart phones…they don't go back. It's called progress.

2. We can point to secular themes from past decades; the '80's had the PC, the 90's had the internet, and the '00's had its access to cheap and easy credit. In times of down markets, investors may need reminding that this decade is still young and that the BIG theme is well entrenched; the rapidly rising middle class in emerging markets. **Hang your hat here, as the world becomes more Americanized with our lifestyle.** The Chinese are indeed looking more like us with their Starbucks cappuccinos, Nike sneakers, Buicks, Big Macs, and Cokes.

Other factors:

1. Warren Buffet has been buying stocks during this downturn. Noted investor Wilbur Ross did too (appearance on CNBC). Stocks aren't down because everything is great, but if you won't buy when things are down, then when will you? When everything is OK again? I'll take Warren's quote "buy when others are fearful and sell when others are greedy"
2. Industrial production figures (The Federal Reserve) pointed to a rebound in automobile manufacturing; highest since the March natural disasters in Japan.
3. Mergers & Acquisitions activity: removes stock supply form the overall market, allows companies to grow…now at highest level since 2007 (Thomson-Reuters).
4. Insider buying is strongest since 1998. A common ration used to compare insider selling to buying is below 1 for the first time since March of 2009, when the last bull market began (brought to my attention by my friend John Melloy, editor at CNBC). A reading this low means that insider buying dwarfs the insider selling.

Bottom Line:

The bottom line is that the news out of multinationals and the decline in stock prices simply do not add up. My strongest sense is that investors are moving rapidly into a new group of "Nifty Fifty" stocks, like every decade, of companies that should push the major averages higher while masking internal deterioration of companies whose source of revenue are primarily domestic.

With the uber-theme of the rapidly rising middle class of emerging markets more firmly entrenched than ever, I wouldn't expect the stocks of the quality large cap multinational companies to stay down for long.

Thanks for reading this. Please **FORWARD** this to someone else you think may be interested in reading it.

Interested in BECOMING A CLIENT? Call me. Let's talk about it.

(I may be wrong…you could lose money…I can change my mind whenever I want without prior notice…yadda…yadda…yadda)