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Strategy, Inc.

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January 2014

...From the desk of Mitchell O. Goldberg

New Year Letter

2013 Predictions:

Did they come true?

2014 Predictions:

What could come to pass?

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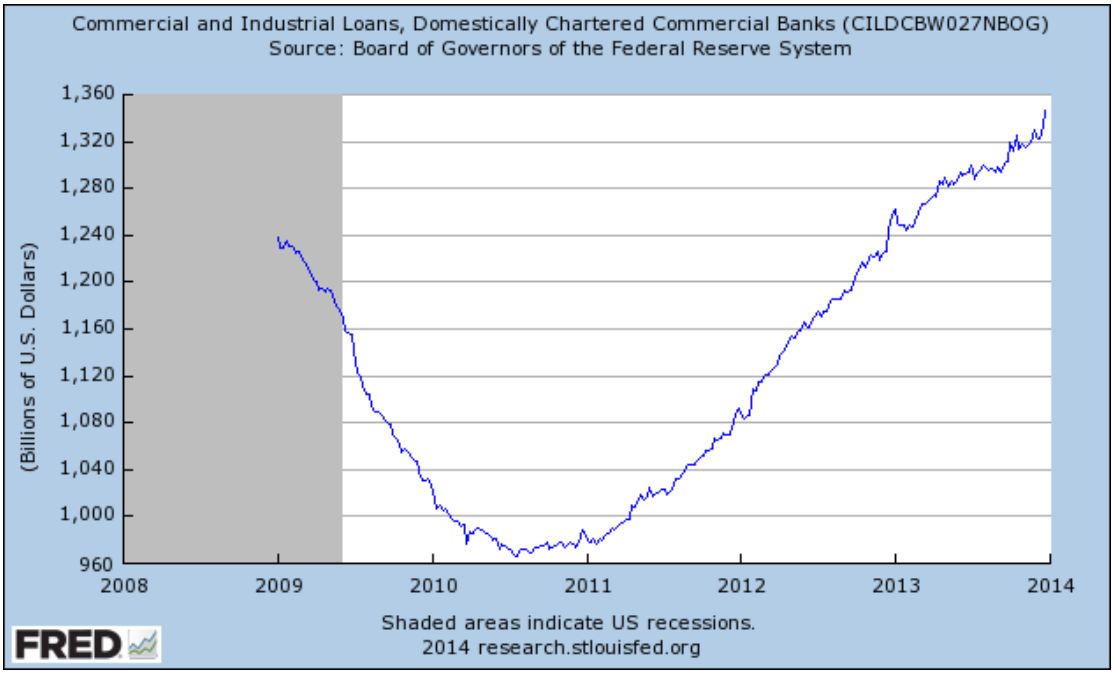
To my investors:

Thank you for your continued vote of confidence.

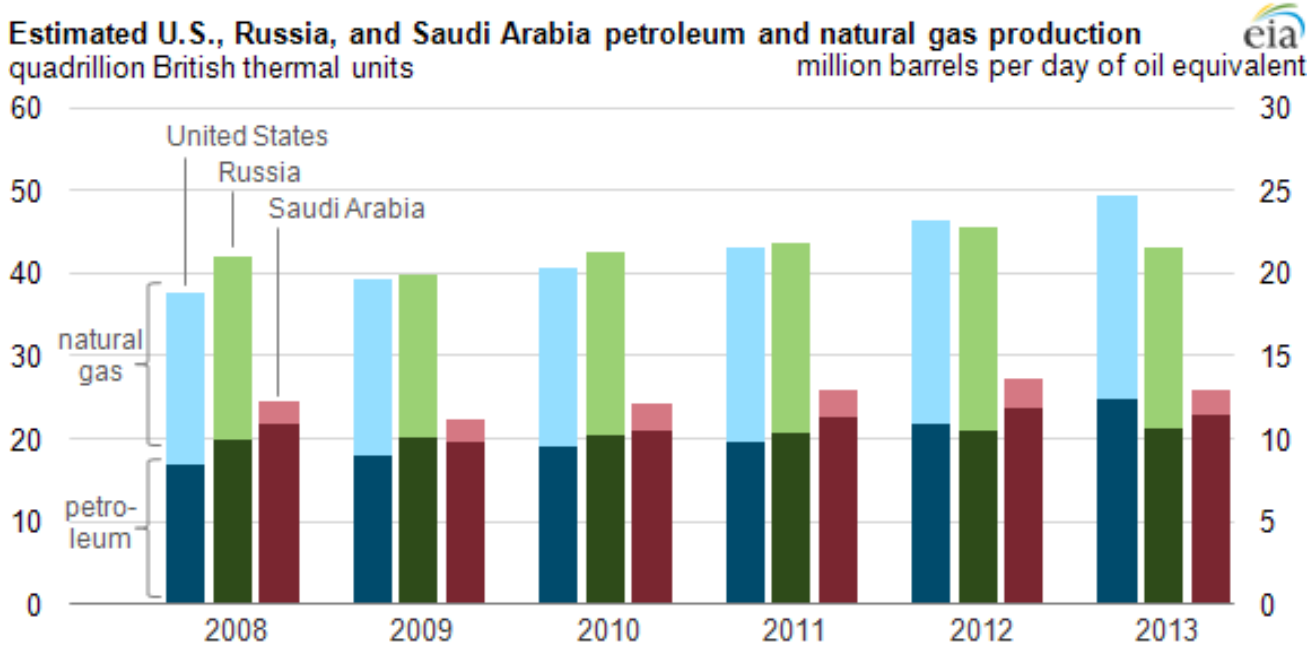
2014 started off in similar fashion to 2013, with momentum. Domestic stock market performance was validated toward the end of 2013 as economic statistics, which had been mostly turning upward, indicated continued economic growth into yearend. Employment (approximately 200,000 new hires per month last year), ISM (Institute for Supply Management), durable goods, factory output, inflation, a nearly full recovery in automobile manufacturing, revival in housing, cost savings from consumer and business debt refinancing at record low interest rates; positive carryovers from 2012 carried into 2013 and look to be a positive influence in 2014. As investors re-evaluated the economy, they invested more money into equities and withdrew funds from fixed income. It is difficult to say which factor sparked investors' renewed interest in equities; was it the improved stats or the new record highs in the major averages that caught their attention? **Regardless, investors acknowledged that the chains of the Great Recession that were holding them back have been broken, making investors feel more secure about increasing their exposure to equities.**

The biggest difference between the beginning of 2014 and last year is that back then, we had a clear view of the risks we faced; fiscal cliff, sequester, budget impasse, Eurozone problems, potential Chinese economy hard landing, the September non-taper, the December taper, and other potential calamities. Developed markets, which were the standout performers, took it all in stride. Emerging markets endured a sharply lagging performance. The gold bugs and the inflationistas were left rethinking their existence. They just didn't get that not all Dollars are equal; a Dollar in circulation born of a loan goes further than a Dollar sitting in bank reserves. The first one is all about consumption and investment. The latter is all about bolstering bank balance sheets and satisfying regulators. But now that the Federal Reserve has begun the process of withdrawing monetary support to the economy, banks could do one of two things with their massive reserves, use it or lose it. Using it, meaning making loans, is a lot more profitable than giving it up. So we have Commercial and Industrial Loan Growth via Domestic Banks, which started to slope upward in 2011 and continuing that trend:



You can tell by looking back a few years ago that the economy would accelerate. It could take anywhere from a year to a few years for these types of loans to impact the economy. It takes time to build out new plants and equipment. Based on Q3 GDP of over 4% (although nearly half was from inventory build), a surprising recent shrinkage in the U.S. trade deficit, and a new record for exports, we are seeing what it looks like when the economy accelerates. Those Dollars I just mentioned above, the ones in bank reserve jail, look like they're working their way into the economy. This, by the way, is what economic acceleration always looks like. And now, with U.S. banks easing business loan standards, we have more fuel for the economy. http://www.bloomberg.com/news/print/2013-11-04/u-s-banks-ease-standards-on-business-loans-fed-survey-shows.html

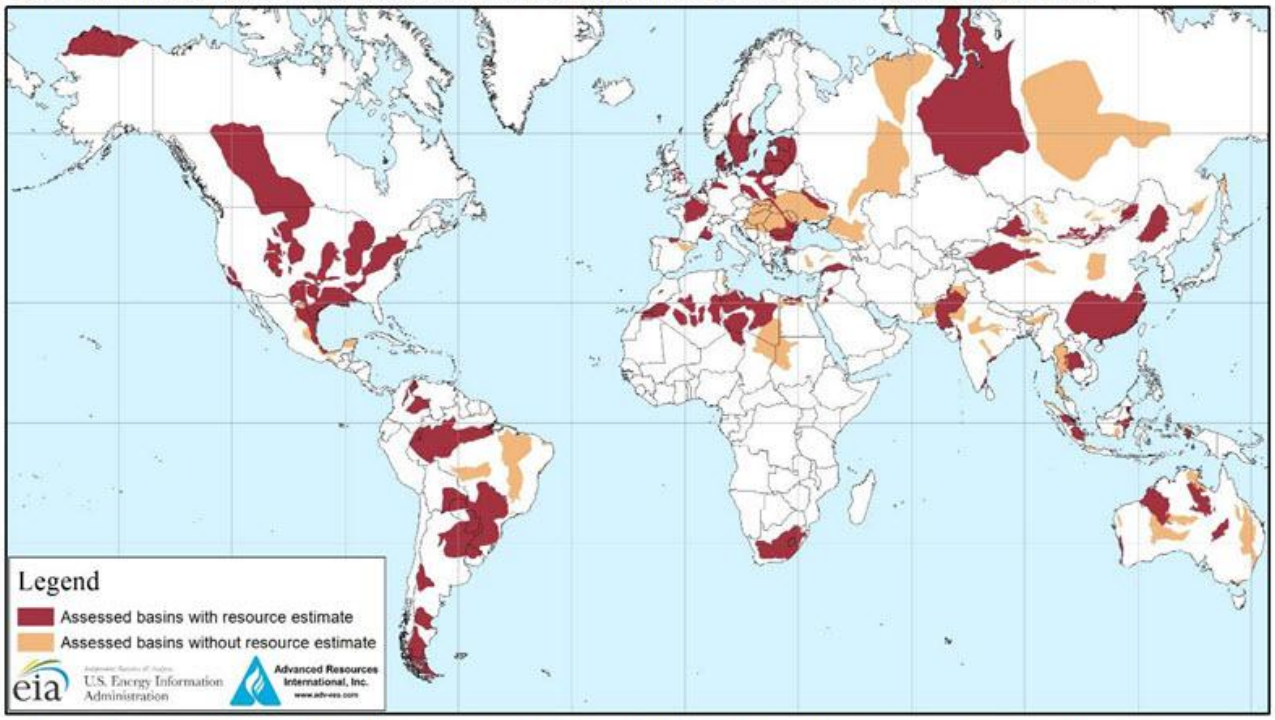
This is critical; the U.S. reached a major milestone: **we look to have overtaken Saudi Arabia & Russia to become the world's biggest producer of oil and natural gas hydrocarbons as a result of the shale energy boom.**



Source: U.S. Energy Information Administration
Note: Petroleum production includes crude oil, natural gas liquids, condensates, refinery processing gain, and other liquids, including biofuels. Barrels per day oil equivalent were calculated using a conversion factor of 1 barrel oil equivalent = 5.55 million British thermal units (Btu).

Conversely, China surpassed the U.S. as the biggest importer of crude oil in the world last year. (http://www.reuters.com/article/2013/10/15/us-oil-pira-idUSL1N0I51IX20131015) Good, they can claim that milestone, or millstone around its neck, if you don't mind the metaphor. A few years ago, 2008 to be exact, oil surged to $147.00. Today, we are reclaiming our own energy destiny. Shale on! I've been writing about this event for years and the long term benefits it brings to our economy. But as shale energy extraction technology improves, we must now view this as a global phenomenon that will benefit not just our standard of living, but that of many other parts of the world.

Figure 1. Map of basins with assessed shale oil and shale gas formations, as of May 2013



Source: United States basins from U.S. Energy Information Administration and United States Geological Survey; other basins from ARI based on data from various published studies.

This map is truly amazing and I firmly believe that what it represents is the single most important economic factor impacting everything from global poverty, global GDP, trade agreements, migration, to military alliances for many years to come. Simply put, lower energy bills for consumers and businesses combined with substantially lowered potential for external oil shocks is good for investors. Please keep that in mind the next time we have a short term correction in the stock market.

Moving on, a few more important points to make.

- The current rally leadership has changed from large cap dividend yielding blue chip companies in consumer staples, communications, and utilities to large cap cyclical stocks, particularly industrials, financials, technology, and consumer discretion. Small cap stocks have been standout leaders, but I view this as more of a lot of catching up to large caps as opposed to seeing that as irrational exuberance. The point being that the rally leadership still comes from a broadly diverse group as opposed to over reliance on just one sector.
- Emerging markets, as mentioned previously, have done poorly. This goes for those that are exporters of commodities as well as the importers of commodities.
- Inflation in the U.S. is nearly nonexistent, and in Japan and Europe, deflation has been a greater concern.
- The tremendous corporate operating leverage created by U.S. based companies during the Great Recession is still at work. This is bullish for corporate earnings. This also brings forward P/E ratios lower, typically bullish for stocks.
- Throughout the last 12 months, investors have consistently questioned the rally. There is no shortage of investors who are trying to be the first to “jump off the train”. Even though money-flow into stocks has been the highest in years, it is nowhere close to being a torrent.
- Stock buybacks added up to approximately 450 Billion Dollars last year. The stock market has been shrinking for years in order to adjust to a smaller investor base. But that investor base is

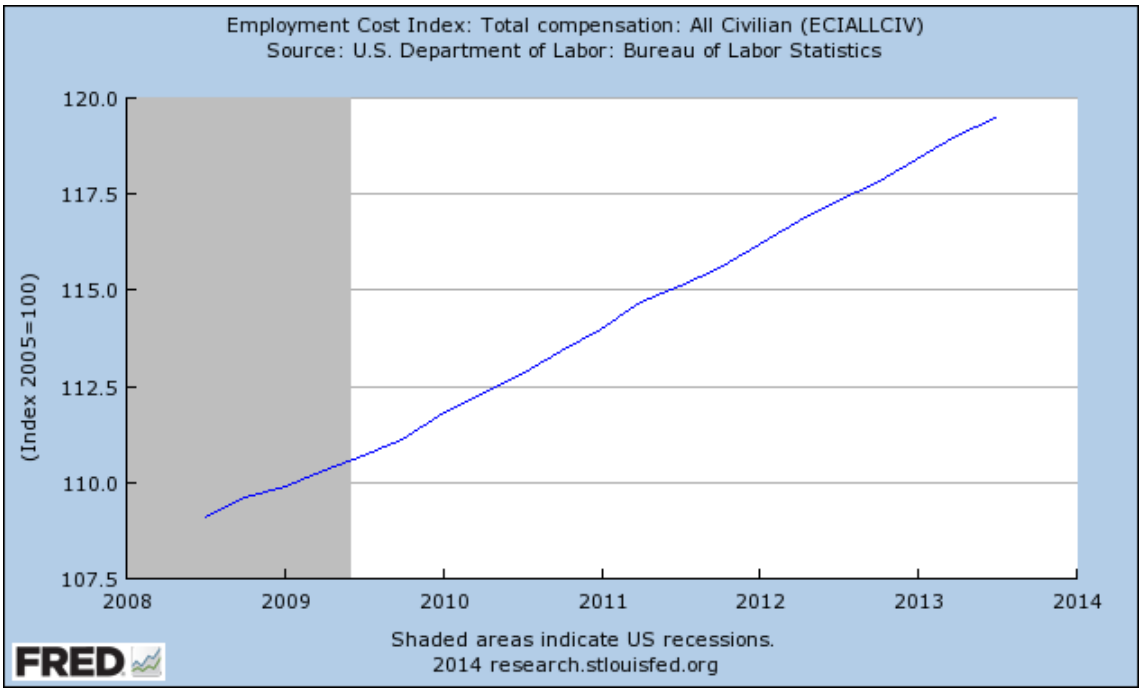
growing again and for now, it appears we may actually have a shortage of high quality stocks to purchase.

- U.S. Corporations have approximately 1.8 Trillion Dollars cash.
- The U.S. banking system, due to a rigorous regulatory environment and incredible FED support, is sound.
- The trend of increasing dividends is still in place.

However, I see significant risks. The risks last year were, my opinion, somewhat easier to see because many were on the calendar; fiscal cliff, debt cliff, Affordable Care Act, etc., none of which had any meaningful impact on last year's stock market performance. This year, the biggest risks I see are inflation and China's economy.

1. The way I feel about inflation is the complete opposite of last year, which was that I thought it would remain very low. The FED pushed and pushed until the economy could gain enough traction on its own. But every time the FED backed off over the last 5 years, it had to come back with a new incarnation of Quantitative Easing; QE 1, QE2, and the whopper of them all, QE3. The FED Balance sheet ballooned from about 800 Billion Dollars before the Great Recession to a little over 4 Trillion Dollars today. I believe QE4 will not be necessary. The economy has traction. It remains to be seen if it has *escape velocity*, and based on the FED's go-super-slow taper and forward guidance, the FED still remains "data dependent". Inflation of over 2% (CPI – Consumer Price Index) and about 6% unemployment rate are the FED's stated thresholds of pain. If market participants begin to interpret data to mean that the expansion is overheating, then they will begin to anticipate withdrawal of FED stimulus sooner than expected. If that were to happen, which is in the realm of possibilities, equity asset upside could be severely limited and fixed income assets could be further damaged. For now, technology and our vast energy resources should continue to have deflationary effects on the economy at large. The frigid weather across much of the country should be expected to keep a lid on economic activity for the first quarter of 2014. But it all now hinges on the labor market, as labor is the biggest driver of cost. As of the 3rd quarter of 2013, according to the Bureau of Labor Statistics, labor productivity is holding up; indicating wage inflation remains tame. The old Wall Street maxim says you never fight the FED. Of all the things to worry about over the last five years of this Bull Run, this one is the most legitimate.

   Here is the first graph of 2014, Employment Cost Index that could prompt the FED into earlier action than expected:

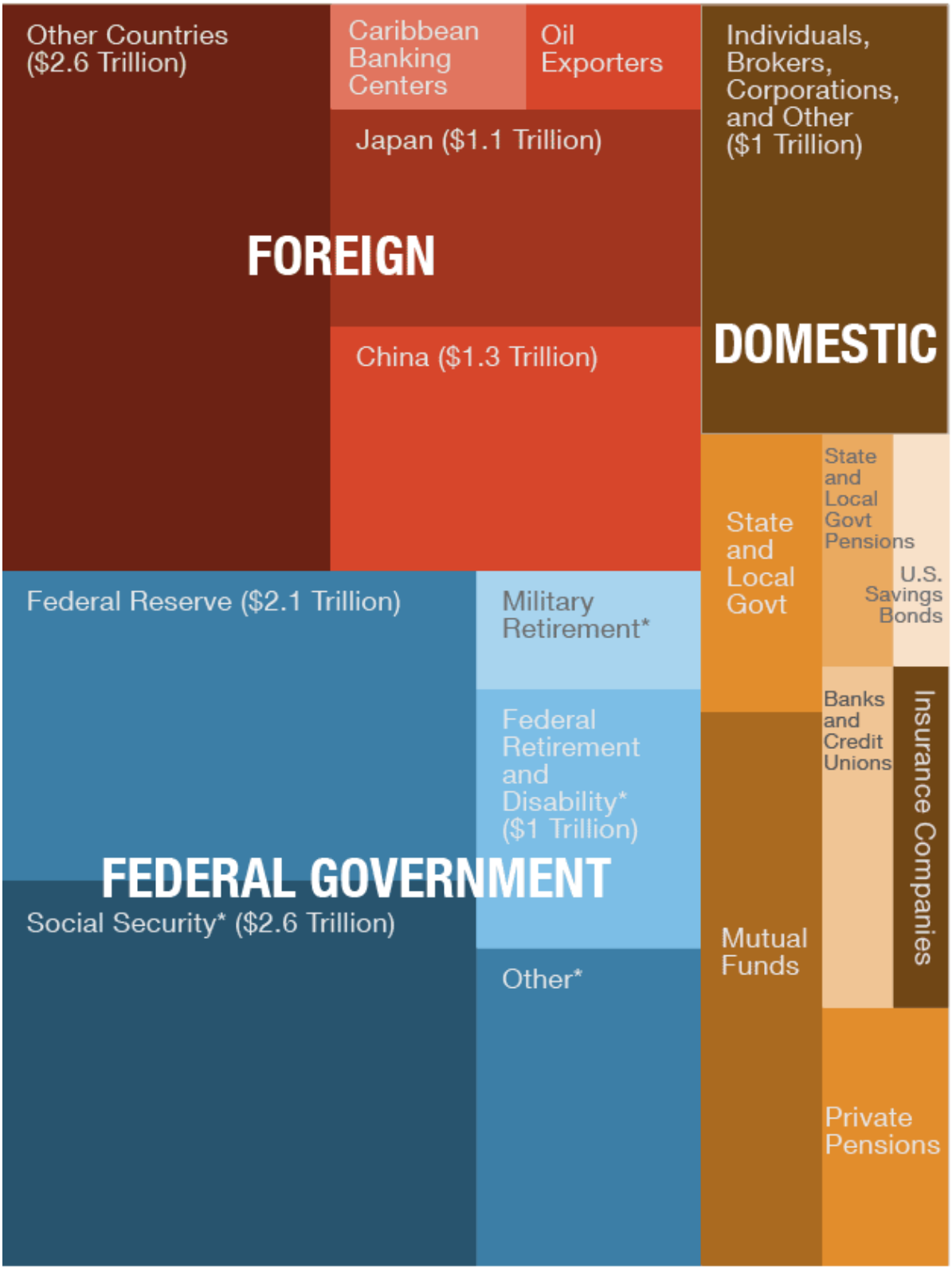


2. China either has a lot less debt than investors want to believe or they think the PBOC (People's Bank of China – Central bank of China) will bail out businesses and banks a la FED style. China needs to transition from an investment led economy to a consumption led economy. And although you hear about all of the cars and watches Chinese citizens are buying, consumption dependency just isn't ready for prime time yet. In the meantime, two burdens keep growing; the need for more jobs to keep the citizenry working and the debt load to keep building infrastructure and military apparatus. With inflation there running at over 3% for over 2 years now, overheating pockets of real estate, growing shadow banking, increasingly costly labor, and deeply indebted state owned enterprises; we may be asking ourselves if the Chinese miracle is already over. Rates on Chinese debt instruments, from money markets to long term bonds; have risen substantially as of late, which many market participants, including myself, feel that is an indication of stress in its financial system. China came through for global growth at the onset of the Great Recession with a massive public works policy when the world needed it, but A) I do not think they could do it again and B) if their GDP slows, they would most likely take down neighboring economies. Emerging market currencies and markets could potentially be devastated with no one to left to pick up the pieces, i.e. International Monetary Fund during the Asian Contagion of the late 1990's. Additionally, China's local governments/provinces owe approximately 3 Trillion Dollars in debt tied to non-lucrative infrastructure projects and land sales, potentially saddling banks with defaults and destabilizing the national economy. (http://www.cnbc.com/id/101301578) Side note: since the FED December-taper decision, most Asian currencies have weakened due to Dollar demand from improving U.S. economic stats (http://www.bloomberg.com/news/2013-12-27/asian-currencies-decline-this-week-as-fed-taper-spurs-outflows.html).

These risks are not currently my base case forecast, but they bear watching. We mustn't become complacent.

As you know, China also holds a substantial amount of Treasury securities. Our biggest creditors in graphical form, source www.NPR.org , are:

The Total U.S. Debt Is $16.8 Trillion. Here's How It Breaks Down:



Regardless of one's optimism or pessimism, our strategy remains the same; extensive use of buy-limit orders and profit protecting STOP orders for both my individual stock clients and for my asset allocation clients. We do so to potentially reduce volatility and to improve our cost basis; our way of taking back

control in an environment that occasionally goes out of control. So, we are prepared for pullbacks because they can happen at any time. Conservative use of certain derivative products and strategies has been added to some accounts and I expect those tools to be more widely used as part of my daily client portfolio activities. There's more to it than this and, of course, more on my strategies are available upon request. Last on this, I avoid any investment product that you can't plainly punch up a quote and other information on any of the major financial news websites.

Last year, I put forth 11 predictions for 2013. Some of these are meant to be "off the radar" things. Some are not actually investable ideas. None are guaranteed. But I learn from each and every one of them and to me, this is the fun part…my favorite writing of the year. Before I begin rehashing my '13 predictions (and kicking myself a little), I want to reiterate that I believe anyone who manages money in the financial services industry must be willing to put his/her own thoughts in public view. I simply do not have patience for fence straddlers, the cowards who claim to be right but have no proof of claim and who merely follow the marching orders from ivory towers spouting biased recommendations. One is allowed to be wrong; it is a necessary part of investing. The key thing is to own one's mistakes and to adjust quickly and accordingly. While many in my profession adjust their predictions late in the year so they appear like they are right, I like to look them up a year later and see how I did…it's just more fun that way.

Here they are with comments:

Here they are from **2013**:

- Dow reaches 15,000 this year; reasons above. (Right. Wish I wrote 16,000! This was the most important one)

- Mergers and acquisitions boom this year. If I keep saying it, eventually I'll be right, right? (It was a so-so year, off a touch from last year. Main reason: stocks took off so no need for value enhancing deals needed. Wrong)

- American large caps are the place to be, again. (Put that one in the win column. Large caps performed well and even though small caps outperformed large caps, I still prefer, I think you'll agree, the safer nature of large caps)

- Treasury yields move higher for the year. And I do believe investors will move a lot of assets from fixed income to equities. This subject is known in the media as "The Great Rotation". The rotation may not be massive, like the rotation out of equities and into fixed income over the last 5 years, but I believe it'll still be substantial and a driver of equity direction this year. Just by way of rebalancing asset allocation models, a practice used by many types of investors, this should happen) (Right. I am very pleased with the how the call in interest rates turned out)

- Tax receipts go up and not just because of the deal to avoid the fiscal cliff. More people have a job, that's the best reason. This helps the budget deficit. It also helps municipal financing. (Right)

- Consolidation within the regional banks takes place. This is an addendum to the M&A boom I'm calling for. (No cigar. Wrong. Oh sure, there was M&A activity in this space, but nothing Earth shattering)

- USA powers ahead in becoming a magnet for global manufacturing firms due to its energy resources. (Right… http://www.ism.ws/ismreport/mfgrob.cfm)

- The market takes it in stride when the FED starts to telegraph changes to its current monetary policy actions. (Right. Finally announced this past December and the major stock market averages soared)

- Unemployment rate moves to the 7% range very slowly. The CEO of Travelers was quoted on CNBC as saying that 10,000 people will retire every day for the next 19 years. My O' my, this is a big deal. It is a major reason why the labor force is shrinking. (RIGHT!)

- The U.S. housing market continues to improve. (RIGHT!)

Here they are for **2014**:

- Dow reaches 17,900 this year, which represents approx. 8% upside. Not an overly bullish forecast, but stock market returns are typically higher when an economy goes from bad to better as opposed to better to good.
- Mergers & Acquisitions finally pick up momentum this year. Companies need to keep up their profit margins.
- The FED spooks investors with talk about changes to its forward guidance which causes the S&P 500 to correct by 12% to 15%, which will be a buying opportunity to set up for 2015.
- The yield on the 10 Year Treasury reaches 4.00%.
- Unemployment rate moves to the 6.25% level this year.
- Increasingly larger numbers of investors sell fixed income and shift some of the proceeds into stocks. Instead of "Great Rotation", we should say "Glacial Rotation"
- Buybacks come close 2013's record, maybe even tie it, but fail to set a new one.
- Shale energy boom keeps domestic manufacturing growing.
- Housing continues to do well as household formation rises due to improved employment prospects of millennials.
- In the 2nd half of this year, consumer staples and healthcare take leadership and industrials begin to lag.
- China policy makers take drastic action to prop up its economy, but it doesn't help shares of Chinese stocks because confidence in the PRC's ability to steer its economy wanes.

Longer term, the widening of the Panama Canal (perhaps completed in 2015…101 years after its opening) adds to the appeal of manufacturing in the U.S. Once again, the U.S. will be blessed with 2 oceans.

However these predictions workout, you can be sure that I'll hold my feet to the fire a year from now. Investing takes discipline, especially in the face of uncertainty, so I shall continue being diligent in following "everything", keeping up to date, remaining skeptical, thinking deeply before acting, and in keeping you informed. I love what I do for a living and I am blessed to have you as my client.

Follow me on Twitter: @Mitch_Goldberg. I tweet almost every day and this useful tool is a great way to push out brief comments quickly and easily. Retweets do not necessarily mean endorsement; most often they mean I have an interest in the subject matter and I think you may find them interesting too.

Following are articles and quotes from '13.

Wishing you health and happiness in 2014,

Mitchell O. Goldberg

Mitch

Thanks for reading…please show this to someone you feel may benefit from my services. Your referrals are greatly appreciated.

CNBC.com

Money Pours Back in Stocks: 'Have to Take This as Bullish'

STOCKS, STOCK MARKET, GLOBAL MARKETS, MARKET ANALYSIS, REAL TIME DATA, FISCAL CLIFF, S&P 500 INDEX, STOCKS, BUSINESS NEWS

CNBC.com | Friday, 11 Jan 2013 | 11:11 AM ET

Investors suddenly seem to like stocks again.

After watching the market post double-digit returns last year—and with the **Fiscal Cliff** resolved for now—Americans are pouring billions of dollars into stocks.

Just over $22 billion flowed into long-term equity mutual funds and exchange-traded funds in the week ended Jan. 9, according to Bank of America Merrill Lynch. That was the second-highest amount on record after the $22.8 billion that went into all equity funds in September 2007.

"I have to take this as bullish," said Dennis Gartman, veteran author of the daily Gartman Letter. "Perhaps one gets a bit antsy when the public's in, but inflows are always better than net outflows and the public is still sitting on a mountain of cash or debt securities."

Some, however, believe it's too early to tell if this is really a trend.

"I'm a little skeptical," Art Cashin of UBS told CNBC on Friday. "I want to see if they continue." (Watch video above)

The biggest catalyst for new money into stocks may have been Congress finally coming up with a compromise on the fiscal cliff. The battle in Washington had been an albatross around investor sentiment all December because of uncertainty over tax rates for dividends and capital gains.

The fiscal cliff deal ended up keeping the dividend and capital gains tax rate at 15 percent for families with incomes below $450,000.

"I think this has a large seller's remorse component in it, as a lot of people booked long-time profits off of the fiscal cliff potential tax ramifications in November and December and now they are chasing," said Jeff Kilburg of KKM Financial.

Even more striking was the amount of money going into equity mutual funds, the purview of the less-active, more traditional retail investors. Of that $22 billion inflow, $8.9 billion was into these funds, the biggest weekly influx in 12 years. Bofa/Merrill Lynch, which uses a composite from Lipper, EPFR and other services, has the data going back to 1992.

"Crisis fatigue has settled in and now investors, especially retail, see that they're missing the potential upside and dividend potential of stocks while hiding in bonds," said Mitch Goldberg of ClientFirst Strategy. "The Armageddon that they expected simply never materialized. They simply became too negative after being pounded into the dirt a few times in the last 12 years."

The S&P 500 jumped 13 percent in 2012, its biggest gain in three years and likely quite the eye-catcher on the front page of newspapers and inside investment account statements.

For the best market insight, catch 'Fast Money' each night at 5pm ET, and the 'Halftime Report' each afternoon at 12:00 ET on CNBC. Follow @CNBCMelloy on Twitter.

Traderdisclosure: On January 11, 2013, the following stocks and commodities mentionedor intended to be mentioned on CNBC's "Fast Money" were owned by the"Fast Money" traders; Jon Najarian is long RIMM CALLS; Jon Najarianis long call spreads in DNB; Jon Najarian is long call spreads in LVS; JonNajarian is short HLF 40 straddles; Stephen Weiss is long M; Stephen Weiss islong BAC; Stephen Weiss is long JPM;

Stephen Weiss is long C; Stephen Weiss islong FB; Stephen Weiss is long TBF; Joe Terranova is long VRTS; Joe Terranovais long XOM; Joe Terranova is long AAPL; Joe Terranova is long SWN; JoeTerranova is long GS; Joe Terranova is long MS; Joe Terranova is long DELL; JoeTerranova is long GLW

For Ben Reitzes
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URL: http://www.cnbc.com/100372954

CNBC.com

Four Ways to Protect Against the Debt Ceiling

MARKETS, STOCKS, WORLD MARKETS, FOREIGN EXCHANGES, COMMODITIES, BONDS, MARKETS, S&P 500 INDEX, BUSINESS NEWS

CNBC.com | Wednesday, 16 Jan 2013 | 1:49 PM ET

Investors used to navigating their way around Wall Street now have Washington to contend with as well, creating a need to guard against a plethora of political uncertainty.

Though lower this week, financial markets have climbed higher since Congress avoided the perils of the "fiscal cliff" by agreeing to a stop-gap measure avoiding the worst of tax increases and spending cuts.

But with that obstacle off the table for now, another one has emerged: The specter of running into a debt ceiling that would bring much of the government's operations to a halt and cause chaos in the economy. (*Read More*: Debt Ceiling Battle: Why No One Agrees on Anything)

Cautious investors, then, are turning to innovative ways toward portfolio protection in case a debt ceiling impasse creates increased market volatility, which is extremely low now. The government is expected to hit its borrowing limit within a month or so. At the same time, a related battle over automatic spending cuts, called "sequestration," also looms.

"Everyone should have a safe-haven side of the universe in their portfolio, regardless of how you're thinking about what will happen," said Jim Paulsen, chief market strategist at Wells Capital Management. "You still own some Treasurys, you still have exposure to the dollar, you're still in large-caps, with some gold exposure. Even if you have them underweight, they're still in your portfolio."

But it's not only those traditional forms of protection. Investors are using some other less well-known methods as well.

Here are four of them:

Flying With the Black Swans

Investors are always looking for the black swan - that unexpected event that can roil the markets, such as the subprime mortgage crisis or the Long Term Capital Management crisis of the late 1990s.

Bond giant Pimco even has a fund tailored specifically toward improbable events, sometimes referred to as "fat tails" for their placement at the far reaches of the traditional bell curve of possibilities.

The Global Multi-Asset Institutional Fund, with $5 billion in assets, is popular among portfolio managers looking to give their clients cover during turbulent times.

"If the hedge becomes necessary we will be minimizing our losses," said Michael Kresh, president of M.D. Kresh Financial Services, a boutique retirement planner in Islandia, N.Y. "We hope you never need the insurance, but the good news is if you need it you have it." (*Read More*: Why Stock Market Is 'Going to Hit a Brick Wall')

The fund is rated four stars by Morningstar and has returned more than 9 percent year to date, easily outdistancing the Standard & Poor's 500. Component-wise it blends 60 percent to the SCI World Index and 40 percent of the Barclays Capital U.S. Aggregate Index.

"We must be prepared because there are too many different ways of screwing things up" in Washington, Kresh said.

Swimming With the Whales

Who better to know their way around a crisis than a whale - a Wall Street whale that is, someone known for investing prowess in the face of danger?

Replicating the moves of hedge fund titans with historic records is part of an increasingly popular strategy known as "cloning." It entails constructing funds that look at where guys like Bill Ackman, Jim Chanos and David Einhorn put their money, and following their lead. (*Read More*: Activist Investor Dan Loeb Takes 8% Stake in Herbalife)

"For us the cool thing about what we do is we don't pick stocks, we pick managers," said Maz Jadallah, CEO of AlphaClone. "We develop rules around our portfolios in the case of really large events that span multiple months, to protect capital."

Jadallah runs the AlphaClone Alternative Alpha exchange-traded fund, which uses a proprietary system that traces 13f regulatory filings of big managers. The fund, which is not yet a year old, is up 4 percent year-to-date.

The criticism against following 13f reports is that they are backward looking, so the investments they contain may have been sold by the time the reports are filed.

But Jadallah said the managers he tracks show histories of staying in positions for long periods - usually a year or more.

"These guys are waiting a long time to realize the theses that they're invested in," he said. "The filings can be a valuable source of investment decisions."

Limit Orders

A broader approach to crisis investing involves limit orders - pre-setting what you'll buy and sell depending on stock performance.

That allows investors to make sure they get in at a good price if a stock declines and provides consistency to decision-making for those who believe that any market dips will be temporary.

"It helps me to take back control in a highly volatile environment," said Mitch Goldberg, president of ClientFirst Strategy in Dix Hills, N.Y. "Any number of black swan events can hit us at the same time. So I want my buy-limit orders in place ahead of that to take advantage of the volatility. The reason I like the limit order is it instills discipline."

Limit orders - where to buy and where to sell - can vary by sector. Goldberg said he'll use a wider range of buy-sell limits for cyclical sectors like industrial stocks than he will for defensive areas such as consumer staples or health care.

"I'm not fully invested, but I plan on getting fully invested based on whether the market dips, and I'm always expecting the market to dip," he said. "Even when I'm a raging bull I am still preparing for dips."

Buy Right With Buy-Writes

The buy-write options strategy is also one that has been out there for a number of years but is gaining popularity.

The maneuver involves buying a stock and then selling a call option against it, allowing the holder to profit on the sales of the call so long as the option remains below the strike price. Losses, then, are minimized to only the difference between the purchase price and the options target should the stock rise.

The buy-write strategy can be accomplished either with individual stocks or indexes.

For investors who are shy of options, there are ETFs they can use that replicate the strategy.

The most popular is the PowerShares S&P 500 BuyWrite. But there are others, including a newcomer called the RiverNorth Dynamic Buy-Write Fund.

"We wanted to construct a portfolio that can articulate that point of view and that asymmetry, taking the

common buy-write and putting volatility as its main component from the risk-reward standpoint," said Eric Metz, portfolio manager of the RiverNorth fund, which started trading in October.

Metz said the fund looks for "mispriced volatility" among individual stocks. Technology and financial services are the largest sector components among its holdings.

URL: http://www.cnbc.com/100384752

CLiENTFIRST

Strategy, Inc.

Written by Mitchell O. Goldberg
ClientFirst Strategy, Inc.
February 27, 2013
For immediate distribution

13 Rules for Making Investment Decisions

With the Dow Jones Industrial Average drawn to the 14,000 level and the S&P 500 drawn to the 1,500 level, **the bulls and bears are at a stand-off**. The question now is which side will blink first. Is the rally since last autumn over or are we going to continue to move to new 5 year highs and maybe even to new all-time highs in the aforementioned indices? Volatility and headline risk are clearly back with a vengeance. The reasons to be bullish or bearish cancel each other out. For the purpose of this article, I'll skip repeating all of those reasons that you can find out by clicking on the major financial websites and offer **13 rules of investing that I've developed in the 23 years I've been an investment professional**.

1. **Don't overreach for yield.** When conservative investors purchase risky or complex securities to earn more interest or dividends, it almost always ends badly. Better to spend down your money or lose a little to inflation than to lose money due to investments that are beyond your understanding or risk tolerance.
2. **Don't try to eke out every penny of upside potential from your investments.** When your investments are rising, come up with a percentage gain or Dollar amount that would trigger a sell order to take a little off the table. I have several triggers so that I sell a little at a time along the way up when I have a winner on my hands. Roller coasters have lots of ups and downs, but the ride ends where it started. If you don't take a little profit off the table, you may just ride your investments up and down in each subsequent market cycle without having anything to show for it.
3. **Paralysis from analysis is OK.** If you can't make up your mind about purchasing a security, then that is your mind's way of doing a personal gut check. It means your conviction about the investment in question isn't high enough to commit capital to it. Keep learning about it until you decide to hold or fold.

4. **When consumer staples stocks are leading the major equity averages higher, take that as a sign that investors are worried about a slowdown in the economy.** Wait for more macro-economic statistics before committing any more new funds to equities.
5. **Never buy a stock just for a fat dividend.** Better to look for companies with a smaller dividend that have a record of raising their dividend over time, which to me is a better indicator of future stock appreciation. Plus, if a stock has an outsized dividend yield due to a pullback in the stock price, beware. If the dividend is 70% or more of the annual earnings estimate, a dividend cut is potentially on the way. That's almost never a good thing.
6. **It's OK to think and invest short term.** Too many investors are used to the useless and outdated mantra "don't worry about the paper losses, you're in it for the long term" Usually, you'll hear this from your broker who didn't call you for the last 12 months while your account took a major hit. Thanks but no thanks, buddy. You know what a religious stock is? One that you pray for to go back up so you can sell it. You can be long and short term for the same position; maybe own some for the long term as you sell some for a short term gain and use the proceeds to diversify into a new position.
7. **Have an investment strategy.** To me, strategy is just as important as the investment choices I make. (FUN FACT: When I did a Google search for "Investment strategy" 147,000,000 results came up) My strategy makes extensive use of certain kinds of market orders and exchange listed derivatives. Easy for me because I do this professionally. What's yours? Ride'em up and ride'em down? Break the cycle!
8. **Stick with the original.** Imitators rarely win for the long term. Recall that phrase "Coke is the real thing"?
9. **Take comfort in trends that are here to stay.** My favorites are the domestic energy production boom, the enlargement of the Panama Canal to be completed next year, and the rising middle class in emerging markets. These are, in my opinion, incredibly durable and will help companies to deliver on strong earnings for years to come.
10. **Know that tech stocks are ones you borrow, not own.** Obsolescence and cheaper competitive products, in my experience, are always about a year to 2 years away. Big gains in tech are meant to be realized, in my opinion, of course.
11. **Diversification is important, but strategy is much more so.** In an environment that is often characterized more as "risk on" and "risk off", diversification has its limits. So don't be lulled into a false sense of security because you think you're diversified. It helps, but that is no excuse to be complacent, which I see all too often.
12. **It's never too late or too early to take a profit.** I do think it is a mistake to be an "all in" or "all out" investor.
13. **Your buys are almost always too early.** So for new positions, initiate small and buy more on dips.

Happy investing.

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Dow Jones Closes at Record High — So What?

By Martha C. White March 06, 2013

SPENCER PLATT / GETTY IMAGES

Traders work on the floor of The New York Stock Exchange on March 5, 2013 in New York City. Within the first few minutes of trading Tuesday, the Dow gained nearly 100 points, rising as high as 14,226.20, a new record high.

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- FacebookTwitterTumblrLinkedInStumbleUponRedditDiggMixxDeliciousGoogle+When the trading day ended on Tuesday, the Dow Jones Industrial Average closed at a record high of 14,253.77. It surpassed the index's previous closing high of 14,164.53 reached back in the pre-recession days of October 2007. For all the headlines devoted to the event, you'd think this was a really big deal — either a signal that our economy has zoomed past the lingering aftereffects of the Great Recession, or evidence of a bubble about to pop, as CNBC wondered a little while ago.

The reality is probably much less exciting. "Investors should curb their enthusiasm," says Mitchell O. Goldberg, president of ClientFirst Strategy. Experts say the Dow's record high means relatively little in the grand scheme of things. Here are a few reasons why:

The Dow Doesn't Reflect the Entire Economy

"To the average guy in the public, the Dow means the market," says Wayne S. Kaufman, chief market analyst at John Thomas Financial. "But it's only 30 stocks." What's more, the index is price-weighted, meaning more expensive stocks have an outsized impact on the number.

The 30 stocks that currently constitute the Dow Jones Industrial Average make up a pretty narrow slice of American economic output. Analysts say the S&P 500, a much bigger index, is more reflective of the market as a whole. (It ended Tuesday at a five-year high, but fell short of record-breaking status.)

(**MORE:** Are We Already Planting the Seeds of the Next Financial Crisis?)

Also, the companies included in the Dow have changed over the years, and inflation is not factored in, so measuring today's record against its previous high is an apples-to-oranges comparison. "When you see the Dow hitting new highs, it's not the same Dow we had in '07," Goldberg says. He points out that manufacturing stalwart General Motors was booted out, as were Citigroup and Kraft, and he argues the current index skews too tech-heavy to encompass the true scope of the U.S. economy.

The Fed Did This — and It Can Undo It Too

Stocks have been particularly buoyant because they're floating on an ocean of liquidity, courtesy of the Federal Reserve. The Fed has been buying up trillions of dollars of bonds to stimulate the economy. That has driven down yields and interest rates. "Back in 2007, bond yields were 5% on a 10-year [government] bond," Kaufman says. "Today, we're at 1.9%." As a result, many investors who

are looking for better returns have given up on bonds and piled into the equities market, since many are still soured on real estate as an investment vehicle.

"So long as the Fed is in an accommodative mode and the economy is out of recession, the odds are that you will have a bull market," David Rosenberg, chief economist at Gluskin Sheff and Associates, told the *New York Times* Tuesday.

"The Fed seems willing to remain accommodative," says Matthew Coffina, editor of Morningstar's StockInvestor subscription newsletter. Plus, he adds, stocks are considered to be a better hedge against inflation when the economy does pick up steam again.

(**MORE**: Why Many Americans Feel Like They're Getting Poorer)

In addition to the Fed, central banks around the world have engaged in "globally synchronized asset purchase programs," Kaufman said, which pumps more money into the system.

Other Numbers Matter More

Morningstar's number-crunchers take the price of each stock they cover, divide it by what their analysts think it's worth, rank all of them and take the median. (You can see the current ratio in this chart here.) Lately, it's been pretty close to zero, which indicates a more or less fair value for the market in aggregate.

"The thing to focus on is price to fair value ratio," Morningstar's Coffina says. "Right now, our analysts think the market is right about fairly valued."

The robust balance sheets of corporations help justify high stock prices. "I think the main positives for the market have been relatively strong corporate earnings," Coffina explains. "Companies have been able to take advantage of high productivity."

Even so, high stock prices don't necessarily signify a strong economy. "I think the market may be feeling more strength than the consumer is feeling," Coffina says.

(**MORE:** Warren Buffett on Berkshire's 'Subpar' Year, Big-Game Hunting and Why He Loves Newspapers)

There are several other key data points to consider. "The most important metric people should be looking at is employment, bar none," Goldberg says. "The second figure everybody has to look at is

inflation. The third figure is bank lending." Following that advice gives you a much more mixed bag concerning the overall health of the economy: Unemployment is stubbornly high, inflation isn't really an issue, and bank lending looks encouraging.

We're Not Out of the Woods Yet

Whether or not the market will continue its upward march is anybody's guess. People get paid huge amounts of money to figure it out, and they still get it wrong more often than not. Analysts like to point out that it's foolish to try to time the market right, and that there are still plenty of risks that could topple the market's ascent.

"You have to trust [Federal Reserve chairman Ben] Bernanke and company to thread the needle and pull back on their easing policies without disrupting the domestic economy," Goldberg says.

As Warren Buffet pointed out on CNBC on Monday, the economy could be rattled when this happens. "There are an awful lot of people who want to get out of a lot of assets if they think the Fed is going to tighten a lot," he said. Even if the Fed chairman can get everything right, lawmakers could still make a mess of things, between dickering over sequester cuts and the looming budget showdown coming at the end of the month, analysts say.

(**MORE:** 6 Reasons Why the Stock Market Could Do Surprisingly Well in 2013)

Trouble could come from overseas, too. Goldberg says bold moves by the European Central Bank have mitigated the threat of a cascade of major bank failures, but an anemic Eurozone economy would be bad news for American export-driven companies.

"Although Europe is not nearly as significant a trading partner for the U.S. as it used to be, it still is a massive part of the developed world," he says. "If consumers and businesses cut back, it hurts."

Read more: http://business.time.com/2013/03/06/dow-jones-closes-at-record-high-so-what/#ixzz2MltIi6Tq

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Why the S&P 500 Just Can't Break its Record High

MARKETS, S&P 500 INDEX, DOW JONES INDUSTRIAL AVERAGE, BUSINESS NEWS
CNBC.com | Monday, 25 Mar 2013 | 12:07 PM ET

Call it bad timing or just back to reality, but the Standard & Poor's 500 all-time high has become a significant barrier to stock market gains.

For the fifth time in the past two weeks the broad-based index came within 5 points of its record, only to be beaten back either by technical resistance or, as was the case Monday, more disturbing global headlines.

"There's resistance to climb over a high that hasn't been breached since '07. It takes a tremendous push," said Mitchell Goldberg, president at ClientFirst Strategy.

"There's an awful lot of people out there who are just breaking even now, who have become more risk-adverse and have had enough of risk-taking in the stock market," he added. "The news cycle doesn't help."

Indeed, it was the latest out of Europe that pulled the stock market down Monday, with an agreement to bail out Cyprus banks rattling investors concerned about the deal coming apart and its contagion risk. Markets were also spooked by comments from Dutch finance minister Jeroen Dijsselbloem saying that the Cyprus bailout deal might be a template for other bank bailouts in Europe.

(*Read More*: Why the Cyprus Relief Rally May Be Short Lived)

Unease over the deal pulled the S&P 500 back as it climbed within 1 point of its all-time closing high of 1,565.15, set on Oct. 9, 2007.

Traders follow the S&P 500 more closely than the Dow industrials, which garners more of the public attention and has streaked to a series of nine new historic highs in the past several weeks.

"It doesn't really matter if the Dow hits a new record. It has to be the S&P 500," Goldberg said.

The S&P covers a wider swatch of corporate America than the Dow, which is seen as an economic bellwether even though it contains just 30 stocks.

Consequently, many traders still want another green light before believing the violent stock rally over the past three months is sustainable.

(*Read More*: Why Meredith Whitney Thinks You 'Have to be Bullish')

"Stock indices continue to suffer from the 'get no respect' syndrome as new highs for the Dow Jones and the S&P 500 are met with deep concerns about the sustainability of the advance and questions regarding any opportunity for more appreciation," Tobias M Levkovic, chief market strategist at Citigroup, said in a market analysis.

"We have become fascinated by the constant stream of rationalizations for not believing in the gains," he added.

Levkovich believes slow but steady earnings growth and the market's ability to shrug off concerns over European weakness will help keep the market on a positive keel higher.

Still, that hasn't stopped investors from worrying.

(*Read More*: Where's the Long Awaited Market Correction?)

"The daily grind higher in U.S. equity prices is acting like water torture for both bulls and bears," Sam Stovall, chief equity strategist at S&P Capital IQ, said in a recent report for clients. "Investors are in search of a new catalyst to trigger the next move."

Like many others in the market, Stovall has been waiting for a pullback from a seemingly unflappable 2013 rally that has seen the broad-based index swell nearly 10 percent.

Sentiment indicators have been volatile, with the most recent American Association of Individual Investors survey at 39 percent for those expecting the rally to continue. That's nearly perfectly in line with the historical average, while the bearish level of 33.3 percent is a bit higher than the norm.

But a retreat seems nowhere in sight as the market continues a fairly uneventful melt-up into rarefied air.

Bank of America Merrill Lynch attributes the market move higher to a "seller's strike" in which investors are anticipating a rollover of money from bond funds into stocks.

Even in the firms' bullishness, though, it also would like to see some kind of retreat to sustain the rally.

"The big question is, can stocks hold or extend these highs? Our asset allocation is skewed toward a view that yes, equities can extend their gains over the course of 2013," said Michael Hartnett, BofA's chief investment strategist. "But we also continue to think the probability and durability of that outcome would be improved by a healthy pullback."

The S&P 500's intraday high is 1,576.09, set on Oct. 11, 2007.

URL: http://www.cnbc.com/100554412

Why Apple's Plunge Has Been Positive for Stocks

WALL STREET, TECHNOLOGY, S&P 500 INDEX, APPLE INC, NASDAQ COMPOSITE INDEX, YAHOO! INC, HEWLETT-PACKARD CO, EXXON MOBIL CORP, MICROSOFT CORP, GOOGLE INC, BUSINESS NEWS

CNBC.com | Tuesday, 23 Apr 2013 | 11:43 AM ET

In at least a roundabout way, Apple's precipitous and rapid fall has been the stock market's gain.
Though few if any stocks on the Standard & Poor's 500 get attention comparable to the technology behemoth, its 44 percent plunge off its Sept. 19, 2012 historic high has coincided with an 8 percent surge on the broad market index.

So what happened to that $291 billion in market capitalization that Apple lost?

A bevy of other stocks have been there to happily pick up the slack.
(*Read More*: Nasdaq Could Rebound to 4,100: Charts)

"Apple is just another tech stock," said Mitchell Goldberg, president at ClientFirst Strategy. "Apple stock has become a source of funding for the rest of the market. The lower Apple went, the higher the rest of the market went."

Indeed, while Apple slid other companies — competitors or not — gained. It's the opinion of Goldberg and others in the market that the money used from Apple share selling helped pave the way.

The stock's changing role as market barometer comes as the company prepares to release first-quarter earnings that, for anyone else, would be sparkling but for Apple may be pedestrian or worse.
(*Read More*: Here's What Pros Say May Turn Apple Around)

There is no 1-to-1 comparison that shows exactly where Apple dollars went, but a broad swath of firms in the tech space continued to chart upward as Apple slid.

The Nasdaq stock index, considered a proxy for the state of technology, has risen just 3 percent during the period. Apple was nearly 20 percent of the total Nasdaq market cap at its apex — considered by some traders as a pivotal level that triggers selling — and is down to only about 11 percent now.

But in the meantime, individual names, including beleaguered companies such as Yahoo (55 percent higher) and Hewlett-Packward (up 12 percent), have soared.
(*Read More*: Netflix's Focus on Targeted, Premium Content Works)

At the same time, the S&P 500's market cap has surged $600 billion to $13.9 trillion.

Apple, though, has lost its lofty perch atop the S&P 500, ceding its role as the largest percentage of market cap to ExxonMobil.
(*Read More*: What Apple Bears May Be Missing)

"Apple has handed over the baton," said one trader long on Apple and unwilling to be quoted directly. "You could be watching an Apple into Microsoft and Google trade. It's gone from the most over-owned stock in mutual funds to somewhere in the middle of the pack."

Nevertheless, it's also paved the way for other stocks, many of a defensive nature, to move to the front of the pack.

So while all of Wall Street and Silicon Valley will be watching Apple's results later Tuesday, making broad-based decisions - or Apple-specific ones, for that matter - off the profit report may not be wise.

"Forget about quarterly numbers," said Nadav Baum, executive vice president at BPU Investment Management. "Let's talk about the business. If the business is great it will be a good investment for those that stay in for the long haul."

As for the near term, though, Baum advises not betting the entire portfolio on one company.

"Diversify," he said. "You buy great stocks, you buy great companies and you don't put everything in one stock. Over the time the growth of the stock market will do well for you if you continue to buy high-quality, great businesses."

-By CNBC.com's Jeff Cox. Follow him on Twitter @JeffCoxCNBCcom.

URL: http://www.cnbc.com/100664969

3 Years Later: Learning to Live With Flash Crashes

S&P 500 INDEX, NETNET, U.S. MARKETS, MARKETS, INVESTING, WALL STREET, DOW JONES INDUSTRIAL AVERAGE, BUSINESS NEWS

CNBC.com | Monday, 6 May 2013 | 8:02 AM ET

Rather than being simply a one-off event that Wall Street could write off as an aberration, the first Flash Crash now looks like it was just the opening warning shot of what was to come.

In 20 breathtaking minutes that happened three years ago Monday, the stock market saw the Dow Jones Industrial Average lose nearly 1,000 points, only to rebound just as quickly.
Academics and market experts have pondered the cause and effect of the event since, and market circuit breakers have been used to good effect at least to stanch any similar events before they have gotten out of control.

But indeed there have been numerous subsequent flash crashes, none as dramatic as the initial one but each a reminder that a certain dynamic has been changed in the stock market, likely on a permanent basis.
(*Read More*: Fake Terror Tweet Should Be 'Wake-Up' Call: Pros)

What makes the first Flash Crash especially troubling is the lack of concrete findings as to the cause.

Most of the blame has been narrowed to irregular trading over a futures contract related to the Standard & Poor's 500—the "e-mini" to be specific.

Regulators moved to install trip mechanisms that shut down trading if similar patterns repeat, and for the most part they have worked.

But it's clear the machines have taken over, and with that will come mistakes that only machines can make. "Flash crashes will occur and it will happen again," said Todd Schoenberger, managing director at LandColt Capital. "If you are a retail investor, you're always going to look at the market with a cautious eye because you're going to be nervous over whether Wall Street has your best interests in mind."

Most recently, the market endured a flash crash social media-style.

An April 23 post on The Associated Press' Twitter feed indicated that two explosions had occurred in the White House, injuring President Barack Obama. The report triggered a brief but aggressive market sell-off that reversed itself when it quickly came to light that the AP Twitter feed had been hacked and the post was a hoax.
(*Read More*: This Is the Worst Thing About Fake-Tweet Stock Dive)

Over the years, many companies have seen shares plunge and spike due to little else than the vagaries of the electronic high-speed trading that has come to dominate the market.

The cumulative result: Little in terms of actual stock value, but much in terms of market credibility
"You have 60 percent of America invested in the market either directly or through 401(k) or pension plans. That means six of every 10 are vulnerable to a flash crash, and the only way to reduce or eliminate that risk is just not to be invested at all," Schoenberger said. "And that's not an option, either."

Indeed, while there has been drop in market trading volume, simply sitting out of the market has been an expensive form of protest.

Despite all the hoopla over the initial crash and its smaller cousins, the Dow is up a staggering 42 percent since the initial event.

(*Read More*: The Economy May Stink, but the Market Doesn't Care)

And for how scary it may have been, the term "flash crash" seems much more significant to market insiders than it does the typical investor.

"The market's moved past it. The Flash Crash came and went so quickly that, other than being a news event, most retail clients would not have even noticed it," said Mitchell Goldberg, president of ClientFirst Strategy. Even the AP Twitter event seems to have faded from public consciousness.

"It was kind of like watching a boxing match," Goldberg said. "You get set, you get your pretzels and your beverage, you put your beverage down on the floor, you look up and the fight's over."

_ *By CNBC's Jeff Cox. Follow Jeff on Twitter @JeffCoxCNBC.com*

URL: http://www.cnbc.com/100709978

CLiENTFIRST

Strategy, Inc.

Written by Mitchell O. Goldberg
@Mitch_Goldberg
May 21, 2013
For immediate distribution

BOOM Like Never Before

I would never want to come across as a cheerleader for investing in the stock market. Sometimes I am downbeat and sometimes I am upbeat about investing in stocks. In previous articles, I've shared with you my specific strategies for investing in individual stocks; increasing and decreasing equity positions based on rolling price movements, earnings growth, qualitative reasons, industry stats, macro stats, diversification, and unique catalysts. It is contrarian since most purchases are preset, executed on declines and most sales are preset, executed when advances start to reverse. It enables my clients to potentially reduce volatility, lower cost basis, and ride winners for long stretches of time. Bull or bear market, I stick to the strategy because it is designed to make room for all markets. But this is a story for another day.

I would also never fault someone for not wanting to invest in stocks. My attitude, I must admit, has come about with age. Not everyone wants to risk losing money. Knocking someone like this would be the height of arrogance. **If stocks aren't for you, fine. It's really not anyone else's business.** And a lot fewer people are stock market investors these days. **We went form 65% of Americans owning stocks to 52% in the last 5 years** (http://www.gallup.com/poll/162353/stock-ownership-stays-record-low.aspx) . Granted, many had to sell stocks because in the brutal recession we had; putting food on the table trumped investing. We do get that; me and many of my very hard working and honorable Wall Street buddies.

So, if stock market investing really isn't for you, you can stop reading this right now.

If you are someone who feels like you are underinvested or if you got out of stocks and would like to get back in but you just can't quite pull the trigger, then let's be sure we understand each other. Allow me

to paraphrase what you've collectively told me. Because I have something compelling to share with you when I conclude.

1. **You don't like the reason given for the stock market advance over the past 4 years, because you think it's ALL due to the Fed's QE and ZIRP (Zero Interest Rate Policy).**
2. **You can't internalize the stock market enthusiasm because your personal economics haven't changed much for the better.**
3. **You suffer from post-traumatic syndrome due to the Great Recession and all of its horrible lingering effects.**
4. **You're listening to the wrong people, those who make the smart sounding analytical argument that things are bad and getting worse. Worse yet, these are people who prey on the fearful in order to sell them shares in small gold mining companies, non-traded REITS, unsuitable insurance products, or leveraged bonds funds.**
5. **You are shocked by the rate of speed in which stocks not only recovered, but advanced to new all-time highs.**

Well, we all at some point have been failed by our belief system; the above 5 items are the beliefs I hear most that have kept investors on the sideline. Won't be the last time either, I'm sure. **Then again, you've seen the economic stats; housing, automobile manufacturing, employment, energy production, corporate earnings, retail sales, consumer confidence; more than enough firepower to push up stocks.** There is often a fine line that separates beliefs from facts. Whether or not you want to believe in the bull case is all well and good, but the case has already been decided; witness the recent string of all-time highs in Dow Jones Industrial Average and the S&P 500. Yeah baby, better than 1999 and 2007!

But the really big statistic that I believe could push stocks higher still is what I see as the upcoming BOOM in mergers and acquisitions activity. **What accompanies every new stock market high is a new high in M&A activity, form the number of deals to the sheer size of them.** So, this time is not different. I expect new deal making records to be set. And no company is immune, including large caps and mega caps. With cheap money, elevated stock prices, record high corporate earnings, obscenely cash rich balance sheets, and a desire to grow earnings in a low to no revenue growth environment, doing deals is the ticket.

Where do I see the obvious takeover targets? In the mid-sized companies with market caps between 5 and 25 Billion Dollars, primarily in consumer-brands. If you look at something like an H.J. Heinz, which is near closing its acquisition by Warren Buffett's Berkshire Hathaway and a group of investors, this gives you a clue of the respected and well-known brand name companies I see as potential targets. Another way to potentially benefit is to invest in the financial services companies that handle these transactions.

In fact, in the 09/2012 to 03/2013 time frame, there has been a wave of 5,985 mergers and acquisition's totaling a whopping $656 Billion, according to Dealogic (http://money.cnn.com/2013/05/01/investing/bull-market-mergers.moneymag/index.html)

Year to date, in the U.S, deal making is up 33% (http://www.cnbc.com/id/100746544). In a longer standing trend, when the number of IPO's goes up, as is the case this year, so does the volume of M&A (http://www.statista.com/statistics/153735/volume-of-mergers-and-acquisitions-worldwide/ ,http://www.statista.com/statistics/198574/number-of-ipos-worldwide-since-1996/). The overlap isn't exactly 1:1, but the trend over time is observable. This has historically been a given whenever the stock market goes into bull territory.

M&A shrinks the amount of investable companies' available, increases corporate earnings, and most importantly, increases shareholder value. Of course, this trend may never come to pass. And just because every bull market in history has ushered in a new and bigger wave of M&A activity, investors' hopes may be dashed**. Then again, I believe that history is actually the greatest fortune teller and I'm betting on it again. If you're looking for a reason to move a little more into stocks, providing you have the means and desire to do so, make this belief your own.**

For Some Investors, Federal Reserve Can Start Tapering NOW

S&P 500 INDEX, ALAN GREENSPAN, BEN BERNANKE, BUSINESS NEWS
CNBC.com | Friday, 7 Jun 2013 | 1:15 PM ET

While the end of easy monetary policy has been cast as the great enemy of the stock market, for some investors tapering can't happen soon enough.

Former Federal Reserve Chairman Alan Greenspan, during a Friday appearance on CNBC, struck a nerve when he suggested that central bank intervention actually was holding stocks back from even bigger gains.

While the man known as "The Maestro" stopped short of blaming Fed policy outright, he said "we've got to get moving" in terms of pulling back on easing, which he said likely will create a rise in asset prices.
(*Read More*: Greenspan: Taper Now, Even If Economy Isn't Ready)

At its root, the sentiment from taper supporters is that the Fed's insistence on treating the economy as if it needs emergency-like measures is thwarting confidence and keeping trillions in cash from coming off the sidelines and going to work.

"You could make a great case that the Fed should stay accommodative," said Jim Paulsen, chief market strategist at Wells Capital Management. "But do we really need Depression-style policy now? The fact that you've got the Fed doing that is hurting confidence out there."

In three phases of a program known as quantitative easing, the Fed has credited itself with more than $3.4 trillion that it has used to buy various types of debt—Treasurys and mortgage-backed securities during the most recent leg.

During QE, stock market gains have been massive, with the S&P 500 up 145 percent—approaching 1,000 points—since the March 2009 financial crisis lows.

Consistent economic strength has been harder to come by, though.
(*Read More*: Housing Grows, Hiring Slow, Sequester Hits: Fed)

Gross domestic product increased just 2.4 percent in the first quarter, and second-quarter improvement could be about half that. Fed Chairman Ben Bernanke is likely to end his term without ever having presided over an economy that grew more than 3 percent on an annualized basis.

One of the primary culprits of the slow growth has been lack of confidence particularly at the corporate level, where companies are devoting far more cash to stock buybacks and dividend increases than capital expenditures and hiring.
(*Read More*: Companies Spending Cash on Investors, Not Workers)

Critics say the Fed, while using monetary policy to pull the country out of the crisis, has overstayed its welcome and fostered that lack of confidence through unprecedented measures that aren't necessary anymore. "The Fed is still treating the patient like it's in the emergency room," said Liz Ann Sonders, chief investment strategist at Charles Schwab. "Yet the Fed also wants the patient to go out and leave the hospital and act normally. But you've got to disconnect the patient from the equipment if you expect it to go out in the world. We're treating the economy as if it's still in an emergency."
(*Read More*: Gross Skewers Bernanke: You're Part of the Problem)

It's not as if companies don't have the money to spend.

Nonfinancial firms held $1.78 trillion on their balance sheets at the end of the first quarter, according to data the Fed released this week. That's a 2.6 percent increase from the previous quarter and about 30 percent higher than the 2008 crisis levels.

Household net worth improved to $70.3 trillion, a 6 percent increase from the previous quarter.

With housing in the midst of at least a normalization if not a robust recovery and employment steadying—Friday's nonfarm payrolls report showed 175,000 more jobs in May—the question arises over what exactly the Fed fears in refusing to begin normalizing its zero interest rate policy and easing back from the emergency QE liquidity measures.

"Now is the economy growing fast enough? No," Paulsen said. "But it is fundamentally functioning again. If you want to speed it up, the primary thing it lacks is confidence."

Virtually no one, including Paulsen, Sanders, or Greenspan for that matter, is suggesting the Fed take an aggressive posture toward normalization or ending QE.
(*Read More*: Markets May Have Gone Too Far on Taper Talk: Plosser)

But the calls may well start intensifying that the Fed at least begin loosening its grip on the economic wheel. The central bank could begin to show some faith in the economy by, say, reducing its purchases by $7 billion a month, which would end QE3 completely in a year, according to a suggestion from Mitchell Goldberg, president of ClientFirst Strategy.

The Fed has said it will not increase interest rates until unemployment falls to 6.5 percent—the rate actually increased last month to 7.6 percent—and inflation rises to 2.5 percent, from its current 1.1 percent. However, a reduction in QE asset purchases likely will come first.

"QE is about a response to an emergency situation. I don't feel that we are in an emergency situation anymore," Goldberg said. "So it's time to curtail the QE and for the Fed to actually reload its ammo to get ready for the next crisis, which we know one day is inevitable."

—By CNBC's Jeff Cox. Follow him @JeffCoxCNBCcom on Twitter.

URL: http://www.cnbc.com/100798914

CLiENTFIRST

Strategy, Inc.

Written by Mitchell O. Goldberg
ClientFirst Strategy, Inc.
July 2, 2013
For immediate distribution

To QE or not to QE: All you need to know in just 2 questions!

This is not another dissertation about QE and Tapering; we're past that already.

Here goes:

1. **Are rising rates a death knell for stocks?**
2. **At what level do interest rates need to go to attract investors?**

Short answer to the first question would be no. Rates would not have been so low, my opinion (but I'm right and I'm pretty confident that you agree), had it not been for FED intervention. **So the air pocket from 1.6% on the 10 year to 2.6% was not based on inflation expectations, the least desired cause for rising rates.** This is why the major stock averages have held up near peak levels. And about the recent dip stocks just had? Major non-event. The two sectors that are acutely affected by interest rates, autos and home builders, have just come out of a financial nuclear winter that lasted for about 5 years. Volatility aside, these sectors had more in their favor than just low interest rates. They have shortages, replacement cycles, and demographics strongly in their favor and those factors are more than strong enough to overcome the rise in rates thus far and I believe that will remain the case when rates move higher.

Long answer depends on how quickly inflation expectations climb. But with slowing growth in China, commodities based economies (primarily Brazil, Australia, Russia, and Canada) are seeing domestic GDP expectations coming down. **Simply put, commodities prices are in retreat and that keeps a lid on inflation globally.** Bad for commodity producing nations, but good for commodity consuming nations. What about all that money printing by the FED? Well, it is time for the inflation hawks to realize that we are much closer to the end of the QE's than the beginning and inflation expectations are still low. Then

again, to understand why money printing hasn't caused inflation to surge is to understand that the new money never actually made it into the real economy; it stayed mostly in bank balance sheets. Nice try by the gold bugs by attempting to scare investors by using the Weimer Republic as a scare tactic, by the way. But in that case, the banking system wasn't nearly as advanced as ours is today and the cash back then went directly into the populace's hands. The bottom line on inflation expectations is that for now, it remains very low. **The strategy here is that while we are in this period of change, and change is often accompanied with volatility, is to realize that your winners will be determined by your purchase price and not on near term sale prices.** Or, instead of buying high to sell higher, go with buying on dips and scaling out when potential investment upside is realized.

Short answer to the second question is that rates as of this writing have stabilized. If not an overwhelming number of buyers are out in force, then we could at least say that the sellers have, for the time being, exhausted themselves. **Buyers in the form of pension plans, retirees, asset allocators and others still need to own fixed income, so the level that would attract buyers is always here.** Again, this is my short answer.

Long answer is that interest rates are going higher. Eventually, that is. But it is the calm time frames between the episodes of bond market volatility that buyers will enter the market. This brief writing doesn't take into account potential changes in portfolio duration, yield curve positioning, and shortening of maturities, but this is beyond what is necessary to answer the above two questions. **Investors who see a particular yield and a particular credit grade that meets their unique needs will buy; that's my answer.** And so many investors are so hungry for higher yield, that today's rates may actually be too tempting to pass up after fixed income investors suffered through their own nuclear winter of ultra-low yields.

Summary: The wind down of the 3 QE's and the ZIRP (Zero Interest Rate Policy) will go on for years. And in the world of finance, a year these days is a long time. 3 to 5 years, which is what I expect? That's an eternity. Instead of "QE Forever", we could say "Wind Down Forever". But as a group, we investors may be accused of tunnel vision by focusing exclusively on FED tapering**. Really, what we need to focus on is that the global relationship between commodities producers and consumption led economies has become mutually exclusive.** The operative words here are "consumer led economies" and nowhere does that description fit better than the United States. To QE or not to QE be damned; domestic equities is the place to be.

CNBC.com

'Bad breadth': 11 scary headwinds for investors

CISCO SYSTEMS INC, MICROSOFT CORP, INTEL CORP, JPMORGAN CHASE AND CO, BUSINESS NEWS

By: Mitchell O. Goldberg, president, ClientFirst Strategy

CNBC.com | Tuesday, 3 Sep 2013 | 1:13 PM ET

There are only two answers I care about right now.

And the questions that go with the answers that I seek are "What will be different about the investing environment for the foreseeable future?" and "Will Europe and China improve faster than the U.S. economy will erode from rising interest rates?"

Oh, yeah, things are pretty serious when we need to rely on one economy that is a basket case and the other entering the black hole-like gravitational pull of economic maturation.

First, I don't become negative or positive about the economy or financial instruments from a feeling. (I hate the expression "I have a feeling.") But I do form an interpretation from data.

(*Read more*: List of worries in September is about to get longer)

1. Like muted reactions to earnings beats, intensified reactions to earnings misses, national retailers telling us consumers are cautious, new home sales disappoint, declining mortgage refinancing, and when stocks have bad breadth (when a smaller group of stocks push the major averages higher while a lot of stocks technically breakdown on the charts).

2. I have never read anything that is specific about what percentage of the stock market rally was due to QE and what percentage was due to fundamentals. Even the most bullish of bulls are pulling in their horns because it is an unknown. And it is probably something many don't want to face. I have little doubt that it is a combo and the answer is below where we are now. I also don't really see much value in recent charts since they were formed during this unusual period.

3. The money holding up U.S. equities right now is emerging market cash running into the arms of American equities as a flight to safety. An analogy is that back in late '99 and early 2000, many small tech stocks were retreating rapidly, but the money was finding a home in Cisco, Lucent, Microsoft, Intel and a few other mega-cap techs stocks as a flight to safety within the sector. It was the pure definition of bad breadth. I think this is happening now regarding the relationship between emerging market equities and U.S. large cap equities. I am not calling for another 2000 or 2007 market crash; this is not my forecast. I believe stocks need to find the equilibrium between fundamentals and Federal Reserveintervention, which is very different than believing the global economy is on the verge of another collapse.

4. The canary in the coal mine to me is JPMorgan Chase. 50 is the critical level, sort of like a Purchase Managers Index, or PMI, for investors. Below 50 and we are seeing the financial sector in contraction.

5. The retail fixed-income investor is the biggest loser in all of this. So many junky fixed-income products were heaved at them in the name of safety and income that they are already stuck. Unfortunately, the preponderance of retail investors deals with loss of value by waiting for their securities to come back. But unless the yield on the 10-year Treasury drops to 1.6 percent again, they're toast. This isn't to say that a defined asset allocation model of equities and fixed income should be thrown out the window, just that for those who gorged on fixed income packaged products and non-traded financial products, may be permanently stuck in a lowered quality of life.

(*Read more*: Home prices push past rising rates, says report)

6. As emerging market stocks and currencies disintegrate, the central banks of these countries (China being the exception) are going to blow their foreign reserve assets very quickly. Plus, if they raise interest rates or put in capital controls, they damage their local economies (by causing recession) and turn off foreign investors just when they are needed most. This doesn't take away the thesis of a giant emerging economy middle class that wants to live more like us, but it sure can slow things down for a few years.

7. Europe is showing signs of recovery. But outside of Germany, the negative picture hasn't improved much. It helps companies that export to Europe, so there's a plus.

8. Too much reliance on second half strength in the U.S. economy is a dangerous thing. If we get it, it probably won't be great. If we don't get it, we still get tapering. We could have rising rates in a slowing economy. That is the biggest danger we face. It'll mean we are out of bullets. I guess we could get something out of our politicians regarding productive fiscal policy, but I don't rely on fantasy in forming my investment thesis.

(Read more: Larry Summers and the closing of the Obama mind)

9. Banks are raking in the profits, but strip out gains from reversing loan loss reserves and it isn't as great as it looks.

10. Gold investors could be further hurt by capital controls put in place by India on the yellow metal.

11. New Fed head, Obamacare and Syria introduce more uncertainty. This is not a call on whether or not these issues work out well or not, just that at least we won't have long to wait to see.

The bottom line is that the easy money of just buying blue chips that pay dividends is clearly over and the sooner investors realize this, the better for it we'll all be.

I would be remiss if I were to leave out the positives I see: Abundant domestic energy resources, a replacement cycle in housing, passenger and commercial vehicles, cash-rich balance sheets, a well-reserved banking sector, and improving but nascent economic stats out of both Europe and China.

But those two regions are not enough to pull us along with them; helpful yes, but far from a cure-all. Plus, if the stock market does in fact continue to retreat, than that alone could help to introduce new opportunities. Anyhow, that's one answer.

(*Read more*: Risk on: Investors ignore August declines)

I am not getting out of stocks. I am changing the stocks I am getting into.

There are creative stories, underfollowed stocks, merger and acquisition candidates, new Food and Drug Administration approvals, replacement cycles and maybe even the next Google.

The stocks holding up well are the ones that interest me the most.

But now investors and the professionals they entrust their money to have to work harder to find these stocks and they have to be much more patient going forward.

I believe this is the environment we're in and it'll be that way for a long time. That's the other answer. Personally, this is the environment that attracted me to the business in the first place.

Finally, when you hear it is a stock picker's market, it'll actually be true now.

—Mitchell O. Goldberg is president of ClientFirstStrategy in Dix Hills, N.Y. Follow him @Mitch_Goldberg *on Twitter*.

URL: http://www.cnbc.com/101005062

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A lesson in Icahn-Netflix trade of when to get out

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CNBC.com | Wednesday, 23 Oct 2013 | 2:29 PM ET

Buy low and sell high: It's the oldest and most fundamental investing advice and so difficult it takes someone like Carl Icahn to do it.

Nowhere was that more evident than in the activist investor's masterful handling of his Netflix trade, a 14-month maneuver that saw the share price soar by six times from when Icahn originally declared his nearly 10 percent stake.

Icahn knew not only when to get in but when to get out. He even had to overrule his own son in making the decision to halve his stake in the online video rental company.

(*Read more:* John Sculley to Apple: Ignore Carl Icahn)

There's a lesson here for investors who have enjoyed riding the wave that has sent the S&P 500 up 22 percent in 2013 and 24 percent over the past 52 weeks, during which at least 18 of the stock market index's component companies have surged more than 100 percent.

"When companies have 200 and 300 and 400 percent returns in 12 and 18 months, the prudent thing to do is say, 'I still love the company but let's take some of our profits'," said Nadav Baum, executive vice president at BPU Investment Management in Pittsburgh. "What Icahn did was classic long-term strategy in taking money off the table, which is very prudent."

(*Read more*: Carl Icahn cuts his Netflix stake in half)

If buying low and selling high is the oldest market adage, nobody ever went broke taking a profit might be next.

Yet it's a lesson so many investors fail to get. When a stock has a ride like Netflix's, the biggest temptation is to stay in the game in hopes that the run can keep going straight to the sky.

Sadly, that doesn't usually end well.

"Nothing is forever," said Mitchell Goldberg, president of ClientFirst Strategies in Dix Hills, N.Y. "If you had a stock that went from $5 to almost $50, it would be less than prudent not to take some off the table. Any investment professional would advise his or her client to do the same thing."

(Read more: 2 years, no correction, and what's bad about that)

The problem is those clients don't always listen.

Icahn's own son, Brett, opposed Icahn Enterprises decreasing its Netflix state, contending in a statement that the company valuation "is still relatively low."

The elder Icahn, though, said he's been through seven bear markets and has learned "that when you are lucky and/or smart enough to have made a total return of 457 percent in only 14 months it is time to take some of the chips off the table."

"It was the perfect example of old school versus new school," said Keith Springer, president of Springer Financial Advisory in Sacramento, Calif. Springer cited another old though lesser known adage: "Bulls make money, bears make money, pigs get slaughtered."

(*Read more*: Father Knows Best: The Carl Icahn edition)

Springer, though, thinks the kind of move Icahn made should be emulated only for speculative plays. Long-term investors ought to hold tight to their core positions in the current market, which he think still has room to run.

Still, temptation beckons, and with good reason.

There are six stocks, in addition to Netflix, in the S&P 500 that are up more than 100 percent year to date: Best Buy, Micron,GameStop, Delta Air Lines, Boston Scientific and Celgene.

The inclination to take at least some profit seems rational.

—By CNBC's Jeff Cox. Follow him on Twitter @JeffCoxCNBCcom.

URL: http://www.cnbc.com/101137397

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Went to cash at wrong time, how do you get back in?

FINANCIAL ADVISOR, PERSONAL FINANCE, INVESTING, RETIREMENT, SPECIAL REPORTS, IN-DEPTH REPORTING, BUSINESS NEWS, INVESTING, RETIREMENT, INVESTING, INVESTMENT TOOLS, STOCKS, FINANCIAL STRATEGY, PERSONAL FINANCE, COLLEGE, RETIREMENT, DEBT, TAXES, BUDGETING ADVICE, BOGLE, INVESTING PRINCIPLES, CHILDREN, PASSIVE INVESTING, TEACH, KIDS, LONG-TERM INVESTING, SPECIAL REPORTS, INVESTING, PERSONAL FINANCE, BUSINESS NEWS

By: Mitch Goldberg, President, ClientFirst Strategy

CNBC.com | Monday, 28 Oct 2013 | 7:00 AM ET

So, you sold more stocks than you probably should have ahead of the debt ceiling negotiations and now you're wondering how to get back in, because since then, the major averages advanced a few percentage points. Well, based on my experience, you are not alone. For most investors, it is actually harder to buy back into stocks than it is to invest in the first place.

Please don't beat yourself up over it. All of your investment activities should be viewed through the prism of your risk tolerance, goals and time horizon. If reducing risk by bailing on a portion of your stocks was in line with those three objectives, then good for you; you made a smart decision. Personally, I'd rather de-risk a little ahead of a major event that could crush my investment portfolio and miss out on some upside if stocks wind up ripping higher should the event come to pass without a hitch. It's been said that a little fear is a healthy thing and after all, no one is going to bail you out of a decimated portfolio, right?

But what if you acted hastily and you later realize that maintaining a certain portfolio allocation to stocks was part of a long term strategy; that you had a temporary lapse of discipline and now you regret it? Again, it is perfectly OK to act to protect yourself. The issue is most likely that you didn't have a strategy to get back in once the scary event passed.

(*Read more*: The new retirement age is ... never)

We pros also lighten up on risk ahead of potentially major market moving events, but the difference is that we are employing strategies that are looking beyond the event. Regardless of any particular upcoming event, we're always on the lookout to lock in a little profit and either hold onto the cash or reinvest the proceeds into something else. Portfolio management is a never ending cycle of expanding and shrinking our equity exposure over the long term to potentially earn the best risk adjusted returns for our clients for the least amount of risk.

If one has reduced their stock allocation below what they desire and they want to bring back that exposure, providing that is appropriate for one's objectives, here are a few simple things the pros use that you could use to:

1. Buy a little back now and use below the market buy-limit orders to add on dips. This way, you'll at least have a little more equity exposure if stocks keep going higher and you'll have a disciplined way to average down on dips.

2. Go for "relative value." This means that if there are two similar stocks within the same sector and one has a P/E ratio of 20 and the other a P/E of 17, pros would take profits on the higher P/E stock and reinvest in the lower P/E stock. Since you presumably raised cash, you could do the same thing. Best of all, you can use item #1 for this, too.

(*Read more*: 6 tips from Jack Bogle on teaching kids to invest)

3. You can invest a smaller dollar amount than you raised from the sales into exchange traded derivative

products, thereby keeping the bulk of the cash on the sideline and using the leverage offered by these products to gain similar potential upside of the securities you sold.

4. You can also dollar cost average back into stocks by putting the same dollar amount in each month over; let's say, a year's time, until you invested the desired amount. This, I believe is especially helpful for 401(k) participants who do not have the ability to use limit orders or exchange traded products.

5. Here's an old standby: diversify. While this age-old advice is often overlooked, you could use the proceeds from your sales to fill in holes in your portfolio. While diversification doesn't guarantee a profit or protect against loss, it's a method used to help manage investment risk. Put simply, diversified portfolios have the potential to reduce volatility caused by rocky market conditions.

The investment climate has tested the metal of investors time and time again, and that doesn't look to abate anytime soon. It is both commonplace and understandable for investors to sell stocks ahead of events that may have a detrimental effect on their investment portfolios. But by taking advantage of the aforementioned tools of the trade, getting back in may be a little easier and a little less fearful.

—By Mitchell O. Goldberg, President of Dix Hills, N.Y.-based ClientFirst Strategy. Follow him on Twitter @Mitch_Goldberg.

URL: http://www.cnbc.com/101143973

Newsday
http://www.newsday.com/business/dow-s-p-500-fall-back-from-heady-milestones-1.6454610

Dow, S&P 500 fall back from heady milestones

November 18, 2013 by THE ASSOCIATED PRESS

The stock market broke through two milestones Monday before giving up nearly all its gains late in the day.

Stocks rose from the opening bell, lifting the Dow Jones industrial average above 16,000 for the first time and the Standard & Poor's 500 index past 1,800, two big markers in a historic bull market. But by the end of day, both indexes closed below those levels.

The Dow managed to eke out a gain over Friday's close with a late push higher, ending just 24 points shy of 16,000. Both the Dow and the S&P 500 are on track for their best year in a decade and have soared more than 140 percent since bottoming out in the Great Recession more than four years ago.

Experts said the rise in stocks has occurred without the widespread participation of small investors.

Mitchell O. Goldberg, president of the investment firm ClientFirst Strategy, Inc. in Dix Hills, said he doesn't see the market as a bubble about to burst but says many small investors remain nervous about it: "I still think most people don't realize the extent to which paper assets, particularly stocks, have recovered."

So many investors had huge portions of their wealth wiped out when the tech bubble burst in 2000, and then in the stock market crash that began in 2008, said Alan Newman, editor of Crosscurrents, a Wantagh-based newsletter on the economy and investing, "they don't trust Wall Street."

What has driven stocks higher this year has been improvement in the U.S. economy, record profits at companies and easy-money policies from the Federal Reserve.

The Dow has risen for six weeks straight and is up 22 percent so far this year. The market hasn't risen that much in a whole year since 2003.

Including this year's gains, the S&P 500 is up 165 percent from the start of the current bull market in March 2009, 56 months ago.

The S&P 500 closed down 0.4 percent at 1,791.53. The Dow rose 14.32 points to 15,976.02.

With Tom Incantalupo and Maura McDermott

Newsday

http://www.newsday.com/business/dow-hits-16-000-showing-health-of-corporate-america-1.6474000

Dow hits 16,000, showing health of corporate America

November 21, 2013 by TOM INCANTALUPO AND MAURA MCDERMOTT / tom.incantalupo@newsday.com,maura.mcdermott@newsday.com

The Dow Jones industrial average closed above 16,000 Thursday for the first time, a milestone that experts said illustrates the health of corporate America and investor portfolios even as the country as a whole still struggles to recover from the recession.

The world's most closely watched indicator of blue-chip stocks has more than doubled since bottoming out at 6,547.05 on March 9, 2009, during the worst economic downturn since the Great Depression.

The Dow, a price-weighted average of 30 stocks such as General Electric, Exxon and Microsoft, first touched 16,000 during trading on Monday but closed below that mark until Thursday.

Thursday's close was 16,009.99, up 109.17 points, or 0.69 percent. Another closely watched market benchmark, the Standard & Poor's 500 index, rose 0.81 percent to 1,795.85.

Analysts attributed the surge Thursday mostly to a U.S. Labor Department report that 21,000 fewer people applied for unemployment benefits last week, a strong sign for the U.S. job market.

The Dow is up about 22 percent this year, despite worries that the Federal Reserve may cut back on its stimulus of the economy.

For many Long Islanders, the rise in stocks boosts the values of 401(k) nest eggs and other personal holdings, providing a paper increase in wealth and a psychological boost that could help loosen consumer purse strings as the year's busiest retail shopping period is about to begin.

Long Islanders, more affluent as a group than average Americans, are more likely to be invested in the market, said John A. Rizzo, chief economist of the Long Island Association, the region's largest business group: "There will be quite a few people benefiting from the stock

market rally."

But some Long Islanders are being left out of the recovery.

Federal Reserve Bank of New York researchers said in a report last month that "employment [on Long Island] remains depressed in high-paying sectors like manufacturing, finance and government, while much of the new job creation has been in lower-paying industries like private education, and leisure and hospitality."

Mitchell O. Goldberg, president of the investment firm ClientFirst Strategy Inc. in Dix Hills, said, "There really are two economies." One, he said, reflects a still-weak job market, slow wage growth and consumer uncertainty.

The "other economy" reflects high corporate profits and government statistics that show steady economic improvement. "Money managers look at these statistics to guide their sentiments regarding stocks," Goldberg said.

The stock market's surge "reflects how well the corporate sector is doing," said Irwin Kellner, the Port Washington-based chief economist for MarketWatch, a financial news website. "Yet the average worker's salary has gone nowhere."

Some investors -- including billionaire Carl Icahn, in comments earlier this week -- have expressed concern that the soaring market is ripe for a big decline.

Some Island financial advisers interviewed in recent days, however, suggested that investors who are in the market for the long term hold their positions, arguing that many stocks still have room to rise.

Denise Nostrom, president of Diversified Financial Solutions in Medford, said, "I think there's still a lot of legs left in the market."

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Is it all just a bunch of bull?

I've been saving an article in what I consider my "article catalog" since it was published in The Guardian on November 6th. It's by Professor Robert Shiller, Professor of Economics at Yale University. As you'd expect from someone like this, it is a smartly written article.

Just before he wrote this article, Professor Shiller was one of 3 recipients of this year's Nobel Memorial Prize in Economic Sciences.

What this article is not is another "*5 stocks for the next 30 Days*" or "*3 easy steps to picking stock market winners*", which is probably why it got only 235 shares on Twitter (as of 11.29.13), in spite of being one of my favorites for all of 2013.

It is in defense of economics as a science. You see, a lot of people scoff at economics and by extension, economists, as glorified fortune tellers.

From the article: "One problem with economics is that it is necessarily focused on policy, rather than discovery of fundamentals. The problem is that once we focus on economic policy, much that is not science comes into play."

Back to Mitch: It's hard for Economics to compete with other sciences because the other ones have such absolutes. Economics does have

the law of supply and demand, but so many external factors come into play, that it is almost never that simple.

In the real economy, we have to rely on people; that the package delivery driver will drive safely, that the airline mechanic will not become complacent, that CEO's won't use accounting gimmickry, that people won't change their minds, have limiting beliefs, and so on. Both our reliance and our risk in the study of economics is that it is based on everyone correctly playing their part. Good luck with that. But that shouldn't make it any less a science than, let's say, psychology, physics, or chemistry.

I'll borrow a phrase from the philosophers; economics isn't supposed to tell us what to think, but rather how to think. That leaves room for interpretation. In the real world, what makes it a science is:

1. The methodical collection of statistics, the more in real time the better, to help us make the best capital allocation decisions based on the information we have up to now, and to be flexible in our thinking when the statistics change.

2. Every new statistic is added to our collective repertoire, which then adds to our ability to quantitatively compute with mathematical formulas the consequences of our actions today into the future.

That's not a bunch of bull.

Source: http://www.theguardian.com/business/economics-blog/2013/nov/06/is-economics-a-science-robert-shiller

Regards,
Mitch

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