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Investment Strategy
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"A Permanent Investment"

In *Barnard Baruch, Park Bench Statesman* (1944), Carter Field writes:

> *Baruch liked gold mines. There is always a market, he pointed out, for their product, and at a satisfactory price. Gold, he insisted, is one of the very few things in the world that approaches the status of a permanent investment. Baruch told the story of a Rothschild who set up a "permanent trust" consisting of five different currencies. By the time Baruch heard about the trust, it had shrunk to one-fifth its original value. "But gold doesn't yield any interest," a friend protested after listening to the story. "True," replied Baruch, "but consider the fabulous wealth of some of the Indian princes and rajahs. I had dinner with the Maharajah of Kapurthala on one occasion in Vittel, France. Several of us talked afterward about his wealth, and someone said that among the treasures of these Indian moguls were gold coins brought to the East by Alexander the Great, hundreds of years before Christ."*
>
> *Their gold and jewels had earned no interest during these more than 2,000 years, but they still had their capital. Suppose they had attempted to provide income from it. They might have been no more far-seeing than the Rothschild I mentioned. If they had tried speculation there have been many times in each century that they might have gone broke. No, save for gold, jewels, works of art, perhaps good agricultural land, and a very few other things, there ain't no such animal as a permanent investment. Even in agricultural land, Baruch pointed out, there is some risk. Lands that made men rich in rice cultivation years ago in Baruch's own state of South Carolina are not nearly so valuable now that rice is produced more economically in other sections. City real estate is subject to all sorts of hazards, as he learned when he no longer needed his big Fifth Avenue mansion.*

A "Permanent investment" – what an intriguing concept. When I first entered this business in 1971, one of my mentors, namely Lucien Hooper (writer, securities analyst, and philanthropist), often spoke of permanent investments. In fact, he once told me, "You should put one quarter of your investment portfolio in stocks, one quarter in bonds, one quarter in precious metals, and one quarter in farmland." His reasoning was that such a non-correlated asset allocation would grow and preserve capital through any multi-generational economic cycle. Lucien also often opined:

> "What always impresses me is how much better the relaxed, long-term owners of stocks do with their portfolios than the traders do with their switching of inventory. The relaxed investor is usually better informed and more understanding of essential values; he is more patient and less emotional; he pays smaller annual capital gains taxes; and, he avoids behaving like Cassius by 'thinking too much'."

In past missives I have referenced Lucien's "December Low" indicator. To wit, "Pay attention to the December low. If that low is violated during the first quarter of the New Year, watch out!" Earlier this month I again referenced the "December Low" indicator and stated that it probably would not come into play given the current "Buying Stampede." Lucien Hooper also studied how long the previous year-end rally carried into the new year and discovered the longer it lasted the more bullish it was for the entire year. If that holds true, 2013 ought to be a lollapalooza. But, last week that view came into question when the S&P 500 (SPX/1515.60) surrendered almost 2% of its value in just two days, prompting me to write in Friday's *Morning Tack*:

> "The stock market always does what it is supposed to do, just not when it is supposed to do it" . . . is an old stock market "saw" that has withstood the test of time; and, the past two sessions have been no exception. Indeed, after its closing reaction high of 1530.94 last Tuesday, the S&P 500 has shed 1.86%, bringing on questions like, "Hey Jeff, is this the start of the 5% - 7% correction you have been expecting for the past few weeks?" While I have not been watching the markets as closely as normal, my sense is that it probably is ending the "buying stampede" at session 34. That does not mean we should get bearish; and the reasons are fairly simple. First, we have already seen a roughly 2% decline. Second, a 5% decline from the recent high would target a price of 1454.39, which would be only marginally below the 1465 – 1475 major support level. Third, at yesterday's intraday low of 1497.29 the SPX had nestled back into minor support between 1495 and 1500. So, here is how a pullback pattern typically develops. We should see a correction that stops somewhere in the 5% to 7% range (probably closer to 5%). Then, we should get a rally back toward the recent high (1530). If on that move the SPX fails to make a higher "high," then the markets will be subject to a more

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significant decline and we will have time to implement some downside hedges. My sense, however, is that the SPX WILL make a higher "high" and the correction will be over.

The media's *causa proxima* for the two day two-step has been a more hawkish tone in the FOMC minutes, softer than expected housing figures, and an unexpected decline in the Philadelphia Fed Index report (-12.5 vs. -5.8). Yet, when I pursed the numbers last night here in Palm Desert, single family home sales actually increased. It was the multi-family units that accounted for the softer than expected report. Also worth noting is that for sale home inventories were the lowest since 1999. In fact, the overall sales figures likely would have been better if not for several markets facing a depleted supply of "move-in ready" homes. Moreover, there was nothing I saw in the Fed minutes suggesting the Fed would raise interest rates anytime soon. Accordingly, I am not inclined to get bearish right here.

Speaking to the "Buying Stampede," while I thought it had ended, with last Friday's rally it remains intact at session 37. To be sure, it requires three consecutive down days to end an upside stampede and as of yet that just has not happened. That said, Friday's Fed-induced rally (James Bullard) looked more like a recoil rebound rather than the start of another rally leg. Indeed, February 20th turned out to be a 90% Downside Day, meaning down volume comprised 90% of total Up/Down volume and points lost were 90% of total Points Gained/Points Lost. Such 90% Downside Days tend to raise a short-term "red flag" following an upside skein like we have seen since the back-to-back 90% Upside Volume Days of December 31, 2012 and January 2, 2013. Another cause for pause is the fact the nation's gasoline price has crossed above $3.75 per gallon. Since 2004 when this has happened a sell-off in the equity markets was soon to follow, as can be seen in the chart on the next page where the red line overlaying the SPX's blue line represents when gasoline was over $3.75 per gallon and the resulting action of the SPX.

Yet while the energy complex has been somewhat perky, the metals complex has been collapsing, particularly gold. A few weeks ago I actually tried to catch that "falling knife" when gold declined to what I thought would be a major support zone. Silly me, so last Tuesday I had to write, "One place that quote pertained to last week was gold, which I thought would hold in the $1620 - $1640 support zone. With last Friday's close of $1610.60 (April future) obviously that 'call' was wrong and as always the first loss is the best loss; or as my father says, 'If you are going to be wrong, be wrong quickly with a *de minimis* loss of capital'." Last week, gold's decline accelerated, producing a "death cross" whereby gold's 50-day moving average (DMA) crossed below its 200-DMA. While this is a negative over the longer-term, it has proved to be a bullish occurrence in the short-term. When taken in concert with the capitulation alert, which was recorded last week, it makes me want to buy the SPDR Gold Trust (GLD/$152.97) for a trade.

The call for this week: The Buying Power, and Selling Pressure, indicators continue to suggest no major "top" is in the works. Ditto the Advance/Decline line traded to a new high before the mid-week pullback, also confirming the upside. The major averages continue to reside above their respect 50-DMAs and 200-DMAs; and, those moving averages are rising, another bullish sign. Then there is Berkshire Hathaway (BRK.A/$152,009/Not Covered), which is somewhat of a proxy for the stock market, as it traded to a new all-time last Friday. That said, last Wednesday proved to be a 90% Downside Day suggestive of at least a pause, or perhaps a pullback. Still, with Friday's rally the "buying stampede" remains in force and today is session 38. Friday's Fling, however, felt more like a recoil rally rather than the beginning of a new rally leg, at least to me.

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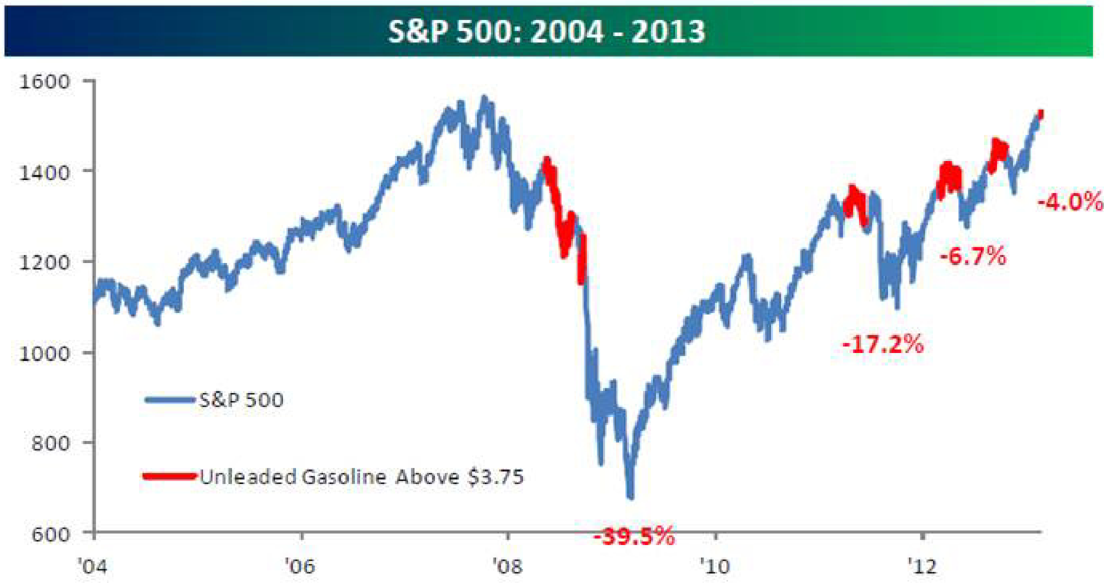

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Market Perform (Hold)	44%	36%	61%	35%	9%	24%	0%	0%
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