

Key Points

- ◆ Investors believe they will “know” when to get out of the market
- ◆ No one rings a bell at the top
- ◆ Wise investors heed the warning signs
- ◆ The warning signs are flashing today

What Are *You* Waiting For?

John Riley
Chief Strategist

When presented with concerns about the stock market, investors many times claim to be able to know when to get out of the market or an investment just at the right time - at the top. Whether it is arrogance, ignorance or greed that makes them believe this, I will leave up to the Dr. Phils of the world to figure out.

What I do know is that the market does not ring a bell at the top. It does not give everybody a chance to get out all at once. The doors to get into the market are very wide. What most investors don't know is that the doors to get out are very narrow.

Wise investors see warning signs. They see major cracks in the fundamentals and act before the crowd. Key point – they act BEFORE the crowd. Since the exits from the market are narrow, when the crowd tries to exit all at once, they get stuck, jammed and hurt, badly.

How do you know what the warning signs are?

Warnings abound today, just as they did back in 1999. The warning signs are what told us at Cornerstone to get investors out of the market back in 1999. But Wall Street kept investors in by telling them “you can't time the markets,” and “you are a long term investor.”

What are the warning signs? They have been in the headlines for months.

Low cash positions - Huge earnings losses - Sub-prime mortgage mess - Dollar collapse - Commodity spike up – Gold's spike - Market spike (yes a market spike up is in and of itself a warning sign) - Bond market decline – Oil nearing \$100/bbl – Housing market collapse... and on and on.



The Dollar is collapsing because of low interest rates in the US, too much debt and too much currency floating around the globe.

The bond market is declining because of the fear of rising inflation. This is because of the Fed lowering rates and the rise in commodity prices. (See below)

Commodities are rising because global demand is pushing prices higher. There is nothing the Fed can do about that. They can raise rates, lower rates or change them to blue, and it won't make any difference to how much oil China or India consume.



Gold is up for two reasons. The first is inflation and the second is the declining Dollar. Or maybe it is the other way around. It doesn't matter. (For those of you that care which is first, I don't.)

The stock market is up because... Earnings are great? No. The economy is humming? No. The Real Estate debacle is over? Ha! Hardly! No, the stock market is flirting with new highs because....

I can tell you the simple answer is that there are more buyers than sellers. That is true. Understanding why they are buying is like trying to figure out why a kid puts his hand on a hot stove after you have warned them not to.

Follow me here, this is going to bend your brain especially if you are a died-in-the-wool, I'm never gonna sell my stocks (or mutual funds) kind of person.

Being as honest with yourself as you can, what do the other markets know that the stock market doesn't? All the other markets are acting like a recession, (with inflation), is coming like a freight train. Yet the stock market seems not to notice.

Or better, what does the stock market see that the other markets are missing? The other markets are pretty well linked together. The Dollar's decline is irrefutable. The advance of Gold and other commodi-



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Key Points

- ◆ Lower interest rates will hurt, not help the markets
- ◆ The Fed is only worried about right now, not the consequences of their actions
- ◆ Wall Street got it wrong in 1999, why would you listen to them today?

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1-888-277-5968

(outside Rhode Island)

Providence Office:

(401) 453-5550

Dallas Office:

(972) 563-8990

Cornerstone

Investment

Services, LLC

245 Waterman St,

Ste 301

Providence, RI 02906

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ties is obvious. These occurrences lead to higher inflation and economic slowdown.

The average bull will tell you the market is going up in response to the Fed's lowering rates. Excellent. A well thought out answer. Wrong and uninformed, but *exactly* what Wall Street *wants* you to believe.

Before we explain why the answer is wrong, a few more questions to ponder. Do lower rates help or hurt a declining dollar? (Hurt) Do lower rates stifle inflation or ignite it? (Ignite) Do lower rates help cool off the foreign demand for commodities? (No) Do lower rates increase the money supply and debt outstanding or decrease it? (Increase)

So if lowering rates hurts the economy in so many long term ways, why is the stock market going up? Wall Street and the market are populated with monetarists that believe lower rates are a cure-all for everything. They are wrong. (See our article "[Money, Money Everywhere](#)" for more info on this.) It is our belief that the Fed is acting very short term. They are only looking out for the next few months, trying to put a band-aid on a very serious problem. "*So what if lowering rates today hurts the economy long term, let that be the next guys problem.*" is the Fed's attitude, we believe.

But too many of the variables (that lower rates will impact) are out of the Fed's control. We think the danger is now and the Fed has little they can do to prevent the inevitable economic and market declines. Wall Street got it wrong by ignoring the warnings of 1999, should we expect anything different this time?

And what are you going to do about it for yourself? Will you continue to trust Wall Street after they missed the warnings in 1999?

This is not something you have to do alone. This is one of the worst myths Wall Street ever drummed into investors, that they can do it themselves. Most investors can't. Unless you or your broker have hours and hours of time each week to do the necessary research and the understanding of complex asset allocation models and theories to implement the appropriate strategies, you are likely to miss the warning signs and not know the suitable plan to utilize.

The idea that investing is simple and all you have to do is pick a few good funds and let nature take its course is a marketing ploy. It isn't true. Investing in today's world is complex and needs constant supervision and adjustments. It requires a flexible strategy and hours and hours of research. It takes patience, timing and a clear focus on the fundamentals. It requires an expertise, experience and wisdom that few possess.

This is what we at Cornerstone do for you when we manage your portfolio. We implement a plan that has a proven track record. We monitor your performance and actually make changes as needed.

We have a clear understanding of what the markets are doing and are focused on the major macro trends. We adjust the portfolio to not only avoid the warnings, but to take advantage of them.

We also have exit strategies for investments. We know what we are looking for ahead of time, so little surprises us. Our management style is pro-active, not re-active.

If this is the type of money management you are looking for, give us a call.

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