

# Preparing for the "New Economy"

A 'scientific' approach

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*What will the market look like without stimulus?*

*How should we be positioned?*

*Why is it important?*

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*By Thomas H. Kee Jr.*

*President and CEO*

*Stock Traders Daily*



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# What is the “New Economy”

The economy without stimulus  
aka the natural economy

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## Observations:

What will the economy look like without Stimulus?

Will the Real Stimulus finally stand up.

When will Stimulus actually end?

**What should we do about it?**



# Quantifiable Stimulus

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We are looking for domestic stimulus specifically.

Variables:

Financing needs of the US Treasury +  
Repurchases by the FOMC  
Less Foreign interest

Equation (monthly):

**Net Stimulus = FOMC purchases - UST(foreign multiplier)**



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# Quantifiable Stimulus

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Important:

When the UST issues bonds it **removes** liquidity from the Financial system.

When the FOMC buys bonds it adds liquidity to the Financial system

These two factors offset each other.



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# Quantifiable Stimulus

## Historical Net Marketable Borrowing and Projected Net Borrowing Assuming Future Issuance Remains Constant, \$ Billion

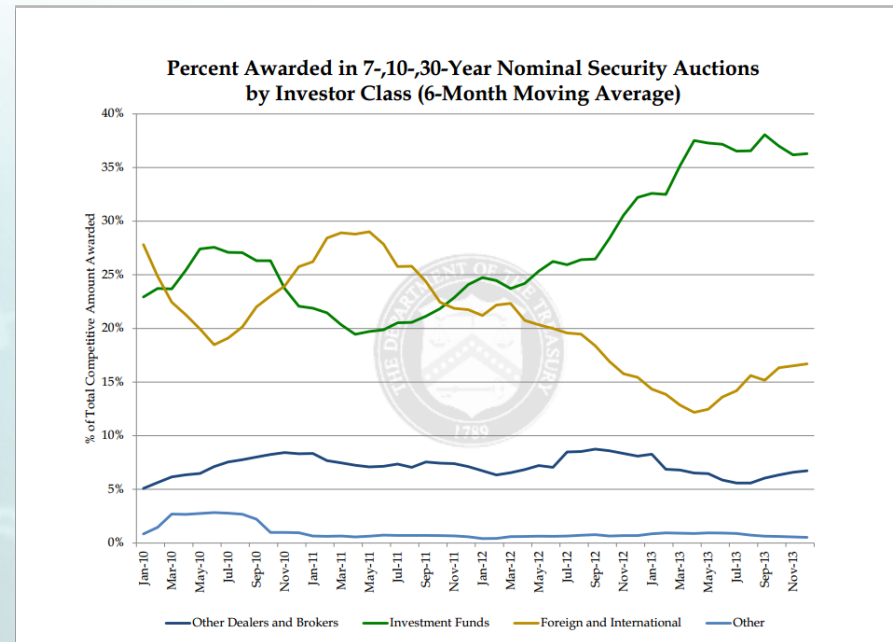
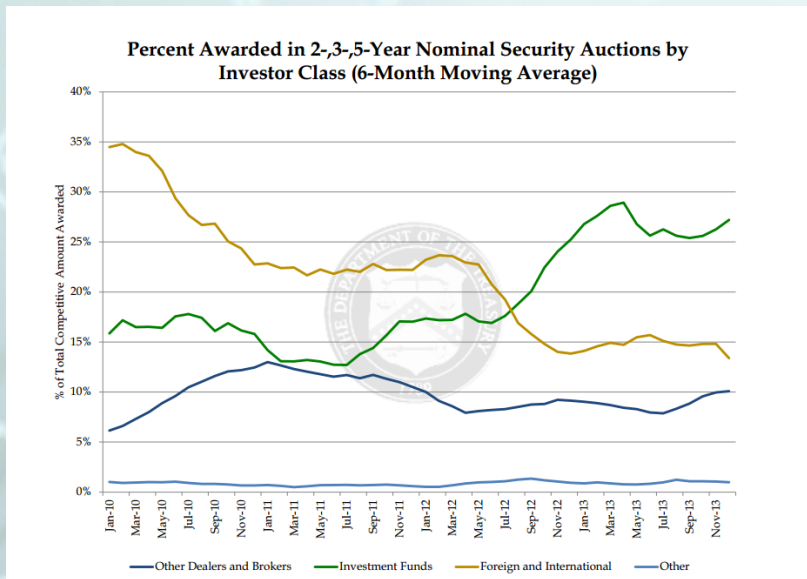
End of Fiscal Year	Bills	2/3/5	7/10/30	TIPS	FRN	Historical Net Marketable Borrowing/Projected Net Borrowing Capacity	OMB's Projections of Borrowing from the Public	CBO's Estimate of the President's Budget
2009	503	732	514	38	0	1,786		
2010	(204)	869	783	35	0	1,483		
2011	(311)	576	751	88	0	1,104		
2012	139	148	738	90	0	1,115		
2013	(86)	86	720	111	0	830		
2014	96	(68)	669	88	117	902	874	754
2015	3	(151)	639	87	156	734	787	530
2016	0	(41)	442	67	39	508	736	497
2017	0	(7)	256	68	0	316	661	484
2018	0	35	238	62	0	335	634	507
2019	0	35	104	62	0	201	677	611
2020	0	0	119	35	0	154	712	667
2021	0	68	217	8	1	294	690	667
2022	0	85	225	(6)	0	304	712	695
2023	0	44	184	(7)	(0)	221	666	624

# Quantifiable Stimulus

## Foreign Participation

In 2, 3, 5, 7, 10, 30

About 15%

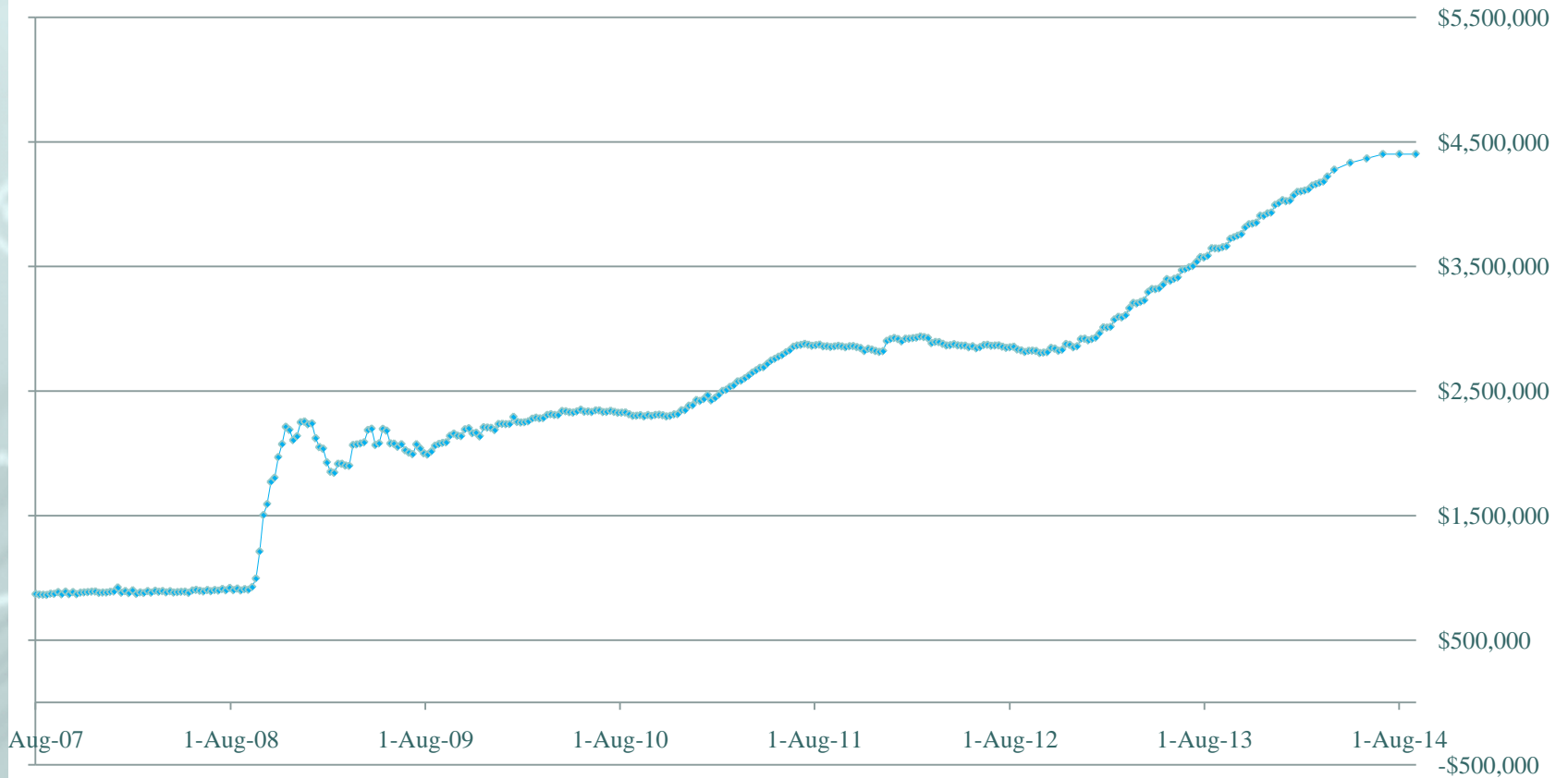


**Multiplier is 85% (Inverse of Foreign Participation rate)**

# Quantifiable Stimulus

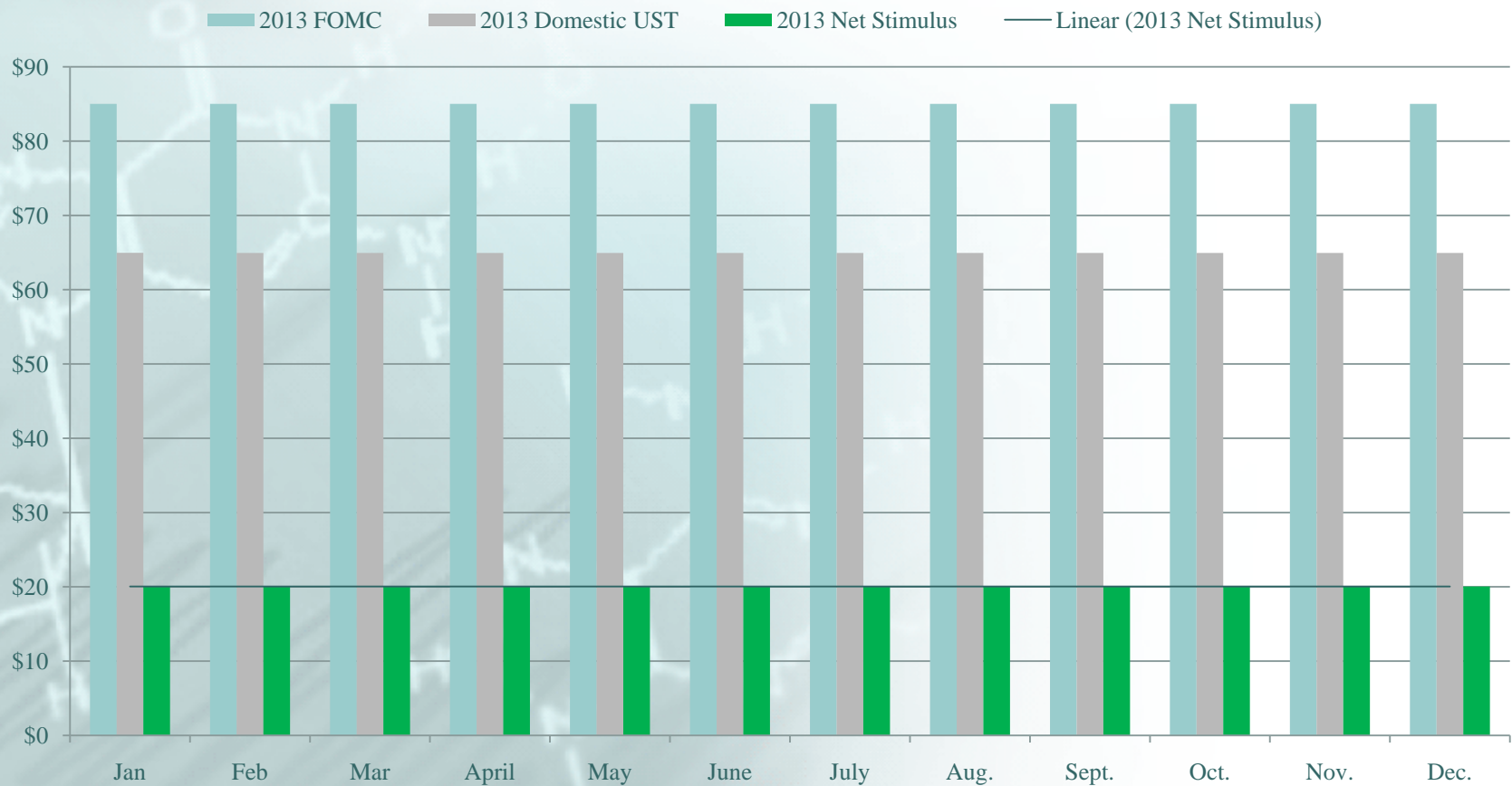
## FOMC Balance Sheet in Billions (2007-2014)

— Total Assets of the FOMC



# Quantifiable Stimulus

## 2013 Monthly Stimulus (Billions)





# Quantifiable Stimulus

FOI

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### OPERATING POLICY

## Statement Regarding Purchases of Treasury Securities and Agency Mortgage-Backed Securities

January 29, 2014

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On January 29, 2014, the Federal Open Market Committee (FOMC) directed the Open Market Trading Desk (the Desk) at the Federal Reserve Bank of New York to purchase additional agency mortgage-backed securities (MBS) at a pace of about \$30 billion per month and longer-term Treasury securities at a pace of about \$35 billion per month, beginning in February 2014. The existing January schedules for agency MBS purchases at a pace of \$35 billion per month and Treasury securities purchases at a pace of \$40 billion per month remain in effect until that time. The FOMC also directed the Desk to maintain its existing policies of reinvesting principal payments from the Federal Reserve's holdings of agency debt and agency MBS in agency MBS and of rolling over maturing Treasury securities at auction. The Committee's sizable and still-increasing holdings of longer-term securities should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.

# Quantifiable Stimulus

FOLI

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# Quantifiable Stimulus

**\$65B in February**  
Jan 29<sup>th</sup> Statement

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**\$55B in April**  
■ March 19<sup>th</sup> Statement

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OPERATING POLICY

**Statement Regarding Purchases of Treasury Securities and Agency Mortgage-Backed Securities**

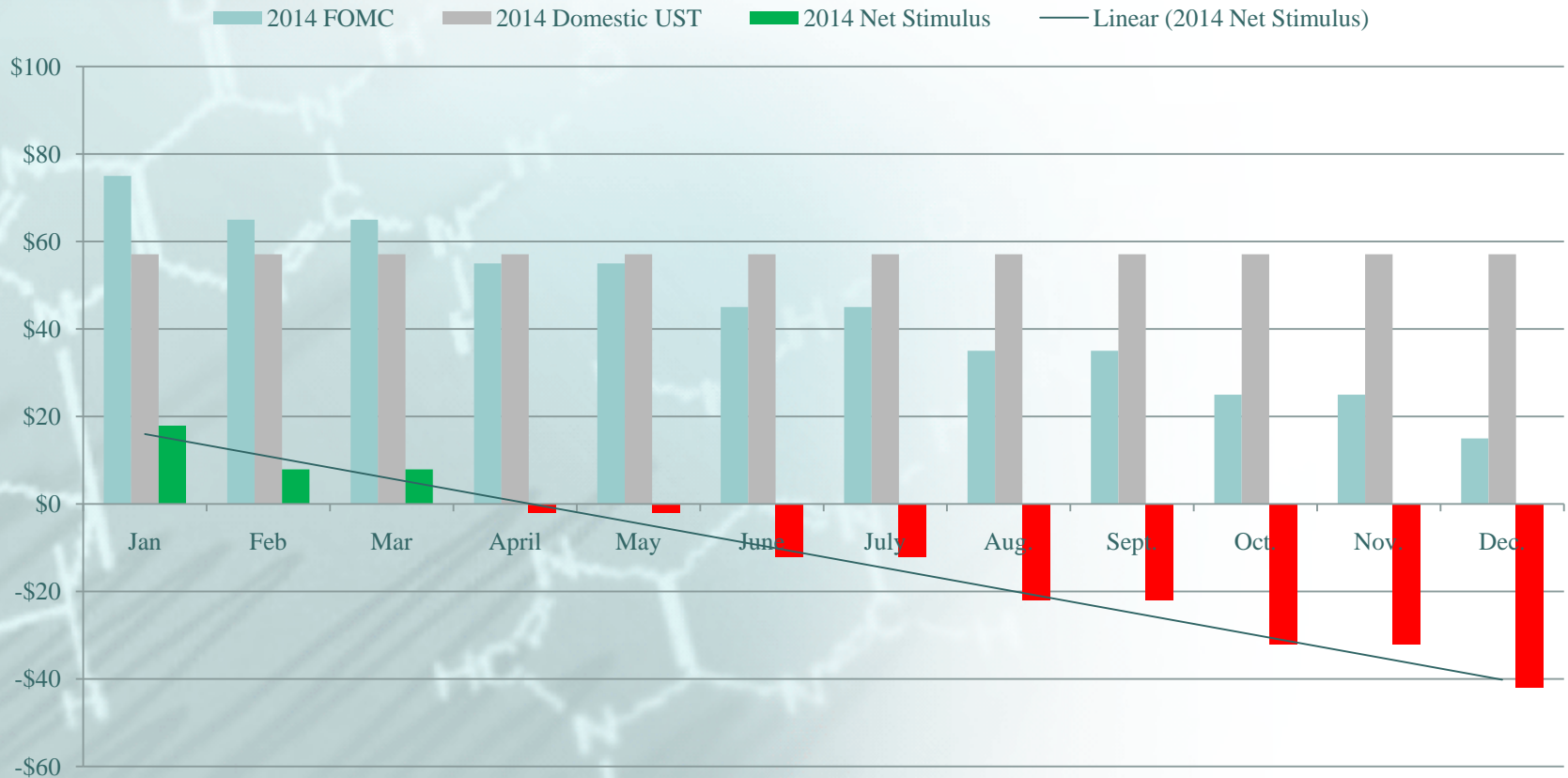
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**Next Meeting April 29-30. (~1.5 months)**

# Quantifiable Stimulus

## 2014 Monthly Stimulus (Billions)





# Quantifiable Stimulus

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## Conclusions about Stimulus:

- Real 2013 Net Domestic Stimulus ~ \$20B/month
- 2014 Net Domestic Stimulus declines bi-monthly
- Net Domestic Stimulus becomes negative in April, 2014
- If tapering continues more liquidity will be drained.
- A net-neutral liquidity environment is already here.

**STIMULUS IS ALREADY OVER**

# Thesis

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Stimulus has distorted the natural state of the Economy, and without Stimulus the Economy will revert back to a more natural state.

It is important for us to identify that more natural state.



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# Proprietary Resource

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- The Investment Rate is the most accurate leading longer term stock market and economic indicator in History.
- The Investment Rate defines the natural rate of change in the demand for new investments in the US Economy.
- The Investment Rate has defined every longer term economic cycle in US History, in advance, since 1900.
- The Investment Rate is an excellent indicator of the condition of our underlying Economy (without stimulus).
- It has never been wrong.



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# Investment Rate

Thomas H. Kee Jr.  
*Stock Traders Daily*

Macroeconomics



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HOW TO TRADE THE MARKET





**CHALLENGE**

CHALLENGE

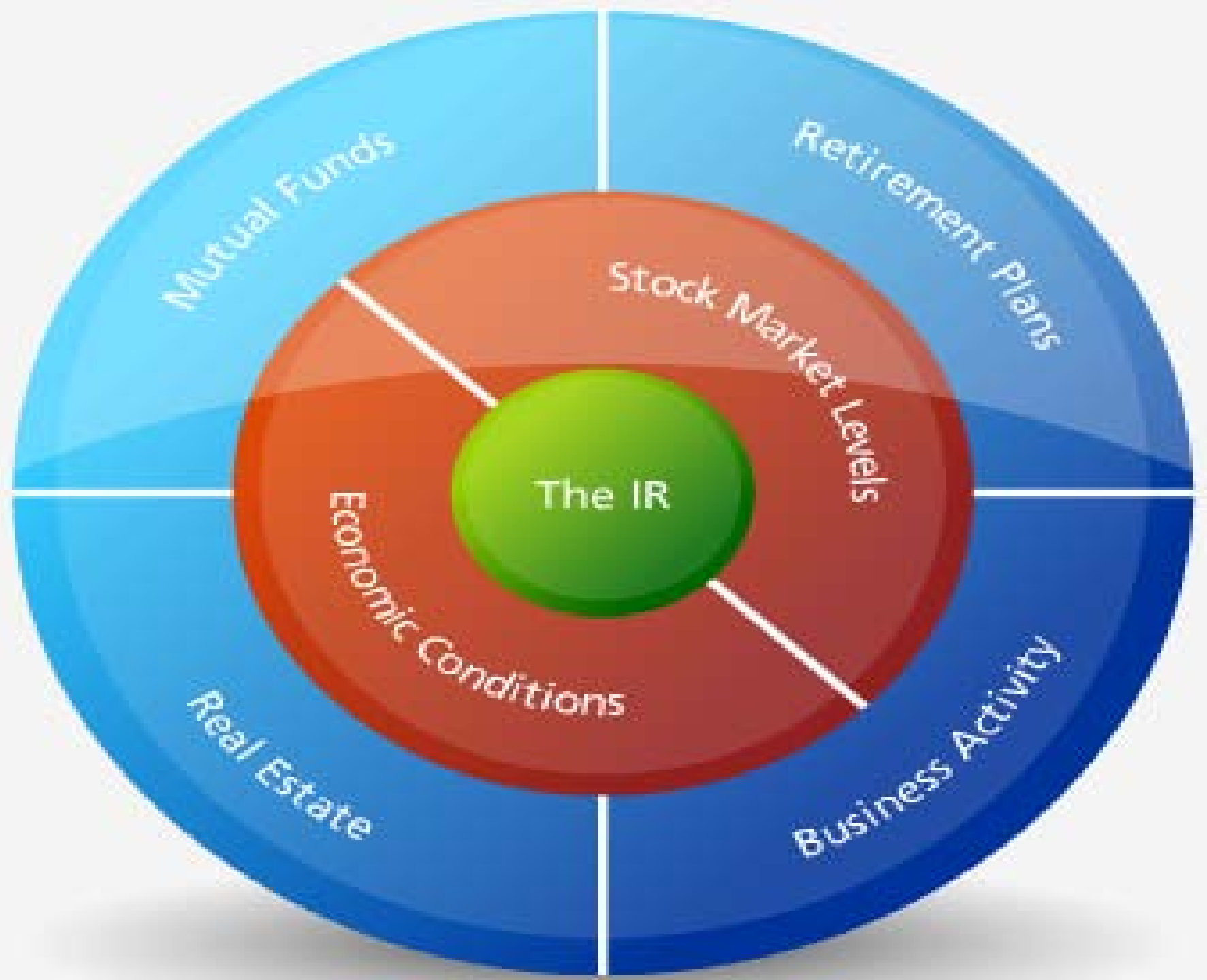
# WHAT'S GOING TO HAPPEN TO THE ECONOMY?



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2014

# My Background

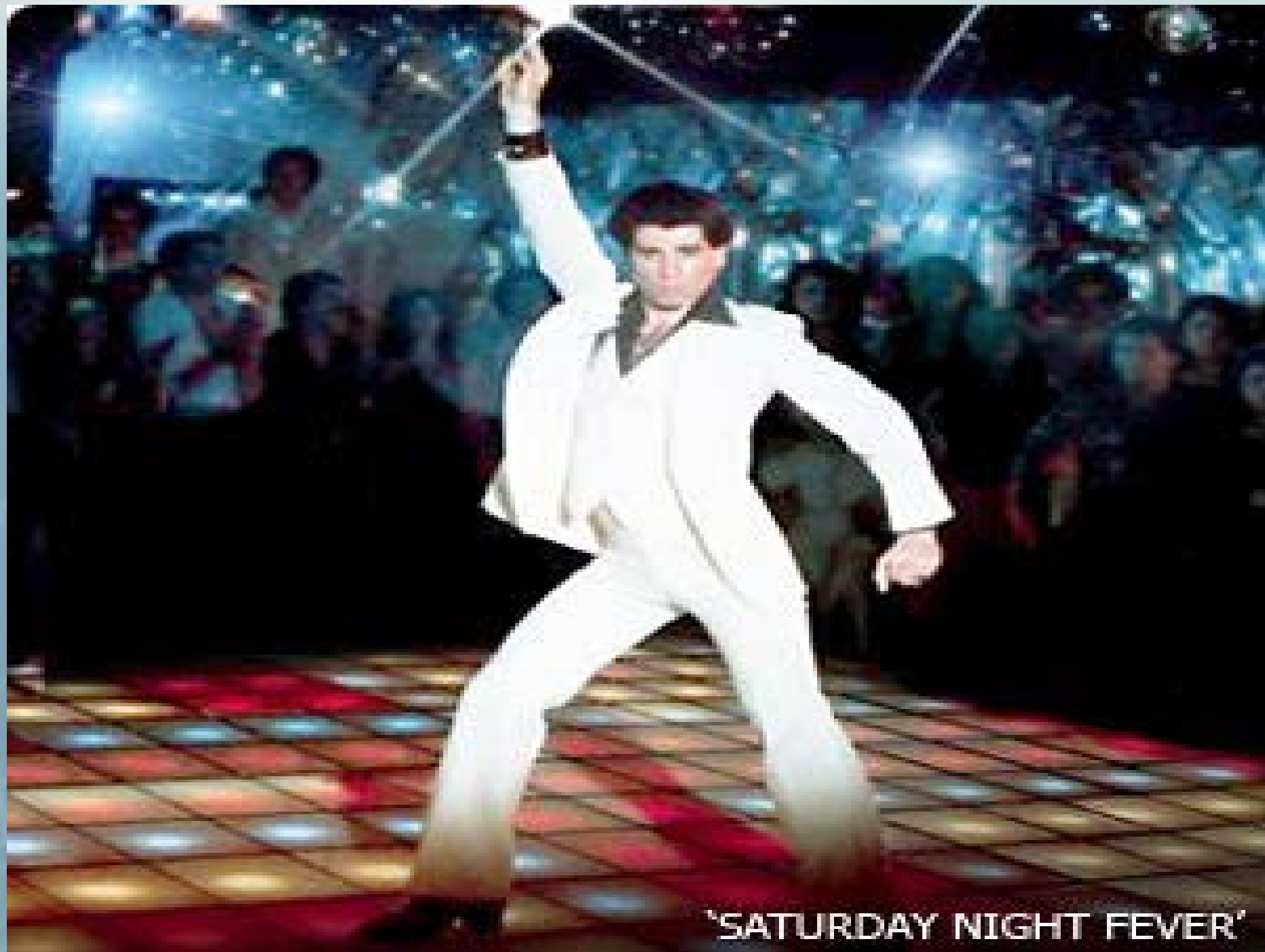
*Thomas H. Kee Jr.*

*President and CEO  
Stock Traders Daily  
President and CEO  
Equity Logic*

Thomas H. Kee Jr.  
President and CEO  
Stock Traders Daily







'SATURDAY NIGHT FEVER'

# Contract with America?

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The Brokers I worked for, and the non-traditional approach I took.

1993-1995

1995-1997

1997 - 1999

Traditional Investing



Colonial Mutual Funds told me the Market would go up forever because...

My Approach – Examples



The Process

Bought the Alliance North American Government Bond Fund. +30% in gains and 15% income. It held Mexican Debt too

Bought Laser Eye stocks. Many went from near \$2 to near \$40 over the course of a year or two

At the very end of 1999 I was shorting Internet stocks. The unwritten law is, you cannot short anything the firm has a strong buy rating on. Morgan Stanley had buy ratings on all of them.



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HOW TO TRADE THE MARKET







In 2002

# I set out to calm nerves

*I always remembered what Colonial Said*



Thomas H. Kee Jr.  
President and CEO  
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In 2002



**Goal:** I wanted to know how much money was going to be invested into the Market every year going forward so I could prove the next leg of direction for my clients.





In 2002



## Refined Goal -1 :

How much NEW MONEY would be available to invest?





In 2002



**Refined - 2:**  
Systematic and Aggressive investments



In 2002



### Refined - 3:

All asset classes, not just the stock market.



In 2002



New Money



Systematic and Aggressive

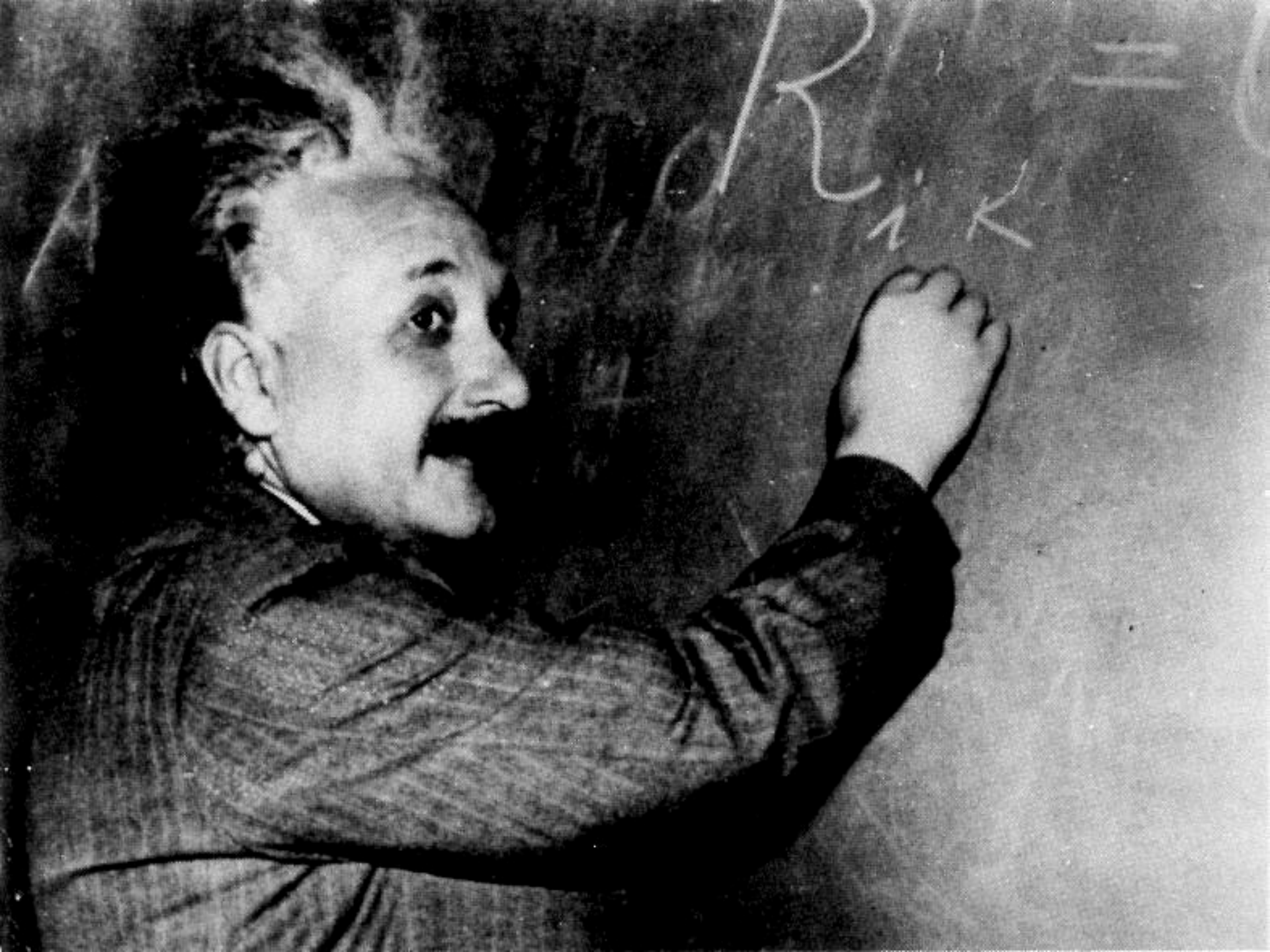


All Asset Classes



How much new money was slated to be invested into the Economy every year, over extended periods of time, and in a systematic and aggressive fashion, so that I could pre-define longer term economic and stock market cycles for my clients, and keep them ahead of the curve.

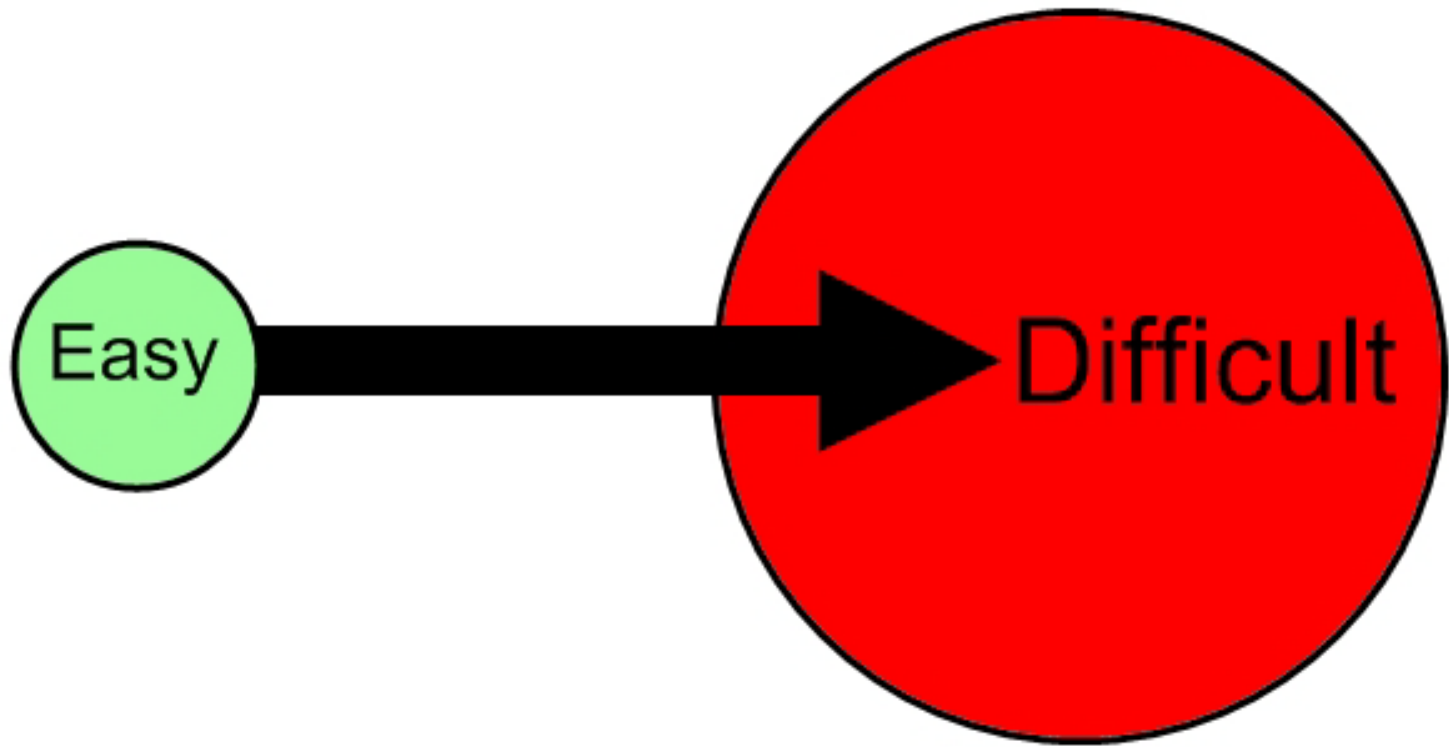






# Hard to Find

(I had a big road block)





Solutions in Asia Imperialism - Lenin

Revolutions

Mao

max  
orak

REVOLT

BOOKS



2002

# The Economy is all about PEOPLE.

*When do normal people have new money to invest into the Economy systematically and aggressively, and when are they capable of doing it for extended periods of time?*

*At what “KEE AGE”?*



In 2002



Step 1. Can we determine population stats?

Alcohol distributors can determine how many people are turning 21 every year to plan their college marketing efforts. We can do the same thing to find the KEE AGE.





In 2002



That is what the Census does.





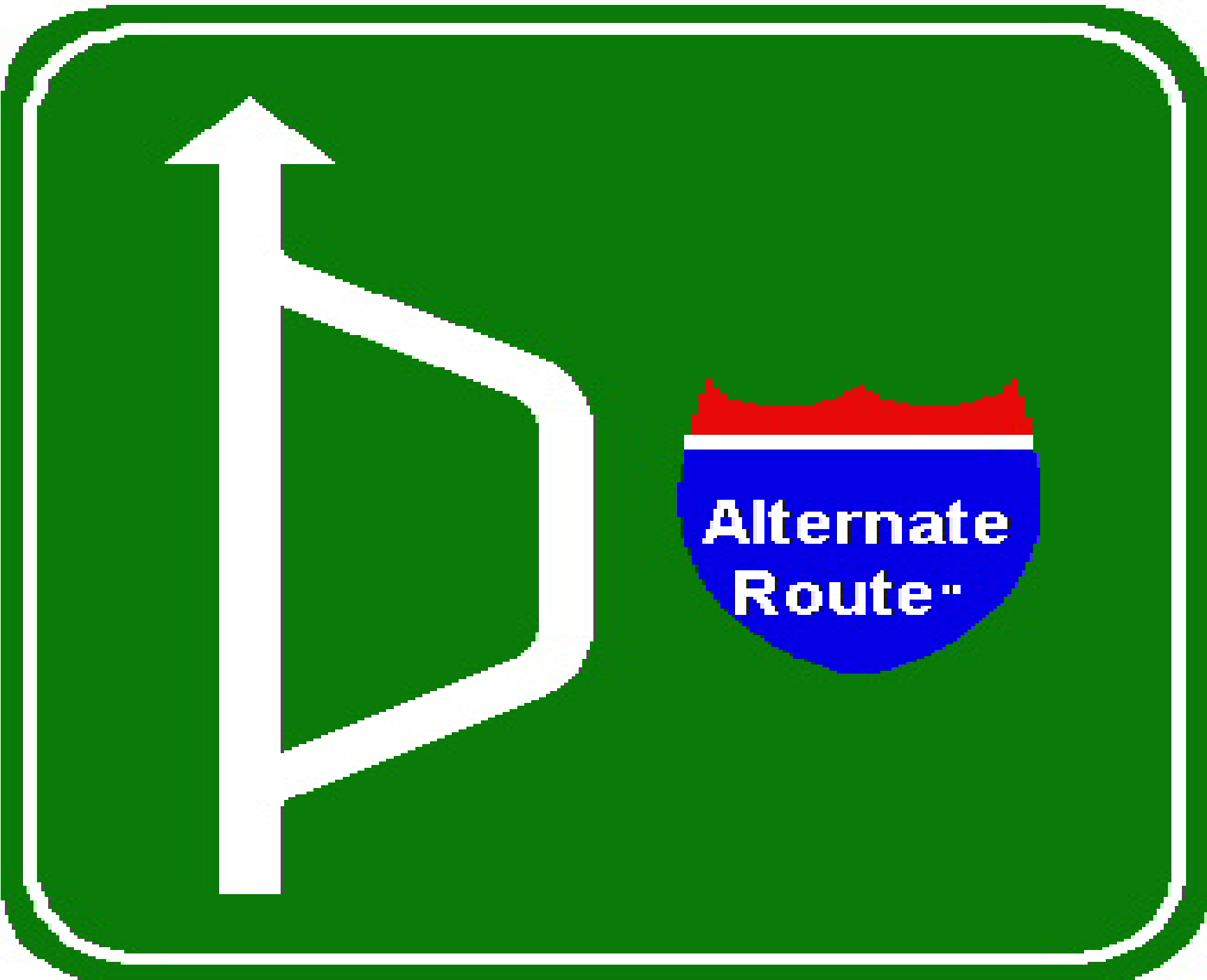
2002

# Requirements:

1. *Must have money to invest*
2. *Must have a reason to invest it.*

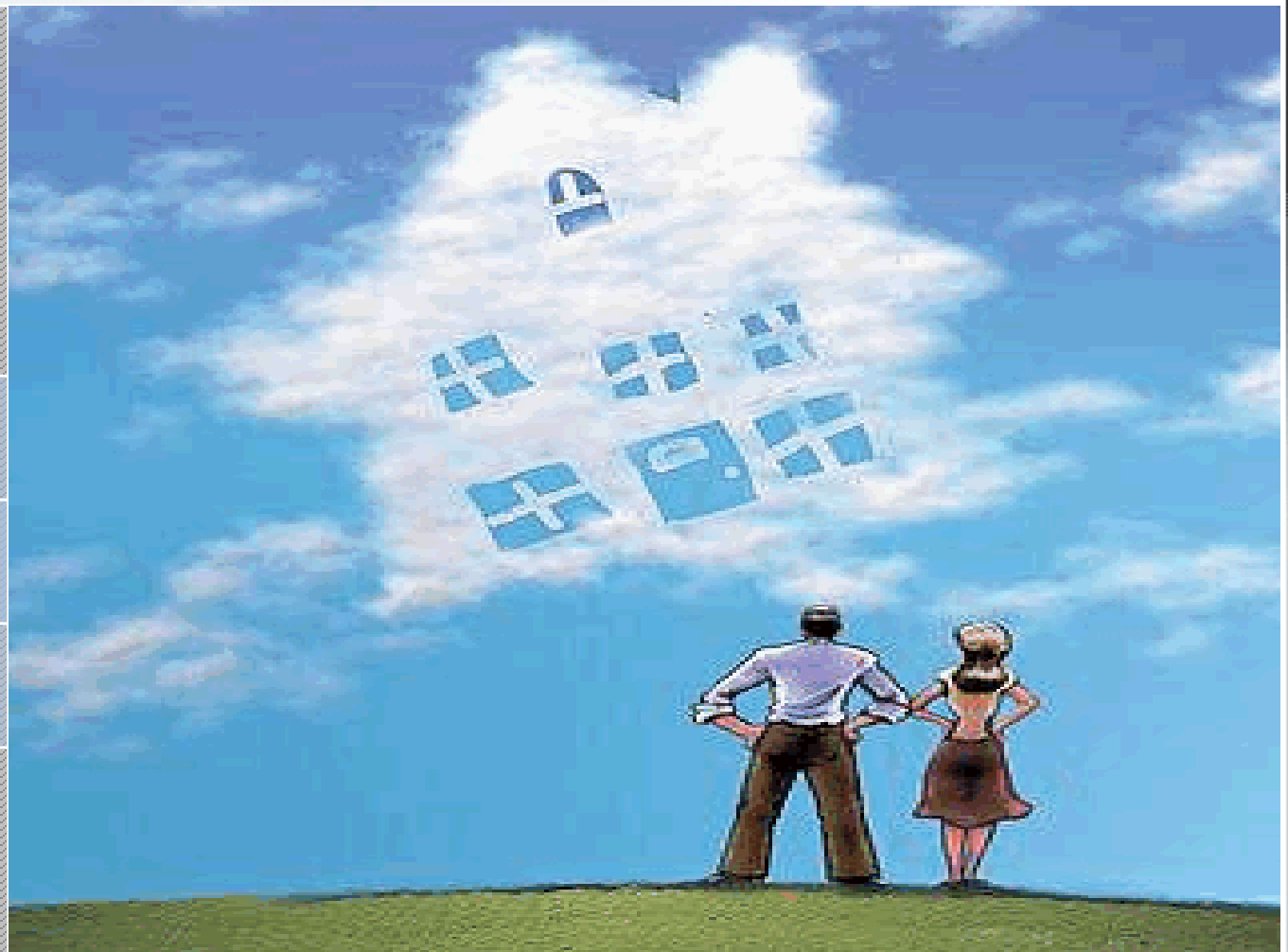
What is the “KEE AGE”?





Alternate  
Route

In 2002



What are the three major lifetime expenses for normal people?







In 2002



When do people start planning aggressively for retirement?



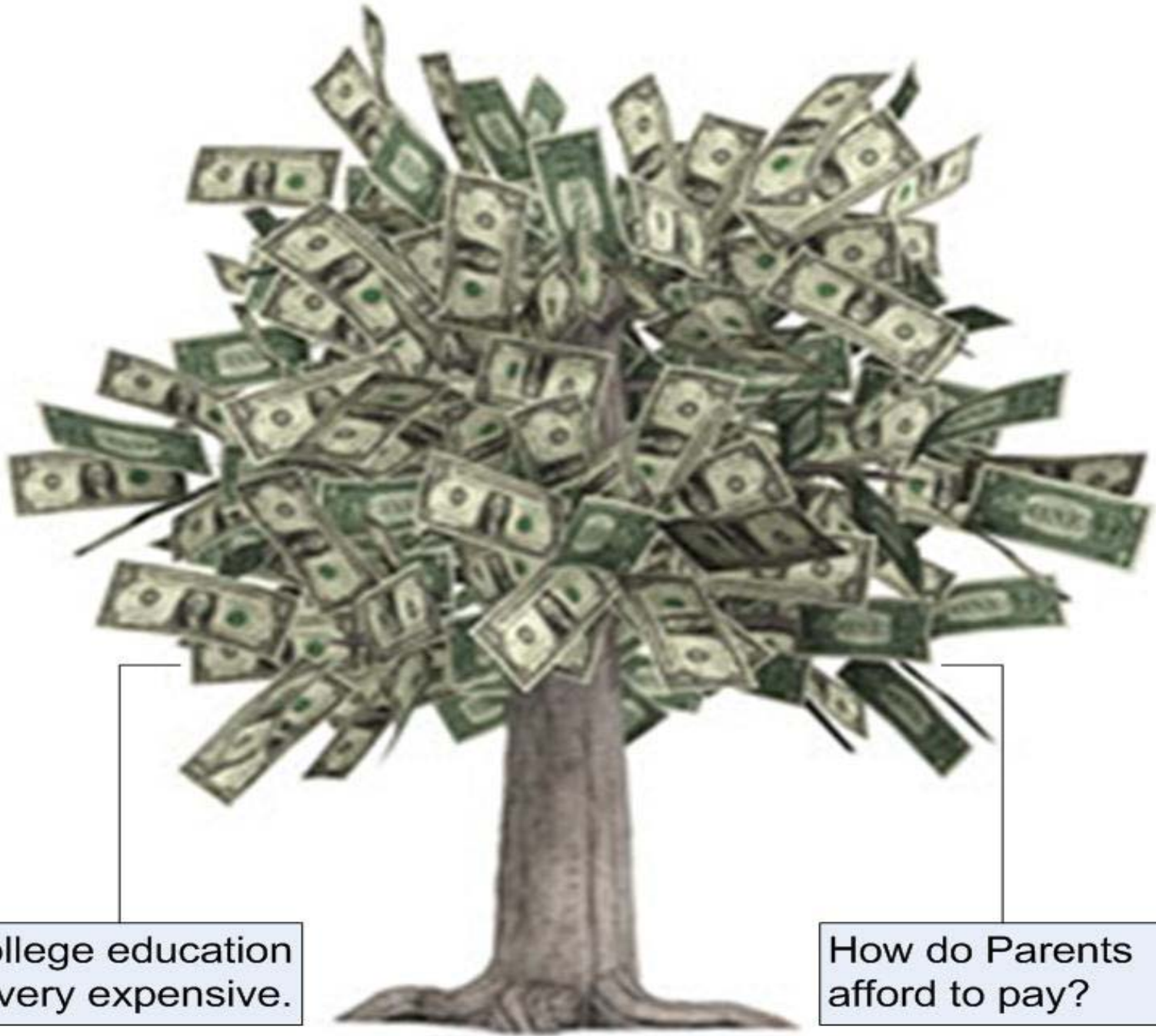
In 2002



At 50, mortgage payments are less of a burden.







College education is very expensive.

How do Parents afford to pay?



My AG Edwards Manager

***A.G. Edwards***  
***INVESTMENTS SINCE 1887***



Paying For College  
They Find a way to do it!



# Graduation Day!

The average age of a parent is 47

**BLS + NCES + Census**



In 2002



When college is paid for, parents have a sudden windfall of cash; they can do anything they want.



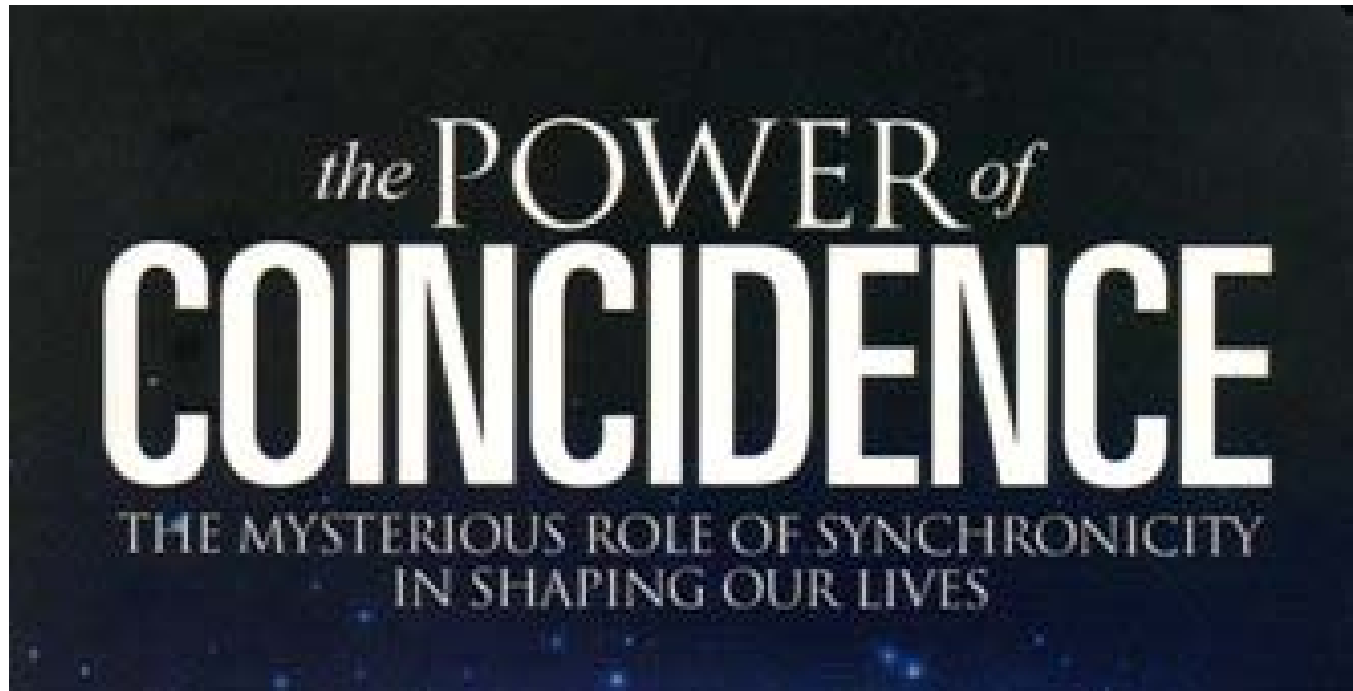




What to do with the \$\$\$?



Also a reason to invest!



*People have Money +  
Reason to Invest  
at the same time.*

2002

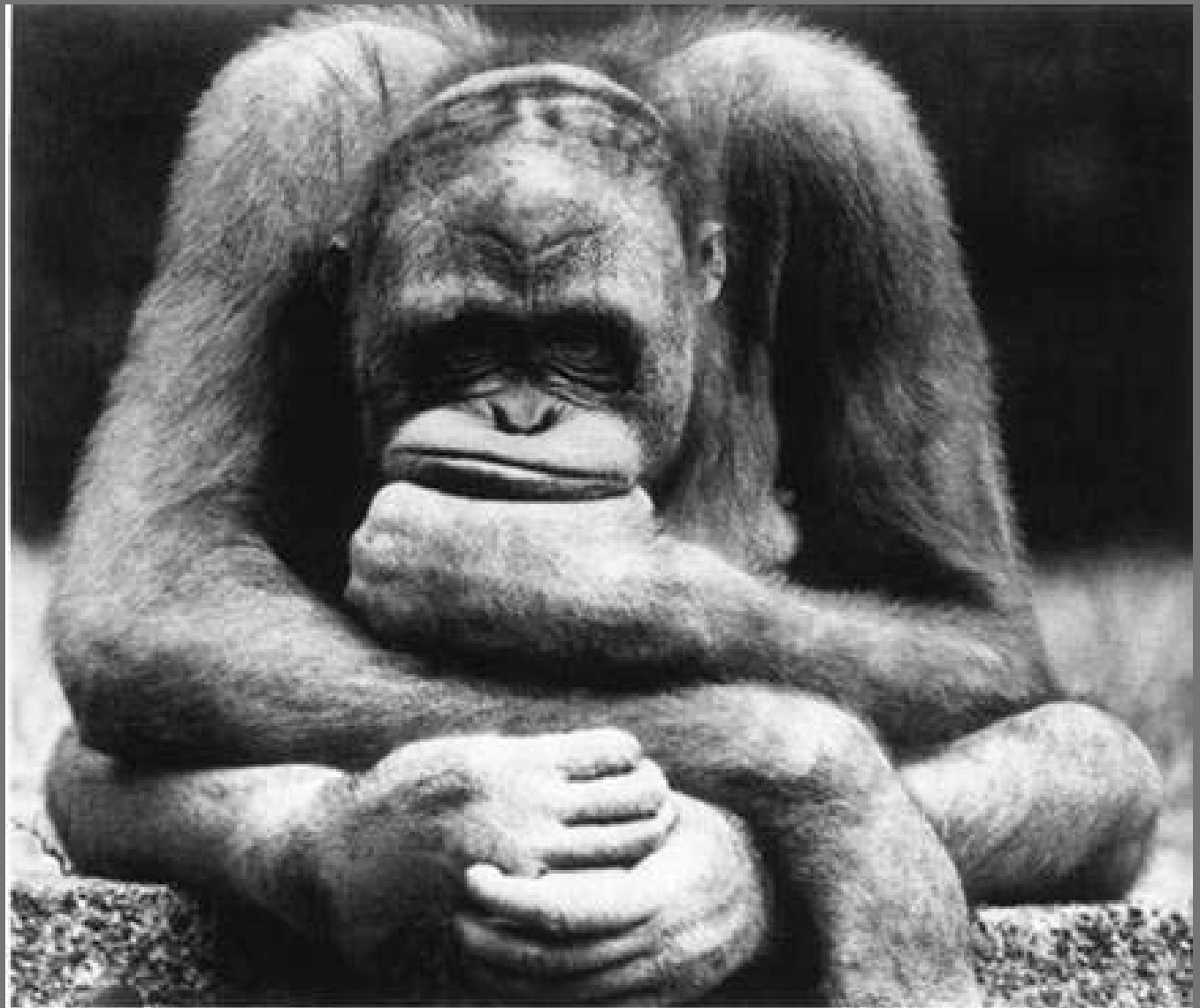
# The KEE AGE



Thomas H. Kee Jr.  
President and CEO  
Stock Traders Daily



In 2002



What was I really looking for?

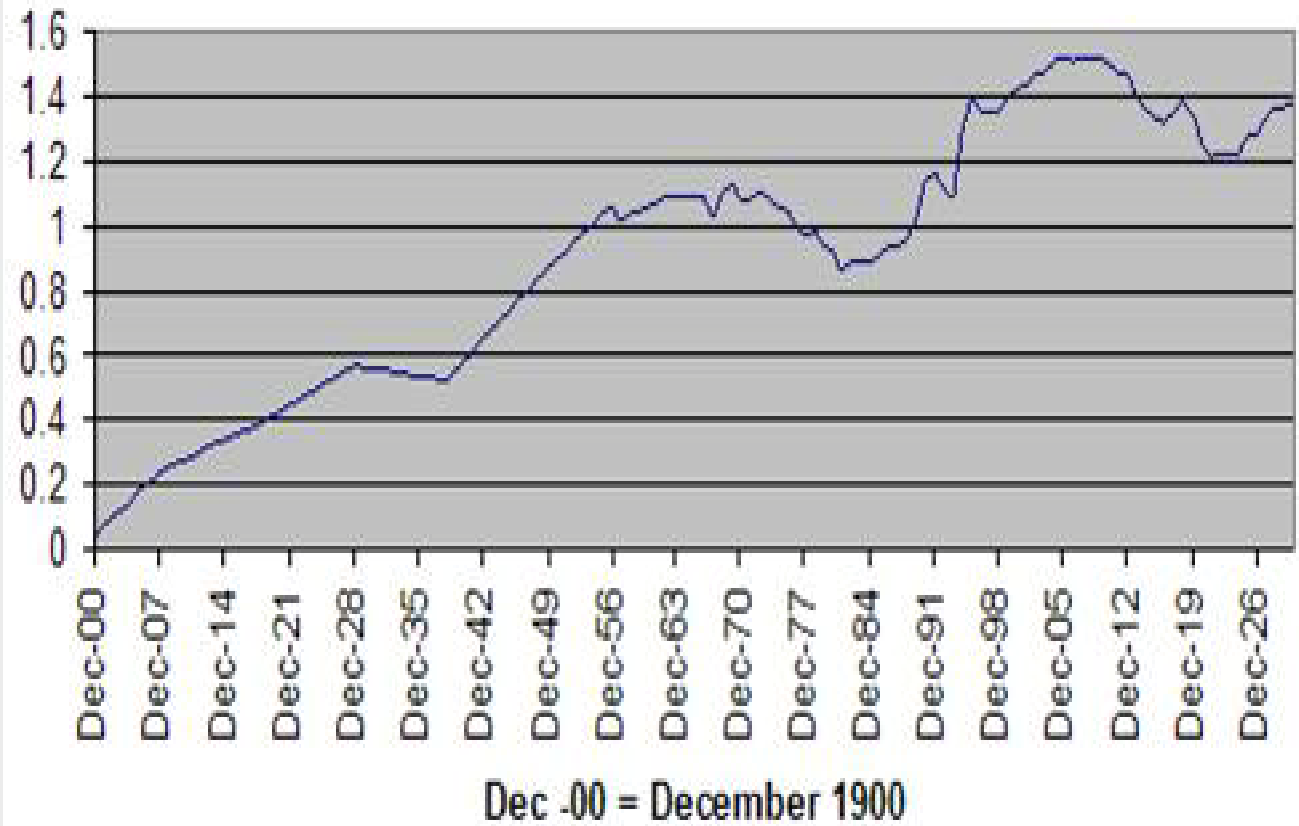






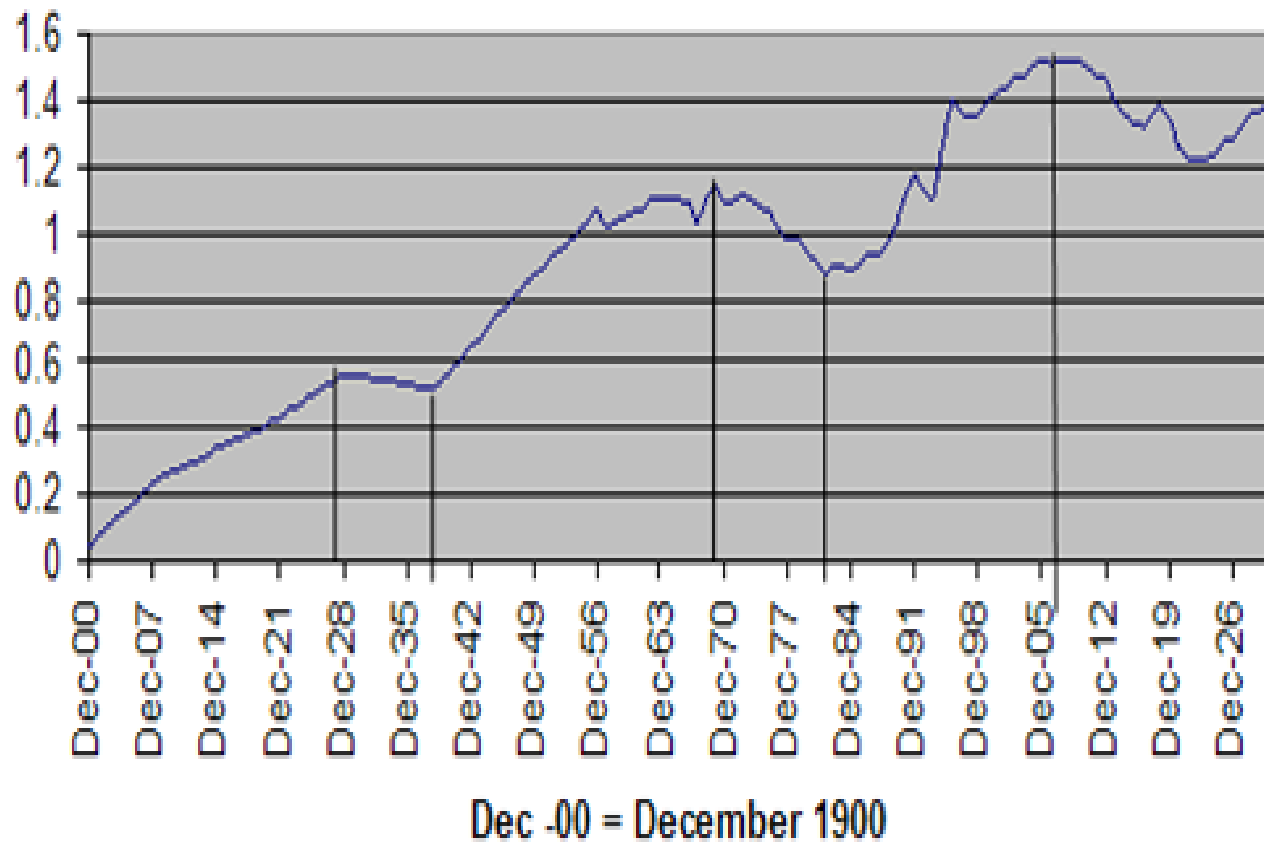
In 2002

## The Investment Rate



In 2002

## The Investment Rate



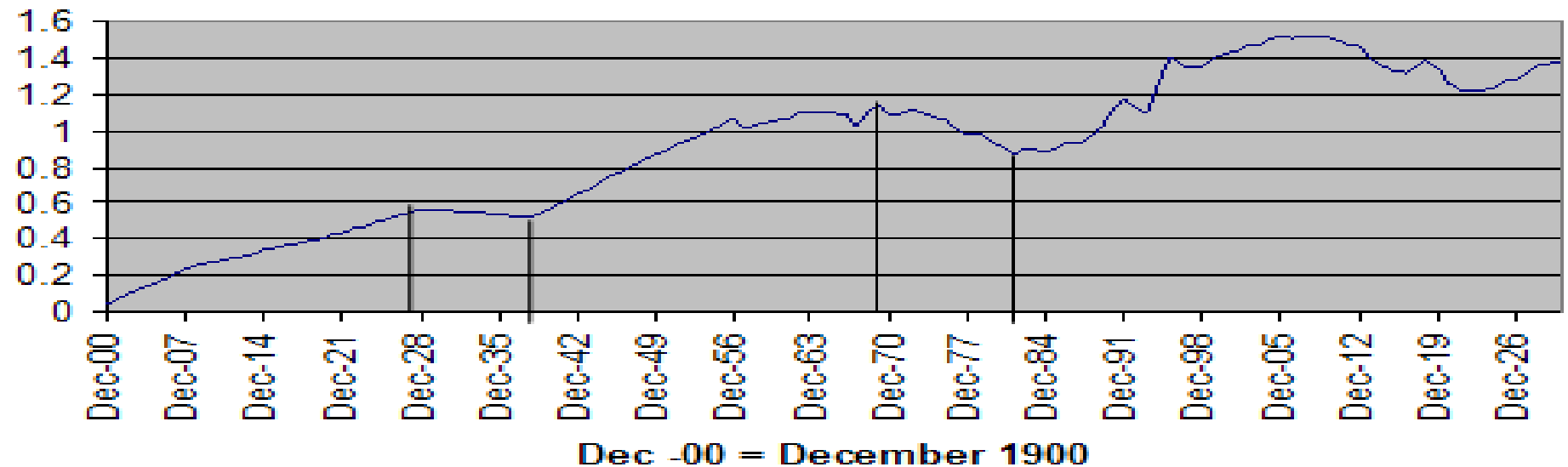
The IR – Up and down Periods.



# Hindsight to Foresight this was in 2002

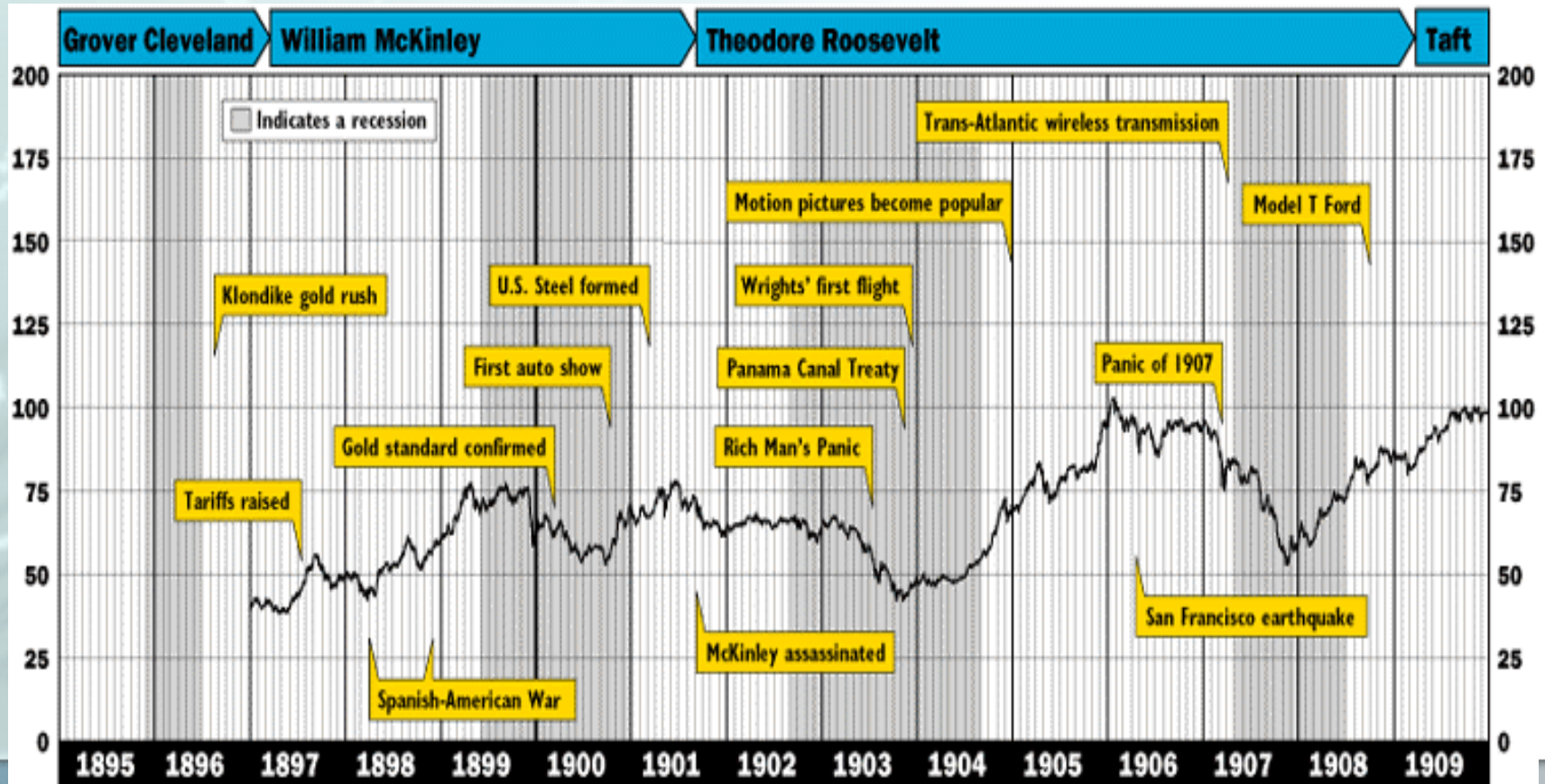
- First up period 1900 - 1928
- First Down period 1928 – 1938
- Second up period 1938 – 1969
- Second Down Period 1969 – 1981
  - Third up period 1981 - ?

## **The Investment Rate**



# Market Action

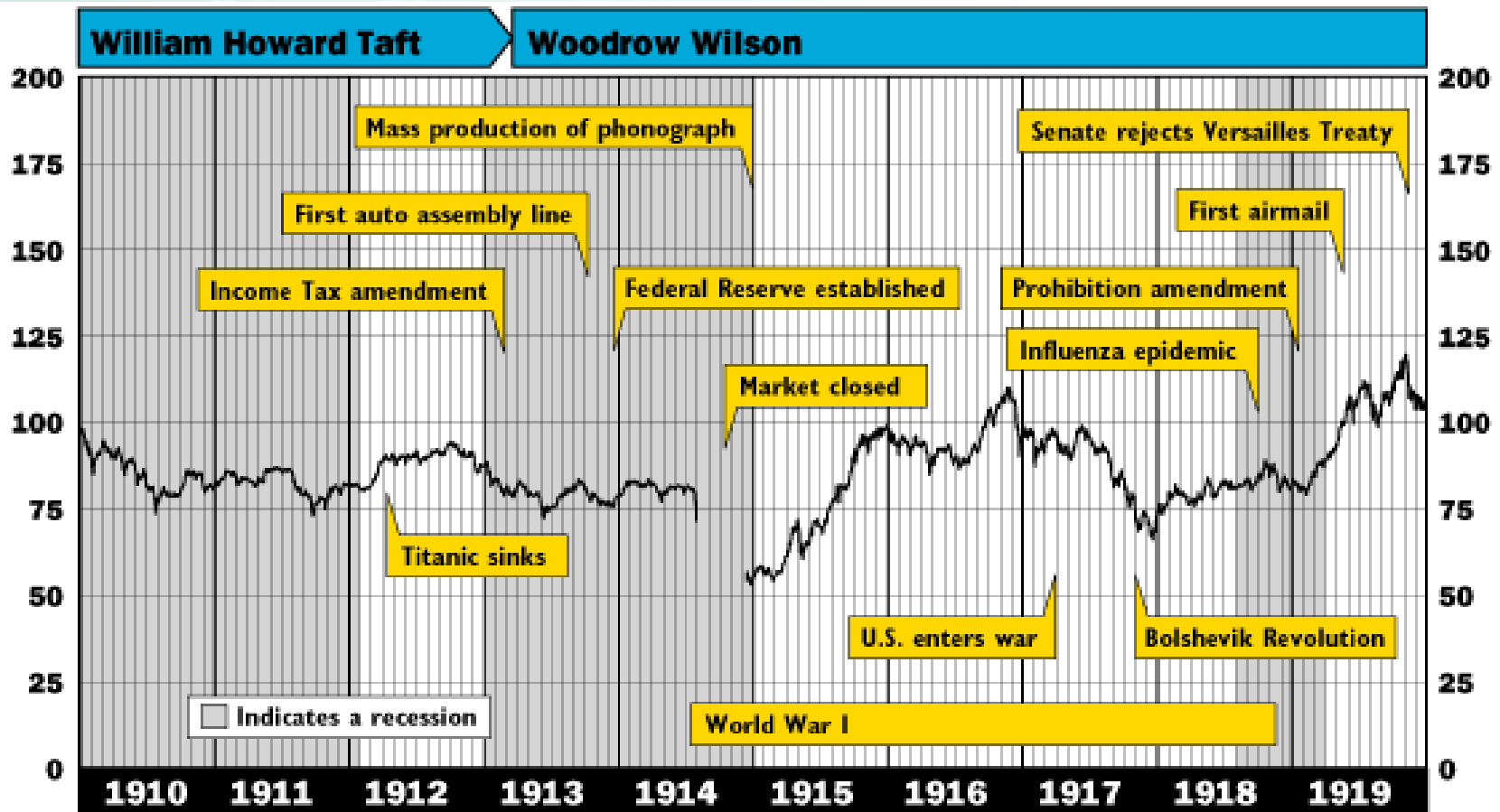
- This chart shows the beginning of the first up period 1900 –
- 1897 is when the DOW began but our data begins in 1900





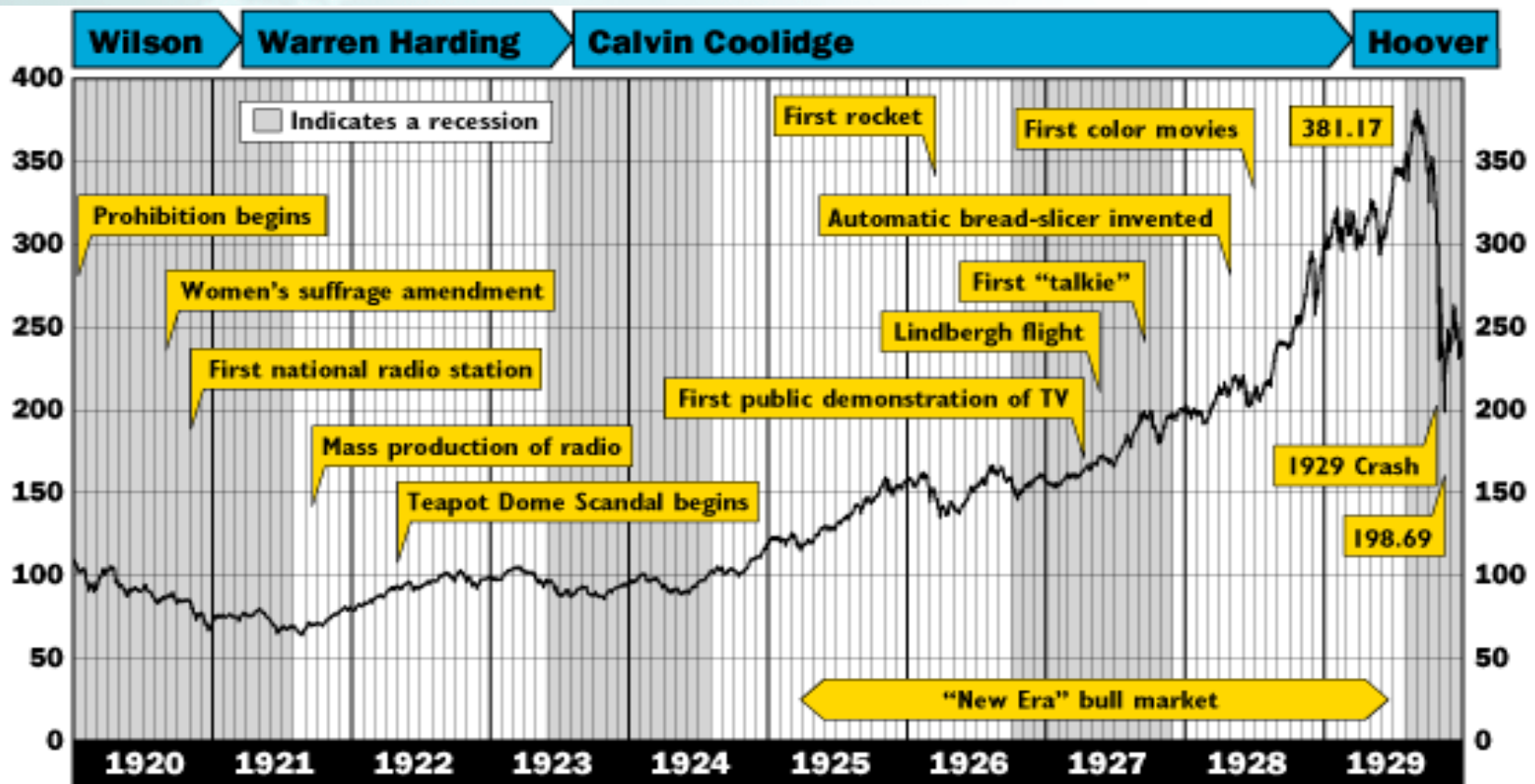
# Market Action Page 2

- By 1919 the market had more than doubled from its original price. But WWI made it difficult for the DOW to do much for a number of years. This, of course, was still part of our first up period in the IR.



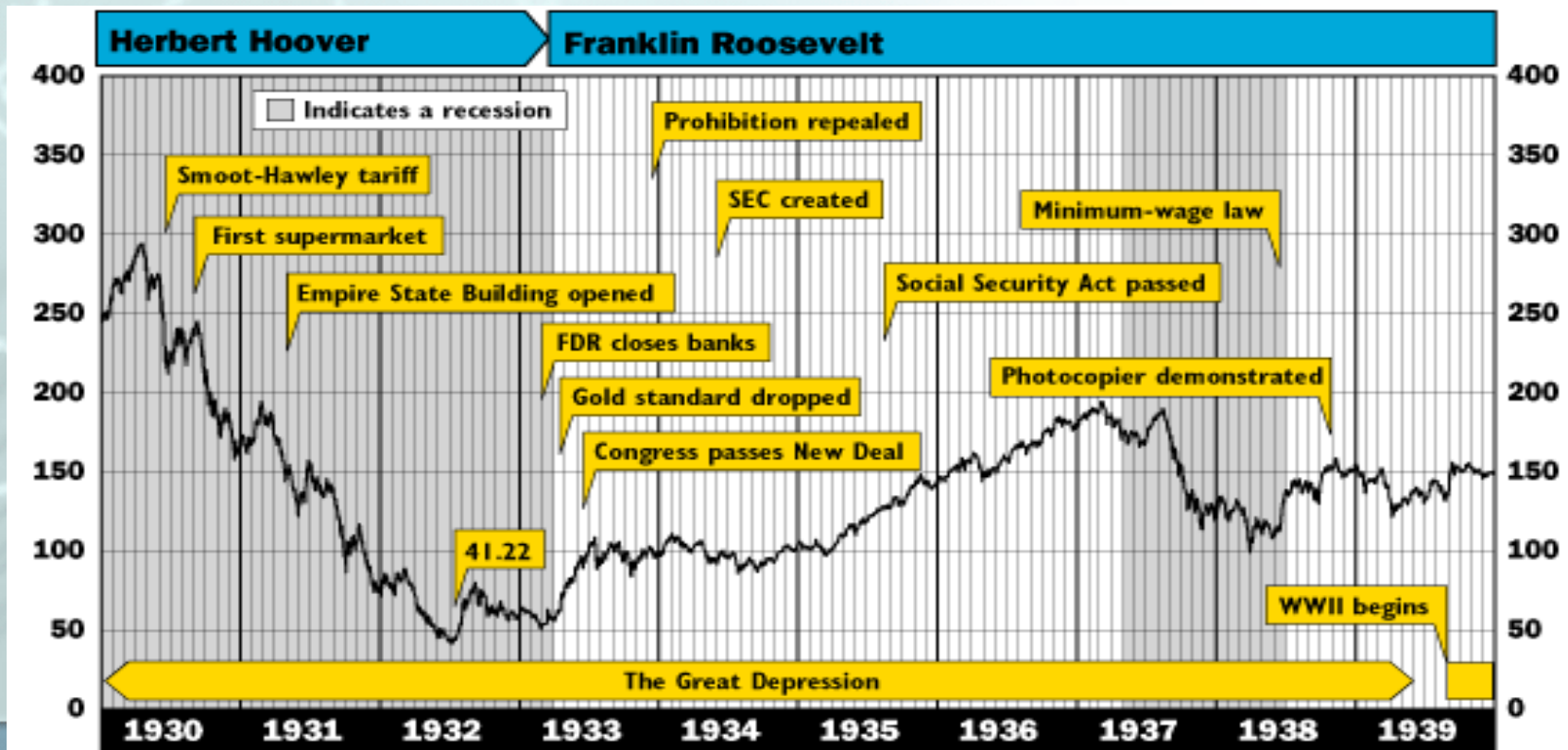
# Market Action Page 3

- People had money to invest and a reason to invest it. The reason helps.
- In the 20's the real bull Market began. This was the Industrial Revolution. Television, Radio, communications devices, it was all working. Technology was showing up everywhere, and the Market's rallied.
- That lasted until 1928. 1928 also marked the end of the up period and the beginning to the first down period in the IR.
  - The Market actually peaked in 1929 but the Market was higher in December '28



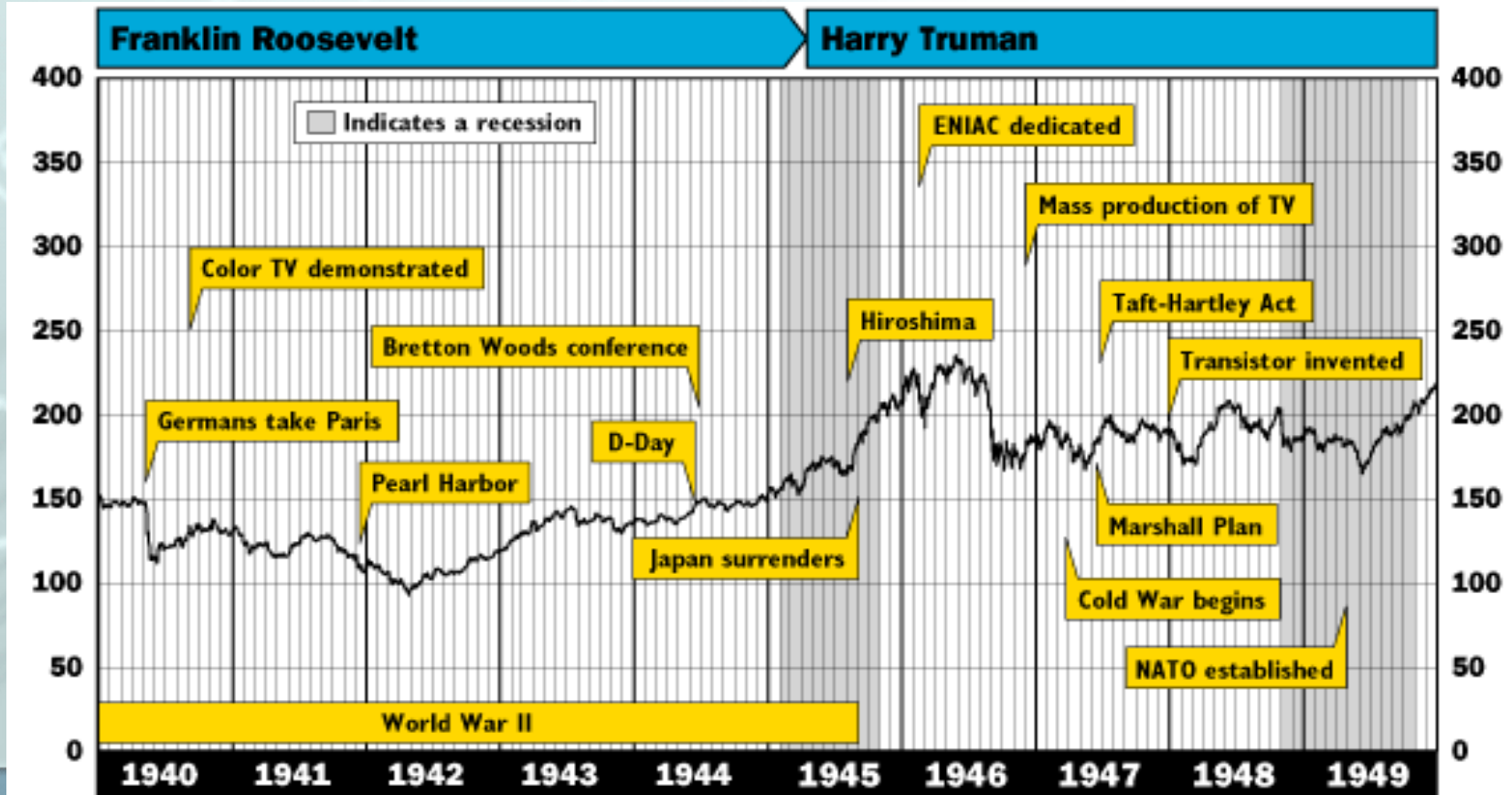
# Market Action Page 4

- The first down period in the IR began in 1928 and lasted through 1938. This period was also known as the Great Depression. You would assume, and you can see in the chart, the market performed poorly during this time. If anything can validate the first down period in the IR, the Great Depression can.
- Food For thought: does the IR help you understand why the Great Depression happened? Was the IR going up or down?



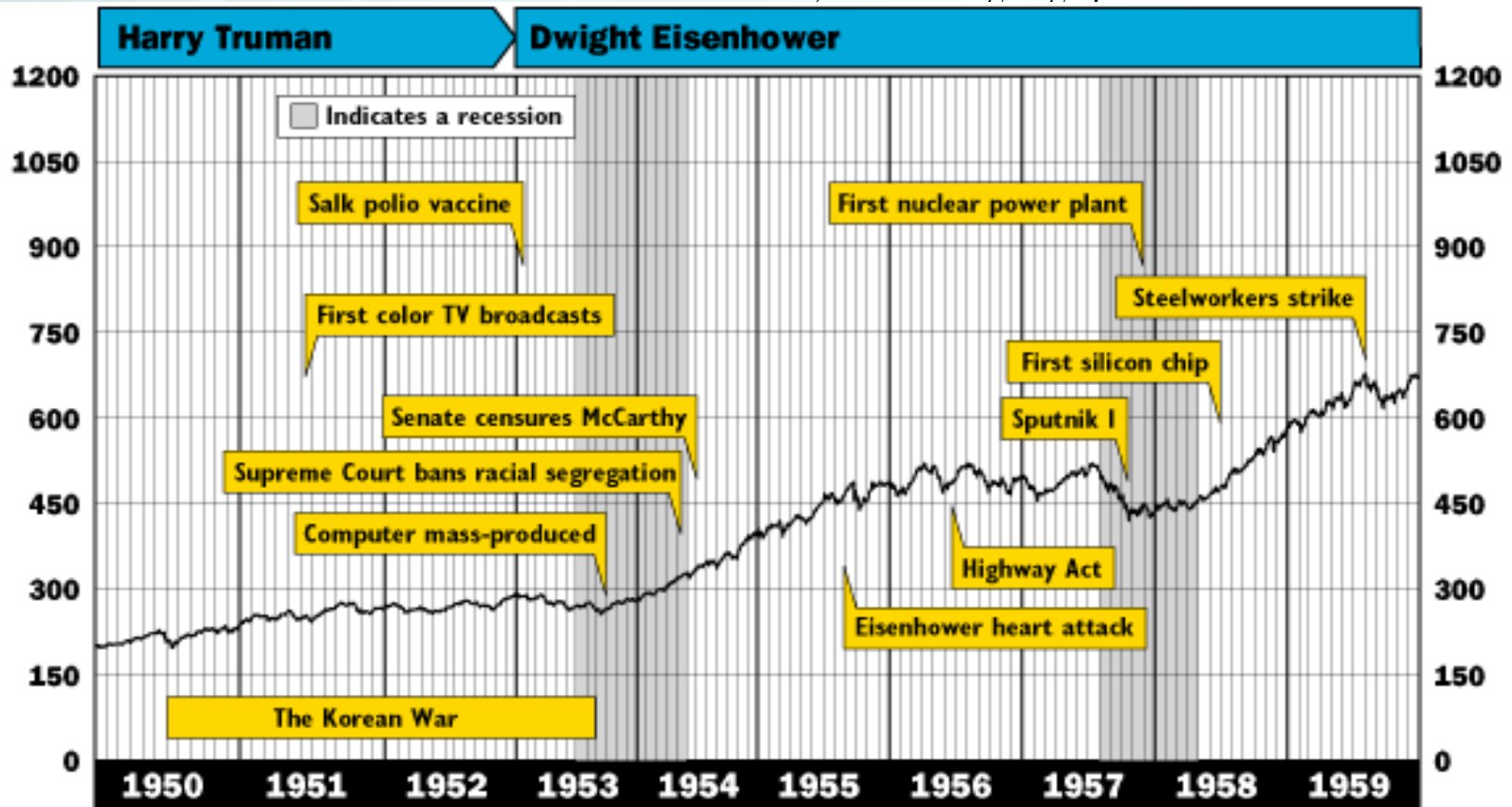
# Market Action Page 5

- Our Second up-period in the IR began in 1938 and lasted through 1969. This chart shows us the beginning of that period. Notice that the DOW's performance in first part of this up period was again dampened by the presence of a War, this time, WWII.



# Market Action Page 6

- The up-period began to take hold in 1950 as large capital investments into Television, Electronics, and Computers began to pave the way for speculation about future profits.
- People had the money to invest again, and now there was a reason for them to invest it.
  - Remember, the IR was going up.





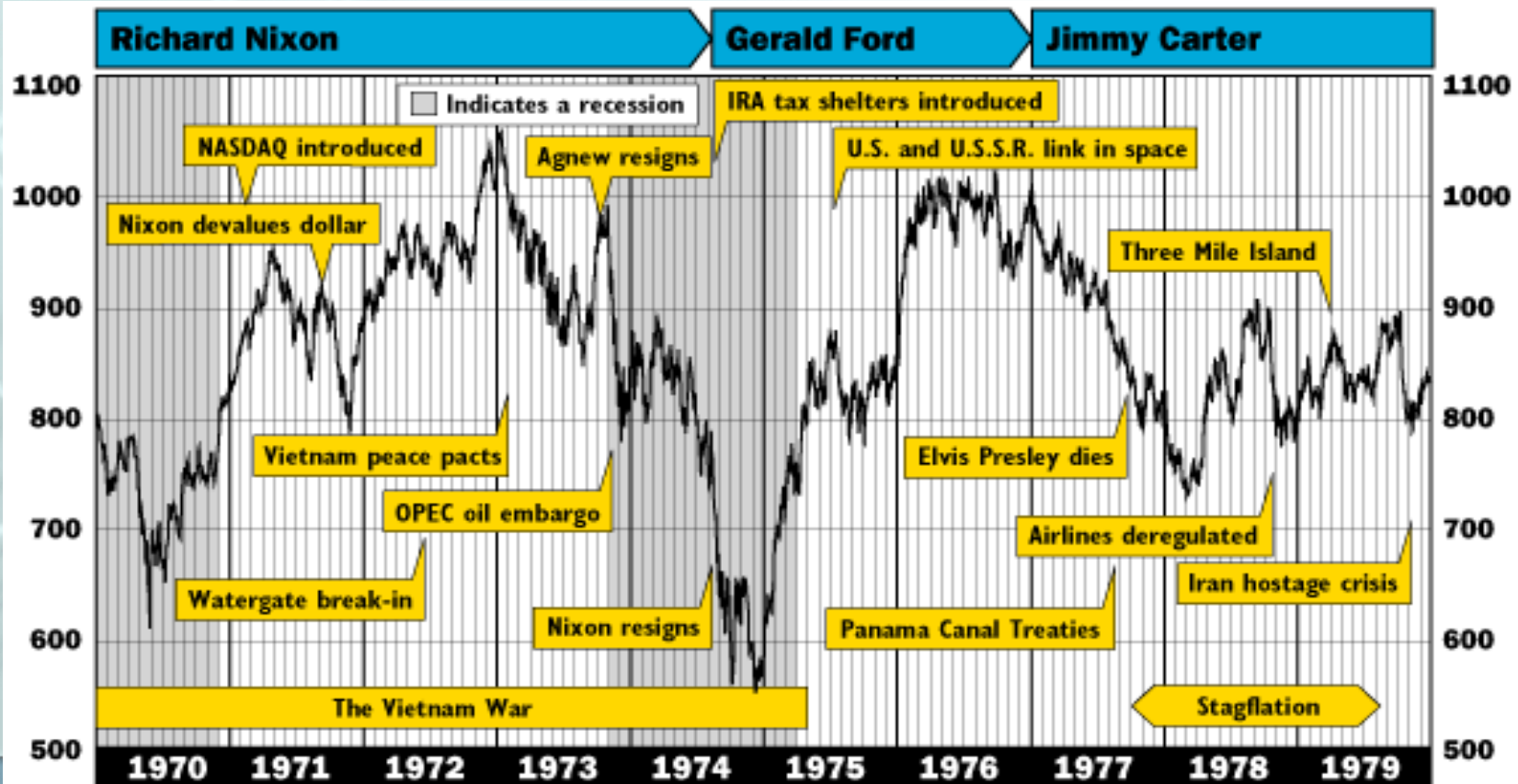
# Market Action Page 7

- Our second up-period in the IR lasted through 1969 and then it stopped. Again, you can see that the Market was lower in December 1969 than it was in December 1968.
  - The Market is actually peaking 1 year in advance
- The up-period came to an end, and with it came the beginning of the second down period, and the Vietnam War.



# Market Action Page 8

- During this second down period the market was faced with the struggles of the Vietnam War, and the troubling notion of stagflation.
- Why weren't prices going anywhere? Why wasn't the Market going up? Can the IR help you understand the answer to these questions?
  - Remember, the IR was going down.



# Market Action Page 9

- The second down period in the IR came to an end in 1981 and the second up-period began...
  - the trend of the IR was turning from negative to positive again.







# IR + Technical Analysis

(Fundamental + Technical)

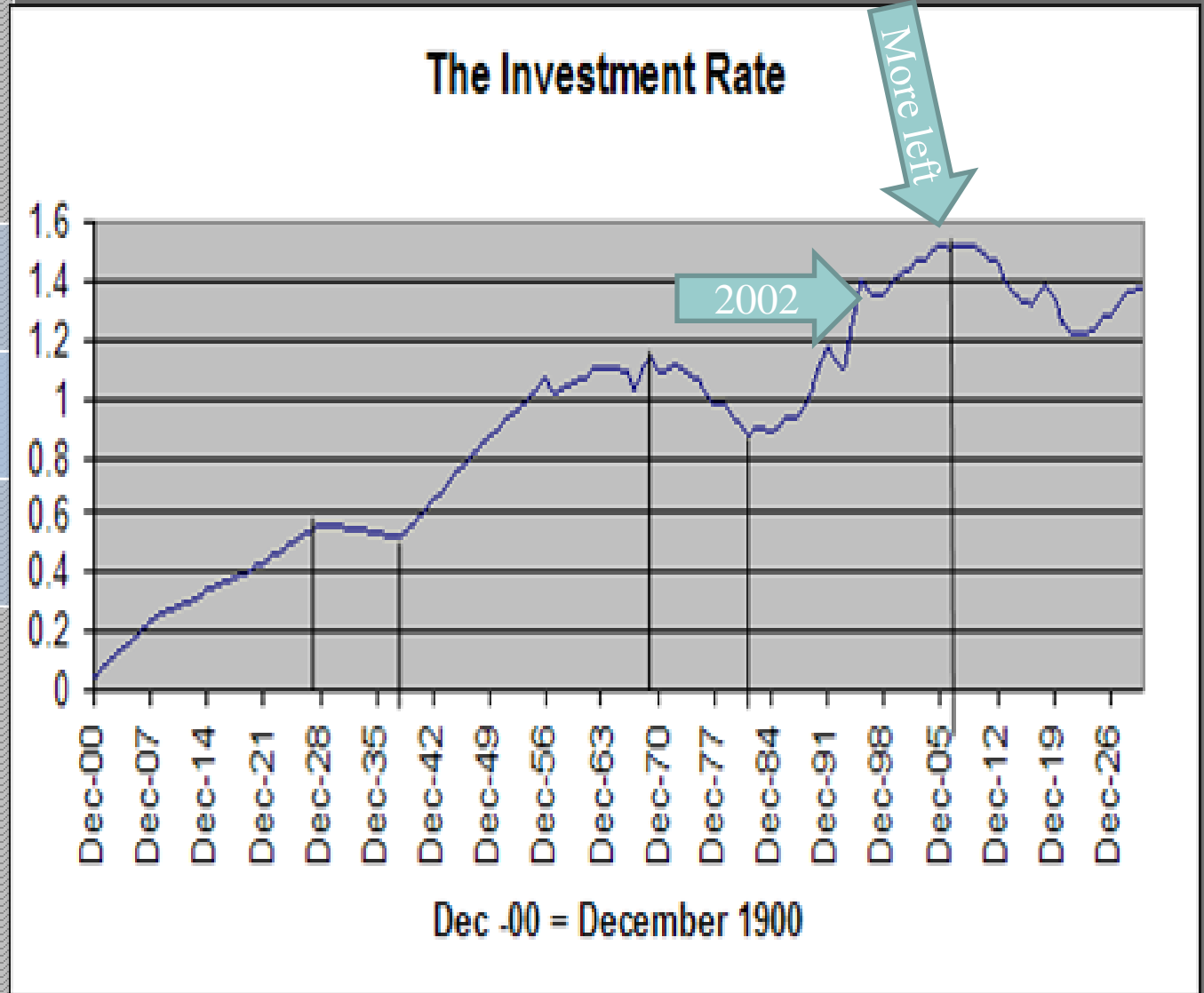


The February Report Pinpointed the bottom in the S&P within 2 points, about 8 months in advance.



In 2002

But the IR was still moving up



2002 = Bullish



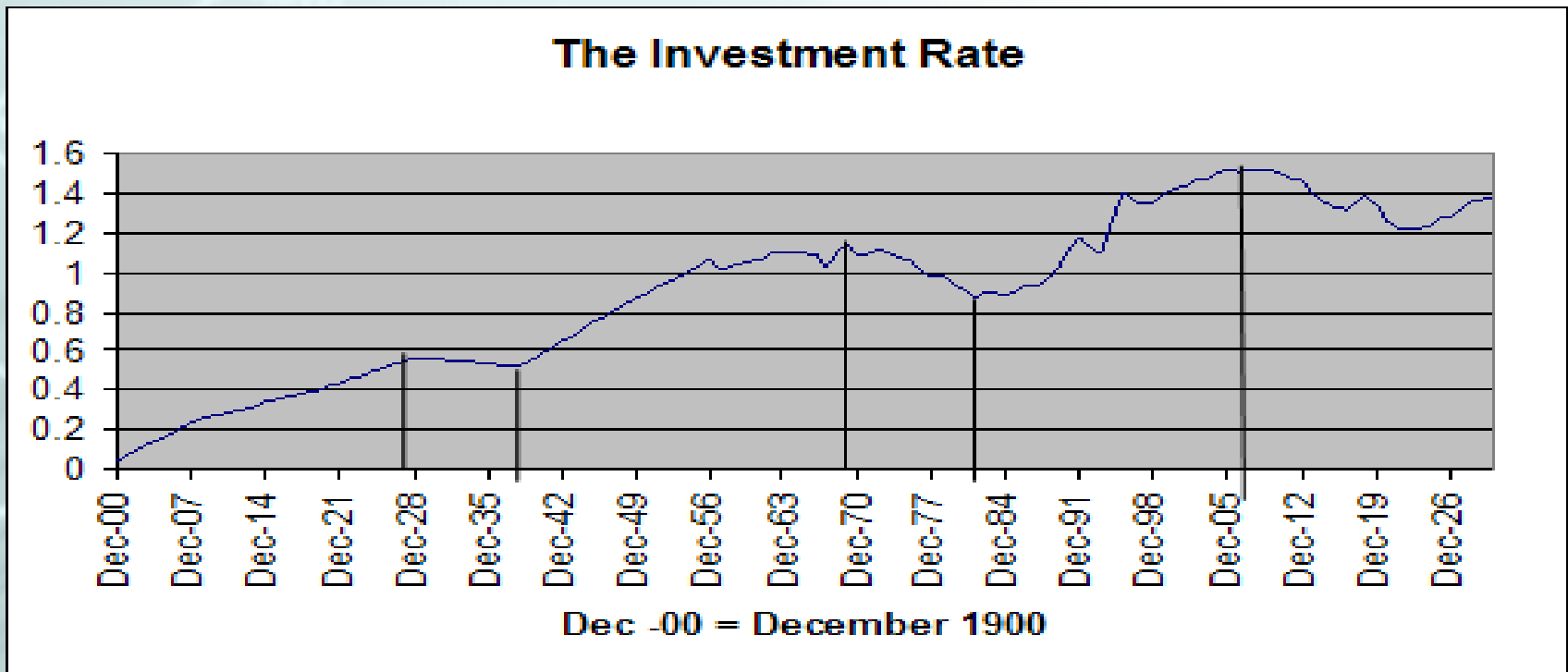
# Investment Rate

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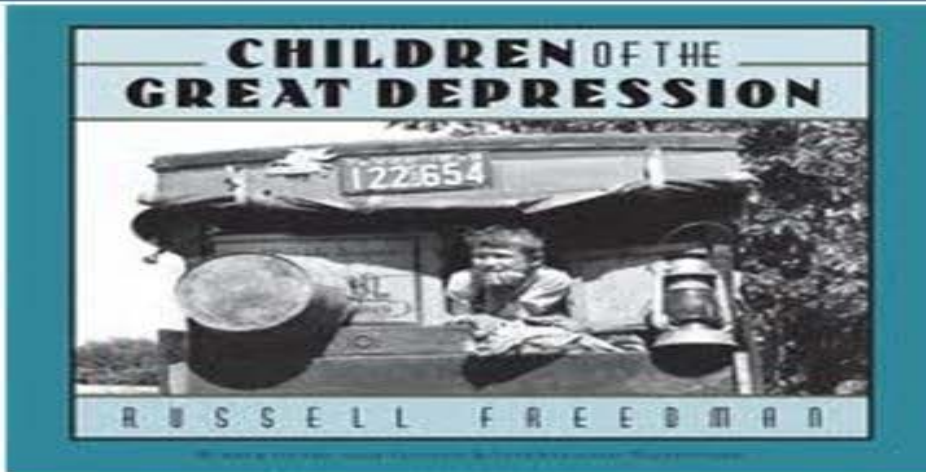
- Important
  - Not always Bearish.
- It started by being very bullish.
  - But that has changed.

# The peak would be 2007

- The IR showed us that the peak would come in 2007.
  - It told us this in 2002, 5 years before the peak
    - I pounded the table in 2007!!!

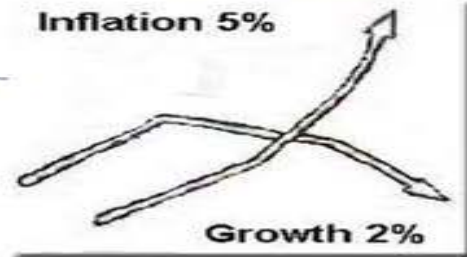






## STAGFLATION

Inflation 5%



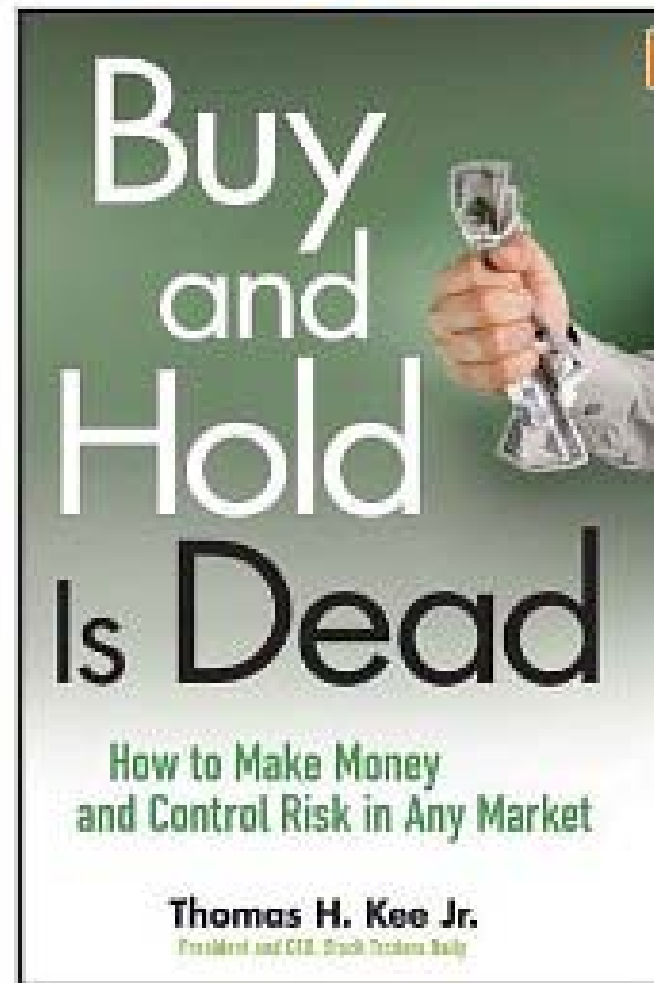
**Now!**



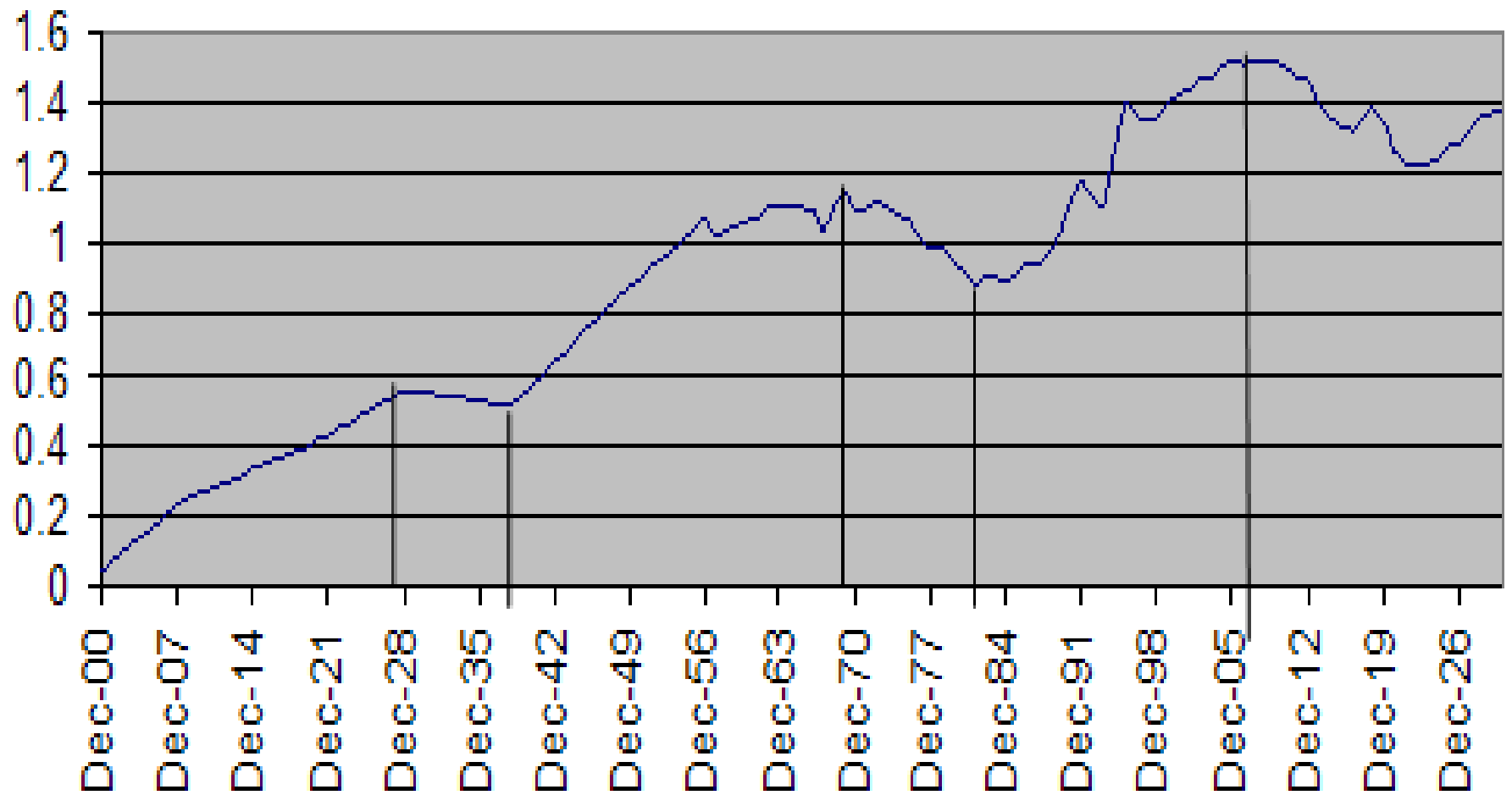


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Click to **LOOK INSIDE!**

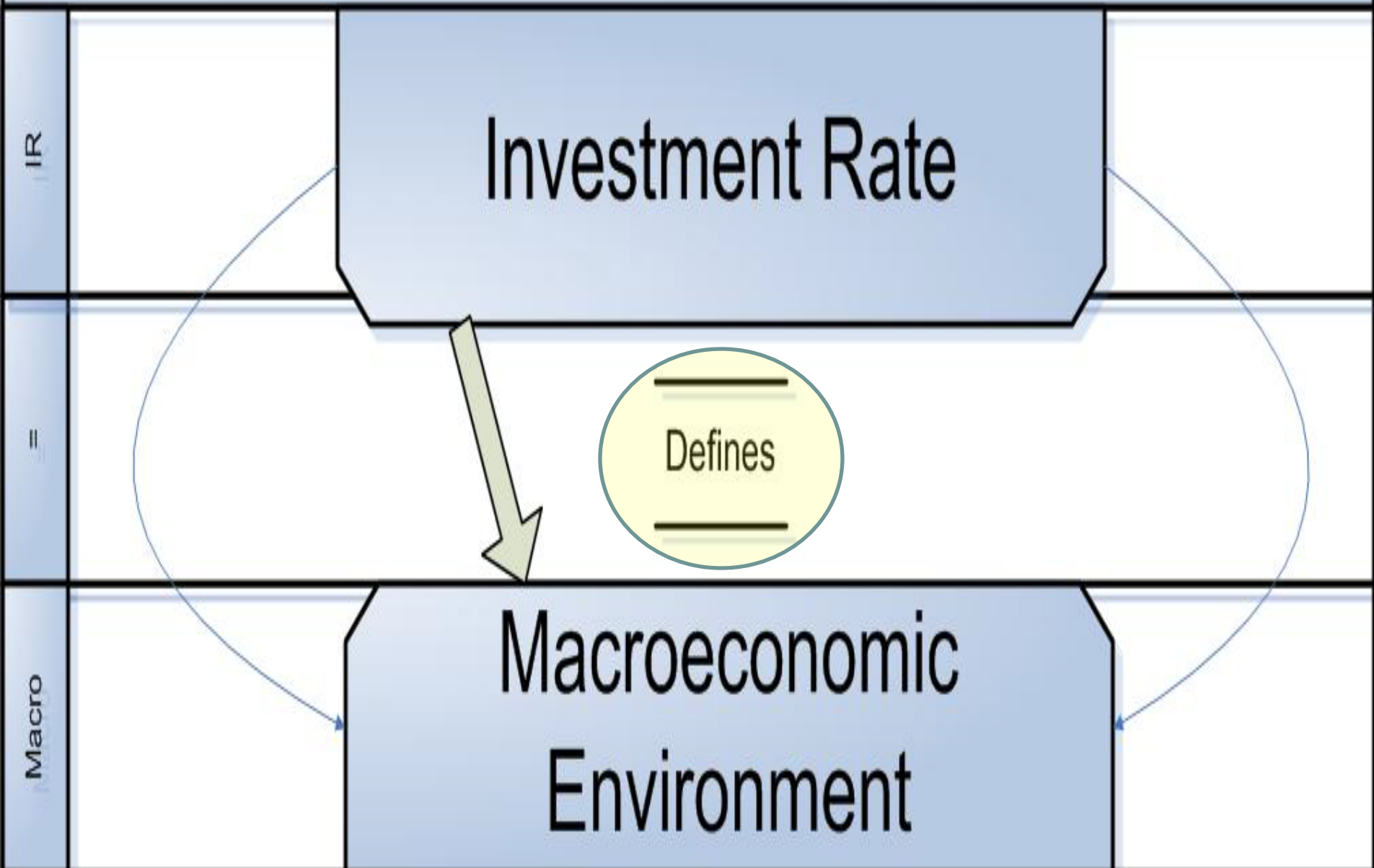


# The Investment Rate



Dec -00 = December 1900

The Investment Rate defines the Macroeconomic Environment



# Investment Rate

Amount of new money available for investments

The Demand for new investments

The Stock Market

The Economy

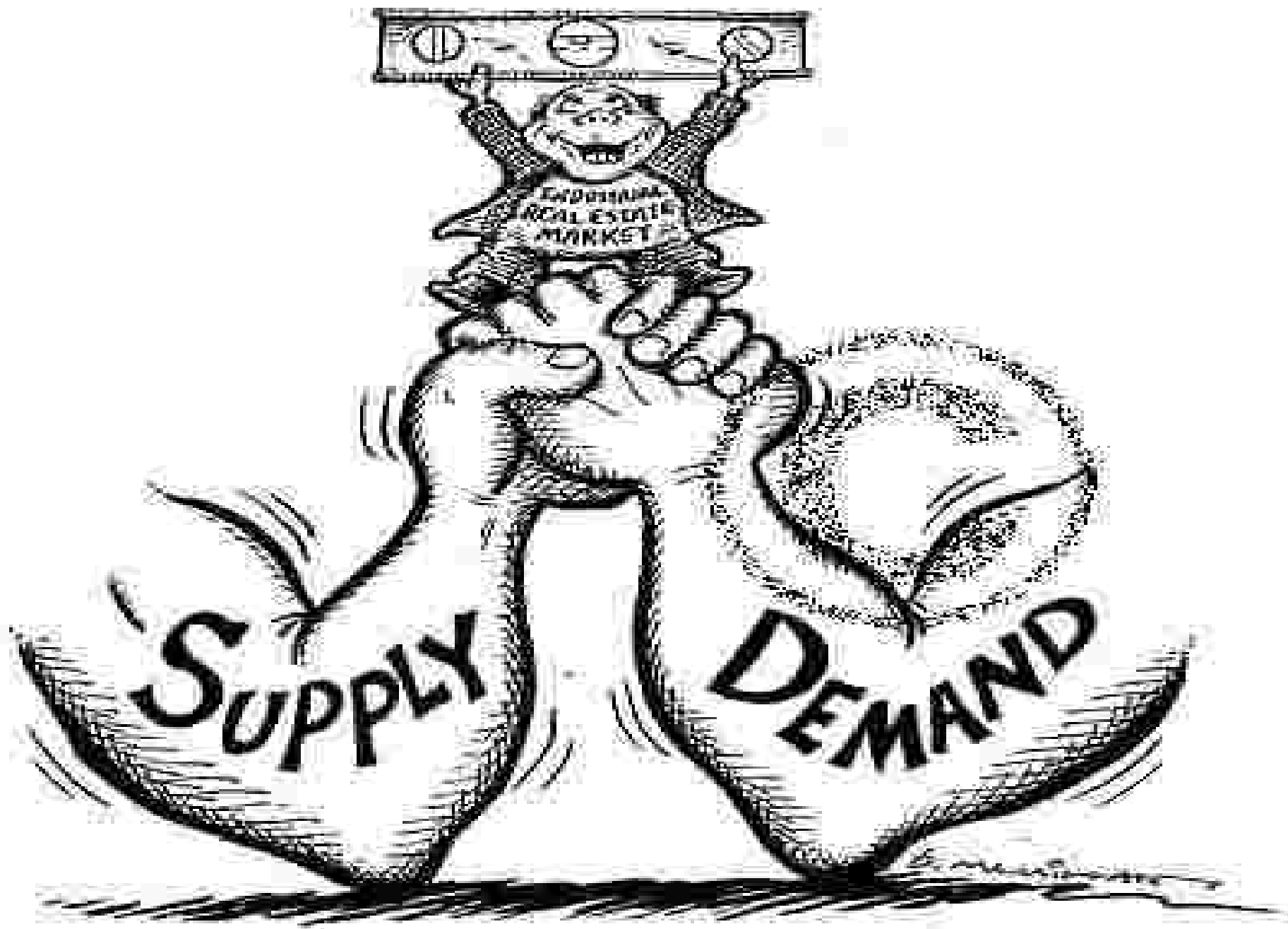
Stocks

Mutual funds

Managed accounts

Real Estate Prices

Business activity



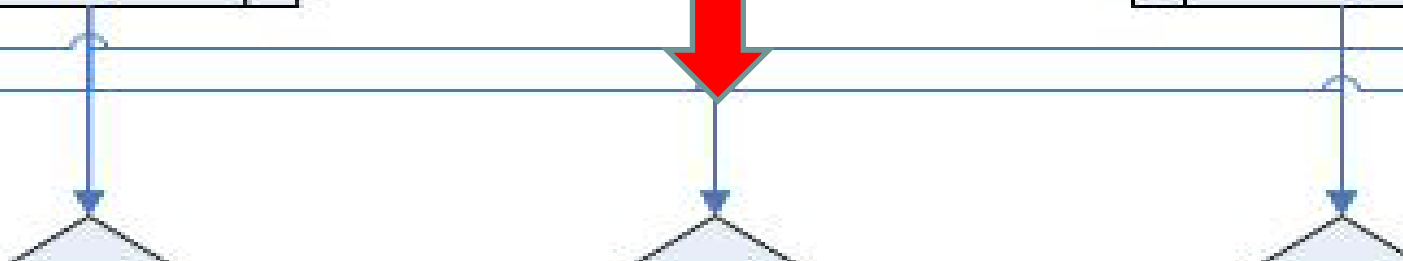
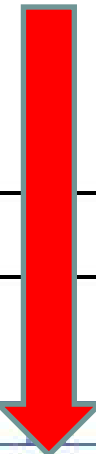


Amount of new money available for investments

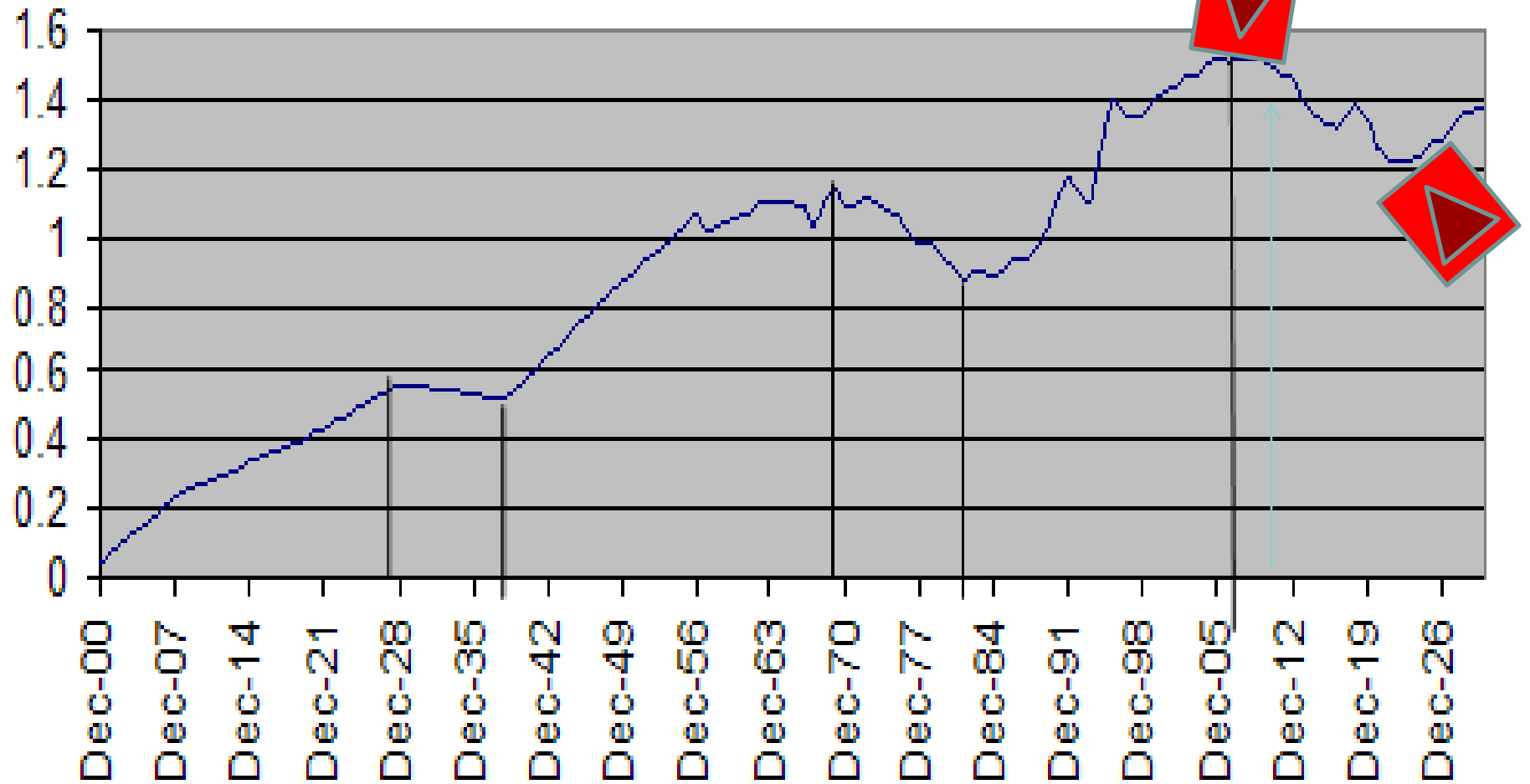
**Natural**

**Unstoppable**

The Demand for new investments



# The Investment Rate



Dec -00 = December 1900

# Fragile Economy Until 2023

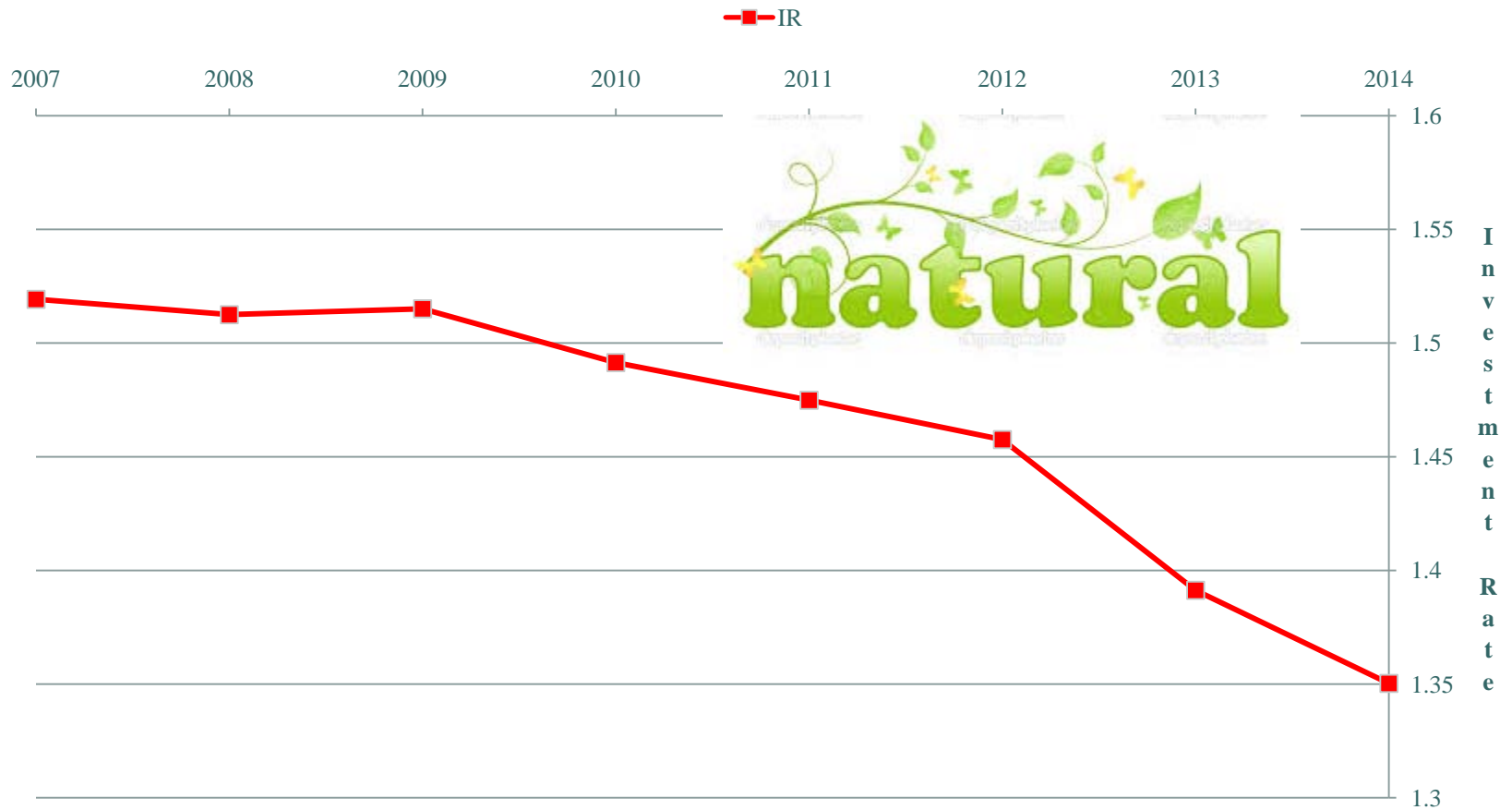
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**DON'T DROP**

**FRAGILE**

# The IR after 2007

Natural Economic Growth (2007-2014)



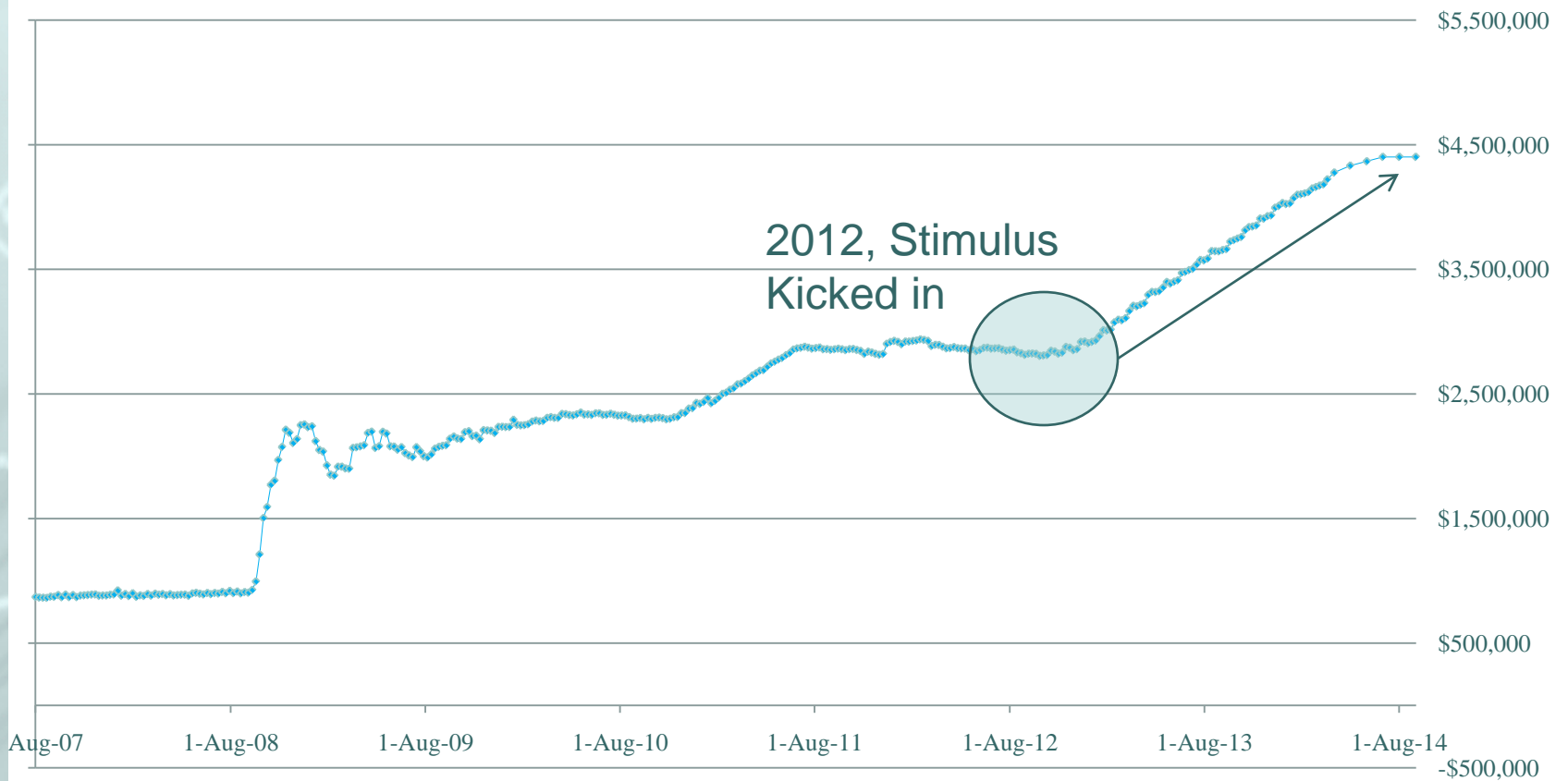




# Aggressive Stimulus in 2012!

## FOMC Balance Sheet in Billions (2007-2014)

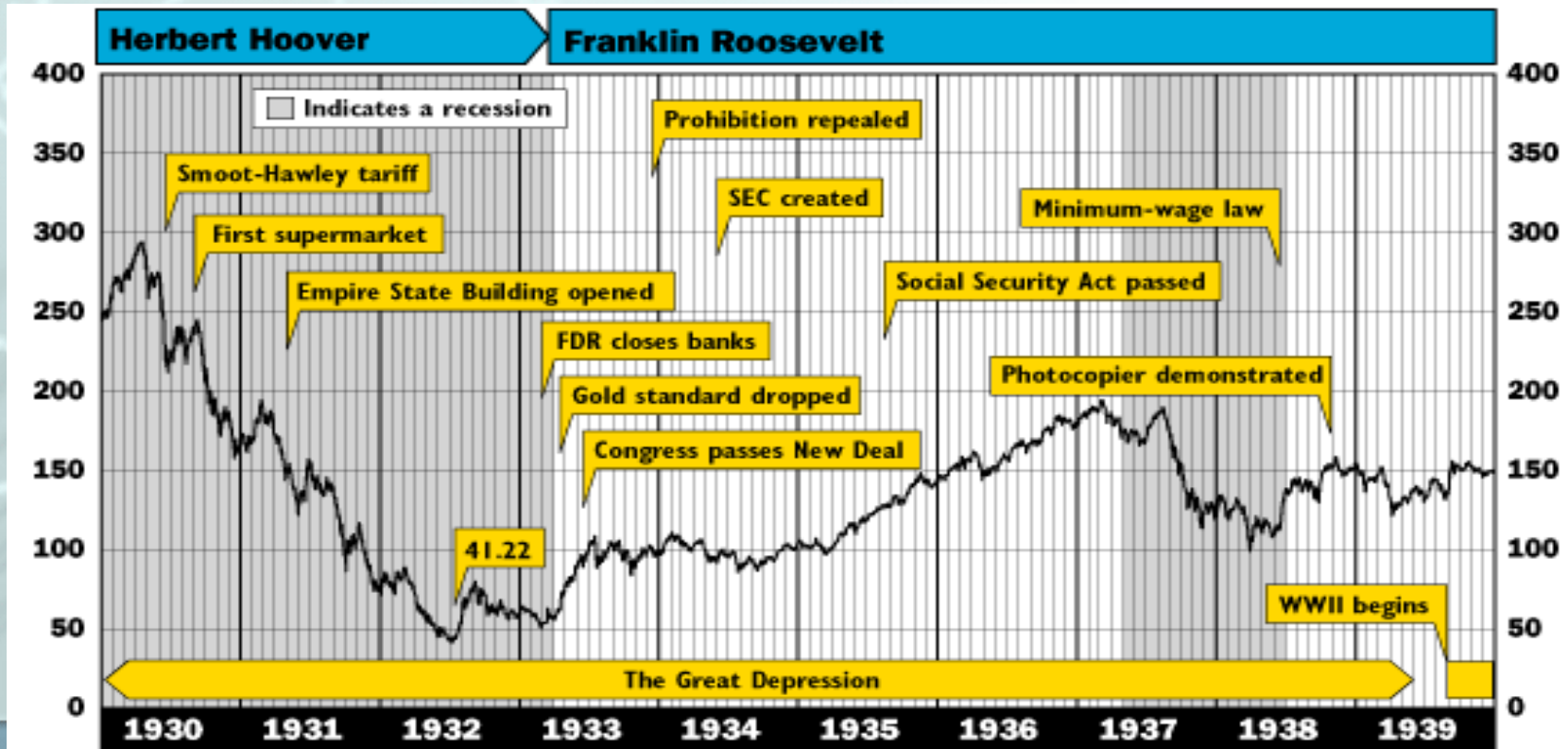
— Total Assets of the FOMC





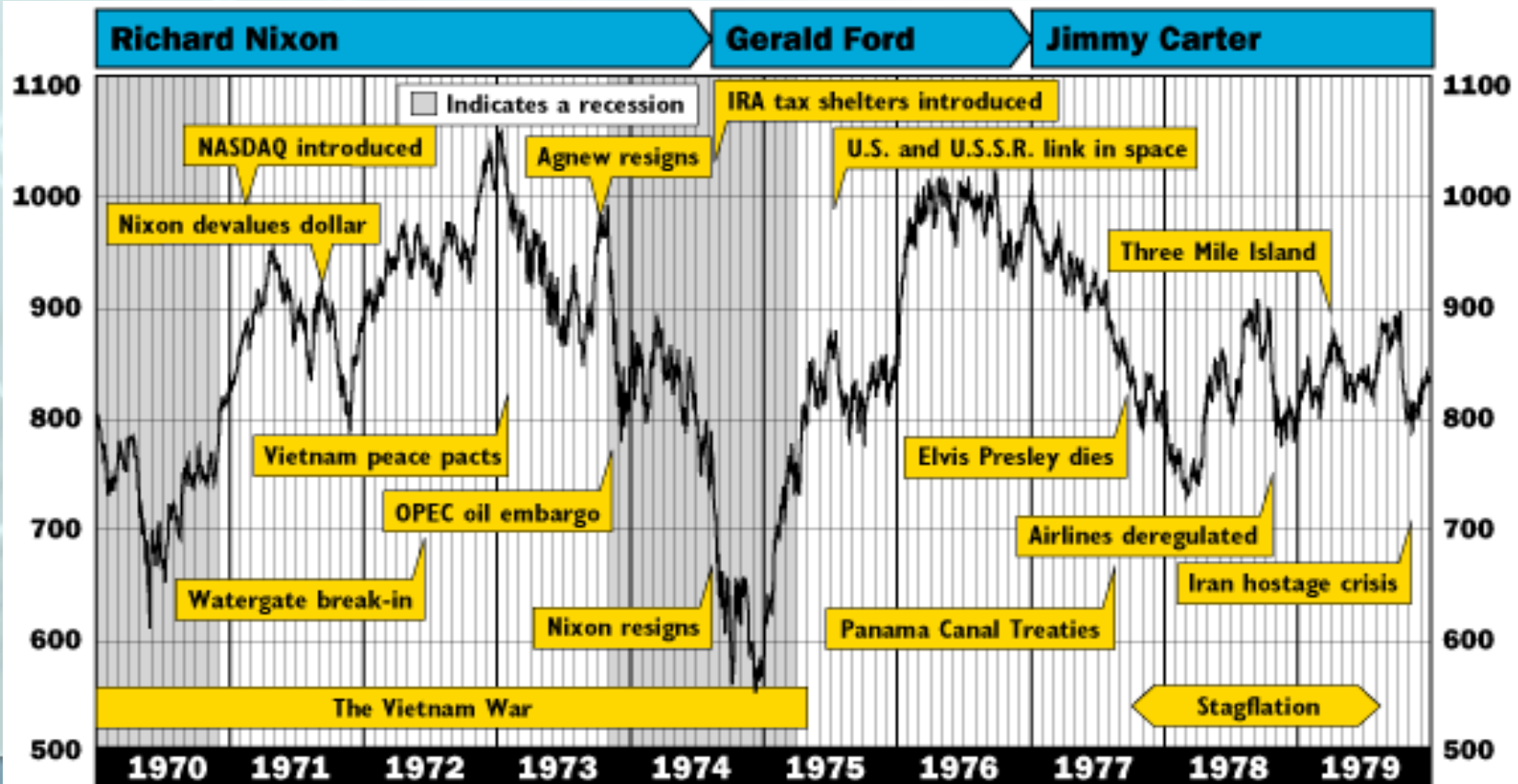
# Not Unusual – Great Depression

- The first down period in the IR began in 1928 and lasted through 1938. This period was also known as the Great Depression. You would assume, and you can see in the chart, the market performed poorly during this time. If anything can validate the first down period in the IR, the Great Depression can.
- Food For thought: does the IR help you understand why the Great Depression happened? Was the IR going up or down?

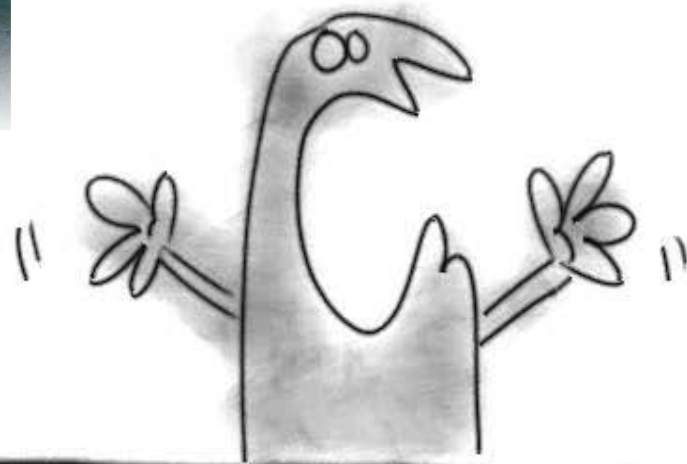


# Not Unusual - Stagflation

- During this second down period the market was faced with the struggles of the Vietnam War, and the troubling notion of stagflation.
- Why weren't prices going anywhere? Why wasn't the Market going up? Can the IR help you understand the answer to these questions?
  - Remember, the IR was going down.



# Now What?!!





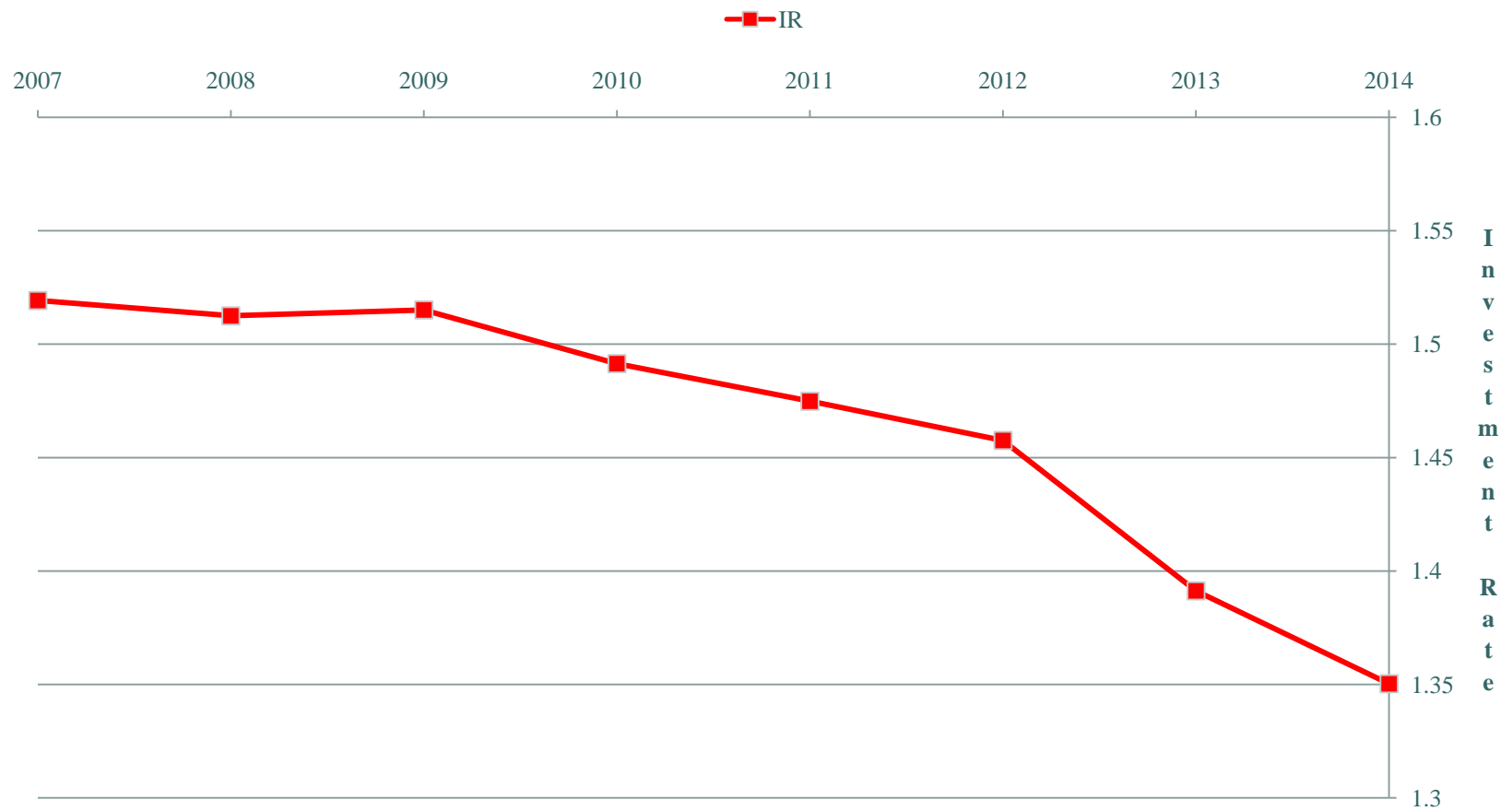
# The Investment Rate

Macroeconomics



# Data/Observations

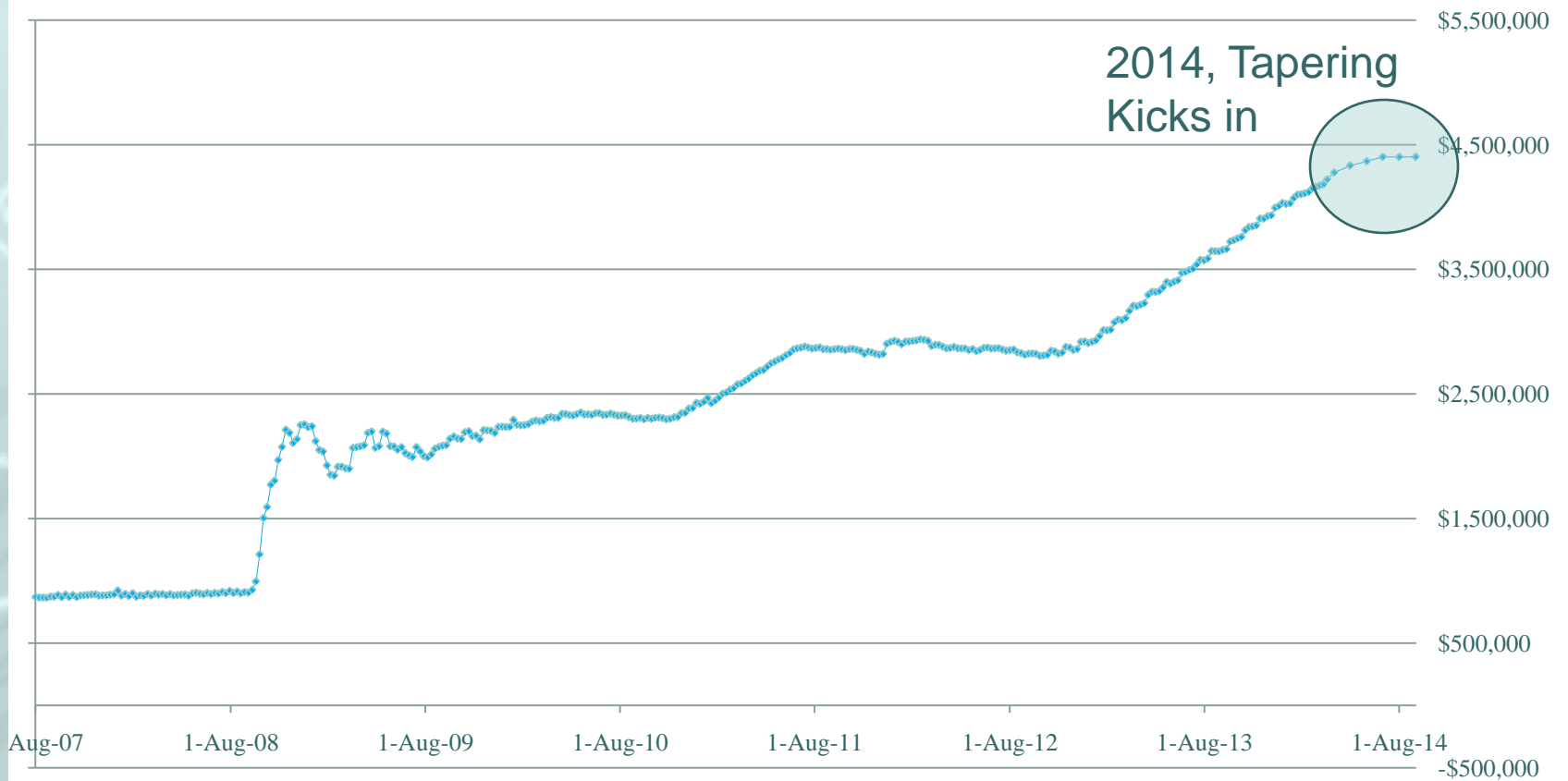
## Natural Economic Growth (2007-2014)



# Data/Observations

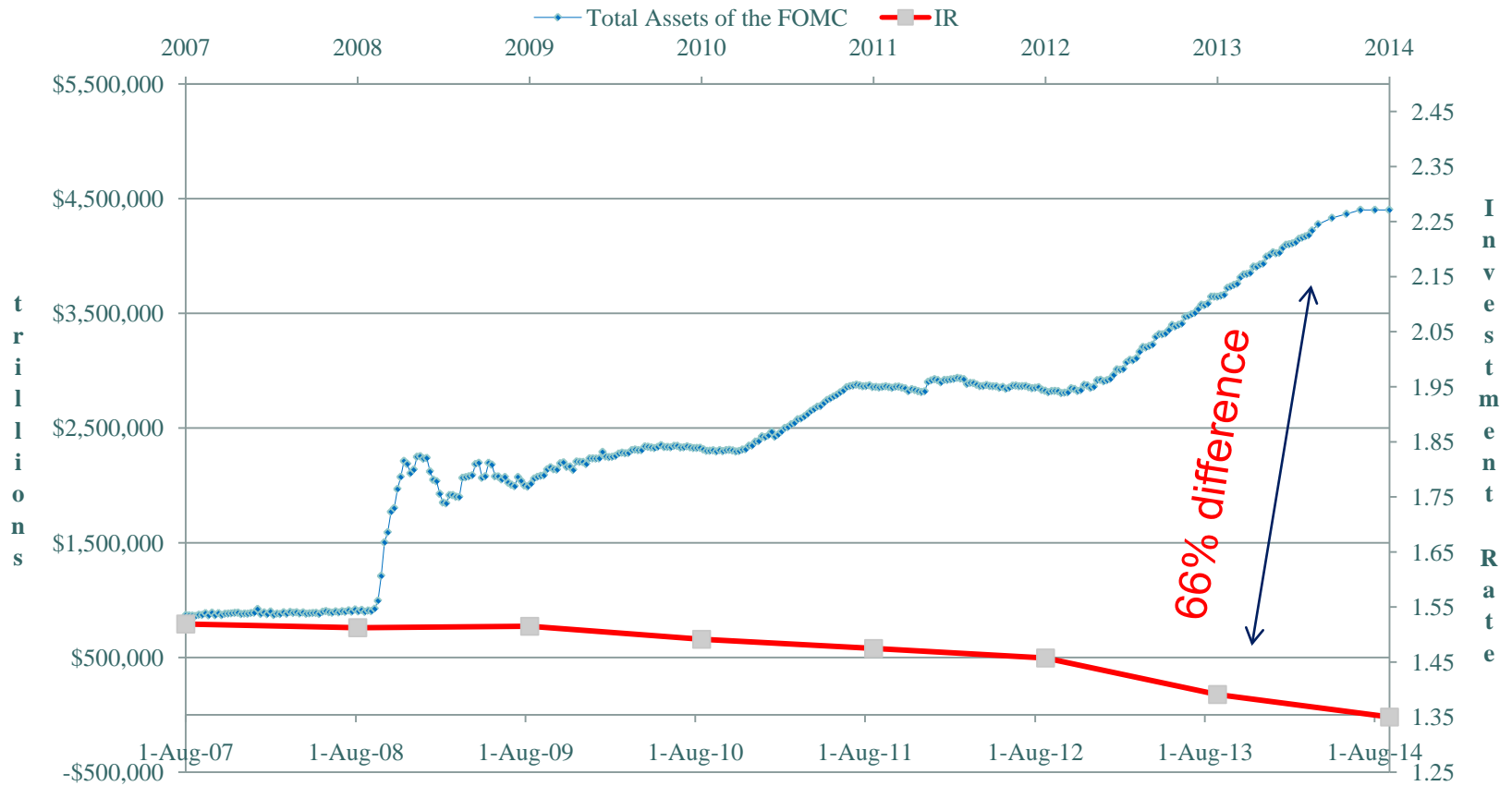
## FOMC Balance Sheet in Billions (2007-2014)

— Total Assets of the FOMC



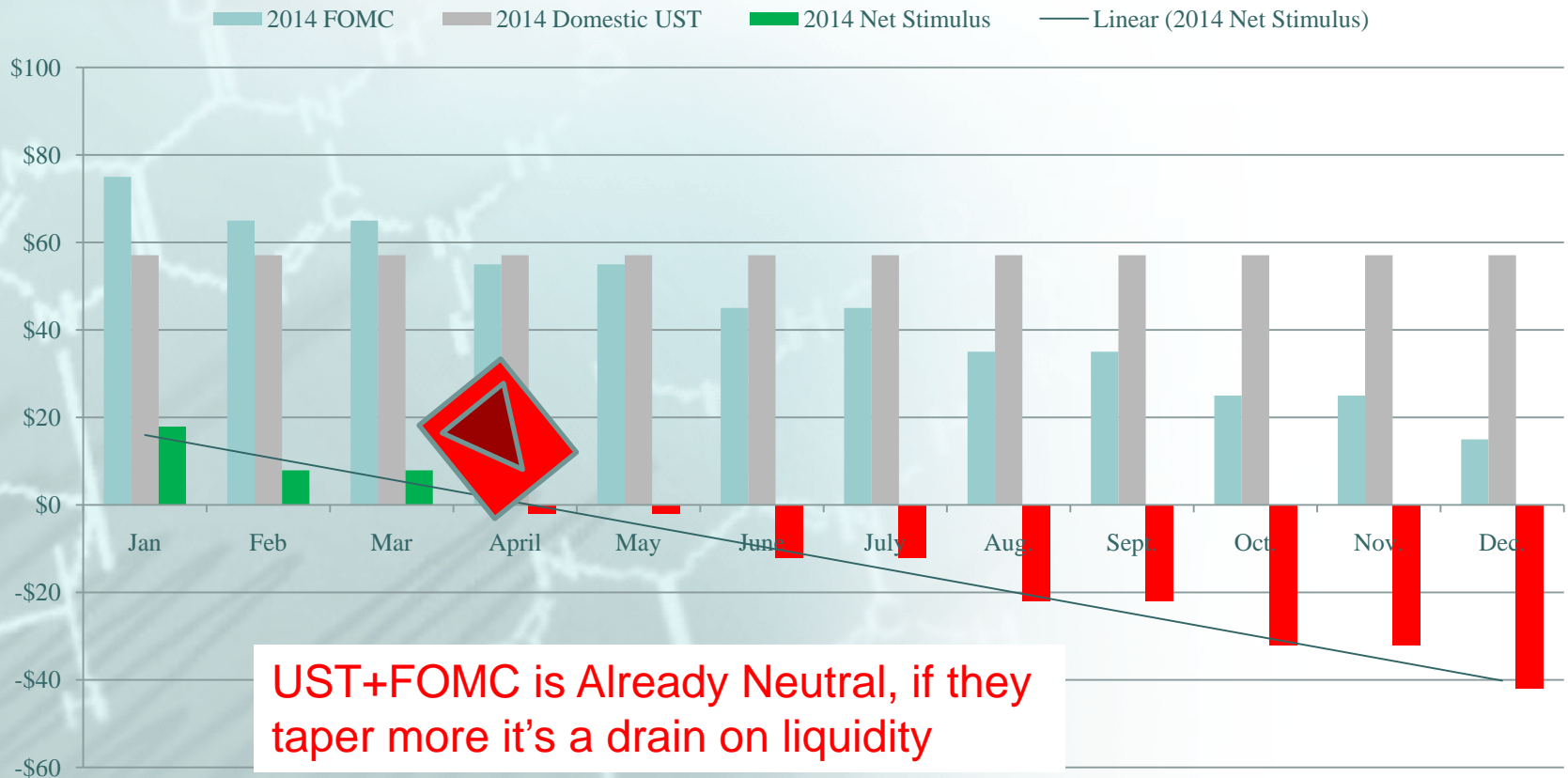
# Data/Observations

## Stimulus vs the IR (2007-2014)



# Data/Observations/Projections

## 2014 Monthly Stimulus (Billions)





# Summary

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Stimulus has distorted the natural state of the Economy, and without Stimulus the Economy will revert back to a more natural state. Therefore, it is important for us to identify that more natural state.

**The Investment Rate Proves the Natural State of the economy**

In addition:

**The economy will begin to revert back to normal once stimulus stops.**

&

**Real Net Stimulus has already stopped.**

Quantified

**The economy is 66% ahead of itself**

Be Ready

**Material weakness looms.**

# Conclusion

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Stimulus has already stopped

The combined UST/FOMC efforts will begin to drain liquidity

The effect will negatively influence the economy.

There is a large gap down to fill.

The economy is 66% ahead of where it should be

This is due to stimulus.

We expect the economy and all asset classes that benefitted from  
Stimulus to come under serious pressure.



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A Real Possibility



# The HGH affect

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Without the drug that is stimulus the economy could not only revert to its natural state, but overshoot to the downside again too.

Additional stimulus is needed to sustain current levels, and more is needed to promote growth on top of these already inflated levels.



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# What Should You Do?

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- **PROTECT YOUR ASSETS**

- Use Proactive Strategies
- Use a money manager who has been proven to protect assets in down years like 2000, 2001, 2002, and 2008.

I will provide examples.



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# The Stock of the Week

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- **This is one option**

- +248% since December 2007 (as of 3.3.14)
  - That was the cusp of the credit crisis
- The S&P 500 is only up 28% over the same time.
  - The reason is risk control and discipline.
    - The Strategy is very easy to follow
      - Conditional orders.



# The Stock of the Week

1 Day: **0.00%**  
1 Month: **3.54%**  
3 Months: **12.12%**

1 Year: **23.12%**  
3 year: **79.89%**  
5 Years: **91.70%**

STDEV (3 years): **0.07**  
Beta (3 years): **-0.30**  
Alpha (3 years): **2.46**

Compare with:  S&P 500  Strategic Plan  Swing Trading  Day Trading  Lock & Walk



# DRS

Beating the market by 46% annually

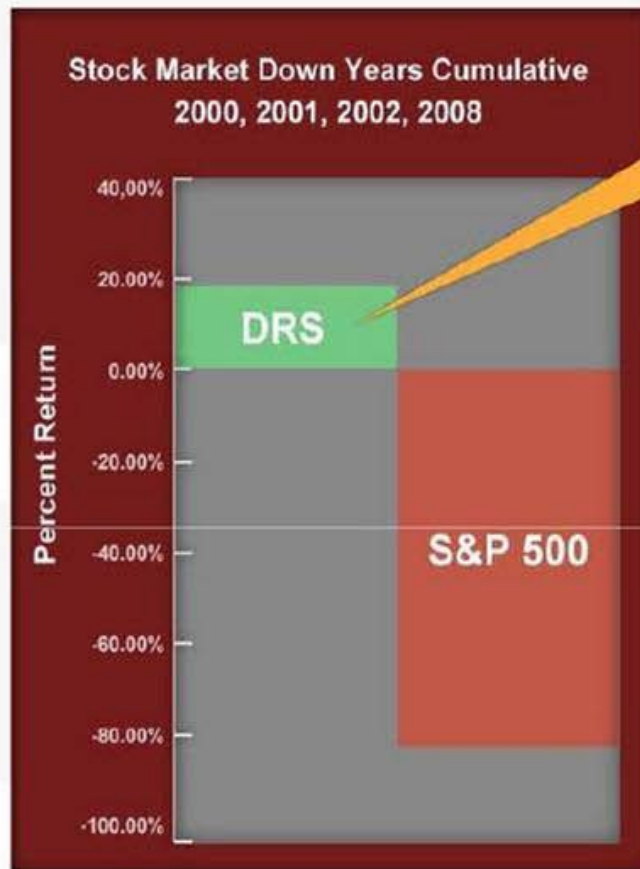
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- DRS is a Strategy with a 16-year track record.
- It is proven in both down markets and up-markets
- It is a managed account, for qualified investors.
  - It has a 5-star Morningstar Rating.
  - It is designed to protect assets first.
- Upside Market Participation is also important.
- This combination is beating the market handily.
- **On average the DRS Strategy has beaten the market by about 46% annually.**
  - The is because of the risk control.
  - It is a perfect selection for core investment assets.
- If you do not want to do the work, this should be your choice.



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# DRS



The DRS minimizes losses in bear markets!

	<b>DRS</b>	<b>S&amp;P 500</b>
2000	3.17%	-9.10%
2001	7.46%	-11.89%
2002	12.22%	-22.10%
2008	-4.50%	-37.00%
<b>Total</b>	<b>18.35%</b>	<b>-80.09%</b>

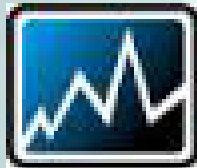


# Find out More

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  - Platinum subscribers receive 1-1 assistance.

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