It's been quite a day for the US stock market, hasn't it? After all, it was a lead story on the Evening News as well as in the morning programs. The Dow Jones was in striking distance of an all time high! CNBC spent their entire day with the "Breaking News" scroll on the screen regarding this "monumental" event. Trader after trader was interviewed, and wouldn't you know it... they were 100% bullish! The various anchors began begging the index to make that new high on their watch. Yes, you read right, begging, like dogs for table scraps. 10 and 20 year veterans reduced to this. All I could do was shake my head in disbelief. A quick call to my trading peers revealed something that should shock no one. Not a single person cared if the Dow did or didn't close at new highs. It's 30 stocks that represent just about nothing.

And all this media created attention was certainly not seen in total stock market volume, which came in with a giant yawn. NYSE volume was very average and not even the heavier of the week, let alone the month. NASDAQ volume was the heaviest of the week, but still did not show any substantial activity. Does anyone really care what the Dow does? Will the Dow making a new high alter your life? Or your portfolio? Or your strategy? Of course not! This is one of those days that you just have to chuckle.

Let's talk for a bit about what's really going on in the short and intermediate-term and get away from the media circus. A month ago I discussed a scenario I thought was the most likely. The stock market would peak during the September options expiration week, around the 22nd, and decline, on balance, to the October expiration week. Clearly, I was wrong. My logic was based on some very strong seasonal and cyclical patterns that had a very degree of accuracy with significant lows in October 2002, October 1998, November 1994, October 1990 and September 1986. Before breaking out the "this time is different" line, I believe we will see some sort of short and sharp pullback, but it will be more like 1994 and 1986 that led to much higher prices almost immediately. The other bottoms were characterized by major international events with the stock market peaks seen months earlier.

Now that we know where we are not, let's talk about where we are. I have had some time after the market closed to fully digest the day. The hyper cheerleading we saw from the media today is a definite short-term warning sign. I don't know whether today was the peak or tomorrow or next week, but the risk in the short-term has definitely increased. I expect my short-term stock market models to turn negative in the next few days. Additionally, the action in the semiconductors, mid caps and small caps has been very, very disappointing for the bulls. The market has been led higher by the Dow and S&P 500, the two groups that never lead sustainable rallies. Please also remember that this is the last week of the quarter when portfolio games by investment managers are at their highest. Large dollar, computerized buy programs have been seen all week in the mega cap stocks and this will certainly be unwound early next week.

Longer-term, I am very, very encouraged, especially if we see some weakness in October. Both of our long-term stock market models are positive, a condition that has led to some truly outstanding returns. Our research staff split this condition into two groups, within 2% of 52 week highs in the indexes and everything else. While the returns are stronger after declines, the current condition over the past 20 years has led to these returns on an annualized basis using hypothetical data before one of the models turned negative.

Dow Jones	+18.90%
S&P 500	+18.33%
Nasdaq 100	+33.34%
S&P 400	+23.14%
Russell 2000	+26.51%

In short, we are calling for some short-term weakness to begin in the next week, but not the beginning of any large scale decline. Pullbacks to the 21 and 50 day moving averages are the places to be big buyers in October.

All Good Trades,

Paul Schatz
President
Heritage Capital LLC
1 Bradley Road - Suite 202
Woodbridge CT 06525

203.389.3553 phone
203.389.3550 fax

www.InvestForTomorrow.com