
**August 9, 2007**

This is going to be a really quick update since I have to get up at 5:00 AM for my annual WIMATH Golf Classic in Mass. To me, there's not much worse than getting up at the insane hour, except now, the weather forecast is for rain with highs in the low 60s.

It's no secret that we're seeing some of the most volatile times in many, many years. People get way too complacent when the stock market goes up strong with each and every little dip being a buying opportunity. It's only when the tide suddenly turns and they see a river of red in their portfolios do they stand up and take note.

What's been very interesting during this correction is the amount of high profile, supposed "smart money" folks who got caught. Last night I read about Goldman's Global Alpha fund which was labeled "Master of the Universe" in 2005 after earning 40%+ returns.

Almost as soon as the public became aware of it, thanks to an excellent Wall Street Journal article, the fund fell flat on its face, losing 9% in 2006 and another 16% so far in 2007. The key point here is the managers of this fund were supposed to be the greatest and smartest in the world! Did they drink the Kool-Aid and believe the headlines?

I picked on the Goldman fund because of the positive press it received right at its peak. But there were many more in July, like Paul Tudor Jones' flagship Raptor fund losing 9% in one month. Last summer, we witnessed Amaranth implode and this summer it was the former Harvard geniuses at Sowood Capital along with venerable Bear Stearns string of funds collapse.

All of these well publicized blow ups, in my opinion, have a few things in common; the lack of sound risk management and poor management of client expectations. As my wife will attest, I am FAR from perfect, but in all of our strategies, I have a very good notion of what our maximum downside risk should be.

And I communicate that several times to prospects before they sign as clients. I also send warnings after strings of good performance to make sure people are aware that the downside is lurking somewhere out there!

What I can't understand is how professionals do not have mechanisms in place to gauge and assess risk. Not that it's always right, because it's not. I remember getting caught in one strategy earlier this year and that led to a challenging quarter, but the I am shocked at the extent of the current blow ups.

Anyway, the stock market has been behaving very favorably for our strategies this quarter. While the market sold off very hard in July, we were busy clocking another month of strong returns.

Last week, we exited positions that would profit from a downside move and were fortunate enough to re-establish them again during the day on Wednesday. Today, while the Dow was in total collapse, we had several strategies making money! That's when the business is truly fun.

A few hours ago the nation's largest mortgage company, Countrywide, announced some fairly bad news about liquidity and access to funds. I would expect to see some more ugliness at the open tomorrow. From there, it becomes very interesting, once again.

The vast, vast majority of the time, the stock market, in this scenario, will open lower, stabilize and try to close firmly. That's the model for tomorrow. However, and this is a big one, if we, once again, are on the verge of a mini crash like 1998, tomorrow will be another total rout in equities. While that path is much less likely, it is possible.

I have a lot more comments, especially about our short-term indicators, so you can expect another update over the weekend. Either scenario, our clients' money is in good hands and we have a very nice cushion so far this quarter.

The stock market is setting up for another strong bounce, but it's too early to tell if that starts tomorrow at the open or we will have to wait until next week.

A few weeks ago, I mentioned buying the Japanese Yen as a possible hedge at the right time. Yesterday (Wednesday) was that time around the 84 level. I will discuss this more in the next update, but this could end up being a longer-term trade as it's possible that the yen is in the early stages of a very powerful rally.

Hopefully, you have been closely following us and your portfolio has weathered the storm without much damage.

If we haven't had a conversation about investing, I urge you to call or email me right away to schedule a meeting. This is yet another instance of why active investing is the way to go. I can't wait to hear from all the "buy and holders" on how you should just sit tight every time we decline and look over the long-term. Those comments just make me laugh!

Have a good Friday and safe and enjoyable weekend!

**To Your Financial Success,**

**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**

Important Disclosure Information

Heritage Capital LLC ("Heritage"") composite performance results represent time-weighted actual performance results for continuously managed Heritage accounts, which individual accounts Heritage believes to be representative of its investment management process (i.e. mutual funds and exchange traded funds) for each specific strategy during the corresponding time period. The composite performance results reflect the reinvestment of dividends and other account earnings, and are net of applicable account transaction and custodial charges, and the separate fees assessed directly by each unaffiliated mutual fund and exchange traded fund holding that comprised each account, and the maximum investment advisory fee that the accounts would have incurred (by applying the Heritage's current investment advisory fee of 2.00% as set forth in its current written disclosure statement) during the corresponding time periods.

Please Note: Past performance may not be indicative of future results. Therefore, no current or prospective client should assume that future performance will be profitable, equal the performance results reflected, or equal any corresponding historical benchmark index. The historical index performance results for all historical benchmark indices do not reflect the deduction of transaction and custodial charges, or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing indicated historical performance results. The historical performance results for all indices are provided exclusively for comparison purposes only, so as to provide general comparative information to assist an individual client or prospective client in determining whether the performance of a Heritage program meets, or continues to meet, his/her investment objective(s). A corresponding description of each index is available from Heritage upon request. It should not be assumed that Heritage account holdings will correspond directly to any such comparative benchmark index. The Heritage performance results do not reflect the impact of taxes.

For reasons including variances in the investment management fee incurred, market fluctuation, the date on which a client engaged Heritage's investment management services, and any account contributions or withdrawals, the performance of a specific Heritage client's account may have varied substantially from the indicated portfolio performance results.

In the event that there has been a change in a client's investment objectives or financial situation, he/she/it is encouraged to advise Heritage immediately. Different types of investments and/or investment strategies involve varying levels of risk, and there can be no assurance that any specific investment or investment strategy (including the investments purchased and/or investment strategies devised or undertaken by Heritage) will be profitable.

Information pertaining to Heritage's advisory operations, services, and fees is set forth in Heritage's current disclosure statement, a copy of which is available from Heritage upon request     Performance results have been compiled solely by Heritage, are unaudited, and have not been independently verified. Heritage maintains all information supporting the performance results in accordance with regulatory requirements.