



**January 15, 2008**

**10:09 PM EST**

## **Inside this issue**

[The Final Flush](#)

### **The Final Flush**

~~~~~

**This update is going to be quick, not by my definition, but yours! I am going to jump right in, get to the facts and head to bed because I am going to need all my focus for the day on Wednesday.**

**In my last full update, I discussed how the stock market was groping for a bottom after breaching the low point it established in November. I thought the possibility existed for another 2-3% decline to "kiss" the August lows and that's where we will be at Wednesday's open.**

**All along the decline, I held out that the worst case scenario was probably a move back down to the levels seen in August. Not that I wanted the market to head there, but it remained a viable scenario. With less and less panic type behavior seen in the past two weeks, the path to the August lows will become reality in the morning.**

**One of the clues that I failed to embrace was the continued reduction in market leading sectors. In the healthiest bull markets, all sectors rally, but at different paces. It's absolutely vital for financials and semiconductors to lead. Without them, a bull move has a shorter shelf life.**

**Over the past few months leadership has come down to energy, metals, utilities and consumer staples, exactly what you don't want to see during bull markets. Stocks like Apple, RIMM, Google, Amazon and Bidu masked significant weakness in the tech space. In hindsight, these were serious warnings near the peak.**

**We all know how bad the news flow is. You can't turn on the news, surf the web and chat at a cocktail party without hearing about sub prime, credit crunch, inflation, recession, etc. Yes, the fundamentals are very bad out there! Just as they were at almost every single significant market bottom of your lifetime. Sure, this time may be different, but the odds don't favor that.**

**Are we in a bear market? That depends on your definition. Many pundits call it a bear market when we decline 20% from the highs. Well, duh!! How is that helpful? Most of the time, the decline is over when they finally announce that, like 1990 and 1998!**

**I look at two factors to judge with the first being technical. Is the S&P 500 below its average price of the past 200 days and is that average trending lower?**

**Second is more subjective. I watch to see when the market cannot rally from being oversold and when people refuse to throw in the towel and we get some capitulation. For those newer to this, capitulation is somewhat of a mini panic where investors indiscriminantly sell stocks at any price.**

**Looking at the technical measure, we just confirmed a bear market this week. That could end in a day, a week, a month, a quarter or a year. The second measure, one could argue, is also happening with oversold readings leading to nothing more than bounces over the past few months with no major event to cause that mini panic or final flush.**

**I bring this up now because Wednesday has the chance to finally see that capitulation we've seen at every major bottom as long as I've been studying the market. Tuesday was a nasty day in the stock market with the major averages down 2-3%. Three times as many stocks fell than rose.**

**After the close, Intel announced some ugly earnings and will likely open down 15-18% on monstrous volume. That should also cause the popular indices to open sharply lower. For the market's sake, the worse the opening, the closer we are to seeing at least an intermediate-term low, similar to that of August 16.**

**What I do not want see is an opening well off the overnight lows that doesn't cause some panic selling with margin calls before lunch. Many folks are hanging on by the skin of their teeth and need one more push to be shaken out.**

**Should that occur on Wednesday, that will likely worsen investor sentiment to levels only seen at the depths of despair, or good stock market bottoms. It should also awaken Bernanke & Co. that if the Fed wants to head off a**

**systemic problem, they need to act quickly and swiftly with either 1/4% now and 1/2% at the end of the month or vice versa.**

**I truly believe Ben Bernanke did us a disservice by using the words "substantive action" and going back to sleep. He teased the market with words and now the anger is being felt. Didn't Ben's mommy teach him that it's nice to tease?**

**So that's about it for tonight. If you are a bull, you actually want to see a very ugly open to signal the beginning of the end of the correction. If you are bearish, your preferred scenario is a modestly lower open that leads to even lower prices over a longer period of time.**

**Should the former occur, it will likely lead to a powerful rally lasting at least a few months if not longer. The latter will add further credence that a bear market has begun, similar to 1977, and rallies should be used as selling opportunities. For now, I am sticking with the bulls.**

**As always, please feel free to contact me directly with any questions or comments. You can hit reply to this email or call me at 203.389.3553.**

## 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](http://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.