



April 28, 2008

1:26 PM EDT

Inside this issue

[More Talk About A "NEW" Bull Market](#)

[Fed Watch Begins](#)

[Commodities Versus Equities Part I](#)

[Friends And Family Plan](#)

More Talk About A "NEW" Bull Market

~~~~~

**For those of you living in New England, I hope you enjoyed the perfect spring weather on Saturday! What a gorgeous day! My wife "surprised" me for my birthday with a last minute trip to Vermont; our first with all three kids. And believe it or not, I was able to get some nice spring skiing in on Saturday afternoon to officially end my season. Just 201 days until we get to start all over again!**

**I always find myself laughing when I sit on a chairlift in a short sleeve t-shirt, no gloves and just sunglasses on as the sun beats down on me. It's almost surreal, considering it's Vermont! But Mother Nature likes to toy with us as I woke up Sunday morning to a cold rain and 40 degree temps. Ahhhhh, springtime in New England.**

**Transitioning from season to season can be difficult. I know there are some conditions where people become depressed when the clocks get set back, the days get shorter and the weather turns colder. Just as I know folks who get very down when ski season and winter ends. But it's all part of the "normal" cycle, isn't it?**

**I've made more than my fair share of bold statements over the years and this year is no different. While I certainly did not think the stock market would fall as hard as it did in January, once it happened, I had a very strong opinion**

that we would see a rally, another move lower into March and then the real, sustaining move higher this quarter.

I also offered out that I did not believe we would end up seeing the textbook definition of a recession, two consecutive quarters of negative growth in 2008. Yes, it's pretty bad out there. Yes, the headlines were scary. Yes, the depression calls made you want to curl up in the fetal position and suck your thumb.

But with the Fed taking precedent setting measures, Uncle Sam dropping \$40 billion in the mail and it being a presidential election year, I didn't and still don't think we'll see that definition come to fruition this year. My view is that IF there is going to be really bad economic trouble, and the jury is still out on that, it gets saddled with the next President in 2009. The economic stimulus checks alone are going to add a certain amount to GDP, even though it's a one shot deal.

Getting back to the transitioning from season to season (there was a reason I brought it up), another bold statement I made in February and March was that I thought it was possible to see a new bull market launched. I thought, and still believe that even if we are mired in a long-term bear market, which I don't, the market would still trade much higher this quarter with the Dow reaching at least 13,000, if not much higher.

My question to you is:

## **Why can't this be a new bull market?**

I would love to hear your thoughts, so please email them to me by hitting reply.

What's stopping this market from being a cyclical bull market? We had the requisite decline that is normally seen before new bulls launch. We saw historic extremes across the board in sentiment and technical measures.

IF the stock market trades back to the old highs before the election, the masses will certainly say it's a new bull market! But that will come after a 20% rally, which is not much help. That's like how we started hearing about the bear market after a double digit decline that was in the process of ending!

So please give this some thought and let me know any and all comments. Personally, I give that scenario a lot more weight than any others and have for a while. What's really preventing stocks from rallying, on balance, through year-end?

As a gentle reminder, the offer I explained last week regarding investment management at no charge has 5 weeks left on it. Another person signed up so there are now only 13 spots remaining. It feels like I should be throwing in the Ginsu set! But I can live with that if it helps people to take action and help themselves.

## **Fed Watch Begins**

~~~~~

Bernanke & Co. begin a two day meeting tomorrow and the likely scenario calls for a 1/4% cut in the Fed Funds rate, along with some commentary that they are essentially done cutting rates. With the two year Treasury Note currently yielding approximately 2.25%, the Fed has done their job as the funds rate will now be at 2%, finally catching up to the market!

They may have been asleep at the switch too long, but when Rip Van Bernanke woke up in January, he became very aggressive in staving off financial collapse as well as keeping the economy from falling into a sinkhole.

So, you can expect 25 basis points on Wednesday and a statement that says the economy has been sufficiently stimulated, but the Fed stands by, ready, willing and able to support the U.S. economy through many means.

Don't be surprised if they use the cover of increased inflationary pressures for signaling a cessation of future cuts. I think that's more smoke than anything else since they have already said numerous times that they believe the inflation issue is going to abate later this year. And that was their calculated gamble to cut rates to 2% in the first place.

Stocks have been on a nice run since the March bottom and there is much more upside ahead, as I continually mention. Just remember that it will not come in a straight line move! It's expected, healthy and welcomed to see occasional pauses and retrenchments.

I thought we would see some digestion late week, but it looks like the stock market will remain firm at least until the Fed concludes their business on Wednesday at 2:15PM.

The path of least resistance continues to be up and all pullbacks should be buying opportunities until proven otherwise. The Dow could decline several hundred points and I still believe the market will head much higher from there.

Commodities Versus Equities Part I

~~~~~

**Over the past few weeks, a number of folks have requested some commentary on the surge in the energy market and it's lasting impact the global economy. First, I am not an economist; never have been and never will be. Thankfully, I try to make common sense judgements and steer clear of popular delusions.**

**So I decided to make this a two part article on the behavioral difference in stocks versus commodities and then a focused article on directional movement.**

**If we take a step back, there are certain commonalities is various asset classes. For instance, the stock market generally moves higher over long periods of time as economies grow and new technology makes us more efficient. In the U.S., there's roughly an 8% tailwind to owning stocks over time, making it difficult to bet against the market for periods longer than 10 years.**

**Additionally, stocks exhibit certain behavioral patterns at tops and bottoms. Generally speaking, stocks tend to see sharp, waterfall type declines and rise at a more measured, stair step pace. Tops usually roll and roll, rather than move in parabolic, straight up fashion.**

**The commodity markets are very different. They seem to have an equilibrium point where price oscillates around in major cycles that last years and years. There has not been any discernable tailwind that permanently aids commodities like equities have.**

**Behaviorally, commodities are the exact opposite of stocks. They scrape along the bottom for weeks and week, months and months, and years and years before embarking on a new bull market.**

**Conversely, at peaks, commodities see these spectacular, jaw dropping rises. The rise goes much, much farther than anyone ever believes until common wisdom says that we are in a new paradigm. Only then do we see as dramatic a collapse as we saw in the rally.**

**Another difference in the two asset classes is the duration of secular bull markets. When you think about stocks, most people agree that they generally trend higher for most decades with a few exceptions like the 1930s, 1970s and 2000s. Commodities spend most of the time moving sideways in a broad trading range, but during a few wild periods like the 1970s, they become the hottest investment in the world.**

**In short, commodities are almost the exact opposite of the equity market.**

**In next week's issue, we'll talk about whether this gigantic rally in energy is here to stay for the rest of our lives or building to a major top. I've read a number of stories regarding peak oil in the past few years and that certainly has to be considered!**

**Please feel free to email me directly by hitting REPLY, or call with any questions or comments!**

## **Friends And Family Plan**

~~~~~

Finally, as you know, our firm and this newsletter continues to grow mostly from your referrals. If you know anyone who is interested in securing their retirement, planning for it or just plain worried about it, please send them here. As always, thanks for thinking of us with your circle of family and friends.

<http://www.investfortomorrow.com/newsletter.asp>

You can also forward this email to family and friends by hitting the "forward email" hotlink at the bottom of this email.

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

Published by Paul Schatz. Copyright (C) 2008 Heritage Capital, LLC. All rights reserved.
StreetSmarts is produced and distributed regularly via email by Paul Schatz of Heritage Capital, LLC
1 Bradley Road, Suite 202 Woodbridge CT 06525 Phone (203) 389-3553 Fax (203) 389-3550 - www.InvestForTomorrow.com
Heritage Capital, LLC is an independent RIA not associated with any financial institution. Data used in this publication is gathered from reliable sources, although completeness and accuracy cannot be guaranteed. Performance results do not take into account any tax consequences and are not predictive of future results. This publication does not give any specific investment advice, does not provide financial planning services, or consider any individual's financial situation, needs or goals. This publication may not be reproduced or retransmitted in whole or in part without the consent of the author, Paul Schatz.

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.

