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Inside this issue

[Oil Still Headed Higher \(and the lost inch worm\)](#)

[Higher Stock Prices Just Around The Corner In July](#)

[Interesting Article](#)

[Friends And Family Plan](#)

Oil Still Headed Higher (and the lost inch worm)

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**It's certainly been an interesting couple of weeks, hasn't it? But I could have said that almost every week in 2008. This year is going to go down as one of the most gut wrenching in my career. And I've been in the business since 1988. Not only are the financial markets chaotic, but try having three little ones under the age of five wreaking havoc in your house!**

**The littlest one is now about 10 weeks old and affectionately referred to as Uncle Fester (from the old black and white show The Adams Family). He is kind of pale, bald and round without much of a neck so far. But he is a very cute baby and fairly well behaved.**

**Earlier tonight, my daughter found a little green worm on the ground and made a little habitat for him so he could come inside. When I told her to leave that caterpillar outside, she put her hands on her hips, opened her eyes and mouth very wide and said "Dad, it's NOT a caterpillar. It's an inch wum (worm) and you're hurtin her feelings calling her a caterpillar."**

**So after I told her to leave that inch worm outside, she scolded me and said, "Now you raised your voice and she's scared. She needs to come sleep with me", which somehow is where he is now.**

If all this wasn't enough for some pre bedtime play, my other son was WAY too quiet in the house. After calling his name without response, I found him in his bathroom trying to use the plunger in the toilet that didn't need to be plunged.

When I asked him what he was doing, he replied, "I'm fixing".

So I asked... "fixing what?"

He told me it was "the paper", which there wasn't any in sight.

I walked into my own bathroom and found two full rolls of toilet paper jammed into my own toilet. My son, who clogged up my bathroom, was trying to "fix" the problem by plunging his own bathroom!

And now you have a quick update of the daily activities in the Schatz house.

Certainly not to be outdone, the stock, bond, gold and oil markets have had quite a ride the past few weeks. I remember warning last summer that volatility was about to expand and once it began it would be like a volcano. But to be fair, even I did not think it would reach historic levels. And, it's FAR from over!

In the last major update I did, I included part II of the piece on commodities, and energy specifically. That article sparked the most response in all the years I have been writing my letters. So thank you to everyone who responded, whether you agreed with my position or not. I really enjoy the exchanged of ideas and opinions and this topic is so hot and relevant that almost everyone has an opinion.

I am in the process of writing the third part of the series and should have that out next week. The "skinny" so far is that last Friday's record spike in oil only served to reinforce my longer-term view that we are building towards a major peak and a significant collapse is in the offing later this year, even though crude should hit at least \$150 and gas could see \$5 in the short-term.

## Higher Stock Prices Just Around The Corner In July

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Turning to the stock, which has been almost calm in comparison to the commodity markets, we are seeing the first real pullback since the rally began in March. Notice I used the word pullback and not correction or resumption of

the downtrend or bear market.

Way back in January, during the darkest days of the year, I thought there could be an opportunity for a new bull market to launch in the spring. At that time, I was really focused on the first half of March for the rally to begin and so far, nothing has changed my thought process.

I continue to believe we are in a cyclical bull market and that higher highs than we saw in May should be seen in the third quarter with the possibility of revisiting the all time highs in the fourth quarter.

Yes, I know that's crazy. I mean, don't I realize that gas is well north of \$4 a gallon and the economy is sinking?

Of course, I know what's going on around us. I see consumer confidence and sentiment at either historic lows or extremes. There's a continuous barrage of negative headlines in residential real estate and my weekly tour of Route 1 in Orange CT shows more and more commercial vacancies each month.

Things are pretty bad out there.

Although we haven't seen the steady stream of corporate layoffs and restructurings announced yet, it's almost a certainty at some point this year. Unemployment is now spiking higher and the consumer is already stretched and overextended with food and energy prices adding insult to injury.

I am sure more than a few of you are wondering, "Schatz, have you lost your mind? How could you possibly be bullish?"

Similar to my comments throughout the first quarter, things are always really bad right before they are about to turn. I pointed to previous major stock market bottoms in 1987, 1990 and 1998 as we were approaching the March low this year.

In fundamental terms, 1990 offered a solid comparison with spiking energy, food and inflation along with a housing bust, credit crisis with the S&Ls and recession. So given the economic backdrop and stock market similarities, this remains a valid comparison to the 1990 - 1991 environment as I've discussed for more than a few months.

The key takeaway is that by the time the headlines actually looked much better and we "felt ok", the stock market was at least 20% higher. We've already experienced a strong rally from March through mid May and are now in the midst of the pullback to weed out the weakest handed holders before

moving higher.

As May unfolded, we saw an awful lot of folks get much too bullish on stocks. Since the market often accommodates the minority, this was a worrisome sign that is and has been correcting. It's pretty impressive at just many people have gone very positive on the market's prospects over the next three months to very negative with price not declining that much in the grand scheme of things.

I believe when we look back in a few months, much like I discussed when Bear Sterns collapsed, the signs will be obvious that stocks are bottoming this month. Remember, market lows are established when the masses and media become overly pessimistic.

This month, we have rumors of Lehman Brothers in trouble, along with more banking problems from Wachovia, Washington Mutual, etc. Unemployment jumped at an alarming rate. Consumer sentiment and confidence are at historic lows. Oil is running like a tech stock in 1999. And economic woes are being felt from coast to coast.

That's a pretty good recipe for hibernation! Just like at previous bottoming junctures. BUT, if things are so bad in corporate America, then WHY are company insiders buying so much of their own stock at market rates? It's certainly NOT because they believe their company stock is headed into the toilet. This is their own personal money; the funds they use to buy gas and food and take expensive vacations.

I continue to like the action in the technology and small cap arenas, although it's been ugly over the past few days. If the market were about to implode as some people suggest, we should have seen much worse behavior from these groups. Yes, the banks look like they are going to zero with the airlines, but I just don't see it.

This is a normal and needed decline from a fairly large rally that should clean out the dirt and set the table for a really nice meal over the summer. The major indices could decline further this month, but it should all be part of a bottoming process that should be wrapped within a few weeks.

And finally, as it's the day after I began this update, my daughter's little inch worm has been officially named Minchilla and it's a female. Oh yeah, and my kids let Minchilla out of her habitat and she is roaming somewhere in my house!

That's it for today. The heat wave has finally broken in the northeast and I hope it's nice where you are as well.

As always, your thoughts, comments and questions are welcome! Please hit reply to email me or call the office at 203.389.3553.

Interesting Article

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<http://eba.benefitnews.com/asset/article/605611/index.html>

New HSA funding opportunities via IRAs

June 11, 2008

The health savings account has already proven to be a relatively flexible account-based benefit in its ability to be layered with other products and double as a retirement vehicle. Now the product can add another feather to its hat. Owners of individual retirement accounts who are enrolled in a high-deductible health plan can shift IRA funds into a HSA, without facing a tax penalty.

The Internal Revenue Service recently issued Notice 2008-51, which provides guidance on a qualified HSA funding distribution from an IRA or a Roth IRA. Under the new rules, individuals covered by a HDHP that also own a traditional or Roth IRA can make a one-time IRA-to-HSA funding transfer without facing federal income taxes or penalties, IRS officials state. The transfer amount, however, cannot exceed the individual's maximum HSA contribution limit.

In the notice, which implements provisions under the Health Opportunity Patient Empowerment Act of 2006, the IRS outlines 10 scenarios on how the rules would apply.

For example, a 57-year-old worker with a maximum annual HSA contribution of \$3,800 and an IRA account balance of \$13,550 could transfer \$3,800 from the IRA to the HSA. The distribution from the IRA account is not included in the worker's gross income and is not subject to the additional tax, the agency explains. As a general rule, IRA and Roth IRA holders are subjected to a 10% income tax penalty for premature withdrawals before the age 59 ½.

In addition, the money will have to go directly from the IRA trustee to the HSA trustee, IRS officials note. If the individual ceases HDHP coverage within a one-year period of the transfer, then he or she no longer receives the tax break.

"Employers are not responsible for reporting whether an employee remains an eligible individual during the testing period," officials add.

**Friends And Family Plan**

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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.

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To Your Financial Success,



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