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Is The News Making You Dizzy?

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It's an amazing thing in the financial markets, news. Good news is good news. Good news is bad news. Bad news is bad news. And bad news is good news. It can make your head spin! I often write that the most bullish thing the stock market can do is go up in the face of bad news.

It's no secret that 2008 has been riddled with bad news. And that bad news has led some of the most hair raising declines of the modern investing era. Each time, we saw stocks bounce for varying lengths of time, only to be pounded faster and more significantly than the previous time.

For the past six weeks, I have argued that the October 10 low was the internal or momentum low for 2008. That's the point where the vast majority of stocks experience their lowest point of the past year and downside velocity is greatest. It's also the juncture where you see a relentless supply of bad news that's viewed as bad news!

Often times, prices will temporarily rebound from that position and see another low or two within a few months. At that point, we see fewer stocks at their worst 52 week levels and downside momentum abating somewhat. We also begin to see bad news having less of an impact. That's exactly what we saw last month.
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So from my perspective, I continue to believe we've seen a short-term bottom at worst. It will take some time and analysis to see if that bottom has more legs to support a rally well into 2009. The news landscape is also changing.

While I expect a steady stream of bad news well into 2009, I believe the markets are discounting that and trying to look beyond the next three months. Certainly, any good news is going to receive positive reaction, but bad news is losing its impact.

I don't want to make too much from one day, but we saw a horrible report from ADP on the job front as well as another bad reading from the Institute for Supply Management (ISM) on the purchasing side. Yet after opening sharply lower, stocks closed up with good gains at their highs for the day. Early weakness and late strength are hallmarks for better markets, something we haven't seen in a long, long time. Again, it's only one day, but we are slowly starting to see a change in character for the stock market.

As I've said before, we need to watch volume, the horsepower of the market, and which groups take on a leadership role.
So far, the Dow and S&P 500, which house the largest companies have been the leading indices, something that needs to change for this rally to endure. I want to see the Nasdaq 100 and Russell 2000 small cap indices taking over as investors begin to feel more comfortable with risk.

On the sector front, I am looking at the groups that are leading as well as the ones which have solid foundations to build on. Imagine building a house very quickly in vertical and narrow fashion. Then a hurricane comes in and blows the whole thing down. It was great and impressive while it lasted, but fell over so easily.

Now take a house with a good, solid concrete foundation. The first floor has lumber and steel in the walls. The second floor isn't as wide as the first, further adding stability. When the hurricane comes through, this house will experience damage, but since it has a good base, the damage will be less extensive and more easily repaired.

In the stock market, telecom, water, energy, biotech, consumer staples and healthcare have built decent foundations. They may not advance as fast as the homebuilders, but if there is another fast moving storm, like we saw on Monday, they should hold up relatively well.

Another interesting observation is the behavior of the emerging countries like China, Russia, South Africa, Singapore and Mexico, which have been decimated by over 60%. For the most part, these countries have resisted selling since October 10 and are trying to assume some leadership role.

But before you breathe a sigh of relief and start celebrating (maybe not celebrating), I want to repeat the same comment I have for well over a year. Volatility, both during the day, day to day and week to week, is going to remain at historically lofty levels. To watch this market, you need a large supply of Tums, keeping all sharp objects away and not doing it from a high rise building!

Good Bye High Energy Prices

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Last week, I briefly touched on something I've given a lot of thought to during the past year, our exposure to the potentially devastating effects of surging energy prices. In some states, oil companies have price caps or fixed pricing, but that only applies to
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heating oil and with a maximum duration of one year.

So I've had my thinking cap on trying to come up with a strategy that would have the effect of hedging gas, oil or natural gas prices. With the destruction of energy prices since July, it's now time to initiate this strategy for clients with prices down so much.

For those of you thinking that I am creating a consortium to buy oil at a discount, you're wrong. That wouldn't help hedge longer-term price moves, just get us slightly lower prices.

What I intend on doing is structuring a portfolio in a client's name that I would oversee to hedge either gas, oil, natural gas or all over a given time period. And the money would be totally liquid and able to withdrawn at any time!

All you need to do is schedule a brief call to answer a few questions and get the ball rolling.

As I mentioned in my last update, I am offering this service to all clients without any management fees or strings attached. I plan on using the same strategy as you for my family.

Just reply to this email or call me at 203.389.3553 to schedule a 10 minute call.

New Series

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Similar to what I did with the energy crisis from May through July, I am going to begin a series on how we got into this financial and economic mess and what lessons we can learn from it.

If you haven't already answered the few questions on the online survey, please click the link below. It will only take a minute or two. Thanks!

Who's at fault?

CNBC Replay

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For those of you who would like to watch the past CNBC segments, you can click on the link below and browse at your leisure.

Click Here

Mandatory IRA Distributions

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We are now in the season where many investors with IRAs must take their annual distributions. This applies to people 70 and over in age as well as those with inherited IRAs. If you fall under either category and have an IRA with us, please contact us regarding your mandatory distribution. Don't wait until the last minute!

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,

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

Street$marts 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

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