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Inside this issue

Bald and Bearded I am NOT

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To answer a common question from earlier this week, no, I did not suddenly become a 50 something, bald man with gray beard and mustache! And no, I wasn't being grilled by Congress! That man's name is Ben Bernanke and he is the Chairman of the Federal Reserve. For now, I still have all of my hair and am usually clean shaven.

For those who tuned in to CNBC on Tuesday, expecting to see me interviewed were treated to the Senate Banking Committee wasting Ben Bernanke's valuable time with inane and useless questions. Yes, I was preempted by the Helicopter Ben. If it was any other government official, I would have taken offense, but Bernanke may be the only one whom I have deep and unwavering respect for.

CNBC scheduled a few more segments this month, which you can see below.

I want to spend this issue talking first about where the markets are and then offer some very opinionated comments on what's going on with the stimulus plan and various bailout/rescue packages if I have time. As usual, I don't expect you to agree with everything I have to say and I do welcome your thoughts and comments back by either hitting reply or calling me directly at 203.389.3553.
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What Could Friday Morning Bring?

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In the last issue, I reiterated what I thought was a possible path for stocks. There was a higher probability of another significant low in the mid March to mid April time period with a move below 7000 not out of the question. And that's where we are today, although I really did not think a move to 6500 would be so orderly and somewhat nonchalant.

In fact, as I discussed before, I thought if we did see a sharp break of Dow 7000, it would be during one of those panicky type days where 7000 was quickly regained. Clearly, I did not give enough respect to the bearish case.

Another comment I made was the bears were in control, but had to quickly reassert that force early last week or risk being reversed by the bulls. And reassert control they did! In this stage, rallies are being sold into in less than a day, which is getting closer to the panic I was looking for during the first half of last week.

I continue to believe that stocks are in the process of establishing another major low, one from which the biggest rally of 2009 will emerge. But we're not there yet. Those who called or emailed the other day to talk about the "surge", as one person said, may have been surprised that I so easily dismissed the nascent up move.

When stocks really turn, it's NOT going to be an orderly and unemotional affair. Rather, I fully expect much more volatility in both directions with higher volume readings and more despair. Again, we're getting closer.

Friday morning is the first Friday of the month when the usually important employment figures are released. But in this environment, with rates essentially 0%, unless there is some really good news no one is going to be shocked by what comes out.

With the market under pressure all week and basically since February 13, we have an opportunity for a reversal. For that to be the case, we need to see another ugly opening for stocks that resists additional selling after the first 30-90 minutes. From there some stabilization should be seen, followed by a good deal of afternoon strength that sees the major indices close near their highs for the day, even if that's still in the red.

Should we somehow see the opposite and a large rally begins the day, it could last anywhere from a few hours to a few days or so and be sharp. But in the end, lower prices should ultimately be seen this month before the final low is cemented. And this process could last into April, as hard to believe as that sounds.

While this all seems so easy to write and digest, it's next to impossible to live through.
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Just like bull markets soar higher and higher than anyone ever imagined, bear markets do the same thing on the down side. I thought a quick breach of 7000 would be the worst case, but again, I clearly underestimated the power of the bears, something I seldom do.

Rays of Sunshine Behind the Black Clouds

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Beyond the short-term and how the market continues to hammer out another bottom, it's not all doom and gloom. There are some rays of sunshine hidden behind those black clouds. I continue to be encouraged by the action in the technology space, which has been dragged down by everything else. That's the opposite of what normally happens.

Longtime readers know how much importance I place on the semiconductor sector. So far, this area as well as the internets are holding above their November lows. While it wouldn't be out of the question to see a quick move towards or exceeding those lows as the decline finally ends, that would be a spot I'd be interested in buying.

The four horsemen of Apple, Google, RIMM and Amazon (proxies for the QQQQ) are trying very hard to build foundations for much further upside, and it looks like are doing a good job of holdings off the grizzliest of bears. After the initial melt up that any serious low delivers, I fully expect the large cap tech group to be one of the leaders of the rally that should last into at least the warmer months.

Equally as impressive has been the behavior in the emerging market area. With their November lows still intact, that's another group I am watching closely for signs of life during the bottom. This should be viewed as very constructive since all these groups I mentioned usually have considerable more risk than the overall market, but are not leading us lower at all.

Also on the more intermediate-term front, as we saw in October and November, we are starting to see another round of truly historic readings. The American Association of Individual Investors (AAII) just released the single most bearish reading since the survey began with more than 70% bears. Normally, that would be enough to see an almost immediate major bottom in stocks.

But these are anything but "normal" times! And the survey only goes back to the mid 1980s. When I first came into the business in 1988, I learned from Joe Granville, master showman and guru par excellance, that the stronger the trend, the more extreme the readings needed to be to reverse that trend.

So while it's an important sign, there needs to be more, like buying from corporate insiders. This group began buying in the summer of 2007 and were very early, although it was a sizable amount bought. Their behavior continued to buy into each
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panic low during 2008, but spiked to double and triple the previous highest levels in the fourth quarter of 2008. They are once again aggressively buying their own stocks.

We're getting closer!

Quick Update on Gold

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Since the last issue, gold declined roughly 10% from high to low. While it certainly could and should bounce, this is only the beginning of the decline that should last well into spring. When all is said and done, I would be very surprised if at least a 20% decline isn't seen.

For full disclosure, although my longer-term view is negative, our Short-Term Gold Program can and will take positions that profit when gold goes up. Nothing moves in straight lines and I am an opportunist more than anything else!

I do enjoy the emails and calls asking how will I know if I am wrong. After I get over the laughter of my initial response of, "I don't have to worry since I am never wrong", I explain my real plan since I have been on the wrong side many, many times in my 21 year career and will be again in the future. It's the necessary evil of the business.

For gold, should we see a daily and weekly close above the recent highs at $1008, that would mean something else is in the cards and I will have to reassess.

Heritage Capital In The News

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I am going to be on CNBC's The Call on March 11th between 11:05am and 11:30am.

I am also going to be on CNBC Reports on March 20th between 8:00pm and 8:20pm and again on April 23rd at 5:30am.

You can view most of the past segments by clicking below.

Media Appearances

We had some nice quotes in a recent New Haven Register article you can access by clicking below.

Falling Dow-n: Index closes below 7,000

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.

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.
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