



May 15, 2009

3:10 PM EDT

Inside this issue

[Back on the Soap Box](#)

[Dow 9000 Still in Sight](#)

[Ask Paul about the Banks](#)

[Upcoming TV Appearances](#)

[It Pays to be Nice](#)

[Friends And Family Plan](#)

Back on the Soap Box

~~~~~

FYI, I'll be interviewed live Saturday morning at 7:25am on WTNH (channel 8) in CT discussing my forecast for energy prices, the economy and the stock market. You can read more towards the end of the letter.

I spent part of last week at the annual conference of my trade association, the National Association of Active Investment Managers, a group of like minded, independent advisors who use proactive investment strategies to grow and protect client assets. As many of you know, I'm not one for the conference circuit. I find it to generally be a waste of time listening to product push at some tropical destination without much meat.

But this group is the exact opposite. We don't put much stock into the sexy properties and headline national speakers that don't add value to our businesses. Rather, it's 9-10 hours a day of jam-packed information with many more hours of valuable networking after that. In fact, people laugh after asking how the city or weather was,

since my answer is usually, "I don't know. I never left the hotel!"

My goals are pretty basic; to come home with one actionable idea each year. The "problem" I have is that I usually end up with half a dozen or so and need to prioritize. This trip was no different, except United Airlines lost my bags BOTH ways! And even with that, it was well worth the hassle.

Beyond the many top notch, cutting edge speakers, my favorite part is talking to my peers about their market views and opinions on what's going on economically and the macro picture. Keep in mind that this group is 100% independent. We don't have the salesman from Merrill Lynch or UBS or Smith Barney hawking their firms' crappy products that usually just line the brokers' pockets.

What amazed me was just how many folks, Republican and Democrat were so down on what's been going on in government. Almost none believed the latest stimulus plan would work, similar to the previous one in 2008. The vast majority thought the TARP was a failure. And almost everyone believed that the pendulum had strongly swung towards socialism and would continue.

I had some good debate on the automakers and the recent Chrysler news. I can't tell you how infuriated I am with our government's attempt to short circuit the system and exert pressure over various investors. They are playing judge and jury with billions and billions of taxpayer money. There's too much meddling in what should be an orderly and predefined process. It's simply not right.

I don't care if the president was Obama, Bush, Reagan or FDR, he has NO business scolding creditors of Chrysler who decided not to accept a lousy deal that rewarded other parties before them. Remember, senior bond holders of a corporation have top standing in line. They have a FIDUCIARY responsibility to their clients, first and foremost, ahead of all else, just like I do to you.

It was shameful that the press was used to pressure investors to breach their legal obligation to their clients in the name of doing what's best for "our country and economy". Think about your reaction if the government said that part of your retirement account was going to be seized to save a company you had no part in destroying. It's insane! I wouldn't have any clients left if I did that!

This "too big to fail" mantra from both parties is ruining our economy and our country. It's not healthy to save every institution. Would you feed filet and lobster to someone on life support? Haven't we learned anything from Japan over the past 20 years? This behavior is untenable and strikes a huge blow to the economic fiber of the U.S.

Tens of THOUSANDS of small businesses are closing. Who is looking out for them?

**Dow 9000 Still in Sight**

~~~~~

In my last update about the stock market, I discussed what I thought would be normal, healthy and expected. That was a 2-4 week digestion of the huge gains made since the March bottom before resuming the rally to higher highs. That's been my stance since last month and as I mentioned before, that call was clearly early, but nonetheless, what my work suggested. And nothing has changed so far to alter that.

Stocks continued higher, almost unabated, to their recent peak last week before finally succumbing to some selling pressure. IF the very powerful and steep uptrend that began in March is to continue at the same 10% per month pace, stocks should blast off again through last week's highs before Memorial Day.

I don't think that's going to happen. Rather, I think we should see some more saw tooth action with another rally attempt beginning shortly. If that leads to a new high, any pull back should be shallow. However, if we don't exceed the May 7 peak, then the stock market will likely continue the digestion into June at deeper levels.

Unless you are very concerned about the short-term, you needn't worry about the preceding paragraph. My intermediate-term outlook remains unchanged for the past few months. The current rally will be the most powerful one of 2009 and ultimately lead to at least Dow 9000 with a chance at seeing 10,000 before it peters out.

While many of our short-term indicators are flashing caution signs from folks becoming too excited about the rally, the serious cracks in the pavement have not begun to appear. The initial stage of the rally looks to be complete, but much more strength should be seen into the summer months.

A word of caution... Don't expect the next leg of the rally to lift every sector like the first one did. The longer the rally continues, the more selective it should get and leadership will likely rotate aggressively in June.

Before you hit reply and ask, I remain negative on gold the commodity and very positive on energy prices, the same stance I've taken since late February. The dollar has been hit hard since late February, but should be trying to put in a significant bottom by July 4th. Far too many people are on the "buy gold, short the dollar play" with the Fed running the printing presses 24/7. I think that trade has way too much downside risk in the third quarter.

Ask Paul about the Banks

~~~~~

I received several emails regarding the banks and why I am not very positive on them. As I've mentioned before, our portfolios have not focused on that sector since at least 2006 or earlier. Not because I knew they were going to collapse, but rather, they consistently fell towards the bottom of our sector universe where poor risk/reward opportunities reside.

And while I did discuss a few times that whatever was hit the hardest during the decline would bounce the hardest after a bottom, the banks still had way too much volatility for us to use. It doesn't take a genius to figure out that once the market hit a low, the banks would have to rally in a big way, just like real estate, retail and homebuilders. That's what usually occurs during the first leg of a rally, along with a rising tide lifting all ships.

Let's assume for a minute that the first leg of the rally is over. The question is, what will lead the next leg higher? Could it be banks? Sure, but given their continued high levels of volatility and history working against them, it doesn't add up to a good risk/reward play. Although it's too early to tell, I am watching oil service, biotech, steel, and technology.

Let me step out of my comfort zone and talk a bit about bank fundamentals for a minute. Prevailing sentiment on the major banks has swung from absolute despondency to almost feverish in the past 8 months. It's amazing what some misguided bailouts will do for morale! As you know, my take has been the same all along. I think, for all intents and purposes, Citi now falls in the same category as Fannie, Freddie and AIG with Bank of America not far behind. They will never be the same capitalistic (if that's the right word) machine they once were.

My serious concern is that by not allowing any banks to fail, we are falling into the same trap that has befallen Japan since 1989, the era of zombie banks. You can argue whether or not the banks are lending, but I think we can all agree that they are certainly not lending anywhere near the degree that they used to, we need or expect. And I'm sorry, but doing a mortgage refi isn't "real" lending that stimulative to the economy.

On the smallest scale possible, I recently helped one of the non profits I am involved in increase their line of credit and shop it around. This institution had no mortgage and very low debt, yet all of the medium and larger banks required some type of collateral on hand for the amount borrowed. So if we needed \$200,000, they wanted some type of asset for \$200,000 in their bank. They may be lending, but money is very hard to get.

I read an interesting piece from renowned economic analyst John Mauldin last week (see quote below) that was pretty much in sync with what my own bank guru, Jim Lane, had to say. If you recall, it was Citi's bold comments at the stock market's low in mid March that began the mini melt up in banks.

*"Banks are not yet lending, and the past quarter's positive performance was mostly accounting gimmicks. Citigroup, for instance, said they made \$1.6 billion. They did this by booking a one-time gain of \$2.7 billion, because the value of Citigroup bonds have fallen (!), giving them the theoretical possibility of buying back their debt at a discount. And with consumer and credit card loans showing more weakness, Citi decided to REDUCE its loan loss reserves, allowing it to show another \$1.3 billion in profit. And*

*then there was the profit of \$400 million from the new mark-to-market rules, which allowed them to produce a profit on "impaired assets." Without all these games, there would have been a loss of \$2.8 billion."*

## **Upcoming TV Appearances**

~~~~~

WTNH (ABC in CT) - May 16 at 7:15am

CNBC's Reports - May 22 at 8:05pm

CNBC's Worldwide - May 26 at 5:30am

CNBC's The Call - June 1 at 11:05am

CNBC's Reports - June 19 at 8:05pm

CNBC's Worldwide - June 30 at 5:30am

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

Media Appearances

It Pays to be Nice

~~~~~

This has nothing at all to do with the financial markets, so if you're looking for some message at the end, you will be disappointed. And maybe you're already in that frame of mind after reading this far in today's edition!

As I mentioned above, I attended a conference last week and United Airlines lost my bag on the way to Denver and coming home from Denver. Just what no one wants! I guess it was just too tough for them to transfer my bag from one plane to the other when they right next door.

In any case, they went out of their way to help me and generously compensated me for the inconvenience. But that's not the story. I always travel in an aisle seat and have for at least 25 years. For a variety of reasons, that's the way I fly. I'd rather wait for another flight than sit in a middle seat.

On the way home, I booked an aisle towards the back of the 767 and confirmed it 24 hours before departure. When I checked in at the airport, the seating chart showed me in a middle seat that stretched 5 across. That would not work! As I checked my bag, the agent explained that they just changed the equipment to a 777 and the flight was full. I was stuck in that middle of middle seats. No thanks!

After 45 minutes through security, I arrived at the gate and found three agents not very busy. I calmly and nicely explained my situation with the plane change, my desire to switch seats and even pay for a better location. I even offered to wait and take a later flight if they could accommodate me.

An older gentleman took my name and asked me to wait until everyone boarded. About 10 minutes later, they paged me and the man gave me a new boarding card. He said he tried his best to squeeze me into a better location and wished me safe travels. I graciously thanked him and got in line.

When I entered the aircraft, I couldn't find the seat initially. It was so packed, but the row numbers were a little screwy. Finally, I arrived at the seat on my boarding card, in first class. This was no ordinary first class cabin. Since the plane continued overseas, it was so much better with extra large sleeper seats and movies and really, really good food. I finally got to watch Frost/Nixon uninterrupted, eat well, have a few drinks and finish it off with some warm, fresh baked chocolate chip cookies.

I'll never be able to thank the guy who took care of me since he clearly did it quietly, knowing how happy I would be. But I was extremely thankful. He didn't want anything and there were no ulterior motives. I was fairly nice, polite and didn't make obnoxious demands, but that's how I think I live anyway.

Sometimes, it just pays to be nice...

## **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.

