May 28, 2009

3:46 PM EDT

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The 50,000 Foot View

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FYI, I'll be back on CNBC on June 1 between 11:05am and 11:35am. This week's 20 minute segment on Worldwide was a lot of fun. It's nice when they give you the floor and let you get into some detail.(Click here and then on the two 5/26 links) You can scroll down towards the end of this issue for more in the media.

It's been another jam packed and holiday shortened week here. My plan to relax and play some golf with the kids over the Memorial Day weekend went awry when I stupidly thought that ripping out, cutting up and taking away 30 year old bushes would only take a few hours. Three full days later with sore arms, legs and back, along with a nice, new tick bite, the project was over. Now all I have left is 10 yards of mulch to spread.

Someone, please remind me why I thought this would be fun to do myself!
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For a change of pace, I decided to divide this issue, beginning with the every big picture and then dial down to shorter and short-term segments. As the economic landscape has changed so dramatically, just since 2007, and even more so in the past 9 months, previous long range forecasts have become useless.

This isn't new to regular readers, but folks who are expecting some kind of return to economic normalcy are in for a very rude awakening. I do not see it happening. By normalcy, I am referring to previous trend growth of 3-4%. To achieve those numbers, we were forced to use MASSIVE amounts of leverage (borrowing) and all sorts of financial gimmicks and games.

With enormous increased regulation coming down shortly, the gimmick and game scenario ship has long sailed. Everyone knows how bad our banking system is because of bad leveraged bets, so that's off the table for a generation at least.

We are now left with rebuilding the economy from the rubble with a much stronger, more solid and realistic base. That's something that absolutely needs to happen to prevent further collapse during the next recession. And yes, there will be future recessions!

As I mentioned yesterday to a group I spoke to for a friend, recessions are vital in the cycle to cure excess and waste from the previous expansion. They are healthy and necessary. Otherwise, we would get fat, lazy and lose our competitive edge.

Some things are all but assured in the coming years. We know that regulation is increasing along with taxes. Between TARP, TALF, the Bush stimulus, Obama stimulus, Fed and Treasury bailouts of Bear, Fannie, Freddie, AIG, GM, new programs and money being printed to quantitatively ease (just throwing new money into the system), we are going to see massive budget deficits for years and years and years to come.

Given the situation with the banks, that will take time to repair, access to capital is going to be very tight. What a great new profession for someone to play middleman between those with capital versus those seeking it. An awful lot of entities are going to need it, but precious few will actually have it!

Finally, there's a whole generation of pre retirees who are not retiring on schedule. This is causing companies to continue paying higher salaries than their projected replacements, not to mention the higher costs of healthcare.

Those are the major issues our economy faces looking ahead. They're the reasons I do not foresee previous levels of expansion over the coming years. More than likely, our economy will average 1-2% growth as we work through our problems.

Translating that to the stock market, it's the primary reason I've been talking about a

very wide trading range for years to come. Those who continue to drink Wall Street's Kool Aid by allocating fixed index amounts to stocks and bonds will be sorely disappointed. I'll talk more about this next month.

Successful investing strategies this decade should continue into the next one. Those with a more active approach who look not just at static stocks and bonds, but other assets as well should be winners. Guys like John Bogle should be properly put out to pasture. Their dinosaur like mentality hasn't worked for more than a decade and it's time for investors to finally recognize this and move on.

Is The Bear Market Over?

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Let's start the stock market commentary with the bigger picture. Coming in to the March low, our take was that the biggest rally of 2009 would begin from whatever bottom we saw in the March/April period. The key was to see how long the rally would last more than how high it would go.

As I discussed a few times, the vast majority of bear market rallies typically peter out in 12 weeks or less. That was the case throughout the current bear market as well as the previous one earlier this decade. It also held true going back decade by decade.

With stocks bottoming in early March, a confirming sign that the bear market was either over or taking an extended vacation would be to see new highs in the Dow and S&P 500 after 12 weeks, or June 1. That means that the stock market needs to exceed the levels seen on May 8 for this to apply. For the record, I do think this will occur in June or July at the latest.

For those interested in how this played out earlier this decade, the major indices bottomed in October 2002 and rallied hard to early December before pulling back deeply into March 2003. But it wasn't until the end of May 2003 that the early December 2002 peak was exceeded, signaling something had dramatically changed in the behavior of the market.

From an absolute low of 768 on the S&P, that confirmation did not occur until 955, some 25% higher. This has similar readings today. Interestingly, the market went almost in a straight line to 1163 in January of 2004 from there. And ultimately rallied all the way to 1550 in 2007. So this confirmation, should it happen, is important.

After that, there are other signs that the bear is over, but we'll cross that bridge when we get closer.
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As Led Zeppelin Said...Song Remains The Same

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I could easily just type the word "ditto" here or paste last issue's short-term comments since they are essentially the same. The stock market, so far, peaked on May 8 and has been digesting ever since. That's a positive sign for the intermediate-term since the overall character has changed from selling any rally to buying the dips. It's bullish after a 30%+ move that the market is going sideways to work off the gains rather than selling off sharply as it's done over the past two years.

In all likelihood, the first leg of the rally from the March bottom has ended and the market is now preparing for the next move higher from a low in June. I expect the next rally to lead the Dow to a MINIMUM of 9000 with the possibility of seeing 9500 or 10,000. But we can talk more about that over the summer.

On the downside, 8200 on the Dow and 875 on the S&P have held each attempt by the bears. It would be surprising if that was all the bears could muster before heading sharply higher. I would expect several battles at those levels in the short-term before the bulls step away and let the bears feel their oats, temporarily.

I've been asked several times lately when I might have more concern about the stock market. As my friend Peter Mauthe likes to say, I am ALWAYS concerned about EVERY market we traffic in! And that's whether we are fully invested or fully in cash.

But to answer the question more directly, I want to see how this digestion ends up and if any serious cracks in the pavement appear. After that, the quality of the next rally will go a long way in determining when it derails. Calendar wise, and this is always the dangerous part, I'll be in a more cautious mood as summer winds down and the seasonal trends go very negative late in the 3rd quarter.

No Surprise Here... Energy On A Tear

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As far as other asset classes go, I remain positive on energy and negative on gold as I have since late February. The recent severe weakness in the dollar has given a strong tailwind to energy, gold and the whole commodity space since those global markets are priced in dollars.

Since late February, the US dollar has declined roughly 10% against the major currencies. That's a very big move in the currency space. At the same time, crude oil has rallied almost 100%, but gold is essentially unchanged. If gold was in a new bull move above the old highs, the falling dollar should have given it a lot more life.

Once the dollar collapse ends, which looks to be imminent, gold should come under pressure as the dollar bounces. In a perfect world, gold's rally takes it above the early March high at $967 within a few days and then does a U turn and falls under $900 in June.

Unfortunately, I think energy still has more upside, even if the dollar begins to strengthen. No one should be surprised as I've pounded that table for months and even launched a F*R*E*E strategy for clients to hedge their own exposure to heating oil, gas and natural gas.

Upcoming TV Appearances

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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

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

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