
**March 9, 2010**

**8:55 PM EST**

## Inside this issue



## Do Any Kids Eat The Crust?

~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~

Let's start with the usual housekeeping and personal items. By now, all TAXABLE (non IRA, 401K, pension, profit sharing) accounts should have received 1099s for your taxes. Please notify the office immediately if you have yet to receive yours.

Rydex and Millennium Trust recently mailed (also available on the website) cost basis reports to ease the burden of compiling your gains and losses for TAXABLE accounts. Ceros' Realized Gains Report is available online. Please call or email with any questions.

Also, as I am on the tax topic, please forward my contact information to your CPA if she/he has any questions or comments. It's usually faster and easier if the CPA contacts me directly rather than having you call their office and then call us, etc.
~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~

And while (if) you are meeting with or speaking to your CPA and currently have an IRA, please discuss the special ROTH IRA conversion that's available to all levels of income in 2010. The key element if you decide to convert is the ability to pay the taxes incurred with non IRA money. As always, please feel free to contact me directly to discuss this.

FYI, I am "scheduled" to be on CNBC the next two weeks. Please scroll down to the TV section for details if you are interested.

It's been a very exciting few weeks in the Schatz house. I was starting to make the boys dinner one night when my four year old reminded me to make sure there was no crust on his bread. Tired of hearing that demand all the time, I gave him a choice. He could either eat the darn crust, OR finally go skiing, something he has continually vowed to never do. Without hesitation, he boldly stands up and exclaims "I'm ready to go skiing!"

I can't even imagine how much this kid hates crust and why, but at least it got him on skis. And after his first hour on the snow, all he could ask was when he could ski again and go up the chair lift! It's been three ski days now and I think the ski bug has bitten, which selfishly, is great for me!!

On a recent trip to Vermont with just the two older kids, we stopped for dinner at a place called The Roadhouse, my 6 year old daughter's choice. Forgetting that they really don't cater to kids or even have a little folks menu, we sat down to learn that only one child would order, my daughter, who quickly asked for a filet mignon medium and a Shirley Temple. Of course, she found the priciest item on the menu, but did manage to finish her steak. My son, on the other hand, ordered a Shirley Temple and a glass of ice for his dinner. Add in the one crouton he ate and I guess overall, the two averaged out two normal meals.

Finally, after almost 7 years of diapers my wife and I caught a glimpse of the light at the end of the tunnel! Approaching his second birthday in a few weeks our little one decided he wanted to use the tiny potty that's been sitting in the corner of his bathroom. It's so interesting how each of the three kids achieve things at very different ages. One spoke earlier, one walked earlier, one "pottied" earlier. And before you ask, no, we're not having any more kids!

## Hold On To Your Hats... Market Not Done Yet

~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~

A few issues ago, I wrote an article entitled, **Hang in Bulls... Bears Almost Done** that was followed up with **Bottoming Process Continues Building**. After forecasting a 4-7% pullback in January (we saw 8.5%), I was very confident that the decline was close to ending and a new leg higher would ensue, carrying the major averages above their 2010 highs on the way to Dow 11,500 - 13,000 when the weather turned warm.
~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~

Although rare, it's always nice when the market perfectly cooperates with your thought process and even nicer when your clients are the beneficiaries! So here we are, back at the highs and everything looks mighty rosey again, right? Well... kinda, sorta.

My forecast for the Dow remains in place sometime between Memorial Day and Labor Day, but the very short-term is a bit cloudy with the worst volume pattern since the bull run began. Stocks have rallied in almost straightline fashion, but are in need of a quick pause to refresh. My favorite analogy is that of the great steakhouse dinner.

Between the appetizer, salad, steak, various sides, wine and dessert, you can barely stand at the end of the meal. And before it's time for you next feast, you must digest the food. Markets work in similar ways. After a big rally, it has to digest to make room for the next meal. The bigger the rally, the longer the digestion. In the current case, all the market needs is a good, short-term cleansing before it's ready to eat again.

I imagine that whatever weakness we are going to see should be right ahead of us. How long it lasts and how deep it goes are questions that will be answered along the way. In the most bullish case, we'll see a few nasty down days that look and feel really bad, but end quickly. But if investors don't worry and don't become more concerned after a few days like that, we'll probably see a deeper and longer pullback. The first level I watching is 1120 - 1125 on the S&P 500 and 10,300 - 10,400 on the Dow.

Should this pullback materialize, and it rebuilds a little worry in the market, I think it can be bought with both hands for another move to new 2010 highs during the second quarter. As I've mentioned before, one of the most important things to watch to sector and index leadership. Before any "real" correction sets up, there should be some clues here from what's leading and lagging.

Over the past year, with all the cheap and easy government money being thrown around, the financial markets have done nothing seriously wrong to jeopardize the bull run. But with Bernanke & Co. already beginning to pull the punch bowl by ending their trillion dollar purchase of mortgage backed securities, the markets are much closer to another problem later this year and into 2011.

## The Fed Did NOT Raise Rates

~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~

More than a few people seem to think that because the Fed raised the Discount Rate, interest rates actually have risen. I'm not sure where this misguided information came from, but it couldn't be farther from the truth. The Discount Window is a mechanism whereby banks can do "emergency" borrowing from the Fed to meet temporary liquidity needs, usually in the shortest of short-term duration, overnight during
~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~

"normal" times and up to 30 days during the heat of credit crisis.

Raising the Discount Rate, which isn't tied to any consumer interest rate, is more a signal of confidence in the financial system and that the worst of the liquidity squeeze has passed rather than the traditional rationale for raising rates, ie, overheating economy and/or inflation. I do not think for even a minute that Bernanke is signaling a change in Fed policy, although it's clear there is at least one person on the FOMC who wants more hawkish action. Moreover, Bernanke even telegraphed the pending move just a week or so earlier.

At some point, hopefully later rather than sooner, the Fed is going to raise the Fed Funds Rate, the interest rate tied to the Prime Lending Rate, which many consumer loans are based. But with inflation still well under wraps (an unpopular but correct argument I made 18 months ago) the economy still being held together by duct tape and band aids (and trillions of dollars of cheap and easy government money) any premature move by Bernanke, coupled with the Obama administration raising taxes in 2011 will likely result in a double dip recession similar to the mistakes FDR made in 1937. And that didn't work out so well!

## Some Random Thoughts

~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~

Every so often, when I compile enough odd topics that don't warrant a full article, I enjoy throwing a bunch of them together as I am doing here as "Random Thoughts".

The latest FDIC report on troubled banks showed the number has swelled to 700. Although many other parts of the financial system have healed significantly, this list continues to grow at a still alarming rate. The bigger issue is that the FDIC isn't in such great financial shape itself, after the many bailouts it's had to undertake over the past few years, including Indymac. Unfortunately, what worried me in my New Haven Register blog contribution, **The Coming FDIC Crisis**, is coming to fruition.

I have had **this link** bookmarked for a few months and continue to be amazed by the comment. As you know from countless articles, I am not now and never have been a fan of Tim Geithner and this just adds to my tally. And this from the man who basically sat and watched over the entire domestic investment banking industry get vaporized. Why should we trust him now?

Over the past few months, there has been another round of controversial research concerning the environment. I think one of the problems over the years was that environmentalists initially attached themselves to the phrase "global warming", which almost immediately begged for disagreement and opposition. It may be semantics, but in hindsight, they should have used the term "climate change", since almost no one can argue that things aren't changing, one way or another.

Here are two interesting pieces of information, one video from the founder of The
~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~

Weather Channel and the other that refutes Al Gore's position. I'd be interested to hear your thoughts.

**Climate Change**

**Al Gore Debunked**

## Investment Quotes/Adages To Live By

~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~

"When in doubt, get out!"

"If it's obvious, it's obviously wrong."

-Joe Granville

"It's ok to be wrong, but it's not ok to stay wrong."

"This time is different."

"The markets require the patience of a dozen men."

-Robert Rhea

"Luck is the residue of effort."

"The most bullish thing a market can do is go up in the face of bad news."

"The most bearish thing a market can do is go down in the face of good news."

"The market can stay irrational longer than you can stay solvent."

-John Maynard Keyes

"Government is best which governs least" - Thomas Jefferson

Inflation is the one form of taxation that can be imposed without legislation.
~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~

-Milton Friedman

"You cannot legislate the poor into freedom by legislating the wealthy out of freedom. What one person receives without working for, another person must work for without receiving. The government cannot give to anybody anything that the government does not first take from somebody else. When half of the people get the idea that they do not have to work because the other half is going to take care of them, and when the other half gets the idea that it does no good to work because somebody else is going to get what they work for,that my dear friend, is about the end of any nation. You cannot multiply wealth by dividing it." - Dr. Adrian Rogers, 1931

"Bear markets seem to be divided into three phases: the first being the abandonment of hopes upon which the final uprush of the preceding bull market was predicted; the second, the reflection of decreased earnings power and reduction of dividends, and the third representing distressed liquidation of securities which must be sold to meet living expenses. Each of these phases seems to be divided by a secondary reaction which is often erroneously assumed to be the beginning of a bull market."

- Robert Rhea via Tim Woods

"Free enterprise is a rough and competitive game. Nobody too big to fail. Nobody too small to succeed. It is a hell of a lot better than government control." - Ronald Reagan via Dan Kennedy

"A government big enough to give you everything you want is big enough to take everything you have." - Gerald Ford via Dan Kennedy

"The problem with socialism is that, sooner or later, you run out of other people's money." - Margaret Thatcher via Casey Research

## Upcoming TV Appearances

~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~

CNBC's Worldwide Exchange - March 16 at 5:30am

CNBC's Squawk Box - March 25 at 6:10am

CNBC's Worldwide Exchange - April 27 at 5:30am

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

# Media Appearances

## 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.

**Sign Up Here**

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**



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.