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## **Welcome to our Newest Family Member**

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Last weekend, I did a very interesting segment on Good Morning CT regarding the healthcare reform bill and its impact on the economy and financial markets. Longtime readers know that I usually have an opinion and I am not shy to share it. This discussion was no different and as soon as the video is available, it will be posted [HERE](#). You'll need to scroll down passed the CNBC segments.

What I found remarkable was that sentiment was even more polarized than I thought. By the time I got back to my computer, I had numerous emails and voicemails from viewers seeking to offer their own opinions. From the man who lambasted me as a liar, cheat, right wing lunatic and fascist to the woman who said I better wake up and smell the coffee because there was a secret plot by the government to socialize industry after industry, I heard comment all over the map from folks I have never met.

It's amazing that people could have such polar opposite views of the same discussion, but I guess that's where our country is right now, very polarized. I really enjoyed that segment on WTNH because there was discussion back and forth and I assume viewers

felt the same way. I look forward to being back on WTNH next month.

I also did a segment this past week on CNBC's Squawk Box regarding my forecast for the stock market and economy, which can be accessed by clicking [here](#) as well. This was enjoyable for the same reasons as WTNH. Questions were asked and time was allowed for answers without being cutoff at will.

April went from having almost nothing booked in the media to the most I've done since the Lehman and AIG collapse. This coming Monday, April 19, I expect to be on CNBC's The Call at 11:30am discussing the SEC's bombshell regarding Goldman Sachs and my prospects for investing in financials.

On Wednesday morning at 7:00am I am scheduled for my first appearance on FOX 61's Money Matters. I assume we'll be discussing the hot topic of the day, along with some advice for investors. If you're interested, please scroll down to the media section for a complete list.

On a separate note, I want to welcome Laryssa Kaiser to the Heritage Capital family. Laryssa joined us this week to work on strategic projects and my excitement level is off the charts. With a "to do" numbering in the dozens and growing weekly, she will have her hands full for a while!

To get a sense of the job market in New Haven County, I posted one little ad on Craigslist and received more than 100 inquiries from which we brought in 7 people for interviews. Four candidates came back for a second round before I gave Laryssa the [Kolbe](#) test (thanks Peter Mauthe and Sue Patton from Rhoads Lucca for the help!) Her numbers were almost a perfect match to what the position required as well as my own numbers, so I knew I found the right person!

Finally, the next article was my weekly blog contribution to the [New Haven Register's financial blog](#). I think it's one of my better pieces and strongly urge you to read it and email any comments you'd like.

## **Anatomy of the Unsuccessful Investor**

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The following article was written for the New Haven Register's financial blog, [Fi\\$cally Fit](#), which I contribute to every Friday. Please click on the link to read.

[Anatomy of the Unsuccessful Investor](#)

## **Naughty Naughty Goldman Sachs**

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The big news of the day (and likely weekend and next week) is the SEC filing charges against Goldman Sachs for fraud in connection with a pool of sub prime mortgages being created with the help of or at the request of John Paulson (Paulson and Company, NOT Hank Paulson former Goldman CEO and Secretary of the Treasury).

John Paulson, of huge hedge fund fame, was one of the few investors on earth who not only saw the financial collapse coming, but placed huge, leveraged bets against the housing market, mortgages, etc. and profited handsomely personally as well as for his largely institutional and very wealthy clients. The man who is somewhat of a recluse is widely regarded as the master of the hedge fund universe. Feel free to Google his name for more info.

Anyway, as I get back to the Goldman story, apparently, Goldman created this basket, called a CDO, with the help of a "3rd party" so the hedge fund titan could sell short the basket that was being sold to other institutions like foresight banks.

The problem for Goldman is that they did not disclose material information to the purchasers of the CDO. Had they informed their clients that Goldman did not create this basket by themselves, but was instead at the request or involvement of another institutional client, I imagine that they wouldn't be in hot water. Obviously, there was no chance they would tell anyone that Paulson & Co. were on the other side of the trade.

What will likely come out is that Paulson (and related entities) did their research and constructed a basket of the really garbage like sub prime mortgages that had the highest chance of failing, just as that market, early 2007, was on the brink of disaster. Since Paulson & Co. had one of the greatest trades and years in market history, earning John Paulson billions on his own, the media will likely portray John Paulson as a greedy villain, preying on the naivete and vulnerability of others.

For a more intelligent explanation, you can go [CNBC.com](http://CNBC.com), [Businessweek.com](http://Businessweek.com), [Bloomberg.com](http://Bloomberg.com) or any similar website. By now, they've done their homework and can do a much better job than I can!

My initial takeaways from this announcement aren't really surprising. Last year, I wrote an article ([\*\*Just Give the World to Goldman Sachs\*\*](#)) when Goldman had turned sharply from hero, 2003 - 2007, to scapegoat and villain as they announced the first of several multi billion dollar earnings quarters.

Conspiracy theorists are already out in full force, questioning the timing of this announcement as Congress' financial regulation has been stalled by partisan politics. There is little doubt that financial regulation is going to pass now, but it will be very interesting to see if the Dodd bill gets the nod or Richard Shelby's anti-bailout provisions are given more credibility. Conspiracy theorist or not, you have to admit that the timing is a bit "curious".

Now that the world has deemed Goldman to be the ultimate financial evil empire, I'd

like to throw in a few different comments. On the surface, this whole mess seems really bad. But let's remember in the sphere that Goldman, Paulson and the international banks played in, they were all considered to be qualified and sophisticated investors, financially and intellectually able to trade very high level instruments.

This trade wasn't unique. Securities firms were creating this stuff (securitization) all the time for yield reachers from 2004 and on. Firms all the time shorted these baskets while others bought them. No one was in the dark. What I don't know was how common the practice was for firms like Paulson & Co. to help select the portfolio makeup.

Rumors are flying around that Deutsche Bank was heavily into the same practice as was a number of other major U.S. and foreign banks. Was this just a "one off" SEC charge? Or is it just the beginning of a wave of these announcements? With nothing substantial to base my opinion on, I am going with the former, this is it or there may be one or two more. I also don't think it's going to be a big deal for the markets beyond another week.

In the end, this is just another ingredient of what made the perfect storm for the financial crisis. Carter started it by changing the law to make it easier for less credit worthy people to own homes. Clinton put that law on steroids. Bush allowed 5 investment banks to increase their leverage to 40:1. Greenspan was asleep at the switch for yet another time in his failed career by keeping rates way too low for too long. The ratings agencies were in bed with the issuers. Mortgage brokers and banks used predatory lending practices and began allowing no doc loans. And on and on and on.

I don't excuse Goldman for what they apparently did. They were dead wrong. All parties should have disclosed what was really going on. But I also don't think this will end up being a terribly damaging scandal to the firm. In the grand scheme of things, it could have been so much worse for them, like being caught manipulating the markets to the detriment of the average investor. And given the public outrage with Goldman's compensation and arrogance after the bailout (and the number of arrows pointed at them), they actually may be feeling ok tonight that this was all the government could muster against them.

## **Short-Term Pullback is Finally Here**

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The markets have been looking somewhat tired for a few weeks now. Already woeful volume became worse. Momentum was waning and great earnings announcements on Thursday and Friday (April 15 & 16) were not met with buying enthusiasm. The Goldman news likely began the much needed and healthy pullback I have been warning about since last month.

So many of the indicators I watch have been flashing glaring warning signs, such as the behavior of small time options players, the number of investors who were bullish, money flows into riskier mutual funds and so on. The question I have to reconcile is

whether stocks are hitting THE bull market top or just a brief and sharp pause on the way to my ultimate peak in the Dow 11,500 - 13,000 range between Memorial Day and Labor Day.

Right now, most evidence points to the latter and that's the way we will continue to invest the portfolios. As stocks gets closer and closer to their final high, I fully expect fewer and fewer sectors to march along with fewer and fewer stocks making new 52 week highs. Additionally, cap weighted indices should substantially outperform their equal weight brethren. We're not there on any front yet.

In the last issue, I wrote about a trend that's been in place since last summer whereby market weakness has been seen in the first month of the new quarter. July 2009, October 2009, January 2010. If this trend continues, we should see more weakness at least into next week before another short-term low is established.

Nothing has changed on my opinion for commodities or treasury bonds. While commodities should decline with stocks, there also should be another round of strength on the way. The call for a rally in treasuries last week nailed the low almost perfectly. I think it's a short-term trade that still has some legs, but not something I would be married to at this point. That will come later this year.

That's a lot of information for one issue. As always, please feel free to contact me directly by hitting REPLY or calling the office at 203.389.3553 with your questions or comments.

## **Investment Quotes/Adages To Live By**

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"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 Keynes

"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**

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CNBC's Squawk Box - April 15 at 6:10am

CNBC's The Call - April 19 at 11:30am

WTIC's (FOX in CT) Money Matters - April 21 at 7:00am

CNBC's The Call - April 26 at 11:35am

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

WTNH's (ABC in CT) Good Morning CT - May 16 at 7:35am

CNBC's Worldwide Exchange - May 18 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.

**[Sign Up Here](#)**

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## To Your Financial Success,



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