Invest for Tomorrow is a publication of Heritage Capital, LLC; Paul Schatz, President.
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October 13, 2010

Inside This Issue...

One Action's Large Results

FYI, I am scheduled to be on CNBC's The Call this Friday, October 15, at 11:05am.

The financial markets have continued higher, almost unabated since the secondary low we saw in August. Having turned positive and investing our allowable cash at the July bottom, I am more than pleased, although there was still that tenuous week in August to test our resolve. The third quarter was very kind to our strategies and that leaves us solidly in the black across the board in 2010 as we head down the home stretch.

Doing this for 22 years, it's so interesting that one small action can lead to such large consequences. On the opposite end of the spectrum, I remember in late 2007 after three very good quarters, we committed the bulk of our cash into the last decline of the year. As you may remember, 2008 began with a horrible January AND we were fully invested. I believe that was one of, if not my worst month since I began managing money for clients.

Being behind the 8 ball so much to begin a year turned 2008 into a battle before the books were even closed on the first month. Almost every year, it seems like the year is defined by one or two smart or dumb actions. In hindsight, buying after a major advance or selling into a big decline have usually resulted in problems. But buying into weakness and selling into strength have served us fairly well through the years.

Without a good segue, I found the following article interesting. While I absolutely do not agree with the author that all 19 facts are detrimental (some just occur in the natural progression of a mature(d) economy), you can easily see what the trend has been. Even more easily, as we tend to do in this country, we assign blame elsewhere. Today, it's popular to target China, like we did Japan in the 1980s and early 1990s. Vietnam, Indonesia and Thailand can't be far behind. The African nations will be our grandchildren's nemesis.

Deindustrialization of America

(http://seekingalpha.com/article/227019-19-surprising-facts-about-the-deindustrialization-of-america)

If you have any comments to share or your portfolio is not behaving as you would like, please hit REPLY or call the office directly at 203.389.3553. Every year won't be rosy (like 2010 so far), but I promise to never tell you that I "hope" things get better!

Concerns Growing with ALL this Good News and Happy Investors

Getting back to the markets, third quarter earnings season has just begun and so far, companies are not disappointing. Intel, JP Morgan and CSX are just some of the key reports that came in better than expected. All should be well and good, right? Not exactly. Isn't this the same behavior we saw in April as the stock market was peaking before the 15% correction?

While I am not expecting an imminent collapse, my concerns are growing that stocks have rallied hard and fast for months right into earnings season. It makes you wonder how much of the rally is based on good reports that are already baked in the cake. Historically, we've seen at least a sharp pullback within a few weeks of good earnings news after such a dramatic rise.

Investors who strongly disavowed the rally started to believe late last month and that trend is continuing right now. It seems like most of my market emails are from investors who were negative, negative, negative, but are now turning positive after being beaten up for too long simply because price has gone strongly against them. I remember all too well how difficult it was being long and wrong during a correcting market. When bears throw in the towel and start buying, the end of the rally usually isn't too far off.

The popular indices like the Dow, S&P 500 and NASDAQ are getting ever closer to the April highs, which were the highest levels of 2010. In late August, when my forecast looked like a total dud, I offered the best case scenario for the bulls in this very early morning **CNBC interview** (http://www.cnbc.com/id/15840232/?video=1575077845&play=1). 1200 - 1220 is almost here on the S&P 500 and while that could provide some short-term fireworks, I would have to believe it to be a better selling opportunity than anything else at this point.

The mid-term election is just weeks away and it certainly seems that along with earnings, some of this rally is based on a certain outcome in the election. If the Republicans do not take control of the House, forcing political gridlock, I imagine some hot air will be let out of the market in short order.

In 1994, when Newt Gingrich & Co. swept the Democrats in the mid-term election, it took the market another month to gather itself for the epic ride higher in 1995. Back then, we did not see a major rally into the election so for sure, some of the early 1995 move was based on the delayed election resolution.

Today, although much in the financial markets seems sanguine, I continue to worry. As I've mentioned before, the higher markets go, the more I worry. One good cleansing that restores some fear will go a long way. Even though we are very long, I would hate to see the market further accelerate to the upside in a final and terminal move that would be very difficult to exit at the right time and set up 2011 in a very bad way.

As always, please feel free to contact me directly with any questions or comments or simply to bounce an idea off someone independent by hitting REPLY to this email or calling the office at 203.389.3553.

Will the U.S. Be Another Greece?

It's easy to watch the financial turmoil in Europe and think, "It could never happen here. Our economy is too big, our resources too plentiful and our ability to create new businesses and products too great." The United States Government Accountability Office (GAO, however, reports we are well on our way to becoming a future Greece, it's just going to take a few years longer.

According to the GAO's **The Federal Government's Long-Term Fiscal Outlook: January 2010 Update** which was released on March 2, 2010, *"absent changes to federal entitlement programs, spending on Social Security, Medicare, Medicaid, and interest on the federal debt will account for an ever-growing share of the economy.* ***... Assuming federal revenue remains constant at 20.2 percent of GDP--higher than the historical average--by 2030 there will be little room for "all other spending," which consists of what many think of as "government," including national defense, homeland security, investment in highways and mass transit and alternative energy sources, plus smaller entitlement programs such as Supplemental Security Income, Temporary Assistance for Needy Families, and farm price supports."***

There are very few tools available to the federal government to avoid the problem, one of which is to increase taxes. This is already taking place and can be expected to accelerate. When the federal government starts looking for more money, it will look, as like bank robber Willy Sutton once said, "where the money is."

Investment Strategies that Avoid Triggering Tax Consequences

With higher tax rates on the horizon, it's important to look at ways you can avoid triggering tax consequences in your investment portfolio. Any time you can reduce the tax bite, you have more money to invest, more money earning money, and ultimately, more money for your own needs.

- **Take capital gains today on assets you may want to sell in the next few years.**

  Given that taxes are headed up, 2010 may be the year to sell capital assets that have appreciated substantially, but that you don't want to hold forever.

You may also want to look at long-term holdings where you have substantial gains, but intended to hold for a while yet. By selling now, you lock in current capital gains at the lower tax rate. You can then repurchase the investment establishing a higher tax basis.

- **Maximize contributions to tax advantaged retirement accounts.**

  Given the rapid phase-out of deductions and exemptions for reported income above $250,000 for couples and $200,000 for individuals, your goal should be to keep your income as low as possible by increasing 401(k), 403(b), IRA, SEP IRA, and other retirement plans that allow you to deduct contributions from income.

- **Fund a Roth IRA, and consider rolling over existing IRAs to a Roth format this year.**

  Everyone is eligible to rollover or fund a Roth IRA in 2010 regardless of income levels. Even if you have to pay taxes to roll over a traditional IRA, you may be paying taxes at the lowest level you will see for some time.

- **In higher tax environments, minimize realizing gains in taxable accounts unless you have offsetting losses**.

  This doesn't mean forgoing risk management. Instead find an adviser who understands the use of tools to protect your protfolio's value in a down market.

- **Substitute perks for taxable paychecks.**

  This pretty much says it all, just check with your accountant first.

- **If self employed, consider forming a C-corporation.**

Partnerships, LLCs or Subchapter S corporations are currently taxed on profits at the owners' individual income tax rates. A C corporation is a separate taxpayer with an initial tax rate of 15%, allowing business owners to hold profits in the corporation for growth and expansion with less eaten away by taxes. C corporations can deduct certain employee benefits that would otherwise be taxable income adding up to more tax savings. The disadvantage to a C corp is that profits can end up taxed twice - first at the corporation's level and then at your personal level if not properly planned.

Before putting in place any of the strategies above, make certain and talk to your tax adviser first. Everyone's personal financial situation is different and your tax adviser should be able to determine whether or not these strategies will have the benefits you want, or unintended side effects.

To Your Financial Success,

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