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THANKFULLY... It's FINALLY Here!

FYI, I am scheduled to be on CNBC's The Call on November 5 at 11:05am. It was a whirlwind week last week, spending time in New York speaking at WRG's trading conference, reconnecting with friends and peers and then presenting to my good friend David Fieldhouse's group north of Boston. For all of my new friends reading for the first time, welcome!

I am going to focus this edition solely on events this week and then try and write another edition on Friday or early next week. I apologize in advance for my usual spelling and grammar errors. I want to get this out quickly and I procrastinated by watching the SF Giants just win the World Series. I hoped to include some charts showing possible scenarios but that will have to wait a few days.

As we all know, the most important election of all time is here. And that will be the case until the next election, which will be the most important election of all time.

With the stock market just completing 10 good weeks, certain things are now baked in the cake. Check out Intrade.com for a few examples. Republicans are poised to win at least 60 seats in the House, unseating Nancy Pelosi et al. I'd like to be a fly on the wall when she hands over the gavel to John Boehner. Are they civil to each other? Does she smash him over the head with it? What wisecrack comment does he let slip?

In the Senate, it's expected that the Republicans gain major seats, but do not gain control. It's hard to believe that Harry Reid could actually lose his seat, but there is precedent in the House with Tom Foley (I think) and not in the Senate. Anyway, that's what the stock market is expecting.

If we see Linda McMahon in CT come from behind to win the Senate seat or Barney Frank lose his seat in MA, something much bigger will occur. Conversely, if Harry Reid retains his seat and a few of the "locked" Republican seats don't turn out that way, Barack Obama may get an early boost in his reelection bid. I think the bottom line is that the higher the turnout, the more it favors the Republicans.

Turning to stocks, the few days before and after the election are usually positive. We've seen a very strong rally and a "sell the news" mentality would not be the least

bit surprising, whether it's right away or a few days later. On the other hand, I would be surprised if stocks launched higher after the election and did not come back to earth soon thereafter.

Let's turn to more "ifs". If the Republicans' expectations end up being a lot of hot air, I would put my hard hat on as stocks should see some nasty downside in the coming weeks. Taxes would surely increase next year along with more regulation and government spending. As of now, if Congress does not act, Americans will be punished with the largest tax increase in the history of our country.

If Republicans somehow take control of the Senate, the most unlikely of all scenarios, the odds favor a strong surge higher. But I would expect whatever initial move to be quickly reversed over the following few weeks. The overall market theme based on the election is that volatility should increase greatly, at least over the short-term.

Besides the election on Tuesday, we also have Ben Bernanke's shindig with the FOMC on Wednesday. While no one on earth expects Ben to touch rates, the markets have been waiting on the edge of their seats for the final announcement of QE2 (running the printing presses 24/7). Although initial expectations were for another trillion to be created by purchasing more treasury bonds over a period of months, that has been tempered to at least \$500B.

As a side note, it's pretty amazing that we use the word "only" and five hundred billion in the same sentence. And so cavalierly throw around the word "trillion". Like they're nothing! It almost feels like we've accepted all this nonsense matter of factly.

So on Wednesday morning, we'll get immediate market reaction to the election and then the Fed's news at 2pm. And let's not forget the employment report being released Friday at 8:30am. If stocks somehow hold up this week and rally into and on that news, I imagine that will spark a key reversal to the downside, giving back whatever gains were made during the week in short order. On the treasury bond side, given their weakness coming in to this week, I would expect (as with stocks) a significant increase in volatility, but a rally as stocks pullback.

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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