March 13, 2011

6:08 PM EDT

Find us on Facebook

Follow us on twitter

Inside this issue

Time To Buy Japan?

~~~~~~

Congrats to the UCONN Huskies, both men and women, for winning the Big East tournament. The women rarely surprise on the upside, but the men certainly did! FYI, I will be on CNBC's Squawk on the Street this Tuesday (3/15) at 9:35am for their Technical Tuesday segment.

With the ski season in the fourth quarter, warmer weather appears to be here. For only the second time this year, we had the whole family on the snow last Saturday, including our 2 year old son who has been taught to say "I am da best lil skee'er".
~~~~~~

It was also the annual parent/child race for my daughter's program, where the two of us race head to head and then combine our times against the rest of the field. As we approached the starting gate, I asked the starter if parents are supposed to let the kids win. He shook his head and said that we didn't have to, but most did.

So as he said "racers ready", my daughter looks over at me and barks, "I am gonna kick your butt" and flies out of the gate. I let her get a good three gate lead before leaving myself and then realizing I would have to put the pedal down to catch her. She won, denied I gave her a lead and I haven't stopped hearing about for 36 hours! And she won't agree to a rematch!!

As we head into the new trading week, all eyes are focused on Japan and the horrible earthquake and tsunamis. Mother Nature certainly possesses awesome power that usually hits when we least expect it. Obviously, everyone's thoughts and prayers are with the Japanese people.

From a market perspective, I opined a few weeks ago that I didn't think the Libyan situation would be as easy on the markets as the Egyptian events, which was essentially a one day affair.

"I offered that the pullback so many were looking for would probably come out of nowhere with some geopolitical event and would quickly lop 4-7% off the major indices." That was in the context of the Dow not even closing below it's 20 day moving average since 12/1.

I also didn't think the markets were on the verge of anything substantial, like a double digit correction, just something big enough to shake the trees and get the weak handed holders to do some selling. From the February 18 peak to the March 11 low, we've seen roughly a 4- pullback in stocks that people attribute to Libya and the Middle East.

But news over the weekend in Japan may accelerate that modest pullback. As I write this, worry now is that the death toll will rise well north of 10,000 and two major nuclear reactors are on the verge of meltdown. I have always believed that it much more important to see how markets react to news than what the news actually is. I would imagine the Nikkei opens sharply lower and that should have some spillover into our markets at least Monday morning.

The big question will be, is this a buying opportunity in Japan? The contrarian in me says we are very close to a tradable low, but let's see what the action is in Monday. So far, the MSCI Japan ETF is almost 7% and that reach double digits on Monday morning. I'll have more on this next week.

Although I remain bullish over the intermediate-term (nothing has changed), I see two possible scenarios short-term.

Scenario A (in light blue on the chart below) - Stocks have a rough morning on Monday but the selling does not accelerate and the market begins to gather itself after the Fed meets on Tuesday. New 2011 highs are seen in April.

Scenario B (in light purple on the chart below) - Stocks open lower on Monday, accelerate during the day and close below the lows of last Friday, March 11. In that case, the 4-5% pullback ends up being 7-9% and we see a bottom by the end of March. From there, new 2011 highs are made later during the second quarter.

Both scenarios are ultimately bullish, but the latter is a bit more painful in the short-term. IF either one is correct, I think the ensuing rally will be the most important of the entire bull market. I am concerned that technology leadership is beginning to wane on the heels of emerging markets rolling over five months ago.

I don't like that healthcare, utilities and consumer staples are stepping up, even though two of the three were sector picks for 2011. If the high yield bond sector begins to underperform, I think we'll be begin counting down to the end of this bull market.

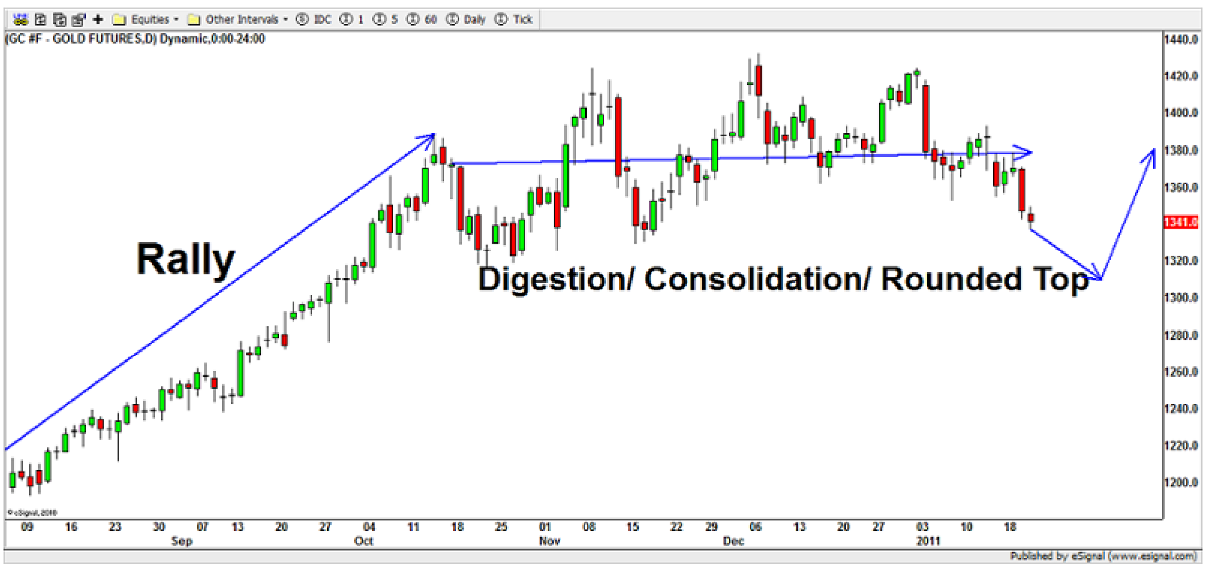
This is a difficult and confusing time, please feel free to reach out with any questions or comments by calling the office directly at 203.389.3553 or hitting reply to this email.

Bubbles & Collapses

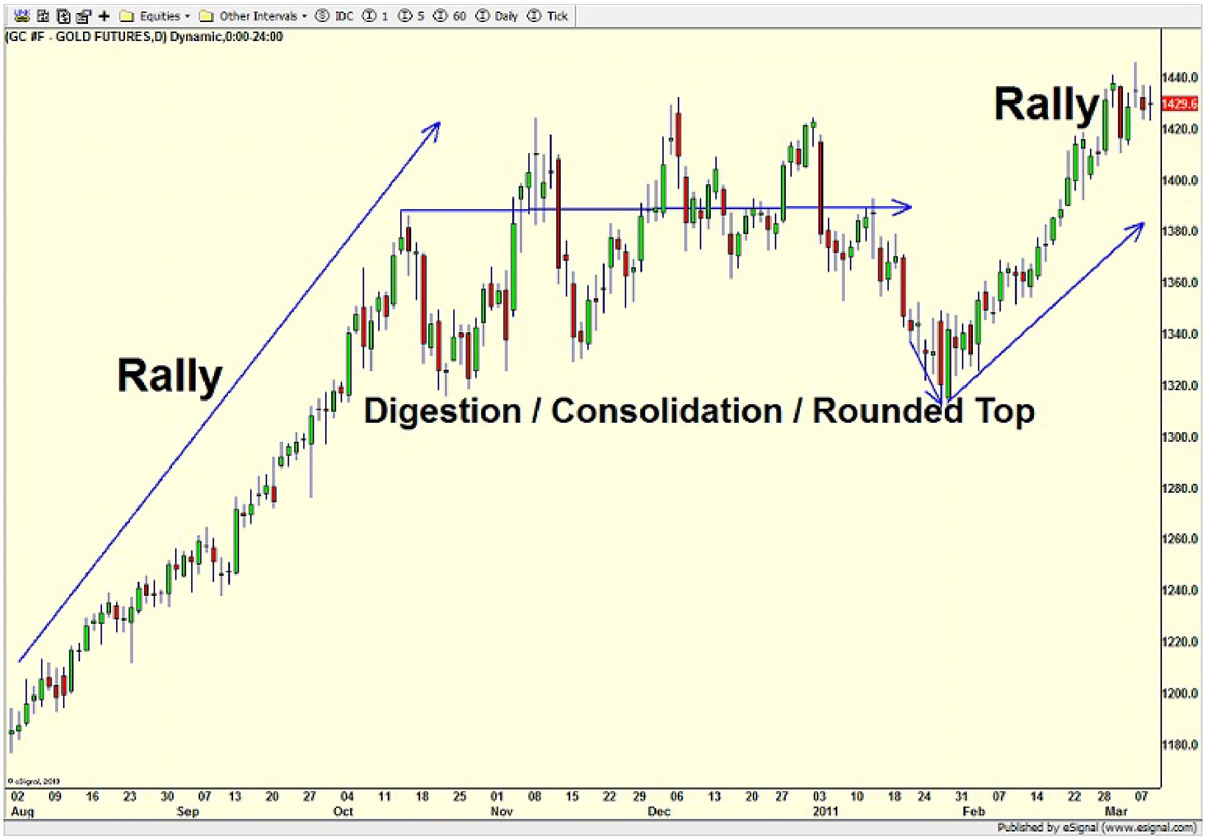
~~~~~~

Over the past few months, I have written about securities that were very extended on the upside as well as the downside, bubbles versus collapses. Before I get into a new security, which is actually an old one discussed last year, let's take a quick peak and see where they stand today.

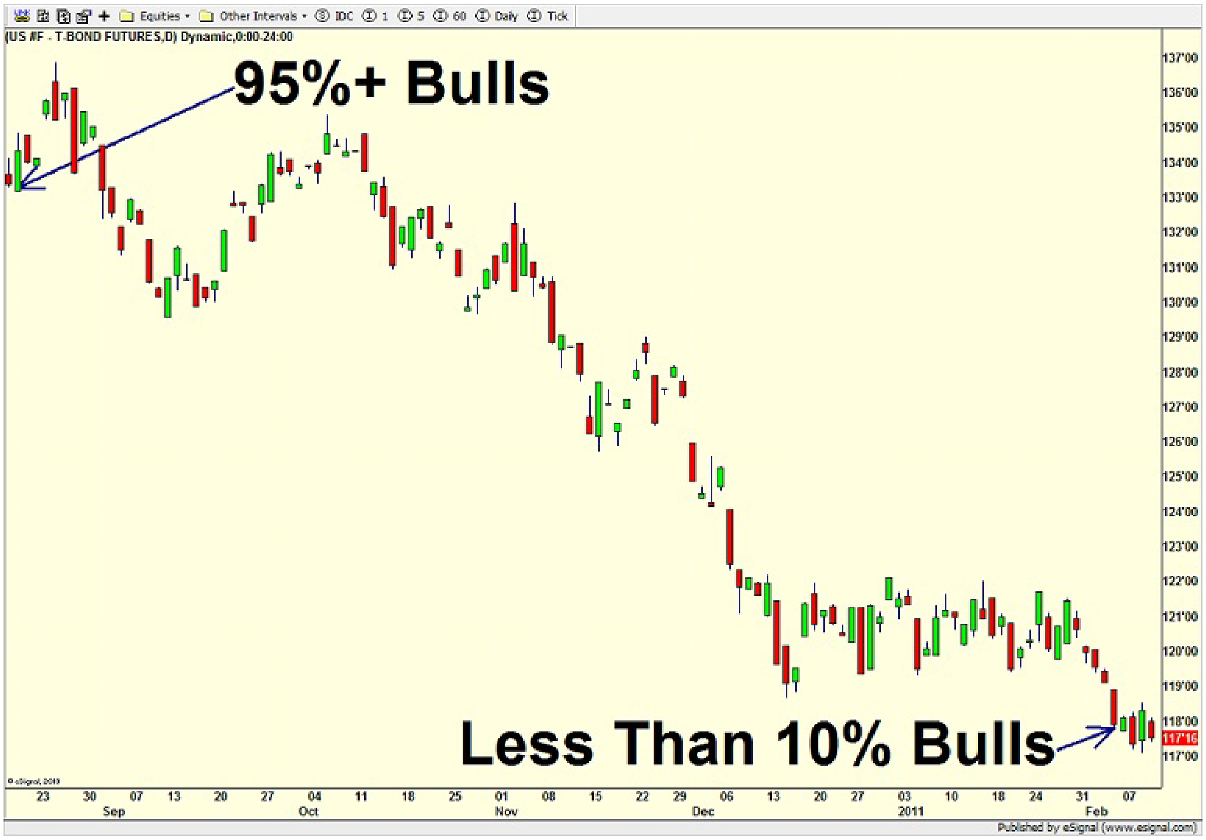
The series began with Gold Nearing A Rally, where I showed examples of how gold behaves during a bull market with strong rallies followed by long trading ranges and more upside. We left off with the chart below.



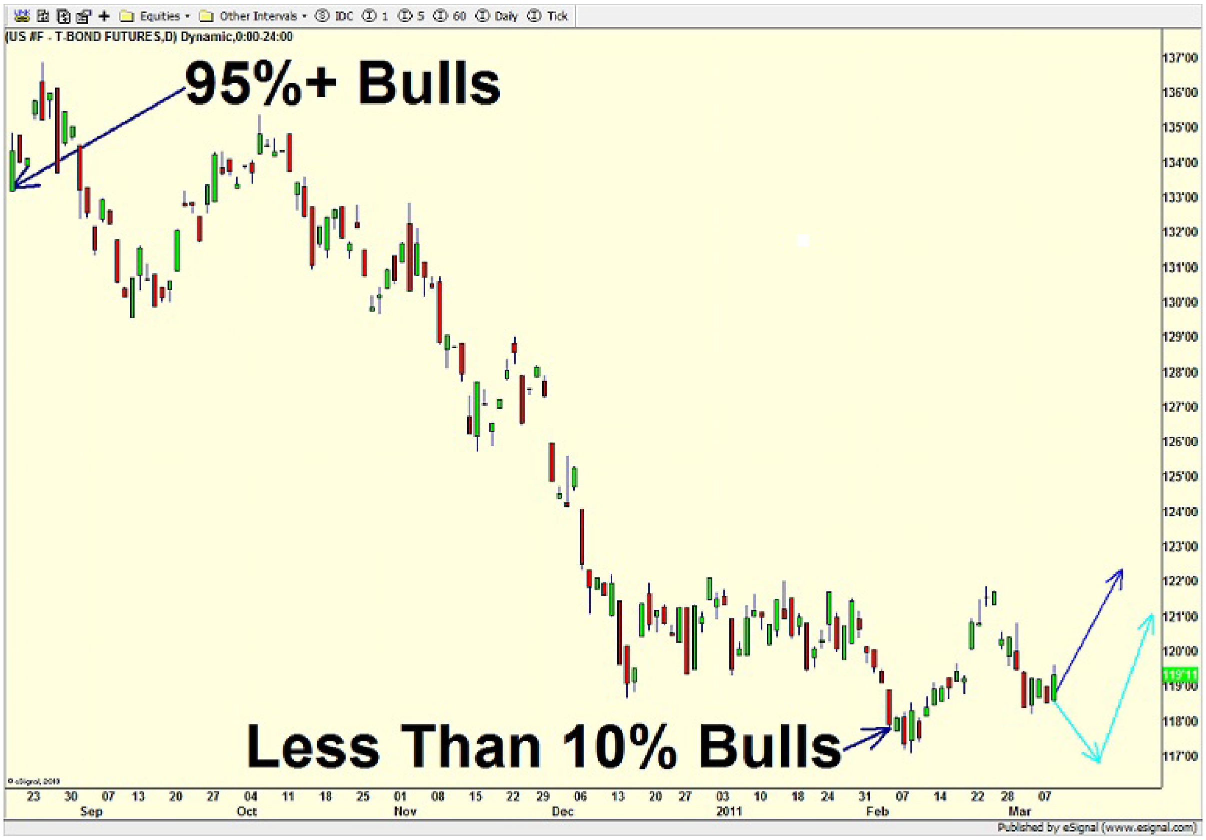
And today, you can see below that gold behaved as it was supposed to, by rallying smartly to the old and now new highs. As I tweeted and posted on Facebook, I do not believe now is the time to throw caution to the wind and buy gold. The "easy" money was made buying near the low. This textbook behavior is good to see, but far from guaranteed each time. Every once in a while, the market will throw your forecast for a loop, just to keep you honest.
~~~~~~



The gold article was followed up by one on treasury bonds, [So Bad, They Are Actually Good], where I opined that there were so few bulls left, and T bonds had been pounded so hard, it was actually bullish. Below you can see the chart at that time.



Today, as you can see below, bonds rallied nicely and have recently pulled back. Until proven otherwise, the path should take them higher into next quarter.

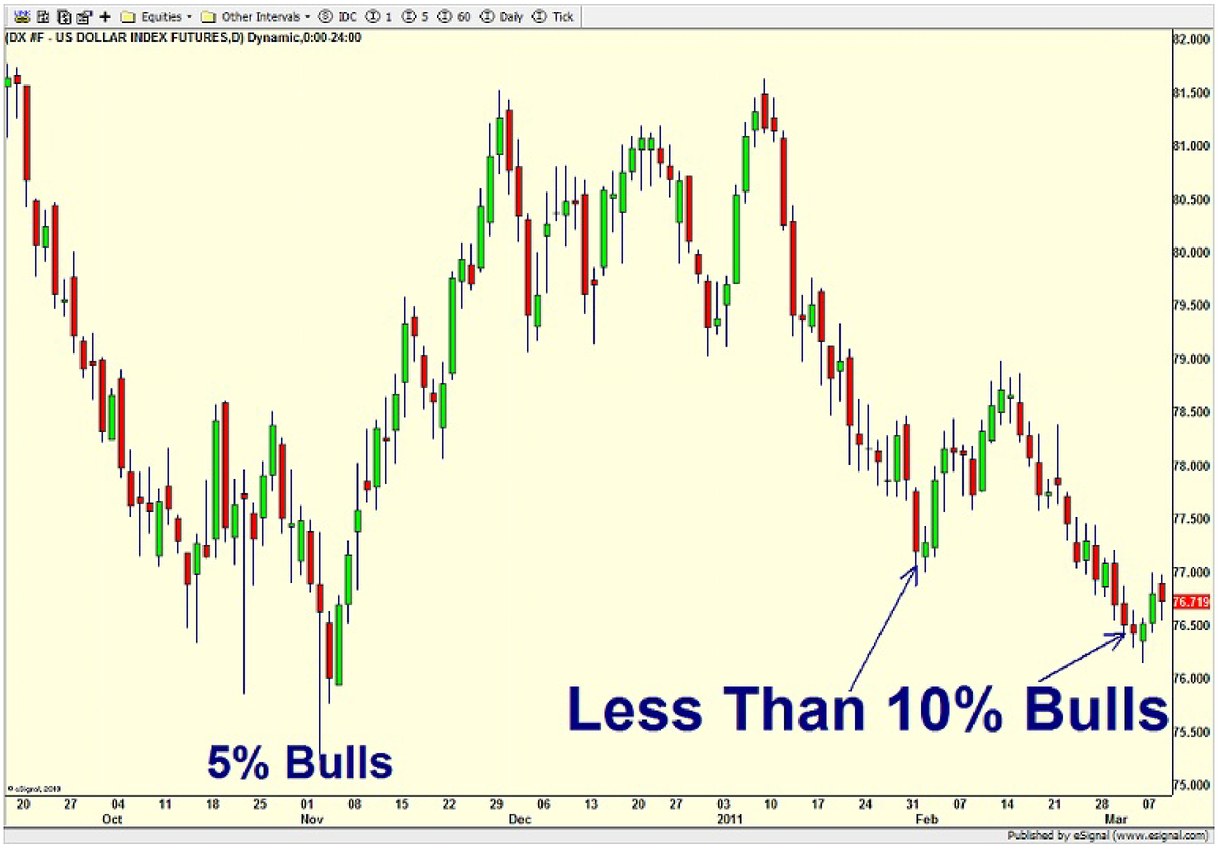


On the flip side, cotton has been in bubble land for a while as I wrote about in [HUGE Bubble In The Making](#).

Once again, cotton MAY be peaking, but after being burned so many times, who is going to stick their neck out and become overtly bearish? That's the exact making of a bubble and why so few people actually profit from the first and most severe leg down.

I am going to finish this piece with the U.S. dollar, which I wrote about late last year. As you can see from the chart below, when the masses were uniformly bullish at 90%+, the dollar fell hard. Who was left to buy? Conversely, with less than 10% bulls, the buck rallied with few left to sell.

Today, the dollar is back to being the second most unloved investment after treasury bonds with less than 10% bulls for the second time this year. It's hard to find many folks who believe it has any chance of rallying over any timeframe. As usual, I am taking the other side, having turned long-term bullish in early 2008 and continue to believe the greenback is in the early stages of a major bull market. Of course, I will temper that view when rallies become overloved and unsustainable.



Obama In A Pickle

~~~~~~

I will never forget Bush I's famous campaign line, "Read my lips; no new taxes!". He was so sure, so confident. Until he wasn't and had to go back on his word to negotiate a deal with Congress. That one simple line will always haunt George H.W. Bush.

Few presidents since then have made such emphatic statements, mostly out of fear of remembrance. President Obama is in a difficult spot with Libya. He spent years criticizing the Bush folks for their mistakes and involvement in Iraq and Afghanistan along with America's long armed reach in international affairs to put it politely.

I believe Obama finds himself in a position where he wants to take some kind of military action, but realizes how hypocritical that would be, especially with the election next year. You can't spend your national political career casting aspersions, only to turn tail and support those very actions you abhor. I wonder if that lunatic in Libya realized this in planning his strategy? Or am I giving him too much credit?
~~~~~~

Staying on the topic of government, the trial balloon has been floated that oil from our **Strategic Petroleum Reserve** (SPR) should be released into the market to help stabilize and reduce the price of oil and gas to consumers. (For a better understand of the SPR, click **here**) As one who heats his home with oil and uses gas in his car, nothing would please me more than for energy prices to pullback in rational fashion.

But do we really want the government involved even more in the capital markets? They should decide what prices are too high and manipulate them? I vote solidly NO. The SPR was created for times of supply crisis, not for manipulative purposes.

When Hurricane Katrina hit, the Department of Energy sold some oil to help cushion temporary supply dislocation. That's what the SPR is supposed to be for! If there was a major issue in the Middle East, at least we know we have roughly a 30 day supply of oil buried in salt mines along with gulf coast.

If you believe they should use the SPR to manipulate prices, do you also advocate being a constant buyer when prices are too low? What about other vital commodities, like wheat, corn, beans, sugar, etc.? Should the government become the biggest trader in the world?

And if by some reason, you keep answering YES, a little research will show that government intervention rarely overpowers the free market. Look at what happens each and every time the Bank of Japan tried to effect the Yen. After a day or two in their direction, the market guns the government and ultimately wins. The same thing happened to the Bank of England with the British Pound.

Government has enough trouble walking and chewing gum. Let them repair their own house before butting in elsewhere.

Upcoming Appearances

~~~~~~

CNBC's Squawk Box - March 7 at 6:10am

CNBC's Squawk on the Street - March 15 at 9:35am
~~~~~~

CNBC's The Call - March 24 at 11:05am

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

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

Media Appearances

(http://www.investfortomorrow.com/InMedia.asp)

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 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

"Diversification alone is no longer sufficient to temper risk... You need something more to manage risk well."

- Mohamed El-Erian

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

Street$marts is produced and distributed regularly via email by Paul Schatz of Heritage Capital, LLC
1 Bradley Road, Suite 202 Woodbridge CT 06525 Phone (203) 389-3553 Fax (203) 389-3550 - www.InvestForTomorrow.com
Heritage Capital, LLC is an independent RIA not associated with any financial institution. Data used in this publication is gathered from reliable sources, although completeness and accuracy cannot be guaranteed. Performance results do not take into account any tax consequences and are not predictive of future results. This publication does not give any specific investment advice, does not provide financial planning services, or consider any individual's financial situation, needs or goals.

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.