April 8, 2011

3:45 PM EDT

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Shut It Down

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Thank you for the flood of emails from last week's piece, **The Man Who Changed My Life**. It was one of the more enjoyable articles I have done. Surprisingly, the majority of replies were from folks requesting more information about Sloo and what he said that was so bad I couldn't sleep. They wanted to know how they could have me manage their money based on Sloo's forecasts. The problem is that is the post was done on April 1, otherwise known as April Fool's Day! Sloo Flipra spelled backwards...

Before I get into this week's real content, I want to share something else. Having essentially lived in the greater New Haven area my whole life, except for college and five years on Wall Street, I have been so fortunate to have friendships from nursery school, some 40 years ago. I still have pictures from my three and four year old classes with Joanna Katz, Lauren
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Farber and Elisa Scholsohn, all friends to this day.

Lauren sent me an email last night about a bike ride she is doing. Sadly, she was diagnosed with a brain tumor and is now trying to raise money to help find a cure. If you are so inclined, please click on the link for me information on you can help the cause. **Brain Tumor Ride**.

So this past week, I was fortunate enough (or unfortunate enough, depending your perspective) to chaperone my daughter's 2nd grade class on their field trip to visit Town Hall. It was incredibly important to her so I made time and showed up with the rest of the moms. Except for my daughter insisting we hold hands, which made everything else bearable, IT WAS THE LONGEST 90 MINUTES OF MY LIFE!

My wife and I have always thought our daughter was tough. But she is nothing compared to her peers on that trip! From the time we boarded the bus, 43 kids, especially the boys, screamed at the top of their lungs and horsed around. Thankfully, the ride was only 5-10 minutes! My migraine was just setting in.

I couldn't wait to board that bus back to school. My daughter likes to sit in the back with her friends (and less adults). So she insisted I sit with them. A different group became fascinated by my Adam's Apple and gray hairs on the side of my head. After staring at me, one little girl starting poking my throat while the boy was touching my sacred hair. Boy, was I happy to get back to the sanctuary of my office!

As I finish this up on Friday afternoon, all talk is focused on Washington and the possible government shutdown at midnight. From a market point of view, I believe it is a non event. No one cares. It's just a short-term thing that is 100% certain of eventually being fixed. Will the markets move? Sure. I think they will trade "normally", +-2%.

The last time we faced this in 1995 I believe, stocks rallied more than 2% before the government reopened. I think the context of the market is more important. Like today, stocks were in a bull market in 1995. Had this occurred in 2008, I think stocks would have decline as they were in a bear market at the time.

From a non market point of view, I really don't care if the government shuts down for a day or week or whatever it takes to get those politicians back to the table. I absolutely HATE when I hear party leaders making things up from the floors of the House and Senate on what closing or not closing the government will do. They should be ashamed of themselves, but they're not.

Right now, we are facing another $10 TRILLION in debt over the coming 5 to 7 years. These jokers in Washington are arguing over $30B? It's beyond frustrating!

I've said this for two years now; unless all parties are willing to put EVERYTHING on the table, including social security, medicare, medicaid and defense, the United States will face its biggest crisis of all time. Not a single department can be spared. We need to cut $100B to $150B every single year for the next 10 years PLUS have organic growth. There are no painless solutions left.

FYI, I will be on CNBC's The Call this Monday (April 11) at 11:05am discussing the potential government shutdown's affect on the Teflon markets.

Real Estate Season Is Here

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It's that time of year again. The birds have flown back for the warmer months. Local golf courses have put the pins back in the greens. There are buds on the trees and bushes. Ski areas are closing and the Yankees have taken the field. It's also the beginning of prime residential real estate season!

As I have done in previous real estate posts, I leaned on my good friend and real estate super agent Judy Cooper for advice. Similar to last season, it is clearly and unequivocally a buyer's market. While the pace at which prices were dropping has diminished, prices remain weak and as I opined in two pieces last year, Real Estate I and Real Estate II, I think it's going to be years and years for a real, sustainable recovery to take place.

We have less competition in lending and banks are much more stringent in putting their money to work. The employment numbers remain at very elevated levels and I do not believe the unemployment rate will get back to the "normal" zone until after the next recession. Finally, mortgage rates are at historically low levels. Best case scenario, they remain there, which would not help the refinance boom. Worst case, rates begin to rise and become an anchor on any real estate recovery for some time.

Nonetheless, each year, roughly one million new homes are needed to satisfy demand. When things were humming along in 2005, the U.S. had roughly a six month supply on the market. In the darkest days of 2009, that figure had ballooned to about 24 months. The last figures I saw still had the supply at more than 12 months.

Those of you, like me, who are in the market for a new house should feel okay, not rushed or pressured. We got lucky and sold our house last
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summer to a family who needed to close in a very short period of time. My wife and I made a deal that I would agree to find a larger house for our larger than expected family if she agreed to sell first and rent. That would give us a significant advantage coming buying time as we would have cash on hand with nothing to sell.

So here we are.

As I mentioned before, since my entire professional life revolves around making informed, non emotional decisions concerning money, I took a page from the business and created a quantitative model that values local real estate. Obviously, it can't take into account intangible items like the immediate need to buy or the lack of a catalyst to sell. But overall, it's usually within 5% of the transacted price.

Although the season is young, it's unfortunate to report that sellers have come out from the long winter hibernation as though it was 2005 all over again. Some of the homes I have personally seen make me wonder if folks are caught in a time warp, overly medicated or living on Mars. As a previous seller, we clearly thought our house was worth more than it was. That's the emotional attachment. But very quickly after we listed, Judy Cooper came back to us and advised reducing the price if we were serious about selling. So we listened and the rest is history.

Sellers like we have experienced are part of the problem, not the solution. The system remains full of inventory and desperately needs to be flushed before real stability can set in. With the recent housing numbers opening the door for a double dip housing decline, buyers need to be very careful letting emotion enter into the negotiations.

Two vital stats I strongly suggest using are the listing price divided by the either the town's assessed value (usually 70% of appraisal) or listing price divided by the appraised value. Additionally, I would keep a close eye on the listing price divided by the square footage. Of course, the condition of the house can add or subtract from these figures, but at least they give you a general apples to apples comparison.

I asked Judy Cooper to offer advice for both buyers and sellers on the whole home buying/selling process.

Here you go...

For Sellers:

1) Trust your Realtor! Choose someone who has experience, knowledge and has a 'complimentary' personality. If necessary, interview several to find the one who clicks best.

2) Let him/her explain how the price was arrived at....with lots of comparable homes, etc.

3) Stay unemotional!! The market sets the price a seller will receive. After 5-6 weeks, take a look again at your listing price...is it realistic? What feedback have you received? Revisit the price and see how many other houses have gone under deposit if yours hasn't.

4) Stage your house to make it looks its best.

5) Have a pre-listing inspection so you know what you're dealing with before the buyers tell you.

6) The first offer is usually the best...and if you don't accept it, you're essentially saying you would buy your own house back at that price. The question is: would you???

For Buyers:

1) Trust your Realtor: interview several to make sure they have experience, knowledge and a personality that clicks.

2) Learn the market. Go to open houses in the towns that interest you. Get a list from Town Hall of all houses sold in the past year for comparative purposes. Be especially interested in recent sales on streets you are looking at.

3) Prioritize your needs. Are hardwood floors more important that the location of a neighborhood? Learn the difference between cosmetic and structural changes when you see a house you like.

4) Get a pre-approval letter from a reputable lender BEFORE you start looking so you don't have unrealistic expectations.

5) The primary consideration in choosing a house is (yes!) LOCATION!! Neighborhoods trump main roads, level lots trump houses set down from the road or those on a steep driveway.

6) Do not negotiate with emotion--be willing to walk away.

7) Offer the seller non financial items of value: a closing date that suits their needs (if it doesn't impact yours), etc.

Stock Market Rally Not Over

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Last month, having successfully navigated the Libya and Japan events on the markets, I offered yet another two possible scenarios for the stock market as you can see below.

I added that *"if the green path appears to be favored by the markets, we will likely stick with our current portfolios. If the orange path takes hold, there may be some opportunities."* As you can see below, the green path was more or less followed ultimately, but the market was even stronger than I thought it could be.
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As I write this, stocks continue to take a much needed breather after such a big run. So far, the bears have been unable to make any significant headway. The longer this pattern continues, the more likely the resolution will be to the upside. So far, nothing has changed in my thinking that the 13,000 area on the Dow will be seen this quarter.

To address some of the concerns, yes, stocks have come a long way in a short period of time. Yes, my two key sectors, semis and financials are not leading. Yes, volume, the horsepower of the market, remains woeful. But we should not forget or ignore that's detrimental to one's portfolio to bet against the Fed, ESPECIALLY when they are pouring fuel on the fire during a strong bull market.

QE2 will be ending in June. The tsunami of liquidity we've all been surfing for two years may be ending. But let's wait for some market clues first. We should be keenly focused on junk bond performance, sector leadership, sentiment, Dow Industrial and Transport confirmation and the breadth of the rally. Long before it ends, we should see fewer and fewer stocks participate.

These are all very important factors and you should either be watching them yourselves or paying someone to do it for you. If you or your advisor do not understand the concepts, don't sit back and hope you'll be okay. As my friend Wayne Garrick likes to repeat, HOPE IS NOT AN INVESTMENT

STRATEGY!

Any questions or comments? Just hit REPLY and I will get back to you in a timely fashion.

Upcoming Appearances

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CNBC's The Call - April 11 at 11:05am

CNBC's Worldwide Exchange - May 9 at 5:30am

CNBC's Squawk on the Street - May 17 at 9:35am

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

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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

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

- Mohamed El-Erian

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

You can also forward this email to family and friends by hitting the "forward email" hotlink at the bottom of this email.
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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
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