April 27, 2011

2:33 PM EDT

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Inside this issue

Debt Debate Continues

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FYI, I am going to be on CNBC's The Call tomorrow, April 28, at 11:05am. After that, I am heading to San Diego for our custodian's conference on Friday and Saturday where I'll be speaking on a panel. From there, I get to stay in San Diego for my trade association's annual meeting where I'll be speaking about building an investment management business from scratch and all the mistakes I made along the way. And there have been plenty! As I prepare, the list just keeps getting longer and longer! If you live in the San Diego area or will be there over the coming week and want to meet, just drop me an email.

This is also the time of year that bums me out the most. Ski season just
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ended and as of May 1, it's a good 200 days until it begins again! I know. I know. You are unhappy as well that winter is at least six months away. My body will be happy that it won't be abused every weekend and I now have time to heal all those aches, pains, bumps and bruises. But I'll still miss the skiing and camaraderie. On the bright side, the two older kids are knee deep in softball and tee ball and basketball and chess and dance. So I'll have plenty of family activities to keep me busy!

Here is an interesting video on the impending Debt Crisis. While the creator makes some very valid points, they all assume that the country stays on the current path of destruction, something I believe is impossible. Now matter what side of the solution you sit on, I think (or at least I hope) that everyone realizes it's going to take true compromise to forge a plan.

We all know how large a percent entitlements and debt service have become in the budget, something must be done, not to mention the cost of defense. Although I sit on the side of cutting expenses, I realize that in order to achieve a meaningful plan, the other side is going to demand some tax changes. Neither side is going to get their way 100% and everyone should be prepared for that.

Below, you will see another article very similar to last week's one on silver. After I sent it out, I wasn't happy with the end product, so I updated it and posted it again. I hope you will find it worthwhile reading.

Not the Time to be Complacent or Procrastinate

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Turning to the stock market, the latest bull run that began on March 16 remains alive and well. A few weeks ago, I offered that since we saw some of the key indices making new highs, that boded well for the others to play catch up. Since then, the Dow Industrials, Dow Transports and S&P 500 have scored fresh highs with the Nasdaq 100 a few cents away.

On the flip side, volume remains woefully pathetic and eventually that's going to matter. Sector leadership is very good, BUT the key financial sector is behaving very poorly. With the indices at new highs and this group in a downtrend, something has to give sooner than later.

So far, nothing has changed in my thinking that a possible significant peak is building sometime this quarter. Besides what I've already mentioned, I am focusing on the junk bond and small cap areas where the first sign of evaporating liquidity should be seen.

The initial decline from any major top is going to look exactly like every other small pullback, only in this case, the next rally will fail short of new highs and a sharp, relentless decline will ensue. As always, we will take it one step at a
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time and do our best to protect the gains we've been fortunate enough to make.

I hope that none of you are sitting back, complacently believing that we survived 2008 and all is good in the world. That we are on the cusp of another decade long bull market to untold riches. In case you haven't realized it, the stock market (and many, many, many mutual funds) is at the same level it was 12 years ago! That's essentially 0% return on your money BEFORE inflation! So factoring in that pesky inflation thingy, you end up with a significant loss.

I urge you! I beg you!! You have a plan in place in case you get into a car accident. You have a plan in place in case your house burns down. Don't sit back and hope that everything works out with your money. Now is not the time to procrastinate. It's the time to put a plan together. Investors don't plan to fail; they fail to plan!

As always, please contact me directly by calling 203.389.3553 or hitting REPLY to this email with any questions or comments.

BEWARE! Liquidity Trap for Investors

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Below please find our recent news release reviewing the first quarter as well as opening a discussion about serious problems as 2011 rolls on.

BEWARE! Liquidity Trap for Investors
(http://www.investfortomorrow.com/PressRel.asp)

All This Bubble Talk

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One of the recurring themes of the past year has been about investment bubbles, how difficult they are to confirm and even tougher to profit from. We've talked about cotton and sugar and coffee and gold. And maybe next week, we'll do a review and see where they all stand.

Today, I want to share some very brief thoughts and pictures of silver and ask you some questions. Looking at the chart, from $26 to $50 an ounce in three months, what do you think? Bubble?

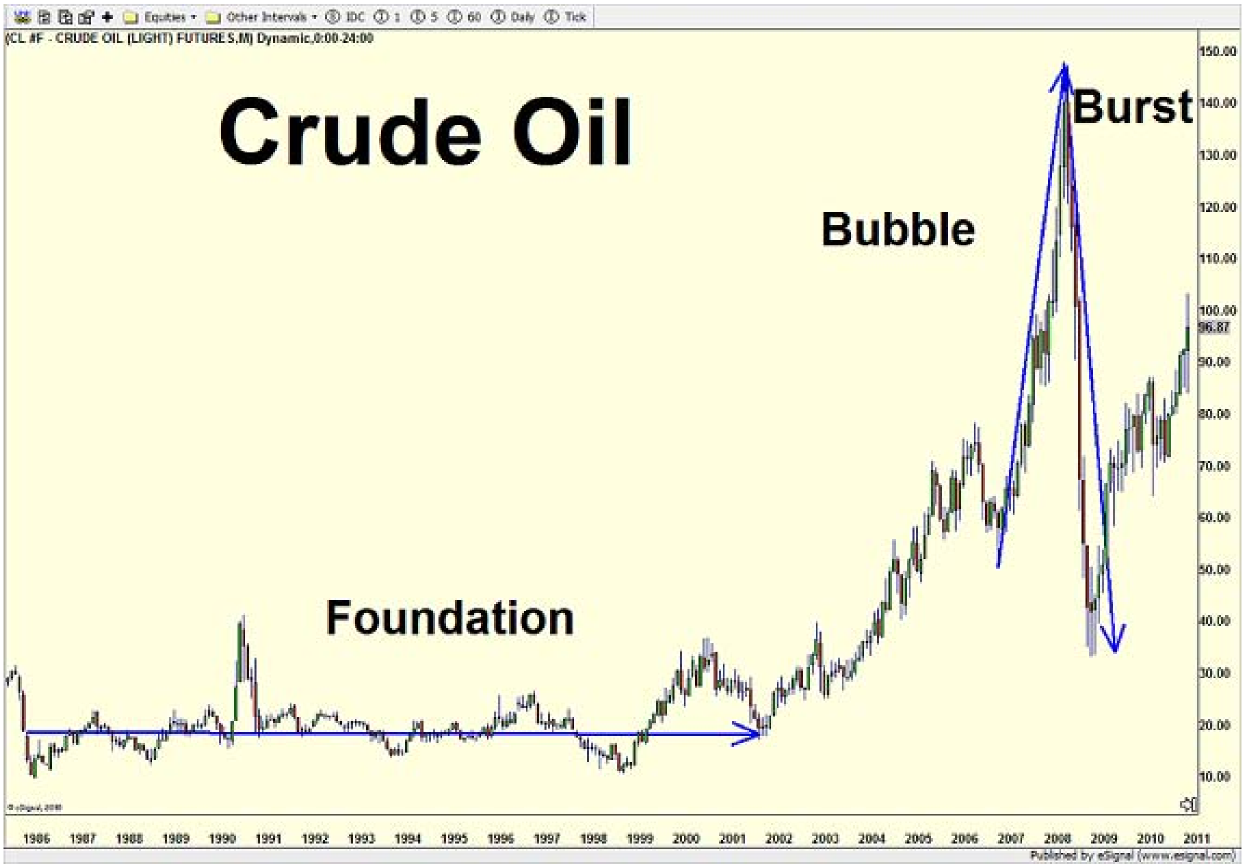
How about the chart below with a longer term view? From $18 to $50 in 8 months. Bubble?

And now, from the 2008 bottom. $9 to $50. What do you think?

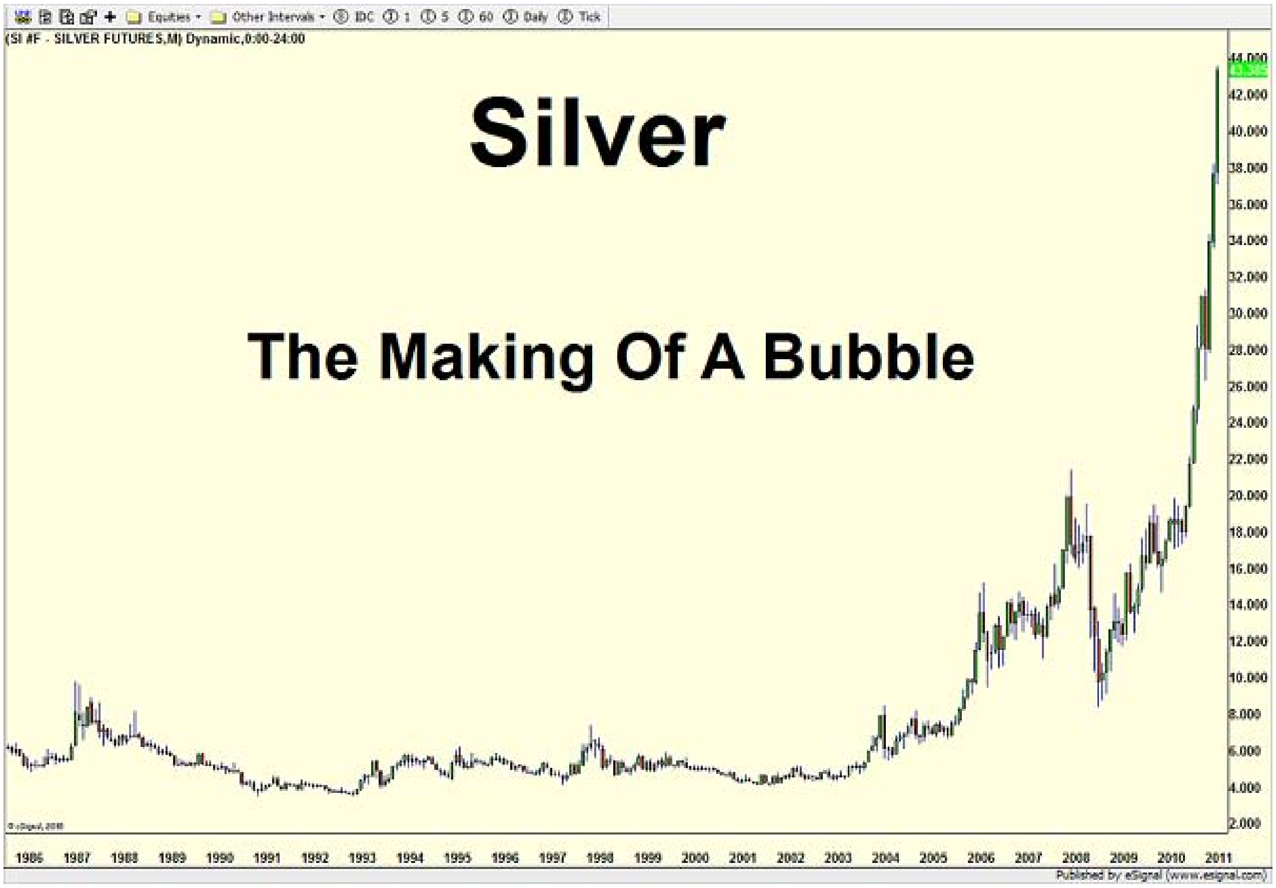
Bubbles don't appear overnight. They require a confluence of fuel factors, a perfect storm if you will. First, they usually have a foundation from which they are built. That's followed by a long-term bull market. Once there is widespread acceptance, we typically hear that "this time is different" when it comes to overvaluation.

The experts rationalize why conventional thinking no longer applies now and how we have some sort of new paradigm in the making. Just think back to the spring of 2008 with peak oil and how we should expect crude to remain forever high, right before it went from $147 to $35. Remember how they argued that since no one is creating any more land, housing prices would never really decline? And oh those dotcom stocks! I vividly recall being told it was no longer about earnings; it's all about EYEBALLS!

When looking at commodities, as I have mentioned before, they behave the opposite of stocks. Commodities tend to make long, multi-year bottoms or foundations that scrape along, while their peaks are very violent, emotional affairs. Take a look at the monthly chart of crude oil below. That is about as classic and textbook a case of building a foundation, the bubble and the collapse.



Let's turn back to silver. How does the chart below look for a long-term foundation? 1990 to 2002! That was followed by a "nice" bull market to the 2008 peak and subsequent collapse. Now, it's truly become a bubble with a possible collapse looming.



Just because an instrument is exhibiting bubble type behavior doesn't mean it must end right away or in total disaster, but the odds certainly are heavily in the disaster direction. Every now and then, we will see a security go vertical up the right hand side of the page and then enter a trading range where it generally goes sideways, but bounces from one price to another. That kind of digestion usually does not end in implosion.

The most difficult thing about bubbles is that they are incredibly challenging to pick the top. Investors often get burned several times being early. But once they roll over, there usually isn't time to get onboard. Remember what John Maynard Keynes said? "The market can stay irrational longer than you can stay solvent."

I'll continue to keep an eye on silver and other instruments that exhibit bubble behavior. Just be careful if you trade or invest there!

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 28 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,

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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.

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