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Inside this issue

Is There a Brain Left in DC?
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Summer finally came to New England and it's been downright hot and humid the past few days. I won't get you grumbling by bringing up winter, but I will say that I enjoy sticking my head in the fridge and freezer every now and then!

In our house, summer also means camp for the three kids. My daughter, our oldest, just came back from two weeks at my old overnight camp where I serve on the board. "Coincidentally", I found myself needing to be at camp several times over those two weeks for "meetings and tours", which made my wife very happy. Happy wife = good life. Now, if I can only find us a great house to buy!

Summer is also the time when Congress and the President vacation. But for now, the underworked folks in Washington are staying put to continue negotiations on raising the debt ceiling.   In last week's Street$marts, I wrote an article about this topic and I
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will only share some brief follow up words here.

The deadlock is absurd and insulting to the American people. I believe both sides are to blame. For either party to actually think that they are going to get their way is beyond naive; it's idiotic! I repeat what I said last week about striking a ratio of cuts to revenue increases at 4:1 or 4.5:1 or 3.5:1. If John Boehner, Eric Cantor and the republicans really think they are going to pass a bipartisan deficit reduction bill without any revenue hikes, be it tax reform or increases, they are not negotiating in good faith. If Nancy Pelosi and Harry Reid think that entitlements will be exempted from this deal, they are being disingenuous. But before they attack the republican budget, shouldn't they first present their own?

I went back and read comments from other debt ceiling issues under Bush II. My oh my. How the sides have changed. Then Senator Barack Obama railed against raising the debt ceiling. It was irresponsible, he said. Now he thinks it's irresponsible to not raise it? Republican leadership couldn't wait to vote yes. George Bush said it was imperative to pass the measure. Sadly, this is not about what is right or wrong. It is partisan politics at its worst with the American people caught in the middle of the crossfire. Shame on them all!

Repeating what I have said all along, we need to cut $100B - $150B every year for at least 10 years and hope (a nasty word in finance) that economic growth continues as that will also help mitigate the deficit as a percentage of GDP.

As we all know, Congress and the President agreed to extend the tax cuts through the 2012 election. How convenient. What I want to know is how did it become fact that "rich" people were those making more than $250,000 a year? While I imagine that a family of four on that income does mighty well in Mississippi, that's clearly not the case in New York City. Instead of targeting a certain threshold of income, why aren't we demanding complete tax reform? Reduce the number of tax brackets. Cut the tax rates. Eliminate many of the deductions and taper off other ones based on income levels. Isn't that compromise?

With no good segue, here is an excellent article published in the NY Times on FICA Chairman Sheila Bairs' Exit. Throughout the financial crisis, I was a big fan of Airs' as she was one of the first regulators to sound an alarm about sub prime and the mortgage mess. She is a no nonsense, take no prisoners professional and the government has a huge void to fill.

***Note:** After I finished this issue, Moody's placed the U.S. on watch for possible downgrade regarding the debt ceiling debate. The financial markets were humming along nicely for the bulls after Bernanke testified before Congress, but the bears came out after lunch and sold the market right into the close. Coincidence? I think not. Similar to the oil market selling off hard the afternoon before the government announced selling oil from the PR, this looks eerily like some traders had advance notice on the Moody's news.

I do **not** believe the comments from Moody's are a big deal and will likely be forgotten within a day. I do believe that between the debt ceiling deadline looking, Ireland, Portugal, Italy's problems, Greece's possible default and another month of horrid jobs numbers, it's far too easy to hit the sell button and run for cover. And that's usually when stock moves from weak hands to strong hands and a rally ensues. So far, this has all the makings of "sell the rumor, buy the news".

Up? Down? Sideways?

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Every day when I wake up, I expect it to be a good day. Some days, that happens and others it doesn't. It's a fact of life. This morning, my alarm went off at 4am for a CNBC appearance. Having taken a migraine pill last night, it wasn't easy getting up! As I quietly got dressed, making sure not to wake my wife and the kids, I noticed that my ATM card was not in its usual place. Frantically, I logged on to my bank account to make sure no one had used the card. My heart raced as the page loaded, only to find that all was ok so far.

Early in my ride to West Hartford on the Merritt Parkway, a small deer jumped into the middle of the road and would not move. With an SUV next to me, I knew it wasn't going to end well for Bambi. We both hit our horns and what seemed like the very last minute, the little deer jumped over my car and scampered into the woods. Round two of heart racing and it wasn't even 5am yet!

Finally, as I sped up I-91 listening to WFAN in deep thought about NY Mets closer K Rod being traded overnight, I missed the exit for route 9. I floored it up to the next
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exit and came right back down to hop on the proper road. The sun was barely up and I had a trifecta of issues.

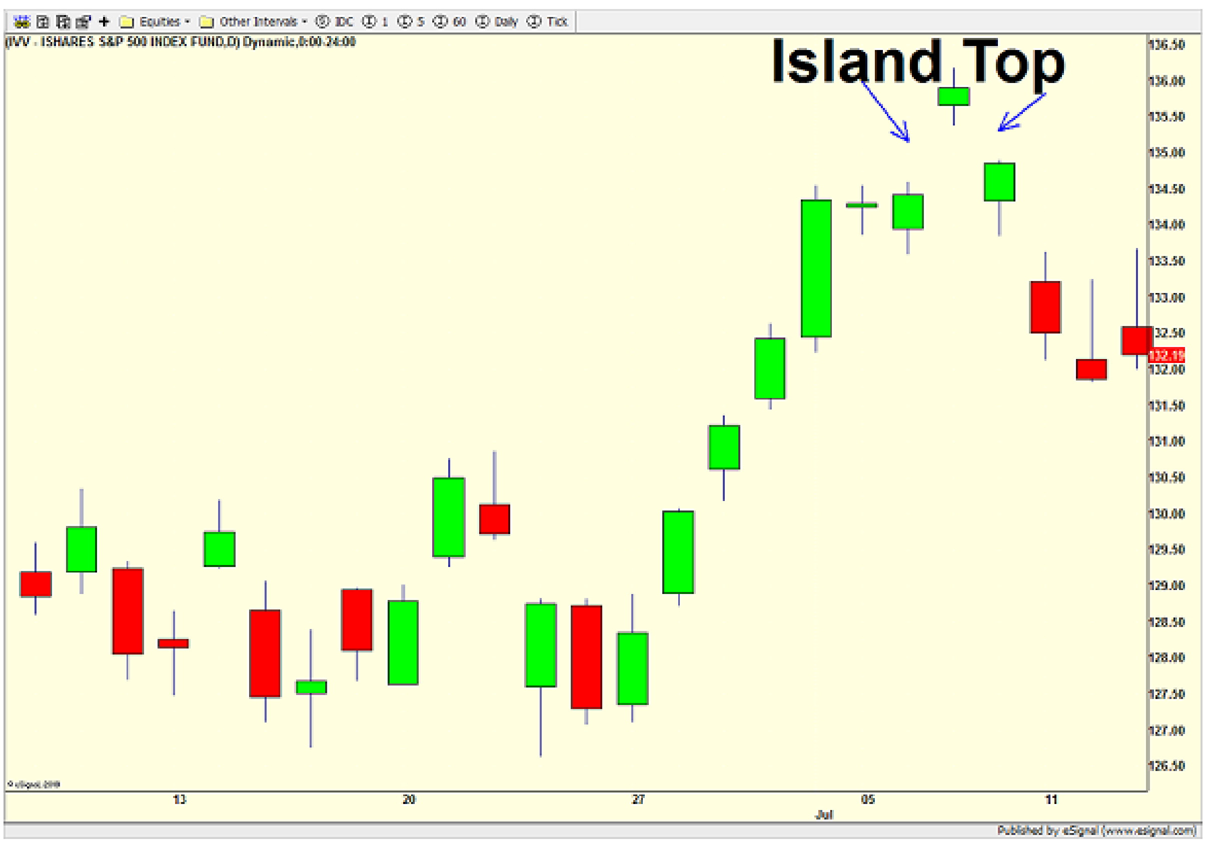
Not every day goes off as planned. I have been working on this edition since last week, but kept getting sidetracked. The stock market exhibited some unexpected behavior this week. My wife and I thought we were hours or a day away from buying house that fell through at the hands of our now former realtor. Things just happen. It's the reaction to those things that gauge our success and failure.

In the past two Street$marts, I have pounded the table that the odds heavily favored a market rally. I thought that we were just seeing the fourth 4-8% pullback since the major low on July 1 2010 and the bulls were about to pounce. When so many people emailed, called and interviewed with the opposite forecast, I felt even stronger that higher prices were in order. And the market did not disappoint!

Longer-term, the Russell 2000 (small caps), S&P 400 (mid caps), high yield bonds and the Dow Jones Transports scored all time highs at the April market peak along with the Advance/Decline line, a cumulative measure of the number of stocks going up and down each day. On the fundamental front, something I am certainly no expert in, S&P 500 earnings are growing faster than the S&P 500 index. That means the market is getting cheaper even though it is still rising. We are actually seeing price/earnings multiple compression rather than the usual expansion. It is highly unusual for a bear market to begin with so many positives at a market peak. In April 2010, we saw the same thing, but had to endure a 17% correction before more new highs were seen.

One possible scenario that worried me during the rally was that the market was going to make it difficult and stop short of new highs and begin to rollover. People who trade and invest by using charts would call that formation a Head and Shoulders Top. Only when the index breached the blue neckline and closed below it, would the pattern be confirmed and much lower prices would ensue.

Additionally, as you can see below, chartists are also screaming about another negative pattern called an Island Top where there is a "lonely" day of trading isolated above the day before and after.



Given all the positives listed earlier against the negatives from the charts, the easiest thing to do would be to move to a neutral stance. And maybe that means we are in for some sideways activity. "Play it safe", if you will, with all the negative news from the debt ceiling debacle to Italy and Ireland and Greece. But I have never been to one to seek the easy way out. I continue to believe that the major stock market indices are going to resolve themselves to the upside and score new high closes this quarter. And that's the way I plan to invest until proven otherwise.

Gold and Gold Programs Update

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The following is an update I do every few weeks specifically for our two gold programs, one conservative and one aggressive. Since the majority of clients in these programs are other firms or non Heritage clients, this is how I communicate. If you are interested in being added to the email list, please hit reply and let me know.

The huge trading range we've seen in the XAU Index since Q4 2010 continues today, although the lower end was breached a few times last quarter. Currently, the index is running hard to the upside after two huge up days. For now, we view any short-term pullback in the XAU as a potential buying opportunity if it continues for a few days. The big question is whether this range resolves itself to the upside or downside. Although the forecast remains positive for gold as you will read below, we think it is premature to have the same thesis for the XAU since it is more of a hybrid than pure play.

At present, both the Short-Term and Intermediate-Term strategies are 100% in money market. The ST Program saw one of its larger drawdowns (paper losses) last quarter before recovering nicely to close June. The IT Program also saw a significant drawdown, but has not seen many trading opportunities to begin its recovery. If more weakness follows this and/or next week, both programs may see trading opportunities.

Coming into 2011, our main thesis was that gold was not going to see a repeat of the huge up years we saw in 2009 and 2010. Rather, we forecasted first half strength with gold hitting our long-term target of $1500 followed by a wide and volatile trading range for much of the balance of 2011 with possibly $1200 on the downside. When 2011 concluded, we believed it would end up as a positive mid single digit year for the bulls, best case.

With the first six months in the books, gold hit our $1500 target and ran almost to $1600 in early May. Since then, a solid trading range has set in bound by $1580 and $1460, but that is in jeopardy of being exceeded on the upside this week. The longer the range continues, the more likely the resolution will be to the upside and towards
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the next target of $1700. While ideally, we would like to see this occur in late 2011, that may be a bit too greedy. Long-term, we do not believe the bull market in gold is over.

As we have written about before, gold does not have a strong correlation with inflation, contrary to popular opinion. This secular bull market in gold that is now more than 10 years old has not come on the back of inflation. Rather, gold is being viewed as a global currency in a time where the paper money system is being called into question. With no end in sight for the woes in Europe and our own issues at home, we continue to believe that gold will have worldwide support from central bankers and investors.

Turning to the U.S. Dollar, which is often wrongly viewed as always moving in the opposite direction of gold, we continue to believe that a long-term, structural bull market began in March 2008. The past three plus years have seen a foundation being built for a multi-year bull run in the coming years. Our stance will not change if the dollar revisits or even temporarily breaches the price levels seen at the bottom.

Upcoming Appearances

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CNBC's Squawk on the Street - July 5 at 9:35am

CNBC's Worldwide Exchange - July 13 at 5:50am

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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