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Inside this issue

After a Week Like That...

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Let's start with some good natured humor. On Friday, my wife and I went to the year-end family picnic on the last day of the kids' camp. We sat outside in the wooded campground area and had our share of pizza, chicken nuggets, fruit and of course, ice cream sundaes with the hundreds of other families.

But when I turned my head, my three year old son was missing. I wasn't really worried since there was nowhere for him to go. As I quickly scoured the area visually, I found the little monster off to the side behind a tree with his pants pulled all the way down to the ground. I yelled to him, "What are you doing?" His calmly replied, "Daddy, I going pee juss like you!"
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When the stock market becomes unglued, one non-scientific indicator I use to know when the bottom is getting close is the number of media requests I get. When I have to pound the table on a market story without much success, I know there is no low nearby. But last week, almost every media outlet that I have regular communication with was in touch for commentary.

Here are four and the rest will posted on Tuesday night HERE.

Safe Bets

Bear Market

Volatility

Wild Ride

Strategy-wise, we continue to make minor tweaks as conditions warrant. Our two conservative programs, Short-Term Gold and High Yield Bond remain 100% in cash as they normally would during periods of excessive volatility.

The next two on the risk scale, Spectrum and Global Asset Allocation are very different. Spectrum is 40% in cash and 60% invested in U.S. indices and sectors, while Global Asset Allocation owns commodities, small caps, the NASDAQ and cash, having just lightened up on REITS and high yield bonds.

Diversified Growth and Relative Strength Sectors remain invested in U.S. indices and U.S. sectors (energy, biotech and internet) respectively. On the aggressive side, Developed Markets owns Sweden, Germany and Canada and Emerging Markets has South Korea and Malaysia. Lastly, Intermediate-Term Gold is 50% invested and 50% in cash with the current trade winding down.

Yo-Yo Market Far From Over

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Last week was certainly one for the ages. Down 600. Up 400. Down 500. Up 400. Up 100. It was enough to make you dizzy or even throw up as I did in my youth on the Mad Hatter's Tea Cups at Disney World. But before you say that the action was unprecedented, let's look a little further.

As I mentioned to many of you during our conversations, the market seemed to be in a mini crash mode, much like we saw in October 1987, October 1989, January 1990, April 1994, October 1997, August 1998,
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September 2001 and January 2008. (Full article to follow later this week) This had the look and feel of a market driven event more than a systemic one like the early 1930s and 2008 - 2009.

It seems like each crash like episode reveals a structural weakness in the markets. In 1987, it was this thing called portfolio insurance where the lower the market went, the more the computers sold and the more they sold, the lower the market went. Fast forward 23 years to May 2010's Flash Crash and once again, we heard about supercomputers and high frequency trading (HFT).

I think we all realize how important technology is when it comes to increased productivity and efficiency, but it seems like there is such a thing as too far too fast. When it comes to HFT, we are literally talking about making thousands, hundreds of thousands and millions of trades in microseconds and nanoseconds.

Given the reduced power of the human specialists in the markets with decimilization and electronic exchanges, perhaps it's time to ever so slightly slow down the supercomputers by even a fraction of a second. When markets become irrational in either direction, one side (buyers or sellers) seems to totally step away and nothing but a vacuum is left. That doesn't seem like a healthy and stable situation. I think the powers took their eye off the ball after the Flash Crash and can't seem to figure out what to do to ensure a level playing field. It will be interesting to what happens over the coming months.

Getting back to the action from last week, I think we certainly saw a crash play out over a period of days. Conventional indicators like the VIX, which measures predicted volatility over the coming month, soared to levels only seen during periods of panic.

On August 8, the biggest down day, there were an incredible 3115 stocks down on the NYSE versus 44 that were up using my data vendor, esignal. That's almost, but not quite, unprecedented. Like you probably heard elsewhere, volume swelled to historic levels and we saw a spike in the number of new 52 week lows that hasn't been seen since the multiple bear market bottoms in late 2008 and early 2009.

I could go on and on and on with the plethora of indicators showing panic, blood and true capitulation in the streets. The market was exhibiting a true crisis of confidence! Unless the U.S. was on the verge of a systemic meltdown, at least a short-term snapback was close at hand.

To know that the market has truly turned the corner, I want to see the price of gold and long-term treasury bonds battered, that is, as long as we don't own them! Corporate stock buybacks need to spike along with buying from corporate insiders. Finally, I want to see takeover and merger activity pickup with companies using cash from their record arsenal instead of stock.

So far, insider buying has surged to almost record levels and mergers and acquisition activity took off today. If there is true value in the stock market, the missing items shouldn't be far behind.

As I finish this up, the major stock market indices are all higher than they were the Friday before the huge down day or mini crash. The rubber band effect I often speak about clearly snapped back from the depths of despair early last week with most indices 10% higher than their lows. With Germany's Angela Merkel and France's Nicolas Sarkozy set to meet on Tuesday, one or two sharp down days from here would not be shocking as prices have been bid up in anticipation of their meeting and potentially positive outcome. I always worry when the success of the financial markets is dependent upon politicians!

As I continue to mention, I believe we are in the midst of a heightened period of large moves. We should expect daily triple digit moves in the Dow well into fall as the markets digest the news from Europe and from our own economy.

If the stock market continues higher unabated to its ultimate peak, that would be more indicative of bear market behavior and set the stage for more weakness late this year or in 2012. However, if the crash low is revisited later this year, that could establish the foundation for another leg higher in the bull market that is just taking a breather.

In the next issue, which is being written right now, I will show you many other mini crashes over the past 24 years, what caused them and what the important takeaways are for our current situation. You can expect that in your inbox before the weekend.

Please don't hesitate to hit REPLY or call me directly in the office to discuss any of this in more detail.

What Should I Do?

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Volatility is one of those interesting words. For most, if you Google it, the definition is likely to draw a yawn, shoulder shrug or general disinterest. When markets are rising during volatile periods, investors are generally very accepting, sometimes even to the point of being cavalier. But when downside volatility strikes, like last week, it can be very unsettling, unnerving and uncomfortable. The constant barrage from the 24/7 media can take an emotional toll. Plainly put, it's just not fun. If history is any
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guide, though, every single wildly gyrating period in the markets has been overcome. Our markets have never failed to respond although some recovery periods are quicker than others.

When I meet with prospective clients or speak to groups, as you may recall, I tend to spend a fair amount of time answering what I believe to be as important a question as any. How much can you afford to or will you allow your account to decline before you either take action or let it affect your life? If we can nail down that answer, then creating a portfolio with that worst case in mind can offer you a better chance of long-term success. During those meetings, as I share the largest drawdowns (fancy word for paper losses) each of our nine strategies has encountered so far, I tend to add even more, figuring that a conservative approach to the worst case scenario provides some cushion.

So here we are, in another one of those extreme periods of volatility. Over the past two weeks, I have spoken and met with many of you with more conversations to come, I am sure. Besides the obvious topic of what exactly is going on in the markets and with the global governments, many people simply want to know if they should do anything different. Last weekend, I offered that I thought it was an excellent time to either add money to a strategy or open a new one, especially the ones that were hardest hit. Today, I want to go in a different direction, segueing from the general discussion of volatility above to something specific.

Varying degrees of volatility is something that we have to live with as investors. Obviously, some periods are more extreme than others and the frequency of outsized events also varies greatly. What we saw last week and leading up to last week does fall in the realm of normalcy, although thankfully, not regularly! Sometimes we are able to do a better job than others at limiting our exposure to these kind of events. No matter what, we always do what we believe is best at the time.

Now that there is at least a temporary bit sanity in the global markets, it's a good time to revisit the topic of how much volatility you can tolerate. I was very much against doing this in the heat of the moment since emotion sometimes takes over rational thought and it's never good to compound a problem with another problem.

If the past two weeks wreaked havoc with your lifestyle, caused you to lose sleep or kept you glued to every point move in the Dow, then perhaps we should talk and reduce the risk and volatility of your portfolio by changing or rebalancing the strategies you are invested in. What we saw recently has happened before and will happen again. If these moves adversely affect your life, let's try to find a solution to mitigate those effects. Remember, investing is all about risk and reward. There is a trade off we all make to strike the right balance for our own situation.

If this topic particularly hits home now, let's schedule a meeting or call to review your strategy blend and make sure you are comfortable with the volatility.

Upcoming Appearances

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CNBC's The Call - September 2 at 11:05am

World Cup of Trading ETFs - November 15 - 16, West Palm Beach FL

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

[Media Appearances](http://www.investfortomorrow.com/InMedia.asp)

(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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