November 14, 2011

10:49 PM EDT

Find us on Facebook

Follow us on twitter

Inside this issue

The Year Was...

~~~~~~

I began this issue on my flight to Florida earlier today and now concluding it as I get into bed. I am speaking in the morning at the annual World Cup of ETF Trading and if you are on the east coast of Florida and want to say hello, meet for coffee or an adult beverage, hit reply and let me know!

The financial crisis of 2007 - 2009 continues to fascinate me. From the revisionist historians to those who all said they either saw it coming or fared very well, nothing shocks me anymore. As longtime readers know, I am not a voracious reader of novels. I spend so much of my day reading one thing or another that when I have some down time, reading a book doesn't really excite me as much as time with the kids or friends, renting a movie or a good adult beverage.

Over the past few years, I have actually read all of the major books written
~~~~~~

about the crisis except Hank Paulson's which is sitting in my "to read" pile. Maybe over some holiday down time in Vermont. Anyway, my wife and I decided to rent Margin Call for the second time the other night. The first time we tried, Mother Nature decided to dump an October Nor'easter on us and steal the power.

After watching the movie, I wish she killed the power again! With a cast that included Demi Moore, Jeremy Irons, Stanley Tucci, Kevin Spacey and Mary McDonnell in a movie about a fascinating subject, how could it not be at least entertaining? In short, it was one of the worst movies I have ever seen. It became painful and I thought they were joking with the ending. YUCK! If you want to see a good movie about part of the crisis, check out Too Big To Fail. You may not agree with the account, but at least it's very well done.

Without good segue, what a disturbing week in college sports with the scandal at Penn State, which could go down as the single worst plague in the NCAA's history. As much as I always loved and respected Joe Paterno, the sequence of events that have been released are nothing short of shameful and disgusting. To me, Joe was the final bastion of all the good in college football, an almost 50 year career without blemish. How could ANYONE let the atrocities done to those boys go unpunished and swept under the rug.

It's crystal clear to me that Jerry Sandusky is a severely mentally disturbed man who does not deserve and cannot be allowed to live among society. I haven't heard anyone argue to the contrary. But how could Joe Paterno believe he fulfilled his obligation as a human being to simply report the matter and move on? As a football coach, he has been a father figure to his players for decades and he acknowledges that. How on earth could he or anyone else put the brand ahead of the lives of innocent boys? It makes me sick to even think about it. It's sad, pathetic and enraging all at the same time.

Let's shift gears from my soapbox to history. My friend Tom McClellan emailed this a few weeks ago and I thought it was worthwhile to share.

"Consider a hypothetical situation where U.S. unemployment is above 9%, the federal government is running large deficits, and a summer (stock market) decline has investors worried. A populous country and important trading partner of the U.S. then announces it is going to default on foreign debt equivalent to about half the size of its GDP, and this default soon spreads to other countries."

What was Tom referring to? Come on, give it some thought!

"Sound familiar? That was Mexico on August 12 1982 right at the exact low before the greatest bull market in history launched!" Now, I am certainly not forecasting the launching of another secular bull market like we saw from 1982 to 2000, at least yet. But it does give you pause when we live in a 24/7 world and the macro news is so bad. Again, it's not exact, but let's not forget how similar the problems of Europe today are to Latin and South America in the 1980s.

New Highs?

~~~~~~

I am going to divide this article into three pieces, the first talking about the month of October in response to your emails, the second comparing the current market to post crash 1987 and the third part an update of the forecast chart I have shown many times before.

Statistically, September is the single worst month of the year for stocks. Although in 2011, August was worse, we still saw a fairly weak period in September. While October is known for the great crashes of 1929 and 1987 along with mini crashes in 1989 and 1997, the trend you should all commit to memory as one of the strongest is October's ability to kill bear markets. In short, when September is a bad month for stocks, we typically see additional weakness into October and then a reversal, which sets off a strong rally.

2011 obviously followed the pattern. 2008 certainly led to a rally, but that was quickly snuffed out. Market corrections in 2004 and 2005 saw good bottoms in October. That month in 2002 saw the end of a two year plus bear market. The last low before the dotcom bubble really blew off to the upside was October 1999. In 1998, we had a major, bear market killing bottom in October very similar to 2011 as I have written above many times. And in 1990, October perfectly followed the script of continuing September's weakness, reversing and killing a bear market.

If the next issue isn't too long, I will try and create charts to show the examples. The September/October trend is one of the best intermediate to long-term trends to be aware of for investors. I estimate that it's about 75% effective, which in the markets, is very powerful.

The two charts below compare market behavior after the crashes and successful revisits. What you see should be clear. The initial rallies only offer one to three day pullbacks for anxious bulls to get in and there are usually a few big down days to keep the bulls honest and get the bears hoping again. But the difference is that unlike a bear phase, the bull phase does not see additional downside follow through. The bulls tempt and tease the bears but never let them regain the upper hand (or paw).
~~~~~~

The other piece I want to discuss from the chart above are the green and light blue forecast lines that are based on previous post crash behavior. If history is any guide, there should be additional upside ahead and you can see the two possible paths with the light blue essentially saying that the gains are done for 2011 and the upside resolution comes in Q1 2012.

The next chart below still has my darker blue forecast lines from the summer with the light blue ones recently drawn to show a pattern that looks like a triangle. First, triangles are periods of digestion after a big move and signal decreased volatility. The more times price moves up and down in the triangle, the more significant the ultimate move becomes.

Chart readers like to forecast a target for the move by taking the height of the rally just preceding the triangle and adding it to the price where the triangle is broken. In this case, the S&P rallied from roughly 1070 to 1280, which forecasts the ultimate rally to be in the upper 1400s, something that many would welcome but few can fathom at this point.

From my seat, let's first see price break out above the triangle and not immediately reverse back into the pattern. That's the first positive sign for the bulls. Then we can watch for a move above the 2011 highs before looking any further. It would be very disappointing if the bulls mustered the energy to get the market moving above 1280 only to see the bears immediately thwart their efforts and begin to make headway on the downside.

At the end of each issue, I list a bunch of quotes that I believe are essential to understand in this business, but are often overlooked and easily dismissed. The 24/7 global financial markets are much more difficult to navigate that at any time in our history. Moves seem to happen faster and more exaggerated. Scroll down for 30 seconds and give them a quick read. If any of this does not make sense, please don't hesitate to hit REPLY or call me directly in the office to discuss. Hoping something changes is not an investment strategy!

Upcoming Appearances

~~~~~~

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

CNBC's Squawk on the Street - November 23 at 10:05am

ET NOW's Trading Calls - November 23 at 9:30pm

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

"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

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.