December 4, 2011

5:26 PM EDT

Find us on Facebook

Follow us on twitter

Inside this issue

It's That Time of Year

~~~~~~

Laura , I hope you had a wonderful Thanksgiving. Judging by the calls and emails I received along with what I witnessed spending the afternoon on Black Friday out at the stores, it certainly felt like a different and better Thanksgiving for Americans. Sadly, it seems like the more our country struggles, the nicer people are to each other. Folks appear to be more thankful over the past few years and less "in your face" about their latest purchase or exotic upcoming holiday vacation.

For the 20th year in a row (yes, I like my structure and routine!) I went to the gym on Thanksgiving morning to make room for the upcoming feast and see old friends who were in town for the holiday. But our family did something a little different this year as my mom and dad had Thanksgiving dinner on Wednesday and Thursday night to accommodate the extended
~~~~~~

family and other family commitments. So I was lucky enough to doubly stuff my face with awesome food and good wine and my mom was fortunate enough to cook and clean twice! Of course, her reward was getting the kids and grandkids at her house.

And now with Thanksgiving behind us, the official holiday shopping season is in full swing. Having sworn NEVER to venture out into the Black Friday mayhem, I am not sure how I ended up taking the whole family to Lowe's, Home Depot, Best Buy, Staples and Pep Boys. Thankfully for us, only Best Buy had any lunacy inside. The other stores had normal size weekend crowds and the few Doorbuster offers were long soldout by the time we arrived after lunch.

Segueing to business, the holiday shopping season is also the of year when the government mandates IRA withdrawals for those 70 1/2 and older or those who inherited IRAs. It's also known as Required Minimum Distributions (RMDs) and they are MANDATORY. Please take note!

If you have an inherited IRA or own an IRA and you are at least 70 1/2, please contact the office as soon as possible! (Unless, of course, we have already spoken and the forms have been completed.)

Window Opening for Bears

~~~~~~

This is the third time I have tried to write this issue and it's the last! Each time I sat down to write, beginning right after the holiday, something happened in the market to render my article moot. Unless something huge happens tonight (Sunday) this is it and I will be back to you soon with the next issue.

Since the monster October rally ended up 20%, we have seen the stock market correct 10% and then rally 9%, just like a roller coaster. Yes, volatility continues but at a slower pace, believe it or not. This is all very much in line with historical norms following the crash we saw in August and subsequent repair to the damage done. This topic was the subject of most issues from mid August through mid October and I invite to review them **here**.

And as you will read below in the final article about the stock market's triangle, price is now back to a sort of equilibrium where neither bulls nor bears have a true advantage.

So where are we?

Starting with the shortest-term, Friday's "good" news on the employment front saw a very
~~~~~~

positive up opening that was taken advantage of by the bears as a selling opportunity. The fact that stocks could not rally further and close well on the news says that the bulls are a bit tired and in need of a rest for the next move higher. And that break can come in the form of a quick, sharp downdraft that scares investors into believing the Thanksgiving lows are the next stop, or it can come over a period of weeks where prices quietly give back 2-6% and the markets become almost boring.

(As an aside that really doesn't fit in this article, I do believe the price low we saw in stocks on Black Friday will be seen again in 2012.)

Given that we remain in a very seasonally positive period for another two months and year-end is quickly approaching and that so many portfolio managers are struggling for performance, my initial read is that IF the stock market digests here, it most likely comes in the form of a scary multi day drop, which should at least begin this week. It would be interesting to see a good up open on Monday and if the market can hold those gains during the day, unlike on Friday. A daily market close above the high from Friday morning probably negates the whole pullback scenario in the short-term.

Looking out beyond a week or so, the stock market should still see more strength later this month and/or into January with the major indices eclipsing at least their October peaks. If and when that happens, the next stop for some of the major indices like the Dow and Nasdaq 100 will be the highs for 2011 sometime in the first quarter of 2012. It would be that high, if attained, where I would become acutely aware of heightened longer-term risk and be on the lookout for a major market shift to the downside.

What's driving my concern in the very short-term and intermediate-term bullishness?

First, price literally went vertical last week following, action from the European Central Bank (ECB) last Sunday night, Chinese lowering reserve requirements in the wee hours on Wednesday morning and the huge news shortly thereafter. At 8:30am on Wednesday, some of the biggest coordinated action since 2008 by our Fed, the ECB, Banks of Japan, England, Canada and Switzerland was seen.

Make no mistake about it, the global central banks are not going to stand idly by and watch the European banking system implode without taking action. And they are intent on crushing those who stand in their way or fan the flames. Essentially, the central banks saw that global lenders to Europe's banks were pulling back support. So Bernanke and his peers decided to reduce the rate charged for dollar loans to their European friends, who make loans to European banks.

That worldwide support along with the Chinese increasing the amount of money available for loans creates an absolute torrent of liquidity. The world's most powerful bankers are very explicitly stating that there will not be a Lehman event in Europe, no matter what. While that is comforting, at least over the coming few months, it only addresses part of the problem, liquidity. Sovereign solvency in Italy and Spain remain a major issue to deal with. I think we all know by now that Greece is being sacrificed.

So this week's huge rally in stocks is directly attributable to global action over the past week. And the markets have come very far, very fast. It would be much healthier to see two steps up and one step back. Sector leadership remains firm, but I would like to see some of the tech sub sectors behave a little better. Since the key semiconductor group enters a seasonally weak period through the 16th, I would be very encouraged if they held up better the overall stock market.

On the value (cheap) front, telecom and real estate are beginning to entice me, but risk still remains. Believe it or not, homebuilders and retail are quietly leading as investors just shake their heads. Healthcare and biotech are also strong, but our portfolios are moving to consumer staples to keep retail and utilities company. Transportation without airlines and industrials are surprising to the upside and their behavior will be very instructive over the coming weeks.

Finally, as you know, I believe the high yield (junk) bond sector and small caps best depict liquidity in the financial system along with the cumulative advance/decline line. High yield continues to behave fine and the A/D line is close to all time highs. Only the small cap stocks are not joining the overall liquidity party, which could become a major problem IF the other indices exceed their 2011 highs.

So for now, the bears should try to follow through from Friday and head towards the 1200 - 1220 area. But that pullback should be short-lived with more strength into year-end.

If you don't know how your portfolio will fare given the various possible scenarios, please feel free to hit REPLY or call me directly at 203.389.3553. You may or may not like the answer, but I always promise to deliver 100% unbiased advice.

Putting the Triangle to Bed

~~~~~~

When we left off before Thanksgiving week, one of the charts I showed was a pattern called a triangle. That same chart is below. Essentially, after a strong move in either direction, the stock market begins to digest the move by trading in a tighter and tighter range, often called compression.
~~~~~~

Eventually, the market breaks out of one of the sides of the triangle and a large move ensues. More times than not, the market attempts to fake out the masses by temporarily breaking out, only to quickly reverse and head in the opposite direction. That's a lot of technical mumbo jumbo so I hope I didn't lose you!

So as you can see from the chart above, we saw a huge rally in October with the triangle beginning to form towards the end of the month and into November. At that time, I thought the likely resolution was going to be to the upside.

Then it hit. One of the most terrifying things when you are looking for particular outcome. It becomes generally accepted and hits the media. On November 16, the Wall Street Journal, a publication I read religiously every day and enjoy, printed a story titled, **S&P Forms Potentially Super-Bullish Triangle Pattern**. I knew that forecast was doomed...

Of course, that's partially tongue in cheek, but mostly true. When something becomes so widespread or generally accepted, you have to be on guard that another outcome could be more likely.

In the middle of 2009, the potential "head and shoulders" pattern in the stock market was all over the media, blogosphere, etc. You can see the chart below. Pundits were calling for that pattern to end the nascent recovery and send the market back towards the March 2009 low.

But a funny thing happened on the way to new lows; the bears got trapped as you can see above. Lots of investors and traders sold stocks as we saw and learned later from the data right as the "neckline" was broken. A few days later, it was clear that a major bear trap was in place, forcing those who sold and/or turned negative to quickly reverse course and buy. That set the stage for the second leg of the young bull market and a fast 20%+ rally!

So getting back to the triangle topic of this article, I was interviewed on **CNBC's Squawk Box** as the stock market was falling hard and asked how I could possibly be bullish and forecast a rally. Scroll down a little further and see the unedited transcript of an interview I did with **ET Now**, my second chat with Indian business television.

To be fair, I did not think stocks would decline as much as they did after the triangle was broken to the downside. My thinking was a few days down with one very sharp down day to shake out the nervous bulls and get the bears feeling really good before trapping them. That, in turn, would set the stage for a powerful year-end rally, also known as the Santa Claus Rally.

And as the triangle broke to the downside, headline news was awful, just as it should be leading up to a bottom.

"Super Committee Talks Fail"

"China calls for long, deep recession"
"Europe Staring into Abyss"
"Debt Crisis Strikes at Heart of Europe"
"Moody's warns on French rating outlook"

But as you should be accustomed to seeing, a funny thing happened on the way to oblivion; the stock market bottomed and enjoyed one of the greatest weeks of the modern investing era last week, precisely when it was the least expected. I know I did not expect such an enormous move from the bulls.

To wrap up this article on the 2011 triangle, the pattern is no longer valid. It broke to the downside, extended the move, reversed to the upside and is now back at essentially ground zero, the apex of the triangle where the two lines converge. It's also known as equilibrium where buyers and sellers become evenly matched.

As I mentioned in the previous issue,

"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." All of that is well and good, but irrelevant now. I wanted to *"see price break out above the triangle and not immediately reverse back into the pattern"* to confirm the huge upside potential, but that did not happen this time around.

Topics like triangles and head and shoulders are a lot more technical than many people care about. From time to time, I will include articles like this and try to offer some education for those who want to learn about it.

As always, if any of this does not make sense, please don't hesitate to hit REPLY or call me directly in the office to discuss.

Upcoming Appearances

~~~~~~

CNBC's Worldwide Exchange - December 21 at 5:35am

CNBC's Worldwide Exchange - January 19 at 5:35am

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

~~~~~~

"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.