May 22, 2013

1:11 PM EST

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Inside this issue

Home Sweet Home!

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Boy was I happy when my Southwest flight touched down in Hartford two and a half weeks ago! That trip ended a very long and tiring travel schedule that began in January and I am ecstatic to have no plane trips for a while. Although the sequester issues with the air traffic controllers did not cause me any delays, long time readers know that I may have the worst luck regarding turbulence on my flights. I think I can literally count on one hand the number of flights over the past five years that were smooth and none of mine to Houston, Denver and Hartford were easy! And while the weather was sunny in the 70s during my days in Denver, it suddenly changed to 25 and snowing when I flew home. Isn't it great to de-ice TWICE trying to take off in May!! Why am I being targeted by Mother Nature?!?!

Last week, I had the pleasure of teaching a class at UMASS Dartmouth in their
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Second Half Program, something I have done with regularity over the past few years and is truly a highlight for me. Each class has been tailored based on current financial market events and my goal is to have every attendee leave with at least one actionable item to help them manage their investments. The classes have been really interactive and the attendees have been so great to work with. Thanks to Doug Harvey for inviting me and Beverly Stevens for running a truly outstanding program.

So now except for day trips to NY, MA, NJ, RI and PA, I am local and in the office until fall. It also means that the frequency of my writing will increase dramatically. Hopefully, you are receiving the Thursday morning weekly digest from Vestorly which should keep you up to date with snippets of market info on my thoughts. If so, please let me know! We had some snags over the past month or so but they should be corrected.

I head to New York in the morning (Thursday) to spend some time with my friends at Yahoo Finance. As usual, you can expect another controversial segment or two from my interview with Jeff Mackey. Yahoo Finance was the first media outlet I began to warn about Apple's stock price heading for a 50%+ decline and that long-term forecast remains the same. However, something may be changing over the short-term...

Besides visiting Yahoo and meeting with clients, I am also scheduled to be on set with the folks at Fox Business at 1:30pm. Usually, I do my interviews from a studio in CT, but this is the first time I will be live in studio and I am really looking forward to it!

I am going to close this section with a picture from our last ski weekend of the season last month. I was trying to nap after a long ski day in the warm sun, soft snow and a few adult beverages. As I slept on the couch, my three kids all jumped on me, messed up my hair and encouraged the puppy to lick me. No one likes being awoken from a well deserved nap, but given the culprits, it was all okay.

Gold Trying to Bottom

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When I left off last month, gold had just crashed and started the typical snap back from that panic low as you can see on the chart below. Crash lows are very emotional and driven by many external factors. In this case as I previously mentioned, it certainly had the smell of massive selling by one or several very large holders of the metal, possibly even a foreign central bank.

When a financial instrument crashes, there is almost always a very sharp bounce before rolling over again. As you can see in the two scenarios in orange and purple, I forecasted gold's rally to end in early May and then decline again to revisit the crash low where the ultimate test would come.
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As you can see in the chart below, the snap back rally ended essentially at the first target and followed the purple scenario down to revisit the April panic low. Yesterday saw the first real attempt by the bulls to put up a stand and begin a rally. It's too early to say whether or not they will be successful, but the odds are in their favor. The longer the rally lasts without rolling over, the higher the likelihood the second target at $1540 will be achieved during the third quarter.

Let's turn to the opposite scenario for a moment. It's not enough to just say, "I think gold is going to rally". That's all well and good, but if your upside is $100 and your downside is $100, I wouldn't call that a good risk/reward scenario. In the current scenario, I believe the potential upside for this rally is $1540 and the downside for knowing I am wrong is roughly $1320. With the current price of $1370, I would call that a fairly good risk/reward ratio.

So if the bullish scenario does not play out, below is a repeat of the chart I discussed in special report part I and what to expect. If $1320 is significantly breached for more than a few days, I think you can expect selling well into the $1200s and towards the target of $1230.

To repeat what I have said for a long while and continue to believe, I do not believe there is enough evidence at this time to conclude that the secular bull market in gold has ended. I vividly recall all of the nay sayers coming out of the woodwork during the 2008 decline that lopped 30% off of gold in short order. Almost across the board, analysts said the secular bull market was dead. One year later, they were all eating crow as the shiny metal soared 69% and much, much, much higher after that.

I will conclude with this. As you already know, I am a very big believer in the masses being embarrassingly wrong at major turning points. It has been proven over and over and over again. And when the bull market in stocks ends, I fully expect to see uniformly bullish expectations from fully invested investors.

Last year, I participated on a panel at a major hedge fund conference and every single person was bullish on gold. That so worried me that I downgraded my first half of 2013 view of gold to negative. Recently, a few institutional clients redeemed their investments in our conservative gold strategy citing the lack of any upside visibility for the gold & silver mining sector as well as the total lack of interest from a sales and marketing and investor perspective. I don't know for sure if we have seen THE or even a major bottom in gold or the stocks, but anecdotal evidence like this makes me go "hmmmm...".

Very Quick Stock Market Update

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Having enjoyed some truly outstanding gains from the fiscal cliff low late last year through the end of the first quarter, I became more concerned as the second quarter began. Several of our investment models reduced their exposure to stocks and I often wrote about Dow 15,000 being the ceiling and 13,700 as the floor until we saw either a pullback or enough sideways activity to warrant
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another run.

I did not believe it at the time, but the digestion we saw from mid March through mid April was good enough to recharge the bulls' batteries for another rally to begin. Since May 2, to almost everyone's surprise, stocks have grinded higher and higher and higher. And they are not done rallying. I can't tell you how many people call and email about putting more money to work in stocks, even with the bull market being more than five years old and gaining more than 120%. Until the last investor is sucked in, today, tomorrow, next week, next month, next quarter, the bull market will likely live on and I will dance as close to the door as possible.

Stock market runs like this are linear and we usually only see 1-3 day pullbacks. My old hedge fund boss, Steve Oristaglio, used to push me to buy every time we saw a few days down during melt up markets. And he was right. When the rally ends, it will likely wipe out weeks or even months of gains in very short order.

In my **2013 Forecast**, I thought the year would look a lot like 1987 and so far, it has and I am sticking by that. Others have said it looks more like 1995. In the next issue, I will show you charts of both years and go into detail on my thinking. I will also show you a few examples of melt up markets like this and how they end when they end.

In Bernanke We Trust...

Upcoming Appearances

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Fox Business' Markets Now - May 23 at 1:30pm

Yahoo Finance - May 23

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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"The only easy day was yesterday."

- The U.S. Marines

"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

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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

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