November 5, 2013

10:42 AM EST

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Inside this issue

Unethical Behavior in Congress? Nah...

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Greetings from the Windy City where I am attending my trade association's fantastic conference, meeting with potential future business partners on an exciting new project and catching with my best friend from childhood and some family. It's been non-stop since my flight landed on Saturday and long time readers know that I wouldn't have it any other way! That evening, my old friend Randy Winters and I headed downtown to eat like there was no tomorrow, swap childhood stories and toast to just about everything under the sun.

He found this incredible restaurant called Centro and between the adult beverages appetizers and main courses, the two of us who would never be confused for big guys did ourselves proud! I love veal, but rarely order it because when it is not amazing, it's awful. At Centro, theirs was one of the
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best dishes I have ever had along with an enormous seafood fra diavolo!

Last time I visited Randy and his family, they had recently rescued this really unique looking puppy named Hank. The "little guy" had a head that has to be a mix of many breeds not limited to shar pei, mastiff and bloodhound. Over the past two years, Hank has grown into a giant dog with a head bigger than a human and a body as long as a lion. While his bark could stop a train he is the gentlest giant and a really great dog. Hank kept following me around and forcing his head in my lap to scratch him.

From time to time, I read quotes that really resonate with me (scroll down to the quote section) and it usually turns out that the source is someone I already like or respect. Thomas Jefferson is certainly one of those figures. John F. Kennedy once said at a White House dinner for Nobel prize winners 1962,

"I think this is the most extraordinary collection of talent, of human knowledge, that has ever been gathered at the White House - with the possible exception of when Thomas Jefferson dined alone."

On the flight out I read the following statement attributed to Jefferson,

"When the people fear their government, there is tyranny; when the government fears the people, there is liberty."

And speaking of government, this **60 Minutes segment** done by Steve Kroft was yet another in a long series of outstanding pieces exposing the very questionable ethics of our elected officials in Congress. This is not an attack on democrats or republicans, but once again on how the rules for our representatives, created by those same representatives are not the same for the citizens they serve.

It wasn't until last year when Congress passed a law prohibiting themselves from buying and selling stock based on inside information they derived from serving in Congress! Previously, congressmen would learn about a potential contract or law or issue and then buy or sells stocks that were affected by it. Was that off the charts insane or what?!?!

For years, each and every year two congressmen sponsored the Stock Act to prohibit this type of unethical activity and couldn't even get co-sponsors let alone having the bill brought to the floor for discussion. Steve Kroft's segment on 60 Minutes changed all that. Spend a few minutes and click on the link above to see the latest questionable behavior from our friends in DC.

Due to the length of the next two articles, there are no short-term comments about the markets. Tomorrow, I will offer commentary on the blog.

Don't forget to check our blog for intra-issue updates. www.Investfortomorrowblog.com.

Canaries Alive & Well

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With many all time highs seen in October, it is a good time to review the canaries in the coal mine for signs of trouble. Remember, canaries are only valuable at major market peaks and bottoms. For the vast majority of the time in between, they will be of little value.

We review all of the major stock market indices and sectors along with other key indicators of overall market health. At major market turning points, we will often see glaring divergences or non confirmations with a few of the indices, sectors and indicators lagging the move. Let's do a quick walk with the major indices and see if we have any warning signs.

The Dow is first and it just recently scored an all time high, which washed away the very small yellow light in October.
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The S&P 500 is next and it, too, recently hit an all time high.

The S&P 400 Mid Cap is below and look how quickly it went from laggard (mid Sep to mid Oct) to leader now where all time highs were made.

Ditto with the Russell 2000 Small Cap, which has been the single market leader since mid October and throughout 2013.

The NASDAQ 100 is next and this index has frustrated me somewhat this year, especially in the middle of the year. Although it still needs to rally roughly 50% to eclipse its Dotcom bubble all time high from 2000, the index is sitting in new 52 week high territory and that indicates strength.

Summarizing the indices, they are all in sync and show no sign that the bull market is ending.

The Dow transports are below and they are vitally important to confirm highs and lows with the Dow industrials. In the current case, the transports are and have been a market leader all year and that continues today as all time highs made.

The semiconductors are next and they are so important because they reside at the beginning of the technology food chain. The only caveat with them is that they are very volatile and can give more false warning signs that the others. As with the NASDAQ 100, they are far away from all time highs, 175% to be more precise, but they are currently seeing 52 week highs and their best levels since 2001.

The banks are below and are nowhere near the high they hit in 2007. That's okay, but more recently, they have not exceeded the high they saw in June of this year. I consider this a mild warning sign.

The New York Stock Exchange Advance/Decline line is next, which measures the cumulative number of stocks going up and down each day. Until very recently, warning signs were given that the rally was becoming more and more selective. As you can see, the A/D line blasted through the previous all time highs and there is no longer a warning here.

Finally, the high yield bond sector is below using the PIMCO High Yield Fund as its proxy. I felt strongly that the peak seen in May of this year was THE high and that this was the first nail in the coffin for the bull market. Junk bonds have certainly surprised to the upside since the Fed did not taper in September and the run has been very strong. causing me to waver on whether the May peak could be slightly exceeded. In any case, this remains a warning sign, but not nearly as much as before.

Over the past few months, the market has breathed life into a few of the canaries on life support and the bull market remains alive and well. Because we do not have a preponderance of warnings, it will likely take at least a decline followed by a narrow rally to before we start seeing canaries die.

Money Velocity Still Collapsing

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When will the current economic crunch end? Long time readers know that I believe after the next recession we will get back to a solid and stable economy. We are living the epitome of a post financial crisis recovery. Will the next
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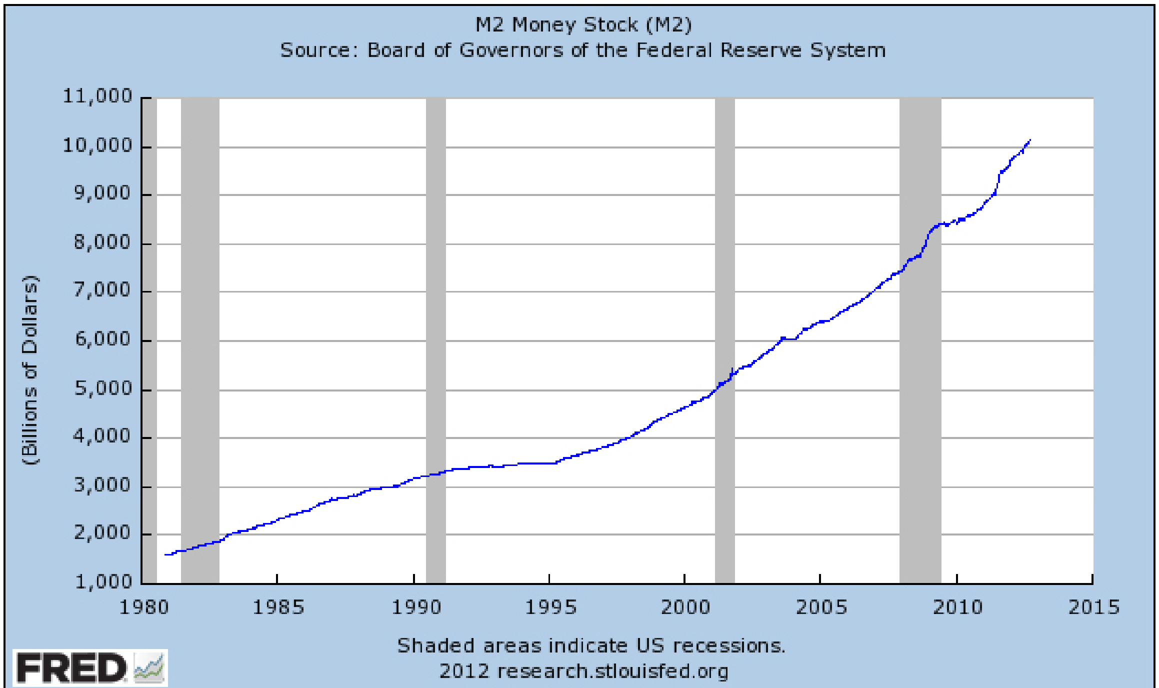
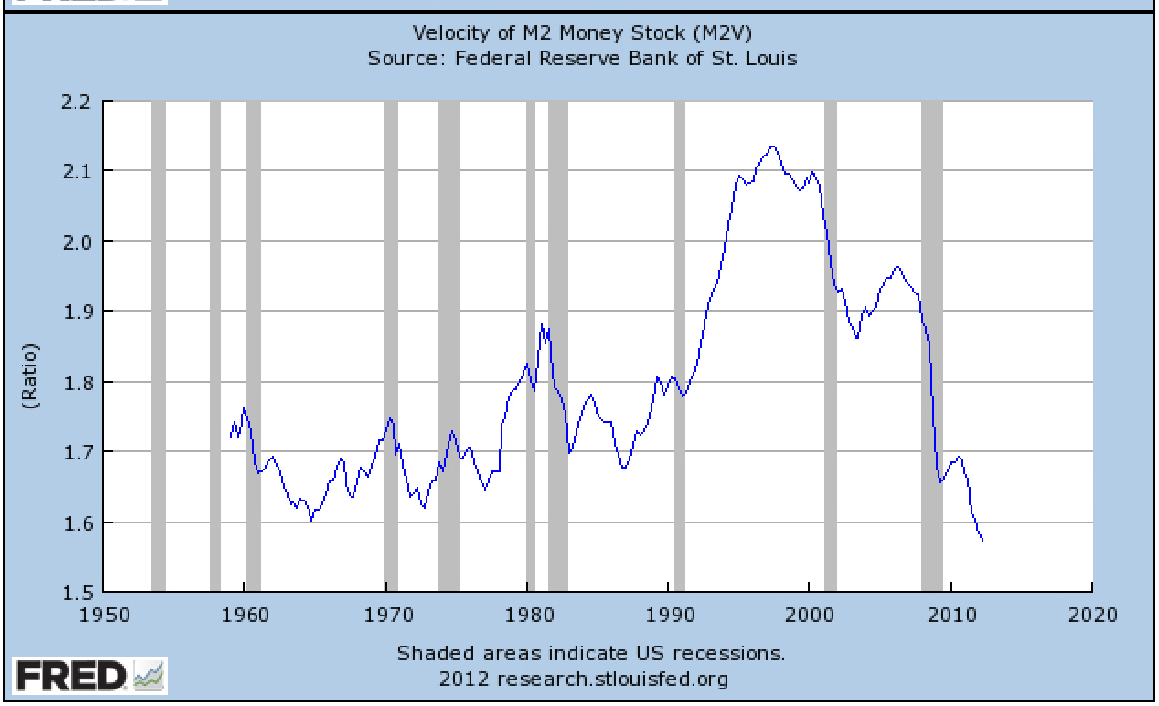
infusion of government spending, new money from the Fed or debt forgiveness put the U.S. economy back on track?

It's doubtful. The reason can be found in two very interesting graphs from the Federal Reserve Bank of St. Louis. The first shows the explosive growth of money using the broad indicator M2. The second shows the velocity of all that money in a nose dive.





M2 includes a broader set of financial assets held principally by households. M2 consists of M1 plus: (1) savings deposits (which include money market deposit accounts, or MMDAs); (2) small-denomination time deposits (time deposits in amounts of less than $100,000); and (3) balances in retail money market mutual funds (MMMFs).

For a succinct definition of the velocity of money, we turned to Wikipedia - The velocity of money is the average frequency with which a unit of money is spent on new goods and services produced domestically in a specific period of time.

The U.S. economy is awash in money right now. Banks have largely rebuilt their capital reserves and businesses are holding record amounts of cash. Total U.S. money market mutual fund assets topped $2.555 trillion in July 2012 according to the Investment Company Institute.

Consumers have reduced debt levels. In the U.S., household debt has now fallen to 84% of GDP from a peak of 98%. Non-financial corporate debt has fallen to 77% from a peak of 83%. Financial sector debt has plunged from 123% of GDP to 89%.[1] While many experts believe debt needs to fall further to reach a sustainable level, private balance sheets are looking much better.

The federal government has poured money into the financial system through government borrowing (public debt has risen to 89% from 56% of GDP) and Federal Reserve purchases of long-term debt from banks and government lenders. If money does indeed make the world go around, the economy should be humming. But it isn't. Again, this is your typical frustrating post financial crisis recovery.

The reason why shows up very clearly when you look at the velocity of money.

Why has velocity fallen so dramatically? The typical rationale is that banks are refusing to lend the infusion of capital they have received since the first TARP funds. But the banks claim they would gladly make loans if qualified borrowers would just apply. Retail merchants would gladly sell, if buyers would just buy. What seems to be missing is confidence...confidence that spending money today makes sense in terms of what's coming down the road. And that is where we see our clients struggling. For consumers the question really is "Can I afford to spend this money or am I going to need it for essential expenses next year or the year after?"

What will it take to restore consumer confidence? Steady improvement over time of economic indicators, employment data and personal income. There are no quick fixes following a generation financial crisis.

There are opportunities, however. Active management may not outperform the market indices in strong bull markets, when investments are riding the tide up. It is in difficult markets, markets where paying attention to what areas of the economy are seeing growth and which are faltering; which investments are outperforming and which are losing ground, that active management can really shine.

Active management can't assure profitability. All investment approaches have the potential for loss as well as gain. But with active management, we have the flexibility to seek opportunity. We believe that ability can make all the difference in these markets.

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[1] "U.S. debt load falling at fastest pace since 1950s," By Rex Nutting | MarketWatch - Jun 8, 2012.
"Data Source: FRED, Federal Reserve Economic Data, Federal Reserve Bank of St. Louis"

Upcoming Appearances

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Yahoo Finance Breakout - November 19, 2013

Fox Business' Markets Now - November 19 at 1:00pm

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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