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Inside this issue

Back to School!

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Thank heavens the kids are back in school! Don't get me wrong. I absolutely love and adore my kids, but it's time to get back to learning and adhering to a schedule again. And no one is happier than Momma Schatz.

With the start of school also comes the start of the myriad of activities for the kids. Softball four days a week. Baseball three days a week where I am coaching yet again. Tennis three days a week. That also means that ski season is getting closer although you would never know it from the weather in CT this week in the 90s with high humidity.
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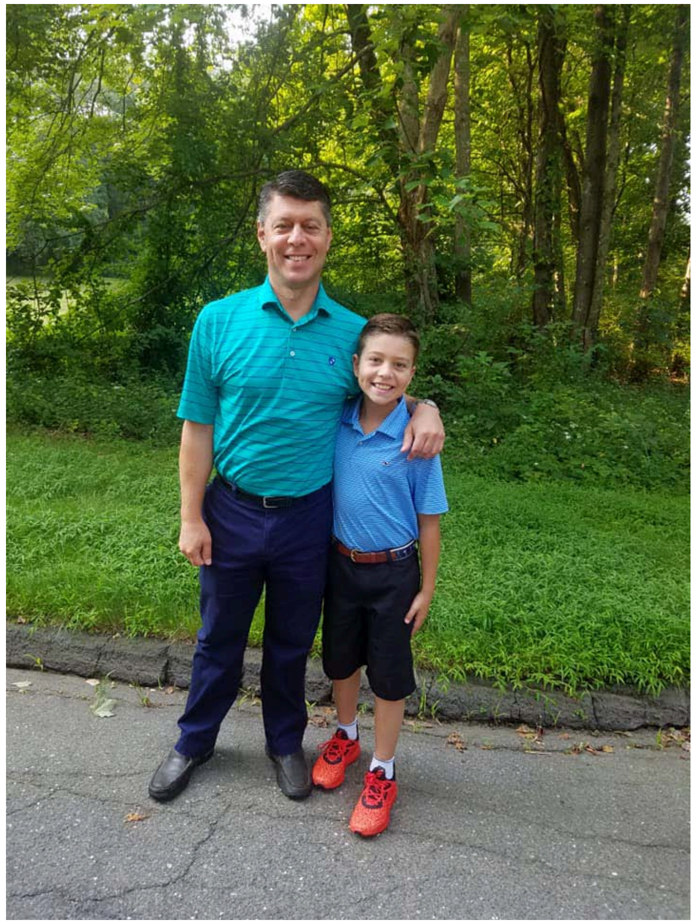

Recently, I did two interesting and very different TV segments. The first was on WTNH (ABC in CT) regarding yet another company in CT to fold up its tent and move out of state. This is not new news, but CT is in trouble. We have the worst pension shortfall in the country and we are ranked almost last in fiscal state. Conventional solutions will not work. And no career politician is the answer. We cannot grow our way out or cut our way out of our problems. Of course, it's not politically tenable to discuss real, outside the box solutions.

https://www.wtnh.com/on-air/good-morning-ct-at-nine/the-economic-impact-of-businesses-leaving-ct/1393150870

The other segment I did was on CNBC's Squawk Box. The discussion was supposed to be about the markets, tariffs and where I thought stocks were heading. However, two minutes before hit time, the President tweeted about the economy and just like that, the topic became the economy. I feel very comfortable with my forecast.

https://www.cnbc.com/video/2018/08/24/economy-rates-growth-stocks-money.html

You may (or may not) get to the end of this issue and wonder why there isn't more or even any articles devoted solely to the stock market like I usually do. The short answer is that stocks have basically been following my forecast almost cite and verse with new high after high being scored in every major index except for the Dow Industrials. When the masses panicked during the Q1 correction and called for a 20%+ decline or the end of the bull market, I was very firm that the bull market was not over by any stretch and fresh, all-time highs would be seen by July 4th. The bull market remains alive and reasonably healthy, for now. I will have concerns about a large decline, but not right here.

There has been all kinds of interviews and chatter about this bull market being the longest in history. Speaking in the third person which drives me nuts, Paul Schatz says who cares and it's nonsense anyway. In the next Street$marts, we will take a walk down memory lane of bull markets as well discuss the month of September as it is usually a challenging month, especially in a mid-term election year.

As many of you know, I have gone to a quasi online calendar so you can book an appointment when you want to and not just when we're in the office or respond to your email. For now, I do not include evening meetings nor early morning ones, but I will try and accommodate as best I can.

If you would like to schedule a meeting, Skype, FaceTime or call, please click on the link below and give it a try. I just opened up my calendar for September so there is lots to choose from.

https://heritagecapitalllc.acuityscheduling.com/schedule.php

Don't forget about our blog, **www.investfortomorrowblog.com** for shorter-term analysis.

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Major Bottom in Gold - Does Anyone Care?

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Readers of our blog, **www.investfortomorrowblog.com** know that I have been writing about the coming significant bottom in gold for the past month or so. All of the key ingredients have been present. First, gold has been steadily declining and then accelerating lower as sellers appear to have capitulated in August. Simply put, at some point, sellers exhaust themselves and usually in emotional fashion with a spike lower and reversal. Higher prices always follow.

Next, smart money has been buying gold for the past 6 weeks while dumb money has been selling the metal. In technical terms, this can be viewed in what's called the Commitment of Traders report which is a disclosure released every Friday that details what kind of firms are buying or selling in what futures markets and in what size.

Usually, there is some kind of socionomic announcement or event at major lows. In 1999 with gold near $250, The Bank of England announced major gold sales. $250 was right at the bear market low from which the metal launched a massive bull market above $1900. Recently, Vanguard announced that they were changing the name of the Vanguard Precious Metals and Mining Fund to Vanguard Global Capital Cycles Fund. It must have been pretty tough to sell a gold fund during a raging bull market in stocks and bear market in gold.

And while all of this was going on, I could not get a single member of the media interested in the story. Remember those gold commercials on CNBC and Fox Business? There have been none for a while.

Below you can see some of this depicted on a chart of the metal.
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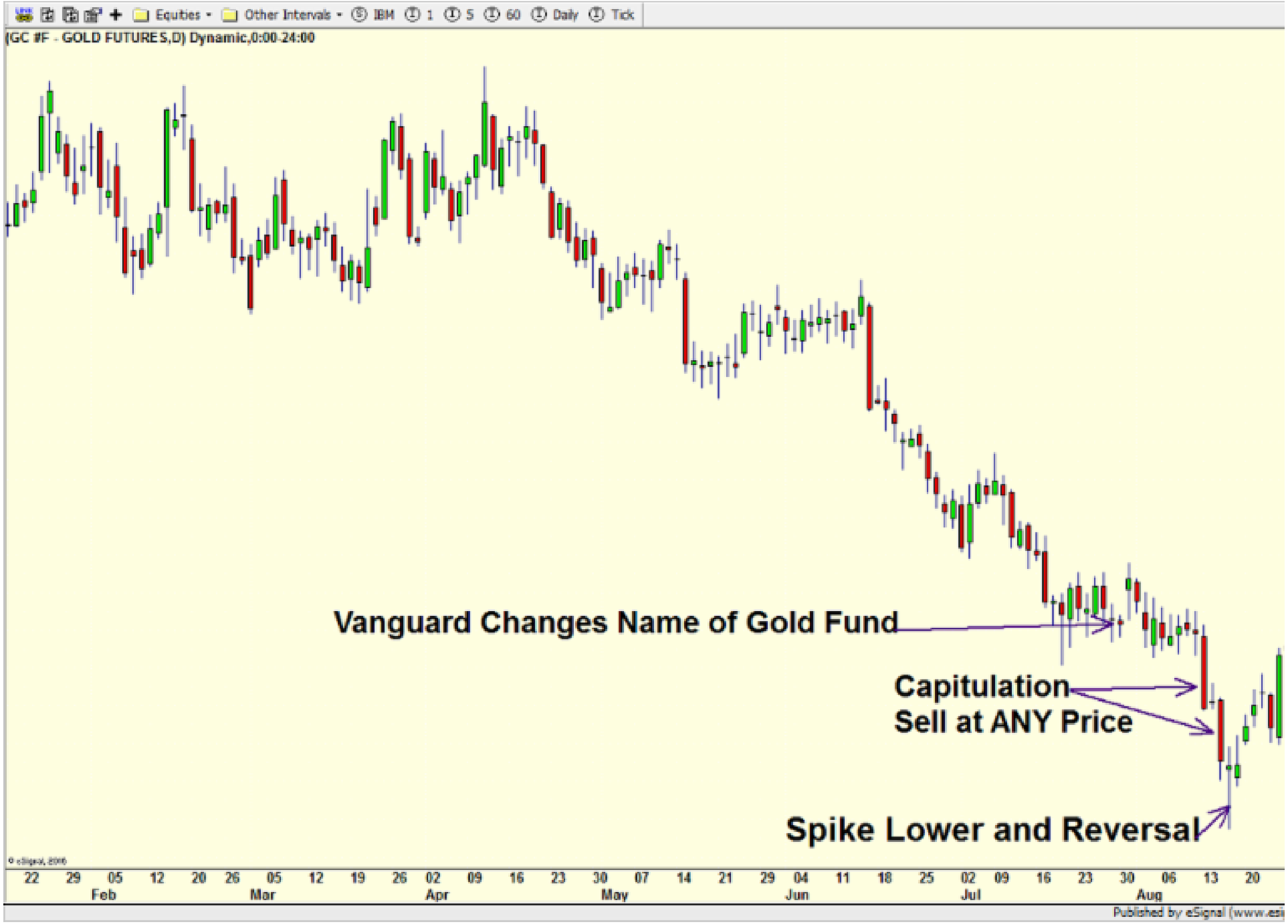

So why am I not more excited and screaming from the rooftop? Maybe I should be. Everything seems to be lining up perfectly.

While August may prove to be THE bottom, the gold and silver mining stocks which we invest in for our Short-Term Gold Equities and Aggressive Gold Equities strategies haven't given the traditional "all clear" sign, not that they absolutely must. At the major bottom in October 2008 after seeing a waterfall decline with all of the ingredients mentioned above, the "all clear" right at the bottom with a vicious and emotional reversal.

However, at the last major low in 2016, the gold and silver mining stocks closed at their ultimate low one day and then started a massive rally the next without the usual emotional reversal as you can see below.

Below you can see what today looks like. At the far right of the chart at the bottom, we see what looks more similar to 2016 than 2008, but the proper description is that 2018 looks like a combination.

As I like to say, they never make it easy. And this time is never, ever different. With the dollar looking tired, gold could certainly see a significant rally right from here or with one more thrust lower.

Growth / Value Back to Dotcom Bubble Levels

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Under the large umbrella of the U.S. stock market, there are indices, sectors, market capitalizations and style boxes. For example, the five major stock indices are the Dow Jones Industrials, S&P 500, S&P 400, Russell 2000 and NASDAQ 100. Sure, you can argue that the NASDAQ belongs instead of the 100. We also have large cap, mid and small cap along with growth stocks and value stocks. I often write about different kinds of leadership in good times and bad times, especially on the blog.

For those not totally familiar, growth stocks are companies that are expected to grow at a rate much faster than the market. While some are profitable and some are not, those which have earnings usually see their earnings grow much quicker than the overall stock market. Growth stocks typically do not pay dividends as they plow any and all available cash back into the company for growth. Growth stocks are almost always found in the
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technology and biotech sector although they can be found elsewhere as well.

Value stocks are the exact opposite. Those stocks usually have earnings and their growth rates are often slower than the market's. Their valuations are typically less expensive than the market's and certainly the growth stocks'. Price to earnings or PE is one popular metric analysts use to determine value along with price to book value and free cash flow. Most value companies pay dividends to shareholders as a way to entice investors to buy the stock.

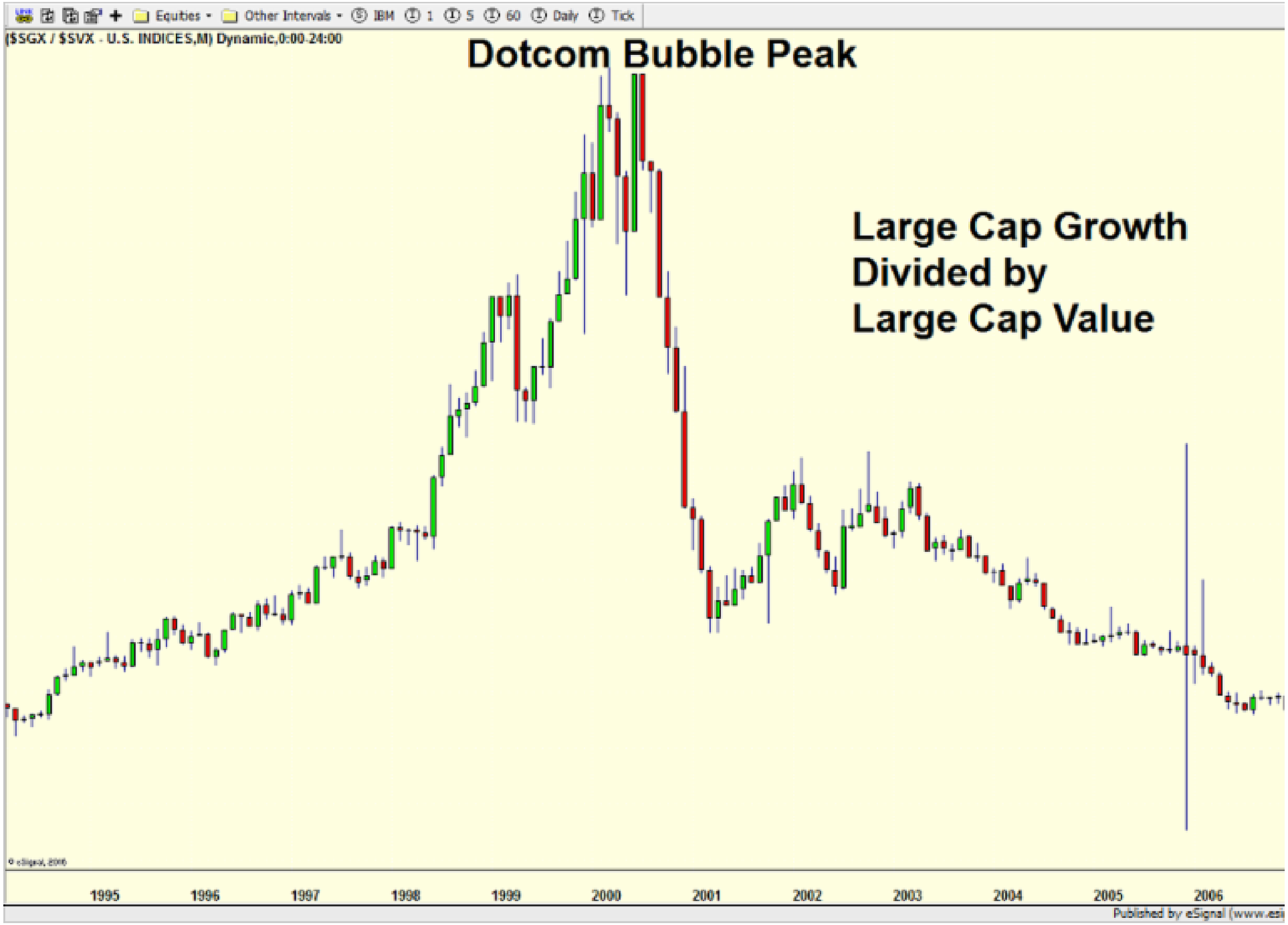
When companies come public, they are usually growth companies who do not have any earnings. Apple Computer in the early 1980s, Microsoft in the mid 1980s and Amazon in the mid 1990s are some of the more glamorous ones. Ford went public in the mid 1950s among a tremendous amount of hype, glory and exuberance. As companies progress and mature, they begin to earn money and more money and perhaps pay a dividend. Their growth rates peak and begin to slide and slide along with their PE ratios. In short, they go from growth to value.

Intuitively, the average person believes that growth companies have better track records of rewarding shareholders than value companies. However, the opposite is true. People are very surprised to learn that over the long-term, value typically beats growth.

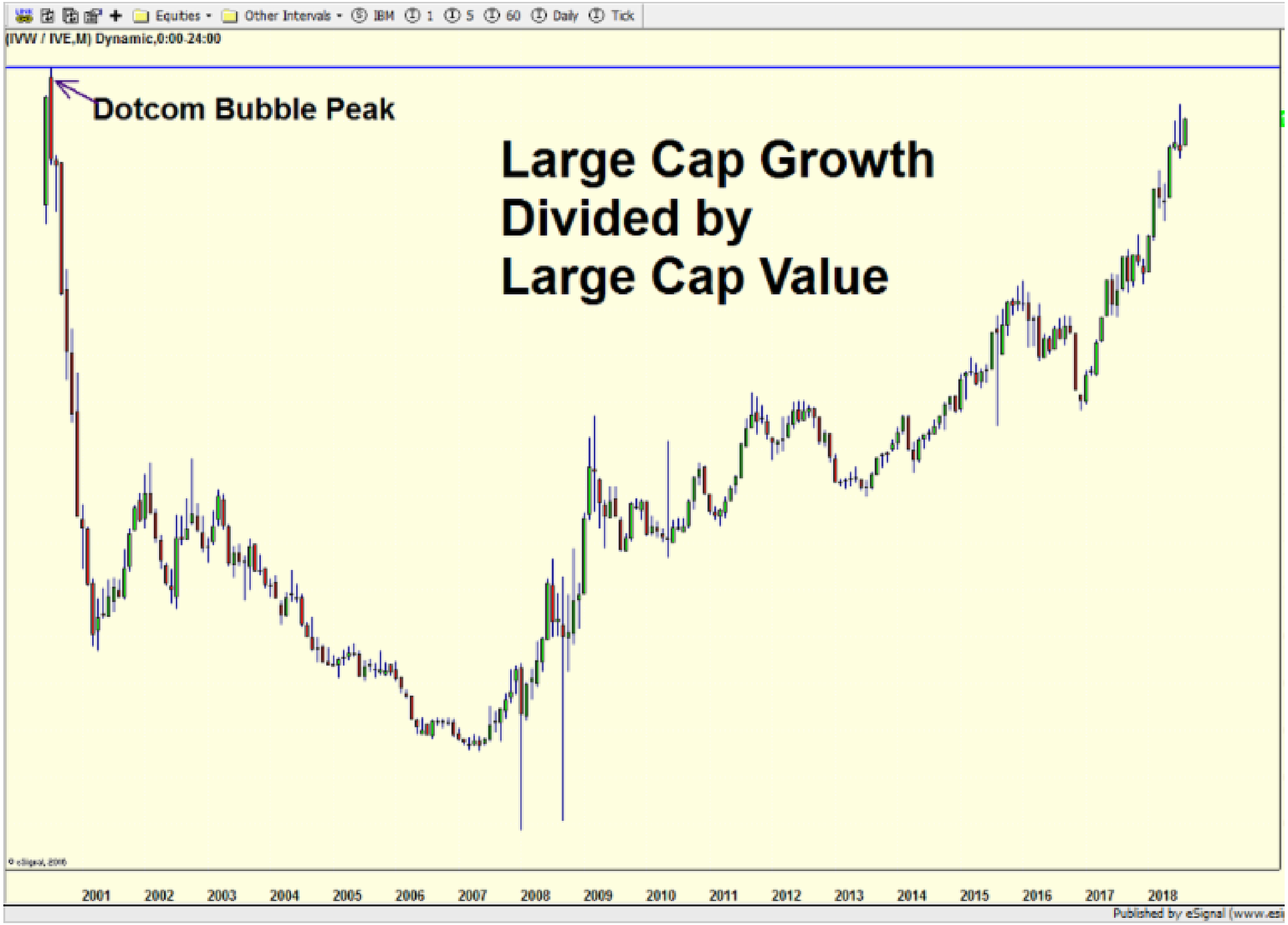
Now that I have given you a brief tutorial on what growth and value are, let's turn to the observation I was attempting to make.

I love to compare things in the market, on a daily basis, on a weekly basis, on a monthly basis. There are all kinds of trends that develop. Some even offer warning signs.

Below you can see a chart of large cap growth divided by large cap value. When the line is going up, growth is beating value. When it is going down, value is beating growth. For all of the 1990s growth trounced value, fueled in large part by technology. Eventually, growth saw two peaks in 2000 as the Dotcom Bubble was about to burst. From that 2000 peak, you can see that value led all the way to 2007 as growth gave back nearly 100% of its massive gains.



The chart above doesn't continue to present as the indices are no longer available to me. Instead, as you can see below, I picked up two ETFs which essentially say the exact same thing although the two ETFs began trading in 2000.



Let's start with the far left Dotcom peak and subsequent bottom in 2007. Since 2007, growth has trounced value and almost back to the nosebleed levels of the Dotcom Bubble high against value. That is certainly very concerning from a relative valuation standpoint. In other words, while valuation isn't a great timing tool for the end of a trend, it absolutely does say that sooner than later, value stocks should begin to outperform growth stocks in more than just a small way and for more than just a few days, weeks or months.

The best example of today's hot growth stocks is FAANG, Facebook, Apple, Amazon, Netflix and Google. I wish Tesla was part of that group as well. You already know that I am bearish on Facebook and Tesla for the next few years. Netflix is next when a catalyst appears. I think all three stocks can decline by at least 50% by 2021.

Money Can Have an Outsized Impact on Your Health

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"I know money can't buy me happiness, but I would like to give it a chance."

The curious thing about money is that it doesn't seem to matter how much you have, you still worry about it. For most people, there is a touch (and sometimes a lot more than a touch) of irrationality as well as a lot of deep-seated emotions in our attitude toward money.

One result is that money is a leading source of stress for Americans, according to the American Psychological Association. And, once you start worrying about something that is emotionally charged, it sets off our "fight-or-flight" system - the heart races, pupils dilate, and the body releases stress hormones like adrenaline and cortisol. With no physical danger on which to use that overload, the resulting muscle tension and anxiety takes its toll on the body. Prolonged stress creates irritability, fatigue, and nervousness. Headaches, upset stomach, elevated blood pressure, chest pain, and problems sleeping often result. Research suggests that stress also can bring on or worsen certain symptoms or diseases.

It's easy to think that the more money you have the less you have to worry about and the less stress you will experience, but studies show that the amount of money you have or don't have or possibly owe, may influence what you worry about but it has little to do with your overall money stress level. Rather, it is how much you worry about money that predicts depression and health problems.

Money worries carry with them a lot of stigma and shame that make people try to hide their concerns. Instead, psychologists say it is better to seek social support and to talk
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out your worries. People are better able to cope with stress when they have someone they can talk with about their situation. While it's uncomfortable to talk about money, doing so can help you get information and make a plan to cope with your money worries. By gaining a sense of control, you start to shut down stress responses.

If you are not ready to talk to others, clarify in your own mind what you are worried about. Keep a worry journal in which you write down everything you are worried about and possible solutions. You may have to make major changes to cope with your worries, but those changes are a lot less life threatening than continuing with a stress overload.

Make sure your long-term plan with us is updated and engage your partner to help manage your financial worries. Your first step is just recognizing the issue and then perhaps trying to reduce your debt. Eliminating debt diminishes stress and anxiety and gives you the freedom to do other things in your life. If your financial worries stem from the way you think and interact with money, then the solution is not "just add more," but may require changing the way you think about money entirely.

Among the most common underappreciated realities of money are:

- You need less than you think. We are indoctrinated by advertising, social media and entertainment programs to be discontent with what we have and to imagine we can find long-term happiness if we just have the right product, look or convenience. Choosing to own less can be a great freedom.
- When you assume that more money will make you happy, you may overlook or neglect real sources of happiness. Marry for money? Earn every penny of it!
- A larger paycheck will not improve your job satisfaction. If you don't enjoy what you do and the people you work with, money becomes a trap that increases work-related stress.
- Wealth has its own troubles. Fears of the wealthy include isolation, anxiety, being exploited, lacking true friendship, and doubting personal relationships. Money can cloud moral judgement, distort empathy, promote pride and arrogance, and become an addiction.
- The pursuit of money robs us of life. When money becomes the focus of every waking hour there is no time for friendship, family, appreciation of a beautiful day or the pleasure of physical activity.
- Boundaries create innovation. A financial boundary forms a helpful framework for life. It invites us to seek alternative pleasures, to find new ways to be happy, to create something uniquely ours.
- Experiences have more long-term value than possessions. The pleasure of good memories can last a lifetime while a new possession can quickly lose its novelty and value.
- Generosity reduces stress. Studies show generous people are happier, healthier, more admired, more satisfied with life, and have deeper relationships with others. Their lives are less stressful.

Money, at its core, is only a tool. Our challenge is to use it effectively and to prevent money from controlling our lives and damaging our health.

Investment Quotes/Adages To Live By

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"In God we trust, all others bring data."
- The Elements of Statistical Learning

"The only easy day was yesterday."

- The U.S. Marines

"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."

"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, 1984

"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

"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
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