September 6, 2019

3:28 PM EST

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Inside this issue

Getting Back to Normalcy

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Two weeks ago, I spent most of the day in the city doing media and meeting clients. I tried wearing my dress shoes but my left foot didn't really appreciate all that support and restriction. I was very thankful that the nice people at Fox Business sent car service for me to get to and from the studio. Not traveling all summer means lots of catch up the rest of the year and I think I am up for it as long as I stay away from my lace up dress shoes. Those of you who have been to the office over the summer didn't seem to mind my running shoes and shorts. Now, I am slowly getting back to long pants with suits not far behind.

Below are a few of my favorite segments from Yahoo. Unfortunately, the ones from Fox Business did not make it to their website as I did my usual bashing of the bears and laughing at their Chicken Little squawks of gloom and doom.
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The first video is one of my Fed rants, but in this case, it's about a former Fed official going political.

https://finance.yahoo.com/video/dudley-encourages-fed-political-not-163446849.html

The next video centers around a recent poll showing Lizzie, Bernie and Joey in a dead heat. We discuss some of the implications.

https://finance.yahoo.com/video/poll-suggests-bernie-sanders-elizabeth-165226836.html

Finally, perhaps my favorite segment from a previous show, I was crystal clear when asked about a bear market, recession and what to look for.

https://finance.yahoo.com/video/30-treasury-yields-fall-record-142631900.html

Although I was somewhat laid up and restricted over the summer, especially in June, I was proud and excited to attend my daughter's year-end high school softball banquet along with my middle guy's graduation from middle school. I really didn't care that I was in a wheelchair or walker. I wasn't missing either one.

As I became more mobile and stronger, I was able to attend my daughter's weekend softball tournaments where her Southington Lightning team was in the championship game of every single tournament but one throughout the summer, including making it to the championship game of the

USSSA Nationals for the northeast region. After pitching an absolute gem in the semi-final game, my daughter was more focused on finding the girl who beaned her in the head than celebrating with her team.

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. My calendar is now open through early September.

https://schedulewithpaul.as.me/

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

You can sign up to receive notifications when a new blog has been posted here.

http://www.investfortomorrow.com/BlogAlerts.asp

The Myth of September's Gloom

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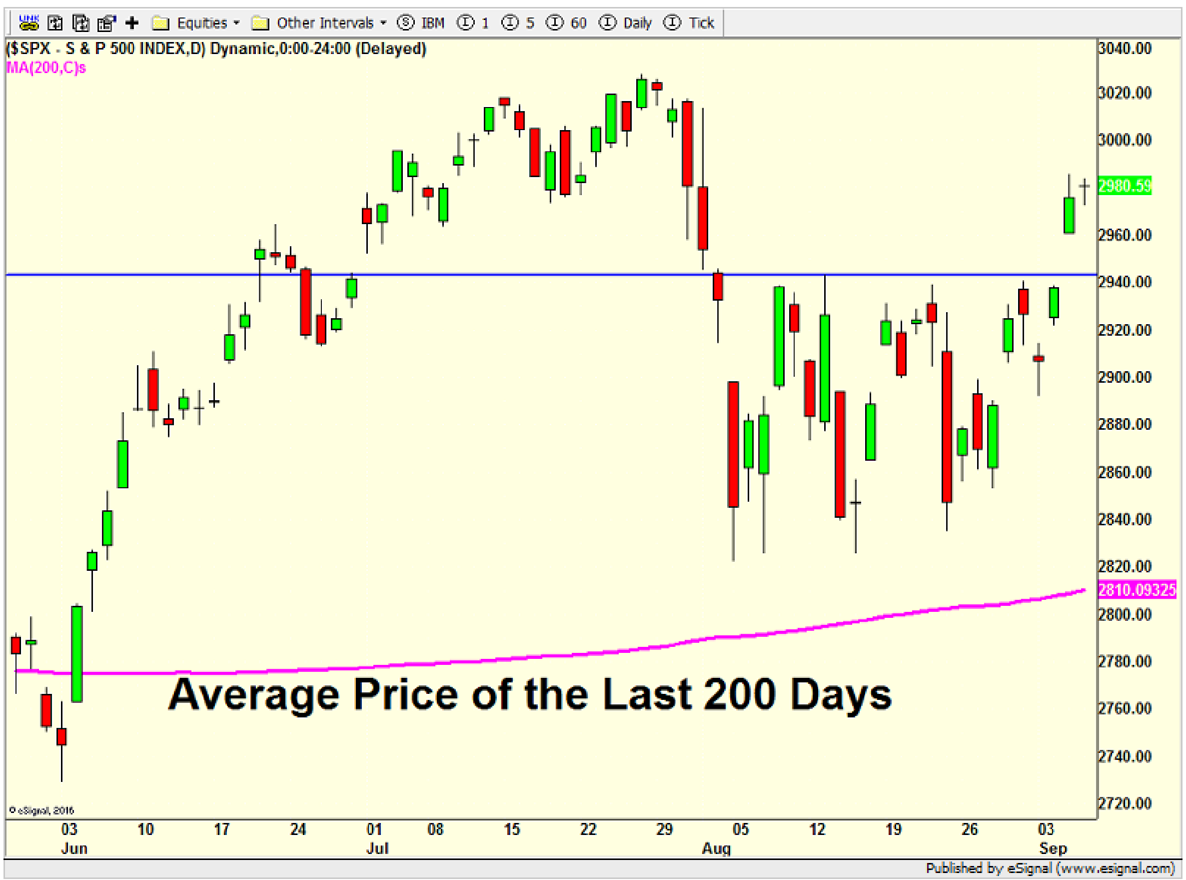
As the calendar turned to September, the media was in their usual tizzy because historically, the month has the worst performance of any during the year. The problem with making very general statements is that context is ignored. It wasn't long ago when all the headlines were about how strong the month of December was and everyone was all bulled up because stocks had corrected 10% in October and November. Then stocks collapsed in December like hadn't been seen since the Great Depression.

As September 2019 began the stock market as measured by the S&P 500 was in an uptrend. By uptrend, I mean that the S&P 500 was above its average price of the last 200 days. Nothing secret or special, just an arbitrary way to determine the trend. September stock market performance is very different depending on whether stocks are in an up or downtrend.



The bottom line is that since 1950, the S&P 500 averages a +0.40% return in September when beginning in an uptrend versus -2.70% when starting in a downtrend. That is significantly different and well worth noting where the month is beginning. (Hat tip to one of my favorite research reads, Ari Wald from Oppenheimer)

Some of you will push back that I am permanently bullish and only look for data to support my case. That statement would be patently false as there have been plenty of times to be negative, but not so for more than a trade in over a decade.
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Bears Continue to Laugh & Scoff and Be Embarrassingly Wrong

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When listening to the pundits and reading my Twitter feed over the past month or so, it has been fairly negative which it has basically been for the majority of the bull market with few key exceptions like January 2018. Whenever I prepare for a media segment, I usually start by saying that no one has been more bullish than I have on balance for the entire bull market. Most of my quantitative, upside price targets for the Dow were initially dismissed by most, then scoffed at and ridiculed and then given the chance of playing out before they were widely accepted as "everyone knew that".

After the bear market ended, I remember being laughed at for calling for Dow 10,000, 15,000, 18,000 and then the preposterous 20,000. When the Dow first closed above 20,000 for five straight days, it opened the door for Dow 30,000 before the bull market finally ended. Currently, Dow 28,000 is up next, followed by 30,000. I really do love when people so easily dismiss these targets as the negativity has fueled so much of the bull market.

Not one single time did I forecast a bear market beginning unless and until certain criteria were met. Every now and then I randomly watch an old interview and with few exceptions, I am the bull and the bear is using all these scare tactics which have absolutely no historical significance and no current data to support the claim.

Anyway, after an August that "felt" a whole lot worse than it actually was, stocks began the new month with a selloff. Keep in mind that August ended with the Dow briefly poking above the trading range it had been in for most of the month as you can see on the chart below.
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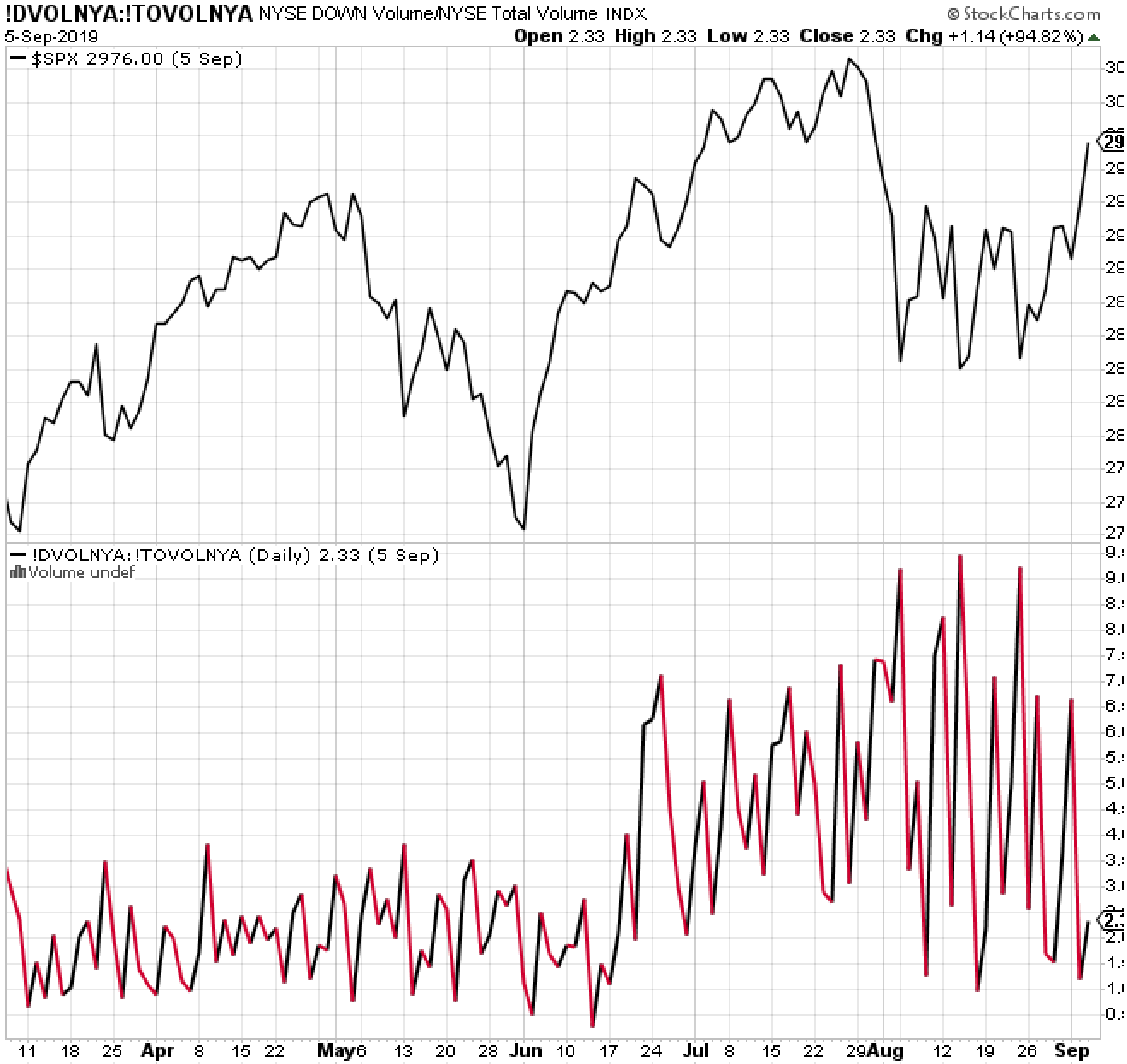
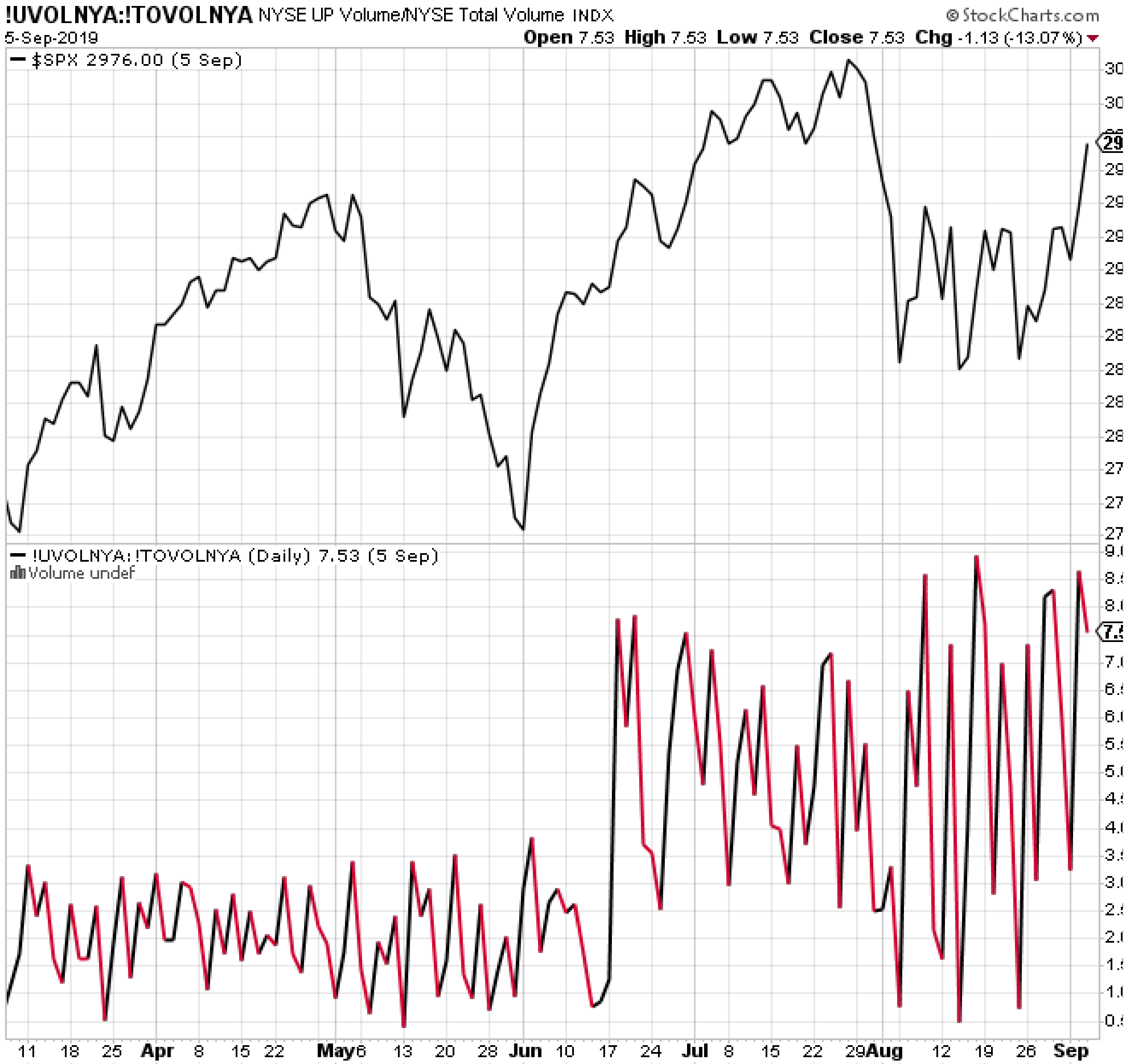
Many times, the first time through a range is met with resistance as late comers hop on the train, only to be immediately disappointed by larger investors who believe the move won't hold. In this case, we saw a decline from that point into the first day of September which is the last red bar on the right side of the chart. It also resulted in what I labeled as a "bear trap" which means that the bears got too excited in their negativity and were trapped in losing positions as stocks immediately and powerfully reversed course the very next day on September 4th.

On September 5th, we can see that stocks opened sharply higher, leaving a blank space or "gap" on the chart which led to further pain for the bears. To make matters worse, this week had more confirmation that the selling we saw in August was over. Many analysts watch the amount of shares traded in stocks going up versus stocks going down for signs of extreme behavior. The most usual representation is a ratio or up versus down volume.

August saw a number of days where 90% of the volume was on the downside. So close to all-time highs, that's unusual behavior and signals very little patience among investors and the desire to sell first and ask questions later. In other words, it creates the negativity needed for a market low much sooner than later.



This week we have seen a reversal where up volume has been swamping down volume to the tune of two days with at least 80%. And depending on the data source you use, there was a 90% day. Coming on the heels of a market pullback, this surge in volume in advancing stocks confirms the rally.



!UVOLNYA:!TOVOLNYA NYSE UP Volume/NYSE Total Volume INDX
©StockCharts.com
5-Sep-2019
Open 7.53 High 7.53 Low 7.53 Close 7.53 Chg -1.13 (-13.07%)
$SPX 2976.00 (5 Sep)
!UVOLNYA:!TOVOLNYA (Daily) 7.53 (5 Sep)
Volume undef
11 18 25 Apr 8 15 22 May 6 13 20 28 Jun 10 17 24 Jul 8 15 22 29 Aug 12 19 26 Sep

Stealth Wealth and the FIRE Movement

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It never pays to underestimate the younger generation. Today's 20- and 30-year-olds have come up with a new movement with the potential to change life as we know it - the Financial Independence/Retire Early, or FIRE, movement. The idea is relatively simple - save like crazy so you can retire early. It requires forgoing material goods, such as the house, new cars and latest electronics; living frugally, and finding work that will generate the biggest paycheck. Rather than wait until your late 60s to have the time to live the way you want, retirement begins in one's 40s and 50s at the peak of one's potential health, energy and mental capacity.

Instead of focusing on a career one is passionate about, regardless of the paycheck, the idea is to buy oneself the freedom to spend more time doing what one is passionate about in the relatively near future without worrying about money.

Given enough discipline to stick with frugality and saving every dollar one can, is there a downside to FIRE? The biggest challenge may be the need to withstand significant criticism of one's life when a person retires early. Explains one early retiree, "It really brings the 'haters' out of the woodwork." This in turn is creating a new stealth wealth trend, made easier given the early retiree's habit of a frugal lifestyle.

In today's political environment, FIRE makes a lot of sense. If you accept that taxes may well be at their lowest level we will ever see again, given the growing burden of social welfare programs, underfunded public pension plans and the spending objectives of a new generation of liberal legislators, take home pay as a percent of earnings may be at a long-term high.

Better to optimize earnings now than later when taxes take a bigger bite. Saving that pay like crazy could also be one of the best investments one will ever make. Most early retirees tend to develop sideline activities that produce some income, reducing reliance on savings to meet living expenses and giving assets a longer investment horizon.

What could go wrong? Fortunately, most people are unlikely to have the discipline to stick with a FIRE lifestyle, otherwise the cost to society could become very interesting. If too many young workers retire early who will pay the taxes necessary to support welfare programs and fund public employee pensions? With too many frugal FIRE advocates, consumer spending would be impacted, reducing economic growth with all of its accompanying side effects. On the positive side, who knows what all that time

and energy might create if not consumed by the need to report to work every day?

As trends go, FIRE will be a very interesting one to follow, both as an observer and a participant.
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Upcoming Appearances

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Yahoo Finance's On The Move -September 12th from 11:00am to 12:00pm

TD Ameritrade's Network - September 12th at 1:20pm

Fox Business' Making Money - September 12th at 2:00pm & 2:50pm

Yahoo Finance's The First Trade - September 19th from 9:25am to 9:40am

TD Ameritrade's Network - September 19th at 1:20pm

Fox Business' Making Money - September 19th at 2:00pm & 2:50pm

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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"In God we trust, all others bring data."
- W. Edwards Deming

"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, 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

"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

"A little bit at a time adds up to a lot in no time"

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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