September 27, 2019

12:19 PM EST

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Inside this issue

Great Food, Great Friends

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With life being back to my normal hectic, chaotic pace, I don't waste any time when I am on the road. In New York the other week, there were lots of happenings.

The first video is my take on the ongoing tariff tantrum and the markets' lessening reaction.

https://finance.yahoo.com/news/stock-markets-are-reacting-less-to-us-tradetariff-tantrum-strategist-203431700.html

Next, you can watch one of my tirades on central banks. This time, it's the incompetent ECB.
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https://finance.yahoo.com/video/ecb-cuts-key-rate-first-154926653.html

I made my first appearance on TD Ameritrade's network and what a great segment with lots of energy and stock picks to boot.

https://tdameritradenetwork.com/video/rB4AoW0JF_WBbSaRYRsFcA

Finally, it's always great to end with my friend Charles Payne on Fox Business. As usual, I don't hold back and he gives me time to offer some very pointed comments.

https://video.foxbusiness.com/v/6085739107001/#sp=show-clips

I found this picture below and I keep forgetting to send it to Samsung. My phone was in my back pocket when the tree hit me and the Galaxy definitely took some of the brunt of the impact. Who knows what damage it saved me from.

Although college basketball season is still a ways away, my UCONN group took in opening night of football with a tailgate to boot. Little did I know we would pull up and a pop up feast would ensue with fillets and Alaskan king crab legs, grilled veggies and garlic bread. My little guy tried the crab for the first time and was an instant fan.

 

Although UCONN won a close and exciting game, the competition wasn't exactly stout. Moreover, the attendance was very small and that doesn't bode well for the rest of the season. I am glad we got to see a victory, but I am worried that it could be the only one of the year for our Huskies.

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

Stock Market Reaction to Impeachment

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Here we go.

I remember writing about impeachment in 1998 and hoped and prayed the country wouldn't have to experience this kind of political circus again. It took 21 years, but the circus is back in D.C.

Thankfully, since we only have two prior, modern day instances of impeachment, stock market results are certainly not statistically significant. Given that, however, let's take a look at the environments surrounding each of the prior two along with where we are today.

First, let's look at Richard Nixon in 1973. You can see on the chart below where the "official impeachment inquiry" began. At first glance, it certainly looks like the stock market unraveled immediately following the inquiry. However, correlation is not causation. In other words, just because it looks like one thing is tied to another doesn't make it so. It's like saying that at the stock market peaks in 2007, 2000, 1990 and 1987 sharks migrated west to east instead of north to south. Or that the path of the stock market is moving tick for tick with the migration pattern of wildebeests. It's just coincidence.
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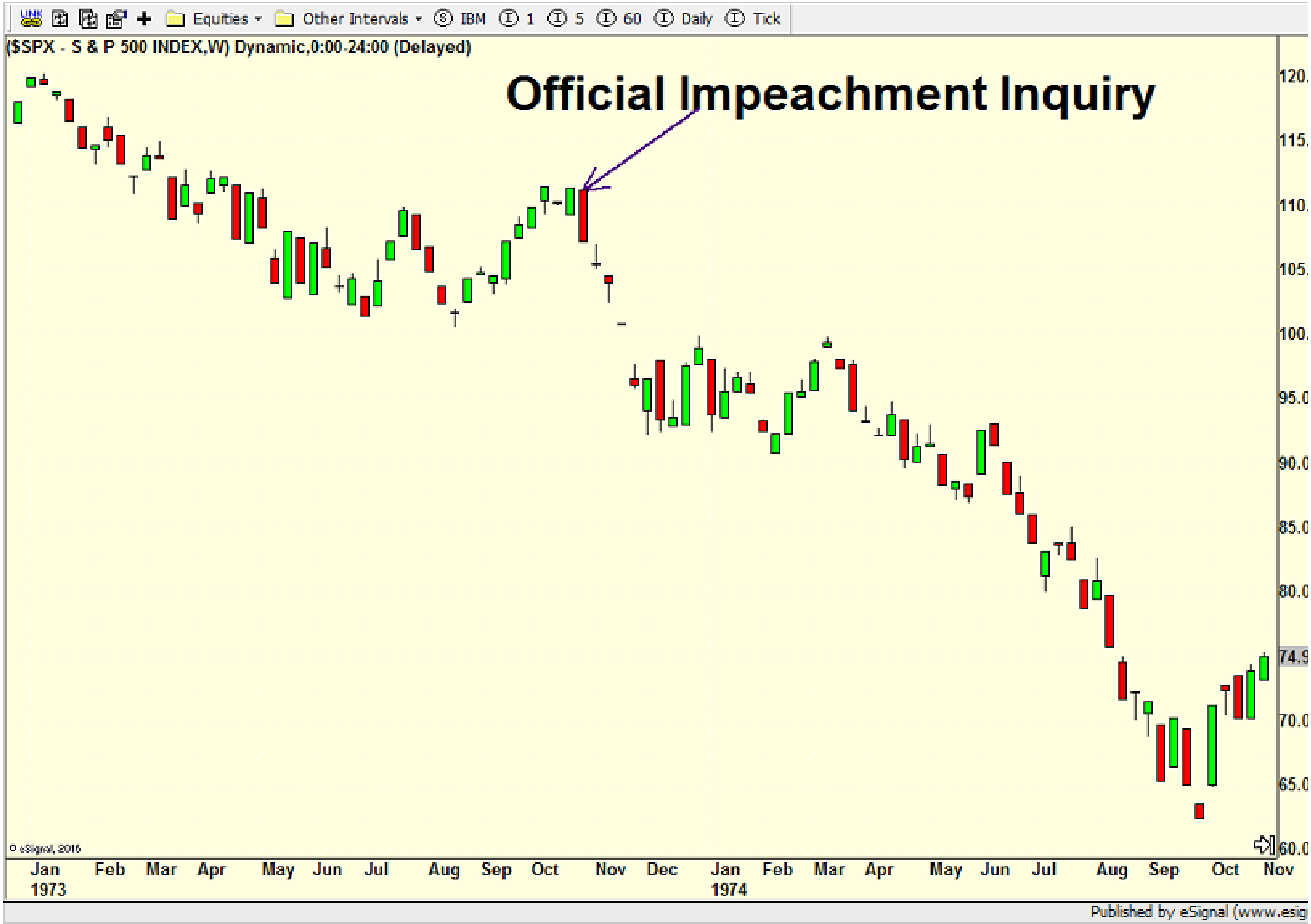
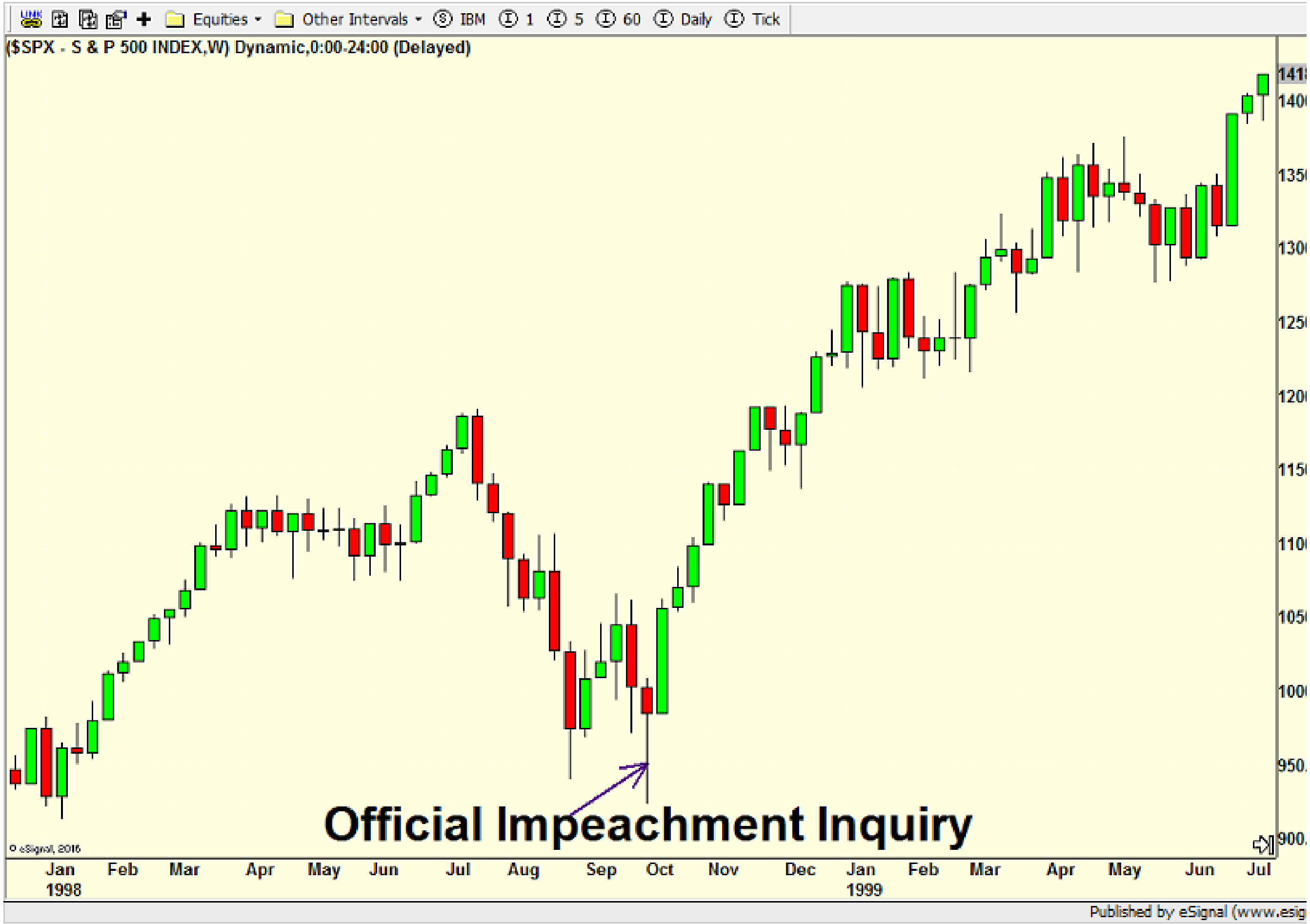


The macro picture in 1973 was very poor. The U.S. was heavily dependent on foreign oil and OPEC began production cuts in October 1973 against all nations they perceived to be supportive of Israel. The embargo continued in late 1974 and oil skyrocketed 400% leading to a global recession.

While the stock market looked like it was strong right into the peak in early 1973, that was the time of the Nifty Fifty, 50 stocks that were soaring while the rest of the market had already rolled over into a bear market. At the peak in January 1973, more than 50% of stocks were already down 20%. In short, the stock market's foundation had crumbled, but the house was still standing.

I would strongly argue that the stock market would have seen the exact same results had the Watergate scandal happened or not. If you want to push back a little, maybe I would cede that a single digit decline could have occurred, but certainly nothing like the carnage from the oil shock and serious recession.

Let's turn to 1998 when Bill Clinton was impeached. Below, you can see the official inquiry began in October 1998 at the end of the stock market's 20% decline. Some would very wrongly argue that the threat of impeachment weighed on stocks. In 1998, stocks collapsed in August as Russia defaulted on her debt. After a brief bounce, they fell once again when hedge fund, Long Term Capital Management threatened to take down the entire financial system with their staff of Nobel prize winners and 100x leverage on bets that a 1 in a 1000 year storm wouldn't happen.

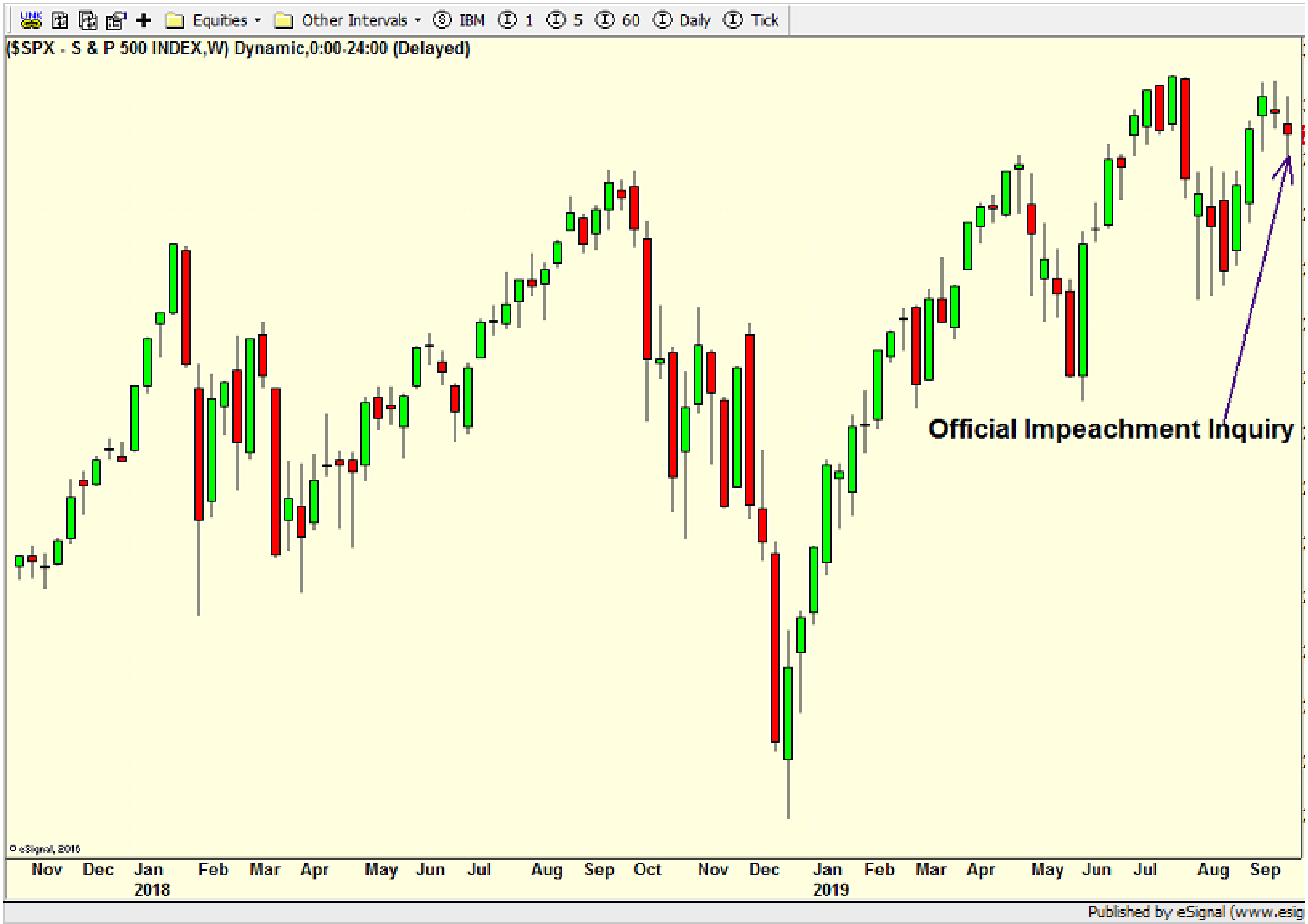


Unlike 1973, the economic backdrop was much more constructive in 1998 as the Fed slashed interest rates and created a Wall Street consortium to bail out the imploding hedge fund. GDP growth never missed a beat, continuing to click at 4%+ until the end of the century. The stock market was already at the end of the bottoming process when the impeachment inquiry became official in October 1998. Stocks literally soared like a rocket ship from that point as the Dotcom Bubble was just beginning to inflate.

I feel very strongly that Clinton's impeachment had almost zero stock market impact because the market had a strong base and there was almost no chance of him being thrown out of office.

Where are we today?

Today's economic landscape falls somewhere between 1973 and 1998, however the geopolitical backdrop is much more stable than 1973 and more closely resembles 1998. Economic growth is "fine" and I don't see an imminent serious threat. Yes, I still believe a mild recession is coming next year, but nothing like we saw in the 1970s. The tariff tantrum may seem like the biggest concern on the surface, but with an election just around the corner, Trump will almost certainly capitulate before jeopardizing the economy.



Looking at the stock market, it is also somewhere in between 1973 and 1998. While price is near an all-time high, the foundation remains very solid and stable which is more like 1998. We see high yield bonds near all-time highs and the New York Stock Exchange Advance/Decline Line is also close to all-time highs. This tells us that any and all declines are buying opportunities.

So far, the threat of impeachment has had no effect on stock prices. And unless a "smoking gun" appears and Senate Republicans begin to jump ship, I continue to believe that the stock market will proceed higher to Dow 28,000 and perhaps 30,000 in Q1 2020. Impeachment makes for sensational headlines, drives people to the media and creates an even bigger country divide, but I believe this will be the third time without market impact.

3 Signs of a Stock Market Bottom

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In response to a few questions as to why I was so bullish after stocks hadn't even declined 7% this quarter, I am sharing a blog post from that period. Thanks for the questions and comments. Keep 'em coming!

After the large, one day decline on August 5th, I wrote that while the vast majority of the price damage should be behind us, the pullback did not look complete, meaning that it looked like it had more work to do. **Last week**, I wrote that while the decline didn't look quite perfect, I did not want to be too cute and miss the rally I thought was coming. I was okay being a little early than a little late. Shortly after I hit send, three of the five major stock market indices, indeed, looked to have completed declines with the S&P 500 and NASDAQ 100 still open to one more new low attempt, but by no means is that necessary.

The first charts are the S&P 500 with the numbers if bullish respondents in the AAII survey of individual investors. With this single digit decline, investors are as negative as they were last December after a 20% decline. That shows you just how sensitive people are to minor moves right now.
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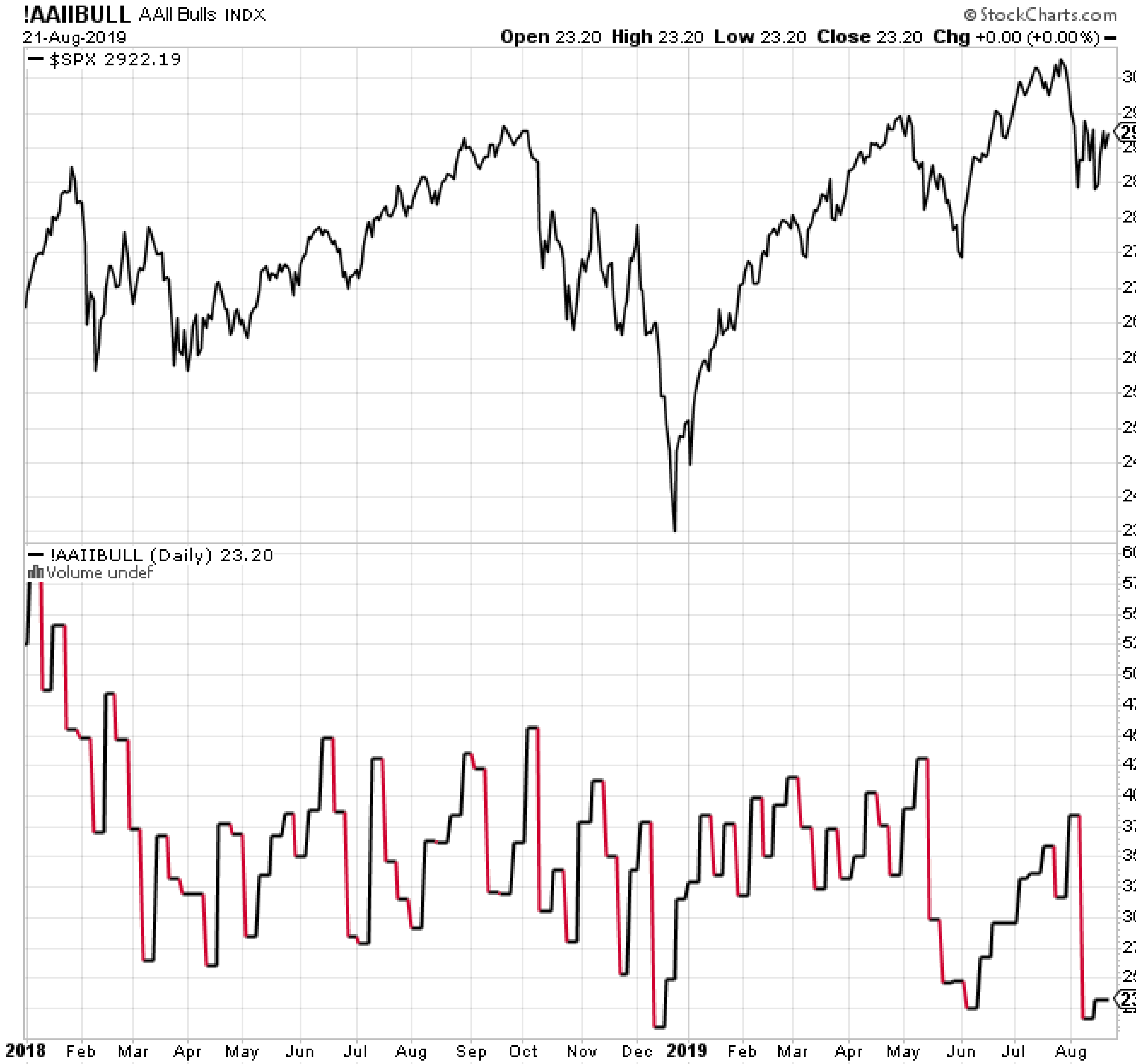
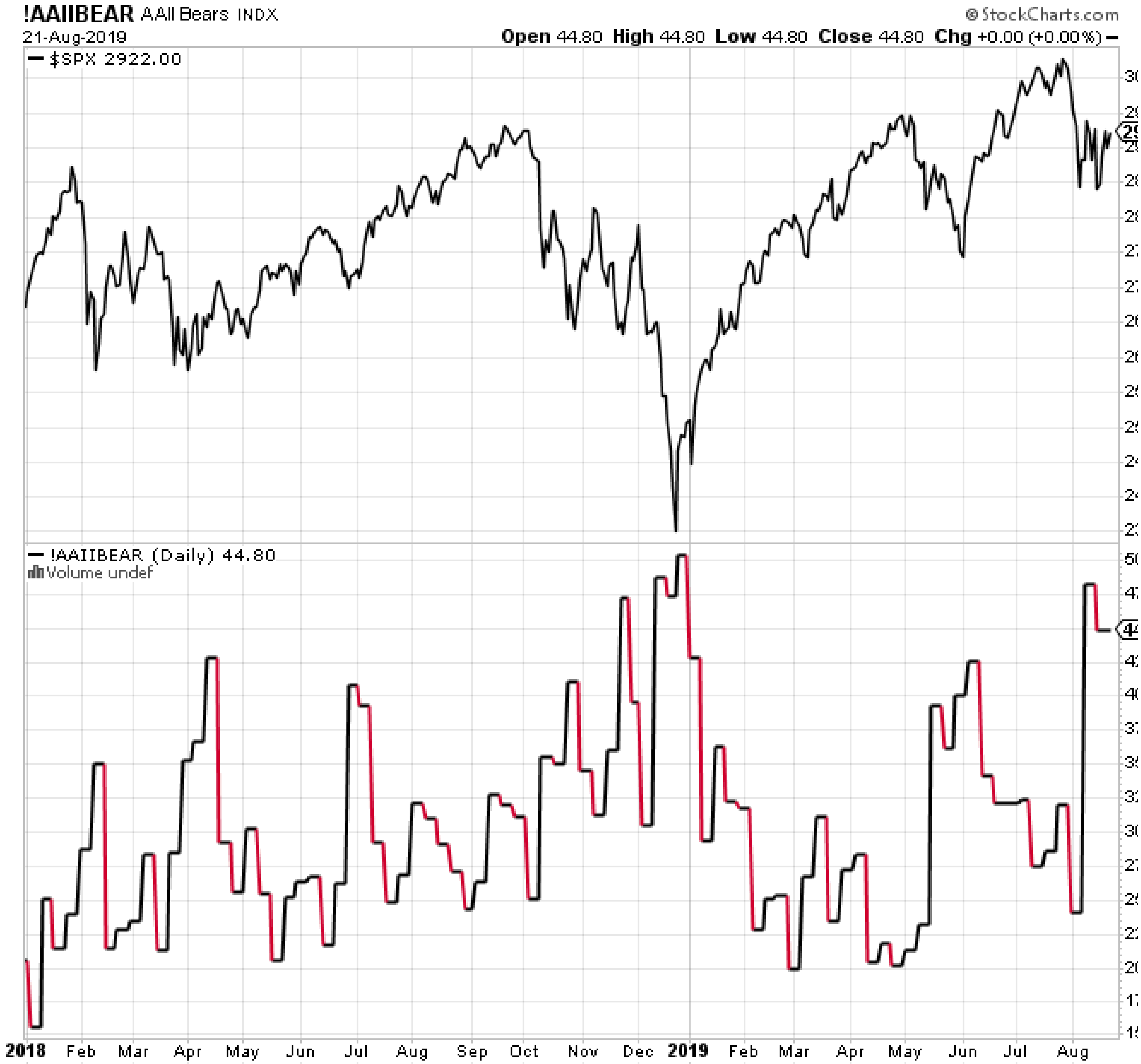
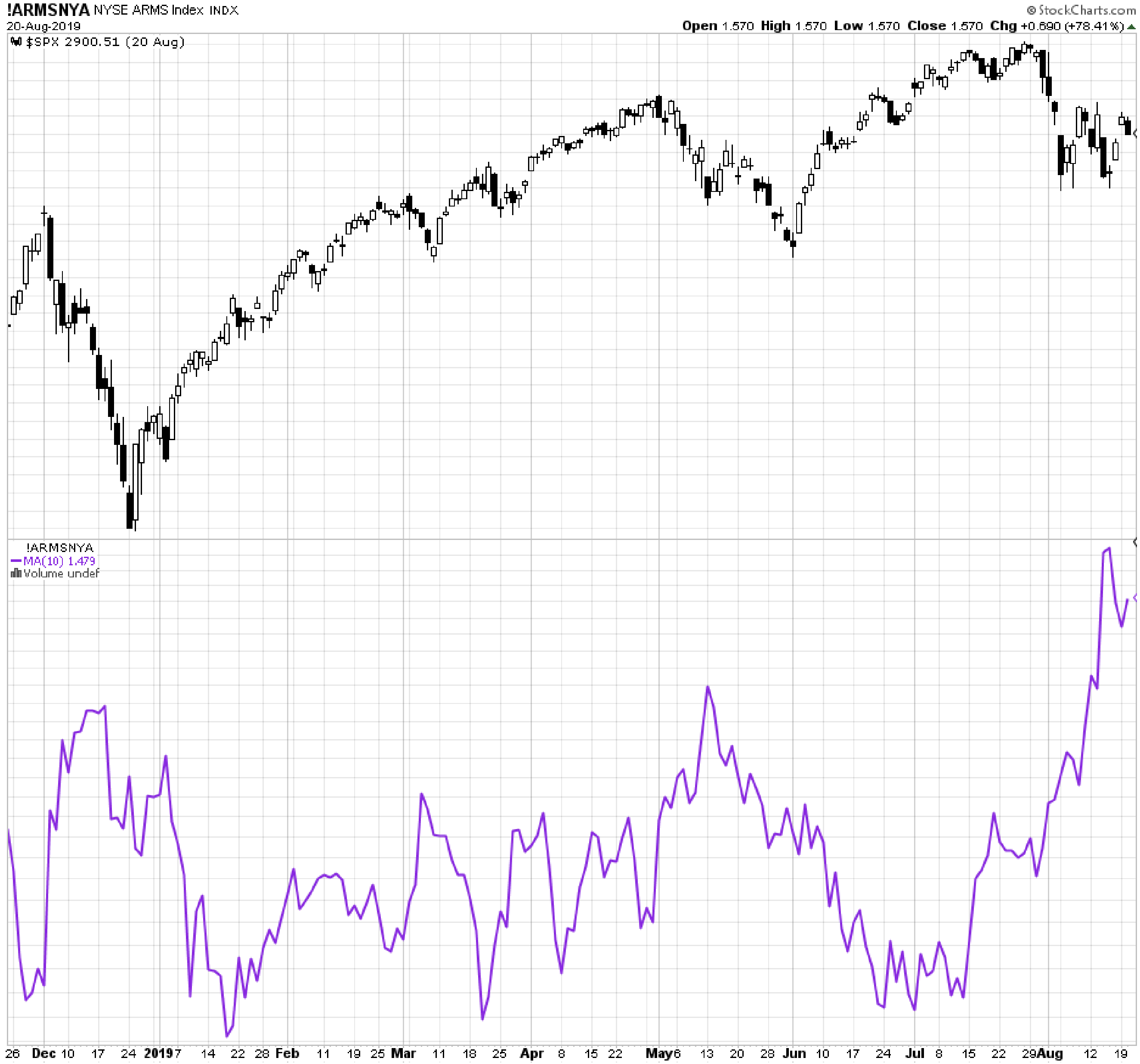


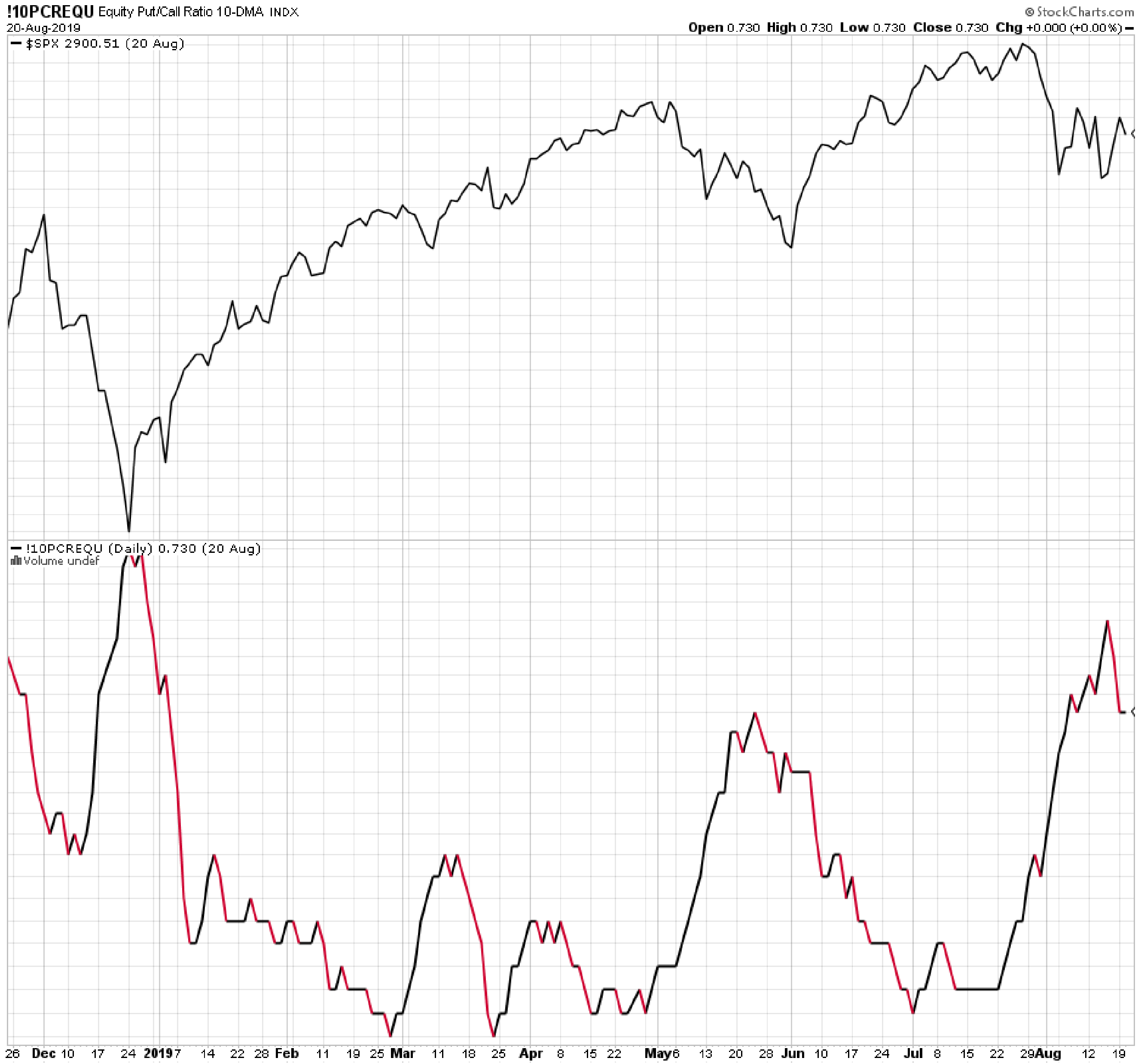
The next charts are the S&P 500 with the number of investors replying the negative. Similar to what we see above, people are almost as negative as they were last December. In short, sentiment is so ripe for a bottom and supportive of a rally to all-time highs.



The next charts are the S&P 500 with an indicator called the ARMS Index or TRIN. I watch a 10 day average of this popular indicator created by the late Dick Arms. The higher it gets, the more intense selling pressure in stocks. You call see that the selling over a 10 day period has been significantly higher than it was in December and all year. That means we just saw some panic selling or "get me out at any price". That is another sign of a market about to bottom.



Finally, let's look at the S&P 500 with the behavior of options traders below. The more nervous traders become, the more put options they buy which is a way of positioning for a lower market ahead. I also look at this indicator over a 10 day period. While it isn't as severe as we saw in December, it remains very elevated and supportive of stocks in the bottoming process.



With a mid-single digit decline in stocks, investors are really worried, to the levels normally associated with a 10%+ correction. People are abnormally concerned about the geopolitical landscape, especially Trump's tariff tantrum. I think these people will be proven wrong much sooner than and stocks should hear to all-time highs by early Q4.

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 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,
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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.

Upcoming Appearances

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Yahoo Finance's The First Trade - October 3rd from 9:25am to 9:40am

TD Ameritrade's Network - October 3rd at 1:40pm

Yahoo Finance's On The Move -October 30th from 11:00am to 12:00pm

TD Ameritrade's Network - October 30th at 1:10pm

Fox Business' Making Money - October 30th 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

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
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