February 14, 2020

10:04 PM EST

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Inside this issue

Back on the Hill

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I was hoping to have part I of Canaries in the Coal Mine out this week, but I wanted to wait to see which stock market indices scored new highs before rendering part of the issue moot right out of the gate. You can look for that next week.

When I had my little accident last May, I vowed to be skiing by Thanksgiving. "What year?", my medical teams typically asked. To me, there was no doubt. 2019. Almost everyone either chuckled or nodded but didn't believe it or outright told me that it wasn't going to happen. For those new readers out there, skiing is my thing. And I made it into our family's thing as well although only the little guy is as crazy passionate about it as I am. I look forward to it all spring, summer and fall although I have plenty of other activities as well.
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Two full weeks before Thanksgiving, the little guy and I headed out on the hill for opening weekend at Mount Snow. I have to admit that I was more than a little apprehensive (and emotional) given the deficiencies I had in my ankle and shoulder and . That first run was definitely not easy nor comfortable. And when I lost all feeling in my foot, I was a little concerned that my ski season would be cut short. However, the boot doctors at the bottom cut up and ground out new space for my fat foot in my old boots.

After the first run, the little guy chirped, "Dad, is that all you got? You ski like a turtle!" I mean, it's not like I got hit by a tree and broke 34 bones or anything! Run number two took a slightly different track as I flew down as fast as I could with the pain and discomfort, making sure I beat him down by a wide margin. On day number two, we even got the lovely Teri out on the hill, her earliest appearance on snow in history by almost a month.

At the end of the Thanksgiving break, Mother Nature decided to give all the hearty New England skiers used to crummy early seasons a sweet 25 inch storm in southern Vermont. After driving the whole family home on Sunday afternoon, the little guy and I turned around and drove back to VT in the middle of the storm to enjoy what would become an epic powder day. The four hour drive was truly a white knuckle one and on several occasions I questioned whether it was really worth it.

That's our car on the left, our deck, and beautiful virgin powder on the right.

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

January Barometer - Another Indicator to Debunk or Not

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During the end of January to early February each year, there is an annual discussion regarding the January Barometer, another indicator which supposedly has a great track record of predicting the return for the calendar year. This indicator was created and made popular by Yale Hirsch, founder of the Stock Trader's Almanac. Basically, it says that as January goes, so goes the calendar year.

Simple enough, right?

The Almanac claims a "success rate" in excess of 80% which seems pretty darn good, at least on the surface. The first problem is that their research includes the month that just concluded. In other words, you couldn't act on the January Barometer until February 1 to stay invested the rest of the year, but Hirsch included the entire year in his calculations.

Adding on to that, he never calculated just February through December returns to see if there was really a predictive edge. Finally, to make the study worthwhile, you would have to compare it to any random year being up or down.

There are all kinds of ways to massage and the manipulate the data. I am going to start with some big picture summary stats courtesy of Ari Wald from Oppenheimer, one of my favorite weekly reads on the markets.

Since 1928, February through December has been up 71% of the time. That's the random number to compare. The median gain has been +8.2%.

Since 1928, February through December has been up 78% of the time following a positive January. The median gain has been +8.6%.

Since 1928, February through December has been up 59% following a negative January. The median gain has been +2.4%.

Based on the numbers from Oppenheimer, the January Barometer certainly looks actionable after an up January. Now, let's massage the data a little differently and more granularly thanks to some help from my friend Tom McClellan of McClellan Oscillator fame.
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Tom broke up the January Barometer into various periods to see if there was consistency. Here is what he found.

From 1928 to 1949, an up January led to the rest of the year being up 50% of the time.

From 1950 to 1969, an up January led to the rest of the year being up 80% of the time.

From 1970 to 2019, an up January led to the rest of the year being up 64% of the time.

From 2000 to 2019, an up January led to the rest of the year being up 55% of the time.

This suggests that the 1950s and 1960s were more of an outlier than the norm. Like the First 5 Days of January barometer, this barometer looks much better on the surface versus random than when you dive into the details. As with so many historical trends, the markets have arbitraged the edge away over time.

Extreme Greed in the NASDAQ 100 & Tesla

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While my long and even intermediate-term forecasts remain unchanged and positive, I have been growing more and more uncomfortable about the short-term for a while. I think I started finding worries with sentiment around Thanksgiving. Although our portfolios haven't taken any unusual action so far, that could be changing sooner than later. You can and will always find my most current market take on **www.InvestForTomorrowBlog.com.**

I have been writing about a truly historic level of complacency that became bullishness, giddiness in December and finally outright greed over the past few weeks, the likes of which we haven't seen since the Dotcom Bubble in late 1999 and early 2000. Look no further than the NASDAQ 100 or Tesla for examples below.
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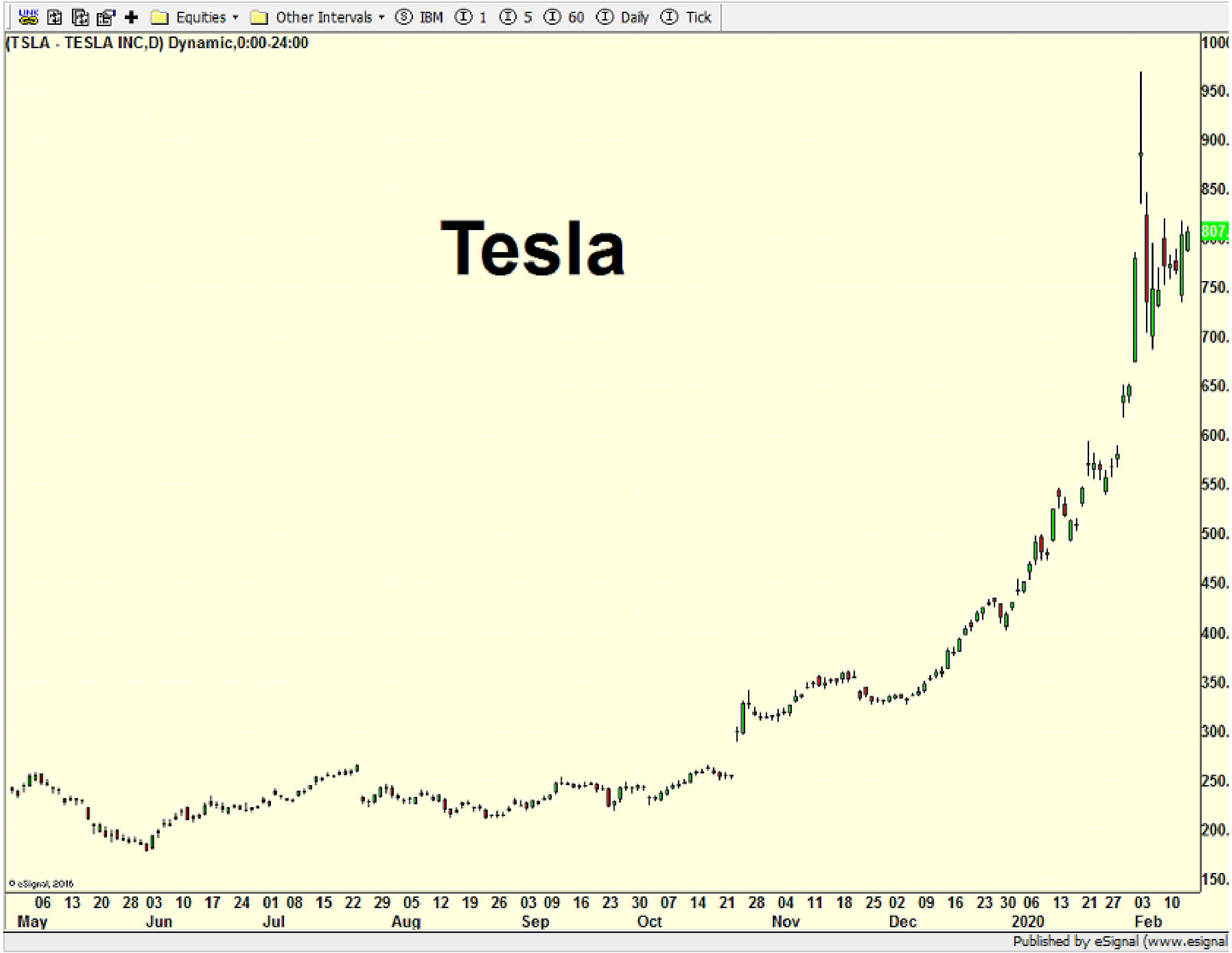

You can see how the former, an index, has just pressed higher and higher and higher with only a quick little pause to shake out the weakest holders after the Coronavirus scare. Tesla, on the other hand, looks like any Dotcom stock from yesteryear, going from $180 to almost $1000 in just 7 months.

I was an ardent bear on Tesla from $380, where I first forecast the stock to hit $100, down to $180, where I was celebrating, and back to $300 where I came to the realization that I was wrong. I definitely did not think Tesla would pull off such a meteoric rise.

Anyway, when I hear that 13,000 new retail accounts opened on Robinhood in a single day to buy Tesla, that certainly epitomizes greed. FYI, those accounts were opened right as the stock was peaking. I will have more on the historic level of greed in another issue.

What is Your Real Risk Tolerance?

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At the start of every new client relationship, one of the questions we typically ask our clients is *"How much risk are you willing to take?"* Some call it one's investment objective.

Your answer may be in terms of percent of portfolio losses, dollar amounts, loss of initial capital or choosing from a list of objectives. After all, upside return is usually a function of downside risk. That information, combined with more concrete data, such as years until you will need to withdraw your funds and how much money you have saved to date, is used to establish a risk weighted investment plan we believe will allow you to have the money you need, when you need it. Equally important, it has to result in a portfolio you are willing to hold through good markets and bad.

The problem is that risk "tolerance" is relative.

When you first answered the question, a number of factors influenced your response from current market conditions to your mood, prior investing experience, your sex, marital status, how you view your current level of financial security, job security and more.

With the exception typically of your sex, everything else is subject to change. In positive markets, people tend to be more willing to take on risk, assuming that losses can be quickly recovered. When markets turn down, risk tolerance changes. Behavioral finance has proven that losses have a greater emotional impact than gains and can distort risk tolerance by making an individual (1) less willing to incur additional losses or (2) willing to take on greater risk to make up for lost portfolio value.
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Mood is particularly volatile and can be influenced by the media, personal events, and even your perception of whether or not the country is headed in the right direction. Divorce, illness, death of a love one, dissatisfaction with one's work and other factors impact your willingness to take risks.

With that said, risk is a part of investing. While an active investment approach strives to manage risk and limit drawdowns, there will be times when your portfolio loses value or seems to plateau. While we can make no assurances as to the future performance of your portfolio, often these times are precisely when you don't want to abandon the investment approach.

There is also the question of whether or not you need to take risk. Sometimes we get locked in to a mental risk tolerance level that is actually higher than it needs to be. If you have sufficient savings to fund your needs with low-risk assets, perhaps there is no need to have a higher risk tolerance level in your portfolio.

To make certain risk levels in your portfolio match your risk capacity, we have been updating investment objectives over the past few months and will continue to do so. Interestingly, even after a strong year like 2019, we are finding that few people are seeking to increase the risk level in their portfolios. That makes us feel very good as we have long cautioned against raising risk after a good year. On the contrary, we typically suggest adding money and/or increasing risk after a challenging year or quarter.

If we haven't had the risk tolerance conversation with you lately, please do not hesitate to call or email us to begin the discussion. We need to know if there are changes in your life that necessitate changes in your portfolio, and if at any time you are not comfortable with your portfolio and how it is invested. And, we appreciate the opportunity to explain our investment strategy and its current performance. Our goal is a long-term relationship with you. Communication is a key part of that relationship.

The Stresses of Money

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

In a previous career, I worked on Wall Street for various derivatives of Shearson Lehman before ending my stint at Cowen & Co. in 1993. All I ever wanted to do was become a trader on Wall Street and make a lot of money. There was nothing I wouldn't sacrifice. However, a funny thing happened on the way to that goal.

As I much as I was driven by money, it turned out that when I finally started making bigger bucks, I wasn't all that happy. In fact, I was a little miserable going to work so early in the morning and finishing so late. My social life suffered. I barely skied. I ended up making my weekends all about golf. In the end, I dreaded going to work and when I finally resigned, my boss started throwing more money at me to stay. Nothing felt better than walking off the trading floor at Cowen & Co. and never going back.

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.
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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, 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 judgment, 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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TD Ameritrade's Network - February 19th at 1:10pm

Yahoo Finance's On The Move -February 20th from 11:30am to 1:00pm

Fox Business' Making Money - February 20th from 2:00pm to 2:30pm
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WTIC (FOX61 in CT) - March 3rd at 10:10am

WTNH (ABC in CT) - March 17th at 9:20am

TD Ameritrade's Network - March 17th at 1:10pm

Yahoo Finance's On The Move -March 18th from 11:30am to 1:00pm

Fox Business' Making Money - March 18th from 2:00pm to 2:30pm

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."
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"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

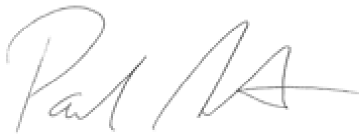
"A government big enough to give you everything you want is big enough to take everything you have." - Gerald Ford via Dan Kennedy

"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,



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