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Stocks Tired But FAR From Dead

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**It's certainly springtime in New England. The birds are back from Florida and the bees have come out of hiding in search of new homes for the summer behind our shutters and shingles and under the cover to the barbecue grill. One day it's sunny and 75 degrees, and the next it's cloudy, raw and in the 50s.**

**I love the Mark Twain line, "If you don't like the weather in New England, just wait five minutes, it's bound to change". The perfect segue to the financial markets in 2008. It's been one "interesting" year so far. And it's a LONG way from over on so many counts.**

**Not to rehash old trash, but after having eaten my fair share of crow in the first three weeks of January, the stock market began to behave like a good little boy. It conformed to the path we have been discussing and now we are against the other critical line in the sand.**

**After the January 22nd and 23rd very emotionally driven panic bottom, the preferable scenario was for a rally into February and then a revisit of those exact same low levels in early to mid March. From there, we offered the**

**opinion that a very powerful rally would unfold to at least 13,100 on the Dow during the second quarter.**

**I suggested you watch sector leadership and market volume for clues as to whether a new bull market was confirmed or only a strong bear market bounce. So far, we've seen a very good rally with much better sector leadership and "constructive" volume patterns. That's the good news.**

**The cautionary news is that stocks are beginning to look a bit tired and in need of some rest and digestion after that big meal from Dow 11,700 to 12,900. And that's all I see coming right now. A very normal, healthy and welcomed downward pause to refresh before moving to higher levels this quarter.**

**I got two emails when Alcoa missed a few weeks ago. And several when UPS and AMD followed suit. But nothing like I received when GE missed and stocks had a one day collapse. By the time Wachovia vomited on themselves again, the resilient theme I discussed in the last issue had taken its firm grip as stocks largely ignored the bad news.**

**Isn't it amazing? Less than one month ago the majority was in a total depressed state, frantic over the gloom and doom economic reports and upcoming earnings announcements. Fast forward and the news wasn't as bad as everyone thought.**

**In fact, a lot of people are now saying that outside of the housing and financial sector, the U.S. economy is in "fine" shape. And of course, Europe is humming along. I'm not sure I buy that logic either! Count me as a dissenting voice in the whole global decoupling theory, where the U.S. can slowdown but Europe and the emerging markets can remain strong. I may have been born at night, but it wasn't last night!**

**Let me tell you; I felt a whole lot better when I was literally one of the only bulls espousing that view in the throes of depressionary talk! The vast minority is a good place to be when it comes to investing. But with all these converts coming over so quickly, and price up against some solid overhead supply that literally anyone with access to Yahoo charts can easily see, the likely path is for some retrenchment in the short-term.**

**I have long used price comparisons from 1987, 1990 and 1998 for the current environment with 1990 also showing very similar fundamental conditions. If you remember 18 years ago, we were in the middle of:**

**Iraq invading Kuwait**

**Recession**

**Spiking energy prices**

**Gold rallying**

**S&L Crisis**

**Credit crunch**

**Renewed inflation**

**Tapped out consumer**

**As I've mentioned many times this year, those items are almost a carbon copy of the 1990-1991 period. I know I am not the only one using the 1990 comparison, but that's ok. And back then, by the time the masses realized the economy was improving and credit conditions were getting easier, the Dow had already rallied 30%!**

**That's why I firmly believe in selling into euphoria and buying into despair as part of an overall strategy. Because it works most of the time.**

## **Kick Our Tires At NO CHARGE**

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Last month I dropped a casual comment in one of the issues about an offer to manage all new accounts without any management fees as a test drive for a period of time. That sparked a little firestorm of emails with plenty of questions and comments.

With the birth of our third child and controlled chaos overtaking our home, it took me a few weeks to formulate some answers that I said I would share here for everyone to read. If after reading on, you still have questions or comments, feel free to call or email me directly.

The details of my offer are as follows.

*** Heritage Capital will manage your investment account(s) at NO CHARGE through September 30, 2008 in any of our programs.**

*** This applies to all NEW accounts opened and funded by May 30, 2008 and our standard minimums apply.**

*** This offer is limited to the first 14 accounts opened.**

*** This does not apply to accounts opened from other financial advisors.**

Judging from the emails, I know a lot of people are wondering WHY I would offer this type of arrangement. First and foremost, I believe we have seen and will continue to see an extraordinary period of opportunity in the financial markets that only comes along a few times per decade.

Too many investors sit on the fence, waiting for that magical green light to commit money. And by the time that "all clear" is given, stocks are closer to the end than the beginning. I want this offer to give you that little nudge to move forward!

Second, I know from my conversations and emails, many of you are trapped in underperforming strategies and investments, some with advisors who either never contact you or only do so when your account is moving up.

This is the perfect opportunity to shed some of that baggage and work with a firm that prides itself on proactive communication, in good times and in a bad. No one out-communicates us!

When you open your account, I don't want you to think we just haphazardly throw your hard earned money into the market. As we strive to do each day, week, month, quarter and year, we look for the right opportunity to invest your portfolio.

Sometimes that happens right away, while other times it takes a while. Until your money is invested, it will reside for safety in a money market fund. You will be first in line when the time is right!

And once it is invested, we stay on top of it 24 hours a day, 7 days a week.

During your "no fee" period with us, I hope you will get a better feel for how we operate and why we are different from so many other advisors. This is your opportunity to kick our tires. If you are not satisfied and comfortable at any point along the way, simply fax or email us to close your account and return your money. It's as easy as that. You have to be satisfied and comfortable to continue.

Along the way, you will have 24/7 online access to your accounts(s) plus receive quarterly performance reports from us and paper statements from the custodian. Of course, you can expect regular phone calls and special client only emails. And please feel free to contact me as often as you wish.

That should cover most of the questions I received. Again, the first 14 accounts opened between now and May 30, 2008 will not pay our management fee until the 4th quarter. Please don't wait until the very last minute to open your new account. It will likely be too late. Call or email right away!

Finally, if you have friends or family that want to take advantage of this, please forward them this email or have them contact me directly.

Heritage Capital In The New Haven Register

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Posted on Sun, Apr 13, 2008

On the Money

What the dollar's decline really means

By Angela Carter, Register Staff

By most accounts, American consumers love a good sale. The problem these days? The historically mighty dollar's on discount.

A meltdown erupted in the mortgage credit industry last August and spread to financial markets. In an effort to stunt the damage, the Bush administration and Congress negotiated a \$168 billion stimulus package, providing tax rebates for households and businesses, and the U.S. Federal Reserve has aggressively slashed interest rates.

Thus the dollar, America's official unit of currency, is taking a beating with other factors piling on: weak consumer confidence while debt is high; increasing unemployment; soaring costs for bread, dairy and other foods; and record prices for crude oil, gas and energy.

As the dollar falls, the chance is increasing that OPEC, the Organization of the Petroleum Exporting Countries, may broaden the benchmark it uses for oil pricing beyond the dollar - its traditional measure - to a so-called "basket" of currencies from multiple nations.

Robert L. Engle, a professor of international business at Quinnipiac University in Hamden, said such a move could further drive up prices for crude oil and its derivative products in the United States and in other countries that use the dollar and the euro, the currency for the 15 members of the European Union.

"The real story is just in the fact that they're talking about it. It's a signal that, economically, the world realizes we're not invincible," he said.

Thirty years ago the dollar dropped significantly, Engle said, but there was no thought of OPEC making such a dramatic shift. "The dollar truly was king," he said. "Today, we're not sitting on top all alone. There are other choices."

Some of the currencies OPEC would likely consider are the euro; the pound, which is used in Great Britain; and the yuan, used in China. "I haven't heard anything specific, but that's a logical group of top currencies in the world," Engle said.

Engle and HE Abdalla Salem El-Badri, OPEC secretary general, have pointed to fluctuations in the dollar, booming global demand and the volatility of market speculation as forces pushing up oil prices.

A weak dollar also does not help curtail the nation's trade deficit, Engle said.

The Commerce Department reported Thursday that the trade deficit rose by 5.7 percent in February to \$62.3 billion, the highest level since November, bucking expectations it would decline.

When a nation imports more than it exports, a deficit occurs. Analysts expected the domestic downturn - which some already deem a recession - would cut demand for imported goods and services.

Instead, imports shot up 3.1 percent to an all-time high of \$213.7 billion, with a surge in imported foreign cars. Exports rose by 2 percent to a record \$151.4 billion, showing strength in sales of heavy machinery, computers and farm goods.

Engle said export growth can not be sustained by a falling currency. Even though a weak dollar makes exports more affordable to foreign buyers, he is convinced a long-term solution to the U.S. trade deficit hangs on making innovative products that other countries want and marketing them effectively in those nations.

Donald Klepper-Smith, chief economist at DataCore Partners LLC in New Haven, said Connecticut's exporters sell more overseas when the dollar is weak but he questioned whether that trend is sustainable. Going forward, a decline in imports could still occur, he said.

"We need imports but we must keep exports on course," Klepper-Smith said. "Trade imbalances in the long run are problematic because they reduce business competitiveness."

Investors also have their eyes on the greenback.

Paul Schatz, founder and president of Heritage Capital LLC in Woodbridge, said the dollar had a "quiet" trading stretch last week overall, after a rally by the euro from early February to mid-March.

Lower interest rates, as is the Fed's recent trend, hurt a nation's currency because traders switch to countries that will yield higher returns.

"I think it gets better for the dollar from here," Schatz said. "To me, the only thing that would signal a collapse of the dollar from here would be if our whole financial system collapsed."

He outlined scenarios whereby the U.S. dollar could rebound. If there is an economic crisis in Asia - a voracious economy that is taking measures to slow down its growth - or if the economy slows in Europe, prompting the European Central Bank and the Bank of England start lowering interest rates, "then the dollar goes crazy," Schatz said.

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## **Heritage Capital In The Connecticut Post**

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1. SHELTON BUSINESS COULD BE BOUGHT

ROB VARNON Newsroom@ctpost.com

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Private equity firm Greenfield Partners LLC on Monday made a \$162 million offer to buy Shelton-based Clayton Holdings Inc., a research and analysis company for the financial industries.

Norwalk-based Greenfield Partners will buy outstanding shares of Clayton for \$134 million, or \$6 per share, and also repay \$23.8 million of Clayton's debt.

Clayton's shares rose 90 cents to close at \$5.72 in trading on the Nasdaq Stock Exchange on Monday.

The company's shares reached a 52-week high of \$20.50 on May 10, 2007, according to MarketWatch.com; it fell to a low of \$3.00 this Jan. 11.

Greenfield's move makes sense to one area investment adviser, who expects more equity firms to pounce on companies whose stock has flopped.

"There's a lot more value around now than there was six months ago," said Paul Schatz, president of the Woodbridge investment advisory firm Heritage Capital. "I'm just surprised more hasn't happened yet."

"This is when private equity guys are at their best," Schatz said, referring to markets that have hit some difficult times.

Clayton, founded in 1990 as a due diligence services and loan analysis firm, went public in 2005 when it combined with Denver-based The Murrayhill Co., a securities surveillance and risk management company.

"This transaction benefits our shareholders, clients and employees," said Frank Filippis, Clayton's chief executive officer and chairman, in a news release. "It provides a significant premium to our shareholders during a period of unprecedented difficulty and great uncertainty in the markets we serve."

The real estate market has taken a pounding this year with housing sales and prices dropping, while losses among lenders have continued to pile up with mortgage defaults and foreclosures.

The company reported a net loss of \$91.8 million in the fourth quarter of 2008, compared to a net profit of \$3 million for the same period in 2007.

Clayton has been trying to expand its business overseas and has an office in Bristol, England. Clayton also has offices in California, Colorado and Florida.

The bulk of employment is in the U.S., where Clayton employs 150 in Connecticut and 260 more nationwide, according to Chris Cosentino, a Clayton spokesman. The exact figure for the office in the United Kingdom was not available.

The deal must be approved by Clayton's shareholders and is expected to close by the third quarter. Clayton's board of directors voted in favor of the sale and the company's

largest shareholder, TA Associates, has also blessed it. TA Associates owns 37 percent of the company's outstanding shares.

Eugene Gorab, president and chief executive officer of Greenfield, said his company sees a tremendous future for Clayton.

He said in a news release, "The company is well positioned to participate in the restructuring of the asset-backed and mortgage-backed securities."

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.**

**<http://www.investfortomorrow.com/newsletter.asp>**

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## To Your Financial Success,



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Heritage Capital LLC ("Heritage") composite performance results represent time-weighted actual performance results for continuously managed Heritage accounts, which individual accounts Heritage believes to be representative of its investment management process (i.e. mutual funds and exchange traded funds) for each specific strategy during the corresponding time period. The composite performance results reflect the reinvestment of dividends and other account earnings, and are net of applicable account transaction and custodial charges, and the separate fees assessed directly by each unaffiliated mutual fund and exchange traded fund holding that comprised each account, and the maximum investment advisory fee that the accounts would have incurred (by applying the Heritage's current investment advisory fee of 2.00% as set forth in its current written disclosure statement) during the corresponding time periods.

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