



October 24, 2010

9:25 PM EDT

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## Prostitution Up Next For Congress

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FYI, my CNBC segment from last week was moved to November 5 at 11:05am. I am going to be on CNBC's Worldwide Exchange this coming Friday, October 29, from 5:35am to 5:55am.

If you are attending the World Research Group (WRG) Buy-Side Global Equities Trading Summit in New York on Monday and Tuesday, drop me an email and let's meet for a drink. I'll be on the Demystifying ETFs for Equities Traders panel presentation.

I will also be speaking at my good friend David Fieldhouse's get together Thursday evening north of Boston. Let me know if you are in the area and want to attend.

With the election season just about reaching its peak, there's been no shortage of articles on the government, etc. Last week, I shared some of the most wasteful personal spending by Congress I have ever seen. Not surprisingly, all of the emails to me were from folks equally outraged at the elected officials for using the cover of the Global Climate Summit to bring spouses and staff for an all expenses paid vacation courtesy of the American taxpayers.

This week, I'd like to share an article about how men and women working for our Congressmen are using inside information (legal to them by the way) to make money

trading stocks. If any of us had done this, we would likely receive a call or letter from our friends at the SEC with some fairly harsh penalties coming down. But even though common sense dictates it's wrong, Congressional staffers' greed makes it okay to defraud the system.

Free vacations. Insider trading. What's next? Prostitution?

[Congressional Staffers Gain From Trading in Stocks](http://online.wsj.com/article/SB10001424052748703431604575522434188603198.html)

(<http://online.wsj.com/article/SB10001424052748703431604575522434188603198.html>)

## **Mortgage Crisis Has More Fuel In The Tank**

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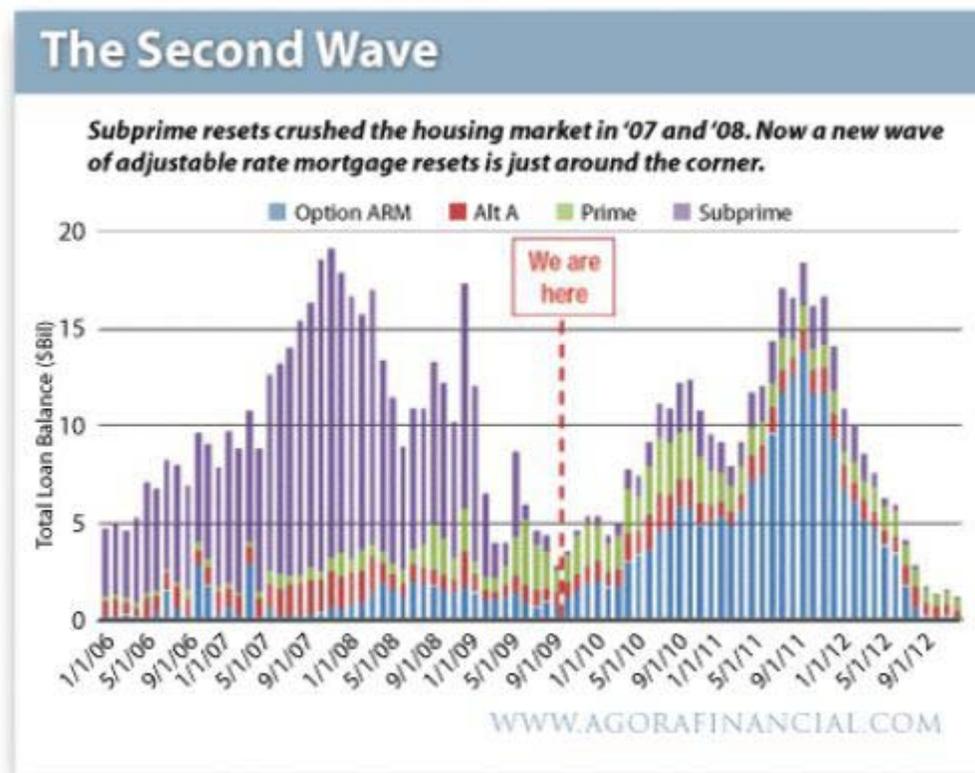
Last week in [All Ain't Rosy in Stock Market Land](#), I focused on all the good news and how many bears were turning bullish after such a dramatic rise in the market over the past few months. A week or so later and the market is generally in the same area. We still have a preponderance of bulls and the news has been fairly sanguine, especially on the corporate earnings front.

Am I still worried? Yes, I am. We reduced our maximum equity exposure temporarily as risk has clearly risen. Quick and sharp bull market cleansings usually restore some worry to allow for another leg higher. We saw the early makings of that on the 19th, but buyers rushed back in the next day to stem the tide.

The Nasdaq has already eclipsed its 2010 high, but the Dow, S&P 500, S&P 400 and Russell 2000 have yet to confirm. They need to all get in gear together if there is another major rally left. Technology has been very strong, but the key semiconductor sector is woefully lagging. Semis and the banks, as I've always seen it, are the two most important leadership sectors in the market. The strongest bull markets have always had them leading. It's longer-term problematic if they cannot get their collective acts together.

There are too many people positive on the market. That's worrisome. Stocks have run very hard into earnings, which usually results in a "sell the news" trend during the first month of the new quarter. While leadership hasn't been bad, the banks have behaved pathetically with the makings for a new round of \$100B writedowns and writeoffs on the way based on the recent news out of Countrywide.

As an aside, for those of you who think the whole mortgage mess is over, I would respectfully vehemently disagree. I think we've seen the relative calm before the storm that's going to hit next year with a huge wave of Option Arm loans and further waves with Alt-A (liar loans), Prime and Subprime. Look at the chart below and move your eyes to the second half of 2011.



I still don't think that the more liquid financial markets are on the precipice of collapse, but they do need a pause to refresh to keep the bull running longer. Besides the overwhelming amount of stock bulls, we're seeing the same thing in gold, commodities and the Euro. Since so many instruments have become correlated (moving together), a stock market pullback would likely result or be the result of the dollar strengthening and everything else weakening.

As speaking of the dollar, I continue to believe, as I have since March 2008, that its demise has been greatly exaggerated. It may not feel like it, but for two and half years, it's been making higher lows and roughly the same high. That may not be a runaway bull market, but it is a bull nonetheless. With almost no bulls around now, an intermediate-term rally isn't far off, whether it's already started or will do so after one more decline.

## Post Election Nirvana

As we head into the "most important election ever" as they all seem to be called, I always find it interesting to see how the markets are behaving and what they are expecting. As I've mentioned before, we've seen a dramatic rally since August and I believe that at least some of that is based on the Republicans taking control of the House, forcing political gridlock. That's just like we saw in 1994 with Newt Gingrich and the comparisons have been flying around.

1994 was a tough year for the stock market that led to one of the single greatest years of all time in 1995 as Gingrich moved the Republicans towards the center a bit and Bill

Clinton followed suit from the left. There may not have been a love fest, but the markets applauded and the economy followed suit.

In the short-term, it's very typical to see the pre-election market trend reversed shortly after the election. If stocks rally into November 2, I would fully expect a measurable pullback soon thereafter. Conversely, if we see weakness over the coming week to ten days, that could set us up for a nice run to year-end, depending on the depth and internal damage done.

I am going to throw one more somewhat related topic in here and that's regarding the economic recovery. Last week, I mentioned that if this was a "normal" recovery from a recession, then GDP (economic growth) is on the verge of exploding higher. The trend is essentially that the economy sees a burst higher from the depths of recession and then spends a few months backing and filling, or digesting. From there, the GDP rocket takes off, like we saw in 1995 and 1996.

That path is supported by what's known as the Presidential Cycle, an average of what the stock market has done during each year of a president's term. The third year, beginning right after election day, is by far, the strongest of any year in the four year cycle. That's what an awful lot of folks are hanging their collective bullish hats on for 2011, but at this point, I have a hard time swallowing that. I would be ECSTATIC if it happens because making money in a strong up market is a whole lot easier than any other market. But as I've tried to do during my investing career, I certainly won't plan for nirvana.

## Upcoming Appearances

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WRG's Buy-Side Tech Global Equities Trading - October 25 at 4:30pm

David Fieldhouse's NEXT Financial Soiree - October 28 at 6:00pm

CNBC's Worldwide Exchange - October 29 at 5:30am

CNBC's The Call - November 5 at 11:05am

WRG's World Cup of Trading ETFs - December 13 at 9:45am

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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"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, 1931

"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 via Tim Woods

"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 via Casey Research

"Diversification alone is no longer sufficient to temper risk... You need something more to manage risk well."

- Mohamed El-Erian

## **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.

### **[Sign Up Here](#)**

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## 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](http://www.InvestForTomorrow.com)**

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