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What Type of Market Are We In?

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**Greetings from Sin City! It's been an "interesting" few days to say the least with the markets and the weather. I am out here speaking at the annual FT Monitor conference Sunday morning on the topic of trading ETFs (exchange traded funds).**

**I had originally planned to fly in Friday night with a good friend of mine, but Mother Nature threw us a giant curveball, forcing the airlines to cancel many of the flights out of the northeast. For one of the few times in my travel history, US Air actually emailed me to let me know they would likely cancel my flight and I could reschedule at my convenience without penalty. Can you believe that came from a U.S. airline?**

**Thankfully, they got me on a 6am flight just as the storm was intensifying in CT, although I had to connect through Phoenix. 8 hours later, too much airport food, lots of turbulence and nausea, here I am.**

**Besides being able to share information with peers, it's great to meet some folks who have been receiving our updates for a long while. I continue to be amazed at how many different ways there are to make money in the markets. And the list keeps growing!**

**Not long ago, I discussed cyclical versus secular bull and bear markets. Cyclical, if you recall, are shorter-term in nature, while secular usually last years. We saw a secular bear market from 2000 - 2002 and a cyclical bear market from May - October 1998. Similarly, a secular bull market existed for most of the 1990s, while a cyclical bull market unfolded after 9/11 for four months.**

**I bring these up again since I received a few emails asking how to detect what kind of market we are in. Without getting very technical, the best way to determine what kind of market we are in is by watching price and sentiment behavior.**

**In secular bear markets like we saw earlier this decade, it's unusual to see panic and mini crash events. Rather, investors continue to stay bullish and hopeful that the bull market will soon return. Price declines in stair step fashion with just enough short-term rallies to keep the majority of folks invested.**

**If you remember, sentiment after the dotcom bubble burst did not get fully negative until the market reopened after 9/11, some 18 months later. And that extreme negative sentiment on a contrarian basis was enough to launch a cyclical bull market for several months.**

**Cyclical bear markets like we saw in 1987, 1990 and 1998 are arguably the scariest markets to live through. They typically run hard on the upside to the ultimate peak as anyone and everyone is throwing the last bits of cash into stocks.**

**The first decline off that peak is usually seen as yet another "dip" to be bought, but price does not recover. Rather, after moving sideways, the market really begins to become unglued and moves almost in straightline fashion to a very emotional, panic low, where bearishness becomes rampant and very much "in vogue".**

**The first rally off of that low is widely seen as the textbook "dead rat bounce" before the markets roll over to much lower lows that end up not being seen. That happened in December 1987 as the masses expected a global depression to set in. We also witnessed it in October 1990 as the credit markets were in complete and utter disarray and the S&L Crisis was becoming front and center. It also happened in October 1998 with Long Term Capital and the apparent end of the worldwide financial system as we knew it.**

**Isn't it amazing how much markets tend to rhyme so well but never exactly repeat? In the heat of the moment leading up to cyclical bull and bear market turning points, it seems like the current trend will never end and we should stay on that path, just when it's about to turn in an enormous way!**

**I am interested in your thoughts on what state the current market is in. Please click on this link and anonymously answer one simple multiple choice question.**

**[http://www.surveymonkey.com/s.aspx?sm=e6hqAlh0Cx0liLQzg\\_2fxVgQ\\_3d\\_3d](http://www.surveymonkey.com/s.aspx?sm=e6hqAlh0Cx0liLQzg_2fxVgQ_3d_3d)**

**I will share the results and offer my own opinion in a week or two.**

## **Volume and Sectors Hold The Key...**

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Marketwise, it's been more of the same over the past few weeks. We continue to see extremely volatile day to day moves, but net net, price hasn't gone very far in either direction. It's been a classic tug of war between the bulls and bears that will result in a large move sooner than later.

My first thought was from a few weeks ago was a rally that eclipsed the late January highs, followed by a move towards the lows by early March. If that scenario remains in play, the bulls are going to have to really step up right now and get stocks moving sharply to the upside.

Investor sentiment on almost every front remains historically negative. I could spend an hour listing all of the measures I watch to confirm this, but people are still despondent. I feel like there are very, very few bulls right now, and that's comforting since I am one of them!

As you know from my emails, it's rare when I don't have a strong opinion about short-term market direction. This is one of those times. I remain extremely positive on stocks looking out more than a month, but the next few weeks, I can certainly argue both sides. Hopefully, the market tips its hand this week.

About the only real concern I have now is the lack of volume on up days. This can go on for some time, but in the end, it will doom any rally unless that pattern changes. Similar behavior was seen during the August to October rally. Once the market finally gets going, I do expect to see volume expand significantly, confirming a major low is in place.

On the very positive front, I am encouraged by the action in the semis, homebuilders, transports and consumer discretionary sectors. They look like they want to take over leadership so the next sharp decline will be key for them to outperform. While materials, energy and metals are also leading now, they cannot continue to lead in a healthy bull run.

Finally, please feel free to contact me directly by hitting reply to this email with any questions or comments about your portfolio, strategy or the market. As always, I do my very best to remain unbiased.

If you are working with an advisor, he or she should be in contact with you via phone or email during these turbulent times. If you are handling your own money, feel free to use me as a sounding board and it can get lonely when we see extreme moves become the norm.

Heritage Capital In The Media

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**We had a nice mention over the weekend in the New Haven Register.**

Sunday, February 24, 2008

The see-sawing likely will continue next week, when investors will be eyeing the Producer Price Index, said Chris Getman, president of Soundview Capital Management Corp. in New Haven. The PPI reading, slated to be released during the coming week, often has a significant ripple effect on Wall Street, he said.

"The two key indicators that most impact the market are the unemployment numbers and the Producer Price Index," he said.

The PPI measures the changes over time in selling prices charged by domestic producers of goods and services.

Unlike the Consumer Price Index that measures prices that consumers pay, the Producer Price Index measures prices from the producer's perspective.

Producers' selling prices may differ from the prices consumers pay because of sales and excise taxes and distribution costs.

The Producers Price Index, like the Consumer Price Index, is a gauge of inflation, Getman said, so Wall Street will be watching it closely. Consumer sentiment reports are also due next week.

But investors should resist the urge to shift their investments from the stock market, even amid uncertainty, Getman said.

"If you believe in the long term that the U.S. economy is solid and we are still the strongest economy in the world, then you want to be invested in it," he said. "If you're in it, stay in it for the long haul."

Schatz agreed, and said investors should see the current market conditions as a sign to buy shares, not sell them.

"We're going to have a couple more bouts of weakness in the next few months," Schatz said, but he believes the country will avoid a recession and markets will rebound later this year.

"When there's fear, put money back in the market," he said. "It's a buying opportunity, not a selling opportunity."The Associated Press contributed to this story. Cara Baruzzi can be reached at [cbaruzzi@nhregister.com](mailto:cbaruzzi@nhregister.com) or 789-5748.

## Refer a Friend

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

To Your Financial Success,



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