

Heritage Capital, LLC

News Release

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For Immediate Release

Beware Hidden Crisis Lurking

Warns Heritage Capital's Paul Schatz

WOODBIDGE, CT – May 20, 2010 – Concerned that commercial loan defaults will be the next cause of a stock market decline? Not to worry, says investment strategist Paul Schatz, president of Heritage Capital in Woodbridge, CT. “The market has already discounted much of the commercial real estate problems. What investors need to worry about are issues yet to be featured in the news.”

“It’s typically not known dangers that cause market declines. It’s the surprise, the problem no one anticipated,” explains Schatz. In the interest of airing those problems now and giving the market a chance to discount them, Schatz offers his view of threats that could rattle financial markets.

The municipal crisis:

“States and municipalities have been plugging budget holes with stimulus dollars or by shifting funds, both of which are limited resources with end dates,” said Schatz. States such as California, Oregon, New Jersey, Arizona and Nevada are running deficits of 20 to 40% and headed to a cataclysmic crash. Orange County’s bankruptcy in December of 2004 will be just an appetizer of what could be coming down the road, he predicts.

The tax crisis:

The U.S. will see one of the biggest tax increases in history next year with the roll back of the Bush tax cuts and increased taxes for health care reform in 2013. Historically, higher taxes hinder private sector expansion, which is essential to end the recession and have sustainable, real growth. “We are repeating exactly the same mistakes FDR made in 1937. And we know how that ended,” he said.

The global financial crisis:

Japan, the second largest economy in the world, is in its 21st year of secular bear market and deflation with no end in sight. “This has the potential to far exceed the 2007-2009 financial crisis. By 2020, it will not be able to survive on this path with an aging population, zero population growth and closed borders,” explained Schatz.

“Then we have the partially known and discounted problem of PIIGs of the European markets –

Portugal, Italy, Ireland, Greece and Spain – deep in debt, with collapsing tax revenue and little chance economic growth can bail them out. The bills are due and austerity measures are highly deflationary for a very long time.” Schatz added that, so far, the markets have not favorably viewed the IMF and ECB bailout.

“The good news about these problems is that the more they are recognized, dissected and analyzed, the less likely they are to be the cause of the next bear market. Given time, financial markets digest bad news relatively well. It’s the surprises that worry me,” said Schatz.

Schatz offers investors the following advice for dealing with market surprises...have a plan to sell. “You don’t want to be the last one standing when the music ends and no chair to sit down. If you preserve your capital, there will always be another chance to make money. But the more you lose, the harder it becomes to recover.”

Schatz recommends that investors understand and use stop losses/limits, both hard and soft, options and other instruments that do not decline when the stock market does to limit losses if the market turns down. Stop losses set an automatic sell price at which a position is to be liquidated. Options are the right to buy or sell its stock, at a specified price, by a specific date. As the position increases in value, the stop loss or option needs to change as well to preserve gains. “If you don’t understand how to use stop losses or options, take some time to learn or find an adviser who can help you. Investing can be a very risky business. You need to understand that risk and how to manage it because there will be surprises out there that we haven’t thought of yet,” said Schatz.

Heritage Capital follows an active investment approach in all of its models, shifting investment positions to take advantage of trends developing in the market, or to avoid periods of greater risk. Client accounts are typically allocated among the different strategies based on the individual’s risk profile.

Paul Schatz has been active in the financial markets for more than 21 years, including positions as chief investment officer for a regional advisory firm and equities trader with Shearson Lehman Brothers and Cowen & Company. Heritage Capital offices are located at 1 Bradley Road, Suite 202 in Woodbridge, CT.

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