

# Heritage Capital, LLC

## News Release

For Immediate Release

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## **Momentum Driven Markets Tend To End Ugly Cautions Paul Schatz of Heritage Capital**

WOODBIDGE, CT – July 14, 2007 – When it comes to explaining why the Dow industrials and S&P 500 recently notched their biggest point gains in more than three years, closing at new record highs as the Nasdaq made a new six-and-a-half-year high, there's only one answer - momentum, says investment strategist Paul Schatz, president of Heritage Capital in Woodbridge, CT. "This is a 100% momentum driven market. You can throw out technical, fundamental and quantitative analysis. They do not matter right now. Price is king," he explains.

"In a normal bull market environment, you see a more orderly progression with the market moving two steps up, one step back," he explained. "Momentum markets tend to snowball higher with short, steep downdrafts that are immediately bought, pushing prices higher without a let up. They are a great time to be invested, as long as you realize momentum driven markets never end well. You want to have your stops in position and be ready to sell when it eventually turns against you."

Thanks to the market's momentum to date, Schatz's firm reported exceptional returns in virtually all of its investment strategies for the second quarter. Heritage's Gold strategy led with a gain of 10.98% for the quarter net of fees, followed by Heritage's Short-term Nasdaq program with a 8.57% net gain. The firm's Sentiment strategy came in at 6.33%; followed by Diversified Growth at 6.31%, The Heritage Spectrum strategy returned 5.03% and Heritage Rydex Sectors gained 5.01%. "The Stable Income strategy was our only underperforming program with a net loss of -2.43% for the quarter," Schatz said.

Heritage Capital's equity investment strategies went 100% long in mid-March enabling client portfolios to enjoy the entire rally. They remain 100% long today.

"We expected the market to run to new highs in the second quarter and continue that run in the first half of the third quarter, but it now looks like our targets may be too conservative. We have yet to see the final highs from this rally. At this point, any and all pullbacks, are buying opportunities," he said.

In momentum markets, new highs bring more money into the market from the sidelines, pushing prices higher. According to Schatz, the current trend is very similar to the market's behavior in the summers of 1987, 1990 and 1998, when the market made significant peaks. The catch is that when the market reverses, it tends to reverse hard.

Although price patterns of stocks and currencies are eerily similar to 1987, "I don't think we are likely to see a 1987-style crash when newly appointed Greenspan made his first in a series of blunders by squeezing liquidity out of the market, but a significant decline is inevitable. You need to set your stops at

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levels that give the market enough room to move, but protect your principal and the bulk of your gains,” he advised.

Stops are trading orders to sell a position once it drops to or below a set price level. There can be no guarantee that the stop will be activated in time to prevent more significant losses than the investor might intend in a rapid decline, but overall it provides a level of protection for the portfolio.

The new factor in today’s market is foreign investment. Global liquidity is at historic highs and that has had an impact on domestic markets, says Schatz. “My perception is that the foreign players are less patient and less price sensitive. You see this in the tendency of U.S. market movement to coincide with foreign market closings. When trouble hits, it will be a global event. Until then, this will be a momentum market to tell the grandkids about.”

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.

*Heritage Capital LLC is a registered investment advisory firm that utilizes an active management approach in its investment strategies. Active management seeks to take advantage of market cycles to position portfolios in rising asset classes and avoid declining investment classes by following market trends. Schatz has been active in the financial markets for more than 18 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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**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.

**Please Note:** Past performance may not be indicative of future results. Therefore, no current or prospective client should assume that future performance will be profitable, equal the performance results reflected, or equal any corresponding historical benchmark index. The historical index performance results for all historical benchmark indices do not reflect the deduction of transaction and custodial charges, or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing indicated historical performance

results. The historical performance results for all indices are provided exclusively for comparison purposes only, so as to provide general comparative information to assist an individual client or prospective client in determining whether the performance of a Heritage program meets, or continues to meet, his/her investment objective(s). A corresponding description of each index is available from Heritage upon request. It **should not** be assumed that Heritage account holdings will correspond directly to any such comparative benchmark index. The Heritage performance results do not reflect the impact of taxes.

**For reasons including** variances in the investment management fee incurred, market fluctuation, the date on which a client engaged Heritage's investment management services, and any account contributions or withdrawals, the performance of a specific Heritage client's account may have varied substantially from the indicated portfolio performance results.

**In the event** that there has been a change in a client's investment objectives or financial situation, he/she/it is encouraged to advise Heritage immediately. Different types of investments and/or investment strategies involve varying levels of risk, and there can be no assurance that any specific investment or investment strategy (including the investments purchased and/or investment strategies devised or undertaken by Heritage) will be profitable.

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