

## **StraightTalk Supplement 8/1/08**

### **OIL**

Oil is no different than any another commodity in that it is bound by the laws of supply and demand. Make no mistake there are real reasons why the price of oil has risen but its seemingly endless acceleration has placed it in the “bubble” stage. As with all bubbles, however, we don’t know how long it will expand – just that it is overextended from a rational standpoint. As the world’s economies slow, as the trading market returns to a more normal practice – the price of oil will retreat.

### **INFLATION**

The policies of the Fed have created some pretty strong anchors to try and stimulate the economy while holding inflation in check. Unfortunately, with nearly all commodity prices accelerating (oil, steel, food etc.) it is a very real possibility that Bernanke and staff will have to alter their direction a bit. As such, in terms of fixed income investing, it is important to stay short term for the time being as we believe interest rates will rise moderately.

### **HOUSING**

There are still a lot of houses for sale and as we progress through the current cycle of job restructuring (manufacturing to service), it will be awhile before we work through the current inventory. On the upside, the US now and forever will be a global marketplace that attracts new buyers from all over the world. This will definitely take a bit of time and the real estate market will return. It is our thought, however, that the greatest near term gains will be in the more preferable climate locations.

### **FINANCIALS**

It is ugly and there is still one more troubling issue to unwind for the financial firms – credit card debt. The question is, however, will the strong survive? Yes, and we believe that there is great value in these firms for many reasons. We have recently added a financial sector to our portfolios and expect that it will be a sound holding for the future.

### **GM**

This is a bit regional in scope and it is not meant to be used as a recommendation. Typically any stock under \$10 per share has a very high probability of bankruptcy or at the very least being a poor holding in a portfolio. Understanding that GM has entered the world of very high risk investing, I believe they will right the ship and emerge as a very strong global presence.

Having said that a few weeks ago I advised there are several stages that a company has to go through and GM has done what they have needed to do: eliminate the dividend, reduce jobs, and drastically reduce overall spending. We now need to sit back and watch to see if this is enough. Unfortunately they had to go down the road of reducing benefits (active and retirees’) but again necessary to the health of the shareholders and current employees. It certainly was a very tough decision, and highly controversial, but from a corporate health perspective – essential.

### **ANNUITIES AS AN ALL ENCOMPASSING INVESTMENT FOR SAFETY AND GROWTH**

I will be as brief as I can on this topic. There are too many investors out there who are being sold annuities as a guaranteed investment that has the ability to participate in market gains. While they do have these qualities – in milder forms than what is usually promised – when matched against a well-diversified investment portfolio, they dramatically under perform over time.

As noted, they do have a high degree of security and for a portion of your assets, can certainly be inserted as part of an investment portfolio; they are not an end all, however.

Unfortunately, we have seen new clients come in with nearly all or a great portion of their retirement assets in these longer term, higher cost programs. Please take the time to consult us before making any decisions on these products.