

Where to now St. Peter?

In thinking about writing this version of StraightTalk I kept remembering part of the song by Elton John that just seems apropos.

...I understand I'm on the road -where all that was is gone -
So where to now St. Peter - Show me which road I'm on...

There is no doubt that the majority of all investors feel we're facing a huge financial battle. Historically, getting to this point has always had distinct stages, rationalization for declining markets, justification for policies of relief, pontification on the future (positive and negative), and finally capitulation of the masses. Guess which stage we are in now.

The two questions I get asked the most are how long is this going to go on and when will the bad times end? The truth is I don't know nor does anybody else. We can certainly make educated guesses based on the incredible amount of macroeconomic data available to us but they are just that; educated guesses.

Shouldn't we get out and wait for the storm to be over?

I was going to base this segment by an oft used credited quote by Warren Buffett – “The only thing Americans won't buy on sale is stock,” but it seemed like another unnecessary display of rhetoric. Unfortunately, it's a true statement and one born out of very legitimate reasons: fear, lack of appropriate advice and lack of capital. It is lack of capital that I'd like to briefly address.

Many investors are “all in” - meaning that their investments are already wrapped up in retirement plans, individual investment accounts, or real estate. We all understand the current condition of real estate and there is absolutely nothing we can do – especially here in Michigan. But we can do something about the market investments.

For the last several StraightTalks I have been stressing the critical importance of maintaining a prudent investment process. The most important variable in determining the asset allocation (stocks vs. fixed income) is time. How much time before the portfolio is to be used? If that is pegged correctly then there should be no major moves in the allocation until something changes for the investor (such as a risk tolerance change).

Tell me which road I'm on – please.

Markets cycle, they have since the beginning, but what I see for the market longer term is outstanding. The globalization of the US' corporations, the emergence of lower cost energy, the production efficiencies through technology, the cleansing of the financial industry, the increase in consumer savings rates, the strengthening of the dollar etc. will have major impacts on the market. As such, we are in the process of reallocating our portfolios to take advantage of over sold situations in different sectors: value (dividend paying companies), financial, technology, and small cap international. As is our way, the only way to above average long term performance is to be proactive.

First Half 2008 Category US Market Performance

Large Cap
- 11.74%
Mid Cap
- 7.55%
Small Cap
- 9.79%

First Half 2008 Index Performance

S&P 500
-11.91%
-
DJ Industrials
-13.38%
Lehman US
Bond
1.13%
MSCI EAFE
-10.96%

These stats – provided by Morningstar - are a sample of the benchmarks by which investors should gauge the relative performance of their money managers.