

Investment SIG
Thursday,
September 8, 2011



Agenda



- Welcome to Visitors
- Timely Topics
- Some Recent Security Recommendations from Analysts
- Current Month Special Topics
- Investment Learning Opportunities
- Open Discussions
- Inputs from Attendees on future topic

Welcome visitors



- Thanks to our visitors for joining us tonight
- You're invited to join the 1960 PC Users Group and attend any or all of our six Special Interest Groups(SIGs)
- The annual dues for a couple to attend any of our meetings and events is \$40 per year
- Please check our web site www.1960pcug.org for more details and copies of our prior presentations
- We have membership applications available tonight

Timely Topics

The Volatile August



☞ The Volatile Opening of August 2011:

☞ The series of Market Panics and recoveries

- August 2 Tues—DJIA down 266 (-2.19%) after the debt agreement reached
- August 4 Thurs—DJIA down 513 (-4.31%) “US economy weak”
- August 8 Monday—DJIA down 635 (-5.54%) Downgrade
- August 9 Tues—DJIA up 430 (+3.97%) US economy not so weak
- August 10 Wed—DJIA down 519 (-4.62%) Europe Debt
- August 11 Thurs—DJIA up 432 (+3.9%) focus on new US data

A record setting stretch of 4 days with 400 + points swings in DJIA



Timely Topics

The Volatile August



- ❧ What was going on?
- ❧ Some Facts from Bank of America
 - ❧ Fund Flows: Institutions were buying (Universities, Pensions,)
 - ❧ Private Retail was buying
 - ❧ Hedge Funds were selling and trading
 - ❧ July 29th Was the opt out date for hedgefunds
 - ❧ August was generally bad for hedgefunds
 - ❧ Paulson's Advantage Plus down 39% YTD mid August

Timely Topics

The Volatile August



❧ What was going on?

❧ Some Facts

❧ Trading volumes on some days was at an all time high, driven by computerized “flash trading”

❧ One NY based Hedge fund made \$200Million in flash trades in first 2 weeks of August (an exception to the general performance of the hedgefunds)

❧ The typical retail investors only own about 25% of the market. “Smart Money” owns 75%

❧ If there was panic selling, who did it?

Timely Topics

The Volatile August



☞ My Speculation:

1. Apparently Hedge funds needed to make some large cash outs. Why?

☞ I think that the large investors were spooked by:

☞ The Washington gridlock

☞ The hype from the Euro zone about the peripheral defaults concerns and the political uncertainty by the major Euro countries about how to deal with it. Also there is a disconnect in the Euro financial and political systems that will take years to solve

☞ A few negative sentiments indicators

Timely Topics

The Volatile August



My Speculation:

2. The cash out then triggered the technical trading programs that initiate transactions with out human intervention.

Once a rapid change in prices occurs, the computerized programs escalate the effect.

3. There was also a “flash trading” effect of some traders exploiting the volatility to make huge short sales lasting only a few minutes before buying them back

Timely Topics

Current Market Indicators



❧ The Bad:

❧ Sentiment Indicators

- ❧ Consumer Confidence dropped

- ❧ ISM – Manufacturing Index (Mostly Philadelphia Feds)

- ❧ The sentiments are opinions and in many cases have been contrarian indicators:

- ❧ The ISM Manufacturing was at a recession low in March of 2009, just before the market and the economy strongly rebounded

- ❧ The markets have averaged a 17% increase in the year following the lows of the ISM

Timely Topics

Current Market Indicators



Market Indicators (Bad):

Numerical Measurements

Be careful of the headlines – The details may have an entirely different message:

“ZERO JOBS ADDED IN AUGUST” VS. EXPECTED 68,000

Private jobs – net added:	17,000	
But it includes Verizon Strikers:	45,000	
sub total:		62,000
Also includes seasonal reduction	35,000	
Sub total:		97,000
Reduction of Government jobs	- 17,000	
Sub total:		80,000

Note: a reduction of government jobs is a very positive change in my humble opinion

Timely Topics

Current Market Indicators



☞ Market Indicators:

☞ The Good:

☞ Numerical Measurements

☞ Overall bank lending expanded 6.9% in the last two months—first time it has expanded since 2009.

☞ July Retail was up

☞ Manufacturing output was up

☞ Rail car loadings were about flat to positive

☞ Oil / gas prices have dropped, normally a stimulator
and the Libyan uncertainty is receding

Timely Topics

Current Market Indicators



Other Good indicators for the market:

- Auto sales have been up
- Private payrolls have expanded since mid year
- Durable goods orders in July up 4%, double the estimate
- ISM-service Index was up instead of down as predicted

Summary:

1. There is a softness in the economy as rate of expansion appears to be slowing not only in the US, but in some foreign markets.
2. Trends are not made by a one month tick up or down.
3. Recall that last summer was also soft.
4. The market is nervous and over reacted

Some Recent Security Recommendations from Analysts



❧ Elliot Gue, Personal Finance Newsletter

❧ Market Observation:

❧ Corporate financial health and credit markets remain robust in contrast to 2008.

❧ The economy is still expanding, although slowly

❧ Buy on the dip

❧ There is a 30% chance of going into a recession in 6 months

❧ Recent Recommendations:

❧ Bonds: Buy GNMA's--Vanguard (VFIX) Fidelity(FGMNX)

❧ Equity: Buy Tiffany &Co (NYSE –TIF) under \$75 (today:71)

Some Recent Security Recommendations from Analysts



☞ John Dessauer – Hot Line

☞ Market Observation:

☞ It ain't great, but it ain't 2008

☞ Economy will have slow growth

☞ Business has proven it can grow sales / profit in a slow growth economy

☞ Stocks are the best choice for investments now

☞ Recent Recommendations:

☞ Cardinal Health (NYSE:CAH) Now at \$42, good trend

☞ Vanguard High Yield Fund (VWEHX) Now at \$5.60, 7.09% Yield

Some Recent Security Recommendations from Analysts



- ❧ Carla Pasternak – High Yield Investor / Dividend Opportunities
- ❧ Market Observation: Doesn't provide an analysis
- ❧ Recent Recommendations:
 - ❧ Annaly Preferred 7.875% Series A (NYSE: **NLY-PA**)
(The safest 7% yield in America today)
 - ❧ Pacholder High Yield Fund (AMEX:**PHF**) 10.2% Yield
 - ❧ SeaSpan 9.5% Series C Cumulative Redeemable Preferred Shares (NYSE: **SSW-PC**), \$ 26.15

Some Recent Security Recommendations from Analysts



- ❧ Dividend Detective
- ❧ Market Observation:
 - ❧ Can't predict what will happen next
- ❧ Recent Recommendations:
 - ❧ Ally Financial 8.50% Series A (ALLY-B) Preferred paying 10.3% with 21% potential for appreciation. Not investment quality-for speculators only

Some Recent Security Recommendations from Analysts



✧ Richard Band

✧ Market Observation:

- ✧ The economic cycle is maturing, greater challenges in 2012
- ✧ Fed has lit a fire under high yields: Utilities, MLPs, high yield bonds
- ✧ Defensive stocks are trending up

✧ Recent Recommendations:

- ✧ BP plc (NYSE: BP) 4.6% yield, spill risk \$ is known and reserved, 6X PE vs Exxon's 8X and Chevron's 7X
- ✧ Vanguard Intermediate Term Investment Grade(see above)
- ✧ Weitz Short-Intermediate Term Income Fund (WEFIX)
2.4% yield, up to \$12.50

Some Recent Security Recommendations from Analysts



❧ Bank Of America / Merrill Lynch

❧ Market Observation:

❧ Slower GDP, but continued EPS growth 7%

❧ 40% chance of a recession

❧ Fed will implement Operation Twist – buy long term
from maturing short term securities

❧ Recent Recommendations on Next Page

Some Recent Security Recommendations from Analysts



- ❧ **Bank Of America / Merrill Lynch**
- ❧ **Current Most Attractive Buy List constituents**
- ❧ **Consumer Discretionary:** DIS, & WEN
- ❧ **Consumer Staples:** MO & WMT
- ❧ **Energy:** APC, CVX & OXY
- ❧ **Financials:** AXP & KIM
- ❧ **Health Care:** AET, AGN, & LLY
- ❧ **Industrials:** BA
- ❧ **Information Technology:** ADP, DELL, IBM & JBL
- ❧ **Materials:** EMN & GG
- ❧ **Telecommunication Services:** VZ
- ❧ **Utilities:** AEE:

Current Month special
Topics



∞ Forecasts—What to watch for in your evaluation
of them

Current Month Special Topic Forecasting



- ❧ Forecasts—Everyone would like to know what's going to happen in the future, but what is the source of their data?
- ❧ Use historical records of macroeconomic data to build a model
- ❧ Adjustments for irrelevant and obsolete data, for changing financial rules/environment, and extreme events
- ❧ Calculations of discounted cash flow
- ❧ Comparisons of subject's risk vs. treasuries
- ❧ Emphasis on current data vs. older data
- ❧ Application of anecdotal and subjective personal experiences of the forecaster

Current Month Special Topic Forecasting



- ❧ Pure Technical analysts (or chartists) make forecasts based on a graphical representation of what a security's price or the market has recently done and is currently doing.
- ❧ They contend that there is no point in studying fundamental's, the pattern of the chart predicts what is going to happen.
- ❧ But there are various interpretations of whether a chart's plot fits a prescribed pattern. Some past dire predictions of the VWAP Cross have not materialized.
- ❧ Unfortunately, some of the Chartists forecasting techniques are built into computer models and become self fulfilling.

Current Month Special Topic Forecasting



- ❧ How much can we depend on the forecasts?
- ❧ Experts analyzing the same complex data can arrive at drastically different conclusions
- ❧ Because an expert is right today, doesn't guarantee they'll be right in the future:
 - ❖ Elaine Gararelli predicted the October 1987 crash but has had no major visions since
 - ❖ Meredith Whitney and Nouriel Roubini predicted the 2008 melt down, but their continued doom & gloom forecasts have so far not come to pass
 - ❖ Many analysts will go along with the crowd to reduce the perception of error if they are wrong—"no one foresaw it"

Current Month Special Topic Forecasting



- ❧ Is there any way to check the accuracy of the various forecasters?
- ❧ Yes:
 - ❧ The Hulbert Financial Digest (\$50 fee) shows most newsletter analyst's results often since their inception and ranks them for objective and risk adjusted results
 - ❧ The Philadelphia Fed website's "forecast error statistics" page shows the accuracy of past predictions

Current Month Special Topic Forecasting



- ❧ What's the best way to use the forecasts?
- ❧ It is suggested that you have the major portion of your assets in a diversified portfolio that has some non-correlated securities. Then when the market makes a major move, the affect on your portfolio will be dampened, both in good times and bad.
- ❧ If you feel that an analyst's forecast is correct, then have a small portion of your portfolio set aside for speculation and to take advantage of his recommendations.

Investment Learning Opportunities



- ☞ **September 12th, Monday- Woodlands Investment Group (TWIG) meeting- Montgomery County Library at 2101 Lake Robbins Drive.**
Topic: Members sharing specific security recommendations and exchange market information -- 10 am to noon.

- ☞ **September 19th , Monday- The Woodlands Economic Forum (TWEF)-meeting- Montgomery County Library at 2101 Lake Robbins Drive.**
Topic: John Bott, Bond Expert and Fund Operator will join the group to discuss FHFA Bank Lawsuit, future treasury yields, -- 10am to noon

- ☞ **September 22nd, Thursday – Fidelity Seminars at the Woodlands Fidelity office at 1701 Lake Robbins Drive:**
Topics: Trading strategies for managing risk- -- 10 am
International Trading at Fidelity – 1:00 pm

Investment Learning Opportunities



- ☞ **September 26th, Monday- Woodlands Investment Group (TWIG) meeting- Montgomery County Library at 2101 Lake Robbins Drive.
Topic: Members sharing specific security recommendations and exchange market information -- 10 am to noon.**
- ☞ **October 3rd , Monday- The Woodlands Economic Forum (TWEF)- meeting- Montgomery County Library at 2101 Lake Robbins Drive.
Topic: TBA--10am to noon**
- ☞ **October 5th, Wednesday– Fidelity Seminars at the Woodlands Fidelity office at 1701 Lake Robbins Drive:
Topic:Top things to do on Fidelity.com (Intermediate level)--11 am**

Open Discussions



☞ Upcoming Key events:

☞ Fed Meeting on 21/22

☞ US budget for 2012 to be debated in October

☞ What is the expected affect of the above on the markets?

Inputs from attendees on Future topics



☞ Candidate subjects:

- ☞ American Association of Individual Investors' Concept of "The Other Stock Market"
 - ☞ My investment approach using funds instead of stocks
 - ☞ Technical Analysis as a guide to investing
 - ☞ Various Sector Investments
 - ☞ How to find and evaluate investment candidates
 - ☞ Options Trading (Guest Speaker?)
 - ☞ Additional On-line sources of investment information
 - ☞ Others? I welcome additional suggestions
 - ☞ (Not in any order or priority listing)
- ☞ Also it particularly enhances the attractiveness of the meetings when we find some guest speakers on special topics. If you know a candidate, please let me know

Oliver Juergens
Market theory



☞ ..\\August Hyperlinks\\Welcome - Independent Investment Ideas - Pearlfisher Investments.htm

That's All for Tonight
