Investment Forum Program for Wednesday, July 2 at 10:00

Perspective: The current market marks the third time investors have suffered significant losses within the span of the past decade; the two previous occasions being the collapse of the tech/telecom boom and the aftermath of 9/11. So, what have we learned about individual investments, about markets and, perhaps most importantly, about ourselves as investors? (See Lessons Learned below. Please come prepared to contribute to this topic.)

Stock Talk: At the risk of being repetitive, last week the forum discussed oil mainly from the perspective of the commodity market. However, there is a wealth of information being published on oil stocks, much of it contradictory. Exxon Mobil (XOM) is the most commonly mentioned stock. Exxon bulls are fond of reciting that the stock has outperformed the S&P 500 for the past 19 consecutive years. Continuing on the subject of individual stocks, a few telecom stocks have recently begun to attract favorable attention; specifically AT&T (T) and CenturyTel (CTL). *Morningstar.com* opines that, following the recent price decline in shares of PepsiCo (PEP), the stock now trades at a sufficient discount to their estimate of fair value to rate a 5-Star Buy rating. Teleflex (TFX) is restructuring itself out of cyclical industrial operations into becoming a more stable medical devices manufacturer. Finally, Weyerhaeuser (WY) is a very out-of-favor cyclical that is asset rich and selling well below its net asset value.

Closed-End Funds: The July issue of *Kiplinger's* magazine carries an article entitled "Great Stock Funds on Sale." Three of the funds described may be of potential interest to forum members. They are General American Investors (GAM) (www.generalamericaninvestors.com), Central Securities (CET) (www.centralsecurities.com), and Royce Focus Trust (FUND) (www.roycefunds.com). Each has a history of producing double-digit returns for investors over periods spanning decades. The article can be read in its entirety either at www.kiplinger.com under "Magazine Center" or on the forum website at www.olligmu.org/~finforum/. Data on the funds can also be found at www.etfconnect.com.

Lessons Learned

- Conventional sources of information available to individual investors (brokers, newsletters, media, proprietary research houses) are seldom timely when it comes to foreseeing downturns. This goes back at least as far as the bear market of the 1970s. By the time that prominent sources issue sell recommendations, it is often too late to preserve capital.

- There are seldom occasions when multiple potential threats to financial markets are not widely recognized. The problem is knowing which threat will actually materialize and when.
- Buy-and-hold works best as a strategy if investors are able to select stocks worth holding for the long term. In actuality, relatively few stocks make profitable long-term holds. And, even many such stocks can experience long periods of underperformance which test investor patience and cause soul searching. Typically, individual investors hold relatively small portfolios that can be significantly affected by losses in just a few stocks.
- High valuations are dangerous if fundamentals weaken (as they do with some regularity), but low valuations are not necessarily protective. The bear market of the 1970s and that of the early 2000s were preceded by periods of historically high valuations which were clear warning signs of risk. However, the current downturn was not preceded by high valuations.
- Sector selection is very important and very difficult. By way of example, as was mentioned at last week's forum, most professionals in the energy sector have been taken by surprise with the recent sharp rise in oil prices and few bond professionals foresaw the outstanding performance of the Treasury market over the past year.
- In today's age of media saturation, there is such a cacophony of voices that, after the fact, someone can always come forth proclaiming to have correctly foreseen a major event. However, such individuals are seldom able to repeat their prescience in advance of the next major turning point. The investment landscape is littered with once-famous investment gurus.
- The rear view mirror is a poor guide to the future. Yet past performance provides the best data base available on investment performance and often is the only quantitative basis for making investment selections.
- Sometimes even the best and the brightest professionals have trouble getting it right. Witness untimely equity investments in financial services companies earlier this year by mutual funds, sophisticated private investors and well staffed foreign sovereignty funds.