

Investment Forum Program for Wednesday, November 19 at 10:00

Future Meeting Schedule

The forum will meet on **December 3, 10 and 17. All meetings are at 10:00.**

A Perfect Storm: During the 2000-2003 bear market, hedge funds as a group posted positive returns each year. In 2000, Yale endowment investment manager David Swenson wrote a book entitled *Pioneering Portfolio Management*. Swenson said his success involved surrendering the liquidity of ordinary stocks and bonds for commodities, real estate, private equity and hedge funds. The disastrous 2000-2003 bear market prompted money managers to seek such alternative investments for performance. Like lemmings, pension funds and other institutional investors followed Swenson's lead. By the end of 2007, there were more than 7,000 hedge funds managing nearly \$2 trillion. But, Swenson's performance was not easily replicated. Many have tried, but few have succeeded. Alan Greenspan added fuel to the fire with his endorsement of unregulated hedge funds. But, there is no asset class that too much money can't spoil. The process reached a climax this fall with numerous highly leveraged hedge funds being forced into simultaneous liquidation. Hedge funds are not the only cause of the current bloodbath across asset classes and across the globe, but they are widely believed to be a major contributor.

Strategies: What's gone so badly wrong with value funds? Didn't value stocks shelter investors from the worst of the last bear market? For one thing, the long run of success for value investing has caused investors to become complacent and forget a fundamental tenet of that style of investing; it requires buying stocks that others do not want. But, sometimes the market valuation discounts on such stocks are deserved or even understated. Not all cheap stocks are bargains.

Of Note: Both over the past decade and year to date, the Vanguard Total Bond Market Index Fund (VBMFX) has significantly outperformed the Vanguard Total Stock Market Index Fund (VTSMX).

Member Contributions: Two members have recently attended formal investor information programs. Debriefings will be provided.

On the Website: New articles which may be of interest to retired investors are posted regularly at www.olligmu.org/~finforum/.