Investment Forum Program for Wednesday, April 28 at 11:45

Follow-Up: On April 22, *Forbes.com* posted an article entitled “How To Take Profits When Selling Stocks.” It offered some simple advice that individual investors can follow which takes emotion out of sell decisions—but requires vigilance and discipline. Last week, several good questions were raised by members that did not receive proper responses: (1) Has the overall stock market reached a level where it is essentially fully valued? (2) If the forum can readily identify stocks that appear to be fully valued, why are the same stocks likely to be listed in the portfolios of numerous managed mutual funds? The answer to the first question is that, with due diligence, high-quality stocks with promising prospects selling for moderate valuations can still be found, but by some measures the broad market does appear fully valued. One answer to the second question is that mutual fund investors can learn a great deal about how individual mutual funds are managed by reading *Morningstar* reports. Finally, on a separate matter, the term “PEG ratio” was introduced into last week’s discussion with little explanation. The PEG ratio is a parameter for helping to judge the valuation level of individual stocks. For a better explanation than was given at the forum last week, please Google “PEG ratio” for further insight. It provides a useful bit of knowledge for individual investors.

Sectors: Morgan Stanley is very bullish on Big Oil. On April 8, it published a research report entitled “Oil & Gas: Big Oil Ready to Bounce.” On April 19, it published another report entitled “Global Equity Strategy: Buy Energy, Sell Materials.” Morgan Stanley favors foreign integrated oil companies, most prominently Total (TOT) the world’s fifth largest oil company, which pays a generous 6% dividend. *Morningstar, Standard & Poor’s* and *The Motley Fool*, each favor ExxonMobil (XOM) which has sat out the past year’s bull market. Beyond these two, oil stocks with singe-digit P/Es are not difficult to find. Meanwhile DOD frets about a global oil shortage within the next few years and millions of Chinese become car owners. Separately, the health care sector offers both attractive valuations and unknowable risks, as Baxter International (BAX) demonstrated last week.

Mutual Funds: Managed or exchange-traded? Vanguard now offers several funds in both forms, notably the Dividend Growth Fund (VDIGX), the Dividend Appreciation ETF (VIG), the Health Care Fund (VGHCX), and the Health Care ETF (VHT). So far, the passive ETFs are producing returns nearly identical to those of the managed funds. By way of contrast, over in the bond sector *Morningstar* argues that now is the time to be invested in managed bond funds rather than index funds.

Preferred Stocks: Once upon a time, preferred stocks were dismissed as having the worst characteristics of both stocks and bonds. Then, the financial crisis created conditions where carefully selected preferreds became highly profitable. Is their newfound favor lasting or will it diminish if interest rates begin to rise?