

Investment Forum Program for Wednesday, May 26 at 10:00

Meeting Schedule

During the interim until the Summer Program begins on June 14, the Investment Forum will meet on May 26 and June 2 at 10:00.

Perspective: Mark Hulbert, in a regular *MarketWatch.com* column on May 12, writes “Though 10% drops like that of May 6 are rare, their average frequency over long periods of time is quite predictable.” Academic research has shown that both U.S. and foreign stock markets have experienced such big drops, on average, about every six years over the past 80 years. There is little that government regulators can do to prevent these events. Markets are dominated by large investors. When they decide in unison to get out of stocks, markets will plunge. Individual investors are best served by recognizing that big price drops are unavoidable and thus design their financial strategies to cope with them.

Strategies: Also on May 12, *Morningstar.com* featured an article entitled “Stop-Loss Orders: A False Sense of Security.” The article states “One type of trade that we vehemently avoid more than any other is known as a ‘stop-loss’ order. “ The article goes on to opine “If you have such little confidence in your investment, you probably should not own it, in the first place.” This advice comes a little late for those who were whipsawed by stop-loss orders during the “flash crash” on May 6.

Investment Fundamentals: Comments on current trends in inflation, commodity prices, and interest rates.

Guru Watch: Steve Leuthold uses a proprietary econometric model that tracks about 200 indicators on a weekly basis. He remains resolutely bullish on the basis of his methodology, although some of his recent timing seems a bit early. Warren Buffett also remains bullish (his timing can be off the mark on occasion, too), but he supposedly places a great deal of emphasis on a single metric; the ability of a company to grow its book value per share. Finally, Jeremy Grantham has developed a sterling record for presciently forecasting the market over periods of up to a decade. Currently, he is long-term bearish on both stocks and bonds with one notable exception, mega-cap multi-national blue chips. He focuses great emphasis on return-on-equity (Buffett also shares this perspective). This metric guides stock selection for the Jensen Fund (JENSX), which can serve as a proxy for following Grantham’s vision.

Conventional Wisdom: Conventional wisdom informs us that U.S. multi-national corporations are well positioned to benefit from strong growth in developing nations. But, economic nationalism is a growing threat to such a strategy. This is a potential headwind that U.S. corporations will face in these markets in the years ahead. The topic is discussed in the weekend edition of *The Wall Street Journal*.