

Investment Forum Program for Wednesday, September 8 at 10:00

Future Meeting Schedule

The Forum will continue to meet at 10:00 until the Fall Program begins on September 20.

Perspectives: Writing in the *Financial Times* on September 1, Bill Miller of Legg Mason argues that “U.S. large-cap stocks are the bargains of a lifetime. The last time they were this cheap relative to bonds was 1951.” On August 31, *BusinessWeek* columnist Chris Farrell took an opposite viewpoint. Namely, the pricing relationship between stocks and bonds has been an “aberration” driven by the demographics of the Baby-Boomer generation since 1959 and is now being restored to historic norms. Farrell reminds his readers that, historically, stocks have offered dividend yields greater than bonds. After a decade of poor stock performance, investors will have to receive higher dividend yields to entice them back. Farrell sees little upside potential in either stocks or bonds.

Currencies: If gold is actually a de facto currency that fluctuates inversely against the dollar, then gold investors may wish to gain an understanding of currency markets. The Bank for International Settlements takes a survey of currency trading every three years and has just released a new report. Currency trading is huge and growing rapidly. Very high leverage (50-to-1) is allowed by the Commodity Futures Trading Commission and much computer trading using algorithms (which hasn't worked very well for stocks) is conducted. However, none of this has discouraged individual investors from plunging in via exchange-traded funds. Caveat emptor.

Bonds: It is possible that the most attractive area of the bond market is tax-exempt municipals. The supply is shrinking and individual income tax rates are likely to rise.

Health Care: On September 1, *TheStreet.com* posted an article entitled “5 Health Care Funds for a Healthy Portfolio.” They included the Vanguard Health Care Fund (VGHGX), the T. Rowe Price Health Sciences Fund (PRHSX), Fidelity Select Medical Equipment & System Fund (FSMEX), Fidelity Select Pharmaceuticals Fund (FPHAX), and the Schwab Health Care Fund (SWHFX). On September 2, *Barrons.com* posted an article entitled “2 Health-Care Stocks in the Age of Reform.” The stocks discussed were UnitedHealth Group (UNH) and WellPoint (WLP). The thesis of both articles is that, despite valid concerns, selected health care stocks are fundamentally healthy, less volatile than the broad market, and under-appreciated. Both articles are posted on the forum website at www.olligmu.org/~finforum/.

Guru Watch: There was a time when Bill Miller of the Legg Mason Value Trust could do no wrong; then that crown passed to Ken Heebner of the CGM Focus Fund. Both managers proved to be mortal, but the crown now rests with Bruce Berkowitz, manager of the Fairholme Fund (FAIRX).