

Investment Forum Program for Wednesday, October 13 at 11:45

Flash Crash: Although the total picture of what transpired in connection with the May 6 “flash crash” may never be resolved, evidence points a single large trade of futures contracts on the S&P 500 Index made by a small money management firm in Kansas City as the catalyst for what set events in motion. What may be of greater interest is what is happening with a class of “go-anywhere” mutual funds that function much like hedge funds and with hedge funds themselves, both of which are marketed to individual investors.

Stock Picking: Meredith Whitney is not a household name, but she is the bank stock analyst who is credited with sounding the first alarm concerning the banking crisis in 2007. For several years, Wall Street hung on her every word. Last year, she founded her own firm. But, her performance to date as a stock picker is disappointing. She may yet go the way of others such as Elaine Garzarelli, Abby Joseph Cohen, and Mary Meeker who had their “15 minutes of fame.” Stock selection is a difficult pursuit in which to excel on a consistent basis over time.

Sectors: This may surprise many investors, but the utility sector has been the second-best performing sector in the S&P 500 Index and has outperformed the broad index over the past one, five and ten years. (And, this could have been achieved simply by buying the XLU Utilities Select SPDR exchange-traded fund and sleeping late on Wednesday mornings.) Utility stocks have now risen to the point where both *Morningstar* and *Dow Theory Forecasts* are urging caution regarding the sector.

Stock Talk: Johnson & Johnson (JNJ) and United Technologies (UTX)

COLAs: It is likely that Social Security beneficiaries will not receive a COLA for the second year in a row come 2011. The last 5.8% COLA in 2009 was a quirk of the inflation index resulting from high energy prices in the third quarter of 2008. Social Security and federal employee COLAs are linked to the Consumer Price Index for Urban Wage Earners and Clerical Workers. Inflation indexes are akin to stock indexes in that they are constructed arbitrarily. Some argue that the present index fails to accurately represent retiree living costs which include more health care than the population at large. But, constructing a new index would require congressional support and years of in-depth studies. It won't happen in our lifetimes.

