

Investment Forum Program for Wednesday, October 27 at 11:45

Perspective: Individual investors and pension fund managers now have something in common. The October 18th issue of *The Wall Street Journal* carried a front-page story entitled “Pension Funds Flee Stocks In Search of Less-Risky Bets.” The first sentence reads “After making the same kinds of investment blunders as many individuals, corporate pension funds now are seeking the same remedies: fleeing stocks for the perceived safety of bonds.” Meanwhile, the current issue of *Kiplinger’s Personal Finance* includes an article entitled “Snub Stocks At Your Peril.” The subtitle reads “Nervous investors are voting with their feet. We think you should sit tight.”

Sectors: It is often overlooked that the single most important decision an investor makes is selecting sectors rather than individual stocks. Sam Stovall, Chief Investment Strategist at *Standard & Poor’s*, devotes a lot of attention to sectors. The cover article on the October 20th issue of *The Outlook* features a discussion of sector selections by Stovall. He briefly describes two different methodologies that S&P uses to rank sectors. Both methodologies rank health care, energy and industrials high. Consumer discretionary, telecom services and utilities are at the bottom. Exchange-traded sector funds make it easy to practice this as an investment strategy. However, identifying winning and losing sectors in advance of price movements on a consistent basis is challenging, although Stovall freely shares his analyses through S&P.

Stock Talk: Microsoft (MSFT) and Intel (INTC) are cheap by traditional measures of stock valuation and they have captured the attention of value investors. But, their prospects in the rapidly developing world of cloud computing are cloudy.

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, federal employee and military pension 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.