

## **Investment Forum Program for Wednesday, January 26 at 11:45**

(Weather permitting. If Fairfax County Schools are closed, OLLI is closed. If Fairfax County Schools are two hours late, OLLI is on its normal schedule.)

### Welcome to New Members

New members are invited to visit the Forum website at [www.olligmu.org/~finforum/](http://www.olligmu.org/~finforum/). Also, members who wish to receive the weekly program via e-mail please contact Jim Miller at [jemiller49@comcast.net](mailto:jemiller49@comcast.net).

**Perspective:** On January 20 the *Financial Times* carried a front-page story under the headline “US retail investors return to equities on back of price rises.” The first sentence read “US retail investment in equities is rebounding as rising share prices lift sentiment.” But, columnist Jason Zweig writing in *The Wall Street Journal* on January 22 offered a different perspective. In a column entitled “Will Small Investors Ever Warm Up to Stocks Again?” he wrote, “But a closer look at the numbers shows that, instead of plunging back into stocks with both feet, the small investor appears to be dipping in only the first knuckle of one small toe.”

**Asset Allocation:** Last week a question was asked regarding why investors should consider bonds when, historically, stocks have significantly outperformed bonds (the past decade being a notable exception). It is a question to which there is no easy concise answer. One approach is to investigate the data base developed by Ibbotson Associates which publishes the performance of stocks, bonds and cash dating back to 1926. As of the end of 2008, using rolling 12-month average returns, stocks had returned 12.3% and bonds had returned 5.5%. But, a careful examination of the data reveals that maintaining an asset allocation that mixes stocks and bonds in various proportions reduces portfolio volatility at the expense of lower returns. However, this data base is historical and investors are advised to look toward future returns. Here the context shifts to the current outlook for bonds. The current issue of *Money* magazine features a cautionary article on bonds which is posted on the Forum website.

**Chasing Yield:** Low interest rates are forcing individual investors who traditionally bought insured certificates of deposit and U.S. Treasury securities to seek higher returns in unfamiliar investments. This has resulted in unusually large inflows into such investments as closed-end income funds and convertible securities funds. It has also led to the creation of questionable investments which columnist Jason Zweig of *The Wall Street Journal* has characterized as “manufacturing one cruddy new type of bond fund after another.” Zweig is referring to complex strategies which promise higher returns at “only” slightly higher risk. There have been some unsavory marketing practices and some unfortunate consequences for unwitting investors. When venturing into such territory, caveat emptor.