

INVESTMENT FORUM FOR AUGUST 24, 2011 AT 10:00 AM

Future Meeting Schedule

The Forum will meet Wednesdays until September 14 at 10:00 AM. The fall term will start September 21, back to the 11:45 AM time.

The Week that Was: Last Wednesday, we were starting to breathe a bit easier, that the volatility of the past few weeks had eased. Those hopes were dashed on Thursday and Friday, as the big movements in the markets returned, on news of global economic downturns (especially in Germany) and possible funding problems in European banks. Is another Lehman out there somewhere? And since there is no global banking overseer, we don't know! Plus the usual bad numbers in housing and employment numbers. And "double dip" is again on everybody's mind.

Bubbles: Remember the bond bubble we were talking about last fall? Since April, the 10 year T has fallen 1.4%, which means a 10 year T purchased in April has appreciated in value about 10%. And certainly gold at \$1,400 an ounce was a bubble. Time to reassess.

Muni crash: Remember Meredith Whitney's prediction of massive defaults in muni bonds? Time to reassess . . .

Mortgage REITs (MREITs): MREITs are REITs (funds that must pay out at least 90% of their net income) that invest in mortgages (usually Mortgage Backed Securities) instead of directly owning real estate assets. The bigger MREITs have the following yields:

NLY	14.50%
AGNC	19.70%
CIM	16.70%
HTS	13.90%
MFA	12.80%

These kinds of returns do not come without risk. (Duh . . .) And they are not buy and forget investments.

I will do a tutorial on MREITs. We will look under the hood, and separate the various risk pieces (leverage, duration mismatches, funding.) Changes in monetary policy can change the risk profile of these investments. Hopefully, the discussion will be useful to you, even if you would not touch an MREIT with a stick.

Books on the Crash: I have read eight books written on the subprime loan collapse and the 2007-2009 downturn. Yes, I really need to get a life. I will give you my top three picks.

Forum Planning Session: After the Wednesday session, at 11:30, we will have a planning session for the fall term. Input is invited on the topics that we will discuss.