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## **Another Buying Opportunity Close At Hand**

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**Let me start off by reminding you that our offer to manage your portfolio in any of our strategies without any management fees until October is going to expire in 8 days, May 31. There are now only 4 slots remaining and once they are gone, the offer will end.**

**If you are interested, please hit reply right now or call me directly in the office at 203.389.3553. One thing is for sure, we will not be offering this again any time soon.**

**Way back in January and February, I offered the scenario that a new bull market may only be a few months away. When I tossed that out during a CNBC segment, I was quickly taken to task and dismissed as crackpot. With the Dow rallying 1400 points in short order, and bulls coming out of the woodwork, all of a sudden the world is a good place again.**

**I continue to be amazed at how emotional people get based on the price action of the stock market. At the January lows, prevailing sentiment had us headed into depression with the banks and brokers all going out of business.**

**And just last week, nirvana returned! I don't know how people can effectively**

**manage money like that. It doesn't make any sense! As you know, we got very bullish in early March and stayed that way until a few weeks ago when our models indicated that stocks had come too far too fast.**

**With the sharp decline this week, it looks like we are again on the verge of another low where prices should rise significantly. It may be a day away or two or even a week, but the stock market is setting up to exceed the recent highs and get back to unchanged on the year, something I mentioned during the darkest market hours in January and March.**

**Technology continues to lead the charge and that's a very healthy element in an emerging bull market. The financials may be under another round of pressure now, but I would not count them out yet. I like to focus my sector selections on the winners, so various tech subsectors like semis, software and telecom still look very appealing.**

**Because the rest of this issue is so long, I am going to cut it off here and pick back up after the holiday. I wish you a very enjoyable long holiday weekend! Looks like New England is finally going to get a great few days of weather, so you can bet I'll be outside with the kids getting into trouble.**

## **Energy... Passing Fancy Or Here To Stay? Part II**

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**In part I of this article, I opened the discussion about the overall behavioral differences between commodities and equities in general. You would have to be either living under a rock or asleep for a few years not to notice the dramatic rise in energy and food prices.**

**Lots of folks have emailed, asking me if I thought these high prices were here to stay or only temporary. As I mentioned in the last article, commodities tend to run in very sharp upward spikes and then spend much more time doing nothing. Before these major rallies occur, commodities get very quiet with extremely low volatility as they "scrape" along the bottom.**

**Then, in grand fashion, they begin a meteoric rise with returns way north of 100%. Like the dotcom bubble of the late 1990s, the commodity move exceeds most people's wildest expectations with prices literally running up the side of the page to a crescendo or parabolic peak.**

**It is then and only then that the bubble begins to burst in the same grand fashion.**

**So the short answer to the popular question is that I do not believe the energy, precious metals or agriculture boom is here to stay. Just like I did**

**not believe the housing boom and dotcom mania would last either. Rather, this looks like many of the past bubbles where it takes the perfect storm to establish them, perpetuate them and finally, collapse them.**

**To me, as in the past, the current commodity chase is more about psychology than anything else. It wasn't long ago when we were told by the Wall Street pundits that it's about eyeballs not earnings! And it's the same thing now. Literally, all of a sudden, we're hearing about food shortages, riots, peak oil, etc., as if we suddenly woke up to a new world order.**

**I don't buy it.**

**Let's turn to energy, specifically, for a while. It wasn't long ago when the price of a barrel of crude oil was in the teens right after 9-11. I don't know a single person who was warning of peak oil or a surge in demand from the emerging economies back then. We had all the cheap oil we needed and no one was worried.**

**Just 7 short years later, we are now panic stricken about running out of cheap oil. Sure, things have changed. But, I do not believe for one minute that those changes warrant a move from the teens to almost \$140 per barrel as "permanent".**

**As I mentioned above, you really need to see the perfect storm to set up such a mania. Just think about how many things had to come together in order to create the biggest housing bubble of this generation.**

**It was combination of a bear market in stocks, extremely low interest rates over a long period, little or no regulation in mortgages and the Wall Street "geniuses" engineering financially irresponsible instruments. The exact same storm was seen in the late 1990s with the dotcom bubble.**

**So with energy, let's examine the current perfect storm. First, given how cheap oil was for so long, we have our addiction to the product. That's been there since the early 1980s. Next we have increased demand from emerging countries like China and India. Let's not forget about the collapse in the U.S. dollar, which is the currency of oil.**

**As the commodity boom was underway, there has been a sea change by institutions to include indexed and managed futures in their investment allocations, creating a new wave of demand. At the same time, the growing ETF market moved into commodities with a proxy for oil, USO, coming to market. As with the pension plans, this really increased demand for the underlying consumable.**

**Lastly, as with any mania, we have our speculators who are being unfairly blamed for the surge since \$100 a barrel. I say "unfairly" because no one was giving that group credit when prices were driven into the ground for years and years in the late 1990s and early 2000s.**

**I believe speculators (specs) are necessary and healthy for the financial markets, all markets. They provide liquidity (more players and more dollars) to keep an orderly flow in the market. Since they usually just follow trends and jump on towards the end, speculators are not considered the smart money. In fact, it's the smart money that usually sells their position to the specs.**

**With all those factors thrown into the mixing bowl, we have quite the recipe for the current energy bubble. Will it end? Absolutely! With fireworks like we normally see only over July 4th. When is the billion dollar question. About the only thing I can offer is that we are getting much, much closer each day in terms of time.**

**Price may be a different story. We may see crude peak right here in the 130s or 140s or 150s or even higher. But when it does, you can look for an initial waterfall decline to get the ball rolling. You will see mass liquidations by the specs as brokerage firms quickly raise margin requirements, the money you must have on deposit before you can trade.**

**Commodities are the only instrument I can think of where a guaranteed "cure" for high prices is higher prices. The more vertical gas and oil go, the quicker alternatives will be found, not to mention that demand will certainly decline.**

**Think of how many folks turned their thermostats down last winter when prices began to surge. I know we did. We also added more insulation and sealed up cracks. Think of how many families no longer take two cars out for routine errands. I know in our case, we would have no problem taking the family to visit friends in Vermont or New York on a whim. With gas over \$4, I am in no hurry to spend hours on I-91 or I-95!**

**As I am thinking faster than my fat little fingers can type, I also just realized that almost every Wall Street firm is no positive on energy. If that isn't the perfect contrary indicator, I don't know what is! It's the eyeballs over earnings issue all over again. Remember Henry Blodgett, Mary Meeker and Jack Grubman?**

**Finally, on June 18 at 10pm, a new reality TV show premieres called Black Gold, which chronicles the lift of workers in the oil industry. Did you just hear the DING, DING, DING of the bell ringing?**

**I originally only planned to do a two part article, but this is already very**

long and there's more I want to discuss. In the next issue, I will offer some final thoughts on the real impact of the energy bubble on the economy and our lives and what changes I can see happening over the next decade.

As always, your thoughts, comments and questions are welcome! Please hit reply to email me or call the office at 203.389.3553.

## Business New Haven Interview

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[http://www.businessnewhaven.com/article\\_page.lasso?id=41971](http://www.businessnewhaven.com/article_page.lasso?id=41971)

### Cashing Out: Now What?

You've sold your business or are downsizing your house - what to do with the cash in a volatile economic environment

Business New  
Haven  
05/12/2008

by Steve Higgins

Amid soaring prices for oil and food, the credit crunch and the dollar's drop, the U.S. stock market has yanked investors around like a rag doll in recent months.

After closing at an all-time high of 14,164.53 on October 9, the Dow Jones industrial average plummeted to 11,740.15 by March 10. The volatility had started earlier, with a 415-point plunge February 27, 2007, followed by a 336-point gain September 18.

Economic growth has been sluggish enough to cause economists to argue whether a recession is occurring. While no consensus has emerged, the talk alone has investors on edge.

Most financial advisors say the average investor should not let such matters affect his or her long-term planning, since an effective financial blueprint takes into account cyclical threats such as inflation and recession, and even unpredictable crises such as the mortgage meltdown and the dollar's collapse.

But it may not be that simple for the person who is nearing retirement and might soon need to take income from investment vehicles that are temporarily depleted. So we asked a sampling of financial planners their advice for a mid-life businessperson who recently sold their company and therefore has cash to invest. Assuming the person's goal is a relatively safe retirement nest egg in the not-too-distant future, we asked where that hypothetical person should put the money.

Eric A. Tashlein, principal of Connecticut Capital Management Group in Milford,

says many people who sell a long-held business tend to err on the conservative side when investing the proceeds, a tendency that may grow even stronger during volatile economic times.

The most important thing to remember is to stick to the basics, he says: Draw up a financial plan projecting income and taxes throughout your retirement, then develop an asset-allocation plan designed to generate returns based on your goals and risk tolerance.

"One advantage of a volatile market is the increased opportunity for tax management," Tashlein says. "We know that certain stocks are going to be down, so if we can create some losses to offset some of the gains during the year, it will reflect favorably on [the investor's] tax return."

Tashlein also points out that cutting-edge portfolio management specialists are moving away from the risks involved in trying to beat market indexes and embracing a new strategy designed to better control volatility and downside risks.

To illustrate, consider Stock A, which has an expected return of 20 percent but features a high expected volatility and represents four percent of a benchmark index such as the S&P 500. Stock B has a similar return expectation but at half the expected volatility, and it only represents 0.5 percent of an index.

Traditional investment managers would have to buy Stock A because they build portfolios to track the index, and it's a significant portion of the index. The new breed of risk control managers focus on minimizing risk and therefore would buy Stock B, even though it's less representative of the index.

As a result, the new portfolio would not conform as strictly to the makeup of an index, and therefore would be more difficult to characterize (i.e., tracking the large-cap or small-cap market segment) and would not lend itself as easily to a "report card" comparison at the end of the year. But it would pose less risk to the investor.

Many of the stocks in these new portfolios fall into the consumer durables sector (food, personal care, health care), which tend to hold up better during volatile times, Tashlein says.

"Of course, if you get back into a roaring bull market these stocks will lack some of the upside potential of other equities," he cautions. "But a growing number of investors are no longer concerned with shooting the lights out."

In fact, Tashlein says many investors are looking back at their returns - after expenses and taxes - over the last several years and seeking new advisors who are not trying to "beat the market." More people are realizing the benefits of a long-term outlook, he says.

Chris Getman, president of Soundview Capital Management Corp. in New Haven, says smart investing is the same in a troubled economy as in a "smooth sailing" economy - the key is to diversify and continually rebalance. The main variable is the age of the investor: Those closer to retirement should choose a somewhat

more conservative investment mix, given the possibility of a down market hitting at just the time they start withdrawing assets.

Getman says his first question for the hypothetical business seller would be whether the person owns any real estate.

"Real estate is a very important part of our economy, and when equities go down you want to have something that could go up," he says. "Probably the easiest way to invest in real estate is to buy an exchanged-traded fund [that contains] REITs [real estate investment trusts]. It's an inexpensive and efficient way to get involved."

Getman says real estate should comprise ten to 15 percent of one's total portfolio.

The second step to effective diversification is to "have a good deal of international exposure," Getman says. "The world is changing and growing at a rapid rate internationally, not so much in the United States. Where was your car made? Your shoes? Your TV set? The world is shrinking and one should be exposed to global opportunities."

Getman recommends placing 25 percent of your portfolio in international markets, through exchange-traded funds, mutual funds or by hiring a financial advisor.

Third, since those investment will nearly all go to companies in established countries such as Japan, Great Britain and Germany, he advises placing another five percent of your portfolio in investment vehicles related to emerging countries such as India, China and Brazil.

Fourth, put ten percent of your assets into bonds, or up to 25 percent if you are aiming for a very conservative mix, he says. "I would recommend municipal bonds over corporate bonds because the yields are better," Getman adds.

Fifth, Getman recommends exposure to commodities - oil, coal, sugar, rice, wheat, silver, gold - "maybe ten percent" of the portfolio. "Developing markets are growing, and those countries need commodities," he says.

The rest of one's portfolio will contain U.S. equities, and most of those assets should be invested in large-cap stocks, with a small percentage invested in small-cap and large-cap companies. "The big blue-chip companies don't have as much risk," he says.

And finally, you should keep at least five percent of your investment assets in cash, perhaps in the form of money-market funds, and possibly more if you are over age 65, Getman says.

Paul Schatz, president of Heritage Capital, LLC in Woodbridge, says fear of a recession should have no effect on investment decisions, especially since recessions are usually over before the headlines begin reflecting any economic woes.

"Historically, recessions are rather short-lived and the financial markets usually react and take them into account before anyone knows the country is in one," he

says. "The market will be in decline when the news headlines are still pretty good economically.

"When the market peaked in October and then sold off 10 percent pretty quickly, the headlines were positive," Schatz says. "Since the bottom [in January and again in March] the market has been rallying and the headlines have been gloomy.

"Worrying about recession is a loser's game," he adds. "By the time people realize there's a recession, the markets have already discounted it and are already on a different course."

Regarding other risks such as inflation, Schatz says guarding against inflation should always be a part of any financial plan. "It's the No. 1 risk you have to your secure retirement, because it eats away at the value of the asset you are holding," he says.

Yet even inflation risk is hard to track, since the federal government has changed the way it calculates the Consumer Price Index a dozen times in the last 50 years, Schatz says.

"I don't believe these high energy and food prices are here to stay," he says. "They are an aberration caused by the collapsing dollar and emerging global demand."

Schatz said economic troubles are a cyclical occurrence, which is why financial planning and diversification are essential ingredients of building a successful investment plan and retirement nest egg.

"You should put together a plan for the next five, ten, 20, 30 years," Schatz says. "Depending on your risk tolerance, you have to blend in several strategies."

Schatz agrees with Getman that the key is to mix in several different asset classes, from equities and fixed-income investments to "hard assets" such as real estate and commodities.

"The larger the portfolio, the more diversified I would be," he says, meaning that someone with significant assets to invest can afford to add alternative investments such as hedge funds or to speculate in currency shifts. But those strategies carry a high level of risk and so are not recommended for everyone, he warns.

Schatz also stresses the need to rebalance one's portfolio regularly to ensure that the diversification plan you settled on is maintained through good times and bad. "Rebalancing" simply means changing the percentage of your assets invested in each asset class to maintain an optimum balance, since successful investments will grow to become a larger percentage of your portfolio while less successful investments will become a smaller part over time.

Schatz also warns investors against going along with conventional wisdom and the latest fads in the investment world.

"I wouldn't be hasty in throwing together a portfolio of the 'latest and greatest,'" he says. "For instance, last year and early this year, everyone was hot about



China. But that market has been decimated this year."

## **Friends And Family Plan**

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**Finally, as you know, our firm and this newsletter continues to grow mostly from your referrals. If you know anyone who is interested in securing their retirement, planning for it or just plain worried about it, please send them here. As always, thanks for thinking of us with your circle of family and friends.**

**<http://www.investfortomorrow.com/newsletter.asp>**

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## To Your Financial Success,



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