



What's New?

Feddern Financial Consulting Group Newsletter

November 8, 2009

KEYS TO THE BEGINNING OF A RECOVERY:

- 1. The Real Estate market must stabilize. If not reversing, at least not continuing to fall. *NEW HOUSING STARTS UP this past Spring and Summer because of seasonal factors but inventory still huge! The Nationwide COMMERCIAL COLLAPSE IS JUST BEGINNING!***
- 2. Unemployment must stabilize. If not reversing, at least not continuing to rise. Last report was lower! *IT'S ACTUALLY WORSE as a "%," Back to near 10% - BUT IT CONTINUES TO MOUNT @ OVER 500,000+ weekly.***
- 3. Corporate Earnings (profits) must stabilize. If not reversing, at least not continuing to fall. *SOME POSITIVE SIGNS but mainly in TECHNOLOGY.***
- 4. Banks must begin to make loans again (especially to small businesses and potential home owners...albeit under ancient premises of buyers being qualified and of all things, a down-payment! Lots of "hoopla" from the mega banks, but it appears that there's no real progress. They're "hoarding" any cash they can get their hands on. And now here comes the Regional problems compounded by PRIME loan and Alt-A resets!**
- 5. The DOLLAR has to decline. *It's started for REAL!***
- 6. Auto sales must stabilize at some NEW level. *Maybe started!***
- 7. The consumer must get "back in the game of consumin'" *NO WAY!***

ANALYSIS OF THE ABOVE: No Real Hope YET! -11/8/2009

A Message for Retirees

Jeremy Grantham, president of investment management firm GMO LLC, has been getting a lot of press lately.

At the market's top, he warned of an impending bear market. At the bottom in March, he forecast a historic rally. Today, he says the market is 25% overvalued.

Should you be worried? Maybe...Maybe not.

Let's start with Grantham's track record. He's made a couple of good calls lately. But does he get it right all the time? Of course not. No one does.

But even if he's right, it wouldn't necessarily be negative. It all depends on your time horizon. Here's why...

How Long-Term Investors Can Benefit From a Bear Market

If you own stocks on margin, call options, or LEAP options, a market downturn could be devastating. A 50% decline in the value of a fully margined account would erase your equity. Your options could expire worthless.

Who benefits from a bear market? The obvious answer is short sellers and put option buyers.

But others benefit, too. Primarily long-term investors.

A new study by T. Rowe Price shows that those who began systematically investing in equities in severe bear markets made out "significantly better" than investors who began in bull markets.

Take 1929, for example, the year that kicked off the Great Depression...

From 1929 to 1938 - one of the worst 10-year periods in history - the S&P 500 returned minus 0.9% annually.

Yet if you began investing \$500 a month in 1929 and kept it up for 30 years, your total return was 960%.

If you did the same thing starting in 1970 - the start of one of the other worst decades in market history - you'd have fared even better: up 1,753%.

These investors did more than twice as well as those who invested the same way at the beginning of the go-go 1980s and 1990s.

The Buffett Approach

Bear markets are no friend of short-term traders with an optimistic bent. But they're the great ally of long-term investors.

Warren Buffett put it this way in one of Berkshire Hathaway's annual reports:

"A short quiz: If you plan to eat hamburgers throughout your life and are not a cattle producer, should you wish for higher or lower prices for beef? Likewise, if you're going to buy a car from time to time, but are not an auto manufacturer,

should you prefer higher or lower car prices? These questions, of course, answer themselves.

If you expect to be a net saver during the next five years, should you hope for a higher or lower stock market during that period? Many investors get this one wrong. Even though they are going to be net buyers of stocks for many years to come, they are elated when stock prices rise and depressed when they fall. In effect, they rejoice because prices have risen for the hamburgers they will soon be buying. This reaction makes no sense. Only those who will be sellers of equities in the near future should be happy at seeing stocks rise. Prospective purchasers should much prefer sinking prices."

This makes perfect sense for young investors, but how about those approaching retirement?

What to Do If You're An Older Investor?

They might welcome this development, too. A man or woman in good health retiring at 65 today faces the very real prospect of spending nearly three decades in retirement. In short, you need growth as well as income.

And retirees? For them, it's a different story.

Retirees stand to lose the most. The closer you are to cheating the actuarial table, the less your portfolio should be invested in anything unless it is well controlled. This is the main benefit of our 1%@Risk concept.

But for everyone else, Grantham's prediction - if true - could well be a blessing in disguise. Even if it almost never feels like it. -END

All of our past Newsletters are available on our Website at:

www.fedderngroup.com

We continue to receive more and more inquiries about our Down-side Risk Management disciplines along with our group of recommended money managers. We appreciate your "referrals." It's the main way we continue to build our business.

Call us anytime: 502.442-0363 Direct 800/258-1502 Toll Free 502/442-0365 Fax 502/552-2049 Cell

This document represents our views at the time of publication. The document has been prepared as information for our clients, prospects, and friends and it is not a recommendation to buy or sell any particular security or to adopt any investment strategy. Our views are subject to change without notice to the recipients of this document. This material has been prepared using sources of information generally believed to be reliable.

*No representation can be made as to its accuracy. The forecasts (if any) in this piece may not actually come to pass.