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Investment Insights

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BAND-AIDS, BUBBLE GUM & BALING WIRE

Once upon a time, in the beautiful Blueridge Mountains of Virginia, I was one of several fathers who had volunteered as a leader in our sons' Boy Scout troop for a weekend camping excursion. At the time, I had an old, beat-up Chevy Nova that we called our "canoe car." We used it as our transportation for both canoeing and backpacking. I had rigged it with inflatable air struts front-and-back to adjust it high or low as needed for our excursions. At that point in its life, that Nova, well let's say it had age and character, kept chuggin along, and it served us well!

Once in the mountains, we had to drive up a very rough trail to get to our staging area. That trail was more likely a creek bed in heavy rain conditions. Nevertheless, we – three carloads of fathers, boys, and gear - caravanned those three vehicles into the trailhead parking area. On Sunday afternoon, at trail's weary end, we were all happy to get back to our cars successfully, load up, and begin our journey back home.

The first leg of course, would be to drive back down that creek bed. That was going great until the front of the Nova jounced down onto a sharp-cornered rock that pierced the Nova's oil pan.

The good news was that we had amongst us two spare cans of oil. The bad news was that there was a hole in the oil pan about the size of my thumb. More bad news was that we were in the middle of nowhere, in a creek bed, quite far from any kind of road or service station. There were no cell phones back then! But, heck, we were scouts, we were always prepared, and we could figure a way out of this situation.☺ Or could we?

Well we did! With a sharp knife, we cut the end of a tree branch to the size of the hole in the pan, and plugged it into the hole. We then commanded a big wad of gum that one of our scouts had been chewing on. We pressed that big wad of bubble gum onto the oil pan, and on and around our improvised plug. It amazingly adhered OK. We then fastened the sticking-out end of the branch to the oil pan with some baling wire. Then we put band-aids on our skinned fingers. We poured in the two cans of spare oil, and prayed. Then we checked and, alleluia, there was no leakage! The bubble-gum-and-baling-wire fix worked! We were again on our way home without further incident.

Now you may be saying well what does this have to do with investing and the investment environment? Well here goes!

As everyone knows, we're in the midst of a mess! The FDIC's Men in Black Suits (see last month's newsletter) seized IndyMac Bank on Friday, July 11, 2008. It was the biggest bank failure we've seen since 1984. And, surprise, that bank wasn't even on the watch list of troubled banks. Soaring oil and gas prices have been a drag affecting all industries and individuals. Necessary regulatory checks-and-balances have either been ignored or have not been in place. Inflation is a real concern. That's exacerbated by a weakening economy, domestically and globally.

With not much else to work with, the **Fed, Congress, and others are resorting to band-aids, bubble gum, and baling wire to get through the mess.** (continued on next page)

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S&P 500 Look back

2000	-9.11%
2001	-11.89%
2002	-22.10%
2003	+26.68%
2004	+10.87%
2005	+ 3.00%
2006	+ 13.62%
2007	+ 3.52%

NASDAQ Look back

2000	-39.18%
2001	-20.78%
2002	-31.25%
2003	+50.76%
2004	+9.14%
2005	-1.4%
2006	+7.87%
2007	+ 9.27%

YTD thru 6/30/08

S&P500	-13.7%
NASDAQ	-12.3%

10/11/2007 HI thru 6/30/08

S&P500	-19.6%
Mar 2000 HI thru 6/30/08	
NASDAQ	-53.9%

*There is no risk free investment! Investment portfolio values fluctuate and past performance is never a guarantee of future results. "Do no harm" translates into structuring and managing an investment portfolio to conform to a client's risk tolerance and time horizon. Proactive asset allocation, diversification within asset classes, and continual monitoring and risk management of each position are methods we use in structuring and managing portfolios. Our approach includes corroborating fundamental research with capital markets supply and demand research, that is technical research. At times we will use conservative hedging techniques to limit downside risk.

(continued...)

The fact is that they are doing what they have to do in the short term. IRS economic stimulus checks, the Fed-provided liquidity backstop to Fannie Mae and Freddy Mac, long-needed enforcement (if on a limited basis) of existing short-sale rules to reduce market manipulation, and the like. With luck, these band-aid fixes will get us through the short term. Longer term solutions will need more work!

We're in a Bear Market. In mid-July the S&P had more stocks hit new lows than since 1980. While this is a secondary indicator, it represented to me a sign of investor capitulation. Investor capitulation typically coincides with a market bottom. Also, we have seen signs that energy and commodity prices may be easing off.

If the bubble gum and baling wire fixes are perceived to be working, and commodity prices are perceived to be retreating or leveling off, that could be pretty good news for equity (stock) investments. In the near term!

Our investment management mantra is **Do no harm and make money***. (please read sidebar) We had moved significant assets to the money market when the stock market had moved to high levels of risk as portrayed by our supply-and-demand indicators. These defensive moves started last October. They resulted in capturing 2007 gains and minimizing the downside of this Bear Market.

Several weeks ago on July 23rd, our main supply-and-demand indicator finally moved back to an offensive or make-money posture.

Rallies in a Bear Market should be expected and can be lucrative if the investor has money on the sidelines. The 2000 to 2003 Bear Market had several 15% + counter-cyclical short-term rallies imbedded in a long-term downtrend. Given that market risk has lessened and demand has just taken control, our objective now is to again take advantage of an upside opportunity.

Where do we see strength emerging in the stock market? Mid-cap growth, healthcare/bio-technology, telecommunications/WIFI, business products, consumer staples, and entertainment are some areas we like. Also, we are beginning to see opportunities in the bank, savings and loan, and real estate sectors although we expect that they will retest their earlier July 2008 lows.

As the dust settles and trends become clearer, we expect to make further portfolio adjustments. We also will remain on guard for more problems ahead! Continual due diligence is an essential component in our investment management methodology!

Our business success is measured by your continued trust in us and your referrals of prospects who may need our help and services. Thank you.