

# William Baker

## & ASSOCIATES, INC.



Securities offered and supervised by Wilbanks Securities, Inc. Member FINRA/SIPC Investment Advisory  
through Wilbanks Securities Advisory 4334 NW Expwy, Suite 222 Oklahoma City, OK 73116 405-842-0202

400 Galleria Parkway • Suite 1500 • Atlanta, Georgia 30339  
770-956-4073 • bbaker@wmbaker.com  
www.wmbakerinvest.com

William H. Baker, CIMA/CIMC  
President & CEO

## Investment Insights

July/August 2011

### 20-20 VISION

Once upon a time, my 20-20 vision began to deteriorate, both near-sighted and far-sighted. I needed glasses and elected to carry around two sets of glasses, one for reading and one for driving. Some of you can probably relate to juggling and looking for misplaced eye glasses. Well after a few years of juggling eye glasses, I began to notice that my distance vision seemed to be better. Lo-and-behold for whatever reason my eye doctor confirmed that my distance vision had in fact, by itself, corrected back to normal. He told me that it was not too unusual for this to happen. I was very happy it did. While I still need my reading glasses, it sure is great only carrying one pair, and also to have 20-20 vision whether it be natural or through corrective lenses.

Well, when it comes to investing, it's also nice to have 20-20 vision. At the same time, it's imperative to understand that 20-20 vision has its limitations when it comes to the markets and individual investments. Why? Well, the markets and investments have natural impediments to visibility. I believe that it's necessary to analyze the market with 20-20 vision. It's also important to understand that you are not going to see everything, and that everything that you do see 'ain't necessarily so'. One of the most prevalent investment blunders is to view capital markets or individual investments in 20-20 hindsight and be mesmerized into thinking that those past conditions will continue. A standard caveat in the industry goes something like "*Past performance is in no way indicative of, or a guarantee of, future results.*"

Using a rearview mirror can be helpful but what is most important is getting a clear view of what is, and what's ahead, always remembering that we are not going to be able to see everything. *Every day our team deals with three fields of vision:* 1. we see the past clearly, extrapolate and learn lessons from it; 2. we see the present pretty clearly and we deal with it; and 3. we have a view of the



future, we continually prepare and adjust for the future, and at the same time we keep in mind that the future is strapped with uncertainty.

In the May-June newsletter, based on our analysis of our fundamental and technical or supply-and-demand research, I stated: "Roughly, the S&P is now trading in a range between 1250 and 1350. The floor, 1250, may either turn into a launch platform for a rally or it may turn out to be thin ice, which if broken through, could mean more downside toward the 1150-or-below level." The market did launch a rally from that 1250 level, moved to 1353, the upper end of that 1250-1350 range within few weeks, and then began tumbling back down.

As I write this (August 5, 2011), after seven consecutive down S&P days, the S&P today has fallen to 1234. It is right now showing a loss for the year. It has broken down through that 1250 floor, is also below its 200 day moving average, and my guess is, given a broad deterioration of other market technical indicators, that we may see more downside ahead, possibly after a bounce up from this very oversold condition. We'll see more downside ahead.

(continued)

July / August 2011

William Baker & Associates, Inc.  
CIMA/CIMC  
Investment Management and  
Financial Planning Specialists  
400 Galleria Parkway, Suite 1500  
Atlanta, GA 30339

Phone: 770-956-4073  
Email: bbaker@wmbaker.com

www.wmbakerinvest  
.com

#### 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%
2008	-38.5%
2009	+18.9%
2010	-11.33%

#### 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%
2008	-40.5%
2009	+30.5%
2010	+14.46%

YTD thru 7/31/11

S&P500	+2.6%
NASDAQ	+3.76%

10/11/2007 HI thru 7/31/11

S&P500	-16.84%
Mar 2000 HI thru 7/31/11	
NASDAQ	-45.41%

\*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, also called technical research. At times we will use conservative hedging techniques to limit downside risk.

(continued)

The good news is that our fundamental and technical research helped us decide to reduce portfolio risk and raise some cash by taking some profits and cutting some losses. We did that before the big market tumble on the day of the congressional debt ceiling vote. That decision provides us with safe money to take advantage of opportunities at better price entry points as the reward vis-à-vis risk picture becomes more favorable. As stated in the May-June newsletter, our assessment of a fair value for the S&P 500 is about 1050 to 1100. There's no certainty if and/or when we will see that level. But we are happy that we do have some cash on the sidelines right now. We also are comfortable that the stocks that we have for the most part are generating dividends. While they experience declines with the markets, we expect that they will also bounce back very well when conditions turn to the upside. There are never any guarantees though, and that is why our choice of individual stocks includes assessment of the management team, the basic financial strength of the company, fundamental valuation, and the long term business prospects for the company.

Let me sum up the investment picture right now based on our technical or capital markets supply-and-demand research. You all have a feel for the fundamental economic picture from the media and also from just talking with colleagues, friends, and family members. At this point, *we are and have been, in a defensive or wealth preservation posture*; the broad market and sector risks remain a major concern; and, cash is now performing on a relative basis, better than equities.

Investment success over the long term is in part making wise investments and in part avoiding large, hard-to-recover losses. That means continually managing both reward and risk. Our investment management mantra is, "***Do no harm and make money***"\* (please read the sidebar), and we do our best to do that and to continually improve our capabilities to do that. We also do our best to take the emotion out of the process. Emotionally-based decisions usually end up doing damage to an investment portfolio. And finally, after continually managing reward and risk and taking the emotion out of the process, we rely on time and patience. Investing is a marathon and not a hundred yard dash and in the turbulence that we are now seeing that marathon concept is wise to keep in mind.

Let us know if you know of anyone who we might be able to help in terms of wealth management, financial planning, and investment management. One indicator of a successful business are referrals from existing clients. We thank all of you who have helped and enhanced our business success with your referrals.

---

## Medicare and Medicaid: Do You Know the Difference?

Medicare and Medicaid were signed into law 36 years ago to protect older and poorer Americans against the high cost of health care. Ironically, it's the high cost of providing health care through these programs that now threatens federal and state budgets, leading to calls for Medicare and Medicaid reform. Although these programs are often lumped together, they function quite differently. Here's a look at the coverage each provides.

(continued on next page)

## **What is Medicare?**

Medicare is a health insurance program funded and run by the federal government that guarantees health coverage to older Americans. Medicare is not income-based. People who have paid Medicare taxes on their earnings are automatically eligible at age 65, but some people with disabilities qualify for Medicare coverage earlier than age 65, and people with end-stage renal disease qualify at any age.

Medicare offers three main types of coverage. Part A covers inpatient hospital care, as well as short-term skilled nursing care, hospice care, and home health care under certain conditions. Part B covers medical services such as doctor's visits, outpatient care, and laboratory tests. Part D covers prescription drugs. If you or your spouse has paid Medicare taxes while working, you generally won't pay a premium for Medicare Part A coverage, but you'll pay a premium if you want to enroll in Part B or in some (but not all) Part D plans. You'll also need to pay certain out-of-pocket costs such as deductibles, co-payments, or coinsurance costs, depending on the types of coverage you have.

## **What is Medicaid?**

Medicaid is a health insurance program funded by both the federal government and state governments to provide coverage to Americans of all ages who have low incomes and no health insurance. States administer their own Medicaid programs under federal guidelines. They must cover individuals on public assistance, but they may also opt to cover other groups and establish eligibility requirements. Children, families, people with disabilities, and older individuals may all receive Medicaid.

If you're eligible for Medicaid, you may have to pay a small co-payment when receiving medical services, but most of your health-care costs will be covered.

## **Can you be eligible for both Medicare and Medicaid?**

Yes--if you're eligible for both programs, you're known as a "dual eligible" beneficiary. Generally, individuals who are eligible for both programs are older or disabled (or both) and need help paying their Medicare costs because they have very low incomes. Medicaid covers premiums, deductibles, co-payments, coinsurance, and other Medicare costs and provides some health benefits that Medicare does not. Individuals in nursing homes are often dual eligible beneficiaries, and that's partly behind the misconception that Medicare pays for nursing home or other long-term care (it does not--see sidebar); instead, Medicaid is the primary payer of nursing home bills. Because many older individuals cannot afford the high cost of nursing home care and exhaust their savings, they eventually become eligible for Medicaid.

*(continued on next page)*

*Medicaid, not Medicare, is the primary payer of nursing home care in the United States. Although Medicare pays for short-term skilled nursing or rehabilitative care in a skilled nursing facility, it does not pay for extended care in a nursing home or for other custodial long-term care. Custodial care is help with daily activities such as eating, bathing, dressing, and using the bathroom. Some individuals need both short-term and long-term care; for example, someone who has suffered a stroke may receive rehabilitation services in a skilled nursing facility, but may later be admitted to a nursing home in order to receive custodial long-term care services.*



*(continued)*

## **Medicare**

Primarily age-based; individuals age 65 and older qualify, along with some individuals with disabilities

The federal government runs Medicare, and the program is the same for all Americans

Financing comes from federal funds; partly financed through payroll taxes and premiums

Medicare Part A provides coverage for hospital stays; Medicare Part B covers the cost of doctor's bills, laboratory costs, and some outpatient costs; Medicare Part D covers some prescription drug costs

Medicare beneficiaries may pay deductibles, co-payments, coinsurance costs, and premiums

## **Medicaid**

Primarily means-based; individuals of any age with low incomes who meet eligibility requirements may qualify

State governments run programs under federal guidelines, so programs vary from state to state

Financing comes from federal, state, and local revenue

Broader coverage of health costs than Medicare, including inpatient and outpatient care, prescription drugs, laboratory costs, family planning, and nursing home care (types of coverage may vary from state to state)

Medicaid generally pays all approved charges, though a small deductible or co-payment may be required

*For more information, visit the Centers for Medicare & Medicaid Services website at <http://www.cms.gov/>*

---