

## INVESTOR OUTLOOK

Investors have definitely heard their share of how we just completed the first negative decade in American stock market history. This decade's performance was even worse than the post depression era of the 1930's. The decade started with an incredible bubble in technology and telecom stocks with the euphoria from the internet and broadband expansion. Two years later, the fraud of Enron reared its ugly head as the energy merchant's valuations rocketed to unprecedented levels. Both of these bubbles were easily detected and led by pure greed in combination with unsophisticated investors. During the latter half of this decade, artificially low interest rates in combination with lax credit standards and once again, greed, led to a global financial crisis that eliminated any hope of satisfactory performance for the passive investor. The key to this above scenario is the "passive investor", because avoiding or at least underweighting technology/telecom at the start of this decade (see "Whatever Happened to Tech Wreck", November 1999) and/or the two other well recognized bubbles and suddenly the decade does not look so bad. After all, sandwiched between these bubbles were two solid bull markets - for five years beginning October 9, 2002 the S&P 500 gained 101% and in the current bull market since March 9, 2009, the S&P 500 advanced over 65%. Combine this type of disciplined, proactive

approach with some sector/stock strategy of buying with a focus on strict risk-to-reward parameters and then a bleak decade can look downright inspiring. These results are one year after our recommendation without having the luxury to take profits during spikes in valuations, like we recommended in Palm earlier this year.

Last year, many investors were flocking into U.S. Treasuries – the same Treasuries we recommended back in October 2007, (see Yahoo Finance "How to Protect Your Nest Egg in a Recession"), except at less than one half the yield. Going into 2009, Alan B. Lantz & Associates, Inc. felt that a final bubble of the decade, this one caused by fear was in long term U.S. Treasuries with high risk and low yields. Long term Treasuries lost more than 20% in 2009, which was their worst year since 1978. We expect similar negative results going into the new year and still recommend "short" positions. Passive investors in an asset allocation program of all asset categories have assured themselves of lower returns within their set exposure in long term Treasuries. The next decade will be similarly challenging where the smart proactive investor must continue to reduce, and manage, risk to avoid the excesses and outperform.

## INVESTING LESSONS FOR JANUARY AND BEYOND

Early on in my career, I was fortunate enough to forge a relationship with one of the true legends of money management, Sir John Templeton, and still draw on the principles he taught me. His philosophies toward investing never changed much while he was alive and they have been the foundation of both our money management firm Alan B. Lantz & Associates as well as LantzGlobal.com where I am director of research.

Sir John first taught me that managing other people's money should be considered a sacred trust; something many money managers seemed to have forgotten over the past two decades. Proof positive is that 2009 was chock-full of scandals that grabbed headlines, telling tales of gross misconduct and theft.

Secondly, and this has been integral to many money manager's success, is to always take profits when expectations and valuations are high, no matter where the "herd" may be thundering. Recent real estate and energy bubbles, along with what we faced earlier in this decade in the technology sector, should be more than enough evidence to remind today's investor to take profits before everyone tries to leave through the door at the same time.

### **Don't jump on the bandwagon:**

Investors near or at retirement, gradually must become more defensive with new purchases. While many are touting treasuries and bonds today, we feel that due to the likelihood of higher interest rates into 2010 and 2011 and inflation woes further down the road, this will be the first big mistake of the new decade. Bonds and Treasuries were good performers back in 2007 and early 2008. For the New Year, seek safety and returns in quality dividend paying stocks instead. It should be no surprise that just at the time most investors are rushing into bond funds they contain the most risk with limited forward potential.

### **Buy into panics:**

We have always focused on the power of profit taking as not only a risk management tool but to also provide the necessary conviction to buy when there is panic on the street. For example, we recommended getting back into financials in November 2008 after warning about them 18 months prior. Avoiding the bubbles and high risk areas has been critical to our success in the past but having the resources to buy into panics is equally important.

### **Reduce risk as values rise:**

We'll plan on riding the wave in technology and commodities as more and more investors jump on the bandwagon. Remaining disciplined will be critical as stimulus money dries up during the year. With that, some final considerations for 2010:

- Make sure you take at least partial profits in those areas that did so well for us in 2009. Commodities, energy markets, financials, and even technology are vulnerable to significant corrections.
- Don't forget to invest in those more conservative equity income areas that investors have ignored of late. These areas with low expectations not only have the corresponding lesser risk but may well be the better performers into the next year or two.
- If you are investing for growth, invest systematically or better yet wit for a pullback after such huge gains since last March.

Every investor should be wise enough to take what the market offers him and limit risk while participating on the upside. 2010 should hold an upward bias over the shorter term, but it is prudent to implement some defensive measure as valuations rise. As risk levels should rise in 2010, managing it will be paramount.

#### **CHALLENGES AHEAD WHETHER WE ARE RIGHT OR WRONG IN REGARDS TO THE GLOBAL ECONOMIES**

Going into 2010 there is a ceiling in equity valuations. We felt that the huge gains toward year end 2009 were investors panicking into stocks in fear of missing the rally. A “V” shaped economic recovery was already in valuations (particularly the cyclical, tech, commodities, and energy markets) and those areas were vulnerable. If we are wrong and the economic numbers continue to strongly rebound, then headwinds of rising interest rates, higher taxes and problems with commercial real estate and sovereign debt would provide ample headwinds to limit global equities valuations’ continued surge. So either way expect more volatility into 2010 and utilize it to your advantage rather than following the herd.

Note: Investors should understand that past performance does not guarantee future success and that just because Alan B. Lantz & Associates, Inc. was correct regarding the negative “ripple” effects of sub-prime, this does not guarantee future strategies and opinions will be as accurate.