

High Desert Investment Advisors

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Serving Your Personal Investment Needs Since 2003

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Because this stock market - and our global and domestic economies - has a very uncertain future, we must plan for the probability that there will be another market downturn sometime in the future; now is the time to prepare a sell strategy should our stop-loss point be reached.

A “buy and hold” strategy of investing cannot be relied upon to provide for our retirement!

Since last November, we have been reinvesting our portfolios, back into the stock market, using a mix of mutual fund managers, and building a correlated and balanced portfolio of large and small cap stocks and international investments.

The goal is to recover the losses that have occurred, but with the caveat that we establish stop-loss points below which we will sell all stocks and prevent further losses. The goal is to avoid losing money!

About 18 months ago, we recommended increasing the percentage of fixed income by 1/3rd in order to increase portfolio stability and to plan for steady returns during what is likely to be a relatively flat period of stock market prices.

To this end, we have modified the Portfolio Management Model (which we use to determine a forward projection of economic and stock market activity). A second technical model (as opposed to a fundamental economic model) is now overlaid on the fundamental model so that if there is a data failure similar to what occurred during the last several years, there will be a “bottom line stop-loss system” that will prevent losses of a catastrophic nature. Included is a chart showing the modeling design of this technique.

The stop-loss will activate when the 34 day moving average crosses below the 10 MA line. That level is currently at the S&P Index price level of 1009.

Today, as investment managers, we are caught “between a rock and a hard place”. We must recover those losses that occurred during 2008, while at the same time, we must avoid losing more money - two mutually exclusive goals from the standpoint of risk management.

Back-testing the Portfolio Management Model suggests that, even during the worst of conditions, it will protect our investments from catastrophic loss. That being said, investing in the stock market is not risk-free.

Dick Brackett
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Registered Investment Advisor

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