

High Desert Investment Advisors

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Serving Your Personal Investment Needs Since 2003

Friday, February 03, 2012

Time to Reinvest

RECOMMENDATION:

It is time to reinvest in equities - stocks and mutual funds. Please respond to this email, directly and promptly, by phone or by email. If you respond by email and do not get a message saying your email has been received, call us to confirm your instructions.

In all accounts, the money allocated to make these investments is held in the Franklin Adjustable US Government Securities Fund (FISAX). We recommend that all shares of this fund be sold and reinvested into an asset allocation of recommended mutual funds.

DISCUSSION:

Six months have passed since we recommended moving money out of stocks and mutual funds, adopting a "preservation of capital" investment mode. It is time, now, to reinvest that money.

It has been said that, when we recommended getting out of the market last August, we sold at the bottom. Now it seems that the buy recommendation comes at a high price level.

As I review our investment portfolios - your portfolios - and analyze their progress during the past year, all of those I have reviewed thus far, have positive growth for the year 2011. The profits for the year range from 0.5% to almost 8%. (The S&P Index had zero growth for 2011) Most of these portfolios include between 30% and 50% allocated to equities, with the balance invested in fixed income. The highest yields were generated in portfolios holding 100% fixed income, primarily government guaranteed mortgage backed securities. Those that did the worst did not sell all of their equity positions. Of course, we would have done better if we had decided to exit the market earlier than August 8, but we nevertheless accomplished our goals for almost every portfolio we advise. Our goal is First: preservation of capital; Second: growth sufficient to create wealth and to offset inflation. Third: to prevent losses, or to minimize losses if they occur.

THE DECISION TO REINVEST:

The best stock market indicator - predictor - over the past seven years has been the Velocity of Money (GDP/M2).

The fall in Velocity moderated in the 4th Quarter, and is likely to be positive, if not in Q1, then in Q2, 2012.

M-2 has grown very rapidly during 2011. We can surmise that this growth in M-2 is not-actively-invested money, but is a currency trade to protect capital previously held in Eurodollars; alternatively, it is money removed from European banks for fear of bank failure.

When this money moves back to Eurodollars, the Velocity of Money will change to positive growth, very rapidly.

The problem with Velocity of Money is its late reporting schedule - quarterly, late in month after quarter-end.

The best stock market indicator, for the past 15 years, has been the cross of the 34 MA* and the 10 MA*. This indicator is now positive - the 34 MA upwardly crossing the 10 MA, on Tuesday, January 31.

The U.S. economic fundamentals have continued to turn positive, and there is a momentum that seems to be building, not only in the US and Chinese market, but even in the European theatre.

Today's U.S. employment number is the most recent positive data point, falling to 8.3%, along with adding 243,000 new jobs. Add to that the strong ISM number that followed later in the morning, showing very interesting growth in the manufacturing sector.

In our forecast, issued at the end of 2011, dated December 30, we recommended beginning to invest money in mutual funds, as the opportunity presented itself with lower market prices, using 10% investment steps. Those market opportunities have not materialized, and now it is time to buy, even at higher prices.

Note that this buy recommendation is tempered by the design of your individual investment portfolios. All portfolios have significant investments in fixed income assets. These investments dampen volatility, and provide a more conservative investment strategy, depending on the percentage of fixed income in each portfolio - higher levels of fixed income mean less volatility, less risk.

Iris and I will be available all day today and all of this week, seeking input from you as to your decision to reinvest. Please advise us of your investment choice of action. Please respond to this recommendation.

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RECOMMENDED ASSET ALLOCATION

RECOMMENDED ALLOCATION - EQUITY ACCOUNT SIZES UP TO \$20,000

13%	EATVX	E.V. T/M VALUE
17%	FCNTX	FIDELITY CONTRAFUND
17%	GFAFX	GROWTH FD OF AMER. (AGTHX)
8%	JAOSX	JANUS FD - OVERSEAS
12%	JARTX	JANUS ADVISER FORTY
10%	KSCVX	KEELEY SMALL CAP VALUE
13%	PRBLX	PARNASSUS EQUITY INCOME FND
5%	PRPFX	PERMANENT PORTFOLIO FUND
5%	SGENX	FIRST EAGLE SOGEN GLOBAL A

RECOMMENDED ALLOCATION - EQUITY ACCOUNT SIZES OVER \$20,000

5%	BPTRX	BARON PARTNERS FUND
6%	EATVX	E.V. T/M VALUE
11%	FCNTX	FIDELITY CONTRAFUND
6%	GCMAX	GOLDMAN SACHS MID CAP VALUE
9%	GFAFX	GROWTH FD OF AMER. (AGTHX)
4%	HGOAX	HARTFORD GROWTH OPPORTUNITY
3%	HIINX	HARBOR INT'L INV.
5%	JAOSX	JANUS FD - OVERSEAS
9%	JARTX	JANUS ADVISER FORTY
5%	KSCVX	KEELEY SMALL CAP VALUE
7%	NYVTX	DAVIS NY VENTURE
11%	PRBLX	PARNASSUS EQUITY INCOME FND
5%	PRPFX	PERMANENT PORTFOLIO FUND
3%	SGENX	FIRST EAGLE SOGEN GLOBAL A
6%	TCREX	TIAA-CREF INST. REAL EST SEC RETAIL

5%	TESIX	MUTUAL SHARES FUND A
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