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Serving Your Personal Investment Needs Since 2003

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HIGH DESERT ADVISOR - FINANCIAL MODEL ADVISORY

What if this market bottom isn't really the bottom after all?

Last Monday, I posed the above question. Today, it seems clear that the S&P Index price of 1243 is not going to be the bottom of the market.

That being said, it is time to begin withdrawing money from equities and moving that money into inflation protected bonds.

Needless to say, this is a very late call on the markets! The Financial Model that we use has proven inadequate as a predictor of the economy because the monetary aggregates are not being reported correctly – see my notes from last Monday's advisory email.

Because the Model cannot be relied upon for guidance, we have to use technical analysis to determine where the bottom in the market lies. I'd rather have hard numbers, but this is the "fall-back" tool that must now be used.

On Monday, July 14, we will be recommending withdrawing money from the market, selling 10% of our investments in mutual funds and other equity investments, and putting that money into inflation protected bonds. If the market continues to slide further, on August 4, we will be recommending a second round of reinvestment, moving another 10% out of equities and into bonds. This process will continue on a tri-weekly basis until it is clear that it is time to begin moving that money back into the market.

What could change this recommendation?

- If there is a continuing sharp bounce in the market (as occurred on Friday) such that the S&P Index remains at the 1240 level on Monday, then the recommendation is to hold at the current investment level in equities until the Index falls below, and stays below, the 1240 level. We will wait to sell until this happens.

The process for taking money out of equities will proceed as follows:

- Iris and I will contact all investors with accounts under our management, and will discuss the options relevant to the above strategy. This discussion will lead to you directing the execution of the proposed strategy. In other words, if you agree, we will begin selling 10% of your equity positions. That money will be placed into the money market account or into an Inflation Protected Bond Fund.

- As an alternative, you may respond to this email and tell me that you want to do as recommended above – sell 10% of your equities, put that money into the recommended fund, and continue to do this at 3 week intervals until additional sales are no longer necessary. Iris or I will then make the recommended changes.

Please respond to this email directly if you wish to proceed as per these recommendations.

NOTE: There is no (or very little) cost to make these changes, and there are no commissions or transaction fees charged to do the sale and/or the later repurchase.

Dick Brackett

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POSTSCRIPT:

We have had many questions about the Fannie Mae and Freddie Mac bonds that you may own in your portfolios, due to the press coverage of these two GSE companies. The bonds in your portfolios are securities backed by individual home mortgages (Fannie Mae and Freddie Mac are government sponsored enterprises - GSEs - that buy home loans, securitize them, and sell them in the secondary market). The turmoil in the market is related to the stock value of these GSE companies and not the mortgage backed securities themselves. The mortgage backed securities, though not backed by the direct faith and credit of the U.S. Government, are presumed to have that government guarantee and backing and are therefore among the highest rated securities that are available in the marketplace. During a very difficult 12 month period in the credit markets, Fannie Mae and Freddie Mac bonds have not lost any value, and in many cases have actually increased in value.