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Wednesday, July 28, 2010

## THE HIGH DESERT INVESTMENT STRATEGY

To all of you who are relying on us to provide investment guidance during the current period of crisis and turmoil, this letter will attempt to explain our investment strategy,.

TO BEGIN: Clearly... there is no clear vision into our economic future!

Ours is an investing strategy designed to accomplish the following goals:

<u>Preserve our Capital</u> - We do not ever want to lose significant amounts money through our investing strategy. <u>Grow the value</u> of our investment portfolio, and increase annual cash flow from interest and dividends, every year.

# This strategy is based upon the following concepts:

A buy and hold strategy is untenable when the stock market trend is down. It is not a viable strategy for those who are saving for retirement and/or are retired.

"Buy and Hold" may be used when the stock market trend is up.

When the long term stock market trend is down, losses will occur from stock market investments.

Low volatility in portfolio values prevents large investment losses.

Growth in value, and in cash flow income, results from a two tier investment strategy:

Fixed income security ownership - interest and dividend income.

Equity mutual fund and stock market investments.

Note: other investment styles within this description might include "absolute return", commodities, hedge funds, etc.

The percent fixed income versus the percent equity investment, varies with the desired volatility designed into the portfolio.

For example, a portfolio with 50% fixed income is about 1/3rd less volatile than one with 30% fixed income when the stock market is falling in price.

Increasing the fixed income percentage, reduces volatility.

A 100% fixed income portfolio, in today's market, will generate about a 5.5% average yield - using a mix of government guaranteed investments, corporate bonds and other structured products.

The use of two Investment Models, designed to determine stock market trend changes and to recommend equity investment percentage versus fixed income percentages.

The Financial Model - a fundamental analysis of the U.S. economy

Technical Model - a stock market trend model

When the two Models diverge, the Technical Model governs decision making for negative stock market trends.

#### Comments:

Today, the long term stock market trend is down.

We do not know if the downward trend will continue or if this is a transition period that will cause the long term trend to turn upward.

<u>During trend transitions</u>, <u>"whipsaw" recommendations may occur</u>. By this is meant that the Models may call for multiple changes in strategy as the stock market determines what the long term trend is to be.

Generally, there are no transaction costs, when making changes to stock market equity percentages.

## Summary:

The economic times that we are living in today are the most volatile and unpredictable of our lifetimes. Not since the Great Depression, have we experienced such difficult times. It is only through the actions taken by the Chairman Ben Bernacke and the Federal Reserve Bank, and by the Government, lead by successive Treasury Secretaries - Paulson and Geithner - that prevented a Second Great Depression, including an unemployment rate that easily could have risen to as high as 30% or more. It is likely to be years before the excesses of the last 15 years are worked out of the economy, and long term, stable economic growth is reestablished to the global economy.

Our job, as investment advisors, is to negotiate these waters so as to, <u>First</u>, preserve capital and, <u>Second</u>, to grow your investment portfolios. Today, preservation of capital is more important than growing that capital. When risk is high, loss prevention is our daily guidepost.

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