August 28, 2010

PORTFOLIO UPDATE – THE GOOD NEWS

I am in the process of going over all of our investor portfolios, checking the positions, and verifying their progress, since we recommended getting out of the market late in 2008. If I haven't gotten to your portfolio, know that I will soon.

What is satisfying about this analysis is that all of the investment portfolios I have reviewed so far, are steadily growing and generally outperforming the S&P 500 Index. More important, they are very stable, and even when we reentered the market – September, 2009, the timing of our exit from those investments essentially left investor portfolios with profits from the time of their reinvestment. Even on a year-to-date basis, almost all of the portfolios I have reviewed show profits ranging from 2% to 6%.

What is not satisfying, about this process is the losses that occurred in 2008 and 2009. Hopefully, if the same kind of scenario occurs again, our models will have us out of the stock market before it happens. (That being said, we know that there are infinite variables working to affect the market.)

The real issue today, that all of us must deal with, is how to invest during a time of very, very high risk. It is important to grow our investments every year - this is particularly important for those who are retired, nearing retirement, or planning seriously for retirement.

But let me offer some good news for a change. There are some very interesting positive indicators in the area of fundamental analysis – not on the Consumption side of GDP but on the Business and Business Investment side of GDP. There is a very positive growth curve in business borrowing, indicating the need for more short term capital and for investment capital. What this says is that businesses are adding inventory, personnel, working longer hours, building receivables and seeing increased profitability. What we are seeing are the seeds of the coming recovery!

For the U.S. economy, this is important. While Consumers are deleveraging and shrinking their purchases, causing a severe contraction in the U.S. economy, businesses are looking forward, increasing exports, developing business from off-shore sources, and recovering their growth momentum. Much of this money will feed back into the U.S. economy, and, if the U.S. dollar will cooperate by depreciating its value, making it more competitive for our domestic producers to sell overseas, we may find that these profits will build locally rather than in other countries. This will rebuild our domestic economy, and reduce our unemployment levels. What these numbers are telling us is that the tide is changing and business entrepreneurs are regaining their positive outlook for the future.

I am writing about this because it is something that is happening behind the scenes, and not being presented yet by the media. What it says is that the global economy is recovering and that the U.S. domestic economy will benefit from this recovery. Expect to hear more about this outlook in the future.

In the meantime, I recommend that we be patient, waiting for the Model to tell us when it is appropriate to reinvest in the stock market. We do not need to be in a hurry to reinvest. What we want to capture is the change in the long term market trend – the change from negative to positive growth.

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