

Investment Forum Program for Wednesday, May 6 at 11:30

Perspective: In the 1980s, socialist French president Francois Mitterrand nationalized his country's economy in the belief that government was best able to allocate resources. The experiment failed and was eventually reversed by Mitterrand when the French currency weakened and investors fled. Now, the U.S. government has de facto nationalized broad swaths of the financial and auto sectors, and seeks to extend greater government control into healthcare and energy. European experience demonstrates that once such control is gained, government is faced with competing pressures between perceptions of public interest and business profit (witness Fannie and Freddie). Plus, political corruption remains a threat when parochial interests trump good governance (witness DOD procurement and base realignment). Meanwhile, the stock market has recorded its best performance for the month of April since 2000 (some reports say since 1938). Perhaps the U.S. can succeed where France failed.

Strategies: On April 29, *The Wall Street Journal* carried an article entitled "Advisers Ditch 'Buy and Hold' For New Tactics." The subtitle reads "Facing Angry Clients, Pros Turn to 'Alternative' Products." Most advisers are maintaining familiar traditional strategies, but a significant and growing minority is pursuing short-term trading and shunning ordinary stocks and bonds in favor of a broad mix of investments intended to reduce risk in volatile markets (see handout). Clients are tiring of paying fees to lose money.

Guru Watch: Local suburban Maryland guru Charles Allmon published the newsletter *Growth Stock Outlook* from 1965 until 2008. He was famously bearish, remaining 75% or more in cash since 1986. Even so, on a risk-adjusted basis, his newsletter was the No. 1 performer tracked by the *Hulbert Financial Digest* over that period. He has recently captured the attention of Hulbert by raising the equity portion of his portfolio to 50% for remaining institutional clients. And, Allmon has done so by simply adding to stocks that he has long favored.

Stock Talk: The Jensen Portfolio (JENSX) is a notoriously selective fund. Recently *Morningstar* screened for stocks that could conceivably meet Jensen's criteria. They included Abercrombie & Fitch (ANF), Corporate Executive Board (EXBD), Merck (MRK), Mettler-Toledo (MTD), Novartis (NVS), Patterson (PDCO), Paychex (PAYX), Smith & Nephew (SNN), and XTO Energy (XTO). Also, Fairfax Financial (FFH) is a little-known Canadian firm that is somewhat akin to Berkshire Hathaway. In the 4th quarter of 2008, Fairfax departed from its longtime bearish stance and poured \$1B (US) into a short list of familiar stocks.

He May Have Said It: Second-hand media reports claim that Paul Volcker has made very positive comments about the outlook for economic recovery, but direct quotations remain elusive.