Investment Forum Program for Wednesday, July 1 at 11:30

Question for the Membership: Historically, the forum has very seldom invited outside speakers (in fact, only twice since 1995). However, two members may be able to recruit speakers in the near future. One would be a market technician and the other a value investor guided by individual company fundamentals. Caveat: Both are professionals incentivized by the profit motive.

Perspective: In a recent CNBC TV interview, Warren Buffett laid out the investor's dilemma. The economy is currently very weak with no tangible signs of recovery to be seen and may remain so for some time to come. (Buffett claims he tracks financial operations data from 70 companies on a daily basis.) Thus, interest rates are low and the outlook for stocks is clouded. However, Buffett is certain that current federal policies to help stimulate the economy will surely lead to much higher inflation at some point in the future. This begs the question of long-term investment strategies. Meanwhile, history shows that during the recession of the 1970s, the stock market thrived on a sustained basis long before the economy showed any signs of improvement.

The Long View: The current issue of *Barron's* includes an interview with the chief investment officer of the $176B California Public Employees Retirement System. He's aiming for a long-term total return of 7.75%. A portfolio loss of 27% over the past year hasn't helped. Neither is the prospect of years of de-leveraging ahead which will dampen economic activity and corporate profits. The one area he views with optimism is emerging markets.

Bonds: Last week, the City of Alexandria sold $35M in AAA-rated tax-free bonds with maturity dates ranging from 2013 to 2019. Yields to maturity ranged from 1.37% to 3.29%. The ten-year bonds sold at a 14% premium to par value. No evidence of inflation concerns here. The transaction involved a private placement to institutions and the bonds were not available to retail buyers at the offering.

Cash: Low interest rates on tax-free municipal bonds provide opportunities for issuers to call their bonds and refinance more cheaply, leaving bondholders with redemption proceeds at a time when reinvestment opportunities in the investment-grade fixed-income market are bleak. James Stewart writing in *SmartMoney* magazine suggests buying short-term C.D.s at current rates with the expectation of higher rates in the near future. (We've been hearing that one for the past decade.) *Dow Theory Forecasts* is cautious about stocks at the present time and suggests keeping a substantial amount of cash in the Vanguard Short-Term Investment-Grade Bond Fund (VFSTX). It currently yields above 4%, but has a history of significant volatility suggesting that nimble timing may be required to get in and get out on favorable terms.