Investment Forum Program for Wednesday, October 21 at 11:45

Program Note

Next week, October 28, the Forum will host an invited speaker, Ingrid Hendershot, a well know local money manager and newsletter publisher.

Perspective: The decline of the dollar is featured prominently in financial news these days. But, news articles reporting on daily events often fail to provide context. Economist David Malpass does so in an op-ed article entitled “The Weak-Dollar Threat to Prosperity” published in the October 8 edition of *The Wall Street Journal*. He wrote “The S&P 500 Index nearly doubled from 2003 through 2007. But, equity gains provide cold comfort when currencies crash. Measured in euros, the S&P peaked at 1700 in 2000, regained 1100 in 2007, fell below 600 in March and now stands at 700. The dollar devaluation has caused a massive decline in the U.S. share of global wealth. Measured in euros, U.S. real per capita GDP is down 25% since 2000.” In the same vein, *Bloomberg.com* writes that “The Dollar Index, which measures the currency against the euro, pound, Canadian dollar, Swedish krona and Swiss franc, dropped to its lowest level since August 2008 on October 8. Even measured against the March 9 start of the S&P 500’s biggest rally since the 1930s, the U.S. index’s 60% gain puts it in 39th place worldwide among this year’s stock rallies.”

Mixed Messages: So, how can individual investors protect the value of their portfolios against a falling dollar? Prescriptions abound, but how effective some will prove to be and how many are appropriate for individual investors raise serious questions. And, contrarian voices in the media are admonishing investors to avoid the very investments that are prospering most prominently at the present time, such as gold and other commodities. Meanwhile, individual U.S. investors continue to pull money out of stock funds and pour money into bond funds, and foreign central banks continue to buy U.S. Treasury securities.

Strategies: In his classic book “The Intelligent Investor,” Benjamin Graham advised individual investors to split their money evenly between stocks and bonds—but within wide limits. Graham suggested that the stock portion of a portfolio should never fall below 25% or rise above 75%, thus allowing investors to reap the benefits of opportunities offered by wide market fluctuations. In today’s markets it’s a tough call in deciding whether to tilt from the 50/50 allocation as stocks and bonds both appear rather fully priced.

Signs of the Times: www.businessweek.com recently featured two articles on the difficulty of stock selection in the current market: “Where Have All the Value Stocks Gone?” and “Growth Stocks: Not-So-Great Expectations.”