Investment Forum Program for Wednesday, June 23 at 11:45

Perspective: Stock prices are volatile because investors fear that the economy will weaken. Some bond fund managers (if not their shareholders) are fearful that the economy will strengthen, increasing the risk of inflation and falling bond prices resulting from higher interest rates. Meanwhile, gold investors remain confident that they will profit no matter which direction the economy takes.

Bonds: Bonds are much in the news as investors seek a safe haven. It is estimated that $380 billion will pour into bond funds this year, more than went into domestic stock funds in the past decade! And, that's on top of a record $376 billion into bond funds last year. Meanwhile, leading bond fund gurus such as Bill Gross and Dan Fuss are openly expressing concerns about the future prospects for bond investors and *Money* magazine published a feature article in its June edition entitled "Bonds: Avoid the next great bubble." The closest thing to optimism that can found on the subject of bonds comes from *Morningstar* which offers advice on how to minimize losses in bond fund investing. The distinction between owning individual bonds and holding them to maturity versus investing in bond funds is lost on much of the public.

Index Funds: The almost reflexive advice given to individual investors by luminaries such as Warren Buffett and John Bogle is to buy stocks through index funds. But, which index funds? Over the past decade, the S&P 500 Index, the Nasdaq 100 Index, the Russell 3000 Index, the Wilshire 5000 Index and even various global stock indexes have not been profitable investments. Existing stock indexes are market capitalization weighted and the argument against them is that they "buy high and sell low." At the peak of the tech/telecom boom, those stocks comprised 45% of the capitalization of the S&P 500, but only 15% of the sales and assets. A search has been underway for several years to create new stock indexes based on different formulations with (hopefully) greater chances for profitability. Two efforts have received attention. The first was Professor Jeremy Siegel's WisdomTree family of ETFs based on "fundamental value" metrics of cash dividends or core earnings, rather than simply stock price and number of outstanding shares. And, a second such effort is described in a recent issue of *Fortune* magazine. It is the brainchild of investment guru Robert Arnott. Arnott's system is also called "fundamental indexing" and it's based on the "economic footprint" of companies that compose his indexes. Since both methodologies are proprietary and relatively new, it may be years before they can be given the test of time through good markets and bad. One criticism of these efforts is that they are simply a new approach to the old strategy of value investing.

Of Note: The Minerals Management Service had about 60 safety inspectors overseeing 3,500 producing platforms and 90 drilling vessels in the Gulf of Mexico. They're paid roughly half what similar technicians earn in the private sector. Until the recent spill incident, BP accounted for 14% of all dividends received in the U.K.