Investment Forum Program for Wednesday, August 23 at 10:00

Future Meeting Schedule

The Forum will continue to meet at 10:00 AM until the Fall Program begins in September, on 9/22.

Perspective: Fairly broad, but not universal, agreement prevails within the investment community that bonds are expensive relative to interest rates in the context of recent memory. It has been decades since interest rates on U.S. Treasury bonds were this low; some maturities are at record lows. Measured against bond prices stocks seem cheap, but are they really so? The metric used to value stocks is the P/E ratio. P is the easy part; it's the E that gets complicated. Depending upon how earnings are determined and how they play out in the coming months, U.S. stocks are either fully priced or modestly underpriced but definitely not cheap by historic measures. Meanwhile, commodities are enjoying a buoyant market—for now. Potash Corporation (POT) has become the object of a hostile takeover battle and is a prime example of investor interest in the sector.

Bonds: In a *Wall Street Journal* opinion article published on August 18, Professor Jeremy Siegel argues vigorously that bonds are in a price bubble destined to end badly and dividend-paying value stocks are the place to be for long-term investors. *Barron's*, which does not speak with one voice, both agrees and strongly disagrees with the professor.

Mutual Funds: Last week, the forum's discussion of mutual funds focused on three main points: (1) the single most important factor in long-term mutual fund performance is expenses. Low expense ratios tend to produce greater returns for investors over time. (2) How much return a fund generates is less important than how much return investors receive. Investors are often their own worst enemies because of emotional buying and selling. Conservative funds that are less volatile often serve investors better than aggressive funds that are more volatile because investors are more likely to hold conservative funds through down markets and avoid costly market mistiming. (3) Morningstar's backward-looking Star system for ranking funds is of limited usefulness in selecting funds. Investors need to dig deeper for more information when selecting mutual funds. This week another topic will be discussed; namely quantitative stock-picking models. Some funds rely on them and they've not worked well in recent years. Their algorithms simply weren't programmed to cope with recent events. Their future remains uncertain.

Stock Talk: On August 20, *Kiplinger.com* posted an article entitled "7 Bargain Stocks You Can Feel Good About Now." They include Paychex (PAYX), Wal-Mart (WMT), Abbott Laboratories (ABT), Kimberley-Clark (KMB), ConocoPhillips (COP), CVS Caremark (CVS) and Microsoft (MSFT). On the same day *Barron's.com* post an article entitled "More Pop in Store for Pepsi," which offered a bullish argument for PepsiCo (PEP).