Investment Forum Program for Wednesday, February 16 at 11:45

Follow Up: Last week's session covered a lot of ground in a short period of time. Some follow-up discussion is warranted.

Exchange-Traded Funds: For members who are unfamiliar with exchange-traded funds, the following website provides a wealth of introductory information: http://en.wikipedia.org/wiki/Exchange-traded_fund. Most investors will encounter them at some point. The topic is broad enough to be the subject of an entire course.

P/E Valuations: Professor Robert Shiller has developed a proprietary "cyclically adjusted price earnings ratio" (CAPE). It purports to prove that the current stock market is overvalued by 45%. In an online article, *Fortune.com* argues that "While the CAPE ratio can be useful when combined with other valuation methodologies, the ratio has significant limitations as a standalone valuation metric." The article can be read at http://money.cnn.com/2011/02/09/pf/shiller_cape_ratio.fortune/index.htm.

Cash Flow: An online article from *The Street.com* argues that "A business that collects cash before reporting revenue is better than the reverse."

Market Dynamics: High-speed trading (as discussed at the forum several weeks ago) is creating new realities in financial markets that are startling.

Return on Equity: The Jensen Fund (JENSX) uses shareholder return on equity as its primary metric in stock selection. Over the long term, it has provided returns that are a few percentage points higher than the S&P 500 Index, but with less downside risk. A *Kiplinger* article on the fund can be found at http://www.kiplinger.com/columns/fundwatch/archive/2009/fundwatch0917.htm.

Sectors: Health care is the cheapest sector—and not without good reason. But, are the sector's obvious problems already priced into stock prices, and will the sector experience a reversion to the mean? A decade ago the sector commanded a P/E valuation premium. Today, valuations of many health care stocks are well below that of the S&P 500 Index.

Stock Talk: Are rising food commodity prices hurting or helping food processors? There is some conjecture that it may be the latter situation. **General Mills** (GIS) is an out-of-favor stock that hasn't missed or reduced a dividend payment in 112 years. **Cisco** (CSCO) is in the Dog House. All it needs to do to regain favor is make a little more money for shareholders. That's not beyond the realm of possibility for patient investors.