Investment Forum Program for Wednesday, March 16 at 10:00

<u>Future Meeting Schedule</u>

Starting March 23, the Forum will meet at **11:45**.

Perspective: Financial markets were already confounding before the natural disaster in Japan. Events there have the potential to generate economic and financial tsunamis that may be washing up on our shores for months to come. It is a foregone conclusion that the cost of rebuilding in Japan will reduce one major source of support for U.S. Treasury securities purchases.

Group Discussion: Below are a few talking points that existed before the disruptive events in Japan. Their relevancy will have to be decided on the basis of financial markets on Wednesday.

<u>Bonds</u>

- Last week, the Forum discussed a feature article from the *Financial Times* entitled "Bonds look vulnerable as interest rates set to rise." This week's issue of *Bloomberg Business Week* features an article entitled "The Makings of a Bond Debacle."
- The renowned Pimco Total Return Fund (PTTAX) has purged U.S. Treasury securities from its portfolio. Although major competitors BlackRock and Western Asset Management vigorously dispute Pimco's Bill Gross and continue to buy them.
- Meanwhile, recent auctions of 30-year U.S. Treasury bonds have drawn exceptionally strong demand.
- Skeptics worry that economic recovery has been achieved by extraordinary federal stimulus. Should that be withdrawn, the economy risks falling back into recession which would make Treasuries more attractive. That would also put state and local budgets under greater pressure and, presumably, make tax-free municipal bonds more risky.
- Finally, because the bond market has become so complex and vexing, there is a recent proliferation of "unconstrained" or "go-anywhere" bond funds that allow managers to engage in risky speculation according to their individual vision of where opportunities may lie.

<u>Stocks</u>

- The March edition of the Hendershot Investments quarterly newsletter has reached subscribers. The newsletter follows a portfolio of 42 stocks; 21 are categorized as buys, 20 as holds and 1 as a sell. That's not very bullish.
- *Morningstar* currently lists only 20 stocks as buys from the large universe of hundreds of stocks it follows. Again, not a bullish indicator.
- *Dow Theory Forecasts* informs its readers that "Fund managers have little choice but to invest their inflows." Thus, mutual fund shareholders are often captive to management imperatives that result in buying high and selling low.
- Sam Stovall of *Standard & Poor's* tells us that, historically, the third year of a bull market is usually subdued and tends to favor defensive big-cap stocks.
- Meanwhile, market guru Ed Yardeni appearing on CNBC confidently predicted that the rally would resume and reach new heights this year while fellow guru Jeremy Grantham opines that "Stocks are dangerously overpriced." Grantham is also dismissive of gold.
- Finally, uber-guru Ray Dalio interviewed in the current issue of *Barron's* favors stocks, commodities and gold, but warns against bonds.

Footnote: On Tuesday of last week, IBM held an analyst day gathering where it reaffirmed its goal of increasing earnings per share to $20 by 2015. At the current quote, that gives the stock a forward P/E of 8.