Investment Forum Program for Wednesday, September 3 at 10:30

Perspective: We are told by those who know about such things to avoid attempts at market timing. But, we also recall that investors who overpaid for stocks in past bull markets later experienced buyers' remorse. The "cyclically adjusted P/E ratio" advocated by Nobel Laureate Professor Robert Shiller is credited with having predictive value. It's currently signaling that the broad market is becoming overpriced and stock purchases made at current quotes risk yielding low returns for years to come. However, the Shiller P/E offers little clue as to the timing of a major market decline. Meanwhile, Sam Eisenstadt, the retired former director of research at Value Line, continues to crunch numbers using his proprietary forecasting model. He has a long record of successful market calls. His model is restricted to predicting market action six months into the future. Currently Eisenstadt sees the S&P 500 Index rising through the remainder of 2014. However, Eisenstadt reveals that his model is currently tilted bullish in large measure by low interest rates. Should the Fed and the bond market find reason to change course and rising rates become a concern, all bets are off and it's back to the drawing board.

Diversification: So, how much diversification does an individual investor need to be safely diversified? Several studies indicate not much. A traditional 70/30 domestic stock/bond mix including just a couple dozen carefully selected stocks will do just fine. Adding more provides only marginal benefits.

Funds: Columnist Jason Zweig writing in the August 23 issue of The Wall Street Journal asserts "Active fund management is outmoded, and a lot of stock pickers are going to have to find something else to do for a living. The debate about whether you should hire an 'active' fund manager who tries to beat the market by buying the best stocks and avoiding the worst—or a 'passive' index fund that simply matches the market by holding all the stock—is over. Stock picking has seen its day." Meanwhile over at Kiplinger's, two writers say not so fast. "Stock index funds are performing superbly as the bull charges ahead. But don't look for them to protect you when the market stumbles." "Would we all be better off simply investing in index funds? The honest answer is that it's too soon to say; we won't know for sure until we experience a significant decline in share prices."

Stocks: The Kiplinger website has an article entitled "8 Great Dividend Stocks You Never Heard Of" and John Buckingham, editor of The Prudent Speculator newsletter, has a current column in Forbes entitled "Where Are You Looking For Yield Today?" The two articles provide a contrast. Some of the stocks recommended by Kiplinger appear to be fully priced or even overpriced (certainly overpriced for Josh Peters). The Prudent Speculator is a strongly value-oriented publication that recommends purchasing stocks disdained by Wall Street analysts and has done so with considerable success for decades. One way of contrasting the two lists of recommendations is that to buy the Kiplinger list in the current market an investor might need to cross his or her fingers for luck. To buy The Prudent Speculator list one might need to hold their nose. But, on an individual selective basis, both lists include some interesting possibilities. Both articles can be googled.

Buys:
Schlumberger (SLB) – 2 buys
Consumer Portfolio Services, Inc. (CPSS)
Walgreen (WAG)
LinkedIn (LNKD)
Infera (INFN)
Dow Chemical (DOW)
Intel (INTC)
ConocoPhillips (COP)
Wells Fargo (WFC)
TransCanada (TRP)
First Trust Energy Infrastructure ETF (FIF)

Sells:
Corning (GLW)
SPDR Gold Shares (GLD)
American Capital Agency Corp. (AGNC)
Advanced Micro Devices (AMD)
Covered call on Intel 9/26/14 @ $36

Thinking About:
Fidelity Contra Fund - selling
Apple (AAPL)
Cheesecake Factory (CAKE)

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