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Wenning Investments, LLC

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Dear Brenda,

Welcome to the first issue of "Wenning Advice." We will be e-mailing our newsletter to clients and friends monthly. If you have a friend who might benefit from "Wenning Advice," please [reply here](#). If you would like to be taken off our list, please click the *SafeUnsubscribe* link in the footer of this email.

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Don't Pay Twice For the Financial Bailout

Your portion of the \$700 billion bailout legislation will be high enough. Don't let your financial advisor make you pay twice.

Most investment managers and financial advisors follow a "buy-and-hold" strategy, which recommends that you take a long-term view and hold on to your investments, making only conservative adjustments, regardless of how the market acts.

But the consequences of a buy-and-hold approach can be hazardous to your financial health.

The stock market has seen 14 bear markets since the Great Depression. If you were following a buy-and-hold strategy and invested all of your money in the S&P 500 stocks, during a typical bear market it would take you an average of 3.6 years of market growth just to break even (*see chart*).

Our calculation is based on bear markets since the Great Depression. For anyone invested in the S&P 500 stocks during the Great Depression, it would take 25.2 years of market growth just to break even!

Considering that news reports are calling the current meltdown the worst financial disaster since the Great Depression, do you really want to follow a buy-and-hold strategy?

S&P 500 Index Bear Market Study

September 1929 through 2007

Bear Market	Duration	% Decline	Time Needed To Break Even
Sept. '29 – June '32	33 months	86.7	25.2 years
July '33 – Mar. '35	20 months	33.9	2.3
Mar. '37 – Mar. '38	12 months	54.5	8.8
Nov. '38 – Apr. '42	41 months	45.8	6.4
May '46 – Mar. '48	22 months	28.1	4.1
Aug. '56 – Oct. '57	14 months	21.6	2.1
Dec. '61 – June '62	6 months	28.0	1.8
Feb. '66 – Oct. '66	8 months	22.2	1.4
Nov. '68 – May '70	18 months	36.1	3.3
Jan. '73 – Oct. '74	21 months	48.2	7.6
Nov. '80 – Aug '82	21 months	27.1	2.1
Aug. '87 – Dec. '87	4 months	33.5	1.9
July '90 – Oct. '90	3 months	19.9	0.6
Sept. '00 – Mar. '03	30 months	49.0	6.8 (projected)

Source: Financial Communications Associates, Inc. Updated through 2007.

Buy-and-Hold vs. Active Management

When financial giants like Lehman Brothers, AIG and Merrill Lynch all run into trouble, it doesn't take a great deal of market savvy to figure out that you're going to be in trouble, too.

In recent weeks, active managers have been dramatically reducing their clients' stock holdings. Conversely, buy-and-hold managers may not have been doing much buying, but they've been holding, in spite of strong signs of a market meltdown.

Sure enough, the Dow Jones Industrial Average dropped 500 points on Sept. 15 and 777 points on Sept. 29. It made some gains along the way, but on Oct. 6, the Dow fell below 10,000 for the first time in four years.

Those whose money is actively managed have, in many cases, minimized their losses. Those who follow a buy-and-hold strategy have shared Wall Street's pain.

Buy-and-hold managers will tell you that you can't "time the market," and they're right. No one knows for certain when the market will go up or down. But when all signs point to a down market, does it make sense to keep your life savings invested in the stock market?

How Active Management Reduces Risk

What if a bell went off every time market conditions warranted having you sell your stocks?

That's close to the way active management works. Active investment managers use proprietary models based on economic and financial data to generate "stops" that tell them when it is time to sell a stock and

"alerts" that tell them when it is time to buy a stock. They also use other tools to reduce risk, such as hedging, establishing price targets and diversifying based on a set allocation of assets.

"Buy-and-hold" managers typically focus on diversification, but it's not enough. More is needed to manage risk, given today's volatile market conditions.

The following is a description of these investment tools and how they are used by active investment managers. More in-depth descriptions will be included in future issues of *Wenning Advice*:

Stops. A stop loss point is established whenever a new investment is made. A "stop" or "stop-loss order" protects the investor by automatically selling shares when the stock price drops to a predetermined level. If the investor is uncomfortable taking a loss of more than 15% on a stock selling for \$100 a share, for example, the stock would automatically be sold if its price dropped to \$85. If the investment appreciates in value, the stop is moved up to protect the gain.

Alerts. Traders on Wall Street have long used sophisticated systems to help them identify the most appropriate times to buy and sell. "Program trading" was criticized as a system that helped the rich get richer, as it was unavailable to the average investor.

Today, though, investment managers with the appropriate trading systems can help their clients by alerting themselves when heavy buying or selling of a stock takes place, or when other critical changes in the market occur. No one can predict with certainty how the market will perform at any given time, but investment professionals should have a good idea about support and resistance areas in the market, and whether the market can sustain them.

Price targets. Investment managers typically invest in a stock with a specific price target in mind. Based on their analysis of the stock, they expect it to reach a target price of a certain amount over a given period. Price targets are obtained through a careful analysis of the stock, including a review of its trading history, its price-to-earnings ratio and many other factors. There are many methods for calculating the target price, and the price achieved through an analysis of fundamental data, for example, could vary significantly from the price target calculated using a technical analysis, which relies on market trends.

Once the target price is achieved, all or a portion of the stock is sold.

Hedging. You've likely heard the term "hedging your bets," which applies to gambling. A gambler may decide to bet on two different outcomes as a way to improve the odds of winning. Likewise, hedging can mitigate risk for investors. Hedging is used to reduce the risk that an investment will decrease in value by investing in an offsetting position in a related security, such as a futures contract. A futures contract obligates the buyer to purchase the stock or other asset at a predetermined price at a future date. Hedging can be an effective way to reduce price volatility.

Portfolio allocations. Diversification is key to managing risk. If you invest all of your money into one stock, your investment performance

depends on the performance of one company. Diversification helps investors manage risk, because the risk in one investment usually balances the risk in another investment. At any time, one asset class will outperform another. Diversification spreads the risk and ensures that the investor participates to some degree when an asset class appreciates in value.

While past performance does not guarantee future results, these tools historically have helped investors to significantly reduce their investment risk and increase their long-term gains.

Keep in Touch

Have an idea for a future issue of Wenning Advice? Are you interested in active investing or would you like to refer a friend who may be interested?

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