In This Issue

A Year After the Crash

Gold Adds Luster To Investor Portfolios

Q&A

Learning From Your Investing Mistakes

Join Our Mailing List

Click Here

Wenning Investments, LLC

Wenning Advice

Vol. 1 - Issue 11 **October 2009**

A Year After the Crash

It's been more than a year since the biggest stock market crash since The Great Depression.

What's happened since then - and what lessons can investors learn from everything that has happened?

First, the stock market has rebounded significantly, proving its resilience. Traditional buy-and-hold investment managers and investors are taking some comfort in the rebound, as the S&P 500 gained 51% from its intraday low in March.

However:

- Losses have yet to be fully recovered. The rally is bittersweet for most buy-and-hold investors, as the S&P 500 is still down 37% from its 2007 high.
- The market would have to gain another 50% just to push the S&P 500 Index back to 1500. We'll likely get there eventually, but another 50% gain will be much more difficult to achieve and will take longer.
- Active managers who told their clients to get out of the market last year helped them, in many cases, avoid losing half the value of their investments. While few investors timed the move perfectly, those who sold off last fall and began reinvesting last spring were largely able to avoid last year's losses and still take advantage of

gains that have taken place since March.

The earnings and economic news has been good enough to spur a trading rally. We've avoided a worst-case economic meltdown, but the economy still appears to be too weak to sustain a long-term bull market.

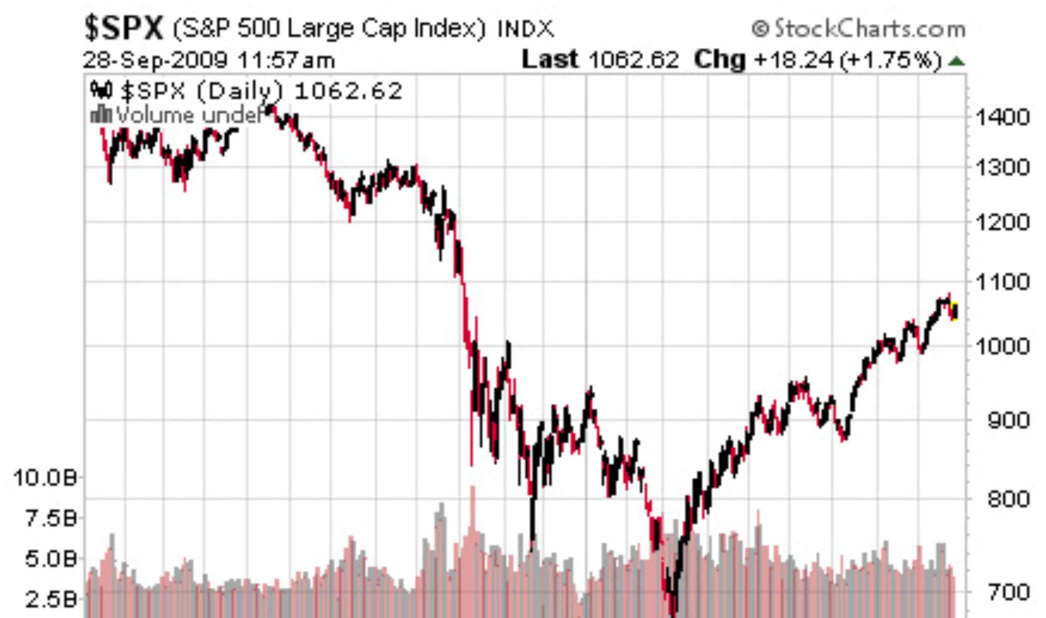
Monetary and fiscal policies have provided support to our economy, yet some unintended consequences are no doubt developing and will result from those policies that brought us back from the brink.

Granted, the economic data is going to look positive over the next few quarters as we bounce off depressed levels, but the improvement will not be sustainable unless demand picks up.

The consumer drives the U.S. and global economy. Yet the household sector has never been so stressed. Savings has to go much higher and that is going to slow growth of consumption, even when incomes start growing. Households around the world are experiencing the same constraints on credit and consumption as the U.S. This scenario will lead to slower growth.

The current high level of money market fund assets reflects the idea that capital preservation is still on investors' minds, as does the rush into municipal bond funds.

The anniversary of the Lehman Bros. collapse, which is widely viewed as the key event in the financial crisis, was widely covered by media such as ABC, MarketWatch, *Time* and *The Washington Post*. The coverage is a good reminder of why investors need to proceed with caution, even during the current recovery.



F M A M J J A S O N D 09 F M A M J J A S

Gold Adds Luster To Investor Portfolios

In the last issue of *Wenning Advice*, we suggested that gold could be a good investment, given factors such as a weakening dollar and a high level of government spending.

Our prediction proved to be right, as gold broke the $1,000 an ounce barrier in September for the first time since February.

A meeting of the Group of 20 finance ministers, in which world leaders said they would stick with current loose monetary policies, served as a catalyst to boost gold prices.

Meanwhile, the dollar weakened further based on a United Nations report recommending that the dollar no longer play a central role in world monetary policy. A system of managed exchange rates similar to the European Monetary System is one alternative being discussed.

While deflation remains more of a threat today than inflation, that could change if the dollar continues to weaken. The weak dollar is already keeping oil prices higher than supply and demand would dictate, for example.

In addition to investing in gold, there are other ways to take advantage of the weak dollar:

- **Invest in foreign markets.** When gains in investments are translated back into dollars, your gains will be even higher if the dollar is weak. There is an inverse correlation between the value of the dollar and the performance of emerging markets.
- **Invest in companies that export.** When the dollar is weak, American products can be produced at a lower price relative to what's charged by competitors from countries with stronger currencies.
- **Invest in stocks of large companies.** Companies that do most of their business abroad typically benefit from the falling value of the dollar. These tend to be large companies.

Companies hurt by the falling dollar include U.S. companies that rely on imported parts to produce their products, since their cost of production will increase.

As mentioned earlier, stocks, as a whole, appear to be overpriced now, so invest with caution. Keep in mind that the value of the dollar is just one factor that will affect the price of a company's stock.

Q&A

Should I consider investing in municipal bonds or a municipal bond fund?

Municipal bonds and municipal bond funds are currently in vogue, because many people think that taxes will be rising to pay down some of the trillions of dollars that have been added to government debt.

Since municipal bonds are exempt from federal taxes, the higher taxes are, the more attractive the returns on municipal bond funds will be. If the municipal bonds purchased are issued in the state in which you reside, they typically will be exempt from state taxes, too.

Returns on municipal bond funds are typically low, especially in the current low-interest rate environment, but most municipal bonds carry little risk. Regardless, be sure to check the credit rating of the agency that is issuing and servicing the bonds before you purchase them.

There are two types of municipal bonds - general obligation munis and revenue bonds. General obligation bonds (GOs) are issued to pay for specific projects, while revenue bonds are issued by entities sanctioned by local governments, such as utility companies. GOs typically carry less risk.

Before purchasing municipal bonds or a municipal bond fund, be sure to compare the returns with those available from corporate bonds. Keep in mind that tax rates may increase, but if the returns on corporate bonds significantly outweigh the returns on municipal bonds, they may still be the better investment.

Learning From Your Investing Mistakes

Many financial advisors recommend that their clients use "dollar cost averaging," which is the practice of investing a set amount each month, or even each week, based on the idea that consistent investing will help to smooth out market volatility.

The idea is sound. Dollar cost averaging helps investors ensure that they will buy low and sell high, at least some of the time. It would be best to invest only when the market is going up, of course, but no one can predict market direction with any accuracy long term. By instead investing consistently, you can hedge your investments. When the market is down, you will be able to buy more shares for the same amount of money. When it is up, you may not be able to buy as many shares, but will benefit from your earlier investments.

Mistake #10: Failing to Invest Regularly. When you invest a set

amount each month, you can reduce your risk. You can't predict how your investments will perform in any given month, but you can be pretty certain that you will have months when your investments perform well and months when they perform poorly.

If you were to invest all of your money at once, you would run the risk of investing just when the market is about to drop in value.

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?

Contact Brenda P. Wenning, principal of Wenning Investments, LLC of Newton, Mass. She can be reached at Brenda@WenningInvestments.com or 617-965-0680.

Visit her Web site at www.WenningInvestments.com.

Visit Brenda's blog at www.WenningAdvice.com.

If you would like to be taken off our list, please reply here. If you have a friend who might benefit from "Wenning Advice," please reply here.

Forward email

SafeUnsubscribe®
This email was sent to brenda@wenninginvestments.com by brenda@wenninginvestments.com.
Update Profile/Email Address | Instant removal with SafeUnsubscribe™ | Privacy Policy.

Email Marketing by

Wenning Investments, LLC | 275 Grove St., Suite 2-400 | Newton | MA | 02466