Wenning Advice

Wenning Investments, LLC

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In This Issue

"I realized when I saw the market starting to change that the old buy-and-hold strategy just doesn't work," says Mr. Porter, whose account was already down 20% last year by the time he went to Ms. Wenning. She immediately shifted his investments into cash - a move he calculates saved him $80,000.

From ***The Wall Street Journal****, April 29, 2009*

"Buy-and-Hold" RIP?

First, *The Wall Street Journal* published an article noting that a growing number of investors are abandoning the traditional "buy-and-hold" approach to investing. Then it published a second article noting that a growing number of financial advisors and investment managers are abandoning the "buy-and-hold" approach.

The second article, which can be found in its entirety here, includes the quote above about Wenning Investments.

In the initial article entitled, "More Investors Say Bye-Bye To Buy-and Hold," reporter Jane J. Kim wrote, "The ups and downs of the market are prompting more retail investors to abandon buy-and-hold strategies in favor of opportunistic trading. Some want more control over their money, so they are fleeing funds and advisers - not to mention the feelings of helplessness raised by recent months' losses."

Investors interviewed were trying a variety of investment strategies, while trading on their own.

While a "buy-and-hold" approach works fine in a bull market, as one financial advisor noted, investors following that approach during a bear market or a volatile market may end up giving back all of their profits.

The media are starting to notice.

What's Next: Deflation or Inflation?

The relatively low rate of inflation we've enjoyed now for decades is all but taken for granted.

But it shouldn't be. Significant changes in the consumer price index and the overall rate of inflation - heading either up or down - can have a profound impact on your investments and on the economy as a whole.

In the 1970s, when the U.S. experienced double-digit inflation in some years, the stock market was down, unemployment was up ... and the economy as a whole was not much different than it is today.

After this period, the Federal Reserve Board entered into a period where its primary role was seen as controlling inflation. It has filled that role with a fair degree of success. So why should we be worried about inflation? Or, conversely, deflation?

The Fed's Changing Role

Last year, the Fed's role changed. As the subprime crisis evolved, the Fed put aside its focus on inflation and focused on the crisis, dropping interest rates to record low levels. In addition, oil prices spiked, contributing to an overall rate of inflation of 3.85%, which was the highest level of inflation since 1991, when the inflation rate hit 4.25%.

The federal government also reacted to the crisis by spending trillions of dollars in the hope of stimulating the economy. However, the added spending is likely to result in an increase in the money supply. Increasing the supply of money would reduce the value of the dollar, spurring inflation.

However, the first few months of 2009 have been a deflationary period. As in the Great Depression, prices are actually falling. Prices of real estate and oil, in particular, have decreased significantly.

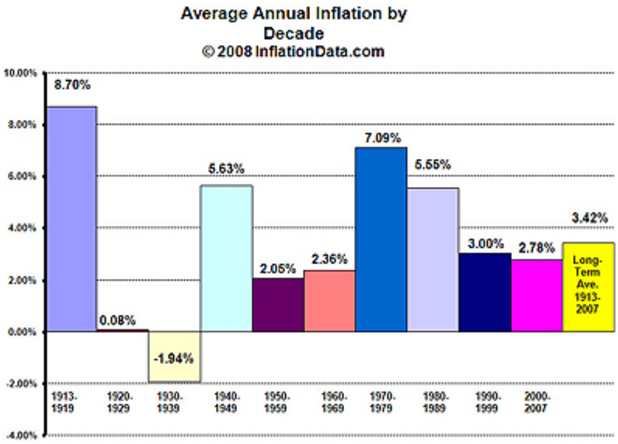
Some believe deflation will continue, driven by factors such as a curb in spending by baby boomers as they approach retirement, and efficiencies caused by globalization and technological improvements.

To the consumer, falling prices may seem like a good thing. However, prices drop only in response to falling demand. When demand falls, businesses are less profitable. Stock prices drop, unemployment increases and bankruptcies rise. In periods of deflation, consumers put off purchases and wait for prices to fall further, which contributes to even further deflation.

Conversely, when inflation rises, consumers buy less because they can afford less. The price of doing business also increases, which has a spiraling effect on the cost of goods.

Short-term, deflation is likely to continue, but inflation may heat up at any time. The market is likely to be volatile as a result, and investors who follow a "buy-and-hold" strategy could be hurt yet again.

The best approach is to keep a close watch on price trends and to adjust investments accordingly. At times like these, it is more important than ever to be nimble and to act quickly as market conditions change.



Q&A

What's the difference between a financial planner, a stockbroker and a money manager?
A certified financial planner (CFP) has broad knowledge of various areas of finance, including insurance and estate planning. CFPs can help investors meet personal financial goals, such as saving for retirement or your children's college education.

While CFPs may advise clients about their investments, they are not full-time investment managers and, therefore, are typically not as knowledgeable about investments as stockbrokers and money managers.

Stockbrokers help investors set asset allocation strategies and work with pre-qualified money managers to manage client investments. Money managers are chosen based on each client's investment style and specific needs.

If you work with a stockbroker, you will typically pay a fee ranging from 2 percent to 3 percent of assets, since the stockbroker and money manager will each be receiving a commission. The "wrap fee" is based on a bundling of services, but you may not need all of those services and the fee will take away from your overall profits.

A third alternative, working directly with a money manager, is typically more affordable.

Money managers who work with individual investors are responsible for making buy-and-sell decisions pertaining to a specific investment strategy. They typically have a thorough understanding of financial statements and how the economic cycle impacts future investment decisions.

Transparency is another benefit of working with a money manager. Working with a money manager, you will have a record of every transaction and all fees related to your investments.

Learning From Your Investing Mistakes

Other than what you invest in, two factors will determine your long-term investment success - when you buy and when you sell.

We've written in the past about the use of "stop losses," which active investment managers use to determine when to sell specific investments. But there's also a flip side to "stops" called "alerts" that tell active managers when to buy stocks. "Alerts" help keep us from making the common mistake we're writing about this month.

Mistake #5: Buying High.
We all want to buy stocks that are on their way up, but by the time many investors purchase a stock, it's reached its peak and may be on its way down.

Be cautious about chasing hot stocks or market sectors. You may get a "tip" about a "hot" stock from a friend, an uncle, your dentist or some other acquaintance. You may have been tracking a stock's performance and have seen the price rise consistently.

By the time you get the tip from Uncle Joe, it's likely that thousands of other investors have received the same tip and have invested in the stock. As more investors share the tip, the stock price may continue to rise, but will typically fall back quickly to a more realistic level.

It's true that if you don't invest in a "hot" stock you may miss out on a good opportunity. But the odds are even greater that you'll be buying the stock when it is overpriced.

A fundamental analysis of any stock should tell you or your investment manager whether the stock is attractively priced, while a close review of market trends should help determine whether the stock price is likely to be affected - either positively or negatively - by market conditions.

If an analysis shows that the stock is worth buying, you or your investment manager may establish a "target price," based on the company's outlook. When the stock reaches that price, it may be time to sell some or all of your shares to lock in a profit.

Today's winners can quickly become tomorrow's overvalued stocks. Smart investors continually evaluate their investments in light of the current economic climate and adjust their portfolios accordingly.

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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