Leigh Baldwin & Co.
Investment Brokerage
112 Albany Street
Cazenovia, NY 13035
www.leighbaldwin.com

Pulling the Plug *continued from page 3.*

line with that of the S&P 500, which is currently 22.83 times (3/8/04) the past 12 month's earnings.

Common mistakes to avoid

1. Do not let the tax tail wag the investment dog.

The cardinal rule for investing is to allow the basic validity of the investment to be the deciding factor in whether to acquire, hold, or sell it. Thus, tax considerations should always play a secondary role in your decision. But once a decision has been reached, the manner of implementation frequently can affect your profit (or loss).

2. Give the IRS its due.

Do not cut off your nose to spite Uncle Sam's face. Many investors who have enjoyed substantial capital appreciation on well-chosen securities are reluctant to realize these profits due to the capital gains taxes involved. That can be a costly mistake. If good judgement dictates that the time has come to unload, then the investment should be sold. A large profit—even one in which the IRS shares—is better than a smaller profit later. (*The IRS would share in that profit as well.*) When it is time to sell, sell—and give the IRS its due.

3. The stock does not know that you own it!

All too often, an investor falls in love with a stock. "My grandfather gave me this stock, and I will not sell it no matter where the price goes." Investing profitably requires decisions based on sound principles, not on emotion. Consider the stock's performance and prospects, not how it pulls at your heart strings.

4. When in doubt, sell half your position.

If you own a stock that has performed brilliantly over the years and are uneasy about the current market environment, sell half the position. This will enable you to lock in a profit and still have a chance to participate if the market continues higher.

5. Do not pick the flowers and water the weeds.

A well-managed stock portfolio is like a beautiful garden. However, some investors make the mistake of selling only the winners and keeping the under performers. ■

NASD NATIONAL ASSOCIATION OF SECURITIES DEALERS

The information herein has been from sources considered to be reliable but is not guaranteed and does not purport to be a complete statement of all material facts. This newsletter is for informational purposes and is not a solicitation of orders to purchase or sell securities.

Leigh Baldwin & Co. Investment Brokerage Newsletter

Second Quarter, 2004

IN THIS ISSUE

- Improving Your Bottom Line
  Four Winning Strategies Used by the Pros
- Pulling the Plug
  How to Tell When it's Time to Sell a Stock

Leigh Baldwin & Co.
Investment Brokerage

Main Office:
112 Albany Street
Cazenovia, NY 13035
315-655-2964 • 800-659-8044
www.leighbaldwin.com

Utica Office:
258 Genesee Street
Utica, NY 13502
315-734-1410

Norwich Office:
2 Hayes Street
Norwich, NY 13815
607-334-4100

Other Offices:
Syracuse, NY
Buffalo, NY
Clarks-Summit, PA

Improving Your Bottom Line

Investing can at times seem overwhelming, but it can be simplified into 4 key concepts. The following represents the major components of a successful equity strategy including a working checklist.

Concept 1: Diversify your Investments

At the heart of modern portfolio theory is the concept of diversification. To properly diversify means to buy different types of investments so that you are not over-exposed to any one type of risk. In other words, don't put all of your eggs into one basket. As it relates to stocks, diversification is achieved by owning shares in a number of companies whose prices do not move up and down for all of the same reasons. A properly diversified portfolio will lessen the stock market peaks and valleys.

1. Number of Stocks

A vital consideration in constructing a well-diversified portfolio of equities is the number of stocks to include. The basic principle is that as the number of stocks increases, risk is reduced. How many stocks should you own? A typical standard is to limit exposure per stock to no more than 15% of your portfolio. As an example, if you have $60,000 to invest, a suggestion would be to purchase at least 7 different stocks.

2. Stay Diversified Among Industry Sectors and Investment Styles

How you diversify also has a dramatic effect on your return. The ideal way to reduce risk is to combine investments that are sensitive to many different conditions. Consider owning non-cyclical consumer stocks (such as beverage, food, drug, or household products), which are generally impacted very little by changes in the economic cycle. In addition, consider cyclical companies (such as technology, oil, automotive, steel or retail). These are referred to as industry or sector groups. In order to minimize performance volatility, try maintaining diversification among various industry groups.

3. Investment Style

Try to use a blend of investment styles. The two most commonly used investment styles are **growth** and **value**. Growth investing focuses on companies that are displaying rapid and consistent revenue and earnings growth. Value investing emphasizes the underlying value of a company's assets and is more likely to include stocks that are out-of-favor with investors. By using a balance of growth and value investing, investors will reduce performance volatility in the short term.

4. International Investing

Foreign equities offer investors the opportunity to gain exposure to non-U.S. economies and markets. The inclusion of overseas investments will reduce the overall risk in a portfolio since foreign markets and economies are influenced by different factors than the U.S. market. Owning an international mutual fund is a conservative strategy for gaining foreign exposure. Many countries have changed from state-run, managed economies to more capitalistic, market-based economies. During the transition periods, there are usually large demands by consumers for goods and services.

Concept 2: Develop a Strong Buy and Sell Discipline

> ***"Buy a stock the way you would buy a house. Understand and like it such that you'd be content to own it in the absence of any market."***
>
> **Warren Buffet**

Since human nature makes it difficult to buy low (when everyone else wants to sell) and sell high (when everyone else is eager to buy), many professional investors have developed econometric models that attempt to predict the market's movements. Many studies

show, however, that the majority of market timers are unable to outperform a solid buy and hold strategy. A few strategies that will help you to develop a strong buy and sell discipline are:

1. Dollar Cost Averaging—a Prudent Strategy for Investing in Changing Markets

Rather than trying to time market highs and lows, investors should adhere to a strategy known as dollar-cost averaging—making equal-sized investments on a regular basis without regard to market timing. The advantage is that you buy more shares when the price is lower and fewer shares when the price is higher. *(It should be emphasized that this is a strategy which neither assures a profit nor protects against a loss in a declining market.)*

2. Rebalance Your Portfolio Periodically to Maintain an Appropriate Asset Mix.

The best way to explain this strategy is with an example. Suppose that an investor, whose primary objectives are long-term growth with a little income, determines that an asset mix of 70% stocks and 30% fixed-income is appropriate. When the asset mix varies from the pre-established target, the portfolio should be readjusted. For instance, with the tremendous rise in the stock market over the last 7 years, your asset mix might have expanded to 90% stocks and 10% bonds. Since the current asset mix no longer complies with your pre-established target, your portfolio should be adjusted accordingly. This discipline correctly forces the investor to sell into a rising market and buy into a falling market.

3. Rebalance Your Stock Holdings to Maintain an Appropriate Level of Diversification.

By maintaining diversification, you will reduce risk as well as establish a strong buy/sell strategy. For example, rebalancing stock holdings will force the investor to reduce exposure to industries and individual positions that have become overweighed because of strong performance.

Concept 3: Buy Stocks with Consistent Earnings

It is vital for you to own companies that will perform well over the long term. A record of consistent earnings over a long period of time gives you the confidence to hold the stock during turbulent market fluctuations. When conditions reverse, you will be reasonably assured that your stock will again prosper. Look for companies with successful management and well-defined business strategies.

What are some of the characteristics to look for in choosing prospective companies?

- ☑ Participation in a growing industry or market niche
- ☑ Evidence of an increasing level of market awareness with the ability to change
- ☑ Unique competitive advantages (i.e. technology, marketing skills, low cost structure)
- ☑ High barriers to entry for new competitors

When positive fundamentals change or are no longer present, consider selling the stock.

Concept 4: Have Realistic Long-Term Expectations

Although the long-term trend for stocks is upward, there are many peaks and valleys along the way. The long-term investor should be prepared for the declines that will occur. Rather than trying to predict the market's next correction, try to develop a philosophy that recognizes that these declines are buying opportunities.

Investors should focus not on market direction, but on disciplined, periodic accumulation of quality growth stocks at depressed prices, undervalued secondary or special situation stocks, and/or quality stocks on a dollar-cost averaging basis.

To maximize your return, consider an investment horizon of at least five years for any portfolio containing equity securities. For any portfolio with less than a five-year holding period, the portfolio should probably consist predominantly of fixed-income investments. This five-year investment period is critical. The investment process must be viewed as a long-term plan for achieving the desired results.

Check List for Improving Your Bottom Line

- ☑ A good rule is to limit exposure per stock to no more than 15% of your portfolio.
- ☑ Stay diversified among industry sectors and investment styles.
- ☑ Consider dollar-cost averaging for at least a portion of your new investments.
- ☑ To further diversify, include some exposure to international equities or mutual funds.
- ☑ Determine what percentage of your portfolio should be invested in stocks—and periodically readjust back to the original objective.
- ☑ Buy well-managed companies that are leaders in their industries.
- ☑ The investment process must be viewed as a long-term plan for achieving the desired results. ■

Leigh Baldwin & Co. Investment Brokerage Mission

Our mission is to maintain ***Leigh Baldwin & Co.*** as a leader in serving the financial needs of all investors. To fulfill this strategy, we will serve our clients with the highest level of integrity, efficiency and performance. "Achieving our clients goals" will be our measure of success. ■

Pulling the Plug

How To Tell When It's Time To Sell A Stock

With the tremendous rise in the stock market over the past 15 years, you might want to consider pruning some of the most vulnerable stocks from your portfolio. But which ones are they? Tough question. There is no magical bell that rings to tell you that your stock has gone from undervalued to overvalued. Selling the stocks that have made you money—or, for that matter, selling your under performers or mistakes—is one of the most difficult decisions an investor must make.

What are the secrets that professional money managers use for cashing in winners and unloading losers? What are the rules that take emotion out of the decision process? The following discussion will outline how the pros maintain their selling guidelines.

Market conditions

If you have invested in individual stocks or in the so-called "sector" mutual funds, which are mutual funds that concentrate on specialized industries, you need to consider how general market trends affect your portfolio. Will interest rate hikes reduce the earnings of your bank or utility stocks? Will reduced demand for cellular phones affect your telecommunications stocks? If the consumer is not spending, what will happen to your retail stocks? Will the success or failure of health-care reform benefit or harm the value of your biotech, drug, health care or tobacco stock. How will changes in OPEC affect your oil stocks?

Price/earnings ratios

A stock P/E ratio is a good measure of whether the stock is undervalued, overvalued or about right. The actual calculation is made by dividing the stock price by the earnings per share. Many newspapers list the current P/E ratio next to the price of a stock. Also, your broker will have the information for you.

There are two simple ways to evaluate a stocks P/E ratio:

1. Company History

Value Line investment reports, available at many public libraries, show what individual company P/E ratios have historically been. If your company's stock is at the high end of that historic range, maybe your company is growing at a faster rate. If not, your stock might be overvalued and would be a good candidate for sale.

2. Industry History

Compare the P/E ratio of other stocks in the same industry — is there a disparity?

Corporate change

Mergers, restructurings, and subsidiaries for sale can cause companies to change directions. If what drew you to buy the stock changes, consider selling.

Results

Not all stocks that you buy move in the direction that you expect. If you bought a stock and it goes down 15-20%, consider selling. That loss is an indication that you either overpaid for the stock or were mistaken about the company's fundamentals. Preservation of capital is the key to investment success.

Stock has reached price target

Ideally, you should be buying stocks when you think that they are underpriced and sell them when they are fully valued. This determination demands an analysis of the company's fundamentals, such as price relative to earnings, dividend yields and growth prospects. Also, try to target a future price based on the company's underlying value. For instance, you may think that a stock that is selling for $35 is worth $50 per share. Remember the target price. Once the stock hits its target price— sell it!

When to switch out of mutual funds

When you invest in mutual funds, funds managers are constantly analyzing the fundamentals of each stock in their portfolio. You can monitor the fund manager by comparing the performance of your fund to that of a similar fund. A good rule of thumb is an analysis of at least five years. If your fund is not among the top 100 for four quarters in a row, it's time to look for a better option. For a comparison of mutual funds, check out Morningstar at your library. Also, if there has been a dramatic switch in management, consider switching. If you don't switch, you have no way to gauge how well the new fund manger has performed.

Tips on when to sell growth stocks

Growth stocks typically grow by 15 per cent or more, versus about 7 percent for the typical stock in the S&P 500. But their stock prices can start eroding long before their earnings growth declines.

The problem with hot growth stocks occurs when security analysts continually increase estimates after each positive earnings report. The forecasts become similar to raising the bar on the high jump. The estimates become so high that the company could never clear the bar. Disappointed shareholders then dump the stock with a vengeance.

When the selling starts, it's often too late for you to get out with gains intact. Here's a rule of thumb! Sell your stock when it's P/E ratio, based on next years earnings, is 25 to 30 percent higher than the rate of the company's sustainable long-term earnings rate.

Another alert signal—two or more quarters of disappointing sales or earnings growth. For an explanation, call ***Leigh Baldwin & Company*** or your company's investor relations department. One or more earnings disappointments tend to forecast industry maturation.

Selling value stocks

Value investors are constantly searching for out-of-favor stocks, which are characterized by depressed P/Es. To a value buyer, a stock reaches its sell point when its P/E ratio comes into