Leigh Baldwin & Co.

Investment Brokerage

The winds of winter are in full attack. With no offense to Al Gore, it still gets awfully cold in Upstate New York this time of year. The other day I was travelling and my car thermometer gage was registering 10 degrees. By the time I reached a thru-way exit just west of Albany, the temperature had reached 17 degrees, a whopping 70% increase! While I filled the gas tank, it was very hard to appreciate that 70% increase in temperature, let alone feel my hand on the nozzle.

Therein rests the problem with percentages. The financial industry is dominated by the use and misuse of percentage returns. While helpful as a means to measure performance, there are pitfalls to depending too much on Wall Street's fascination with them. Here is one example, The Dow thirty stocks achieved an approximate 22% return in 2009, as investors were able to breathe a sigh of relief after the carnage of 2008, where the Dow dropped just under 34% (the third worst yearly performance in history). At first glance, we are led to believe that last year's return of 22% got back most of 2008's losses as Wall Street puffs their chests out. Further analysis though, when looking at returns in actual dollar terms leads to a different conclusion. $100,000 invested in 2008 became worth $67,000 at the end of the year. That $67,000 would be worth $81,740 at year end 2009, which is obviously better but still translates to a two year loss of about $18,230 in real money.

Another example of the percentage deception is with the way Wall Street charges fees on mutual funds and managed accounts. The average equity mutual fund and managed account charges about 1.5% per year in management fees which does not sound bad initially. "We are on the same side as you, we make more money when you make more money" is the typical Wall Street rally cry. But let's go back to our previous example of $100,000 invested at the start of 2008. At the end of year one, the account is worth $65,500. With the rebound of 2009, your investment bounces back to $78,928, a loss of $21,072. Wall Street has made $2482 for their efforts, so yes they make more money when you make more money, but they also make money when you are down 21% over two years. These two examples only become more magnified when taken over a longer period of time. Further adding to the challenge is the current low interest rate environment which is clearly keeping investment returns muted.

The point is this, using percentages without really understanding the impact of real returns can be misleading. Wall Street's fascination with fee based compensation sounds great in theory. Upon further reflection though, the net result, or real money in your pocket, should be the primary concern. Our goal is to help investors understand the investment process, manage risk, and have their investments perform on an absolute basis without being left out in the cold.

January 2010 came out of the gate with the same strength we saw for the last nine months of 2009. Seven of the first eight trading days were positive and we were able to achieve 15 month trading highs in the major stock averages. Political mishaps, Chinese stimulus fears, and assorted debt and economic concerns snapped the winning streak mid-month and for the last two weeks of the month we came down hard. For January, the Dow was down 3.5%, the NASDAQ

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fell by 5.4%, and the S&P dropped 3.7%, the third straight negative opening month of the year. With that being said, we continue to like the following investment themes…

1) Interest Rate increase. Although the Fed may not raise rates this year like expected, that specter is still out there and the risk reward for bond funds continues to be negative and we would be cautious in that regard. Eventual higher rates would be an instant positive for brokerage stocks, many tech companies, and companies with the most solid balance sheets.
2) Commodity Stocks. Even with a recent sell-off, the large integrated oil companies present significant profit opportunities. With sugar at multi-year highs, and record cold in the South (think oranges), combined with an Americanized appetite for emerging nations, we see food prices rising.
3) Bonds and CD's that are laddered. Investors that spread their fixed income over short and longer term maturities will be able to manage this low interest rate environment; even though current yields are disappointing to say the least.
4) Pharmaceutical and Bio-tech. Long suffering pharmaceutical investors may finally have returns as the political health care reform losses steam. Bio-tech is probably the growth area for tech in the near future.

The New Year has begun, at first with a boom and then with a bit of a bust. Corporate earnings have been solid, albeit versus relatively easy comparisons. As we look ahead, just as the spring follows the winter, the economy will recover and we can put the previous decade behind us. We believe investors need to be nimble, worldly, and aware of the costs involved. We look forward to serving you, 100%!

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