Leigh Baldwin & Co.

Investment Brokerage

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Most likely you have had one, a "falling dream. In fact, researchers say the average human will have a dream about falling to their death more than 5 times in their life and it is the most frequent of all common dreams. These same researchers have characterized "falling dreams" as meaning that you have lost control with something in your life and to correct this common nightmare, you will need to take a positive course of action.

In the investment and (unfortunately, as the two are attached at the hip) the political world we have been spending the weeks since the election in a nightmarish dream sequence publically negotiating the up-coming fiscal cliff. In this dream, there are two scenarios, first, the country falling off the cliff which would result in nearly $5 trillion of tax increases and $2 trillion in spending cuts over the next ten years. While it may be what the doctor ordered with respect to getting the US financial house in order, the immediate result could possibly be a worldwide recession that would not bode well for stocks. The second scenario could be that our elected leaders once again kick the problem down the road and/or come up with a workable plan to begin to solve our economic crisis. In this case, stocks could initially explode much higher, even if the problems are not adequately addressed.

Given this backdrop, it may be wise to maintain exposure to equities without being too aggressive with regards to allocation or using margin for example. Bonds continue to offer a false sense of security, but most likely will be able to pay their coupons in 2013, meaning they should show positive gains, albeit muted returns for the year to come. Remember, to be out of the market, and good news happens, on top of recent GDP gains for example, you will never get a chance to get in. If a major correction downward does happen as a result of the fiscal cliff (or European economic issues, Middle East, etc.) we may be looking at one of the greatest buying opportunities of the next generation. Portfolios should be positioned to be partially exposed to stocks, partially to bonds, and in the case of a significant fall, be prepared to move money from bonds to stocks at the exact time it feels the worst. Finally, selling stocks in 2012 because of the looming tax hikes to capital gains may seem logical but there are three things to keep in mind. One, you will pay a capital gain one way or the other. Two, where do you put the money? And three, historically dividend-paying stocks perform well when taxes on dividends go up. Invest in great companies that have strong earnings and taxes are always a good problem to have.

As the political rhetoric heats up in the weeks ahead, it will feel like we are falling, but as in our dreams, we will wake up to a new day. The holidays are fast approaching and we would like to wish everyone the healthiest, happiest of seasons and the best of luck in the New Year ahead. Thank you for your business, we appreciate it!

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