



What now?

It may be time to rethink and reset

Happy anniversary. It's been more than a year since Bear Stearns was sold off for pennies on the dollar. Little did we know what would follow – a relentless string of disturbing lows and, well, lower lows. We're all tired of the timelines, the finger pointing, and political posturing. So the only question that matters for investors today is: Now what?

As an investment advisor, I have a front row seat on investor sentiment and strategies. Of course, the overall mood is pretty dark, but there are clear variations in outlook and views on what to do next. What I see is the investor population loosely organizing into three camps – Hold, retreat, and rethink.

What camp are you in?

Hold

This is hold, as in buy-and-hold. Some in the hold crowd accept the mantra (supported by many decades of rising equity prices) that owning a balanced, equity-rich portfolio through thick and thin will yield a reasonable return in the long run. Others may be paralyzed by uncertainty. And some are surely in denial, avoiding any thought or decision related to the market. Whatever the mindset, holders are going to stick it out, by design or by default.

I consider holding an absolutely valid strategy for anyone with a very long time horizon, and the temperament to ride it out. If another big drop in stocks would drive you to sell, you probably should not be a holder.

Retreat

Many investors have made the ultimate retreat, or plan to, by taking the big losses and moving into cash. The move is often made on the premise that waiting on the sidelines for a while will let all the smoke clear and provide a calm and clear re-entry opportunity. If history is any indicator, only the first half of this strategy is valid. Yes, a temporary move into cash can avoid further losses and the misery that comes with them, but the proper re-entry point is never clear. Selling after a big decline – and this has been one of the biggest ever – often leads to buying back in at much higher levels.

A money market can feel safe, but it offers no long-term protection from inflation, and no protection at all from the lost opportunity in the case of a big upward move in equities.

Rethink

Many investors I've spoken with recently feel like they are stuck in an unwinnable choice between holding and retreating. One feels wrong financially, the other



emotionally. But there is a third choice – reevaluating one’s holdings in the context of an economy that will: definitely recover...somewhat or completely...sometime in the next 12 to 120 months...with either a lot more pain, or not so much.

I believe it is possible to invest wisely through a protracted and perplexing economic decline. The government recognizes that economic recovery can take considerable time, and that the news can get worse before it gets better. In fact, the worst case “stress test” for banks, as a condition for receiving more recovery money, includes a possible 10% unemployment rate, a further 22% drop in home prices, and no recovery until 2011. That is a dismal scenario, but what if it comes true? How would your portfolio react? And more importantly, how would *you* then react?

Real options in difficult times

I feel strongly that investment advisors should not try to predict the future, but it is our job to help clients prepare for the entire spectrum of scenarios that may unfold. For investors not comfortable holding, and not disposed to retreat, we have created three new “stress test portfolios.” These portfolios are designed for three possible degrees of worst case – bad, very bad, and extremely bad.

As these portfolios are intentionally designed for capital preservation, all of their asset allocations are skewed to short- to medium-term US Treasury bonds and secured tax-free bonds, along with inflation indexed US and non-US bonds. These portfolios have components that benefit both from deflation and from inflation, and from a weak dollar. They contain only modest allocations to global stocks, which in a worst case scenario may fall significantly once again.

To say there is no safe place to invest assumes that all investments will go down from here. That is possible, but extremely unlikely. The very forces that are undermining the equity market right now are positive for other markets, and vice versa. As evidence, 2008 was a strong bull market for Treasury bonds. It is easy to forget about diversification in times of crisis and stress, but diversification is the investor’s friend and ally in all market and economic circumstances.

Take a look

If you’re not happy holding, and not ready to retreat, now is the time to consider a third option. [Click here](#) if you’d like to see what we mean by stress test portfolios. It may help you rethink your own portfolio and sleep better at night.

John Osbon
Chief Investment Officer

Steve Mott
Editor



O S B O N
CAPITAL MANAGEMENT

Osbon Capital Management, LLC
225 Franklin Street, 26th Floor
Boston, MA 02110
617-217-2772
www.osboncapital.com

This newsletter contains general information that is not suitable for everyone and should not be construed as personalized investment advice. Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this newsletter will come to pass. Investing in the stock market involves gains and losses and may not be suitable for all investors. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security.

Osbon Capital Management, LLC ("Osbon") is an SEC registered investment adviser with its principal place of business in the Commonwealth of Massachusetts. Osbon and its representatives are in compliance with the current notice filing requirements imposed upon registered investment advisers by those states in which Osbon maintains clients. Osbon may only transact business in those states in which it is notice filed, or qualifies for an exemption or exclusion from notice filing requirements. This newsletter is limited to the dissemination of general information pertaining to its investment advisory services. Any subsequent, direct communication by Osbon with a prospective client shall be conducted by a representative that is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides. For information pertaining to the registration status of Osbon, please contact Osbon or refer to the Investment Adviser Public Disclosure web site (www.adviserinfo.sec.gov).

For additional information about Osbon, including fees and services, send for our disclosure statement as set forth on Form ADV using the contact information herein. Please read the disclosure statement carefully before you invest or send money.