

August 12, 2010

It's never as good as it seems nor as bad as it feels.

Investors' emotions control daily market moves, whether these emotions are today's high frequency traders or institutional investors. Today's market fluctuations are not controlled by individual investors, since by our definition investors hold positions for months and years, while traders hold positions for minutes.

Our responsibility becomes more challenged to overcome extraordinary volatility – keep in mind that volatility occurs when prices move higher or lower, though we “feel” it more with lower prices.

One very interesting data point is the yield of the 10-Year Treasury bond. After yesterday, the current yield is 2.7% – give your money to the government and they will pay you 2.7% per year until you get your principal back in 10 years.

Compare this with the current yield of the Dow Jones Industrial Average at 2.4% – you could earn almost 90% of the 10-Year Treasury yield simply by owning the Dow stocks. Although investing in the 30 stocks in the Dow provides no guarantees and risk to principal, we believe owning dividend stocks today could result in:

1. A current stock dividend very close to the 10-Year Treasury yield;
2. Potential for dividend increases; for example, please read Aflac's increased dividend announcement yesterday; and
3. Potential for much higher stock prices 10 years from now.

The bottom in prices might not be today, tomorrow, or two months from now, but we believe today's market is fairly-to-cheaply valued, assumes a slowly improving economy, and is setting a foundation for higher prices. To paraphrase Warren Buffett, “the difference between a good company and a bad company is price.” We like today's prices.

Enjoy the rest of your summer, and as always, please call to share your thoughts and concerns.

*Changes in market conditions or a company's financial condition may impact the company's ability to continue to pay dividends. Companies may also choose to discontinue dividend payments. Past performance is not indicative of future results.*

Warm regards,



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